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What's News

Business & Finance

UPS is asking major retailers to help pay for extra workers and surplus space on trucks when they fail to ship as many packages as planned during peak periods. A1

◆ AXA, the parent company of AllianceBernstein, fired the money manager's CEO and all of its independent board members. A1

◆ Intel's \$742 million investment in Cloudera is now valued at roughly \$434 million following the software firm's IPO on Friday. B1

◆ Detroit's Big Three remain upbeat about earnings, even as demand for passenger vehicles continues to weaken. B1

◆ Valeant said it made \$220 million in unscheduled debt payments in its latest effort to chip away at the billions of dollars that it owes. B3

◆ Fed officials are likely to keep interest rates steady at their two-day policy meeting that starts Tuesday. A7

◆ China's big three airlines are leading the world in delays, threatening to choke growth in the country's booming aviation sector. B1

◆ The brothers who built mixed martial-arts company UFC into a \$4 billion enterprise have started a direct-investing firm. B7

◆ Nintendo used aircraft to ship its new Switch videogame machine in its first month on the market. B4

World-Wide

◆ Congressional leaders reached a bipartisan deal to fund the government until October, while the White House pushed for a vote on a new health-law bill. A7

◆ The director of the CIA is visiting South Korea amid heightened tensions on the Korean Peninsula. A4

◆ The EU vowed to safeguard the Iran nuclear deal despite U.S. threats to scrap it during a high-level weekend visit to Tehran. A6

◆ Abbas in pressuring Hamas to cede control of the Gaza Strip to his Palestinian Authority ahead of talks with Trump this week. A3

◆ Hamas was to unveil a revised charter on Monday in which it was expected to soften its hard-line stance on Israel. A3

◆ NATO is considering appointing a senior official to oversee counterterrorism efforts. A6

◆ Italy's former Prime Minister Renzi won a leadership contest to head the Democratic Party in the country's next general election. A6

◆ A toxic mix of economics, bad weather and conflict is fueling record starvation levels in Africa. A4

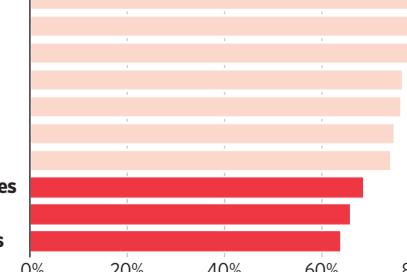
◆ Police in Istanbul detained 165 people during May Day events around the city. A6

◆ U.S. factory activity decelerated in April, a sign of healthy but somewhat slower growth for the manufacturing sector. A7

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Source: OAG



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Source: OAG

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THE WALL STREET JOURNAL.

WORLD NEWS

Democrats Ponder New Tactic Against Trump



CAPITAL JOURNAL

By Gerald F. Seib

For Democrats these days, the key word in their political vocabulary is "resistance."

Amid the flurry of analysis and commentary marking President Donald Trump's first 100 days in office, the Democratic Party's position was clear:

It is fighting the president and all he does, pure and simple.

"Yesterday, we marked

Donald Trump's hundredth day in office—and, much more importantly 100 days of resistance," declared a weekend email message from party Chairman Tom Perez. That message used the word "resistance" three times.

For now, this position is an easy one for Democrats. Their party's base burns with dislike of the president and anger that he won the White House despite losing the popular vote. The demand from the party's activists is to fight all things Trump.

But is that posture, along with a move to the left on cultural issues, the right long-term formula to claw back would-be Democratic voters lost in 2016? Some in the party aren't so sure.

On the party's left, Larry

Cohen says: "Resistance is not enough." Mr. Cohen, chair of Our Revolution, a progressive movement inspired by the Bernie Sanders presidential campaign, adds: "The anti-Trump focus of much of labor and the [Hillary] Clinton campaign was not enough."

He argues for the Democrats to have an agenda of their own that should "start with a focus on democracy in all its forms—public issues like decent work, sustainable infrastructure, free public education from preschool through higher ed to provide real opportunity, health care for all, not simply access to overpriced insurance." And, he adds, "keeping private issues private—women making their own health-care choices, gender and racial equality and real opportunity."

On the party's opposite wing, Jim Kessler also says of the resistance message: "It's not going to be sufficient." Mr. Kessler is senior vice president of Third Way, an organization of moderate Democrats. He says Democrats "have to think as if the entire race—and all the races—are dependent on who has the best jobs plan for the country. Who's going to bring the most jobs to America?"

Mr. Kessler suggests that Democrats start by promoting their own jobs-producing infrastructure initiative and a plan to rev up manufacturing.

As that suggests, Mr. Trump's success was rooted in his ability to convince working-class voters that anti-globalism and economic nationalism have the potential to bring back manufac-



GEORGE FREY/GETTY IMAGES

Democratic Chairman Tom Perez emphasizes resisting President Donald Trump above all, but some party activists question the strategy.

turing and blue-collar jobs. That message cut deep with working-class voters in the country's center who once considered the Democratic Party home but were pulled away by a populist message—an ill-defined one, to be sure, but delivered with a heap of anger.

It would be a mistake, though, for Democrats to think that it was only Mr. Trump who caused their predicament. Mr. Kessler notes that along the Atlantic seaboard and the West Coast, Democrats have roughly a 3-to-1 advantage in seats in the House of Representatives. Through the South and the country's interior, mean-

while, they trail Republicans by more than 100 seats, many in districts that once were reliably Democratic.

Economic rather than cultural issues are the ticket for wooing back many of the lost voters in such places. Thus, the danger for Democrats nationally is that the resurgence of activism and anger in the party's liberal base will push the party to the left on cultural issues—and, in the process, away from some of the working-class Americans whose support is needed for a Democratic renaissance.

That danger was amply il-

lustrated by a dust-up over abortion in recent days. Mr. Perez, the party chairman, and Sen. Sanders both campaigned on behalf of Heath Mello, a Democrat running to be mayor of Omaha. His victory would be the kind of statement to show Democrats can claw back voters in Trump territory.

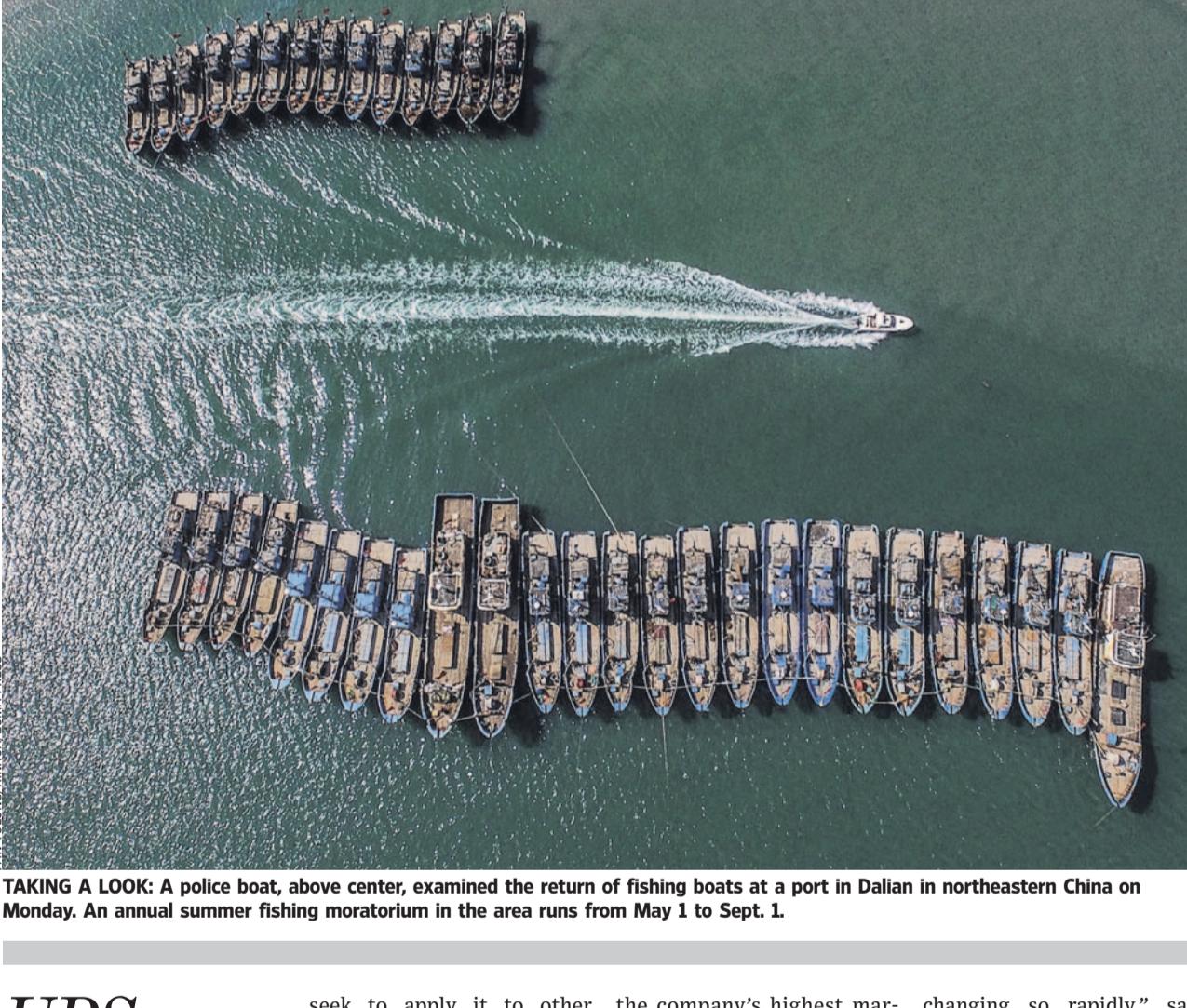
The problem for some in the party, though, is that Mr. Mello is personally antiabortion, and, as a state senator, sponsored a bill that would require a physician to tell a woman an ultrasound image of a fetus is available before performing an abortion. So the Perez/Sanders appearance brought an immediate

protest from NARAL Pro-Choice America.

That pushback, in turn, prompted Mr. Perez to release a statement saying support for "a woman's right to make her own choices about her body and her health" is "not negotiable."

Mr. Perez's declaration—
atop a 2016 Democratic platform that put the party on record against taxpayer funding of abortion—led some to conclude the party now has no room for anti-abortion Democrats. And that could be a significant roadblock for some of those working-class Trump voters the party wants and needs to win back.

Waters Are Quiet Amid Fishing Ban in China



TAKING A LOOK: A police boat, above center, examined the return of fishing boats at a port in Dalian in northeastern China on Monday. An annual summer fishing moratorium in the area runs from May 1 to Sept. 1.

UPS

Continued from Page One
starting and it is still working to complete how the surge price will be implemented. "We will handle it on a customer by customer basis, we will look at our costs and that's the way we're going to address it," Mr. Abney said.

As it is for retailers, the peak season is a critical stretch for UPS and FedEx. Last year, UPS said that daily delivery volume on 13 days in December swelled to 30 million packages, compared with 18 million on a normal non-peak day.

Typically, the brunt of the surge comes from just a few dozen e-commerce retailers. FedEx Chief Executive Fred Smith has said no more than 50 customers are behind the bulk of the spike.

UPS is focusing the surcharge on the top shippers by volume during the winter holidays. The company will also

seek to apply it to other events that cause volumes to swell, such as flower shipments during Valentine's and Mother's Day, and when new gadgets, videogames and books are released.

A FedEx spokesman declined to comment.

UPS and FedEx are both upgrading their delivery networks with more automated sorting centers, trucks and workers to accommodate extra capacity.

The trend is being driven by more people shopping online for products as diverse as soap and shoes. Last year, e-commerce sales rose 14.3% in the fourth quarter, according to the Commerce Department, far outpacing the 4.1% increase in total retail sales.

The extra business has posed a major challenge for the delivery companies. Investors are worried that the capital investments to keep up with the growth aren't paying off quickly enough, especially during holidays.

"We believe that should be

the company's highest margin quarter, given the HR and logistics gymnastics UPS performs to execute for a handful of e-commerce shippers," Stifel Nicolaus & Co. analyst David Ross said in a research note.

UPS is trying to recoup investments made to handle the surge in online shopping.

One challenge has been that forecasting sales has become increasingly challenging as shopping shifts online, often times to new competitors such as Amazon.com Inc. Many traditional chains, including Macy's Inc. and Toys "R" Us Inc., struggled to predict their holiday sales last year.

The problem for the shipper is that nobody is able to accurately forecast e-commerce because things are

changing so rapidly," said John Haber, CEO of supply-chain consultancy Spend Management Experts.

In 2015, UPS started imposing additional charges on shipments when retailers blew through their shipping estimates, driving up costs. But now, UPS is looking for protection on the downside too.

FedEx ran into such trouble this past holiday season. In March, the company said some of its largest retail customers that use its ground-shipping business fell short of their forecasts. That left FedEx confronting a burden from spending the company put toward extra staffing and trucks. Operating margins for FedEx's ground segment declined from 12.6% to 11% in the quarter ended Feb. 28.

During March's earnings call, FedEx Chief Marketing Officer Rajesh Subramaniam said the company is "looking at several pricing options to ensure that we get a reasonable return on investments that we are making."

OUTER

Continued from Page One
appointed AXA's chairman last year. Mr. Kraus was removed from AXA's management committee when a new group was formed following Mr. Duverne's promotion.

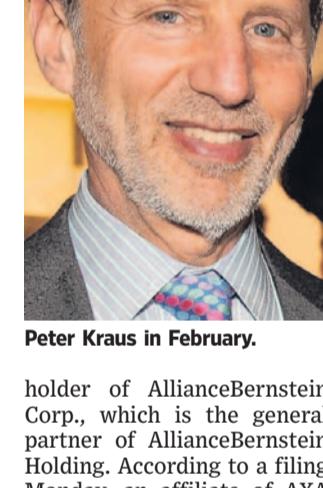
AllianceBernstein is among a set of stock- and bond-picking firms that have struggled to stem a flood of lost capital to exchange-traded funds and other passive investments that track indexes and typically charge lower fees. Notably, even while shares of many companies in the financial industry have rallied in the past year, AllianceBernstein shares are in the red.

The migration of money has left active investment firms like AllianceBernstein to cut their fees, push more aggressively into passive funds or turn to riskier, more complex strategies for which investors are prepared to pay higher fees. The firm appeared to be gaining momentum, and had high expectations for a set of low-cost funds it is launching this year.

On the call, AllianceBernstein's new executives praised the firm's strategic direction.

The firm also named Robert Zoellick as chairman. He previously served in the administrations of President George H.W. Bush and President Ronald Reagan, and was president of the World Bank Group from 2007 to 2012. Mr. Zoellick will receive \$425,000 cash and an equity-based grant worth \$425,000 annually.

AXA America Holdings Inc. is the parent of the sole stock-



Peter Kraus in February.

holder of AllianceBernstein Corp., which is the general partner of AllianceBernstein Holding. According to a filing Monday, an affiliate of AXA America on Friday acted to replace Mr. Kraus and remove nine directors from the board of AllianceBernstein Corp. Mr. Duverne and Mark Pearson remained on the board.

New to the board, which now consists of eight members, are incoming CEO Mr. Bernstein, Ramon de Oliveira, Barbara Fallon-Walsh, Daniel Kaye, Anders Malmstrom and Mr. Zoellick.

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WORLD NEWS

Palestinian Leader Squeezes Gaza Strip

Abbas presses Hamas to cede control in bid to show U.S. he can strike deal with Israel

By RORY JONES

TEL AVIV—Palestinian leader Mahmoud Abbas is pressuring Hamas to cede control of the Gaza Strip to his Palestinian Authority in a high-stakes gambit to convince the White House he can strike a deal with Israel on behalf of the Palestinian people, Palestinian officials said.

The move comes ahead of a meeting this week with President Donald Trump in Washington, as Mr. Abbas seeks to convince the White House he controls both the West Bank and Gaza, the two territories that would make up a negotiated future Palestinian state.

In recent weeks, the 82-year-old president has imposed a financial squeeze on Gaza by slashing the wages of teachers, doctors and other workers and refusing to reduce a tax on fuel used by the strip's power plant. The Authority also has told Israel it would stop paying for electricity supplied by Israeli plants to Gaza, Israeli authorities said.

Now, Mr. Abbas is threatening to make cuts to education and health care unless Hamas immediately relinquishes power to the Fatah-led Palestinian Authority in a step toward participation in any future parliamentary elections, said Tayeb Abdul Rahim, an aide to Mr. Abbas. The Authority wants to return to the administration of all offices in Gaza and eventually reinstate its security forces there. Elections could see Hamas parliamentarians join in governing with the Authority.

"Time has come for Hamas to hand over the Gaza Strip to the legitimate Palestinian Authority," Mr. Rahim said.

Mr. Trump has said he wants to negotiate a peace agreement between Israelis and Palestinians, which would



RAAD ADAYEH/ASSOCIATED PRESS

Four Candidates Emerge for Top Leadership Position

Four Palestinian leaders who could assume control of the Palestinian Authority through elections or by succession:

◆ Marwan Barghouti,
Fatah party

Marwan Barghouti, 57 years old, is the most popular candidate to succeed Mahmoud Abbas as president of the Palestinian Authority. However, he is in prison serving multiple life sentences for planning attacks against Israelis. Under Palestinian law, Mr. Barghouti could run for

president and hope that Israel released him in the event he won.

◆ Ismail Haniyeh, Hamas

Ismail Haniyeh, in his mid-50s, is Hamas's most senior leader in the Gaza Strip. He is soon expected to become leader of the Islamist movement and take over from Khaled Meshaal. For Mr. Haniyeh to become Palestinian leader, his Hamas faction would have to win presidential and parliamentary elections, an outcome that would worry Israel and the international

community.

◆ Mohammed Dahlan,
Fatah party

Mohammed Dahlan, 55, was the former Fatah head in the Gaza Strip until he fell out with Mahmoud Abbas. He lives in Abu Dhabi and has the support of some Arab nations, such as the United Arab Emirates, to return to the Palestinian territories to help lead. But just 7% of the Palestinian public want to see Mr. Dahlan take over as Palestinian leader, according to the Palestinian Center for Policy and Survey Research.

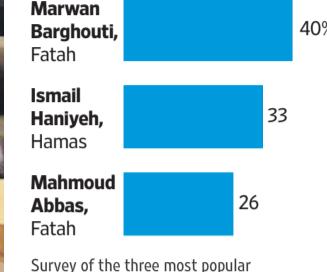
◆ Mahmoud Aloul,
Fatah party

Mahmoud Abbas in February appointed Mahmoud Aloul as the vice president of the Fatah party, for the first time indicating he might support a Palestinian official to succeed him. Mr. Aloul, a former governor of the West Bank city of Nablus, wasn't appointed as deputy in the Palestinian Authority, however, making it unclear whether he would succeed Mr. Abbas.

March poll by the Palestinian Center for Policy and Survey Research and WSJ reporting

The Great Divide

Mahmoud Abbas is deeply unpopular among Palestinians. Share of support for each leader in a presidential election in the West Bank and Gaza Strip



Survey of the three most popular candidates only
Source: Palestinian Center for Policy and Survey Research poll conducted March 8-11
THE WALL STREET JOURNAL.

President Mahmoud Abbas, seen in March, is pressuring Hamas to give up control of the Gaza Strip ahead of his visit to Washington.

said Aaron David Miller, vice president at the Woodrow Wilson Center and former adviser to secretaries of state on Arab-Israeli negotiations. "He can't represent himself as the leader that will silence all the guns of Palestine" in the event they make a deal, he said.

The Palestinian leader is also facing pressure from Marwan Barghouti, a Fatah official serving five life sentences in an Israeli jail for his involvement in killing Israelis. Mr. Barghouti has been on a hunger strike to protest prison conditions. But the campaign also appears aimed at boosting his popularity and undermining the position of Mr. Abbas.

Hamas isn't likely to concede its territory easily. The group has said it is ready to form a national unity government with Fatah to run the Authority and govern Gaza but the two sides would need to work out the details.

"Gaza is not a car that Hamas will give to the PA," Hamas spokesman Abed Al Laateef al Kanoo said, referring to the Authority.

Hamas Set to Soften Israel Stance in Revised Charter

The Palestinian Islamist movement Hamas was to unveil a revised charter on Monday in which it was expected to soften its hard-line stance on Israel, an official for the group said.

By RORY JONES
in Tel Aviv
and Abu Bakr Bashir
in Gaza City

Hamas, which rules the Gaza Strip, will formally accept the notion of a Palestinian state in territories Israel occupied after

it won the 1967 Arab-Israeli war, the official said.

If confirmed, such an acceptance would be a tacit recognition of Israel along prewar boundaries.

In its 1988 charter, drafted a year after it was founded, Hamas called for the destruction of Israel and the Palestinian takeover of all Israeli territory. Since then, it has fought three wars with Israel and occasionally called for a 10-year truce with its neighbor, but it has never formally recognized

the state and never renounced its call for Israel's annihilation.

A spokesman for the Israeli Foreign Ministry declined on Monday to comment on reported changes to the charter, saying it would make a statement after the document is published and reviewed.

But Yossi Kuperwasser, former head of the research department in Israeli military intelligence, played down the significance of any modifications by Hamas to its founding document.

"The importance of this is limited because they haven't changed their interest of having all of Palestine," he said.

The indications that Hamas is to modify its charter come days before Mahmoud Abbas, president of the Palestinian Authority, which governs the West Bank, holds talks with President Donald Trump at the White House in which they are expected to discuss how to restart Israeli-Palestinian peace talks.

Mr. Trump has said he wants to broker a peace deal

between Israel and the Palestinians and in recent weeks, Mr. Abbas has stepped up pressure on Hamas in an apparent attempt to signal to the White House that he is trying to unify the Palestinians, who have been politically divided since Hamas won control of the Gaza Strip from the Palestinian Authority 10 years ago.

Since Hamas's takeover of Gaza, Israel has frequently rejected peace talks with Mr. Abbas and the Palestinian Authority on the grounds they don't represent all Palestinians.

