

# THE WALL STREET JOURNAL.

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EUROPE EDITION

DJIA 21753.31 ▼ 1.07%

NASDAQ 6375.57 ▼ 0.93%

NIKKEI 19385.81 ▼ 0.63%

STOXX 600 373.71 ▼ 0.13%

BRENT 53.38 ▲ 1.99%

GOLD 1339.20 ▲ 1.11%

EURO 1.1919 ▲ 0.18%

## What's News

### Business & Finance

**L**ego is slashing 1,400 jobs amid a sharp drop in sales, as toy makers face competition from digital distractions for children. **A1**

◆ **Boeing raised** concerns over United Technologies' proposed deal for Rockwell Collins and threatened to cancel some contracts. **B1**

◆ **The Dow slid** 234.25 points to 21753.31 as threats from North Korea and another hurricane weighed on stocks. **B10**

◆ **Draghi is expected** to signal as soon as Thursday's meeting that the ECB will start winding down its \$2.7 trillion stimulus program. **A3**

◆ **The eurozone economy** appears to be slowing slightly but remains on course for its strongest year since 2010, surveys show. **A5**

◆ **"Angry Birds" maker** Rovio plans an IPO that could value the mobile-game firm at about \$2.38 billion. **B1**

◆ **Takeda said** another multibillion-dollar deal was unlikely soon, allaying fears over the firm's debt load. **B2**

◆ **Merck KGaA put** its consumer-health unit on the block as the firm focuses on developing prescription drugs. **B3**

◆ **France's Schneider** has agreed to take control of British engineering software provider Aveva. **B3**

◆ **Arnstein & Lehr** is merging with Saul Ewing amid pressure on law firms to expand or risk perishing. **B2**

◆ **U.S. factory orders** fell sharply in July, driven by a drop in aircraft orders. **A7**

### World-Wide

◆ **Congress returned** from its summer break to grapple with keeping the federal government open, paying U.S. creditors and passing a hurricane-aid bill. **A1**

◆ **Trump said** he would let Tokyo and Seoul buy more-sophisticated U.S. military gear in reaction to North Korea's nuclear blast. **A1**

◆ **Trump is ending** a program that protects undocumented immigrants who entered the U.S. as children from deportation. **A6**

◆ **Merkel said** EU leaders should decide whether to suspend or end membership talks with Turkey, softening her stance toward Ankara. **A3**

◆ **The Syrian army broke** a three-year Islamic State siege in the eastern city of Deir Ez-zour, handing the extremists a significant setback. **A4**

◆ **Cambodia's opposition** leader was formally charged with treason for allegedly conspiring with the U.S. to topple the government. **A4**

◆ **Hurricane Irma grew** into one of the most powerful storms ever recorded over the Atlantic Ocean. **A7**

◆ **Houston and the EPA** are investigating a potentially hazardous plume of a carcinogenic substance. **A7**

◆ **Putin warned** the U.S. against arming Ukraine, saying a delivery of weapons could inflame hostilities. **A3**

◆ **Brazilian police** raided the home of the country's Olympic committee president in a bribery probe. **A5**

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## U.S. Is Ending Its Safe-Harbor Program for Immigrants



**ROLLBACK:** Attorney General Jeff Sessions unveiled the shift, saying President Barack Obama overstepped his authority in creating the DACA program, which protects undocumented immigrants who entered the U.S. as children from deportation. **A6**

## FEAR NOT ROBOT APOCALYPSE

Automation commonly creates more, and better-paying, jobs than it destroys; the retail story

By GREG IP

For retailers, the robot apocalypse isn't a science-fiction movie. As digital giants swallow a growing share of shoppers' spending, thousands of stores have closed and tens of thousands of workers have lost their jobs.

Belinda Duperre, who sold jewelry at Sam's Club in Fall River, Mass., was one. In early 2016, the struggling store closed.

But Ms. Duperre, a lifelong resident of the once-thriving factory town an hour south of Boston, went from victim of the

digital revolution to beneficiary. Amazon.com Inc. announced plans to hire 500 full-time workers for a new 1.2-million square foot fulfillment center on the outskirts of town. "I was just dying, waiting for Amazon to open," she recalls. She was among the center's first hires last fall; full-time employment has since soared to about 2,000.

Ms. Duperre earns \$2 more per hour at Amazon than at Sam's, in part because she's a lot more productive. At Sam's, she served perhaps one to 20 customers a day. At Amazon, she packs 75 to 120 boxes an hour that are then

whisked via high-speed automated conveyor belts to fleets of trucks that fan out across the region. The work is more physically demanding, but Ms. Duperre, 54, sees a bright side. "I lost 25 pounds working here," she says. "This is a free gym membership."

The brick-and-mortar retail swoon has been accompanied by a less headline-grabbing e-commerce boom that has created more jobs in the U.S. than traditional stores have cut. Those jobs, in turn, pay better, because its workers are so much more productive.

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### On a Tear

The euro has surged since Emmanuel Macron won the French presidency. **A3**

#### How many dollars €1 buys



## Trump Says U.S. May Sell More Arms to Asia Allies

By JONATHAN CHENG

SEOUL—President Donald Trump signaled his willingness to let U.S. allies in Asia buy more sophisticated American military equipment in reaction to North Korea's most recent nuclear blast, as Pyongyang issued a fresh anti-U.S. message.

Mr. Trump on Tuesday said he would allow Japan and South Korea to buy the military wares, two days after North Korea tested its sixth

and by far most powerful nuclear bomb, raising alarm in world capitals from Washington to Beijing.

North Korea, in turn, issued a defiant response on Tuesday to U.S. attempts to impose new sanctions for that nuclear test, declaring that it wasn't cowed by the Trump administration's warnings and hinting at an unspecified "counteroffensive." Pyongyang said that Mr. Trump was "begging for war"—not North Korea—as

U.S. ambassador to the United Nations Nikki Haley said on Monday during an emergency Security Council meeting.

Mr. Trump's tweet underscored his message in a week-end call with South Korean President Moon Jae-in. In that call, the White House said Mr. Trump agreed to scrap payload limits on South Korean missiles under a decades-old U.S.-South Korean treaty, allowing Seoul to use more powerful

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## Lego Eliminates 1,400 Positions

By SAABIRA CHAUDHURI

Toy maker Lego A/S is laying off 1,400 workers and thinning management, in the face of a sharp drop in sales and increased efforts to cater to the world's increasingly tech-savvy children.

Like Mattel Inc. and other toy makers, Lego is being buffeted by competition from a host of digital distractions for children, including playing videogames and watching You-

Tube videos. In response, the industry has tried to modernize toys for the digital age: Lego has rolled out its own videogames based on its plastic bricks as well as a set of programmable robots.

The shift, however, hasn't come fast enough to counter eroding sales of more traditional toy lines. Lego said Tuesday its overall sales in the first half fell 5% from a year earlier. In July, Mattel said its half-year sales fell by more

than 6%.

Mattel has cut its dividend to free up cash and revitalize its approach to toy development. Newly installed Chief Executive Margo Georgiadis, a former Google executive, said the U.S. company needed "to adapt" to the modern world. She said she wanted all of Mattel's key brands, which include Barbie and Hot Wheels, to include not just physical toys, but also video content

*Please see LEGO page A2*



WORLD NEWS

# Why Xi Refuses to Go Ballistic on North Korea



CHINA'S WORLD

By Andrew Browne

SHANGHAI—At a moment when Xi Jinping desperately craves stability, Northeast Asia is in turmoil.

The escalating nuclear crisis on the Korean Peninsula presents Mr. Xi with an acute challenge just weeks ahead of a Communist Party Congress expected to return him to power for another five-year term.

Kim Jong Un is playing him, as he does U.S. President Donald Trump, by ignoring admonishments and warnings from Beijing and Washington alike.

The North Korean dictator set off his country's most powerful nuclear explosion yet over the weekend. The timing could hardly have been worse for Mr. Xi, who was preparing to lead a Chinese-hosted summit of major emerging economies.

The summit was intended to bolster Mr. Xi's international standing ahead of the pageantry of next month's Congress. Instead, Mr. Kim made a mockery of the Chinese strongman by exposing Beijing's inability to rein in its neighbor's nuclear ambitions.

If Mr. Kim is calculating that Mr. Xi won't risk precipitous action against him

ahead of the 19th Party Congress, he's likely correct.

North Korea has become a wild card for Mr. Xi, and it grates on the Chinese leader to be toyed with, no less than it angers Mr. Trump.

But this is a critical moment of leadership transition for Mr. Xi, and Mr. Kim knows it. The Chinese president seeks elevation to the pantheon of Chinese Communist greats along with Deng and Mao. Some speculate Mr. Xi wants a setup that would enable him to extend his tenure beyond five years.

Any missteps ahead of the Congress could open Mr. Xi to attack from the many enemies he's made and derail his legacy.

There is plenty more the Chinese president could do to punish Pyongyang and put Mr. Kim in his place, from expelling North Korean workers to cutting off the country's oil and food lifelines.

However, the dangers of reacting forcefully at this moment are too great for Mr. Xi.

From his perspective, the most obvious peril is squeezing North Korea so hard it eventually collapses, spilling desperate refugees across the border into an area of China with a large and potentially restless ethnic Korean population.

Worse, such a scenario, likely bringing down the Pyongyang regime, would be precisely the outcome that Washington seeks. It could bring U.S. and South Korean troops up to the border, where they would command the gateway to China's industrial heartland and routes



North Korea is a wild card for Xi Jinping, who wants stability for a Communist Party Congress.

FRED DUFOUR/AGENCE FRANCE-PRESSE/GETTY IMAGES

to the capital.

Thus, Mr. Xi would be sur-rendering the impressive gains he has made in his first term in a geopolitical contest with the U.S. for influence in East Asia.

Bending to U.S. pressure on North Korea is politically unacceptable. Mr. Xi's "China Dream," after all, is about restoring Chinese pride after a century of foreign humiliations.

There are even perverse benefits to Beijing from Mr. Kim's nuclear brinkmanship: It keeps the U.S. military pinned down in Northeast

Asia, and to the extent that it casts doubt on Washington's resolve to defend South Korea and Japan—would Mr. Trump risk San Francisco for Seoul or Tokyo?—it drives a wedge between the U.S. and its two key Asian allies.

Furthermore, letting North Korea go would give encouragement to political forces in China that Mr. Xi spent his first term ruthlessly crushing—dissidents, human-rights activists and others who might read in Mr. Kim's demise a message about the vulnerabilities of their own socialist leaders.

The party's prestige is on the line. Among the People's Liberation Army, in particular, North Korea still evokes a revolutionary nostalgia; Mao's son died in the 1950-53 Korean War, in which Chinese forces fought the Americans to a standstill, a proud boast to this day.

The upshot is that Mr. Xi, on the brink of his greatest political triumph, looks impotent in the face of Mr. Kim's increasingly audacious provocations. The weekend's suspected thermonuclear blast just 50 miles from the

## LEGO

Continued from Page One and gaming components.

Lego, a family-controlled Danish firm, has in some ways been ahead of the curve in efforts to experiment digitally, even as it has promised to remain committed to its physical brick sets. Following the launch of its Chima toy line in 2013, for instance, it introduced related online games, videos and a TV series. It has created Lego Boost, a robot-building kit that combines computer coding with elements of physical construction. And in February, the company launched an app-based social network—promising strict moderation and privacy controls—that lets children share their Lego creations.

The digital offerings aren't threatening to wipe out physical toys anytime soon. Kids "are still reading books, still using Legos, people are making a place for physical toys," said Judy Ishayik, owner of Mary Arnold Toys, an independent toy shop in Manhattan. But, she said, "there's more dual play."

She pointed to Crayola, owned by Hallmark Cards Inc., which rolled out an app that turns coloring book creations into animated online representations. Hasbro Inc.'s Love2Learn Elmo app provides



RINGO CHIU/ZUMA PRESS

Lego has said a push in markets such as the U.S. failed to deliver growth. Above, a California event.

children with a way of interacting verbally with their Elmo dolls.

To help accelerate its own digital push, Lego recently picked a tech-savvy Danish executive as its next chief executive. Niels B. Christiansen, the 51-year-old former boss of Danish industrial group Danfoss A/S, takes the reins next month.

In his nine years heading Danfoss, Mr. Christiansen is credited with making operations more efficient and agile, and investing in research and

development as well as digital capabilities. At Lego, he takes over from outgoing Chief Executive Bali Padda, who will have been in the job just nine months.

Lego's half-year results, disclosed Tuesday, underscore Mr. Christiansen's challenge. Lego said the sales decline was its first in 13 years. It didn't break out sales figures regionally or by category, but it had previously said a marketing push in some of its biggest, most mature markets, including the U.S., was failing to

lift sales.

In response, Lego said it would cut roughly 1,400 jobs, or about 8% of its global workforce. It is also working to reduce layers of management and administration to speed up product rollouts.

"We are simply not executing well enough on our activities across the business, on product development, marketing, sales," said Lego Brand Group Chairman Jørgen Vig Knudstorp. Lego Brand Group oversees the Kirk Kristiansen family's 75% stake in Lego, as

well as interests in Legoland theme parks and an education business.

Lego's results sent tremors through the toy industry. Shares of Mattel were down 1.5% and Hasbro stock was off nearly 3% in afternoon trading in New York.

Some of Lego's recent woes aren't related to the shift toward digital toys. Lego products tied to last year's "Star Wars" movie, "Rogue One," didn't generate the same excitement as for the prior installment, "The Force Awakens," which was the first "Star Wars" movie in a decade.

Another big bet that didn't deliver: the company's second movie, called "Lego Batman."

Toys "R" Us Inc. said toys tied to the movie missed sales goals, even though Lego spent heavily to try to boost interest. "It didn't manifest itself into the kind of sales momentum that we expected or they expected," Toys "R" Us Chief Executive David Brandon said in June.

Mr. Knudstorp said the company needs to slim down to help speed product development and marketing efforts. In an interview, he said a new product goes through 20 different teams on average before being ready for global launch. He said the organizational heft also makes it difficult to connect with retailers.

"The car has gone off road and landed in a ditch and now

border rattled windows on the Chinese side and raised official alarms about nuclear contamination.

During his first five years in office, President Xi proved to be a master of control.

His Asia policy has followed a pattern: swiftly ratcheting up tensions with U.S. friends and allies—Japan, Vietnam, the Philippines—then abruptly de-escalating. By switching on and off the threat of force, Mr. Xi enhanced Beijing's position in the region. His strategy at times has made the U.S. look weak, while burnishing his standing back home with an audience appreciative of China's ascendance.

However, in the countdown to the 19th Party Congress, Mr. Xi requires stability more than adventure to safeguard the legacy he's built and secure his future dominance. He has taken regional flashpoints off the boil, most recently standing down in a territorial dispute that brought Chinese and Indian troops face-to-face in Bhutan. At the same time, he's tamed disruptive forces threatening the domestic economy and subdued political foes.

Now, Mr. Kim threatens to unleash chaos on China's doorstep.

The crisis calls for Chinese action; as ever, the road to Pyongyang runs through Beijing. The irony is that the most activist Chinese leader on the global stage since Mao is paralyzed by domestic politics at a moment when his intervention is urgently required. Mr. Xi risks a coronation with the region in flames.

we have to pull it out and get it back up to speed again," he said.

Mr. Knudstorp, who served as CEO from 2004 until the end of 2016, acknowledged his share of the blame for the recent trouble. A former kindergarten teacher and McKinsey consultant, Mr. Knudstorp was the first person outside Lego's controlling family to lead the company. He took over after Lego sales had slowed sharply and heavy debt threatened bankruptcy.

He refocused the company on its iconic brick sets, and scaled back on the array of watches, clothing, dolls and other merchandise the company had rolled out. Initially, he also cut jobs, outsourced manufacturing and simplified the company's management structure. All that buoyed sales, giving Lego double-digit growth for more than a decade.

More recently, though, he boosted staff to keep up with resurgent demand—and the expectation it would continue to boom. Between 2012 and 2016, Lego added 7,000 new employees.

"This investment has not materialized into a good harvest," he said.

### CORRECTIONS & AMPLIFICATIONS

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## Refugee Numbers Soar In Bangladesh

An influx of Rohingya refugees fleeing violence in Myanmar has pushed aid services in Bangladesh to the brink, with established camps already beyond capacity, aid workers said.

A total of 123,000 refugees (such as the people shown to the right) near the Bangladesh border, have fled western Myanmar since Aug. 25, according to the United Nations refugee agency. "The numbers are very worrying. They are going up very quickly," said Vivian Tan, a spokeswoman for the agency.

The agency said it needed land so it could set up camps for refugees arriving traumatized and in need of medical help.

"Most have walked for days from their villages—hiding in jungles, crossing mountains and rivers with what they could salvage from their homes," the agency said. "An unknown number could still be stranded at the border."

—Associated Press



KIM ASAD/AGENCE FRANCE-PRESSE/GETTY IMAGES



## WORLD NEWS

# ECB Expected to Signal End to Stimulus

By Tom Fairless

FRANKFURT—The European Central Bank is walking a tightrope as it prepares for its most momentous decision in years: How to wind down its giant bond-buying program without derailing the euro-zone's economic recovery.

With the region's economy finally showing some vigor after years of painfully slow growth and political tensions there fading, ECB President Mario Draghi is expected to signal as soon as Thursday's policy meeting that the bank will start winding down its €2.3-trillion (\$2.7-trillion) stimulus program, known as quantitative easing or QE.

It isn't clear whether Mr. Draghi will send that message on Thursday or do so in October. Either way, ECB officials

have indicated that the QE program would be phased out by the middle of 2018.

Investors are on edge, ready to unload eurozone government bonds and buy the euro currency as soon as the central bank clearly signals the retreat is coming.

ECB officials have given no fresh policy signals since late June, when Mr. Draghi roiled financial markets by suggesting in Sintra, Portugal, that QE's days might be numbered, noting that less stimulus would be needed as the economy accelerates.

The ECB's stimulus policy "does not fit at the moment with the state of the economy," said Claudia Broyer, an economist with Allianz in Frankfurt. She expects QE, currently running at €60 billion a month, to come to an end by

the middle of next year.

The hypersensitivity of financial markets is making ECB officials cautious, however, and could delay their exit plans. They are eager to avoid repeating the policy error four years ago of the Federal Reserve, which triggered a sharp rise in U.S. government-bond yields when it announced its own withdrawal from QE.

Even before the ECB has clearly signaled its intentions, the euro has been surging, rising more than 12% against the dollar over the past five months. As growth has strengthened, the prospect of political upheaval in the euro-zone has eased with the early May victory in the French presidential election of centrist Emmanuel Macron over far-right candidate Marine Le Pen.

A strong euro complicates



Mario Draghi

the ECB's job because it makes the region's exports more expensive in world markets and reduces the price of imports, weighing on economic growth and inflation.

ECB officials "have really been wrong-footed" by the euro's recent rise, said Martin

Lück, chief German strategist at BlackRock in Frankfurt.

Another headache is the Fed, which holds its own policy meeting in two weeks. The euro's rise against the dollar partly reflects investors' belief that the Fed won't raise interest rates as aggressively as they once thought. U.S. inflation has softened unexpectedly, and President Donald Trump seems less likely to push through bold spending plans that might require tighter monetary policy.

The ECB "clearly expected the new U.S. government to do more in terms of economic expansion, which would have made the exchange rate less of a worry," said Mr. Lück.

Eurozone inflation remains weak. It rose to 1.5% in August from 1.3% the previous month, but is unlikely to move much

higher over the next two years, echoing weakness in the U.S. and Japan. Some analysts think the ECB shouldn't move until inflation is closer to its target of just below 2%.

But pressure is building on the ECB to shift course.

In Germany, Europe's largest economy, the ECB's easy-money policies are a hot topic in national elections, scheduled for Sept. 24. In a televised debate on Monday, Alice Weidel, lead candidate for the far-right Alternative for Germany party, attacked the ECB's policies for fueling higher housing costs in Germany.

Last month Germany's top court indicated that QE might violate German law, although it ultimately kicked the decision up to the EU's highest court, the European Court of Justice in Luxembourg.

## Russia Unveils Its Own Controversial Statues

The founder of the KGB's precursor stirs unease in a land where memories of repression still touch a nerve

By Thomas Grove

MOSCOW—As Confederate statues come down in the U.S., Russia is resurrecting figures from its own thorny past.

Soviet statues tumbled precipitously during the breakup of the U.S.S.R. But under President Vladimir Putin and his project to restore Russia's status as a great power, monuments to the often painful Soviet and monarchic history have been rising again.

On Tuesday, city leaders in Kirov, 500 hundreds of miles east of Moscow, unveiled a statue of Felix Dzerzhinsky, a Bolshevik revolutionary and the founder of the Cheka, the dreaded Soviet secret police, later known as the KGB.

In Mr. Putin's Russia, memory is selective. Backers see the statue as a tribute to a man who helped build a formidable intelligence service. But it has angered the descendants of those persecuted: Dzerzhinsky oversaw the Red Terror, the execution of hundreds of thousands of citizens during Russia's 1917-1922 Civil War, often without trial.

"Anyone who has experienced this dark chapter of our country's history can't be indifferent about someone who created the Cheka," said Ariadna Kozina, an activist who was raised on her father's stories of serving in a prison camp. "The U.S. may be pulling down its statues, but this is the glorification of all the wrong parts of the past."

While embracing the Soviet era, Mr. Putin and others have adopted a sometimes ambivalent approach to figures like dictator Joseph Stalin, acknowledging their crimes but leaving



A refurbished statue of Felix Dzerzhinsky stands in Moscow's Muzeon Park.

room to honor them. The Russian leader argued in the case of a massive Dzerzhinsky statue brought down in Moscow that maintaining such monuments was "about respect for every period of our history."

The country has found space in exile for some of them. The refurbished Dzerzhinsky statue, known as "Iron Felix," as well as statues of Stalin and Vladimir Lenin, the Soviet Union's founder, are in a park along the Moscow River, once known as the Park of the Fallen Heroes.

Russia's new monuments often serve as signals as officials shape the country's view of itself as self-reliant, traditional and anti-Western. Stalin, despite his role in terrors that killed millions, has seen his star rise with

several new statues in the past few years.

A 50-foot statue of Prince Vladimir, the 10th-century monarch credited with bringing Christianity to Russia, was erected across from the Kremlin last year. At the opening ceremony, Mr. Putin praised the prince's embrace of traditional values.

Likewise, in 2012, when Mr. Putin's government was flirting with the idea of economic modernization, Moscow authorities erected a statue of Russian imperial reformer Pyotr Stolypin, who advocated land and market reforms for Russia's peasants.

Under Mr. Putin, Russia's security service, now known as the FSB, has grown more powerful, placing more focus on figures like Dzerzhinsky.

In Kirov, backers of the statue praised him as an in-

fluent figure who deserved to be honored, despite his infamy.

"Dzerzhinsky established all of this and the code of the Chekist has remained," Vladimir Zhuravlev, a member of Kirov's city council, told local media.

But memories of repression still touch a nerve. In June, Mansur Magdeyev, chairman of an organization for victims of Soviet repression, said he wrote to Mr. Putin, asking him to halt the erection of the statue, but received no reply.

"We are the children of the repressed," said Mr. Magdeyev, whose uncle was shot in the Siberian city of Irkutsk in 1937. "We remember history differently than the way it is taught in propaganda."

Kremlin spokesman

Dmitry Peskov said he was unaware of any response to Mr. Magdeyev's request.

Local activists say more than 1,300 residents of Kirov have some personal or family connection to the mass murders carried out under Communist rule, either in the repressions overseen by Dzerzhinsky or in Stalin's Great Terror, a wave of arrests and executions carried out by the Soviet secret police in the late 1930s.

Restoring Dzerzhinsky to a place of honor reminds Mr. Magdeyev of the whitewashing of history by Soviet textbooks. One local woman, who said her father was killed by secret police in 1937 justified her support for the statue by pointing to the Soviet narrative that emphasizes Dzerzhinsky's work on behalf of orphans.

Like Confederate generals, the figure of Dzerzhinsky has been a stand-in for larger conflicts in Russian history. "Iron Felix" once stood in what is now Moscow's Lubyanka Square, across from the KGB headquarters.

It was removed and defaced after a failed putsch by Communist hard-liners that led to the collapse of the Soviet Union in 1991. Since then, Russia's Communist Party, the country's second most popular, has been pushing to restore it to its former place.

Monuments to Soviet soldiers of World War II have also been defaced in Eastern European countries.

But in Russia, many favor the restoration of Soviet era statues, pollsters say. "It's a result of the Putin policy," said Lev Gudkov, the head of Levada Center, Russia's top independent pollster. "People want to reconnect to the idea of Russia as a great power."

## Putin Tells U.S. Not To Arm Ukraine

By James Marson

MOSCOW—President Vladimir Putin said that any delivery of weapons by the Trump administration to Ukraine's government could inflame hostilities and cause Russia-supported separatists to expand the theater of conflict.

The comments on Tuesday are the Kremlin's starkest warning yet about the potential consequences of any deliveries, and underscore the dilemma the White House faces as it considers sending weapons.

Kiev has fought a three-year war against a separatist movement in eastern Ukraine that Russian and Western officials say is fomented and directed by Moscow and supported by direct Russian military interventions. Russia says the separatists are independent actors and denies its military supports them.

"If American weapons reach the conflict zone, it's hard to say how the declared republics will react," Mr. Putin told reporters on a visit to China. "Perhaps they [the separatists] will send the weapons they have to other zones of the conflict, which is sensitive to those who are causing problems for them."

The Pentagon and U.S. State Department have drawn up plans to supply Ukraine with antitank missiles and other weaponry and are seeking approval from the White House, according to U.S. officials.

Mr. Putin said Tuesday weapons deliveries wouldn't change the situation, and would only cause more deaths. Ukrainian officials say deliveries would deter Russia from attempts to advance further.

## Merkel Dials Down Tone on Ending Turkey's EU Bid

By Andrea Thomas

BERLIN—German Chancellor Angela Merkel said European Union leaders should decide whether to suspend or end membership talks with Turkey at its summit next month, backtracking from her call to end accession talks.

Speaking to the lower house of parliament in the final debate ahead of the Sept. 24 general election, Ms. Merkel said the bloc's leaders should debate on the issue at the EU summit next month, as any public disagreement would bolster Turkish President Recep Tayyip Erdogan amid concerns in Europe over Turkey's crackdown on political dissent.

"Relations with Turkey are of great importance. I will therefore advocate for us to adopt decisive actions but that we act jointly and talk with our European partners," said Ms. Merkel, who polls predict to be the front-runner with a 13-percentage-point lead over her rival Social Democrats—currently junior coalition partner in the government.

"Nothing would be more astonishing than if we in Europe publicly fall out over how to

deal with Turkey in plain sight of President Erdogan. This would dramatically weaken the European position and I can only advise against this."

Ms. Merkel's challenger from the center-left Social Democrats, Martin Schulz, in a television debate with the chancellor on Sunday said he would end accession talks with Turkey if he became chancellor.

Ms. Merkel was first more careful in her response to the surprise announcement. But toward the end of the debate she said she was also in favor of ending the membership talks, which her conservative parties hadn't supported when they were taken up in 2005.

The comments prompted European Commission spokesman Margaritis Schinas to stress that such a decision wasn't for Germany alone but for member states to take.

"We are very concerned with the developments as they're unfolding," he said Monday.

Mr. Erdogan's spokesman also criticized the Germans' comments.

"It is not a coincidence that our President Erdogan and Turkey were central to yesterday's debate between Merkel



Chancellor Angela Merkel confers with Defense Minister Ursula von der Leyen in parliament.

and Schulz," spokesman Ibrahim Kalin tweeted on Monday. "Attacking Erdogan-Turkey, in a fashion disregarding Germany and Europe's main and immediate problems, is a reflection of the narrowing horizons in Europe."

Strained relations between Germany and Turkey feature high in the election campaign. Recent arrests of German citizens for what Berlin says are political reasons have angered the German government, which reacted by issuing a travel ad-

visory for the country and threatening cuts in aid.

During the lower-house debate, Ms. Merkel also called North Korea's nuclear tests a "flagrant breach of international conventions" and said additional sanctions would be

urgently needed.

But she also warned a military reaction from the West would be the wrong response. "There can only be a peaceful and diplomatic solution for which we, however, have to make every possible effort," she said.

European foreign ministers at their meeting this week are expected to discuss additional sanctions against Pyongyang, a move that U.S. President Donald Trump supported during a phone call with Ms. Merkel on Monday. "Europe has an important voice in the world and it must use this voice," she said.

U.S. Ambassador to the U.N. Nikki Haley on Monday called for "the strongest possible measures" against North Korea at an emergency meeting of the United Nations Security Council.

Divisions remain on how to respond to North Korea's provocations, with the U.S., France, Germany, the U.K., Japan and South Korea calling for sanctions while China and Russia are emphasizing direct talks.

—Emre Peker in Brussels and Erdem Aydin in Istanbul contributed to this article.



WORLD NEWS

# Syria Advances on ISIS in Key Outpost

Race to retake Deir Ezzour pits Damascus and its allies against the U.S.-led coalition

The Syrian army broke Islamic State's three-year siege of the eastern city of Deir Ezzour on Tuesday, state media said, laying the groundwork for a battle to retake the extremist group's most important remaining stronghold and the lucrative oil fields it controls there.

By *Maria Abi-Habib in Beirut and Nour Alakraa in Berlin*

The regime overcame fierce resistance by Islamic State to make the significant advance, opposition activists said. Syrian military units moved in from the western side of Deir Ezzour province and linked up with another brigade inside one of two government-held enclaves inside the provincial capital. The second enclave remains besieged.

“Army units, which have been advancing from the west side of [Deir Ezzour] province, have met with the garrison of the 137th Regiment this afternoon, breaking the siege imposed on the city for more than three years,” re-



Syrian troops and pro-government fighters stand outside the city of Deir el-Zour, the most important remaining ISIS stronghold.

ported the state-controlled Syrian Arab News Agency, or SANA.

