

# THE WALL STREET JOURNAL.

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DJIA 24884.12 ▲ 9.36 0.04%

NASDAQ 7372.01 ▲ 0.6%

STOXX 600 371.37 ▲ 0.1%

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OIL \$62.60 ▲ \$0.03

GOLD \$1,333.60 ▲ \$15.50

EURO \$1.2404

YEN 106.12

## What's News

### Business & Finance

**CVS** sold \$40 billion of bonds to help pay for its Aetna acquisition months before it needs the money, as the company braced for an expected rise in rates. **A1**

◆ **S&P Global** is buying tech startup Kensho for about \$550 million, in the latest sign of Wall Street embracing artificial intelligence. **B1**

◆ Big banks are set to benefit from a provision in a Senate bill that makes it easier for them to buy munis. **B1**

◆ **McDonald's** is switching to fresh beef for its quarter-pound burgers at its 14,000 U.S. restaurants. **B1**

◆ Target's same-store sales climbed 3.6% in the fourth quarter, boosted by strong holiday-season spending. **B3**

◆ U.S. stocks rose as investors saw opposition to tariff plans. The Dow edged up 9.36 points to 24884.12. **B16**

◆ An investing group called off its tentative deal to buy Weinstein Co.'s assets. **B3**

◆ Beijing is considering plans to let tech giants such as Tencent and Alibaba issue shares in China. **B4**

◆ BlackBerry sued Facebook and its WhatsApp and Instagram units, claiming patent infringement. **B4**

◆ Aramco's CEO and other oil-company heads rejected predictions that demand for petroleum will erode. **B15**

◆ Lego's profit fell as it continued to struggle in North America and Europe. **B10**

◆ Smucker and Conagra called off a deal for Wesson oil after the FTC filed suit. **B3**

### World-Wide

◆ Cohn said he would quit as Trump's top economic adviser, days after the president announced tariffs that he had opposed. **A1, A4**

◆ Trump said North Korea's offer to discuss giving up its nuclear weapons was sincere, but U.S. officials remained wary. **A1**

◆ China has increased its spending on domestic security, reflecting concern about internal threats. **A7**

◆ Two GOP lawmakers called for a second special counsel to probe surveillance of a former Trump aide. **A6**

◆ The Justice Department is suing California over its sanctuary laws, alleging the state overstepped its authority. **A6**

◆ The administration wants any plan to shore up the ACA to include conservative goals, a memo said. **A6**

◆ Texas held the first primary elections as the 2018 fight for control of Congress formally began. **A3**

◆ Sri Lanka declared a state of emergency after violence erupted between Buddhists and Muslims. **A7**

◆ Tillerson heads to Africa this week for a trip focused on counterterrorism and China's influence. **A7**

◆ Morsi's family said the former Egyptian president is ailing in prison. **A12**

◆ West Virginia approved a pay raise for teachers, resolving a 9-day strike. **A2**

◆ A U.S. aircraft carrier sunk during World War II was found off Australia. **A7**

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## Cohn Quits After Split With Trump

Top economic adviser lost effort to stop planned tariffs; exit could rattle investors

Gary Cohn will resign from the White House after 14 months serving as President Donald Trump's top economic adviser, he said Tuesday, days after Mr. Trump surprised his senior staff by announcing steel and aluminum tariffs Mr. Cohn opposed.

During his time at the

White House, Mr. Cohn oversaw a major revamp of the U.S. tax code and pushed a significant rewrite of financial rules. But the former Goldman Sachs Group Inc. executive stumbled in an uphill and monthslong fight to sway Mr. Trump against the tariffs.

He was also on the losing side of an effort to prevent the U.S. withdrawal last year from the Paris climate accord, and will leave having made little progress advancing a \$1 trillion infrastructure program.

Financial markets have seen-

By Nick Timiraos,  
Peter Nicholas  
and Liz Hoffman

sawed in recent weeks, first on the prospect that higher federal budget deficits approved by Mr. Trump might boost inflation and interest rates and more recently because of his desire to start a "trade war."

Mr. Cohn's departure could further rattle investors. Though not universally well liked on Wall Street, Mr. Cohn was widely respected for his

market savvy and his pro-trade world view. The dollar slumped, and futures in the Dow Jones Industrial Average were down about 300 points, or 1.2%, late Tuesday.

Mr. Cohn said it had been an honor to serve in the administration as director of the National Economic Council and thanked the president in a statement. Mr. Trump praised Mr. Cohn's "superb job" as his economics adviser and called him a "rare talent."

The White House has seen numerous departures over the

past year. A study by the Brookings Institution in January showed turnover surpassed that of the previous five presidents' first year in office.

Since the study was published, Communications Director Hope Hicks, Staff Secretary Rob Porter and communications adviser Josh Raffel have also resigned, among others.

Please see COHN page A4

◆ Battle heats up to derail or limit tariff plan ..... A4  
◆ White House aide faulted for discussing candidate ..... A4

## U.K. Focuses on Russia in Suspected Poisoning of Former Spy



**UNDERCOVER:** The U.K. is investigating whether Moscow was behind the suspected poisoning of a former Russian intelligence officer and his daughter in Salisbury, England. Above, police stand guard Tuesday at the shopping center where the two were found critically ill Sunday. **A13**

## U.S. Wary Of Offer For Talks With Kim

President Donald Trump called an offer by North Korea to discuss giving up its nuclear weapons sincere, but top administration officials Tuesday stopped short of a commitment to open talks with Pyongyang.

By Michael R. Gordon  
and Michael C. Bender  
in Washington  
and Jonathan Cheng  
in Seoul

The White House's wariness stems from three decades of frustrated diplomacy and fears that North Korea now may link any denuclearization with unacceptable demands, such as the withdrawal of American troops from the Korean Peninsula, a senior administration official said.

Still, Mr. Trump said American sanctions appear to have forced Pyongyang to the table and he is hopeful for "a very positive result."

"We have come certainly a long way, at least rhetorically with North Korea. It would be a great thing for the world, it would be a great thing for North Korea, it would be a great thing for the peninsula," Mr. Trump said at a press conference at the White House, speaking alongside Sweden's prime minister, Stefan Lofven.

North Korean leader Kim Jong Un told a visiting South Korean delegation that he was willing to hold talks with the U.S. about giving up nuclear weapons and would halt weapons tests during any negotiations, officials in Seoul said Tuesday.

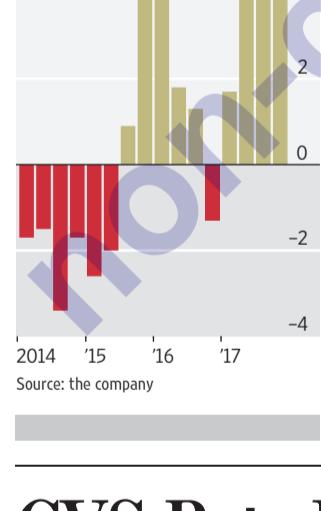
Mr. Kim, who has conducted a nuclear test and a series of missile launches over the past year, signaled a "clear intent to pursue denuclearization" if the security of North Korea and his regime were guaranteed, said Chung Eui-yong, South Korea's national security advisor.

Please see KOREA page A11

## McDonald's Beefs Up Menu

Challenged by 'fast casual' chains, McDonald's will offer burgers made with fresh beef. **B1**

McDonald's U.S. comparable store sales, change from previous year



## The New ID Theft: Credit Applicants Who Don't Exist

Synthetic-identity fraud is growing fast and is hard to combat

BY PETER RUDEGEAIR AND ANNA MARIA ANDRIOTIS

From a townhouse near a megachurch in Atlanta, Kelvin Lyles recruited about 300 accomplices to embark on a crime spree. His group scammed ATMs, internet retailers and credit-card companies, grabbing around \$350,000, until late 2015, when federal agents closed in.

Mr. Lyles was the only one convicted. None of his accomplices existed.

In a twist on ID theft, criminals are deploying figments of their imaginations, in what is often called synthetic-identity fraud. It's one of the fastest growing forms of identity crimes, the Justice Department says, and among the hardest to combat.

Because the person taking out cards or loans isn't real, there are no consumer victims to alert lenders. When companies and law enforcement discover something amiss, they of-

ten wind up chasing ghosts. Mr. Lyles secured credit cards often using fictional names and numbers the Social Security Administration hadn't yet assigned.

Synthetic-identity fraud exploits a vulnerability in America's consumer-credit system. Lenders often consider a loan applicant legitimate if the applicant has a credit report at Equifax Inc., TransUnion or Experian PLC. But a new "credit file"—essentially a precursor to a credit report—often gets created when someone simply applies, even if the loan doesn't come through.

Some lenders approve loans after reviewing credit files, which helps turn those files into full credit reports. That's how a fictitious person, or 300 fictional people, can end up with a credit card.

"When you see this type of scheme," said Samir Kaushal, the assistant U.S. attorney

Please see FRAUD page A14

## Salesforce. #1 CRM.

Ranked #1 for CRM Applications based on IDC 2017H1 Market Share Revenue Worldwide.



Source: IDC Worldwide Semiannual Software Tracker, October 2017.

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[salesforce.com/number1CRM](http://salesforce.com/number1CRM)

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## CVS Bets Big With \$40 Billion Bond Sale

By MATT WIRZ

Pharmacy chain CVS Health Corp. sold \$40 billion of bonds Tuesday to help pay for its acquisition of health insurer Aetna Inc. months before it needs the money, seeking to get ahead of an expected rise in interest rates and a flood of borrowing across the economy.

The sale, the largest in two years, showed there is still eager demand from investors for corporate bonds issued by financially strong borrowers. But investors and companies say they are bracing for a sea change in the markets caused by shifts in U.S. monetary and fiscal policy that could penalize prospective debt issuers for waiting.

Investors are anticipating a deluge of bond issuance this year. The U.S. Treasury announced it would be selling \$42 billion of additional bonds in the period from February through April, and many ana-

lysts forecast that the government will announce additional increases to bond sales in May.

Greater availability of bonds could send their prices lower, which results in higher rates. Some analysts and investors expect the additional supply of debt will push borrowing costs throughout the economy higher.

Regulators aren't expected to pass judgment on the \$69 billion Aetna purchase until late this year, but CVS issued the debt this week to avoid the risk that interest rates continue to rise, people familiar with the deal said. Another jump in Treasury bond yields could suppress investor appetite for new corporate debt.

Yields on corporate bonds jumped in tandem with U.S. interest rates this year, triggering a fall in bond prices and a decline in overall debt sales.

Please see SALE page A6

◆ Treasurys gain amid huge CVS debt offering ..... B15

## Bipartisan Politics, From Mom and Dad

\* \* \*

Parents hit the campaign trail, for the opposite party

By KRISTINA PETERSON

At last, the nation's political polarization may have met its match.

Standing on the sidelines of this year's midterm campaigns is a crowd of proud, if sometimes slightly perplexed parents watching their children run for Congress representing the political party they don't support.

They have held fundraisers, debated policy proposals, filmed ads, and in the case of Democratic Rep. Beto O'Rourke's mother, driven the campaign van. Collectively they have demonstrated more across-the-aisle activity than most of the sharply divided Congress has

Please see VOTE page A14

# U.S. NEWS

## West Virginia Teachers' Return Set

By KRIS MAHER

A teachers strike that shut schools across West Virginia for nine days was resolved Tuesday after state officials approved a pay increase unions had sought for public-school teachers.

The state's roughly 20,000 teachers, as well as all other state employees, will receive a 5% raise this year, state officials said.

The announcement followed days of wrangling over the percentage increase in the Republican-controlled Legislature.

"We have reached a deal. I stood rock solid on the 5% teacher pay raise and delivered," Republican Gov. Jim Justice tweeted Tuesday in announcing the agreement.

A tentative agreement between the governor and unions last week that also included a 5% raise for teachers fell through after lawmakers questioned whether there would be enough state revenue to pay for it.

"All the focus should have always been on fairness and getting the kids back in school," Mr. Justice said.

On Tuesday, Republican Senate Majority Leader Ryan Ferns



Striking West Virginia teachers celebrated Tuesday after officials approved a 5% pay raise for this year.

said lawmakers in both houses agreed on budget cuts to fund the pay raise. "We have supported the highest raises possible for public employees, as long as we could guarantee that the revenue would be there," he said.

Other elements of a prior agreement affecting benefits appeared to remain in place, including the creation of a task force to find ways to avoid benefit-cost increases at the statewide Public Employees Insurance Agency.

Large crowds of striking

teachers poured into the state capitol in Charleston in recent days.

On Tuesday, teachers celebrated news of the deal by dancing and chanting "Put it in writing."

"What our educators showed was that when you stand united, your voice will be heard," said Dale Lee, president of the West Virginia Education Association.

Mr. Lee said teachers could return to school as early as Wednesday.

But he said superintendents

would have to ensure that schools were prepared to reopen.

The teacher strike affected roughly 270,000 students in all 55 of the state's counties, according to the state Education Department.

Many teachers stand to get a raise of more than \$2,000 a year.

Starting teachers in West Virginia earn \$32,435 a year on average, and the average teacher salary is \$44,701, according to the West Virginia Education Association.

## Pearson Family Sues University of Chicago

By DOUGLAS BELKIN

hiring decisions were up to them.

A family foundation that gave the University of Chicago \$100 million in 2015 to fund research aimed at reducing conflict around the world is suing the school for breach of contract and accusing the university of incompetence and deception.

The Pearson Family Members Foundation, led by Thomas Pearson and his brother Timothy, hopes to recoup the \$22.9 million it has already given the school to create the Pearson Institute.

The suit, filed in federal court in Oklahoma on Feb. 20, charges that the school "failed to deliver on the most fundamental of its obligations," including appointing a director, creating an academic curriculum and filling faculty positions.

"The Pearsons are profoundly disappointed, and regrettably have been left with no other choice or course of action," said a spokesman for the Pearson Family Foundation.

The University of Chicago said the lawsuit is without merit and emphasized that all

"in the short time since its formation, the Institute has hosted dozens of events, enrolled more than 200 students in courses related to the study of global conflict, and fostered an engaged community of scholars," the school said in a statement. "All academic and hiring decisions are the sole purview of the University and its faculty, guided by the principle of academic freedom."

News of the lawsuit was first reported by the Maroon, the University of Chicago's student newspaper.

The lawsuit is unusual but not unheard of, philanthropy experts say. Descendants of the A&P grocery store chain sued Princeton University in 2002 for mismanaging a decades old gift. In 1995, Yale University returned a \$20 million donation made by Lee M. Bass four years earlier.

Still, Amir Pasic, dean of the Lilly Family School of Philanthropy at Indiana University, said universities around the country are looking at the situation in Chicago "and seeing this as a cautionary tale."

## In Wisconsin, Contestants Move Some Cheese



PIECE PROCESS: A volunteer opened a round of Swiss cheese at the World Championship Cheese Contest on Tuesday in Madison.

### CORRECTIONS & AMPLIFICATIONS

**Golfer Justin Thomas**, who lost in a playoff on Sunday at the WGC-Mexico Championship, is 24 years old. A Sports article Tuesday about Phil Mickelson incorrectly said Mr. Thomas is 23.

An unmarried taxpayer who has reached age 65 can add \$1,600 to his or her standard deduction when filing taxes for 2018 (making the overall standard deduction \$13,600). An Investing in Funds & ETFs retirement-advice article on Monday incorrectly used the figure \$1,250, understating the overall standard deduction as \$13,250.

The North American Vexillological Association ranked Milwaukee's flag 147th out of 150 cities surveyed, and it ranked Provo, Utah's flag 143rd. A Page One article on Monday about city flags incorrectly said the

flags were 147th and 143rd worst, respectively.

The 3.6-liter Jeep Rubicon has a port-injection DOHC V6 engine. An Off Duty article on Saturday about the vehicle incorrectly said its engine is direct-injection.

A U.S. News graphic on Friday showing the median distance that children were born from their mother's or father's birthplace had a baseline of 1 kilometer. The graphic's baseline was incorrectly labeled as zero.

**Maldives former** President Mohamed Nasheed was given medical leave while serving a 13-year prison sentence, and he is living abroad. A World News article on Feb. 7 about a political crisis in the Maldives incorrectly suggested that he was still incarcerated.

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

### U.S. WATCH

#### RELIGION

##### Pope Still Popular, but Some Concerns Arise

Pope Francis remains broadly popular with Roman Catholics in the U.S., according to a new study from the Pew Research Center, but a growing number of Catholic Republicans are concerned about the direction of the church under his leadership.

Overall, 84% of Catholics in the U.S. hold a favorable opinion of the pope, a figure that has changed little since 2014, the first full year of his papacy. The survey says 9% view him unfavorably.

Still, signs suggest diminishing support for Pope Francis among Americans. Thirty-four percent now believe the pope is "too liberal," up from 19% in 2014; 58% say he is changing the church for the better, down from 68% four years ago.

For conservatives, the drop in support is steeper. Among Catholics who identify as Republicans, 55% called Pope Francis too liberal in the 2018 survey, compared with 23% in 2014.

—Ian Lovett

#### TENNESSEE

##### Nashville Mayor Pleads Guilty, Resigns

Nashville Mayor Megan Barry resigned Tuesday after pleading guilty to a felony that stemmed from an investigation into an affair she had with an officer on her security detail.

"My time today as your mayor concludes," Ms. Barry, a Democrat, said at a news conference after her court appearance. "God bless this wonderful city. I love you, Nashville."

The 54-year-old mayor

pledged guilty in state court to theft of property and agreed to pay the city \$11,000 in restitution and serve three years of unsupervised probation.

Ms. Barry has been investigated by the Tennessee Bureau of Investigation and other agencies after she acknowledged publicly on Jan. 31 that she had an extramarital affair with her bodyguard, a police sergeant. She has been investigated for possible misuse of funds while the two traveled on official business and other matters.

David Briley, vice mayor of the Metropolitan Government of Nashville and Davidson County, is in line to become the acting mayor.

—Cameron McWhirter

#### ENTERTAINMENT

##### Music-Event Creator Acknowledges Fraud

The 26-year-old entrepreneur who created Fyre Festival admitted in court Tuesday that he defrauded investors in his high-end music festival in the Bahamas, a much-hyped event that ended in a public collapse.

William "Billy" McFarland pleaded guilty in Manhattan federal court to two counts of wire fraud. Each count carries a maximum sentence of 20 years in prison.

Fyre Festival had been scheduled to take place last spring, with tickets costing as much as \$250,000 a person for one weekend. Thousands were expected to attend. Instead, concertgoers arrived to a logistical meltdown, resulting in the festival's abrupt cancellation.

In raising money for Fyre Festival, Mr. McFarland caused at least 80 investors to lose a total of more than \$24 million, the government said.

—Nicole Hong

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## U.S. NEWS

# Texas Vote Tests Democratic Enthusiasm

Primary gives more hints on whether a blue wave is about to buffet GOP states

BY JANET HOOK

**WASHINGTON**—The 2018 fight for control of Congress formally began Tuesday, as Texas held the first primary elections and tested whether a national wave of Democratic voter enthusiasm will buffet even traditionally Republican states.

Early returns in the Senate Democratic primary race provided a positive indicator: With just 4% of the precincts reporting, more votes had already been counted than the entire 2014 primary total of 510,000. But Democratic votes statewide still lagged far behind the GOP count.

Democrats also have been encouraged by the record number of their party's candidates running for Congress across the state—and by a jump in early voting for their party. For the first time in a quarter century, they have fielded at least one candidate in each of the state's congressional districts.

But that meant voters had to sort through crowded primary fields—and some testy intraparty fights—in the districts that are Democrats' top targets. Key races weren't settled Tuesday, because Texas requires a winning candidate to garner at least 50% of the vote. Failing that, the top two candidates will enter a May 22 runoff.



ERIC GAY/ASSOCIATED PRESS

**Texas students waited to vote in Austin on Tuesday. Democratic early voting in the state's biggest counties doubled from 2014 totals.**

In an affluent suburb of Houston, where Democrats hope to topple longtime GOP Rep. John Culberson in the fall, a heated seven-way Democratic primary may show limits of the clout of national party leaders as they tried to ensure that their preferred candidates advance. One candidate that party leaders tried to undercut, former journalist and political activist Laura Moser, was holding on in second place, which would send her into a runoff with frontrunner Lizzie Parnell Fletcher, a lawyer endorsed by Emily's List.

In the closing days of the campaign, the Democratic Con-

gressional Campaign Committee took the unusual and controversial step of attacking Ms. Moser to try to block her path to the runoff, because it believed she would be a weak general-election candidate. Those efforts drew criticism from Moser supporters and others who thought it was inappropriate, top-down interference.

"The people of Texas should be allowed to make their own decisions on who to vote for without the influence of Washington insiders," said Jim Hightower, a board member of Our Revolution, the political group allied with former presi-

dential candidate Sen. Bernie Sanders (I., Vt.) that has endorsed Ms. Moser.

In another affluent suburb in Dallas, Democrats were choosing from an array of candidates from across the party's constituencies. The top candidate was shaping up to be former NFL player Colin Allred. Brett Shipp, a well-known local journalist, and Lillian Salerno, who had been endorsed by Emily's List, were vying for the second slot for a runoff. Among those trailing was the best funded of the crowded field, Ed Meier, a former aide to Hillary Clinton.

In San Antonio, Democrats are hoping to unseat GOP Rep. Will Hurd. The front running Democratic candidate was Air Force veteran Gina Ortiz Jones. In close contention for the second place were Judy Canales, a former official of the Department of Agriculture; Rick Trevino, a teacher backed by Mr. Sanders's political organization; and former federal prosecutor Jay Hulings, the candidate favored by many in the party establishment.

Texans also voted in primaries for state races, including governor and the state Legislature. Republican Sen. Ted Cruz

is also up for re-election and won the GOP nomination with no serious primary opposition. Democratic Rep. Beto O'Rourke won his party's nomination to run against Mr. Cruz in what is shaping up as an unusually competitive race.

Although Mr. O'Rourke victory was solid, early returns showed his support was weak in the rural areas where he has done a great deal of campaigning in his effort to appear in every one of the state's 254 counties. While Mr. Cruz won his party's nomination by a resounding margin, Mr. O'Rourke in early returns was losing more than one-third of the Democratic primary vote to two little known, poorly funded opponents.

Mr. Cruz's campaign is moving to define his opponent as a liberal out of touch with the conservative state on issues like immigration and guns, releasing a radio ad with a country song hitting that message.

Chris Wilson, a GOP pollster for Mr. Cruz, believes Democrats' hopes will fade. "Every two years, the Democrats find some factoid to fixate on and convince themselves this is the year they make Texas competitive, and every two years it falls flat," said Mr. Wilson.

The primary results put Texas on track to elect its first Latina House member. In El Paso, Veronica Escobar won her primary for Mr. O'Rourke's open House seat with more than 50%, avoiding a runoff, and putting her on a glide path to general election victory in a solid Democratic district.

# 'Superbug' Disguises Resistance to Potent Antibiotic

BY BETSY MCKAY

Some common "superbugs" appear to harbor a little-known type of resistance to a last-resort antibiotic, a new study shows, suggesting a worrying new way in which dangerous bacteria can evade one of the few remaining treatment options.

Bacterial populations are normally viewed as totally impervious to an antibiotic, or totally treatable. But researchers from Emory University identified a different pattern in a certain type of drug-resistant bacteria, in which some cells in a bacterial colony are resistant to a last-resort antibiotic called colistin. This "heteroresistance" isn't easily detectable in standard lab tests because most of the cells are susceptible to the drug.

The results of their study were published online Tuesday in the journal mBio.

Antibiotic resistance is a growing public health crisis. The Emory study's focus, Carbapenem-resistant Klebsiella



**David Weiss, director of the Antibiotic Resistance Center at Emory University, has been studying the last-resort drug colistin.**

pneumoniae, is among the most common of a group of so-called superbug bacteria that are resistant to most antibiotics and kill up to 50% of the people they infect.

More than two million people in the U.S. are sickened every year with antibiotic-resistant infections, with at least 23,000 dying, according to the Centers for Disease Control and Prevention.

Colistin is an old antibiotic that doctors administer to patients as a last resort, when the bacteria infecting them are resistant to all other antibiotics. It is often the only antibiotic that will work against these drug-resistant bacteria.

But the Emory study suggests that colistin may not work in some patients, even though lab tests doctors rely on to decide treatment show

## Surprise Finding Led to Research

David Weiss, director of Emory's Antibiotic Resistance Center who led research published Tuesday on "heteroresistance," has been studying the phenomenon since an astute microbiologist at an Emory University Hospital laboratory noticed a strange test result in 2013, and asked if he would look into it.

"I thought we should ex-

plore it, and I don't have a research lab," said Eileen Burd, the hospital's director of clinical microbiology.

Since then, studying heteroresistance, a type of drug resistance that isn't easily detectable in standard lab tests, has become the priority of Dr. Weiss's research laboratory.

The lab is testing hundreds of bacteria samples collected in surveillance programs around the country to determine how common heteroresistance to colistin is, he said. Colistin is an antibiotic often administered

more critical that you figure out what's wrong and how to treat it."

This isn't the first time scientists have identified bacterial heteroresistance to colistin. In 2016, Dr. Weiss and other Emory scientists found that a different, less common type of drug-resistant bacteria, Enterobacter, demonstrated heteroresistance to colistin.

Colistin was developed

as a last resort, when other drugs fail.

Dr. Weiss also formed the antibiotic resistance center, a virtual network of clinicians and basic scientists. Its research agenda is driven by findings in patients, he said.

"If we're following what's actually happening in patients, we're hoping that we will be led to the most relevant topics to study," Dr. Weiss said. "I definitely never would have chosen to work on heteroresistance if that didn't come through the clinic."

more than 60 years ago, but can cause kidney damage, so doctors stopped using it in the 1980s in favor of newer, safer medications. They have been forced to turn back to colistin in recent years, though, as bacteria have become increasingly resistant to newer drugs.

Dr. Weiss said this new type of colistin resistance points to a need for better diagnostic tests in clinical labs.

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## U.S. NEWS

# Stormy Daniels Sues President

By MICHAEL ROTHFELD  
AND JOE PALAZZOLO

Former adult-movie star Stephanie Clifford filed a lawsuit against President Donald Trump, saying his lawyer forced her to sign a false statement provided to The Wall Street Journal in response to inquiries about an alleged sexual encounter with Mr. Trump.

The lawyer, Michael Cohen, paid Ms. Clifford \$130,000 in October 2016 in return for her signing a nondisclosure agreement, which prevented Ms. Clifford, known professionally as Stormy Daniels, from discussing the alleged sexual encounter.

After the Journal learned of the agreement and contacted Ms. Clifford in January, Mr. Cohen used "intimidation and coercive tactics" to force Ms. Clifford to sign a statement

denying there was a 2006 sexual encounter, Ms. Clifford said in the complaint, which was filed Tuesday in Los Angeles County Superior Court.

Mr. Cohen and White House representatives repeatedly have denied any sexual encounter between Mr. Trump and Ms. Clifford.

Mr. Cohen didn't immediately respond to a request for comment, nor did a representative for the White House. Along with Mr. Trump, Ms. Clifford named as a defendant in the suit Essential Consultants LLC, a Delaware company Mr. Cohen used to make the settlement payment, but not Mr. Cohen himself.

The lawsuit doesn't refer to a second statement provided to media by Ms. Clifford's manager in late January. The statement, which bore Ms. Clifford's stage name, said: "I am denying this affair because it never happened."

The complaint alleges that the nondisclosure agreement, which it refers to as "the Hush Agreement," is "null and void" because Mr. Trump never signed it. The lawsuit also alleges that Mr. Cohen breached the agreement when he publicly acknowledged the pact with Ms. Clifford and the \$130,000 payment in a Feb. 13 statement provided to news media.



Stephanie Clifford

# Conway Accused of Touting Candidate

By JULIE BYKOWICZ

Senior White House adviser Kellyanne Conway improperly used her official role when she discussed an Alabama Senate race on TV last year, federal investigators said Tuesday, as they referred the matter to President Donald Trump for "appropriate disciplinary action."

Ms. Conway, according to a report by the U.S. Office of Special Counsel, a permanent office of investigators and prosecutors, "appeared in her official capacity" to discuss an Alabama special election in two television interviews leading up to the December vote. The report found she promoted the unsuccessful candidacy of Republican Roy Moore and opposed Democrat Doug Jones, violating the Hatch Act, which restricts political activity by federal employees in their official capacity.

"While the Hatch Act allows federal employees to express their views about candidates and political issues as private citizens, it restricts employees from using their official govern-

ment positions for partisan political purposes, including by trying to influence partisan elections," the report said.

The consequences for Hatch Act violations can include a civil penalty of as much as \$1,000, suspension or termination. The special counsel's letter to the White House doesn't recommend a specific penalty.

"Kellyanne Conway did not advocate for or against the election of any particular candidate," said Hogan Gidley, the White House deputy press secretary. "She simply expressed the president's obvious position that he has people in the House and Senate who support his agenda."

In a Nov. 20 interview on Fox News, Ms. Conway said of Mr. Jones: "He'll be a vote against tax cuts. He's weak on crime, weak on borders. He's strong on raising your taxes. He's terrible for property owners. And Doug Jones is a doctrinaire liberal."

The Office of Special Counsel said that the interview amounted to advocating against Mr. Jones.



Senate Majority Leader Mitch McConnell, at lectern, was one of a number of Republicans voicing concerns about the Trump tariff plan. J. SCOTT APPLWHITE/ASSOCIATED PRESS

# Fight Heats Up Over Tariffs

## GOP lawmakers air objections to Chief of Staff Kelly, Treasury Secretary Mnuchin

The resignation of President Donald Trump's top economic adviser Tuesday followed a ferocious lobbying campaign to derail or limit the

By Peter Nicholas,  
Nick Timiraos  
and Siobhan Hughes

scope of the proposed steel and aluminum tariffs, with some of the president's own aides and congressional allies urging him to reconsider.

Republican lawmakers met privately with John Kelly, the president's chief of staff, and aired objections to Mr. Trump's plan to set a 25% tariff on steel imports and 10% on aluminum.

Later in the day, Senate Majority Leader Mitch McConnell (R., Ky.) said: "There is a lot of concern among Republican senators that this could metastasize into a larger trade war,

and many of our members are discussing with the administration just how broad and how sweeping this might be."

In a trip to Capitol Hill, Treasury Secretary Steven Mnuchin

faced a grilling from GOP lawmakers and at times appeared ambivalent about the tariff plan. The pushback extended to some of the companies the tariffs are intended to help.

An association representing 114 aluminum companies released a letter to Mr. Trump calling on him to scrap the idea in favor of a remedy that targets China and exempts some trading partners, such as Canada and the European Union.

"We fear the proposed tariff may do more harm than good," reads the letter from Heidi Brock, CEO of the Aluminum Association.

The tariff fight crystallizes a running feud between the White House's globalist and nationalist wings that boiled down to a showdown between National Economic Council Director Gary Cohn and presidential adviser Peter Navarro, a tariff advocate. Mr. Cohn resigned on Tuesday.

For months, Messrs. Cohn and Navarro had been trying to win over the GOP president, making the case that either open markets or protectionist policies is the key to reviving the U.S.'s working class.

With Mr. Cohn's exit, Mr. Navarro and Commerce Secretary Wilbur Ross, who also supports tariffs, will now hold the

greatest sway inside the West Wing on trade matters. Both are in sync with Mr. Trump's own policy preferences.

In a joint news conference at the White House with Prime Minister Stefan Lofven of Sweden, Mr. Trump defended his call for broad-based tariffs.

"We've been mistreated as a country for many years," said Mr. Trump, who played down the prospect of a trade war being touched off by the planned new tariffs.

The president said that much of the U.S. trade imbalance was with countries that were allies. He said he hoped to "straighten out" the relationship in a "loving way."

"They'll like us much better and they'll respect us much more" as a result, he said.

Standing beside the president, Sweden's prime minister took a dimmer view. "I'm convinced that increased tariffs will hurt us all in the long run," Mr. Lofven said.

Mr. Trump's public statement last week about imposing tariffs on steel and aluminum imports stunned some of his own advisers who believed the matter was still unsettled. Aides said the president was frustrated by months of internal debate and wanted to fulfill a promise from his 2016

presidential campaign.

At a meeting with steel and aluminum executives last week, Mr. Trump said he would sign the order this week. With a limited window to influence the decision, advocates on both sides have been trying to sway a president who has backtracked on policy pronouncements before.

Asked on CNBC if Mr. Trump might be convinced to change course, Rep. Kevin Brady (R., Texas), chairman of the House Ways and Means Committee, said: "I think he may well."

Mr. Trump said Tuesday he might be open to certain exceptions if the U.S. can get some concessions in return.

"If the European Union takes off some of the horrible barriers that make it impossible for our product to go into there, then we can start talking," Mr. Trump said.

Mr. Mnuchin faced some of Congress's ire during his Capitol Hill appearance as lawmakers pressed him for more details; he didn't offer many. Mr. Mnuchin said he had spoken to foreign counterparts about the tariffs and said officials would "deal with this on a case-by-case basis."

◆ Mahindra keeps watch on tariffs..... B5

## COHN

Continued from Page One

Mr. Cohn was part of a globalist wing of the White House that lately has been in retreat. Peter Navarro, another adviser who helped craft the president's protectionist stance in the campaign, prevailed in a high-profile fight over tariffs on aluminum and steel imports. Mr. Cohn had fought internally to stave off the move and told aides last week he might resign if the president followed through and imposed the tariffs.

"I don't think he suddenly lost an argument. He just never won it," said Joshua Bolten, who served as chief of staff to President George W. Bush from 2006 to 2009 and now heads the Business Roundtable, a trade group that opposes broad tariffs.

As recently as early this week, Mr. Cohn still seemed to be fighting the decision, trying to put together a meeting among industry executives whose companies could be hurt by the tariffs. That meeting, which had been expected to happen later this week, was no longer being planned after Mr. Cohn's resignation, a White House official said.

Another White House official said in an interview Tuesday that Mr. Cohn had always intended to stay for about a year. This person said that Mr. Cohn wasn't resigning because of frustration or disappointment over Mr. Trump's decision to impose tariffs.

Mr. Cohn wound up staying two months longer than he had anticipated because the president asked him to help with the State of the Union speech and a trip to the global economic conference in Davos, Switzerland, the official said.

Mr. Cohn, though, was unhappy about the "process" by



Gary Cohn, President Trump's top economic adviser, was part of a globalist wing of the White House that has recently been in retreat. ALEX BRANDON/ASSOCIATED PRESS

which Mr. Trump last week announced that he would be imposing steel and aluminum tariffs, the official said.

This person said White House proponents of the tariffs, on their own, slipped into the president's office "at 6 o'clock at night" last Wednesday, then called steel and aluminum CEOs two hours later and invited them to a meeting the next morning, telling them the president would sign an executive order imposing the taxes even though no such order was ready.

"There is extreme frustration when the process breaks down," the official said. In this instance, the official said, the White House "nationalists hijacked the process."

One Wall Street executive who kept in contact with Mr. Cohn said a rotating group of colleagues and friends took turns urging him to stay. Some of these people said Mr. Cohn's departure hinted at the limits of trying to hem in Mr. Trump's desire to take more

dramatic actions on trade.

On Tuesday, Treasury Secretary Steven Mnuchin told lawmakers that the administration wasn't looking to get into a trade war. Later in the afternoon, Mr. Trump said, "trade wars aren't so bad."

The departure will put pressure on other advisers, especially Mr. Mnuchin, to make the case for preserving the post-World War II trade architecture the U.S. helped construct and for speaking credibly to financial markets.

"More than anyone else in the White House, Cohn had credibility with the markets," said Ian Katz, a financial policy analyst at Capital Alpha Partners in Washington. "If we go several days without news of a replacement, investors could get edgy."

The National Economic Council job post doesn't require Senate confirmation. An administration official said those being considered to succeed Mr. Cohn include Andy Puzder, a fast-food executive

who withdrew his labor secretary nomination after domestic-abuse allegations from an ex-wife surfaced. Mr. Puzder has denied the claims.

The official said others who could be considered include CNBC commentator and former Trump campaign adviser Lawrence Kudlow; Council of Economic Advisors Chairman Kevin Hassett; and Mr. Navarro.

With Mr. Cohn's departure, several Goldman alumni who joined the administration last year will have departed.

"Gary Cohn deserves credit for serving his country in a first class way," Goldman CEO Lloyd Blankfein tweeted Tuesday afternoon. "I'm sure I join many others who are disappointed to see him leave." Mr. Cohn had spent 26 years at Goldman and was once seen as the likely successor to Mr. Blankfein.

Early on, Mr. Trump enjoyed introducing Mr. Cohn as a former Goldman executive who gave up a lucrative career to work for him. In a Wall Street Journal interview in July, Mr. Trump mused about installing Mr. Cohn as the next chairman of the Federal Reserve.

But that nomination never happened. Mr. Cohn criticized Mr. Trump's response to the racially charged violence in Charlottesville, Va., in August and found himself isolated.

Mr. Cohn found his way back into Mr. Trump's good graces last fall by helping pass the president's tax cut package in Congress, delivering the president his signature legislative accomplishment.

Mr. Cohn performed so favorably that the president discussed with friends as recently as last month whether to install him as chief of staff, even though Mr. Cohn is a registered Democrat.

—Rebecca Ballhaus contributed to this article.



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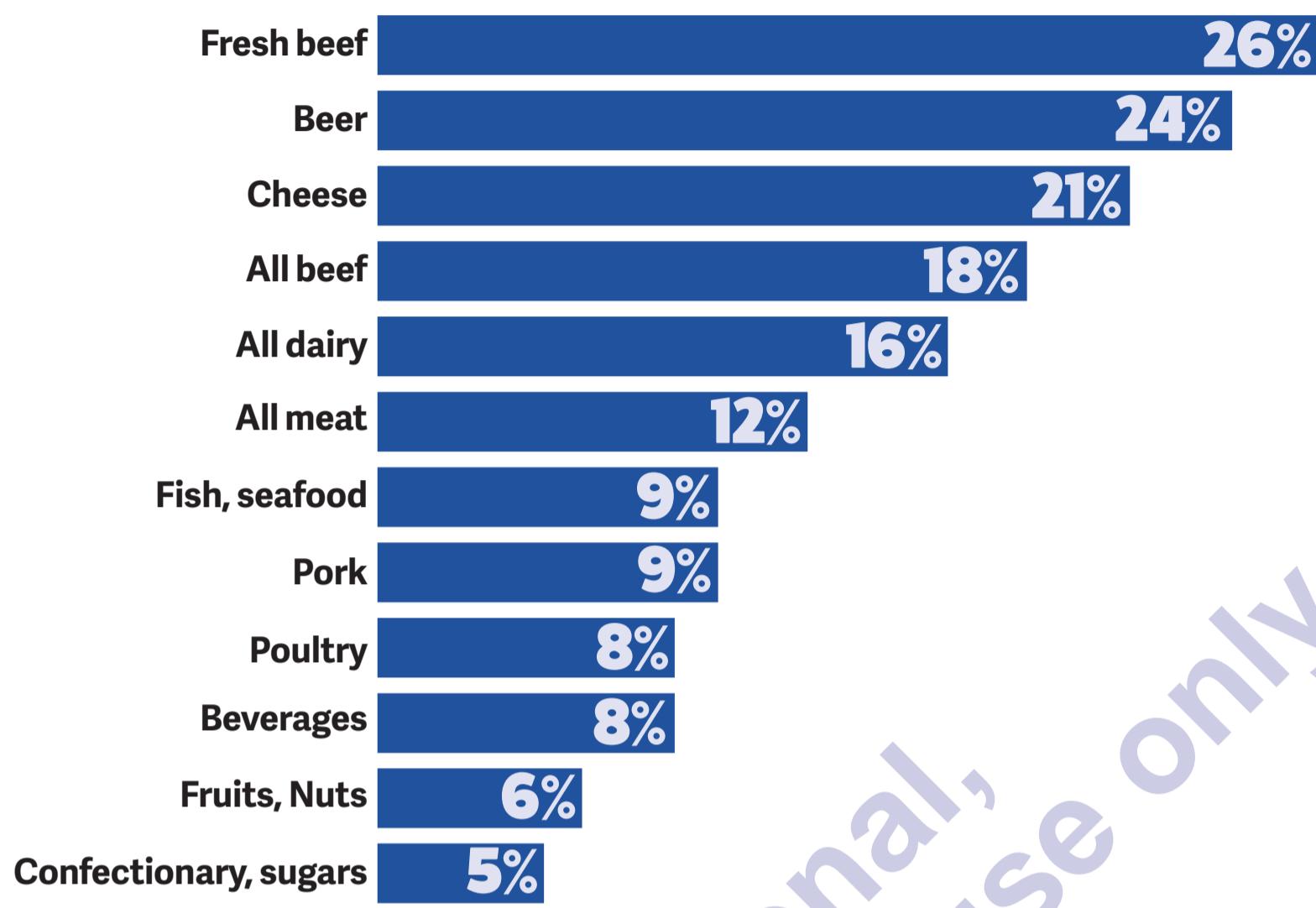
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## U.S. NEWS

ALEX BRANDON/ASSOCIATED PRESS  
GOP Reps. Trey Gowdy, left, and Bob Goodlatte want a second special counsel to probe the inquiry into ex-Trump aide Carter Page.

