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What's News

Business & Finance

Sprint has entered into exclusive talks with Charter and Comcast as the cable firms explore a deal that could bolster their plans to offer wireless service. A1

♦ Investors unnerved by the calm in markets are increasingly moving to protect themselves from big swings. B1

♦ Puerto Rico is preparing to seek bids from private firms to run a range of entities as it tries to raise cash. B1

♦ Nestlé's CEO indicated he would continue with his own growth plan after Third Point disclosed a \$3.5 billion stake and demanded changes. B1

♦ Alphabet's Waymo unit is hiring Avis to store and service self-driving cars, as it moves toward realizing a driverless-taxi network. B4

♦ Takata could limp on for years supplying parts for recalled air bags after its bankruptcy-protection filing. B3

♦ Google is set to be hit with an EU fine of over \$1.2 billion for allegedly rigging searches to favor its comparison-shopping service. B4

♦ Arconic said it has stopped selling panels for high-rise buildings of the sort used on London's Grenfell Tower. B3

♦ Durable-goods orders fell 1.1% in May from April. Total U.S. industrial output rose from a year earlier. A2

♦ Utility shares and other dividend-paying stocks led the S&P 500 to a slim gain. The Dow rose 14.79 points. B1

♦ Rio Tinto said it prefers a Chinese firm's sweetened offer over Glencore's bid for its Australian coal mines. B3

World-Wide

♦ The Supreme Court allowed Trump to implement a partial version of his travel ban, while the justices gear up to fully consider the legality of his move to suspend U.S. entry for people from six Muslim-majority countries. A1, A4

♦ The justices ruled that Missouri may not exclude a church school from play-ground-resurfacing funds. A5

♦ The court agreed to consider whether a bakery can deny service to gay couples for religious reasons. A5

♦ The Senate GOP health bill would leave 22 million more people uninsured in 2026 and cut the deficit by \$321 billion relative to the ACA, the CBO estimated. A1

♦ Brazil's top prosecutor filed criminal charges against Temer, alleging the president took bribes from meatpacker JBS's former chairman. A8

♦ The White House said the U.S. had detected what may be preparations by Syria for another chemical attack. A8

♦ Trump and Modi said they agreed to expand U.S.-India cooperation on terrorism, Afghanistan and trade. A8

♦ Britain's May reached a deal with Northern Irish lawmakers that will keep her Conservatives in power. A18

♦ House Republicans are nearing a budget plan that boosts military spending well above its current cap. A6

♦ Amtrak named a new CEO to run the railroad, which faces a backlog of repairs. A3

♦ Chinese dissident Liu, who suffers from liver cancer, was released from prison. A8

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REUTERS/KEVIN LAMARQUE

INDICTED: President Michel Temer was charged with corruption Monday as part of a crackdown that has roiled the country. A8

Justices Allow Partial Travel Ban

High court will consider president's plan in the fall, lifts stay on parts of the ban until then

By BRENT KENDALL

WASHINGTON—The Supreme Court on Monday allowed President Donald Trump to implement a partial version of his travel ban during the summer months, while the justices gear up to fully consider the legality of the president's move to suspend U.S. entry for people from six Muslim-majority countries.

The justices' action, in an unsigned opinion, provided a blockbuster ending on the final day of the court's current term and set the stage for the court to consider a major case on presidential power at the start of its October term.

The Supreme Court's interim decision also avoided for now an immediate clash between the court and the president on one of Mr. Trump's most high-profile initiatives since taking office.

The current version of Mr. Trump's ban, citing national-security concerns, seeks a 90-day ban on travel to the U.S. for people from Iran, Libya,

Travel Ban Ruling

- ♦ Supreme Court narrows scope of order..... A4
- ♦ Opposing sides stake out next steps..... A4
- ♦ Focus turns to travelers' 'bona fide' ties to U.S.... A4

Somalia, Sudan, Syria and Yemen, countries the president says are terror-prone.

In cases originating from Hawaii and Maryland, trial judges and appeals courts blocked the travel ban. Several rulings said the president likely disfavored Muslims in an unconstitutional way, while

another decision said Mr. Trump hadn't properly justified the need for the ban.

The Supreme Court, in its opinion, partially blocked the effect of those rulings and allowed Mr. Trump to enforce the ban against foreign nationals who have no connection to the U.S. The president's powers to ban U.S. entry "are undoubtedly at their peak" involving such travelers, the court said.

But the court said the calculus was different for nationals from the six countries who have "a bona fide relationship" with people or organizations in the U.S., such as family,

schools and employers.

The president can't prohibit travel for those people while the litigation continues, the court said, a move that could create messy implementation challenges over which would-be travelers qualify for the ban's court-created exemption.

Three of the court's most conservative justices—Clarence Thomas, Samuel Alito and Neil Gorsuch—offered a partial dissent that objected to the narrowing of the president's ban, writing that they feared it would be unworkable and "invite a flood of litigation until this case is finally resolved on the merits."

Trump and India's Modi Grapple With Divisions, Embrace Ties



WARM WELCOME: India's Prime Minister Narendra Modi and President Donald Trump Monday gave joint statements in the Rose Garden. A8

Sprint, Charter, Comcast in Talks

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, according to people familiar with the matter.

Sprint Chairman Masayoshi Son and the cable firms 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 im-

proving 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., but the Sprint deal could provide much better terms.

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.

Please see SPRINT page A2

Health Bill To Add to Uninsured, CBO Says

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 Affordable Care Act, according to an estimate released Monday by the Congressional Budget Office.

By Stephanie Armour, Kristina Peterson and Louise Radnofsky

That assessment threw into doubt whether the bill would make it past an initial procedural hurdle as Senate Majority Leader Mitch McConnell (R., Ky.) is engaged in last-minute negotiations with more than a half-dozen GOP lawmakers wavering in their support of the bill. Sen. Susan Collins (R., Maine) said she would vote against it, citing the CBO report.

Also on Monday, the American Medical Association announced its opposition to the bill in a letter to Senate leaders, saying "it will expose low- and middle-income patients to higher costs." But insurer Anthem Inc. said it believed the Please see HEALTH page A6

♦ Anthem says bill will bolster insurance market..... A6

♦ House GOP nears deal to boost military spending..... A6

CHINA TRACKS FACES TO SHAPE BEHAVIOR

New technology taps camera data in vast social-engineering experiment

By JOSH CHIN AND LIZA LIN

SHENZHEN—Gan Liping pumped her bike across a busy street, racing to beat a crossing light before it turned red. She didn't make it. Immediately, her face popped up on two video screens above the street. "Jaywalkers will be captured using facial-recognition technology," the screens said.

Facial-recognition technology, once a specter of dystopian science fiction, is becoming a feature of daily life in China, where authorities are using it on streets, in subway stations, at airports and at border crossings in a vast experiment in social engineering. Their goal: to influence behavior and identify law-breakers.

Ms. Gan, 31 years old, had been caught on

camera crossing illegally here once before, allowing the system to match her two images. Text displayed on the crosswalk screens identified her as a repeat offender.

"I won't ever run a red light again," she said.

China is rushing to deploy new technologies to monitor its people in ways that would spook many in the U.S. and the West. Unfettered by privacy concerns or public debate, Beijing's authoritarian leaders are installing iris scanners at security checkpoints in troubled regions and using sophisticated software to monitor ramblings on social media. By 2020, the government hopes to implement a national "social credit" system that would assign every citizen a rating based on how they

Please see CHINA page A10

Gridlock for Air-Bag Recall

Takata, which filed for bankruptcy, may limp on supplying parts for the 54 million defective air bags that are still to be replaced in the U.S. Car makers have fixed one fifth of the eventual total. B3

U.S. recall completion rates for some major auto makers

COMPANY	AIRBAGS REPAIRED	COMPLETION RATE*
Honda	10,385,975	58.6%
Subaru	385,596	35.2%
Toyota	1,802,783	33.6%
Ford	530,836	30.7%
GM	211,861	29.0%
Mazda	263,996	22.7%
Nissan	336,891	22.7%
Fiat Chrysler	1,855,890	20.2%
BMW	358,880	17.4%
Mercedes-Benz	12,750	1.8%

*As of May 26, 2017

Source: National Highway Traffic Safety Administration

THE WALL STREET JOURNAL

Brazil's Political Turmoil Deepens



INDICTED: President Michel Temer was charged with corruption Monday as part of a crackdown that has roiled the country. A8

Who Pays on the First Date? No One Knows Anymore

Online dating, evolving gender roles complicate the fake wallet reach

By KHADEEJA SAFDAR

There was a time when Tinesha Zandamela would dig around for her wallet at a first date, anticipating that the guy would insist on paying.

That was before she went out with one who "forgot" his wallet, or the one who requested to split the check 50-50 after eating nearly all the food. Now when the bill arrives, she sits still, not even attempting what some call "the reach."

"If you reach, you could end

up with the entire bill," said the 23-year-old in Provo, Utah. "No one is going to stop you."

Love in the time of Tinder is upending an age-old tradition between men and women: that moment when the bill arrives and the woman feints for her wallet—but expects the guy will insist on paying.

The popularity of the dating app and others like it means single people are going on more first dates than ever. Many women say they have stopped doing the reach be-

cause they are not only more likely to end up splitting the bill, but also more liable to cover all of it. Now when the check arrives, both people often brace themselves for a gun-fighter's staredown.

On her 18th birthday, Jaclyn Suchta, an account supervisor in Rochester Hills, Mich., found herself on the losing side. She said she was invited to a movie that day, but at the ticket counter, her date looked at her blankly for several uncomfortable

Please see DATE page A10

U.S. NEWS

Next Front in Drug War: Mailboxes

BY ARIAN CAMPO-FLORES
AND JON KAMP

Not long before Don Holman's son Garrett died from an overdose in February, he learned his 20-year-old had his drugs delivered directly to their Virginia home in the mail, in packages from foreign countries.

"Your drug dealer today is your mailman," said Mr. Holman. "If your kids are getting any packages in the mail whatsoever, you need to know what that is."

Fentanyl and other synthetic narcotics like U-47700, which was found in Garrett Holman's system, are now streaming into the U.S. through international parcels delivered by the **U.S. Postal Service** and private carriers like **United Parcel Service Inc.** and **FedEx Corp.**, according to authorities. The deliveries are helping fuel an opioid crisis that claims tens of thousands of U.S. lives each year, prodding congressional lawmakers to propose tougher rules and new resources to try to stop the flow.

Seizures of fentanyl arriving by both international mail and express carriers reached nearly 37 kilograms in the U.S. overall in fiscal 2016, compared with 0.09 kilograms five years earlier, according to Customs and Border Protection data.

While Mexican drug cartels usually transport synthetic opioids like fentanyl in bulk by land, many American dealers and users use the mail to receive smaller supplies of the drugs, officials say.

Mail and private express services are "attractive options for smugglers," said Salvatore Ingrassia, acting assistant director for trade and cargo at CBP's New York field office.

Customs officials rely on X-ray machines and visual scans to find the contraband at nine mail facilities around the country. With 621.4 million international mail pieces arriving



Customs officers take precautions as they look for chemicals used in synthetic drugs like fentanyl.



through the Postal Service alone in fiscal 2016, it is like finding a needle in a haystack. The chemicals are so lethal, drug-sniffing dogs aren't trained to identify them for fear of death.

"This manual process...coupled with the tremendous volume of inbound mail to the United States, creates a daunting task for CBP," said Robert Perez, the agency's acting executive assistant commissioner for operations support, at a

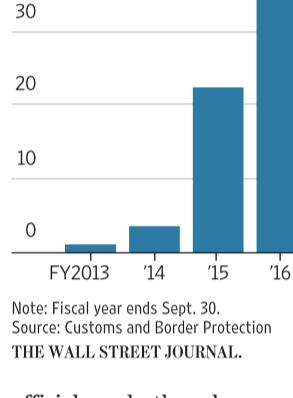
May Senate hearing on opioid mail shipments.

A bill sponsored by lawmakers would provide customs officials with more screening equipment and lab resources to detect fentanyl arriving by mail or at ports of entry. Another bill would require overseas shippers using the Postal Service to provide certain information to CBP before parcels arrive in the U.S.

That measure seeks to address a problem that customs

Drug Delivery

Seizures of fentanyl arriving by both international mail and express carrier



Note: Fiscal year ends Sept. 30.
Source: Customs and Border Protection
THE WALL STREET JOURNAL.

officials and others have complained about for years: Unlike private carriers, the Postal Service doesn't always provide CBP with advance data like a shipper's name and address and a description of contents. Run

through software programs, that data can help flag warning signs such as an address known to be the origin of previous shipments of chemicals.

The Postal Service says it is more limited because it has to work with foreign postal operators. It has been pushing those operators to provide such information and now receives data for 40% to 50% of inbound packages, said Robert Cintron, the agency's vice president for network operations, at the hearing.

The Postal Service is obligated under international agreements to accept incoming mail from nearly every country, Mr. Cintron said. He added that the blanket requirements of the bill are impractical and would undermine the Postal Service's ability to compete with private shippers.

Moreover, sellers routinely falsify the sender's name and address and the description of the contents, authorities say. On the receiving end, buyers often misrepresent themselves as well and may use numerous mailboxes to evade detection.

In the March arrest of alleged drug dealer Chukwuemeko Okparaekwe, it was his unusual behavior at post offices in the Middletown, N.Y., area that helped tip off authorities. They said the 28-year-old, known to online customers as "Fentmaster," dropped bags of envelopes in collection bins while wearing latex gloves. He also bought more than \$7,500 worth of stamps at a time online.

In April, a federal grand jury in New York indicted Mr. Okparaekwe on charges including intent to import and distribute controlled substances. He pleaded not guilty. An attorney for Mr. Okparaekwe declined to comment.

In March, word circulated in online drug forums that Fentmaster had been busted. "Do not order from Fentmaster," one participant wrote.

Orders for Durable Goods Fall Again

BY BEN LEUBSDORF

Demand for long-lasting factory goods declined in May for the second straight month, driven by a pullback in airplane orders, while the U.S. manufacturing sector continues to find its footing.

Orders for durable goods—products designed to last at least three years, such as jet planes and industrial robots—decreased 1.1% from April to a seasonally adjusted \$228.18 billion in May, the Commerce Department said Monday. That was the largest drop in six months.

Economists surveyed by The Wall Street Journal had expected a 0.4% decline last month. April orders were revised down to a 0.9% decline, which followed four straight monthly rises.

"The broad story in terms of capital spending appears to be wait-and-see," Stephen Stanley, chief economist at Amherst Pierpont Securities said in a note to clients.

Last month's fall was led by sharp declines in two volatile categories, a 30.8% drop in military-aircraft orders and a 11.7% decline in orders for civilian airplanes and parts. Excluding the transportation segment, orders rose 0.1% in May.

More broadly, factory demand has strengthened in 2017. Durable-goods orders rose 2.8% in the first five months of 2017, compared with a year earlier. A closely watched proxy for business investment in new equipment, orders for nondefense capital goods excluding aircraft, fell 0.2% in May from the prior month but was up 2.3% year-to-date.

Monday's report was "a bit weaker than expected," but "the data are volatile and through the volatility trends have generally been up—modestly at least," said Jim O'Sullivan, chief U.S. economist at High Frequency Economics, in a note to clients.

The U.S. manufacturing sector, meanwhile, gained traction over the past year after a weak stretch in 2015 and into 2016.

Total U.S. industrial production rose 2.2% in May from a year earlier, including 1.4% growth for manufacturing output, according to Federal Reserve data. A private-sector gauge of U.S. manufacturing activity, produced by the Institute for Supply Management, showed expansion in May for the ninth consecutive month.

MICHIGAN

Airport Officer Leaves Hospital After Attack

The Flint airport officer stabbed in the neck during what authorities are investigating as a terrorist attack has been discharged from a hospital.

A spokeswoman for Hurley Medical Center said Lt. Jeff Neville was released Monday.

Mr. Neville was stabbed Wednesday at Bishop International Airport in Flint, about 50 miles northwest of Detroit. Authorities have said 49-year-old Amor Ftouhi stabbed Mr. Neville with a large knife after saying something simi-

lar to "you have killed people in Syria, Iraq and Afghanistan, and we are all going to die."

Mr. Ftouhi, a Canadian from Tunisia, was taken into custody and was charged in a criminal complaint with committing violence at an airport. Doctors have said Mr. Neville's 12-inch wound caused significant bleeding but narrowly missed major arteries and a nerve.

—Associated Press

CALIFORNIA

Water Project Gets Favorable Decision

U.S. wildlife officials gave crucial first approval Monday to Cali-

fornia Gov. Jerry Brown's ambitions to build two massive tunnels that would re-engineer the state's water system.

The National Marine Fisheries Service and U.S. Fish and Wildlife Service said the \$16 billion project likely wouldn't endanger federally protected species in the largest fresh-water estuary on the West Coast.

The decision is the first in a series of federal and state rulings that will determine the fate of the 35-mile tunnels. The project would suck part of the Sacramento River into the tunnels.

Supporters say it would ensure a reliable water supply for cities, farms and tens of millions

of residents, most of them in Southern and Central California. Opponents say the project would speed the demise of some species of salmon and other wildlife.

—Associated Press

MISSOURI

Confederate Statue to Be Moved From Park

Crews on Monday began dismantling a divisive Confederate monument in a park near downtown St. Louis after the city and the Missouri Civil War Museum reached a deal to have it moved.

The museum will pay for the removal of the 38-foot-tall, 103-

year-old granite monument, which depicts a Confederate soldier leading his family for the Civil War with an angel hovering above them. It must be removed by Friday, and the museum will store it until a new permanent site—a Civil War museum, battlefield or cemetery outside of St. Louis County—can be found.

The agreement came a week after a judge issued a temporary injunction barring the city from removing the monument, pending a hearing over its ownership.

The museum had sued the city, insisting the United Daughters of the Confederacy had signed over ownership rights to the museum.

—Associated Press

SPRINT

Continued from Page One
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 or participation for a year.

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 and right owners' economics" 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 increasingly logical but also



PAUL SAKUMA/ASSOCIATED PRESS

Liberty's John Malone

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

Masayoshi Son has been trying to gin up cable companies' interest in Sprint.

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. The thinking is that the "quad play" would make their offerings more essential and cost efficient, making customers less likely to cancel contracts.

Meanwhile, wireless compa-

nies are engaged in a fierce price war in a saturated market that is quickly eroding revenue.

T-Mobile and Sprint, the third- and fourth-largest carriers by subscribers, have cut prices the most. Unlike Verizon and AT&T Inc., Sprint and T-Mobile don't have extensive consumer wired networks, so combining wireless with cable's high-speed wires could help speed the construction of next-generation, or 5G, wireless internet connections.

Mr. Son, a Japanese billionaire whose SoftBank Group Corp. controls Sprint, has been trying to gin up cable companies' interest in acquiring the struggling carrier or buying a big stake.

Mr. Son had recently rekindled talks with Deutsche Telekom AG, the parent company of T-Mobile, to merge the two companies, but a deal has yet to materialize. The two previously discussed combining in 2014 but backed down in the face of regulatory opposition. As recently as last week, Sprint CEO Marcelo Claure publicly spoke about the benefits of a T-Mobile merger.

Comcast recently started offering wireless service to its own high-speed internet customers, using Verizon's network for the connections. Charter also is working on a similar service to be released next year.

Striking a reseller agreement with Sprint instead of Verizon would likely make it easier for the cable companies to expand their wireless offering. With Verizon, for instance,

the cable companies can't sell wireless service outside of their cable footprint, and the deal was struck years ago, when wireless prices were much higher.

In discussions with Sprint about a potential new reseller agreement, Mr. Son has shown willingness to give the cable executives unprecedented flexibility, including control over things like customer SIM cards, according to people familiar with the matter. That would give Charter and Comcast more control over their customers and more leverage with Sprint in any future discussions than they have in their current reseller deal with Verizon, in which Verizon maintains broad power over the wholesale connections.

A few weeks ago, Mr. Son met with top Comcast and Charter executives to pitch the idea of investing in Sprint and using Sprint as their primary wholesaler for wireless airwaves, according to people familiar with the matter. That would be a financial boost for the struggling carrier, which hasn't had a profitable year since 2006.

Mr. Malone, a pioneer of the U.S. cable business, has long felt that the cable industry should work closer together to combat threats such as Netflix Inc. and the wireless carriers. In January, he said that "maybe the three major cable companies get together and buy T-Mobile" or even "Charter and Comcast could merge" under the more lenient anti-trust posture of the Trump administration.

The surname of Claude Moniquet, a former French intelligence official who leads the Brussels-based think tank European Strategic Intelligence and Security Center, was misspelled as Monique in a Page One article on Monday about recent terror attacks in Europe.

The €37 billion in German military spending approved last year is equivalent to \$41.4 billion. In some editions Monday, a World News article about the Social Democrats' criticism of Chancellor Angela Merkel misstated the value as

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U.S. NEWS

Amtrak Hires Ex-Delta Chief as New CEO

Richard Anderson joins the national passenger railroad as it embarks on critical overhauls

BY TED MANN

WASHINGTON—**Amtrak** named former Delta Air Lines Inc. chief executive Richard Anderson as the new president and CEO of the national passenger railroad, which is grappling with a backlog of repairs even as ridership continues to grow.

Mr. Anderson, 62 years old, will succeed current Amtrak CEO Wick Moorman, who joined the company in September 2016. Mr. Moorman, a longtime freight railroad executive, will serve as co-CEO with Mr. Anderson through the end of the year, overseeing some Amtrak projects, including critical repair work at New York's Penn Station.

Amtrak officials on Monday said Mr. Anderson is the

sort of leader Mr. Moorman was tasked with recruiting when he arrived last year: a veteran of a competitive industry with passengers at its heart.

"He literally took a company out of bankruptcy and made it one of the more efficient air carriers in the world," said Anthony Coscia, chairman of Amtrak's board of directors, referring to Mr. Anderson's career at Delta. "That's an accomplishment in an industry that's just as difficult if not more difficult than passenger rail."

Mr. Anderson has shown a knack for hard jobs and unconventional risks. He left the airline business after 14 years at Northwest Airlines Corp. to work in the health-insurance industry, before moving to Delta and orchestrating its purchase of Northwest, his former employer. He sparred with Middle Eastern air carriers over efforts to break into the U.S. market. Irked by rising fuel prices in 2012, Delta



MANUEL BALCE CENETA/ASSOCIATED PRESS

announced it had purchased an oil refinery near Philadelphia to produce its own fuel.

In an interview, Mr. Moorman said Mr. Anderson had learned of Amtrak's CEO search and volunteered to be considered. "Richard stuck his hand up," Mr. Moorman said.

At Amtrak, Mr. Anderson will come aboard a railroad under both operational and political pressures. Those in-

Richard Anderson

Title: President and CEO, Amtrak

Age: 62 years old

Résumé: Mr. Anderson served as CEO of Delta Air Lines from 2007 to 2016. Other positions he has held include executive vice president at UnitedHealthcare from 2004 to 2007 and CEO of Northwest Airlines from 2001 to 2004. He

will serve as co-CEO with current Amtrak CEO Wick Moorman through December.

Challenges ahead: Amtrak faces threats of steep budget cuts from the Trump administration. With that in mind, Mr. Anderson will have to oversee major track repairs and upgrades, including to New York's Penn Station. Amtrak is also seeking federal funding for a new tunnel under the Hudson River, between New Jersey and New York.

add two new tracks beneath the Hudson River between New York and New Jersey, allowing the railroad to perform a badly needed overhaul of its 106-year-old existing tunnels, and eventually to run more trains on the busy Northeast Corridor.

"It is an honor to join Amtrak at time when passenger rail service is growing in importance in America," Mr. Anderson said in a news release.

Mr. Anderson will begin work July 12. When Mr. Moorman leaves the co-CEO position at the end of the year, he will then become an adviser to the railroad, Amtrak said.

In leading Delta for nine years, Mr. Anderson transformed the airline after its exit from bankruptcy into a leader in profitability. In 2016, Delta reported 209.6 billion miles flown by paying passengers, putting the airline in second place in the U.S., behind American Airlines Group Inc.

In Rural America, Students Chase Big-City Dreams

BY DANTE CHINNI

MAHASKA COUNTY, Iowa—Clow Valve Co. has seven job openings in this rural community where it makes fire hydrants and valves, and management thinks it will soon have more: One-third of the factory's workforce of 400 will be eligible to retire in five years.

But listen to some of the freshly minted graduates from nearby Oskaloosa High School, and Clow's hiring problem becomes clear.

John Hammes is heading to the University of Iowa next fall with no plans to come back. "I'm going to choose the job I want, and that's going to lead me to where I live," he said. Alissa Newendorp has her eyes on the University of Northern Iowa and eventually New York City. Natasha Shipp imagines working as a lobbyist in Des Moines or Washington, D.C.

"How are we going to replace that workforce?" said Clow's chief talent strategist, Tiffany Tremmel.

As more young people decide to pursue four-year degrees, college towns are siphoning students out of the rural heart of the Farm Belt and sending them not back to Oskaloosa but to the nation's urban centers.

Overwhelmingly, University of Iowa students after graduation either stay near the univer-

sity or scatter to Chicago, Des Moines or other big cities, according to Emsi, a Moscow, Idaho, advisory firm that analyzes labor markets. In 2014, Mahaska County sent some 170 people to Johnson County, home of the University of Iowa, according to Census data, while Johnson County sent only about 20 people back. As recently as 2000, Mahaska County was sending 73 people to Johnson County and nearly as many, or 71, came back.

Other states are struggling with rural outflow to state-university towns. In 2014, Georgia's rural Pike County sent roughly 116 more people to Clarke County, home of the University of Georgia, than Clarke County sent back. In Pennsylvania, small-town Clarion County sent about 101 more people to Centre County, home of Penn State, than it got back.

Many young people in rural communities now see college not so much as a door to opportunity as a ticket out of Nowheresville. The result is a redistribution of educated graduates to urban areas, which is helping to widen the divide in educational attainment between urban and rural areas.

Cargill's plant in Eddyville, Iowa, which processes eight million bushels of corn a month into corn oil, cattle feed and other products, is more dependent than ever on college graduates to run its increasingly high-tech operations. Craig Ambrose, a facilities manager there, said he has jobs to offer, some requiring college degrees. He is struggling to find college-graduate candidates for two senior electrical-engineer positions.

"When you are trying to attract high-school and college grads, they want to be close to entertainment, to night life," he said.

At Musco Lighting, which builds lighting systems for businesses and sports facilities,

Shelly Herr, human resources manager, says the Oskaloosa company keeps an eye on local high-school students who show promise in engineering and establishes contact with them early, sometimes before graduation. The company also forms relationships with engineering professors at Iowa State University in an attempt to find students interested in Mahaska County's rural lifestyle.

"If there is an Iowa State engineering student who wants to stay in Iowa, we're going to start talking to that kid as a freshman," Ms. Herr said.

Some students talk about coming back to raise a family—if they can find a job in their chosen field. And not everyone is leaving. Oskaloosa High grad Josh Van Donselaar plans to take a part-time job at AgriLand FS, an agriculture-supply company in the area, while working on the family farm with an eye toward taking it over someday.

"I've always wanted to stay home from college," he said. "I came to the realization one day that there is room on the farm for me."

But most of Oskaloosa High School's recent grads see their futures somewhere else.

"We have, like, five restaurants in town. Every time you go out, it's like a reunion," said 2017 grad John Hirl, who is heading to Drake University in the fall because he wants to live in Des Moines. "It's all just very predictable."



DANNY WILCOX FRAZER/VII FOR THE WALL STREET JOURNAL

Oskaloosa Senior High School graduation ceremony in May. Many students hope to head to Chicago or other big cities after college.

Moving On

Rural youth who go away to college increasingly relocate to an urban area after graduation.

Top cities for University of Iowa grads (33% stay in state)

Chicago	17.3%
Iowa City	11.3
Des Moines	5.8
Cedar Rapids	4.2
Denver	2.2

Source: Emsi

Top cities for Drake University alums (38% stay in state)

Des Moines*	27.1%
Chicago	9.3
Twin Cities	3.0
Denver	2.0
Kansas City	1.9

*Including West Des Moines

THE WALL STREET JOURNAL.



DANNY WILCOX FRAZER/VII FOR THE WALL STREET JOURNAL

Deryk Bingham working on fire hydrants at Clow Valve Co. in Oskaloosa, Iowa.

Mother of Motorist Killed by Police Settles

BY SHIBANI MAHTANI

MINNEAPOLIS—The mother of Philando Castile, a black motorist fatally shot by a police officer during a traffic stop last year in a Twin Cities suburb, has reached a nearly \$3 million settlement over his death, officials and attorneys for the family said Monday.

In a joint statement, the city of St. Anthony Village—where Jeronimo Yanez, the former police officer, was em-

ployed at the time—and attorneys for the family said that

Valerie Castile, the trustee of the Castile family, will receive a settlement of \$2,995 million over Mr. Castile's death.

Mr. Castile, a 32-year-old supervisor at a school cafeteria, was killed by Mr. Yanez last July 6 after he pulled Mr. Castile over for a broken tail-light in Falcon Heights, a Twin Cities suburb. Falcon Heights is patrolled by police from St. Anthony. Mr. Yanez fatally shot Mr. Castile when he informed the officer he had a gun.

Mr. Castile was legally per-

mitted to carry the gun.

The settlement between the city of St. Anthony Village and

Ms. Castile will avoid a wrongful-death lawsuit over the incident.

"The city and the Trustee were able to reach this agreement avoiding a federal civil rights lawsuit which may have taken years to work its way through the courts, exacerbating the suffering of the family and the community," said the joint statement.

The city of St. Anthony dis-

missed Mr. Yanez as an officer shortly after his acquittal. The city has offered him a voluntary settlement agreement.

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TRAVEL BAN RULING

Supreme Court Narrows Scope of Order

BY BRENT KENDALL

WASHINGTON—The Supreme Court's decision to allow parts of President Donald Trump's travel ban to go forward is a significant reversal of fortune for the administration, which had been on the losing end of several lower-court decisions that blocked his order.

The March 6 order, a revised version of one issued in late January, 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. Mr. Trump said the order would help prevent terrorism.

The justices, in an unsigned 13-page opinion, narrowed the scope of the ban for now, ruling that the president couldn't enforce it against travelers who have a credible claim of a bona fide relationship with a person or organization in the U.S. The court narrowed the ban on refugees in the same way.

