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What's News

Business & Finance

Google was fined a record $2.71 billion by the EU for favoring its own comparison-shopping service in search results. **A1**

◆ **Antitrust experts** and tech executives say the EU ruling could be precedent-setting for a host of other products and services. **A2**

◆ **Draghi hinted** that the ECB might start winding down its large monetary stimulus as the eurozone economy picks up speed. **A1**

◆ **The ECB chief's hint** sparked a broad wave of selling in developed-world government bonds. **B7**

◆ **The Bank of England** ordered banks to raise their capital buffers, taking a small step to dial back its broad stimulus. **B6**

◆ **Nestlé plans** to launch a $20.8 billion share buyback and look for consumer health-care acquisitions amid pressure from Third Point. **B1**

◆ **Investors are** increasingly moving to protect themselves from big swings in financial markets despite low stock volatility. **B1**

◆ **Apollo has raised** $23.5 billion for the world's largest-ever buyout fund. **B6**

◆ **UPS is freezing** pension plans for about 70,000 nonunion workers as its pension deficit nears $10 billion. **B2**

◆ **Microsoft cut** a deal with rival Box to partner on cloud-computing technology. **B4**

◆ **Sprint has entered** into talks with Charter and Comcast as the cable firms explore a wireless deal. **B4**

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◆ **U.S. Senate Republicans** delayed a vote on their health-care bill until after the July 4 recess after they fell short of votes needed to clear a procedural hurdle. **A1**

◆ **Global firms** and Ukrainian state institutions reported cyberattacks from a virus similar to last month's ransomware attack. **A1**

◆ **The U.S. said** it has seen signs Syria is preparing to use chemical weapons again, setting the stage for a new showdown with Assad. **A3**

◆ **Iran blasted** the Trump administration's temporary ban on travelers from six Muslim-majority nations. **A3**

◆ **Ukraine said** a military intelligence officer was killed when a bomb detonated under his car in Kiev. **A3**

◆ **A FIFA report** on the process that awarded soccer World Cup rights to Russia and Qatar was released after nearly three years. **A4**

◆ **Scotland delayed** plans for a second independence referendum until after Britain leaves the EU. **A4**

◆ **Brazil's opposition** went on the attack after President Temer was charged with taking bribes, calling for him to step down. **A5**

◆ **Trump and Modi** said they agreed to expand U.S.-India cooperation on terrorism, Afghanistan and trade following their meeting. **A5**

◆ **Trump aides** are hiring lawyers as investigations intensify into alleged Russian meddling in the election. **A7**

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Google Hit With $2.71 Billion Fine

EU ruling on tech giant's comparison-shopping service could have broader impact

By Natalia Drozdiak And Sam Schechner

BRUSSELS—The European Union's antitrust regulator fined Alphabet Inc.'s Google a record €2.42 billion ($2.71 billion), saying its search engine stacks the deck in favor of its own comparison-shopping service—a move that threatens far-reaching ramifications not just for Google, but for the design of products and services from other increasingly dominant tech giants.

If Tuesday's ruling sets a precedent that sticks, Google and other large tech firms may have to rethink how they plan to profit from some of their most popular offerings.

Antitrust experts and tech executives say that question arises in areas where tech giants have introduced major innovations—like Google's search engine—that become gateways to the internet. EU regulators worry that tech firms, by inserting themselves into such a key role of funneling and directing consumer traffic, could take unfair advantage.

Google General Counsel Kent Walker said "we respectfully disagree with the conclusions announced today." The company will review the decision and consider an appeal.

How Google ends up changing its business model to comply with the EU ruling "could eventually apply to any way that Amazon, Facebook or anyone else offers to search for products or services" depending on "what sort of bottleneck they impose on the process," said Michael A. Carrier, a law professor at Rutgers University.

In her announcement of the Google decision, EU antitrust chief Margrethe Vestager stressed that dominant companies have special "responsibilities" not to hinder competition.

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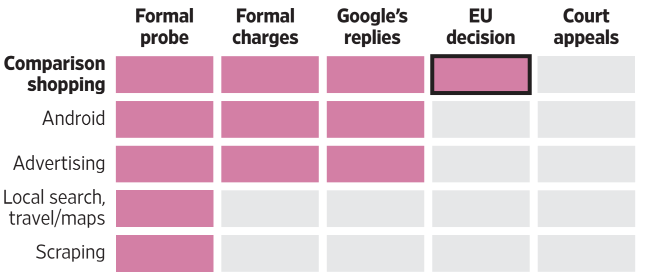
EU Antitrust Probes Into Google

A scorecard of where each case stands



Sources: European Commission, staff reports THE WALL STREET JOURNAL.

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Car Bomb Kills Senior Ukrainian Intelligence Officer

STEPAN FRANKO/EUROPEAN PRESSPHOTO AGENCY

EXPLOSION: Investigators inspect a car severely damaged by a bomb blast in the Ukrainian capital Kiev, above. Authorities were looking for evidence of involvement by Moscow, which has supported pro-Russian rebels in eastern Ukraine. The Kremlin denied involvement. **A3**

Health Bill Vote Gets Postponed Amid GOP Dissension

Senate Republican leaders have delayed a vote on their health-care bill until after the July 4 recess, reversing their plans for a fast-track vote this week as they struggle to bridge policy disputes among the GOP's fractured caucus.

By Kristina Peterson, Stephanie Armour and Natalie Andrews

Senate Majority Leader Mitch McConnell (R., Ky.) told lawmakers of the delay at a closed-door lunch on Tuesday, aides said, before making the postponement public. All 52 Senate Republicans were invited to meet later Tuesday afternoon with President Donald Trump at the White House.

Just an hour earlier, senior Senate Republicans had said they planned to vote this week on their bill repealing and replacing much of the Affordable Care Act. But GOP leaders were short of the votes needed for it to clear a procedural hurdle and are still engaged in complicated negotiations to get the holdouts on board.

No Democrats are expected to vote for the bill, and it faces opposition from both conservative and centrist Republicans. So far six GOP senators have said they are opposed to the current version of the bill; GOP leaders need

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Cyberattacks Strike Global Firms

By Robert McMillan, James Marson and David Gauthier-Villars

A raft of global businesses and Ukrainian state institutions reported widespread cyberattacks on Tuesday from a virus similar to last month's ransomware attack.

The virus, which locked digital files and demanded payment for them to be released, exposed fresh weakness in the computer systems that run modern-day societies. The attacks, which security experts dubbed Petya, appeared to spread rapidly with reports of computer outages multiplying across Europe and in the U.S.

Among the corporate targets were pharmaceutical giant Merck & Co., shipping giant A.P. Moeller-Maersk A/S and Russian oil company PAO Rosneft.

In the May attack, a virus dubbed WannaCry inflicted damage by locking computer systems that were old or weren't adequately patched, demanding ransom. That attack hit hospitals in the U.K., car factories in France and smaller businesses across the continent.

WannaCry was stopped in part because the virus included a "kill switch" that allowed security researchers to stop its spread. But many computers likely remain vulnerable to the underlying Windows computer flaw that WannaCry leveraged. Although security experts said that Petya may not jump from infected company to infected

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ECB's Draghi Hints At End to Stimulus

By Tom Fairless

SINTRA, Portugal—European Central Bank President Mario Draghi hinted that the ECB might start winding down its large monetary stimulus as the eurozone economy picks up speed, even as he warned against an abrupt end to years of easy money.

The comments, at the ECB's annual economic-policy conference in Portugal on Tuesday, come as investors watch closely for a sign that the world's second-most-powerful central bank is preparing to withdraw controversial policies such as its €60 billion ($67.52 billion) a month bond-buying program.

Investors took them as a signal that the ECB is moving toward that goal. The euro jumped 0.9% against the dollar to $1.1284, while eurozone government bond yields also

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ASSOCIATED PRESS

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Shhh, Look, It's a Lesser-Spotted Refrigerated Maersk Container!

* * *

Forget birds and trains—spotters seek rare versions of those metal shipping boxes

By Erica E. Phillips

INDIANAPOLIS—Charles Fox was walking between stacks of shipping containers this week in a storage yard near Interstate 465, when he spotted just what he hoped for—a unicorn.

A rare container

Forty feet long and 9'6" high, sandwiched between two rust-colored boxes of the same dimensions, was a container with a logo for Gateway Management Services, a fleet taken over more than 10 years ago by Textainer Group.

And it was blue.

"Nobody even knew these existed," said Mr. Fox, 31. He had seen Gateway containers in gray, never blue. He took carefully composed photos to submit to a website that serves as an unofficial encyclopedia of shipping containers.

Containers might seem

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WHAT HAPPENS WHEN A STATE'S BILLS PILE UP

A budget standoff has left Illinois with an unpaid backlog of $14.6 billion

By Shibani Mahtani and Douglas Belkin

SPRINGFIELD, Ill.—This is what happens when a major American state lets its bills stack up for two years.

Hospitals, doctors and dentists don't get paid for hundreds of millions of dollars of patient care. Social-service agencies help fewer people. Public universities and the towns that surround them suffer. The state's bond rating falls to near junk status. People move out.

A standoff in Illinois between Republican Governor Bruce Rauner and Democratic Speaker of the House Michael Madigan over spending and term limits has left Illinois without a budget for two years. State workers and some others are still getting paid because of court orders and other stopgap measures, but bills for many others are piling up.

The unpaid backlog is now $14.6 billion and growing. Illinois is even late paying its utilities bills to Springfield, its own capital city. On July 1, the beginning of the next fiscal year, billions of dollars in road projects are scheduled to grind to a halt.

"Right now, our state is in real crisis," said Gov. Bruce Rauner last week, on the eve of a special legislative session where lawmakers are trying to hammer out an agreement be-

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Hostage to China's Insecurity—Its Markets

CHINA'S WORLD
By Andrew Browne

SHANGHAI—At last, Chinese stocks have gained a measure of global respectability.

Thanks to a decision by the index giant MSCI to include a small selection in its emerging-markets benchmark, college endowments and pension funds will soon own stakes in companies that offer everything from high-speed rail networks to fiery *maotai* liquor and life insurance.

This is a symbolic landmark, like the IMF's move in 2015 to elevate the status of the Chinese yuan by anointing it a reserve currency.

There's a good chance it will disappoint in much the same way.

Shortly after the IMF bestowed recognition of what it called Beijing's efforts to build a "more open and market-based economy," it all started going awry. Domestic investors lost faith in the economic outlook amid slowing growth and explosively rising debt. As the yuan slumped, capital fled the country. Alarmed, the central bank dove back into currency-control mode and clamped down on capital outflows—reversing years of market opening.

Today, yuan deposits in Hong Kong, the leading offshore center for Chinese currency trading, have shriveled. And we're back to a loose yuan peg against the dollar.

Crises have a way of exposing the government's deep-seated fears of market forces. The regime sees rises and falls in the stock indexes as a barometer of public confidence toward its performance, and the true test of the MSCI's cautious welcome of domestic "A" shares will come next time they take a dive.

In 2015, when a bubble burst, the government panicked. It ordered massive buying by state-owned companies, scared off short sellers with legal threats and put all initial public offerings on ice. The "national team" of buyers sent in to prevent a worse rout still owns a big chunk of the market.

Some lessons have been learned. However, the mainly technical improvements that finally convinced the MSCI to include 222 "A" shares listed in Shanghai and Shenzhen in the index don't address the deeper failings of the system.

The state's heavy hand in the economy is increasing. Economic overhauls under President Xi Jinping have stalled, or in some cases reversed. Moreover, as Eswar Prasad, a Cornell economist and former head of the IMF for China points out, the leadership has "unequivocally repudiated political, legal, and institutional reforms," which undermines long-term confidence in the economy.

The stock market is hostage to the reflexes of an insecure leadership.

Consider last week's unexpected instruction by China's media regulator to social-media companies to stop streaming video and audio, part of a censorship drive to combat "negative speech." Immediately, Nasdaq-listed Weibo lost $1 billion in market value.

Beijing's fear of market forces means MSCI inclusion is likely to disappoint.

Or recent sweeping checks on the borrowings of overseas deal makers. Ostensibly, that action is aimed at cracking down on spiraling debt. Yet speculation is rife that the tycoons have been caught up in a factional power play ahead of a key Communist Party meeting in the fall. Nobody really knows.

Optimists reckon that the IMF and MSCI moves strengthen the hand of Chinese technocrat reformists, who seek to spur changes to the operations of wasteful state enterprises and spendthrift local governments.

But the forces of resistance are stubbornly entrenched. Whatever happened to the theory, popular in the U.S. Clinton administration, that rewarding China with membership in the World Trade Organization in 2001 would lead to ever-expanding market opportunities for U.S. businesses, if not democracy?

It turned out that China's WTO accession marked their high point. Today, China's domestic markets are closing, state enterprises are skewing competition against multinationals as never before, and the chief U.S. trade negotiator during the WTO process, Charlene Barshefsky, accuses Mr. Xi of trying to "Sinicize the Chinese economy."

Likewise, the IMF's gift to China was the signal for retrenchment, not advance.

Will the MSCI arrangement produce different results? Domestic investors weren't impressed: The indexes hardly budged on the news.

Still, there's plenty of international interest. No matter that China's casino-like bourses are dominated by mom-and-pop investors, and plagued by insider trading: They are too big to ignore. With a capitalization of $7.5 trillion, they trail only the U.S. in size.

Morgan Stanley, the former parent of MSCI, isn't buying all the gloom about China. While others brace for a financial shock, its equity researchers in a recent report see a golden decade ahead.

Chin-Ping Chia, MSCI's head of Asian research, compared adding China to the indexes with "the opening of the Great Wall."

Now that the barrier has been breached, though, the incoming armies of investors should gird for a struggle.

Big Fine Could Be Just The Start for Silicon Valley

By Sam Schechner

The Google shopping-ad business targeted Tuesday by the European Union's antitrust cops is relatively small for the search giant's parent, **Alphabet** Inc. But the implications of the case are anything but puny for Google and other tech giants.

Antitrust experts and tech executives say the EU's €2.42 billion ($2.71 billion) ruling against Google's search engine could be precedent-setting for a host of other products and services.

One prominent possibility: the voice-enabled assistant, which many tech executives are betting will replace the search engine. Silicon Valley executives regularly talk about a future of "ambient tech," where digital assistants slowly replace all of our devices and answers come from Google's digital assistant, or others like Amazon.com Inc.'s Alexa or Apple Inc.'s Siri.

At issue in Tuesday's decision is the EU's contention that Google must give "equal treatment" in its search results to businesses that might compete with the company in other ways.

Because the EU says Google's search engine is dominant, the bloc says it is illegal for Google to hurt shopping competitors by putting its own product ads for, say, new barbecue grills, on top of any search results from other sites that offer links to buy the same products.

Now, imagine a world where relevant grills come not atop a written list, but as suggestions in users' ears.

In the U.S., Amazon has more than 25 million users for its voice-enabled Echo speaker devices, giving it 71% of the smart-speaker market, ahead of Google Home, which has 24%, according to research firm eMarketer. Earlier this month, Apple announced its own smart speaker device called HomePod. Including smartphones with voice assistants, research firm Ovum predicts that there will be some 7.5 billion digital assistant devices in use globally by 2021, up from 3.5 billion in 2016.

A spokesman for Microsoft Corp., which operates the voice assistant Cortana, declined to comment. Spokesmen for Facebook Inc., Amazon and Apple didn't respond to requests to comment.

There are big hurdles to subjecting digital assistants to antitrust scrutiny. In particular, antitrust regulators would have to determine that one of them is dominant in a certain market for them to be able abuse that dominance.

In the wake of the decision, the EU said it was planning to explore how it could apply elsewhere. And Margrethe Vestager, the EU's competition chief, has said she thinks voice-enabled assistants are the next frontier for online search.

"We're on the brink of doing more oral search, which of course poses new challenges, when it comes to enabling people to have a choice, when it comes to search results, to make sure they get the right answer to their queries," Ms. Vestager said in a March interview. "Which is why, instead of being specific on page design or screen design, I think it's very important to focus on how to allow competition, how to enable that to happen."

In three cases over the past two years, the EU has made charges against Google ranging from complaints that it abused the dominance of its operating system Android to force phone makers to promote Google's mobile applications, to complaints it restricted how a website that offers a Google search function can show advertisements sold by other companies. Google is fighting or responding to all these charges and complaints.

Complainants in Tuesday's decision, including Yelp Inc., are hoping the shopping case will have broader implications for Google. Complainants also say the precedent should extend to technologies from other companies.

—Natalia Drozdiak contributed to this article.

Big Ticket

Some previous large fines in cases alleging abuse of market dominance by the EU

Company	Year	Fine (billions)	Allegation
Google	**2017**	**€2.42**	**Abusing dominance in search by favoring own online shopping service**
Intel	2009	€1.06	Abusing dominance to discourage PC makers from using other chips
Microsoft	2004	€0.5	Abusing dominance in PC operating systems to leverage itself into the market for server operating systems and media players
Servier	2014	€0.43	Abusing dominant position in anti-hypertension market, as part of larger cartel decision
Telefónica Broadband	2007	€0.15	Imposing unfair prices on wholesale broadband providers

Note: Not including fines for cartel behavior, tax clawbacks or procedural violations
Sources: EU and staff reporting

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GOOGLE

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tition—in their own market or any other.

"They are not allowed to abuse their power in one market to give themselves an advantage in another," Ms Vestager said.

Tuesday's fine is the latest broadside by European authorities against Silicon Valley, at a time when tech firms face few regulatory challenges in the U.S. or elsewhere. Still, Europe matters. It remains one of the largest markets for these companies' wares, and Brussels is one of three centers of gravity for global business regulation, in addition to Washington and Beijing.

At the heart of the EU's case is what regulators believe is Google's outsized control over internet traffic. Google handles about 92% of global internet searches, according to research firm StatCounter. For product-related searches, such as "gas grill" or "smartphones," Google often returns a series of ads atop its search results that link to retailers' sites. Merchants pay Google each time a user clicks.

Comparison-shopping sites operate similarly, charging merchants for clicks, but they say their traffic has plummeted in recent years as Google expanded its own shopping service. Links to those shopping sites typically appear much lower in Google search results, which the EU says gives Google an illegal advantage.

Google says users prefer links that send them directly to a merchant's site to buy a product, rather than another comparison-shopping site. Mr. Walker said the company believes its service benefits users and helps European merchants compete against bigger e-commerce giants Amazon and eBay Inc. He added that European regulators also erred in not considering Amazon and eBay as online-shopping competitors to Google, pointing to a 2016 study by marketing firm BloomReach that said more than half of internet users start their shopping searches on Amazon.

EMMANUEL DUNAND/AGENCE FRANCE-PRESSE/GETTY IMAGES

Margrethe Vestager, the EU's antitrust chief, says Google 'abused its market dominance.'

The EU's fine is more than double what had been the bloc's previous record penalty for a company it found had abused its market position—a €1.06 billion fine on Intel Corp. in 2009. While the penalty is larger than many had expected, it's one Alphabet can easily afford, considering its $92 billion in cash and liquid securities on hand.

As part of its decision, the EU ordered Google to treat rival comparison-shopping services equally in its search results, but it left it up to Google to figure out how. Google has 90 days to comply with the order to change its services, or faces penalties of up to 5% of average daily global revenue for each day it doesn't comply.

That could mean no more shopping ads in Europe. More likely, analysts said, Google will propose rebuilding the service. EU regulators may require Google to retool the system in a way that would allow results from competing comparison-shopping sites to get mixed in and be as easy to click through as Google-hosted ads.

Losing the shopping ads would deliver a hit to Google revenue. Company executives have repeatedly highlighted the ads in recent quarters as a growth driver for its core search-ad business. Such ads now account for roughly 52% of clicks on retailers' Google search ads, up from about 25% three years ago, according to digital-marketing firm Merkle Inc.

Google will need to comply with the order regardless of any appeals or court action. Google has three months to pay Brussels. If the company chooses to appeal, it has the option of transferring a bank guarantee pending the outcome of the appeal.

The fine and broad remedy order mark a major escalation in Brussels' fight over whether the Mountain View, Calif., company has used its dominance in markets stretching from online ads to mobile-phone software as a cudgel to promote its own services at the expense of competitors.

Tuesday's decision is the first to come from multiple separate probes that the commission has opened into Google's practices. Three of them have resulted in formal charges: on comparison shopping, on Google's Android mobile operating service and on its AdSense advertising service.

Other inquiries into Google's conduct with its other search services, such as travel and maps, and allegations that the search engine copies, or "scrapes," content from rival sites are at an early stage.

News Corp, owner of The Wall Street Journal, has also formally complained to the EU about Google but over the company's handling of news articles on its search service, not the shopping service.

The EU's decision in the shopping case could expedite its probes into Google's conduct with the other search services. Ms. Vestager said the finding of Google's dominance in search in the shopping case would be a starting point for a legal review in the other search services.

Tuesday's move also highlights its divergence with U.S. regulators in their approach to Google. The Federal Trade Commission closed its own probe into Google's search practices in 2013 after the company agreed to voluntary changes. Some firms have been lobbying U.S. regulators to pick the case back up.

Tuesday's decision could also renew complaints from U.S. firms that they are being unfairly targeted in the EU, something European officials strenuously deny. U.S. companies are also under scrutiny in Europe for their tax affairs, as well as for privacy practices.

The EU ruling opens a new chapter in a drama that will likely play out in EU courts for years to come, echoing the regulatory battle between Europe and Microsoft Corp.

—Jack Nicas contributed to this article.

Timeline: EU's Probe of Google

◆ **November 2009** Foundem, a price-comparison website based in the U.K., files a complaint in Brussels over Google's search practices.

◆ **November 2010** EU regulators begin a formal investigation into Google's search practices.

◆ **January 2013** Google submits proposals to address concerns it favored its own search services, struck restrictive deals with advertisers, and copied content from rival websites without permission.

◆ **February 2014** After further concessions by Google, Brussels announces a settlement.

◆ **September** In an about-face, EU seeks fresh concessions.

◆ **November** Margrethe Vestager takes over as EU antitrust chief.

◆ **April 2015** EU announces charges against Google, accusing it of skewing results to favor its shopping service. Google later contests the charges.

◆ **June 2017** EU fines Google $2.71 billion in comparison shopping case.

CORRECTIONS & AMPLIFICATIONS

Monthly subscription fees generate about 20% of **Peloton Interactive** Inc.'s revenue, according to the company's chief financial officer. A Business News article Tuesday about the company, which sells internet-connected bikes and subscriptions to cycling classes, incorrectly said subscriptions generated 60% of revenue.

Actors in the Indian film "Baahubali 2: The Conclusion" performed scenes in the Telugu, Tamil and Hindi languages. A Life & Arts article May 10 about the film, which is the highest grossing Indian film in history, incorrectly said the film was dubbed in Hindi and Tamil.

Readers can alert The Wall Street Journal to any errors in news articles by emailing **wsjcontact@wsj.com**.

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U.S. Says Syria Set to Use Chemical Arms

Defense Department says compelling evidence emerged over the past 24 hours

By Dion Nissenbaum
And Thomas Grove

AGENCE FRANCE-PRESSE/GETTY IMAGES (2)

President Assad in a warplane at a Russian air base in Hmeymim, western Syria. Right, the damaged Shayrat base where the U.S. says it is seeing new arms activity.

The Pentagon said Tuesday that it has seen signs that Syria is preparing to use chemical weapons again, setting the stage for a new showdown with Syrian President Bashar al-Assad.

Capt. Jeff Davis, a Pentagon spokesman, said that the U.S. has seen "actions suggestive of intent to use chemical weapons" at the same Syrian airfield hit by American cruise missiles in April.

The U.S. has been tracking developments at Shayrat air base for several days and indications that Syria is preparing to use chemical weapons have become "more compelling" in the last 24 hours, he said. Capt. Davis said the intelligence pinpointed a specific plane in a specific shelter at Shayrat that was being prepared to use chemical weapons.

The Pentagon released the information hours after the Trump administration issued a late-night warning on Monday that Syria would pay a "heavy price" if Mr. Assad uses chemical weapons again.

"The United States has identified potential preparations for another chemical weapons attack by the Assad regime that would likely result in the mass murder of civilians, including innocent children," White House press secretary Sean Spicer said in a statement late Monday.

Syrian officials have denied using chemical weapons, and a Syrian official told the Associated Press on Tuesday that the U.S. appeared to be preparing for a "diplomatic battle" with Syria.

Russia, a major ally of the Syrian regime, responded angrily on Tuesday to the Trump administration's warning to Syria. "We consider such threats to a lawful government unacceptable," Russian news agencies quoted Kremlin spokesman Dmitry Peskov as saying.

Mr. Peskov said Russia didn't know what evidence Washington's warning was based on.

In April, President Donald Trump approved a strike on Shayrat, the airfield in western Syria, after Mr. Assad used chemical weapons that killed dozens of Syrian civilians in Idlib Province.

Images of dead and dying Syrian children provided jarring evidence of the effects of the attack. Mr. Trump cited the images when he spoke about how the attack had changed his view of the Syrian conflict and Mr. Assad.

In an interview carried by Syria's state news agency SANA the month of the Idlib attack, Mr. Assad said Syria had given up its chemical arsenal a few years earlier and had never deployed chemical weapons before surrendering them. Even if Syria still had such arms, he added, it wouldn't use them.

Russia defended the Assad regime against accusations its forces were responsible for the attack and said an on-the-ground investigation was needed before blame was cast.

Mr. Trump is scheduled to travel next week to Europe to visit Poland and attend a meeting of the Group of 20 world powers in Hamburg, Germany, where he may also sit down separately with Russian President Vladimir Putin for the first time since taking office.

The Kremlin spokesman, Mr. Peskov, said Tuesday that a meeting on the sidelines of the Hamburg summit may take place but that full-fledged bilateral talks weren't yet planned, Interfax reported.

Mr. Trump has praised Mr. Putin and emphasized his willingness to meet the Russian leader. But the U.S. and its allies fighting Islamic State in Syria have had a series of recent confrontations with forces that back the Assad regime, and the confrontations threaten to widen into a direct clash with the regime.

Pentagon officials have said they have the ability to carry out a quick airstrike in the region if Mr. Trump orders another strike.

The U.S. cruise missile strike on Shayrat in April hit aircraft hangars, fuel depots, radar and ammunition bunkers. The U.S. said it destroyed about 20 planes in that attack, but the airfield was quickly back in operation.

The U.S. didn't target any suspected chemical weapons depots at the airfield in April because of fears that a strike could release the deadly weapons into the air. At the time, some outside analysts criticized the U.S. for not hitting the base harder.

Soon after the strike, Mr. Trump responded on Twitter to criticism that the U.S. didn't hit the runways more forcefully, writing, "The reason you don't generally hit runways is that they are easy and inexpensive to quickly fix (fill in and top)!"

—Felicia Schwartz contributed to this article.

HACK

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company as quickly as WannaCry, the new virus uses new techniques that allow it to spread more quickly within corporations.

"This is going to continue," said Mikko Hypponen, chief research officer with cybersecurity company F-Secure Corp. "There is no kill switch. This is going to go on all night. This is going to go on tomorrow. This is going to go on for years."

In Ukraine, authorities said the country had been hit by an unprecedented wave of cyberattacks on Tuesday. The government said a virus had encrypted data on computer systems and demanded payment to unlock them.

The Infrastructure Ministry, a telecom company, the state postal service, energy firms and several banking institutions were hit by the virus, Ukrainian authorities said. The extent of the operational disruption was unclear at the affected companies.

By midday on Tuesday, the attack had infected more than 100 institutions in Ukraine, Russia and other former Soviet Republics, security experts said.

"It does not seem to be targeting anyone in particular," said Catalin Cosoi, chief security strategist, with computer security vendor BitDefender LLC. "They seem to be infecting as many people a possible."

The ransomware was designed to spread within corporate networks running Microsoft Corp.'s Windows operating system, but didn't appear to be harming consumers, security experts said. A Microsoft spokeswoman said that the company was investigating the outbreak.

Victims are told to pay a $300 ransom, payable in the bitcoin digital currency, Mr. Cosoi said. BitDefender has tracked 27 payments to the digital bitcoin wallet used by the attackers.

Russia's state-controlled oil company Rosneft said it was under a "massive hacker attack" that could have serious consequences, but added that its oil production hadn't been affected.

Rosneft, the world's largest publicly listed oil company by production, said it had contacted law-enforcement authorities about the attack.

The company's website was down on Tuesday, but its official Twitter accounts spread news of the attack.

The company said it had recently switched to a different oil reserve-control system, so "neither oil production nor preparation processes were stopped."

Still, U.S. crude-oil prices surged, rising above $44 a barrel for the first time in almost a week on news of the attack on Rosneft.

Russia's central bank said several banks had been hit by the virus, but that there was no indication that banking systems had been damaged, Interfax news agency reported.

As the day unfolded, more big companies added their names to the list of corporate targets.

Merck, one of the world's largest pharmaceutical companies, said in a series of Twitter posts that its "computer network was compromised today as part of global hack."

WPP, the London-based advertising conglomerate, said its IT systems across several companies were affected by a "suspected cyberattack."

WPP employees at its various agencies and businesses across the group were instructed not to log in to the network and shut down their computers after the issue was discovered, several people within the company said.

DLA Piper, a large U.S. business law firm, also said it was being hit by a cyberattack. The firm, which has offices in dozens of countries, said it "has experienced issues with some of its systems due to suspected malware."

TNT, a delivery service owned FedEx Corp., also said it was hit by a virus.

Denmark's shipping giant Maersk said its computer systems had been brought down by a cyberattack. The breakdown was affecting multiple computer systems across several business units, a Maersk spokeswoman said.

The computer outage had real-life fallout around the world, affecting more than a dozen of Maersk's port-operating units, said a person with knowledge of the situation, including in Rotterdam and at ports on the U.S. East Coast.

The Port Authority of New York and New Jersey sent out alerts Tuesday morning that said Maersk's terminal facility in Elizabeth, N.J., "is experiencing system issues" and advising carriers to delay arrival until further notice. By afternoon the port said the terminal would be closed for the rest of the day.

SUSANA GONZALEZ/BLOOMBERG NEWS

Shipping containers of Maersk, whose systems were hacked.

U.S. Travel Ban Draws Iran's Condemnation

Iran Foreign Minister Javad Zarif blasted the Trump administration's temporary ban on travelers from six Muslim-majority countries, but the response in the rest of the Middle East to the U.S. Supreme Court decision to allow its partial implementation was more muted.

By Aresu Eqbali in Tehran and Asa Fitch in Dubai

After the Supreme Court on Monday narrowed the scope of the ban but allowed it to go into place, Mr. Zarif tweeted that it was discriminatory and doesn't accomplish its objectives.

"A bigoted ban on Muslims will not keep [the] U.S. safer," he said on Tuesday. "Instead of policies empowering extremists, [the] U.S. should join the real fight against them."

President Donald Trump has sought to impose a 90-day ban on U.S. entry for people from Iran, Libya, Somalia, Sudan, Syria and Yemen, and to suspend temporarily the U.S. program for admitting refugees, moves the administration says will strengthen national security and prevent terrorism.

Lower courts blocked previous versions of the ban, despite Mr. Trump scaling it back in March to address some of the legal challenges to his original executive order.

The Supreme Court, in an unsigned 13-page opinion on Monday, allowed the Trump administration to implement the temporary ban but narrowed its scope for now. It will give closer consideration to the case in October, when it will hear oral arguments.

Joining Mr. Zarif in criticizing the decision, Hossein Naghavi-Hosseini, the spokesman for the Iranian parliament's national-security and foreign-policy commission, said Mr. Trump's "racist" policies would backfire, the official Islamic Republic News Agency reported.

Mr. Naghavi-Hosseini said the restrictions were a violation of the nuclear deal in 2015 between Iran and six world powers including the U.S., although he didn't specify how. Under that deal, Iran got relief from international sanctions in exchange for new curbs on its disputed nuclear program.

"Halting visa issuance is a type of human-rights violation that contradicts all the U.S. officials' claims and statements regarding respect for human rights," he said. It wasn't clear if Mr. Naghavi-Hosseini's views reflected those of the parliamentary body as a whole.

Iranian Supreme Leader Ayatollah Ali Khamenei has been critical of the travel ban, saying in February that it exposed the "real face" of the U.S.

A spokesman for the Libyan parliament based in the eastern port city of Tobruk said the House of Representatives condemned the decision.

Top Ukrainian Intelligence Officer is Killed by Bomb

By Thomas Grove

A senior Ukrainian military intelligence officer was killed when a bomb detonated under his car in the Ukrainian capital of Kiev on Tuesday, the Defense Ministry said, in an act the government is treating as terrorism.

Ukraine's chief military prosecutor said authorities were looking for evidence of involvement by Russia, which has supported pro-Russian rebels in a conflict in eastern Ukraine.

Authorities said Col. Maksym Shapoval was killed when explosives detonated under an automobile.