Officials for Hamas, which has been designated a terrorist organization by the U.S. and other Western governments, have warned that attempts by Mr. Abbas to force them to give up control of Gaza will only deepen the group's political differences with the Palestinian Authority, which is dominated by Mr. Abbas's more moderate and secular Fatah party.

A spokesman for the Palestinian Authority couldn't be reached to comment.

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WORLD NEWS

Economics Amplify Africa's Food Crisis

Inflation, foreign-exchange shortages join war, drought to boost prices of staples

BY NICHOLAS BARIYO

A toxic mix of economics, bad weather and conflict is fueling record starvation levels in Africa, as prices of staple foods touch records in half the continent's 54 countries amid the worst harvests in three decades.

The countries worst affected, including South Sudan, Somalia and northern Nigeria, are plagued by civil war. But even in relatively stable regions, rising inflation and foreign-exchange shortages have exacerbated conditions.

Falling commodity prices across central and southern Africa have sent currencies more than 30% lower against the dollar in the past six months, spiking inflation and undermining purchasing power.

"The corn price doubled again [in March]," said Sarah Mweene, a 38-year-old taxi driver from Lusaka, copper-rich Zambia's capital, where in March eight people died in a stampede of thousands of people who were lined up for emergency food rations. "We can only afford one meal a day for the children....It's never happened before."

In commodity-dependent Zambia, churches converted into food banks are filling beyond capacity as crowds join all-night lines for corn handouts.

On a recent day, thousands of people marched on a sports stadium in Lusaka, where a church was donating free food. Mobs forced the stadium's steel doors open, snatching cooking oil, corn meal, salt and anything else they could find.

The government is seeking an emergency \$1.6 billion International Monetary Fund loan to aid the economy.

Agriculture Minister Dora Siliya said shortages and rising prices are the government's big challenge, but hopes the situation will stabilize in the coming months, when supplies from the 2017 harvest start to trickle in.

To be sure, commodity prices have moderately recovered since last year, but they remain more than 50% below their 2013 peak, according to the World Bank. While the commodity crash has forced countries like Nigeria and Angola to put more effort into creating sustainable agricul-



South Sudanese refugees board buses at a transit camp in Uganda. The U.N. has officially declared famine in South Sudan and warned shortages will worsen.



A woman walked her donkey through drought-plagued Hargeisa, Somaliland, in March.

tural production, many remain net food importers, exposing citizens to shocks of weakened currencies.

In Uganda, meanwhile, a historic drought and surging food prices have forced thousands from the countryside to beg on the streets of the capital. The nation, usually a surplus food producer, ran out of grain stocks in December, government officials said.

In Kampala's main grain market, stalls are largely

empty, as Uganda's weakening currency pushes up the price of imported grains, preventing importers from replenishing stocks.

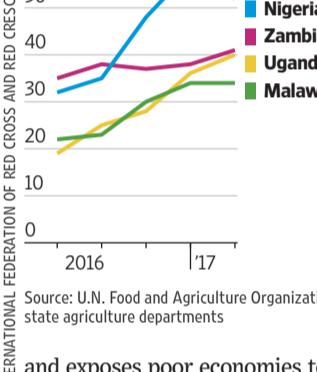
Supermarket owner Stephen Opolot said the economic crunch is the worst since he opened his supermarket seven years ago. He owes a local commercial bank around \$6,000 and as sales dwindle, he can no longer raise enough money to pay for a monthly truckload of grain supplies.

"I don't know whether I will be able to afford rent," the 40-year-old said, pointing at empty shelves. "We have raised prices to meet costs, but sales keep dropping."

Sliding currencies and a shortage of increasingly expensive dollars has some countries cutting back on food imports and freezing efforts to replenish stocks. The bulk of food imports into sub-Saharan Africa are dollar-denominated, which pushes up trade deficits

Costlier Staples

Grain prices per kilogram, for selected African countries



Source: U.N. Food and Agriculture Organization; state agriculture departments



THE WALL STREET JOURNAL.

nears.

The U.N. said it needs \$4.4 billion by July to address the food crisis, but by early April had raised just \$984 million. Worsening crises in Syria, Yemen and Iraq are stretching budgets for aid groups, curtailing relief efforts. President Donald Trump's proposal to cut \$10 billion in foreign aid risks aggravating funding shortfalls, aid officials warn.

"This crisis is adding to the pressure felt by the overstretched and underfunded international humanitarian system," said Nigel Trick, Oxfam's regional director for East Africa. "It's overwhelming."

CIA Chief Visits South Korea

Associated Press

SEOUL—The director of the Central Intelligence Agency is visiting South Korea, the U.S. Embassy in Seoul confirmed Monday, amid heightened tensions on the Korean Peninsula.

An embassy official said Mike Pompeo and his wife were in the South Korean capital on Monday, but wouldn't say for how long. He spoke on condition of anonymity because he wasn't authorized to speak to the media.

South Korean media reports said the CIA chief arrived in South Korea over the weekend for meetings with the head of South Korea's National Intelligence Service and high-level officials in the presidential office. The U.S. official, however, wouldn't confirm any meetings beyond ones with officials at U.S. Forces in Korea and the U.S. Embassy.

The visit comes after North Korea conducted another mis-



Philippine President Rodrigo Duterte shouts to a reporter in Pasay City on Saturday. Standing beside him is his partner Honeylet Avancena.

TRUMP

Continued from page A1
had a visa-free travel agreement with North Korea.

"Support of member states for strengthened sanctions" hadn't translated into effective implementation, the U.N. report said.

In a speech Saturday, Mr. Duterte urged Washington to be cautious on North Korea. "It behooves upon America, who wields the biggest stick, to just be prudent and patient," he said.

Mr. Trump has "to get Duterte back inside the tent," said Michael Barr, associate professor of international relations at Flinders University in Australia.

Prime Minister Lee of Singapore on Saturday called on the 10-member Association of Southeast Asian Nations to

urge North Korea to cease its provocations and "return to the path of dialogue," according to the Straits Times.

Malaysia, another South Asian country with close ties to North Korea, recently had a falling-out with Pyongyang after the killing on Feb. 13 of Kim Jong Nam, the estranged half brother of North Korean dictator Kim Jong Un, by suspected North Korean agents at Malaysia's main airport.

The incident chilled what had been an unusually warm relationship between the countries. Malaysia, after initially expelling North Korea's diplomats in Kuala Lumpur, eventually decided to maintain its ties with Pyongyang, but it has rescinded an agreement allowing visa-free travel. It has also ramped up scrutiny of companies believed to have links to North Korea.

North Korea maintains dip-

lomatic relations with all 10 nations of Southeast Asia. The country has used the region as a transit and shipping point to access global trading and financial systems, in some cases circumventing U.N. sanctions designed to cut Pyongyang off from global financial flows.

The U.S.'s longstanding ties with the Philippines, Singapore, Thailand and Malaysia—and increasingly close relationship with former adversary Vietnam—are under challenge from the rising power of China, and anxiety has grown in the region about whether the U.S. will remain committed there as the Trump administration seeks to redefine the country's international profile.

Mr. Trump's outreach to the three leaders is also "sending a signal to Beijing that America is still interested" in the region, said James Chin, an international-relations expert at the University of Tasmania.

With the invitations, the new administration is seeking to improve relations with governments that clashed with former President Barack Obama's government over human rights, most notably that of the Philippines. Mr. Duterte took deep umbrage at criticism of his antinarcotics campaign, which has resulted in more than 8,000 deaths since he took office in June. He has drawn closer to China, which has promised more investment.

Disarming North Korea of its strategic nuclear capability, a goal that has eluded Mr. Trump's predecessors, has dominated the president's foreign-policy agenda as Kim Jong Un has ramped up missile testing. Mr. Trump, asked during an interview with CBS that aired Sunday whether he was threatening military action, said "we'll see."

ERIC THAYER/REUTERS

CIA Director Mike Pompeo

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WORLD NEWS

NATO Mulls Post to Fight Terrorism

By JULIAN E. BARNES

BRUSSELS—The North Atlantic Treaty Organization is considering appointing a senior official to oversee counterterrorism efforts, a move aimed at meeting one of President Donald Trump's demands that the alliance focus more on terror threats.

The proposal is similar to NATO's recent decision to create a top intelligence post, a move that Mr. Trump has repeatedly praised and that he has cited as evidence the alliance has responded to his criticisms and is no longer obsolete.

While no NATO country has vocally opposed the idea of a senior counterterrorism coordinator, some diplomats are skeptical about the role's impact unless alliance members also agree to expand the organization's counterterror efforts, including funding additional training initiatives.

NATO diplomats have been discussing how they can expand counterterrorism training, including ways to use allied special operations forces to better train antiterror commandos in the Middle East and Africa.

Those proposals could include expanding the work or mandate of the NATO Special Operations Headquarters,

which develops NATO counterterrorism plans.

No NATO member, including the U.S., has advocated the alliance conducting counterterrorism strikes or taking a direct attack role in the military fight against Islamic State in Syria, Libya or Afghanistan.

But expanding the alliance's use of its scarce resources, such as special-operations forces, is difficult and could weigh on NATO's budget, which some countries oppose expanding.

Bruno Lété, a security expert at the Brussels office of the German Marshall Fund, said the U.S. has indicated it wants NATO to do more to combat terrorism. "NATO allies are going to need to subscribe to Trump's desire for a new NATO that can engage in counterterrorism efforts," Mr. Lété said.

Allied ambassadors are set to formally discuss the counterterrorism post and other proposals at a meeting on Friday, officials said. Diplomats have been debating various proposals as they prepare for the meeting of allied leaders, including Mr. Trump, later this month. Turkish, British and French delegations have circulated papers.

The U.S., however, hasn't submitted a paper or made any formal requests to the alliance.



President Donald Trump, with NATO Secretary-General Jens Stoltenberg in April, wants the alliance to focus more on terrorism.

ance. While Mr. Trump has said he wants the allies to do more on counterterrorism, neither he nor other U.S. officials have stated any specific desires, according to allied diplomats.

Some NATO allies have said privately that without a formal proposal from the U.S., reaching consensus on new counterterrorism plans is difficult.

Some allied military officers have said current training efforts are disjointed and could be better coordinated. While there is currently a midlevel official assigned to coordinating NATO's various counterterrorism efforts, some officers say a high-level official could expand alliance and

national training initiatives.

German diplomat Arndt Freytag von Loringhoven leads the new intelligence department that was formed by merging old functions. He was given the title of assistant secretary-general and a mandate to increase allied intelligence-sharing. Several allies have praised the office's early efforts.

NATO diplomats said a new department devoted to counterterrorism isn't under consideration. Instead, the counterterrorism portfolio would be given to an existing NATO official, likely Sorin Ducaru, a Romanian diplomat who is assistant secretary-general for emerging security challenges. More broadly, other diplo-

mats question whether a larger role for NATO in fighting terrorism is wise, or if money would be better spent on national efforts.

"We have trouble identifying what more NATO could do," said one European diplomat. "NATO is not the relevant body to do more fighting terrorism."

One senior diplomat said that while NATO will never be "the first responder," it can do more to combat terrorism and should continue expanding intelligence sharing on terror threats, such as providing more information about internal threats that could impact the wider alliance.

Some countries have revived the idea of NATO for-

mally joining the coalition against Islamic State.

Germany and Italy remain skeptical of the proposal, alliance diplomats said. Officials from those countries have long argued it could put a Western focus on an effort that must encompass Middle Eastern partners.

Other diplomats said they could support the idea if the U.S. makes clear that the step is important. Officials say it is unlikely to make a significant difference to the anti-Islamic State coalition.

U.S. officials in Washington have been debating how hard to push NATO to formally join the fight against Islamic State, according to people briefed on the discussions.

Italy Democratic Party Picks Renzi

By DEBORAH BALL

ROME—Italy's former Prime Minister Matteo Renzi won a leadership contest to head the left-leaning Democratic Party in the country's next general election.

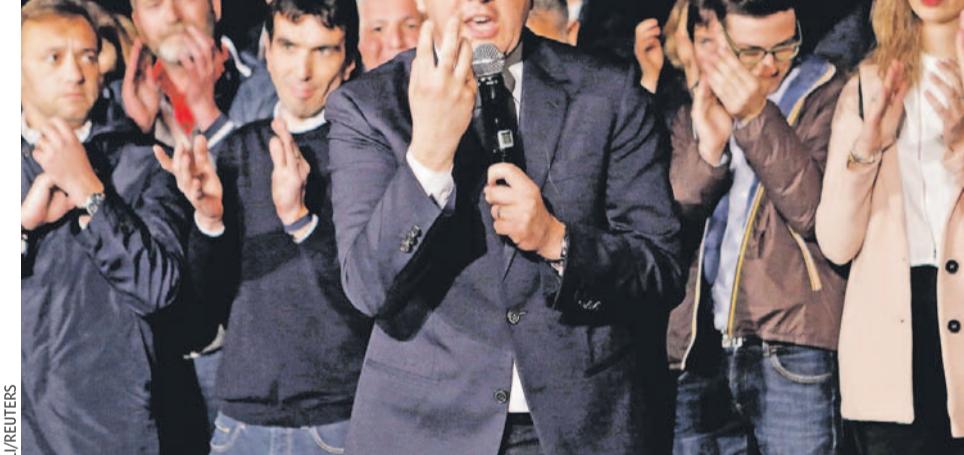
Late Sunday, Mr. Renzi was re-elected secretary of the Democratic Party—Italy's largest establishment party—making him the group's candidate to become the next prime minister in parliamentary elections due by mid-2018. He won by a wide margin, over 70% in initial results, putting down a challenge that exposed dangerous splits within the party, which has lost ground to the antiestablishment 5 Star Movement.

The race represents "a new page" for the party, he told supporters late Sunday.

The election comes as attention turns to Italy from France, where expectations are that Sunday's presidential elections will see centrist Emmanuel Macron beat anti-euro Marine Le Pen, quashing the immediate risk of an anti-Europe party coming to power in the bloc's heartland.

That risk, however, remains a real prospect in Italy. Recent polls show popular support for the 5 Star Movement at as much as 32%, making it Italy's largest political group and putting it several percentage points ahead of the Democratic Party. Investor concern over Italy's political and economic situation has been illustrated by the growing gap between Italian 10-year bonds and their German equivalents.

Mr. Renzi, 42 years old, faces a steep challenge in rallying Italians to his party. The Tuscan politician resigned as



Matteo Renzi, center, resigned as prime minister in December after more than two years in office.

prime minister in December, bringing to an abrupt end a government that had been one of the most reform-minded in Europe.

He stepped down after voters in a referendum resoundingly rejected constitutional changes that would have streamlined lawmaking. Mr. Renzi was succeeded as prime minister by fellow Democratic Party member Paolo Gentiloni who has strong cross-party ties. Mr. Renzi's government was in power for more than two years, passing legislation to loosen the labor market, support the country's beleaguered banks and overhaul a judicial system that can take a decade to produce decisions.

However, many Italians felt little relief and the economy continues to be the slowest

growing in Europe, struggling to tap into a broader economic recovery that has lifted other financially stressed eurozone countries such as Spain and Ireland. At the same time, Italy remains the main front on Europe's migration crisis. A surge in arrivals of seaborne migrants from Libya puts Italy on track this year to easily pass the 180,000 arrivals it recorded for 2016.

As a result, anti-European sentiment has been rising in Italy. A February survey found only one in three Italians holds a positive view of the EU, significantly down from a decade ago, when about three-quarters of Italians regarded the bloc positively. In a recent poll, 52% of Italians said they would like to remain in the single cur-

rency; about 40% said they would prefer to leave.

Some see similarities between Mr. Renzi and Mr. Macron—both young, centrist politicians—but the Italian leader has responded to growing dissatisfaction with the EU in Italy by growing increasingly critical of the bloc, while Mr. Macron has run on a largely pro-EU platform.

Mr. Renzi's challenge will be to defend the Democratic Party's broad commitment to the EU, while competing with the growing anti-euro chorus from Italy's other political parties. The 5 Star Movement is calling for a referendum on whether Italy should remain in the single currency, and a number of other smaller populist parties are also sharply anti-euro.

EU Doubles Down On Iran Agreement

By EMRE PEKER

TEHRAN—The European Union rallied behind Iran's nuclear deal during a high-level visit to the country over the weekend, vowing to safeguard the accord despite U.S. threats to scrap it and pledging to support the Islamic Republic's economy.

With less than three weeks before Iran's presidential elections, the EU's push to bring the country into the international fold pits Brussels against Washington, which is ratcheting up pressure on Tehran for "not living up to the spirit" of the 2015 nuclear agreement—even as it fulfills its commitments.

Differences over the Iran deal come as the EU puzzles over the U.S. stance on critical policies, while President Donald Trump seeks to execute a central campaign promise: rolling back his predecessor's landmark initiatives, including efforts to fight climate change and enact global trade agreements. A U.S. shift on the nuclear agreement would pose a particular risk in Iran, where hard-liners are challenging the moderate incumbent whose government clinched the accord, President Hassan Rouhani.

As Mr. Trump weighs his Iran policy, Brussels seeks to convince the White House that the settlement with Iran is important for global security, a cornerstone of efforts to stabilize the war-torn Middle East and good for business. The president, however, has called it "the worst deal ever negotiated" and his administration has repeatedly cast doubts on its future.

"It is delivering for all sides and the European Union fully stands behind it...we expect all sides to respect the deal," the EU's energy chief, Miguel Arias Cañete, said in Tehran at a joint briefing with Iranian

Vice President Ali Akbar Salehi, a chief architect of the agreement who oversees the country's nuclear agency.

The EU has emerged as a prime cheerleader of the Iran accord, providing financial, technical and regulatory support to help Tehran bolster nuclear safety and development capabilities. Brussels is also aiding the Islamic Republic's push to join an international nuclear-fusion research project and benefit from the European Atomic Energy Community's capabilities.

Europe's engagement with Iran's civilian nuclear program was prescribed in the agreement to prevent Tehran from developing nuclear weapons in exchange for lifting economic sanctions. It also serves as a pillar of the EU's diplomatic and economic strategy.

Mr. Cañete led a delegation of EU experts and officials, and dozens of European companies for two days of high-level meetings and business forums. Aside from nuclear issues, the main agenda item was energy—particularly investments in renewable resources—and climate change.

The trip showcased Brussels's push to support European businesses seeking to tap Iran's lucrative market and natural resources. The bloc also wants to bolster its energy security by adding Iran to its gas suppliers.

Meanwhile, the EU is looking to enlist Tehran's cooperation on regional matters such as the Syrian war and on global issues such as climate change.

Iran's agreement with the world powers, coupled with a boost in oil production, helped propel its economy, which reversed a recession in 2015-2016 to expand by 7.4% in the first half of 2016-2017, according to the International Monetary Fund.



A supporter of Iranian presidential candidate Ebrahim Raisi.

WORLD WATCH

TURKEY

Police Detain 165 May Day Protesters

Police in Istanbul detained 165 people during May Day events around the city, most of them demonstrators trying to march to a symbolic square in defiance of a ban.

A security department statement said that an additional 18 people suspected of planning illegal demonstrations and possible acts of violence on Monday were detained in separate police operations.

Turkey had declared Taksim Square off-limits to May Day demonstrations, and major trade unions marked the day with ral-

lies at government-designated areas.

Still, small groups tried to reach the square, leading to scuffles with police.

Taksim holds a symbolic value for Turkey's labor movement. In 1977, 34 people were killed there during a May Day event when shots were fired into the crowd from a nearby building.

—Associated Press

UNITED KINGDOM

Three Women Held On Terror Suspicion

Three women were arrested under antiterrorism laws in east London on Monday in connec-

tion with a security operation in the capital last week, police said.

The two 18-year-old and one 19-year-old women were held on suspicion of the commission, preparation and instigation of terrorist acts, the Metropolitan Police force said.

—Reuters

UNITED KINGDOM

Labour Narrows Gap With Conservatives

Britain's governing Conservative Party holds a 19-point lead over Labour, a poll by ICM said on Monday, an advantage just slightly lower than a record lead reported the previous weekend.

Prime Minister Theresa May's Conservatives took 47% of the vote in the poll, with support for Labour at 28%.

Last weekend ICM found a 22 percentage point lead for the Conservatives, a record for the firm. Monday's poll was the latest in a string of polls to show that Labour was closing the gap slightly.

"A slight fightback is recorded for Labour, but not to the extent identified in a couple of other polls," said Martin Boon, director at ICM.

The Liberal Democrats polled at 9% while euroskeptic UKIP had 8% support. ICM surveyed 2,012 adults from April 26 to 28.