The court's decision means a limited version of Mr. Trump's travel restrictions can take effect in as soon as three days. But it raised immediate questions about which travelers would qualify for the

Policies That Can Be Implemented

Under the Supreme Court's ruling on President Donald Trump's travel ban, combined with earlier court decisions, the administration may implement the following policies:

◆ For 90 days, citizens of Iran, Libya, Somalia, Sudan, Syria and Yemen may not travel to the U.S. unless they can show they have a "bona fide relationship" with a person or entity in the United States." What will count as a

"bona fide relationship" isn't clear.

◆ The policy doesn't apply to people who already have legal visas or green cards, or to those with dual citizenship traveling on the passport of a nation that isn't restricted. The administration may issue additional waivers on a case-by-case basis.

◆ Admission of refugees to the U.S. will be suspended for 120 days. Those already scheduled for transit to the U.S. won't be affected. Refugees with a "bona fide relationship" to the U.S. would also be allowed in, and others may be given waivers.

◆ The number of refugees admitted for this fiscal year will be capped at 50,000, though waivers could push it higher.

◆ A review will determine whether other countries are providing information to the U.S. deemed necessary to properly vet visa applications. The review is set for completion next month. Nations will then have 50 days to begin providing the information requested; if they don't, their names will be submitted to the president for possible inclusion in a new travel ban.

◆ A review of vetting proce-

dures of individual visa applicants will determine which additional measures are needed.

◆ The Department of Homeland Security will expedite completion of a biometric entry/exit system meant to track foreigners visiting the U.S. on temporary visas.

◆ The State Department will suspend the Visa Interview Waiver Program and resume in-person interviews for people seeking nonimmigrant visas, with some exceptions.

—Laura Meckler

court's "bona fide" exception to the ban, paving the way for potentially messy legal battles in the coming months.

Chief Justice John Roberts announced the court's decision after the justices dispensed with their other pending business, capping a dramatic final day of the court's term. The high court doesn't usually announce decisions from the bench in cases it hasn't yet fully considered, but nothing about the travel ban litigation has been typical.

The Supreme Court said on

took office vowing to shake things up, pledging among other things to crack down on terrorism and immigration. His executive orders on travel began producing significant lower-court rulings within weeks after his inauguration.

Some judges openly questioned Mr. Trump's motivations, citing his support as a candidate for a complete ban on Muslims entering the U.S. The president fired back with blunt criticisms of the courts that have ruled against him.

The Supreme Court said on

Monday it would give closer consideration to the case in October, when it will hear oral arguments. By then, the 90-day pause on travel will already be over, a fact that could moot the justices' further consideration, or at least complicate it.

Both sides claimed a win after the ruling.

Mr. Trump called the high court's action "a clear victory for our national security. It allows the travel suspension for the six terror-prone countries and the refugee suspension to

become largely effective."

The president's critics argued that the court's ruling was a narrow win at best for Mr. Trump. Many would-be travelers or refugees have a connection to the U.S., they said, and could be exempt from the executive order.

"This order, properly construed, should really allow for only the narrowest implementation of any part of the ban," said Omar Jadwat, an American Civil Liberties Union lawyer who argued one of the travel ban cases in the lower courts.

Even with the travel restrictions on hold, admissions from the six nations fell dramatically in March and April, government data show. Compared with a year earlier, the number of people admitted from Iran, Libya, Somalia, Sudan, Syria and Yemen was down by about half year over year. It was unclear whether that was primarily due to fewer people seeking to travel to the U.S. or to the administration rejecting more applications.

Chief Justice Roberts assembled an ideologically diverse coalition for the middle-ground approach, attracting the support of maverick conservative Justice Anthony Kennedy and the court's four liberal justices.

Three of the court's most conservative justices—Clarence Thomas, Samuel Alito and Neil Gorsuch—offered a partial dissent, objecting to the narrowing of the president's ban. They wrote that they feared the compromise standard, which turns on the closeness of a person's connections to the U.S., would be unworkable and "invite a flood of litigation until this case is finally resolved on the merits."

—Laura Meckler contributed to this article.

Welcome Center



Travelers arrived from abroad at John F. Kennedy International Airport in New York City on Monday, after the U.S. Supreme Court ruling.

Decision Raises Opposing Views

BY JOE PALAZZOLO

The Supreme Court's decision to review and allow partial enforcement of President Donald Trump's executive order banning immigration from six predominantly Muslim countries inspired dueling narratives that hinted at new litigation likely to unfold over the summer.

For Mr. Trump, the order amounted to a "clear victory for national security" that "allows the travel suspension for the six terror-prone countries and the refugee suspension to become largely effective," according to the president's statement after the ruling.

Omar Jadwat, director of the Immigrants' Rights Project at the American Civil Liberties Union, which is representing groups challenging Mr. Trump's directive, said the high court's order, "properly

construed, should really allow for only the narrowest implementation of the ban."

Two federal appeals courts blocked the administration from enforcing the ban, prior to Monday's order, in challenges brought by Hawaii, refugee-resettlement groups and legal residents whose relatives are seeking entry into the U.S. The lawsuits allege that Mr. Trump's order is motivated by an animus toward Islam, as opposed to concerns about national security. The president has asserted authority to exclude broad groups from the country in order to keep it safe.

The Supreme Court, departing from the lower courts, freed the Trump administration to enforce the ban when "there is no tie between the foreign national and the United States."

But the justices added that

Mr. Trump's order "may not be enforced against foreign nationals who have a credible claim of a bona fide relationship with a person or entity in the United States."

Mr. Trump read the court's order as freeing his hand. "Today's ruling allows me to use an important tool for protecting our Nation's homeland," he said in his statement.

Attorney General Jeff Sessions saw a prelude to victory, saying in a statement that the Justice Department was "confident the United States Supreme Court will uphold this constitutional and necessary executive order."

But officials for the groups challenging the travel ban, and even some of the justices, predicted a clash with the administration in the lower courts over who qualifies as having a bona fide relationship with people and groups

in the U.S.

Justice Clarence Thomas, writing in a separate opinion, said he would have fully reinstated the ban. He criticized his colleagues for offering a compromise that would "invite a flood of litigation" as courts and parties struggled to apprehend what constitutes a bona fide relationship. Justices Neil Gorsuch and Samuel Alito joined the opinion.

Becca Heller, director of the International Refugee Assistance Project, said the high court's ruling allowed the administration to enforce the travel ban against a narrow group of individuals—those who tried to apply for a tourist visa and who otherwise had no connections to the U.S.

Ms. Heller said refugees and immigrants applying for visas to work in the U.S., visit a family member or go to school here would still have

protection pending the outcome of the case.

The justices are slated to hear arguments in October, but they indicated that the case might be moot by then, saying they "fully expect" the order to allow the government to move ahead with its origi-

nal plans—to pause travel from the countries for 90 days while officials identify any holes in screening procedures.

The Trump administration could extend the ban, however. Mr. Jadwat of the ACLU said he expected the case to continue, regardless.

Some Excerpts From the Ruling

United States would appreciate injure its interests."

"[The order] may not be enforced against foreign nationals who have a credible claim of a bona fide relationship with a person or entity in the United States."

—From the lead opinion (per curiam)

"I fear that the Court's remedy will prove unworkable. Today's compromise will burden executive officials with the task of deciding—on peril of contempt—whether individuals from the six affected nations who wish to enter the United States have a sufficient connection to a person or entity in this country."

—Justice Clarence Thomas, in a separate opinion

"For individuals, a close familial relationship is re-

quired," the court wrote in its majority opinion. A foreigner who wishes to enter the U.S. to live with or visit a family member would qualify, the justices wrote.

"As for entities, the relationship must be formal, documented, and formed in the ordinary course, rather than for the purpose of evading [the executive order]," the court wrote.

"The students from the designated countries who have been admitted to the University of Hawaii have such a relationship with an American entity. So, too, would a worker who accepted an offer of employment from an American company or a lecturer invited to address an American audi-

ence."

Lawyers for refugee resettlement groups challenging the ban said the vast majority of refugees and visa seekers would remain protected under the high court's order. Only those seeking tourist visas and those who have no connection to the U.S. would be subject to the travel ban, they said.

The U.S. government is likely to take a different view of the Supreme Court's decision.

The Department of Homeland Security said it would provide details on implementation after consultation with the State Department and Justice Department.

"The implementation of the executive order will be done professionally, with clear and sufficient public notice, particularly to potentially affected travelers, and in coordination with partners in the travel industry," the department said.

Legal experts and even some of the justices said court's emphasis on a "bona fide relationship" would be fought over in the lower courts.

"I fear that the court's remedy will prove unworkable," wrote Justice Clarence Thomas in a separate opinion joined by Justices Neil Gorsuch and Samuel Alito.

—Laura Meckler contributed to this article.

Battle Turns to 'Bona Fide' Relationship

BY JOE PALAZZOLO

The Supreme Court's ruling freed the Trump administration to enforce the president's executive order banning travelers from six Muslim-majority countries who have "no tie" to the U.S.

But the court ruled Monday that the travel ban "may not be enforced against foreign nationals who have a credible claim of a bona fide relationship with a person or entity in the United States."

What is a bona fide relationship? The court offered some examples by way of explanation.

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quired," the court wrote in its majority opinion. A foreigner who wishes to enter the U.S. to live with or visit a family member would qualify, the justices wrote.

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—Laura Meckler contributed to this article.

U.S. NEWS

Church Entitled To Public Money, High Court Rules

BY JESS BRAVIN

The Supreme Court Monday ruled that Missouri may not exclude a church school from a program that funds playground resurfacing, finding that discrimination based on "religious identity" violates the First Amendment's protection for free exercise of religion.

The Missouri Constitution long had forbidden public subsidy, "directly or indirectly, in aid of any church, sect or denomination of religion," which state courts interpreted as excluding church-run schools from programs like Missouri's Playground Scrap Tire Surface Material Grants, which helps schools and day-care centers resurface playgrounds with ma-

terial made from recycled tires.

"The consequence" of that approach "is, in all likelihood, a few extra scraped knees," Chief Justice John Roberts wrote for the court. But excluding Trinity Lutheran Church of Columbia, Mo., from applying for the funds "solely because it is a church is odious to our Constitution all the same."

The court recalled a series of cases addressing the line between church and state, whose exact location has vexed justices for generations. In 1947, the chief justice noted, the court ruled New Jersey could reimburse parents for the cost of public transportation to send their children to school, whether public, private or parochial.

The program passed muster,

In 2004, however, the court upheld a Washington state law that excluded devotional theology studies from a scholarship program. The difference, Chief Justice Roberts wrote, was that the Washington student "was not denied a scholarship because of who he was; he was denied a scholarship because of what he proposed to do—use the funds to prepare for the ministry."

David Cortman, an attorney with the conservative group Alliance Defending Freedom, who argued the church's case, said: "Equal treatment of a religious organization in a program that provides only secular benefits, like a partial reimbursement grant for playground surfacing, isn't a government endorsement of religion."

The opinion stopped short of the wholesale redefinition of church-state separation that religious advocates supporting the case had hoped for. Chief Justice Roberts said in a footnote that the court didn't "address religious uses of funding or other forms of discrimination" apart from the playground program.

That footnote exposed the court's divisions regarding the religion clauses. Two conservative justices, Clarence Thomas and Neil Gorsuch, rejected the Roberts footnote, while agreeing with his broader decision in favor of the church. The Constitution "guarantees the free exercise of religion, not just the right to inward belief (or status)," Justice Gorsuch wrote.

The program passed muster,

strate "good cause."

WASHINGTON—The Supreme Court declined to review California's concealed-weapons restrictions on Monday, frustrating gun activists who saw the case as a path to expand the individual right to possess firearms.

California generally prohibits carrying firearms, concealed or openly, in urbanized areas but permits local authorities to make exceptions, allowing individuals to carry concealed weapons in some circumstances if they demon-

How the Supreme Court Ruled in Notable Cases in 2016-17

Six of the biggest cases the court considered during a term of transition while the political branches fought over the replacement for Justice Antonin Scalia. The court remained short-handed until Justice Neil Gorsuch joined the bench in April.



JUROR BIAS *Pena-Rodriguez v. Colorado* The justices ruled that when a juror makes racially biased statements during secret jury deliberations, courts must review the incident to consider the validity of the verdict. 5-3

EDUCATION RIGHTS *Endrew F. v. Douglas County School District* The court ruled that federal law guarantees more than a bare-bones education to disabled students. 8-0

FAIR HOUSING *Bank of America v. Miami* The court ruled the city of Miami could bring lawsuits alleging banks engaged in discriminatory lending that led to urban blight and falling property values. But the justices said Miami must prove banks caused the city direct harm. 5-3

PATENT LAWSUITS *TC Heartland v. Kraft Foods* The justices limited the ability of patent holders to file infringement lawsuits in courts they believed to be plaintiff-friendly, a ruling that could benefit company defendants and undermine so-called patent trolls. 8-0

FREE SPEECH *Matal v. Tam* The justices ruled the government can't refuse to register trademarks that may be disparaging or offensive, a decision that sided with an Asian-American rock band and indirectly benefited the Washington Redskins. 8-0

CHURCH AND STATE *Trinity Lutheran Church v. Comer* The court found that discrimination based on "religious identity" violates the Constitution, saying Missouri could not exclude a church school from playground grants. 7-2

*Justice Gorsuch was not seated until April and could not rule in cases argued prior to then.

Source: U.S. Supreme Court Photos from the Associated Press

THE WALL STREET JOURNAL.

Justices to Weigh Right to Deny Service

BY JESS BRAVIN

WASHINGTON—The Supreme Court agreed Monday to consider whether the Constitution's religion clauses allow a bakery to deny service to gay couples.

A Colorado court found that the state's antidiscrimination laws require retail shops like bakeries to serve customers regardless of sexual orientation. But Jack Phillips, an evangelical Christian who runs the Masterpiece Cakeshop in Lakeland, Colo., contends that requiring him to decorate cakes that celebrate same-sex weddings would violate his First Amendment rights to free speech and free exercise of religion.

The grant came on the second anniversary of Obergefell

v. Hodges, the 2015 case in which the court, by a 5-4 vote, held that the Constitution provides same-sex couples the same right to marry that heterosexuals enjoy. Another decision announced Monday, requiring Arkansas to treat gay couples the same way it does straight partners when recording their children's births, suggested the court wasn't stepping back from that holding.

In general, when a child is born, Arkansas lists the mother's husband as the father, regardless of biological connection. The state refused to list a lesbian mother's female spouse as a parent when she gave birth through artificial insemination.

"As a result, same-sex parents in Arkansas lack the same

right as opposite-sex parents to be listed on a child's birth certificate, a document often used for important transactions like making medical decisions or enrolling a child in school," the court said in an unsigned opinion. "Obergefell proscribes such disparate treatment." The majority found the issue clear-cut enough that it ruled on legal filings alone.

The newest justice, Donald Trump appointee Neil Gorsuch, dissented, arguing that the law on same-sex marriage wasn't sufficiently settled to allow for summary judgment.

"To be sure, Obergefell addressed the question whether a state must recognize same-sex marriages. But nothing in Obergefell spoke (let alone clearly) to the question of

whether [the Arkansas birth certificate regulation], or a state supreme court decision upholding it must go," Justice Gorsuch wrote, joined by Justices Clarence Thomas and Samuel Alito, both of whom dissented from Justice Anthony Kennedy's majority opinion recognizing same-sex marriage.

But while Obergefell found that the Constitution provides gay couples "the constellation of benefits that the states have linked to marriage," it said nothing about their right to purchase wedding cakes or flower arrangements from their preferred vendor. That has sparked disputes involving bakers and florists who have invoked their religious opposition to gay marriage to refuse service to same-sex couples.

Gun Restrictions Won't Get Review

BY JESS BRAVIN

That responsibility for granting such licenses typically falls to the sheriffs of the state's 58 counties or to police chiefs in its cities. While some jurisdictions recognize a general desire for self-defense as an adequate reason, others require more, such as a specific threat.

Gun owners challenged such requirements in San Diego and Yolo counties, contending that when read together with statewide laws, they effectively eliminated most individuals' ability to carry firearms for self-defense

outside the home.

The Ninth U.S. Circuit Court of Appeals, in San Francisco, rejected that argument. It found no constitutional right to carry concealed weapons outside the home, and held it improper to expand the case to review California's statewide gun-regulation system.

The Supreme Court last spoke on the Second Amendment in 2010, when it extended nationwide a 2008 opinion by Justice Antonin Scalia voiding the District of Columbia's ban on handguns. Those decisions for the first

time concluded that the Second Amendment gave individuals the right to possess handguns in the home for self-defense, but left unclear the degree to which firearms otherwise could be regulated.

Pro-gun groups hoped the high court's pronouncements would be followed by rulings invalidating a raft of weapons regulations in states and cities. Instead, lower courts mostly have deferred to legislators' judgment regarding gun regulation, and the Supreme Court has turned away appeals of those decisions.



The Supreme Court declined to hear a case challenging California's concealed-gun regulations.

MARK RALSTON/AGENCE FRANCE PRESSE/GTY IMAGES

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L to R: Houston artists Patrick Renner, GONZO247, Theresa Escobedo, JooYoung Choi, Nathaniel Donnett, Trenton Doyle Hancock, Susannah Mira

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Democrats' Challenge: Middle-Class Appeal



CAPITAL JOURNAL

By Gerald F. Seib

Democrats have entered a summer of discontent, in which their disdain for President Donald Trump is matched by their frustration at an inability, so far at least, to notch an election victory that would show they can translate anti-Trump sentiment into success at the ballot box.

They are troubled most immediately by their failure to capture a seemingly winnable vacant House seat in suburban Atlanta last week. That has precipitated a round of backbiting and second-guessing, and a debate about whether the party's success lies in staking out the political center, to claim the votes of independent and moderate Republicans put off by the coarseness and unpredictability of Mr. Trump, or in moving left to capture and spread the passion of those who want a clean and sharp break from the status quo.

Democrats might want to pause, though, to consider a broader problem: Why has their hold on the middle class loosened?

This is the trend that made the Trump phenomenon possible, and that Mr. Trump in turn appears to have exacerbated. The scope of Democrats' problem is visible in the



Supporters of Democrat Jon Ossoff after the candidate failed to win a vacant, longtime Republican House seat in Georgia last week.

JOE RAEDLE/GETTY IMAGES

latest Wall Street Journal/NBC News poll. Less visible is what the party can do to reverse it.

For more than a quarter of a century, the Journal/NBC News poll has been asking Americans which party would do a better job of looking out for the middle class. In 1990, the Democratic advantage was a whopping 29 points, 47% to 18%.

By 2011, the Democratic margin had shrunk to 20 points. Now, in the latest survey, the Democratic advantage has shrunk to 13 points, the smallest gap ever.

This isn't an incidental data

point. In American politics, the middle class occupies hallowed ground that parties yearn to control. Americans with lower incomes want to become part of the middle class, and thus are drawn to the party that can pave the way there. Those already in the middle class want to be assured they won't slip backward and out of it. And at least some of those who have risen above the middle class are grateful to whichever party and policies gave them the chance to do so.

So just about every economic policy from both parties is pitched as a magic elixir for the middle class. The question for Democrats is why their pitch doesn't have the same resonance as before.

through higher insurance premiums and shrinking coverage options.

Similarly, Democratic efforts to raise the minimum wage speak more loudly to low-income Americans than to the middle class.

By contrast, middle-class worries trend more toward finding a way to buy a home and paying for college. Chicago Mayor Rahm Emanuel says one of the most politically successful initiatives he has pursued has been a program to provide tuition-free community-college educations to city high-school graduates.

Increasingly, middle-class

Health

Continued from Page One

legislation would bring stability to the individual markets.

GOP leaders have said the Senate will vote this week on the bill. They can lose no more than two Republican senators on either the "motion to proceed" to debate on the bill, which could come as early as Tuesday, or on the bill itself, expected to come up for a vote later in the week. None of the 48 members of the Senate Democratic caucus are expected to vote in favor of the bill.

Six GOP senators are now opposed to the bill and at least three have 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.

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 second-ranking Senate Republican.

The White House said in a statement: "The CBO has consistently proven it cannot accurately predict how health-care legislation will impact insurance coverage."

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: Trumppcare will lead to higher costs for less care, and will lead to tens of millions of Americans left without health insurance," said Senate Minority Leader Chuck Schumer (D., N.Y.).

Senate leaders have been working for weeks in closed-door sessions to draft a bill knocking down key parts of the ACA 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 that they opposed it in its current form. A centrist, Sen. Dean Heller (R., Nev.), announced his opposition the following day.

Ms. Collins said in 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.

lars to help stabilize the markets, eliminates a tax on health-insurance plans and works on "aligning premium subsidies with premium costs."

Anthem said it would work with "our government partners...to navigate the challenges the current bill proposes to the Medicaid program," saying it is important "to achieve the necessary funding" and access to health services for recipients.

The statement didn't address a feature of the bill that many insurers said would strongly undermine the individual market—it dumps the mandate for people to have insurance, which insurers say is

important to getting young, healthy people into the market. Many insurers say the bill's other provisions aren't strong enough to cancel out the impact of abolishing the ACA's coverage requirement.

Responding to those concerns, Republicans on Monday added a requirement that people who have a break in their coverage must wait six months to buy a new plan. That is designed to encourage people to maintain continuous coverage.

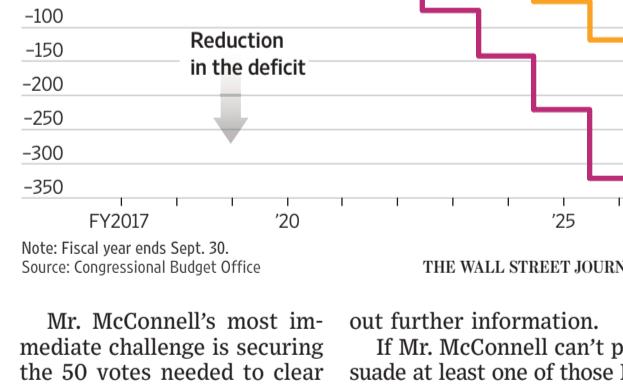
Anthem's views on the bill will be closely watched because it is a major player both in Medicaid and the ACA marketplaces.

—Anna Wilde Mathews

Bigger Savings

The GOP Senate health-care bill would reduce the federal deficit by more than \$300 billion through 2026, while the House version would cut the deficit by \$119 billion.

Cumulative effect on the deficit, in billions



Note: Fiscal year ends Sept. 30.

Source: Congressional Budget Office

THE WALL STREET JOURNAL

out further information.

If Mr. McConnell can't persuade at least one of those Republicans to change positions, the monthslong push to overhaul the ACA would collapse on the procedural vote.

Lawmakers will have little

time to digest the CBO analysis, if the vote occurs this week as planned.

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 ACA, according to the analysis.

That's 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).

Federal spending on Medicaid would be reduced by \$772 billion over 10 years under the Senate bill, compared with \$834 billion under the House bill, according to the CBO.

Republicans say the legislation is needed because the individual insurance markets under the ACA are struggling.

On Monday, Anthem Inc. said it believes that Senate bill will bolster the individual market, an endorsement that comes as many other insurers have suggested the legislation could undermine the ACA marketplaces.

The bill's reduction of the federal deficit by \$321 billion through 2026 is more than the House version, which the CBO estimated would curb the deficit by \$119 billion.

—Natalie Andrews and Richard Rubin contributed to this article.

voters also worry about job security. That's where Mr. Trump has sapped away some of Democrats' middle-class appeal, particularly with his tough trade rhetoric.

"Especially in Pennsylvania and the Midwest, there is a real belief the country hasn't stood by them," says Larry Cohen, chairman of Our Revolution, an activist group that has absorbed much of Sen. Bernie Sanders's 2016 presidential campaign. "In Iowa, somebody said to me, 'We like to make things and grow things.' Well, good luck making things today."

Part of the issue is cultural. As the Democratic Party has become more centered in urban areas and along the coasts, it has cemented its connection to younger and more highly educated Americans but has lost its appeal to some middle-class and would-be middle-class voters.

Hints of these effects lie within the Journal/NBC News poll. Belief that Democrats are the champions of the middle class is notably low in the Midwest (33%), among rural voters (31%) and among white men with less than college educations (25%). Taken together, those voters make up the core Trump constituency.

The problem as well as the potential for Democrats can be found in another set of numbers. Just 20% of self-identified political independents say Democrats do a better job at looking out for the middle class. But belief in the Republicans is almost identically low. Perhaps the Democrats' challenge is less to move left or right than to craft a message that appeals to them.

WASHINGTON WIRE

PRESIDENTIAL TWEETS

Trump Blasts Obama On Alleged Meddling

President Donald Trump lashed out Monday at his predecessor over his handling of Russia's alleged meddling in the U.S. election and he denied any collusion between his presidential campaign and Moscow.

Mr. Trump, writing in a series of statements on Twitter, also said he didn't try to obstruct the federal investigation into the matter. The GOP president wrote that "under a magnifying glass, they have zero 'tapes' of people colluding. There is no collusion & no obstruction. I should be given apology!"

It is unclear what tapes the president is referencing. Investigators recently expanded their probe into Russia's intrusion in the election and whether there was collusion with Mr. Trump's campaign to include whether Mr. Trump tried to obstruct justice, according to people familiar with the probe.

An official who worked in the Democratic administration of former President Barack Obama dismissed Mr. Trump's criticism, saying the administration took Russia's alleged involvement in the election seriously. Russia has denied any government effort to influence the U.S. election.

—Carol E. Lee

U.S. FUNDING

Local Governments Will Get More Aid

Interior Secretary Ryan Zinke said his agency would award a record \$464.6 million to more than 1,900 local governments in rural parts of the country to help offset the loss of revenue on tax-exempt federal lands in their jurisdictions.

The amount is a 3% increase over the last payout under the Obama administration, and a public signal of the Trump administration's attention to struggling rural regions that rallied around the president during his campaign.

The Obama administration also mostly increased the payments each year, but some rural communities in the West were angered by President Barack Obama's expansion and creation of national monuments that put more land in the hands of the federal government, restricting commercial activity.

—Jim Carlton

House GOP Nears Deal to Raise Defense Spending

BY KRISTINA PETERSON AND RICHARD RUBIN

WASHINGTON—House Republicans are nearing a deal on overall spending levels for fiscal-year 2018 that would boost military spending well above the limit imposed by current law.

For the fiscal year that begins in October, House Republicans are coalescing around setting base military spending at \$621.5 billion, far surpassing the \$549 billion limit under current law, in a budget

resolution that could be released and adopted by the House Budget Committee later this week, according to House GOP aides. House Republicans are likely to set nonmilitary spending at \$511 billion, which is below the limit of \$516 billion under current law.

The budget resolution, a largely symbolic document, carries unusual importance this year because Republicans plan to use it to help pass an overhaul of the tax code without Democratic support. The budget resolution will lay out

the measuring sticks and revenue targets for the tax plan, which top Republicans are trying to write now. If the House and Senate both adopt the same budget, that unlocks the so-called reconciliation procedures that can allow a subsequent tax bill to pass on a party-line vote.

While the spending levels House Republicans are mapping out are likely to change during the course of negotiations over the summer and early fall, other directions included in the budget resolu-

tion could eventually become law. Although the budget can get adopted on a party-line basis, the actual spending bills will require Democratic support to pass.

Unlike the budget resolution, which doesn't require a presidential signature, spending bills go to the White House and need 60 Senate votes. House Republicans have acknowledged that the spending levels they set in the House GOP budget are unlikely to represent the final outcome. Democrats are willing to boost

military spending, but only if matched by an increase in nonmilitary spending.

"We must provide equal relief for both defense and non-defense programs that power our local economies," Senate Minority Leader Chuck Schumer (D., N.Y.); Sen. Patrick Leahy of Vermont, the top Democrat on the Senate Appropriations Committee; and Sens. Dick Durbin of Illinois, Patty Murray of Washington and Debbie Stabenow of Michigan wrote to Senate GOP leaders in a letter Monday.

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WORLD NEWS

Brazil's Leader Charged With Corruption

Congress must vote to approve a trial for President Temer; he denies wrongdoing

BY PAUL KIERNAN
AND PAULO TREVISANI

BRASÍLIA—Brazil's top prosecutor filed criminal charges against President Michel Temer on Monday, marking a critical new phase for the corruption crackdown that has roiled Latin America's largest country for the past three years.

Attorney General Rodrigo Janot brought charges of corruption against Mr. Temer, alleging the leader took about \$150,000 in bribes from the former chairman of meatpacking giant **JBS SA**, the world's biggest meatpacker.

According to former **JBS** Chairman Joesley Batista, Mr. Temer led a group of politicians that acted as a criminal syndicate, charging bribes in exchange for financing from state banks and favorable regulatory actions.

"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.

Two-thirds of Congress



JOSEON ALVES/ZUMA PRESS

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

must vote to allow the case against Mr. Temer to go to a trial, which would occur before the country's Supreme Court. 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.

Launched in 2014, the so-called Operation Car Wash has expanded from a narrow money-laundering probe into Brazil's most significant anti-corruption 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 begin-

ning 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 testified.

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 as 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.

Brazil's electoral court, known as the TSE, this month acquitted Mr. Temer on charges of receiving illicit campaign funds in the 2014 election, a case that could have forced him from office. To reach its ruling, the court tossed out evidence from Car Wash showing that the campaign had taken clandestine money from Mr. Odebrecht's firm.

"You can't replace a president every hour, even if you want to," TSE President Gilmar Mendes said as he cast the tie-breaking vote to absolve Mr. Temer.

—Luciana Magalhaes contributed to this article.

U.S. Sees Signs Syria Preparing For Attack

BY FELICIA SCHWARTZ

WASHINGTON—The Trump administration on Monday said it detected what may be preparations by the Syrian government for a chemical attack and warned that the country's ruler and military would "pay a heavy price" if they carried out a strike.

The White House said the Syrian government is undertaking activities similar to those before an April chemical weapons attack in Idlib province that killed more than 80 people.

U.S. forces later fired almost 60 Tomahawk missiles at a Syrian air base linked to the attack. Those strikes took place as President Donald Trump was hosting Chinese President Xi Jinping in Florida.

"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," press secretary Sean Spicer said late Monday in a statement.

He said the U.S. is engaged in Syria to eliminate Islamic State, but warned that if Syrian President Bashar al-Assad conducts another attack using chemical weapons, "He and his military will pay a heavy price."

Trump administration officials have signaled since the April strike that the U.S. would be willing to take additional military action in response to further chemical weapons use.

Since the attack, the U.S. has had a series of confrontations with pro-regime forces in Syria that have put American forces increasingly at risk of direct confrontation with Mr. Assad and his allies Russia and Iran.