Ukraine has seen a spate of murders and attempted killings far from the front lines and covert military interventions across its neighbor's eastern border since Moscow's annexation of Crimea in 2014.

The Kremlin denies involvement. Russia's state-controlled media often portray the killings as evidence of Ukraine's lawlessness.

A Chechen sniper living in Ukraine, Adam Osmayev, was targeted in a botched killing this month before the killer was stopped by his wife, Amina Okuyeva.

In March, a former Russian parliamentarian who had fled to Kiev with his wife was shot dead on a sidewalk in the center of the capital, in what Ukraine President Petro Poroshenko called an act of "state terrorism." His assassin was killed by the victim's bodyguard.

VALENTYN OGIRENKO/REUTERS

A Ukrainian police investigator examines the scene where a bomb killed a senior military intelligence officer in Kiev on Tuesday.

IMAGO/ZUMA PRESS

Smog blanketed Stuttgart, home of Daimler and Porsche, in January. The city is among those weighing a ban on diesel vehicles.

European Cities Put Brakes On Diesel Vehicles' Spread

By William Boston

BERLIN—Large European cities from Munich to Madrid are banning or restricting diesel vehicles amid mounting alarm over toxic emissions, presenting a major challenge to European car makers who sell millions of them.

National governments have been slow to react to a string of scandals that have exposed diesel engines as far bigger polluters than advertised. But these cities, goaded by environmental groups, are emerging as the leaders of an antidiesel movement that is forcing Europe's car industry to rethink its future.

Among the cities considering or seeking a ban on diesel vehicles or an environmental tax are **BMW** AG's hometown Munich, and Stuttgart, which hosts **Daimler** AG and **Porsche SE**. Their message to Europe's car makers: If you can't clean diesel, we will.

"Cities are sending a signal to the public and manufacturers that there is a preference for clean vehicles," said Ray Minjares, a researcher at the International Council on Clean Transportation. The group uncovered emissions cheating by German car maker Volkswagen AG that has drawn attention to the issue over the past two years.

The scandal, which has since spread to other auto makers, started in the U.S. But less than 5% of U.S. cars are diesels, compared with half of all new European cars sold—some 85 million on the road.

The European Union took center stage after it set aggressive targets to reduce carbon-dioxide emissions to fight climate change.

European auto makers, especially the Germans, bet big on diesel as their main tool to reduce carbon-dioxide emissions. Diesel burns more efficiently than gasoline, so it gets better mileage and emits less carbon dioxide. The industry pushed it and won support from European governments, which have subsidized diesel through lower taxes since the 1990s.

Climate change isn't the only issue. A study co-written by Mr. Minjares concluded that just one pollutant from diesel engines caused 107,600 premature deaths world-wide in 2015. Around 80% of them were in Europe, China and India.

Car makers will be hard-pressed to shift and still meet European greenhouse-gas targets.

But car makers will be hard-pressed to shift from diesel and still meet European greenhouse-gas targets. Demand for electric cars is still less than 2% of global auto sales. All sales of new electric vehicles, including plug-in hybrids, accounted for just 1% of the 14.6 million new cars sold in the EU last year.

German car makers and unions are worried about the impact on their livelihoods. More than half of the European sales of Germany's top brands, including BMW, Mercedes-Benz, Audi and Porsche, sport diesel engines.

Dieter Zetsche, CEO of Daimler, which owns Mercedes, said this week that "driving bans are a political response, but will not lead to real change because they can't really be implemented."

Germany's largest industrial union, IG Metall, also objects, in part because they say bans would disproportionately hurt poorer drivers. Car makers, it says, should make older engines cleaner while politicians should promote electric vehicles and invest in technology to improve traffic flows.

"Such a sweeping demand is nonsense," Roman Zitzelsberger, head of IG Metall's southwestern Germany chapter, said this week.

The German auto industry is offering a trade-off: It has offered to update software on middle-age diesel vehicles on the road in Germany to bring them in line with modern emissions standards if bans are dropped. But nearly half of the 15 million diesel cars on the road in Germany are too old to fix.

The mayors driving the movement say they have little choice. As traffic hubs, they suffer some of the world's most toxic air. And since the Volkswagen scandal discredited "clean diesel," a barrage of court orders is forcing them to address the issue.

In car-crazy Germany, where Rudolf Diesel invented the eponymous engine, Stuttgart will begin next year to ban all but the most modern diesels, around 90% of them. Munich, which is considering a similar step, must present a plan by week's end to drastically cut the city's chronic pollution, in response to a court ruling.

Paris, which prohibits any diesel vehicle made before 1997 from driving in the city, will extend the ban in July to diesel vehicles made before 2001. That will affect nearly a fifth of the nation's heavy-goods vehicles and a smaller percentage of passenger vehicles.

London Mayor Sadiq Khan is creating an ultralow-emission zone with a system of prohibitive road tolls. "The air in London is lethal," Mr. Khan said in April as he unveiled plans to steeply raise the toll on the most polluting vehicles starting in 2019.

Oslo, the Norwegian capital, enacted a diesel ban in January as winter smog smothered the city, fining violators nearly $180. The ban, in effect from 6 a.m. to 10 p.m., was lifted once winds picked up and the air cleared.

The strategy is gaining traction beyond Europe. Mexico City joined Paris, Athens, and Madrid at a mayors' conference in December in a pledge to ban all diesel vehicles from their cities by 2025. Seoul plans to ban diesel made before 2006 from driving in the city's central districts.

"It is correct and important to discuss driving bans," Dieter Reiter, lord mayor of Munich, said this month.

Scotland Delays Second Referendum

By Wiktor Szary

LONDON—Scotland's chief minister reversed her earlier plans to push for a second independence referendum before Britain departs the European Union, saying instead she would revisit the issue once Brexit negotiations are completed, likely toward the end of next year.

Tuesday's about-face came after the Scottish National Party, which went into the June 8 election with a pledge to hold a second vote on Scottish independence, saw an electoral setback and lost seats in the U.K. Parliament, mainly to the Scottish Conservative Party. SNP won 35 of the 59 Scottish seats in London's Parliament, down from the 56 seats it won in the previous election.

Nicola Sturgeon, leader of the SNP and head of Scotland's semiautonomous government in Edinburgh, originally said she wanted the fresh vote on independence to be held between the fall of 2018—when terms of the U.K.'s exit from the European Union are likely to be broadly agreed—and before the spring of 2019 when the U.K. is expected to formally exit the EU.

But U.K. Prime Minister Theresa May refused to enter negotiations on the subject, saying that Britain needed to focus on its negotiations with Brussels. U.K. government approval is needed in order for the referendum to be binding.

Speaking to the Scottish Parliament on Tuesday, Ms. Sturgeon said that while her party remained committed to holding another independence referendum, she wouldn't seek it "immediately."

"Instead, we will—in good faith—redouble our efforts and put our shoulder to the wheel in seeking to influence the Brexit talks in a way that protects Scotland's interests," she said, adding she would seek to keep the country in the European single market and strengthen the role of the devolved Parliament.

Ms. Sturgeon said she would lay out her views on the second referendum's timing once Brexit negotiations are concluded. Her decision takes away any remaining doubts that the U.K. would be confronting its breakup even as it was negotiating its departure from the EU.

The SNP's renewed push for Scottish independence was spurred by Britain's decision to leave the European Union in the referendum last year.

The vote revealed a rift between the countries that constitute the United Kingdom, with England and Wales voting to leave the bloc, and Scotland and Northern Ireland backing a continued membership.

In the Scottish independence referendum held in 2014, 55% voted against independence from the U.K. and 45% in favor.

ANDY BUCHANAN/AGENCE FRANCE-PRESSE/GETTY IMAGES

Nicola Sturgeon decided to wait until Brexit talks are complete before seeking a new independence vote.

World Soccer Body Releases Graft Report

By Joshua Robinson And Matthew Futterman

LONDON—One of the most closely guarded documents in world sport, an internal report on the process that awarded soccer World Cup hosting rights to Russia and Qatar, was released Tuesday after nearly three years of secrecy.

The report, which showed no explicit ethical wrongdoing by the Russian and Qatari bid teams, shed new light on the 2010 decision by FIFA, soccer's world governing body, to award them the 2018 and 2022 tournaments.

Produced by former U.S. federal prosecutor Michael J. Garcia, the report also provided previously undisclosed examples of favoritism among members of FIFA's ruling Executive Committee and a culture of entitlement that led to the demise of the body's top officials.

Mr. Garcia wrote that "a number of Executive Committee members displayed a disregard for ethical guidelines and an attitude that the rules do not apply to them."

FIFA made the decision to publish the report on its website despite its years under wraps after a German newspaper reported on Monday that it had obtained a copy of it.

The Garcia report, when it was first delivered late in the summer of 2014, in many respects marked the beginning of FIFA's modern turmoil. That December, Mr. Garcia resigned in protest from his role as FIFA's independent investigator. The following May, Swiss police descended on a hotel used by FIFA officials in Zurich to arrest several Executive Committee members as part of a separate U.S. Department of Justice investigation.

More than half of the 22 sitting Executive Committee members at the time of the Russia and Qatar awards have since been dismissed amid allegations of ethical wrongdoing. Many of the individuals in the report have also left FIFA or been disciplined by the organization since Mr. Garcia delivered it in the late summer of 2014.

Former President Sepp Blatter was not accused of any ethical wrongdoing by Mr. Garcia.

The report predates the allegations of financial impropriety made by Swiss authorities in 2015, which resulted in his being banned from FIFA and removed from the presidency after 18 years as the most powerful man in world soccer.

The report does blame Mr. Blatter for some of FIFA's ills.

"As head of FIFA, however, President Blatter bears some responsibility for a flawed process that engendered deep public skepticism, and for presiding over an Executive Committee whose culture of entitlement contributed to many of the issues this report identifies," Mr. Garcia wrote.

Mr. Blatter has denied wrongdoing.

MOHAMED FARAG/EUROPEAN PRESSPHOTO AGENCY

Fans celebrate in the streets following the announcement that Qatar will host the 2022 World Cup. Russia won the bid for 2018.

ECB

Continued from Page One

rose sharply.

So far, top ECB officials have avoided discussing the future of their bond purchases after December, when the program is currently set to end.

Mr. Draghi said the ECB's stimulus policies are working and will be slowly withdrawn as the economy accelerates. However, he warned that "any adjustments to our stance have to be made gradually, and only when the improving dynamics that justify them appear sufficiently secure."

"Today Draghi moved his first step towards indicating that ECB monetary policy will become less [stimulative] in 2018," said Marco Valli, an economist with UniCredit in Milan.

Many analysts expect the central bank to announce in September or October that it will start early next year to taper its bond purchases, known as quantitative easing.

Mr. Draghi didn't directly address the question of timing. He highlighted positive developments in the eurozone economy, including broadening economic growth and reduced political uncertainty. Emmanuel Macron's victory in France's presidential elections in May helped stem concerns that his far-right rival, Marine Le Pen, might drastically alter the shape of the eurozone.

"Political winds are becoming tailwinds," Mr. Draghi said. "There is newfound confidence in the reform process, and newfound support for European cohesion, which could help unleash pent-up demand and investment."

At a policy meeting this month, the ECB took a tiny step toward ending its stimulus, signaling it probably wouldn't cut interest rates any further below zero. But Mr. Draghi said after the meeting that policy makers hadn't even discussed unwinding their stimulus.

On Tuesday, the ECB chief indicated that any change would have to be gradual, "to ensure that our stimulus accompanies the recovery amid the lingering uncertainties."

That tone of continued caution may disappoint officials in Northern Europe, who have been calling for a swift exit from stimulus as economic growth and inflation recover. Top officials in Germany, Europe's largest economy, have for years called for an end to policies they complain hurt savers and pensioners.

The dilemma for ECB officials is that while eurozone growth is accelerating, outpacing the U.S. in the first quarter, the bloc's inflation rate remains weak. It slid to 1.4% in May, below the ECB's target of just below 2%.

Mr. Draghi said the stimulus policies are working and will be slowly withdrawn.

Mr. Draghi suggested inflation has fallen short because of temporary factors that the ECB can afford to ignore. They include falling energy and commodity prices, and changes to the labor force that reduce workers' power to demand higher wages, he said.

Mr. Valli said the ECB might reduce its monthly bond purchases to €40 billion in the first half of next year, followed by a further reduction to €20 billion a month in the second half of the year. That would be a slower pace of stimulus reduction than many analysts had been expecting.

However, the ECB is expected to face a serious challenge if it wants to extend QE much beyond the middle of next year. The central bank is soon expected to start running short of bonds to buy, particularly in Germany.

Brazil Leader Charged, Opening New Fight

Attorney general's bribery charges against President Temer embolden his foes

By Paul Kiernan
And Paulo Trevisani


EVARISTO SA/AGENCE FRANCE-PRESSE/GETTY IMAGES

President Michel Temer is the latest Brazilian politician to face charges under Operation Car Wash, a massive anticorruption push.

BRASÍLIA—Brazil's opposition went on the attack Tuesday after President Michel Temer became the first sitting president in the country's history to face criminal charges.

As Congress prepared for a vote in the coming weeks that could suspend the unpopular president from office, his political foes were emboldened by Attorney General Rodrigo Janot's filing of charges against Mr. Temer on Monday.

"It is a matter of respect to the country. Brazil can't live with this anymore," said José Guimarães, a congressman from the Workers' Party. Former President Luiz Inácio Lula da Silva, also of the Workers' Party, said on his Twitter account that Mr. Temer should call early elections and step down.

In charges filed against the president, Mr. Janot alleged Mr. Temer took about $150,000 in bribes from the former chairman of JBS SA, the world's biggest meatpacker, and agreed to accept about $11.5 million more. Mr. Janot also requested permission from the Supreme Court to further investigate Mr. Temer for money laundering.

"The spurious practices aimed at serving private interests with voluminous public resources aren't restricted to those reported in the charges hereby presented," Mr. Janot wrote in his indictment, saying Mr. Temer "swindled" Brazil's citizens. "The criminal organization didn't just operate in the recent past but remains in full activity today."

A representative for Mr. Temer declined to comment. Mr. Temer has previously denied any wrongdoing and has said he wouldn't step down from the presidency. On Tuesday, local daily Folha de S. Paulo reported that Mr. Temer and his aides were planning a counterstrike against Mr. Janot's allegations.

Two-thirds of Congress must vote to allow the case against Mr. Temer to go to a trial, which would occur before the country's Supreme Court and result in a 180-day suspension of the leader's mandate. That sets the stage for a high-stakes showdown between Brazil's crusading law-enforcement apparatus and an entrenched political class at a time of growing tension between the two sides.

"At the end of the day, lawmakers will choose stability over sending a president to trial," predicted Alfredo Kaefer, a congressman from a small party aligned with Mr. Temer.

Launched in 2014, the so-called Operation Car Wash has expanded from a narrow money-laundering probe into Brazil's most significant anticorruption push ever. In a country where the rich and powerful historically faced few consequences for wrongdoing, the investigation has led to the jailing of scores of high-profile businessmen and politicians, yielded more than $7 billion in settlements and stirred broad hopes for a fairer society.

But it hasn't magically given Brazilians a new roster of honest politicians, something even the most optimistic political scientists say would take years. Instead, the investigations have fueled a state of nearly constant political turmoil, contributing to Brazil's deepest economic downturn in more than a century and leading to the impeachment of President Dilma Rousseff in 2016.

"So far, the confrontation of systemic corruption has basically been the work of law enforcement: police, prosecutors and judges, with strong support from civil society and public opinion," Sergio Moro, the judge spearheading Car Wash who is widely seen as a national hero, told The Wall Street Journal. "It needs to become part of the political agenda."

But with a second president in little more than a year teetering, some Brazilians are beginning to wonder if the costs of cleaning up corruption outweigh the benefits. Brazil's per capita economic output has contracted by some 11% since Car Wash began, forcing millions of layoffs.

The instability has been compounded by growing evidence of corruption's omnipresence in Brazilian politics.

In a videotaped testimony he gave as part of a plea deal earlier this year, Marcelo Odebrecht, the former chief executive of Latin America's largest construction company, said he was unaware of any politician managing to get elected without illegal cash. Undeclared contributions, he estimated, account for some three-fourths of all campaign money.

"Even if the guy says he didn't know, he still received money from his party that was [illegal]," Mr. Odebrecht said.

But with a budget deficit in excess of 9% of gross domestic product, Brazil desperately needs to pass sweeping reforms to avert a potential debt crisis, economists say. Mr. Temer, who is deeply unpopular with ordinary Brazilians but enjoys cozy relations with much of Congress, was seen a capable negotiator until the latest scandal erupted.

Growing numbers of politicians, and some members of the judiciary, have said Brazil should focus on fixing the economy under Mr. Temer, whose term ends in 2018. The president's governing coalition in Congress has remained largely intact even after the attorney general placed Mr. Temer under investigation in May.

—Luciana Magalhaes contributed to this article.

U.S., India Edge Closer In Leaders' First Meeting

By Carol E. Lee
And Eli Stokols


CARLOS BARRIA/REUTERS

President Donald Trump met with Indian Prime Minister Narendra Modi for the first time Monday.

WASHINGTON—U.S. President Donald Trump and Indian Prime Minister Narendra Modi said after their first meeting on Monday that they agreed to expand cooperation between their two countries on combating terrorism, stabilizing Afghanistan and overcoming differences on trade.

Mr. Trump said the U.S. and India are close to completing a natural-gas deal, though he quipped that it hadn't been signed yet because he's "trying to get the price up a little bit." He also called on India to remove barriers to U.S. exports to make way for "fair and reciprocal" trade between the two countries.

"The future of our partnership has never looked brighter," Mr. Trump said in a statement delivered standing alongside Mr. Modi in the Rose Garden at the White House.

Mr. Modi invited Mr. Trump to visit India with his family and said his economic vision for his country is compatible with the president's campaign-slogan promise to "Make America Great Again." He said India's development is in America's interest.

"Be assured that in this joint journey of our two nations towards development, growth and prosperity, I will remain a driven, determined, and decisive partner."

As part of closer cooperation on terrorism, he said the U.S. and India will enhance intelligence sharing.

Mr. Trump also has yet to sign off on a policy toward Afghanistan and Pakistan. Mr. Modi stressed that India has "played an important role in rebuilding Afghanistan."

Mr. Trump also mentioned his concern about North Korea's nuclear weapons and missile programs, saying it represents a threat that "has to be dealt with and probably dealt with rapidly." He didn't elaborate. Mr. Trump in a Twitter message last week said that his plan to enlist China in pressuring North Korea to reverse course "has not worked out."

In advance of Mr. Modi's White House visit, the U.S. sanctioned Mohammad Yusuf Shah, senior leader of a militant group that has used violence against Indian troops in the Kashmir region. India and Pakistan have been embroiled in a conflict for decades over Kashmir.

Mr. Trump briefly mentioned the importance of eliminating trade barriers that weigh on U.S. exports, but he didn't criticize the U.S. trade deficit with India in the same strong terms he has used toward other major economies.

U.S. merchandise imports from India are about twice the level of its exports to the South Asian country, resulting in a trade deficit of $24.4 billion last year. U.S. officials say barriers to agricultural goods and India's policies on intellectual property weigh on American farmers and businesses.

The meeting on Monday took place amid differences between Messrs. Modi and Trump on issues such as trade, climate change and immigration. Mr. Trump withdrew the U.S. from a 2015 international climate accord, of which India is a signatory.

But the two men papered over their differences as they worked to establish a rapport in discussions set over approximately four hours, including a private dinner at the White House. They hugged after their public statements.

North Korea Likens Trump to Hitler

By Jonathan Cheng

SEOUL—North Korea's state media described President Donald Trump's "America First" policy as "Nazism in the 21st century," and compared the U.S. president to Adolf Hitler, in the harshest language that Pyongyang has directed at the Trump administration.

Mr. Trump's policy "is the American version of Nazism far surpassing the fascism in the last century in its ferocious, brutal and chauvinistic nature," Pyongyang's state-controlled Korean Central News Agency said in a report published Tuesday.

The language reflects North Korea's hardening line on Mr. Trump, as the U.S. president turns up the heat on the regime nearly six months into his administration.

While North Korean propaganda regularly targets the U.S. with military threats, it has remained quiet until recently on the president himself.

Typically, North Korea has given new leaders in Washington and Seoul a wider berth at the beginning of their terms, as Pyongyang feels out their likely policies.


KRT/ASSOCIATED PRESS

President Donald Trump in May said he would be honored to meet North Korean leader Kim Jong Un 'under the right circumstances.'

Shortly after Mr. Trump took office in January, the U.S. government approved visa applications for Choe Son Hui, a top North Korean diplomat, to visit New York for back-channel talks, signaling a possible willingness to engage in dialogue.

But the State Department eventually nixed the meeting following the killing of Kim Jong Nam, the half brother of North Korean dictator Kim Jong Un, in Malaysia.

Since then, the U.S. military has conducted several flyovers near the Korean Peninsula using B-1B bombers and directed a Navy aircraft carrier group to the region—all to North Korea's consternation.

The U.S. Embassy in Seoul declined to comment on the remarks.

Mr. Trump said in a May interview with Bloomberg News that he would be honored to meet Kim Jong Un "under the right circumstances."

"The coarsening language toward the administration, and toward the president himself, seems to reflect a slowly sharpening discussion within the regime," Mr. Carlin, a former longtime Central Intelligence Agency analyst, wrote in an analysis for 38 North, a North Korea-focused blog.

WORLD WATCH

GERMANY

Vote Is Expected On Same-Sex Unions

Lawmakers on Tuesday cleared the way for a vote this week to legalize same-sex marriage after Chancellor Angela Merkel dropped her opposition to it, a move that frustrated some conservatives in her party but deprived her opponents of a possible campaign issue.

Ms. Merkel said at an event hosted by a women's magazine on Monday that she believed the question of whether people of the same sex could marry should at some point be voted on in parliament despite her center-right party's platform defining marriage as the union of a man and a woman.

"I would like to lead this discussion toward a situation in which one can vote one's conscience," Ms. Merkel said.

Though no bill to legalize same-sex marriage has ever been voted on, several have been submitted to parliament, allowing supporters to respond quickly to the chancellor's shift. On Tuesday, Martin Schulz of the center-left Social Democrats, demanded a vote by the end of the week, when the lower house of parliament adjourns for the summer. *—Anton Troianovski*

MEXICO

Trade Gap Widens To $1.07 Billion

The country recorded a $1.07 billion trade deficit for May, more than double the shortfall in the year-earlier month as the gap in petroleum goods widened, the National Statistics Institute said Tuesday.

Exports last month rose 12.9% from a year earlier to $35.47 billion thanks to solid gains in shipments of factory-made goods, while imports increased 14.7% to $36.54 billion.

The May numbers brought the deficit for the first five months of the year to $2.97 billion, with a $6.88 billion deficit in petroleum partly offset by a $3.91 billion surplus in other goods. *—Anthony Harrup*

CANADA

U.S. Slaps New Duty On Softwood Trade

The Trump administration escalated its lumber-trade tiff with Canada, adding a new layer of duties on imports from its northern neighbor even as it said it still hopes to negotiate a settlement before the full bite of the penalties is felt.

Two months after moving to impose 20% tariffs on Canadian softwood lumber commonly used in single-family homes, the Commerce Department said Monday that it was considering additional fees that would mean some products would face duties as high as 30.88%.

The Trump administration has accused Canada of unfairly selling its lumber in the U.S. below production costs, aided in part by improper government subsidies—a trade practice known as dumping. The first round of duties was aimed at countering the alleged subsidies, while the new round is aimed at other factors that the U.S. says are fueling the alleged dumping.

Canada has denied the U.S. allegations, and Prime Minister Justin Trudeau at one point said he would carefully consider retaliatory measures against the U.S. The U.S. last year imported more than $5 billion of softwood lumber from Canada.

The Commerce Department said the duties announced Monday were "preliminary" and that it would reach a final determination on Sept. 7. The move could have an immediate effect on trade, as the U.S. government will start collecting deposits from imports based on the new ruling.

—Jacob M. Schlesinger and Paul Vieira

GOP Health Bill Hurdles Heighten

Senate measure would increase the number of uninsured by 22 million, report predicts

The Senate Republican health-care overhaul would result in 22 million more people uninsured and cut the cumulative federal deficit by $321 billion in the next decade, compared with the current Affordable Care Act, according to an estimate released by the Congressional Budget Office.

By Stephanie Armour, Kristina Peterson and Louise Radnofsky

On Tuesday, Senate Majority Leader Mitch McConnell (R., Ky.) told lawmakers a vote on GOP health-care bill has been delayed until after the July 4 recess.

More than a half-dozen GOP lawmakers were wavering in their support of the bill. Sen. Susan Collins (R., Maine) said Monday she would vote against the bill, citing the CBO report.

Also on Monday, the American Medical Association made public its opposition to the bill in a letter to Senate leaders, saying "it will expose low- and middle-income patients to higher costs and greater difficulty in affording care." But insurer Anthem Inc. said it believed the legislation would bring stability to the individual insurance markets.

GOP leaders can lose no more than two Republican senators on either the "motion to proceed" to debate on the bill, or on the bill itself. None of the 48 members of the Senate Democratic caucus is expected to vote in favor of the bill.

Six GOP senators said they were opposed to the bill; at least three said they would block it on the procedural vote.

The bill's effect on consumers would vary widely, the CBO found. Many people would see lower premiums, partly because their plans would cover fewer benefits. But for lower-income consumers or those with special needs, medical costs could be significantly higher.

MARIE D. DE JESUS/ASSOCIATED PRESS

The American Medical Association said the health bill would expose low- and middle-income patients to greater difficulty in affording care.

Republicans emphasized the CBO's finding that after rising for a time, average premiums would go down after 2020.

"Our plan will help address Obamacare's ballooning costs for consumers by lowering premiums over time and cutting taxes, and today's estimate confirms that," said Sen. John Cornyn of Texas, the chamber's second-ranking Republican.

The White House said in a statement: "The CBO has consistently proven it cannot accurately predict how healthcare legislation will impact insurance coverage. This history of inaccuracy, as demonstrated by its flawed report on coverage, premiums, and predicted deficit arising out of Obamacare, reminds us that its analysis must not be trusted blindly."

Democrats and their allies pounced on the analysis to say the Senate bill would gut Medicaid and give tax breaks to the wealthy. "Today's report confirms what doctors, patient advocates, Democrats and Republicans have been saying for weeks: Trumpcare will lead to higher costs for less care and will lead to tens of millions of Americans left without health insurance," said Sen. Chuck Schumer of New York, the chamber's Democratic leader.

Senate GOP leaders have been working for weeks in closed-door sessions to draft a bill knocking down key parts of the 2010 law and replacing it with a new system of tax credits and cuts to Medicaid.

Four conservative Republicans—Sens. Rand Paul of Kentucky, Ron Johnson of Wisconsin, Mike Lee of Utah and Ted Cruz of Texas—said shortly after the bill's release they opposed it in its current form. A centrist, Sen. Dean Heller (R., Nev.), said he was opposed the following day.

Ms. Collins said in a trio of tweets Monday evening that while she wanted to fix the ACA, the "CBO analysis shows Senate bill won't do it," citing the cuts to Medicaid funding and how that could restrict health-care access in rural areas. "Senate bill doesn't fix ACA problems for rural Maine," she said.

When the CBO reported that the House version of the bill would result in 23 million fewer insured Americans in 2026 than the current law, it delivered a jolt that undermined the bill's support, though House Republican leaders were able to muster enough support to narrowly pass it.

It is unclear if the CBO score will have a similar effect in the Senate. Some GOP centrists had expressed concerns that the bill would leave too many people uninsured.

The increase in the uninsured would be disproportionately larger among older people with lower income, particularly people between 50 and 64 years old, according to the CBO.

Under the Senate bill, an estimated 49 million people would be uninsured by 2026, compared with 28 million who would lack care under the current law, according to the analysis by CBO and the Joint Committee on Taxation. That is primarily because of sizable cuts to the Medicaid program, the end of a penalty for not having coverage, and substantially smaller subsidies to help low-income people purchase insurance. The number of Medicaid enrollees under 65 would fall by about 16% by 2026 relative to current law (or 15 million fewer people).

—Natalie Andrews and Richard Rubin contributed to this article.

HEALTH

Continued from Page One

at least 50 of their 52 members to pass the legislation.

Emerging from the closed-door meeting with fellow Republicans on Tuesday, Sen. Marco Rubio of Florida said the plan was to try to hammer out an agreement over the next few days that could be taken up when Congress returns from a one-week recess for the Independence Day holiday.

"The hope is that we can at least have an agreement on what we can get enough votes on this week and turn to it when we get back," Mr. Rubio said. "It's possible. I can't tell you if it's likely until we know more about what options are to address people's concerns."

The delay means the bill, if it does garner enough support, would likely undergo major changes in the coming days. That could include an expansion of health-spending accounts, more funding for opioid-addiction treatment and more robust federal funding for Medicaid enrollees who are disabled or elderly, according to people familiar with the negotiations.

Other changes some conservative lawmakers want include a broader repeal of the 2010 law's insurance regulations and a sped-up timetable for Medicaid cuts.

TOM WILLIAMS/CONGRESSIONAL QUARTERLY/NEWSCOM/ZUMA PRESS

Vice President Mike Pence, left, and Senate Majority Leader Mitch McConnell in Washington on Tuesday.

Meanwhile, consumer-advocacy groups vowed to step up their pressure over the weeklong recess, zeroing in on key Senate GOP lawmakers who have remained quiet or wavered in support for the bill.

Republican senators who have been concerned about the bill are divided into two camps, with conservatives worried the legislation doesn't do enough to roll back the 2010 law's regulations and with centrists concerned the bill goes too far in stripping people of coverage.

An assessment from the nonpartisan Congressional Budget Office released on Monday further heightened wavering lawmakers' concerns. The report estimated that 22 million more people would be without insurance in 2026, compared with the current law.

Sen. Shelley Moore Capito (R., W.Va.), who objects to the level of Medicaid cuts in the bill, said senators are "coming at it from all angles." She said she isn't sure "how or if" Republicans can come together to get a health bill to final passage.

Sen. Bob Corker (R., Tenn.) said Mr. McConnell hoped to work out any changes needed to the bill by week's end, so it could be re-evaluated by the CBO over next week's recess.

Sen. Orrin Hatch (R., Utah) said that while he would prefer the Senate stay in session until it passes a health-care bill, he anticipated there would be "a lot of changes" to the bill over the recess to appease concerned members. He declined to give specifics.

Conservative Republicans opposed to the bill have found support from some outside conservative groups. Researchers at the Heritage Foundation on Monday disparaged the Senate bill for not going far enough.

If the Senate passes a health bill, it would need to be reconciled with a version approved earlier this year by the House.

Rep. Mark Meadows (R., N.C.) said amendments would need to be added to the Senate version to get enough Republicans in the House to support it.

"If it's predominantly the bill that's currently in the Senate without significant amendments, there would not be enough votes in the House or the Senate to pass it," Mr. Meadows said.

—Byron Tau and Michelle Hackman contributed to this article.

Warren Tries to Win Back Voters in Trump Country

By Reid J. Epstein

LOWELL, Mass.—Sen. Elizabeth Warren is traveling to Trump-friendly areas of her state hoping to connect with his backers and provide a road map for her party to win back working-class voters.

Ms. Warren's message echoes the gloomy assessment of the U.S. economy that President Donald Trump sketched out during the 2016 campaign, though her prescription for addressing it is diametrically opposite.

At a weekend town-hall meeting here, the Massachusetts Democrat began with a treatise about how the economy worked far better for the middle class in the 1950s, '60s and '70s. Now, Ms. Warren said, the middle class is no longer an equal partner in the nation's economic growth and there is little hope for anyone who isn't rich, powerful and connected.

"It is not the America of our dreams," she told about 500 people who packed into a steamy hall at a local job-training agency. "It is the America of our nightmares."

During last year's presidential campaign, Lowell became the exemplar of the down-on-its-luck places where Mr. Trump drew large crowds. A mile from where Ms. Warren held her town hall, Mr. Trump spoke before a packed 6,500-seat hockey arena in January 2016.

Mr. Trump won 60% of Lowell's GOP-primary vote in what was then still a five-candidate field. Democratic presidential candidate Hillary Clinton won the city in the general election, but Mr. Trump carried four of the five towns that border it.

In May, Ms. Warren held a town hall in Ware, a central-Massachusetts town won by Mr. Trump. Her team is planning more events in a band across the state's midsection that, according to an April WBUR poll, remains supportive of the president and skeptical of Ms. Warren.

MANDEL NGAN/AGENCE FRANCE-PRESSE/GETTY IMAGES

Democratic Sen. Elizabeth Warren of Massachusetts

Ms. Warren's message: Things are unfair; Washington is to blame; and without major changes the country will be irreparably harmed.

"We talk about how the middle class has just taken one punch after another for nearly 40 years now," she told the Lowell crowd. "Understand that Donald Trump and these Republican majorities are poised to deliver the knockout blow."

