

WORLD NEWS

Beijing's New World Order Has a Guest List



gross domestic product.

Singapore and other nations are meant to understand that a new 21st-century order is emerging—a China-centric one. "Only vast lands can cradle great powers," write Chinese geographers Du Debin and Ma Yahua.

Chinese propagandists hawk the "One Belt, One Road" plan as a cooperative enterprise—a "community of common destiny" is Mr. Xi's lofty mantra.

For all that, it's a power play. Beijing wants its neighbors, especially U.S. friends and allies, to know they have a with-us-or-against-us choice to make. An envoy from South Korea, hit with punitive Chinese trade sanctions over its deployment of a U.S. antimissile system, popped up on the belt-and-road guest list at the last minute, after the country elected a president whom Beijing favors.

China's Communist leadership seems utterly convinced that the axis of global power is shifting from the Atlantic to the vast Eurasian landmass, and it's just a matter of time before Central Asia will once again become the crossroads of the world.

Mr. Xi is anxious to speed history's turn. Donald Trump has become an unlikely abettor. If One Belt, One Road signals that a confident China is "changing from an adapter to a driver of globalization," as

the former Morgan Stanley chief economist Stephen S. Roach asserts, then it is Beijing's good fortune to have a U.S. president pressing an "America First" agenda.

As Mr. Trump's first visit to Europe last week underscored, the U.S. alliance system is under stress on both ends of a Eurasian continent that China seeks to dominate.

From Beijing's point of view, it's only natural that rewards from the trillion-dollar-plus One Belt, One Road project will flow to governments that support its



Honor guards prepared to welcome Hungarian Premier Viktor Orban to the Beijing forum this month.

alization that would dramatically extend the Chinese model of state capitalism. The environmental impact of the Chinese construction projects is one concern. Transparency is another.

In her book "China's Eurasian Century?," Nadège Roland, a senior fellow at the U.S.-based National Bureau of Asian Research, writes that One Belt, One Road is "principally designed to serve national interests."

She imagines what a continent dominated by China might look like: Chinese-built high-speed trains and fiber-optic cables shrinking its vast distances, but also, not implausibly, an internet firewall thrusting all the way to Europe.

Independent-thinking countries on the Chinese periphery find themselves in a jam, none more so perhaps than Singapore. The bustling entrepot stands to gain disproportionately from expanded trade under One Belt, One Road, and it has much to contribute.

Yet its uppityness toward Beijing may end up limiting its prospects. While Chinese Foreign Minister Wang Yi insists that One Belt, One Road

"is not China's solo, but a symphony," the most enthusiastic players are the region's like-minded authoritarians.

At Beijing's summit, it was Vladimir Putin who picked up the musical theme with a rendition of "Moscow Windows" on a grand piano.

way China employs its immense financial resources to increase its regional influence at America's expense.

Infrastructure has always been about power projection.

The string of Chinese-funded ports and industrial parks stretching from the Indian Ocean to the Mediterranean could just as quickly be adapted to accommodate Chinese aircraft carriers and expeditionary forces.

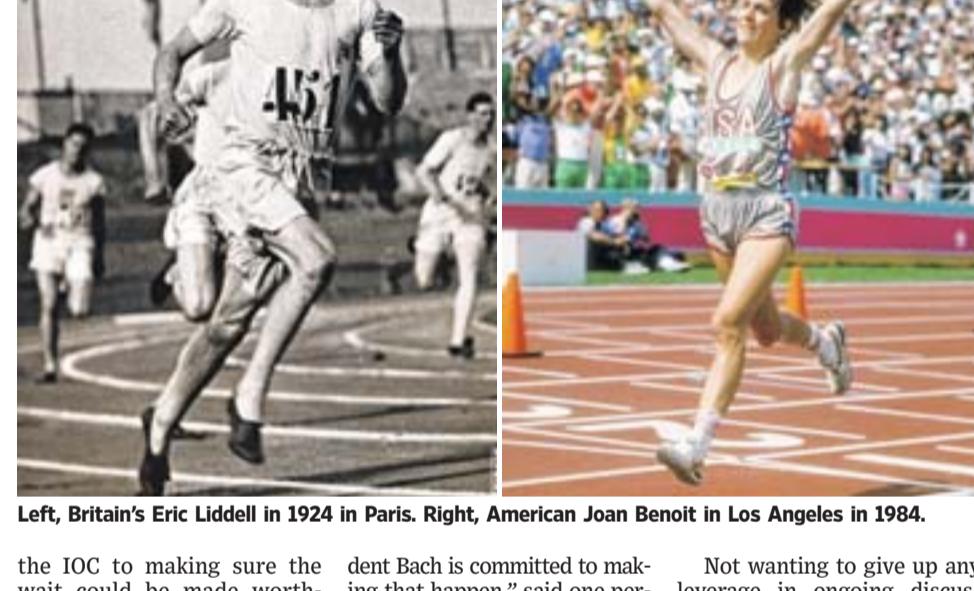
Europeans in particular are unsettled by a vision of glob-

said that city's organizers have "always been clear that our bid is for the right to host the Olympic and Paralympic Games in 2024. We have built our campaign and total public and political support with this aim."

The IOC executive board meets on June 9 in Switzerland and is expected to ratify a proposal to award both the 2024 and 2028 Olympics simultaneously. The full IOC then has to vote on such a shift in procedures.

Paris officials say focusing on 2024 has become something of a necessity because key elements of the bid may not be available four years later. The Paris bid relies on billions in public funding that could disappear if the city doesn't win the 2024 Games.

For Los Angeles, waiting until 2028 would provide more time for a series of major public infrastructure projects in Southern California. Those include the renovation of Los Angeles International Airport and construction of new rail lines. One other advantage of waiting until 2028: It virtually guarantees that President Donald Trump, who has been supportive of the bid but is unpopular overseas within the IOC membership, will no longer be in office.



Left, Britain's Eric Liddell in 1924 in Paris. Right, American Joan Benoit in Los Angeles in 1984.

GEORGE RIEHART/CORBIS/GETTY IMAGES; TONY DUFFY/GETTY IMAGES

strokes to a solution that IOC President Thomas Bach has been pushing the parties toward over the past year.

For the IOC, the deal would lock up two of the world's leading cities to host coming Summer Games after a tumultuous 2016 in Rio de Janeiro forced the organization to rethink its commitment to holding the event in developing countries. Some major international cities have also shied away from hosting Olympics because they are expensive and thus politically unpopular.

A Summer Games in Paris would mark the 100th anniversary of the last time the City of Lights hosted the event, in 1924. Los Angeles last hosted in 1984.

According to the people involved, the tide toward a 24/28 deal—as it has become known to Olympic insiders—gained momentum in recent months after Mr. Bach held separate private conversations with Los Angeles Mayor Eric Garcetti and USOC chairman Larry Probst, who has become an influential IOC member over the past four years.

Mr. Bach made it clear to both that it was extremely important to him that Los Angeles allow the deal to move forward, while he also committed

the IOC to making sure the wait could be made worthwhile for the USOC and Los Angeles.

The U.S., whose corporations account for the largest sources of IOC revenues through television contracts and sponsorships, hasn't played host to the Summer Games since Atlanta in 1996.

"Everyone agrees that no

can emerge from this process feeling like a loser, and Presi-

dent Bach is committed to making that happen," said one person involved in the discussions.

Speaking at a news conference in San Marino on Tuesday, Mr. Bach said the IOC was thrilled with the choices for 2024, "but we would not be in sport if we did not at least explore how to even improve the situation—to make it even better by a potential double allocation."

Not wanting to give up any leverage in ongoing discussions, representatives for the Paris and Los Angeles bids continue to insist publicly the campaign is still only about 2024.

"The U.S. Olympic Committee is totally focused on bringing the Olympic Games back to United States in 2024," said Patrick Sandusky, chief spokesman for the USOC.

A spokesman for Paris 2024

said that city's organizers have "always been clear that our bid is for the right to host the Olympic and Paralympic Games in 2024. We have built our campaign and total public and political support with this aim."

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ager Daniel Loeb, people familiar with the matter said. He also attracted a small crowd of onlookers on the Bellagio casino floor while gambling at a craps table, these people said.

The last time he attended the confab was in 2011, two years before SAC's guilty plea.

—Jenny Strasburg contributed to this article.

COHEN

Continued from Page One
than he ever managed before would be a show of resilience for the Wall Street veteran after years of legal fights.

SAC pleaded guilty to insider trading in 2013 and paid \$1.8 billion in penalties. Mr. Cohen was investigated extensively, but a criminal probe closed without any charges. He faced civil Securities and Exchange Commission allegations of failing to supervise employees involved in insider trading, and the SEC sought to have him

barred for life from the industry, The Wall Street Journal previously reported. A civil settlement Mr. Cohen reached with regulators instead restricted him from serving as the supervisor of a registered fund until 2018. He didn't admit or deny wrongdoing as part of the civil settlement.

Mr. Cohen, 60 years old, has been overseeing his \$11 billion family fortune at Point72 Asset Management LP, a 1,000-employee operation in SAC's former Stamford, Conn., offices. While Point72 has made money since becoming a family office, last year its overall investment performance was roughly flat, Mr.

Cohen's second-worst ever annual showing, people familiar with the matter said. Most or all of the \$11 billion managed by Point72 would become part of Mr. Cohen's new hedge-fund operation, according to people familiar with his plans.

To get above the target of \$20 billion, according to these people, Mr. Cohen is prepared to lower his once legendary high fees. SAC at one time commanded some of the highest fees in the hedge-fund world—as steep as a 3% annual management fee and 50% cut of all trading profits.

But his new firm is likely to launch with a so-called pass-through arrangement, a relatively uncommon structure under which recurring expenses are paid directly by investors instead of the fund firm, people familiar with the plans said. The performance fee, or cut of trading profits, is likely to fluctuate. The highest charges would be levied only when the firm has a banner stretch of investment gains, some of the people said. SAC, along with most of its peers, charged the same percentage fees on any positive investment performance.

Discussions around the new operation are continuing and may change. Several investors said they would contribute money to the new operation.

Mr. Cohen, the son of a dress manufacturer and piano

teacher, started SAC Capital with \$25 million in 1992. He earned a reputation for taking advantage of short-term stock moves, success that made the firm long a target of law-enforcement authorities. Government investigators eventually convicted eight of the firm's onetime employees on criminal charges. Two of the convictions were later overturned. The developments helped pave the way for Mr. Cohen's SEC settlement in 2016.

Mr. Cohen is forging ahead during a time of distinct challenges for the hedge-fund industry, which in 2016 suffered its highest withdrawals since the last financial crisis. Investors pulled \$70.1 billion, according to industry research firm HFR, the most since 2009.

Over the past year, Mr. Cohen and his representatives have taken steps to prepare for his possible return to the hedge-fund world. In 2016, Mr. Cohen formed a nearby separate company, Stamford Harbor Capital, run by one of his longtime deputies. Because Mr. Cohen has no direct management role in Stamford Harbor, according to filings, the firm is permitted to make preparations to start a hedge fund that could later be rolled into Point72. The terms of Mr. Cohen's SEC settlement don't allow him to supervise any funds that manage outside money until next year.

Stamford Harbor in recent

months has been recruiting investor-relations staff to liaise with outside investors, as Mr. Cohen's advisers weigh whether to use the firm to start a fund, people close to him say.

In January, Mr. Cohen appeared at a New York gala to benefit Lincoln Center before a crowd of other industry executives and hedge-fund investors. On the dais, Ilana Weinstein, a headhunter and friend of Mr. Cohen, teased him about a lack of interests outside of investing. "What artistic talents exist?" she asked. He responded, "I'm pretty sure nothing."

Then earlier this month, Mr. Cohen, a pair of Point72 internal recruiters and his chief of staff flew on his private jet to Las Vegas for a series of appearances at the hedge-fund conference SALT, according to people familiar with the matter.

He hosted a private dinner for staff and industry executives and attended closed-door events with speakers and sponsors including onetime rivals such as hedge-fund man-

ager Daniel Loeb, people familiar with the matter said. He also attracted a small crowd of onlookers on the Bellagio casino floor while gambling at a craps table, these people said.

The last time he attended the confab was in 2011, two years before SAC's guilty plea.

—Jenny Strasburg contributed to this article.

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Steven A. Cohen, center, at a 2013 charity event in New York

AMANDA GORDON/BLOOMBERG NEWS

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WORLD NEWS

Car Bombings Kill Dozens in Baghdad

Attacks come days after Iraqi military steps up campaign against Islamic State

BY GHASSAN ADNAN
AND BEN KESLING

BAGHDAD—Two car bombings in the Iraqi capital early Tuesday killed at least two dozen people and injured 60 others, Iraqi officials said, in attacks that targeted families during the holy month of Ramadan.

Islamic State claimed responsibility for a blast outside a popular ice-cream shop in Baghdad just after midnight that Iraqi officials said killed at least 14 people and injured 30 others. The Sunni extremist group said it sought to kill Shiites in the Karrada neighborhood, which has been targeted by major bombings in the past.

In a separate attack, hours after the ice-cream shop explosion, a car bomb was detonated outside the main pension office in Baghdad, killing at least 10 people and injuring around 30, Iraqi officials said. No group claimed responsibility for the bombing.

The attacks came days after the Iraqi military began another phase of the campaign against Islamic State militants in the northern Iraqi city of Mosul after months of brutal house-to-house combat.



SARAH ARRABY/AGENCE FRANCE PRESSE/GTY IMAGES

People gathered at the site of a car explosion near Baghdad's Al-Shuhada Bridge on Tuesday, one of two deadly attacks that day.

"The Daesh terrorist group attacks people during Ramadan days, this is evidence of how evil this group is," Interior Minister Qassim al-Araji said, using another name for Islamic State. "Everything has a price and this is the price of freedom," he said.

The holy month of Ramadan is a time of prayer and spiritual reflection for many Muslims, who fast during daylight hours. Some extremist groups such as Islamic State, however, claim killing enemies is noble and more worthy during the period.

Iraqis usually spend time with family and friends during Ramadan, often crowding restaurants and cafes late into the night after breaking their fasts.

The Faqima ice-cream shop is a popular destination for families and couples in the

Iraqi capital.

Unconfirmed social-media posts in the aftermath of the bombing showed children weeping as they wandered through flaming rubble. Blood-stained sidewalks outside the shop were littered with pink ice-cream cups dropped in the

melee.

"ISIS terrorists tonight in Baghdad target children & families enjoying time together at an ice cream shop," Brett McGurk, the U.S. envoy for the coalition fighting Islamic State said in a tweet soon after the bombing. "We stand w/Iraq against this evil."

High-profile bombings like the ice-cream parlor attack are interspersed with other, smaller blasts that happen almost daily in Baghdad. They are a reminder of Islamic State's ability to terrorize people in enclaves of the nation's capital that were thought to be protected.

In July 2016, Islamic State claimed a truck bombing that killed more than 300 people in the Karrada neighborhood, many of them trapped by fire in a shopping mall as they prepared for celebrations marking the end of Ramadan. The huge blast, which took place before the launch of the offensive against Islamic State to push them from their Iraqi stronghold of Mosul, had raised questions about security inside the Iraqi capital.

Though they have all but lost Mosul, Islamic State still controls pockets of territory in the country, including some smaller towns.

After Mosul is retaken, the Iraqi military and Kurdish Peshmerga fighters are expected to turn to those areas to drive the militant group from Iraq.

One Family's High Price In Egypt Attack: 7 Dead

BY DAHLIA KHOLAIF

ple killed.

"We came to get blessings and rejoice with our children," Mrs. Morkous, who lives in Tinley Park, Ill., said of the trip to the ancient St. Samuel Monastery.

"It was like the world flipped upside down around us," she said of the attack.

The couple were on their first trip to Egypt in nearly two years, after immigrating to the U.S. several years ago.

Mr. Morkous had successfully recovered from lung surgery and recently became a naturalized American citizen.

He worked at a nephew's hair salon in Country Club Hills, Ill., said Reverend Samuel Azmy, his priest at the St. George Coptic Orthodox Church. Mrs. Morkous, who is 56, holds a green card.

The ambush in Minya province, about 190 miles south of Cairo, was the deadliest terrorist attack ever on Egypt's Coptic Christian minority.

It marked the latest in a series of Islamic State attacks on Copts since December, includ-

ing three bombings of Coptic churches that killed 70 people.

Egyptian President Abdel Fattah Al Sisi, facing increasing criticism from Copts who say he has failed to protect them, ordered rare cross-border airstrikes on militant camps in Libya in the wake of the attack.

The strikes were aimed at the Libyan city of Derna. Forces headed by a Sisi ally, Gen. Khalifa Haftar, say the city is home to armed groups linked to al Qaeda, but not Islamic State, which was driven out in 2015.

On Tuesday, the Libyan National Army said it had set up an operations room to coordinate airstrikes with Egypt. Spokesmen for both militaries declined to give more detail on the arrangement, including whether Egypt had launched any additional airstrikes after the initial round.

A spokesman for Mr. Sisi also didn't respond to messages and calls seeking comment. Mr. Sisi, in a televised speech following the Friday

attack, said the gunmen had trained in unspecified militant camps in Libya.

Visitors to Mrs. Morkous's hospital room kissed her hand, asking for her blessings and offering condolences. They told her that her family members were in a better place and marveled at an interview she gave to a local television station in which she said she is praying for the murderers.

She recalled the attack in a low voice and short sentences punctuated by deep breaths. "There was heavy gunfire," she said.

In an effort to save a relative who had a gun pointed at him, Mrs. Morkous said she removed her gold jewelry and handed it to a gunman. He shot her family member anyway.

"May the Lord forgive

them," she said.

A family friend, Samuel Mokhtar, said Mrs. Morkous will return to the U.S. only if her daughters-in-law whose husbands were killed and her grandchildren who lost their fathers accompany her.

"She won't leave them behind," he said.

—Tamer El-Ghobashy and Shibani Mahtani contributed to this article.



Coptic priests at Egypt's St. Samuel Monastery on Saturday, a day after gunmen attacked pilgrims.

WORLD WATCH

CZECH REPUBLIC

Hacking Suspect May Be Extradited

A court ruled that a Russian man who faces charges of hacking computers at U.S. companies can be extradited to the U.S. or Russia.

Czech authorities arrested Yevgeniy Nikulin on Oct. 5 in Prague in cooperation with the Federal Bureau of Investigation after Interpol issued an international warrant. He is accused of hacking computers and stealing information from LinkedIn, Dropbox and other companies.

Moscow also wants him extradited on a separate charge of internet theft in 2009. Russian officials previously said they were working to prevent his extradition to the U.S.

Judge Jaroslav Pytloun ruled Tuesday that the extradition requests from both countries meet all necessary legal conditions. Mr. Nikulin immediately appealed his extradition to the U.S. —Associated Press

BANGLADESH

Tropical Storm Mora Kills at Least Three

A tropical storm lashed southern Bangladesh on Tuesday, killing at least three people and destroying thousands of poorly built homes on remote islands in the Bay of Bengal, officials said.

Tropical Storm Mora started crossing the country's southern coastal region early in the day. Some 300,000 people had been moved to safety or were evacuated.

On Monday as the nation braced for its first strong storm of the year. More than 1,000 shelters were set up in several districts, including Cox's Bazar and Chittagong.

—Associated Press

GERMANY

Lower Energy Prices Help Damp Inflation

Inflation in Germany slowed sharply in May, led by easing energy prices, a development that is likely to bolster expectations that the European Central Bank won't greatly alter its policy stance soon.

Germany's annual inflation rate, measured by harmonized

European Union standards, fell to 1.4% from 2.0% in April, the statistics office said Tuesday. Economists polled by The Wall Street Journal had forecast a rate of 1.6%.

Inflation in Europe's largest economy is well under the ECB's target for the eurozone of "below, but close to" 2%.

—Nina Adam

Paddlers Make a Splash in Hong Kong Dragon Boat Race



ANTHONY WALLACE/AGENCE FRANCE PRESSE/GTY IMAGES

ALL TOGETHER: Competitors pushed themselves, and their boats, in Hong Kong on Tuesday in the races that are part of the annual Dragon Boat Festival. The event commemorates the death of Zhou Dynasty poet and national hero Qu Yuan, who drowned in the Mi Lo River in China more than 2,000 years ago while protesting against corruption. Food and music are also a big part of the festivities.

INDONESIA

Islamist Is a Suspect In Two Legal Actions

Indonesian police named an Islamist leader as a suspect in an exchange of pornographic messages and photos, a new legal threat to a cleric who helped organize mass Muslim rallies against Jakarta's former Christian governor.

Habib Rizieq, a firebrand cleric who heads the hardline Islamic Defenders Forum, has also been made a suspect in a separate investigation in connection with allegations he insulted the secular-state ideology in the Muslim-majority nation.

Mr. Rizieq's lawyer, Sugitmo Atmo Pawiro, denied the allegations, saying they had been fabricated by supporters of the former Christian governor, Basuki Tjahaja Purnama. President Joko Widodo has said he wouldn't tolerate any individual or organization that undermines the secular state.

—Reuters

WORLD NEWS

May Plays Up Brexit as Poll Lead Narrows

By JASON DOUGLAS

LONDON—U.K. Prime Minister Theresa May sought to revitalize her election campaign Tuesday after a series of polling setbacks by turning her focus squarely on what she sees as her strongest card: the coming Brexit negotiations with the European Union.

A week after a suicide bombing in Manchester shocked the country and called a temporary halt to campaigning, Mrs. May argued only she can be trusted to deliver on the aspirations of British voters who chose to pull the U.K. out of the EU in a referendum last year.

Her governing Conservative Party is "100% committed" to Brexit and has a clear plan to see it through, Mrs. May said in a speech in Wolverhampton, in England's Midlands. Opposition parties, she said, wish to frustrate the referendum result, which she described as "a quiet revolution driven by all those who felt let down and left behind for too long."

Mrs. May pledged to "stand

up to Brussels" on British voters' behalf in exit talks due to start June 19.

But she struck a less combative tone when asked about German Chancellor Angela Merkel's weekend comments that Europe must unify in response to Brexit and uncertainty around U.S. policy under President Donald Trump, saying that although Britain will negotiate hard, it will also seek a deep and special partnership with the bloc on issues ranging from security and defense to trade.

Mrs. May's latest appeal to voters comes after a succession of opinion polls have signaled a steady erosion in the center-right Conservatives' lead over the main opposition Labour Party, led by veteran left-winger Jeremy Corbyn.

A survey of more than 2,000 adults conducted May 26 to 29 by pollster ICM put support for the Conservatives at 45%, against Labour on 33%. The data from the online poll are weighted to reflect demographic factors and respondents' likelihood to vote, ICM said. Other polling companies reporting in the last



Prime Minister Theresa May makes a campaign appearance in Wolverhampton ahead of the June 8 general election.

week have suggested a narrower lead than ICM.

Mrs. May's 12-point lead in the latest ICM survey compares with earlier polls that gave her a much larger advantage over Mr. Corbyn and Labour, including one ICM poll that put the gap at 22 points.

Pollsters say the narrowing has mostly been driven by steady Labour gains as previous supporters who had been wary of Mr. Corbyn have steadily come back to the fold.

Mrs. May in her speech re-

iterated the negotiating priorities for coming talks with Brussels that she first set out late in 2016.

She said the U.K. plans to relinquish its membership of the EU's single market for goods and services and will instead negotiate a bold and ambitious new free-trade accord with the bloc.

Mrs. May said London wants to continue to cooperate with the EU on issues including crime and terrorism and is willing to guarantee the

rights of EU citizens resident in Britain, provided British citizens elsewhere in the EU are granted the same deal.

Asked about Ms. Merkel's comments during questions following her prepared remarks, Mrs. May stressed that Britain "is leaving the EU but is not leaving Europe."

Mrs. May repeated a campaign mantra that a bigger majority for the Conservatives would strengthen her hand in exit talks, which she said are due to start 11 days after the

June 8 vote.

Mr. Corbyn's campaign has focused much more heavily on domestic issues and public services such as health. His party has pledged to nationalize railways and water companies and raise taxes on the rich if it wins power.

Labour didn't respond directly to a request comment on Mrs. May's speech. The party on Tuesday unveiled a policy to finance 30 hours of child care a week for all two-to-four-year-olds in Britain.

EU Proposes Big Spending Rise Before U.K. Leaves

By LAURENCE NORMAN

BRUSSELS—The European Union's executive body proposed a steep rise in EU spending for 2018, the last full year of the U.K.'s membership in the bloc.

The move comes weeks ahead of the start of Brexit negotiations. The EU is pressing the U.K. to agree to uphold its past spending pledges when it leaves the bloc.

European officials are hoping Britain will agree to pay in full its expected contribution to the 2014-20 multiyear budget framework, meaning it would continue to pay after it leaves, which is expected to happen in March 2019. However, U.K. Prime Minister Theresa May has said that after Brexit, the U.K. won't make further large budget payments to the bloc.

Meanwhile, the European Commission wants member states to agree to €145 billion (\$162 billion) in spending next year, an 8.1% rise from 2017 and the biggest increase since 2013. Brussels also is proposing €161 billion in so-called commitments in 2018, which represent spending pledges member states are expected to make next year.

The 2018 budget proposal will have to be agreed upon by the bloc's member states and



European Union budget chief Günther Oettinger

the European Parliament. That usually takes months of haggling.

EU budget chief Günther Oettinger said his proposed budget would leave member states on target to stay within their 2014-20 budget ceiling.

He said the increase was largely because of the slow adoption of some major EU-funded programs in the first years of the current budget. He said that with the pace of projects now picking up, member states are starting to increase the number of bills they send Brussels for the EU to pay.

Once Britain leaves the bloc, a major fight over the budget's future is expected. The U.K. is currently the sec-

ond-largest net contributor to the EU, with a net contribution of €8.6 billion (\$11.07 billion) in 2016, according to the Treasury. The net figure subtracts EU spending in the U.K. from the total.

A number of other net payers, such as the Netherlands and Germany, have said they don't want to spend more once Britain leaves, raising the possibility of a sharp drop in payments for EU programs, including transfers to the bloc's poorer members.

On Tuesday, Mr. Oettinger confirmed he was hoping to delay until the summer of 2018 the draft budget proposal for the post-2020 period. He is currently due to deliver this by year-end, but the German

official said that by waiting, he can present a draft budget that would factor in Britain's future EU spending.

It would be "better for all of us to submit a realistic draft...which would take ac-

Business Outlook Slips in Eurozone

Eurozone businesses were less upbeat about their prospects in May, despite a boost to optimism in France after centrist Emmanuel Macron defeated anti-euro candidate Marine Le Pen in presidential elections.

The European Commission on Tuesday said its Economic Sentiment Indicator, which aggregates business and consumer confidence, fell to 109.2 in May from 109.7 in April. That was a surprise, since economists surveyed by The Wall Street Journal last week had expected a rise to a post-crisis high of 110.0.

The softening of sentiment serves as a reminder that while some indicators of economic activity have picked up in 2017, there are no conclusive signs of a significant acceleration of growth.

Confidence weakened in Germany, Italy and the Neth-

erlands which could reinforce the caution expressed by most European Central Bank policy makers, who have signaled a reluctance to wind down the bank's massive stimulus programs.

"Of course, one has to make sure that this [the currency bloc's brighter economic outlook] is something that is going to last," Ewald Nowotny, who sits on the ECB's governing council, said in a speech Monday.

There were signs of optimism in other parts of the eurozone economy. Manufacturers were more upbeat than at any time since June 2011 and French consumer confidence reached the highest level in almost a decade, as households became more confident about their future financial situation.

Also Tuesday, the French statistical agency raised its estimate for quarter-to-quarter economic growth in the first three months of the year to 0.4% from 0.3%.

—Paul Hannon

start of the annual negotiations with the U.K. and others."

