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ASIA EDITION

As of 4 p.m. ET

DJIA 21080.28 ▼ 0.01% NIKKEI 19686.84 ▼ 0.64%

STOXX 600 391.35 ▼ 0.20%

BRENT 52.15 ▲ 1.34%

GOLD 1267.60 ▲ 0.94%

EURO 1.1170 ▼ 0.37%

DLR ¥111.32 ▼ 0.46%

What's News

World-Wide

Trump took aim at White House leaks that have kept the investigation into his campaign's relationship with Russia in the news. A1

The president was the only leader at the G-7 summit who didn't back an international climate-change deal signed in 2015. A3

♦ A bloody battle between Islamic State-linked militants and Philippine government forces continued into its sixth day. A1

♦ Islamic State claimed it carried out the attack on a bus full of Coptic Christian pilgrims in Egypt. A3

♦ Iraqi forces have launched their final push to reclaim the last districts of Mosul still under Islamic State control. A3

♦ South Africa's Zuma faced another showdown over his leadership at a meeting of his party's top decision-making panel. A4

♦ At least 151 people are dead and more than 100 others missing after torrential monsoon rains triggered floods and landslides in Sri Lanka. A4

♦ Members of the terrorist network behind the suicide bombing in Manchester could still be at large, a U.K. official said. A3

♦ The Pentagon said two Chinese jet fighters safely intercepted a U.S. naval surveillance plane, the second such incident in a week. A4

Business & Finance

♦ A computer outage continued to disrupt British Airways, though the airline planned to operate most services after canceling hundreds of flights Saturday. B1

♦ Americans refinancing their mortgages are taking cash out in the process at levels not seen since the financial crisis. B1

♦ China's central bank said it was tweaking the mechanism for setting the yuan's daily fix, hitching its value closer to the U.S. dollar. B7

♦ Tencent is using its vast social-media network to attract luxury-fashion brands to its WeChat app, taking on Alibaba. B1

♦ Caesars faces a challenge as it nears emerging from bankruptcy: how to grow when gambling is within driving distance of virtually every American. B1

♦ U.S. GDP expanded at an annual rate of 1.2% in the first quarter, stronger than initially estimated. A7

♦ Bitcoin is up 110% since the end of March, powered in part by new regulatory policies in Japan. B8

♦ Japanese investment into foreign bonds has surged, with some saying movement into European debt after the French election is likely one reason. B7

♦ The chairman of JBS, the world's largest meat producer, resigned amid a corruption probe in Brazil. B3

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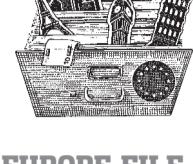
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WORLD NEWS

EU's Fault Line Now Falls Along the Danube



EUROPE FILE

By Simon Nixon

According to the conventional wisdom, the fate of Europe is determined by what happens either side of the Rhine. That has been the case throughout the postwar era. The push for European integration has been driven by France and Germany, for whom the river forms part of their common border; five of the six founding members of the European Union lie in the Rhineland basin. And now, following the election in France of Emmanuel Macron, the Franco-German engine appears ready to drive a new phase of European integration.

Yet, the next phase of EU evolution may not follow the previous pattern. A new fault line has emerged in European politics since the last time major questions about the structure of the EU were being discussed. This new fault line runs along Europe's other great transnational river: the Danube.

Until recently, the Danube represented the EU's eastern border. The decision to allow the former Communist countries of Central and Eastern Europe to join the EU in 2004 and 2007 was taken largely for strategic reasons—to lock those countries



ZOLTAN MATHE/EUROPEAN PRESSPHOTO AGENCY

The Chain Bridge floodlit in blue lights as it crosses the Danube River in Budapest, Hungary.

into the Western sphere of influence. Yet, the full consequences are only starting to become clear as the EU contemplates how best to strengthen the EU's common currency, its borders and its internal market.

That's because the EU is first and foremost a legal rather than political or economic construction whose legitimacy above all hinges on respect for the rule of law. But many believe respect for the rule of law east of the Danube is weak, undermined by corruption and political assaults on the institutions that underpin it.

The current primary focus of these concerns is Hun-

gary. The latest in a series of clashes between the Hungarian government led by Prime Minister Viktor Orban and the European Commission concerns Budapest's passing of a new law last month that critics say was aimed at destroying the independence of Central European University, a Budapest-based American university founded by George Soros in 1991. Budapest insists it acted after an investigation found that 27 out of the 28 foreign universities offering degrees in Hungary were in breach of aspects of Hungarian law.

The way in which Budapest has acted has cost it the benefit of the doubt: CEU wasn't warned it was under investigation and was only told about the new law on the day that it was tabled; the law was subsequently passed by parliament and signed by the president in less than three weeks.

For many, this alleged attack on a respected academic institution raises fresh questions about Budapest's commitment to the rule of law and democratic values. Budapest and Brussels are already at loggerheads over the Hungarian government's refusal to abide by a new EU law requiring all members of the EU's passport-free Schengen travel zone to resettle a share of the refugees arriving in Greece and Italy while their asylum applications are

processed. At the same time, Mr. Orban is running an aggressive "Stop Brussels" campaign via the Hungarian media that accuses the EU of encroaching on Hungarian sovereignty and which Brussels says is based on lies.

The European parliament this month called on EU leaders to suspend Hungary's membership privileges, though this won't happen since any such move would be blocked by Poland.

The EU faces similar challenges further down the Danube. In Romania and Bulgaria, the risks to the rule of law from corruption and organized crime are so serious that the

EU insisted on intensive monitoring of its reform efforts as a condition of membership and made access to EU funds partly conditional on compliance with its recommendations. Earlier this year, Bucharest's attempts to undermine the country's anticorruption watchdog led to mass protests.

Then there is Serbia, which is on the Danube but outside the EU. The strategic reasons for bringing Belgrade and the Western Balkans into the EU are every bit as compelling as those underpinning previous enlargements, not least the risk of creating a vacuum in the region that might be otherwise filled by Russia and Turkey. Yet the rule of law is arguably weaker in this region than in previous accession countries.

How will the countries of the Rhine deal with the countries along the Danube? Will they continue to prioritize the unity of the EU as they pursue deeper integration, pragmatically overlooking concerns about the rule of law? Or will the Rhineland countries and their Western allies try to restrict the next phase of EU integration to core members of the eurozone whose commitment to the rule of law is not in doubt, even if that risks turning Central and Eastern European countries into second-class citizens? And how far are they prepared to pursue countries such as Hungary that they believe persistently flout core European values? Can the EU afford to take any more risks to its unity when it is already faced with Brexit? These are the questions that will shape the fate of the EU.

ECONOMIC CALENDAR

This week, both the U.S. and Europe will see key readings on their labor markets and inflation, while India will release its first-quarter gross-domestic-product figure.

TUESDAY: Though employment numbers have been strong this year, some inflation measures showed softness in March and April. Federal Reserve watchers will look for signs of firming prices in the U.S. Commerce Department's **personal-consumption expenditures price index**, the Fed's preferred measure of inflation. Economists surveyed by The Wall Street Journal expect core PCE prices ticked up 0.1% in April, after a 0.1% decline the previous month.

WEDNESDAY: China's official May **manufacturing purchasing managers index** (release time is Tuesday night in the U.S.) is expected to edge down to around 51.0, from 51.2 in April. Growth in the world's second-largest economy is seen decelerating for the remainder of the year on a weakening property market and moves by Beijing to raise short-term interest rates and tighten regulation in a bid to slow the buildup of debt and stymie financial risk.

India's first-quarter **gross domestic product** figures will indicate whether the world's fastest-growing large economy has sprung back from November's move to fight tax evasion and other crime by voiding large currency notes. The prior quar-

ter's 7% growth marked a milder slowdown than many had expected.

A week ahead of its next policy meeting, the European Central Bank is expected to receive mixed news from the European Union's statistics agency. Economists expect Eurostat figures to show the eurozone's **jobless rate** edged down again in April, slowly eating into the slack that has kept a lid on wage growth and inflationary pressures. But Eurostat's flash estimate is expected to show the **inflation rate** fell back below the ECB's target in May as rises in services prices related to the Easter holiday were reversed.

THURSDAY: U.S. Federal Reserve governor Jerome Powell will deliver thoughts on the normalization of monetary policy at a breakfast meeting in New York. Mr. Powell's remarks come during a full week of Fed speeches, including one on Tuesday from Fed governor Lael Brainard.

FRIDAY: Economists will be watching **wage growth** figures when the U.S. Labor Department releases the **May jobs report**. Hourly earnings growth appears to have lost momentum since the start of the year, which could cause Fed officials to approach raising interest rates with more caution. Economists surveyed by The Wall Street Journal expect the unemployment rate remained at 4.4% in May, while U.S. employers added 185,000 jobs.

Overall, Keefe, Bruyette & Woods estimates that banks have \$270 billion of retail-related commercial real-estate loans.

Banks have taken on some of their most direct exposure to retailers through asset-based loans, which typically get paid back before those to other lenders. Asset-based "lenders historically have recovered 100% of their exposure" in retail bankruptcies, said David M. Hillman, a restructuring partner at Schulte Roth & Zabel LLP.

Commercial loans to retailers are larger than energy exposure at many banks. Retailers represent Bank of America Corp.'s third-biggest industry exposure in its commercial-lending book, for instance, and the bank extended \$41.6 billion to the sector at the end of 2016. By contrast, the bank lent \$19.7 billion to the energy industry.

Bank of America or Wells Fargo & Co. were lenders in

MARTIAL

Continued from Page One
his opponents, despite assurances from the government that it is necessary to prevent the Maute and other extremist groups from reaching their goal of declaring a caliphate in the southern Philippines.

The Philippines' constitution allows the president to declare martial law for 60 days. Any extensions require congressional approval, and the constitution says Congress should convene within 24 hours following a martial law proclamation if not already in session. It has yet to do so.

President spokesman Ernesto Abella said the president is committed to restoring peace and order in Mindanao and is focused on the terrorist threat, "not on the misguided commentaries of critics."

Many older Filipinos still associate martial law with a two-decade period of dictatorship under former President Ferdinand Marcos, who used martial law to stay in power and silence his critics until he was ousted in a popular revolt in 1986. Mr. Duterte has said many times in public that he admires Mr. Marcos.

Mr. Duterte has asserted that any abuses of martial law would be treated severely, but he nonetheless has presented mixed messages. In remarks Friday to security forces that



ERIK DE CASTRO/REUTERS

A resident displaced by fighting between government soldiers and Maute extremists is helped during evacuation from Marawi.

appeared to be intended as a joke, Mr. Duterte said he would take responsibility if his soldiers raped three women but punish them for a fourth.

Mr. Duterte's remarks have drawn criticism from human rights groups, including the Philippines' Commission on Human Rights, which called on security services "to remain faithful to their roles as defenders of human rights and the dignity of all."

On Twitter, Chelsea Clinton, the daughter of former U.S. President Bill Clinton, called Mr. Duterte "a murderous thug with no respect for human rights."

Maute fighters first occupied Marawi on Tuesday, torching buildings in the city of 200,000 and attacking police and civilians after a failed attempt by authorities to arrest an influential allied faction leader.

Late Tuesday Mr. Duterte

declared martial law in the entire southern island of Mindanao, home to 22 million people.

Government officials said last week that Maute fighters in Marawi had been joined by foreigners from other countries including Malaysia and Indonesia, who sought to join the group in its quest to declare a caliphate in the southern Philippines. The country's solicitor-general, Jose Calida, called the development an "invasion."

In a statement Sunday, the armed forces said it was focused on aiding residents of Marawi trapped inside the city, and it had rescued 124 civilians since the start of its operations. Officials said previously that Maute militants had taken hostages.

The military has been bombing Marawi with airstrikes as it seeks to take back sections of the city.

Since the fighting began, 103 people have been killed, including 61 militants, 15 police and soldiers and 19 civilians, the military said Sunday afternoon.

The bodies of an additional eight civilian casualties were recovered by the army later on Sunday.

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BANKS

Continued from Page One

there, but it's nothing that will be dramatic when it's happening," he said, adding that J.P. Morgan has scrutinized its exposure to retailers, as well as property occupied by them and vendors who sell to them.

Still, the troubled industry has the potential to cause other headaches, particularly for smaller banks that do a lot of commercial real-estate lending.

"This issue clearly isn't going away," Christopher E. McGratty, an analyst at Keefe, Bruyette & Woods Inc., said recently.

He expects smaller banks, some with 20% of their commercial real-estate exposure focused on retailers, will start to give more disclosure soon on different types of borrowers they serve, from strip malls to big-box stores.

nine of the 21 recent retail bankruptcies. The two banks have also lent money to troubled retailers that haven't filed for bankruptcy protection, like Sears Corp. and Bon-Ton Stores Inc.

Banks generally take reserves against potential losses when they see borrowers that might be at risk. In the case of retailers, the amounts generally haven't been big enough to show up in broader reserve levels at big banks, Mr. Schorr said. That is a contrast to last year, when energy lending led banks to post large increases in reserves broadly.

One reason for the differ-

ence: In energy, the commodity-price declines were felt widely across the industry. Loans to troubled retailers, on the other hand, are balanced out by online stores and other chains that are performing better.

Another distinction is that the value of the retailers' collateral underlying the loans has held up better than in energy. "The inventory and accounts receivable value doesn't fluctuate as much as commodities' prices do," Mr. Hillman said.

This month's bankruptcy filing of rue21 Inc., a teen retailer exemplified how banks' loans can be safe even when other lenders face losses. The retailer, which sells everything from prom dresses to candles for different astrological signs, had a \$72 million loan led by Bank of America.

That loan is expected to be paid back in full from the proceeds of liquidation sales of about 400 of its nearly 1,200 stores in coming months, ac-

WORLD NEWS

Trump Balks as Allies Back Climate Deal

President says he will decide soon whether the U.S. will remain in the Paris accord

By CAROL E. LEE

GIARDINI NAXOS, Italy—President Donald Trump was the only leader at a summit for seven of the world's largest economies who didn't back an international climate-change agreement that the U.S. and nearly 200 other countries signed in Paris in 2015.

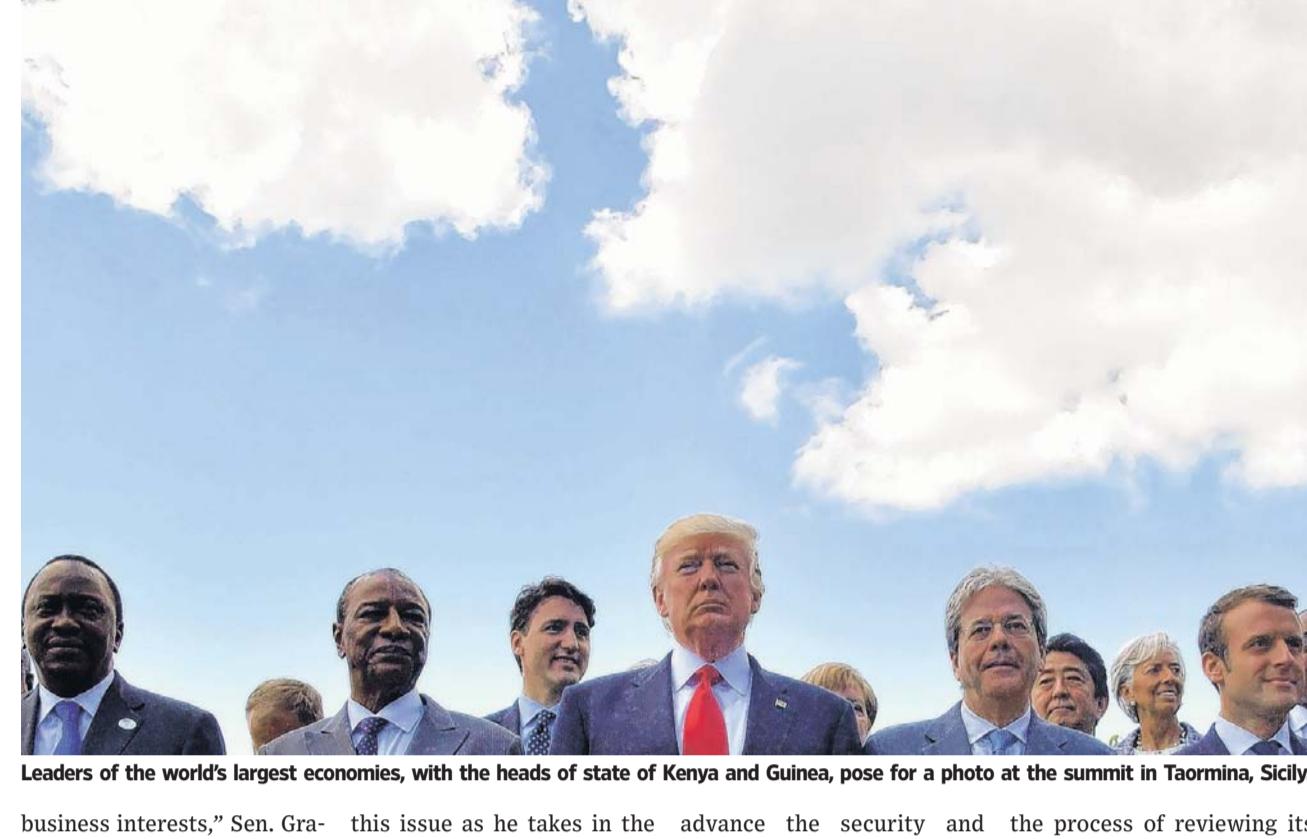
Instead, Mr. Trump said he would decide after his return to the U.S. whether the U.S. will remain part of the pact, or withdraw or modify its commitments.

After a debate with U.S. allies that are part of the agreement, including Germany, France, Canada, the U.K., Japan and Italy, Mr. Trump wrote on Twitter Saturday: "I will make my final decision on the Paris Accord next week!"

Mr. Trump, who criticized the agreement as a presidential candidate, was urged by other world leaders during international summits in Europe to remain in the accord. Pope Francis also called on the president to keep the U.S. in the climate agreement.

On Sunday, Sen. Lindsey Graham (R-S.C.) encouraged the president to support the climate deal.

"If I were him I would stay in the agreement and make it a better deal for world-wide



Leaders of the world's largest economies, with the heads of state of Kenya and Guinea, pose for a photo at the summit in Taormina, Sicily.

TIZIANA FABI/AGENCE FRANCE PRESSE/GETTY IMAGES

business interests," Sen. Graham said on CNN. "If he does withdraw that would be a definitive statement by the president that he believes climate change is a hoax."

"It means that the leader of the Republican Party is in a different spot than the rest of the world," Mr. Graham said.

Defense Secretary Jim Mattis said on CBS on Sunday that the president listened to why others leaders of the Group of Seven countries backed the agreement. Mr. Trump was "wide open on

this issue as he takes in the pros and cons of that accord," Mr. Mattis said.

The president returned to Washington Saturday night after his first overseas trip as president, a nine-day swing through five countries and meetings with dozens of world leaders in Europe and the Middle East. He said the trip laid the groundwork for "a new era of cooperation" with U.S. allies on combating terrorism.

"We made extraordinary gains on this historic trip to

advance the security and prosperity of the United States, our friends and our allies," Mr. Trump said in remarks to U.S. troops in Sicily, where he attended a summit with other world leaders.

German Chancellor Angela Merkel said Saturday after a gathering of the G-7 in Sicily that the discussion with Mr. Trump on climate change was "very difficult, if not very unsatisfying."

A statement from the leaders at the conclusion of the summit said the U.S. "is in

the process of reviewing its policies on climate change and on the Paris Agreement and thus is not in position to join the consensus on these topics."

The U.S. is one of 190 countries that are part of the accord, which was a priority for Mr. Trump's predecessor, President Barack Obama.

President Trump's top economic adviser, Gary Cohn, told reporters Saturday that Mr. Trump is continuing to study the agreement. On Friday Mr. Cohn said the presi-

dent's views on the issue are "evolving."

Mr. Trump didn't mention the accord in his remarks Saturday. Instead he put an optimistic sheen on his trip, which took him to Saudi Arabia, Israel and the West Bank, Vatican City, Brussels and Sicily.

"We made a lot of good friends this week," he said.

The primary goal of the president's trip was to expand cooperation with U.S. allies on counterterrorism efforts, particularly the fight against Islamic State. Mr. Trump said Saturday that two terrorist attacks carried out during his trip—in the U.K. and in Egypt—underscored "the depth of the evil we face and the urgent need for us to join forces to absolutely and totally defeat it."

While Mr. Trump netted some gains with America's allies on counterterrorism issues, he also baffled some members of the North Atlantic Treaty Organization with his sharp demands that they increase their defense budgets. Mr. Trump recently signed a spending bill that increased U.S. military spending. He said Saturday that he "took a little heat on that one but it's OK with me."

With the spotlight on Mr. Trump's disagreement with allies on the climate accord and NATO, the G-7 leadership meeting largely skirted tensions with the new American president over his threats of a harder-line trade policy.

—Jacob M. Schlesinger contributed to this article.

U.S. Says it Has Shifted Strategy in Fight Against ISIS

The U.S. has switched to "annihilation tactics" against Islamic State in Iraq and Syria, surrounding fighters instead of moving them from one spot to another, the defense secretary said Sunday.

By Tamer El-Ghobashy
in Erbil, Iraq and
Ghassan Adnan in
Baghdad

"Our strategy right now is to accelerate the campaign against ISIS. It is a threat to all civilized nations. And the bottom line is we are going to move in an accelerated and reinforced manner, throw them on their back foot," Jim Mattis said on CBS News's "Face the Nation."

Iraqi forces have launched an offensive to reclaim the last districts of Mosul still under Islamic State control, considered the most difficult stage of this battle against the militants now in its eighth month.

Army, police and elite counterterrorism units began the

assault on the edges of western Mosul's Old City before dawn on Saturday, backed by U.S.-led coalition airstrikes and artillery. Explosions from the strikes were heard starting from about 3 a.m. and continued into the afternoon.

"Our main mission is to liberate people before land," Brig. Gen. Yahya Rasool, a spokesman for Iraq's military, said on Saturday.

Mosul was the largest city Islamic State controlled in Iraq and the Old City is home to the ancient Grand Nouri Mosque. The mosque was where Islamic State leader Abu Bakr al-Baghdadi made his only publicly recorded appearance, announcing the creation of a caliphate, or religious empire, in July 2014.

With the entire city encircled by Iraqi forces, U.S. and Iraqi commanders are expecting militants to put up fierce resistance in the last remaining patch of the city they occupy.

"Our intention is that the foreign fighters do not survive

the fight to return home to North Africa, to Europe, to America, to Asia, to Africa," Mr. Mattis said Sunday. "We're not going to allow them to do so. We're going to stop them there."

Iraq's military said recently that Islamic State controls less

than 10% of western Mosul and has fortified it with booby traps in buildings and explosives along the Old City's narrow roads.

Iraqi troops will have to conduct the final battles on foot, foregoing armored vehicles that are too large for the streets and

alleys in the area, which is still packed with some 200,000 civilians.

The United Nations is also bracing for the fight, which it expects will send most of those 200,000 people still living in the Old City fleeing for already overcrowded camps. On Friday,

the U.N. said those remaining behind Islamic State lines lack clean water, medicine and food, and have been herded by the militants into explosive-laden houses to be used as human shields.

Islamic State snipers have deliberately targeted children, said Stephen O'Brien, the top U.N. humanitarian affairs official. Islamic State's use of human shields and the pace of U.S. airstrikes have had devastating consequences in the fight for western Mosul.

On Thursday, the Pentagon

said a U.S. military investigation concluded that 101 civilians had been killed by a March 17 U.S. airstrike on a house that triggered secondary blasts of explosives placed by militants.

The collapse of the building, where the civilians were sheltering, also left 36 people still missing.

—Ali A. Nabhan in Baghdad and Becky Bowers in Washington contributed to this article.



AA/AHMAR JAVED/REUTERS

A member of Iraq's security forces fired on Islamic State positions in Mosul on Sunday.

Egypt's Christians Targeted Again

By TAMER EL-GHOBASHY

Sirte in December. Egypt last struck Derna in February 2015 after the militants released a video showing the beheading of a group of Coptic Christian Egyptian laborers on a beach in Libya.

Friday's attack was carried out by gunmen in sport-utility vehicles who ambushed the bus carrying pilgrims to the St. Samuel monastery in Minya, about 190 miles south of Cairo.

It was part of a wave of violence against Egyptian Christians, who make up about 10% of the population. They had mostly supported Mr. Sisi's rise to power as the head of the

military, which orchestrated a coup that ousted the country's first freely elected president, Mohammed Morsi, in 2013.

Mr. Sisi has struggled to contain the insurgency by Islamic State's Egyptian affiliate, which had been mostly confined to the remote northern region of the Sinai Peninsula. This has dented his credibility as the self-proclaimed stalwart against terrorism in the Middle East.

Mr. Sisi imposed a three-month national state of emergency in April after Palm Sunday suicide bombings by Islamic State's Egypt affiliate,

Sinai Province, which killed at least 45 worshipers at churches in Alexandria and Tanta.

In December, an ISIS bombing at Cairo's Coptic cathedral killed 25 people, the largest attack on a Christian house of worship in Egypt since 2011.

Mokhtar Awad, an analyst at the Program on Extremism at George Washington University, said that with travel to Syria and Iraq becoming increasingly difficult, local militants have adopted the brutal tactics of Islamic State in those countries—particularly the targeting of religious and ethnic minorities.

Probe of U.K. Attack Still Going 'Full Tilt'

By WIKTOR SZARY

LONDON—Members of the terrorist network behind last week's suicide bombing in Manchester could still be at large, U.K. Home Secretary Amber Rudd said Sunday, as police made another arrest in their fast-moving investigation.

The warning comes a day after Britain reduced its terrorism-threat level from "critical," meaning an attack is deemed to be imminent, to "severe," meaning it is highly likely, following progress in the probe into the attack that killed 22 people.

But asked Sunday in an interview with the British Broadcasting Corp. if some of the people linked to the attack could remain at large, Mrs. Rudd said: "Potentially."

"I mean, it's an ongoing operation... the operation is still really at full tilt in a way," Mrs. Rudd said. "Until the operation is complete we can't be entirely sure that it's closed."

Manchester police said Sunday they had arrested a 25-year-old man in the Old Trafford area of the city as part of their investigation and were also searching an address in the Moss Side area.

Britain's top counterterrorism police officer, Mark Rowley, said Friday that a large

number of those suspected of aiding the 22-year-old British-born attacker, Salman Abedi, had been arrested.

In total, 12 men between the ages of 18 and 44 were in custody in the U.K., including the attacker's 23-year-old brother. Investigators were still seeking to determine how Abedi was able to slip through security surveillance, who knew about the attack in advance, and how the bomb was manufactured.

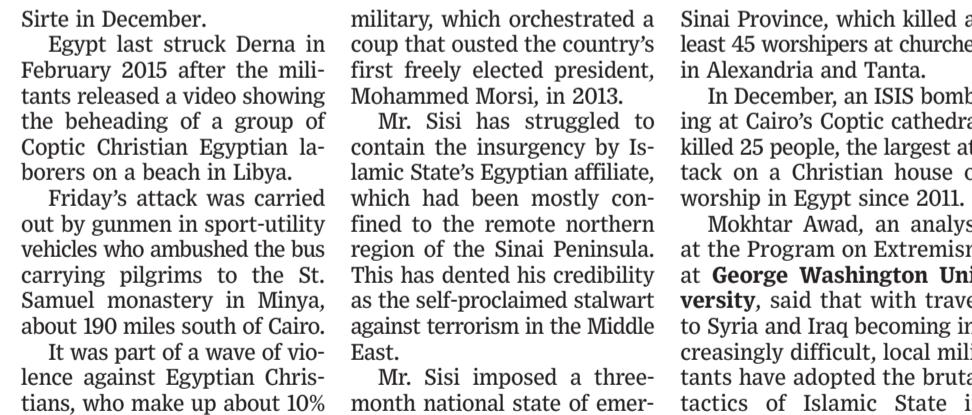
Late Saturday, British authorities released a CCTV image of Abedi from the night of the bombing, and asked the public for information about his movements before the attack.

Police described their investigation as "large scale and fast-moving" and said they were gathering a detailed picture of Abedi as the probe develops.

The attack at Manchester Arena on Monday evening, which was claimed by Islamic State, was the deadliest in the U.K. since 2005.

In response, British authorities raised the terrorism-threat level to its highest point on Tuesday as security forces explored the possibility that a wider group of people were involved in the attack.

Since then, security has been increased at key sites and events across the country.



Coptic Christians at the funeral in Minya, Egypt, of victims of Friday's attack on a busload of pilgrims.