As Islamic State's hold over Syria dwindles, there is a race to retake Deir Ezzour, pitting the Syrian military and its allies against the U.S.-led coalition and the ground force it backs—the Syrian Democratic

Forces. Whoever assumes control over the province's oil fields will have one of the biggest bargaining chips as Syria's war, in its seventh year, winds down.

The U.S. hopes to both capture Islamic State leaders and intelligence in the province to unravel the extremist group's

networks and glean information about any plans for future attacks in the West.

The advances in Deir Ezzour are a boon to the Damascus regime, which the opposition and its international supporters have accused of failing to battle Islamic State in the past and focusing in-

stead on fighting rebels.

But as the weakened rebels increasingly become nonactors in the conflict, the regime has been thrust into greater confrontation with Islamic State.

The gains bring the Syrian army closer to the key city of Mayadeen in Deir Ezzour

province, some 30 miles away from the site of the government's latest advance. Islamic State has ushered its leadership and most valued equipment to Mayadeen—including military gear and prisoners—as it has been dislodged from cities in Syria and Iraq, such as Raqqa and Mosul, over the past year.

Mayadeen also sits near Syria's most important oil fields, which Islamic State controls and uses to fund its operations.

The government's gains could still be reversed. The regime military base in the first enclave is still surrounded on three sides by Islamic State fighters and the second government enclave in the city is still fully surrounded by Islamic State.

The Syrian military now must connect up the barracks and surrounding neighborhoods it controls in the western enclave with neighborhoods in the second enclave near the city's airport less than a mile away to the east.

The siege of Deir Ezzour has put some 93,000 civilians trapped in the city's government enclaves at risk of starvation as food supplies ran low, according to the United Nations. High-altitude air-drops supplied everything from foods to basic medical supplies.

## Cambodia Charges Opposition Leader

Associated Press

PHNOM PENH, Cambodia—Cambodia's opposition leader was formally charged with treason for allegedly conspiring with the U.S. to topple the government and he could face up to 30 years in prison if convicted.

Kem Sokha had been expected to lead his Cambodia National Rescue Party in next year's election in a strong challenge to the ruling Cambodian People's Party of Prime Minister Hun Sen, who has held power for three decades. The opposition party has denied the treason allegation, saying the charge is politically motivated.

Kem Sokha's Sunday arrest came as a media crackdown was getting under way. Some radio stations, among the few mass media to carry voices critical of the government, were shut down for alleged regulatory breaches and the English-language Cambodia Daily, also independent of the government, was forced out of business after being presented with a huge but disputed tax bill.

Phnom Penh Municipal Court spokesman Ly Sophana said Tuesday that Mr. Kem Sokha was charged following a thorough investigation, including interrogation and examination of the evidence. The crime is punishable by 15 to 30 years in prison.

A statement issued by the court said Mr. Kem Sokha secretly conspired with a foreign country to carry out an act harmful to the social order, which could cause unrest. It said he had been carrying out his plan since 1993 to topple the government.

Speaking to 4,000 Cambodian garment-factory workers on Sunday, Mr. Hun Sen said Mr. Kem Sokha had colluded with the U.S. and warned the opposition party it could be dissolved if it defended him. He provided no proof for his claim.

The government appeared to have based part of its claim against Mr. Kem Sokha on a video clip that showed the opposition leader giving a speech in which he described a grass-roots political strategy to challenge Mr. Hun Sen with U.S. support.

The clip, which was released by the government Sunday, was published on YouTube by the Australia-based Cambodia Broadcasting Network in 2013. In it, Mr. Kem Sokha says the U.S. hired American professors and experts in America and Canada “to advise me on [a] strategy to change the leadership” in Cambodia.

## Trump's Threat Puts China Trade at Risk

By KATE DAVIDSON

WASHINGTON—President Donald Trump's stern warning that the U.S. may halt trade with countries doing business with North Korea was seen as a direct shot at China, the regime's biggest trading partner.

But China is America's largest single trading partner as well, highlighting how difficult it would be for the Trump administration to follow through on its threat.

North Korea sent 83% of its exports, valued at about \$2.34 billion, to China in 2015, consisting of such items as coal briquettes, according to data compiled by MIT's Observatory of Economic Complexity. Going the other way, China was the source of about 85% of North Korea's imports, such as refined petroleum, synthetic fabric, delivery trucks, soybean oil and broadcasting equipment, the data show.

China's goods-and-services trade with the U.S., meanwhile, totaled nearly \$650 billion in 2016, figures from the U.S. Trade Representative's office show.

China produced more than one-fifth of the total goods the U.S. imports, from cellphones and computers to furniture and footwear.

After Canada and Mexico, China is the U.S.'s third-largest goods-export market, which totaled nearly \$170 billion in 2016. Top American exports to China include planes and helicopters.

Because the trade volume is so heavy, some analysts say



The U.S. wants to punish the regime headed by Kim Jong Un, center, by targeting its trade partners.

severely restricting trade with China would be nearly impossible to implement without wreaking havoc on the U.S. economy, leading some analysts to dismiss the threat as not credible.

“We think there is little prospect of Trump carrying out his threat to ‘stop all trade with any country doing business with North Korea,’ given that the U.S. imported \$479 billion of goods and services from China last year,” Capital Economics analyst Andrew Kenningham said in a note Monday.

At the same time, Mr. Trump has made trade a focus of his administration, saying the U.S. trade deficits with China and other countries are the result of unfair trade deals that also hurt

American factories and workers.

What exactly could be affected by a move to restrict Chinese trade? In 2015, 63% of the computers the U.S. imported came from China, along with 29% of imported telephones, 49% of furniture imports, 73% of broadcasting equipment, 53% of leather footwear, 79% of mattresses and 39% of knit sweaters, just to name a few categories of goods, according to MIT's OEC project.

In terms of exports, China received 26% of all planes and helicopters the U.S. exported that year, as well as 55% of soybean exports and 18% of auto exports.

If those imports were suddenly cut off or severely restricted, businesses would have to scramble to find alternative

suppliers, and could face higher costs as well. American exporters and multinational corporations—such as farmers, aerospace companies, car makers and Hollywood movie studios—could be shut out of one of the world's biggest markets.

At an emergency meeting of the United Nations Security Council on Monday, U.S. Ambassador to the United Nations Nikki Haley doubled down on the administration's warning that economic consequences were on the table as it weighs how to respond to Pyongyang's escalated nuclear threats.

“We will look at every country that does business with North Korea as a country that is giving aid to their recklessness and dangerous nu-

clear intentions,” she said.

China has ramped up its trade with North Korea, which increased 6% last year and now accounts for about 93% of North Korea's overall trade, according to an annual report from the Korean Trade-Investment Promotion Agency.

North Korea's other top trading partners include Russia, Thailand, Philippines, Pakistan and India, which is the U.S.'s ninth-biggest trade partner.

More likely, and more feasible, than cutting off trade with such countries are new unilateral sanctions on firms and individuals in other countries the U.S. determines are helping North Korea's weapons program, Eurasia Group analysts Scott Seaman and Evan Medeiros said in a note on Monday.

“More Chinese firms will be in the crosshairs, especially if Washington perceives Beijing as not responding forcefully enough to North Korea,” they wrote, but said the U.S. will still be reluctant to sanction large Chinese banks given the risks of a strong negative reaction from Beijing.

China, in response, could move to reduce its crude oil exports to North Korea for a limited time and support U.S.-led efforts for tighter sanctions on Pyongyang.

Such moves would follow a series of efforts from the Trump administration to increase trade pressure on China, including directing aides to explore the prospect of sanctioning Beijing for the “unfair” acquisition of American intellectual property.

## ASIA

Continued from Page One

conventional weapons. Mr. Trump also in that call provided what officials said was his “conceptual approval” for the purchase of billions of dollars in U.S. military weapons and equipment.

The Pentagon declined to provide specifics, but is unaware of any pending sales of the size specified by the White House, a U.S. official said.

Mr. Trump doesn't have single-handed authority to authorize weapons transfers, but experts said it would not be difficult to get the process moving. He needs congressional approval for most arms deals, but close ties and pre-existing U.S. accords with both South Korea and Japan give Mr. Trump more leeway, said Patrick Cronin, director of the Asia-Pacific Security Program at Center for a New American Security, a defense think tank in Washington.

“In general the president is pushing on an open door here,” said Mr. Cronin. “There are pre-existing agreements with Congress and our allies; there are national security overrides and all of those

things make this a little more complicated.”

He added that while a U.S. president shares in such decisions with other branches of government, “it starts with the president saying, ‘I want to increase the forces of our allies.’”

The tit-for-tat statements came hours after Adm. Scott Swift, commander of the U.S. Pacific Fleet, said Pyongyang's recent string of missile and nuclear tests has brought the U.S. closer to its allies in Tokyo and Seoul, rather than dividing them as North Korean leader Kim Jong Un had hoped.

Adm. Swift's followed warnings that North Korea appeared to be planning to test-launch another intercontinental ballistic missile as it advances its aim of developing a nuclear-tipped missile that can threaten the U.S. mainland.

The rapid advance in North Korea's military capabilities has exposed differences between Seoul's more dovish approach and Washington's harder-line strategy on Pyongyang. It also raised questions in Tokyo and Seoul about the U.S.'s commitment to defending its allies in the event of a conflict with North Korea.

After North Korea's nuclear test on Sunday Mr. Trump took to Twitter to criticize South



South Korean Defense Minister Song Young-moo met Adm. Scott Swift in Seoul on Tuesday.

Korea's government for what he called its “talk of appeasement with North Korea.”

The tweet, which appeared to be a reference to Mr. Moon's repeated proposals for dialogue with Mr. Kim, preceded the phone call between Mr. Trump and Mr. Moon late Monday in Seoul.

Following a summit of leaders of emerging economies in China on Tuesday, Russian President Vladimir Putin said resolving the tensions over North Korea will require that all the parties engage in dialogue and warned that contin-

ued talk of a military solution could result in a catastrophe. North Koreans, he said, “will eat grass but they will never abandon their nuclear program.”

Prominent members of three major South Korean opposition parties, and some fringe politicians in Japan, have called for their respective countries to consider developing their own nuclear weapons—for years, a taboo idea—amid questions about whether the U.S. would be willing to protect Seoul or Tokyo as North Korea hones its ability

to threaten the U.S.

Those concerns, Adm. Swift said Tuesday, were unfounded. While acknowledging an array of voices in South Korea and Japan, he said that the U.S. military was working more closely than ever before with its South Korean and Japanese counterparts.

“It's very difficult to understand exactly what Kim Jong Un is trying to achieve, but if he's trying to separate the alliances and the allegiances that we have in the region, from where I sit, it's having the opposite effect,” Adm. Swift said.



WORLD NEWS



Black crosses adorned with Venezuelan flags and the names of those killed in antigovernment protests are held in St. Peter's Square. Bottom, Mr. Maduro holds a cross given to him by Pope Francis.

# Venezuela Looms as Pope Visits Region

Bishops, activists urge Pope Francis to chastise Maduro when he visits Colombia

Heilyn Rojas, a 21-year-old Venezuelan student, left her country last year, tired of the crime and food shortages back home. She fled to neighboring Colombia in search of a better life.

*By Anatoly Kurmanaev in Caracas, Venezuela, and Francis X. Rocca in Vatican City*

Now, on the eve of Pope Francis' five-day visit to Colombia, she stands among many Venezuelans, including bishops and opposition leaders, who hope the pontiff will chastise Venezuelan President Nicolás Maduro for his role in the nation's economic collapse and its deep political strife.

She wishes Pope Francis "would care more about helping Venezuela, so that we could go back, work and live well, instead of dying of hunger," Ms. Rojas said.

Venezuela—whose economy has shrunk by a third since 2013, sparking a humanitarian crisis—looms large as Pope Francis arrives on Wednesday in neighboring Colombia, where tens of thousands of Venezuelan migrants have fled.

Top Venezuelan bishops plan to greet the pope in Co-

lombia, hoping to convey in person the gravity of the country's situation.

In a letter published last week, the leader of Venezuela's opposition-controlled congress urged the pope to demand that Mr. Maduro allow humanitarian aid, release political prisoners and respect human rights. "Every day that passes costs another life," wrote Speaker Julio Borges. "We can't wait."

Vatican intervention in international political conflicts is rare. Pope John Paul II, who was Polish, was credited with helping to mobilize Poland's Solidarity movement and give momentum to the fall of communism in Central and Eastern Europe.

Pope Francis, an Argentine who takes a keen interest in Latin American affairs and has issued forceful calls for leaders to respect human rights, helped broker the December 2014 rapprochement between the U.S. and Cuba.

But a Vatican spokesman played down the likelihood that the pope would speak publicly about Venezuela during his trip to Colombia. That trip is likely to emphasize reconciliation and human rights after that country's recently ended civil war.

Many Venezuelans are angry over the Vatican's failed attempt to broker a truce between the opposition and Mr. Maduro's envoys during talks late last year. The talks broke down after his government failed to implement its prom-

ises. Just over half of Venezuelans believe the church is working to solve the country's problems, down from 62% before the talks, according to a June poll from Caracas-based Consultores 21.

The opposition and some clergy blamed the Vatican for allowing Mr. Maduro to stall for time, thus dissipating protests and ultimately tightening his grip on the country.

"The Vatican's diplomacy sinned with naiveté. They came unprepared," said the Rev. Francisco Virtuoso, rector of Caracas's Andrés Bello Catholic University and a prominent critic of Mr. Maduro's government. "The government exploited this to the full."

A senior Vatican official told The Wall Street Journal that the Vatican had been aware of the risks involved in the negotiations, but believed the deepening strife in Venezuela justified its attempt to help.

"It was the government that broke [the rules], not the Vatican," Cardinal Jorge Urosa of Caracas, who has taken a lead role in the standoff, told the Journal.

Since then, Venezuela's Catholic hierarchy, one of the country's few remaining independent institutions, has stepped up its public criticism of Mr. Maduro, calling on his government to restore an independent legislature and halt the killing and imprisonment of protesters and opposition leaders.

The bishops denounced a July vote—widely condemned as rigged—to approve a new, handpicked assembly that is sidelining the opposition-controlled legislature and plans to grant Mr. Maduro greater powers. During the vote, the bishops' conference tweeted a



CARLOS REICER/BLONBERG NEWS

prayer to the Virgin Mary to "free our country from the clutches of communism and socialism."

Mr. Maduro accuses the local church hierarchy of joining the political opposition to topple his government and claims the pope supports him, disagreeing with critics including Vatican Secretary of State Cardinal Pietro Parolin.

"Unfortunately Monsignor Parolin has fallen into the hands of the most radical sectors of the hierarchy of the Catholic Church in Venezuela,

of the allies of those who have destroyed our country," Mr. Maduro said last month.

After the July election, in the Holy See's strongest condemnation of Mr. Maduro's government to date, the Vatican criticized the process as fomenting violence.

But Pope Francis has drawn fire for not personally denouncing the Venezuelan leader.

Instead, when he said in April that the Venezuelan opposition was divided over whether to resume negotiations, the remarks appeared "more willing to call out the opposition than to put the spotlight where it belongs, on the government," said Eric Farnsworth, vice president of the Council of the Americas, a think tank in Washington, D.C.

In an extraordinary initiative, a delegation of Venezuelan bishops traveled to Rome in June to personally to tell the pope about the dozens of protesters killed in clashes with government forces earlier this year. The following month, Pope Francis called for an end to violence in Venezuela and a "peaceful and democratic solution to the crisis."

Critics have suggested the pope, who has appeared publicly with some of Mr. Maduro's left-wing allies such as Bolivian President Evo Morales and shares some of their political views, might be holding back out of ideological sympathy.

"I'm a Catholic, but I think that seeing the pope doing

these sorts of things pushes me away from the church," said Rocksaneeth Aguilar, a Venezuelan advertising agent who moved to Colombia last year. "The pope is a communist at heart who doesn't want to get involved in Venezuela."

A Vatican spokesman declined to comment on why the pope hasn't openly criticized Mr. Maduro.

Pope Francis grew up in Argentina in a family that supported the country's strongman Juan Perón, whose authoritarian populism defied easy categorization as left or right. Later, he rejected Marxist schools of Catholic "liberation theology" in favor of a nonmaterialistic "theology of the people." But he told an interviewer in 2013: "I have met many Marxists in my life who are good people, so I don't feel offended" to be called one.

Mr. Farnsworth said a statement by the pope against human rights violations in Venezuela during his Colombia visit would dispel any perception that the pope is on the government's side, making it "very powerful."

One opportunity for a subtle rebuke could come on Wednesday when the pope sends Mr. Maduro the traditional telegram greeting which he sends all leaders of the countries that his papal plane flies over.

—*Lorena Bornacelli in San Cristobál and Mariana Martínez in Caracas contributed to this article.*

## Brazil Police Raid Home Of Olympics President

By LUCIANA MAGALHAES

SÃO PAULO—Federal police raided the home of the Brazilian Olympic committee president, Carlos Arthur Nuzman, as part of an investigation of suspected bribery that might have helped Rio de Janeiro win its bid to host the 2016 Olympic Games.

The investigation began about nine months ago and is being conducted in cooperation with French authorities, police said in a statement.

Mr. Nuzman's attorney wasn't immediately available for comment.

Brazil's federal police say they suspect that a vote-buying scheme favored Rio's bid to host the games.

Tuesday's operation, named "Unfair Play," is part of a continuing criminal investigation known as Car Wash, which has uncovered a bid-rigging and bribery ring involving some of the country's most powerful politicians and businessmen.

## WORLD WATCH

### EUROPE

#### Eurozone Growth Seen Easing Slightly

The eurozone economy appears to be slowing slightly, although it remains on course for its strongest year since 2010, business surveys indicate.

The currency area has been one of the positive surprises for the global economy this year, as it outpaced the U.S. in the first quarter and accelerated further in the three months through June.

However, an early indicator of activity points to a modest easing of growth in the third quarter, which ends this month.

Data firm IHS Markit on Tuesday said its composite purchasing managers index for the eurozone was unchanged at 55.7 in August. That was below the preliminary estimate of 55.8, and the average reading for the second quarter. A reading above 50 signals an increase in activity, while a reading below 50 signals a decline.

The measure is based on a survey of 5,000 businesses across the eurozone, and is followed closely by policy makers at the European Central Bank.

—*Paul Hannon*



TESTIMONY: A witness to the death of 17-year-old student Kian Delos Santos, allegedly killed by Philippine police during an antidrug raid, spoke during a Senate hearing in Manila on Tuesday.

### GUATEMALA

#### Another Top Court Rules Against Morales

Guatemala's Supreme Court approved a petition from the attorney general's office to strip immunity from President Jimmy Morales, bringing the leader one step closer to a potential trial for

alleged election finance violations.

The motion from prosecutors will now go to the country's Congress, where it requires a two-thirds vote to allow the president to be prosecuted. Congress must vote on installing a commission to begin investigating the charges by early next week.

The court's 11-2 vote also approved stripping the immunity

of officials from the country's two leading political parties, who also stand accused of illicit campaign funding.

Mr. Morales and the other accused politicians said they are innocent. "I have always defended the rule of law, judicial norms and the independence of powers," Mr. Morales said in a statement.

—*Dudley Althaus*

### CANADA

#### Economists Expect No Move on Rates

Economists expect the Bank of Canada to maintain its benchmark interest rate on Wednesday but keep the door open to gradual rises in coming months.

The majority of economists from the 11 primary dealers of Canadian government securities in a Wall Street Journal survey predicted the Bank of Canada would keep its main lending rate at 0.75% in its scheduled policy decision.

The economy continues to defy expectations, with gross domestic product expanding an annualized 4.5% in the second quarter, or the fastest pace of quarterly growth since 2011 and capping off the best 12-month run for Canada in the postcrisis era. Economists at two primary dealers forecast a rate rise Wednesday based on the strength of that GDP report.

Still, eight market watchers contend Bank of Canada Gov. Stephen Poloz will choose to stay put. They say Mr. Poloz has the luxury of waiting, noting inflation remains tepid and far from the central bank's 2% target.

—*Paul Vieira*



U.S. NEWS

# President Rescinds ‘Dreamers’ Program

Trump orders end of protections to young immigrants; Congress ‘do your job,’ he tweets

By LAURA MECKLER

WASHINGTON—President Donald Trump’s administration said Tuesday that it was ending a five-year-old program that protects undocumented immigrants who entered the U.S. as children from deportation and gave Congress until March 5 to pass legislation to replace it.

Attorney General Jeff Sessions announced the policy shift, reiterating his long-held belief that former President Barack Obama, a Democrat, had overstepped his executive authority in creating the Deferred Action for Childhood Arrivals program in the first place.

“The policy was implemented unilaterally to great controversy and legal concern after Congress rejected legislative proposals to extend simi-

lar benefits,” Mr. Sessions said. “In other words, the executive branch, through DACA, deliberately sought to achieve what the legislative branch specifically refused to authorize.”

Permits given under the program are good for two years, and the protections will remain in force until they expire, officials said. Current participants whose permits expire before March 5, 2018, will be able to renew their status if they file applications by Oct. 5.

But if Congress fails to act before then, people who are now in the program will begin to see their permits expire beginning in March, meaning they will no longer be able to legally work and they will be eligible for deportation. Officials said no new applications filed after Tuesday would be processed.

In a written statement, Mr. Trump said the move to end DACA was driven by his desire to enforce existing immigration law and protect American citizens, who he said had been hurt by what he called the fail-



A DACA applicant, left, reviewing his application in 2015.

ure of previous administrations to adequately enforce immigration statutes.

Mr. Trump also encouraged action on Capitol Hill, while signaling that he would want any legislation to protect these young people to also include his own immigration priorities,

such as limiting future immigration. He said the six-month process of winding down DACA creates “a window of opportunity for Congress to finally act” on an immigration overhaul.

“We will resolve the DACA issue with heart and compassion—but through the lawful democratic process,” said Mr. Trump, while “ensuring that any immigration reform we adopt provides enduring benefits for the American citizens we were elected to serve.”

The program, created in 2012, now covers nearly 800,000 people, who enjoy work permits and safe harbor from deportation. More than 200,000 of the DACA grants are set to expire by the end of the year.

In taking the action Mr. Trump was fulfilling a campaign promise to end the program, but the move contradicts assurances he has repeatedly given since taking office that these young people had nothing to worry about.

Mr. Trump, a Republican, signaled that he hopes Congress will replace the program, which was created by Mr. Obama using executive authority, with one crafted by lawmakers. “Congress, get ready to do your job - DACA!” he tweeted Tuesday morning, ahead of the announcement.

But lawmakers have struggled to pass immigration legislation for many years and, while these young people enjoy considerable support, passing protections into law will be a heavy lift.

House Speaker Paul Ryan (R., Wis.) indicated Tuesday he would try to pass legislation that protects these young people, and possibly takes on other aspects of the contentious debate.

Several versions of the Dream Act, which would provide a path to citizenship for young people brought to the U.S. as children, are pending in Congress. Such legislation was last voted on in 2010. It passed the House, then run by Democrats, but in the Senate it fell five votes short of the 60 needed to advance.

Several Republicans have signaled that they are open to such legislation, though some of them are hoping to pair a legalization program with enforcement measures such as border security or new limits on legal immigration.

# ‘Big Six’ Group Faces Decision Time on Tax Changes

By RICHARD RUBIN

WASHINGTON—The U.S. policy makers on taxes known collectively as the “Big Six” were gathering Tuesday with President Donald Trump at the White House—and they have some big decisions to make.

Republicans are trying to rewrite significant portions of the tax system by year’s end, which gives them little time to figure out the broad policy contours and fine details, then muscle them through Congress.

The six are Reps. Paul Ryan (R., Wis.) and Kevin Brady (R., Texas), Sens. Mitch McConnell (R., Ky.) and Orrin Hatch (R., Utah), Treasury Secretary Steven Mnuchin and White House economic policy chief Gary Cohn.

In July, the group released a 594-word principles statement. Last week, Mr. Mnuchin said that the group would release a more detailed blueprint in a few weeks.

Many Republicans are optimistic about getting a tax bill done. With control of the House, Senate and the White House, the GOP is eager for the chance to overhaul tax policy and lower rates. Failure to do so would mark a political setback. But they must contend with inherent trade-offs, competing priorities and a tight time frame.

“I can’t imagine they can get to the end of the year without passing something but I can’t figure out what the something would be or how they would get it done,” said Leonard Burman, a fellow at the Urban Institute in Washington, a nonpartisan policy research group, and a



Members of the ‘Big Six’ group working on overhauling the tax code, a panel that includes House Speaker Paul Ryan, left, met in June.

former Treasury official in the Democratic administration of former President Bill Clinton.

Here’s a quick look at the choices ahead.

## ‘Tax Cuts’ vs. ‘Tax Reform’

Mr. Trump, a Republican who made his first major tax speech in Missouri last week and heads to North Dakota on Wednesday, uses the terms “tax cuts” and “tax reform” almost interchangeably.

The former term generally refers to lowering the tax burden, while the latter typically

means making structural changes and repealing tax breaks to make the system simpler and more economically efficient.

Republicans, particularly Messrs. Ryan and Brady, have long talked about “reform” that would limit or repeal tax breaks. And some Republicans may be concerned about increasing budget deficits.

But tax cuts are broadly popular among GOP policy makers.

Republicans could end up splitting the difference by removing some tax breaks but not enough to cover the cost of the tax cuts.

## Temporary vs. Permanent

Under budget rules that allow Republicans to pass a tax bill through the Senate without Democratic votes, the bill can’t increase budget deficits after its first 10 years.

To hit that target, Republicans could set expiration dates for some tax cuts, muting potential revenue losses for the government beyond the first decade and thus complying with the 10-year rule. Business groups providing public support for the GOP plan, however, want permanent policy that will let them plan invest-

ments with relative certainty.

“I don’t think there’s anybody who really wants temporary policy,” said Ray Beeman, a former GOP aide to the House Ways and Means Committee. “It’s really a matter of what’s more realistic.”

Again, Republicans could split the difference, locking in business rules for the long run and setting some individual tax cuts to expire. They would be gambling that a future Congress would vote to extend lapsing tax cuts.

That approach worked in 2001 and 2003, when a Republican was in the White House and then-President George W. Bush’s tax cuts were passed

and set to expire after 2010. Almost all of them—the biggest exception being tax cuts for high-income households—became permanent in 2013.

## Budget Maneuvers

To make their plans fit budget rules, Republicans are considering several approaches to reduce the apparent impact on budget deficits.

First, they may assume that expired or expiring tax breaks remain in place. That way, extending them or replacing them with other tax cuts wouldn’t count as reducing revenue. This strategy could reduce the estimated fiscal cost of tax cuts by about \$450 billion over a decade; that is equivalent to about 1% of projected federal revenue over that period.

Second, they are likely to use what is known as dynamic scoring to measure their plan. That is the assumption that tax changes generate economic growth, yield additional tax revenue and partly pay for themselves.

They may also change rules governing retirement accounts by making it harder for people to put pretax money in retirement accounts such as 401(k) plans, nudging or pushing people toward so-called Roth-style accounts funded with posttax dollars that could be withdrawn tax-free in retirement. That move would generate money for the government in the near term because a bigger share of income would be taxed.

“It’s a dial they could use and put it at any level they want to and whatever they can sustain politically,” said Mr. Beeman, now at Ernst & Young LLP. He helped write a 2014 tax plan with a similar provision.

# TRUMP

Continued from Page One  
controlling both chambers and the White House for the first time since 2007.

Both House and Senate Republicans said Mr. Trump’s attacks on his own party won’t help them quickly pass the high-stakes bills that already face little room for error in either chamber.

“It’s a little unhealthy, quite honestly,” Rep. Kevin Cramer (R., N.D.), a longtime Trump supporter, said, pointing out the party’s slim 52-48 majority in the Senate. He particularly questioned Mr. Trump’s attacks on Republican Sens. Jeff Flake and John McCain at an August rally in Phoenix.

“You have a small margin, and punching two of them in the nose in their home state makes it pretty difficult” to pass a Republican agenda in the Senate, Mr. Cramer said.

Among the pressing issues are funding for the children’s health insurance and a federal flood insurance program, which both expire Sept. 30.

The president Tuesday gave Congress a six-month deadline to pass legislation to replace a program that shields from deportation immigrants brought to the U.S. as children. And

Mr. Trump’s top advisers have promised to deliver a bill overhauling the tax code by mid-November, said a person familiar with the discussion.

Many lawmakers expect at least some of the Harvey aid to be added to a measure raising the debt limit, which is a difficult vote for many Republican lawmakers. While hurricane aid is broadly supported, some influential conservatives have raised concerns about pairing it with the debt limit.

“Our obligation is to assist those impacted by this great flood, but it’s past time the swamp waters in DC begin receding as well,” Rep. Mark Walker (R., N.C.), chairman of the Republican Study Committee, a group of more than 150 House Republicans, said in a statement Monday.

Democrats have said they want to find a bipartisan path on both issues.

“Providing aid in the wake of Harvey and raising the debt ceiling are both important issues and Democrats want to work to do both,” Senate Minority Leader Chuck Schumer (D., N.Y.) and House Minority Leader Nancy Pelosi (D., Calif.) said in a joint statement.

The relationship between the White House and congressional Republicans began to fray before the August recess, as the Senate struggled to

## Lawmaker Picked To Lead NASA

Republican Rep. Jim Bridenstine, named as President Donald Trump’s choice to head the National Aeronautics and Space Administration, faces tough policy, personnel and political challenges repositioning the agency in an era of booming commercial space ventures.

The decision Friday to nominate the former Navy aviator and three-term Oklahoma lawmaker, a move that had been expected, comes amid lingering uncertainties surrounding the White House’s broad space goals. A space policy council, headed by Vice President Mike Pence, is just getting organized to provide direction for the Pentagon, NASA and other agencies.