"The government has previously negotiated legally binding ceilings that ensure, over the seven-year period, the EU budget is cut in real terms," the spokesman said.

Separately on Tuesday, a senior EU judge handed down an opinion advising the EU's top court to say the U.K. government wrongly rejected the residency application of an Algerian man whose Spanish wife had taken British citizenship.

The lawyer said the rights derived from the EU's freedom-of-movement rules should be extended to all the bloc's citizens. The European Court of Justice must rule on the case in coming months.

Citizens' rights are another central issue in the coming Brexit negotiations, which the EU wants to start in the week of June 19.

The EU has set out a detailed negotiating position on citizens' rights, which would push Britain to offer EU citizens in Britain after Brexit the full range of residency rights and benefits they currently enjoy. As Britain's home secretary, Mrs. May has in the past pushed to limit the rights of non-EU spouses to come to Britain.

Legal Filing Seeks to End Role Of Germany in ECB Bond Buys

By TOM FAIRLESS

FRANKFURT—A Berlin-based law professor filed a cease-and-desist request aimed at quickly ending Germany's involvement in bond purchases by the European Central Bank, a surprise legal move that underlines mounting German anger over the ECB's easy-money policies.

The request for a legal injunction, sent to Germany's top court, shows the lengths to which some Germans are prepared to go to derail a €2.3 trillion (\$2.57 trillion) stimulus program they accuse of subsidizing Southern European governments and hurting German savers, pensioners and smaller companies.

The move reflects concerns that the German constitutional court won't rule on the legality of the ECB's bond-buying program until the program is already finished, said Markus Kerber, an attorney and professor of public finance at Berlin's Technical University, who filed the injunction.

The ECB's recent moves to expand the program heighten the risks for the Bundesbank

and the German government, Mr. Kerber said.

German courts can't stop the ECB's stimulus programs directly, but they can prevent the involvement of Germany's Bundesbank, which holds around a quarter of the ECB's share capital.

"We simply want the ECB to discontinue from continuing to implement the program," Mr. Kerber said. "The risk to the Bundesbank is unbearable."

The constitutional court on Monday received a request for a temporary injunction against the ECB's bond-purchase program, a spokesman said. It isn't yet clear when the court might make a decision, he added.

The move comes at a sensitive time for the world's second most powerful central bank, which is considering how quickly to wind down its €60 billion-a-month bond-buying program as the region's economy recovers.

ECB officials are eager to avoid any abrupt move that could prompt a repeat of the so-called taper tantrum in the U.S., when bond yields surged after the Federal Reserve an-

nounced it would wind down its own bond purchases.

Christoph Schlaast, a law professor at the Frankfurt School of Finance and Management, said the injunction was unlikely to succeed, but that the case might help clarify the legal boundaries of the bond-buying program.

The German court is unlikely to grant an injunction against bond-buying without first asking the opinion of the European Court of Justice in Luxembourg, the European Union's top court, Mr. Schlaast said.

A spokesman for the ECB declined to comment.

The lawsuit is the latest in a series of German legal attacks on the ECB's bond-purchase programs, which are viewed with deep suspicion by the nation's conservative central bank and political establishment.

These cases haven't yet stopped the ECB, but Germany's top court has imposed constraints on the Bundesbank that helped to shape the ECB's most recent bond-purchase program, known as quantitative easing, or QE.

Mr. Kerber said he was act-

ing on behalf of several leading German entrepreneurs, including Reinhold von Ebner-Worlée, president of Germany's association of family-owned businesses.

The lawsuit argues that a relatively small level of losses from the ECB's massive bond portfolio could harm the Bundesbank's ability to carry out its functions. That could force the German government to recapitalize the central bank, violating the constitutional principle that it should be the German people who decide how to spend public funds, it says.

—Anton Troianovski
in Berlin
contributed to this article.



German courts can't stop the ECB's stimulus programs directly, but they can prevent the involvement of Germany's Bundesbank, which holds around a quarter of the ECB's share capital.

WORLD NEWS

Pyongyang Steps Up Hacks

Seoul alleges teams of cyberattackers use new techniques and have distinct targets

By TIMOTHY W. MARTIN

SEOUL—Between February and May, South Korean cybersecurity experts noticed intrusions at government-affiliated websites following a new pattern: They used a technique that doesn't require tainted email links or forceful server assaults.

The culprit, the experts concluded, was North Korea.

Pyongyang has been blamed for headline-grabbing cyberattacks dating back to 2014's Sony Pictures Entertainment hack and continuing with last year's daring cyberheist at Bangladesh's central bank and this month's WannaCry global ransomware attack. But cybersecurity experts in South Korea—where government agencies and groups are the target of some 1.4 million daily hacking attempts suspected to originate from North Korea—have a much longer familiarity with its work.

North Korea's capabilities, they say, are improving quickly.

The country's cyberattacking operation, South Korean officials believe, comprises six groups and 1,300 hackers, with a dozen supporting organizations of 5,000 more hackers.

South Korean officials sort them into three teams: The A team—often called "Lazarus" by foreign research firms—at-



The Korea Internet and Security Agency monitors cyberattacks.

tacks foreign banks and companies, they say; the B team focuses on South Korea; and the C team blasts out emails and collects information.

Pyongyang's involvement in several assaults is suspected from their carrying Internet Protocol addresses traceable to North Korea—some revealed for just a few seconds—security researchers say, though some say this could be an intentional misdirection.

"North Korean hackers are getting stronger and their skill is also improving," says Simon Choi, a director at Hauri Inc., a Seoul-based cybersecurity firm, who detailed fresh attacks by North Korea in a report to be published this week by the Cyber Warfare Intelligence Center. The research group is made up of South Ko-

rea's top security experts, students of North Korea's cyberattacks for nearly a decade.

Mr. Choi, who has been a cybersecurity consultant to government groups since 2008, says he has conversed with people he believes to be North Korean operatives, swapping encrypted messages in Twitter's application-programming interface. One, he said, asked, "How do you know who I am?"

The suspected North Korean cyberattacks have mostly aimed to gather foreign intelligence, especially from South Korea, though recent bank assaults have sought financial gains. Several security experts view the WannaCry attack as less a shakedown for money than a display of proficiency. Some doubt North Korea's involvement.

In the hacks of recent months detailed in the CWIC report—"Operation GoldenAxe," the report calls it—North Korea has turned to a relatively new technique to indirectly undermine South Korean government institutions: the "watering-hole attack."

North Korea's B Team infected nine sites—belonging to trade associations, research institutes and industry groups—that are frequented by lawmakers, military officials and diplomats. Visitors unknowingly picked up viruses that planted malware onto their computers, bypassing the digital defenses erected by their battle-tested employers.

The evidence of North Korean culpability, the CWIC research say, is similarities in the logic of the code and protocols to prior North Korean assaults. It is unknown how many computers were infected or what data, if any, was stolen, CWIC said.

"They've found a way to go through the computer without being caught," said Mr. Choi, adding that GoldenAxe has no overlap with the WannaCry attack.

Cybersecurity researchers outside of South Korea have spotted similar watering-hole tactics in recent well-organized assaults on international banks in Mexico, Poland and across Asia, drawing suspicions that North Korea was involved.

—Min Sun Lee in Seoul
and Robert McMillan
in San Francisco
contributed to this article.

South Korea, U.S. Run Drill

By JONATHAN CHENG

SEOUL—The U.S. and South Korea conducted a joint drill involving U.S. B-1B bombers, the second such exercise this month and a move North Korea called "a grave military provocation," after the North test-launched a short-range ballistic missile the same day.

The drill, which North Korea said took place on Monday over South Korea and near the Military Demarcation Line that divides the two Koreas, was confirmed by a spokesman for South Korea's South Korea's Ministry of National Defense.

The spokesman said the South Korean air force conducted the joint drill with the U.S. but declined to give further details or to say how many B-1B bombers were involved.

Lt. Col. Lori Hodge, a spokeswoman for the U.S. Pacific Air Force Command, wouldn't comment on the particulars of the mission, saying only that the U.S. has "maintained a rotational strategic bomber presence in the region for more than a decade."

She added that the aircraft "provide a significant capability that enables our readiness and commitment to deterrence" and reassured allies in the region.

On May 1, the U.S. sent a pair of B-1B bombers to an area around the Korean Peninsula to conduct exercises with the South Korean and Japanese air forces, following a

failed North Korean missile test days earlier.

In that case, as with the most recent one, South Korea confirmed the joint exercise only after North Korea first publicized it in its state media.

North Korea accused the U.S. of staging a "nuclear-bomb-dropping drill" with the bombers, which it sees as a new provocation in addition to the presence of the USS Carl Vinson and the USS Ronald Reagan, two aircraft carriers that are operating near the Korean Peninsula.

"The U.S. imperialists' ever-more reckless military provocation clearly proves that their talk about 'dialogue' is nothing but hypocrisy to disarm the DPRK and their wild ambition to eliminate the DPRK with nukes remains unchanged even a bit," the statement said, using the acronym for North Korea's formal name, the Democratic People's Republic of Korea.

The Monday flyover came hours after North Korea test-launched a short-range missile that it said featured a speeded-up launch process and a precision-control guidance system that can zero in within 23 feet of a target.

Monday's missile test was North Korea's third in less than three weeks, with Pyongyang claiming significant advances on each occasion.

—Gordon Lubold
contributed to this article.



Security forces clash with demonstrators in San Cristobal during a protest against Nicolás Maduro's government on Monday.

Goldman Sachs Comes Under Fire For \$2.8 Billion Venezuela Bond Deal

Goldman Sachs Group Inc. is on the defensive in Venezuela after it bought bonds that had been held by the struggling country's central bank in a transaction the government's opposition decried as a lifeline to President Nicolás Maduro's embattled administration.

By Kajal Vyas and Anatoly Kurmanov in Caracas, Venezuela, and Julie Wernau in New York

Goldman's purchase of \$2.8 billion in bonds, first reported by The Wall Street Journal on Sunday, comes as Mr. Maduro's detractors have recently pleaded with international financial institutions to avoid any transactions that might help a government accused of human-rights abuses.

On Monday, they upped the ante, threatening that a successor government could forgive paying the debt.

"It is apparent Goldman Sachs decided to make a quick buck off the suffering of the Venezuelan people," Julio Borges, head of Venezuela's opposition-controlled congress, said in a public letter to the New York bank's chief executive, Lloyd Blankfein. "I also intend to recommend to any future democratic government of Venezuela not to recognize or pay on these bonds."

Goldman Sachs's asset-management division last week paid about \$865 million for

\$2.8 billion worth of bonds—or 31 cents on the dollar—that were issued by state oil company Petróleos de Venezuela SA in 2014 and mature in 2022, according to people familiar with the transaction.

The price represents a 31% discount to trading Venezuelan securities that mature the same year—and would imply an annual yield of more than 40%.

In a statement, Goldman said it bought the securities, which are held in funds and accounts it manages on behalf of clients, from a broker and did not interact with the Venezuelan government. "We recognize that the situation is complex and evolving and that Venezuela is in crisis," the bank said. "We agree that life there has to get better, and we made the investment in part because we believe it will."

Goldman Sachs Asset Management manages \$750 billion of fixed-income investments for mutual funds, pension funds and other investors, about \$40 billion of which is dedicated to emerging markets. It bought the bonds from London-based brokerage Dinosaur Group, people familiar with the sale said. Dinosaur Chief Executive Glenn Grossman declined to comment.

Goldman has been steadily increasing its Venezuelan holdings in recent months, betting that a change in government could more than double the value of the debt if the country, which sits atop the

world's largest oil reserves, reforms its economy, two of those familiar with the transaction said.

The so-called PdVSA bonds that Goldman picked up last week had until recently been in the possession of Venezuela's central bank since they were issued in a private placement in late 2014. It is unclear whom Venezuela sold the bonds to or how many investors held them before reaching Goldman.

The Central Bank of Venezuela's international reserves jumped \$442 million to \$10.8 billion on Thursday, the day the bond deal was completed, according to official figures.

Two senior Venezuelan government officials confirmed the deal but declined to give more details. "There was a need for hard currency," one of them said.

Last week, Oil Minister Nelson Martinez said his government was looking at "all options" to raise money it owes to key allies like Russia and China.

Venezuela's government, faced with low oil prices and the effects of years of economic mismanagement, is so short of cash that it has reduced imports by about 70% in the past three years, leading to a growing humanitarian crisis and spawning two months of almost-daily street demonstrations that have cost at least 60 lives.

"This government is killing us," said Santa Ojeda, a 50-

year-old homemaker who said she can't find drugs for her diabetic teenage son.

Amid the malaise, which has made hunger a palpable concern for millions in the nation, Mr. Maduro has committed to paying its financial debts, partly because Venezuela wants to avoid the risk of creditors trying to seize its international oil shipments in the case of default. That has led some to dub the country's securities "hunger bonds."

The situation is reminiscent of Romania under dictator Nicolae Ceausescu, who forced strict food rationing in order to pay off loans. Generating widespread resentment at a time when Communist regimes were falling across Eastern Europe, Mr. Ceausescu eventually was overthrown and executed by firing squad in 1989.

Venezuela will spend nearly as much money this year servicing its foreign debt—about \$10 billion—as it will spend on all non-oil imports, including food and medicine, according to estimates by Nomura Securities.

Mr. Borges said the opposition-controlled National Assembly—which he heads—would launch an investigation into the Goldman transaction. He also warned any future opposition government "would not forget where Goldman Sachs stood when it had to choose between supporting the Maduro dictatorship and democracy for our country."

Former Panamanian Dictator Noriega Dies

By JOSÉ DE CÓRDOBA

Panama's former military strongman, Manuel Antonio Noriega, a once-valued U.S. spy asset who was later overthrown as an accused drug lord in a 1989 U.S. invasion, died at a Panama City hospital at the age of 83.

Gen. Noriega died of complications after a surgery in March to remove a benign brain tumor. He had been in an induced coma since then, according to local media.

OBITUARY

MANUEL NORIEGA

1934-2017

The former dictator had been in prison in the U.S., France and Panama since surrendering to U.S. troops in 1990.

"The death of Manuel A. Noriega closes a chapter in our history; his daughters and his relatives deserve to carry out his funeral in peace," Panamanian President Juan Carlos Varela said on Twitter.

Gen. Noriega was indicted on drug-trafficking charges in Florida in 1988 and in May 1989 he voided the result of national elections after his preferred presidential candidate appeared to lose. When U.S.-imposed economic sanctions failed to force the dictator from power, President George H.W. Bush ordered nearly 30,000 U.S. troops to invade Panama and depose Gen. Noriega, who had effectively ruled the country since 1983.

As his forces collapsed, the strongman took refuge in the Vatican Embassy in Panama City. U.S. soldiers blasted rock 'n' roll music from huge speakers to wear down his resistance.

After 10 days, Gen. Noriega surrendered to U.S. soldiers. He was flown to Miami, where he stood trial on drug and money-laundering charges. He was convicted in 1992 and sentenced to 40 years in prison for accepting millions of dollars in bribes for allowing Colombia's Medellín cartel to turn Panama into a drug trafficking and money laundering hub.

"The U.S. knew Noriega was a drug trafficker for years, but didn't act against him because

he was helpful in the Cold War," said Michael Shifter, president of the Washington-based Inter-American Dialogue. "When the Cold War ended, and the drug issue became more salient, Washington ousted him."

While most Panamanians were relieved to be liberated from Mr. Noriega's dictatorial rule, many still consider the U.S. invasion a national tragedy.

"The independence and the sovereignty of the country were subjugated, but we were liberated from a dictatorship that sooner or later would have destroyed Panama," said Rita Vasquez, the deputy director of La Prensa, a newspaper that played a strong opposition role during the Noriega years. "It's a wound that has not yet healed."

Gen. Noriega was on the Central Intelligence Agency's payroll for decades. He saw himself as a loyal U.S. intelligence operative who fell from favor, said Peter Eisner, a journalist and writer who interviewed the general in prison for a book of memoirs.

During the 1980s, the U.S. supported El Salvador's right-wing government, which was accused of human-rights abuses in fighting the leftist insurgency. It also backed the Contra rebels in Nicaragua who were fighting the leftist regime of the Sandinistas.

"He thought things went bad when he objected to U.S. policies in El Salvador and Nicaragua," Mr. Eisner said. "He said, 'The Americans started calling me Mr. No.'"

Despite his drug conviction, Gen. Noriega was treated as a prisoner of war by the U.S. Justice Department. He wore his general's uniform in a two-room, air-conditioned suite in the Miami prison. His sentence was cut to 30 years and he was released in 2007 on good behavior.

He was extradited to France in 2010, where he was convicted of money laundering. In 2011, France sent him to Panama, where he had been convicted in absentia of the murder of opponents during the country's military regime and sentenced to 20 years.



Gen. Manuel Noriega, center, with beauty pageant winners in 1986.

U.S. NEWS

Senate Rules Delay Agenda, Trump Says

President wants to end filibuster to speed review of proposals on tax plan, health care

President Donald Trump called for a change to Senate rules to allow all bills to pass with a simple majority, elbowing aside Senate Republicans' current legislative strategy on taxes and health care that already rests on obtaining such a majority.

By Louise Radnofsky,
Richard Rubin
and Siobhan Hughes

"The U.S. Senate should switch to 51 votes, immediately, and get Healthcare and TAX CUTS approved, fast and easy. Dems would do it, no doubt!" Mr. Trump wrote on Twitter.

Mr. Trump's comments about his two top legislative priorities come as Republican leaders are already using a special procedure known as "reconciliation"—which requires only a simple majority of votes in the 100-member Senate—to consider health-care legislation. They are plan-

ning to use the same rules for a later tax overhaul.

His request for a 51-vote majority would end the current 60-vote threshold on bills, allowing the Republican majority to advance any legislation without being impeded by the Democratic minority. Senate Republicans, including Majority Leader Mitch McConnell (R., Ky.) have said they have no intention of ending the filibuster on legislation.

Democrats, when they were in power in the Senate, ended the filibuster on confirming executive branch appointments and most judges in 2013, while Republicans ended the filibuster for Supreme Court justices earlier this year.

In reaction to the tweet, Republicans highlighted that they are already using a procedure that would allow the party to pass the two measures on a simple majority vote. Reconciliation is a limited exception from the filibuster rules that was created as part of past budget laws.

"Sen. McConnell agrees that both health-care and tax reform are essential, and that is why Republicans in Congress are using the reconciliation process to prevent a par-

tisan filibuster of these two critical legislative agenda items," said Antonia Ferrier, a spokeswoman for Mr. McConnell, in a statement.

She also pointed to Mr. McConnell's statement last month that the Senate wasn't interested in ending filibusters for legislation, as it did when it changed its procedures to confirm Supreme Court justices with a simple majority. "There's not a single senator in the majority who thinks we ought to change the legislative filibuster—not one," Mr. McConnell told reporters in April.

Mr. Trump also floated the idea of eliminating the filibuster in early May, when it was also dismissed by lawmakers.

Eliminating the filibuster would also mean that Republicans wouldn't have to pass a fiscal 2018 budget before they can move to a tax bill. That budget process is likely to be a challenging fight among defense hawks, spending cutters and tax-cut advocates.

Mr. Trump's tweets have kept his allies and opponents off balance during policy fights. His tweet Tuesday and a previous one over the weekend raised new ques-



Senate Republicans have said they have no intention of ending the filibuster on legislation.

tions about how he views the tax overhaul and the health-care plan.

Mr. Trump's reference to "tax cuts" stands in contrast to his own budget, released last week. Budget Director Mick Mulvaney said the budget assumes there wouldn't be a net tax cut, though Treasury Secretary Steven Mnuchin seemed to contradict that in simultaneous congressional testimony, by saying that tax cuts would be paid for partly with stronger economic growth.

On Sunday, Mr. Trump tweeted about the health-care legislation that has already

passed the House after a tough fight, which his own aides hope won't be tossed aside by the Senate in a bid to start from scratch.

"I suggest that we add more dollars to Healthcare and make it the best anywhere. Obamacare is dead - the Republicans will do much better!" he wrote.

The GOP plan currently rests on a repeal of the 2010 Affordable Care Act, and much of the spending associated with it, and a new set of provisions offering financial assistance and incentives for people to obtain health coverage. Throwing out the 2010 health

law and enacting the Republican replacement would result in less federal spending, not more, according to the Congressional Budget Office.

Republicans have invested months of effort in using the reconciliation maneuver, which brings particular complications because it is tied to the budget process and limits the scope of what can be considered. Despite the decision to press ahead with reconciliation, GOP Senate leaders are already wary about their chances to press through a health-care bill given the party's slender 52-48 majority in the upper chamber.

RESIGN

Continued from Page One
ference in the 2016 election is widening to include people in the inner circle of the president's business empire.

Michael Cohen, who served as a longtime attorney and executive in the Trump Organization, has been asked for a sit-down interview and documents by both the House and Senate intelligence committees. Mr. Cohen said in an interview he would "respectfully decline" to cooperate with the requests.

Mr. Cohen is the latest member of Mr. Trump's inner circle to be asked to provide documents and meet with investigators for an interview as part of two separate but parallel probes being conducted by the House and Senate intelligence committees into whether Russia inter-



Mike Dubke

fered in the 2016 election and whether associates of Mr. Trump colluded with Moscow.

The requests to Mr. Cohen were reported by ABC News. Russian officials have denied meddling in the election, and Mr. Trump has denied collusion.

Amid the Russia probes, top advisers to Mr. Trump have been considering requiring the president's tweets to undergo legal vetting before being posted, as part of an overhaul of how White House communications work. Mr. Trump posted two tweets on Tuesday related to the probe of his associates' ties to Russia, with one of the tweets related to his son-in-law and adviser Jared Kushner.

"Russian officials must be laughing at the U.S. & how a lame excuse for why the Dems lost the election has taken over the Fake News," Mr. Trump, a Republican, wrote.

In the other, he retweeted a "Fox & Friends" tweet that said, "Jared Kushner didn't suggest Russian communications channel in meeting, source says." The tweet links to a Fox News article that cites a source saying the Russians broached the idea at Mr. Kushner's December meeting with the Russian ambassador, not Mr. Kushner.

During the transition, Mr. Kushner considered setting up a secret communications line with Russia to discuss the country's military operations, a person familiar with the matter previously told the Journal.

—Byron Tau

contributed to this article.

FED

Continued from Page One

Officials are likely to vote then to raise their benchmark short-term rate by a quarter percentage point to a range between 1% and 1.25%. They also will release new economic and rate projections for the rest of the year, which will likely indicate they still expect to raise rates again later this year.

The Fed's path ahead is "the most telegraphed monetary policy of our lifetimes," San Francisco Fed President John Williams said Monday at a conference in Singapore.

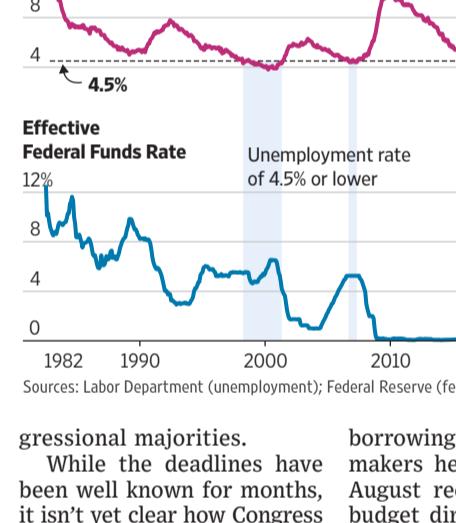
Fed Chairwoman Janet Yellen is set to take questions from reporters after the June meeting, which would let her explain the central bank's intentions in detail.

After raising rates in March, many officials thought it likely they would move again in June and September. A tentative plan emerged to pause rate increases at the end of the year and start shrinking the portfolio then. Now, however, the looming debt-limit fight has some officials pondering whether they might delay the third rate increase until after September or initiate the portfolio wind-down sooner, perhaps as early as September, if the economy evolves as they expect.

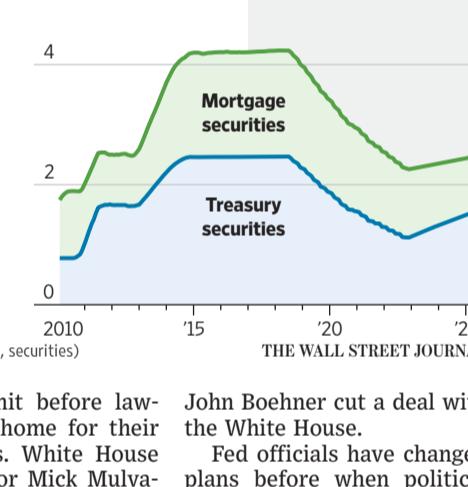
Standoffs between Republicans and the Obama administration repeatedly pushed the envelope on debt-ceiling brinkmanship, unsettling markets. This is the first time the Trump administration will navigate the issue with sometimes unruly GOP con-

Balancing Act

With the unemployment rate down to 4.4% in April, Fed officials are looking to raise rates and initiate a plan to gradually wind down their securities portfolio.



What the portfolio wind-down might look like



reading since the end of 2015, according to Commerce Department data released on Tuesday.

If the inflation slowdown does prove transitory, Fed officials should stay on track to raise in June and again later this year.

Officials currently place more emphasis on the strong labor market. Steady job gains have pushed a range of employment measures to their sturdiest levels in nearly a decade, including an unemployment rate at 4.4% in April. The May employment report is scheduled for release Friday.

Officials say they remain confident such low unemployment will be enough to lift inflation toward their 2% target in coming years, meeting the Fed's twin objectives of stable prices and maximum, sustainable employment.

"The U.S. economy is about as close to the Fed's dual mandate goals as we've ever been," Mr. Williams said Monday. In reaching those targets, "it is better to close in on the target carefully and avoid substantial overshooting," he said.

The process of shrinking the balance sheet should be predictable and boring with lots of advance notice to markets, "the policy equivalent of watching paint dry," Philadelphia Fed President Patrick Harker said last week.

Officials want to avoid a rerun of the 2013 "taper tantrum," when investor concerns over the Fed's decision to slow the pace of asset purchases triggered market turmoil, leading to both a sharp increase in Treasury yields and capital outflows from emerging markets.

Rise in Consumer Spending Signals Rebound

BY BEN LEUBSDORF

WASHINGTON—Americans ramped up their spending in April at the fastest pace in four months, offering fresh evidence the U.S. economy is rebounding this spring after a lackluster winter.

Personal-consumption expenditures, a measure of household spending on everything from groceries to medical care, increased a seasonally adjusted 0.4% in April from the prior month, the Commerce Department said Tuesday.

That matched economists' expectations and was the largest one-month rise since December.

"The fundamentals for consumer spending are still pretty good: income growth, inflation is low, low interest rates, rising household wealth," said Gus Faucher, chief economist at PNC Financial Services Group.

Incomes grew at a decent pace last month. Personal in-

come, a broad measure that includes wages and government assistance, rose 0.4% from March. The personal-saving rate was steady in April at 5.3%.

Consumer spending and broader economic growth slowed over the winter months. Multiple factors were at work, including mild winter weather that reduced the need for home heating and delayed income-tax refunds for many households.

Economists had predicted consumption would pick up in the second quarter with the support of low unemployment, continued job gains and rising incomes. Credit scores also have improved as the 2007-09 recession's damage has faded, bolstering household purchasing power.

That spending, now in progress, is set to boost the overall economy. The Federal Reserve Bank of Atlanta's GDPNow model on Tuesday predicted gross domestic product would expand at a 3.8%

seasonal and inflation-adjusted annual rate in the second quarter, up from the first quarter's 1.2% rate. Forecast-

ing firm Macroeconomic Advisers projected a second-quarter growth rate of 3.2%. Also Tuesday, the Com-

merce Department said the Federal Reserve's preferred measure of inflation, the price index for personal-consumption expenditures, largely rebounded in April. It rose 0.2% from the prior month after falling 0.2% in March. Excluding the often-volatile categories of food and energy, so-called core prices were up 0.2% in April after dipping 0.1% in March.