MOHAMED ABD EL GHANY/REUTERS

WORLD NEWS

Mystery of a Missing Monk

Accused of embezzlement, a Buddhist guru vanishes from a temple in Thailand

BY JAMES HOOKWAY

PATHUM THANI, Thailand—Phra Dhammachayo, a Buddhist monk, shouldn't be too hard to find.

With his orange robes and dark glasses, the 73-year-old is one of Thailand's best known figures. His temple, just north of Bangkok, is ten times as large as Vatican City and boasts a dome where many of his three million followers meditate.

But the monk has been missing since March after officials issued a warrant for his arrest, accusing him of knowingly accepting millions of dollars stolen from a local credit union and other charges. Police say they have no idea where he is. Phra Dhammachayo's representatives say he hasn't done anything wrong.

Thailand's junta is eager to find him for reasons other than the fraud charges, say people familiar with the generals' thinking. Their specific concerns, these people say, are that his temple has grown so quickly, and that Phra Dhammachayo has close ties to ex-Prime Minister Thaksin Shinawatra, who was ousted in a 2006 coup and is still popular among Thailand's poor.

Mr. Thaksin's government had dropped an earlier probe into alleged fraud in connection with the temple's finances. His sister, Yingluck Shinawatra, a subsequent Thai prime minister, tapped the Dhammakaya Temple to help form a Buddhism school curriculum before she, too, was ousted in a putsch.

The generals also are alarmed by some of the temple's more esoteric teachings, which borrow heavily from Chinese mysticism and encourage the use of meditation to drive out what Phra Dhammachayo has called the



Thai monks walk together inside the Wat Phra Dhammakaya Temple in Pathum Thani province.

"forces of darkness" from Thailand.

"They think it's almost a state within a state," one of these people said.

Pasura Dantanamo, a senior monk at the temple, said it isn't allied with any political group. He pointed out that some of Mr. Thaksin's political opponents also worship at the temple. Mr. Thaksin, who lives abroad, denies plotting against the government.

A lot has changed in Thailand since the latest coup brought the generals back to power three years ago. They have jailed or exiled dissidents. The once-roaring economy has stumbled as foreign investment slowed. A new king, King Maha Vajiralongkorn, recently succeeded his father King Bhumibol Adulyadej after more than seven decades on the throne.

But Phra Dhammachayo's fall from grace is among the more striking stories to emerge.

For 23 days this spring,

some 4,000 riot police and soldiers besieged the Dhammakaya Temple, butting up against monks and protesters trying to defend their guru. In March, investigators took the hunt nationwide after finding a hole chiseled in the temple's perimeter wall. Some suspect the monk may have fled the country.

It is a jarring reversal from the years when Phra Dhammachayo was courted by tycoons and politicians, notably Mr. Thaksin. Born Chaiyabun Siddhipol, he studied economics before being ordained and taking the monastic name Phra Dhammachayo (phra is a Buddhist honorific, like reverend).

His Dhammakaya Temple preaches a modern take on Buddhism seasoned with the kind of prosperity gospel taught by some Christian Pentecostal groups, and was tailor-made for the middle classes who emerged during Thailand's boom years in the 1980s and '90s.

"Dhammachayo was a

wonderful seller of new ideas, but he is also an opportunist who was in the right place at the right time," said Mano Laohavanich, a physician and former monk.

Prosecutors now want Phra Dhammachayo arrested for allegedly laundering money embezzled from a credit union and have drawn up more than 350 charges against him related to the temple's finances.

"It doesn't matter if he's famous or not," said Police Colonel Worranan Srilum. "What matters is that he is a wanted man. It's our duty to find him and bring him in."

On the few occasions that investigators have managed to get inside the temple they failed to find any sign of the man. One group of police thought they had found a tunnel leading out of the temple complex and took a team of television reporters to investigate. It turned out to be a dead end, leading to a water riser.

South African Leadership Questions Zuma's Tenure

BY GABRIELE STEINHAUSER

JOHANNESBURG—South African President Jacob Zuma faced a new showdown over his leadership at a meeting on Sunday of his party's top decision-making panel.

It is the first time the National Executive Committee of the African National Congress has met since Mr. Zuma's surprise ouster of his finance minister and several other cabinet members in late March.

The shuffle triggered two downgrades of South Africa's debt rating to junk as well as mass protests demanding the president step down over allegations of widespread corruption and the poor performance of Africa's most-developed economy.

The ANC's two main alli-

ance partners—the South African Communist Party and the powerful Congress of South African Trade Unions—have also demanded Mr. Zuma's exit before his term expires in 2019.

Although ANC Secretary-General Gwede Mantashe said Mr. Zuma's resignation wasn't on the NEC's agenda, he stressed Saturday that the committee, which started meeting on Friday, wouldn't shy away from discussing "hard business."

Hours later, local media started reporting that committee member Joel Netshitenze had launched a motion on Mr. Zuma's resignation and received support from several other committee members. Mr. Netshitenze, who has previously called for a discussion on an early exit of the presi-



President Zuma addressing a prayer service earlier in May.

dent, couldn't be reached for comment. An ANC spokesman and a spokesman for Mr. Zuma didn't respond to requests for comments.

Analysts have cautioned that

despite growing opposition, including from within his own party, Mr. Zuma's backers continue to hold a majority within the ANC's top committee. "The pro-Zuma faction...has every-

thing to lose and will defend him much more aggressively than his opponents within the party are able to attack him," said Darius Jonker, Southern Africa analyst at Eurasia Group.

As the 86-member NEC was meeting in a secluded hotel outside the capital, Pretoria, pressure on Mr. Zuma and his government was rising. Sunday newspaper headlines led with a trove of leaked emails that they said showed how a family of Indian businessmen with close ties to Mr. Zuma had paid for travel and hotel rooms for several government ministers and had received confidential government information.

Mr. Zuma's ties to the Gupta family have been one of the main reasons behind the pushback against the presi-

dent. In November, South Africa's official government watchdog published a report that alleged the Guptas had dictated who would get cabinet appointments and received overly generous government contracts.

It called for an inquiry to further investigate the allegations—a step that Mr. Zuma has so far resisted. The president has said there is no proof for the allegations against him and argues that the report didn't have the right to request a commission of inquiry.

Representatives of the Guptas didn't respond to a request for comment, but the family has said the watchdog report "was riddled with errors and subject to rebuttal."

Weeks after the report was issued a first revolt in the NEC against Mr. Zuma failed.

WORLD WATCH

CHINA

Jets Intercepted P-3 Unsaferly, U.S. Says

The U.S. Defense Department said two Chinese jet fighters unsafely intercepted a U.S. naval surveillance plane over the South China Sea in the second such incident off China's shores in a week.

Cmdr. Gary Ross, a Pentagon spokesman, said in a statement that the two Chinese J-10 fighters intercepted a U.S. Navy P-3 aircraft in international airspace on Wednesday. He didn't provide the exact location.

"The aircrew deemed the intercept unsafe and unprofessional. Operations were able to continue unimpeded," he said. "We continue to review the facts of this incident and will convey our concerns through appropriate channels with the Chinese government."

China's foreign and defense ministries didn't respond to requests for comment.

The Chinese Communist Party's main newspaper, the People's Daily, said in a commentary on its English-language website on Saturday: "How ridiculous it is for the U.S. Navy to complain after jeopardizing China's security and interests."

Such behavior makes one think of a Chinese idiom: The wicked are the first to complain."

—Jeremy Page and Gordon Lubold

AFGHANISTAN

Taliban Attacker Kills At Least 18 in Khost

A Taliban suicide bomber struck in the eastern city of Khost on Saturday, killing at least 18 people, Afghan officials said, as violence continues to grip the country at the start of Islam's holy month of Ramadan.

The 16-year-old conflict in Afghanistan has escalated in the weeks since the Taliban launched its annual spring offensive, with clashes between the militant group and government forces killing scores of people across the country almost every day.

On Friday alone, insurgent attacks in southern Kandahar and elsewhere killed at least 37 Afghan police and soldiers, reflecting the increasingly deadly toll inflicted by the war on the long-suffering population.

The bloodshed came on the first day of Ramadan, a time of prayer and spiritual reflection for most Muslims, when most Afghans spend more time with

family and friends.

However, some extremist groups such as Islamic State claim killing enemies is noble and more worthy during Ramadan.

The attack in Khost, which was swiftly claimed by the Taliban, targeted a convoy of Afghan security forces at a bazaar, Afghan officials said. However,

all of the people killed in the morning attack were civilians.

—Jessica Donati and Ehsanullah Amiri

ISRAEL

Palestinian Prisoners End a Hunger Strike

Palestinian prisoners ended a

hunger strike that lasted about 40 days after the leader of the fast, Marwan Barghouti, reached an agreement with Israel's prison service on improved conditions for inmates, Palestinian and Israeli officials said.

The strike involved about 1,500 of the roughly 6,500 Palestinians prisoners in Israeli jails. It was viewed by Israeli officials

as a bid by Mr. Barghouti to challenge the credibility of Palestinian Authority President Mahmoud Abbas.

About 100 Palestinians last week marched in Bethlehem in support of the hunger strike as U.S. President Donald Trump visited the city for talks with Mr. Abbas.

Mr. Trump has said he wants to achieve peace between Israelis and Palestinians. The hunger strike coincided with White House attempts to develop a plan for peace, but it didn't appear to affect U.S. thinking on the matter. The U.S. president didn't directly address the issue on his visit last week to Israel and the Palestinian-controlled West Bank.

The hunger strikers sought more family visits and an end to what they said were unfair trials and torture in jail. They also wanted an end to the Israeli policy of administrative detentions, under which Palestinians and Israelis can be held without charge for an indefinite period.

Mr. Barghouti was involved in the talks with Israel's prison service, which met some of the prisoner demands, according to Qadura Fares, head of the Palestinian Prisoners Club, a nongovernmental group that represents inmates.

—Rory Jones



Men gather at the scene of the suicide bombing that targeted Afghan security forces on Saturday.

Sri Lanka Floods Kill 151, Nation Braces for More

BY UDITHA JAYASINGHE

KALUTARA, Sri Lanka—At least 151 people are dead and more than 100 others missing after torrential monsoon rains triggered devastating floods and dozens of landslides in Sri Lanka's southern and western regions.

More than 230,000 people are affected and have been lodging in about 1,000 temporary camps or at the homes of relatives. Officials are struggling to deal with the impact of the deluge, which began Friday.

Sri Lankan rescuers Sunday pulled more bodies from the enormous mudslides as the death toll climbed to 151, with an additional 111 people missing, the Associated Press reported. Although the weather has cleared, more rains are forecast for Sunday and Monday.

Among the dead is a military officer who fell out of a helicopter on Saturday morning, when his cable snapped during a rescue operation. Thirty-one injured people have been hospitalized, according to the country's Disaster Management Center.

"The situation is dire," said acting Disaster Management Minister Dunesh Gankanda, because so many places have been hit. "In one area alone, there have been 13 landslides. We are struggling to get clear information from these areas to understand the seriousness of the disaster."

The government has deployed army rescue teams, 21 navy boats, navy personnel and six helicopters to help with rescue efforts.

Hundreds of volunteers are working around the clock to get dry rations and bedding to people who have had to evacuate

their homes.

"Rescue teams are still struggling to reach pockets of people who are trapped, as landslides have obstructed possible access points," Mr. Gankanda said.

Warnings were issued to people to evacuate areas that were hit by floods that killed more than 100 people last year.

"We haven't seen so much rain in decades," said Ranjith Perera, who waited in line for coconuts and rice at a relief camp in the town of Kalutara, about 25 miles from Colombo. "The floodwaters rose so fast, we were only able to get out with some clothes."

'The situation is dire,' said the top government disaster management official.

The first of two Indian ships carrying medical supplies reached Colombo port Saturday morning.

"We stand with our Sri Lankan brothers and sisters in their hour of need. Our ships are being dispatched with relief material. The second will reach on Sunday. Further assistance on its way," Indian Prime Minister Narendra Modi tweeted.

The flooding is the worst to hit Sri Lanka since May 2003, when 250 people were killed and 10,000 homes were destroyed.

Some environmentalists say deforestation and badly planned urbanization is worsening the monsoon's impact, leading to bigger landslides in new areas around the country.

U.S. NEWS

Kushner Considered Secret Line to Russia

Idea was broached in meeting Trump's son-in-law had with Russian ambassador

BY CAROL E. LEE
AND SHANE HARRIS

WASHINGTON—Jared Kushner, President Donald Trump's son-in-law and senior adviser, considered setting up a secret communications line with Russia during the presidential transition to discuss the country's military operations in Syria and other issues, according to a person familiar with the matter.

The idea was broached in a meeting that Mr. Kushner had in December with Russian ambassador to the U.S. Sergei Kislyak, this person said. Such a line would have allowed Mr. Kushner to communicate securely with a Russian military official, but it was never set up, this person said.

A secure communications line like the one considered could have made it more difficult for the U.S. intelligence agencies to intercept and listen to any conversations. The Russian ambassador was under routine surveillance at the time by American authorities.

It was unclear why the transition team would have felt the need to establish a secure line to Moscow or whether Mr. Trump's advisers realized that Mr. Kislyak was



JONATHAN ERNST/REUTERS

White House senior adviser Jared Kushner, center, in Riyadh, Saudi Arabia, on May 20.

likely the target of U.S. surveillance. But two other people with knowledge of Mr. Kushner's activities during the transition said his interest in creating what they described as a "back-channel" with Russia raised concerns among law-enforcement and national-security officials.

Jamie Gorelick, a lawyer for Mr. Kushner, couldn't be reached late Friday. Previously she said in a statement about Mr. Kushner's meetings with Russians: "Mr. Kushner previously volunteered to share

with Congress what he knows about these meetings. He will do the same if he is contacted in connection with any other inquiry."

In a briefing Saturday, H.R. McMaster, the national security adviser, referred questions on Mr. Kushner to White House spokesman Sean Spicer, saying: "I'm not prepared to talk about it." Mr. Spicer declined to comment.

Mr. McMaster said generally it wouldn't concern him if an official set up a back-channel to a foreign government.

"We have back-channel communications with a number of countries, and so generally speaking about back-channel communications, what that allows you to do is to communicate in a discreet manner," Mr. McMaster said.

He said he wasn't involved with or aware of Mr. Kushner's efforts. White House officials said Mr. Kushner's contacts with Russian officials didn't come up in Mr. Trump's meetings Saturday at a summit with world leaders in Sicily.

The Washington Post re-

ported earlier Friday, citing U.S. officials briefed on intelligence reports, that Mr. Kislyak had reported to Moscow that Mr. Kushner had discussed establishing a secure line.

At the time, the Obama administration was still in charge of U.S. foreign policy. But retired Gen. Mike Flynn, a former director of the Defense Intelligence Agency and a senior adviser to Mr. Trump, was engaged in his own discussions with the Russians that eventually became part of a sprawling FBI investigation into Russian meddling in the 2016 presidential election. The Russians have denied interfering in the election.

Mr. Kushner's known contacts with the Russians, which include a December meeting he had with a Russian banker, have been scrutinized by federal investigators for months, these people said. The FBI, which is investigating possible collusion between the Trump campaign and Russia, would eventually like to speak to Mr. Kushner about his meetings with the Russian ambassador and the banker, as well as any other interactions he may have had with Russians linked to that country's intelligence services, according to a person familiar with the probe.

Investigators haven't taken formal steps to interview Mr. Kushner, this person said. The Trump administration has denied any collusion with Russia.

Ties between Russia and Trump associates and his campaign are also the subject of two congressional investigations. As part of those probes, the House and Senate Intelligence Committees have asked the Treasury Department for information that could be used to find any financial links between Mr. Trump, his businesses and associates, and Russian individuals or entities.

Among the questions investigators are also considering is whether any of Mr. Kushner's business interests also have Russian links, according to a person with knowledge of the congressional investigations. Before joining the Trump administration, Mr. Kushner was the CEO of the Kushner family's real-estate business.

Mr. Kushner isn't considered a target or a focus of the FBI investigation, according to the person familiar with the probe.

The White House has said that Mr. Kushner's previously disclosed meetings with Russian officials were part of his role in the transition as the main point of contact for foreign government officials. In addition to Mr. Kislyak, Mr. Kushner also met in December with Sergey Gorkov, the head of Vnesheconombank, a Russian bank that was placed on a U.S. sanctions list following Russia's annexation of Crimea in 2014.

TRUMP

Continued from Page One

conflicting responses by the White House to a damaging series of news reports about his campaign's ties to Russia. The Trump administration has denied any collusion with Russia.

An interview with NBC's "Meet the Press," Homeland Security Secretary John Kelly said, "I don't see any big issue here relative to Jared" in reference to reports that Mr. Kushner discussed setting up secret communications with Russia.

Former Director of National Intelligence James Clapper told NBC News regarding the allegations regarding Mr. Kushner: "I will tell you that my dashboard warning light was clearly on, and I think that was the case with all of us in the intelligence community—very concerned about the nature of these approaches to the Russians."

Mr. Kelly was also asked about British Prime Minister Theresa May's complaints that

the U.S. was the source of intelligence leaks after the suicide bombing in Manchester that left 22 people dead and injured dozens more.

"It's borderline, if not over the line of treason" to leak highly classified information from foreign intelligence, Mr. Kelly said. "I think it's darn close to treason."

Some Democrats, including Rep. Adam Schiff (D., Calif.), the ranking Democrat on the House Intelligence Committee, are calling for a review of Mr. Kushner's security clearance. "You have to ask, who are they hiding the conversations from?" he said in an interview with ABC News.

But both Sen. Dick Durbin (D., Ill.) and Sen. Lindsey Graham (R., S.C.), meantime, expressed skepticism about the Kushner disclosure.

Asked by Fox News if Mr. Kushner should lose his security clearance, Mr. Durbin said, "Of course not. This a rumor at this point." He added that he was confident that the newly appointed special counsel, former FBI Director Robert Mueller, would get to the



WILLIAM B. PLOWMAN/NBC

bottom of what happened.

Mr. Graham, appearing on CNN's "State of the Union," said, "I don't trust this story as far as I can throw it."

"I think it makes no sense the Russian ambassador would report back to Moscow on a channel that he most likely knows we're monitoring," Mr. Graham said. "The whole story line is suspicious."

Former House Speaker Newt Gingrich, one of Mr.

Trump's most outspoken surrogates outside of the White House, said the president's trip to the Middle East and Europe and his domestic agenda should take center stage.

"They were disciplined. They were strategic," Mr. Gingrich said of the trip on Fox News. "I hope they'll come home focused on jobs, health, infrastructure...and shove to one side of all of this garbage."

Meanwhile, Mr. Trump is

set to speak to several teams of high-powered attorneys to add to a roster of outside counsel around Marc Kasowitz, who will be helping coordinate the legal response, advisers say. The White House is also expected to hire several lawyers who will focus on the investigation in the legal office run by Don McGahn, White House counsel. Some senior administration officials said they are considering hiring their own private attorneys.

White House officials said the president may also bring back a trio of former campaign officials: Corey Lewandowski and David Bossie, to handle communications and political duties related to the investigation, and David Urban, for a senior White House job.

Mr. Lewandowski was fired as the first of three Trump campaign managers. Mr. Bossie, the deputy campaign manager, is a longtime political operative. Mr. Urban worked as a top Republican Senate aide in the late 1990s.

"The most important thing is Trump listens to them," one senior administration official said.

Mr. Lewandowski's return may prove awkward internally. He was accused of assaulting a reporter at a campaign event—charges were eventually dropped—and Trump family members believed he was peddling negative stories about Mr. Trump's son-in-law and senior adviser Jared Kushner, campaign officials said at the time. He was pushed out at the behest of Mr. Trump's children. Mr. Lewandowski declined to comment.

Other changes under discussion include removing communications director Mike Dubke and installing Sarah Sanders as the main spokesman instead of Mr. Spicer. Another consideration is scaling back on daily press briefings.

Mr. Spicer, one of the few practicing Catholics among Mr. Trump's senior staff, was a last-minute scratch from the president's meeting with Pope Francis this week, a move that shocked some senior administration officials.

Mr. Spicer and Ms. Sanders didn't respond to further questions on any coming changes.

Trump Team Now—and Possible Newcomers

BY MICHAEL C. BENDER

Here's the state of play for President Donald Trump's White House team:

Senior Advisers

Ivanka Trump and Jared Kushner

Mr. Trump's daughter was among the early backers of naming Mike Flynn as his national security adviser, a decision that blew up when Mr. Flynn was soon fired for misrepresenting talks with Russia's ambassador to the U.S. Mr. Kushner's contacts with Russia also are being scrutinized.

Reince Priebus

The White House chief of staff has been hamstrung by constant reports that he is on his way out. He lost a top deputy and loyal lieutenant after the health bill's initial collapse in the House.

Steve Bannon

The president's chief strategist shouldered nearly all of the blame as various wheels came off during the first 100 days, as fellow top aides viewed him as too angry and reactionary to massage the president's agenda through Congress.

Don McGahn

The White House counsel is vetting potential names for the president's team of outside attorneys, and may add a handful of lawyers to his own team to focus on the probe of possible collusion between the Trump campaign and Russia.

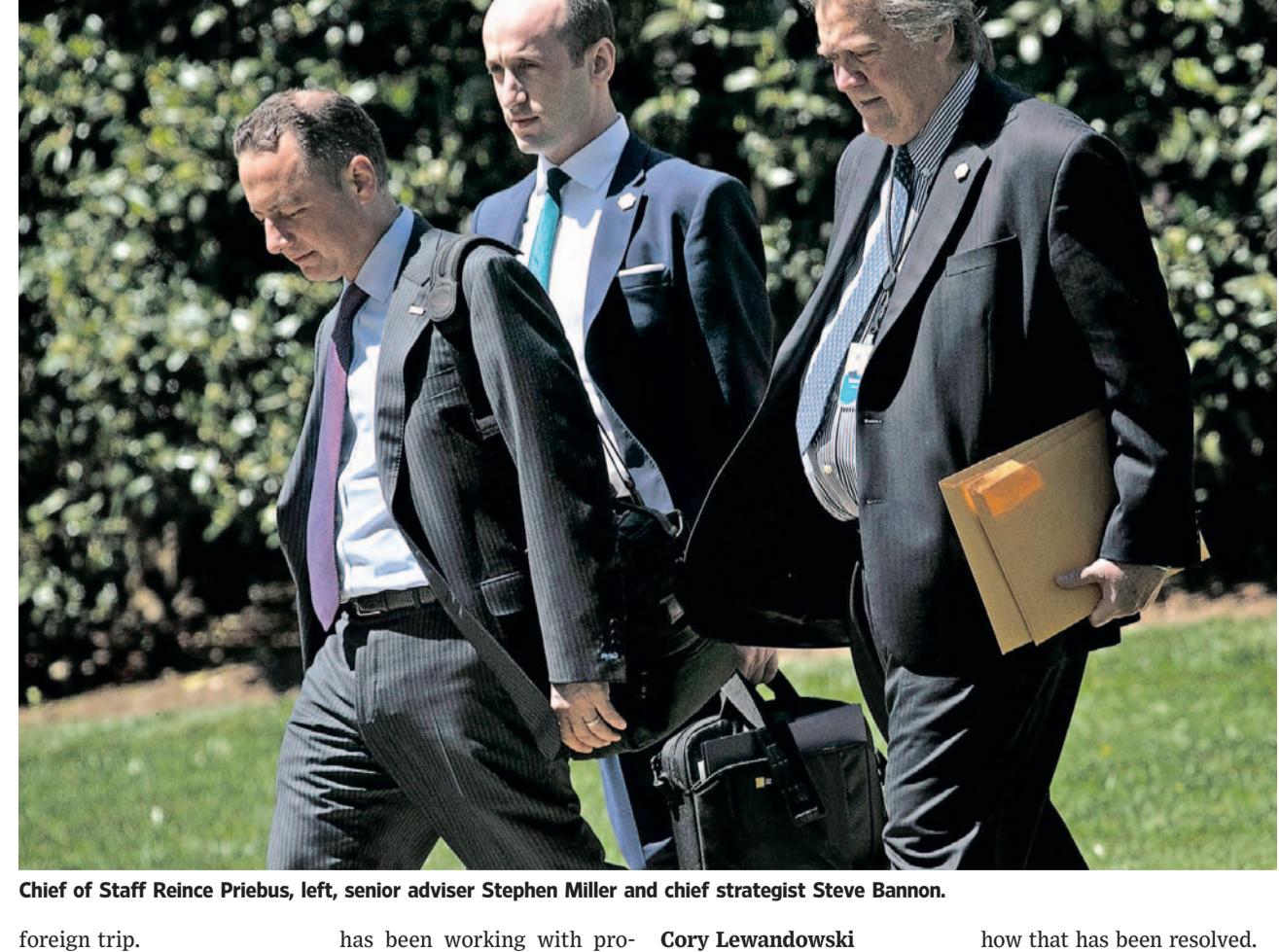
Communications

Mike Dubke

The communications director was brought in after the first month in office and has struggled to jell with the boss. More than once, Mr. Dubke has been shouted at by Mr. Trump, and he was blamed internally when the White House initially had no help on cable television to defend the president's firing of FBI Director James Comey earlier this month, White House officials said.

Sean Spicer

The president has celebrated Mr. Spicer as the reason for strong TV ratings for the White House's afternoon news briefings, but has criticized his appearance and struggle to succinctly explain the administration's positions. One of the only practicing Catholics on the senior staff, he was stung after being cut out of a meeting with Pope Francis on the



WIN MCNAMEE/GETTY IMAGES

Chief of Staff Reince Priebus, left, senior adviser Stephen Miller and chief strategist Steve Bannon.

foreign trip.

Sarah Sanders

The daughter of former Arkansas Gov. Mike Huckabee, Ms. Sanders is being considered for a higher-profile role.

The Outsiders

David Bossie

The deputy campaign manager

has been working with pro-Trump outside groups, but has remained close to the White House. An aggressive political operative who cut his teeth as an investigator for Republicans on the House oversight panel during President Bill Clinton's era, he is being considered for a role to take over the White House political operation.

Cory Lewandowski

Few of Mr. Lewandowski's former associates were surprised when he surfaced as Mr. Trump's campaign manager in 2015. A brusque, confrontational personality, he leans on aggressive language and tactics to bend reporters to his will. But he wore out his welcome with the Trump family during the campaign, and it's unclear how that has been resolved.

David Urban

Mr. Urban was a campaign adviser in Pennsylvania, a state he knows well after serving as staff chief for the late Sen. Arlen Specter. The head of a Washington-based consulting firm, he is often mentioned as a possibility for new blood in the administration.

IN DEPTH

RURAL

Continued from Page One
urbs and medium or small metro areas).

In fact, the total rural population—accounting for births, deaths and migration—has declined for five straight years.

"The gap is opening up and will continue to open up," said Enrico Moretti, an economist at the University of California, Berkeley, who has studied the new urban-rural divide.

Just two decades ago, the onset of new technologies, in particular the internet, promised to boost the fortunes of rural areas by allowing more people to work from anywhere and freeing companies to expand and invest outside metropolitan areas. Those gains never materialized.

As jobs in manufacturing and agriculture continue to vanish, America's heartland faces a larger, more existential crisis. Some economists now believe that a modern nation is richer when economic activity is concentrated in cities.

In Hardin County, where Kenton is the seat, factories that once made caboosees for trains and axles for commercial trucks have shut down. Since 1980, the share of county residents who live in poverty has risen by 45% and median household income adjusted for inflation has fallen by 7%.

At the same time, census figures show, the percentage of adults who are divorced has nearly tripled, outpacing the U.S. average. Opioid abuse is also driving up crime.

Father Dave Young, the 38-year-old Catholic priest at Immaculate Conception, was shocked when a thief stole ornamental candlesticks and a ciborium, spilling communion wafers along the way.

Before coming to this county a decade ago, Father Young had grown up in nearby Columbus—where for many years he didn't feel safe walking the streets. "I always had my guard up," he said.

Since 1980, however, the state capital's population has risen 52%, buoyed by jobs from J.P. Morgan Chase & Co. and Nationwide Mutual Insurance Co., plus the growth of Ohio State University. Median household income in Columbus is up 6% over the same span, adjusted for inflation. "The economy has grown a lot there," said Father Young. "The downtown, they've really worked on it."

Meanwhile, as Kenton—population 8,200—continues to unravel, he said he has begun always locking the church door. Again, he finds himself looking over his shoulder.

"I just did not expect it here," he said.

In the first half of the 20th century, America's cities grew into booming hubs for heavy manufacturing, expanding at a prodigious clip. By the 1960s, however, cheap land in the suburbs and generous highway and mortgage subsidies provided

city dwellers with a ready escape—just as racial tensions prompted many white residents to leave.