That blow, Ms. Warren said, comes from GOP efforts to roll back Obama-era financial regulations and the Affordable Care Act, along with the increasingly burdensome student-loan debt load on new college graduates.

Although she is holding events in Trump-friendly areas, Ms. Warren has drawn supportive crowds.

Among those who asked questions of Ms. Warren was Jennifer Daniel, an unemployed 30-year-old from nearby Methuen.

Ms. Daniel said her husband, an Army veteran, used his GI Bill education benefits to attend a for-profit college that closed in 2016, four months before he was set to graduate.

"This is not right," Ms. Warren told her from the stage. "Everyone in this room recognizes the responsibility that we have to you and to each other to stop this kind of cheating on veterans. This is just wrong."

Lockout Provision May Not Increase Enrollees

By Anna Wilde Mathews

Senate Republican leaders on Monday unveiled a new provision in their health bill designed to prod people to maintain their insurance coverage, a tweak made after insurers had complained an initial version of the legislation threatened to undermine the individual insurance market.

But industry officials say it isn't clear how much the new clause would stabilize the markets or draw in the young, healthy enrollees insurers crave.

Insurers applauded the tweak, which would impose a waiting period of six months on people who try to buy plans after having a gap in coverage of 63 days or more. The idea is to motivate consumers to maintain continuous coverage, rather than jumping into the market when they get sick or need a medical procedure.

The Blue Cross Blue Shield Association said Monday the legislation "includes several urgently needed and important steps to help make the individual market for insurance more stable and affordable in 2018 and 2019," among them "strong incentives for people to stay covered continuously."

But insurers and experts also said it wasn't clear that the new six-month lockout period or other provisions would fully make up for the impact of another important part of the Senate bill: dumping the Affordable Care Act's mandate that requires most people to have insurance.

Many insurers feel that the ACA requirement, and the tax penalty associated with it, helps bring young, healthy enrollees into the market. Healthy enrollees help offset the costs of sicker consumers and hold down premiums.

"Any loosening up in the mandate is detrimental to the risk pool," said Dave Dillon, a vice president at Lewis & Ellis, an actuarial consulting firm, and fellow of the Society of Actuaries. "I don't see that six-month waiting period as being very effective to encourage enrollment."

The effect of any loss of the mandate that people be insured is in doubt.

Paul Markovich, the chief executive of Blue Shield of California, said the new continuous-coverage provision is "helpful," but he would like to see more. "I don't think that's as strong an incentive for individuals to stay in the pool" as the individual mandate, he said.

Overall, he said, the Senate legislation could help steady the marketplaces in the short term, partly by including two years of federal payments for cost-sharing subsidies and providing new federal stabilization funding that could help blunt costs for insurers. But "when you get to the longer term, it will be much more challenging" to keep the individual market steady.

Martin Hickey, chief executive of New Mexico Health Connections, a nonprofit insurer, said that getting rid of the individual mandate would likely push his company's rate increase on marketplace plans for next year up by 10 to 20 percentage points, and he didn't expect that amount would be reduced by the inclusion of the six-month lockout requirement. He said the continuous-coverage penalty might "actually drive more sick people into the pool."

The Congressional Budget Office in its analysis of the Senate bill projected the lockout requirement would ultimately "slightly increase the number of people with insurance."

Trump Aides Hire Lawyers For Probe

At least 10 have retained attorneys or are moving to do so amid Russia inquiry

By Peter Nicholas
And Carol E. Lee

As investigations intensify into whether the Trump campaign colluded with Russia in the 2016 presidential campaign, at least 10 White House officials and former aides have retained lawyers in conjunction with the probes, or are moving to do so.

Inside the White House, President Donald Trump, Vice President Mike Pence and Mr. Trump's senior adviser Jared Kushner, his son-in-law, all have hired private attorneys, as have former campaign advisers Michael Caputo, Boris Epshteyn and Roger Stone, among others.

The growing roster of legal counselors could further complicate communication inside a White House that has been rocked by divisions, and risks adding one more distraction for an administration that has struggled to keep the public focus on its policy agenda.

Asked about the White House's management of the investigations, Andrew Card, chief of staff to former President George W. Bush, said: "I think they're learning they have to do a better job of it. I don't fault them for the way they've had to learn this process. But I'm hoping they do not get distracted. That's the most critical thing."

Kellyanne Conway, counselor to President Trump, said, "It's business as usual here in the White House, where the president's packed schedule and the breakneck pace have been unchanged."

Past administrations have taken different approaches in parrying investigations, which can be a consuming preoccupation for the officials involved. Former President Bill Clinton tapped White House attorney Lanny Davis to manage press inquiries into various ethics investigations that played out in part of his second term, hoping to create a firewall between the probes and his policy agenda.

Faced with a special counsel investigating the outing of Central Intelligence Agency covert agent Valerie Plame, some of Mr. Bush's White House aides hired their own attorneys.

As of now, the Trump White House has settled on a model that relies heavily on the president's chief outside lawyer, Marc Kasowitz, and a team that includes longtime Republican communications specialist Mark Corallo and another outside attorney who is a practiced TV commentator, Jay Sekulow, to defend the president.

Robert Mueller, a special counsel hired by the Justice Department, is conducting the Federal Bureau of Investigation probe of Russia activities in the 2016 election and whether the president obstructed justice by trying to curtail or influence the probe, according to people familiar with the investigation. Mr. Mueller took over after Mr. Trump fired James Comey as FBI director, after he initiated the investigation last year.

Senate and House committees are also examining what happened during the campaign and whether any Trump advisers colluded with Russians. The White House has denied any wrongdoing by the president and his team.

One advocate for the approach taking shape in the administration is senior White House adviser Steve Bannon. He aims to keep the response to the investigation "outside the White House" so that it doesn't become an "all-consuming thing" inside the building, a person familiar with the matter said.

Also important to Mr. Bannon was finding a "Lanny Davis" type, this person said. That role seems to have fallen to Mr. Sekulow.

White House chief of staff Reince Priebus is himself a lawyer and hasn't retained counsel, nor has Ms. Conway, who served as Mr. Trump's campaign manager. Mr. Bannon hasn't hired a lawyer either and doesn't plan to do so, the person familiar with the matter said.

Mr. Kushner's attorney is Jamie Gorelick, a former Clinton administration official. She is a partner at WilmerHale, the same law firm that employed Mr. Mueller until he became special counsel.

After Mr. Mueller left WilmerHale, Ms. Gorelick asked Mr. Kushner to obtain independent legal advice on whether he should keep her on, given the WilmerHale connection.

Mr. Kushner sought advice from Abbe Lowell, a seasoned lawyer who was counsel to House Democrats during the impeachment proceedings against Bill Clinton. Ms. Gorelick said in a statement Monday that Mr. Kushner has added Mr. Lowell to his legal team. He is also keeping Ms. Gorelick.

Mr. Trump receives regular briefings from the Kasowitz team, speaking to them virtually every day, a White House official and a person close to the team said. Mr. Kasowitz has also met with White House aides. In one meeting, Mr. Kasowitz told the aides that they could come to him in the event they had questions, three people who were in the meeting said.

A person close to the Trump legal team said that Mr. Kasowitz isn't dispensing legal advice to White House staff. Asked about Mr. Kasowitz's meeting with White House aides, this person said that Mr. Kasowitz offered to recommend attorneys if people felt they wanted legal counsel, this person said.

Mr. Kasowitz declined to comment.

—Michael C. Bender contributed to this article.

WIN MCNAMEE/GETTY IMAGES

Marc Kasowitz has been hired by Mr. Trump as his chief outside lawyer for the investigations into Russian interference in the election.

EPA Aims to Rescind Clean-Water Rule

By Eli Stokols

President Donald Trump's administration is moving ahead with plans to dismantle another piece of the Obama administration's environmental legacy, the rule that sought to protect clean drinking water by expanding Washington's power to regulate major rivers and lakes as well as smaller streams and wetlands.

The Environmental Protection Agency, Department of the Army and U.S. Army Corps of Engineers are proposing a new rule that would rescind the Obama administration's Waters of the United States, or WOTUS, rule and "re-codify the regulatory text" that existed before its adoption in 2015, according to a press release obtained by The Wall Street Journal.

That action, the agencies contend, "would provide certainty in the interim" while a new rule-making process is undertaken.

Environmental groups uniformly blasted the EPA's announcement on Tuesday, and they promised that they would challenge the agency's move in the courts.

Coming almost a month after Mr. Trump announced plans to withdraw the U.S. from the Paris climate accord, Tuesday's move is another sign the new administration and the EPA under administrator Scott Pruitt intend to prioritize the economic concerns of industry and agricultural interests over environmental concerns and, more broadly, to try to erase significant pieces of Barack Obama's legacy.

Aimed at clearing up decades of jurisdictional and legal uncertainty and protecting more Americans' drinking water from contamination, the rule, which was tied to a provision of the Clean Water Act of 1972, greatly expanded the federal government's authority to limit pollution in major bodies of water like Chesapeake Bay and the Mississippi River, as well as in small streams and wetlands.

It was immediately met with legal challenges, which has delayed its implementation, and it has been a source of consternation to many in farm country who complained about what they called another layer of onerous Washington regulations.

Property developers, chemical manufacturers and oil-and-gas producers also have voiced opposition to the rule, which they argue is an intrusion on property owners' rights and an impediment to economic growth.

Mr. Trump, who agreed with that view, signed an executive order in late February directing the EPA to review WOTUS and to do so based on a much narrower interpretation of "navigable waters" as outlined in a 2006 Supreme Court opinion by Justice Antonin Scalia.

In that case, which stemmed from a suit filed by a Michigan developer who challenged federal authority over patches of wetlands on his property, the court reached an impasse as three other conservative justices joined Justice Scalia's opinion while four more liberal justices concluded that the EPA should be able to regulate anywhere that water flowed at some point throughout the year.

The ninth justice, Anthony Kennedy, attempted to split the difference by calling for the rules to cover any wetlands with a "significant nexus" to navigable waters, wording that the Obama administration seized on in 2015 as it wrote a 400-page document laying out all the ways in which various water features affect larger rivers.

RICHARD GRAULICH/ASSOCIATED PRESS

Water full of algae laps along the Sewall's Point shore on the St. Lucie River in Florida last year.

IMF Cuts U.S. Forecast Amid Uncertainties

By Ian Talley

The **International Monetary Fund** cut its forecast for the U.S. economy, saying it could no longer assume the Trump administration will be able to deliver pledged tax cuts and higher infrastructure spending.

The IMF, in its annual review of the U.S. economy, questioned the White House's plan to accelerate output and said it was skeptical the administration would be able rev up the world's largest growth engine to a 3% annual rate.

That target is "an extremely optimistic growth assumption," the IMF's economists said. Instead, the fund forecasts the growth rate will steadily fall over the next five years to around 1.7%, assuming no major policy changes.

In April, the IMF said President Donald Trump's tax-overhaul plans and spending stimulus could boost the growth rate to 2.5% next year, up from 2.3% this year. But after talks with administration officials amid still-evolving policy plans, the fund says it can no longer factor such stimulus into its forecasts. The IMF now says the economy will expand by 2.1% this year and next.

The White House and congressional leadership are still looking at a tax overhaul this year. But initial optimism about the administration's ability to get a tax revamp and infrastructure spending has faded in the face of mounting political hurdles.

Meanwhile, buoyant stock prices, one of the longest expansions in U.S. history and a precrisis jobless rate belie an economy facing challenges ahead, the fund warned.

Technology is reshaping product and labor markets, but productivity growth isn't picking up. An aging workforce is keeping a lid on labor-market expansion, a growth-sapping dynamic that may be exacerbated by more restrictive immigration policies. High government debt prevents spending-led stimulus. And a strong dollar—estimated by the IMF to be 10% to 20% over a value economic that fundamentals warrant—is weighing on U.S. competitiveness.

"All in all, in our judgment, the U.S. economic model is not working as well as it could in generating broadly shared income growth," according to Alejandro Werner, head of the IMF's Western Hemisphere department.

YURI GRIPAS/REUTERS

The IMF sees 2.1% growth.

U.S. WATCH

FEDERAL RESERVE

Globalization Harmful To Many, Yellen Says

The offshoring of jobs associated with globalization combined with technological change have been devastating for many American communities, while designing programs to help has proved difficult, Federal Reserve Chairwoman Janet Yellen said Tuesday.

Speaking at the British Academy, Ms. Yellen said the two processes were intertwined, and had led to a loss of middle-income jobs that created a feeling of despair among those affected.

"Both of these things have been quite harmful to a very large share of the population," she said, referring to problems such as increased death rates among some segments, and rising drug use.

Ms. Yellen's comments about the disadvantages of some big changes in the economy over recent decades were unusually direct. "Trade can be good, and it has been good," she said. "But there are losers, and it's challenging to design interventions that would help the losers."

Ms. Yellen also said the U.S. financial system is "safer and sounder" than it was before 2008, although another crisis can't be ruled out.

Ms. Yellen said the Fed is spending more time on detecting threats to financial stability, including in places that aren't subject to regulation. "We have been very focused on making sure the core of our financial system has enough capital that we can provide the assurance that our major banks could go on lending to our economy even after a major shock," she said. "The system is much safer and sounder."

—Paul Hannon and David Harrison

SUPREME COURT

Justices to Weigh Sports-Gambling Case

The Supreme Court on Tuesday agreed to consider New Jersey's bid to legalize wagering on sports, a case in which the state is challenging restrictions imposed by the federal government.

The justices, in a brief order, said they would hear an appeal by New Jersey's Republican Gov. Chris Christie and other state officials who were on the losing end of lower court rulings.

The state has made two recent attempts to introduce sports betting to the state, most recently with a law it passed in 2014 that repealed state prohibitions on sports wagers at casinos and racetracks.

The four major U.S. professional sports leagues and the National Collegiate Athletic Association sued to block New Jersey's law, saying state-sponsored gambling threatened the integrity of their games.

Lower courts said New Jersey's effort to allow sports bets was prohibited by a 1992 federal law that bars most states from licensing such wagers.

Nevada has an exception to the prohibition because its sports betting was grandfathered into the law.

New Jersey is raising states-rights claims, arguing federal law shouldn't be able to foreclose a decision that should belong to state officials.

—Brent Kendall

LABOR DEPARTMENT

Americans Choose Work Over Sleep

Americans spent more time working and less time sleeping in 2016 than the year before, signs an improving labor market got people off of their couches.

Americans, on average, spent four hours and 36 minutes working in 2016, up about eight minutes from a year, according to the American Time Use Survey, released Tuesday by the Labor Department.

The report includes weekday habits of those 15 years old and older who work and those who don't, including aging Americans steadily leaving the labor force. Despite that demographic pressure, the number of Americans working as a proportion of the overall population has been on the rise in recent years and was 59.7% in December.

—Sarah Chaney

STATE

Continued from Page One

fore the state enters its third budgetless year.

Susana Mendoza, the state's Democratic comptroller, is in charge of doling out limited funds to organizations demanding payment—a job she likens to handing out crumbs to starving children. She predicted unpaid bills will soon top $16 billion.

"It is almost hard to say those numbers out loud because they seem so insane, but that's where we are right now," she says.

Any solution to the state's dismal finances will need a three-fifths legislative majority to pass. Looming behind the fiscal train wreck are an estimated $250 billion in unfunded pension liabilities, the worst in the nation, according to Moody's Investors Service. S&P Global Ratings has warned that it could lower the state's rating to junk as early as this week if it doesn't pass a budget.

The Republican draft budget includes a temporary income-tax increase. Gov. Rauner has also pushed for spending cuts in areas including state pension benefits, which are protected under the state constitution, and social services. He also wants to freeze property taxes and ease workers-compensation protections to attract new businesses.

Illinois is even late paying its utilities bills to Springfield, its own capital city.

Democrats, who are completing their own spending plan, complain that some of the provisions in the Republican plan, such as changes to workers-compensation insurance and a local property-tax freeze, are outside the scope of the budget.

The governor's spokeswoman says mismanagement of the state's finances predated his term, and that the governor is working "to find consensus on a budget that is truly balanced and...will ensure Illinois thrives in the long-run."

A spokesman for Mr. Madigan, the house speaker, says a compromise has been hard to broker because the two men's visions on how to fix the state are so far apart.

Illinois remains the business center of the Midwest with numerous Fortune 500 companies based in and around Chicago, major rail infrastructure and one of the nation's busiest airports. That hasn't stopped the deadlock from rippling through towns from Rock Island on the Mississippi River to Charleston in central Illinois. Hospitals and doctors are feeling the brunt as the state delays Medicaid payments and insurance payments for state employees.

Peoria-based OSF Healthcare, a network with 10 Illinois hospitals, is owed about $115 million for bills over four months old, the equivalent of 18 days of operating expenses, says Chief Financial Officer Michael Allen.

"We have to be cautious about our future," he says. "There's just no end in sight."

The state owes Illinois dentists $225 million, and some of those bills go back 23 months, according to the Illinois State Dental Society. Some dentists in college towns or other areas with lots of state workers are selling their receivables to keep their heads above water. Others are asking state employees to pay in cash, says Ronald Lynch, a dentist in Jacksonville.

"There are dentists who have to do this just to survive," says Dr. Lynch. "It's very stressful." Dr. Lynch, who hasn't asked for such cash payments, says he is owed about $250,000, forcing him to forgo a salary so he can continue to pay bills and his employees.

Health care is the capital's biggest employer apart from the state itself. Springfield's two hospital systems—Memorial Health and HSHS St. John's—say they together are owed more than $200 million by the state. Edgar Curtis, Memorial Health's chief executive, says he has put off a $100 million capital-expansion project because of the uncertainty. "We hate to see projects being shelved because of what is going on at the state level," he says.

The Coliseum building at the state fairgrounds in Springfield closed indefinitely earlier this year after the state failed to come up with funds needed for repairs. The closure has cost the city tourism dollars from horse shows and other events.

Springfield Mayor James Langfelder, a Democrat, says sales-tax revenue has declined by $2 million since 2015, which he attributes to state employees making fewer purchases. On top of that, the state owes the city $5 million for utilities on buildings it rents from the city.

"At first, we tried to meet with legislative representatives, we tried to highlight the urgency of this," says Mr. Langfelder, referring to the impact of the budget crisis on the city. "Now, you are almost numb to the fact. We just do whatever is in our control."

Over the past two years, Eastern Illinois University has received at least $53 million less than it would have if the average funding levels of the prior five years had held.

Professors in the chemistry department haven't been able to print in color since the department's printer ran out of yellow ink a year ago. Biochemistry professor Mary Konkle says she decided to leave her tenured position when she no longer had funding to order equipment or chemicals for her research.

"It wasn't my plan to just be here a couple of years and move on," she says.

Less than a decade ago, university enrollment was at its peak of 12,000. Then it began slipping by a few hundred a year. The decline picked up speed after the state's budget troubles began in 2015. Since then, the school's enrollment has dropped by about 1,500 to 7,400 last fall.

Rallies and press coverage about the state budget mess raised fears the school might close, keeping students away. Administrators say it is doubtful that they will have even 7,000 students this fall.

In Charleston, where the university is based, empty storefronts litter Lincoln Avenue, the main thoroughfare running by campus. Jerry's Pizza, a staple for professors and students since 1978, closed last October, citing the university's shrinking population. "For Rent" signs are posted outside rows of apartments that cater to students, with one ad offering free iPad minis to students who sign a lease.

"Had we had 12,000 students here, the businesses would probably all still be here," says John Inyart, a former Charleston mayor who owns an auto-repair shop across from the university's main hall. He has had to cast his net wider for customers as faculty and students dwindle, he says.

"Any community that had a university was kind of like Teflon. You had that stability in your community, with stable good paying jobs," says Cindy White, chairwoman of the local chamber of commerce. "Well, now, that's not so much anymore."

If the state doesn't pass a budget in the current special legislative session or allocate emergency funding, about 700 road projects under way across the state—worth $2.3 billion and employing 20,000 people—will come to a stop.

"While we are hopeful the situation is resolved before then, the department is notifying contractors that all construction work is to shut down on June 30," says Gianna Urgo, spokeswoman for the Illinois Department of Transportation. "Contractors will be advised to secure work zones to ensure their safety during any potential shutdown."

Among the projects under way is a multiyear, $40 million rebuilding of several main thoroughfares that cut through the heart of Urbana, home of the state's flagship university.

The roads are now effectively closed, limiting access to retail businesses, says Urbana Mayor Diane Marlin.

"We're on a very tight construction schedule, and a lot of the work has to be done this summer before 44,000 students come back," she says. "So even a slight delay is a big problem."

Some social-services agencies have given up on receiving state funding. Others have closed entirely, leaving some rural communities without mental-health clinics, domestic-violence shelters and drug-treatment clinics, despite an opioid crisis gripping some towns downstate.

Illinois has lost more residents than any other American state for the third year in a row, with 90% of the state's counties seeing a drop in population, shrinking the state's tax base. In 2016, a net of 37,508 people left, according to census data, putting the population at its lowest in nearly a decade.

Illinois was one of just eight states in the country, and the only Midwestern one, to lose residents last year.

"It's not just the budget crisis; it's that people don't have any confidence in what the state is going to do next," says Laurence Msall, president of the Civic Federation, a nonpartisan Chicago-based government-watchdog group backed by business leaders. "There is fear of an enormous tax increase. The uncertainty is driving people from the state."

In 2014, the state's gross domestic product was growing faster than any other bordering state. In 2016, Illinois grew slower than all bordering states except for Iowa, with which it was tied.

In the Quad Cities, a metro area that spans the Mississippi and encompasses both Illinois and Iowa, population on the Illinois side has decreased by 2.5% between 2010 and 2015. Cities on the Iowa side have grown 3.7%.

Among those who have crossed the river is Kelly Daniels, an English professor at Augustana College in Rock Island, Ill.

Mr. Daniels bought a home in Rock Island a decade ago, in part because of an incentive that helped cover part of his down payment. Now married with a young child, Mr. Daniels was looking for a larger house when he decided to move. He was tempted by lower property taxes and what he saw as Iowa's relatively brighter prospects, compared with Illinois's dysfunction.

"It's not like Iowa is paradise," said Mr. Daniels, who grew up in California.

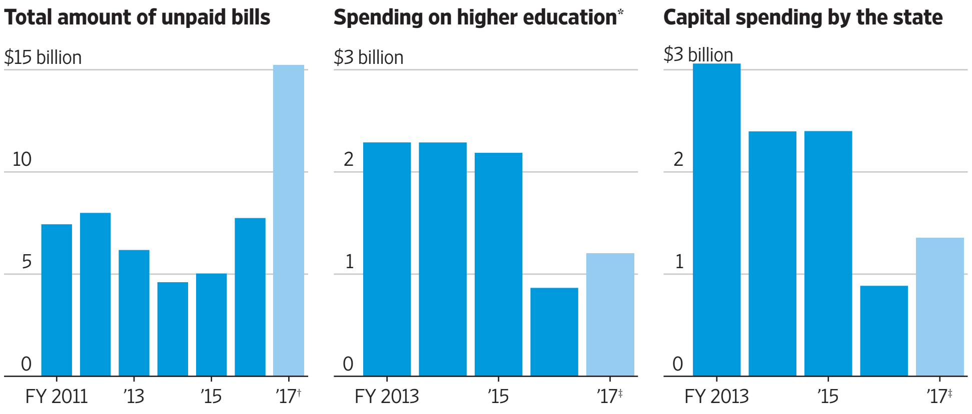
—Heather Gillers contributed to this article.

MICHELLE KANAAR FOR THE WALL STREET JOURNAL (2)

The Coliseum building at the state fairgrounds in Springfield closed indefinitely earlier this year.

Budget Pinch

With no state budget for two years, Illinois has let bills stack up and has reduced spending on higher education and infrastructure.



Note: For fiscal years ending June 30 *all funds (including the nine universities) †Through June 20 ‡Through June 6
Source: State of Illinois Comptroller
THE WALL STREET JOURNAL.

Mary Konkle packed up after deciding to leave Eastern Illinois.

RARE

Continued from Page One

pretty uniform, riding trains and trucks or stacked near ports and warehouses.

People like Mr. Fox know better. A small group of connoisseurs has taken up "container spotting," hanging around shipping yards to identify the globe-trotting metal boxes by color, size, vintage, country of origin and other details.

Rare finds are what "makes it all worth it," said Mr. Fox, an Indianapolis-based logistics-company salesman. "Blue Gateway container!"

Finding an unusual box "is analogous to the satisfaction that bird watchers get from spotting a very rare breed of bird," said Matt Hannes, who maintains the Intermodal Container Web Page, where he catalogs photos from container spotters around the world, including Mr. Fox.

Rare containers are often a product of the continuing consolidation in the global shipping industry. Names and logos disappear off the boxes as companies get bought or go bankrupt, but a few oldies manage to sneak by. Savvy spotters may get excited by an old Polish Ocean Lines logo or a rust-colored container labeled UES.

Other unusual containers include ones from the world's smallest shipping companies. Spotters also prize first sightings of new logos, such as the bright blue boxes of the newly formed China Cosco Shipping, or the alligator logos on MOL containers.

For more-casual container watchers, there is "The Container Guide," a waterproof field guide that fits in the average pants pocket. Published by Craig Cannon and Tim Hwang, it tells the stories behind dozens of big shipping companies whose containers are commonly seen—Maersk, Hapag-Lloyd, Hanjin—though it doesn't get into many rare containers.

Modeled after the National Audubon Society's "Field Guide to North American Birds," the book's renderings show container logos and hues.

Mr. Hwang said the container book appeals to "two types of infrastructure nerds." For some it is visceral—they are awe-struck by the massive scale of seaports and container shipping. For others, it is scientific.

"They get really into the data element of it—mapping and tracking containers in and out of Oakland port terminals, for example," Mr. Hwang said.

To Joe Romano, the Container Guide is a way to make sense of the constant hum of activity at the Port of Tacoma, Wash., near his home. When he is out for a run or a bike ride and sees a container he isn't familiar with, he goes home and gets out the guide to look it up.

"I've threatened friends with picnics on the waterfront where we take binoculars and spot containers," said Mr. Romano, a 36-year-old school librarian, adding that he is "sort of a lone wolf" among his friends and family.

He has been keeping his eyes out for a refrigerated Maersk box, which he has never seen. "Maersk might not be the most boutique one to spot," he said, "but it's my favorite as a layperson in the world of container spotting."

For many of the Container Guide's readers, the HBO detective series "The Wire" raised the container's profile when the show's 2003 second season followed longshoremen. Containers, of both the 20-foot and 40-foot variety, have also become more visible in daily life as they are increasingly being repurposed in backyard storage, retail spaces and even housing.

At Fast Lane Transportation's Southern California container-storage facility, President Patrick Wilson said he occasionally sees people taking photographs of his yard from the adjacent highway, which he has found odd.

"I never thought it might be somebody that's just an enthusiast," he said. Mr. Wilson conceded "it's a little interesting" when he sees markings on a container he never spied before.

Mr. Fox, on a spotting trip this week in what he called "the industrial armpit of Indianapolis," strolled through a yard of containers stacked up to four high. "They're so mesmerizing, so beautiful, so strange," he said, gazing up at a stack of forest green, teal, red, yellow and brown containers.

His rare finds that day, other than the blue Gateway, were a brand-new blue Cosco 20-footer and a Seaco refrigerated box with an HNA logo.

None of those matched his prize of a few years ago. "There was a Holy Grail for me," he said, a container with the letters "CAST" in a checkbook bank-routing-code font, from an old Canadian shipping company.

One day, a container-yard gatekeeper Mr. Fox had befriended called, telling him there were some CAST boxes on the lot headed for the scrapyard.

Mr. Fox rushed over to document them. "That was just the height for me. I mean, it was one of them."

Mr. Fox's wife, Kaylyn, said her husband's container spotting wasn't amusing on their honeymoon last year when the couple met up in Brussels with an avid enthusiast who runs a website where users can look up containers' alphanumeric codes.

He drove the newlyweds to the ports of Antwerp and Rotterdam, where Mr. Fox spent two 12-hour days photographing a variety of boxes: A beat-up MOL open-top, a Containerworld 20-footer he calls "an incredible unicorn," a CATU 20-footer that "had eluded me for years."

"We ate at many Belgian truck stops," Mrs. Fox recalls. "I got a little tired of shipping-container talk."

ERICA E. PHILLIPS/THE WALL STREET JOURNAL

Charles Fox hunts for 'unicorn' containers in Indianapolis. Of containers, he said, 'They're so mesmerizing, so beautiful, so strange.'

LIFE & ARTS

CLOCKWISE FROM LEFT: TRUSTEES OF THE BRITISH MUSEUM; ASHMOLEAN MUSEUM, UNIVERSITY OF OXFORD (2)

Raphael's 'Study for the Massacre of the Innocents' (c. 1509-10), left, 'The heads and hands of two apostles' (c. 1519-20), above, and 'Study for an angel' (c. 1515-16), below

ART REVIEW

Beyond the Brush

An exhibition reveals how Raphael's artistic genius transcended the medium of paint

BY RICHARD CORK

Oxford, England

ALTHOUGH RAPHAEL is still hailed as a supreme master of the Italian Renaissance, his paintings no longer generate the immense admiration ignited by Michelangelo and Leonardo da Vinci. But a revelatory exhibition at the Ashmolean Museum proves that Raphael's drawings sweep away any reservations we may harbor about his paintings. Whether working with ink or chalk, he never stopped searching for fresh ways of defining his restless vision. Raphael was always pushing himself, right up until the tragic moment in April 1520 when a high fever killed him at the age of 37.

Even the first exhibit in "Raphael: The Drawings," a probable self-portrait made in 1500-01 when he was only 17, is filled with mature confidence. Focusing on his head, Raphael defines its essential features with cool authority and summarizes his long, flowing hair in a series of linear flourishes. The teenager who had grown up in Urbino may well be celebrating his new status as an independent "master." Yet there is nothing complacent about Raphael's draftsmanship. He had a deeply enquiring mind, and after encountering Michelangelo's work in Florence he became charged with dynamism. Even his studies for the Christ child (c. 1507) are energetic in the extreme, as he tries several times on the same sheet of paper to catch the vivacity of the infant's thrusting toes.

The Ashmolean is lucky enough to own no less than 50 Raphael drawings, acquired in 1845 from a collection amassed by the portrait painter Sir Thomas Lawrence. But this exhibition has also borrowed 70 other drawings, most notably from the Albertina Museum in Vienna. Taken together, they testify to Raphael's obsession with sensuous female beauty, male musculature, maternal tenderness, childish energy, horrifying violence and, finally, a spellbound sense of wonder.

An early ink drawing inspired by Michelangelo's "David" (c. 1504-05) is handled with such assurance that we wonder why Raphael did not also become a prolific sculptor. His full-length chalk "Study for Adam in the Disputa" (c. 1508-10) was made for an ambitious fresco he painted within the pope's private library at the Vatican Palace. But this drawing could easily have been produced in preparation for a major carving. Adam's highly developed physique is celebrated here, and yet he looks melancholy as well. Raphael was intensely aware of the aggressive and destructive urges lurking within humanity, and he explores them with alarming power in several studies for the "Massacre of the Innocents." Drawn between 1509 and 1510, they concentrate on the crucial moment when mothers are still struggling to clasp, defend and hide their children from the assailants. But these beefy murderers will not be stopped, and their swords are seconds away from butchering the terrified infants' flesh.

After gazing at these studies, we view Raphael's drawing of "A seated mother embracing her child" (c. 1512) in a more fearful way. The young woman looks very urgent as she clasps her little son. Raphael uses the folds in her drapery to emphasize the protective urgency of her gesture, and the child adds to this sense of alarm by grabbing her veil and pulling it over his head. Looking at these drawings, it is easy to imagine ourselves watching the artist himself hard at work. One sheet, alive with closely related studies of a seated male nude, shows Raphael changing his mind as the figure twists on a lump of rock and flings up his right arm in a defensive maneuver.

This mood could hardly be more different from the sublime "Study for an angel" (1515-16), where another seated figure raises both arms upward as if to bless an unseen gathering below. Raphael was adept at expressing joy, nowhere more vividly than in an astonishing "Study for the Three Graces" (c. 1517-18) where his red chalk celebrates the women's erotic allure. But in a 1513-14 chalk study of "A man carrying an older man on his back," the helpless figure is so heavy that he seems overwhelmingly burdensome, and his bearer appears to be on the verge of collapse.

Raphael would doubtless have sympathized. By this time, he had been appointed architect of St. Peter's as well, and success threatened to overwhelm him with an excessive workload. But his prowess as a draftsman never stopped increasing, and the Ashmolean's show terminates with the finest drawing of all: "The heads and hands of two apostles" (c. 1519-20). Made in preparation for a monumental painting, "The Transfiguration of Christ," it shows both men in a profound state of awe. Unable to believe the miracle he is witnessing, one of them touches his own body as if to convince himself of his physical reality. The other flings his fingers out into space, perhaps imagining how Christ himself would float through the air toward heaven. Raphael died very soon after the painting itself was completed, and his sudden loss seems even more deplorable when we visit this enthralling exhibition.