The U.S. ambassador to the U.N., Nikki Haley, said on Twitter Monday that Russia and Iran would bear responsibility for future attacks by the Syrian government. U.S. officials had accused Russia of covering up the April 4 attack.

"Any further attacks done to the people of Syria will be blamed on Assad, but also on Russia & Iran who support him killing his own people," she said.

Trump and Modi Move to Bridge Divisions

BY CAROL E. LEE
AND ELI STOKOLS

WASHINGTON—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-



CARLOS BARRIA/REUTERS

Prime Minister Narendra Modi leading the Indian delegation at the White House on Monday.

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 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. The president 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.

—William Mauldin contributed to this article.

China Releases Dissident After Cancer Diagnosis

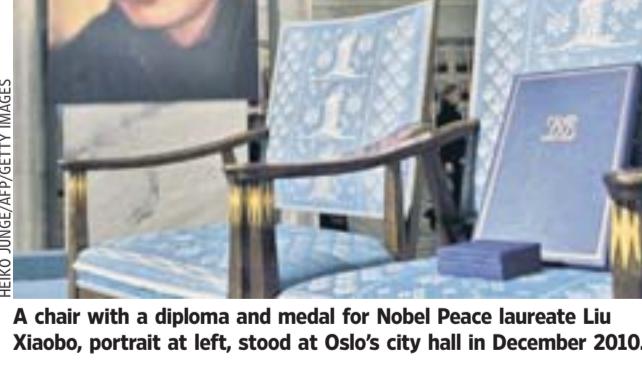
BY JOSH CHIN
AND TE-PING CHEN

BEIJING—Chinese Nobel Peace laureate Liu Xiaobo was released from prison on medical parole, more than seven years into a sentence that drew wide Western condemnation but that ultimately has had few negative consequences for China.

Mr. Liu, 61 years old, was determined to be in the final stages of liver cancer on May 23 and was receiving treatment at a hospital in the northeastern city of Shenyang, said his lawyer, Mo Shaoping, citing a conversation with Mr. Liu's family members.

The Liaoning Prison Administration Bureau confirmed that Mr. Liu had been released in a statement posted late Monday. It said eight noted cancer experts had been assigned to treat him.

A poet and literature professor, Mr. Liu was detained in late 2008 shortly after he led the drafting of a pro-democracy manifesto that spread widely in Chinese intellectual circles. He was declared guilty on Christmas Day of the following year



A chair with a diploma and medal for Nobel Peace laureate Liu Xiaobo, portrait at left, stood at Oslo's city hall in December 2010.

and sentenced to 11 years imprisonment. Writers including Salman Rushdie and Margaret Atwood lobbied for his release.

In 2010, Mr. Liu was awarded the Nobel Peace Prize, a move that deeply angered China, which described Mr. Liu as a "criminal." Mr. Liu's wife, Liu Xia, has since been under house arrest.

In a smartphone video posted to the WeChat instant messaging app by a family friend on Monday, Ms. Liu ap-

pears distraught over news of her husband's illness. "He can't undergo surgery, or do chemotherapy or radiation therapy," she says in tears.

Those in the human-rights community who hoped global condemnation would pressure China into softening its treatment of political dissidents have been disappointed.

"The world community has largely forgotten Liu Xiaobo," said Jerome Cohen, director of the U.S.-Asia Law Institute at

New York University. He said Mr. Liu's fate was a sad reminder of longstanding oppression in China.

In the years since Mr. Liu was arrested, Beijing has seen its international clout grow. Chinese investment has poured into Africa, across Asia and elsewhere and Beijing has become more assertive about wielding that economic influence to further strategic interests. Criticism of its imprisonment of Mr. Liu and other

dissidents has grown fainter.

A spokesman for China's Foreign Ministry said on Monday that he wasn't aware of Mr. Liu's situation.

Mr. Liu participated in the 1989 pro-democracy demonstrations on Tiananmen Square, and wrote extensively about them after China's military was called in to crush them. "The day seems more and more distant and yet for me it remains a needle inside my body," he wrote in a poem years later.

Relations between Beijing and Oslo only recently thawed after Norway made concessions, including Prime Minister Erna Solberg's decision not to meet with the Dalai Lama, whom Beijing considers a dangerous separatist, when he visited the country in 2014.

Norway's Foreign Ministry didn't respond to a request to comment on Mr. Liu's release. An official at the Norwegian Nobel Institute said the committee that awards the Nobel Peace Prize hadn't issued any comment about Mr. Liu.

—Josh Chin

WORLD NEWS

Exiled Syrians Cruise Down Memory Lane

By NOUR MALAS

party environment."

Mr. Abdul Ghani began the cruise in 2015 with dual aims: to bring Syrians who fled the war to Turkey together and to draw other Arabs enchanted by Syria's cultural traditions but now also locked out of the country.

The boat's advertising slogan for the Muslim holy month of Ramadan was "our joy is in being together," a jingle that rhymes in Arabic. The cruise has been packed throughout the holy period, which ended on Saturday, due to a discounted price and the lure of traditional entertainment.

On a recent evening, Syrian entertainers dressed in baggy shirwal pants roamed the boat twirling their theatrically upturned mustaches, a throwback to when such facial hair was the measure of a man's dignity and authority.

A hakawati, or storyteller, regaled the audience with morality tales, evoking traditional wise men of Damascus. A three-piece band sang classic Arabic tunes as guests dined on specialties from Homs and Aleppo.

"This was a challenge for us," said Ahmad Abdul Ghani, the business's 33-year-old founder.

"We put our heads together

and decided the best way

would be to focus on folklore

and culture, rather than a



Musicians and a whirling dervish perform for passengers on the 'Syrian Nights' cultural cruise on Turkey's Bosphorus Strait.

FURKAN TEMIR/VII MENTOR PROGRAM FOR THE WALL STREET JOURNAL

party environment."

Mr. Abdul Ghani began the

cruise in 2015 with dual aims:

to bring Syrians who fled the

war to Turkey together and to

draw other Arabs enchanted

by Syria's cultural traditions

but now also locked out of the

country.

To the beat of drums and folkloric processions, Syrians looking to escape from the grim reality of their nation's war glide down memory lane on the "Layali Shameyah," or "Syrian Nights" cruise in Istanbul.

But there are implicit ground rules. Politics are checked at the dock, with no talk of rebels or the regime, say the Syrian entertainers on board, who hail from different political backgrounds. And out of sensitivity to the war's tragedy, the organizers make an effort to curb the debauchery common to Istanbul's party-boat scene.

"This was a challenge for us," said Ahmad Abdul Ghani, the business's 33-year-old founder.

"We put our heads together

and decided the best way

would be to focus on folklore

and culture, rather than a

Ruba Khawaja, who left Damascus two years ago with her three school-age children, snapped selfies. "This is a way to remember the good old days," she said. "It's important to get out of our pain."

The cruise isn't without controversy. Another family from Damascus watched the entertainment disapprovingly, without standing or clapping, saying Ramadan was a time of reflection and austerity.

On a Facebook page for the cruise, some Syrians called it expensive and inappropriate.

One Turkish user wrote that the Syrians should "go home."

Half of Syria's prewar population of 23 million has been displaced since 2011 when the war began, and around three million now live in Turkey, more than in any other nation. Turkey has proudly embraced the newcomers, even as both sides acknowledge mutual weariness in a war with no end in sight.

The cruise staff tout their accomplishments. The business gives jobs to dozens of Syrians who had otherwise

struggled to find work in Turkey, they say, and it has reaffirmed apolitical cultural pride among exiled Syrians.

"It caught people's attention," Mr. Abdul Ghani said, who left Damascus in 2013. It shows that "Syrians aren't just here as refugees."

The four-hour cruise's regulars, who can afford the normal \$50 per person fee, include Arab tourists and wealthier Syrian families. There also is a younger crowd for which the evening is a splurge, but also a catharsis.

Young Syrians like Mohammed Fadel, who left his family behind in Aleppo, stomp and sing the night away. Mr. Fadel initially struggled to learn Turkish and settle in when he arrived here four years ago, but now works at two jobs, as a paralegal and as a translator.

"I miss my country. I miss my family," he said, catching his breath and mopping his brow after dancing with friends from his hometown. "But at the same time, I am happy we are gathered together here."

Germany Bars Entry to Erdogan's Guards

By ANDREA THOMAS

many, two North Atlantic Treaty Organization allies that have clashed repeatedly in recent months.

Police in Washington, D.C., issued arrest warrants for a dozen members of the Turkish president's security team two weeks ago after they allegedly became involved in an assault on demonstrators outside the Turkish ambassador's residence at the margins of Mr. Erdogan's visit.

"We were told the German

government had informed Turkey that these are persona non grata," a German lawmaker said, adding that the information had been provided by the government at a closed-door meeting of the lower chamber's home affairs committee on Wednesday.

Turkish officials didn't respond to requests to comment.

Germany is hosting a summit of the Group of 20 largest economies on July 7 and 8 in

Hamburg. Security officials said last week they were concerned Kurdish sympathizers of the banned PKK separatist group might join protests.

The German Foreign Ministry declined to comment on the government's decision but said it expected Mr. Erdogan not to travel with those members of his security entourage who faced U.S. arrest warrants.

—Ned Levin in Istanbul contributed to this article.



Turkish security guards clashed with protesters in the U.S. last month.

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CHINA

Continued from Page One
behave at work, in public venues and in their financial dealings.

China's technology companies are helping lead the way, scooping up unprecedented data on people's lives through their mobile phones and competing to develop and market surveillance systems for government use.

Facial-recognition technology is one of the most powerful new tools in the surveillance arsenal. Fueled by advances in artificial intelligence, these systems can measure key aspects of a face, such as distance between the eyes and skin tone, then cross-reference them against huge databases of photographs collected by government agencies and businesses and shared on social media.

Other countries also have begun experimenting. In the U.S., the Federal Bureau of Investigation uses the technology to help identify criminal suspects, and the Department of Homeland Security is deploying it in airports to track when foreign visitors leave the country. Its use is expected to grow worldwide as a tool for law enforcement and personal identification, and U.S. companies are among those using it in pilot programs.

Influencing behavior

China, however, stands apart in harnessing facial recognition as a cudgel to influence behavior. The Chinese Ministry of Public Security—its national police force—and other agencies called in 2015 for the creation of an "omnipresent, completely connected, always on and fully controllable" nationwide video-surveillance network as a public-safety imperative. In a policy statement, the agencies included "facial comparison" in a list of techniques to be used to improve surveillance networks.

"These security steps appear in American movies," said Xie Yinan of Megvii Technology Inc., a Chinese tech startup that sells facial-recognition systems to private and public enterprises. "But in China, it's actually being used in real life."

Chinese government agencies including the public-security ministry, the central planning agency and the ministry in charge of information technology either declined to comment or didn't return calls.

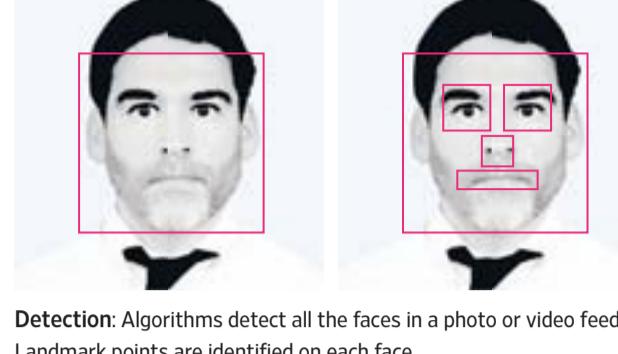
On Chongming Island near Shanghai, a new running course has been outfitted with a facial-recognition system to ensure runners don't take shortcuts through the foliage during timed competitions, said Chen Zhixian, a manager at the company that built the track.

Jogger Chen Xiang, 42, said he was aware of the system but wondered why it was needed. "Running is an activity, and we're just out here to have fun," he said.

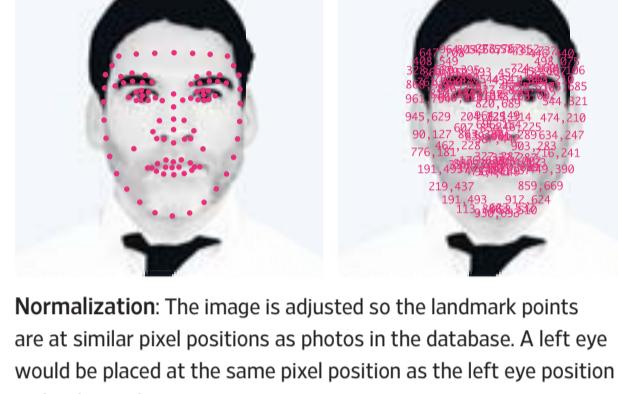
Facial-recognition cameras are being used in China for routine activities such as gaining entrance to a workplace, withdrawing cash from an ATM and unlocking a smartphone. A KFC restaurant in Beijing is scanning customer faces, then making menu suggestions based on gender and age estimates. One popular park in the capital has deployed it to fight toilet-paper theft in restrooms, using face-scanning dispensers

How Facial Recognition Works

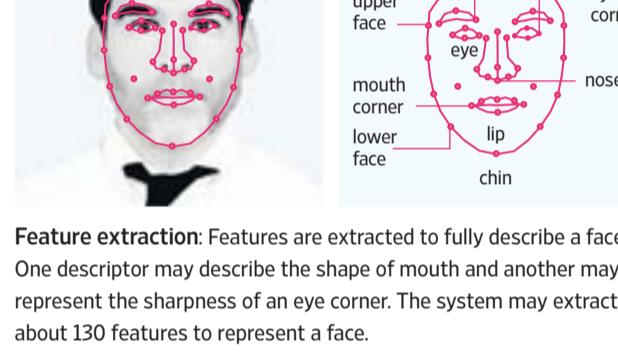
How an algorithm works to identify a face within an image and draw conclusions about a person's identity.



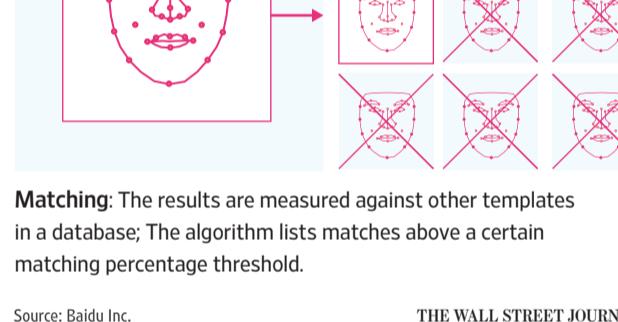
Detection: Algorithms detect all the faces in a photo or video feed. Landmark points are identified on each face.



Normalization: The image is adjusted so the landmark points are at similar pixel positions as photos in the database. A left eye would be placed at the same pixel position as the left eye position in database photos.



Feature extraction: Features are extracted to fully describe a face. One descriptor may describe the shape of mouth and another may represent the sharpness of an eye corner. The system may extract about 130 features to represent a face.



Matching: The results are measured against other templates in a database; the algorithm lists matches above a certain matching percentage threshold.

Source: Baidu Inc.

THE WALL STREET JOURNAL.

that limit each person to one 2-foot length of paper every nine minutes.

A world where everyone can be tracked by their face wherever they go is still a long way off, and will require much better algorithms and cameras than currently exist, said Anil Jain, the head of Michigan State University's Biometrics Research Group.

China is moving in that direction, abetted by a vast surveillance network. Industry researcher IHS Markit Ltd. estimates China has 176 million surveillance cameras in public and private hands, and it forecasts the nation will install about 450 million new ones by 2020. The U.S., by comparison, has about 50 million.

It isn't known how many cameras in China are enabled for facial recognition, but any high-definition camera can potentially be linked to such a system.

The sprawling camera network has spawned anxiety in

some quarters. One night in early May, government cameras in the coastal city of Wenzhou kept watch as dozens of people filed into a Protestant church for an emergency meeting called following the installation of the cameras near and inside the church compound the previous month.

The growing appeal of religion in China has unsettled the country's officially atheist leadership. Three years ago, authorities began removing crosses from many places of worship in Wenzhou, and last year China's State Administration of Religious Affairs ordered major churches, mosques and temples to be "fully covered" by surveillance cameras. Cameras were installed at the Wenzhou church holding the meeting and at others, including some trained on pews.

In an interview before the meeting, the pastor said local authorities told him the video feed went to police headquarters. "I assume the cameras

hand. His response: "Don't you have food at home?"

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"Not reaching when reaching is expected is a kind of reverse power play," said Chase Amante, founder of Girls Chase,

which is several centuries outdated and connotes ownership, said Julia Long, a sociology lecturer at Anglia Ruskin University who specializes in feminist theory.

Ms. Zandamela, who considers herself a feminist, said that since women still tend to earn less than men, it isn't unreasonable for guys to cover dinner and a movie.

Some men say they expect to cover the check on a first date, but still hope the woman will reach. "You don't want to feel like you're being used," said Amir Nobakht, a medical doctor in Los Angeles.

He said his guest on a recent date ordered two entrees—pasta to eat at the restaurant and a grilled fish to go. When she went to the bathroom, he asked for separate checks, he said. "I always pay on the first date, but you have to draw the line somewhere."

The practice of a man paying on a date is a relic of chivalry



An electronic sign in Shenzhen shows faces of people caught jaywalking by surveillance cameras.

have facial recognition. Why wouldn't they?" he said. "I have Communist Party members and prominent business owners in my congregation. If they think their faces are being scanned when they walk through the door on Sunday, of course they're going to stop coming."

Police authorities in Wenzhou declined to comment on church surveillance.

Elsewhere in China, an outspoken government critic said in an interview he had been tracked and detained by police while traveling in southwestern China despite taking steps to cloak his whereabouts by using an anonymous SIM card in his phone and traveling on a fake ID.

Police refused to say how they found him, he said, but in previous encounters authorities told him they had facial-recognition systems. Local police once even bragged about their ability to track him, he said. "They told me that whenever I walked through certain intersections, a computer system would alert them to my location," he said.

Facial recognition works by breaking down a face into a series of measurements and using them to create a template that can then be compared with others in a database.

Early systems could only compare two photos taken in relatively ideal conditions. The application of artificial-intelligence techniques such as deep learning, which uses software to mimic the way neurons in the brain process information, has revolutionized the technology. Algorithms can now pick out and manipulate patterns on their own, making it easier to detect and identify faces turned to the side, smiling or frowning, or weathered by age.

Data trove

China has access to immense amounts of data—photos uploaded by the country's more than 700 million internet users and a centralized image database of citizens, all of whom must have a government-issued photo ID by age 16.

This year, China set up a government-funded laboratory to push the development of facial recognition and other forms of artificial intelligence. China hopes to become a leading innovator in those technologies.

"The things we've been able to do in this space surprise me, and I've been in this business a long time," said Lin Yuqiong, a computer scientist for internet search company Baidu Inc. and a member of the team

overseeing the lab.

The Chinese startups say their best customers are local police bureaus, which are under pressure from central authorities to identify and squelch threats to social stability.

At a recent security-equipment conference in Chengdu, displays of facial-recognition systems were popular. At one booth, a promotional video by Intellifusion Technology Co. showed a police officer directing a squadron of facial-recognition drones for crowd surveillance. "That's a little ways into the future," said Huang Fan, a marketer for Intellifusion, the company that installed the jaywalking-detection system in Shenzhen.

The company's current systems can track an individual's movements inside a building through facial recognition and alert authorities if that person attempts to access restricted floors.

In May, facial-recognition systems were used at the Belt and Road Forum hosted by President Xi Jinping in Beijing to promote old Silk Road trade routes. At entrances to the event, paramilitary police stood next to face-detecting video consoles linked to cameras trained on the doors.

"It's really advanced," a

checked against a list of criminal and terror suspects. Police were alerted each time the system found a match, leading to the detentions of more than 60 people over a month, according to tallies from the companies.

Police in Hangzhou, Chongqing and several other cities identified by companies and state media as using facial recognition didn't respond to requests for comment.

For 33-year-old Fu Gui, the technology proved life-changing in a positive way. He was 6 years old when he was kidnapped from his village in Chongqing and sold to a family in faraway Fujian province, according to Fu Guangyuan, his aunt and caretaker at the time he was abducted. Years later, he provided his photo at age 10 to a nonprofit group that reunites stolen children with their families. His aunt says she contacted the same group a few years later, submitting a photo of Mr. Fu at age 4.

Early this year, the nonprofit got access to Baidu's facial-recognition program, which matched Mr. Fu's photos.

"I immediately called his father," Ms. Fu recalled. "Fu Gui's dad didn't even believe me. He had given up hope." Mr. Fu, who was reunited with his family, declined to comment.

Developers of facial-recognition systems also pitch them as an alternative to keys, credit cards and ID cards.

China Merchants Bank allows customers to scan their faces instead of using bank cards to withdraw money from about 1,000 ATMs. A mobile affiliate of Ping An Bank uses facial recognition to authenticate a borrower or investor's identity over the internet.

A national facial-recognition system is still years away, but state-run media reports that Chinese police departments already are making arrests using the technology. At least five cities are using it to identify jaywalkers.

Jaywalkers in China are typically subject to small fines, but authorities in the southwestern city of Fuzhou are using facial recognition to identify offenders. Authorities have published the names of jaywalkers in local media and have said they notified the employers of certain offenders.

Jiang Hui, a young Fuzhou resident, recently rode his electric scooter through a red light at a crosswalk. He said discouraging jaywalking is reasonable. "But sending the information to your company?" he said. "What are they going to do with it?"

—Kersten Zhang in Beijing and Junya Qian in Shanghai contributed to this article.

DATE

Continued from Page One

able moments, until she ponied up cash for both tickets, plus popcorn and sodas.

"It was so awkward," she said. "Who makes you pay on your birthday?"

Alex Paull, 19, said she recently went on a date with a man she met on Tinder and chose not to reach for the check since he had picked the place and initiated the date.

After the man took her home, he sent her a \$20 invoice via the mobile-payment app Venmo for her portion of the meal, she said. The West Virginia University student said she blocked him on Venmo and didn't pay the bill.

On Grindr, a dating app primarily for gay men, people are often opting for cheaper dates, such as coffee and cocktails, said Byron Norton-Wolf, a 51-year-old in Orlando, Fla.

It is a "good thing" when

both people do the reach at the same time, the singing waiter said, though he added age can be a determinant on same-sex dates. "The person who doesn't reach is usually younger."

One of his dates circumvented the whole process. Before the check arrived, he went to the restroom and said he would be waiting outside.

The rules aren't complicated, according to etiquette experts. "If you invite, you pay," said Diane Gottsman, author of *Modern Etiquette for a Better Life*.

"But the reality is that the other person may not know the rules or realize it's a date."

Alexz Poole, a 30-year-old lawyer, said that since moving to New York four years ago, she has noticed a gradual change. At first, her dates would typically intervene and pay the bill, she said, but over time she ended up covering more than her fair share.

At a recent drinks meetup, she asked her date if they were planning to order food since they hadn't specified before

hand. His response: "Don't you have food at home?"

Thanks to the growing number of online dating services, the economic dynamics of playing the field have changed. According to analysis conducted by Deutsche Bank, paying for two people in New York or San Francisco to go to a movie and have a meal, plus a few beers and taxi rides, comes to about \$130. Three of those a week can cost more than \$20,000 a year.

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GREATER NEW YORK



Jamal Alghamim, a participant in the Geriatric Career Development program, checked Margaret Duhme's pulse at the New Jewish Home.

Teens Tapped as Elderly Caregivers

By MELANIE GRAYCE WEST

Learning to dress, bathe and feed older adults might not be every high-school student's idea of fun. But for a group of New York City teenagers participating in an unusual workforce development program, a few weeks of hard work now could pay off in a big way later—with a job.

The year-round program at the New Jewish Home, an elder-care nonprofit with headquarters in Manhattan, trains teens to work in a nursing home, while providing mentoring, school tutoring, college prep and life-skills training.

The free program, called Geriatric Career Development, has dual goals: Teens get a pathway

The ratio of people aged 18 to 64 compared with the population 65 and over is expected to decline from 4.31 in 2015 to 3.05 in 2030, according to the New York State Office for the Aging.

There already is a shortage of skilled workers to fill entry-level positions caring for older adults, experts say. Those jobs generally start at minimum wage. "Unless we start getting creative about how we provide care and getting people in the workforce, we are going to have a real problem in the next 10 years," said Ami Schnauber, vice president of advocacy and public policy at LeadingAge.

Elsewhere, organizations serving elders will offer signing bonuses, flexible hours and additional education opportunities to attract and retain employees.

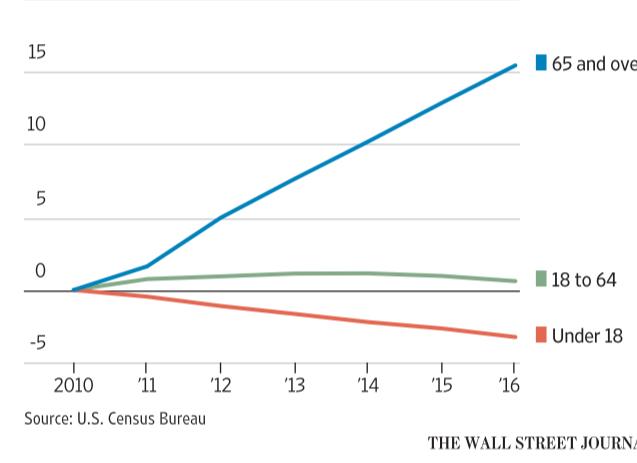
For a senior like Ashley Salgado-Almazan, a 17-year-old who lives in the Bronx, the training program at the New Jewish Home offers an opportunity, she said, to pursue a career in medicine or business.

The New Jewish Home spends some \$5,000 annually per teen, with private philanthropy covering additional costs. There are 57 students participating in Ms. Salgado-Almazan's class this year; more than 500 students have completed the Geriatric Career Development program since its inception in 2006, according to a spokeswoman for the New Jewish Home.

The program accepts New York City public-school students beginning in the sophomore

Graying

Change in New York state population, by age



Source: U.S. Census Bureau

THE WALL STREET JOURNAL.

year and of any academic level, as long as there is genuine interest to work in the field and to graduate high school.

Over the years, almost every student in the program has graduated from high school, and 94% are enrolled in college or employed, with some going to work for the New Jewish Home, a New Jewish Home official said.

Audrey Weiner, chief executive of the New Jewish Home, said the overall hope is to create a pipeline of people with skills to do the work, but also encourage "others to work toward more highly skilled and high-paying positions...as doctors, nurses and physical and occupational therapists, also needed to care for the growing number of older adults."

3.05

Expected ratio of people aged 18-64 to those 65 and older in 2030

to a career, and the New Jewish Home has a supply of workers in an industry where there is exploding demand.

More elder-care workers will be needed as baby boomers start hitting their 80s about a decade from now, according to LeadingAge New York, an advocacy group. At the same time, the availability of younger New Yorkers to provide formal and informal care will be at its lowest point, and on the decline.

Rabbi, 7 Others Charged With Fraud

By LESLIE BRODY

Four couples were arrested in Lakewood, N.J., Monday on charges of defrauding Medicaid and other public-assistance programs, authorities said.

A spokesman for the Ocean County Prosecutor's Office said the arrests were the first in a crackdown on financial abuse of public aid in Lakewood, and more than a dozen more arrests are expected in coming weeks.

 **Mordechai Sorotzkin and his family allegedly got \$96,000 in illegal benefits.**

One of those arrested, Rabbi Zalmen Sorotzkin, runs the Congregation Lutzk synagogue. None of those charged could be reached for comment.

About 96,500 people live in the township, which has seen an influx of Orthodox Jewish families. Many households rely on public assistance.

Prosecutor Joseph D. Coronato's office said the arrested couples collected a total of about \$1.2 million in housing, health and food benefits by understating their incomes.

Man Sent To Prison Over Guns

By CORINNE RAMEY

A North Carolina man was sentenced to 10 years in prison Monday for his role in trafficking 33 guns from his home state to Brooklyn.

Marcus Gamble, 24 years old, pleaded guilty to first-degree criminal sale of a firearm last month. He was one of two dozen suspects arrested in March in an interstate gun-trafficking ring that brought 217 weapons into New York City, the authorities said.

"Today's sentencing is further evidence of our commitment to stop illegal guns from being sold on the streets of Brooklyn," said Eric Gonzalez, the acting Brooklyn district attorney. "Lax gun laws down South are responsible for most of the guns used to commit crimes here."

An attorney representing Mr. Gamble didn't respond to a request for comment.

Prosecutors said that on two occasions in December, Mr. Gamble sold an undercover officer a total of 25 guns for about \$27,000. He was arrested before a third sale, prosecutors said. Some of the weapons were purchased legally in North Carolina and others were stolen, the added.

Labor Deal Will Reduce State Deficit

By JOSEPH DE AVILA

Connecticut Gov. Dannel Malloy's administration reached an agreement with public-sector unions that includes a three-year wage freeze and other concessions to help close the state's budget deficit, the governor's office said Monday.

Under the preliminary deal, state employees would be required to chip in more for retirement and health care. In exchange, the state promised not to lay off any union workers for four years and to extend health and retirement benefits through 2027.

"It is clear that the gains our unions have made in the past are at significant risk," the state's largest public-sector union, Council 4 of the American Federation of State, County and Municipal Employees, said in a statement. "These agreements provide a level of security for members, our families, co-workers and the public we serve in a time of great uncertainty."

Mr. Malloy threatened thousands of public-sector layoffs unless the unions agreed to \$700 million in concessions for the fiscal year that begins Saturday.

The deal would save the state \$24 billion during the next 20 years, according to an analysis from the administration's pension and health-care consultants.

"Connecticut's state budget needs serious people willing to make serious change," Mr.



Connecticut Gov. Dannel Malloy

Malloy said. And union leadership "has answered the call."

The rank-and-file members of 34 bargaining units must now vote on the agreement in the coming days. Council 4 Afscme urged its members to endorse the accord.

Connecticut has less than a week to strike a budget deal as it seeks to eliminate a \$5.1 billion deficit for the next two fiscal years.

The Malloy administration has taken preliminary steps to keep the state government running in case lawmakers fail to pass a spending plan by Friday evening.

Republicans in Hartford, the state capital, criticized the agreement for not pushing unions far enough. Senate Republican President Pro Tempore Len Fasano had proposed seeking even more savings though additional collective-bargaining negotiations.



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GREATER NEW YORK

Cricket Bars, the Next Big Food Trend?

BY CHARLES PASSY

Some products that could be coming soon to your favorite food retailer: Mini bagels shaped almost like tennis balls, cheesecake stuffed inside ice cream-style cones and a delicately flavored beverage derived from unroasted coffee beans.