Mr. Bridenstine, a strong supporter of private space endeavors such as minerals mining on the moon, has encouraged use of the council to



SUE OGROCKI/ASSOCIATED PRESS

better coordinate military and civilian space programs. But the result, according to industry officials and former NASA managers, could restrict his options in running the agency.

Mr. Bridenstine has supported greater emphasis on tracking orbital debris as various companies contemplate launching unprecedented numbers of low-Earth-orbit satellites. He also has advocated the importance of using NASA missions to the moon as stepping stones to developing a host of technologies required for deep-space probes.

—Andy Pasztor

overhaul the health-care law.

Mr. McConnell, a fastidious, 30-year veteran of the Senate, often prepared note cards with points he wanted to make during phone calls with the president. Mr. Trump was more casual, starting conversations with several minutes of chat-

ter about the day’s headlines or what he had seen on TV, the kind of banter he used as a businessman with VIPs, according to people familiar

with their discussions.

As it became clear Mr. McConnell couldn’t summon enough Republican votes to repeal the Affordable Care Act, the Senate majority leader stopped responding to the president’s chitchat, the people familiar said.

“Mitch?” the president said when Mr. McConnell fell silent in one call. “Are you there?”

Mr. McConnell waited a beat, then responded. “Yes, Mr. President. Back to the bill,” according to those familiar with the talks.

The repeal measure failed by one vote, raising the stakes on the performance of lawmakers who return this month to significant fiscal matters.

“If they don’t get something done that is substantial,” former Sen. Judd Gregg said of fellow Republicans, “they are going to have a horrific experience in the next election.”

Many Republicans who faced constituents during the August recess found many who sided with Mr. Trump and faulted party leaders for keeping the president from enacting his agenda.

While Mr. Trump’s attacks on lawmakers may have resonated with some voters, they are unlikely to help lawmakers deliver results, especially in the Senate, current and former Republican officials said.

“I do not think this strategy will further his ability to build the legislative consensus he needs to address major issues like tax reform and infrastructure,” said former Sen. Kelly Ayotte (R., N.H.). “When it comes to counting individual votes, it would be better for the president to work cooperatively with them and the members of his party.”

The most significant bill written and passed by Congress this year imposed sanctions on Russia—despite concerns raised by the White House.

Some lawmakers worry about diminished prospects for their re-election if the much sought-after tax overhaul meets the same fate as the failed health-care bill.

“If we can’t even do that, then nothing will get done before 2018,” said Rep. Tom Rooney (R., Fla.).

The U.S. Chamber of Commerce, the business lobby group, is already preparing an ad campaign aimed at pressuring mostly House Republicans to move on a tax rewrite.

Mr. Trump’s tactics could have an impact, said former Rep. Mickey Edwards (R., Okla.), if the president’s supporters pressure Republicans to support his agenda.

—Janet Hook  
contributed to this article.



U.S. NEWS



A Valero refinery in Houston, shown last week, reported a Hurricane Harvey-related leak to Texas regulators on Aug. 27.

# Benzene Found in Houston

By MELANIE EVANS

The city of Houston, the Environmental Protection Agency and an environmental advocacy group are investigating a potentially hazardous plume of a carcinogenic substance in one neighborhood after a nearby oil refiner reported its operations suffered hurricane-related damage.

The city and the Environmental Defense Fund said extra air monitors they dispatched to Houston's Manchester region on Monday detected the presence of benzene, a component of crude oil and gasoline.

Two monitors detected significantly different levels of the carcinogen at different times of the day, and additional sampling is needed to determine the concentration, according to Loren Raun, chief environmental science officer for the Houston Health Department, and Elena Craft, a senior health scientist at the Environmental Defense Fund, which became involved in the investigation after offering the city assistance.

A Valero Energy Partners LP refinery in the neighborhood reported a hurricane-related leak on Aug. 27.

The EPA said it was deploy-

ing an air monitor to the area on Tuesday to help the investigation. Officials are seeking to pinpoint the source of the benzene plume, the concentration and how far-reaching the emissions may have spread, Ms. Raun said Tuesday morning, after a call with EPA, EDF and Houston city officials.

"EPA continues to conduct ambient air monitoring in Houston and is focusing on an area of potential concern associated with reported air emissions from a Valero facility in Houston," said David Gray, a spokesman for the agency.

A Manchester oil refinery that is a subsidiary of Valero Energy Partners said the leak on Aug. 27 resulted in the emission of benzene and other hazardous compounds, according to a copy of the refiner's report to the Texas Commission on Environmental Quality, or TCEQ.

The report, which was filed through the State of Texas Environmental Electronic Reporting System and is available on TCEQ's website, said the leak was a result of "heavy rainfall complications," and that cleanup was under way.

Valero Energy Corp. is the majority owner of Valero Energy Partners. In an Aug. 29 statement on its website,

Valero Energy Corp. said Harvey's pounding rainfall sank the floating roof of a crude-oil tank, leading to an oil leak.

The statement said the company's air-quality monitoring found "no detectable levels of emissions in the community." Valero said it didn't have an immediate update on Tuesday.

Companies must report emissions that exceed permitted amounts, a TCEQ spokes-

*City, EPA investigate potentially dangerous plume from Valero Energy oil refinery.*

man said, adding that the state "investigates all emissions events that are reported to the agency."

A Houston environmental investigator visited the Manchester neighborhood on Saturday and found elevated levels of volatile organic compounds in the air, but more sophisticated equipment was needed to identify the exact compound, said Donald Richner, senior project manager for the bureau of pollu-

tion control and prevention within the health department's environmental division.

Valero's disclosure to the TCEQ was one of 56 preliminary emissions reports citing Hurricane Harvey that the state commission received from petroleum and chemical companies as of Aug. 31, according to an analysis of TCEQ filings by the Center for Biological Diversity, an environmental group in Tucson, Ariz.

Those Harvey-related emissions released nearly 1 million pounds of seven toxic compounds, including benzene, the group reported.

TCEQ declined to comment on the nonprofit's Harvey-related analysis.

In 2016, petroleum, chemical and polymer companies reported 3,289 emission events to the TCEQ, excluding events that were scheduled or involved excess capacity, commission data show. Those 2016 events released 56 million pounds of materials, the data show.

The majority of the Harvey-related reports involved hazardous emissions triggered by the shutdown of operations as the storm approached, said Shaye Wolf, an ecologist and climate science director at the Center for Biological Diversity.

# Hurricane Becomes Among Strongest

By ARIAN CAMPO-FLORES

Hurricane Irma grew Tuesday into one of the most powerful storms ever recorded over the Atlantic Ocean, raising severe threats to islands in the Caribbean while prompting evacuations in Florida.

The National Hurricane Center called Irma, whose maximum sustained winds increased to 185 miles an hour, a "potentially catastrophic" Category 5 storm. Irma is the strongest hurricane ever recorded in the Atlantic basin outside the Caribbean Sea and the Gulf of Mexico, the hurricane center said.

The storm's center was about 180 miles east of Antigua and on track to pass over or near a string of islands, including St. Kitts and Nevis, by Tuesday night or Wednesday morning.

A hurricane warning covered an area stretching from the island of Montserrat to the U.S. territory of Puerto Rico. Forecasters said Irma is expected to remain a Category 4 or 5 hurricane over the next few days.

Puerto Rico Gov. Ricardo Rosselló declared a state of emergency and activated the National Guard on Monday. The island's housing secretary said 456 shelters were available to take in more than 62,000 people.

In Florida, which faces the possibility of a direct strike from the storm, Gov. Rick Scott on Monday declared a state of emergency in all of the state's 67 counties.

"Hurricane Irma is a major and life-threatening storm," he said in a news release.

Carlos Gimenez, mayor of Miami-Dade County, said the

county will begin evacuating special-needs residents Wednesday morning, and he closed county offices on Thursday and Friday.

Authorities in Broward County, north of Miami, urged residents in evacuation zones to leave.

Officials in Miami Beach began distributing sandbags to residents on Tuesday, while supermarkets received a growing stream of customers stocking up on water, canned foods and batteries.

In the Florida Keys, Monroe County officials said Tuesday they would be issuing a mandatory-evacuation order for tourists and residents.

Mr. Scott activated 100 members of the National Guard on Tuesday to help with storm preparation and directed all 7,000 Guard members in the state to report for duty on Friday morning. And he told transportation authorities to suspend tolls on roads throughout the state.

Across the northern Leeward Islands, the U.S. and British Virgin Islands and Puerto Rico, Irma is expected to dump 8 inches to 12 inches of rain, with isolated instances of 18 inches, according to the National Hurricane Center.

The northern Leeward Islands face a potential storm surge of 7 feet to 11 feet, as well as large, destructive waves, forecasters said.

The northern coast of Puerto Rico could experience a storm surge of 2 feet to 4 feet.

The Federal Emergency Management Agency said Tuesday that it had staff and supplies, including water and meals, in place in Puerto Rico and the U.S. Virgin Islands.



A satellite image showing Hurricane Irma on Tuesday.

# Two U.S. Researchers Are Honored for HPV Vaccine

By PETER LOFTUS

Two U.S. government researchers who helped develop a vaccine to prevent cervical cancer and other tumors are among the winners of the 2017 Lasker Awards, one of the highest honors in medical research.

The winners of this year's Lasker-DeBakey Clinical Medical Research Award are Douglas R. Lowy and John T. Schiller, researchers with the taxpayer-funded National Cancer Institute who, starting in the 1990s, helped develop a vaccine against human papillomavirus, or HPV. The sexually transmitted virus causes cervical cancer and other tumors, such as head and neck cancer.

The Lasker foundation also

said it was naming Planned Parenthood as the winner of the 2017 Lasker-Bloomberg Public Service Award for providing "essential reproductive health care" such as contraception to millions of women. The recognition comes on the heels of efforts by many Republicans to restrict government funding for Planned Parenthood because it provides abortions.

The Albert and Mary Lasker Foundation, a New York-based foundation that supports medical research, has given the awards annually for 72 years. Some 87 past winners have also won Nobel Prizes, according to the foundation.

"Many women have nowhere other than Planned Parenthood to turn for basic medical services. Its highly trained

clinicians and counselors provide essential, low-cost care," the Lasker foundation said.

Planned Parenthood said it has led the effort to expand and protect reproductive health and rights in the U.S., and it was honored to receive the Lasker award.

The World Health Organization estimates more than 528,000 new cases of cervical cancer are diagnosed annually, and nearly 270,000 women die of the disease each year. Cervical screening has helped reduce deaths in the U.S. and other developed countries, but mortality remains high in many developing countries that lack systematic screening.

Dr. Lowy, now acting director of the NCI, is a physician trained in internal medicine and dermatology, and Dr.

Schiller has a Ph.D. in bacterial genetics.

At NCI's campus in Bethesda, Md., they developed an innovative way to construct an HPV vaccine that sidestepped the use of a live virus.

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Past winners of Lasker Awards who have also won Nobels

Weakened viruses are part of older vaccines like those for measles and mumps, but scientists viewed the use of live virus in an HPV vaccine as too dangerous because of the risk of cancer.

The scientists used a protein found on the shell of the HPV virus, which doesn't contain any of the cancer-causing viral material. They grew the proteins into virus-like particles that, when injected into people, can trigger an immune response in the body to HPV.

The NCI licensed patents covering the technology to Merck & Co. and to MedImmune, which later licensed it to GlaxoSmithKline PLC.

In 2006, Merck started selling Gardasil, the first HPV vaccine, and later introduced one with wider protection, Gardasil 9. GlaxoSmithKline sells the Cervarix HPV vaccine, also derived from the NCI research.

Drs. Lowy and Schiller receive a share of the royalties from the sales, Dr. Lowy said. Dr. Schiller recalled a

breakthrough moment when he was moderating a session at an HPV research conference in Brazil in the early 2000s. A researcher presented findings of an early Merck study showing an HPV vaccine prevented infection in women.

"I looked at the audience and said, 'Ladies and gentlemen, you are witnessing history,'" Dr. Schiller said in an interview. "To me, the stone was rolling down hill completely after that."

Initially given to adolescent girls, HPV vaccines are now also recommended for adolescent boys to reduce transmission of the virus.

At least 59 million women globally had received at least one dose of HPV vaccine by the end of 2014, according to a study in The Lancet.

## U.S. WATCH

### TEXAS

#### Churches Sue Over Storm-Relief Denial

Three Texas churches damaged by Hurricane Harvey are suing the Federal Emergency Management Agency, alleging the agency unconstitutionally denies them disaster-relief funds.

Under FEMA policy, houses of worship aren't eligible for disaster aid. Eric Rassbach, a lawyer with the Becket Fund for Religious Liberty, which is representing the churches, said the policy violates the First Amendment.

"This is really about equal access," Mr. Rassbach said. "These churches are not looking for special treatment. They're just looking to get treated the same as every other community institution."

In response to the lawsuit, Alex J. Luchenitser, Associate Le-

gal Director at Americans United for Separation of Church and State, said allowing churches to receive disaster-relief funds would undermine the separation of church and state.

A FEMA official declined to comment on the lawsuit.

—Ian Lovett

### ECONOMY

#### Aircraft-Order Drop Weighs on Factories

Orders at U.S. factories declined sharply in July, driven by a drop in aircraft orders.

Orders for manufactured goods fell 3.3% to a seasonally adjusted \$466.4 billion in July, marking the steepest drop since August 2014, the Commerce Department said Tuesday.

Economists surveyed by The Wall Street Journal predicted or-



A pedestrian in Missoula, Mont., fending off wildfire smoke.

ders would fall 3.2%.

Orders in June were revised to a 3.2% increase from an initial estimate of a 3% increase.

Excluding transportation, orders were up 0.5% and have in-

creased for two consecutive months. Excluding defense, another volatile category, orders fell 3.7%.

Orders for nondurable goods, which include products like fuel

and drugs, increased 0.4% to \$237.4 billion.

—Sarah Chaney

### WESTERN WILDFIRES

#### Weather a Hindrance As Parks Threatened

Firefighters across the West struggled with wind-driven flames, heat and dry conditions as wildfires bore down on two popular national parks.

The dozens of fires burning across the Western U.S. and Canada have blanketed the air with choking smoke from Oregon, where ash fell on the town of Cascade Locks, to Colorado, where health officials issued an air-quality advisory.

A 14-square-mile fire in Montana's Glacier National Park emptied its busiest tourist spot as wind gusts drove the flames

toward the doorstep of an iconic lodge. Lake McDonald Lodge, a 103-year-old hotel, sits on a lake as the famed Going-to-the-Sun Road begins its climb up the Continental Divide. Fire crews got bad news Monday: The wind had shifted and gusts were driving the fire down the mountainside toward the lake's shores.

Outside California's Yosemite National Park, a wind-fueled fire made its way deeper into a grove of 2,700-year-old giant sequoia trees. Officials said the fire had gone through about half the grove but hadn't killed any trees.

Elsewhere in Northern California, a fire destroyed 72 homes and forced the evacuation of about 2,000 people from their houses. The fire has burned 14 square miles in the community of Helena about 150 miles south of the Oregon line.

—Associated Press



IN DEPTH

ROBOTS

Continued from Page One

This demonstrates something routinely overlooked in the anxiety about the job-destroying potential of robots, artificial intelligence and other forms of automation. Throughout history, automation commonly creates more, and better-paying, jobs than it destroys. The reason: Companies don't use automation simply to produce the same thing more cheaply. Instead, they find ways to offer entirely new, improved products. As customers flock to these new offerings, companies have to hire more people.

"Robot apocalypse" is a modern expression, but the underlying anxiety goes back centuries. In 1589 Queen Elizabeth I refused to grant the inventor of a mechanical knitting machine a patent for fear of putting manual knitters out of work. In 1930 the British economist John Maynard Keynes warned of "technological unemployment...due to our discovery of means of economizing the use of labor outrunning the pace at which we can find new uses for labor."

Those fears have repeatedly proven baseless. James Bessen, an economist at Boston University School of Law, has found in numerous episodes when technology was supposed to annihilate jobs, the opposite occurred. After the first automated tellers were installed in the 1970s, an executive at Wells, Fargo & Co. predicted ATMs would lead to fewer branches with even fewer staff. And indeed, the average branch used one-third fewer workers in 2004 than in 1988. But, Mr. Bessen found, ATMs made it much cheaper to operate a branch so banks opened more: Total branches rose 43% over that time.

Today, banks employ more tellers than in 1980 and their duties have expanded to things ATMs can't do such as "relationship banking."

Mr. Bessen witnessed this sort of transformation personally. In 1983 he created an early desktop publishing program, which made typesetting and graphical design vastly simpler and cheaper. Shortly after Sears purchased his program in 1989, its catalog operation laid off 100 employees, he recalls, and he worried, "are we shafting a bunch of people with this product?"

But some customers used his software to increase the number and variety of their publications. The supermarket chain A&P used Mr. Bessen's software to publish 30 or 40 versions of its weekly circular for Atlanta, with different promotions aimed at different neighborhoods. Mr. Bessen found that typesetting and compositor jobs fell about 100,000 over the 1980s, but from 1979 to 2007 the number of designers more than quadrupled to 800,000, making up for the loss many times over.

Not until an industry has fully satiated demand for its products, as has happened in automobiles, does automation start to chip away at overall employment.

The process is still disruptive, of course: The people thrown out of work by automation are seldom the same people employed in the new industries that automation makes possible. But over time, the net effect is consistently positive.



In the Amazon Fall River, Mass., facility's packing area, computers tell workers precisely which size box to use.

JOANA GLAUZMAN FOR THE WALL STREET JOURNAL

Like Ms. Duperre, Tarrah Tripp also used to work in retail, as a cake decorator at a family-run grocery. At Amazon, she operates custom box-cutting machinery for awkwardly shaped items. It isn't high-tech, but it uses more technology than her last job, she says, "unless you think cutting bread is technology intensive." The pay is a bit better and she gets a full week's worth of hours in four days, which gives her three days off every week. She doesn't intend to spend her career here, and soon plans to train as a veterinary technician, for which Amazon will help pay the tuition.

For Fall River, Amazon's arrival is bittersweet.

As recently as 1991, the city boasted 20,000 manufacturing jobs. But by 2015, that had fallen below 4,000, according to Mr. Fiola, as jobs were outsourced to the south and then overseas, or were automated. Unemployment is above 6%, higher than both the national and state average. Though Hillary Clinton beat Donald Trump in surrounding Bristol County by 9 percentage points last fall, that was one of her worst showings in the solidly blue state and less than half of Barack Obama's winning margin four years earlier.

City leaders rolled out the red carpet for Amazon with generous tax incentives and a prime location on Innovation Way. Its arrival was the single biggest job creation event anyone could remember.

"We had people with a skill set that was nontransferable," says Jasiel F. Correia II, Fall River's 25-year-old mayor and a first-generation child of immigrants from the former Portuguese territory of Cape Verde. "Where does a person who sewed textiles for 20 years go if they're laid off? Places such as Amazon fill that gap," he says. "They got a chance to work for a Fortune 500 company. This community doesn't get those chances very often."

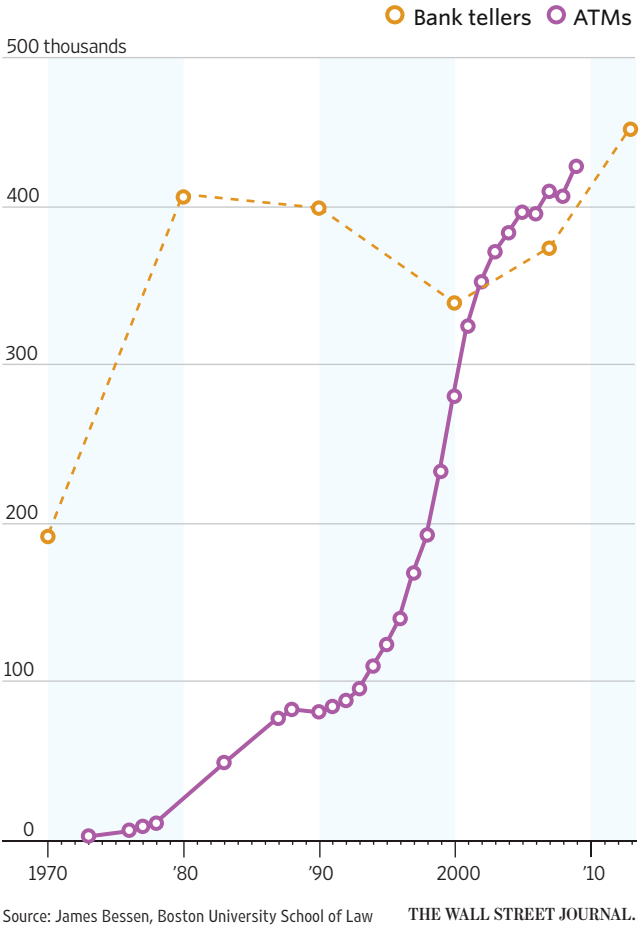
While the e-commerce job boom is real, the question is whether it will last. Amazon and its ilk continue to seek ways to automate fulfillment. The company is exploring using drones, rather than people, to deliver packages, and is studying driverless vehicle technology. In 2012 Amazon bought robot manufacturer Kiva Systems, and it is working on robots to replace pickers.

Evidence of the feared apocalypse remains elusive. Evidence of the opposite abounds.

Yet the day when Amazon needs fewer humans still appears far off. Its volume is growing so quickly it is adding employees. Thus far, the key benefit of robots deployed in Amazon's fulfillment center in Baltimore is to reduce the demand for space, not labor: Inventory can be stored more closely together since robots now take items to where the pickers are, instead of pickers walking the aisles. The Baltimore center employs more than 3,500, up from 2,500 when it opened in 2015. At a one-day nationwide jobs fair last month, Amazon accepted 100,000 applications and has already made 40,000 job offers.

Human Bankers Hold the Line

As the number of ATMs rose, so did the number of bank branches, so the ranks of tellers expanded.



Source: James Bessen, Boston University School of Law THE WALL STREET JOURNAL.

they on net add to total retail employment? And how can they both pay more and keep prices low?

The answer is complicated. In fact, total retail employment might have grown faster absent e-commerce. In a highly critical report of Amazon last fall, the nonprofit Institute for Local Self-Reliance argued that the firm's higher productivity meant retail employment is 149,000 lower than if it had never come along.

But the main reason is that e-commerce doesn't simply sell the same product as a store at a lower price. It enables customers to peruse a vast array of products and select precisely the one they want and have it delivered in a day or two, saving the time, cost and inconvenience of visiting multiple stores. Mr. Mandel estimates e-commerce has saved the average adult 15 minutes a week. Just as Uber and Lyft uncovered hidden demand for rides, e-commerce has uncovered hidden demand for shopping from home. These features don't necessarily add to the price, any more than improvements to cars and appliances do. Nonetheless, e-commerce results in people consuming more retail

services, once you adjust for this improved quality, than in the pre-online era.

And often, consumers do pay for this convenience. John Blackledge, an analyst at Cowen & Co., estimates that 42% of U.S. households, 53 million in total, are members of Amazon Prime, which entitles them to one- to two-day delivery, or same-day delivery in some cities, plus a growing list of other perks for \$99 a year. Prime members typically order twice as often as non-Prime customers, according to Mr. Blackledge. To spur demand, e-commerce companies use their greater efficiency to absorb more of the delivery costs. Amazon uses the margin it earns on goods to build and operate the logistics needed to profitably serve customers.

The breadth of that investment becomes apparent on a visit to the Fall River center, which handles large, irregularly shaped items such as appliances, bicycles, tires and even a boat anchor.

When a crate of frying pans arrives, employees don't stack them in a designated shelf for frying pans. Rather, they stow each pan individually wherever it fits. Each pan's location

BATS

Continued from Page One most from this injustice."

Dr. Medellín, known in his field as "The Batman of Mexico," has persuaded three long-established tequila makers to set aside 5% of their blue-agave crops to flower in some fields, through an initiative launched by his university and Tequila Interchange Project, a group that advocates for sustainable and traditional production techniques.

For their pains, they get to call tequila from those fields "bat friendly" and slap on the bottles a hologram Dr. Medellín provides with an image of a bat near an agave flower.

One of the distillers, Tequila Tapatio, produced a bat-friendly version of its Tequila Ocho that its owner, Carlos Camarena, found "to present traces of pepper and pineapple as well as orange blossom aromas." He allows that those characteristics have nothing to do with bats but stem from "terroir."



Biologist Rodrigo Medellín says bats are beneficial to people.

MARIANA RIVERO

The sight of flowering agaves in Mr. Camarena's fields is so uncommon that nearby farmers come to ask incredulously why the agave plants are being allowed to blossom. "In this project, you are basically turning tens of thousands of dollars worth of agave into bat feed," Mr. Camarena says.

"But this is a love story." Americans can share the love at bars like San Antonio's Esquire Tavern, which offers a bat-friendly-tequila cocktail dubbed "Batman of Mexico."

The spicy \$12 drink includes fresh corn syrup, a blend of chilies and lime, and bat-friendly tequila.

"It's a conversation starter," says the tavern's beverage director, Houston Eaves, who calls Dr. Medellín's project an "eye-opening kind of concept." The bat-friendly Tequila Ocho version can be found for around \$45 at some U.S. liquor stores.

Dr. Medellín has spent decades in hot caverns studying bats, including the lesser long-

nosed bat, the Mexican long-nosed bat and the Mexican long-tongued bat.

For much of that time, he was trying to convince tequila makers that bats are good for business as well as nature. He finally persuaded the three tequila makers three years ago, including Mr. Camarena, who says he was won over by the environmental concerns.

He and a team of students now moonlight sometimes as bat-friendliness compliance officers. Near midnight recently, they paced one of Mr. Camarena's fields inspecting agave crops that qualify for bat-friendly status.

"Did you bring some tequila?" Dr. Medellín asked. One replied: "Sorry, Doc, I don't drink at work."

They verified nectar levels of the flowering spikes and set bat nets to study the creatures that fly in as far as 60 miles from their caves. "Bats remember," Dr. Medellín said, feeding sugary water to an exhausted bat. "After 150 years, they are now back pollinating."

Since the late 19th century, farmers have propagated agave

fields, mostly in western Jalisco state, using clonal shoots rather than seeds. The bats have had to content themselves with flowering agaves in ditches or the wild.

As a result, Dr. Medellín says, many of Mexico's blue agave plants aren't very genetically diverse. That could make them susceptible to disease, he says, and bat pollination could help change that.

Tequila companies and the industry's trade group have made huge investments to fight disease, says Carlos Humberto Suárez, head of institutional relations at José Cuervo, the world's best-selling tequila maker. "There's a strict control of production methods to avoid risks. Blue agave isn't a wild plant, and its cultivation is closely supervised."

Tequila Patrón, a major distiller, has commissioned a study with Mexico's National Center for Genetic Resources to analyze the genetics of agave shoots and to check into Dr. Medellín's claims they lack diversity. "We want to do the right thing," says Francisco Soltero, head of strategic plan-

ning at Patrón, "but we feel that we need more information about it."

Tequila sales are booming, and distillers have a hard enough time finding enough blue agave, which takes about six years to grow.

In Mr. Camarena's tequila warehouse, Dr. Medellín marvels at one of the results of the bat friendly crop: 350,000 blue agave seeds. "This is a genetic treasure," he says.

Having turned several distilleries batty, he has had to pitch bat-friendly booze to bars. He's taken American bartenders to fields in Mexico to show them bats at work at night. "They ended up wanting to have their pictures taken with bats."

A visit last year to a field made a believer of Joaquín Meza, owner of El Rancho Grande restaurant in Providence, R.I. Before, "I wasn't that friendly to bats," he says. Now he is offering the bat-friendly spirit to clients.

"Many customers don't like such creepy creatures," he says, "so they get really intrigued when they try bat-friendly tequila."



# LIFE & ARTS

ART

## Videogames Take On a Life

Ian Cheng blends art and artificial intelligence in his first solo show at New York City's MoMA PS1

BY KELLY CROW

**WHAT IF A VIDEOGAME** could play itself? New York artist—and cognitive scientist—Ian Cheng has riddled out an answer that is winning over researchers and art lovers alike.

Mr. Cheng, whose first museum solo show, “Ian Cheng: Emissaries,” is on view at New York’s **MoMA PS1** through Sept. 24, has spent the past three years developing software that simulates animated games—with backdrops that include an ancient village nestled against a rumbling volcano, a teeming wildflower field and a spare, sandy atoll. The key distinction is that he has populated his scenes with foliage and figures who twitch and fight and feed each other in real time with no predetermined outcomes, an endless unspooling of artificial intelligence in beta mode.

At one point during the volcano simulation, Mr. Cheng said that he watched a group of villagers gang up on an outlier, kill him, drag his body into the center of town and urinate on him. “There was no algorithm for that,” he said. “It was horrifying, but it felt like a revelation since they had not been told to do anything like that.” In another simulation, he watched a pack of dogs encircle a man and repeatedly lick him, a man’s-best-friend response that was also unscripted.

**The Museum of Modern Art** said it was so impressed by Mr. Cheng’s work that it bought the trio of his simulations before the last one was even finished. Major collectors of video art like Dusseldorf’s Julia Stoschek have also bought early editions. New York’s Gladstone Gallery added the artist to its roster on Tuesday.

Starting Sept. 22, Pittsburgh’s Carnegie Museum of Art will show his latest simulation, “Emissary Sunsets The Self.” In a fresh twist, curator

Eric Crosby said that the Carnegie gallery’s overhead lights will be synced to match the day-or-night scenario unfolding on the piece’s 13-foot-long LED screen.

“A lot of artists are working in response to a digital landscape, but he’s innovating in that space,” Mr. Crosby said. “He’s invented an entirely new art form with its own rules and norms.”