Raphael: The Drawings
Ashmolean Museum, through Sept. 3

Mr Cork's latest book, "Face To Face: Interviews With Artists," was published by Tate in 2015.

MY RIDE | By A.J. Baime

THIS '67 DODGE STILL MAKES BEAUTIFUL MUSIC

DUSTIN FRANZ FOR THE WALL STREET JOURNAL

David Dweck's 1967 Dodge Charger, seen here in Cleveland, was in the first wave of 1960s muscle cars.

David Dweck, 55, a real-estate investor from Boca Raton, Fla., on his 1967 Dodge Charger, as told to A.J. Baime.

This year marks the 50th anniversary of the Summer of Love, and the 50th birthday of my Dodge Charger. The year 1967 was a huge year for cars and music. I was 5, and it all had a big impact on me.

I wanted to do something special, so I shipped my 1967 Charger to Cleveland. I flew my kids Evan and Gabriella in. Along with my girlfriend Elysa, we took a Father's Day road trip, motoring to the Rock & Roll Hall of Fame in Cleveland, then to a car show in Akron. After that, my kids left and Elysa and I drove the Charger through Pennsylvania to the Jersey shore, playing a soundtrack of 1967 music along the way.

My parents drove Dodges, and in high school I drove their 1972 Dodge Dart with the famous slant six engine. When I grew up, I wanted to experience those cars again, so I began a small collection of cars. The most special is my 1967 Charger.

The Charger was first unveiled for model year 1966, during the first wave of muscle cars. The Mustang was already a sales phenomenon, and the Camaro was about to become one. The original Charger body style only lasted two years, so my 1967 is a rare vehicle today. (The second-generation Charger is the one that became iconic due, in part, to its role as the General Lee in "The Dukes of Hazzard.") I found my car online for sale in Idaho in 2013, and I paid a mechanic a hundred bucks to look at it.

I paid $21,000 for the car and had it shipped to Florida. When it arrived, it exceeded my expectations. It's a performance car, but also a great cruising mobile. I made one modification: I put a CD player and a subwoofer in the trunk, and a speaker box in the back of the car.

Over four days on Father's Day weekend, I put about a thousand miles on the Charger. It performed like a champ. I blared "Sgt. Pepper's Lonely Hearts Club Band," the Doors and the Rascals. But when I reached the Jersey shore, I had to play some Springsteen. As the Boss sings in "Jungleland": "Barefoot girl sitting on the hood of a Dodge…"

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

REVIEW & OUTLOOK

A Unanimous Rebuke on the U.S. Travel Ban

The U.S. Supreme Court on Monday began the process of rebuking lower courts for usurping the political branches on national security. The entire Court, even the four liberals, agreed to hear the Trump Administration's appeal of appellate-court rulings blocking its immigration travel ban, and the Justices allowed nearly all of the 90-day ban to proceed in the meantime.

This is a victory for the White House, though it's more important for the Constitution's separation of powers. President Trump's ban is neither wise nor necessary, but that isn't an invitation for judges to become back-seat Commanders in Chief.

Yet that is precisely what liberal majorities on both the Fourth and Ninth Circuit Courts of Appeal did in blocking the travel bans, and the Supreme Court is saying those rulings won't be the last judicial word. The Court's unsigned per curiam opinion set the case for an early hearing on the legal merits in the next term that begins in October.

Justice Clarence Thomas, joined by Justices Samuel Alito and Neil Gorsuch, wrote a concurrence arguing that the Court should have lifted the lower-court injunctions in toto. He also added a cheeky aside that "I agree with the Court's implicit conclusion that the Government has made a strong showing that it is likely to succeed on the merits—that is, that the judgments below will be reversed."

The Supreme Court lets nearly all of Trump's policy be enforced as it hears his appeal.

Some Justices might not agree with that, but it's notable that Chief Justice John Roberts managed to corral a unanimous Court for lifting nearly all of the injunctions. That means even the liberals understand that injunctions need to be issued with care, especially on national security where judges lack the knowledge and electoral accountability of the executive and Congress.

The High Court's precedents are clear, especially *Kleindienst v. Mandel* (1972) that said courts should defer to the executive if there is a "facially legitimate and bona fide" justification on national security. Judges can't run roughshod over the Constitution merely because an unpopular President issued the travel order.

Democrats and the media will now begin a ferocious lobbying campaign to turn five Justices against these precedents, in particular the Chief Justice and Justice Anthony Kennedy. We doubt this will succeed because this isn't a close legal call, and it concerns the Presidency more than this particular President.

Britain's Coalition of the Spending

The political wreckage from Theresa May's election gambit keeps growing. The latest is the £1 billion ($1.27 billion) of new pork-barrel spending she has agreed to in exchange for support of the 10 members from Northern Ireland's Democratic Unionist Party to form a majority government.

Theresa May's Northern Irish deal will cost a lot more than £1 billion.

The spending bonanza—on roads, high-speed internet, health care and education in Northern Ireland—is modest as pork goes, amounting to 0.13% of the £772 billion London spent in the last fiscal year. In the plus column, there's a hint that Northern Ireland might be allowed to cut its corporate-tax rate.

The bigger price in the deal is that the DUP forced Mrs. May to abandon her plans to reform pensions. As a result, pensions will continue to rise each year by the highest of consumer-price inflation, wage growth or 2.5%. Though it's impossible to predict how much this will cost in the future, one clue is that, since David Cameron introduced the policy in 2010, it has cost up to £6 billion a year more compared to what it would have been if pensions were indexed solely to earnings growth.

The DUP also has nixed Tory plans to means-test winter-fuel subsidies for the elderly. This is a less-expensive give-away, but the symbolism is bad. The Conservatives are admitting they're no longer the party of entitlement reform.

After losing seats in the election, Mrs. May's Tories needed to find some way to govern so that Labour and its far-left leader, Jeremy Corbyn, don't. But to have a shot at winning the next election, the Tories must again become the party of economic growth. The DUP deal's entitlement surrender is a poor start and the Tories have limited time to do better.

America's Health-Care Hour

Senate Republicans in the U.S. have delayed a vote on their health-care bill until after the July 4 recess, as Majority Leader Mitch McConnell is still scrambling for 50 votes. What the holdouts should understand is that this is a defining political moment. They may never have a better chance to improve U.S. health care and reform government, and the window is closing.

GOP opponents will be accountable if they ruin this reform moment.

Repairing the failing individual insurance market, putting Medicaid on budget for the first time in the entitlement's history and passing an enormous pro-growth tax cut are historic opportunities. If reluctant GOP Senators think they won't be held accountable for a defeat, they should think again.

Moderates like Ohio's Rob Portman and West Virginia's Shelley Moore Capito remain nervous about the bill's Medicaid overhaul, but the block-grant model is the kind of fiscal progress they normally claim to want. The budget will never balance, and debt will continue to accumulate, if Congress can't modernize entitlements. Mr. Portman already won an extension to four years from three in the House bill for the start of phasing out ObamaCare's Medicaid expansion, and many Senators represent states that didn't expand.

Liberals call block grants heartless, but ObamaCare increased Medicaid enrollment by 29% to 74.5 million Americans—one of four citizens—in a program originally meant for poor women and the disabled. Equalizing payments for these traditional beneficiaries and ObamaCare's new able-bodied adult enrollees above the poverty line is uncaring only in liberal caricature. The real scandal is Medicaid's poor health outcomes and a funding formula that doesn't encourage states to prioritize the neediest Americans.

Conservatives such as Ted Cruz of Texas, Rand Paul of Kentucky, Mike Lee of Utah and Ron Johnson of Wisconsin claim the bill doesn't do enough to lower insurance premiums by repealing every mandate and regulation that artificially drives up costs. Their objections are principled but no bill will ever be perfect and most of their ideas don't now command a Senate majority.

On policy substance, the Senate bill gives Governors the regulatory flexibility to upgrade their insurance markets. Even if the bill isn't everything conservatives imagine, no one can credibly claim it isn't deregulatory progress. ObamaCare created a rule-making pathway supposedly meant to encourage state innovation, but these so-called 1332 waivers are highly prescriptive in statute and the Obama Administration tightened them even more through regulation. Among the four states that applied, only a single waiver was approved.

The Senate bill would fast-track 1332 applications and expand their scope to include items like the definition of a "qualified health plan," minimum benefits or limits on purchasing catastrophic health plans. The Senate waivers are far more comprehensive than the House's Meadows-MacArthur amendment, and any Governor who wants to experiment with market solutions and roll back overregulation will be liberated from federal command and control.

The Trump Administration would rapidly start to restore the traditional state regulatory authority over insurance. Waiver critics say a Democratic successor could take back freedoms not codified in law. But federalist devolution will be hard to reverse if Governors can show they can make premiums more affordable, improve the incentives for insurers to rejoin a more robust market and increase insurance without mandates.

The Congressional Budget Office on Monday released its cost-and-coverage estimate of the Senate bill, and opponents are touting its guess of 22 million fewer insured people compared to ObamaCare. But CBO's forecasts always underestimate the benefits of markets, and the real news is that the scorekeepers expect premiums to fall by 30% by 2020 than under current law. The GOP can deliver tangible financial gains to the millions failed by ObamaCare.

These are enormous conservative policy victories, even if they aren't everything we or other free-marketeers would like. Democrats built the entitlement state piecemeal over decades, and it will have to be reformed in pieces that are politically sustainable.

Some Senators can't be placated on substance and they may decide that defeating the bill is better for them politically. This is pure fantasy. Democrats won't ease their opposition to Nevada's Dean Heller in 2018 if he votes no. They'll double their investment against him as Mr. Heller's political base sours on him. When you face a tough political choice, better to stick with your friends than bet on the kindness of political enemies.

Another fantasy is that Republicans can vote no and blame Democrats for the collapsing ObamaCare status quo. The media will blame Republicans for every premium hike, and voters believe they elected a GOP Congress and President. If this bill fails Republicans will be forced to come hat in hand to Chuck Schumer's Democrats for the votes to stop a downward spiral of surging premiums and declining choices. Conservative reform won't be included.

The larger and rarer opportunity is to show that conservative ideas can succeed in health care. More progress is possible as voters come to trust Republican solutions, but not if the GOP now panics into defeat. Senator Johnson entered politics to oppose ObamaCare. Is he really going to squander this chance to make his detour into politics worthwhile?

Every consequential legislative reform is difficult, but the GOP anxiety over repeal and replace is excessive. They should have more confidence in their convictions and how their solutions can improve American lives.

Iran Won in Lebanon. What About Iraq?

By Danielle Pletka

Beirut

In the violent Middle East, Lebanon looks like a miracle. A mix of Christians and Sunni and Shiite Muslims who have fought a brutal civil war, and have weathered aggressive outside interference, Lebanon is still puttering along as a semifunctioning democracy. To encourage and strengthen the Lebanese Armed Forces, the U.S. has given more than $1 billion over the last decade.

But looks are deceiving. In Lebanon, despite America's help, Iran has won.

Step back a few decades and remember the pitched battles of the Lebanese civil war—Sunni vs. Shiite vs. Christian. The kidnapping and killing of countless innocents; the murder of the CIA station chief in Beirut; and finally, the end of the civil war with the 1989 Taif Accords, a rare Arab-led initiative, which dictated terms that enabled weary Lebanese fighters to lay down their arms.

The many militias that had grown up as appendages of the Lebanese political process were disarmed, the army was successfully deconfessionalized, militias melted into the Lebanese Armed Forces, Shiites were reassigned to Sunni units, Christians to Shiite ones and so on. The fighting ground to a halt. Israelis, and eventually even Syrian occupying forces, withdrew.

Except for Hezbollah. This Shiite militia was created by Iran's Islamic Revolutionary Guard Corps to be an Iranian proxy, nominally "resisting" Israel, but in fact resisting the normal governance of Lebanon by its people.

After more than 30 years, Hezbollah is still in Lebanon, sacrificing lives, resisting democracy, dictating foreign policy and corrupting the true Lebanese Armed Forces. For the past six years, it has been fighting assiduously on behalf of Iran and the Assad regime in Syria.

On a recent visit, my first after a long lapse, I found a palpable change in tone: Lebanese officials once privately noted their hostility to Hezbollah and Iranian interference. No longer. Now Hezbollah is something to accommodate, part of the "fabric of Lebanese life," as one senior military official put it.

Since the 2006 war with Israel, Hezbollah has rearmed dramatically, with an estimated 150,000 missiles, including short-range Katyusha-type rockets and thousands of medium-range missiles capable of striking Tel Aviv. Thousands of Lebanese have either volunteered or been forced to fight in Syria for Bashar Assad.

Even the Lebanese Armed Forces, long considered a pillar of the state, is now cozy with Hezbollah, as the latter's leader, Hassan Nasrallah, affirmed in a recent speech. And contrary to the oft-expressed hopes of senior U.S. officials, not only has the army failed to limit Hezbollah's reach within Lebanon, but reports suggest it may also have shared weaponry. A recent Hezbollah military parade in Syria showed U.S.-sourced M113 armored personnel carriers of the kind supplied by Washington to Beirut. Senior Lebanese officials insist the APCs "could have come from anywhere."

Iran is pursuing a similar strategy in Iraq. As in Lebanon, irregular militias have been part of the political and military scene since Saddam Hussein ruled. But since the withdrawal of U.S. forces in 2011 and the rise of Islamic State, some militias have proved useful to the Iraqi government—and to the U.S.—in taking on Islamic State, much as Hezbollah proved itself useful to Beirut in ousting Israel from southern Lebanon.

Officials in Beirut see no alternative but to accommodate the Hezbollah militia.

The Baghdad government has accommodated the so-called Hashd al Shaabi, or Popular Mobilization Forces; and Grand Ayatollah Ali Sistani, one of Shiite Islam's greatest eminences, has blessed their fight. The Iraqi legislature has approved the PMF's nominal incorporation into the Iraqi army, even as Iraqi government officials acknowledge that 30% of the PMF are under Iranian government control. Once the fight with Islamic State ends, what will happen to these militias?

There's already a hint of how the future of the PMF will play out: Like Hezbollah, some units are fighting at Iran's behest in Syria on behalf of Mr. Assad. Iraqi leaders, as their Lebanese counterparts once did, are fretting about the future of Iran's proxies.

The Iraqis rightly see the militias as instrumental in the counter-Islamic State battle, and also rightly judge them a danger when that fight is done. Perhaps, with the help of Ayatollah Sistani, some of the PMF will be legitimately incorporated into the Iraqi army—subsidized by U.S. taxpayers to the tune of $715 million in the last fiscal year alone—and answerable in its chain of command. But Iraqi leaders know full well that some will not.

That is why more must be done soon to ensure that the Iraqi leadership understands, as the Lebanese government does not, that the continued existence of Iranian proxy forces within and working alongside its military is incompatible with long-term assistance from the U.S.

Congress can predicate assistance and weapons transfers on clear assurances that Iran and its proxies are not indirect beneficiaries. If it doesn't, Iraq, like Lebanon before it and others to come, will become yet another pawn in Iran's Middle East game.

Ms. Pletka is a senior vice president at the American Enterprise Institute.

LETTERS TO THE EDITOR

Progressives Are the New Puritan Busybodies

In "Liberalism: Believers Need Not Apply" (Border Lands, June 16), Sohrab Ahmari cites recent instances of progressive attacks on current and prospective public servants, both liberal and conservative, who adhere to evangelical or fundamentalist Christian theology. Sen. Bernie Sanders deemed Russell Vought, a Christian who asserted that belief in Jesus as the only begotten son of God, savior of humanity and path to everlasting life, as being "hateful" and that Mr. Vought is "not someone who is what this country is supposed to be about."

Why do progressive fundamentalists pick primarily on believers in Judeo-Christian scripture? One doesn't hear Democrats insisting that Muslims express a belief that all Christians, Jews and atheists can enter paradise without converting to Islam.

Not that long ago, classic liberals were defending John F. Kennedy from scurrilous attacks for being a Catholic believer. But now, if one doesn't worship at the altar of progressivism, one is a bigot who must be blackballed from government.

Jesus told his followers, "Blessed are you when people insult you, persecute you, and falsely say all kinds of evil against you because of Me" (Matthew 5:11). Christians fear for their lives in much of the world today, so being barred from the Washington swamp is a small price to pay for a Christian conscience—but for the body politic in a free state, the cost is incalculable.

Accommodation to progressive orthodoxy requires a Christian to reject the belief that Judeo-Christian scripture is God's holy word or to consider scripture to be suggestions subject to circumstances and higher and mightier human ideals. Believers can thrive in the Washington swamp, but nowadays only progressive believers need apply.

Glen Reeves
Washington

Mr. Ahmari's piece seems to be based on the premise that all Christians are conservative on social issues. I object. All Christians aren't anything. Christianity is a broad, diverse religion and to assume we all believe the same thing is absurd and, candidly, insulting. As a Christian and a member of the United Church of Christ (which voted to support marriage equality in 2005), I believe "liberal" describes me well.

Please don't assume or represent that all Christians hold conservative social views. It is patently false.

Dave Mook
Wheaton, Ill.

Mr. Ahmari notes that liberals never seem to be satisfied with victory on an issue. Rather, they demand that individuals wholeheartedly endorse—indeed love—the ideas embodied in the victory. In essence they demand thought control.

His column echoes George Orwell's: Thought control "not only forbids you to express—even to think—certain thoughts, but it dictates what you shall think, it creates an ideology for you, it tries to govern your emotional life."

Dan Whelan
Cape May Point, N.J.

Don't Muslims believe that faith in God and his messenger Mohammad is necessary for eternal life? Such a private belief by Muslims isn't "bigotry." Furthermore, it is none of Mr. Sanders's business. The new "religious test" for public office (religious tests are explicitly forbidden in the U.S. Constitution) must be universalism.

Linda Ames Nicolosi
Encino, Calif.

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OPINION

Helmut Kohl Was Right

By Marcel Fratzscher

Helmut Kohl's death earlier this month has revived a contentious debate over his legacy. Although the former chancellor of Germany is widely considered to be a political genius, conventional wisdom holds that his economic policy was a failure. It's time to reassess that view. Kohl was smarter on economics than many professional economists are willing to admit.

The arguments that Kohl was a brilliant statesman and a bad economist are closely intertwined. His overarching political goal was to quickly reunify Germany after the collapse of communism in the East and then unite much of Europe under a new single currency.

Economists criticize his decisions on German reunification and the euro, but he understood better the relationship between politics and economics.

Kohl's center-left opponent in the 1990 elections, Oskar Lafontaine, and many German academics argued against immediate reunification. They believed the East German economy was too different from the West and needed time to adjust. East German companies had outdated products that had no chance of competing in Western markets and market regulations were mostly absent.

Kohl ignored his critics. His central economic insight was that reunification would be the cause, not the result, of economic alignment. East Germany's best hope was to quickly adopt the strong institutions of the West.

He has been proved right by history. This is true even of perhaps the most controversial aspect of his reunification policy—the one-to-one conversion of East German marks to deutschemarks. Most German economists argued that this would distort relative prices and destroy the East's competitiveness. The president of the Bundesbank at the time, Karl Otto Pöhl, resigned in protest over Kohl's decision.

But the truth is that East Germany's economy was obsolete and couldn't be competitive at any price. No one would have bought a car from the East German auto maker Trabant, or "Trabi," even at a 10-to-one exchange rate.

So Kohl took a different approach. His one-to-one conversion amounted to a large stimulus that helped East Germans survive several years of high unemployment and low incomes as their economy reconfigured along market principles.

Kohl wasn't infallible. He was too optimistic when he promised "blossoming landscapes within a few years." And he was wrong on labor-market and competition policies during his chancellorship. He raised taxes and expanded the welfare state, which inhibited investment and deteriorated the economy's international competitiveness.


AFP/GETTY IMAGES

Helmut Kohl, right, with François Mitterrand in Latche, France, in 1990.

But the economic convergence of the East is a remarkable success. Today the average productivity per capita in what used to be East Germany is around 80% of the West. That compares well to massive regional differences elsewhere in Europe. The north-south economic divide in Italy and Spain today, for instance, is much greater than the east-west divide in Germany.

Even the financial transfers to the East of around 30% to 40% of gross domestic product over 25 years seem modest.

Central to the economic success of German reunification was the immediate adoption of the West's institutions—its governance, including both its democracy and its administrative agencies, and also its currency—which forced economic structures and actors to adjust. This gradually and endogenously created an optimal currency area. Kohl intuited that if instead East Germany waited until it was ready to adopt Western institutions, it might never adopt them at all.

There is an important lesson here for Europe today. Institutions are more important than relative prices. The eurozone's problem isn't that relative prices are wrong, but that it lacks credible institutions and adjustment mechanisms.

Just as for East Germany in 1990, the problem of Greece or Italy today isn't a lack of price competitiveness but one of poor or missing national and European institutions. A weak currency isn't a durable strategy to ensure competitiveness and prosperity.

Eurozone countries have benefited from adopting a strong and credible euro, which has created more favorable financing conditions and more stable prices than most members enjoyed before. And it has deepened trade and competition, benefitting particularly open economies, including Germany's.

Member states should take the lesson from German reunification and focus on reforming domestic institutions as well as completing the monetary union. That requires finally completing Europe's capital-market and banking unions under a single regulatory structure and creating a fiscal union with both more risk sharing and a stricter adherence to joint rules. Just as in Germany in 1990, sharing sovereignty in Europe today will ultimately make it stronger and more resilient and everyone better off.

Helmut Kohl was a visionary, not just about the politics of German reunification and European integration but also on its economics. He didn't consider the euro the price for German reunification, but as an essential prerequisite for his vision of a strong and united Europe. He lived to see his dream come true for Germany, but not for Europe. It can still come true now.

Mr. Fratzscher is president of the German Institute for Economic Research (DIW) in Berlin.

The Surprising Factor for Immigrant Success in America

By Edward P. Lazear

Try a thought experiment: Consider immigrants in the U.S. from Algeria, Israel and Japan and rank them, from highest to lowest, by educational attainment. Here's the correct order, according to data from the Census Bureau: Algerians have average schooling of 14.7 years, followed by Israelis with 14.5 years and Japanese with 14.3.

Surprised? Consider an additional fact: Algerians represent about 1 in 2,500 immigrants in the U.S., whereas Israelis are 1 in 350 and Japanese 1 in 100.

Here's another counterintuitive result: The average educational level in Mexico, 8.5 years, is almost twice that of India, 4.4 years. Yet Indian immigrants in the U.S. average 16 years of schooling, whereas Mexican immigrants average nine years.

What explains this? America's immigration policy is far from evenhanded. A potential immigrant's country of origin is an important determinant of his or her likelihood of being admitted.

The U.S. rations its immigration slots, granting permanent residency to about one million people a year. But demand is so high that more than four million are denied residency and remain in the queue.

Some origin countries are highly favored, and others are implicitly penalized. If immigration reflected the world population, India would send four times as many people to the U.S. as it actually does; Mexico would send 1/15th as many.

Immigrants from the least-favored countries tend to be the elite. For example, immigrants in the U.S. from the former Soviet Union have the highest educational attainment, 16 years on average. But they account for only about 0.14% of immigrants overall.

They are rare because they had to obtain permission not only to enter the U.S. but also to leave the Soviet Union. Many were highly educated dissidents, accomplished academics or other professionals. The same is true, perhaps to a lesser extent, of immigrants from countries like Algeria.

The effect works the other way for immigrants from countries that are overrepresented. Tonga makes up 0.0015% of the world population but accounts for 0.04% of U.S. immigrants, and those people earn less than $20,000 a year on average. In contrast, Nigeria is 2.6% of the globe but only 0.5% of U.S. immigrants, and they earn more than $41,000 a year. This is true even though Tonga's average level of education is 9.4 years and Nigeria's is just 5.2 years.

Those born in Algeria do better than those from Israel and Japan. Why? There are fewer of them.

One factor driving these patterns is American policies that favor family reunification. In most years more than 60% of entering immigrants have relatives already in the U.S. Family reunification is a worthy goal, not only for humanitarian reasons but because people in intact families perform better in society.

But focusing too heavily on reunification creates a disadvantage for would-be immigrants whose countries are not already well-represented in the U.S. It also pushes down the average achievement among immigrants.

Taking a more balanced approach would have several positive effects. First, it would improve the success of immigrants when they arrive in the U.S. Researchers have shown that immigrants in general, but especially those who are admitted based on their skills, are likelier to start businesses and patent inventions.

Second, this increased success would spill over to the native-born population. An immigrant who creates a thriving company or a better way of doing business improves the standard of living for all Americans.

Third, accepting skilled immigrants from many different countries would reduce the brain drain on any single one of them. If the U.S. switched to a skills-based system but still favored family reunification, it could quickly deplete countries like El Salvador, which today is 31-times overrepresented among U.S. immigrants.

Because America is in the enviable position of being the destination of choice for people willing to move, it can surely afford to be evenhanded toward source nations.

Some caution is warranted because immigrants from overrepresented countries have become central to the American economy. If productivity is reflected in wages, then immigrants from Mexico add about 1.5 times as much to gross domestic product as those from the next-highest source country, India, because there are so many more Mexican natives in the U.S. Furthermore, immigrants are well-integrated into the labor force. In the U.S., the unemployment rate among immigrants is about 10% lower than that for the native-born population.

Still, the relative achievement of immigrant groups is determined in large part by immigration policy. Almost every country can supply talented people who would like to come to America. Moving toward a fairer and more balanced treatment of these nations can improve the success of U.S. immigrants—which in turn would make the native born population more welcoming.

Mr. Lazear, a former chairman of the Council of Economic Advisers (2006-09), is a professor at Stanford University's Graduate School of Business and a Hoover Institution fellow.

Justice Anthony Kennedy, American Culture Warrior

MAIN STREET
By William McGurn

So Anthony Kennedy is apparently sticking around.

For a while Democrats—who have lost the House, lost the Senate and lost the White House—were having conniptions over the thought they might soon lose what Justice Antonin Scalia once described as their "super-legislative" power: the U.S. Supreme Court.

At the Washington Post Ruth Marcus called the prospect of Justice Kennedy's retirement "terrifying and terrible." Because notwithstanding his many sound opinions—this is the same justice who gave us *Citizens United*, upholding First Amendment speech rights—on the court he nevertheless plays an indispensable role for American progressives: culture warrior.

On issues best fitted for federalist solutions, such as abortion and marriage, Justice Kennedy has proved himself a reliable voice for the animating impulse of modern American progressivism. This is the idea that the American people cannot be trusted to decide certain issues and so must yield, as he once put it, to the "enhanced understanding" of unelected justices such as himself.

It started, of course, with abortion. One doesn't have to be pro-life to recognize that the reasoning of *Roe v. Wade* was absurd. In fact, in 1992 in *Planned Parenthood v. Casey*, the court more or less confirmed this recognition when it upheld the outcome of *Roe* while substituting an entirely new rationale for it.

In that case Justice Kennedy was at first a vote to reject what had been an egregious and unconstitutional power grab. But somewhere along the way he flipped. In the end, he would be the deciding vote in a plurality decision that called on "contending sides of [this] national controversy to end their national division by accepting a common mandate" the court had found for them.

In a withering dissent, Scalia pointed out the toxic effect this approach has had on America's public life:

"By foreclosing all democratic outlet for the deep passions this issue arouses, by banishing the issue from the political forum that gives all participants, even the losers, the satisfaction of a fair hearing and an honest fight, by continuing the imposition of a rigid national rule instead of allowing for regional differences, the Court merely prolongs and intensifies the anguish."

For "anguish," substitute "culture wars."

Turned out Justice Kennedy was just getting started. Having reaffirmed a constitutional right to privacy that James Madison and the other Founders had somehow neglected to include in their draft, the court with Justice Kennedy's assistance would soon unearth another constitutional right unmentioned in the Constitution: dignity.

A more modest justice might have concluded from the 40 years of *Roe* warfare that the court would be wise to avoid making the same mistake with marriage. Especially at a time when both the states and public opinion were moving in the direction of same-sex marriage anyway. But Justice Kennedy was determined to get there first.

Judicial decrees on difficult moral questions have embittered U.S. politics.

The result was *Obergefell v. Hodges* (2015), which instituted same-sex marriage in every state. Had this come through state legislatures, the laws would likely have included compromises that would ensure gay Americans would have no obstacles to getting married but those who wished not to be a part of it might have their consciences respected.

Not so in the America Justice Kennedy has ushered in. Now we jail county clerks who don't want their names on such certificates and ruin people who don't want their businesses to participate in same-sex weddings. Indeed, the court has just agreed to hear an appeal from a baker who declined to make a cake for a gay couple in Colorado—and Justice Kennedy in all likelihood will once again be the deciding vote.

What makes issues such as abortion and marriage so contentious is that the opposing moral positions cannot be reconciled. The beauty of democratic politics, however, is its recognition that what free people want and what they will settle for as reasonable are two different things. Justice Kennedy's unfortunate legacy on these hot-button issues is to take compromise off the table and thus ensure anger and ill will.

And why not, when the sides are depicted as the enlightened versus the bigots? Though he walked it back in *Obergefell*, in which he conceded that many who opposed same-sex marriage were acting from "honorable religious or philosophical premises," in the 2013 decision overturning the Defense of Marriage Act, Justice Kennedy asserted that the only possible motivation for such a law was a "bare congressional desire to harm a politically unpopular group."

Anthony Kennedy is an educated man who writes in the smooth tones of Stanford and Harvard Law. The effect, alas, is no less noxious. Next time America's corrosive politics comes up, it's worth remembering that the justice so often hailed as a "moderate" or "centrist" has done as much as any to fan the flames of America's raging culture war.

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Notable & Quotable: Orwell

CNN's Jake Tapper speaking at the Los Angeles Press Club, June 25:

On this day in 1903, a future journalist named Eric Blair was born, better known as George Orwell. Reading Garrison Keillor's sublime Writers Almanac today I was reminded of the quote "In a time of universal deceit, telling the truth is a revolutionary act."

What a fantastic quote and how appropriate for this evening, and this era.

Except then I did some research to prepare for this speech and I learned that according to Quote Investigator, Orwell never actually said this. . . .

Orwell in fact could be quite critical of journalists. . . . He criticized quote "the all-prevailing schizophrenia of democratic societies, the lies that have to be told for vote catching purposes" and "the distortions of the press."

But it was a cautionary tale—noting that the Axis powers in World War II "lost the war quite largely because their rulers were unable to see facts which were plain to any dispassionate eye. To see what is in front of one's nose needs a constant struggle."

WORK & FAMILY | By Sue Shellenbarger

The Memory You Think You Have

Why it's totally normal for family members to recall major life events differently—and why talking over those difference matters

ILLUSTRATION BY ROBERT NEUBECKER; TIM BROWN PHOTOGRAPHY

WHAT ARE THE ODDS that your most vivid family memory isn't totally accurate?

Parents are often surprised by what their teens and young adult children remember from childhood. Children and parents may turn imagined events into memories, misremember details or interpret shared events differently. And grown children often recall incidents parents have forgotten or blocked out.

Taking time to compare memories and hash out the differences can help family members make peace with lingering issues that they never thought they could resolve.

Mary Dell Harrington has no recollection of walking down the driveway of her Larchmont, N.Y., home to meet her daughter's school bus one afternoon 12 years ago. Ms. Harrington had just gotten word that her beloved 80-year-old father had suffered a stroke in a distant state, and she was upset.

Her 21-year-old daughter, Annie Berning, was 9 at the time. She recalls the moment clearly. "I can see the outfit she was wearing," she says. It was a longish blue skirt and sunglasses that hid her mother's tears. Before Ms. Harrington could tell Annie the news, Annie asked her to drive her to the mall. When she learned a moment later that her grandfather had fallen ill, Ms. Berning felt sad and overwhelmed, she says. As the family cared for him and later prepared to attend his funeral, she began feeling guilty about asking for a trivial favor in the midst of a family crisis.

Ms. Harrington was dismayed to learn her daughter still harbored some guilt when the topic came up recently. She reassured her that asking to go shopping hadn't been inappropriate or unkind. Ms. Berning says she found the conversation comforting.

"Talking about these stories gives you a chance to clear up tiny misconceptions, or tell your children it's OK," says Ms. Harrington, a writer and co-founder of Grown and Flown, a blog for parents of 15- to 25-year-olds.

Recalling a memory isn't like replaying a mental video. More often, memories are reconstructions of facts, inferences and imagined details that people patch together after the fact, helping them build a sense of identity. Parents and children alike may forget difficult moments they don't want to recall.

Children and teens are most likely to remember events that are both emotional and relevant to the developmental stage they're in at the time, a 2016 study shows.