Oh, and don't forget the protein bars made from ground-up crickets.

Those are some of the tens of thousands of items ready for sampling at the Fancy Food Show, running at the Jacob K. Javits Convention Center in Manhattan through Tuesday. The annual show, considered one of the largest gourmet-trade events in the world, is organized by the New York-based Specialty Food Association.

The 63-year-old event attracts a dizzying array of about 2,600 exhibitors from 46 countries. Their goal: To convince the estimated 25,000 attendees—mainly buyers for gourmet and other food markets—to carry their products. The show is closed to the general public.

For the most part, vendors showcase standard gourmet fare. Think imported cheeses, high-end olive oils and chocolates of all kinds. The show also has acquired a reputation for featuring quirky treats that may, or may not, be the next big thing in food.

Like those protein bars made from crickets. They come courtesy of Nutribug, a British company that touts the health benefits of eating insects, which indeed are high in protein and low in carbohydrates.

Such bug-derived foods

could be "very popular with people trying to bulk up on muscle," said David Binns, a managing partner with the company on hand for the show.

The stakes can be high in this world of fancy food. U.S. sales of gourmet products climbed by 15% during the last two years, reaching \$127 billion in 2016, according to the Specialty Food Association.

But to have a shot at retail success, the makers of gourmet products often feel compelled to have a presence at the Fancy Food Show, where exhibit space starts at \$3,400 for the smallest booth, about 100 square feet, and can quadruple that for larger spaces. Admission starts at \$55.

For attendees, the event isn't just about considering what to carry in their stores. It is something of a foodie haven, an all-day noshing affair in which one could make a meal of all those samples.

Ken Blanchette, a sourcing director for online grocer Fresh-Direct, says he comes to spot trends. A big one this year, he notes, is a new wave of Asian products, from spicy Korean sauces to an organic ramen mix.

Still, the Javits Center keeps its regular food vendors, who sell everything from gourmet coffee to burgers, open during the show. It is a point that at least goes appreciated by Betsy Schwartz, a marketing executive with the Specialty Food Association.

While she relishes what exhibitors showcase at the convention, she said, "Sometimes you just want to sit down and have a sandwich."



Samuel Flax, top right, of Sunup Green Coffee, talked about the product at the Fancy Food Show at the Jacob K. Javits Convention Center in Manhattan. Below, Aunt Butchie's cheesecake cones and Nutribug's insect snacks also were featured at the annual event.



MARK KAULZLICH FOR THE WALL STREET JOURNAL (3)

Candidate Talks Trash—and Other Quality-of-Life Issues

BY MIKE VILENSKY
AND MARA GAY

New York City Mayor Bill de Blasio has spent much of 2017 pushing broad programs he says will create a more equitable city. Assemblywoman Nicole Malliotakis wants to talk about trash.

"Litter, big issue," Ms. Malliotakis said in a recent interview, noting her concerns about the city on Mr. de Blasio's watch. That list also includes public urination, rising utility bills, subway delays and traffic congestion. "The hardworking people of this city are fed up," she said.

Ms. Malliotakis, a 36-year-old Republican, is focusing her race to become the next mayor of New York City on quality-of-life concerns, homing in on a potential vulnerability for Mr. de Blasio. Her campaign is resonating strongest on Staten Island, her home borough, where many of its roughly 500,000 residents contend the city's left-leaning officials often neglect them.

College of Staten Island. "No matter how hard he tries, they just won't let him into their hearts."

A spokesman for the de Blasio campaign, Dan Levitan, disputed that quality of life has declined on the mayor's watch. "New York City has expanded graffiti removal, sidewalk washing and litter basket service," he said. Mr. Levitan also noted Mr. de Blasio's efforts for Staten Island, including new ferry access, repaved roads and programs to combat a heroin epidemic.

But her campaign is bringing to the fore a criticism of Mr. de Blasio's management capabilities that has dogged him during his first term, and may continue to in a second, analysts said. In the process, Ms. Malliotakis may solidify her appeal at home, which could help with any future campaigns.

"Hammering de Blasio is a good way to set yourself up on Staten Island," said Richard Flanagan, an associate professor of political science at the

Staten Island's conservative voters are a sliver of the city's roughly five million registered voters, and Ms. Malliotakis faces a steep uphill climb trying to topple an incumbent Democrat. In an increasingly liberal city, Democrats hold a roughly six-to-one advantage.

But her campaign is bringing to the fore a criticism of Mr. de Blasio's management capabilities that has dogged him during his first term, and may continue to in a second, analysts said. In the process, Ms. Malliotakis may solidify her appeal at home, which could help with any future campaigns.

"Anyone who's spent time with her realizes the sky's the limit for her political career," said Republican Assembly Minority Leader Brian Kolb.

Ms. Malliotakis's run is the latest move in her political climb. Though she sits in a minority conference in the state Assembly and has few levers of power, she has used her bully pulpit to push ethics measures and criticize Democrats.

"She clearly is out of touch," said City Council Speaker Melissa Mark-Viverito, a Democrat.



The campaign of Republican Nicole Malliotakis is hitting a potential vulnerability of Mayor Bill de Blasio.

Ms. Malliotakis took office in 2011, and is touted by conservative strategists as diversifying the GOP and bringing in younger people. She also has clashed with Democrats and some moderate Republicans in Albany and City Hall, who say her record is thin, and her positions are too far right for New York.

They point to her vote against gay marriage, which passed the New York Legislature in 2011, and her lawsuit to stop the mayor from destroying identification-card records that could be used by federal officials to find illegal immigrants.

"She represents a [President Donald] Trump point-of-view...and that definitely is not aligned with the values of this city."

Ms. Malliotakis said Ms. Mark-Viverito is a "radical" and that being considered too conservative by the speaker is "the best endorsement I can receive."

Bradley Tusk, an independent political strategist who has worked to defeat the mayor, said: "Voters care about quality of life so she's on the right track. But it is very rare to see an incumbent lose unless there's a public-safety crisis...or they're mortally wounded by a scandal."

Nicole Malliotakis

- ◆ Age: 36
- ◆ Born: Manhattan
- ◆ Raised: Staten Island
- ◆ Family: Parents are Cuban and Greek immigrants
- ◆ Graduated: Seton Hall University
- ◆ Career: Former aide to Gov. George Pataki;
- ◆ New York state Assembly 2011

GREATER NEW YORK WATCH

TRENTON

Salary-History Bill Goes to Governor

New Jersey lawmakers passed a bill Monday that would bar employers from asking about salary history, a move supporters say is intended to close the wage gap between men and women.

After passing the Democratic-controlled state Senate, the measure advanced to Republican Gov. Chris Christie, who will decide whether it becomes law.

Proponents said the measure could help ensure that bosses make salary decisions based on an applicant's merits, not what a person earned in an earlier job.

A spokesman for the governor's office said they don't comment on pending legislation, when asked if Mr. Christie intended to sign the bill into law.

Officials said full-time female workers made 80 cents for every dollar a man made in 2015.

—Associated Press

Swiss Center Gets Jersey Welcome



TASTE OF THE TOWN: Devil Nico Hischier, the first pick in the NHL draft, has a sandwich named after him at a Newark deli Monday.

NEW YORK STATE

Lost Medal Returned To Family of W.W.I Vet

A long lost Purple Heart medal awarded to a World War I veteran wounded in a gas attack has been returned to his family near Syracuse.

Vermont-based Purple Hearts Reunited said the medal belonged to Cpl. Everett Jesse Proper, who was born in 1894 in a Catskill Mountains town.

He served with the U.S. Army's 77th Infantry Division in France, where he was gassed in August 1918.

Mr. Proper survived the war and died in 1981.

—Associated Press

LONG ISLAND

Body of Missing Kayaker Recovered

Police say the body of a Long Island man who went missing more than two weeks ago after launching his kayak to go fishing has been recovered off the coast of Connecticut.

Suffolk County police said Monday that 24-year-old Selvin Vasquez-Enamorado's body was found in the Long Island Sound off Clinton on Saturday.

The Huntington Station man went missing on June 11 after launching his kayak near Crab Meadow Beach in Northport, Long Island, police said.

—Associated Press

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—Associated Press

AMAZING

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LIFE & ARTS



FROM TOP: GETTY IMAGES/ISTOCK; MAURO PICCARDI/ALAMY

A crowd at the Trevi Fountain in Rome, above, where recently two tourists were found swimming nude. Below, a cruise ship gives passengers a view of St. Mark's Square in Venice.

BY PIETRO LOMBARDI

IN CAPRI, a squabble between two mayors—who are also cousins—highlights a larger debate throughout Italy. While tourism is an important revenue source, many Italians up and down the Italian peninsula would like tourists—at least some of them—to stay away.

Last year, Giovanni De Martino, the mayor of Capri, was fed up. He watched as ferries arrived from the Italian mainland in rapid succession, disgorging tourists—many budget day-trippers—every five minutes, only to face hourlong waits to board the cable car from the port to the town's center.

Worried that the hordes were endangering the island's charm and exclusivity, Mr. De Martino launched a push to reduce the frequency of the ferry arrivals to every 20 minutes.

But the mayor soon faced a bitter foe: his own cousin, Francesco Cerrotta, mayor of Anacapri, the only other town on the island. Mr. Cerrotta immediately took up the fight against his cousin's attempt to slow the tide of visitors.

"Someone in Capri still dreams of Jacqueline and Onassis strolling along Via Camerelle," Capri's main drag, Mr. Cerrotta told Italian media. "Capri needs glamour. But it also needs to fill hotels, restaurants and shops."

Still, recent incidents, such as two tourists swimming nude in the Trevi Fountain and another diving

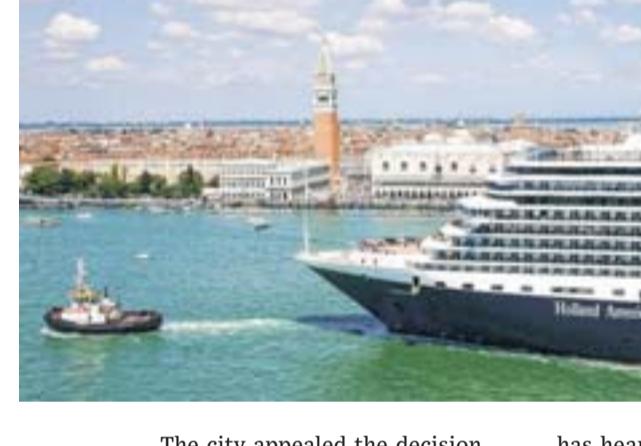
TRAVEL Arrivederci, Tourists

Italian officials squabble over limiting tourism in hot spots like Venice, Florence and Capri, where crowds and high jinks irk some of the locals

off Venice's Rialto Bridge, have only strengthened officials' determination to find ways to keep the hordes at bay. The number of tourists arriving in Italy topped 52 million in 2016, up nearly 30% since 2000.

But authorities are finding it devilishly difficult to stop tourists from coming. Efforts to limit incoming visitors are colliding with legal, business and practical challenges.

In Florence, a 2016 city decree raising the cost of entry tickets for tourist buses was, in part, struck down by a regional court.



The city appealed the decision, winning a temporary suspension of the ruling.

The Cinque Terre, the tiny fishing villages on the Italian Riviera,

drew 2.5 million visitors last year, 500 times the local population. In response, local officials unveiled a plan this spring to cap the number of tourists allowed onto the picturesque trails connecting the five towns. Despite protests, the system got under way in June.

Venice, which each year sees 15 million day trippers pour into an area five times the size of New York's Central Park,

has heard more calls from locals and some politicians to limit access to the floating city. But the idea has gone nowhere, in part due to legal hurdles.

"We don't want to close the city," said Paola Mar, head of tourism for the city. "And the law doesn't permit it."

Earlier this month, Venetians held a symbolic referendum calling for something to be done about the huge cruise ships that disgorge millions of tourists each year and sail perilously close to St. Mark's Square. They are angry that a 2012 government decree calling for them to be rerouted is so far a dead letter.

Some smaller destinations enjoy a special legally protected status that gives them a free hand in checking the flow of tourists. For instance Pinosa, a small island off the Tuscan coast, accepts only 330 people a day, while its neighbor Montecristo allows 1,000 a year. Video surveillance cameras help authorities to enforce the limits.

In Capri, Mr. De Martino's plan to limit ferry service was squelched by regional authorities. But the two cousins have continued to fight over everything from limiting the circulation of huge tourist buses to improving the port to accommodate the flow. "Capri has borne the brunt of unchecked arrivals...we need to do something," Mr. De Martino argues.

This spring, when a fresh surge in crowds on the island sparked new calls for a cap on the number of visitors, the two cousins were again at odds. Over a long holiday weekend in June, almost 45,000 people, mostly day trippers, came to Capri, three times the local population.

YOUR HEALTH | By Sumathi Reddy

DOCTORS LEARN HOW TO GIVE THE WORST NEWS

Physicians are trained in how to tell people they are terminally ill by acting out the conversations in a simulation lab



JOE BUGLEWICZ

THE NEWS WAS devastating: The doctor had to tell his patient who believed her lung cancer was gone that she was going to die. She had less than six months to live.

"I have always promised you when it's time to have difficult conversations, I wanted to be open with you to have them. Is that OK?" Jordan Asher, an internal medicine doctor, asked Ms. Gray.

"Sure. Absolutely," she said, nodding.

He tells her the cancer treatments have stopped working.

Absorbing the news, minutes later she asks, "So there's nothing else you can do?"

"There's a lot we can do, but there's not a lot we can do concerning the cancer," he answered. "There's a lot we can do to help you to be with your family, there's a lot we can do to help you remain comfortable. And there's a lot we can do to... get you to en-

joy what time we have left."

The conversation wasn't real. It is part of a new simulation lab launched by Alive Hospice in Nashville to train doctors and other health-care providers in how to deliver news about terminal diagnoses. Ms. Gray is really Eileen Johnson, senior director of quality and data analytics at Alive. And Dr. Asher is chief clinical officer of Ascension Care Management, a subsidiary of Ascension, a Catholic health care system that is planning to use the training for health providers at five of its sites across the country.

The room is designed to simulate a doctor's office on one side and a hospital bed on the other. Behind a pane of glass there is a row of headphones where outsiders can listen in.

A television screen plays back the four scenarios that the

Please see DOCTORS page A12

Alive Hospice senior director Eileen Johnson plays the role of lung cancer patient as Dr. Jordan Asher practices giving her a terminal diagnosis.

LIFE & ARTS

ENTERTAINMENT

How John Cena Became a Triple Threat

BY CHRISTOPHER JOHN FARLEY

JOHN CENA'S signature taunt in the ring is, "You can't see me." But these days the World Wrestling Entertainment superstar appears to be everywhere.

The wrestler-turned-actor has landed roles in hit movies like "Trainwreck," voices the title character in the upcoming animated movie "Ferdinand," and executive-produces and hosts the Fox reality series "American Grit," a Fox reality series putting competitors through grueling physical tests, which launched its second season this month. Mr. Cena is set to appear in the HBO sports doping mockumentary "Tour de Pharmacy" next month, and he'll also make a high-profile return to the professional wrestling world on the WWE show "SmackDown Live" on July 4th.

Mr. Cena, who has around 44 million followers on Facebook, is one of the few wrestlers who has managed to cross over into mainstream stardom with movies, TV shows and music releases, and he's not done branching out. He's currently trying to learn Mandarin and piano by setting aside 30 minutes a day to work on each. He says his progress has been "slow and steady. It's just a matter of time under tension equals results."

Mr. Cena recently talked about "American Grit," his return to the wrestling ring, and his philosophy of time management. An edited transcript follows.

How do you find the time to juggle TV, movies and wrestling?

I like to do all the stuff I'm doing. I learned at a very young age that there's no substitute for hard work. So the cool thing is I don't have to do anything I don't want to do, but I'm also getting a lot of opportunities to do a lot of stuff that I do like. I say yes to everything and then figure it out later.

Is there a connection between all the things you do?

I've spent 15 years as a storyteller. I'm in the storytelling business. So when I choose to be a part of a movie, it's because I like the story. That's why I like doing "American Grit" so much. I get to oversee all the challenges and try to draw things out of these people to help them right their wrongs, to help them weave a great end to a wonderful story. So when you talk comedy or drama or action or WWE or "American Grit," it's all based off of stories.

How did you end up doing the voice of the bull in the animated adaptation of the kids book "The Story of Ferdinand"?

The voice-only stuff was great. It's a lot of long hours and it's a labor of love and I love the story. It's about someone, Ferdinand, the bull, who is perceived to be something but is so much more than just what it appears on the surface. I've struggled with this a lot in my career at WWE. I'm well aware of the stereotypes and pre-



Wrestler John Cena has crossed over to mainstream stardom.

MICHAEL BECKER/FOX

conceived notions that folks that don't know what we do have about our business.

So what's going to happen when you go on "SmackDown Live" on July 4th?

I don't know what to expect and that's why "SmackDown Live" is awesome and WWE is awesome. This is the longest I think I've been away healthy from the WWE in 15 years, so I'm ready to get back. I'm very, very excited about Independence Day.

You and Dwayne "The Rock" Johnson had some epic wrestling battles, but I've read that the animosity became real outside the ring. What kind of relationship do you two have?

The Rock has always been an inspira-

tion in my career. He helped me very early on without knowing it—he really kind of poked the bear so to speak, so he couldn't help but get agitated. But I think when all is said and done we certainly had a tighter bond because of it. I think he's a wonderful human being, you talk about a guy who has mastered time management and has set the bar for productivity—he is it. So I look toward him for inspiration a lot. I keep in touch with him on a regular basis and still to this day he provides me with sound advice.

Extended Interview

◆ For more with John Cena go to WSJ.com/WSJCafe

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Anna-Gene O'Neal, president and CEO of Alive Hospice, conceived of the simulation lab and acts as one of its facilitators.

DOCTORS

Continued from page A11 trainee practices with one or more employees playing the role of a patient or family member. The trainee and a facilitator review what went right and wrong and where improvements might be made.

The scenarios include telling a patient of a terminal diagnosis; dealing with a patient who is asking off-topic questions (Will raw beets cure my cancer?); responding to angry family members; and how to handle another physician who may have a different opinion on a patient.

The doctors and facilitator discuss everything from the importance of silence and how to handle the placement of tissues to answering questions with succinct responses and communicating non-verbally (maintain eye contact, lean forward slightly, sit up straight).

Traditionally, doctors have gotten very little formal training in how to communicate end-of-life news. But increasingly, the medical world is paying more attention to the importance of communicating difficult information to patients with training sessions and programs at academic and teaching hospitals.

VitalTalk, a nonprofit, unconnected to Alive Hospice, also trains medical professionals in giving serious news and prognosis information. It has trained more than 400 faculty, who are now training physicians and nurse practitioners across the country, said Robert Arnold, co-founder of VitalTalk and a professor of medicine at the University of Pittsburgh.

"I think this is something that's very hard for clinicians to do without training," said Dr. Arnold. "It's hard to say the words and to say them in a clear and understandable way. And it's also hard to know how to deal with the emotional reaction you get."

Anna-Gene O'Neal, president and CEO of Alive Hospice, conceived of the simulation lab and is one of the facilitators.

She pointed out that in January of 2016 Medicare, the government-funded health insurance for elderly individuals, added a billing code for advanced directive conversations. That means doctors could sometimes get paid for having talks dealing with end-of-life

care. But many physicians weren't using it because they weren't comfortable talking about such issues, said Ms. O'Neal.

She realized there was a need for more training. She got a grant from the local Memorial Foundation which Alive used to develop the simulation lab last year. They piloted the program in the fall, and invited local physicians and other health care providers to do both group and individual training sessions.

The simulator just officially launched and is offering both individual and group training on-site in Nashville, as well as off-site locally and nationally.

Jennifer Domm, a medical director of pediatrics, hematology and oncology at HCA Healthcare in Nashville, said she did the simulation lab training about six months ago. She found the

'I think part of the grieving process is anger and that can be really difficult.'

scenario with angry family members the most helpful—a situation she's confronted with a lot.

"I think part of the grieving process is anger and that can be really difficult," she said. "It's hard not to become a little bit defensive but I think it's important to try to take yourself out of the situation. Just have patience and try to be empathetic and think about where they're coming from."

Dr. Domm said she's never had any formal training in delivering end-of-life news so being able to watch herself do it and getting it critiqued was useful. "There were times I didn't necessarily mean to cut them off and I felt like maybe I was too quick to jump in," she said. "It was reinforcing some of the things that I knew or would teach a mentor."

For Dr. Asher, the simulator felt real, he said. He said the training helped him realize the importance of de-escalating the emotional response of a patient and their angry family member.

"I will think about that and as I work with people," he said. "I will help them understand that point—of being able to look for the signs of escalation versus de-escalation. That was a big 'Aha' moment for me."



Dr. Jordan Asher, chief clinical officer of Ascension Care Management, plans to use the training for health providers at five of Ascension's sites across the country.

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SPORTS

MLB

Shake It Off? Not for Chris Sale.

The Red Sox ace just throws what his catcher signals and doesn't look at scouting reports. It's hard to argue with the results.

BY JARED DIAMOND

EARLY IN SPRING training, Boston Red Sox catcher Sandy Leon approached newly acquired ace Chris Sale hoping to build a rapport. He wanted to learn about Sale's preparation, his strategy for attacking opposing lineups and, most important, which pitches he preferred to throw in various situations.

Leon had posed these questions to every starter who joined his team. No one had ever responded like Sale.

"He told me, 'I don't shake, so that's on you,'" Leon said.

Indeed, Sale has established himself as one of baseball's most dominant pitchers by following a simple, but bizarre rule: Don't shake off the catcher. Ever.

"That's the way he is," Leon added.

Most pitchers work in tandem with their catcher but won't hesitate to request a different sign until they receive the pitch they want to throw. The catcher offers suggestions based on his knowledge and expertise, but the pitcher, the man with the ball in his hand, ultimately calls the game.

Not Sale.

He will unleash the first pitch his catcher proposes without even the slightest thought, regardless of the batter, the base-runners or the count. Leon confirmed that heading into Monday night's outing against the Minnesota Twins, Sale hadn't shaken off once. Tyler Flowers, who was behind the plate for 8,726 of Sale's pitches for the Chicago White Sox between 2010 and 2015, said that over that entire span, Sale shook him off exactly once, sometime around 2014.

"I don't want to disclose the reason," said Flowers, now with the Atlanta Braves. "But there was one time, and it was for a specific reason."

Sale's unusual approach on the mound extends into his work between starts, which goes against every principle of the modern major-league regimen. He doesn't look at scouting reports and virtually never uses video. Before every game, Red Sox pitching coach Carl Willis convenes with the catcher, the bullpen coach and that day's pitcher to review the game-plan. Sale declines to attend.

Those close to Sale in Boston say they don't know of any other pitcher who goes about his business quite this way. Willis said that during his tenure as Seattle Mariners pitching coach, star right-hander Felix Hernandez



In his first year with the Boston Red Sox, Chris Sale leads the majors in strikeouts, making him a favorite to start for the AL in next month's All-Star Game.

RICH GAGNON/GETTY IMAGES

would often skip pre-start meetings, but he didn't mind shaking off the catcher. Leon said that Red Sox pitcher Rick Porcello will sometimes go long stretches without shaking, but he still watches film and studies batters.

Sale does none of that. In this age of information, where pitchers have access to mountains of data on every hitter, Sale goes out of his way to avoid it.

"It just clears his mind," Willis said. "His basic thought is, 'Whatever I throw, you're not going to hit it.'"

To Sale, it doesn't matter what pitch he throws. Thinking about anything else only serves as a distraction. (His commitment to minimizing distractions might explain why he comfortably shook off an interview request for this story.)

A.J. Pierzynski, the retired catcher who caught Sale with the White Sox 83 times between 2010 and 2012, said he recalls Sale occasionally shaking him off very early

in his career. That changed as Sale grew closer to Mark Buehrle, a veteran left-hander who overlapped with Sale in Chicago for Sale's first two big-league seasons.

Buehrle, who had his number retired by the White Sox last Saturday, worked quicker than any pitcher in recent memory, turning his rapid pace into a weapon. Pierzynski said Buehrle shook him off just one time, in an exhibition during a MLB tour of Japan in 2002. The batter, future Yankees slugger Hideki Matsui, promptly knocked Buehrle out of the game by smacking a line drive off his shoulder.

"He was like, 'See why I don't ever shake off?'" said Pierzynski, now an analyst for Fox Sports.

When Sale reached the majors in 2010, the White Sox assigned him a locker near Buehrle, who preached the gospel of working quickly and the value of a pitcher keeping his mind free of clutter. Buehrle also stopped sitting in on pregame meetings after pitching

coach Don Cooper noticed he didn't pay much attention in them. "We didn't give him any information after that," Cooper said.

Before long, following Buehrle's lead, Sale stopped shaking catchers off entirely. When Buehrle left the White Sox in 2012, Sale took over his old locker. Entering Monday, Sale averaged 20.3 seconds between pitches, third-fastest in the American League.

"He wanted to go out there and say, 'Tell me where you want me to put this fastball, tell me where to put this breaking ball, and I'll do that,'" Cooper said. "The thing that can apply to anybody is throwing every pitch with the utmost confidence, conviction and belief behind it."

In his first year with the Red Sox, Sale leads the majors in strikeouts to go along with a strong ERA, making him a favorite to start for the AL in next month's All-Star Game. He leads the AL in ERA and WHIP since 2010.

Since catching Buehrle and Sale, Pierzynski said he has recommended the no-shake strategy to others. They typically refuse, Pierzynski said, "because they were all taught to overanalyze."

Granted, few pitchers possess the stuff of Sale, who boasts a mid-90s fastball, a devastating slider and a Bugs Bunny changeup. He has good reason for feeling confident in all of his pitches at all times—even the bad ones aren't easily hit.

But those who have worked with Sale say the benefits are undeniable. The worst thing for any pitcher is to second guess a pitch selection, to wonder after the fact if he should have thrown something different.

Sale never has that problem. "I can't say I'd suggest a pitcher not shaking just for the sake of not shaking," Flowers said. "But if you have that kind of trust not just in your own stuff, but in your catcher, why not go for it?"

GOLF

WHY A SHORT GAME STILL MATTERS

BY BRIAN COSTA

THE MOST ASTOUNDING thing about modern professional golfers is how far they can drive the ball. Yet the conclusion of the Travelers Championship on Sunday served as a master class on how little that aspect of the game can matter.

It wasn't just what Jordan Spieth did to win in a playoff against Daniel Berger: he holed a bunker shot, a feat outdone only by his club-chucking, airborne celebration with caddie Michael Greller (pictured). It was also what Spieth didn't do. No one will remember that Spieth's first shot on that hole hit a tree and landed only around 265 yards from the tee, requiring a lucky bounce to find the fairway.

For the tournament, Spieth lost .26 strokes to the field per round with his tee shots. It marked only the fourth time this season that a player has won on the PGA Tour while losing strokes off the tee.

But he was that much better than the rest of the field in other aspects, notably around-the-green shots (1.5 strokes gained per round) and approach shots (1.2).



SAILING

KIWIS CLAIM AMERICA'S CUP AS U.S. COMEBACK FIZZLES

BY AARON KURILOFF

EMIRATES Team New Zealand won the America's Cup on Monday, wresting control of the nearly 166-year-old sailing trophy from Larry Ellison's Oracle Team USA and dealing a blow to the Silicon Valley tycoon's revamp of the competition.

The Kiwis captured the trophy by winning the day's lone race in moderate breezes to end the re-

gatta with a final score of 7-1. New Zealand beat mistake-prone Oracle in a variety of ways over the series, outmaneuvering their rivals in some races and simply outdistancing them in others.

The victory eases the sting of New Zealand's 2013 Cup loss, when the Kiwis had the U.S. squad on the brink of elimination before blowing an 8-1 as Oracle made one of the great comebacks in sports. It returns the "Auld Mug" to New Zealand, a country that prides itself on sailing prowess.

ess but hasn't won the regatta since 2000.

The Kiwis' win also marks an abrupt departure for the event from the stewardship of Ellison, who has enjoyed the winner's privilege of setting the regatta's course since first capturing the trophy off Valencia, Spain in a massive trimaran in 2010.

Ellison sought to recast sailing as an extreme spectacle, akin to Formula One on water, with ultra-fast catamarans soaring above the waves on hydrofoils, close enough

New Zealand will now largely be able to determine the direction of the America's Cup competition.

to shore to be seen by spectators in grandstands and illuminated for television viewers by high-tech, on-screen graphics.

The result was a revolution in sailing that nearly tripled the top speed of Cup boats. Many sailors have celebrated the innovations, which they credit for boosting interest in the sport.

Per tradition, New Zealand will now lead the effort to determine the timing, location and rules of the next Cup.

Team officials said in a post-race news conference that the Kiwis would reveal details of their plans over the next couple of weeks. New Zealand has accepted a challenge for the trophy from the Italian Luna Rossa syndicate headed by Prada chief executive Patrizio Bertelli, and the regatta will ultimately take place somewhere in New Zealand.

Kiwi team principal Matteo de Nora said the two syndicates share a common vision about what's important for the future of the regatta and wanted to "do the right thing for the Cup rather than a specific team."

Dalton also said the Kiwis would seek to bring costs down for the next regatta, which could increase the number of teams competing, though he said that as a top international competition, "it is never going to be cheap."

Whether Ellison will try to recapture the Cup also remained unclear Monday. "We haven't spoke at all about what the future holds for the team and the guys involved," Oracle skipper Jimmy Spithill said. As to the event's future, Spithill said he felt this was the strongest Cup to date and "I think the sport's in a really healthy place right now."



L-R: BRAD HORRIGAN/HARTFORD COURANT/ASSOCIATED PRESS; EZRA SHAW/GETTY IMAGES

OPINION

Anthony Kennedy, Culture Warrior

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 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 does not 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

Judicial decrees on difficult moral questions have made our politics bitter.

were moving in the direction of same-sex marriage anyway. But Justice Kennedy was determined to get there first.

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 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.

Write to mcgurn@wsj.com.

MAIN STREET
By William McGurn

BOOKSHELF | By Charles R. Morris

The Market In Nosedive

A History of the United States In Five Crashes

By Scott Nations
(Morrow, 336 pages, \$28.99)

The market collapse of 2008 remains a vivid memory today, not least for investors who are still trying to recover. For Scott Nations, a Chicago-based financial engineer, it is but one of a series of meltdowns that have periodically shaken the country's financial stability. In "A History of the United States in Five Crashes," he provides crisp profiles on the crashes in 1907, 1929, 1987 and, yes, 2008, along with the 2010 "flash crash"—all in a lean, drive-ahead writing style that is a pleasure to read.