# U.S. Sues to Halt Sanctuary Laws

BY LAURA MECKLER  
AND ALICIA A. CALDWELL

WASHINGTON—The Justice Department said Tuesday it is suing the state of California over its sanctuary laws, teeing up a legal showdown in which both sides appear eager for battle.

The suit, according to officials, will allege that California overstepped its authority in passing three statutes that, among other things, limit the cooperation of private employers and local jurisdictions with federal immigration-enforcement agents.

The Trump administration argues that these laws were designed to obstruct federal law enforcement and that they violate the Constitution's Supremacy Clause, which holds that federal laws supersede those passed by the states.

The case is the latest of several legal battles pitting the Trump administration against a Democratic state, though others have involved the states taking the federal government to court. Immigration has proved particularly contentious, with Democratic states charging that Trump policies are discriminatory and the Trump administration saying

that states are protecting criminals who should be deported.

California Attorney General Xavier Becerra, a Democrat who has sued the administration multiple times, said Tuesday he hadn't seen the government's full complaint but that "California stands on firm legal footing when it takes action. We believe we are in full compliance with the federal Constitution and federal law."

Gov. Jerry Brown, also a Democrat, also criticized the effort, calling it "sad."

Senior Justice Department officials said their suit would be filed late Tuesday in Sacramento, the state capital, and that Attorney General Jeff Sessions would talk about it Wednesday during a speech to law-enforcement officials there.

"The Department of Justice and the Trump administration are going to fight these unjust, unfair and unconstitutional policies that have been imposed on you," Mr. Sessions planned to say, according to the agency.

Justice Department officials said they are relying on a 2012 Supreme Court case in which the federal government asserted its authority over immigration law and turned back the bulk of an Arizona law.

## Memo Seeks ACA Revamp

BY STEPHANIE ARMOUR

The Trump administration wants any congressional plan to shore up the Affordable Care Act markets to include conservative goals, such as letting insurers charge higher premiums to older people, according to a memo reviewed by The Wall Street Journal.

The memo encourages lawmakers to pass measures including allowing insurers to charge older people five times as much as younger people, expanding access to health savings accounts and increasing the amount of money that people can contribute to them, as well as supporting a permanent

congressional appropriation for subsidies to insurance companies who decrease deductibles and co-pays for lower-income consumers in exchange for explicit exclusions on abortion coverage by those insurers.

The Affordable Care Act currently restricts insurers to charging older buyers three times as much as younger ones, which has checked premiums for 50-somethings and 60-somethings compared with what they might have been otherwise, but which some insurers contend have increased premiums for healthier 20-somethings and 30-somethings to the point that they don't want to buy coverage.

# Probe on Dossier Is Urged

BY BYRON TAU

**WASHINGTON**—Two Republican chairmen in the House are asking the Justice Department to consider the appointment of a second special counsel to investigate matters related to how and why material gathered from a former British spy was used to spy on an associate of Donald Trump.

House Judiciary Committee Chairman Bob Goodlatte (R., Va.) and House Oversight Committee Chairman Trey Gowdy (R., S.C.) sent a letter Tuesday to Attorney General Jeff Sessions and Deputy Attorney General Rod Rosenstein making the request.

"Some have been reluctant to call for the appointment of a special counsel because such an appointment should be reserved for those unusual cases where existing investigative and prosecutorial entities cannot adequately discharge those duties," the two Republicans wrote. "We believe this is just such a case."

Special counsels are prosecutors appointed to investigate potential criminal matters in situations where a conflict of interest could exist within the Justice Department or a presidential administration. Robert Mueller was appointed as special counsel in May 2017 to probe foreign interference in the 2016 campaign after questions were raised about the impartiality of leadership at the Justice Department.

Mr. Sessions has said that controversies over surveillance are being investigated by the Justice Department Inspector General. The Justice Department didn't respond to a request for comment.

It isn't the first call for a new special counsel by Republicans in the House. Mr. Goodlatte has twice written letters calling for other special counsels to be appointed to investigate issues outside of Mr. Mueller's scope that occurred during the administration of Barack Obama. Mr. Gowdy hasn't previously called for the

appointment of a second special counsel until this week.

In requesting another special counsel, Messrs. Goodlatte and Gowdy are questioning whether improper and possibly criminal behavior occurred in surveillance decisions made by law enforcement during and after the 2016 election and whether any internal investigation would pose a conflict of interest.

They also say that the Justice Department inspector general—an independent internal watchdog—doesn't have the tools to conduct a proper investigation.

Mr. Gowdy said Congress—which typically conducts investigations into allegations of wrongdoing or malpractice within the administration—lacks the public confidence and tools needed to conduct a probe.

"We leak like the gossip girls. We don't have the ability to impanel a grand jury. We don't have the ability to offer immunity," he told reporters.

Republicans in Congress last month released a memo in which they suggested partisan bias in the handling of surveillance against former Trump aide Carter Page, which was first approved by a secret federal court in the fall of 2016. Mr. Page has denied any wrongdoing and hasn't been accused of any crime.

The Republican memo says research compiled by Christopher Steele, a former British intelligence official who was conducting opposition research on Mr. Trump that was then being funded by Democratic-linked groups, was the driver in the government's surveillance application on Mr. Page.

A Democratic rebuttal released later in February said that in asking a court to approve surveillance of Mr. Page, federal investigators relied on more than the Steele research, and that law-enforcement officials disclosed the partisan origin of some of the research to the four federal judges who approved the warrants.

# White House Develops Plan for Countering Hostile Drones

BY ANDY PASZTOR

**BALTIMORE**—White House officials are preparing legislation that for the first time would allow federal law enforcement and homeland security to disrupt, take over or even destroy suspected hostile drones in U.S. airspace.

The goal is to break the logjam preventing substantial expansion of commercial uses of unmanned aerial systems, because those agencies currently lack authority to disrupt or neutralize suspicious aircraft piloted from the ground.

The Pentagon and the Energy Department, which operates nuclear-warhead manufacturing sites, already have explicit powers to take out suspect or unidentified drones passing over their critical facilities. Michael Kratsios, the White House's deputy technology adviser, said on Tuesday

that a bill is now being drafted—and is expected to be unveiled shortly—giving the Federal Bureau of Investigation, the Department of Homeland Security and other civilian agencies similar rights to detect and defeat such threats.

"We need to reduce risks...to public safety" from the errant or hostile use of drones, Mr. Kratsios told a government-industry conference here. The bill, among other things, seeks to eliminate the outright ban against any of the agencies interfering with radio transmissions or other communications affecting unmanned aerial vehicles. Mr. Kratsios didn't elaborate on the language or legal principles that will form the backbone of the anticipated bill.

Without additional powers to act quickly and unilaterally against potential airborne threats, Federal Aviation Ad-

ministration's efforts to loosen safety rules for drone operators appear indefinitely delayed, Bryan Wynne, president of the industry's largest trade association, told the same conference. Previous FAA moves to propose remote tracking and identification of drones failed, due partly to splits among industry players and because leaders of the FBI and other federal law enforcement agencies balked at signing on to concepts that failed to include the green light for taking countermeasures.

The FAA is continuing to look for ways to gradually phase in drone operations at night, over densely populated areas and beyond the sight of ground-based operators.

But acting FAA administrator Daniel Elwell warned that faced with the potential threat of "people who aren't playing by the rules," a single "malicious act could put a hard stop [to] all the good work we've done."

Another sign of escalating interest in combating hostile drones is the dramatic growth of startups and other companies offering technologies for such purposes.

Some industry estimates indicate there are now over 200 providers of various counter-drone systems, several times the total just a few years ago.

A bevy of U.S. intelligence reports and news stories highlighting terrorist groups weaponizing off-the-shelf drone models also has added to White House concerns.

Under the current legal framework, if a drone suddenly appears over a crowd and its intention isn't clear, "we have limited tools to use," according to Angela Stubblefield, a high-level FAA official responsible for security issues.

debt load to around 4.7 times earnings before interest, taxes, depreciation and amortization, or Ebitda, from 3.3 times in June, according to Moody's Investors Service Inc.

The company intends to reduce that ratio to around 3.6 within two years by increasing earnings and using excess cash to repay debt, Moody's said.

CVS expects to close the deal in the second half of 2018. Federal authorities reviewing the proposed merger last month asked for more information, pushing back the deadline to rule on the deal. CVS said it anticipated the move and that the process is "progressing as planned." Shareholders for both companies are set to vote on the deal March 20.

CVS shares fell sharply, while Aetna's stock jumped, when The Wall Street Journal first reported the companies were in talks in October. CVS shares are down about 15% from a year ago; Aetna's stock price is up nearly 50% in that time.

—Sharon Terlep and Daniel Kruger contributed to this article.

# SALE

Continued from Page One

Issuance of investment-grade corporate bonds totaled \$217 billion in January and February compared with \$256 billion in the same period last year, according to data from S&P Global.

Investors and other prospective borrowers were carefully watching CVS's deal to see if the move in rates had affected the market's capacity to finance outsize takeovers.

"There was a lot riding on this deal," said Drew Conrad, a bond trader for Denver Investments, which manages about \$4.5 billion of fixed income. "I think if this deal had gone poorly it would have made it harder for some of these large M&A deals to price debt where they wanted."

CVS paid a slightly higher yield on the debt than is common for new bond sales, attracting hefty demand from investors who placed orders worth about \$120 billion, or three times the amount of

bonds on offer, people familiar with the deal said. The company will also use \$4 billion of cash, a \$5 billion loan and stock to pay for the buyout, the people said.

"Having a successful offering for CVS was important for paving the way for some other large borrowers," said Dan Mead, a senior banker at Bank of America Corp. who worked on the deal. "The transaction showed there is still depth for large M&A financings in the investment-grade bond market."

After a relatively slow 2017, M&A activity is heating up, with pending deals including United Technologies Corp.'s \$23 billion planned purchase of Rockwell Collins and Bayer AG's \$57 billion expected acquisition of Monsanto Co.

Falling interest rates around the world in recent years pushed yield-starved investors to shift from government bonds to purchases of global corporate investment-grade bonds, fueling a record \$3.32 trillion of issuance in 2017 as companies rushed to take advantage of low rates, according to data from Dealogic.

Foreign

purchases of corporate bonds slowed this year as the yield on the benchmark 10-year Treasury note rose by roughly half a percentage point. A Bloomberg Barclays index of the debt has declined 2.86% since Jan. 1.

Investors expect yields to remain higher, as the Federal Reserve raises interest rates and U.S. tax cuts combined with the recent budget agreement create more fiscal stimulus for an already-growing economy.

CVS offered buyers of the new debt a higher yield than that on its current bonds to ensure strong participation. CVS priced a new \$5 billion bond due in 2025 to yield about 1.45 percentage points more than comparable U.S. Treasury bonds, roughly 0.15 percentage point more than its existing bonds of similar maturity, according to data from MarketAxess.

The company split the \$40 billion financing into seven bonds with repayment dates ranging from two years to 30 years. The 30-year portion, which yields 1.95 percentage

points more than underlying Treasurys, will remain outstanding even if regulators reject the Aetna purchase, which would force CVS to buy back most of the debt, investors said.

The company hired five investment banks to jointly arrange the sale: Bank of America Corp., Barclays PLC, Goldman Sachs Group Inc., JP Morgan Chase & Co. and yt yt

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Source: Dealogic

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—Sharon Terlep and Daniel Kruger contributed to this article.

Source: Dealogic

Source: Dealogic</p

## WORLD NEWS

## China Spends More on Security at Home

Domestic outlays grow as Xi Jinping consolidates power; periphery is blanketed

By JOSH CHIN

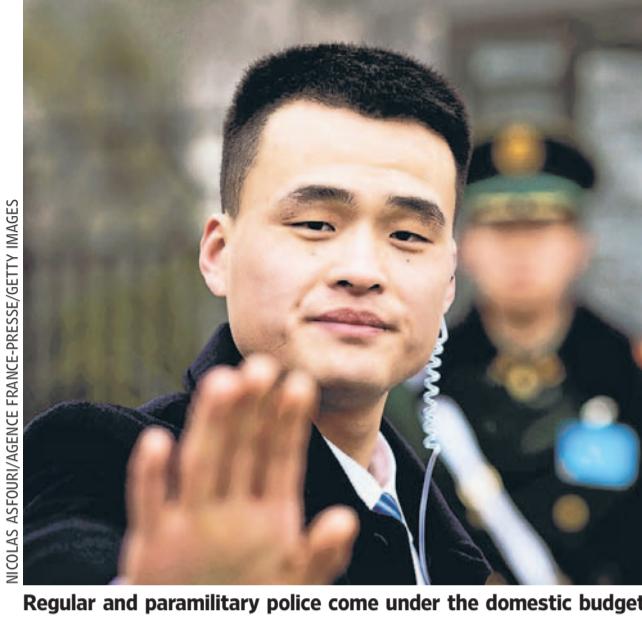
**BELJING**—China has substantially increased spending on domestic security, official figures show, reflecting mounting concern about threats inside its borders as President Xi Jinping moves to acquire more power and reassert the authority of the Communist Party.

Beijing's budgets for internal and external security have grown faster than the economy as a whole for several years, but domestic security spending has grown far faster—to where it exceeds the national defense budget by roughly 20%.

Across China, domestic security accounted for 6.1% of government spending in 2017, the Ministry of Finance said. That translates into 1.24 trillion yuan (\$196 billion) and compares with 1.02 trillion yuan in central-government funding for the military.

The numbers, revealed in an annual budget report released this week, help illustrate the scale of a recent intensification of security and surveillance across China, particularly in Xinjiang and Tibet, minority-heavy areas on the country's periphery.

The spending numbers are "very consistent with the heavy securitization that's go-



Regular and paramilitary police come under the domestic budget.

NICOLAS ASFOUR/AGENCE FRANCE PRESSE/GETTY IMAGES

ing on," said Adrian Zenz, a lecturer at the European School of Culture and Theology in Germany who discovered the numbers in Monday's report and whose research into Chinese security spending is due to be published soon by the Jamestown Foundation.

In Xinjiang the government has woven a web of surveillance, with checkpoints, high-definition cameras, facial scanners and street patrols; the region spent \$9.1 billion on domestic security in 2017, a 92% increase from 2016, according to local government budget data.

Spending across the country on domestic security rose 12.4% last year; in 2016

spending increased 17.6%, official data show.

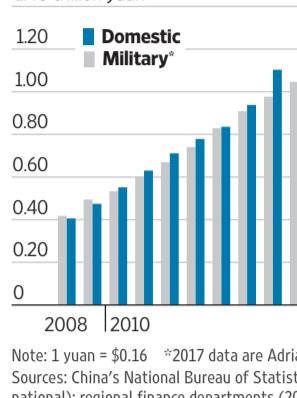
The budget for domestic security covers regular and paramilitary police, courts, prosecutors and prisons. Chinese authorities are experimenting with cutting-edge tracking tools, tapping into social-media accounts to punish politically incorrect speech and, in some places, trying to get residents to inform on each other using smartphone apps.

The Finance Ministry stopped including the domestic-security budget in its annual report in 2013, after media reports highlighted its growth. This year, the number appeared only as a percentage

### Looking Inward

China's spending on domestic security outpaces military spending, driven in part by an increase in Xinjiang.

#### National security spending



Note: 1 yuan = \$0.16 \*2017 data are Adrian Zenz's estimates

Sources: China's National Bureau of Statistics (through 2016); Ministry of Finance (2017 national); regional finance departments (2017 regional); Adrian Zenz (estimates).

#### Regional security spending



THE WALL STREET JOURNAL.

Xinjiang's police are also engaged in a blood-collection effort designed to further expand China's DNA database, already the world's largest.

Per capita security spending in Xinjiang and the Tibetan Autonomous Region to the south are comparable to the national average in the U.S., with adjustments for differences in costs for personnel and equipment, said Mr. Zenz. The U.S. spends around \$520 per person on policing and other forms of law enforcement, Mr. Zenz said.

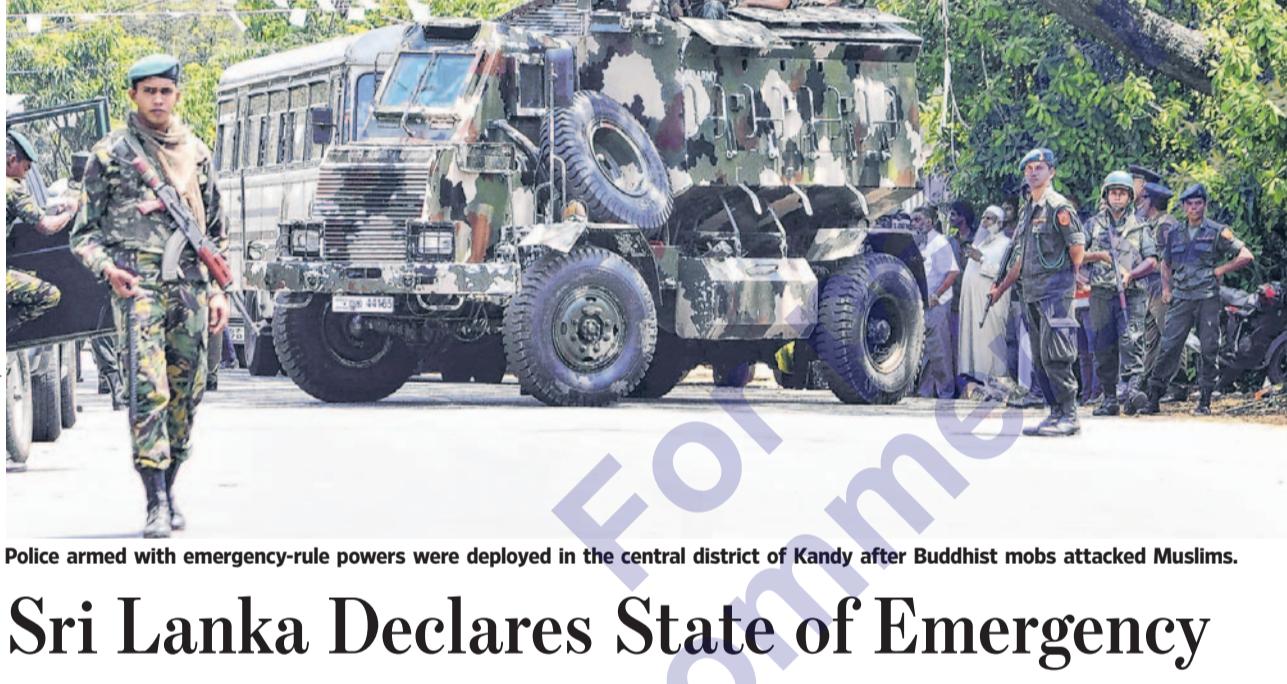
Chinese officials say the increase in surveillance in Xinjiang and Tibet is necessary to snuff out separatist movements among minority groups they say are influenced by hostile forces abroad. Human rights groups say discriminatory policies in both regions are partly to blame for ethnic strife and that the heavy security exacerbates the tension.

China's military is also investing to develop its capabilities.

"Growth in China's defense budget remains in the single digits, and broadly in line with economic conditions," said William Choong, an Asian security specialist at the International Institute for Strategic Studies in London, a global-affairs think tank.

Neither the Ministry of Finance nor the Ministry of Public Security responded to requests for comment.

◆ Beijing considers a boost for markets ..... B4



Police armed with emergency-rule powers were deployed in the central district of Kandy after Buddhist mobs attacked Muslims.

## Sri Lanka Declares State of Emergency

By UDITHA JAYASINGHE

**COLOMBO**, Sri Lanka—The government imposed a nationwide state of emergency on Tuesday for the first time since the end of the civil war, after communal violence erupted between Buddhists and Muslims, leaving at least one person dead and scores of houses and shops destroyed.

The fighting began Monday in the central district of Kandy, when 27 Muslim-owned shops and businesses and several houses were set on fire in the town of Digana. The clashes spread to the nearby towns of Theldeniya and Pallakelle, where Buddhist houses were attacked. At least one mosque was damaged.

Buddhist-Muslim tensions have flared in recent years with the growth of extremist

Buddhist organizations, which accuse Muslims of forcing people to convert to Islam and destroying sacred Buddhist sites. Hate groups in Sri Lanka have spread their message on social media platforms.

The government declared a seven-day state of emergency across the country following a special cabinet meeting on Tuesday, granting the police the authority to arrest suspects without a warrant or legal representation. Curfews were imposed in the affected areas.

It was the first time the country has been under emergency rule since 2011, after the nation's 27-year civil war ended.

More than 1,000 police officers, soldiers and special forces operatives were deployed to the area.

Police have been placed on alert as Muslim communities in the eastern part of the country and capital city of Colombo protested the violence, demanding action from the government.

Police fired tear gas at protesters and arrested 24 people Monday, and seized gasoline bombs on Tuesday. A 24-year-old man was found dead after his home was set ablaze by mobs Monday, police said.

"We completely condemn this violence and have already initiated investigations into the incidents," Prime Minister Ranil Wickremesinghe told Parliament. He called for calm and pledged to provide compensation to affected parties.

Muslim lawmakers protested in Parliament, insisting repeated clashes had made them lose faith in law enforcement.

Opposition Tamil politicians also condemned what they saw as government inaction on escalating violence between majority Sinhalese Buddhists and minority Muslims.

Some Buddhist nationalists are also protesting against the arrival of Muslim Rohingya asylum seekers from mostly Myanmar, where Buddhist nationalism has been on the rise.

Buddhists make up about 74% of Sri Lanka's population, with Tamils at 12% and Muslims at 10% being the two largest minorities in the country's 20 million population.

Sri Lanka emerged in 2009 from war between the government and separatist group Liberation Tamil Tigers of Eelam. Since a change of government in 2015, Sri Lanka has been making tentative progress with reconciliation.

## Tillerson to Focus On Terror in Africa

Secretary of State Rex Tillerson heads to Africa this week for a five-nation trip focusing on counterterrorism, China's influence and fence-mending, a visit that comes as

By Matina Stevis-Gridneff in Nairobi and Felicia Schwartz in Washington

the Trump administration tries to set out its priorities there.

The one-week tour by the most senior Trump administration official to visit the continent comes two months after President Donald Trump's alleged coarse comments on immigration from Africa sparked a diplomatic firestorm.

The Trump administration has yet to nominate a chief U.S. diplomat for Africa, while eight embassies, including South Africa, the Democratic Republic of Congo and Somalia, remain without ambassadors.

The State Department has said it is working with the White House to put officials in place and that career staffers are capable of the work in the interim.

Mr. Tillerson is set to meet top officials in Chad, Djibouti, Ethiopia, Kenya and Nigeria—America's top regional security allies—several of which host bases or are helping battle jihadist insurgents affiliated with al Qaeda and Islamic State.

Islamist insurgencies have proliferated in Africa even as Islamic State has suffered defeats in Iraq and Syria. Militants loyal to the group ambushed a Special Forces patrol in Niger in October, killing four U.S. Army soldiers.

State Department officials said Mr. Tillerson's agenda would also focus on bolstering trade ties and the growing debt burden many countries on the continent are amassing through concessionary loans from China.

Beijing is by far Africa's largest trading partner—a source of billions in investments and loans for infrastructure, mining and retail. The U.S. was listed as the continent's fifth-biggest trade partner in 2016, the World Bank said.

Speaking at George Mason University in Virginia on Tuesday, Mr. Tillerson said China's approach to development in Africa "encourages dependency" that undermines its sovereignty, as he prepared for his first official trip to the continent, the Associated Press reported.

He said China's projects on the continent had involved predatory loans, corruption and vague contracts. He contrasted that to America's approach.

U.S. diplomats sought to manage expectations for the trip, saying they aren't expecting any significant agreements, pacts or concessions.

"There's really no deliverables, and the reason why is because for the Secretary of State and for our trip now it's really to underscore the commitment of the United States to Africa but also to explore with the leadership in each of the countries about what we want to achieve together as partners," a senior State Department official said.

## Long-Sunk U.S. Carrier Is Found

By ROB TAYLOR

CANBERRA, Australia—The wreck of an American aircraft carrier sunk during World War II and which President Donald Trump praised last year has been discovered in deep ocean off the coast of Australia.

The USS Lexington, one of the first American carriers and nicknamed the "Lady Lex," was found 500 miles northeast of Australia in the Coral Sea by billionaire Microsoft co-founder and wreck-hunting enthusiast Paul Allen, lying in water 1.8 miles deep.

The carrier was crippled in May 1942 during the Battle of the Coral Sea after being hit with bombs and torpedoes, with 216 crew killed. It was sent to the bottom after 2,735 crew were evacuated by an

other American warship, the USS Phelps, to prevent its possible capture by Japan.

Underwater photographs and video of the carrier taken by an underwater drone show parts of the carrier's superstructure and guns, as well as some of its 35 aircraft, including Douglas TBD Devastator torpedo bombers, Douglas SBD Dauntless bombers and a Grumman F4F Wildcat fighter. The aircraft were in remarkable condition, with their U.S. markings still clearly visible.

U.S. Pacific Commander Harry Harris, whose father was rescued from the carrier, paid tribute to the ship and those killed during a visit to Australia.

Adm. Harris is set to become the Trump administration's envoy and the first four



Aircraft found with the sunken USS Lexington using an underwater drone were in remarkable condition.

rapidly advancing underwater drone technology. His team last year discovered the wreck of the heavy cruiser USS Indianapolis—sunk by Japanese tor-

pedoes in July 1945—as well as the destroyer USS Ward, credited with firing America's opening shots of World War II.

The Lexington was located

by a remote submersible operating from the RV Petrel, a former offshore construction vessel purchased by Mr. Allen in 2016.

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Illustration  
by Alex Williamson

## HOW CHINA'S ANTI-SMOG CAMPAIGN TRIGGERED A NATURAL GAS CRISIS AND A SWITCH TO "CLEAN COAL"

By Xizhou Zhou

"Battle for the Blue Skies" has become an imperative for China, as it seeks to curb the pollution that's been a by-product of its rapid economic growth. But this massive undertaking led to unintended consequences — a natural gas crisis that dramatically impacted global gas markets and shifted the anti-pollution campaign towards "clean coal."

During the winter of 2012-13, media outlets across the world covered the "airpocalypse" that blanketed Beijing and surrounding regions. Photos of people walking dogs on leashes — but who couldn't quite see their pets — surfaced on social media. The increasingly affluent Chinese public demanded relief, and the central government acted swiftly, issuing a sweeping "Action Plan on Prevention and Control of Air Pollution." The aim was to achieve real results in five years.

### RAPID CHANGE UNDER THE ACTION PLAN

The energy industry responded quickly. National oil companies made major refinery upgrades and met aggressive new fuel standards. Power companies completed retrofits for over 800 gigawatts of coal plants, meeting emissions limits more stringent than the latest U.S. EPA rules. And they shut down the vast majority of their old, inefficient coal plants, whose capacity totaled more than 100 gigawatts — enough to power France. As a result, China's coal-fired power generation fleet is now among the world's most efficient. During this period, China also emerged as the largest market for wind turbines and solar panels. Gas-fired power generation capacity grew rapidly as well, reaching 76 gigawatts by the end of 2017.

Yet for all this activity, northern China's residents continued to receive red and orange alerts on their phones during the winter of 2016-17, notifying them that heavy smog was on the way. Schools had to shut, vehicle travel was restricted, and work stopped at many industrial and construction sites. There were doubts the Action Plan's targets would be reached by the end of 2017.

### THE COAL-TO-GAS SWITCH FRENZY

In early 2017, the Ministry of Environmental Protection (MEP) recognized there were only a few short months left to meet the deadlines set out in

the Action Plan. They had to look for emission reductions in new places.

Officials zeroed in on the last unregulated sector, known as "dispersed coal" — tens of thousands of coal boilers that provided industrial steam, process heat, and residential heating in northern China. These small facilities, spread across many provinces, burned low-quality coal and lacked basic pollution control equipment. But dispersed coal provided 70 percent of northern China's heating.

Starting in the spring of 2017, officials issued orders to shut down these facilities, and — when they did not trust the operator to stay closed — even hired crews to dismantle the equipment. Local cadres quickly fell in line and sent a firm message to facility owners: switch to gas or stop operating.

This did the trick. As the heating season began in November 2017, northern China's residents experienced consecutive blue sky days, without even a yellow alert. Many first-time visitors to the Chinese capital wondered where the infamous Beijing smog had gone.

There was, however, a problem: many communities were literally left in the cold. Their boilers could no longer burn coal, but there wasn't enough natural gas. The situation quickly escalated, and reports circulated of

school children sitting in freezing classrooms and surgical procedures delayed because of frigid temperatures in hospitals.

What had not been understood was that China lacked the underground gas storage to manage seasonal demand fluctuations — certainly not at the scale needed by the 2017 coal-to-gas conversion campaign. China was experiencing a natural gas crisis.

### GAS SHORTAGES AND A RESPONSE

Coastal liquefied natural gas (LNG)-receiving terminals were operating beyond capacity; gas pipelines were full; and upstream producers ramped their production up to 10 percent above 2016 levels. Central Asia pipeline gas imports were also up 19 percent. The global LNG market responded as well, with Chinese imports rising by 45 percent, and Asian spot LNG prices heading toward \$12 per MMBtu — 30 percent higher than in 2016. Officials scrambled to allocate and swap gas

supply. But it wasn't enough.

Finally, in mid-December of last year, 10 central government agencies jointly issued a Clean Heating Plan for 2017-21. This new plan ordered that "dispersed coal" burn must stop and the resulting heating gap should be filled not only by gas but also by other energy sources.

### COAL-TO-COAL SWITCH

To many people's surprise, the most important source identified in the new plan was "clean coal burning." This meant large, centralized coal facilities equipped with state-of-the-art pollution controls. The vast majority of China's coal-fired electric power plants fall into that category today.

With clear skies continuing throughout the winter, residents noticed steam again coming out of the giant cooling towers at one of the mothballed coal plants in southeastern Beijing.

The Gaobeidian plant had previously been shut down as part of the government effort to eradicate coal burning in the city proper.

But authorities decided that given its high efficiency and modern pollution control equipment, the Gaobeidian plant should switch back on. This allowed gas to be diverted to places where centralized heating infrastructure was not in place and gas was the only alternative.

In effect, the clean air campaign was now relying on a shift from "dispersed coal" to "clean coal," instead of the prior widely held mantra of "coal to gas."

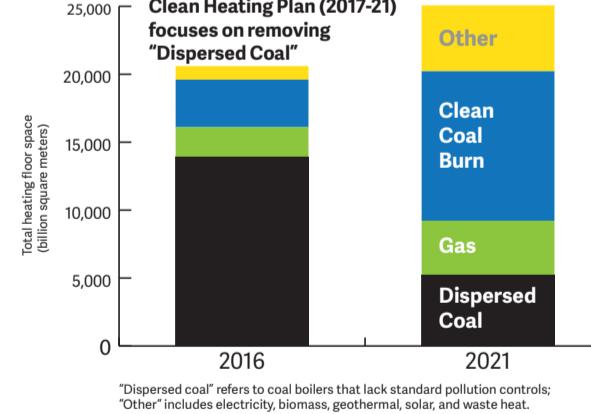
Over the next four years, the government will continue to allow more combined heat and power coal plants to operate in northern China. As a result, floor space heated by "clean coal burning" is projected to more than triple by 2021 (see chart). Substitution of this kind will actually reduce overall coal consumption, because large plants are more efficient than dispersed small boilers. It will also lower the associated carbon emissions.

Gas remains part of the solution, but not as much as clean coal. By 2021, gas is projected to account for 16 percent of floor space heated, compared with 44 percent for clean coal. The plan also stipulates that other heating sources should be considered when possible, including biomass, geothermal, and electricity. The Clean Heating Plan thus pursues an "all-of-the-above" strategy that relies on any source of energy with zero or low emissions.

This means the sharp increase in gas consumption China saw in 2017 — up 15 percent from 2016 — and the associated 45 percent jump in LNG imports are not likely to repeat. With most dispersed coal being switched to large coal plants, gas demand growth will likely be much more moderate in 2018 and beyond, and China's impact on winter spot LNG prices will also be less pronounced. Overall, we expect China's gas market to return to upper single-digit growth rates over the next few years.

The 2017-18 natural gas crisis resulted from China's aggressive efforts to curb air pollution and an initial assumption it could rely mostly on switching from coal to gas. The infrastructure required to make a wholesale switch like this was not yet in place, leading to a shift. China's new strategy is to rely mostly on a switch from "dispersed coal" to clean coal, bolstered by generous doses of natural gas and all of the above — and more natural gas storage.

Xizhou Zhou is a Managing Director of IHS Markit and heads the Power, Gas, Coal & Renewables group in Asia Pacific. Jenny Yang, Zhouwei Diao, and Dongjie Zhang contributed to this article.



## To Readers

A set of complex dynamics — ongoing technological advances, shifting government policies (especially concerning the environment), a return to robust growth in all parts of the global economy, and geopolitical tensions in hot spots around the world — is creating both opportunities and challenges for the energy industry.

These developments raise a series of questions. How long will the decade-long resurgence of U.S. oil production continue? Is the world poised for another energy transition from oil and natural gas to a new generation of technologies? Will new needed energy infrastructure be built in a timely way? Which country will win the race for 21st-century technology leadership? And how will China, the world's leading energy consumer, meet the aggressive pollution and carbon emission reduction targets it has recently set?

These will be among the many questions and topics at CERAWeek 2018 by IHS Markit. This special section, *Tipping Point: Strategies for a New Energy Future*, addresses three issues at the heart of the current energy picture:

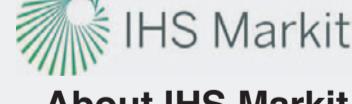
- How China's aggressive efforts to curb pollution triggered a temporary natural gas crisis.
- How a set of new technologies and business models may transform the place of cars in people's lives.
- The role of national innovation ecosystems in determining which country will become the leader in new energy technology.

These articles and others on additional topics by IHS Markit researchers, as well as content from CERAWeek, are available online at [www.ceraweek.com](http://www.ceraweek.com)

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## Daniel Yergin

IHS Markit Vice Chairman and Chairman of CERAWeek by IHS Markit Author of *The Quest* and *The Prize*  
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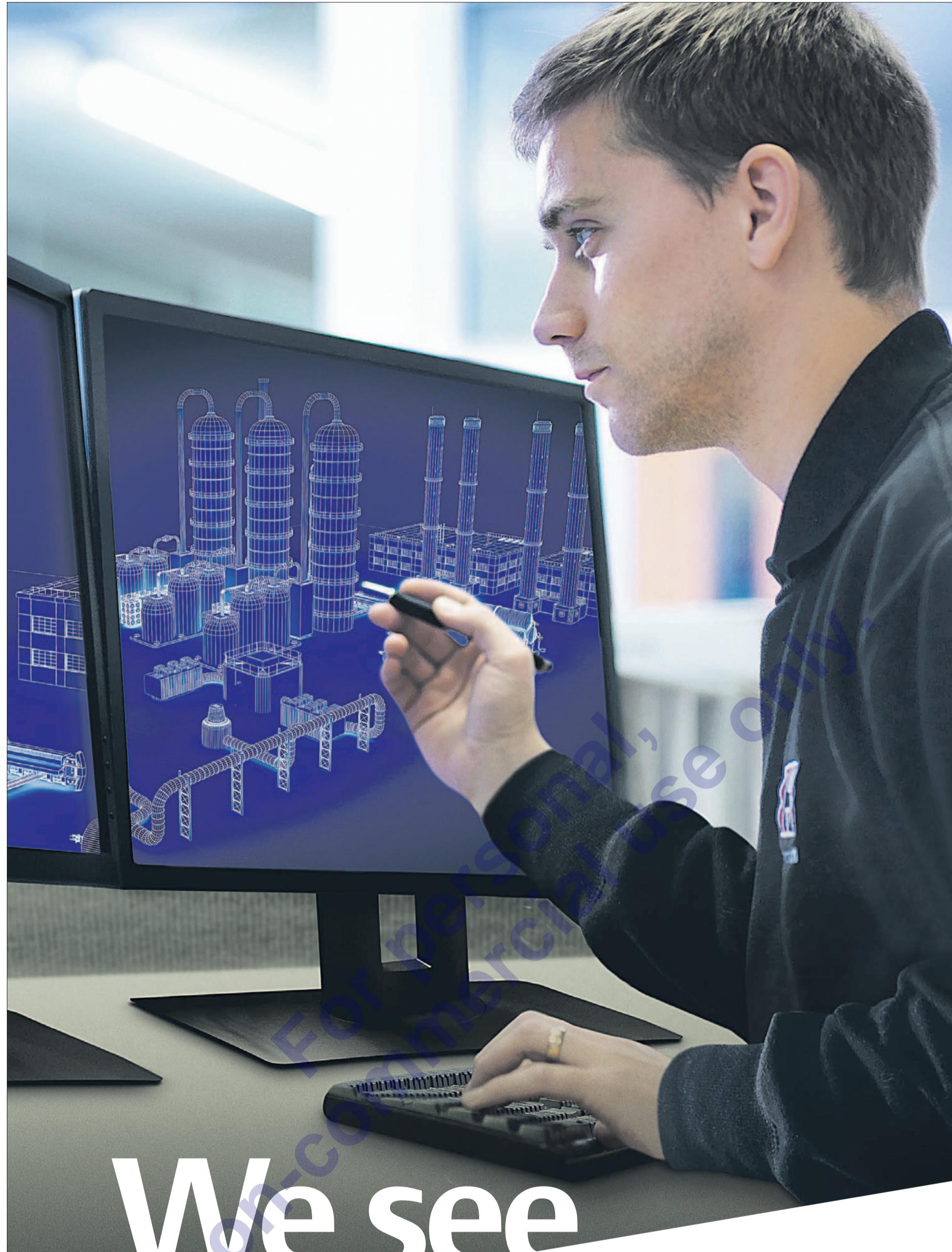
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# FROM ZERO TO A TRILLION: THE MOBILITY REVOLUTION

By Jim Burkhard and Katherine Hardin

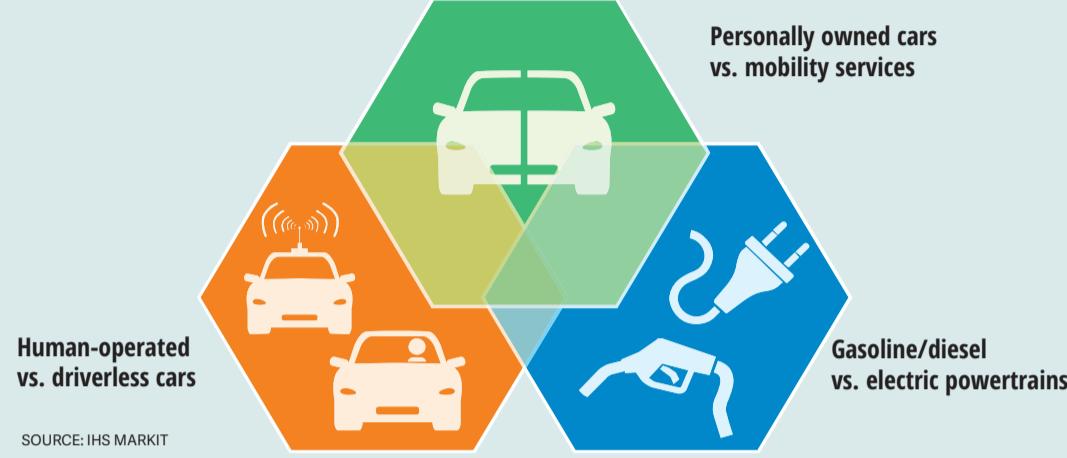
Innovative technologies and business models could well transform how people use cars. Three key developments are converging. The first is ride-hailing, provided through mobile apps. The second is electric cars. The third, and potentially most transformative, is driverless vehicles. While separate innovations, their impacts will overlap. Together, they will challenge the century-old model of mobility, based on individual car ownership. IHS Markit's research on the future of transportation (see box) projects that app-based mobility services — which effectively did not exist a decade ago — will become a \$1 trillion market by 2040. These changes portend potentially momentous shifts for automakers and energy companies, as well as big opportunities for new entrants.

