

# THE WALL STREET JOURNAL.

DOW JONES | News Corp

MONDAY, JUNE 12, 2017 ~ VOL. XLI NO. 198

WSJ.com

ASIA EDITION

As of 4 p.m. ET

DJIA 21271.97 ▲ 0.42%

NIKKEI 20013.26 ▲ 0.52%

STOXX 600 390.39 ▲ 0.32%

BRENT 48.15 ▲ 0.61%

GOLD 1268.50 ▼ 0.61%

EURO 1.1195 ▼ 0.19%

DLR ¥110.54 ▲ 0.48%

## What's News

### Business & Finance

Uber's board is weighing a possible leave of absence for its CEO and will vote on recommendations from a report of a probe into workplace issues. A1

♦ Post-IPO companies are returning to the market faster to sell additional shares, taking advantage of rising U.S. stock prices. B1

♦ Investors are scouring Labour leader Corbyn's economic and business policies following the U.K.'s surprise election result. B1

♦ China Evergrande agreed to sell its 14% stake in rival developer China Vanke to Shenzhen Metro for \$4.3 billion. B1

♦ Electronic Arts will release its latest Star Wars console videogame with the lucrative virtual enhancements commonly found in free mobile games. B2

♦ Toshiba agreed to pay U.S. utility Southern \$3.68 billion to finish a troubled nuclear plant in Georgia. B4

♦ Glencore offered over \$2.5 billion to buy a major piece of Rio Tinto's Australian coal business. B5

♦ Qatar said it remains committed to OPEC's oil-cut plan despite the severing of its ties with cartel allies. B7

♦ Consumers are giving Asian firms a leg up against Silicon Valley in key emerging technologies. B4

♦ Boeing moved closer to completing a jetliner sale to an Iranian airline. B3

### World-Wide

♦ The U.K. faced prolonged uncertainty after the election cast doubt on May's ability to govern effectively, as her Conservative Party sought to form a minority administration propped up by Northern Irish lawmakers. A1

♦ Trump criticized Comey's decision to leak details of their conversations to the media about his alleged request that the FBI drop a probe of Flynn. A1

♦ China is sidestepping the White House and pursuing ties with U.S. state leaders opposed to Trump's exit from the Paris climate accord. A1

♦ U.S. forces are supporting Philippine troops battling a militant group connected to Islamic State that has occupied the southern town of Marawi. A3

♦ An Afghan soldier turned his weapon on U.S. forces in eastern Afghanistan, killing three Americans. A3

♦ Militants attacked several villages south of Mosul before Iraqi security forces mounted a counterattack. A3

♦ Puerto Rican voters headed to the polls to decide on statehood as the U.S. territory grapples with an economic crisis. A7

♦ Senate Republicans plan to strip Planned Parenthood funding in its health-law replacement bill. A5

♦ Nadal won the French Open for the 10th time. A4

CONTENTS Markets ..... B8  
Business News ..... B3 Markets Digest ..... B6  
Crossword ..... A12 Opinion ..... A10-11  
Europe File ..... A12 Technology ..... B4  
Head on Street ..... B8 U.S. News ..... A5-7  
Keywords ..... B1 Weather ..... A12  
Life & Arts ..... A8-9,12 World News ..... A2-4

China: RMB28.00; Hong Kong: HK\$23.00;  
Indonesia: Rp25,000 (incl PPN);  
Japan: Yen620 (incl JCT); Korea: Won4,000;  
Malaysia: RM750; Singapore: S\$5.00 (incl GST)

KDN PP 9315/10/2012 (031275); MCI (P)  
NO. 066/01/2017; SK MENPEN RI NO. 01/  
SK/MENPEN/SCJ/1998 TGL 4 SEPT 1998

ISSN 0377-9920 4.11.98  
9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

9 770377 992000

4.11.98

9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

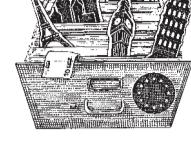
9 770377 992000

4.11.98

9 770377 992000

## WORLD NEWS

# Election Result Hinders May's Path to Brexit



### EUROPE FILE

By Andrew Browne

mirthless repetition of banal sound bites contrasting with the unexpected charisma of Labour's Jeremy Corbyn. Her manifesto also succeeded in alienating many of her target voters while Mr. Corbyn's extravagant promises to shower public money on popular causes appealed to voters tired of austerity.

**B**ut what sealed Mrs. May's fate was an average 7% swing to Labour in constituencies that backed remaining in the European Union in last June's referendum by more than 55%. Thus was delivered to Labour previously unimaginable victories in areas such as the wealthy London neighborhood of Kensington and the university town of Canterbury. An expected landslide for Mrs. May turned into a net loss of 28 seats.

What happens now to Brexit is anybody's guess.

Although the Conservatives lack a parliamentary majority, Mrs. May has been able to stay in office thanks to the promise of support from Northern Ireland's Democratic Unionist Party. But it is not clear whether this will be sufficient to deliver Brexit.

Thanks to what now looks like a reckless decision to trigger Article 50 of the Lisbon Treaty just days before calling the general election, the clock is now counting down on the two years allowed to negotiate an exit deal. Yet with negotia-



Theresa May faces a difficult Brexit negotiation following her party's weak performance in the election.

JONATHAN BRADY/PRESS ASSOCIATION/ZUMA PRESS

tions due to begin next week, Mrs. May finds herself without a mandate for her Brexit plan, which would take the U.K. out of the EU's single market and customs union and end the right of EU citizens to live in the U.K. As a result, she may struggle to secure the parliamentary support to deliver the highly contentious legislation needed to put in place the legal and regulatory frameworks to ensure British businesses can trade post-Brexit.

Even if Mrs. May no longer has a mandate to carry out her threat to crash out of the EU without an exit deal, there is still a risk that the U.K. ends up with a chaotic Brexit because it has been unable to negotiate a deal in what time

remains or because it has been unable to put the necessary arrangements in place to cushion the impact. That has prompted some in the Conservative party—including Scottish Conservative leader Ruth Davidson, who has emerged as a pivotal figure after the elections—to talk of the need to build a cross-party consensus around a softer form of Brexit. This could involve the U.K. remaining inside the EU's single market and customs union, perhaps as a member of the European Economic Area, a looser alliance that includes Norway, Iceland and Liechtenstein.

Yet this EEA option would turn the U.K. from an EU rule-maker into a rule-taker, an unsatisfactory and likely unsustainable situation for an economy of the U.K.'s significance. The U.K. would be effectively obliged to continue to allow the free movement of EU citizens, respect the judgments of the European Court of Justice and pay into the EU budget, crossing all Mrs. May's red lines. It would also require the consent of both the EU and other EEA countries, which can't be guaranteed. If this version of Brexit had been on the ballot in the referendum, it would almost certainly have been rejected—which is why it was rejected by the official Leave campaign. Yet it may now be the only version of Brexit that is politically deliverable in the time available.

**T**he best bet is that Brexit still will go ahead, not least because both major parties committed to it in their manifestos. Still, it is possible for the first time since the referendum to imagine two scenarios in which Brexit doesn't happen.

Under the first, the political turmoil in the Conservative party—caused by what appears to be an inevitable challenge to Mrs. May's leadership—makes it impossible to negotiate a deal in the time available, prompting the U.K. to ask for a delay to the deadline. It is possible the EU might refuse, insisting instead that the U.K. withdraw its Article 50 notification. That would end the process until a new prime minister received a new mandate from parliament and the voters to restart it.

Under the second scenario, the Brexit process becomes so chaotic that the British political leaders conclude that the only way to hold the political parties together and secure the parliamentary support for the Great Repeal Bill is to agree to a second referendum on the terms of any Brexit deal. In today's political climate—with the Tory Brexiteers damaged, the economic consequences of Brexit becoming clearer as the U.K. economy slows and with the EU itself now debating wider reform—it is just possible that a second vote would deliver a different result.

Prime Minister Theresa May's misjudged gamble in calling a snap general election failed because liberal voters in many of the most dynamic parts of England turned against her hard-line Brexit agenda.

She was only able to cling to power because of a similar backlash in Scotland, where tactical voting by opponents of the Scottish Nationalist Party's plans for a second independence referendum gifted Mrs. May's Conservatives 12 Scottish seats.

Of course other factors were important. Mrs. May ran a dreadful campaign, her

said Chris Grayling, an ally of Mrs. May who served as transport secretary before the election.

But some acknowledged that such a contest may need to happen soon. Nicky Morgan, a former education secretary who has clashed with Mrs. May, said that she didn't think the prime minister should lead the party into another election and that a leadership contest should be considered this summer, or ahead of the party's annual conference in October.

"I think Theresa May is ultimately going to take responsibility," she said, referring to the election result. Mrs. Morgan said the party needs a proper contest to select a new leader rather than a coronation."

Defense Secretary Michael Fallon on Sunday said that, meanwhile, Mrs. May's cabinet expects to have a greater say in government following the resignation of her two top aides, Nick Timothy and Fiona Hill, who played a central role in driving government policy



Joint chiefs of staff Nick Timothy and Fiona Hill resigned Saturday.

FRAZER AUGUSTIN/ASSOCIATED PRESS

and strategy and oversaw the botched election.

"We are going to see I hope much more collective decision-making in government," he said in an interview with the British Broadcasting Corp.

George Osborne, who served as Treasury chief in

the administration of Conservative former Prime Minister David Cameron, was highly critical of Mrs. May.

"Theresa May is a dead woman walking—it's just how long she's going to remain on death row," he said on the BBC.

As well as calling into question Mrs. May's future, Thursday's election raises doubts about the party's ability to deliver on its legislative platform.

The DUP's 10 seats in Parliament are enough to give the Conservatives, with 318, a slender majority in the 650-seat assembly. But the deal being discussed between the two sides falls short of a formal pact that would allow the Conservatives to rely on DUP support on every vote, raising the prospect that Parliament could defeat or amend the Conservatives' plans on everything from Brexit to welfare and education.

A confidence-and-supply arrangement means the DUP at a minimum would pledge to back the government in any future no-confidence motions in Parliament and to support its tax-and-spending plans, delivered in twice-yearly budgets debated by lawmakers.

Governments in the U.K. must win such votes to stay in power.

It isn't yet clear whether

the arrangement will extend to other areas of policy as talks between the two parties are ongoing.

A big question mark hangs over the government's Brexit strategy. The DUP says its priority in the talks is in preventing Brexit from causing any disruption to trade with EU member Ireland, a stance that analysts say is incompatible with Mrs. May's pre-election position that she was prepared to walk away from talks without a deal.

Jeremy Corbyn, leader of the main opposition Labour Party, said Conservative plans for a bill to alter or scrap EU legislation are probably also in tatters in the absence of the parliamentary majority needed to swiftly enact such a huge undertaking.

Mr. Corbyn, whose party plans to present its own alternative plan for government when Parliament reconvenes June 19, said he is ready to fight another election and expects one to be called either later this year or in early 2018.

## UBER

*Continued from Page One*  
mission that it erroneously withheld tens of millions of dollars from New York City drivers over more than two years.

But Mr. Kalanick is also facing a personal crisis. His mother died late last month in a boating accident that also left his father seriously injured. He has been spending time with his father in the Los Angeles area.

The board is due to meet in the Los Angeles area instead of in San Francisco, where Uber is based, because of Mr. Kalanick's family needs. Mr. Holder planned to attend the board meeting to elaborate on the findings of his law firm

Covington & Burling LLP, which was given to a board subcommittee, this person said.

News of the board meeting was reported earlier by tech news site Recode.

Mr. Holder's report includes recommendations for new human-resource processes and trainings and details allegations by current and former employees about inappropriate behavior at Uber including sexual harassment, retaliation, bullying and other matters, people familiar with the matter said.

Uber hired Mr. Holder to lead the investigation after a former software engineer, Susan Fowler Rigetti, claimed in a February blog post that Uber management had ignored multiple complaints from her and other female workers of sexual

harassment and sexism by their managers.

In her blog post, Ms. Fowler Rigetti claimed a supervisor propositioned her for sex and human-resources officials transferred her to another team instead of addressing her complaints. She said she was told she could either work for another group at the company or risk getting a poor performance review.

Ms. Fowler Rigetti also claimed the company discouraged her from making complaints to human-resources officials. Managers changed her positive performance review to a poor one to deny her a promotion, she wrote.

Mr. Kalanick, 40 years old,

condemned the behavior, which he said he was unaware of, and immediately called for a probe of Uber's practices,

hiring Mr. Holder's firm and Perkins Coie LLP to investigate the specifics of Ms. Fowler Rigetti's claims, among others.

Last week, Uber told employees that more than 20 workers had been fired as a result of the Perkins Coie probe and that others were reprimanded or ordered to undergo additional training.

Since Uber's wave of setbacks and scandals began earlier this year, many executives have left the company. Uber has been trying to hire a deputy for Mr. Kalanick after a leaked video in February showed Mr. Kalanick berating an Uber driver. Uber is also seeking a CFO.

If the board approves Mr. Kalanick's leave, it will mark a huge shift for the embattled CEO who developed a reputation for sharp elbows, a relentless

work ethic and a willingness to push the limits of legality to achieve success.

Chief of the ride-hailing firm since 2010, Mr. Kalanick has been the face of Uber amid its ascent to the world's most valuable private company, pegged by investors at \$68 billion.

The seven-member board includes private-equity billionaire David Bonderman; media mogul Arianna Huffington; venture capitalist Bill Gurley of Benchmark; an official from a Saudi Arabian government investment fund; co-founder Garrett Camp, who is chairman; early employee Ryan Graves; and Mr. Kalanick himself.

Uber has been conducting its own workplace investiga-

tion, including so-called listening sessions and focus groups led by human-resources chief Liane Hornsey and Ms. Huffington.

The ride-hailing company had planned to release an executive summary for Mr. Holder's findings to employees and the media, though some investors have called for a full version of the report to be made public.

**THE WALL STREET JOURNAL.**  
Dow Jones Publishing Company (Asia)  
25/F, Central Plaza, 18 Harbour Road,  
Hong Kong  
Tel: 852 2573 7121 Fax 852 2834 5291

**Andrew Dowell**, Asia Editor  
**Troy McCullough**, Senior News Editor, Asia  
**Darren Everson**, International Editions Editor

**Hugo Restall**, Editorial Page Editor

**Mark Rogers**, Advertising Sales  
**Jacky Lo**, Circulation Sales  
**Jacquelyn Drostoff**, Communications  
**Simon Wan**, Technology

**Jonathan Wright**,  
Managing Director Asia & Publisher

**Advertising** through Dow Jones Advertising  
Sales: Hong Kong: 852-2831 2504; Singapore:  
65-6415 4300; Tokyo: 81-3 269-2701;  
Frankfurt: 49 69 29725390; London: 44 207  
842 9600; Paris: 33 1 40 17 17 01; New York:  
1-212 659 2176.  
Or email: [MarkRogers@wsj.com](mailto:MarkRogers@wsj.com)

**Printers:** Hong Kong: Euron Limited, 2/F, Block 1,  
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai  
Po, Hong Kong; Indonesia: PT Gramedia Printing  
Group, Jalan Palmerah Selatan 22-28, Jakarta  
10270; Japan: The Mainichi Newspapers Co., Ltd.,  
1-1 Hitotsubashi, Chiyoda-Ku, Tokyo, 100-8051;  
Korea: JoongAng Ilbo, 100 Seomsom-ro, Jung-gu,  
Seoul, 100-814; Publisher: Song, Pil-Ho;  
Malaysia: Basarnas Cetak (M) Sdn Bhd, Lot 2, Jalan  
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,  
40200 Shah Alam, Selangor, Malaysia; ROC No: 0488856;  
Singapore: Singapore Press Holdings Limited, 82  
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under  
license from Dow Jones & Co.

©2017 Dow Jones & Company. All rights reserved.  
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euron Limited, 2/F, Block 1,  
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai  
Po, Hong Kong; Indonesia: PT Gramedia Printing  
Group, Jalan Palmerah Selatan 22-28, Jakarta  
10270; Japan: The Mainichi Newspapers Co., Ltd.,  
1-1 Hitotsubashi, Chiyoda-Ku, Tokyo, 100-8051;  
Korea: JoongAng Ilbo, 100 Seomsom-ro, Jung-gu,  
Seoul, 100-814; Publisher: Song, Pil-Ho;  
Malaysia: Basarnas Cetak (M) Sdn Bhd, Lot 2, Jalan  
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,  
40200 Shah Alam, Selangor, Malaysia; ROC No: 0488856;  
Singapore: Singapore Press Holdings Limited, 82  
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under  
license from Dow Jones & Co.

©2017 Dow Jones & Company. All rights reserved.  
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euron Limited, 2/F, Block 1,  
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai  
Po, Hong Kong; Indonesia: PT Gramedia Printing  
Group, Jalan Palmerah Selatan 22-28, Jakarta  
10270; Japan: The Mainichi Newspapers Co., Ltd.,  
1-1 Hitotsubashi, Chiyoda-Ku, Tokyo, 100-8051;  
Korea: JoongAng Ilbo, 100 Seomsom-ro, Jung-gu,  
Seoul, 100-814; Publisher: Song, Pil-Ho;  
Malaysia: Basarnas Cetak (M) Sdn Bhd, Lot 2, Jalan  
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,  
40200 Shah Alam, Selangor, Malaysia; ROC No: 0488856;  
Singapore: Singapore Press Holdings Limited, 82  
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under  
license from Dow Jones & Co.

©2017 Dow Jones & Company. All rights reserved.  
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euron Limited, 2/F, Block 1,  
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai  
Po, Hong Kong; Indonesia: PT Gramedia Printing  
Group, Jalan Palmerah Selatan 22-28, Jakarta  
10270; Japan: The Mainichi Newspapers Co., Ltd.,  
1-1 Hitotsubashi, Chiyoda-Ku, Tokyo, 100-8051;  
Korea: JoongAng Ilbo, 100 Seomsom-ro, Jung-gu,  
Seoul, 100-814; Publisher: Song, Pil-Ho;  
Malaysia: Basarnas Cetak (M) Sdn Bhd, Lot 2, Jalan  
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,  
40200 Shah Alam, Selangor, Malaysia; ROC No: 0488856;  
Singapore: Singapore Press Holdings Limited, 82  
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under  
license from Dow Jones & Co.

©2017 Dow Jones & Company. All rights reserved.  
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euron Limited, 2/F, Block 1,  
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai  
Po, Hong Kong; Indonesia: PT Gramedia Printing  
Group, Jalan Palmerah Selatan 22-28, Jakarta  
10270; Japan: The Mainichi Newspapers Co., Ltd.,  
1-1 Hitotsubashi, Chiyoda-Ku, Tokyo, 100-8051;  
Korea: JoongAng Ilbo, 100 Seomsom-ro, Jung-gu,  
Seoul, 100-814; Publisher: Song, Pil-Ho;  
Malaysia: Basarnas Cetak (M) Sdn Bhd, Lot 2, Jalan  
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,  
40200 Shah Alam, Selangor, Malaysia; ROC No: 0488856;  
Singapore: Singapore Press Holdings Limited, 82  
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under  
license from Dow Jones & Co.

©2017 Dow Jones & Company. All rights reserved.  
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euron Limited, 2/F, Block 1,  
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai  
Po, Hong Kong; Indonesia: PT Gramedia Printing  
Group, Jalan Palmerah Selatan 22-28, Jakarta  
10270; Japan: The Mainichi Newspapers Co., Ltd.,  
1-1 Hitotsubashi, Chiyoda-Ku, Tokyo, 100-8051;  
Korea: JoongAng Ilbo, 100 Seomsom-ro, Jung-gu,  
Seoul, 100-814; Publisher: Song, Pil-Ho;  
Malaysia: Basarnas Cetak (M) Sdn Bhd, Lot 2, Jalan  
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,  
40200 Shah Alam, Selangor, Malaysia; ROC No: 0488856;  
Singapore: Singapore Press Holdings Limited, 82  
Genting Lane Media Centre Singapore 349567

# WORLD NEWS

## Scarred by War, Mosul Faces Divisions

BY TAMER EL-GHOBASHY  
AND ALI A. NABHAN

MOSUL, Iraq—In eastern Mosul, the bomb-cratered streets are gone. Work crews in blue coveralls plant trees and fix downed wires. At least three liquor stores have reopened since Islamic State militants were ousted from that part of the city in January. Advertisements for women's lingerie and mobile phones—other products banned by the extremists—are visible again.

The picture is different across the Tigris River. In western Mosul, Iraqi forces are still battling Islamic State street by street. Airstrikes by the U.S.-led coalition have flattened neighborhoods and knocked out all five bridges linking east and west, which the militants were using as supply lines.

The stark differences are adding urgency to the fight to fully recapture Mosul, Iraq's second-largest city. The long struggle for western Mosul risks creating lasting divisions and feeding resentment in a city that once offered Islamic State, and al Qaeda before it, a fertile recruiting ground, officials said.

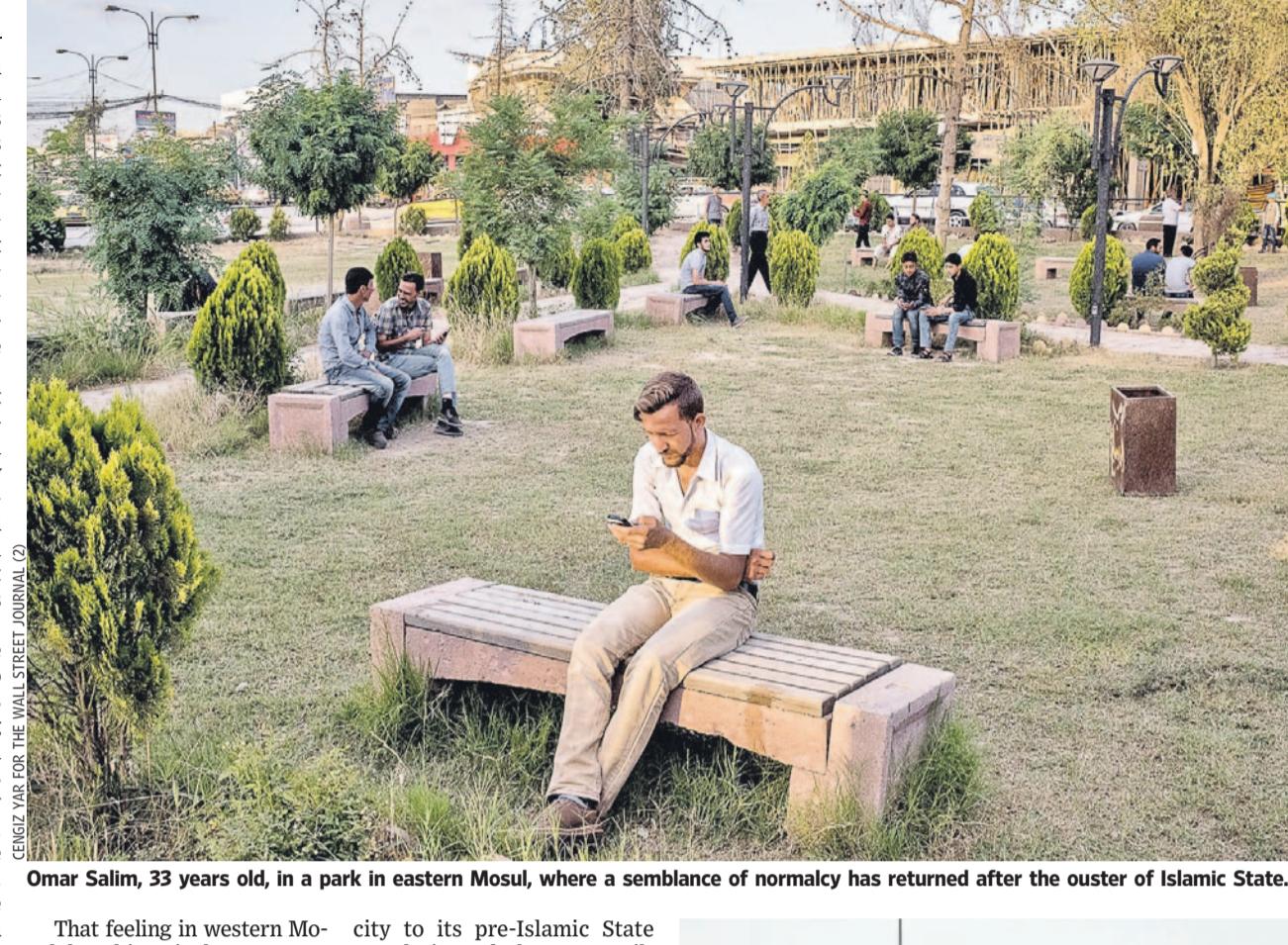
"If it takes that part of the city a long time to be back to a functioning level, we can expect to have very difficult social tensions to manage," said Lise Grande, the United Nations humanitarian coordinator for Iraq.

Less than 10% of western Mosul is still under Islamic State control, according to the military. Blasts and plumes of smoke rising in the west can be seen by families in the east when they are out strolling through parks and lining up for ice cream on warm evenings.

"It's a dark future for us and for Mosul," says Ahmed al-Obaidi, a 45-year-old gold merchant who left his shop in western Mosul behind for safety in the east, and now sits idle, waiting for a chance to return. "This city will be divided."

Basma Baseem, head of the City Council, has been pushing for more funding to rebuild parts of western Mosul that have been liberated already.

"People from the west have started to feel like second-class citizens," she said. Residents of western Mosul, she added, "blame us for not helping their side, compared with how quickly life got back to normal in eastern Mosul."



Omar Salim, 33 years old, in a park in eastern Mosul, where a semblance of normalcy has returned after the ouster of Islamic State.

That feeling in western Mosul has historical roots, Ms. Baseem and others in the city said. People in western Mosul have been traditionally less prosperous than their neighbors and have been seen by many Iraqi military and government officials as sympathetic to extremists, dating back to the U.S.-led invasion in 2003. Ms. Baseem said she fears such stereotypes could color how the recovery of western Mosul is prioritized.

Iraqi Prime Minister Haider al-Abadi has said coordination between the federal government and the Nineveh provincial government, of which Mosul is the capital, has been a challenge because it is the largest area to be wrested back from Islamic State. Mr. Abadi recently assigned a general coordinator to oversee the rehabilitation process.

As the fight for Mosul continues, U.S.-backed forces launched this week an assault on Raqa, Islamic State's de facto capital in neighboring Syria, the last city of significant size the militants fully control. The government's goal is to rebuild Mosul and restore the

city to its pre-Islamic State population of about 1.5 million, which is seen as critical to its effort to reunite the country. Islamic State launched a drive in 2014 that ended up with the militants in control of about one-third of Iraq, and with Mosul their de facto capital in the country.

At the beginning of the operation to reclaim Mosul, the government estimated the population to be 1.2 million.

Having endured the brutality of Islamic State, many in western Mosul are eager to rejoin the Iraqi state. Reconciliation with the nation, they say, will depend on how quickly their lives return to normal.

Homes and businesses need to be rebuilt in the west. Security and public infrastructure—in a part of the city that was the administrative hub for greater Mosul—must be restored.

But peace in western Mosul is a ways off. Last month, Iraqi forces began a major push into Mosul's Old City, considered the most difficult phase of the battle because the streets are narrow and the cornered militants are putting up a ferocious fight.

The fighting in western Mo-



Men carry the body of a relative to a cemetery in western Mosul.

sul has sent more than two-thirds of its 700,000 residents to camps outside the city. Some return to retrieve bodies from homes collapsed in the fighting. Those who remained line up for hours for clean water.

Nashwan al-Maadidi, a

goldsmith who is 45, estimated that he and his brothers have lost \$200,000 in income and equipment since fleeing western Mosul in December. He said they can't afford to reopen in the east. "We feel like strangers here," he said.

## Resurgent Militants Strike Several Towns

MOSUL, Iraq—Militants attacked a number of villages south of Mosul before Iraqi security forces mounted a counterattack.

The early morning attacks on Saturday, by fighters identified as Islamic State by security forces, took place in a number of small villages east of Shirqat, a town about 70 miles south of Mosul, according to local officials. About three dozen civilians were killed in the attacks, with about the same number wounded, according to officials from a local hospital.

Iraq's central government said some 150 militants were killed in ground fighting and by airstrikes as security forces repelled the attack after hours of fighting. Five members of the Iraqi forces died in the clash, according to local officials.

"It was a crazy attack that we never expected before," said Ali al-Dodah, mayor of Shirqat, confirming that dozens of militants were killed. "Now things are under control."

Islamic State still has outposts in the Makhoul Mountains east of Shirqat. The villages that were attacked sit between the mountain range and the town.

Elsewhere on Saturday, Iraqi troops killed three men wearing suicide vests as they tried to sneak by boat to the al-Othaim Dam in Diyala province, northeast of Baghdad, according to the military's media office.

Islamic State has launched several attacks across Iraq during the holy month of Ramadan, in one instance killing dozens of people after the extremists targeted families gathered at a popular Baghdad ice-cream parlor.

The militant group, meanwhile, has been pushed back in its urban stronghold of Mosul, where U.S.-backed Iraqi troops have boxed them into the Old City. In the past week, Iraqi forces have slogged out a block-by-block fight with the militants, taking heavy casualties as they attempt to manage the thousands of civilians in the city who are still trapped and being used as human shields.