Fans of HBO’s rebelling-robots show “Westworld” will relate to the anything-goes uncertainty that pervades Mr. Cheng’s works, but the artist said he isn’t striving for a hyper-realistic setting. In-



A scene from Ian Cheng’s ‘Emissary Forks at Perfection,’ above. The exhibit, below, is on through Sept. 24. And the artist, left.



stead, his programming allows characters to convulse and collide in mutations that look like software glitches. In the lush-garden game, he once watched an old-fashioned red telephone glom onto a nearby palm tree, a combination he calls a “self-made sculpture.”

Growing up in Los Angeles as the son of graphic designers, the 33-year-old artist said he always wanted to work within the nexus of cognitive science and art. He earned a dual degree at the University of California at Berkeley and worked afterward at George

Lucas’s visual-effects and animation studio, Industrial Light & Magic. Instead of fawning over “Star Wars” characters, he gravitated to the company’s research and development division, where he said researchers were toying with new ways to simulate natural phenomenons like whirlpools.

Later, after art school at Columbia in New York and jobs with established artists like Paul Chan and Pierre Huyghe, he began experimenting, creating the volcano scenario in early 2015. The only narrative direction he gave was to create a trembling threat in the

volcano, a shaman-leader who is coded to ignore it and the shaman’s daughter who is tasked with alerting her father to the impending eruption—but who often gets distracted by fellow villagers offering her food or a place to sleep or whatever daily-ritual the others want to enact in the moment. Mr. Cheng said he relished the godlike control he initially had over these characters and the surprising pride he felt once he let randomness intervene.

“Art is my way of playing with people’s nervous systems, to seduce them but also unsettle

them,” he said.

Peter Eleey, chief curator at MoMA PS1, said the work also raises intriguing questions for museums or collectors who want to store or study Mr. Cheng’s work for the long term.

Since his pieces operate like a computer program instead of a film, there is nothing to archive—only software to start up or update as the artist sees fit.

“At night, we turn the projectors off, but the piece itself keeps running,” Mr. Eleey said. “When we come in each morning, the Petrie dish is transformed.”

**MY RIDE** | By A.J. Baime

## BIG LOVE FOR A TINY, TINY CAR

*Ralph Hough, 74, the deputy mayor of Oro-Medonte, Ontario, on his microcars, as told to A.J. Baime.*

The week before I married my wife Wendy in 1962, we bought our first microcar, a Messerschmitt. We lived in England at the time and we went on our honeymoon in this car. Later we toured Europe in it, and in 1964 visited the Messerschmitt factory in Regensburg, Germany, right around the time the company stopped producing these vehicles.

Back then, microcars were called bubble cars, and they were quite popular, most notably the Messerschmitt (like ours) and the BMW Isetta. These vehicles first appeared in the early 1950s, not long after World War II, when resources like steel and fuel were scarce. (Messerschmitt built fleets of German military planes during the war.) Bubble cars made sense. They were efficient, did not use a lot of raw materials, and unlike scooters, protected riders from the weather.

Today, we have six Messerschmitts and one BMW Isetta, and we host a festival on our property called Micro North every June. We get 40 to 50 oddball cars from all over the northern States and Canada. This year’s party was extra special because it was the 25th year. It also marked the 55th year since my wife and I bought our first microcar, and

our 55th wedding anniversary. We collect these cars because of the sentimentality, because we had such memorable adventures in them when we were young.

The red car you see pictured here is a three-wheeled 1955 Messerschmitt KR175. It has a 175-cc motor that is bolted right to the car’s frame with no rubber engine mounts, so the vehicle is a real boneshaker. It is kind of a hybrid between a car and a scooter, in that it has handlebars and a motorcycle-style gear shifter, plus carlike foot pedals. It cruises comfortably at about 50 mph. At a constant speed of 30 mph, it could probably get close to 100 miles a gallon.

I bought this Messerschmitt from an owner in Montreal approximately 20 years ago, and it was a real basket case. I used parts from five other Messerschmitts in the restoration. I have no idea how much the vehicle cost because I have purposely avoided adding up the bills.

My wife and I have had wonderful adventures in microcars with other microcar fans. We like to do our part to keep these vehicles on the road so future generations can enjoy them too.

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



Ralph and Wendy Hough in their Messerschmitt in Ontario, more than a half-century after they took their first Messerschmitt on their honeymoon.

CLOCKWISE FROM TOP: IAN CHENG/PILAR CORRIAS/STANDARD (OSLO); IAN CHENG/MOMA PS1; PRESLEY ANN/PNC

JENNIFER ROBERTS FOR THE WALL STREET JOURNAL



OPINION

REVIEW & OUTLOOK

A Missed Warning on the McCain?

The U.S. Navy has found and identified 10 sailors who died last month when a guided-missile destroyer crashed into a tanker in the Pacific, and one service member hadn't reached his 21st birthday. An investigation continues, though a 2015 report that received little attention compounds questions about whether the military has the resources to equip sailors for war.

The USS John S. McCain's collision happened in a busy shipping lane near Singapore, and several theories have been offered. One is a cyber attack, though there is no obvious evidence so far. A Chinese newspaper pounced to suggest that it's unsafe for the Navy to operate in the area, and how convenient for Beijing's purposes. The Navy has released few details but relieved the commander of the Seventh Fleet, Vice Admiral Joseph Aucoin, who was scheduled to step down within weeks.

The McCain incident follows a fatal crash earlier this summer involving the USS Fitzgerald, which cost seven lives and the ship's commanding and executive officers their posts. A ship collided with a South Korean fishing boat in May. The USS Antietam somehow ran aground in Tokyo Bay in January; the Navy fired the commanding officer in that incident, too. The common denominator is the Pacific, and many ships in the Seventh Fleet region are "forward deployed." The McCain, Fitzgerald and Antietam are all home-ported in Japan.

The question is how so many events could unfold in a year in one command, and a 2015 Government Accountability Office report now regrettably looks prescient. The report describes how ships home-ported abroad have weathered particularly tough deterioration in recent years, while budgets have tightened and the size of the force has decreased. The Navy relies on an overseas presence that allows ships to show up anywhere within days or even

hours. This is great for deterrence.

But this requires a rapid tempo of operations. GAO found that ships home-ported in the U.S. spent 69 days a year deployed under way, on average, between 2004 and 2012. Ships based overseas in places like Spain or Japan spent 111 days under way. U.S.-based ships are supposed to spend about 40% of their 27-month cycle deployed or available, with the rest in maintenance or training.

Japan-based cruisers and destroyers, on the other hand, are slated to spend 67% of their two year cycle deployed or ready to go, and only 33% in maintenance. The accruing deferred maintenance, the report notes, could shorten a ship's life, even as the Navy has too few ships.

Unlike U.S.-based ships, the planning cycle for ships based in Japan also does "not include a dedicated training period" that allows crews to hone their skills for competency at sea. The quick turnarounds create what GAO calls a "train on the margins" approach. This means "crews train while under way" or sometimes in the few days in between.

It isn't clear what the Navy has done since the report's findings, and the point is not to blame the dysfunction entirely on the service. Funding and priorities are dictated by 535 politicians in Congress. The military has been subject to erratic budgets that make building new ships or other large projects difficult and more costly. Many of the politicians who complain about misspent money at the Pentagon have created a much more expensive mess.

The armed forces have an honorable tradition of relieving top brass after a failure, and more government institutions could benefit from such accountability. As for President Trump and Congress, perhaps this autumn they can take a break from feuding about a border wall—and pass a more stable appropriations bill to give American sailors the equipment and training they need for their crucial missions.

A 2015 report highlights the stress on ships and crews based abroad.

The Free-Speech Battles of Berkeley

Full semester in America has begun, and the University of California at Berkeley is back at the epicenter of the free-speech wars. Last weekend saw 13 arrests as Antifa activists bloodied their outnumbered foes in the city streets, and conservative journalist Ben Shapiro, former White House aide Steve Bannon and alt-right parvenu Milo Yiannopoulos are scheduled or have been invited to speak on campus this month. Stage set, Chekhov's gun on the table.

The university's new chancellor, Carol T. Christ, has vowed to restore free speech on campus, saying in August that it was "critical for the Berkeley community to protect this right." Resilience is "the surest form of safe space," she told students, and "we would be providing you less of an education" if "we tried protect you from ideas that you may find wrong, even noxious."

Yet Berkeley Mayor Jesse Arreguin has already asked the university to cancel controversial speakers. He said last week the city must be "very careful that while protecting people's free-speech rights, we are not putting our citizens in a potentially dangerous situation and costing the city hundreds of thousands of dollars fixing the windows of businesses."

Mr. Arreguin also suggested that conservative speakers were "just a target" for radical activists "to come out and commit mayhem on the Berkeley campus and have that potentially spill out on the street." Yet the risk comes not from the peaceful speakers but from masked and armed censors.

The mayor pressures the university to cancel controversial speakers.

Meanwhile, Ms. Christ is schooling the mayor on the First Amendment. The chancellor believes allowing the speeches to continue as scheduled is the university's legal obligation and spokesman Dan Mogulof told us she is prepared to spend hundreds of thousands of dollars on security to protect speakers and attendees.

Ms. Christ is off to a good start, but the pressure to capitulate will increase as the semester goes on. In the student newspaper recently, Berkeley resident Sarah Cordette accused the chancellor of "giving institutional support to white supremacists" and exposing students to "mental and emotional damage." You can imagine what the faculty is saying.

Past administrators were so intimidated by student protesters that the university installed a \$9,000 emergency exit in the chancellor's office, which soon became known as an "escape hatch." And when Mr. Yiannopoulos tried to speak on campus last February, Antifa activists threw Molotov cocktails, used commercial-grade fireworks as grenades, shattered windows and set fires, causing about \$100,000 in damage.

A mayor like Mr. Arreguin has a duty to maintain public order, and no doubt his job would be easier if no one controversial ever spoke at Berkeley. But a democracy needs the free exchange of ideas, and universities abandon a social duty if they aren't venues for that exchange. Mr. Arreguin should be standing in support of Ms. Christ rather than caving in to the violence of the radical left.

Navigating ObamaCare

One of the more evidence-free claims on the left is that the Affordable Care Act worked brilliantly before Republicans tried to dismantle it. Witness the claim last week that the Trump Administration is trying to tank the law's exchanges, which are struggling from lack of consumer choice and affordability, not from a lack of government marketing.

Health and Human Services announced Thursday that the agency will alter the funding structure for ObamaCare "navigators." These are the community outfits the Obama Administration paid to steer folks through the Affordable Care Act's subsidies and penalties. Last year the Obama Administration handed out \$62.5 million in grants for open enrollment for 2017, and the period arrives again in November.

The Trump Administration will tie grants to performance, and this is a classic government jobs program. One grantee took in \$200,000 to enroll a grand total of one person. The top 10 most expensive navigators collected \$2.77 million to sign up 314 people, and it would have been much cheaper to offer to pay all of their premiums for a year.

All told, the navigators last year enrolled about 81,000 people, less than 1% of the total. In fairness to the navigators, it would be tough to sell any product that millions of people are paying fines to avoid buying.

HHS will reduce funding for enrollment advertising—television ads, for example—to \$10 million from \$100 million last cycle. The new budget is about the figure for promoting Medi-

care Part D and Medicare Advantage, HHS has noted. The money will be directed to targeted campaigns such as emails and texts.

The administration tries to cut back on advisers who do little advising.

Critics accuse the Trump Administration of trying to sabotage the exchanges, and it's amusing to imagine that the problem with ObamaCare is that not enough people have heard about it. Navigators will receive funding based on enrollment goals; a grantee that enrolled 50% of projections will receive 50% of last year's funding. More than \$36 million will be paid out. So those who are competently enrolling people will still receive funding, and why pay those who aren't?

Last year's marketing blitz—double the \$50 million spent in 2015—produced no bump in enrollment, so classify as bogus the complaint that such moves "will create chaos in the health marketplaces," as Democratic Leader Nancy Pelosi claimed in a statement last week. Individuals who want to sign up for ObamaCare can find Healthcare.gov easily enough, and the website lists a number for staffed call centers.

Another false contention is that this won't save taxpayer money because much of the funding comes from fees on insurers, as if that isn't a tax passed onto consumers and individuals that will end up in larger taxpayer subsidies.

HHS is in the unenviable position of having to manage a broken law that the GOP failed to repeal, and the agency has an obligation to direct resources to their best use. There are more urgent health-care priorities than informing the public about insurance that Americans know is available but may not want or can't afford.

Does Trump Want A Nuclear Japan?

By Walter Russell Mead

As the North Korean nuclear crisis continues to deepen, the stakes are slowly becoming clearer. This isn't only about the threat Pyongyang poses to its neighbors or even to the U.S. mainland. Kim Jong Un is challenging the foundations of the American position in East Asia. In the process he has exposed a deep divide in American thinking, laying bare the hard choices Washington may soon be forced to make.

Close observers have long understood that North Korea's belligerence and nuclear buildup are pushing Japan toward fielding its own nuclear weapons. No nonnuclear power in the world is nearer to a nuclear capacity than Japan.

Many analysts believe it would take Tokyo only months to go from deciding to nuclearize to having the weapons. In the ensuing chaos, it's likely that South Korea and Taiwan would follow suit, with at least Taiwan receiving quiet help from Japan.

Elite Japanese opinion is perceptibly shifting in favor of the nuclear option. Conservative nationalists there have long believed that a nuclear arsenal would allow Japan to resume its place as an independent great power, freed at last from its post-1945 dependence on the U.S.

The Japanese public has been deeply skeptical, but North Korean threats and missile overflights—combined with doubts about American commitment and reliability—are leading more people to think the unthinkable.

The effort to get China to put its weight behind stopping North Korea is predicated on these assumptions. The theory is that China's interest in blocking Japanese and Taiwanese nuclearization is great enough to enlist Beijing in an all-out campaign to stop Pyongyang.

Logical as the concept may be, it is a hard sell. Although some Chinese experts understand that the U.S. presence in Asia advances their interests, others are so buoyed by China's economic growth and dismissive of Japan that they would rather focus on reducing American power in the region.

Neither the U.S. nor China should look to Russia, which benefits from the North Korean crisis, for much help checking the Kim regime. Moscow wouldn't greatly mind a nuclear Japan, whose rise would reduce American influence, promote a more "multipolar" international system and check China.

In this scenario Russia's influence in Asia would increase, with China and Japan competing for its favor.

The Trump administration appears divided. Some analysts, almost certainly including all of the top White House advisers, believe America's interests are best served by maintaining the status quo in the Pacific—prevent-

ing the nuclearization of Japan and others by providing them reliable protection under the U.S. nuclear and conventional umbrella.

Others, who may include President Trump, might see the nuclearization of East Asia not as a defeat, but as a victory for U.S. foreign policy. China's geopolitical ambitions would be contained by a nuclear Japan, South Korea and maybe Taiwan. Washington could remove troops from Korea and cut the defense budget, while letting allies pay the costs of containing China.

The alternative is a status quo in which the U.S. pays most of the bills to defend the Pacific against China, risks war with countries like North Korea and must further "bribe" its allies by promoting purportedly job-destroying cheap imports from countries like South Korea. This option doesn't seem all that attractive to Mr. Trump's "America First" voters.

It might please the 'America First' crowd. But retreat from Asia won't bring peace.

Yet standing aside in East Asia would also represent a clean break with American strategic thought after World War II. For decades the U.S. has guaranteed the status quo in places like East Asia while providing "international public goods" like the sea power that has kept the oceans open to all.

Americans have kept the peace at a sustainable cost. It's no longer clear that U.S. public opinion supports this long-term strategy; neither Trump Republicans nor Bernie Sanders Democrats seem to think in these terms.

But American retreat in the Pacific would more likely lead to arms races and military confrontation than to peaceful development. Beijing's ambitions in the South China Sea threaten the security of trade routes on which Japan depends. North Korea's drive for bigger bombs, and the intercontinental missiles to deliver them, would only continue.

The North Korean crisis presents the U.S. with two deeply undesirable alternatives. On the one hand, Washington can abandon seven decades of national strategy and risk growing instability in Asia; on the other, it can risk an ugly and dangerous war with a vicious and unprincipled opponent.

The Trump administration is trapped in a strategic dilemma with no easy escape. The allegedly crazy Kim regime has managed to put the U.S. in a tight corner. We must hope that Mr. Trump's White House can succeed where so many of its predecessors have failed badly.

Mr. Mead is a fellow at the Hudson Institute and a professor of foreign affairs at Bard College.

LETTERS TO THE EDITOR

FGM Is Abuse, 'Culturally Sensitive' or Not

Kristina Arriaga has her facts wrong ("Cutting Young Girls Isn't Religious Freedom," op-ed, Aug. 28). Neither I (nor Mayer Morganroth) are representing the doctor in the Michigan case. I am consulting with the religious group in an effort to strike the proper constitutional balance between religious freedom and the rights of children.

Ms. Arriaga purports to quote an interview in which she says I advocated the "pricking [of] the girls' clitoris." I have never advocated a pricking of the clitoris, but rather a benign, sterilized, symbolic pinprick in the hood covering the clitoris, which is much like the foreskin of the penis.

This is what I said in the interview: "I am categorically opposed to

female genital mutilation" (FGM) and argued that if the symbolic pinprick is adopted "it will help protect young girls and it will help protect religious rights." You wouldn't know that reading the op-ed.

The symbolic pinprick is modeled on the Jewish tradition when a non-Jewish child has been secularly circumcised and then converts to Judaism. The pinprick itself, like cosmetic ear piercing, has no medical benefits or harm. But it is less intrusive than procedures practiced by some groups, while protecting the constitutional right of its religious practitioners.

ALAN M. DERSHOWITZ  
Cambridge, Mass.

While federal law bans FGM, only 25 U.S. states specifically outlaw the procedure, making local prosecution difficult. Ohio doesn't statutorily forbid FGM. The Ohio Public Safety Department instead published "A Guide to Somali Culture" for first responders and law enforcement to achieve "cooperation, understanding, mutual respect, and harmony" with Columbus's Somali immigrants. The guide devotes more than four pages to the Somali-Muslim cultural-religious practice of FGM.

Instead of criminalizing FGM to protect little girls, the American Civil Liberties Union prefers culturally sensitive outreach to the Somali community. Would society permit such blatant child abuse from non-Muslim parents? Why do Muslims get a pass? We need to make it clear to new immigrants that Americans do not tolerate child abuse in the form of FGM.

KRISTINE M. SEVERYN, PH.D., R.PH.  
Dayton, Ohio

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ESTELLE SHAY  
Riverside, Calif.

The brilliant Mr. Damore should have realized that (X + X) > (X + Y).  
DAVID J. GROSS  
St. Augustine, Fla.



OPINION

# Tax Consumption Through a VAT, and Voilà

By John H. Cochrane

Soon the Trump administration and congressional leaders will unveil their tax-reform proposal. Reports indicate the proposal will include some reductions in corporate and personal rates and the end of some tax deductions. But true reform is likely to be stymied by the usual interests, by those who see the tax code primarily as a way to transfer income to or from favored or disfavored groups, and by politicians who dole out deductions, exemptions and subsidies to supporters.

If the administration and Congress drop the income tax, it won't be difficult to achieve 3% growth.

So if the process stays its normal course, don't expect the complex and dysfunctional U.S. tax code to change much. But if America's leaders were to attempt a really fundamental reform, they could break the political logjam. Changes must be simple, understandable and attractive to voters. And only fundamental reform paired with deregulation can hope to raise economic growth to 3% or more.

The best way to do this is to eliminate entirely the personal- and corporate-income tax, estate tax and all other federal taxes, and to implement instead a national value-added tax—essentially a national sales tax.

Much of the current tax mess results from taxing income. Once the government taxes income, it must tax corporate income or people would incorporate to avoid paying taxes.

Yet the right corporate-tax rate is zero. Every cent of corporate tax comes from people via higher prices, lower wages or lower payments to shareholders. And a corporate tax produces an army of lawyers and lobbyists demanding exemptions.

An income tax also leads to taxes on capital income. Capital-income taxes discourage saving and investment. But the government is forced to tax capital income because otherwise people can hide wages by getting paid in stock options or “carried interest.”

The estate tax can take close to half a marginal dollar of wealth. This creates a strong incentive to blow the family money on a round-the-world cruise, to spend lavishly on lawyers or to invest inefficiently to avoid the tax.

The U.S. tax code tries to limit this damage with a welter of complex shelters: 401(k), 526(b), IRA, HSA, deductions for corporate investment, and complex real-estate and estate-tax shelters.

Taxing something and then offering complex shelters is a sure sign of pathology. But by taxing cars, houses and boats when people or companies buy them, all this complexity can be thrown out. With a VAT, money coming from every source—wages, dividends, capital gains, inheritances, stock options and carried interest—is taxed when it's spent.

A reformed tax code should involve no deductions—including the



CHAD CROWE

holy trinity of mortgage interest, employer-provided health insurance and charitable deductions. The interest groups for each of these deductions are strong. But if the government doesn't tax income in the first place, these deductions vanish without a fight.

In these and other ways, if Congress and the president drop the income tax in favor of a VAT, or another simple consumption tax, they can break the political logjam and achieve a dramatic pro-growth reform.

It is essential that the VAT be uniform, and it is best to carve that in stone at the outset. Trying to transfer income or subsidize people and businesses by charging different rates for different goods or organizations will again muck up the tax system. And it is essential that the VAT replace rather than add to

the current tax system, as it does in Europe.

What about progressivity? It is easy to make a value-added tax progressive: In place of current exemptions, send everyone a \$10,000 check. Or people could receive a refund according to how much they spend, similar to income-tax refunds. Taxpayers could get a full refund for the first \$10,000, half for the next \$10,000, and so forth.

Electronic record-keeping makes this straightforward—it's just a big debit- or credit-card reward—and everyone would have an incentive to report purchases rather than to hide income.

But the chaos in U.S. income redistribution is as great as the anarchy in the tax code. Tax discussions fall apart because the redistributive influence of each change is assessed in

## Bring Back the American Work Ethic



MAIN STREET  
By William McGurn

two-thirds of the population lacking a bachelor's degree are condemned to the fringes of American prosperity, and so on.

Over breakfast at Manhattan's Warwick Hotel, his cowboy hat on the seat beside him, the man from Oklahoma makes clear he buys none of it. “My boss told me 50 years ago there's a person for every job and a job for every person,” he says. “That's still true.”

Formally, Mr. Funk is chairman, CEO and founder of Express Employment Professionals, one of the nation's largest job agencies. Informally, he sees himself as a man who makes a living by giving people hope—that is, by matching workers looking for

good jobs with employers looking for good workers.

Along the way he also served as chairman of the Kansas City Federal Reserve Bank.

By and large the employers he works with are small and medium-size companies with fewer than 250 employees. Most of the jobs Express fills are temporary positions in offices or light industry. Since he started the firm in 1983, he says, he's helped find jobs for 6.5 million people.

But Mr. Funk points out that 62% of the “temporary” workers he places end up being hired to stay on full-time. “Try before you buy,” he calls it—and says that goes for the worker too. “It's the greatest feeling in the world to help someone who wants to work find a good job,” he says.

This experience gives Mr. Funk some definite—and timely—notions about getting ahead in today's America. Like everyone else, he talks about education and skills. But what he means by these words may be a little different from how they are used in the Harvard Business Review.

Start with skills. Hard skills and experience, he says, are only half the

equation, and not the important half. He shares a small brochure his company puts out summarizing a recent survey of employers. “So many people do not realize how important the soft skills are to unlocking job opportunity,” he says.

‘There’s a person for every job and a job for every person,’ says Bob Funk.

In order, the survey found the top five traits employers look for are as follows: attitude, work ethic/integrity, communication, culture fit, critical thinking.

Drugs are a huge problem today, with many would-be employees putting themselves out of the running when they fail drug tests. A certified truck driver can start at \$55,000 to \$60,000 a year, for example, but no one's going to hire you if you do drugs.

If all this sounds old-fashioned, it is—and Mr. Funk isn't ashamed of it. So many people, he says, are unfamiliar

with the fundamentals of work, from knowing how to dress and showing up on time to taking direction from a boss. At a time when employers are complaining they can't find the people they need, Mr. Funk says being honest and having the right attitude will help you stand out from the pack.

Nor does Mr. Funk look down his nose at so-called McJobs: “Those low-paying, entry-level jobs,” he says, “are good training for the soft skills you need for upward mobility.” It's also far better than falling into the trap in which people end up losing their appetite for work because they become too comfortable with government benefits meant to be temporary.

And while education is vital, Mr. Funk says the most important thing for most people is the ability to be trained—which starts with basic competence in reading, writing and arithmetic. Mr. Funk also says institutions such as Oklahoma's Career-Tech, which works with local employers to train people for jobs that actually exist in their communities, are probably a better investment for many people than college.

isolation. By measuring how the tax and transfer system work together, politicians could get better taxes and more effective redistribution.

The U.S. also needs an integrated social-insurance program: Send checks to needy people, yes, but also monitor the amount they get from all government sources, including college financial aid, health insurance, energy assistance, Medicare, Medicaid, Social Security, unemployment insurance, food stamps, farm programs, housing and so on.

Even without reforming the programs, it's necessary at least to measure their total effect to calibrate accurately any tax-based redistribution.

What about the tax rate? Well, if the federal government is going to spend 20% of gross domestic product, the VAT will sooner or later have to be about 20%. Tax reform is stymied because politicians mix arguments over the rates with arguments over the structure of taxes. This is a mistake. They should first agree to fix the structure of the tax code, and later argue about rates—and the spending those rates must support.

Is all of this unrealistic? No. Sometimes when little steps are impossible, big jumps are feasible. It is unrealistic to think that tweaks to the current system will produce a big change from the status quo.

Now is the time. If American democracy cannot fix this tax code, economic stagnation and debt crisis or massive spending cuts await.

Mr. Cochrane is a senior fellow at Stanford University's Hoover Institution and an adjunct scholar at the Cato Institute.

As for Washington, instead of re-writing trade deals or pushing increases in the minimum wage, Mr. Funk says a real pro-worker agenda would focus on relieving the burdens on employers from laws like Dodd-Frank and ObamaCare, which fall heavy on the small and medium-size companies he works with: “If we could clear some of these burdens out of the way, I believe businesses would bust open and create many more jobs.”

Plainly the path to the middle class for Americans lacking college degrees has changed. No one today can expect to start in, say, a Chrysler factory at 18 and remain till 65 with steady pay raises along the way.

But Mr. Funk insists good jobs are out there, though people may have to knock on a few more doors to find the right one.

“I've helped a lot of people find jobs in my life,” he says. “And I've learned that if you are honest, have a strong work ethic, and stay off drugs, there's a great future for you out there.”

Write to [mcgurn@wsj.com](mailto:mcgurn@wsj.com).

## Reports That ‘Privacy Is Dead’ Have Been Greatly Exaggerated

By Lawrence Cappello

News broke last month that the Justice Department had demanded DreamHost, a Los Angeles tech company, turn over information on more than a million visitors to a website that coordinated anti-Trump protests—some of which turned violent.

Although the feds had a search warrant signed by a District of Columbia Superior Court judge, DreamHost refused to comply, arguing that the order raised First Amendment questions and could have a chilling effect on political expression.

Immediately the Justice Department felt pressure from its right and left flanks. Fox News libertarian Andrew Napolitano noted there are “very serious constitutional problems” with the order. His sentiments were startlingly similar to those of anti-Trump outlets like CNN and the Huffington Post.

Two days before DreamHost's chal-

lenge to the warrant was to be heard in court, the Justice Department announced it would seek a significantly scaled-back warrant. According to the government's lawyers, the department initially was unaware of “the extent of visitor data” it was requesting, and had “no interest in records relating to the 1.3 million IP addresses.”

Chief Judge Robert E. Morin approved the new warrant on Aug. 24, but also added extra privacy “protections.”

The government must now submit an amended report on what data it's collecting and explain how it will protect the identities of “innocent visitors” to the website. All IP addresses will be excluded, and any data deemed irrelevant to the case will be sealed by the court and inaccessible to any other government agency.

Some privacy advocates are still grumbling, but DreamHost published a blog post after the hearing in which it praised the decision as a “clear victory” for user rights.

The U.S. Constitution's First Amendment gets a small win, and privacy maintains a pulse in the digital age. This revised order strikes a much-improved balance between privacy rights and the interests of the Justice Department. Episodes like these can be useful reminders that the relationship between privacy and free speech has a rich heritage in America's political history.

In 1956 Alabama's attorney general pressed a state court judge to make public all of the National Association for the Advancement of Colored People's membership lists and employee rosters—complete with home addresses. The NAACP appealed to the U.S. Supreme Court. In *NAACP v. Alabama* (1958), Justice John Marshall Harlan II proclaimed a unanimous court had “recognized the vital relationship between the freedom to associate and privacy in one's associations.”

The ruling's core tenets were upheld two years later in *Bates v. City of Little Rock*, when Arkansas tried the same membership-list tactic. The Alabama opinion continued to be cited in the 1960s, when the high court offi-

cially recognized a constitutional right to privacy for the first time in American history.

As for the DreamHost controversy: The tens of thousands of protesters who took to the streets on Inauguration Day aren't entitled to absolute

A Washington, D.C., judge strikes the balance in an investigation of riots on Inauguration Day.

privacy. Any argument to that end would be ludicrous. More than 200 were arrested on charges of rioting, and the Justice Department has the authority to gather evidence in the interest of pursuing their convictions in a court of law. Those who choose to express their political views in a public setting forfeit certain reasonable expectations of anonymity—especially if they are violent.

But that wasn't the issue here. Americans express their political be-

liefs in a variety of ways. Some make financial contributions to organizations they support. Some attend private gatherings. Some are still honing their opinions and choose to stay informed by visiting a website or two.

The Justice Department's original demand obliterated those distinctions. It demonstrated an unnerving ignorance of the fundamental relationship between privacy and free expression.