Still, inflation continued to weaken on a year-over-year basis. Overall prices rose 1.7% in April from a year earlier, down from 1.9% in March. Core prices were up 1.5% in April, their weakest annual gain since December 2015.

The Fed has set a target of 2% annual inflation as consistent with its legal mandate to promote stable prices. Annual headline inflation as measured by the PCE index was 2.1% in February, the first time it met or exceeded the target in nearly five years.

—Josh Mitchell

contributed to this article.



Economists had predicted consumption would pick up in the second quarter. Above, shoppers at a New York farmers market.

RICHARD B. LEVINE/LEVINE ROBERTS/NEWSCOM/ZUMA PRESS

merchants must be laughing at the U.S. & how a lame excuse for why the Dems lost the election has taken over the Fake News," Mr. Trump, a Republican, wrote.

In the other, he retweeted a "Fox & Friends" tweet that said,

"Jared Kushner didn't suggest Russian communications channel in meeting, source says."

U.S. NEWS

New Mine Marks Bright Spot in Coal Industry

Rising demand around the globe for metallurgical coal—used to make steel—drives project in Pennsylvania

BY KRIS MAHER

ACOSTA, Pa.—An 80-foot-deep pit being dug in the rolling farmland here is inspiring hope in a community where coal has been mined since the 1800s.

The new Acosta Deep Mine, which is scheduled to begin producing coal in June from a 40-inch-thick seam, is one of the rare bright spots in an industry that otherwise remains in a downward spiral.

In the past six years, hundreds of coal mines have shut nationwide, putting thousands of miners out of work. The main reason is that coal used by power plants has come under intense competition from cheap natural gas.

But the Acosta mine will produce metallurgical coal, a higher grade used to make steel that is only found in Appalachia in the U.S. After prices fell sharply for several years, demand for metallurgical coal has rebounded globally and much of it mined in the U.S. this year is to be shipped to Europe, South America and Asia.

"The demand is there. We're selling more coal and producing more coal than we have been," said Robert Bottegall, a general manager of engineering for Corsa Coal Corp., which is building the Acosta mine.

In recent months, companies have started or expanded production at other metallurgical coal mines in Pennsylvania, West Virginia and Alabama to take advantage of improving market conditions. The price of metallurgical coal hit an average of \$161 a ton in March, up about 150% from a year ago. Thermal coal in the region sells for \$53 a ton and was under \$50 for much of the past two years.

'The demand is there. We're selling more coal and producing more coal' than previously.

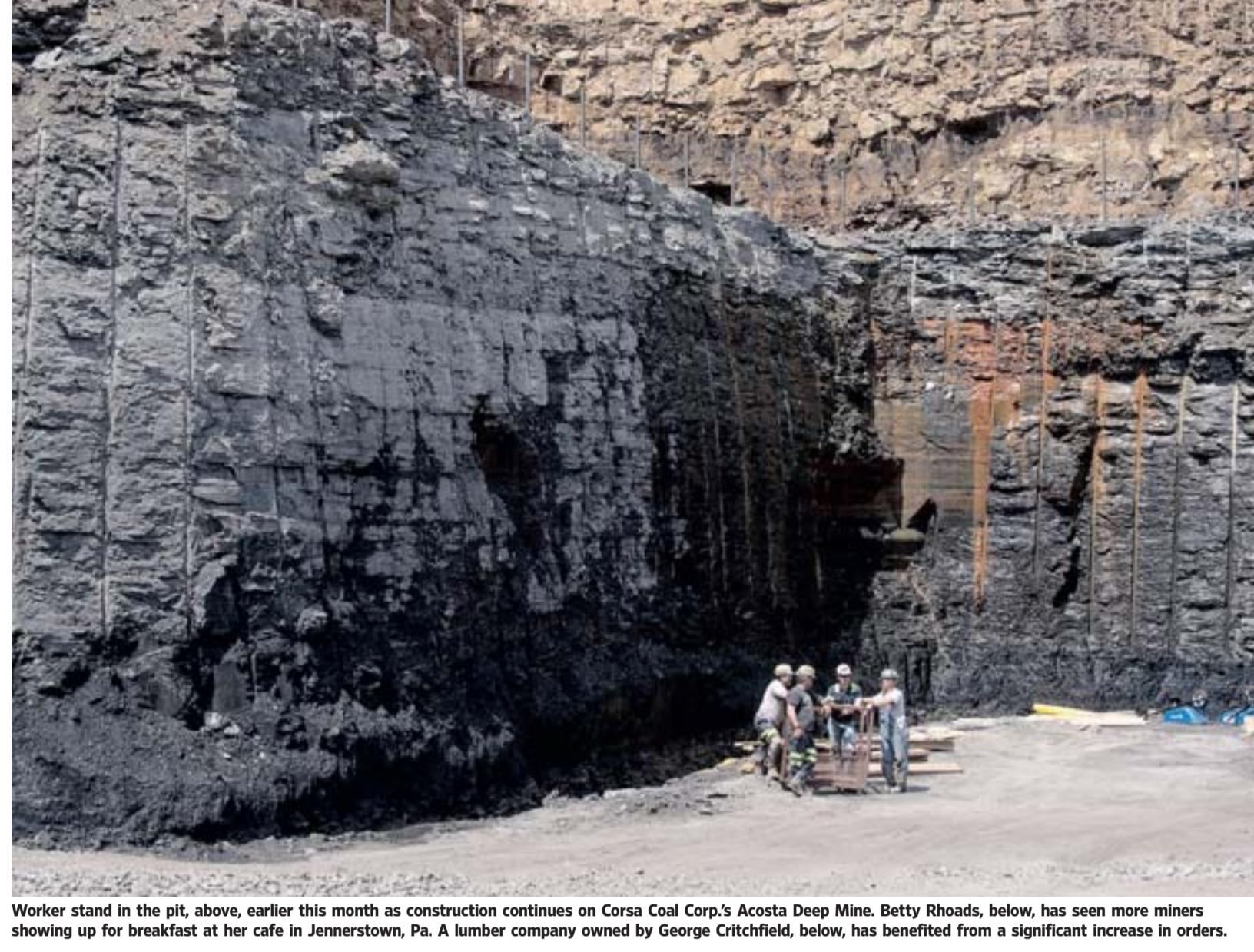
The U.S. is the No. 2 metallurgical coal exporter, behind Australia, and prices shot up after Chinese production cuts last year led to increased reliance on imported coal among steelmakers there. More recently a cyclone in Australia further tightened supplies.

"We have this important role in the international metallurgical coal markets and the ability to respond quickly to bring additional volumes to the market when it needs it," said Paul Forward, an analyst with Stifel, a St. Louis-based brokerage firm.

Less than 10% of the roughly 800 million tons of coal expected to be mined this year in the U.S. is metallurgical, so the trend won't reverse the rest of the industry's slide. But in rural communities like those near the Acosta mine, a single mine opening can energize the local economy.

The pay is also better than most other jobs in the county, Mr. Kostyk, 28 years old, said. He earns \$34.55 an hour as a section foreman.

It is difficult to fully account for the ripple effects of the recent uptick in mining activity in the county.



Worker stand in the pit, above, earlier this month as construction continues on Corsa Coal Corp.'s Acosta Deep Mine. Betty Rhoads, below, has seen more miners showing up for breakfast at her cafe in Jennerstown, Pa. A lumber company owned by George Critchfield, below, has benefited from a significant increase in orders.

cal economy.

As overall coal production is projected to decline in coming years across the Appalachian states from Pennsylvania to Alabama, small metallurgical coal mines increasingly represent the future of mining in the region, experts said. Even as more coal-fired power plants close, depressing demand for thermal coal, metallurgical coal mines are more likely to remain profitable.

Corsa Coal plans to hire about 70 miners who will enter the underground Acosta mine in low-slung battery-powered buggies and dig coal with remote-controlled cutting machines in spaces where miners themselves won't be able to stand up. The company operates eight other mines and employs about 400 workers in total.

For Joe Kostyk, his new job means not having to drive an hour and a half from his home nearby to a mine in Maryland where his shift had started at 5:30 a.m. Mr. Kostyk, who is overseeing the final preparation for the mine's opening, said he now gets to spend more time with his wife and two young children. He said his wife is thrilled. "She's definitely happy I'm closer to home," he said.

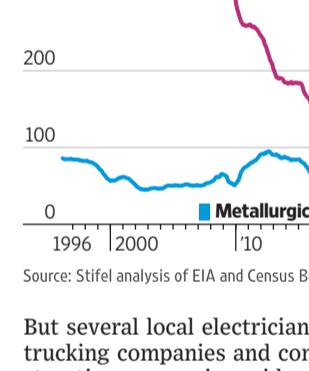
The pay is also better than most other jobs in the county, Mr. Kostyk, 28 years old, said. He earns \$34.55 an hour as a section foreman.

It is difficult to fully account for the ripple effects of the recent uptick in mining activity in the county.

Hot Commodity

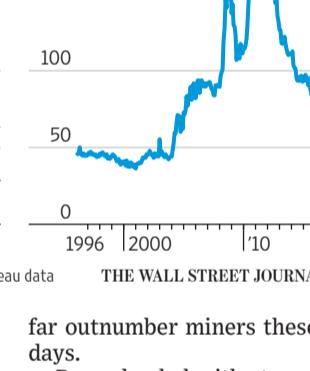
While output of coal used in power plants has tumbled amid falling demand, metallurgical-grade coal for steelmaking has seen a recent surge in prices.

Appalachian coal output, rolling 12-month total



Source: Stifel analysis of EIA and Census Bureau data

Average U.S. export price for metallurgical coal



THE WALL STREET JOURNAL.

But several local electricians, trucking companies and construction companies said they are getting additional business from the Acosta mine and others that have ramped up metallurgical coal production.

George Critchfield, 59, who owns a lumber company that borders the Acosta mine, said orders from mining companies are up at least 300% from last year and saved his business from going under.

He is busy filling an order from another mine for 20,000 5-foot-long hardwood timbers used as underground supports. "That's a heck of an order for mine props," he said. "It makes a huge difference."

At the Coal Miner's Café in Jennerstown, Pa., tourists

far outnumber miners these days.

Buses loaded with students or seniors stop on their way to two nearby monuments: a museum commemorating the 2002 Quecreek Mine rescue, where nine coal miners were pulled to the surface after being trapped in a flooded mine for 77 hours, and the Flight 93 National Memorial.

Betty Rhoads, 68, whose father and grandfather once dug coal with picks in small mines that dotted the hills where she grew up, said anywhere between eight and 20 miners, compared with three or four last year, show up for breakfast today at the cafe she owns with her husband.

Ms. Rhoads said she expects the coal industry to keep shrinking, but that she



is glad to see the recent surge in activity. "I'm very positive about any of these guys that get a job," she said. "They're bringing a good income for their family."

Somerset County in southwestern Pennsylvania, on the border with Maryland, has long supplied coal to steelmakers. Like other coalfields in Appalachia, it fell on hard times when steel and manufacturing in the region collapsed in the 1980s. The county's unemployment rate was 7.1% in March, the sixth highest of the state's 67 counties, and above the national rate of 4.4% in April.

Last year, coal-mining employment in the county fell to 214 miners employed at 12 mines, according to the federal Mine Safety and Health Administration. That was

down from a recent peak of 1,114 miners in 2011.

Employment edged up to 330 miners in the first quarter of this year, according to preliminary data from the agency. The latest data doesn't reflect the Acosta mine and others that have recently increased production but have yet to report data.

John Matkoskey, 91, of Acosta, said he was happy to see the new mine open. Mr. Matkoskey said he started loading coal by hand in 1947 for Bethlehem Steel, worked in mines as low as two feet and held just about every possible job in underground mines in the county before he retired in 1988.

"It's going to give them some work," he said, referring to the Acosta mine.

Officer in Tamir Rice Killing Fired

BY SHIBANI MAHTANI

The Cleveland police officer who fatally shot 12-year-old Tamir Rice while the boy was holding a pellet gun in 2014 was fired Tuesday after an investigation found he violated rules in his application to be a police cadet, city officials said.

"Effective immediately, Patrol Officer [Timothy] Loehmann will be terminated from the Cleveland Police Department," Michael McGrath, Cleveland director of public safety, said at a news conference announcing the results of the city's investigation into the shooting. Mr. Loehmann was fired specifically for "providing false information" on his application to become a Cleveland police officer, a violation of city rules, rather than because of actions directly related to the shooting of Tamir Rice.

Additionally, Mr. Loehmann's former partner, Frank Garmback, has been suspended for 10 days and given additional training for his involve-



A poster of Tamir Rice during a 2014 protest in Washington, D.C.

ment in the 2014 incident. "I think we've come to what we consider a fair conclusion to this process," said Cleveland Police Chief Calvin Williams.

In documents supporting Mr. Loehmann's termination, officials said that he omitted the fact that he would have been fired by his previous employer, the Independence Police Department in Ohio, for failing to secure his firearm and lying to a superior officer,

but was allowed to resign instead. Officials say Mr. Loehmann wrote that he "resigned for personal reasons" from that police department.

The NAACP said that while they welcomed the officer's termination, "it is disgraceful...that Officer Loehmann is only facing disciplinary action because of false answers he provided on his job application, and not also for killing a child."

U.S. WATCH

FBI

Trump to Interview Two Candidates

President Donald Trump planned to interview a pair of new candidates for FBI director on Tuesday.

Former Deputy FBI Director John Pistole and former Assistant Attorney General Chris Wray were scheduled to meet with Mr. Trump at the White House, spokesman Sean Spicer said.

Mr. Pistole, a 26-year veteran of the Federal Bureau of Investigation, served as the bureau's deputy director from 2004 through 2010. He began his career as an FBI agent in 1983 and worked in Minneapolis and New York and helped lead the investigation of the 1999 EgyptAir crash in the Atlantic Ocean.

Mr. Wray, a defense lawyer and former federal prosecutor, led the Justice Department's criminal division from 2003 through 2005. He started his career as an assistant U.S. attorney in Atlanta before joining the

Justice Department as a top aide to Deputy Attorney General Larry Thompson in 2001.

—Del Wilber and Michael C. Bender

HOMELAND SECURITY

Kelly, EU Hold Talks On Wider Laptop Ban

The U.S. administration held another round of talks with European Union counterparts on possibly banning laptop computers from cabins on all international flights. Homeland Security Secretary John Kelly on Tuesday called European transport commissioner Violeta Bulc and home affairs commissioner Dimitris Avramopoulos as part of talks with the EU about security concerns that would merit such a measure, said representatives for both sides.

"While a much-discussed expansion of the ban on large electronic devices in the cabin on flights to the United States was not announced today, the secretary made it clear that the expansion is still on the table," Mr.

Kelly's press secretary said.

A commission spokeswoman said both sides "decided to intensify talks."

—Valentina Pop

OREGON

Mayor Pushes to Halt Rallies After Killings

Days after the killings of two men in Portland, Ore., as they tried to defend women from a man shouting racial and anti-Muslim slurs, the Portland mayor is pressing to halt two rallies planned in the city. Portland Mayor Ted Wheeler is calling on the federal government to cancel a June 4 "Trump Free Speech Rally" and a June 10 "March Against Sharia."

Mr. Wheeler appealed to the organizers to cancel the events, adding that "there is never a place for bigotry or hatred in our community, and especially not now."

Organizers didn't respond to requests for comment or couldn't be reached.

—Zusha Elinson

IN DEPTH



French special forces have enlisted Iraqi soldiers to hunt and kill French nationals in Islamic State. Above, Iraqi federal police in Mosul, where the battle against Islamic State is continuing.

MOSUL

Continued from Page One

Iraqi fighters to target French Islamic State fighters, according to the current and former French government advisers.

A senior Iraqi police official showed The Wall Street Journal a list of names of 27 suspected Islamic State members sought by France, accompanied by photos of five of the men. French special forces began circulating the document at the start of the Mosul offensive last year. It is updated as men are killed, the police official said.

An estimated 1,700 Frenchmen have joined the militants in Iraq and Syria.

One man was identified on the list as "Badush," and the document described him as last seen in July driving a white Kia in northern Mosul, wearing traditional Iraqi clothing. Several of the names included aliases that linked the men to France—Abu Ismael al-
Fransi and Abu Souleyman al-
Fransi—or to Belgium, where some of the Paris attackers were from. Belgium's Defense Ministry declined to comment.

France doesn't have armed drones, so government officials sent its elite forces into Mosul to locate French mili-

tants, a Western security official said.

About 40 French special forces operate state-of-the-art intelligence-gathering tools, such as surveillance drones and radio interception devices, to help locate militants, said senior Iraqi counterterrorism officers and former and current French government officials.

"They are dealing with them here, because they don't want to deal with them at home," said a senior Iraqi counterterrorism officer directly involved in coordinating with the French special forces. "It's their duty. It's common sense. The most lethal attacks overseas were in France."

French government officials said their military doesn't participate in systematic extrajudicial killing of Islamic State fighters, and any such cases would be investigated for possible prosecution.

A spokesman for Iraq's Justice Ministry declined to say whether the government has any foreign Islamic State fighters in custody. Iraqi commanders have said most militants fight to the death.

"If anyone is alive, in jail, because they surrendered, they will be executed in Iraq for joining Islamic State. And France won't intervene," said a current French official familiar with the matter. "It's a convenient solution."

An estimated 1,700 Frenchmen have joined the militants in Iraq and Syria, according to the Soufan Group, a New York-based organization that researches extremism. French

The French Fight Against Terror

◆ September 2014 French jets begin airstrikes in Iraq, targeting Islamic State facilities in Mosul.

◆ November Islamic State releases a video calling for attacks inside France.

◆ January 2015 France announces deployment of its aircraft carrier to the Persian Gulf to step up airstrikes in Iraq. The carrier, Charles de Gaulle, and its strike group arrive 11 months later.

◆ September France begins airstrikes against Islamic State in Syria.

◆ Nov. 13 Islamic State gunmen and bombers launch the largest single terror attack in French history, killing 130 people in Paris.

◆ November Two days after the Paris attacks, French jets strike Islamic State targets in the Syrian city of Raqqa, the group's de facto capital, marking the start of a sustained air campaign by France in Syria.

◆ July 2016 A man driving a cargo truck kills 86 people celebrating Bastille Day in Nice, France. Islamic State claims it directed the attack.

◆ September France deploys hundreds of soldiers to Iraq to train and advise Iraqi troops in advance of the battle for Mosul.

◆ October Tens of thousands of Iraqi forces begin the operation to clear Mosul of Islamic State, supported by U.S., U.K., French and Australian air power and advisers.

France has talked about stripping nationals of citizenship for joining terror groups to bar their return home, as the U.K. has, a proposal that met stiff resistance in parliament.

Dozens of French nationals fighting with Islamic State have been killed in the battle for Mosul, two Iraqi officers said. The seven-month offensive by Iraqi forces and international allies is close to driving the remaining Islamic State fighters from the western part of Mosul, the militants' last major holding in Iraq.

French special forces often move through Mosul without Iraqi military partners. They search homes abandoned by foreign militants, as well as command centers in search of physical evidence or documents that link their citizens to Islamic State, two senior Iraqi counterterrorism officers said.

In April, French special forces swept through a medical clinic near the Mosul University campus, checking the identities of the wounded against their list of French nationals working for Islamic State.

The French forces, often wearing Iraqi uniforms and driving vehicles with Iraqi military logos, are particularly concerned about any chemical-weapons specialists working on the campus, according to a senior Iraqi commander who coordinated with French forces.

Mosul University was used by Islamic State as a command center until Iraqi forces recaptured the campus in January,

the Iraqi commander said.

The French special forces have a forensics team that collects physical evidence—tissue and bone from the dead and wounded, as well as discarded drinking cups and utensils—to find DNA matches with the men on their wanted list, Iraqi and French officials said.

The team in one instance collected bone samples from a dead fighter and ran the DNA collected through a database to compare with the DNA of French nationals suspected of joining Islamic State, according to the former foreign-affairs adviser to the French government.

A team of four French special forces went door to door in the neighborhood in January. Two of the soldiers checked the identities of residents while the other two men stood guard. "They have their own targets," an Iraqi counterterrorism officer said as he passed the scene.

French special forces have recently focused on Republic Hospital, a large complex in Mosul's Old City, according to two Iraqi Army officers who worked with them. The Old City, a warren of densely populated streets and alleys, is a commercial center and the last district in Mosul controlled by militants.

The French forces suspect that the remaining high-level Islamic State commanders, including some Frenchmen, are holed up at the hospital.

—Matthew Dalton
and Valentina Pop contributed to this article.

GAMERS

Continued from Page One

The freeloader turned out to be a 10-year-old boy on his dad's phone. Mr. Gantman successfully lobbied teammates to oust the youngster. "This isn't child's play," he said.

Kristina Holland, a 45-year-old manager at a software company in Memphis, Tenn., regretted trying to help out a teammate last month in "War Dragons," where players breed dragons for fighting.

Minutes after Ms. Holland donated a valuable shipment of virtual lumber and food, her teammate disappeared offline. Opponents quickly snapped up the unclaimed booty.

That night, Ms. Holland's ungrateful ally confessed to unplugging after getting caught playing in class.

"If you're in school, you should be focusing on school," Ms. Holland said in an interview before lapsing into gamer mode. "You shouldn't lead your teammates on to think you're available when there's any chance you could be interrupted."

The head-scratching goes both ways. Max Chan was hungry to continue playing after his team won a grueling match in the mobile battle game "Vainglory." But one of the 16-year-old boy's guildmates called it quits for the night.

"I was like, 'Dude, why do you got to get off?'" the high-school sophomore said he texted.

The response, Max recalled: "Sorry man, I gotta take care of my kid."

Max assumed everybody playing was around his age. But no grudge, he said—he needed to cut back on gaming, anyway, to study for final exams. "My parents would be furious if I got bad grades," he said.

To weed out immature players, some squad leaders conduct interviews like a crafty human-resources manager. Daniel Acosta, a 47-year-old health-care professional, is a gatekeeper for his guild in "Summoners War." He asks team applicants, by text, about their strategies for collecting the crystals used to acquire monsters and defeat opponents.

He figured he has rejected

dozens of aspiring teammates over the past 2½ years. Commonly, he said, rejections follow those who repeatedly punctuate their responses with either "dude" or "wtf."

"We don't want to bring in any riffraff," said Mr. Acosta, whose gamer handle is Wolverhulk.

Sara Hall, age 30, asks those on her "DomiNations" team to state their ages. She was thrown off guard the first time a player in the empire-building game told her he was old enough to be her father.

She had figured senior citizens would be intimidated by the complexities of competitive mobile games.

Ms. Hall, who lives in Grand Rapids, Mich., and cares full-time for her disabled mother, prefers teams with grown-ups. She said she assumes the people who quit when their armies lose—so-called rage quitters—are children, although, "you really don't know."

Mr. Ritter, the "Madden NFL"-playing executive, found that his student teammates

were more committed than he was about participating. He told them he had a job, but they still nudged during the workday.

"There was literally no empathy," Mr. Ritter said. He has joined a new team, Pigskin Warfare League, and since the players communicate using Facebook Messenger, he can see ages on their Facebook profiles.

The "Clash of Clans" squad EvilNapkins BMF prohibits players younger than 21. One of its leaders, 49-year-old

project manager Tony Tober of Denver, said he recently suspected a violator in the ranks. A player had skipped out on two wars in a row, hurting the team's chances at victory.

When Mr. Tober demanded an explanation, the AWOL warrior texted that his phone had been taken away.

"You let your wife take your phone?" Mr. Tober, who plays under the name Pen the Maniac, recalls texting back. The team ended up booting the player, he said.

Terry Pearson, 45, said he changed "Madden NFL Mobile" teams last year after getting his fill of schoolyard bickering among teammates in group texts. He was relieved to jump to a more adult team, he said, with people as committed to the game as he is.

Earlier this year, Mr. Pearson spent about a month at an aunt's farm in Wisconsin that had poor internet service. To play online, he drove 40 miles each night to a truck stop with Wi-Fi.

"We wanted to improve our ranks, so I needed to be there," said Mr. Pearson, of Springfield, Mo. "I'm not bragging, but I'm pretty good."



Left, Kristina Holland's avatar from 'War Dragons.' Right, the 'Clash of Clans' videogame.



ROCKET FEAS (LEFT) SUPERCELL

LIFE & ARTS

BOOKS

The Year of the Blockbuster

As book sales continue to contract, publishers rely more than ever on marquee names like King, Grisham, Brown and Hawkins

BY ELLEN GAMERMAN

FOR FANS OF blockbuster authors, this year's calendar is turning out to be a page-turner.

Stephen King, Paula Hawkins and other best-selling writers who don't publish on regular schedules all have new books out in 2017. John Grisham is releasing a novel next month, the first time in five years he will publish multiple titles in one year. For his new thriller, Dan Brown is going on his first book tour since 2003's "The Da Vinci Code," an event some booksellers are treating like a visit by the pope himself.

"Every week there is a new brand-name best seller hitting the market," says David Gernert, Mr. Grisham's literary agent. "In a way the rich get richer and everybody else goes about their business."

Sales of adult hardcover and paperback books have stagnated in recent years and adult e-book sales are at their lowest point since 2010, according to the Association of American Publishers. As the book world continues to contract, major publishers are relying more than ever on marquee names to boost sales.

Best-selling authors benefit from digital presales, which turn their books into front-runners well before they're released, elevating them on sites like Amazon and shaping promotional plans by brick-and-mortar retailers. Writers and publishers build momentum on social media, engineering keywords in their online marketing so their chosen books will pop up in searches months ahead of their competitors'.

Top-selling authors speed up their writing schedules to stay in the mix. Even dead writers are keeping up a healthy pace: The late Tom Clancy has two books out this year, his name towering over those of the actual writers on the covers.

Much as Hollywood has come to depend on its tentpole action and superhero franchises to drive the box office, some publishing experts say the book world is increasingly turning to its best-known names to cut through the clutter.

"Publishers absolutely rely on them—if a big author at a publishing house decides to skip a year or two, it has a big impact on the publisher's bottom line," says literary agent Robert Gottlieb.

Bestselling suspense novelist Joseph Finder says he has been pushing himself to write a book a year for the past three years, up from one book every other year. He was prompted partly by the example set by writer James Patterson, credited as the author or co-author of 10 adult titles last year. "I think that Jim Patterson has trained the market," he says. "There is a cycle now and people really tend to expect a book from their favorite author to come out at the same time of the year each year."

The business still allows for breakout best sellers by unknowns

like Ms. Hawkins and her 2015 phenomenon "The Girl on the Train," but those surprise hits also tend to overpower other books in a way they didn't used to, says Brian Tart, president and publisher of Viking. "It's gotten more concentrated," he says, crediting social media for creating buzz around a single title. "You're not wondering as much as

you used to about, 'What's the big book?' People know now."

Ms. Hawkins's latest novel, "Into the Water," released in early May in the U.S., has soared onto the best-seller lists.

The 100 best-selling books account for roughly 6% of all print book sales, up slightly from a decade ago, according to NPD Books.

But blockbusters can have a broader impact because they can jump-start sales of other books. "A tentpole title causes people to think about reading the book, but if they don't want to buy that particular book, they will find something comparable," says industry analyst Lorraine Shanley.

The crowded market means au-

thors are bumping into each other's release dates. In February, news broke that John Grisham's new novel, "Camino Island," would come out in the U.S. on June 6. A few days earlier, best-selling thriller writer Brad Thor's publisher switched the U.S. on-sale date for his book "Use of Force" from June 6 to June 27.