Gutted neighborhoods and the loss of jobs and taxpayers contributed to a socioeconomic collapse. From the 1980s into the mid-1990s, the data show, America's big cities had the highest concentration of divorced people and the highest rates of teenage births and deaths from cardiovascular disease and cancer. "The whole narrative was 'the urban crisis,'" said Henry Cisneros, who was Bill Clinton's secretary of housing and urban development.

To address these problems, the Clinton administration pursued aggressive new policies to target urban ills. Public-housing projects were demolished to break up pockets of concentrated poverty that had incubated crime and the crack cocaine epidemic.

At that time, rural America seemed stable by comparison—if not prosperous. Well into the mid-1990s, the nation's smallest counties were home to almost one-third of all net new business establishments, more than twice the share spawned in the largest counties, according to the Economic Innovation Group, a bipartisan public-policy organization. Employers offering private health insurance dropped up medical centers that gave rural residents access to reliable care.

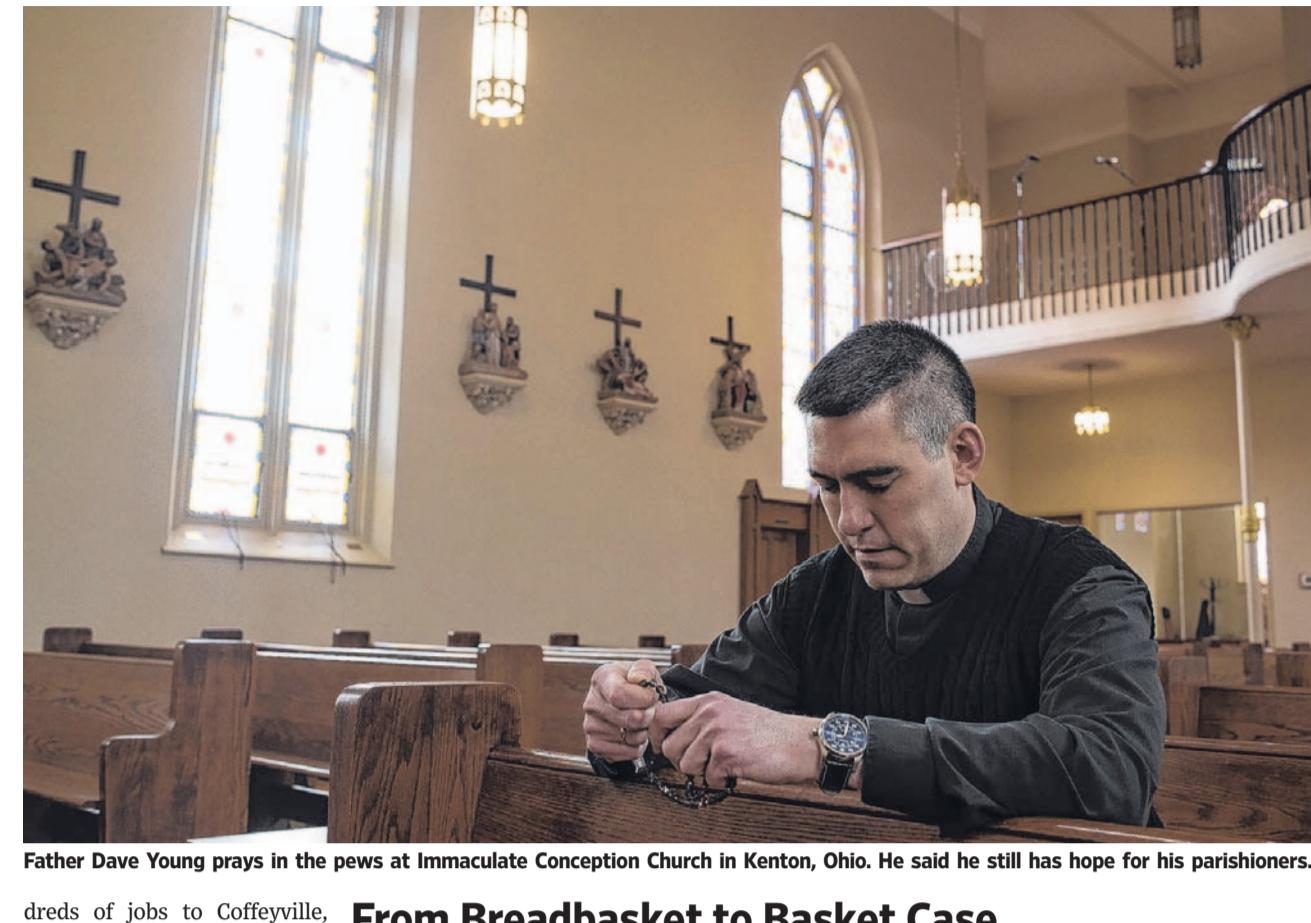
By the late 1990s, the shift to a knowledge-based economy began transforming cities into magnets for desirable high-wage jobs. For a new generation of workers raised in suburbs, or arriving from other countries, cities offered diversity and density that bolstered opportunities for work and play. Urban residents who owned their homes saw rapid price appreciation, while many low-wage earners were driven to city fringes.

Father Young says crime has become a concern. 'I just did not expect it here.'

As crime rates fell, urban developers sought to cater to a new upper-middle class. Hospital systems invested in sophisticated heart-attack and stroke-treatment protocols to make common medical problems less deadly. Campaigns to combat teenage pregnancy favored cities where they could reach more people.

As large cities and suburbs and midsize metros saw an upswing in key measures of quality of life, rural areas struggled to find ways to harness the changing economy.

Starting in the late 1990s, Amazon.com Inc. began opening fulfillment centers in sparsely populated states to help customers avoid sales taxes. One of those centers, established in 1999, brought hun-



Father Dave Young prays in the pews at Immaculate Conception Church in Kenton, Ohio. He said he still has hope for his parishioners.

TY WRIGHT FOR THE WALL STREET JOURNAL (PHOTOS)

dreds of jobs to Coffeyville, Kan.—population 9,500.

Yet as two-day shipping became a priority, Amazon shifted its warehousing strategy to be closer to cities where its customers were concentrated, and shut the Coffeyville center in 2015.

An Amazon spokeswoman said that last year it opened one of two planned fulfillment centers near Kansas City that will create more than 2,000 full-time jobs.

Just as Amazon closed down, so did the century-old hospital in nearby Independence, population 8,700.

The nearly one-million-square-foot Coffeyville warehouse Amazon rented has been empty since it went on the market for \$35 million, and was recently repossessed at a value of \$11.4 million after the building owner filed for chapter 11 bankruptcy protection.

Coffeyville officials said the area's problem isn't a lack of jobs—it's a shortage of qualified workers. After Amazon said it would close, economic-development leaders held an employment fair expecting to get up to 600 job seekers. Fewer than 100 showed up, said Trisha Purdon, executive director of the Montgomery County Action Council.

In the late 1990s, convinced that technology would allow companies to shift back-office jobs to small towns, former Utah Republican Gov. Mike Leavitt pitched outposts in his state to potential employers. But companies were turned off by the idea of having to visit and maintain offices in such locations, he said. Eventually, many of the call centers he landed moved overseas where labor was even cheaper.

Although federal and state antipoverty programs were not limited to urban areas, they often failed to address the realities of the rural poor. The 1996 welfare overhaul put more city dwellers back to work, for example, but didn't take into account the lack of public transportation and child care that made it difficult for people in small towns to hold down jobs, said Lisa Pruitt, a professor at the University of California, Davis School of Law.

Rhonda Vannoster of Independence, Kan., who is 25, has four children with a fifth on the way. She is divorced and jobless and doesn't own a car, which limits her work options. She said she wants to get trained as a nursing aide but struggles to make time for it.

"There just aren't a lot of good jobs," she said.

There has long been a wage gap between workers in urban and rural areas, but the recession of 2007-09 caused it to widen. In densely populated labor markets (with more than one million workers), Prof. Moretti found that the average wage is now one-third higher than in less-populated places that have 250,000 or fewer workers—a difference 50% larger than it was in the 1970s.

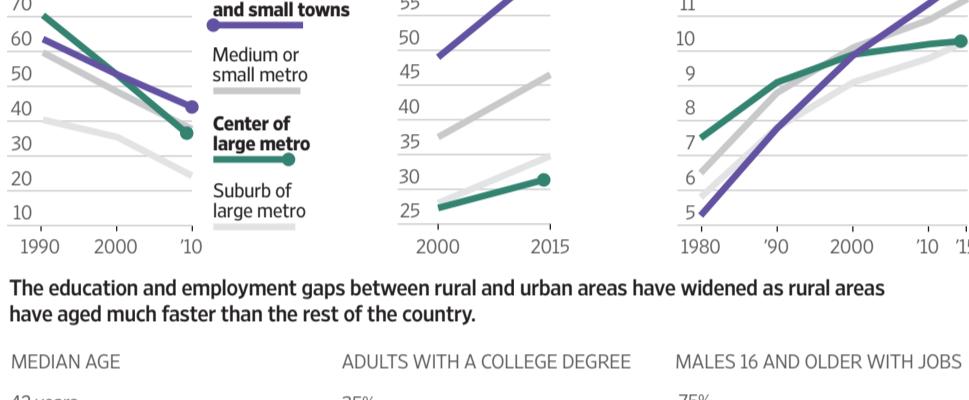
As employers left small towns, many of the most ambitious young residents packed up and left, too. In 1980, the median age of people in small towns and big cities almost matched.

Today, the median age in small towns is about 41 years—five years above the median in big cities. A third of adults in urban areas hold a college degree, almost twice the share in rural counties, census figures show.

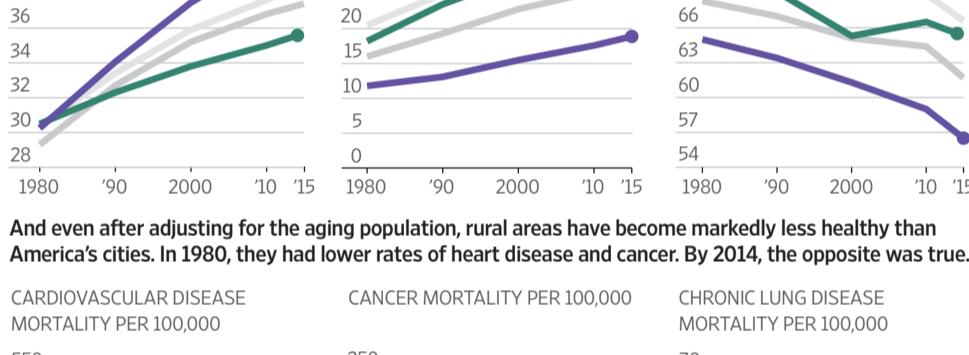
Consolidation has shut down many rural hospitals, which

From Breadbasket to Basket Case

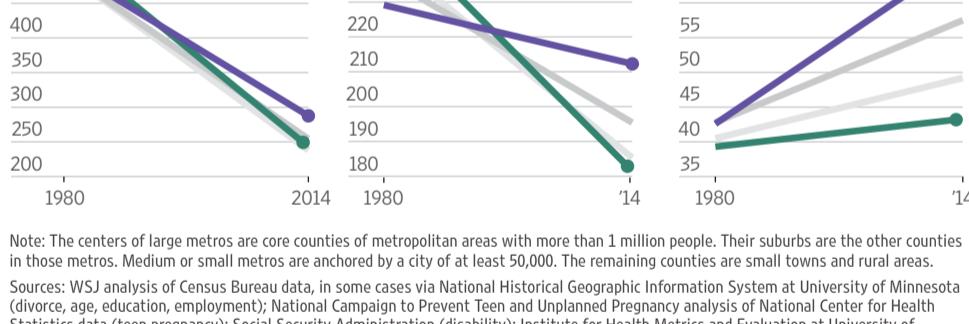
In the 1980s, rural Americans faced fewer teen births and lower divorce rates than their urban counterparts. Now, their positions have flipped entirely.



The education and employment gaps between rural and urban areas have widened as rural areas have aged much faster than the rest of the country.



And even after adjusting for the aging population, rural areas have become markedly less healthy than America's cities. In 1980, they had lower rates of heart disease and cancer. By 2014, the opposite was true.



Note: The centers of large metros are core counties of metropolitan areas with more than 1 million people. Their suburbs are the other counties in those metros. Medium or small metros are anchored by a city of at least 50,000. The remaining counties are small towns and rural areas.

Sources: WSJ analysis of Census Bureau data, in some cases via National Historical Geographic Information System at University of Minnesota (divorce, age, education, employment); National Campaign to Prevent Teen and Unplanned Pregnancy analysis of National Center for Health Statistics data (teen pregnancy); Social Security Administration (disability); Institute for Health Metrics and Evaluation at University of Washington of NCHS data (mortality rates)

Andrew Van Dam, Paul Overberg and Janet Adamy/THE WALL STREET JOURNAL.

have struggled from a shortage of patients with employer-sponsored insurance. At least 79 rural hospitals have closed since 2010, according to the University of North Carolina. Rural residents say irregular care and long drives for treatment left them sicker, a shift made worse by high rates of obesity and smoking. "Once you have a cancer diagnosis... your probability of survival is much lower in rural areas," said Gopal K. Singh, a senior federal health agency analyst who has studied mortality differences.

The opioid epidemic—and a lack of access to treatment—have compounded the damage. In Hardin County, prosecutor Brad Bailey said drug cases, which accounted for less than 20% of his criminal cases a decade ago, have surged to 80%. The epidemic is spawning more thefts, including a rash of stolen air-conditioners, said Dennis Musser, Kenton's police chief. Linda Martell, 69, who moved to Kenton from outside Cleveland a decade ago to be near her daughter, was surprised a chain saw and heavy tools were stolen from her garage. When she was a young adult, she said, "All the problems were in the big cities."

In November's presidential election, rural districts voted overwhelmingly for Donald Trump, who pledged to revive forgotten towns by scaling back regulations, trade agreements and illegal immigration and encouraging manufacturing companies to hire more American workers. A promised \$1 trillion infrastructure bill could give a boost to many rural communities.

Lawmakers in both parties concede they overlooked escalating rural problems for years. "When you have a state like Florida, you campaign in the urban areas," said former Florida Republican Sen. Mel Martinez. He recalls being surprised in the mid-2000s that small towns, not cities, were the center of an emerging methamphetamine epidemic.

During the Bush administration, lawmakers were preoccupied with two wars, securing the homeland after the Sept. 11 terrorist attacks and rebuilding.

Meanwhile, major cities once considered socioeconomic laggards are thriving. In St. Louis, which has more than 30 nearby four-year schools, the percentage of residents with college degrees tripled between 1980 and 2015—creating a talent pool that has lured health care, finance and biotech employers, officials say. Instead of people moving where the jobs are, "jobs follow people," said Greg Laposa, a local chamber of commerce vice president.

In many cities, falling crime has attracted more middle- and upper-class families while an influx of millennials delaying marriage has helped keep divorce rates low.

Maria Nelson, a 45-year-old media company manager who came to Washington, D.C. after college, assumed she would someday move to the suburbs. A generation of heavy federal spending helped raise the city's median household income to \$71,000 a year in 2015, a 51% increase since 1980, adjusted for inflation. Ms. Nelson was able to buy a brick row house in 2002. Now she said she worries how younger colleagues will manage. "The whole area just seems to be out of range for most people," she said.

Despite their troubles, Father Young said he is optimistic about his Kenton parishioners. Some tell him they worry about what will happen when they die because they still provide for their adult children.

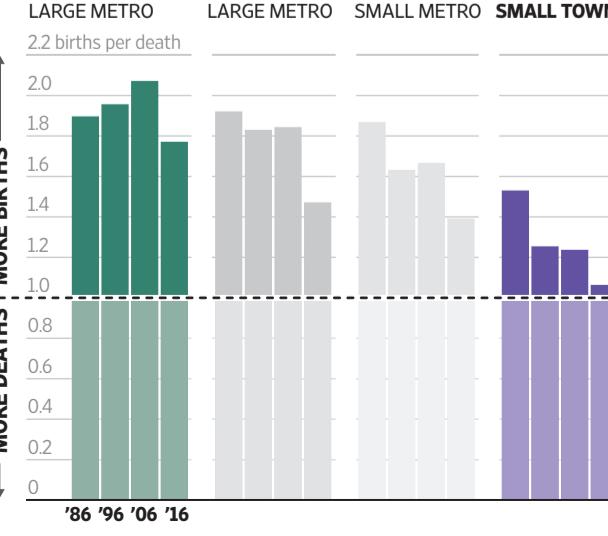
He likes to say there is always hope. "They can find a job," he said. "Columbus is close enough."



The sacramental registries at Immaculate Conception Church. In the last decade, the church has held more funerals than baptisms.

Hitting the Floor

Rural America is getting perilously close to the milestone at which more people are dying than are being born.



Source: WSJ analysis of Census Bureau data

THE WALL STREET JOURNAL

ing New Orleans after Hurricane Katrina. Barack Obama's administration tried to lift rural areas by pushing expanded broadband access, but found that service providers were reluctant to

U.S. NEWS

Nantucket Ponders Nursing Home's Fate

Municipalities grapple with whether strapped senior facilities should stay taxpayer-funded

BY JENNIFER LEVITZ

NANTUCKET, Mass.—The 11,000 year-round residents of this summer colony off Cape Cod are confronting an emotional question: whether the island is a place where they can grow old.

Nantucket, a ritzy vacation destination whose permanent community is of more modest means, has one nursing home: Our Island Home, a 45-bed facility that is owned and run by the town and with a history that goes back to 1822. It sits on prime town-owned real estate where its residents can watch boats on Nantucket Harbor. But it is bleeding money, in need of major repairs and pressuring the town's coffers at a time when Nantucket needs other infrastructure to accommodate growth.

"The town is getting to the point where it's just taking on way too much," said Donna Hamel, chairwoman of the Nantucket Republican Town Committee. "Should the town be in the nursing-home business? No. They don't know anything about it."

Our Island Home is one of roughly 1,100 of the U.S.'s 15,600 nursing homes that are government-owned, a vestige of an era when municipalities ran sanitariums and homes for the indigent. Nantucket now joins cities and towns from New Jersey to Tennessee in wondering whether nursing homes are an essential municipal service like



Yvonne DuMont Stelle checking in on her husband, Donald, a resident at Nantucket's Our Island Home, on a recent day.

fire, sewers and schools.

As baby boomers turn 65 at an estimated pace of 10,000 people a day, communities are increasingly confronting the questions of how and where to care for the elderly. Some are deciding they don't expect nursing homes to be financially independent.

Over the past five years, most New Hampshire counties have rolled their publicly owned nursing homes from the fee-based "enterprise" col-

umn in budgets to the general fund, said Nicholas Lehman, an analyst with Moody's Investors Service.

In these places, "residents want a nursing-home option for themselves in the future, and they're willing to pay taxes to support that," he said.

But government-owned and -run facilities often have deficits and have outdated institutional styles that don't attract the wealthier private-pay customers that offset Medicaid

patients, said Jeff Binder, managing director of Senior Living Investment Brokerage Inc. Medicaid payments also face uncertainty, with the new White House budget proposing heavy cuts to the federal-state health program for the poor.

Financial pressures led New Jersey counties to sell their nursing homes to private companies, a move that saved some facilities, according to John Donnadio, executive director of the New Jersey Association of Counties. Only seven New Jersey counties still run nursing homes, down from 14 about five years ago, and "that number is going to drop more," he said.

But privatizing doesn't always go smoothly. Three years ago, Nashville began to shift two city-owned long-term-care facilities to private operators after deciding it couldn't continue chipping in \$10.5 million annually for their operation.

The plan hit snags. Local

elected officials heard complaints about the conditions and food, and the city cut ties with the for-profit operator that ran one complex. In January, the city brought in an emergency operator to run the assisted-living center. Officials say that despite challenges, conditions have improved and the shift to private operators ultimately saved millions.

For Nantucket, the debate has extra resonance because without a nursing home on the island, residents might have to move. While the island has swanky shops lining cobblestone streets and multimillion-dollar vacation homes that sit empty for many months of the year, Nantucket Town Manager Elizabeth Gibson says there are year-round residents who are "really struggling," in part because of the high cost of living.

When Yvonne DuMont Stelle decided she could no longer care for her husband, Donald, who suffers from dementia, the decision was made easier knowing that he would be a five-minute drive away. "It's a horrible thought to think we wouldn't have this here," said Ms. Stelle, who regularly checks in on Donald, 90, and is part of a local group that bring extras, from art classes to live music, to the nursing home.

Ms. Gibson said she doubts many residents would say the nursing home doesn't belong in the community, but the tension is taxpayers are being asked to support a service that runs an annual deficit of about \$3 million, while the community pays heavily for other services. "It's probably going to come down to, Can we keep affording it?" Ms. Gibson said.

GRAD

Continued from Page One

"Ironically, dropouts do give some of the best speeches," said Cristina Negruț, creator of Graduation Wisdom, a website that archives speeches. Dropouts often take risks, she said, which makes for better stories.

Microsoft Corp. co-founder and Harvard dropout Bill Gates gave the Harvard commencement address 10 years ago. Mr. Zuckerberg's college girlfriend Priscilla Chan, now his wife, collected her degree that year. Dropping out to launch a startup has gained even more allure in the tech industry since then.

Snap Inc. co-founder Evan Spiegel, in a 2015 commencement speech at USC's Marshall School of Business, said he left Stanford without completing requirements for a diploma. Facebook board member Peter Thiel, who has Stanford degrees, started a fellowship in 2011 that pays \$100,000 to prodigies who have dropped out of school and work on startups.

"The next world-changer could be that annoying student in the back row and working on her laptop—you just don't know," said Harry Lewis, a Harvard computer-science professor who taught Messrs. Gates and Zuckerberg. One of Mr. Lewis's daughters—a Harvard graduate—now works for Facebook.

It's a message acknowledged by fresh Harvard grads such as Jair Olivares. "Ideally here nobody graduates and everyone makes it big," said the 22-year-old history major from Chicago. "It would've been nice to drop out and make it big too. Now I will



Microsoft co-founder Bill Gates, a Harvard dropout, at the school's commencement in 2007.

have to work harder."

Some parents attending the Harvard ceremony were grateful their children didn't follow Mr. Zuckerberg's footsteps. "If he can do so well as a dropout, my son can do much better as a graduate," said Lily Hugh, mother of Danny Hugh, 31, who received a liberal-arts and management degree from Harvard Extension School.

Many dropout speakers treat the irony with humor, including Ms. DeGeneres, who told Tulane grads: "I'm not saying you wasted your time or money, but look at me, I'm huge celebrity."

Mr. Gates told Harvard grads: "If I had spoken at your orientation, fewer of you might be here today."

Matt Damon, addressing Massachusetts Institute of Technology's 2016 graduates, said he attended commencement at Harvard after study-

ing there but didn't get a degree. "So yes, today, for the second time in my life, I am fake graduating from a college in my hometown."

Students prize fame and gravitas over a degree in a commencement speaker, said Julie Lythcott-Haims, Stanford's dean of freshmen until 2012. Stanford students were "thrilled," she said, when Mr. Jobs spoke to 2005 graduates and told them that dropping out of Reed was "one of the best decisions I ever made."

Mr. Zuckerberg, whom Facebook declined to make available for comment, left Harvard nearly two years after starting Facebook, which today is valued at more than \$430 billion. "I don't know, maybe the choice of not getting a degree was the right one," said Instagram co-founder and CEO Kevin Systrom, who sold his photo-shar-

ing app to Facebook for \$1 billion in 2012.

When Mr. Gates dropped by Facebook's Menlo Park, Calif., headquarters earlier this year, Mr. Zuckerberg posted a video to his Facebook page. "They know we actually didn't graduate, right?" he asked. Mr. Gates responded: "That is the best part—they actually give you a degree."

On campus Tuesday, Mr. Zuckerberg visited his former dorm. In a live Facebook video, he reminisced about scheming to pass a Roman history class he said he didn't attend because he was too busy coding Facebook.

On Thursday, dressed in a crimson robe, he posed with his beaming parents for a photo with his diploma, and immediately updated his Facebook page. "Mom," he wrote, "I always told you I'd come back and get my degree."

Economy Stronger Than Reported

BY BEN LEUBSDORF

U.S. economic growth in early 2017 was modest but stronger than initially thought, and the pace is picking up in the current quarter.

Gross domestic product, a broad measure of the goods and services produced in the U.S. economy, expanded at an inflation- and seasonally adjusted annual rate of 1.2% in the first quarter, the Commerce Department said Friday.

The agency last month estimated GDP growth at a 0.7% annual rate during the first three months of the year.

U.S. growth has averaged 2.1% a year since the recession ended in mid-2009. Looking through quarterly fluctuations, 2017 appears on a similar trajectory, based on recent projections by private economists and Federal Reserve policy makers.

"The recovery continues to be perhaps uninspiring, but it's awfully durable," said Michael Garen, chief U.S. economist at Barclays.

First-quarter growth has repeatedly disappointed in recent years before rebounding in the spring and summer. This year looks set to follow that pattern, which some economists attribute to seasonal-adjustment problems.

Forecasting firm Macroeconomic Advisers on Friday predicted GDP would expand at a 3.3% annual pace in the second quarter.

President Donald Trump wants to boost sustained economic growth above 3%

through a combination of tax cuts and other policy changes. But many economists say that will be difficult given sluggish growth in the size of the labor force and slow gains in worker productivity.

Friday's report also offered the government's first estimate of U.S. corporate profits during the first quarter. After-tax profits, without inventory valuation and capital consumption adjustments, fell 0.3% from the fourth quarter but were up 11.9% from a year earlier.

The profits pullback came after four consecutive quarterly gains. The Commerce Department said first-quarter profits were depressed by legal settlements involving U.S. subsidiaries of Credit Suisse Group AG, Deutsche Bank AG and Volkswagen AG.

Revisions to economic-output data for the first quarter were largely upbeat, with stronger growth for spending by consumers and businesses and a less-dramatic pullback in spending by governments compared with initial estimates released last month.

Consumer spending, which accounts for more than two-thirds of U.S. economic output, rose at a 0.6% annual rate, up from an earlier estimate of 0.3% but down from fourth-quarter growth of 3.5%.

Federal Reserve officials have shrugged off weak first-quarter spending as a temporary setback based on signs of underlying health, such as continued hiring and elevated consumer sentiment.

U.S. WATCH

HOUSE REPUBLICANS

Health Groups Split on GOP Overhaul Plan

Health-care groups that vocally opposed the House Republicans' health plan are now split on the best path forward in the Senate: Should they work with lawmakers to shape a measure or simply try to kill it?

As House Republicans pushed through legislation toppling large portions of the Affordable Care Act, groups representing hospitals, doctors, consumers and some insurers made no secret of their displeasure. Largely shut out of the talks, they actively opposed the bill, firing off angry letters and

in some cases airing ads aimed at vulnerable House Republicans.

Now, in the Senate, which hopes to complete its own version of a health overhaul by August, Republicans are unambiguous about their intention to draft an entirely new bill in a more deliberate manner with input from outside groups. Sen. Orrin Hatch of Utah, the Senate Finance chairman whose committee is responsible for drafting much of the legislation, has specifically asked for suggestions from industry associations.

Such declared openness to collaboration has left health organizations with a choice. Some industry leaders say that if senators are genuinely ready to set aside

the House bill and heed their concerns, they are ready to cooperate.

—Michelle Hackman

OBITUARY

Singer and Songwriter Gregg Allman Dies

Gregg Allman, a singer and songwriter who combined his world-weary sensibility with Delta blues, folk and R&B influences in memorable songs such as "Midnight Rider" and "Melissa," died Saturday at his home near Savannah, Ga. He was 69 years old. The cause of death was given as "complications from liver cancer."

Often called the greatest white

blues singer, Mr. Allman and his brother, Duane, were the namesake members of the Allman Brothers Band, which was founded in Jacksonville, Fla., in 1969 and inducted into the Rock and Roll Hall of Fame in 1995.

The band went on to survive deaths, discord and two breakups to play a triumphant last concert in 2014. The band's distinct style combined the Grateful Dead's love of improvisation with a more disciplined approach. They were hailed as the creators of Southern Rock. Mr. Allman, who had hepatitis C, had a liver transplant in 2010 and suffered sporadic health problems. He performed regularly until his final show in 2016.

—Alan Paul



Allman at the Americana Music Association awards in 2011.

