

THE WALL STREET JOURNAL.

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DJIA 35314.49 ▼ 158.64 0.45% NASDAQ 13884.32 ▼ 0.8% STOXX 600 458.60 ▼ 0.2% 10-YR. TREAS. ▲ 13/32, yield 4.024% OIL \$82.92 ▲ \$0.98 GOLD \$1,924.10 ▼ \$9.40 EURO \$1.0959 YEN 143.38

What's News

Business & Finance

- ◆ **China's exports** to the rest of the world fell in July, adding to the challenges for the world's second-largest economy and offering fresh evidence that a drying up of Western demand is hurting Beijing's attempts to rekindle growth. **A1**
- ◆ **Moody's downgraded** 10 regional banks, sending bank shares down and renewing concerns about the health of the sector amid higher interest rates and recent failures. **A1**
- ◆ **Major U.S. stock indexes** slipped, with the S&P 500, Nasdaq and Dow losing 0.4%, 0.8% and 0.5%, respectively. **B11**
- ◆ **July's stock-market** gains left hedge funds closing out short positions and cutting risk at the fastest pace in years, according to data from Goldman's prime brokerage unit. **A1**
- ◆ **SoftBank posted its** first investment gains in a year and a half and said it would cautiously press ahead with new bets in artificial-intelligence-related fields. **B1**
- ◆ **Barington has built** a stake in Hanesbrands and is pushing the underwear company to make changes to its board and other moves to reverse a slide in its stock. **B1**
- ◆ **TSMC will build its** first European chip factory with support from Germany, as the Continent moves to reduce its dependence on imports from Asia. **B3**
- ◆ **UPS cut its financial** outlook for the year as a slowdown in global delivery volumes and the fallout from a new labor contract weigh on the business. **B3**
- ◆ **Lyft raised its revenue** and trimmed its loss in a quarter that saw the departure of its co-founders from day-to-day management. **B4**

World-Wide

- ◆ **Newly delivered U.S.-made** cluster munitions have given a fresh impetus to Ukraine's campaign to retake territory captured by Russia, after weeks of little progress. **A1**
- ◆ **China's top diplomat** assured Russia that Beijing hasn't wavered in its stance on the Ukraine war, right after a Chinese envoy joined a multilateral forum, which excluded Moscow, to discuss ways to end the conflict. **A7**
- ◆ **The Supreme Court** said federal regulation of ghost guns would stand while the Biden administration appeals lower-court orders finding that do-it-yourself firearm kits weren't covered by the Gun Control Act. **A2**
- ◆ **The White House is set** to ban private-equity and venture-capital investments in some Chinese tech companies under an executive order. **A7**
- ◆ **Ohio voters defeated** a measure that would have made it harder to change the state constitution, meaning an amendment on the November ballot enshrining abortion access faces a lower bar for passage. **A4**
- ◆ **Some lawmakers on** recess are diving back into efforts to fund the government for fiscal 2024, seeking to gain a negotiating edge when Congress returns in September. **A4**
- ◆ **DeSantis named** a new campaign manager, the latest effort to steady his struggling bid for the 2024 Republican presidential nomination. **A5**
- ◆ **China released draft** rules to curb uses of facial recognition, while leaving broad exceptions for national-security-related uses. **A8**

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China's Exports See Steep Slide

Decline, worst since early in pandemic, reflects fraying trade ties with the West

By Stella Yifan Xie

HONG KONG—China's exports to the rest of the world tumbled in July, adding to the challenges for the world's second-largest economy and offering fresh evidence that a

drying up of Western demand is hurting Beijing's attempts to rekindle growth.

After a short-lived rebound in the spring, goods exports from China resumed a long-term slide that dates to October last year, when consumers in Western developed countries began shifting their spending away from buying furniture and electronic gadgets, and diverted it toward services such as entertainment and dining out.

Worsening geopolitical tensions between Beijing and the U.S.-led West have prompted some Western manufacturers to reduce their reliance on China's supply chain, which in turn is expected to erode trade ties between the two sides.