"When we looked at dates this summer, we certainly saw there's a lot of activity," says Emily Bestler, Mr. Thor's editor at Emily Bestler Books/Atria. "It's a very, very competitive market and it has only been getting more so." She says the date wasn't changed because of Mr. Grisham, but to take advantage of a large retailer's promotion in late June.

This September, Mr. King delivers "Sleeping Beauties," a book he co-wrote with his younger son, Owen King. It arrives amid rereleases of Mr. King's "The Dark Tower I: The Gunslinger" and "IT" pegged to two 2017 movie adaptations. Mr. Brown returns this October with "Origin," a Robert Langdon book.

Familiar characters are coming back, too, like the girl with the dragon tattoo. In September, Lisbeth Salander returns to the U.S. in David Lagercrantz's "The Girl Who Takes an Eye for an Eye," the fifth book in the series created by the late Stieg Larsson. New installments in long-running series are hitting shelves as well, like Sue Grafton's "Y is for Yesterday," coming this August, and Jan Karon's Mitford novel "To Be Where You Are," landing in September.

Publishers also are attempting to awaken hits from decades ago. This September, John le Carré publishes "A Legacy of Spies," the 85-year-old author's first George Smiley novel in over 25 years. The same month, Ken Follett returns with "A Column of Fire," reviving the fictional town of Kingsbridge in the trilogy that started with his 1989 all-time best seller "The Pillars of the Earth."

This summer, best-selling author Michael Connelly debuts his first original series in more than a decade. Mr. Connelly, whose long-running thrillers about Los Angeles crime solver Harry Bosch inspired an Amazon original series, is launching a new novel with a female protagonist, "The Late Show," due out July 18 in the U.S.

"If you have been writing about the same character for 25 years, that can be tough. But if you have something new, then you have a point of discussion—how does Michael Connelly's new female detective compare to Harry Bosch?—and you have at least a shot at grabbing lightning in a bottle," Mr. Connelly wrote in an email.

Mr. Connelly's next Bosch novel, "Two Kinds of Truth," lands in October. With recent releases, he has been traveling to a warehouse in Lebanon, Ind., to sign several thousand copies of his novels. The time-honored practice still sells books. He says: "Let's stack 'em high and watch 'em fly."

MY RIDE | By A.J. Baime

CAN'T AFFORD A SHELBY? BUILD YOUR OWN



Paul Martin, a commercial set designer from Los Angeles, with his recreation of a 1964 Shelby Cobra Daytona Coupe. Only six originals were built.

Paul Martin, 48, a commercial set designer from Los Angeles, on his 1964 Shelby Cobra Daytona Coupe recreation, as told to A.J. Baime.

In the early 1960s, a car designer named Peter Brock, working for Carroll Shelby's **Shelby American** racing team, designed the Shelby Cobra Daytona Coupe. It became the first car from an American team to win the 24 Hours of Le Mans, in its class, and a year later, it was part of the Shelby American team that won the FIA world championship. Only six were built. Today, they are among the most sought-after collector cars in the world.

Since I did not have the millions it would take to buy one, I decided to build my own. My wife and my friends thought I was mad, which is probably true. Three-and-a-half years ago, I set out to build an exact recreation of the 1964 car.

For the chassis and body, I hired craftsmen in Poland who work at a former MiG jet fighter factory there. They spent some 3,000 hours on the project, working from original drawings and photographs. Meanwhile, I found parts all over the U.S. and Europe. If I could not find the exact part I needed, I had it fabricated.

I had a period-correct 289 Ford racing en-

gine built. The brake cooling ducts, the four-speed transmission, Weber carburetors—everything had to match the original car, down to the dashboard switches and even the style of lettering above them. The major difference between the old and new car? Mine is street legal.

Part of the fun was documenting this on Facebook. Throughout, I posted photographs of the progress. By the end, I had tons of people following the journey.

When I completed the car in 2016, members of a Shelby club threw an unveiling party in Beverly Hills. Special guests included the Cobra Daytona Coupe's original designer Peter Brock, who signed the dashboard, and Allen Grant, a racing driver who competed in the original car in the 1960s. It was truly incredible.

The vehicle probably cost me a half-million dollars. I drive it to events, to the beach and through the mountains. It's a raw race car for the street, capable of 200 mph. Sitting in it with the engine revving, you feel like you're inside a snare drum. It's that loud. My wife calls it noisy, scary, dirty and frightening. I call it a work of art.

Contact A.J. Baime at Facebook.com/ajbaime.

OPINION

REVIEW & OUTLOOK

Travel Ban Showdown

President Trump's travel ban is now teed up for the U.S. Supreme Court, with an appellate circuit enjoining the revised version last week and the Administration vowing an appeal. Mr. Trump was unwise to invite this confrontation, but the High Court now has to rescue the judiciary from harming presidential power and maybe American security.

On Thursday the full 13-member Fourth Circuit Court of Appeals held 10-3 that Mr. Trump's executive order to limit U.S. entry from six nations associated with heightened terror risks was the product of bigotry and thus violates the First Amendment's establishment clause. Judge Roger Gregory's 205-page ruling claims the ban "drips with religious intolerance, animus, and discrimination" against Muslims.

The problem is that both the U.S. Constitution and statutes passed by Congress endow the President—any President—with broad authority to deny admission to foreign nationals to protect U.S. interests. The courts can narrowly engage, but the Constitution gives the political branches dominant authority on immigration and foreign policy.

Under decades of Supreme Court precedent, the government only needs to show that some immigration action has a "facially legitimate and bona fide" justification. The Trump Administration argues the ban is a temporary pause to improve security vetting, and Congress and even President Obama singled out the six nations in 2016 as countries of concern for exporting terror and increased visa scrutiny.

The courts aren't allowed to look beyond the four corners of the official rationale laid out in the executive order, but Judge Gregory circum-

vents these limits by deputizing himself as a mind reader. He rehearses Mr. Trump's various campaign statements about a "Muslim ban," and even statements from political operatives who didn't join the Administration, to infer motives of "a primarily religious purpose."

Psychoanalysis of elected officials is a mug's game, especially for one as improvisational as Mr. Trump. Which re-education camp does he have to graduate from to make foreign-policy decisions about Muslim-majority nations without the courts deducing bias? Does Judge Gregory have an opinion about Mr. Trump's recent Saudi Arabia trip, or the President's vision of new alliances in the Middle East?

This impulse leads judges to self-appoint as the supervisors of executive power in foreign affairs, and Judge Gregory even dismisses evidence of real terror plots by aliens because "we remain unconvinced" that the order "has more to do with national security than it does with effectuating the President's promised Muslim ban." Whatever happened to analyzing legal texts and Supreme Court precedents?

Mr. Trump's original order was chaotic and overbroad, but the emended edition was legally sound, and judges are now ignoring the law to make a political point. The separation of powers was designed to check abuses by the three branches of government, and the judiciary should check executive excesses. But that isn't an excuse for the judiciary to exceed its authority simply because this President's name is Trump. The Supreme Court will now have to prevent an imperial judiciary from harming constitutional powers that this President, or a future one, may need to protect America.

The word 'Trump' isn't an excuse for usurping core presidential power.

Macron Confronts Putin

Perhaps there is something to rumors from Paris that Emmanuel Macron wants to reincarnate the spirit of Charles de Gaulle. On Monday the new French President hosted Vladimir Putin at the Palace of Versailles—where he then dressed down the Russian leader.

During the testy meeting, Mr. Macron denounced state-run Russian media outlets RT and Sputnik for behaving like "organizations of influence, of propaganda, and false propaganda." Hackers stole thousands of emails from Mr. Macron's political party hours before the French Presidential runoff earlier this month, and the Kremlin made no secret of its preference for Mr. Macron's hard-right rival, Marine Le Pen. At Versailles Mr. Macron called out the Kremlin on its barely veiled efforts to subvert democracy across the West.

Mr. Macron also warned that any chemical-weapons use by Russia's client Bashar Assad would cross his "red line." Given Donald Trump's

willingness to take military action against the Damascus regime, the French president's warning leaves Moscow even more isolated among the great powers on Syria.

Mr. Macron's full views on Russia remain a concern, especially when it comes to Ukraine. For example, while Mr. Macron says he wants to restart peace talks, the Kremlin has for years used diplomacy to consolidate its territorial gains and press ahead when the West isn't looking.

Still, as Russia-policy-resets go, Mr. Macron's remarks on Monday mark a big improvement over the Obama Administration's gimmicks with red plastic buttons. Let's hope Mr. Macron follows up by insisting that any lifting of sanctions would be conditioned on Russian proxies withdrawing from occupied territories in Ukraine. While he's at it, France might also consider arming Kiev with defensive weapons so it can to increase the cost of Russian aggression. De Gaulle would approve.

Will tough talk on subverting democracy be followed up on Ukraine?

Democratic Dreams of Health Care

As California liberals go, the Democratic Party often follows. So it's instructive, if not surprising, that Golden State Democrats are responding to the failure of ObamaCare by embracing single-payer health care. This proves the truism that the liberal solution to every government failure is always more government.

Many on the left championed single-payer in lieu of ObamaCare's regulations and subsidies, but in 2010 it lacked enough support among Democrats in Congress. But with premiums soaring and insurers fleeing the Affordable Care Act exchanges, progressives are now trying to pivot to achieve their longtime dream.

California Lieutenant Governor Gavin Newsom, the frontrunner to succeed Jerry Brown as Governor next year, is running on single-payer, which shows the idea is going mainstream. At the state Democratic convention earlier this month, protesters shouted down speakers who dared to ask about paying for it. The state Senate Appropriations Committee passed a single-payer bill last week, and it has a fair chance of getting to Mr. Brown's desk.

The bill reflects the left's Platonic ideal, with the promise of free care for everyone for everything. Patients would be entitled to an essentially unlimited list of benefits, including acupuncture and chiropractic care as well as "all medical care determined to be medically appropriate by the member's health care provider." They could see any specialist without a referral. Copays and deductibles and charging premiums would be prohibited.

There would thus be no restraint on health-care utilization and costs. Patients could get treated for virtually any malady by any physician at no cost. This is probably what kids educated at California's pre-eminent universities envision when politicians and professors promote single-payer: an efficient, free, munificent socialist paradise.

But even paradise has a price. The Senate committee pegged its bill's cost at \$400 billion a year, which is likely conservative since analysts assume utilization rates close to those for Medicaid, in which patients lack access to many specialists. About \$200 billion could be reallocated from other government health-care programs, including Medicaid and Medicare, though this would require federal waivers. The

rest would require higher taxes.

A \$200 billion tax hike would be equivalent to a 15% payroll tax, which would come on top of the current 15.3% federal payroll tax. The Senate staff analysis estimates that "between 25% and 50% of the payroll tax revenues would represent a new tax on employees, not likely to be offset by higher wages." The report dryly concludes that "the state-wide economic impacts of such an overall tax increase on employment is beyond the scope of this analysis."

Democrats could as usual try to soak the rich with higher income taxes, but the wealthy in California already pay a 13.3% top marginal rate. The state would have to confiscate nearly all the income of all of its millionaires to pay for it.

The daunting costs and higher taxes caused former Vermont Governor Peter Shumlin to abandon his dreams of single-payer in 2014 after he had campaigned for it in 2010. The estimated bill would have doubled state revenues, which is roughly what California's \$400 billion price tag would require. Last November nearly 80% of voters in Colorado rejected a single-payer trial balloon that would have raised taxes by \$25 billion.

But California Democrats are thinking less about reality than they are trying to satisfy the leftist march of their political base. Bernie Sanders campaigned on government-run health care. Unions are using single-payer as a litmus test for progressivism or, alternatively, cynicism. Democrats like Mr. Newsom can campaign on single-payer realizing that voters will get the final say because the California constitution would require an amendment to waive the state's spending limit (yes, there is one) and education-funding formula.

One danger for taxpayers in the other 49 states is that California liberals will drag ambitious Democrats elsewhere to endorse single-payer if they want to compete for the 2020 Democratic presidential nomination. New York Governor Andrew Cuomo, for example.

All of which raises the stakes for Senate Republicans in Washington as they consider the House bill to repeal and replace ObamaCare. If they blow this opportunity, Democrats will respond to the breakdown of the health exchanges with the California play. And voters might even consider socialism as a solution.

Don't Blame Hillary



MAIN
STREET
By William
McGurn

"Show me a good loser and I'll show you a loser." The words are often attributed to the famed Notre Dame football coach Knute Rockne. Judging from the ungraciousness that has characterized Hillary Clinton's every public appearance since the November election, she has taken them to heart.

Friday's commencement address at Wellesley—an attack on the man who defeated her—is only the latest outburst from a failed candidate, who has now vowed to take a leading position in the anti-Trump "resistance."

On the right these things provoke new headlines about sore loserhood. Far more interesting is the irritation Mrs. Clinton's refusal to fade away is causing among fellow Democrats who blame her for the loss against what should have been an easily defeatable Republican nominee.

This is supremely unfair to Mrs. Clinton. As flawed a candidate as she might have been, the truth is almost certainly the reverse. It is today's Democratic Party that gave us Mrs. Clinton, as well as the thumping in November.

Yes, the Clintons have always been flexible about principles, a big reason for the appeal of the more purist Bernie Sanders. Back when her husband was running for president as a "New Democrat" in 1992, the idea was that the party had shed its McGovernite past and moved to the center, so that it could now be trusted on values, the economy and national security.

Once they got in, Mrs. Clinton reverted to type by pushing, unsuccessfully, for universal health care. But after that belly-flop and the 1994 GOP takeover of Congress, they dialed it back, and by 1996 her husband was telling the American people "the era of big government is over."

As New York's junior senator, Mrs. Clinton was firmly ensconced within her party. "On the 1,390 votes she cast in which most senators from one party voted differently from most senators across the aisle," notes an April 2016 piece from Roll Call, "Clinton went against the Democratic grain only 49 times."

Even on the single issue that came to be used against her in last year's Democratic presidential primary—her 2002 vote to authorize the use of force in Iraq—Mrs. Clinton was squarely with her party.

We've forgotten it today, but more Democrats voted with Mrs. Clinton on that one than against, including Harry Reid, John Edwards, Chuck Schumer, Joe Biden and John Kerry. Only a few years later she, again like them, opposed the surge.

So which is she, hawk or dove? The truth is that she is both—and neither. In a notable section in the memoirs of fellow Obama cabinet member Bob Gates, he relates a conversation in which she admits her opposition to the surge in Iraq "had been political because she was facing [Barack Obama] in the Iowa primary." Again this only puts her within the mainstream of her party: Most of the other Democrats who had voted for the war in 2002 would also oppose the surge in 2007.

It has been a consistent pattern for Mrs. Clinton. On almost any issue that energizes her party—from same-sex marriage to the Trans-Pacific Partnership trade deal—Mrs. Clinton has gone where the party has pulled her even if it meant going against where she had been. This is what Hollywood actress Rosario Dawson meant last summer when she asked a group of Sanders delegates at the convention to understand that Mrs. Clinton "is not a leader, she's a follower."

Mrs. Clinton was a flawed messenger, but it's her party that has a message problem.

But on what became the single overriding theme of her campaign, Mrs. Clinton was truly in sync with her party. This is the idea that she should be elected because she's a woman, and that a coalition of millennials, minorities and women would come together to make it happen. So where Donald Trump had "Make America Great Again," Mrs. Clinton had the identity project par excellence: "I'm with her."

After all, who could be more deserving to succeed the first African-American president than the first woman president?

It didn't turn out that way. And if you take the Trump blinders off for some perspective, there's another dynamic that had little to do with Mrs. Clinton: the hemorrhaging of Democratic seats over the Obama years—from the governorships to state legislatures to Capitol Hill—to the point where the Democratic Party is now at its lowest levels in a century.

By the time Mrs. Clinton had secured the nomination for president, she had embraced everything a far more progressive party wanted her to embrace. But she also inherited a party that was losing elections all across the country.

So maybe it wasn't only a flawed messenger that led Democrats to defeat in 2016. Maybe there's a problem with the message, too.

Write to mcgurn@wsj.com.

LETTERS TO THE EDITOR

Blinder Misses Mark on Financial Choice Act

Regarding Alan Blinder's "The Unraveling Trump-GOP Bargain" (op-ed, May 23): The goals of U.S. House Republicans are, and have long been, to create an environment in which American businesses can thrive, create new jobs and expand opportunities for our citizens.

For seven years, the Dodd-Frank Act has placed undue burdens on consumers, entrepreneurs, small businesses and our community banks. I have witnessed the pernicious effects of this law firsthand as the chief executive of a locally owned community bank in Little Rock. The regulatory requirements for smaller financial institutions have created an unreasonable burden that makes it exceptionally difficult for them to fulfill their roles in providing consumers, small businesses and entrepreneurs with competitive services and access to credit and capital.

The House Financial Services Committee has worked for more than two years on the Financial Choice Act, which would "repeal and replace" major aspects of Dodd-

Frank. We want to right-size the financial regulatory system so that consumers, entrepreneurs and businesses have more access to capital, and community banks can maintain their competitiveness with big, global institutions.

Mr. Blinder incorrectly states that the act will free Wall Street banks to return to the "Wild West" days of pre-2008 collapse. But the act reduces moral hazard by requiring high levels of tier-one leverage capital, while giving community banks the regulatory flexibility they need to return to their historical role requires bankruptcy for complex financial institutions and increases penalties for bad actors at banks. It asserts Article I authority by placing the Consumer Financial Protection Bureau on a budget and reorienting it to focus on law enforcement, not law making. The act would encourage economic growth while ending Dodd-Frank's institutionalization of the current state of affairs: too big to fail and too small to succeed.

REP. FRENCH HILL (R., ARK.)

Little Rock, Ark.

Robots Can Help, if Workers Are Well-Trained

In "Robots Aren't Killing Our Jobs Fast Enough" (World News, May 11), Greg Ip argues that fear of mass-automation-driven job loss is largely unfounded and that less automation means a larger workforce, which drives up production costs and prices.

Mr. Ip posits that we spend too much on automation-resistant professions such as information technology, business services and health care. His solution is to invest more in labor-saving technology to boost productivity, drive down costs and improve living standards.

But his analysis overlooks the enormous gap between productivity and median wage, which has grown steadily since the 1970s. The real problem then isn't low productivity, but our unyielding allegiance to such vague economic concepts, which disallows an accurate assessment of the value of low-skill workers and foretells efforts to improve their standard of living.

Recent research on labor-saving

technologies shows that there is cause for concern in many sectors, but this doesn't mean the end of work. Unless we are prepared to base all economic decisions on a potential "singularity" that will supplant humanity, it would be best to focus on ensuring our workforce has the skills and protections necessary to navigate the contemporary economy.

Increased public investment in infrastructure, education and health care would be a good start; concurrently shifting policy to encourage productive investment and hasten innovation would be even better.

ERIC HARRIS BERNSTEIN

Roosevelt Institute

New York

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OPINION

The Truth About Trump in Europe

By Jamie Fly

Like Donald Trump, recent Republican presidents have provoked controversy on their first forays into Europe. Ronald Reagan arrived in Germany in 1982 to thousands of antinuclear protesters. George H.W. Bush had to counter a Soviet effort in May 1989 to undermine alliance unity on nuclear strategy.

By the time of his first visit in June 2001, George W. Bush had already withdrawn the U.S. from several international agreements, racking allies. Germany's *Der Spiegel* went so far as to portray Mr. Bush on its cover, three months into his presidency, standing atop the globe dressed as a cowboy. The caption: "The Little Sheriff: George W. Bush vs. the Rest of the World."

Mr. Trump, by comparison, had an easy task last week at NATO and the G-7 summit. The press was quick

Ignore the negative hype. Leaders see real progress and opportunities for trans-Atlantic relations.

to highlight every breach of protocol and anonymous sniping from European officials, but the reality is that European leaders are pleased with the professionalism that has marked their engagements so far with the Trump administration. While his rhetoric and domestic political distractions generate concerns about the sustainability of American leadership, the worst fears about Mr. Trump's posture toward Europe have yet to materialize.

Mr. Trump repeated in Brussels a version of his fiery campaign speech about NATO allies failing to



AP/GREGORY IMAGES

Donald Trump at NATO headquarters in Brussels on Thursday.

meet their spending commitments, but U.S. officials have engaged in cool-headed discussions with their counterparts in NATO capitals about capabilities and national-spending plans instead of arbitrary budget targets. The allies are developing specific plans to address capability gaps.

Trump transition-team discussions about lifting sanctions on Russia immediately upon taking office have morphed into a \$1.4 billion increase in funding for the Obama administration's European Reassurance Initiative, which has placed allied forces for the first time in the expanded alliance's frontline states facing Russia.

Mr. Trump's call for NATO to focus more on terrorism, pertinent in the wake of the Manchester attack, led to agreement in Brussels for the alliance to formally join the coalition against Islamic State.

European calm about Mr. Trump comes in part thanks to the victory of Emmanuel Macron in France's presidential election. A European Union once edging toward dissolution now sees the potential for reju-

venation through the Franco-German engine. In France as well as in the coming German elections, Mr. Trump's election and the outcome of Britain's Brexit vote are perceived to have energized mainstream parties and limited the appeal of the nationalist fringe.

These developments offer a significant trans-Atlantic opportunity for Mr. Trump and his European counterparts, if they can set aside the theatrics.

For the American, suffering from scandal at home, it is an opportunity to claim credit for moving forward the debate within NATO on defense spending and the war against Islamic State in a way that eluded his predecessors. Meanwhile, as Germany's Chancellor Angela Merkel remarked on Sunday, Mr. Trump's "America First" agenda may actually spur Europe to assume a stronger leadership role in the world.

While the U.S. security guarantee and American leadership have been essential to the success of the European project, U.S. concerns have at times held the project back. With the new administration focused on

other challenges, and the U.K.—America's traditional proxy in the EU—on its way out of the union, there is new talk of economic reforms and even a resuscitation of the common European Security and Defence Policy.

A resurgent Russia is also forcing the alliance to refocus on European security. Compared to recent U.S. administrations, the demands being made by the Trump administration on ally resources in the fight against Islamic State and the war in Afghanistan are minimal. The limits of what the alliance can achieve without further increasing national capabilities, as made evident in NATO's shabby operations in Libya, have turned the trans-Atlantic leaders' attentions to developing a more-efficient division of labor.

There is still significant European apprehension about the outcome of meetings with an unpredictable U.S. president. This was only heightened by Mr. Trump's use of a somber NATO ceremony to publicly berate European leaders and his failure to explicitly endorse NATO's mutual-defense commitment.

European officials also remain concerned about the outcome of the Trump administration's policy reviews, especially on the Iran nuclear deal and the Paris climate agreement, two areas where the Trump administration is right to resist Continental conformity, but differences will need to be managed.

Even so, compared with the turmoil that has accompanied past Republican presidents on their initial trips to Europe, there appears to be more consensus among the allies about the way forward. The European opportunity is still Mr. Trump's to grasp.

Mr. Fly, a former foreign-policy adviser in the U.S. Senate, is a senior fellow at the German Marshall Fund of the United States.

Averting War In Lebanon

By Ron Prosor

Donald Trump called out Hezbollah at both stops on his Middle East trip last week. In Saudi Arabia he praised the Gulf Cooperation Council for designating the Iranian-backed Lebanese Shi'ite militia a terrorist organization and noted that Riyadh had placed sanctions on a senior Hezbollah figure. In Jerusalem he scored Hezbollah for launching rockets "into Israeli communities where schoolchildren have to be trained to hear the sirens and run to the bomb shelters."

Lebanon is at a crossroads. Decisions the president makes now could help prevent a war between Israel and Hezbollah. Such a war would damage Lebanon and could drag the U.S. into another complex and costly entanglement in the Middle East. Engagement today can prevent risks to American lives tomorrow.

Hezbollah's strength has multiplied, and conflict is inevitable unless the world acts.

Hezbollah is sponsored by Iran and has become increasingly brazen in the past decade. It is now more powerful militarily than most North Atlantic Treaty Organization members. It has 150,000 missiles and could launch 1,500 of them a day. From the ground, air or sea, it can strike anywhere in Israel.

Lebanon's president, Michel Aoun, hasn't distanced the Lebanese army from Iran's proxy. Rather, he has embraced it. "Hezbollah's weapons do not contradict the national project," he said in February, but are "a principal element of Lebanon's defense."

Yet when Hezbollah acts, it does so with Iran's interests in mind. Iran would have no qualms spilling Lebanese blood in a war with Israel. Just look at Syria, where under Iranian direction the Assad regime has unleashed genocide against the Sunni Arab population using Hezbollah as its storm troops.

War between Israel and Lebanon is avoidable, but only if the world acts now—with American leadership. Hezbollah's ability to destabilize the region stems from the abject failure of United Nations Security Council Resolution 1701 and the peacekeeping force tasked with enforcing it, the U.N. Interim Force in Lebanon, or Unifil.

Resolution 1701 was adopted unanimously after Israel was forced to fight a defensive war against Hezbollah in 2006. It mandated that Unifil keep southern Lebanon "free of any armed personnel, assets and weapons" and prevent the area from being used "for hostile activities of any kind."

Like many U.N. resolutions, 1701 has been thoroughly ineffective. Hezbollah is 10 times as strong now as it was in 2006, and its military infrastructure permeates Lebanon. Yet Unifil claims ignorance of the terror organization's arms buildup. Its March 2017 report reaches new heights of absurdity: "To date, Unifil has neither been provided with, nor found, evidence of an unauthorized transfer of arms into its area of operations."

Hezbollah mustn't be allowed to impose war on the region and tragedy on Lebanon while the Iranian regime rubs its hands. What can Mr. Trump do?

The U.S. should seek a U.N. Security Council resolution amending 1701 and providing Unifil with explicit powers to disarm Hezbollah and demilitarize South Lebanon under Chapter 7 of the U.N. charter, the section that deals with peace enforcement. Currently Unifil derives its legal mandate from Chapter 6, which deals with peacekeeping. Peacekeeping helps local restaurants stay in business but does little to enforce peace.

As usual, the tab for U.N. failure in Lebanon is being paid for by American taxpayers. The U.S. picks up 43% of Unifil's \$488 million annual budget. Congress should make that funding conditional on performance.

War between Lebanon and Israel would be detrimental to Russian interests in Syria, so Vladimir Putin could be convinced to help rein in Hezbollah. For the Arab states, led by Saudi Arabia and Egypt, containing Hezbollah and Iran is a priority. Western Europe should be eager to avoid a war that would worsen its refugee crisis. Finding common ground over Lebanon and Syria could strengthen cooperation between Israel and the Sunni Arab states searching for a solution to the Israeli-Palestinian problem.

Mr. Trump and Secretary of State Rex Tillerson have a historic opportunity to do the right thing: to show that U.S. diplomatic intervention today can prevent the need to make terrible decisions about U.S. military intervention tomorrow.

Mr. Prosor, a former Israeli ambassador to the U.N., is chairman of the Interdisciplinary Center's International Diplomacy Institute and an executive-in-residence at LioniTree.

Don't Expand Restrictions on Laptops—Rethink Them

By Alexandre de Juniac

As the U.S. Department of Homeland Security considers expanding its ban on laptops and other large portable electronic devices from the aircraft cabins of U.S.-bound international flights, it should base its decision on the best information from the best experts it has access to. One major expert source on the matter, however, isn't being fully included in the discussion: the air-transport industry.

The existing U.S. ban currently applies only to flights to the U.S. from 10 airports in the Middle East and Africa. DHS is considering whether to extend that coverage to encompass all flights to the U.S. from Europe, and possibly all flights to the U.S. from anywhere in the world. The U.K. has also implemented a ban from a similar but not identical list of states.