—Reuters

U.S. NEWS

President Pushes for Vote on Health Bill

Lawmakers broker a deal to fund the federal government; effort to undo Obamacare builds

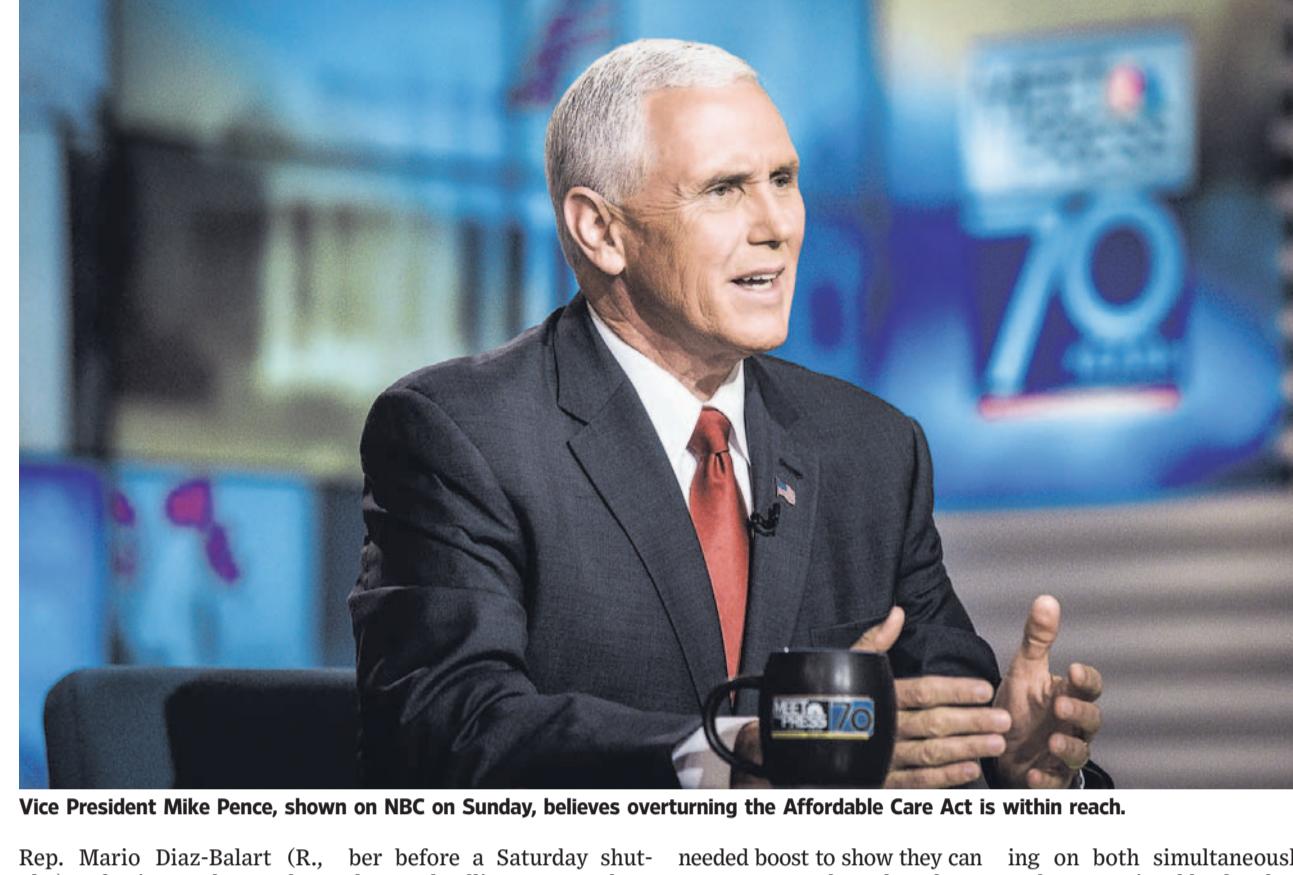
By LOUISE RADNOFSKY
AND KRISTINA PETERSON

WASHINGTON—Congressional leaders reached a bipartisan deal late Sunday to fund the government until October, while Republicans scrambled to pull off an even more significant legislative achievement that has eluded them this year: an overhaul of the health-care system.

Both President Donald Trump and Vice President Mike Pence in television interviews Sunday signaled confidence that they could win enough votes to pass a bill to undo the Affordable Care Act. But skepticism among centrist members of the party remains a stumbling block, and it is unclear that congressional leaders have made enough progress to call a roll as they grapple with Republicans who have expressed concern that recent changes to satisfy more-conservative lawmakers may push coverage costs higher.

Adding to the difficulties for passing any major piece of legislation is the fact that Mr. Trump's administration is also pressing lawmakers to flesh out a massive tax cut that officials released last week, while congressional leaders struggle to reconcile the GOP president's principles with very different views they have on how to rewrite the tax code.

"The question is whether we can get 218 votes in the House to do big things," said



Vice President Mike Pence, shown on NBC on Sunday, believes overturning the Affordable Care Act is within reach.

are insinuating this could happen really soon are building false expectations," said Rep. Steve Stivers (R., Ohio) Friday.

The policy wrangling comes as Mr. Trump passed his 100-day mark without a major legislative accomplishment. Asked Sunday to reflect on what he had learned in the 100 days, Mr. Trump said: "I think things generally tend to go a little bit slower than you'd like them to go."

"Obviously there are a lot of bumps and stumbles along the way," Rep. Charlie Dent (R., Pa.) said of Mr. Trump's first 100 days, though he cited rolling back regulations as what he saw as a positive step. "I just hope the second 100 days are better than the first."

While Congress may have frustrated his agenda, Mr. Trump has in the first 100 days used the powers of the White House to take executive action, and he has signaled that he plans to continue doing so in the weeks ahead.

One of the main ones looming: whether to pull the U.S. out of the 2015 Paris climate accord aimed at curbing climate change. The president said Saturday night that he would soon be "making a big decision" on the pact, which he blasted as a "one-sided" deal that could "ultimately shrink" the U.S. economy and result in factory and plant closures.

His Democratic predecessor, Barack Obama, has said the deal helped make the U.S. economy more efficient and was essential to encouraging big developing countries to reduce carbon emissions.

—Siobhan Hughes, Janet Hook and Michael C. Bender contributed to this article.

Rep. Mario Diaz-Balart (R., Fla.), referring to the number of the votes generally needed to reach a majority in that chamber. Though Republicans have 238 members, they haven't been able to unify them around legislation such as the health-care bill. Mr. Diaz-Balart said a tax-code rewrite would be even harder: "It's no secret we have some serious, serious challenges."

Still, congressional leaders were celebrating a small victory Sunday night, when they said they reached a deal on a measure that would fund the government through Septem-

ber before a Saturday shutdown deadline. Lawmakers said late Sunday that they had reached agreement on a package and would vote on it early this week. The bill only nods to some of Mr. Trump's priorities—such as higher defense funding and more money for border security—and doesn't pay for the wall he wants to build along the Mexican border. The measure also leaves largely intact funding for parts of the government Mr. Trump wanted to squeeze, like the Environmental Protection Agency. That agreement gives Rep-

ublican leaders a much-needed boost to show they can govern now that they have unified control of government. But it is only a modest, routine step. Health care is a bigger challenge.

While House Republicans, in conjunction with the White House, continue to tinker with their health-care plan to win sufficient votes, officials have declined to set a fresh deadline for a vote.

Members of Congress are also working with Mr. Trump's administration to craft a tax bill they can show to members but haven't yet given a schedule for that. Work is proceed-

ing on both simultaneously, and congressional leaders have yet to say which one is a higher priority.

In an interview broadcast Sunday, Mr. Trump suggested the health-care plan was near completion, telling CBS: "I didn't put a timeline" on it, but adding: "Now we have a really good bill...I think they could have voted on Friday."

Mr. Pence, in an interview with NBC, said "repealing and replacing Obamacare is just around the corner."

Lawmakers in the middle of the process offer a more cautious assessment. "People that

Los Angeles Police See Progress Since 1992 Riots

BY ZUSHA ELINSON

LOS ANGELES—Phil Tingirides, a deputy chief with the Los Angeles Police Department, got an unusual offer when news broke that he was on the hit list of a disgruntled co-worker who shot seven people in 2013.

Members of a South Los Angeles gang known as the Bounty Hunter Bloods called to say they would protect Mr. Tingirides and his wife, Emada, a lieutenant. The couple had helped create a community policing program at the gang's housing project.

A quarter-century ago, this city exploded into riots after a jury acquitted police officers in the Rodney King beating.

Since the riots, the Los Angeles Police Department has made changes, and surveys show that Angelenos now view police more favorably. Shootings by officers have dropped.

And while violent protests and riots have roiled cities across the U.S. over police brutality against minorities, Los Angeles has remained largely out of the fray.

"Ferguson and all these other places, if they knew how to build this type of relationship, they wouldn't be seeing the problems they have," said Donny Joubert, an ex-member of the Bounty Hunter Bloods who works as a gang-intervention worker in the Nickerson Gardens housing project.

Yet the specter of the 1992 riots, which lasted six days, left more than 50 dead and caused more than \$1 billion in property damage, is still present.

This year, for the first time since the riots, there was an increase in the number of Los Angeles residents who said it was likely that similar unrest could occur in the next five years, according to a Loyola Marymount University poll that has surveyed residents every five years since 1997.

The surprising increase—from 47% to 58%—was driven mainly by young people coming of age in the era of national protests, and has less to do with Los Angeles police in particular, said Fernando Guerra, a Loyola professor. "They view political mobilization as part of

being civically involved and a riot is just an extension of that," he said.

The 1992 riots spurred calls for massive change in South Los Angeles, a 50-square-mile area that is home to about 800,000 people. Leaders called for economic investment and a transformation of the Police Department.

"The division between the police and public was palpable: you could feel it, you could feel the hate as you drove down the street," said Los Angeles Police Chief Charlie Beck, who was a sergeant during the riots. "We've made a lot of progress since then."

Black Lives Matter activists said the police are better at public relations now. "The actual experience of people at the hands of LAPD is not better," said Melina Abdullah, a professor at Cal State Los Angeles and a Black Lives Matter organizer.

Officer-involved shootings dropped from more than 100 in 1991 to 40 in 2016—but that total was the second-highest behind Chicago among the five largest police departments last

year, according to the LAPD.

And while Angelenos' opinions of police have risen over the past quarter-century, black residents still see police less favorably than white residents.

After the King beating, an independent commission headed by Warren Christopher found that the "problem of excessive force is exacerbated by racism and bias within the LAPD."

In 2011, a community-policing effort was launched with civil-rights attorney Connie

Rice at four housing projects. Officers were given a mission of building trust and solving problems, not making as many arrests as possible.

There are now 60 officers in the community-policing program in seven housing projects. Killings have dropped in the projects and solving them has become easier, said Deputy Chief Tingirides. "It is a way to police that saves lives and that builds relationships," he said.

This summer, the program will expand for the first time out of housing projects.

"In terms of the LAPD's relationship with the community, I think it's improved in key sections of the city," said Aqeela Sherrills, a community activist known for helping to broker a 1992 truce between the Bloods and the Crips gangs. But "we're still having too many police-involved shootings."

Earlier this month, the department revised its use-of-force policy to encourage officers to de-escalate situations instead of using deadly force.

U.S. WATCH

ECONOMY

Factory Activity Falls, Signals Slow Growth

U.S. factory activity decelerated in April, a sign of healthy but somewhat slower growth for the manufacturing sector.

The Institute for Supply Management on Monday said its index of U.S. manufacturing activity fell to 54.8 in April from 57.2 in March. A number above 50 indicates expansion.

"There are going to be some ups and downs, and certainly we can't keep seeing these things going up, up, up, or we'd bump our heads against the ceiling and get overheated," said Bradley Holcomb, who oversees the survey.

Mr. Holcomb noted that ISM manufacturing readings for each month this year have been higher than any month in 2015 or 2016. Still, the ISM sub-indexes for new orders and employment both fell sharply, possible signs of waning momentum.

The new-orders index fell 7 percentage points to 57.5, and employment sank 6.9 points to 52.

—Jeffrey Sparshott

EDUCATION

Centrist Views Rule Among Freshmen

College freshmen are politically engaged and increasingly worried about their emotional well-being.

So says results from a survey of more than 137,000 first-time, full-time students who started at 184 U.S. colleges in autumn of 2016. Just over 42% of the freshmen surveyed characterized their political views as "middle of the road," the lowest share ever recorded in more than 50 years of the American Freshman, a survey conducted by the Cooperative Institutional Research Program of the Higher Education Research Institute at the University of California, Los Angeles.

Some 35% said they were "far left" or "liberal," and 22% said they were "far right" or "conservative." Those rates all tracked higher than for the class that entered in 2015. A record-high 12% reported feeling depressed "frequently" in the past year, and 14% said there was a "very good chance" they would seek counseling in college.

—Melissa Korn

The Fed Is Expected to Hold Rates Steady

By NICK TIMIRAO

Federal Reserve officials are likely to keep interest rates steady at their policy meeting this week and drill down into details about when and how to reduce the bank's large holdings of mortgage and Treasury securities.

The challenge in their post-meeting policy statement will be to acknowledge the handful of disappointing economic-growth indicators since officials last gathered in mid-March without suggesting they are ready to veer from the policy path they have sketched out at recent meetings. The two-day policy meeting was set to begin Tuesday.

Officials raised interest rates at the March meeting to a range between 0.75 and 1%, and penciled in two more quarter-percentage-point increases this year. They also believe they are on course to signal late in the year that they will begin winding down the central bank's securities portfolio.



The Federal Reserve has shrugged off some disappointing data.

Gross domestic product grew at a 0.7% annual rate in the first quarter as consumers reined in spending despite a surge in household-confidence surveys and a rise in stock prices. The report isn't likely to cause too much alarm at the Fed, because of signs that temporary factors suppressed spending and because the economy in recent years has slowed at the start of the year before picking up speed in the

spring and summer.

Inflation also slowed unexpectedly in March. The Labor Department's consumer-price index declined a seasonally adjusted 0.3% in March from the prior month, and prices excluding food and energy fell 0.1%, the first decline for so-called core prices since 2010.

Still, officials believe the economy is near full employment, meaning inflation should slowly build in the

months ahead. The unemployment rate fell to 4.5% from 4.7%, hitting its lowest level in almost a decade.

Fed officials have signaled in statements and interviews that any disappointing data points haven't been enough to change their rate outlook.

Given recent seasonal patterns, "something that looks like 1% in the first quarter—it might be actually more like 2% in reality," said New York Fed President William Dudley after an April 7 speech in New York.

Continuing to gradually remove large amounts of stimulus "seems likely both to maximize the prospects of a continued expansion in the U.S. economy and to mitigate the risk of undesirable spillovers abroad," said Fed Vice Chairman Stanley Fischer in remarks at a conference in Washington on April 19. Potential growth shocks from abroad, which forced the Fed to scale back its plans to raise rates in 2015 and 2016, have largely been absent this year.

STEPHEN VOS FOR THE WALL STREET JOURNAL

IN DEPTH

HACK

Continued from Page One
central bank and a commercial bank in Ecuador. The other cyberattacks were unsuccessful.

It was a stunningly simple ruse: The cybercriminals behind the Bangladesh heist used malware to steal bank codes and place fake transfer orders, according to people familiar with the incident.

The attacks also have threatened the trust that banks have had for decades in Swift, a cooperative that runs the international messaging service among banks. Banks use the service to instruct each other what to do, making Swift the lifeblood of the global banking system, where trillions of dollars flow between banks each day.

"Swift was not watching for the launch of cyberattacks on its customers beyond the core network," says Marcus Treacher, a Swift board member from 2010 to 2016. He now is an executive at digital-payments startup Ripple, an alternative to Swift.

An examination of Swift's culture and practices, including interviews with more than a dozen people who have worked for or closely with Swift, shows it was ill-prepared for some of the toughest challenges of the cyberattack era.

Security standards for banks using the Swift network were dictated in what was an eight-gigabyte handbook but rarely enforced, these people say. That left an opening for thieves to hack into Bangladesh's computer systems, steal their Swift access codes and send fraudulent messages seeking nearly \$1 billion in payments across Swift's network. The total for all the cyberattack attempts in the past year isn't known publicly.

Swift has since toughened its standards, including new rules for customers that were released in April, but it is too soon to tell how serious many of Swift's customers are about reducing their vulnerability to security breaches.

Swift has said it was surprised by the scale of the cyberattacks, rushed to shore up the system's defenses and remains confident in its overall security. Swift has said repeatedly that its core network, including the fortresslike facility in Virginia, hasn't been breached. It says customers still have the primary responsibility for their own computer security.

Messaging Boom

Swift's revenue surged as banks flocked to its international messaging service, and rebates flowed to the cooperative's members.

Revenue
€800 million

2006 08 10 12 14

Rebate

€80 million

2006 08 10 12 14

Note: 2016 figures haven't been released by Swift.

Source: the company

THE WALL STREET JOURNAL.

LIFE & ARTS



ARCHITECTURE REVIEW

Calculated, Unprettified Design

The Times Square pedestrian plazas are a win for people in a crossroads long dominated by cars.

BY JULIE V. IOVINE

New York

TO OUTSIDERS, Times Square has always looked like it's about people, from the sailor kissing the gal on V-J Day to the mobs each New Year's Eve and the more recent selfies projected onto looming jumbotrons. But at least since the 1950s and until recently, it was really about cars. The legacy of the Crossroads of the World—where the traffic on Broadway crossed the traffic on Seventh Avenue at 45th Street—was founded in fumes, in angry tirades at jaywalkers, and in word-portraits like John O'Hara's of a place where "everything / suddenly honks" or the images of streaking red tail lights in just about every movie about Manhattan ever made.

With the recent grand opening of the Times Square pedestrian plazas, however, the tide has turned and the people have won, in a way. Now 2.5 acres over five plazas have been transformed into pedestrian-only space, with cars restricted to passing through the so-called Bowtie intersection via Seventh Avenue and crosswalks designed to slow down vehicles at every crossing from 42nd to 47th Streets.

It has been a slow-motion takeover initiated by Mayor Michael Bloomberg's administration in spring 2009, when the city installed beach chairs from Home Depot, painted dots in the road, and rerouted traffic so pedestrians could spill off the sidewalks officially, as they had long been doing anyway. It's the final confirmation of a generational shift away from prioritizing traffic toward safety for pedestrians.

But in spirit it still falls short of the ideal of the great public space where community and civic pride were centered and celebrated. And not everyone is happy. Drivers of taxis, delivery trucks and ambulances, as well as brand managers at nearby corporate headquarters, were outraged at the guerrilla-warfare speed of the taking, but being New Yorkers, they grudgingly have adapted. Mayor Bill de Blasio briefly pondered tearing out the plazas as a way to deal with the importunate costumed characters who roam the space, but promptly backed off. Some 40 million people a year—half tourists, half office workers, a few rogue Elmos and friends—didn't miss a beat and swarmed into every available void.

It was only once the plazas' popularity had been established that some thought was given to actually



designing the space, but even then it was not really a beautification project. The firm Snøhetta, architects of the National September 11 Memorial Museum Pavilion, was commissioned to turn folding chairs into permanent and indestructible architecture.

There are now 10 solid granite benches stretching 50 feet each—with top surfaces honed to give an extra reflective bounce to all the digital-billboard fireworks. The benches are arrayed throughout the

The new look of Times Square at night, above; pedestrians on one of the new granite benches, which can stretch up to 50 feet, left.

plazas to double as security bollards blocking vehicular invasion of the inner open space. Scattered red metal café tables and ice-cream-parlor chairs are gradually giving way to sturdier round ottomans made of wood and steel, tough enough to survive 330,000 visitors a day.

Much of the design is more strategic than picturesque—the architects call it "nudge thinking"—including the round steel pucks embedded in the street pavers that glint by day and sparkle with reflected light at night. The pucks are aligned to subtly steer people away from the edges where cars move and toward the pedestrian-only center. The new pre-cast concrete pavers that replaced the roadbeds do not merely line up across the space, they were laid to follow the former flow of traffic as a visual cue to keep people moving.

Most of the architecture work in this \$55 million project is out of sight and under ground. Sewers with water mains dating back to the Civil War have been replaced; there's new electrical wiring, along with the latest in fiber-optic cables. Ancient cellars belonging to

long-gone buildings had to be shored up and a low point at the crossroads contoured to deal with flooding caused by deep subterranean streams that converge at 45th Street. The benches are embedded with a full complement of power and broadcast capabilities, rendering miles of cables and growling generators obsolete for the 350 public events that take place here annually. This is design as problem solving at a high level that works hard and will endure but will win no beauty contests.

While its dazzle by night remains intact, Times Square still looks drab by day. No design makeover will transform it into a charming European piazza. The age of automobiles dominating the streets may be over, but so is the age of the city beautiful where civic pride and the leisure of citizens were made manifest in sculpted Baroque fountains and majestic plane trees. We now live in an era of making the best out of the need to design for efficient people-moving and for guarding pedestrians from attack. It may not be pretty, but it's real. And in a way, that was always the true appeal of Times Square.

Ms. Iovine reviews architecture for the Journal.

PLAYLIST: ROBERT CRAY

VOICES SHAPED BY GOSPEL

Gospel-blues singer O.V. Wright in 1969



Robert Cray, 63, is a five-time Grammy-winning blues singer-songwriter and guitarist. His new album is "Robert Cray & His Rhythm" (Jay-Vee). He spoke with Marc Myers.

Back in the early 1980s, I was performing at a blues festival in the San Francisco Bay Area when Sonny Rhodes, a blues singer and guitarist, invited me over to his house. We were sitting around talking when he began putting on records. One of them was "Ace of Spades" by O.V. Wright.

I leaned forward. I hadn't heard Wright before but learned later that he was a gospel-blues singer-songwriter and instrumentalist who had died at age 41 in 1980. What struck me was how he sang secular music in the gospel tradition, much the way Al Green did in the late 1960s and '70s. After I left Sonny's place, I went looking for Wright's albums and found a copy of "Nucleus of Soul," from 1968. The last song, "I WANT EVERYONE TO KNOW," knocked me out and deeply influenced my emotional approach when singing the blues.

The ballad starts with a solemn piano backed by an organ. Then Wright comes in,



followed by a twangy guitar, drums and horns along with a gospel choir. Wright first sings about how much he loves a woman. His complaint is that while everyone else is aware of his love for her, she doesn't seem to know or care.

"I just can't understand why, why, why you don't know / I've given all the love / the love I possess / I done everything I could, baby / to try to teach you your happiness."

Throughout the song, Wright is squalling about his romantic woes, trying to get through to her, but he never does.

"I Want Everyone to Know" is sweet and beautiful. It has a slow, rocking, lullaby quality, and you can hear Wright preaching through his singing. The raw, emotional power of his voice is really something.

A friend of mine, organist Charles Hodges, had an opportunity to play with Wright. He said that the first time he did, he arrived in the parking lot at the same time as Wright.

Charles asked Wright why there were ambulances outside. Wright laughed and said, "You'll see." Apparently, Wright's singing-preaching style could really work up audiences to the point of collapse.

OPINION

REVIEW & OUTLOOK

China's Case for Trump's Tax Cuts

Here's an argument for the Trump Administration's tax reform from a surprising source: China's leaders fear the plan will lure manufacturing to the U.S. Forget a trade war, Beijing says a cut in the U.S. corporate rate to 15% from 35% would mean "tax war."