Ride-hailing is the opening act. One key impact is that more people will travel by car than previously expected. This will increase access to mobility, especially in emerging economies. Another impact will be more intense use of vehicles. A car driven by a mobility services company averages 50,000 miles per year, five times more than a car purchased for personal use. So overall utilization of the automotive fleet will be higher. This could have big implications for the global automobile industry, and some of the major carmakers are investing in mobility services.

There will likely be a lot of regional variation in how mobility services evolve. Some cities may rely on an open, lightly regulated market, while others could incorporate car-based mobility services into their mass transit systems. In densely populated areas, ride-pooling — where multiple passengers share a car — may be favored to reduce congestion.

App-based mobility services have grown because consumers

## What Will Be the New Mix for Cars?



## IHS Markit's Mobility and Energy Future Service

How do you make sense of recent developments in the mobility sector, and what will they mean for the trillions invested in the automotive and energy industries? IHS Markit's new *Mobility and Energy Future* service is a guide and toolkit to help companies navigate the historic change in the automotive system. IHS Markit's *Reinventing the Truck* study analyzes the disruptive forces impacting the medium and heavy truck sector in the U.S., Europe, China, and Japan. The study will develop two scenarios of the future of trucking and project energy demand for each, based on IHS Markit's integrated energy scenarios. [For more information, contact Chelsea Havill@IHSMarkit.com](mailto:Chelsea.Havill@IHSMarkit.com)

value what they provide — they did not come about due to government fiat. With electric vehicles (EVs), however, government subsidies, incentives, and regulation have been the key stimulant. If a shift to EVs takes place at scale, the implications will be large for both the oil and electric power industries. But light vehicles today account for only about a third of total oil demand, and the timing and pace of change are far from clear.

More than 1 million electric vehicles were sold worldwide in 2017, up 43 percent from the prior year. Recent sales have grown rapidly, but fast growth is easier when the starting point is near zero. EVs still accounted for only 1.7 percent of light vehicle sales in 2017 — a mere 0.2 percent of the global car fleet.

If supportive government policies fade away, EV sales could be hobbled, possibly severely. The

lack of recharging infrastructure is another major challenge. Fast, direct current (DC) charging systems are a solution, and the first "ultrafast" DC chargers — which can provide 500 miles of range in 15 minutes — are now being installed. But questions about their economics remain.

Even with continued policy support and proliferation of fast-charging infrastructure, the shift to EVs will take time. In IHS Markit's planning scenario "Rivalry," global oil demand continues to grow until around 2040 and then plateaus, with 12 percent of the global car fleet of 2 billion electric by 2040. In our "Autonomy" scenario, which assumes a more rapid EV uptake, the EV share of the total global fleet in 2040 is 25 percent.

The most profound innovation is driverless technology. Leading tech companies and startups are

active, partnering with — and sometimes competing with — the big carmakers. Driverless technology will provide opportunities to generate additional revenues by providing entertainment, information, and communications to passengers, so firms from other industries are becoming active in the driverless vehicle race as well.

One big impact of driverless technology will be improved road safety. Driverless cars can be programmed for safe, defensive driving and don't get tired, distracted, or fall under the influence of drugs or alcohol. More than 1 million people are killed each year in car accidents around the world. Driverless technology won't eliminate road deaths, but it could significantly reduce them.

In addition to saving lives, driverless technology may reshape how we live. Long commutes

could be more productive and pleasant, so many may choose to live farther from where they work. Driverless trucks also have the potential to reconfigure industrial logistics and warehousing practices.

A hundred years ago, as automobiles were first being adopted widely, it would have been difficult to envision how the car would reshape life in the 20th century. In a similar way, it may be hard to imagine today how driverless vehicles may transform life in the 21st century. But before they have a big impact, driverless cars will have to be embraced by consumers and integrated with vehicles with drivers — and demonstrate a safety record better than that of the best human drivers.

As the three big innovations diffuse around the world, a growing array of new services can be expected to emerge that incorporate elements of each. One possible example: a personal subscription providing access to a set number of driverless EV miles per month.

To see what may happen, keep an eye on China. It is the now the largest automotive market, with sales of 27 million cars last year, 60 percent larger than the 17 million sold in the U.S., the second largest market. China is also the largest market for EVs.

By 2040, there will be a lot of money to go around in the trillion-dollar mobility services market. Because so much is at stake, a number of formidable players — automakers, oil companies, electric utilities, and tech firms — are engaged today, seeking to position themselves in what could be the competition of the 21st century.

*Jim Burkhard is a Vice President and heads IHS Markit's Crude Oil and Energy/Mobility research. Katherine Hardin is Executive Director for Energy at IHS Markit.*

## THE CLEAN ENERGY INNOVATION ECOSYSTEM: What's Needed for the U.S. to Win the Race

By Timothy Gardner

Traditionally, innovation in the energy industry has led to lower costs for consumers or better products — that is, higher in quality or more convenient to use. Today, however, the industry faces a more complex landscape that involves moving beyond its traditional commitments to lower costs or better service. In the 21st century, the energy sector faces two massive yet conflicting imperatives: rapidly rising global energy demand, as billions of people in emerging economies strive to achieve the way of life long enjoyed by citizens of the industrialized world; and the climate challenge, which creates a need for low-carbon energy at scale. The only way these dual challenges can both be met is through significant, rapidly adopted technological breakthroughs.

Achieving major breakthroughs in energy technology innovation could yield great economic as well as environmental rewards. Global investment in electric power alone is expected to total \$20 trillion over the next 15 years. Over that same period, virtually every nation in the world has committed to significant reductions in carbon intensity. The country that can create the next generation of clean energy technology will find a global market eager to adopt its innovations and emerge as a big winner. Today, the contest for leadership in cleantech is a race between the European Union, China, and the United States.

The U.S. — as the world's leader in technology innovation overall and with a market that accounts for nearly one-quarter of global energy consumption — could assume that leadership role. But to do so, the U.S. needs to strengthen its

clean energy innovation ecosystem. That ecosystem rests on three pillars.

### THREE PILLARS

The first pillar is a strong supply of new ideas. This is determined primarily by the amount of basic scientific research conducted, which generates insights that become breakthrough innovations in future years. In 2016, the U.S. spent more than \$6 billion on clean energy research. Over three-quarters was provided by the federal government and the remainder by corporate research budgets. Six billion dollars annually sounds like a lot, but the current level of funding is only one-third of the amount that some estimate is needed to support long-term carbon reduction goals. It is approximately what the EU spends, and while the U.S. spends more on clean energy research than China in absolute terms, it lags well behind China's spending when measured as a percentage of GDP.

The second pillar of the clean energy innovation ecosystem is market demand for clean energy solutions. The benefits of clean energy — which include reduced carbon emissions and less air pollution — exceed their market value. Demand for clean energy today is created to a considerable degree by public policy. Examples in the U.S. include tax credits; state renewable portfolio standards, which require utilities to adopt clean power technologies like wind and solar; efficiency standards for cars, appliances, and buildings; and regional carbon cap-and-trade systems. These policies seek to create incentives for entrepreneurs and companies to invest in clean energy inno-

vation. In the case of wind and solar energy, these policies have drawn enough production into the market to attain economies of scale that in many locations make the new technology competitive on a stand-alone basis. But overall, the U.S. has a patchwork of national, regional, and state policies to encourage demand for clean technologies.

The third pillar of the clean energy innovation ecosystem is a process that mobilizes private resources to convert technical potential into actual products. The translation of an idea in the lab into mainstream deployment in the energy industry is long and complex. It involves turning clean energy technology into a usable invention; developing that invention to the point that it can be demonstrated under real-world conditions; gaining acceptance by early adopters; and finally deploying at economic scale. This process typically requires years of effort and escalating funding. Traditional venture capital is not well-matched to the time spans required for energy technology adoption nor to its relatively modest initial returns. Indeed, venture capital funding for clean energy innovation has retreated steadily over the past five years as the long cycles of clean energy innovation have become more apparent. The venture funding that remains has focused on software rather than the large-scale hardware necessary for significant carbon breakthroughs.

The extended gap between invention and initial adoption — often referred to by observers of the energy industry as the "valley of death" — needs to be narrowed. Involvement by adopters —

utilities, building owners, and manufacturers of equipment — at earlier stages of the development cycle can help innovators target their inventions to practical needs and give investors insight into an invention's prospects for ultimate success. An array of support institutions has sprung up to assist in this process — research fellowships, incubators, testing facilities — but more are needed, and they also need sustained financial backing.

All three pillars are essential to clean energy innovation. On the one hand, users seeking solutions require a supply of technological offerings that can meet their needs. On the other hand, new technological offerings require market demand in order to move from the lab to commercialization. And the long, complex process of advancing from invention through initial demonstration to deployment at scale requires coordination and support.

### WHO WILL WIN?

The United States has proven that it can innovate continually and has assumed a leadership position in sectors like information technology and biotech. Whether the U.S. innovation system can achieve the purposeful end-to-end alignment needed for a strong clean-energy innovation ecosystem, however, remains an open question. Without such a framework, it seems likely that China or Europe could move ahead to become the dominant source of clean energy solutions in the 21st century.

*Timothy Gardner is Vice President for Gas and Power Business Development at IHS Markit, where he leads research on clean energy innovation.*

## WORLD NEWS

## KOREA

*Continued from Page One*

security adviser.

Mr. Kim also said he would be willing to meet South Korean President Moon Jae-in in late April, in what would be the third-ever summit between leaders of the two Koreas, Mr. Chung said.

South Korean officials are coming to Washington this week to brief the White House in detail about the conversations with Pyongyang.

"We'd like to hear more about that," a senior administration official said of North Korea's offer to open talks on giving up its nuclear arsenal in exchange for normalization of relations and security guarantees.

The official added: "What we are looking for is concrete steps toward denuclearization, not for a list of or a rehashing of old positions that did not lead to that outcome."

The surprise development appeared to represent an easing of tensions on the heavily armed Korean Peninsula, but experts cautioned that formidable diplomatic obstacles remain.

Reinforcing the Trump administration's position that it will maintain its "maximum pressure" campaign until it sees credible steps toward denuclearization, the State Department announced new sanctions against Pyongyang late Tuesday for the killing of Mr. Kim's half brother last year.

The administration said that it officially determined last month that North Korea used a chemical-warfare agent to assassinate Kim Jong Nam in Malaysia, making Pyongyang liable for new sanctions under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991. The State Department didn't elaborate on what its penalties are, but North Korea is already comprehensively sanctioned by Washington.

"This public display of contempt for universal norms against chemical weapons use further demonstrates the reckless nature of North Korea and underscores that we cannot af-

ford to tolerate a North Korean WMD program of any kind," State Department spokeswoman Heather Nauert said.

It remained unclear whether Mr. Kim views denuclearization as a distant objective, if he would agree to the intrusive verification the U.S. is likely to demand, and what specific steps Pyongyang might demand in return.

Details of the Trump administration's negotiating stance are similarly uncertain, nor has the White House said who its chief negotiator might be.

"It is unlikely Kim Jong Un has abandoned his determination to keep nuclear weapons indefinitely," said Robert J. Einhorn, a former senior State Department official who negotiated with North Korean officials during the Clinton administration.

"It may well be just a tactical shift," he said. "But the Trump administration has little choice but to test North Korea's seriousness by sitting down at a negotiating table and exploring what Kim Jong Un has in mind."

A spokesman for United Nations Secretary-General António Guterres said the U.N. chief is encouraged by the advances, and stressed the need to safeguard diplomatic momentum.

Opening talks with North Korea could provide some near-term benefits for the U.S. if Pyongyang holds to its promise not to conduct weapons tests while negotiations continue.

American officials repeatedly have said North Korea still needs to carry out additional flight tests before it can be confident that it has the capability to strike the U.S. with a long-range, nuclear-armed missile.

"If we can prolong a test moratorium, that buys time," said Gary Samore of the Belfer Center for Science and International Affairs at Harvard University and a former government official on nonproliferation issues. "Whether negotiations would produce more significant results is questionable."

North Korea hasn't insisted that the U.S. cancel two joint military exercises with the South Koreans that are sched-



South Korean President Moon Jae-in, center, was briefed in Seoul Tuesday on talks with North Korea.

came in early January, when Mr. Kim suggested his country might be willing to participate in the Winter Olympics in South Korea and Mr. Moon responded by proposing inter-Korean talks.

South Korea has been eager to encourage direct talks between the North Korea representatives and the U.S.

Pyongyang previously has suggested that its arsenal wasn't open for discussion, but Mr. Chung's remarks on Tuesday signaled a possible shift in Mr. Kim's thinking.

North Korea's government didn't issue any statements of its own on Tuesday. On Monday, state media there reported that Mr. Kim had exchanged "in-depth views on the issues for easing the acute military tensions" on the Korean Peninsula.

The two Koreas agreed to hold a summit between their leaders at the truce village of Panmunjom in the demilitarized zone that separates the peninsula—rather than in Pyongyang, the site of the two previous inter-Korean summits in 2000 and 2007.

"It would be the first inter-Korean summit at a neutral location, so Moon can avoid the optics of appearing to pay tribute to Kim in Pyongyang," said Leif-Eric Easley, a Korea specialist at Ewha Womans University in Seoul, adding that meeting on neutral turf "carries the symbolism of military confidence building."

Mr. Trump, who has previously had harsh words for North Korea and Mr. Kim, was more complimentary of Pyongyang in comments on Tuesday, particularly regarding North Korea's presence at the Olympics.

"I thought North Korea was terrific....They went into the Olympics, they went in with good spirit, they did well. Let's see if we can carry it over," he said.

Earlier Tuesday, Mr. Trump said in a tweet that the U.S. will "go hard in either direction," apparently referring to diplomacy or economic and military pressure.

*—Felicia Schwartz, Nancy A. Youssef and Ian Talley contributed to this article.*

### Seoul's Top Spy Has Played Key Role In Outreach Efforts

SEOUL—At a dinner hosted by North Korean leader Kim Jong Un for a delegation from the South this week, a bespectacled official leaned forward to talk to a grinning Mr. Kim—a scene captured in a photograph displayed prominently in the North's largest newspaper.

That man, Suh Hoon, is South Korea's top spy, tasked with running espionage operations targeting the North and analyzing intelligence on potential threats. For years he has also played a central role in behind-the-scenes diplomatic outreach to Pyongyang.

The 63-year-old career intelligence officer was instrumental in back-channel contacts that led to the two inter-Korean summits in 2000 and 2007. In both those

cases, Mr. Suh met extensively with Mr. Kim's father, North Korea's then-leader Kim Jong Il.

Mr. Suh has supported engagement with Pyongyang, while at the same time expressing deep doubts about the North's trustworthiness and intentions.

He is also a vocal supporter of Seoul's alliance with Washington, and told South Korean lawmakers last year the country should reject any calls by North Korea to remove U.S. troops from the Korean Peninsula—even if North Korea promises to dismantle its nuclear programs.

Mr. Suh has spent much of his adult life focused on the rival regime to the North. In July 1997, he became the first

South Korean official to be sent to live in the North, as part of efforts to construct light-water reactors in the North following a 1994 deal between Pyongyang and Washington to freeze North Korea's nuclear program.

For the next two years, Mr.

Suh lived in Sinpo, a city on North Korea's east coast. Dealing with his North Korean interlocutors was difficult, he recalled in a 2008 book.

"Even small things like the freedom to walk over to a local restaurant, walking by the beachfront near where I stayed and taking care of minor traffic incidents all needed to be negotiated with the North Koreans," he wrote.

In 2008, Mr. Suh wrote a doctoral dissertation on the aims of North Korea's nuclear-weapons programs, arguing that they were directed ultimately at letting Pyongyang strike some kind of security deal with Washington.

"The North's pursuit of nuclear weapons cannot persist as an eternal strategy," Mr. Suh wrote in his dissertation, later published as a book. "Eventually, such a foreign policy will become an institutional constraint limiting North Korea's growth."

On April 1, 2018, the two countries will begin a command-and-control exercise that is scheduled to end in mid-April and end the first week of May.

Beyond doubts about what

Pyongyang will offer at the

table, some U.S. officials also worry that North Korea will

seek to use negotiations to

create divisions between Seoul and Washington and blunt the

American-led efforts to maintain tough economic sanctions.

North Korea's proposal followed a rapid series of diplomatic overtures. The first

uled to take place this spring, officials in Seoul said.

One exercise consists of combined joint naval, air, ground and Special Operations missions, and is set to start at the end of March, two U.S. defense officials said. The sec-

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## WORLD NEWS

# At ECB, New Powers and Pressure

By TOM FAIRLESS

**FRANKFURT**—The European Central Bank is being dragged into local controversies over issues ranging from banking scandals to bribery, underlining the mounting political pressures on the world's No. 2 central bank as it takes on a vastly expanded role.

Three of the ECB's 25 policy makers, a group that includes central-bank governors from 19 eurozone countries, are currently entwined in domestic investigations—in Latvia, Slovenia and Greece—and other top officials have faced pressure to resign.

ECB President Mario Draghi is likely to be quizzed at a news conference Thursday about alleged corruption and money laundering in Latvia, issues far removed from the bank's primary task of setting interest rates.

Since 2014, the Frankfurt-based ECB has been the eurozone's top banking supervisor, with direct oversight of around 120 of the region's biggest lenders and indirect control over thousands of others. It is also among the international monitors that oversaw the bailouts of struggling eurozone countries, including Greece, Portugal and Cyprus.

New powers to oversee the region's banks have become something of a "poisoned chalice" for the ECB, creating frictions with national authorities that retain key responsibilities in their banking sectors, said Daniel Gros, a director at the Centre for European Policy Studies, a Brussels think tank.

National governments face high hurdles to firing their central-bank chiefs under EU rules that granted a high degree of independence to the ECB. But the ECB can't obstruct investigations under national law.

The threat of national investigations effectively weakens the 19 national central-bank governors who sit on the ECB's rate-setting committee, relative to the six members of the bank's executive board, said Mr. Gros. The latter could



Since 2014, the European Central Bank has been the eurozone's top banking supervisor.

gain influence in internal debates because they "don't have the Sword of Damocles hanging over them," he said.

The situations in Latvia, Slovenia and Greece differ from one another, but each of them risk straining and distracting the ECB, which emerged strengthened from the region's recent debt crisis even as elected politicians stumbled.

Latvia's central-bank governor Ildmars Rimsevics was recently suspended by Latvian authorities from attending meetings of the ECB's rate-setting committee in Frankfurt as a result of a Latvian investigation into whether he extorted bribes. Mr. Rimsevics denies the allegations and says there is a campaign against him orchestrated by local banks.

The probe is separate from allegations of systemic money laundering leveled by the U.S. Treasury against ABLV Bank, Latvia's third-largest bank, which is being liquidated. ABLV has said it isn't guilty of money laundering and has invested heavily in compliance systems.

Slovenia's central-bank chief Bostjan Jazbec was trav-

eling to Frankfurt in mid-2016 when Slovenian police raided his office in the capital, Ljubljana, as part of an investigation into a 2013 overhaul of the country's banks. Mr. Jazbec and the Bank of Slovenia have denied wrongdoing.

The police seized documents and hardware, including some marked with the confidential stamp of the ECB, on

requests by prosecutors to hand over documents.

Mr. Jazbec's computer was eventually returned to him, six months later, he says. But he is frustrated at what he describes as an erosion of his authority within the central bank after his four fellow board members failed to be re-elected. He has been nominated for a new job in Brussels, with the EU's bank-resolution authority, which would entail stepping down before his term ends.

In Greece, where the ECB has a high-profile role in monitoring the country's bailouts, central-bank head Yannis Stournaras has had a running feud with members of Greece's government, led by the left-wing Syriza party, who regard him as a political enemy.

In February, the Greek parliament launched an investigation into whether Mr. Stournaras, along with senior opposition politicians, took bribes to fix drug prices. Mr. Stournaras and all the officials named in the investigation have denied wrongdoing.

—Todd Buell contributed to this article.

*The bank's oversight responsibilities have created friction with national authorities.*

whose rate-setting committee Mr. Jazbec sits.

That prompted a rebuke from Mr. Draghi, who threatened legal action for violating the ECB's legal immunities and asked the European Union's executive, the European Commission, to intervene. Slovenian authorities responded at the time that the raid was legal, and that the central bank in Slovenia had refused several

# Egypt's Ex-Leader Ailing in Prison, His Family Says

By JARED MALSIN

terrorist organization in 2013. Though the group is now illegal in Egypt and barred from participating in elections, it still has millions of followers.

Foreign powers, including Britain and the U.S., have increasingly embraced Mr. Sisi as the former military chief presents his government as a force for stability in a region consumed by war and civil strife.

His government's improved international acceptance has come even as it intensifies a crackdown on political opponents and journalists before the March election.

A group of British lawmakers and lawyers petitioned Egyptian authorities on Monday to see Mr. Morsi, a politically sensitive request as an election approaches with President Abdel Fattah Al Sisi's only viable opponents in detention.

A spokesman for Egypt's foreign ministry couldn't immediately be reached for comment.

The request draws attention to Mr. Morsi's yearslong imprisonment at a moment of heightened political tensions in Egypt. Opposition leaders have deemed the election a farce and called for a boycott.

Mr. Morsi came to power in 2012 in a free election in the wake of the 2011 popular uprising that ended three decades of rule by President Hosni Mubarak. He was ousted in a military coup led by Mr. Sisi in 2013.

In the crackdown that followed, Mr. Morsi was jailed and later sentenced to death for allegedly orchestrating a prison break during the 2011 revolution. A high court overturned the death sentence in 2016, but the deposed leader is serving three other sentences for other convictions.

Egypt's military-backed government banned the Muslim Brotherhood and branded it a

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## WORLD NEWS

# Ex-Spy's Illness Strains U.K. Ties to Moscow

U.K. Foreign Secretary Boris Johnson on Tuesday pledged to consider fresh sanctions on Russia if police conclude that Moscow was responsible for the suspected poisoning of a former Russian intelligence officer here over the weekend.

*By Wiktor Szczerba in Salisbury, England, and Jason Douglas in London*

Sergei Skripal, a 66-year-old former colonel in Russia's military intelligence, and his 33-year-old daughter, Yulia, remained in critical condition in a hospital Tuesday after being found unconscious on a bench outside a shopping mall in this city in southwestern England on Sunday afternoon. Police said the two had been exposed to an unknown substance and didn't have visible injuries.

Addressing lawmakers in Parliament, Mr. Johnson said while he didn't wish to pre-judge the outcome of the police investigation, the government would respond "appropriately and robustly" if evidence emerges linking the incident to Russia.

He said the suspected poisoning recalled the 2006 assassination of Kremlin opponent Alexander Litvinenko,



Former Russian intelligence officer Sergei Skripal and his daughter were found unconscious in Salisbury.

hasn't been declared.

Relations between London and Moscow have been strained since the 2006 poisoning of Mr. Litvinenko, a Kremlin critic who had become a British citizen. He suffered a slow, painful death after drinking tea laced with polonium, a rare and deadly radioactive isotope. A 2016 British investigation found the murder of Mr. Litvinenko in a London hotel bar was probably approved by Russian President Vladimir Putin.

Mr. Skripal was part of a group of three former officers and a nuclear scientist whom Moscow accused of betrayal. In 2010 they were exchanged in Vienna for 10 Russian agents arrested in the U.S. in one of the largest spy swaps since the Cold War.

Russia's Federal Security Service, the FSB, this week said Mr. Skripal worked in the interests of the U.K. after its intelligence agents recruited him during his military service in the mid-1990s.

Kremlin spokesman Dmitry Peskov said Moscow was open to cooperating with any investigation but declined to comment on accusations that Russia was behind the incident.

—Thomas Grove in Moscow contributed to this article.

adding the U.K. would be forced "to look again" at sanctions on Moscow if suspicions that Russia was involved proved well-founded. Mr. Johnson even raised the possibility that British officials would stay away from this year's soccer World Cup in Russia.

"I say to governments around the world that no attempt to take innocent life on U.K. soil will go unsanctioned

or unpunished," Mr. Johnson said.

Police cordons were in place Tuesday in five locations across Salisbury, including Mr. Skripal's house, the hospital where he and his daughter are being treated and the bench where they were found.

Meg Edgar, a 68-year-old retired teacher from this medieval city 9 miles south of the iconic prehistoric stone circle at Stonehenge, said she was

strolling through the area Sunday afternoon when she saw a man sitting still on the bench and a person on the ground being tended to by a paramedic.

"He was just so completely still," she said. "I couldn't tell if he was asleep or not."

Police said Tuesday that counterterrorism officers have taken over the investigation because of their expertise, though a terrorist incident

## WORLD WATCH

BREXIT

## U.K. Wants Financial Services in Trade Pact

U.K. Treasury chief Philip Hammond is planning to say Wednesday that the British government believes it is in the interest of the European Union to include financial services in a free-trade deal with the U.K. after Brexit, a day after his French counterpart ruled it out.

The disagreement underscores what is set to be a major sticking point between Britain and the EU when talks over the U.K.'s withdrawal move on

to the terms of its future relationship with the bloc. The EU is due to publish its draft guidelines for that future economic partnership Wednesday.

Mr. Hammond is expected to say in a speech in London—extracts of which were published by his office Tuesday—that the U.K. believes a bespoke free-trade accord that extends to financial services is in the interest of the U.K. and the EU, given the scale of cross-border financial activity.

He is planning to dismiss those who say financial services shouldn't be included in a free-trade deal with the EU.

—Jason Douglas

## GLOBAL ECONOMY

## Inflation Stalled in Largest Economies

Inflation in the world's largest economies was unchanged for a third straight month in January, while it fell in rich countries, according to figures released Tuesday by the Organization for Economic Cooperation and Development.

A 2017 pickup in global economic growth that seems set to continue this year has led many investors to expect that inflation will also accelerate, and central banks will tighten policy more rapidly in response. Those con-

cerns have led to rises in bond yields and volatility across other financial markets.

But the Paris-based research body's measures suggest that pickup in inflation is still a possibility, rather than a fact. It said consumer prices across the Group of 20 largest economies, which account for most of the world's economic activity, were 2.5% higher in January than a year earlier. That annual rate of inflation was the same as in November and December.

The OECD said that across its 35 members—which are mostly rich countries—the annual rate of inflation dipped slightly to 2.2% in January from 2.3% December,

having also fallen in the earlier month. That drop wasn't solely due to volatile items such as food and energy, since the core rate of inflation dipped to 1.8% from 1.9%.

The drop in inflation was largely confined to the eurozone, while inflation accelerated in Japan, which has long suffered from sluggish price increases. The measure for the U.S. was unchanged in January, although it had risen significantly since mid-2017.

However, inflation in both the G-20 and the OECD was lower in January of this year than the same month of 2017.

—Paul Hannon

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## Russian Aircraft Crashes In Syria

BY THOMAS GROVE

MOSCOW—A Russian transport plane crashed while landing at the country's air base in Syria on Tuesday, killing all 32 people on board, Russia's Defense Ministry said, in another setback for the Kremlin's military intervention.

The Antonov An-26 aircraft was likely not a target of fire from hostile groups that have launched attacks on the base before, the ministry said.

"According to preliminary information, the reason for the catastrophe could have been a technical failure," Russian news agencies reported a statement from the Defense Ministry as saying. "There was no weapons fire directed at the plane."

Recent losses by Russia's military in Syria have tarnished the Kremlin's efforts to showcase its military and arms technology.

The plane is the second An-26 Russia has lost since it launched its military intervention in 2015 to support Syrian President Bashar al-Assad. More recently, Syrian rebels shot down an Su-25 in Idlib province last month.

Russian military contractors were among those killed in a U.S. airstrike in Syria last month, which was launched in response to what the U.S. called an unprovoked attack by pro-Syrian-regime forces.

Russia's Hmeimim base has been subjected to rebel artillery fire, and was targeted by munitions-carrying drones on New Year's Eve that killed two pilots and destroyed several planes, two people with information on the incident said. The Defense Ministry has rejected the claim, saying there was no damage to aircraft and the New Year's Eve attack was caused by mortar fire.

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## IN DEPTH

## FRAUD

*Continued from Page One*  
who prosecuted Mr. Lyles, at a hearing, "one realizes how precarious our system actually is."

While a small part of total identity-fraud losses—that number hit about \$16.8 billion in 2017, according to consulting firm Javelin Strategy & Research—synthetic-identity losses are soaring. TransUnion says a record \$355 million in outstanding credit-card balances was owed by people who it suspects didn't exist in 2017, up more than eightfold from 2012.

In January, Accenture PLC listed synthetic-identity fraud as one of the biggest threats facing banks in 2018.

In Rock Hill, S.C., a 50-year-old man was arrested last year after applying under synthetic identities for more than 750 credit cards; he pleaded guilty. Earlier, a Southern California man pleaded guilty to conspiracy to commit bank fraud using synthetic identities, agreeing to forfeit properties bought with the proceeds.

TransUnion says it began hearing from lenders and law enforcement about unusual fraud cases between 2012 and 2014. It began investigating, searching for driver's licenses, voter registrations and other records to confirm identities. When nothing turned up, TransUnion investigators realized the cases could be tied to fabricated identities. It blocked thousands of credit reports from future use, figuring any real people would get in touch, says Lee Cookman, a director in its identity-solutions department. None did.

TransUnion and Experian say it is tough to distinguish between a fake person and a real person applying for credit for the first time with legitimate identifying information that isn't on file. Equifax didn't respond to requests for comment.

Criminals have taken up this new ruse in part because lenders and borrowers have gotten better at protecting against more traditional fraud, which often involves using stolen data about real consumers, says Chris Pinion, who specializes in fraud strategy at LexisNexis Risk Solutions, a unit of RELX Group.

Bypassing actual consumers, scammers such as Mr. Lyles trip fewer alarms. An Alabama native, he had worked at a debt-collection firm and as a U.S. Navy service member trained in electronic warfare, according to court records. He was once chief financial officer at Chosen Destiny Foundation Inc., a nonprofit serving Atlanta's homeless.

Over two decades, he was convicted of crimes such as motor-vehicle theft and marijuana possession, court records show.

"He's a good son, a loving father, and he took care of his family to the best of his ability," says Betty Hollinger, his mother. "Whatever else happened, I just don't know."

Mr. Lyles, in federal prison for the fraudulent credit-card scheme, didn't respond to interview requests. His lawyer, Careton Matthews, declined to arrange an interview with his client. "Mr. Lyles accepted responsibility early on," he says.

"He is remorseful for having committed the acts that caused him to be sentenced."

In 2014, Mr. Lyles registered a business, Horizon Mediation LLC. Its official address was a



RYAN GIBSON FOR THE WALL STREET JOURNAL

Keith Speers of the U.S. Postal Inspection Service tracked down Kelvin Lyles, a synthetic fraudster whose 300 accomplices didn't exist.

mail-receiving agency in a strip mall.

Risk managers at credit-card issuer Capital One Financial Corp. started noticing peculiar patterns with transactions at Horizon and other merchants in the Atlanta area, according to federal investigators.

A Capital One review found even though the applications were filled out in names of multiple individuals, several were submitted from common IP addresses. Some cards were being mailed to the same location.

## Numbers game

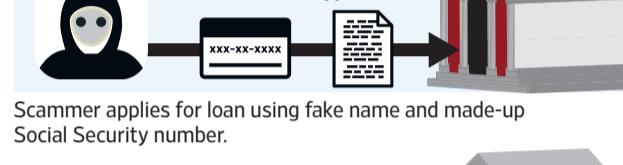
Mr. Lyles had been looking to rehabilitate his credit when he learned about what are often called credit-profile numbers, Mr. Matthews said at his client's sentencing hearing.

Also called simply CPNs, these are essentially fake Social Security numbers, nine digits the agency hasn't assigned or, in some cases, numbers assigned to children that haven't ever made it into credit files. People with tainted credit histories sometimes use them rather than their legitimate numbers so they won't be dogged by prior delinquencies. Underground websites sell them in batches.

Using CPNs on loan applications is illegal, says Stephen Stigall, partner at law firm Ballard Spahr LLP, and can subject their users to charges of making false statements to banks, bank fraud or conspiracy to commit bank fraud.

Lenders lack methods of instantly distinguishing credit-profile numbers from Social Security numbers—in part an unintended consequence of a

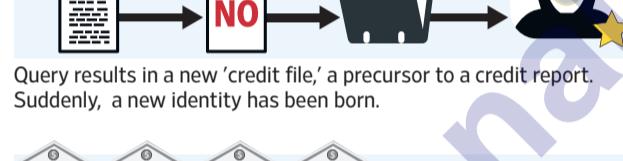
## How a Phantom Borrower Is Born



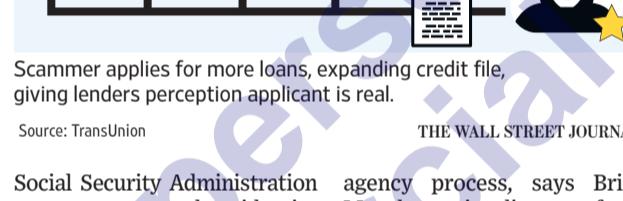
Scammer applies for loan using fake name and made-up Social Security number.



Query to credit-reporting firm reveals no borrowing history. Applicant likely to be rejected.



Query results in a new 'credit file,' a precursor to a credit report. Suddenly, a new identity has been born.



Scammer applies for more loans, expanding credit file, giving lenders perception applicant is real.

Source: TransUnion

cators pay bills promptly to qualify for higher limits, then "bust out," running up the maximum charge.

TransUnion's Mr. Cookman says it informs lenders when applicant information is consistent with synthetic fraud. Experian last year introduced a score alerting lenders if an applicant exhibits characteristics of a synthetic fraudster. TransUnion introduced a similar service in 2015. Banks are looking to put more emphasis on factors besides Social Security numbers and other static identifiers, says the ABA's Mr. Murphy.

Amanda Landers, a spokeswoman for Capital One, says: "When opening new accounts, Capital One has multiple defenses in place and layered verification checks to identify potential fraud."

## Tracking Mr. Lyles

Mr. Lyles used credit-profile numbers to win cards in nonexistent people's names, investigators say. Investigators found a receipt at his house from a website that sells such numbers.

One of his "people" was a Mike Milton, born May 7, 1987, and from Fayetteville, Ga. He applied for and received a Capital One credit card in that name, investigators say.

Mr. Lyles ran new cards through phony merchant accounts he controlled with Square Inc. and PayPal Holdings Inc. payment systems—resulting in payments from Capital One and other banks into the accounts. Square and PayPal declined to comment. Investigators say he also used cards for actual purchases and cash advances. "Realizing how easy that appeared to be and how these CPNs were not real people," said Mr. Matthews at the hearing, "it seemed too easy."

In late 2014, Capital One became concerned enough about signs of fraud it was spotting as well as delinquencies in the accounts used at Horizon that it contacted Keith Speers, a U.S. Postal Inspection Service investigator. Mr. Speers, a former U.S. Air Force security-forces officer, says he spent the first weeks of 2015 cross-referencing account information with public records and calling affected businesses, hoping to uncover who was behind the transactions.

The addresses to which new cards were mailed were often vacant or mail centers from which mail was forwarded elsewhere. In February 2015, Mr.

Speers received security-camera images of someone withdrawing \$300 from a PNC Financial Services Group Inc. ATM using a Capital One card in a name flagged to Mr. Speers. Images showed a man with a buzzcut.

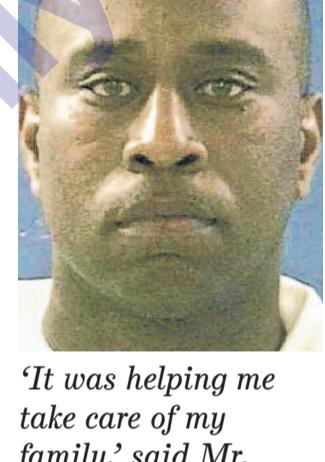
In March, Mr. Speers says, information from Amazon.com Inc. and other retailers about online purchases of clothing, shoes and other goods using fraudulent cards shared a shipping address. The recipient appeared to be female.

Mr. Speers says he ran the address through motor-vehicle records and found Mr. Lyles. His license photo matched the man in the PNC pictures.

Discover Financial Services had issued cards to some of the same "people" that had raised suspicions at Capital One, Mr. Speers says. Discover, Amazon and PNC declined to comment.

Given the number of suspicious identities involved, Mr. Speers wanted to make sure Mr. Lyles wasn't a patsy. He recalls worrying that "we're going to take off kind of one head and there may be multiple people connected but essentially independently capable of continuing, and then they would know we were out."

After subpoenaing cellphone and other records, Mr. Speers says, lenders "would always come back with, 'That linked us to these additional accounts.'"



'It was helping me take care of my family,' said Mr. Lyles at a hearing.

GPS data tied to payment terminals showed the activity centered in Mr. Lyles's neighborhood.

Mr. Speers and six other agents arrived at Mr. Lyles's home with a search warrant. Investigators found multiple payment terminals, five fake IDs, 30 credit and debit cards mostly in other people's names, a list of more than 300 credit-profile numbers and the receipt from the site selling those numbers.

Among the IDs was one for Mr. Milton.

The U.S. attorney's office charged Mr. Lyles not with identity theft, because he didn't try to defraud real people, but with wire fraud. He pleaded guilty in January 2017.

At an April sentencing hearing, he told U.S. District Judge Mark H. Cohen that "I thought it was something legal at first...It was helping me take care of my family, it was actually helping me grow my business. And life just started to look up."

Judge Cohen sentenced him to 46 months in prison. "This is not a victimless offense," the judge said. "This is basically abusing the credit system of, frankly, this country."

## VOTE

*Continued from Page One*  
been able to muster of late.

Melissa O'Rourke, a former Republican who now considers herself an independent, took the wheel in late February to drive her son and his team between campaign stops as he challenges Texas Republican Sen. Ted Cruz.

"She did a good job until she realized she wasn't wearing her glasses," Mr. O'Rourke said. "I've forgotten that at night I need my glasses to see clearly," his mother explained. Two days later, Mrs. O'Rourke briefly drove the van through a drive-through, her son noted, en route to a doughnut shop.

"These may be the last images you see of the O'Rourke campaign!" he said at one point, filming a Facebook live stream while his mother drove.

Rep. Sean Duffy, a Republican running for re-election in Wisconsin, ends up hearing from his liberal Democratic mother, Carol, about how he should be voting, regardless of how the

conversation began.

"I will give her a call to talk about the weather," said Mr. Duffy, but "she'll want to talk about all the politics of the day that she's been watching on MSNBC or CNN that she'll want to throw down on," he said.

Despite the political divide, Mr. Duffy said his mother kept his Duffy bumper sticker on her car. During the 2016 campaign, "she had a big Bernie sign on her yard. She also had a little 'Duffy for Congress' sign up too," her son said.

"People might expect a mom to vote for her own son, but Sean really had to earn my vote," Mrs. Duffy said in an ad she filmed for her son during the 2012 campaign.

Mr. Duffy also says he gets advice from his conservative Republican in-laws in Arizona.

"If I'm not far enough on the right, I hear it from them: You're a squish," he said.

Republican police officer Mike Hill offered his daughter, Katie, a Democrat, a campaign boost her own party couldn't provide. He held a fundraiser with his golfing buddies last June. "A couple of them are so

hard-core that their minds won't be changed, but they were impressed," said Mr. Hill, who will be casting his first vote for a Democrat when he votes for his daughter. Ms. Hill, who is challenging GOP Rep. Steve Knight in California, said having a Republican father helps her connect to voters of all stripes.

Elissa Slotkin is a Democrat challenging GOP Rep. Mike Bishop in Michigan. Her in-laws voted for Donald Trump in 2016 but nonetheless joined a Democratic friend to hold a fundraiser for Ms. Slotkin over Thanksgiving. Lillian Moore, Ms. Slotkin's mother-in-law, attended the fundraiser with a tray of fruit, cheese and crackers.