Such a decision needs careful consideration. Forbidding some 300,000 passengers from carrying laptops, tablets and e-readers in their cabin baggage on the more than 2,000 international flights that arrive at U.S. airports daily will damage the global economy and impose an enormous inconvenience on air travelers.

The International Air Transport Association estimates that a laptop ban on flights to the U.S. from Europe would cost at least \$1 billion a year in lost productivity and increased delays to passengers. And that's not counting the emotional toll. Business travelers expect to be productive throughout the flight, and millions of parents traveling with young children rely on their tablets to keep their kids entertained.

An increase in the number of lithium-battery-powered devices in the cargo hold also poses risks to passenger safety. Putting so many devices in close proximity, away from crew members trained and equipped to manage cabin fires, risks a malfunction that could

overwhelm current fire-containment capabilities.

The travel industry stands to be impacted by an expanded ban, as some companies don't permit their laptops to be checked in as baggage for reasons of corporate security and to avoid possible damage in transit. As business-class fares account for a large share of airline revenue, a small drop in business travelers would quickly make a flight unprofitable. That could result in fewer, or more expensive, flights for leisure travelers.

When it comes to devising the most efficient means of implementing a ban, airlines and airports have the operational expertise to help governments overcome the threats they detect, and to do so with minimal disruption to travelers. Unfortunately, the level of industry consultation in this regard has been disappointing.

We don't pretend to have a silver-bullet solution, but I am confident there is a less disruptive way to mitigate the threat. To participate, the air-transport industry doesn't need access to sensitive government intelligence. But we must also understand what we are

trying to prevent. Governments and the industry share a top priority of keeping flying secure. And our goal is to maximize the security benefits of any proposed measures while minimizing the negative impact on airline operations and their passengers.

Airlines have considerable expertise on safety and security matters. Governments should tap it.

This vital role that the air-transport industry can play in sharing its experience and know-how has been recognized by the United Nations. While noting that governments have a responsibility for ensuring air safety and security, U.N. Security Resolution 2309 highlights the obligations of countries to partner with industry and share information between governments, airlines and airports.

Representatives from airlines, airports, regulators and screening authorities have identified a number

of measures as alternatives to expanding the ban. These include procedures for explosives trace detection and trace analysis of personal electronic devices. More behavioral-analysis officers and canine resources would also be helpful.

We also believe that governments should give more support to the development and certification of, and investment in, advanced screening machines at airports. It is unacceptable that hundreds of airports around the world today still rely on X-ray machines—a 50-year-old technology—to locate highly sophisticated explosives and weaponry.

The security of our passengers and crew must never be compromised. We understand that the U.S. has compelling reasons to mandate countermeasures in response to a credible threat. But we urge all regulators to weigh the consequences of such measures on the passengers and their safety, the economy and the airlines and to look for ways to minimize the negative impact while keeping air travel secure.

Mr. de Juniac is the director general and CEO of the International Air Transport Association.

The 'Business Case' for Paris Is Bunk

By Cliff Forrest

As President Trump weighs whether to withdraw from the Paris Agreement on climate change, some have tried to present a "business case" for why the U.S. should stay in. The Paris Agreement's backers tell a very incomplete story and reached the wrong conclusion.

Climate-change advocates' bizarre premise is that economic gains will come from restricting access to the most abundant, reliable and affordable fuel sources. Never mind that this defies the experience of many

European nations that have invested heavily in renewable energy. After "Germany's aggressive and reckless expansion of wind and solar," for example, the magazine *Der Spiegel* declared in 2013 that electricity had become "a luxury good." Apparently this time will be different.

There are a few interesting hypocrisies to consider as well. The commercial interests that strongly support the Paris Agreement typically have created programs to exploit, game or merely pass through the costs of the climate-change agenda. Many also maintain a green pose for marketing purposes.

The classic example of this rent-seeking behavior was Enron, which in 1996 purchased Zond Energy Systems (now GE Wind) to complement its gas pipeline. Enron then set about lobbying its way to green-energy riches. It seems that Paris backers hope for a sudden public amnesia about the many businesses that use government to push out smaller competitors.

Green companies also argue that, beyond economic benefits, their ability to slow climate change helps contribute to the public good. To my knowledge, none declare a measurable impact on climate from their businesses or their desired policies.

Mr. Trump should keep in mind that the people calling for him to stick with the Paris Agreement largely didn't support him during the campaign. Few would like to see him succeed now. As for his strongest supporters, they're the ones

who will take the hit if he breaks his promise to withdraw.

Some countries have threatened to punish the U.S. if it pulls out of the accord. Rodolfo Lacy Tamayo, Mexico's undersecretary for environmental policy and planning, said in an interview with the New York Times: "A carbon tariff against the United States is an option for us."

The climate accord is a boon—yet pulling out would be unfair?

Countries imposing costs on their own industries through the Paris Agreement complain that they are at a disadvantage if the U.S. doesn't do the same. Apparently they didn't receive the talking points describing green energy as an economic boon for everyone involved.

So which is it? Does the Paris Agreement spur a U.S. economy otherwise unprepared to succeed in the 21st century? Or is the U.S. maintaining economic advantage by not subjecting itself to the accord's arduous requirements?

Mr. Trump's obligation is to do what is in America's best interest. Rejecting a confused and costly international agreement, with questionable benefits to climate, should be a slam dunk. Don't take my word for it. Just study the other side's arguments.

Mr. Forrest is CEO of Rosebud Mining.

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LIFE & ARTS

ART

Japan's Billionaire Trophy Hunter

Yusaku Maezawa's recent art purchases, including a \$110.5 million bid for a Basquiat, have single-handedly shifted market prices

BY KELLY CROW
AND MEGUMI FUJIKAWA

THE ART WORLD was stunned earlier this month when a Japanese billionaire paid Sotheby's \$110.5 million for a Jean-Michel Basquiat painting of a black skull. The purchase reset the record for a U.S. artist at auction and infused the beleaguered art market with a shot of adrenaline. Now, the Basquiat's newcomer buyer—41-year-old e-commerce mogul Yusaku Maezawa—is getting a closer look by the art establishment.

After the sale, art adviser Elizabeth Jacoby of BSJ Fine Art said she started following Mr. Maezawa on social media (his Twitter handle is @yousuck2020), liking images of his private jet because she thinks the racing stripes he recently added match the blue hue of his Basquiat. Major collector Peter Brant recently hosted Mr. Maezawa at his home and art showroom in New York and Greenwich, Conn., where Mr. Brant said the pair looked at Mr. Brant's Basquiats and chatted through an interpreter. "I could tell by the look in his eyes that he got it," Mr. Brant said of the artist's appeal.

Expect galleries the world over to look out for any sign of him as well. In the past, art-buying newcomers like Russia's Roman Abramovich and China's Yang Bin used art-fair purchases to help propel themselves into the global ranks of heavyweight collectors.

Mr. Maezawa's movements matter because dealers say his art purchases over the past year have almost single-handedly shifted prices skyward for Basquiat. The Brooklyn artist's graffiti-style paintings of kings, boxers and skulls in 1980s New York rarely sold for more than \$5 million apiece a decade ago. Buoyed by baby boomers and curators who admired the political potency of his art, Basquiat's auction high bar four years ago stood at \$48.8 mil-



Yusaku Maezawa at his home in Tokyo seated in front of 'Figures' by Roy Lichtenstein and next to 'Cross-Legged Figure' by Willem de Kooning. He paid a record-setting \$110.5 million for a Basquiat painting of a skull, below.

lion for a painting of drug users called "Dustheads." Dealers at the time considered it a frothy, hard-to-match price.

A year ago, Mr. Maezawa entered the auction arena, paying Christie's a record-setting \$57.3 million last May for a larger, untitled Basquiat that featured a devil. In November, he paid Christie's \$22.6 million for a rainbow-color Pablo Picasso portrait, "Head of a Woman (Dora Maar)." Privately, he started buying works by sculptor Alberto Giacometti and On Kawara, a Japanese artist known for painting dates like time stamps on monochrome backgrounds. Earlier this month, the collector topped himself—and broke Basquiat's record again—with Sotheby's \$110.5 million skull.

Ms. Jacoby and her art-adviser

bandwagon that could backfire if additional buyers fail to join Mr. Maezawa in future competition.

On the other hand, Mr. Maezawa's emergence could portend a resurgence of Japan's interest in contemporary art, she said. It has been a quarter-century since the bursting of the Japanese economic bubble mostly put a halt to showy art purchases by the nation's industrialists. The most notorious was the \$82 million purchase in 1990 of Vincent van Gogh's melancholy "Portrait of Dr. Gachet" by a Japanese paper magnate who suggested he might have the painting cremated and buried with him. He was later arrested in an unrelated scandal and the painting was sold. "Maezawa is a powerful indication of something more significant than the Basquiat

market if it means Japan is back to collecting on a global level," Ms. Schriber Jacoby added.

For his part, Mr. Maezawa appears to be taking the attention in stride. "There's nothing wrong with using the money that you earn to be daring and buy art that you love or that you think is beautiful," he said Friday, sitting in his elegant, two-story apartment in Tokyo surrounded by 1950s French furniture and works by other artists like George Condo, Roy Lichtenstein and Willem de Kooning.

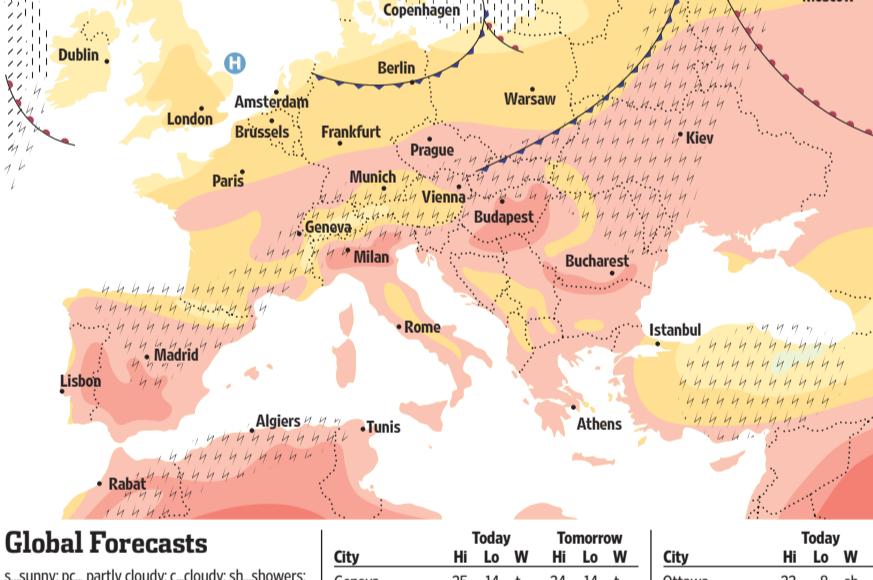
A boyish-looking former rock drummer, he amassed a \$3 billion fortune selling imported records—and later, trendy clothes—through his online fashion conglomerate now folded under a parent company, Zozotown. Mr. Maezawa said he was introduced to art through music and his first art purchase, at age 25, was a portrait of Kurt Cobain and Radiohead's Thom Yorke for about 2 million yen.

He still gravitates to portraits over landscapes or abstraction. "For painting, I like strong lines," he said, "powerful pieces."

Today, he's built up a collection of several hundred pieces of modern and contemporary art, plus a group of antique Japanese teacups, examples of which he posts to his Instagram alongside paintings he's bought like Richard Prince's \$9.7 million "Runaway Nurse."

When it comes to describing the fight for his latest prize, he seems equally nonchalant. As Sotheby's evening sale kicked off in New York on May 18, Mr. Maezawa said he was at home in Tokyo. Instead of eating breakfast, he said he watched a live stream of the auction and lobbed his bids by phone to a Sotheby's specialist who was in the saleroom. This time, he wasn't shopping alone. He said around 10 members of his staff were standing in his living room—"They looked more nervous than me," he said—until the gavel fell and he won. "I felt excited."

Weather



Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	19	8	pc	22	12	pc
Anchorage	18	9	c	19	9	pc
Athens	27	18	s	29	19	s
Atlanta	28	18	pc	30	20	t
Bahrain	39	20	s	37	20	s
Baltimore	24	14	pc	25	13	s
Bangkok	32	27	t	33	26	t
Beijing	33	15	pc	31	15	c
Berlin	23	9	s	22	9	s
Bogota	18	10	c	19	10	s
Boise	29	15	pc	24	12	sh
Boston	21	15	sh	23	14	s
Brussels	22	10	pc	24	13	pc
Buenos Aires	14	4	s	16	5	s
Cairo	35	20	s	32	19	s
Calgary	28	12	pc	23	10	pc
Caracas	31	26	pc	30	25	pc
Charlotte	29	17	pc	29	19	s
Chicago	21	11	s	24	17	pc
Dallas	32	22	pc	30	22	r
Denver	28	11	t	29	13	pc
Detroit	21	11	pc	24	15	s
Dubai	40	29	s	40	29	s
Dublin	17	12	c	18	10	sh
Edinburgh	18	11	pc	18	12	sh
Frankfurt	25	14	pc	26	14	pc

AccuWeather.com

The WSJ Daily Crossword | Edited by Mike Shenk



ALL IN VANE | By Kurt Krauss

- Across**
- 1 Pine product
 - 6 2014 Winter Olympics host
 - 11 Back in time
 - 14 Bayer brand
 - 15 Basic chord
 - 16 Course figure
 - 17 Result of a lion's covering his ears?
 - 19 Get-up-and-go
 - 20 Break in a lap
 - 21 First name in cosmetics
 - 23 Game akin to Crazy Eights
 - 24 Air conditioner prototype?
 - 28 Remains unsettled
- Down**
- 31 Clear
 - 32 Kathryn of "Law & Order: Criminal Intent"
 - 33 Grayback
 - 35 Bonny one
 - 38 Symbol of strength
 - 39 Strike at a sugar plantation?
 - 41 Get-up-and-go
 - 44 Foe of us
 - 45 Cheese partner
 - 46 Middle name in the National Inventors Hall of Fame
 - 47 Game akin to Crazy Eights
 - 48 Mornings, for short
 - 50 Go second in a debate
 - 54 What you do when you put your hand through a broken window?
 - 55 Map abbr.
 - 59 Plotting faction
 - 60 Flow forth
 - 63 Lobbying gp.
 - 64 Like flight attendant safety announcements?
 - 67 Donut-and-dance org. of WWII
 - 68 Stingy sort
 - 69 Civil rights leader Medgar
 - 70 "Incidentally..." in a text message
 - 71 "The Second Coming" poet
 - 72 Fresh

► Solve this puzzle online and discuss it at WSJ.com/Puzzles.

- Down**
- 1 Increase
 - 2 Transportation secretary Chao
 - 3 Forwarded
 - 4 "Three Places in New England" composer
 - 5 Branch headquarters?
 - 6 Daze
 - 7 Vein yield
 - 8 Co, in Cannes
 - 9 Brownish eye color
 - 10 In other words, in another language
 - 11 Do, as a TV show
 - 12 First Super Bowl winner
 - 13 Alley
 - 14 City of central Iran
 - 22 Amount past due?
 - 25 Catch-22
 - 26 Food with a red coat
 - 27 Comics cry
 - 29 Oldest son on "Empire"
 - 30 The Amish, e.g.
 - 34 Dismissive snort
 - 36 Entirety
 - 37 Wish receiver
 - 39 Airing
 - 40 Flip out
 - 41 Spring's opposite, in tides
 - 42 Ephemeris sculpture's makeup
 - 43 Squadron leader's org.
 - 47 Garment named for its white color
 - 49 Contemptuous smiles
 - 51 Compact discs?
 - 52 Voices
 - 53 Minute
 - 55 Diaper, in Dover
 - 56 Skateboarding leap
 - 57 Dash lengths
 - 61 Caesar and his followers, in a series of films
 - 62 Astronomer's sighting
 - 63 London's The Dog and Duck, e.g.
 - 65 Rap sheet letters
 - 66 After expenses

Previous Puzzle's Solution

DUPES EMIR ACID USURP DAME DOME HOPPI INDIAN OLIN ANTI INCUMBENT ACES REP ORNATE GIBSONS FUEL SAUDI ROO FBI INVESTIGATOR ALL YAXIS LENT LEGALLY DCAREA APO PLEA SKI INSTRUCTOR ALMA EYECONTACT NEAR LPGA IT PRO DENY LEO S POTTY

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, May 31, 2017 | B1

Euro vs. Dollar 1.1179 ▲ 0.13% FTSE 100 7526.51 ▼ 0.28% Gold 1262.10 ▼ 0.47% WTI crude 49.66 ▼ 0.28% German Bund yield 0.293%

10-Year Treasury yield 2.217%

Uber Fires Engineer In Trade-Secret Case

By JACK NICAS

Uber Technologies Inc. said Tuesday it has fired Anthony Levandowski, the driverless-car executive at the center of its legal battle with Google parent **Alphabet** Inc., making good on its threat to dismiss him if he didn't cooperate with court orders.

Alphabet has accused Uber of conspiring with Mr. Levandowski to steal its trade secrets when Mr. Levandowski helped lead Alphabet's driverless-car program.

A federal judge recently ordered Uber to return files that

Mr. Levandowski allegedly stole. Uber has denied the accusations, but its defense has been frustrated by Mr. Levandowski's refusal to cooperate with its internal investigation and court orders to turn over documents.

An Uber spokeswoman said the company fired the driverless engineer when he missed a deadline Uber set after pressing him to assist its investigation for months.

Mr. Levandowski and his lawyers didn't immediately respond to a request for comment.

Meanwhile, Uber is losing

the manager of its New York operations, one of its largest markets, a week after the company admitted it had shortchanged drivers in the city by tens of millions of dollars over 2½ years.

Josh Mohrer, general manager of New York, said Tuesday that he is leaving to become a managing director of **Tusk Ventures**, a consulting firm that for years has helped Uber battle regulators, and which is also an investor in

Please see UBER page B4

◆ Uber harassment probe winds down B4



Anthony Levandowski, right, is shown with Uber Chief Executive Officer Travis Kalanick in August 2016.

Doubts On Junk Bonds Pile Up

By MATT WIRZ

Unease is starting to grip the junk-bond market: Even as yield-hungry investors buy in, many traditional buyers are selling out.

About 20% of high-yield investors said in May that they hold below-average positions in junk debt, the most since June 2008, according to a Bank of America Corp. survey.

Meanwhile, the bonds have returned 4.7% this year through May 25. The average yield of high-yield debt is 5.5%, compared with a 10-year average of 8.3%, according to data from Bloomberg Barclays Index Group. Yields fall as bond prices rise.

The dissonance between sentiment and market performance is a result of unease caused by geopolitical uncertainty at a time when a global reach for yield continues to push valuations higher.

"No one is really comfortable with current valuations, but you have a fear of selling a bond because you may not be able to buy it back tomorrow," said Michael Contopoulos, a high-yield strategist at Bank of America. A moderate downturn in junk debt is likely this summer, simply because prices have risen too far, Mr. Contopoulos said.

"Broadly speaking, nothing is cheap, everything is overvalued and it's very hard to find good opportunities," said Kathleen Gaffney, manager of the Eaton Vance Multisector Income Fund, which can invest in a mix of corporate and government debt as well as stocks.

Last year, Ms. Gaffney invested about one-quarter of the \$541 million fund in U.S. high-yield and convertible bonds, which rebounded along with commodity prices. Now she has reduced that exposure to 15% and increased her cash allocation to 15% from about 5% a year ago.

Almost half of the investors surveyed in the Bank of America poll reported holding above-average amounts of cash, the highest since March 2016, just after falling oil prices triggered a wave of defaults and a junk-market crash.

Keeping large sums idle in cash drags down bond-fund performance over the long term but gives portfolio managers ballast in sharp downturns, as well as the ability to buy when prices fall back to bargain levels. The urge to raise cash is strong now, Ms. Gaffney said, because most debt and stock markets are trading at or close to records, making them ripe for a fall.

Investors, most of them individuals, pulled about \$9 billion

Please see JUNK page B2

Lunch Business Serves Up Less



Americans made 433 million fewer trips to restaurants at lunchtime last year, resulting in roughly \$3.2 billion in lost business.

U.S. restaurants suffer from changing habits, as harried customers do less sit-down dining

By JULIE JARGON

The U.S. restaurant industry is in a funk. Blame it on lunch.

Americans made 433 million fewer trips to restaurants at lunchtime last year, resulting in roughly \$3.2 billion in lost business for restaurants, according to market-research firm NPD Group Inc. It was the lowest level of lunch traffic in at least four decades.

While that loss in traffic is a 2% decline from 2015, it is a significant one-year drop for an industry that has traditionally relied on lunch and has had little or no growth for a decade.

"I put [restaurant] lunch right up there with fax machines and pay phones," said Jim Parks, a 55-year-old sales director who used to dine out for lunch nearly every day but found in recent years that he no longer had room for it in his schedule.

Like Mr. Parks, many U.S. workers now see stealing away for an hour at the neighborhood diner in the middle of the

day as a luxury. Even the classic "power lunch" is falling out of favor among power brokers.

When he isn't on the road for a Detroit-based building products company, Mr. Parks works from his home in Carlisle, Ohio, and eats there. When he meets clients at their offices, they have food delivered and work during what they call a "lunch and learn."

Even some restaurant-company executives don't go out for lunch.

Employees at Texas Roadhouse Inc.'s Louisville, Ky., headquarters order in so often that they know the delivery drivers by name. "A lot of our

folks are trying to be more efficient," company President Scott Colosi said.

Cost is another factor working against eating out for lunch. While restaurants have raised their tabs over the past few years to cope with rising labor costs, the price of food at supermarkets has continued to drop, widening the cost gap between bringing in lunch and eating out.

Restaurants are adapting by offering delivery, faster service and smaller portions. But the shift signals trouble for the industry, which makes more money serving meals inside

Please see LUNCH page B2

Documents Cite Theranos Board's Inaction

By CHRISTOPHER WEAVER

Two former Theranos Inc. directors said they didn't follow up on public allegations that the Silicon Valley blood-testing company was relying on standard technology rather than its much-hyped proprietary device for most tests, according to newly released court documents.

In depositions, the highly decorated former directors—former U.S. Navy Adm. Gary Roughead and former U.S. Secretary of State George Shultz, who were board members when concerns of employees and regulators became public—said they didn't question Theranos founder Elizabeth Holmes about the matter.

Both former directors said in the depositions that they thought Theranos could do all its patient tests on its proprietary device. Regulators said last year that Theranos only did a dozen types of patient tests on its own system.

"I don't have the information that would tell me that it's true or not true," Mr.

Roughead testified on March 24, referring to reports that Theranos relied on standard devices. Asked whether he ever asked Ms. Holmes about the matter, Mr. Roughead said: "I did not ask her directly, no."

Asked whether he questioned anyone else at the company, Mr. Roughead said: "I did not."

Mr. Shultz separately testified that he "didn't probe into" whether the company's technology was working, add-

ing: "It didn't occur to me." He added: "Since I didn't know, I didn't have anything to look into."

Representatives of Mr. Roughead didn't respond to requests for comment. An aide to Mr. Shultz said he was unavailable.

Both men left the Theranos board shortly after a Wall Street Journal article first raised employees' concerns about the company's opera-

tions in October 2015, including its dependence on standard equipment for most tests.

The U.S. Food and Drug Administration reported on problems with the company's device that same month. The men remained on a separate "board of counselors" until December 2016.

Federal regulators have cited problems with tests Theranos performed on its own devices as well as commercial lab equipment, leading the company to retract nearly one million patient blood-test results over the past year.

Theranos said that it "has taken significant strides to address past shortcomings by improving its corporate governance" and other aspects of its operations. It said it has built a new management team and changed its board composition and structure.

As of March 20, Theranos' board hadn't commissioned any independent investigation of allegations the company produced inaccurate test results and misled investors, or

Please see BOARD page B4



Former board members Gary Roughead, left, and George Shultz.

MARK SCHIEFELBEIN/AP (LEFT); ANDREW HARRER/BLOOMBERG NEWS

INSIDE



NATURAL-GAS GLUT IS POISED TO WORSEN

MARKETS, BIO

WHY SOME TOXIC BOSSSES THRIVE

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JUNK

Continued from the prior page
lion from high-yield mutual funds so far this year, the largest outflow since 2015, according to data from fund tracker Lipper.

Typically such moves push bond prices down and yields up. But investors and analysts say the scarcity of yield around the world is underpinning demand for high-yield debt.

International investors, in particular, are hungry for U.S. junk bonds. "When you talk to people in Europe and Asia, they see 5.5% in U.S. high yield and there's no way for them to obtain that at home," said Oleg Melentyev, head of U.S. credit strategy for Deutsche Bank AG. Even emerging-market corporate bonds, which normally yield 1.5 percentage points more than U.S. junk bonds, now yield a premium of only half a percentage point, he said.

And some investors are still bullish on junk bonds since the biggest risk to high-yield bondholders—a rise in corporate defaults—seems far off.

Junk bonds are "still very attractive," said Joanna Bewick, co-manager of an \$8.4 billion fund for Fidelity Investments that buys a mix of high-yield debt and government bonds with investment-grade credit ratings. The fund is about 47% invested in junk-rated bonds and loans, slightly more than average for the fund, she says.

Elaine Stokes, co-manager of the \$14 billion **Loomis Sayles Bond Fund**, cut the fund's exposure to stocks in anticipation of further volatility. Though its 24% allocation to high yield is about average, the fund has sold out of some corporate bonds with the lowest credit ratings and boosted cash holdings to about 20%, she said.

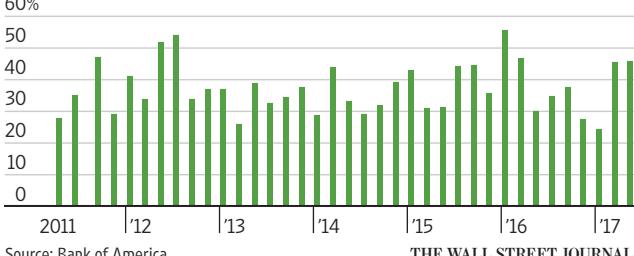
"The main concern today is Trump," said Ms. Stokes. To understand what changes to regulation and legislation are most likely to pass and when, "we're spending a lot more time talking to political types," she said.

Junk Skittishness

Investors are worried that the rally in high-yield bonds is near an end.

Almost 20% said in May they hold below-average positions in junk, the most since 2008.

High-yield investors' net positioning



Source: Bank of America

BUSINESS & FINANCE

The New World of Lunch

A sampling of lunchtime around the globe from Wall Street Journal reporters.

Shanghai and Beijing

For office workers in China, the noontime meal was once a relaxed, civilized break. A short nap afterward wasn't uncommon. Now, the tradition has come under pressure in an ever faster-paced workday and the rise of smartphone apps offering cheap delivery for around 70 U.S. cents.

In China's biggest cities, squads of helmeted, scooter-riding delivery people barrel through business districts ferrying bowls of beef noodles and plates of spicy chicken rice to hungry office workers.

Lily Sun, a 43-year-old civil servant working in Beijing, misses the days when she could dine with her colleagues at the office cafeteria. Now, she often eats alone while her younger colleagues opt to order food from apps, drawn by discounts and more meal options.

Before, they could chat along the way to cafeteria and back. These days, they usually talk through online messaging, Ms. Sun said.

—Liza Lin

Washington, D.C.

Lobbying restrictions, generational attitudes about drinking, and changing work habits have led to the decline of the classic power lunch in Washington.

"Power lunches have gone the way of all flesh," said Tom Korologos, a veteran Republican operative and former ambassador to Belgium under George W. Bush.

In 2007 following a lobbying scandal, Congress barred lobbyists from giving gifts to members of Congress or their



A Pret a Manger shop in London. The restaurant company has been expanding in the U.K.

staffs. That has curtailed their ability to wine-and-dine lawmakers. "You can't buy anybody a hamburger anymore without getting in trouble," said Mr. Korologos.