The People's Daily warned

Friday in a commentary that if Mr. Trump succeeds, "some powerful countries may join the game to launch competitive tax cuts," citing similar proposals in the U.K. and France. Worst affected, the Communist Party's premier mouthpiece opined, would be "export-oriented countries that are powerless to compete in tax reductions"—i.e., China.

Beijing knows from experience how important tax rates are to trade competitiveness. Conventional wisdom holds that low labor costs turned the country into "the world's factory." Less widely known is the role tax rates played in the country's growth miracle.

China's double-digit growth streak began in the mid-1990s after government revenue as a share of GDP declined to 11% in 1995 from 31% in 1978—effectively a supply-side tax cut. But then taxes began to rise again as the Communist Party reasserted control over the heights of the economy. In 1999 the government set a revenue goal of 20% of GDP within the next few years, and the tax man's take now stands at 22%.

China's big government doesn't stop there. The central government runs a fiscal deficit of 3%, and local governments fund their operations through borrowing from state banks. It's no coincidence that as government has grown, growth has slowed to below 7%.

Chinese companies have started to complain openly that the high burden is killing profits. Zong Qinghou, the founder of the country's largest beverage company Wahaha, revealed that his company pays more than 500 different fees to government entities, in addition to taxes. The proliferation of such fees contributed to record-low private-investment growth last year.

Free the Braiders of America

Licensing laws that thwart the self-employed are a major barrier to economic opportunity. Kudos, then, to Indiana, which last week became the 22nd state to exempt hair braiders from a state cosmetology license.

Unlike some hair treatments, braiding doesn't use chemicals like dyes or relaxers, or hot tools like flat-irons. Many hair braiders are immigrants or African-Americans and the technique is often passed down from mother to daughter. Most cosmetology schools don't even teach it, but in 1987 the state passed licensing requirements that forced many practitioners to the sidelines.

Indianapolis resident Nicole Barnes-Thomas had been braiding since she was a teenager. But to work as a braider in Indiana, she would have

Chinese windshield maker Fuyao Glass opened a \$600 million factory last October near Dayton, Ohio, and plans other facilities in Illinois and Michigan, creating 4,500 jobs. CEO Cao Dewang caused a stir in December when he told a reporter the decision was driven by tax differences:

"Overall taxation for manufacturers in China is 35% higher than that in the U.S."

Mr. Cao said out loud what many entrepreneurs mutter under their breath. China's 25% profits tax may be lower than the U.S. 35% rate, but the country also imposes a 17% value-added tax as well as 16 other taxes. Inputs such as land, electricity and transportation are all much cheaper in the U.S., Mr. Cao said. Left unsaid is another big cost: Chinese officials demanding bribes. Together, these can cancel out China's lower labor costs.

When electronics giant Foxconn announced in January that it is considering a plant in the U.S., American commentators wondered whether pressure from the Trump Administration was a factor. But in China it was read as further proof that high taxes have started the process of "hollowing out."

President Xi Jinping began to address the problem about 18 months ago when he launched "supply-side reforms" to cut corporate taxes and regulation. The results have been modest because the government reverted to Keynesian spending stimulus. But the program's stated goal of restoring lost competitiveness shows that Beijing understands the importance of corporate-tax rates to growth and is not competing in a "tax war."

The U.S. inflicts one of the highest corporate-tax rates in the world, and the global trend toward tax competition means reform is urgently needed to compete against other developed economies. If that's the stick, the People's Daily warning offers a carrot: A supply-side cut can make the U.S. attractive to Chinese companies suffering from big government at home.

needed 1,500 hours of schooling at a cost north of \$10,000 for a state license. The Institute for Justice helped bring the issue to the attention of the state legislature on behalf of Ms. Barnes-Thomas with the help of GOP state Representative Timothy Wesco. Governor Eric Holcomb signed the bill, making Indiana the third state in recent months to exempt the braiders, following Kentucky and South Dakota.

Occupational licensing has become a silent job killer across the U.S. In Indiana some 25% of residents require a license or certificate to do their work. The rules are often supported by businesses or others (cosmetology schools) that profit from barriers to competition. States like the fees people pay for the privilege of practicing their trade, but they cost far more in lost human potential and entrepreneurship.

The Bolton Unmasking Files

whether Mr. Bolton had requested the names to "intimidate intelligence analysts." A Times editorial called on Mr. Bolton to "step aside," noting Mr. Dodd was "rightly inquiring about Bolton's unusual request to look at [NSA] intercepts and why he asked for the identities of analysts. Why indeed?"

House Intelligence Chairman Devin Nunes recently stepped aside from his committee's Russia probe after complaints that he talked publicly about the unmasking. But in 2005 Democrats couldn't stop talking to the press, mostly complaining that Bush intelligence agencies wouldn't give Congress the names of those Mr. Bolton had unmasked. "I just think it's important to remember here that Mr. Bolton himself was able to look at this classified information," said then Sen. Barack Obama.

The Administration ultimately agreed to show transcripts (with the names redacted) to top members of the Senate Intelligence Committee. Democrats then drew up a list of 36 individuals whom Mr. Bolton had clashed with over the years and called on National Intelligence Director John Negroponte to rule out that these were the people Mr. Bolton had unmasked.

Senator Jay Rockefeller claimed that Mr. Bolton's decision to share the name of one unmasked citizen with a direct subordinate (who possessed the necessary security clearances) was improper and amounted to the mishandling of classified information. Democrats dug in, and Mr. Bush was forced to name Mr. Bolton to the U.N. as a recess appointment.

Compare all this to the Rice episode. Ms. Rice had no direct intelligence duties in her NSC post, and no Democrat has provided a valid reason that Ms. Rice might have needed to unmask anyone associated with the Trump presidential campaign. Twelve years on, not one of the 10 individuals unmasked by Mr. Bolton has had his or her identity leaked. By contrast, the Washington Post reports that no fewer than nine Obama appointees or career officials leaked or confirmed the identity and conversations of unmasked former Trump adviser Michael Flynn.

If John Bolton's unmasking was questionable, then Mrs. Rice's was more so. The House and Senate Intelligence committees should investigate what she did and why.

Democrats argued (with no evidence) that Mr. Bolton's requests were politically motivated and the Los Angeles Times questioned

Personalized Medicine Arrives in America

By Peter Huber
And Paul Howard

The U.S. Food and Drug Administration recently approved 10 of the personal-genomics company 23andMe's screening tests for genetic health risks, including one for Alzheimer's and one for a rare blood disorder. The decision represents a turning point in the democratization of personalized medicine. It's also a turnaround for the FDA, which had pulled the tests from the market in 2013. The company had blamed itself for that episode, admitting that it failed to follow up on promised communications with agency staff.

For the first time, patients don't have to go through a physician to learn about potential risks related to their genetic makeup. As long as 23andMe meets the FDA's "special controls" for subsequent tests, they won't have to get premarket clearance from regulators. Other companies will benefit from the same regulatory pathway after they receive their first approval for similar types of tests.

We applaud the decision. Consumers' right to know their own genetic health risks will become more important as sophisticated diagnostics like whole-genome scans, artificial intelligence, and targeted drug and gene therapies reach doctors' offices in the years to come. Together, these tools can empower patients to become co-directors of their own medical destinies. In fact, the right to know the risks contained in your genetic code will likely become the most fundamental medical right of the 21st century.

The advent of low-cost, reliable consumer genomics has given ordinary people an unprecedented measure of control over their own health information. Companies such as 23andMe, PatientsLikeMe and Curious are developing new products and platforms to help hundreds of thousands of Americans manage and monitor their health. These companies are also making it easier for researchers to manage privacy concerns, store large amounts of data over time and report new findings to the patient community as they happen.

Already, companies and researchers are studying massive databases that combine genetic information with information from electronic medical records, wearable devices and patient survey data on diet, exercise and even mood. Mining data from tens or hundreds of thousands of patients helps companies and doctors explore, test and develop tailored interventions to treat or even prevent serious chronic diseases such as cancer, Alzheimer's and Parkinson's. The day may come when physicians are able to intercept these diseases at their molecular or genetic roots, halting their progression

before they inflict irreversible damage on critical tissues and organs.

23andMe isn't sitting on the data it collects. It's brought together the Parkinson's disease research community, forming partnerships with the Michael J. Fox Foundation, the biotechnology firm Genentech, and the Parkinson's Institute and Clinical Center. Together, their research has found new potential genetic risks for Parkinson's and is exploring how specific genetic variations influence the risk of developing serious side effects from some Parkinson's treatments. They have tracked participants' cognitive abilities over time to understand better how Parkinson's progression affects the risk of developing dementia.

The FDA's approval for 23andMe may be the first shot in a health revolution.

Patients who have Parkinson's or a family history of the disease and use 23andMe can opt in to additional research projects, sharing not only their genetic information but also information on diet and dietary supplement use, exercise and off-label treatments. They're not alone. Across the country and the world, patients are networking with other patients with similar ailments, participating in tailored research projects and working more closely with researchers to develop better models of poorly understood diseases like chronic fatigue syndrome.

Consumer-facing companies have data-sharing built into their business models because their reputations depend on it. Accuracy and transparency attract new customers. And as these companies generate and validate insights from millions of DNA samples, their social and medical value will only grow.

To its credit, the FDA is increasingly embracing the future of big data and precision medicine. The agency has developed PrecisionFDA, an information "commons" where researchers and companies are working together to develop standards for the next generation of genomic-sequencing tools and algorithms. The agency has also launched Project Informed, which uses predictive analytics and other data tools to mine the enormous amounts of information flooding into the agency from wearable devices and traditional clinical trials.

So raise a glass to the future of precision medicine. Then spit into it and send it off to a company like 23andMe. Knowledge, after all, is power.

Messrs. Huber and Howard are senior fellows at the Manhattan Institute.

Old Mr. Spectator Stood Up for Merchants

By Stephen Miller

May Day, also called International Workers' Day and traditionally celebrated on May 1, is a holiday for socialists and communists. But it also happens to be the birthday of the first English writer to discuss the benefits of a commercial society. This writer, one scholar says, "was regarded for many generations as one of the most significant English writers of his time."

I'm referring to Joseph Addison, who in 1711 founded the Spectator, which has been called the most influential magazine in British history.

Writing under the persona of Mr. Spectator (as did his collaborator Richard Steele), Addison talked about the pleasures of walking in London. In one essay, he praised the Royal Exchange, a two-level structure, built in 1669 around a great courtyard, that housed shops and boutiques. The Exchange, Addison said, made "this Metropolis a kind of Emporium for the Whole earth."

Addison implied that the many immigrants he met there had helped transform London into a bustling commercial center. "Sometimes I am jostled among a Body of Armenians; sometimes I am lost in a Crowd of Jews; and sometimes make one in a Groupe of Dutch-men. I am a Dane, Swede or French-Man at different times."

He was "wonderfully delighted to see such a Body of Men thriving in their own private Fortunes, and at the same time promoting the Publick Stock." Addison was saying what Adam Smith would 65 years later: The self-interested pursuit of profit in most cases benefits the nation as a whole.

It's clear in Addison's writing that he was impressed by the globalization of Britain's food supply: "The Food often grows in one Country, and the Sauce in another." The expansion of trade, he argued, increased the range of products available to Britons and created wealth by expanding the market for the products they produced.

Even members of the landed interest, who generally opposed the political influence of merchants and financiers, benefited from the expansion of trade, since the owners' estates now had an international market for their products.

Addison's praise for merchants and traders went against a long literary tradition of contempt for men of commerce. "There are not more useful Members in a Commonwealth than Merchants," Addison wrote. "They knit Mankind together in a mutual Inter-course of good Offices, distribute the Gifts of Nature, find Work for the Poor, add Wealth to the Rich, and Magnificence to the Great."

Ahead of his time, Addison wrote about the benefits of a commercial society.

A leading American scholar dismissed Addison as a lightweight "writer for a middle class." Addison was writing not for the middle class, but in hope of expanding it. He wanted to persuade the upper class that it was foolish to reject trade as a profession for their children. Many aristocrats, he said, would "rather see their Children starve like Gentlemen, than thrive in a Trade or Profession that is beneath their Quality. This Humor fills several Parts of Europe with Pride and Beggary."

Promoting commerce, Addison made a radical suggestion: English aristocrats should emulate Jews, whom Addison praised for being industrious men of commerce.

Addison will never be as highly regarded as his friends Jonathan Swift and Alexander Pope (the latter eventually an ex-friend), but he understood the forces driving 18th-century Britain better than they did.

Mr. Miller is author of "Walking New York: Reflections of American Writers from Walt Whitman to Teju Cole" (Fordham, 2014).

OPINION

How to Defuse the North Korean Threat

By Mark Helprin

North Korea has embarked at breakneck speed upon a slipshod effort to field land-, mobile-, and submarine-based intercontinental ballistic missiles with nuclear warheads. Unlike the eight other nuclear powers, North Korea's doctrine resides unknowingly and capriciously in the mind of one man.

All nuclear doctrines are different, but most never go beyond the conditional when treating their arsenals as instruments of deterrence. North Korea, however, issues an unrelenting stream of histrionic threats that comport with its recklessness in the shelling of South Korea and sinking

China's interests are aligned—for the moment—with those of the U.S., Japan and South Korea.

of one of its warships, the kidnapping of Japanese citizens in Japan, assassinations abroad, executions and Stalinist gulags at home, criminal sources of revenue, proliferation of missile and, tellingly, its perpetual war footing.

The totality of its declarations, behavior, and accelerating nuclear trajectory cannot be ignored. Nuclear weapons alone radically change the calculus of any strategic problem. Given the complexity and fragile interdependence of the structures of American life, nuclear detonations in only a few U.S. cities constitute a true existential danger to the United States. North Korea's successful August test

of the KN-11 submarine-launched ballistic missile—along with its construction of a second ballistic-missile submarine and its development of longer-range land-based missiles—will put North America at risk.

Note that North Korea has no defensive need of nuclear weapons. Because of the vulnerability of South Korean population centers, it can exercise an almost equivalent deterrence with its conventional forces and huge stockpile of chemical weapons.

Over two decades the U.S. has run the extremes from President Clinton's foolish or deceptive claim that his diplomacy had solved the North Korean nuclear problem, through the serial procrastinations of subsequent administrations, until the belated realization that if nothing else works the U.S. will have to attack North Korea full force.

The first option has failed. The second, to which it is possible we may be compelled, is catastrophic.

The heart of South Korea's economy and half its 50 million people are densely concentrated within range of the approximately 10,000 North Korean artillery pieces, rocket launchers and short-range ballistic missiles capable of delivering chemical munitions, of which North Korea has an estimated 5,000 metric tons.

Even conventional explosives would have a devastating effect. No matter how fast South Korean and American forces raced to suppress such fires, not to mention a nuclear attack itself, millions would probably die.

With such shock and escalation there is no guarantee that China or Russia would not come to North Korea's aid. Russia could also take the opportunity to feast upon Eastern Europe if American power were monop-



ASSOCIATED PRESS

North Korean sailors and a submarine-launched ballistic missile on April 15.

lized by the battle, as it would be.

As undesirable are the two extremes of a North Korean nuclear strike or pre-emptive war in armament-saturated East Asia, America cannot accept the former. The U.S. will be forced to the latter if it fails to exploit the considerable ground that still lies between them.

North Korea is almost entirely dependent upon China, which is responsible for 85% of its trade, knows the country, and might have links to still-living potential replacements for Kim Jong Un.

Given China's fearless and severe nuclear doctrine, it is itself invulnerable to North Korean threats. Until recently, China has been content with North Korea as a fleet-in-being—i.e., something with which to tie down competing powers in Asia, or unleash as another front in case of conflict elsewhere.

Now that things have gone too far, U.S. actions combined with the natu-

ral course of events can influence China to change this policy and move to defang the North. Throughout Chinese history instability has led to ruination. Seoul is closer to Beijing than San Francisco is to Seattle, and China doesn't want a major war on its border, especially one that may draw in the U.S. and Japan, both now augmenting conventional forces in the area.

President Trump wisely has been willing to abandon demonization of China and modify his protectionist catchall in return for China's assistance. Yet it is of utmost importance for the U.S. to make clear that the Korean issue, unique and existential, will not be part of any *strategic* trade, such as in regard to the South China Sea.

China knows that the U.S. must respond to the North's continuing breakout, but even should it have doubts, further pressure will automatically ensue. To wit, South Korea and

Japan are already well within North Korean missile range and have every reason to mount a vigorous ballistic-missile defense. Now the U.S. has deployed the Terminal High Altitude Air Defense system in South Korea. By obtaining early launch and trajectory data as it reaches deep into China, Thaad's X-band radar is capable of enhancing American missile defense to the point of seriously compromising China's nuclear deterrent.

Should the U.S., Japan, and South Korea further bolster missile defense in northeast Asia, it would have commensurate effects on China's nuclear posture. Even more nightmarish for everyone, particularly China, would be if South Korea and (until now unimaginably) Japan developed their own nuclear deterrents, something that in the face of North Korea's nuclear capabilities and declarations the U.S. could not justly oppose any more than it opposes the British and French independent nuclear forces.

Avoiding an escalation crisis is in the interest of all involved, China no less than the U.S. Although America's outrageous neglect of the North Korean nuclear threat has led to this pass, there is still a way out. It requires steady nerves and a clear view of the strategic interplay among all parties. The fundamental dynamics of interests and security are now bringing China into a genuine, if temporary, alignment with the U.S., Japan, and South Korea. The U.S. should be wide awake to this in the days to come, because it may be, in fact, the only way out.

Mr. Helprin, a senior fellow of the Claremont Institute, is the author of "Winter's Tale," "A Soldier of the Great War" and the forthcoming novel "Paris in the Present Tense."

The White House Rejects Tax Reform for the Old Tax Cut Formula

By Alan S. Blinder

When America elects a new Republican president, nothing is as certain as debt and tax cuts. So it is again.

Many of us wondered, though, what sort of tax proposal we'd get from the highly unconventional Donald Trump. The answer came on Wednesday—sort of—and it sticks reasonably close to both Mr. Trump's campaign proposal and standard Republican fare.

Look back at history. The tax cuts championed by Ronald Reagan in 1981 and George W. Bush in 2001 shared four elements—call it the Republican Tax Cut Formula. First, they were remarkably generous to the rich. Second, they blew large holes in the federal budget. Third, their backers denied they would do so. Fourth, they were sold as rocket fuel for the economy—but they weren't.

Presidents Reagan and Bush were re-elected, of course. President George H.W. Bush, in contrast, deviated from the formula, became a pariah within his own party, and was defeated in 1992.

President Trump's one-pager—

that's all the proposal is—follows the GOP formula. The "plan" is remarkably regressive. Yes, doubling the standard deduction would help the middle class, as the administration claims. But look at the rest. The top individual tax rate would drop substantially, to 35%. Corporations would pay a superlow rate of 15%. That same 15% rate would apply to pass-through operations like hedge funds, law firms and real-estate developers. The estate tax, which only the richest Americans pay, would be abolished. Draw your own conclusions.

You may recall that Treasury Secretary Steven Mnuchin once assured the public that "there will be no absolute tax cut for the upper class." That would have been a departure from the Republican Tax Cut Formula. But we now see it isn't true. If the plan ever gets fleshed out and priced, we may learn that, in dollar terms, it gives more new loopholes to the rich than it takes away.

Think, especially, about the 15% tax rate for business income from partnerships, S-corps and other pass-throughs. This is a huge revenue loser per se. But it's also an invitation to

Tax Reform for the Old Tax Cut Formula

millions of people to create faux businesses as a way of transforming ordinary income like salaries, taxed at 35%, into business income, taxed at 15%.

Then there is budget busting. The one-pager carries no price tag. But the revenue loss presumably would

The system would remain complicated, unfair and inefficient. But the richest would pay much less.

be huge—perhaps \$5 trillion to \$6 trillion over 10 years. How would the administration pay for it? With smoke and mirrors, it appears. The White House wants to leave that little "detail" to Congress, which will find the task both unpalatable and impossible.

There is a big difference between tax reform and tax cuts. The essence of reform is raising some people's taxes (typically by closing loopholes) while cutting other people's, with little net effect on total revenue. That necessarily creates many winners and

losers, and the losers and their lobbyists raise a ruckus.

The essence of tax cutting is throwing a party at the budget's expense. Which is why tax cuts sail through Congress so easily. A few deficit scolds may scold, but once a tax-cutting party gets going, it's hard to stop.

My guess is that the bill that ultimately emerges from Congress will be light on tax reform, heavy on tax cuts. Legislators know they can mask the creation of future deficits in at least three ways. If you see any being used, it's a sign that a con is taking place.

The simplest method is unscrupulous use of "dynamic scoring" to claim that tax cuts will boost economic growth so much that revenue will come pouring into the Treasury. This effect is real, but small. Scrupulous dynamic scoring gets you much less revenue. Secretary Mnuchin has made it clear that the administration will rely heavily on this technique.

The question is: Will the Congressional Budget Office buy into the magical thinking? The answer is almost certainly no.

A second method is to "sunset"

some of the tax cuts after nine or 10 years, even though the majority party neither expects nor wants that to happen. Such legerdemain helps whittle an overweight tax cut down to manageable size within the 10-year budget window—and to zero thereafter. This makes the bill eligible for the Senate's "reconciliation" process, allowing it to bypass a filibuster and pass with only 51 votes.

If those two gimmicks don't suffice, Congress can resort to what's called "directed scorekeeping," a polite term for telling the Joint Committee on Taxation and the CBO to buzz off and let lawmakers do the calculating. In now-familiar words, it means using alternative facts.

After all is said and done, Americans will most likely still face a complicated, unfair, inefficient tax code. But the richest will pay much less, President Trump will declare it the greatest tax reform ever, and his supporters will have been suckered once again.

Mr. Blinder is a professor of economics and public affairs at Princeton University and a former vice chairman of the Federal Reserve.