Playing sports was important to Annie's brother Walker Berning as a teenager. He was a football, baseball and hockey player and also ran track. His most vivid memories from that time are of injuries that sidelined him, including a clipped Achilles tendon in a schoolyard accident that kept him off the baseball diamond for a while. Now 26, Mr. Berning is a Washington, D.C., financial analyst.

Mary Dell Harrington and Mel Berning, center, with their son Walker, left, shown at age 22 in this 2013 photo, and daughter Annie, right, shown at age 17.

Twins and siblings who are close in age sometimes claim memories that actually happened to the other sibling, such as winning a swim competition, a 2001 study says.

Children perceive the passage of time differently than adults, says Robyn Fivush, a psychology professor at **Emory University**. Adults can track time on a phone or calendar, but a few days can feel like weeks to a child, causing him to remember events as lasting longer than they actually did.

That generation gap has become a running joke in the Wingens family. Helene Wingens's two older sons, Andrew, 25, and Jonathan, 20, vividly recall a baby nurse staying with the family for several weeks after their younger brother David was born 16 years ago. Every time it comes up, Ms. Wingens wonders what they're talking about.

Ms. Wingens, a Livingston, N.J., writer, insists the nurse stayed only for a weekend.

Andrew and Jonathan remember the nurse watching "CatDog" cartoons on the family TV, and insist they wouldn't have such vivid memories after only a weekend. Whatever the case, the baby-nurse dispute has become a fixture in family lore. "I don't think we'll ever settle it," Jonathan says.

Setting the record straight can be worth the effort. Children's memories sometimes reflect harmful distortions, such as a child blaming himself for his parents' divorce, says Kate McLean, author of "The Co-Authored Self," a book on how individuals build a sense of identity through shared stories. It's best in such cases to explain the real reasons in an age-appropriate way, to relieve him of that burden.

In other cases, it's better for children to be allowed to stick to their own version of events. Families sometimes tell and retell stories that cast a child in the same role over and over, as a screw-up or a maverick, without regard for the fact that she has changed and moved on, Dr. McLean says. This can feel confining to teens or young adults.

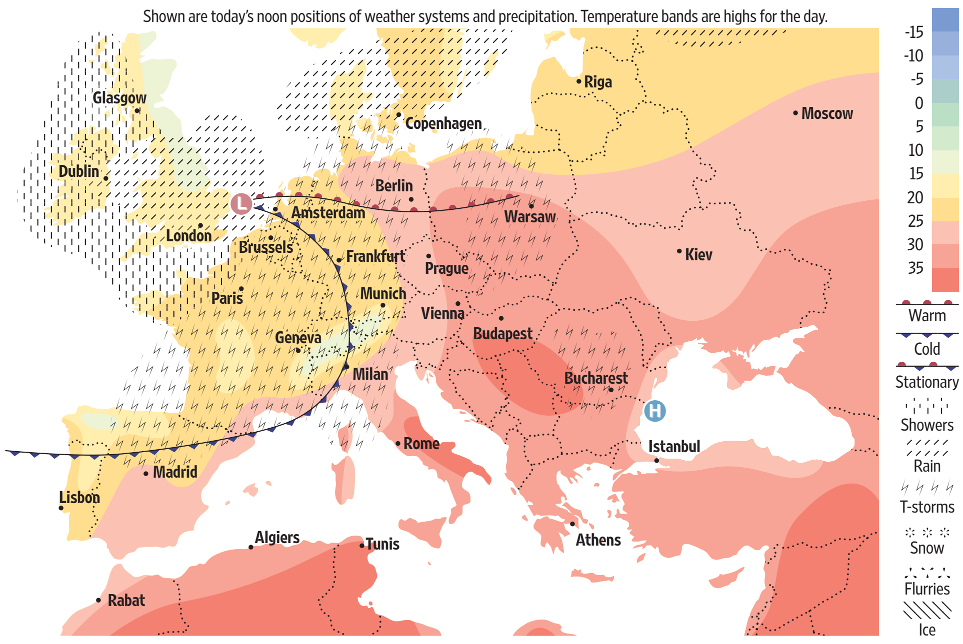
Parents might dwell on stories about how sensitive a teen was as a child and how she cried a lot, while the teen may be trying to cobble together a more mature self-image, insisting, "No, I'm not sensitive at all. I'm strong!" says Dr. McLean, a psychology professor at **Western Washington University** in Bellingham, Wash.

As she presses family members to revise their view, Dr. McLean says, the teen learns to stand up for herself.

Weather

AccuWeather.com

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

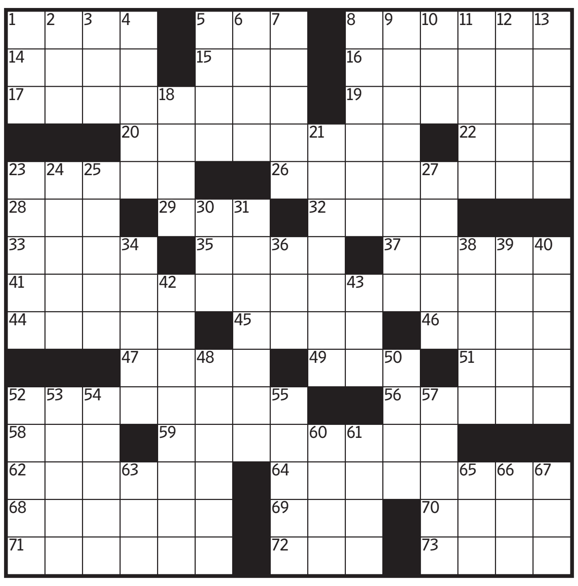


Global Forecasts

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

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	21	15	t	20	15	sh
Anchorage	16	11	pc	15	10	r
Athens	34	24	s	36	25	s
Atlanta	31	21	s	27	21	t
Baghdad	48	29	s	46	29	s
Baltimore	28	17	s	33	22	s
Bangkok	33	26	t	34	26	t
Beijing	34	23	pc	34	23	t
Berlin	27	17	t	22	15	t
Bogota	20	10	pc	19	10	r
Boise	29	13	s	29	14	s
Boston	26	17	s	28	20	pc
Brussels	23	15	t	19	13	sh
Buenos Aires	15	5	pc	17	6	s
Cairo	37	24	s	37	24	s
Calgary	21	10	sh	19	8	pc
Caracas	31	25	t	30	26	pc
Charlotte	30	19	s	30	20	pc
Chicago	28	21	pc	28	20	t
Dallas	33	24	pc	33	26	pc
Denver	29	13	t	28	11	pc
Detroit	27	20	s	29	21	c
Dubai	42	32	s	45	32	s
Dublin	16	10	r	14	10	r
Edinburgh	14	11	pc	15	10	r
Frankfurt	26	15	t	22	14	r
Geneva	23	13	t	18	12	t
Hanoi	31	26	t	30	26	t
Havana	31	23	pc	32	23	pc
Hong Kong	33	28	sh	32	28	t
Honolulu	30	23	s	30	23	pc
Houston	31	24	t	32	25	t
Istanbul	31	23	s	32	25	s
Jakarta	32	25	pc	32	24	pc
Johannesburg	18	3	pc	18	3	s
Kansas City	30	21	t	28	20	t
Las Vegas	41	27	s	41	28	s
Lima	22	17	c	21	17	c
London	19	13	r	20	13	c
Los Angeles	26	16	pc	25	16	pc
Madrid	26	12	t	24	11	s
Manila	33	26	t	33	26	t
Melbourne	15	7	pc	13	7	pc
Mexico City	22	14	t	22	15	t
Miami	32	26	t	32	26	t
Milan	25	17	t	26	14	t
Minneapolis	25	17	t	27	17	c
Monterrey	33	20	pc	36	21	pc
Montreal	23	13	pc	19	16	r
Moscow	21	11	s	22	14	c
Mumbai	30	26	r	31	27	r
Nashville	32	21	s	32	22	t
New Delhi	33	26	t	32	26	t
New Orleans	28	23	t	28	24	t
New York City	26	18	s	28	22	pc
Omaha	33	19	t	27	18	t
Orlando	30	22	t	31	23	t
Ottawa	23	13	pc	19	16	r
Paris	24	14	t	21	13	pc
Philadelphia	27	18	s	31	24	s
Phoenix	43	28	s	42	26	s
Pittsburgh	25	16	s	29	21	c
Port-au-Prince	36	23	pc	35	23	pc
Portland, Ore.	24	13	pc	28	14	pc
Rio de Janeiro	26	18	s	26	18	s
Riyadh	44	27	s	45	29	s
Rome	31	21	pc	28	19	s
Salt Lake City	33	16	pc	30	16	s
San Diego	22	17	pc	21	17	pc
San Francisco	20	12	pc	20	13	pc
San Juan	31	26	pc	32	26	sh
Santiago	15	2	s	16	3	s
Santo Domingo	32	23	pc	33	23	pc
Sao Paulo	24	13	s	24	13	s
Seattle	23	13	pc	26	14	pc
Seoul	29	20	pc	28	20	pc
Shanghai	27	23	pc	29	25	c
Singapore	30	26	pc	31	26	pc
Stockholm	19	9	pc	19	14	pc
Sydney	16	9	sh	16	8	pc
Taipei	33	26	pc	33	26	pc
Tehran	38	24	s	39	24	s
Tel Aviv	31	23	s	30	23	s
Tokyo	25	22	r	26	23	pc
Toronto	25	15	c	26	19	t
Vancouver	21	13	pc	22	14	pc
Washington, D.C.	28	20	s	33	24	s
Zurich	22	13	t	19	12	t

The WSJ Daily Crossword | Edited by Mike Shenk



SPELL CHECK | By David Alfred Bywaters

Across

1 There's no I in ___
5 Court feature
8 It's often picked up in bars
14 Many a choirboy
15 Hacker, of a sort
16 Make fizzy
17 There's no X in ___
19 Seismometer mover
20 Capital of British India until 1911
22 Manipulate
23 Arousing skepticism
26 There's no Q in ___
28 Neighbor of Minn. and Mich.
29 Stadium surface
32 Borough adjacent to Hackensack
33 Styptic material
35 Grant in the arts
37 Popular cooler brand
41 There's no T in ___
44 Celsius, e.g.
45 Backside
46 To-do
47 Tony-nominated play of 2017
49 In support of
51 Pivot for Pavlova
52 There's no Y in ___
56 Paragons
58 Pop's bro
59 "Get ready..."
62 Sought absolution
64 There's no C in ___
68 Become wider
69 Start for athlete or atomic
70 Icky stuff
71 "Turn! Turn! Turn!" songwriter
72 Witness
73 There's no B in ___

Down

1 Mite
2 Connecticut collegian
3 Dune buggy, e.g.
4 Obtain without recompense
5 Salt, symbolically
6 Suit
7 Prepare to drive
8 Angel on one's shoulder, say
9 Like a crest
10 Before, in ballades
11 Buccaneers' base
12 Ring-shaped reef
13 Aquamarine or emerald
18 Sun emanations
21 Reprimanded
23 Youngsters in a stable environment
24 New relative
25 Dummy
27 Weathercast numbers
30 Dominate, in slang
31 Domestic flap?
34 Old PC system
36 Columbus sch.
38 Ball game?
39 Pungent bulb
40 Fairy tale villains
42 Lover of beauty
43 Sighting subject
48 Schubert wrote over 600 of them
50 Diana of "Game of Thrones"
52 Targets of squats
53 Liberate from bondage
54 Place pour les professeurs
55 Egg containers
57 Play director
60 End for soft or hard
61 Jay Gould's railroad
63 Pester
65 Indian honorific
66 Escape from Ford, e.g.
67 Praiseful poem

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

Previous Puzzle's Solution

O	H	S	U	R	E	■	■	B	E	A	S	T	I	E
A	M	P	S	U	P	■	■	L	A	T	E	R	O	N
R	O	O	M	B	A	■	F	I	R	E	L	A	N	E
■	S	T	A	B	■	P	I	N	■	■	■	S	I	M
■	■	■	P	E	T	U	N	I	A	S	■	H	A	Y
M	A	V	■	R	O	M	A	■	R	I	C	H	■	■
A	B	A	■	R	E	A	L	■	E	X	P	E	L	S
Y	U	C	C	A	■	S	S	E	■	T	R	A	I	L
S	T	A	F	F	S	■	C	A	M	E	■	P	R	O
■	■	N	O	T	E	■	O	G	R	E	■	S	A	T
F	A	T	■	S	T	E	R	L	I	N	G	■	■	■
A	C	L	■	■	■	L	E	E	■	T	E	L	L	■
W	H	O	S	T	H	I	S	■	G	O	T	O	I	T
N	O	T	T	H	A	T	■	■	E	N	I	G	M	A
S	O	S	U	E	M	E	■	■	E	S	T	E	E	M

TECHNOLOGY: MICROSOFT AND SMALLER RIVAL BOX FORGE CLOUD ALLIANCE B4

BUSINESS & FINANCE

Euro vs. Dollar 1.1323 ▲ 1.26% | FTSE 100 7434.36 ▼ 0.17% | Gold 1246.40 ▲ 0.01% | WTI crude 44.24 ▲ 1.98% | German Bund yield 0.373% | 10-Year Treasury yield 2.198%

Nestlé Hurries to Score Points

Share buybacks, acquisition search are part of plan flushed out by activist investor

By Saabira Chaudhuri And Brian Blackstone

Nestlé on Tuesday announced plans to launch a $20.8 billion share buyback, focus its capital spending on categories like coffee and pet care and look for consumer health-care acquisitions, a move that comes after it found itself the target of activist investor **Third Point** LLC.

Nestlé wasn't expected to deliver an update to shareholders until September, but its plans were fast-tracked amid investor pressure that culminated with Third Point founder Daniel Loeb on Sunday night publishing a letter on how Nestlé should change its business. His recommendations include a formal margin target, more share buybacks and a sale of Nestlé's stake in French cosmetics giant **L'Oréal** SA.

Mr. Loeb began amassing shares in Nestlé early this year, according to a person familiar with the matter, and now owns 1.25% of the company making him Nestlé's fourth-biggest shareholder.

Nestlé shares jumped following Mr. Loeb's letter, which promised the company's growth and earnings would "dramatically improve" if his recommendations were followed.

"All seems to have happened very quickly, but probably not a huge surprise given the strength of the balance sheet and pressure from Third Point and others," said Jon Cox, head of Swiss equities at Kepler Cheuvreux.

ANDREW KELLY/REUTERS

Activist investor Daniel Loeb

Nestlé applied for Swiss regulatory approval of its share buyback last week, and received the go-ahead on Tuesday.

Under new Chief Executive Mark Schneider, Nestlé has already dropped a sales-growth target that investors had labeled as outdated after the company fell short for four straight years. Mr. Schneider also recently said Nestlé would look to sell its U.S. confectionery business, which lags behind rivals Hershey Co., Mars Inc. and Chocoladefabriken Lindt & Spruengli AG.

Nestlé on Tuesday indicated it could make more divestitures, saying it "will continue to adjust its portfolio in line with its strategy and growth objectives."

There have been calls for Nestlé to consider selling its frozen-food arm, which includes brands like Lean Cuisine and Stouffer's, another business that has struggled as consumers increasingly look to fresh options. Mr. Loeb suggested that Nestlé sell its 23% stake in L'Oréal.

Nestlé will kick off a share buyback of up to 20 billion Swiss francs ($22.4 billion) next week that will run through June 2020. In addition to investing in beverages, infant nutrition and other high-growth categories, the company said it would also look to make acquisitions in consumer health care that "build on" the faster-growing parts of its core food and drinks business. It didn't specifically refer to its

Please see NESTLÉ page B2

Markets' Calm Unnerves Investors

By Ira Iosebashvili

Stock volatility is near an all-time low and corporate profits have bounced back from a year ago, but investors are increasingly moving to protect themselves from big swings in financial markets.

Long-term U.S. government bond yields, which move opposite to price, fell to fresh lows for this year on Monday, the latest sign of investors' skepticism about economic growth, before rebounding Tuesday in response to hints of tighter monetary policy in the eurozone. Meanwhile, utility stocks, often a refuge for nervous investors, have rallied.

Other signs of anxiety abound: A measure that shows investors expect big swings in the CBOE Volatility Index, or VIX, rose to an all-time high this month. The VIX, known as Wall Street's fear gauge, has been stuck near an all-time low. And currencies typically considered havens have appreciated against the dollar since last month.

So far this month, investors have pulled $235 million from the two largest exchange-traded funds that profit from declining volatility, on track to be the biggest monthly outflow since November, according to FactSet.

The moves illustrate a bind ensnaring many investors: Stocks have soared to records this year, even as anxiety mounts over a cluster of issues that could derail the rally. Those include fears that a mistimed interest-rate increase by the Federal Reserve could dent economic growth, an accelerating drop in oil prices could hurt wagers on emerging markets or China's economy could slow, with consequences beyond its borders.

Although money managers are loath to sit out a market rally, many have opted to increase their allocations to investments that would take the edge off a sharp decline in markets.

Erik Knutzen, chief investment officer for multiasset-class portfolios at Neuberger Berman, which manages $267 billion, has recently trimmed his exposure to assets that have soared in price, such as U.S. large-capitalization stocks, concerned that lofty valuations could take a hit if there is a threat to global growth. Mr. Knutzen has also been selling put options on stocks, a strategy that enables his funds to make extra income but one that could also require a payout on the options in a market downturn.

Some investors worry the Fed's pace of interest-rate increases will further slow a U.S. recovery that appears to have shifted into low gear. While the Fed's decision earlier this

Please see STOCKS page B2

HEARD ON THE STREET

By Dan Gallagher

Google's EU Fine Is Small Price For Scale

For Big Tech, the benefits of scale come with a price.

That, at least, seems the main upshot from the European Union's record-breaking fine against **Google** on Tuesday. At $2.7 billion, the fine amounts to about 3% of parent company **Alphabet**'s net cash—or less than one month's operating cash flow. So affordability isn't the issue. The real question is how Google does business in a world where its massive scale conveys distinct advantages, along with some costs.

The answer is that business will stay big and will go on, though perhaps a bit more slowly and carefully. Google is likely to appeal the EU's decision, so the ultimate changes resulting from the case still won't be apparent for a while. But something can be learned from past crackdowns on big U.S. tech companies: Microsoft and **Intel** have been penalized by past EU rulings. But those penalties didn't cost as much as some of their own bad business decisions—specifically ones that caused them to miss the first wave of the smartphone revolution.

The business will stay big and will go on, though perhaps a bit more carefully.

Nor was the damage permanent. Microsoft's current market value of $540 billion is approaching the peak it enjoyed when it ruled the PC market in the late '90s. It is also double the company's value from when the EU handed down its first big fine in 2004. That is because Microsoft has been able to use the scale of its network to propel its business forward, even in a world where Windows doesn't power all the computing devices on that network. Google, for its part, enjoys the scale of a global network that powers a search business with no real challengers.

And that is the reality for Big Tech. Google, Microsoft, Amazon, Apple and Facebook are now of a size that will invite scrutiny by regulators. That scrutiny won't always be flattering, and will sometimes bear a cost. But scale in tech is difficult to dislodge—even for governments determined to do so.

DEREK DAVIS/GETTY IMAGES

Maine resident Emily Griffin with her Blue Apron delivery. The meal-kit startup is preparing for an initial public offering.

Blue Apron Fights to Tighten Ties

By Eliot Brown

In just five years, meal-kit maker **Blue Apron** Inc. has ripened from an idea batted around by three friends in New York City to a company on the verge of an initial public offering with 1 million customers and more than $790 million in annual revenue.

As the company prepares to whet investors' appetite before a stock-market listing expected this week, its financial statements expose an inherent threat to growth: Finding loyal customers is getting hard.

Blue Apron packs gourmet ingredients in a box and ships them to customers who pay $10 a meal per person to make dishes such as hoisin beef and vegetable stir-fry with Fairy Tale eggplant.

The company is trying to carve off a slice of a $600 billion U.S. grocery market that is grappling with low food prices, heavy competition and the specter of more online grocers highlighted by Amazon.com Inc.'s deal to buy Whole Foods Market Inc.

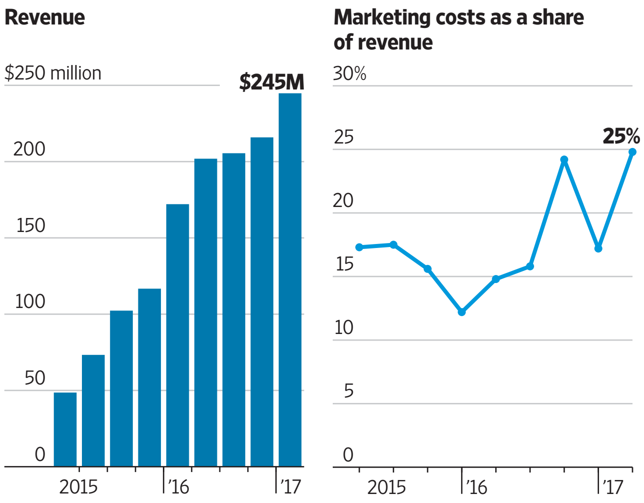
To keep up its blistering growth and live up to its targeted $3 billion valuation, Blue Apron has had to replace a large share of customers who quit after trying the food and woo ever more people through ads and free offers. As a result, its marketing costs as a percentage of revenue rose to 25% in the first quarter from 15% a year earlier, contributing to a $53 million loss compared with a small profit in last year's first quarter. Multiple potential investors in the IPO said they found the high marketing costs concerning.

A Blue Apron spokeswoman declined to comment. The company said in securities filings that it expects marketing costs as a percentage of revenue to be lower in coming quarters as it is in the midst of implementing a new strategy to spend heavily.

This predicament strikes at the heart of countless startups that sell products online, offer monthly subscription boxes or deliver just about anything at the tap of an app. Venture capitalists have collectively pumped billions of dollars into these startups over the past few years with the promise that exciting new brands and convenience would lure a new generation of millennial customers.

Boxed In

Sales are rising as Blue Apron finds new customers but it's paying up for marketing as those customers are hard to find.



Source: the company

THE WALL STREET JOURNAL.

Despite two decades of internet retailing, roughly 90% of U.S. shopping still takes place in brick-and-mortar stores, according to various estimates. And consumers are easily able to jump from one app to another, making it difficult for a company to spread into the mainstream.

"With hyper adoption also comes hyper abandonment," said Brendan Witcher, an analyst at **Forrester Research** Inc. "What the market needs to do with these startups is wait until the novelty effect has worn off—that is really the key."

Food delivery has been particularly tough. Well-funded startups that have shut down in this business include cooked meal-delivery companies such as Maple, SpoonRocket and Sprig Inc., which closed last month. New York-based Blue Apron is grappling with numerous meal-box imitators—with two-word names like Purple Carrot, **HelloFresh** and Sun Basket—that not only compete for customers, but also bid up advertising rates on **Facebook** Inc. and **Alphabet** Inc.'s Google.

Blue Apron launched in 2012, after Matthew Salzberg left his investing job at venture-capital firm **Bessemer Venture Partners** and started the food company with two friends. Custom-

Please see MEALS page B2

Tanker Mogul Loads Up When Oil Is Down

By Costas Paris

OSLO—Shipping magnate John Fredriksen is trying to buy more oil tankers despite a glut of vessels afloat, a messy restructuring of an offshore-drilling company he leads and two unsuccessful takeover attempts of rival tanker firms.

The self-made billionaire, who also is a major player in offshore oil drilling and salmon farming, says he is working 17-hour days as he looks to expand his fleet of the most voluminous tankers—known as very large crude carriers, or VLCCs.

"We used to be the biggest VLCC owner, but now we are No. 4," as his tanker company, **Frontline** Ltd., was overtaken by rivals, said Mr. Fredriksen during a rare interview earlier this month.

"I'm looking to invest more than two billion [dollars] in acquisitions," he said, noting he is primarily looking to acquire companies outright rather than purchase tankers from rivals.

An oversupply of cheap oil and too many tankers chasing too little cargo have, respectively, hit drilling and shipping hard. Mr. Fredriksen reckons that shipping companies will scrap three times as many tankers this year as they did last year, with fewer new vessels coming to market.

"Around 150 very large crude carriers, or about 20% of the existing fleet, will be scrapped over the next couple of years," said the 73-year-old, known in the industry as "Big John." "To have a say in the market you have to have size, so I'm looking to buy tankers all the time."

The price of a five-year-old VLCC has fallen 17% to around $58 million over the past year. Amid this drop, Frontline pressed a $765 million, hostile takeover for Norway's DHT Holdings Inc. earlier this year.

DHT fought off that effort, prompting Mr. Fredriksen to drop his bid and turn his sights on U.S.-listed **Gener8 Maritime** Inc., a deal that would have created the world's largest tanker fleet if sealed.

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INDEX TO BUSINESSES

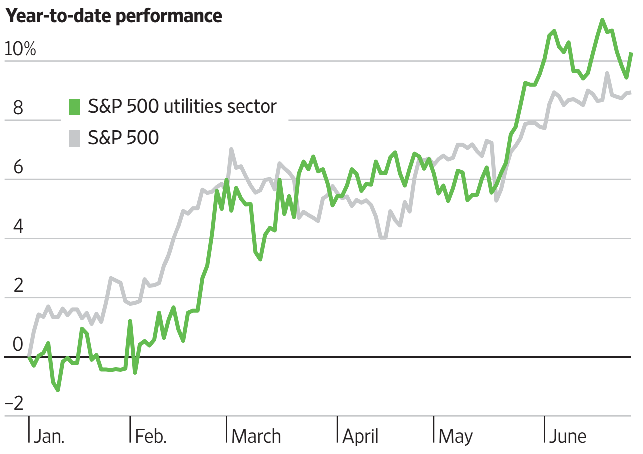
These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

INDEX TO PEOPLE

On the Rise

The utilities sector, a popular destination for nervous investors, recently reached an all-time high.

Year-to-date performance



Source: FactSet
THE WALL STREET JOURNAL.

STOCKS

Continued from the prior page
month to raise rates was widely expected, many investors were surprised that Fed Chairwoman Janet Yellen gave little weight to a series of weak inflation readings and indicated the central bank remains on track to tighten policy for a third time this year.

Stocks fell an average of 7.4% in the six months after the Fed raised rates during a quarter in which GDP growth was 1.2% or below, according to data from UBS Group AG that analyze three decades of Fed policy.

Some wariness is already apparent in the bond market, several analysts said. The yield premium investors demand to hold the benchmark 10-year U.S. Treasury note relative to the two-year note shrank this month to the smallest since September, approaching a 2007 low. A falling premium is known as a flattening yield curve and typically happens when worries rise that economic momentum is slowing.

"The bond market is already pricing in a Fed policy mistake," said David Woo, head of global interest rates and foreign exchange at Bank of America Merrill Lynch.

He is also worried that a recent drop in oil prices will rout investors from emerging-market trades that have delivered big gains this year.

Timothy Graf, head of macro strategy EMEA at State Street Global Markets, which manages $2.56 trillion, is using an options strategy that would benefit if a bout of uncertainty caused sharp declines in currencies such as the Australian and New Zealand dollars.

A Chinese economic slowdown is clients' top concern, according to a poll his firm recently conducted. Moody's Investors Service cut China's credit rating for the first time in nearly three decades last month, even as Beijing has intensified a campaign to rein in risky financing practices.

BUSINESS & FINANCE

UPS Set to Freeze Pensions

BY PAUL ZIOBRO AND VIPAL MONGA

United Parcel Service Inc. is planning to freeze pension plans for about 70,000 nonunion employees, seeking to contain the burden of a retirement fund with a nearly $10 billion deficit.

The package carrier would be the latest major U.S. corporation taking steps to corral rising pension obligations. The collective deficit in the S&P 1500 pension plans totaled $408 billion at the end of last year, according to consulting firm Mercer.

UPS has more than 434,000 workers world-wide, with more than 80% in the U.S. Most are unionized. The company is expected to outline changes to nonunion staff as soon as Tuesday, people familiar with the matter said.

A UPS spokesman declined to comment. The company closed the pension plan to new hires in July 2016 and offered buyouts to former workers last year. Freezing a pension plan means that some of the benefits stop accruing for some or all plan participants.

Such an action would put UPS in line with a wide swath of American corporations. In 2014, 37% of Fortune 500 companies with defined benefit plans had frozen them in some way, compared with 35% with open plans, according to the consultancy Willis Towers Watson.

Atlanta-based UPS is trying to make a dent in a U.S. pension deficit that reached $9.85 billion at the end of 2016, according to its annual report. The plan, with $41.07 billion in obligations, was 76% funded at that point, down from nearly 90% at the end of 2013.

UPS's pension struggles mirror broader funding problems among companies that offer retirement benefits. The median S&P 1500 pension plan's funded status was 76% at the end of 2016, according to a Citigroup Global Markets Inc. report.

Companies are required by law to close those gaps over time, but the deficits have persisted, even though S&P 1500 firms have contributed more than $550 billion into the plans from 2008 to 2016.

The continuing cash drain is encouraging more executives to look for ways to stem the bleeding. "This costs a lot of cash, and the cash hasn't resulted in a better funded status," said Jason Richards, pension risk consultant at Willis Towers Watson.

Companies that freeze their pensions can later offer lump-sum payouts to active employees and potentially spin them off entirely to third parties, he explained. Those options aren't available to plans that continue to accrue obligations to workers.

The latest move by UPS could prove to be a key element in coming negotiations with the International Brotherhood of Teamsters union, which represents 268,000 UPS drivers and other workers. The national master agreement expires July 31, 2018, and talks on renewals are expected to begin later this year.


MARK ELIAS/BLOOMBERG NEWS

Package carrier United Parcel Service's plan would affect about 70,000 nonunion employees.

SHIPS

Continued from the prior page
But the talks with Gener8 fell apart over price, according to a person familiar with the matter.

Frontline CEO Robert Hvide Macleod on Monday said the company is still hunting, but isn't currently involved in any takeover activity. "We believe the market will offer good opportunities in the future, and our strategy is to continue expanding the fleet," Mr. Macleod said.

Despite some consolidation among container liners, shipping remains a highly fragmented industry, marred by overcapacity and lengthy price wars. Dozens of companies that ship containers, oil and commodities like iron ore and grain have declared bankruptcy over the past three years. Others have fallen deeply into the red as freight rates lurk well below breakeven levels.

"The tanker market is depressed, so his quest to make Frontline even bigger seems odd," said Mike Sapountzoglou, a director at Athens-based ship-management and financing company Flagship Navigation Ltd. "But it will eventually recover and Fredriksen is renowned for his sense of timing."

Mr. Fredriksen said U.S. hedge funds and Chinese state-owned shipping companies were responsible for the cratering of the global shipping market over the past few years.

Industry executives say around $30 billion was put into shipping from 2009 to 2015 by U.S. investors, exacerbating a capacity glut.

The son of a Norwegian shipyard welder, Mr. Fredriksen dropped out of high school and moved to Beirut to trade oil. He later supplied fuel to the U.S. Air Force during the war in Vietnam. His tankers moved crude out of Iran during that nation's war with Iraq in the 1980s.

He gave up his Norwegian citizenship in 1996 and became a citizen of Cyprus. He also has offices in Singapore and Bermuda, where taxes are substantially lower than in Norway.

Mr. Fredriksen has said his empire would be passed to his twin daughters, Kathrine and Cecilie, who are increasingly taking responsibilities in the group.

Apart from Frontline, Mr. Fredriksen controls dry-bulk shipping company Golden Ocean Group, vessel-leasing firm Ship Finance International Ltd., **Seadrill** Ltd. and the world's biggest Atlantic salmon producer, Marine Harvest ASA. He is worth more than $9 billion according to Forbes.

Mr. Fredriksen owns 24% of Seadrill and serves as the company's chairman. Seadrill, which operates 49 oil rigs and has an additional 13 under construction, faces a July 31 deadline to restructure some $10 billion of debt.

The company's rigs, which formerly commanded daily leases of up to $800,000, now draw about $200,000 after cheap oil from U.S. shale drilling flooded the market.

In May the company said it had made significant progress with its banks on the terms of a restructuring plan that would likely require filing for bankruptcy protection in the U.S. or U.K.

"It's hard to answer if it will come out of restructuring, but as long as I back it, it will be OK," said Mr. Fredriksen, declining to elaborate. "In the past, we've dealt with messier situations than Seadrill, but we came through."


ELIN HØYLAND/DAGENS NÆRINGSLIV

John Fredriksen with his daughters Kathrine, left, and Cecilie.

NESTLÉ

Continued from the prior page
frozen and prepared-foods business, although Nestlé is the world's largest packaged-food company.

"The company is likely to exit more commoditized packaged food in favor of nutrition," Mr. Cox said.

The Vevey, Switzerland-based company said it would examine ways to boost margins through cost cuts but cautioned that it would not do so at the expense of its growth categories.