Regardless of party affiliation, some universal parenting truths remain constant. Most still want to dole out advice. Bob Hartman, a Republican, urges his Democratic daughter to take a day off from her crammed campaign schedule. "I tell her once a week and she takes it once a month," he said.

Christina Hartman only discovered her father was a Republican when he didn't vote for her in a 2016 Democratic pri-

mary for a House seat in Pennsylvania. "It wasn't even necessary," Mr. Hartman explained, noting his daughter ran unopposed in the primary. "I was focused on the general election."

Julia Hartman, Christina's mother and a Democrat, said she "was just horrified...That's your daughter; you're not voting for her?"

Christina Hartman, who lost the 2016 race, is now challenging Rep. Scott Perry (R., Pa.). Her father was prepared to change his registration this time around. Then, fate intervened. The state altered the electoral map last month, prompting Ms. Hartman to run instead in a different district from the one in which her father lives.

Regardless of political differences, most parents remain unwavering cheerleaders for their children. An exception: the par-

ents of GOP Wisconsin Senate candidate Kevin Nicholson. They each donated \$2,700 to Democratic Sen. Tammy Baldwin, the maximum amount allowed in the primary election. Mr. Nicholson and his parents didn't respond to requests for comment.

Mr. Nicholson himself used to be a Democrat, as he notes in a video on his campaign website. "I used to do nothing and know everything," he said. "But since then, we've had three kids. I've fought in two wars," said Mr. Nicholson, a Marine who served in Iraq and Afghanistan. "After you've been hit in the face with that much reality, you cannot help but become a strong conservative."

Freshman Rep. Tom O'Halleran of Arizona is a Democrat now, but he was a Republican for more than 15 years. Both of his Democratic parents had died before Mr. O'Halleran formally returned to their party, when he ran for Congress in 2015. "My dad wouldn't have said anything," Mr. O'Halleran said, "but my mom would have looked at me and said 'I told you so.'"

—Julie Bykowicz contributed to this article.



SAMANTHA ELSMINGER

Congressman Beto O'Rourke says goodbye to his mom, Melissa, after she spent three days on the campaign trail with him.

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—Julie Bykowicz contributed to this article.

# GREATER NEW YORK

## States Press for Tunnel Funds

Trump administration says they must put more 'skin in the game' to pay for Gateway

BY TED MANN  
AND PAUL BERGER

The Trump administration is pressuring New York and New Jersey to boost their share of funding for a new rail tunnel beneath the Hudson River, furthering a standoff over the fate of a \$12.7 billion project that Democratic and Republican officials say is critical to the region's economy.

Transportation Secretary Elaine Chao told a House committee on Tuesday that the states would need to put more "skin in the game" to pay for the Gateway program, which includes the tunnel.

The administration previously had said it wouldn't commit to funding half the program's cost, a pledge offered by the Obama administration.

Ms. Chao's comments came

amid occasionally heated exchanges with members of the New York and New Jersey congressional delegations, who say they believed that Republican President Donald Trump would commit the federal government to pay for half of the program cost.

When Rep. Sean Patrick Maloney (D., N.Y.) demanded to know if Mr. Trump intended to "kill" the tunnel project, Ms. Chao sharply responded: "Yes."

"The president is concerned about the viability of this project and the fact that New York and New Jersey have no skin in the game. They need to step up and bear their fair share," she said.

Officials in the region, including New York Gov. Andrew Cuomo, have long said they would try to hold the federal government to an Obama administration commitment to pay for roughly half the Gateway program's costs. But there has never been a formal grant agreement that would make sure the federal government paid that share.

The Trump administration

has said for months that the pledge wasn't binding, and that the states should fund a much larger portion. Federal funding for major recent transit projects has covered about one-third of their cost at most, the administration says.

Every year of delay raises the project's cost by \$450 million, according to a detailed financial plan for the tunnel obtained by The Wall Street Journal. The plan, submitted by the Gateway

**\$450M**  
The amount each year that delays raise the project's cost.

Program Development Corp. to the federal government in December, forecasts that failure to hit a crucial deadline next year would result in an annual cost escalation of 3.5%.

Representatives for Mr. Cuomo and New Jersey Gov.

Phil Murphy, both Democrats, didn't respond to questions about whether they have alternate funding plans for the tunnel or contingency plans in place should the project fail.

"We expect the tunnel to get funded and built with the full support of the federal government," said a spokesman for Mr. Murphy.

In a statement, Mr. Cuomo said: "The president should do the right thing and stop playing politics with our transportation network, which is the lifeblood of the Northeast region's economy."

The tunnel is one part of a sprawling \$30 billion Gateway program to double rail capacity between Newark, N.J., and New York City. It includes building new bridges, laying two new sets of track and expanding New York Penn Station.

Gateway's leaders are aiming for a financial close on the tunnel project in mid-2019. Before then, they must secure federal grant funding and complete the contracting process.

"I need to have all my



A tunnel under Hudson Yards is part of the Gateway project.

building blocks lined up during 2018 to hit summer 2019," said Frank Sacr, the program's interim finance director.

If the new tunnel isn't built before the current tubes must be shut down, one at a time, for repairs, rail capacity between New York and New Jersey would be reduced to six trains an hour from 24.

That would sharply reduce service for the 200,000 weekday passengers traveling through the tunnel on NJ Transit and Amtrak along the

busiest stretch of the nation's busiest rail line connecting Washington, D.C., and Boston.

New York and New Jersey have pledged \$5.5 billion toward the first phase of the tunnel project. But those funds would be borrowed from low-cost federal loan programs and paid back over time, which the administration opposes. "It's not that loans are never acceptable—it's the zero down that's the problem," a senior Trump administration official said.



Mayor Bill de Blasio spoke on Tuesday with safe-street activists outside his Brooklyn gym, which is near the site of a fatal car accident.

## Mother Hurt in Crash Is Tony Winner

BY ZOLAN KANNO-YOUNGS  
AND CHARLES PASSY

Ruthie Ann Blumenstein was living the dream of every New York City actress until she tried to cross a notorious Brooklyn intersection and landed in a nightmare.

A car plowed into the Tony Award-winning Broadway actress, who goes by Ruthie Ann Miles, and killed her 4-year-old daughter, Abigail, on Monday afternoon in Park Slope.

Ms. Blumenstein, 34 years old and pregnant, was taken to Brooklyn Methodist Hospital, where she was in stable condition on Tuesday, a hospital spokeswoman said.

She declined to comment on the condition of Ms. Blumenstein's unborn child.

The driver, identified by a law-enforcement official as Dorothy Bruns, 44, of Staten Island, also struck and killed 20-month-old Joshua Lew. His mother, Lauren Lew, was injured but later released from the hospital, the spokeswoman said.

Ms. Bruns, who hasn't been charged, said she had a seizure at the time of the incident, according to law-enforcement officials. She was released after being taken to the hospital.

A woman who answered the phone at a Staten Island address identified herself as Ms. Bruns but hung up on a reporter on Tuesday when asked for comment. A New York Police Department official on Tuesday said Ms. Bruns's license had been suspended as a result of the incident and ongoing investigation.

Ms. Bruns inched her way to the middle of the intersection at Ninth Street and Fifth Avenue before accelerating west down Ninth Street and hitting the pedestrians, according to officials who saw video footage.

Police believe the light was still red when the white Volvo hit the people, the officials said.

A search for Ms. Bruns's license plate in the city's database revealed 12 violations in the last two years, including four for failing to stop at a red

light and four speeding violations in a school zone.

Before Monday, five pedestrians had been killed on Ninth Street between Third and Eighth avenues by vehicles since 2003.

On Tuesday, a group of activists swarmed Mayor Bill de Blasio as he walked into his gym, the YMCA on Ninth Street in Park Slope. Mr. de Blasio hugged a mother of a child mowed down by a car in 2013 and spoke to Doug Gordon, a neighborhood advocate leading the demonstration. Mr. Gordon said the group wanted Ninth Street redesigned to have protected bicycle lanes and pedestrian islands built in the intersection to ensure safety.

Since Mr. de Blasio's pedestrian-safety plan, known as Vision Zero, began in 2014, pedestrian deaths have fallen by about half despite the city's growing population. The 10-year initiative has included a mix of street redesigns and speed cameras.

Polly Tottenberg, the city's

transportation commissioner, said road crews brightened faded crosswalk markings overnight at Ninth Street and Fifth Avenue. The city also is considering installing a pedestrian island at the intersection, and adding some kind of protection for the bike lane at the location, she said.

Many residents stopped by the scene on Tuesday to leave flowers. There was an outpouring of support from the theater community. A GoFundMe campaign to help Ms. Blumenstein already had received more than \$225,000 in contributions by Tuesday afternoon—far eclipsing the \$5,000 goal.

Ms. Blumenstein won a Tony Award in 2015 as a featured performer in the revival of the musical "The King and I." She also has starred in off-Broadway shows—specifically, as Imelda Marcos in the musical "Here Lies Love" about the former first lady of the Philippines.

—Mara Gay and Melanie Grayce West contributed to this article.

## Judge Tells Jury Not to Give Up In Ex-Aide's Case

BY ERICA ORDEN

Citing child-care woes, canceled cardiologist appointments and concerns about an impending snowstorm, jurors deliberating in the federal corruption trial of a former top aide to New York Gov. Andrew Cuomo told the court Tuesday that they were frustrated and deadlocked.

"We cannot come to a unanimous consent. We are largely divided in opposing views," the jury foreperson wrote in a note to the judge shortly before noon on the fourth day of deliberations. "The only thing we seem to agree on is that we cannot agree."

U.S. District Judge Valerie Caproni was unmoved by their pleas—which included notes from three other jurors asking to be dismissed—and ordered the panel to continue deliberating, saying the amount of time they had been given the evidence "is not unreasonable and it's not excessive."

"It is normal, and even common, for jurors to have differences of opinion," Judge Caproni told the jury. Separately, she told lawyers that "they have not deliberated long enough to declare an impasse."

The trial in Manhattan of the former aide to Mr. Cuomo, Joseph Percoco, and three businessmen accused of paying him bribes in exchange for government favors was expected to take between four and six weeks. Mr. Cuomo, a Democrat seeking re-election this year, isn't accused of wrongdoing.

Hindered by slow-moving testimony, a defense attorney felled by the flu and a cooperating witness who was arrested mid-trial, the proceeding is in its sixth week, and an approaching nor'easter in

the New York City area may further complicate the jury's progress. In advance of the storm, the judge said the jury wouldn't sit on Wednesday.

Though the jury's protestations raised the prospect of a mistrial, Judge Caproni said she wasn't prepared to make such a declaration just yet.

"The parties, meaning both the government and the defendants, are entitled to a verdict if we can get it," she said Tuesday.

And though Judge Caproni ordered the 12 jurors to push forward, she also said she would consider the hardships described by some individuals and may replace them with alternates.

*'I completely respect this process and this court, but need to have my life back.'*

"I believe I cannot do this anymore!" wrote one juror, who recounted having two sick children for whom afternoon doctor appointments were unavailable.

Another juror told of having to work until midnight after deliberations each day to maintain her commission earnings.

"I completely respect this process and this court, but need to have my life back," she wrote.

Still, while pleading to be released from their duties, the jurors said they understood the gravity of their obligations to the court.

"We are all very invested in this case," another wrote, "and nobody wants to let each other down or show any disrespect to the system/process."

## New Arts Center Announces Splashy First Season

BY CHARLES PASSY

The Shed is looking to make a statement in its inaugural year.

The \$455 million cultural center, which sits adjacent to the Hudson Yards development on Manhattan's far West Side, is commissioning work from a wide range of prominent artists, officials said Tuesday. The pieces are slated to premiere starting in spring 2019, marking the beginning of the center's first season.

The emphasis on creating new work is at the heart of the Shed's philosophy, officials said. The name of the venue speaks to the idea of toiling away in a shed, though a

200,000-square-foot "shed" in this case.

Perhaps the most ambitious of the seven announced commissions is "Soundtrack of America," a piece being conceived by Oscar-winning filmmaker Steve McQueen ("12 Years a Slave") that will trace "the unrivaled impact of African-American music on art and popular culture over the past 100 years," according to the center. "Soundtrack" is being developed in part with Grammy-winning music producer Quincy Jones.

Other commissioned works will cover different artistic and narrative terrains. "Reich Richter Pärt" will feature the music of composers Steve Reich and

Arvo Pärt and the artwork of Gerhard Richter. It will explore the "shared language" between the sonic and the visual.

And "Dragon Spring Phoenix Rise," a piece being created in part by theater director Chen Shi-Zheng, will look at a Chinese sect in Queens' Flushing neighborhood "that possesses the magical power to extend human life." The piece will feature songs by Sia and incorporate aerial choreography.

Officials say the commissions are designed to showcase the presentational possibilities of the Shed, a futuristic-minded venue that is being built with the kind of flexibility not associated with the traditional concert hall or opera



The Shed, which is on Manhattan's far West Side, will mark its first season in the spring of 2019 with a range of prominent artists.

## GREATER NEW YORK



Coppy Holzman, left, and his daughter Logan Mikhly with their poohches in front of Boris &amp; Horton, their dog-friendly Manhattan cafe. Above, Christiaan Perez and his dog Maze chilled out at the eatery.

## GREATER NEW YORK WATCH

## TERROR CASE

## Man Pleads Guilty In Student's Slaying

A man prosecutors said was on a "jihad" to avenge U.S. policy in the Middle East pleaded guilty Tuesday to killing a college student in New Jersey and admitted killing three more people in Washington state.

The Essex County prosecutor's office said Tuesday that Ali Muhammad Brown admitted shooting 19-year-old Brendan Tevlin in late June 2014 as Mr. Tevlin sat at a traffic light in West Orange.

Mr. Brown, a 34-year-old former Seattle resident, pleaded guilty to multiple charges, including murder, robbery and terrorism. He was the first person charged with terrorism connected to a homicide under a New Jersey law.

During Tuesday's court hearing, Mr. Brown also took responsibility for killing three people in Washington state. Prosecutors said he would have to formally plead guilty in Washington for those cases to be resolved.

— Associated Press

## NEW YORK

## Gun-Control Measures Passed by Lawmakers

Democrats who control the New York Assembly have passed legislation aimed at reducing gun violence in the state.

The Assembly passed a package of five bills Tuesday afternoon, a day after the Republican-controlled state Senate passed 15 bills focused on improving school security following last month's shooting at a Florida high school.

The Assembly measures would keep firearms out of the hands of people deemed a danger to themselves or others, set a longer waiting period for delivery of a gun to a person who hasn't cleared a background check, and prevent people convicted of domestic violence from buying a firearm.

— Associated Press

METRO MONEY | By Anne Kadet

## This New Cafe Is Strictly 'Bring Your Own Dog'

When Boris & Horton, New York City's first dog cafe, opened last month, dog freaks like me were disappointed.

Many expected something along the lines of the city's cat cafes—establishments where a pack of friendly animals living on site are available for schmoozing and even adoption.

Alas, Boris & Horton is merely the next best thing, a "dog-friendly" cafe. It's strictly BYOD.

Given the obvious superiority of canines to felines by every conceivable measure, why do we have three cat cafes in this town and nothing comparable for dogs? This feels deeply, existentially wrong.

Boris & Horton co-founder and President Logan Mikhly says she never considered opening a cafe featuring dogs-in-residence. Just launching a restaurant where customers can bring their own dogs was challenge enough.

The city's health code

doesn't allow animals in restaurants. To comply, the founders remodeled a corner retail space in Manhattan's East Village to include a cafe counter, a walled-off dog area with a separate entrance and a takeout window so patrons with pets can order from the sidewalk before bringing their food inside.

Boris & Horton has to employ a separate team to staff each space. They can't even take used dishes from the dog area back to the coffee counter for washing. They have to use disposable plates and cups.

While the cafe does offer evening rescue events where shelters bring in dogs available for adoption, boarding canines on site would take the challenges to a whole new level. Given the crazy rents for space in Manhattan, for example, the slim profits on coffee and muffin sales could never cover the cost of sheltering pets.

That explains why, unlike Boris & Horton, the city's cat cafes all charge admission fees. The nonprofit Brooklyn Cat

Cafe, which bypasses city regulations by serving only packaged food and drink, for example, charges from \$6 to \$7 for a half-hour stay. Koneko on the Lower East Side charges \$20 an hour for admission to the "cattery" in back, separate

whether or not two or more dogs can safely interact, particularly in a space like a cafe."

And while many cats are content with indoor living, dogs need several outdoor walks a day, says Jessica Lockhart, director of animal behavior at the ASPCA Adoption Center in Manhattan.

"All of these differences would need to be taken into consideration when attempting to open a dog cafe," she says.

When all's said and done, the pet-friendly cafe starts to look like a much smarter business model. Having customers supply the animals is like Facebook getting its users to produce all the content. Indeed, Ms. Mikhly says roughly a third of the customers at Boris & Horton are patrons who don't own a dog and come in to meet other customer's pets.

Some even come just for the coffee. Inside, the space looks like any cafe, save for the wipeable vinyl cushions, dog beds and an easy-wash concrete floor. It serves stan-

dard fare for humans including avocado toast, and there's a separate baked-goods counter for dogs.

I recently spent an afternoon at Boris & Horton with my Border Collie mix Minnie. It was a lively scene, with the barking, the tourists, the constant cooing from the photo booth and a team from the TV show Puppy Bowl on hand, shooting a promo.

We met a Poodle mix named Bandit, an American Eskimo dog named Kai and a mutt named Rose. We also met a nice human named Cherry Aw Young who wheeled her Havanese, Lumpia, in on a baby carriage. She was treating the former show dog to a hard-boiled egg and the cafe's \$3 Louis XIV crispy ham cupcake.

They were celebrating. "She just got her good canine-citizenship accreditation" from the American Kennel Club for good behavior, said Ms. Aw Young.

—anne.kadet@wsj.com

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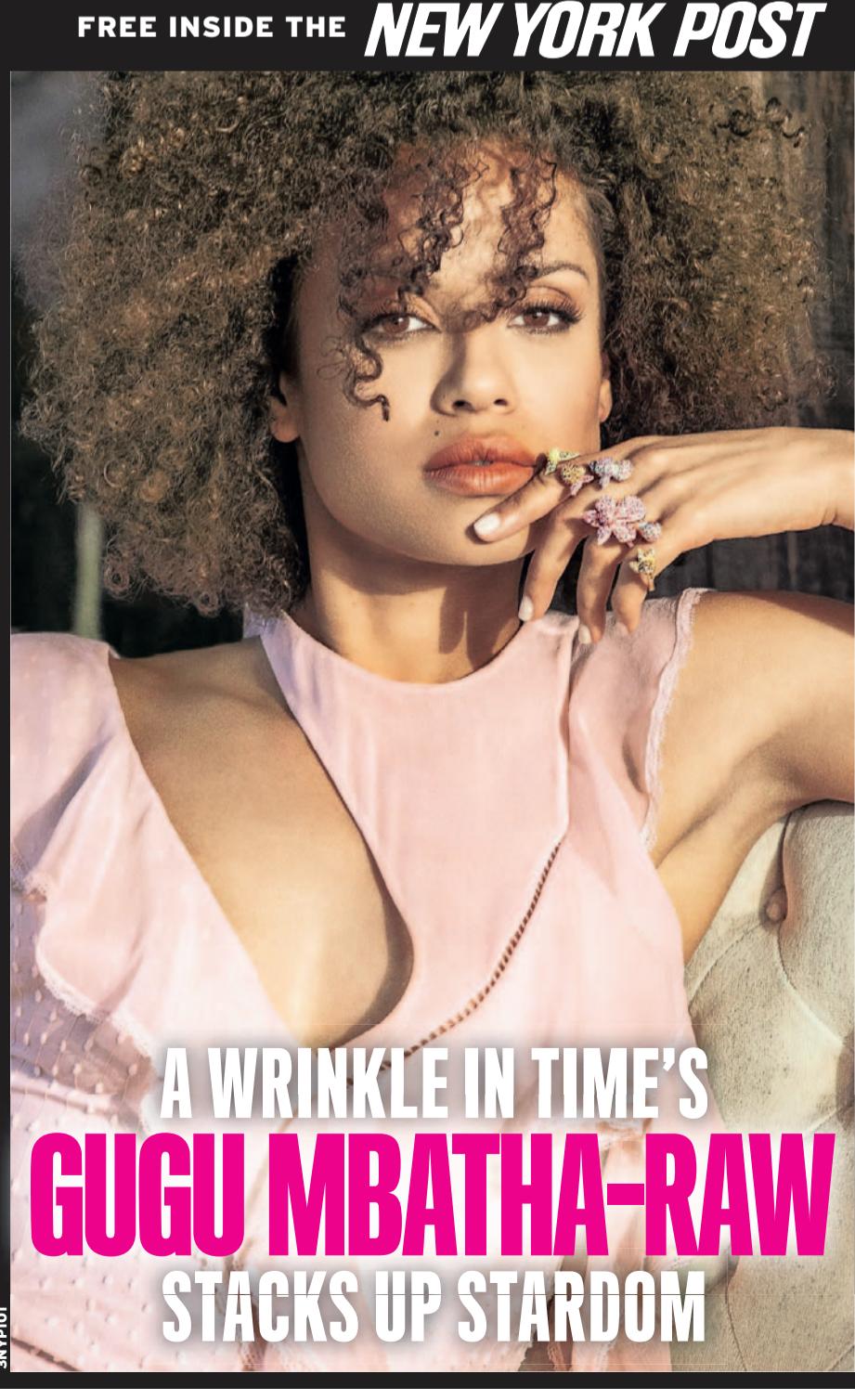
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# LIFE & ARTS



FROM TOP: BRYAN TARNOWSKI FOR THE WALL STREET JOURNAL; STEPHEN VOSS FOR THE WALL STREET JOURNAL

YOUR HEALTH | By Sumathi Reddy

## The Dangerous Gene In the Family Tree

Families that discover a mutation of a gene linked to gastric cancer find preventive removal of the stomach a harsh but necessary step

**IT WAS AN** easy decision for Dennis Reilly. Stomach cancer wasn't going to take him, too.

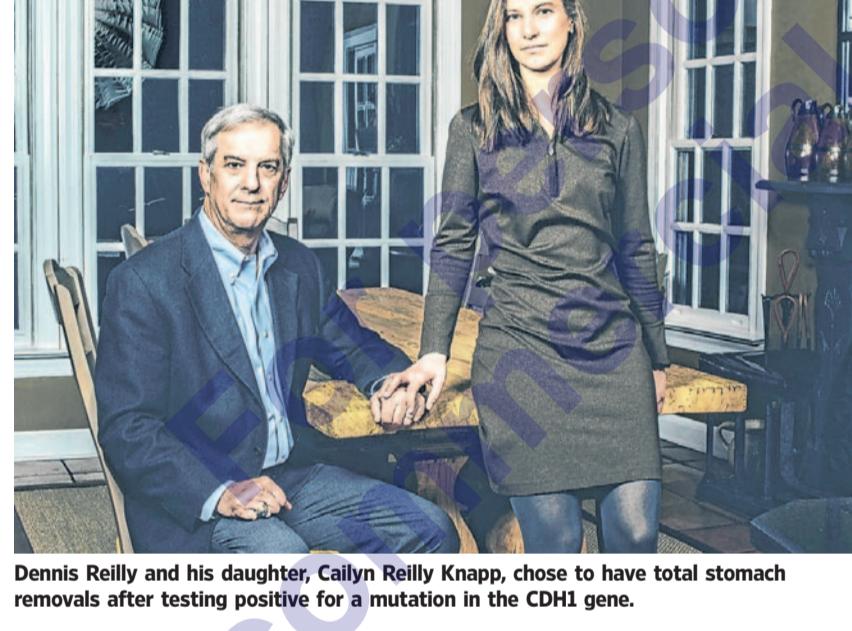
He'd received no cancer diagnosis. But he'd lost two brothers to the disease. A positive genetic test indicated a strong chance he would suffer the same fate. So he volunteered for a total stomach removal three years ago.

"I wanted to set an example for my children, to show them that you can have the surgery and still live a very healthy and full life," says the 61-year-old McLean, Va., resident who is a vice president of sales for a cybersecurity company.

His daughter, Cailyn Reilly Knapp, a 32-year-old attorney in Washington, D.C., followed suit with a total stomach removal last year. Both tested positive for a mutation in the CDH1 gene, the same one her two uncles carried.

More patients with family histories of cancer are receiving genetic tests and undergoing prophylactic surgery. This is the same kind of procedure that causes women at risk for breast cancer to have preventive mastectomies. As drastic as these steps may be, doctors say they can provide major psychological relief for families by eliminating the physical risk.

No good screening tools exist for detecting gastric cancer, unlike breast cancer. "In these circumstances, the preventive surgery really is the first and most powerful line of prevention," says Ken Offit, a medical oncologist and chief of the clinical genetics service at Me-



Dennis Reilly and his daughter, Cailyn Reilly Knapp, chose to have total stomach removals after testing positive for a mutation in the CDH1 gene.

morial Sloan Kettering Cancer Center in New York City.

Gastric cancer is a leading cause of cancer deaths in the world. Inherited cancers such as hereditary diffuse gastric cancer (HDGC), a particularly deadly and aggressive form of stomach cancer, make up a small proportion of gastric cancer, about 1% to 3%. Mr. Reilly and his daughter risked developing this type of cancer.

HDGC cells that develop in the lining of the stomach often aren't visible during endoscopy procedures that screen for stomach can-

cer. Most cases aren't diagnosed until the cells have spread. The cancer typically strikes at a median age of 38 and has a five-year survival rate in the U.S. of 25% to 30%.

"It's the worst type you can get," says Vivian Strong, a gastric surgeon at Sloan Kettering who operated on Mr. Reilly and his daughter.

Experts say it's unclear how many people have the mutation. At least a few hundred documented cases exist, but doctors say there are likely many more. CDH1 highlights the difficult decisions posed in an age of increasing genetic

testing and provides opportunities for researchers to understand stomach cancer more broadly.

Testing for the CDH1 gene is becoming more common as many women are getting gene testing done for breast cancer, searching for abnormalities in the BRCA genes, and finding mutations in CDH1, Dr. Offit says. Mutations in the CDH1 gene incur about a 55% to 70% lifetime risk of developing HDGC. Women with the mutation also have a 42% lifetime risk of developing a type of breast cancer.

Dr. Strong does one to two prophylactic stomach removals a month. The surgery entails removing the stomach and attaching the esophagus to the small intestine.

Patients initially lose weight and must eat more slowly and chew well to help break down the food. Many patients become intolerant of certain types of foods, which can lead to vomiting and diarrhea caused by food rapidly entering the small intestine.

Kathy Hayes found out about her family gene after she was diagnosed with breast cancer. That discovery left her close-knit family in a small Mississippi town facing dramatic choices about whether to test themselves and what to do if the tests returned bad news.

Mrs. Hayes's daughter, Carrie Hayes Valentine, died in 2013 at age 35, one month after doctors diagnosed her with stage-four cancer that originated in the stomach.

But it wasn't until Mrs. Hayes received the breast cancer diagnosis two years ago that her oncologist connected the dots and recommended genetic tests. Mrs. Hayes, a 63-year-old retired high-school teacher who lives in Ellisville, Miss., tested positive for a mutation in the CDH1 gene.

Her parents and three brothers got tested and the family learned that the mutation was passed on from her mother, Peggy Flowers. At 80, Ms. Flowers has had a long life, avoiding any stomach cancer diagnosis so far. She is now too old for surgery. Two of Mrs. Hayes's

brothers tested positive for the mutated gene; one tested negative.

One brother, Kenneth Flowers, had three of his six children test positive. Five members of the larger Flowers family, including Mrs. Hayes, have had their stomachs removed. "Of course I wish we had known about this before my daughter's death, but I know that she would have been very, very happy that her death saved so many family members' lives," she says. Some in the family who tested positive for the CDH1 mutation, like Mrs. Hayes's brother, Terry Flowers, and his son, Austin Flowers, are waiting.

Terry Flowers's daughter, Ashley Cognevich, had her stomach removed in November. She's had complications in her esophagus and is having her fourth surgery since the original procedure soon. "I'm not quite eating normally," says the 36-year-old educator. "But I would still do it again. I have two kids and I have too much life to live."

After Dr. Strong removed Mr. Reilly's stomach in 2015, doctors found four different areas in his stomach with cancer cells. Mr. Reilly spent a week in the hospital and returned to the office full-time a month after surgery. He lost about 20% of his body weight.

Now he eats a bit every few hours, avoiding red meat, fried foods and sweets. With no stomach to send him cues, he eats when he feels low-energy. But his energy levels are similar to pre-surgery.

The family experienced another tragedy when a third brother died from complications of the same surgery. Still, Mr. Reilly is grateful his daughter followed his example. They declined to comment on the health of other family members.

Mrs. Knapp wanted to wait for surgery until after she had children. But after a biopsy found two cancer spots, she decided to act.

Though she can still try to have children naturally, she and her husband are exploring other options. Among them: in vitro fertilization with pre-implantation genetic diagnosis to screen embryos for the genetic mutation before implanting them. Their hope: preventing passing the mutated gene on to the next generation.

WORK &amp; FAMILY | By Sue Shellenbarger

## GAINING POWER AT WORK WHEN YOU HAVE NONE

Networking, building skills in new areas and cultivating charisma are all keys to success

**MANY YOUNG EMPLOYEES** are frustrated when their first jobs land them in powerless positions at the bottom of the organization chart after years of leadership roles in school, leading some to jump ship far sooner than employers would like.

How do you gain power when you have none?

More employers are opening new paths to leadership by encouraging employees to develop spheres of influence that have nothing to do with the org chart.

Such informal power is increasingly important—and valued—in today's flatter organizations, where more jobs confer responsibility for teammates' performance without the authority to give orders or dish out rewards or punishment, says corporate trainer Dana Brownlee, of Atlanta.

Specific behaviors can predict informal

power, and many of them can be learned, she says. Networking across departments, building expertise in new areas and cultivating charisma are all ways to gain power, and make you a go-to person for colleagues.

People who build strong networks ask lots of questions of colleagues, show respect for co-workers' roles and accomplishments, and look for openings to help with projects that excite them, according to a 2017 study of 20 employers and 160 managers co-written by Robert Cross, a professor of global leadership at Babson College in Massachusetts. "These people create

enthusiasm in the networks around them," making colleagues more likely to offer them new opportunities, says Dr. Cross, who heads a 70-member consortium studying collaboration. "I call them energizers."

Many people wrongly assume boasting about past accomplishments will make colleagues on a new job want to work with them. In fact, talking about your past record is "almost a death knell for credibility" because it fosters mistrust, suggesting you care more about promoting yourself than getting in sync with your new colleagues and their

needs, the study says.

B.J. Shannon is "an extreme example" of the ability to build a strong internal network, says his former boss, David Niu.

Mr. Shannon, who headed customer relations for the past four years at TINYpulse, a Seattle employee-engagement company, forged warm, enthusiastic relationships with co-workers in all parts of the company, says Mr. Niu, TINYpulse's founder and chief executive.

Mr. Shannon says he tries to "spread positivity" by showing genuine interest in others. He made a point of praising colleagues' good work, sending at least five "cheers" a week on the company's internal-messaging system, and tried to help others reach their goals, says Mr. Shannon, who recently moved up to a senior-management job at a larger company.

Prem Kumar, director of product at TINYpulse, says Mr. Shannon took a genuine interest in him from his first day on the job in 2016, and helped him learn new skills as he advanced from product manager to a more senior role.

Helping out your co-workers isn't customarily seen as a path to power. But it can motivate others to embrace you as a role model—a valuable kind of informal power, based on social-science research, Ms. Brownlee says.

Increasingly, employers value this kind of influence, too. Employees with strong internal networks tend to be high performers, according to a 2016 study in the Harvard

Please see POWER page A16



## LIFE &amp; ARTS



MAX WHITAKER FOR THE WALL STREET JOURNAL

MY RIDE | By A.J. Baime

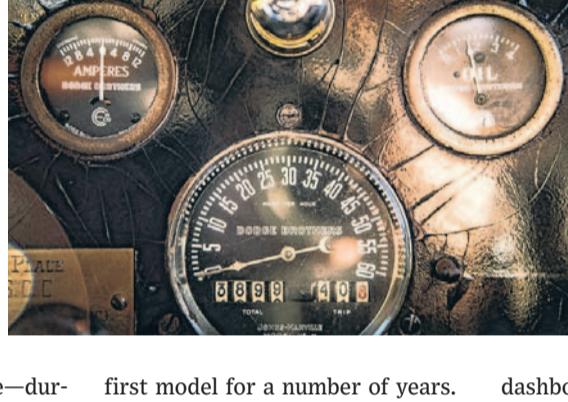
## For a 101-Year-Old Car It Drives Pretty Well

**Joe Hensler, 63, a commercial real-estate investor from Fair Oaks, Calif., on his 1917 Dodge Brothers touring car, as told to A.J. Baime.**

When we think of Dodge today, we think of Ram trucks and muscle cars—the millions of Dodge vehicles that have been built through the years. The vehicle you see here is the first model Dodge ever created.

The company was launched by two brothers—John and Horace Dodge—during the early days of the automobile. They became wealthy building parts for some of the emerging Detroit car companies, most notably for Henry Ford's Model T. As the legend has it, John and Horace Dodge were hard-drinking brothers who were so close, they wore identical clothing and would only open mail that was addressed to both of them.

In 1914 they went from building car parts to building their own car, with a logo that said "Dodge Brothers, Detroit U.S.A." Dodge immediately became one of the best-selling car brands in the country. The brothers made this



**Joe Hensler, below, with his 1917 Dodge Brothers touring car. Its gauges, left, still work.**



first model for a number of years. Mine was built during the middle of World War I. In fact, one of the early customers of Dodge cars was the United States Army.

Both Dodge brothers died of influenza in 1920. Five years later, their company was sold to a banking consortium for \$146 million. It was said to be the largest check ever drawn in a commercial deal at that time. Dodge later became a major part of Chrysler.

I found my 1917 Dodge Brothers touring car in Florida listed on eBay. I paid \$19,000 for it in 2016, plus the cost of shipping the car to California. The vehicle was in good condition. There is a plaque on the

dashboard that says "Best in Show" from a car show in 1955, which means a previous owner restored this car right around the time I was born.

It is tricky to drive—geared very low, so it likes to move at slow speeds—and it takes some practice to get the car moving without grinding gears. The gauges all work, what few of them there are.

Every time I see a Dodge on the road, I think of my Dodge Brothers car. It is amazing to think that this one model launched a motoring legacy that is still with us today.

Contact A.J. Baime at [Facebook.com/ajbaime](https://Facebook.com/ajbaime).

## POWER

Continued from page A15  
Business Review.

More companies are training employees to network, presenting it as a skill used by successful coworkers. Workday, a cloud-software company in Pleasanton, Calif., is piloting a one-day workshop where new hires learn how to build purposeful internal networks. Booz Allen Hamilton Holding Corp., a McLean, Va.-based government contractor, encourages new hires to meet with colleagues recommended by their supervisors and explore ways to work together, says David Sylvester, director, global learning and development.

Limeade, a Bellevue, Wash., employee-engagement company, encourages employees to start "affinity groups" based on common interests such as golf or cycling, says chief executive Henry Albrecht. He believes employees who initiate such groups tend to be among those with the highest potential, he says.

Another route to informal power is to acquire needed expertise in an emerging area, such as helping others use the latest presentation software, Ms. Brownlee says.

Jay Bower, president of Crossbow Group, a Westport, Conn., marketing-services firm, advises new hires to actively seek out such opportunities. "Look for the thing nobody knows how to do or wants to do, jump in with both feet and do whatever it takes to solve the problem," he says.

Soon after Mr. Bower took an entry-level job years ago as a marketing analyst at a retailing company, he got wind of a pressing, unmet need. The chief executive wanted an analysis of new data from an unexpectedly popular new customer-discount program. But the company lacked the staff to do it.

Mr. Bower asked the company's head of information systems, Ron Gayda, to teach him a few of the analytical skills he'd need to do the analysis. Mr. Gayda, now a retired IT executive in Stamford, Conn., says he agreed because Mr. Bower seemed capable and hardworking, and he didn't have enough staff in his department to do the work.

Working long hours to squeeze in the work among other duties, Mr. Bower fin-

ished the analysis, taking pains to give all the credit to his boss and Mr. Gayda, to avoid sparking resentment. The CEO was delighted, promoting Mr. Bower three times in his remaining 3½ years with the company.

Contrary to popular belief, charisma also is a quality that can be learned, says Ora Shtull, a New York City executive coach. "It means showing up as the best version of ourselves for the people around us," and making a consistent effort to show authentic interest in others, she says.

Loan Mansy, a Philadelphia-based chemical engineer and client of Ms. Shtull, began her career as a production supervisor thinking she had to prove herself by asserting her views. "Everything was about me and what I thought," she says. As she gained experience and worked with Ms. Shtull, Ms. Mansy learned it's more important to focus on others, ask questions, listen closely and show warmth and empathy, she says.

She has since been promoted to a series of increasingly challenging jobs, to become an area president of a waste-management company.



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07 911 Targa 4S Manual	Arctic Silver/Sea Blue	33K mi	\$44,900
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16 Cayenne Diesel	Mahogany/Luxor Beige	25K mi CPO	\$59,900
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## LIFE &amp; ARTS



Max Henry, Liam O'Neill, Ben Shemie and Joseph Yarmush of Suuns

modes and electronic dance rhythms, finds the band in a new context to which it responds with customary power and confidence.

While Suuns's 2016 album, "Hold/Still," doesn't show much of the collaboration's influence, Mr. Shemie said working with Mr. Moumneh changed the band's approach to composition and recording, making it less precious about precision and more eager to loosen up its sound. "Hold/Still" was subsequently remixed by electronic producers Dark Sky, Beatrice Dillon and Vril,

among others, who morphed it into dance music. Though they were influenced early on by techno and Krautrock, Messrs. Shemie and Yarmush agreed that the altered renditions had no effect on Suuns's latest work—though, Mr. Shemie added, "I love that they get played at 6 in the morning in a club somewhere." Like the Jerusalem in My Heart partnership, the remixes created a different impression of Suuns.

Though it alludes to pop in ways prior Suuns recordings never did, "Felt" emphasizes the band's roots as a rock group that was never robotic and allowed ample room for improvisation in concert. The almost-sweet "Make It Real" is on a parallel path with contemporary pop-minded rock, though its ever-changing underpinning makes it more intriguing than the standard fare. Suuns's history creates an unintended sense of tension: In "Peace and Love," Mr. Shemie sings against a single plucked electric guitar until percussion and sound waves fold in, but a roaring explosion never comes.

In conversing with Messrs. Shemie and Yarmush, it became clear that fear of risk isn't part of their thinking. This city's prominent creative community, said Mr. Shemie, allows artists be indulgent. "When you put something down and you're feeling it, you go with it."

Added Mr. Yarmush, "We still feel like a new band."

**Mr. Fusilli is the Journal's rock and pop music critic. Email him at [jfusilli@wsj.com](mailto:jfusilli@wsj.com) and follow him on Twitter @wsjrock.**

MUSIC REVIEW | By Jim Fusilli

## A Liberating, Softer Sound

Montreal

**SOME 10 YEARS** into a fruitful career, the powerful art-rock quartet Suuns shifts away from its signature sound on its new album, "Felt" (Secretly Canadian). Minimizing dark, droning guitars and pulsing electronic beats, Suuns uses a mix of acoustic and electronic percussion, clearly articulated guitars, open spaces and bright, oscillating soundscapes to accompany Ben Shemie's voice. Thus it creates a sense of liberation not present on the earlier Suuns recordings.

That's not to say Suuns is completely distancing itself from the stalking sound for which it is best known. Prior to its March 25 set at the annual Big Ears Festival in

Knoxville, Tenn., Mr. Shemie and Joseph Yarmush, who plays guitar and bass in the band, will participate in "12 Hour Drone: All Night Flight," an event that promises explorations of repetitive rhythms and continuous tones—which is a fairly accurate description of the core of Suuns's earlier recordings. Based here, the band begins its tour behind "Felt" this week with three shows in Quebec; following Big Ears, it will continue with concerts in Europe before playing the U.S. starting in late April. (See [www.suuns.net](http://www.suuns.net) for dates.)