Trump and Congress Can Help Restore Campus Free Speech

By Harvey Silvergate

The culture of censorship within U.S. higher education is now legendary. And although the problem is of long standing, the Obama administration made it worse by giving academic bureaucrats a convenient excuse—"the feds made us do it"—for punishing speech. The Trump administration and Congress could help restore academic freedom, without which higher education cannot flourish.

Campus censorship affects faculty

as well as students and guest speakers. And conservatives aren't the only targets. At Louisiana State University, Teresa Buchanan's tenure didn't protect her from dismissal in 2015 for occasionally using vulgar language in her education classes.

She did so, she said, to prepare fu-

ture teachers for the language they would encounter from some students. Administrators ignored a unanimous faculty committee recommendation against termination and a report of the American Association of University Professors that found Ms. Buchanan's academic freedom was do-it—for punishing speech. The Trump administration and Congress could help restore academic freedom, without which higher education cannot flourish.

Congress can also take steps to vindicate free speech on campus.

The law currently conditions federal funding on compliance with federal antidiscrimination laws such as Title IX, but it does not require schools—even public universities, which are bound by the First Amendment—to refrain from violating free-speech rights as a condition of funding. As a result, while universities spend millions on antidiscrimination efforts, speech codes are ubiquitous. According to a survey by the Foundation for Individual Rights in Education, 93% of colleges and universities prohibit constitutionally protected speech.

Congress should deny funding to institutions with policies that violate free-speech rights. Such legislation would hold universities to their own professed fundamental principles.

While institutions frequently cite the importance of "diversity and inclusion," in practice they aim at producing students who look different and think alike.

Opponents of free speech on campus conflate speech with violence,

and physical safety with emotional comfort. Students who take offense at speech claim to be the victims of harassment or "bias incidents." Rather than challenge students' notions that they are entitled to be "safe" from offense, administrators validate this behavior by establishing elaborate "bias reporting systems." A FIRE survey of such systems uncovered one incident at Ohio State University in which students shared a meme comparing Hillary Clinton to Hitler. That prompted a mandatory dormitory floor meeting to discuss the "triggering" event.

The trend cannot be reversed unless universities—which too often behave like companies beholden to customers and regulators, rather than institutions that prepare students for citizenship—push back against illiberal expectations. One step is to adopt a version of the University of Chicago's 2015 free-speech policy statement, which asserts: "It is not the proper role of the University to attempt to shield individuals from ideas and opinions they find unwelcome, disagreeable, or even deeply offensive."

Reviving free speech on campus will require action on multiple fronts and by many interested parties, including university trustees, administrators, faculty, students and donors. The federal government can't make that happen, but by making academic freedom a requirement for rather than an obstacle to federal aid, it can help.

Mr. Silvergate, a co-author of "The Shadow University," is a co-founder and board member of the Foundation for Individual Rights in Education. Samantha Harris, FIRE's vice president for policy research, contributed to this article.

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Notable & Quotable

From "A Survey of Dartmouth's Political Landscape" by Alexander Agadjanian and Amanda Zhou in the *Dartmouth*, a student newspaper, April 26:

This sentiment of openness to politically divergent roommates was not equally distributed across students of different political stripes. While 61 percent of independents and 69 percent of Republicans said they would be comfortable with a roommate of opposing political views, only 39 percent of Democrats said so. Few independents (16 percent) and Republicans (12 percent) said they would be uncomfortable, while statistically Democrats were as likely to say they would be comfortable as they would be uncomfortable.

SPORTS

SOCER

Tottenham Runs Into Contention

Spurs manager Mauricio Pochettino has transformed the North London club by playing a physical, higher-intensity style

BY JOSHUA ROBINSON

London

QUIETLY BEING THE BEST team in English soccer over the past two years has, so far, earned zero trophies for Tottenham Hotspur. The club has racked up more points and scored more goals than any other Premier League team since the start of last season, but championships have remained just out of reach.

So Tottenham manager Mauricio Pochettino, in his mission to turn Spurs from a London also-ran into a contender, has had to look for other signposts of progress. On Sunday here, he finally got one.

With a 2-0 victory over Arsenal in the final North London grudge match at White Hart Lane, Pochettino guaranteed that Spurs would finish ahead of their bitter rivals for the first time in 22 years.

Pochettino, a former Argentine player with a penchant for quick-fire Spanish cursing, had been plotting this moment ever since he joined the club in 2014—not the victory per se, but the moment he could genuinely say he had bigger fish to fry than Arsenal.

"Our challenge, our aim, is to win, not only to beat Arsenal," Pochettino said. "It's to [beat] the 19 other teams against us in the Premier League."

Tottenham, which last won a league title 56 years ago, is now just four points behind first-place Chelsea with four games to play. Whether or not, Spurs can pull off the comeback, there is no doubt that Pochettino is transforming a club that had spent the past 20 years playing third fiddle in London to Arsenal and Chelsea.

And he did it in the most obvious way he knew how: in a league famous for its physical, high-intensity soccer, Pochettino revolutionized Tottenham by playing more physical, higher-intensity soccer.

"It's true that we are in a different level than many other clubs,



Tottenham's Harry Kane scores from the penalty spot during a 2-0 win over Arsenal on Sunday.

but we work very hard to try to improve," Pochettino said earlier this season, recognizing he didn't have the assortment of expensive talent available to the likes of Chelsea and Manchester City.

"But the way that we want to play, we have quality enough... For that, we need to be clever in the way that we work."

By clever, Pochettino also meant ruthless. His pre-season regimens are notorious, even by Premier League standards. He runs grueling sessions of fitness drills two and sometimes three times a day. Anyone who isn't prepared to run himself into the ground can find himself benched.

His approach, tailor-made for

England, began with a revelation he had when he arrived at Southampton in January 2013. It was different from the kind of revelation he received when, as manager of Espanyol in Spain, he once walked seven miles to visit a Benedictine monastery and pray for a miracle. This one was more tactical than spiritual.

Even though all professional soccer matches last 90 minutes, it dawned on him that English games had a special property: they were somehow longer. Pochettino worked out that there were fewer stoppages due to fouling and the ball leaving the field. Games were so much crisper here than in Spain, he found, that the ball remained physically in

play for up to 10 minutes longer. In his mind, that translated to 10 extra minutes of flat-out effort.

"It's important to run, but to run with good direction, at good moments, with good timing," he said on Sunday. "When you run more, it's because you give more options to your teammates when you have possession. And when you don't have the ball, it's to try to recover it as soon possible."

It's no coincidence that in the past two seasons, his players have been on top or near the top of every category for distance covered in a game and distance covered while sprinting. Against Arsenal, Tottenham's suffocating approach was in full effect, with Spurs out-

running their opponents by more than five miles.

Only a nine-save performance from Gunners' goalkeeper Petr Cech kept the match from turning into a bloodbath.

"We lacked a little bit the freedom to play," embattled Arsenal manager Arsène Wenger said.

Tottenham's rise has coincided with Wenger's decline at Arsenal. Spurs had only beaten him seven times in their previous 49 encounters, according to Opta Sports, but they are now riding a six-game undefeated streak against the Gunners in league matches.

For most of that spell, Tottenham was stuck playing the Mets to Arsenal's Yankees. There were occasional steps forward for Spurs—qualification for the Champions League, the emergence of home-grown talents in Harry Kane and Dele Alli—but the annual ignominy inflicted by the Gunners continued to gnaw away at them.

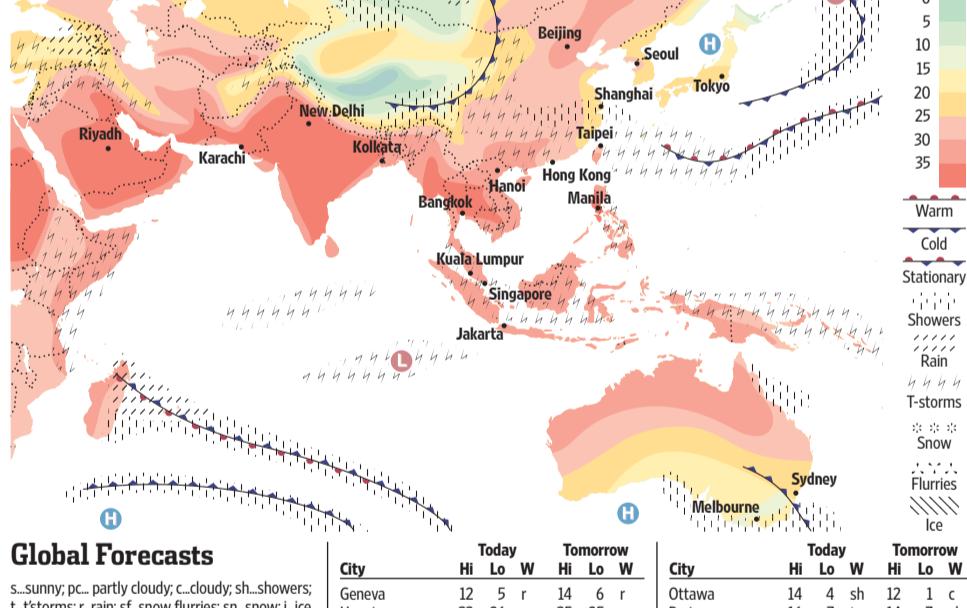
Some years were particularly painful. In 2004, Arsenal came to White Hart Lane to clinch the league title. Two years later, Arsenal leapfrogged Spurs in the standings on the final day of the season, because of a team-wide bout of food poisoning. The incident is still known as "Lasagna-gate."

Wenger argued last week that no matter which way Sunday's game went, it wouldn't signal a permanent shift in North London's power balance, especially with Tottenham moving stadiums next year—Spurs will migrate to Wembley for a season while they wait for their new 61,000-capacity venue to be completed. As he put it, Tottenham would need two years to "recreate a kind of history" there.

But for now, the 17-point gap between Pochettino's swashbuckling club and its neighborhood rival is all the history Tottenham needs. No one in North London can call it an accident.

"The points are the points," Wenger said. "They do not come from heaven."

Weather



Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers;

t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

Today Hi Lo W Tomorrow Hi Lo W

City Amsterdam 14 8 r 14 8 t

Anchorage 12 4 c 12 4 pc

Athens 27 16 s 27 15 s

Atlanta 24 14 s 28 17 pc

Bahrain 35 19 c 20 20 pc

Baltimore 24 11 s 18 8 s

Bangkok 36 29 t 36 28 t

Beijing 31 14 s 28 15 c

Berlin 12 6 r 14 8 sh

Bogota 18 10 sh 19 10 r

Boise 20 8 pc 23 10 s

Boston 23 10 pc 17 7 pc

Brussels 15 8 r 13 8 t

Buenos Aires 25 14 pc 24 13 c

Cairo 29 18 s 30 18 s

Calgary 13 1 pc 19 7 pc

Caracas 30 25 t 30 25 c

Charlotte 25 12 s 26 15 s

Chicago 11 3 c 16 4 pc

Dallas 30 19 s 25 12 r

Denver 16 2 sh 15 1 c

Detroit 10 4 c 17 6 pc

Dubai 37 28 s 39 29 pc

Dublin 13 7 pc 12 7 pc

Edinburgh 13 6 pc 14 5 pc

Frankfurt 14 6 t 17 8 t

Today Hi Lo W Tomorrow Hi Lo W

City Geneva 12 5 r 14 6 r

Hanoi 33 26 pc 35 25 pc

Havana 30 21 pc 31 22 s

Hong Kong 29 23 pc 29 24 t

Honolulu 29 21 pc 29 23 s

Houston 31 20 s 26 14 t

Istanbul 21 13 c 22 13 s

Jakarta 32 25 t 31 24 t

Johannesburg 21 8 pc 21 9 c

Kuala Lumpur 20 8 s 15 6 sh

Kansas City 33 21 s 33 22 s

Las Vegas 23 19 pc 24 19 pc

Lima 24 19 pc 24 19 pc

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Los Angeles 30 15 s 31 15 s

Manila 25 6 pc 17 7 sh

Montreal 35 27 t 35 27 t

Melbourne 15 9 sh 15 5 pc

Mexico City 28 12 pc 28 12 pc

Miami 30 24 pc 31 25 t

Milan 19 9 r 17 9 t

Minneapolis 15 6 pc 17 7 sh

Monterrey 34 19 s 38 19 pc

Montreal 15 6 sh 12 1 c

Moscow 20 4 p 12 3 pc

Mumbai 32 24 p 33 25 pc

Nashville 25 11 s 25 14 c

New Delhi 40 25 pc 40 26 pc

New Orleans 29 18 s 27 18 t

New York City 23 11 s 17 7 s

Perth 23 11 s 17 7 s

Riyadh 37 28 s 39 29 pc

Washington, D.C. 25 13 s 20 9 s

Zurich 16 5 c 14 4 r

Today Hi Lo W Tomorrow Hi Lo W

City Ottawa 14 4 sh 12 1 c

Paris 16 7 t 14 7 sh

Philadelphia 23 11 s 18 6 s

Phoenix 36 21 s 37 23 s

Pittsburgh 14 6 pc 14 5 c

Port-au-Prince 32 22 pc 32 22 pc

Portland, Ore. 15 12 r 27 14 c

Rio de Janeiro 26 18 pc 27 19 s

Riyadh 38 23 s 39 24 pc

Rome 20 9 pc 20 10 pc

Salt Lake City 18 6 pc 20 9 pc

San Diego 23 16 pc 24 16 pc

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San Juan 29 23 sh 30 24 sh

Santiago 21 6 pc 25 6 s

Santo Domingo 29 22 sh 30 22 pc

Sao Paulo 22 13 c 23 14 pc

Seattle 16 12 c 23 11 c

Seoul 28 16 s 29 16 s

Shanghai 22 18 r 24 18 c

Singapore 31 26 t 31 25 t

Stockholm 15 1 s 13 0 s

Sydney 24 15 pc 20 15 c

Taipei 29 22 t 30 22 t

Tehran 28 17 c 26 17 pc

Tel Aviv 24 16 s 23 15 s

Tokyo 21 14 s 21 15 pc

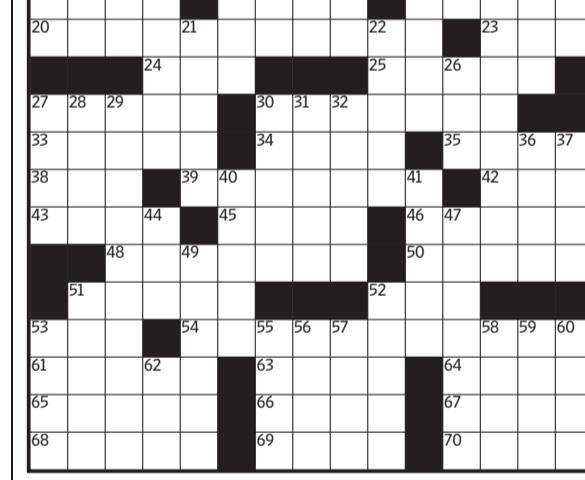
Toronto 12 4 sh 15 2 pc

Vancouver 16 10 c 16 10 r

Washington, D.C. 25 13 s 20 9 s

Zurich 16 5 c 14 4 r

The WSJ Daily Crossword | Edited by Mike Shenk



GARDEN VARIETY | By Susan Gelfand

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25 MacDowell of "Groundhog Day", 27 Traffic tangle, 30 Digital currency, 33 Tropical ray, 34 Latin 101 verb, 35 They may clash, 38 Decide, 39 *Up-and-down line through an airplane, 40 Vowel string, 41 Lavender or lilac, 42 Hydrocarbon ending, 43 Pace, 44 Refrain syllable, 45 Upper hand, 46 As a result, 47 Subside,

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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Yen vs. Dollar 111.8910 ▲ 0.32% **Hang Seng** 24615.13 Closed

Gold 1259.10 ▼ 0.55%

WTI crude 48.72 ▼ 1.24%

10-Year JGB yield 0.016%

10-Year Treasury yield 2.335%

Why Intel Paid Big-Data Premium

High price for stake in Cloudera reflects need to stay on top in server, PC processors

BY RACHAEL KING

When Intel Corp. agreed to buy a 17% stake in big-data software startup Cloudera Inc. three years ago, it purchased the stock for more than double the share price that other investors had paid just two weeks earlier.

After Cloudera's initial public offering on Friday, Intel's \$742 million investment is now underwater, valued at roughly \$434 million.

It might appear that Intel stumbled badly. But people familiar with Intel's thinking say

the chip giant agreed to pay Cloudera's high asking price in March 2014 in part because it would help guard against an acquisition of the startup by another company.

The resulting \$4.1 billion valuation—compared with \$1.8 billion earlier that month when venture investors bought in—was bound to scare away prospective buyers. Cloudera's software had gained popularity with companies analyzing oceans of digital information in their corporate servers. Intel believed big-data software was critical to helping it maintain its near-total dominance of the market for data-center servers.

With a board seat and close ties to the company, Intel could ensure that its chips worked best with Cloudera's



Intel faces market pressures.

software. Critically, Cloudera agreed to improve the security of its software and introduce features to make it more appealing to the corporate market where Intel needed to fend off competitors.

Intel declined to comment.

Cloudera Chief Executive Tom

Reilly said in an interview after the company's IPO that the higher price Intel paid reflected the deeper partnership between the companies. Cloudera wanted to stay independent, and he disputed that Intel was trying to prevent Cloudera from being acquired.

The lofty price Intel paid underscores the pressure it faces to preserve the dominance in its core markets of processors for servers and personal computers. The investment also sheds light on the difference in motivation between investment firms, which aim purely for a financial return, and corporate investors, which often take stakes for strategic reasons.

Back in 2014, Intel wanted to make sure it had a say in the direction of big-data soft-

ware, according to the people familiar with Intel's thinking. Big-data software was helping drive the use of chips, as companies needed more processing power to mine the vast troves of information flowing through their networks.

Intel deliberated privately for about six months over whether to invest in Cloudera or try to buy it, said one of these people. Intel decided against trying to acquire the startup for reasons including that to do so might alienate some of its bigger partners such as Oracle Corp. and International Business Machines Corp., which also offer data-management software. On the other hand, if Cloudera was owned by another company, it might not be as concerned

Please see STAKE page B4

Detroit Is Upbeat As Sales Slow Down

BY MIKE COLIAS AND CHESTER DAWSON

DETROIT—U.S. car sales may be slowing, but the profit engines of Detroit's Big Three auto makers are still in high gear.

General Motors Co., Ford Motor Co. and Fiat Chrysler Automobiles all beat Wall Street's expectations last week when they reported first-quarter earnings, mostly because of strength in the North American market. All three kept their full-year earnings forecasts intact, a signal they don't expect the wheels to fall off.

That comes despite clear signs overall demand for passenger vehicles is weakening. April is expected to mark the fourth straight monthly decline in U.S. vehicle sales when the industry reports volumes on Tuesday, raising the likelihood that 2017 will end a seven-year run of increases.

Industry observers say they don't expect a collapse in sales, even if demand drifts below record levels hit last year. "Total sales are still strong from a historical perspective and the decline is very gradual," said Jessica Caldwell, an analyst at Edmunds.com, an auto-research firm and car-shopping website. "It shouldn't really be seen as alarming."

Auto makers say they will stay disciplined and trim production levels to reflect weaker demand instead of cutting prices to keep their factories humming.

GM, Ford and Fiat Chrysler are in a relatively stronger position than some of their foreign-based rivals because they rely less on sales of sedans, which are in free fall as buyers switch to crossover wagons, SUVs and pickup trucks. U.S. brands specialize in those vehicles, which tend to offer high profit margins.

The shift toward light trucks—a category that includes pickups, SUVs and crossover wagons—is helping auto makers keep prices high overall, even as they dole out bigger discounts on cars. In recent months, light trucks have accounted for more than 60% of total sales volume.

For two years now, auto-industry insiders have been girding for the end of an unusually long upward sales cycle that began in 2010 as the U.S. was emerging from the 2007-09 recession. Concern spread when March sales dipped to a seasonally adjusted annual rate of 16.6 million, the slowest in two years.

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CHINA DAILY/REUTERS

Passengers awaiting flights at Beijing Capital International Airport in December. Frequent lateness has prompted a push to change how Chinese airspace is allocated.

China's Air-Travel Delays Threaten Growth

BY TREFOR MOSS

SHANGHAI—China's sharp rise in air travel is compounding chronic flight delays here, making flying an ordeal for increasing numbers of airline passengers and threatening to choke growth in the country's booming aviation sector.

China's big three state-run airlines—Air China, China Eastern Airlines, and China Southern Airlines—were the least punctual of the world's major carriers last year, according to aviation-data firm OAG, with about one-third of their flights arriving late.

In the past three years, complaints about air travel rose sevenfold, the Civil Aviation Administration of China said. The agency didn't break out the most common complaints, but few doubt that delays are high on the list.

Flight delays happen everywhere and bad weather is usually the culprit. But in China, temporary setbacks caused by factors such as weather, smog, runway repairs and military drills are amplified by the way the country manages its airspace.

While China is building scores of new airports to in-

crease capacity on the ground, three-quarters of its airspace remains in the hands of the military, and is off limits to civil airliners. The Chinese military has always controlled the country's airspace, and that hasn't changed despite the massive growth of civil aviation here over the past couple of decades.

It is a unique situation among major economies, which mostly adopt a flexible approach to airspace use. In the U.S., for example, large swaths of airspace can be commandeered by the military should the need arise, but they are open to civil traffic

most of the time.

Europe recently overhauled its airspace rules to enable civil and military planes to share almost all the region's airspace. In India, 60% of airspace is open to civil airliners, and the government is in the process of opening more.

Similar reforms need to happen quickly in China, said aviation analyst John Grant.

China's airlines carried 488 million passengers last year, according to official figures, three times as many as a decade earlier.

In the air, "China is effectively using single-carriage

roads, while the rest of the world is operating on four-lane highways," said Mr. Grant. "They're constantly squeezing more and more capacity into a small area of airspace."

With the problem becoming more acute, government leaders have signaled a change may be in the offing. "Airspace resources will be better allocated," Premier Li Keqiang said in his annual report to the National People's Congress in March.