Ashok Bajaj, owner of Knightsbridge Restaurant Group, which owns and operates a suite of fine-dining restaurants in D.C., said diners don't drink at lunch the way they used to. "The younger generation comes in and they don't want to drink for lunch."

The proliferation of food trucks has given lunch-goers far more options than in the past. In 2013, the District of Columbia eased parking restrictions on food trucks, enabling them to set up in certain high-traffic areas.

Mr. Korologos, who used to buy lunch for late Chief Justice William Rehnquist every few weeks at The Monocle Restaurant on Capitol Hill, said he doesn't miss the old-school lunches. "It took too long and you drank too much and you didn't really get much accomplished," he said with a laugh.

—Daniel Nasaw

Berlin and Frankfurt

The school-style lunchroom is king in Germany. About 20% of workers eat lunch at office canteens—a higher number than in restaurants, bakeries or delis combined, according to a recent government nutrition report.

Often open to the public though generally unadvertised, the semi-secret network of office cafeterias serves warm, retro-style meals at affordable prices, usually under €10 (\$11).

The Berlin branch of David Chipperfield's architecture firm, for example, has an upscale lunchroom in a raw concrete space, serving a daily made-from-scratch menu. In Frankfurt, Germany's biggest trade union, IG Metall, hosts a cafeteria with a varied menu for members and nonmembers alike. Three blocks away, Frankfurt's labor court serves pea stew, plates of fried white fish and ham with beans to workers and walk-ins. The price is right: A hot lunch is €7.

—Zeke Turner in Berlin and Monica Houston-Waesch in Frankfurt

London

The once-stalwart tradition of a long, liquid lunch is drying up in London.

At Michelin-starred restaurant Club Gascon, manager Thomas Rabuel said alcohol consumption has "decreased a lot," particularly after big companies like Lloyds Banking Group PLC this year instituted a workday alcohol ban.

Like their peers in the U.S., officegoers in London are increasingly ordering in or picking up healthier grab-and-go options. Delivery service Deliveroo says the company has seen a 163% rise in corporate lunchtime orders in London over the past year, with Italian, Japanese and Thai being the three most popular cuisines.

Club Gascon is having fewer visitors at lunch. "More are going to Pret A Manger and takeaway restaurants except for the big managers and head-office types who have more time and budget," said Mr. Rabuel. London-based Pret A Manger last year opened 31 new shops in the U.K.

—Saabira Chaudhuri

Burrito vs. Burrito

What is the cost of ingredients for making a burrito at home compared with buying one prepared from Chipotle Mexican Grill? To keep the calculation simple, the ingredients were limited to the basics.

The cost to do it yourself*



The cost at Chipotle

A burrito with chicken, white rice, black beans and cheese.

*Estimates based on grocery-store prices in the 91362 ZIP Code of suburban Los Angeles: 20-ounce/8-count bag of Mission flour tortillas - \$4.49; 1 lb. organic chicken breast - \$7.99; 15-ounce can of organic black beans - \$1.50; 32-ounce bag of long grain white rice - \$1.99; 8-ounce package of Kraft Natural Cheese, finely shredded: \$2.99 †Not including tax

Sources: Staff reports (DIY ingredients); Chipotle Mexican Grill

THE WALL STREET JOURNAL.

LUNCH

Continued from the prior page
restaurants, where soft drinks, alcoholic beverages, appetizers and desserts boost margins. Maintaining nearly empty dining rooms is costly.

Among the hardest hit are casual sit-down restaurants—such as Dine Equity Inc.'s Applebee's and Ruby Tuesday Inc.—because of the time it takes to order, get served and pay. Such establishments last year saw their steepest ever decline in lunch traffic, according to NPD.

Even fast-casual chains that cater to harried customers with counter service instead of wait staff are experiencing slower growth. Lunchtime traffic at those restaurants—including Chipotle Mexican Grill Inc., which has suffered steep declines in the wake of disease outbreaks—grew 2% last year after posting growth of 5% or higher in each of the prior four years.

The pain is spreading to suppliers. Meat giant Tyson Foods Inc. recently said a 29% drop in quarterly earnings was due partly to the decline in restaurant traffic.

Consumers are buying

fresh foods, from supermarkets, and eating them at home as a replacement for eating out," Tyson Chief Executive Tom Hayes said.

The average price of a restaurant lunch has risen 19.5% to \$7.59 since the recession, as rising labor costs pushed owners to raise menu prices—even as the cost of raw ingredients has fallen. According to the Bureau of Labor Statistics, the U.S. last year posted the longest stretch of falling grocery prices in more than 50 years.

Despite the traffic decline, dollar sales at lunch were flat last year because of the menu price increases. But restaurants can't raise prices indefinitely. In fact, many now are offering lunch discounts to

Rising labor costs have pushed restaurant owners to raise menu prices.

We believe significant food deflation was the primary culprit behind last year's weakness, favoring food at home pricing over food away from home pricing to a degree not seen outside of the global financial crisis," Sanford Bernstein analyst Sara Senator said in a recent report on the restaurant industry

BUSINESS NEWS

Three Mile Island Nuclear Plant Faces Early Closure

By EZEQUIEL MINAYA
AND RUSSELL GOLD

Exelon Corp. warned Tuesday that it will close the Three Mile Island nuclear-power plant in Pennsylvania in 2019 unless it receives government aid, the latest sign of how the sector is in danger of shrinking as it faces intense competition in the U.S.

A global symbol of the potential perils of nuclear power after suffering a partial meltdown in 1979, the plant has been unprofitable for years.

Last week, it failed to sell its electricity in advance in a regional power auction for 2020 and 2021, the third year in a row it didn't find a buyer.

As a result, Exelon said it was accelerating the plant's retirement unless it receives assistance from the federal government or the state, which has been reluctant to subsidize it as some states have done to keep their nuclear facilities running. Three Mile Island has a federal license to operate until 2034.

"Like New York and Illinois before it, [Pennsylvania] has an opportunity to take a leadership role by implementing a



Cooling towers at the Three Mile Island nuclear-power plant, the site of a partial meltdown in 1979.

MATT ROURKE/ASSOCIATED PRESS

policy solution to preserve its nuclear-energy facilities," said Exelon Chief Executive Chris Crane. The company said it was taking one-time charges of as much as \$110 million for 2017 in connection with the planned closure.

Utilities have been closing U.S. nuclear-power plants at a rapid clip because of political

pressure from critics and growing competition from other electricity sources, notably the increasing number of plants fired by natural gas as horizontal drilling and hydraulic fracturing unlock mass quantities of the fuel.

Power demand in the U.S. has been flat for nearly a decade, creating a battle for

market share. Last year, natural gas generated 34% of the electricity in the U.S., according to federal data.

Nuclear power generated 20%, and coal 30%. The rest came from renewable sources, including hydroelectric dams.

Three Mile Island would be at least the fifth U.S. nuclear facility set to close by 2025,

including **PG&E Corp.**'s Diablo Canyon plant in California, and **Entergy Corp.**'s Palisades unit in Michigan and the Indian Point plant in New York.

Four other facilities have already closed in the past four years, including **Dominion Resources Inc.**'s Keweenaw plant in Wisconsin. The retirements would leave about 60 nuclear plants in the U.S.

A little more than a decade ago, the U.S. nuclear industry was talking about a rebirth.

But the first nuclear units being built in the U.S. in years, in Georgia and South Carolina, are years behind schedule and billions over budget.

Southern Co. and **Scana Corp.**, the utilities behind the new plants, are trying to determine how much it will cost to finish them after their builder, **Westinghouse Electric Co.**, declared bankruptcy in March.

The fate of the new plants could help determine the future of U.S. nuclear power.

Late last year, the Tennessee Valley Authority sold two unfinished nuclear units in northern Alabama for \$111 million after spending billions since the 1970s on the project.

"We have to find a way to build these reactors in the U.S.," Jose Gutierrez, Westinghouse's interim chief executive, said last week. "Otherwise, the future is going to be compromised."

Even if the reactors get built, their hardships underscore the fact that nuclear power remains a complex business full of booby traps, analysts say. "The nuclear renaissance is dead for the foreseeable future," said Steve Fleishman, managing director at Wolfe Research.

Exelon and other operators have sought state subsidies to keep plants running, arguing that they create high-paying jobs and don't emit air pollution or greenhouse gases.

Three Mile Island employs 675 people and contracts with a further 1,500 workers.

Exelon has succeeded in persuading some states to offer new financial incentives.

Last year, Illinois lawmakers voted to allow Exelon to collect as much as \$235 million annually from customers in exchange for keeping two nuclear-power plants open.

—Miguel Bustillo contributed to this article.

Ryanair's Profit Edges Up in a Rocky Year

By ROBERT WALL

LONDON—Ryanair Holdings PLC posted a 6% rise in profit for a financial year in which Britain's decision to exit the European Union and terrorist attacks weighed on earnings, and the airline said growth this year would advance at least as much amid stronger bookings.

Ryanair on Tuesday reported a €1.32 billion (\$1.47 billion) net profit for the year ended March 31, within a target range of €1.3 billion to €1.35 billion. Sales advanced 2% to €6.65 billion as the airline carried 120 million passengers.

The airline also kicked off a

€600 million share buyback to be completed by the end of October, having completed a €1 billion stock-repurchase round in February. Ryanair said it has returned €5.4 billion to investors since 2008 through a series of buybacks and special dividends.

Europe's largest airline by passenger numbers said it expects profit this year to rise to between €1.4 billion and €1.45 billion. Ryanair typically begins the year with conservative profit forecasts. It said much of the increase in profit should come from a projected €70 million fall in fuel costs. The carrier expects to carry 130 million passengers for the year.

European airlines are

primed for a stronger financial performance this year as a glut of seats for sale eases and economies broadly pick up. That reduces the need to sharply discount tickets—an earnings headwind in recent years. British Airways parent **International Consolidated Airlines Group SA** said its ticket prices may rise this quarter, the first time in three years.

Central East European budget Wizz Air last week said ticket prices have stabilized earlier than expected.

Ryanair said bookings for the six months to Sept. 30 are ahead of last year, though the slump of the British currency after the Brexit vote is expected to lead to a 5% to 7%

decline in average ticket prices for the full financial year. The company generates more than a quarter of its sales in sterling. Fares fell 13% in the prior financial year.

Ryanair has delivered strong earnings growth in recent years by rapidly expanding while maintaining low costs. Nonfuel unit costs are expected to fall 1% this year.

The Dublin-based airline also said it was preparing for more aggressive growth through a fleet review with plane provider Boeing Co. The size of its fleet should increase in the 2018 and 2019 period by extending leases on 10 existing planes and picking up delivery slots for new aircraft, it said.

Bill Simmons to Transfer Ringer Sports Site to Vox

By LUKAS I. ALPERT

and cross-promotional services, but they will continue to have their own voice and independence," said Vox Media Chief Executive Jim Bankoff. "The Ringer fits into our portfolio really well, and for advertisers looking to reach sports fans, it will be a really nice addition."

Mr. Bankoff said revenue from ad sales will be split between the two companies but declined to disclose the specifics of the arrangement.

The Ringer employs several dozen people and offers a mix of features on sports, film, television and technology as well as a slate of sports podcasts.

WSJ
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TECHNOLOGY

Nintendo Fights A Parts Shortage

BY TAKASHI MOCHIZUKI

TOKYO—Nintendo Co.'s biggest battle these days isn't against other game makers.

It is against companies such as Apple Inc. that are gobbling up the same parts Nintendo needs to make its hit Switch machine, people in the industry say. Nintendo has told suppliers and assemblers it hopes to make nearly 20 million units of the Switch device in the year ending in March 2018, people involved in the talks said.

Though the company's official sales target for the year is 10 million, strong demand suggests it can sell many more—if it can make them.

The problem is an industry-wide capacity shortage for components used in smartphones, computer servers and other digital devices. These include the NAND flash-memory chips that store data, as well as liquid-crystal displays and the tiny motors that enable the Switch's hand-held controllers to imitate the feel of an ice cube shaking in a glass.

Demand for Apple's iPhone 7 is keeping parts makers at full capacity.

"Demand for our NAND flash memory has been overwhelmingly greater than supply, and the situation is likely to stay for the rest of this year," said a spokeswoman at Toshiba Corp., the industrial giant that is leaning on flash memory to survive.

She cited demand from smartphone makers—Apple and Chinese companies are among Toshiba's customers—and data centers. People in the industry say the rapid expansion of web-based services for corporations has driven demand for computer servers that use flash memory.

Continued demand for Apple's iPhone 7 and a 10th anniversary model of the iPhone expected later this year are also keeping parts makers at full capacity, helping power Japan's economy to its longest growth streak since 2006.

Nintendo and Apple representatives declined to comment on supply-chain issues.

Nintendo's component

struggles suggest the Switch, a hybrid device designed for use both in the living room and on the go, is likely to remain hard to find for consumers throughout this year. Analysts say competitors for the sought-after parts can often offer better terms than Nintendo.

Makers of data-center servers tend to use newer and higher-margin components, while smartphone makers issue larger orders than Nintendo.

If Nintendo increased spending significantly to secure more parts, that could risk driving the Switch's production cost above the \$299 retail price. Nintendo President Tatsumi Kimishima, has said he doesn't want to sell the Switch at a loss.

Nintendo has already taken one expensive step to ensure early sales momentum for the Switch by using air cargo to deliver some units to the U.S. and Europe in March.

Normally, Nintendo could use the late summer months to deliver extra supplies to the U.S. by ship in preparation for the holiday season, but that is more difficult now and Nintendo might again consider air cargo toward the end of the year-end, people briefed on its thinking said.

In April, Nintendo said the Switch, which went on sale globally March 3, sold 2.74 million units in March.

The company was burned by the poor performance of the Switch's predecessor, the Wii U machine, which had lifetime sales of fewer than 14 million units, but the recent good news has driven Nintendo's share price to an eight-year high.

Some families are buying multiple units, treating them more like smartphones than living-room consoles because of the Switch's portability.

Yukiko Amakawa, a 36-year-old homemaker in Fukuoka, Japan, said her family of four owns three Switches: one for herself; one for her husband to play while commuting; and a third for their children.

Hirokazu Hamamura, a director at Kadokawa Dwango Corp., publisher of the video-game magazine Famitsu, said momentum was likely to pick up as outside software publishers add games to the Switch's lineup.

Capcom Co. of Japan plans to release a "Monster Hunter" title for the Switch.



Uber Technologies CEO Travis Kalanick ordered the investigation into allegations of sexism and sexual harassment at his company.

Uber Probe Winds Down

Ride-hailing company expected next week to wrap investigation of harassment claims

BY GREG BENINGER

Uber Technologies Inc.

expects to conclude a report soon on claims of sexual harassment and sexism that it hopes will close a damaging chapter in its history. But it also could bring even greater scrutiny for the troubled ride-hailing company.

The report—expected next week—will be the culmination of an investigation triggered in February when former software engineer Susan Fowler Rigetti claimed in a nearly 3,000-word blog post that Uber management had ignored multiple complaints from her and other female workers of sexual harassment and sexism by their managers.

The outcome carries significant stakes for the world's most valuable startup. Some employees say the allegations and the three-month investigation, along with other recent controversies, have been painful distractions and threaten Uber's ability to attract talent. Employees will be looking for information about how Uber's leaders handled workplace issues and what changes the report might trigger. Others who will be contemplating the results: candidates in Uber's search for its first-ever chief operating officer to assist CEO Travis Kalanick.

At one recent listening session led by technology chief Thuan Pham in the company cafeteria, employees recounted their experiences into a micro-

tions sparked a firestorm almost instantly, prompting Mr. Kalanick within hours to condemn the alleged behavior and order an investigation. The next day, he addressed employees and announced the probe would be led by former U.S. Attorney General Eric Holder.

In recent weeks, attorneys from Mr. Holder's firm, **Covington & Burling LLP**, have summoned select Uber workers to its nearby San Francisco office, according to employees who have been interviewed or were requested to be. Employers say the interviews are described as mandatory and designed to elicit details about their experiences, including names of people involved.

Another law firm, **Perkins Coie LLP**, which Uber hired to

phone and grilled the executive about processes, according to one attendee. Among Uber's senior leaders, Mr. Pham has faced particular public scrutiny because he oversaw the engineering operation where Ms. Fowler Rigetti worked.

Ms. Fowler Rigetti claimed Mr. Pham was aware of her troubles, and people familiar with the matter say he had been briefed by other employees about inappropriate behavior at the company.

Mr. Pham didn't respond to a request for comment. It couldn't be learned what actions he may have taken.

Several current employees told The Wall Street Journal that they have hired personal attorneys. That isn't uncommon in harassment probes,

gize and announce plans to hire a deputy.

Meanwhile, Mr. Kalanick is now dealing with a personal tragedy. His mother was killed Friday in a boating accident that also left his father in serious condition.

Mr. Holder's team is expected by month's end to submit its findings to a subcommittee of Uber's board, according to a person familiar with the process. Uber will then release an executive summary, likely with names omitted, to employees and the media in early June.

Some investors have been pressing Uber to release the full report created by Covington & Burling, in the interest of full disclosure, according to people familiar with the matter. An Uber spokesman said the company hadn't yet seen the report but wouldn't release an unredacted version to protect the privacy of those involved.

Companies often conduct such internal investigations, but rarely make them public because of liability and other concerns, say employment law experts.

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

Ms. Fowler Rigetti also claimed the company discouraged her from making complaints to human-resources officials. Ms. Fowler Rigetti declined to comment for this article.

The outcome carries significant stakes for the world's most valuable startup.

investigate Ms. Fowler Rigetti's specific claims, also is bringing in workers for interviews as part of the broader investigation, employees say.

Meanwhile, Uber is conducting its own review. Human-resources chief Liane Hornsey and board director Arianna Huffington, have held a series of so-called listening sessions and focus groups where employees are invited to air grievances and ask pointed questions, according to those who have attended.

At one recent listening session led by technology chief Thuan Pham in the company cafeteria, employees recounted their experiences into a micro-

but the employees say they are especially intimidated by the probe being run by Mr. Holder.

Mr. Holder didn't respond to a request for comment.

Beyond the investigation, Uber is grappling with challenges including a lawsuit by Google parent Alphabet Inc. over alleged trade-secret theft; a federal probe into its business operations; and the company's admission that it erroneously withheld tens of millions of dollars from New York City drivers over more than two years. A leaked video in February of Mr. Kalanick berating an Uber driver prompted the CEO to apologize.

Uber in 2012, couldn't immediately be reached for comment.

Last week, Uber said it had mistakenly underpaid New York drivers since late 2014, an accounting error that will likely cost it tens of millions of dollars. The company said it would refund the money plus interest, which comes to an average of about \$900 per driver. It didn't say how the error occurred or who was responsible.

Mr. Mohrer's team has tussled with New York regulators over the years, including over a proposed regulation that would require Uber to issue ridership data to the city to help with traffic snarls. Uber is fighting the initiative, citing privacy concerns. He also helped with Uber's push to get regulatory permission, recently granted, to expand to upstate New York.

Mr. Mohrer, in late 2014, showed a BuzzFeed reporter a secret technological tool that

allowed employees to track vehicles or customers. After BuzzFeed's report, New York's attorney general opened an investigation into the company's privacy practices and the tool, which Uber called "God View."

Uber settled with the state attorney general's office in 2016, vowing to keep its users' personal information private and paying a \$20,000 fine. The company has since said it is limiting that use of that tool to certain employees.

UBER

Continued from page B1

Uber.

In a blog post, Mr. Mohrer said he would help make investment decisions at Tusk and support their other investments. He complimented Uber and its chief executive, Travis Kalanick, in the post.

Uber said it had no comment. Mr. Mohrer, who joined

in 2012, couldn't immediately be reached for comment.

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FRANCK ROBICHON/EUROPEAN PRESSPHOTO AGENCY

A store employee carried a Switch at a Tokyo retailer in March.

BUSINESS NEWS

BOARD

Continued from page B1

Ms. Holmes's culpability for them, according to the new documents.

The documents offer fresh insights into the Theranos board's response to a high-profile crisis. Some legal specialists say the lack of action by Theranos's board suggests it fell short of corporate-director responsibility.

"The point of having a board of directors is to operate as some sort of constraint and check on the founder," said Jill Fisch, a law professor at the University of Pennsylvania who studies corporate governance. She said that while no law requires directors to commission a probe, it is a part of "a board's fiduciary duty to find out what was going on."

Ms. Holmes controls 98.3% of Theranos's voting shares—and under company rules, the board can't make decisions unless she is present, the records showed.

A Delaware judge unsealed the documents last week after a legal effort by the Journal. Theranos initially had redacted most of the 402 pages of documents, which were filed in a lawsuit by Partner Fund Management LP alleging the blood-tester had defrauded the hedge fund.

The suit was settled May 1 for an undisclosed sum.

Representatives of current Theranos board members and those that resigned in recent months either declined to comment or didn't respond to requests for comment.

The documents include excerpts from 22 depositions taken by Partner Fund attorneys, including of former Theranos employees who de-

scribed secrecy, intimidation and lack of oversight at Theranos, as its problems mounted in recent years.

The records include a former employee's testimony recalling a colleague who was fired after complaining about lab conditions, and another describing physical barriers that prevented employees from viewing work areas other than their own.

Theranos's former president and chief operating officer sat in on one March deposition of one former employee and critic, Tyler Shultz—grandson of George Shultz, the document showed. The former executive, Sunny Balwani, had sought to squelch claims by the younger Mr. Shultz in 2014 when he first raised questions about the company, the Journal reported last year. Mr. Balwani's lawyers didn't respond to requests for comment.

Theranos said the deposi-

tionary excerpts picked by its legal opponent "represent a misleading version of the record." Theranos declined to provide full transcripts of the depositions or other materials.

The records also included financial details showing the company spent \$240 million last year, and had \$180 million available cash at the end of the year. Theranos estimated it would have between \$51.7 million and \$79.6 million at the end of this year, not including settlement costs that have already amounted to millions in 2017, according to the documents.

The company also de-

scribed the continuing investigations by the U.S. Justice Department and Securities and Exchange Commission in the documents.

They said Theranos received grand-jury subpoenas in January and November of last year seeking information about its business relationships, securities offerings and interactions with regulators.

"Theranos will work on resolving its remaining legal and regulatory issues and, in parallel, focus on delivering on its founding vision for its remarkable, proprietary technologies," the company said.

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tionary excerpts picked by its legal opponent "represent a misleading version of the record." Theranos declined to provide full transcripts of the depositions or other materials.

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FRANCK ROBICHON/EUROPEAN PRESSPHOTO AGENCY

Andrei SOKOLOV/DPA/ZUMA PRESS

The firm is under investigation by the U.S. Justice Department.

In his deposition, the elder Mr. Shultz told Partner Fund's lawyers he believed Theranos did every test it offered on its proprietary device, known then by the code name "Edison." The Edison used only finger-prick blood samples for tests, former employees said in depositions and interviews.

Mr. Shultz's grandson Tyler said in his testimony he recalled his grandfather himself had a test done at Theranos in which blood was taken the traditional way—by sticking him in the arm with a needle.

When the elder Mr. Shultz asked why Theranos was using a needle, Tyler Shultz testified, "there would be some, you know, excuse about why they needed to take a venous draw for him, but you know, for everyone else it was a finger prick. And, he continued to do that."

Tyler Shultz didn't respond to a request for comment.

MANAGEMENT

WORKAROUNDS



Some Toxic Bosses Manage to Thrive

Ever wonder why toxic leaders sometimes don't get fired for mistreating underlings?

It's because, in the short term, they can appear very effective, new research suggests.

People who work for highly toxic bosses—managers with more than a handful of bullying or undermining behaviors—tend to be more engaged in their work than other employees, according to a survey of 1,000 college-educated U.S. employees. The study, conducted by the consulting firm Life Meets Work, also found that such employees stayed an average of two years longer in their jobs than other workers.

But any advantages of a toxic boss are short-lived, says Kenneth Matos, a psychologist and head of research at Life Meets Work. However high-performing toxic managers appear, he says, they eventually lead to more employee turnover, burnout and a greater risk of employee lawsuits.

A widely cited 2006 study estimates that abusive supervision costs companies \$23.8 billion annually.

Many people have found themselves working for a nightmare boss at some point, and according to a 2015 Gallup study of 7,200 U.S. adults, half of workers have left at least one job because of a bad manager. But the Life Meets Work survey suggests that working for an abusive or dysfunctional supervisor is even more commonplace: Among those polled, 56% described their current manager as toxic.

Researchers asked employees whether their supervisors exhibited any of a range of behaviors, from publicly belittling subordinates to explosive outbursts to taking credit for others' accomplishments or ideas. Bosses with a few of these traits were classified as mildly toxic—suggesting their actions were more due to being overwhelmed as managers than to any concerted strategy, Mr. Matos said.

Managers who exhibited a greater number of abusive behaviors were categorized as highly toxic.

Mr. Matos speculates one reason employees reported staying longer with highly toxic bosses is that less-engaged workers quickly leave such jobs and so don't leave a mark in the survey results.

Those remaining are highly motivated by their work or see their job as a lucrative steppingstone despite a boss who treats them poorly.

"They tell themselves, 'This is my opportunity. I need to stick this out,'" he said.

Employees at companies with highly competitive, win-or-die cultures were more likely to report working for a toxic boss, according to the study.

—Vanessa Fuhrmans

A Copycat? No, Call It Competition

Instagram's CEO says the execution of Stories matters more than whether format is original

By DEEPA SEETHARAMAN

Edited excerpts:

Among the widespread opinions in Silicon Valley, one particularly irks Kevin Systrom: Facebook copies Snap.

It isn't that Mr. Systrom doesn't think **Snap Inc.** deserves credit. The chief executive and co-founder of **Instagram**, the app owned by **Facebook Inc.**,

BOSS TALK readily says that Snap is responsible for coming up with popular formats such as Stories, where users can post photo and video montages that vanish after 24 hours.

Instagram introduced its own version of Stories last August, part of a broader effort to hold its ground among teens and millennials, a lucrative demographic that is becoming harder to reach over traditional media channels.

So far, it has been a hit. Some 200 million people use Stories every day, more than Snap's flagship app, Snapchat, which has 166 million daily users.

Instagram's success with Stories led Facebook's other apps to embrace the feature, starting with WhatsApp, then Messenger and finally Facebook.

Mr. Systrom says he understands the critics, but he disagrees with the idea that Instagram's embrace of emerging features is untoward. Execution matters more than originality, he says.

What critics call copying, Mr. Systrom calls competition.

Mr. Systrom sat down with The Wall Street Journal to discuss Snap, Instagram's next set of challenges and its relationship with Facebook.

WSJ: What surprises you most about Instagram these days?

Mr. Systrom: The thing that I'm learning that has surprised me the most is you have a window of relevance and unless you reinvent yourself within that window of relevance, you die. I call it "success syndrome," where you're successful, you do all the things that made you successful and you keep doing those things thinking that that's why you're going to be successful in the future. Things change.

WSJ: Walk me through the decision to launch Stories.

Mr. Systrom: The first decision was to focus on a problem we had heard from people directly, which is, "I feel like this photo isn't good enough to share on Instagram." Focusing on high-end highlights is wonderful and, honestly, it makes Instagram, Instagram.

But just by focusing on that, we're missing out on this tremendous wealth of moments in your life that could bring you closer to other people.

WSJ: What about the narrative that Instagram is taking features from the Snapchat playbook?

Mr. Systrom: Stories is definitely similar to Snapchat. I think anyone would say that. The first time you see a product show up somewhere else it feels a lot like copying, but imagine a world where the only car was the Ford Model T.

WSJ: How do you keep engi-

neers motivated when you are replicating features from other apps?