His account of the 1907 crash opens with Teddy Roosevelt's attempts to impose rules of competition on the country's enormous business combinations. Railroad and copper wars were an unbridled spectacle of greed, even as the economy was rattled by the colossal 1906 San Francisco earthquake. Mr. Nations generally argues from the premise that, in nervous times, underlying imbalances are turned

into catastrophic tsunamis by the mediation of a "financial contraption." The contraption of 1907 was the trust companies, ostensibly staid entities that administered trusts and wills. The more adventurous ones gradually added deposit-taking and lending services.

Since trust companies had no reserve requirements, they had a cost advantage over conventional banks, which some exploited to the

hilt. Foolish lending on paper-thin

reserves created a string of trust-company insolvencies that threatened to engulf both the regulated banks and the New York Stock Exchange, setting the stage for the heroics of J.P. Morgan. Ill and turning 70, he peremptorily summoned leading bankers to his library and masterminded the capital infusions that ended the crisis.

Mr. Nations ascribes the 1929 market debacle primarily to the policies of the Federal Reserve, particularly those of Benjamin Strong, the imposing president of the New York Fed, who Mr. Nations believes fueled the stock-market bubble by easing interest rates in the mid-1920s in order to help Britain return to the gold standard. (Depression scholars still debate the question.) The "contraption" driving the 1929 crash was the investment trust, effectively a mutual fund that sponsors had "bulled" by means of insider trading, driving trust valuations far above that of the individual securities in the portfolio.

When the market finally broke, Mr. Nations tells us, the Stock Exchange closed its public gallery after "visitors watched a trader run screaming from the floor." A physician at the exchange reported treating traders for the shell-shock symptoms he had treated in World War I. Although Mr. Nations's account of the crash is excellent, he makes little attempt to connect it to the world depression that followed.

In the 'flash crash' of 2010, shares gyrated between \$1,000 and a penny, recovering minutes later. Other market meltdowns lasted longer.

The market crash of 1987 occurred when markets were still working off the leveraged-buyout boom and other excesses of the 1980s. Two academics, Hayne Leland and Mark Rubinstein, came up with algorithms for hedging stock-market risk by selling offsetting options on the Chicago Mercantile Exchange. The catch was that they could only be implemented by computers. As the idea spread, it acquired the name of "portfolio insurance" and was catnip to big investors.

During the second week of October 1987, falling markets triggered the "insurance" algorithms, launching wave after wave of option sales in Chicago. Alas, there weren't enough options in the world to meet the flood of orders. "Black Monday," Oct. 19, saw the steepest one-day drop in history. But it is hard to point to any damage to the economy. From 1986 through 1989, real U.S. growth came in at a boringly steady 3.5%, 3.5%, 4.2% and 3.7%, relegating the 1987 crash to a sideshow.

The episode that may best fit Mr. Nations's paradigm—underlying instability and a new "contraption"—is the Great Recession of 2008-09. By the mid-2000s, the world had been sufficiently lulled by the Greenspan-Bernanke "Great Moderation" to accept that the idea that wisely applied monetary policy—feeding liquidity into the economy in measured doses—could smooth the unruliest economic tides. The "financial contraption" of the day was the structured securitized bond. Banks discovered that if they sold off their loans, after collecting hefty fees they could make higher profits without tying up their balance sheets. Securitizing mortgages and business loans made good sense so long as the underlying loans were sound. But in the absence of any regulatory oversight, shoddy, often fraudulent, paper came to dominate the market and was sold all over the world, with dire effects second only to those of the Great Depression.

Mr. Nations's last example, the 2010 "flash crash," is quite dramatic, but like the 1987 market crash doesn't seem to have been especially consequential. A Kansas mutual fund with Greek exposure contracted with Barclays bank to exit a \$4 billion position. Barclays had built algorithmic trading technologies for managing massive portfolio adjustments without human intervention. When Barclays switched on the trading robots in the afternoon of May 6, the stock, options and futures markets went crazy. Perfectly sound companies saw their shares gyrate between \$1,000 and a penny within minutes. While estimates that as much as a trillion dollars was lost in minutes are likely true, the losses were mostly recovered a few minutes later, and the most ridiculous trades were reversed by the end of the trading day.

One takeaway from Mr. Nations's chronicle is that finance is a dangerous industry for the simple reason that—as we can see in each of his episodes—it employs enormous leverage. Today the biggest banks have balance sheets in the trillions, 90% of it borrowed. When the bull starts roaring, and the money is flowing, calamity is usually not far behind.

Mr. Morris's most recent book is "A Rabble of Dead Money," a history of the Great Depression.

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 putting 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, Shites 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.

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

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 al-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 ISIS, much as Hezbollah proved itself useful to Beirut in ousting Israel from southern Lebanon.

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 ISIS 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-ISIS 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 United States.

Congress can predicate assistance and weapons transfers on clear assurances that Iran and its proxies are not indirect beneficiaries. If it does not, 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.

24/7 Banking Is 50 Years Old

By Bill Nuti

It's the golden anniversary of the ATM. On June 27, 1967, a Barclays Bank branch in London unveiled the world's first automated teller machine. It solved a common problem: In much of the world, cash could be obtained only when a bank was open, typically weekdays between about 10 a.m. and 3 p.m., known as "bankers' hours." The limited schedule often meant long lines. And it could be difficult, if not impossible, to obtain money from a bank other than your own.

The engineer often identified as having developed the first ATM, John Shepherd-Baron, said that his "aha" moment was a byproduct of arriving at his bank one minute after it closed. "That night I started thinking that there must be a better way to get cash when I wanted it," he told

the BBC in 2007. "I thought of the chocolate vending machine, where money was put in a slot and a bar dispensed. Surely money could be dispensed in the same way."

The first ATM had limited functionality; it neither accepted deposits nor dispensed more than £10 (then worth \$28).

Before the ATM you had to get cash during 'bankers' hours.'

at a time. Still, ATMs quickly gained popularity. They were convenient and thus contributed to customer loyalty, and they helped reduce bank operating costs. In 1969 the ATM crossed the Atlantic. A Chemical Bank branch in Rockville Centre, N.Y., announced in a newspaper advertisement: "On Sept. 2 our bank will

open at 9:00 and never close again."

By 2015 there were 3.2 million ATMs world-wide, and they're found on all seven continents, including Antarctica. They've become part of the fabric of life—one company has sold ATM Halloween costumes—while helping to spur a self-service culture that's been extended to gas stations and airport check-ins. Globally, there were close to 100 billion ATM transactions in 2015, and \$13.2 trillion in withdrawals. For the U.S. alone, these figures were 5.8 billion and \$700 billion.

Paul Volcker, a former Federal Reserve chairman, quipped in 2009 that "the most important financial innovation that I have seen the past 20 years is the automatic teller machine." And like any great product, the ATM has had to evolve. No longer just cash machines, customers can use them to pay

bills, get a new card, tap a line of credit, and even chat by video with a human teller hundreds of miles away. Some banks in India use their ATMs to extend loans in a matter of seconds.

What is the future of ATMs? In addition to their ever-expanding capabilities in the physical world, they're destined to provide an enhanced experience with augmented reality. At some point in the future, a visit to the ATM may include capturing the most-sought-out Pokémons while taking out cash using a retinal "PIN."

Meanwhile, in 2012 the bakery chain Sprinkles introduced the "world's first cupcake ATM." John Shepherd-Baron, who died in 2010, surely would have been pleased. What'll they think of next, a chocolate vending machine?

Mr. Nuti is chairman and CEO of NCR Corp.

OPINION

The Surprising Factor for Immigrant Success

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.

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

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.

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.

Notable & Quotable: Orwell

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

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."

The Senate Saves the 10th Amendment

By Avik Roy

For decades American conservatives have sought to restore meaning to the 10th Amendment, which recognizes the states' right to manage their affairs free from Washington's interference. Passing the Republican Senate's health-care bill would represent historic progress toward that goal.

In nearly every state, Medicaid is either the largest or second-largest budget line, as well as the fastest-growing category. Every year state lawmakers, trying to carry Medicaid's heavy burden, are forced to make difficult choices about what else to cut: education, roads, public safety.

The health-care bill would liberate states to bypass ObamaCare rules and better manage Medicaid.

Especially frustrating is that state officials have little control over how to manage their Medicaid programs. The 1965 Medicaid law contains dozens of limits on what states can do to avoid waste, fraud and abuse. In the half-century since, Washington has added to that burden with more laws and regulations.

Governors and state legislatures ask Washington every year for the right to receive their Medicaid funds in the form of a block grant, which would give them autonomy to manage the spending as they see fit. The Senate bill, for the first time, would allow that.

States that forgo the block grants would still receive additional flexibility through per capita allotments, an idea first proposed by President Clinton in 1995. The Senate bill would limit the growth of federal spending on each able-bodied enrollee to the rate of medical inflation, and on elderly and disabled enrollees to medical inflation plus 1%. After 2025, per-enrollee spending would be tied to overall inflation. The net effect would be to reduce overall federal spending on the pre-ObamaCare Medicaid program by up

to 2% from projected levels over the next 10 years.

In exchange for putting Medicaid on a budget, states would gain substantial latitude to use funds more efficiently. Example: Thanks to ObamaCare, states are permitted to verify a recipient's eligibility for Medicaid only once a year. As a result, scarce dollars continue going to people who become ineligible. Of the 10% (or more) of Medicaid spending that is improper, the majority goes to ineligible recipients, according to the Foundation for Government Accountability and the Centers for Medicare and Medicaid Services.

The Senate bill would liberate states from many other ObamaCare burdens. It would oblige the Secretary of Health and Human Services to grant all state waiver requests unless they increase federal spending, and to issue a final decision on waiver applications within six months of receiving them. Under current law, waivers are at the secretary's discretion and there is no deadline.

The new waiver process would let states reduce premiums and healthcare costs by bypassing a broad array of ObamaCare provisions, including benefit mandates and requirements that all individual policies be part of a single risk pool. Waivers would last eight years, with the option to renew.

All of this new flexibility would substantially improve Washington's fidelity to the 10th Amendment. It would give governors and state legislators the ability to reduce healthcare costs for those who've struggled in the ObamaCare era. It would help them devote limited resources to those most in need.

There's always more to be done. To the degree Republican senators can further expand state flexibility without running afoul of Senate parliamentary rules, they should do so. For one thing, the federal Medicaid law prohibits states from making eligibility changes prospectively—meaning they cannot make changes for future enrollees while grandfathering in current ones. Senators should consider amending their bill to eliminate this constraint.

But even in its current form, the

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WORLD NEWS

U.K. Conservatives Reach Deal to Rule

Despite pact with Northern Irish lawmakers, May remains vulnerable

By JASON DOUGLAS
AND STEPHEN FIDLER

LONDON—U.K. Prime Minister Theresa May clinched a deal with a group of Northern Irish lawmakers that will keep her Conservative Party in government despite the loss of its parliamentary majority in elections this month.

Downing Street on Monday said the Conservatives agreed to a so-called confidence-and-supply arrangement with Northern Ireland's Democratic Unionist Party that guarantees the smaller party's support at critical parliamentary votes—including those associated with the country's exit from the European Union.

The deal means Mrs. May is likely to clear her first major parliamentary hurdle since losing her majority when lawmakers on Thursday vote on her party's legislative agenda.

But while dispelling some of the political uncertainty dogging the U.K. since the June 8 vote, big questions remain about whether she will be able to push through critical parts of the agenda, including over Britain's departure from the European Union.

The government's majority is thin and vulnerable to any rebellions from within her own party, either from its anti-EU or pro-EU wings. Also the House



Prime Minister Theresa May, left, greeted DUP leader Arlene Foster at 10 Downing St. on Monday before they sealed their political deal.

It also has agreed to support the government on all legislation pertaining to Brexit, according to a three-page document setting out terms of the pact. Support on all other policies will be determined "case by case," the agreement said.

In return, London pledged an extra £1 billion (\$1.27 billion) of public spending in Northern Ireland over the next five years in areas including infrastructure, education, health and economic development. Mrs. Foster said the Conservatives also agreed to ditch proposals on overhauling benefit payments for retirees that the DUP opposed.

Mrs. May sought to ease concerns that the deal with the DUP would undermine the U.K. government's role in supporting the peace process in Northern Ireland. She said the U.K. remains steadfast in its commitment to the peace process and the revival of Northern Ireland's devolved government in Belfast, where power is shared between mostly Protestant pro-British political parties including the DUP and Irish nationalists such as Sinn Féin.

Sinn Féin criticized the pact. "It provides a blank check for a Tory Brexit, which threatens the Good Friday Agreement," said the party's president, Gerry Adams.

However, Ireland's foreign minister, Simon Coveney, said he welcomed both parties' recommitment to the Good Friday Agreement as well as "the commitment by the British Government to govern in the interests of all parts of the community in Northern Ireland."

of Lords, the unelected second chamber that is strongly anti-Brexit, is also likely to claim more scope to hold up or amend legislation proposed by a minority government.

Big questions remain, too, about Mrs. May's future as leader. Those have been amplified by her unsure handling of the fire in the Grenfell Tower apartment building that killed at least 79 people.

Mujtaba Rahman of the Eurasia Group consultancy described the Conservative Party's mood as volatile, saying "a change of Tory leader is still possible within months." In any event, he wrote in a research note, Mrs. May is unlikely to survive long enough "to do Brexit." The U.K. expects to leave the EU in March 2019.

He said one factor helping her hang on was the absence of

a natural successor among leading Conservative politicians.

Some Conservatives are also concerned about creating further uncertainty with Brexit negotiations under way, and eager to avoid a further general election in which the main opposition Labour Party could gain further ground and could even lead a new government.

David Davis, the Brexit minister and a likely candidate to

succeed Mrs. May, said on Sunday that talk of replacing her was "self-indulgent."

DUP leader Arlene Foster said the pact "will operate to deliver a stable government in the United Kingdom's national interest at this vital time."

The party agreed to back the Conservatives' tax and spending proposals and other crucial votes that governments in the U.K. must win to stay in office.

EU Urges 'More Ambition' on Citizens' Rights in Brexit

The European Union's chief Brexit negotiator called on the U.K. to show "more ambition" in protecting the rights of EU citizens following the U.K.'s departure from the bloc after London laid out detailed proposals on the issue.

By Jason Douglas in London and Valentina Pop in Brussels

The proposals, which come just over a year after the U.K. referendum vote to leave the EU, would give EU citizens living in the U.K. as long as two years after Brexit to seek permission to stay indefinitely in the country.

London is hoping for an early success in Brexit negotiations with the EU on the rights of the more than three million EU nationals in Britain and the more than one million U.K. nationals living in the union's 27 other member states.

Prime Minister Theresa May sketched out her plan at a meeting of EU leaders on Thursday, but it was met with a lukewarm reception.

Presenting more detailed proposals to Parliament, Mrs. May described her plan as "fair and serious" and stressed that EU citizens in the U.K. are an integral part of British society.

After Monday's more detailed statement, Michel Barnier, the EU's chief Brexit



Protesters in March demanded European Union residents be allowed to remain in the U.K.

negotiator, called for "more ambition" from the U.K.

"EU goal on #citizensrights: same level of protection as in EU law. More ambition, clarity and guarantees needed than in today's UK position," Mr. Barnier tweeted.

The U.K. government said in a 24-page paper that EU nationals will be able to apply for permanent "settled status" in the U.K. for themselves and their families if they have lived in the U.K. for five years

or more before a cutoff date yet to be agreed with the EU.

The proposals are broadly in line with the EU's position on citizens' rights, but some specific areas of disagreement remain. EU officials said they remained concerned that the U.K. said the agreement would be enforceable only in U.K. law and there would be no role for the European Court of Justice, the EU's top court, in protecting citizens' rights. They said the U.K. Parliament is free to

make or unmake laws and therefore guarantees could be undone later.

The U.K. said however it would "be ready to make commitments in the Withdrawal Agreement which will have the status of international law."

Guy Verhofstadt, the European Parliament's point man on Brexit, said on Monday that while he welcomed the U.K. proposal, "a number of limitations remain worrisome and will have to be carefully assessed."

Prime Minister Offers Details on Orderly Movement

May seeks reciprocity from EU after Britain's departure

In an offer to European Union negotiators, which she said must be reciprocal for U.K. citizens living in other EU countries, Prime Minister Theresa May on Monday set out what her government wants to guarantee EU citizens after Brexit.

We Want You to Stay'

No EU citizen currently in the U.K. lawfully will be asked to leave when the U.K.'s divorce from the other 27 members of the bloc becomes official, Mrs. May said. Under the plan, those who have been in the U.K. less than five years before a cutoff date will be allowed to stay until they have resided in the country five years and then allowed to apply for settled status.

The Date

The date for EU citizens to enter the U.K. to gain the right to remain has yet to be finalized but will be no earlier than March 2017, when the U.K. announced its formal intention to leave the bloc, and no later than the date Brexit becomes law.

The Grace Period

There will be a grace period of up to two years between the end of free movement of all EU citizens into the U.K. and the issuance of resident documents during which eligible EU citizens can continue to live and work legally in the country.

The Families

Mrs. May said EU citizens with settled status can bring family members to the country before Brexit becomes official, and those who have been in the U.K. for less than five years will be allowed to do so under the same rights as U.K. citizens, once they have gained the required residency status.

The Irish

Mrs. May said British and Irish citizens will be able to continue traveling freely between their respective countries and Irish citizens won't need to apply for permanent residence in Britain after Brexit.

The Pensions

The U.K. will continue to export and adjust the U.K. pension, and provide associated health-care coverage within the EU. The European health-care card program would also be maintained so U.K. citizens can receive health care when traveling within the EU.

—Joanna Sugden

WORLD WATCH

JAPAN

Captain Says Ship Warned U.S. Vessel

The captain of a cargo ship that hit a U.S. destroyer near Japan this month has told investigators that the ship sent emergency warnings as the American vessel suddenly cut across its path, according to a person with direct knowledge of the testimony.

The Philippines-registered ACX Crystal blared its horn and flashed its lights as the USS Fitzgerald crossed in front of it from the left around 1:30 a.m. on June 17 south of Tokyo, the captain said, according to the person, in an account U.S. investigators contest.

"The Crystal turned right to prevent the crash, but it was too late," the person cited the captain's report as saying.

The description of the account from Crystal captain Ronald Advinula to investigators is the first available direct testimony from either crew of the incident, which killed seven U.S. sailors. Mr. Advinula couldn't be reached to comment. It wasn't clear from the account of his testimony whether

the captain was saying he was on the bridge of the vessel at the time.

In response to the account, U.S. military officials said there had been no communication between the two ships before the collision and the cargo ship's loud collision alarm never sounded. They raised questions about the commercial ship captain's reported contention that his ship tried to signal the warship for at least 10 minutes before hitting it.

The officials said they were perplexed by the reported statement from the Crystal's captain. Tracking data indicate that the cargo ship continued sailing on essentially the same course for about an additional 30 minutes before turning around and returning to the position where the collision occurred.

—Costas Paras and Alastair Gale

EUROPEAN UNION

ECB Chief Again Defends Stimulus

European Central Bank President Mario Draghi defended the impact of the bank's stimulus

policies on Europe's youth Monday, arguing that keeping interest rates low had helped create jobs and reduce inequality.

The rare question-and-answer session with Mr. Draghi, at a university in Lisbon, comes at a sensitive time for the ECB, which is preparing to discuss how to start withdrawing policies such as negative interest

rates and a €2.3 trillion (\$2.6 trillion) bond-buying program.

Pressure is mounting in Northern Europe for a policy change from Frankfurt, but Southern European countries face a different economic reality, with youth-unemployment rates reaching up to 45%.

Mr. Draghi argued that the ECB's easy-money stance

helped address inequality in Europe, which he described as a "highly destabilizing phenomenon."

"The biggest cause of inequality is unemployment," Mr. Draghi said. "To the extent our policy fights unemployment, it fights inequality."

While he didn't directly address when the central bank

might start withdrawing its stimulus, he indicated it would be counterproductive to do so too soon.

—Tom Fairless

ARGENTINA

Bus Flips, Killing 15 On a School Trip

A bus carrying students, parents and teachers from a dance school overturned on a provincial highway, killing at least 15 people, officials said Monday.

Nine adolescents and the driver were among those killed Sunday in Mendoza province, about 620 miles west of Buenos Aires. An additional 21 people were injured and taken to area clinics, provincial health minister Claudio Najul said.

Survivors told local news media the bus was traveling fast with about 50 passengers aboard when it apparently struck the side of a hill, causing the vehicle to turn over.

President Mauricio Macri declared two days of national mourning for Tuesday and Wednesday.

—Associated Press



BURNING ISSUE: Troops burned confiscated drugs as part of the destruction of more than 5 metric tons of illicit substances in Mangshi City, in Yunnan province, China, on Monday.

XINHUA/ZUMA PRESS

and a €2.3 trillion (\$2.6 trillion) bond-buying program.

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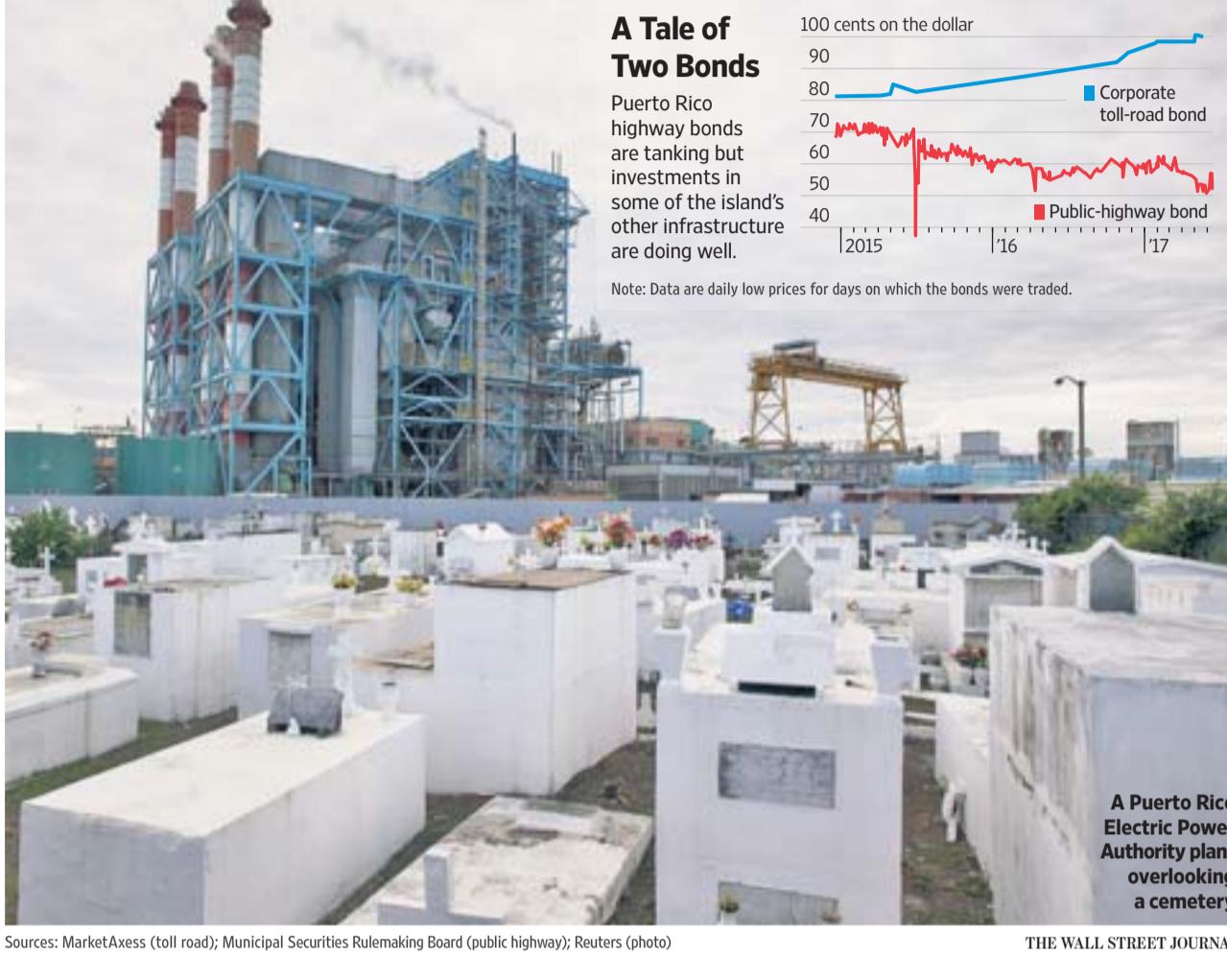
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For Sale: Puerto Rico's Parts

Indebted U.S. territory seeks to raise money by selling its public entities to private firms

BY HEATHER GILLERS

Puerto Rico has no cash and can't borrow money anymore. So it is looking to sell itself off in pieces.

The troubled U.S. territory is preparing to seek bids in coming months from private companies willing to operate or improve seaports, regional airports, water meters, student housing, traffic-fine collections, parking spaces and a passenger ferry, according to a government presentation re-

viewed by The Wall Street Journal.

The goal is to attract more than \$500 million in investment starting this summer, according to a spokesman for the Puerto Rico Public-Private Partnerships Authority. Future possibilities include the island's power utility, water-and-sewer system and waste management, according to presentations made in April to private investors.

Puerto Rico officials haven't disclosed exactly how they plan to use any proceeds. The government needs cash to pay down debt, run operations and for other purposes.

Potential deals are a cornerstone of a new plan to revitalize the territory, which in

May was placed under court protection, the largest-ever U.S. municipal bankruptcy. Gov. Ricardo Rosselló predicts public-private partnerships launched over the next three years will bring \$5 billion in new investment and 100,000 jobs. Economic projections in the commonwealth's revitalization plan are based in part on the completion of public-private partnership deals.

It is an ambitious goal. U.S. public-private transportation projects—the most common type of partnerships—have attracted about \$30 billion in total private and public investment since 1993, according to the Public Works Financing newsletter's P3 Projects Database.

Please see BIDS page B2

"I hope it happens, but I recognize it's aggressive," former Puerto Rico Gov. Luis Fortuño, who created the Public-Private Partnerships Authority, said of the \$5 billion target.

In public-private partnerships, the government allows private firms to lease and operate public infrastructure for decades in exchange for up-front cash or a promise of long-term improvements. Some arrangements also involve building new infrastructure. Unlike municipal bonds, public-private partnerships insulate investors from the government's financial distress: The money typically flows straight to the private operator.

Please see BIDS page B2

Calm Markets Inspire Fears Storm Is Coming

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. Meanwhile, utility stocks, often a refuge for nervous investors, have rallied this year, with another move up Monday helping to lift the broader market.

Other signs of anxiety abound: A measure that shows expectations there will be a big move in Wall Street's fear gauge, the CBOE Volatility index or VIX, rose to an all-time high this month. The VIX—which offers a reading on investor expectations for turbulence—this month has been hovering near an all-time low. The cost of insuring against a drop in the S&P 500 has climbed steadily since the beginning of the year. And currencies typically considered havens, such as the Swiss franc, 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 mis-timed 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 have soared even as anxiety rises over issues that could derail the rally.

stocks, concerned that lofty valuations could take a hit if there's a threat to global growth. Mr. Knutzen is also selling put options on stocks, allowing him to buffer his portfolio from a decline in equities while still maintaining market exposure.

"There's a lot of anxiety about where to put money to work," he said. "We know the VIX won't stay low forever."

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 month to raise rates was widely expected, many investors were surprised that Fed Chairwoman Janet Yellen gave

Please see STOCKS page B10

Nestlé Braces for Investor Battle

BY SAABIRA CHAUDHURI AND DAVID BENOIT

Newly minted Nestlé SA Chief Executive Mark Schneider is facing the first big challenge of his short career in packaged foods.

Mr. Schneider indicated Monday he plans to continue with his own push to spur growth at the maker of Stouffer's frozen food and Nesquik chocolate milk, but will now have to perform under the pressure of activist investor Daniel Loeb, who is prescribing his own plan for growth.

Late Sunday, Mr. Loeb's

Third Point hedge fund disclosed a \$3.5 billion stake in Nestlé, demanding a raft of changes it said would boost margins and shares, including the divestment of a long-held stake in L'Oréal SA. In a short response Monday, Nestlé said it keeps an "open dialogue with all our shareholders" but remains "committed to executing our strategy and creating long-term shareholder value."

The Swiss-based company said it had no further comment on Mr. Loeb's stake.

Third Point's stake amounts to just 1.25% of Nestlé, but that makes Mr. Loeb one of the company's top 10 invest-

tors. His recommendations come at a time when Nestlé shareholders could find them hard to ignore: Years of slow growth have shaken Nestlé and its consumer-goods competitors as they contend with changing consumer tastes, a raft of new upstart rivals and other headwinds.

Shareholders welcomed the Third Point investment, sending Nestlé's stock up more than 4% Monday.

Mr. Schneider, 51 years old, took the top job at Nestlé in January. Third Point has been accruing shares since the start of the year, encouraged by the possibilities that come with a

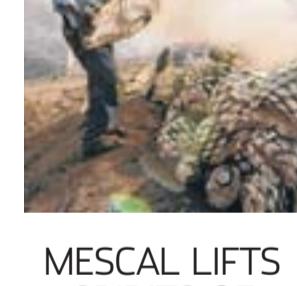
new CEO, according to people familiar with the matter.

Nestlé's board plucked Mr. Schneider out of the healthcare industry to help diversify from its slow-growing cash cows to healthier foods and products. Shortly after becoming CEO, he abandoned Nestlé's longstanding annual growth target after years of shortfalls. Earlier this month, he put Nestlé's U.S. confectionery business up for sale.

But he has also resisted some of the more radical approaches taken by competitors. He is an outspoken critic of so-called zero-based bud-

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INSIDE



ARCONIC CURBS SELLING PANELS LINKED TO FIRE

SAFETY, B3

MESCAL LIFTS SPIRITS OF DISTILLERS

INDUSTRY FOCUS, B5

BY PETER RUDGEAIR

Venmo has become a verb among people who want to send money digitally to each other. What it hasn't become is a huge moneymaker for parent PayPal Holdings Inc.

Historically, that hasn't been much of a concern for PayPal, although that is starting to change. Making money might matter even less to the big tech and finance firms like Apple Inc. and J.P. Morgan Chase & Co. that are going after Venmo's business.

Those firms are trying to prevent Venmo from becoming a person-to-person payments what Google is to search or Facebook is to social media.