—Ben Kesling, Ghassan Adnan and Awadh Altaie

## U.S. Forces Back Philippine Fight

BY JAKE MAXWELL WATTS

U.S. Special Forces are supporting Philippine troops battling a militant group connected to Islamic State that has occupied the southern town of Marawi, where fierce fighting over 19 days has killed more than 200 people.

The U.S. involvement, made public Saturday, shows Manila's continued reliance on Washington's military prowess despite a surge of anti-American sentiment from Philippine President Rodrigo Duterte since he came to power last year.

The battle in Marawi began when authorities tried to arrest Islamic State's designated leader of a self-styled caliphate in the predominantly Muslim southern Philippines, touching off some of the worst fighting in years. The armed forces are trying to dislodge fighters from the extremist Maute clan from their last defenses in the town and free up to 200 possible hostages.

The U.S. Embassy in Manila said Saturday that U.S. Special Operations Forces are providing support to the Philippine military in Marawi, but wouldn't discuss specifics. "As we have in the past, we routinely consult with our Filipino partners at senior levels to support the Duterte administration's counterterrorism efforts," the embassy said.

A Philippine military spokesman confirmed Saturday the U.S. is providing technical support and intelligence. The Associated Press reported a U.S. Navy P-3 Orion plane was seen flying over Marawi on Friday, above Philippine helicopters firing rockets at militant positions. A Philippine military official told The Wall Street Journal that, at any time, there are between 300 and 500 American military personnel in the country, of which about 50 to 100 are special forces conducting training and advisory and as-



Smoke rises from the targets of a Philippine air strike in the southern city of Marawi on Sunday.

pine military in the south since the early 2000s.

However, the Philippines' relations with the U.S.—a traditional ally and former colonial power—have been strained since Mr. Duterte took office and began distancing himself from Washington. He says he wants to pursue an independent foreign policy, and has embraced economic investment from China, playing down rival claims in the South China Sea.

Mr. Duterte last year threatened to cancel a longstanding U.S. military deployment in the Philippines, saying it had not helped resolve long-running conflicts. The threats haven't been carried out, but the relationship remains tense.

A U.S. defense official told The Wall Street Journal that, at any time, there are between 300 and 500 American military personnel in the country, of which about 50 to 100 are special forces conducting training and advisory and as-

sistance missions with a focus on counterterrorism. The official said these forces are "not in the fight."

The fighting in Marawi prompted Mr. Duterte to declare martial law in the main southern island of Mindanao, and is a test of his resolve to tackle separatist and Islamist insurrections that date back decades. The threat has escalated in the past three years as some groups, such as the Maute and the Abu Sayyaf kidnap-and-terror gang, declared allegiance to Islamic State.

Philippine military spokesman Lt. Col. Jo-Ar Herrera said Saturday that the Maute brothers—Omar and Mhade, who lead the militant group—may have been killed during the Marawi siege. "We are validating this information, but that is the report," he said.

Information about the brothers has been hard to pin down.

However, authorities say they arrested their parents and sev-

eral family members in Mindanao in recent days.

The military is also hunting Isnilon Hapilon, an Abu Sayyaf leader whom Islamic State has declared its "emir" in the Philippines and who is believed to remain in Marawi, officials said. A recent attempt to capture him—after reports of his death earlier this year proved incorrect—led to the latest violence. The U.S. has a \$5 million bounty on his head.

Eduardo Año, the armed forces chief of staff, last week said the military would aim to clear Marawi by Monday, which is independence day. Presidential spokesman Ernesto Abella said the government will implement a 10 billion peso (\$202 million) rehabilitation program to rebuild Marawi, one of the poorest parts of the Philippines. More than 200,000 people have been displaced by the fighting.

—Gordon Lubold in Washington contributed to this article.

## Afghan Soldier Kills Three Americans

BY HABIB KHAN TOTAKHIL  
AND JESSICA DONATTI

KABUL—An Afghan soldier turned his weapon on U.S. forces in eastern Afghanistan, killing three American soldiers and wounding one, who was left in critical condition, Afghan and coalition officials said Saturday.

The shooting took place in Achin district of Nangarhar province, where a joint U.S. and Afghan operation to dislodge Islamic State fighters from their stronghold in the mountains there has been under way for months.

Several U.S. and Afghan soldiers have been killed in the push to drive Islamic State out of villages that it had occupied in the area years previously. Fleeing Islamic State fighters are now holed up in the mountains there, where the U.S. military in April dropped the largest non-nuclear weapon in its arsenal on an Islamic State cave-and-tunnel complex.

The Pentagon issued a brief statement that confirmed the casualties and said the incident is under investigation.

The U.S. military in Afghanistan didn't immediately respond to a request for comment. A coalition official said the U.S. soldiers belonged to the 101st Airborne division, which historically specializes in parachuting into enemy territory, and in recent times is known for carrying out air assaults by helicopter.

"The Afghan commando was killed by other forces on the ground who responded to the attack," said Attaullah Khogyany, a spokesman for the provincial governor of Helmand.

"The U.S. forces were asked by forces on the ground for air support but it mistakenly hit members of the Afghan border police," said Mr. Zwak, adding that the government is investigating the airstrike.

The U.S. military command in Kabul confirmed the incident, saying an "investigation is being conducted at this time to determine the specific circumstances" that resulted in the deaths and injuries to members of the Afghan border police.

area in an "insider attack."

Afghan soldiers frequently turn their weapons on their U.S. and Afghan allies, and the Taliban often claim such attackers are members of the insurgency that have infiltrated Afghan forces.

Earlier in the day, Afghan officials said a U.S. airstrike killed at least two Afghan policemen and wounded three others in southern Helmand province, in the latest friendly fire incident in the south where the Taliban are closing in on the provincial capital.

The U.S. military said it was investigating the incident and expressed regret for the deaths.

*Shooting occurs in an area where a joint operation to dislodge ISIS is under way*

The incident occurred late Friday night when an American military aircraft opened fire on Afghan border police in a joint overnight operation against militants in Nad Ali district of the province, said Omar Zwak, a spokesman for the provincial governor of Helmand.

"The U.S. forces were asked by forces on the ground for air support but it mistakenly hit members of the Afghan border police," said Mr. Zwak, adding that the government is investigating the airstrike.

The U.S. military command in Kabul confirmed the incident, saying an "investigation is being conducted at this time to determine the specific circumstances" that resulted in the deaths and injuries to members of the Afghan border police.

## WORLD NEWS

### France Votes for a New Legislature



**ROUND ONE:** French voters chose lawmakers in the lower house of parliament on Sunday in a vote that is crucial for newly-elected President Emmanuel Macron (shown with his wife, Brigitte, emerging from voting booths). A total of 7,882 candidates are running for 577 seats in the National Assembly in the first round of the two-stage elections. Top vote-getters advance to the decisive second round June 18. Polls suggest the elections will strongly favor Mr. Macron's party and punish the traditional left and right parties.

ADNAN MOHAMED KHASHOGGI  
1935–2017

### Saudi Go-Between Tried To Profit From War and Peace

By JAMES R. HAGERTY

**H**e was best known as a middleman arranging arms sales to Saudi Arabia, but Adnan Khashoggi was also happy to traffic in real estate, asphalt, livestock and even peace.

In the mid-1990s, when he was trying to spur peace negotiations and business dealings between Israel and neighboring states, a friend quoted Mr. Khashoggi as saying, "If we can't make peace, perhaps we can make money."

The problem was that peace never arrived, and nothing seemed to pay nearly as well as the arms deals he helped arrange in the 1960s and 1970s. Eventually, his reputation for flaunting wealth stirred resentments in the Saudi royal family. When Time magazine put him on its cover in 1987, his business empire was in trouble. His entanglement in the Iran-Contra affair and other controversies made him less appealing to Western companies seeking discreet help in tapping Arab markets.

Mr. Khashoggi lived his final two decades in relative obscurity. He suffered from Parkinson's disease and died Tuesday in London at age 81.

He was known to his employees as A.K. and once owned an 18,000-square-foot duplex in Olympic Tower on Fifth Avenue in Manhattan. The Washington Post re-

ported in 1984 that he also had homes in Paris, London, Rome and Madrid, among other places.

When he wasn't in one of those homes, he was likely to be aloft in one of his private planes or afloat in his 285-foot yacht, which made an appearance in the James Bond movie "Never Say Never Again" and later was owned briefly by Donald Trump. The band Queen saluted the yacht with a song, "Khashoggi's Ship."

He often traveled with a Korean bodyguard nicknamed Mr. Kill.

In the early 1960s, he married an Englishwoman, Sandra Jarvis-Daly. She converted to Islam and changed her name to Soraya. Their divorce led to a 1980 legal battle in California, during which she accused him of giving expensive gifts to executives of defense contractors, helping them open Swiss bank accounts and inviting them to parties attended by prostitutes. Mr. Khashoggi's lawyers at the time declined to comment.

**A**dnan Mohamed Khashoggi was born July 25, 1935, in Mecca. His father, a physician to Saudi King Abdul Aziz ibn Saud, sent him to Alexandria, Egypt, to study at Victoria College, a boarding school modeled on the elite English secondary schools. He later recalled discovering his calling there:



ASSOCIATED PRESS

One classmate's father had a factory making sheets and towels, and another's wanted to buy those items. Young Adnan made the connection and collected a fee.

He began studies at a state college in Chico, Calif., but dropped out after finding he could earn fees by arranging shipments of vehicles to the Middle East.

The real money was in military jets and other weaponry. He cultivated clients among defense contractors in the U.S., Britain and France. Lockheed Corp. disclosed that it had paid him commissions totaling \$106 million in the five years ended in 1975. Shortly after that disclosure, the Saudi government issued a decree banning companies that sold arms to the kingdom from paying commissions to agents.

Mr. Khashoggi was in the headlines in the late 1980s as the U.S. Congress un-

earthened details of how proceeds from secret arms sales to Iran were illegally diverted to fund Contra rebels in Nicaragua. An independent counsel appointed to investigate that scandal found that Mr. Khashoggi lent millions of dollars to a broker involved in the deal to facilitate the arms sales. (Mr. Khashoggi said he lost money on the deal.)

He amassed a Byzantine global network of businesses, including cattle ranching and real estate, and interests in furniture and meat packing. In 1987, nine U.S. firms he controlled filed for bankruptcy. Those U.S. interests included an asphalt plant in Long Beach, Calif., and a planned shopping center in Salt Lake City.

In 1989, Swiss police arrested Mr. Khashoggi at a luxury hotel, held him in prison for three months and then extradited him to the U.S. to face charges that he helped former Philippine President Ferdinand Marcos and his wife, Imelda, loot their country to buy jewelry, art and real estate. A federal jury in New York acquitted Mr. Khashoggi and Mrs. Marcos in 1990. Ferdinand Marcos died in 1989.

A list of Mr. Khashoggi's survivors wasn't available.

He was unapologetic about his checkered career. "Where did I go wrong?" he asked during a 2009 interview with the New York Times. "Nowhere."

urge U.S. and Chinese scientists and business leaders to step up cooperation.

Mr. Brown said he hopes more states and cities will join him in opposing Mr. Trump's stance. "With Trump saying no, it's up to states and localities to say yes—and they're doing that," he said.

Mr. Perry said he supported the rights of states to choose their own paths. "My hat's off to Gov. Brown for the work that he does to promote California," he said in Beijing on Friday. He said he faced no pressure from those he met for the U.S. to change its mind about leaving the Paris deal.

Mr. Perry's arrival in China early in the week was preceded by the surprise announcement on Monday by the top U.S. diplomat in China, David Rank, that he was quitting to protest against Mr. Trump's climate position. Mr. Rank, who was chargé d'affaires, had been expected to accompany Mr. Perry in meetings with Chinese officials.

Mr. Perry explained the Trump administration's position on energy as an effort to balance economic growth with cleaning up the environment. He expressed support for fossil fuels, including coal and natural gas—both of which

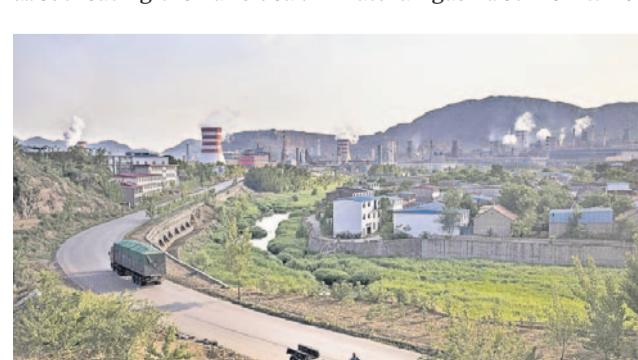
are abundant in the U.S. and could be sold to China in greater quantities.

The Trump administration says the U.S. has done more to reduce emissions than other top emitters, including China, outside agreements under the Paris accord. The White House didn't respond to a request for comment on the China-California talks.

During the Obama administration, China and the U.S. looked to broad agreement on climate change as a chance to showcase joint purpose in an often fraught relationship. Without the cooperation between the two biggest emitters, the Paris accord is unlikely to have gotten off the ground.

China and other major emitters said they would follow through on their commitments despite Mr. Trump's decision.

How aggressively Beijing moves to cut emission levels after they peak by about 2030—as China has pledged to do—may depend on whether the U.S. is also on board. Reaching the global goal of limiting the increase in global temperatures to 2 degrees Celsius above preindustrial levels would require significant cuts by China.



KEVIN FRAYER/GETTY IMAGES

Smoke and steam billow from factories in Hebei, China, this month.

### Ukraine: Botched Hit Has Russia's Fingerprints

BY JAMES MARSON  
AND ALAN CULLISON

KIEV, Ukraine—A botched assassination attempt in Kiev is providing a glimpse into what officials here say is a string of killings orchestrated by the Kremlin, exposing a deadly underside of Russia's intervention in Ukraine.

Ukrainian authorities have arrested a Russian citizen who they believe traveled on a phony passport to Ukraine and was posing as a French journalist when he allegedly pulled a gun out of a gift-wrapped box and shot a Kremlin opponent he had invited to an interview last week.

The assassination attempt went awry when the victim's wife pulled a gun of her own and opened fire on the would-be killer. Both men were hospitalized and survived.

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

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

Anton Gerashchenko, a lawmaker and adviser to Ukraine's interior minister, said Russia had sent waves of killers to Ukraine in an attempt to destabilize its neighbor.

"This is only one of the links in a chain," he said. "This is part of Russia's hybrid war against Ukraine." Ukraine's security service in January said it had prevented a Russian-led attempt on Mr. Gerashchenko's life. The Kremlin hasn't commented on that matter.

The suspect in last week's shooting, Artur Denisultanov-Kurmakayev, has long moved in criminal circles inside Russia, Ukrainian law-enforcement officials allege. Austrian police say they deported him to Moscow in 2008 after receiving a complaint that he threatened a Russian émigré there who was later killed by men linked to Chechen President Ramzan Kadyrov. Mr. Kadyrov has said he has no link to the murder in Austria.

Mr. Kurmakayev, posing as a journalist with a French newspaper, met three times with the target of last week's alleged attack, Adam Osmayev, and his

wife, Amina Okuyeva, filming interviews and telling them that his publication wanted to take them to France, they said.

The husband and wife, Chechens who paired up as a sniper team fighting in Ukraine's east, said they welcomed the publicity.

At a fourth meeting, Mr. Kurmakayev told them he wanted to give them a present, Mr. Osmayev and Ms. Okuyeva recalled. He asked them to sit in the back seat of his car with him in the passenger seat and handed his phone to Mr. Osmayev to video the presentation.

Ms. Okuyeva took the telephone and caught sight of a Glock pistol inside the gift box as Mr. Kurmakayev opened it, with the words: "Here's your present."

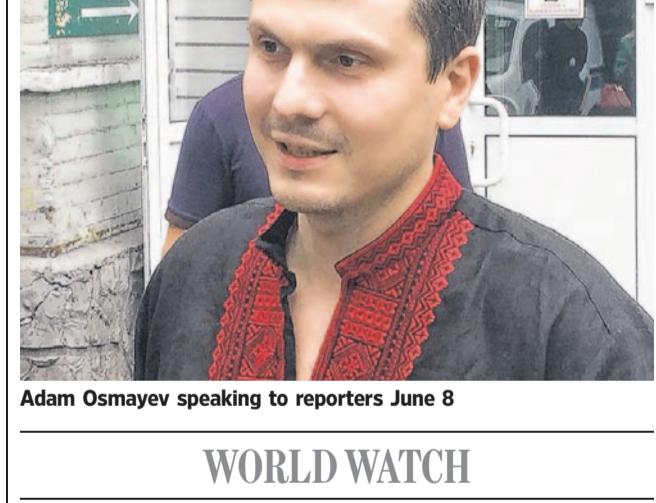
*The assassination attempt last week was foiled by the victim's wife.*

He fired two shots that hit Mr. Osmayev in the chest and arm, according to Mr. Osmayev and his wife. As Mr. Osmayev, 36 years old, fought back and wrestled for control of the pistol, he shouted, "Shoot! Shoot!" Ms. Okuyeva pulled her Soviet-era Makarov pistol, a gift from Ukraine's interior minister, and fired at the attacker, she said. Her pistol jammed after a few shots, so she attacked his face with her hands as he shouted, "I surrender," apparently incapacitated after a bullet had lodged in his spine.

"He was creative, a good actor," Mr. Osmayev said. "But he wasn't very professional."

A Ukrainian court Wednesday ordered Mr. Kurmakayev arrested for two months. A lawyer representing him couldn't be reached to comment. A Ukrainian official who was in the court said the accused called the incident "a regrettable accident."

Mr. Osmayev left a hospital Thursday wearing a traditional Ukrainian embroidered shirt and was invited to visit Ukrainian Interior Minister Arsen Avakov with his wife. Mr. Avakov presented Ms. Okuyeva with a new pistol: a Glock.



ADAM OSMAEV SPEAKING TO REPORTERS JUNE 8

### WORLD WATCH

#### IRAN

### Tehran Sends Aid To Isolated Qatar

Iran has sent hundreds of tons of food to Qatar in recent days, Iranian officials said Sunday, the first significant sign that the Islamic Republic is trying to insert itself into the worst political break in decades between some of the U.S.'s closest Middle Eastern allies.

The food was meant to help relieve Qatar from its economic isolation after Saudi Arabia, the United Arab Emirates, Bahrain and Egypt severed diplomatic ties with Doha and closed their air, sea and land borders to the tiny Persian Gulf country, where the U.S. has its largest military base in the Middle East.

Iran has sent at least four plane loads of fruits and vegetables to Qatar since the Arab nations' rift with Doha last week, Iran Air said, according to the semi-official Fars News Agency.

The four Arab countries that

cut ties accused Qatar of harboring terrorists and meddling in their affairs, touching off the Persian Gulf region's biggest political crisis in years.

—*Arezu Eqbali and Asa Fitch*

#### TENNIS

### Nadal Wins French Open For 10th Time

Three years after suffering from injuries and struggling with his confidence, Rafael Nadal became champion of the French Open for the 10th time.

Nadal, 31 years old, dominated 32-year-old Stan Wawrinka to win the French Open for the first time since 2014. He's the first player—man or woman—in tennis' Open era to win the same major title 10 times. The 6-2, 6-3, 6-1 victory means Nadal now has 15 Grand Slam titles, trailing only Roger Federer, who has 18.

—*Tom Perrotta*

## U.S. NEWS

# Kentucky Unwinds Health-Law Provisions

Gov. Bevin dismantles once-ambitious model, saying cuts will save essential programs

By ARIAN CAMPO-FLORES

WHITESBURG, Ky.—As Congress works to repeal President Barack Obama's signature health law, Kentucky Republican Gov. Matt Bevin is already at work unwinding some of its provisions in his state.

Mr. Bevin has dismantled the state's health-insurance exchange, moving patients to the federal website last year. He has proposed introducing new conditions for recipients of Medicaid, the federal-state health program for the poor, that would require patients to pay premiums of up to \$15 a month and perform employment-related or community-service activities, among other provisions.

His administration is waiting for the federal Centers for Medicare and Medicaid Services to decide whether to approve the plan. The agency's new head, Seema Verma, helped craft Kentucky's proposal, but said she would recuse herself from the decision-making process.

The plan is "designed to improve people's health, education and employment opportunities, while stabilizing the high costs of providing care to our most vulnerable citizens," said Doug Hogan, a spokesman for the Kentucky Cabinet for Health and Family Services.

It is a reversal for a state whose health-insurance exchange was hailed as a model of success when the federal marketplace and some state ones were faltering.

For Kentucky, the changes cut both ways. The governor says his proposals will save the state \$2.2 billion over five years, allowing it to avoid cutting other essential programs, such as education and infrastructure.

Kentucky is facing a downturn in state revenues that has created an estimated \$113 million budget shortfall.

As a result, the Bevin administration is requesting that state agencies cut spending by 1% before the end of the fiscal



Dr. Byron Thomas spoke with patients during an examination at a Mountain Comprehensive Health clinic in Whitesburg, Ky., in May.

year on June 30.

But for the state's burgeoning health-care sector, the uncertainty could squash growth, according to health-care executives and analysts.

Stephanie Moore, chief executive of White House Clinics, which has eight medical facilities in central and eastern Kentucky, was planning to open an additional clinic in an underserved area.

"But I can't make that kind of investment without knowing what environment we would be practicing in," she said.

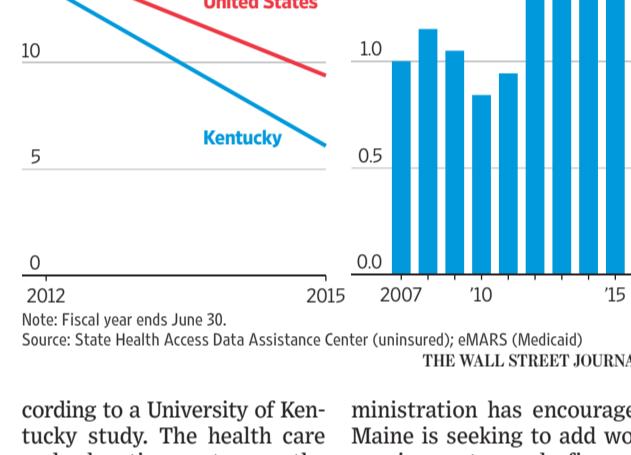
Mr. Bevin argues that the health law saddled the state with an unsustainable financial burden, with Medicaid spending reaching 15% of general fund expenditures in the 2016 fiscal year.

The governor says his proposal would steady the health-care system by gradually moving people from Medicaid to private insurance plans.

Kentucky's employment growth since the recession generally has lagged behind the U.S.'s overall, and segments like manufacturing and construction have suffered, ac-

### Coverage, at a Cost

The rate of uninsured people in Kentucky has dropped faster than in the U.S. as a whole, yet Medicaid costs have risen.



cording to a University of Kentucky study. The health care and education sector, on the other hand, is among the fastest-growing in the state and has surpassed manufacturing.

Other states are also pursuing changes to how their Medicaid programs operate, which President Donald Trump's ad-

ministration has encouraged. Maine is seeking to add work requirements and financial penalties for missed medical appointments.

Wisconsin wants to add premiums and drug screenings for recipients.

Meantime, lawmakers in D.C. are still at work trying to

repeal and replace the Affordable Care Act. A bill passed by the U.S. House in May would roll back Medicaid expansion and replace government-subsidized health plans offered on insurance marketplaces with tax credits.

The Senate is now trying to craft its own measure, but grappling with deep divisions over Medicaid expansion.

Kentucky's embrace of the Affordable Care Act came under the former administration of Gov. Steve Beshear, a Democrat. It was the only Southern state to expand Medicaid and set up its own health-insurance exchange, and became a closely watched example of the law's effects on a state plagued with health problems such as diabetes and obesity.

The expansion helped to reduce the uninsured population to 6% in 2015 from 14% in 2013, one of the biggest declines in the U.S.

Kentuckians also received more preventive health visits and care for chronic conditions, and reported improved well-being, according to researchers at Harvard T.H. Chan

School of Public Health.

"Rolling back that coverage will not only disadvantage the individuals who depend on the [health law], but also will have a negative impact on the overall health-care system in Kentucky," said Diane Rowland, executive vice president at the Kaiser Family Foundation.

If the governor's plan to add premiums and other requirements to Medicaid is approved, roughly 18,000 fewer Kentuckians would be covered by the program in the first year of implementation, according to an analysis by the Kentucky Center for Economic Policy that relied on Bevin administration figures. That number would grow to nearly 86,000 in the fifth year.

At Mountain Comprehensive Health Corp.'s eight clinics here in rural eastern Kentucky, expanded health coverage helped fuel a 35% increase in the number of patients between 2013 and 2016, according to company data.

The health system also bolstered a group focused on preventive care. Partly as a result, the proportion of patients due for colorectal cancer screenings who in fact received them jumped to 73% in February from 19% in 2013.

That growth allowed the company to add the equivalent of 84 full-time positions and expand dental, optometry and behavioral health services, said Chief Operating Officer Phillip Hampton.

"This has been a life-saver for a lot of our patients," said April Hall, an internal medicine physician at Mountain Comprehensive Health's Whitesburg clinic.

In nearby Hindman, Kasie Wallace, 24 years old, went two years without health coverage, racking up about \$5,000 in unpaid emergency-room charges to treat complications from irritable bowel syndrome.

She obtained a health plan under the Medicaid expansion in 2014 and was able to get treatment for the disorder.

"It was a tremendous relief," Ms. Wallace said.

Now worried that the potential changes could leave her without coverage, she is hurrying to make medical appointments. "I'm really nervous about it," she said.

## GOP Targets Planned Parenthood

By MICHELLE HACKMAN

WASHINGTON—Senate Republicans plan to strip federal funding from Planned Parenthood Federation of America and add several other abortion restrictions to their health-insurance overhaul bill, creating another potential concern for centrist GOP senators who are considering whether to back the legislation.

Republican leaders believe they have the votes to keep the defunding measure in any final Senate bill, people familiar with the discussions said, though they still could remove it should that be the deciding factor in the bill's passage.

Defunding Planned Parenthood has long been a priority for conservative lawmakers and antiabortion groups, and they see the health bill as a rare opportunity to do so. Republicans plan to use a procedural maneuver to pass the bill with a simple Senate majority rather than the 60 votes usually required, giving the antiabortion groups a potential opening.

By law, Planned Parenthood can't use federal dollars to pay for abortions. But anti-abortion activists say any federal backing helps the nonprofit group stay in operation and continue performing the procedures, while abortion-rights groups say the money is used for unrelated exams and screening that are crucial to women's health.

Antiabortion groups such as the National Right to Life Committee, which maintains an influential scorecard for members of Congress based on their abortion and related votes, say inclusion of the defunding measure is a condition for their support of the health bill.

"We have the votes in the Senate to pass this language now," said Carol Tobias, president of the group.

These groups have also been pushing lawmakers to insert provisions in their bill that would bar people from using tax credits and money put into health-savings accounts to pay for abortions and some contraceptive coverage.

The Senate parliamentarian has warned those lawmakers that attaching abortion restrictions to either measure could make them ineligible for

inclusion in the bill, under Senate budget rules, forcing lawmakers to either excise the abortion language or remove the tax credits and health-savings accounts from their bill altogether.

If the provision is included, Ms. Collins plans to introduce an amendment excising it from the bill, a move that Ms. Murkowski is expected to support. Their votes to remove the funding cutoff would likely leave the Senate at a 50-50 stalemate, assuming no Demo-

crats vote for the defunding measure, forcing Vice President Mike Pence to cast a tie-breaking vote.

A wild card could come in the form of Nevada Sen. Dean Heller, a Republican who is considered one of the chamber's most vulnerable lawmakers in the 2018 midterm elections.

At an April town-hall meeting, Mr. Heller told constituents who asked about the network of women's health clinics, "I have no problems with federal funding for Planned Parenthood"—a statement his office later walked back.

Coupling the Planned Parenthood measure in particular with the GOP's Affordable Care Act repeal legislation threatens to drive away at least two centrist Republican senators, Susan Collins of Maine and Lisa Murkowski of Alaska. "I don't think that

say he feels squeezed on the issue and believes it could have political consequences for his campaign.

Should Mr. Heller signal to GOP leaders that he is hesitant to vote against Planned Parenthood, that would likely kill the defunding provision.

"While he doesn't have a problem with many of the health-care services Planned Parenthood offers to women, he is opposed to providing federal funding to any organization that performs abortions and is supported by taxpayers' dollars," said Megan Taylor, a spokeswoman for Mr. Heller. "He has a long record that reflects his position."

Senate leaders for now are looking to use the House's defunding language, which would bar Planned Parenthood from receiving Medicaid funding for one year. According to the nonpartisan Congressional Budget Office, such a measure would cut off the organization from about \$178 million in federal funds.

About 60% of Planned Parenthood's patients receive services through Medicaid and other federal programs.

Congressional leaders can't include a permanent ban on Planned Parenthood under the Senate's special budgetary rules, because the CBO has estimated such a ban would cost the federal government extra money in increased births.

Democrats attacked the GOP plans, as did Planned Parenthood's leaders.

"Instead of plotting the repeal of the Affordable Care Act in secret, Senate Republican leaders should listen to the 80% of voters who support Planned Parenthood and reject efforts to block people from getting care at our health centers," said Dawn Laguens, executive vice president of Planned Parenthood Action Fund.

Planned Parenthood's federal funding could be removed in the bill.

The push, coming from groups such as National Right to Life and the Susan B. Anthony List, has angered some centrist GOP senators, who are looking to broaden the tax credits and health-savings accounts to benefit low-income people. But the groups say that without the language included, they would be forced to oppose the entire bill.