Mr. Systrom: This is the other misconception.

If you take the 700 people that work at Instagram, how many of them do you think are working on Stories? A tiny fraction.

We do a lot of things. We're working on Live. We're working on Feed. We're working on advertising, [which is] like a crazy business that went from nothing to something in a very short amount of time.

We're trying to scale in developing markets with our existing platforms.

People have a lot to choose from when they come to work here.

WSJ: You seem to have thought about this a lot.

Mr. Systrom: It's because I do a lot of these interviews where people ask a lot of these questions.

WSJ: How does the relationship between Instagram and Facebook work?

Mr. Systrom: I have never had an instance where we've had to run anything by [Facebook] to get approval

of anyone and that's the magic.

We touch points on a bunch of really important things that I think help us move more quickly, but the product process is super independent.

What makes it work is that independence and autonomy and, frankly, the enormous support on resources and coaching that Facebook has given.

WSJ: What's the next challenge—the next thing you're trying to tackle?

Mr. Systrom: Instagram can't just be for developed markets with nice phones. I love using Instagram because I follow my favorite cyclists, my favorite baristas. It makes my day. How can we give that to everyone in the world? Stories is a tremendous amount of video and bandwidth hungry. How do we do that in other countries where you may be on a limited data plan?

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Watch the video
and find more
management
coverage at
WSJ.com/
Management



Instagram CEO Kevin Systrom, who says building upon a technology isn't the same as copying it.

How I Work

Your favorite Instagram filter?

X-Pro II

The trait that won't get someone hired?

Drama

The item you'd ban from Silicon Valley wardrobes?

Socks and sandals combo

I'm really glad there are a lot of car companies producing different cars. Just because they have wheels and windows and AC doesn't mean that you're copying.

You've got DreamWorks and Pixar and Disney, they're all doing computer-animated film. That doesn't mean they're copying each other. They're building upon a technology.

I would just judge [Stories] based on how many people use it actively, which is over 200 million every day. It clearly provides unique value to people that they're not getting elsewhere.

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neers motivated when you are replicating features from other apps?

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DAIMLER

Mercedes to Use More American Parts

Daimler AG, the maker of Mercedes-Benz cars, responded to continued pressure from the Trump administration on auto makers, saying Tuesday it is increasing the amount of parts it uses from American-based supplier factories.

The announcement comes shortly after reports emerged of President Donald Trump highlighting the German car maker's role in a \$15.4 billion automotive trade deficit with Germany.

Mercedes makes certain models in Alabama and told its parts makers in a recent meeting that it "sees value" in using more suppliers with locations in the state as it continues to invest in its Tuscaloosa factory.

—Adrienne Roberts

BUSINESS CONFIDENCE

European Firms Grow Frustrated With China

A majority of European companies operating in China saw their business improve last year despite growing frustration over operating impediments in the world's second-largest economy, according to a survey.

More than 50% of respondents in an annual survey on business confidence released Wednesday by the European Union Chamber of Commerce in China reported higher sales last year over 2015, particularly among companies operating in the information technology, auto, machinery, cosmetics, retail and environmental sectors.

Some firms saw their 2016 earnings, before interest and taxes, increase by 70% to 100% over year-earlier levels.

—Mark Magnier

BRITISH AIRWAYS

Carrier's System Returns to Normal

British Airways said Tuesday its computer networks were operating normally again after an outage over the weekend sparked hundreds of flight cancellations.

"Our IT systems are now back up and running and we will be operating a full flight schedule at Heathrow and Gatwick"—British Airway's two main London airports—on Tuesday, the airline said.

An electrical malfunction hit British Airways, a unit of **International Consolidated Airlines Group** SA, during one of the U.K.'s busiest travel weekends, with a public holiday Monday and the Memorial Day break in the U.S.

The disruption brought down the airline's systems handling flights, bags and customer com-

munications—and a backup system failed to kick in. Operations at 170 airports in 70 countries were affected.

The airline canceled more than 580 flights and delayed hundreds more, according to

FlightAware.com. British Airways said Monday that around 75,000 passengers had flights canceled Saturday and Sunday, although most eventually made it to their destinations.

—Robert Wall



A British Air plane takes off from London on Tuesday. An electrical malfunction shut down the carrier this past weekend.

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FINANCE & MARKETS

A Tale of Big, and Bigger, Lenders

Lawmakers reconsider the \$50 billion threshold that defines largest U.S. banks

BY CHRISTINA REXRODE
AND RYAN TRACY

There is a magic line in banking, and it is \$50 billion.

That is the boundary that separates the big banks from the small. Firms with assets in excess of that figure face stricter rules on capital, mergers and other business, thanks to the Dodd-Frank Act of 2010.

Now, as the Trump administration and Republican-controlled Congress look to overhaul Dodd-Frank, one of the few points of bipartisan agreement is that \$50 billion isn't the right number.

Lawmakers can't agree on a better one, though.

Banks over the threshold are getting used to the fact that, despite President Donald Trump's promises to deregulate the banking industry, even an unpopular provision is hard to overturn in the current polarized political environment.

To many banks and industry analysts, change seems commonsensical. The Dodd-Frank rule was implemented to help prevent another financial crisis. But as Treasury Secretary Steven Mnuchin recently told the Senate Banking Committee, banks with \$50 billion in assets don't pose "the same risk as a bank that has \$750 billion or \$2 trillion."

Even many officials known for sparring with banks, including Daniel Tarullo, the Federal Reserve's former top



M&T Bank chief Robert Wilmers, pictured in 2015.

banking regulator, support raising the limit. So does Barney Frank, the former Democratic congressman who with former Democratic Senator Chris Dodd was the driving force behind Dodd-Frank.

"All numbers are arbitrary, and in the rush, \$50 billion seemed like a much bigger number," Mr. Frank said in a recent interview.

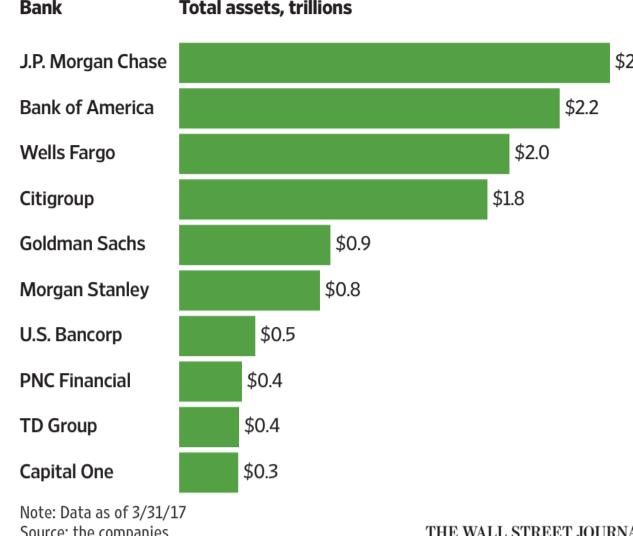
Widespread support means Congress theoretically could act to change at least this part of Dodd-Frank. At the recent banking committee hearing, Chairman Mike Crapo (R., Idaho) made a point of calling the \$50 billion threshold "one area I would like this committee to address."

The trick will be reaching a compromise on what should come next.

Republicans tend to favor

Biggest Banks

The 10 largest U.S. banks by total assets



Note: Data as of 3/31/17

Source: the companies

THE WALL STREET JOURNAL.

either setting a threshold of between \$250 billion and \$500 billion, or basing the designation on a bank's riskiness rather than on its size. That new range would leave around a dozen or as few as a half-dozen banks facing stricter regulation.

Currently, 37 firms are above the \$50 billion mark and face tougher Dodd-Frank rules, such as stress tests. This year's stress test will apply to only 34 banks, because some firms have more time before they undergo the exams.

Democrats generally want a stricter threshold, perhaps \$100 billion to \$150 billion—leaving about 20 or 30 firms above the threshold.

The current boundary applies regardless of a bank's complexity or the nature of its business. As a result, Zions

Bancorp in Salt Lake City, with \$65 billion in assets, is subject to many of the same rules as J.P. Morgan Chase & Co., which has \$2.5 trillion in assets.

That makes no sense, said Bob Wilmers, chief executive of M&T Bank Corp., in Buffalo, N.Y. "They've got trillions of dollars of derivatives, they make markets world-wide, they finance the buyout funds [and] hedge funds," Mr. Wilmers said of the biggest U.S. banks. Of regional banks, he said, "regulators could liquidate us all in a nanosecond."

Mr. Wilmers, whose bank has \$123 billion in assets, would like to see the limit lifted to at least \$250 billion.

How Congress arrived at the \$50 billion number in the first place is a bit murky.

Some officials involved in

the drafting of Dodd-Frank thought setting the bar at \$250 billion or \$500 billion would send the unwanted message that any bank above the line could be bailed out. Some wanted to index the number to growth or another measure of the economy.

Supporters of a low threshold say small firms have caused banking crises, too. Their view is that it is in the public interest to err on the side of sweeping up more banks while giving regulators the freedom to ease up on firms they don't view as risky.

Under Dodd-Frank, regulators can, and have, tailored the fine print about how capital, liquidity and other rules apply to different banks above the \$50 billion line. Other tinkering has included reducing requirements in annual stress tests that banks with less than \$250 billion in assets have to meet.

But regulators can't exempt banks entirely. For that, Congress needs to act. Bipartisan support will likely be necessary to move the measure through the Senate.

"On the surface, changing the threshold has bipartisan support," says Brian Gardner, an analyst with Keefe, Bruyette & Woods. But, he added, "I don't see Democrats in the mood for helping Republicans, especially when it will help what some people perceive as big banks."

Even if lawmakers compromised, legislation changing Dodd-Frank could be derailed by other controversial issues, such as whether to alter the Volcker rule's ban on proprietary trading.

LSE, Citi In Deal for Indexes, Analytics

BY BEN DUMMETT

LONDON—London Stock Exchange Group PLC agreed Tuesday to buy a portfolio of fixed-income indexes and related analytics services from Citigroup Inc. for \$685 million, the U.K. exchange operator's latest bet on the growth of passive investing.

The LSE is under pressure to identify targets as part of its strategy to bolster earnings after European regulators in March blocked its proposed merger with Deutsche Börse AG. The European Union was concerned that the proposed \$30 billion pan-European exchange tie-up would gain too much influence over the clearing of fixed-income trading.

The Citigroup deal fits with LSE's focus on expanding its operations selling market data and licensing indexes for institutional investors and developers of exchange-traded funds as new competition and computerized trading pressure fees from the more traditional business of operating venues for buying and selling stocks.

For Citigroup, the global bank gains a buyer that is committed to expanding its Citi Fixed Income Indices and Yield Book operations, which it had decided weren't key to its own strategy.

"This transaction is a positive outcome for The Yield Book and Citi Fixed Income Indices for both clients and employees," said Okan Pekin, Citigroup's global head of investor services, in a news release.

The LSE's index business is among the exchange operator's fastest-growing operations as the increasing popularity of low-cost funds that mimic benchmarks drives demand for indexes. In the first quarter, LSE's index business reported an 11% jump in organic revenue from the year-earlier period. The acquisition of Citigroup's fixed-income indexes are meant to augment that growth by broadening the exchange's offering of benchmarks to reach a larger customer base.

Citigroup's fixed-income indexes business, which includes the World Government Bond Index, has about 300 clients, including 200 buy-side fixed-income asset managers. The indexes will become part of the LSE's FTSE Russell's existing portfolio of indexes.

Citigroup's yield-book products are used to collect and analyze historical pricing data that are used to build indexes.

—Rory Gallivan contributed to this article.

Amazon.com's Share Price Goes Above \$1,000

BY BEN EISEN
AND ERIK HOLM

Amazon.com Inc.'s stock price breached \$1,000 for the first time on Tuesday, the latest sign of how technology stocks have dominated trading this year.

The stock slipped back to \$996.76 at 4 p.m. EDT Tuesday, up 98 cents, or 0.1%.

The information-technology sector of the S&P 500, which includes tech stalwarts such as Facebook Inc. and Apple Inc., is up more than 19% so far this year, making it by far the best-performing sector in the index. Amazon isn't technically part of the sector but is often discussed alongside it. So far in 2017, money has flowed into funds tracking technology stocks at the fastest pace in at least 15 years.

The tech surge has fueled a race to \$1,000 between Amazon and Google parent Alphabet.



The Amazon stock has advanced 33% for the year so far.

bet Inc., whose Class A shares were at \$996.17 late Tuesday. The so-called FANG stocks—Facebook, Amazon, Netflix Inc., and Alphabet—afflict the broader stock market more than ever. Those four account

for about 7.5% of the market value of the S&P 500, versus 3% five years ago, according to Bespoke Investment Group.

Many tech firms have had solid profitability and strong revenue growth. That has ap-

pealed to investors, reinforcing a familiar trade during a period where the U.S. economy remains sluggish. Amazon, whose stock is up 33% this year, said in April that its profit rose 41% in the first three months of the year, its eighth consecutive quarter in the black.

Tech's strong gains have stirred some concern among investors, particularly those who remember the dot-com bubble of the late 1990s. Michael Hartnett, chief investment strategist at Bank of America Merrill Lynch, wrote this month that the longer it takes for economic growth to accelerate and bond yields to rise, the "greater risk of tech mania."

Amazon and Alphabet are the second- and third-most expensive stocks in the S&P 500, trailing only Priceline Group, which traded late Tuesday at \$1,858.21. Three other U.S.-listed stocks cost more: home builder NVR Inc. at roughly

\$2,287; agribusiness and transportation company Seaboard Corp., \$4,024; and Warren Buffett's Berkshire Hathaway Inc., \$248,000.

But share price isn't an indicator of a company's overall value. At more than \$475 billion, Amazon's market capitalization is bigger than Berkshire, Seaboard and NVR combined. Alphabet has a market cap of more than \$675 billion, second only to Apple.

Amazon's push above \$1,000 also illustrates the decline of the stock split. In the past, if a company's share price got too high, a split would ensue to lower the stock's price and make shares more accessible to small-time investors. So far this year, there have been only two share splits by companies in the S&P 500. In 1997, the year Amazon went public, 93 companies in the index split their shares, according to Birinyi Associates.

FINANCE WATCH

WELLS FARGO

Another Shake-Up In Retail Banking

Wells Fargo & Co. again shuffled the ranks in its retail-banking unit, continuing efforts to untangle the firm from the sales-practices scandal that erupted in September.

The San Francisco-based bank reorganized the regions in the Western half of the U.S. and rearranged executive positions, according to a memo sent last week that was signed by retail-banking head Mary Mack and reviewed by The Wall Street Journal. Southern California and Arizona previously were cited as hot spots for the aggressive sales tactics that have put the bank in the spotlight after a settlement, congressional hearings and continuing investigations.

A Wells Fargo spokeswoman

confirmed the content of the memo.

In last week's memo, Ms. Mack said retail-banking executive Lisa Stevens—whose job responsibilities were curtailed in March—reorganized the region she oversees to five areas from eight to "streamline" and make the bank more "consistent" across regions.

The bank also detailed changes among regional leaders, including further trimming the responsibilities of John Sotoodeh, who took charge of the bank's troubled Los Angeles region in 2009, according to the memo. Changes to his job announced in March meant employees directly reporting to him previously fell to an estimated 7,000 from 15,000. The "Midwest West" region the executive will oversee now—made up of Illinois, Iowa, Missouri, Nebraska, Kansas, Colorado, Wyoming and

Idaho—is made up of even fewer employees, current staff said.

Wells Fargo spokeswoman Mary Eshet said Mr. Sotoodeh continues to hold the title of lead regional president and still reports to Ms. Stevens, though he now oversees a different regional geography. She said he wasn't demoted but didn't comment on the number of employees now reporting to him.

The executives involved didn't respond to requests to comment.

—Emily Glazer

EXCHANGES

Bats Alters Fees

Bats is simplifying fees for one of its stock exchanges, charging the same rate to traders who post orders and traders who remove them—part of a broader shake-up in the pricing models used by U.S. exchanges.

Bats will introduce the new model to the smallest of its four equities exchanges, EDGA. The move is a step away from the model called maker-taker, in which exchanges pay rebates to traders who post orders.

The exchange operator, acquired this year by Chicago-based CBOE Holdings Inc., said it wasn't coming out against maker-taker pricing—still used by Bats's two largest exchanges. Instead, it was responding to customer demand and discussions in the industry about a better model, said Bryan Harms, head of U.S. equities and global foreign exchange at CBOE. —Alexander Osipovich

SINGAPORE—Singapore's financial regulator imposed fines on two large banks including Credit Suisse Group AG as it concluded a two-year investigation into widespread antimoney-laundering failures throughout its financial system related to alleged misappropriations from Malaysian state fund 1MDB.

The Monetary Authority of Singapore said Tuesday it had fined the Swiss bank 700,000 Singapore dollars (US\$504,613) and Singapore's United Overseas Bank Ltd. S\$900,000 after it found several breaches of regulations and inadequate scrutiny of customers' transactions and activities.

The fines were imposed after two years of investigations into the role of Singapore's financial institutions and their interactions with 1MDB, or 1Malaysia Development Bhd.

The MAS's review of Singa-

pore's financial sector has exposed dozens of failures within banks, sullying the city-state's reputation as a trusted financial center.

During its review, MAS shut two foreign private banks and fined six others in addition to UOB and Credit Suisse for various breaches of antimoney-laundering regulations. It has fined banks operating in Singapore a combined S\$29.1 million for their roles in handling 1MDB-related fund flows.

Since its investigations began two years ago, MAS has issued prohibition notices against four former or current employees of financial institutions and said it intended to issue notices against three more, including the new ones mentioned Tuesday.

Its managing director, Ravi Menon, said in a statement Tuesday that the regulator's extensive review "holds key lessons" for both the MAS and financial institutions in Singapore. He said the coun-

try's financial system "is in a better position today" than when 1MDB-related abuses took place.

1MDB has denied wrongdoing and hasn't been charged with any crimes.

Credit Suisse said that it acknowledges the outcome of the review and regrets that it has fallen short of MAS and the bank's own high standards.

Switzerland's financial regulator, which had already concluded its own investigation of Credit Suisse, said later Tuesday it hadn't found any systematic breaches of supervisory law, but had sent the bank a written reprimand for antimoney-laundering shortcomings.

UBS said that it accepts the findings by the MAS and that it has instituted measures to address the areas of concern, including enhancing its training program to raise risk-and-control awareness.

—Brian Blackstone contributed to this article.

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Wells Fargo was fined last year for illegal sales practices.

RICHARD B. LEVINE/LEVIN ROBERTS/NEWSCOM/ZUMA PRESS

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FINANCE & MARKETS

Oil Loses Its Pull on Other Assets

The link between the price of crude and stocks and currencies has weakened recently

BY RIVA GOLD

Stocks and currencies are ignoring the oil price after previous periods of moving in lockstep.

Crude prices took a sharp turn lower last week amid disappointment at the outcome of a meeting of the Organization of the Petroleum Exporting Countries, but stocks continued to reach records. Even commodity-sensitive currencies like the Russian ruble did fine.

Oil and stocks at times in recent years have moved in tandem, but the link between the S&P 500 and West Texas Intermediate futures prices, the U.S. oil price benchmark, has continued to weaken over the past two months, according to strategists at Brown Brothers Harriman.

The correlation between the S&P 500 and the price of oil has fallen from nearly 0.6 in early 2016 to 0.18 now, and even briefly dipped into negative territory in February, according to Brown Brothers Harriman. A correlation of 1 would mean oil and stock prices move by the same proportion in the same direction, while a correlation of minus-1 would mean they move proportionally in opposite directions.

The correlation began diminishing last year as investors became more sanguine about the global economy, but the recent fall says more about the actual oil price, which has traded in a range throughout the year. That price stability has allowed investors to focus on other market influences outside of crude.

The energy sector comprises only about 6% of the S&P 500, according to FactSet, but oil prices have in the past had an outsize impact on the daily performance of the index due



Crude has traded within a range this year, allowing investors to focus on other market influences. Above, an oil refinery in Hungary.

to their influence on how investors view global growth, inflation and wider risk sentiment.

Steep plunges in oil prices in January and February of 2016 sparked fears that lower demand for oil was signaling a weaker global economy, sending the correlation between Brent and the S&P 500 up to levels not seen since 1990.

Now, "people spend most of their time talking about the supply side and OPEC" rather than considering what it all says about demand, said Charles de Boissezon, deputy head of global asset allocation at Société Générale SA.

Last week, OPEC members and other large oil producers, like Russia, agreed to extend an agreement to cut supply, but to a level that disappointed some investors.

OPEC's cuts have boosted the price but encouraged nim-

ble U.S. shale producers to increase production, capping the price rise. Many investors believe crude prices are locked in a range this year, but that this is something of a sweet spot for the global economy.

'Nobody worries too much about the cost of oil,' said one strategist.

Prices aren't too low to crush oil-dependent economies or trigger more defaults in the energy sector, nor too high to pressure consumers.

"Nobody worries too much about the cost of oil," said Sam Stovall, chief investment strategist at CFRA Research.

"People would just prefer more stable oil prices in a \$50-\$60 range rather than be surprised one way or the other," he said.

To be sure, the correlation could soon shoot higher again. On Tuesday, copper and some other commodities were trading lower on the back of weaker oil, underscoring the influence crude still has on investors. U.S. crude futures slipped 14 cents a barrel to \$49.66 on Tuesday.

And in a broader sense, the recovery in oil prices from early 2016 has given a big boost to the first-quarter earnings picture. S&P 500 earnings in the first quarter rose 14%, according to FactSet. Exclud-

ing energy, that rate would have been 9.7%.

Still, the influence of the price of oil on the performance of oil-related currencies has

also diminished over the past year, as other more fundamental drivers have proved more influential, said Lee Hardman, currency analyst at Mitsubishi UFJ Financial Group Inc.

The Canadian dollar and Russian ruble, which have in the past shown close ties to oil prices, showed little reaction to the 2.7% drop in Brent crude last week. For Canada, investors are more focused on relations with the U.S., its largest trading partner and any changes that may be made to the North American Free Trade Agreement, said Mr. Hardman.

The Russian ruble, meanwhile, has benefited from its comparatively high yield, Mr. Hardman said, which can draw investors borrowing from currencies with lower rates. The ruble is up about 9% against the dollar this year.

Weakness In Banks Is a Drag On Stocks

BY AKANE OTANI AND JON SINDREU

Declines in banks pulled U.S. and European shares lower Tuesday.

The blue-chip Dow Jones Industrial Average fell 50.81 points, or 0.2%,

TUESDAY'S MARKETS

with Goldman Sachs Group and J.P. Morgan Chase posting among the biggest losses for the day. The S&P 500 and the Nasdaq Composite both lost 0.1%.

In Europe, the Stoxx Europe 600 fell 0.2% to 390.50, down for a fourth consecutive session.

The weakness came after Deutsche Bank lowered banks to underweight from a benchmark rating, saying a slowdown in eurozone growth is likely to weigh on the sector in coming months.

In the U.S., many investors say they are trying to gauge how long favorable economic data and relatively low market volatility can last. U.S. stocks look expensive relative to their historical averages, investors and analysts say, especially as many have trimmed their expectations for deregulation and tax cuts from the Trump administration.

Goldman Sachs shares declined by 2% and J.P. Morgan shares were off 1.7% by late afternoon.

Shares of Amazon.com climbed, breaching \$1,000 for the first time before paring their gains. The firm's shares have climbed 33% in 2017.

Energy shares in the S&P 500 fell 1% by late afternoon as U.S. crude fell 0.3% to \$49.66 a barrel.

Government bonds strengthened, with the yield on the 10-year U.S. Treasury note falling to 2.217% from 2.248% Friday.

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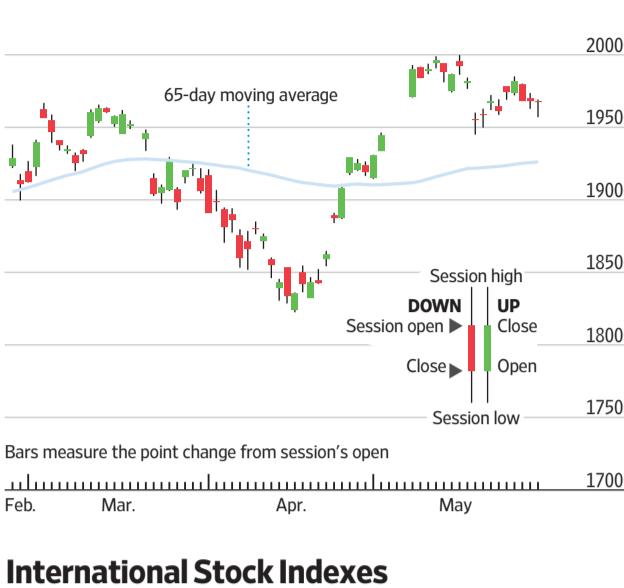
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MARKETS DIGEST

Nikkei 225 Index

19677.85 ▼ 4.72, or 0.02%

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



Bars measure the point change from session's open

Feb. Mar. Apr. May

STOXX 600 Index

390.50 ▼ 0.75, or 0.19%

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



Feb. Mar. Apr. May

S&P 500 Index

2412.91 ▼ 2.91, or 0.12%

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



Feb. Mar. Apr. May

Data as of 4 p.m. New York time

Last Year ago

Trailing P/E ratio 23.94 24.04

P/E estimate * 19.15 17.75

Dividend yield 1.95 2.19

All-time high: 2415.82, 05/26/17

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

2430

2400

2370

2340

2310

2280

2250

International Stock Indexes

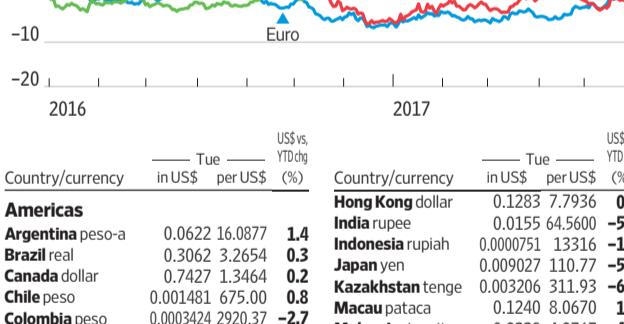
Data as of 4 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2761.89	-4.74	-0.17	2193.75	2193.75	2773.08	2773.08	9.2
	MSCI EAFE	1885.18	1.45	0.08	1471.88	1471.88	1956.39	1956.39	9.8
	MSCI EM USD	1011.67	-3.52	-0.35	691.21	691.21	1044.05	1044.05	27.4
Americas	DJ Americas	578.83	-1.07	-0.18	480.90	480.90	580.46	580.46	7.1
Brazil	Sao Paulo Bovespa	64001.01	240.07	0.38	48066.67	48066.67	69487.58	69487.58	6.3
Canada	S&P/TSX Comp	15375.98	-45.93	-0.30	13609.58	13609.58	15943.09	15943.09	0.6
Mexico	IPC All-Share	49270.92	-179.56	-0.36	43902.25	43902.25	50154.33	50154.33	7.9
Chile	Santiago IPSA	3728.27	10.84	0.292	2998.64	2998.64	3786.05	3786.05	15.7
U.S.	DJIA	21029.47	-50.81	-0.24	17063.08	17063.08	21169.11	21169.11	6.4
	Nasdaq Composite	6203.19	-7.00	-0.11	4574.25	4574.25	6217.34	6217.34	15.2
	S&P 500	2412.91	-2.91	-0.12	1991.68	1991.68	2418.71	2418.71	7.8
	CBOE Volatility	10.30	0.49	4.99	9.56	9.56	26.72	26.72	-26.6
EMEA	Stoxx Europe 600	390.50	-0.75	-0.19	308.75	308.75	396.45	396.45	8.0
	Stoxx Europe 50	3220.57	-10.62	-0.33	2626.52	2626.52	3279.71	3279.71	7.0
Austria	ATX	3160.27	-24.18	-0.76	1981.93	1981.93	3211.08	3211.08	20.7
Belgium	Bel-20	3890.84	-2.64	-0.07	3127.94	3127.94	4055.96	4055.96	7.9
France	CAC 40	5305.94	-26.53	-0.50	3955.98	3955.98	5442.10	5442.10	9.1
Germany	DAX	12598.68	-30.27	-0.24	9214.10	9214.10	12841.66	12841.66	9.7
Greece	ATG	776.02	-1.17	-0.15	517.10	517.10	800.08	800.08	20.6
Hungary	BUX	34321.14	183.03	0.54	25126.36	25126.36	34975.81	34975.81	7.2
Israel	Tel Aviv	1419.36	...	Closed	1372.23	1372.23	1490.23	1490.23	-3.5
Italy	FTSE MIB	20814.48	30.66	0.15	15017.42	15017.42	21288.77	21288.77	8.2
Netherlands	AEX	525.71	-2.02	-0.38	409.23	409.23	537.84	537.84	8.8
Poland	WIG	60344.58	-514.70	-0.85	42812.99	42812.99	62666.49	62666.49	16.6
Russia	RTS Index	1074.81	-10.94	-1.01	874.88	874.88	1196.99	1196.99	-6.7
Spain	IBEX 35	10876.90	-7.10	-0.07	7579.80	7579.80	11184.40	11184.40	16.3
Sweden	SX All Share	588.27	3.17	0.54	443.66	443.66	593.34	593.34	10.0
Switzerland	Swiss Market	9007.54	-24.42	-0.27	7475.54	7475.54	9136.95	9136.95	9.6
South Africa	Johannesburg All Share	54158.04	213.82	0.40	48935.90	48935.90	54716.53	54716.53	6.9
Turkey	BIST 100	97347.63	-378.32	-0.39	70426.16	70426.16	98794.90	98794.90	24.6
U.K.	FTSE 100	7526.51	-21.12	-0.28	5788.74	5788.74	7554.21	7554.21	5.4
Asia-Pacific	DJ Asia-Pacific TSM	1606.97	2.99	0.19	1308.52	1308.52	1608.94	1608.94	12.9
Australia	S&P/ASX 200	5717.90	10.80	0.19	5103.30	5103.30	5956.50	5956.50	0.9
China	Shanghai Composite	3110.06	...	Closed	2821.05	2821.05	3288.97	3288.97	0.2
Hong Kong	Hang Seng	25701.63	...	Closed	20038.42	20038.42	25701.63	25701.63	16.8
India	S&P BSE Sensex	31159.40	50.12	0.16	25765.14	25765.14	31159.40	31159.40	17.0
Japan	Nikkei Stock Avg	19677.85	-4.72	-0.02	14952.02	14952.02	19961.55	19961.55	2.9
Singapore	Straits Times	3204.79	-9.76	-0.30	2729.85	2729.85	3271.11	3271.11	11.2
South Korea	Kospi	2343.68	-9.29	-0.39	1925.24	1925.24	2355.30	2355.30	15.7
Taiwan	Weighted	10101.95	...	Closed	8458.87	8458.87	10108.49	10108.49	9.2

Source: SIX Financial Information; WSJ Market Data Group

Currencies

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



London close on May 30

Country/currency	US\$ vs. in US\$	Tue	YTD chg (%)	US\$ vs. per US\$ (%)	Country/currency	US\$ vs. in US\$	Tue	YTD chg (%)	US\$ vs. per US\$ (%)
Argentina peso-a	0.0622	16.0877	1.4		Hong Kong dollar	0.1283	7.7936	0.5	
Brazil real	0.3062	3.2654	0.3		India rupee	0.0155	64.5600	-5.	