The reason: Even if such services aren't profitable today, companies believe they are vital to getting and keeping consumers, especially coveted millennials.

"We don't charge custom-

ers," Gordon Smith, head of consumer banking at J.P. Morgan, said at an investor conference while describing the bank's efforts in person-to-person payments. "So you all quite rightly will ask me, 'Well, what's the revenue model?' And the revenue model is that the customer is engaged on our banking app."

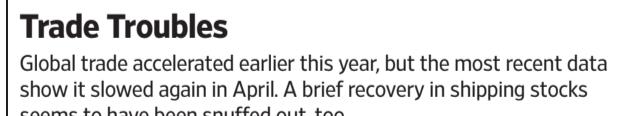
J.P. Morgan this month connected its smartphone apps to a new money-transfer network called Zelle which is owned by several banks and is expected to reach 86 million consumers. That followed an announcement from Apple that it was also getting into person-to-person payments.

Behind the companies' zeal is rapid growth in digital person-to-person payments. Consumers made \$147.1 billion in such transactions in 2016, up 47% from the year before, according to consulting firm Aite.

Please see VENMO page B10

Global trade accelerated earlier this year, but the most recent data show it slowed again in April. A brief recovery in shipping stocks seems to have been snuffed out, too.

Total imports of merchandise, change from year earlier



Dow Jones Global Shipping Index, change since 2015



Sources: CPB Netherlands Bureau for Economic Policy Analysis (imports); Thomson Reuters (shipping index)

Global trade is in trouble, and investors don't seem to care. One of the ironies of the election of a fierce nationalist in the U.S. is that it coincided with what looked like a recovery in global trade, after years of stagnation.

We will find out in coming days if President Donald Trump and his administration are willing to jeopardize trade by slapping tariffs on steel on national-security grounds—bypassing international rules and opening the way to a tit-for-tat response. But even without new tariffs, the nascent trade recovery isn't all it seems.

Investors have rightly seen tariffs as good for U.S. steel stocks, which have been pummeled by international competition and weak balance sheets. But there seems to be

little fear of a full-blown trade war developing, either in steel—where investors in shares of major foreign competitors have seemed oblivious—or more widely.

Why aren't investors more concerned about the risk of globalization being put into reverse gear? One answer is that few really believe Mr. Trump wants to start a trade war. His campaign rhetoric led investors to dump the Mexican peso after he won, anticipating trade troubles. But the peso is now stronger than it was before the November election, and the first tariffs he imposed were on Canada, not the target his voters expected. Aside from Canada, his trade actions have so far mostly involved fiddling around the edges, commissioning reports and improving the enforcement of existing rules.

Another answer is that in Please see STREET page B2

Apple, Banks Envy PayPal's Venmo Tool

BY PETER RUDGEAIR

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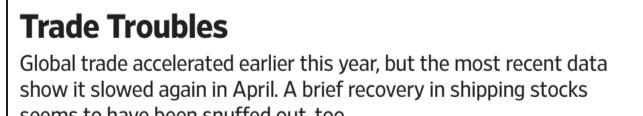
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STREET

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vectors have been discussing "deglobalization" for a long time, so the idea of increased trade friction comes as no surprise (though a full-on trade war would be a shock).

The 2007-2008 financial crisis led to a collapse in global trade, and after a brief recovery it flatlined for years.

Banks also retreated from financial commitments abroad, and there has been no return to the pre-Lehman Brothers days of grand cross-border banking acquisitions. Creeping protectionism has been

visible in the rising number of minor trade disputes.

The data showed a clear

pickup in trade in the first quarter, with 5.7% year-over-year growth in March the highest for six years, according to the CPB Netherlands Bureau for Economic Policy Analysis. But April data were weaker, and the shipping sector is suffering.

Trade acceleration is good news for investors, as more globalization means faster economic growth and more efficient use of productive assets and workers (who may not be so happy). The twin dangers for investors are that the recent recovery proves to be a mirage, or

that Mr. Trump brings it to an end.

The global trade recovery

might be less than it seems if it is merely a reflection of China's stimulus last year. Oxford Economics estimates that as much as 70% of the trade growth comes from the knock-on effects of Chinese demand, which few people expect to last.

As China put the monetary brakes on in recent months, the Baltic Dry index of shipping costs has tumbled, and the Dow Jones Global Shipping index shows the sector's stocks have fallen a tenth from this year's high. South Korea's trade volumes, used by many as a leading indica-

tor of global trade, have fallen back after hitting a new high in March.

If Mr. Trump goes ahead with his steel tariffs, the bet is whether it leads to a creeping deglobalization with a steady ratcheting-up of trade restrictions, or a trade war.

The lesson of the 1930s is that trade wars hurt everyone, so my money would be on more subtle forms of retaliation. But politicians can best show that they mean business by striking back publicly. In Europe, attacking Mr. Trump looks especially like a vote winner. Investors should be worrying a lot more about trade.

BIDS

Continued from the prior page

tors without ever passing through government officials' hands.

Proponents say privately run projects are typically more efficient and well-run than public projects, creating savings that lower the overall cost.

Critics of the partnerships say governments are pledging away revenues they need to fund core services in exchange for infrastructure improvements that could cost less if publicly financed. In one example, after Chicago leased its parking meters to a private firm in 2008, the city's inspector general found the firm's \$1.157 billion upfront payment was \$974 million less than what the city would have gotten from operating the meters itself.

Puerto Rico has had issues in the past with private partners.

Former Gov. Alejandro García Padilla tried to find partners for a passenger ferry from the mainland to the islands of Culebra and Vieques. But the government couldn't afford to put down collateral to guarantee a private operator that it would make payments to supplement ferry fares, and prospective partners lost interest.

Rick Newman, a developer and owner-operator of hotels in Puerto Rico who runs a private ferry service, opted

against bidding to operate the Culebra and Vieques ferry under Mr. García Padilla's plan. He said the proposed partnership carried too much risk.

"If the request for proposals comes out and says you have to live off of the fare box, the government may not find a private operator," Mr. Newman said.

Other public-private partnerships in Puerto Rico have done better.

In 2009, then-Gov. Fortuño pushed through legislation creating an authority that could move forward with public-private deals without legislative approval. Puerto Rico's largest airport is run by a public-private partnership.

The authority's first major deal was a decision to lease the island's busiest road, the José de Diego Highway, and a shorter nearby road. Puerto Rico got \$1.08 billion in up-front cash and a promise from the private firm, Autopistas Metropolitanas de Puerto Rico LLC, to invest about \$350 million in the roads, according to the Federal Highway Administration. The private firm made a range of improvements. It has also raised prices for drivers by 20% since 2011.

Prices on the toll road's bonds have risen by about 8 cents on the dollar since October and now are trading at par value. Puerto Rico highway bonds, in contrast, are trading at close to 50 cents on the dollar after the island's highway authority entered a court-supervised bankruptcy process last month.

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BUSINESS & FINANCE

NESTLÉ

Continued from the prior page
getting, the cost-cutting technique applied by Brazilian fund **3G Capital** at some of the U.S. consumer-goods businesses it steers.

Messrs. Schneider and Loeb met in Switzerland about two weeks ago, according to one of these people, to discuss the investor's ideas for how the company can grow.

Third Point believed that new management, already motivated to boost margins, was ready to take the steps it was suggesting, according to people familiar with the matter.

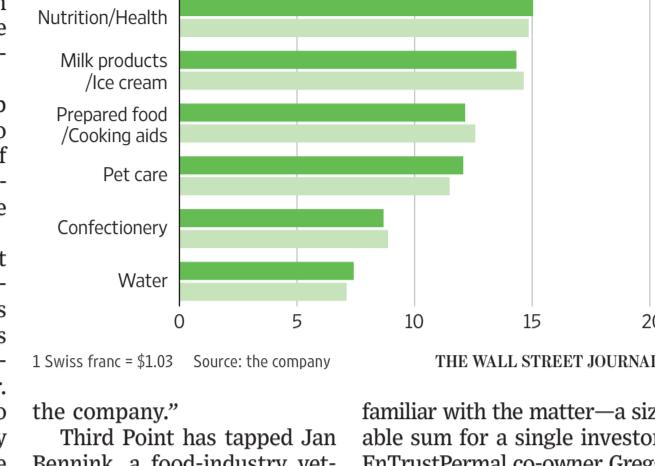
But the hedge fund wanted to make its views public to rally shareholder support for the changes, one of these people said. Third Point also has concerns about the makeup of the board, which it believes lacks packaged-food and financial expertise, the people said.

Third Point's letter to investors on Sunday identified "a familiar set of conditions that make [Nestlé] ripe for improvement and change." The fund said: "Our recommendations to Nestlé management, if taken together, would dramatically improve both the growth profile and earnings power of

Sprawling Empire

Nestlé's revenue by business, in billions of Swiss francs

2016 2015



1 Swiss franc = \$1.03 Source: the company

THE WALL STREET JOURNAL.

the company."

Third Point has tapped Jan Bennink, a food-industry veteran, as its adviser on the investment.

While the fund hasn't specified whether it would seek a board seat at Nestlé, it listed Mr. Bennink's expertise in packaged foods and shareholder returns in its letter.

The hedge fund raised a special \$1 billion investment fund for Nestlé in a matter of weeks,

the people said. EnTrustPermal, an investor in hedge funds that is majority owned by **Legg Mason** Inc., put \$650 million in that fund, according to people

familiar with the matter—a sizable sum for a single investor.

EnTrustPermal co-owner Gregg Hymowitz confirmed the firm had invested in the activist play.

Jefferies analyst Martin Deboo said Mr. Schneider has some room to maneuver.

"We view [Nestlé] as a proud company with an enduring model,"

said Mr. Deboo. "We expect them to be wary of bailing too readily, too publicly, to the views of an ultimately small shareholder."

Mr. Schneider, a dual U.S. and German citizen, spent the 13 years before Nestlé heading

German health-care giant Fresenius SE, which runs hospitals, makes medical equipment and supplies drugs and nutritional products. There, he earned a reputation for deal making and cost-cutting, catching the attention of Nestlé's board. Mr. Schneider is the company's youngest pick for the top job in 50 years and its first outsider CEO since 1922.

Bernstein analyst Andrew Wood hailed Mr. Schneider's appointment as CEO but wrote that he faced "fundamental operating issues" across Nestlé's business units and said any turnaround would "likely take years not months." On Monday, Mr. Wood said "Third Point is just saying (perhaps just louder) what others have been thinking and saying for some time."

Consumer-goods giants the world over are struggling with global markets marked by weaker growth, volatile currencies, political instability and changing consumer tastes.

Mr. Schneider has indicated he gets it. "Size alone does not protect us from the winds of change," he said at an industry conference in Berlin last week, adding that Nestlé is facing a constant need to evolve."

—Juliet Chung contributed to this article.



Nestlé's stake in L'Oréal is valued at more than \$27 billion.

Nestlé and L'Oréal Have Long History, Too Long for Loeb

Is Nestlé SA's stake in L'Oréal SA in play?

With its new holding in Nestlé, Daniel Loeb's Third Point hedge fund is pushing steps to boost shareholder returns, including a review of the Swiss food giant's more than \$27 billion stake in the French cosmetics firm.

Nestlé and France's Bettencourt family, heirs of L'Oréal's founder, have held large stakes in the business for decades. In 1974, the family sought an outside investor, fearing French government nationalization.

For almost as long, the two companies have resisted pres-

sure from analysts and investors to decouple. Critics complain the two don't share common strategic goals.

Nestlé hasn't commented on its intentions for L'Oréal, but if it does seek separation there are several options. An outright sale might be difficult considering the big price tag for non-controlling ownership. Nestlé no longer needs to offer shares first to the Bettencourts.

Nestlé could offer the L'Oréal shares in exchange for Nestlé ones, as per Mr. Loeb's suggestion. Or, a more likely option, L'Oréal could buy back Nestlé's stake. To do so, the cosmetics firm may need to pare its sizable stake in drugmaker Sanofi SA. L'Oréal representatives declined to comment on the company's intentions.

—Nick Kostov

BUSINESS NEWS

Coal Deal Eludes Glencore

BY TAPAN PANCHAL
AND RAZAK MUSAH BABA

LONDON—**Glencore** PLC suffered another setback Monday in a bidding war for Australian coal mines, after owner **Rio Tinto** PLC said it preferred a sweetened offer from a Chinese company.

Rio Tinto restated its preference for **Yancoal Australia** Ltd.'s offer after it was improved to \$2.69 billion.

Rio Tinto had agreed to sell its Australian coal business, **Coal & Allied Industries** Ltd., to Yancoal in January for \$2.45 billion, but commodities rival Glencore swooped in earlier this month with its own offers, pushing the price up.

The bidding demonstrates a renewed appetite for deal-making by Glencore Chief Executive Ivan Glasenberg almost two years after the Switzerland-based company's share price went into a downward spiral. Glencore has since cut its debt almost in half after selling assets, eliminating its dividend and issuing new shares.

Mr. Glasenberg has long wanted to buy Rio's coal business because the assets sit near Glencore's Australian coal operations, offering opportunities for synergies.

Mr. Glasenberg rose through Glencore as a coal trader, and the company is among the biggest traders of the commodity in the world.

Glencore has now tried twice to outbid Yancoal for Rio's Coal & Allied business.

The company first bid \$2.55 billion this month, after Yancoal revised its offer to make its \$2.45 billion payable upfront.

Escalating the bidding on Friday, Glencore submitted an all-cash offer of \$2.68 billion, saying its bid was fully funded and worth at least \$225 million more than Yancoal's.

Yancoal countered with a bid that Rio says is worth around \$2.69 billion, comprising \$2.45 billion in cash payable in full on completion, as well as \$240 million via unconditional guaranteed royalty payments of which \$200 million will be received before the end of 2018.

Rio Tinto on Monday confirmed its recommendation that shareholders vote in favor of the sale of C&A to Yancoal on the grounds that the sweetened China-backed offer had a strong chance of being completed.

Rio has highlighted Yancoal's approval from regulators in China, a voracious consumer of coal.



TORU HANAI/REUTERS

Takata President Shigehisa Takada, center, on Monday in Tokyo. The Japanese company expects to be producing air-bag parts at least until early 2020.

Takata Vows to Meet Recall Needs

In bankruptcy, firm retains responsibility for replacement parts for millions of air bags

Takata Corp.'s bankruptcy filing spells the end of an eight-decade-old auto-parts maker, but the company could

By Sean McLain in Tokyo and Mike Spector in New York

Imp on for years supplying parts for the approximately 54 million defective air bags that still need to be replaced in the U.S. alone.

The unprecedented recall affects roughly 16% of the 260 million vehicles currently on American roads. Consumers already are grappling with confusion and delays on recalls of the air bags linked to at least 16 deaths and more than 180 injuries around the world. In some cases, they aren't expected to be replaced for several years.

Betty Niver had two vehicles equipped with recalled Takata air bags. "My 2013 Acura RDX was the first to get a recall notice," said Mrs. Niver, a 62-year-old retired librarian living in Tulsa, Okla.

Faced with the prospect of having what some officials have called "ticking time-bombs" sitting in her driveway while their local dealership awaited parts needed for repairs, the grandmother of three opted to trade it in for a new car. The couple's second vehicle still is awaiting replacement air bags.

Takata filed for bankruptcy protection in the U.S. and Japan this week with plans to sell the lion's share of its business to rival **Key Safety Systems** Inc. for around \$1.6 billion. Under the Japanese supplier's current plan, a reorganized Takata will handle liabilities not assumed by Key Safety, specifically producing the inflators for continuing recall repairs, according to bankruptcy-court documents.

Takata's U.S. arm faced "insurmountable claims and liabilities" estimated at billions of dollars owed to auto makers shouldering recall costs, according to court documents.

A haggard-looking Shigehisa Takada, Takata's president, bowed deeply at a press conference Monday and pledged production would continue. "We will deeply apologize from the bottom of my heart to all of the relevant people and creditors who have been supporting and cooperating with us," he said.

By the end of 2019, the U.S. recall will expand to cover nearly 70 million air bags—in 42 million cars—from about 46 million air bags currently. Only around one-fifth of the eventual total had been repaired as of May 26, according to U.S. National Highway Traffic Safety Administration data.

Consumers have complained of parts shortages at repair facilities, and some bags may need to be replaced more than once, as early replacements—deemed still problematic—age and the explosion risk grows.

The recall—the largest-ever automotive-safety campaign in the U.S.—affects cars from 19

Parts Maker Seeks Pledges in Support

Takata says it will finalize its U.S. bankruptcy survival agreement in less than a month, gathering signatures from major car makers on a pact that pledges support for the effort to save its automotive-parts business.

The Japanese company sought insolvency protection in Japan and the U.S. to deal with liabilities for defective air bags by selling itself to Key Safety Systems Inc. for \$1.6 billion. The sale amount is far less than Takata needs to pay car makers who have been recalling vehicles, replacing dangerous parts and defending themselves against lawsuits.

However, manufacturers that purchased about 90% of Takata's problem inflators are expected to go along with the sale plan, according to papers filed by Scott E. Caudill, chief operating officer for TK Holdings, one of the Takata units that took cover from creditors in the U.S. Bankruptcy Court in Wilmington, Del.

A forced liquidation would

manufacturers, from luxury makers like BMW AG and Tesla Inc. to Ford Motor Co. and Honda Motor Co.

Car makers in theory could seek compensation from Takata for their recall costs or simply take their business elsewhere. Thus far, they appear more concerned about making sure Takata's factories

erase thousands of jobs and jeopardize the largest car recall campaign ever launched in the U.S. without doing much for creditors, according to Takata.

If the sale strategy fails, Takata will be vulnerable to renewed criminal charges from the U.S. Department of Justice, which has settled accusations the company misled car makers about the dangerous defect, court papers say.

Takata has been sued, but so have the car makers that installed the flawed air bags.

Support from car makers will be crucial to getting Takata's survival plan through the U.S. courts. Honda, Toyota, Mazda, Nissan, BMW, Ford and other manufacturers caught up in the recall and air-bag litigation top the list of unsecured creditors owed undetermined amounts. According to Mr. Caudill, major car makers have been at the bargaining table with Takata for more than a year, working on a way to keep the business alive. No documents have been signed yet, but Takata expects to line up the signatures in time to complete a U.S. support agreement "no later than July 17."

—Peg Brickley

keep churning out replacement parts. Japanese car companies have said that they will continue to purchase replacement parts from Takata, and in filings on the Tokyo Stock Exchange on Monday indicated they expect most of their recall costs won't be reimbursed by Takata.

Those companies include

Honda, the maker most exposed to the recall. It has set aside 556 billion yen (\$4.9 billion) over two years to cover its recall costs.

But Honda is further ahead in the recall than others, having repaired more than 10 million of the currently recalled air bags, or roughly 59% of its share. That compares with 34% for Toyota Motor Corp. and 29% for General Motors Co., according to the NHTSA—and only 2% for Daimler AG's Mercedes-Benz. The slow pace of the recall effort is one reason car makers are saying they will continue to buy replacement parts from Takata.

Two years into the U.S. recall, lawmakers are critical of the progress. "We've got to pick up the pace on boosting production of replacement inflators and assisting consumers who need to get their vehicles fixed," said Sen. Bill Nelson (D, Fla.) in a written statement earlier this month.

The problem is more pressing in states like Mr. Nelson's, where heat and high humidity increase the likelihood the Takata air bags will explode with excessive force, spraying shrapnel inside the vehicles. Regulators have made these regions the priority.

In Japan, three-quarters of Takata's recalled air bags have been replaced. Car makers credit the country's mandatory vehicle-safety inspections. There are also significant numbers of recalls elsewhere, including Europe.

Takata expects to be producing replacement parts at least until March 2020, according to car makers.

U.K. Fire Puts Arconic on Its Heels

BY BOB TITA

Arconic Inc. said it has stopped selling exterior panels for high-rise buildings of the sort suspected of contributing to the spread of a deadly fire in a London apartment tower earlier this month.

The U.S.-based aerospace and building materials specialist on Monday said the decision reflected "inconsistency" in building codes around the world. The fire that killed 79 people in London's Grenfell Tower on June 14 has already prompted a widespread review of construction safety standards in the U.K.

The move by Arconic triggered a sharp fall in its shares, as analysts questioned whether its role in supplying the panels could entail potential liabilities and affect its search for a new chief executive following a tumultuous six months that included a proxy battle with activist investors.

Arconic, formerly part of **Alcoa** Corp., produces panels under the Reynobond PE brand that go into cladding for buildings. Reynobond PE panels aren't allowed by regulators on tall buildings in the U.S. and some other countries because of the potential fire hazard. The panels have been widely used in the U.K., including the recently refurbished Grenfell Tower.

"Because of the inconsistency of building codes across the world and issues that have arisen in the wake of the Grenfell Tower tragedy regarding code compliance of cladding systems, Arconic is discontinuing



Arconic said it will curb sales of cladding of the sort used on London's Grenfell Tower.

global sales of Reynobond PE for use in high-rise applications," the company said in a statement. A spokesman said the panels would still be sold for use on low-rise buildings that are generally more accessible to firefighters.

"Our product is one component in the overall cladding system; we don't control the overall system or its compliance," the company said later in a statement.

Reynobond PE consists of two aluminum sheets sandwiching a polyethylene core. The Grenfell Tower's facade is suspected of having aided the fire's advance. Investigators suspect the blaze spread through a narrow gap between the burning polyethylene core

in the panels and a layer of insulation attached to the exterior of the apartment building.

Arconic's involvement in the cladding used on the building had been known, but its decision to curb sales and concerns about potential liability cut about \$600 million from its market value on Monday. The stock fell 6% to \$24.01 in heavy trading.

Analysts said Arconic's involvement raised questions over how building-products manufacturers could be exposed to potential liabilities after installation.

J.P. Morgan analysts said that "several entities" were involved in the decision to use the cladding panels in Grenfell Tower, many of which may bear

"significantly more responsibility" than Arconic.

U.K. officials have said the material didn't meet building standards for towers whose height exceeds about 59 feet.

But the company that supplied the material to contractors working on Grenfell Tower maintain that it was compliant with building codes.

The Reynobond issue poses a new distraction for a company recovering from a long proxy fight earlier this year that resulted in the resignation of longtime CEO Klaus Kleinfeld.

He was replaced by aerospace executive and Arconic board member David Hess as interim CEO.

—Wiktor Szary contributed to this article.

GM Lowers Outlook For Industrywide Sales

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. He said incentives in June were at the lowest levels in about a 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 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.

programs under the deal is a primary factor, describing the changes 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.

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'It appears the industry is becoming a bit more rational,' GM's CFO says.

TECHNOLOGY

Food Brands Face Amazon Squeeze

Whole Foods deal is expected to put further pressure on already-slipping sales

BY ANNIE GASPARRO AND LAURA STEVENS

Amazon.com Inc.'s deeper push into the grocery business threatens to further pinch packaged-food companies already coping with slowing sales.

An enduring shift by consumers toward fresh and natural options is eating into the business of big food brands, such as **Kraft Heinz** Co., **Kellogg** Co. and **Mondelez International** Inc. They also face growing competition from store brands and upstarts.

Now, Amazon is preparing to expand into the sector with its proven history of aggressively driving down prices.

Amazon's deal to buy **Whole Foods Market** Inc. for \$13.7 billion, including debt, was disclosed about six weeks after its first meeting with

executives. Because the deal came together so quickly, Amazon hasn't yet had the time to develop a complete strategy, according to people familiar with Amazon's thinking. But the company is likely to leverage its negotiating expertise and the combined scale of the business to push for lower prices from suppliers, they said.

Amazon "will keep squeezing national brands on pricing," said James Thomson, a former senior manager in business development at Amazon and now partner at brand consultancy Buy Box Experts.

Amazon's initial priority will likely be to lower Whole Foods' operating costs so that it can charge less for groceries, in hopes of winning more customers, said the people familiar with the company's thinking.

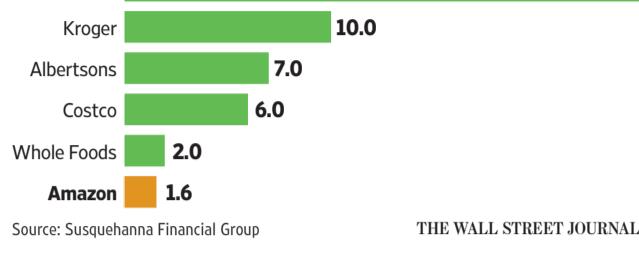
Amazon and Whole Foods declined to comment for this article.

Whole Foods Chief Executive John Mackey told employees this month that one

Catching Up

With the acquisition of Whole Foods, Amazon will become even more competitive in the grocery business.

Estimated U.S. market share of food and beverage sales



Source: Susquehanna Financial Group

THE WALL STREET JOURNAL

of Amazon's core values was "frugality," hinting at a bigger focus on cutting costs and lowering prices for shoppers.

Whole Foods' sales have suffered over the past two years, partly because of a perception among shoppers that its offerings are too expensive.

"If Amazon steers Whole Foods away from its 'whole-paycheck' image, and successfully sells Whole Foods' products online, then 'Big Food' faces the threat of losing

even more market share," said Rabobank food analyst Nicholas Fereday.

Mondelez's comparable sales in North America declined 1.9% in its most recent quarter. Kraft Heinz's U.S. comparable sales fell 3.5%, and Kellogg recently lowered its 2017 comparable-sales growth forecast to negative 3%, excluding currency-rate fluctuations. Most packaged-food companies have turned to cost cutting to boost their profit margins.

Amazon has worked on developing its own private label and last year made a big push into perishable food. Analysts and former employees expect the company to use Whole Foods to build out its own labels and capitalize on the grocer's success with its 365 brand, which accounted for 15% of its most recent fiscal year's sales.

Amazon's Whole Foods deal could also widen the reach of natural and organic brands by putting them online, making them more competitive with traditional, ubiquitous brands.

Alexander Pease, chief financial officer of pretzel maker Snyder's-Lance Inc., said at a conference last week that the deal would generate another "level of discussion with [retailers] around price."

But Susquehanna Financial Group analyst Pablo Zuanic said the Amazon-Whole Foods' combined share of about 4% of U.S. grocery sales hasn't enough "clout" to hurt big food companies in the way of bargaining power.

Avis Gets Waymo Driverless Car Deal

BY JACK NICAS

Google parent **Alphabet** Inc. is hiring rental-car company **Avis Budget Group** Inc. to store and service its self-driving cars in a deal that shows Alphabet's vision for a network of driverless taxis is getting closer to reality.

Alphabet's driverless-car unit Waymo is ramping up a program it launched in April in Phoenix to eventually give hundreds of selected residents there free rides in its self-driving cars.

Under the program, Waymo needs a depot to service and dispatch its vehicles. The company said it chose Avis for its experience in quickly fixing and cleaning rental cars and for its presence across the U.S. and abroad, which can help Waymo expand its program to other cities.

Avis, which also owns the rental-car service Zipcar, said that under the multiyear agreement, it is modifying some rental-car locations to park Waymo's vehicles and service them, including oil changes, tire rotations and cleaning.

The companies didn't disclose financial terms of the deal or specify its length. The deal isn't exclusive, so Waymo can establish partnerships with other fleet managers.

Shares rose 14% Monday, as the deal gives the company a lead on other auto companies hoping to enter the business of managing driverless-car fleets. Shares of rental-car rival **Hertz Global Holdings** Inc. rose following the news of the Avis-Waymo deal and got a boost from a report that one of its subsidiaries leased cars to **Apple** Inc. for autonomous-vehicle testing.

—Christina Rogers and Tripp Mickle contributed to this article.

EU Fine Against Google Is Imminent

BY NATALIA DROZDIAK

BRUSSELS—The European Union's antitrust watchdog will as soon as Tuesday hit **Alphabet** Inc.'s Google with a fine of more than €1 billion, or over \$1.12 billion, and demand changes to the company's business practices, according to people familiar with the matter.

The European Commission, which has for roughly seven years been investigating Google for breaching the bloc's antitrust rules in various areas, is poised to announce as soon as Tuesday that Google has manipulated search results to favor its own comparison-shopping service.

Other formal EU probes into Google's behavior with its Android mobile-operating service and AdSense advertising service are continuing.

The antitrust penalty against Google is expected to surpass the EU's previous record fine imposed on a company for allegedly abusing its market position: €1.06 billion against **Intel** Corp. in 2009.

"We continue to engage constructively with the European Commission and we believe strongly that our innovations in online shopping have been good for shoppers, retailers and competition," said Google spokesman Al Verney.

The EU will also likely demand Google give rival comparison-shopping services such as Foundem.co.uk and Kelkoo.com Ltd. equal treatment in its search results. Complainants in the case allege that Google both demotes competitors' offerings in search rankings and artificially inserts its own service in a box above all other search results, regardless of their relevance. A decision in the comparison-shopping case could create precedents for Google's behavior with its other search services, such as travel and maps, which the EU is also scrutinizing.

Radical Hiring Experiment: Résumés Are Out

BY KELSEY GEE

When Saniya Jaffer arrived for a job interview at **Unilever PLC**'s Englewood Cliffs, N.J., office last October, she was a finalist for a summer position in information technology. After three rounds of interviews and assessments, the Chicago native was about to encounter the first human in the process.

Before then, 21-year-old Ms. Jaffer had filled out a job application, played a set of online games and submitted videos of herself responding to questions about how she would tackle challenges of the job. The reason she found herself in front of a hiring manager? A series of algorithms recommended her.

A radical hiring experiment is under way at the London-based maker of Dove soap and Axe deodorant. To diversify its candidate pool for early-career roles that are a fast track to management, Unilever has ditched résumés and traditional campus recruiting.

Its new process relies on algorithms to sort applicants and targets young potential hires where they spend much of their time: their smartphones.

The company has made more than 450 hires across the globe this year since the fall of 2016. Its experiment provides a glimpse of a tech-fueled future of recruiting in which humans write job descriptions and make the final decisions, but software and algorithms do the rest. Goldman Sachs Group Inc. and Wal-Mart Stores Inc.'s Jet.com have begun using similar digital tools to broaden their candidate base.

Since young people live their lives online, Unilever decided to use the internet to recruit beyond the eight or so



Unilever's Mike Clementi with interns. The company is relying on algorithms for much of its hiring process and has ditched campus recruiting.

schools where recruiters had traditionally sought hires, said Mike Clementi, a Unilever human-resources executive.

"With all of the information readily available to us today about job candidates, why would we still choose to go to a small handful of college campuses?" Mr. Clementi said.