Coupling the Planned Parenthood measure in particular with the GOP's Affordable Care Act repeal legislation threatens to drive away at least two centrist Republican senators, Susan Collins of Maine and Lisa Murkowski of Alaska. "I don't think that

people close to the senator

## FILL-IN

Continued from Page One

web outlets. The group's Twitter feed has more than 17,000 followers and it goes so far as to talk about understudies in training and those who are going on in touring shows.

In May, it shared news about a fill-in at a Providence, R.I., road date of "Matilda the Musical." It also noted that Paul Slade Smith, an actor from Connecticut, was beginning rehearsals as the understudy for the lead role of Willy Wonka in the new Broadway musical "Charlie and the Chocolate Factory."

"Break legs, Paul! We can't wait for you to go on!" the group tweeted.

Broadway obsessives, who will go to shows dozens of times, say they appreciate the energy and perspective understudies bring to their roles. Not unlike baseball fans who attend minor-league games to see the sport's prospects, they admit to taking a kind of geeky pleasure in "collecting" understudies, noting which ones they have seen over the life of a production. Mo Brady, a former understudy who co-hosts The Ensemblist, a podcast about Broadway, calls such fans "completists."

"They want to see every permutation of the show," he said.

Hayley Goldstein said she attended "Something Rotten!," a Shakespeare-spoofing musical that played on Broadway from April 2015 to the beginning of this year, some 40 times. Ms. Goldstein, a college student, is especially thrilled she saw Broadway veteran Eric Sciotti understudy in two of the show's main roles over the course of its run.

Understudy Shoba Narayan, an actress from Pennsylvania of Indian heritage, started appearing as Natasha in "Natasha, Pierre & the Great Comet of 1812" earlier this year. It marked a rare appearance by a South Asian actress

in a lead role on Broadway.

Ms. Narayan said as news spread of her occasional performances, dozens of fans, including many South Asians, started buying tickets. One fan even sent a watercolor painting depicting her in the role. "It was touching," said Ms. Narayan.

Not everyone is so thrilled about understudies. Many Broadway regulars admit to a degree of disappointment when they see that inserted slip of paper, especially given the cost of attending a show. The average price for a ticket hit a record \$109 this season, an increase of \$6 over 2015-16, according to the Broadway League, a trade group.

**Obsessive Broadway fans 'want to see every permutation of the show.'**

In a survey Broadway producer Ken Davenport undertook with a research firm, 73% of theatergoers had a negative response to having to sit through a replacement's performance. In a blog post summarizing the survey, Mr. Davenport said most ticket-buyers felt "cheated."

Don't tell that to Melissa Anelli. A Broadway enthusiast and co-founder of BroadwayCon, a New York convention for fans, she has been tracking understudies since the pre-social media era of the '90s. Back then, she had to check with cast members directly—she particularly followed the award-winning musical "Rent"—to find out about replacement performances.

"We didn't have what people have now," said Ms. Anelli, who saw "Rent" many times and "stopped counting after 60" performances. She said fans like her "just want to support the show by supporting the people who are less celebrated in it."

JUSTIN LANE/EUROPEAN PRESSPHOTO AGENCY

Planned Parenthood's federal funding could be removed in the bill.

The push, coming from groups such as National Right to Life and the Susan B. Anthony List, has angered some centrist GOP senators, who are looking to broaden the tax credits and health-savings accounts to benefit low-income people. But the groups say that without the language included, they would be forced to oppose the entire bill.

Coupling the Planned Parenthood measure in particular with the GOP's Affordable Care Act repeal legislation threatens to drive away at least two centrist Republican senators, Susan Collins of Maine and Lisa Murkowski of Alaska. "I don't think that

people close to the senator

## IN DEPTH

# For a Baptist Leader, Politics Turn Perilous

Russell Moore triggered a backlash by criticizing Trump supporters during the campaign; no access to the White House

BY IAN LOVETT

WASHINGTON—When President Donald Trump signed an executive order on religious liberty last month, he was surrounded in the White House Rose Garden by religious figures—Catholics, orthodox Jews, Sikhs and a host of evangelical Christians.

One prominent evangelical was conspicuously missing: Russell Moore, the public face and chief lobbyist of the Southern Baptist Convention, the country's largest Protestant denomination.

Mr. Moore's absence was a sign of the rift between him and the new administration, and hinted at a rupture within the Southern Baptist Convention itself that is challenging Mr. Moore's leadership and potentially pushing the powerful, conservative institution off the political course he set.

As Southern Baptists head into their annual meeting on Tuesday, Mr. Moore, 45 years old, is at the center of a generational struggle over the denomination's future. The outcome could determine whether Southern Baptists continue to be a leading conservative voice in cultural disputes over abortion and gay rights—and whether evangelical Christians remain a reliably Republican voting bloc.

For the past four years, as head of the Southern Baptist Convention's public-policy arm, the Ethics and Religious Liberty Commission, Mr. Moore has tried to lead evangelicals in a new direction.

He hosted a conference to bring together Baptists with gay-rights leaders. He said white evangelicals must do more to combat racial injustice. Most notably, he said evangelicals must avoid being in lockstep with one party, and he criticized the priorities of the "religious right"—including many Southern Baptists who backed Mr. Trump.

"2016 has destroyed evangelical credibility," Mr. Moore wrote last October on Twitter. The post linked to an opinion piece he had written in the Washington Post, which called evangelical leaders' enthusiastic support for Mr. Trump "a scandal and a disgrace."

His approach won him support among a younger, more racially diverse generation of evangelicals who are more suspicious than their parents of political parties.

It also led to a backlash from Southern Baptists who helped build the denomination into a political force within the Republican Party. Many of them saw Mr.

Trump, despite his three marriages and ties to the casino industry, as the only realistic hope for the socially conservative agenda they have been pushing for decades.

### Evangelical Politics

How white evangelical Christians voted in recent presidential elections



Source: Pew Research



MELISSA GOLDEN FOR THE WALL STREET JOURNAL

*'As I look back over the last year, I am grieved by the tensions in our denomination over the state of American politics and the role of religion in it.'*

Russell Moore, in a written statement in March to Southern Baptists

Some Southern Baptists are talking about eliminating the public-policy group he leads at the annual meeting.

"The election revealed some differences among us, in the broader evangelical community as well as the Southern Baptist Convention," said Frank Page, president of the denomination's executive committee. "They aren't going to go away after the election."

Mr. Moore, through a spokesman, declined to comment for this article.

On Feb. 22, Mr. Moore dialed in to a conference call with some of the most influential Southern Baptists in the country, according to several people who were on the call.

Prestonwood Baptist Church, a Texas megachurch led by Jack Graham, a former president of the Southern Baptist Convention, had announced days earlier that it was withholding \$1 million from the denomination, citing concerns about Mr. Moore's organization.

Smaller congregations also were pulling funds, a rebuke that was depriving the national denomination of money for seminaries, missionary work and other needs.

Several pastors on the call, including Mr. Graham, were part of an evangelical advisory board Mr. Trump

according to exit polls.

Ted Traylor, pastor of Olive Baptist Church in Pensacola, Fla., said church members had been asking him, "Pastor, are we paying this guy?" After the call, he said, Mr. Moore began to understand "a little deeper" how his comments about Trump supporters had affected many Southern Baptists.

The last time the Southern Baptist Convention was so divided was during the 1980s, when theological conservatives reclaimed control over the denomination. Nearly 2,000 churches left to form their own denomination, the Cooperative Baptist Fellowship, which now ordains women.

Mr. Moore's predecessor, Richard Land, played a leading role in that denominational battle. As head of the public-policy arm, Mr. Land had turned the Southern Baptist Convention into a conservative political juggernaut. He helped push the GOP to the right on issues such as abortion and became a regular in the George W. Bush White House. Since then, evangelicals have consistently delivered votes for Republicans.

Last year, Mr. Land said a vote for Mr. Trump was the only realistic option for Christians, calling Hillary Clinton "the most pro-abortion presidential candidate ever nominated by a major party."

Mr. Moore also is a vocal critic of abortion and opposes gay marriage, but he said he couldn't endorse either major party candidate.

Ruth Malhotra, a 33-year-old Southern Baptist of Indian descent who lives in Atlanta, said her generation was looking to Mr. Moore and taking a more expansive view of being "pro-life"—not just opposition to abortion but also work on behalf of refugees and the poor.

"Our generation is becoming more diverse. We're starting to say no, it's not an automatic check-the-box for any Republican," said Ms. Malhotra, who voted for independent candidate Evan McMullin.

Pastors asked Mr. Moore whom he was talking about when he criticized the motivations of evangelicals who supported Mr. Trump. Did he mean them?

Some pastors said in interviews they weren't sure Mr. Moore realized how out of step he was with most of the denomination. More than 80% of white evangelicals voted for Mr. Trump,

of new churches are predominantly nonwhite, according to denomination officials, and in 2012 the convention elected its first black president, Fred Luter, who served a two-year term.

William Dwight McKissic Sr., pastor of Cornerstone Baptist Church in Arlington, Texas, said the backlash against Mr. Moore had "huge implications" for black Southern Baptists such as himself, who are far less likely than white evangelicals to support Republicans.

**Mr. Moore said he couldn't endorse either major party candidate.**

"The fact that he was targeted was very chilling," Mr. McKissic said. "It sends the signal that anybody who speaks a word that is not in line with traditional Southern Baptist, Republican thought will face opposition, to the extent that their jobs will be threatened."

Some critics of Mr. Moore said their frustration is more about his leadership style than his politics. In a denomination that likes to settle disputes quietly, some were rankled that he criticized Trump supporters on national television and didn't speak to them directly.

"I'd have gone to a Jack Graham" before publicly criticizing Trump supporters like him, said Jay Strack, president of Student Leadership University and member of Mr. Trump's advisory board, who called himself "a big fan" of Mr. Moore.

As churches began pulling funding, Mr. Moore went quiet. He made few television appearances and hardly said a negative word about Mr. Trump. He also visited Mr. Graham and met privately with others.

### Apology issued

In March, the board of the Ethics and Religious Liberty Commission released a statement of support for Mr. Moore, who himself issued an apology.

"As I look back over the last year, I am grieved by the tensions in our denomination," Mr. Moore wrote. "...apologize for failing to distinguish" between people who voted for Mr. Trump despite reservations and "those who put politics over the gospel."

In response, Mr. Graham wrote on Twitter, "This is a gracious and unifying statement from @drmoore." Prestonwood Baptist announced in April it would resume giving to the national denomination.

"We're in a truce," Mr. Strack said of the situation, adding that Mr. Moore had taken important steps to mend fences. "I think he can build trust back, but now you have this debate internally."

After feeling shut out during the Obama administration, evangelicals are now enjoying far greater access at the White House. Mr. Moore, however, has been shut out, according to evangelicals who work in Washington. A White House spokeswoman said Mr.

Moore didn't appear to have visited since Mr. Trump took office.

On March 3, about a month after Neil Gorsuch was nominated to the Supreme Court, two dozen religious leaders gathered at the Eisenhower Executive Office Building to strategize how to help his Senate confirmation process. Mr. Graham was there, as was Tony Perkins, a Southern Baptist pastor and president of the Family Research Council, a conservative advocacy group. Mr. Moore was not.

At one point this spring, Mr. Moore's staff had to search for a way to get in touch with the White House.

"Dr. Moore's office reached out to ask if I could give them a good email address for the White House," said Johnnie Moore (no relation to Russell Moore), 34, a Southern Baptist member of Mr. Trump's evangelical advisory board and founder of the Kairos Co., a public-relations firm that represents many religious figures.

"It was a strange question from a multimillion-dollar public-policy organization. They apparently still couldn't find the front door, despite that door being in plain sight," said Johnnie Moore, who sent Mr. Moore an email address for the White House. "The polite thing to do was to help."

Eric Erickson, a conservative radio host and blogger who opposed Mr. Trump during the campaign, said there are plenty of people on Capitol Hill, and even White House staff, who pay attention to Mr. Moore.

"I know for certain, when the president signed the religious liberty executive order, people in the White House were mindful of what guys like Russell Moore would think," Mr. Erickson

said.

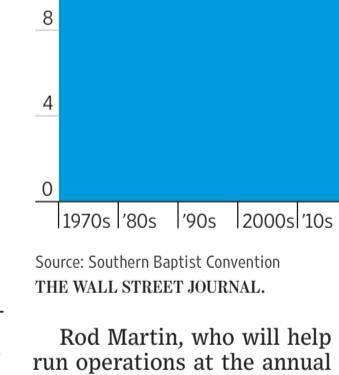
Still, some pastors are now going around Mr. Moore to lobby in Washington, building their own relationships with the White House or working with other conservative groups.

"I think this Russell Moore controversy was really a catalyst to begin asking a bigger question, which is whether the ERLC is even relevant anymore," said Robert Jeffress, pastor at First Baptist Dallas and another member of Mr. Trump's advisory board.

Mr. Land's influence stemmed partly from his ability to speak on behalf of the vast majority of the denomination. During the Bush administration, he has said, the White House would call him to find out how Southern Baptists felt about a given policy.

### Shrinking Flock

Southern Baptist Convention membership



Source: Southern Baptist Convention

THE WALL STREET JOURNAL

Rod Martin, who will help run operations at the annual meeting, recently advocated the elimination of Mr. Moore's public-policy commission, which has an annual budget of nearly \$4 million.

Mr. Taylor of Olive Baptist Church said such a motion "wouldn't get to first base" at the annual meeting.

Yet bitterness remains even after Mr. Moore's apology, and several churches are still withholding funding.

"A lot of younger people think he's the greatest thing since sliced bread," Craig Mitchell, a professor at Criswell College and former ERLC research fellow, said of Mr. Moore. "Some of the older people who didn't like him before still don't like him now."

"What that leads me to believe is that anything can happen at this convention," he said. "I hope there's not going to be any ugliness."

—Louise Radnofsky contributed to this article.

## U.S. NEWS

THE OUTLOOK | By David Harrison

# Fed Fails to Tame Markets

The Federal Reserve and financial markets are dancing out of step: The Fed is trying to lead but markets refuse to follow.

Fed officials, trying to prevent the economy and markets from overheating, are slowly raising short-term interest rates and moving to shrink their large portfolio of Treasury and mortgage bonds. But while the Fed tries to take fuel out of the financial system, stocks are rallying and bond yields are falling, developments that could prompt more borrowing, faster economic growth and more market speculation.

The tech-heavy Nasdaq Composite stock index is already up 17% as it nears the midyear mark and the S&P 500 index a robust 9%. Yields on 10-year Treasury notes have dropped to their lowest levels since November, meaning borrowing costs are falling for many households and businesses even as the Fed tries to raise them.

Broad financial conditions are as accommodative now as they were in early 2015, the point of maximum Fed stimulus, according to a closely watched Goldman Sachs index, which measures the combined impact of movements in interest rates, stock prices and the value of the dollar.

All this, even though the Fed has raised interest rates three times since December 2015 and will likely announce another increase at its June 13-14 meeting. Officials are also working on a mechanism to unload some of the Treasury and mortgage securities they bought in the aftermath of the recession.

Easy financial conditions create a risk the market could overheat and then snap back, sending yields soaring and choking off lending, said Torsten Slok, chief international economist at Deutsche Bank Securities. "The rubber band is stretching out here."

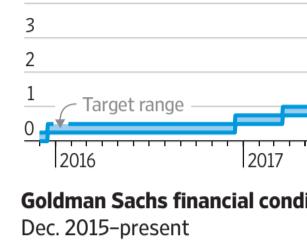
In theory, financial condi-

### Out of Step

The Federal Reserve has been raising short-term interest rates, but financial markets have gotten frothier...

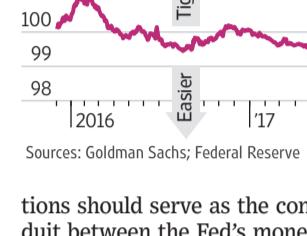
#### Federal-funds rate target

Dec. 2015-present



#### Goldman Sachs financial conditions index

Dec. 2015-present



Sources: Goldman Sachs; Federal Reserve

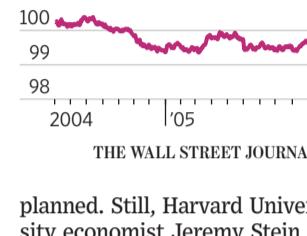
...which resembles a similar sequence of events after the Fed started raising rates in 2004.

June 2004-Oct. 2005



#### Goldman Sachs financial conditions index

June 2004-Oct. 2005



THE WALL STREET JOURNAL.

tions should serve as the conduit between the Fed's monetary policy and the real economy. When the Fed lifts short-term rates, long-term rates should rise also and financial conditions should tighten.

The fact that the central bank and Wall Street are moving in opposite directions suggests limits to the Fed's influence over the economy. If it persists, it could also prompt the Fed to shift its strategy. If your dance partner doesn't follow, you might hold that person tighter.

"If we decide that we need to tighten financial conditions and we raise short-term interest rates and that doesn't accomplish our objective, then we're going to have to tighten short-term interest rates by more," New York Fed President William Dudley told The Wall Street Journal last year.

It is still too early to say whether officials will raise rates more aggressively than

planned. Still, Harvard University economist Jeremy Stein, a former Fed governor, said because financial conditions are so loose after three rate increases, the Fed is less likely to back away from its plan to keep raising rates, even in the face of low inflation.

Markets could be underestimating the Fed's willingness to pursue its stated path of raising rates twice more this year. Investors are broadly split over whether the Fed will manage more than one additional move in 2017, according to CME Group data.

Fed officials note it takes time for their policy moves to translate through to markets and the broader economy. That lag makes it difficult for them to perfectly engineer financial conditions.

Today's disconnect is reminiscent of the 2004-2006 period, when financial conditions stayed loose even as the Fed raised its benchmark interest rate by 4.25 percentage points. Former Fed Chairman Alan Greenspan called it a

precrisis era.

"conundrum." His successor, Ben Bernanke, suggested long-term borrowing costs were kept down by rapidly developing countries in Asia pouring U.S. dollar holdings—accumulated through large trade surpluses—into Treasury securities, a phenomenon he called the "global savings glut."

Those loose financial conditions helped inflate the housing bubble that led to the financial crisis in 2007.

Today, many economists and central bankers once again say the split between Fed policy and market conditions is due to developments over which the Fed has little control. Aggressive central bank stimulus in the eurozone and Japan has pushed down borrowing costs in those countries. That's prompted investors there to look to U.S. government debt for better returns, pushing up the price of long-term Treasury securities and driving down yields, said Mr. Stein.

Meanwhile, expectations that the Trump administration would usher in a growth-boosting tax overhaul are waning, pushing Treasury yields down. The effects of super easy monetary policy may also be accumulating in stock values.

Moreover, the global economy has picked up this year, which boosts equity prices while weakening the dollar. China's efforts to stabilize its currency by selling U.S. assets have put added downward pressure on the dollar.

Fed governor Jerome Powell told an audience this month he wasn't yet concerned about the similarities to the precrisis era.

At least for now.

"If something like that does persist, then I think it's something you need to take into account in setting monetary policy," he said. "It's premature to be doing that today."

THE WALL STREET JOURNAL.

# Apprentice Programs to Get Boost

By ERIC MORATH

President Donald Trump is set to make the expansion of apprenticeship programs the center of his labor policy, aimed at filling a record level of open jobs and drawing back Americans who have left the workforce.

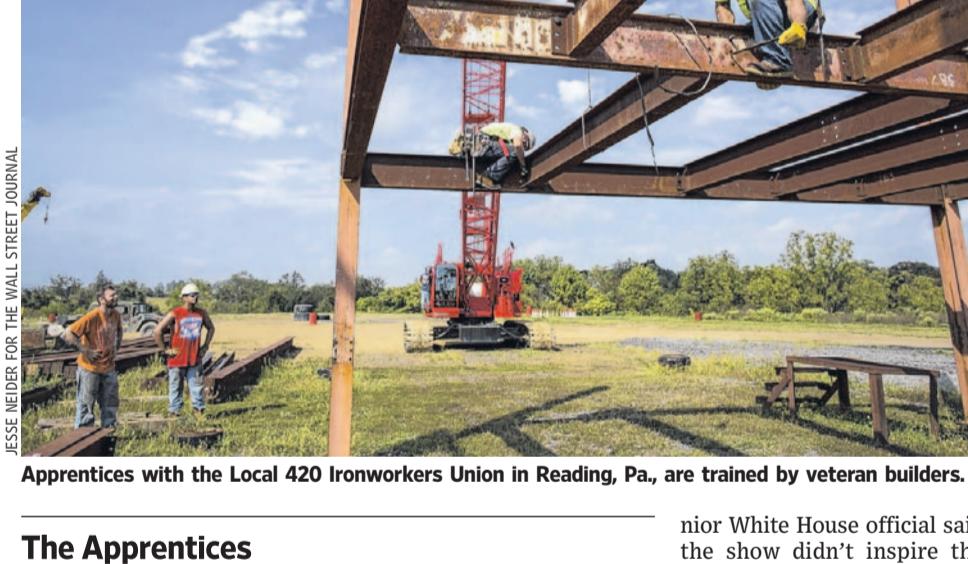
Apprenticeships are an underused form of workforce training in the U.S. compared with European countries and have a proven record of good outcomes for workers, administration officials said. Nine in 10 Americans who complete apprentice training land a job, and their average starting salary is \$60,000 a year, according to the Labor Department.

The administration is committed to "supporting working families and creating a pathway for them to have robust and successful careers," Ivanka Trump, the president's daughter and assistant, said Friday. "There has been great focus on four-year higher education, and in reality, that is not the right path for everyone."

White House officials discussing the president's goals on Friday gave few details on program changes or requests to Congress. They said Mr. Trump is likely to offer more specifics in the coming days. He plans to visit a technical school in Wisconsin on Tuesday and deliver a policy speech at the Labor Department Wednesday.

Apprenticeship programs are typically partnerships between a school and an employer, which federal or state governments certify. Workers are trained for skills businesses need and provided hands-on experience. Since workers are paid while they learn, programs can attract younger Americans seeking to avoid student debt and displaced older workers who need new skills but can't attend years of college.

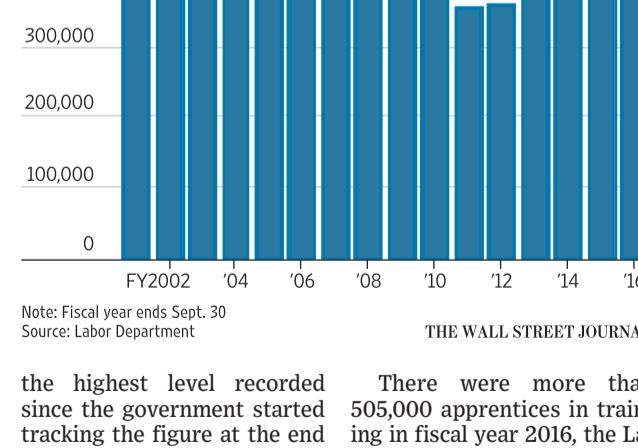
Such programs could also address an emerging shortage of skilled workers. There were more than six million job openings in April, the Labor Department reported last week,



Apprentices with the Local 420 Ironworkers Union in Reading, Pa., are trained by veteran builders.

### The Apprentices

Active apprentices in the U.S.



Note: Fiscal year ends Sept. 30

Source: Labor Department

the highest level recorded since the government started tracking the figure at the end of 2000. At the same time, the share of Americans participating in the workforce is trending near a four-decade low.

"Closing the skills gap is critical for increasing labor-force participation," Labor Secretary Alexander Acosta said Friday. If workers see a pathway to gaining skills and taking high-paying jobs, the argument goes, they're more likely to remain in or return to the workforce.

There were more than 505,000 apprentices in training in fiscal year 2016, the Labor Department said. That was the highest level on record back to 2001, but only about 20,000 higher than the previous peak in 2003. And the figure is much smaller than the 13.3 million students enrolled in four-year colleges last year, according to the National Center for Education Statistics.

Before running for president, Mr. Trump was the host of NBC's reality television show "The Apprentice." A se-

nior White House official said the show didn't inspire the policy push. Rather, the president's interest stems from his background in the construction industry, where apprenticeship programs are common. But the official noted the television program effectively showed the value of mentorships, which is an important attribute of apprenticeship programs.

Of the more than 8,000 active apprenticeship programs registered with the Labor Department, almost half are in the construction industry and 20% are in manufacturing. However, an official said, apprenticeships are in use or under consideration in fields ranging from policing to retail, and the intent is to expand programs to more industries.

Apprentice programs were also a priority of the Obama administration. The Labor Department distributed \$90 million in grants last year specifically appropriated for apprenticeship expansion. The current administration sees the programs as advantageous because they're largely funded by the firms where workers receive training or by labor unions, and they could be expanded without significant additional federal outlays.



ALVIN BAER/REUTERS

# Puerto Ricans Head to the Polls

By ARIAN CAMPO-FLORES

Puerto Rico's polling stations opened Sunday, giving the territory's voters a chance to back a bid to become the 51st state.

Voters will choose among three options: statehood, independence or a continuation of its current status as a territory.

A recent poll by the Puerto Rican newspaper El Nuevo Día found that 72% of respondents planned to participate in the nonbinding plebiscite.

Vicente Sánchez, a 70-year-old San Juan resident and head of a food-distribution company, said before the vote that he plans to vote for statehood.

"A permanent union with the United States is fundamental," he said. "It differentiates us from other countries in Latin America in quality of life and civil rights."

Mr. Sánchez said he had long been content to maintain Puerto Rico's territorial status but now thinks the relationship needs to be defined more clearly. Island residents' inability to elect voting members of Congress has weakened its position, he said.

Sunday's vote is the fifth time since 1967 that the island's residents have gone to the polls to vote on the issue. In the 1967, 1993 and 1998 votes, statehood never won an outright majority.

In the most recent plebiscite—a two-part referendum in 2012—voters rejected continuing the status quo in the first question, and then a majority opted for statehood over independence in the second question. But more than 500,000 voters left the second question blank as a form of protest.

# TRUMP

Continued from Page One

Mr. Bharara in March said he was fired from his position as the Manhattan U.S. attorney after he defied a request by the Justice Department for the remaining U.S. attorneys appointed by former President Barack Obama to resign.

Attorney General Jeff Sessions asked all 46 of the U.S. attorneys appointed by Mr. Obama who were still in their posts to submit their resignations on March 10.

The White House didn't immediately respond to a request for comment on Mr. Bharara's comments.

The former U.S. attorney on Sunday shed new light on his relationship with Mr. Trump, saying the president called him in December and again two days before the inauguration "to shoot the breeze."

"It appeared to be that he was trying to cultivate some kind of relationship," Mr. Bharara said.

The final call was after Mr. Trump was sworn in as president.

"The number of times



CHERIS MAY/NURPHOTO/ZUMA PRESS

# LIFE & ARTS

## BOOKS

# A New Dive Into Cops and Corruption

With his latest book, 'The Force,' California transplant Don Winslow returns to New York City



BY RICHARD TURNER

**WHEN DON WINSLOW** was interviewing police officers for his new novel, "The Force," he recalls some of the cops telling wild stories and laughing till they cried. Other memories would make them weep.

"When you talk to them in the wee hours of the morning," Mr. Winslow says, "you really get how much they care."

But in "The Force," Mr. Winslow's tale of police corruption, cops on the job display the more familiar veneer of cynicism and detachment. He says it's a defense mechanism for the rigors of their work.

Critics and crime-writing royalty have anointed his 496-page opus, which will be published June 20, an epic summer read. According to Lee Child, "The Force" is

"probably the best cop novel ever written." Stephen King's take: "Think 'The Godfather,' only with cops." Mike Lupica wrote in the New York Daily News: "It isn't just one of the great New York City cop novels ever written. It is one of the great New York City novels."

Mr. Winslow's protagonist, Denny Malone, is a swaggering New York City detective, a "hero cop" in tabloid parlance. Malone cares deeply about the safety of the people on his turf, stretching north from Manhattan's Upper West Side to the Bronx line. He and his partners in an elite unit take some shortcuts, but they get results.

"That was their job and their passion and their love," Mr. Winslow writes, "and if that meant they worked the corners of the plate and put a little something extra on the ball now and then,

that's what they did."

"A little something extra" can become a lot more. After reading Mr. Winslow's manuscript, one veteran cop told the author that Malone "is a piece of shit, but I like him." No one wants dirty cops, Mr. Winslow says, but citizens want to be protected, and they don't necessarily want to hear the details.

One type of corruption, Mr. Winslow says, ranges from comped meals at the local diner to bribes from the mob. Another type includes coddling drug-dealing informants, manhandling suspects or planting evidence, even in the service of nailing a criminal.

"The free sandwich is one thing, because it's financial" the author says. "The procedural kind of corruption is much more seductive and much more insidious because you have guys out there trying to do

good. And by far most of them are."

Police stories are often riddled by stereotypical overworked characters beset with drinking problems, fractured marriages and adrenaline addiction—living in an insular culture of cops-only-talk-to-other-cops.

Another fixture: bad cops. While researching the book, the 63-year-old Mr. Winslow says, he talked to many cops who resent the current outcry about police shootings, but who privately rage about rogue colleagues who feed their brittle egos with bullying and abuse.

"They're guys who don't have enough personal power, so they feel that putting on that uniform gives them a little brief authority," in Shakespeare's terms," he says. That has always been this way. "You could write the story in Latin."