THE PROPERTY REPORT

Builders Cite Scarcity to Get Laws Eased

Some U.S. states add legal protections for developers to spur affordable housing

By PETER GRANT

The real-estate industry is having success in using the scarcity of affordable housing in the U.S. to persuade lawmakers to give builders more legal protection.

Colorado Gov. John Hickenlooper last week signed a measure making it harder for condominium associations to sue builders over allegedly shoddy construction. Backers, who have been pushing for the change for years, argued that Colorado's former law, one of the toughest in the country, aggravated the state's shortage of affordable housing by discouraging condo development.

The governor "knows it's not a silver bullet," said Kurtis Morrison, the director of legislative affairs. "But the hope is it will release a pressure valve with the rental market and first-time owners seeking their first property."

A similar measure passed the Minnesota legislature this month and is now before Gov. Mark Dayton. The real-estate industry in that state also argued that current rules have been limiting new supply of relatively inexpensive condominiums by encouraging litigation and driving up insurance costs and other builder expenses.

Developers in both states predict legal changes will lead to a flurry of new construction.

"It's a big shot in the arm," said Buzz Geller, of Paradise Land Co., which owns about a half-dozen sites in the Denver region. "We're going to have a lot of condominiums we wouldn't have had before."

Trial lawyers and homeowner associations that battled the bills raised doubts the measures will trigger much new supply of affordable con-



Construction on a Denver condo project in April. In the Denver area, the median price of a single-family home just crossed \$400,000.

RJ SANGosti/The Denver Post/Getty Images

dos.

Opponents accused the real-estate industry of exploiting concerns about affordable housing availability to advance its agenda.

"They were trying to take advantage of a perception that litigation is depressing the amount of units being constructed," said Joel Carlson, a lobbyist for the Minnesota Association for Justice, a trial lawyers group.

Affordability is becoming a problem in cities like Denver and Minneapolis because home prices have been skyrocketing in many parts of the U.S., outpacing wage increases. Prices on average are nearly 40% above their level at

the bottom of the housing crash in 2012, according to an index compiled by S&P CoreLogic Case-Shiller.

Part of the problem is a dearth of new supply, according to observers. As of April, there were about 835,000 starts of single-family homes on an annual basis, well below the long-term average of 1.3 million, according to the Commerce Department.

To stoke supply in other states, real-estate industry officials have gotten behind a wide range of efforts to make it cheaper and easier for developers to build houses. More than 130 bills addressing affordable housing have been introduced in the California leg-

islature alone.

"We can't turn a blind eye to the fact that we have established barriers to housing creation," said David Chiu, chairman of the California Assembly's housing committee, at a news conference last month.

To be sure, some measures have faced higher political hurdles than others. For example, many communities of single-family detached homes have been successful at beating back projects that would increase housing density.

But real-estate industry executives in Colorado and Minnesota have been able to boost support for new construction-defect laws by pointing to the

decline in condominium production.

For example, in Minnesota about half of the construction of for-sale homes a decade ago was for condominiums, townhouses and other multifamily projects.

Today the rate is about 15%, according to David Siegel, executive director of the Builders Association of the Twin Cities, who blamed the decline partly on excessive lawsuits by homeowners associations.

He said that a decade ago 70% of homes sold for less than \$300,000. Now, 70% of homes sell for more than \$300,000.

If signed by Gov. Dayton, the Minnesota law would re-

quire homeowners associations to try to resolve disputes over construction defects through mediation before going to court. Also, homeowner associations by themselves couldn't decide to sue.

They would need the support of a majority of all owner-occupiers. "Condos, townhouse and twin-homes are very often the on-ramp into homeownership," Mr. Siegel said.

In the Denver area, home prices have increased at a double-digit percentage rate for three years, and the median price of a single-family home just crossed \$400,000, according to Mark Trenka, chairman of the Colorado Association of Realtors and the head of Century 21 Trenka Real Estate in the Denver area.

"I just brought a house out for \$300,000 in the suburbs and it took me a whole weekend to sell it," he said. "We probably could have sold it in an hour."

Mr. Trenka pointed out that the Denver area has been investing billions of dollars in a rapidly expanding commuter-rail service but there has been little condo development near train stations because of builder concerns about litigation. "It's a squandered opportunity," he said.

The new Colorado law also requires that at least half of homeowners agree to a construction-defect lawsuit before one can be brought by a homeowners association.

A provision that would have required associations to go into mediation instead of court on construction-defect disputes was eliminated as part of a compromise with opponents.

"No one deserves a free pass for shoddy construction," said Nick Jurjovec, spokesman for the Colorado Trial Lawyers Association, in an email. The association "has never subscribed to the notion that in order to spur condo development in Colorado you must do it at the expense of homeowners' rights."

Opportunists Pounce as Retail Property Slumps

By ESTHER FUNG

As investors flee the battered retail-property sector, a few brave ones are picking through the wreckage.

GBT Realty Corp., a Brentwood, Tenn., property developer, is planning to raise a \$500 million real-estate fund to purchase 80 to 100 retail buildings in the next decade.

Hendon Properties LLC, a real-estate development, management and brokerage firm based in Atlanta, also is looking to raise a fund to buy weak malls and open-air shopping centers.

"The opportunistic money is circling," says Jeff Edison, chief executive of Phillips Edison & Co., an owner and operator of more than 340 grocery-anchored shopping centers across the U.S. "They smell blood in the water."

So far this year, retailers have announced more than 3,000 store closures in the U.S. as a result of bankruptcy filings or shifts to e-commerce opera-

tions. The few chains that are still expanding, such as discount chain **Burlington Stores** Inc., are opening smaller stores in wealthier ZIP Codes.

The bifurcation between healthy properties in upscale regions and slumping ones in less-wealthy areas is creating bargains for some hardy investors.

While prices haven't fallen to distressed levels, in some cases the land value itself is worth the purchase price, the investors say. Yet most of the buyers say they have plans to improve operations and expect higher returns.

"In some cases, the needle has swung too far and we want to take advantage of it," says Charlie Hendon, chief executive and president of Hendon Properties.

The firm plans to raise \$10 million to \$20 million for the fund and will join with other institutional investors that will fork out the majority of the equity in potential projects.

Hendon previously has partnered with investors such as

Alabama investment firm **Harbert Management Corp.** and **Acadia Realty Trust**.

GBT Realty, which builds neighborhood shopping centers, single-tenant buildings and strip centers, already has several target acquisitions in mind, mostly open-air and grocery-anchored centers. It also could buy anchor department-store locations in malls directly from retailers and reposition them by bringing in new tenants, says Scott Porter, managing director of GBT's value-add division.

In general, the acquisitions will average around \$10 million to \$30 million, GBT says.

GBT already has an in-house leasing team with relationships in the retail community, says Chief Financial Officer Geren Moor. "We're looking for assets where we can add value, such as backfilling vacant spaces," says Mr. Moor. He added that the firm will continue with ground-up development operations, though such projects have tighter margins these days.

Investors bet on Las Vegas and Phoenix during the latest housing boom, expecting aging baby boomers to flock to the Sunbelt states. Relatively affordable home prices also made it easy for people with middle-class salaries to snap up second or third homes. But the availability of land meant there were few constraints on new construction, leading to a bigger crash.

Despite the strong rally of the past five years, neither city is close to its previous peak. Las Vegas prices remain one-third below their 2006 high while Phoenix prices remain 27% below.

Their falls were almost as dramatic. Las Vegas home prices posted a 33% annual decline in December 2008 while Phoenix prices plummeted 36% a few months later, on an annual basis.

"There are mall investors with patient capital that can wait for the existing leases to ride out and bring in other uses to reposition the property," says Margaret Caldwell, managing director at JLL Capital Markets. "We are also seeing new investors that are in-

terested in buying malls due to potentially high yields."

Time Equities Inc., a New York real-estate firm, recently purchased two Tennessee malls for \$53.5 million, making a bet it can revitalize the assets.

"The Tennessee portfolio



Some real-estate developers are doubling down on retail even as stores are closing by the thousands.

DREW ANGERER/GETTY IMAGES

Sign Shows U.S. Housing Market Is Calming

By LAURA KUSISTO

In another sign the U.S. housing market is returning to normal, Las Vegas and Phoenix—poster children of the bubble and bust—are looking average.

The S&P CoreLogic Case-Shiller Indices, which covers home-price fluctuations in the entire nation, rose 5.8% in the 12-month period ended in March, the fastest rate in 33 months.

The price increases were in line with price growth in the country's biggest boom-bust markets.

Home prices in Las Vegas rose 6.4%, while those in Phoenix climbed 5.6%, according to Case-Shiller.

The relative steadiness

comes after a 15-year stretch when the two markets were leaders of the U.S. housing bubble, bust and recovery.

"In the boom and the bust they were clearly the incredibly hot spots," said David Blitzer, managing director at S&P Dow Jones Indices. "They're no longer so outstanding and unusual."

Las Vegas home prices hit their peak growth rate in the summer of 2004, rising 53% annually, while Phoenix prices reached 49% annual growth about a year later.

Their falls were almost as dramatic. Las Vegas home prices posted a 33% annual decline in December 2008 while Phoenix prices plummeted 36% a few months later, on an annual basis.

The distance from the previous peak isn't necessarily the best measure of health, since both markets likely were

overvalued.

"It should be no surprise that it would take them a long time to get back there, if ever," Mr. Blitzer said. "There are things that don't come back, or don't come back in less than a generation."

Today, the new booming markets look comparatively restrained, and areas where price gains are concentrated are generally ones with strong job growth and limited supply, not speculative investment and overbuilding.

Across the country, Seattle led the way in March with a 12.3% home-price increase. Portland reported a 9.2% year-over-year gain and Dallas, which recently replaced Denver in the top three, posted an 8.6% annual increase.

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MARKETS

Natural-Gas Pangs: Glut Poised to Worsen

New supplies from fertile Permian Basin in Texas are likely to pressure prices

By TIM PURO
AND CHRISTOPHER M. MATTHEWS

The oil-rich Permian Basin is emerging as a major source of new natural gas, a development that could deepen an existing glut and pressure gas prices for years.

The West Texas region has become the most prolific spot for horizontal oil drilling and fracking. The new oil wells also produce natural gas, making it a nearly free byproduct that energy companies can then sell on top of the more-sought-after crude.

Gas production in the Permian Basin is likely to triple by 2020 from its 2010 levels, analysts say. The region is poised to rival new gas output from the Appalachian Marcellus Shale, the U.S.'s biggest gas-producing region.

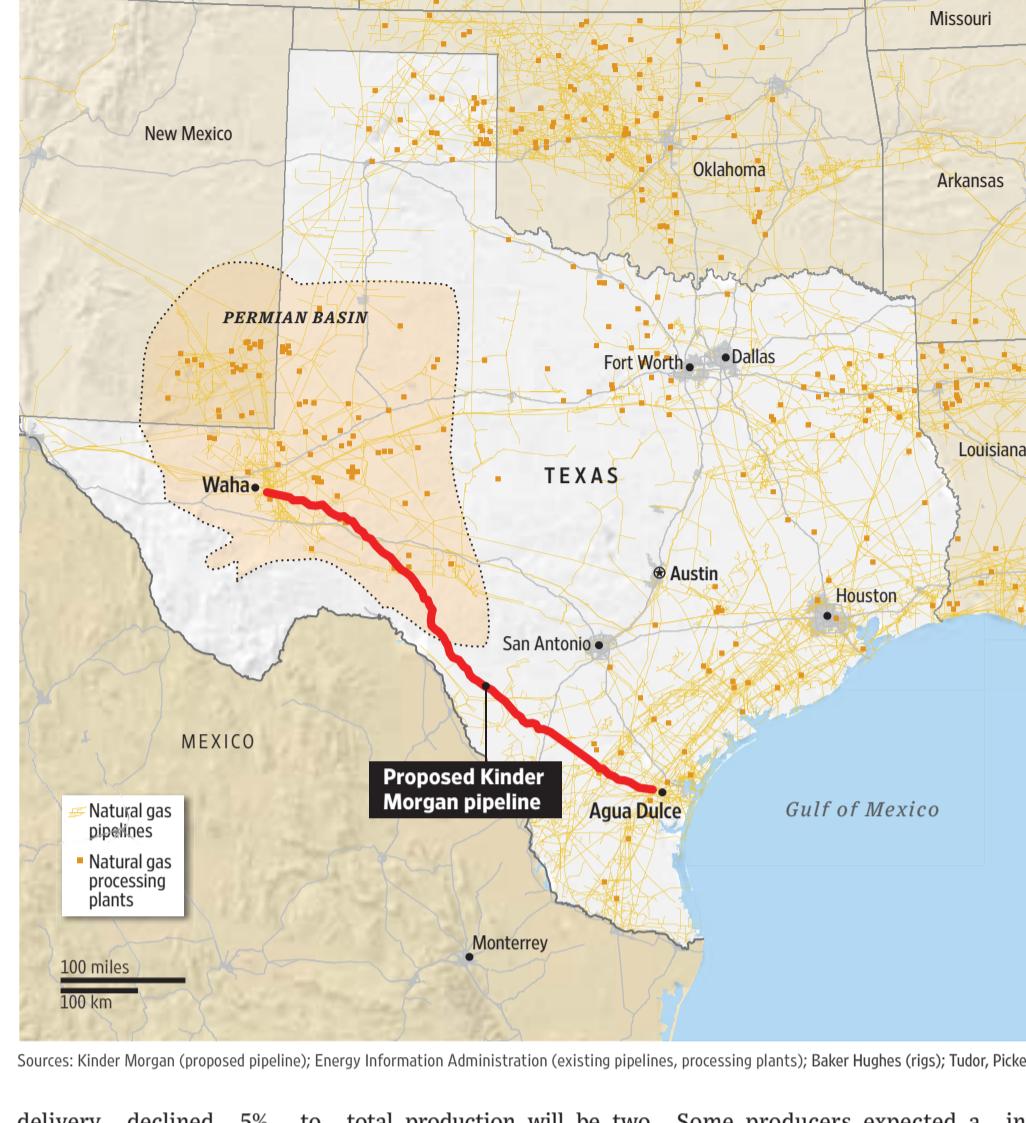
Businesses and investment firms are earmarking billions of dollars for new pipeline connections to take away gas so that drillers can keep pumping oil.

Blackstone Group LP last month agreed to pay \$2 billion for **EagleClaw Midstream Ventures** LLC, a gas-focused pipeline company in the region.

Kinder Morgan Inc. and at least two others have announced plans to spend billions of dollars on new pipelines.

The rapid growth among oil drillers and the support for pipeline projects both in Texas and from President Donald Trump's administration are helping make those investment decisions easier.

Natural-gas prices are down 16% year to date, with near-record production and modest winter-heating demand leaving storage levels 11% higher than the five-year average. On Tuesday, natural gas for July

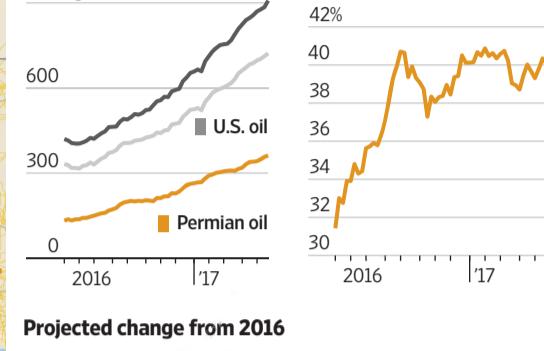


Sources: Kinder Morgan (proposed pipeline); Energy Information Administration (existing pipelines, processing plants); Baker Hughes (rigs); Tudor, Pickering, Holt & Co. (supply and demand)

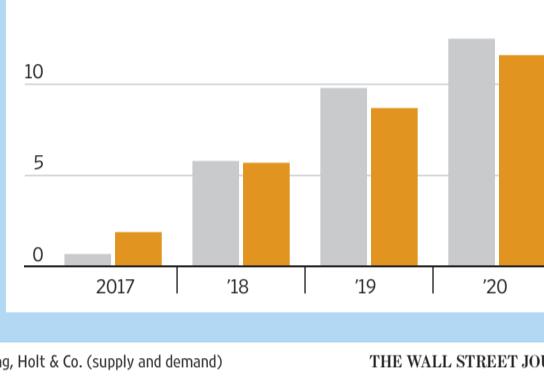
Boom Times

Dozens of new rigs drilling primarily for oil—especially in Texas' Permian Basin—may produce so much natural gas that they could cover nearly all new gas demand for years.

Number of drilling rigs



Projected change from 2016



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delivery declined 5%, to \$3.1450 a million British thermal units.

Gas production in the Permian is expected to increase by 5.5 billion cubic feet a day from the end of last year to reach 12.5 billion cubic feet by the end of 2020, according to energy investment bank **Tudor Pickering Holt & Co.** in Houston.

The Marcellus, which has long been the fastest-expanding gas field, is likely to add 6.1 billion cubic feet during the same period, not much more than the Permian, though its

total production will be two times that of Permian by 2020.

All that fresh output could send gas prices back down to historic lows next year, said Brandon Blossman, an analyst at Tudor Pickering. Permian "producers are concerned they can't get rid of it," he said. "They're not really concerned what they're going to get for it."

Six months ago, many analysts and executives thought a slowdown in drilling nationwide and increasing export demand could reverse the oversupply of natural gas.

Some producers expected a shortage of pipelines to ship gas out of the oil patch might slow their move into the Permian.

But that picture has changed with the wave of new, cheap gas from the Permian and pipeline companies willing to spend on new connections.

New long-haul pipelines

also are slated to unlock Marcellus supply for the Midwest and Southeast. Resurgent Haynesville-shale drilling is likely to boost output from Louisiana. All that potential supply is helping keep prices

in the futures market at the lower end of their range from the past two decades.

Oil wells nationwide are expected to generate another 9 billion cubic feet a day of natural gas over the next several years, nearly covering all new demand, according to estimates from Tudor Pickering and Macquarie Group.

Many analysts expect the increasing supply to keep international prices low, too, as the U.S. becomes more of a global supplier.

Because Permian drillers are after oil, gas prices could

hit historic lows, probably as little as \$1.50 a million British thermal units, before it would stop them from drilling, according to energy consulting firm Wood Mackenzie.

Oil companies want to move gas as quickly as possible so they can produce more oil, said Duane Kokinda, Kinder Morgan president.

His firm held talks with customers this year and received bids in excess of the capacity on Kinder's natural-gas pipeline, Mr. Kokinda said.

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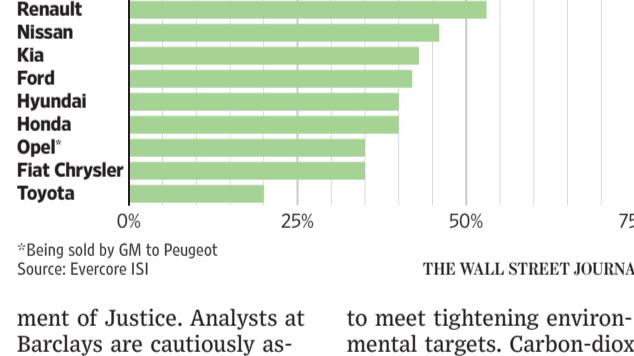
FINANCIAL ANALYSIS & COMMENTARY

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Diesel Cloud Hangs Over Auto Earnings

German Problem

Estimated share of diesel in EU car sales, 2016



*Being sold by GM to Peugeot

Source: Evercore ISI

sumers and regulators on nitrogen oxide, an air pollutant rather than a direct greenhouse gas. Here diesel engines perform much worse. Demand is in free fall: Across Western Europe, diesel's share fell almost 4 percentage points year over year to 46% in April, calculates Barclays.

Car makers' response: massive investment in electric cars.

Daimler spent almost 20% more on research and development in the first quarter of 2017 than in the previous year. There are other reasons: Tesla's rising market share and stock price; and China's upcoming electric-car quotas.

But punchy targets given by all three German manufacturers, who say plug-in cars will account for between 15% and 25% of sales in 2025, are in part calculated responses to the post-diesel regulatory landscape in their European home market.

The transition from engines to electric motors could be extremely costly. Even if

today's car makers succeed in retaining market share in the face of new entrants, analysts at **Morgan Stanley** warn that engine margins could collapse before electric margins fully mature.

The other big expense for car makers could be write-downs on used-car values.

The finance arms of big manufacturers lease vehicles to consumers, effectively taking on the depreciation risk. There is little hard evidence yet, but it seems inevitable diesel valuations will erode faster than previously assumed. Brokerage Evercore ISI expects a €1.6 billion (\$1.79 billion), or 2.3%, hit to operating profits for the European and U.S. car makers this year as a result of weaker used-diesel prices.

The direct costs of the diesel scandal to Volkswagen have now largely been determined, at about \$25 billion.

The indirect costs to the industry are just beginning.

—Stephen Wilmot

OVERHEARD

General Electric, true to its corporate slogan, has its imagination at work—at least in the conglomerate's accounting department.

The industrial behemoth last week unveiled a new way that the company calculates the rate at which its operating earnings convert into free cash flow.

GE now adds back capitalized software costs and cash payments for restructuring charges to the cash-flow tally, and it no longer adds back nonoperating pension costs to its tally of operating earnings.

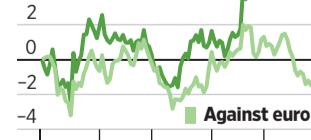
The results are impressive. Under the new calculation method, GE converted 91% of its earnings to free cash flow in 2016, 99% in 2015 and 96% in 2014.

That is much better than under the old calculation, when GE converted just 76% of earnings to free cash flow, down from 91% in 2014. Talk about bringing good things to life.

Pound Rests on More Than U.K. Election

Pound's Progress

Performance of sterling



Source: FactSet

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always rested on shaky ground.

Meanwhile, there appears to be little domestic economic support for the pound. First-quarter growth was reduced last week to just 0.2%, and inflation is squeezing wages again. The Bank of England is in wait-and-see mode; tighter monetary policy that might lift the pound isn't likely soon. Gilt yields have fallen this year and in real terms are deeply negative.

The euro's gains against the dollar this year have been supported by lower political risk and forecast-beating economic data. The pound looks wobbly on both fronts. As the election looms, caution is warranted.

—Richard Barley

gaining support, have weighed on the pound.

The polls challenge an idea that has supported sterling, namely that a big majority for Mrs. May would make the process of Brexit smoother and more manageable. That assumption has

Apple Has a WeChat Problem in China

Apple has a challenge in China, the world's biggest smartphone market, that it rarely faces elsewhere: Chinese people are less afraid than most to ditch their iPhones.

The technology giant's revenue in China fell 14% in the first quarter, its fifth consecutive quarterly sales decline. China was the only region where Apple's sales fell last quarter. The lack of a new iPhone model explains some of the decline. Apple also faces strong domestic competition from Chinese brands like **Huawei**, **Oppo** and **Vivo**, which together hold more than half of the market.

But one key factor that is often overlooked is customer loyalty. Apple's success in most countries is largely due

to the way it locks users into the iOS operating ecosystem. Anyone thinking of switching to a new Android-based handset has to ponder the hassle of a new interface and setting up all their apps again. About 92% of iPhone owners in the U.S. who consider buying a new phone are going to stay put, according to a recent Morgan Stanley survey. That stickiness allows Apple to sell new iPhone models at a premium.

In China, though, operating systems aren't such a big deal, says Ben Thompson, founder of research firm Stratechery. Instead WeChat, the ubiquitous social network owned by Chinese tech giant **Tencent**, is crucial. The app, which began life as a messaging tool and now has

almost 1 billion active users, is effectively a mini-operating system itself. Within it, users can do almost anything—download games, pay bills, transfer money or order takeout food.

WeChat is available on both iOS and Android. Its flexibility means it is less of a wrench for Chinese customers to give up their iPhone if they fancy a new model. About half of Chinese iPhone users have switched to phones with Android in the past year, according to a survey by Toutiao, a popular news website.

If Apple is to make better headway in China with its new model expected later this year, it will have to come up with a better selling point than just being an iPhone.

—Jacky Wong