Mr. Schneider has criticized as unsustainable the aggressive cost-cutting that Brazilian investment firm 3G has backed for companies it owns, like Kraft Heinz Co. and Anheuser-Busch InBev NV. Nestlé's announcement on Tuesday echoes that of rival Unilever PLC, which in April unveiled a €5 billion ($5.7 billion) share buyback and plans to sell its spreads division after fending off a takeover approach by Kraft.

Nestlé, Unilever and other consumer-goods stalwarts have struggled to deliver the consistent growth that investors had come to expect. The industry headwinds include weaker global growth, volatile currencies and interest rates, higher commodity costs, rapidly changing consumer tastes and difficulty raising prices in a low-inflation environment.

Mr. Loeb has had several conversations with Nestlé's investor-relations team, and more recently met with Mr. Schneider to convey his recommendations, according a person familiar with those talks. Third Point declined to comment on Tuesday.

MEALS

Continued from the prior page
ers receive a box of food with just the right amount of ingredients, and can start or cancel the service weekly.

Blue Apron quickly took hold among a variety of age groups and geographies—not just urban millennials. By 2015, the company had raised nearly $200 million from marquee investors such as Bessemer and mutual-fund company **Fidelity Investments** and was valued at $2 billion despite having only 300,000 customers.

Over time, Blue Apron has lowered the cost of buying and delivering food—to 69% of the company's revenue in early 2017 from 93% in 2014—in part by building warehouses and owning its own wine label and beef farm.

But profits haven't followed as expected. When the company sought investors in 2015, it projected it would book $24 million in earnings before interest, tax, depreciation and amortization in 2016 and $137 million in 2017, according to people who viewed the company's projections. Instead, the company reported a loss of $44 million on that basis last year and $46 million in this year's first quarter, even as revenue grew roughly as projected.

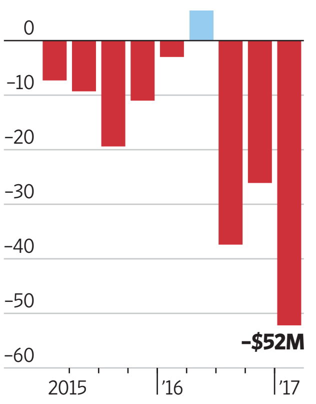
To find more customers, Blue Apron has recently blanketed consumers with advertising and deals like $40 worth of discounts. In its IPO filing, Blue Apron says it has spent $94 to acquire each customer on average since 2014, although the fact that marketing spending is increasing significantly faster than customers shows that newer customers are proving far more expensive to find.

Another problem is that Blue Apron appears to be churning through customers. The company doesn't disclose specifics, data in its securities filings about marketing spending and customer growth. But Daniel McCarthy, a professor of marketing at Emory University who has analyzed Blue Apron's numbers, estimated that roughly 60% of customers stop using the service after six months. He said a more reasonable rate would be 30% to 40%.

Blue Apron said in its IPO filing that its ability to retain customers presents a risk—and that it would need to keep making new products to maintain their interest.

—Corrie Driebusch contributed to this article.

Blue Apron's quarterly profit/loss



Source: the company
THE WALL STREET JOURNAL.

U.S. Studios Audit Their China Box-Office Receipts

By Wayne Ma

SHANGHAI—Concerned they are being shortchanged, Hollywood studios are conducting an audit of box-office receipts from Chinese movie theaters, a person familiar with the matter said Tuesday.

The audit has been under way for six months, and is a review of box-office receipts for select Hollywood films released in China in 2016, the person said. It is being conducted by accounting firm **PricewaterhouseCoopers** LLP for the **Motion Picture Association of America**, the industry group backed by Hollywood's six major studios, this person said.

An MPAA spokesman in Singapore didn't immediately reply to a request for comment. A spokesman for PricewaterhouseCoopers in Hong Kong declined to comment. The audit was first reported by Bloomberg News.

The audit is scrutinizing ticket sales at a granular level, starting from how local movie theaters report sales, all the way up to how revenue is reported to U.S. studios by state-backed China Film Group, which distributes most films in the country, the person said. China Film Group couldn't immediately be reached for comment.

Hollywood studios have long suspected that their box-office receipts in China are underreported. In some instances, Chinese theaters might sell tickets to a Hollywood film only to credit those sales to a Chinese film, the person said. Other Chinese theaters might simply not report the sales, the person added.

The audit will likely be completed by the third quarter of this year—ahead of a year-end deadline for the U.S. to renegotiate its film-trade deal with China.

The studios are planning to ask for a bigger cut of the box office and an expanded number of slots for Hollywood films, the person said.

The most recent trade deal, struck in 2012, allowed for 34 films to be released theatrically in China each year, with Hollywood studios receiving 25% of those box-office receipts.

The 2012 agreement included provisions for a basic audit, which Hollywood had already wanted for some time, the person said. However, it took almost five years to hammer out a legal agreement for the audit, the person said.

China's box office grew 3.7% to 45.71 billion yuan ($6.71 billion) in 2016. That was slower than an average growth rate of 34% over the past five years due to cutbacks in discounted tickets and a crackdown on so-called "ghost screenings," in which movie distributors buy tickets in bulk to make a flop look like a hit.

Of the six major Hollywood studios, Walt Disney Co. fared the best in China in 2016. It was able to release eight films, including "Zootopia" and "The Jungle Book," that collectively grossed almost $1 billion—more than the other five studios combined.

Sony Pictures Entertainment was the weakest performer among Hollywood's six major studios, with none of its releases—such as "The Angry Birds Movie"—cracking the list of top 50 films in China last year.

DISNEY/ASSOCIATED PRESS

A scene from Disney's 'The Jungle Book.' A review of box-office receipts for select Hollywood films has been under way for six months.

GM Lowers Outlook for U.S. Auto Industry

By Mike Colias

General Motors Co. expects industry vehicle sales to fall short of its original forecast for the year, the latest sign of a slowdown in the U.S. auto market after a record run.

GM now expects U.S. light-vehicle sales in the low-17-million range, down from an earlier expectation that this year's tally would roughly match the 17.55 million record from last year, finance chief Chuck Stevens told analysts during a conference call Monday.

Mr. Stevens also said U.S. pricing has become "very, very competitive" amid slowing sales during the first several months of the year. But he said incentives have moderated recently, a sign car makers aren't willing to cut into profitability to maintain market share as demand cools.

"It appears the industry is becoming a bit more rational," Mr. Stevens said.

Industry sales in each month so far this year have fallen from a year earlier. In a note to investors Monday, Barclays analyst Brian Johnson said he expects the seasonally adjusted sales rate to ease to 16.5 million in June. That would mark the fourth straight month that the pace of sales fell below 17 million, the slowest stretch since mid-2014.

But Mr. Johnson agrees that auto makers "may be drawing the line" on big discounts that have helped fuel sales over much of the past year.

Mr. Johnson said incentives in June were at the lowest levels in about a year.

Auto makers also are pulling back on less-profitable sales to rental companies, a tactic long deployed to sustain sales volumes during a market downturn.

Separately, GM raised its estimate for special charges it will incur from the sale of its Opel AG European division to $5.5 billion, about $1 billion higher than originally expected. Mr. Stevens said heavier costs linked to the consolidation of some vehicle programs under the deal are a primary factor, describing the charges as "largely noncash."

GM announced the deal in March to sell Opel to France's Peugeot for about $2.1 billion, exiting from a business that has suffered billions of dollars in losses over nearly two decades. Mr. Stevens said the sale is on track to close by the end of the year.

He said GM will report Opel results as discontinued operations beginning with the auto maker's second-quarter earnings, scheduled for July 25.

GM also said that it would tap about $3 billion in short-term debt to help pay for pension-funding obligations that Peugeot will inherit once the deal closes.

DAVID PAUL MORRIS/BLOOMBERG NEWS

Sales in the U.S. auto industry have fallen each month this year.

Microsoft Joins Smaller Rival on Cloud

Box will offer storage on the Azure platform as the two companies integrate products

By Jay Greene

Microsoft Corp. cut a deal Tuesday with competitor **Box** Inc. to form a partnership on cloud-computing technology in an effort to get ahead in the emerging business.

Box, like Microsoft, offers web-based document-storage services. In years past, Microsoft might have shunned helping a rival, but three years into Chief Executive Satya Nadella's tenure, it is working more with competitors to win over customers.

"This is an example of where Microsoft has really changed over the last three or four years," said Scott Guthrie, executive vice president of the company's Cloud and Enterprise group.

Box provides file-sharing and storage services to customers looking to stash documents, videos and other types of data online. Microsoft's Azure cloud-computing service offers a technical foundation upon which companies like Box can run their services, in addition to its cloud-computing applications, such as its OneDrive online service that competes with Box.

The two companies will now work to better integrate their products and sell the combined services. In addition, Box will offer its products on Microsoft's Azure cloud-computing service. And Box also intends to use Microsoft's artificial-intelligence technology, which could help customers with such tasks as video search and translation services, Box co-founder and CEO Aaron Levie said.

Box already partners with Microsoft's cloud-infrastructure rival Amazon.com Inc. Customers can choose to run Box's services in Amazon Web Services data centers. Box will continue to work with Amazon, but Mr. Levie said the new deal, which includes integration with Microsoft products as well as joint sales efforts of combined services, "goes well beyond what we've done with Amazon."

PATRICK T. FALLON/BLOOMBERG NEWS

Aaron Levie of Box, which provides file-sharing and storage services.

The deal also opens up markets for Box where customers are required to keep their data stored in the countries in which they reside. In April 2016, the company introduced Box Zones to address data-sovereignty issues; the service is now available in eight countries. A Box spokesman said the new partnership will allow Box to take advantage of Microsoft Azure's global footprint and offer in-region storage in six additional countries.

The combined sales effort will begin shortly. The technology integration should occur over the next two quarters, Mr. Levie said.

For Microsoft, the deal builds on efforts to work with rival technologies, rather than fight them. Mr. Guthrie compared the move to Microsoft's embrace of the rival Linux operating system as well as its decision to make its Office productivity suite of programs available on Apple Inc.'s iPad.

Box isn't as fierce a rival to Microsoft as Linux and Apple have been. The companies have worked together before. More than a year ago, they agreed to make Box's services work more smoothly with Office.

Still, Mr. Levie said he has noticed Microsoft's "new tone and tenor" in working with technology rivals, rather than just battling them.

SEONGJOON CHO/BLOOMBERG NEWS

A worker in Seoul processed a replacement Samsung Galaxy Note 7 last year after some devices caught fire, prompting a global recall.

Samsung Revives Ill-Fated Phone

By Eun-Young Jeong And Timothy W. Martin

SEOUL—**Samsung Electronics** Co. is quietly rejuvenating its tarnished Galaxy Note 7 smartphone.

A refurbished version of the premium smartphone, whose global recall last year garnered unwanted attention for the South Korean technology giant after some caught fire, is coming to retailers' shelves on July 7 with different components under the name Galaxy Note 7 FE, according to people familiar with the matter.

The FE stands for "Fandom Edition," one of the people said.

The device will initially be available for consumers in South Korea, with relatively modest inventory for release in other countries yet to be announced, one of the people said, adding that Samsung is expected to release at most 400,000 devices among three major telecommunications companies in South Korea.

The refurbished Note 7 will be priced below 700,000 South Korean won ($618), although smartphone prices are generally adjusted up to the point of release because of fluctuating market conditions, said one of the people familiar with the matter.

A spokeswoman for Samsung declined to comment. Samsung said in late March that it planned to sell refurbished or rental versions of the Galaxy Note 7 but didn't specify timing or targeted markets.

Details about the Galaxy Note FE's release date and pricing were earlier reported by South Korea's semiofficial Yonhap News agency and local trade media.

Samsung recalled around three million Galaxy Note 7 devices last year after reports of some devices catching fire—a debacle that cost the company at least $5 billion and led to a ban on the devices on various airlines.

The South Korean company concluded earlier this year that the overheating in some devices came from design and manufacturing problems with the devices' batteries.

Samsung said the defect affected 330 out of the three million Note 7 phones that it sold.

Analysts said the revived Note 7 wouldn't compete with or cannibalize sales of the Galaxy S8, Samsung's latest flagship smartphone, which was released to much fanfare in April.

Unlike the Galaxy S series, the Galaxy Note smartphones feature a larger screen and a stylus, endearing them to a loyal base of fans.

"The Note 7 is a unique product for Samsung," said Tom Kang, a Seoul-based analyst at Counterpoint Technology Market Research. "This is a product for Note-series fans so it's going to address a different market segment from the S8."

Mr. Kang added that sales of Galaxy Note 5 devices—the Note 7's immediate predecessor, since Samsung skipped the number "6" in its Note series—have remained robust in the absence of a viable follow-up in the Note series.

Samsung ceded the No. 1 spot in the global smartphone market to rival Apple Inc. in the last three months of 2016, thanks in large part to the Galaxy Note 7 recall fiasco.

Samsung regained the title in the first quarter of 2017, according to market-research firm Counterpoint.

U.S. Tech Firms Feel Heat in EU

*By **Natalia Drozdiak** in Brussels and **Jack Nicas** in San Francisco*

The European Union's antitrust watchdog has handed down a string of big decisions against top U.S. technology firms, including Apple Inc., Facebook Inc. and Alphabet Inc.'s Google, in what looks like a trend by Brussels to target large American companies with investigations.

EU officials deny any bias.

"We don't go against Google because it's an American company but because it's a company abusing its dominant position in our market. If it were in Brazil, we wouldn't care," a senior EU official said.

EU competition officials are, to a large extent, constrained by antitrust rules and legal precedents when taking decisions against any companies, be they American or European. But unlike Washington, where U.S. enforcers need to prove their cases before a judge, the EU acts as prosecutor, judge and jury in competition cases—and only needs to convince itself.

Experts say American tech companies are currently getting intense scrutiny because they happen to dominate the industry at a time when one of the European Commission's top priorities is to ensure the bloc's single digital market functions more efficiently.

Asked Tuesday about the perception of an anti-U.S. bias in the bloc's decisions, EU antitrust chief Margrethe Vestager said she had reviewed recent cases in different enforcement areas and consistently found that only a small number of the companies affected were American.

"I can find no facts to support any kind of bias," Ms. Vestager said.

But the series of probes also comes at a time when European tech firms have fallen behind their U.S. counterparts. While Europe led the way in the global smartphone push, it hasn't been able to foster its own Apple, Google or Facebook.

That has critics of the EU's moves crying foul.

The EU's decision last August to order Apple to pay Ireland €13 billion ($14.8 billion) in allegedly unpaid taxes "provides clear evidence of this European animus toward U.S. companies," Joe Kennedy, a senior fellow at the Washington, D.C.-based think tank Information Technology & Innovation Foundation, said at the time.

Clouding the issue is the clashing approach to regulating tech companies by authorities in Europe and those in the U.S., which have in recent years taken a more hands-off approach, experts say.

Particularly in cases involving tech firms' handling of personal data, Europe's more-ingrained sensitivities about privacy have taken precedence over what, in the U.S., would be deference to the First Amendment. French regulators have ordered Google and other search engines to remove links from its search sites when a European asks the companies to remove links in searches for their own name, if the information is old, irrelevant or infringes on their privacy.

"The vast success of Silicon Valley has been fostered by a deregulated marketplace, but this causes problems when these businesses do business against the very different legal backdrop operating in Europe," said Susan Hall, a Manchester, U.K.-based partner at Clarke Willmott LLP.

The U.S. Federal Trade Commission closed its own probe into Google's search practices in 2013, after the company agreed to voluntary changes.

Sprint, Charter and Comcast Discuss Deal

By Shalini Ramachandran, Ryan Knutson and Dana Mattioli

Sprint Corp. has entered into exclusive talks with **Charter Communications** Inc. and **Comcast** Corp. as the cable companies explore a deal that could bolster their plans to offer wireless service, said people familiar with the matter.

Sprint Chairman Masayoshi Son and the cable companies have entered into a two-month, exclusive agreement for discussions through late July, putting merger talks with **T-Mobile US** Inc. on hold, the people said.

One arrangement that has been considered is for Charter and Comcast to invest in improving Sprint's network in exchange for favorable terms to offer wireless service using the carrier's network, the people said. Such a deal could involve the companies taking an equity stake in Sprint, some of the people said. The cable companies already have such a network-resale agreement with Verizon Communications Inc.

ALAN DIAZ/ASSOCIATED PRESS

Sprint's agreement to enter the exclusive cable negotiations puts the company's T-Mobile merger discussions on hold.

While thought to be the much less likely scenario, the talks also include the possibility for the cable companies to jointly acquire Sprint, some of the people said. Sprint has a market value of $32 billion and $32.6 billion of net debt.

A reseller agreement with Charter and Comcast wouldn't preclude a subsequent merger between Sprint and T-Mobile, some of the people said. While Sprint and T-Mobile have remained far apart in their merger talks, people familiar with the discussions said a merger between the two companies isn't off the table and may still be the most likely outcome.

Charter and Comcast, the two largest U.S. cable companies by subscribers, in May agreed to a wireless truce, which barred both companies from doing a wireless deal without the other's blessing.

John Malone, whose Liberty Broadband Corp. is Charter's largest investor, has been trying to convince Comcast Chief Executive Brian Roberts for the past year that the companies should jointly buy a carrier like Sprint, according to people familiar with the matter.

So far, Mr. Roberts has been reluctant. His goal is to secure a better reseller agreement as Comcast jumps into the wireless business, according to a person familiar with his thinking.

Charter Chief Executive Tom Rutledge has said that he sees the logic in buying a wireless operator at the "right price," but "I don't know that it's necessary."

The talks between Sprint, Charter and Comcast come as the cable and wireless industries are on a collision course that makes consolidation logical but also complex. Users of smartphones rely equally on cable and cellular companies' services to surf the web and watch videos, as more than half of all smartphone web traffic is carried over Wi-Fi.

Cable titans Charter and Comcast see a chance to retain customers and hold off the threats of cord-cutting and online video providers by adding mobile-phone service to their bundles of TV, phone and broadband internet service.

Meanwhile, wireless companies are engaged in a fierce price war in a saturated market that is eroding revenue.

Qualcomm Loses Bid To Dismiss U.S. Case

By Ted Greenwald

A U.S. federal judge ruled against **Qualcomm** Inc.'s motion to dismiss a Federal Trade Commission case that alleges the large supplier of smartphone chips used its position to compete unfairly.

The Monday ruling by U.S. District Judge Lucy Koh is a setback—though not an unexpected one—in Qualcomm's broad legal battle over its business practices. That fight includes a lawsuit filed by **Apple** Inc. against Qualcomm that makes arguments similar to the U.S. government's.

Judge Koh's decision that the government's case could move forward rejected Qualcomm's claim that the FTC's complaint failed to support even basic elements of an antitrust violation.

The FTC says Qualcomm, whose technology is used in almost all smartphones, acts unfairly by refusing to sell its chips to handset makers that don't buy a license to use its patents—which are deemed essential to cellular communications—and by refusing to sell licenses to competing chip makers.

Motions to dismiss such suits generally have slim chances, legal experts said, because the judge is required to accept the plaintiff's factual allegations as true and the defendant must persuade the judge that a lawsuit presents no grounds to argue the case.

"We respect the Court's decision, which is based on the legal standards that apply at this early stage of the case," said Qualcomm general counsel Don Rosenberg in a written statement.

The FTC's action faces an uncertain future despite the judge's ruling. The case was filed during the waning days of the Obama administration, and Maureen Ohlhausen, then the commission's lone Republican, dissented from the FTC's move to file the lawsuit. Under President Donald Trump, Ms. Ohlhausen became acting FTC chair, and several commission seats are unfilled. If Republicans come to make up a majority on the commission, she may call a vote on whether to withdraw the case.

Scientists Are Useful Beyond R&D Work

By Lauren Weber

Looking for a way to lift productivity? Hire nerds.

Companies with a higher proportion of scientists and engineers are more productive than their peers, even when those workers aren't directly involved in the research-and-development tasks that drive the most obvious forms of innovation, a new paper from the National Bureau of Economic Research suggests.

The authors studied manufacturing plants and found that, for example, a plant with 10 scientists and engineers among its 100-person workforce would be 4.4% more productive than a plant with the same number of employees but no scientists and engineers. The researchers used a measure of productivity that captures improvements from firms investing in technology or hiring better-educated workers.

Some 80% of industrial scientists and engineers work in roles outside of formal R&D, such as information technology and operations. Their knowledge and training is critical to firms' ability to improve processes, fix broken systems and implement new technologies, says Richard Freeman, a Harvard University economist and co-author of the paper.

Engineers and industrial scientists play important roles in IT and operations.

When organizations change accounting or human-resources systems or adopt new production processes, "they can't just wave a wand and say 'now the workplace operates this way,'" says Mr. Freeman. "You need people who have to make decisions and find ways to make it work in their workplaces."

Mr. Freeman and co-authors Erling Barth, of the Institute for Social Research in Norway, James Davis, of the U.S. Census Bureau, and Andrew Wang, of Harvard Law School's Labor and Worklife Program, were curious about the influence science and engineering wield outside of R&D. Most previous research has focused on jobs where scientists and engineers were inventing new products.

Analyzing employee and production data from manufacturing establishments between 1992 and 2007, the authors found that the value scientists and engineers bring even to non-R&D roles derives from their training, says Mr. Freeman. When a manufacturer needs to fix the airflow in its factories, for example, "you need someone who knows about the flow of air currents, the right equations to use and other well-established principles," he says.

When an Edgy Firm Offers a Top Job

Stint at a pot grower, vendor of intimacy aids or matchmaking service could be a résumé black mark

By Joann S. Lublin

Chris Postler, who was named chief operating officer of Cincinnati-based Pure Romance in January, had turned down a job offer from the maker of 'relationship enhancement products' four times before he finally accepted a position with the company.

ANDREW SPEAR FOR THE WALL STREET JOURNAL

Executives, beware of marijuana and adult toys. Joining an edgy enterprise such as a cannabis producer or marital-aids business could make it difficult to land a good role at a mainstream company later.

YOUR EXECUTIVE CAREER

Marijuana-industry experience "is not something that would be in our [management] assortment anytime soon," says Brian Cornell, chief executive of **Target** Corp. "We have to be thoughtful about who we recruit," because decisions must match the retailer's family values, he adds.

Would Mr. Cornell ever hire an executive with marijuana-company experience? "I'd probably think long and hard about it," the Target leader replies.

Offbeat businesses often attract ambitious people eager to make their mark in a burgeoning field. But a senior manager's stint at an adult entertainment company or personal matchmaking service could become a résumé black mark unless the role delivers highly valued expertise, executive recruiters and leadership coaches say.

"There will be career consequences from going to an offbeat company," warns Jane Howze, a managing director for The Alexander Group, an executive-search firm. "Recruiters and employers will look at your impact there and whether you previously worked for a more conventional business."

Marijuana growers frequently confront this dilemma in their recruiting efforts.

"It has been challenging hiring C-suite talent," says Derek Peterson, chief executive of publicly held Terra Tech Corp., which grows and sells marijuana for legal medical use in several states. He cautions management prospects that banks might close their accounts or reject mortgage applications because marijuana violates U.S. law.

"The people you end up with as executives are people truly willing to take a risk," Mr. Peterson observes.

Mike James says he worried about the possibility of harming his career before he left his top management role at a nutritional-supplements firm to join Terra Tech's predecessor in 2010. So, he kept working for his old employer during four years as the part-time chief financial officer of his new employer.

Thirty states and Washington, D.C., have legalized marijuana for at least medicinal use, but the U.S. government still considers it an illegal and dangerous drug. U.S. sales of legal marijuana should reach $19 billion by 2021, up from $5.9 billion last year, predicts Arcview Group, a marijuana investment and research firm.

Many executives with Wall Street backgrounds move into the marijuana business "because they can see the growth trajectory," says Troy Dayton, Arcview's CEO.

Mr. James, now Terra Tech's full-time CFO, expects most conventional companies would employ him in the future. But "I will not be applying for a job at Target," he vows.

During their next job search, executives of an offbeat company should tout their transferable skills such as a record of innovation, career advisers suggest. "It is absolutely about the leader's personal brand, not the industry's brand," says Elaine Varelas, managing partner at Keystone Partners, a career transition and leadership-development firm.

This approach succeeded several years ago when a female executive left Playboy Enterprises Inc., famous for nude photos. She says she emphasized her team-building skills at the well-known entertainment business. "Find that positive spin," she recommends.

The executive soon got hired by a professional-services firm. "They thought it was really cool that I had worked for Playboy," she recalls.

Chris Postler also hesitated to join an edgy business. Nearly four years ago, **Pure Romance** LLC wooed the bank financial analyst for a middle-management position. The Cincinnati firm uses a predominantly female independent sales force to sell "relationship enhancement products" for women.

In Mr. Postler's Catholic family, such wares "had been taboo for a long time," he says. He turned down Pure Romance's offer four times.

Mr. Postler changed his mind after Chief Executive Chris Cicchinelli promised that he might become second-in-command someday. Mr. Cicchinelli says he believed at the time that Mr. Postler "could help us set strategy and execute."

Recruited by Pure Romance in 2014, Mr. Postler landed his first executive post the following year. But he didn't lose his unease about its products "until way into my employment," he says. He was named chief operating officer in January.

Pure Romance has grown so fast—with 2016 sales climbing 24% to $203 million—that mainstream businesses now court Mr. Postler for senior operational spots. "Because their growth stagnated, they are looking for that growth magic from a new executive," he says. He has no plans to quit Pure Romance.

At **Ivy International** SA, a matchmaking concern, men's fears about career damage have crimped its efforts to recruit a male executive for the management team. Ivy clients pay as much as €250,000 ($280,000) for its personalized dating services.

Many male applicants consider Ivy a frivolous business with a stigma that would discourage conventional future employers from taking them seriously, says Inga Verbeeck, CEO of the Belgium-based firm, which she founded in 2012. Her first male executive finally arrived in June.

BUSINESS WATCH

UNDER ARMOUR

Apparel Maker Names President

Under Armour Inc. said Tuesday that it brought in a footwear executive to be its new president and operating chief, adding a top deputy under founder and Chief Executive Kevin Plank as the company seeks to reinvigorate growth.

Patrik Frisk, who recently served as CEO at Canadian shoe seller Aldo Group Inc., will be responsible for executing the company's long-term growth plan. The company eliminated its COO role in 2015, saying it would allocate responsibilities to other executives.

Under Armour, which was launched as an apparel maker, is relying on shoe sales to help it compete more effectively with

Under Armour generates $4.8 billion in annual revenue.

RICHARD B. LEVINE/LEVINE ROBERTS/NEWSCOM/ZUMA PRESS

Nike Inc. and **Adidas** AG.

The company, which generates $4.8 billion in annual revenue, on Tuesday also announced a realignment of its organizational structure.

Under Armour's heads of revenue, product, marketing and supply will now report to Mr. Frisk, who will in turn report to Mr. Plank.

—Austen Hufford

PANDORA MEDIA

Co-Founder to Leave Streaming Service

Pandora Media Inc.'s co-founder and chief executive, Tim Westergren, is resigning from the company as the internet radio service contends with the rise of subscription music platforms.

President Mike Herring and marketing chief Nick Bartle are also leaving the company, Pandora said Tuesday.

Finance Chief Naveen Chopra has been named interim CEO, and Pandora's board will begin searching for a successor, the company said. Mr. Chopra joined the company on Feb. 28.

"Over the past several weeks, the board has taken a number of steps to refocus and reinforce Pandora," board member Roger Faxon said in prepared remarks. "As listeners continue to move from traditional terrestrial radio to more dynamic and flexible offerings, it is the board's belief that this transition continues to present a massive opportunity."

—Anne Steele

KOHL'S

Retailer Hires Former Supervalu Executive

Kohl's Corp. has hired an executive with experience in food and office supplies to serve as its next chief financial officer.

Bruce Besanko, who is stepping down as the chief financial officer and chief operating officer of retail and wholesale food seller **Supervalu** Inc., will join the department-store chain July 10.

—Joann S. Lublin and Suzanne Kapner

Apollo Raises Record Total for Buyouts

By William Louch

Apollo Global Management LLC, the private-equity firm founded by billionaire investor Leon Black, has raised $23.5 billion for the world's largest-ever buyout fund.

The fundraising is the latest demonstration of a surge in investor appetite for leveraged buyout funds. It extends a run of records in recent months.

People familiar with the matter said Apollo had hit its $23.5 billion target, outlined last month in a filing with the Securities and Exchange Commission, and is set to close the fund "imminently." One person said a formal closing could happen as soon as this week and that the final amount could come in even higher than $23.5 billion.

The fund will be the largest pool of capital ever gathered by a buyout firm, exceeding the $21.7 billion that Blackstone Capital Partners V LP collected in 2007. The fund is also significantly larger than the $18.4 billion flagship fund Apollo raised in 2013.

$23.5B

Size of the new Apollo buyout fund

Mr. Black said on a February earnings call that the Apollo flagship fund would be the biggest "single driver" of assets under management at the firm. The company, which has $197 billion in assets under management, is also currently raising $3.5 billion for a distressed-debt fund.

London-based CVC Capital Partners gathered €16 billion ($18.14 billion) earlier in June, the biggest fund ever raised by a European manager, while U.S. buyout giant KKR & Co. closed record Asia and North American funds at $9 billion and $13.9 billion, respectively.

Private-equity firms have generated consistently strong returns over the past decade, a performance that has fueled investor demand.

Over the past five years buyout shops have delivered an average net internal rate of return of 15.84%, according to the data provider Preqin Ltd. Buyout firms have failed to deliver double-digit returns in just two years since 2000, including 2008 and 2011.

Hedge funds, which compete with buyout firms for money allocated to so-called alternative assets, delivered net returns of 7.56% over the same period, according to Preqin.

—Dawn Lim contributed to this article.

Activist Funds Take Aim at Europe

Cheap valuations and greater protection for minority shareholders support trend

By Laurence Fletcher

RICHARD B. LEVINE/LEVINE ROBERTS/NEWSCOM/ZUMA PRESS

Like Nestlé, which is being pressured by activist hedge fund Third Point, other European companies are feeling heat from funds.

Activist hedge fund Third Point LLC's $3.5 billion stake in Nestlé threatens to make life awkward for the world's largest packaged-food company. Several funds in Europe's nascent market for shareholder activism are already creating a nuisance for the region's companies for much less money.

Several managers have recently made trades in which they have snapped up shares in a European company controlled by a larger owner—often one trying to buy up the remaining shares of that company.

Using tactics ranging from letters to the board to threats of legal action, funds often allege unfair or abusive practices by the majority owner that they say could depress the value of their stakes. One possible outcome is that the bigger owner, either on merit or simply to put matters to bed, buys out the investor at a favorable price.

Hedge funds' calls for change are often strengthened because rules in some European countries can offer minority shareholders greater protection than they may be afforded elsewhere.

"The bet by the activist is that the bidder has got so much face invested in the company, are they really not going to pay an extra few percent?" said a senior executive at one of Europe's largest hedge funds, which runs more than $10 billion in assets.

Elliott Advisors, the European affiliate of Paul Singer's **Elliott Management** Corp., is involved in a number of such battles. These include a dispute with Japanese electronics maker **Hitachi** Ltd., the majority owner of the Italian rail signaling firm STS Ansaldo.

STS didn't respond to a request for comment.

The hedge fund, which this year set up a website to put forward its case, has highlighted what it says "appears to be the collusive nature" of Hitachi's purchase. "Hitachi has vigorously contested this claim at each possible occasion. No evidence of collusion has ever been provided," said a Hitachi spokesman.

Paris-based activist CIAM, already involved in a long-running legal dispute with **Walt Disney** Co. over its actions in relation to Euro Disney, has this month filed a criminal lawsuit over the way **Altice** NV has used the assets of telecom company **SFR Group**, which it majority owns. Last month CIAM wrote to SFR's board, expressing concerns about a fee it said would be paid to use Altice's brand. A spokesman for Altice said this issue had been "answered in a precise and complete manner without raising any comment" from CIAM.

"Majority shareholders often consider that minority shareholders don't exist," said Catherine Berjal, chief executive of CIAM, speaking more broadly. "We have to remind them that they do." She said the proportion of her portfolio focused on minority rights trades had risen in recent years.

Reade Griffith, founding partner at London-based **Polygon Global Partners** LLP and who runs $850 million in event-driven assets, said minority-rights trades were an area he sees as particularly attractive.

"European regulatory regimes are generally more protective of minority shareholders than you see in U.S. We keep a particularly close eye on changes in the ownership stakes of majority shareholders as part of our investment process," said Mr. Griffith.

While individual situations will vary, these trades can be particularly attractive when markets are rising and the economy is improving, as has been the case in a resurgent Europe since the start of the year. A large investor trying to buy a majority stake or the entire company may be a signal to a hedge fund that the target company's underlying business is improving more quickly than the market realizes.

Meanwhile, rules in Europe, while fragmented across countries, tend to give smaller shareholders more protection than in the U.S. Thresholds at which minority shareholders can be forcibly 'squeezed out' of a company tend to be higher.

