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What's News

Business & Finance

OPEC renewed an agreement with a dozen other crude-oil producers to withhold supplies into March 2018, betting it can raise prices despite soaring output from U.S. shale-oil producers. **A1**

◆ China's central bank is effectively anchoring the yuan to the dollar, helping stabilize the currency in a year of political transition. **A1**

◆ Prosecutors filed insider-trading charges against one of Wall Street's best sources of tradable information from the government. **A5**

◆ Democratic lawmakers asked Deutsche Bank to provide details about its internal reviews into Russian trades and clients, as well as loans to Trump. **B5**

◆ BlackRock and Vanguard are considering a public rebuke to Exxon over climate change at the company's annual meeting. **B1**

◆ Microsoft unveiled a new Windows 10 software customized for the Chinese government to improve security. **B1**

◆ J.Crew CEO Drexler said he misjudged how quickly technology would change the industry and is now trying to avoid bankruptcy. **A1**

◆ Foreign central banks are scooping up U.S. government bonds again after paring holdings in 2016. **B8**

◆ Best Buy said sales at domestic stores open at least a year rose 1.4%, surprising investors. **B2**

World-Wide

◆ The House GOP health-overhaul bill would leave 23 million more people uninsured while reducing the cumulative federal deficit by \$119 billion in the next decade. **A1**

◆ Trump said he has ordered a review of leaks of sensitive information within his administration following concerns from British officials. **A1**

◆ The White House intends to offer a tax plan that will pay for itself without factoring in potential growth that could stem from the plans. **A5**

◆ Trump issued tough new spending demands for NATO while refusing to publicly back the core tenet of the alliance. **A3**

◆ Police are piecing together a picture of how 22-year-old Salman Abedi came to blow himself up outside a show in Manchester. **A4**

◆ China vowed to build up military capabilities after a U.S. Navy destroyer sailed near a Chinese-built artificial island in the South China Sea. **A3**

◆ Islamic State is relying more on homegrown terrorists such as the Manchester attacker while also sending more of its fighters abroad. **A4**

◆ A deadly suicide bombing in the Indonesian capital has been linked to Islamic State. **A3**

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Fighting in the Philippines Sends Residents Fleeing



ON THE ROAD: An armored personnel carrier threads through vehicles of residents fleeing Marawi, a city on the southern island of Mindanao, as fighting rages between government forces and gunmen linked to Islamic State. **A3**

China Ties Yuan to Dollar

Effective linkage creates stability for now, but raises risks for longer term

China's central bank is effectively anchoring the yuan to the dollar, a policy twist that has helped to stabilize the currency in a year of political transition and market jitters about China's economic management.

By Lingling Wei
in Beijing and Saumya Vaishampayan
in Hong Kong

The yuan weakened more than 6% against the dollar in 2016; this year, it is up roughly 1%, and the expectation that the currency will fluctuate—measured by a gauge known as implied volatility—is around its lowest in nearly two years.

By Carol E. Lee
in Brussels and
Jenny Gross in London

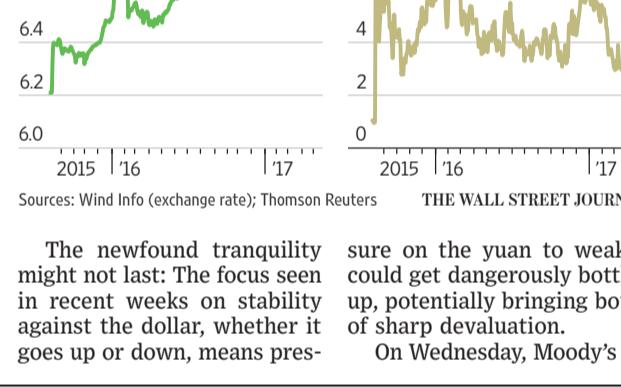
officials about intelligence sharing with the U.S.

Mr. Trump, in a statement on Thursday responding to accusations from the U.K. that U.S. officials leaked information about the investigation into a

Calmer Days

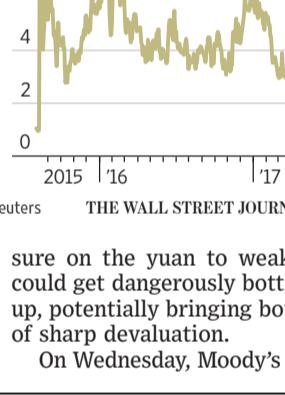
China's apparent currency peg to the dollar has helped drive expectations of volatility to the lowest level since before the central bank devalued the yuan in 2015.

How many yuan one dollar buys



Sources: Wind Info (exchange rate); Thomson Reuters

One-month implied volatility for the dollar against the yuan



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vendors Service cut China's sovereign-credit rating, citing the peril of rising debt as growth slows. The effort to keep up with the dollar could add to the challenge by forcing the central bank to keep burning through its foreign-exchange reserves to support the yuan.

How China manages its currency is one of the most consequential decisions in global financial markets—and one that remains largely inscrutable to investors. As Beijing tackles a huge buildup of corporate debt, many investors worry the process could create more risk and even, if long-suppressed volatility erupts in ways that can't be controlled,

Please see YUAN page A2

◆ Beijing chides Moody's after downgrade.....
B5
◆ Heard: China's credit crunch gets local.....
B8

sure on the yuan to weaken could get dangerously bottled up, potentially bringing bouts of sharp devaluation.

On Wednesday, Moody's In-

ter-

ness

Despite the new agreement, West Texas Intermediate crude oil fell \$2.37 a barrel, or 4.6%, to \$48.99 on Thursday. Brent crude, the international benchmark, fell 4.4%.

The news disappointed investors who were expecting more, said Helima Croft, chief commodities strategist at RBC Capital Markets.

Saudi energy minister Khalid al-Falih insisted on Thurs-

day that the coalition's efforts just needed more time.

"Nine months with the same level of production that our member countries have been producing at is a very safe and almost certain option to do the trick," Mr. Falih told reporters at the cartel's Vienna headquarters, where the group's 13 nations gathered with non-OPEC producers on Thursday.

The decision marked OPEC's latest effort to flex its

Please see OPEC page A2

Trump Vows Action on U.K. Leaks

President Donald Trump said he has ordered a review of leaks of sensitive information within his administration following concerns from British

suicide bombing in Manchester, said such "leaks of sensitive information pose a grave threat to our national security."

He threatened to prosecute anyone responsible for such leaks, which he called "deeply troubling."

As outrage in the U.K. intensified over the leaking of sensitive information related to Monday's bombing at a pop concert, British Prime Minister Theresa May said she would raise the issue of media leaks with Mr. Trump at Thursday's summit in Brussels of leaders of

the North Atlantic Treaty Organization.

Arriving at the gathering in the Belgian capital, Mrs. May said she would tell Mr. Trump that "intelligence that is shared between law-enforcement agencies must remain secure."

Mr. Trump's administration has grappled with a series of leaks of classified and sensitive information, which White House officials have said have come from intelligence officials aimed at undermining his presidency.

The president said leaking

sensitive information has been happening for a long time and vowed to "get to the bottom of this."

He stressed the special ties between the U.S. and U.K., saying there was no relationship the U.S. cherished more.

The U.K. considers the U.S. its closest intelligence-sharing ally, and it has become increasingly angry over media reports revealing details of the investigation, with British police saying leaks by U.S. officials had eroded trust between

Please see LEAKS page A4

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J.CREW'S SLIP: TRUSTING IN DESIGN OVER TECH

Chief Mickey Drexler says he misjudged how speed, price fuel web sales

By KHADEEJA SAFDAR

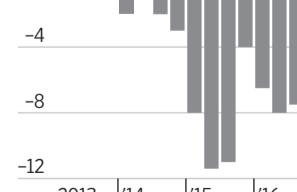
Millard "Mickey" Drexler, the fashion genius whose ability to spot trends reshaped how Americans dress, has a humbling admission. He missed what might be the biggest trend of all—how quickly technology would change the retail industry.

"I've never seen the speed of change as it is today," the 72-year-old chairman and chief executive of J.Crew Group Inc. said in an interview at his New York office. "If I could go back 10 years, I might have done some things earlier."

The retail veteran, who redefined Gap Inc. in the 1990s and then transformed J.Crew into a household name, is

Latest Trend

J.Crew Group's same-store sales have declined for 10 straight quarters.



Source: company filings

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Sales at J.Crew Group stores open at least a year have fallen for the past 10 quarters—the kind of slump that got Mr. Drexler ousted from the Gap in 2002. This time he owns 10% of the company, and it is lenders, not the founding family, that are putting on the pressure.

For decades, fashion was essentially a hit-or-miss business. Merchants like Mr. Drexler would make bets on what people would be wearing a year in advance, since that's how long it took to design and produce items. Hits guaranteed handsome returns until the next season.

Now, competitors with high-tech, data-driven supply chains can copy styles faster and move them into stores in a matter of weeks. Online marketplaces drive down prices, and design details such as nicer

Please see RETAIL page A6

Whatever You Do, Don't Let Your Snapstreak End Today

* * *

Snapchat fans go to extremes to make daily check-ins; 'send a blank picture'

BY KATHERINE BINDLEY

Bothaina Saleh has many of the typical concerns of a 25-year-old marketing manager living in Manhattan. They include her Snapstreak, which she maintains "in the same way I make sure that I brush my teeth."

Other teens and millennials across America, too, are obsessively cultivating their Snapstreaks.

Let us explain. Snapchat starts with Snap Inc.'s Snapchat, the messaging app that lets a person send a friend "snaps"—those photos and videos that can disappear seconds after the recipient views them and that have addicted the social-media masses.

Send a snap, get one back within 24 hours; send another, get another. After three



Bothaina Saleh

days, it's an official streak that continues as long as each person sends a snap within a 24-hour window.

A streak earns a flame emoji and a number showing how many days the chat has gone on. An hourglass appears when time is running out.

Snap, which introduced Snapstreaks in April 2015, says it coined the term but declines to say how many streaks are going on. It reported 166 million daily Snapchat users in its most-recent quarter.

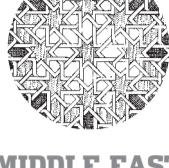
The critical task: Do whatever it takes to beat the clock. Dropped your phone in the ocean? Borrow a friend's, log on and snap. Grounded with no phone? Get a friend to log on as you and send snaps.

Can't think of anything to

Please see STREAK page A6

WORLD NEWS

Saudi Claim to Lead Muslims Gets a Boost



MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

Saudi Arabia has emerged from President Donald Trump's visit with a geopolitical coup: The trip's elaborate choreography validated the kingdom's longstanding—and controversial—desire to be seen as the leader of the Muslim world.

The imagery spoke for itself. Heads of dozens of Muslim nations stood arrayed behind Mr. Trump and his host, King Salman, after the American president showered the kingdom with effusive praise and embraced Riyadh's drive to counter Iran.

"The biggest winner is Saudi Arabia. Donald Trump has basically bought the strategic vision of Saudi Arabia and he has crowned Saudi Arabia as the nerve center of the Arab and Islamic worlds," said Fawaz Gerges, a professor of Middle East studies at the London School of Economics. "The Saudis are elated and they have the right to be elated."

This, of course, is an unusual state of affairs: Saudi Arabia, though controlling Islam's two holiest mosques and benefiting from massive oil wealth, has never been the region's intellectual, political or even religious fulcrum.



A visit by President Donald Trump, shown leaving Riyadh on Monday with first lady Melania Trump, was a win for Saudi Arabia.

ering criticism for having gratuitously damaged Pakistan's relationship with its Iranian neighbor.

"There is a kind of disappointment in Pakistan, a general impression that he has been sidelined by the Saudis," said prominent Pakistani political analyst Hasan Askari Rizvi.

Pakistani public opinion, he added, is already alarmed by just how close Islamabad has gotten to Riyadh: "Geography demands that Pakistan should have good relations with Iran, and the public view is that Pakistan should not get involved in conflicts in the Middle East."

Even Qatar, a fellow Gulf monarchy, saw tensions with Riyadh after the summit. Saudi Arabia blocked some Qatari websites after the official Qatari news agency released a statement criticizing the kingdom's approach to Iran. Qatar said the agency had been hacked.

Saudi designs are also viewed with jealousy in Egypt, the Arab world's most populous nation. While Egyptian President Abdel Fattah Al Sisi spoke at the Riyadh summit, Egyptian officials—let alone Egyptian public opinion—are less than enthusiastic about Saudi Arabia's drive against Iran, be it in Syria or Yemen.

"Egyptian pride does matter," said Michael Wahid Hanna, a specialist on Egypt at the Century Foundation in New York. "Egypt—despite not being it for a long time—still sees itself as the natural leader of the region, and it is very difficult for it to set aside this notion of Egyptian leadership and be subservient to the Saudi agenda."

The kingdom doesn't even make the list of the top 10 most-populous Muslim nations. And its ultraconservative official creed, dating to 18th-century cleric Mohammed bin Abdul Wahhab, is viewed with suspicion or outright hostility by religious authorities in most fellow Sunni Muslim nations, let alone in Shiite Iran.

"As much as Riyadh might like it, there is no Muslim Vatican, and if it were, it wouldn't be Saudi," said H.A. Hellyer, a scholar at the Atlantic Council.

Enabling Saudi ambitions to regional leadership is also not something traditionally viewed as being in the interests of the U.S. and the West. After all, virtually all of the other Muslim nations represented at the Riyadh summit with Mr. Trump enjoy a higher degree of politi-

cal and religious freedom than their Saudi hosts. For many of them, the influence of the Saudi brand of Islam has long been a destabilizing factor that fueled extremism at home.

It is true, of course, that Saudi Arabia today isn't the same kingdom that produced 15 of the 19 terrorists who attacked America on Sept. 11, 2001.

The kingdom's powerful Deputy Crown Prince Mohammed bin Salman, who has nurtured particularly close ties with the Trump administration, is pursuing small but important steps toward liberalization. The kingdom has further curtailed the proselytizing activities abroad, limited the powers of the religious police at home and, in recent months, allowed concerts

and other cultural events.

But, despite these modest changes, Saudi Arabia remains one of the planet's most repressive societies, where public practice of religions other than Islam is outlawed, where women can't drive, and where critics of the government face prison or execution.

"Saudi Arabia fundamentally does not have an appealing model that would allow it to obtain traction as a self-appointed leader of the Sunni community," said Si-nan Ulgen, a former Turkish diplomat who heads the EDAM think tank in Istanbul.

This means that the afterglow of the Trump visit won't necessarily last. Behind the facade of Muslim unity displayed in Riyadh, cracks are impossible to hide.

First of all, there is the deepening sectarian divide:

no prominent Shiite Muslim leader attended the summit. Lebanon was represented by its Sunni prime minister and Shiite-majority Iraq by its largely ceremonial Kurdish Sunni president.

Turkey's President Recep Tayyip Erdogan, who has his own ambitions for regional leadership, also stayed away. Turkey has increased cooperation with Iran on the Syrian conflict next door, and the last thing it wants is Saudi Arabia pushing the U.S. to escalate the confrontation with Tehran at such a delicate moment.

Pakistan's Prime Minister Nawaz Sharif may be wishing he had stayed away. Despite planning to deliver a speech in Riyadh, the leader of the lone Muslim nuclear-armed power had not been allowed to do so, and returned to Islamabad to with-

slightly weaker than the previous fixing. A day later, after the Moody's downgrade, the PBOC again fixed the yuan stronger than expectations, and traders say some big Chinese banks sold dollars in early trading to bolster the yuan.

The close alignment with the dollar could ease the threat of a trade war with the U.S., after President Donald Trump claimed China has exploited weakness in the currency at the expense of its trading partners. Mr. Trump recently refrained from labeling China a currency manipulator.

"China's management of its currency has changed significantly in the wake of the U.S. election, with the renminbi essentially repegging against the dollar," said Robin Brooks, a former Wall Street currency strategist and now chief economist at the Institute of International Finance, using another name for the yuan. "The repeg could be quite sticky and only a major surprise has the potential to dislodge the exchange rate."

A study by Mr. Brooks and Gene Ma, China economist at the institute, concludes that the central bank has moved away from a rule-based method of fixing the yuan and is exerting more "discretion"

over the exchange rate. Press officials at the PBOC didn't respond to requests to comment. In a report issued Thursday, the Commerce Ministry said China is trying to strike a balance between improving the yuan's flexibility and keeping it stable.

The steadier yuan, coupled with more restrictions on money leaving China and higher interest rates, has calmed investors and helped keep money onshore. Some Chinese exporters—the main players in the country's foreign-exchange trading

market—are switching from hoarding their dollar earnings to selling them for yuan. That has helped reduce capital outflows and beef up the nation's currency reserves.

"Our forecast shows that renminbi will remain stable at least in the near future, and we no longer need to delay converting our dollar profits to renminbi," said Lang Guanhui, chairman of aluminum producer Sunstone Development Co. His company put off such conversion for the entire year of 2016.

The recent approach is a

contrast from Beijing's bid two years ago to woo the International Monetary Fund to get it to declare the yuan a reserve currency, with pledges to instill greater market influence and transparency into its currency management.

Some Chinese officials say it is in China's and the world's interest to loosen controls on the yuan only gradually, as setting it free all at once could cause market turbulence.

"I believe in strengthening the management of expectations for the currency and keeping the exchange rate basically stable," said Sheng Songcheng, a senior adviser at the central bank.

China's exchange-rate regime has been a cause of global market turbulence in the past two years. Implied volatility hasn't been at its current lows since before the central bank unexpectedly devalued the yuan in 2015. The bank at the time also laid out a strategy to give market forces more sway in setting the yuan's value—only to back away from the plan after huge selloffs ensued.

A resurgent dollar, driven by more U.S. interest-rate increases, could make it much costlier for China to maintain the anchor to the dollar, potentially hurting Chinese ex-

porters' competitiveness. That would drag down growth further and add to economic headwinds at home.

Meanwhile, the PBOC is letting the yuan slide against currencies of its other trading partners, like the Korean won and the Japanese yen. An index of the yuan's value against a basket of currencies fell to its lowest level on May 19 since it was first published by the central bank in 2015. That helps give Chinese exporters a leg up in those markets.

"It's depreciation by stealth," said Ashley Perrott, head of pan-Asian fixed income at UBS Asset Management in Singapore.

But if the dollar starts to rally and China continues to link the yuan to the dollar, that would mean a stronger yuan compared with the currencies of those trading partners.

"That basically means monetary conditions in China will get tighter, and that's not what they need right now," says Guillermo Felices, a senior investment strategist for multiasset solutions at BNP Paribas Investment Partners in London.

—Liyan Qi contributed to this article.



The People's Bank of China appears to have altered its strategy.

porters' competitiveness. That would drag down growth further and add to economic headwinds at home.

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OPEC

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muscles in the face of a continuing challenge from U.S. shale producers. The cartel still controls 40% of world oil production but has no influence over U.S. oil companies that have helped bring down oil prices with a flood of new crude.

U.S. output retrenched

when prices fell as low as \$28 a barrel in 2016 but has come roaring back this year during a modest price recovery. The U.S. Energy Information Administration says American oil output could reach a record high of 9.9 million barrels a day—essentially the level Saudi Arabia is limiting itself to.

U.S. shale producers have

said they have made technological improvements that allow them to be profitable at

less than \$50 a barrel. They also continue to find easy access to credit, and private-equity firms have swooped in when companies went bankrupt, keeping production going.

Mr. Falih and other OPEC ministers on Thursday played down any concerns about American producers.

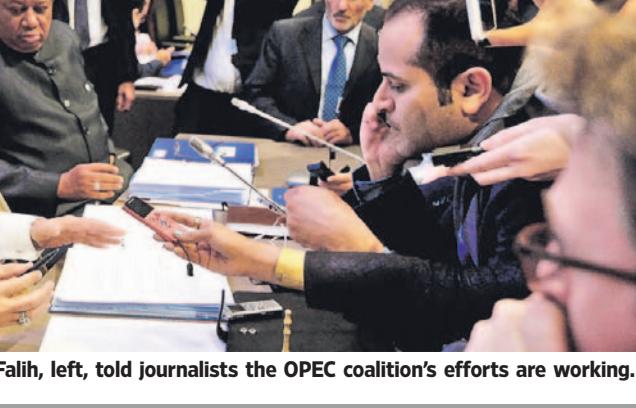
"I don't see shale in anyway derailing what we are doing," Mr. Falih said. "The market is big enough to absorb the in-

creased production of shale."

The Saudi push for market control has been driven by the kingdom's plan to publicly list a 5% piece of its state oil company, known as Aramco, in 2018, people familiar with the matter said. The company produces more crude than any other and is said to be worth as much as \$2 trillion, but its value will be largely determined by the oil price when its shares are floated.

The IPO of Saudi Arabian Oil Co., as the company is officially known, is part of a larger Saudi economic plan. The money raised by the listing—the Saudis have hopes of \$100 billion or more—is to be distributed by the country's Public Investment Fund to diversify the country's economy away from oil.

OPEC's petrostates are normally loath to hold back output, but their hand has been forced as low prices worsened economic crises in member countries such as Nigeria and Venezuela. Even in the richest producers like Saudi Arabia, Kuwait and the United Arab Emirates, governments have made painful cuts to popular



LEONARD FOEGER/REUTERS

Saudi energy minister Khalid al-Falih, left, told journalists the OPEC coalition's efforts are working.

social programs.

Billions of dollars are at stake. According to the U.S. Energy Information Administration, OPEC members' net revenues from oil exports will rise by over \$100 billion in 2017 if the cuts are extended.

With Russia and other non-OPEC producers joining the cartel, about two dozen countries with output totaling over 52 million barrels of oil a day—almost 60% of world demand—are withholding oil from the market.

Such alliances have formed during past price downturns and have had short-term success. But they "eventually fall apart," said Robert McNally, president of energy consultancy the Rapidan Group in Washington.

—Michael Amon in Vienna and Jon Sindreu in London contributed to this article.

CORRECTIONS & AMPLIFICATIONS

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WORLD NEWS

Trump Tells NATO to Pay Up for Military

President withholds public support for defense provision, to European allies' dismay

BY JULIAN E. BARNES
AND CAROL E. LEE

BRUSSELS—President Donald Trump issued tough new spending demands for the North Atlantic Treaty Organization while refusing to publicly back the core tenet of the security alliance that an attack on one member nation is an attack on all.

Mr. Trump's refusal to say he supports NATO's common defense provision, known as Article 5, left European diplomats dismayed. Mr. Trump spoke Thursday at the dedication of a NATO memorial devoted to Article 5. He previously raised questions about the U.S. commitment to the provision during his campaign.

U.S. administration officials played down European concerns and said there is no question that America supports the common defense provisions. A senior administration official noted Mr. Trump mentioned Article 5 had been invoked in America's defense at the beginning of his remarks. Mr. Trump also said the U.S. wouldn't forsake its allies.

Mr. Trump Thursday said al-



Demonstrators protested in Brussels against the NATO summit and President Donald Trump's visit on Thursday.

member of the U.S.-led international coalition fighting the extremist group Islamic State.

Belgian Prime Minister Charles Michel said the fight against terrorism dominated his discussion with Mr. Trump on Wednesday night, which occurred shortly after the president arrived in Brussels. It followed a meeting with Pope Francis in Vatican City and talks with top Italian officials in Rome earlier in the day.

"We are on the same side in the fight against terrorism. We affirmed it together," Mr. Michel said. He said the conversation with Mr. Trump, which covered Belgium's efforts against terrorism at home and abroad, was "cordial, respectful and very direct."

The bombing this week in Manchester has highlighted the issue of terrorism but also raised questions among alliance diplomats about whether the kind of support NATO offers to the coalition and the training it provides will have any direct impact on the terrorist threat in Europe.

NATO Secretary-General Jens Stoltenberg said the alliance will create a new group within the new intelligence division solely focused on the threats posed by foreign fighters and improve intelligence-sharing and coordination.

—Emre Parker contributed to this article.

lies "owed massive amounts of money" for past years and they have failed to live up to the alliance spending guideline of 2% of gross domestic product.

"We have to make up for many years lost," Mr. Trump said. "If NATO countries made their full and complete contributions, then NATO would be even stronger than it is today."

While European allies regard the NATO guideline as a rough goal to move toward,

the U.S. under Mr. Trump has considered it a much firmer requirement.

Mr. Trump said that 2% was the "bare minimum" and wouldn't allow the alliance to close military gaps. Mr. Trump said NATO allies needed to make up for years of underinvestment in their military. He said 23 of NATO's 28 members are below the 2% level.

But NATO allies reject Mr. Trump's contention that a bill

is owed or a debt is unpaid.

Under a pledge NATO members made in 2014, they committed to "aim to move towards" spending 2% of their gross domestic products on defense by 2024. Many European allies point out that language is at best a very loose goal. The NATO common budget itself is small and allies are supposed to direct most of their defense spending toward their own militaries, making them avail-

able to the alliance as a whole.

The comments came as NATO said it would approve counterterrorism measures that alliance officials hope will expand its security role, in a bow to repeated calls by Mr. Trump.

The steps include establishing a new intelligence unit to track foreign fighters in Europe and creating the post of counterterrorism coordinator, alliance officials said. NATO will also become a formal

—

U.S., EU Leaders Air Differences

BY LAURENCE NORMAN
AND WILLIAM HOROBIN

BRUSSELS—U.S. President Donald Trump held his first meetings with French President Emmanuel Macron and senior European Union leaders on Thursday here, the capital of a bloc whose future he has questioned and whose opponents he has feted.

The Brussels meetings bring together champions of two competing world visions and leaders who have used each other as foils to build domestic support. After the meetings, it was clear some of those differences remained.

"There are subjects we don't have the same reading of, but we were able to speak in a very direct way," Mr. Macron said after his lunch with the president.

Mr. Trump was a vocal supporter of Britain's decision to leave the bloc in June 2016, seeing in it the kind of anti-establishment, nationalist revolution he was tapping into for his own presidential bid.

Shortly before taking office, he said the EU was largely a "vehicle for Germany." While he stayed officially neutral in the recent French presidential election, he hailed Mr. Macron's rival, nationalist leader Marine Le Pen, as the strongest on borders and security.

Europe's leaders have re-



Donald Trump met with French President Macron on Thursday.

sponded in kind. European Commission President Jean-Claude Juncker threatened to campaign for the independence of Ohio if Mr. Trump continued supporting the EU's breakup. Mr. Macron challenged the U.S. president's stance on immigration, trade and climate change during his campaign.

Yet officials on both sides said they were looking to bolster trust. Failure to do so could have repercussions across many issues, including the Paris climate accord, the Iranian nuclear deal and the fight against terrorism.

After the meeting with Mr. Trump, EU officials said the two sides had agreed to tighten coordination on trade issues, including responding

to unfair practices by third countries, such as China.

Yet there was little effort to mask continued differences. In a short statement to reporters, European Council President Donald Tusk said while there was agreement on many questions, "some issues remain open, like climate and trade."

"And I am not 100% sure that we can say today—we, meaning Mr. President Trump and myself—that we have a common position, a common opinion about Russia," he said.

Mr. Juncker described the meeting with Mr. Trump as cordial and constructive. But he also seemed a little wary of the U.S. leader. Asked at a press conference about his

impressions of Mr. Trump, Mr. Juncker said, "I hope he hasn't sent a tweet about me yet."

Mr. Trump's lunch with Mr. Macron was "extremely frank and direct," the French leader said, covering a broad range of subjects including the crisis in Syria and summits of the North Atlantic Treaty Organization and the Group of Seven leading industrialized nations.

The 39-year-old Mr. Macron pledged during the presidential campaign to ramp up France's military spending to reach the NATO target of 2% of economic output by 2025, a key demand of Mr. Trump.

The future of the Paris climate agreement is one issue on which Mr. Macron and Mr. Trump locked horns.

Mr. Trump has threatened to jettison U.S. adherence to the deal, but his officials said he would be listening on Thursday.

Mr. Macron told Mr. Trump the agreement is crucial for the international community and economic development, but said he respected Mr. Trump's decision to review it.

"My wish is for the U.S. not to take a precipitous decision," Mr. Macron said.

—Valentina Pop and Carol E. Lee contributed to this article.

Obama, in Germany, Promotes Global View

BY ANTON TROIANOVSKI

pean policy makers are still trying to grasp the new direction of U.S. foreign policy. They hope to convince Mr. Trump of the importance of the trans-Atlantic alliance and to keep the U.S. in the Paris Agreement meant to curb climate change—a deal in which Mr. Obama played a key role.

Mr. Obama argued in favor of development aid for poorer countries, noting that the influx of refugees to Europe two years ago had shown that the developed world isn't immune from the consequences of strife and hardship elsewhere.

Mr. Trump's proposed budget would cut foreign aid, but Mr. Obama didn't directly refer to his successor's policies except to note that the Obama health-care overhaul was "now imperiled" by the political debate in the U.S. Ms. Merkel also didn't mention Mr. Trump, even though she was set to see him at the NATO summit in Brussels.

Mr. Obama and Ms. Merkel shared a stage set up in front of the Brandenburg Gate, where the Berlin Wall used to stand. They were speaking at the German Protestant Kirchentag, a religious festival that this year celebrates the 500th anniversary of the Protestant Reformation. The Obama Foundation co-hosted the session, its first international event.

WORLD WATCH

INDONESIA

Islamic State Linked To Jakarta Bombing

A deadly suicide bombing in the Indonesian capital has been linked to Islamic State, adding to growing evidence that the Middle East-based terrorist group is making inroads into Muslim-majority areas of Southeast Asia.

National police spokesman

Awu Setiyono said Islamic State

was linked to the attack at a

busy bus terminal in Jakarta late

Wednesday, but he declined to

explain further the exact role

the group played in the attack.

Two male suicide bombers killed

themselves and three police officers in two explosions, police said.

Six officers and five civilians were injured.

Police had been stationed at

the terminal to secure a parade

marking the holy month of Ramadhan, which begins in coming days. An investigation into the

attacks is continuing, police said.

Indonesia is the world's largest Muslim-majority country. Authorities have long worried that Islamic State could develop a following among radical Muslims here and give new life to terrorist activity that peaked in the early 2000s.

The nation of more than 250 million people has taken an in-

creasingly conservative turn, with the minority Christian governor of Jakarta losing an election in April amid stiff opposition by Islamic hard-liners.

He was later convicted and sentenced to two years in prison for blasphemy for making a light-hearted comment about a verse in the Quran that says Muslims shouldn't be governed by non-Muslims.

—Anita Rachman

PHILIPPINES

Army: 31 Militants Killed in Marawi City

Philippine army generals say 31 Islamic State group-linked extremists have been killed in two days of fighting in a southern city that has been under siege since one of Asia's most-wanted

militants evaded capture and

dozens of rebels came to his aid.

Army officials said the rebel death toll included 13 fighters who were killed by troops backed by rocket-firing helicopters in Marawi city. Six soldiers perished in the fighting.

The latest deaths raise the overall death toll to more than 40 from the urban fighting, which has sparked an exodus of Marawi residents and prompted President Rodrigo Duterte to declare martial rule in the south.

—Associated Press

Navy Patrols Spark Anger in China

BY JEREMY PAGE

BELIJING—China vowed to further build up military capabilities after a U.S. Navy destroyer sailed near a Chinese-built artificial island in the South China Sea, the first such patrol under President Donald Trump.

Col. Ren Guoqiang, a Defense Ministry spokesman, on Thursday said Beijing had lodged a formal protest with the U.S. over the patrol, which U.S. officials said brought the ship within 12 nautical miles of Mischief Reef, one of a chain of disputed reefs and rocks in the Spratly archipelago.

Col. Ren said two Chinese missile frigates identified the U.S. ship and warned it to leave the area.

"The erroneous conduct of the U.S. military will only provoke the Chinese military to further strengthen its capacity building and firmly defend national sovereignty and security," he said.

Wednesday's patrol by the USS Dewey, a guided-missile destroyer, was a so-called freedom-of-navigation operation intended to challenge excessive maritime claims, U.S. officials said. It was the first in the area since October and

the first since Mr. Trump came into office. The president has tried to forge a working relationship with Beijing to resolve trade frictions and deal with North Korea's missile and nuclear threats.

Col. Ren didn't specify the legal grounds on which China objected to the patrol. He repeated Beijing's longstanding

yet legally vague, claim to sovereignty over all South China Sea islands and adjacent waters. He said the U.S. patrol had disrupted recent efforts by China and its Southeast Asian neighbors to reduce tensions over the South China Sea.

The patrol, he said, was "a show of force that encouraged

regional militarization and could easily lead to accidents at sea or in the air." Tensions over the South China Sea have spiked during the past three years as Beijing built seven artificial islands in the Spratlys, where China's claims are contested by Vietnam, Malaysia, Taiwan, Brunei and the Philippines, a U.S. ally.

KRZYSIEK WEIERMAN/AGENCE FRANCE PRESSE/GT IMAGES

KRZYSIEK WEIERMAN/AGENCE FRANCE PRESSE/GT IMAGES

U.K. TERROR ATTACK



Police Search for Network

Manchester officials report progress in tracking Abedi's travels, support

BY JENNY GROSS IN LONDON AND RUTH BENDER IN BERLIN

Searches in the wake of the suicide bombing at a Manchester pop concert have turned up important evidence, the city's top police officer said Thursday, as investigators worked to track the trail of the attacker.

They are piecing together a picture of how 22-year-old Salman Abedi, a British citizen of Libyan descent, came to blow himself up outside the show by pop singer Ariana Grande, killing 22, and whatever help he received from a

network.

Another man was arrested in Manchester on Thursday, bringing the total in custody in Britain to eight, after a woman was released. Those still in custody include Ismail Abedi, 23, one of the attacker's brothers.

Another brother, arrested in Libya, has confessed to a militia that he and the attacker belonged to Islamic State. It wasn't possible to independently confirm the claim.

In Manchester, "initial searches of premises have revealed items that we believe are very important to the investigation," said Ian Hopkins, chief constable of the Greater Manchester Police, adding that searches would continue for several days. He called the arrests made in connection with the attack significant.

Salman Abedi grew up in Manchester, a destination for radical Libyan Islamists during Moammar Gadhafi's regime. In October his parents moved back to Tripoli. Abedi was at their home for about three weeks before he returned to Manchester, according to a relative and a close family friend.

Police in Düsseldorf, Germany, said he spent a short time in the transit zone of the city's airport while on his way to Manchester, with one official saying that occurred on May 18.

"Intensive investigations" so far haven't found any connections to people in the state of North Rhine-Westphalia, where Düsseldorf is located, police said. German authorities said they are in close contact with British authorities.

A Turkish official said he had also transited the Istanbul airport the same day and left on a carrier bound for Düsseldorf. There is no record of him entering Turkey.

Brother Hashem Abedi is in the custody of Radaa, one of several large militias responsible for security in the Libyan capital of Tripoli.

Ahmed Dagdoug, a militia spokesman, said Wednesday that Hashem Abedi was in the U.K. during preparations for Monday's attack and aware of the plans. It wasn't possible to ascertain how the confession was obtained. Libyan militias routinely resort to harsh tactics to extract information from terrorism suspects.

Mr. Dagdoug said it was also holding Abedi's father, Ramadan Abedi, to aid in the probe.

and information presented were neither graphic nor disrespectful of victims, and consistent with the common line of reporting on weapons used in horrific crimes."

"Our mission is to cover news and inform our readers," the newspaper said in its statement, describing its coverage of the attack as "both comprehensive and responsible."

Intelligence-sharing in cases such as the Manchester bombing is fairly routine, and according to a U.S. counterterrorism official, British authorities shared the photos and intelligence gathered at the site of the attack with law-enforcement agencies and demolition experts in the U.S. and Europe in hopes of gaining clues about the origin of the explosive device used in the attack.

Many countries are eager to glean insights from experts working at an FBI laboratory in Alabama that analyzes improvised explosive devices collected across the globe.

An FBI spokesman declined to comment on whether the British shared photographs or other information related to Monday's attack with the U.S.

The Times account on Wednesday followed earlier leaks on the investigation, including the name of the suspect's identity to a U.S. television outlet, CBS, which broadcast his name. Other media organizations quickly

followed.

The unauthorized disclosures led U.K. Home Secretary Amber Rudd to tell U.S. Attorney General Jeff Sessions that the U.K. was strongly concerned about the leaks, the Justice Department said. Mr. Sessions said he understood her concern and that leaks wouldn't be tolerated.

On Thursday in Brussels, where Mr. Trump and Mrs. May were attending the NATO summit, the head of alliance, Jens Stoltenberg, declined to be drawn into what he described as a bilateral issue between the U.S. and the U.K.

Police have reportedly stopped sharing information on the attack with the U.S.

As NATO prepared to announce new steps to combat terrorism, one of which is improve intelligence-sharing and coordination among member nations, some alliance officials said fear of leaks and spies within allied governments has sometimes hampered the exchange of intelligence information. The officials noted, however, that the U.S. hasn't typically been accused of leaks.

Canadian Prime Minister Justin Trudeau, who is also

attending the summit, defended the integrity of his nation's intelligence-sharing with the U.S. under the so-called Five Eyes system that includes Canada, the U.K., the U.S., New Zealand and Australia.

"The track record has shown collaboration and cooperation between allies, friends and partners that has saved lives and keeps all citizens safe," Mr. Trudeau said.

Legal experts said that although the leaks are frustrating for police, there is no reason to think they would necessarily threaten a future prosecution in connection with the attack.

Adrian Hunt, an expert in counterterrorism law at the University of Birmingham, said publishing photos of physical evidence wouldn't normally affect the admissibility of the evidence itself in a criminal trial.

Information about the suspect in the Manchester attack has been disclosed outside the U.K., but it has come from foreign officials.

French Interior Minister Gérard Collomb said on Wednesday that British investigators told French authorities that Abedi had probably also traveled to Syria. The U.K. government declined to comment.

—Del Quentin Wilber in Washington and Julian E. Barnes in Brussels contributed to this article.



ANDREW YATES/REUTERS

Militia Emerged In Libya's Chaos

BY HASSAN MORAJEA

rise to groups that took the place of traditional security forces, and operate with few checks on their power.

Although it falls under Libya's interior ministry—which pays and ostensibly commands the militia's fighters—Radaa has broad autonomy in imposing its stamp on security in at least half of Tripoli.

Since its establishment about a half-decade ago, Radaa has been actively involved in armed raids of drug and alcohol dealers, often leading to their imprisonment or death, according to video the group has posted on their official Facebook page.

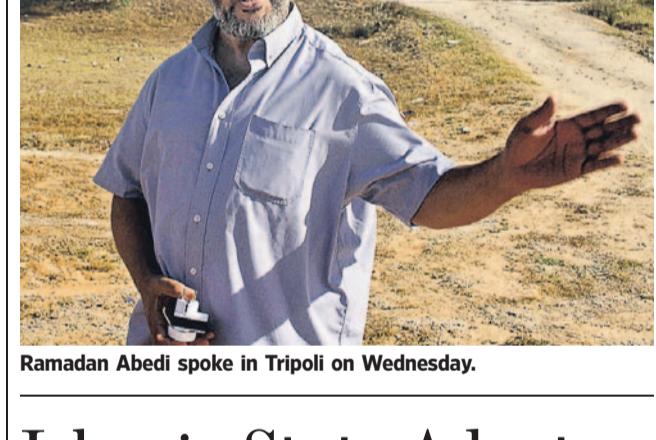
Since 2014 the country has been largely split between a United Nations-backed government in Tripoli and opposing forces in the east commanded by a military general, Khalifa Haftar.