If Suuns's new music comes as a surprise, it's a satisfying one. "Watch You, Watch Me" wanders toward prog-rock, while "Control"

is a broody keyboard ballad with spoken-word interludes. "Materials" finds Mr. Shemie singing above abrasive beats until late in the song, when the environment abruptly changes. In "X-ALT," guitar notes dance above four-beats-to-the-bar percussion augmented by handclaps and disco-like beats on a high-hat cymbal; saxophonist Ted Crosby joins in with acid-jazz bleats. "After the Fall," "Day-dream" and "Moonbeams" approximate the group's old model, but even they have different textures than earlier works.

When I met here in late January with Suuns's founding members Shemie and Yarmush—Liam O'Neill plays drums, while Max

Henry alternates between keyboards and bass—they agreed that "Felt" was something new, but also a logical extension of what the band had been up to. Said Mr. Shemie, who also plays guitar, "We didn't set out to change. There's only one way forward, whatever that may mean."

The band's recent history foreshadowed its altered approach. Back in 2012, Suuns spent a week recording tracks with Jerusalem in My Heart, a project of producer-musician Radwan Ghazi Moumneh, a Montreal-based native of Beirut. Released in 2015, the resulting album, "Suuns and Jerusalem in My Heart," with its Middle Eastern



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## SPORTS

## THE COUNT



## DECLINE OF THE STARTER

In 2017, Indians ace Corey Kluber (pictured) finished with the lowest earned-run average in the majors among qualified starting pitchers with a 2.25 mark.

With teams increasingly leaning on their bullpens and rarely letting starters face an opposing lineup more than twice through the order, the number of pitchers even eligible for the ERA title has plummeted. Qualifying for an ERA title requires a pitcher to average one inning per game played by their team (usually 162 innings). Last season, this minimum requirement was met by only 58 pitchers.

The average number of innings thrown by starting pitchers has been on a steady decline since 2014, when 88 hurlers met the 162-inning threshold. At the current rate, the 200-inning pitcher may soon go the way the 300-inning pitcher did in 1980, when the Phillies' Steve Carlton last topped that mark. Chris Sale of the Red Sox led baseball last season with 214.1 innings, the lowest total ever for a league leader in a non-strike year.

Now, nearly 50 years since the Mets re-popularized the five-man rotation in 1969, at least one team, the Angels are turning to a six-man rotation. The move is to allow rookie Shohei Ohtani to pitch about once per week like he did in the Japan Pacific League. At the 2017 average per start, no Angel hurler in a six-man rotation would top 150 innings.

—Michael Salfino

## In Need of Relief

Number of pitchers who qualified for the ERA title and average innings pitched per game:

YEAR	ERA QUALIFIERS	IP/G
2017	58	5.51
2016	74	5.65
2015	78	5.81
2014	88	5.97
2013	81	5.90

Source: Stats LLC WSJ

## The Analyst Pro Golfers Love to Hate

Brandel Chamblee thinks modern pros are doing it wrong—and he isn't afraid to share his opinion

BY BRIAN COSTA

**THE RELATIONSHIP** between professional golfers and most television broadcasters is as warm as the sport is genteel. Announcers speak in hushed tones, often describing players in reverential terms. Networks promote the players, whose exploits fuel network profits, and everyone goes home happy.

Then there is Brandel Chamblee, the Golf Channel analyst who has become the game's resident contrarian.

Jason Dufner, the 2013 PGA champion, described his on-air analysis as "pure editorial garbage." Tiger Woods's agent has called his work "deplorable" and "disgusting." Rory McIlroy has argued with him repeatedly. And, echoing the general sentiment from some of his peers, the Englishman Ian Poulter tweeted sarcastically last year, "It's clearly very easy sitting on your arse...thanks for the support."

The reasons for their animus vary, but the commentary by Chamblee, a 55-year-old former pro golfer, has a recurring theme. He thinks modern golfers are doing it wrong, including the way they swing and the way they train, and he thinks their coaches are making them worse.

Chamblee dispenses these opinions with a mix of advanced statistics, video review and uncommon bluntness. He is a professorial provocateur. And the reactions to him are as notable for what they reveal about golfers as for what they show about him.

"If you play golf for a living, unlike every other sport, you've never been criticized," Chamblee said. "Every other sport has a coach that is yelling at them. Because you're part of a team, you're singled out if you make a mistake. But in golf, if you're good enough to play on the PGA Tour, you're lauded at every step. Nobody is ever taken to task."

Chamblee said he does not enjoy getting a rise out of people, but he has shown an exceptional ability to do so. He has faulted McIlroy for hitting the gym too hard, Poulter for not playing to win and Sergio Garcia, the 2017 Masters champion, for his attitude, all of which elicited responses from the players.

He has also provided something of a running soundtrack to Woods's fall from greatness, saying among other things that Woods's decline is his own fault and that, before his latest comeback, he could no longer compete with the swing he had. The sharpest responses from Woods and his agent came in 2013, when Chamblee suggested Woods had tried to cheat in tournaments. "If I had to do it over again, I would do it more tactfully," Chamblee said of that episode recently.

He said he has blocked more

Golf Channel analyst Brandel Chamblee has become the game's resident contrarian. Rory McIlroy, below, has argued with him repeatedly.



than 10,000 people on Twitter for what he deems nasty comments toward him, including a few players. But Golf Channel has stood firmly behind him throughout.

"We encourage our analysts to have strong opinions, otherwise it would be pretty laissez-faire," said Golf Channel executive producer Molly Solomon. "What I admire about Brandel is he's blunt, he's unafraid, he's fearless, and he's constantly prepared."

What qualifies as inflammatory stuff in golf might seem laughable to people not involved in the sport. Chamblee's tiff with Dufner can be traced to a philosophical difference with Dufner's coach,

Chuck Cook, who is a proponent of a teaching method known as The Golfing Machine, named for the 1979 instructional book by Homer Kelly. Chamblee thinks the method, with its focus on the geometry and physics of the swing, has robbed players of their natural talent. Cook declined to comment. Dufner, whose agent declined further comment, ended up defending his coach more broadly in a heated online exchange that included Chamblee.

The uproar over that sort of nerdery is partly indicative of the influence Golf Channel can have over the industry. In a highly technical game in which many things are subjective, what gets said on the air can impact which methods—and by extension, which coaches—hold greater sway than others.

David Leadbetter, one of the world's top-rated coaches, said amateurs are more easily influenced than pros. "Whatever Joe Blow says on the air, it's like, 'OK.' It's taken as gospel," he said.

Chamblee is in some ways in the mold of Johnny Miller, the two-time major champion and longtime NBC

golf analyst known for his bluntness and occasional criticism of top players. But Miller can only riff for so long while calling live events. As a studio analyst, Chamblee has no live action to interrupt him.

He describes many top players today almost as victims of what he calls overly technical coaches and overzealous trainers. That puts him on a philosophical island in a sport that has become both more athletic at the highest level and more scientific.

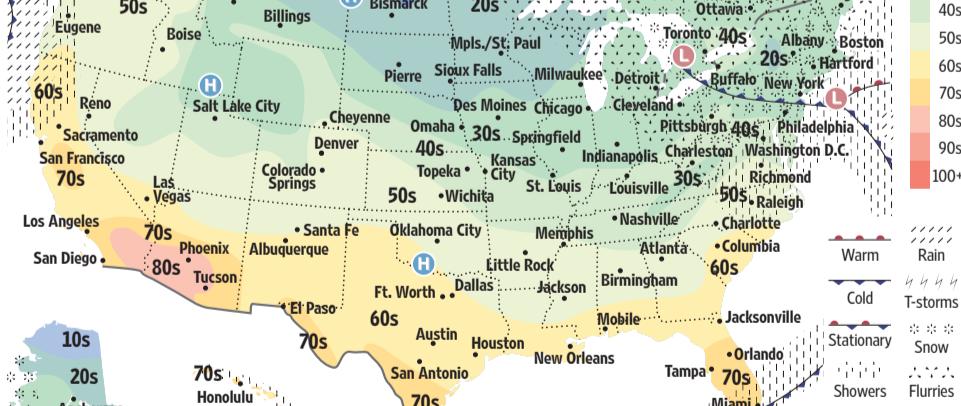
Trackman radar monitors have become ubiquitous on driving ranges, giving elite players more data than ever on each practice shot. Technology has made swing video breakdowns easier than ever. Leadbetter, who has coached dozens of male and female tour pros, said young players demand more detailed, technical feedback, which leaves it to coaches to decide how much information is too much. "It's a very touchy-feely subject," he said.

But Chamblee said he flatly disagrees with the way players are being taught, saying there has been some "famous impoverishment" of top players in the past 10 to 15 years as a result. That has irked players who feel indebted to their coaches.

"In my mind, I'm trying to tell them to trust their instincts, that they're the geniuses," Chamblee said. "I look at some Tour players and think, 'You're Leonardo da Vinci, and someone is standing behind you telling you how to paint.' It makes no sense to me."

## Weather

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



## U.S. Forecasts

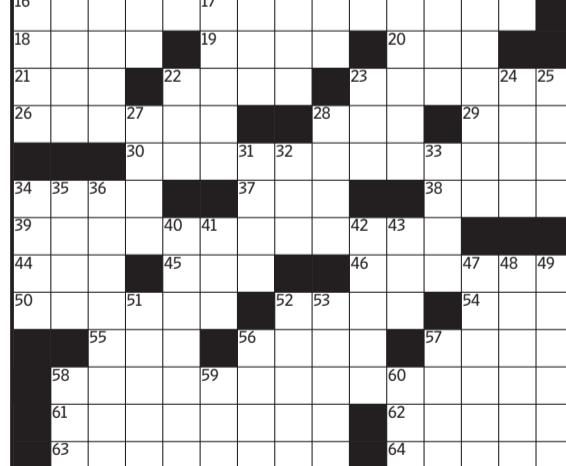
s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...tstorms; r...rain; sf...snow flurries; sn...snow; l...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Anchorage	31	21	c	30	24	sn
Atlanta	52	34	s	50	31	pc
Austin	65	37	s	66	30	pc
Baltimore	37	29	sn	42	26	pc
Boise	52	36	pc	53	41	sh
Boston	38	33	sn	43	29	sf
Burlington	39	29	sn	36	28	sn
Charlotte	54	32	pc	50	26	pc
Chicago	32	22	c	37	20	s
Cleveland	39	26	sf	42	28	sn
Dallas	61	40	s	67	48	pc
Denver	52	26	s	65	30	c
Detroit	38	24	sf	37	26	sn
Honolulu	78	67	pc	78	67	pc
Houston	65	42	s	68	49	pc
Indianapolis	37	22	sf	35	22	pc
Kansas City	41	22	pc	45	30	s
Las Vegas	68	49	pc	76	55	c
Little Rock	53	32	s	57	37	s
Los Angeles	73	52	pc	75	55	pc
Miami	79	56	sh	73	50	pc
Milwaukee	31	22	c	37	24	pc
Minneapolis	29	16	pc	31	12	pc
Nashville	47	32	pc	46	27	pc
New Orleans	62	45	s	65	47	pc
New York City	37	32	pc	42	30	pc
Oklahoma City	54	31	s	63	44	s

## International

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	49	36	sh	45	36	r
Athens	69	54	pc	64	48	pc
Baghdad	81	56	pc	81	62	pc
Bangkok	94	79	t	91	75	r
Beijing	41	23	pc	45	22	s
Berlin	36	32	sn	45	33	c
Brussels	48	37	sh	47	35	r
Buenos Aires	82	57	s	85	62	pc
Dubai	81	66	s	84	68	s
Dublin	45	33	pc	46	30	pc
Edinburgh	44	30	c	43	30	pc

## The WSJ Daily Crossword | Edited by Mike Shenk



## COURSE ADDITIONS | By Craig Stowe

Across	26	27
1 Bilaspur bigwigs	Cupid's love	Site of at least five mountains taller than Everest
6 Develop gradually	28 Get by asking	54 Service call
14 Sleeps like a log	29 Bank deposit	55 "To her ___, a jolly thriving wooer": "Richard III"
15 Removed slack from	30 Canal in Vatican City?	37 Dandy
16 Track for truck races?	38 Workers in kitchens, perhaps	56 Greedy goal
17 Barneys rival	39 Elaborate interstate?	57 Nonflowering plant
18 Corn Belt city	40 Swab	58 Really short transit line?
19 Riyadh	41 Article in Cahiers du Cinéma	61 Indirect insult
20 Rome	42 Buffet fixture	62 Handle
21 Taipei City	43 Paragons	63 Suggested
22 Tokyo	44 athletic	64 John with five Grammys
23 Vancouver	45 Buffet fixture	65 Regulus setting
24 Warsaw	46 Paragons	66 Manipulate
25 Zurich	47 37	67 Previous Puzzle's Solution
26	48	BOSSED INLOVE DEADEN MANILLOW ABUT TONED HIKER EELS PICABO UHURU ITS LEE
27	4	

## OPINION

## CEOs and Politics Are a Bad Mix



BUSINESS WORLD

By Holman W. Jenkins Jr.

When a corporate leader takes a political stand you happen to favor, it's an act of bravado. When he or she takes a stand you abhor, it's an act of cravenness.

That's how things play in the media, but it has little to do with the real world. A CEO who uses his corporate brand in a way that doesn't serve the company's interest is committing malfeasance.

Which brings us to the gun issue. Delta Air Lines would have wished for nothing more than that its discounts for National Rifle Association members not come up. Nothing good could come from the subject surfacing in the wake of the Parkland shooting.

CEO Ed Bastian's thinking would have been: I can't be seen making a pro-gun statement by defending the discounts. So instead I will have to live for months, maybe years, with gun owners reading my ending of the discounts as essentially blaming them for school shootings.

His decision may have been wise or unwise in limiting the cost to Delta. It was not meant to be brave, except in the sense that Mr. Bastian didn't spontaneously quit, as many would have been tempted to do, so somebody else would have to deal with the fallout from a no-win situation.

## OPINION

## REVIEW &amp; OUTLOOK

## North Korea's Negotiation Play

**S**outh Korean officials disclosed Tuesday that North Korean dictator Kim Jong Un says he's ready to talk with the U.S. about giving up his nuclear weapons. That's news because Kim has long said he'd never negotiate away his weapons. But the world has seen this diplomatic movie before, only to learn that the North was merely buying more time to build more bombs and ballistic missiles.

"I think that their statement, and the statements coming out of South Korea and North Korea have been very positive," President Trump said Tuesday. "That would be a great thing for the world. A great thing for the world. So we'll see how it all comes about."

Realism is warranted. The hopeful case is that the North's reversal is a response to the Trump Administration's policy of pressure through tighter sanctions and diplomatic isolation. Building on United Nations sanctions, the Treasury Department has been blacklisting companies, most of them Chinese, for trading with the North.

As the Journal reported last week, trade across the border with China has declined sharply. Despite its official ideology of self-sufficiency, the North depends on imports of energy, food and raw materials to survive. It also needs luxury goods to reward top officials.

The Trump Administration's threats of military action if sanctions don't work may also have secured more Chinese cooperation, even if a military strike carries huge risks. Beijing has been forced to consider the possibility of conflict between nuclear states on its doorstep. It's also notable that the North told South Korean officials that it agreed to the U.S. demand to halt nuclear and missile tests while talks are underway. Perhaps Mr. Trump's tough line wasn't as dangerous and destabilizing as his critics claimed.

Yet the U.S. and the world should still be skeptical that Kim will really put his nukes on the negotiating table. Kim's father and grandfather used talks to stall for time while they continued the nuclear program in secret. They also extracted concessions in return for talking and broke every promise they made.

## California's Water Hole

**S**torms like the one that have doused arid California in recent days are cause for celebration, but also for better conservation. The Sierra Nevada mountains received nearly six feet of snow, which was especially welcome in a dry winter. Snowpack in the Sierras had measured a quarter of its historical average.

But precipitation that falls fast and furious is often wasted. Reservoirs in the north can't store the excess runoff, which flows too rapidly into the Sacramento-San Joaquin River Delta to pump to the Central Valley and southern California.

Regulatory protections for smelt and salmon also limit pumping. Hundreds of billions of gallons get flushed out to the ocean—rinse and repeat each winter.

Golden State voters in 2014 approved a \$7.5 billion bond to expand water storage and improve flood control. Yet the California Water Commission, which doles out the cash, has tried to scuttle 11 water-storage projects. It says the projects would provide negligible public benefits as required by the law.

Seriously? The proposed Sites Reservoir, which would be located west of Colusa in Northern California, could store up to 1.8 million acre-feet of water. According to Republican state assemblyman Frank Bigelow, Sites could have captured more than 586 billion gallons of runoff between last October and February—enough to

The new diplomacy offer also follows a familiar Pyongyang pattern. First make nuclear or missile advances that increase its threat to South Korea and the world.

Then make a diplomatic bid once a dovish government takes over in Seoul. This time Kim took advantage of the recent Olympic games and the aching, almost palpable, desire of new South Korean President Moon Jae-in for talks.

The South Koreans said North also demanded "security guarantees," which it may define as the departure of U.S. forces from Korean peninsula. That would be a security and geopolitical disaster as long as the North retains its military threat.

China will want the U.S. to end its military exercises with the South in return for the North "freezing" its nuclear program. The U.S. and South postponed training at the North's request to encourage its participation in the Olympics. But another delay would be the wrong precedent for talks, especially as the exercises are critical to deterring the North's conventional military threat.

The temptation for the Trump Administration will be to accept partial denuclearization in return for some normalization of relations. But that wouldn't end the nuclear threat, and it would give the North the whip hand to extract concession after concession lest it revive an active nuclear program. This is what the North did after George W. Bush lifted sanctions and took North Korea off the list of terrorist-sponsoring states. When it didn't immediately get everything it wanted, the North reneged.

To have any chance of success, the U.S. and U.N. will have to keep sanctions in place during the talks. The U.S. and South Korea will also have to stay united on strategy, since Kim's foremost goal will be to divide the two and coax the South to push U.S. forces out.

Any deal must be structured so that the North is rewarded only after it denuclearizes and allows unlimited inspections. If financial and military pressure really is what coaxed Kim to this pass, then the pressure must be maintained. Barack Obama's Iran deal is the example not to follow.

Supply 13.3 million Californians for a year.

Then there's the Temperance Flat reservoir northeast of Fresno, which would provide a more stable water supply for farmers in the Central Valley. The reservoir as envisioned could capture an additional 53 billion gallons of water each year. Commission staff deemed Temperance Flat ineligible for funding and offered the \$5 billion Sites Reservoir only \$660 million. Both projects scored low on public benefits, which the staff defined narrowly as improvements in the ecosystem, water quality, flood control, emergency response and recreation.

Yet the staff appears to have applied even these narrow criteria too conservatively. For instance, the Sites Reservoir would help California's endangered Chinook salmon by increasing the amount of cold water in rivers available during droughts. Increasing surface storage could also reduce groundwater pumping in the Central Valley, which has resulted in land subsidence.

The real political problem, as always, is that environmentalists oppose dams as an article of faith. Meanwhile, the state Water Resources Control Board—in California, the more regulators, the merrier—recently proposed permanent restrictions on water use. But every storm that sweeps the state wastes more water than do millions of faucets left turned on.

## The Cohn Departure

**T**he resignation of Gary Cohn is a significant blow to Donald Trump's Presidency, and recovering from it will be a

The tariff mess has cost President Trump an important ally.

Mr. Cohn leaves behind a strong legacy. He pushed hard for deregulatory initiatives that have produced strong growth. With Council of Economic Advisers Chair Kevin Hassett, he ran point for the White House on the big tax-cut bill. As important, Mr.

Cohn assembled a first-rate team of policy advisors, not just on taxes but also on health care and infrastructure.

So an obvious question: Who will replace him? Put differently, who in the community of free-market economic specialists would take the job now? Mr. Cohn, a strong personality in his own right, provided ballast against some of Mr. Trump's worst economic-policy instincts. It is difficult to imagine that anyone outside the President's current protectionist cheer-leading squad would volunteer to put up with more of what happened during the past week.

Mr. Trump's early appointments to key Cabinet positions and to the White House policy-making apparatus were often stellar. Now, surely, the mill of rumors will begin grinding about more departures of top people, such as National Security Adviser H.R. McMaster.

A successful President needs allies, and Mr. Trump has had them so far. By contrast, the tariff decision is a leadership fiasco that has cost Mr. Trump a key ally in Gary Cohn. It is a loss, and this Presidency cannot afford more like it.

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## LETTERS TO THE EDITOR

## Trump's Words Are Essential to His Deeds

In "The Only Good Thing About Donald Trump Is All His Policies" (op-ed, Feb. 27), Joseph Epstein misses some major differences between Presidents Trump and Obama. Mr. Trump clearly loves this country. He doesn't apologize for our past. He celebrates American exceptionalism. President Obama, on the other hand, isn't so keen about our history and apologized for it. He dwelt on the darkness in our past instead of the brightness. One other point: President Trump has never weaponized the IRS, Justice Department and FBI. So while President Obama doesn't have a checkered past with women, I'll take Donald Trump as president any day.

GUY RANDOLPH  
Savannah, Ga.

Mr. Epstein blames the press for reporting on who Mr. Trump actually is and what he actually does. The press has, in fact, been doing its job, and admirably. I suspect Mr. Epstein's real problem is that for every sensational New York Post Page Six story, there are substantive items from the Journal and other publications reporting on the incompetence, dishonesty and venality of Mr. Trump, his staff and his cabinet.

SUSAN DAY  
Virginia Beach, Va.

Mr. Epstein claims the president's boorish talk trumps his policy virtues. I'll take boorish talk with smart policies over dignified talk with poor policies all day long. Emerson's "your actions speak so loudly, I cannot hear what you are saying" comes to mind.

FRED SIRIANI  
Marysville, Wash.

Could any dignified posture have defeated Hillary Clinton? In a 2000 Senate debate with the perpetually

offended ex-first lady, her opponent Rick Lazio, a civil gentleman, walked to her podium and asked her to co-sign a campaign-finance pledge. For this unexpected sally, the ruling media defamed him as menacing, insulting, a sexist bully, a creep, Darth Vader and more. Mr. Lazio learned the intended lesson. On the other hand, Mr. Trump's boorishness in 2016 was breathtaking. He glowered at Mrs. Clinton, interrupted and insulted her with abandon and said she belongs in jail.

All the media hysteria was unavailing. Mr. Trump's ungentlemanliness put an end to one conventional limit and abolished the deference owed to the feminist wing of the ruling classes. Only a human being unfazed by ruling norms can break the old and establish new and better modes and orders.

DENNIS TETI  
Hyattsville, Md.

When is the last time a Republican president wasn't subjected to constant, obsessive scrutiny of his every utterance and biographical fact, reaching all the way back to his preschool days? If only the press had subjected a few Democrats to the same treatment. And let's not forget that Mr. Trump benefited hugely from the free and unceasing publicity given him by the liberal media during the 2016 campaign—the direct result of his nonstop, unpresidential utterances. Had he not been brash, willful and utterly unafraid of the press, he would not be president today.

CRAIG EDEL  
Houston

Mitt Romney was the ultimate gentleman while running for president, and the Democrats (including President Obama) cut him to shreds.

ELEANOR J. DUNN  
West Dennis, Mass.

## Elite vs. Proletariat in Democratic Civil War

Ted Rall puts his finger on the pulse of something important in his "Civil War in the Democratic Party" (op-ed, March 1). My county in New York state, on Nov. 8, 2016, voted exactly along the lines he describes. The wealthy and privileged voted for Hillary Clinton. The working class voted for Donald Trump. Historically, this is a reversal of representation. Mr. Trump won the county by a fair margin.

I don't necessarily agree with Mr. Rall's assertion that the leftist working-class vote is driven by "Americans who prefer socialism or even communism over capitalism." I do agree that the wealthy and privileged are out of touch. What is unusual today is that the wealthy and privileged mostly vote Democratic. So is it surprising that mainstream Democratic Party leaders pander to the interests of the wealthy and privileged over the working class?

HANK MUCHNIC  
Amagansett, N.Y.

Mr. Rall states 37% of Americans favor socialism over capitalism with left populists making up a large portion of

MICHAEL COTTER  
Denton, Texas

Mr. Rall writes that "a significant slice of the 37% of Americans who prefer socialism or even communism over capitalism" will "probably stay home [this November] with Netflix." Maybe between bingeing on "Friends" reruns, this new 21st-century proletariat could take a few minutes to consider the awesome entertainment options available to them, the abundant and diverse food in their electrically powered refrigerator and the supercomputer that they probably all carry in their pockets that has access to almost the full extent of human knowledge and learning—and then ask themselves if the free market is really all that bad.

MICHAEL A. WOOD  
Fort Worth, Texas

As Prof. R. Richard Geddes notes, there are boundless opportunities to convert public infrastructure into revenue-producing assets ("Why Some Stops Are a Cut Above the Rest," op-ed, Feb. 20). The Chicago Skyway and Indiana Toll Road concessions are two such conversions that provided a city and state with ready cash to address infrastructure and other public needs. For the most part, though, U.S. policy makers at all levels have mostly failed to take advantage of the benefits offered by the monetization of public assets. Changing the perception that infrastructure services are a market commodity rather than a public good won't be easy. However, the shift away from the tax-allocation model employed in the U.S. at the federal level for the past 50 years to pay for infrastructure has made such public entrepreneurship a financial necessity.

In light of the Trump administration's recently released infrastructure plan, this is a wonderful opportunity for Congress and the administration to figure out how to encourage and facilitate the recapture of investment stranded in public infrastructure so the funds could be productively reallocated to today's needs.

RICHARD G. LITTLE  
Pinehurst, N.C.

## Pepper ... And Salt

THE WALL STREET JOURNAL



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PROF. KENNETH BUTTON  
George Mason University

Arlington, Va.

"Since installing video surveillance, we're losing fewer socks."

## OPINION

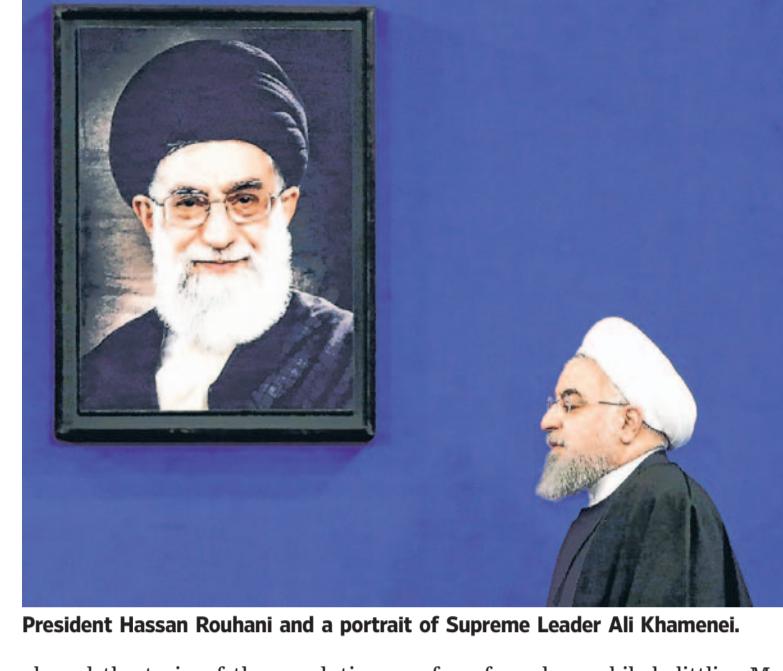
# Let Rouhani and Khamenei Fight

By **Reuel Marc Gerecht**  
And **Ray Takeyh**

**I**ran's Islamic revolutionaries criticize each other regularly, but recently the level of invective among the ruling elite has reached new heights. The vicious infighting between President Hassan Rouhani and his detractors now threatens the governing edifice of the Islamic Republic. Given the clerical regime's aggressive foreign policy and nuclear ambitions, it is in America's interest to see this power struggle intensify.

During the pro-democracy demonstrations in 2009, most of the Iranian ruling class, including Mr. Rouhani, rallied around Ayatollah Ali Khamenei, the supreme leader. In the wake of the smaller but more widespread provincial protests that started last December, revolutionary elites appear divided. These contesting factions are further delegitimizing the state they are trying to save.

This is a contest for power, not ideals. Mr. Rouhani surely is not seeking to liberalize the political system and make it more accountable to the citizenry. A founding father of the



ATTILA KENARE/AFP/GETTY IMAGES

President Hassan Rouhani and a portrait of Supreme Leader Ali Khamenei.

aboard the train of the revolution; some of us decided to get off the train; others we forced off whom we should not have. All should be invited back on the 'success and a victorious revolution' train."

Then there's the mysterious leak of video from a 1989 Assembly of Experts meeting. The group, which chooses the supreme leader of Iran, was weighing whether to approve Mr. Khamenei's ascension to the post. "Pity an Islamic society," Mr. Khamenei confesses in the video, "if even the possibility is raised that someone like me can be its leader." It is hard not to see the hands of the president and his allies behind this humiliation.

The same is true for the recent budget disclosure, which showed higher-than-expected funds going to the detested virtue police and conservative religious foundations allied with Mr. Khamenei. Mr. Rouhani and his allies appear to be trying to chip away at the regime, but their opponents nonetheless command the country's most powerful institutions: the office of the supreme leader, the judiciary, the Revolutionary Guards and vigilante groups that often terrorize their critics. The conservative press has mocked the idea

of a referendum, while belittling Mr. Rouhani for relying on Westerners to rescue the economy.

The supreme leader has warned that "the enemy is waiting for an opportunity. He is waiting for the emergence of a rift through which he can infiltrate the country." In an even more stern rebuke, Revolutionary Guard commander Qasem Soleimani warned Mr. Rouhani, "I find it unfortunate that some who are self-styled as followers of the path of the Imam don't write an open letter to the Global Arrogance (America) but write open letters to the standing [supreme] leader."

Mr. Khamenei and the Revolutionary Guards harbor their own vision of economic empowerment—the "resistance economy." They want to jump-start the economy while relying less on Western commerce. Their plan calls for more use of the country's internal markets and trade with culturally nonthreatening countries like Iraq and Central and East Asian states.

For Mr. Khamenei, Western sanctions revealed that dependence on foreign commerce is a country-crippling vulnerability. Mr. Rouhani differs, seeing the nuclear deal as the gravestone of American-European

cooperation against Iran. For him, more European investment will divide the West, neutralizing the more hawkish U.S. Mr. Khamenei and his disciples aren't enchanted, as Mr. Rouhani is, with the China model, in which autocracy, capitalism and a certain cultural permissiveness coexist. They don't see China's vibrant economy and growing military power; they see a regime that has forfeited its ideological inheritance.

Neither Mr. Rouhani's pragmatic revolutionaries nor Mr. Khamenei and his allies can win this power struggle. The president may be able to agitate government and society, but he cannot reinvent himself as an opposition leader. He is merely strengthening a national narrative that has already rejected clerical rule.

The supreme leader and his supporters can thwart Mr. Rouhani's legislative agenda and his attempt to refashion the economy. But given their contempt for democracy and their ease with corruption, they cannot rebuild the regime's battered legitimacy. As the clerical oligarchs plot against one another, the system is likely to grind to a halt. The result of this factional fight is paralysis at a time when the theocracy is facing popular disaffection, economic decline and imperial overstretch.

The White House can crack the regime. Pushback—any pushback—against Tehran's gains in Syria would help, as would a tidal wave of sanctions against the Revolutionary Guards. The president can also use his bully pulpit and economic sanctions aggressively to expose and punish the regime's tyrannical behavior.

The potential for a democratic transition exists in Iran, where such aspirations have been growing for over 100 years. As regime-shaking street protests have repeatedly revealed, the country is a volcano. We want it to erupt. For the U.S. and the Middle East, sooner is better than later.

*Mr. Gerecht is a senior fellow at the Foundation for Defense of Democracies. Mr. Takeyh is a senior fellow at the Council on Foreign Relations.*

## Yale and the Puritanism Of 'Social Justice'

By **Walter Olson**

**A**nswering a question about which there could hardly have been much doubt, Yale's admissions blog said last month the university would not penalize prospective students who are suspended for joining antigun protests in the wake of the Parkland shooting. "Yale will NOT be rescinding anyone's admission decision for participating in peaceful walkouts for this or other causes."

So far, so routine. A university like Yale would not ordinarily snatch back an admissions offer just because an accepted senior had skipped a day of class, no matter the reason.

But there's more. The post's author, senior assistant director of admissions Hannah Mendlowitz, makes clear that Yale considers participation in such a walkout to be a plus, rather than a subject of indifference.

### Ditching class to protest won't count against you—at least if the university approves of the cause.

"For those students who come to Yale, we expect them to be versed in issues of social justice," Ms. Mendlowitz writes. "I have the pleasure of reading applications from San Francisco, where activism is very much a part of the culture. Essays ring of social justice issues." Even if applicants from less-fortunate areas of the country cannot be expected to meet the Bay Area standard, the message is clear. The post is titled "In Support of Student Protests."

This endorsement of activism raises a few questions. Would Yale really turn away a brilliant young flutist, chemist or poet who, while solidly educated in history, religion and government, is not specifically "versed in issues of social justice"? What about students who have pursued courses based on great works of the past? Must they be versed in contemporary views of social justice too? Besides, which causes constitute social justice?

Yale's admissions blog is eagerly read by high-school students who have not yet applied. What should one advise aspiring Yalies who are not versed in—or worse, not zealous for—the Bay Area ideologies that so please the admissions office?

It might be best not to feign progressive political views in hopes of snagging a coveted Yale slot. That would be insincere, after all. But maybe it would be prudent to conceal any contrasting views.

Suppose a student had been deeply influenced by Friedrich Hayek's "The Mirage of Social Justice." After reading it, she had concluded social justice does not offer a particularly useful "take" on the moral problems of society, and that other standards—justice toward individuals, protection of personal rights, peace and nonaggression, neutral and impartial application of law—are better.

Now suppose she put that in her Yale application, knowing that screeners would be looking for some indication she was "versed in social justice." Would it affect her chances of making the cut?

A similar scenario played out for Hayek, actually. Despite his illustrious career at the London School of Economics, he had trouble finding a suitable berth in American academia and eventually landed in a nonstandard appointment at the University of Chicago through its Committee on Social Thought. His thinking didn't quite fit in, even though it was destined to become immensely influential in several fields.

Yale says it will overlook walkouts "for this or other causes." To test that, an applicant might engage in a peaceful walkout for a cause of which the admissions staff disapproves—say, Second Amendment rights. But what high schooler would want to be that test case?

The issue is of principle, not law: As a private university, Yale is not subject to the First Amendment and need not guarantee applicants a neutral forum. It can set what standards it pleases, including screening out students who march for a not-Yale cause. By contrast, administrators in public high schools are barred from playing favorites, so they can't approve or disapprove peaceful walkouts based on whether or not they approve of the cause.

That being said, Yale started out as a base for the training of Puritan clergy. One wonders whether it has really changed all that much.

*Mr. Olson is a senior fellow at the Cato Institute and a Yale alumnus.*

### It's in America's interest for the Iranian regime's bitter power struggle to intensify further.

theocratic regime who remains deeply implicated in many of its worst crimes, Mr. Rouhani seeks to make the economy work without structural reforms that would free it from clerical control. He hopes that Western investment can help Iran's corrupt, mismanaged economy grow.

Mr. Rouhani has now transformed himself into a democrat and populist, albeit a deeply cynical one. Taking a swipe at Iran's unelected leaders, he recently insisted that "elections are the only means to govern" and "criticism and protest are the people's right." The defiant president has called for a referendum on democracy: "When the revolution happened, we were all together

## 50 Years of Blaming Everything on Racism



**UPWARD MOBILITY**  
By **Jason L. Riley**

sued 50 years ago last month.

The report blamed black urban unrest on white racism, segregation and official neglect, all of which continue to get cited to explain the racial inequality that persists today. "What white Americans have never fully understood—but what the Negro can never forget—is that white society is deeply implicated in the ghetto," the introduction read. "White institutions created it, white institutions maintain it, and white society condones it." The riots were attributed to "the failure of all levels of government—Federal and state, as well as local—to come to grips with the problems of our cities."

The Kerner report's most famous assertion was that the U.S. was "moving toward two societies, one black, one white—separate and unequal," even though the decades leading up to the riots had suggested the opposite. The Truman administration's desegregation of the armed forces in the 1940s was followed by Martin Luther King Jr.'s successful civil-rights movement of the 1950s and the passage of landmark civil-rights and voting-rights legislation in the 1960s. The educational and economic strides blacks made during this period were also unprecedented, and racial disparities were narrowing.

In 1960, just 7% of blacks between 20 and 24 were enrolled in college; by 1970, that percentage had more than doubled, to 16%. College enrollment among whites also rose during this period, but not by as much. These educational gains allowed more blacks to lift themselves out of poverty and access better-paying jobs. Between 1940 and 1970, the proportion of families living below the poverty line fell

it's difficult to square this racial progress with the Kerner report's description of the riots as an "explosive mixture which has been accumulating in our cities since the end of World War II."

The reality is that the worst rioting of the 1960s was concentrated in the North and West rather than in the Deep South, where racial oppression was most severe and racial attitudes were slowest to change. The year before the 1965 riots in the Watts section of Los Angeles, a leading civil-rights organization had ranked living standards in L.A. as best in the nation for black families. When Detroit rioted two years later, the black unemployment rate in the city was lower than the white unemployment rate nationwide; black Detroiters had the highest homeownership rate in the nation; and the black poverty rate in Motown was just half the national average among blacks. The Kerner report's attempts to blame everybody for the rioting except the rioters strain credibility.

The commission was also overly pessimistic in many ways about the direction the country was heading.

### The 1968 Kerner report on urban riots absolved blacks of responsibility and ignored real progress.

by 40 percentage points among whites and by 57 points among blacks. White-black gaps in homeownership, life expectancy and white-collar employment also were shrinking in the postwar era, contrary to the pessimism of the Kerner Commission.

Moreover, white racial attitudes were shifting. In 1942, national support for school integration stood at 30%; two decades later it would be 62%. By 1963, racial discrimination in public accommodations was already illegal in 30 states, and more than 80% of whites were opposed to restricting job opportunities by race.

None of this suggests that 50 years ago racial discrimination in housing and employment, or bigotry in the criminal justice system, was a figment of blacks' imagination. And while there was measurable social and economic improvement in the postwar period, racial gaps persisted, as they still do today. Nevertheless,

We are convinced that increased protective duties would be a mistake. They would operate, in general, to increase the prices which domestic consumers would have to pay. By raising prices they would encourage concerns with higher costs to undertake production, thus compelling the consumer to subsidize waste and inefficiency in industry. At the same time they would force him to pay higher rates of profit to established firms which enjoyed lower production costs.

A higher level of protection, such as is contemplated by both the House and Senate bills, would therefore raise the cost of living and injure the great majority of our citizens.

Few people could hope to gain from such a change. Miners, construction, transportation and public utility workers, professional people and those employed in banks, hotels, newspaper offices, in the wholesale and retail trades, and scores of other occupations would clearly lose, since they produce no products which could be protected by tariff barriers.

The vast majority of farmers, also, would lose. Their cotton, corn, lard, and wheat are export crops and are sold in the world market. They have no important competition in the

home market. They can not benefit, therefore, from any tariff which is imposed upon the basic commodities which they produce. They would lose through the increased duties on manufactured goods, however, and in a double fashion. First, as consumers they would have to pay still higher prices for the products, made of textiles, chemicals, iron, and steel, which they buy. Second, as producers, their ability to sell their products would be further restricted by the barriers placed in the way of foreigners who wished to sell manufactured goods to us.

Our export trade, in general, would suffer. . . . There are already many evidences that such action would inevitably provoke other countries to pay us back in kind by levying retaliatory duties against our goods.

There are few more ironical spectacles than that of the American Government as it seeks, on the one hand, to promote exports through the activity of the Bureau of Foreign and Domestic Commerce, while, on the other hand, by increasing tariffs it makes exportation ever more difficult.

President Hoover has well said, in his message to Congress on April 16, 1929, "It is obviously unwise protection which sacrifices a greater amount of employment in exports to gain a less amount of employment from imports."