To get the word out about jobs, Unilever placed targeted advertisements on Facebook and career-advice sites such as WayUp and the Muse. Those who clicked on the ads were directed to a career site where they could apply for entry-level jobs and internships in just a few clicks, because Unilever pulls information from the candidate's LinkedIn profile to fill out the application. An algorithm scans those applications—275,400 in all so far—to surface candidates who meet a given role's requirements. The software weeds

out more than half of the pool, according to Unilever spokeswoman Joelle Hutcheon.

Candidates are then asked to play a set of 12 short online games designed to assess skills like concentration under pressure and short-term memory. The top third of those students or fewer are invited to submit video interviews on HireVue, through a website or app, answering questions about how they would respond to business challenges encountered on the job.

At both steps, artificial-intelligence can filter anywhere from 60% to 80% of candidates, Ms. Hutcheon said. To determine which candidates are most likely to be successful at Unilever, the AI uses data points such as how quickly they respond to questions, their facial expressions and vocabulary.

The first step involving direct human judgment is the last step, a final in-person in-

terview with Unilever human-resources executives and managers. Last fall across the U.S. and Canada, around 300 candidates interviewed in person for 200 positions.

Unilever says hiring has become faster and more accurate—80% of applicants who make it to the final round now

get job offers, and a similar number accept—and the company saved on recruiting costs, too. Applicants hailed from more than 2,600 colleges for positions in the U.S. and Canada.

"It was definitely a weird feeling to know that robots are judging you," said Jordan Vesey, 21, a Pennsylvania State University student currently interning with Unilever's customer-development team in New Jersey.

Andy McAllister, a Unilever director of supply chain, was skeptical that algorithms could successfully choose his interns.

Mr. McAllister became a

convert after meeting the program finalists last fall. The caliber of students visiting the Englewood Cliffs headquarters for interviews with Unilever employees was as strong, or stronger, as the candidates he had hand-selected the prior year, he said.

"There's tremendous opportunity here," said Mr. McAllister, adding the changes prompted him to realize that the previous recruiting tactics left room for bias, because recruiters often unconsciously root for students they personally interview.

Unilever spokeswoman Ms. Hutcheon said it is too early to say whether the new hiring practices correlate with stronger employees, adding that the company is closely tracking those hires' success. Still, the company is rolling out its digital recruiting program world-wide, hiring for entry-level roles this way from Brazil to Indonesia.

BUSINESS WATCH

SUPERVALU

Finance Chief Exits Food Seller

Retail and wholesale food seller **Supervalu** Inc.'s chief financial officer is resigning, the third industry executive to step

down in recent days amid turmoil in the grocery industry.

Bruce Besanko, who also was the Minnesota-based grocer's chief operating officer, will step down July 5 "to pursue an opportunity outside the company," Supervalu said. The industry is struggling

with increased competition and prolonged food-price deflation.

Last week, the chief executive of **Southeastern Grocers** LLC, Ian McLeod, said he was leaving the chain for Hong Kong-based retailer **Dairy Farm International Holdings** Ltd. Also last week, the CEO of **Fresh Market**, Rick Anicetti, said without explanation that he was resigning.

—Heather Haddon and Ali Stratton

MARTIN MARIETTA

Bluegrass Materials Sold for \$1.63 Billion

Martin Marietta Materials Inc. said Monday it has agreed to buy **Bluegrass Materials** Co. for \$1.63 billion in cash, in an effort to expand its southeastern U.S. footprint and product range.

Building-materials supplier Martin Marietta said Bluegrass is the nation's largest closely held aggregates company. Bluegrass operates in Georgia, South Carolina, Maryland, Kentucky and Tennessee.

Private-equity firm **Lindsay Goldberg** LLC has been the majority owner of Bluegrass for seven years, helping it make about 10 acquisitions over that time.

—Ali Stratton

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BUSINESS NEWS

Liquor Companies Go on a Mescal Binge

Mexico's smoky spirit widens its global appeal, but revenue growth faces hurdles

BY ROBBIE WHELAN

SAN JUAN DEL RIO, Mexico—Mescal, tequila's smokier cousin, has made the leap from the rugged mountains of Mexico to trendy bars from New York to Los Angeles.

But the world's biggest liquor companies are struggling to parlay its popularity into substantial profits. The factors driving mescal's rise—its handcrafted

production, its connection to Mexico's indigenous village culture and the long growing time required of the agave used in its distillation—are also why the spirit is hard to produce on a large scale.

That isn't keeping the industry from trying. Earlier this month, France's **Pernod Ricard** SA said it bought a controlling stake in **Del Maguey Single Village Mezcal**, Mexico's largest mescal exporter. Del Maguey was founded in 1995 by Ron Cooper, an itinerant surfer and artist from Los Angeles.

Pernod Ricard joins **Bacardi** Ltd., **Jose Cuervo** and **Diageo** PLC, which all have either acquired, launched or struck distribution deals with high-end mescal brands in the past three years.

It is too early to say whether these investments will prove profitable. But as U.S. consumers drink more cocktails, rising sales of mescal could help pad liquor companies' earnings amid sluggish growth in other big alcohol categories, such as rum and vodka, said Milena Redzic, an associate analyst with **AllianceBernstein** in London.

A steady decline in worldwide alcohol consumption accelerated last year, falling 1.4%, according to industry research firm IWSR, mainly because of flagging interest



Production of hand-crafted mescal on a large scale is hampered by the long growing time required for the agave used in its distillation. Harvesting agave in Oaxaca.

in beer and wine. Cocktails, however, have been a rare bright spot, especially in the U.S., where sales of spirits grew 2.6% last year, more than double the growth of wine sales.

Globally, mescal sales have increased 17% annually, on average, in the past decade, Ms. Redzic said.

"It definitely fits very well in the overall consumer preferences in the U.S., where people want a lot of provenance and a lot of story in what they're drinking," she said.

Export demand for mescal surpassed domestic consumption in Mexico for the first time last year, according to the country's mescal regulator. Producers sold a record 640,000 cases both in-

side and outside Mexico. Exports to the U.S. rose 27% to 140,000 cases.

Even with the consistent growth, mescal had just \$124 million in sales last year, according to IWSR. In comparison, tequila, which is made from a single variety of agave known as Weber Blue, had \$6.9 billion in sales. Single-malt scotch, another premium liquor with humble roots, posted sales of \$5.9 billion.

AllianceBernstein estimates that Pernod Ricard might have paid between \$30 million and \$40 million for Mr. Cooper's mescal brand, based on typical gross sales margins and valuations in the premium-spirits market. Mr. Cooper and Pernod Ricard declined to comment on the deal's terms.

Pernod Ricard acknowledges that mescal is still a tiny market, but cited growth potential in its decision to buy Del Maguey, which sold 35,000 cases worth \$15.4 million last year, almost all of it in the U.S.

"In the U.S. mescal is still under 150,000 cases a year," said Jeff Agdern, a senior vice president with Pernod Ricard USA. "There was a time when Irish whiskey was under 200,000 cases a year and look where it is today." Some 3.8 million cases of Irish whiskey were sold in the U.S. last year.

Many producers and industry watchers don't expect mescal to grow at anything like the pace of whiskey.

"This stuff is made by farmers, not in factories,"

said Mr. Cooper, Del Maguey's founder. "We're exporting more mescal because people want to drink the good stuff, the artisanal, handmade stuff."

"How could you scale up and still have good quality? That would make it tequila, amigo."

Here in San Juan del Rio, a village of roughly 2,000 people about three hours from the state capital of Oaxaca in southern Mexico, indigenous families have made mescal by hand for hundreds of years.

Workers harvest enormous agave plants from mountain-side plots, then use mules to haul them to family-run copper-pot distilleries called *palenques*, many of them far from paved roads. There the

plants are ground into a pulp and fermented naturally, with no yeast or other additives, then distilled into the clear, strong spirit.

Mescal is of similar strength to tequila, ranging from 40% to 50% alcohol content by volume.

Santiago Suárez, a 31-year-old Mexico City native, founded **Mezcal Amores**, which last year sold 11,000 cases of its Amores and Amaras brands to U.S. importers for about \$3 million.

This year, he launched a new factory near Oaxaca City to produce a lower-priced brand of mescal known as Verde, aimed at bartenders. He hopes the new line can produce big volumes without sacrificing quality.

Finance Chief Aims to Push Peloton Toward Growth

BY NINA TRENTMANN

One of Lisa Klinger's tasks is to put the brakes on her boss.

"When I first joined, our CEO said that if we are not public within 12 months, he would be disappointed," recalls the finance chief of **Peloton Interactive Inc.**,

the 400-person Manhattan-based company that sells internet-connected bikes and subscriptions to cycling classes. "I cringed," she said.

Ms. Klinger is Peloton's first chief financial officer. Her 2016 hire might have been a precursor to an initial public offering of stock. Ms. Klinger has taken two companies public previously: luxury retailer **Vince Holding Corp.** and U.S. grocer **The Fresh Market Inc.** However, Chief Executive and co-founder John Foley no longer talks about a coming IPO.

A spokesman for Mr. Foley said he wouldn't comment on Ms. Klinger's remarks or on a potential date for an IPO.

"When I got here, we had to



JOHN TAGGART FOR THE WALL STREET JOURNAL

Peloton Interactive sells internet-connected bicycles and subscriptions to cycling classes. The Manhattan-based company raised \$325 million this year and is currently valued at \$1.25 billion.

do a lot of basic building," she said. Peloton was focused on the exercise bikes and online classes, whereas more mundane, yet fundamental things, such as finance processes and internal controls, received little attention.

"The team was working on a great product but did not think of setting up the back-

ground operations," Ms. Klinger said.

Her mission is to turn Peloton into a "well-run, high-growth company." Controlled, sustained growth is important to putting Peloton on a solid footing so an IPO will be successful and deliver a high valuation, Ms. Klinger said. This in-

cludes expanding and sustaining the subscriber base, increasing the number of showrooms and improving the logistics around shipping bikes to customers.

"We could do an IPO tomorrow, but that's not what we are here for," Ms. Klinger said, adding that listing simply for the sake of listing wasn't the

best long-term strategy.

Peloton raised \$325 million this year and is valued at \$1.25 billion. Investors include **Wellington Management**, **Fidelity Investments**, **Kleiner Perkins Caufield & Byers** and **True Ventures**, among others. The company, which hasn't yet posted a profit, earned \$170 million in revenue in 2016, up from \$60 million the previous year.

A monthly subscription fee of \$39 generates about 20% of Peloton's revenue, Ms. Klinger said.

"We want to get as many bikes into people's homes as possible so we can get the subscription fee," Ms. Klinger said.

Peloton didn't give specific subscriber numbers, but aims to have 200,000 subscribers by the end of the year.

The company might prove to be disruptive to the fitness industry, similar to the way **Netflix Inc.** upended cable television.

"You can do things like saying you will have negative earnings before interest, tax, depreciation and amortization for the next 18 months," Ms. Klinger said.

quality annuity stream."

Contrary to competitors such as **SoulCycle Inc.** that operate dozens of cycling studios, Peloton only sells \$1,995 bikes that come equipped with a tablet on which users see live or prerecorded cycling classes, a less capital-intensive business model.

"Peloton is a potential winner because of its capital-light business model," said Randy Konik, an analyst with Jefferies LLC in New York. "The good thing at Peloton is that they don't have to have many studios," Mr. Konik said.

Peloton plans to use its fifth round of funding to shore up its working capital, Ms. Klinger said. Some of the cash will be used as a deposit for a revolving credit facility. There is no rush to go public, and Peloton so far hasn't stated when it expects to break even. But being closely held provides the company with flexibility.

"You can do things like saying you will have negative earnings before interest, tax, depreciation and amortization for the next 18 months," Ms. Klinger said.

Casino Executive Sentenced

A senior executive of Australian casino company **Crown Resorts Ltd.** pleaded guilty Monday to gambling crimes in

weren't sentenced.

The arrests followed an investigation that tracked 69 big-spending Chinese gamblers from 2015 to 2016 as they were coaxed to Crown's Australia resorts with free airline tickets, visas and hotel accommodations and gambled tens of millions of Australian dollars, authorities said in court Monday, according to a person present. Crown has casinos in Melbourne and Perth.

Casino gambling is illegal in China, except in the special administrative region of Macau. Foreign casinos aren't allowed to advertise gambling but can promote their destinations more broadly, for example promoting beaches and shopping.

The defendants could have been sentenced to a maximum three years in prison, according to lawyers following the case, making Monday's terms seem relatively light—especially in comparison with higher-profile cases involving

foreign and Chinese employees of GlaxoSmithKline PLC and Rio Tinto PLC. Australian Rio Tinto executive Stern Hu, for example, was sentenced to 10 years in prison in China for accepting bribes and stealing commercial secrets.

Crown's decision to sell its stake in a Macau casino operator after the detentions likely helped influence the lenient sentences, said Hans Hendrischke, professor of Chinese business and management at the University of Sydney Business School.

Crown was "sending a very strong signal that they take this seriously and they want this to be resolved as soon and as smoothly as possible," Mr. Hendrischke said. "This is very much the way things operate in China, and it would confirm that if you respond adequately as Crown has done, you can get an adequate return from the Chinese side."

—Junya Qian in Shanghai contributed to this article.

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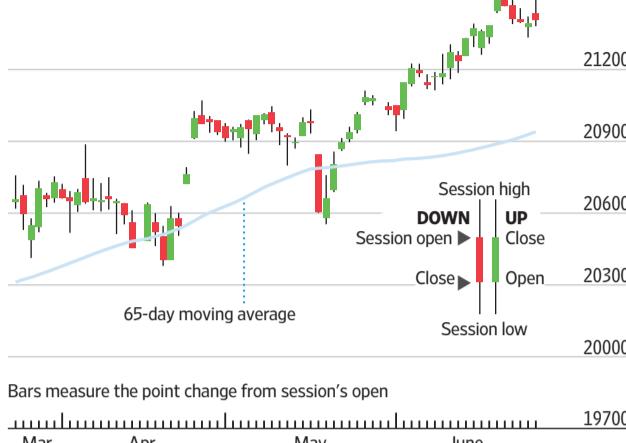
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MARKETS DIGEST

EQUITIES

Dow Jones Industrial Average

21409.55 ▲ 14.79, or 0.07%
High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open
Mar. Apr. May June 19700

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2439.07 ▲ 0.77, or 0.03%
High, low, open and close for each trading day of the past three months.



Mar. Apr. May June 2270

Nasdaq Composite Index

6247.15 ▼ 18.10, or 0.29%
High, low, open and close for each trading day of the past three months.



Mar. Apr. May June 5530

Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
Dow Jones										
Industrial Average	21506.21	21381.25	21409.55	14.79	▲ 0.07	21528.99	17140.24	24.9	8.3	8.3
Transportation Avg	9493.75	9409.68	9442.03	53.36	▲ 0.57	9593.95	7093.40	33.1	4.4	5.0
Utility Average	734.65	724.86	730.57	5.30	▲ 0.73	737.51	625.44	4.8	10.8	8.6
Total Stock Market	25383.83	25236.16	25274.34	17.23	▲ 0.07	25399.65	20583.16	22.8	8.6	7.2
Barron's 400	648.78	643.40	646.18	0.71	▲ 0.11	650.48	491.89	31.4	7.4	6.6

Nasdaq Stock Market

Nasdaq Composite	6303.45	6233.43	6247.15	-18.10	-0.29	6321.76	4594.44	36.0	16.1	12.6
Nasdaq 100	5845.15	5765.87	5777.59	-25.52	-0.44	5885.30	4201.05	37.5	18.8	14.7

Standard & Poor's

	500 Index	2450.42	2437.03	2439.07	0.77	▲ 0.03	2453.46	2000.54	21.9	8.9	7.6
MidCap 400	1754.80	1743.46	1750.75	6.80	▲ 0.39	1769.34	1416.66	23.6	5.4	7.2	
SmallCap 600	857.65	849.83	854.44	1.27	▲ 0.15	866.07	670.90	27.4	2.0	8.1	

Other Indexes

Russell 2000	1420.77	1409.15	1416.64	1.86	▲ 0.13	1425.98	1089.65	30.0	4.4	6.3
NYSE Composite	11793.54	11741.79	11758.86	25.66	▲ 0.22	11833.34	9973.54	17.9	6.3	2.4
Value Line	523.57	520.37	522.52	1.75	▲ 0.34	529.13	435.06	20.1	3.2	1.4
NYSE Arca Biotech	4017.65	3952.40	3980.25	-36.62	-0.91	4016.86	2818.70	41.2	29.4	13.0
NYSE Arca Pharma	550.67	548.35	548.82	-0.09	-0.02	554.66	463.78	9.6	14.0	1.5
KBW Bank	92.72	91.46	92.14	0.60	▲ 0.65	99.33	60.27	52.9	0.4	9.0
PHLX® Gold/Silver	83.45	82.16	82.83	-0.59	-0.71	112.86	73.03	-11.9	5.0	-5.8
PHLX® Oil Service	129.65	127.39	128.26	0.33	▲ 0.25	192.66	127.17	-18.9	-30.2	-25.1
PHLX® Semiconductor	1099.41	1072.51	1077.92	-10.56	-0.97	1138.25	648.32	66.3	18.9	19.7
CBOE Volatility	10.44	9.68	9.90	-0.12	-1.20	23.85	9.75	-58.5	-29.5	-5.2

\$ Philadelphia Stock Exchange

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Mkt and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
SPDR S&P 500	SPY	6,135.3	243.22	-0.07	-0.03	243.64	238.08
Van Eck Vectors Gold Miner	GDX	5,693.6	22.54	-0.02	-0.09	22.59	22.53
Oracle	ORCL	5,143.4	51.10	0.24	0.47	51.16	50.75
Regions Financial	RF	4,386.0	13.75	...	unch.	13.75	13.75
iShares MSCI Emg Markets	EEM	4,312.9	41.90	...	unch.	41.93	41.40
Altaba	AABA	3,752.7	54.31	...	unch.	54.50	54.26
Bank of America	BAC	3,696.3	22.90	0.01	0.04	22.92	22.86
General Electric	GE	3,489.6	27.61	...	unch.	27.66	27.55

Percentage gainers...

T2 Biosystems	TTOO	8.3	3.77	0.12	3.27	3.77	3.77
Tenet Healthcare	THC	17.4	19.38	0.61	3.25	19.45	18.77
Rite Aid	RAD	2,910.2	4.18	0.13	3.21	4.23	4.03
TAL Education Group ADR	TAL	5.3	124.24	3.84	3.19	124.24	120.40
AVEO Pharmaceuticals	AVEO	324.4	2.01	0.06	3.08	2.09	1.88

...And losers

Repligen	RGEN	38.8	42.60	-2.74	**-6.04**	46.29	42.60

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COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract	Open	High	hilo	Low	Settle	Chg	Open interest
Copper-High (CMX)-25,000 lbs.; \$ per lb.								
June 2,620 2,6270	2,6170	2,6250	0.020	495				
Sept. 2,6345 2,6565	2,6130	2,6385	0.040	109,300				
Gold (CMX)-100 troy oz.; \$ per troy oz.								
June 126.20 1260.20	1241.60	1246.30	-9.90	398				
Aug. 1258.10 1259.00	1236.50	1246.40	-10.00	300,446				
Oct. 1262.00 1262.60	1240.90	1250.10	-10.00	14,143				
Dec. 1265.30 1265.90	1244.80	1253.70	-10.00	98,847				
Feb'18 1269.30 1269.30	1248.00	1257.10	-10.00	12,050				
June 1256.40 1263.40	1256.40	1263.70	-10.00	7,006				
Palladium (NYM)-50 troy oz.; \$ per troy oz.								
June 868.00 875.00	868.00	880.85	6.30	9				
July 873.25 873.25	858.25	875.05	7.30	35				
Sept. 852.95 865.50	845.40	863.95	7.30	33,659				
Dec. 838.35 855.90	837.70	855.00	7.20	2,549				
March'18 832.80 832.80	832.80	846.90	7.80	132				
Platinum (NYM)-50 troy oz.; \$ per troy oz.								
June 925.40 926.80	925.40	915.70	-12.80	4				
Oct. 932.50 932.50	914.30	918.20	-13.30	46,192				
Silver (CMX)-5,000 troy oz.; \$ per troy oz.								
June 16.425 16.555	16.425	16.560	-0.068	4				
Sept. 16.755 16.785	16.280	16.631	-0.076	113,367				
Crude Oil, Light Sweet (NYM)-1,000 bbls.; \$ per bbl.								
Aug. 43.16 43.65	42.63	43.38	0.37	540,999				
Sept. 43.38 43.90	42.87	43.61	0.34	291,950				
Oct. 43.63 44.13	43.13	43.84	0.33	114,218				
Dec. 44.20 44.66	43.69	44.40	0.32	313,893				
June'18 45.44 45.72	44.96	45.52	0.27	118,739				
Dec. 46.23 46.49	45.88	46.33	0.22	158,993				
NY Harbor ULSD (NYM)-42,000 gal.; \$ per gal.								
July 1.3765 1.3901	1.3578	1.3802	0.085	33,007				
Aug. 1.3840 1.3966	1.3638	1.3864	0.077	121,337				
Gasoline-NY RBOB (NYM)-42,000 gal.; \$ per gal.								
July 1.4352 1.4480	1.4121	1.4387	0.046	36,176				
Aug. 1.4228 1.4370	1.4020	1.4281	0.057	131,211				
Natural Gas (NYM)-10,000 MMBtu.; \$ per MMBtu.								
July 2.990 3.052	2.975	3.027	0.098	26,928				
Aug. 3.003 3.073	2.993	3.049	0.098	272,759				
Sept. 3.000 3.065	2.990	3.043	0.094	179,205				

Cash Prices | WSJ.com/commodities

Monday, June 26, 2017

These prices reflect buying and selling of a variety of actual or "physical" commodities in the marketplace—separate from the futures price on an exchange, which reflects what the commodity might be worth in future months.

Monday	Monday	Monday		
Energy				
Propane,tet,Mont Belvieu-g	0.5730			
Butane,normal,Mont Belvieu-g	0.6802			
Natural Gas,HenryHub-g	2.980			
Natural Gas,TranscoZone3-i	2.930			
Natural Gas,TranscoZone6NY-i	2.120			
Natural Gas,PanhandleEast-i	2.660			
Natural Gas,Opal-i	2.650			
Natural Gas,MarcellusNE PA-i	1.660			
Natural Gas,HaynesvilleLA-i	2.810			
Coal,Aplic,1,250,000Btu,1,250,2-rw	52.550			
Coal,PwdrRvrBsn,880,000Btu,0.8502-rw	11.550			
Metals				
Gold, per troy oz				
Engelhard industrial	1246.76			
Engelhard fabricated	1340.27			
Handy & Harman base	1245.25			
Handy & Harman fabricated	1382.22			
LBMA Gold Price AM	*1256.30			
LBMA Gold Price PM	*1255.70			
Kruegerand,wholesale-e	1295.74			
Maple Leaf-e	1308.20			
American Eagle-e	1308.20			
Mexican peso-e	1510.18			
Austria crown-e	1224.23			
Austria phil-e	1308.20			
Silver, troy oz.				
Engelhard industrial	16.6500			
Engelhard fabricated	19.9800			
Handy & Harman base	16.5800			
Handy & Harman fabricated	20.7250			
LBMA spot price	£12.9759			
(U.S.\$ equivalent)	16.5300			
Metals				
Gold, per troy oz				
Engelhard industrial	1246.76			
Engelhard fabricated	1340.27			
Handy & Harman base	1245.25			
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American Eagle-e	1308.20			
Mexican peso-e	1510.18			
Austria crown-e	1224.23			
Austria phil-e	1308.20			
Silver, troy oz.				
Engelhard industrial	16.6500			
Engelhard fabricated	19.9800			
Handy & Harman base	16.5800			
Handy & Harman fabricated	20.7250			
LBMA spot price	£12.9759			
(U.S.\$ equivalent)	16.5300			
Inflation				
May index	244.733	0.09	1.9	
Chg From (%) level	April'17	251.835	0.08	1.7
U.S. consumer price index				
All items	244.733	0.09	1.9	
Core	251.835	0.08	1.7	
International rates				
Latest	Week ago	—52-Week—		
Week Ended — Jun 23	Jun 16	High	Low	
Prime rates				
U.S.	4.25	4.25	4.25	3.50
Canada	2.70	2.70	2.70	2.70
Japan	1.475	1.475	1.475	1.475
Policy Rates				
Euro zone	0.00	0.00	0.00	0.00
Switzerland	0.50	0.50	0.50	0.50
Discount window primary credit				
1.75	1.75	1.75	1.00	
Conventional mortgages				
n.a.	n.a.	3.56	3.41	
Treasury yields at constant maturities				
1-month	0.83	0.86	0.86	0.13
2-month	0.99	1.01	1.01	0.24
3-month	1.15	1.12	1.15	0.46
5-year	1.10	1.05	1.10	0.33
10-year	1.11	1.07	1.11	0.39
20-year	1.15	1.12	1.15	0.54
Discount window primary credit				
1.75	1.75	1.75	1.00	
Conventional mortgages				
n.a.	n.a.	3.56	3.41	
Corporate bonds, Moody's seasoned				
Aaa	n.a.	3.56	3.21	
Baa	n.a.	4.56	4.19	
TIPS				
5-year	0.22	0.15	0.25	-0.45
7-year	0.38	0.32	0.47	-0.27
10-year	0.49	0.47	0.63	-0.04
20-year	0.75	0.77	0.97	-0.36
Long-term avg	0.78	0.80	0.97	-0.38
Interest rate swaps				
1-year	n.a.	n.a.	1.00	0.67
2-year	n.a.	n.a.	1.09	0.74
3-year	n.a.	n.a.	1.17	0.81
4-year	n.a.	n.a.	1.25	0.89
5-year	n.a.	n.a.	1.33	0.96
7-year	n.a.	n.a.	1.48	1.10
10-year	n.a.	n.a.	1.65	1.29
30-year	n.a.	n.a.		

BIGGEST 1,000 STOCKS

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISYE and BATS.

The list comprises the 1,000 largest companies based on market capitalization.

Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume.

Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Monday, June 26, 2017

NYSE

Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg				
ABB	ABB	25.36	-0.04	BankMontreal	BMO	70.98	0.17	ConstrBldgA STZ	STZ	182.47	-2.10	FleetCorp	FCX	11.82	0.06	Freeport-McMoRan	FCX	11.82	0.06
AES	AES	11.68	0.12	BankN.Y. Mellon	BK	49.55	-0.18	ConstBldgB STZ	STZ	183.43	-0.35	FreseniusMeds	FMS	65.91	0.02	GlobeLeasing	GLB	11.20	-0.01
Aflac	AFL	77.51	-0.09	Barclays	BCS	10.18	0.14	ContinentalFins	CLP	46.02	-0.18	GlobeLeasing	GLB	11.20	-0.01	GoldmanSachs	GS	23.97	0.30
AT&T	T	38.15	0.20	Barclaycard	ABX	16.34	-0.14	Cooper	COP	246.76	0.57	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
AbbottLabs	ABT	48.91	-0.17	Barclaycard	ABX	16.34	-0.14	Corning	GLW	30.23	0.24	GeneralElec	GE	27.61	0.04	Goldcorp	GDP	23.97	0.30
AbbVie	ABBV	72.74	0.10	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GeneralMills	GIM	34.52	0.32	GlobeLeasing	GLB	11.20	-0.01
Accenture	ACN	122.34	-0.40	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
AcuityBrands	AVY	175.56	-0.59	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Adient	ADNT	64.83	0.70	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
AdvanceAuto	AAPL	121.70	0.25	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Adsvi SemEngg	ASX	6.22	0.09	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aegon	AEG	4.90	0.03	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
AerCap	ACN	45.64	-0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aetna	AET	151.19	-0.19	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
AffiliatedMtrs	AMG	16.23	1.09	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
AigTechs	ATC	59.24	-0.53	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
AigonicEagle	AEV	47.27	-0.57	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aigrum	AGU	92.68	0.31	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
AirProducts	APD	144.91	-0.03	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aitken	AEG	4.90	0.03	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Airbus	AIR	90.87	-0.76	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aitmarle	ALB	105.02	0.17	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
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Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74	0.01	Barclaycard	ABX	16.34	-0.14	Coty	COTY	19.20	0.06	GlobeLeasing	GLB	11.20	-0.01	GlobeLeasing	GLB	11.20	-0.01
Aircastle	ATL	2.74</																	

BANKING & FINANCE

Buffett Backs Store REIT

By NICOLE FRIEDMAN
AND IMANI MOISE

Warren Buffett's **Berkshire Hathaway Inc.** has made its second big real-estate bet in recent days.

On Monday, the real-estate investment trust **Store Capital Corp.** disclosed Berkshire has purchased a 9.8% stake in the firm. The \$377 million investment from Berkshire is a wager that some types of storefronts will continue to attract shoppers, even as online shopping has forced the U.S. retail industry to close stores at a record pace. The FTSE NAREIT Equity REIT Index is up 2.2% this year, while the FTSE NAREIT index for retail REITs is down 15%.

Arizona-based Store Capital has some insulation from the problems in traditional shopping retailers. Its largest investments are in single-tenant properties such as chain restaurants, veterinary clinics and fitness centers.

The deal comes just a few

days after Berkshire invested about 400 million Canadian dollars (\$302 million) in the struggling Canadian mortgage lender Home Capital Group Inc.



Warren Buffett's Berkshire didn't request a seat on Store's board.

Berkshire bought 18.6 million newly issued shares of Store Capital for \$20.25 each, a 2.5% discount to the stock's Friday closing price. Shares rose 11% Monday to \$23.13.

Store Capital shares slid this past spring after the company reported disappointing earnings.

Store Capital said Berkshire's investment represents a vote of confidence in its leadership and business model. Store Capital's real-estate

portfolio totaled \$5.5 billion, representing 1,750 property locations in 48 states, as of March 31.

"We're devoted to doing service-sector investments ...where you can't buy these services through the internet," said Christopher Volk, Store Capital's chief executive, in an interview. Berkshire "saw an opportunity to invest at an attractive price, and they believe in us."

Berkshire is broadly on the hunt for ways to invest its growing cash pile.

The conglomerate, which owns businesses ranging from insurers to cooking supplies and also takes large stakes in public companies, held \$96.5 billion in cash as of March 31.

Mr. Buffett didn't respond to a request for comment.

Mr. Volk first contacted Berkshire in 2014 using its public email address to suggest an investment opportunity. Mr. Buffett responded within hours, he said, asking for more information. Mr. Buf-

fett put Mr. Volk in touch with Ted Weschler, one of Berkshire's two portfolio managers, and Mr. Weschler continued to follow Store Capital's financial results.