Mr. Winslow recognizes these

clichés. "But they're true," he points out. "I'm aware of them, but they take you where they take you." It's a question of execution.

Mr. Winslow and his wife have lived in Southern California for more than two decades. He was born in Staten Island, N.Y., raised in Rhode Island and spent years off and on in New York until the early 1990s. While New York may have inspired 1,000 episodes of "Law & Order," Southern California has a richer history of crime fiction.

For more than 20 years, his subjects were Orange County drug dealers, Mexican cartels and surfing detectives in San Diego County. Among the 20 books he's written since 1991, the best known are "Savages" and "The Cartel," a 2015 best seller that is the second in a planned trilogy about drug lords. The former shows off Mr. Winslow's profane, crackling wit, the latter his insights into dangerous, closed-off cultures. He points out that until recently, editors and bookstore owners said they couldn't "brand" him and lamented, "We don't know if you're hard-boiled or soft-boiled." "I don't know either," he confesses.

Much has been made over the years about a perceived contrast between policing in New York and Southern California. Mr. Winslow says it's bunk. The stereotype was that some New York cops may be friendly, but often are on the take—from shady lawyers, corrupt politicians or the mob. By contrast, some Southern California police officers were stereotyped as crew-cut clean—and also violent and racist. New York was portrayed as the land of "Kojak" and "NYPD Blue" while Los Angeles and its environs were imagined as "Dragnet" and "CHiPs."

New York and L.A. have different cultures as cities, but cops are basically cops, no matter where they are, Mr. Winslow says. Corruption scandals in the LAPD and police shootings in the NYPD have blurred the images. Blurring the boundaries further are national issues such as video cameras and a shift in resources from fighting traditional crime to terrorism.

Mr. Winslow says he is pro-cop, but his book doesn't spell out any conclusions about corruption. "It's a novel, not an op-ed piece," he says. "The Force" is dedicated to 178 law-enforcement personnel murdered in the line of duty during the year and a half he spent sitting down to write the book. When talking to current and former police officers, the author says, he was struck by how emotional they became when talking about crime victims. "The difference between them and us," Mr. Winslow adds, "is that they deal with the victims every goddamned day, and they have to go to the families and tell them, 'Your father is dead, your husband isn't coming home.'"

## Southern California or New York City? A Reader's Guide to the Shady Side

Los Angeles and its surroundings comprise a patchwork of jurisdictions, from the LAPD to county sheriffs to small municipalities, all jumbled together in a bountiful landscape for crime writers. New York City, with about 35,000 NYPD officers, is more confined—and cop stories have to share the spotlight with the Mafia. A sampler:



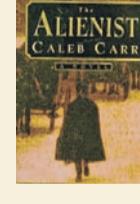
**RAYMOND CHANDLER**  
"It was a blonde. A blonde to make a bishop kick a hole in a stained-glass window."  
*Farewell, My Lovely* (1940)



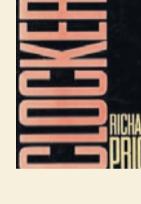
**T. JEFFERSON PARKER**  
Since his debut "Laguna Heat" (1985), the two-time Edgar Award winner has chronicled the coast from Los Angeles to the Mexican border.



**MICHAEL CONNELLY**  
This former crime reporter for the L.A. Times has been a bestseller since 1992 with cop Hieronymus "Harry" Bosch and lawyer Mickey Haller.



**CALEB CARR**  
His breakout book "The Alienist" (1994) is about pursuing a serial killer in 1896, when Theodore Roosevelt was New York City police commissioner.



**RICHARD PRICE**  
Since "The Wanderers" and "Bloodbrothers" in the '70s, he has prowled New York's netherworlds. No matter that "Clockers" (1992) is technically set in the urban projects of northern New Jersey; his acclaimed work with Steve Zaillian on last year's "The Night Of" on HBO goes deep into the NYPD. —R.T.

## FILM REVIEW | By Joe Morgenstern

# DID SHE OR DIDN'T SHE?

**THE PLEASURES OF** "My Cousin Rachel" begin with sumptuous images that suggest a stately story, classically told. Yet Roger Michell's lush psychological thriller, starring Rachel Weisz and Sam Claflin, is more intricate, and interesting, than it first seems. It's a modified Gothic take on the Daphne du Maurier novel about a young Englishman, Philip, who plans to take revenge on his older, mysterious cousin for killing his beloved guardian, then falls madly in love with her and can't decide, any more than we can, whether she's guilty of murder or as innocent as she is beautiful.

The novel, published in 1951, was brought to the screen the following year, with Olivia de Havilland and Richard Burton in the leading roles; that black-and-white production, currently available through streaming services, is worth watching after you see the new film, which is in elegant color. There's no reason why color can't convey a Gothic tale, of course—Cary Joji Fukunaga proved that in "Jane Eyre," with Mia Wasikowska in the title role, and this remake of "My Cousin Rachel,"

shot by Mike Eley, remakes the point. The same goes for a wider spectrum of sexual energy. The earlier film was relatively decorous, with semi-brided passions that befit the story and the era in which it was filmed. Now the lovers let loose, or at least loosen, but wittily as well as ardently; Ms. Weisz and Mr. Claflin, superb performers individually, make an electrifying couple on screen.

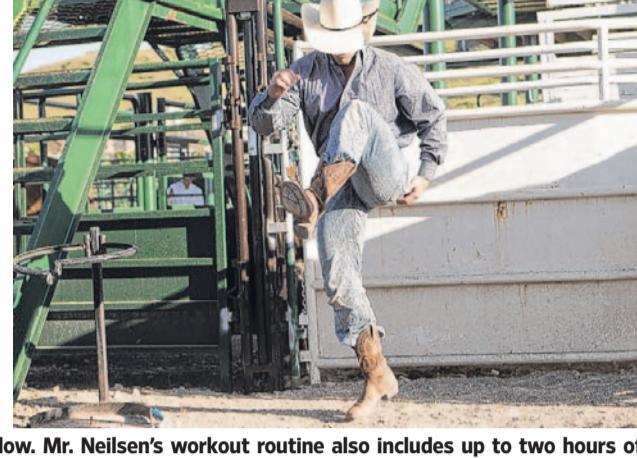
But what is a contemporary adaptation to do with the more conspicuous plot devices and melodramatic excesses of the Du Maurier novel? Mr. Michell and his stars choose to wink at them—not so subtly that we don't notice, but not so blatantly that we're completely distanced from the essence of the drama. We are, if truth be told, partly distanced from several deep-purple passages, but at those times the film functions as a sort of modern interactive museum. Here, it is saying in effect, are old-fashioned conventions that still have life in them, but to appreciate them we need to approach them playfully. That worked for me, from the understated start to the overwrought finish.

## LIFE & ARTS

**WHAT'S YOUR WORKOUT?** | By Jillian Berman

# The College Rodeo Cowboy

Staying on a bucking horse for eight seconds requires a full day's work for a young Utah cowboy competing for Weber State



CHAD HURST FOR THE WALL STREET JOURNAL

**Braxten Nielsen warms up, above, at a rodeo in Herriman, Utah, below. Mr. Nielsen's workout routine also includes up to two hours of running or biking. He took up the sport just over two years ago.**

**BRAXTEN NIELSEN** takes the advice to get back on his horse literally.

In the relatively short time since Mr. Nielsen first tried rodeo, that attitude has served him well. After just over two years in the sport, he's representing Weber State University in the College National Finals Rodeo in Casper, Wyo., which started on Sunday. And unlike most college athletes, there's a chance Mr. Nielsen, ranked fifth nationally among collegians in his event, bareback riding, could win some prize money. The **National Intercollegiate Rodeo Association**, which governs college rodeo, isn't part of the National Collegiate Athletic Association, so student-athletes aren't required to compete as amateurs. Last year, some of the highest-earning competitors at the finals brought home around \$4,000 in prize money.

The 24-year-old Mr. Nielsen took a winding route to his college rodeo career. He'd once hoped to earn a college football or basketball scholarship. But when the offer to play basketball at a junior college came with a requirement to sit out his first season, Mr. Nielsen balked. "I was a little punk," he says.

Instead, he traveled to Morristown, N.J., serving a two-year mission for the Church of Jesus Christ of Latter-day Saints, which included helping to rebuild following Hurricane Sandy. After the mission, Mr. Nielsen returned to his home state of Utah, putting off college to make some money working in oil fields. There, he made friends with Shad Feild. Shad's brother, Kaycee, is a four-time world-champion bareback rider.

Shad regularly ribbed Mr. Nielsen about how his small stature—he's 5-foot-8—would make it difficult for him to earn a living as a basketball or football player. "He



said, 'You'd be a fantastic bareback rider and I know somebody who can help you,'" Mr. Nielsen recalls.

And so Mr. Nielsen began working with Kaycee Feild, ultimately quitting his job so he could train more intensely with the rodeo star. "I had never seen someone so natural so fast. It was unbelievable," Mr. Feild says. Before getting on a horse in competition for the first time, Mr. Nielsen rode Mr. Feild's spur board—a wood contraption that mimics the motions of a bucking horse—and practice horses that are "less bucky," as Mr. Nielsen puts it.

"That first time getting on and actually riding a bucking horse

was more of a mental game than it was anything else," Mr. Nielsen says. But it requires plenty of physical strength, too.

### The Workout

Bareback rodeo riders must stay on their horses for at least eight seconds while holding on with only one hand. They are also judged on their technique. Maintaining control while the horse is bucking requires effort from almost all parts of the body.

Mr. Nielsen typically begins his day at about 6 a.m. He gets in a cardio workout, usually a run or bike ride through the mountain ranges near his home in Logan,

Utah, for up to two hours. Then he comes home and rides his spur board for about 20 minutes to lock in his muscle memory for competition. The spur board is part of a larger gym Mr. Nielsen set up in his garage. Mr. Nielsen got most of the weight equipment secondhand from a local high school.

Mr. Nielsen eats breakfast and then heads to Ogden, Utah, for a couple of hours of classes at Weber State, where he studies business communication. A rodeo scholarship brought Mr. Nielsen, who began his career on the professional circuit, to the school.

After class, he heads back to his garage gym for about two hours.

After dinner, Mr. Nielsen goes for a 20- or 30-minute swim about two to three times a week.

Mr. Nielsen also practices with his college team once a week. During these sessions he hops on two to three practice horses and then reviews the footage with his coaches. "Then I go home and dream about it," he says.

### The Diet

Mr. Nielsen sticks mostly to lean proteins and vegetables. Every morning after his cardio workout, he usually has a spinach omelet with a protein shake and potatoes. For lunch he often packs chicken and avocado to eat between classes. Dinner is a salad paired with chicken, fish, beef and even elk meat.

### The Gear

Mr. Nielsen estimates he spent about \$4,000 to buy all of the gear he uses to compete. That includes chaps, wrangler pants, boots, boot straps, a protective vest, cowboy hat and a rigging, the handle bareback riders use while they're on the horse.

### The Playlist

Mr. Nielsen says he listens to motivational speakers, including James Tarantin and Eric Thomas, while he works out. That's part of Mr. Nielsen's broader strategy that combines meditation, visualization and other tools to ensure he has the mental toughness to stay on the horse every time he gets into the ring.

"When I'm not at a rodeo, I really picture myself being at the rodeo ground," he says, adding that he likes to imagine "how I'm going to look on the horse and then visualize winning. When I win it's not a surprise, I've already been there and done that."

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Until recently, no evidence of an adult acquiring perfect pitch had been documented. But a 2013 study published in *Frontiers in Systems Neuroscience* showed adults could gain the trait with the help of valproic acid, a drug used to treat seizures and migraines.

"The evidence suggests the medication restores the brain's plasticity to that of a child, and then adults can train to learn perfect pitch," says Dr. Bradley. It is unknown whether the effects are lasting once people come off the drug, he adds, "and the medicine has its fair share of side effects," such as hair loss and dizziness.

### Music to Their Ears

Even with years of training, not everyone can learn to identify an A4 note from a G4, says Dr. Bradley, "but almost anyone can learn to hear if a note is in or out of tune."

Some people seem to be at an advantage. At least one study has shown that native speakers of tonal languages—such as Mandarin or Vietnamese, in which changing pitch alters the meaning of the same sounds—who also train in music at a young age, can translate the precision they hear in spoken sounds to musical ones.

In that study, published in the *Journal of the Acoustical Society of America* in 2006, 60% of Beijing natives who began taking music lessons before age 5 passed a test for perfect pitch, while only 14% of Americans did. But because all the participants were ethnically Asian, says Dr. Bradley, "the evidence doesn't clearly point one way or another whether the trait is genetic or learned."

It might be both. "The fact that these native Chinese speakers learned to recognize tonal nuances at the same time as they were learning music and going through a period of extreme neuroplasticity may all be related," he says.

Whether learning a tonal language as an adult can lead to acquiring absolute pitch has yet to be proven. "It's a fascinating idea," he says, "but even if you don't have perfect pitch, you can still enjoy music."

**BURNING QUESTION**

**CAN PERFECT PITCH BE LEARNED?**

BY HEIDI MITCHELL

**RELATIVELY FEW PEOPLE** in history—even musical virtuosos—have been known to possess perfect pitch, the ability to identify or reproduce any musical note without having another note with which to compare it.

Mozart was said to be one of those people. Ella Fitzgerald was another. The trait is so rare, it is estimated that only 1 in 10,000 people can tell an F-sharp from a B-flat in Western cultures, where the gift has been widely studied.

But can perfect pitch, also known as absolute pitch, be learned?

It's complicated. One expert, Joseph P.

Bradley, an otolaryngologist and assistant professor at the Washington University Voice & Airway Center, sounds out the question,

with a look at neuroplasticity and the upside of speaking Mandarin.

### The Signal and the Noise

Everyone hears the same sounds, but not with the same acuity. What differs is how a person's auditory cortex of the brain processes that sound after it moves from the inner ear, Dr. Bradley says. People with perfect pitch can identify as little as a 6% difference in frequency.

Being able to distinguish an out-of-tune note or a subtle shift in tone can help professional musicians improvise better and compose complicated pieces more easily, or even play or sing in two different keys simultaneously. For the rest of us, having a "great ear" might make music sound more beautiful and allow us to more strongly connect sounds to experiences.

But while many people believe they have a good ear, few actually do. The professor himself is a trained singer, and took a test online to check his pitch—"which was worse than I thought, given my music background," he says.

### Name That Tune

Studies have shown that perfect pitch is at least in part linked to genetics, Dr. Bradley says. Early exposure to music and musical training are known to help tune the ear to hear subtle tonal shifts, especially if they occur around age 3 or 4 through about age 7, a period of extreme neuroplasticity when the brain is particularly pliable.

Most parents might not even pick up on signs that their child is born with perfect pitch, though the clues are there. "You might have a child that will say, 'Oh, that

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Until recently, no evidence of an adult acquiring perfect pitch had been documented. But a 2013 study published in *Frontiers in Systems Neuroscience* showed adults could gain the trait with the help of valproic acid, a drug used to treat seizures and migraines.

"The evidence suggests the medication restores the brain's plasticity to that of a child, and then adults can train to learn perfect pitch," says Dr. Bradley. It is unknown whether the effects are lasting once people come off the drug, he adds, "and the medicine has its fair share of side effects," such as hair loss and dizziness.

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Some people seem to be at an advantage. At least one study has shown that native speakers of tonal languages—such as Mandarin or Vietnamese, in which changing pitch alters the meaning of the same sounds—who also train in music at a young age, can translate the precision they hear in spoken sounds to musical ones.

In that study, published in the *Journal of the Acoustical Society of America* in 2006, 60% of Beijing natives who began taking music lessons before age 5 passed a test for perfect pitch, while only 14% of Americans did. But because all the participants were ethnically Asian, says Dr. Bradley, "the evidence doesn't clearly point one way or another whether the trait is genetic or learned."

It might be both. "The fact that these native Chinese speakers learned to recognize tonal nuances at the same time as they were learning music and going through a period of extreme neuroplasticity may all be related," he says.

Whether learning a tonal language as an adult can lead to acquiring absolute pitch has yet to be proven. "It's a fascinating idea," he says, "but even if you don't have perfect pitch, you can still enjoy music."

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Until recently, no evidence of an adult acquiring perfect pitch had been documented. But a 2013 study published in *Frontiers in Systems Neuroscience* showed adults could gain the trait with the help of valproic acid, a drug used to treat seizures and migraines.

"The evidence suggests the medication restores the brain's plasticity to that of a child, and then adults can train to learn perfect pitch," says Dr. Bradley. It is unknown whether the effects are lasting once people come off the drug, he adds, "and the medicine has its fair share of side effects," such as hair loss and dizziness.

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Some people seem to be at an advantage. At least one study has shown that native speakers of tonal languages—such as Mandarin or Vietnamese, in which changing pitch alters the meaning of the same sounds—who also train in music at a young age, can translate the precision they hear in spoken sounds to musical ones.

In that study, published in the *Journal of the Acoustical Society of America* in 2006, 60% of Beijing natives who began taking music lessons before age 5 passed a test for perfect pitch, while only 14% of Americans did. But because all the participants were ethnically Asian, says Dr. Bradley, "the evidence doesn't clearly point one way or another whether the trait is genetic or learned."

It might be both. "The fact that these native Chinese speakers learned to recognize tonal nuances at the same time as they were learning music and going through a period of extreme neuroplasticity may all be related," he says.

Whether learning a tonal language as an adult can lead to acquiring absolute pitch has yet to be proven. "It's a fascinating idea," he says, "but even if you don't have perfect pitch, you can still enjoy music."

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Until recently, no evidence of an adult acquiring perfect pitch had been documented. But a 2013 study published in *Frontiers in Systems Neuroscience* showed adults could gain the trait with the help of valproic acid, a drug used to treat seizures and migraines.

"The evidence suggests the medication restores the brain's plasticity to that of a child, and then adults can train to learn perfect pitch," says Dr. Bradley. It is unknown whether the effects are lasting once people come off the drug, he adds, "and the medicine has its fair share of side effects," such as hair loss and dizziness.

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Some people seem to be at an advantage. At least one study has shown that native speakers of tonal languages—such as Mandarin or Vietnamese, in which changing pitch alters the meaning of the same sounds—who also train in music at a young age, can translate the precision they hear in spoken sounds to musical ones.

In that study, published in the *Journal of the Acoustical Society of America* in 2006, 60% of Beijing natives who began taking music lessons before age 5 passed a test for perfect pitch, while only 14% of Americans did. But because all the participants were ethnically Asian, says Dr. Bradley, "the evidence doesn't clearly point one way or another whether the trait is genetic or learned."

It might be both. "The fact that these native Chinese speakers learned to recognize tonal nuances at the same time as they were learning music and going through a period of extreme neuroplasticity may all be related," he says.

Whether learning a tonal language as an adult can lead to acquiring absolute pitch has yet to be proven. "It's a fascinating idea," he says, "but even if you don't have perfect pitch, you can still enjoy music."

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Until recently, no evidence of an adult acquiring perfect pitch had been documented. But a 2013 study published in *Frontiers in Systems Neuroscience* showed adults could gain the trait with the help of valproic acid, a drug used to treat seizures and migraines.

"The evidence suggests the medication restores the brain's plasticity to that of a child, and then adults can train to learn perfect pitch," says Dr. Bradley. It is unknown whether the effects are lasting once people come off the drug, he adds, "and the medicine has its fair share of side effects," such as hair loss and dizziness.

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Some people seem to be at an advantage. At least one study has shown that native speakers of tonal languages—such as Mandarin or Vietnamese, in which changing pitch alters the meaning of the same sounds—who also train in music at a young age, can translate the precision they hear in spoken sounds to musical ones.

In that study, published in the *Journal of the Acoustical Society of America* in 2006, 60% of Beijing natives who began taking music lessons before age 5 passed a test for perfect pitch, while only 14% of Americans did. But because all the participants were ethnically Asian, says Dr. Bradley, "the evidence doesn't clearly point one way or another whether the trait is genetic or learned."

It might be both. "The fact that these native Chinese speakers learned to recognize tonal nuances at the same time as they were learning music and going through a period of extreme neuroplasticity may all be related," he says.

Whether learning a tonal language as an adult can lead to acquiring absolute pitch has yet to be proven. "It's a fascinating idea," he says, "but even if you don't have perfect pitch, you can still enjoy music."

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Until recently, no evidence of an adult acquiring perfect pitch had been documented. But a 2013 study published in *Frontiers in Systems Neuroscience* showed adults could gain the trait with the help of valproic acid, a drug used to treat seizures and migraines.

"The evidence suggests the medication restores the brain's plasticity to that of a child, and then adults can train to learn perfect pitch," says Dr. Bradley. It is unknown whether the effects are lasting once people come off the drug, he adds, "and the medicine has its fair share of side effects," such as hair loss and dizziness.

part of the piece sounded out of tune,' but it sounded normal to you," says Dr. Bradley, who works with singers facing voice and upper-airway issues. Music teachers may remark that a child needs very little coaching to play an instrument or sing in tune.

Some people seem to be at an advantage. At least one study has shown that native speakers of tonal languages—such as Mandarin or Vietnamese, in which changing pitch alters the meaning of the same sounds—who also train in music at a young age, can translate the precision they hear in spoken sounds to musical ones.

In

## OPINION

### REVIEW & OUTLOOK

## Britain's Lesson for Conservatives

**T**heresa May ran a re-election campaign on the theme of "strong and stable" leadership. Instead the Prime Minister looked weak, and British voters on Thursday chose a period of instability by electing a hung Parliament. This is what happens to parties of the right when they abandon growth economics.

Mrs. May over the weekend neared a deal with a Northern Irish unionist party that would allow her to keep power, but this makes her humiliation only somewhat less severe. The Tories lost 12 seats in the House of Commons compared to their 2015 win under David Cameron and at 318 fell short of the 326 needed for a majority. Mrs. May didn't have to call an election until 2020 but did so to capitalize on Labour Party disarray under leader Jeremy Corbyn. Instead she squandered a 20-point lead, and the recent terror attacks weren't politically decisive.

Much of the blame goes to campaign malpractice. Mrs. May ducked televised debates and issued a policy manifesto that offered little for voters. She should have known better. Surprise victories for the British exit from the European Union and Donald Trump last year demonstrated that voters across the West are rebelling against politicians who take support for granted.

The outcome is also a rebuke to Mrs. May's wing of the Conservative Party. This contingent argues that the Tories need to shed the "right-wing ideology" of the Margaret Thatcher era. Mrs. May embraced ideas like a cap on household energy prices that were lifted from old Labour manifestos, railed against business, and delivered speeches about "the good that government can do."

Despite his own ideological malleability, Mr. Cameron and his Chancellor George Osborne rebuilt a Tory majority by lifting the economy from its post-financial crisis mess. They cut tax rates to boost growth and moved toward a balanced budget. Mrs. May temporized about raising taxes. The strategy was to break into traditional Labour strongholds, but that failed as young people came out in big numbers for Mr. Corbyn's promise of free tuition.

Mrs. May has now succeeded in entrenching the radical Mr. Corbyn as opposition leader. Moderate Labourites' best hope for dislodging him was a thumping defeat, but his brand of socialism will be around at least through the next election.

### Voters punish the Tories for ignoring the politics of economic growth.

Mrs. May's defenders say her 42% share of the vote is larger than Mr. Cameron's 37%, which is true but ignores that Britain returned in this election to two-party dominance. The centrist Liberal-Democrats lost votes even as they gained some seats, and the pro-Brexit U.K. Independence Party (UKIP) was all but wiped out. The

Tories made gains against the Scottish Nationalist Party, mainly by opposing a new independence referendum. The warning for Tories—and America's "reformacon" Republicans—is that welfare-state conservatism struggles to build an electoral coalition that can win a two-party race.

One question is whether Mrs. May can continue to govern for long, and the Tories will certainly want a better leader for the next election. Boris Johnson, the former mayor of London, is one front-runner. He'd bring a dose of charisma, though he's not obviously a Thatcherite on economics. Leaks over the weekend suggest senior Tories such as Chancellor Philip Hammond are demanding that the party's leader, whether a reformed Mrs. May or someone else, focus on economic growth and jobs instead of immigration restrictions.

That's the right idea, and by that standard the best option would be to recall Mr. Osborne, who chose not to run in this election but knows the policies needed to make Britain grow amid the uncertainty of Brexit negotiations. Another near-term election is possible, but without an economic agenda another vote would create more openings for Mr. Corbyn.

Britain may now ask the EU to extend the two-year deadline for Brexit talks to account for a hung parliament, and Brussels should consent. The EU has an interest in negotiating a deal that works for both sides. But the striking feature of this election is how little Brexit seemed to matter. Mrs. May pitched a tough "Brexit means Brexit" negotiating strategy, while Mr. Corbyn accepted Brexit while focusing more on British well-being.

Mr. Corbyn's policy solutions are wrong, but he did realize better than Mrs. May that voters are worried about the economic squeeze created by 3% inflation (caused in part by the falling British pound), slow wage growth and failing public services. With Mr. Corbyn's political influence growing, the Tories urgently need an economic strategy that can attract voters who otherwise might choose socialism by default.

## James Comey's Passion Play

**J**ames Comey's first post-FBI appearance in front of the Senate on Thursday turned out to be a political anticlimax, with no major revelations about the alleged Trump-Russia nexus or the President's supposed attempt to derail the investigation. But nearly three hours of testimony did expose the methods of the highly political former FBI director.

To wit, Mr. Comey is trying to have it both ways. He worked to leave the impression that Mr. Trump had committed a crime or at least an abuse of power, even as he abdicated his own obligations as a senior law-enforcement officer to report and deter such misconduct.

Mr. Comey confirmed that Mr. Trump never tried to block the FBI's larger probe of potential Russian entanglement in the election and even encouraged the FBI, noting that "if some of my satellites did something wrong, it'd be good to find that out." Despite this probative evidence, Mr. Comey claims that in an Oval Office meeting in February Mr. Trump importuned him to close the case on Michael Flynn, the National Security Adviser who had recently been fired for misleading the Vice President.

Mr. Trump, according to Mr. Comey, defended Mr. Flynn, saying "he is a good guy. I hope you can let this go." Mr. Comey explained that "I took it as a direction to get rid of this investigation."

But he wouldn't answer when Senators asked if such a direction was illegal. "I don't think it's for me to say whether the conversation I had with the President was an effort to obstruct," Mr. Comey said. "I took it as a very disturbing thing, very concerning, but that's a conclusion I'm sure the special counsel will work towards to try and understand what the intention was there, and whether that's an offense."

Mr. Comey also admitted that after he was fired he leaked his personal memos about his Trump conversations, via a cutout at Columbia Law School, "because I thought that might prompt the appointment of a special counsel." So Mr. Comey triggers Robert Mueller's new assignment and then tosses him responsibility while still intimating that Mr. Trump violated the law.

This legerdemain is an awfully convenient self-defense. The important question is whether Mr. Comey believed Mr. Trump was obstructing justice at the time, and Mr. Comey's behavior then doesn't confirm his Senate tale.

Mr. Trump had expressed the same sentiments about Mr. Flynn's bona fides in public and on Twitter, so his preferences were no secret. But if Mr. Comey really believed Mr.

Trump was trying to block the Flynn probe, then he had a legal duty to report Mr. Trump's conduct to his Justice Department superiors or the White House counsel. Obstruction of justice—intentionally attempting to impede an investigation—is a crime.

Mr. Comey said that he was "so stunned" that he lacked "the presence of mind" even to tell Mr. Trump

that his request was improper. But he was able to gain enough composure to write up the experience in the car after the meeting, and to discuss the meeting, by his own testimony, with his chief of staff, the FBI deputy director, the associate deputy director, the general counsel, the deputy director's chief counsel and the head of the FBI office of national security. But he never informed Attorney General Jeff Sessions, the Deputy AG or any other supervisor.

This abdication is especially remarkable for someone as experienced in the corridors of power as Mr. Comey. This is a government veteran who served three Presidents in senior positions and in 2004 pre drafted a letter of resignation as Acting Attorney General to threaten President Bush over wiretapping.

Quitting and going public after his meeting with Mr. Trump would have let the country know what was happening in Washington, as many other civil servants have done over the years. Yet in an exchange with Senator Tom Cotton, Mr. Comey averred that "I didn't find, encounter any circumstance that led me to intend to resign, consider to resign. No, sir." In other words, Mr. Comey thought he was serving a corrupt President but wanted to keep that news a close hold.

Mr. Comey's admirers want everyone to take this at face value. But an alternative reading is that Mr. Comey didn't resign or tell Mr. Sessions because he liked his job and wanted to keep it. He also knew he could write that memo and share it with his FBI comrades as a form of political insurance. As the fictional President says to Jack Ryan (played by Harrison Ford) in "Clear and Present Danger," "you've got yourself a chip in the big game now." Only after he was fired did Mr. Comey choose to share his moral outrage with the public, while setting up the President who dismissed him as a target for Mr. Mueller.

Mr. Trump acted like a bullying naif who doesn't understand the norms of presidential behavior, but Mr. Comey is no Jack Ryan. He's a government official motivated by political self-interest who should have resigned if he believed what he now says he did. That he failed to act at the time suggests his motive now is more revenge than truth-telling.

## All About James Comey



POTOMAC WATCH  
By Kimberly A. Strassel

James Comey?

What if all the painful drama over Donald Trump and Mike Flynn and Hillary Clinton and Russians wasn't really due to Donald Trump or Mike Flynn or Hillary Clinton or Russians? What if the national spectacle the country has endured comes down to one man, James Comey?