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## WORLD NEWS

# China-India Rivalry Plays Out in Maldives

U.S. protests as pro-Beijing president tightens grip over strategic island nation

BY NIHARIKA MANDHANA

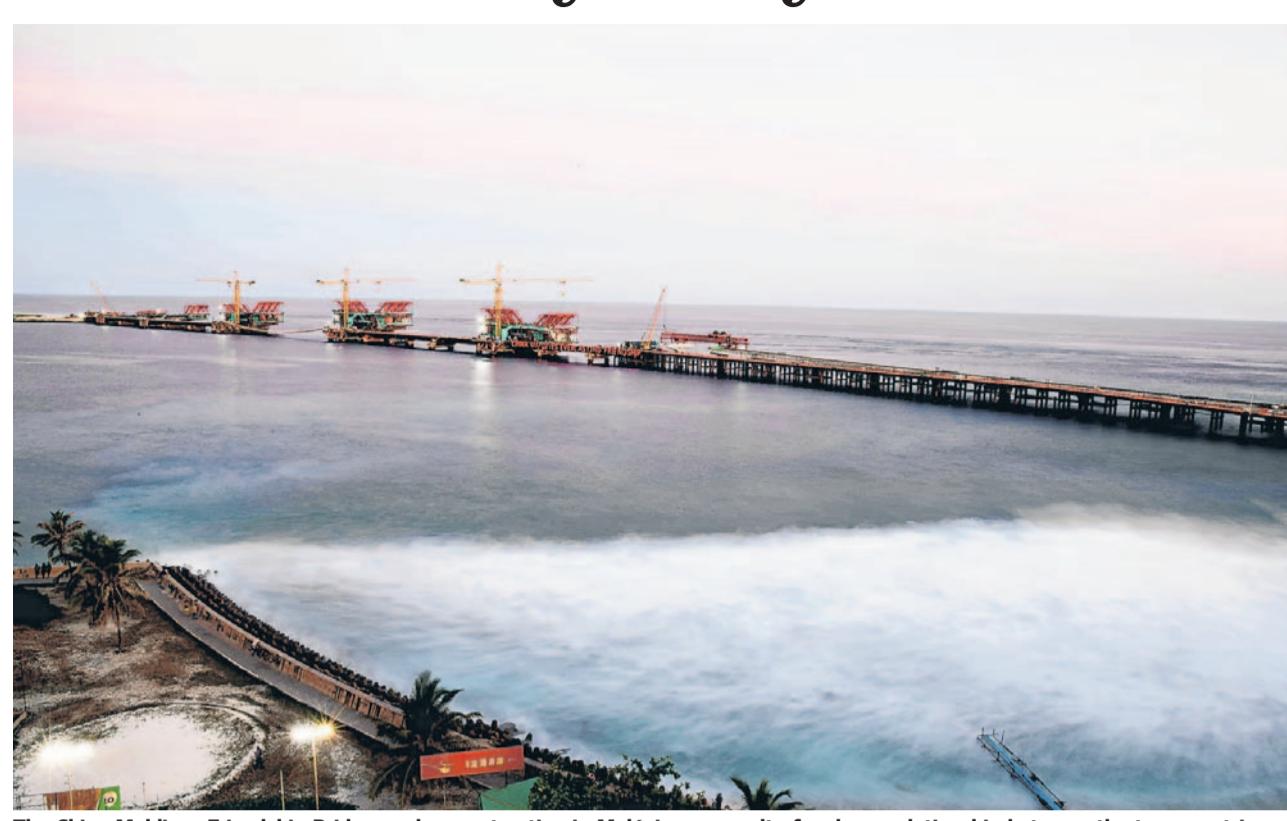
The Maldives archipelago, popular among luxury honeymooners, has become a playing field for geostrategic rivalry as China expands its influence in the Indian Ocean and the U.S. and India push back.

Maldives President Abdulla Yameen Abdul Gayoom, who has steadily swung his country toward Beijing and away from traditional partner New Delhi, has imposed a state of emergency, jailed opponents and clamped down on protests to weaken his opposition, which is led by pro-India ex-President Mohamed Nasheed.

"A new Cold War has been brewing and the Maldives is in the middle of it," said Mr. Nasheed, who is living in exile to escape a 13-year prison sentence for a 2015 terrorism conviction. He has denied the charges, and the U.S. expressed concern that the trial didn't follow proper procedure.

India and the U.S. don't want Beijing, already dominant in the South China Sea, to entrench itself in these waters. The island nation sits astride shipping lanes that connect China to the oil-supplying countries of the Middle East, via the Strait of Malacca. The location also makes the Maldives vital to Beijing's Belt and Road plan to develop land and sea trading routes linking China to Europe.

Chinese President Xi Jinping won Mr. Gayoom's support for the project's maritime corridor on a visit to the Maldives in 2014, and China began investing in island infrastructure. A Chinese bridge now under construction will connect the capital city, Malé, to a nearby island where its airport is located. A Chinese



**The China-Maldives Friendship Bridge**, under construction in Malé, is one result of a closer relationship between the two countries.



**Abdulla Yameen Abdul Gayoom, left, with China's Xi Jinping**



THE WALL STREET JOURNAL.

company is expanding the airport; another has leased an island close by for development. Chinese contractors are building roads and housing units for locals.

In December, Mr. Gayoom signed a free-trade agreement with China that Mr. Nasheed's Maldivian Democratic Party called sudden, rushed and "shrouded in secrecy." China called it a milestone in the countries' economic ties.

Mr. Gayoom describes China as his country's "closest development and commercial partner." Mr. Nasheed says the president has chipped away at democratic oversight of his deals with Beijing and is concealing the true nature and extent of Chinese investment.

Many in the Maldives opposition have raised concerns that Chinese infrastructure loans will turn into "debt traps," particularly after a major Chinese-financed port in neighboring Sri Lanka passed into Chinese control

last year when Colombo last year when Colombo couldn't repay.

U.S. Secretary of State Rex Tillerson, ahead of an Asia visit in October, urged U.S.-India collaboration to give Indo-Pacific countries an alternative to Chinese funds. He called China's infrastructure-financing deals an example of

"predatory economics" that saddle developing countries with unsustainable debt and could undercut their sovereignty.

Mr. Gayoom steered a constitutional amendment through parliament in 2015 allowing foreigners to own land, a change the government said

was meant to attract investment and critics in the country said could help Beijing establish a military foothold.

"China's actions have raised deep suspicions about its military intentions in the Indian Ocean," said Srikant Kondapalli, a professor of Chinese studies at New Delhi's

Jawaharlal Nehru University. "It's a balance of power issue."

In recent years, China has built a naval base in Djibouti in East Africa; in addition to the port in Sri Lanka, it operates one in Pakistan. A senior Indian navy officer said Chinese submarines and research vessels are visiting the Indian Ocean more frequently.

The Indian military deploys aircraft specialized in anti-submarine warfare to patrol the ocean, and its government is negotiating the purchase of U.S. drones with advanced surveillance features. India also plans to build new attack submarines, and a military upgrade is afoot in its Andaman and Nicobar Islands, whose capital is around 1,200 nautical miles from Malé.

The U.S. State Department called on Mr. Gayoom in a statement last month to end the state of emergency and uphold the rule of law. China has called the events "internal affairs" and urged the international community to "respect the Maldives' sovereignty and territorial integrity."

In 1988, Indian troops crushed an attempted coup in the Maldives. Mr. Nasheed is pressing India to act again and oust Mr. Gayoom; India has given no indication it is considering an economic blockade or military action.

"We are at a critical juncture," Mr. Kondapalli said. "The stakes are high with the Maldives."

In a sign of Mr. Gayoom's tilt away from New Delhi, the Indian navy said last month that the Maldives had declined its invitation to participate in military exercises. The Maldives government said it couldn't be involved because the state of emergency requires that security personnel be at home in a heightened state of readiness.

In February, a spokesman for Mr. Gayoom's office said the solution to the political crisis "would have to be a Maldivian one."

## The Face of Change

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, March 7, 2018 | B1

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## U.S. Keeps Huawei in Its Sights

Chinese equipment maker looms large in government review of bid for Qualcomm

By STU WOO

In intervening this week in the Broadcom-Qualcomm takeover battle, the U.S. government also had its eye on another company: China's **Huawei Technologies Co.**

The world's top cellular-equipment maker and a leading smartphone brand, Huawei in the past three months has been the subject of a series of interventions, or attempted interventions, by the Trump administration and Congress across the telecommunications industry.

The latest was Washington's move this week to intervene in Singapore-based **Broadcom Ltd.**'s attempted hostile takeover of U.S.-based **Qualcomm**

Inc. A government panel ordered Qualcomm to delay a shareholder vote that Broadcom hoped would elevate directors friendly to its \$117 billion bid.

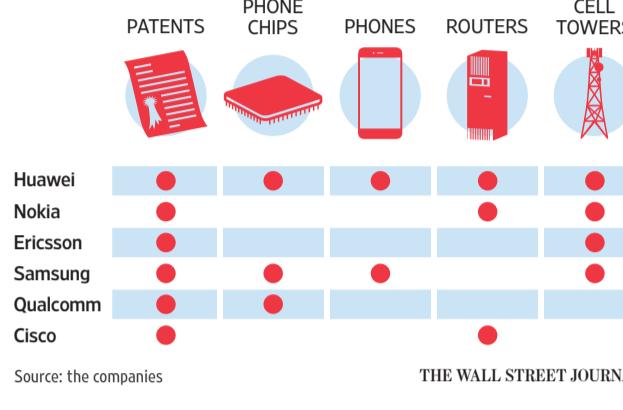
In a letter explaining its interference, the Committee on Foreign Investment in the U.S., which reviews foreign takeovers for national-security concerns, cited its worry that China, specifically Huawei, could gain the upper hand in the development of so-called 5G technology.

Translation: Removing an able U.S. competitor to Huawei risks strengthening the Chinese company at the expense of the American wireless industry.

Broadcom on Tuesday tried to dispel those concerns. "We are fully cooperating with CFIUS, and are absolutely committed to making the combined company a global leader in critical 5G and other technologies," a spokesman said in a

### Dialing Up

A few global players are playing major roles in developing 5G, the next generation of wireless technology.



statement.

5G is the next-generation mobile-network technology that the industry is preparing to roll out around the world. American officials and some Western telecom companies worry that if China implements

tives have suggested a deeper worry that, with Huawei's help, China could displace Silicon Valley as the world's innovation center and lure top engineers there. Another concern: If Huawei extends its lead in the telecom-equipment industry, American wireless carriers might have no choice but to use Huawei gear in the future.

Major American wireless carriers, such as AT&T Inc. and Verizon Communications Inc., have said they are initially focusing 5G coverage in a few cities. "What I see in the U.S. is wireless carriers choosing particular geographic markets for 5G," said Gartner Inc. analyst Ian Keene. "The way the Chinese are going to approach it, it's going to be blanketed."

The extent to which the U.S. government shares that fear was laid bare in unusual clarity in the CFIUS letter. The committee said it would probe whether a Broadcom-Qualcomm deal would violate national security. Please see 5G page B2

## S&P Deal Is Latest Push Into AI Sector

By GUNJAN BANERJI

**S&P Global Inc.** said it would buy technology startup **Kensho Technologies Inc.** for about \$550 million, its second investment in the artificial intelligence sector this year.

The deal is the latest sign of Wall Street embracing AI. Almost one-fifth of banks and financial-services companies surveyed by **Greenwich Associates** have implemented AI technology into their businesses, according to an October report by the research firm. Banks have tapped machine learning for their research, trading and compliance, the report said.

**Kensho**, based in Cambridge, Mass., uses AI to provide data analysis for financial institutions.

"Kensho's capabilities are critical for S&P Global to be at the forefront of the technology transformation taking place within the financial markets," said S&P Global Chief Financial Officer Ewout Steenbergen.

The company was founded in 2013. Its staff consists of former employees of Google

*The company has in recent years been building its indexing and data divisions.*

parent **Alphabet Inc.**, **Facebook Inc.** and **Twitter Inc.**, an S&P Global spokesman said.

While S&P Global is known for its credit-ratings business, the New York-based company has in recent years been building its indexing and data divisions.

Last month, the firm completed the acquisition of Panjiva Inc., another machine-learning and analytics company but one that tracks global supply data.

It also invested last year in London-based Algomi, which uses AI in fixed-income trading.

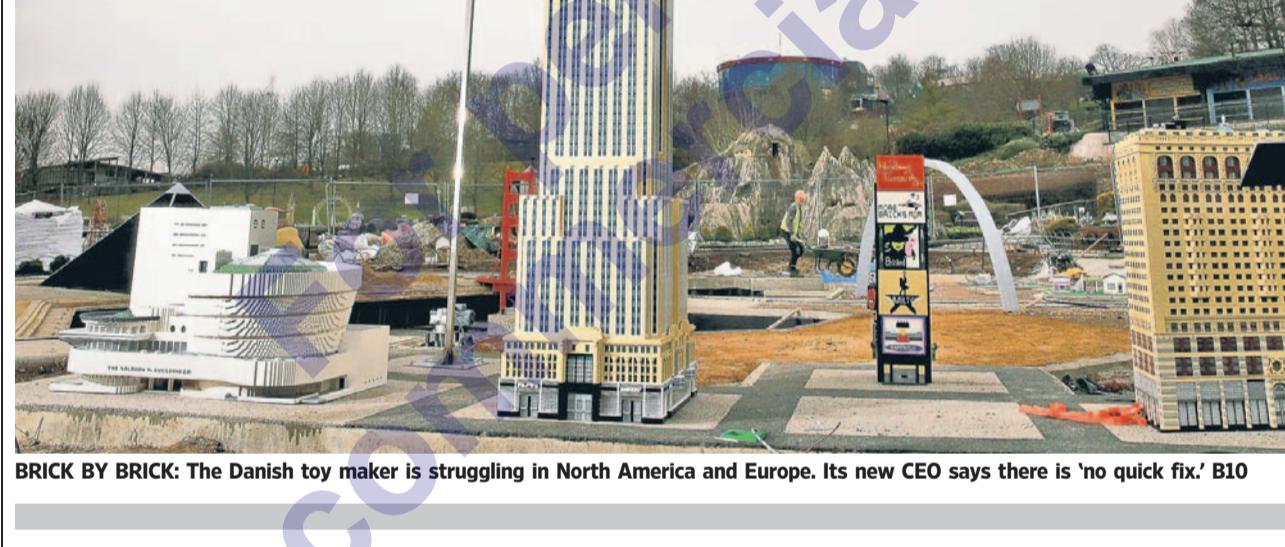
In its fourth-quarter earnings presentation, S&P Global indicated that it wants to expand its index division and invest in alternative data companies.

Companies, including those outside of the technology industry, have been venturing more into AI. Machine learning, a branch of AI, is the capability of computers to learn things without programming by humans. Machine-learning computers tend to be able to parse vast quantities of data quickly.

On Monday, at a conference in Orlando, S&P Global Chief Executive Douglas Peterson emphasized the company's focus on data and analytics. "About five, six years ago, we repositioned the company around the theme of essential intelligence," Mr. Peterson said at the conference.

## Lego Gets to Work Rebuilding Global Markets

**Paint It Black**  
Spotify's gross margin  
30%



**BRICK BY BRICK:** The Danish toy maker is struggling in North America and Europe. Its new CEO says there is 'no quick fix.' B10

MATT ALEXANDER/PAPIRE/ZUMA PRESS

## Big Banks Score a Win on Munis

By ANDREW ACKERMAN

**WASHINGTON**—Bipartisan legislation expected to clear the Senate as early as this week has just one provision that is set to directly benefit the nation's megabanks: a section aimed at making it easier for them to buy state and local bonds.

The provision, championed by **Citigroup Inc.** and other large banks, would ease a new rule aimed at ensuring banks can raise enough cash during a financial-market meltdown to fund their operations for 30 days, requiring them to hold more cash or securities that are easily salable.

Under federal banking rules approved in 2014, those "high

quality liquid assets" included cash, Treasury bonds and corporate debt but not municipal debt. Banks like to hold municipal bonds because of their safety and tax advantages.

The Senate on Tuesday voted, 67-32, to formally begin debate on the bill, which primarily benefits small and medium-size banks, easily reaching the 60 votes needed and signaling that the measure has enough support from Democrats to pass by a comfortable margin. The legislation was backed by 16 Democrats and one independent, Maine Sen. Angus King, bucking Massachusetts Sen. Elizabeth Warren and 31 other Democrats who opposed the procedural vote.

Including the municipal-bond provision in the deregulatory bill was a priority for the nation's biggest banks that buy a lot of municipal securities as investments. A Citigroup lobbyist recently told a Senate staffer that the firm would be pleased if easing the treatment of municipal debt under the bank-funding rule was the one thing it could accomplish during the current Congress, said a person familiar with the conversation.

State and local officials have praised the move, saying their securities could suffer if banks begin to shun them.

Citigroup spokesman said the bond provision "is supported by a wide array of groups focused on helping cit-

ies and states address critical infrastructure needs."

While the provision is a victory for Citigroup, the biggest U.S. banks haven't lobbied extensively on the Senate bill, congressional aides said. Big firms have spent billions of dollars to comply with post-crisis rules and generally aren't eager to tear them down.

Analysts have said changing the rule for municipal products would be a mistake because it would erode the core of a bank-safety rule put in place after the 2010 Dodd-Frank law. While municipal securities have relatively low default rates, they are traded thinly and shouldn't count as

Please see MUNIS page B14

## McDonald's Adds Fresh Beef

By PATRICK McGROARTY

**OAK BROOK**, Ill.—**McDonald's Corp.** is freshening up the Quarter Pounder.

By May, quarter-pound hamburgers at McDonald's restaurants in the contiguous U.S. will be made from fresh beef.

The move to please customers who want less processed food will make supplying some 14,000 U.S. restaurants more complicated at the same time McDonald's is trying to position itself as the go-to chain for inexpensive breakfasts and sandwiches. In January, McDonald's said changes to its value menu helped boost

same-store traffic in 2017 for the first time in five years.

McDonald's is facing increasing competition from fast-casual chains such as **Shake Shack Inc.** and **Smashburger Master LLC** that have gained ground among customers willing to pay more for meals they see as higher quality. For the past two years, the fast-food company has been working to win back fans of its most well-known products.

"McDonald's is a burger company, and there's no more important place for us to focus on improving the quality of our food," said McDonald's USA President Chris Kempczinski. That renewed focus on

burgers comes after mixed success generating sales from other menu changes. Selling breakfast items such as the Sausage McMuffin all day has been popular, and McDonald's says its customers have embraced the removal of artificial preservatives from chicken nuggets. Breakfast items made from cage-free eggs also have been well received among customers.

Other changes have been less successful, such as different iterations of healthier wraps and salads that failed to gain traction.

Competitors brought the focus back to burgers. **Wendy's** USA President Chris Kempczinski. That renewed focus on

Please see MENU page B2

## INSIDE



**NEW MARKETER MUST BUFF UP CADILLAC**

AUTOS, B5



**BIG OIL INSISTS IT IS NO FOSSIL**

ENERGY, B5

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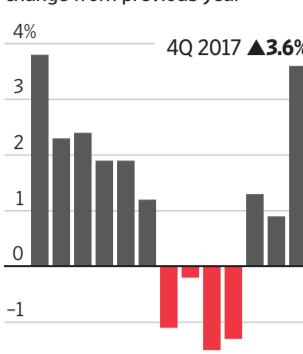
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## BUSINESS NEWS

**Sales Boost**

Target's comparable store sales, change from previous year



Note: Fiscal years end in January.  
Sources: FactSet; the company  
THE WALL STREET JOURNAL.

# Target CEO: 'Strategy Is Working'

By KHADEEJA SAFDAR

to improve its stores and digital capabilities.

"What a difference a year makes," CEO Brian Cornell said on Tuesday at an investor presentation. "You don't have to get too far into the numbers to see our strategy is working."

Still, Target's spending plan has taken a toll on profits, which trailed Wall Street estimates, sending shares of the retailer down 4.5% on Tuesday. The stock has gained about 27% in a year.

"Despite the good numbers, the sustainability of performance is open to question," Neil

Saunders, managing director of GlobalData Retail, wrote. "After all, Target's results were delivered over a period of robust trading for the retail sector."

Target is among brick-and-mortar chains that benefited from rising wages and strong consumer confidence over the holidays. Best Buy Co., Macy's Inc. and Kohl's Corp. posted sales gains as well, though Walmart Inc. stumbled after misjudging its online inventory.

Like other big-box chains, Target has been struggling to compete with Amazon.com Inc. Mr. Cornell has been investing

in the company's supply chain, lower prices, exclusive brands, store renovations and new stores in urban areas. Target recently agreed to acquire grocery-delivery startup Shipt Inc., moving to match services that have been rolled out by rivals Amazon and Walmart.

At the investor meeting,

Target played a video, showing negative news clips following its 2016 holiday season and changes the company has implemented in the past year.

"Coming out of soft holiday sales, the headlines were all

about store closures, a cata-

strophic border tax and a looming retail apocalypse," Mr. Cornell said.

Target plans to remodel 325 more stores in 2018 and add locations in urban areas. The company said it also would launch new brands, expand its ship-from-store capabilities and offer more delivery and pickup options.

Target reported a profit of \$1.1 billion, or \$2.02 a share, up 35% from \$817 million, or \$1.45 a share in the same period a year ago.

—Allison Prang contributed to this article.

## Fox Wants to Zap TV Commercials

By ALEXANDRA BRUELL

Fox Networks Group is pursuing a lofty goal: reducing its television ad time to two minutes an hour by 2020.

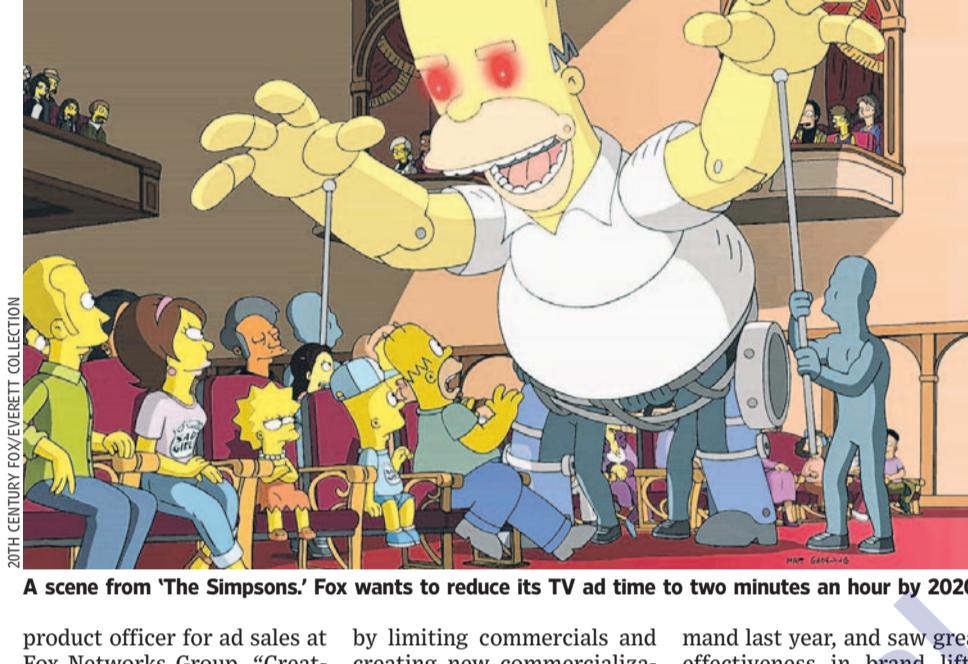
Ad-sales chief Joe Marchese announced that target at a private event the media company hosted last week in Los Angeles, where advertisers, buyers and executives from industry rivals discussed the challenges that face TV advertising.

Bringing commercial time down to only two minutes an hour would be a significant change. In 2017, the average amount of ad time during an hour of broadcast TV totaled a little over 13 minutes, according to Nielsen. On cable, it was 16 minutes.

For Fox to avoid a steep revenue drop, it would likely need to charge a lot more for the commercial slots it has left after making the change.

The shift is contingent on the industry changing how it buys and sells media. Mr. Marchese wants to sell ads using a metric based on time spent watching television ad content, versus the number of views of a TV show.

"The two minutes per hour is a real target for Fox, and also our challenge for the industry," said Ed Davis, chief



A scene from 'The Simpsons.' Fox wants to reduce its TV ad time to two minutes an hour by 2020.

product officer for ad sales at Fox Networks Group. "Creating a sustainable model for ad-supported storytelling will require us all to move."

Mr. Marchese's 2020 target was part of his closing remarks. "It was sort of an aspiration or goal. Not a declaration," said an ad buyer who attended the event. "His whole closing section was about the value of the commercial, and if they can provide more value

by limiting commercials and creating new commercialization it will be better for networks' health and better for advertisers."

The move is in line with a trend toward fewer ads on TV, as consumers increasingly ditch ad-supported cable and broadcast television for ad-free streaming platforms such as Netflix and Amazon.

"We did reduce ad time by 75% in FX Originals on-de-

mand last year, and saw great effectiveness in brand lift," Mr. Davis said. "We are tuning our approach with the new targeting and ad products so we can scale more widely."

**21st Century Fox** Inc. owns the Fox broadcast network, cable channels such as FX and television shows including "The Simpsons." It shares common ownership with Wall Street Journal parent company News Corp.

## Gun Maker Is Wary Of Smart Technology

By DOUG CAMERON AND AISHA AL-MUSLIM

Smith & Wesson's parent company said Tuesday that it was wary of adding "smart-gun" technology to its weapons, as investors push the industry to address safety issues in the wake of mass shootings.

Asset manager **BlackRock** Inc. urged listed firearms makers last week to address their potential exposure to litigation from mass shootings such as the one at a school in Parkland, Fla., last month that left 17 people dead. The world's largest money manager by assets

is also the biggest investor in many weapons and ammunition makers via its index funds.

**American Outdoor Brands** Corp., Smith & Wesson's owner and the largest U.S. commercial gun maker by sales, said in a nine-page response to BlackRock that it supports gun-safety measures including tighter background checks and many existing ownership regulations. "We respect the national debate that is currently underway regarding firearms and safety," American Outdoor chairman Barry Monheit and Chief Executive James Debney wrote. "We share the desire to

make our communities safer."

The company said it hasn't invested in nascent smart-gun technology that can prevent someone other than a gun's owner from firing it, citing concerns about its development and demand from core customers.

Other listed companies including **Sturm Ruger & Co.**, **Vista Outdoor Brands** Corp. and **Olin** Corp. didn't respond to a request for comment about BlackRock's letter.

Retailers including **Wal-Mart** Inc. and **Dick's Sporting Goods** Inc. said last week that they would stop selling guns to people younger than 21.

The alleged Parkland shooter used a Smith & Wesson M&P 15, a semi-automatic AR-15-style rifle, authorities said. American Outdoor didn't mention such rifles in its letter. The company derives more than 10% of sales from such "modern sporting rifles," also known as assault-style weapons. Similar guns have been used in other mass shootings, and some retailers said they would halt sales.

Last week, American Outdoor reported that sales in its latest quarter dropped 33% and warned flagging demand was expected to last at least a year. It has cut hundreds of jobs.

## Weinstein Deal Is Called Off

**Weinstein** Co. once again appeared headed toward a bankruptcy filing Tuesday after its would-be buyer said it was withdrawing from a deal.

A group organized by Ron Burkle and led by Maria Contreras-Sweet said it called off a

product officer for ad sales at Fox Networks Group. "Creating a sustainable model for ad-supported storytelling will require us all to move."

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## TECHNOLOGY

WSJ.com/Tech

# China Weighs Boost for Markets

Tencent and Alibaba, already listed abroad, would get clearance to trade on home turf

BY CHAO DENG  
AND LIZA LIN

**BEIJING**—The Chinese government is considering plans that would allow shares in technology giants such as **Tencent Holdings** Ltd. and **Alibaba Group Holding** Ltd. to trade back home, a move that could raise the profile of the country's tightly controlled capital markets.

The country's securities regulator has reached out to a number of state-owned investment banks to explore ways to let already-listed companies and private businesses issue shares on the mainland, according to investment bankers briefed on the discussions.

One option being considered is to allow such companies to issue depositary receipts, so they can bypass Chinese law prohibiting firms incorporated overseas from going public on the mainland. The likes of Tencent and Alibaba are incorporated abroad in a special corporate structure so they can get around Chinese restrictions on for-

eigners investing in sectors such as technology.

It is part of China's longer-term goal to turn the tide on years of the country's businesses going public overseas. Beijing would like to see more Chinese companies choose the mainland capital market as their primary listing destination eventually, the investment bankers said.

"At some point, it makes sense for Alibaba and Tencent to have their primary listings in China," said Paul Gillis, an accounting professor at Peking University's Guanghua School of Management. "The government has a long-term plan to wean these companies off the U.S.," he added.

Tencent and Alibaba are already among the world's most valuable companies, and China has earmarked technologies such as artificial intelligence as important growth drivers for the country's economy.

Shares in Hong Kong-listed Tencent—the owner of China's most popular messaging app, WeChat—more than doubled last year. In the process Tencent became the first Chinese tech company to crack the \$500 billion valuation club, joining industry titans such as **Facebook** Inc. and **Apple** Inc.

NYSE-listed shares of Alibaba, China's largest e-commerce company, almost dou-



An Alibaba campus in China. The firm is listed on the NYSE.

bled last year. Alibaba now has a market capitalization of more than \$460 billion.

Recently, a number of tech firms said they are open to a China listing, though executives haven't gone into details. Tencent Chief Executive Pony Ma said the company would "actively consider" listing inside China. **Baidu** Inc. Chairman Robin Li said recently that the search-engine company has "always wanted to come home to China." Richard Liu, chairman of Nasdaq-listed e-commerce company **JD.com** Inc., said "if the authorities allow it, we are willing." The executives were speaking on the sidelines of China's annual legislative meetings, currently taking place in Beijing.

Chinese technology firms have in the past often opted for overseas listings, many in the U.S., for the prestige and to benefit from rules allowing dual-class share structures that give company owners more control over the business. The Chinese regulator's tough listing rules, such as the requirement for companies to be profitable for three years before listing, have also deterred high-growth technology firms from seeking direct share sales at home.

The Wall Street Journal reported earlier this month that Chinese regulators have already approached smartphone maker **Xiaomi** Corp., which has plans to go public in Hong Kong. Investors say it would

be sensible for China's tech companies to list at home, given the brand awareness they command there and the likelihood their shares would trade at high valuations.

Still, analysts have some concerns. Depending on how contracts are drawn up, Chinese individual investors buying depository receipts could lack full shareholder rights, they say. The listings of a few hot names could also fuel speculation by Chinese individual investors, who dominate trading on the mainland.

"When the government is supporting something, everyone rushes in," said T.J. Wong, a professor of business administration and accounting at the University of Southern California's Marshall School of Business. "What you don't want is a huge bubble, then a burst."

Chinese companies often have to wait years before getting approval from the market regulator to list their shares. The authorities would likely expedite this process for some tech companies, the investment bankers said.

Letting a number of top-quality companies issue shares on the mainland could help the Chinese market mature, analysts said.

—Yoko Kubota  
contributed to this article.

# Facebook Sued by BlackBerry On Patents

BY DAVID GEORGE-COSH

**TORONTO**—**BlackBerry** Ltd. claimed in a lawsuit Tuesday that **Facebook** Inc. and its WhatsApp and Instagram units have infringed its patents and swiped intellectual property from its BlackBerry Messenger technology.

In its 117-page court filing in U.S. federal court in Los Angeles, BlackBerry said the defendants "created mobile messaging applications that co-opt BlackBerry's innovations, using a number of the innovative security, user interface, and functionality enhancing features that made BlackBerry's products such a critical and commercial success in the first place."

The suit alleges the defendants improperly used BlackBerry's intellectual property that streamlines notifications to "prevent users from being inundated," as well as the display of time stamps on messages and the tagging of friends and family in social-media photographs.

The suit also claims the de-

*The Canadian firm says WhatsApp and Instagram swiped intellectual property.*

fendants co-opted innovation that allows users to more easily interact while playing mobile games.

The Canadian company hasn't said how much it wants in financial compensation from Facebook, but requested a jury trial.

"We have a lot of respect for Facebook and the value they've placed on messaging capabilities, some of which were invented by BlackBerry," said Sarah McKinney, BlackBerry's head of corporate communications. "However, we have a strong claim that Facebook has infringed on our intellectual property, and after several years of dialogue, we also have an obligation to our shareholders to pursue appropriate legal remedies."

Facebook acquired Instagram for \$1 billion in 2012 and it bought WhatsApp, a mobile messaging app, for \$19 billion two years later. The Menlo Park, Calif.-based company said it plans to contest BlackBerry's lawsuit.

"BlackBerry's suit sadly reflects the current state of its messaging business," Facebook deputy general counsel Paul Grewal said. "Having abandoned its efforts to innovate, BlackBerry is now looking to tax the innovation of others. We intend to fight."

BlackBerry's lawsuit comes nearly a year after it was awarded \$815 million in patent royalties by Qualcomm Inc. as the company, based in Waterloo, Ontario, seeks to pursue more patent deals.

—Deepa Seetharaman  
contributed to this article.



UnitedHealth's move, which affects a limited number of consumers, comes amid a general debate over drug spending and the industry's opaque system of discounts and rebates.

BY ANNA WILDE MATHEWS  
AND JOSEPH WALKER

**UnitedHealth Group** Inc.'s insurance arm will change how it handles some rebates it gets from drugmakers, passing them on to individuals who take the medicines amid pressure to reduce costs and bolster transparency around pharmaceuticals.

The move by the biggest U.S. insurer, which will affect only a limited slice of customers, spotlights a broader debate over spending on drugs and the industry's opaque system of discounts and rebates. The Trump administration has suggested it might make a similar change in the Medicare program.

At issue are the rebates that drugmakers routinely pay to insurers and pharmacy-benefit managers on brand-name drugs,

offsetting the full listed prices. The companies use the rebates in a variety of ways, including lowering their own costs and keeping premiums down. They also often pass along much of the benefit to employer clients. But critics, including some drugmakers, say more of the rebates should go directly to the consumers who take the drugs.

UnitedHealth said that starting next year, the plans that its UnitedHealthcare unit insures for employers will redirect the "overwhelming majority" of the rebate sums to the individuals taking the affected drugs. The change, for around 7.5 million covered people, will reduce costs for individuals by amounts ranging from a few dollars to more than a thousand dollars per prescription, UnitedHealth said.

Dan Schumacher, president

of UnitedHealthcare, said the company believes it is the first major insurer to make such a change. "We see it, for those most directly affected, as an opportunity to provide greater benefit and lower costs."

But UnitedHealth said the change won't affect the approximately 18.6 million consumers in UnitedHealthcare's "self-insured" plans, where the employer is the payer. PBMs and insurers, including UnitedHealth, have previously offered employers the option to pass along the rebates to individuals. But only around 4% of employers do it, while 68% use the money more generally to offset their spending on drugs, according to a survey of employers by the Pharmacy Benefit Management Institute.

A spokeswoman for **Express Scripts Holding** Co. said most

of its clients "prefer to use the savings from rebates to keep costs low for all members" by holding down premiums. **CVS Health** Corp. said clients covering around 12 million people, out of the 94 million whose drug benefits the company manages, pass on the rebates to individuals taking the drugs.

Nathan Cassin, an assistant vice president at Aon PLC, said employers "like the flexibility" of being able to use rebate money as they choose, and PBMs typically charge a fee to pass along rebates to individuals. "That's a reason not to do it," he said.

The focus on rebates has grown as brand-name drug prices skyrocketed in recent years. Insurers and PBMs have demanded ever-larger rebates in exchange for covering the drugs. Last year, rebates paid

by drugmakers to insurers and PBMs represented an estimated 23.8% of gross drug costs in Medicare's Part D, the prescription-drug program for seniors and the disabled, up from 9.6% in 2007, according to Medicare's board of trustees.

Currently, people enrolled in high-deductible employer plans can end up paying the full list price of their medicine before they meet their deductible, even though the insurer is getting it at a discounted cost.

**Aetna** Inc. said, "The majority of rebates we receive go toward lowering premiums and fees for members." **Cigna** Corp. said it "obtains and shares those discounts with our clients according to the benefit plan design they have chosen." **Anthem** Inc. said, "Rebates are used in helping to make premiums and copays more affordable."

# The Face of Real News

In 2013, Jessica Donati arrived in Kabul at the tail end of the U.S.'s transfer of security to the Afghanistan government. Despite the dangers, she traveled with and without military escort to report on the country's dramatic upsurge in violence. Over the next four years, Ms. Donati provided WSJ readers the full scope of the unending corruption, bombings and kidnappings that has encapsulated America's longest war.

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FOREIGN CORRESPONDENT



# INTERNATIONAL PROPERTY REPORT

Europe

## Banks Throw Off the Lending Shackles

Real-estate loans are on the rise as lenders ramp up business and compete on rates

By PETER GRANT  
AND JEANNETTE NEUMANN

When Spain's **Bankia** SA received a bailout in 2012, it was prohibited from making the kind of real-estate loans that triggered the bank's implosion.

That ban expired on Jan. 1 and, like other Spanish lenders, Bankia is now jumping at the opportunity to finance real-estate projects again.

"It's a good time to be in the sector; in terms of growth, the cycle still has upside," said Alberto Manrique, head of real-estate development finance at Bankia, Spain's fourth-largest bank by market capitalization.

With the European economy expanding and most of banks' balance sheets restored to health, many European financial institutions are boosting loan volumes in their real-estate lending businesses and competing aggressively on rates.

**BNP Paribas** SA increased its portfolio of commercial real-estate loans by double-digit percentages in 2016 and again in 2017, said Gilles Polet, head of European real-estate finance for corporate and institutional banking at the Paris-based bank. Its 40 deals last year included a €625 million (\$771 million) refinancing



Coima obtained a loan for the redevelopment of the former Unilever headquarters in Milan.

of the Dundrum Town Centre, one of Ireland's largest shopping malls.

Paris-based **Natixis** SA, meanwhile, has emerged as one of the most active lenders in the U.S. market. Late last year, it led a group that provided a \$480 million construction loan to **Cottonwood Management** LLC for the development of a more than 800,000-square-foot mixed-use project in Boston's Seaport District.

Some financial institutions in a few countries, such as Greece, remain troubled, and the stocks of even well-capitalized banks are being shunned by investors because of low profitability. But real-estate lending is back in vogue among banks that have returned to health.

"We have capital and we have appetite," said Roman Kogan, **Deutsche Bank** AG's European head of commercial real estate.

Bankia is building up a pipeline of loans to finance residential construction in Spain. Mr. Manrique anticipates that within about three years, Bankia will capture up to an 8% market share of what he estimates to be the country's €5.5 billion annual real-estate financing sector.

The availability of debt financing is a sign of health in the European real-estate market. Sales of commercial property are strong, pushing values in some markets to records. Last year, investors purchased €312 billion of commercial property in Europe, up from €281 billion in 2016, according

to data firm **Real Capital Analytics**.

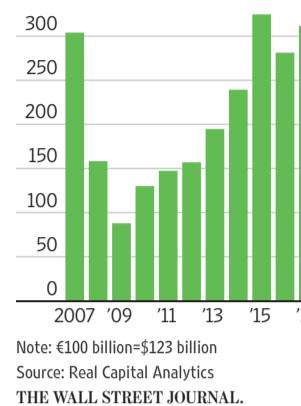
Values have risen so high that some bank regulators have expressed concern. In his remarks to the European Parliament in February, Mario Draghi, the president of the European Central Bank, said commercial property was a segment that needed close monitoring to protect against a possible asset bubble. "We actually see stretched valuations," he said.

The ramp-up in lending comes after a long slog stemming back to the 2008 global financial crisis. For years, many European banks reined in their real-estate businesses because of a weak European economy and pressures from regulators and others to beef up their capital.

### Revival

European commercial-property investment

€350 billion



Note: €100 billion=\$123 billion

Source: Real Capital Analytics

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lion in the third quarter of 2015, according to data firm **Trepp LLC**.

Some market participants said some lenders are trying to win business by increasing loan sizes relative to a property's value. "Banks try to stick to 65% to 70% loan-to-value [ratio]," said Torsten Pokropp, a lawyer in **DLA Piper**'s Frankfurt office. "However, we now see 80% again."

Many European bank executives said they are trying to learn from past mistakes and avoid softening underwriting standards. They said they are primarily dealing with increasing competition by cutting rates. That is reducing borrowing costs for many real-estate investors even in a rising interest-rate environment.

Still, some borrowers are able to obtain bank financing for new construction, renovations and other projects that involve more risk.