SPORTS

TENNIS

Nadal Is Again Indomitable

Now almost 31, the clay-court master is in top form entering the French Open, even as many of his top rivals are flailing

BY TOM PERROTTA

AS HIS SHOTS FADED and injuries piled up, Rafael Nadal's hopes of winning a 10th French Open seemed to slip away the past two years. But suddenly in 2017, he more closely resembles the player who for a decade had an unprecedented grip on this tournament.

Nadal, soon to be 31, looks fresh and fit. His serve has extra pop and more precise placement, his volleys better zips and his lefty forehand fewer yips. Bookies have dubbed Nadal an odds-on favorite at this year's tournament, which began in Paris on Sunday.

The rest of the field is cooperating as well. Novak Djokovic, who beat Nadal at the French Open two years ago and won last year's title, has struggled all year. Roger Federer is skipping the tournament to prepare for Wimbledon. Andy Murray, after a fabulous season, is a weak 16-7 so far this year.

But even as Nadal returns to form, there is the question of whether he can be as dominant as in years past. Nadal is 72-2 at the French Open, with just two matches needing five sets, both of them victories. He won 56 matches in straight sets. Overall he has 52 clay-court titles and a .916 winning percentage on the surface.

That spooked anyone who stood across the net from him.

"When the other players are scared of you before they go on court, you have already won more than 50 percent of the match," said Francisco Roig, a coach to Nadal who works along with main coaches Toni Nadal (his uncle) and former French Open champion Carlos Moya.

This year's field features several dynamic and fearless young players, such as 23-year-old Dominic Thiem, who beat Nadal in Rome this spring, and Alexander Zverev, a 20-year-old who won that title by thumping Djokovic. Still, they've never reached the final of any Grand Slam tournament and have just one Slam semifinal between them. Nadal, who opens Monday against Frenchman Benoit Paire, could face either Djokovic or Thiem in the semifinals.

But they also may not cower from the clay-court legend. "It used to be like a mouse trapped in front of the snake," said Günter Bresnik, Thiem's coach. "I think that nobody is afraid now."

The younger players may not have the absurd intensity of Nadal, though. A long, ideally timed block of good health has smoothed his strokes and given him confidence that had been missing for years.



Finally healthy again, Rafael Nadal has played almost as many matches this year as he did in all of 2016.

"I practiced for one month and a half very, very well, very strong with a lot of hours," Nadal said during the tournament in Rome. "Not always I can work the way that I want to work because my body doesn't allow me."

Brad Gilbert, a former coach and current ESPN commentator, marveled at how much Nadal's technique has recovered in the last year.

"I think his forehand looks as

good as it has in the last two or three years," Gilbert said. "He's playing at an elite level again."

Nadal endured a frustrating year to get here. At last year's French Open, he won two rounds easily but had to withdraw from the tournament with a wrist injury. Frustration filled the rest of his season. He didn't recover for Wimbledon and lost two title matches in the Olympics, leaving

him without a singles medal. Lucas Pouille, a French player, dumped Nadal in the fourth round of the U.S. Open. Nadal played just four more matches the rest of the year and lost two of them.

The start to this year was promising, but also painful: Nadal led Federer 3-1 in the fifth set of the Australian Open final, until Federer improbably won the last five games and the 18th major title

of his career. The epic match left Nadal still searching for his first major title since 2014.

"Losing that match was tough," said Roig. "I never expected him to lose."

Nadal has had other disappointments on the road to Roland Garros. He lost in two hard court finals, one to a low-ranked American and another to Federer. Federer beat him in another tournament, too.

Finally, back on his beloved clay in Monte Carlo, Nadal escaped a gloomy possible upset with a three-set victory and then began to cruise. He won three straight tournaments, losing just one more set in that stretch.

Better still: In Madrid, Nadal easily beat Djokovic, his first victory against him in almost three years, ending a stretch in which Djokovic had won seven straight matches without losing a set.

"That was more important than winning a tournament," Roig said.

Nadal is 36-6 this season, nearly as many matches as he played all of last year. Roig said Nadal's serve has improved (he has won 88 percent of those games, versus 81 percent last season). And luckily, so has his fitness. After Nadal nearly lost in Monte Carlo, he went to a practice court for about an hour and half, according to Bresnik.

"You feel he still wants to play four or five hours a day," Bresnik said. "He might make a little bit more mistakes than he's used to, but on the other hand I think he serves better than he used to when he was playing his best."

Like Nadal, Federer works incredibly hard. But Bresnik said Federer had polished his skills so cleanly and precisely that he's still quick and versatile despite being 35 years old.

"His technique is so much better," Bresnik said. "He can play at a higher level at an older age for a long time."

Nadal and his uncle have worked together since Nadal's childhood, an unusually long and productive relationship in tennis. Toni has said he plans to retire at the end of the season and spend more time working at the Nadal academy in Mallorca, Spain. Nadal hired Moya at the end of last year. Pam Shriver, a former pro and ESPN analyst, said the addition seems to have given Nadal a fresh perspective.

"He's kind of redone and settled back into a little quicker tempo between points," she said. "Carlos Moya is playing a really important role, just to have a different voice in there, not just Uncle Toni."

(T-B): DENIS DOYLE/GETTY IMAGES; JOHN LOCHER/ASSOCIATED PRESS

BOXING

THE NEXT MEGA-FIGHT?

BY ALEX RASKIN

THE LOOMING CLASH between Saul "Canelo" Alvarez and Gennady "GGG" Golovkin is being billed as boxing's next mega-fight. But promoters find themselves sparring with a formidable opponent: the ghost of Mayweather-Pacquiao.

That much-hyped 2015 showdown between Floyd Mayweather Jr. and Manny Pacquiao—the sport's two biggest names—was a box-office smash, with a record 4.6 million pay-per-view purchases. But Mayweather's unanimous-decision victory was a snoozefest that turned off many casual fans who paid the steep \$99.95 fee.

Compounding matters for the Canelo-Golovkin promoters: Most of those casual fans have never heard of either of these fighters, in part because they've fought almost exclusively on pay-per-view in recent years. Neither Mexico's Alvarez nor Kazakhstan's Golovkin speak English fluently, so correcting that problem is more difficult than booking a few talk-show appearances.

It is easy to entice boxing aficionados. The 35-year-old Golovkin, an undefeated unified middleweight champion, is considered by many to be



Canelo Alvarez, right, will face Gennady Golovkin on Sept. 16.

the sport's best. The 26-year-old Alvarez, meanwhile, turned professional at just 15 and has held world titles in two separate weight classes.

After Mayweather-Pacquiao, "people who weren't boxing fans necessarily, I think, tuned the sport out," said Tony Walker, vice president of HBO Pay Per View, which will broadcast the event. "But I think this fight will bring them back."

Golden Boy Promotions founder Oscar De La Hoya decreed the Sept. 16 fight "will be as big as Mayweather-Pacquiao."

One key choice pending is the site of the fight. De La

Hoya and his counterpart, Tom Loeffler of K2 Promotions, are weighing venues in New York, Las Vegas, Los Angeles, and Arlington, Tex.

The trend line for big fights hasn't been positive.

Mayweather's final fight drew less than a tenth as many pay-per-view buys as his bout with Pacquiao.

One encouraging sign for Canelo-Golovkin is that Alvarez's recent win over Julio Cesar Chavez Jr. generated over 1 million pay-per-view buys, a person familiar with the numbers said. The \$69.95 suggested price for the broadcast is also a discount from Mayweather-Pacquiao's price tag.

An Inside Look at F1's Most Celebrated Race



MILLION-DOLLAR VIEW: Onlookers watched from above on Sebastian Vettel run to win the Monaco Grand Prix on Sunday, widening his season lead. Kimi Raikkonen was second as Ferrari finished 1-2.

LIFE & ARTS



FASHION

A Hole New Level of Distressed

BY ANNE MARIE CHAKER

"YOU WORE IT IN A LAKE, you wore it sliding down a dirt hill," says Blaine Halvorson, founder of clothing company MadeWorn.

But you didn't really.

The goal of MadeWorn's rock-concert T-shirts is to mimic a shirt that was worn at least once a week for 20 years, Mr. Halvorson says.

They sell for \$160 and up. Each one is sanded, stretched, nicked and torn for 10 to 15 minutes by a staff of four employees at his Los Angeles art studio. In addition, the shirts go through multiple wash cycles and get hung out in the sun.

Mr. Halvorson makes shoes, jackets, jeans and other garments as well, working with nature and chemistry to perfect their wear and tear. He has poured coffee over shoes buried in dirt piles and has let animals stomp on swatches of leather (the outcome was too smelly to wear).

Designers call it "distressed" when fabric has been worn to look old and weathered. Now, using an arsenal of everything from air guns to lasers to sanding tools, retailers and designers say we have hit a moment of peak distress. Holes, rips and tears have become shortcuts for people trying to convey they have carefree, unfussy lives and adventures under their belts. Worn details

TORCHED
MadeWorn uses a blowtorch to get a weathered look on a denim button down shirt, above.

appear in everything from jeans to T-shirts and even dresses that are marketed as "nibbled," "mothbitten" "shredded," "destroyed" and "love-worn."

Dawn Carter says she loves the faded shade of black, loose threads around the edges and holes of a MadeWorn T-shirt she recently bought. "The little nicks and holes are how an old fabric would wear over time," says the 45-year-old psychologist in Newport Beach, Calif.

"It does seem to be extreme at the moment," says Mo Riach, head of design for Topshop, a British label that includes a \$28 "long-sleeve nibbled T-shirt" speckled with holes. A \$60 pair of shredded "mom shorts" are sold with "ripped details, authentic trims."

Clothing designers ask Bill Curtin, owner of BPD Wash-house in Jersey City, N.J., which processes denim, "how can we destroy it to be completely shredded but still wearable?" he says.

Sometimes, creating a look of destruction can require several meetings with a designer. Mr. Curtin recalls recently following a pattern that specified a ripped knee hole. When he met with the design team,



SHREDDED
Topshop's \$60 shredded 'mom shorts' have 'ripped details, authentic trims.'

however, they felt the opening oddly resembled an elephant's face.

"The shape itself turned into something that looked conversational and not abstract enough," he says. "We had to go back in and add more destroying to it."

Overall, denim distress requires a two-phase process that can take up to eight hours, says Mr. Curtin, and labor can cost five times the price of the fabric. "When you buy a \$200 jean, you're getting a jean that's been touched by a lot of hands," he says.

The "dry process" involves manual abrasion, including sandpapering by hand and using an electric

sanding tool on belt loops, waistbands and on the fly, "so that the yarn starts breaking and threads come through," he says. Increasingly, designers want to see holes, he says. "Some of them like to keep the yarns so you can see them crossing over a hole. There are others who want skin to show through," he says. Workers use an air-pressure gun to clear out extra threads. They then spray on the fabric a solution of potassium permanganate to encourage more fading.

Then, the "wet process" involves a series of laundry cycles, usually at 60 rotations a minute, with some combination of pumice stones, enzymes and softeners.

For the "ass rip collection," by Re/done jeans, someone has used a knife to make a slit in the area below the right back pocket, where the jeans might naturally tend to tear over time. It is sanded down with sandpaper "so the threads start hanging and the color fades," says Sean Barron, co-founder of the Los Angeles-based label that specializes in reconstructing jeans from old denim.

Runway fashions led the way as labels such as Comme des Garçons and Maison Margiela have showcased models wearing holes and tattered shreds for several years. Kanye West's Yeezy menswear line has also featured torn sweaters and sweatshirts since 2015, which helped bring distress styles to mass-market appeal, says Sidney Morgan-Petro, senior retail editor for WGSN, a fashion trend forecasting company.

The pre-ripped and torn versions of Pam & Gela track pants and T-shirts now outsell the clean versions by 40%, say co-founders Pamela Skaist-Levy and Gela Nash-Taylor. "We love to shred over the shoulder. It looks cool and feminine but also tough," says Ms. Skaist-Levy. The line's \$165 Destroyed Holey Annie sweatshirt features box-cutter rips around the neckline and shoulder area. "It's expensive because it's all done by hand," says Ms. Nash-Taylor. The tears "have to be placed strategically, otherwise it looks like Swiss cheese."

A Basic Annie sweatshirt without the holes is less expensive—at \$135.

COBWEB LOOK

The 'distressed detail' on IRO's \$110 sweatshirt features pulled and torn holes.



SLASHED

Re/done slashes jeans under the right back pocket where they might wear out on their own.



LESSONS FROM MIKE TYSON'S TRAINER

BY BRENDA CRONIN

MIKE TYSON was a chubby 13-year-old juvenile delinquent in 1979 when boxing sven-gali Cus D'Amato turned him into a lightning-fast destroyer in the ring. Then 71 and past his heyday managing champions like Floyd Patterson, Mr. D'Amato could still spot and nurture talent.

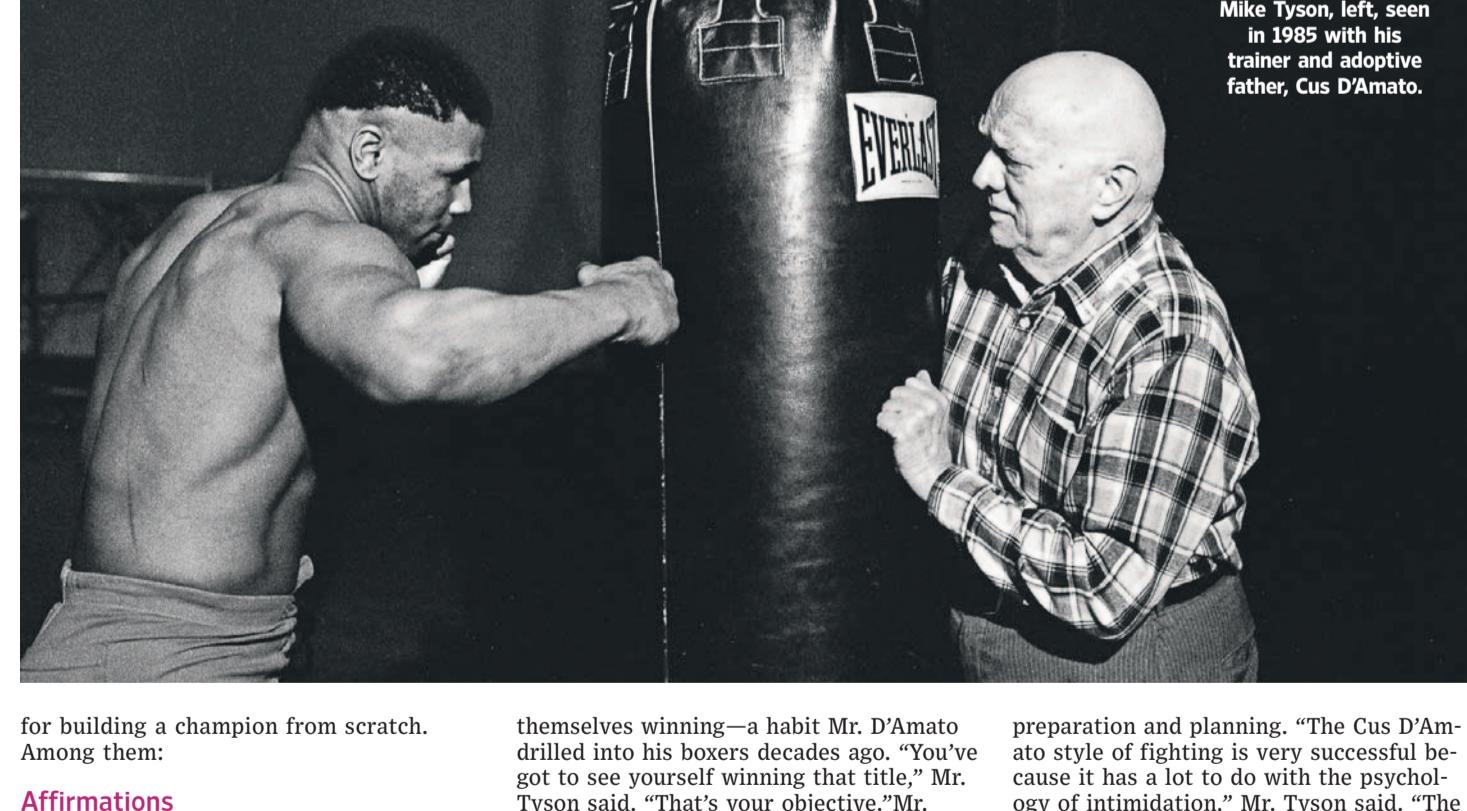
In a new book, "Iron Ambition," Mr. Tyson recalls his years with the coach. Beneath a hardboiled exterior, Mr. D'Amato was an astrology aficionado with a fear of flying, who forecast that his future protégé would be a heavyweight champ.

After watching the teenager spar, Mr. D'Amato said, "You're a Cancer, you're very sensitive and you're a sucker but you're a great fighter," Mr. Tyson, 50, recalled in an interview last week from his home in Henderson, Nev. "And he's absolutely right about me. He knew I was a sucker. He told me: 'You've got to be in trouble before you learn.' He said that always happens to suckers. They've got to feel the fire to know that it's hot."

Mr. Tyson, a lifelong pigeon-fancier who grew up enmeshed in petty crime in the Brownsville section of Brooklyn, was hooked by Mr. D'Amato's vision. The coach took the boy into his home in Catskill, N.Y., trained him and eventually adopted him, after Mr. Tyson's mother died of cancer when he was 16. Mr. D'Amato died in 1985. A year later, his 20-year-old star became the youngest heavyweight champion in the world. After winning the title, he poured a bottle of Dom Pérignon, Mr. D'Amato's favorite champagne, over his grave, Mr. Tyson recalls in "Iron Ambition: My Life With Cus D'Amato."

Mr. Tyson's 2013 memoir, "Undisputed Truth," recounted his boxing career as well as his struggles with addiction, bankruptcy and prison time for a rape conviction. Since he retired from boxing more than a decade ago, he has recast himself as an entertainer, performing "Undisputed Truth" as a one-man show and appearing on TV and in movies.

"Iron Ambition," written with Larry Sloman, his collaborator on "Undisputed Truth," will be published May 30. The book spells out Mr. D'Amato's techniques



Mike Tyson, left, seen in 1985 with his trainer and adoptive father, Cus D'Amato.

for building a champion from scratch. Among them:

Affirmations

For Mr. D'Amato, psychological training was more important than physical conditioning. To build his fighters' confidence, he bombarded them with encouragement and had them recite mantras. "As a 13-year-old and 14-year-old kid, he would sit me down and put me under hypnosis and he would tell me that I'm the most ferocious fighter that God ever created," Mr. Tyson said. "And I'd go through all those affirmations: 'Day by day, in every way, I'm getting better, better, better.' Supreme confidence lifted his boxing, he said, but could be a drawback outside the ring. Mr. D'Amato "went from taking me, a guy with no self-esteem, to a megalomaniac."

Creative visualization

Today, many athletes swear by picturing

themselves winning—a habit Mr. D'Amato drilled into his boxers decades ago. "You've got to see yourself winning that title," Mr. Tyson said. "That's your objective." Mr. D'Amato also encouraged his fighters to convert negative emotions into positive forces. "I used my fear to win," Mr. Tyson said. "You can let it destroy you and everything around you, like fire, or maybe it can keep you warm...Fear has become my partner, especially when I'm fighting."

Preparation

Among Mr. D'Amato's memorable adages was: "Everybody has a plan until they get punched in the mouth." Although "never happier" than when he was with Mr. D'Amato, Mr. Tyson recalls those years as a period of relentless focus and work. "I almost never had a day off," he said, because his coach "could find a reason for you to work out on Sunday." Each bout meant intense

preparation and planning. "The Cus D'Amato style of fighting is very successful because it has a lot to do with the psychology of intimidation," Mr. Tyson said. "The only bad part about it is, you can scare [your opponent] into kicking your ass...People take all that fear and just say 'F—k it. He's going to kill me anyway. I better just do my best.'

Discipline

Mr. D'Amato's stint in the military honed his powerful drive for order and regimens. Life in the D'Amato household was run "Army-style," Mr. Tyson said, which meant attending school, training and helping out at the gym. Chores didn't cease when his star began to rise. "I was getting on the cover of 'Sports Illustrated'...and people were taking pictures of me, like I'm this big star," Mr. Tyson said. "And as soon as they were finished, I had to sweep the gym and mop it."

OPINION

REVIEW & OUTLOOK

Trump Sells Out NATO!

Donald Trump creates many of his own problems, but sometimes he can't win no matter what he does. Consider the uproar on Thursday because the President supposedly didn't explicitly endorse NATO's Article 5 commitment that an attack on one ally is an attack on all.

Nicholas Burns, a Harvard professor and beating heart of the U.S. diplomatic establishment, followed Mr. Trump's speech with a Twitter barrage that included: "Every US President since Truman has pledged support for Article 5—that US will defend Europe. Not so Trump today at #NATO. Major mistake." The herd of independent media minds then stamped with the theme that Mr. Trump had deliberately failed to commit the U.S. to defending Europe against attack.

But is that really what happened? Mr. Trump was speaking, briefly, at an event at NATO headquarters in Brussels unveiling the Article 5 and Berlin Wall Memorials. The Article 5 Memorial commemorates the only time that NATO has triggered Article 5, which came after al Qaeda's attack on the U.S. on 9/11. The Memorial includes a remnant of the World Trade Center's North Tower.

Here is what Mr. Trump said in the third paragraph of his speech: "This ceremony is a day for both remembrance and resolve. We remember and mourn those nearly 3,000 innocent people who were brutally murdered by terrorists on September 11, 2001. Our NATO allies responded swiftly and decisively, invoking for the first time in its history the Article 5 collective defensive commitments."

So let's see: By speaking at an event commemorating Article 5, and explicitly citing and

praising Article 5's invocation on 9/11, Mr. Trump was really trying to send a message that he doesn't believe in Article 5? Who knew Mr. Trump was capable of such messaging subtlety?

Mr. Trump did follow his reference to Article 5 with blunt demands for NATO burden sharing. Critics say this implied that the U.S. won't come to Europe's defense until all of NATO's members spend at least 2% of their national GDP on the military, as NATO's guidelines demand.

But if that's what he was trying to say, consider Mr. Trump's reference in his speech that "the NATO of the future must include a great focus on terrorism and immigration, as well as threats from Russia and on NATO's eastern and southern borders." The reason that Article 5 was included in the NATO charter in the first place is the threat from Russia, and Mr. Trump mentioned that threat.

Mr. Trump started his credibility problem on NATO with his campaign comments that the alliance was "obsolete." He criticized him at the time. But as President he has walked at least 90% of that back—by supporting Montenegro's entry into the alliance despite Russia's furious opposition; by following through with new NATO deployments on the alliance's eastern front, including a U.S.-led battalion; and this week with a new NATO commitment to join the coalition against Islamic State.

It's fair to whack Mr. Trump if he indulges his many bad instincts, but it serves no one other than Vladimir Putin to suggest without evidence that the U.S. won't honor its NATO commitments—or to drive a wedge between allies simply to make Mr. Trump look bad.

The Fourth Circuit Presidency

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 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 Ivanka Entitlement

Ivanka Trump is known to have her father's ear, often for the better, but many of her political instincts lean left. Case in point is a paid-family-leave proposal that the White House rolled out last week in the President's 2018 budget. President Trump is asking Republicans to start a bidding war for government family benefits, which is bad policy and worse politics.

Mr. Trump's budget would require states to provide six weeks of paid family leave for new mothers and fathers, as well as adoptive parents. States would have "broad latitude to design and finance" the benefit, which would be delivered through unemployment insurance. States would be forced to work out how much to pay parents, whether to ban a beneficiary from working during the leave, and dozens of other details. The budget says the program will cost the feds \$25 billion. The cost is offset in theory by reducing waste and abuse in unemployment insurance.

The left is naturally panning the plan as stingy. Hillary Clinton promised 12 weeks of paid leave financed by increasing taxes on the rich. Mrs. Clinton also said the benefit could be applied to caring for elderly parents or other family events. Some on the right will complain that the Trump plan undervalues stay-at-home moms, so expect a later iteration to include a subsidy for parents who leave the workforce to raise children.

Once an entitlement is codified it expands. Proponents note that underwriting the benefit requires only a tiny increase in taxes, or some other levy on businesses. But wait until Democrats double or triple the duration of the leave, which they

will do as soon as they are in power. The idea that Republicans can propose a cost-effective entitlement is delusional, though many on the right accept income redistribution as long as the money flows to GOP constituencies.

As usual the policy sounds unobjectionable but the details are messy. If the benefit is available regardless of income, the government will subsidize affluent families who don't need assistance. But inevitably the benefit will phase out as income rises like dozens of other federal subsidies. That could create another disincentive for work and advancement that traps families in poverty.

The same is true for the Trump plan to expand the earned-income tax credit to help with child-care costs. An additional hour of work has to fetch more in earnings than what a family would lose in benefits, and for low-income workers that's often impossible.

These realities capture little attention because the paid-leave debate is so devoid of reason. The left chants that every industrialized country in the world offers some form of paid family leave—even Oman—but one reason European countries have inflexible labor markets and higher unemployment is because they make hiring more expensive.

Companies like Netflix, which offers salaried employees up to a year of family leave, are held up as an example of how more American businesses should operate. Note that all of the feted companies have created billions in wealth, which is a clue: A growing and dynamic economy will lead to more generous employee benefits than Mr. Trump's proposed political redistribution.

Anatomy of a Deep State



POTOMAC WATCH
By Kimberly A. Strassel

On May 8 a woman few Americans have heard of, working in a federal post that even fewer know exists, summoned a select group of 45 people to a June meeting in Washington. They were almost exclusively representatives of liberal activist groups. The invitation explained they were invited to develop "future plans for scientific integrity" at the U.S. Environmental Protection Agency.

She has been busier these past few months. In March the Sierra Club demanded that the EPA's inspector general investigate whether the agency's newly installed administrator, Scott Pruitt, had violated policy by suggesting carbon dioxide might not be the prime driver of global warming.

The inspector general referred the matter to the Scientific Integrity Official.

So now an unelected, unappointed activist could pass judgment on whether the Senate-confirmed EPA chief is too

unscientific to run his own agency. So

much for elections.

the economy. She seems to have been uninterested when EPA scientists used secret meetings and private email to collude with environmental groups—a practice somewhat lacking in scientific integrity.

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The EPA's 'Science Integrity Official' is plotting to undermine Trump's agenda.

There's also that "scientific integrity" event planned for June. Of the 45 invitations, only one went to an organization ostensibly representing industry, the American Chemistry Council. A couple of academics got one. The rest? Earthjustice. Public Citizen. The Natural Resources Defense Council. Center for Progressive Reform. Public Employees for Environmental Responsibility. Reporters Committee for Freedom of the Press. Environmental Defense Fund. Three invites alone for the Union of Concerned Scientists. Anyone want to guess how the meeting will go? This is a government employee using taxpayer funds to gather political activists on government grounds to plot ways to sabotage the Trump administration. Ms. Grifo didn't respond to a request for comment.

In 2013 the EPA hired Francesca Grifo, longtime activist at the far-left Union of Concerned Scientists. Ms. Grifo had long complained that EPA scientists were "under siege" by Republican "political appointees" and "industry lobbyists" who had "manipulated" science on everything from "mercury pollution to groundwater contamination to climate science."

As Scientific Integrity Official, Ms. Grifo would have the awesome power to root out all these meddlesome science deniers. A 2013 Science magazine story reported she would lead an entire Scientific Integrity Committee, write an annual report documenting science "incidents" at the agency, and even "investigate" science problems—alongside no less than the agency's inspector general.

And get this: "Her job is not a political appointment," the Science article continues, "so it comes with civil service protections." Here was a bureaucrat with the authority to define science and shut down those who disagreed, and she couldn't be easily fired, even under a new administration.

Ms. Grifo perhaps wasn't too busy in the Obama years, since EPA scientists were given carte blanche to take over

Write to kim@wsj.com.

LETTERS TO THE EDITOR

MFN Rule Hurts Importers, Limits U.S. Trade

Chad P. Bown and Alan O. Sykes's

"The Trump Trade Team's Vocabulary

Problem" (op-ed, May 16), while arguing

to the contrary, points out exactly

why the Most Favored Nation (MFN)

clause at the World Trade Organization

impedes free trade, rather than

fostering it.

The authors admit that because U.S. auto tariffs are so much lower than those of other countries, the only way U.S. trade negotiators can get trading partners to reduce their tariffs is by giving concessions against other U.S. industries. This, then, requires the U.S. government to pick winners and losers in its own economy. Worse yet, we must do so in the context of tariffs that we've unilaterally lowered repeatedly in the past. This is the reality U.S. negotiators face in contrast to the convenient hypotheticals put forward in the op-ed.