Jane Sun, chief executive of travel-services provider Ctrip.com International Ltd., Please see FLIGHTS page B2

AHEAD OF THE TAPE | By Steven Russolillo

Apple Appears Poised To Grow Even Larger

In today's buoyant stock market, tech giants keep getting bigger. Apple Inc., the biggest of all, isn't done growing.

The iPhone maker's shares have surged almost 30% over the past six months, more than double the rise in the S&P 500. Amazon.com Inc. and Alphabet Inc., Google's parent, have logged double-digit percentage gains, too.

Such rallies over short periods would normally produce sticker shock in the tech sector. But Apple's earnings report on Tuesday and, more important, the new iPhone expected later

this year should give investors confidence that the rally still has legs.

Analysts polled by FactSet estimate fiscal second-quarter earnings of \$2.02 a share, up 6% from a year earlier. Quarterly revenue for the period ending in March is expected to have increased 5.3% to \$53 billion. iPhone sales, which make up roughly two-thirds of Apple's overall revenue, are expected to tick up 4.3% from a year earlier for a second consecutive quarter of year-over-year growth.

But what investors seem to be focused on the most is the new iPhone. Apple usually updates its smartphone lineup once a year and this

Please see TAPE page B2

Drugmakers Take a Page From Hollywood

BY DENISE ROLAND

Pfizer Inc. executives hope the late-stage clinical trials on its new sickle-cell-anemia treatment will show strong benefits for sufferers of the blood disease. But if they don't, there will be a small silver lining: Pfizer didn't pay for the trials.

Last year, NovaQuest Capital Management LLC, a private-equity firm focused on life sciences, agreed to pay for Pfizer's Phase 3 trial program for the drug, called Rinvipansel. Phase 3 is typically the final and costliest trial period.

NovaQuest is one of many investors that fund late-stage clinical trials. Such deals are becoming increasingly common as the pharmaceutical industry seeks to limit risk.

The strategy takes a page from Hollywood, where big production companies have long sought to attract upfront investment—in exchange for a

Sharing Risk, Sharing Reward

Outside investors shoulder losses if a drug fails, but stand to make big gains if it succeeds



Source: WSJ staff reports

that have spanned drug launches as well as research.

Rivipansel is an experimental drug Pfizer acquired from GlycoMimetics Inc. in 2011, while it was undergoing mid-stage trials, in a deal valued at \$340 million. For the final push, NovaQuest has agreed to pay up to \$200 million, a sum Pfizer figures will cover the trial and all other development costs. If the drug is successful, NovaQuest could receive a series of payments totaling as much as \$267 million, plus royalties on sales, for the next eight years.

"People look at us as an alternative," said NovaQuest founding partner William Robb.

The structures of its deals vary, he said, and in most cases, NovaQuest pays for a proportion of a given clinical trial rather than shouldering the entire cost.

A Pfizer spokeswoman said

Please see DRUGS page B4

cut of box-office sales or royalties—as they gamble on the next blockbuster film.

Large pharmaceutical companies, like big movie production houses, must contend with "most innovation occurring outside your walls, and your cost structure varying over time and

project type," said Richard Evans, an analyst at SSR LLC.

NovaQuest is one of the more active trial backers, and over the years has counted Sanofi SA, Takeda Pharmaceuticals Co., Allergan PLC and Eli Lilly & Co. as its partners in cost-sharing ventures

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Suitors Circle Tribune Media

By JOE FLINT

A potential bidding war is emerging for **Tribune Media** Co., one of the largest owners of local television stations in the U.S.

Sinclair Broadcast Group Inc., **21st Century Fox** Inc. in partnership with private-equity firm **Blackstone Group LP**, and **Nexstar Media Group** Inc. are all circling Tribune, according to people familiar with the matter. The deadline for final bids is Thursday, these people said.

With 42 television stations in some of the nation's biggest markets including New York, Los Angeles and Chicago, Tribune is appealing.

The Federal Communications Commission in April made a change to its TV ownership rules that would make an acquisition of Tribune by an-

other big broadcaster easier. Baltimore-based Sinclair doesn't have a strong presence in the biggest cities, something a purchase of Tribune would provide. Tribune has a market capitalization of \$3.2 billion, and Sinclair has a market cap of \$3.6 billion.

Fox's interest in Tribune is motivated, in part, by a desire to keep Sinclair from owning it, one of the people said. Sinclair is one of the biggest owners of stations "affiliated" with the Fox network, and acquiring Tribune would add 14. That would give Sinclair more leverage in negotiations with 21st Century Fox. 21st Century Fox and Wall Street Journal parent **News Corp** share common ownership.

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BUSINESS & FINANCE



Auto dealers own or lease about \$130 billion of property throughout the U.S., according to calculations by Kerrigan Advisors.

Car Dealers Pull Out of Real Estate

Buyers check out autos online, so chains pare vehicle inventory and the property to store it

BY ADRIENNE ROBERTS

AutoNation Inc., the largest seller of new vehicles in the U.S., is making a \$500 million bet on the used-car business. To pay for it, the dealer chain is selling what has long been the industry's most precious asset outside of cars: property.

The move by AutoNation, based in Fort Lauderdale, Fla., follows a broader trend in the business.

As car buyers increasingly use smartphones and internet tools to shape shopping decisions, several large chains are paring property holdings as they shrink the amount of inventory they keep close to the showroom.

Auto dealers own or lease about \$130 billion of real estate in the U.S., according to Kerrigan Advisors, an advisory firm that helps dealers sell their businesses.

Dealers traditionally have sought land on high-traffic roads with enough space to store gobs of inventory, requirements that led to big real-estate investments.

AutoNation, for instance, owns \$3 billion of real-estate assets. It will sell some of it to help raise as much as \$500 million to create a line of stand-alone used-car stores

called "AutoNation USA," which the company says could deliver higher margins than the new-car business.

"It's a very prudent approach to brand extension," AutoNation Chief Executive Mike Jackson said in an interview.

Car sellers are seeing buying behavior change rapidly, with shoppers sometimes spending more time searching for better deals while in the showroom instead of looking at a dealer's inventory.

Aware of this trend, sellers are storing inventory off-site on cheaper land.

Nearly 90% of car shoppers use the internet to shop for a

For those dealers who own the land in a prime location and whose business is thriving, the real estate is an asset, said Jamie Albertine, an analyst at Consumer Edge Research LLC. "But our sense is the retail strategy is poised to shift considerably in the next 15 to 20 years such that land ownership could potentially be a burden," he said.

Brad Carter, principal of Greystone Valuation Services, which specializes in auto dealerships, said it doesn't make sense anymore for dealers to invest in a big piece of land on auto row. He said the auto-dealership model now resembles the trajectory of book-

sponding in different ways: Some are choosing to sell underperforming dealerships on expensive land, while others are finding ways to save money by storing cars on less-expensive real estate.

Erin Kerrigan, founder of Kerrigan Advisors, said for those dealers that own the land, it is a good time to sell.

"It would not be a bad idea to sell valuable land and then deploy the money to buy more dealerships," she said.

Dealerships looking to expand, meanwhile, are confronting record-high prices for land, leading players such as

Sonic Automotive Inc. to buy smaller plots. Jeff Dyke, executive vice president of Sonic, said many of the stores operated by Sonic's used-car chain, EchoPark, are located closer to neighborhoods, atypical areas for car dealerships, and carry very small amounts of inventory.

"What we did is develop a hub-and-spoke model," Mr. Dyke said. "For example, we have a large store in Thornton, Colo., with smaller stores surrounding it. We are going through a massive transition in our industry...we know that down the road, we'll need less and less real estate."

Mr. Dyke said EchoPark uses technology to determine what vehicles sell best at each dealership location. If a vehicle a customer is interested in isn't on the lot, EchoPark will ship the vehicle to that location.

stores, which started as mostly mom-and-pop stores and were overtaken by big-box retailers such as **Barnes & Noble** Inc. and **Borders Group** Inc., which went out of business in 2011.

"The big-box retailers came in and overnight the mom-and-pop stores were gone," he said. "The big-box retailers had big and expensive stores. But then people realized they could buy these books on the internet. Why walk into a \$3 million Barnes & Noble?"

Dealer groups at the forefront of this change are re-

help to Ling Jie, who spent a recent Saturday morning stuck at Beijing Capital International Airport after **Xiamen Airlines** switched his flight to a smaller jet that couldn't fit everyone on board.

"It's not fair," the 46-year-old doctor said. "There's no proper explanation." A Xiamen representative said the replacement aircraft, brought in for technical reasons, reached Fuzhou just 45 minutes late.

But Mr. Ling didn't get a seat, and his flight to Fuzhou eventually departed 4½ hours late. He said that in the future he will think twice before risking his holidays on China's unreliable airways.

"I'll more likely choose the high-speed train," he said.

Chao Deng in Beijing and Junya Qian in Shanghai contributed to this article.

FLIGHTS

Continued from the prior page said her company supports the change but wasn't expecting major changes quickly, citing the challenge of wresting air-space away from China's military leaders.

Meanwhile, the Civil Aviation Administration of China says punctuality actually improved last year, and that over three-quarters of flights were on time.

But it all depends what passes for "on time." Aircraft laden with passengers routinely spend one or two hours on the tarmac at Chinese airports, waiting for clearance to take off. But as long as the plane's cabin door is closed on schedule, the authorities chalk it up

as an on-time departure.

Airlines also are quietly adjusting their schedules to improve their on-time ratings. In 2006 the average published flight time from Shanghai to Beijing was two hours and one minute, said Will Horton, a senior analyst at the CAPA Center for Aviation. It is now two hours and 18 minutes, giving airlines greater leeway to arrive on schedule.

China Southern said it operates within aviation authority guidelines. Air China and China Eastern didn't respond to requests for comment.

So far, tardiness doesn't appear to have dented the bottom line. China Southern, in which **American Airlines** Inc. bought a 2.68% stake for \$200 million in March, said its 2016 profit increased by one-third to \$730 million. Air China's 2016 profit

rose slightly to \$985 million, while China Eastern's fell a bit to \$652 million.

Despite those profits, China's airlines all have reported declining passenger yields for the past few years, suggesting that their growth has been undermined by discounted fares that aviation analysts say may not be sustainable.

Cognizant of mounting fury from passengers—whose outbursts appear regularly on Chinese social media—China's Ministry of Transport introduced new rules in January requiring airports and airlines to be more transparent about flight delays, ordering airlines to let passengers disembark if their plane has been stuck on the tarmac for three hours, and recommending that they offer compensation for lengthy holdups.

The new rules were of little

help to Ling Jie, who spent a recent Saturday morning stuck at Beijing Capital International Airport after **Xiamen Airlines** switched his flight to a smaller jet that couldn't fit everyone on board.

Continued from the prior page year marks the 10-year anniversary of the first iPhone release. Expectations are high. The Wall Street Journal reported earlier this year that Apple's next iPhone will have a curved screen and will be more expensive than current models. Analysts concur that the average selling price of an iPhone in the current fiscal year will increase for the first time in three years.

Apple shares typically rally ahead of an iPhone release. This year will probably be no different.

In the three months before Apple launched new or updated iPhones—typically in September or October—

the stock has averaged a 20% gain, according to Bespoke Investment Group.

Those rallies have tended to fade once the product is released, though. The market

buys the rumor and sells the news. Apple shares have averaged a roughly flat performance in the month that follows an iPhone announcement.

This Apple appears ripe for more gains.

Analysts at Credit Suisse are optimistic that the new iPhone "super cycle," as they call it, will help drive replacement rates higher and attract new customers from other platforms, such as Android. This is an opportunity for Apple. The research firm e-Marketer says Apple accounts for 44% of the U.S. smartphone market, trailing Android's 52% share.

Despite Apple's sharp rally, its stock still looks reasonably priced at 15 times projected earnings over the next 12 months. While that isn't quite the bargain it was in recent years, it is still about 25% cheaper than a basket of rivals, including Alphabet, Microsoft Corp. and Facebook Inc.

BUSINESS NEWS

Valeant Makes Debt Payments Of \$220 Million

BY JONATHAN D. ROCKOFF

Valeant Pharmaceutical Industries Inc. said Monday it has made \$220 million in unscheduled debt payments in the drug company's latest effort to chip away at the multbillions of dollars that it owes.

Canada-based Valeant's aggressive deal-making once made it a Wall Street darling, but it has struggled more recently to pay down the debt accumulated during the buying binge.

The company's debt amounted to \$32.3 billion early last year.

The debt payments show Valeant has "made progress" toward turning around the company, Chief Executive Joseph Papa said.

"Now we have the latitude to make some investments in the business over the next few years and get good returns for our shareholders," he said.

The company said that the unscheduled debt payoff was made Friday, and will raise the total sum of debt paid back since the first quarter last year to more than \$3.6 billion.

That is more than the company's value on Wall Street, which stood at \$3.2 billion after the market's close on Friday.

Valeant's market capitalization peaked at \$90 billion in August 2015, before the deal-making, drug-pricing and other practices under former CEO Michael Pearson drew scrutiny from short sellers, government prosecutors and lawmakers in Congress. Shares now trade below \$10.

All but \$500 million of Valeant's debt isn't due until 2020 to 2024, according to the company. Yet Wall Street has

been watching closely to see if management at Valeant can turn around its business and keep satisfying the terms of its covenants and eventual debt obligations.

Mr. Papa, who took Valeant's helm in April 2016 promising a turnaround, pointed to the hiring of new business leaders and other senior leadership; the narrowing of the company's focus to skin, eye and stomach drugs; and recent new-drug approvals as signs of progress.

He has pledged to pay down \$5 billion in debt by the first quarter of 2018.

The Canada-based company's debt amounted to \$32.3 billion early last year.

Valeant said its covenants with lenders require it to use the proceeds of divestitures to help pay down company debt. And Valeant has been exploring sales of key assets, like its stomach drug Xifaxan. But the company has been unable so far to reach agreement on such a large deal.

The \$220 million comes from completing ahead of schedule two smaller asset sales: of its CeraVe and two other skin-care brands to L'Oréal SA for \$1.3 billion and of a manufacturing plant in Brazil.

The paydown doesn't include any proceeds from the planned sale of the Dendreon cancer-therapy business to Chinese conglomerate Sanpower for \$820 million, which the company expects to close at the end of this quarter or early next quarter.

Big Brands Lose Shelf Space

BY ANNIE GASPARRO

America's packaged-food giants are losing the battle for retailers' shelf space, complicating their efforts to break out of a yearslong slump.

Instead of promoting canned soup, cereal and cookies from companies like **Kraft Heinz Co.**, **Kellogg Co.** and **Mondelez International Inc.**, grocery stores are choosing to give better play to fresh food, prepared hot meals, and items from local upstarts more in favor with increasingly health-conscious consumers.

"We've got to maximize return on our shelf space," said Don Fitzgerald, vice president of merchandising at Mariano's, a Chicago grocery chain bought by Kroger Co. in 2015. Shoppers, he said, are drawn to steamy pasta at the store's deli counter, rather than a box of dried macaroni with powdered cheese sitting on the shelf for weeks.

New Jersey-based ShopRite and other grocery-store chains around the country are building new stores that have less space for traditional packaged foods in the center aisles and more for in-store restaurants and fresh meals shoppers can take home. "It's by demand of consumers looking for a quick meal," said Natalie Menza, ShopRite's director of health and wellness.

CVS Health Corp.'s drugstore chain recently said it planned to upgrade hundreds of its stores to focus more on healthier products.

That means less space for traditional packaged-food brands, which are also facing increased competition from store brands and smaller upstarts.

Sales volume for packaged food and products—reflecting the number of items sold—fell 2.4% in the first quarter of 2017, according to market-research firm Nielsen. In the year ended Feb. 25, sales volume for packaged food and beverages shrank by 0.4%—compared with growth of 1.7% for fresh meat, 1.9% for produce and 4% for



ShopRite and other chains are providing less space for packaged foods in center aisles of new stores.

deli-prepared foods during that period, Nielsen said.

Three of the biggest companies in the sector—Mondelez, Kraft Heinz and Kellogg—are expected to show the impact of these trends when they report first-quarter results this week. RBC Capital Markets' David Palmer recently lowered his forecast for the three, saying in a note to investors that "big food volume trends have not yet begun to recover after six months of accelerating declines."

Teresa Benande, a 70-year-old shopping in a Chicago Mariano's grocery store, said she recently nixed chips and cereal, and now she usually buys chicken breasts, brown rice, potatoes, and fresh vegetables and fruit.

"I stopped buying that stuff because it has too much salt and sugar. Even the boxes that appear healthy, when you read them, they really aren't," she said. When she splurges, it is on a spinach and feta pizza, not a bag of Doritos, she said.

The shift in shopper preferences started several years ago, but its impact on big food makers is intensifying now because of added pressure from retailers.

That has exacerbated what has been a drumbeat of bad

news for packaged-goods companies grappling with American consumers' sustained move toward natural, organic foods. A long stretch of falling food prices, fueled by excess supplies of staples like meat and dairy, have also lowered costs for consumers at supermarkets, giving them more reason to choose fresh food over boxed meals.

Plus, more people are buying cheaper store brands and shopping for unique health-focused brands online.

"It's death by a thousand cuts," said Nielsen consumer analyst Jordan Rost.

Mondelez, which makes Oreo cookies and Ritz crackers, initially expected its comparable sales to rise at least 1% this year, but that could decline if its sales results for the first quarter are worse than anticipated—as was the case with Hershey Co., which reported last week.

Big companies such as Unilever PLC and Nestlé SA said in April that North America food sales are underperforming as customers avoid the center aisles of grocery stores.

Mark Clouse, Chief Executive of Pinnacle Foods Inc., which sells Duncan Hines cake mixes and Vlasic pickles, said no one factor alone was driving the in-

dustry's woes, and he was optimistic about early sales figures from April. "But I think it will be a tough environment" this year, he said.

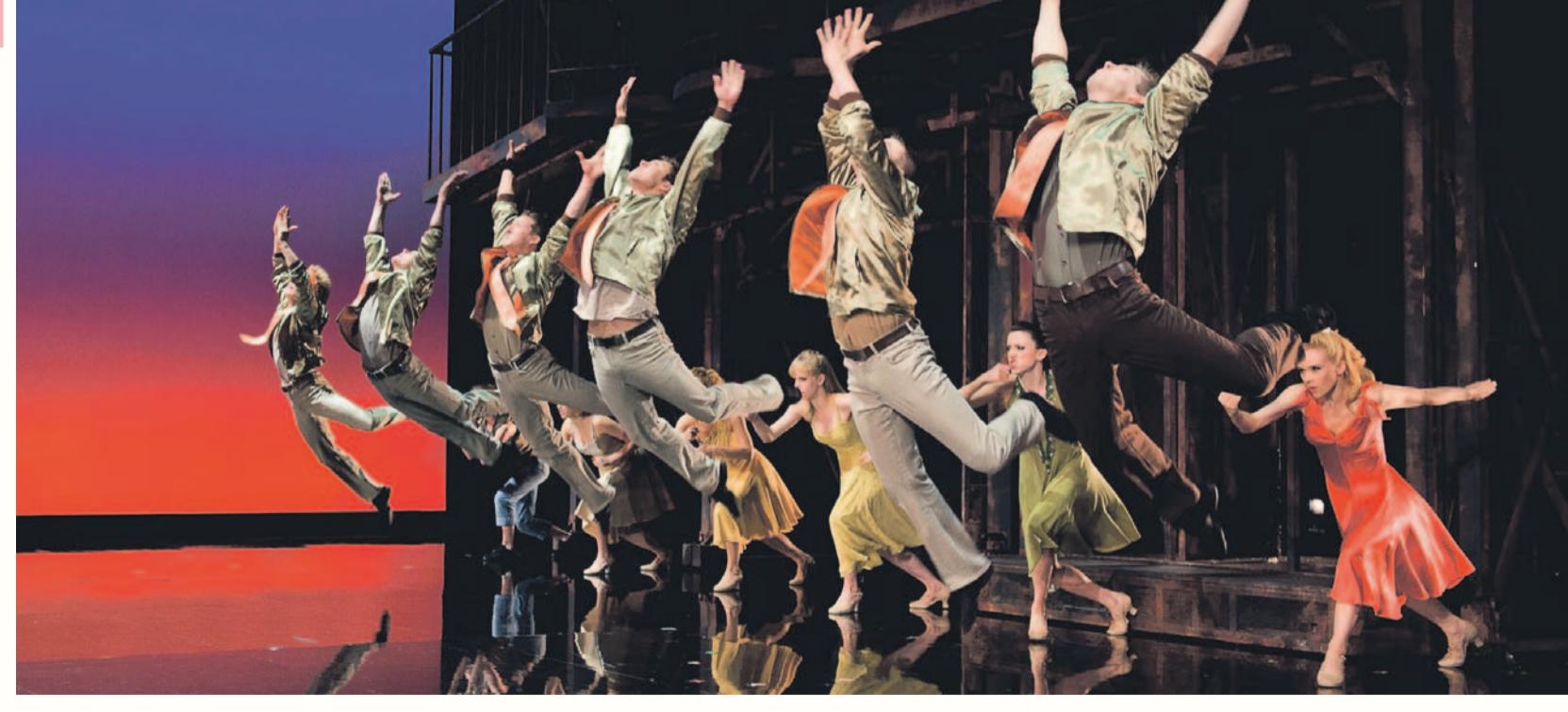
Mariano's Mr. Fitzgerald said his stores, like other retailers, aren't giving up on big brands. But finding new ways to entice people to walk through the center aisles again is tricky.

Some brands are seeking ways to get their products into the fresh and prepared foods section of the store. But, Mr. Fitzgerald says: "If we overrun perishables with all the big packaged brands, we lose our competitive edge."

Instead, retailers such as Wal-Mart Stores Inc. are pressuring big brands to lower their prices as a way to attract customers.

Companies like Hershey and PepsiCo Inc. said they are working with retailers to be creative. "That's a conversation we've been having with some of the retailers, to say 'how can we help you rethink the center store so that we can bring growth back,'" said Pepsi Chief Indra Nooyi on a conference call last week, when it reported declines in its Quaker Foods division. "Our hope is that with the rejuvenation of the center store, our categories will grow, too."