For example, a €650 million development fund raised by **Coima SGR** SpA obtained a €56.4 million loan from **Banco BPM** SpA—an Italian bank formed by the merger of Banco Popolare and Banca Popolare di Milano—for the redevelopment of the former Unilever headquarters in Milan's Porta Nuova neighborhood.

Coima was able to get such a loan thanks to its history of paying off its debts, said Manfredi Catella, Coima's chief executive. It would be tougher without such a track record, he said.

## PLOTS & PLOYS

### MORTGAGE-BACKED LOANS

#### Default Rate Drops Eight Months in Row

The delinquency rate for securitized loans in the commercial real-estate industry has dropped for eight consecutive months, defying expectations in recent years of a wave of defaults.

The delinquency rate for commercial mortgage-backed securities came in at 4.51% in February, down from 5.31% in the same period a year earlier, according to real-estate data provider Trepp Inc. The rate hit a high of 10.34% in July 2012.

Investors had been expecting an increase in defaults in 2016 and 2017 as the large volume of commercial mortgage-backed securities packaged in 2006 and 2007 reached maturity. But rising real-estate values, low interest rates and a surge of debt capital from insurers and other sources have allowed property owners to refinance or restructure debts.

The delinquency rate is likely to decline further in the coming months as fewer securitization deals mature, according to Trepp.

—Esther Fung

### REITS

#### Boards With Women Best All-Male Panels

The real-estate industry's reputation for being an old boys' network might be hurting investors in real-estate investment trusts.

That is the conclusion of a new report by Wells Fargo Securities that analyzed 165 equity REITs from 2006 to 2017. The analysis "determined that companies with more than the average percentage of women on its boards achieved higher average price and total returns over that period," the report said.

The average percentage of women on REIT boards was 15.5%, the report said. The share prices of REITs with higher-than-average percentages outperformed those with no female representation by 1.93 to 2.33 percentage points, according to the report. The outperformance was 1.33 to 1.69 percentage point when both share price and dividend were taken into account.

"There is already a considerable volume of research that delves into the benefits of a more inclusive board," such as different skill sets, the report said. "Our purpose here is to shine a spotlight on board diversity in real estate."

—Peter Grant

## In Germany, Housing Market Tightens Up

By WILLIAM WILKES

BERLIN—Property prices in Germany are expected to keep rising as the supply of housing dwindles and demand increases.

Despite an annual shortfall of about 100,000 homes, construction of new houses slumped 8% in the first 11 months of 2017, compared with the same period in 2016.

For investors, the worsening supply-demand imbalance has been a boon. Property prices in Berlin, Frankfurt, Cologne and other major cities rose by about 10% last year to records, according to property advisory firm JLL.

Dedicated property investment firms are outperforming even those gains, with many posting 40% increases in portfolio value in 2017 after rises of 20% in 2016. Investment flows into German property hit a record of \$19.3 billion last year, according to JLL.

After a record-long economic expansion, Germany's cities are rapidly running out of land with government permits for new residential buildings. Stringent planning laws mean new plots won't be freed up for housing soon.

Further restricting supply are new energy regulations and a shortage of construction workers, which make new housing projects complex and expensive to undertake, say architects, builders and planners.

German city property is seen as attractive by international investors put off by the London property market by Brexit uncertainty and the possibility of a Labour government led by self-described socialist Jeremy Corbyn.

Investment advisers warn, however, that international property speculators, used to the light-touch regulation of the London property market, should keep an eye on potential government regulations designed to protect German residents at the expense of landlords.

While U.K. government officials have largely avoided intervening to curb residential price and rental growth, their German equivalents in national and local government have warned they could move to tighten existing laws aimed at capping rents.

In Germany, the scarcity in supply appears here to stay. While German cities aren't short of previously developed or undeveloped land, strict planning processes mean it can take up to six years to make this land available for



The housing supply in many large cities, like Berlin, hasn't kept up with demand generated by Germany's economic boom.

### Hard to Get

Home prices in Germany's major cities are rising, as demand outstrips supply.

#### Berlin's private house prices

€4,000 a square meter



Sources: JLL (prices); Federal Statistical Office, Destatis (demand and supply)

#### New households looking for a home in Germany

Total increase from a year earlier

600 thousand

500

400

300

200

100

0

Projection

2014 2015 2016 2017

#### Housing starts, January through November

600 thousand

500

400

300

200

100

0

2014 2015 2016 2017

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construction, according to city planners and property developers.

Most large municipalities have failed to keep up with the demand generated by Germany's economic boom, which is drawing young professionals, and an influx of immigrants. Adding to this is a tide of retiring baby boomers who are ditching suburban homes for city-center apartments, real-estate agents say.

"Mayors in big German cities have been getting the demographics wrong for years," said Peter Willisch, managing director at **Peakside Capital**

says Frankfurt architect Peter Schumacher.

Most city dwellers in Germany are tenants and they have been putting pressure, via campaigns and protests, on local politicians to put a lid on prices and rents. Rents per square meter in Berlin rose 9% in 2017 after growth of 13% in 2016, according to JLL. Rental prices rose 5% in Munich and 3.6% in Frankfurt, with median rents in the cities climbing 60% and 44%, respectively, since 2008.

That has been good news for Frankfurt-listed landlord

**Deutsche Wohnen** SE, whose

shares have more than doubled since 2014. Shares in property firm **Vonovia** SE have almost doubled over the same period, far outstripping the 27% gain in the blue-chip DAX index.

One potential danger facing landlords could be government interventions to protect tenants from further rent rises, which would cap returns for investors. Germany introduced rental price controls in certain cities in 2015 in response to sharp rent increases.

In many markets, landlords have used loopholes to sidestep the rules, but the recent coalition agreement between Chancellor Angela Merkel's conservatives and the center-left SPD promises to tighten the regulations. One new law expected by developers would restrict the ability of landlords to push renovation costs on to tenants.

Meanwhile, houses built in the former East Germany during the Cold War are vulnerable to drastic revaluations because of energy regulations, said Mr. Willisch of Peakside Capital Advisors. If the government decides to tweak rules to demand residential buildings become more energy efficient, landlords may have to install costly energy-saving measures such as new windows, doors or insulation, or face €50,000 (\$61,600) fines.

The real-estate industry's reputation for being an old boys' network might be hurting investors in real-estate investment trusts.

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—Peter Grant

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## INTERNATIONAL PROPERTY REPORT: EUROPE

# Tech Goes Further Afield

New outposts sprout in overlooked cities like Vilnius, Lithuania, and Tallinn, Estonia

BY SHEFALI ANAND

New technology centers are mushrooming throughout Europe, boosting office markets in unlikely places.

Technology and related companies are fueling 20% of the office space demand in small capital cities like Lisbon, Vilnius, Lithuania, and Tallinn, Estonia, according to brokerage firms. Leasing is equally strong in second-tier cities such as Barcelona, Kraków, Poland, and Edinburgh that are becoming popular with the tech industry for their lower rents and growing pools of talent.

Strong leasing demand from tech companies is helping to boost overall leasing activity in many of these markets.

For example, in Edinburgh, tenants leased over 950,000 square feet of office space in the first three quarters of 2017, more than all of both 2015 and 2016, according to CBRE Group Inc. In Lisbon, about 1.8 million square feet of office space was leased in 2017, up 16% from 2016, CBRE said.

"My clients are increasingly asking to consider second and third cities rather than just the capital cities because of the competition," said Stephen Fleetwood, head of location advisory for Europe at CBRE Group Inc. "They're saying, let's start looking deeper and deeper for talent."

Barcelona, for instance, is home to dozens of startups and e-commerce firms that cater to local demand. Barcelona-based GetYourHero.com allows customers to book a cleaning service via an app or online, while Deliberry.com promises to deliver supermarket products within an hour.



The Mobile World Congress was recently held in Barcelona. The city is getting popular with tech.

Several European cities are riding on the availability of venture funding. Last year, venture-capital investors poured \$15.4 billion into companies based in Europe, versus \$7.6 billion in 2014, according to data provider Preqin.

Also fueling this trend are initiatives by local governments to build their tech industries by doing such things as funding startup incubators and organizing mobile and other tech conferences. Barcelona, for example, just hosted the Mobile World Congress.

In Barcelona, leasing by tech companies between 2016 and 2017 was 66% greater than the 10-year average, according to JLL. Tech companies in Vilnius, Kraków and Lisbon leased 196%, 39% and 28% respectively more during the same time frames, JLL said.

Historic buildings in the Lisbon city center, for example, have been converted into incubators and co-working spaces. In 2016 and 2017, tech firms acquired 28% more office space than their 10-year average, according to JLL. New tenants planning to open op-

erations and support centers this year include Alphabet Inc.'s Google and Uber Technologies Inc.

Vilnius, a northern European city has for years been home to technology and business support centers for firms like British bank Barclays and money-transfer company Western Union Co. Vilnius is now attracting technology development operations by big firms such as Uber and smaller firms like American software maker Unify Square Inc. and Belgian data science company Sentiance NV.

"We will probably build smaller tech hubs in the future, based on the quality of living and the availability of talent," said Toon Vanparnis, chief executive of Sentiance.

There has been a flurry of construction of modern offices in Vilnius lately. Office space is expected to go up by 9% by the end of this year to 8.2 million square feet, according to Ober-Haus Real Estate Advisors.

Kraków also is now building on its background in outsourcing work to attract new tech-

nology development. Software developer EPAM Systems Inc. in 2016 opened its second office in Kraków to service clients and to work on software development.

EPAM has several offices in central Europe but the one in Kraków will be its largest in this area, ultimately with a staff of about 1,000 people, said Balazs Fejes, EPAM's co-head of global business. "Cost is one driver, but the second driver is availability of talent," said Mr. Fejes.

Other European cities have capitalized on the success of one or two technology companies. Tallinn was the home of the early development of Skype, the internet-phone service provider. Skype was bought by Microsoft Corp. for \$8.5 billion in 2011, but continues to have a development office in Tallinn.

The founders of TransferWise, a global money transfer startup that has been valued at more than a \$1 billion, are Estonian. Tech companies leased 21% of all office space in the city between 2012 and 2017, according to JLL.

## Test of Blockchain for Real Estate Is Readied

BY SHEFALI ANAND

The blockchain technology that underpins cryptocurrencies such as bitcoin could change the way property deals are done and recorded more than any other new technology, real-estate and technology experts say.

And Sweden's nearly 400-year-old land mapping and registration authority is likely to become one of the first government agencies to test using blockchain technology for conducting property sales.

The Lantmäteriet expects to conduct the first such transaction in the next few months and is shortlisting volunteers who want to buy or sell a property using the blockchain system. "From the technology point of view, we are quite ready," said Mats Snäll, Lantmäteriet's chief digital officer.

Proponents of blockchain say the technology would make recording and transferring titles faster and much more efficient. Transactions that today take months to complete could take days or even hours, they say.

Blockchain technology also is practically bulletproof when it comes to fraudulent transactions, experts say.

In a blockchain data structure, transactions are created and shared among a network of computers. There is a unique digital record of every transaction, which is grouped into a "block." Any changes or additions to the block would need to be verified by a majority of other participants on the network, making it hard to alter information stored on the block.

Just as cryptocurrencies use the blockchain to record who owns a particular coin, or when ownership is transferred, the technology could be used to record who owns a particular property, experts say. Many governments still use paper records for recording titles, a cumbersome process that is vulnerable to fraud.

Title-insurance companies in the U.S. are concerned that blockchain would reduce the need for title insurance, threatening that multibillion-dollar business. Title-insurance companies essentially guarantee property owners that their ownership claim to a property is solid. If it isn't, the insurers cover the loss.

To be sure, there remain hurdles to the full-scale adoption of blockchain to conduct real-estate deals in Sweden. For one thing, Swedish law doesn't accept digital signatures to register a property sale or purchase, so the law would need to change.

Governments and agencies in other countries such as the U.S., India and the Republic of Georgia also have been experimenting with blockchain land registries. Tech giants such as

*The technology would make recording titles much more efficient, proponents say.*

International Business Machines Corp. and startups like blockchain technology developer R3 CEV also have tested the technology for recording titles.

The Lantmäteriet has joined with companies such as telecom firm Telia Co. AB, consulting firm Kairos Future and blockchain company ChromaWay AB to create a structure for conducting real-estate deals on the blockchain.

The Lantmäteriet is already highly digitized and paperless. Still, it can take three to six months from the signing of a purchase contract to the registration of the sale. With blockchain, the processes would be much faster, Mr. Snäll said.

"It could be hours," said Jörgen Modin, chief solutions architect at ChromaWay.

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## BUSINESS WATCH

KOBE STEEL

**Steelmaker's Head To Exit Amid Scandal**

**Kobe Steel** Ltd.'s chief executive said he would step down effective April 1 to take responsibility for a quality scandal that has shaken Japan's reputation for manufacturing.

"To demonstrate that Kobe Steel has changed and to speed up change, we need new management," said Hiroya Kawasaki, the head of Japan's third-largest steelmaker.

Kobe Steel—which supplies the makers of cars, planes and nuclear plants—admitted in October to falsifying quality specifications on products shipped to hundreds of customers, prompting an investigation by the U.S. Justice Department. On Tuesday, the company said some of the data falsification went back 50 years.

For all the upheaval, Kobe Steel's results have yet to take a significant hit. The company has said the scandal would reduce net profit by ¥10 billion (\$94 million) for the year ending March 31 to ¥45 billion, up from a loss the previous year, thanks to higher steel prices and strong demand for construction machinery.

—Mayumi Negishi

UNITED PARCEL SERVICE

**Delivery Company Taps Operating Chief**

**United Parcel Service** Inc. named Jim Barber as chief operating officer, giving the globe-trotting executive an inside track to eventually lead the package-delivery giant.

Mr. Barber, 57 years old, is a UPS lifer who has led the company's international business for the past five years. On Tuesday, he was elevated to the position most recently held by CEO David Abney, who rose to the top job in 2014.

Mr. Abney, 62 years old, still has several major tasks on his plate. UPS is in the midst of a

multiyear spending plan to modernize, expand and speed up its global network so it can better accommodate the secular shift to online shopping.

Mr. Barber started with the company as a delivery driver in 1985. As head of the international division since 2013, he has overseen UPS's vast network outside the U.S. and helped push the company into more emerging markets.

UPS named another company veteran to replace Mr. Barber. Nando Cesaroni, 46 years old, will become international president after having served as president of the company's European division since 2015.

—Paul Ziobro

DAIMLER

**Car Maker Seeks Closer Ties to Geely**

**Daimler** AG Chief Executive Dieter Zetsche on Tuesday said the German car maker is interested in developing a closer relationship with China's Geely automotive group, its largest shareholder, but said any cooperation needs the backing of Daimler's current Chinese partner **BAIC Motor** Corp.

Speaking on the sidelines of the Geneva International Motor Show, Mr. Zetsche praised Geely's founder, billionaire Li Shufu, as a gifted entrepreneur, saying "everything he touches seems to succeed."

"It doesn't take too much imagination to see the potential upside for Daimler," he said, adding that cooperation with Mr. Li's **Zhejiang Geely Holding** "potentially gives us more options."

Mr. Zetsche's comments are the clearest indication yet that the maker of Mercedes-Benz automobiles could be open for closer cooperation with Geely, a fast-growing Chinese auto group that has become a global juggernaut since its 2010 acquisition of Swedish auto maker Volvo Cars.

—William Boston



The Danish toy maker's sales decline comes amid difficulties for the industry globally. Lego has faced challenges in mature markets.

## Lego Struggles to Pick Itself Up

BY DOMINIC CHOPPING  
AND SAABIRA CHAUDHURI

**Lego A/S**, the Danish maker of tiny plastic bricks, reported a sharp fall in earnings as it continued to struggle in North America and Europe, underscoring the challenge its new chief executive faces in turning the company's fortunes around.

Lego said Tuesday that revenue for 2017 fell 7.7% to 35 billion Danish kroner (\$5.8 billion). Net income declined to 7.81 billion kroner from 9.44 billion kroner in 2016, while operating profit fell 17% to 10.36 billion kroner.

Last year "was a challenging year, and overall we are not satisfied with the financial results," said Chief Executive Niels B. Christiansen, who took the reins in October, shortly after the company reported its first midyear sales decline in more than a decade.

"There is no quick fix and it will take some time to achieve longer-term growth."

The sales drop at privately held Lego comes amid headwinds across the global toy market. **Hasbro** Inc. last month reported a surprise fall in fourth-quarter revenue, blaming waning appeal for its "Star Wars" lineup, weakness in Europe and disruptions related to the Toys "R" Us bankruptcy. Barbie maker **Mattel** Inc. has struggled through a painful turnaround and declining sales.

Lego still managed to pull off one milestone in 2017: It topped both its listed American rivals in overall annual sales for the year, assuming the title of the world's biggest toy maker by revenue. Lego's annual sales, converted into dollars, beat out Hasbro's \$5.21 billion and Mattel's \$4.8 billion. That comparison, though, benefited from the

### Not Clicking

Lego sales fell last year, an abrupt turnaround from fast growth over the past decade.

#### Annual change in sales



Source: the company

THE WALL STREET JOURNAL.

steady drop in the dollar against the Danish krone.

After years of double-digit growth, Lego has struggled in some mature markets such as the U.S. as it competes with makers of videogames and devices as well as more tradi-

tional toys for children's attention. In September, the company said it would lay off 8% of its workers and thin the ranks of its decision makers.

While sales in North America and Europe fell during the year, Lego said revenue in China—an area of focus for the company—grew in the high double digits in 2017. It also said it would open an office in Dubai toward the end of 2018 to support its efforts to expand in the Middle East and Africa.

Lego's restructuring comes as Hasbro and Mattel are also scrambling to slash turnaround times. Hasbro last year created a team called "Quick Strike" that aims to turn social-media trends into products, while Mattel has a small team developing toys based on trends.

Mr. Christiansen has defended the company's high prices, saying he doesn't believe the slowdown is tied to price.

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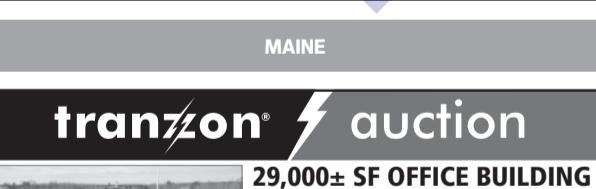
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## BIGGEST 1,000 STOCKS

**How to Read the Stock Tables**

The following explanations apply to NYSE, NYSE Arca, NYSE American and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (Formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq ISE.

The list comprises the 1,000 largest companies based on market capitalization.

**Underlined quotations** are those stocks with large changes in volume compared with the issue's average trading volume.

**Boldfaced quotations** highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

Tuesday, March 6, 2018

Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg	Stock	Sym	Close	Net Chg
<b>A</b>	<b>B</b>	<b>C</b>													

ArchCapital **ACGL** 90.05 0.91 CH Robinson **CHRW** 89.99 0.21

ArcherDaniels **ADM** 43.10 0.40 CIT Group **CIT** 55.31 1.24

Arconic **ARCN** 24.55 0.22 CME Group **CME** 169.59 1.10

AristaNetworks **ASRNA** 60.67 0.74 CMS Energy **CMS** 42.69 0.15

Aetna **AET** 109.30 0.05 CNOC **CNOOC** 143.48 1.07

Athene **ATH** 49.70 1.23 CPLERnergia **CPL** 14.96 0.11

Atlassian **TEAM** 59.14 0.54 CRH **CRH** 34.19 -0.14

AtmosEnergy **ATO** 20.04 -0.57 CSRA **CSRA** 40.61 -0.09

Autodesk **ADSK** 119.87 1.00 CSX **CSX** 56.14 -0.24

AutodeskCoating **ATYA** 51.90 0.26 CIBC **CIBC** 90.69 1.10

Autoline **AVLY** 114.52 0.16 Cigna **CIGNA** 73.94 -0.09

Autotech **ATV** 73.92 -1.18 CimbriaCoatings **CMK** 61.49 -0.03

Avaya **AVYA** 154.20 4.36 CimbriaCoatings **CMK** 61.49 -0.03

AviationBlitz **ATVI** 73.92 -1.18 CimbriaCoatings **CMK** 61.49 -0.03

AcuityBrands **AYI** 145.20 4.36 CimbriaCoatings **CMK** 61.49 -0.03

AdobeSystems **ADBE** 210.21 0.85 CimbriaCoatings **CMK** 61.49 -0.03

AdvanceAuto **AAP** 118.59 2.23 CimbriaCoatings **CMK** 61.49 -0.03

AdvMicroDevices **AMD** 11.70 -0.15 CimbriaCoatings **CMK** 61.49 -0.03

AdvSemiEngg **ASZ** 7.15 0.12 CimbriaCoatings **CMK** 61.49 -0.03

Aegon **AEG** 6.87 0.07 CimbriaCoatings **CMK** 61.49 -0.03

AerCap **AER** 49.31 0.18 CimbriaCoatings **CMK** 61.49 -0.03

Aetna **AET** 178.23 -0.23 CimbriaCoatings **CMK** 61.49 -0.03

AffiliatedMtrs **AMG** 191.80 3.64 CimbriaCoatings **CMK** 61.49 -0.03

AgilentTechs **AAI** 68.11 0.56 CimbriaCoatings **CMK** 61.49 -0.03

AignicEagle **ACM** 39.17 0.86 CimbriaCoatings **CMK** 61.49 -0.03

AirProducts **APD** 164.20 0.92 CimbriaCoatings **CMK** 61.49 -0.03

AlakmaTech **AKAM** 69.94 0.13 CimbriaCoatings **CMK** 61.49 -0.03

AlaskaAir **ALK** 64.30 0.68 CimbriaCoatings **CMK** 61.49 -0.03

Albermarle **ALM** 100.14 3.70 CimbriaCoatings **CMK** 61.49 -0.03

Alcos **AA** 46.99 1.34 CimbriaCoatings **CMK** 61.49 -0.03

AlexandriaRes **ARE** 125.41 0.42 CimbriaCoatings **CMK** 61.49 -0.03

AlexionPharm **ALXN** 118.13 -1.37 CimbriaCoatings **CMK** 61.49 -0.03

Alibaba **BABA** 187.37 5.77 CimbriaCoatings **CMK** 61.49 -0.03

AlignTech **ALGN** 255.97 0.48 CimbriaCoatings **CMK** 61.49 -0.03

Alkermes **ALKS** 58.80 -1.03 CimbriaCoatings **CMK** 61.49 -0.03

Alleghany **Y** 633.80 16.94 CimbriaCoatings **CMK** 61.49 -0.03

Allegion **ALLE** 83.92 0.91 CimbriaCoatings **CMK** 61.49 -0.03

Allergan **AGN** 150.71 1.98 CimbriaCoatings **CMK** 61.49 -0.03

AllianceData **ADD** 235.09 3.32 CimbriaCoatings **CMK** 61.49 -0.03

AlliantEnergy **LNT** 38.70 -0.76 CimbriaCoatings **CMK** 61.49 -0.03

Allstate **ALL** 93.43 0.54 CimbriaCoatings **CMK** 61.49 -0.03

AliyFinancial **ALLY** 28.21 0.19 CimbriaCoatings **CMK** 61.49 -0.03

AlnylamPharm **ALNY** 123.25 -3.33 CimbriaCoatings **CMK** 61.49 -0.03

Alphabit **C** GOOG 110.90 6.14 CimbriaCoatings **CMK** 61.49 -0.03

Alphabit **C** GOOG 109.56 4.13 CimbriaCoatings **CMK** 61.49 -0.03

Altaba **AABA** 75.17 1.73 CimbriaCoatings **CMK** 61.49 -0.03

AlticeUSA **ATUS** 20.25 0.06 CimbriaCoatings **CMK** 61.49 -0.03

Altis **MO** 64.77 0.64 CimbriaCoatings **CMK** 61.49 -0.03

AlumofChina **ACH** 14.99 0.33 CimbriaCoatings **CMK** 61.49 -0.03

Amazon **AMZN** 1537.64 14.03 CimbriaCoatings **CMK** 61.49 -0.03

Ambev **ABEV** 7.07 0.19 CimbriaCoatings **CMK** 61.49 -0.03

Amdocs **DOX** 67.18 -0.08 CimbriaCoatings **CMK** 61.49 -0.03

Americo **UHAL** 332.82 1.13 CimbriaCoatings **CMK** 61.49 -0.03

Amer **AEE** 53.94 -1.18 CimbriaCoatings **CMK** 61.49 -0.03

AmericaMovil **AMX** 18.63 -0.28 CimbriaCoatings **CMK** 61.49 -0.03

AmericaMvIl **AMOV** 18.60 -0.29 CimbriaCoatings **CMK** 61.49 -0.03

AmerAirlines **AAL** 53.57 0.38 CimbriaCoatings **CMK** 61.49 -0.03

AEP **AEP** 56.50 -0.99 CimbriaCoatings **CMK** 61.49 -0.03

AmerExpress **AXP** 96.70 -0.59 CimbriaCoatings **CMK** 61.49 -0.03

AmericanFin **AFIN** 114.39 1.47 CimbriaCoatings **CMK** 61.49 -0.03

AIG **AIG** 58.03 0.41 CimbriaCoatings **CMK** 61.49 -0.03

AmerTowerREIT **ATRE** 138.88 0.07 CimbriaCoatings **CMK** 61.49 -0.03

AmerWaterWorks **AWK** 76.99 -0.50 CimbriaCoatings **CMK** 61.49 -0.03

Ameriprise **AMP** 155.57 -0.05 CimbriaCoatings **CMK** 61.49 -0.03

AmericusSourceBn **ABC** 94.70 -0.20 CimbriaCoatings **CMK** 61.49 -0.03

Amtek **AME** 76.11 0.91 CimbriaCoatings **CMK** 61.49 -0.03

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AnaladarkoPetrol **APC** 58.81 -0.14 CimbriaCoatings **CMK** 61.49 -0.03

AnalogDevices **ADI** 91.93 0.79 CimbriaCoatings **CMK** 61.49 -0.03

Andeaor **ANDV** 96.43 1.98 CimbriaCoatings **CMK** 61.49 -0.03

AndeaorLog **ADNL** 46.33 -0.13 CimbriaCoatings **CMK** 61.49 -0.03

AB InBev **BUD** 112.76 1.10 CimbriaCoatings **CMK** 61.49 -0.03

AnnalyCap **NLY** 20.16 0.20 CimbriaCoatings **CMK** 61.49 -0.03

AntenResources **AR** 20.53 0.14 CimbriaCoatings **CMK** 61.49 -0.03

Anthren **ANTM** 232.75 0.71 CimbriaCoatings **CMK** 61.49 -0.03

Aon **AON** 142.17 0.79 CimbriaCoatings **CMK** 61.49 -0.03

Apache **APA** 35.30 0.15 CimbriaCoatings **CMK** 61.49 -0.03

Apartmtnv **AVI** 38.62 -0.14 CimbriaCoatings **CMK** 61.49 -0.03

AppolloGblMgmt **APCO** 32.80 0.40 CimbriaCoatings **CMK** 61.49 -0.03

Apple **AAPL** 176.67 -0.15 CimbriaCoatings **CMK** 61.49 -0.03

AppMaterials **AMAT** 59.99 2.36 CimbriaCoatings **CMK** 61.49 -0.03

Aptiv **APTV** 89.95 1.13 CimbriaCoatings **CMK** 61.49 -0.03

AquaAmerica **WTR** 33.30 -0.37 CimbriaCoatings **CMK** 61.49 -0.03

Aramark **ARMK** 41.10 0.12 CimbriaCoatings **CMK** 61.49 -0.03

ArcelorMittal **MT** 33.10 0.38 CimbriaCoatings **CMK** 61.49 -0.03

ArchCapital **ACGL** 90.05 0.91 CimbriaCoatings **CMK** 61.49 -0.03

ArcherDaniels **ADM** 43.10 0.40 CimbriaCoatings **CMK** 61.49 -0.03

Arconic **ARCN** 24.55 0.22 CimbriaCoatings **CMK** 61.49 -0.03

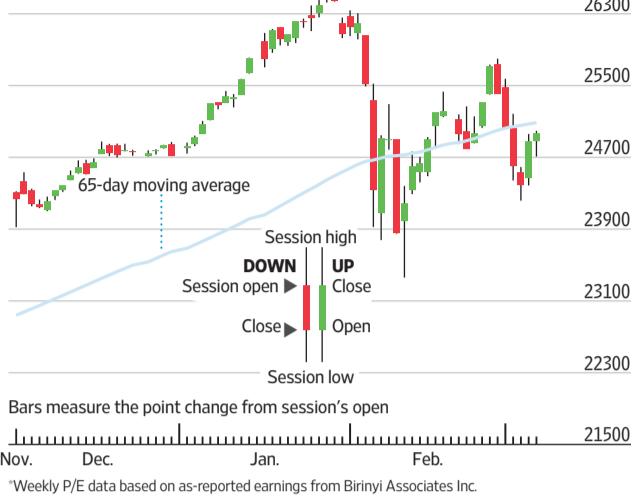
AristaNetworks **ASRNA** 288.60

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↑ Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

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## Nasdaq Composite Index

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 High, low, open and close for each trading day of the past three months.



## Major U.S. Stock-Market Indexes

	Dow Jones		Latest		52-Week		YTD		% chg	
	High	Low	Close	Net chg	% chg	High	Low	% chg	3-yr. ann.	% chg
Industrial Average	24995.24	24708.41	<b>24884.12</b>	9.36	<span style="color: green;">0.04</span>	26616.71	20404.49	<b>18.9</b>	0.7	<b>11.7</b>
Transportation Avg	10451.08	10325.94	<b>10435.52</b>	87.18	<span style="color: green;">0.84</span>	11373.38	8783.74	<b>12.0</b>	-1.7	<b>5.4</b>
Utility Average	677.31	668.28	<b>669.68</b>	-8.23	<span style="color: red;">-1.21</span>	774.47	647.90	<b>-3.8</b>	-7.4	<b>5.5</b>
Total Stock Market	28257.16	28046.68	<b>28237.63</b>	105.04	<span style="color: green;">0.37</span>	29630.47	24125.20	<b>15.1</b>	2.0	<b>9.3</b>
Barron's 400	726.25	717.09	<b>726.22</b>	7.44	<span style="color: green;">1.03</span>	757.37	610.89	<b>16.7</b>	2.2	<b>9.4</b>

## Nasdaq Stock Market

Nasdaq Composite	7378.03	7319.68	<b>7372.01</b>	41.30	<span style="color: green;">0.56</span>	7505.77	5793.83	<b>26.4</b>	6.8	<b>14.4</b>
Nasdaq 100	6937.03	6872.06	<b>6913.02</b>	31.74	<span style="color: green;">0.46</span>	7022.97	5332.53	<b>29.2</b>	8.1	<b>16.3</b>

## S&amp;P

500 Index	2732.08	2711.26	<b>2728.12</b>	7.18	<span style="color: green;">0.26</span>	2872.87	2328.95	<b>15.2</b>	2.0	<b>9.6</b>
MidCap 400	1917.11	1892.51	<b>1916.99</b>	19.32	<span style="color: green;">1.02</span>	1995.23	1681.04	<b>11.5</b>	0.9	<b>8.8</b>
SmallCap 600	950.48	934.28	<b>949.83</b>	10.37	<span style="color: green;">1.10</span>	979.57	815.62	<b>13.4</b>	1.4	<b>10.9</b>

## Other Indexes

Russell 2000	1562.20	1538.63	<b>1562.20</b>	16.16	<span style="color: green;">1.04</span>	1610.71	1345.24	<b>13.6</b>	1.7	<b>8.7</b>
NYSE Composite	12735.44	12648.25	<b>12720.77</b>	40.04	<span style="color: green;">0.32</span>	13637.02	11324.53	<b>10.6</b>	-0.7	<b>5.5</b>
Value Line	560.50	554.67	<b>560.26</b>	4.26	<span style="color: green;">0.77</span>	589.69	503.24	<b>8.6</b>	-0.4	<b>3.6</b>
NYSE Arca Biotech	4736.03	4678.92	<b>4724.37</b>	4.04	<span style="color: green;">0.09</span>	4939.86	3449.61	<b>34.6</b>	11.9	<b>5.7</b>
NYSE Arca Pharma	540.45	533.68	<b>536.06</b>	-4.39	<span style="color: red;">-0.81</span>	593.12	498.46	<b>5.5</b>	-1.6	<b>-1.1</b>
KWB Bank	114.06	112.44	<b>113.77</b>	0.54	<span style="color: green;">2.15</span>	116.52	88.02	<b>17.6</b>	6.6	<b>15.9</b>
PHLX® Gold/Silver	81.60	79.85	<b>80.80</b>	1.70	<span style="color: green;">2.15</span>	93.26	76.42	<b>2.1</b>	-5.2	<b>6.1</b>
PHLX® Oil Service	139.67	136.56	<b>137.65</b>	-0.07	<span style="color: red;">-0.05</span>	172.14	117.79	<b>-20.0</b>	-8.0	<b>-11.0</b>
PHLX® Semiconductor	1399.99	1381.51	<b>1396.47</b>	20.61	<span style="color: green;">1.50</span>	1396.47	960.01	<b>43.0</b>	11.4	<b>25.2</b>
Cboe Volatility	19.64	17.68	<b>18.36</b>	-0.37	<span style="color: red;">-1.98</span>	37.32	9.14	<b>60.3</b>	66.3	<b>6.5</b>

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

## Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

## Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
SPDR S&P 500	SPY	9,901.4	269.45	-3.43	<b>-1.26</b>	273.32	269.16
Van Eck Vectors Gold Miner	GDX	5,701.0	22.16	0.15	<b>0.68</b>	22.17	22.01
Allele	ALE	4,936.7	67.55	0.36	<b>0.54</b>	67.55	67.19
IPG Photonics	IPGP	4,357.8	240.00	-1.44	<b>-0.60</b>	242.00	240.00
Cnsmr Staples Sel Sector	XLP	3,702.7	53.94	-0.31	<b>-0.57</b>	54.27	53.94
Industrial Select Sector	XLI	2,469.1	75.37	-1.00	<b>-1.31</b>	76.38	75.26
New York Mortgage Tr	NYMT	2,319.3	6.05	...	unch.	6.05	5.95
Applied Materials	AMAT	2,160.0	58.60	-1.39	<b>-2.32</b>	60.02	58.35

## Percentage gainers...

Mediastream	MED	7.5	76.50	8.99	<b>13.32</b>	77.06	66.59
VX 2x VIX Short Term	TVIX	1,518.5	9.32	0.96	<b>11.48</b>	9.36	8.33
ProSharesUltVIXST	UVXY	1,160.8	18.24	1.52	<b>9.09</b>	18.26	16.68
Autodesk	ADSK	1,120.5	129.50	9.63	<b>8.03</b>	133.74	112.00
Diamondrock Hospitality	DRH	35.9	11.21	0.83	<b>8.00</b>	11.21	10.33

## ...And losers

Intellia Therapeutics	NTLA	12.8	25.11	-2.76	<b>-9.90</b>	27.90</td
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## COMMODITIES

WSJ.com/commodities

## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract						Open interest
	Open	High	Low	Settle	Chg	Open	
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.							
March 3.1045	3.1550	3.1045	3.1370	0.0315	3,578		
May 3.1275	3.1780	3.1265	3.1590	0.0310	143,543		
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.							
March 1321.60	1333.40	1321.40	1333.60	15.50	616		
April 1320.90	1339.90	1320.80	1335.20	15.30	309,292		
June 1328.00	1345.50	1326.60	1341.00	15.30	107,805		
Aug 1334.90	1351.20	1333.60	1346.90	15.30	27,446		
Oct 1341.30	1356.80	1341.30	1352.60	15.10	4,526		
Dec 1345.80	1363.00	1345.80	1358.80	15.30	38,605		
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.							
March 987.15	987.15	981.10	988.15	0.80	53		
June 978.85	987.80	968.55	978.30	0.80	24,994		
Sept 977.95	981.00	964.90	973.40	0.80	776		
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.							
March 963.20	976.30	960.80	970.60	8.50	68,324		
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.							
March 16.370	16.810	16.370	16.715	0.377	954		
May 16.435	16.895	16.410	16.784	0.372	148,293		
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.							
April 62.59	63.28	62.17	62.60	0.03	463,667		
May 62.41	63.05	62.03	62.45	0.06	271,713		
June 62.06	62.69	61.74	62.16	0.11	305,533		
July 61.80	62.18	61.32	61.73	0.13	142,578		
Sept 60.69	61.08	60.28	60.70	0.15	120,585		
Dec 59.20	59.64	58.87	59.26	0.11	239,111		
<b>NY Harbor ULSD (NYM)</b> -42,000 gal.; \$ per gal.							
April 1.8980	1.9111	1.8830	1.9033	0.066	112,197		
May 1.9038	1.9155	1.8889	1.9097	0.080	73,147		
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.							
April 1.9345	1.9443	1.9157	1.9331	-0.018	124,515		
May 1.9466	1.9572	1.9300	1.9475	...	90,148		
<b>Natural Gas (NYM)</b> -10,000 MMBtu; \$ per MMBtu.							
April 2.712	2.757	2.702	2.749	.045	307,648		
May 2.747	2.785	2.738	2.778	.040	213,307		
June 2.787	2.824	2.779	2.816	.038	82,709		
July 2.834	2.867	2.824	2.861	.038	107,290		
Sept 2.819	2.852	2.811	2.848	.037	73,713		
Oct 2.832	2.863	2.822	2.860	.037	127,838		

## Agriculture Futures

<b>Corn (CBT)</b> -5,000 bu.; cents per bu.							
March 377.75	380.25	377.25	379.75	1.50	6,296		
May 386.50	388.50	385.50	388.25	1.00	748,057		
<b>Oats (CBT)</b> -5,000 bu.; cents per bu.							
March 265.50	265.50	261.25	262.00	-2.75	10		
May 269.00	270.25	267.25	267.75	-1.25	4,716		
<b>Soybeans (CBT)</b> -5,000 bu.; cents per bu.							
March 1066.00	1067.00	1060.75	1064.50	-2.25	3,395		
May 1077.00	1077.75	1070.25	1074.75	-2.75	397,237		
<b>Soybean Meal (CBT)</b> -100 tons; \$ per ton.							
March 388.90	388.90	383.30	384.50	-4.80	1,572		
May 394.10	394.40	387.00	388.00	-5.20	231,111		
<b>Soybean Oil (CBT)</b> -60,000 lbs.; cents per lb.							
March 32.26	32.31	32.06	32.30	.29	439		
May 32.21	32.54	32.18	32.48	.27	258,621		

## Cash Prices | WSJ.com/commodities

Tuesday, March 06, 2018

These prices reflect buying and selling of a variety of actual or "physical" commodities in the marketplace—separate from the futures price on an exchange, which reflects what the commodity might be worth in future months.