Judge Morin has signaled that he intends to play an active role in supervising how the evidence is used, and the Justice Department investigation will no doubt move slowly. DreamHost has turned over the requested data, but investigators can't begin mining them until the company decides if it wants to file an appeal.

Alan Westin, perhaps the most influential privacy scholar of the 20th century, admitted in a 2003 interview that while he appreciates the role of privacy advocates who push for a “total privacy solution,” he would “never want to live under their regimes.”

The goal, for reasonable minds at least, is balance. The competing values of privacy and law enforcement, in the end, “need to be brought into some kind of harmony.” That all parties involved in the DreamHost case are debating that balance is a step in the right direction.

Faced with the latest news about a political hacking scandal or a corporate-data breach, many Americans have developed a troubling tendency to shrug their shoulders and remark knowingly that “privacy is dead.” The DreamHost fight shows it's still alive, and the fight for it can foster a search for reasonable solutions. It also provides a rare opportunity, in these polarizing times, for left and right to come together.

Mr. Cappello, a visiting professor of history at CUNY Queens College, is a lecturer for Thinkolio, a public-lecture series in New York.

### THE WALL STREET JOURNAL.

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LIFE & ARTS

TELEVISION REVIEW | By John Anderson

# Performer in Chief

**WHAT KIND OF CRAZY** '80s flashback would feature Lyn Nofziger, David Gergen and Mr. T? That would be “The Reagan Show,” which takes a provocative and amusing look at President Ronald Reagan’s use of television to sell economic plans, missile treaties and, mostly, himself. The Reagan White House, we’re told, created five times as much footage as the five previous administrations (shot by the U.S. Naval Photographic Unit). Which makes a certain amount of sense given that the leading role on what was called “White House TV” was being played by a leading man.

Directed by Sierra Pettengill and Pachó Velez, “The Reagan Show” is what you could call a kinder, gentler assessment of a president whose use of media was thoroughly calculating—though one would have to go back to Eisenhower to find a Commander in Chief who didn’t spin his television coverage as much as possible. The not-so-hidden subtext, of course, is the implied contrast between Reagan’s relatively benign cultivation/manipulation of the medium and the kind used by the current occupant of the White House. When we watch our 40th president promise to “make America great again,” the effect is more than a little unnerving—something like reverse déjà vu.

Created entirely out of archival footage, “The Reagan Show” features no voiceover and only the occasional subtitle, augmented with news clips and snatches of interviews with such bygone news stars as David Frost. While Reagan, former Hollywood actor, always seems to be performing when a camera is rolling, he’s less guarded after the official “moment” is concluded. “Take that, Mr. Gorbachev,” he dead-



President Reagan receiving a Thanksgiving turkey in 1983, above; Mikhail Gorbachev with President Reagan in 1987, left

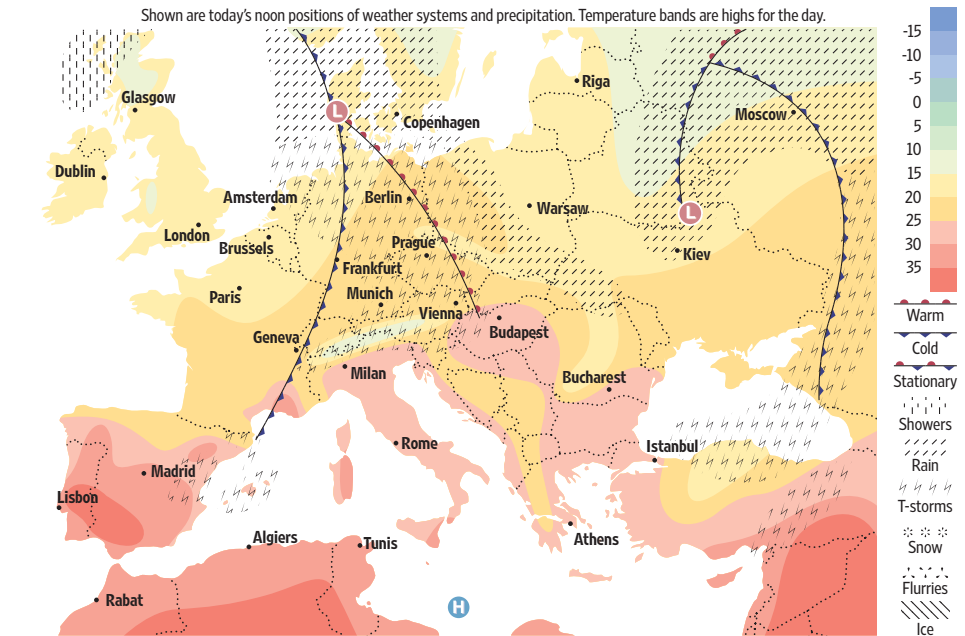
pans, following an address intended for Soviet audiences. (The charisma war he waged with the Soviet leader during their on-off arms negotiations constitutes a large and fascinating part of the program.) And the true Reagan seems to shine through in those moments that were edited out of the official “WHTV” segments—the jokes that don’t work, Nancy Reagan’s horrified reaction at having to do a photo-op on

horseback, the Thanksgiving turkey who tries to make a pre-pardon getaway. Then there’s Reagan’s repeated massacre of John Sununu’s name while making a campaign spot for the then-gubernatorial candidate. One of the more disorienting moments involves an admission Reagan makes during his farewell interview with David Brinkley on Dec. 21, 1988. Brinkley asks the president whether his years as an

actor had helped him in the White House. Reagan smiles warmly. “There have been times in this office,” he says, “when I’ve wondered how you could do the job if you hadn’t been an actor.” It’s far from a warm and fuzzy thing to say. But as “The Reagan Show” repeatedly reveals, it’s all about the delivery.

**The Reagan Show**  
Aired Monday, 9 p.m. EDT, CNN

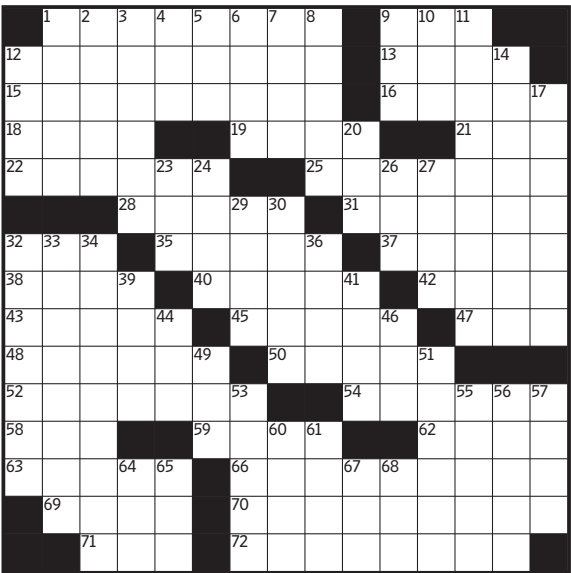
Weather



Global Forecasts

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	18	12	c	18	13	pc
Anchorage	15	9	r	14	9	c
Athens	29	21	s	29	21	s
Atlanta	23	13	t	24	13	s
Baghdad	46	28	s	44	27	s
Baltimore	20	13	r	23	12	pc
Bangkok	33	27	t	34	27	t
Beijing	32	16	s	33	17	s
Berlin	21	11	t	18	11	pc
Bogota	20	9	t	20	9	r
Boise	37	20	s	34	18	pc
Boston	22	17	r	21	14	r
Brussels	18	11	c	18	13	pc
Buenos Aires	17	11	sh	20	11	pc
Cairo	34	23	s	33	23	s
Calgary	29	10	s	31	14	s
Caracas	32	26	pc	33	26	pc
Charlotte	23	13	t	25	12	pc
Chicago	19	11	pc	20	11	pc
Dallas	29	17	s	29	17	s
Denver	28	12	s	31	15	pc
Detroit	20	10	pc	18	10	sh
Dubai	41	32	s	41	32	s
Dublin	17	11	pc	16	10	r
Edinburgh	16	9	pc	15	9	r
Frankfurt	21	9	pc	19	11	pc
Geneva	22	10	t	20	9	pc
Hanoi	33	26	t	32	26	t
Havana	32	23	pc	32	23	pc
Hong Kong	33	26	c	32	26	sh
Honolulu	30	23	pc	30	24	s
Houston	30	17	pc	29	16	s
Istanbul	26	18	s	27	19	s
Jakarta	32	25	c	33	25	c
Johannesburg	26	10	s	27	13	s
Kansas City	21	9	s	24	14	pc
Las Vegas	38	26	pc	38	24	pc
Lima	20	16	pc	20	16	s
London	18	10	pc	20	13	pc
Los Angeles	29	19	pc	30	19	pc
Madrid	33	16	s	31	14	s
Manila	32	25	t	34	26	t
Melbourne	13	8	sh	15	6	sh
Mexico City	21	14	t	20	13	pc
Miami	33	26	t	33	27	t
Milan	29	17	pc	29	17	pc
Minneapolis	19	11	pc	22	12	pc
Monterrey	30	18	pc	28	15	t
Montreal	22	12	pc	20	11	pc
Moscow	17	11	c	17	10	pc
Mumbai	31	26	c	31	25	pc
Nashville	24	11	pc	23	11	s
New Delhi	34	26	pc	34	26	t
New Orleans	29	20	t	28	20	s
New York City	21	16	r	22	16	sh
Omaha	22	9	s	25	14	pc
Orlando	32	23	t	32	24	t
Ottawa	22	10	sh	20	9	sh
Paris	19	12	c	20	13	pc
Philadelphia	21	16	r	23	14	c
Phoenix	42	29	pc	41	28	t
Pittsburgh	21	10	c	19	10	sh
Port-au-Prince	34	24	pc	31	25	r
Portland, Ore.	30	18	s	25	18	t
Rio de Janeiro	28	18	s	27	19	s
Riyadh	42	23	s	41	26	s
Rome	26	20	pc	26	17	t
Salt Lake City	36	21	s	34	21	s
San Diego	26	20	pc	27	21	pc
San Francisco	25	18	pc	23	17	pc
San Juan	30	26	r	31	27	r
Santiago	17	3	s	18	5	pc
Sao Paulo	33	25	pc	30	25	r
Seattle	24	14	s	26	14	pc
Shanghai	29	17	pc	25	17	pc
Seoul	23	19	r	27	20	pc
Shenzhen	33	23	r	28	23	r
Singapore	30	26	t	30	25	t
Stockholm	16	6	pc	15	6	pc
Sydney	19	11	s	20	10	s
Taipei	35	25	pc	34	26	c
Tehran	35	23	s	36	24	s
Tel Aviv	31	22	s	30	23	s
Tokyo	26	23	r	29	22	sh
Toronto	20	9	pc	19	8	c
Vancouver	27	16	s	23	16	c
Washington, D.C.	21	15	r	23	14	pc
Zurich	22	9	t	19	8	pc

The WSJ Daily Crossword | Edited by Mike Shenk



SAND BOX | By Jim Page

Across			Down		
1	With 9-Across, high-rise feature	31	Park place?	52	Recited
9	See 1-Across	35	With 45-Across, hurricane-prone area, and a clue to this puzzle's edges	54	Consumes conspicuously
12	Very near	37	Like some communities	58	"Starpeace" artist
13	Blockhead	38	Pizza chain, informally	59	Potpie veggies
15	Tubes in a studio	40	Phony	62	Tibia's place
16	Town on Long Island's southern shore	42	It's brought to order	63	Drug trafficker
18	Cherokee Landing State Pk. location	43	Barbershop item	66	1994 Italian film nominated for the Best Picture Oscar
19	It makes the bed	45	See 35-Across	69	Foal's father
21	"Boola Boola" singer	47	"The Racer's Edge"	70	Go back to square one
22	Hung in there	48	Shaman, e.g.	71	With 72-Across, roll to one side, e.g.
25	Hole in the head	50	Jellyfish delivery	72	See 71-Across
28	Valued strings				

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

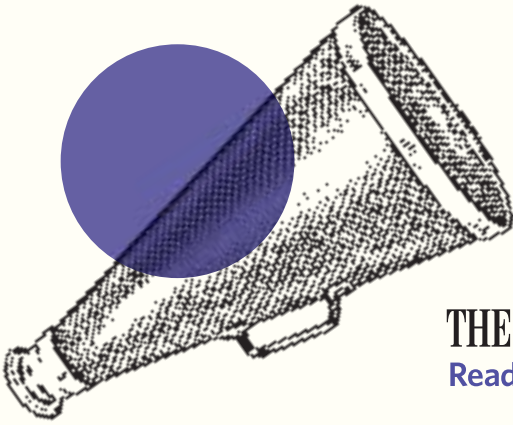
Previous Puzzle's Solution

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

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, September 6, 2017 | B1

**Euro vs. Dollar** 1.1919 ▲ 0.18%     **FTSE 100** 7372.92 ▼ 0.52%     **Gold** 1339.20 ▲ 1.11%     **WTI crude** 48.66 ▲ 2.90%     **German Bund** yield 0.340%     **10-Year Treasury** yield 2.072%

## Boeing Questions Takeover

United Technologies' deal for Rockwell Collins stirs concerns about competition

By DOUG CAMERON AND THOMAS GRUTA

Boeing Co. on Tuesday raised concerns about United Technologies Corp.'s proposed takeover of Rockwell Collins Inc., threatening to cancel some contracts with the suppliers if the combination undermines competition in the aerospace supply chain. A day after the \$23 billion deal was made public, Boeing said it was "skeptical" the transaction would benefit its

airline customers or the broader industry. "We would intend to exercise our contractual rights and pursue the appropriate regulatory options to protect our interests," the aircraft maker said in a statement. In buying Rockwell, United Technologies is betting it can foster the industry's creation of the fully digital airplane. Aerospace companies are investing heavily to connect everything from engines and brakes, and even coffee pots, using sensors to guide them on when to schedule maintenance or replacements. Such repairs have long been the most profitable part of the aircraft industry, prompting efforts by Boeing, Airbus SE

and others to secure a larger slice of the business, moves potentially threatened by United Technologies' move on Rockwell Collins. "It gives us the opportunity to do things that we wouldn't be able to do on our own," said United Technologies Chief Executive Greg Hayes on a Tuesday conference call. The combination with Rockwell Collins, he said, will make it easier to meet demand for digital offerings and integrate aircraft systems, with benefits like reducing overall weight. United Technologies is already the world's largest aerospace supplier, with almost \$30 billion in sales this year split evenly between engine maker Pratt & Whitney and

UTC Aerospace Systems, which makes everything from landing gear to the motors that control wing flaps. Rockwell Collins would add another \$9 billion in annual sales derived from its business of cockpit controls and communication equipment and this year's purchase of B/E Aerospace, the biggest provider of aircraft seats. Rockwell also makes the sensors and communication systems that allows for real-time tracking of those products' performance and the need for maintenance. Shares of Rockwell Collins traded little changed at about \$131, well below United Technologies' \$140 offer and Rockwell

*Please see DEAL page B2*



CHRIS RATCLIFFE/BLOOMBERG NEWS

Rovio introduced the 'Angry Birds' mobile game in 2009.

## 'Angry Birds' Firm Hatches IPO Plan

By DAVID GAUTHIER-VILLARS

Rovio Entertainment Oy, the Finnish company behind the "Angry Birds" mobile game and film franchise, plans to list shares on the stock market—a litmus test for an industry known for its erratic performance. Shareholders hope the initial public offering in Helsinki will value Rovio at a premium to rivals and give it a price tag of about €2 billion, or roughly \$2.38 billion, people familiar with the matter said. The company said in a written statement Monday that its planned IPO would involve a share issue of €30 million, as well as the sale of existing shares by majority owner Kaj Hed, the uncle of Rovio co-founder Niklas Hed, and other shareholders.

Mr. Hed, who owns about 70% of Rovio, intends to remain majority shareholder after the IPO, the people familiar with the matter said. In 2011, when "Angry Birds" mobile games were among the most popular world-wide, Rovio envisioned listing its shares on the Nasdaq Stock Market in New York. This time, the elder Mr. Hed has opted for Nasdaq's affiliate in Finland because he is eager to keep the company rooted in the Nordics, one of the people said. Rovio didn't respond to a request for comment.

Rovio said in its statement that the planned listing would enable the company to pursue its growth strategy, including through acquisitions, and gain more flexibility to remunerate its employees.

Mobile games account for about one-third of the larger videogame sector—which generated roughly \$100 billion in revenue last year.

Tech giants have been eager to take control of money-spinners capable of producing hit titles with hundreds of millions of regular users. Tencent Holdings Ltd.'s deal last year for Supercell Oy valued the Finnish mobile-game maker and its staff of about 200 at

more than \$10 billion. But fickle players have caused some hit mobile games to collapse in the charts, making their publishers a hard sell to individual investors. When Activision Blizzard Inc. bought King Digital Entertainment PLC last year, the maker of Candy Crush was straining to repeat the success of its blockbuster series, and the \$18-a-share offer was well below the company's IPO price of \$22.50.

Rovio itself has been on a roller coaster in recent years, going through several cost-cutting rounds and management changes.

The company could have a steadier trajectory on the stock market because it has diversified revenue streams thanks to the film franchise, analysts said. The company has also made good progress in harnessing new formats that allow players to download games free and buy virtual goods that help them advance to new skill levels, they said.

"In addition to leveraging the success of the Angry Birds movie and related merchandise and games sales, Rovio has also invested heavily in improving the monetization of its content through paid services and also advertising," said Jack Kent, an analyst with the IHS Markit consultancy.

In the first six months of the year, the company has said its revenue shot up 94% to €152.6 million. Earnings before interest, taxes, depreciation and amortization rose to €39.9 million from €11 million a year earlier.

Founded in Espoo, near Helsinki, in 2003, Rovio surged in 2009 with the launch of "Angry Birds." By 2011, the game was widespread.

But then the industry shifted. Rovio used to charge people a dollar or two to download each game, but competitors shifted to the "freemium" model, in which the games are free to play but upgrades cost money.

—Razak Musah Baba contributed to this article.



Verizon Up credits can be used to see Lady Gaga perform. Program participants must grant Verizon access to web-browsing histories.

## Verizon Wants to Get Personal

Wireless carrier to offer credits for movies and concerts, but asks to see browsing data in return

By RYAN KNUTSON

A new Verizon Communications Inc. rewards program, Verizon Up, provides credits that wireless subscribers can use for concert tickets, movie premieres and phone upgrades.

But it comes with a catch: Customers must give the carrier access to their web-browsing history, app usage and location data, which Verizon says it uses to personalize the rewards and deliver targeted advertising as its customers browse the web. The trade-off is part of Ver-

izon's effort to build a digital advertising business to compete with web giants Facebook Inc. and Alphabet Inc.'s Google, which often already possess much of the same customer information. Even though the U.S. Congress earlier this year dismantled tough privacy regulations on telecommunications providers, Verizon still wants customers to opt in to its most comprehensive advertising program, called Verizon Selects. Data collected under the program is shared with Oath, the digital-media unit Verizon created when it bought AOL

and Yahoo. Since access to data from customers could make it easier to tailor ads to their liking, Verizon hopes the information will help it gain advertising revenue to offset sluggish growth in its cellular business. While it added more than 600,000 wireless subscribers in the latest quarter, the gains came during a period of intense competition that forced it to revive unlimited-data offerings and sacrifice the revenue it generated from pricier plans and overage fees. Verizon's core wireless business generated \$89 billion

in revenue in 2016—a 2.7% drop from 2015. Meanwhile, its digital advertising unit brings in roughly \$7 billion a year. Verizon has about 4% of the U.S. digital advertising market this year, compared with 41% for Google and 20% for Facebook, according to eMarketer. Wireless competitor AT&T Inc. faces similar challenges as it also tries building an ad-targeting program around its new video services.

Verizon—the U.S.'s largest carrier, with more than 114 million subscribers—has been experimenting with targeted-

*Please see DATA page B4*

## Decade After Crisis, 'Black Swans' Clipped

By JON SINDREU AND LAURENCE FLETCHER

In the wake of the global financial crisis, fear of such "black-swan" events drove some investors into hedge funds that offered protection should markets plunge. But the swans have yet to return, and such strategies have fallen out of favor.

The patience of many investors has run out after losing money during the intervening years of mainly benign market conditions. According to data by CBOE Eurekahedge, those who invested in these tail-risk funds—which are designed to reap benefits from sudden slumps—when their performance peaked in September 2011 would have by now lost 55% of their money.

Some big names in asset management have been hit, leaving only a handful of funds that promise outsize returns should markets go into a tailspin. Those left say that a decade

after the financial crisis began, people have forgotten its lessons just as market risks are building. Market volatility is near record lows and stock markets remain resilient, but entering September, typically the weakest month of the year for the U.S. stock market, many investors and traders are looking over their shoulders.

The term black swan was popularized by writer and academic Nassim Nicholas Taleb to describe extreme events that are difficult to predict and more likely to happen than forecast.

Historically high stock valuations, increased consumer leverage and extraordinary central-bank stimulus are among the factors that some money managers believe make a black-swan event more likely than at any time since the financial crisis, which sent stock, credit and commodity markets plummeting. However, critics point to

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GOLD CLIMBS AS TENSIONS INCREASE

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HEARD ON THE STREET | By Richard Barley

## Spain Flashes a 'Buy' Signal



One of the problems for investors in Europe is that there are many moving

parts: Spain is different from Italy is different from Germany. But when the movement is in the right direction, that creates opportunities. Spanish stocks look like a rewarding way of playing a stronger eurozone.

Spain was hit hard by the eurozone crisis as a property and banking bust unfolded. Spanish gross domestic product fell by almost 10% from its precrisis peak and unemployment surged to over 25%.

But the turnaround has been notable. Spain is on track to expand its economy by 3% this year. The current account has swung into surplus from a deficit of close to 10% of GDP precrisis. Spain has seen a lot of deleveraging, too, with credit to the nonfinancial sector



CHENIA MOVA/EPH/SHUTTERSTOCK

Spanish stocks offer a good way to bet on eurozone growth.

falling by some 50 percentage points of GDP since 2010, Bank for International Settlements data show.

There should be more to come. Spanish GDP has only just regained its precrisis level. And while joblessness has fallen steadily, unemployment still stands at 17.1%, suggesting there is plenty of slack to be used up

in the labor market. Spanish stocks offer a good way to bet both on domestic growth and on trends within Europe. In particular, bank stocks figure heavily in the IBEX 35 and the MSCI Spain indexes—with the latter available to investors via the iShares MSCI Spain Capped exchange-traded

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Agarwal, Gaurav.....B4	Huber, Lars.....B6	<b>P</b>
Akerkar, Sanket.....B5	Idema, Matt.....B4	Padda, Bali.....A2
Aronson, David.....B7	Ironside, David.....B9	Prew, Mike.....B9
<b>B</b>	Ivory, Trevor.....B6	<b>R</b>
Batista, Wesley.....B5	<b>K</b>	Rose, Tom.....B6
Black, Stewart.....B5	Kent, Jack.....B1	<b>S</b>
Bonk, Jacob.....B5	Knudstorp, Jørgen Vig.....A2	Scotti, Diego.....B4
<b>C - D</b>	Kotak, Hemant.....B9	Smith, Daniel R.....B5
Christiansen, Niels B. A2	<b>L - M</b>	Sood, Amit.....B5
DiBattiste, Pete.....B10	Levin, Adam.....B4	Spitznagel, Mark.....B2
<b>H - I</b>	Lewis, Janet.....B3	Sutton, Chris.....B6
Hed, Kai.....B1	Lewis, John.....B6	<b>W - Z</b>
Hed, Niklas.....B1	Moffett, Craig.....B4	Weber, Christophe.....B2
		Zhang, Yale.....B3



The Volatility Index pit at the Chicago Board Options Exchange.

## FUND

Continued from page B1  
evidence suggesting that buying insurance is always a losing strategy in financial markets.

As the crisis peaked in 2008, **Universa Investments** LP made returns of above 100% for its clients.

Nine years later, "I don't see anyone out there doing what I do," said founder Mark Spitznagel, who defined what he does as "sort of like gold on steroids."

There is no set definition for how far markets must fall before the drop can be labeled as a black-swan event.

Funds like Mr. Spitznagel's, which Mr. Taleb advises, mainly use put options to protect against significant moves lower. A put is an option to sell a security at a particular price, usually within a limited period, so they benefit when the security's price drops below that "strike" price. Investors can buy cheap out-of-the-money options with a strike price way below where the security currently trades.

Tail-risk funds also invest in gold and other assets perceived as safe that usually rally when other markets collapse. But recently, markets have mainly climbed as central banks continue to flood them with funds and the global economy expands. The CBOE Volatility Index, known as Wall Street's "fear gauge," fell to its lowest intraday level ever in July and remains near historic lows. The S&P 500 has been on a smooth road higher since early 2009, while the bull run in bonds continues.

Those results have hit these investors hard. Tail-risk funds are down 6.3% this year through July, according to data group eVestment, and have lost money in four of the five preceding years.

London hedge fund **Man Group** PLC launched the AHL Tail Protect Fund in 2009 and has lost 45% since then, according to Man Group. **Capula Investment Management** LLP's Tail Risk Fund, one of the biggest in the sector with \$3.7 billion under management, is down 6.7% this year, according to an investor letter

reviewed by The Wall Street Journal. The fund made 11% in 2011 but lost 14% the following year and ran up further losses in three of the four years following. Representatives of Man Group and Capula declined to comment.

Many others have given up. **AXA Investment Managers** wound down its tail-risk fund several years ago.

While there are still inflows into these funds, according to eVestment, many of those left in the game have changed the meaning of what they consider a "tail risk." Rather than focusing on black-swan events, they now offer cheaper insurance against less extreme—but more common—stock selloffs.

Swiss wealth manager **Unigestion** SA shut down a tail-risk-focused fund in 2010 but now runs a strategy to protect against bumpy days in the market. Recently, Unigestion bought the Japanese yen and sold the Korean won, a currency pair that would move apart considerably if the market becomes more fearful.

"The protection will be less significant," Unigestion's head of cross asset solutions, Jérôme Teiletche, said. "But the cost will be less significant as well."

It costs money to roll over put options, and if they aren't being triggered, they aren't earning anything back.

Protecting against volatility can provide returns if timed properly, but over the long term it is a losing strategy, according to a raft of academic papers and market analysis. It is similar to taking an insurance policy on your car or home. On average, it is the insured, rather than the insurer, that loses money.

The Barclays Bank PLC iPath S&P 500 VIX Short-Term Futures exchange-traded note, which bets on surges in volatility, is down 98% over five years.

**AQR Capital Management** LLC calculates that black-swan events need to happen, on average, at least once every decade for tail-risk strategies to break even. The fund defines such an event as a 20% drop in the S&P 500 in one day.

But the last time the stock market suffered such a plunge was nearly 30 years ago, on Black Monday, Oct. 19, 1987.

## BUSINESS & FINANCE

# Law Firms Set to Combine

Merger agreements prolong a trend as midsize partnerships look to their survival

By SARA RANDAZZO

As law firms feel continued pressure to expand or risk perishing, more law firm tie-ups are coming together.

Chicago-based **Arnstein & Lehr** LLP is merging with East Coast-based **Saul Ewing** LLP, the two firms announced Tuesday, forming a more-than-400-attorney operation with strengths in bankruptcy, litigation, finance and real-estate work.

Philadelphia-based **Ballard Spahr** LLP, with more than 500 lawyers, also said Tuesday it plans to take on 110 lawyers from Lindquist & Vennum LLP, a Minneapolis-based firm specializing in midmarket private equity and mergers-and-acquisitions work.

The deals are among the largest in the legal industry this year. In June, 250-lawyer New York-based firm **Chadbourne & Parke** LLP combined with international firm Norton Rose Fulbright. Five hundred-thirty-attorney U.S. firm **Womble Carlyle** is set to merge with slightly larger U.K. firm **Bond Dickinson** in the fourth quarter.

In the face of stagnant demand for legal services, many firms have turned to mergers to boost market share and stay competitive.

There were 52 combinations announced in the U.S. in



Saul Ewing managing partner Barry Levin, left, with Arnstein & Lehr Chairman Jeff Shapiro.

the first half of the year, according to legal consultancy Altman Weil, exceeding previous midyear highs. Many of the deals this year have included one international firm, and the majority involve acquisitions of firms with 20 or fewer attorneys.

The latest deals are purely domestic.

Arnstein & Lehr brings offices in Illinois and Florida, joining with 11 Saul Ewing offices predominantly in the Northeast. The new firm will be branded as Saul Ewing Arnstein & Lehr.

Some of the firms' clients include advisory firm Willis Towers Watson, engineering firm Thornton Tomasetti and commercial real-estate company ShopCore Properties.

The merger results from six months of talks between firm leaders, which started after the two were introduced through a law-firm consultant a year ago.

Saul Ewing managing partner Barry Levin, who will lead the combined firm, said market forces have made it increasingly necessary to have a bigger footprint.

Ten years ago, he said, having 275 lawyers "was right in the bull's-eye of the definition of a midsize law firm," but today it hardly qualifies as such.

A shared culture between the firms helped make the deal attractive, which "sounds corny, but it's true," said Jeff Shapiro, who served as chairman of Arnstein & Lehr until the deal.

"I've seen too many firms merge, then essentially unmerge if they didn't fit," Mr. Shapiro said.

Founded in 1893, Arnstein & Lehr has long specialized in business, litigation, local government, tax-and-estate planning and real estate. The firm also has expertise on advising players in the controversial EB-5 visa program, which awards visas to wealthy foreigners who invest in qualified U.S. projects.

The larger Saul Ewing, which brings 262 attorneys and a similar number of staff into the combination, focuses on the energy, insurance, higher-education and life-sciences sectors. The firm represents more than 100 colleges and universities.