Overseas shipments from China slumped 14.5% in July from a year earlier, the steepest year-over-year decline since February 2020, in the earliest days of the Covid-19 pandemic, data released Tuesday by China's General Administration of Customs showed.

Compared with those of a year earlier, China's exports to the U.S. and European Union plunged by more than 20% each last month. There was a lone bright spot: Chinese shipments to Russia soared in July, calculations from the customs data show.

Recent data have signaled

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◆ **Key China developer sinks into debt crisis.....** B5

Regional Banks Get Downgrade And Stocks Edge Down

Reaction suggests sector remains at risk to problems that stirred spring panic

By Gina Heeb and Josh Mitchell

Moody's Investors Service downgraded 10 regional banks, sending bank shares down and renewing concerns about the health of the sector amid higher interest rates and recent failures.

The KBW Nasdaq Bank Index and the SPDR S&P Regional Banking ETF both slipped about 1%.

The Moody's downgrades late Monday hit the regional powerhouse M&T Bank as well as a number of smaller banks. Webster Financial, BOK Financial and Old National Bancorp were among the other banks that Moody's downgraded. Shares of all of those banks traded lower.

The reaction suggests the sector remains vulnerable to the problems that stirred a panic this spring after the failures of several midsize lenders: devalued bonds, jittery investors, deposit withdrawals and higher costs.

"There has been more funding pressure, more deposit pressure in the U.S. banking system than we have seen in a long time," Jill Cetina, Moody's associate managing director and one of the writers on the research report, told The Wall Street Journal.

At the same time, markets broadly are on edge about the possibility of a pullback. Stocks have managed to zoom higher for much of the year, despite a persistent fear about how the Federal Reserve's higher-for-longer interest rates will play out across the economy.

The banking sector has been under particular scrutiny ever since Silicon Valley Bank, Signature Bank and First Republic Bank collapsed earlier this year. The banks were caught flat-footed by higher interest rates, which have forced lenders to pay more for

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◆ **Stocks fall on weak China data, UPS outlook.....** B11

Lands Near Canyon Are Declared New Monument



PROTECTED: President Biden, shown with Grand Canyon National Park Superintendent Ed Keable, designated a new national monument that would protect lands near the Grand Canyon, a move that has been opposed by the mining industry. **A3**

Corporate Diversity Is Under Siege

Conservative groups mount legal challenges against Amazon, Comcast and others

By Theo Francis and Lauren Weber

Conservative legal activists successfully challenged the use of affirmative action by universities. Now they are going after diversity initiatives widely deployed across American corporations. Some companies are already reconsidering their efforts.

In lawsuits, shareholder letters and petitions to the Equal Employment Opportunity Commission, activists are using

some of the same tactics that progressive groups have used to advance diversity, equity and inclusion, or DEI, programs. They are arguing that companies are violating rules against race- and sex-discrimination, including those drawn from legislation designed to secure the rights of Black Americans.

Comcast settled a case accusing it of illegally favoring minority-owned small-business customers with grants and marketing advice. Amazon has been

sued in Texas over a program offering an extra \$10,000 to Black- or Latino-owned delivery-service contractors. Starbucks directors and executives are being sued by a shareholder arguing they violated their duty to investors by supporting diversity policies.

Dozens of corporate law firms and major employers have received letters from Republican officials warning them to adhere to laws prohibiting racial quotas and

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U.S.-Made Cluster Munitions Boost Kyiv

By Ian Lovett and Nikita Nikolaienko

ZAPORIZHZHIA, Ukraine—Newly delivered, U.S.-made cluster munitions have given fresh impetus to Ukraine's campaign to retake territory captured by Russia, after weeks of little progress.

Ukrainian soldiers said they have used the cluster bombs—which release dozens of smaller bomblets and can cause devastation over a broader area than ordinary artillery shells—to hit concentrations of Russian infantry, groups of vehicles and other targets, clearing the way for ground advances.