MFN also interacts with free trade agreements (FTAs) in unfortunate ways. The U.S.-Mexico FTA eliminated all automotive tariffs in both directions. Mexico's separate FTA with Europe eliminated tariffs on auto exports to the EU, and Mexico has similar deals with dozens of other countries. Because the U.S. doesn't have an FTA with Europe, the EU collects a 10% duty on American automobile imports. These tariff differentials are \$4,000 on a \$40,000 car exported to Europe—for more than the \$1,500 labor savings in Mexico.

These trading inequities are a reality. MFN is of no help. If instead we could tell the Europeans that unless they drop their tariff on autos from the U.S. to our rate of 2.5%, we will raise the tariff on their autos to match their 10%, the likely result would be a 2.5% tariff in both directions. Since MFN prohibits this, it is a barrier to free trade, not a help toward achieving it.

The U.S. has no tariffs on steel imports. China's steel tariffs average 4% to 5%. The result: Our only defense against subsidized foreign steel imports is to bring specific trade cases against individual foreign producers with the hope of prevailing years later.

But then when the U.S. does win a trade case, the country dumping the steel can often bypass the remedy. It can process the steel in a slightly different manner, allowing it to be relabeled in a product category not sub-

ject to duties; it can make transshipments to the U.S. through other countries; or it can otherwise camouflage its exports.

Even though the U.S. has successfully prosecuted 152 steel cases, the dumping hasn't stopped. There are an additional 33 steel-trade cases now pending. MFN is no help against serial dumpers.

An ideal global trading system would facilitate adoption of the lowest possible level of tariffs. Countries with the lowest tariffs would apply reciprocal tariffs to those with the highest and then automatically lower that reciprocal tariff as the other country lowers theirs. This leveling technique could be applied product by product or across the board. Such a modification would motivate high-tariff countries to reduce their tariffs on imports.

A second modification would be to suspend MFN rules for countries that repeatedly dump products onto the global market. If a country successfully prosecutes five or more cases against an individual trading partner for a class of similar products, then MFN should be suspended for those products lines for an initial period of five years.

The existing MFN clause was intended to bar untoward behavior by importers, and it did so effectively. But it also encouraged inappropriate behavior by exporters.

The conceptual approach at the WTO of favoring the interest of exporters over countries overwhelmed by imports is rampant and unfair. The WTO's most recent annual report laments the increasing number of trade cases as being a global shift toward more protectionism, ignoring the fact that rule-breaking behavior by exporters is the reason more cases are being filed. The WTO should be independent, not biased toward exporters as it is now.

WILBUR ROSS
*U.S. Secretary of Commerce
Washington*

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OPINION

How Nationalism Can Solve the Crisis of Islam

By Sohrab Ahmari

Paris

Last week President Trump stood before Muslim leaders in Riyadh and declared: "America is a sovereign nation, and our first priority is always the safety and security of our citizens. We are not here to lecture. We are not here to tell other people how to live, what to do, who to be, or how to worship."

Amid the journalistic uproar that greets nearly everything Mr. Trump says, few noted the connection he made between these two concepts: We are sovereign, and we don't want to lecture. By putting them together, the president scrambled the pattern that has long shaped the West's relations with Islam.

For decades, the West has seen itself as an empire of rights and liberal norms. There were borders and nations, but these were fast dissolving. Since rights were universal, the empire would soon encompass the planet. Everyone would belong, including Muslims, who were expected to lose their distinctness.

Transnational liberalism breeds resentments and anxieties that are only beginning to surface across the developed world.

It didn't work, as the latest jihadist attack in Manchester attests. So it makes sense to consider alternatives. Judging by his Saudi speech, Mr. Trump wants to revive the nation-state as the primary political vehicle for encountering Islam. The nation has clear—and limited—territorial and cultural boundaries. It says we are *this*, and you are *that*.

To the French philosopher Pierre Manent, such thinking is the beginning of wisdom. "We have a big problem with Islam," he tells me. "And it's impossible to solve it through globalist, individualist, rights-of-man mantras."

I meet Mr. Manent, 68, in his office at the School for Advanced Social Studies in Paris. For years he has been associated with the school's Raymond Aron Center for Political Research, named for the Cold War liberal who denounced Soviet tyranny even as most French thinkers grew addicted to what Aron called the "opium of the intellectuals"—Marxism and radicalism. Aron was Mr. Manent's mentor.

Although Mr. Manent has retired from teaching, he still writes and lectures across Europe, mainly on how to preserve political freedom and liberal order in the face of globalization, mass migration and Islam. His ideas

have wide application in the West.

Here in France, the government has vowed to counter Islamist terror with a military and intelligence surge. But newly elected President Emmanuel Macron generally eschews the more profound, unresolved questions of community and belonging that haunt French society. "There is no such thing as a single French culture," he said in February. "There is culture in France, and it is diverse."

These glib assertions lead Mr. Manent to conclude that Mr. Macron has fully imbibed the "acceptable opinions, or the PC opinions," about Islam and nationhood that prevail among trans-Atlantic elites. In these circles, even to suggest a problem with Islam is to invite "scowls," he says. "Everything they say about the situation is determined by their purpose, which is to prove that there is no problem with Islam—against their own anxiety." Not to mention the evidence.

Mr. Manent regards Islam as a powerful and "starkly objective" faith. Wherever it spreads, it brings a set of "authoritative mores," whose adherents constitute the faithful community, or *ummah*. This is in contrast to Christianity, with its emphasis on subjective, inner assent to the Redeemer, distinctions between the visible and invisible church, Caesar and God, and so on.

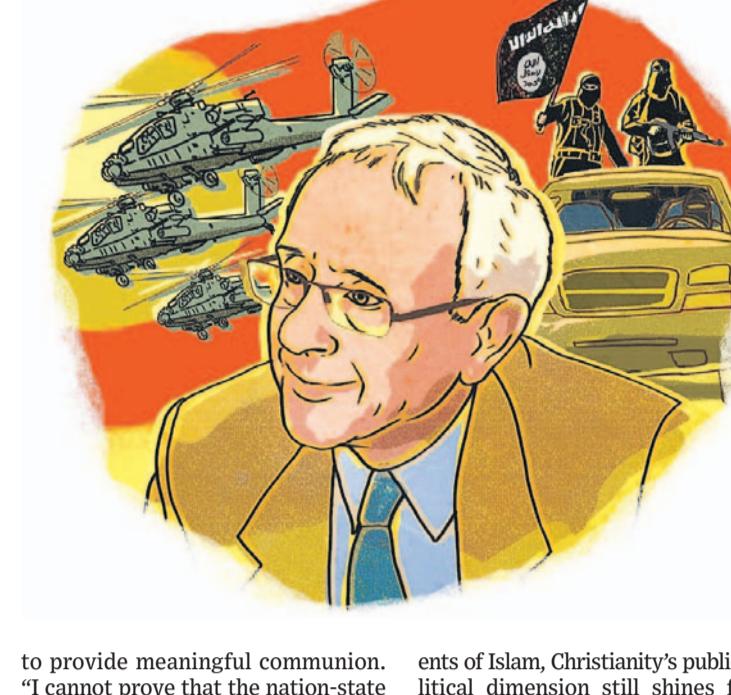
Islam instead rests on a political geography that divides the world, Mr. Manent has written, between the "house of submission," where the faith reigns, and the "house of war," where it doesn't. As a political form, Islam thus most closely resembles an empire, he argues. The trouble, for Muslims and the West, is that since the Ottoman collapse in 1924, it "has been an empire without an emperor."

Meanwhile, the liberal West has grown tired of the older forms of "communion" that used to define it. Liberals in Europe, and to a lesser extent the U.S., wish to dispense with both the modern nation-state, the political communion that once gave concrete shape to the open society, and Judeo-Christianity, the sacred communion that used to provide the moral and spiritual frame.

For the West's professional classes, Mr. Manent contends, the only acceptable sources of political communion are the autonomous individual, on the one hand, and humanity as a whole, on the other. He understands the jet-setters' impulse: "We can go anywhere on the planet, work anywhere on the planet—these new liberties are inebriating." Better, then, "to be a citizen of the world."

But Mr. Manent, a Catholic and classical liberal in the tradition of Alexis de Tocqueville, thinks this attitude breeds resentments and anxieties that are only beginning to surface across the developed world.

For most people everywhere, humanity is "too large and too diverse"



ZINA SAUNDERS

to provide meaningful communion. "I cannot prove that the nation-state is the only viable form," he says. "But what I'm sure about is that to live a fully human life, you need a common life and a community. This is a Greek idea, a Roman idea, a Christian idea."

It's why 19th-century liberals such as Tocqueville were so enthralled by the modern democratic nation-state. It was committed to universal human rights, but it housed them within a pre-existing "sacred community" that had its own inherited traditions and boundaries.

It's also why in the 21st century, Mr. Manent says, the "small, damaged" nations of Central Europe react most viscerally against transnational liberalism. Hungary fears "it couldn't have endured and would have disappeared," he continues, if it faced the same multicultural pressures as France. The European Union's efforts to punish voters in such countries for electing the wrong kind of government will therefore intensify the backlash.

But there is a bigger wrinkle in the transnationalist pattern: It isn't universalistic at all. When the house of Islam looks at Europe, it doesn't see a union with procedural norms, trade ties and kaleidoscopic lifestyles. It sees a collection of particular nation-states. More important, it sees the cross.

In its communiqués claiming credit for terror attacks, Islamic State never fails to mention that the "soldiers of the Caliphate" targeted this or that nation, which "carries the banner of the cross in Europe." Such statements puzzle secular Europeans, Mr. Manent says, because they think: "Well, perhaps the Americans who intervened in Iraq, but we French are not Crusaders."

The West has relegated faith to a purely private sphere. But to adher-

ents of Islam, Christianity's public, political dimension still shines forth. This leads to another turn in Mr. Manent's thought: "In the present circumstances, relations between Europe and the Muslim world will be less fraught if we accepted this Christian mark, while of course guaranteeing that every citizen, whatever his religion and lack of religion, has equal rights." In other words, the Muslim world would more easily come to terms with the West if Westerners acknowledged who they are.

Take Turkey's accession to the EU. European leaders for decades have contorted themselves to justify their reluctance to admit Ankara. If it were purely a matter of "rights," then Ankara would be correct to demand entrance immediately. But, says Mr. Manent, "Europe" is also a cultural and political community, and it matters that Turkey is a large Sunni Muslim nation with Turkish mores. By being honest about these differences, the West could clarify the terms of the encounter and ease tensions.

As for the West's often ill-assimilated native Muslim populations, here too Mr. Manent prefers a "national solution." For starters, he says, "we must accept that the Muslims who are among us will remain Muslims." It follows that the West must "do things so that Muslims feel that they can be reasonably happy Muslims" in a non-Muslim environment.

The basic bargain: "We accept Muslims, but they also have to accept us." In France that might mean dialing back *laïcité*, the official secularist dogma that restricts many public expressions of faith. "We won't bother you about your veils or the way you eat," Mr. Manent says. "In school lunches, meat without pork will be available. It's silly and mean to say, 'They will eat pork or they won't eat.' Muslims shouldn't always be under suspicious eyes."

But then, he continues, the French would demand reciprocity of Muslims: "You really belong to France. You turn toward it and your life will be centered on this European country, which is not and will never be a Muslim country."

What he wants to combat is the widespread sense of alienation, particularly among young Muslims who are "paper French," citizens without political attachment. In practice, this would involve the government's insisting that mosques and cultural associations cut their ties with Algeria, Tunisia and other foreign countries and instead actively promote an indigenous French Islam.

His grand-bargain vision has detractors on the left, who call it discriminatory, and the right, who find the offer too generous. Others think it's too late. But Mr. Manent is optimistic that the combination of political liberty and nationalism is more resilient than most people suppose.

Then again, the 19th-century marriage of liberalism and nationalism ended in a very ugly divorce in the first half of the 20th century. What about the dangers of reviving nationalism today? "There is no a priori guarantee that it could not devolve into something nasty," Mr. Manent says. "But if we don't propose a reasonable idea of the nation, we will end up with an unreasonable idea of the nation. Because simply: However weakened the idea of the nation, nations do not want to die."

Then there is the example across the Atlantic. Like Tocqueville, Mr. Manent sees much to admire in the American experiment. Even as Europeans have sought to pool or even abandon their sovereignty, he says, "Americans remained very much attached to the idea of a people making its laws to protect itself."

True, "this people was open to the world, since of course it was formed by immigration. But people came from all over the world, not to be *human beings* but to be *citizens of the United States*, which had a keen sense of its exceptionalism and unique character." In the Second Amendment, the persistence of the death penalty, and the reluctance of U.S. courts to follow foreign precedents, Mr. Manent sees "not a proof of American barbarism" but of democratic vigor.

And realism. Europeans, he says, imagined the world was so safe for liberty that they could discard the harsh, Hobbesian elements of power. Americans recognize that the modern world still has one foot in the state of nature, and this calls for the sovereign prerogatives of self-preservation: We are sovereign—we don't lecture.

Mr. Ahmari is a Journal editorial writer in London.

Trump Faces the Fury of a Scorned Ruling Class

By George Melloan

A lobbyist friend who visited Capitol Hill recently came away horrified. "I now am ready to believe that the partisanship is so unhinged that it's a threat to the Republic," she writes in an email.

This Washington hysteria comes at a time of full employment, booming stocks, and relative peace. What's the fuss about?

We all know the answer: Donald Trump. The Washington body politic has been invaded by an alien presence and, true to the laws of nature, that body is feverishly trying to expel it. These particular laws of nature demand rejection of anything that threatens the livelihoods and prestige of the permanent governing class.

The "threat" that has Washington quaking is the first serious effort in a long time to curb federal regulatory power, wasteful spending, and a propensity to run up mountainous budget deficits and debt. That's presumably what the voters wanted when they elected Mr. Trump. Democrats—accurately regarded as the party of government—seem to fear

that Mr. Trump might actually pull it off.

The Washington Post, the New York Times and other apostles of the Democratic Party have apparently set out to prove that despite their shaky business models they can still ignite an anti-Trump bonfire. A recent headline in the Post asserted that "Trump's scandals stoke fear for the 2018 midterms among Republicans nationwide."

What scandals would those be? There was the firing of FBI Director James Comey. Democrat Hillary Clinton went on television to claim that Mr. Comey cost her the election. Mr. Trump fired Mr. Comey. Did Democrats praise the president? No, they want him impeached. Devious logic, but devious is a good descriptor of much of what goes on in this fight.

Mr. Comey retaliated by leaking a "big scoop" to the Times—notes taken when Mr. Trump allegedly asked him to back off on the investigation of national security adviser Mike Flynn. But let's recall the circumstances of this "investigation." The Obama administration—possibly the FBI—tapped a phone conversa-

tion between Mr. Flynn and Russian Ambassador Sergey Kislyak. Then Mr. Obama's minions used the raw data to "unmask" Mr. Flynn and get the retired general fired for not giving a full account of the discussion. Given

The 'threat' that has elites quaking is his serious attempt to curb federal power and cut spending.

that sorry record of political involvement, was Mr. Trump so wrong if he asked Mr. Comey to go easy?

Then there was the Post's "shocking" revelation that the president gave classified information to Russia's foreign minister. The president is commander in chief of the U.S. military and conducts foreign policy. The intelligence agencies work for him, and he is responsible for using what

they provide to further U.S. interests. Is it so unlikely that a friendly tip to Russian Foreign Minister Sergei Lavrov about an Islamic State tactic was calculated to earn trust? A more interesting question is who walked out of the room and illegally handed the Post this "scoop."

Russians aren't popular in the U.S., for many good reasons. That has its uses for Trump baiters. Democratic claims that Mr. Trump conspired with the Russians to swing the November election led the Justice Department to appoint a special prosecutor to investigate. But is this claim even slightly plausible? So far all we have are anonymous officials who claim that intelligence agencies know of individuals with connections to the Russian government who supplied WikiLeaks with hacked emails from the Democratic National Committee and John Podesta's accounts. But these officials are still unwilling to go on the record.

The Washington community

knows how to fight back when it feels

threatened. Leakers are having a ball, even if it has taken a lot of journalistic imagination to turn the most notorious leaks into "scandals."

Almost everyone in town has a stake in fending off the Trump threat: government workers and the businesses that serve them, public unions, lobbyists and their clients, journalists whose prestige derives from the power center they cover, academics who show politicians how to mismanage the economy, real-estate agents feeding on the boom. It's a good living, and few take kindly to a brash outsider who proclaims it is his mission to drain the swamp.

Mr. Trump is on the attack and Washington is fighting back. Is the Republic in danger? Another question is how much danger will it be in if Mr. Trump loses?

Mr. Melloan is a former deputy editor of the Journal editorial page and author of "When the New Deal Came to Town," (Simon & Schuster, 2016).

You're a Canadian Now, Charlie Brown

By Todd Buchholz
And James Carter

It's been a tough year for Charlie Brown. First MetLife dumped him, seeking a more youthful image than a perpetual 8-year-old. Then earlier this month Iconix, the U.S.-based company that owns the rights to Charles Schulz's comic characters, announced it will sell them to Canada's DHX Media. That makes Charlie Brown America's latest expatriate. U.S. corporate taxes are nudging business elsewhere.

The Peanuts brand generated some \$95 million in sales in 2016. The 2015 "Peanuts Movie" sold almost \$250 million in tickets, about half from outside the U.S. The Japanese are among the biggest fans these days.

Iconix, facing debt-management problems, needed cash, and DHX bid highest. But why? In part because the

U.S. corporate-tax system hampers U.S.-based businesses by subjecting them to world-wide taxation. Canada's aggregate corporate taxes are about 10 percentage points lower.

When a Japanese girl buys her Snoopy backpack in Tokyo, DHX won't pay taxes to both Tokyo and Ottawa. If DHX racks up exactly the same revenues and costs as Iconix, with the same global distribution, it will enjoy greater after-tax earnings.

Taxes aren't everything. Many owners of iconic cartoon characters, from Marvel to Disney, manage to keep their crown jewels under the American flag. But it becomes tougher as other nations develop a critical mass of talent, especially in intellectual-property fields.

Hollywood has been struggling to maintain its grip as it faces the labor and tax advantages of British Columbia, London and even former Soviet Georgia. For four years in a row, the

Oscar for visual effects has gone to firms based in London. There are also some unexpected advantages you might not find along Hollywood Boulevard. The head of Georgia's film rebate program explained recently that "we have many derelict, abandoned small villages or factories. They are mostly state-owned still, and you can easily just blow [them] up."

Still, America's high corporate-tax rate and its practice of taxing international income is out of step with the rest of the world. The solution is clear: Cut tax rates and adopt a system for taxing international income that more closely resembles those used by the country's international competitors.

Mr. Buchholz is author of "The Price of Prosperity: Why Rich Nations Fail and How to Renew Them" (HarperCollins 2016). Mr. Carter served as the head of tax-policy implementation on President Trump's transition team.

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LIFE & ARTS

WHAT'S YOUR WORKOUT? | By Jen Murphy

A Family Goes High-Intensity

HENRY SCHLOSS says he knew his wife Betsy was the one after the couple attended the GoPro Mountain Games in Vail, Colo., in 2012. "We competed in six races in three days—a 5K, a 10K, a run with our dog Murphy—and she didn't complain once," says the Denver-based owner of a printing company. "We'd only been dating three months, but I knew we'd be together forever."

When the couple met, Mr. Schloss, now 43, was a hard-core ultrarunner, having competed in the Leadville 100, one of the toughest trail races in the country, nine times. Their courtship revolved around running and Ms. Schloss, now 42, caught the endurance bug.

In June 2012 she competed in the Coeur d'Alene Ironman in Idaho. That September she tried her first ultra trail race, the 50-mile Run Rabbit Run in Steamboat Springs, Colo. Then she got pregnant. Ms. Schloss was on bed rest for two-thirds of her pregnancy and required an emergency C-section. "I gained a ton of weight and it was really hard to start running again," she says. "I now realize why people who aren't runners hate running. But I knew I had to get out there again, not for myself but also for my relationship, since so much of our pre-kids time was spent training together."

They decided that the days of training 10 hours on a Sunday were over. They needed to shift their focus to shorter races. The couple got married in August 2015 and two months later, Ms. Schloss gave birth to their second son. Her husband has been helping her get back in top race shape again. They both work with trainers to improve their speed. "It's easy to lose yourself to motherhood," says Ms. Schloss, who stays at home with the children but provides sales support for her husband's business. "But that

time I take to take care of myself allows me to feel strong so I can come home and be strong for my family."

Three out of four summer weekends they're at a race. Sometimes they run together, pushing Hank, 20 months, and Oliver, 3, in a stroller. Other times just one of them competes while the other cheers. "Most of our friends who have kids do date night," says Mr. Schloss. "We do date day: a morning athletic event, then brunch."

The Workout

Ms. Schloss takes a high-intensity women's training class at 6 a.m. one to two times a week at Pura Vida fitness club in Denver's Cherry Creek neighborhood. "My trainer, Jourdan Baldwin, is a runner, and I feel like she relates to my goals," she says. "She targets areas that are harder for women to keep toned, like the outer thighs and triceps."

Hourlong circuits might include core and upper-body drills like renegade rows, where you start in a push-up position with hands gripping dumbbells and alternating arms, pulling one dumbbell up toward the rib cage while keeping your core stable. Banded hip thrusts activate the glutes. If Ms. Schloss is training for a race she'll do 20 minutes of interval sprints on the treadmill before class.

Ms. Schloss returns home at 7:15 a.m., then Mr. Schloss will run 3 to 6 miles in Washington Park. On Wednesday mornings he joins a group for speed workouts at a track. He meets a personal trainer twice a week at Fitness Together gym.

On weekends they take the boys for a run in a double stroller. At least once a month they have someone watch the children and they'll go on a long run together. When the family goes on vacation, they look for local races. In March,

they'll do 20 minutes of interval sprints on the treadmill before class.



Henry and Betsy Schloss run with their sons, Hank, left, and Oliver in Washington Park near their Denver home.

while visiting the Big Island in Hawaii, they competed in the Lava-Man Sunset 5K. Mr. Schloss paced his wife and she finished second in her age group. The couple is training for the San Francisco Half Marathon on July 23.

The Diet

"Coffee is a must for both of us in the mornings, but beyond that, everyone in the family has a completely different diet," Ms. Schloss says. "I do a ton of meal prep." Ms. Schloss starts her day with eggs, while her husband prefers a bagel with cream cheese. "He's

more of a carb guy and I try to focus on protein and vegetables."

Mr. Schloss says pasta is a must for dinner, and leftover pasta with marinara meat sauce is a regular lunch. But Ms. Schloss will prepare grilled meats and vegetables or a salad for herself.

The Gear & Cost

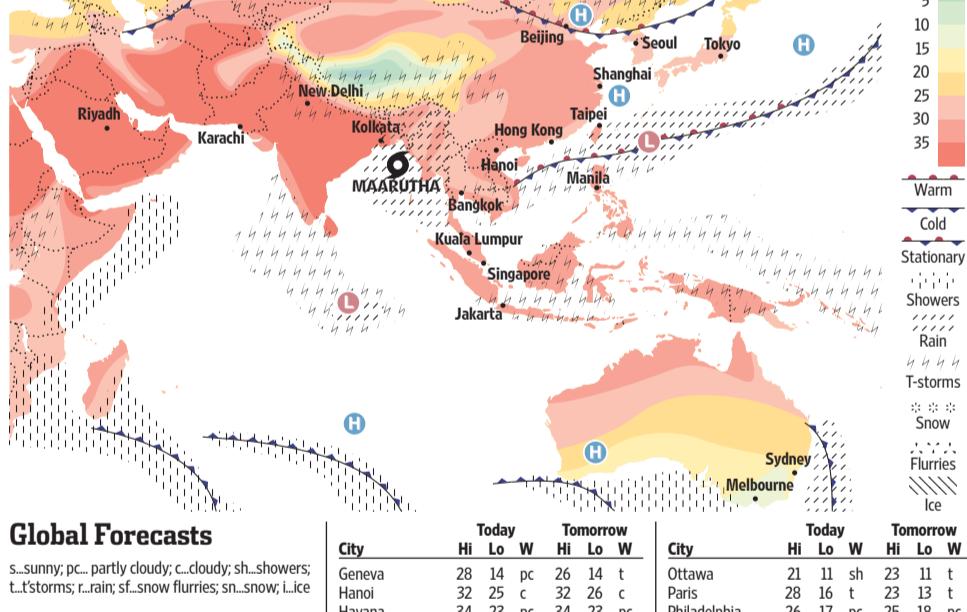
Holiday gifts are a no-brainer at the Schloss household. "Everyone in my family gets Henry something fitness-related," Ms. Schloss says. "I like to wear Sock Guy socks when I run, because they have cool patterns like the pints of beer or

devils," he says. He runs in Asics Gel-Kayano sneakers. Ms. Schloss has custom orthotics and says sneakers by Asics and Brooks fit her wide feet. Their Baby Jogger double stroller retails for \$450. Ms. Schloss pays \$40 for training sessions and Mr. Schloss pays \$500 for 10 sessions and \$75 for six track workouts.

The Playlist

"On trail runs I put my portable speaker in the water bottle holder of my pack and we crush it to the Van Halen album '5150,'" Mr. Schloss says.