# Takeda Soothes Debt-Load Fears

By PREETIKA RANA

TOKYO—**Takeda Pharmaceutical** Co. Chief Executive Christophe Weber said another multibillion-dollar acquisition was unlikely soon, allaying fears Japan's largest drugmaker was building up too much debt after paying nearly \$5 billion for a U.S. company in January.

The deal for Ariad Pharmaceuticals, Mr. Weber's first major acquisition since taking the reins at Takeda three years ago, drew concern from credit-ratings firms, with some lowering their outlook for Takeda debt. Takeda paid a 75% premium over Ariad's closing price before the deal was announced.

In an interview, Mr. Weber said Takeda was following a disciplined approach and the

rewards of the Ariad purchase outweighed the risks. In April, Ariad won regulatory approval in the U.S. for a lung-cancer therapy that Takeda says could generate as much as \$1 billion in sales a year.

After borrowing money to buy Ariad, Takeda's gross debt as of March 31 stood at nearly four times the company's earnings before interest, tax, depreciation and amortization, or Ebitda. That ratio was up from two times a year earlier. Banks use the ratio to assess a company's ability to service its debt. The higher the ratio, the lower the chance lenders advance loans, constraining the company's ability to borrow cash. "We don't want to be overstretched. We want to be between two to three times Ebitda," Mr. Weber said.

While Takeda will continue

to closely monitor promising startups, Mr. Weber said to investors: "Don't expect an announcement very often. We are very risk-aware."

Takeda is faced with a shrinking pool of patent-protected products, much like its Western counterparts. Actos, the company's blockbuster diabetes drug, lost patent protection in 2012. Acid-reflux medication Dexilant is expected to lose exclusivity in 2020, paving the way for less-costly generic copies.

The company has forged more than 50 partnerships in the past three years, and on Monday it said it would join a Japanese biotechnology startup to co-develop a cancer therapy of the type known as CAR-T, which involves modifying patients' immune cells so they are programmed to at-

tack tumors. Novartis AG last week won approval for the world's first CAR-T therapy.

Despite the patent expirations, Mr. Weber said Takeda was poised for solid growth over the next few years on the back of recently introduced products including Ninlaro, a multiple myeloma treatment poised to become the company's best-selling cancer product. The drug came from Takeda's \$8.8 billion acquisition of Millennium Pharmaceuticals Inc. in 2008. Takeda later spent \$14 billion to buy Switzerland's Nycomed A/S.

A former GlaxoSmithKline PLC executive, Mr. Weber is the first non-Japanese CEO at 236-year-old Takeda and one of the few foreigners leading a large Japanese company.

—Chieko Tsuneoka contributed to this article.

## DEAL

Continued from page B1  
well's recent highs. Customer opposition and the potential of antitrust action given the sheer scale of the proposed deal—rather than product overlap—still leaves some question marks, analysts said. The deal is expected to close by the third quarter of 2018, after regulatory and competitive concerns are reviewed. Shares of United Technologies fell 5% to \$111.98.

Mr. Hayes said the companies will have to work with customers that have change-in-control clauses in their contracts, but played down the risks. "We don't see anything that will stop this transaction from happening," he said.

Credit Suisse analysts gave the deal an 80% chance of closing, mostly because of the lack of major overlaps, even with Boeing pushing against the takeover.

*Airbus has expressed concerns about United Technologies' ability to deliver engines.*

Both Airbus and Boeing privately lobbied last year against plans for United Technologies to buy Honeywell International Inc., according to people familiar with the situation. However, Honeywell's \$15 billion aerospace unit had far more product overlap with United Technologies.

Rockwell Collins CEO Kelly Ortberg would become head of



Rockwell Collins is a major supplier of cockpit controls.

a new United Technologies unit, Collins Aerospace systems, with annual sales of \$23 billion, hefty that some believe will unsettle Airbus and Boeing.

"This may greatly concern aircraft [makers] such as Airbus and Boeing as they confront an ever increasing proportion of their supply chain controlled by a single supplier," said Stephen Perry, managing director at Janes Capital Partners, a boutique aerospace investment bank.

On Tuesday, Mr. Hayes was already working to ease such worries.

There wasn't any discussion of the potential deal with customers before its announcement, according to a person close to the deal, but Airbus had publicly expressed concerns that United Technologies might take its eye off the ball as a key Airbus supplier. An Airbus spokesman said the

company hopes "this M&A will not distract UTC from their top operational priority," which is delivering a new generation of Pratt & Whitney engines.

United Technologies' Pratt & Whitney division has struggled with production and reliability of its new geared turbofan jet engine that powers Airbus A320neo single-aisle planes. Efforts to fix the shortcomings have encountered repeated delays, and some analysts warned that the demands of integrating Rockwell Collins could aggravate the problem. Airbus plane deliveries this year are running behind because of a dearth of engines, but United Technologies officials have said they expect the problems to be resolved this year and commitments to be met for engine deliveries.

—Robert Wall contributed to this article.

## HEARD

Continued from page B1  
fund, which also comes in a currency-hedged version. The European Central Bank's gradual exit from ultraloose monetary policy should support banks as bond yields rise; heavyweights **Banco Santander** and **Banco Bilbao Vizcaya Argentaria** should benefit.

Further, there is a kicker of exposure to potential growth elsewhere, particularly in Latin America, although that carries risks around politics and U.S. trade policy.

Spanish stocks aren't outright cheap—the IBEX 35 trades at 13.9 times forward earnings versus 14.8 times for the broader Euro Stoxx, according to FactSet—but they still look extremely attractive against eurozone bonds, in which yields on both government and corporate debt remain extraordinarily low. The bond rally has run its course, but shares have room to gain.

Spain bears some political risk, with the long-running question of independence for Catalonia rumbling on and another vote scheduled for October. But the market is more likely to be concerned about the disruptive potential of politics in Italy, making Spain look like a calmer bet.

The market has started to catch on to these factors: Spanish shares are beating their French and German peers this year and have weathered the rising euro better, but are well off their 2017 peak. With Europe looking stronger than it has for some time, it should be more a case of fiesta than siesta for buyers of Spanish stocks.



BUSINESS NEWS

# Jeep’s Suitor Hit China Potholes

Great Wall Motor looks to grow abroad amid profit challenges in its domestic market

By TREFOR MOSS

SHANGHAI—Great Wall Motor Co.’s push to go global by acquiring Jeep is being spurred by some tricky realities closer to home, where the Chinese auto maker faces sliding profit, thorny government regulation, and red-hot competition in its core segment.

As the once-freewheeling China market becomes more competitive and growth slows, Great Wall is signaling through its acquisition plans that foreign expansion could be the best way to increase profit amid rising domestic pressures.

Acquiring Jeep wouldn’t only give Great Wall a world-leading brand, but it would also provide access to foreign markets, including the U.S., where the Chinese auto maker has little or no presence, and with it new avenues for growth.

“An overseas acquisition would be very helpful to Great Wall,” said Janet Lewis, managing director of equity research at Macquarie Capital Securities. Like other analysts, Ms. Lewis says that Great Wall’s strong financials make it a credible suitor for Jeep despite its relatively small size.

There is less consensus on whether Great Wall could secure Jeep without agreeing to buy all of its parent, Fiat Chrysler Automobiles NV, as some say the latter might insist. That would dwarf any deal previously attempted by a Chinese auto maker.

Great Wall said in August it is considering a possible acquisition of Jeep, and possibly all of Fiat Chrysler. It declined to comment for this article.

Based in China’s Hebei province, Great Wall is still a minnow by global standards. The world’s biggest car companies—General Motors Co., Toyota Motor Corp. and Volks-



A Great Wall dealership in Beijing. The auto maker faces tougher regulations and competition.

wagen AG—each produced 10 times more vehicles than Great Wall last year.

China’s top producer, Shanghai Automotive Industry Corp., also eclipsed its local rival, building 6.5 million cars, though most of those were copies of foreign autos built via joint ventures with GM and Volkswagen.

Unlike state-run auto makers such as Shanghai Auto, Great Wall has focused solely on building its own brand.

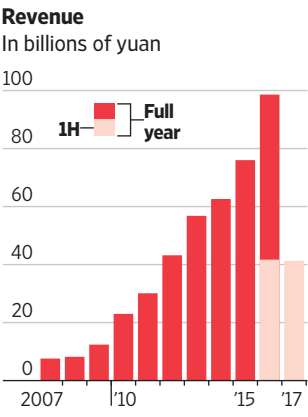
Founded in 1984 as a pickup and later sedan maker, it has transformed itself over the past few years into a sport-utility-vehicle specialist. The company’s Haval marque accounted for 87% of the company’s 2016 unit sales, up from 25% in 2009.

In recent years Great Wall also began focusing on the China market. Exports last year were just 1.5% of total sales, off from 43% a decade earlier, when the company exported in relatively small volumes to developing markets such as Africa and the Middle East.

Ms. Lewis said the China market was growing quickly at

## Profit Engine

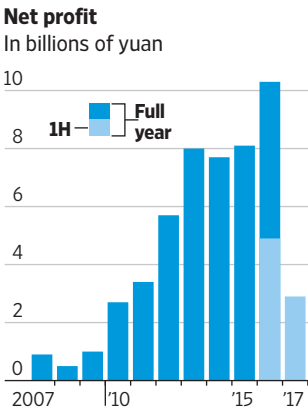
Great Wall has been one of China’s most profitable auto makers, but profits have slipped in 2017.



Note: 10 billion yuan = \$1.51 billion  
Source: Great Wall Motor

the time that local auto makers could afford to disregard exports, and the popularity of SUVs has soared in China over the past few years. Moreover, Great Wall spotted the trend early, establishing itself as the country’s top SUV maker.

Last year, Great Wall’s sales topped one million cars for the



THE WALL STREET JOURNAL.

first time. In a country where most domestic auto brands struggle to make money, the company reported a record \$1.6 billion profit on \$15 billion in sales. But that was likely the high-water mark in terms of China auto-sector growth: Car sales increased 16%, but are unlikely to top 5% growth from

2017 onward, officials predict, as the market enters a “new normal” of slow expansion.

For Great Wall, this year’s slowdown coincided with stiffer competition in the SUV market from foreign and domestic rivals, resulting in flat unit sales in the first half of 2017, and halved profits. Haval slipped to No. 4 among the top-selling Chinese auto brands, according to researcher LMC Automotive, having been second previously.

The company has fought back by launching a new premium brand called Wey in April designed to boost profitability, and unveiling a second generation of its H6 SUV, which accounted for 54% of all Great Wall sales last year. It remains China’s best-selling SUV, but its lead has been eroded by rivals.

With China market saturation expected, Great Wall and other domestic auto makers must give foreign markets new attention, said Yale Zhang, managing director of consulting firm Automotive Foresight. A foreign acquisition, like Great Wall’s pitch for Jeep, would be the quickest way.

Of more immediate concern, however, are new government regulations requiring auto makers to start building electric cars, and imposing tough efficiency standards on gasoline models. That is a headache when your specialty is gas-guzzling SUVs. “If you have a high sales share of big vehicles, it’s going to be tough for you to meet the standard,” said He Hui of the International Council on Clean Transportation.

Beijing requires auto makers to achieve a fleet fuel-efficiency standard of 5 liters per 100 kilometers—equivalent to 2.1 gallons per 100 miles—by 2020. The H6 burns twice that much gas.

Great Wall failed to meet the government’s less-stringent fuel-efficiency requirements in 2016, official documents show.

The government hasn’t yet imposed penalties on auto makers that miss fuel-efficiency targets, but pressure is mounting, said Ms. He.

# Germany’s Merck Says Unit Is for Sale

By DENISE ROLAND

Merck KGaA put its consumer-health unit on the block Tuesday in a move that will focus its health-care activities on the riskier business of developing prescription medicines.

Darmstadt, Germany-based Merck is considering options for its consumer-health operations, including a full or partial sale, or strategic partnership, the company said. A final decision hasn’t been made.

The move is a bet on Merck’s growing pipeline of prescription drugs for diseases such as cancer and multiple sclerosis. Merck has struggled to launch lucrative new drugs in recent years, though it has confidence in its current development pipeline, forecasting new drugs could generate over €2 billion (\$2.38 billion) in yearly revenue by 2022.

“We have continued to transform Merck...over the last years into a leading science and technology company,” Chief Executive Stefan Oschmann said in a written statement.

Merck’s consumer-health unit manufactures over-the-counter drugs and generated sales of €860 million in 2016 from a portfolio of 10 core brands that serve more than 40 markets.

Citi analyst Peter Verdult estimated it could fetch a price of €1.8 billion to €2.7 billion from a full sale.

A sale of the consumer-health unit would focus Merck’s health-care arm purely on prescription medicines.

Merck said that proceeds from any transaction would be used to help meet the company’s financial targets.

The company isn’t affiliated with U.S.-based Merck & Co.

# Schneider, Aveva Merge Industrial-Software Work

By BEN DUMMETT AND NICK KOSTOV

Schneider Electric SE of France has agreed to take control of British engineering software provider Aveva Group PLC, the latest move by an industrial giant toward writing the software that will run the factories and machines of the future.

Under the deal, announced in a joint statement Tuesday, Schneider will fold its software assets into Aveva’s operations and pay the U.K. company more than £550 million (\$710 million) in exchange for a 60% stake in the combined entity, in a so-called reverse takeover. Aveva would also distribute £100 million to shareholders following the deal’s completion.

Fearing disruption from tech startups and Silicon Valley giants, the companies are combining their software operations to add heft as manufacturing adopts more automation. Other companies, including General Electric Co. and Robert Bosch GmbH, have been have been working on digitizing their own manufacturing processes, and developing software platforms and au-

tomation tools to sell to other industrial players.

Schneider has already targeted U.K. software companies in the past to bolster its industrial-software business. In 2013, it agreed to acquire Invensys PLC for £3.31 billion to better compete against rivals such as Siemens AG, Mitsubishi Electric Corp. and Rockwell Automation Inc. The combination would offer it opportunities to cut costs and access new customers.

“Through increased scale and complementary footprint the transaction will generate synergies that will benefit customers and shareholders alike,” said Jean-Pascal Tricoire, Schneider’s chief executive.

The planned transaction is similar to the structure of the companies’ previous attempt to merge their industrial-software businesses in July 2015. Then, Schneider had agreed to combine its software assets with those of Aveva and pay £550 million in exchange for a 53.5% stake in the enlarged group. However, the deal collapsed after the two sides couldn’t agree on final terms.

Spun out of the University of Cambridge in 1967, Aveva

provides engineering software to owners, operators and engineering contractors that operate in the power, oil-and-gas, marine and paper and pulp sectors, among others.

It employs more than 1,700 people across 30 countries. Its other main markets include power, petrochemicals and chemicals.

The deal comes at the same time Aveva is trying to reduce its reliance on the slowing oil-and-gas and marine markets. For the year ended March 31, Aveva boosted revenue by 7% to £215.8 million from the prior year, benefiting in part from currency moves. Discounting that, revenue was down 3.8%.

Schneider’s software is used to help manage manufacturing processes, design tools, and train plant crews. It services industries ranging from transportation to its largest market of food and beverages and pharmaceuticals, which generates about 16% of the company’s annual software revenue.

The combination will give Aveva greater access to the U.S. market, where Schneider’s software business generates almost half of its annual sales.



A Schneider operation in Gujarat, India. The deal increases the French company’s automation heft.

BOUYGUES  
FIRST-HALF 2017  
RESULTS

SHARP IMPROVEMENT  
IN GROUP  
PROFITABILITY

- BACKLOG FOR THE CONSTRUCTION BUSINESSES AT A RECORD LEVEL
- GROWTH IN COMMERCIAL AND FINANCIAL RESULTS AT BOUYGUES TELECOM
- OUTLOOK FOR 2017 CONFIRMED

There was a sharp improvement in Group profitability in the first half of 2017.

The current operating margin increased, driven by good performances at Bouygues Telecom and TF1. Net profit attributable to the Group also improved. Excluding exceptional items, it was up €171 million.

Furthermore, commercial momentum continued in all the Group’s business activities.

- The backlog in the construction businesses reached a record €31.2 billion at end-June 2017, up 5% year-on-year. On August 31, 2017, Colas announced the signature of an agreement to acquire the Miller and McAsphalt group, a major road construction player in Ontario and a leader in bitumen distribution in Canada. This acquisition will enable Colas Canada to expand its geographical coverage by increasing its presence in Ontario and considerably increasing its bitumen storage and distribution capacity across Canada.
- Bouygues Telecom had 13.6 million mobile customers at end-June 2017, representing 645,000 new adds since end-December 2016. In addition, 133,000 new fixed customers joined Bouygues Telecom in the first half of 2017, taking the total number of customers to 3.2 million. FTTH contributed close to two-thirds of net growth in the second quarter of 2017.

OUTLOOK

First-half results confirmed the target of an improvement in Group profitability in 2017:

- The current operating margin in the construction businesses should continue to improve.
- Bouygues Telecom expects to reach an EBITDA margin slightly above 25%. Furthermore, the rate of transfer of towers to Cellnex will speed up in the second half of 2017 (around €220 million of non-current income related to Cellnex expected in 2017).

For 2018 and beyond:

- TF1 expects to hold the annual average cost of programs\* for its five freeview channels at €980 million over the 2017-2019 period and achieve €25-30 million of recurrent savings\*. TF1 should also improve its profitability, with a double-digit current operating margin target in 2019.
- Bouygues Telecom confirms its target of €300 million in free cash flow in three years’ time.

(a) Excluding sporting events (b) Excluding cost of programs

Consult the full press release and results presentation on [bouygues.com](http://bouygues.com)  
Investor Relations: [investors@bouygues.com](mailto:investors@bouygues.com)  
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Photo credits: Augustin D tienne/Capa Pictures. Architect: RPBW

BOUYGUES



TECHNOLOGY

# Facebook Aims to Reap WhatsApp Fees

Instead of running ads, messaging service would charge businesses for use

By DEEPA SEETHARAMAN

**Facebook** Inc. is getting ready to earn back some of the \$22 billion it spent to buy the messaging service WhatsApp three years ago.

WhatsApp will eventually charge companies to use some features in the two free business tools it started testing this summer, WhatsApp's chief operating officer, Matt Idema, said in an interview.

The new tools, which help businesses from local bakeries to global airlines talk to customers over the app, reflect a different approach to monetization compared with other Facebook products, which rely on advertising.

"We want to put a basic foundation in place to allow people to message businesses and for them to get the responses that they want," Mr. Idema said. "We do intend on charging businesses in the future."

The free WhatsApp Business



WhatsApp is testing a way for small businesses to field customer questions or send them updates.

app allows small businesses to field customer questions or send them updates. Larger companies can do the same with another free tool that lets them plug directly into the WhatsApp platform. WhatsApp is also rolling out verified profiles for businesses so its one billion

daily users can distinguish between a person and a business.

Companies in Brazil, Europe, India and Indonesia are testing the free services, including **KLM Royal Dutch Airlines**. Users must "opt in" to be contacted by a business, a WhatsApp spokeswoman said.

Mr. Idema declined to describe the paid features or say when they would make their debut. "We don't have the details of monetization figured out," he said.

The business tools being tested, detailed in a blog post Tuesday, are another sign of

Facebook's intention to cash in on messaging as it grapples with a slowdown in revenue growth from its core service, news feed.

Facebook owns two of the world's most popular messaging apps, WhatsApp and Facebook Messenger, and Chief Executive Mark Zuckerberg predicts that messaging could yield dividends for the company within five years.

In July, Facebook started showing advertisements inside Messenger, sandwiched between users' conversations when they open the app. The strategy is similar to how Facebook monetizes the news feed and Instagram, the photo- and video-sharing app it bought for \$1 billion in 2012.

Mr. Idema didn't rule out that WhatsApp could show ads to users at some point but said the focus was now on connecting businesses and users. Last year, WhatsApp started sharing its user data with Facebook, a step to improve Facebook's ad targeting and friend suggestions.

Regions where WhatsApp is popular haven't been as lucrative for Facebook's advertising business. In the second quarter,

Facebook generated \$19.38 per user in the U.S. and Canada but only \$2.13 per user in Asia. India is WhatsApp's largest market, with 200 million monthly active users out of 1.3 billion globally.

One business taking part in WhatsApp's commercial project is Indian health-care startup lmg, which sells prescription medications online. The Gurgaon-based company began working with WhatsApp to talk to users after they have submitted orders, co-founder Gaurav Agarwal said.

If an order sent to lmg lacks necessary details, like documentation of a prescription, lmg staff can send customers a message via WhatsApp's tool for larger companies, asking them to provide an image of the document. Chats from the company appear on customers' phones as coming from WhatsApp verified users.

"It's much easier than through SMS or our app," said Mr. Agarwal, referring to sending text messages or alerts. He said lmg's fulfillment rate for such orders has nearly doubled since implementing the pilot.

—Newley Purnell  
contributed to this article.

## DATA

Continued from page B1

advertising programs for at least five years. Verizon Up, launched in August, is the latest incarnation of its rewards program. Verizon doesn't say how many people have enrolled in Up or Selects.

For every \$300 customers spend on their Verizon bills, they receive one Up credit, which can be used for rewards such as **Uber** rides, four free months of **Apple** Music or chances to win tickets to see performers such as Lady Gaga.

Verizon makes it clear during the sign-up process what data consumers are giving up: information about their demographics and interests, what

websites they visit, what apps and features they use and their location.

The disclaimer quickly drew criticism: Adam Levin, a consumer advocate and founder of data-security firm CyberScout, warned in a column on HuffPost that the "hidden cost of Verizon's 'free' rewards program is your data." In an interview, he asked: "When you think about it, do you really want somebody to know that much about your life?"

Deli Meeks, a 26-year-old forklift operator in Atlanta, said he doesn't mind Verizon accessing his data. A lot of companies track information, and it helps make advertising more useful, he said.

Mr. Meeks used his first reward to secure two tickets to a preseason National Football

League game between the Baltimore Ravens and Buffalo Bills.

Google, Facebook and other internet firms possess similar data about their users and disclose it in their privacy policies. But Verizon must walk a more delicate line.

Telecom companies are required by federal law to take precautions when it comes to customer data.

"Some of our competitors, they have exactly the same thing, it's just buried in the terms and conditions of the service," Diego Scotti, Verizon's chief marketing officer, said of the information tech companies collect. "We are not hiding anything."

Google and Facebook declined to comment.

Verizon's program allows

customers to opt out of data-sharing after they have signed up for Verizon Up, but the company can keep the data for three years.

Mr. Scotti said he hopes customers will appreciate the upfront disclosures and that the rewards program will make Verizon customers more loyal.

But the extra precaution might stifle Verizon's ability to expand the program, said Craig Moffett, an analyst at **MoffettNathanson** LLC. "This just highlights how thorny privacy issues can be for telecom operators," he said. "If they are going to be held to a higher standard than Google and Facebook, either by statute or simply by convention, then it will be very hard for them to effectively compete."



Verizon makes it clear what data consumers are giving up.

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MANAGEMENT

WORKAROUNDS

When It's OK to Be A Workaholic

For those who love what they do, being a workaholic isn't all that unhealthy, new research suggests.

Workaholism by its very name suggests detriment to one's physical and mental health, and the American psychologist Wayne Oates, who coined the term nearly 50 years ago, likened it to substance abuse. Yet research on workaholism has been inconclusive so far, in part because it is hard to distinguish the consequences of merely working long hours from actual work addiction.

A study published in the current issue of Academy of Management Discoveries not only finds health differences among people who work long hours and those who compulsively work to excess. Researchers also found differences between workaholics who enjoyed their work and those who didn't.

In the study, employees at an international financial-consulting firm were asked to fill out questionnaires on their work hours, relationships at home and work, as well as their sense of well-being and any stress-related complaints, such as trouble sleeping or headaches.

They also had to score such statements as "It is hard for me to relax when I am not working on something" and "At my job, I feel strong and vigorous." After-

*Workaholism by its very name suggests detriment to one's physical health.*

ward, 763 employees took part in medical screenings for risk factors for more serious problems, such as heart disease and diabetes.

Researchers found no indication that simply working long hours led to stress-related ailments or more serious risk factors, such as high blood pressure.

And while the results showed a link between workaholism and stress-related physical complaints, only workaholics who described themselves as unengaged or feeling trapped in their work appeared at risk for more serious health disorders.

"That's where the real surprise came up for us," said Lieke ten Brummelhuis, an assistant professor at Simon Fraser University's Beedie School of Business near Vancouver and one of the study's authors. "Engagement is the key."

Prof. ten Brummelhuis and her co-authors speculate that job-loving workaholics appeared healthier because they tended to avail themselves of support on the job and at home when they needed it.

The lesson for employers, she said, is that they may be better off finding ways to help employees feel enthusiastic about their jobs rather than encouraging them to stay connected to work round the clock.

As for workaholics, they should ask themselves why they work so hard. "If it is out of love for the job, go for it," she says. "If not, alarm bells need to sound."

—Vanessa Fuhrmans

By JOANN S. LUBLIN

Taking an overseas assignment can vault your management career into the next level and test your skills in unfamiliar territory. But coming home can be the hardest part.

Companies typically provide expatriates with local housing subsidies, cross-cultural training and other perks. Few employers,

though, address what happens when that expat is ready to return—a fact

that partly explains why one-quarter of returning executives jump ship within two years, recruiters and researchers estimate.

People who have successfully made the return trip credit advance planning, disciplined networking and sponsors back home. To better manage the transition, some companies work to plan managers' return roles even before they leave. But some experts warn it's still largely up to the individual.

"So much depends on the executive in question taking ownership for their repatriation," says Daniel R. Smith, a managing director of recruiters Raines International Inc.

Cosmetics giant **L'Oréal SA** invites repatriated U.S. staffers to go through orientation and integration programs as if they were brand-new hires. The idea is "to feel reintegrated into the company," says Jacob Bonk, a human-resources executive for its U.S. unit in New York.

Upon returning from four years in China, Mr. Bonk went through the first-day orientation last year alongside about 25 new staffers. Joining the new hires felt "a bit funny," Mr. Bonk recalls, but after living outside the U.S. for so long, "you're basically a new employee again."

Mr. Bonk's new boss also urged him to spend time rebuilding his U.S. network; in his first month back, he met



ANNE TRITT FOR THE WALL STREET JOURNAL

*'You're basically a new employee again.'*

Jacob Bonk, a human-resources executive for L'Oréal in New York

face-to-face with 50 colleagues.

Both companies and individuals are advised to give extra thought to their return roles before they fly overseas.

"Begin with the end in mind," says Stewart Black, a professor of management practice at Insead business school and veteran expatriate researcher.

For instance, Mr. Black suggests finding out which leadership skills your employer wants you to develop during a foreign stint. "If your company does not know how they will utilize you or your hard-won international experience before you leave, the odds they will miracu-

lously discover the answer just before your return are not good," he says.

To ensure that Monsanto Co. will benefit from skills developed abroad, the seed and pesticide maker identifies potential return positions before people move overseas, according to Bridget Walsh, a global talent mobility manager.

Monsanto says its approach has lowered attrition; some 7% of repatriates leave within two years, down from approximately 13.5% a decade ago, according to the company.

Ernst & Young LLP gives departing expats a 10-page survival guide and a mobility

adviser to help keep their careers on track while abroad.

Despite such assistance, the company doesn't guarantee specific jobs following international assignments, says Andrew Walker, Ernst & Young's global mobility leader.

When British drugmaker GlaxoSmithKline PLC hired Marc Speichert in January as global chief digital officer, working in Warren, N.J., interviewers told him to expect a three-year foreign assignment and described possible opportunities after his subsequent return to the U.S. He will relocate to the U.K. in 2018.

Sanket Akerkar, a Micro-

soft Corp. vice president and onetime expatriate, says he worked hard to keep his U.S. network strong while running its India unit for nearly three years. During his business trips to the U.S., Mr. Akerkar stayed an extra day to meet with important colleagues and discuss what he was learning abroad. He returned to the U.S. in 2013.

Other U.S. executives dispatched abroad get assigned a high-level colleague to champion their careers back at headquarters. Otherwise, "assimilating into the assignment country is easier than repatriating to the home country," says Peter Clarke, a global managing partner at PricewaterhouseCoopers LLP who has sponsored some of its expats.

Mr. Clarke advocated for Felix Mwamba when the U.S. expatriate wanted to leave Paris for PwC's Boston office in 2013. "He made sure there was support from the leadership to take another partner in this market," recalls Mr. Mwamba.

A pair of home-country sponsors boosted prospects for Amit Sood, now head of product and technology for a unit of **Asurion LLC**, a provider of insurance and support for 300 million phones, electronics and appliances.

Mr. Sood says he worried about repatriation when Tennessee-based Asurion asked the California middle manager to relocate to Hong Kong in 2013. Before his departure, a prior boss and a senior vice president promised to try to find him a suitable Asurion role upon his return.

The sponsors arranged video chats with executives, kept an eye out for relevant openings ahead of official announcements and "gave personal recommendations on my behalf," Mr. Sood recollects. "They really wanted to make expatriate assignments work."

Asurion brought Mr. Sood back to the U.S. in 2015—and promoted him into his first executive role.

BUSINESS WATCH

JBS

Owners' Plea Bargain Comes Under Review

Brazilian Attorney General Rodrigo Janot said Monday that the owners of meatpacking company **JBS SA** might have omitted evidence in a plea bargain they signed earlier this year with authorities.

Prosecutors are reviewing a recording in which two unspecified witnesses referenced "very grave" misconduct involving federal prosecutors and the Supreme Court, Mr. Janot said in a televised news conference. The alleged misconduct wasn't included in a \$3.3 billion settlement signed by JBS's parent company, **J&F Investimentos**, in which executives Joesley and Wesley Batista avoided jail time.

"The result of this could be the total loss of benefits," Mr. Janot said. "If JBS's executives erred, they will pay for that."

In an emailed statement, J&F said it acted in good faith.