Kyiv's counteroffensive operations have struggled in the face of wide minefields and Moscow's superior air power, which have impeded large-scale efforts to use Western-supplied tanks and armored vehicles to reach and punch through lines of entrenched Russian forces.

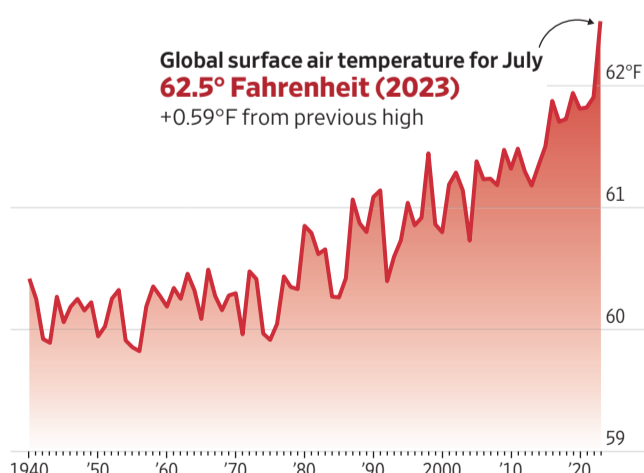
While the cluster bombs alone won't tilt the battlefield

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◆ **Beijing reassures Moscow of impartiality on Ukraine.....** A7

Coping With Record Heat

July was Earth's hottest month on record, surpassing the global monthly average temperature record set in July 2019. For a look at how six cities around the world coped, see **A6**.



Government Agencies Bristle Over Who Owns Portrait of Hugh

Treasury and OCC both want 19th century painting of first comptroller McCulloch

By Andrew Ackerman and Richard Rubin

WASHINGTON—Do you know who Hugh McCulloch was? Don't feel bad. Almost no one else remembers him either.

Yet here in America's hide-bound capital, where power

sometimes takes the shape of a rectangular gilded frame, two federal agencies are squabbling over the 143-year-old portrait of a long-dead public servant so obscure he's more like Who McCulloch to Americans today.

In a drawn-out turf battle—a canvas battle, actually—both

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Hedge Funds Suffer A Painful Drubbing As Short Sales Sour

By Jack Pitcher

Betting against U.S. stocks has gone poorly for Wall Street speculators.

July's gains left hedge funds closing out so-called short positions and cutting risk at the fastest pace in years, according to data from Goldman Sachs's prime brokerage unit, which caters to hedge funds. The cumulative dollar amount of short covering by hedge funds in June and July combined was the largest over a two-month period since 2016.

Short sellers borrow shares and then sell them, aiming to buy them back at a lower price later and pocket the difference.

The vast majority of U.S. short selling is done by hedge funds, which seek to generate positive returns no matter the direction of stock indexes.

The heavy short covering is providing yet another tailwind for stocks, which have rallied this summer on optimism that a strong economy can withstand higher interest rates. When a rally catches short sellers off guard, they can be forced to buy the shares back at a high price to limit further losses, creating additional de-

mand that can make prices go even higher.

On Tuesday, the S&P 500 slipped 0.4%, extending a recent decline from its 2023 highs hit last month.

"A lot of people have been skeptical of the market, and as they're forced to cover short positions, that's obviously adding fuel to the rally," said David Kelly, chief global strategist at J.P. Morgan Asset Management.

U.S. and Canadian equity short sellers racked up \$53.5 billion in mark-to-market losses on short sales in July, and have lost \$175.2 billion betting against the market this year, according to data from S3 Partners. Every sector was unprofitable for short sellers in July.

Hedge funds came into 2023 with relatively little leverage, or borrowed money, after cutting risk for most of last year in anticipation of a recession. But after missing out on some of the market's surprise rally this year, they have added significant leverage in an attempt to catch up and juice returns. Hedge funds charge their investors high fees and are under pressure to generate larger returns to justify the expense

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