Tuesday	(U.S.\$ equivalent)	16.6200	Soybeans, No.1 yellw IL-bp,u	10.3100			
	Coins, wholesale \$1,000 face-a	12395	Wheat, Spring 14%-pro Mnpls-u	7.6400			
<b>Other metals</b>	LBMa Platinum Price PM	*957.0	Wheat, No.2 soft red St.Louis-bp,u	5.0600			
	Platinum, Engelhard industrial	969.0	Wheat - Hard - KC (USDA) \$ per bu-bu	5.3150			
	Platinum, Engelhard fabricated	1069.0	Wheat, No.1 soft white Portlnd, OR-u	5.5450			
	Palladium, Engelhard industrial	1001.0					
	Palladium, Engelhard fabricated	1101.0					
	Aluminum, LME, \$ per metric ton	*2135.0	Beef, carcass equiv. index	200.74			
	Copper, Comex spot	3.1370	choice 1-3,600-900 lbs.-u	193.21			
	Iron Ore, 62% Fe CFr China-s	75.0	select 1-3,600-900 lbs.-u	193.21			
	Shredded Scrap, US Midwest-s,m	339	Broilers, National comp wghtd-u,w	0.9142			
	Steel, HRC USA, FOB Midwest Mill-s	811	Butter, AA Chicago	2.2325			
<b>Fibers and Textiles</b>	Burlap, 10-oz, 40-in NY yd-n,w	0.6200	Cheddar cheese, bbl, Chicago	151.50			
	Cotton, 1 1/16 std lwd-mdMphs-u	0.8143	Milk, Nonfat dry, Chicago, IL	160.25			
	Cotlook' A' Index-t	*91.45	Cocoa, Ivory Coast-w	164.75			
	Hides, hvy native steers piece fob-u	65.750	Coffee, Brazilian, Comp	1.2043			
	Wool, 64s, staple, Terrell, Del-u,w	n.a.	Coffee, Colombian, NY	1.3976			
<b>Grains and Feeds</b>	Barley, top-quality Mnpls-u	n.a.	Eggs, large white, Chicago-u	1.6950			
	Bran, wheat middlings, KC-u	101	Flour, hard winter KC	16.55			
	Corn, No. 2 yellow, Cent IL-bp,u	3.6100	Hams, 17-20 lbs, Mid-US fob-u	0.80			
	Corn gluten feed, Midwest-u,w	107.5	Hogs, Iowa-S. Minnesota-u	66.51			
	Corn gluten meal, Midwest-u,w	496.2	Pork bellies, 12-14 lb Mid-US-u	n.a.			
	Cottonseed meal, u,w	323	Pork loins, 13-19 lb Mid-US-u	0.9290			
	Hominy feed, Cent IL-u,w	95	Steers, Tex-Oklahoma, Choice-u	n.a.			
	Meat-bonemeal, 50% pro Mnpls-u,w	258	Steers, feeder, Okla. City-u,w	172.88			
	Oats, No.2 milling, Mnpls-u	2.9825					
	Rice, Long Grain Milled, No. 2 AR-u,w	25.50	<b>Fats and Oils</b>				
	Sorghum, (Milo) No.2 Gulf-u	8.3163	Corn oil, crude wet/dry mill-u,w	30.0000			
	Soybean Meal, Cent IL-rail, ton48%-u	391.00	Grease, choice white, Chicago-h	0.2225			

## Borrowing Benchmarks | WSJ.com/bonds

## Money Rates

March 6, 2018

Key annual interest rates paid to borrow or lend money in U.S. and international markets. Rates below are a guide to general levels but don't always represent actual transactions.

Latest	Week ago	-52-Week-High	Week	Latest	Week ago	-52-Week-High	Low


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## BANKING &amp; FINANCE

# Infrastructure: It's More Than Just Roads

Assisted-living sites, college-town apartments, even laundries are funded

BY RYAN DEZEMBER  
AND MIRIAM GOTTFRIED

Airport luggage trolleys, coin-operated laundry machines and college-town apartment buildings probably aren't what President Donald Trump had in mind when he pledged to steer more private money into U.S. infrastructure.

But deals involving traditional public works like roads, train stations and sewage-treatment plants that Mr. Trump describes as in disrepair have been in short supply for infrastructure investors. Those projects also can lock up cash for longer than the life of most funds and can become mired in local politics.

Instead, many investors are finding ways to put their money to work by stretching the definition of infrastructure to other deals they hope will offer steady, predictable returns.

"I'd bet washers against toll roads, dollars to doughnuts," said Alex Darden, a partner at private-equity firm EQT, which bought WASH Multifamily Laundry Systems LLC, a company that owns 550,000 clothes washers and dryers in apartment complexes and dormitories in 20 states and Canada.

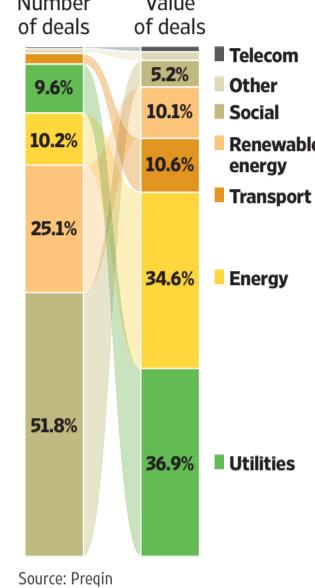
In 2017, a little more than half of all U.S. infrastructure deals fell into the category of social infrastructure, which covers assets from clinics and assisted-living facilities to government buildings and apartment complexes near colleges, according to research firm Prequin.

The proportion of such deals has grown in recent years as firms have raised more money in infrastructure investing funds and have \$150 billion ready to

## Power Plays

In 2017, hospitals, student housing and other 'social infrastructure' deals were the most popular among infrastructure investors, though the lion's share of the cash they invested went into energy and utilities.

### Percentage of infrastructure deals in the U.S. by...



Source: Prequin  
THE WALL STREET JOURNAL.

spend.

"When Main Street and the typical citizen think about infrastructure, they're thinking about the roads they drive on, the water systems they use, transit systems," said Peter Raymond, who leads PricewaterhouseCoopers LLP's capital projects and infrastructure advisory business. "It's difficult to get those kinds of projects packaged and into market."

It can take years for major construction projects to grind through planning and permitting and to structure privatization agreements with local governments, with which there is always a risk that administrations will turn over and change



The Goethals Bridge connecting New Jersey and Staten Island. Traditional infrastructure deals like bridges are in short supply.

course.

Prequin says the median annual return for infrastructure funds that began investing between 2000 and 2005 is 17%. For those that started making infrastructure deals since the financial crisis, it is about 10%. Returns on some projects, including several toll roads that went into bankruptcy during the financial crisis, have disappointed.

Though fewer in number, most U.S. infrastructure investment in dollar terms remains related to energy, from wind farms to pipelines, and utilities. Such assets have long been privately held in the U.S. and usually don't provoke political backlash the

way that privatizations of roads and water systems do. Like health-care facilities and student housing, they are easier for firms to collect cash from and eventually sell than deals involving more typical infrastructure, said Prequin's Tom Carr.

With not enough attractive public works to go around, infrastructure-fund managers are looking elsewhere.

In October, British firm 3i announced its push into U.S. infrastructure with a deal to buy airport luggage-cart concessionaire Smarte Carte International Holdings Inc. for \$385 million. The firm became Smarte Carte's seventh private-equity owner over the past 25 years.

Mr. Darden said EQT seeks assets essential to daily life that provide steady cash flow and can somehow be improved. In the case of WASH, improvement means converting coin-operated machines to digital payments to alleviate the expense of collecting truckloads of quarters, and using data analysis to reduce water use and predict maintenance trips.

Private-equity firms do sometimes delve into traditional public works. KKR & Co. last year sold a concession it struck in New Jersey and Pennsylvania to repair and maintain municipal water systems in exchange for a cut of billing revenue. The Manhattan buyout firm also has

committed \$100 million to upgrade wireless communication systems in rural areas.

**Blackstone Group** LP is trying to raise \$40 billion for the largest ever infrastructure fund. A key feature is that it is perpetual, meaning there will never be a deadline to liquidate investments. Blackstone has said it will target deals in four segments, energy, transportation, water and communications, according to an investor presentation.

Still, in a footnote included in the pitch document, Blackstone notes that the term infrastructure is open to interpretation: "There is no generally accepted definition of infrastructure."

# Abraaj Weighs Job Cuts; Fundraising Stalls

**Abraaj Group**, a Dubai-based firm at the center of an investigation into claims of missing

By Nicolas Parasie,  
William Louch  
and Joice Alves

funds, may cut its workforce as lenders and investors review their relationship with the firm and efforts to raise a \$6 billion fund stall, people familiar with the matter said.

The staff cuts under consideration are part of a wider reorganization of Abraaj's fund-management unit under the division's two new chief executives, the people said. Abraaj last month said it had suspended all investment activi-

ties at the unit and that Arif Naqvi, the firm's founder, would step down as the unit's chief executive.

A number of senior executives at the firm are also considering stepping down, the people familiar with the matter said.

A spokesman said Abraaj wouldn't comment on whether cuts would be made, confirming only that a wider review and reorganization is ongoing and the firm currently employs 364 staff. The spokesman said fundraising efforts are on hold while the firm reorganizes.

Mr. Naqvi said in an interview with The Wall Street Journal that he couldn't comment on any potential staff

cuts as he is no longer involved in the day-to-day running of the fund-management business. Mr. Naqvi will remain in charge of Abraaj Holdings, the vehicle that owns the wider Abraaj Group and of which he is the largest shareholder, according to the firm.

The firm last month said it had begun a review of the fund-management business's operations following complaints from investors about a \$1 billion health-care fund that Abraaj is managing.

Following the announcement, some investors in Abraaj's slated \$6 billion global private-equity fund decided to withdraw their commitments after the firm offered investors

the chance to get their money back, the Journal reported. Subsequently, Abraaj scaled back the size of its fundraising ambitions, according to one of the people familiar with the matter.

Some investors have been looking to reduce exposure to the firm by selling their stakes in existing funds, two of the people said. And some investors in Abraaj Holdings are weighing a sale of their stake in the business, said the people familiar with the matter.

An Abraaj spokesman said the firm is in active dialogue with investors about their investments in the firm. Rival private-equity firms and buyers of secondhand stakes have expressed interest in the firm's

assets as they think Abraaj might sell at a discount, one of the people said. The firm said it hasn't received any requests from investors looking to sell stakes in the past six months.

Some of the group's lenders are now reviewing credit lines, said the people familiar with the matter.

Private-equity firms typically use bank loans to fund deals and pay for the day-to-day running of their businesses. "Capital call facilities, in respect of funds where we have voluntarily suspended investment activity, have been affected," Abraaj said Sunday. "This is not the case in respect of the financing facilities for Abraaj Holdings."

# Fintech Cyber Risk Draws Attention

BY LALITA CLOZEL

WASHINGTON—Four financial companies, including **Citigroup** Inc. and online lender **Kabbage** Inc., said they have formed a consortium to address the cybersecurity risks of financial-technology firms, a sign of the industry's growing links to traditional banks and insurers.

The consortium, which was created in response to recommendations in a World Economic Forum report released Tuesday, also includes **Zurich Insurance Group** AG and **Depository Trust & Clearing Corp.**, a U.S. clearinghouse.

"There are a lot of these fintechs popping up left and right," said Matthew Blake, head of the financial and monetary system initiative at the World Economic Forum. "The financial system is becoming much more modular," he added, noting that the "one-stop shop" model of banking is being challenged by new types of financial services firms.

The group's first objective will be to establish criteria to enable fintech companies to evaluate the level of their cybersecurity defenses. The World Economic Forum report called for the creation of such criteria as well as a common metric to measure fintech firms' cybersecurity exposure.

Those steps would allow traditional financial institutions to better evaluate the level of risk they are exposing themselves to when partnering with fintech firms, Mr. Blake suggested.

"Technologists are not incentivized to focus on cybersecurity upfront in the design phase," said Mr. Blake. "Really innovative companies [have] some cybersecurity preparedness but not to the level of what an incumbent company would offer," he said.

The recommendations, based on input from bank leaders and other financial executives, lays out more than a dozen additional steps financial companies should take to evaluate and improve fintech firms' cybersecurity defenses.

## Ex-Banker Flowers Barred in U.K.



Paul Flowers, the former chairman of **Co-operative Bank** PLC, has been banned from the financial services industry in the U.K. for misconduct that included discussing drug deals over work email, the Financial Conduct Authority said on Tuesday.

The U.K. regulator said Mr. Flowers, a former Methodist minister, isn't "fit and proper" for financial jobs because of messages about sex and drugs he sent from his work email account in 2012 and 2013, and for calling premium-rate chat lines from a work cellphone.

Mr. Flowers left Co-op Bank in June 2013, two weeks before the lender said it needed £1.5 billion (\$2.07 billion) in fresh capital to survive.

In November 2013, the Mail on Sunday newspaper published a tape showing Mr. Flowers

counting out money for an alleged drug buy, sparking a police investigation and winning Mr. Flowers the moniker "the Crystal Methodist."

Mr. Flowers was convicted in May 2014 of possessing cocaine, methamphetamine and ketamine after pleading guilty.

The FCA cited the drug conviction as another strike against Mr. Flowers, and "further evidence of Mr. Flowers's unwillingness to comply with the standards and requirements expected of him."

In a statement released by his lawyer, Mr. Flowers apologized for any embarrassment caused to Co-op Bank as a result of the actions described in the FCA's notice. He said the findings only concerned "personal actions" and took place at a time of distress in his private life.

## MUNIS

Continued from page B1  
liquid assets, critics say.

"It's an outrageously bad idea," said Phillip Swagel, a professor at the University of Maryland who served in the George W. Bush Treasury, characterizing the provision as an implicit federal guarantee of the municipal market. In the next crisis, banks will have trouble selling their municipal securities, freezing up the market for them and requiring the government to step in to backstop it, he predicted.

While lawmakers agreed to include the municipal-debt measure, they rebuffed Citigroup and JPMorgan Chase & Co. efforts to water down a

separate postcrisis capital requirement known as the supplementary leverage ratio.

That regulation effectively restricts banks from making too many loans without adding new capital, forcing firms to maintain a proportion of capital to fund their assets.

The legislation includes a provision to diminish the leverage ratio in a way that lawmakers say would only benefit financial institutions primarily engaged in "custody services," in which they hold assets on behalf of other banks. Citigroup and JPMorgan, global banks that don't fit the definition but still offer custody services, have argued it is unfair to carve out certain banks from the provision and not others.

"As Congress has sought to

make a common sense change

### Lenders Could Get Help From Senate

The Senate is voting on a bill as early as this week that would make the largest changes to financial regulatory law since 2010, when the Dodd-Frank Act passed. Supporters say it will help small lenders without undoing Dodd-Frank's core tenets. Opponents say the bill cuts protections against consumer abuses and financial crises. Here's what's in Senate Bill 2155.

### HELP FOR REGIONAL BANKS

Dodd-Frank said larger banks must follow stricter rules

than smaller ones. It drew the line at \$50 billion in assets, leaving about 40 of the roughly 5,670 U.S. banks above it. The bill would effectively raise that threshold to \$250 billion in assets, leaving 12 banks facing mandatory annual "stress tests" and other hurdles.

### HELP FOR BIG BANKS

The bill would make it easier for big banks to buy bonds from state and local governments.

It would lower a capital requirement called the leverage ratio for **State Street** Corp. and **Bank of New York Mellon** Corp., two large "custody" banks that predominantly hold clients' as-

sets for safekeeping, rather than lending out client money like traditional banks. Some observers say other big banks in the custody business, including **JPMorgan Chase** & Co. and **Citigroup** Inc., may end up qualifying for this help.

### HELP FOR SMALL LENDERS

Small banks would be exempt from the Volcker rule, which bans banks from making speculative bets.

Small banks would file shorter financial reports with regulators, be examined less often and be released from some capital rules as long as they maintain a relatively high ratio of equity to assets.

## MARKETS

## Prices of Crude Rise Slightly

BY SARAH MCFARLANE AND ALISON SIDER

Oil prices edged higher Tuesday, supported by moves in stock markets and currencies, even as investors continued to anticipate a massive increase in U.S. crude output.

U.S. crude futures settled up 3 cents, or 0.05%, at \$62.60 a barrel on the New York Mercantile Exchange.

World stocks have been particularly volatile since a rout in early February, with oil broadly tracking their moves.

"Oil and equities were trading very much hand in hand and basically equity markets were calling the shots in terms of direction and trading patterns," said Bjarne Schieldrop, chief commodities analyst at SEB Markets.

Mr. Schieldrop said he expects this trend will continue in the short term and that the equities selloff isn't over yet.

A slightly weaker dollar also supported oil on Tuesday.

As oil is priced in dollars, it becomes more affordable for holders of other currencies when the dollar weakens.

The Wall Street Journal Dollar Index, which tracks the U.S. currency against a basket of others, was down 0.4% Tuesday.

## Aramco CEO Sees Growth for Oil

Saudi executive rejects view that fossil-fuel demand will soon peak, urges investment

BY SARAH KENT AND MIGUEL BUSTILLO

HOUSTON—The heads of some of the world's largest oil companies pushed back on Tuesday against predictions that demand for petroleum could erode in coming decades due to the rise of renewable energy and electric vehicles.

Amin Nasser, chief executive of Saudi Arabian Oil Co., known as Saudi Aramco, told the CERAWeek conference in Houston that such forecasts overstate the economic costs of shifting to greener sources of energy and underestimate the continued dominance of fossil fuels.

"I'm not losing any sleep over peak oil demand or stranded resources," Mr. Nasser said. He warned instead that more investment is needed in the oil sector to ensure there is enough supply to meet future demand.

Bob Dudley, CEO of BP PLC, said that while the company could foresee a potential peak in oil demand and a transition to a diverse mix of fuels, a recent study showed that demand would remain robust even under a scenario in which the sale of new internal-combustion vehicles was banned by 2040.

"The pace of decline is likely to be very slow," Mr. Dudley said. "Think plateau."



Mr. Nasser said electric vehicles won't address climate change unless power is produced more cleanly.

Mr. Dudley also said carbon emissions would continue to rise in such a scenario, underscoring the need to focus on ways to reduce emissions across all sources.

"A race to renewables will not solve the challenge that we all have," he said. "We need to be agnostic about new fuels."

The comments on the future of oil demand are the latest in a spirited debate over what the next few decades may hold for the oil sector, with some major companies predicting that efforts to curb global warming could mean oil

consumption stops growing before the end of the next decade.

Investors are increasingly calling on oil-and-gas companies to show they have a plan to manage a transition away from fossil fuels, even staging a rare revolt at Exxon Mobil Corp.'s annual meeting last year over the issues.

Companies will likely have to disclose more about the potential impact of climate change and regulations tied to limiting emissions on their businesses in the next five to 10 years, ConocoPhillips Chief Executive

Ryan Lance said Tuesday.

"The disclosure is getting more difficult," he said, noting that he, along with other executives, received a letter from BlackRock Chief Executive Larry Fink this year, which pushed companies to articulate a "social purpose."

"More of that's going to have to come," Mr. Lance said.

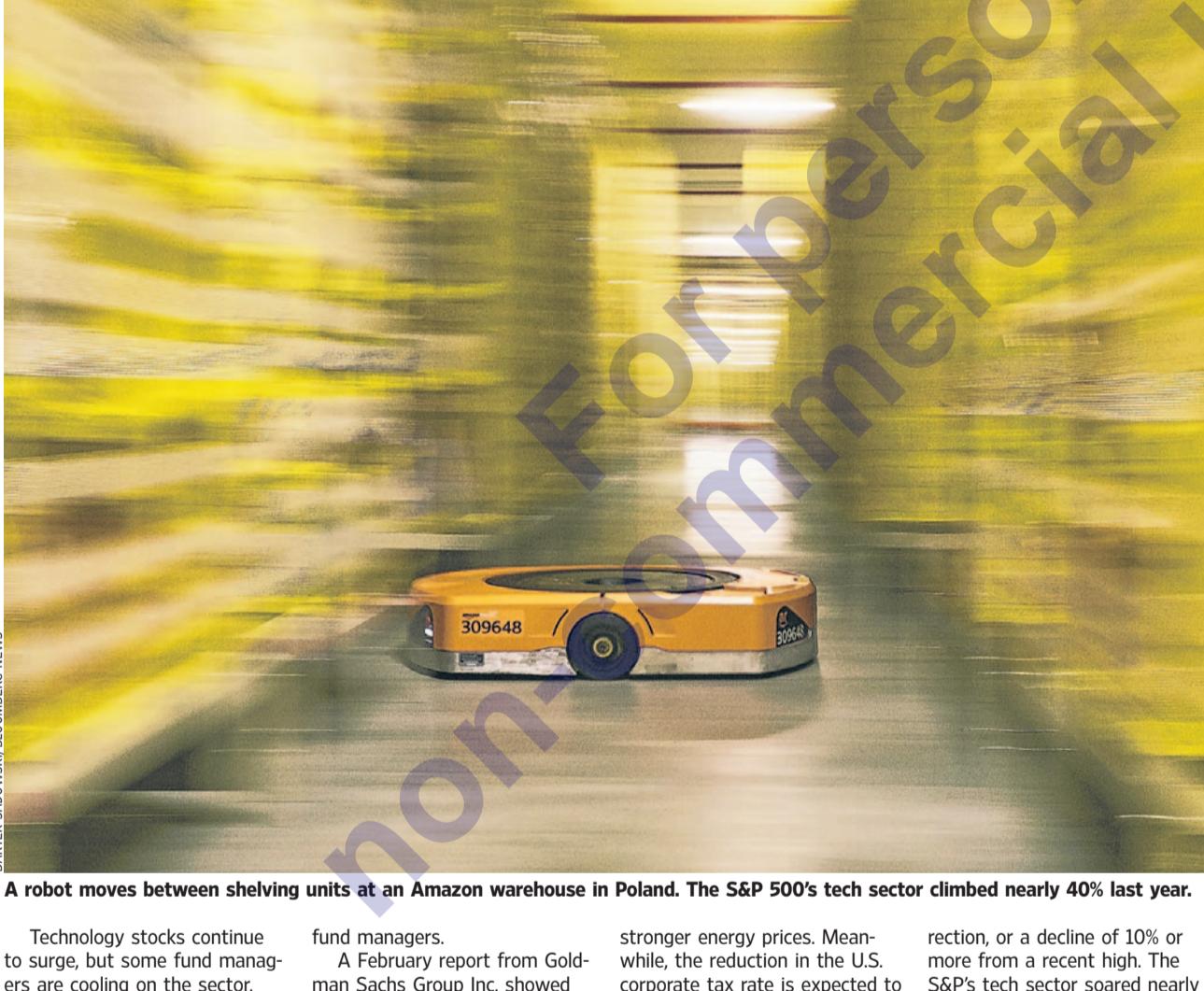
Patrick Pouyanné, CEO of France's Total SA, sounded a slightly different note at the conference on Monday, describing a future in which his company becomes a bigger player in natural gas and elec-

tricity as the world moves to lower-carbon energy sources. "Maybe we will become, I am sure, a gas-and-oil company," instead of an oil-and-gas company, Mr. Pouyanné said.

Mr. Nasser said that the internal combustion engine still has 99% of the market and that adopting electric vehicles won't address climate change unless the electricity needed to power the cars is produced more cleanly, which he believes renewables won't do economically for years to come.

—Bradley Olson contributed to this article.

## The Bloom Is Off Tech's Rose for Some Money Managers



A robot moves between shelving units at an Amazon warehouse in Poland. The S&amp;P 500's tech sector climbed nearly 40% last year.

Technology stocks continue to surge, but some fund managers are cooling on the sector.

Fund managers who actively pick stocks have cut their exposure to tech shares to the lowest level in 15 months, according to a report from Bank of America Merrill Lynch.

Tech now trails the discretionary sector, which includes companies such as retailers and hotels, as the most crowded trade for large-capitalization

fund managers.

A February report from Goldman Sachs Group Inc. showed hedge funds also trimmed tech exposure in the fourth quarter.

Shares of tech companies have soared in recent years as strong earnings and sales growth attracted investors amid an otherwise lackluster backdrop for many U.S. companies.

But U.S. companies are benefiting from a recovery in global growth, a weaker U.S. dollar and

stronger energy prices. Meanwhile, the reduction in the U.S. corporate tax rate is expected to bolster corporate earnings.

That has made tech's growth look less exceptional. Six S&P 500 sectors had record revenue growth in the fourth quarter, according to Yardeni Research Inc.

Some investors have also expressed concern that the big run-up in tech shares and widespread bullishness on the sector have left it vulnerable to a cor-

rection, or a decline of 10% or more from a recent high. The S&P's tech sector soared nearly 40% last year, roughly double the broader index's 19% gain.

Despite the pullback from money managers, tech stocks continue to climb and act as a driver for the broader market.

The S&P 500 is up 2% this year, driven by Amazon.com Inc.'s 31% gain and Microsoft Corp.'s 9.1% advance.

—Chelsey Dulaney

## NYSE to Settle With SEC Over Malfunctions

BY DAVE MICHAELS AND ALEXANDER OSIPOVICH

The New York Stock Exchange agreed Tuesday to pay \$14 million to settle regulatory investigations into a series of market malfunctions and technical errors that disrupted trading on three occasions in 2015.

The settlement represents the first case in which the Securities and Exchange Commission accused a stock exchange of violating rules established to prevent outages of critical market infrastructure.

The SEC also faulted NYSE for using unapproved "price collars" to damp price swings

during a wild trading session on Aug. 24, 2015, which had the unintended effect of exacerbating volatility.

"For retail investors to have confidence in our markets, exchanges must provide accurate information and comply with legal requirements, including being equipped for unexpected market disruptions," said Stephanie Avakian, co-director of the SEC's enforcement division.

Chaotic trading on the morning of Aug. 24, 2015, exposed flaws in the way U.S. stocks and exchange-traded funds trade and prompted criticism of the NYSE's unusual market design, in which human traders on an old-fash-

ioned trading floor coexist with electronic trading. Critics of NYSE's model said human traders, given discretion to set the opening price of stocks, made things worse.

The many price swings that morning triggered nearly 1,300 halts of stocks and ETFs. Many shares didn't formally open for trading until 9:45 a.m. or, in some cases, after 10 a.m., as the NYSE's market makers struggled to find valid starting prices for stocks.

During the upheaval, dozens of ETFs traded at sharp discounts to the sum of their holdings, worsening losses for fundholders who sold during the panic.

Tuesday's fine won't have a big financial impact on NYSE parent Intercontinental Exchange Inc., a global exchange operator that had profits of \$2.5 billion last year. But it is a black eye for the Atlanta-based firm, known as ICE, which has a reputation for bringing cutting-edge technology to the exchange industry. ICE completed its acquisition of NYSE in 2013.

NYSE and its two sister exchanges, NYSE Arca and NYSE American, agreed to settle the SEC claims without admitting or denying fault. "We believe this settlement is in the best interest of the NYSE Exchanges," NYSE said in an emailed statement.

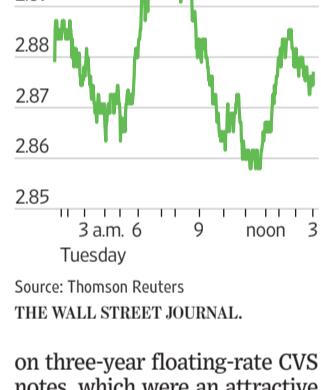
## Treasurys Gain Amid Huge CVS Bond Sale

BY DANIEL KRUGER

## Swings

Yield on the 10-year Treasury note, minute by minute

2.91%



Source: Thomson Reuters

THE WALL STREET JOURNAL.

on three-year floating-rate CVS notes, which were an attractive hedge against the potential for an acceleration of inflation.

Yields climbed briefly earlier in the session after officials in Seoul said North Korean leader Kim Jong Un told a visiting South Korean delegation that he was willing to hold talks with the U.S. about giving up nuclear weapons and normalizing relations with Washington. U.S. government-bond prices declined on the announcement as it encouraged some investors to sell the debt to buy risky assets.

## AUCTION RESULTS

Here are the results of Tuesday's Treasury auction. All bids are awarded at a single price at the market-clearing date. Rates are determined by the difference between that price and the face value.

## FOUR-WEEK BILLS

Applications	\$195,923,728,000
Accepted bids	\$65,000,523,200
"noncompetitively"	\$622,778,800
"noncompetitively"	\$640,000,000
Auction price (rate)	99.87944%
Coupon equivalent	(1.550%)
Bids at clearing yield accepted	35.02%
Cusip number	912796NY1

The bills, dated March 8, 2018, mature on April 5, 2018.



The New York Stock Exchange was accused of violating rules.

## MARKETS

# Stocks Advance as Trade Tensions Ease

BY RIVA GOLD  
AND ALLISON PRANG

The S&P 500 climbed Tuesday, notching a third straight day of gains, as investors weighed signs of opposition in Washington to planned U.S. tariffs on steel and aluminum imports.

Expectations for escalating trade tensions had dragged down stocks around the world last week, as investors worried that rising materials costs and retaliatory trade measures could hurt companies' bottom lines.

In recent sessions, though, pushback to the planned tariffs from some senior Republicans has helped soothe investors' nerves, with House Speaker Paul Ryan saying Tuesday that the White House should take a "more surgical or more targeted" approach to trade policy.

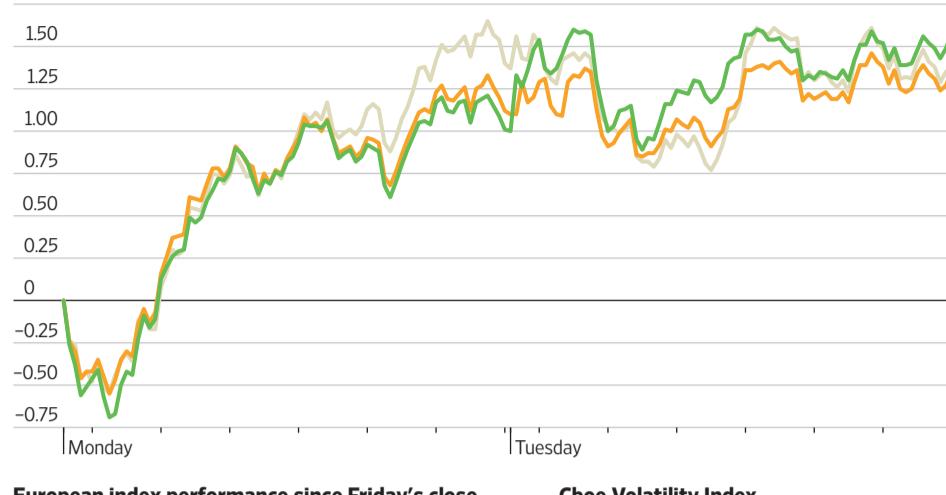
"Our view is that it's going to be really difficult to institute this kind of steel tax in perpetuity without some adjustments," said Jeff Mills, co-chief investment strategist at PNC Financial Services Group. He is advising clients not to alter their portfolios at this stage in light of trade developments.

Still, investors are keeping in mind the impact of trade tariffs, as well as continuing worries about inflation, said Kate Warne, investment strategist for Edward Jones.

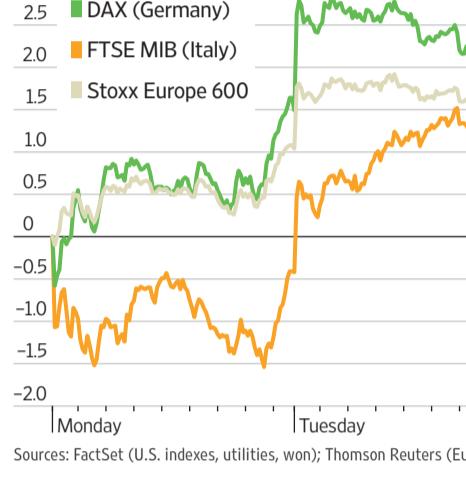
"I think tariffs will continue to be an issue for investors going forward because the major impact isn't just what the U.S. does," she said. The rest of the world's response to U.S. tariffs is also something to think about, she said.

The Dow Jones Industrial Average rose 9.36 points, or less than 0.1%, to 24884.12, recouping losses after declining more than 150 points earlier in the session. The S&P 500 added 7.18 points, or 0.3%, to 2728.12, and the Nasdaq Composite increased 41.30 points, or 0.6%, to 7372.01.

## U.S. index performance since Friday's close



## European index performance since Friday's close



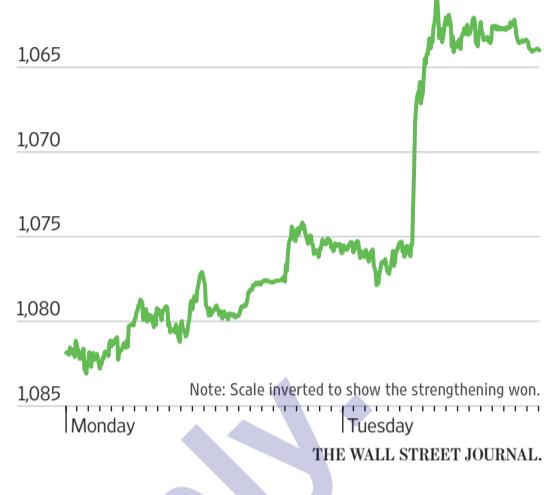
## Cboe Volatility Index



## S&amp;P 500 utilities sector



## How many South Korean won one U.S. dollar buys



Note: Scale inverted to show the strengthening won.

Sources: FactSet (U.S. indexes, utilities, won); Thomson Reuters (European indexes, VIX)

Gains were broad, with nine of the 11 sectors in the S&P 500 posting advances for the day. Shares of materials companies led advances in the S&P 500, rising 1.1%.

Shares of consumer-discretionary companies rose 0.7% in the S&P 500, with Leggett & Platt adding \$1.58, or 3.6%, to \$45.51, and Netflix gaining 10.22, or 3.2%, to \$325.22.

Meanwhile, the S&P 500 utilities sector fell 1.4%, making it the biggest decliner. FirstEnergy dropped 78 cents, or 2.4%, to \$31.85, posting the steepest one-day percentage loss within the sector.

Elsewhere, the Stoxx Europe 600 closed up 0.1% and Germany's export-heavy DAX added 0.2%, lifted by gains in shares of auto makers.

Stocks and bonds in Italy rallied, with the benchmark FTSE MIB closing up 1.8%, more than reversing Monday's decline.

Italy entered a fresh period of political instability after weekend national elections boosted populists but failed to produce a winner with enough support to patch together a parliamentary majority.

"It's almost the worst outcome for markets that we could

envision: a long period of uncertainty ahead and it's hard to see how a stable government can be formed," said Richard Turnbull, BlackRock's global chief investment strategist.

Still, there is limited scope for the results to spill over into other European assets, and investors are already familiar with Italian political uncertainty, he said.

In Asian trading, shares of export-oriented companies climbed as the trade tensions eased. Hong Kong stocks led gains in Asia, with the Hang Seng Index up 2.1% after Monday's 2.3% slide.

It was led by index heavy-weight Tencent Holdings, a Chinese internet company, which rose 3.2%, and by shares of banks that had fallen in the previous session.

Japan's Nikkei Stock Average was as much as 2.4% higher before giving up some of its gains as Bank of Japan Gov. Haruhiko Kuroda again touched on an eventual exit from the bank's ultraeasy monetary policy. The Nikkei ended up 1.8%, snapping a four-day losing streak. At midday Wednesday in Tokyo, the Nikkei was down 0.2%.

The South Korean won was up 1.3% against the dollar late Tuesday in New York after North Korean leader Kim Jong Un told a visiting South Korean delegation that he was willing to hold talks with the U.S. about giving up nuclear weapons and normalizing relations with Washington, and would halt weapons tests during any negotiations, officials in Seoul said.

South Korea's Kospi Composite Index rose 1.5%, ending a four-day losing streak. Early Wednesday, the Kospi was up 0.5%.

—Ese Erheriene contributed to this article.

## HEARD ON THE STREET

FINANCIAL ANALYSIS &amp; COMMENTARY

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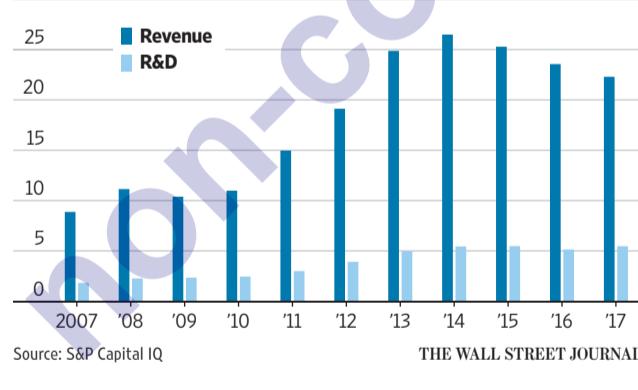
## Qualcomm Gets the Right Friends

## OVERHEARD

## U.S. Tax Cuts Fuel a Spree In Mergers

## Collect Call

Qualcomm's operating results for fiscal years ended September.



"well-known" and "trusted" by the U.S. government. The letter also lauded the company's "unmatched expertise and R&D expenditure"—particularly as it relates to the coming wireless technology standard known as 5G.

The government then contrasts that with Broadcom's "private equity-style" approach to companies it owns where it cuts spending to boost profits. CFIUS said that would likely hurt Qual-

comm's competitiveness, which in turn would "significantly impact" U.S. national security. The letter doesn't mention that Broadcom is incorporated in Singapore, which is reason CFIUS could weigh in on the deal. The company is currently in the process of reincorporating in the U.S.

The letter appears to put an end to Broadcom's chances of acquiring Qualcomm. More important, it

could put a chill on foreign acquisitions of U.S. companies that do a lot of R&D. The chip sector in particular could be vulnerable to a deal freeze, given the growing interest of Chinese companies in procuring semiconductor assets.

Still, Qualcomm's business model is unique, even among chip makers. The company spent the equivalent of about 25% of its trailing 12-month revenue on R&D, more than other peers. That in turn feeds Qualcomm's licensing business, which accounts for more than two-thirds of its operating profit.

That licensing business has landed it in bitter disputes with Apple and other mobile-phone makers. Broadcom has criticized Qualcomm for spending too much on R&D when its licensing business could be endangered.

That could ultimately prove to be the case, but as the letter from CFIUS shows, Qualcomm's spending has at least bought some friends in the right places.

—Dan Gallagher

One can't expect busy aging rock stars to keep up with the news, particularly of the financial variety. Perhaps they should, though.

Donald Trump's plan to thrash trading partners allegedly harming U.S. steel and aluminum producers remains up in the air, but countermeasures already are taking shape. That should concern thrash metal band Metallica.

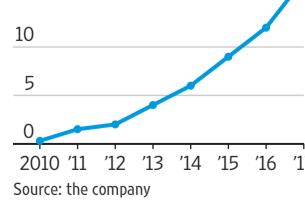
While their music doesn't involve any actual metal and intellectual property such as recorded music so far hasn't been drawn into the tariff tussle, the band's newest venture already has a target on it. Metallica is getting into the whiskey business, according to an industry publication, by teaming up with a Kentucky distiller. That industry and state, home of Senate Majority Leader Mitch McConnell, are being targeted specifically if the metals tariffs are enacted.

Maybe the band can name their business venture after their recent album, "Hardwired...to Self Destruct."

## The Hulu Factor: What Comcast May Want in Bid for Sky

## Binge-watching

Hulu subscribers



What is Comcast really after?

The media company has offered \$41 billion for U.K. satellite-TV provider Sky, praising it for its strategic value and proprietary content. But the deal doesn't really make sense.

First, satellite TV may do better in Europe than in the U.S., but comparisons with DirecTV, which has hemorrhaged subscribers, are difficult to ignore. Sky's Now TV, a Netflix-like product, is designed to fight back against streaming services, but cord-cutting is still bad news for Sky. Around 2% to 3% of households a year are trading down from Sky's pre-

shares at just 7.5 times Ebitda—something that would please its shareholders.

Another possibility is that Comcast Chief Executive Brian Roberts is trying to get himself a place at the table, hoping that he can pry away a prize asset or two from Walt Disney. Hulu perhaps?

The idea has merit. Fox, Disney and Comcast each own 30% of the streaming service. Time Warner owns the remaining 10%, which it bought in August 2016 when the platform was valued at \$5.8 billion. After recent hits like "The Handmaid's Tale," and the huge rally in Netflix

shares, Hulu is almost certainly worth more now.

Mr. Roberts is clearly eager for such a service. He has repeatedly cited Now TV as a reason for his interest in Sky. Yet Hulu is the better platform. A controlling stakeholder could clear up what analysts see as Hulu's management problems and take it global.

Disney CEO Bob Iger has already talked of plans to load Fox's film studio and FX television shows onto Hulu, making it the company's adult-focused streaming service.

Comcast's bid for Sky is unlikely to give it the leverage it would need to wrest

Hulu from Disney. "Disney isn't going to give it up," says Craig Moffett of research firm MoffettNathanson.

"If Comcast is trying to play a game of poker here, the risk is Bob Iger calls Comcast's bluff and says, 'Fine, take Sky.'"

Disney may be wise to let Comcast overpay for Sky. Raising its own bid would make the transaction less accretive to Disney, though it could certainly afford to pay more. Comcast, meanwhile, is playing a risky game, and with shareholders' money no less. Mr. Roberts had better be serious about wanting Sky, because he might just get it.

—Elizabeth Winkler

Deals for growth at home also outnumber bids for overseas targets by more than 3-to-1 in dollar terms.

This corporate shopping spree adds to the cash flowing back to investors via buybacks, which exceeded \$200 billion in the three months to the end of February, according to a Wall Street Journal analysis.

With the Federal Reserve expected to tighten monetary conditions only gradually and with companies and private-equity firms flush with cash and confidence, this M&A party looks likely to get bigger and louder before it ends. —Paul J. Davies