Weather



Global Forecasts

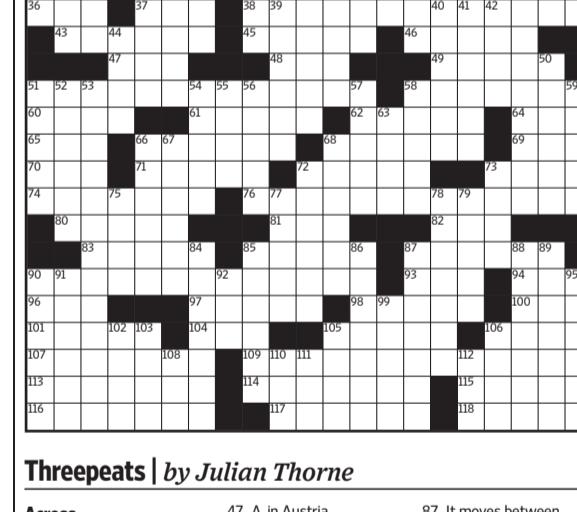
s...sunny; pc...partly cloudy; c...cloudy; sh...showers;

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	29	15	pc	20	13	t
Anchorage	11	5	sh	15	6	c
Athens	22	17	pc	25	16	pc
Atlanta	29	20	t	26	19	t
Baghdad	43	25	s	25	25	s
Baltimore	28	16	pc	25	16	pc
Bangkok	30	25	t	31	25	t
Beijing	28	18	c	25	15	sh
Berlin	29	18	pc	28	14	t
Bogota	20	10	pc	19	10	pc
Boise	31	15	s	33	16	s
Boston	13	11	sh	18	14	pc
Brussels	30	15	t	23	12	t
Buenos Aires	18	7	c	16	7	pc
Cairo	35	22	s	35	22	s
Calgary	21	8	s	25	11	pc
Caracas	30	25	pc	30	26	pc
Charlotte	32	20	t	28	19	sh
Chicago	24	11	sh	21	10	pc
Dallas	31	20	pc	32	20	pc
Denver	19	7	t	23	10	pc
Detroit	25	13	pc	22	11	pc
Dubai	40	28	s	28	28	s
Dublin	17	10	sh	18	8	pc
Edinburgh	12	9	sh	16	8	sh
Frankfurt	32	18	pc	27	15	t

City	Hi	Lo	W	Hi	Lo	W
Geneva	28	14	pc	26	14	t
Hanoi	32	25	c	32	26	c
Havana	34	23	pc	34	23	pc
Hong Kong	28	24	s	28	26	c
Honolulu	29	21	sh	30	23	pc
Houston	27	21	t	29	22	t
Istanbul	23	17	pc	21	16	sh
Jakarta	31	26	t	33	25	t
Johannesburg	17	2	s	17	3	s
Kansas City	25	12	pc	25	11	t
Las Vegas	37	24	s	38	24	s
Lima	23	18	pc	23	18	c
London	23	12	sh	21	11	pc
Los Angeles	25	15	pc	24	15	pc
Manila	26	14	t	27	15	t
Manila	34	26	t	34	27	t
Melbourne	14	9	pc	12	7	sh
Mexico City	25	14	t	24	15	c
Miami	34	26	pc	33	27	pc
Milan	31	16	s	31	15	s
Minneapolis	17	9	sh	16	9	sh
Monterrey	29	20	t	28	20	t
Montreal	17	11	r	23	11	t
Moscow	23	10	sh	15	7	c
Mumbai	32	28	t	32	30	sh
Nashville	29	17	pc	29	17	t
New Delhi	39	28	t	38	29	t
New Orleans	29	23	pc	29	22	t
New York City	19	14	r	20	16	pc
Orlando	35	21	pc	35	22	pc
Zurich						

The WSJ Daily Crossword | Edited by Mike Shenk



Down

- 1 Split
- 2 Pyramid power
- 3 Passed with care
- 4 Small complaints
- 5 Subtly humorous
- 6 Like electric usage
- 7 Peaceful poems
- 8 Harsh
- 9 Adherents
- 10 Even a little
- 11 Danny's "Lethal Weapon" co-star
- 12 State to be worth
- 13 Business
- 14 Puts down
- 15 Somali-born supermodel
- 16 Delivery boy for Just Greens has his hands full?
- 17 It might have two sides
- 18 Throws coal on
- 21 Like legends
- 24 Hair razing?
- 29 His "Enak's Tears" is on display at MoMA
- 32 Jeopardy
- 33 Pitches
- 34 World Wildlife Fund logo
- 39 Intern's undertaking
- 40 Pea or pinto bean
- 41 Give a push
- 42 "The Good Dinosaur" dinosaur
- 44 Thoroughly exhausted
- 50 Deli hanging
- 51 Twin nursed by a she-wolf
- 52 Crowd scene participants
- 53 Prank by a mutant from "Them"?
- 54 Heap up

Across

- 1 Make merchants happy
- 6 Sister of Moses
- 12 Some carry-on pieces
- 19 Sitting target?
- 20 Screen Actors Guild president before Patty Duke
- 22 Unshakable
- 23 Pig's decor that's just thrown together?
- 25 Serving staunchly
- 27 Lends a hand
- 28 Start for Terpsichore?
- 30 Cutting comments
- 31 Down
- 32 Zoroastrian in India
- 33 Future fungus
- 35 Ruby in the movies
- 36 Tough crowd?
- 37 "The serpent beguiled me" speaker
- 38 Himalayan friend reacts to spotting a yeti?
- 40 Word in a dictionary
- 41 Reason for some primping
- 43 Chevy Volt, e.g.
- 45 Drudge's drudgery
- 46 Earth, in some sci-fi
- 47 A, in Austria
- 48 Ruby or garnet
- 49 Michael Phelps won 23 of them
- 51 Fancy parties thrown in honor of a queen?
- 52 Dome toppers
- 53 Sign that's often lit
- 54 Early times, in odes
- 55 Student's paper
- 56 Copying
- 57 Letters on the A train
- 58 Seething states
- 59 Dome
- 60 Sign that's often lit
- 61 Early times, in odes
- 62 Student's paper
- 63 Copying
- 64 Up
- 65 Letters on the A train
- 66 Let up
- 67 Pop performer?
- 68 Water turbine setting
- 69 Caterer's container
- 70 Cabaret" director
- 71 Jersey, e.g.
- 72 Cubicle reading
- 73 Sydney
- 74 Bygone GM autos
- 75 Obsession with Caesar?
- 76 Duplicate Shag (but not Ryan or Tatum)?
- 77 "Is it worth the risk?"
- 78 "Wearily, the boudoir deep we sail": Shelley
- 79 "Wearily, the boudoir deep we sail": Shelley
- 80 Prince of Darkness
- 81 Word in a dictionary
- 82 "Wearily, the boudoir deep we sail": Shelley
- 83 Directory listing
- 84 Word in a dictionary
- 85 Wrapped garments
- 86 Covered up
- 87 It moves between banks
- 88 Give a fraction of one's loot to a church?
- 89 Singer from Korea's Gangnam District
- 90 Tattler's cry
- 91 Neighborhoods
- 92 "Nary ____ (nobody)
- 93 Singer from Korea's Gangnam District
- 94 Tattler's cry
- 95 Neighborhoods
- 96 Glass on the radio
- 97 Neighborhoods
- 98 "Nary ____ (nobody)
- 99 Showgirl's wrapper
- 100 Showgirl's wrapper
- 101 Jaffe and Barrett
- 102 "Tough Guys Don't Dance" author
- 103 Luxury hotel amenities
- 104 Auto engine part
<

BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Monday, May 29, 2017 | B1

Yen vs. Dollar 111.3200 ▼ 0.46% Hang Seng 25639.27 ▲ 0.03%

Gold 1267.60 ▲ 0.94%

WTI crude 49.80 ▲ 1.84%

10-Year JGB yield 0.037%

10-Year Treasury yield 2.248%

British Airways Flights Snarled

By ROBERT WALL

LONDON—**British Airways** on Sunday said a far-reaching computer outage continued to disrupt operations for a second day, though the airline planned to operate most services after canceling hundreds of flights Saturday.

"We are continuing to work hard to restore all of our IT systems and are aiming to operate a near normal schedule at Gatwick and the majority of services from Heathrow on Sunday," the airline said.

The disruption hit British Airways during one of the U.K.'s busiest travel weekends, with a public holiday on Monday, and the long Memorial Day break in the U.S. A power surge early Saturday knocked

out computer systems, affecting the carrier's operations, call centers and website.

Efforts to restore operations to normal took longer than anticipated. The airline Saturday canceled departures for most of the day from its busy London Heathrow hub and at **Gatwick Airport**, south of the British capital.

British Airways, a unit of **International Consolidated Airlines Group SA** and the biggest trans-Atlantic carrier on routes between Britain and the U.S., didn't say how many passengers were affected. The airline canceled about half its services Saturday, or more than 400 flights, according to FlightAware.com. More than 220 others were delayed, the flight-tracking website said.



A computer outage disrupted the airline's weekend operations.

FlightAware.com showed 131 British Airways flights canceled for Sunday.

The carrier said it was refunding or rebooking passengers. British Airways Chief Exec-

utive Alex Cruz on Saturday said those efforts had been hobbled, though, by the computer outage.

Sundays generally are the least busy day for airlines, limiting the number of British

Airways customers affected and making it easier to restore operations to normal. The carrier early Sunday said it wasn't ready yet, to say if there would be a knock-on effect on Monday flights.

"We are extremely sorry for the huge disruption caused to customers throughout Saturday," British Airways said. The carrier said it would offer greater flexibility when rebooking for passengers no longer wanting to travel on Sunday or Monday from its two main London airports.

British Airways has suffered multiple problems in recent months with its computer system. A new check-in system introduced last year experienced multiple failures, leading to flight delays.

Playing With House Money

By CHRISTINA REXRODE

Americans refinancing their mortgages are taking cash out in the process at levels not seen since the financial crisis.

Nearly half of borrowers who refinanced their homes in the first quarter chose the cash-out option, according to data released last week by Freddie Mac. That is the highest level since the fourth quarter of 2008.

The cash-out level is still well below the almost 90% peak hit in the run-up to the housing meltdown. But it is up sharply from the postcrisis nadir of 12% in the second quarter of 2012.

In a cash-out refi, a borrower refinances an existing mortgage with a new one, typically at a lower borrowing cost, that has a higher principal balance than the existing one. This allows the homeowner to pay off the old mortgage and still have cash left over for other uses.

More homeowners in the U.S. are using mortgage refinancing to get cash.

The growing popularity of cash-out refis has helped buoy refinancing activity. After booming for several years, demand for refinancing mortgages had begun to slow as the Federal Reserve began increasing short-term interest rates and longer-term bond yields moved higher.

Mortgage rates remain low by historical standards, though. The average rate for a fixed, 30-year mortgage was 3.95%, Freddie Mac reported last week.

Meanwhile, rising home prices have helped increase the equity that homeowners have in their houses. This allows more people to refinance to capture the benefit of lower mortgage rates.

And borrowers whose homes are rising in value are often more likely to be interested in refinancing for cash. For example, in Denver and Dallas, where home prices have jumped, more than half of people who refinanced opted for cash last year, according to Freddie Mac.

To some housing-market observers, the fact that more homeowners are tapping their homes for cash represents a healthy confidence in the economy. It comes against a backdrop of continued gains in employment.

Please see CASH page B2



Caesars Entertainment is a dominant player in Las Vegas, hosting celebrity events, and operating several casinos that account for two-thirds of the company's earnings.

Caesars Rolls With Changes in Casino Scene

By CHRIS KIRKHAM

Caesars Entertainment Corp., one of the most recognizable names in the global casino industry, will emerge from bankruptcy this year after nearly a decade of struggles with debt dating back to the financial crisis.

Now it faces a new challenge: How to grow when gambling is within driving distance of virtually every American, and even international, opportunity has diminished.

Caesars expects shareholders to vote on a plan to exit bankruptcy by late September, and executives in recent weeks have begun offering their vision for the company's future. Having extinguished \$10 billion in debt following a brutal bankruptcy reorganization, Caesars will have the balance

sheet to pursue acquisitions and new investments in the way that rivals such as MGM Resorts International have done in recent years.

But the reconstituted Caesars faces hurdles that illuminate how much the world of casino gambling has shifted since the company was purchased in a disastrously timed 2008 private-equity buyout.

Unlike its peers, Caesars failed to get a foothold in Macau, the Chinese gambling enclave that last year generated five times the revenue of the Las Vegas Strip.

Regional U.S. markets that the company historically dominated, including Atlantic City and parts of the South, have struggled amid increased competition. New Jersey has seen revenue from gambling cut in half over the past de-

cade as nearby states such as Pennsylvania and Maryland legalized casinos.

Yet Caesars remains a dominant player in Las Vegas, operating Caesars Palace, Planet Hollywood, Harrah's and six other casinos that account for two-thirds of the company's earnings.

Chief Executive Mark Frisora, who joined in 2015 after stepping down as CEO of rental-car firm Hertz Global Holdings Inc., said in an interview that many of Caesars's best prospects for growth lie in areas other than gambling.

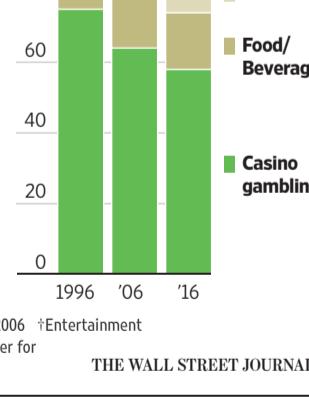
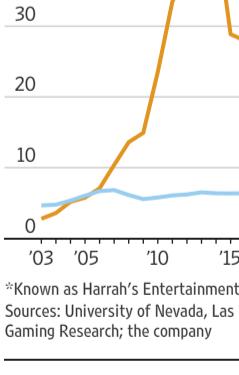
For casinos on the Las Vegas Strip, the share of revenue from gambling has been in decline for years, falling to about a third of the total in 2016, from 56% 20 years ago, as operators have pulled in more from hotel

Please see CAESARS page B2

Shifting Fortunes

As Caesars struggled with debt over the last decade, it failed to gain a foothold in Macau. The company now relies less on revenue from gambling than in the past.

Casino gambling revenue



*Known as Harrah's Entertainment in 1996 & 2006

Sources: University of Nevada, Las Vegas, Center for Gaming Research; the company

KEYWORDS | By Christopher Mims

Why CEOs Must Grasp Tech Like Never Before

Investors and boards long obsessed with quarterly profits are now hunting

for leaders to make big, fast bets to fend off upstarts

shooting for the moon.

Ford Motor Co.'s recent decision to boot then-Chief Executive Mark Fields, a 28-year veteran of the company, exemplified a shift in the priorities of big companies across the U.S. The message is simple: In an age of rapid disruption by the software and tech industries, a leader has to pick up the tempo and make riskier bets sooner... or else.

To make things worse for established players, investors aren't comparing them to their traditional rivals, but to quick-moving Silicon Valley startups that are poised to make them irrelevant.

For pretty much any industry you can name—not just autos but other manufacturing, logistics, finance, media and of course retail—there are tech startups purporting to have better ideas, ones they say they don't need decades to make into realities. It isn't as if all these industries will see massive CEO turnover, but it does mean established com-

Please see MIMS page B2

WeChat Takes On Alibaba in Luxury Sales

By KATHY CHU

HONG KONG—China's **Tencent Holdings Ltd.** is using its vast social-media network to attract luxury-fashion brands to its WeChat app, potentially opening a new frontier in online retail.

France's Longchamp and the U.K.'s **Burberry Group PLC** have begun selling handbags and clothes on WeChat, China's most popular messaging app. **LVMH Moët Hennessy Louis Vuitton SE**'s Givenchy and Dior brands are testing demand for their goods through flash sales on the platform.

The move signals a challenge to **Alibaba Group Holding Ltd.**, the dominant player in e-commerce in China, where online transactions are expected to reach 6 trillion yuan (\$870 billion) this year, ac-

cording to consulting firm Bain & Co. Alibaba's Chinese retail sites processed more than \$547 billion in transactions in the fiscal year ended in March, which analysts say is more than eBay Inc. and Amazon.com Inc. combined.

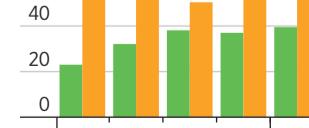
While luxury sales on WeChat are in their infancy, Tencent's courting of high-end fashion brands is part of a widening battle between China's internet companies. Alibaba, Tencent and search engine Baidu Inc. are venturing beyond their traditional business lines into payments, social media and e-commerce.

"Customers have responded very well" to Longchamp's limited handbag sales on WeChat, said Jean Cassegrain, chief executive of the luxury brand, which is considering expanding its product lineup on the app. "One way or the

Clash of the Titans

Tencent is already making inroads into Alibaba's online-payment business; now it's moving into e-commerce.

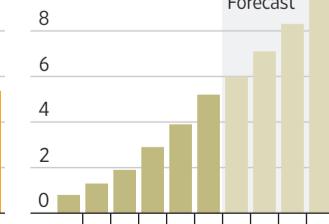
Quarterly market share of total mobile payments



Note: 10 trillion yuan = \$1.45 trillion

Sources: Analysis (mobile payment); Bain (online retail)

China's online retail market by gross merchandise volume



Forecast

personal luxury goods were flat in 2016, at €239 billion (\$267 billion), while global spending on luxury by Chinese consumers fell for the first time.

Please see WECHAT page B2

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CAESARS

Continued from the prior page rooms, entertainment and food and beverage sales. "All of that stuff in Vegas is more profitable than the gaming," Mr. Frissora said. "We like that shift, and it's becoming a bigger part of our overall mix."

Las Vegas has recently been one of the strongest hotel markets in the country, with average daily room rates on the Strip growing at more than three times the national average so far this year. Caesars is in the midst of an eight-year plan to refurbish more than 23,000 hotel rooms in Las Vegas, which has allowed the company to raise rates by an average of 16% so far on newly renovated rooms.

Caesars also owns nearly 100 acres of underutilized real estate and open space near the Strip that Mr. Frissora said could be transformed into shopping, entertainment or convention space.

Despite slow growth in the U.S., Mr. Frissora believes the company can distinguish itself by introducing new technology to the casino floor that gets younger players more engaged and connects to its customer-rewards program, the largest in the industry.

The CEO said he sees opportunity in Asian markets such as Japan and South Korea, where the company is jointly developing a casino at the Incheon International Airport.

Of course, the casino operator will be playing catch-up to rivals that were better able to weather the last recession in Las Vegas.

Wynn Resorts Ltd. is planning to transform a Las Vegas golf course into a 20-acre lagoon with white sand beaches, water sports and restaurants. MGM Resorts teamed up with sports and entertainment group

to build the T-Mobile Arena, a 20,000-seat venue that will host a National Hockey League expansion team.

Caesars was AEG's original partner on the concept in 2007, but those plans faltered in a declining economy.

Formerly known as Harrah's Entertainment Inc., the company grew from a collection of smoke-filled riverboat casinos and small regional gambling halls into the world's largest casino corporation by the mid-2000s. A botched \$30 billion private-equity buyout by Apollo Global Management and Texas Pacific Group loaded the company with debt on the eve of Las Vegas's longest and deepest recession. In 2015, the company filed for bankruptcy protection of its largest unit, which had \$18 billion in debt.

After two years of bruising legal fights between the original private-equity sponsors and Caesars' creditors, which included heavyweights such as David Tepper's Appaloosa Management and Oaktree Capital

Partners, the company will re-

surface as two separate entities. One is an operating company that owns some real estate; the other is a real-estate investment trust that will own the remaining casinos, including Caesars Palace, and lease them back to the operating company.

Under the new structure, the original private-equity backers will see their stakes in the casino-operating company reduced. A highly complex transaction will give lenders and bondholders significant equity in both entities. The timeline for a public offering of the real-estate holding company hasn't been determined, the company said.

Following the bankruptcy reorganization, Caesars is projecting debt of about six times its earnings, which is down significantly from 17 times its earnings in 2014.

This month.

The online sales are also fueling WeChat's mobile wallet, WeChat Pay, against market leader Alipay, launched by Alibaba's Ant Financial in 2009. Only WeChat Pay can be used on Tencent's platform. As recently as 2014, Alipay commanded nearly 80% of China's mobile payments market, but its share slipped to 54% by the first quarter of this year. Tencent's payment system, including WeChat Pay, had 40% in the first quarter, according to research firm Analysys.

Alibaba has been trying to get luxury brands online for years. Last year, Alibaba joined with Meituan—which received a \$100 million investment from Alibaba in 2015—to offer flash sales from labels that might not have their own website.

The e-commerce giant is also relying on big data to clean up counterfeit goods listed on its platform. Alibaba

is the world's leading fighter

on counterfeits," founder Jack Ma said last year.

In the past year, Alibaba

UPS Forms Venture With Chinese Giant

By TREFOR MOSS

SHANGHAI—United Parcel Service Inc. is teaming up with the parent of China's biggest package-delivery company, S.F. Express, to tap surging demand for deliveries from China to the U.S.

With Chinese businesses increasingly targeting global markets, chiefly through online sales, UPS can help them gain "access to the world," Ross McCullough, the company's president for Asia Pacific, said Friday.

The 50-50 joint venture with S.F. Holding Co. will be formally based in Hong Kong,

near S.F. Express's base in Shenzhen. However, plans call for the business to operate in mainland China, pending regulatory approval. Each partner will commit \$5 million in capital to establish the company, according to Mr. McCullough.

An e-commerce boom has fueled the rapid growth of China's express delivery companies, none more so than S.F. Express, founded by the country's third-richest man, Wang Wei. The company's revenue increased by a fifth last year to \$8.37 billion, and it recently announced plans to build the world's biggest airfreight hub in Ezhou in central China.

get a loan or refinance a mortgage. There is also less money at stake now than a decade ago.

Cash-out refis in the first quarter represented about \$14 billion in net home equity compared with more than \$80 billion in each of three straight quarters in 2006. On an annual basis, total home equity cashed out in 2016 was \$61 billion, according to Freddie Mac, versus \$321 billion in 2006.

And despite the recent in-

crease in users, the proportion of refinancers opting for cash is much lower than in pre-crisis days, when it peaked at nearly 90% in mid-2006.

What is more, consumer balance sheets are far stronger than they were a decade ago. Mortgage debt-service payments as a percentage of disposable personal income fell to 4.4% in the fourth quarter of 2016, according to Federal Reserve data. That is the lowest level since early 1980.

"They have a footprint in China that's amazing; we have a global network they don't have," Mr. McCullough said.

The partners would "collaborate to revolutionize the logistics sector," said Alan Wong, group vice president at S.F. Express.

While UPS is aggressively expanding its own business in China, the tie-up was necessary for the company to capitalize fully on the country's delivery boom, Mr. McCullough said.

The joint venture will focus initially on China-U.S. deliveries, then add those between the Asian country and Europe at a later date, he said.

"People have been using cash-out for years," Mr. Kiefer said. "From a personal-finance standpoint, it can make a lot of sense."

One example is a borrower using the cash from a refinance to consolidate credit-card debt that has far higher yields. That in many cases can produce a big savings in debt-servicing costs by replacing debt that has double-digit interest rates with a loan that has a rate in the low single digits.

luxury fashion brands remain wary of open platforms such as Alibaba and rival JD.com because they fear losing their aura of exclusivity, according to Danielle Bailey, head of research in Asia Pacific for L2. Burberry is an exception, opening a store on Tmall in 2014.

Xia Ding, president of JD

Fashion

lifestyle

products

and

services

understanding

of

the

market

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customer

experience

with

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industry

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BUSINESS NEWS

Chairman of Brazil Meatpacker Resigns

BY PAUL KIERNAN
AND LUCIANA MAGALHAES

SÃO PAULO—The chairman of the world's largest meat producer, **JBS SA**, stepped down Friday, weeks after telling prosecutors his company bribed Brazilian politicians, including President Michel Temer, in exchange for taxpayer-subsidized loans and other favors.

Joesley Batista, the youngest son of JBS's founder and the architect of its blistering expansion into the U.S. and other international markets, will be replaced immediately by board member Tarek Farahat, the company said late Friday.

The resignation deepens the uncertainty around JBS, Brazil's second-largest non-financial firm by revenue. Over the past 15 years, the company has transformed itself from a firm relatively unknown outside Brazil into the owner of popular U.S. brands such as **Pilgrim's Pride**.

The company also supplies meat globally to restaurant chains, including McDonald's, Burger King, Subway, Outback Steakhouse, KFC and Wendy's.

"We will work hard to restore trust with the market and protect the more than 235,000 families that are part of JBS," Mr. Farahat said. "There is a significant amount of work to be done in order to regain the trust of our stakeholders."

Mr. Batista stepped down a week after prosecutors disclosed the contents of a plea deal he and his older brother, JBS CEO Wesley Batista, struck with authorities in April as part of the country's sprawling anti-corruption investigation.

The company declined to say why Wesley Batista remained CEO. A person familiar with the matter said that of the two brothers, Joesley Batista dealt more regularly with Brazilian politicians.

In exchange for being spared jail time, the brothers and other high-level company officials admitted to paying about \$150 million—mostly in bribes—to nearly 2,000 Brazilian



Joesley Batista, shown in 2015, architect of JBS's rapid expansion, told prosecutors his company bribed politicians for loans, favors.

ian politicians, including Brazil's past three presidents, according to the plea deal. The allegations were a bombshell in Brazil and prompted calls for the ouster of Mr. Temer. The Brazilian president has denied the allegations.

"Companies like JBS...were essentially criminal organizations with a corporate facade," said Paulo Sotero, director of the Brazil Institute at the Wilson Center.

A fine of 11.2 billion reais (\$3.4 billion) demanded of JBS's holding company by Brazilian prosecutors threatens to drive up the firm's already high debt levels, prompting ratings firms Fitch Ratings and Moody's Investors Service to downgrade its credit rating on May 22. JBS has also hired two law firms to negotiate with authorities in the U.S., where it

earns two-thirds of its revenue. Brazilian bankers said they are already getting calls from international investors eyeing the assets of JBS and its parent company.

The Batista brothers and other JBS officials admitted to paying about \$150 million.

For a company once hailed as a Brazilian national champion and the face of the country's bright future, the Batista brothers' testimony laid bare the dark side of JBS's rise, where ties to politicians gave the company cheap credit and friendly regulation.

Billions of dollars in subsidized loans and investments from BNDES, Brazil's giant development bank, left JBS with a sprawling business empire. The meatpacker's revenues exploded from \$1.8 billion in 2006 to \$49 billion last year.

The Batista family's holding company, J&F Investimentos—named for Joesley and Wesley's parents, José and Flora—also owns a bank, one of Brazil's largest dairy brands, a cleaning-products company, a paper and pulp company, a power plant, and Havaianas, the brand of rubber flip-flops imprinted with the Brazilian flag that are sold around the world.

As it swallowed up competitors, JBS became a virtual monopoly in parts of Brazil's interior, able to squeeze ranchers for lower prices on their cattle. But unlike U.S. authorities,

who blocked JBS's attempted acquisition of National Beef Packing Co. in 2008 on antitrust grounds, Brazil's government actively facilitated the company's consolidation at home and abroad.

BNDES loans facilitated the acquisition of Colorado-based Swift Foods Co. in 2007, then the second-largest beef packer in the U.S. The following year JBS bought Smithfield Beef Group, the nation's fifth-largest beef packer. And in 2009 it acquired Texas-based Pilgrim's Pride Corp., the second-largest chicken processor in the U.S., as well as one of Brazil's largest beef firms.

The BNDES financing of JBS occurred as the statist Workers' Party government that ruled Brazil from 2003 to 2016 sought to create corporate "national champions" in sectors where it believed the

country had competitive advantages. As JBS grew—and struggled to pay back its loans—so did the BNDES equity stake in the company, which once exceeded 30%, according to the company's securities filings.

As JBS received loans from the BNDES, Mr. Batista told prosecutors as part of his plea deal, it kicked back part of the cash into offshore accounts belonging to former Finance Minister Guido Mantega, Brazilian President Luiz Inácio Lula da Silva, and his successor, Dilma Rousseff. By 2014, the two presidents' accounts held a total of \$150 million, Mr. Batista alleged. Each has denied wrongdoing in the past.

To help JBS complete its acquisition of Swift in 2007, the bank paid 1.14 billion reais for a 13% equity stake in JBS, according to company filings. The next year it injected 1 billion reais more for JBS's purchase of Smithfield Beef and Five Rivers, also in the U.S. In 2009, BNDES swapped \$2 billion in convertible debentures for shares, upping its stake to 18.5%, to allow JBS to finish the Pilgrim's Pride deal. And in 2011, the bank converted 3.48 billion reais of debentures into equity, giving it a 30.4% stake.

Founded in 1953 by José Batista Sobrinho, the company got its start in a whitewashed building in Anápolis, Goiás, with capacity to slaughter just five head of cattle a day. Its initial growth spurt came a few years later, when Brazil's government decided to move the capital from Rio de Janeiro to Brasília, a short distance away.

Sensing opportunity, Mr. Batista Sobrinho followed, supplying meat to workers during the construction boom. Piggybacking on the capital's rapid growth over the ensuing decades, he expanded the company, then known as Fribol, by acquiring other meatpacking plants across Brazil. By the early 2000s, it was among the country's largest beef producers.

—Samantha Pearson and Jeffrey T. Lewis contributed to this article.

Politics at Forefront of Book Show

BY JEFFREY A. TRACHTENBERG

Politics will be front and center at BookExpo, the book-publishing industry's annual trade show that opens Wednesday in New York.

Former Democratic presidential candidate Hillary

Clinton, whose untitled memoir about her experiences on the 2016 campaign trail will be published in the fall by Simon & Schuster, will headline the book show Thursday evening at Manhattan's Javits Center. The convention space was the site of the spoiled Election Night

sea Clinton is expected to appear at BookCon, an offshoot of BookExpo that sells tickets to the general public. She will sign copies of her new children's title, "She Persisted: 13 American Women Who Changed the World," in which her mother makes a cameo alongside featured women like Harriet Tubman, Oprah Winfrey and Sonia Sotomayor.

As President Donald Trump continues to dominate the national conversation, the political thread at this year's BookExpo appears timelier than ever.

"The show is responding to the zeitgeist," said Michael Cader, owner of Publishers Lunch, a book indus-

top-selling political titles include "Democracy" by Condoleezza Rice, "Hillbilly Elegy" by J.D. Vance and "The American Spirit" by David McCullough.

On the retail front, bookstore sales declined 1% to \$2.84 billion in the first quarter compared with the same period a year ago, according to preliminary estimates released by the U.S. Census Bureau. "A 1% decline for the quarter isn't the end of the world, especially when you consider how many people are staying home and watching the new administration's goings on," said Jim Milliot, editorial director of Publishers Weekly.

Political titles that will be featured at the show include an essay collection by Ta-Nehisi Coates titled "We Were Eight Years in Power: An American Tragedy" and NBC News correspondent Katy Tur's "Unbelievable: My Front-Row Seat to the Craziest Campaign in American History."

Also being promoted is "Obama: An Intimate Portrait: The Historic Presidency in Photographs" by Pete Souza that will be published by Lagardere SCA's Little, Brown & Co. in November. Mr. Souza, a former chief official White House photographer, is expected to participate in a breakfast panel on Thursday.

Elsewhere, Harper, an imprint of HarperCollins Publishers, is promoting Sharyl Attkisson's "The Smear: How Shady Political Operatives and Fake News Control What You See, What You Think, and How You Vote." The book, which publishes in June, attacks the Clinton campaign, said a spokeswoman for Harper. HarperCollins Publishers, like The Wall Street Journal, is owned by News Corp.

Also being promoted will be conservative radio host Laura Ingraham's "Billionaire at the Barricades: The Populist Revolution from Reagan to Trump" being published in October by All Points Books, an imprint of St. Martin's Press.



Hillary and Chelsea Clinton are expected to make appearances.

celebration for her supporters last November.

A spokesman for Simon & Schuster said he expects Mrs. Clinton to discuss her coming book and her writing process during an onstage conversation with an interviewer who hasn't yet been named.