About 10 days ago, Mr. Weschler called Store Capital to say that Berkshire wanted to make an investment, Mr. Volk said.

Berkshire didn't request a seat on Store Capital's board, Mr. Volk said.

Store Capital said last year that it plans to invest \$900 million in real estate in 2017 but could spend more than that with Berkshire's investment, said Janney Montgomery Scott LLC in a note.

The firm's biggest customers include a Midwestern furniture retailer, movie-theater chain AMC Entertainment Holdings Inc. and a chain of preschools. Berkshire now is Store's third-largest shareholder, behind Vanguard Group and Fidelity Management & Research Co., according to FactSet.



Venmo founders Andrew Kortina, left, and Iqram Magdon-Ismail

VENMO

Continued from page B1
Group LLC.

Paying Up

Volume of transactions processed on Venmo



Source: PayPal Holdings

THE WALL STREET JOURNAL.

Funds that an iPhone user receives will be stored on a virtual card issued by **Green Dot Corp.**, that can be used to shop with Apple Pay. Rather than building a distinct smartphone app, Apple is integrating its money-transfer service with its iMessage and Siri products later this year. (Venmo also works with iMessage and Siri.)

Risk-management firm **Kroll Inc.** said in a summary of an audit released Saturday that at least \$500 million of the package was unaccounted for and government officials have failed to adequately explain how the rest was spent.

Credit Suisse Denies Fee Finding on Mozambique

By MATINA STEVIS

Swiss bank **Credit Suisse Group AG** denied receiving excessive fees for its role in arranging a controversial \$2 billion loan package to the southern African nation of Mozambique.

Risk-management firm **Kroll Inc.** said in a summary of an audit released Saturday that at least \$500 million of the package was unaccounted for and government officials have failed to adequately explain how the rest was spent.

Kroll said Credit Suisse and Russian lender **VTB** had charged nearly \$200 million in fees to help arrange the loans from private-sector investors abroad, which were directed to the tuna-fishing



Western donors have halted budget support to Mozambique. A bridge under construction there.

company **Ematum**, security firm **Proindicus** and **Mozambique Asset Management**, an amount it said was far in excess of the market average.

Credit Suisse late Sunday denied the allegation, saying the assertion that it took in \$100 million for its role in securing the loans was "incorrect and misleading."

"Banking fees for Credit Suisse totaled \$23 million—roughly 2.3% of the total financing and in line with comparable emerging market financing transactions," it said.

The bigger part of the fees were "effectively passed on to syndicate loan members or, in the case of Ematum, to

note investors that purchased the debt," it said.

Discovery of unapproved loan credits to the three companies in 2013 and 2014 led the International Monetary Fund and Western donors to halt budget support to Mozambique last year, a move that has plunged the country into a budget crisis.

STOCKS

Continued from page B1
little weight to a series of weak inflation readings and indicated the central bank remains on track to tighten monetary 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 analyzes 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,

On the Rise

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

Year-to-date performance



head of global interest rates and foreign exchange at Bank of America Merrill Lynch.

While riskier assets such as emerging markets are rising on hopes that a global recovery is sparking long absent inflation, "the bond market believes that rates will go up and inflation...will get crushed,"

Mr. Woo said.

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. The Russian ruble, which tends to move with oil prices, is down about 3.7% this month. Mr. Woo is advising his clients to

buy the Japanese yen, a popular haven for investors during turbulent times. The yen has strengthened around 2% from its May lows against the dollar.

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 comparatively volatile major 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 sovereign credit rating for the first time in nearly three decades last month, even as Beijing has intensified a campaign to rein in risky investment and financing practices that pose a threat to the world's second-largest economy.

Even though risky assets have lately performed well, "there is a desire to hedge," Mr. Graf said. "Investors are trying to guess where the next crisis will come from."

Starting this quarter, PayPal plans to ramp up its effort to make money from Venmo by trying to persuade merchants to accept it as a form of payment—and charging them a typical fee of 2.9% plus \$0.30.

Early adopters include online fashion marketplace **Poshmark Inc.**, online bulk retailer **Boxed.com** and hamburger chain **White Castle Management Co.**

"People really value [person-to-person payments], but there's so much more they want to a digital commerce experience," Bill Ready, PayPal's chief operating officer, said in an interview.

Apple is also angling to use person-to-person payments to boost usage of Apple Pay, which was launched in 2014. The goal: Apple keeps a slice of the transaction fee charged to merchants when its users tap their iPhones to pay for goods and services in stores, online and in smartphone apps.

ments could spur more sign-ups, but because it works through iMessage, the service's user base is limited to people who have newer iPhones, iPads and Apple Watches.

"The big disadvantage of the Apple product is it's Apple only," said Craig Maurer, an analyst at Autonomous Research.

With Zelle, banks are trying to be as inclusive as possible. The seven banks that own **Early Warning Systems LLC**, the entity that owns the Zelle network, have the largest U.S. customer bases. The member banks, which include J.P. Morgan, **Bank of America Corp.** and **Wells Fargo & Co.**, plan to integrate Zelle within their own smartphone apps. Unlike with Venmo and Apple Pay, customers using Zelle won't have to initiate separate transfers to get money they received into their bank account.

Customers of other banks can access Zelle through a stand-alone app, but that isn't due to launch until later this year.

Those transfers won't run on Zelle, but through **Visa's** and **Mastercard's** real-time payments networks.

Dividend Changes

Dividend announcements from June 26.

Company Symbol Yld% New/Old Freq Payable/Record

Increased

8Point3 Energy Partners CAFD 7.0 2642/2565 Q Jul14/Jul06

Hugoton Royalty Trust Un HGT 6.9 .0101/00602 M Jul17/Jun30

Preferred Bank LA PFBC 16 .20/18 Q Jul21/Jul07

Initial

ClearBridge Div Strat ESG YLDE .069 Jun30/Jun28

John Hancock Mult Dev JHMD .44834 Jun30/Jun28

WisdomTr Yield Enh US ST SHAG .08 Jun30/Jun28

Company Symbol Yld% New/Old Freq Payable/Record

Downsized

Advantor Wright ADR AADF 2.6 30343 Q Jun30/Jun28

AdvisorSh P Asst Enh FR FLRT 2.6 10675 M Jun30/Jun28

AdvisorShares Newfleet MINC 2.5 10254 M Jun30/Jun28

AdvisorShares Sage Core HOLD 1.3 10805 M Jun30/Jun28

AdvisorShs Peritus Hi Yd HYLD 6.8 20507 M Jun30/Jun28

Alliance CA Municipal AKP 4.1 04724 M Jul21/Jul07

AllianceBernstein Gbl AWF 6.5 .0699 M Jul21/Jul07

AllianceBmtn NtMunr AFB 4.5 .05205 M Jul21/Jul07

Altitude Sust Income Fnd CIK 7.9 .022 M Jul18/Jul12

Dhandho Junoon ETF JUNE .60424 Jun29/Jun28

Dhandho Junoon ETF JUNE .0288 Jun29/Jun28

Dhandho Junoon ETF JUNE .50744 Jun29/Jun28

Elkhorn Lnt Low Vol Hi LVHB 19 14332 Q Jun30/Jun28

Elkhorn S&P High Qual Fld EPRF 5.5 .142 M Jun30/Jun28

Elkhorn S&P MC Con Disc XD 16 .06071 Q Jun30/Jun28

Elkhorn S&P MC Con Stap XS 16 .05206 M Jun30/Jun28

Elkhorn S&P MC Energy XE 19 .04923 Q Jun30/Jun28

Elkhorn S&P MC Financials XF 28 .10801 Q Jun30/Jun28

Elkhorn S&P MC Hlth Care XH 0.2 .01018 Q Jun30/Jun28

Elkhorn S&P MC Inds XI 17 .06526 Q Jun30/Jun28

Elkhorn S&P MC Info Tech XK 0.5 .01934 Q Jun30/Jun28

Elkhorn S&P MC Materials XM 2.4 .09487 Q Jun30/Jun28

Elkhorn S&P MC Utilities XU 4.5 .1797 Q Jun30/Jun28

Company Symbol Yld% New/Old Freq Payable/Record

Revised

Gug Multi Ast Inco CVY 4.2 2179 Q Jun30/Jun28

Guggenheim Cdn Enrg Incm ENY 3.3 .0656 Q Jun30/Jun28

Guggenheim DJIA Dividend DJD 2.4 1854 Q Jun30/Jun28

Guggenheim Int'l Mlti Ast HGI 31 .129 Q Jun30/Jun28

Guggenheim S&P Gbl LVL 5.0 .1367 Q Jun30/Jun28

Guggenheim S&P Hi Incm GHII 8.6 .6011 Q Jun30/Jun2

MARKETS

Risky Bank Bonds Hang Tough

Recent setbacks fail to derail European market for contingent convertible securities

By JUSTIN YANG

The market for a form of European bank debt has remained resilient despite two setbacks in the space of a month—a sign it may have finally come of age, some investors say.

The broader market for European banks' contingent convertible bonds, or CoCos, held steady after Germany's Bremer Landesbank suspended interest payments to investors on two bonds last week and regulators wrote off

Spain's Banco Popular Español SA bonds to zero earlier this month.

Investors in the Bloomberg Barclays European Banks CoCo Index, which indicates the performance of European banking CoCos and included Banco Popular's CoCos until they were wiped out, have turned in a loss of 0.3% this month through Friday, but a 11% year-to-date return.

"The fact that the whole universe has held up well is a sign that the market has matured," said Andrea Iannelli, investment director at Fidelity International.

CoCo bonds were designed in the wake of the financial crisis to ensure banks can weather rocky periods by forcing debtholders to take losses. Banks, or their regulators, can stop interest payments being

paid out on the bonds and—in more extreme cases—convert the debt into equity or remove bondholders altogether.

Both Bremer's coupon suspension and Banco Popular's write-off were firsts for the CoCo bond market. So far, money managers have taken these events in stride.

The fallout from Banco Popular appeared to be contained to the immediate aftermath. Bonds issued by banks from European countries with weaker economies traded up or down by around half a percentage point on the news, said a report by independent researcher CreditSights shortly after Banco Popular's CoCo write-off.

The market's resilience is a far cry from last February, when concern that Deutsche Bank AG could stop coupon

payments on its CoCos spooked investors. By Feb. 11, investors in the European Bank CoCo index were already down more than 8% for that year.

Mr. Iannelli said CoCos have become attractive as one of the last asset classes that provide "reasonable yield," but still need to be handled with scrutiny. Bremer's two CoCo bonds offered interest payments, or coupons, of 9.5% and 8.5%.

According to an early June report from CreditSights, the European bank CoCo market stands at an aggregate size of €125 billion (\$140 billion), made up of 140 CoCo bonds from 56 issuers.

With a more mature market, disruption at smaller banks like Bremer Landesbank and Banco Popular isn't enough to shake the entire

sector, analysts say.

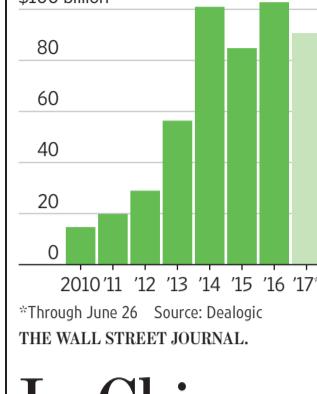
Bremer Landesbank suspended coupons after its shipping loan portfolio incurred heavy losses as charter rates fell in the industry. Banco Popular's downfall came after it was saddled with €37 billion of foreclosures and other nonperforming assets when the Spanish real-estate market went sour. Regulators determined the bank would likely fail in the near future and wiped out its CoCo bonds. Banco Popular was then sold to Banco Santander SA for a symbolic €1.

Investors say that Bremer and Popular were isolated cases that weren't indicative of the wider industry.

"They were both seen as exceptional cases," said Simon Adamson, a senior European banks analyst with CreditSights.

Bond Bonanza

Chinese companies have issued \$90.5 billion in dollar debt so far this year, nearly as much as the total for 2016.



*Through June 26. Source: Dealogic

THE WALL STREET JOURNAL

In China, Debt Boom Is Losing Its Rumble

By SAUMYA VAISHAMPAYAN

A fall in the price of bonds issued by China's largest property developer last week is adding to strains in the market even as Chinese companies continue to pile up a mountain of dollar-denominated debt this year.

China Evergrande last week sold \$6.6 billion in bonds, the largest issuance by an Asian high-yield company ever, according to data provider Dealogic. The company issued \$3.8 billion of new debt and exchanged \$2.8 billion of old bonds for new debt, paying coupons of up to 8.75%.

Still, the bonds fell sharply in their first few days of trading, and on Monday, just days after the issue, they were still trading below face value, according to Thomson Reuters data. Such a price fall is unusual for newly issued bonds, market analysts say.

Evergrande's bond deal comes on top of a dizzying amount of dollar-bond issuance by Chinese companies this year. Collectively, they have sold about \$90.5 billion in dollar debt, nearly as much as the \$102.8 billion issued in all of 2016, according to Dealogic. The year-to-date issuance is a record this century,

Evergrande's debt deal comes on top of a dizzying amount of dollar-bond issuance.

based on Dealogic data.

Alongside the surge, Chinese regulators have in recent months tightened scrutiny over companies wishing to issue bonds overseas. The Wall Street Journal reported last week that China's banking regulator is checking the borrowings of some of the country's biggest overseas deal makers. The offshore bonds of many of those companies were hit hard last week, according to research firm CreditSights.

Market participants said the fall in Evergrande's bonds appeared to be mostly due to a large amount of bonds being allocated to buyers. Investors often place larger orders for new bond issues than they want to receive, because they don't expect to get the full amount of their order.

"The price reaction was predominantly because of the very large volume," said Rick Mattila, international head of market strategy at MUFG Securities Asia Ltd. in Hong Kong. "Investors ended up with more bonds than they would have perhaps liked."

Evergrande couldn't be reached for comment.

Chinese companies have turned to offshore markets for funding in recent months as Beijing takes steps to bring down the country's lofty debt levels. Rising yields in China's government-bond market have made it more expensive for Chinese companies to borrow onshore, because investors generally demand higher yields to own corporate bonds because of the risk of default.

Falling U.S. Treasury yields have made it more attractive for Chinese companies to issue U.S. dollar debt. The yield on the 10-year Chinese government bond was at 3.566% on Monday in Hong Kong, while the 10-year U.S. Treasury yield settled at 2.135%, according to Thomson Reuters data.



ZUMA PRESS

Nestlé shares rose 4.3% after news that Third Point had taken a \$3.5 billion stake. A display in a Nespresso store, a Nestlé brand.

Investors Turn to Utilities, Trim Tech

By CHRISTOPHER WHITTALL AND GUNJAN BANERJI

Shares of utility companies and other dividend-paying stocks led the S&P 500 to a slim gain following some tepid U.S. economic data.

As investors turned to more defensive stocks that tend to offer steady income, they dialed back on the year's biggest gainer, the technology sector.

Overall moves were relatively muted. The Dow Jones Industrial Average snapped a four-day losing streak, gaining 14.79 points, or less than 0.1%, to 21409.55. The S&P 500 rose 0.77 point, or less than 0.1%, to 2439.07. The tech-heavy Nasdaq Composite shed 18.10 points, or 0.3%, to 6247.15.

U.S. government-bond prices and their stock-market proxies rose after Commerce Department data showed demand for long-lasting factory goods declined in May for the second straight month.

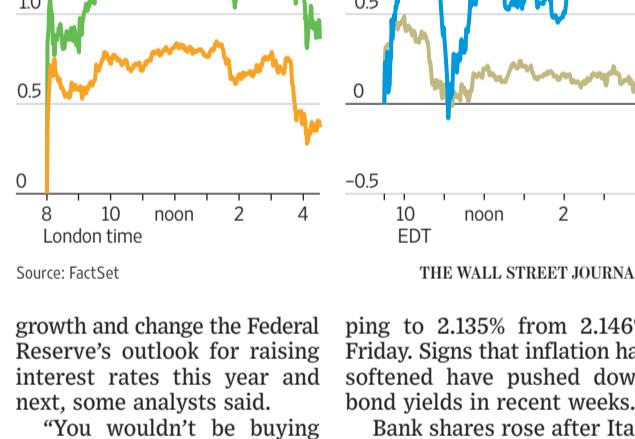
Utilities shares in the S&P 500 rose 0.8%; telecommunications, real-estate and consumer-staples stocks also gained.

Recent inflation figures have been lackluster, raising concerns that further disappointing data could damp U.S.

Bank Boost

Shares of financial companies rose Monday after Italian authorities stepped in to rescue two regional lenders.

Performance minute-by-minute



Source: FactSet

dex gained 0.9%. The Stoxx Europe 600 rose 0.4%.

Italian banks have been a concern for years, weighed down by bad loans, low profitability and insufficient capital. Their troubles have cast a shadow over the wider European banking system, which accounts for a large chunk of regional equity benchmarks.

"It is a very significant step," said Isabelle Mateos y Lago, chief multiasset strategist at BlackRock. "If finally the issue of [bad loans] in the Italian banking system and overcapacity in some of the regional banks is being addressed, it is a very positive signal."

Intesa Sanpaolo, which is set to buy the best assets of two troubled Italian lenders for a token fee, rose 3.5% in European trading. Italy's largest lender, UniCredit, added 2.2%.

Elsewhere in Europe, food and beverage shares rallied after news that billionaire activist investor Daniel Loeb's Third Point hedge fund had taken a \$3.5 billion stake in Nestlé, whose shares rose 4.3%.

Early Tuesday, Japan's Nikkei was up 0.4%, Hong Kong's Hang Seng Index was up 0.1% and South Korea's Kospi was up 0.2%. Australia's S&P ASX 200 was down 0.5% and the Shanghai Composite was off 0.2%.

Yield on 10-Year Note Falls to Lowest This Year

By MIN ZENG

Long-term U.S. government bond yields closed at fresh 2017 lows as the latest sign of tepid U.S. business spending added to concerns over the economy's growth momentum and stoked demand for haven assets.

The 1.1% decline in orders for durable goods—products designed to last at least three years—raised some investors' skepticism that the Federal Reserve could lift interest rates again this year. "The economic data continues to disappoint and is making the bond market very skeptical of any more rate hikes in the near future," said Thomas Roth, executive director in the rates trading group at MUFG Securities Americas Inc.

The yield on the 10-year Treasury note settled at 2.135% on Monday, compared

with 2.146% Friday. It was the yield's lowest close since Nov. 10, 2016. Yields fall as bond prices rise. The yield for the 30-year Treasury settled at 2.696%, its lowest close since Nov. 8, 2016.

Higher interest rates from the Fed reduce money flowing into the broader economy and tend to shrink the value of outstanding Treasury bonds.

Yet the 10-year yield has fallen this year even as the Fed has raised interest rates three times since December. A number of factors have sent the 10-year yield lower this year: skepticism over President Donald Trump's capability to push through his fiscal agenda, questions toward how robustly the U.S. economy has been expanding after a soft patch during the first three months of the year and slowing inflation over the past few months despite signs of the labor market approaching full employment.

Reflecting investors' doubts over the Fed's rate-increase plan, a \$26 billion sale of two-year Treasury notes on Monday drew the strongest demand since November 2015.

A \$34 billion sale of five-year notes is due Tuesday, followed by a \$28 billion sale of

Investors will look to Fed chief Janet Yellen's speech Tuesday for clues on the rate outlook.



seven-year notes Wednesday. Traders said the looming supply constraint has constrained the bond market's price strength on Monday.

Fed Chairwoman Janet Yellen is scheduled to speak Tuesday in London. Investors will zero in on whether the Fed chief sticks to her expec-

tations that slowing inflation would be temporary, which supports her case to continue raising short-term rates in a gradual manner.

Lower bond yields suggest that some investors aren't buying the Fed's inflation outlook. Inflation is the big threat to long-term government debt as it chips away investors' purchasing power over time from fixed-income investments.

The Bank of America Merrill Lynch MOVE index, which measures investors' expectation of price swings in the Treasury market, settled at 50.0183 Monday, according to data from Bank of America Merrill Lynch. That marked the lowest reading since its record low of 48.8695 set on May 9, 2013.

"Bond investors don't anticipate that yields will move significantly higher or lower" due to moderate growth, contained inflation and a Fed that in-

tends to remove monetary accommodation at a very gradual pace, said Donald Ellenberger, senior portfolio manager at Federated Investors.

AUCTION RESULTS

Here are the results of Monday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

13-WEEK AND 26-WEEK BILLS

Applications \$120,964,365,400 \$110,513,488,300

Accepted bids \$39,000,669,400 \$33,000,238,300

"noncomp" \$502,765,400 \$467,235,300

"noncomp" \$150,000,000 \$926,000,000

Auction price (rate) 99.74722 99.43833

(1.000%) 1.132%

Coupon equivalent 1.016% 1.132%

Bids at clearing yield accepted 50.23% 44.87%

Cusip number 912796L1V9 912796M1J2

Both issues are dated June 29, 2017. The 13-week bills mature on Sept. 28, 2017; the 26-week bills mature on Dec. 28, 2017.

TWO-YEAR NOTES

Applications \$81,965,063,600

Accepted bids \$29,160,503,600

"noncompetitively" \$176,234,400

"noncompetitively" \$100,000,000

Auction price (rate) 99.807259 (1.348%)

Interest rate 1.250% 1.132%

Bids at clearing yield accepted 14.88%

Cusip number 912828XV7

The notes, dated June 30, 2017, mature on June 30, 2019.

MARKETS

Mexican Peso Rises to Highest in a Year

Currency leads among emerging-market peers as worries ease about 'Trump trade'

By BEN EISEN
AND CHELSEY DULANEY

The Mexican peso rose to its highest level in more than a year against the dollar, leading this year's rally in emerging-markets currencies that had fallen around the time of 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. One dollar bought 17.87 pesos.

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 is still one of the most undervalued currencies in the world," said Marc Chandler, global head of currency strategy at Brown Brothers Harriman & Co.

The peso's rise is also representative of the broader rally in emerging-markets cur-

rencies. The Russian ruble is up 4% against the dollar in 2017, while the Korean won has 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.

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, and the seventh consecutive increase.

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.

The U.S. dollar also has fallen 1.5% this year 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.

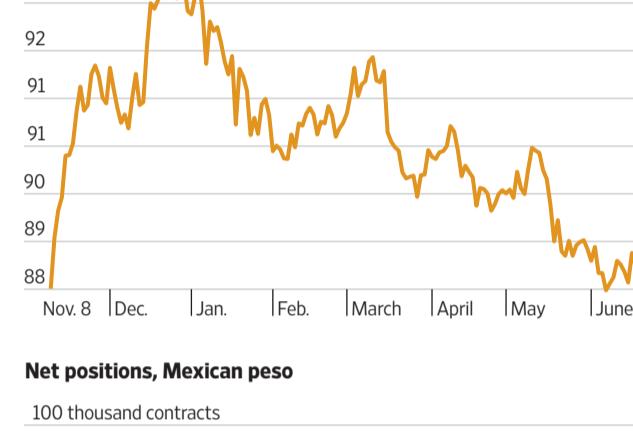
Signs of Strength

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.

Percentage change in value of the peso against the U.S. dollar



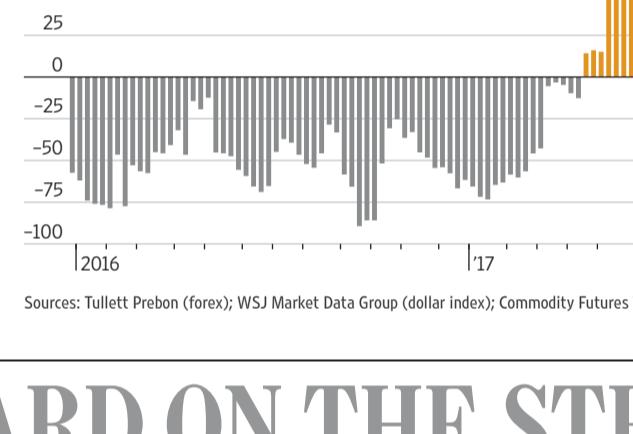
WSJ Dollar Index



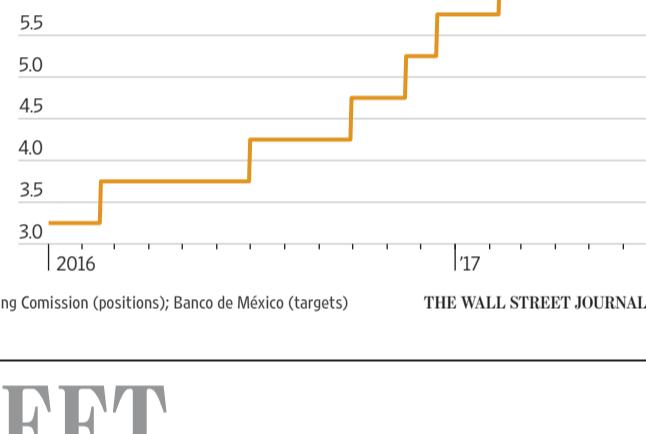
Percentage change in the value of the dollar against the Korean won, South African rand, and Russian ruble



Net positions, Mexican peso



Target interest rate, Banco de México



Sources: Tullett Prebon (forex); WSJ Market Data Group (dollar index); Commodity Futures Trading Commission (positions); Banco de México (targets)

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Evergrande's Debt Spree Goes Too Far

The world's most indebted property developer, **China Evergrande**, broke another record. There is some hope investors are getting wise.

The fact that Evergrande managed a \$6.6 billion dollar-denominated bond issue last week—the largest ever by a property developer globally—might suggest buyers are as gullible as ever. Around 40% of the money raised replaces old debt, but the company—China's biggest developer by assets—added \$3.8 billion in new borrowings.

The jumbo deal was in part thanks to Evergrande's opportunism. As usual, investor orders exceeded the amount the company was planning to sell. Bond issuers normally leave some money on the table, so as not to test the market's generosity. Evergrande didn't.

Still, the bonds' poor performance suggests investors' patience has been stretched. On Monday, the eight-year bonds were trading 1.8% below their issue price, a big drop for a new issue.

This happened despite a promise to reduce debt. True, the new bonds will help reduce its financing expenses as it retires more expensive perpetual securities.

But financial engineering can achieve only so much. The only sustainable way for companies to reduce debt is by generating free cash flow. There is little evidence that Evergrande has improved its ability to do so. Operating cash flow has been negative every year since it listed in Hong Kong in 2009.

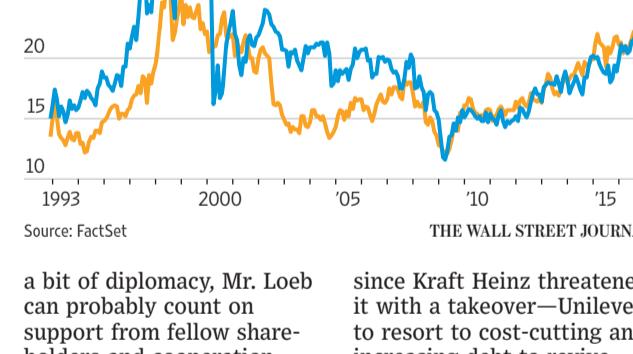
Unless Evergrande proves it can do more than just replace old debts with new, investors should stop giving it the benefit of the doubt.

—Jacky Wong

Loeb Has a Tough Road at Nestlé

Food for Thought

Forward price/earnings ratios



Liliane Bettencourt, the French company's now 94-year-old minority owner, asked for Nestlé's help when trying to fend off political interference in the 1970s.

Nestlé will be forced to defend its outdated line that the stake is "strategic." The market is sniffing action: L'Oréal stock rose about 4% Monday. Mr. Loeb wants Nestlé to buy back stock with the disposal proceeds.

Nestlé's stock rose about 4%, too, to the equivalent of 23 times prospective earnings—its highest since the dot-com era and a premium to the consumer sector.

The real problem with Third Point's latest investment is that a lot of change has already been priced in since the well-regarded Mr. Schneider—the first outsider to lead Nestlé for almost a century—took the reins in January.

Investors tempted to ride on Mr. Loeb's coattails shouldn't expect quick gains.

—Stephen Wilmot

OVERHEARD

One week down, 100 years to go.

Argentina made waves when it issued a \$2.75 billion century bond last week.

Many observers pointed to the country's checkered credit history: The fallout from 2001's default lingered for 15 years.

But the bond, which matures June 28, 2117, got off to a slightly start.

By Friday, the yield on the bond had fallen to 7.67% from 7.9% at issue. Thanks to the power of duration, every 0.01 percentage-point move in yield moved the bond's price by about \$0.1, resulting in a chunky gain of 3.1%.

That, of course, is a very short-term picture of a very long-term security. Still, markets always have to break down prospects for the distant future into manageable near-term chunks.

For today's fund managers, the bond's performance this year will be looming a lot larger than 2117.

Shale Produces Oil, So Why Doesn't It Produce Cash, Too?

Bottomless Well

Revenue and free cash flow from eight large U.S. shale drillers



Unconventional Oil & Gas ETF, ticker symbol FRAK, has shed half of its value since his presentation. Pioneer actually did somewhat better. But benchmark U.S. oil prices dropped from nearly \$60 a barrel at the time to just over \$26 the

next February and are 30% lower today—a factor that weighs heavily on energy shares.

The heart of his argument is worth examining, though, as U.S. oil output is poised to surpass its 2015 record amid a renewed drilling boom in places such as the Permian Basin. Over the past decade—roughly the history of the shale boom and two intervening busts—eight leading U.S. shale producers have collectively generated \$414 billion in revenue but had negative free cash flow of \$68 billion.

There were signs the industry could break that streak this year as technological innovation and a plunge in service costs

brought the break-even oil price down by about one-third in some locations. Yet analysts' free-cash-flow forecasts for fiscal year 2017 compiled by FactSet show that cumulative expectations for the same eight companies have dropped from just over \$1 billion in February to less than \$60 million. The obvious explanation is that oil prices have dropped. A big reason for that, though, is shale's surprising success, which has offset supply cuts by big oil exporters.

Oil producers will argue that individual projects have had good returns when planned and that their companies are profitable. Yet free cash flow is a bedrock

principle in any investment, even if it seems to matter less in some industries.

For example, **Tesla** and **Netflix** have burned \$6 billion and \$1.17 billion more in cash than they have generated in the past decade, respectively, yet their shares are near all-time highs.

But both can point to a far off, theoretical profit bonanza. Oil producers don't have that luxury.

Measured by the duration of cash flows from a given project, shale producers have the shortest window among energy producers to recover their investment.

Yet another shale boom might become a victim of its own success.—Spencer Jakab

—Jacky Wong