In that climate, and bolstered by its success in Iraq and Syria, Islamic State took over areas of the oil-rich North African nation, including Sirte, the coastal city that became its de facto Libyan capital. Libya remains the only country outside Syria and Iraq where the terror group has administered territory.

A coalition of forces have since driven Islamic State out of much of the territory it controlled, including Sirte last year. The loss of the symbolic city—the birthplace of Gadhafi—was a blow to Islamic State's ambitions to expand beyond its self-declared caliphate in the Middle East, and turned the group toward more guerilla-style attacks, including against foreign targets.

Popular outcry among Libyans for the defeat of Islamic State spurred Radaa to join the fight against the group early last year.

When a U.S. strike killed 30 militants in Subrata, west of Tripoli, Radaa militiamen then detained a number of wives and children of Islamic State fighters.



HANI AMARA/REUTERS

Islamic State Adapts As It Loses Territory

BY BOENOT FAUCON

With Islamic State rapidly losing territory in Syria and Iraq, the group is relying more on homegrown terrorists such as the Manchester attacker while also sending more of its fighters abroad to stir violence, Western and Middle Eastern officials warn.

The suicide bombing that killed 22 people Monday night outside a concert venue in the British city came as counterterrorism officials said they have been picking up mounting anecdotal evidence that Islamic State is redeploying its resources.

Iraqi forces have expelled the radical fighters from most of Mosul—their last stronghold in the country—and the group has steadily lost ground in neighboring Syria as well.

As ISIS loses territory, members are returning to Europe, said a counterterrorism official for one of Iraq's Kurdish factions, the Patriotic Union of Kurdistan. The official was in Austria on Tuesday briefing Western colleagues on the latest from the ground in northern Iraq. "There will be more attacks in Europe," the official predicted.

British Home Secretary Amber Rudd identified the suicide bomber as 22-year-old Salman Abedi and said he had traveled to the North African nation of Libya, where Islamic State has an active presence. Abedi's sister told The Wall Street Journal her brother was born and raised in England.

It wasn't yet clear whether Abedi, while abroad made contact with Islamic State, which claimed responsibility for the Manchester bombing.

The attack came as Islamic State is facing greater difficulties operating in Europe. Some fighters, both Europeans and Syrians, have slipped away after battle and are tapping cash stashed abroad, recent defectors, counterterrorism officials and other experts interviewed by the Journal said.

"They are not disappearing. They are just going underground," a European security official said.

One counterterrorism consultant for the U.K. government said banks have detected surprising movements of British jihadis returning. Though they are using fake passports, cash withdrawals show they travel to Malaysia, Italy and Dublin before flying back to Britain, the consultant said.

Some Syrian Islamic State operatives have been sent to Germany to blend in with the large refugee population, a European counterterrorism official said. To move money in Europe, they have been using prepaid travel cards, the official said.

The patterns suggest Islamic State is directing them to use diverging paths so they won't be detected when they return to Europe, the consultant said.

U.S. NEWS

Health-Law Tally Sets Up Battle

Nonpartisan analysis of GOP bill offers data for competing factions as Senate pursues deal

By STEPHANIE ARMOUR
AND KRISTINA PETERSON

The health-overhaul bill approved by House Republicans would leave 23 million more people uninsured while reducing the cumulative federal deficit by \$119 billion in the next decade compared with current law, according to an estimate from the Congressional Budget Office.

The report by the nonpartisan CBO is likely to roil the current Senate talks over its version of the bill to repeal and replace former President Barack Obama's 2010 Affordable Care Act, known as Obamacare.

The findings provide ammunition for the two competing factions that Senate Republican leaders need to pull together to pass a bill. Centrist Republicans, concerned about the number of uninsured, hope to make the House bill less far-reaching, while conservatives want to double down on measures the CBO suggests will lower premiums on average.

The latest report doesn't differ significantly from the CBO's analysis of an earlier version of the House bill, which estimated 24 million fewer people would be insured through 2026 than under the current health law. Democrats said it confirmed that the GOP health push would harm millions of Americans.

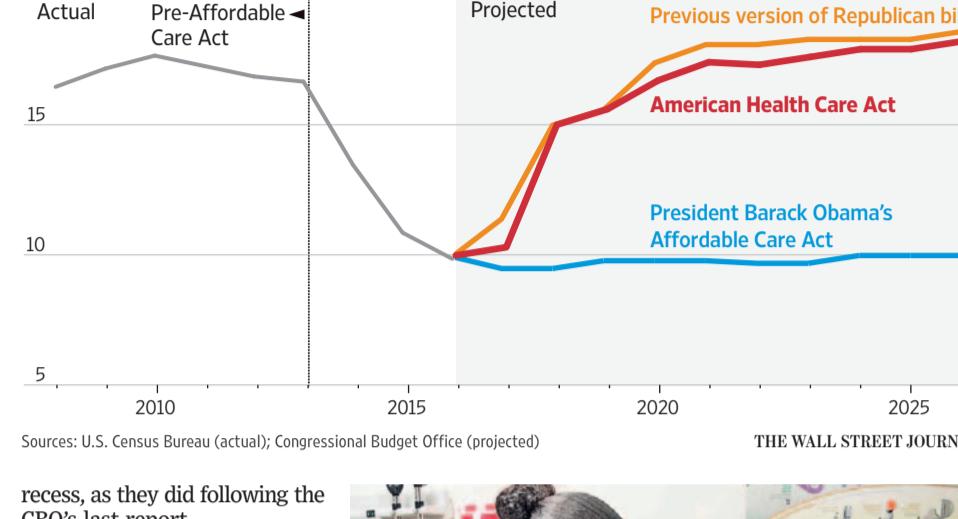
Some Senate Republicans said that their effort to forge an agreement that can attract at least 50 votes faces a tough road. A working group of 13 Republican senators is pushing to come up with a proposal by Congress's August recess, and if they don't make progress in coming months, that could forecast trouble.

Meanwhile, lawmakers are likely to get pushback from voters at home during next week's

Increasingly Uninsured

Under the Republicans' American Health Care Act, the percentage of Americans without insurance would rise to 18.2% by 2026, according to the Congressional Budget Office. That estimate is lower than the projection made in March for a previous version of the bill, but still far higher than under current law.

Percentage of U.S. residents under 65 without health insurance



Sources: U.S. Census Bureau (actual); Congressional Budget Office (projected)

recess, as they did following the CBO's last report.

"Regardless of any CBO score, it's no secret Obamacare is collapsing under its own weight," Sen. David Perdue (R., Ga.) said. "Doing nothing is not an option."

Democrats, who strongly support the current law, said the report confirmed that Republicans favor the wealthy and the healthy, while leaving others to fend for themselves.

"Unless you're a healthy millionaire, Trumpcare is a nightmare," Sen. Chuck Schumer of New York, the Democratic leader, said Wednesday evening.

The White House disputed the CBO's assessment, with a spokesman saying that "history has proven the CBO to be totally incapable of accurately predicting how health-care legislation will impact health-insurance coverage."

The biggest change House leaders made to push through their bill was to add an amendment letting states opt out of some of the law's provisions. The amendment would allow states to get waivers that could permit health insurers to sell less comprehensive coverage plans. They could



The number of uninsured Americans would rise sharply under the House's revised health bill, the Congressional Budget Office found.

also impose higher premiums on some people with pre-existing conditions who let coverage lapse.

The CBO found the legislation would reduce the cumulative federal deficit by \$119 billion over roughly the next decade. In

early March, it reported an earlier version of the bill would cut the deficit by \$337 billion over the next decade.

The most complex part of the CBO's assessment involved the crucial question of what would happen to insurance

premiums under the House bill. Compared with current law, premiums would increase by an average of about 20% in 2018 and 5% in 2019, the report concluded.

But in 2020, average premiums would differ based on whether states obtained waivers, with prices falling for many consumers. Some people would see average premium reductions of up to 30% in parts of the country through 2026, while others would see far smaller drops.

Republicans cheered the prospect of lower overall premiums cited by the report.

"This CBO report again confirms that the American Health Care Act achieves our mission: lowering premiums and lowering the deficit," House Speaker Paul Ryan (R., Wis.) said.

But Senate Republicans who have been critical of the House GOP bill said Wednesday that the CBO report underscored why the House-passed bill came up short.

"This bill does not do enough to address Nevada's Medicaid population or protect Nevadans with pre-existing conditions," said Sen. Dean Heller, a Nevada Republican who is up for reelection next year and opposes the House bill.

The challenge for GOP leaders is that any proposal that tempers the House bill, for example by delaying or reducing its cuts to the Medicaid program, could spur a revolt among conservative Republicans who want a more aggressive and rapid implosion of the current health law.

Senate Majority Leader Mitch McConnell (R., Ky.) can lose no more than two of the 52 Republicans to pass a bill, assuming he gets no Democratic votes. He said Wednesday that it wasn't clear how he would find the votes.

"I don't know how we get to 50 [votes] at the moment. But that's the goal," Mr. McConnell told Reuters.

*—Louise Radnofsky
and Michelle Hackman
contributed to this article.*

Lieberman Withdraws As FBI Contender

By REBECCA BALLHAUS

Former Sen. Joe Lieberman, once a leading contender for FBI director, withdrew himself from consideration for the post in a letter to President Donald Trump, citing the appearance of a conflict of interest.

The former Connecticut senator and Democratic vice presidential candidate works at the same law firm as Marc Kasowitz, whom Mr. Trump retained earlier this week to serve on a team of private attorneys representing him in the broad special-counsel investigation into Russia's alleged meddling in the 2016 election.

"I do believe it would be best to avoid any appearance of a conflict of interest, given my role as senior counsel in the law firm of which Marc is the senior partner," Mr. Lieberman wrote in the letter dated Wednesday, a copy of which was reviewed by The Wall Street Journal. He thanked Mr. Trump for inviting him to discuss "the possibility of being nominated" as FBI director.

A senior administration official last week described Mr. Lieberman as the leading contender to serve as FBI director, and Mr. Trump—asked last week whether the former senator was a top choice—said "he is."

The White House didn't immediately return a request to comment on Mr. Lieberman's letter.

Mr. Lieberman's withdrawal from consideration is likely to prolong the process of selecting a new FBI chief, after Mr. Trump this month fired then-Director James Comey. Top advisers to Mr. Trump had been pushing for the process to be completed swiftly.

Four Charged With Trading Insider Tips

By BRODY MULLINS
AND SUSAN PULLIAM

Federal prosecutors filed insider-trading charges against one of Wall Street's best sources of tradable information from the government, accusing him of relaying a series of tips from an obscure bureaucrat inside a key health-care agency to traders at a New York hedge fund.

The tips concerned information about government-funding levels for cancer treatments and kidney dialysis from 2012 to 2014, according to prosecutors. Christopher Worrall, a senior technical adviser to the Centers for Medicare and Medicaid Services, allegedly passed information about the funding to a consultant in the political-intelligence business, David Blaszcak, who in turn told the traders.

On Wednesday, the Manhattan U.S. attorney's office filed insider-trading charges against Mr. Worrall, Mr. Blaszcak and the two hedge-fund traders.

Federal investigators alleged Mr. Worrall passed along tips, confidential PowerPoint presentations and other nonpublic information about coming health-care policy changes to Mr. Blaszcak, who in turn relayed the tips to the traders. All were charged with securities fraud.

Mr. Worrall, 39, and Mr. Blaszcak, 41, didn't immediately respond to requests for comment. A CMS spokesman declined to comment.

Mr. Blaszcak told The Wall Street Journal in 2014 he used only "public information in preparing all my reports," adding that he "if needed, will vigorously fight any false allegation."

The charges represent the first against an individual in Washington's so-called political-intelligence practice since Congress passed a law in 2012 to make it clear it is illegal to trade stocks based on nonpublic information about coming government announcements. The legislation did little to curb the industry of lobbyists, former government officials and other

HIDDEN INFLUENCE

A Wall Street Journal series revealing the secret ways companies work the levers of power in Washington

insiders who mine the halls of Congress and federal agencies for nonpublic information that could be used to trade stocks.

The hedge fund, Deerfield Management Co., wasn't charged in the complaints. A Deerfield spokesman said the firm "is committed to maintaining a strict culture of compliance and the highest ethical standards" and is cooperating in the probe. A lawyer for one of the Deerfield traders, Theodore Huber, said his client did nothing wrong. Calls to the other trader, Robert Olan, weren't returned.

The Securities and Exchange Commission separately filed civil charges against Mr. Huber and a third Deerfield employee, Jordan Fogel. A lawyer for Mr. Fogel, who previously pleaded guilty, said he "is resolving this issue and looking forward to the future."

The criminal indictment filed by New York prosecutors alleged that Messrs. Blaszcak and Worrall along with the hedge-fund traders "participated in a scheme to obtain and convert to their own use confidential and material nonpublic information from CMS insiders concerning, among other things, CMS's internal deliberations regarding coverage and reimbursement decisions."

Federal authorities alleged that the hedge-fund traders used the nonpublic information to recommend trades in the stocks of six health-care companies that could be impacted by coming announcements from CMS. The trades resulted in more than \$3.9 million in illegal profits, according to the SEC.

The hedge fund paid firms that employed Mr. Blaszcak at least \$263,000, according to prosecutors.

White House Tax Plan Appears to Shift

By KATE DAVIDSON
AND RICHARD RUBIN

WASHINGTON—The Trump administration intends to offer a tax plan that will pay for itself without factoring in potential economic growth that could stem from the plan, the White House budget director told senators, apparently marking a sudden and significant shift in the administration's priorities.

But Treasury Secretary Steven Mnuchin appeared to contradict that statement at a separate Senate hearing, saying the tax plan's accounting will count partially on economic growth spurred by tax cuts.

The officials' statements underscored just how unsettled the administration's tax-policy plans are and showed the tensions between their claims of a balanced budget and their desire to enact tax cuts to boost the economy.

White House budget director Mick Mulvaney told lawmakers Thursday the administration intends to offer a tax plan that will be revenue neutral without factoring in the potential economic growth that could stem from the plan.

Testifying before the Senate Budget Committee, Mr. Mulvaney also insisted the administration isn't double-counting the revenue that it is claiming from faster economic growth in its budget proposal. The

budget, which reaches balance after 10 years, assumes about \$2 trillion in revenue caused by economic growth, but that is outside the estimates of the tax plan.

"You do recognize that if you count the growth here in the budget, and then you count it again in your tax proposal, that is a double counting," Sen. Sheldon Whitehouse (D., R.I.) asked.

Mr. Mulvaney agreed and said the administration doesn't intend to count the growth in its tax plan.

A plan that is revenue-neutral as scored on a static basis, without economic growth, has never been part of President Donald Trump's plan, either as a candidate or as president. Adopting that position would

mark an enormous shift in policy.

The administration has proposed deep tax-rate cuts in its tax-plan outline, but hasn't suggested nearly enough ideas inside the tax system, such as limits on deductions, to offset the cost of those tax cuts.

"The one pager puts forward numbers that do not come close to adding up," said Sen. Ron Wyden (D., Ore.). "The math behind this plan would make Bernie Madoff blush."

The administration has said, repeatedly before Thursday, that growth caused by tax-rate cuts would pay for some of the fiscal cost.

"I assure you when we present a tax plan we will not be double counting the growth,"

Treasury Secretary Steven Mnuchin told the Senate Finance Committee on Thursday.

Mr. Mnuchin wasn't asked directly yet during Thursday's hearing about whether the tax plan would be revenue-neutral without assuming economic growth.

Mr. Mnuchin emphasized that the administration is still working on its tax plan and that he would offer more details and estimates later.

The statements from Messrs. Mulvaney and Mnuchin mean that the administration either is now proposing a revenue-neutral plan in a major departure from its previous policies or that the budget wouldn't balance after 10 years as claimed.

U.S. WATCH

FEDERAL RESERVE Officials Signal Rates Likely to Rise Soon

Federal Reserve officials expected at their policy meeting this month that it would "soon be appropriate" to raise short-term interest rates, a signal the U.S. central bank could move in June at its next gathering.

The Fed also moved toward a consensus on a proposal to start gradually shrinking its \$4.5 trillion in holdings of Treasury and mortgage securities later in the year, according to minutes of the

gathering released Wednesday. Under the approach discussed, they would allow increasing amounts of those securities to mature over time, without reinvesting the proceeds.

Fed officials left their benchmark short-term interest rates unchanged within a range between 0.75% and 1% at the meeting May 2-3. Several Fed officials in recent weeks have said they believe the economy will still be strong enough to warrant two more quarter-percentage-point rate increases this year.

Officials were inclined to stick to that scenario even though the

economy appeared to stumble in the first quarter, the minutes showed. They saw that slowdown as likely to be transitory.

And while some expressed concern about softness in inflation, it wasn't enough to knock them off track.

—Nick Timiraos

Senate

New Zealand Envoy's Nomination Advances

The Senate Foreign Relations Committee has approved the nomination of former Sen. Scott

Brown to be U.S. ambassador to New Zealand.

The move—by voice vote on Thursday—all but assures that the full Senate will confirm Mr. Brown's selection for the post after the Memorial Day recess.

Mr. Brown is a Republican who represented Massachusetts in the Senate from 2010 to 2013. He won a special election to fill the seat held by the late Democratic Sen. Ted Kennedy, a Democrat.

Mr. Brown faced no opposition during his confirmation hearing last week.

—Associated Press

IN DEPTH

RETAIL

Continued from Page One
buttons and richer colors are less apparent on the internet. Social media adds fuel to the style churn—consumers want a new outfit for every Instagram post.

"The rules of the game have changed," said Janet Kloppenburg, president of JJK Research, a retail-focused research firm. "It's not just about product anymore. It's also about speed and pricing."

Mr. Drexler's plan is to emphasize lower prices, pivot toward more digital marketing and adopt a more accessible image. "We became a little too elitist in our attitude," he said.

Many visionaries focus on doing what they do best, even when the ground shifts beneath them. From newspapers to television, successful companies have been upended by disruptive technologies. Facebook Inc. is now the world's largest publisher; Netflix Inc. is worth twice as much as CBS Corp.

"The incumbent leaders never see it coming," said Clayton Christensen, the Harvard Business School professor who introduced the theory of disruptive innovation 20 years ago. "They focus on their best customers and try to provide what they need, but the customers who first defect [to new technology] are usually the least profitable."

Mr. Drexler, known as the "merchant prince," built some of America's most recognizable apparel brands, including Old Navy, Banana Republic and most recently Madewell. He focused on details such as the feel of the fabric, the weight of the buttons and the plaid inside waistbands, according to former executives who worked with him at J.Crew and Gap. Higher quality allowed J.Crew to charge a premium for its casual, preppy styles.

Decisions on price

The New York City native, who doesn't have his own Instagram, Facebook or Twitter account, was sharing thoughts with employees on a loudspeaker—hooked up through his phone—before Twitter was launched. He paid attention to firsthand shopper feedback on frequent visits to stores long before Amazon.com Inc. was collecting user data. He was also selling clothes online before many other specialty retailers. Nearly half of J.Crew's sales now come from the web.

But Mr. Drexler didn't appreciate how the quality of garments could easily get lost in a sea of options online, where prices drive decisions, or how social media would give rise to disposable fashion. Online, price has more impact than the sensory qualities of clothing. "You go into a store—I love this, I love this, I love this," he said. "You go online and you just don't get the same sense and feel of the goods because you're looking at a picture."

J.Crew has about 460 stores, a smaller base than many other chains that are now shrinking their footprints. But it has still struggled as more shoppers compare prices online and buy less expensive, trendy clothes rather than a lasting wardrobe. Amazon.com and other algorithm-based websites can change prices by the hour based on demand, and the vari-



J.Crew is refocusing on lower prices and a more accessible image. Above, performer Sandra Bernhard poses in J.Crew at New York Fashion Week in February.

ety of options makes it easy to mix and match brands.

"The days of people wearing head-to-toe J.Crew are over," said Carla Casella, an analyst at J.P. Morgan Chase & Co.

Zinniah Munoz, a 20-year-old makeup artist in New York City, said she would rather buy a style at a lower price than pay extra money for a brand name. "I'm always vigilant of not posting the same style twice" on Instagram or Facebook, she added.

At an industry conference in 2010, Mr. Drexler played down the impact of technology on prices, arguing that quality products are the key to success: "At the end of the day, I think the franchise lasts as long as the creative product gets flown through."

Today, with nearly two billion people using Facebook every month, he feels differently: "You cannot be successful without being obsessed with the product, obsessed with social media, and obsessed with digital," he said. "Retail is now about all that."



CEO Mickey Drexler
said J.Crew is
lowering prices on
about 300 items.

Mr. Drexler said he hasn't given up on quality. Instead, he is now lowering prices on about 300 items and creating an analytics team dedicated to optimizing prices for each garment.

"We're being much more competitive in our pricing," he said. "We're not going to allow our competitors to take from us."

Fashion Do's and Don'ts

J.Crew Group's stores and revenue have increased since Mickey Drexler became CEO in 2003, but its debt has soared since a leveraged buyout in 2011, and it recorded a loss in 2016.



Note: For fiscal years, most recent ending Jan. 28. Source: company filings

Madewell, which caters to younger shoppers and offers cheaper prices, has outperformed the J.Crew brand, but represents only about 14% of the group's annual revenue.

Mr. Drexler is also expanding the company's supply base beyond predominantly China to get better deals and shorten the time it takes to get products into stores.

The moves are aimed at keeping prices consistent, rather than unloading leftover inventory through discounts, and at retuning J.Crew's identity as an affordable and accessible brand for everybody—not just the fashion-forward crowd.

Last month, Mr. Drexler cut 250 jobs, primarily from headquarters, and said he would part ways with Jenna Lyons, the group's longtime creative chief who was the driving force behind J.Crew's most high-price and daring styles, such as sequined blazers and feather skirts.

Mr. Drexler is also putting more of the brand's resources behind digital marketing, and shifting away from a one-size-fits-all monthly catalog. Mailings will be targeted based on customer data gleaned from the company's online business.

The New York-based company is carrying more than \$2 billion of debt and has less than \$150 million in cash, following Mr. Drexler's leveraged buyout in 2011 with TPG Capital and Leonard Green & Partners. It

has paid its past three interest payments by issuing new debt.

To buy time, Mr. Drexler and his fellow directors performed a complicated financial maneuver that put the company's brand and intellectual property out of the reach of debtholders. Investors are fighting the moves in court, arguing it is tantamount to a default.

Debt load

At least \$560 million of debt is due in 2019. The company is negotiating with lenders to push back the due date and lower its debt load by offering to swap some of the debt for equity.

"It's unclear whether they will come to an agreement," said Raya Sokolyanska, an analyst at Moody's. "It would still leave the company highly leveraged," adding that J.Crew's capital structure is unsustainable.

Private-equity firm TPG's first big bet on J.Crew was in 1997, when it acquired a majority stake. It recruited Mr. Drexler to run the business in 2003 after cycling through four CEOs in five years. By the time TPG sold the last of its shares in 2009, the firm had made more than seven times its investment.

Mr. Drexler had nearly tripled revenue and transformed what was largely a catalog business by going in the opposite direction of his predeces-

sors and competitors. He increased prices and elevated quality—even creating a library at headquarters to document the unique hues the brand invented each season.

When sales slipped in 2010, TPG swooped back in. In 2011, the firm partnered with Leonard Green and took the company private in a \$2.8 billion deal.

In 2014, TPG and Leonard Green were negotiating a sale of the company to Uniqlo owner Fast Retailing Co. while at the same time hiring bankers for a potential IPO, when clothing sales began to fall again.

The sale plans evaporated, and by the end of the year the company wrote down the value of its stores by more than \$500 million and its brand name by \$145 million.

TPG co-founder David Bonderman recently acknowledged J.Crew and its peers are struggling with declining mall traffic and the shift to online shopping. "The internet has proven much more resilient and much more important than most of us thought a decade ago," he said at a conference earlier this month.

In an email, TPG co-founder James Coulter wrote, "We believe Mickey and the J.Crew management are getting the strategy and team in place to position J.Crew to succeed in this new world."

In recent years, customers have become closely attuned to

prices. After sales began to fall, Mr. Drexler said he addressed style problems—such as "boxy" cuts that were unpopular among J.Crew customers—and quality issues, particularly pilling cashmere and T-shirts with thin fabric. Still, the company had to offer discounts of 40%-50% to move inventory.

J.Crew eventually determined shoppers were looking for better value and that many people were put off by the \$800 skirts and \$1,900 sweaters in the "J.Crew Collection"—an expensive line spearheaded by Ms. Lyons featured prominently in marketing and window displays, even though it represented a small portion of merchandise.

"We gave a perception of being a higher-priced company than we were—in our catalog, online and in our general presentation," said Mr. Drexler. "Very big mistake."

Ms. Lyons didn't respond to requests for comment.

Some of the quirky designs were too much for Tricia Louvar, a 42-year-old writer and illustrator in Sisters, Ore. She had shopped at J.Crew in the past, but began finding the clothes increasingly impractical and unaffordable. In a widely shared open letter to Ms. Lyons in 2015, she wrote: "I still can't wrap my head around the price of an 'everyday outfit,' which she tallied up at \$596 and said was equivalent to the price of a new computer or 298 school lunches.

In April, Mr. Drexler named Somsack Sikhounmuong, who has been with the company since 2001, to the post of chief design officer, but he won't take the high-profile role that Ms. Lyons had. J.Crew "won't be about any designer," Mr. Drexler said. "We're getting back to being who we are—much more comfortable, approachable, democratic and friendly."

Ms. Louvar said she returned to a store a few weeks ago for the first time in two years and bought several new pieces. "The prices felt more reasonable," she said. "It was more like the J.Crew I remember."

Rebecca, hit 100 days on their own streak in April. "I don't know that we actually went into it with the notion that we were going for a streak," says Mrs. Whalen, 43. "It's his way of kind of trying to keep that spark alive."

Kim Kroll, 43, a high-school teacher from Lapeer, Mich., recently celebrated a 100-day streak with her husband, Tim Kroll, 44.

Their daughter Elizabeth, 17, has had streaks with both of them but says she is more committed to snapping friends. "Sometimes it's nice to not just see the dog filter on my dad's face."

She goes to great lengths to keep streaks alive—her longest still going hit 437 days on Tuesday, she says—snapping even friends she is angry with. "I'm not going to be mad forever so why jeopardize a Snapstreak?" she says. "I'll send a blank picture."

To save a streak with a friend whose phone died, Ms. Kroll got hold of the friend's password. "I had to log in for four days and Snapchat myself."

STREAK

Continued from Page One
photograph? The floor will do. Ms. Saleh has sustained a streak with an Atlanta friend she says hit 159 days on Tuesday, even when not feeling creative, by snapping her shoes, or "I take a picture of the sky with the temperature filter on it."

Snapchat lets users doctor images with filters it calls "lenses"—to superimpose dog features on their faces, say—or add "bitmoji" cartoons and other elements. Snaps can include text, voice alterations and more.

When Ms. Saleh is feeling creative she covers her face with a Kim Kardashian emoji and mimics the celebrity's personality. She once chronicled the serial tale of a broken office water cooler for a week—anything to sustain a streak.

In an argument with your snapping significant other? Remember the bigger picture, as 19-year-old Samantha Bom-

bel of Garfield, N.J., has done for more than a year to maintain a streak with her boyfriend.

They usually exchange self-

ies. During one fight, Ms.

Bombel says, she sent "just a

picture of the ceiling."

"There's definitely been

times," she says, "where I've

been like, 'I'm still not talking

to you, by the way, but I have

to Snapchat you.'

The couple's streak was at

387 days on Tuesday, she says.

On day 354, they were

together and forgot to snap.

"I checked my phone and I was

like, 'I don't think we have our

Snapstreak anymore,'

says Ms. Bombel. "And then he

checked his phone, and we

both started freaking out."

Desperate, her boyfriend

emailed Snapchat's support

desk, which gave the couple

a one-time courtesy," she says,

and their streak survived.

A Snap spokeswoman says

the support team evaluates

streaks case by case and rein-

states them in certain circum-

stances. Snap doesn't give

detailed, she says, to prevent

users from gaming the sys-

tem.

After Alyssa Vuong, 20, an

Iowa State University student,

dropped her phone in the

ocean over spring break, she

kept up her streaks using

someone else's phone for a

few days before giving up.

She had a streak of around

70 days with friend Kyle Hat-

ton, 22, who can see her

apartment from his and takes

photos of her in her window

to snap her. He let the streak

die on a trip to the French Riviera.

"I kind of wanted to enjoy

the environment," Mr. Hatton

says.

He made up to Ms. Vuong

by signing a one-year Snap-

streak contract with her.

Summer camp is the streak

snag for Meghan Sweeney, 13,

of Carmel, Ind. A streak with

her best friend—168 days as

of Tuesday, she says—is

among 15 she has going, and

she is signed up for three

summer camps this year.

BOOKS

' "Sgt. Pepper" was Paul, after a trip to America.' —John Lennon



BRIDGEMAN IMAGES

BAND IN BRITAIN 'Kids were already wearing army jackets on the King's Road,' John Lennon said. 'All we did was make them famous.'

Guaranteed to Raise a Smile

Pop music, psychedelia and nostalgia fused together in the album that defined the 1960s

Sgt. Pepper's Lonely Hearts Club Band

By Brian Southall
Imagine!, 192 pages, \$30

Sgt. Pepper at Fifty

By Mike McInerney, Bill DeMain & Gillian G. Gaar
Sterling, 176 pages, \$24.95

In Their Lives

Edited by Andrew Blauner
Blue Rider, 300 pages, \$23

BY DOMINIC GREEN

IT WAS 50 YEARS AGO this June that "Sgt. Pepper's Lonely Hearts Club Band" redefined pop music. Since then, the Beatles have been going in and out of style, but the best of the album's songs, and its winning conceits, still are guaranteed to raise a smile. Universal Music Group, which owns Capitol Records, is marking the anniversary by issuing a multidisc box set.

There is also a box-full of books intended to reintroduce to us the act we've known for all these years. Brian Southall, a pop journalist when the band was together, handled publicity for EMI in the 1970s. Mike McInerney designed the sleeve of the Who's "Tommy." Lavishly illustrated, their books reflect the synthesis between pop entertainment and thoughtful art that the Beatles were after.

Kenneth Tynan called the release of "Sgt. Pepper" in June 1967 "a decisive moment in the history of Western civilization." Keith Richards has called "Pepper" a "mishmash of rubbish." Both are right. "Pepper" abounds in weak compositions (Paul McCartney's "Fixing a Hole") and shallow sonic novelties (John Lennon's "Good Morning Good Morning"). But in music, as in comedy—and in both when Ringo is singing—timing is all.

Mr. McCartney has explained "Pepper" in Hegelian terms. "The mood of the album was in the spirit of the age because we ourselves were fitting into the mood of the time," he once mused. The 1960s formed the Beatles. The Beatles, with a little help from their friend, producer George Martin, made "Sgt. Pepper." Now "Sgt. Pepper" defines the '60s.

"Pepper" was not the first concept album, only the biggest. In 1955, Frank Sinatra had pioneered the form with "In the Wee Small Hours"—and Sinatra, unlike the Beatles, sustained his concept past the third track. Nor is "Pepper" the Beatles' best album. Three-fourths of the Fab Four agree on this.

Ringo's favorite is "Abbey Road." George preferred "Rubber Soul" and "Revolver." John, who doubted whether "Pepper" was a concept album at all, listed three of its tracks—"When I'm Sixty-Four," "Lovely Rita" and "Good Morning Good Morning"—among his least favorite Beatles' numbers. Only Paul prefers "Pepper."

But then, it was Paul's album. After their final tour concert in San Francisco on Aug. 29, 1966, the band took a three-month break. John made a film, George studied sitar with Ravi Shankar and Ringo launched a construction firm, Bricky Builders. Paul immersed himself in London's underground scene—avant-garde music, Op Art galleries and all-night psychedelic raves. In his notes to the reissue box set, he professes "a little bit of amazement" that "Sgt. Pepper" became "a lasting piece of art." Maybe he's amazed, but that was always his plan.

During the sessions that produced "Revolver," the album they recorded earlier in 1966, the Beatles had reinvented pop production: beefing up the drums with "closemiking" and the vocals with automatic double-tracking, as well as anticipating samples with tape loops ("Tomorrow Never Knows") and reversing the tapes ("Rain"). They now had the sonic means and the studio time to be artists, not just mop-topped entertainers.

Mr. McCartney wanted to beat the Californians—to produce an album with better production than the Beach Boys' "Pet Sounds," a bigger concept than Frank Zappa's "Freak Out!" The name and military uniforms of Sgt. Pepper's Lonely Hearts Club Band are Edwardian equivalents of the buckskin nostalgia of San Francisco hippy bands like Quicksilver Messenger Service. A band of "alter egos" suited the Beatles' wish to escape pop celebrity.

In breaking away, the Beatles broke the mold. The screaming audience on "Sgt. Pepper" was recorded at a Beatles' concert, but the Lonely Hearts Club Band would never tour. The "Pepper" package reworked the uniforms and vaudeville patter of the Beatles' stint as teen idols. It also recast Mr. McCartney's gift for traditional songwriting as collage and even pastiche—modernism for the mass market.

We see the past through a glass darkly, or even a glass onion: Two songs that undoubtedly are of "Sgt. Pepper" are not on it, Lennon's sublime and innovative "Strawberry Fields Forever" (original name: "It's Not Too Bad") and "Penny Lane," a jaunty toe-tapper from Mr. McCartney's one-man Tin Pan Alley store.

The band's manager, Brian Epstein, wanted to maintain the band's profile between albums, so in February 1967 the two tracks were issued as a single with two A sides.

In Britain, this was also the first Beatles' single in four years not to reach No. 1; Engelbert Humperdinck's "Release Me" stopped it. With the press pondering the band's decline, Epstein insisted that neither track be on the new album. Martin was to call his assent to this plan "the biggest mistake of my professional life" (this from the man who recorded Celine Dion).

Beatleheads and historians will already own Mark Lewisohn's "Complete Beatles Recording Sessions" (1988), which annotates every

don's hip avant-garde find mention, as do such figures as poet Jeff Nuttal, photographer John "Hoppy" Hopkins, journalist Barry Miles and the art dealer John Dunbar, at whose Indica Gallery John Lennon met Yoko Ono in November 1966.

Mr. DeMain's chapter on the "look" gives a thorough account of Peter Blake's design for the "Pepper" album cover but also takes in the psychedelic era's revival of late-Victorian and Edwardian fashions and the Victoria & Albert Museum's influential celebration of Aubrey Beardsley in May 1966. Ms. Gaar's chapter on the "sound" includes just enough trivia about how Martin and the Beatles weaved in and out of styles.

Three of the four Beatles agreed that 'Pepper' wasn't their best album. Only Paul prefers it.

twang, pluck and thud, and Ian MacDonald's "Revolution in the Head" (1994, revised 2005), which interprets the Beatles' music through the social and cultural changes of the '60s. The two new "Pepper" books by '60s survivors provide further insight into the era.

In "Sgt. Pepper's Lonely Hearts Club Band," Mr. Southall describes the "Pepper" dialectic by dividing his book into a musical "A-side" and a historical "B-side." The A-side has flattering biographies of the protagonists and a quick summary of the "Pepper" sessions. The B-side has short and tidy essays on key topics like "The Rise of Psychedelia" and a month-by-month summary of the period from 1966 to 1968.

Photographs include the Studer four-track recorder on which "Pepper" was taped, acidheads writhing on a floor, Jimi Hendrix torching his guitar at Monterey three weeks after the release of the album and (the true wonder of the age) England winning the 1966 World Cup. Mr. Southall's book will be a handy primer for children and an aide-mémoire for boomers who have entered senescence without ever leaving their adolescence.

"Sgt. Pepper at Fifty" is a deeper social and cultural history. Mr. McInerney, abetted by music journalists Bill DeMain and Gillian G. Gaar, works from outside in, from the "mood" of Swinging London to the "look" and "sound" of "Pepper," and thence to the "legacy." This quartet of themes hits the sweet spot.

On the "mood," Mr. McInerney ranges expertly across British social history from 1960 to the album's launch: pirate radio, drugs and the intimate, intoxicated world of Lon-

Recording "With a Little Help From My Friends"—working title "Bad Finger Boogie"—Ringo refused to sing the line, "Would you throw ripe tomatoes at me?" because he feared that, should the band return to touring, audiences would take it as an invitation. "Within You Without You," George Harrison's masterly sitar feature, begins side two of "Sgt. Pepper" because Martin rejected Harrison's "Only a Northern Song." Mr. McCartney, the son of an old-time musician, had written "When I'm Sixty-Four" in 1957 or 1958; finally he placed it on a record.

Most of the album's tics and tricks had been used to better effect on "Revolver." The great exception is "A Day in the Life." Its splicing of two different song fragments depicts the polarity of the Lennon and McCartney styles and anticipates the divergence that would break up the band. The grandeur—the muffled thunder of Ringo's fills, the reference to an empty Albert Hall, and the orchestra that fills up the song's climax—is essential to the composition. And in the months after the album's release, Mr. McCartney's addition to Lennon's opening section, the provocative "I'd love to turn you on," became a synecdoche for the Summer of Love.

Still, most of the sounds of "Pepper" are better than most of its songs. This may be why only "Lucy in the Sky With Diamonds," "She's Leaving Home" and "A Day in the Life" appear in Andrew Blauner's "In Their Lives." Twenty-nine authors and musicians—New Yorker writer Adam Gopnik gets the inseparable "Strawberry Fields Forever"/"Penny Lane"—testify to the personal mean-

ing of 30 Beatles' songs. Most of the essays record childhood epiphanies and adolescent disillusionments. It is as though the Fab Four were America's babysitters, elder siblings explaining the adult world.

The novelist Mona Simpson recalls dancing with her mother to "Sgt. Pepper" as "kindred spirits, wild fans." Fifty years later, she holds Mr. McCartney's lyric to "She's Leaving Home" as a mirror to the past. Meanwhile, the Beatles were so much a "semipermanent part of the aural environment" in 1970s New York that Thomas Beller was surprised to find out that they were English. Associating "Lucy in the Sky With Diamonds" with his father's death from cancer, Mr. Beller interprets the song's lyrics as caught between "staying within the world of innocence and parents and family and taking a trip." Yet Lennon's psychedelic doggerel clearly advocates the latter course.

Only a few contributors transcend solipsism: Mr. Gopnik, despite inventing a chord called a "major fifth," is good on the cultural context. "Strawberry Fields Forever" and "Penny Lane" express the British Invasion's deep "strain of English nostalgia": childhood memories inspired threnodies for England's dying industrial cities.