WSJ TALK / EXPERIENCE / OFFER / GETAWAY



Enjoy a Special Offer on Tickets to West Side Story

Following wild acclaim around the world, a vibrant new stage production of the Broadway musical West Side Story is coming to Hong Kong from 18 May. Set amidst the vicious rivalry of teenage gangs in 1950s New York, be electrified by this classic dance musical featuring groundbreaking choreography and an unforgettable score. WSJ members enjoy 5% savings on VIP, A- and B-reserve tickets.

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Nintendo Shipped Switch By Plane

BY TAKASHI MOCHIZUKI

TOKYO—Nintendo Co. said it used aircraft to ship its new Switch videogame machine in its first month on the market, an unusual and costly logistics measure responding to unexpectedly high demand.

Earlier, Nintendo said it shipped 2.74 million units of the Switch in the month after it went on sale March 3, up from an initial plan of two million.

"We carried some of the Switches by plane in March to serve our customers more promptly," a company spokesman said. He said Nintendo in April switched to less-expensive sea freight to replenish store shelves.

Nintendo didn't say where the planes were used, but analysts and others briefed on the logistics said the flights took Switch machines to the U.S. and Europe from factories in China.

An analyst says more airfreight is possible as the Switch remains hard to find at stores.

Ace Research Institute analyst Hideki Yasuda said further use of airfreight is possible because the item remains hard to find at retailers globally. "Air is a big profit-squeezer because it could cost [an] additional ¥5,000 per unit," or about \$45, he said.

Waseda Business School professor Atsushi Osanai said it was worth the price to get the product off to a good start.

"It is important that companies sell as many units as possible, as quickly as possible, while customer interest is high," he said. The initial months are critical for a game machine, because strong hardware sales drive interest from software creators, and a wealth of software titles in turn generates interest in the hardware.

Switch machines sell for about 30,000 yen each in Japan and about \$300 apiece in the U.S.

Nintendo said last week it expected to sell 10 million units of the Switch in the current fiscal year, which ends in March 2018. Analysts say the number could be higher based on initial interest in the machine, which can be used both in the living room and on the go.

"We think the 10 million represents a starting point only," said Macquarie Capital Securities analyst David Gibson. He expects sales of 14.5 million units or more in the fiscal year.

SpaceX Lifts U.S. Spy Satellite

Elon Musk's space venture carries a classified Pentagon payload into orbit

BY ANDY PASZTOR

Elon Musk's **Space Exploration Technologies** Corp. added another successful launch to its record, but this time it carried a classified payload for the Pentagon's National Reconnaissance Office.

Lifting off from Florida's Kennedy Space Center at 7:14 a.m. EDT on Monday, precisely at the beginning of the launch window, it was the first time SpaceX, as the company is called, conducted a mission dedicated to blasting an NRO spacecraft into orbit.

In a move that is common for classified launches, neither the company nor the agency, which operates the nation's premier spy satellites, identified the nature of the spacecraft, its specific purpose or designated orbit.

Monday's launch was part of the closely held company's drive, following catastrophic accidents in 2015 and 2016, to shore up confidence of commercial and U.S. government customers in its low-cost approach to providing space transportation.

The 230-foot Falcon 9 rocket's cluster of nine main engines burned for two minutes and 20 seconds as planned, the lower stage separated without any problem, and later the company confirmed the upper stage was sending the payload into its intended position.

Monday's flight was the fourth successful launch since the Falcon 9 returned to service in January, following a four-month lapse prompted by an explosion on the launchpad last September during routine ground tests.

SpaceX anticipates an average of nearly two launches a month for all of 2017, but over



The Falcon 9 launched from Kennedy Space Center early Monday. SpaceX is a newcomer to launches of big national-security satellites.

several years it has consistently failed to reach its projected launch tempo. According to internal projections prepared around the beginning of 2016, months before the launchpad accident, management at that point envisioned a rate climbing to an average of nearly three launches a month by 2020.

Cash flow, profit and further technology development all depend on ramping up the pace of launches. Commercial customers, many of whom have been affected by cascading launch delays, also are betting on a steady uptick in launch tempo.

SpaceX has said it has roughly \$10 billion of launches in its order book. U.S. government missions, including those for the Pentagon and National Aeronautics and Space Admin-

istration, account for the bulk of that backlog, with the company seeking more military launches.

As a result, Monday's launch also presented an opportunity for SpaceX to demonstrate to the NRO—and by extension the broader U.S. intelligence community—it's ability to launch expensive classified satellites safely and on time.

Some NRO officials continue to be privately skeptical of trusting multibillion-dollar satellites to the company, according to government and industry officials, though SpaceX is officially certified to boost payloads to most of the orbits the agency has traditionally used.

Until recently, a joint venture between Boeing Co. and Lockheed Martin Corp. en-

joyed a monopoly on launches of large national-security satellites. But Monday's mission, combined with a pair of Global Positioning System launches SpaceX won in 2016 and earlier this year, ended that decadelong monopoly.

The joint venture, called United Launch Alliance, remains on top when it comes to lofting the largest, most expensive and highest-security spy satellites and other national-security payloads into orbit.

It can cost more than \$500 million to transport such satellites into space using the heavy-lift variant of the venture's Delta IV rocket.

But in March, the Air Force's Space and Missile Systems Center said it was making SpaceX eligible to compete for more than a dozen Penta-

gon launch contracts through late 2019.

The latest launch followed SpaceX's historic feat in March of successfully launching and safely retrieving the main portion of a Falcon 9 that had traveled to space previously.

Mr. Musk and his team consider such reusability as the centerpiece of providing lower-cost space transportation.

As planned, 10 minutes after liftoff, thrusters on the first stage guided that portion of the Falcon 9 rocket back to a vertical landing near the launchpad. It was the fourth time the company succeeded in getting the main portion of a Falcon 9 back to the landing zone near the pad. The company also has landed the lower stage on a floating platform several times.

STAKE

Continued from page B1

about making its software work best with Intel chips, according to this person.

In March 2014, Cloudera said that T. Rowe Price, Google Ventures (which is now GV, Alphabet Inc.'s venture-capital arm) and MSD Capital would invest \$160 million, paying \$14.56 a share at a \$1.8 billion valuation.

Intel wanted in, but only if it could take a larger stake and influence development of Cloudera's software, said a person with knowledge of the deal. Cloudera requested Intel pay more than double what those previous investors paid, saying it didn't need funding after its last round, according to a person with knowledge of the deal.

Later that month, Intel

agreed to buy \$371 million in stock from Cloudera and another \$371 million in stock from employees and investors Accel Partners and Greylock Partners. In May, when the deal closed, Intel paid \$30.92 a share, more than double what the venture investors had paid in the same funding round.

The bet wasn't a big cost for Intel, representing only about 5% of its roughly \$14 billion in cash and short-term investments.

But the investment could mean financial pain for Cloudera employees whose restricted stock units were priced at about \$26.16 in January 2015, after Intel's investment. Stock options were also issued to employees in March, but at an exercise price of \$17.85, above the \$15 IPO pricing. The share price rose about 21% to \$18.10 on the first day of trading, putting Cloudera's market value

at roughly \$2.3 billion.

Since Intel's investment, big-data software hasn't lived up to the hype, and analysts say Cloudera's revenue—up 57% to \$266 million last year—hasn't grown as quickly as expected.

Intel's investment helped secure its influence in the data-center market, which accounts for nearly 30% of the chip maker's revenue.

About 96% of the servers that shipped last year contained Intel chips, according to market watcher International Data Corp.

Partnerships like the one with Cloudera might also help Intel as it faces increasing competition from IBM, Advanced Micro Devices Inc. and companies like Qualcomm Inc. that make server chips based on technology from ARM Holdings PLC. They are all either trying to compete in the data-center market today or are making



Cloudera's Tom Reilly at the New York Stock Exchange on Friday.

plans to do so.

According to the IPO filing, Cloudera is designing its software to work best on Intel processors and architecture as a result of the Intel partnership—which gives companies an incentive to

use servers with Intel chips if they are running Cloudera's software. Cloudera also expects to make its chips work best on Intel technology in the future.

—Rolle Winkler contributed to this article.

BUSINESS NEWS

DRUGS

Continued from page B1
that while the company still self-funded most of its clinical trials, it was increasingly seeking to collaborate with external partners to "increase the potential of our innovation activities."

Drugmakers, facing declining returns on their research dollars, are using various strategies to supplement their fixed annual research-and-development budgets. These include striking up collaborations with one another to pool the costs and rewards of drug programs they consider especially risky or expensive. They also trim their own research investment by selling the rights to promising pipeline drugs that fall outside of their own areas of interest.

The drawback: sharing risk also involves sharing the rewards. Such collaborations involve the company in question agreeing to relinquish some of the drug's profit to its partners.

"R&D has periods of feast and famine," said Luciano Rossetti, head of global research and development at Merck KGaA. The German company recently reached a deal with



Fizer and other drugmakers have enlisted cost-sharing partners to help fund some clinical trials.

Avillion LLP, a London-based group set up in 2013 that finances and executes clinical trials for drugmakers. Under that deal, Avillion will bankroll and execute the Phase 2 and 3 development of an experimental psoriasis drug.

Dr. Rossetti said the deal meant Merck wouldn't have to abandon or delay the program at a time when other, late-stage research is "absorbing all internal [financial] resources and talent." Merck and Avillion didn't disclose the terms of the deal, but Dr. Ros-

setti said it involved Avillion taking on the development risk, mainly in return for royalties down the line.

For now, just a handful of clinical trials are bankrolled by outside investors. But Mr. Evans believes drugmakers should open the majority of their trials up to external bidders. Such a move, he says, would mean that only the highest-quality projects received funding and that the level of research investment could vary substantially from year to year.

Opening their entire pipelines to external scrutiny would mark a sharp departure from the industry's usual secrecy, especially in the most competitive areas. But as companies accept the benefits of collaboration in areas where they may lack funding or research expertise, those attitudes are changing, Dr. Rossetti said. "Many companies are willing to take a little risk of sharing information in order to get the right approach to fully leveraging their pipelines," he said.

Pembina said it expects to complete the acquisition late in

the third quarter or early in the fourth quarter of this year.

—Christopher M. Matthews and Austen Hufford

GREATS BRAND

Web Startup Plans To Open Stores

While many retailers are scrambling to close storefronts, one internet upstart is opening them—but for just a few months at a time.

Brooklyn-based Greats, an online sneaker brand founded in 2013, plans to open at least 10 locations over the next two years by signing short-term leases ranging from three months to one year.

"Given the store closures and changes in the industry, this is the best route for us," said Rachael Ulman, Greats Brand Inc.'s chief operating officer.

The brand, which sells sneakers ranging from \$50 to \$200, manufactures most products in Italy and markets them directly to consumers online. It has tested three temporary stores since 2014.

In March, the company received \$10 million in a funding round led by private-equity firm JH Partners.

—Khadeeja Safdar

The HNA logo, featuring the letters "HNA" in a bold, red, sans-serif font, with a stylized yellow swoosh graphic extending from the letter "A".

Always By Your Side

Large, three-dimensional, red and yellow 3D numbers spelling out "24". The background features a faint silhouette of the Eiffel Tower and the Sydney Opera House against a warm-toned sunset sky.

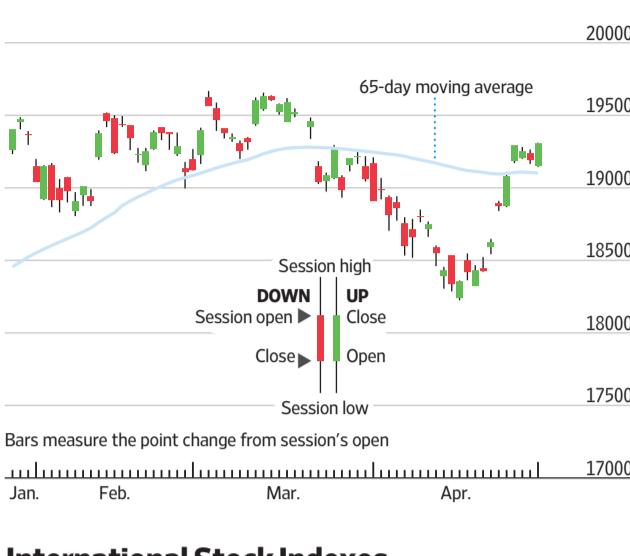
—HNA Group 24th Anniversary—

MARKETS DIGEST

Nikkei 225 Index

19310.52 ▲ 113.78, or 0.59%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Jan. Feb. Mar. Apr.

STOXX 600 Index

386.64 ▼ 0.45, or 0.12%

High, low, open and close for each trading day of the past three months.



Jan. Feb. Mar. Apr.

S&P 500 Index

2390.84 ▲ 6.64, or 0.28%

High, low, open and close for each trading day of the past three months.



Jan. Feb. Mar. Apr.

Data as of 12 p.m. New York time

Last 24.17 Year ago 24.12

Trailing P/E ratio * 24.17 P/E estimate 18.42 Dividend yield 1.97

All-time high: 2395.96, 03/01/17

* P/E data based on as-reported earnings from Birinyi Associates Inc.

International Stock Indexes

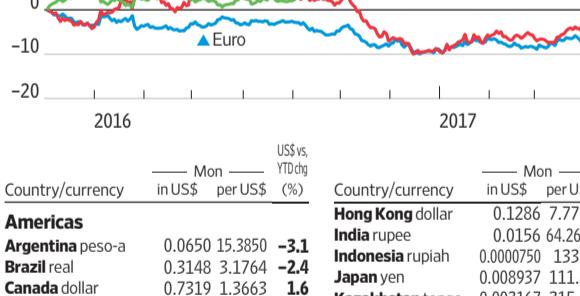
Data as of 12 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2734.51	4.40	▲ 0.16	2193.75	● 2741.83	8.2		
	MSCI EAFE	1836.43	2.73	▲ 0.15	1471.88	● 1956.39	7.0		
	MSCI EM USD	979.77	1.81	▲ 0.19	691.21	● 1044.05	23.4		
Americas	DJ Americas	575.36	1.61	▲ 0.28	480.90	● 577.99	6.5		
Brazil	Sao Paulo Bovespa	65403.25	...	Closed	48066.67	● 69487.58	8.6		
Canada	S&P/TSX Comp	15595.61	9.48	▲ 0.06	13535.54	● 15943.09	2.0		
Mexico	IPC All-Share	49261.33	...	Closed	43902.25	● 50147.04	7.9		
Chile	Santiago IPSA	3688.47	...	Closed	2998.64	● 3786.05	14.4		
U.S.	DJIA	20956.25	15.74	▲ 0.08	17063.08	● 21169.11	6.0		
	Nasdaq Composite	6085.22	37.61	▲ 0.62	4574.25	● 6085.22	13.0		
	S&P 500	2390.84	6.64	▲ 0.28	1991.68	● 2400.98	6.8		
	CBOE Volatility	10.41	-0.41	-3.79	9.97	● 10.41	26.72	25.9	
EMEA	Stoxx Europe 600	386.64	-0.45	-0.12	308.75	● 388.73	7.0		
	Stoxx Europe 50	3178.15	-4.65	-0.15	2626.52	● 3199.61	5.6		
France	CAC 40	5267.33	...	Closed	3955.98	● 5296.52	8.3		
Germany	DAX	12438.01	...	Closed	9214.10	● 12486.29	8.3		
Israel	Tel Aviv	1398.75	...	Closed	1372.23	● 1490.23	-4.9		
Italy	FTSE MIB	20609.16	...	Closed	15017.42	● 20883.66	7.1		
Netherlands	AEX	521.13	...	Closed	409.23	● 526.25	7.9		
Russia	RTS Index	1114.43	...	Closed	873.58	● 1196.99	-3.3		
Spain	IBEX 35	10715.80	...	Closed	7579.80	● 10828.80	14.6		
Switzerland	Swiss Market	8812.67	...	Closed	7475.54	● 8853.96	7.2		
South Africa	Johannesburg All Share	53817.31	...	Closed	48935.90	● 54704.22	6.2		
Turkey	BIST 100	94655.31	...	Closed	70426.16	● 95196.45	21.1		
U.K.	FTSE 100	7203.94	...	Closed	5788.74	● 7447.00	0.9		
Asia-Pacific	DJ Asia-Pacific TSM	1571.24	3.95	▲ 0.25	1308.52	● 1574.93	10.4		
Australia	S&P/ASX 200	5956.50	32.40	▲ 0.55	5103.30	● 5956.50	5.1		
China	Shanghai Composite	3154.66	...	Closed	2806.91	● 3288.97	1.6		
Hong Kong	Hang Seng	24615.13	...	Closed	19694.33	● 24698.48	11.9		
India	S&P BSE Sensex	29918.40	...	Closed	25101.73	● 30133.35	12.4		
Indonesia	Jakarta Composite	5685.30	...	Closed	4704.22	● 5726.53	7.3		
Japan	Nikkei Stock Avg	19310.52	113.78	▲ 0.59	14952.02	● 19633.75	1.0		
Malaysia	Kuala Lumpur Composite	1768.06	...	Closed	1614.90	● 1768.92	7.7		
New Zealand	S&P/NZX 50	7382.22	3.47	▲ 0.05	6664.21	● 7571.11	7.3		
Pakistan	KSE100	49300.90	...	Closed	34567.52	● 50192.36	3.1		
Philippines	PSEI	7661.01	...	Closed	6563.67	● 8102.30	12.0		
Singapore	Straits Times	3175.44	...	Closed	2729.85	● 3187.51	10.2		
South Korea	Kospi	2205.44	...	Closed	1925.24	● 2209.46	8.8		
Taiwan	Weighted	9872.00	...	Closed	8053.69	● 9972.49	6.7		
Thailand	SET	1566.32	...	Closed	1381.69	● 1591.00	1.5		

Source: SIX Financial Information/WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



2016 2017

US\$ vs. Mon. per US\$ YTD chg (%)

Country/currency

Mon. in US\$ per US\$ (%)

London close on May 1

US\$ vs. Mon. in US\$ per US\$ (%)

Country/currency

Mon. in US\$ per US\$ (%)

YTD chg (%)

Country/currency

Mon. in US\$ per US\$ (%)

YTD chg (%)

Country/currency

Mon. in US\$ per US\$ (%)

YTD chg (%)

Country/currency

Mon. in US\$ per US\$ (%)

YTD chg (%)

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Mon. in US\$ per US\$ (%)

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YTD chg (%)

Country/currency

Mon. in US\$ per US\$ (%)

YTD chg (%)

Country/currency

FINANCE & MARKETS

'Godfather of Smart Beta'

Rob Arnott has doubts about how some investors are using strategies he pioneered

BY AARON KURILOFF

The "godfather of smart beta" is having fresh doubts about how some on Wall Street are using the increasingly popular passive-investing strategies he pioneered.

Smart-beta funds, which try to beat standard index funds' returns by allocating money based on factors like companies' dividend payments, sales, or volatility, attracted record inflows of \$55 billion last year. According to BlackRock Inc., which operates several of the biggest smart-beta exchange-traded funds, they are headed toward \$1 trillion under management globally by 2020.

Rob Arnott, an early architect of such investing tactics, says these funds' popularity makes some of the strategies expensive, undermining what made them appealing in the first place.

In a paper published in April by Research Affiliates LLC, the investing firm he founded, Mr. Arnott questioned approaches including so-called momentum strategies, which buy stocks experiencing rapid price gains. The approach's benefits seldom exceed trading costs and fees, he said.

He has also built tools that he said will help investors determine which strategies are overpriced.

"You can't time markets," he said in an interview. "You



BRAD TORCHIA FOR THE WALL STREET JOURNAL

In a paper, Rob Arnott, founder of Research Affiliates, questions approaches including so-called momentum strategies.

can't pick tops and bottoms. But you can identify what's trading cheap relative to history and what's expensive."

His new research follows a critique of the strategies that began in February last year, in which he said a smart-beta crash was "reasonably likely."

The paper, titled "How Can 'Smart Beta' Go Horribly Wrong?", singled out low-volatility funds—which are typically designed to produce market-like returns with less risk—saying that a surge of money from performance-chasing investors had driven up valuations to unsustainable levels, reducing the pros-

pects for their future returns.

"Our own low-vol fund is expensive," Mr. Arnott said.

Asset managers including BlackRock and Invesco Ltd.'s PowerShares have said the strategy performs well over the longer term, and noted the assets account for only a fraction of the investing universe.

John Feyerer, director of equity ETF products at PowerShares, called his firm and Research Affiliates "kindred spirits," adding "we've been partners more than a decade, but that doesn't mean we're always going to agree."

Cliff Asness, the co-founder of AQR Capital Man-

agement LLC and another early designer of smart-beta strategies, has said the valuations do matter, but aren't the only thing that matters. In April, he wrote that Mr. Arnott's warnings consisted of "repeated breathless white papers" instead of "give-and-take debate."

Mr. Arnott's critique of smart beta started as an inquiry into why some of his own strategies had underperformed for two years and investors were instead buying newly expensive approaches, such as low-volatility funds.

Investors poured money into low-volatility funds for much of last year, then dumped them as stocks

surged to new records last autumn in what BNP Paribas SA research at the time described as "a brutal readjustment."

BlackRock's iShares Edge MSCI Minimum Volatility USA exchange-traded fund, the largest low-volatility ETF, rose roughly 13% from the beginning of 2016 through its peak for the year in July, outperforming the S&P 500's 6.4% advance, according to FactSet. It then fell 4.2% from its July peak through year-end, while the S&P 500 added 2.9%. The ETF is up 7% so far this year, compared with 6.5% for the S&P 500, through Friday.

Mr. Arnott's Research Affiliates manages almost no money. Instead, it designs products—such as mutual and exchange-traded funds—

for clients including Pacific Investment Management Co. and PowerShares. Licensing ideas and collecting fees for a living means they must offer those shops something their armies of researchers don't already provide, Mr. Arnott said.