"The precipitated interpretation given to the material turned in by the [J&F] executives themselves to the attorney general's office will be quickly clarified," the company said.

—Paul Kiernan

TRONC

Publisher to Acquire New York Daily News

**Tronc** Inc. has acquired the Daily News, the nearly century-old New York City tabloid, giving the publisher of the Los Angeles Times and Chicago Tribune a presence in the three largest cit-

ies in the U.S.

No cash will change hands in the deal, but Tronc has agreed to assume all operating costs, debt and pension liabilities for the gritty urban daily that was once the country's largest circulating newspaper but has faded in recent years as readers and advertisers have shifted online.

"As part of the Tronc portfolio, the New York Daily News will provide us with another strategic platform for growing our digital business, expanding our reach and broadening our services for advertisers and marketers," Tronc Chief Executive Justin Dearborn said in a statement.

As part of the deal, Tronc will acquire the News's printing press in Jersey City, N.J., and 49.9% of the 25-acre parcel of land on which it sits. A person familiar with the matter said the deal

will result in publications like the Hartford Courant of Connecticut and Morning Call of Allentown, Pa., being printed at the plant, resulting in additional cost savings for Tronc.

The deal marks a homecoming of sorts for the News, which had previously been owned by Tribune Co., an earlier incarnation of what is now Tronc.

Tribune sold the News in 1991 and the paper was acquired two years later out of bankruptcy by real-estate tycoon Mortimer Zuckerman, owner of Boston Properties.

In 2015, Mr. Zuckerman put the paper up for sale but later pulled it off the market when a suitable buyer couldn't be found.

With splashy photos and screaming headlines, the Daily News has long had a prominent place in New York's media scene

with its political, celebrity and sports news, famed for front-page headlines like "Ford to City: Drop Dead" and its coverage of the "Son of Sam" killings.

Earlier this year, the paper was awarded the Pulitzer Prize for public-service journalism in partnership with ProPublica for a series of stories about abuses of New York City's nuisance-abatement laws.

Its appeal is largely with subway commuters, which has left it struggling to transition to a digital media landscape as its audience has grown older. It has been engaged for decades in a cutthroat battle for supremacy with the New York Post, which is owned by News Corp, the parent company of The Wall Street Journal. Both the News and Post have struggled financially.

—Lukas I. Alpert

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FINANCE & MARKETS

# High Street Retail Gains Appeal

European properties get more popular than peers in U.S. thanks to some protections

By Emily Nonko

In May, **LaSalle Investment Management** paid £55 million (\$71 million) for a historic shopping center in Cardiff, Wales, that includes the former David Morgan department store, which opened in 1879, as well as two Victorian shopping arcades that date to 1858.

The appeal of the 381,000-square-foot property also included a modern feature: Downtown Cardiff is protected from new suburban competition by “town center first” regulations in the U.K. These rules have helped so-called high street retail areas in downtowns flourish, unlike those in many U.S. cities that have been decimated by big-box retailers and shopping centers on the outskirts.

“Cardiff is highly protective of its city center and therefore restricted the type of retail that can be developed outside of the city center,” said Tom Rose, a LaSalle fund manager. “Given the limited supply...we felt that Morgan Arcade would be excellently placed to benefit from this investment through significantly greater footfall and a more diverse shopper base.”

Regulations protecting European downtowns are among the reasons why retailers in many areas there are faring better than some of their U.S. counterparts against online shopping competition and other pressures. Similar regulations have been passed in other European countries, according to a report by Ken Baar for the Institute for Transportation and Development Policy, a nonprofit that focuses on sustainable development.

“Regulation of the location of new major shopping facilities in order to achieve environmental, social and commercial objectives is standard,” the report said. “Great Britain, France, Germany, Netherlands, Ireland, Denmark, Sweden, Norway, and Belgium have adopted legislation which directs the construction of new hypermarkets and shopping malls into central city areas.”

Yields of prime “high street” retail fell or were flat in the second quarter of 2017



Retail in downtown Cardiff, Wales, is protected from new suburban competition by ‘town center first’ regulations in the U.K.

compared with a year earlier in all 25 downtown areas of Western Europe tracked by CBRE Group Inc.

Generally when commercial real-estate yields, or capitalization rates, fall, that means values are rising.

Meanwhile, high street cap rates generally increased in the U.S. from the second half of 2016 to the first half of this year, CBRE said.

To be sure, downtown retail is hot in many major U.S. cities such as New York, San Francisco, Chicago and Boston that are enjoying building booms and an influx of young workers. Also, one of the reasons high street values are falling now in these hot U.S. markets is because they rose so much in recent years.

But retail areas in many smaller U.S. cities about the size of Cardiff, which has a population of about 345,000, have been struggling for decades. Some have turned into virtual ghost towns with boarded up stores that couldn’t compete against bigger suburban stores with more variety and lower prices.

The Cardiff shopping district, known as the Morgan Quarter, had undergone a mul-

tiyear redevelopment by its former owner, investment firm **Helical PLC**.

“We know retail in Europe and the States has been affected by the internet, but we are still believers in what we call experiential retail, which we think has got room for future growth,” Mr. Rose said.

The glass-domed arcades—protected as landmarks by Cardiff—are lined with cafes,

*Some big investors have a growing appetite for European downtown retail.*

fashion boutiques and other shops. The adjacent David Morgan department store was outfitted with offices and apartments on the upper floors. “The arcades are a bit quirky,” said Chris Sutton, lead director of the Cardiff office of commercial real-estate firm JLL. “But they really have a vibrancy, with winding streets and a range of local shops.”

Other big investors also have a growing appetite for

European high street retail. Houston-based Hines, for example, was hired in 2015 by German pension fund BVK to execute a €1.3 billion (\$1.5 billion) program targeting prime high street retail assets across Europe.

Lars Huber, the chief executive of Hines Europe, said European high streets differ from U.S. commercial corridors as they have much more foot traffic and hold smaller retail units in older buildings. But this raises challenges in outfitting older properties for new tenants, who often require larger floor plans than those available in city centers that often date back centuries.

“Our goal has been to find assets where we can convert and reposition them for bigger and better units,” said Mr. Huber. “The flagship stores and big brands who want to have prime spots in the European prime cities aren’t really willing to compromise in terms of their unit size or location.”

Earlier this year Hines purchased a six-story bank headquarters in Barcelona’s city center. Bank buildings, according to Mr. Huber, have proven to be appealing assets that can be converted to flagship retail

stores.

In Leeds, British development firm Hammerson PLC connected the historic Victoria Quarter shopping arcade to a new high-end shopping center that opened last year. The new structure is anchored by a John Lewis department store.

The number of visitors to Cardiff’s city center rose 36% between 2010 and 2016, according to the Cardiff Council.

The “town center first” policy was put in place in the U.K. more than 20 years ago. In England and Wales, retail planning must pass a so-called sequential test, according to Trevor Ivory, a partner at global law firm DLA Piper.

Under the test, new retail development should be located within town centers and, if that isn’t feasible, as close to town centers as possible. Suburban locations should only be considered if there are no other suitable sites.

The policy has remained “in a pretty static state since the mid-1990s,” Mr. Ivory said. But with rising competition from online retail, “it’s mostly welcomed that there is this planning policy intended to support the existing retail facilities,” he said.

## Citigroup Creates a Services Division

By Ben Dummett

**Citigroup Inc.** has created a separate services group within its investment-banking coverage of the industrials sector and appointed two global co-heads to oversee the new division amid a flurry of deal making in the payments-processing sector.

Jean-Baptiste Petard is expected to join Citigroup in December as global co-head of the independent services division, according to a memo announcing the new structure, and work out of London.

Mr. Petard’s appointment and his U.K. base underscore the potential of lucrative advisory work for investment banks amid a consolidation of the payments sector that is under pressure to cut costs and invest in new technologies to address the rise of mobile payments.

A seasoned investment banker, Mr. Petard was most recently at UBS Group AG, where he oversaw the Swiss bank’s investment-banking operations for business services, transportation and logistics in Europe, the Middle East and Africa. At Citigroup, he will be based in London, focusing on clients in the business and payment-services sectors in Europe, the Middle East and Africa.

Mr. Petard will share global co-head duties for the new services division with Citigroup veteran Chad Hoeft, who will continue his coverage focus on the security, facilities-management and travel-services sectors.

Mr. Hoeft joined Citigroup in 1998, and has spearheaded its coverage of the services sector in North America for the past several years.

In one of the more recent cross-border deals in the payments industry, Vantic Inc., a big Ohio-based company, last month agreed to acquire U.K. payments processor Worldpay Group PLC for £8 billion (\$10.4 billion) in cash and stock.

In another deal last month, buyout firms Blackstone Group LP and CVC Capital Partners struck a deal to acquire Paymentsafe Group PLC, another online-payments processor based in the U.K.

## Oil Climbs, Gasoline Falls

By Alison Sider and Christopher Alessi

Crude-oil prices jumped Tuesday and gasoline prices slid, as shuttered refineries and other oil infrastructure continued to restart in the wake of Hurricane Harvey.

Pipelines, refineries and ports were forced to shut down as the storm approached earlier this month and remained closed as it lingered.

But major pipelines are once again carrying crude from Texas oil fields to the Gulf, where some refineries are able to start buying again and ports in Houston and Corpus Christi are allowing cargoes of oil and fuel to come in and out.

“The healing from Harvey has begun for energy markets,” analysts at TAC Energy wrote in a client note Tuesday.

U.S. crude futures settled up \$1.37, or 2.9%, at \$48.66 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, gained \$1.04, or 2%, to \$53.38 a barrel on ICE Futures Europe.

Harvey knocked out more than 20% of U.S. refining capacity, stoking fears of a nationwide fuel shortage and causing crude supplies to build up in storage. Analysts expect this week’s data from

the U.S. Energy Information Administration to show an increase in the amount of oil in storage tanks.

But some plants are reopening—**Valero Energy Corp.**, for example, said its plants in Corpus Christi and Texas City are operating at “pre-hurricane rates,” and other plants in the region are ramping up and preparing to restart. **Exxon Mobil Corp.** has said it is restarting its Baytown refinery, the second

*Major pipelines are once again carrying crude from Texas oil fields to the Gulf.*

largest fuel-making plant in the U.S.

The renewed demand from refiners is supporting crude prices, said Ehsan Ul-Haq, director at consultancy Resource Economist Ltd.

And gasoline prices are falling as major fuel arteries are returning to service, easing fears of fuel shortages. Gasoline prices had surged to a two-year high last week.

**Colonial Pipeline Co.**, which operates a vital pipeline

that pumps gasoline from Texas to the East Coast, said it expected to restart shipments Tuesday.

Gasoline futures fell 4.88 cents, or 2.8%, to \$1.6991 a gallon.

Still, some refining capacity remained offline and will be slow to come back, and U.S. exports from the Gulf Coast should take longer to jumpstart.

This has meant “unusual trade routes are opening up” to fill the gap left by the Gulf Coast refined-product producers, including the potential shipping of jet fuel from northeast Asia to the U.S. East Coast, according to analysts at oil consultancy JBC Energy.

Meanwhile, traders and analysts were closely watching the potential impact of rising tensions between the U.S. and North Korea on oil markets. The U.S. on Monday called for the “strongest possible measures” against North Korea at an emergency U.N. Security Council meeting, a response to Pyongyang’s testing of a hydrogen bomb on Sunday.

“When global powers are gazing at each other the stock markets and ultimately oil demand will suffer,” argued Tamas Varga, an analyst at oil brokerage PVM Associates Ltd.



Gold prices have climbed to their highest in almost a year. They got a boost from the Fed Tuesday.

## Gold Shines as Tensions Rise

By Amrith Ramkumar

Gold prices continued rising Tuesday as the latest U.S. response to a North Korea nuclear test and comments from a Federal Reserve official urging caution on raising rates pushed investors toward the haven asset.

Gold for September delivery closed up \$14.70, or 1.1%, at \$1,339.20 an ounce on the COMEX division of the New York Mercantile Exchange—its sixth day of gains in the past seven sessions. Prices recently have risen to their highest level in almost a year as tensions between the U.S. and North Korea have escalated and many investors have become skeptical that the Fed will raise rates one more time this year amid sluggish inflation.

On Tuesday, President Donald Trump tweeted that he is allowing Japan and South Korea to buy “a substantially increased amount” of military

equipment from the U.S. That came after South Korea warned Monday that North Korea appears to be preparing to test another intercontinental ballistic missile and the U.S. ambassador to the United Nations, Nikki Haley, called for “the strongest possible measures” against North Korea.

North Korea said it conducted a sixth and significantly larger nuclear test on Sunday. The tensions have supported gold in recent sessions because many investors favor the precious metal during times of geopolitical uncertainty.

Also on Tuesday, Fed governor Lael Brainard said in a speech that the U.S. central bank should be cautious about raising short-term interest rates further until policy makers are confident of overcoming the “persistent failure” to reach 2% inflation. The comments supported gold prices by adding to existing doubts about the Fed raising rates for a third

time in 2017. Gold often struggles to compete with yield-bearing assets like Treasuries when borrowing costs rise.

“It’s a perfect environment right now for gold to see some higher levels,” said Bob Haberkorn, senior market strategist at RJO Futures.

A weaker dollar also supported gold prices Tuesday, as the dollar-denominated metal becomes cheaper to foreign buyers when the U.S. currency falls. The WSJ Dollar Index, which tracks the dollar against 16 other currencies, was down 0.4% in late trading.

Among base metals, copper for September delivery closed up 0.3% at \$3.1075 a pound, paring losses after earlier trading up as much as 1.6%. Synchronized global economic growth has pushed prices for the industrial metal to three-year highs, and strong manufacturing data out of China—the world’s largest copper consumer—last week also have buoyed the metal.

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FINANCE & MARKETS

# The Myth of Stock-Market Tops

By MARK HULBERT

Many investors are trying to pinpoint the exact day on which the bull market eventually reaches its top. My advice to them: Stop.

I say that not because it is difficult to predict when the stock market changes direction—though that is true, too. But there’s an additional reason: Stock-market tops typically are a gradual rolling-over by the market rather than a sharp trend reversal. Some market averages will hit their peak months before or after others, and individual sectors can behave differently than the market as a whole.

In other words, the top doesn’t occur on just one single day, or even in one week or one month. Even if you successfully predict the precise day, or week or month, on which a particular market average hits its top, you can still lose money—or leave a lot of it on the table—because *other* market averages and sectors likely aren’t at their peaks.

## A gradual process

This is an important insight not just for market historians. With the stock market up more than 300% from its March 2009 lows, and with the economy in its ninth year of recovery from the latest recession, many investors worry that a bear market is overdue.

Rather than anxiously trying to determine the exact day when to shift out of stocks, they should instead view market tops as a gradual process in which equity exposure is slowly and deliberately reduced over time.

Take the 2007 bull-market top. The most widely followed market benchmarks, such as the Dow Jones Industrial Average and the S&P 500 index, hit their highs on Oct. 9 of that year, and that is the date that most market timers record as the “top” of the 2002-07 bull market. Yet the Russell 2000 index, a widely used proxy for the small-cap sector, registered its top on July 13, three months prior. The Dow Jones Utility Average topped out even earlier, on May 21. And some sectors began



their bear markets even longer before; the SPDR S&P Regional Banking ETF, for example, hit its bull-market high in December 2006.

What this means: Pinpointing that Oct. 9 top wouldn’t have been very helpful unless you were investing in the S&P 500. In the event you were investing in the average small-cap, utility or regional bank, among others, you would have lost money if you had waited until Oct. 9 to sell.

Perhaps the most spectacular example of a divergence at a market top, however, came when the internet bubble burst. Though the S&P 500 topped out on March 24, 2000, and didn’t hit bottom until October 2002, the average small-cap value stock actually rose during that bear market, according to data from University of Chicago professor Eugene Fama and Dartmouth professor Ken French. So small-cap value investors left a lot of money on the table by going to cash during the 2000-2002 bear market.

Divergences this stark and spread out aren’t unusual at market tops, according to David Aron-

## Multiple Peaks

When several market averages/sectors hit their bull-market highs in what was considered the October 2007 market top

**S&P 500**  
Oct. 9, 2007

**DJIA**  
Oct. 9, 2007

**Dow Jones  
Transportation Average**  
July 19, 2007

**Russell 2000 index**  
July 13, 2007

**Dow Jones Utility Average**  
May 21, 2007

**SPDR S&P Regional  
Banking ETF**  
Dec. 29, 2006

Sources: HulbertRatings.com  
THE WALL STREET JOURNAL.

son, a former finance professor at Baruch College and now president of Hood River Associates, a research firm that uses machine learning to enhance stock-market trading systems. “The process of topping out can take a really long period of time, evolving over a year or more,” he told me in an interview.

Take the end of the bull market in the early 1970s, for example. Though the S&P 500 didn’t hit its high until January 1973, major divergences “started to manifest as early as the spring of 1971,” nearly two years prior, he says.

In contrast, Mr. Aronson adds, “market bottoms tend to be sharper.” The bottom at the end of the 2007-09 bear market is a good case in point: Virtually all major averages hit their bear-market lows on March 9, 2009. Most individual sectors did so also, and those that didn’t mostly hit their bottoms only a few days before or after.

As Mr. Aronson argues in a just-published book, “bottoms are easier to identify, in real time, than tops.”

## The narrow focus

Instead of trying to pinpoint the day of a particular market’s average top, therefore, you might want to focus on the prospects for the individual stocks or mutual funds that you own. Bragging rights for calling the top of this or that market benchmark mean little if your stocks or funds start declining months before that top.

One helpful focus would be on internal market divergences between different sectors of the market. A healthy market is one in which most stocks are participating. As divergences emerge and become more pronounced, odds increase that the stocks you own may suffer even if the major market averages such as the Dow and S&P continue rising.

By the same token, you need to be alert to the possibility that your individual stocks will continue to rise even if the major averages begin a major decline.

It’s worth noting in this regard that some potentially worrisome divergences have materialized in recent months, according to Hayes Martin, president of Market Extremes, an investment consulting firm that focuses on market turning points. In an email to me, he pointed out that there have been some significant divergences among groups that historically have been reliable “coal-mine canaries,” such as small banks, which peaked on March 1, and smaller-cap stocks, which have been “battered” since late July. This suggests to him that we are probably in a long-term topping process.

Mr. Aronson agrees, though he says it’s unclear from his work whether the coming top will precede a major bear market or something of more intermediate-term significance. Regardless, these divergences suggest that risk is elevated. We may want to focus more on which stocks or funds we would want to sell to reduce our equity exposure rather than what we’d buy to increase it.

*Mr. Hulbert is the founder of the Hulbert Financial Digest and a senior columnist for MarketWatch. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).*

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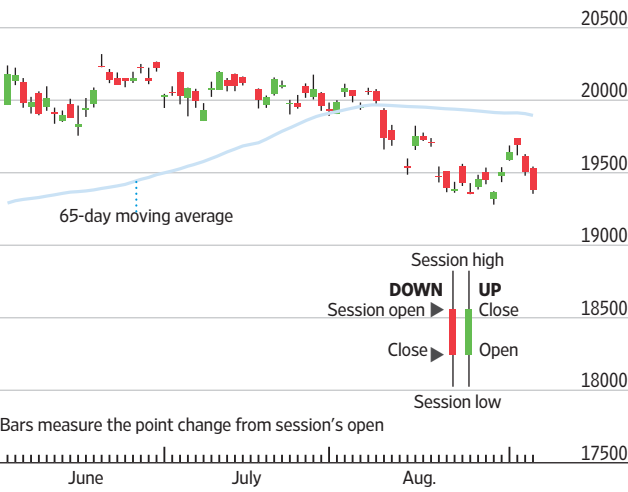
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**19385.81** ▼122.44, or 0.63%  
High, low, open and close for each trading day of the past three months.



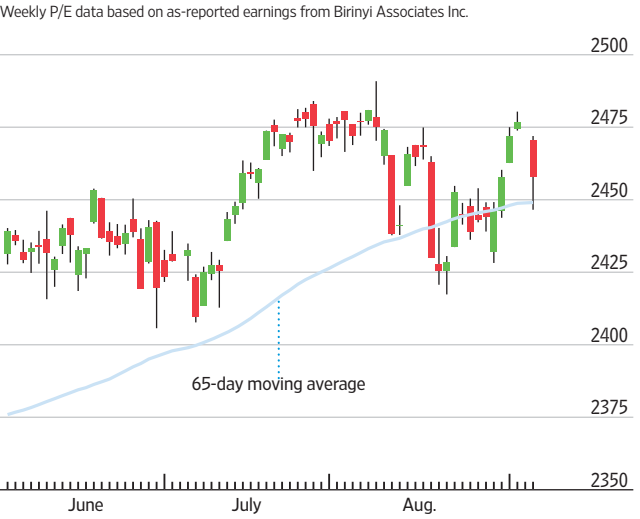
STOXX 600 Index

**373.71** ▼0.47, or 0.13%  
High, low, open and close for each trading day of the past three months.



S&P 500 Index

**2457.85** ▼18.70, or 0.76%  
High, low, open and close for each trading day of the past three months.



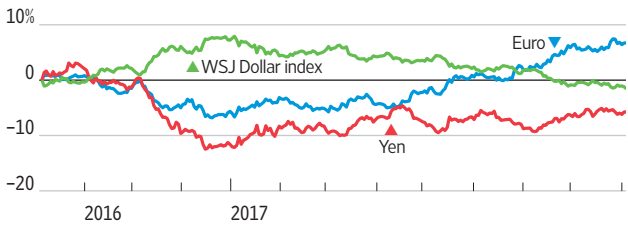
International Stock Indexes

Region/Country		Index	Close	Latest NetChg	% chg	Low	52-Week Range Close	High	YTD % chg
World	The Global Dow		2835.53	-13.26	-0.47	2386.93		2881.15	12.2
	MSCI EAFE		1932.60	0.21	0.01	1471.88		1956.39	12.6
	MSCI EM USD		1084.23	0.89	0.08	691.21		1087.78	36.5
Americas	DJ Americas		592.86	-4.46	-0.75	503.44		599.20	9.7
	Brazil Sao Paulo Bovespa		72022.31	-106.52	-0.15	56459.11		73179.53	19.6
	Canada S&P/TSX Comp		15088.58	-103.02	-0.68	14319.11		15943.09	-1.3
	Mexico IPC All-Share		50307.85	-517.92	-1.02	43998.98		51772.37	10.2
	Chile Santiago IPSA		3899.38	-11.22	-0.29	3120.87		3945.90	21.0
U.S.	DJIA		21753.31	-234.25	-1.07	17883.56		22179.11	10.1
	Nasdaq Composite		6375.57	-59.76	-0.93	5034.41		6460.84	18.4
	S&P 500		2457.85	-18.70	-0.76	2083.79		2490.87	9.8
	CBOE Volatility		12.62	2.49	24.58	8.84		23.01	-10.1
EMEA	Stoxx Europe 600		373.71	-0.47	-0.13	327.02		396.55	3.4
	Stoxx Europe 50		3036.18	-6.07	-0.20	2720.66		3279.71	0.9
	Austria ATX		3226.63	-18.59	-0.57	2311.88		3285.00	23.2
	Belgium Bel-20		3883.69	-0.78	-0.02	3384.68		4055.96	7.7
	France CAC 40		5086.56	-17.41	-0.34	4310.88		5442.10	4.6
	Germany DAX		12123.71	21.50	0.18	10174.92		12951.54	5.6
	Greece ATG		812.85	3.97	0.49	548.72		859.78	26.3
	Hungary BUX		37736.10	270.84	0.72	27466.59		38147.22	17.9
	Israel Tel Aviv		1392.31	1.76	0.13	1346.71		1490.23	-5.3
	Italy FTSE MIB		21737.69	-52.93	-0.24	15923.11		22065.42	13.0
	Netherlands AEX		515.46	-0.81	-0.16	436.28		537.84	6.7
	Poland WIG		64994.90	-43.85	-0.07	46321.24		65611.21	25.6
	Russia RTS Index		1100.83	9.00	0.82	953.12		1196.99	-4.5
	Spain IBEX 35		10179.80	-63.40	-0.62	8512.40		11184.40	8.9
	Sweden SX All Share		554.97	-1.12	-0.20	489.12		598.42	3.8
Asia-Pacific	Swiss Market		8869.56	5.10	0.06	7585.56		9198.45	7.9
	South Africa Johannesburg All Share		56144.80	-168.05	-0.30	48935.90		56896.89	10.8
	Turkey BIST 100		108872.99	-1137.50	-1.03	71792.96		110530.75	39.3
	U.K. FTSE 100		7372.92	-38.55	-0.52	6654.48		7598.99	3.2
	Australia S&P/ASX 200		5706.20	4.20	0.07	5156.60		5956.50	0.7
	China Shanghai Composite		3384.32	4.73	0.14	2980.43		3384.32	9.0
	Hong Kong Hang Seng		27741.35	1.09	0.004	21574.76		28094.61	26.1
	India S&P BSE Sensex		31809.55	107.30	0.34	25765.14		32575.17	19.5
	Japan Nikkei Stock Avg		19385.81	-122.44	-0.63	16251.54		20230.41	1.4
	Singapore Straits Times		3251.26	20.29	0.63	2787.27		3354.71	12.9
South Korea	Kospi		2326.62	-3.03	-0.13	1958.38		2451.53	14.8
	Weighted		10617.84	47.97	0.45	8902.30		10617.84	14.7

Source: SIX Financial Information;WSJ Market Data Group

Currencies

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



Country/currency	Tue in US\$	YTD chg per US\$ (%)
Americas		
Argentina peso-a	0.0580	17.2550 <b>8.7</b>
Brazil real	0.3201	3.1239 <b>-4.0</b>
Canada dollar	0.8092	1.2359 <b>-8.1</b>
Chile peso	0.001607	622.40 <b>-7.1</b>
Colombia peso	0.0003425	2919.81 <b>-2.7</b>
Ecuador US dollar-f	1	1 <b>unch</b>
Mexico peso-a	0.0560	17.8701 <b>-13.8</b>
Peru sol	0.3090	3.2360 <b>-3.5</b>
Uruguay peso-e	0.0347	28.820 <b>-1.8</b>
Venezuela bolivar	0.099211	10.08 <b>0.8</b>
Asia-Pacific		
Australia dollar	0.8009	1.2486 <b>-10.1</b>
China yuan	0.1529	6.5388 <b>-5.8</b>

Key Rates

	Latest	52 wks ago
Libor		
One month	1.2311%	0.51656%
Three month	1.3172%	0.84067%
Six month	1.4550%	1.25006%
One year	1.7145%	1.56133%
Euro Libor		
One month	-0.40071%	-0.37400%
Three month	-0.37329	-0.32400
Six month	-0.30771	-0.20614
One year	-0.21029	-0.07643
Euribor		
One month	-0.37200%	-0.37200%
Three month	-0.32900	-0.30300
Six month	-0.27400	-0.19700
One year	-0.16100	-0.05400
Yen Libor		
One month	-0.04264%	-0.05814%
Three month	-0.03093	-0.02850
Six month	-0.00707	-0.00164
One year	-0.11086	0.09329
	Offer	Bid
Eurodollars		
One month	1.3300%	1.2300%
Three month	1.3700	1.2700
Six month	1.5700	1.4700
One year	1.8200	1.7200
	Latest	52 wks ago
Prime rates		
U.S.	4.25%	3.50%
Canada	2.9%	2.70
Japan	1.4%	1.475
Hong Kong	5.05	5.05
Policy rates		
ECB	0.00%	0.00%
Britain	0.25	0.25
Switzerland	0.50	0.50
Australia	1.50	1.50
U.S. discount	1.75	1.00
Fed-funds target	1.00-1.25	0.25-0.50
Call money	3.00	2.25
Overnight repurchase rates		
U.S.	1.13%	0.49%
Euro zone	n.a.	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

Top Stock Listings

Cur Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans				
HK\$ AIAGroup	1299	60.20	-0.66	37.60
¥ AstellasPharma	4503	1386.00	-0.04	-14.63
AUS AustNZBK	ANZ	29.35	-0.17	-3.52
AUS BHP	BHP	27.62	0.51	10.22
HK\$ BankofChina	3988	4.05	0.25	17.73
HK\$ CKHutchison	0001	100.40	-0.20	14.22
HK\$ CNOOC	0883	9.44	0.43	-2.68
AUS CSL	CSL	130.88	0.32	30.35
¥ Canon	7751	3766.00	-0.74	14.29
¥ CentralJapanRwy	9022	1856.00	-0.05	-3.48
HK\$ ChinaConstructr	0939	6.79	0.74	13.74
HK\$ ChinaLifeInsurance	2628	24.60	...	21.78
HK\$ ChinaMobile	0941	82.00	-0.18	-9.24
HK\$ ChinaPetro&Chem	0386	6.02	-0.17	9.45
AUS CmwthBkAust	CBA	74.59	0.24	-9.49
¥ EastJapanRailway	9020	9940.00	-0.70	-1.58
¥ Fancu	6954	21015	-0.78	6.06
¥ Hitachi	6501	736.60	-0.73	16.55
AUS NatAustBnk	NAB	30.35	0.30	-1.04
¥ NipponTelegr	9432	5241.00	-0.49	6.70
KRW HyundaiMtr	005380	138000	-0.43	-5.48
HK\$ Ind&Comm	1398	5.80	0.52	24.73
¥ JapanTobacco	9413	3706.00	-0.75	-3.59
¥ KDDI	2934	2924.00	-0.09	-1.20
¥ Mitsubishi	8058	2520.50	-0.46	1.22
¥ MitsubishiElectric	6503	1632.00	-0.94	0.15
¥ MitsubishiUFJFin	8306	667.10	-0.09	-7.37
¥ Mitsui	8031	1634.00	-0.31	1.68
¥ Mizuho Fin	8411	187.60	-0.27	-10.58
¥ NTTDocMo	9437	2508.00	-0.16	-5.82
AUS NatAustBnk	NAB	30.35	0.30	-1.04
¥ NipponTelegr	9432	5241.00	-0.49	6.70
¥ NissanMotor	7201	10925.00	0.05	-7.06
¥ Panasonic	6752	1448.50	0.77	21.77
HK\$ PingAnIns&China	2318	61.75	0.41	59.15
¥ RelianceInd&GDR	RIGD	50.50	0.60	60.06
KRW SamsungElectronics	005930	233800	1.56	29.74
¥ Sevens&Hlths	3382	4267.00	-0.47	-4.18
¥ SoftBankGroup	9984	8620.00	-1.70	11.01
¥ Sony	6758	4310.00	-1.44	31.60
¥ Sumitomo Mitsui	8316	4068.00	-0.17	-8.79
HK\$ SunHngKaiPrp	0016	128.50	-0.08	31.12
TW\$ TaiwanSemiMfg	2330	218.00	0.23	20.11