"Pepper" endures not just because it caught the mood of the Summer of Love, or because it married pop music to the modernist techniques of the collage and the tape loop, or because it sounds quaintly futuristic. "Pepper" endures because it entered the past so quickly. On June 25, 1967, little more than three weeks after the album's release, the Beatles joined Maria Callas and Picasso in the first live international satellite broadcast, for which they performed a new song, "All You Need Is Love." The event initiated our age of simultaneous global media and announced the triumph of television. Like its Edwardian costumes and parping brass, "Pepper" was a colorized document from history—from a past in which music, not the visual image, could still change the world.

"Life," Hegel said, "is essentially the concept which realizes itself through self-division and reunification." The Beatles split up, but their look and sound are inescapable, forever joined. Today it isn't necessary to own the Beatles' albums. They are here, there and everywhere, a part of everyone's consciousness—at least for now. Because tomorrow, as Ringo said, never knows.

Mr. Green is a historian, critic and jazz musician.

BOOKS

'Medicine is not a science; it is empiricism founded on a network of blunders.' —Emmet Densmore

Medicine's Age of Wonders

Miracle Cure

By William Rosen
Viking, 358 pages, \$28

BY MEREDITH WADMAN

IN FEBRUARY 1941, an Oxford policeman in his early 40s named Albert Alexander lay gravely ill in the city's Radcliffe Infirmary. Bacteria had spread through his body after a rose thorn scratched his face months earlier. Huge abscesses had taken root in his left eye, his scalp, his arms, his face and his lungs. Visiting his bedside, a gifted young scientist named Norman Heatley noted in his diary that Alexander was "oozing pus everywhere."

Three days later, Alexander became the first infected person ever treated with penicillin. One day after his intravenous therapy was started, his fever had vanished, the abscesses had stopped oozing pus, his face was no longer swollen and he was able to eat.

Penicillin quickly became the most public triumph of a victorious decade: Between the late 1930s and the late 1940s, every major class of antibiotics was developed, as William Rosen meticulously recounts in "Miracle Cure: The Creation of Antibiotics and the Birth of Modern Medicine." Rosen's highly informed retelling captures the drama of the scientists' quest, against long odds, to find and produce bacteria-killing drugs—and the egos, ambitions, brilliance and resolve that drove them.

The book also shines a light on the commercial impact of the new wonder drugs. Eager to beat competitors to the latest discovery and helped by a new brand of slick, physician-targeted advertising, pharmaceutical companies by 1958 had vaulted from a B-league enterprise into America's most profitable business. In the meantime, U.S. regulators scrambled, not always successfully, to keep up.

In a book stuffed with stories, the penicillin tale stands out. Rosen portrays the all-out wartime struggle by a group of scientists at Oxford University to isolate the drug, which was needed to combat infected war wounds in front-line soldiers. True, it was Alexander Fleming, in 1928, at St. Mary's Hospital in London who discovered that penicillin killed bacteria. But he grew frustrated with the unstable substance and thought "the trouble of making it...not worthwhile."

A decade later, the Oxford group disagreed. With tremendous ingenuity and determination, they transformed penicillin from yellow drop-



RX An array of tubes of penicillin in different concentrations, ca. 1950.

in Boston Hospital, Gains Steadily."

President Franklin Delano Roosevelt's 22-year-old son and namesake had been in grave condition with an illness that began as strep throat and spread. The novel cure, sulfanilamide, developed by Gerhard Domagk, a German physician at Bayer, shut down the bacterial culprit, Streptococcus. Sulfanilamide and the derivatives that followed were also effective against gonorrhea and some forms of meningitis. And vitally, they attacked Streptococcus in all its manifestations: strep throat, scarlet fever, pneumonia and the postlabor infections that regularly killed new mothers in the era. Mortality from "childbed fever" soon fell to 4.7% from between 20% and 30%.

With the introduction of the sulfa drugs, "medicine was off and running," the physician and writer Lewis Thomas later recalled. In a sudden, profound shift, doctors were transformed from hand holders to healers. And patients, who were soon demanding sulfa drugs for every ailment, had become consumers. (Rosen also treats the alarming bacterial resistance that 70 years of antibiotic overuse has caused.)

It is a strength of "Miracle Cure" that Rosen places its many tales of discovery in their larger contexts, explaining for instance the near-complete lack of drug-safety regulation that prevailed when the Tennessee-based S.E. Massengill Co. began selling Elixir Sulfanilamide in October 1937.

To make the drug more palatable, the company's chief chemist had dissolved it, along with raspberry flavoring, in a toxic chemical also used in brake fluid. At least 73 people died. The Federal Food Drug and Cosmetic Act became law the following year. Companies would no longer be able to market new drugs without government licensing. And the government would have to ensure that they were safe.

This book is not for the casual reader. At some points Rosen gets into weeds so thick that only aficionados will find a way through. Still, it's an important contribution to a still-germane yet fast-receding history. And it's all the more impressive that Rosen, formerly a book editor and publisher, wrote it as he was battling his own intractable disease. An aggressive cancer took his life in April 2016. He left behind a history worth reading.

Dr. Wadman is a staff writer for *Science* and the author of "The Vaccine Race: Science, Politics and the Human Costs of Defeating Disease."

lets clinging to a petri-dish mold into a fine brown powder that, dissolved in water and injected in a vein, vanquished life-threatening microbes.

The obstacles they faced were daunting.

They worked in a lab so strapped for cash that the elevator had been shut down and glassware purchases forbidden.

Heatley, a mechanical wizard, cobbled together an apparatus that included a castoff doorbell to wring the drug from batches of mold grown in 16 bedpans stolen from the Radcliffe Infirmary.

launch industrial-scale penicillin production, just in time for D-Day. But the British rightly won Nobel glory:

Fleming and the leaders of the Oxford group, Howard Florey and Ernst Chain, collected their prize in 1945.

crobiologists Louis Pasteur and Robert Koch, who illuminated the nature of infectious diseases and linked illnesses with the microbes that cause them. And it chronicles the development in 1910 by the Nobel-winning

Though the major antibiotics discoveries came in a single midcentury sprint, Rosen's story stretches back to the physician and patriot Benjamin Rush, who dosed hundreds of patients with the toxin mercury during an epidemic of yellow fever in Philadelphia in 1793. "Eighteenth-century physicians knew as little about the causes of disease as a cat knows about calculus," the author observes.

The book recounts the pioneering work of—and the bad blood between—the brilliant 19th-century mi-

German physician Paul Ehrlich of the first lab-manufactured medicine, Salvarsan. It treated what was then a bane of high-end parlors and brothels alike: syphilis.

After Salvarsan, the quest for microbe-destroying drugs hit a standstill; by 1930, physicians had effectively thrown up their hands at treating bacterial diseases. They despaired slightly too soon. Six years later, a headline in the New York Times proclaimed: "YOUNG ROOSEVELT SAVED BY NEW DRUG... CONDITION ONCE SERIOUS. But Youth,

Why Bad Ideas Come Naturally

Scienceblind

By Andrew Shtulman
Basic, 311 pages, \$30

BY STEVEN POOLE

YOUNG CHILDREN have charmingly inaccurate ideas about how the world works. They classify things as alive if they move (robots) and not if they don't (plants). They can experience an object's heft and bulk, but they don't understand density or atoms. And they think our eyes emit rays that allow us to see things. Such beliefs are what the psychologist and cognitive scientist Andrew Shtulman calls "intuitive theories," and they are, he argues, a big problem—because many persist into adulthood, thus harming our prospects of internalizing the best scientific explanations. And so we have a world in which nearly 80% of Americans support mandatory labeling of "foods containing DNA"—in other words, any food containing plant or animal matter—and in which ungrounded fears about vaccination are causing new outbreaks of measles and other disease.

Mr. Shtulman's fascinating, empathetic book "Scienceblind" is organized by subject area, broadly divided into physics (ideas about mass, heat, gravity, motion, and geology) and biology (ideas about life, growth, disease, and evolution). For each subject, the author recounts the experiments he and others have done to tease out the intuitive theories of both children and adults, and explains how these theories differ from reality. Even people who understand

that you need two wires to make an electrical circuit, for instance, still habitually think of electricity as "juice" that flows through a single cable from the wall to the kettle. And most people intuitively have an "impetus theory" of objects in motion, with an imaginary force (the impetus) that fades over time—even though standard Newtonian physics has no room for such a concept. Disturbingly, when asked to consider the story of clean-living person who has contracted a "mysterious and deadly illness," adults are actually twice as likely as children to think it must be Peter's own fault.

Most people unthinkingly think of electricity as "juice" that flows through a cable, like a liquid.

Some examples of the limits of our intuitive capacities are practical as well as vivid. How much beer, for example, is missing from a pint glass that is underfilled by 0.875 inches? The distressing answer is nearly a quarter of the full amount—because "that standard pint glass is tapered and tapered glasses hold more beer at their top than at their bottom."

The acquisition of scientific knowledge, Mr. Shtulman shows, doesn't overwrite our intuitive theories: the two kinds of theory live alongside each other, in a kind of uneasy master-slave relationship. Scientists are not people who have no intuitive misconceptions; they're just

the ones who have learned to "inhibit" them, most of the time.

From his research, Mr. Shtulman distills some useful ways to improve science education in the classroom and for the adult public. Analogies can be very helpful, especially those that bridge the gap between one

be taught before high school, using vividly graspable charts of relationships among species, called cladograms. In general, he explains: "Students need an explication of their intuitive theories, an explanation for why those theories are flawed, and a demonstration of how scientific theories of the same phenomena fare much better."

So far, so laudable. But the unreliability of our intuitive theories is not the whole story of why people reject science. Mr. Shtulman explains why children think the Earth is flat (it looks that way), though we have known the planet is roughly spherical since ancient Greece. But what the author does not mention is the remarkable modern resurgence of Flat Earth theories on the internet. Many people sincerely believe the world is a disc surrounded by a wall of ice, that gravity does not exist and that stars are merely holographic projections.

The contemporary Flat Earth theory is what I call a zombie idea: one that was apparently killed but still shambles around in a parody of life. Modern Flat Earthers, like other science-denying groups, are motivated by a paranoid distrust of established experts. At one point, Mr. Shtulman writes that general lessons in critical thinking do not measurably improve performance on science tests—but they are surely crucial for creating a citizenry capable of applying skepticism to pseudo-scientific claims of the kind that bombard us every day.

Mr. Poole is the author of "Rethink: The Surprising History of New Ideas."



GETTY IMAGES

BOOKS

'Let those who will write the nation's laws if I can write its textbooks.' —Paul A. Samuelson

An Einstein of the Dismal Science

Founder of Modern Economics, Vol. 1
By Roger E. Backhouse
Oxford, 736 pages, \$34.95

BY ERIC MASKIN

FORTY YEARS AGO, Paul A. Samuelson was a household name. The first American Nobel laureate in economics, he wrote a regular column for *Newsweek* (alternating with Milton Friedman) and was widely remembered as President Kennedy's personal economics tutor. Hundreds of thousands of college students each year were introduced to the principles of economics through his best-selling textbook—the most successful economics textbook ever written.

Today Samuelson, who died in 2009 at age 94, is no longer so familiar to the general public, nor does "Economics" (1948) still stand atop the textbook heap (although its current, 19th edition—edited by William Nordhaus—sells well). But Samuelson left a deep and abiding impression on his field. He, Kenneth Arrow and John Maynard Keynes are arguably the most important creative economists of the 20th century. (Friedman was also immensely influential, but—except in his magisterial volume with Anna Schwartz on U.S. monetary history—more as a public intellectual than an economic researcher.) If Samuelson's papers no longer appear frequently on graduate-course reading lists, it's only because their lessons have been so thoroughly absorbed into the subject. Physics students no longer read Newton's "Principia," either.

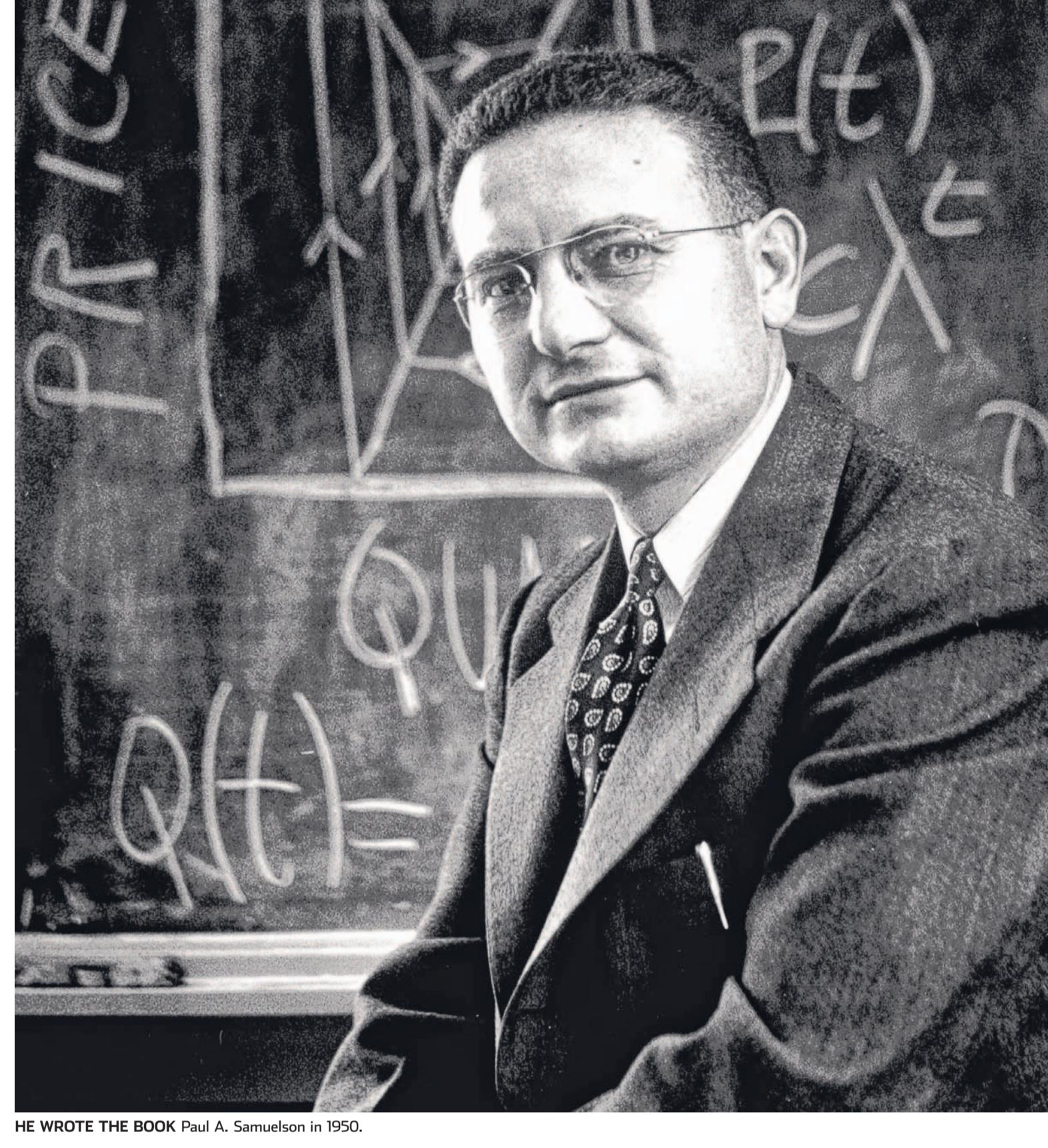
The first volume of Roger E. Backhouse's two-volume biography, "Founder of Modern Economics," makes the case for Samuelson's importance, and largely succeeds. Mr. Backhouse—who here gives us the story through 1948, when Samuelson was 33—notes that the life was neither dramatic nor especially colorful, and so concentrates mainly on Samuelson's work and the people who influenced him.

Unlike Arrow (the father of social choice theory) or Keynes (who revolutionized macroeconomics), Samuelson created a new branch of economics. Instead, as the 1970 citation from the Royal Swedish Academy observes, his distinctive contribution was "raising the level of analysis in economic science." He modernized the discipline.

Economics was hardly devoid of mathematics before Samuelson; such 19th-century economists as Léon Walras, A.A. Cournot and F.Y. Edgeworth invoked it freely. But even by 1950 many prominent economic scholars—including Jacob Viner, who taught Samuelson at the University of Chicago—had little mathematical skill and were skeptical that math was useful in economics. Alfred Marshall, the foremost economist at the turn of the 20th century, was no mathematical slouch but wrote that mathematics should be used as a "shorthand language, rather than as an engine of inquiry." And once the inquiry was done, the mathematics should be "translated into English"—and then "burned."

Samuelson utterly rejected Marshall's view: He felt that mathematics was exactly the right tool for cutting through the brambles of an economic wood "that have overgrown to the extent that one cannot move." Mathematical arguments not only lent clarity, brevity and precision to a paper but were also good for the disposing of long-standing fallacies.

Mr. Backhouse gives a nice example of fallacy-jettisoning in Viner's graduate theory course, which Samuelson attended. Viner was lecturing on "cost curves," which show how the average cost of producing a commodity varies with the quantity produced. Viner made the claim that a cost curve in the "long run" (when the producer is free to vary all the inputs into production) consists of the minimum points of all the "short-run" cost curves (when some inputs, such as factory sizes, can't be changed). This claim may have been common wisdom at the time but can easily be refuted by a short mathematical calculation, as Samuelson showed Viner. According to Samuelson, Viner was still doubtful and said that, despite the calculation, he could draw the cost curves just as he claimed. "Yes," Samuelson replied, "with a good thick pencil, you can do it."



HE WROTE THE BOOK Paul A. Samuelson in 1950.

Just as Samuelson won his skirmish with Viner, he won his war with the profession. Almost any theoretical article in an economics journal today bristles with mathematical formulas. And nearly every proposition makes an assertion that, in principle, could be refuted empirically. Samuelson was interested only in mathematical derivations whose assumptions and conclusions could be checked by *observation*. He had no use for a statement such as "Alice likes apples twice as much as bananas" because there is no experiment that could test such a claim.

Samuelson's own work divides into two categories: *methodological* contributions, which develop technical tools for generating hypotheses in a broad range of applications (his Ph.D. thesis falls largely into this category; after some revision it was published, in 1947, as "Foundations of Economic Analysis," his second most cited work), and *substantive* contributions, which use the tools to derive novel hypotheses in specific settings. (Samuelson proposed novel hypotheses for an astonishingly wide variety of economic subfields: public finance, international trade, business cycles, political economy, welfare economics, consumer demand, monetary theory and more.)

Among other tools, Samuelson developed a technique he called the Le Chatelier Principle (after the 19th-century chemist Henri Le Chatelier, a theorist of equilibrium). To picture this principle in action, imagine a manufacturer (which uses labor and machinery) responding to a fall in the wage rate (that is, the cost of labor). We should not be surprised if the manufacturer employs more workers, but we can also make a stronger prediction: namely, that labor will increase more in the long run (after the manufacturer has had a chance to adjust the number of machines it uses) than in the short run (when the number of machines is fixed). More generally, the principle asserts that responses in the long term tend to be bigger than those in the short term. The technique has proved to be remarkably useful in a wide variety of applications.

Early in his career, Samuelson worked intensively on the theory of

international trade. Here is the "substantive" idea (somewhat oversimplified) behind the Stolper-Samuelson Theorem (developed with fellow Harvard graduate student Wolfgang Stolper). Imagine that a rich economy (call it the U.S.) is hoping to open its doors to international trade. Before trade is possible, all goods must be produced domestically; if American consumers want both smartphones and rice, American firms must supply both smartphones and rice.

Samuelson's large oeuvre before 1948, including his work on the Le Chatelier Principle and the Stolper-Samuelson Theorem. This is one of the less successful aspects of the book—the descriptions seem too involved for a general reader and not detailed enough for an economist. (Mr. Backhouse's treatments usually lack the mathematics that Samuelson found so clarifying.)

More revealing are probing accounts of the personal relationships that shaped Samuelson profoundly:

'A good fairy whispered to me,' he said, 'that math was a skeleton key' to solving problems in economics.

Let's now imagine that trade with other countries becomes possible. What effect will this have? Well, the U.S. is rich in large part because so many American workers are highly skilled. That means the labor force is better suited, on the whole, to producing smartphones than rice. Indeed, growing a lot of rice makes inefficient use of high-skilled workers' abilities. So when trade opens up, American production will naturally shift away from rice and toward smartphones. The smartphones that Americans don't consume will be exported, and the rice demanded by Americans but not grown domestically will be imported.

Because this arrangement uses the labor force more efficiently, American consumers will have both more smartphones and more rice than before. So gross domestic product is higher because of trade. Moreover, high-skilled workers are better off, because the increase in smartphone production puts them in higher demand and so increases their wages. But less-skilled workers are worse off: Their wages fall with the decline in domestic rice production.

The Stolper-Samuelson Theorem implies that international trade causes inequality between high-skilled and less-skilled workers to grow in rich countries. The theorem was derived in 1941 but clearly remains relevant in today's America of rising inequality.

Mr. Backhouse's scholarship is impressive. Among much else, he

seems to have read every letter and paper in the 155-carton Samuelson archive at Duke, thereby ferreting out much that is new. Here are a few nuggets:

Samuelson liked to present himself as essentially self-taught in mathematics. But Mr. Backhouse discovered that, far from being an autodidact, he took many advanced math courses as a student at Chicago.

The prevailing story for why Samuelson left Harvard for MIT (then a backwater in economics) is anti-Semitism. (Samuelson preferred to say simply that MIT made him a better offer.) While not denying the role of anti-Semitism, Mr. Backhouse quotes a long letter from E.B. Wilson to Samuelson making a strong case that his protégé would be better off at MIT for intellectual reasons. In any case, Samuelson made the move and remained at MIT for the rest of his life.

Samuelson's textbook, which had substantial Keynesian elements, was strongly attacked by the chairman of the Visiting Committee to MIT's economics department as likely to bring "discredit" on the institute. The matter was quelled only when MIT's vice president stood up to the chairman and vigorously defended Samuelson's academic freedom.

Samuelson always insisted that he counted Friedman as a friend, despite their professional differences. But, as a letter from Friedman to a Chicago colleague reveals, Friedman tried (unsuccessfully) to block a job offer that Chicago made to Samuelson in 1946-47. He complained about Samuelson's Keynesianism.

Of course, there is much that is missing from Mr. Backhouse's book—in particular, two-thirds of Samuelson's life. This later period includes his more mature papers—his best, in my view, especially a masterpiece on money and overlapping generations—as well as the development of the MIT economics department into the powerhouse that now leads graduate teaching in the U.S. and the world. All good reasons to look forward to volume two.

Mr. Maskin, a Nobel laureate in economics, is Adams University Professor at Harvard.

OPINION

REVIEW & OUTLOOK

Trump's Bob Kerrey Budget

President Trump launched his first full budget proposal on Tuesday, and think of it as the vindication of Bob Kerrey. The former Nebraska Senator and a few other brave Democrats warned repeatedly in the 1990s that failing to reform entitlements would eventually squeeze other progressive programs. Well, here we are.

Mr. Trump is imitating Democrats in ducking Social Security and Medicare, which means that everything else the government does has to fight for what's left. Those two programs plus interest on the debt remove about \$1.9 trillion from political debate in the \$4.1 trillion spending outline for fiscal 2018. Mr. Trump wants to increase defense spending to more than \$600 billion, so that's \$1.6 trillion left for everything else.

Democrats and the press claim to be shocked and appalled, but what did they expect? They had their free-spending way in 2009-2010, and voters quickly pulled their credit card by electing a GOP House. Now they are furious that a GOP President is asking them to make choices rather than assume automatic annual increases in everything. Maybe they should mull over what they really think government should and shouldn't do.

The strangest liberal critique is that the budget assumes an overly rosy growth projection of 3% for half of the 10-year budget period. Because Barack Obama never reached 3% in eight years—averaging a dismal 2.2% since the recession—they seem to have concluded that 3% is impossible.

But policies matter, and tax reform, deregulation and spending restraint have the potential to lift private growth out of its doldrums. Even with all that, the White House budget shop predicts a modest 2.4% GDP growth in 2018 and doesn't envision a 3% rate until 2021. If this is a rosy scenario, Democrats haven't begun to imagine the budget cuts that will come.

There is no way the U.S. can afford its entitlement commitments without 3% growth, much less balance the budget. Democrats should want faster growth to fund their other priorities, and they could contribute ideas to help Mr. Trump achieve it. The U.S. economy has averaged about 3% growth a year since World War II, and in the 1980s and 1990s the economy grew by 4% a year for several years.

Democrats are also upset that Mr. Trump puts a higher priority on defense than other domestic programs, but defense outlays have been falling as a share of GDP for years. The budget requests a \$49 billion increase for fiscal 2018 to \$643 billion. But that merely takes defense up to 3.2% of GDP, before declining to 2.3% in 2027. This is hardly Ronald

Reagan's defense buildup—which peaked at 6% in 1986—reflecting how entitlements now eat up so much more of the federal fisc.

The budget does propose to reform some smaller entitlements, notably Medicaid and ObamaCare. It incorporates the House GOP health-care reform's \$880 billion reduction in spending over 10 years, and saves \$616 billion more by assuming slower growth in overall health-care spending. We'd feel better about this estimate if House conservatives like Mark Meadows hadn't killed the cap on the tax subsidy for employer-provided health insurance.

The White House also wants to reform programs that have ballooned during the Obama years and effectively become a guaranteed national income. The budget cuts \$193 billion over 10 years from food stamps, mainly by letting states impose a work requirement; \$72 billion from the Social Security Disability Insurance program; and \$12.5 billion by requiring a Social Security number to receive the earned-income tax credit or child tax credits.

The left says this “guts the safety net,” as if the measure of success is how many more people government can make dependent on government. Some 44 million Americans now receive food stamps, 16 million more than in 2008—despite eight years of economic growth and a 4.4% jobless rate. One reason the Obama economy grew so slowly is that millions of workers left the labor market, and getting them back and working would lift GDP.

Every White House budget proposal gets rewritten in Congress, and even Republicans are uneasy with many of Mr. Trump's proposed spending reductions. As always the Beltway interests will fight back.

Mr. Trump also hasn't helped his case for fiscal restraint by proposing his own new entitlement—or, shall we say, Ivanka's. The budget seeks \$25 billion for a new federal paid family-leave program that Democrats are sure to expand when they're next in power. There's also \$1.6 billion for a southern border wall that we heard Mexico was going to pay for. Congress should decline both offers.

For all the Washington moans and cries of doom, Mr. Trump is merely proposing to slow the rate of spending increases to achieve a gradual decline in the burden of government and reduce the chances of a future debt crisis. It's better than business as usual but far from revolutionary. That would require Washington to finally heed Bob Kerrey's fateful warning of so many years ago.

Some people will conclude that ObamaCare coverage isn't worth the price even with subsidies. The CBO adds that “a few million” people would use the new tax credits to buy insurance that the CBO doesn't consider adequate.

The problem with this educated guess about enrollment is that the CBO's models put too much confidence in the effectiveness of central planning. The nearby table shows the CBO's projections about ObamaCare enrollment, which were consistently too high and discredited by reality year after year. The CBO is also generally wrong in the opposite direction about market-based reforms, such as the 2003 Medicare drug benefit whose costs the CBO badly overestimated.

Unlike the CBO, most economic forecasters publish their assumptions and a range of possible outcomes for different variables. This transparency reveals the uncertainty built into any predictive model, rather than homing in on one number like 23 million, as if it is omniscient. The complication for the CBO is that the more it defines its uncertainty, the less authority the political class will invest in its estimates.

This particular credibility gap is exposed in the CBO's treatment of the House compromise on waivers, which would allow states to apply to opt out of certain ObamaCare regulations like benefit mandates. How many Governors would choose to do so, over what time period, in what political context, and how aggressively would they deregulate markets? “Who knows?” is the only honest answer.

The CBO allows that there can be no “single definitive interpretation” of how states would respond to new incentives—before claiming that precisely “one-third of the population would be in states that would choose to make moderate changes to market regulations” and precisely “one-sixth of the population” lives where Governors would “substantially alter” those regulations. This isn't a quantitative economic judgment but a raw political assumption.

Headlines aside, the CBO report matters because it is the fiscal template for Senate negotiations and what policies can be included under the budget “reconciliation” procedure that requires 51 votes. But Senators shouldn't allow the budget scorekeeper's opinions about the future to dictate policy or political decisions. Incentives and private competition can produce better outcomes than CBO's model foresees.

In any case, the real world is throwing off plenty of evidence of the urgent need to repeal and replace ObamaCare, like the Missouri crisis and national shock. The CBO never saw any of that coming.

Without entitlement reform, everything else gets squeezed.

From 9/11 to Manchester



WONDER
LAND
By Daniel
Henninger

Now we have Manchester and its 22 dead, many of them children. Somehow, we always end up back at 9/11, leaving flowers and candles again.

A political constant since 9/11 is that terrorism inevitably changes U.S. presidencies. I think the events this week—the president's overseas trip and then Manchester—may have a similar effect on Donald Trump.

On Inauguration Day in January 2001, George W. Bush's mind no doubt was filled with plans for his first term. Months later, his was a war presidency and would remain so.

Several things sit in my memory from the politics of that period. One is President Bush's face as he addressed Congress on Sept. 20. He was a changed man. Also remembered is the solidarity of national purpose after the attack. The final memory is how quickly that unity dissipated into a standard partisan melee.

The Democratic point of attack became the Patriot Act's surveillance provisions, a legal and legislative battle that ran the length of the Bush presidency. By the end of his second term, George Bush had become an object of partisan caricature and antipathy equal to anything President Trump endures now.

During Barack Obama's presidency, four major terrorist attacks took place inside the U.S.: Fort Hood in 2009, the Boston Marathon in 2013, San Bernardino two years later and then Orlando in 2016. During these years, the locus of terror migrated from al Qaeda to Islamic State.

Volumes have been written about Barack Obama and terrorism, much of it about the president's struggles with vocabulary terms such as war, Islam, extreme and radical. The killing of Osama bin Laden evinced a rare, passing moment of national unity.

With the opposition to the Trump presidency programmed for driverless resistance, there will be no national unity in the war on terrorism. The Democrats have become the Trump-Is-Russia Party, and that may be as good a way as any for them to spend their waking hours.

But even Hillary Clinton couldn't duck the terrorism problem in the 2016 presidential campaign, and when Mr. Trump said he would “defeat ISIS,” his lack of nuance no doubt won him votes.

Which brings us to Manchester this week and memories of 9/11.

Note the political response to the Manchester murders. Again, total solidarity, such as this from European Commission President Jean-Claude Juncker: “These cowardly attacks will only strengthen our commitment to work together to defeat the perpetrators of such vile acts.”

Post-9/11, naturally one expects such commitments to erode like sand castles. But this time, by coincidence, all

leged Manchester bomber Salman Abedi murdered concertgoers in the same week Donald Trump was using his first overseas trip to build a coalition to defeat Islamic State.

This was not a routine presidential foreign trip for self-pomp and circumstance. Mr. Trump went to Saudi Arabia to initiate an anti-Islamic State policy designed and midwifed by three Trump appointees and Middle East specialists—Defense Secretary Jim Mattis, Secretary of State Rex Tillerson and national security adviser H.R. McMaster.

The policy entails the U.S. sale to Saudi Arabia over 10 years of \$450 billion of military equipment—tanks, ships, precision-guided bombs—in return for Saudi leadership of an Arab-state coalition, which is their idea, to fight Islamic terrorists in the region and thwart Iran's territorial ambitions.

A New York Times online summary of the speech Mr. Trump delivered Sunday in Riyadh called it “a speech about Islam.” I thought it was about something larger than that.

Trump learned something about the presidency and the world during this trip.

For instance, the Times and Washington Post ran stories about how the Trump foreign policy has demoted human-rights issues. It has not. Implicit in the Trump-Tillerson formulation is that defining the abuse of human rights as oppression by governments, such as Saudi Arabia's, is too narrow. Now, any discourse over human rights must include the right not to have one's life ended by acts of organized terrorism.

Grasping at Trumpian straws is a fact of life, but I am going to hazard not much more than a thought, which is that the president who left for Saudi Arabia last Friday will not be the same president who returns to America this weekend.

Delivering that big foreign-policy speech in Riyadh, Mr. Trump looked like he was passing through a moment familiar to George W. Bush and other presidents in the post-World War II period—coming to grips with the gravity of why his office matters to the world.

Being president isn't enough. Something always has to penetrate the parochial bubble of U.S. politics for this transition to happen, such as the Soviet invasion of Afghanistan in the Carter presidency.

Mr. Trump met Thursday in Brussels with NATO allies who since 2015 have experienced Islamic State's mass murders in Paris, Nice, Berlin, Copenhagen, Brussels, Stockholm, London and now Manchester.

His basic message—it's time to get serious—is important and deserves support, both in Europe and in the White House.

Write henninger@wsj.com.

How to Read an ObamaCare Prediction

America's political world waited with rapt attention Wednesday for the oracles at the U.S. Congressional Budget Office to release their cost-and-coverage predictions for the revised House health-reform bill, which arrived late in the afternoon. But while Washington stood by, two reports emerged from the real world that are far more consequential.

First, the Health and Human Services Department released new research showing that average premiums in the individual market have increased 105% since 2013 in the 39 states where the ObamaCare exchanges are federally run. That translates into about \$3,000 more a year for the average family. There

are limitations to the data, such as separating ObamaCare artifacts from underlying medical-cost movements, but the trend doesn't reflect well on whoever called it the Affordable Care Act.

Also on Wednesday, Blue Cross Blue Shield of Kansas City withdrew its ObamaCare plans for 2018 in Kansas and Missouri. The insurer cited ObamaCare losses of \$100 million, which it called “unsustainable for our company.” The decision will leave 77 of Missouri's 114 counties, including St. Louis, with a single insurer, and some 31,000 Missourians in another 25 counties with no coverage options. By the way, HHS says premiums have increased by 145% on average in Missouri over four years.

This is real news in real markets that affects people's lives. So, naturally, the speculative CBO report became the day's major story.

That news wasn't all bad for Republicans. The CBO confirmed that the American Health Care Act is a major fiscal dividend, cutting taxes by \$992 billion, spending by \$1.1 trillion and the deficit by \$119 billion over 10 years. Compared to a CBO estimate of an earlier House bill, the number of people with insurance will be “slightly higher” and premiums will be “slightly lower.”

Nonetheless, the CBO says 14 million fewer people on net would be insured in 2018 relative to the ObamaCare status quo, rising to 23 million in 2026. The political left has defined this as “losing coverage.” But 14 million would roll off Medicaid as the program shifted to block grants, which is a mere 17% drop in enrollment after the ObamaCare expansion. The safety net would work better if it prioritized the poor and disabled with a somewhat lower number of able-bodied, working-age adults.

The balance of beneficiaries “losing coverage” wouldn't enroll in insurance, the CBO says, “because the penalty for not having insurance would be eliminated.” In other words, without the threat of government to buy insurance or else pay a pen-

alty, some people will conclude that ObamaCare coverage isn't worth the price even with subsidies. The CBO adds that “a few million” people would use the new tax credits to buy insurance that the CBO doesn't consider adequate.

The problem with this educated guess about enrollment is that the CBO's models put too much confidence in the effectiveness of central planning. The nearby table shows the CBO's projections about ObamaCare enrollment, which were consistently too high and discredited by reality year after year. The CBO is also generally wrong in the opposite direction about market-based reforms, such as the 2003 Medicare drug benefit whose costs the CBO badly overestimated.

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In any case, the real world is throwing off plenty of evidence of the urgent need to repeal and replace ObamaCare, like the Missouri crisis and national shock. The CBO never saw any of that coming.

ObamaCare Coverage Error

CBO estimates for ObamaCare coverage by year in millions of enrollees. Blue figures show the most recent forecast a year prior. Red figures show actual coverage.

	2014	2015	2016	2017
Feb. '13	7	13	24	26
Feb. '14	6	13	22	24
March '15	*	11	21	24
March '16	*	*	12	15
Jan. '17	*	*	*	10

Source: Congressional Budget Office

A Council America Should Not Keep

By Anne Bayefsky

The United Nations Human Rights Council is preparing a blacklist of American and other companies doing business with Israel—and U.S. taxpayers are paying a quarter of the bill.

The council's move embraces the “boycott, divestment and sanctions” campaign, which seeks to accomplish through economic strangulation what Israel's enemies have been unable to achieve through war and terror. How did the U.S. get on the wrong side of this battle?

When the Human Rights Council was created in 2006 as a “reform” of the original U.N. Human Rights Commission, the administration of George W. Bush voted against, because no membership conditions required actually respecting human rights.

But Barack Obama jumped on board and, playing Gulliver at the U.N., allowed the American giant to be tied up by foes contributing a fraction of U.S. moral and financial weight. In 2016 Americans sent the U.N. almost \$10 billion.

On Thursday a U.S. Senate subcommittee was scheduled to meet to “assess” the Human Rights Council. Reconsidering U.S. membership and walking away—now—would be the right choice. Successive White Houses have tried and failed to correct the entrenched anti-Israel and anti-Jewish bias of the council (and commission) for decades. Simply put, the Lilliputians have more votes.

The council has condemned Israel more than it has any of the other 192 U.N. states, notwithstanding 500,000 dead in Syria, starvation and mass torture in North Korea and systematic, deadly oppression in Iran. Saudi Arabia and China have used their seats on the council to avoid condemnation altogether.

Under a sanctions resolution adopted in March 2016, the council is creating a database of companies that “directly or indirectly” do business with

Israeli settlements. The blacklist is intended to be expansive: Even an ATM in Arab-claimed territory could be enough to land a bank and its business associates on this database.

The blacklist threatens to tarnish business reputations, make companies targets for lawfare in European and U.S. courts, and provide fuel for the boycott-and-divestment machinery on college campuses and elsewhere. Meanwhile, the council has no boycott policy for the world's most ruthless regimes.

The United Nations ‘human rights’ panel is a travesty and a sham.

When Donald Trump became president, the U.S. didn't promptly resign from the council but instead attended the March 2017 session. During this meeting, the resolution creating the Israel blacklist was reconfirmed over American objection. Then the U.S. was outvoted on 12 of 15 resolutions and backed into joining the consensus on various other resolutions, including one on “cultural diversity” co-sponsored by the likes of North Korea.

OPINION

NATO's Vital Role in the War on Terror

By Jens Stoltenberg

At first glance, it's simply a fragment of twisted metal outside the North Atlantic Treaty Organization's new headquarters in Brussels. But this 6-foot-long section of steel girder was recovered from the ruins of the World Trade Center. At its official unveiling Thursday, we hailed the artifact as a symbol of solidarity: Europe and North America, standing together.

The alliance can do even more—including a formal role in the fight against Islamic State.

Two years ago I spoke at the 9/11 Memorial in New York. Being there, at the site of the attacks, reinforced my firm belief that however much terrorists try to divide us, they will only succeed in uniting us.