Europe could see more of such trades because the different rules in different countries make for greater opportunities for arbitrage, he said. "Investors are getting better at understanding and standing up for their rights," he said.

—David Benoit contributed to this article.

Bank of England Orders Banks: Lift Capital

By Jason Douglas And Paul Hannon

HANNAH MCKAY/REUTERS

The U.K.'s central bank cited risks to lenders including Brexit talks and rising consumer debt.

LONDON—The Bank of England took a small step to dial back the broad stimulus it put in place for the U.K. economy following last year's vote to leave the European Union. The move is also aimed at protecting the banking system against risks ranging from spiraling consumer borrowing to the possibility that Brexit talks collapse.

The central bank on Tuesday ordered lenders to begin rebuilding special buffers of capital that in July last year it said they could run down with the aim of keeping credit flowing to households and businesses in the wake of the referendum result.

The July reduction in the countercyclical capital buffer to zero was part of a package of measures the bank implemented to cushion the economy. It also cut its benchmark interest rate to a low of 0.25% and embarked on a fresh round of bond purchases to support growth in response to the uncertainty generated by the Brexit vote. The capital buffer is designed to be raised in good times to build resilience against potential future losses and relaxed in a downturn to keep the economy flush with credit.

The instruction to banks to begin returning capital to pre-referendum levels comes alongside a debate among central-bank officials over whether to begin nudging up the bank's benchmark interest rate.

Chief Economist Andy Haldane last week signaled that he is inching closer to voting for a gentle increase in borrowing costs to restrain quickening inflation, adding an influential voice to a vocal minority in favor of withdrawing some of the extensive central-bank stimulus underpinning the U.K. economy.

The Federal Reserve this month said that it would raise short-term interest rates for the fourth time since December 2015 and mapped out a plan to begin shrinking its vast portfolio of assets, highlighting officials' confidence in the U.S. economic expansion. The European Central Bank is starting to consider the circumstances under which it, too, would begin reducing monetary stimulus for the 19-nation eurozone.

In announcing its decision on bank capital requirements Tuesday, the Bank of England said in its latest assessment of the prospects for financial stability in the U.K. that the broad level of risk appears "standard" rather than elevated, justifying a reversal of July's decision.

The central bank raised banks' countercyclical capital buffer to 0.5% from its current level of zero and said it expects to raise it again, to 1%, in November. "This action will supplement banks' already substantial ability to absorb losses," the central bank said.

Officials said, though, that pockets of risk warrant extra vigilance from banks and regulators. Those concerns include prospects for Brexit talks ending without an agreement on future economic ties to the EU, a rapid rise in consumer borrowing in Britain, and heavy indebtedness in China.

At a news conference, Bank of England Gov. Mark Carney said the central bank aims to strengthen the banking system so that it can withstand any shocks if these or any other threats materialize.

Square Looks to Add Consumer Lending

By Peter Rudegeair

MICHAEL NAGLE/BLOOMBERG NEWS

Jack Dorsey, a co-founder of Twitter, runs the payments firm.

Square Inc., the technology company best known for processing payments for small merchants across the U.S., is now angling to lend to consumers, too.

This week, the San Francisco-based firm run by **Twitter** Inc. co-founder Jack Dorsey started telling some of its small-business clients it would soon be willing to provide credit to their customers.

The initiative, which follows the launch of a consumer-oriented Square prepaid debit card, is part of a broader push from the company to branch out beyond its original products—small, white credit-card readers that merchants plug into a mobile phone or tablet.

Offering consumers financing options for their purchases brings Square into competition with financial-technology companies such as **PayPal Holdings** Inc. and **GreenSky** LLC, as well as consumer lenders including **Synchrony Financial** that offer credit cards tied to specific retailers.

It also means Square will be on the hook for consumer defaults, which have recently ticked up at some online lenders and credit-card companies.

Square plans to hold the consumer loans on its balance sheet, but as volume grows it could look to sell loans to outside money managers, as it does with its small-business credits unit.

"Our first eight years were really focused on sellers," said Mr. Dorsey in an interview earlier this year. "I think a big part of our future is applying that same sort of mind-set and approach to individuals as well."

The consumer installment-lending program is first being offered through roughly 225,000 business clients that also use Square to send and manage their invoices. Eligible consumers who receive an invoice for a service from one of those merchants, which range from wedding photographers to veterinarians, will have the option to finance it over a period of three, six or 12 months.

"You will not see us doing car loans and mortgage loans," said Jacqueline Reses, the executive in charge of Square Capital, the company's lending arm. "We want to do things that are relevant to Square sellers."

Each borrower who gets approved will be charged a uniform annual-percentage rate of 9.99% for loans that range from $250 to $10,000.

SingTel Moves Toward IPO of Broadband Unit

By P.R. Venkat

SINGAPORE—**Singapore Telecommunications** Ltd. will start taking orders from institutional investors for an initial public offering of its high-speed broadband unit that could raise as much as 2.7 billion Singapore dollars (US$1.95 billion), making it the largest such fundraising in more than six years.

In a prospectus filed to the central bank, NetLink NBN Trust, a SingTel unit, said it is seeking to sell about 2.9 billion units at a price range of S$0.80 to S$0.93 per unit.

NetLink provides high-speed broadband service to residential and nonresidential customers in Singapore. An IPO of that size, if successful, would be the largest fundraising in more than six years in the city-state, ranking behind Hutchison Port Holdings Trust's US$5.5 billion IPO in 2011.

People familiar with the IPO process said that the company is also tapping "anchor investors" who will commit to buy certain portion of the IPO size.

If successful, the IPO could also give a boost to the Singapore equities market which has faced a dearth of major deals. So far this year, the biggest IPO in the country has a S$174 million deal by the recruiting agency **HRnet Group** Ltd.

NetLink aims to start trading on the Singapore Exchange on July 19.

Analysts say that fiber-optic penetration in Singapore is likely to increase in the coming years as more residential and commercial consumers seek higher bandwidth for data services such as video streaming.

SingTel is Southeast Asia's largest telecom company in terms of subscribers.

Draghi Shakes Up Bonds

ECB chief triggers a selloff in government debt by hinting at less accommodative policy

By Min Zeng

CREDIT MARKETS

European Central Bank President Mario Draghi sparked a broad wave of selling in developed-world government bonds Tuesday, highlighting investors' vulnerability when major central banks pivot toward a less accommodative monetary policy.

Mr. Draghi hinted Tuesday that the ECB might start winding down its large monetary stimulus—it buys €60 billion ($67.1 billion) of debt a month—as the eurozone economy picks up speed, even as he warned against an abrupt end to years of easy money.

Mr. Draghi said the ECB's stimulus policies are working and will be slowly withdrawn as the economy accelerates. However, he also said "any adjustments to our stance have to be made gradually, and only when the improving dynamics that justify them appear sufficiently secure."

Government-bond yields, which rise when prices fall, jumped in eurozone markets from Germany and France to Italy and Spain. The selling pressure spread to Denmark, Sweden, the U.K. and the U.S., pushing up the yield on the benchmark 10-year Treasury note from its 2017 low, set on Monday.

"It is the risk that policy accommodation may be removed sooner than previously thought, spelling trouble for investors," said Christopher Sullivan, chief investment officer at the United Nations Federal Credit Union.

Late Tuesday in New York, the yield on the benchmark 10-year Treasury note was 2.198%, compared with 2.135% on Monday. Yields rise as bond prices fall.

ALESSIA PIERDOMENICO/BLOOMBERG NEWS

Mario Draghi says the ECB's stimulus policies are working and they would be slowly withdrawn.

The center of the selling was in the eurozone. The yield on the 10-year German bund, the benchmark for the eurozone's debt markets, posted the biggest one-day rise since December 2015, according to Tradeweb. It rose to 0.37%, the highest close since May 24, compared with 0.249% Monday.

Italy's bond market was the hardest hit, with the 10-year bond yield soaring to 2.052% from 1.893% Monday, according to Tradeweb.

The ECB's large bond-buying program, along with that from the Bank of Japan, has been a big factor pushing down global government-bond yields to their historically low levels over the past few years. The buying has helped limit increases in yields on U.S. Treasury debt even as the U.S. labor market approaches full employment.

The Federal Reserve has raised interest rates four times since December 2015.

Tuesday's selling was a reminder to bond investors of how broad the impact of central-bank policies has become as these banks have taken a greater role in the global market for government debt. The world's financial markets are increasingly correlated, moving more in line with one another, and with trading increasingly automated, moves in one market easily affect others.

Investors remember the so-called taper tantrum in the Treasury market in 2013. The 10-year Treasury yield soared as bond investors responded to comments by Ben Bernanke, chairman of the Federal Reserve at the time, that the central bank might start reducing bond buying soon.

The selloff rippled to other bond markets, pushing up long-term borrowing costs for consumers and businesses and undercutting the momentum of economic growth.

Brian Brennan, portfolio manager at T. Rowe Price, said the risk of a tantrum type of selloff is low at the moment. Still, Mr. Brennan said government bonds are rich in valuation and investors tend to "frontrun" central-bank policies, which leaves bondholders vulnerable when sentiment sours.

Central bankers have been careful to manage investors' expectations in order to avoid another bond-market rout that would hurt the broader economy.

The Fed has signaled to investors that it would be slow and gradual in raising rates and scaling back its holdings of debt.

Officials from the ECB and Bank of Japan have been cautious, too. So far, top officials at the ECB have avoided discussing the future of their bond purchases after December, when the program is currently scheduled to end.

European Shares Fall as Euro Gains

By Akane Otani and Riva Gold

EQUITIES

European stocks slipped, while the euro rose following a speech from European Central Bank President Mario Draghi.

Mr. Draghi expressed confidence that eurozone inflation would ultimately pick up just as growth broadens, and hinted that the bank might start winding down its large monetary stimulus. The euro climbed 1.4% to $1.1339.

The Stoxx Europe 600 dropped 0.8% to 385.98, with technology and utilities shares among the biggest decliners.

Bank shares, however, advanced in Europe after Italian authorities said Sunday they were prepared to spend as much as €17 billion ($19 billion) as part of the shutdown of two regional banks. Closing some of Europe's banks is seen as potentially beneficial for lenders as a group.

Spanish banking group Bankia also climbed 3.5% after it agreed to acquire Banco Mare Nostrum.

In the U.S., stocks retreated Tuesday, weighed down by declines in the shares of technology companies.

The Nasdaq Composite fell 1.6%, its biggest one-day drop since June 9—the start of the recent weakness in tech shares. The Dow Jones Industrial Average slipped 98.89 points, or 0.5%, to 21310.66, and the S&P 500 dropped 0.8%.

Stocks' losses accelerated in afternoon trading. Financial stocks jumped as government-bond yields rose, while technology stocks—one of the leaders in the stock market this year—were among the worst-performing sectors in the broad index.

Shares of Google parent **Alphabet** fell 2.4% by late afternoon Tuesday after the European Union's antitrust regulator fined Google €2.42 billion ($2.71 billion) for favoring its own comparison-shopping service in search results. Chip maker Nvidia dropped 3.7%, and Microsoft shed 1.7%.

Utilities shares, which are often thought of as bond proxies because they pay relatively high dividends, fell 1.3% in the S&P 500 in late trading as U.S. government bonds weakened.

Meanwhile, financial stocks in the index rose 0.5%. Higher rates tend to boost net-interest margins, a key measure of lending profitability.

South Korea's Kospi edged up 0.1%, while Japan's Nikkei Stock Average added 0.4%.

ANGEL NAVARRETE/BLOOMBERG NEWS

Bankia rose 3.5% after it agreed to acquire Banco Mare Nostrum.

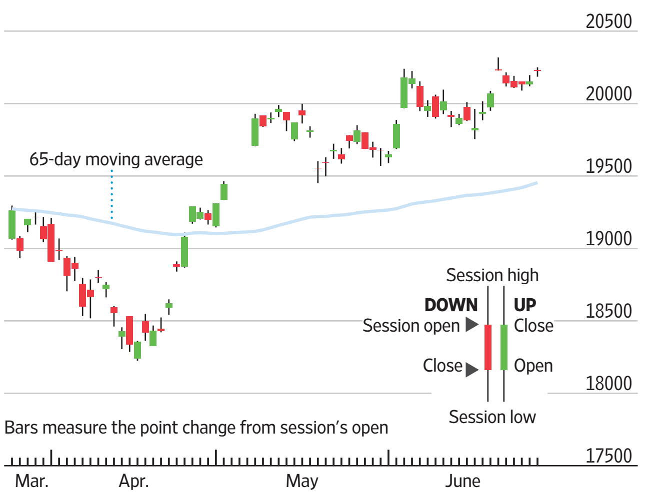
MARKETS DIGEST

Nikkei 225 Index

20225.09 ▲71.74, or 0.36%

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

Year-to-date		▲ 5.81%
52-wk high/low	20230.41	15106.98
All-time high	38915.87	12/29/89



STOXX 600 Index

385.98 ▼3.07, or 0.79%

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

Year-to-date		▲ 6.80%
52-wk high/low	396.45	316.70
All-time high	414.06	4/15/15

S&P 500 Index

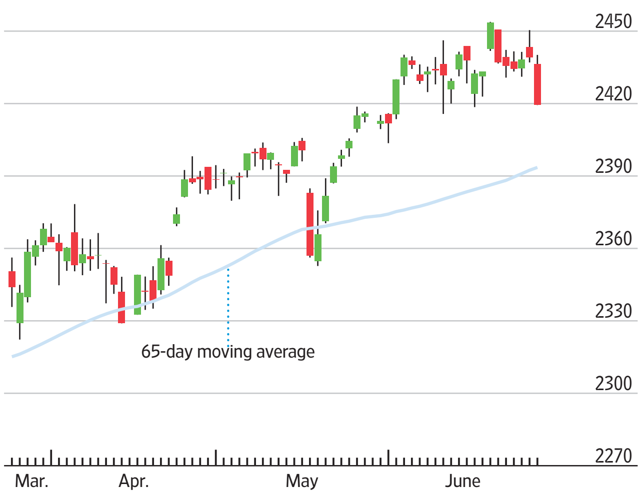
Data as of 4 p.m. New York time

2419.38 ▼19.69, or 0.81%

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

	Last	Year ago
Trailing P/E ratio	24.09	24.22
P/E estimate *	18.76	17.93
Dividend yield	1.95	2.17
All-time high:	2453.46, 06/19/17	

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



International Stock Indexes

Data as of 4 p.m. New York time

Region/Country	Index	Close	Latest NetChg	% chg	52-Week Range Low	Close	High	YTD % chg
World	The Global Dow	2771.56	-3.59	-0.13	2235.47		2791.48	9.6
	MSCI EAFE	1898.68	4.18	0.22	1471.88		1956.39	10.6
	MSCI EM USD	1015.03	-4.08	-0.40	691.21		1044.05	27.8
Americas	DJ Americas	581.12	-4.43	-0.76	489.68		588.61	7.5
Brazil	Sao Paulo Bovespa	61662.63	-525.45	-0.84	49252.12		69487.58	2.4
Canada	S&P/TSX Comp	15282.72	-33.30	-0.22	13745.59		15943.09	-0.03
Mexico	IPC All-Share	49085.22	-80.45	-0.16	43998.98		50154.33	7.5
Chile	Santiago IPSA	3612.90	-8.30	-0.23	3061.18		3786.05	12.1
U.S.	DJIA	21310.66	-98.89	-0.46	17190.51		21535.03	7.8
	Nasdaq Composite	6146.62	-100.53	-1.61	4643.93		6341.70	14.2
	S&P 500	2419.38	-19.69	-0.81	2006.67		2453.82	8.1
	CBOE Volatility	11.22	1.32	13.33	9.37		23.01	-20.1
EMEA	Stoxx Europe 600	385.98	-3.07	-0.79	316.70		396.45	6.8
	Stoxx Europe 50	3191.53	-19.09	-0.59	2654.54		3279.71	6.0
Austria	ATX	3096.85	9.40	0.30	1988.13		3212.50	18.3
Belgium	Bel-20	3839.85	-21.89	-0.57	3203.60		4055.96	6.5
France	CAC 40	5258.58	-37.17	-0.70	4059.90		5442.10	8.1
Germany	DAX	12671.02	-99.81	-0.78	9304.01		12951.54	10.4
Greece	ATG	822.77	3.68	0.45	520.40		828.32	27.8
Hungary	BUX	35645.77	-93.34	-0.26	25390.11		36168.63	11.4
Israel	Tel Aviv	1438.59	-6.04	-0.42	1372.23		1490.23	-2.2
Italy	FTSE MIB	20790.86	-211.09	-1.01	15286.86		21828.77	8.1
Netherlands	AEX	518.73	-1.89	-0.36	416.97		537.84	7.4
Poland	WIG	61915.09	213.52	0.35	43534.02		62666.49	19.6
Russia	RTS Index	1003.79	10.95	1.10	890.88		1196.99	-12.9
Spain	IBEX 35	10647.90	-48.70	-0.46	7793.70		11184.40	13.9
Sweden	SX All Share	587.07	-5.82	-0.98	453.08		598.42	9.8
Switzerland	Swiss Market	9072.92	-48.30	-0.53	7585.56		9148.61	10.4
South Africa	Johannesburg All Share	51432.24	143.53	0.28	48935.90		54716.53	1.5
Turkey	BIST 100	99638.65	...	Closed	70426.16		100265.64	27.5
U.K.	FTSE 100	7434.36	-12.44	-0.17	5982.20		7598.99	4.1
Asia-Pacific	DJ Asia-Pacific TSM	1630.08	-4.86	-0.30	1332.29		1643.59	14.6
Australia	S&P/ASX 200	5714.20	-6.00	-0.10	5103.30		5956.50	0.9
China	Shanghai Composite	3191.20	5.75	0.18	2912.56		3288.97	2.8
Hong Kong	Hang Seng	25839.99	-31.90	-0.12	20172.46		26063.06	17.5
India	S&P BSE Sensex	30958.25	-179.96	-0.58	25765.14		31311.57	16.3
Japan	Nikkei Stock Avg	20225.09	71.74	0.36	15106.98		20230.41	5.8
Singapore	Straits Times	3219.53	10.06	0.31	2756.53		3271.11	11.8
South Korea	Kospi	2391.95	3.29	0.14	1936.22		2391.95	18.0
Taiwan	Weighted	10512.06	-1.90	-0.02	8505.51		10513.96	13.6

Source: SIX Financial Information; WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points Latest	Previous	Month Ago	Year ago	Yield Previous	Month ago	Year ago
5.250	Australia 2	1.653	28.4	33.3	28.1	100.2	1.669	1.582	1.600
4.750	10	2.364	16.3	24.5	17.3	63.7	2.385	2.421	2.071
3.000	Belgium 2	-0.504	-187.2	-189.6	-187.9	-115.0	-0.560	-0.578	-0.552
0.800	10	0.702	-149.9	-154.0	-156.2	-123.8	0.600	0.686	0.196
0.000	France 2	-0.395	-176.3	-179.8	-179.5	-109.6	-0.461	-0.493	-0.498
1.000	10	0.724	-147.7	-153.4	-148.5	-113.0	0.606	0.763	0.304
0.000	Germany 2	-0.589	-195.8	-198.3	-200.0	-124.6	-0.646	-0.698	-0.649
0.250	10	0.373	-182.8	-189.2	-191.6	-154.5	0.248	0.332	-0.111
0.300	Italy 2	-0.325	-169.3	-168.3	-151.3	-58.3	-0.346	-0.212	0.015
2.200	10	2.026	-17.5	-24.4	-15.0	-1.0	1.896	2.098	1.424
0.100	Japan 2	-0.117	-148.6	-143.7	-147.2	-88.8	-0.100	-0.171	-0.290
0.100	10	0.050	-215.1	-208.4	-221.1	-163.7	0.056	0.037	-0.203
4.000	Netherlands 2	-0.544	-191.3	-193.9	-193.9	-117.9	-0.602	-0.638	-0.582
0.750	10	0.560	-164.1	-168.9	-170.9	-139.2	0.451	0.539	0.042
4.750	Portugal 2	0.172	-119.7	-124.7	-110.4	-0.4	0.089	0.198	0.594
4.125	10	3.045	84.4	76.6	88.4	185.1	2.906	3.132	3.285
2.750	Spain 2	-0.268	-163.7	-162.9	-160.0	-62.4	-0.293	-0.298	-0.027
1.500	10	1.449	-75.2	-76.7	-71.7	1.8	1.373	1.531	1.453
4.250	Sweden 2	-0.666	-203.5	-204.3	-200.4	-125.6	-0.706	-0.702	-0.658
1.000	10	0.496	-170.5	-169.3	-173.7	-106.4	0.447	0.512	0.371
1.750	U.K. 2	0.271	-109.8	-109.7	-121.9	-44.3	0.239	0.083	0.155
4.250	10	1.093	-110.8	-112.7	-123.4	-49.8	1.013	1.014	0.937
1.250	U.S. 2	1.369	...	...	...	...	1.336	1.302	0.598
2.375	10	2.201	...	...	...	...	2.140	2.248	1.434

Commodities

Prices of futures contracts with the most open interest — 3:30 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; CME: Chicago Mercantile Exchange; ICE-US: ICE Futures U.S.; MDEX: Bursa Malaysia Derivatives Berhad; TCE: Tokyo Commodity Exchange; COMEX: Commodity Exchange; LME: London Metal Exchange; NYMEX: New York Mercantile Exchange; ICE-EU: ICE Futures Europe. *Data as of 6/26/2017

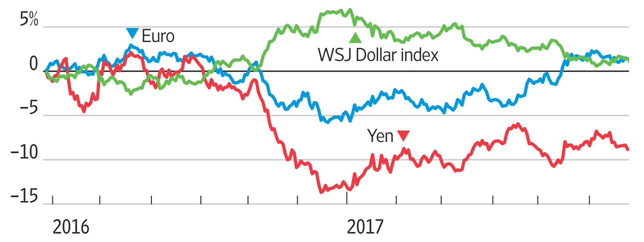
Commodity	Exchange	Last price	One-Day Change Net	Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	367.75	0.50	0.14%	399.25	364.50
Soybeans (cents/bu.)	CBOT	917.25	3.50	0.38	1,034.50	907.00
Wheat (cents/bu.)	CBOT	469.00	3.50	0.75	502.00	430.75
Live cattle (cents/lb.)	CME	115.525	-2.750	-2.33%	127.650	99.400
Cocoa ($/ton)	ICE-US	1,862	17	0.92	2,281	1,767
Coffee (cents/lb.)	ICE-US	125.65	1.15	0.92	163.75	115.50
Sugar (cents/lb.)	ICE-US	12.94	0.09	0.70	20.50	12.78
Cotton (cents/lb.)	ICE-US	67.53	0.30	0.45	75.72	66.15
Robusta coffee ($/ton)	ICE-EU	2080.00	-10.00	-0.48	2,286.00	1,885.00
Copper ($/lb.)	COMEX	2.6595	0.0210	0.80	2.8495	2.4850
Gold ($/troy oz.)	COMEX	1250.50	4.10	0.33	1,300.30	1,155.00
Silver ($/troy oz.)	COMEX	16.755	0.124	0.75	18.780	16.125
Aluminum ($/mt)*	LME	1,863.00	-12.50	-0.67	1,972.00	1,688.50
Tin ($/mt)*	LME	19,275.00	-50.00	-0.26	21,225.00	18,760.00
Copper ($/mt)*	LME	5,795.00	-2.00	-0.03	6,156.00	5,491.00
Lead ($/mt)*	LME	2,253.50	46.50	2.11	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,725.00	-2.00	-0.07	2,958.50	2,450.50
Nickel ($/mt)*	LME	9,100.00	-100.00	-1.09	11,095.00	8,780.00
Rubber (Y.01/ton)	TCE	193.40	3.30	1.74	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2439.00	-3.00	-0.12	2966.00	2390.00
Crude oil ($/bbl.)	NYMEX	44.29	0.91	2.10	58.30	42.06
NY Harbor ULSD ($/gal.)	NYMEX	1.4187	0.0323	2.33	1.7930	1.3609
RBOB gasoline ($/gal.)	NYMEX	1.4546	0.0265	1.86	1.8561	1.3902
Natural gas ($/mmBtu)	NYMEX	3.060	0.011	0.36	3.5750	2.8750
Brent crude ($/bbl.)	ICE-EU	47.00	0.96	2.09	60.18	44.60
Gas oil ($/ton)	ICE-EU	423.25	13.25	3.23	530.25	403.50

Sources: SIX Financial Information; WSJ Market Data Group

Currencies

London close on June 27

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



Country/currency	Tue in US$	Tue per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0609	16.4201	3.5
Brazil real	0.3010	3.3225	2.1
Canada dollar	0.7582	1.3190	–1.9
Chile peso	0.001510	662.10	–1.1
Colombia peso	0.0003312	3019.46	0.6
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0556	17.9986	–13.2
Peru sol	0.3073	3.2542	–2.9
Uruguay peso-e	0.0353	28.330	–3.5
Venezuela bolivar	0.098800	10.12	1.3
Asia-Pacific			
Australia dollar	0.7588	1.3179	–5.1
China yuan	0.1468	6.8126	–1.9
Hong Kong dollar	0.1282	7.8005	0.6
India rupee	0.0155	64.4650	–5.1
Indonesia rupiah	0.0000752	13303	–1.6
Japan yen	0.008896	112.41	–3.9
Kazakhstan tenge	0.003104	322.12	–3.5
Macau pataca	0.1245	8.0314	1.5
Malaysia ringgit-c	0.2332	4.2880	–4.4
New Zealand dollar	0.7280	1.3736	–4.9
Pakistan rupee	0.0095	104.845	0.5
Philippines peso	0.0199	50.262	1.3
Singapore dollar	0.7209	1.3871	–4.2
South Korea won	0.0008779	1139.04	–5.7
Sri Lanka rupee	0.0065236	153.29	3.3
Taiwan dollar	0.03294	30.360	–6.5
Thailand baht	0.02945	33.960	–5.2
Europe			
Bulgaria lev	0.5780	1.7301	–6.9
Croatia kuna	0.1528	6.546	–8.7
Euro zone euro	1.1323	0.8832	–7.1
Czech Rep. koruna-b	0.0431	23.206	–9.7
Denmark krone	0.1522	6.5685	–7.1
Hungary forint	0.003652	273.84	–6.9
Iceland krona	0.009660	103.52	–8.4
Norway krone	0.1188	8.4182	–2.6
Poland zloty	0.2680	3.7310	–10.9
Russia ruble-d	0.01695	58.992	–3.7
Sweden krona	0.1161	8.6158	–5.4
Switzerland franc	1.0393	0.9622	–5.6
Turkey lira	0.2843	3.5174	–0.2
Ukraine hryvnia	0.0383	26.0800	–3.7
U.K. pound	1.2787	0.7820	–3.5
Middle East/Africa			
Bahrain dinar	2.6504	0.3773	0.03
Egypt pound-a	0.0551	18.1460	0.1
Israel shekel	0.2843	3.5172	–8.6
Kuwait dinar	3.2933	0.3036	–0.6
Oman sul rial	2.5923	0.3858	0.2
Qatar rial	0.2653	3.769	3.6
Saudi Arabia riyal	0.2666	3.7509	0.01
South Africa rand	0.0770	12.9855	–5.2

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	88.40	–0.33	–0.38	–4.88

Sources: Tullett Prebon, WSJ Market Data Group

Cross rates

London close on Jun 27

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3179	1.6851	1.3695	0.0117	0.1689	1.4919	0.9993	...
Canada	1.3190	1.6865	1.3708	0.0117	0.1691	1.4932	...	1.0009
Euro	0.8832	1.1294	0.9180	0.0079	0.1132	...	0.6697	0.6702
Hong Kong	7.8005	9.9744	8.1069	0.0694	...	8.8313	5.9141	5.9190
Japan	112.4120	143.7500	116.8300	...	14.4110	127.2800	85.2300	85.3000
Switzerland	0.9622	1.2304	...	0.0086	0.1234	1.0894	0.7295	0.7301
U.K.	0.7820	...	0.8127	0.0070	0.1002	0.8855	0.5928	0.5934
U.S.	...	1.2787	1.0393	0.0089	0.1282	1.1323	0.7582	0.7588

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	1.22378%	0.46030%
Three month	1.29506	0.63110
Six month	1.44683	0.89815
One year	1.73289	1.20475
Euro Libor		
One month	-0.40143%	-0.35886%
Three month	-0.37286	-0.29000
Six month	-0.30029	-0.18186
One year	-0.18400	-0.05657
Euribor		
One month	-0.37300%	-0.36100%
Three month	-0.33100	-0.28100
Six month	-0.27300	-0.17600
One year	-0.16100	-0.04900
Yen Libor		
One month	-0.02536%	-0.06471%
Three month	-0.00329	-0.02964
Six month	0.02014	-0.01421
One year	0.12371	0.06900
	Offer	**Bid**
Eurodollars		
One month	1.2800%	1.1800%
Three month	1.2800	1.1800
Six month	1.5000	1.4000
One year	1.6700	1.5700
	Latest	**52 wks ago**
Prime rates		
U.S.	4.25%	3.50%
Canada	2.70	2.70
Japan	1.475	1.475
Hong Kong	5.00	5.00
Policy rates		
ECB	0.00%	0.00%
Britain	0.25	0.50
Switzerland	0.50	0.50
Australia	1.50	1.75
U.S. discount	1.75	1.00
Fed-funds target	1.00-1.25	0.25-0.50
Call money	3.00	2.25
Overnight repurchase rates		
U.S.	1.10%	0.75%
Euro zone	n.a.	n.a.