It was certainly all about the former FBI director on Thursday, as he testified to the nation via the Senate Intelligence Committee. Mr. Comey didn't disappoint. He already had submitted pages of testimony detailing his every second with President Trump, complete with recollections of moments he felt "strange" or "uneasy" or "awkward." But on Thursday he went further, wowing the media with bold pronouncements: President Trump was a liar; the president fired him to undermine the Russia investigation; the president had directed him to back off Mr. Flynn.

Mostly he pronounced on what is—and is not—proper in any given situation: when handling investigations, interacting with the president, or releasing information. By the end, something had become clear. Mr. Comey was not merely a player in the past year's palyafer. He was *the player*.

It was Mr. Comey who botched the investigation of Mrs. Clinton by appropriating the authority to exonerate and exonerate her publicly in an inappropriate press event, and then by reopening the probe right before the election. This gave Mrs. Clinton's supporters a reason to claim they'd been robbed, which in turn stoked the "resistance" that has overrun U.S. politics.

We now know it didn't have to be this way. Mr. Comey explained that he had lost faith in then-Attorney General Loretta Lynch's ability to handle the affair, in part because she had directed him to describe the probe in public as a "matter" rather than an "investigation." That one of President Obama's political appointees outright directed the head of the FBI to play down an investigation is far more scandalous than any accusation aired about Mr. Trump. Mr. Comey said it gave him a "queasy" feeling. But did he call on Ms. Lynch to recuse herself? Did he demand a special counsel? No. Mr. Comey instead complied with the request. Then he judged that the only proper way to clean up the mess was to flout all the normal FBI protocols. *Vive la resistance.*

It was Mr. Comey who launched an investigation into Russian meddling last July and expanded it to look for possible collusion with the Trump campaign. That may well have been warranted. Yet before the election his FBI had leaked this to the press, casting an aura of illegitimacy on a new president and feeding

conspiracy theories based on, in Mr. Comey's words, "nonsense" reporting.

Mr. Comey could have spared us this by simply stating, as he acknowledged Thursday, that Mr. Trump wasn't under investigation. One could argue he had a duty to explain, given that he'd taken the unusual step of confirming the probe, and given the leaks from his FBI and the flood of fake news that resulted. But no. James Comey judged that (in this case, at least) it would be improper to speak out. So we've had all Russia all the time.

Moreover, it was Mr. Comey who had the discussions with President Trump that he now describes as compromising. On Thursday he claimed to have felt that Mr. Trump was directing him to end the Flynn investigation, even as he simultaneously admitted that Mr. Trump's words ("I hope") expressed no such order. He said he had been deeply uncomfortable that Mr. Trump wasn't following protocol for dealing with an FBI director.

**What his Thursday testimony made clear is how much he has damaged the country.**

If Mr. Comey truly had believed the president was interfering, he had a duty to report it or to resign. Instead he maintained Thursday it wasn't his role to pronounce whether Mr. Trump had obstructed justice. Really? This may count as the only time Mr. Comey suddenly didn't have an opinion on whether to render justice or to take things into his own hands.

And why did he agree to dinner with Mr. Trump in the first place? Why keep accepting the president's phone calls? Asked whether he, in those early meetings, ever told the president how things ought to go, he said no. Mr. Comey did nothing to establish a relationship he felt was correct.

Instead, he kept secret memos, something he'd never done before. He wrote them in an unclassified manner, the better to make them public later. He allowed Mr. Trump to continue, while building up this dossier.

When he was fired, he leaked to the media, through a "close friend," highly selective bits of his privileged communications with the president. And then he stayed silent and let the speculation rage. Thus, for the past month the nation has been mired in a new scandal, fueled by half-leaks. Thank you, yet again, Mr. Comey.

Yes, Russia interfered. Yes, Mr. Trump damages himself with reckless words and tweets. Yes, the Hillary situation was tricky. Yet you have to ask: How remarkably different would the world look had Mr. Comey chosen to retire in, say, 2015 to focus on his golf game? If only.

*Write to kim@wsj.com.*

## A Remote-Controlled Tarantula? SkyMall Had It

By Bob Greene

Six miles in the air, I reached for my travel bag with the intention of retrieving something. I guess I wasn't paying attention, because I unzipped the wrong compartment, stuck my hand inside, and pulled something out that caught me by delighted surprise.

Seeing it was like somehow encountering a goofy and grinning old gap-toothed friend you thought you'd lost track of forever—and here that friend was, riding across America with you.

It was a copy of SkyMall, the deliriously bizarre in-flight shopping catalog that once was inescapable in the seat-back pockets of U.S. airliners. I must have tossed it in the bag and forgotten about it many years ago.

When SkyMall's parent company declared bankruptcy in January 2015 the catalogs vanished from planes, taking with them a sunny quirkiness that we all could use as flying becomes exponentially more unpleasant. It wasn't that most passengers ever ordered from the catalogs. Rather, the items offered for sale were often so amiably eccentric that, for a brief moment, the prospect of owning them seemed tantalizing, if not entirely plausible.

Down on the ground the products might be utterly resistible, but while you were in the air the catalog itself was irresistible. The ultimate in-flight entertainment.

I opened the frayed old copy of SkyMall. It didn't disappoint:

A baby blanket designed to look like a tortilla so that the swaddled child would appear to be an enchilada or a burrito. A CD promising to be the "Ultimate Voice Builder," to help the listener speak in "deeper, sexier and more powerful" tones. A remote-controlled tarantula. A ballpoint pen with "authentic dirt from the infield of your favorite ballpark" sealed inside. A paper-towel holder with four charging stations in its base to juice up phones and other electronic devices.

When SkyMall ceased publication, its CEO said that the internet, including competition from online merchants, had siphoned passengers' in-flight attention elsewhere. Travelers could use their tablets and phones to access the web while flying, and SkyMall was no longer the diversion it had been. Airlines were dropping it, and sales shrank.

Yet as I flipped through the newly

found old catalog, I noticed that other passengers, not only in the seats directly next to mine but also across the aisle, were craning their necks trying to sneak a glimpse. The sight of those SkyMall pages, so densely packed with color photos of strange items, still seemed seductive.

I handed the catalog, all 172 pages of it, to the man next to me. He rifled through it as if expecting to find buried treasure. In a sense, he did:

A metal sculpture of a baseball player at the plate, ready to swing—constructed so that he grips in his hands not a bat, but an upside-down wine bottle. A T-shirt with coffee fragrance baked into the fabric. A toaster that burns the "Star Wars" logo onto the surface of bread. A computer mouse made to look like a yellow Lamborghini. A purse that converts into a scarf "with two hidden secure zipper pockets to protect your valuables."

SkyMall's most valuable service may not have been to sell the goods depicted in its pages, but to put its readers, crammed inside a speeding metal tube high in the clouds, in a sprightlier mood than they might have been otherwise. When cessation of publication was announced, a retail analyst was quoted as saying the catalog lacked a single marketable identity: "It's all over the place."

That's wrong. Its genius was that it wasn't all over the place, it was in one place: the seat-back pocket. When a New Jersey firm bought it out of bankruptcy later in 2015, it announced plans to bring SkyMall back as a stand-alone website.

Which it did. When I landed later, I looked at it. The feeling somehow wasn't the same: An e-commerce site is an e-commerce site. The beauty of the printed in-flight catalog was the splendor of its studied serendipity, knowingly playing to a genuinely captive audience.

On the plane I retrieved my old SkyMall from the fellow I'd lent it to and put it back in my bag. It may come in handy on some future tension-filled, overbooked flight. If airport security guards decide to drag a recalcitrant passenger down the aisle, I can direct that traveler to page 98: the portable "Any Surface Full Body Massage Pad," to soothe sudden pains in the neck, back or thighs.

*Mr. Greene is completing a new novel, "Yesterday Came Suddenly," about an America with no internet.*

## OPINION

# North Korea Dreams of Turning Out the Lights

By Henry F. Cooper

**C**onventional wisdom holds that it will be years before North Korea can credibly threaten the United States with a nuclear attack. Kim Jong Un's scientists are still testing only low-yield nuclear weapons, the thinking goes, and have yet to place them on ballistic missiles capable of reaching America's West Coast.

While its technological shortcomings have been well documented, North Korea's desire to provoke a nuclear conflict with the U.S. should not be minimized or ignored. Pyongyang is surely close to getting it right.

**P**yonyang doesn't need a perfect missile. Detonating a nuke above Seoul—or L.A.—would sow chaos.

For South Korea the danger is more immediate. According to physicist David Albright, the founder and president of the Institute for Science and International Security, the North Koreans have between 13 and 30 nuclear weapons and can build as many as five more every year. If Mr. Kim were to detonate one of these bombs in the atmosphere 40 miles above Seoul, it could inflict catastrophic damage on South Korea's electric power grid, leading to a prolonged

blackout that could have deadly consequences.

The United States has 28,500 soldiers, sailors, airmen and Marines in South Korea stationed below the 38th parallel—and more at sea nearby. An electromagnetic pulse attack on South Korea could play havoc with America's ability to mount an effective response to North Korean aggression. One hopes the troops manning the two already-deployed batteries of the Thaad ballistic-missile defense system are prepared for such a scenario (in a concession to China, the newly elected South Korean government suspended last week the deployment of four additional launchers).

In 2001 the U.S. Congress established a commission to study the danger of an electromagnetic pulse generated by the detonation of a high-altitude nuclear weapon. It concluded that while there would be no blast effects on the ground, critical electricity-dependent infrastructure could be rendered inoperable. The commission's chairman, William R. Graham, has noted that several Russian generals told the commissioners in 2004 that the designs for a "super EMP nuclear weapon" had been transferred to North Korea.

Pyongyang, the Russian generals reported, was probably only a few years away from developing super EMP capability. According to Peter Vincent Pry, staff director of the congressional EMP commission, a recent North Korean medium-range missile



NASA

A satellite photo of Korea illuminates the South's dependence on electricity.

test that was widely reported to have exploded midflight could in fact have been deliberately detonated at an altitude of 40 miles.

Was it a dry run for an EMP attack? Detonation at that altitude of a nuclear warhead with a yield of 10 to 20 kilotons—similar to those tested by North Korea—would produce major EMP effects and inflict catastrophic damage to unhardened electronics across hundreds of miles of surface territory. It is a myth that large yield nuclear weapons of hundreds of kilotons are required to produce such effects.

Although some analysts have dismissed the possibility of a successful North Korean EMP attack—either on

South Korea or the United States—several factors could make it a more appealing first-strike strategy for Kim Jong Un's nuclear scientists than a direct, missile-delivered nuclear strike. For one thing, accuracy is not a concern; the North Koreans simply need to get near their target to sow chaos. Nor would they need to worry about developing a reliable re-entry vehicle for their ballistic missiles.

Conventional wisdom aside, a North Korean EMP attack on the U.S. may also not be far-fetched. "North Korea could make an EMP attack against the United States by launching a short-range missile off a freighter or submarine or by lofting a warhead to 30 kilometers burst

height by balloon," wrote Mr. Graham earlier this month on the security blog 38 North. "Even a balloon-lofted warhead detonated at 30 kilometers altitude could blackout the Eastern Grid that supports most of the population and generates 75 percent of US electricity. Moreover, an EMP attack could be made by a North Korean satellite." Two North Korean satellites currently orbit the earth on trajectories that take them over the U.S.

This is not mere theory. In 1962 the United States detonated a 1.4-megaton nuclear warhead over the South Pacific, 900 miles southwest of Hawaii. Designated "Starfish Prime," the blast destroyed hundreds of street lights in Honolulu, caused electrical surges on airplanes in the area, and damaged at least six satellites. Only Hawaii's undeveloped electric power-transmission infrastructure prevented a prolonged blackout. It was the era of vacuum-tube electronics. We are living in the digital age.

The U.S. and South Korea should ensure their ballistic-missile defenses are effective and harden their electric power grids against EMP effects as soon as possible. The day of reckoning could come sooner than anyone in either country thinks.

*Mr. Cooper was the U.S. ambassador to the Defense and Space Talks during the Reagan administration and director of the Strategic Defense Initiative during the George H.W. Bush administration.*

## What Comey Told Us About Trump



**DECLARATIONS**

By Peggy Noonan

*Washington*

**J**ames Comey's written testimony outlining meetings and conversations with President Trump was telling and damning because believable. Whatever Mr. Comey's reputation, and it is mixed—an intelligent, accomplished professional who is plenty slick; state-of-the-art Beltway operator with an image of integrity, yet trailed by suspicions of slight smarm—he is a careful man. It is not strange for an official to take notes after a meeting or conversation with a president, and it is wholly understandable when the president is unusual, the circumstances heightened, the relationship potentially contentious. It begs credulity that Mr. Comey would have tapped out elaborate fictions in a one-man note-taking plot to bring down a president. And he must have known it possible the calls and meetings were taped, in which case the contents would be used to destroy him if he lied.

Mr. Comey first met with President-elect Trump in January. Afterward he broke with previous personal practice and documented the meeting in a memo. "To ensure accuracy, I began to type it on a laptop in an FBI vehicle outside Trump Tower the moment I walked out of the meeting."

On Jan. 27 he had dinner with the president at the White House. "It

turned out to be just the two of us, seated at a small oval table in the center of the Green Room." The president asked if he wanted to stay on as FBI Director. Mr. Comey found this "strange," because Mr. Trump had already told him twice, earlier, he hoped Mr. Comey would stay. The director felt "the one-on-one setting, and the pretense that this was our first discussion about my position, meant the dinner was, at least in part, an effort to have me ask for my job and create some sort of patronage relationship."

Then: "A few moments later, the President said, 'I need loyalty, I expect loyalty.' I didn't move, speak, or change my facial expression in any way during the awkward silence that followed. We simply looked at each other in silence."

Near the end of the dinner Mr. Trump said he was glad Mr. Comey wanted to stay. "He then said, 'I need loyalty.' I replied, 'You will always get honesty from me.' [Mr. Trump] paused and then said, 'That's what I want, honest loyalty.' I paused and then said, 'You will get that from me.'

Thus ended "a very awkward conversation."

On Feb. 14 Mr. Comey met the president and other top officials for a counterterrorism briefing in the Oval Office. At the end the president said he wanted to speak to Mr. Comey privately. Attorney General Jeff Sessions lingered; the president said he wanted Mr. Comey alone.

"When the door by the grandfather clock closed, and we were alone, the President began by saying, 'I want to speak about Mike Flynn.'

The president said: "He is a good guy and has been through a lot." Referring to the Russia investigation, Mr. Trump said, "I hope you can see your way clear to letting this go." Mr. Comey agreed Mr. Flynn was a good guy, but didn't say he'd let it go.

Mr. Comey thought the meeting "very concerning, given the FBI's role as an independent investigative agency." Later he told his boss, the

### The president has no understanding of the norms, rules and traditions of his job.

attorney general, that it was "inappropriate" that Mr. Sessions was asked to leave the meeting and "it should never happen again." Mr. Sessions did not reply, Mr. Comey reports.

On March 30, the president phoned Mr. Comey at the FBI. He said the Russia investigation was damaging his ability to govern. "He asked what we could do to 'lift the cloud.'" Mr. Comey answered that they were investigating the matter as quickly as possible. Mr. Trump urged Mr. Comey to get out the word the president himself wasn't being investigated. "I told him I would see what we could do." He requested guidance from the Justice Department, which did not provide it.

Mr. Comey's testimony backs up Mr. Trump's assertion that the director told him he personally was not under investigation.

The worst part of the testimony is when the president pressed Mr. Comey for his personal loyalty. Presidents don't lean on FBI chiefs in this way. It is at odds with traditional boundaries, understandings and protocols. It was embarrassing to read. It was the move of a naif who's a cynic—I know how the big boys play. Actually it's not how the big boys play, it's how someone who learns about government by binge-watching "House of Cards" would play. It was bumptious with the special bumptiousness of those who think themselves savvy.

Still, as a Republican senator said after Mr. Comey's testimony was released, inappropriate does not mean illegal. Jonathan Turley, a law professor at George Washington University, wrote in USA Today that the desire for an indictable or impeachable offense by the president "has distorted the legal analysis" of the case "to an alarming degree." Mr. Turley's read on the testimony: Mr. Trump's conduct was "wildly inappropriate." Asking Mr. Comey to lay off Mr. Flynn was "wrong" and "grossly improper." But "the legal fact is that Comey's testimony does not establish a prima facie—or even a strong—case for obstruction [of justice]."

This is not the first president "to express dissatisfaction with an investigation by the Justice Department": Bill Clinton did the same. Nor was it a surprise he wished to see the investigations end: He'd said so publicly.

On Thursday Mr. Comey told the Senate Intelligence Committee that he had authorized leaks about his memos after the president had tweeted a warning: "James Comey

better hope that there are no 'tapes' of our conversations before he starts leaking to the press." Mr. Comey realized there might be corroboration. Thursday he said, "Lordy, I hope there are tapes." (That was rather Comey, to pull out the "Lordy.") He asked if they exist that they be released.

In the end Mr. Comey appears to have done himself little or no harm, but he harmed the president by documenting, again and persuasively, that Mr. Trump does not understand the norms, rules and traditions of his job. As I watched, I wondered how many other appointees, officials and White House staffers are writing themselves memos.

Will all this damage the president with his supporters?

What consumes Blue America does not consume Red America.

The photojournalist Chris Arnade reported on Twitter what he was seeing in Mountain Grove, Mo., Thursday morning as Mr. Comey testified. The conversation at the local McDonald's: "1.) Yard work/lawn mowers, 2) Danger of Bees, 3) Cardinals sucking, 4) Friend who died, 5) Church." He asked a middle aged man in a T-shirt if he planned to watch the hearings. Kirk said no: "I got a lot of yards to mow."

Then again, a conservative intellectual with small-town roots wrote, during the testimony, that he thought this might be a break point, a moment when Mr. Trump's supporters would listen close and think he's not so much like them, and not so different from the swamp he means to drain.

I myself don't know.

## Why Trump Win Will in the Russia Probe

the president's dubious relation with veracity, Mr. Trump was shown to be the source of important truths. Mr. Comey had indeed told him he was not under personal investigation in the Russia "collusion" matter. As Sen. Marco Rubio, not a big Trump fan, noted, this fact was remarkable for also being widely known among Senate colleagues and yet the one fact that never leaked to the media.

Mr. Comey made much of conflicting statements about why he was fired. But it was Mr. Trump who, belying his own White House flattery, stated candidly it was be-

cause of the "Russia thing." Even a non-Trump fan listening to the hearing could readily gather that Mr. Trump had reason to be frustrated that his administration was being hobbled by insinuations of treason for which there is zero evidence.

As a rule, when there is no evidence of a particular act, the FBI does not investigate. The FBI is investigating now only because Democrats and Trump opponents so filled the airwaves with unsubstantiated speculation.

Now here's a secret: Most Democrats understand the hunt will come a cropper. If a Trump associate brushed shoulders with a Russian-looking individual on the way to the men's room, it has leaked. The U.S. government sucks up and archives vast gobs of communication data.

Yet the earnestly desired evidence of collusion has not materialized, so Democrats have turned instead to charging "obstruction of justice," with many already baying for impeachment.

Here's another secret: Such "process" crimes don't impress voters when there is no underlying crime. If Mr. Trump leaned on his intelligence officials to remove the Russian cloud, this was ill-advised on the part of a president whose specialty is the ill-advised. But his behavior will also increasingly appear in a new light if it turns out Washington's tail-chasing has been partly driven by Russian fabrications.

The Washington Post and CNN reported late last month that the single most shattering series of events

for the Hillary Clinton campaign—the events that began with FBI chief Comey's intervention in the race—were partly influenced by planted Russian fake intelligence.

Likewise the dossier of repulsive Trump allegations, assembled by a retired British spy supposedly tapping his Russian intelligence

### Will Robert Mueller investigate intelligence agencies for playing in domestic politics?

sources, also appears to have been a Russian plant and yet may have played a role in justifying the Obama administration's decision to launch an intelligence investigation of the Trump campaign.

Think about it: To the extent the fruitless hunt for collusion has been promoted by planted Russian intelligence, Russian fiddling is playing a bigger role in shaping our politics today than it did during the campaign.

By the way, we're not alleging superiority on Russia's part. Planting fake information is routine intelligence work. The World War II battle of Midway was won partly with fake information about water filtration on Midway Island.

Mr. Comey ducked questions on these subjects, saying he would address them only in classified briefings. President Obama's former na-

tional intelligence director, James Clapper, in Australia last week gave a speech that again put the question of Trump collusion, for which he admitted he had no evidence, at the center of investigation despite the multifarious ways Russia meddled for which there's actually evidence.

No surprise here: The FBI, CIA and NSA are eager to pose as scrupulous, disinterested arbiters of Russian meddling. They are not eager to be seen as victims and patsies of Russian meddling. To use Mr. Comey's phrase, the performance of our national intelligence directorate is the one rock that hasn't been turned over.

So here's a question for Special Counsel Robert Mueller, a former FBI chief himself. Will he accept the current framing that his Russia investigation is about *everything except* whether his former agency was semi-wittingly duped into some of its interventions by Kremlin danglelings—there's nothing to see here, move along.

Or will he have the courage to ask the requisite questions the FBI, CIA and NSA don't want asked about their own, perhaps, gullibility and overreagerness to play in domestic politics because of their dislike of Mr. Trump?

Washington's desire to get to the bottom of Russian meddling is probably less than you imagine. If not, the places to start are the Trump dossier and the role of Russian disinformation in promoting Mr. Comey's intervention in the Hillary Clinton email matter.

## THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch  
Executive Chairman, News Corp

Gerard Baker  
Editor in Chief

Matthew J. Murray  
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:

Michael W. Miller, Senior Deputy;

Thorold Barker, Europe; Paul Beckett,

Washington; Andrew Dowell, Asia;

Christine Glancey, Operations;

Jennifer J. Hicks, Digital;

Neal Lipschutz, Standards; Alex Martin, News;

Shazna Nessa, Visuals; Ann Podd, Initiatives;

Matthew Rose, Enterprise;

Stephen Wisniewski, Professional News

Paul A. Gigot, Editor of the Editorial Page;

Daniel Henninger, Deputy Editor, Editorial Page

WALL STREET JOURNAL MANAGEMENT:

Suzi Watford, Marketing and Circulation;

Joseph B. Vincent, Operations;

Larry L. Hoffman, Production

EDITORIAL AND CORPORATE HEADQUARTERS:

1211 Avenue of the Americas, New York, N.Y. 10036

Telephone 1-800-DOWJONES

DOW JONES  
News Corp

Robert Thomson  
Chief Executive Officer, News Corp

William Lewis  
Chief Executive Officer and Publisher

DOW JONES MANAGEMENT:

Mark Musgrave, Chief People Officer;

Edward Roussel, Innovation & Communications;

Anna Sedgley, Chief Operating Officer & CFO;

Katie Vannec-Smith, President

OPERATING EXECUTIVES:

Ramin Beheshti, Product & Technology;

Jason P. Conti, General Counsel;

Frank Filippo, Print Products & Services;

Steve Grycuk, Customer Service;

Kristin Heitman, Transformation;

Nancy McNeill, Advertising & Corporate Sales;

Jonathan Wright, International

## LIFE & ARTS

### MUSIC REVIEW

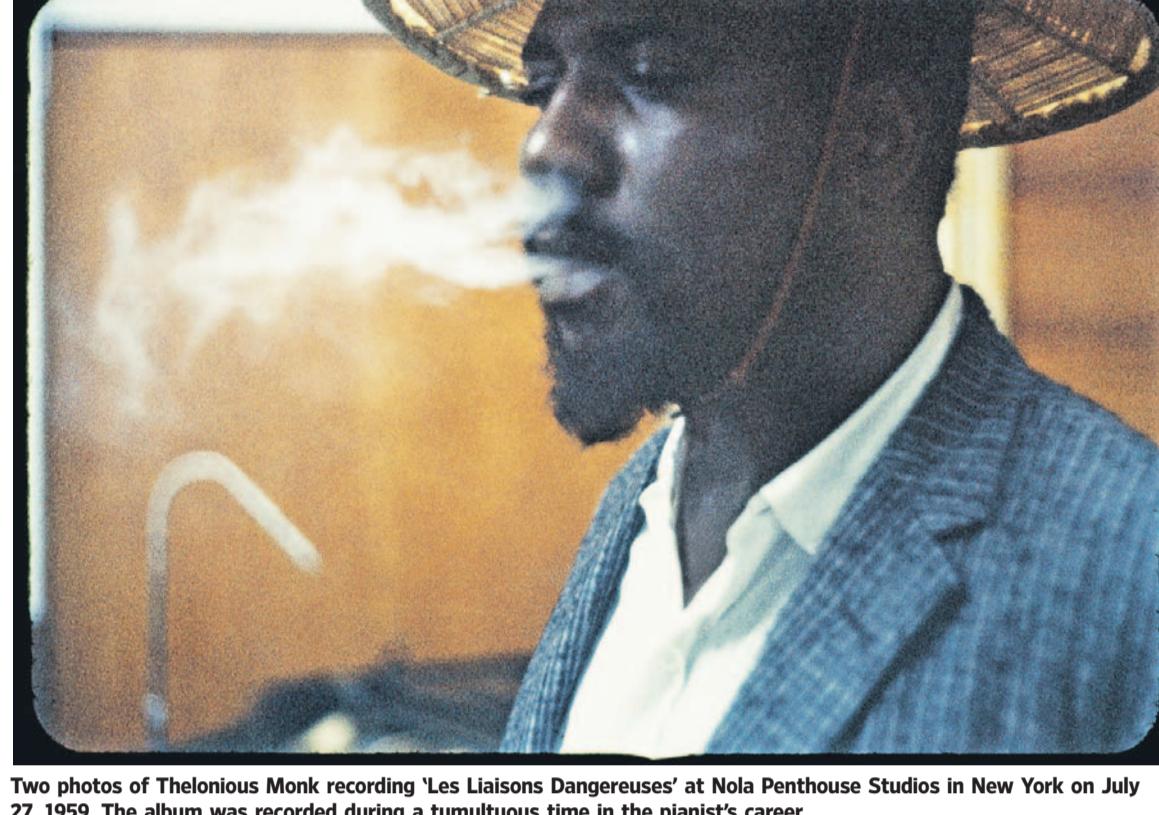
# Monk's Little-Known 'Liaisons'

BY LARRY BLUMENFELD

**PIANIST** Thelonious Monk was born in Rocky Mount, N.C., on Oct. 10, 1917. The centenary of this moment will likely inspire a wave of celebratory concerts and recordings. Since Monk's death, in 1982, the influence of his compact body of compositions has grown with each passing decade; once considered radical, they are now as elemental to modern jazz as are Bach's to classical music. The characteristics of his piano playing—jarring rhythmic displacements, clotted chords, flat-fingered runs and spiky dissonances—still sound distinct even as they shape our ideas of contemporary music's possibilities.

The first commemoration of Monk's centenary comes early, a posthumous gift from the master himself. "Thelonious Monk: Les Liaisons Dangereuses 1960" (Sam Records/Saga), available as a deluxe double-CD or LP set, contains Monk's studio recordings for the soundtrack of Roger Vadim's French film of the same name. This music has never been available outside the context of the film. The master tapes of Monk's soundtrack were discovered in 2014, in the archives of Marcel Romano, the French promoter who introduced Vadim to Monk's music. Romano, who had brought Miles Davis to director Louis Malle to score "Ascenseur pour l'échafaud," also managed French tenor saxophonist Barney Wilen, who here joined Monk's quartet for several takes.

Vadim's adaptation of Pierre Choderlos de Laclos's 18th-century novel embraced a story of bourgeois infidelity and seduction as transposed to 20th-century France, with a jazz soundtrack. (Cocktail-party scenes featured Duke Jordan's tunes played by Art Blakey and the Jazz Messengers, later released on the Fontana label.) Though commercially successful in France, the film is memorable now



ARNAUD BOUDET PRIVATE COLLECTION (2)

Two photos of Thelonious Monk recording 'Les Liaisons Dangereuses' at Nola Penthouse Studios in New York on July 27, 1959. The album was recorded during a tumultuous time in the pianist's career.

mostly for its nudity and risqué tone. Monk's music—recorded in Manhattan, in the summer of 1959—is, however, timeless musical expression that documents a significant moment.

The list of classics recorded in 1959—as transformative a year as jazz has known—includes Miles Davis's "Kind of Blue," John Coltrane's "Giant Steps" and Ornette Coleman's "The Shape of Jazz to Come." It was also a heady time in Monk's career. Months earlier, he had played a landmark large-ensemble concert at Town Hall. His working quartet had just recorded a fine album with cornetist Thad Jones and, shortly before this soundtrack session, had played the Newport Jazz Festival to rave reviews. This quartet, excellent



though short-lived, included bassist Sam Jones, drummer Art Taylor and tenor saxophonist Charlie Rouse, who had just begun a decade-long association with Monk.

Yet as Monk's biographer Robin D.G. Kelley observes in an insightful liner note, Vadim had "approached Monk at the absolute worst time." A dizzying professional schedule along with some setbacks, especially the loss of his cabaret card following an unjust arrest, had left Monk in the grip of severe emotional instability. He was, as Mr. Kelley writes, "overcommitted, tired, and ill." Thus, Monk wrote no new compositions or arrangements; these tracks seem more the stuff of a jazz-club performance or record date than a movie score.