Mr. Arnott, the son of a pastor, turned a love of computers, math and research into a globe-spanning investment advisory business.

His first target was the standard index fund. During the technology bust of the early 2000s, he was managing money at First Quadrant, cruising Pasadena, Calif., on vintage motorcycles and publishing dozens of papers on financial theory.

As the market tumbled, Mr. Arnott saw big index funds—which typically allocate money to companies based on their market capitalization—dragged down by losses from a few large companies. So he joined those proposing to break the link between market capitalization and portfolio weighting, relying instead on factors such as price, momentum, volatility, or combinations of factors.

Mr. Arnott's paper "Fundamental Indexation" laid the groundwork for Research Affiliates' Fundamental Index, or RAFI, series of funds with PowerShares.

Vanguard Group founder and indexing pioneer John C. Bogle called him "a brilliant academic" and "the greatest marketer I've ever met."

Japanese Equities Lead Asia Higher

BY SURYATAPA BHATTACHARYA

TOKYO—Japanese equities kicked off the week with an earnings-related boost, leading gains in the Asia-Pacific region, though many markets were shut for a holiday.

MONDAY'S MARKETS Analysts expect uncertainty ahead of the French presidential runoff election on May 7 to limit any gains this week, with many investors likely to stay on the sidelines.

The Nikkei Stock Average ended 0.6% higher on the first of two trading days this week; markets will break for a holiday Wednesday through Friday. Many other Asian, and most European markets, were closed Monday for the Labor Day holiday.

In the U.S., the Dow Jones Industrial Average gained 12 points, or 0.1%, to 20952 by early afternoon. The S&P 500 rose 0.3% and the Nasdaq Composite climbed 0.6%.

The "basic story today is that earnings are quite good and political uncertainty is lowering," said Masayuki Kubota, chief strategist at online brokerage **Rakuten Securities**.

Tokyo Electron, a maker of chip-production equipment, surged 13% to a six-year high after the company reported a 48% jump in net profit, while **NTT Data** surged 5.8% after the systems integrator projected stronger revenue and profits, both for the year ended in March. Electronics maker Fujitsu jumped 8.4% to a two-year high after it projected a 64% increase in net profit for the fiscal year.

Elsewhere in the region, a seventh consecutive session of gains took the Australian market to a two-year closing high, as the major banks led broad gains ahead of earnings season. The S&P/ASX 200 closed up 0.6%.

Australia & New Zealand Banking, whose first-half numbers are due before the market opens Tuesday, gained 0.6%. Macquarie Group closed up 1.2%, and Westpac Banking, set to report next week, rose 0.7%.

"Investors are anticipating solid results supported by low bad-debt provisions and cost control," said Ric Spooner, chief market analyst at CMC Markets. "Yield investors continue to see banks as a relatively stable income proposition."

—Robb M. Stewart contributed to this article.

FINANCE WATCH

FINANCIAL TECHNOLOGY

Australian Startup Raises Funds

An Australian startup offering payment-settlement services has secured funding to expand internationally from investors including the Chinese affiliate of Sequoia Capital, one of Silicon Valley's biggest venture-capital firms.

Melbourne-based **Airwallex** Pty. Ltd. said it raised US\$13 million, with **Sequoia Capital China**, Chinese internet firm **Tencent Holdings** Ltd. and **Mastercard** Inc. joining in.

Airwallex is rolling out a foreign-exchange payment network. Founded in December 2015, the company said its order-management system uses algorithms and machine learning to determine how a payment should be executed, taking into account time, priority and available routes in its calculation to increase speed. Able to support thousands of transactions a second, Airwallex offers to integrate companies such as shopping

websites in other countries into its network to support their payments, allowing customers in Australia the ability to secure goods for the price advertised at the time of searching, despite currency fluctuations.

—Robb M. Stewart

CRUDE OIL

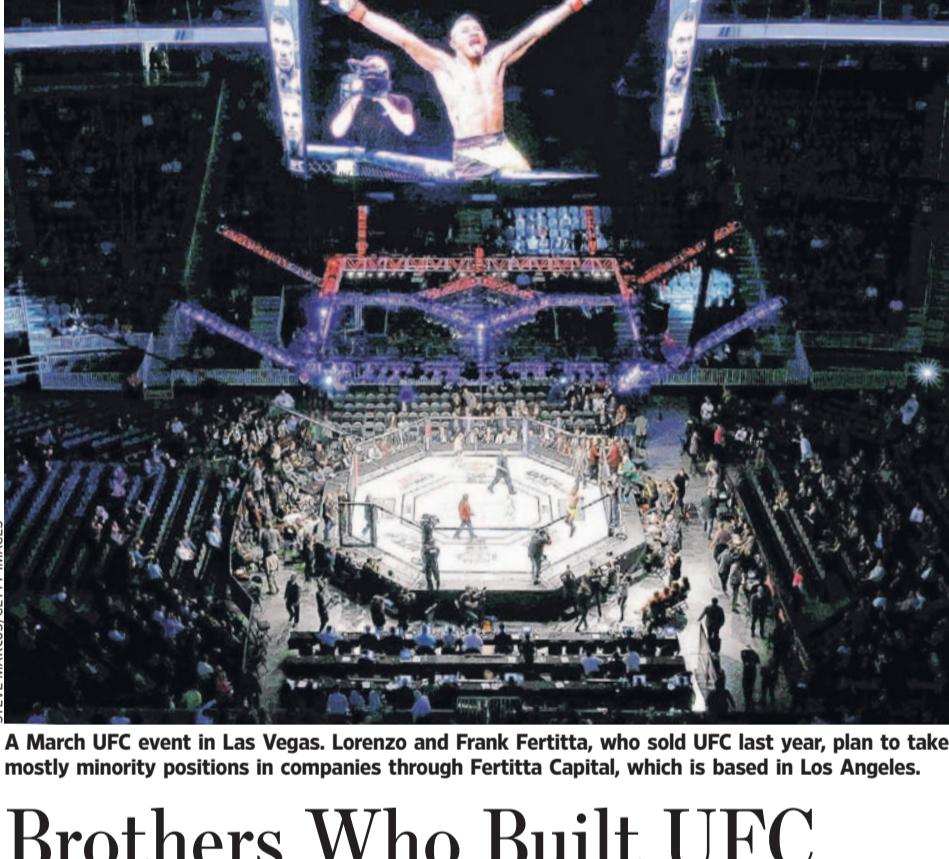
Saudi Arabia Cuts Prices for Asia

Saudi Arabia, the world's largest crude exporter, has cut its official prices for its oil sales to Asia in June.

The price of Arab Light crude was cut by 40 cents a barrel, Arab Super Light by 70 cents and Arab Extra Light by 60 cents from the previous month, the **Saudi Arabian Oil** Co. said in an emailed statement.

The move follows a fall in the price of Dubai crude, a Middle Eastern benchmark that is a key factor in the Saudi calculations, due to ample supplies in Asia.

Prices were increased for all grades of crude sold to the U.S. and Europe. —Summer Said



A March UFC event in Las Vegas. Lorenzo and Frank Fertitta, who sold UFC last year, plan to take mostly minority positions in companies through Fertitta Capital, which is based in Los Angeles.

Brothers Who Built UFC Launch an Investment Firm

BY JULIET CHUNG

The Las Vegas-based brothers who built mixed martial-arts company UFC into a \$4 billion enterprise are using some of that money to start a direct-investing firm.

Lorenzo and Frank Fertitta, who sold UFC to a Hollywood talent agency and other investors last year for roughly \$4 billion, have started **Fertitta Capital** with \$500 million in its coffers. It plans to invest directly in consumer-facing companies in technology, media and entertainment, executives said.

The Fertittas join a growing number of families looking to do private-equity-style deals through their family offices—largely unregulated firms set up to manage the fortunes of the ultrawealthy—or similar ventures.

"It was, 'We've sold the UFC, we've got some liquidity, what do we do next?'" said Lorenzo Fertitta, chairman of Fertitta Capital.

He said the creation of a direct-investing firm helps to fill a void in the market: long-term, flexible capital. Mr. Fertitta, 48 years old, said his dissatisfaction with his courtship by would-be buyers earlier in UFC's history sparked the thought.

"My mind-set wasn't on an exit or a public company. It

was on who can help provide an operational road map" to building a casino of his own that catered to locals. That casino became the foundation of what eventually became casino operator Red Rock Resorts Inc., which went public last year. Frank Fertitta is its chief executive; much of the payout from the IPO also went to the Fertitta family.

Also last year, the brothers sold casino-management company Fertitta Entertainment Inc. as part of Red Rock's IPO.

The brothers bought UFC for \$2 million in 2001, turning fights once decried by lawmakers into mainstream entertainment.

The WME-IMG Hollywood talent agency bought UFC for about \$4 billion with Silver Lake, KKR & Co., with Michael Dell's family office, MSD Capital, and MSD Partners providing financing.

That type of return may be a once-in-a-lifetime event, Lorenzo Fertitta said. He sits on Fertitta Capital's investment committee with Mr. Bidarian and Frank Fertitta. Lorenzo will be involved with the firm, while Frank remains focused on Red Rock.

Executives said they are talking with management teams in the fitness, food and beverage sectors, among others.

—Anupreeta Das

contributed to this article.

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FUND NAME GF AT LB DATE CR NAV YTD %RETURN—

FUND NAME GF AT LB DATE CR NAV YTD %RETURN—

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: www.cam.com.sg CAM-CF Limited OT MUS 04/27 USD 31.0167.83 2.7 7.3 -5.0

FUND NAME GF AT LB DATE CR NAV YTD %RETURN—

VP Class-B Units AS EQ HKG 04/27 USD 121.51 14.8 22.9 -6.7

VP Class-C Units AS EQ HKG 04/27 USD 16.60 14.9 23.1 -6.1

VP Class-C-Units AUD H AS EQ HKG 04/27 AUD 13.70 14.7 -7.2

VP Class-C-Units CAD H AS EQ HKG 04/27 CAD 13.27 14.6 22.4 -7.6

VP Class-C-Units HKD H AS EQ HKG 04/27 HKD 11.26 14.3 21.7 -5.1

VP Class-C-Units NZD H AS EQ HKG 04/27 NZD 13.77 14.2 23.1 27.7

VP Class-C-Units RMB H AS EQ HKG 04/27 CNY 11.63 11.6 27.7 NS

VP Class-C-Units RMB H AS EQ HKG 04/27 CNY 11.24 17.0 26.0 NS

VP Multi-Asset Fund Cls A HKD OT OT HKG 04/27 HKD 10.21 6.1 NS NS

VP Multi-Asset Fund Cls A USD OT OT HKG 04/27 USD 10.33 5.7 7.7 NS

VP Multi-Asset Fund Cls A USD OT OT HKG 04/27 USD 18.81 12.3 26.8 5.8

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THE WALL STREET JOURNAL.

MARKETS

THE DAILY SHOT | By Lev Borodovsky

Why Stocks and Bonds Are Both Rallying: The Goldilocks Jobs Market

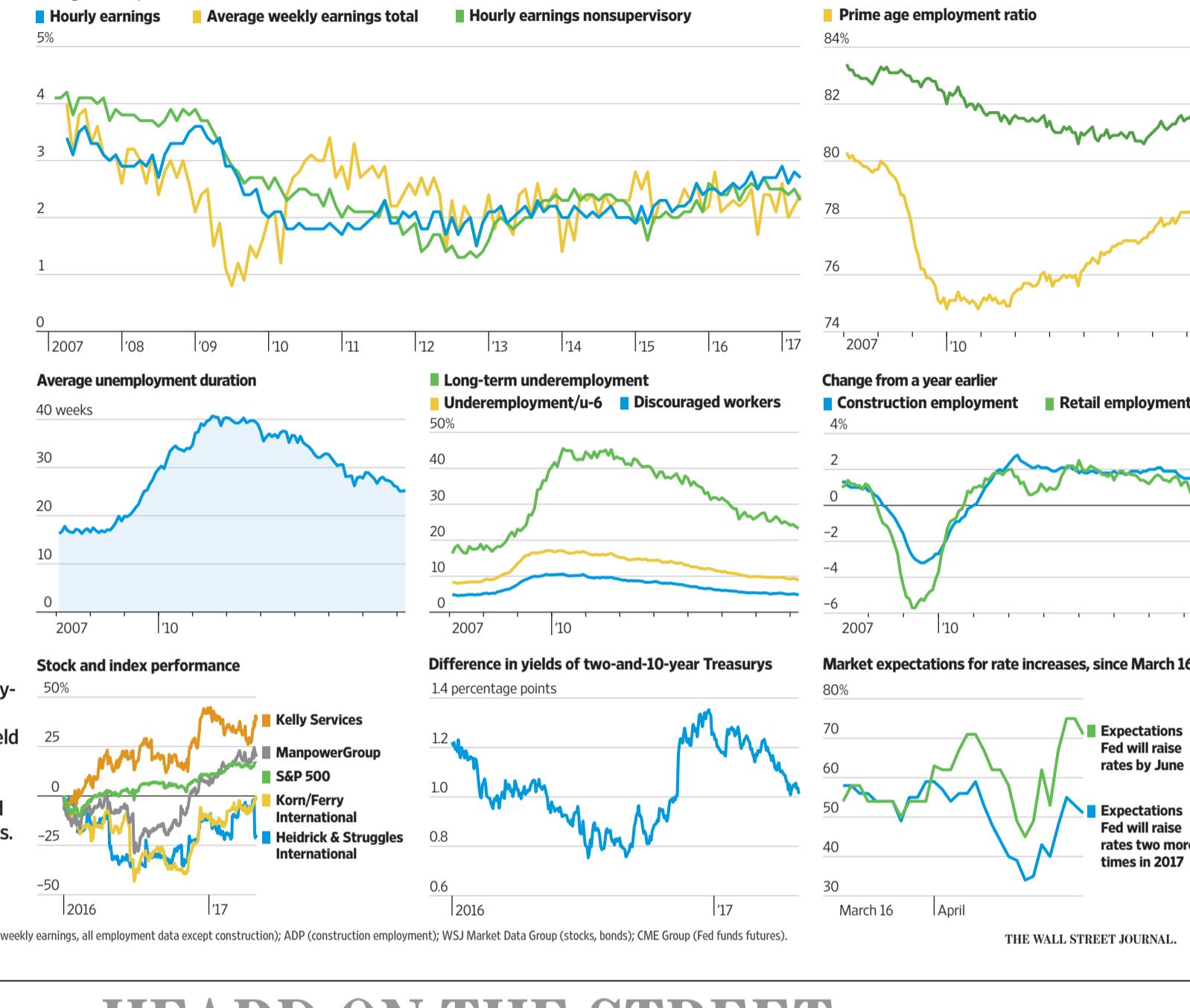
The tepid expansion that has fueled solid 2017 rallies in both stocks and bonds will be on display again with Friday's U.S. jobs report. Employment measures have firmed, but a labor-market liftoff remains elusive. The Federal Reserve is widely expected to extend its tightening cycle in June, but many investors fear momentum is slowing.

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Wages have ticked up, both for managers and in the broader labor force, but the scale of gains pales in comparison to previous economic expansions.

Broad employment gauges have improved markedly, reducing slack. But gains have flattened and dark spots have emerged, particularly in retail, where job growth is collapsing.

The mixed share performance of outplacement and temporary employment firms highlights tough competition. Still, the yield curve remains off its flattest levels of the past year, likely pointing to healthy banks, solid growth and more rate increases.



Sources: Federal Reserve Bank of St. Louis (hourly and weekly earnings, all employment data except construction); ADP (construction employment); WSJ Market Data Group (stocks, bonds); CME Group (Fed funds futures).

THE WALL STREET JOURNAL.

HEARD ON THE STREET

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China Looks to Export Auto Overcapacity

Beware, global auto makers: China is getting ready to flood the world with cars.

Last week, a number of Chinese ministries and the National Development and Reform Commission jointly announced long-term plans for the industry. Among the goals: higher developed-market sales and market share.

Lofty goals are understandable. The report said autos and related industries bring 10% of the nation's tax revenue and account for 10% of all jobs. And the industry has capacity to spare. Utilization rates vary widely but range from 60% to 80%. Meanwhile, production continues to rise.

China pumps out 28 million cars a year—compared with 17 million from the U.S. But it probably doesn't have the consumer demand to absorb those vehicles. Buyer tax incentives have given sales a periodic boost, but that just brings demand forward. The government trimmed incentives last year,

Tough Sell

China's annual exports of motor vehicles and chassis



A truck factory in Anhui province

causing sales growth to fall by two-thirds through April.

Overcapacity is reflected further by the dozens of car makers in existence, many of which are propped up by local governments that are loath to part with these job generators. Consolidation, a more obvious way to improve the industry, doesn't seem to be a priority.

If there is one thing China

knows how to do well, it is export. So why not export its auto overcapacity, as it does with solar panels, steel and glass? China has made inroads in exporting to other emerging markets, where it isn't dinged for its lower-quality vehicles. China exports 2% to 3% of all automobile production on a monthly basis to places like Iran, which accounts for

about half a million vehicles a year, though growth in this area has stalled in recent years.

Getting into developed markets like Japan, the U.S. and Europe will prove more challenging, given quality constraints. The antiglobalist tone taken by President Donald Trump and others would also seem to be an obstacle, unless China maneuvers its

cars in through trade pacts.

Yet that doesn't mean global car makers shouldn't view China as a threat. Global auto demand in terms of sales outside China is set to grow just 0.6% this year, according to Nomura estimates. Any attempt by Chinese producers to focus on the commoditized industry could put pressure on prices, even if they don't succeed at becoming major players.

The more likely outcome is that China continues to push into emerging markets. This would be troubling for emerging-market experts such as Renault and Hyundai and local brands like India's Tata or Maruti.

Global car makers will have to contend with the sheer force of Chinese production volumes. Beijing is targeting 30 million cars a year over the next three years and 35 million by 2025, according to the government's plan. That is a lot for the world to absorb.

—Anjani Trivedi

An Inflation Surprise in Eurozone

Can the eurozone take up the reflation baton? Inflation data for April, released Friday, were surprisingly strong. This could shake the perception that eurozone inflation is going nowhere.

Headline eurozone inflation rose to 1.9% in April from 1.5% in March, according to Eurostat, matching the European Central Bank's inflation target. The real surprise, however, was in underlying core inflation—which excludes food, energy, alcohol and tobacco. That rose from 0.7% to 1.2%, its highest reading since 2013. For once, eurozone inflation wasn't just about energy prices.

A good chunk of this jump is due to the timing of Easter, which fell in March last year but was in April this year, creating base effects for prices related to tourism, transport and recreation. Inflation was therefore expected to rise in April. But crucially, the increase was bigger than expected. The FactSet consensus forecast for core inflation was 1%.

Moreover, broader measures of eurozone inflation have been beating economists' expectations for six months now, according to Citigroup's inflation surprise index. The consistent surprises tell a story of their own. They should start to change expectations. That is what the ECB really wants to see in its battle to restore headline inflation sustainably to a rate of below but close to 2%.

April's inflation data thus raise the stakes for coming months. Europe isn't playing out according to the script for this year. Political shocks are notable for their absence, while economic surprises are continuing to be pleasant. That is a potentially powerful combination for investors.

—Richard Barley

Qualcomm Gets Pelted by Apple's Move

For two companies in the phone business, **Qualcomm** and **Apple** didn't communicate very well.

A week ago, Qualcomm left out of its fiscal third-quarter forecast the possibility that Apple, a huge customer, would withhold more royalty payments while the two were battling in court. On Friday, Qualcomm said it was later informed by Apple that it effectively would withhold the payments by not paying its manufacturers for Qualcomm's royalties.

This adds up to a 22% reduction in earnings per share for the June quarter. Having formally recognized its worst-case scenario, Qualcomm's main challenge now will be convincing investors there is nowhere to go but up.

Apple's move should have come as no surprise. Apple has a strong interest in lowering its costs and protecting its high iPhone margins. And its financial contribution to Qualcomm is substantial—giving it a lot of near-term leverage to bring to bear.

Note that Qualcomm reduced its June quarter revenue forecast by \$500 million, which would be based on Apple devices sold during the March quarter. IDC estimates that Apple sold 51.6 million iPhones during the period.

That works out to a bit under \$10 per iPhone.

It also indicates Apple is responsible for a little over one-quarter of Qualcomm's entire royalty business, which in turn accounts for the vast majority of the company's op-

erating profit. The midpoint of Qualcomm's adjusted per-share earnings forecast for the June quarter came down by 22% versus a 9% reduction in its revenue outlook. Stacy Rasgon of Bernstein estimates Apple accounts for more than \$1 of Qualcomm's annual per-share earnings. Last year Qualcomm made \$4.44 in adjusted earnings per share.

The gamble now—even with Qualcomm's stock near a 52-week low—is that things can't get worse. But these cases are highly unpredictable, and can take years to resolve. And the timing on Qualcomm completing its merger with NXP is also uncertain.

Apple has shown it can bite hard. Qualcomm will need to show it can bite back.

—Dan Gallagher

OVERHEARD

In the hometown of Android, a man wanted to show that humans are still top of the heap. He appears to have failed.

Encountering a 300-pound crime-fighting robot called K5 in a parking lot in the Silicon Valley town of Mountain View, Calif., home to Google's Android operating system, the inebriated 41-year-old knocked it down and was later arrested by police. The robot escaped with scratches and is back on the job.

Was it the alcohol that led the alleged assailant to topple the harmless, spinning, whistling machine made by **Knight-scope**? Even if he didn't have a clue about the proximity sensors, he must have known that

it was taking video.

Perhaps he did and was just angry at the company for an earlier incident, when one of the company's robots, an earlier model, ran over a toddler's foot at a shopping mall.

He may just have been worried about his job. Robots could take over 38% of U.S. jobs by the 2030s, according to a study by consulting firm PwC. One of the industries most at risk is food service, and the incident occurred near a branch of Taco Bell. Or he may have been a truck driver—among the professions that will be the first to lose their jobs to our future robot overlords, according to PwC. Yet another possibility is that he is a former security guard.