Mrs. Clinton has made relatively few public appearances since the election. But she returned to the political fray during a commencement speech at Wellesley College on Friday and earlier this month launched a new political group called Onward Together that supports progressive values.

She won't be the only Clinton at the Javits Center. On June 4, daughter Chel-

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TECHNOLOGY

WSJ.com/Tech

Sharp Targets 'Smart' Home Appliances

Japanese firm expects its 'smart home' business unit to be a major driver of growth

BY TAKASHI MOCHIZUKI

SAKAI, Japan—Sharp Corp.'s recovery plan: become a major home-appliance maker under the wing of its Taiwanese parent, Foxconn Technology Group.

The Japanese company, which supplies Apple Inc. with iPhone display panels, said its "smart home" business unit, whose products include high-end Internet-linked appliances, would be a major driver of growth. It forecast sales for the division of more than ¥1 trillion, or over \$9 billion, in the fiscal year ending in March 2020, up from ¥551 billion in the just-ended year.

"We are definitely going to achieve a V-shaped recovery," Sharp Chief Executive Tai Jeng-wu told reporters at the company's headquarters on Friday. Sharp expects its first net profit in four years this fiscal year, forecasting it at ¥59 billion (\$530 million).

Mr. Tai is the No. 2 official at Foxconn, which is formally



TOUCHIRO OISHI/WIRED/BLOOMBERG NEWS

A prototype of Sharp's Home Assistant robot. The Japanese company is working to revive its fortunes under new ownership.

known as Hon Hai Precision Industry Co.

Sharp, which was bought by Foxconn last year after falling into financial crisis, is known

in Japan as a maker of quirky electronic products such as smartphone-hybrid humanoid robots. Its growth, however, has been largely driven by liquid-crystal displays it provides for TVs and smartphones. That market has always been volatile, and Sharp last year teetered close to bankruptcy,

weighed down by heavy factory investments of the past.

While the display business will remain an important source of revenue, Mr. Tai said

company will step up efforts to provide "smart office" products to enterprise clients and invest in developing sensors for next-generation automobiles.

Foxconn's profile as the world's largest contract electronics manufacturer will help Sharp spread its appliance innovations, said Atsushi Osanai, a professor at Waseda Business School in Tokyo. "Sharp can become Apple of the home-appliance industry if it works well with Foxconn," he said. "It isn't totally unrealistic that Sharp becomes a realistic competitor to Samsung in the global appliance market."

Sharp and other Japanese electronics makers made their name globally with TVs and other consumer electronics. However, they have rarely been major global suppliers of appliances. Analysts say they failed to develop products based on local requirements and withdrew prematurely from unprofitable markets.

Mr. Osanai said Sharp's ambitions won't be achieved in just a few years. "It requires a heavy commitment to stay in the global market regardless of what happens, or how unprofitable the business is, to gain needed trust," he said.

Another Meal-Delivery Startup Closes

BY TOMIO GERON

Sprig Inc. has become the latest meal-delivery startup to go by the wayside.

The San Francisco company, which had raised more than \$58 million in venture funding from firms including Greyclock Partners, Social Capital, Accel Partners, Battery Ventures and others, is shutting down.

"The demand for Sprig's convenient, high-quality food was always incredibly high, but the complexity of owning meal production through delivery at scale was a challenge," Chief Executive Gagan Biyani said in a message to customers.

After growing quickly flush with venture cash, on-demand meal delivery startups have struggled to become sustainable businesses, weighed down by food and delivery costs, thin margins and fierce competition from other startups as well as traditional restaurant-delivery methods.

"It's a classic venture real-



its two co-founders left the company amid cost cuts.

Sprig had struggled to make its model work, reorganizing last year and cutting its number of chefs. It stopped delivering to Palo Alto, Calif., to focus on San Francisco and Chicago. The company had started off with well-known chefs, but later brought in an executive who had managed airline meal production to cut costs and improve operations. Sprig's shutdown was first reported by The Information.

A larger player in food delivery is Blue Apron Inc., which has raised \$193 million. The company delivers meal kits for people to cook at home instead of delivering cooked meals.

Despite some meal startups' arguments to the contrary, Blue Apron's business effectively competes against the meal providers, Mr. Narasin said. "I eat three meals day," he said. "If Blue Apron takes one meal away, [that means] I'm not using somebody else."

Italian Court Rules In Favor of Uber

BY PIETRO LOMBARDI

considering other judicial means to fight Uber.

A series of court decisions have already led Uber to retreat in several countries—including Italy in 2015—from its low-cost service UberPop, which uses nonprofessional drivers.

A series of court decisions have led Uber to retreat in several countries.

ROME—A Rome court issued a ruling on Friday that would allow Uber Technologies Inc. to continue providing its car-booking service in Italy, revoking an order to suspend its service in the country earlier this spring.

Last November, Italian taxi drivers filed suit against Uber, claiming it violated competition laws. A court initially ordered Uber to suspend its service.

But the U.S. company filed an appeal and won a stay shortly afterward that allowed it to continue operating temporarily.

On Friday, Uber won that appeal. "We are thrilled for the thousands of drivers and riders who can continue using Uber in Italy," said a company statement.

The ruling can't be appealed. A lawyer for the taxi association said the group is

In Italy, Uber can only offer UberBlack and similar premium services, such as UberLux, and it operates only in Milan and Rome.

The company counts about 83,000 unique users, more than half of them foreigners, and is used by more than 1,000 drivers.

executive of Wal-Mart's online operations. Importantly, Wal-Mart credits its recent growth in online sales to "organic" growth of its Wal-Mart.com operations—the division Mr. Lore heads.

To the extent that an executive shake-up brings in leaders who can nurture disruptive business models, the new leaders must be part of a team with the rare skill of maintaining an existing business at the same time. It's a skill that GE Chief Executive Jeff Immelt, for one, has mastered.

GE has seen steady growth as its core businesses expand while it adds new product lines. It can't just innovate; it has to deliver innovations at scale. Before we give up on every company that doesn't have an eccentric, hard-charging founder and technologist at its helm, remember the advantage big companies like GE do have over upstarts: the manufacturing and logistics infrastructure sufficient to deliver new products globally.

To return to automobiles, consider General Motors. It's possible, albeit unlikely, that GM could become merely a supplier to transportation-service providers like Uber. To counter that threat, GM is investing in companies such as Lyft, while also experimenting with its own ride-sharing services. Should GM buy Lyft, perhaps Logan Green, chief executive of Lyft, could take a high post at the car maker—even the CEO job. It would certainly make sense in a future where auto makers sell subscriptions to transportation instead of cars.

Sound outlandish? Ford didn't think so. Its new CEO, Jim Hackett, was previously head of the company's Smart Mobility division, which works on autonomous cars.

BUSINESS WATCH



Suddenlink parent Altice USA said it has reached an advertising and content distribution agreement with Viacom.

VIACOM

TV Networks Return To Suddenlink Lineup

A number of Viacom Inc.'s television networks will return to the lineup of Suddenlink Communications, ending a more than two-year dispute over costs to carry the media giant's channels.

Suddenlink parent Altice USA, the U.S. arm of France's Altice NV, said this past Thursday that it had reached an advertising and content distribution agreement with Viacom that would return some of the company's channels to Suddenlink customers. The companies didn't say which Viacom channels would return to Suddenlink.

Suddenlink was the largest of a group of some 60 small cable operators that dropped Viacom in 2014, saying that the company was asking for a nearly 50% increase in so-called carriage fees. The fees are a crucial source of revenue and operate as an important profit driver for companies such as Viacom.

Suddenlink has about 1.1 million subscribers, according to a Sanford C. Bernstein & Co. report.

—Ezequiel Minaya

MEDIA

Merger of Fairfax, NZME Hits Hurdle

New Zealand's two largest media organizations said Friday they would appeal a regulator's decision to block their merger in the New Zealand High Court.

Fairfax Media and NZME Ltd. have said the merger of their New Zealand businesses would help them deal with new online competitors as they try to transition from traditional print products to a sustainable online model.

The New Zealand Commerce Commission said in a final ruling this month that bringing the country's two largest newspaper networks and corresponding online news sites under common ownership would concentrate media ownership and influence to an unprecedented extent.

The regulator also said the merger was likely to reduce competition for advertising and readers.

In a joint statement, both companies said they believed the decision was "wrong in law" and that they would file an appeal.

—Ben Collins

MIMS

Continued from page B1
panies need to consider drastic measures. They must be willing to tell their stakeholders they may have to lose money and cannibalize existing products and services, while scaling up new technologies and methods.

"Ten years ago, innovation was based on features and functions," says William Ruh, chief digital officer at General Electric. "Now it's about your business model and transforming your industry."

Before, companies could innovate by acquiring tech startups. But the top disruptors now grow so quickly and capture so much market share, they become too valuable to buy or are unwilling to sell. "It's now a battle to the death," says Mr. Ruh.

Mr. Fields did much that was good for Ford, returning consistent profits. But as it became clear the automotive market was entering a revo-

lution of electric vehicles, self-driving technology and ride-sharing—with stars like Uber, Tesla, Lyft and Waymo starting to shine—Ford's stock sank. The share price is off 40% from when Mr. Fields took over three years ago.

Mr. Fields even set a course for adopting these emerging technologies. He just couldn't do it fast enough for Ford and its shareholders.

Other CEOs are being dismissed as their businesses post losses in the face of tech-heavy competition. In the past year alone they include Ronald Boire of Barnes & Noble, GNC Holdings' Mike Archbold and top executives at three of the six major Hollywood studios.

Mickey Drexler, CEO of beleaguered J. Crew, admitted that if he could go back 10 years, he might have done things differently, to cope with the rapid transformation of retail by e-commerce. Who then would have predicted that in 2017 the No. 1

online retailer of clothing to millennials would be Amazon?

CEO turnover isn't the only solution on the table, says Horace Dediu, a fellow at the Clayton Christensen Institute for Disruptive Innovation, a think tank based in the San Francisco Bay Area.

Companies also have to incubate potentially disruptive startups within their own corporate structures. This means protecting them as they develop, and being willing to absorb their losses.

Consider, for example, that Amazon made almost no profit for its first 20 years.

Another retailer, Amazon rival Wal-Mart Stores, recently has seemed to be managing this transition well. In its most recent quarter, Wal-Mart's e-commerce division increased sales 29% from a year earlier. Many analysts thought the company overpaid for Jet.com, which cost it \$3.3 billion in August 2016. But the acquisition brought e-commerce veteran Marc Lore, who became chief



GE Chief Jeff Immelt, center. The firm's core businesses are growing even as it adds new product lines.

MICHAEL Dwyer/ASSOCIATED PRESS

GLOBAL FINANCE

'Spotify Rule' Would Benefit NYSE

By ALEXANDER OSIPOVICH
AND MAUREEN FARRELL

The New York Stock Exchange is seeking to change its listing standards as it vies for Spotify AB and other hot startups that are considering an unusual tactic called a direct listing.

Direct listings allow companies to have their shares trade publicly, without raising money as in a traditional initial public offering, and there aren't restrictions on when insiders can sell shares. The NYSE in March filed with the Securities and Exchange Commission to tweak its rule book on the process, a move the agency will rule on in coming weeks.

Approval by the SEC would remove an obstacle that prevents companies such as Spotify from using direct listings to list on the Big Board, lawyers say. Making it easier for closely held firms to use this approach could help the NYSE attract "unicorns," or startups valued at \$1 billion or more.

"It's the Spotify rule," said Cromwell Coulson, president and chief executive of OTC Markets Group Inc., which operates trading platforms for securities that aren't listed on U.S. exchanges.

The NYSE, a unit of Intercontinental Exchange Inc., competes fiercely with Nasdaq Inc. for listings. It clinched a victory this year by winning the coveted IPO of Snap Inc., owner of the disappearing-message app. It will also get the debut of Spotify if the music-streaming service goes public as planned, according to people familiar with the company's plans. But Nasdaq has been the go-to exchange for direct listings by private companies for the past decade. So far, Nasdaq has completed about a half-dozen direct listings of private companies since 2006, while the NYSE has had none, according to representatives for the two exchanges.

The NYSE told the SEC in a May 16 letter that the change would address a "significant competitive disadvantage" it faces against Nasdaq. The SEC



Wiz Khalifa performs at the Spotify best new artist nominees celebration this year in Los Angeles.

has until June 29 to approve the proposal, reject it or launch deliberations that could delay a final decision for months.

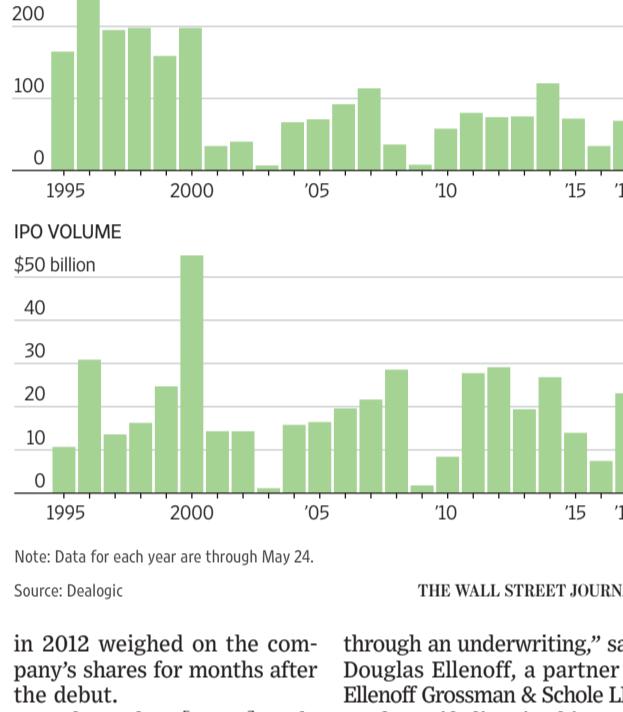
In a direct listing, a company transfers its shares to an exchange and lets them trade publicly without being underwritten by a Wall Street bank, as is the usual case in an IPO. The approach is often used by companies that are traded in the lightly regulated over-the-counter markets but want to switch to the NYSE or Nasdaq. But it is a rare move for private firms, which typically use IPOs to go public.

Direct listings would allow unicorns to avoid hefty underwriting fees, which can amount to tens of millions of dollars. The listings also could make it easier for existing shareholders of these companies to cash out more quickly. That is because they don't necessarily involve lockup periods, which are rules designed to protect new investors from a deluge of selling by making insiders wait before they can unload shares. Executives can also discuss the company publicly. In a typical IPO, the SEC mandates a quiet period before the offering.

But there is a greater risk that the company's shares will flop on the first day of trading, since there are no underwriters to prop up the price. The botched IPO of Facebook Inc.

Sluggish IPOs

U.S. IPO deal activity has trended lower for more than a decade. The New York Stock Exchange is seeking approval for 'direct listings' from startups that want to go public without raising money.



Note: Data for each year are through May 24.
Source: Dealogic

THE WALL STREET JOURNAL.

in 2012 weighed on the company's shares for months after the debut.

"What the [NYSE] rule change does is it responds to the unicorns that have enough cash that they want to be publicly traded without going

through an underwriting," said Douglas Ellenoff, a partner at Ellenoff Grossman & Schole LLP.

If Spotify lists in this manner and its stock performs well, other technology firms may consider the same route. Airbnb Inc. is among the com-

panies said to be watching Spotify's debut to see whether it could do something similar if it goes public, said people familiar with the home-rental service company's plans.

The NYSE and Nasdaq have suffered from a sluggish IPO climate in recent years, losing out on listing fees as cash-rich tech firms such as Airbnb and Uber Technologies Inc. have chosen to stay private.

While the IPO volume in the U.S. has more than tripled to \$23 billion raised via 69 listings for this year through Wednesday, according to Dealogic, bankers and lawyers expect such offerings to remain muted going forward.

Spotify, last valued at \$8.5 billion, has been seeking input from bankers and NYSE personnel about how a direct listing could work. The Swedish company could go public as soon as late 2017, said people familiar with the process.

The NYSE's proposal would change the way it gives a private company permission to do a direct listing. Such companies must have at least \$100 million of publicly held shares once they go live on the exchange. Under its current rule, the NYSE must check whether the company meets that standard by using two different methods—getting a valuation from a third party, and from the last price of its shares in the private market—and taking the lesser of the two.

While Spotify and other unicorns are big enough to meet the \$100 million threshold, there is a technical issue that prevents them from passing the test. It involves the NYSE's definition of a private market, which doesn't include the sorts of transactions in which private shares change hands today, lawyers say. The NYSE's proposal would fix that by letting the exchange rely solely on a third-party valuation, as long as the value of the company's publicly traded shares exceed \$250 million.

The NYSE, the traditional home of blue-chip stocks, has eased its rules in recent years to attract companies that otherwise would go to Nasdaq.

SEC Is Poised To Fill A Top Job

By DAVE MICHAELS

WASHINGTON—Securities and Exchange Commission Chairman Jay Clayton will hire a former prosecutor and veteran litigator from his old law firm to co-lead enforcement at the markets regulator, according to people familiar with the matter.

Steven Peikin, who has worked for years at Sullivan & Cromwell LLP where Mr. Clayton was a partner before entering government, will become co-director of the enforcement division, the people said. Stephanie Avakian, who has served as the SEC's acting enforcement director, is likely to remain at the commission as co-director.

The decision to have two top managers for the enforcement division would ease some of the issues created by Mr. Peikin's past work for Wall Street. Mr. Peikin has done defense work for Barclays PLC and Goldman Sachs Group Inc. Under SEC rules, he would be barred for one year from supervising any cases that affect Goldman or other clients of Sullivan & Cromwell.

Mr. Peikin, a graduate of Harvard Law School, leads the criminal defense and investigations group at Sullivan & Cromwell. His work as both a government lawyer and defender of big banks could spark criticism from Democrats. Former colleagues say his background as a prosecutor should ease any concerns that he would take it easy on companies.

From 1996 to 2004, he was an assistant U.S. attorney in Manhattan, where he oversaw the Southern District of New York's securities and commodities task force.

Former SEC Chairman Mary Jo White, who stepped down in January, also recruited co-directors of enforcement when she took over leadership of the regulator. The move made it easier for her choice as enforcement director, Andrew Ceresney, to join the agency because he, too, faced the need to recuse himself from working on cases that involved clients of his former law firm, Debevoise & Plimpton LLP.

Ms. Avakian joined the SEC in 2014 as deputy director of enforcement under Mr. Ceresney. She became acting director after Mr. Ceresney returned to Debevoise as co-chairman of its litigation department.

—Michael Rothfeld contributed to this article.

SoftBank Grabs Risk in Fund

The investors in the world's largest technology fund aren't all equal.

SoftBank Group launched its Vision Fund this month with much fanfare. Co-investors include government funds of Saudi Arabia and Abu Dhabi, and some of tech's biggest names.

By Alex Frangos,
Jenny Strasburg
and Liz Hoffman



SoftBank, led by Masayoshi Son, has half the equity in a new fund.

Yet the \$93 billion in investment commitments includes about \$39 billion that will go into preferred instruments that earn yearly payouts and whose upside is limited, according to people familiar with the matter.

In the structure, which hasn't been previously reported, SoftBank will also take more risk than the other investors and stand to reap more reward: Its commitment of \$28 billion is all in straight equity; Saudi Arabia's Public Investment Fund is putting in \$45 billion, but only about \$18 billion of it is straight equity—the rest is in preferred instruments, the people said.

The structure gives SoftBank around half the equity in the fund, although it accounts for only about 30% of the committed cash.

A SoftBank spokesman declined to comment.

SoftBank also stands to gain as the fund manager, keeping around 20% of the fund's profits over a certain threshold. The threshold is around 8%, according to a person familiar with the fund.

The structure with a preferred component is unusual, say lawyers and investors who work with such funds. It provides a measure of protection for SoftBank's co-investors, while boosting SoftBank's risk and potential reward.

The use of preferred securities in venture-capital funds has become increasingly common in China but is rare elsewhere, where most funds consist of all equity, says Hanson Cheah, managing partner at venture fund Draper Athena.

The structure could curb the ability of the fund to borrow heavily to make acquisitions. That is because cash will be needed to pay what is owed on the preferred units.

Depending on how the fund is structured, that could affect the fund's credit profile and its willingness to raise debt. SoftBank has said it would consolidate the fund's financials on its balance sheet.

People familiar with the matter say the preferred units will earn around 7% annually over the life of the fund, expected to be 12 years. Sharp Corp., one of the investors in the fund, said recently in a statement about the fund that it "will receive dividends in return for its investment."

Bankers have been salivating over the prospect of getting a piece of the SoftBank action, hoping to earn financing and advising fees from an anticipated stream of deals. The fund's built-in leverage has muted some their hopes, according to several bankers who keep tabs on the fund.

SoftBank's charismatic founder, Masayoshi Son, has made huge bets in telecommunications, e-commerce and technology, including an early investment in Chinese internet giant Alibaba.

In doing so, he has turned SoftBank into one of Japan's biggest and most international companies, borrowing heavily to make acquisitions. In addition to its core domestic Japanese cellular phone business, SoftBank owns U.S. telecommunications firm Sprint Corp., U.K. microchip designer ARM Holdings and dozens of other smaller investments.

The Vision Fund is aiming for big deals: At least \$100 million, and some much more. The fund's investors, beyond SoftBank and Saudi Arabia, include Abu Dhabi's state-owned Mubadala Investment Co., which is contributing \$15 billion; Sharp Corp. is adding \$1 billion; Apple Inc., Qualcomm Inc. and Taiwanese electronics firm Foxconn Technology Group have also committed funds.

A spokesman for Saudi Arabia's fund didn't immediately comment. The other co-investors weren't available for comment.

All except SoftBank will receive about 60% of their investment in preferred instruments and the rest in straight equity, the people said.

The co-investors in the fund may see the preferreds' 7% annual payouts as highly attractive. Saudi Arabia, for instance, recently issued 10-year bonds at 3.4%. The preferred instruments have limited potential for gains if the fund does well.

People familiar with the fund say access to the large and stable sums provided by the preferred stakeholders make the interest payments worthwhile.

Wells Chases Recruits

By MICHAEL WURSTHORN

Wells Fargo & Co. is sweetening its signing bonuses for veteran brokers.

The San Francisco bank's brokerage arm told industry recruiters last week it would raise its recruitment offers after The Wall Street Journal reported Morgan Stanley would significantly cut back on the pricey practice of poaching brokers, people familiar with the matter said.

"Attracting the industry's top talent will always be a priority for Wells Fargo Advisors," a spokeswoman for Wells Fargo said.

Wells Fargo's brokerage arm, known as Wells Fargo Advisors, has been losing brokers at a higher rate since the bank paid a \$185 million settlement in September for opening up as many as 2.1 million accounts using fictitious or unauthorized information.

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FUND NAME GF AT LB DATE CR NAV YTD 2-YR %RETURN-
FUND NAME GF AT LB DATE CR NAV YTD 2-YR %RETURN-

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Fax No: 65-6835-8866, Website: www.cam.com.sg, Email: cam@cam.com.sg

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China A-Share Fund Cls A AUD H OT HKG 05/25 AUD 13.02 10.4 22.4 -6.4

China A-Share Fund Cls A AUD H OT HKG 05/25 AUD 12.11 10.8 16.0 -6.3

China A-Share Fund Cls A CAD H OT HKG 05/25 CAD 12.02 10.2 21.0 -7.5

China A-Share Fund Cls A EUR H OT HKG 05/25 EUR 12.60 9.7 19.7 -7.4

China A-Share Fund Cls A GBP H OT HKG 05/25 GBP 12.60 9.5 18.5 -6.3

China A-Share Fund Cls A SGD H OT HKG 05/25 SGD 12.60 9.4 23.5 -6.4

China A-Share Fund Cls A NZD H OT HKG 05/25 NZD 12.03 9.7 35.9 -7.1

China A-Share Fund Cls A USD H OT HKG 05/25 USD 12.02 10.5 17.2 -7.1

China A-Share Fund Cls A NZD H OT HKG 05/25 NZD 12.02 15.0 19.4 -7.8

China A-Share Fund Cls A NZD H OT HKG 05/25 NZD 12.02 10.5 22.7 -6.0

China A-Share Fund Cls A NZD H OT HKG 05/25 NZD 11.33 13.8 16.1 -6.2

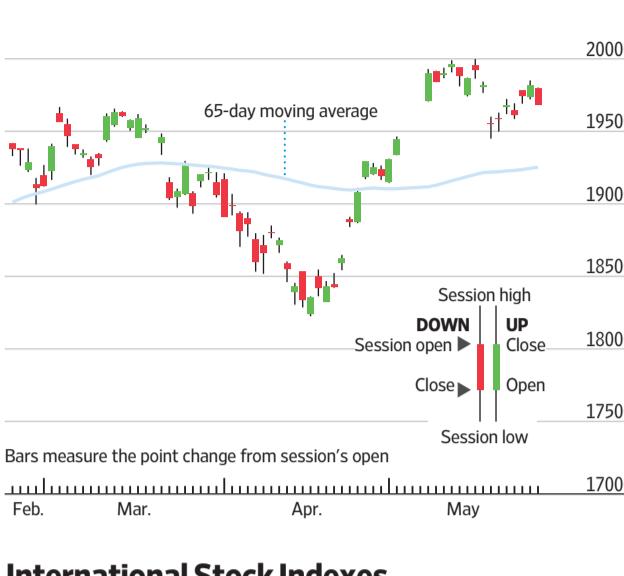
MARKETS DIGEST

Data as of Friday, May 26, 2017

Nikkei 225 Index

19686.84 ▼126.29, or 0.64%

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

391.35 ▼0.79, or 0.20%

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



Feb. Mar. Apr. May

S&P 500 Index

2415.82 ▲0.75, or 0.03%

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

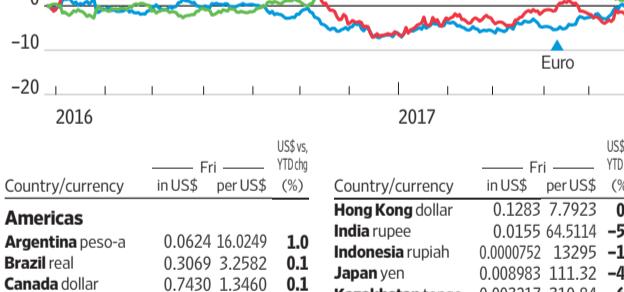
International Stock Indexes

Region/Country	Index	Data as of 4 p.m. New York time					
		Close	Net Chg	% chg	52-Week Range	YTD High	% chg
World	The Global Dow	2769.51	-4.18	-0.15	2197.91	2773.69	9.4
	MSCI EAFE	1885.37	-7.06	-0.37	1520.94	1893.34	12.0
	MSCI EM USD	1017.00	2.94	0.29	794.56	1017.00	17.9
Americas	DJ Americas	579.95	0.28	0.05	480.83	579.95	7.3
Brazil	Sao Paulo Bovespa	64085.41	858.63	1.36	48471.71	69052.03	6.4
Canada	S&P/TSX Comp	15416.93	6.20	0.04	13689.79	15922.37	0.8
Mexico	IPC All-Share	49674.92	264.00	0.53	44282.03	49939.47	8.8
Chile	Santiago IPSA	3714.35	10.70	0.29	3054.30	3782.66	15.2
U.S.	DJIA	21080.28	-2.67	-0.01	17140.24	21115.55	6.7
	Nasdaq Composite	6210.19	4.94	0.08	4594.44	6210.19	15.4
	S&P 500	2415.82	0.75	0.03	2000.54	2415.82	7.9
	CBOE Volatility	9.81	-0.18	-1.80	9.77	25.76	-30.1
EMEA	Stoxx Europe 600	391.35	-0.79	-0.20	308.75	396.45	8.3
	Stoxx Europe 50	3228.26	-6.79	-0.21	2636.71	3276.11	7.2
France	CAC 40	5336.64	-0.52	-0.01	3984.72	5342.40	9.8
Germany	DAX	12602.18	-19.54	-0.15	9268.66	12807.04	9.8
Israel	Tel Aviv	1423.35	...	Closed	1378.66	1478.96	-3.2
Italy	FTSE MIB	21210.57	-81.15	-0.38	15103.58	21787.90	10.3
Netherlands	AEX	528.03	0.57	0.11	411.62	536.26	9.3
Russia	RTS Index	1073.04	-10.48	-0.97	885.93	1195.61	-6.9
Spain	IBEX 35	10904.20	-33.50	-0.31	7645.50	11135.40	16.6
Switzerland	Swiss Market	9042.03	6.94	0.08	7593.20	9127.61	10.0
South Africa	Johannesburg All Share	53996.14	-32.25	-0.06	48935.90	54548.91	6.6
Turkey	BIST 100	97533.28	-179.66	-0.18	71594.98	98133.77	24.8
U.K.	FTSE 100	7547.63	29.92	0.40	5923.53	7547.63	5.7
Asia-Pacific	DJ Asia-Pacific TSM	1605.87	-0.04	-0.002	1324.15	1605.91	12.9
Australia	S&P/ASX 200	5751.70	-37.90	-0.65	5103.30	5956.50	1.5
China	Shanghai Composite	3110.06	2.23	0.07	2821.05	3288.97	0.2
Hong Kong	Hang Seng	25639.27	8.49	0.03	20038.42	25639.27	16.5
India	S&P BSE Sensex	31028.21	278.18	0.90	25765.14	31028.21	16.5
Indonesia	Jakarta Composite	5716.82	13.38	0.23	4796.87	5719.88	7.9
Japan	Nikkei Stock Avg	19686.84	-126.29	-0.64	14952.02	19961.55	3.0
Malaysia	Kuala Lumpur Composite	1772.30	-1.66	-0.09	1614.90	1778.65	8.0
New Zealand	S&P/NZX 50	7441.57	7.10	0.10	6664.21	7571.11	8.1
Pakistan	KSE 100	52636.87	-232.14	-0.44	36061.56	52876.46	10.1
Philippines	PSEI	7867.49	-4.16	-0.05	6563.67	8102.30	15.0
Singapore	Straits Times	3219.42	-14.95	-0.46	2729.85	3271.11	11.8
South Korea	Kospi	2355.30	12.37	0.53	1925.24	2355.30	16.2
Taiwan	Weighted	10101.95	-6.54	-0.06	8458.87	10108.49	9.2
Thailand	SET	1569.27	-0.14	-0.01	1406.18	1591.00	1.7

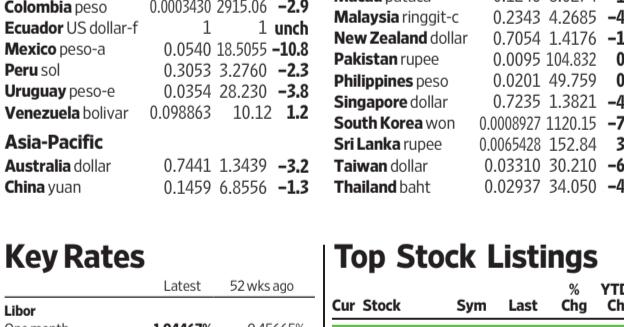
Source: SIX Financial Information/WSJ Market Data Group

Currencies

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



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



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

London close on May 26

Country/currency	Fri	YTD chg	London close on May 26		
			in US\$	per US\$	(%)
Europe					
Bulgaria leva	0.5718	1.7489	-5.9		
Croatia kuna	0.1505	6.647	-7.3		
Euro zone euro	1.1170	0.8953	-5.8		
Czech Rep. koruna-b	0.0422	23.698	-7.7		
Denmark krone	0.1501	6.6630	-5.7		
Hungary forint	0.003633	275.24	-6.5		
Iceland krona	0.009973	100.27	-11.2		
Norway krona	0.1192	8.3903	-2.9		
Poland zloty	0.2670	3.7447	-10.6		
Russia ruble-d	0.01764	56.691	-7.5		
Sweden krona	0.1150	8.6919	-4.6		
Switzerland franc	1.0256	0.9750	-4.3		
Middle East/Africa					

GLOBAL FINANCE

Japan Investors Vote for Europe's Bonds

Holdings of foreign debt have jumped since Macron's win in French election

TOKYO—Japanese investment into foreign bonds has surged in the past few weeks, with some asset managers and analysts saying movement into European debt following the French election is likely one reason.