Still, Mr. Kelley writes, "Monk

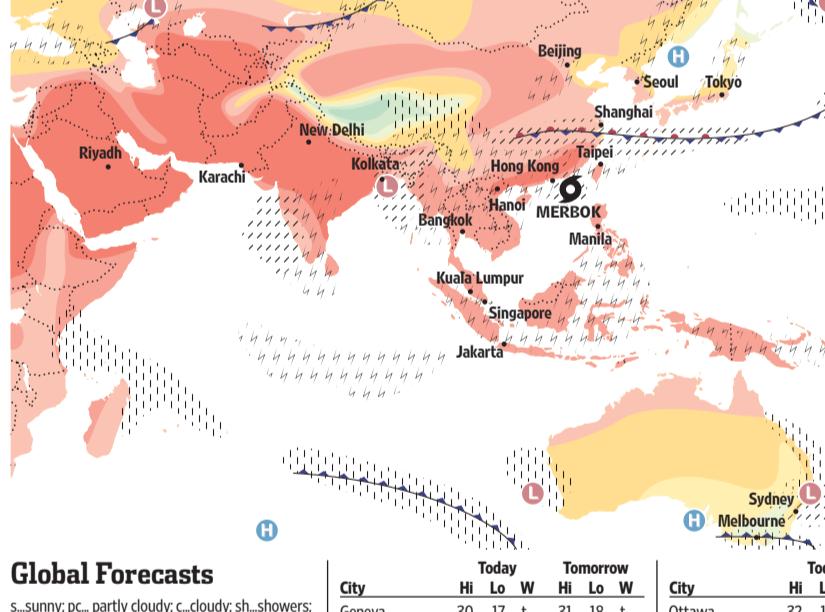
chose the repertoire based on his understanding of the story, and played around with the tempos in order to capture the character's emotional state or circumstance." Indeed, the always-inventive Monk here emphasizes the emotional content of his music. A version of "Crepuscule With Nellie," used for opening credits, contains noticeably pregnant pauses. Four versions of "Pannonica," two as solo piano, reveal subtly shifting shades of feeling. For a scene in which the innocent Marianne and her seducer, Valmont, meet in a church, Monk, perhaps as irony, played a straightforward version of the Rev. Charles A. Tindley's hymn "By and By (We'll Understand It Better By and By)," which he likely learned as a teenager while playing for a traveling Pentecostal preacher.

Nothing sounds revolutionary in these tracks, yet they reveal Monk during a dynamic year, in the midst of turmoil, seeming relaxed, playful and at the top of his game. His version of "Well, You Needn't" bristles with the particular energy afforded by this brief rhythm-section alliance with Jones and Taylor.

"Rhythma-Ning" is notable for Monk's differing interplay with each saxophonist. An improvised blues, originally untitled, listed here as "Six in One," sounds like a sketch of what Monk recorded three months later as "Round Lights." Here also is the only known studio recording of Monk's "Light Blue" (two versions, in fact). On the second, a 14-minute version credited as "Light Blue (Making Of)," Monk implores Taylor, against his protestations, to "keep on doing what you're doing"—to extend a three-beat pattern that forms a counter melody. Whether Monk was thinking about advancing Vadim's cinematic tale or simply telling his own story is anyone's guess.

Mr. Blumenfeld writes about jazz for the Journal. He also blogs at [blogs.artinfo.com/blunotes](http://blogs.artinfo.com/blunotes).

## Weather



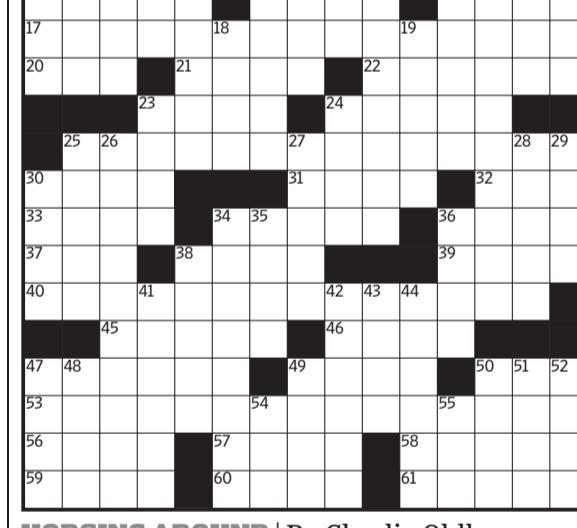
## Global Forecasts

| City         | Today |    |    | Tomorrow |    |    |
|--------------|-------|----|----|----------|----|----|
|              | Hi    | Lo | W  | Hi       | Lo | W  |
| Amsterdam    | 19    | 13 | c  | 19       | 12 | pc |
| Anchorage    | 13    | 7  | c  | 12       | 7  | r  |
| Athens       | 27    | 19 | pc | 30       | 21 | s  |
| Atlanta      | 28    | 21 | pc | 29       | 22 | t  |
| Bahrain      | 43    | 26 | s  | 45       | 25 | s  |
| Baltimore    | 34    | 21 | s  | 34       | 22 | s  |
| Bangkok      | 33    | 25 | c  | 32       | 25 | t  |
| Beijing      | 27    | 15 | pc | 31       | 16 | pc |
| Berlin       | 22    | 13 | pc | 21       | 12 | pc |
| Bogota       | 19    | 9  | sh | 18       | 9  | s  |
| Boise        | 16    | 9  | r  | 20       | 8  | pc |
| Boston       | 33    | 22 | s  | 32       | 18 | t  |
| Brussels     | 20    | 11 | c  | 22       | 12 | pc |
| Buenos Aires | 15    | 6  | c  | 18       | 7  | pc |
| Cairo        | 35    | 23 | s  | 36       | 22 | s  |
| Calgary      | 22    | 10 | s  | 16       | 8  | t  |
| Caracas      | 30    | 26 | pc | 31       | 27 | pc |
| Charlotte    | 31    | 21 | pc | 32       | 21 | pc |
| Chicago      | 35    | 23 | s  | 36       | 22 | t  |
| Dallas       | 33    | 24 | pc | 33       | 25 | pc |
| Denver       | 32    | 10 | t  | 27       | 10 | s  |
| Detroit      | 34    | 23 | s  | 31       | 20 | t  |
| Dubai        | 40    | 30 | s  | 40       | 30 | s  |
| Dublin       | 17    | 12 | c  | 19       | 11 | c  |
| Edinburgh    | 17    | 9  | c  | 18       | 12 | sh |
| Frankfurt    | 24    | 11 | pc | 24       | 13 | pc |

## AccuWeather.com

| Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day. |       |    |    |    |          |    |    |    |    |
|---|-------|----|----|----|----------|----|----|----|----|
| City  | Today | Hi | Lo | W  | Tomorrow | Hi | Lo | W  |    |
| Geneva  | 30    | 17 | t  | 31 | 18       | t  | 27 | 8  | c  |
| Hanoi   | 36    | 27 | t  | 35 | 27       | t  | 24 | 15 | pc |
| Havana  | 31    | 22 | pc | 31 | 23       | pc | 34 | 23 | s  |
| Hong Kong   | 34    | 28 | t  | 33 | 28       | t  | 37 | 22 | s  |
| Honolulu  | 30    | 24 | sh | 30 | 24       | sh | 31 | 20 | pc |
| Houston   | 32    | 24 | t  | 32 | 25       | c  | 34 | 22 | pc |
| Istanbul  | 24    | 18 | s  | 25 | 19       | s  | 18 | 11 | c  |
| Jakarta   | 32    | 24 | t  | 33 | 24       | t  | 26 | 20 | t  |
| Johannesburg  | 20    | 3  | p  | 21 | 4        | s  | 47 | 27 | s  |
| Kansas City   | 33    | 23 | s  | 34 | 23       | pc | 32 | 23 | pc |
| Las Vegas   | 28    | 18 | s  | 33 | 21       | s  | 21 | 11 | t  |
| Lima  | 22    | 16 | pc | 22 | 16       | s  | 21 | 15 | pc |
| London  | 20    | 11 | c  | 23 | 13       | pc | 18 | 11 | pc |
| Los Angeles   | 23    | 14 | p  | 26 | 15       | pc | 31 | 25 | s  |
| Madrid  | 38    | 21 | s  | 37 | 21       | s  | 19 | 5  | pc |
| Manila  | 33    | 26 | t  | 34 | 26       | t  | 32 | 23 | pc |
| Melbourne   | 16    | 8  | pc | 14 | 6        | pc | 21 | 15 | pc |
| Mexico City   | 28    | 13 | pc | 25 | 15       | pc | 25 | 20 | pc |
| Miami   | 31    | 26 | pc | 31 | 26       | t  | 26 | 20 | pc |
| Milan   | 33    | 20 | pc | 34 | 21       | s  | 27 | 17 | t  |
| Minneapolis   | 30    | 22 | t  | 34 | 20       | t  | 31 | 27 | t  |
| Monterrey   | 37    | 21 | pc | 37 | 21       | pc | 18 | 10 | t  |
| Montreal  | 31    | 20 | t  | 28 | 11       | s  | 20 | 13 | s  |
| Moscow  | 22    | 14 | sh | 19 | 10       | sh | 19 | 11 | t  |
| Mumbai  | 31    | 27 | t  | 31 | 28       | r  | 37 | 22 | s  |
| Nashville   | 31    | 22 | t  | 32 | 22       | t  | 28 | 21 | s  |
| New Delhi   | 42    | 29 | s  | 42 | 30       | s  | 25 | 18 | sh |
| New Orleans   | 30    | 24 | t  | 30 | 24       | sh | 32 | 21 | pc |
| New York City   | 33    | 24 | s  | 34 | 22       | s  | 18 | 10 | pc |
| Omaha   | 35    | 24 | pc | 36 | 23       | pc | 35 | 23 | s  |
| Orlando   | 29    | 22 | t  | 29 | 21       | sh | 28 | 12 | t  |
| Zurich  | 29    | 22 | t  | 29 | 21       | sh | 29 | 14 | pc |

## The WSJ Daily Crossword | Edited by Mike Shenk



## HORSING AROUND | By Charlie Oldham

- Across**
- 1 Friend of Thumper
  - 6 Workplace for some counselors
  - 10 \_\_\_-daisy!
  - 14 Burglar deterrent
  - 15 Writer Rice
  - 16 Back of the neck
  - 17 Galvanizes
  - 20 \_\_\_ pollio
  - 21 Elevator pioneer
  - 22 Puts a coat on?
  - 23 Country singer Jackson
  - 24 Librarian's stamp
  - 25 Put a big financial burden on
  - 26 Marginal comment, for example
  - 27 Extreme anger
- Down**
- 31 A little naughty
  - 32 Order's partner
  - 33 Bed-and-breakfasts
  - 34 It's in the can
  - 35 Trick
  - 36 Easy gait
  - 37 Chairman with a Little Red Book
  - 38 Close
  - 39 Workers with whistles
  - 40 Angry overreacted to somebody
  - 41 Carrot color
  - 42 Blows one's top
  - 43 Staff worker
  - 44 What's happening
  - 45 Came up
  - 46 Mob melee
  - 47 Canadian capital
  - 48 Garr of "Young Frankenstein"
  - 49 Helper: Abbr.
  - 50 Consumer of 2-down products
  - 51 Over
  - 52 Like an eyesore
  - 53 Keeps costs under control
  - 54 "The Matrix" hero
  - 55 "Zip-a-Dee-Doo-\_\_\_"

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

- 6 Alberta's \_\_\_ National Park  
29 First word of "Jabberwocky"  
30

# BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

THE WALL STREET JOURNAL.

Monday, June 12, 2017 | B1

**Yen vs. Dollar** 110.5390 ▲ 0.48%    **Hang Seng** 26030.29 ▼ 0.13%    **Gold** 1268.50 ▼ 0.61%    **WTI crude** 45.83 ▲ 0.42%    **10-Year JGB yield** 0.055%    **10-Year Treasury yield** 2.201%

## Markets Take New Look at Labour

U.K. election result has investors scouring Corbyn's policies on business and economy

By MIKE BIRD

After the U.K.'s surprise election result, investors are asking a question they haven't in many decades: What will a self-described socialist mean for their British investments?

Investors had expected a decisive Conservative victory on Thursday, but Jeremy Corbyn's Labour Party increased its share of the vote and

pushed the Tories into a minority government.

That left investors scouring Mr. Corbyn's policies on business and the economy, widely considered the most left-wing platform from a major British party since the early 1980s.

"Investors must now start to contemplate the effect on individual companies of higher taxation and significant political interventions, including nationalization," said David Docherty, U.K. equity fund manager at Schroders, on the morning after the vote.

Mr. Corbyn is very unlikely to form a government, given the Conservatives have said

they would work with an allied political party to get the majority of votes needed to push through their policies.

But that would give the Tories only a wafer-thin majority susceptible to rebellion within both parties. So Britain could be back to the polls in relatively little time. Likewise, if the Conservatives fail to get enough votes, it may have to turn to Labour, not least for the country's divorce from the European Union.

Labour's flagship economic policies included increased taxes on corporations and the top 5% of earners, as well as increasing the minimum wage

to an hourly £10 (about \$12.74) from its current £6.70.

The party has promised to nationalize utilities, rail companies and the Royal Mail postal system. It also said it would launch a consultation on breaking up the banks and has pledged to take a "new approach" to the publicly owned Royal Bank of Scotland Group PLC.

The U.K.'s FTSE 100 has hit record highs this year, but investors have differentiated between those stocks exposed to Britain and those whose revenues come mainly from abroad.

The FTSE 100, which makes

more than two-thirds of its revenue outside of the U.K., is up 18.6% since last year's EU referendum. Meanwhile, the FTSE Local UK, which includes only stocks that make 30% or less of their revenue abroad, is up by just 0.7%.

"A number of stocks that could be vulnerable under a more interventionist government have been weak for some time," said Richard Colwell, head of U.K. equities at Columbia Threadneedle Investments, naming transport and

Please see MARKETS page B2

♦ Heard: Financial markets are in fairy-tale land..... B8

## Post-IPO Offerings Of Stock Speed Up

By CORRIE DRIEBUSCH

Newly public companies, eager to take advantage of rising U.S. stock prices, are returning to the market faster than ever to sell additional shares.

It is the latest sign that public markets have regained appeal for companies and their owners after the slowest year for initial public offerings in more than a decade. Major U.S. stock indexes are hitting records, volatility has been low and shares of companies that have launched IPOs recently have generally performed well—fertile conditions for selling more stock.

The average number of days between a company's IPO and its next stock sale, also called a follow-on offering, is on pace for a record low this year, according to Dealogic data through Thursday that go back to 1995. U.S.-listed companies launching their first stock sales in 2017 are doing so roughly 500 days after their IPOs, compared with an average of more than 900 days since the start of the data.

That pace tends to fluctuate with the performance of the broader stock market: The average number of days between IPOs and follow-on deals ballooned during the dot-com bust of the early 2000s, and widened again during the financial crisis.

Private fundraising opportunities and mergers and acquisitions have translated into fewer investment opportunities for public investors in recent years. That has created pent-up demand for new stock from young companies and is helping to accelerate follow-on deals, some bankers, portfolio managers and analysts say.

The number of U.S.-listed companies has declined by more than 3,000 in the past two decades, according to the University of Chicago's Center for Research in Security Prices, and last year was the slowest in terms of the money raised by U.S.-listed IPOs since 2003, according to Dealogic figures.

"We had a period of time when the IPO window was frozen and we didn't see a lot, so investors were clamoring for new investment opportunities," said Aram Green, portfolio manager at ClearBridge Investments, referring to recent follow-on deals.

Jeld-Wen Holding Inc., a maker of doors and windows, announced its first follow-on offering in mid-May, 109 days after its late-January IPO. Earlier this year, oil-field-services company Smart Sand Inc. sold additional shares 90 days after

Please see STOCKS page B2



Pump jacks near Williston, N.D., in the Bakken shale region. Hess and other companies are drilling new wells in the region and completing others earlier left unfinished.

## After Energy Bust, the Bakken Shale Revives

By ERIN AILWORTH

WATFORD CITY, N.D.—Radio stations here are again running ads from oil-field companies seeking drivers and mechanics. A store is serving up an alligator-and-crawfish lunch to welcome workers from the Gulf Coast. New rigs are rising across the sprawling prairie.

Drillers are edging back to action in North Dakota's Bakken shale region, a sign the recovery of the U.S. oil and natural-gas sector is spreading beyond the Texas and Oklahoma fields, where production is cheaper because there is more oil that is easier to tap.

The revival after a nearly three-year bust is welcomed by local industry leaders, officials and merchants, who are grateful to see new signs of life in places such as Watford City, a community of about 6,400 people that was booming just a

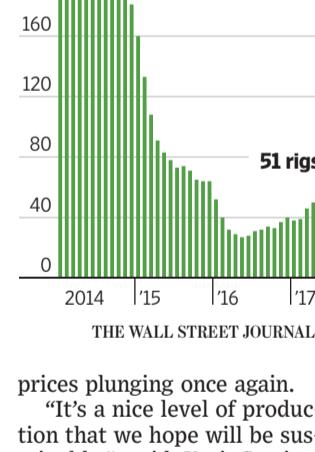
### Bouncing Back

Drilling rigs and oil production are rebounding in North Dakota.

#### Oil production



Source : North Dakota Industrial Commission



THE WALL STREET JOURNAL.

prices plunging once again.

"It's a nice level of production that we hope will be sustainable," said Kari Cutting, vice president of the North Dakota Petroleum Council.

Hess Corp., Continental

Resources Inc. and Oasis Petroleum Inc. are drilling new wells here or finishing ones earlier left uncompleted. Yet despite technological improvements and cost cutting, only some producers can afford to drill in the Bakken at today's oil prices.

And while shale companies are slowly recovering, prices remain volatile—crude has declined 9% in the past three weeks, moving decisively below \$50 a barrel.

While some Bakken producers can break even at \$40 oil, according to consultancy Wood Mackenzie, most need upward of \$50 and wouldn't significantly increase activity until oil approached \$60.

Locals say \$60 or \$70 oil would be enough to keep the Bakken humming at a reasonable pace. Anything more, they fear, might bring back the chaos of the boom, when a huge influx of people

and oilfield traffic overwhelmed parts of North Dakota. As oil rose over \$100 in 2014, North Dakota's unemployment rate—consistently the lowest in the U.S.—fell as low as 2.6%. The population grew more than 2% annually from 2012 to 2015, adding 55,000 residents, a big influx for a state that even now has only about 758,000 people, federal estimates show.

Some workers were making six-figure salaries and regularly dropping hundreds of dollars on shots of Louis XIII cognac in restaurants such as the Williston Brewing Co. But skyrocketing rents forced many to live in trailers, tents and boxy, no-frills "man camps."

In Watford, residents remembered traffic so heavy that some people couldn't

Please see BAKKEN page B2

♦ Heard: Gambit failed in 'sheiks vs. shale' battle.... B8

Please see STOCKS page B2

## Fight Over China Vanke Takes a New Twist

By KEVIN KINGSBURY

A prolonged battle for control over one of China's largest real-estate companies might have reached its final stages.

China Evergrande Group said late Friday it had agreed to sell its 14% stake in rival developer China Vanke Co. to Shenzhen Metro Group Co., a state-owned subway operator, for 29.2 billion yuan (\$4.3 billion)—around \$1 billion less than it paid last year to build up the position.

In January, Shenzhen Metro agreed to acquire a 15% stake in Vanke from China Resources Group for 37.2 billion yuan.

A year ago, the subway operator agreed to a potential \$6.6 billion asset-swap deal with Vanke as the property developer was seeking an ally to thwart a possible hostile takeover by finance and insurance

conglomerate Baoneng Group. However, that proposal fell apart in December in the face of opposition from other major shareholders, whose holdings would have been diluted.

By the end of 2016, Baoneng had a 25% stake in the real-estate company, while Evergrande over several months spent a total of 36.27 billion yuan building up its holding in Vanke, which was contending with boardroom turmoil as the takeover battle escalated.

The aggressive investment activities of Evergrande and Baoneng have recently come under the scrutiny of Chinese regulators, part of a broader government effort to curb speculative investments and a heavy buildup in corporate borrowing there.

Evergrande, which last year leapfrogged Vanke to become China's largest home builder



China Evergrande Group agreed to sell its China Vanke stake.

KEYWORDS | By Christopher Mims

## Facebook Makes Move Toward Telepathic Texting

You might have heard that Facebook Inc. is working on a way for you to message your friends and update your news feed...telepathically.

When the company announced this at its annual F8 conference in mid-April, it was pretty vague about how the feat would be accomplished. Turns out the plan includes building a technology that would, by itself, revolutionize how we study the human brain.

Are the methods crazy? Yes. Do neuroscientists and engineers outside Facebook express extreme doubt this

will succeed? Yes. Facebook doesn't care and is investing millions in research that could produce a consumer gadget.

After I spoke with project members, based at Facebook's mysterious Building 8 incubator for moonshots, it became clear that the company's larger goal is to make a handful of long-term bets on technologies that could define the next era of computing.

When your face is stuck inside a VR headset or you're out walking around wearing a pair of augmented-reality glasses, you can't exactly reach for a keyboard or mouse, says Mark Chevillot.

Please see MIMS page B4

## INDEX TO BUSINESSES

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

| A                                  | F  | Nintendo.....B2              |
|------------------------------------|--|------------------------------|
| AC Investment Management.....B7    | Facebook.....B1,B4                             | Oasis Petroleum.....B1       |
| Activision Blizzard.....B2         | Fidelity Advisor Biotechnology Fund..B5        | Prada.....B3                 |
| Advance Publications.....B3        | Fidelity Select Biotechnology Portfolio.....B5 | PT Go-Jek Indonesia..B4      |
| Airbus.....B3                      | Ford Motor.....B4                              | R                            |
| Alphabet.....B4                    | Glencore.....B5                                | Rio Tinto.....B5             |
| Baoneng Group.....B1               | Halliburton.....B7                             | S                            |
| Boeing.....B3,B5                   | Hess.....B1                                    | Schlumberger.....B7          |
| Bombardier.....B3                  | IEX Group.....B8                               | SoftBank Group.....B4        |
| Bunge.....B5                       | J.P. Morgan.....B7                             | Sony.....B2                  |
| C                                  | K  | Tribe Dynamics.....B3        |
| China Evergrande Group.....B1      | KCG Holdings.....B8                            | U                            |
| China Vanke.....B1                 | Kering.....B3                                  | Uber Technologies.A1,B4      |
| Coal & Allied Industries.....B5    | M - N  | Ubisoft Entertainment.....B2 |
| Condé Nast.....B3                  | Mitsubishi.....B5                              | Y                            |
| Continental Resources.....B1       | Myomo.....B5                                   | Yancoal Australia.....B5     |
| D - E                              | Z  | YouGov.....B8                |
| Davis New York Venture Fund.....B5 | Zenith Media.....B3                            | Z                            |

## INDEX TO PEOPLE

| A                         | G                           | P                              |
|---------------------------|-----------------------------|--------------------------------|
| al-Sada, Mohammed..B7     | Green, Aram.....B1          | Pachter, Michael.....B2        |
| B                         | H                           | Pinault, François-Henri.....B3 |
| Beckelman, Lee.....B2     | Hatheway, Larry.....B2      | R                              |
| Butler, Dave.....B5       | Hickey, Mike.....B2         | Rogers, Ian.....B3             |
| C                         | Hobby, Roger.....B5         | S                              |
| Cantino, Stefano.....B3   | Kalanick, Travis.....A1     | Sanford, Cindy.....B2          |
| Creutz, Doug.....B2       | L                           | Stenberg, Daniel.....B2        |
| Crozier, Alain.....B4     | Luttig, Michael.....B3      | Stenjem, Stephen...B2          |
| Cutting, Kari.....B1      | M - O                       | T                              |
| D                         | Mann, Pamela Drucker.....B2 | Thomas, Jason.....B7           |
| Davis, Christopher.....B5 | Michele, Alessandro...B3    | Turner, Mike.....B2            |
| E - F                     | O'Shea, Tim.....B2          | W                              |
| Enders, Tom.....B3        | Webster, Matt.....B2        | Wintour, Anna.....B3           |



U.K. Labour leader Jeremy Corbyn on Sunday in London.

## MARKETS

Continued from the prior page  
utility shares.

The prospect of state intervention in companies is unlikely to endear British stocks to international investors.

"The U.K. market has been out of favor with international investors for some time," Mr. Colwell added. Asset allocation to U.K. equities is as low now as it was in 2008 at the height of the banking crisis, he said.

Not all of Mr. Corbyn's positions are viewed negatively by investors.

**The Labour Party is expected to push for a so-called soft Brexit.**

Indeed, many investors believe Mr. Corbyn's increased standing could in the long run help British markets, in particular the pound.

Though the Labour Party says that it believes Brexit should go ahead, it is expected to push for a so-called soft Brexit and argue for less restraints on immigration, both of which many investors would welcome.

Many analysts expected

sterling to rise if Mr. Corbyn

was able to establish a minority government or exert influence on national policy.

To be sure, many analysts believe it is too early to begin pricing in any potential effects of Mr. Corbyn.

Market action on Friday suggested that most investors agree. J.P. Morgan Chase & Co. named six utility companies likely to be negatively affected by Mr. Corbyn's nationalization policies, including **National Grid PLC** and **Centrica PLC**, but two closed up for the day and none of the others fell by more than 1%.

"What we're seeing is a pretty modest response—if you didn't know there was an election this morning and just saw the share prices, you probably wouldn't infer it," said Matthew Jennings, investment director for U.K. equities at Fidelity International.

"There are many more important things to think about when you buy these companies than politics," he added.

Larry Hathaway, portfolio manager at GAM Holdings, said it was too early for Mr. Corbyn to be affecting share prices. The U.K. election, as a whole, left investors pondering a host of potential outcomes.

"We watch these things, but I think right now the market sees it as political rhetoric rather than economic reality," Mr. Hathaway said. "If it does become reality then markets will react."

yuan.

The deal also comes after Evergrande's shares have more than doubled in the past month, hitting records despite continuing concerns in some quarters about the company's balance sheet.

By contrast, Vanke's stock has been stuck in a sideways trading range since peaking in November.

The stake deal could help resuscitate the asset-swap effort. Under the original terms, Vanke would have given Shenzhen Metro equity in exchange for real-estate assets.

Such an arrangement could allow Vanke to build real-estate projects on top of subway stations in Shenzhen, a technology and business hub just north of Hong Kong.

—Dominique Fong

contributed to this article

27 in May 2016 to 51 today, state data show. Oil output has again topped one million barrels a day, after wobbling below that point at the start of this year and for a few months in late 2016.

A recent job fair in nearby Williston, a city of about 26,400 people, boasted 60 booths for employers with 1,500 openings, more than twice the number of job seekers that attended, said Cindy Sanford, a manager with the local branch of Job Service North Dakota, a state employment agency. "Tons of jobs, not enough people," she said.

The increasing activity was

apparent at a site about an hour east of Williston, where

Hess began operating a rig known as the B04 in

## BUSINESS & FINANCE



Videogame players sampled 'Star Wars Battlefront II' in Los Angeles on Saturday ahead of the Electronic Entertainment Expo, or E3.

## EA Changes Its Sales Pitch

Sequel to 'Battlefront' to offer purchases of low-cost virtual goods; a mobile-games tactic

BY SARAH E. NEEDLEMAN

When **Electronic Arts Inc.** releases the sequel to "Star Wars Battlefront" this fall, it plans to ditch one lucrative sales pipeline for another that is potentially even bigger, refined in mobile videogames.

Instead of selling regular so-called expansion packs—the quests,

maps and other content sold separately after launch—Electronic Arts will send customers free smaller packs more frequently, as a way to keep them playing "Star Wars Battlefront II" indefinitely.

To replace lost expansion-pack revenue, Electronic Arts plans to use microtransactions to sell low-cost virtual goods. Microtransactions including those sold within free-to-play mobile games have reaped billions of dollars for the video-game industry.

Spending on microtransac-

tions across all game platforms reached \$71 billion world-wide last year, up from \$62.4 billion in 2015, according to SuperData Research.

Relatively new for console games, microtransactions brought in \$2.2 billion last year, compared with \$1.4 billion for expansion packs, the industry tracker said.

"Microtransactions are now the most profitable part of many publishers' businesses," Jefferies analyst Tim O'Shea said.

The first "Star Wars Battlefront," released in 2015, sold 14 million copies. Buyers could purchase up to four \$20 packs of extra content every few months, or buy them ahead of time in a \$50 "season pass."

Electronic Arts doesn't break out sales of add-ons for individual games. Wedbush Securities analyst Michael Pachter estimates "Battlefront" earned about \$200 million off them.

"Battlefront II" is among the games expected to generate buzz at Electronic Entertainment Expo, better known as E3, which starts June 13 in Los Angeles. Others include

**Nintendo Co.'s "Super Mario Odyssey,"** a new installment of

**Ubisoft Entertainment SA's "Assassin's Creed"** and a sequel to **Activision Blizzard's "Destiny."**

"Battlefront II" will sell so-called crates of virtual cards that enhance characters' appearance and abilities.

Other changes are coming with "Battlefront II." The sequel will include a single-player story line and bigger space battles. This time, the game will span all three Star Wars film eras. Electronic Arts said it would tweak the rules as often as weekly based on player behavior.

"We changed our approach to a live service," said Matt Webster, executive producer of the game, ahead of E3. "It is a continual commitment to engage with our players."