This is exactly what happened after 9/11. For the first time ever, NATO allies invoked our collective defense clause, Article 5. We recognized those shocking assaults on the U.S. as an attack against us all.

In the days that followed, NATO planes patrolled American skies. Within weeks, troops from NATO allies

deployed to Afghanistan to ensure that country would never again be a haven for international terrorists. The biggest combat operation in NATO history was launched in direct response to the 9/11 terrorist attacks.

Since then, hundreds of thousands of Europeans, Canadians and troops from partner countries have stood shoulder-to-shoulder with their American comrades in Afghanistan. More than 1,000 have paid the ultimate price. Many more have suffered life-changing injuries.

At this moment, approximately 13,000 troops from 39 NATO and partner countries are training Afghan security forces to stabilize the country. And at a meeting of NATO leaders in Brussels on Thursday we discussed how we can step up our fight against terrorism.

We never said it would be easy. On my visits to Afghanistan, I have witnessed the challenges, as well as the progress made. I was particularly impressed by my meeting with young Afghan women training to become pilots. I heard them express pride in what they are doing and appreciation for NATO's support.

While NATO's contribution to the fight against terrorism effectively began in Afghanistan, it now extends far wider.

NATO surveillance planes are supporting the coalition to defeat the so-called Islamic State. Iraqi troops trained by NATO to defuse impro-



AFP/GETTY IMAGES

Afghan soldiers being trained under NATO's Resolute Support Mission on Feb 9.

vised explosive devices are putting their skills to use in the battle for Mosul. We have taught soldiers counterterrorism and counterinsurgency tactics in countries like Egypt, Jordan, Mauritania and Morocco. And our highly skilled troops are helping Tunisia develop its own special forces.

Earlier this year, we opened a regional center in Kuwait to enhance cooperation with our Gulf partners. We are also developing a new operational hub at our command in Naples, Italy,

to improve our ability to anticipate and respond to crises in the region. At our headquarters in Brussels we have

set up a new intelligence and security division to improve our understanding of the threats we face.

At the same time, we are strengthening ties with the European Union and United Nations. Both organizations' counterterrorism capabilities complement our own. And we are working hard throughout the alliance to make our societies more resilient to attack.

While I am very proud of what NATO is already doing in the fight against terrorism, I also believe NATO can do more. For instance, we have learned from our experiences in Afghanistan and elsewhere that

training local forces is one of the best weapons we have in the fight against terrorism. It is far better, and more sustainable, to help our neighbors to stabilize their countries themselves. And if our neighbors are more stable, we are more secure. These efforts must be expanded.

There are other possibilities. Although NATO has assisted the coalition fighting Islamic State, it doesn't have a formal role. Having one would allow NATO to support political discussions in the coalition. It would also improve coordination, for example, with training and capacity-building activities. It wouldn't mean NATO involvement in combat operations.

We are also considering expanding our support to airspace surveillance for the coalition. An expanded training and capacity-building role for NATO's special forces and the creation of a dedicated counterterrorism intelligence cell are also under consideration.

Terrorism affects every NATO ally. It is a long-term threat to our values, freedom and way of life. And the alliance is ready to do more to counter this threat. The unique bond between Europe and North America has delivered unprecedented peace for almost seven decades, and NATO's role in the fight against terrorism is an important chapter in that story.

Mr. Stoltenberg is secretary-general of NATO.

Can Trump Make America Grow Again? The Signs Are Hopeful

By Andy Puzder

There is a gem buried under all the allegations against President Trump: The U.S. economy is markedly improving and more people are working. As Speaker Paul Ryan recently noted, Republicans "pledged that we would repeal regulations to create jobs and get the economy moving again." Through executive orders, regulatory rollbacks and strategic use of the Congressional Review Act, the president and Congress are delivering.

The end of President Obama's regulatory onslaught could begin the recovery Americans have heard so much about. The business community is increasingly optimistic. Every businessperson I speak with mentions the energizing effect of being able to focus on growth rather than overcoming the latest government roadblock.

In April the Index of Small Business Optimism, produced by the National Federation of Independent Businesses, posted its sixth straight month of historically positive feelings, "a hot streak not seen since 1983" during the Reagan Administration. That's backed up by the IBD/TIPP Economic Optimism Index,

which "gauges how confident consumers, workers and investors are in the pace and direction of the U.S. economy." An index above 50 indicates optimism. For May, it came in at 51.3. That's 2.1 points above the index's 16-year average of 49.2.

It's still early, but the economy is showing signs of real growth, too. In April the unemployment rate hit a 10-year low, while existing home sales surged to a 10-year high and U.S. industrial production registered its largest gain in three years.

Last week the U.S. Labor Department announced that the number of people claiming unemployment-insurance benefits dropped to its lowest level since November 1988. Even more impressive, the moving four-week average for this metric dropped to 1.95 million, its lowest level since January 1973, when it was 1.92 million. That's even more impressive than it sounds, since there are 72 million more people in the labor force today.

The unemployment rate can fall for many reasons that hardly indicate economic health. People can drop out of the labor force or accept part-time jobs because they cannot find full-time work. The good news is that the

unemployment rate is declining for the right reasons: More people are finding jobs, and more people are finding full-time jobs—both at an accelerated pace.

From February through April, the first three full months of Mr. Trump's presidency, the number of

More people are working, and the jobs are better. Now for the hard work of health and tax reform.

Americans employed increased by 628,000 and the number unemployed decreased by 472,000. By comparison, for the same three-month period in 2016, the number of Americans employed decreased by 15,000 while the number unemployed increased by 65,000.

It isn't merely that more people are working now because the population has grown. A higher percentage of Americans are working. At 60.2%, the proportion of Americans over 16 working in April was at its highest since February 2009. Mr. Obama's

first full month in office. Significantly, Americans in their prime working years are benefiting. At 78.6% in April, the percentage of those 25 to 54 employed hit its highest level since September 2008.

The jobs are better, too. After three full months of the Trump administration, 956,000 more people are working full time and 321,000 fewer are working part time. For the comparable three months in 2016, 49,000 more Americans were working full time and 101,000 fewer were working part time.

With more people working at better jobs, family income increased. According to the independent research firm Sentier, median household income was \$59,361 in April, a 15-year high and up 2.2% from \$58,060 in January. The latter figure was up 1.7% from \$57,090 in June 2009, when the recession ended. In other words, median family income increased more in the first three months of the Trump presidency than during the 7½ years of the Obama recovery.

It will take more than a quarter to produce the robust recovery Americans have expected since the recession ended nearly eight years ago. We need to see sustained annual eco-

nomic growth in the promised 3% range before declaring victory.

To reach that goal, Republicans need to pass tax and health-insurance reform, with or without Democratic support in the Senate (the nuclear option should be on the table). But the economic momentum is already there and hard to deny.

The progressive left is concerned. Should Mr. Trump and Republicans succeed in getting the nation back on the path of economic growth and prosperity, something Mr. Obama was woefully unable to do, it will be decades before the left can again obfuscate economic reality. They will have a much harder time convincing Americans to subject themselves to the stagnation that big government produces. Perhaps this explains the left's unrelenting and near-hysterical focus on any issue other than the economy.

The task is to build on President Trump's momentum. If Republicans can unite and advance his economic agenda, the only question in 2018 will be whether the American people can once again see through the fog of media hysteria as they did in 2016.

Mr. Puzder is a former CEO of CKE Restaurants.

Asians Learn the Code of the Tango

By Peter Neville-Hadley

Buenos Aires
I'm the worst daughter ever," says Delia Hou over the music of a tango orchestra. The listsome 35-year-old Taiwanese-American quotes her parents: "You graduated once and you're still not married. You graduated twice and you're still not married."

Ms. Hou has degrees in astrophysics and law, but here in a *milonga*, or tango dancing club, they are forgotten. She and other Asian *milonguera* speak of the dance in almost metaphysical terms.

"Tango is about what you really genuinely want but you don't even dare to admit," says Ms. Hou. "Here you are, you don't have a serious respectable job, you're spending your evenings pressing your body against strange men. It's not really typically Asian behavior."

Here in Buenos Aires the tango is omnipresent. Few visitors leave without seeing a tango show. Dancers busking in the street offer to entwine themselves with passing tourists, their considerable décolletage

pressed close for a photo opportunity. There are constant approaches from touts offering "free" tango shows, and couples spin and tilt proficiently on handkerchief-size stages between café tables.

"But to see real tango you have to go to the milongas, because tango is about secrets. It's about what goes on in the embrace," says Ms. Hou. That's something quite separate from performance tango, with its own *código*, or rules of engagement.

At midnight the Salón Canning dance floor is thinly occupied, not because it's late but rather because it's too early. The ticket seller at the end of a long narrow passage is in no hurry, her mouth full of hair grips as she helps a milonguera put her hair up in a chignon.

The small, square, red-clothed tables closest to the dance floor are already taken. Occupancy is in the gift of the waiters, and front-row visibility significantly increases the chance of a dance. So success at a milonga also requires knowing how to tip.

Casual foreign visitors who arrive without a steady dance partner may rarely get to dance. "It was so

depressing because I wanted to dance the whole night and I couldn't, because no one was looking at me," says Ms. Hou of her early experiences. "But everybody goes through that."

It's called the *recho de piso*, or the right of the floor—the time that must be invested to achieve acceptance.

And then there's the problem of recognizing the invitation when it actually comes. It's the men who invite the women to dance, catching their intended partner's eye with a look called a *cabeceo*, and perhaps mouthing, "*Bailas?*"—will you dance?

Latin pride is thus spared the public embarrassment of a refusal if a woman replies by looking away. But if agreement is reached, then a *tanda*, a set of four dances, must be completed. Abandoning a partner partway through would be an even more embarrassing slight.

"It was very strange," says Shanghai-born Que Xiaosong. Formerly a U.K.-based freelance television producer, she settled here after 10 years of extended visits. "I never look at people. I'm not shy, but it's not habitual for me," she says. "So if you didn't know the *código*, and a lot of men were looking at you, then you wouldn't respond."

Ms. Que first encountered tango in the rather less exotic milieu of north London's Tufnell Park, where

the *código* doesn't exist. For her the attraction lies in the surrender of the female partner, but not because she's the submissive Asian woman of stereotypes. "I'm super independent and I'm always the boss in all aspects of my life. But in tango you have to surrender to dance well, to be a woman, because the music, everything, asks you for that."

In tango you have to surrender to dance well, to be a woman, because the music, everything, asks you for that.

Naomi Hotta was born in the U.S. but grew up mostly in Japan. She returned to America to perform salsa professionally before being seduced by tango, eventually winning the 2013 U.S. championship. Then she moved here.

While Japanese culture expects women to be demure, for her there's no conflict with tango's sexuality. When she dances she has no Japanese identity: "I'm just another human being. The female energy of the dance. And it's not even about me any more. When you dance and you find connection it's the music flowing into us as one."

The tango music plays until dawn, every pop and crackle of decades-old recordings faithfully captured in digital form. The dance floor gradually thins out as the sky outside brightens and the milonga winds down.

Some day the dancers' passion for tango may do the same. What begins with excitement at discovering the Buenos Aires milonga scene grows to frustration at the limited opportunities to dance, followed by satisfaction at increasing skill and demand, all finally superseded by a more relaxed attitude.

Ms. Que has learned it's possible to have a satisfactory relationship with tango without being completely absorbed by it. "The tango thing is dark, seedy and not healthy. But I just say to myself, 'Tonight I just want to have fun.'"

This doesn't necessarily mean a return home. Ms. Hotta found a husband here and is busy with Tori Tori, a Japanese restaurant they opened together. And Ms. Que has fallen completely in love with Argentina. "I love the culture. I have many friends outside tango and I love Patagonia. I just feel it's the opposite of China. It's the end of the world."

She sighs. "If I went any further I'd have to go back to China."

Mr. Neville-Hadley is a Vancouver-based writer.

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FILM REVIEW | By Joe Morgenstern

'Pirates': Entertainment Walks the Plank



Johnny Depp, top, and Javier Bardem, above at left

OF ALL THE absurdities, stupidities and cheerful idiocies in "Pirates of the Caribbean: Dead Men Tell No Tales," a bank heist stands out. What's the connection between it and the rest of a movie about pirates on the high seas? Questions of connectivity come up at many points. Where are we? What just happened? What does it have to do with what happened a minute ago? This movie is truly unhinged—not crazed, which might be interesting, but devoid of the usual hinges that connect one sequence with another. Still, the bank heist warrants attention as a prime example of the visual gibberish that's unhinging imagery from physical and dramatic logic in the age of digital effects. It's a case study in a widening school of filmmaking where anything goes and nothing matters.

The main thing about the bank heist is that it involves the theft of a bank. Not merely the money, or the massive safe containing it, but the whole building, a really big one that's torn from its foundation and

then dragged through the streets of a Caribbean town by a small team of horses: I didn't count them, but I don't think the horses numbered more than a dozen.

Now, anyone with a passing knowledge of horses and bank buildings may detect a certain illogic here. In reality, of course—the reality of making a certain kind of summer movie—the sequence is just a first-reel attention-grabber, plus a time-filler. It's a cockeyed no-

tion cooked up by filmmakers who knew it could be brought to the screen by a visual effects shop in Hollywood, Vancouver, Shanghai, Bangalore or wherever, then enhanced by a pounding orchestral score and served up to summer audiences who would likely swallow it whole, even though it made no sense. So, in a larger sense, it's a perfect fit with the rest of the film, which is the fifth iteration of a franchise that Disney should finally put

out of its misery, and ours.

The spectacle is unseemly, as well as unaffectionate, mostly unfunny and ultimately unfathomable; why would such a smart studio lavish so much money on such a depressingly dark production? "Dead Men Tell No Tales" is mainly about finding the Trident of Poseidon. Jack Sparrow, the hapless, bibulous pirate captain played by Johnny Depp, must find the Trident so he can use its magical power against ghost pirates led by his longtime nemesis Captain Salazar (Javier Bardem), whose hair moves in slow motion, though never as slow as the turgid plot. Every 15 minutes or so, someone reminds us what the movie is about by saying something like "We've got to find the Trident of Poseidon," or "The Trident's the only thing that can save him now." It's also revealed that Galileo was looking for the Trident, which is why he invented the spyglass.

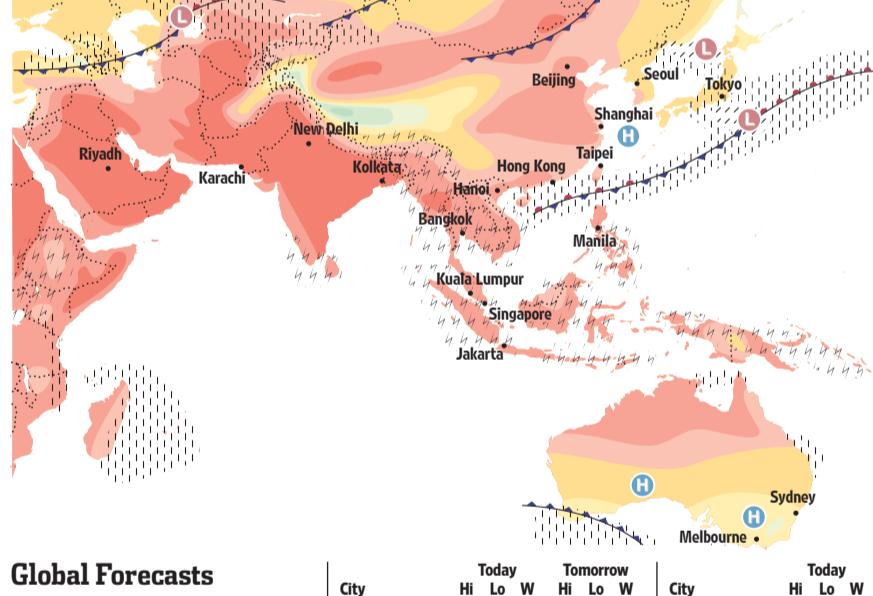
When the franchise was young, Mr. Depp was very funny in the role. Now he's not, though he can

still get a laugh by walking as if on a tilted deck, even when he's on dry land. The familiar cast of characters has two young and attractive additions, Henry and Carina, who are played, respectively, by Brenton Thwaites and Kaya Scodelario. To say much more about them might give away plot secrets, but Carina is a horologist—men snicker smutty whenever she says so—and though the story is set in the 18th century, a time of great advancement in chemistry, there is none between these would-be lovers. (The film was directed by Joachim Rønning and Espen Sandberg from a script credited to Jeff Nathanson.)

Better movies are playing, and more are on the way. Not just prestige releases of the fall and winter, which seem very far away, but summer spectacles that will—at least one hopes—erase the memory of disposable junk like "Dead Men Tell No Tales." Normally I do my own erasing, and in a matter of days, if not hours. This time, though, I found myself thinking about the latest "Pirates" while I was on my exercise machine, watching—rewatching, actually—"The Best of Youth," a magnificent miniseries, released in 2003, that traces the history of Italy from the 1960s to the end of the 20th century through two brothers' divergent lives. There I was, huffing and puffing and laughing and weeping, but also wondering why I was troubled by the memory of a silly movie with a PG-13 rating that had nothing to do with the superb entertainment I was caught up in.

That's the connection, though—the totality of the disconnection. There's plenty of room for silliness in life, but movies like Disney's current edition of "Pirates" don't entertain, in the traditional sense of the word. They don't whet the audience's appetite for better entertainment, don't encourage young moviegoers to expand their experiences as they mature. Preceded by monster marketing campaigns, they set up fervent expectations that can't be sustained, then deaden sensibilities with quick-cut drivel. And they're proliferating these days, the spawn of studios beset by seismic shifts in the entertainment industry. Productions like this come and go, crumbling tentpoles to be replaced by new timber, but they are self-fulfilling prophecies, and dire ones, about the future of the theatrical movie business. They're accomplices in a soul heist.

Weather



Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	25	15	s	28	16	s
Anchorage	11	4	c	11	5	c
Athens	25	16	t	23	16	pc
Atlanta	29	19	s	31	22	pc
Bahrain	40	22	s	39	22	s
Baltimore	24	14	pc	25	15	pc
Bangkok	30	24	t	30	25	t
Beijing	31	16	s	36	19	s
Berlin	21	11	pc	26	14	s
Bogota	20	8	pc	20	9	c
Boise	21	9	pc	26	12	s
Boston	15	11	r	18	12	c
Brussels	25	15	s	29	17	pc
Buenos Aires	17	5	pc	15	8	pc
Cairo	34	24	s	36	23	s
Calgary	18	9	sh	22	9	pc
Caracas	31	26	pc	31	26	pc
Charlotte	27	18	s	32	21	pc
Chicago	23	14	t	24	14	pc
Dallas	37	26	pc	35	23	c
Denver	20	9	t	15	5	t
Detroit	22	15	pc	25	15	pc
Dubai	38	26	s	28	28	s
Dublin	22	13	c	18	10	t
Edinburgh	25	14	pc	23	11	t
Frankfurt	25	14	s	28	14	s

AccuWeather.com

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

The WSJ Daily Crossword | Edited by Mike Shenk



SPARE PARTS | By Matt Gaffney

- The answer to this week's contest crossword is a familiar kind of candy that would complete this puzzle's theme.
- Across**
- 1 Its motto is "Industry"
 - 5 Mattress hassle
 - 11 Aspen glider
 - 14 Mustache neighbor
 - 15 Pique
 - 16 That bloke's
 - 17 That totally dorky Supreme Court justice?
 - 19 Accented praise
- Down**
- 20 Prolonged military tactic
 - 21 Site of 49ers touchdowns: Abbr.
 - 22 I may stand for it
 - 23 D flat equivalents
 - 27 Military group
 - 29 Person who convinces an entire people to change their minds?
 - 32 Feline foursome
 - 36 LBJ biographer Robert
 - 40 That's an official language in Wellington
 - 47 Put on your birthday suit
 - 49 Casual disagreement
 - 50 "Obviously!"
 - 53 Sauna sigh
 - 55 Harmful
 - 57 Put on your birthday suit
 - 59 Leader name-checked by Lennon in "Revolution"
 - 60 Thumbs-downs on proposed graveside recitations?
 - 64 Saigon soup
 - 65 Parodied
 - 66 Pods for Prudhomme
 - 67 Ready to hit the roof
 - 68 Boots on the ground
 - 69 Airy home
 - 70 Down
 - 71 A small number of ancient Romans
 - 72 Vodka mixer
 - 73 Arson aftermath
 - 74 Word in many city names
 - 75 —el-Mandeb (Red Sea strait)
 - 76 Play it poorly
 - 77 Anonymous Jane
 - 78 Believes, as an excuse
 - 79 Handy-dandy
 - 80 Skydiving shout
 - 81 Hustle in a hall, say
 - 82 Hot spot for pots
 - 83 "Please, go on"
 - 84 Quince look-alike
 - 85 Half of a major Caribbean island, sort of
 - 86 Sammy often crustless
 - 87 First language of Novak Djokovic
 - 88 Hoppy pint, for short
 - 89 To be shared
 - 90 That Great Lake you always find in crosswords
 - 91 Stir up
 - 92 Five-time Super Bowl champs
 - 93 First in the race
 - 94 Girl's future
 - 95 Most theatrically over-the-top
 - 96 Clothing brand since 1938
 - 97 Reason in favor
 - 98 Hog
 - 99 "Old —"
 - 100 Gardening equipment
 - 101 Out of funds
 - 102 Seat groupings
 - 103 Alarm clock choice
 - 104 "So funny I forgot to laugh"
 - 105 Wry Jay
 - 106 Hurdle for jrs.
 - 107 Classic Pontiac
 - 108 Casual agreement
 - 109 Burr, Bush and Biden: Abbr.

Previous Puzzle's Solution

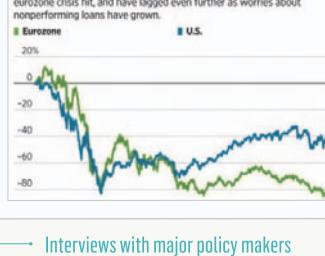
I	N	O	N	F	R	E	A	S	T
I	M	U	L	C	J	U	L	I	S
H	Y	D	R	O	F	O	L	T	A
O	S	S	M	R	N	A	L	A	K
S	E	N	D	M	I	L	A	M	A
S	M	O	K	C	O	L	A	W	S
T	A	X	I	A	B	O	O	E	R
T	A	X	I	A	B	O	O	E	R
T	A	X	I	A	B	O	O	E	R
T	A	X	I	A	B	O	O	E	R

► Email your answer—in the subject line—to crossovercontest@wsj.com by 11:59 p.m. Eastern Time Sunday, May 28. A solver selected at random will win a WSJ mug. Last week's winner: Mike Weepie, Cedar Rapids, IA.

Complete contest rules at WSJ.com/Puzzles. (No purchase necessary.)

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THE WALL STREET JOURNAL.

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Yen vs. Dollar 111.7190 ▲ 0.20%

Hang Seng 25630.78 ▲ 0.80%

Gold 1256.20 ▲ 0.30%

WTI crude 49.61 ▼ 3.41%

10-Year JGB yield 0.049%

10-Year Treasury yield 2.252%

New Windows Unveiled for China

Microsoft develops customized product to address government's security concerns

By ALYSSA ABKOWITZ

BEIJING—Microsoft Corp. unveiled a new Windows 10 software customized for the Chinese government to improve security, including modifying the program to prevent data that is typically collected from being transmitted to other devices.

The product addresses concerns by the Chinese government over network security, including the desire to locally store data—such as details on the hardware or applications being run—and to prevent overseas parties from accessing sensitive information.

In addition, games such as Solitaire that are normally bundled into the software were removed because they aren't needed by Chinese government employees, Microsoft said.

The Chinese government version also will have a customized Help function, said a representative for Microsoft, which formed a joint venture with state-owned China Electronics Technology Group to develop the program.

CETC owns 51% of the joint venture and has traditionally developed technology for the Chinese military and civilian use.

Microsoft developed the special Windows 10 version in an effort to do business in China. Other U.S. tech companies, such as Qualcomm Inc. and Intel Corp., have also struck joint ventures in China



The new Windows 10 version removed games such as Solitaire.

in recent years.

The modified version of Windows 10 is an example of how global companies are customizing products to meet Beijing's heightened security demands.

Next month, China's new cybersecurity law—which sets up a committee to conduct security reviews of technology products supplied to the Chinese government and critical industries—will take effect.

To develop a version suitable for the government, Microsoft allowed its Chinese partner to review and inspect

its source code in a secure environment, but didn't allow it to be manipulated, the representative said. Microsoft has been doing this as part of a broader government-security program with more than three dozen countries since 2003.

Some tech observers said limiting data storage to the devices could be less secure; if the device was hacked, a lot of information would be accessed. China was hit hard by the recent WannaCry attack, in part because of bootleg versions of operating software.

"It's not very smart to have all data on one device," said a lawyer who works in the tech industry in Beijing. "It could make things less secure instead of more secure."

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◆ Microsoft offers videogame live-streaming..... B4

U.S. Dollar Is Rising In Hong Kong

By SAUMYA VAISHAMPAYAN

The U.S. dollar has been on something of a tear—against one currency where it ought to be quite stable.

The greenback has risen 0.5% to a recent peak of just higher than 7.79 Hong Kong dollars so far in 2017.

That may not look dramatic, until the U.S. dollar's broader weakness is taken into account. The ICE Dollar Index, which measures the U.S. currency against six others including the euro and Japanese yen, slumped 4.9% through May 24, its worst performance during that period since 2008.

The U.S. dollar's rise against the Hong Kong dollar is even more noteworthy because Hong Kong's currency is actually pegged to the greenback, and has been for more than three decades, trading within a range of 7.75 to 7.85 to one U.S. dollar.

Normally, the pair's swings are quite limited; the greenback's last annual move of more than 0.1% against its Hong Kong counterpart was in 2012.

What is driving this currency-market anomaly?

The main cause is a widening gap between the short-term interbank interest rates, which reflect the cost for banks to borrow from each other. The one-month U.S. dollar London interbank offered rate, or Libor, rose to 1.02% recently from 0.77% at the end of 2016. Its Hong Kong counterpart, known as Hibor, has meanwhile halved to 0.35% from 0.75% on Dec. 30. The spread between the two rates reached its widest since late 2008 in April, according to Kevin Lai, chief economist for Asia ex-Japan at Daiwa Capital Markets.

The interest rate disparity is unusual. The Hong Kong Monetary Authority, the city's de facto central bank, usually adjusts the city's base interest rate when the Federal Reserve makes a move: the HKMA lifted its base rate to 1.25% on March 16, a day after the Fed last raised its federal-funds rate target.

Still, interbank borrowing rates don't have to follow suit. Analysts and economists in Hong Kong say the reason Hibor has fallen so low is that the city is essentially flush with cash. Any fears about capital outflows from Hong Kong toward the end of last year, which afflicted many markets following Donald Trump's surprise U.S. election victory, have abated.

A key factor has been the stiff competition in the local mortgage market, according to Tianjie He, an economist at Oxford Economics.

Banks have proven reluctant to pass higher interest rates on to borrowers, which in turn has kept interbank lending rates low.

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◆ Group releases new currency-trading standards..... B7

INSIDE



LENOVO IN SHAKE-UP AFTER SETBACK

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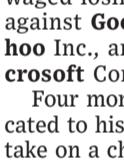
OLD-SCHOOL HEDGE FUND CHANGES TUNE

FINANCE & MARKETS, B5

CHINA CIRCUIT

By Li Yuan

Baidu Turns To a Veteran Search Whiz For Reboot



For much of the past two decades, Qi Lu, a search-technology whiz, waged losing battles against Google, first at Yahoo Inc., and then at Microsoft Corp.'s Bing.

Four months ago, he relocated to his native China to take on a challenge that some in the tech world think is just as quixotic: reviving Baidu Inc. The company's core search engine business once made it the Google of China, but it has been beset by bad decisions, scandals and falling profits, leaving its future uncertain.

Mr. Lu says he's confident he can turn Baidu around—and take on Google once again, this time on the new battlefield of artificial intelligence.

Mr. Lu has been prone to hubris before. When he joined Microsoft in 2009, he threw down the gauntlet at Google, saying Bing would be an effective competitor.

Now, with Baidu, "it's the right time, the right place and the right people," Mr. Lu told me in an interview last week. Innovation is happening at a faster pace in China than in the U.S., he says.

The mobile internet, for example, took off among Chinese users because traditional industries like banking and retail are weaker and easier to disrupt, and, he says, Baidu's large reserve of programmers position the company to be a world leader in artificial intelligence.

Mr. Lu is the No. 2 at Baidu, behind co-founder and chief executive Robin Li. As vice chairman, group president and chief operating officer, the 55-year-old Mr. Lu has been shaking things up. He's canceled unpromising products, merged three driverless car units into one and ushered some senior executives aside.

Dressed in a dark blue polo shirt, light brown sandals and black socks on a recent day, he looks like one of the thousands of programmers at Baidu's Beijing headquarters. Still, he's known for a manic work ethic, in the office by 7 a.m. and staying late. He told me that he used to question why humans need to sleep.

After running Microsoft's Office and search groups, Mr. Lu was a candidate for the CEO job, which went to his onetime subordinate, Satya Nadella, people familiar with the matter say. Mr. Lu and Mi-

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solution: turn their old mines into enormous power-storage systems, using century-old technology to keep the lights on when the weather doesn't cooperate.

In Virginia, Dominion Energy Inc. and American Electric Power's Appalachian Power each are investigating adding a new power system in Virginia's southwestern coalfield region. And in Germany, when coal producer RAG AG next year closes its last mine in the rust-belt state of North Rhine-Westphalia near the Dutch border, the company wants to see a power pack big

enough for half a million homes fill the void stretching to 4,000 feet underground.

The retrofitting, the first of its kind according to its developers, would use a simple technology called pumped storage, which requires little more than two pools of water, one at the surface, another deep underground. The German project would cost €500 million, or about \$560 million.

So far investors are balky at the price: Germany's largest utilities, RWE AG, E.ON SE and Uniper SE, all said they aren't interested. But the idea to resurrect coal mines as

power systems is turning heads around the globe.

"The whole world, including China, is asking for regular progress reports," according to André Niemann, an engineering expert at the University of Duisburg-Essen who designed and tested the system with a team of 50 researchers.

The idea is gaining steam in countries such as South Africa, Australia, Belgium, France and Poland facing the same problems: What to do with old mines and how to add storage capacity to their electricity grids. Now both questions

Please see CAVES page B2

Renewed Energy for Old Coal Mines

By ZEKE TURNER

BERLIN—Deserted coal mines, once left to gather dust, are glimpsing a new life in the age of solar panels and wind turbines.

The expanding fleet of renewable power sources worldwide means electricity is increasingly being produced when the weather allows rather than when it is needed most, creating the need to store power ahead of demand peaks.

Now, coal-mine companies in the U.S. and Germany are stepping in with a retrograde

solution: turn their old mines into enormous power-storage systems, using century-old technology to keep the lights on when the weather doesn't cooperate.

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Please see CAVES page B2

Exxon Facing Heat Over Climate Change

By Bradley Olson, Sarah Krouse and Sarah Kent

BlackRock Inc. and Vanguard Group are weighing a vote in favor of an investor proposal that would seek to pressure the oil giant to conduct a climate "stress test" to measure how regulations to reduce greenhouse gases and new energy technologies could affect the value of its oil assets, the people familiar with the matter.

Exxon has urged investors to vote against the resolution.

If the proposal passes at Exxon's annual meeting on May 31, experts say it would be the strongest signal to date that investors are seeking greater disclosure of the threats that climate change

could pose to businesses. Passage would also highlight the emerging power of money managers with large passive investing businesses—and their willingness to wield it.

Five years ago, many investors weren't as attuned to how

climate change could affect the value of assets, but "now the evidence just slaps you in the face," said Timothy Smith, a director at Walden Asset Management, which has pressured money managers on climate issues and is backing the

Exxon measure. BlackRock is still considering whether to support the proposal.

"No decision has been made regarding our vote at Exxon's Annual Shareholder Meeting. Our deliberations continue and we look forward to continued engagement with the company," Zach Oleksiuk, head of Americas for BlackRock's investment stewardship group, said in a statement.

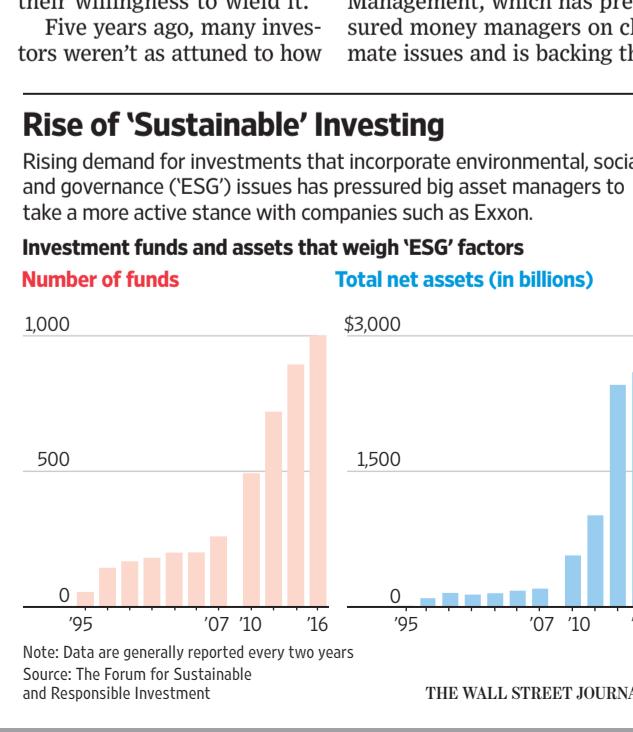
Vanguard is also strongly considering a vote for the proposal, the people said.

The asset managers could side with the company if Exxon offers certain concessions, including making further disclosures or agreeing to allow its nonemployee directors to meet with investors, the people said.

Such concessions in the past have led BlackRock to side with companies and vote against proposals related to climate change disclosure.

Directors at any company who don't engage with those on whose behalf they serve

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BUSINESS & FINANCE

Best Buy Blows Away Retail Blues

BY KHADEEJA SAFDAR

Best Buy Co. continued to buck the retail funk with rising sales, as videogame consoles like the **Nintendo** Switch and new cellphone plans pulled in shoppers in its latest quarter.

The U.S.-based electronics retailer said on Thursday that sales at domestic stores open at least a year rose 1.4%, surprising investors who were bracing for a decline. Domestic online sales jumped 23% from a year earlier, accounting for \$1 billion of business in the quarter.

Shares of the company were ahead 19% at \$59.99 in midday trading, topping their previous all-time high of \$59.50 set a decade ago. In the interim, the company was struggling with plunging sales and dwindling profits as consumers increasingly turned to online rivals such as Amazon.com Inc.

Best Buy has responded by promising to match online prices in its stores—a policy it adopted in early 2013—renting out some of its floor space to brands such as Samsung and Microsoft, scrapping an overseas expansion and pushing its e-commerce efforts.

The 1,400-store chain also benefits from selling higher-margin electronics and appliances at a time when traditional appliance sellers like



DANIEL ACKER/BLOOMBERG NEWS

Best Buy benefited from strong demand for Nintendo's Switch.

Sears Holdings Corp. are struggling. On Thursday, Sears reported that domestic comparable-store sales decreased 12% in its latest quarter, hurt in part by lower home-appliance sales.

Retailers looking to get shoppers back into stores got a boost from Nintendo's Switch, which was released in limited quantities after its March debut. Target Corp. executives recently said the game console helped it achieve its best quarterly electronics sales gains in three years.

Demand for the \$299 home console that doubles as a portable hand-held gaming device has outpaced supply, leaving shoppers hunting at different

stores for available units. Even though no free games were bundled in, U.S. consumers bought 1.2 million Switch units in March and April, according to market-research firm NPD Group, exceeding both the company's expectations and that of many analysts. Best Buy didn't specify its Switch sales, saying the device "was helpful but not the primary driver" of its strong gaming results.

In a call with analysts, Best Buy Chief Executive Hubert Joly said that cellphone sales "were better than we expected" thanks to unlimited data plans launched in February by wireless carriers such as Verizon Communications

Inc. and AT&T Inc. Sales rose late in the quarter, which ended April 29, as U.S. consumers received tax refunds that had been delayed.

While many brick-and-mortar retailers have struggled with intensifying online competition and weak foot traffic, many consumers still head to stores when shopping for phones and other electronics.

Mr. Joly, who joined in September 2012 from the hotel and restaurant industry, managed to turn Best Buy around by improving e-commerce operations, making it more competitive on pricing and adding support services.

The company said it plans to roll out in-home advisory services nationwide later this year. Consultants will travel to shoppers' homes to give advice on technology needs. "Having these conversations in the home unlocks all sorts of discussions with the customers," Mr. Joly said.

For the latest quarter, Best Buy reported revenue of \$8.53 billion, up 1% from the year-earlier period. Profit fell to \$188 million, from \$229 million. Best Buy raised its forecast for the year, saying it expects revenue to grow 2.5%, rather than 1.5%.

—Sarah E. Needleman contributed to this article.

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FDA Chief Aims to Curb High Prices for Drugs

By THOMAS M. BURTON

The new commissioner of the Food and Drug Administration plans a multifaceted effort to restrain high prescription-drug prices, centered on speeding cheaper generic medicines onto the U.S. market.

Previous FDA commissioners have largely professed inability to act on drug costs, even as prices of drugs for cancer, hepatitis and other illnesses climbed to as much as hundreds of thousands of dollars a year. The FDA's job, they said, is to assess safety and efficacy, and little else.

"The FDA has an important role to play," he said in the testimony before the agriculture subcommittee of the House Appropriations Committee on Thursday, "in making sure that its statutory and regulatory processes are working as intended, and not being manipulated in ways that FDA and Congress did not intend."

Sens. Patrick Leahy (D., Vt.), Chuck Grassley (R., Iowa), Amy Klobuchar (D., Minn.) and Mike Lee (R., Utah) are sponsoring a bill that would enable generic makers to sue a brand company to obtain access to a drug.

Dr. Gottlieb laid out several of these ideas before a House appropriations subcommittee that is deciding on an FDA budget for the government's fiscal year 2018, which begins Oct. 1.

"It's way too early to provide a cost estimate," said John Shepelwich, a spokesman for AEP.

David Botkins, a spokesman for Dominion, said the project is "in the infancy," adding that a pump could help the surrounding grid as the company adds "a lot more solar in the future."

Compared with other types of energy storage, the underground pump concept is expensive but designed to last longer than a chemical battery.

The cost of the German system is about €2,750 (\$3,075)

to China suggest that maintaining a peg to the U.S. dollar could be difficult in the long run. Given the influence of Chinese buyers in Hong Kong's property market and retail sector, as well as the banking sector's exposure to mainland-related lending, a slowdown in China tends to ripple through to Hong Kong's economy.

Moody's Investors Service highlighted the "close and broad-based" links between the two economies and financial systems on Wednesday when it cut Hong Kong's sovereign credit rating, spurred by its earlier downgrade of China.