Cur Stock	Sym	Last	% Chg	YTD% Chg
¥ TakedaPharm	4502	5988.00	0.12	23.85
HK\$ TencentHoldings	0700	321.80	-0.06	69.64
¥ TokioMarineHldg	8766	4328.00	-0.55	-9.76
¥ ToyotaMtr	7203	6219.00	0.81	-9.58
AUS Wesfarmers	WES	42.45	0.35	0.74
AUS WestpacBanking	WBC	31.29	0.19	-4.02
AUS Woolworths	WOW	25.85	0.43	7.26
CHF ABB	ABBN	22.61	0.71	5.26
ASML Holding	ASML	130.85	0.19	22.69
AXA	CS	24.07	-0.13	0.38
Air Liquide	AI	102.35	-0.34	-3.12
Allianz	ALV	178.85	-0.94	13.92
AB InBev	ABI	99.82	0.54	-0.73
AstraZeneca	AZN	4573.50	-0.17	3.06
BASF	BAS	82.67	0.52	-6.39
BNP Paribas	BNP	62.68	-1.88	3.52
BT Group	BTA	287.70	-0.78	-21.59
BancoBilvizAr	BVVA	7.24	-1.75	14.04
Barclays	SAN	5.35	-1.67	7.86
Banko Santander	BAN	187.90	-1.21	-15.91
Bayer	BAYN	107.40	-0.32	8.34
BP	BP	446.70	0.06	-12.34
BritishAmTob	BATS	4776.50	-0.67	3.35
Daimler	DAI	62.42	0.94	-11.74
DeutscheTelekom	DTE	15.00	-0.60	-7.37
Diageo	DGE	2577.50	-0.19	22.16
ENI	ENI	13.39	0.45	-13.45
GlaxoSmithKline	GSK	1513.50	-0.13	-3.10
Glencore	GLEN	363.00	-1.12	30.88
HSBC Hldgs	HSBA	734.10	-1.46	11.75
ING Group	INGA	14.65	-1.35	9.61
Imperial Brands	IMB	3200.00	-0.40	-9.67
IntesaSanpaolo	ISP	2.82	-0.71	16.08
LVMHMoetHennessy	MC	217.80	-1.43	20.07
LloydsBankingGroup	LLOY	63.10	-0.47	0.94
L'oreal	OR	176.85	-0.25	1.99
NationalGrid	NG	969.70	-0.10	-6.59
Nestle	NSNG	80.95	-0.87	10.81
Novartis	NOVN	80.10	0.06	10.10
NovoNordiskBk	NOVO-B	295.80	-0.40	16.14
Prudential	PRU	1775.50	-0.73	9.09
ReckittBenckiser	RIB	7092.00	-2.72	2.99
Rio Tinto	RIO	3695.50	-1.07	17.00

Cur	Stock	Sym	Last	% Chg	YTD% Chg
CHF	RocheHldgctf	ROG	242.30	-0.16	4.17
£	RoyDtlShellA	RDSA	2130.50	0.35	-4.99
£	SAP	SAP	88.21	0.38	6.52
£	Sanofi	SAN	81.94	-0.13	6.55
£	SchneiderElectric	SU	69.07	0.26	4.48
£	Siemens	SIE	112.30	0.94	-3.85
£	Telefonica	TEF	8.90	-0.60	0.90
£	Total	FP	43.89	0.39	-8.10
CHF	UBSGroup	UBSG	15.51	-1.21	-2.76
£	Unilever	UNA	49.98	-0.02	27.78
£	Unilever	ULVR	4470.50	-0.67	35.78
£	Vinci	DG	78.50	-0.19	21.33
£	VodafoneGroup	VOD	216.30	-0.76	8.23
CHF	ZurichInsurance	ZURN	282.50	-0.88	0.75
DJIA					
	AmericanExpress	AXP	85.31	-0.96	15.16
	Apple	AAPL	162.08	-1.20	39.94
	Boeing	BA	237.03	-1.37	52.25
	Caterpillar	CAT	118.30	0.02	27.56
	Chevron	CVX	109.44	0.63	-7.02
	CiscoSystems	CSCO	31.62	2.11	4.63
	Coca-Cola	KO	45.91	0.28	10.73
	Disney	DIS	101.57	0.07	-2.54
	DowDuPont	DWDP	64.99	-3.26	-
	ExxonMobil	XOM	77.20	0.82	-14.47
	GeneralElec	GE	24.76	-1.51	-21.65
	GoldmanSachs	GS	217.78	-3.59	-0.95
	HomeDepot	HD	152.93	1.43	10.46
	Intel	INTC	35.02	-0.20	-3.45
	IBM	IBM	149.05	-0.71	-13.82
	JPMorganChase	JPM	88.51	-2.39	3.73
	J&J	JNJ	129.90	-0.86	12.75
	McDonalds	MCD	159.09	-0.05	30.70
	Merck	MRK	63.59	-0.38	8.02
	Microsoft	MSFT	73.61	-0.45	18.46
	Nike	NKE	53.00	-0.67	4.27
	Pfizer	PFE	33.80	-0.47	4.06
	Procter&Gamble	PG	92.72	0.21	10.28
	3M	MMM	201.02	-1.25	12.57
	Travelers	TRV	115.47	-3.69	-1.48
	UnitedTech	UTX	111.19	-5.51	1.43
	UnitedHealth	UNH	199.37	-0.19	24.58
	Visa	V	103.04	-0.83	32.02
	Verizon	VZ	47.36	-1.17	-11.21
	Wal-Mart	WMT	79.84	1.88	15.51



THE PROPERTY REPORT

# European Mall Operators Are Upbeat

Demographics, design and relative scarcity have helped Continent weather downturns

By ESTHER FUNG

As in the U.S., the retail world in Europe has been turned upside down by the brave new world of shopping that enables you to buy practically anything while sitting in your pajamas at the computer or waiting in line with your phone.

But the pain to European retail landlords has been less severe.

Shares of listed European retail real-estate companies have fallen but not as far as their U.S. counterparts. Values of European malls and shopping centers continue to rise in some European markets while they are falling throughout the U.S.

The U.S. landscape is pockmarked in many regions by empty and near-empty shopping centers. In Europe, there are fewer such “dead malls,” analysts say.

“Europe is not the U.S.A.,” said Paris-based commercial-property company **Unibail-Rodamco SE**, in a first-half earnings-presentation in July.

Why not? The main reason that analysts cite is that Europe didn’t experience the retail-development boom that the U.S. did in the 30 years leading up to the 2008 crash.

In the U.S., there are 24 square feet of retail space for every man, woman and child in the country compared with five square feet in the U.K., four in France, and three in Spain and Italy, according to data from the International Council of Shopping Centers.

“It’s a completely different scale,” said David Ironside, chief investment officer of LaSalle Investment Management’s continental European business. LaSalle’s private-equity group owns 242 retail assets in U.K. and continental Europe. “You don’t get into a distressed zone that quickly in Europe.”

But there are other reasons besides moderate supply that explain why European landlords have been more sheltered from the retail storm. These reasons are now being studied closely by retail investors, developers and lenders as they look for opportunities



The Arenas shopping center in Barcelona, Spain. Retail-property investors have favored politically stable countries whose economies and populations are still growing.

and risks on both sides of the Atlantic.

One factor buffering European landlords is mall layout. Shopping centers in Europe are typically anchored by a grocery store, rather than a department store, which tends to be the norm in the U.S. Grocery stores bring in a lot of foot traffic. Department stores have been among the biggest victims of online shopping.

U.S. malls and shopping centers also are being hit harder by a recent spate of retailer contractions and failures. Department stores such as **Macy’s**, **J.C. Penney** and **Sears** have announced closures of more than 400 stores across the U.S. since August 2016, hurting many secondary malls that are struggling to find replacement tenants.

Retailers in Europe currently are healthier, in part because many of the weaker ones failed during the financial upheaval between 2008 and 2009 and between 2011 and 2013, said Hemant Kotak, analyst at Green Street Advisors.

“We had a cleansing process in the last downturn and what survived were the better concepts and the ones with the better financial positions,” said Mr. Kotak.

One of the retailers that filed for bankruptcy in 2012 is fashion chain Peacocks, which was subsequently sold to another retail group that has since expanded Peacocks’ stores.

Not every European landlord is doing better than those in the U.S. Some top U.S. mall companies, such as **Simon Property Group** and **GGP Inc.**, are popular with retailers and are recording rent growth and low vacancy rates comparable to the numbers being chalked up by leading European landlords.

Some trends in Europe aren’t as promising as in the U.S. For example, Europe’s population growth has been lackluster, which doesn’t bode well for future increases in retail sales.

Still, investors are keenly aware of the advantages of Eu-

rope. In the 12-month period ended in July, the FSTE NAREIT Equity Regional Malls Index, which tracks seven mall REITs in the U.S., skidded 32%.

During that period, the Stoxx Europe Total Market Retail REITs, which tracks net returns of seven mall landlords in the region, declined a more-modest 11%.

Sales of U.S. shopping centers also have fallen sharply.

Volume totaled 670 million square feet between 2015 and the end of this June, according to an analysis of deals in excess of \$10 million by data firm Real Capital Analytics. By comparison, some 790 million square feet traded hands between 2012 and 2014, Real Capital said.

In Europe, deal activity increased to 627 million square feet in the 18 months period ended in July, up from 559 million square feet in the previous period, Real Capital said.

Investors are particularly hungry for shopping centers in Germany, Spain, Italy and the Netherlands, which are politi-

cally stable and whose economies are still growing.

In March, U.K.-based Intu Properties PLC acquired Xanadu shopping center in Madrid and its management company for €530 million (\$630 million).

Klépierre SA, the second-largest pan-European REIT and the largest to specialize in shopping centers, acquired a shopping mall in Spain’s Murcia area for €233 million, and is redeveloping Hoog Catharijne, a mall in Utrecht, the Netherlands. In April, Klépierre opened 16,000 square meters (172,250 square feet) of new shops and restaurants in Hoog Catharijne and is scheduled to deliver more space in subsequent phases in November, March and 2019.

“We will continue to buy shopping centers in big cities and get rid of the ones in small cities where demographics are decreasing,” said Jean-Marc Jestin, chairman of Klépierre’s executive board, in an interview. The France-based landlord is looking at

shopping centers in the top three to five cities in each country in the eurozone where the population is growing and in areas connected to public transportation. “We don’t like suburban retail,” Mr. Jestin said.

Supply has been kept in check in Europe partly because city planners have protected downtown shopping areas from suburban competition. In many places, people prefer to take public transportation, bike or walk, weakening demand for malls with large parking lots.

The one exception in Europe that faces a cloudier outlook is the U.K., which has more online shopping than countries on the Continent and faces uncertainties from Brexit. A weakening pound that has yet to fully flow through to consumers could exacerbate pressures on them, especially if the housing market remains lackluster and interest rates rise, said Green Street Advisors in a report in August.

## Big Landlord Pushes a Clicks-and-Bricks Strategy

By PETER GRANT

At **Unibail-Rodamco SE**, Europe’s largest listed commercial-property owner, autumn is the season for thinning its shopping-center herd.

Every October and November, senior management at Europe’s largest mall company take a tough look at their far-flung properties to see how they are fitting into their vision for bricks-and-mortar shopping in a world of growing competition from online shopping. That vision is all about concentrating on quality locations and store design instead of quantity.

“This is when we make the decisions: They’re big enough, or let’s grow them or they don’t meet our requirements and therefore we put them on the disposal list,” said Christophe Cuvillier, Unibail-Rodamco’s chief executive, in an interview with The Wall Street Journal.

Like other big retail landlords in Europe, Unibail is faring better these days than its embattled U.S. counterparts in terms of stock-market performance. Part of this is due to structural differences in Europe, such as the fact that the U.S. is “over-stored,” with six times more retail space per capita than Europe and that European shopping centers rely less on department stores and more on supermarkets.

But European retail landlords also are fighting headwinds with operations like Unibail’s annual cull of weak performers.

The company, which currently owns 71 shopping centers in almost a dozen European countries, has disposed of more than €3 billion (\$3.6 billion) of retail assets in the past four years, reflecting its



Unibail-Rodamco’s Carré Sénart shopping center in Seine-et-Marne, France. The landlord rotates 10% of its mall tenants yearly.

“cut-throat” approach to getting its portfolio right, said Mike Prew, a Jefferies analyst.

The company also is focused on getting its retailer mix right and rotates at least 10% of its tenants in its shopping centers each year. This can be expensive in countries such as France, where tenants have more rights and often have to be bought out by landlords.

But the cost is worth it, analysts say. “The bigger is better streamlined portfolio is outperforming competitor and national metrics,” Mr. Prew wrote. “The eviction costs of decanting tenants to bring in

superior retailers [are] paying off.”

To be sure, some investor caution about European retail landlords is merited. The full impact of online retail is far from clear. For example, a relatively new risk facing Unibail and other European landlords is the growing volume of food being sold online, a threat to their supermarket tenants.

Europe also faces more political uncertainty than the U.S., as demonstrated by the recent terrorist attack in a popular Barcelona shopping district.

But Unibail’s financial results this year have been solid. The company’s shopping cen-

ters are about 95% occupied. Their revenue in the first half of 2017 was €670 million, up 4.1% from the same period last year, according to the company.

Unibail’s retail tenants saw sales growth of 2.7% this year through May, more than double the rise of national sales indexes in the countries where the company’s centers are located.

Unibail also has tried to stay in front of changes in the retail and technologies sector. It hosted the first Apple store in Continental Europe close to a decade ago and, more recently, leased space to Tesla outlets in its shopping centers

in Sweden and France.

Unibail malls have updated Wi-Fi and charging stations and provide retailers a steady stream of information on shopping activities of visitors. “Customers are walking bar codes,” wrote Mr. Prew in the Jefferies report.

At the helm is Mr. Cuvillier, who was brought in as chief operating officer six years ago by the company, which took on its current form in 2007 when Unibail Holding SA of France purchased Rodamco Europe NV of Holland.

Mr. Cuvillier had been one of France’s online-commerce pioneers particularly as the chief executive of FNAC, a re-

tail unit of PPR Group.

Mr. Cuvillier said he sees a bright future for what he calls “experience shopping,” an activity that combines shopping with dining and entertainment. Online shopping will never substitute for the social and consumer experience of visiting a store, especially one that is well designed, he said.

“The size of your brand on an iPad or computer is exactly the size of any other brand,” he pointed out. “Therefore it’s very difficult as a brand to differentiate yourself because you’re mixed with everybody else.”

Stores also have other advantages: Retailers can interact with customers face to face and get immediate responses to new products. Consumers returning items they bought online are more likely to make additional purchases, something they can’t do dropping a package in the mail, he said.

But the cost of designing, building and maintaining an experience store is high. As a result, retailers are becoming increasingly selective about locations, Mr. Cuvillier said. That is why Unibail has been jettisoning mediocre properties and concentrating on a few locations “where the brands have to be,” he said.

That is also why Unibail has an €8.1 billion pipeline of future projects, including expansions and renovations of existing shopping centers and new ones such as an 80,000-square-meter (861,100-square-foot) mall in Wroclaw, Poland, that is scheduled to open later this year. It is already 97% pre-leased with tenants including Calvin Klein, Tommy Hilfiger and Adidas, according to the company.

“The best retailers want to expand,” Mr. Cuvillier said.

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MARKETS

# U.S. Stocks Take a Tumble

North Korea tensions and new storm push investors into havens like Treasurys, gold

By Mike Bird  
And Michael Wursthorn

The Dow Jones Industrial Average fell more than 200 points Tuesday, as threats from North Korea and another powerful hurricane weighed on major indexes.

Investors, back from their summer vacations, headed for safer stores of value, like U.S. government bonds and gold, after North Korea tested its most powerful nuclear bomb yet.

The Dow industrials closed down 234.25 points, or 1.1%, at 21753.31 after falling as much as 278 points. The S&P 500 declined 0.8%, while the Nasdaq Composite shed 0.9%. The CBOE Volatility Index, a measure of expected swings in the S&P 500, jumped more than 30% by late afternoon.

Markets around the world mostly finished lower. The Stoxx Europe 600 fell 0.1% to 373.71, while South Korea's Kospi also ended the day down 0.1%.

Japan's Nikkei Stock Average closed down 0.6% after a 0.9% fall on Monday, as buying of the yen, a traditional haven asset, accelerated during Asian trade. A stronger yen tends to weigh on Japan's exporters.

"There is no solid game plan as to what we can do with North Korea," said Larry Adam, Deutsche Bank Wealth Management's chief investment officer. "People are getting nervous about that."

As U.S. government-bond prices climbed, the yield on the 10-year Treasury note fell to 2.072%, according to Tradeweb, from 2.157% on Fri-



Financial companies in the S&P 500 slid. Goldman Sachs's headquarters building in New York.

day. Also hitting yields: Federal Reserve governor Lael Brainard said Tuesday that central banks should be cautious about raising short-term interest rates while inflation remains stubbornly low.

Shares of financial companies in the S&P 500 fell 2.2% by late afternoon. Recent declines in the 10-year yield have narrowed the gap between long- and short-term rates, potentially crimping profits for lenders.

Shares of Goldman Sachs Group fell 3.6%, while Bank of America shed 3.2%.

The threat of another storm hitting the U.S.—Hurricane Irma—put insurers among the S&P 500's biggest decliners and deepened losses for the financials sector Tuesday.

Shares of Everest Re Group were down 7.1%, XL Group lost 6.2% and Travelers Cos. declined 3.9% in late trading.

In the Dow industrials,

shares of United Technologies led declines after it announced a \$23 billion deal to buy Rockwell Collins. United Technologies fell more than 5% in late trading, putting it on track for its biggest decline since 2015.

While market reactions to the continuing tensions between the U.S. and North Korea have been short-lived in recent weeks, market strategists warn the latest salvo of threats increase global uncertainty. That, coupled with a lull in corporate earnings and meaningful economic data, could make investors skittish following five consecutive months of gains for both the Dow industrials and the S&P 500.

"That toppiness, along with the geopolitical concerns, is giving people a reason to take money off the table," said Larry Peruzzi, managing director of international equity trading at Mischler Financial.

Gold prices rose 1.1% to set-

tle at \$1,339.20 a troy ounce, the highest since September 2016.

U.S. crude-oil prices jumped Tuesday and gasoline prices slid, as shuttered refineries and other oil infrastructure continued to restart in the wake of Hurricane Harvey.

U.S. crude futures settled up \$1.37, or 2.9%, at \$48.66 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, gained \$1.04, or 2%, to \$53.38 a barrel on ICE Futures Europe.

On the data front, the IHS Markit's gauge of services activity in the eurozone showed a decline in August.

The services purchasing managers index came in at 54.7, slightly slower than the preliminary estimate of 54.9 and well below July's reading of 55.4. The composite output index at 55.7 was a touch slower than the 55.8 flash reading.

# Fed Official's Talk Sends Yields Down

By Ben Eisen

Pessimistic bond investors aren't the only ones worried about soft inflation.

Federal Reserve governor Lael Brainard on Tuesday laid out her worries about a lack of price pressures in the U.S. She suggested that the Fed's "persistent failure" to hit its 2% inflation target could merit a slower path of interest-rate increases going forward.

"We have been falling short of our inflation objective not just in the past year, but over a longer period as well," she said. "My own view is that we should be cautious about tightening policy further until we are confident inflation is on track to achieve our target."

It is a view that appears to be more in line with the outlook of many bond investors than with some Fed policy makers, who have long said they expect inflation to trend higher. Implied inflation expectations, derived from the differential between nominal and inflation-adjusted Treasury yields, are forecast to be 1.79% annually over the next decade, according to data from Tradeweb. That is down from more than 2% earlier in the year.

Some investors expect fewer rate increases ahead, betting that a lack of inflation will eventually figure into Fed policy decisions. In the market for fed-funds futures contracts, traders see just a 37% chance of at least one more rate increase by the end of the year, down from 44% on Friday, according to CME Group.

After Ms. Brainard's remarks, the yield on the 10-year Treasury note fell by 0.05 percentage point to 2.11%. It was at 2.072% late afternoon, its lowest since November. Long-term Treasury yields, which

tend to rise and fall with the outlook for inflation and economic growth, have been trending downward for much of the year after a postelection spike.

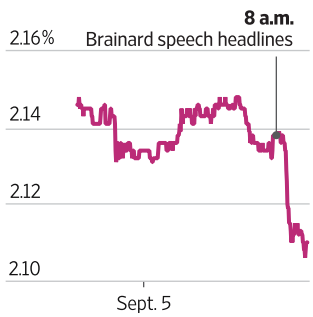
Inflation, painful as it can be for consumers, is thought to be a key part of a healthy economy. The Fed's preferred measure of inflation, the personal consumption expenditures price index, showed last week that inflation was up 1.4% from a year earlier, undershooting the central bank's 2% target for nearly all of the past five years.

The Fed's policy committee most recently said that weak inflation pressures are transitory, with inflation "expected to remain somewhat below 2 percent in the near term but to stabilize around the Committee's 2 percent objective over the medium term."

But Ms. Brainard, who has advocated repeatedly for a go-slow approach on raising rates, observed Tuesday that an improving labor market hasn't yet brought consumer prices increases up to where the Fed expects.

## Market Movement

The yield on the 10-year Treasury note fell after Lael Brainard's prepared remarks were released.



Note: Intraday yield, every two minutes  
Source: Tradeweb  
THE WALL STREET JOURNAL.

# HEARD ON THE STREET

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FINANCIAL ANALYSIS & COMMENTARY

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# United Technologies' Heavy Load

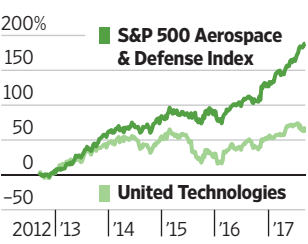
United Technologies is building an aerospace super-market. The question is whether anyone needs one.

By buying Rockwell Collins, United Technologies' aerospace and jet-engine divisions will become a virtual one-stop shop for building an airplane, producing engines, cockpit gear, seats, toilets, auxiliary power units and landing gear. The company speaks about linking these systems to create "connected airplanes," though airplanes are already among the most connected devices on the planet. Dividends from further technological leaps would seem to be some way down the road.

Investors should worry that the bigger rationales for the deal are defensive. Becoming a nose-to-tail provider of airplane parts gives United Technologies added

## Grounded

Total-return performance



Source: FactSet

THE WALL STREET JOURNAL.

heft vis-à-vis its biggest customers, Airbus and Boeing. It is an irony that United Technologies rebuffed a 2016 approach by Honeywell International, partly on the grounds such a big supplier would upset relationships with those same customers. Bulking up, including raising \$14 billion in debt, could be a way to forestall Honeywell

trying again and keeps attention away from the company's slower-expanding Otis Elevator and Carrier air-conditioning units.

The benefits for shareholders are less clear. United Technologies is paying \$30 billion including debt, almost 17 times Rockwell's trailing earnings before interest, tax, depreciation and amortization when including the operations of B/E Aerospace, which it acquired earlier this year. That deal was for less than 14 times, a price many investors thought was expensive.

The pretax cost savings target of \$500 million in four years, taxed and capitalized, would almost justify the roughly 30% premium United Technologies is paying over where Rockwell traded in the two months before news of the deal leaked

in early August. Trouble is, some of that savings actually counts the \$160 million Rockwell hoped to get with its integration of B/E Aerospace. Assuming \$60 million of that is achieved before this larger deal closes, then United Technologies' forecast of 6% savings on Rockwell's sales shrinks to 5%.

United Technologies boss Gregory Hayes reiterated Tuesday that he thinks his company's shares trade below their intrinsic value. Yet he is using them as currency for the part of the deal not paid in cash, while the company is canceling its buyback program for the next few years. United Technologies shares, already badly trailing the market, were down about 5% Tuesday. They suddenly have a new load keeping them down.

—Alex Frangos

# Pharma Breakthrough Is Worthy of Attention

A major clinical breakthrough at two large pharmaceutical companies didn't get much attention from Wall Street. That means opportunity for investors.

Xarelto, the clot-prevention drug jointly owned by Bayer AG and Johnson & Johnson, was shown to significantly cut the risk of stroke, heart attack, amputation or death for patients with severe atherosclerosis, or blockage in the arteries. Patients who took Xarelto in combination with aspirin experienced a 24% decline in those serious events, compared with patients who took just aspirin, the current standard of care. The trial was halted early due to Xarelto's efficacy.

The data, which were presented last month at a medical conference, are "about as good as it gets," according to Dr. Pete DiBattiste, head of cardiovascular research and development at Johnson & Johnson. Yet neither Bayer nor Johnson & Johnson shares have rallied since the data were unveiled.

Xarelto is already a blockbuster—analysts expect \$4 billion in sales at Bayer and \$2.4 billion at J&J from the drug in 2017, according to FactSet. And the firms will need regulatory approval to

convert the data into expanded sales, which will take time. And Wall Street does expect significant growth in Xarelto sales—to about \$9 billion in total by 2020.

Still, there is a strong chance Xarelto could sell better than most expect. Bayer said on a call with analysts that as many as 30 million new people may become eligible for the treatment, and this is a treatment that goes on indefinitely. The number of patients could further expand when more data come out next year.

The drug is likely to be especially profitable because Bayer and J&J aren't likely to need a major investment in their sales forces. And, since Xarelto would be an add-on to an existing aspirin regimen, new patients won't need to switch from another drug.

Johnson & Johnson and Bayer trade at 17 and 14 times forward earnings, respectively. Those are in line with recent history, but analysts expect earnings growth on the order of 7% annually for the next three years for both.

Stock markets are mostly efficient. But every now and then, a major development happens without much fanfare. Investors should take notice.

—Charley Grant

# China's Big Banks Have Credibility Gap

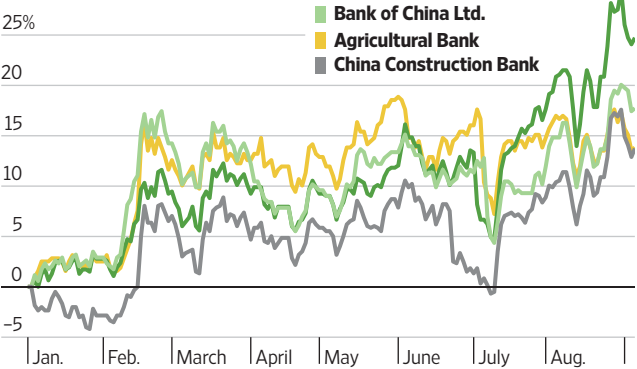
For China's big banks, business is looking better than it has in years. Investors shouldn't be fooled by the act.

Midyear results for the likes of ICBC and Bank of China show China's regulatory crackdown over the past year has had some success in whipping banks into shape: Interest income rose and asset quality improved for all of the so-called Big Four. Under pressure to clean up their shadow-banking activities, banks have reined in a key profit engine, noninterest income. Fees and commissions from off-balance-sheet investment and wealth-management businesses plummeted in the second quarter.

Still, going back to basics isn't proving simple. The four banks are able to earn a roughly 5% yield on new loans, while their funding costs remain lower than

## Class Act

Share-price performance



Source: WSJ Market Data Group

THE WALL STREET JOURNAL.

those of smaller rivals. That should mean easy profits, but the big banks' average return on assets was just over 1% in the first half, partly thanks to high operating costs, and partly because of still-high loan-impairment charges.

Together with declining

fee income, poor profitability is harming banks' capital positions. With little to add to retained earnings, bank capital levels are growing slowly. Their assets, meanwhile, are growing fast as they expand their loan books. The net effect is that their capital ratios—bank capital divided by

risk-weighted assets—are declining. Bank of China's core equity Tier 1 capital-adequacy ratio fell to 11.8% from 12.3% a year earlier.

More optimistically, banks' bad-loan positions seem to be improving—although again, the good news is qualified. The improvement is partly a game of numbers: Total loans have been growing faster than bad loans. Moreover, big banks have found creative ways to dispose of soured debt. Bank of China has been securitizing some of its bad loans, while others have carried out debt-for-equity swaps or just transferred them into off-balance-sheet entities.

Chinese bank stocks are up 17% so far this year, and now trade at 0.9 times book value on average. Anyone hoping they can push higher still should take a closer look below the surface.

—Anjani Trivedi

## OVERHEARD

Investments of "passion" are becoming less about the investment and more about the passion.

Returns from assets that stir the emotions—classic cars, fine wines, ultrahigh-end homes—have been mediocre for half a decade. Last year, a portfolio of these passion assets typically held by the super-rich appreciated by just 1.2%, according to Coutts, a London-based private bank.

Since 2006, when Coutts

started tracking the series, the average annual return has been 5.3%, net of holding costs. But almost all the money was made before 2012. Classic cars have fared best, up 14% a year on average.

Cumulative returns on these alternative assets are now lagging behind those on stocks.

It was always unrealistic to expect your vintage Ferrari to do better than a basket of stocks in the long run. All the more reason to enjoy driving it.