It is possible Electronic Arts could sell additional expansion-pack-like content down the road, but the company said it currently has no plans to do so.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does, you can't play together," he said.

The problem with expansion packs is that not everyone buys them, and that creates friction between players, Benchmark Co. analyst Mike Hickey said. "If you don't pay and your friend does

## BUSINESS NEWS

# Fashion Ads Go Digital

Shedding tradition, luxury companies are shifting advertising from print to digital

BY MATTHEW DALTON

PARIS—Luxury companies are turning away from glossy magazines, long the industry's main platform for trumpeting its brands to well-heeled consumers.

Louis Vuitton, Gucci and other houses are instead plowing money into digital campaigns—rooted in social media and online advertising—often sidestepping powerful fashion editors, such as Vogue's editor in chief Anna Wintour, who have long dictated fashion tastes to the masses through their print publications.

The luxury industry's global spending on digital advertising was \$1.01 billion in 2016, up 63% since 2013, according to ad-buying firm Zenith Media. Spending on magazine ads fell 8% over the same period to \$2.6 billion, Zenith says.

Condé Nast, publisher of Vogue, Glamour and other titles, has been snaring fashion-industry spending on digital communications to help offset the drop in print advertising, says Pamela Drucker Mann, chief marketing officer of the group, which is owned by Advance Publications Inc. Its magazines are also boosting revenue and retaining their influence by tweaking their business models: Some titles are joining with fashion brands to create digital movies and other content.

"They're coming to Vogue to help them create their advertising campaigns and their custom content," Ms. Drucker Mann says.

Ms. Drucker Mann maintains that Ms. Wintour is more influential than ever, with the new audience that Vogue and other Condé Nast websites have found online. Condé Nast titles have 100 million online readers each month and 174



A model walks the runway in Gucci at a fashion show last month in Italy. The brand has led the luxury industry in seeking customers through social-media networks.

million social-media followers.

While many industries began moving their ad dollars to digital media years ago, fashion magazines suffered less from the trend due to their symbiotic relationships with the brands they cover. Magazines provide wall-to-wall coverage of fashion shows and other promotional events important to brands, which have long responded by buying reams of advertising pages that underpinned the glossies' business model. Meanwhile, magazine editors have worked hand-in-glove with brands, designers and retailers, developing new looks and occasionally calling the shots on what appears on the runways.

Now, the industry is realizing the benefit of reaching out to its affluent customers on the internet. Luxury executives say digital campaigns are highly effective, can reach people at relatively low cost and give advertisers loads of data to track how their spending translates into higher sales.

François-Henri Pinault, the French billionaire and chief executive of luxury conglomerate Kering Co., has described "a

real reallocation from what we spent on print to the internet." Mr. Pinault estimates that Kering, whose brands include Gucci and Saint Laurent, spends 35% to 40% of its communication budget on digital, compared with 15% to 20% some 18 months ago.

"If we were to launch a brand today, all the communication to start would be online," he says.

The industry has a welter of options other than Vogue, Marie Claire and Glamour to communicate with the public. Brands can connect with clientele as well over Instagram, Facebook, Twitter and Snapchat, along with a host of new internet fashion websites.

LVMH Louis Vuitton Moët Hennessy, the world's biggest luxury company, has hired San Francisco-based Tribe Dynamics to identify and interact with "influencers"—those who talk about LVMH's brands on social networks, ranging from celebrities to people with just a few hundred followers on Instagram.

Tribe calculates a metric it calls "earned media value"—the amount of money a com-

pany saves on advertising because influencers are talking about its brands online.

"These influencers are themselves brands and micro-publishers, 'earned media' the same as Vogue," says Ian Rogers, chief digital officer at LVMH, whose brands include Louis Vuitton, Fendi and Christian Dior.

Mr. Pinault credits deft communication over social media for much of the runaway success of Gucci over the past two years. Sales in the first quarter surged 50%, beating expectations of even the most optimistic analysts.

Prada Spa is also shifting its communication to digital, says Stefano Cantino, the Italian fashion house's chief marketing officer. He estimates that 25% of Prada's communications budget goes to online campaigns, a significant increase over recent years.

But Prada remains cautious about using influencers to market itself, fearing that aligning the brand with the wrong person on social media could tarnish its image. "It's really key to keep the DNA of the brand," Mr. Cantino says.

# Boeing Takes Next Step In Iran Jetliner Sale

BY ROBERT WALL

LONDON—Boeing Co. said Saturday it had moved a step closer to completing a contentious jetliner sale to an Iranian airline, though the U.S. government still needs to give the green light before planes could be delivered.

Boeing said it had signed a final purchase agreement with Iran Aseman Airlines for as many as 60 737 Max single-aisle planes, its newest model. The two parties earlier this year announced a memorandum of agreement for the transaction that could be valued at as much as \$6 billion at list price, though buyers typically get discounts.

Boeing, the world's No. 1 plane maker, and European rival Airbus SE have signed multibillion-dollar deals with Iranian carriers to sell planes after foreign powers lifted many economic sanctions last year in exchange for restrictions on Tehran's nuclear program. Iran has a fleet of aging planes after years of sanctions.

Even as European countries have rushed to Iran to establish business ties after nuclear sanctions were lifted, U.S. companies have largely held back, unsure about whether President Donald Trump—a sharp critic of the nuclear deal on the campaign trail—would

try to alter the pact or otherwise discourage closer business ties.

Congressional critics of easing ties with Iran have opposed the plane sales and sought to stop the deals. They accuse Iran of using planes to help support terrorism, an accusation Tehran denies.

Airbus and European turboprop maker ATR this year started delivering airliners to Iran Air, the country's flag carrier. Airbus last year agreed to sell 100 planes to the state-owned airline.

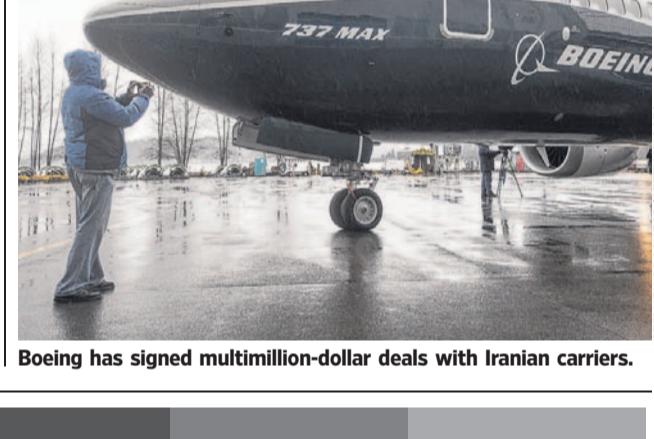
Boeing last year also won a \$16.6 billion deal before discounts to sell 80 planes to Iran Air. It is awaiting final approval from the U.S. Treasury for those sales.

When Boeing announced the agreement with Aseman Air in April, it was the first major deal put forward between a U.S. company and an Iranian one since Mr. Trump took office.

Boeing Saturday said it had applied to the U.S. Treasury Department's Office of Foreign Assets Control for approval of a license to see the deal through. Plane deliveries wouldn't start until 2022.

Boeing has emphasized the job-creating potential of the order. The sale would help sustain 18,000 jobs, it said.

—Asa Fitch contributed to this article.



Boeing has signed multimillion-dollar deals with Iranian carriers.

# U.S. Firm Loses Trade Ruling

BY ROBERT WALL  
AND DOUG CAMERON

The World Trade Organization ruled Friday that the U.S. failed to adequately eliminate all illegal state subsidies to Boeing Co. in a move that could trigger retaliatory sanctions from the European Union next year.

The ruling comes as the new U.S. administration reviews its participation in the multilateral trade group and Chicago-based Boeing presses a separate case against Canada over alleged predatory pricing of jetliners made by Montreal-based Bombardier Inc. that has strained relations between the countries.

The WTO's verdict levels the score in the long-running spat between the U.S. and the EU over financial support for Boeing and Airbus SE, with the latter already criticized by the trade body last year for funding it received from member states to develop new aircraft.

Boeing and Airbus, which is based in Blagnac, France, compete fiercely for airliner orders and for years have accused one another of winning business through illegal government handouts benefiting programs such as the A380 superjumbo and 787 Dreamliner.

The latest WTO decision opens the door for the EU to

impose tariffs against a range of U.S. goods and services beyond aerospace. However, trade experts said this was unlikely because defendants can make small changes in their rules to avoid tariffs.

Both Airbus and Boeing claimed victory in the case, arguing the ruling bolsters their cases that the other is unfairly benefiting from government handouts.

*The WTO's verdict levels the score in the spat between the U.S. and the EU.*

Airbus Chief Executive Tom Enders called it "a great victory" that demonstrated "how Boeing continues to seek the benefits from this extensive illegal support, at the great expense of a level playing field in the world-wide aviation industry."

Boeing said Airbus and the EU had suffered "another resounding defeat" as the WTO said the EU had failed to prove there was harm caused by the majority of the support provided to Boeing. These included state benefits and research and development funding provided

by the Pentagon.

"The WTO again categorically rejected Europe's and Airbus's claims," said Michael Luttrell, Boeing's general counsel, echoing comments Friday from U.S. Trade Representative Robert Lighthizer.

Simon Lester, trade-policy analyst at the Washington-based Cato Institute, said the ruling will likely be appealed, though the process could be protracted with the panel backed up on numerous cases.

The decision follows a ruling last September when the WTO determined that the EU had failed to comply with a demand to remove subsidies or void their effect on Airbus.

Aircraft-subsidy battles can take years to work their way through the regulatory process. The U.S.-European spat goes back 40 years. The two sides settled a previous dispute over subsidies in 1992, but the U.S. walked away from that deal in 2004, arguing Airbus had an unfair advantage, and brought a case before the WTO. The EU soon after filed a tit-for-tat complaint.

The WTO in 2011 determined Boeing had benefited from state aid. The ruling was largely upheld a year later on appeal. In 2012, the U.S. said it had complied with the WTO's determination, which the EU challenged.

## THE HUMAN ELEMENT 勢在人为

**MOBILE**  
WORLD CONGRESS SHANGHAI  
世界移动大会·上海

28 JUN - 1 JUL 2017 • 2017年6月28日至7月1日

Mobile is a force - a phenomenon transforming our lives. As our world changes, it is mobile that keeps us connected and up to date. Mobile technology has completely changed how we communicate, interact, work and, of course, play.

Mobile itself has become fundamental. Elemental, even. But what drives Mobile?

### The Human Element.

Join the GSMA from 28 June to 1 July 2017 for Mobile World Congress Shanghai to see firsthand how mobile technology is transforming us and our world, every single day.

You won't want to miss it.

Register for your complimentary All Exhibition Pass now with the code:  
**FAPS3N9TTT**

PLATINUM EVENT PARTNERS

中国移动  
China Mobile

HUAWEI

GLOBAL PARTNER

MOBILE WORLD CAPITAL™  
BARCELONA

WWW.MWCSHANGHAI.COM

LEARN MORE ABOUT  
MWC SHANGHAI



JASON REED/REUTERS  
The World Trade Organization ruled that Boeing still benefits unfairly from government subsidies.



## FINANCE & MARKETS

# Glencore Bids for Rio Tinto Coal Mines

BY RAZAK MUSAH BABA  
AND MICHAEL AMON

LONDON—Glencore PLC on Friday offered over \$2.5 billion to buy a major piece of Rio Tinto PLC's Australian coal business, swooping in to disrupt an agreed-upon deal to sell the assets to a Chinese company.

The offer demonstrates the renewed appetite for deal-making by Glencore Chief Executive Ivan Glasenberg almost two years after the Switzerland-based commodity giant experienced a downward spiral in share price. Since the company's stock recovered, Mr. Glasenberg has engineered the purchase of a stake in Russian state oil company PAO Rosneft, taken full control of a Congolese mine and made a nearly \$10 billion offer to take over agricultural trader Bunge Ltd.

In Australia, Mr. Glasenberg is targeting Rio Tinto coal assets that the company has long coveted. And he is inserting himself into a deal already thought sealed by Rio Tinto, the British-Australian company. Mr. Glasenberg launched talks to buy in 2014.

Glencore said Friday its offer was \$100 million richer than the amount Rio Tinto agreed on in January with Yancoal Australia Ltd. for Coal & Allied Industries Ltd. Coal & Allied has significant operations in Australia's Hunter Valley, where Glencore also has a big coal business, offering the potential for two of the world's largest mining companies to marry operations and save money.

Glencore said its offer was already fully financed and could be considered by Rio Tinto under the terms of its deal with Yancoal, which hadn't obtained financing at the time the Rio deal was announced. Glencore's offer expires on June 26, a day before Rio Tinto has scheduled an extraordinary general meeting to vote on the deal with Yancoal.

**The offer disrupts an agreed-upon deal to sell the assets to China's Yancoal.**

Rio Tinto said Friday that it had received Glencore's proposal and would respond after giving it "appropriate consideration." Yancoal couldn't be reached.

The interest in Rio Tinto's coal assets comes amid a volatile period for the commodity, in this case, thermal coal, which is used to generate electricity.

Its price shot up in 2016 as demand from China heated up. The market has cooled this year, and analysts expect thermal-coal prices to remain subdued as countries switch to cleaner-burning fuels.

In all, the operations that Glencore wants to buy account for about 60% of Rio Tinto's coal production. The sale would rid Rio of nearly all of its thermal coal, though it still produces significant amounts of metallurgical coal, an ingredient in steel.

Glencore emphasized on Friday that it was conscious of the strain this deal could put on debt levels that Mr. Glasenberg scrambled to lower over the past two years.

If successful in buying Coal & Allied from Rio Tinto, Glencore said it would explore selling up to a 50% stake in the business and look to sell other coal assets so that its total financial commitment wouldn't exceed \$2 billion.

If Rio accepts the offer, Glencore said it would also buy out Japanese trader Mitsubishi's interest in Australian joint ventures for \$920 million.

Much of Coal & Allied's production goes to Japan, giving Glencore less exposure to Chinese demand fluctuations. Glencore said it had been given the green light by Japanese antitrust authorities.

INTELLIGENT INVESTOR | By Jason Zweig

# Adviser, Please Just Hold My Hand



With the U.S. Labor Department's fiduciary rule going into effect June 9, investors should recognize what financial advisers can, and can't, do.

The regulation requires anyone getting paid to provide investment guidance on a retirement account to act solely in the investor's best interest. But what that means and how to measure it are as murky as ever. Do financial advisers improve their clients' investment returns? If you think so, you may be paying your adviser for the wrong thing.

To be sure, individual investors can be their own worst enemies, flinging money at whichever assets have gone up the most and then bailing out at the bottom, locking in losses.

The performance of a mutual fund, exchange-traded fund or other financial asset is typically calculated as if you put all your money in at the beginning and kept it there, without adding or withdrawing anything, until the end of the measurement period.

But investors add and subtract money at will along the way—often at the worst possible times, when they are in the grip of greed or fear. Such buying high and selling low leads to what is often called the "behavior gap" between the performance of an investment and its investors.

That gap can only be estimated. However, by adjusting a fund's returns for the amount of money investors



says Roger Hobby, head of private wealth management at Fidelity Investments. With no adviser to stop them, perhaps they took excessive risk that happened to pay off this time.

Or take **Davis New York Venture Fund**, also sold through advisers. The Class A shares earned an average of 5% annually over the 10 years through May 31. The typical investor lost 0.1% annually.

That is largely because many abandoned the fund years after its 40% loss in 2008. The Class A shares, which had \$20.1 billion in assets at the end of 2010, had \$6.7 billion at the end of last month—even though the fund would have nearly doubled your money had you stuck around the entire time.

Shareholders remained more loyal than they did at many adviser-sold funds that had comparable performance, says Christopher Davis, chairman of Davis Advisors in New York, which manages New York Venture.

"Some investors did panic out," he says, "but probably in much lesser numbers than they otherwise would have if they didn't have an adviser."

Not all advisers chase performance, but too many still do. So you should hire an adviser not for his or her investing prowess, but to help organize your finances, prioritize your goals, minimize your taxes and navigate the shoals of retirement and estate planning. Done right, those services can make you far richer—and happier—than the pipe dream of investment outperformance is likely to be.

put in and took out along the way, researchers can at least approximate a number.

Investors in mutual funds, for example, earn average annual returns roughly 1 to 1.5 percentage points lower than those of their funds. Investors in hedge funds may trail those vehicles by up to 7 percentage points annually.

In theory, that is what a stockbroker or financial planner should prevent. "Advisers provide a human element that gives clients confidence and comfort in not deviating from a plan," says Dave Butler, co-chief executive of Dimensional Fund Advisors, a firm in Austin, Texas, whose funds aren't available to individual investors without an adviser.

Unfortunately, some advisers might not behave that way in practice.

Here's a tale of two funds. **Fidelity Select Biotechnology** is an \$8.6 billion portfolio that largely serves investors making their own decisions. It averaged a 14% return annually over the past 10 years. The fund's investors fell considerably behind, averaging 10.1% annually.

Investors who got professional advice appear to have done worse. **Fidelity Advisor Biotechnology Fund I**, a \$1 billion portfolio nearly identical to the Select fund, caters to financial advisers. Over the 10 years through May 31, it gained an average of 13.6% annually. But its typical investors

earned only 0.7% annually, estimates Morningstar, the research firm.

Here, it seems, so many advisers may have bought high and sold low that their clients made next to nothing. (All these numbers ignore any annual fees advisers may charge directly to clients.)

It's important to note that at most of Fidelity Advisor's biggest funds, investors did better than at sibling portfolios where individuals probably didn't use an adviser.

Unadvised investors might have earned higher returns at the Select biotech fund "because they didn't have the benefit of understanding the extra risk that can be associated with this kind of fund,"

# A Quest to Lower Fees on Retirement Plans

By ANNE TERGESSEN

When Jerome Schlichter started filing 401(k)-fee lawsuits against big companies a decade ago, the personal-injury lawyer from St. Louis wasn't taken seriously.

"We had heard that a lawyer who did railroad-injury cases was advertising for participants to sign up for litigation," said James Fleckner, an attorney who defends companies in Boston. "We were unsure what to make of it."

Companies now are so worried about suits alleging mismanagement of these U.S. retirement plans that 401(k) industry consultants have coined a term for the threat: "getting Schlichterized."

Mr. Schlichter's firm, **Schlichter Bogard & Denton LLP**, has secured \$334 million in settlements for clients since 2010. Two years ago, it won a case before the Supreme Court, which ruled that employers with 401(k) plans have a continuing duty to monitor the investments they choose.

Mr. Schlichter, 68 years old, said retirement plans previously didn't receive watchdog treatment from regulators or anyone else. "Nobody's bonus depended on how the 401(k) plan was managed," he said.

Last year, law firms filed more than 25 fee cases against



Attorney Jerome Schlichter said he made a 'bet-the-firm' decision on retirement-plan litigation.

401(k)-type plans, according to Groom Law Group in Washington. That includes 14 from Mr. Schlichter's firm. The complaints allege, in part, that the plans failed to bargain for lower fees.

Consumer advocates say the litigation has saved 401(k) participants nationwide billions of dollars by helping to push down 401(k) fees, which declined 17% from 2009 to 2014, according to information provider BrightScope Inc.

Critics contend that the fear of litigation is encouraging employers to focus on fees at the expense of service and innovation. They say the settlements have significantly benefited Mr. Schlichter. His firm received about \$90 million since 2010, while the more than one million 401(k) participants covered by the settlements have received an average of \$283 each, according to Mr. Schlichter.

Mr. Schlichter counters that

his fees cover more than 10 years of work related to the cases and that his clients stand to gain much more in the long run, thanks to the resulting changes.

The son of an airplane mechanic, Mr. Schlichter focused on 401(k) plans after a 2005 meeting with a union official at a unit of **Boeing Co.** in St. Louis.

The workers were worried about their retirements, Mr. Schlichter said. "They didn't un-

derstand how the 401(k) plan worked," he said. "I decided to take a deep dive—not just into Boeing's plan but into the whole 401(k) industry."

At the time, the firm had no expertise in the federal law that governed 401(k) plans. It hired four lawyers who spent 18 months reading plan disclosures and seeking information from experts.

Mr. Schlichter found a study from the Labor Department, which regulates the plans, that he said pointed out jumbo plans can get fees for one-quarter the cost of retail mutual funds. "We saw billion-dollar-plus plans paying retail fees that an investor" with a \$500 account had to pay, he said.

In 2006, the firm filed a dozen lawsuits against the 401(k) plans of companies including Lockheed Martin Corp. and Boeing. The companies, which declined to comment, didn't admit to wrongdoing.

Because his firm is paid only when it wins or settles cases, it could take years—if ever—to see a payoff. To pay salaries and experts' fees in the early years, the firm used its profits and a line of credit.

In 2006, Mr. Schlichter mortgaged his family's home in St. Louis for millions of dollars.

"We made a 'bet the firm' decision," he said.

## FINANCE WATCH

### INITIAL PUBLIC OFFERINGS

#### China Turns Down More Applicants

China's securities watchdog, which vowed to prevent fraudulent stock listings, is rejecting a far larger portion of initial public offerings this year.

As of May 19, the China Securities Regulatory Commission had allowed 188 companies to go public and turned away 69, data released Friday by the regulator show. That is an approval rate of 73%, down from 92% in 2016 and 91% in 2015. In the first five months of last year, the CSRC terminated IPO reviews of 17 applicants.

The main reasons for rejection are suspected accounting irregularities, abnormal operations and illicit transactions with affiliates, according to the CSRC. The agency said it will step up its focus on applicants suspected of dressing up their balance sheets through short-term cost-cutting measures, such as temporary staff reductions.

The regulator approved just four IPOs in the week ended June 2, down from seven to 10 in recent weeks. Investors widely interpreted this as an effort to bolster confidence and calm the market. The benchmark Shanghai Composite Index has fallen 4% since mid-April.

—Yifan Xie

### MYOMO

#### U.S. Firm Completes A Shortcut IPO

Medical-robotics maker **Myomo Inc.** has completed its initial public offering, taking it a step closer to becoming the first company to list on a major U.S. exchange through a little-used provision of federal law known as Reg A+.

The Cambridge, Mass.-based company, which makes orthotic devices, raised approximately \$8 million in its offering, according to its underwriter, TriPoint Global Equities.

Myomo used a provision of the Jumpstart Our Business

Startup Act, which was designed to help fund small-business growth. The Reg A+ provision allows companies to raise up to \$50 million by pitching their IPOs to all investors—not just those with a certain net worth or income—in shortcut deals that require less paperwork than a traditional IPO.

Myomo's IPO is an encouraging sign for small companies trying to go public via Reg A+. But the amount Myomo raised fell short of the \$15 million it targeted when it launched its offering, highlighting the challenges these small companies face in raising money in public markets.

So far only one company, Elio Motors Inc., has listed shares via Reg A+. Its shares are traded on the top tier of the OTC Markets Group, an over-the-counter marketplace.

Myomo received approval to list on the NYSE MKT, the New York Stock Exchange's small-cap market. Its common stock is set to begin trading on Monday under the symbol "MYO," according to NYSE.

—Corrie Driebusch

### ADVERTISEMENT

## Legal Notices

### BANKRUPTCIES

#### UNITED STATES BANKRUPTCY COURT, SOUTHERN DISTRICT OF NEW YORK

In re U.S. STEEL CANADA INC. : Chapter 15  
Debtors in a foreign proceeding : Case No. 17-11519 (MG)

NOTICE OF FILING AND HEARING ON PETITION UNDER CHAPTER 15 OF THE BANKRUPTCY CODE  
PLEASE TAKE NOTICE that on June 2, 2017, U.S. Steel Canada Inc., as the authorized foreign representative ("the Foreign Representative") of the above-captioned debtor (the "Debtor"), which is the subject of a proceeding under the Companies' Creditors Arrangement Act currently pending in the Ontario Superior Court of Justice in Ontario, Canada (the "CCAA Proceedings"), filed a verified petition (the "Petition") with the United States Bankruptcy Court for the Southern District of New York (the "Court").

PLEASE TAKE FURTHER NOTICE that, among other things, the Verified Petition requests entry of an order recognizing the CCAA Proceedings as a foreign main proceeding pursuant to section 1517 of title 11 of the United States Code (the "Bankruptcy Code"), granting related relief pursuant to section 1520 of the Bankruptcy Code, and granting certain additional relief pursuant to sections 1507 and 1521 of the Bankruptcy Code.

PLEASE TAKE FURTHER NOTICE that the Court has scheduled a hearing to consider the relief requested in the Verified Petition (the "Recognition Hearing") at 4 p.m. (Prevailing Eastern Time) on June 29, 2017. The Recognition Hearing will be held before the Honorable Martin Glenn in Room 102 of the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, NY 10004-1400.

PLEASE TAKE FURTHER NOTICE that any objection to the Verified Petition must be made in writing to the Foreign Representative at the address set forth above.

PLEASE TAKE FURTHER NOTICE that any party in interest objecting to the Verified Petition or the relief requested therein must appear at the Recognition Hearing at the time and place set forth above.

PLEASE TAKE FURTHER NOTICE that the Recognition Hearing may be adjourned form time to time without further notice other than an announcement in open court or a notice of adjournment filed with the Clerk.

PLEASE TAKE FURTHER NOTICE that, at the Recognition Hearing, the Court may order the scheduling of a case management conference to consider the efficient administration of this chapter 15 case.

PLEASE TAKE FURTHER NOTICE of the Court's intention to communicate with a foreign court or the Foreign Representative.

PLEASE TAKE FURTHER NOTICE that copies of the Verified Petition and all other documents filed in this case can be accessed from the Court's website, <http://ecf.nysb.uscourts.gov> (a PACER login and password are required to retrieve documents) or by written request to the Foreign Representative's undersigned counsel.

Dated: June 2, 2017, New York, New York. /s/ Robert J. Lemons, WEIL, GOTSHAL & MANGES LLP, 767 Fifth Avenue, New York, New York 10153, Telephone: (212) 310-8000, Facsimile: (212) 310-8007, Marcia Goldstein, Robert J. Lemons, Counsel to the Foreign Representative

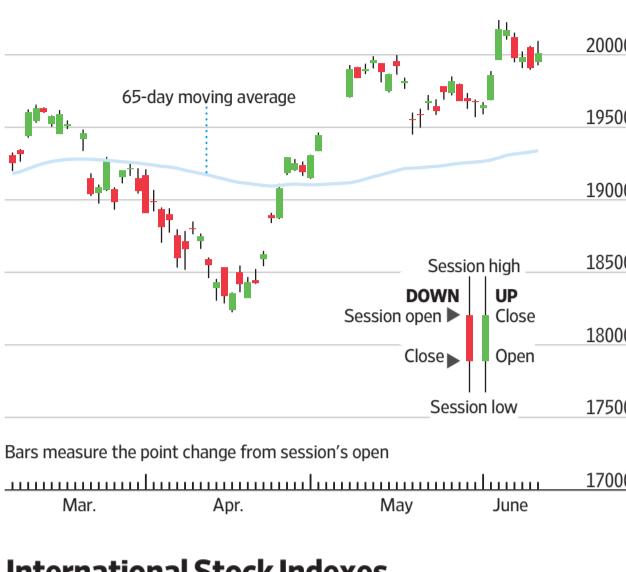
## MARKETS DIGEST

Data as of Friday, June 9, 2017

### Nikkei 225 Index

**20013.26**  104.00, or 0.52%

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

### STOXX 600 Index

**390.39**  1.24, or 0.32%

High, low, open and close for each trading day of the past three months.



Mar. Apr. May June

### S&P 500 Index

4 p.m. New York time

Last  2.02, or 0.08%

High, low, open and close for each

trading day of the past three months.