Ms. He from Oxford Economics says Hibor rates could stay low in the short term given Hong Kong's red-hot property market. But, she added, that could prove to be unsustainable in the longer term as the U.S. central bank continues to tighten monetary policy.

If Hibor rates do start to rise that should bolster the Hong Kong dollar, denting the greenback's rally against it.

For some, Hong Kong's ties

Continued from the prior page

Residential mortgage loans surged 140% in March from a year ago to HK\$37 billion (US\$4.75 billion), according to data from the HKMA: Nearly all of those loans were priced with reference to Hibor. Hong Kong residential property prices have meanwhile surged to a series of all-time highs this year, according to a weekly gauge compiled by Centaline Property Agency.

The HKMA itself flagged the competition among banks for mortgages on Friday, saying it elevates the risk of the property market overheating. It simultaneously unveiled a fresh round of rules for banks regarding mortgage loans.

Some of the demand for Hong Kong property in recent years has come from mainland China, as a declining yuan sent residents there searching for a stable store of value, especially one linked to the dollar.

For some, Hong Kong's ties

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could have the same answer.

In the Prosper-Haniel mine in Bottrop, North Rhine-Westphalia, the pump would use excess power on windy and sunny days to pump water up from a reservoir nearly 2,000 feet below ground to a pool at the surface.

If there is a shortage of sun or wind, the water is released to allow gravity to bring it back toward the bottom of the mine, turning a turbine along the way to make electricity.

The majority of the costs come from boring a concrete-reinforced storage system underground that could hold 240 Olympic-size swimming pools worth of water.

In Virginia, a bill passed by the General Assembly and signed by Gov. Terry McAuliffe to take effect on July 1 would allow power companies building pumps near old coalfields to recoup their costs by raising energy prices.

The power companies AEP and Dominion are looking at options that could use a flooded coal mine or an open pit mine as one of the reservoirs.

"It's way too early to provide a cost estimate," said John Shepelwich, a spokesman for AEP.

David Botkins, a spokesman for Dominion, said the project is "in the infancy," adding that a pump could help the surrounding grid as the company adds "a lot more solar in the future."

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For some, Hong Kong's ties

Continued from the prior page

risk losing investor support," Glenn Booraem, a principal at Vanguard who works on its

governance efforts, said in a statement.

While the votes are non-binding, companies need to show their responsiveness to such measures or face potential backlash, including the prospect of institutional investors voting against their director candidates.

Exxon in recent years has stepped up its climate-related disclosures and voiced support for a carbon tax and the international Paris climate pact.

But it has also come under investigation by the New York attorney general and the U.S. Securities and Exchange Commission.

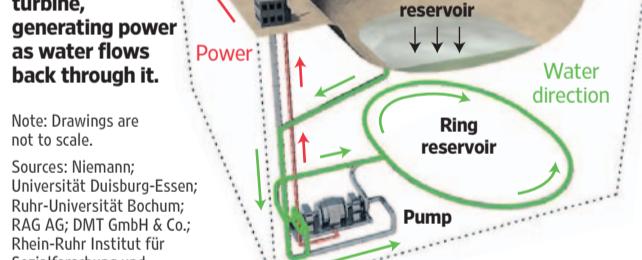
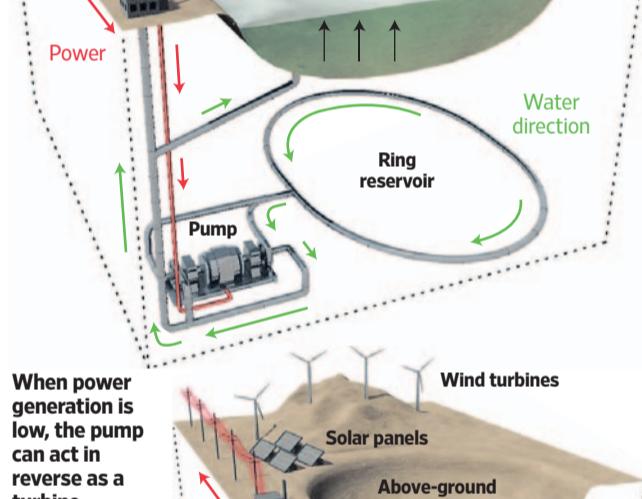
They are examining whether the company has provided enough information to investors about climate impacts and the value of its assets.

The company's disclosures to date have concluded that its assets wouldn't be severely affected by climate change.

How It Works

Pumped storage is a simple technology that is drawing interest in several countries.

When renewable power is plentiful, water is pumped into the above-ground reservoir



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per kilowatt-hour.

New Jersey-based Eos Energy Storage, a cutting-edge battery company, offers a storage system powered by zinc-hybrid batteries for \$168 a kilowatt-hour that can last about 20 years, according to the company's director of

business development, Charles Russell.

"The advantage of pumped hydro is that it's high capex but it's there for 100 years," said Gerard Reid, a founding partner at Alexa Capital, a London-based corporate finance firm specializing in energy

"Our view and those of all other credible forecasters show a continued role for oil and gas through 2040," said Exxon spokesman Alan Jeffers.

Investment products such as exchange-traded funds that track the performance of indexes often come at a lower cost than traditional mutual funds and have gathered assets at a clip in recent years.

That growth has given firms like BlackRock and Vanguard increasing sway on shareholder votes. But the firms in turn have come under activist pressure to take stances on issues such as climate disclosure.

When BlackRock sided with Exxon and against a similar proposal at the company's annual meeting a year ago, it faced backlash from investors and environmental activists. This year BlackRock said the disclosure of climate risks would be among its key engagement priorities with senior executives.

About two weeks ago, the firm voted for a similar proposal at the annual meeting of Occidental Petroleum Corp. Vanguard also voted in favor of that proposal, a person familiar with the vote said.

Exxon has said for years that it believes demand for oil and gas will rise in coming decades as people in emerging economies move into the middle class and drive cars or use air conditioning.

Chevron Corp., the second-largest U.S. oil company, has made similar statements.

But the issue has grown into a hotly debated topic in the industry, with some European oil companies acknowledging the potential for demand to peak by the end of the next decade.



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BUSINESS NEWS

Lenovo Reboots After Losing PC Crown

Consumers' increasing use of smart devices has contributed to the company's woes

BY KATHY CHU

HONG KONG—China's **Lenovo Group** is shaking up its operations as it seeks to reclaim the title of global leader in personal computers and shore up its smartphone business.

For the first time in four years, Lenovo—a company that gained acclaim a decade ago for turning around storied U.S. PC maker International Business Machines Corp.—slipped from the top spot this year to No. 2 in the personal-computer market, behind rival HP Inc. Lenovo has also fallen to No. 8 in the number of smartphones shipped globally, from No. 3 when it acquired another U.S. brand, Motorola, in late 2014.

Lenovo's Hong Kong-listed stock has fallen nearly 60% since the Motorola acquisition.

Behind Lenovo's woes is a maturing personal-computer market where demand is slowing as consumers increasingly use smartphones and other devices for daily activities including checking the internet. Lenovo also faces fresh challenges from rivals such as **Huawei Technologies Co.**, which has rolled out its own hybrid laptop tablets.

In response, the company is restructuring and installing new management in China to better compete against rivals in a market known for fierce



A **Lenovo** store in Beijing. The company plans to restructure and install new management in China.

cost-cutting in both personal computers and mobile phones.

"The challenges are always there," said Yang Yuanqing, Lenovo's chief executive, in an interview Thursday. "We don't care what the market share is today as long as we can grow at a premium to the market."

Lenovo's back-to-back acquisitions three years ago of Motorola and IBM's low-end server business were attempts to diversify Lenovo's operations into faster-growing industries. But these industries have proved tougher for Lenovo to penetrate than expected.

Lenovo faces stiff competition from Dell and HP in selling servers to corporate data

centers.

The global smartphone business, meanwhile, is dominated by Apple Inc. and Samsung Electronics Co. at the premium end, while upstart competitors have eroded Lenovo's dominance even on more affordable phones sold in China.

"The market is rapidly changing and Lenovo needs to respond to market demand," said Tim Bajarin, president of Creative Strategies, a technology research firm. "They have struggled with these new acquisitions."

Lenovo said Thursday as it reported fiscal fourth-quarter earnings that it is seeing positive momentum in its business,

with overall revenue growing again after five quarters of decline. Gross profits, though, remain challenged, falling nearly 10% in the latest quarter from a year ago, after a 67% drop in the third fiscal quarter ended Dec. 31.

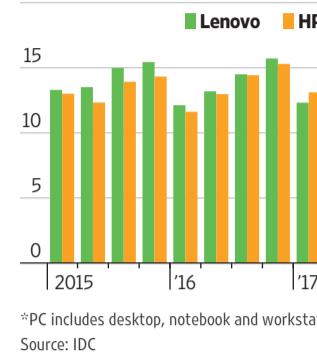
Mr. Yang said last week on his Weibo social-media account that the changes in the China business sought to respond to the world's fastest changing smart-devices market. Lenovo's business in China will now be split up into a data center group and a consumer division for PCs and smart devices, he said.

Lenovo said it was also bringing back Liu Jun, a PC and mobile-phone veteran.

Losing Ground

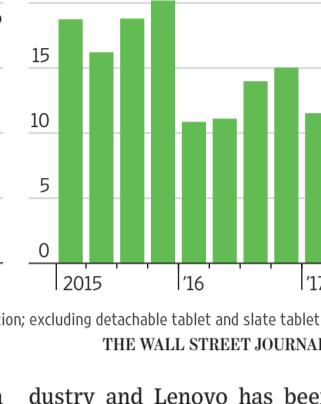
Lenovo is struggling to maintain its dominance in personal computers while fending off competition in smartphones.

Global PC* shipments



*PC includes desktop, notebook and workstation; excluding detachable tablet and slate tablet
Source: IDC

Lenovo's global smartphone shipments



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dustry and Lenovo has been adding new talent, signs that "morale has improved and that Motorola continues to be a place where technology-loving employees want to work."

Kitty Fok, IDC's managing director for China, cautioned against reading too much into Lenovo losing its No. 1 position in the PC market to HP. The first calendar quarter is traditionally Lenovo's weakest quarter, so this slide may only be temporary, Ms. Fok said.

Meanwhile, even though Lenovo's smartphone business is still not profitable, its global shipments are stabilizing, according to Strategy Analytics executive director Neil Mawston. Lenovo holds only a 1% market share in China, but is growing rapidly in India.

◆ Heard on the Street: How HP stole Lenovo's crown..... B8

Cigna Tries New Tack: Giving Employees Stock

BY ANNA WILDE MATHEWS

Cigna Corp. plans to give every employee five shares of stock, an unusual move that the company said was aimed at bolstering employee commitment as it moves ahead after the demise of its merger deal with **Anthem Inc.**

Cigna said the giveaway, which involves about 40,000 employees, will cost around \$35 million. At the same time, Cigna will unveil a new policy that will allow employees up to four weeks of paid leave for needs such as caring for newborns and ill family members.

A stock award to an entire employee base is very rare, particularly among large, pub-

licly traded companies, though they are more common at small startups, often in the technology field, said Sue Holloway, executive compensation practice leader at WorldatWork, a professional association focused on employee compensation and benefits.

Often, larger companies' incentive plans involving shares are focused largely on the upper tiers of management, she said. "Pushing it down beyond the executive level is less common for large firms," she said.

Cigna Chief Executive David Cordani said the award of five shares—each valued at about \$162 at Wednesday's closing price—was intended to ensure workers felt they had an own-



Health insurer Cigna plans to award every employee five shares.

to reinvest in that asset," he said.

He said Cigna also wanted to thank employees for pushing forward during nearly two years of limbo associated with the Anthem deal, which was first announced in July 2015 and was finally terminated this month after courts blocked it on antitrust grounds.

Anthem and Cigna are now poised for a legal battle over the failed merger, with each seeking damages against the other. The fight is likely to be ugly and personal. Anthem has accused Mr. Cordani and his team of sabotaging the deal, while Cigna has argued that Anthem botched the antitrust defense.

As part of the shuffle, Ford said Thursday morning that product chief Raj Nair will take over North American operations, a region responsible for nearly 90% of the company's profits, and Steven Armstrong, Europe's operating chief, will be elevated to run the region, replacing Jim Farley, who was named the new global markets president Monday.

Peter Fleet, a longtime marketing executive, will take over Asia-Pacific operations, a vital region including China, from Dave Schoch, who is retiring after 40 years. Purchasing chief Hau Thai-Tang will add global product development to his role, the company said.

The moves highlight how Mr. Hackett, less than a week in the new job, is restructuring the management team to be more agile with him having fewer direct reports than his predecessor. Many of these executives will now report to either Mr. Farley, or Joe Hinrichs, Ford's new global operations chief.

In naming Mr. Hackett to the top job, Ford Chairman Bill Ford has emphasized the need to move faster and make harder decisions if the 114-year-old auto makers is to compete in a quickly evolving business facing encroachment from new tech rivals in Silicon Valley.

"The clock speed at which the world is moving and our competitors are working really requires us to make decisions faster," Mr. Ford said, speaking to reporters earlier this week.

Mr. Ford is counting on Mr. Hackett, a former office-furniture executive with a record for turning around ailing organizations, to sharpen the company's strategy and re-energize its workforce amid shrinking profits and plateauing U.S. sales volumes.

Among other changes announced Thursday is the return of Sherif Marakby to Ford as a vice president, running electric-car and autonomous-vehicle development. Mr. Marakby recently left Uber Technologies Inc.

Management Shuffle Continues At Ford

BY CHRISTINA ROGERS

Ford Motor Co. shook up more of its top management after the ouster earlier this week of former Chief Executive Mark Fields and the appointment of Jim Hackett as the No. 2 U.S. auto maker's new boss.

As part of the shuffle, Ford said Thursday morning that product chief Raj Nair will take over North American operations, a region responsible for nearly 90% of the company's profits, and Steven Armstrong, Europe's operating chief, will be elevated to run the region, replacing Jim Farley, who was named the new global markets president Monday.

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BUSINESS WATCH

SIGNET

Retailer Loses Shine As Sales Retreat

Jewelry-store operator **Signet Jewelers Ltd.** widely missed quarterly earnings expectations with same-store sales falling 12%, pressured by the later timing of the Mother's Day holiday.

Signet also said it would outsource its consumer-financing operation after launching a strategic review of the program a year ago. The company plans to sell \$1 billion of prime accounts by October to Alliance Data Systems Corp., which operates loyalty programs and private-label credit cards.

The parent of Kay Jewelers, Zales and Jared said its fiscal first quarter earnings dropped sharply to \$70.3 million, or \$1.03 a share, from a year-earlier \$146.8 million, or \$1.87 a share.

Analysts surveyed by Thomson Reuters had expected the company to post earnings on a per-share basis of \$1.66.

Signet's disappointing results on Thursday come after rival Tiffany & Co. saw a selloff of shares amid weaker-than-expected sales for its latest quarter. Tiffany beat Wall Street projections for earnings.

For the quarter ended April 29, Signet's revenue fell 11% to \$1.4 billion, below the \$1.46 billion expected by analysts. It backed its previously released full-year guidance calling for same-store sales to retreat in the low-to-mid single digits and for earnings to be between \$7 and \$7.40 a share.

The company plans to close 165 to 170 stores in its current fiscal year. It plans to open 90 to 115 stores in the period, resulting in a net decline of square footage of as much as 1%.

In the deal with Alliance Data Systems, Signet will sell about

55% of its credit portfolio. Signet said it expects the transaction will add to earnings in the first full year of the deal. Under a seven-year agreement, Alliance Data will become the primary provider of credit funding for Signet, the jeweler said.

—Ezequiel Minaya

ANSELL

Company Sells Condoms Business

Ansell struck a \$600 million deal to sell its condoms business to a pair of Chinese investors as it shifts focus to operations targeting medical and industrial markets.

The Australian company, which produces a range of rubber safety gear from surgical gloves to protective suits worn in commercial diving, said Thursday that it signed a binding deal to sell the condoms business to **Humanwell Healthcare** (Group) Co. and Citic Capital China Partners III, a buyout firm managed by Citic Capital Holdings Ltd.

The decision to sell the business creates value for shareholders and is also designed to improve revenue growth, said Magnus Nicolin, Ansell's chief executive and managing director.

In August, Ansell hired Goldman Sachs to help with a review of its sexual-wellness division, which makes a range of condoms under brands including Skyn, LifeStyles and Jissbon.

Ansell, which traces its roots to a bicycle-tire factory in Melbourne over a century ago, said the deal to sell the condoms business to Humanwell included some offices and manufacturing sites from Bangalore in India to São Paulo. It won't include Ansell's medical and sexual-wellness joint venture in India.

—David Winning and Robb M. Stewart

By MIKE SPECTOR

A federal appeals court has denied a former **Volkswagen** compliance executive's bid to overturn a decision keeping him imprisoned before trial on charges he participated in the German auto maker's emissions fraud.

The Sixth U.S. Circuit Court of Appeals in Cincinnati on Wednesday affirmed a district judge's order keeping Oliver Schmidt behind bars in Michigan amid concerns he would flee the country if released on a \$1.6 million bond.

Mr. Schmidt, a German citizen, for several years headed Volkswagen's environment and engineering office in Auburn Hills, Mich., where he liaised on compliance matters with U.S. and California environmental regulators.

The appeals court found U.S. District Judge Sean Cox in Detroit correctly weighed relevant legal factors when denying

Mr. Schmidt's request to be freed on bond during a hearing in March.

"The record demonstrates the district court considered the relevant statutory factors, and we find no clear errors in the district court's factual findings," three appeals court judges wrote in a brief order. "We agree that no condition or combination of conditions will reasonably assure Schmidt's appearance as required."

A lawyer for Mr. Schmidt didn't immediately respond to a request for comment. A Volkswagen spokeswoman declined to comment.

Mr. Schmidt has pleaded not guilty to the charges.

Judge Cox in March said the case was a "very, very serious" one that involved defrauding U.S. officials as part of a conspiracy to rig nearly 600,000 diesel-powered Volkswagen vehicles with software that allowed them to dupe government emissions tests and is scheduled to be sentenced in July.



Oliver Schmidt is one of seven Volkswagen employees charged for alleged roles in the emissions scandal.

TECHNOLOGY

WSJ.com/Tech

Microsoft Gets Into Gaming Videos

By SARAH E. NEEDLEMAN

Microsoft Corp. launched its own videogame live-streaming service called Mixer, setting up yet another battle among some of the biggest names in the technology industry.

Despite its long history in videogames, Microsoft is late to live streaming, in which people watch real-time videos of other people playing games and esports contests. It faces competition from the leaders, **Amazon.com** Inc.'s Twitch and **Alphabet** Inc.'s YouTube. And **Facebook** Inc. this year signed esports streaming deals.

A live-streaming service is a logical move for Microsoft, one of the few tech titans that owns a popular piece of dedicated gaming hardware. The company stopped reporting sales of its Xbox consoles in 2014. Last month, it said its Xbox Live gaming service had 52 million users in the quarter ended March 31.

Still, "it would be tricky for anyone to try to capture market share," Jefferies analyst Tim O'Shea said.

Microsoft said it would prominently feature Mixer on Windows 10 and Xbox consoles, though it will continue to make the YouTube and Twitch apps available for download.

Mixer will be free for Windows 10 computers, Xbox consoles and mobile devices running iOS, Android or Windows. Microsoft plans to sell \$5.99 monthly subscriptions to its streamers' channels—a dollar more than what Twitch charges—as a way for viewers to support their favorites.

Microsoft's move comes as interest in live streaming is growing. People are expected to spend 11.4 billion hours this year watching live and on-demand game content on YouTube and Twitch, up from 9.6 billion in 2016, according to industry tracker SuperData Research. It estimates total revenue for the videogame live-streaming market to reach \$1.5 billion this year.

To stand out, Microsoft said it plans to offer original features, such as the option for viewers to watch up to four broadcasts simultaneously.

The company said it is working to get partnerships with popular streamers. That could be hard as some big streamers, such as members of esports teams Cloud 9 and Team Liquid, have exclusive contracts with other platforms.

—Jay Greene contributed to this article.

CHINA

Continued from page B1

The modified Windows 10 represents a chance for Microsoft to regain an important market in China. Approximately 16 million PCs are used by the government, according to estimates from research firm IDC. This version is available only to Chinese government offices and state-owned enterprises in critical infrastructure sectors. The company's Windows 8 and 10 consumer versions aren't on government procurement lists.

The new Windows 10 version is already being used in pilot programs by the national customs agency, an economy planning commission in the city of Shanghai, and Westone Information Technology, a state-owned tech company. A Microsoft representative said allowing these customers to use the software first let them ensure it was installed and deployed properly.

The program still must go through a Chinese government review before it can be included on official procurement lists.

The Microsoft representative said the joint venture was in "active discussions" with necessary entities to complete government requirements, including finalizing a price and product name.

—Jay Greene in Seattle and Yang Jie in Beijing contributed to this article.

Google Makes a Play for China

Firm uses AlphaGo contest to raise its profile and forge ties with officials, talent

A friendly game of Go in the city of Wuzhen this week has given Google an opening to return to China's good

By Liza Lin in Wuzhen, China, and Jack Nicas in San Francisco

graces, seven years after it left the country over government censorship of its namesake search engine and hacks of its Gmail service.

Few companies can match Google for its global reach, with more than a billion customers for each of seven different products. Yet China manages without it, leaving a gaping hole in the global map for the Silicon Valley company and its parent, **Alphabet** Inc., as they expand into driverless cars, cloud computing and other technologies made possible by advances in artificial intelligence, or AI.

On the surface, the Google entourage was here for a three-game Go rematch between its AlphaGo computer program and Ke Jie, China's 19-year-old world champion. After two matches, AlphaGo was 2-0, with a final game set for Saturday.

Beyond the contest, the event allowed Google to be seen in a country that is significant for its long-term business prospects and to forge re-



World champion Go player Ke Jie ponders a move against AlphaGo. He lost the first two matches.

lationships with Chinese government officials who could play pivotal roles in that respect. And Wuzhen is the site of an annual internet conference convened by the Cyberspace Administration of China.

In the near term, the AlphaGo event was a chance for Google to raise its profile with China's young engineering talent, who are much in demand as rivals such as **Amazon.com** Inc., **Facebook** Inc. and Chinese internet firm **Baidu** Inc. ramp up ambitions in products dependent on advanced AI technology, such as facial recognition.

Two top AI executives in Google's cloud unit are Chi-

nese women: Fei-Fei Li and Jia Li, the former head of research at messaging company **Snap Inc.**

China's AI talent has "significantly increased in quality and number," said Ms. Jia, who attended the Wuzhen event.

She said Google is looking to hire AI engineers in China to add to the more than 500 staff in Beijing and Shanghai. Although its main products are blocked, Google still runs an online advertising business in mainland China, helping Chinese and international firms market their businesses overseas and on some domestic platforms.

Hiring Chinese engineers will likely be easier than win-

ning over the country's regulators and consumers, given lingering bitterness over Google's 2010 departure, when company co-founder Sergey Brin became an outspoken critic of China's government.

In a sign of the importance Google placed on the event, Alphabet Chairman Eric Schmidt made his first public appearance in China since 2015, joined by Google scientists including Demis Hassabis and Jeff Dean.

Google remains interested in expanding its presence in China, but it recognizes the challenges and is moving slowly, according to a person familiar with the company's thinking. Google recently in-

troduced its Translate app into China and is working to bring in more Android apps over the next year, this person said.

There are many business reasons to return. China is a dark spot for Google Cloud, its business of running companies' systems and data on its computers. In a regulatory filing, Snap noted that it has "very limited access to the China market" in part because "access to Google, which currently powers our infrastructure, is restricted in China."

In hardware, Google recently launched new flagship smartphones and a smart talking speaker. But the key selling points of those devices are their Google services, such as Google's virtual assistant, which are blocked in China, and these products aren't available there.

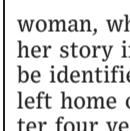
Self-driving cars also face obstacles because China allows only domestic companies to collect high-definition map data—citing national security reasons—shutting Alphabet and other U.S. firms out of collecting crucial data.

A potentially greater challenge is the aggressive expansion by Chinese competitors **Alibaba Group Holding Ltd.**, **Tencent Holdings Ltd.** and **Baidu** since Google left.

"The Chinese software landscape has changed significantly since Google's departure," a former Google China executive said. "Re-entry is not simply a matter of government approval, but winning over users."

PERSONAL TECHNOLOGY | By Geoffrey A. Fowler

You Are a Wide-Open Book on the Internet



Privacy wasn't a concern for her until it was too late.

The woman, who agreed to share her story if she weren't to be identified, told me she left home one midnight after four years in a relationship. She moved away and restarted her life. Then, she says, she was bombarded by phone calls from men soliciting her for sex and by bizarre friend requests on social media. She says one man showed up at her house.

She suspected her ex of stalking her online and posting her information to fuel harassment. "It is psychological torture," she told me.

She turned to a domestic-violence shelter for help working with Verizon in an effort to unmask some of the phone callers and filing for "Safe at Home" status in her state to shield her address from public records.

It's a stark reminder that erosion of privacy is a cancer of digital life. And while we might not talk about privacy as often as the latest cool app, it's only getting worse.

I hear this all the time: "I have nothing to hide." The truth is, pretty much everybody has something online they want to keep private.

What has your web browser seen that could embarrass you later? This isn't just about porn. Have you hunted for a new job,

streamed the ballgame at work, investigated a crush or googled the morning-after pill? Imagine if a report about it showed up on the desk of your boss, spouse or legal adversary. The most innocuous fragments of your digital life—Facebook posts, even the Find My iPhone app—can be weaponized to target or harass.

Meanwhile, data aggregators send their bots to collect anything and everything they can about you: addresses, browsing habits, even estimated net worth. Then they glue it all together, facts and wild guesses alike, into dossiers. That's the legal side of data collection.

Things get scarier when your tax accountant, credit-card company or email provider gets hacked.

Think about what's coming in the era of artificial intelligence. Many of Silicon Valley's smartest minds are making billions mining you for ad targeting.

OK, maybe you don't mind that underwear ad that follows you around the web. But data brokers now combine information from multiple sources to segment us in ways that go well beyond advertising. Should you be invited to join a club? Or a clinical trial?

It's about self-determination. "If people don't have the ability to control or understand how their data is being used, it can lead to severe difficulties," says Julie Brill, a partner at law firm Hogan Lovells who as a

member of the Federal Trade Commission helped lead an investigation of data collectors.

Many assume the law will intervene when data might be used to harm you, and they are both right and wrong. There are laws, Ms. Brill points out, but they're fairly focused on topics like health and financial data.

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what's out there and totally public. Lots of people have googled themselves, but fewer are familiar with "people search engines" like FamilyTreeNow.com and Spokeo, which pull together and cross-reference public data, such as property records and court reports.

Anyone can use them to look for birth dates, current

lyTreeNow.com and Spokeo accept requests to remove data, though they don't promise your name won't show up again in the future.

Level two in my privacy test was looking at data we willingly give to companies like Google.

My volunteers brought their laptops and logged in. What we found provoked their most uncomfortable reactions.

On its Maps Timeline, Google is gathering a dossier about you that would make a spy jealous.

Depending on how much you use Google products, there could be an hour-by-hour map of everywhere you've ever visited. Yes, everywhere. On Google's My Activity site, you can see searches, websites you visit in Chrome, YouTube videos you watch, even recordings of your voice to Google's Assistant.

At least Google, like a few others, presents the data in a dashboard for you to see—and delete, if you want. Half of my volunteers deleted stuff immediately.

The woman who received harassing phone calls told me she has made it her mission to scrub her name from the internet entirely. It isn't going very well.

She canceled her Google and Facebook accounts, but still can't remove some info posted by others. She says several people-search sites haven't responded to her requests.

"No one will hear me," she says.

YUAN

Continued from page B1

Microsoft say they parted last September due to his health.

Mr. Lu's experience, technical expertise and diligence made him a sought-after candidate for almost all big Chinese technology companies, says Kai-Fu Lee, CEO of investment firm **Sinovation Ventures** and former head of Google and Microsoft China.

Mr. Lu says he turned down offers at bigger and stronger companies because those would require only 70% of his capabilities while Baidu will demand 100%.

He will need to give his all. After Google withdrew from China over censorship and hacking in 2010, Baidu became a dominant force in Chinese tech, along with e-

commerce titan **Alibaba Group Holding Ltd.** and game and messaging kingpin **Tencent Holdings Ltd.**

Then, Baidu stumbled. It missed the mobile internet wave, belatedly pouring billions of dollars into group buying, meal delivery and other services, which are struggling. Last year, after a college student with cancer died following a treatment he found on Baidu, authorities tightened regulations on medical ads, a huge source of revenue for the search engine. Profit slumped 9.3% in the first quarter of 2017 from a year earlier.

Now Baidu's market capitalization is less than a quarter of Tencent's and Alibaba's. In the past year, share prices of Tencent and Alibaba rose by 71% and 51%, respectively. Baidu's rose by 8%.

The company needs to re-

edge is eroding as online users turn to e-commerce and social media sites. E-commerce ad revenue surpassed search-engine ads in China in 2016, according to research firm iResearch.

Mr. Lu's solution: make voice, photo and video searchable and widen search availability to cars, personal digital assistants like Amazon's Echo and other physical devices.

Then he will have to ensure Baidu's bets on the future are viable.

He's spending heavily to recruit top talent in artificial intelligence, driving up research and development expenses to 2.8 billion yuan (\$412 million) in the first quarter of 2017, a 35% increase from a year earlier. That talent is being aimed at search, speech recognition and driverless car technologies.

It is in driverless cars where Mr. Lu thinks Baidu can displace Google parent **Alphabet Inc.** to become a world leader.

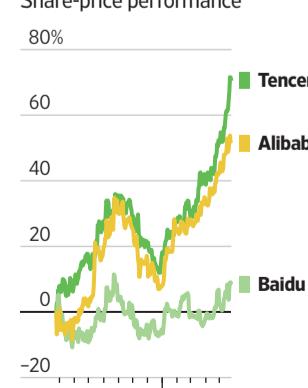
Just as Google did to popularize its Android mobile operating system, Mr. Lu announced last month that Baidu will open its self-driving car technologies to others to help develop autonomous vehicles. The company is on track, he says, to mass-produce fully autonomous vehicles by early 2021.

Reaction from the government and auto makers to the initiative, called "Project Apollo," has been positive, he says. Government support and data-sharing among partners should speed along development of the technologies, Mr. Lu says: "If Apollo performs well, we will catch up with and even surpass Google."

Google declined to comment.

Tech Race

Share-price performance



vamp its business, resurrect its reputation and reboot its share prices and morale.

To do that, Mr. Lu will first have to defend Baidu's core search business. Its

FINANCE & MARKETS

China Chides Moody's After Downgrade

Beijing faults ratings firm, faces balancing act as it seeks foreign bond investors

BY SHEN HONG

SHANGHAI—**Moody's Investors Service** is facing a backlash in China against its decision to cut the country's credit rating, a move that has come just as foreign ratings firms are set to receive greater access than ever to the world's No.2 economy.

China's Finance Ministry immediately criticized the Moody's downgrade—it's first such move in nearly three decades—accusing it of using an "inappropriate" methodology and betraying "a lack of necessary knowledge of Chinese law." The U.S.-based rating

firm had cited concerns about rising debt as China's economy slows as the main reason for its downgrade.

In an article published on Wednesday evening, China's official Xinhua News Agency criticized Western rating firms as discriminating against developing countries. "Their methodologies are flawed and their reputation has already been questioned," Xinhua said.

And on Thursday, the state-run People's Daily's overseas edition ran a column written by Mei Xinyu, a well-known economist at China's Ministry of Commerce, in which he accused Moody's of applying "double standards" to its rating of China versus that of Western countries.

In response to Beijing's criticism, Moody's reiterated the rationale behind its latest rating decision in a written reply

to The Wall Street Journal, citing expectations for slowing economic growth and increased reliance on debt-driven policy stimulus.

Other countries facing credit-rating downgrades are often critical of the firms responsible. When Standard & Poor's cut the U.S. government's debt rating to AA-plus from triple-A in 2011, the Treasury Department complained about what it called a \$2 trillion error in the rating firm's math.

In calibrating its response to Moody's, Beijing must weigh its desire to push back against the downgrade with its simultaneous efforts to encourage more foreign investors into its \$8 trillion bond market. Last year China relaxed many of the restrictions foreigners faced on investing in Chinese bonds, while the

government is currently planning to launch a bond-trading link between the mainland and Hong Kong.

Granting major ratings firms greater leeway to operate in China has long been seen as a crucial step in the

grade rating of at least above AA, making it difficult for investors to discern different issuers' creditworthiness.

Beijing has said it would allow foreign firms to provide credit-rating services in China by July 16, as part of a plan agreed at the summit between President Donald Trump and Chinese President Xi Jinping at Mar-a-Lago in April.

It is too early to say whether as a result of its downgrade Moody's will face problems growing in China once the market opens up. Many of the companies that issue bonds in China are state-owned, meaning the government could in theory press firms not to pay out-of-favor firms for ratings.

Analysts say it will be hard for China to punish Moody's without harming its reputation among investors.

"These [foreign ratings firms] are big boys and if China did that, that would be evidence of a too-thin skin," said Tim Condon, an economist at ING in Singapore.

Still, the backlash in China against Moody's following its downgrade is reminiscent of what happened in March last year, when the firm lowered its outlook on China to negative from stable. At that time, aside from similar criticisms in state media, China's vice finance minister, Zhu Guangyao, accused the ratings firm of acting under "ideological influences" and treating emerging economies unfairly. Behind the scenes, Chinese regulators on a couple of occasions dropped Moody's from the guest list of meetings with external firms in the months following, according to a person familiar with the matter.



Inside Magnetar's office in Evanston, Ill. The hedge fund is pouring tens of millions of dollars annually into researching new techniques for investing and has one-fifth of its 260-person staff working in technology.

Rise of the Machines

Magnetar's quantitative PRA fund eclipses its hedge-fund peers

Growth of a \$1,000,000 investment



Magnetar Capital is tilting from its historical strengths into new areas like quant.

Magnetar firm assets under management, in billions



Sources: Magnetar investor documents; HFR

THE WALL STREET JOURNAL.

Old-School Fund Shifts Into High-Tech Investor

THE QUANTS

Machines and their masters are the undisputed new kings of Wall Street

BY ROB COPELAND

EVANSTON, ILL.—Alec Litowitz, founder of one of the country's largest hedge funds, raised a question at the firm's investment committee meeting: How often do mergers fall apart?

No one had the answer, so the **Magnetar Capital LLC** founder assigned a team of analysts to pore through three decades of data to find out. They calculated that while 7% of announced transactions eventually collapse, the market behaves as

if nearly twice as many do. Mr. Litowitz reasoned a computer program could make money exploiting that discovery and thousands of others. So began six years ago a billion-dollar quantitative effort at Magnetar designed to help the \$13.5 billion firm buck a hedge-fund massacre waylaying its peers and set to rest memories of controversial trading by the firm on sub-prime housing during the financial crisis.

Like high-end restaurants, hedge funds often roll out new menus to entice investors, and quantitative trading is the latest special du jour. Magnetar's push is different from many of its competitors, who parse reams of data in the hunt for an edge—even one they can't explain.

"We start with intuitions and then go see if the data backs it up," said Mr. Litowitz.

Mr. Litowitz, 50, started Magnetar in 2005. The firm launched with \$1.8 billion in capital, marking one of the largest hedge-fund launches of the time. Magnetar's flagship fund has reported only two down years, with an average annualized return of roughly 5%, after fees.

Similar to many hedge funds, investors have pulled more from Magnetar than they have put in of late. The firm manages nearly as much assets as it ever has thanks to positive investment performance, including 8% gains in each of the past two years for its newest quantitative vehicle, investor documents show.

The firm was investigated by the Securities and Exchange Commission after the crisis for its role in creating mortgage securities that suffered billions of dollars in losses in the housing swoon. The firm denied wrong-

doing, and the probe was closed with no charges brought.

Mr. Litowitz now describes the public flogging the firm received as "not my favorite period, but probably partly our responsibility a little bit, having not done the greatest job of articulating what we did."

Independent of the investigation, Magnetar executives had concluded some of their old trades, such as spotting discrepancies in complicated financial instruments like convertible bonds, had grown tired.

Thus began a shift into new areas such as quantitative trading and investments in movies and commercial jets.

Magnetar is pouring tens of millions of dollars annually into researching new techniques for investing. One-fifth of the firm's 260-person staff now works in technology. In one instance, the

firm's researchers advised the investment staff to largely ignore traditional metrics in stock picking like executives' ownership of stock because such statistics are weak predictors of short-term performance. In fixed income, which includes half the firm's assets, Magnetar executives say only 15% of the firm's investments now constitute old-school hedge-fund bets like deciding one by one when to zip in and out of securities.

The firm cast a wide net for the next big wins, in one instance scoring handsomely on Chinese e-commerce giant Alibaba before its public debut, and in another investing in thousands of commercial trucks and single-family homes.

Magnetar also began telling investors it would waive some fees tied to performance unless it could beat a market benchmark.

Magnetar recently parted ways with its head trader—a top role at most hedge funds—to instead move to a committee-based approach where no individual holds the power, people close to the firm say.

Magnetar executives say there still is a significant role for human decision-making.

Last year, facing mounting losses in its multibillion-dollar energy arm amid a slide in the price of oil, energy head Eric Scheyer called an emergency meeting, people close to the firm say. Dave Snyderman, a 12-year Magnetar veteran and global head of fixed income, proposed shifting the energy bets to a "barbell" approach, in which new investments would be either outright risky or ultrasafe.

The energy fund was up 23% last year, according to investor documents.

Deutsche Bank Faces Pressure From U.S. Over Links to Russia

BY JENNY STRASBURG

U.S. Democratic lawmakers have asked **Deutsche Bank AG** to provide details about its internal reviews into Russian trades and clients, as well as loans made to President Donald Trump, according to a letter made public on Wednesday.

Rep. Maxine Waters of California, the ranking Democrat on the House Financial Services Committee, and four other Democrats in a letter dated Tuesday asked Deutsche Bank Chief Executive John Cryan to disclose materials related to any internal reviews into Mr. Trump's accounts and any connections between those accounts and Russia.

The lawmakers asked for details of any Deutsche Bank reviews of whether loans to Mr. Trump "were backed by guarantees from the Russian government, or were in any way connected to Russia." They also asked for due-diligence documentation and details of assets and guarantees backing the loans to Mr. Trump.

Deutsche Bank, which has previously faced similar requests for information, declined to comment.

More broadly, U.S. investigators are looking into any ties between Russian financial institutions, Mr. Trump and anyone in his orbit. Russia has denied interfering in the 2016 election.

Mr. Trump has repeatedly denied any collusion between his campaign and Russia. Deutsche Bank has faced months of scrutiny over controls around its Russia operations, including roughly \$10 billion in equity trades that are a matter of a continuing U.S. Justice Department investigation, and for its ties to Mr. Trump.