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

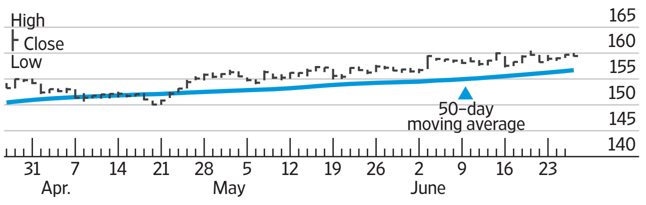
Top Stock Listings

4 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans					
HK$	AIAGroup	1299	57.90	-0.17	32.34
¥	AstellasPharma	4503	1380.00	-1.53	-15.00
AU$	AustNZBk	ANZ	28.03	0.97	-7.86
AU$	BHP	BHP	22.46	0.04	-10.38
HK$	BankofChina	3988	3.83	-0.52	11.34
HK$	CKHutchison	0001	98.35	-0.56	11.89
HK$	CNOOC	0883	8.50	-0.47	-12.37
AU$	CSL	CSL	140.80	-1.35	40.23
¥	Canon	7751	3936.00	0.79	19.45
¥	CentralJapanRwy	9022	18315	-0.46	-4.76
HK$	ChinaConstructnBk	0939	6.12	-0.81	2.51
HK$	ChinaLifeInsurance	2628	24.10	-1.23	19.31
HK$	ChinaMobile	0941	83.00	-0.12	0.97
HK$	ChinaPetro&Chem	0386	6.14	-0.97	11.64
AU$	CmwlthBkAust	CBA	82.08	0.65	-0.40
¥	EastJapanRailway	9020	10960	-0.23	8.51
¥	Fanuc	6954	21955	0.50	10.80
¥	Hitachi	6501	686.60	2.29	8.64
TW$	Hon Hai Precisn	2317	121.50	1.25	44.30
¥	HondaMotor	7267	3074.00	0.29	-9.99
KRW	HyundaiMtr	005380	160500	-2.13	9.93
HK$	Ind&Comml	1398	5.22	-0.57	12.26
¥	JapanTobacco	2914	4128.00	0.93	7.39
¥	KDDI	9433	2992.50	-0.23	1.12
¥	Mitsubishi	8058	2292.50	1.33	-7.93
¥	MitsubishiElectric	6503	1619.00	2.11	-0.64
¥	MitsubishiUFJFin	8306	728.30	0.19	1.12
¥	Mitsui	8031	1534.00	0.56	-4.54
¥	Mizuho Fin	8411	198.00	0.30	-5.62
¥	NTTDoCoMo	9437	2720.50	-0.66	2.16
AU$	NatAustBnk	NAB	29.15	-0.03	-4.96
¥	NipponTeleg	9432	5490.00	1.12	11.77
¥	NissanMotor	7201	1085.00	0.37	-7.70
¥	Panasonic	6752	1559.50	1.33	31.11
HK$	PingAnInsofChina	2318	52.95	-0.28	36.47
$	RelianceIndsGDR	RIGD	43.95	-0.57	39.30
KRW	SamsungElectronics	005930	2415000	0.04	34.02
¥	Seven&I Hldgs	3382	4744.00	0.44	6.53
¥	SoftBankGroup	9984	9247.00	-0.12	19.09
¥	Sony	6758	4349.00	1.19	32.79
¥	Sumitomo Mitsui	8316	4222.00	0.50	-5.34
HK$	SunHngKaiPrp	0016	115.70	-0.69	18.06
TW$	TaiwanSemiMfg	2330	211.50	-1.63	16.53
¥	TakedaPharm	4502	5812.00	0.48	20.21
HK$	TencentHoldings	0700	288.00	1.41	51.82
¥	TokioMarineHldg	8766	4660.00	-0.21	-2.84
¥	ToyotaMtr	7203	5876.00	0.65	-14.57
AU$	Wesfarmers	WES	40.58	-1.17	-3.70
AU$	WestpacBanking	WBC	30.09	0.03	-7.70
AU$	Woolworths	WOW	25.57	-0.08	6.10
Stoxx 50					
CHF	ABB	ABBN	24.40	-0.93	13.59
€	ASMLHolding	ASML	118.60	-0.84	11.20
€	AXA	CS	23.89	-0.44	-0.42
€	AirLiquide	AI	111.05	-0.40	5.11
€	Allianz	ALV	174.35	-0.11	11.05
€	AB InBev	ABI	100.85	-1.18	0.30
£	AstraZeneca	AZN	5347.00	-1.51	20.50
€	BASF	BAS	84.39	-0.59	-4.44
€	BNP Paribas	BNP	62.65	1.70	3.47
£	BT Group	BT.A	288.50	0.10	-21.37
€	BancoBilVizAr	BBVA	7.37	0.88	16.12
€	BancoSantander	SAN	5.88	0.68	18.67
£	Barclays	BARC	202.80	1.45	-9.24
€	Bayer	BAYN	121.75	-0.33	22.82
£	BP	BP.	460.30	0.55	-9.67
£	BritishAmTob	BATS	5428.00	-0.89	17.45
€	Daimler	DAI	65.08	-0.44	-7.98
€	DeutscheTelekom	DTE	16.24	-2.29	0.29
£	Diageo	DGE	2331.00	0.32	10.47
€	ENI	ENI	13.52	-0.59	-12.61
£	GlaxoSmithKline	GSK	1697.50	-0.79	8.67
£	Glencore	GLEN	287.65	3.77	3.71
£	HSBC Hldgs	HSBA	689.90	0.15	5.02
€	INGGroep	INGA	15.14	0.97	13.24
£	ImperialBrands	IMB	3575.50	-0.61	0.93
€	IntesaSanpaolo	ISP	2.76	1.77	13.60
€	LVMHMoetHennessy	MC	229.80	-0.45	26.68
£	LloydsBankingGroup	LLOY	66.72	0.33	6.73
€	LOreal	OR	191.20	-2.12	10.27
£	NationalGrid	NG.	984.60	-2.03	-5.15
CHF	Nestle	NESN	84.30	-1.58	15.40
CHF	Novartis	NOVN	82.80	-0.72	11.74
DKK	NovoNordiskB	NOVO-B	287.90	-2.17	13.03
£	Prudential	PRU	1799.00	-0.94	10.54
£	ReckittBenckiser	RB.	7884.00	-0.95	14.49
£	RioTinto	RIO	3157.00	3.27	-0.05
CHF	RocheHldgctf	ROG	252.00	0.12	8.34
£	RoyDtchShell A	RDSA	2088.50	1.11	-6.87
€	SAP	SAP	94.35	-1.40	13.94
€	Sanofi	SAN	87.63	-1.21	13.95
€	SchneiderElectric	SU	69.17	-1.28	4.63
€	Siemens	SIE	124.10	-1.43	6.25
€	Telefonica	TEF	9.41	-1.24	6.66
€	Total	FP	44.40	0.67	-7.04
CHF	UBSGroup	UBSG	16.00	1.85	0.31
€	Unilever	UNA	49.86	-0.89	27.47
£	Unilever	ULVR	4301.50	-0.72	30.65
€	Vinci	DG	77.70	-2.28	20.09
£	VodafoneGroup	VOD	221.60	-0.76	10.88
CHF	ZurichInsurance	ZURN	281.70	-0.95	0.46
DJIA					
$	AmericanExpress	AXP	83.12	0.19	12.20
$	Apple	AAPL	143.74	-1.43	24.11
$	Boeing	BA	199.02	-0.48	27.84
$	Caterpillar	CAT	103.93	-0.31	12.07
$	Chevron	CVX	104.11	-0.03	-11.55
$	CiscoSystems	CSCO	31.76	-1.49	5.10
$	Coca-Cola	KO	45.06	-0.81	8.68
$	Disney	DIS	105.49	-0.08	1.22
$	DuPont	DD	80.75	-0.51	10.01
$	ExxonMobil	XOM	81.12	-0.15	-10.13
$	GeneralElec	GE	27.20	-1.48	-13.92
$	GoldmanSachs	GS	220.29	-0.07	-8.00
$	HomeDepot	HD	152.28	0.57	13.57
$	Intel	INTC	33.65	-1.23	-7.22
$	IBM	IBM	154.82	-0.26	-6.73
$	JPMorganChase	JPM	88.05	0.93	2.04
$	J&J	JNJ	135.04	-0.95	17.21
$	McDonalds	MCD	153.79	-0.11	26.35
$	Merck	MRK	65.56	-0.55	11.36
$	Microsoft	MSFT	69.21	-1.87	11.38
$	Nike	NKE	52.96	-0.60	4.19
$	Pfizer	PFE	33.77	-0.79	3.97
$	Procter&Gamble	PG	88.63	-0.82	5.41
$	3M	MMM	209.94	-1.26	17.57
$	Travelers	TRV	127.44	-0.40	4.10
$	UnitedTech	UTX	121.68	-0.16	11.00
$	UnitedHealth	UNH	184.47	-0.35	15.26
$	Visa	V	94.95	-0.28	21.70
$	Verizon	VZ	44.84	-1.99	-16.00
$	Wal-Mart	WMT	76.05	0.73	10.03

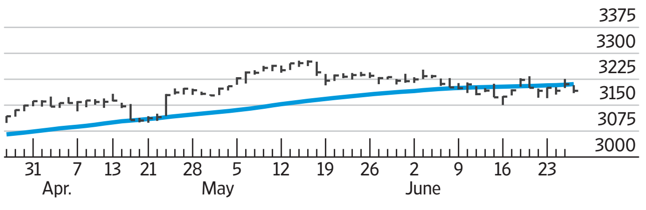
Asia Titans 50

Last: **159.44** ▼ 0.25, or 0.15% — YTD ▲ **13.1%**



Stoxx 50

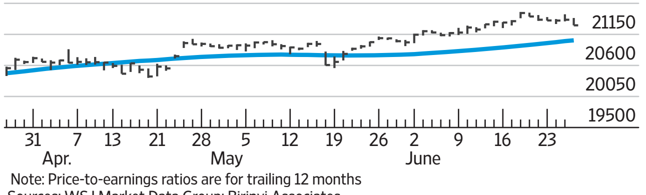
Last: **3191.53** ▼ 19.09, or 0.59% — YTD ▲ **6.0%**



Dow Jones Industrial Average

P/E: 21

Last: **21310.66** ▼ 98.89, or 0.46% — YTD ▲ **7.8%**



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

Witness Says Magnate Knew of Fudging

Case over accounting scandal at American Realty centers on the level of a key metric

By Peter Grant

KEITH BEDFORD FOR THE WALL STREET JOURNAL

Nicholas Schorsch, shown in 2014, built American Realty as part of a more than $30 billion empire.

The chairman of a real-estate empire involved in one of the biggest accounting scandals in years participated in a key conversation the night executives finalized a quarterly earnings report at the center of the case, according to the government's star witness.

Testifying this month in a federal courtroom in Manhattan, Lisa McAlister, the former chief accounting officer of **American Realty Capital Partners**, described a frantic, all-night session on July 28, 2014, when she and other executives tried to figure out how to deal with the fact that an important metric—adjusted funds from operations—had been improperly inflated by about $12 million in the previous quarter. Some of those conversations, she said, involved former American Realty Chairman Nicholas Schorsch.

Ms. McAlister's lawyer, Caroline Mehta, said Ms. McAlister had no comment beyond her testimony.

Lorin Reisner, a lawyer representing Mr. Schorsch, said in an email last week that Mr. Schorsch "has acted lawfully and properly in all respects." Mr. Reisner added: "Given the ongoing trial, it would be inappropriate to comment on statements made by counsel or witnesses."

The defendant in the criminal securities fraud case is American Realty's former chief financial officer, Brian Block. In his opening statement, Daniel Tehrani, an assistant U.S. attorney, alleged Mr. Block "fudged the numbers just enough" that night to get the adjusted funds metric "back to what they wanted," according to the trial transcript.

Mr. Block has denied the charges. His lawyer, Reid Weingarten, said in his opening statement at the jury trial that his client used a "legitimate new add-back" that night and that he believed "he was entirely justified doing what he did." Mr. Weingarten declined to comment beyond the court testimony.

Mr. Schorsch, who built American Realty as part of a commercial real-estate empire valued at more than $30 billion, faces numerous civil actions but hasn't been charged by the government. Much of his empire collapsed after the company announced in October 2014 that reporting errors that had been "identified" by company executives in the second-quarter report were "intentionally not corrected."

Mr. Block and Ms. McAlister were forced to resign at that point. In December 2014, Mr. Schorsch resigned from the boards of American Realty and 15 other companies he was overseeing.

American Realty, which owns more than $15 billion worth of retail, office and industrial assets, has changed its name to **Vereit** Inc. It reported earlier this year that it is cooperating with federal investigations that were launched in 2014.

The testimony of Ms. McAlister, who has pleaded guilty for her involvement in the alleged fraud and making false statements, shines light on the internal workings of Mr. Schorsch's empire. She has provided the most detailed account to date of Mr. Schorsch's alleged connection to critical accounting decisions.

Under cross-examination, Ms. McAlister admitted she lied in a letter to the Occupational Safety and Health Administration after she left American Realty claiming to be a whistleblower. She also acknowledged making inaccurate statements in a $50 million defamation lawsuit she filed against American Realty that was later withdrawn. She is cooperating with the government to reduce her sentence and "will do anything to stay out of jail," Mr. Weingarten said, noting that she has two children with special needs.

"The very best thing I can do for my kids today is tell the truth," Ms. McAlister responded.

Ms. McAlister described in her testimony a corporate culture at American Realty that was obsessed with hitting its financial projections on Wall Street, particularly the adjusted funds from operations metric. She said the company spelled out its goals on this metric on mouse pads that were delivered to employees.

"We must always hit our own numbers," Mr. Schorsch wrote in an email, according to Ms. McAlister's testimony.

In early 2014, as American Realty executives were preparing the company's first-quarter report, they were having difficulty hitting projections. She said the company was able to reach its goal by using an "incorrect" method for calculating adjusted funds from operations, or AFFO.

In the next three months leading up to American Realty's second-quarter filing, company executives discussed the discrepancy on numerous occasions but it wasn't resolved, Ms. McAlister testified. "Fixing the first-quarter mistake would mean that the total AFFO reported in the second-quarter filing would be lower than expected," said Assistant U.S. Attorney Tehrani in his opening statement.

The company was scheduled to report its second-quarter earnings on July 29. The previous evening, Ms. McAlister testified, she was on a conference call with Messrs. Schorsch and Block when the subject of adjusted funds from operations arose.

By that time, Mr. Block had calculated the correct number using the right method. But doing that would mean reporting a funds from operations number that was less than what the company had reported in the first quarter and lower than what Wall Street expected, she said.

"Nick just said, 'It's in the deferred financing costs. There's your answer,' " Ms. McAlister testified. "'You know what you need to do.'"

Ms. McAlister testified that a line item used in the calculation of adjusted funds from operations—the amortization of deferred financing costs—was increased by about $12 million. She described the change as an "unsupported adjustment" because it didn't have "an analysis behind it from the books and records to support it."

During cross-examination, Ms. McAlister said she listened to the call with Mr. Schorsch on speakerphone at Mr. Block's desk. She said Mr. Block made no attempt to shield her from the call. She also said she had no knowledge of prior conversations Mr. Block had with Mr. Schorsch on the subject.

"It was my understanding that Nick knew what Brian was talking about, and he was bringing up different line items and then Nick just jumped all over the deferred financing costs amortization," she said.

Final summations are expected this week.

New REIT Rests On Solid Ground

By Esther Fung

ISTAR

A new real-estate investment trust called Safety, Income and Growth is acquiring the ground net lease of this building in Los Angeles.

Risk-averse investors looking for income will soon have a new option to consider: ground leases.

iStar Inc., a New York-based real-estate investment, financing and development firm, has spun off some of its ground leases—or the land under buildings—into a separate real-estate investment trust called **Safety, Income and Growth** Inc. that is expected to raise $250 million from an initial public offering and concurrent private placement.

The REIT is tied directly to leases on the land underlying commercial property.

The shares started trading last Thursday on the New York Stock Exchange. Safety declined to comment pending the official closing of the deal. The deal was to have its official close when the proceeds were to come through on Tuesday.

The REIT projects to pay an annualized dividend of 60 cents, which translates to a yield of 3% at the IPO price of $20, according to the prospectus.

The REIT is the first publicly traded company tied directly to leases on the land underlying commercial real estate. In many commercial developments, ownership of the land is separate from ownership of the building on top, and landowners collect income from the owners of the brick-and-mortar buildings. Owners of hotels and office buildings, for example, often must pay ground leases.

The leases generate steady income for landowners, potentially making them attractive to investors looking for safety at a time when real-estate and stock-market valuations are high and interest rates remain near historic lows.

"Ground leases are real estate's analogy to buying Treasurys," said Jim Sullivan, president of Green Street's Advisory Group. "When structured properly, they are perhaps the safest form of real estate that an investor can own."

The Federal Reserve raised interest rates in March and June as the economy continued to show signs of strength. Yet yields on 10-year Treasurys still hover around 2.2%. At the same time, an eight-year bull market for U.S. commercial property is fueling concerns that a correction is due.

Ground net leases are typically "triple net leases," in which tenants are responsible for development costs, property-operating expenses, taxes and insurance. In the event of an economic downturn, the last thing tenants likely default on is the ground lease because it could result in the landowner taking back the land as well as the building on top of the land.

"The upshot of this is that you're not buying the part of real estate that loses value, you're getting the good part," said Michael Underhill, chief investment officer at asset-management firm Capital Innovations LLC. "While the building on your land might be obsolete in 20 years, the land itself shouldn't be."

Capital Innovations isn't planning to invest in Safety because its business model doesn't meet the firm's corporate-governance standards, which include a dedicated management team, Mr. Underhill said.

Safety has a portfolio of 12 ground leases that are signed by operators of hotels in Seattle, Salt Lake City and Dallas, as well as office buildings in Detroit, a medical office building in Cumming, Ga., a multifamily apartment building in Milwaukee and a self-storage facility in Bloomington, Minn.

"We believe that rental income from ground net leases can provide us with a safe, secure and growing cash flow stream," said Safety's prospectus filed with the Securities and Exchange Commission.

Two farmland REITs have similar models, Gladstone Land Corp. and Farmland Partners, which rent undeveloped land to farmers on a net-lease basis. Gladstone has gained 2.7% this year through Monday, while Farmland has declined 18%. The FTSE NAREIT Equity REITs Index has risen 4.9% over the same period.

Safety's lease terms range from 30 to 99 years, according to the prospectus. These leases will have contractual base rent increases that may be linked to consumer price inflation.

"Our investment thesis is predicated, in part, on what we believe is an untapped market opportunity to expand the use of the ground net lease structure to a broader component of the approximately $7.0 trillion institutional commercial property market," the prospectus said.

San Francisco Taps the Brakes

By Laura Kusisto

San Francisco, once the hottest housing market in the U.S., is now one of the coolest, in a reversal that could presage a broader slowdown if more buyers decide it isn't worth chasing rapidly rising prices.

Home price growth continues to accelerate in many parts of the country, driven by a lack of supply and rising demand. The S&P CoreLogic Case-Shiller Indices, which cover the entire nation, rose 5.5% in the 12 months ended in April, after a revised 5.6% year-over-year increase in March.

Prices in San Francisco increased 5% in April, making the Bay Area one of the slowest expanding markets in the U.S. and well behind markets such as Atlanta, Boston, San Diego, Las Vegas and Phoenix.

San Francisco's apartment market also is sluggish. Average rents decreased 0.3% in the second quarter compared with a year earlier, according to data released this week by Reis Inc.

Economists said the weakening is being caused by a confluence of factors: slowing job growth, less demand from new buyers put off by high prices and, on the rental side, an increase in new apartment supply as developers try to cash in on a multiyear boom.

"Supply gets the headlines," said Conor Wagner, an analyst at Green Street Advisors, a research firm. "If we had the same level of tech job growth and this [new] supply, there probably wouldn't be an issue."

Technology-sector employment is still expanding but at a much slower rate. Jobs in the technology, media and information sector had increased by about 15% two years ago but now there is roughly 1% growth, according to an analysis of **Bureau of Labor Statistics** data by real-estate research firm Green Street Advisors.

That means fewer high-paid workers are able to snap up pricey homes and rentals.

"Tech is growing more slowly than the rest of the economy, and tech has been the thing that has been driving the economy forward the last decade," said Ted Egan, chief economist for the city of San Francisco. "We are in the middle of a notable slowdown."

The number of home sales in the Bay Area in February sank to its lowest level since 2008, down 3.5% from a year ago and off 12.5% since 2015, according to PropertyRadar, a real-estate research firm.

Market for Apartments Goes Tepid

By Laura Kusisto

The U.S. apartment market delivered a mixed performance in the second quarter as rents increased along with the number of empty apartments.

The national vacancy rate climbed to 4.4% for the quarter from 4.2% a year earlier, according to data released by Reis Inc. Nonetheless, average rents across the U.S. increased 3% year over year in the second quarter to $1,335 a month. That was the smallest year-over-year increase since 2011.

Rents increased or remained flat in all but two of 79 metro areas. That is in contrast to the first quarter, when rents declined in 23 metro areas.

Two of the country's largest and priciest rental markets continued to struggle. Rents in New York declined 1% compared with a year earlier, while San Francisco rents fell 0.3%, according to Reis.

Landlords got a boost from weaker-than-expected deliveries of new apartment units, which might postpone more pain until later this year. Roughly 36,500 units were built during the second quarter, down almost 37% from a year earlier, as labor shortages took a toll on construction. Those units might end up hitting the market later this year.

MARKETS

The Mexican Peso Makes a Comeback

Currency leads rally of emerging-market peers as worries over Trump trade threats ease

By Ben Eisen
And Chelsey Dulaney

The Mexican peso rose to its highest level in more than a year against the dollar this week, leading the 2017 rally in emerging-market currencies that had fallen around the time of the U.S. presidential election.

The peso rose 0.7% against the dollar on Monday, with little in the way of news to drive the move. It was the latest leg of the peso's 16% rally against the greenback in 2017 through Monday. One dollar bought 17.87 pesos. On Tuesday, the peso weakened slightly, to 17.97 per dollar in afternoon U.S. trading.

The election of President Donald Trump battered the Mexican currency.

The peso fell to a record low against its U.S. counterpart in January as investors bet the enactment of protectionist policies by the new administration would damage Mexico's economy.

Since the inauguration, though, the peso has strengthened as Mexico's central bank lifted rates and investors soured on the "Trump trade."

Speculative investors turned bullish on the Mexican currency in April after steadily wagering against it for more than two years.

Hedge funds and other money managers recently held a net 95,814 contracts betting on a stronger peso, the largest bullish position in the currency since 2013, according to Commodity Futures Trading Commission data.

The peso's rise is also representative of the broader rally in emerging-markets currencies. The Russian ruble was up 4% against the dollar in 2017 through Monday, while the Korean won had gained 6.6% and the South African rand 6.5%.

When those currencies fell after the election, it raised concerns across developing economies. But among emerging-markets currencies, the peso's reaction to Mr. Trump's political rise has been the sharpest, as he discussed policies such as building a wall at the Mexican border and pulling the U.S. out of the North American Free Trade Agreement. During the election, the peso was closely linked with Mr. Trump's prospects for winning the election, and it weakened sharply after his win in November.

Analysts say many of the fears that drove the peso to its record low of about 22 pesos per U.S. dollar haven't panned out. The White House in April walked back its threat to pull the U.S. from Nafta, saying that the Trump administration would instead focus on renegotiating the pact with Mexico and Canada to "make all three countries stronger and better."

Mexico's economy has been surprisingly robust, expanding at a pace of 2.7% in the first quarter as the weak peso boosted exports.

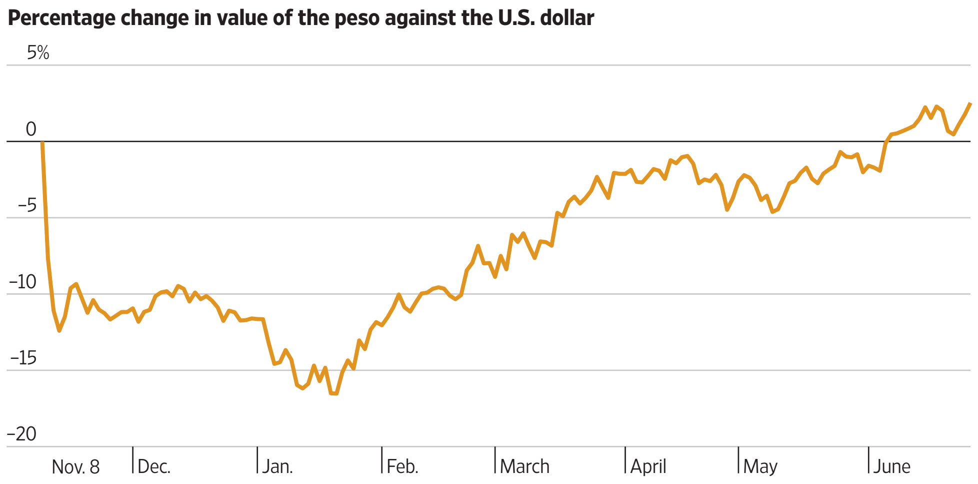
The Bank of Mexico lifted rates on Thursday to 7%, the highest level since 2009.

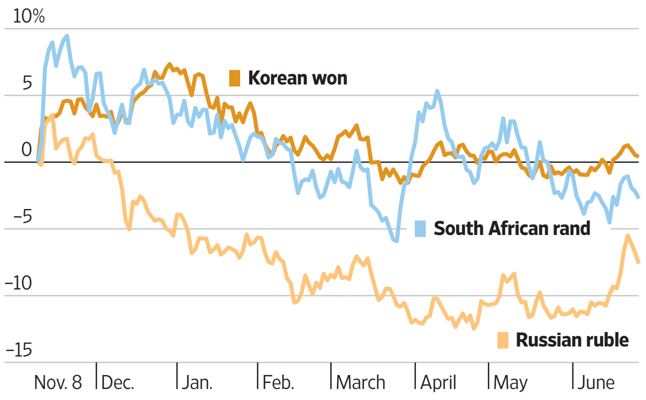
Some of the most popular postelection trades have reversed course alongside the peso's rebound. Treasury yields have been declining since March, erasing much of their rise following Mr. Trump's victory. And bank stocks are off their postelection highs. The S&P 500 is still up 14% since the election through Monday.

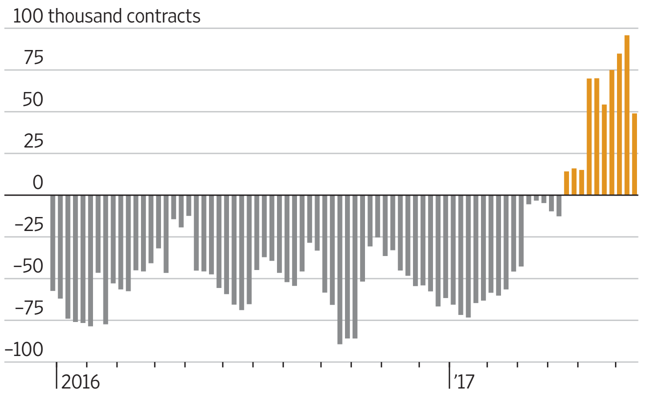
The U.S. dollar also has fallen 1.5% this year through Monday relative to its Canadian counterpart. The loonie has strengthened alongside a rebound in the Canadian economy and signals that the country's central bank could be getting ready to lift rates soon.

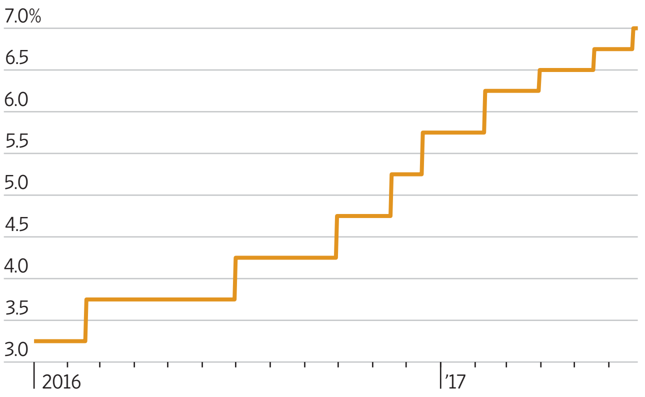
Signs of Strength

The Mexican peso has staged a large rebound against the U.S. dollar in recent months, leading a broader rally in emerging markets currencies that were hit after Donald Trump was elected. Investors are betting the peso will rise alongside interest rates.









Sources: Tullett Prebon (forex); WSJ Market Data Group (dollar index); Commodity Futures Trading Comission (positions); Banco de México (targets)

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HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

Wireless Sector Waits for Relief

Investors have been hoping a wave of deal making would finally turn around the ailing wireless industry. So far, it looks like the struggles will continue.

Sprint is in talks with **Comcast** and **Charter Communications** on a deal that could lead the cable companies to invest in the wireless company's network for the right to use its network at a reduced rate and might even result in the total purchase of Sprint, The Wall Street Journal reported.

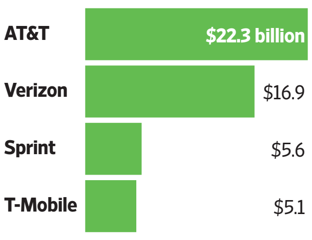
The talks come after a May 8 announcement by Comcast and Charter of the formation of a yearlong partnership during which the two cable companies will coordinate their wireless strategies.

Either way, Sprint needs a deal. With a market value roughly equal to its $33 billion in net debt, a tie-up may be the only way for Sprint to get the resources to invest enough in its network to remain competitive.

A deal with cable would be bad for Sprint's wireless competitors because it would reduce the likelihood of industry consolidation through the hoped-for merger of Sprint and T-Mobile. It also would lower the cost of offering wireless service for the two cable companies, further exacerbating wireless competition. The optimistic view is that Sprint is talking to the cable guys to get T-Mobile and its majority owner Deutsche Telekom to agree to a deal on more favorable terms.

Cellphone Bills

Analysts' consensus estimates for capital expenditures in current fiscal year



Note: Sprint's fiscal year ends in March. Other carriers are on a calendar year.
Sources: FactSet; Bloomberg News (photo)

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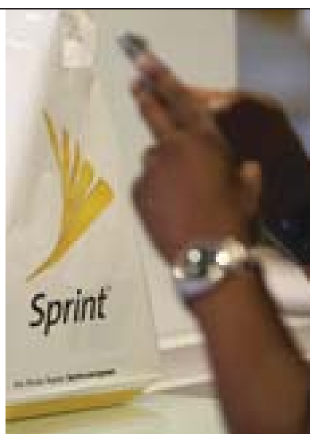


Sprint is in talks with Comcast and Charter Communications.

Shares of T-Mobile, Verizon and AT&T were down between 1% and about 3% in late trading Tuesday.

Comcast and Charter, both of which have a deal with Verizon to use its network for their wireless services, would get another national network to use at terms that could be significantly more favorable. By using their existing infrastructure, the cable companies could cut the amount that Sprint needs to invest. That would account for the bulk of the $35 billion to $40 billion in savings that would come from a deal, according to New Street Research. A deal between Sprint and T-Mobile could save around $44 billion, New Street says.

T-Mobile may still be Sprint's first choice for a partner, but even under a Republican administration, a merger with a close rival would come with significant regulatory risk. Sprint abandoned its earlier pursuit of T-Mobile in 2014 when regulators signaled they would block a deal. T-Mobile may be pushing for a high breakup fee, in addition to greater control over the combined company. By talking with cable, Sprint is showing T-Mobile it too has leverage.

Investors need to watch for signs that the cable talks are merely a distraction from a merger of Sprint and T-Mobile. That deal would be a first step in easing the industry's struggles.

—Miriam Gottfried

OVERHEARD

Everyone knows the S&P 500 and that trillions of dollars track or are indexed to it. The Schwab 1000 index is quite a bit less popular.

But the discount brokerage wants investors to use its index, and especially its index fund, instead of the S&P 500. To make the case, **Charles Schwab** shows in ads that the Schwab 1000 has beaten the S&P 500 in the long run. Having 1,000 stocks, they argue in the ads, is better than 500.

The problem is, indexes and index funds aren't the same thing. Schwab's fund has often lagged behind the index it is supposed to track. It also lagged behind the S&P 500 during many periods, including those in which the Schwab index beat the S&P.

Arguing that your index beats their index gets uncomfortably close to active management, whose failure to beat indexes made passive investing so popular. Schwab needs to watch what it promises or investors will flee when its index falls behind.

Consumer Credit Gone Wild in U.K.

The Bank of England has sent a warning to U.K. banks: Rein in the rapid growth in consumer credit or face higher capital requirements.

The central bank made two moves Tuesday: It increased general capital requirements, reversing its move in the wake of last summer's Brexit vote to withdraw the so-called countercyclical buffer. And it will now stress test consumer-credit exposures this summer to determine whether banks need to build in greater resilience to losses.

In recent months, U.K. consumer credit, which includes credit cards and unsecured loans, has been growing at an annualized rate of more than 10%. This has helped keep the U.K. economy buoyant, but leaves banks exposed to big potential losses.

But before any specific consumer-credit changes, all banks face higher capital requirements through the return of the countercyclical buffer. This will add £5.7 billion ($7.25 billion) in capital requirements across the industry by June 2018, equivalent to 0.5% on the capital ratios of U.K. balance sheets, and probably the same amount again by the end of 2018.

The bank cut the 0.5% that was in place to zero last summer to help banks cope with any increase in risks due to Brexit. However, it doesn't think that move drove consumer credit, which was already growing rapidly. Rather it thinks banks have become overconfident in their assessment of lending risks.

They will need to reassess those risks or the Bank of England will do it for them.

—Paul J. Davies

Why Central Banks Need to Worry About Falling Oil Prices

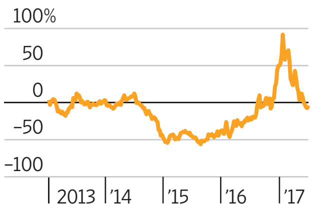
The headline boost to inflation from the recovery in oil prices from 2016's lows was, like all base effects, always destined to fade. What might not have been expected was that as that spike faded, the decline would potentially be amplified by a renewed drop in oil prices. This raises some awkward questions for markets and policy makers.

Oil last week entered a bear market, with prices down 20% from their peak; the price of a barrel of Brent crude is now lower than a year ago. As recently as January, oil prices had almost doubled from a year earlier, helping lift headline inflation to its highest level in years in the U.S. and eurozone.

Falling oil has added fuel to a rally in the bond markets as broader hopes of reflation related to U.S. fiscal policy under President Donald Trump have fizzled out. The 10-year Treasury yield stands at 2.198%, only a little higher than its lowest point this year, and the yield curve has flattened rapidly. The German equivalent is at 0.37%, and has fallen in recent weeks despite evidence of a continuing broad-based eurozone economic recovery.

Slippery

Brent oil price, year-on-year change



Note: Weekly data Source: FactSet

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Oil could yet rebound, and its effect might be transitory. But UBS suggests that the changing dynamics of oil prices, with higher production capacity capping rises, mean that there is less need for investors to worry about a surge in energy costs that leads to higher sustained inflation. That in turn reduces the premium investors charge for that risk, lowering yields.

This represents a challenge to central banks. European Central Bank President Mario Draghi noted Tuesday that the lack of a clear upward trend in oil and commodity prices is still exerting a drag on headline inflation.

Meanwhile, in the U.S. core inflation has been surprisingly soft in recent months, potentially posing a problem for the Federal Reserve, while in the eurozone it has been stuck just below 1% for much of the past three years. A fresh drag on headline inflation from oil would complicate efforts to normalize policy if it lowered wobbly inflation expectations and led wage-setting behavior. Bond markets seem to be internalizing the situation already.

For now central banks seem likely to be eager to stay on message, with the gradual phasing out of extraordinary monetary policy in prospect. Mr. Draghi argued that oil prices are being driven by supply, and therefore are something central banks can typically look past. A further drop in oil, however, could yet leave central banks and markets in a sticky situation.

—Richard Barley