Trailing P/E ratio 24.15 24.29

P/E estimate \* 18.97 17.92

Dividend yield 1.95 2.16

All-time high: 2439.07, 06/02/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



Mar. Apr. May June

### International Stock Indexes

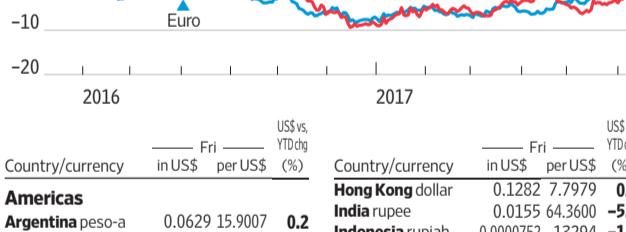
Data as of 4 p.m. New York time

| Region/Country      | Index                         | Close           | NetChg         | % chg         | 52-Week Range | Low        | Close | High | YTD % chg |
|---------------------|-------------------------------|-----------------|----------------|---------------|---------------|------------|-------|------|-----------|
| <b>World</b>        | <b>The Global Dow</b>         | <b>2781.39</b>  | <b>6.10</b>    | <b>0.22</b>   | 2197.91       | ● 2790.26  | 9.9   |      |           |
|                     | <b>MSCI EAFE</b>              | <b>1892.97</b>  | <b>-1.52</b>   | <b>-0.08</b>  | 1520.94       | ● 1916.37  | 12.4  |      |           |
|                     | <b>MSCI EM USD</b>            | <b>1018.19</b>  | <b>-0.87</b>   | <b>-0.09</b>  | 794.56        | ● 1019.06  | 18.1  |      |           |
| <b>Americas</b>     | <b>DJ Americas</b>            | <b>583.79</b>   | <b>-0.18</b>   | <b>-0.03</b>  | 480.83        | ● 585.14   | 8.0   |      |           |
| Brazil              | <b>Sao Paulo Bovespa</b>      | <b>62210.56</b> | <b>-545.01</b> | <b>-0.87</b>  | 48648.29      | ● 69052.03 | 3.3   |      |           |
| Canada              | <b>S&amp;P/TSX Comp</b>       | <b>15473.21</b> | <b>50.12</b>   | <b>0.32</b>   | 13689.79      | ● 15922.37 | 1.2   |      |           |
| Mexico              | <b>IPC All-Share</b>          | <b>49081.73</b> | <b>-5.73</b>   | <b>-0.01</b>  | 44282.03      | ● 49939.47 | 7.5   |      |           |
| Chile               | <b>Santiago IPSA</b>          | <b>3683.86</b>  | <b>-10.14</b>  | <b>-0.27</b>  | 3067.58       | ● 3782.66  | 14.3  |      |           |
| <b>U.S.</b>         | <b>DJIA</b>                   | <b>21271.97</b> | <b>89.44</b>   | <b>0.42</b>   | 17140.24      | ● 21271.97 | 7.6   |      |           |
|                     | <b>Nasdaq Composite</b>       | <b>6207.92</b>  | <b>-113.85</b> | <b>-1.80</b>  | 4594.44       | ● 6321.76  | 15.3  |      |           |
|                     | <b>S&amp;P 500</b>            | <b>2431.77</b>  | <b>-2.02</b>   | <b>-0.08</b>  | 2000.54       | ● 2439.07  | 8.6   |      |           |
|                     | <b>CBOE Volatility</b>        | <b>10.70</b>    | <b>0.54</b>    | <b>5.31</b>   | 9.75          | ● 25.76    | -23.8 |      |           |
| <b>EMEA</b>         | <b>Stoxx Europe 600</b>       | <b>390.39</b>   | <b>1.24</b>    | <b>0.32</b>   | 308.75        | ● 396.45   | 8.0   |      |           |
|                     | <b>Stoxx Europe 50</b>        | <b>3210.07</b>  | <b>10.94</b>   | <b>0.34</b>   | 2636.71       | ● 3276.11  | 6.6   |      |           |
| France              | <b>CAC 40</b>                 | <b>5299.71</b>  | <b>35.47</b>   | <b>0.67</b>   | 3984.72       | ● 5342.40  | 9.0   |      |           |
| Germany             | <b>DAX</b>                    | <b>12815.72</b> | <b>102.14</b>  | <b>0.80</b>   | 9268.66       | ● 12822.94 | 11.6  |      |           |
| Israel              | <b>Tel Aviv</b>               | <b>1425.70</b>  | ...            | <b>Closed</b> | 1378.66       | ● 1478.96  | -3.1  |      |           |
| Italy               | <b>FTSE MIB</b>               | <b>21122.42</b> | <b>80.01</b>   | <b>0.38</b>   | 15103.58      | ● 21787.90 | 9.8   |      |           |
| Netherlands         | <b>AEX</b>                    | <b>527.30</b>   | <b>3.75</b>    | <b>0.72</b>   | 411.62        | ● 536.26   | 9.1   |      |           |
| Russia              | <b>RTS Index</b>              | <b>1041.49</b>  | <b>2.99</b>    | <b>0.29</b>   | 888.78        | ● 1195.61  | -9.6  |      |           |
| Spain               | <b>IBEX 35</b>                | <b>10978.30</b> | <b>25.20</b>   | <b>0.23</b>   | 7645.50       | ● 11135.40 | 17.4  |      |           |
| Switzerland         | <b>Swiss Market</b>           | <b>8845.85</b>  | <b>34.23</b>   | <b>0.39</b>   | 7593.20       | ● 9127.61  | 7.6   |      |           |
| South Africa        | <b>Johannesburg All Share</b> | <b>52216.93</b> | <b>258.41</b>  | <b>0.50</b>   | 48935.90      | ● 54548.91 | 3.1   |      |           |
| Turkey              | <b>BIST 100</b>               | <b>98942.87</b> | <b>965.33</b>  | <b>0.99</b>   | 71594.98      | ● 98942.87 | 26.6  |      |           |
| U.K.                | <b>FTSE 100</b>               | <b>7527.33</b>  | <b>77.35</b>   | <b>1.04</b>   | 5923.53       | ● 7547.63  | 5.4   |      |           |
| <b>Asia-Pacific</b> | <b>DJ Asia-Pacific TSM</b>    | <b>1628.16</b>  | <b>-3.86</b>   | <b>-0.24</b>  | 1324.15       | ● 1635.64  | 14.4  |      |           |
| Australia           | <b>S&amp;P/ASX 200</b>        | <b>5677.80</b>  | <b>1.20</b>    | <b>0.02</b>   | 5103.30       | ● 5956.50  | 0.2   |      |           |
| China               | <b>Shanghai Composite</b>     | <b>3158.40</b>  | <b>8.07</b>    | <b>0.26</b>   | 2833.07       | ● 3288.97  | 1.8   |      |           |
| Hong Kong           | <b>Hang Seng</b>              | <b>26030.29</b> | <b>-32.77</b>  | <b>-0.13</b>  | 20038.42      | ● 26063.06 | 18.3  |      |           |
| India               | <b>S&amp;P BSE Sensex</b>     | <b>31262.06</b> | <b>48.70</b>   | <b>0.16</b>   | 25765.14      | ● 31309.49 | 17.4  |      |           |
| Indonesia           | <b>Jakarta Composite</b>      | <b>5675.52</b>  | <b>-27.40</b>  | <b>-0.48</b>  | 4807.23       | ● 5791.88  | 7.2   |      |           |
| Japan               | <b>Nikkei Stock Avg</b>       | <b>20013.26</b> | <b>104.00</b>  | <b>0.52</b>   | 14952.02      | ● 20177.28 | 4.7   |      |           |
| Malaysia            | <b>Kuala Lumpur Composite</b> | <b>1788.89</b>  | <b>3.32</b>    | <b>0.19</b>   | 1614.90       | ● 1791.01  | 9.0   |      |           |
| New Zealand         | <b>S&amp;P/NZX 50</b>         | <b>7436.10</b>  | <b>-22.56</b>  | <b>-0.30</b>  | 6664.21       | ● 7571.11  | 8.1   |      |           |
| Pakistan            | <b>KSE 100</b>                | <b>49526.92</b> | <b>-431.41</b> | <b>-0.86</b>  | 36940.88      | ● 52876.46 | 3.6   |      |           |
| Philippines         | <b>PSEI</b>                   | <b>7990.24</b>  | <b>31.61</b>   | <b>0.40</b>   | 6563.67       | ● 8102.30  | 16.8  |      |           |
| Singapore           | <b>Straits Times</b>          | <b>3254.19</b>  | <b>17.14</b>   | <b>0.53</b>   | 2729.85       | ● 3271.11  | 13.0  |      |           |
| South Korea         | <b>Kospi</b>                  | <b>2381.69</b>  | <b>18.12</b>   | <b>0.77</b>   | 1925.24       | ● 2381.69  | 17.5  |      |           |
| Taiwan              | <b>Weighted</b>               | <b>10199.65</b> | <b>-26.13</b>  | <b>-0.26</b>  | 8458.87       | ● 10226.84 | 10.2  |      |           |
| Thailand            | <b>SET</b>                    | <b>1566.65</b>  | <b>-3.63</b>   | <b>-0.23</b>  | 1406.18       | ● 1591.00  | 1.5   |      |           |

Source: SIX Financial Information; WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



US\$ vs. Yen Euro WSJ Dollar index



US\$ vs. Argentina peso-a Brazil real Canada dollar Chile peso Colombia peso Ecuador US dollar-f Mexico peso-a Peru so'l Uruguay peso-e Venezuela bolivar Australia dollar China yuan

London close on June 9

| Country/currency    | Fri      | YTD chg (%)  |
|---------------------|----------|--|
| Country/currency    | In US\$  | per US\$ (%)   |
| <b>Europe</b>       |          |  |
| Bulgaria leva       | 0.5717   | 1.7491  |
| Croatia kuna        | 0.1511   | 6.620   |
| Euro zone euro      | 1.1195   | 0.8933  |
| Czech Rep. koruna-b | 0.0427   | 23.407  |
| Denmark krone       | 0.1505   | 6.6441  |
| Hungary forint      | 0.003638 | 274.89  |
| Iceland krona       | 0.010121 | 98.80   |
| Norway krone        | 0.1177   | 8.4930  |
| Poland zloty        | 0.2676   | 3.7369  |

## FINANCE & MARKETS

# Faith in Oil-Market Recovery Is Waning

Some investors begin to doubt OPEC cuts can move crude prices meaningfully higher

BY ALISON SIDER  
AND TIMOTHY PUZO

Crude-oil prices have declined almost 9% in the past three weeks, moving decisively below \$50 a barrel and forcing investors to reassess whether supply and demand will reach a more balanced state that can support higher prices.

Earlier this year, analysts and traders had projected cutbacks from global exporters would clean up a supply glut and raise prices. Their confidence held up for the first months of 2017, when oil was comfortably ensconced in a range between \$50 and \$55 a barrel.

But crude prices have fallen 15% since the start of the year as U.S. producers rushed to fill the gap left by the Organization of the Petroleum Exporting Countries. Major sell-offs have become almost routine—with four one-day drops of more than 4.5% since March.

U.S. crude prices rose 19 cents a barrel on Friday but dropped 3.8%, or \$1.83, for the week, settling at \$45.83 a barrel.

Coming into the year, "we had a strong view that prices

were going to rally," said Ebene Kemery, head of energy investing at **J.P. Morgan Asset Management**. But around March, she said, her view started to shift. U.S. producers were ramping up more quickly than anyone expected. Expectations for strong demand growth were dimming. The bloated storage levels that OPEC aimed to drain remained full.

Now, Ms. Kemery expects prices to be even lower in 2018 than today unless OPEC takes more drastic action.

OPEC and other major producers, including Russia, announced last month that they would continue their output cut of 1.8 million barrels a day through the first quarter of next year. Prices dropped sharply that day and have only continued to slide, reflecting disappointment among investors who had hoped that the group would agree to even deeper cuts or would articulate a strategy on ending cuts next year that would avoid flooding the market again.

Without those assurances, investors have become increasingly jittery, heading for the exits at any sign that global stockpiles aren't shrinking. U.S. crude prices have languished below \$50 since.

When government data showed last week that the amount of oil in U.S. storage tanks increased for the first time in nine weeks, crude



Crude prices have fallen 15% since the start of the year. Above, offshore drilling units in the U.K.

prices fell more than 5% Wednesday.

"People are starting to doubt it now. They look at the cuts and say, 'Who cares?'" said Ernest Scalabandre, managing member at **AC Investment Management LLC**, which manages about \$750 million in assets, primarily investments in commodity hedge funds.

Furthermore, U.S. production has come back more quickly than many anticipated. The number of rigs punching

new wells in U.S. oil fields has climbed for 21 straight weeks. Some analysts now predict that U.S. output will end the year as much as 1 million barrels a day higher. That is a stark change from late last year when banks such as Bank of America Merrill Lynch were expecting U.S. output to rise more modestly, by some 660,000 barrels a day by the fourth quarter.

Some were expecting that shale-oil producers would be constrained by rising costs,

such as hiring back workers who were laid off and expenses tied to repairing neglected equipment. Meanwhile, such companies as **Halliburton Co.** and **Schlumberger Ltd.** that do the work of drilling and fracking wells slashed prices in the two-year downturn and have been looking for opportunities to raise them.

Some say that the market has become irrationally negative. They say that investors are ignoring signs that the glut is eroding—pointing to eight

straight weeks of declining stockpiles prior to the surprise increase reported this past week. If oil prices do drop significantly below \$45, even the most resilient U.S. producers could struggle to be profitable.

"It might just be a knee-jerk reaction," said John Groton, director of equity research at Thrivent Financial. "We've got a view on where marginal costs need to go and where OPEC countries need prices to be. That number does not start with a 4."

Even with prices down this year, U.S. oil producers appear committed to the growth they budgeted for going into the year, said Scott Hanold, an analyst at RBC Capital Markets.

Executives at the bank's energy conference in New York last week said they had locked in high enough prices for their output in the futures market, and that their balance sheets were healthy enough to weather U.S. oil prices between \$45 and \$50, Mr. Hanold said.

That isn't a happy story for investors. Energy companies are the S&P 500's worst performers this year. Shares are down 12.3% in 2017, one of only two sectors in the red while the broader index has gained 8.6%. Telecommunications companies are down 9.45% this year.

"Sentiment is now to the point where it seems like many are ready to give up," Mr. Hanold said.

## Qatar Renews Commitment to OPEC Oil-Cut Plan

BY SUMMER SAID

Qatar's energy minister said Sunday the country remains committed to limiting its oil output through March 2018 under an agreement with other big oil producers, despite the severing of its diplomatic relations with OPEC allies Saudi Arabia and the United Arab Emirates.

"Circumstances in the region shall not prevent the

state of Qatar from honoring its international commitment of cutting its oil production," Mohammed al-Sada said in an emailed statement.

It comes after Saudi Arabia, the U.A.E., Egypt and Bahrain moved to sever ties with Qatar over accusations that the tiny Persian Gulf country has financed and harbored extremists. Qatar has denied the allegations.

Qatar, Saudi Arabia and the

U.A.E. are neighbors and usually form an alliance within the Organization of the Petroleum Exporting Countries, the 14-nation cartel that controls about 40% of the world's crude-oil output.

Qatar is a small oil producer, accounting for around 2% of OPEC's output, or 618,000 barrels a day. But its rift with its OPEC allies has renewed worries that the cartel won't act together and cut

enough oil supply to give prices a boost.

Oil prices have fallen almost 10% since OPEC renewed its supply-cutting agreement with Russia and other non-OPEC producers last month, with U.S. prices falling to less than \$46 a barrel and Brent, the international benchmark, slipping to about \$48 a barrel.

Oil markets also have been under pressure in part because Nigeria and Libya, which are

exempt from the output cuts, were boosting production.

OPEC delegates have said that the political dispute is unlikely to weaken the supply deal.

OPEC has previously managed to keep its production policies implemented even as its members fought wars through the organization's 57-year history, including the conflict between Iran and Iraq in the 1980s and Saddam Hus-

sein's invasion of Kuwait in 1990.

Qatar has played an important role in brokering oil deals among OPEC members in the past.

Mr. Sada was instrumental last year in making a production deal with Iran that wouldn't compromise the ability of Saudi Arabia and Gulf producers to fight for oil-market share, people familiar with the matter have said.

TECH'S  
MOST  
AMBITIOUS  
MINDS,  
ON STAGE  
AND  
ON THE  
RECORD

THE WALL STREET JOURNAL.  
**D.LIVE**  
LAGUNA

The Montage, Laguna Beach, CA  
October 16-18, 2017

### 2017 SPEAKERS INCLUDE:

**SAM ALTMAN**

President, Y Combinator

**CHIP BERGH**

President and CEO, Levi Strauss & Co.

**BETH COMSTOCK**

Vice Chair, GE

**JULIET DE BAUBIGNY**

Senior Partner, Kleiner Perkins

**KHANYI DHLOMO**

Founder and CEO, Ndalo Media

**BARRY DILLER**

Chairman, IAC

**DAVID EUN**

President, Samsung NEXT

**JEFFREY KATZENBERG**

Partner, WndrCo

**MARISSA MAYER**

President and CEO, Yahoo!

**JENNIFER NASON**

Global Chairman, Investment Banking, J.P. Morgan

**JONAH PERETTI**

Founder and CEO, BuzzFeed

**EDUARDO SAVERIN**

Co-Founder and Partner, B Capital Group

REQUEST YOUR INVITATION:

[DLIVE.WSJ.COM](http://DLIVE.WSJ.COM)

Proudly supported by:

**EPSON**  
EXCEED YOUR VISION

**NETJETS**

**ULYSSE NARDIN**  
SINCE 1846 LE LOCLE - SUISSE

© 2017 Dow Jones & Co., Inc. All rights reserved. 6DJ5598

# MARKETS

## Want to Eat Lunch With Buffett? Bid \$2.7 Million

BY NICOLE FRIEDMAN

An anonymous fan bid \$2,679,001 in a charity auction to have lunch with billionaire investor Warren Buffett, down from last year's winning bid of \$3,456,789.

Now in its 18th year, the annual auction for lunch with the **Berkshire Hathaway** Inc. chairman has raised more than \$25 million in total for San Francisco charity Glide, a favorite cause of Mr. Buffett's first wife, Susie Buffett. Glide offers free meals, health care and other services to homeless and low-income people in San Francisco.

The winner can invite up to seven friends for lunch with Mr. Buffett at steakhouse Smith & Wollensky in New York. Last year's lunch also went to an anonymous bidder. This year's auction opened on eBay with a bid of \$25,000.

The winning price has held above \$1 million since 2008. The auction moved online in 2003, allowing international fans of Mr. Buffett to participate. Past winners include a Chinese online gaming company and a Singaporean man named Andy Chua.

Ted Weschler won twice when he was a hedge-fund manager, paying more than \$2 million each time. Mr. Weschler was later hired by Mr. Buffett to help run Berkshire's investments. He and Berkshire's other portfolio manager, Todd Combs, are expected to take over all of Berkshire's stock investments after Mr. Buffett steps down.

For the first time this year, donors could also give smaller amounts of money—as little as \$10—to Glide to be eligible to win a trip to San Francisco to visit the charity and attend its gala.

## 'Flash Boys' Heroes Lack Traction

BY ALEXANDER OSIPOVICH

In September, **IEX Group** Inc. threw a party at Manhattan's Bowery Hotel to celebrate becoming a full-fledged stock exchange.

The party had guests from high-speed trading firms such as Citadel Securities LLC, **Global Trading Systems** LLC, **IMC Financial Markets** and **KCG Holdings** Inc., people familiar with the situation said. They came even though IEX vaulted to fame by crusading against ultrafast traders who use computers to exploit slower investors.

IEX could use their help. Nearly a year after winning approval to become an exchange, it is struggling to become more than a niche player.

Made famous by Michael Lewis's 2014 book "Flash Boys," IEX hasn't made a dent in the businesses of the New York Stock Exchange, Nasdaq Inc. and Bats, each of which handles roughly one-fifth of U.S. equities volume. In May, it had a market share of 2.2%.

IEX becoming an exchange "has largely been a non-event," said Bryan Harkins, head of U.S. equities and global FX at CBOE Holdings Inc., which owns Bats.

When IEX raised funds three years ago, it told backers it planned to reach more than 8% market share by 2017. That estimate was based on winning exchange approval in 2015, said an IEX spokesman, who declined to provide updated targets. IEX didn't get approved until June 2016 because opposition from other exchanges and trading firms dragged out the process.

Since then, it has fought to gain traction against entrenched practices and powerful incumbents.

Its representatives have also visited major high-speed trading firms to get them to trade more on IEX. Rob Salman, an IEX salesman, met with Citadel Securities as recently as Fri-



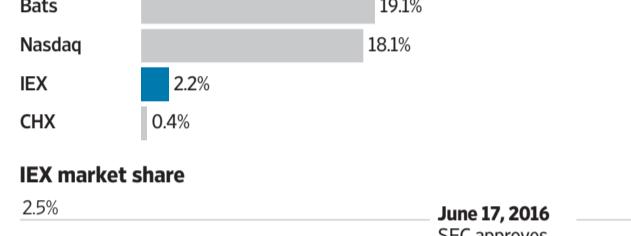
CHRIS GOODNEY/BLOOMBERG NEWS

Brad Katsuyama's IEX is struggling to be more than a niche player.

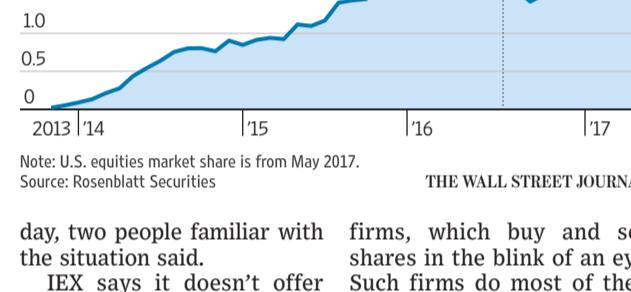
### Growing Pains

Three years ago, IEX projected having more than 8% market share by 2017. Now at 2.2%, it calls the earlier estimate outdated.

#### U.S. equities market share



#### IEX market share



day, two people familiar with the situation said.

IEX says it doesn't offer special perks to high-frequency trading, or HFT, firms. "We are fair access, and willing to meet with all of our members," a spokesman said.

Around half of U.S. equities volume comes from HFT

firms, which buy and sell shares in the blink of an eye. Such firms do most of their trading on the major exchanges, which offer incentives to brokers and high-volume traders.

IEX calls itself the best exchange for investors, citing data showing that trades on

IEX have less impact on prices than at other exchanges. Other exchanges don't dispute the numbers but say IEX's analysis misses a key point of what an exchange does: providing public data on stock prices.

Before becoming an exchange last year, IEX was a dark pool, where orders to buy and sell stocks aren't publicly broadcast. Today, about one-quarter of IEX's volume is displayed. That means the best posted price for a stock is more likely to be found elsewhere.

In April, IEX's quotes for the most heavily traded stocks matched or beat other exchanges' prices 31% of the time, according to an analysis by advisory firm ViableMkts LLC and data provider MayStreet LLC. By comparison, Nasdaq's flagship exchange displayed the best price 89% of the time and NYSE's Arca exchange had it 78% of the time.

IEX argues it shouldn't be judged by its displayed prices. It says it is more important to offer quality executions to long-term investors, a core group that IEX says other exchanges have forgotten.

One of the biggest factors limiting IEX's market share is its refusal to pay rebates—the incentives other exchanges pay for orders.

NYSE, Nasdaq and Bats paid more than \$2 billion last year in rebates, according to company filings. Defenders of the practice say it results in more competitive pricing. IEX says it encourages brokers to send orders to the exchange that pays the biggest rebate, rather than the one that is optimal for the customer.

"We're unwilling to pay kickbacks," IEX Chief Executive Officer Brad Katsuyama said.

But that makes it tough to boost volumes. "They're in a bit of a dilemma because they've made not paying rebates a religious issue," said

Jamil Nazarali, senior adviser to the CEO of Citadel Securities, which opposed IEX's exchange application.

IEX, whose backers include venture-capital firm Spark Capital and buy-side firms such as the Capital Group and Brandes Investment Partners, is exploring other ways to grow. One of those is a big bet on corporate listings. If the plan wins approval, companies listed on NYSE or Nasdaq could switch to IEX as early as October.

That would lift IEX's volumes, because the exchange that lists a stock runs its daily opening and closing auctions, which account for a significant chunk of trading. Listing fees also brought more than half a billion dollars last year in revenues to NYSE's parent company, Intercontinental Exchange Inc., and Nasdaq.

At least 10 companies, including some members of the S&P 500, have expressed interest in switching to IEX, The Wall Street Journal reported in November.

Still, IEX faces an uphill battle. "It's a real challenge to build a successful listing operation," said Eric Noll, former CEO of brokerage ConvergeX and a member of an IEX outside advisory committee. "It's not going to happen overnight."

And competition is heating up. Rivals have borrowed IEX's ideas, including its best-known feature: the "speed bump," a delay of 350 microseconds imposed on each incoming trade. The delay ensures there isn't a better price on another exchange. In July, NYSE plans to introduce its own 350-microsecond speed bump to the smallest of its equities exchanges. Mr. Katsuyama dismisses the copycat threat, saying it is a "distraction" from other NYSE practices that harm investors.

This month Bats also introduced an IEX-style pricing model on one of its exchanges.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: [heard@wsj.com](mailto:heard@wsj.com)

## As Politics Boil, Markets Are in Dreamland

### Different Worlds

Performance of developed- and emerging-market stocks



Financial markets are in

fairy-tale land. Surprises like the U.K. election, the victory of President Donald Trump and Brexit show a deep unease with economic conditions. Yet easy money, relatively steady global growth and low inflation have encouraged talk of Goldilocks.

"Goldilocks has not left us yet" was how J.P. Morgan strategists summed it up recently. They aren't alone: Analysts and economists at **Société Générale**, **ING** and

**Citigroup** also have rolled out the markets' favorite fairy-tale character. Growth isn't too hot, not too cold,

and performance has been buoyant. Global stocks are up, with the MSCI World index gaining nearly 10% this year.

Low inflation means bonds are supported too. Credit markets are strong, and U.S. high-yield bonds have returned 5%. Emerging-market stocks, bonds and currencies have gained.

The metaphor bears examining closely. As a reading

of a globally coordinated upturn in growth, coupled with the large amount of liquidity from central banks, and minimal wage and inflation pressures, it might not be a stretch.

But the political shocks of the past two years, particularly in the U.S. and U.K., suggest that outside financial markets, it is a different story. People are fed up with the status quo. One key com-

ponent of the Goldilocks situation is the absence of a pickup in wage inflation, which means central banks can keep policy loose. But continued poor real-wage growth may also stoke more political turmoil at the ballot box. That increases the risk of electoral shocks that investors may not welcome.

The U.K. is a case in point. The Bank of England's chief economist, Andy Haldane,

last year gave a speech asking who had benefited from the recovery, noting that despite data pointing to growth, half of all U.K. households had seen no expansion in real disposable incomes since 2005. The latest rise in U.K. inflation pushed real-wage growth back below zero just in time for voting. Central bankers around the world are puzzling over the apparent fail-

ure of wage formation to respond to falling unemployment, whether in the U.S., Germany, the U.K. or Japan. Yet their easy-money policies also have helped deliver extraordinary returns in financial markets.

And those past returns may yet cause an issue with the part of the Goldilocks metaphor that doesn't get mentioned: the porridge. While nutritious, it is hardly particularly appetizing. And the starting point for financial markets is similar, because bond yields are ultralow, credit spreads are very tight and developed-market equities are far from cheap. Future return prospects are thus skinny, although emerging markets offer a brighter outlook. That helps explain why an apparently benign situation feels uncomfortable. Even as markets rise, there are few easy trades.

Goldilocks might stick around for a while, but fairy tales don't have to have happy endings.

—Richard Barley

## Shale Firms Only Became Stronger

Three years after the start of the "sheikhs vs. shale" oil battle, the upstart U.S. shale producers were supposed to have been crushed by low prices. The gambit backfired.

Starting in 2014, the big Middle East oil exporters such as Saudi Arabia allowed oil prices to fall in the hope they could permanently eliminate supply and ultimately boost prices. The decline put high-cost shale producers in a lot of pain, but ultimately the pressure helped them boost their productivity. That is the worst-case scenario for the big exporters.

When prices began to drop, the Midland Basin, part of the prolific Permian Basin, was one of the most expensive shale plays at \$77 a barrel, according to BTU Analytics—meaning it was profitable at the prices of more than \$100 a barrel that prevailed then. By January 2017, though, the break-even had dropped significantly to around \$50.

In the three most prolific shale plays, the Permian, Bakken and Powder River basins, the Oxford Institute for Energy Studies estimated last year that the "estimated ultimate recovery factors," the barrels of crude equivalent that could be pulled from each well, had grown by 41% since 2014 when measured over the first 12 months of a well's life and by 22% over five years.

While the recent decline in crude prices to nearly multimonth lows is costlier to the bottom lines of still-high-cost shale producers than to the Saudis, the productivity genie can't be put back into the bottle. It has put a permanent dent in long-term oil prices, costing traditional exporters tens of billions of dollars in future revenue.

—Spencer Jakab

## Beijing Finds Itself in Another Debt Mess

The debt Beijing is ostensibly trying to rinse away through deleveraging is being reconstituted in a new form.

Take its handling of local-government debt—the largest portion of government debt overall: Beijing this month gave provincial governments the green light to issue new land-revenue bonds.

They can sell the bonds to fund infrastructure projects and use revenue from land sales, a major source of local-government income, to pay the interest.

This might seem like a straightforward and legitimate way to finance local-government investment.

Alas, there is a wrinkle: Rules issued last month bar local governments from pledging revenue from land sales for debt payments.

They are also barred from using land assets to guarantee debt issued in the past by off-balance-sheet financing vehicles linked to local governments.

The conflicting messages call into question Beijing's commitment to lowering China's worrying debt levels and underline its dilemma. Infrastructure spending remains key to meeting official economic targets—investment still contributes more than 40% of annual growth—and that requires an unfettered flow of fi-

nancing.

This flip-flop is just the latest in a series going back years, as the desire to tackle long-term financial-system risks is trumped by the need to keep near-term growth at a politically acceptable level.

Tying debt payments to

## OVERHEARD

No political party can really claim to have won the U.K. election, but one company can—**YouGov**.

The pollster, which is listed on the London Stock Exchange, was the only major forecaster to predict that no party would win an outright majority in Thursday's general election.

Most other surveys indicated a majority for Theresa May's Conservative Party, which ended up with more parliamentary seats than Jeremy Corbyn's Labour Party but not enough to form a government on its own.

YouGov stock was up 1.3% in afternoon trading Friday, although it ended flat. But the

link between forecasting excellence and stock-market returns isn't tight over the longer run. The company flunked the May 2015 general election, predicting a tie in its final poll; the Conservative Party won with 37% of the vote to the Labour Party's 31%. That prompted a lot of soul-searching about sampling errors and "shy Tories."

But the election turned out to be close to a bottom for YouGov's stock, which has more than doubled since. Now it trades at about 24 times earnings. Shareholders will have to hope that getting this year's election right doesn't mark the top.