The bank lent more than \$300 million to entities affiliated with Mr. Trump, disclosures show. Democratic lawmakers in March called for a hearing to examine Deutsche Bank's ties to Mr. Trump, in part to explore any potential conflicts of interest in govern-

ment investigations. The Democratic lawmakers alone have lacked Republican support to demand documents. No hearing has been scheduled.

Tuesday's letter asks for a response by June 2.

In a separate letter sent Tuesday to Treasury Secretary Steven Mnuchin, Ms. Waters requested that the department's Financial Crimes Enforcement Network provide any records detailing the president's financial ties to Russia. The letter singles out Mr. Trump's business dealings with Deutsche Bank.

The Treasury hasn't yet responded to the letter.

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Value Partners

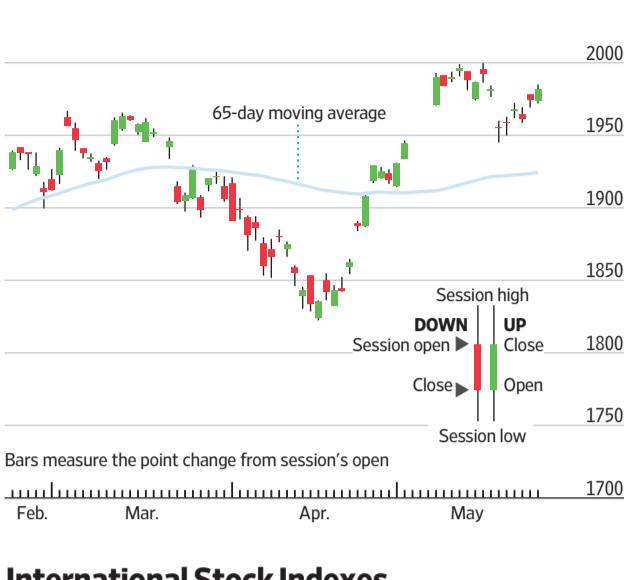
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MARKETS DIGEST

Nikkei 225 Index

19813.13 ▲ 70.15, or 0.36%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

392.14 ▼ 0.23, or 0.06%

High, low, open and close for each trading day of the past three months.



S&P 500 Index

Data as of 12 p.m. New York time

Last ▲ 23.44, Year ago 23.49

Trailing P/E ratio 23.44, P/E estimate * 18.41, Dividend yield 1.98, All-time high: 2404.39, 05/24/17

High, low, open and close for each trading day of the past three months.

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



International Stock Indexes

Data as of 12 p.m. New York time

Region/Country	Index	Close	Latest NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2773.87	9.08	▲ 0.33	2193.75	● 2778.48	9.7		
	MSCI EAFE	1894.33	6.69	▲ 0.35	1471.88	● 1956.39	10.4		
	MSCI EM USD	1012.91	7.88	▲ 0.78	691.21	● 1044.05	27.5		
Americas	DJ Americas	579.17	1.62	▲ 0.28	480.90	● 580.46	7.2		
Brazil	Sao Paulo Bovespa	63023.16	-234.20	▼ -0.37	48066.67	● 69487.58	4.6		
Canada	S&P/TSX Comp	15349.36	-70.13	▼ -0.45	13609.58	● 15943.09	0.4		
Mexico	IPC All-Share	49389.47	-104.93	▼ -0.21	43902.25	● 50154.33	8.2		
Chile	Santiago IPSA	3693.06	-10.21	▼ -0.28	2998.64	● 3786.05	14.6		
U.S.	DJIA	21065.06	52.64	▲ 0.25	17063.08	● 21169.11	6.6		
	Nasdaq Composite	6199.09	36.07	▲ 0.59	4574.25	● 6207.60	15.2		
	S&P 500	2413.38	8.99	▲ 0.37	1991.68	● 2417.58	7.8		
	CBOE Volatility	10.12	0.10	▲ 1.00	9.56	● 26.72	-27.9		
EMEA	Stoxx Europe 600	392.14	-0.23	▼ -0.06	308.75	● 396.45	8.5		
	Stoxx Europe 50	3235.05	-2.46	▼ -0.08	2626.52	● 3279.71	7.5		
France	CAC 40	5337.16	-4.18	▼ -0.08	3955.98	● 5442.10	9.8		
Germany	DAX	12621.72	-21.15	▼ -0.17	9214.10	● 12841.66	9.9		
Israel	Tel Aviv	1423.35	4.80	▲ 0.34	1372.23	● 1490.23	-3.2		
Italy	FTSE MIB	21291.72	-78.01	▼ -0.37	15017.42	● 21828.77	10.7		
Netherlands	AEX	527.46	-0.41	▼ -0.08	409.23	● 537.84	9.2		
Russia	RTS Index	1083.52	-4.07	▼ -0.37	874.88	● 1196.99	-6.0		
Spain	IBEX 35	10937.70	30.30	▲ 0.28	7579.80	● 11184.40	17.0		
Switzerland	Swiss Market	9035.09	...	▲ Closed	7475.54	● 9136.95	9.9		
South Africa	Johannesburg All Share	54028.39	-280.28	▼ -0.52	48935.90	● 54716.53	6.7		
Turkey	BIST 100	97712.94	-600.83	▼ -0.61	70426.16	● 98794.90	25.1		
U.K.	FTSE 100	7517.71	2.81	▲ 0.04	5788.74	● 7533.70	5.2		
Asia-Pacific	DJ Asia-Pacific TSM	1606.09	11.43	▲ 0.72	1308.52	● 1608.13	12.9		
Australia	S&P/ASX 200	5789.60	20.60	▲ 0.36	5103.30	● 5956.50	2.2		
China	Shanghai Composite	3107.83	43.76	▲ 1.43	2821.05	● 3288.97	0.1		
Hong Kong	Hang Seng	25630.78	202.28	▲ 0.80	20038.42	● 25630.78	16.5		
India	S&P BSE Sensex	30750.03	448.39	▲ 1.48	25765.14	● 30750.03	15.5		
Indonesia	Jakarta Composite	5703.43	...	▲ Closed	4772.98	● 5791.88	7.7		
Japan	Nikkei Stock Avg	19813.13	70.15	▲ 0.36	14952.02	● 19961.55	3.7		
Malaysia	Kuala Lumpur Composite	1773.96	2.95	▲ 0.17	1614.90	● 1778.65	8.1		
New Zealand	S&P/NZX 50	7434.47	12.69	▲ 0.17	6664.21	● 7571.11	8.0		
Pakistan	KSE100	52869.01	-7.45	▼ -0.01	36061.56	● 52876.46	10.6		
Philippines	PSEI	7871.65	33.83	▲ 0.43	6563.67	● 8102.30	15.1		
Singapore	Straits Times	3234.37	3.13	▲ 0.10	2729.85	● 3271.11	12.3		
South Korea	Kospi	2342.93	25.59	▲ 1.10	1925.24	● 2342.93	15.6		
Taiwan	Weighted	10108.49	64.07	▲ 0.64	8394.12	● 10108.49	9.2		
Thailand	SET	1569.41	3.26	▲ 0.21	1401.64	● 1591.00	1.7		

Source: SIX Financial Information/WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on May 25

Country/currency	Thu	US\$ vs. YD ^{dag}	
Country/currency	Thu	in US\$	per US\$ (%)
Europe			
Bulgaria leva	0.5735	1.7921	-6.2
Croatia kuna	0.1511	6.617	-7.8
Euro zone euro	1.1222	0.8911	-6.3
Czech Rep. koruna-b	0.0424	23.572	-8.2
Denmark krone	0.1508	6.6322	-6.2
Hungary forint	0.003652	273.86	-6.9
Iceland krona	0.009951	100.49	-11.0
Norway krona	0.1195	8.3673	-3.2
Poland zloty	0.2687	3.7219	-11.1
Russia ruble-d	0.01760	56.815	-7.3
Sweden krona	0.1153	8.6724	-4.8
Switzerland franc	1.0292	0.9716	-4.6
Ukraine hryvnia	0.0381	26.2800	-3.0
U.K. pound	1.2954	0.7720	-4.7
Middle East/Africa			
Bahrain dinar	2.6522	0.3771	-0.03
Egypt pound-a	0.0553	18.0947	-0.2
Israel shekel	0.2802	3.5693	-7.2
Kuwait dinar	3.2946	0.3035	-0.7
Oman rial	2.5974	0.3850	-0.01
Qatar rial	0.2746		

FINANCE & MARKETS

Beijing Stands by Trade Practices

BEIJING—China's Commerce Ministry issued a report defending its trade policies and practices in matters from market access to the exchange rate.

Four months into Donald Trump's presidency, Beijing's assessment of its trade relationship with the U.S. is that the imbalance isn't that bad, job losses at U.S. steel mills aren't China's fault and Beijing's yuan interventions benefit the U.S.

Washington and Beijing this month reached a deal pledging closer cooperation in agricultural trade and financial services, but avoided more divisive issues such as Chinese industrial overcapacity that has flooded global markets with cheap steel and aluminum.

It is untenable for the U.S. to blame job losses on the Chinese government's support for its steel industry, the report said Thursday, instead citing slower global economic growth and advances in technology.

The ministry also said the U.S. trade deficit with China in goods has been exaggerated, in part by complications of statistical methodologies such as calculations of reshipping.

Citing a joint study by the ministry and the U.S. Commerce Department, the report



China says job losses in the U.S. shouldn't be blamed on its support for the domestic steel industry.

said the trade deficit in goods had been overstated by 19% from 2008 to 2014. The Office of the U.S. Trade Representative put last year's goods trade deficit with China at \$347 billion, while China reported a goods trade surplus with the U.S. of \$254 billion.

But China runs a trade deficit with the U.S. on services, such as Hollywood movies. Based on the joint study, the ministry put last year's overall trade gap at \$164.8 billion.

The report also defended China's obstacles to U.S. investment in sectors such as banking, securities, insurance

and manufacturing.

"China believes that the level of openness of a country is determined by national conditions and is closely related to the political system, economic system, development level and regulatory capacity," the report said.

As for Beijing's use of foreign-exchange reserves to steady the yuan, the report argues that it isn't manipulation but rather intervention "favorable to the international community, including the U.S."

The central bank has taken steps to prevent the yuan from depreciating too fast against

the U.S. dollar. President Trump has criticized China's currency practices, though he hasn't acted on his campaign pledge to label the country a currency manipulator.

Beijing will seek a balance between flexibility and stability for the yuan, the ministry said, adding that it will gradually reach a new equilibrium after a period of volatility.

The ministry also repeated the government's vows to ease market access and increase imports of some U.S. goods. It called on the U.S. to ease limits on high-tech imports.

—Liyan Qi

Dollar Gains Amid Possible Rate Increase

By CHELSEY DULANEY

The dollar edged higher Thursday as investors continued to assess the U.S. Federal Reserve's path for raising interest rates.

CURRENCIES The WSJ Dollar Index, which measures the U.S. currency against 16 others, rose 0.1% to 88.66 at midday.

Minutes from the Fed's May meeting, released Wednesday, showed officials expect to raise interest rates soon even

though the economy stumbled in the first quarter. Still, some Fed officials expressed concern about recent softness in inflation and other U.S. economic data.

Analysts at TD Securities said investors have focused on comments in the minutes saying "it would be prudent to await additional evidence" that the recent weak run of data is temporary before tightening policy again.

"We still believe a June hike is very much in play, but the risks around inflation and

wages have sparked a broader debate at the Fed," said TD Securities in a research note. Uncertainty over the strength of the economy will put emphasis on coming employment and inflation data, TD said.

Data released Thursday showed that initial jobless claims, a proxy for layoffs across the U.S., ticked up last week but came in below economists' expectations.

The U.S. dollar slid 0.4% against the Chinese yuan in offshore trading to its lowest level since March after an abrupt

move in the currency overnight. China has been keeping its currency stable against the dollar this year despite worries over China's economy.

Oil-dependent currencies were mixed as members of the Organization of the Petroleum Exporting Countries renewed an agreement to cut production through March 2018, The Wall Street Journal reported.

The dollar rose 0.1% against the Canadian dollar but fell 0.4% against the Russian ruble and 0.1% against the Norwegian krone.

New Standards Set In Currency Trading

By CHELSEY DULANEY

A group of global standards setters on Thursday completed a new set of principles for trading in the foreign-exchange market, capping a two-year effort to improve transparency after a series of collusion scandals at major banks.

The Bank for International Settlements, a Switzerland-based consortium of central banks, released the final version of the code of conduct for the global foreign-exchange market. A group that included central banks, asset managers and banks has been working on the code since 2015. The first phase was released in May 2016.

The code is aimed at raising transparency and fairness in six areas: ethics, governance, execution, information sharing, compliance and trade settlement. The code was a response to global investigations into fraudulent behaviors among foreign-exchange traders at several major banks.

"Public trust was shaken as a result of the global financial crisis, and there were specific situations in the global FX market that caused public trust to be further undermined," said David Puth, chief executive of foreign-exchange settlements firm CLS Group. "We felt that the FX market was in need of a large effort to help restore trust."

Regulators have handed down billions of dollars in fines for the alleged misconduct, which ranged from front-running client orders to overcharging clients on commissions. The U.S. Justice Department has charged at least six individuals as part of the probe.

On Wednesday, French bank BNP Paribas was fined \$350 million by the New York bank regulator for "nearly unfettered misconduct" in its currency-trading business from

2007 to 2013. BNP said in a statement that it has strengthened its compliance systems, adding that the behavior "was a clear breach of the high standards on which the group operates."

The new code includes 55 "principles" that set a global standard for practices such as information sharing among banks, hedging client trades, and transparency around pricing. The foreign-exchange market lacks a centralized exchange, which has historically made it more difficult for investors to get information about the pricing and execution of their trades.

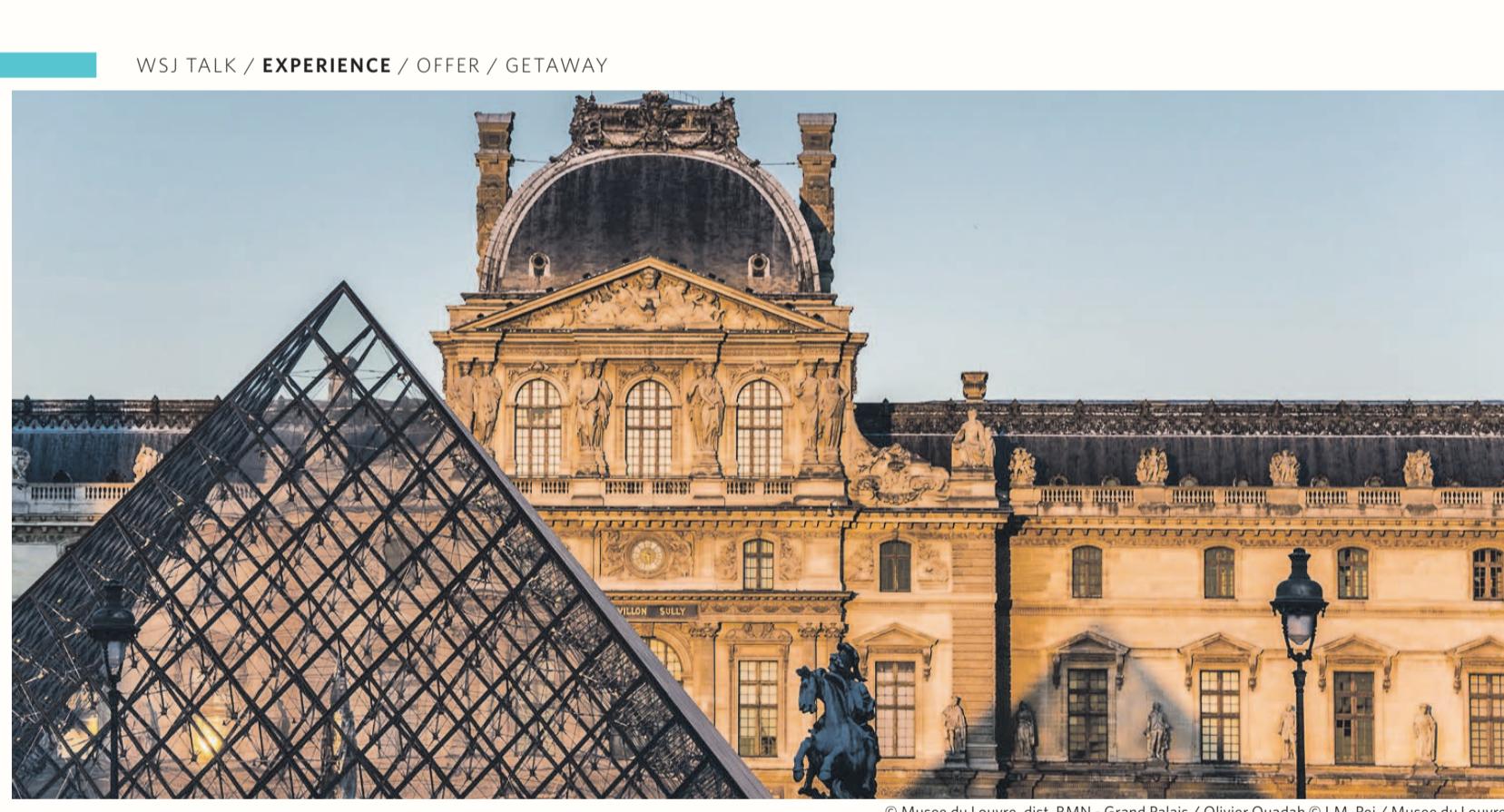
The code is aimed at raising transparency and fairness in several areas.

The code addresses the controversial practice of "last look," which allows market makers to pull out of trades after quoting a price, by saying market participants "should be transparent regarding its use and provide appropriate disclosures."

The code has faced some criticism because it is voluntary. The banks, hedge funds, brokers and trading platforms that choose to adhere to the code will be in charge of enforcing the principles internally.

"The code is not intended to supplant regulation," said Mr. Puth, who was chairman of a group of market participants that worked on the code. "We think rules are more easily arbitraged, people can find safe harbor in rules."

After making a commitment to the code, firms are expected to review their practices and put in place a framework for ensuring adherence.



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MARKETS

Treasurys' Appeal Grows Abroad

China leads the charge as central banks add to their holdings after a drop last year

By MIN ZENG

Foreign central banks are scooping up U.S. government bonds again after paring their holdings in 2016. And the biggest buyer this year? China.

Last year, U.S. Treasurys held by foreign central banks via the Federal Reserve's custody accounts declined by \$140 billion, sparking alarm over whether a wave of Treasury selling by central banks overseas was coming.

This year, the debt holdings have climbed by \$61 billion to \$2.92 trillion, the highest level since June 2016, according to the latest data from the week ended May 17.

There has been a similar shift by China, the second-largest foreign holder of Treasurys after Japan. In 2016, the country slashed its Treasury holdings by \$188 billion. But in the first quarter of 2017, China increased its holdings by \$29 billion to \$1.088 trillion, the most recent such Treasury data released on May 15 show.

"The tide is shifting subtly," said Brad Setser, a senior fellow at the Council on Foreign Relations. "The pressure for China to sell Treasurys has eased off, given the relative stability of its foreign reserves and the Chinese yuan."

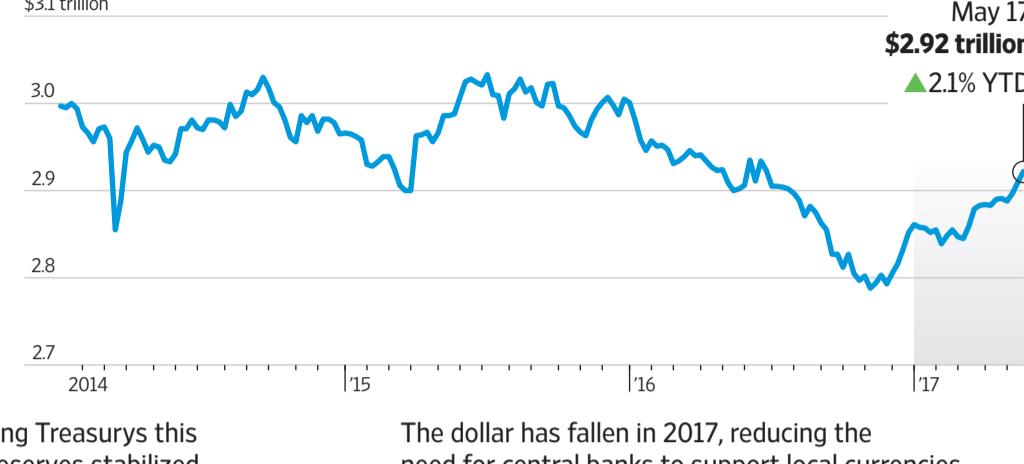
China's foreign reserves slid more than \$500 billion between August 2015—when China shocked the world with a one-time devaluation of the yuan—and December 2016. The reserves have since rebounded from \$3.01 trillion in December to \$3.03 trillion in April, according to TD Securities.

A reversal in the U.S. dollar has helped fuel central-bank buying of Treasurys. A strengthening U.S. currency from mid-2014 to the end of

Foreign Interest

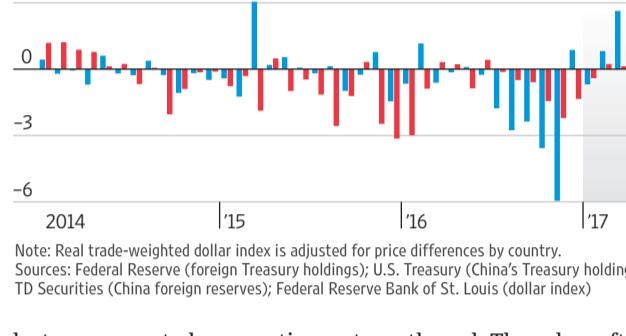
Central banks overseas are buying U.S. government bonds after cutting holdings in 2016—a reversal partly driven by a weaker dollar.

Treasurys owned by foreign central banks via the Federal Reserve's custody account, weekly



China returned to adding Treasurys this year after its foreign reserves stabilized.

Chinese holdings of Treasury debt and foreign reserves, percentage change from previous month



Note: Real trade-weighted dollar index is adjusted for price differences by country.
Sources: Federal Reserve (foreign Treasury holdings); U.S. Treasury (China's Treasury holdings); TD Securities (China foreign reserves); Federal Reserve Bank of St. Louis (dollar index)

last year created a negative feedback loop in emerging markets, with capital leaving developing economies, which then caused local currencies to tumble.

Selling Treasurys is a popular solution for central banks aiming to support local currencies. But this year, a steadily weakening dollar has helped stabilize local currencies and reduced the need for central banks to sell Treasurys and use the proceeds to intervene in the currency market.

The dollar has fallen 1.4% this year against the Chinese yuan freely traded in the offshore markets, after a 6% rally in 2016. The Chinese currency

strengthened Thursday after Moody's Investors Service on Wednesday cut China's sovereign credit rating for the first time in nearly three decades, citing expectations the country's financial health will ebb.

Analysts tracking the capital-flows data have warned that they provide an incomplete picture of China's Treasury investments because the country can park its holdings in third destination. For instance, a popular proxy to gauge China's investments has been Belgium, where Treasury holdings fell \$11.5 billion in the first three months of the year.

Still, U.S. Treasury bonds also continue to offer more attrac-

tive yields compared with their peers in Germany, Japan and the U.K. At \$13.9 trillion, the Treasury market is also still the world's biggest bond market and the most liquid, a draw to central banks searching for a safe place to keep their large cash piles.

The yield on the benchmark 10-year Treasury note was 2.254% in early New York trading Thursday, down from 2.446% at the end of 2016. Yields fall as bond prices rise. Purchases from foreign central banks had contributed to declines in Treasury yields this year after a big rise in late 2016. That in turn has caused hedge funds and money man-

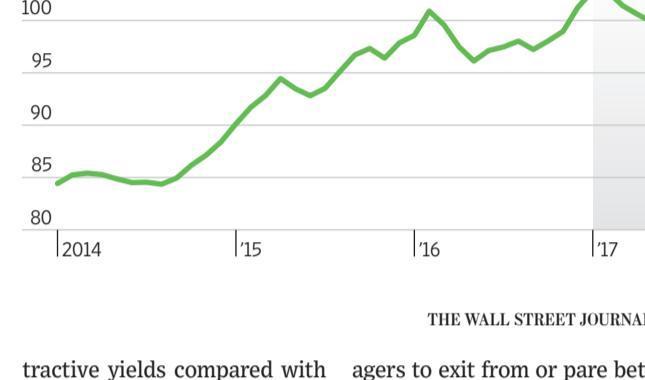
agers to exit from or pare bets that bond yields would extend a climb.

"There are not a lot of options for foreign central banks" to diversify their portfolios away from the Treasury bond market, said Bill Northey, chief investment officer at the private client group of U.S. Bank.

Global foreign reserves excluding gold have stabilized. The amount was \$10.9 trillion at the end of March, up from \$10.8 trillion at the end of December, data from the International Monetary Fund show.

—Lingling Wei and Sam Goldfarb contributed to this article.

Real trade-weighted U.S. dollar index, monthly



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China's Credit Crunch Gets Local

In China, there is always what you see and what you don't—and it is the latter that usually ends up giving investors the biggest fright.

The downgrade of China by credit-rating firm Moody's has highlighted the rising risks the government faces from so-called contingent liabilities: poisonous loans to deadbeat state-owned companies that Beijing might eventually need to absorb, potentially by recapitalizing the country's major banks.

What Moody's didn't explain is that this absorption of hidden liabilities is already under way. Central to the story is what has happened to local-government finances in China in the past two years.

In early 2015, investment levels in China—still so crucial to the country's growth—were in a tailspin. One main reason was a double whammy for city governments, normally big drivers of capital spending. Falling land sales, around a third of local revenue, were pummel-

What Bailout?

Official Chinese government-bond debt



Source: CEIC

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Skyline of Pudong business district, Shanghai

ing budgets just as Beijing had rammed through tough restrictions on cities' off-balance-sheet fundraising.

By March 2015, it was obvious that the clampdown had gone too far. In a policy U-turn, Beijing greenlighted a massive refinancing program for troubled local governments, and the struggling industrial companies they owned, allowing them to directly issue bonds in large amounts for the first time.

just two years. As provincial-debt issuance rose from negligible levels in 2014 to a monthly peak of more than one trillion yuan (\$140 billion) in April 2016, overall investment in the economy also stabilized.

The bad news is that rising bond yields in China have now pushed municipal-bond issuance sharply back down—it amounted to just 325 billion yuan in April, barely a third of last year's peak. Off-balance-sheet financing by local governments through the corporate-bond market has also been punished by higher yields and a renewed regulatory crackdown. All of this has coincided with signs of peaking in both industrial activity and investment growth, which ticked downward in April for the first time since December.

If land sales weaken further or the new regulatory campaign pushes bond issuance by local governments sharply lower, investors should brace for a stormy late 2017. —Nathaniel Taplin

OVERHEARD

Bike-sharing apps require that riders put down a deposit in case the bike disappears. In China, anyway, the real problem might be the deposit disappearing.

China's Ministry of Transport, the People's Bank of China, and several other ministries released a directive this week requesting that popular but controversial bike-sharing apps should ensure that security deposits for renting bikes don't get mixed with other company funds and are returned promptly.

As bike-sharing services have rapidly expanded in China, companies such as Ofo and Mobike have raised more than \$1 billion in equity funding. Anecdotal accounts of customers' security deposits being misused have surfaced in local media, although details are sparse.

Chinese regulators are under heavy pressure from top officials to clean up the country's risk-laden financial system. Bike deposits are apparently as important as bank deposits.

Uncertainty Threatens Health Stocks

The risk of a sharp decline in health-care stocks seems to be dropping as proposed reforms get bogged down in Washington. Investors aren't out of the woods, though.

That latest Congressional Budget Office analysis of the American Health Care Act, which passed the House of Representatives earlier this month, found that the bill's latest revisions had only a minor influence on coverage and budgetary impact. The CBO now expects that 23 million fewer Americans would have coverage by 2026 compared with current law, while the bill is projected to save \$119 billion over that time frame.

Given the slim Republican majority in the Senate and the proposal's unpopularity, it seems unlikely that the bill will become law as written. By itself, that is positive for health-care stocks. Despite initial fears, the industry has performed magnificently under the Affordable Care Act. Fewer Americans being eligible for health insurance would jeopardize that trend. The longer the status quo is in place, then, so much the better for holders of insurance, hospital and drug stocks.

But an indefinite delay raises another threat. President Donald Trump's budget released earlier this week proposes sharp cuts to Medicaid beyond the AHCA as a way to fund proposed tax cuts. Uncertainty carries other costs. Industry executives may hesitate to pursue bold mergers and acquisitions without clarity on what health and tax policy will look like in coming years. After Wednesday's hard numbers, the math for health-care stocks looks fuzzy and full of risks. —Charley Grant

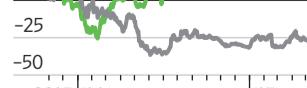
How HP Stole Lenovo's Crown as Top Computer Maker

Chinese computer giant Lenovo thrived for years in a declining PC industry by relentlessly cutting costs. That looks outdated. HP Inc. has stolen its crown as the world's largest computer maker with a strategy Lenovo needs quickly to address.

The grinding decline of the PC market paused last quarter and grew 0.6% year-to-year—tiny, but the first growth in five years, according to International Data Corp. Revenue growth has therefore also come back to PC makers. PC and tablet sales grew 5% last quarter from a year earlier, Lenovo said Thursday. HP Inc., which reported its earnings

Split Processors

Total return



Source: FactSet

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a day earlier, saw even stronger growth—10% in its PC segment.

A sustained rebound is unlikely. Consumers have less reason to upgrade their

computers as regularly as before. Given the rise of smartphones, most people now use PCs only for simple tasks like web browsing or word processing, something that a five-year-old PC can handle without breaking down.

There are exceptions, especially in premium segments and it is here where HP did better than its Chinese rival. Gamers are still eager to upgrade computers as graphics-heavy games gobble up processing power. Virtual reality creates another demand for high-octane PCs.

Premium laptops have also proved more resilient—

such as so-called convertibles, laptops that can turn into tablets, or super-slim notebooks.

HP has a hit with its gaming-dedicated line of computers called Omen, which

HP Chief Dion Weisler bragged last month are "literally blowing the competition away."

It's not quite that bad for Lenovo: Its gaming focused PC sales grew 34% in the fiscal year ended in March. But

Lenovo starts from a much smaller base in that business line.

HP's sales growth last quarter was also driven by a 17% year-over-year increase in laptop sales, where it has

won plaudits for design. Lenovo, which had done a terrific job to gain market share through cost cutting, isn't as well-equipped in the premium segment.

Despite the sales boost, Lenovo's profit before tax for PCs and tablets actually fell 5%, mostly because of rising component costs. HP, thanks to its more premium products, did better, eking out a 1% gain in operating profit for its PC segment.

"We know that we can't cut our way to glory, that we need to innovate our way to success," Mr. Weisler said Wednesday in an earnings call. Those are probably wise words for Lenovo, too.

To fly the
pillowy skies,
we put four
in-flight sleep
cushions to the
test **w8**



OFF DUTY



Sheryl Crow
on the gadgets
that make
parenting
easier
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PHOTO ILLUSTRATION BY F. MARTIN RAMIN/THE WALL STREET JOURNAL; LETTERING BY ANGELA SOUTHERN; CANDLE ILLUSTRATION BY ARTHUR MOUNT

WARM WELCOME Greek Border Card by Jonathan Adler, from \$0.60, paperlesspost.com; Zip Pouch, \$245, anyahindmarch.com; USB Key Fob, \$295, smythson.com; Haford Grange Paperweight, \$58, theline.com; Sunglasses, \$150, ray-ban.com; Tray, \$140, l-object.com; RH, Restoration Hardware Table, \$1,595, rh.com

A HOSTESS-GIFT GUIDE

'No Candles, Please'

With the invitation for a weekend away comes the pressure of exactly how to thank your generous hosts. Here, 22 strategic gifts that will get you invited back—and steer clear of scented, waxy clichés

BY NANCY MACDONELL

IF YOU'RE SPENDING this kickoff-to-summer weekend as a house guest, you've likely pondered the challenges of choosing a hostess gift that's not another boring, superfluous candle. This offering of gratitude can be maddeningly tricky.

What will charm, and what will fall flat? How much money should you lay out? And must you bring a gift at all?

To clear up the lattermost question: The answer is incontrovertibly yes. "My mother would always tell me, if you're not ringing the doorbell with your elbows, something is wrong," said Stacey Fraser, the founder of children's clothing line Pink Chicken, who frequently hosts friends

at her home in Amagansett, N.Y. "It's just good manners." In the view of publicist Sheila Donnelly Theroux, who has a home in Sandwich, Mass., on Cape Cod, arriving empty-handed suggests that you're there "to be entertained."

Ms. Theroux once had a guest show up without a present, announcing that she'd assumed her hosts—Ms. Theroux is married to the writer Paul

Please turn to page **W2**

OFF DUTY

GIFTS FOR GIFTED HOSTESSES

Continued from page W1
Theroux—already had everything. Possibly worse was the widow who brought presents only for Mr. Theroux. "She didn't come back," said Ms. Theroux dryly.

The price factor flummoxes many house guests. Those in-the-know stress that you needn't be extravagant. Ms. Fraser suggested between \$25 and \$100 if you're staying for the weekend, and maybe up to \$200 if it's for the week. Ms. Theroux concurred: "Under \$25, under \$50 or under \$100, depending on your budget and the circumstances. It can be flowers from your backyard." Just as your mother told you, it's the thought that counts.

Perhaps the most fool-proof option is food. Sure, elevated pantry staples like a generous hunk of Parmesan or a bottle of Umbrian olive oil don't seem personal, but chances are they will be used and enjoyed—a high mark for any gift. So, too, beautiful chocolates might not be creative but they will be eaten. "I appreciate anything edible that people bring," said writer Valerie Stivers, who can host up to six adults and eight children at her country home in Winhall, Vt. She is especially grateful if a guest has taken the time to cook something. "When you're trying to feed a houseful of people, it's great to have a lasagna you can heat up," she said. "If it's in a pretty casserole dish, and they're going to leave the dish, even better." A cake on Crate and Barrel's wood-and-marble cake stand or a bottle of Champagne is "always welcome," said creative director Marcus Teo, who entertains guests at his elegant 3-bedroom cabin in Hillsdale, N.Y.

Mr. Teo also offered guidelines specifying what not to buy: clothes ("very difficult to get right") and anything enormous, be it satellite-dish-size wooden bowls or cumbersome coffee-table books. Art is tricky, he added, unless you're extremely confident of your host's taste. Generally, scented candles top the list of no-nos. Recently, even those from chic, pricey brands like Diptyque and Cire Trudon have developed a reputation for predictability, and many hosts are saddled with drawers of unwanted wax. "Candles are absolutely overplayed," said Andrew Fry, a former fashion publicist who with his partner Michael DePerno owns Plain Goods, a

FOR THE GARDEN

- Vasse Vaught Metalcrafting Bird Feeder, \$73, modernartisans.com
- Gloves, \$88, bestmadeco.com
- Rosemary Grow Kit, \$18, urban-agriculture.net

FOR PLAY

- Leeber Elegance Cocktail Stirrers, \$18, amazon.com
- Soccer Ball, \$75, modestvintageplayer.com
- Fredericks and Mae Kite, \$44, areaware.com
- SunnyLife Beach Bats, \$88, shopbop.com

FOR THE BEACH

- Izipizi Adult Sunglasses \$45 each, Kids Sunglasses, \$35 each, ameico.com
- Walter Bosse Corkscrew, \$98, modernviennabronze.com
- Beach by Elisabeth Bell Chess Towel, \$135, beachbybell.com
- Wonderboom Speaker, \$100, ultimateears.com

FOR THE HOUSE

- Swedish company Klässbols, as well as Iittala ceramic pitchers and plates with folkloric designs.
- Fortune Finds by Lizzie Fortunato Basket, \$65, lizziefortunato.com
- Polaroid Zip Instant Photoprinter, \$130, bestbuy.com
- Bag, \$48, parkerhatch.com; Cables, \$30 each, lecord.se
- L'Officine Universelle Buly Matches, \$19, [Bergdorf Goodman](http://BergdorfGoodman.com), 212-753-7300

FOR THE KIDS

- Bear Ice Shaver, \$78, store.moma.org
- Lego Creator Expert Mini Cooper, \$100, lego.com
- Masks, \$52 each, coralandtusk.com

FOR THE KITCHEN

- Stick With Me Sweets Bon Bons (chocolates), \$88 for 24-piece box, swmsweets.com
- 'Salad for President' by Julia Sherman, \$35, abramsbooks.com
- Parmigiano-Reggiano, \$32 per pound, zingersmans.com; Kollossos Olive Oil Set, \$38, food52.com
- Seasonal Wholegrain Jam Tarts, \$30 for 6, eatedbread.com

An excess of ribbons and bows can read as anxious overkill.

shop in New Preston, Conn. "Although we have a candle line, we steer people away from them."

Kitchen and dining items, meanwhile, are also a safe bet. After all, your hosts may entertain as frequently as every weekend—and need the tools to do so. For design snobs, Rachel Schectman, owner of Manhattan concept shop Story, suggested an Aarke, the elegant stainless-steel carbonated water maker. (Since it's priced at almost \$200, however, we'd advise doing a bit of research to see if your hosts already happily own a SodaStream.)

Ms. Stivers said she always welcomes place mats and cloth napkins to help her set a pretty table, as well as coffee mugs. "You can never have enough mugs," she said. Plains Goods' Mr. DePerno said his default suggestion to customers is linens: "Everyone loves a set of kitchen towels or napkins." Along with Plain Goods, a smart source for such things is Amagansett, N.Y., store Tiina, which offers stylishly quirky versions: heaven-and-hell-themed tea towels from

OFF DUTY



DEAR PRUDENCE The 2017 Subaru Impreza's body has been future-proofed to earn five stars in all relevant crash safety tests through 2025.

SUBARU

RUMBLE SEAT DAN NEIL



Subaru Impreza: Fall Head-Over-Heart In Love

AFTER LAST WEEK'S column on the Ferrari GTC4Lusso you might be thinking, What, *another* hatchback?

Truly, the 2017 Subaru Impreza 5-Door and the Lusso have a lot in common. The Ferrari is powered by a 680-hp V12 engine. The Subaru also has an engine.

And like Ferrari, Subaru takes a unique engineering path to all-wheel drive—what the company calls “Symmetrical All-Wheel Drive.” It’s really the franchise. To be honest, in past years I’ve recommended the compact-class Impreza purely on the superiority of the AWD system and rather

despite the car, which has suffered from chintzy interiors, dated electronics, lustless exterior styling and lethargic handling (excepting WRX STIs).

The 2017 Impreza—the generational redesign of the sedan/hatch, built atop the company’s new global platform—represents step-change improvements along many, but not all, fronts. The cabin dress (molded door and dash fittings, instruments and switches, composite fascia and upholstery) now approaches best in class. Powertrain isolation (the remoteness of engine shaking and vibration) and cabin quiet are also way up, as is—most unexpectedly—handling sharpness. I’m not sure why the engineers quickened the steering ratio from 16:1 to 13:1, but I approve.