By Suryatapa Bhattacharya and Kosaku Narioka

Until the first round of French voting, Japanese were large net sellers of foreign long-term debt, dumping more than \$10 billion on a net basis in the final week before April 23. Once it became clear that centrist Emmanuel Macron was headed for an easy victory, they turned net buyers. In the two weeks through May 20, they bought more than \$20

Looking Abroad

Japanese investors purchased more foreign debt after the election of Emmanuel Macron as president of France.

Net purchases of long-term debt by Japanese institutional investors*



*Four-week moving average Note: ¥1 trillion = \$8.9 billion
Source: Ministry of Finance, Japan

Japanese long-term debt holdings in 2016

Total: ¥286.1 trillion

U.S.: ¥132.5T
France: ¥25.9T
U.K.: ¥14.4T
Rest of Europe: ¥52.2T
Rest of the world: ¥61.1T

THE WALL STREET JOURNAL.

billion in foreign long-term debt on a net basis, according to Japanese Ministry of Finance data released Thursday.

A country-by-country breakdown hasn't been released, but investors and ana-

lysts say they believe renewed interest in European debt helps explain the movements.

"From the perspective of currency diversification and investment diversification, we want to consider the euro this

fiscal year," said Hisato Kogawa, managing executive officer at Sumitomo Life Insurance Co. The proportion of euro-denominated assets in Sumitomo Life's foreign-currency portfolio fell to about 16% at March 31 from 18% a year earlier, but Mr. Kogawa said he is heartened by signs more recently that the euro-zone is stabilizing politically.

As for the U.S., political uncertainty and the risks of wider fiscal deficits during the Trump administration have given some investors pause, although Treasuries remain at the core of Japanese institutional portfolios.

Yujiro Goto, a foreign-exchange strategist with Nomura Securities in London, said Japanese investors were cautious about putting their money into unhedged U.S. government bonds, for fear that Trump administration policies such as trade protectionism could push down the dollar. The euro has been rising recently against the dollar.

"If the political situation were more stable they could be fine taking more foreign-exchange risk" on dollar investments, "but at the moment, U.S. political uncertainty is working negatively," said Mr. Goto.

In the past few years, Japanese institutional investors have increasingly turned overseas for yield because Bank of Japan policies have kept a tight lid on interest rates at home. Last year, the lion's share of new bond investment went to the U.S.

Japanese investors held ¥132 trillion (\$1.19 trillion) in U.S. long-term debt at the end of 2016, up 14% from a year earlier, the Ministry of Finance said Friday. Holdings of European long-term debt rose only 3% to ¥93 trillion.

More recently, lower hedging costs have been a factor pushing Japanese investors toward Europe, analysts say.

The 10-year U.S. Treasury yield was about 2.25% Friday, while the equivalent 10-year

French government bond yields about 0.8%. That would make the U.S. bond look like a better deal.

But after hedging costs, the Treasury yield falls below 1%, while the Japanese investors can actually make a slight profit in hedging against the euro and earn a yield of slightly more than 1% on the French bond, according to Nomura Securities.

The French bonds "look extremely attractive for Japanese investors on a rolling hedge basis," said Bank of America Merrill Lynch in an investor note.

Europe isn't without risk. If the European Central Bank starts to slow its bond buying, that could reduce the value of the bonds held by Japanese investors.

Also, the yen is seen as a global haven currency, so it could rise if political turmoil in the U.S. increases. In that scenario, Japanese investors could regret not keeping more of their money at home.

Beijing Wields a Not-So-Invisible Hand on the Yuan

BY LINGLING WEI
AND SAUMYA VAISHAMPAYAN

BEIJING—China's central bank is using a heavier hand to guide the value of the country's currency, backtracking on efforts to make the yuan more market-oriented as worries about the Chinese economy mount.

The People's Bank of China said Friday that it would tweak the mechanism for setting the yuan's daily fix to prevent big swings against the dollar, an acknowledgment that the country is pegging the yuan's value closer to the U.S. currency.

Since Moody's Investors Service downgraded China's sovereign-debt rating last week, the first such cut since 1989, activity in the market has also indicated the central

bank is trying to send a message to investors to prevent bets against the yuan.

The purpose of the tweak to the model guiding the yuan's fix, already in effect on a trial basis, is to counter a herd mentality that in the past year has pressured the yuan against the dollar, the currency-trading arm of the central bank said. The bank said it would add a countercyclical component to its model but didn't say how it would work.

Each day, China's central bank sets the yuan's rate against the U.S. dollar in the domestic market, and the currency is allowed to trade 2% above or below that level.

The central bank had already taken steps to keep the yuan relatively steady. Since late last year, it has tightened restrictions on money leaving China's

shores and pushed up short-term interest rates, which discourages bets against the yuan with borrowed money.

In recent weeks, it became clear that the central bank was effectively reanchoring the currency to the dollar, a shift from its tactics over the past year of trying to guide it gradually lower against the U.S. currency. Behind the reversal is a Chinese leadership whose priority is economic and political stability ahead of a power shuffle later this year. Beijing also wants to avoid increased trade frictions with Washington.

President Donald Trump has accused China of exploiting the yuan's value to gain advantages over its trading partners. Only two years ago, China's central bank said it was adjusting the mechanism to align the yuan more closely with

market forces. That ambition has since given way to heavy market interventions aimed at propping up the currency.

Keeping the yuan closely aligned with the dollar makes it less alluring for companies and ordinary Chinese to swap yuan for the U.S. currency, slowing capital outflows.

The central bank rarely discusses the shifts in its exchange-rate approach in detail.

Traders said sudden drops in the dollar against the yuan Thursday and again Friday shortly after the market opened suggested the central bank was directing big Chinese banks to sell dollars and buy yuan. China's hand was also evident in the stock market. Rallies in financial blue chips have buoyed the Shanghai Composite Index, which has advanced three consecutive days.



The Shanghai Stock Exchange, above, has benefited from Beijing's intervention, with the main index rising three straight days.

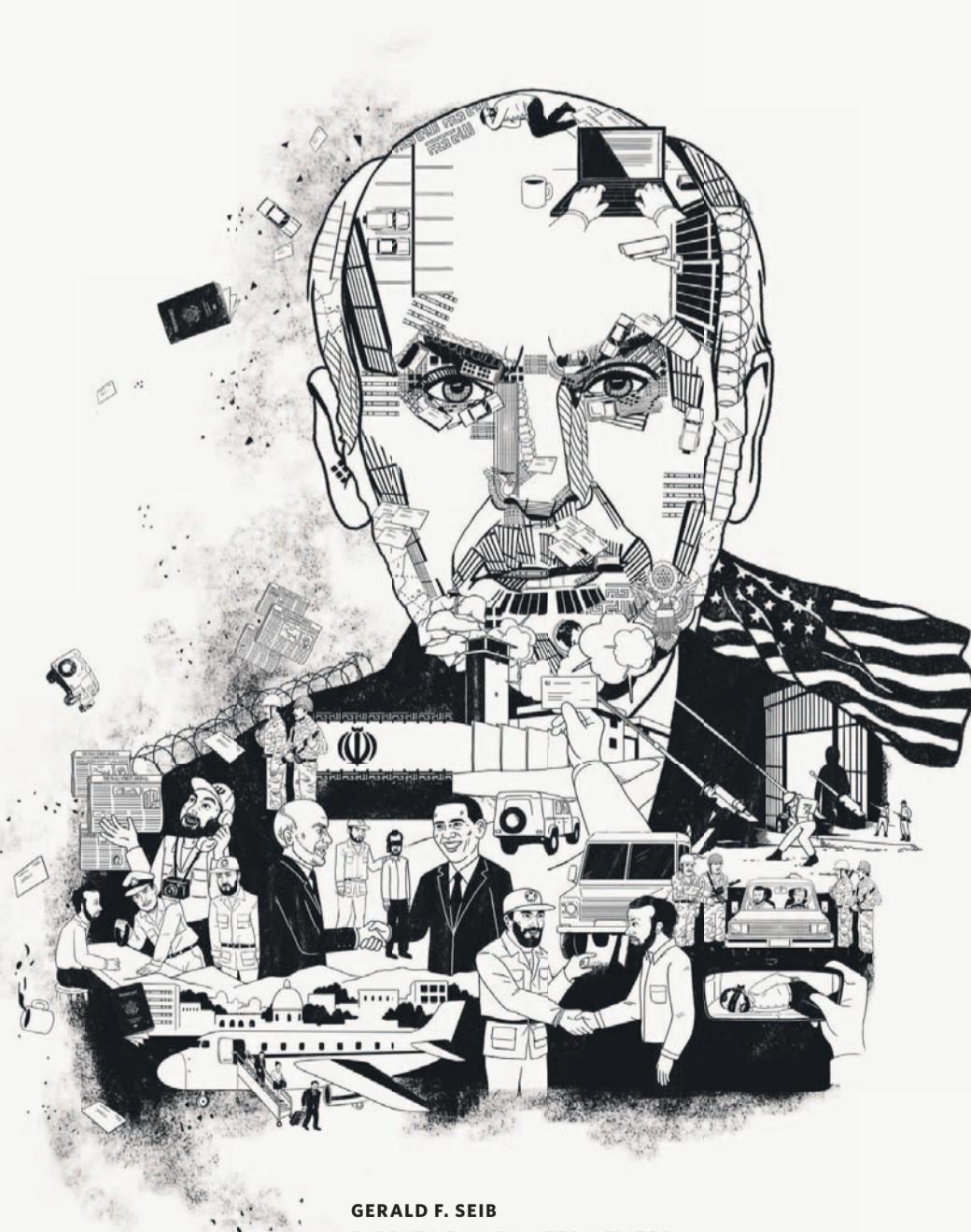
The Face of Real News

Gerald Seib's illustrious career covering politics has taken him around the world and put him face-to-face with some of the biggest players on the global stage—but it has also put him in situations of real danger. In 1987, he was kidnapped and imprisoned for four days on suspicion of espionage by Iranian officials while covering the Iran-Iraq War.

Real journalists and real news from America's most trusted newspaper.

WATCH HIS STORY AT WSJ.COM/GERALD

#TheFaceOfRealNews



MARKETS

Japan's Policies Help to Boost Bitcoin

Closer regulatory scrutiny has increased confidence in the digital currency

By PAUL VIGNA
AND CHIEKO TSUNEOKA

Bitcoin fever has hit Japan, and it is helping the virtual currency go parabolic.

Despite a volatile week in which the virtual currency fell \$400 in a few hours Thursday but still rose on the day, bitcoin has kept streaking to fresh highs. It was up 15% for the week and was up 110% since the end of March as of Friday. On Friday afternoon, it traded at \$2,268, down from its all-time peak of \$2,792 set Thursday.

One of the leading causes: new regulatory policies for bitcoin in Japan are giving businesses and investors a fresh push to use the digital currency. The move is partially the result of the nation's experience with the 2014 collapse of Tokyo-based Mt. Gox, a trading site where 850,000 bitcoin went missing after a cyberattack.

"People gained a lot of confidence in bitcoin as a legal currency," said Yuzo Kano, the founder and chief executive officer of BitFlyer Inc., a Tokyo-based bitcoin exchange backed by big Japanese banks. "We see new joiners on top of existing buyers."

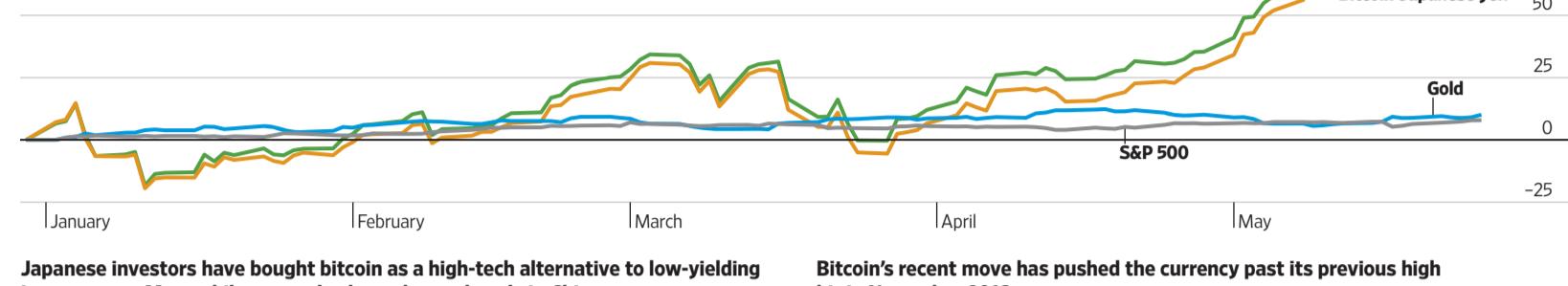
The new Japanese rules enacted by the Financial Services Agency went into effect April 1, establishing bitcoin as a legitimate payment method by putting rules on businesses in the industry. They include minimum capital requirements, segregating customer accounts, and monitoring potential criminal activity.

Trading of bitcoin in yen has surged to 31% of overall trading, according to data from research site CryptoCompare. That is roughly equal to

Banner Year

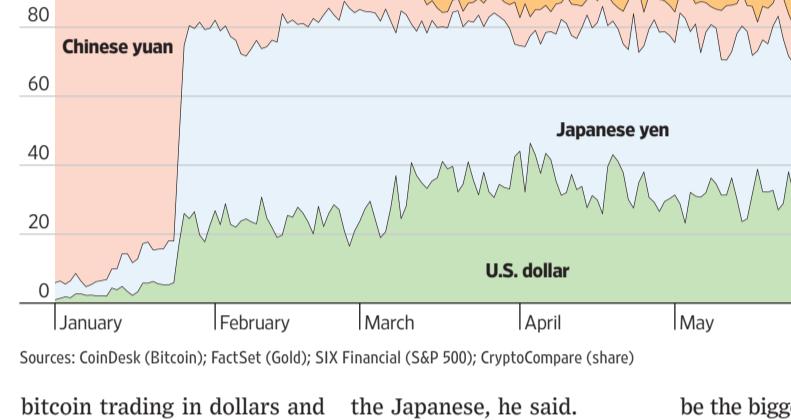
The currency's soaring value has outpaced other investments, while gaps between bitcoin's price in yen and dollars lead to arbitrage opportunities.

Percentage change since 2016



Japanese investors have bought bitcoin as a high-tech alternative to low-yielding investments. Meanwhile, new rules have damped trade in China.

Share of bitcoin trading in major currencies



Sources: CoinDesk (Bitcoin); FactSet (Gold); SIX Financial (S&P 500); CryptoCompare (share)

bitcoin trading in dollars and ahead of bitcoin trading in Chinese yuan, which used to be the biggest market, and South Korean won, an expanding market.

Bitcoin, an alternative to paper money in which trades match up over computers without the involvement of banks or governments, is a natural fit for the Japanese, said Mike Kayamori, the CEO of digital-currency exchange Quoine, the nation's third largest by volume.

The foreign-exchange market and yen trade is central to

the Japanese, he said.

Japan is the world's third-largest economy, and the yen is one of the world's most-traded currencies. Technology and foreign exchange are two major businesses in Japan, and bitcoin allows investors to combine them in one product.

When Quoine was launched 2½ years ago, Mr. Kayamori said, the startup had trouble even getting bank accounts. Once regulators at Japan's Financial Services Agency began their regulatory push, he noticed a change. "The potential is there," he said. "Japan will

be the biggest bitcoin market."

The flood of new money in Japan is resulting in price quotes on Japanese exchanges that are in some cases hundreds of dollars higher than on other exchanges. That gap creates arbitrage opportunities—buying cheap on one exchange, selling at a profit on another—and helping to push the price up.

Japan's experience contrasts with a loss of trading volumes in China. For several years, bitcoin trading in China was unregulated. Without any rules, or even trading fees, Chinese

bitcoin exchanges were completely unrestrained. At its zenith, more than 90% of all bitcoin trading was occurring in China. That changed over the past year, as the People's Bank of China forced the three biggest exchanges to adhere to anti-money-laundering rules and impose trading fees. The bank then forced the exchanges to halt bitcoin withdrawals.

Much of the trading has since moved to Japan, where some Japanese businesses are now starting to accept bitcoin. A discount airline, Peach, said it would begin accepting bit-

coin. Others include utility **Nippon Gas** Co. and electronics retailer **Bic Camera** Inc.

Individual investors in Japan who like bitcoin's anonymity and profit potential are also looking to buy.

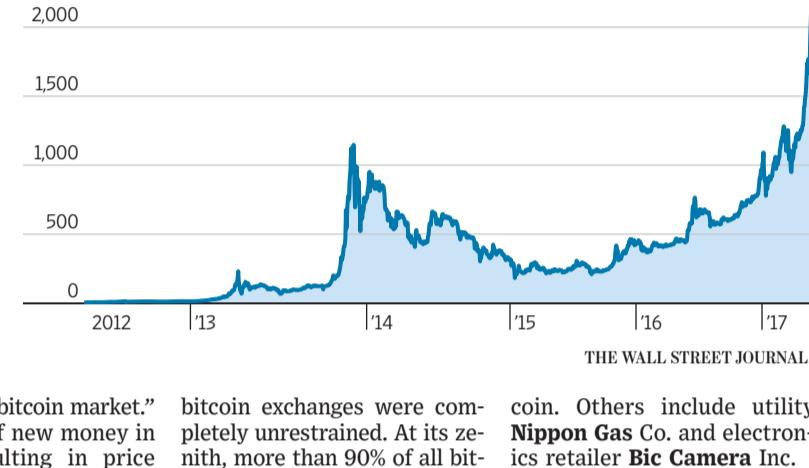
"These days, you hardly get any interest even if you put money in the bank," said Hiroshi Matsuzaki, a 50-year-old who sells housing fixtures. "So I decided to put money bit by bit into virtual currency." He's looking to buy more, but is hesitant given the volatility.

—*Suryatapa Bhattacharya contributed to this article.*

The virtual currency bitcoin has taken off in 2017 due, in part, to new rules in Japan that have made it easier for businesses and investors to deal in the stateless, paperless money.

Bitcoin's recent move has pushed the currency past its previous high hit in November 2013.

Price in U.S. dollars



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Good Times, and Gloom, in Japan

Happy days are here for Japan. If only the Japanese believed they're here to stay.

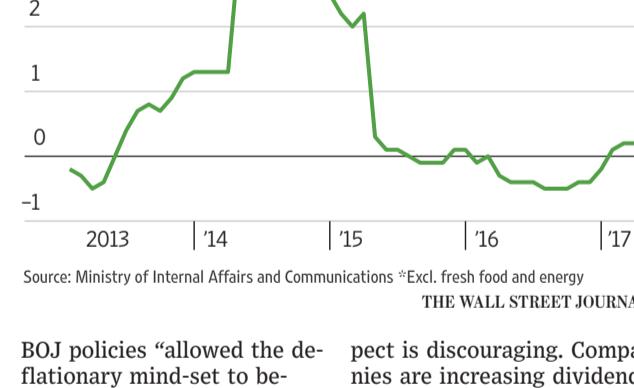
The nascent comeback of inflation appears to be gaining steam. While the pace is still stubbornly slow, consumer prices in April were up 0.3% from a year earlier, data Friday showed, accelerating from March. The core consumer-price index—which excludes energy and food—climbed out of negative territory. And, despite weak global growth and uncertainty, Japan is on its longest run of economic growth in a decade with the lowest jobless rate in two decades—the very picture of recovery.

But hardly anyone in Japan seems convinced. Consumer and business surveys are muted. Bank of Japan Gov. Haruhiko Kuroda said last week that everyone seems to agree “inflation expectations exhibit a certain degree of inertia or persistence,” which is tough to explain.

Longtime Japan watcher Ben Bernanke last week offered an explanation: Earlier

Deflating Hope

Year-over-year change in Japan's consumer-price index*



BOJ policies “allowed the deflationary mind-set to become entrenched.” In a speech at the Japanese central bank, the former Fed chairman commended its more-aggressive policies, which include negative rates, massive quantitative easing and “yield-curve control.”

But are these policies enough? The labor market is the place to look for signs that the deflationary attitude is lifting, and the pros-

pect is discouraging. Companies are increasing dividends and buybacks—up 76% between 2013 and 2016—and boosting capital spending, but labor isn't asking for its share. In wage negotiations, labor unions accept stagnant pay for the promise of more job security, rather than pursue a salary bump now.

How does Japan sustainably boost short-term inflation? Mr. Bernanke advocates coordinating monetary

and fiscal policy more explicitly. By some measures, the Bank of Japan is already pursuing a quasi-fiscal policy, but Mr. Bernanke says a new government spending program backed by an explicit central-bank promise to raise its inflation target even higher might work.

The central bank could finance a fiscal program at 2% of gross domestic product by holding inflation above its target for three years on the premise that inflation would make it easier for the government to pay back debt. Three years of 2% inflation, Mr. Bernanke figures, would reduce debt as a percentage of GDP by 21 points. But even he acknowledges a major hurdle if “Japanese households and firms maintain the skeptical attitude of recent years.”

Things may be inching in the right direction for Japan. But unless there is a surprise breakout of inflation, Mr. Bernanke's more-aggressive suggestions will be on the agenda eventually.

—Anjani Trivedi

OVERHEARD

Got milk?

American dairy farmers do—lots and lots of it.

Sunday afternoon's Indianapolis 500 motor race was set to make a small dent in that enormous glut.

In a tradition going back decades, the winner of the grueling 200-lap contest drinks from and pours over his head a glass bottle of milk.

There were at least three put on ice for the race.

The type of milk consumed depended on who would take the checkered flag.

Some drivers' preferences?

Scott Dixon prefers 2%, as does crossover Formula One driver **Fernando Alonso**. But **Marco Andretti**, scion of a famous racing family, is predictably old school and prefers whole milk.

While the anointing is just a drop in the bucket for the beleaguered dairy industry, at least the Indiana farmer given the honor of delivering the bottle can drown his sorrows for one special day.

Stocks and Bonds Pose A Puzzle

That didn't take long. Stocks have got their mojo back, with the mid-May wobble sparked by U.S. political turmoil fading from investors' attention. Perhaps more puzzlingly, bond investors are enjoying gains, too.

Indeed, there appears to be a fragile truce between asset classes. Bonds have kept their poise even as stocks have gained.

Many of the risks that investors were worried about at the start of the year have failed to turn into real problems, helping stocks to perform well. There has been little U.S. action on topics that might concern markets, such as greater barriers to trade. Europe's elections have offered no shocks. Bonds have taken comfort from signals from central bankers that point to extremely gradual shifts in monetary policy.

But how long can this persist? The answer may lie more in the bond market than in the stock market, in which earnings have been strong, providing fundamental support. Bonds hardly look attractive, with long-dated yields still at remarkably low levels versus prospects for nominal growth.

The path of inflation may hold the key. The pickup in inflation in advanced economies this year has been amplified by the recovery in the price of oil. That effect will diminish, and central bankers are concerned that inflation hasn't become self-sustaining. Both bonds and stocks can make a case for gains: Growth is decent, but inflation is quiescent.

So far, this year has been good for both bond and stock investors. To rely on that benign picture lasting looks risky. —Richard Barley

As OPEC Flails, Oil Companies Are Left Holding the Bag

The Organization of the Petroleum Exporting Countries announced a nine-month extension of deep production cuts Thursday—and oil promptly fell 5%.

Disappointed oil traders had been hoping for sharper reductions. But with U.S. shale producers matching every cut with another ramp up in drilling, a sustained move above \$60 per barrel increasingly looks like wishful thinking, whatever OPEC does.

And while teeth are no doubt gnashing in Riyadh and Tehran, the ones really suffering are companies like Royal Dutch Shell and BHP Billiton, which both made ex-

Wishful Thinking

Brent oil prices

Futures, June 2016 ■ Spot

\$120 a barrel

90 60 30 0

2012 '13 '14 '15 '16 '17

Sources: EIA; Thomson Reuters

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pensive acquisitions near the top of the last price cycle and have been badly hurt by the plummeting cost of U.S. shale production and OPEC's rapidly deflating market.

The firms that bought into this logic are now paying for it. Shell's \$52 billion acquisition of BG, announced in 2015, was initially sold to investors on the assumption of oil bouncing back to at least \$70 a barrel. The crown jewel of BG's oil portfolio is Brazilian offshore pre-salt holdings, which Brazilian oil firm Petrobras says need oil at around \$45 to \$50 a barrel to break even. Australian natural gas, BG's other key asset, is also among the highest-cost producers in the world, with many projects requiring north of \$10 per million British thermal units to make money. With current oil and Asian natural-gas prices at \$50 a barrel and \$6

per mmBtu respectively, those projects will presumably be hard-pressed to make solid returns.

Resource-sector companies are forever caught between the need to replenish reserves and placate shareholders with decent returns. The temptation will always be to reach for new acquisitions at the top of the cycle when companies feel flush, and justify them with buoyant future prices.

Next time a company executive confidently sells a project's big returns based on futures prices, remember what happened over the past five years.

—Nathaniel Taplin