As for design, the Impreza 5-Door remains a strictly non-ergonomic zone, a prim and practical car for clients fairly described as same. What style quotient there is—the intersecting light lines playing across the doors—mildly plagiarizes/pays tribute to the Mazda5.

Only slightly longer and wider, with an extra inch of wheelbase devoted to improv-

ing rear legroom, the 2017 model hides some notable dimensions: The hatch opening—the cutline for which wraps around the rear roof pillars—is 5 inches wider, to better accommodate those huge, overcomplicated baby strollers. The redesigned architecture pushes the rear shock towers farther apart, widening the cargo space.

When the rear seatbacks are in place, cargo capacity is good (20.8 cubic feet). When they are down, it’s great: 55.3 cubic feet—about as much cargo capacity as a Ford Expedition with the third row folded.

Built in Subaru’s newly enlarged apartments in Lafayette, Ind., the Impreza 5-Door comes in four flavors, from \$19,715 to \$25,415. The price of our 2.0i Limited tester

(\$29,260) ballooned with the optional power moonroof; the Harman Kardon amplifier and speakers; the EyeSight driver assist package, including automatic pre-collision braking (when it really helps); and the 8.0-inch high-res touch screen, hosting apps for navigation, entertainment (Apple CarPlay) and smartphone integration.

Can I just say, I like the way Subaru saves money on product design? To reduce costs, the Impreza’s unitized steel structure has been future-proofed to earn five stars in all relevant crash-safety tests through 2025. The body exhibits 70% higher torsional rigidity than that of the car it replaces, and the crash-energy absorption is up 40%.

Even if you don’t crash, this investiture of steel makes for a very stout, unshakable little car, a sense of structure like a hot-dip galvanized walnut.

With strut suspension in front, multi-links in back, both mounted on fully isolated subframes and lashed with anti-

roll bars front and rear, the Impreza’s undercarriage is likewise pretty grown up.

Alas, these fine, muscular limbs are let down by the only available engine: the naturally aspirated, direct-injected, 2.0-liter horizontally opposed four cylinder, here churning out 152 hp with only the greatest exertion (6,000 rpm). Never has a car screamed so loudly for another 100 hp. The chassis can handle it.

Enthusiasts will be glad to learn Subaru will continue to offer the Impreza with a conventional five-speed manual transmission, as well as in Sport trim. Our test car was equipped with the automatic transmission, a stepless CVT than can be shifted manually by way of paddles behind the steering wheel.

Yeah. Well. Oof.... To be sure, this engine/transmission package has moments of high adequacy. The Impreza cruises down the highway like the world was just one road trip to Bonnaroo, barely breathing and getting 37 mpg. The CVT doesn’t have any issues with the yawn and saw of city traffic either—which is to say, within its comfort zone, the transmission is responsive and elastic.

But wafting acceleration is not among the Impreza’s limbic delights. Zero-to-60 mph is solidly in the 8-second range, and the moan from the CVT sounds like Aunt Martha’s ghost is entertaining a gentleman caller. At interstate speeds, sudden demands for passing acceleration are answered first with indifference, then with a grudging gathering of mph. This is not the Subie I’d want to take up Pikes Peak.

So quick recap: The new Impreza 5-Door makes a great family hatchback, starting under \$20,000, with good fuel economy, mostly adequate

power, state-of-the-art safety, a strong chassis, and a nicely appointed five-seat cabin with easily accessed cargo for all of baby’s adorable crappola.

What sets the Impreza apart from equally cromulent competitors like the Honda Civic Hatchback or Mazda3 Hatchback is its standard full-time AWD. And it is here I want to address the psychology of parenting and the power flow of AWD.

The security of AWD appeals strongly to new parents, whose state of mind—hyper-vigilant, over-functioning, tormented with fears of low-probability events—makes them easy targets for smooth-talking salesmen. What if you

and your family are caught in a sandstorm?

But AWD systems are not created equal. In most crossovers, the engine drives the front wheels until there is a loss of traction there. Only then will the electro-mechanical neurons fire, closing the clutch packs that connect engine torque to the rear wheels, and then typically only at a fraction of torque. These systems are known as part-time, on-demand all-wheel drive.

In my experience, in most conditions, such systems have so much latency and power loss that they are not worth the additional cost and weight over a front-wheel-drive variant wearing

all-season tires.

By virtue of its mechanism (starting with the north-south oriented flat-four engine), the Subaru powers the four wheels equally, all the time—symmetrically, if you will. If one wheel slips under power, that wheel’s allotment of torque is instantly sliced to wheels that have traction, proportional to the degree of that traction, with no loss of engine power. Unlike on-demand systems, the Subaru AWD system is always working, always on guard, ready in an instant.

New parents should know that when it comes to babysitting traction, only Subaru keeps so watchful an eye.



2017 SUBARU IMPREZA 2.0I LIMITED

Base price \$25,415

Price, as tested \$29,260

Powertrain Naturally aspirated, direct-injection 2.0-liter DOHC horizontally opposed four cylinder; continuously variable automatic transmission; full-time all-wheel drive.

Power/torque 152 hp at 6,000 rpm/145 lb-ft at 4,000 rpm

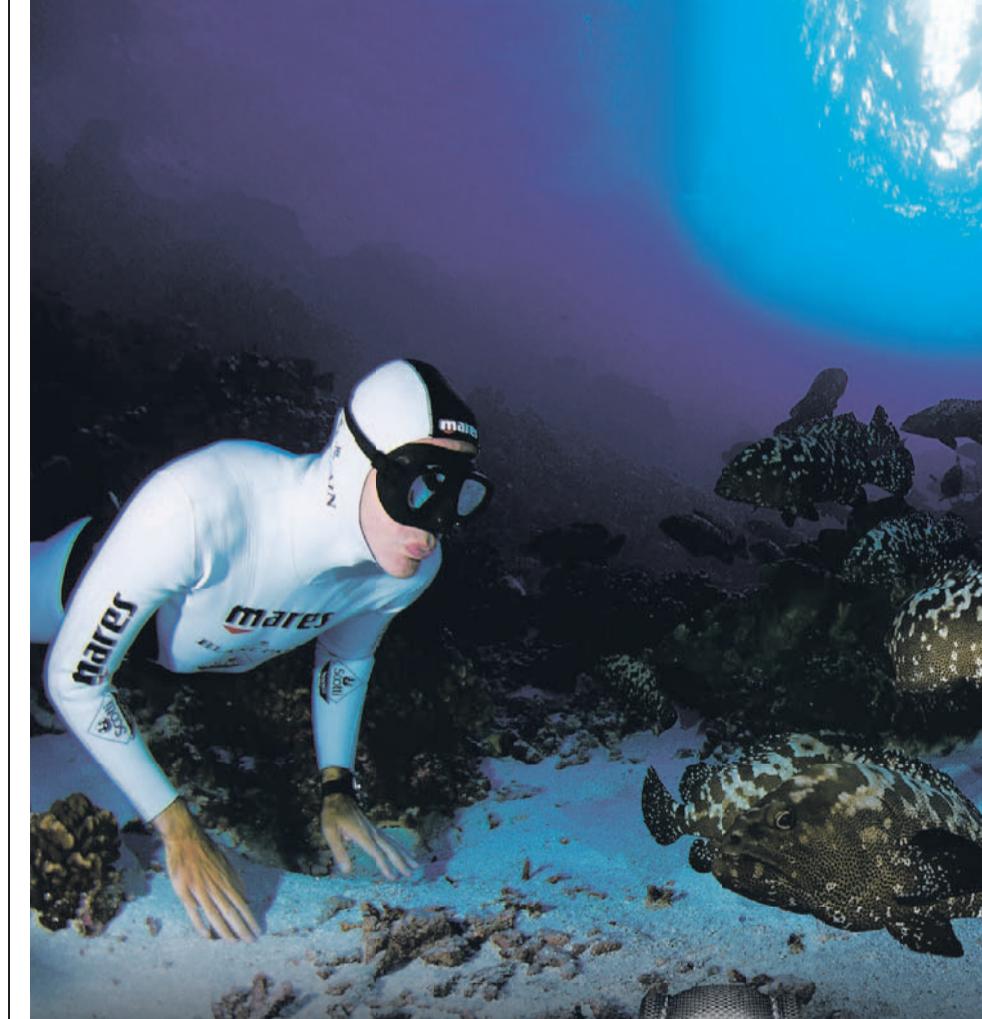
Length/base curb weight 175.6 inches/3,181 pounds

Wheelbase 105.1 inches

0-60 mph 8.7 seconds

EPA fuel economy 28/37/31 combined

Cargo capacity 20.8/55.3 cubic feet, rear seatbacks up/folded



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OFF DUTY

Cuddling Up to Chengdu

Travelers rush to this Chinese city to gush over its panda population, but it pays to slow down and take in the area's more urbane charms, too

BY GEORGIA FREEDMAN

ON THE GENTLE slopes of Futou Mountain, about 35 miles from the Chinese city of Chengdu, a small posse of giant pandas is sleeping in the shade, oblivious to the hundreds of tourists calling out to them, hoping they'll wake up and move around a little so the interlopers can get a good photo. I was one of those impatient tourists a few years ago, when I first traveled to the city. Most Westerners who go to Chengdu, the capital of Sichuan province, come to visit its panda research and breeding center, after they've seen the Great Wall in Beijing and the terra cotta warriors in Xi'an. Now that airlines like United offer direct service from San Francisco to Chengdu, some travelers are making the pandas their first stop before continuing on.

Many Chinese, however, value Chengdu for another reason: its laid-back lifestyle. In this riverside city, which tends to be hot and humid year-round, life takes place outdoors. Restaurant tables spill out onto sidewalks, parks are full of people drinking tea and catching up with friends. In the historic pedestrian-only streets you can line up for bowls of spicy dan-dan noodles, then, less romantically, get your ears cleaned on a nearby sidewalk by professionals wielding long metal and bamboo ear picks. And like Los Angeles or San Francisco, this city of eight million people (midsize by Chinese standards) offsets its relaxed atmosphere with an entrepreneurial spirit and a cutting-edge style. Both the art and food scenes have recently distinguished themselves, giving the city new cred among the country's young sophisticates.

Over the years, I've visited Chengdu four times while living and traveling in western China and spent much of my time wandering the city's charming old quarters. On my most recent trip, however, foiled by a rainy forecast, I decided to focus my sightseeing indoors, seeking out the city's more modern attractions.

I started at A Thousand Plateaus, one of Chengdu's best-known contemporary art galleries, where the gallerist, Liu Jie, offered up a crash course in the city's economic history. "China's economic reforms started in Sichuan and Anhui in the late 1970s," he told me. "The government felt it would be safer to start it far from the big cities" like Beijing and Shanghai. Chengdu had suffered through a particularly high level of instability and destruction during the Cultural Revolution, and when Chengdu's residents were given the opportunity to start businesses, the city flourished. These days, it's home to a variety of industries, including a booming tech sector that includes a large software park, tech startups and an Apple iPhone factory.



These same freedoms also catalyzed a contemporary art scene, and Liu Jie represents many of the top names in the Chinese art world. When I visited A Thousand Plateaus, the ground-floor gallery was devoted to a show by Chengdu-born Yang Mian, who had rendered ancient works of art into pointillist-like dots in the cyan, yellow, magenta and black hues used in color printing.

The gallery recently moved to a new commercial and residential development in the south of the city not too far from the relocated restaurant of Chef Yu Bo, one of Chengdu's most famous contemporary chefs. The restaurant, Yu's Family Kitchen, is housed in the chef's home, a three-story penthouse apartment decorated with Louis XVI-style furniture. Mr. Yu's cooking is a subtle, sophisticated reinterpretation of traditional Sichuan cuisine, best known for its spicy, numbing flavors. I sat at one of just two small tables set up in the living room and worked my way through a tasting menu that included more than 15 dishes, from a piece of poached cod in a bowl of sour-spicy broth to slices of tea-smoked duck served with little buns for sandwich-making to more steamed buns shaped like tiny porcupines. With each dish, I felt like I'd learned something new about the subtleties and complexity of Sichuan's cuisine.

In the heart of the old city, in a



PANDA EXPRESS Clockwise from top left: Young Giant Pandas at Chengdu Research Base of Giant Panda Breeding; ceramics at Fangsuo Commune; Wenshu Yuan Temple's new teahouse; a hot pot at Shu Yu Xiang; Jing Bar at Temple House.

shiny new shopping center called Tai Koo Li, the two-year-old Temple House Hotel also exemplifies how even the city's most modern establishments draw on Chengdu's past. The rooms are high-tech and luxurious, with fancy linens and espresso machines, but design details throughout the hotel reference the city's history. The "woven" bronze fretwork on the facade echoes the region's famous brocade, and the reception area sits in a carefully renovated Qing Dynasty courtyard house.

The hotel's Jing Bar, set in a covered corner of the hotel's courtyard and ornamented with enormous ferns in burnished copper bowls, is among the only classic cocktail bars in the city. On my

first evening in the city, I dropped in for a Zacapa Sazerac, a rich mix of aged rum, lemon, bitters and absinthe. As I nursed my drink, I eavesdropped on Chinese women sipping Moscow mules out of perfectly chilled copper cups, businessmen in tailored suits pouring \$200 bottles of Aglianico and young couples out on dates, ginerly sipping elaborate tiki drinks.

International brands like Tiffany and Zara populate Tai Koo Li, but a few more surprising purveyors are tucked into the mix. In the basement I stumbled across Fangsuo Commune, a massive, high-design bookstore (with stacks of Kinfolk, the Portland, Ore.-based magazine that caters to urban hipsters), which also sells clothing from international designers and handmade ceramics. Inside the bookstore are two coffee shops hawking their single-origin pour-overs. Near the hotel, the boutique Si He champions Chinese designers—a relative rarity in a country that prizes Western labels—with an eclectic array of offerings, from girlie lace dresses to comically wide-legged felt tuxedo pants. A few blocks away, the boutique Zola displays chic silk blouses and elegantly tailored coats from Chengdu-born designer Ke Dan.

Even some of the city's most cherished institutions are getting a face-lift. At Wenshu Yuan, a working Buddhist temple, I was surprised to find a brand-new teahouse in a side courtyard decorated with blond-wood furniture and precisely placed tea tins—far more elegant than most temple teahouses with their utilitarian furniture and cheap packets of tea leaves. I ordered a delicate oolong tea served in a porcelain gaiwan, which came with a small tray of petits fours. The ef-

fect was lovely, but after an hour of contemplative quiet, I longed to get back into the thick of the bustling city.

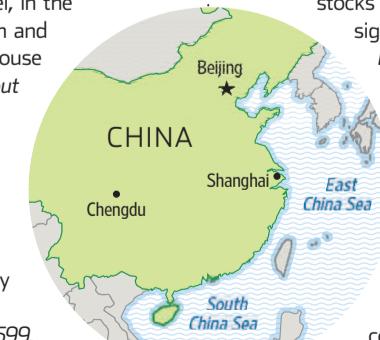
The next morning, once the weather cleared, I headed over to Qingyang District, an area with a mix of apartment complexes, restaurants and small businesses—seemingly always abuzz. I made a beeline to my favorite lunch spot, a small restaurant called Chun Yang Yuan, where I always get the local specialty: hong you chaoshou, pork wontons in chili oil. The owner, a youthful-looking man known as "Handsome Ma," greeted me like an old friend.

After lunch I walked the few blocks to the popular People's Park. Along a winding path, a marriage market was in full swing, with parents of local 20-somethings sitting next to printouts detailing their child's height, weight, education and income, waiting for a parent with a compatible child to set up a date. Nearby, a large group of elderly locals were taking part in a talent competition, singing rousing songs, acting out scenes from Chinese operas and performing local dances, all backed by full bands.

On the east side of the park, hundreds of people had settled into angular bamboo chairs in outdoor teahouses. Many were dressed for work or carried shopping bags from high-end boutiques. Soon, no doubt, they would head back to their shiny new offices. But for now they talked with friends, played cards, checked their phones and snacked on sunflower seeds, their growing piles of discarded shells visual proof of time well-spent. I found an empty table under a small flowering tree, bought a cup of green tea, and settled in to enjoy the sunny afternoon.

THE LOWDOWN // FROM BEARS TO BOUTIQUES, A MINI-GUIDE TO CHIC CHENGDU

Getting There United Airlines and Air China have direct flights to Chengdu from San Francisco. Daily flights also depart from all major Chinese cities on multiple carriers.



Shopping There The Fangsuo Commune is a bookstore, a coffee shop, and a boutique all in one (M068-M069 Sino-Ocean Taikoo Li, 8 Middle Shiman Street, Jinjiang District, 86 (0) 28-8658-6858). The Four Si He woman's clothing shop stocks pieces by a variety of Chinese fashion designers (Tianxian Qiao North Road #3, Jinjiang District, 86 (0) 28-8113-4501). Also check out the stylish women's wear at ZOLA Studio (Di Yi Cheng Plaza, #1, 1st floor, Jinjiang District; 86 (0) 136-6822-7313).

Exploring There Chengdu has a number of art galleries, including A Thousand Plateaus (South Square, Tiexiang Temple Riverfront, 1000plateaus.org). The art-focused tour company Chart Contemporary can also design a guided tour of the city's galleries and artists' studios (chartcontemporary.com). Visit Wenshu Yuan monastery to see calligraphy, statues and cultural relics and visit the complex's teahouse (66 Wenshu Yuan St, Qingyang District). Lastly, those cute, eternally slumbering pandas can be found at the Chengdu Research Base of Giant Panda Breeding (1375 Xiongmao Avenue, Chenghua, panda.org.cn).

Eating There Chef Yu Bo cooks some of Chengdu's most famous contemporary cuisine at his restaurant, Yu's Family Kitchen (Tian Fu Blvd, South Bldg, No. 2599, Weilankadi, 86 (0) 28-8669-1975; some staff speak English). For an inexpensive lunch, go to Chun Yang Yuan; to order, just point at any dishes that look good on nearby tables (6 Jixiang Street, Qingyang District). You'll find an excellent example of the city's signature hotpot—a spicy, bubbling broth in which meats, fish and vegetables are dunked—at Shu Jiu Xiang, where an English menu is available (53 Nanfu St, Jinjiang District, 86 (0) 28-8299-6969).



She's a fan.



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OFF DUTY

SUNDAY LUNCH

A Menu Less Ordinary

At chef Hugh-Fearnley Whittingstall's table, weekend entertaining calls for wild improvisation

BY ELIZABETH G. DUNN

THE RABBIT with anchovies, rosemary and cream would not do. That recipe is intended for wild rabbit, not the farmed variety most common in the U.S. And would the apricots for apricot Eton mess really be in season in enough parts of the country at the time of publication? Local ones are mandatory.

I received all this in an email exchange with Hugh Fearnley-Whittingstall's assistant, in the course of deciding on a Sunday lunch menu that could reasonably be replicated by American readers. Under other circumstances, I might have lobbed a diplomatic request for compromise, a gentle plea to surrender to the realities of modern living. Let the apricots be imported. For Mr. Fearnley-Whittingstall, though, I was willing to go along for the ride.

After all, he's lived the fantasy I play out in my head every time I'm snarled in rush-hour traffic or stuck in line at the grocery store. In his early 30s, he moved from London to a gamekeeper's lodge in rural southwest England, where he began living off the land, planting and foraging and fishing and hunting to feed himself.

Watercress departs from its typical context as a salad green and finds its way into a silky soup spiked with garam masala.

From there, under his company name, River Cottage, Mr. Fearnley-Whittingstall has developed several popular series for British television, opened a cooking school and three restaurants, written 17 cookbooks, and taken up a number of advocacy campaigns tackling issues like the factory farming of chickens and ecologically destructive fishing.

"The idea is to get people away from total dependence on pre-made,

industrial food, and move toward real food that is seasonal, local, organic and wild," Mr. Fearnley-Whittingstall said over the phone from River Cottage H.Q. in East Devon. "The basic reason why is because I think they'll be happier. They'll enjoy their food more. They'll probably be healthier. Why not make consuming food a really positive thing emotionally and communally?"

Okay. Sold.

On the occasion of his latest book release, I asked Mr. Fearnley-Whittingstall to prepare a Sunday lunch menu drawn from its pages. "River Cottage A-Z" catalogs some 333 ingredients, from Alexanders (a leafy green) to Zander (a freshwater fish), offering an authoritative backgrounder for each as well as a sensible recipe.

"So many of us get quite stuck in a rut of recipes that we know and love, and we find certain ingredients outre and hard to understand," Mr. Fearnley-Whittingstall said.

"The book is really about making unfamiliar ingredients less daunting to work with."

To him, a casual, social meal like Sunday lunch is an ideal opportunity for mining the more exotic reaches of the produce aisle. This menu offers subtle forms of subversion. Watercress departs from its typical context as a salad green and finds its way into a silky soup spiked with garam masala, the Indian spice blend. In place of a conventional risotto, Mr. Fearnley-Whittingstall suggests pearl barley cooked in the same fashion, with sweet beets, tangy goat cheese and a pinch of heady lavender. Dessert is a classic crème brûlée, only here the custard tops a tart compote made from rhubarb—a refreshing alternative to strawberries, the go-to early-summer fruit.

Hewing strictly to the ethos behind "River Cottage A-Z" would involve abandoning a preset menu altogether. It would mean taking a chance on whatever oddity you find at a farmer's market, or on a walk in the woods—or in Mr. Fearnley-Whittingstall's case, in the spare freezer, where he might find a trove of pheasants or partridges or rabbits awaiting a burst of inspiration. Wild ones only, of course.

The idea is to get people away from total dependence on pre-made,



BEN MOSTYN FOR THE WALL STREET JOURNAL

FREE-RANGE FEAST Clockwise from above: Mr. Fearnley-Whittingstall hosts Sunday lunch at River Cottage; chilled spiced watercress and yogurt soup; roasted beet orzotto serves as a main course. Below: rhubarb crème brûlée.



Chilled Spiced Watercress and Yogurt Soup

ACTIVE TIME: 45 minutes

TOTAL TIME: 3 hours SERVES: 4-6

2 tablespoons olive oil, plus more for finishing
2 medium onions, finely sliced
Sea salt and freshly ground black pepper
4 cups chicken or vegetable stock
3 tablespoons unsalted butter
1 onion, finely chopped
2 garlic cloves, finely chopped
3 strips lemon zest
1½ cups pearl barley, rinsed and drained
½ cup dry white wine
1 teaspoon finely chopped lavender leaves
7 ounces soft goat cheese, crumbled

- Heat oil in a saucepan over medium-low heat. Add onions and a pinch each of salt and pepper. Cook, stirring regularly, until onions are soft and translucent but not browned, about 10 minutes. Add garlic and cook until fragrant and softened, 2 minutes more.
- Add stock, bring to a boil and boil about 6 minutes. Reduce heat and simmer 4 minutes more. Remove from heat, let cool 30 minutes, then refrigerate until chilled, 30 minutes more.
- Meanwhile, add a pinch of salt to a medium pot of water and bring to a boil over high heat. Add watercress and blanch until just tender, 2 minutes. Drain and plunge watercress into ice water to halt cooking, then drain again.
- In a blender, combine drained watercress with chilled stock mixture, garam masala and yogurt. Process until finely puréed, 2-3 minutes. Refrigerate until cold, 20-25 minutes.
- Serve soup cold, topped with yogurt, pepper and a trickle of olive oil.

Roasted Beet Orzotto With Lavender

ACTIVE TIME: 45 minutes TOTAL TIME: 2½ hours SERVES: 4-6

1 pound small or medium beets, scrubbed

- Preheat oven to 375 degrees. Place beets in a small roasting pan and drizzle with 1 tablespoon oil and a pinch each of salt and pepper. Cover pan with foil and roast until beets are tender, 1-1½ hours. Remove from oven. Once cool enough to handle, use your fingers to rub skin from beets. Cut flesh into small cubes.
- Heat stock in a lidded medium saucepan over medium heat until nearly simmering. Meanwhile, heat remaining oil and half of butter in a large saucepan over medium heat. Add onions, garlic and lemon zest to pan. Sauté, stirring gently, until onions are soft but not browned, 10 minutes. Add beets and stir well. Add barley and toast, stirring occasionally, 2 minutes.
- Add wine and let reduce until pan is almost dry, 2-3 minutes. Add hot stock, a couple ladlefuls at a time, to pan. Stir until stock is absorbed. Repeat until you've used all the stock and barley is tender, about 40 minutes.
- Off heat, sprinkle lavender and half of goat cheese over top of barley. Dot with remaining butter. Cover and let stand 2 minutes, then stir. Season with salt and pepper to taste. To serve, divide risotto among bowls. Top with remaining goat cheese and a trickle of olive oil.

Rhubarb Crème Brûlée

Rhubarb Crème Brûlée

ACTIVE TIME: 45 minutes

TOTAL TIME: 2½ hours SERVES: 6-8

1 pound rhubarb, trimmed and cut into ½-inch chunks
½ cup plus ½ cup superfine sugar, plus more for finishing
2 tablespoons water
½ cup whole milk
2 cups heavy cream
1 vanilla bean, split lengthwise
6 large egg yolks

1. Spread rhubarb out in a single layer in a large lidded saucepan. Add ½ cup sugar and 2 tablespoons water and cover. Cook over low heat until rhubarb is tender but not collapsed, 10-15 minutes.

2. Spoon rhubarb into a fine mesh sieve to allow excess liquid to drain off. Let cool, then divide among 6-8 individual ramekins or other small heat-proof dishes. Chill uncovered in the refrigerator at least 30 minutes. Preheat oven to 300 degrees.

3. Meanwhile, make custard: combine milk and cream in heavy-bottomed pot, then scrape in vanilla seeds and add pod. Bring to a simmer over low heat, 5-6 minutes. Off heat, let sit 5 minutes to infuse with vanilla, then discard pod. Bring a kettle of water to a boil.

4. Combine egg yolks and remaining ½ cup sugar in a large bowl. Add infused hot cream mixture, mixing well to combine. Pass through a fine sieve and discard solids.

5. Remove chilled rhubarb from refrigerator and gently pour hot custard over top, trying not to disturb fruit. Place ramekins in a roasting pan. Carefully add enough boiling water to pan so it comes halfway up sides of ramekins.

Bake until custard is just set but wobbles slightly in center, 25-40 minutes.

6. Remove ramekins from roasting pan and let cool. Transfer to refrigerator and chill at least 1 hour before serving.

7. To serve, scatter 1 teaspoon sugar over each crème. Use a cook's blow-torch to caramelize sugar until golden and bubbling, about 1 minute. Alternatively, place ramekins on a baking sheet and pop under a hot broiler until browned, 2-3 minutes. Let cool until sugar has set, 5-10 minutes. Serve immediately, or refrigerate up to 2 hours.



Dark Chocolate and Toasted Almond Semifreddo

Note: The eggs in this recipe are not fully cooked.

ACTIVE TIME: 15 minutes

TOTAL TIME: 4½ hours (includes freezing) SERVES: 8

½ cup granulated sugar

3 large eggs

2 large egg yolks

Sea salt

2 cups heavy cream

8 ounces semisweet chocolate (63% cacao or higher), melted, warm but not hot

¾ cup toasted, coarsely chopped almonds

1. Line a 9-by-5-inch loaf pan with plastic wrap. Set a heat-proof bowl over a pan of simmering water. In bowl, whisk together sugar, whole eggs, egg yolks and a pinch of salt until very pale and thick, 4-6 minutes.

Remove from heat.

2. Use an electric mixer fitted with a whisk attachment to beat cream to soft peaks. Set aside ¾ cup of whipped cream for serving and chill, covered, in the refrigerator until needed.

3. Use a rubber spatula to fold chocolate into egg mixture and then quickly but gently fold in whipped cream, stopping when cream is about three-quarters of the way mixed in.

4. Add almonds to chocolate mixture and quickly but gently fold in until completely incorporated. Transfer mixture to prepared pan, cover and freeze for at least 4 hours.

5. To slice the semifreddo, turn it out onto a serving platter and peel off plastic wrap. (You can do this step ahead of time and store, covered, in the freezer until ready to serve.) Slice and serve with a dollop of the reserved chilled whipped cream.



A LITTLE SOMETHING SWEET

BETTER BY THE SLICE

No ice-cream maker required for this rich frozen treat

CHAD ROBERTSON and Elisabeth Prueitt of San Francisco's Tartine Bakery are two of this country's most influential bakers. Ms. Prueitt, who is gluten-intolerant, has built a deep repertoire of desserts that are gluten-free but wanting in no other respect.

Her new book, "Tartine All Day," contains a recipe for a dark-chocolate-and-toasted-almond (and incidentally gluten-free) take on semifreddo, the fully frozen Italian dessert whose name means "semi-frozen." No ice-cream maker needed. A low moisture content yields a scarcity of ice-crystals, and several beaten eggs produce a rich and airy

texture—cold but not icy—semi-frozen, even.

I've had great results with Valrhona's Guanaja, Caraïbe and Andoa dark-chocolate bars. I've further experimented with Cacao Prieto, made by chocolatier Roger Rodriguez in Brooklyn. His Mandarin & Bergamot chocolate lends this semifreddo a citrus note, and his Dominican Spice gives it a little heat (inasmuch as a cold dessert can be said to have heat). You can fold in chopped candied ginger, too, before freezing, for zing. Just don't add anything too heavy. The magic of this dessert lies in its levity.

—Aleksandra Crapanzano



Dark Chocolate and Toasted Almond Semifreddo

Note: The eggs in this recipe are not fully cooked.

ACTIVE TIME: 15 minutes

TOTAL TIME: 4½ hours (includes freezing) SERVES: 8

½ cup granulated sugar

3 large eggs

2 large egg yolks

Sea salt

2 cups heavy cream

8 ounces semisweet chocolate (63% cacao or higher), melted, warm but not hot

¾ cup toasted, coarsely chopped almonds

1. Line a 9-by-5-inch loaf pan with plastic wrap. Set a heat-proof bowl over a pan of simmering water. In bowl, whisk together sugar, whole eggs, egg yolks and a pinch of salt until very pale and thick, 4-6 minutes.

OFF DUTY

Make a Scene

Many interior decorators got their start in, or still practice, set design. Here, the tricks that translate to home décor

BY JEN RENZI

THE SILVER SCREEN frequently inspires home design, especially when a movie strongly evokes a particular period, place or character. "Sets—both historic and current—are the perfect combination of aspirational and mysterious," said Los Angeles-based decorator Melinda Ritz, whose film and television career includes conjuring the urbane, tony apartments featured in NBC's "Will & Grace." In fact, designers like Ms. Ritz, who do both scenic and interior work, often find that the former unexpectedly fuels the latter. "Many clients find us through the style-driven movies we've done," said Lisa Frantz, of New York firm Marks & Frantz, whose film credits include the early-aughts power minimalism of "The Devil Wears Prada" and the implausibly posh starving-artist eclecticism of "Sex and the City." Tony Duquette (1914-1999), a pioneer in this sort of crossover, created dramatic interiors for Elizabeth Arden and J. Paul Getty and designed lavish sets and costumes for MGM (1945's "Ziegfeld Follies") and Broadway (the original, 1960, production of "Camelot").

Set design and interior design share many challenges. The need for a mise-en-scène to "read" through a camera relates to interior-design concepts like sight line and focal point. Circulation, another décor concern, has a corollary in stage blocking. Set design even schools designers in economy. "Film taught me what was cinematic, a wow factor for real living, and that it does not have to be expensive," said New York decorator Miles Redd, who majored in film and began his career in that industry.

Dallas decorator Michelle Nussbaumer credits her early work in theater for her ability to use objects inventively. She's been known to blow up a detail from a painting or photograph to cover an entire wall to, as she puts it, "create the feeling of a Venetian palazzo or 1940s Hollywood."

Here, interior designers divulge other sleight-of-hand techniques they picked up while dressing sets.



Supplement the Kliegs

Especially advantageous in spaces short on natural illumination, reflective finishes amplify light. "Here, bookcases lined in antiqued mirror helped brighten a dining room—a super-helpful trick we use on film sets," said Ms. Frantz. Also adding sparkle to this Manhattan-apartment dining room her firm designed: the same antiqued mirror set as panels in a door, a blown-glass chandelier, polished table and crystal candle holders. If you prefer less glitz, Alyssa Urban of New York firm Cullman & Kravis, who started her career designing sets for "Late Night With Conan O'Brien," recommends "more subtly reflective finishes [to] add texture and depth." She suggests silver leafing, verre églomisé and cabinets fitted with translucent chicken-wire glass.



Consider scale

"For film and television, we avoid large-scale chairs, because they can swallow up an actor," said Ms. Marks. "Think about your stature: If you're only 5' 6", you don't want a 42-inch-deep sofa." For this foyer in an Old Greenwich, Conn., home, she chose a pair of petite antique armchairs tailored to the inhabitants despite the ceiling's double height. Ms. Ritz encourages "sit testing" and considering a chair's scale vis-à-vis your body before making a purchase. For a TV talk show hosted by Suzanne Somers, Ms. Ritz brought in 40 types of chairs to determine, among other things, how overwhelmed Ms. Somers appeared in them. Big furniture can overpower a room as well. "Many manufacturers make seating quite oversized and not suited to older-style homes or apartments," said Ms. Marks. Ms. Nussbaumer added that scaling furniture to a room, and not the human body, became popular in the 1980s "and makes a space look dated."



Lights, camera, more lights

"Sets are lit from multiple angles to eradicate dark shadows," said Brooklyn interior designer Jaime Walters, a veteran of home-renovating shows, where rooms are made camera-ready. For this dining room of a Philadelphia townhouse, she created an inviting—and flattering—environment by supplementing a dimmable chandelier with a ceiling-mounted art spotlight and a glowing floor lamp. "Lighting from above flattens and deadens a space, whereas lighting from all angles gives an object shape and volume," explained London designer Tim Gosling, who studied and practiced theater design before focusing on interiors and furniture. "I like a border sunk into the floor with inset up-lighters, library standing lamps to pool light around seating areas and side tables, and traditional side lights to add rhythm."



Work the sight lines

"In both realms, you have to create focal points, moments that draw the eye so it takes in something beautiful from every angle," said Ms. Ritz. Ms. Urban added that on a set "you design for the perspective seen through the camera." Similarly, in a residential space, designers consider what features will be visible from certain key vantages such as the family-room sofa or the front door, Ms. Nussbaumer explained. You can create attention-getting vignettes in a room by grouping artwork or accessories like mirrors, or doing something as simple as outlining a door frame with a 6-inch-wide mirrored border—a technique Tony Duquette used all the time. Here, in the master suite of her Dallas home, Ms. Nussbaumer styled a fireplace with a generous array of blue and white china to create a visual anchor; meanwhile, the desk, curtains and corner cabinet form their own vignette.



Manipulate the windows

Windows on a set frequently look onto the surrounding sound stage. "We dress windows in sheer fabrics and use gelled backlighting to make them look more real," explained Ms. Marks. Translucent sheers in a residential context can similarly screen a subpar view. For this parlor-floor living room of a Brooklyn brownstone, sheer Roman shades obscured foot traffic outside and cut daytime glare without darkening the space. Some of Ms. Marks' favorite styles include "linen with natural slubs, which create a bit of interest, and the finest, thinnest wools," for their exceptional drape. Her TV work has broadened her residential bag-of-tricks, which also includes tinted and graphically patterned sheers. "Ivory tends to look too bright on camera, so we gravitate to colors like pale yellow and blue, and some directors of photography really love patterns."

OFF DUTY

To Sleep on a Plane, Perchance to Dream

Far from being dormant, travel pillows have seen a rousing renaissance. But are the latest models sufficiently soporific?

BY KEITH BLANCHARD

YOU'VE SEEN them at the airport: Pillow People, with their colorful little plush neck cushions strapped to a suitcase handle or clogging up the TSA security bins. Some just pace around the boarding area with one already deployed, as if they might catch a snooze right in the Group 3 line.

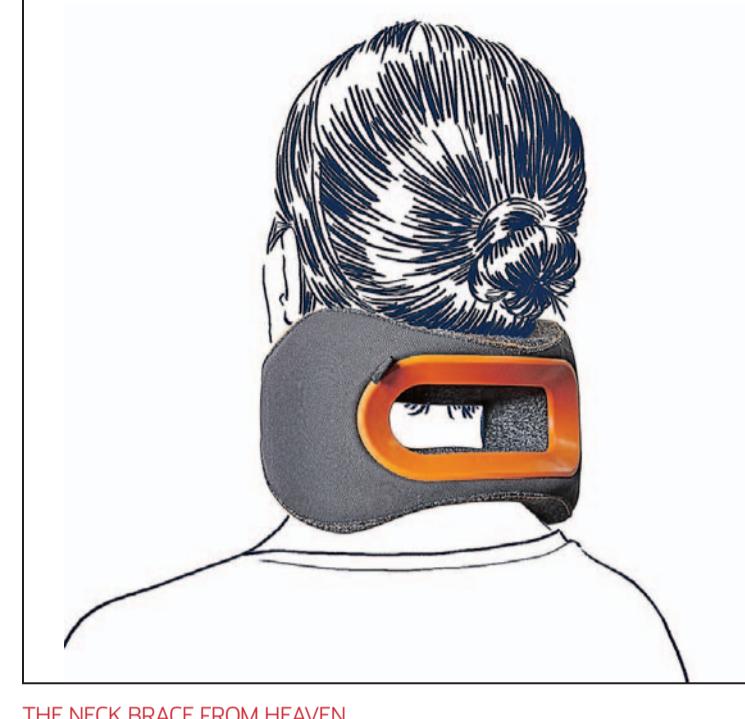
They're a laughingstock, right? And then an hour later, there they are, across the aisle in 17B, snoring away in perfect serenity enveloped in their puffy neon chokers or leaning face-first into an inflatable ziggurat placed on their tray tables. All while you furiously try to work the seat-back credit-card reader.

I'm not afraid of flying, exactly, but I'm also never able to really, truly relax. Oh, I can doze fitfully, given a long enough flight, wake up with a start and knock my seatmate's meticulously organized printouts all over the floor. (That happened.) It's rest, kind of, but it's deeply unsatisfying. Each hour of plane sleep, by my estimation, equates to about 37 seconds of actual horizontal-on-a-bed sleep.

A bewildering array of designs faced me, from actual pillows to plush Jenga tray-table towers to wearable alien head cowls.

So finally, after one particularly restless cross-country flight, I decided to see for myself what all the fuss was about. To become, possibly, a Pillow Person. But which ones to test? A bewildering array of designs faced me, from actual pillows to plush Jenga tray-table towers to wearable alien head cowls. You have your simple inflatables and your highly elaborate innovations, like the Tumi Pax, a jacket that converts into a pillow, or Huzi Design's infinity pillowbands with noise-cancelling properties, or the unspeakable abomination that is the HoodiePillow.

In the end, I considered four relatively simple designs that were small enough that I could easily jam them all into a carry-on. Would the comfort be worth the indignity?



THE NECK BRACE FROM HEAVEN
► **Bullrest Memory Foam Travel Pillow**

Aesthetic Ski goggles worn around the back of your neck.
Materials A patented blend of hard plastic and soft memory foam.
Experience The Bullrest (named for an animal with an infamously strong neck) was carefully designed—reportedly with input from medical engineers—to not just cushion but also support your head and neck vertebrae. Although stiffer than you expect a “pillow” to be, the Bullrest is very comfortable, like a firm mattress for your skull. A proprietary blend of memory foam adjusts to accommodate all manner of cranial topography. A wide-mouth vent keeps air flowing so the back of your head doesn't roast, and the shape is angled so as not to interfere with over-the-ear headphones. For me, the curve let my head roll left and right a little too much; turbulence might make you feel like you're watching a tennis match. But that's nitpicking: This pillow did put me to sleep—while I was trying to write this article, no less—so I'm not complaining. \$60, bullrest.com



THE COBRA
► **BCOZZY Chin Supporting Travel Pillow**

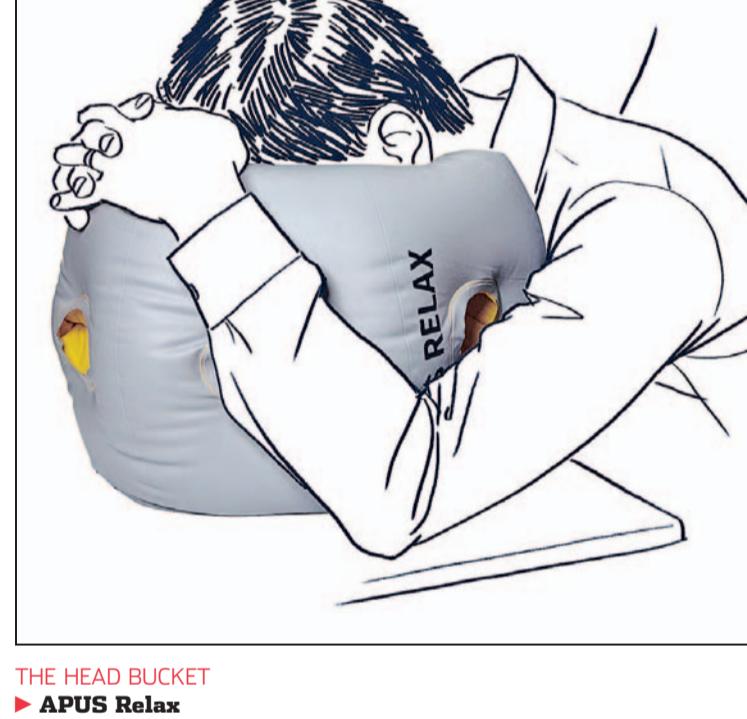
Aesthetic A wee, colorful stuffed-animal snake trying adorably to choke you.
Materials Super-soft memory foam stitched into a lazy overlapping C that bends open to hook around even the most prodigious necks.
Experience The BCozy loops fully around your neck like a bloated scarf and limits your head from lolling over too far. Coupled with the wings of your airplane-seat's headrest, it does a good job of absorbing turbulence and letting you feel like your head is sinking into a cloud; I caught some good shut-eye between the flight attendants' visits. You can wear the overlapping ends on one shoulder, to lean safely toward a preferred seatmate, or turn them to the front if, like mine, your jaw drops open charmingly when you sleep sitting up. The BCozy is compressible enough to stuff into the unused pocket of any laptop bag, and you can turn the red or blue side up to signal your political leanings while you slumber. \$30, bcoozy.com



THE BEANBAG NECK-CHAIR
► **Ostrich Pillow Light**

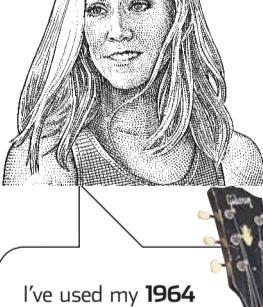
Aesthetic A tall, foamy head doughnut.
Materials The colored exterior is a sheeny, not-quite-drool-resistant viscose and elastane; the gray inside liner feels like your softest sheets. In between, a sea of polystyrene microbeads smushes around safely like so much weightless sand.

Experience The Ostrich Pillow Light is agreeably simple, compact and adjustable. You can tug it down onto your forehead like the world's fattest headband to safely lean against the thrumming window-seat wall. You can install it around the middle of your face, to block light and let your seatmates know the conversation is over. Or you can drape it around your neck and cinch up the drawstring, and fake a neck injury for a sympathy upgrade. I found it comfortable but inconclusive; I never made it past alarm-clock-snooze-mode sleep. \$45, ostrichpillow.com



THE HEAD BUCKET
► **APUS Relax**

Aesthetic A slightly cubist take on the beach ball.
Materials Inflatable plastic, filled with user-supplied airport-Cinnabon breath.
Experience Who among us hasn't quietly wondered what it would be like to live inside a beach ball? Now's your chance to poke your head and hands inside and give it a whirl. A relatively small seat-back-tray-table air bag, this is clearly a space-conscious option: When not in use, the Relax easily rolls up and tucks inside your pocket. It inflates and deflates easily, and has holes top and sides to slip your face and hands in so you can play "Words With Friends" until you feel drowsy. But it's tight quarters inside—with my hands inserted, I scratched my face with a fingernail. I couldn't catch any Zzzzs at all in this contraption, mainly because the overinflated-balloon quality made it feel like I was trying to fall asleep face down in a pool toy. \$30, apusrelax.com



MY TECH ESSENTIALS

SHERYL CROW

The singer-songwriter—whose album 'Be Myself' was recently released—on driving her kids to school in a tour bus and recording demos on a plane

I've used my 1964 Gibson Country Western guitar on every record I've made. It's the only instrument that's been on all 10 records. I've always gravitated to this particular guitar, maybe because it's got a neck size that's good for my small hands. It just has a good juju.

I don't love my kids' being on the iPad, but there is a great on-the-fly drum program called "EasyBeats" that both of my kids love. It's a way of creating music, and they don't even really know they're doing it.

Whenever we're anywhere near the beach, we love to go snorkeling. We all use these amazing Tribord snorkeling masks. They cover your whole face, so you breath into the mask instead of just a snorkel. They're fantastic.



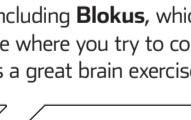
I use "Waze" because traffic in Nashville is getting bad. I tell everyone: It's a great place to live; please don't move here. We used it the other day so our tour bus could drop my kids at school. My 10-year-old was psyched and my 7-year-old was mortified. That's the difference in my two boys.

My go-to iPhone app is "Voice Memos" [to record]. On an airplane, I'll beat box a little groove then hum a melody. Later, I'll see if I can figure out what I thought was brilliant about it. Most people think I'm talking on the phone.

The best thing that's ever happened to my life since my kids is my Nespresso Aeroccino4 milk frother. I have to say, I have a love affair with Starbucks—there's just something about a Venti latte in the morning. But since I got this, the lattes I make are basically the same. I don't have to feel guilty about spending five bucks on a latte.

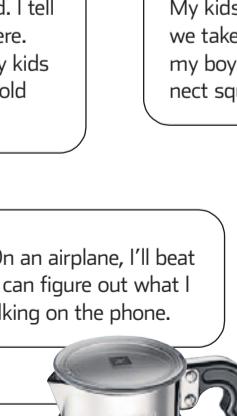


My 10-year-old eats ice all the time. He likes the ice from Sonic Drive-Ins. At Christmas, Santa Claus brought our family an Opal Nugget Ice Maker, which makes Sonic-style ice. It sits right on top of your cabinet. It doesn't need its own drain and it makes the best ice. We love it.



The exercise gear that I use every day is the Hypervibe G17 Pro. It's a vibrating machine that you stand on and it engages your core and strengthens all the small muscle groups. It's particularly good for people who are getting older, which is why I bought them for my parents.

—Edited from an interview by Chris Kornelis



MANSION

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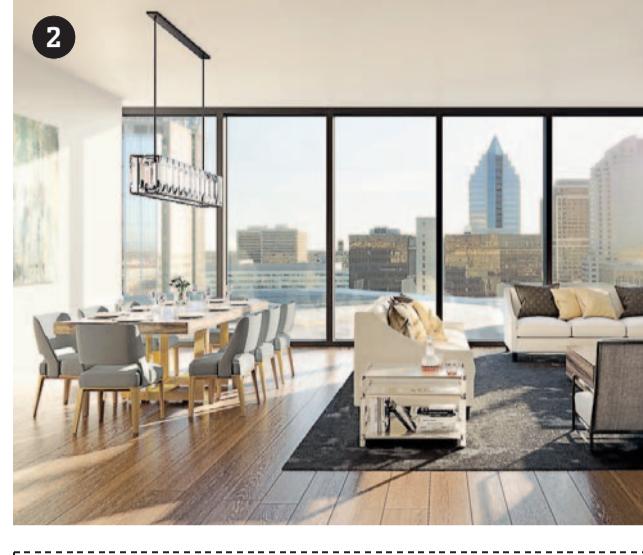
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THE WALL STREET JOURNAL.

'Neither the Crusades nor
Alexander's expedition to India can
equal this emigration to California.'

—C.N. Ormsby's 1849 letter home

Friday - Sunday, May 26 - 28, 2017 | W9



California's Newest Hot Spot

The once-sleepy government town of Sacramento rides a new real-estate boom.



LOOKING UP Sacramento, which was mired in a housing slump a few years ago, is now home to bidding wars and urban renewal projects. 1, 2. Renderings of the Residences at the Sawyer, one of the city's most ambitious residential projects. 3. The Golden 1 Center 4. The State Capitol 5. Bikes at the Cannery. 6. Raleigh and Nan Klein 7. The club house at McKinley Village. 8. The city.

BY CANDACE JACKSON

PRICE CUTS HAVE BEEN REPLACED by bidding wars. A once-sleepy downtown is flush with urban-renewal projects. A luxury condo tower with penthouses priced over \$4 million is under construction. Sacramento, Calif., long seen as a fairly bland government town, is in the midst of a real estate boom.

When Suzanne Greer listed her six-bedroom home just outside of Sacramento last month, so many potential buyers showed up to the three-hour open house that her real-estate agent had to extend it by two hours. Offers started coming in that evening. Eight buyers entered a bidding war.

"We've been here 17 or 18 years and have never seen it like this," says Ms. Greer, who, with her husband, owns a commercial air conditioning business. She sold the home for \$40,000 over

the \$799,000 asking price—plus two months of free rent so she doesn't have to move out right away while she builds a new home nearby.

Houses are moving fast. Homes in Sacramento have been selling in an average of 34 days—six days faster than they were at this time last year, and 28 days faster than the U.S. overall.

It is a dramatic turn of events for a city that just a couple of years ago was still struggling to

Please turn to page W10

13,000 SQUARE FEET OF CHILD'S PLAY

A stage with velvet curtains; spirited games of skeeball; a hidden room under the basement stairs and a backyard zip line. This couple's South Dakota home was designed to inspire and enrich their children.

BY STEFANOS CHEN

CHAMP, EILEEN AND MAX just got home from school. Champ, 11, heads to the living room, removes his shoes and—swoosh—takes the metal slide to the basement.

On this lower level, their parents, Keith Baumgarten and Sara Keane Baumgarten, have built a vast playland for their four children, ages 4 to 11, in their 13,000-square-foot home in Sioux Falls, S.D. Here, the children practice classical guitar, mixed with some piano and percussion, on a stage flanked by velvet curtains. In a hidden room beneath the stairs, decorated with Chinese lanterns and jade carpet, the children practice Mandarin once a day with a private tutor. Later, they can play skeeball, the classic carnival game, or enjoy a snack from the basement's kitchen.

In an adjacent guesthouse, there is an elaborate, lofted playhouse with bunk beds for each of the children. Outside, there is a large swimming pool and a play set that includes a climbing



HOUSE OF THE DAY
wsj.com/houseoftheday



United States
A light-filled, multi-level Manhattan apartment



Australia
A Queensland mansion overlooking the sea



United States
A California home for indoor-outdoor living

THE SLIDE RULES Keith Baumgarten and Sara Keane Baumgarten paid \$2.05 million for their Sioux Falls, S.D., home, top right, and spent another \$1.2 million renovating it. Above, left and right, Champ at the top of the metal slide and Eileen at the bottom.

Please turn to page W14

CLOCKWISE FROM TOP LEFT: VISUALHOUSE (RENDERINGS); 2: SACRAMENTO KINGS; MAX WHITAKER FOR THE WALL STREET JOURNAL; 3: MICHELLE BREWES FOR THE WALL STREET JOURNAL; 4: THE NEW HOME COMPANY; SACRAMENTO KINGS

Douglas Elliman

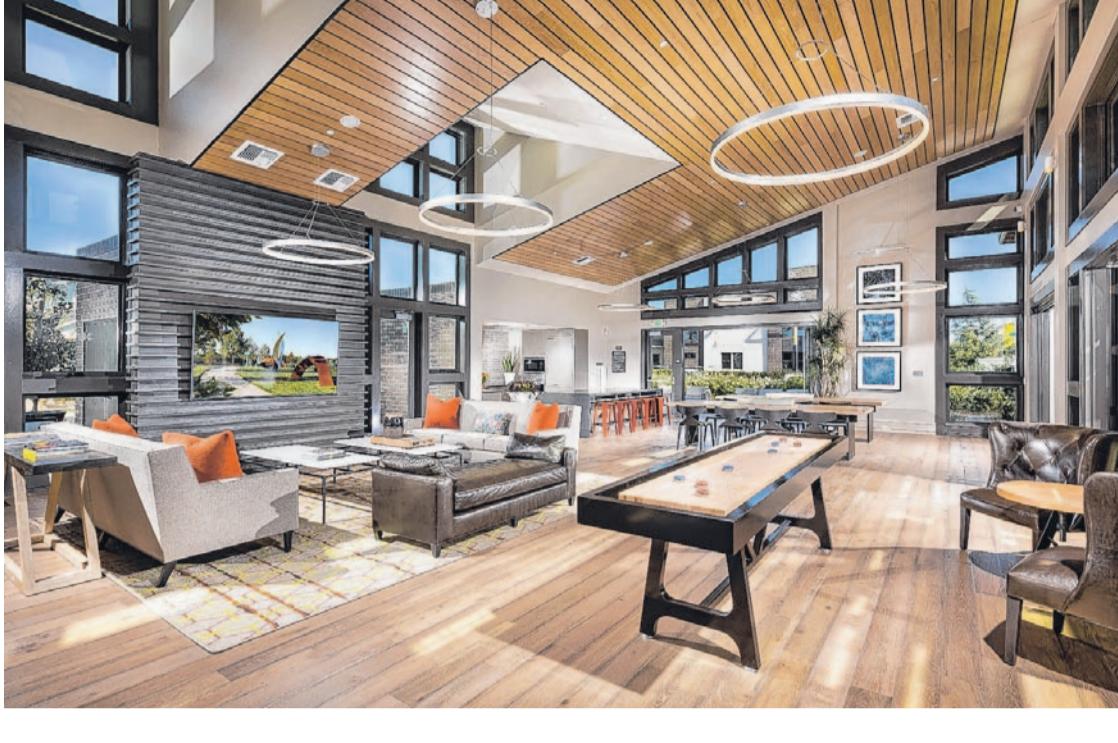
Queensland Sotheby's International Realty

Dana Damewood

Jason Speith and Adrian Tiemens

MANSION

CALIFORNIA'S NEWEST HOT SPOT



JUST IN TIME In November, Bryan and Kaycie Yong, below, bought this three-bedroom home, below left, in McKinley Village for \$375,000. 'It was really competitive,' says Ms. Yong, who is expecting her first child in this month. Clubhouse and pool, above; clubhouse interior, left.

Continued from page W9
pull out of a deep housing slump, even as other markets in California surged. Sacramento is finally seeing the kind of downtown resurgence that is been happening in cities across the U.S. over the past 10 to 15 years. And the region is partly benefiting from some spillover as San Francisco and Silicon Valley's tech boom brings skyrocketing prices and a housing shortage, pushing buyers to look further afield.

About an hour-and-a-half drive northeast of the Bay Area, Sacramento remains relatively affordable. The median price a square foot of a Sacramento-area home is \$228, compared with \$531 in the Bay Area.

If current trends hold, Javier Vivas, manager of economic research for Realtor.com, predicts that Sacramento prices will rise 7.2% this year over last year, compared with a national average of about 3% over the same period. San Francisco prices are forecast to rise by 8.4%. (News Corp., owner of The Wall Street Journal, also operates Realtor.com under license from the National Association of Realtors.)

Nick Sadek, a real-estate agent with Sotheby's International Realty, says about a third of his buyers come from the Bay Area. One client, who works for Google and is able to work remotely, sold his small home in Menlo Park for \$4 million and bought a 3,800-square-foot home in a Sacramento suburb for \$1.3 million.

Raleigh and Nan Klein sold their home in Alameda, near Oakland, last year to buy a home in Davis, 20 minutes outside of Sacramento. After 30 years, the empty nesters say they were tired of the Bay Area's congestion and looking for an easier place to live.

"We were looking for somewhere we could walk and bike a lot," says Mr. Klein. In December, they purchased a two-bedroom home with a den in the Cannery, a new-

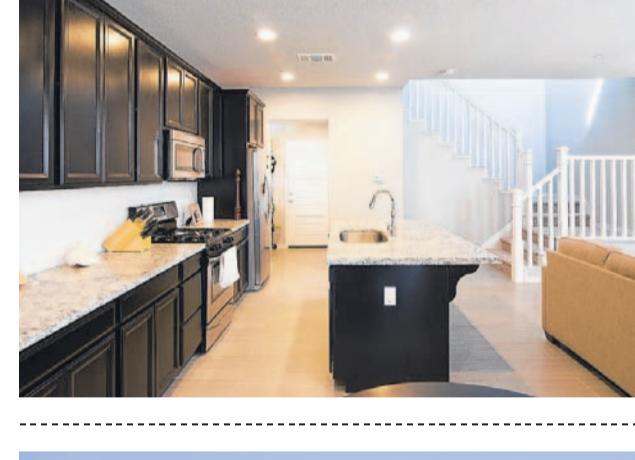
home community set up around an urban farm that is bikeable to town. Though the couple declined to say what they paid for their homes, similar models start in the \$700,000 range.

Developers are betting big on a revitalization of the city's downtown, which is pocked with seedy areas and long offered little beyond offices and the state capitol building.

A partly vacant Westfield mall has been mostly dismantled to create Downtown Commons, an 11.8-acre pedestrian-friendly residential and commercial plaza. Developed by the NBA's Sacramento Kings and JMA Ventures, it includes offices, shopping and the new Golden 1 Center, the only indoor/outdoor NBA arena that is 100% solar-powered (and boasts an \$8 million Jeff Koons sculpture). Nearby, a local developer is turning a 100-year-old bank building into a 30,000-square-foot upscale food hall. Local developer LDK Ventures is turning an old 140-acre rail yard into a development with a Kaiser hospital, a Major League Soccer stadium, offices and housing.

One of the most ambitious residential projects is the Residences at the Sawyer. Offering city and river views, as well as room service and a concierge, the condominiums are breaking new ground in pricing and amenities. Set on top of a Kimpton Hotel, condos also come with VIP access to Golden 1 Center, a private lounge and a pool and terrace overlooking the arena. One-bedrooms start at \$600,000 and three-bedroom penthouses with over 3,300 square feet go up to just over \$4 million, says director of sales Christopher Miller, of the Agency Development Group.

Sacramento "went from one of the worst real-estate markets to one of the best," says Vivek Ranadivé, a Silicon Valley-based founder of two tech companies, Tibco and Teknekron Software Sys-



house, the couple wants to be closer to the action. As Kings season ticket holders, they liked that they could see the arena from their two-bedroom unit.

Kaycie and Bryan Yong, who both work for the state of California, wanted to be close to downtown to shorten their commutes. With a budget of \$300,000, they found that listings were often selling for \$50,000 over asking. "It was really competitive," says Ms. Yong, who is expecting her first child in this month.

In November they purchased a new-construction three-bedroom home for \$375,000 in McKinley Village, which is a short drive from downtown.

Local real-estate agents warn that Sacramento's pace of growth may not be sustainable. Though the city of 485,000 has benefited from expansions in the medical and health-sciences industries, unemployment is 4.5% in Sacramento County, relatively high compared with the national average of 4.1% and San Francisco County's 2.7%. Mr. Vivas of Realtor.com says the housing market needs more support from the local economy, instead of just demand from other areas.

The frenzied market can be a challenge. Mark and Andrea Goldsmith listed their home just outside of Sacramento in April for \$1 million and got an offer six days later. The buyers were a Bay Area couple who offered to pay all cash. When it came time for the Goldsmiths to buy a house closer to the city, they found themselves in bidding wars. In the 20 months they spent looking, they say they saw prices in their target neighborhoods go up by about 20%.

They're now in contract to pay \$862,000 for a three-bedroom, 1,700-square-foot house that was listed for \$769,000. "I think it was a risky time to buy," says Ms. Goldsmith, a former home appraiser. "But we plan to live there for 10 or 20 years so I'm not worried about it."



GO EAST Raleigh and Nan Klein sold their Bay Area home last year and bought a replacement at the Cannery, a community 20 minutes outside Sacramento. The Cannery's community spaces, above.

tems, and owner and chairman of the Kings. He has purchased a condo in the Sawyer.

Real-estate agents and developers say the most desirable neighborhoods are in

the urban core—a shift from the prior boom cycle around 2005, when suburban areas with gated developments and highly rated public schools were more popular.

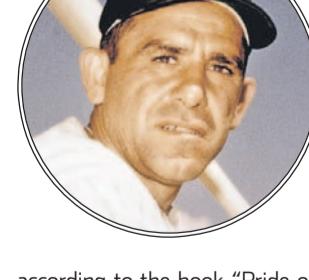
Shelly and Paul Zehnder

recently sold their suburban home to move downtown, where they're in contract to purchase a 1,200-square-foot condo at the Residences at the Sawyer. With all three of their children now out of the

FROM TOP: THE NEW HOME COMPANY (2); RYAN ANGEL/MESA FOR THE WALL STREET JOURNAL (3)

PRIVATE PROPERTIES | CANDACE TAYLOR

Onetime New Jersey Home of Yogi Berra Goes on Sale



The former New Jersey home of the late wisecracking baseball great Yogi Berra is going on the market for \$3.199 million.

The longtime Yankees catcher lived in the Montclair home with his wife and children from the 1950s until the 1970s, when they sold it to current owner Rose Cali and her late husband John, a real-estate developer, Mrs. Cali said. The Berras' children had moved out of the house, and they downsized to another home in Montclair, said Mrs. Cali, adding that she and her husband became friendly with Mr. Berra, who was known not just for his baseball career but for his wit.

In one of his oft-quoted remarks, Mr. Berra described the house as "nothing but rooms,"

him," Mrs. Cali recalled.

Built in the 1920s, the Tudor-style home has five bedrooms and measures about 6,800 square feet, according to listing agent Christine Lane of Halstead Property. The Calis kept many of the original details but expanded the house. The home sits on 1.37 acres, with an outdoor swimming pool and a pool house.

Mr. Cali co-founded the real-estate company Cali Associates, which went public in 1994 and later merged with Mack Co. to become Mack-Cali Realty, which owns millions of square feet of commercial property in Jersey City and the vicinity.

Mr. Cali died in 2014, and Ms. Cali said she is selling because she's relocating to another home in Montclair now that her children are grown.



HALSTEAD PROPERTY NEW JERSEY, LLC EVERETT COLLECTION (INSET)

MANSION

HOUSE CALL | LOU PINIELLA

Baseball Was a Family Affair

Before he was a Yankee, he was coached by his mom; growing up in a close-knit Florida community

In the summer after my junior year of high school, I came this close to dying. I was playing baseball for a league team that made the finals in Ontario, Calif. On our day off, we were hiking a trail on nearby Mount Baldy when I ran to catch up to the guys. I tripped and began stumbling down a hill trying to regain my balance. I couldn't stop.

As the hill steepened, I tripped again and slammed into a boulder. Had that rock not stopped me, I would have fallen and rolled several hundred feet down to the river below.

Though the collision left me with a broken ankle and a gash on my head, I played the next day. We lost. My mom never blamed my coaches for what happened to me, only me for being careless.

In West Tampa, Fla., I grew up in a close-knit community of émigrés, mostly from northern Spain, with some Italian and Cuban families mixed in. Everyone had come to work in the cigar factories.

Up until I was around 7, my parents and I lived in my maternal grandparents' three-bedroom wood house. My Uncle Mack and his wife lived there, too. At first, everyone had to share an outside house in a stand-alone garage out back. Then my dad put in a bathroom.

The houses in our neighborhood were only 15 feet apart. My grandparents came from Spain and had an RCA radio that everyone huddled around for news and sports.

My mother, Margaret, was athletic. She was 5-foot-9 and had played in an all-star basketball league in the 1930s. In high school, she played first base on the boys' baseball team. Her two brothers also played baseball.

She went to my games when I was in baseball leagues. At times she was my coach off the field.

My father, Lou Sr., worked for the Curtis Candy Co. in Chicago and became a district supervisor in Florida. He was often traveling.

Around this time, we moved to West Tampa Heights, about 3 miles away. We lived on Conrad Street in a one-story house. The following year, in 1950, after my brother Joe was born, we moved to Cordelia Street to a three-bedroom house that a friend of my father had built for him.

The best thing about our new home was that the entire block between Cordelia and Ivy was a playground with a baseball field. I learned to speak English there in the first grade. My fondest memories are of the neighborhood parties thrown by our

neighbors, the Pancettis. They often served crab enchiladas and spaghetti with spicy red crab sauce.

Like the Pancettis, my dad and I went crabbing near Old Tampa Bay. We'd go with nets and a tin tub and walk the grass flats to catch them. We'd clean them, and Mr. Pancetti did the rest.

When I was a teen, my dad organized an amateur baseball league in West Tampa Heights. He pitched when he was home. My uncles played on the team, too. I became the batboy and learned everything about the game from them. Eventually I started playing in local leagues.

By then, my father started his own small candy-store distributor business. My mother, who had been an accountant at a cigar factory, handled his books. I worked with my dad every Saturday. I'd bring the stuff in from his truck.

In the summers, my mom and dad would argue about my schedule. I worked three days a week for him, but she wanted me out on the field playing baseball.

Admittedly, I had a temper as a kid. I probably got that from my dad. My frustration was with myself, never anyone else. That temper dogged me into high school and the pros. Even into managing.

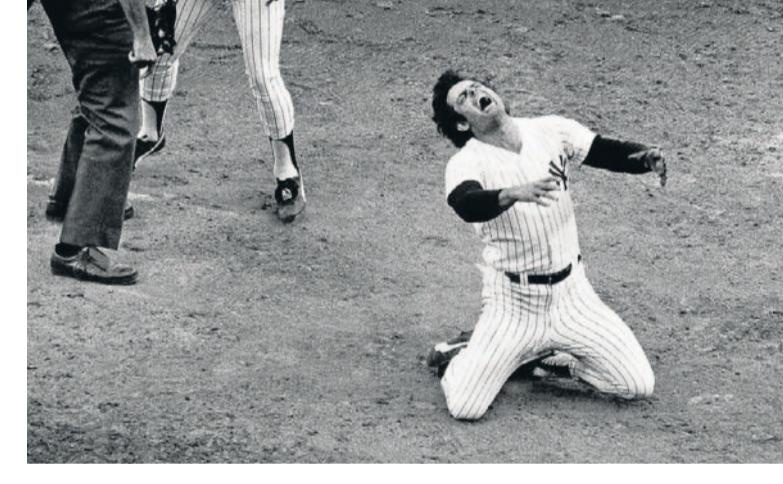
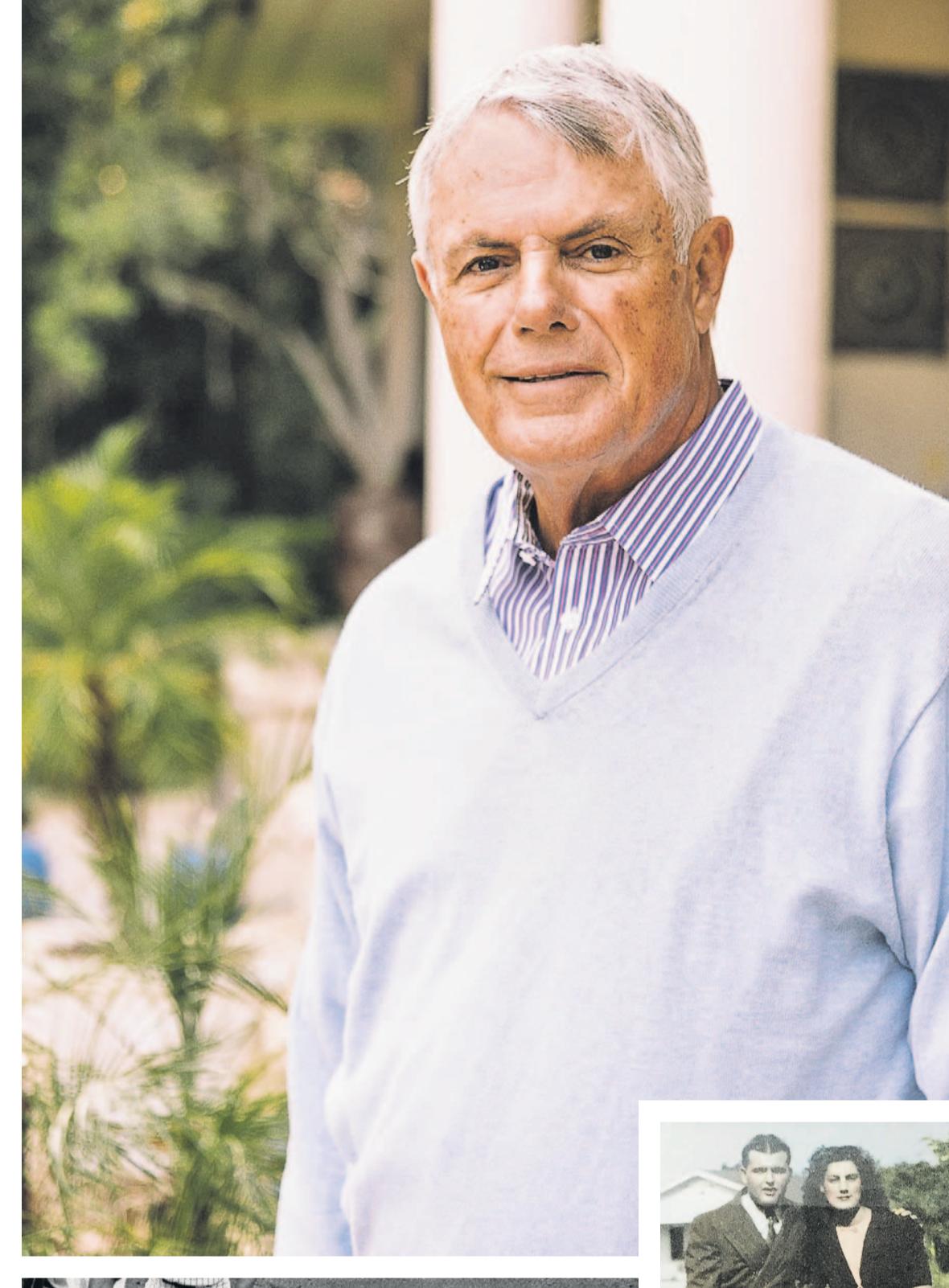
Now that I'm older, I don't like watching myself angry when they show old games on TV. I fixed that problem a long time ago by catching the rage early. Of all the teams I played for, the Yankees are still closest to my heart.

Today, Anita, my wife of almost 50 years, and I live in a gated golf community in Tampa. We are blessed to have a spacious home where we can spend time with our children and grandchildren.

Anita is a wonderful cook. My favorite dish is her spaghetti with blue crabs. When I smell her cooking the red sauce and crabs, I tear up. It takes me back.

—As told to Marc Myers

Lou Piniella, 73, is a former professional baseball player and manager. He won two World Series with the New York Yankees and was named Manager of the Year three times. He is the author of "Lou" (Harper), a memoir.



HOME TEAM Lou Piniella, top, in his Tampa, Fla., home; left, in 1978 after being called out in a playoff game; above, in 1946 with his parents.

PRIVATE PROPERTIES | CANDACE TAYLOR

British Singer Harry Styles Lists in Los Angeles

Pop star Harry Styles is putting his modern Los Angeles home on the market for \$8.495 million. That is significantly more than the British singer paid for the home. He bought it in January of last year for \$6.87 million, public

records show.

Mr. Styles spends much of his time in London, and he recently bought a home in Manhattan, said listing agent Justin P. Huchel of Hilton & Hyland, who declined to comment on the star's reasons for selling.

Mr. Huchel said the price increase reflects renovations Mr. Styles made to the house as well as "a very strong market" in Los Angeles. Mr. Styles couldn't be reached for comment.

In the Hollywood Hills, the

house has views of the Pacific Ocean and downtown, Mr. Huchel said. Measuring about 4,400 square feet, it has three bedrooms, a gym and a screening room. Large terraces overlook the city's skyline. The gated property, which sits on

roughly a quarter of an acre, also boasts a swimming pool and cabana. Part of the home's appeal is that it is located on a quiet street and vegetation shields the house from prying eyes, Mr. Huchel said. "There's a premium for

the privacy," he said.

Mr. Styles, 23, gained fame as a member of the popular boy band One Direction, which is now on hiatus. He recently released a self-titled debut solo album and is slated to begin a solo tour in September.



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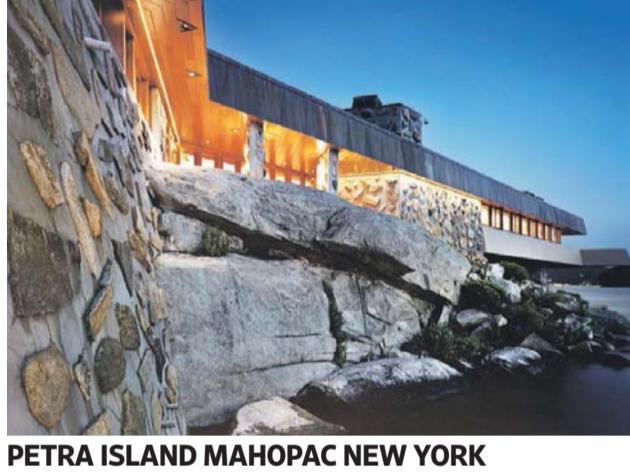


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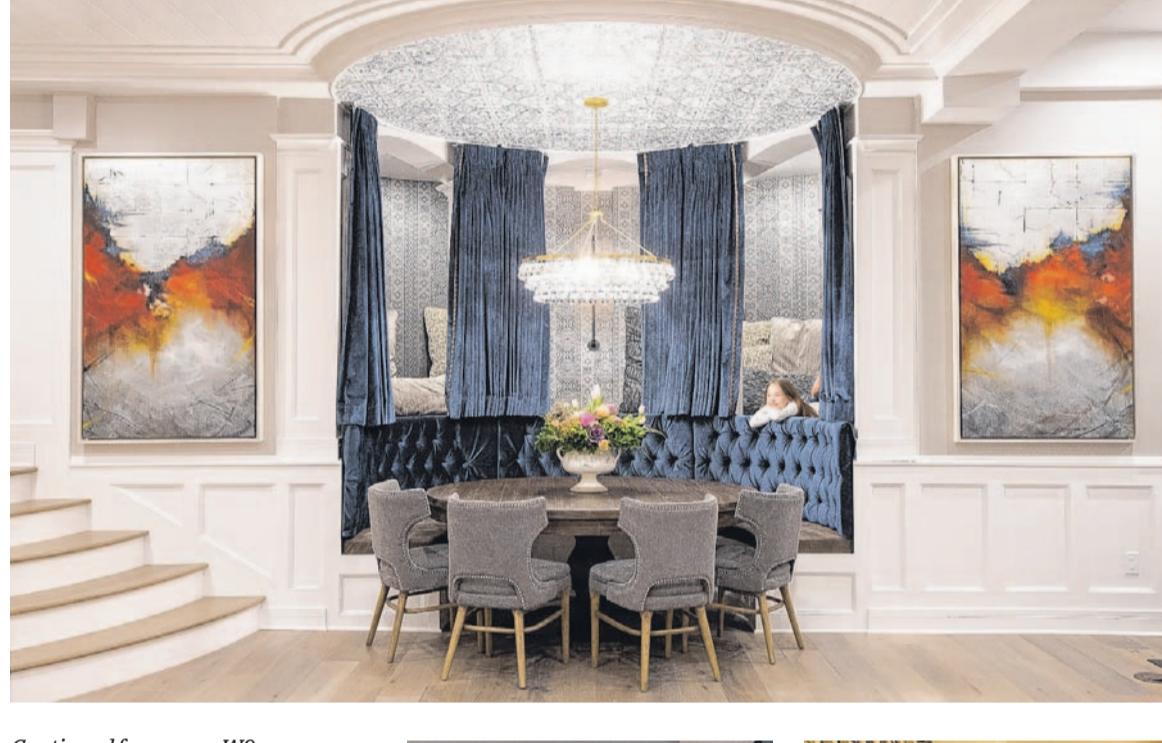
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MANSION



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ROOM TO GROW The back of the home has walls of windows, top, where Mrs. Baumgarten walks with Tigger beside the pool. Left, behind a large table in the lower level is a sleepover room with privacy curtains, a custom-cut mattress and electrical outlets for gadgets. Above, Dr. and Mrs. Baumgarten with their children, Eleanor, Champ, Eileen and Max in a sitting room.



FUN AND GAMES In the loft of Mrs. Keane's home, the children have custom bunk beds with peek-a-boo windows, above. Clockwise from right, the main home's living room, a skee-ball game and a performance stage.



garten said. "Also, I like discipline."

To that end, the children take Mandarin and Spanish lessons from two international students who also live at the home. Math and music practice are a daily routine.

Building a fun house is serious work. The 4,000-square-foot basement was jacked up to raise the

ceiling height from 8 feet to 12 feet, said Troy Prosa of TAP Architecture, based in Minneapolis.

The family lived for a year with a large hole blown out of the lower level, where tons of dirt had to be excavated.

Mr. Prosa also designed the basement's musical stage, which has professional lighting and



sound. Nearby he created a sleepover room with privacy curtains, lots of plugs for electronics, and a custom-cut Tempur-Pedic mattress on the floor that can sleep eight. The custom-built curly slide gets more use than the stairs.

With four children, a grandmother, two visiting language tutors and two dogs, Spanky and

Tigger, the family uses all seven bedrooms and 11 bathrooms. Including the guesthouse and pool house, there are four kitchens and a home office that Mrs. Baumgarten shares with the children during study time.

"We'll never get our money back for this, but it is so worth it," she said. "I'm never selling."