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MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

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Is Brexit done?

How the deal will work

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1. Alliance Trust conducted a survey via Opinium Research, January 2022.
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MONEYWEEK

3 March 2023 | Issue 1145

Britain's best-selling financial magazine

From the editor...

"A fish rots from the head down", according to an ancient adage. That certainly seems to have happened in South Africa, where I have spent the past two weeks.

After apartheid the ruling African National Congress (ANC) ditched Marxism, and two terms of relatively orthodox economic policy-making followed before Jacob Zuma took over in 2009, ushering in a decade of crony-capitalist malaise.

This undermined productivity and growth, as corruption always does, and by 2019 there was talk of a lost decade. Unemployment hit a record (employment growth had been brisk in the initial post-apartheid period) and export volumes barely surpassed their 2007 levels that year.

The country's top electricity provider Eskom has been especially poorly run, and is losing R1bn (£45m) a month to corruption and theft committed by people often linked to the governing party, according to the departing CEO. Rolling blackouts have paralysed growth for years.

A head transplant

Zuma is gone now, replaced by an economically literate businessman, Cyril Ramaphosa. Still, transplanting a healthy head onto the fish won't magically reverse the rot, and it hardly helps matters that Ramaphosa recently became embroiled in his own scandal, accused of hiding at least $580,000 in cash in a sofa. (If only my sofa were that generous; I just checked and found 5p down the back.)

This is where spending and borrowing too much can lead

©Shutterstock

"Northern Ireland's economy has outperformed Great Britain's in recent years"

Parts of the ANC, along with a far-left populist party, would be inclined to launch a spending and borrowing spree. The ten trillion Zimbabwe dollar note I saw on a friend's fridge is a stark reminder of where that can lead.

Still, let's focus on good news. While some countries veer off course like demonically possessed shopping trollies, the broader picture is far more encouraging. Capitalism has "conquered the world" and poverty has receded rapidly; for the past three decades, income growth has been concentrated in poorer countries (see page 21). Free-market reforms in developing countries have been crucial, and liberalising trade always promotes growth. That brings us to this week's Brexit deal (see page 10), which both secures the constitutional integrity of the UK and keeps the single market intact, according to one Austrian paper. We'll see, but it certainly does appear to herald smoother trade between the EU and the UK, and that can only be good for growth.

The boost from free trade

Consider that Northern Ireland's economy has outperformed the rest of the UK in the past few years, according to Pantheon Macroeconomics.

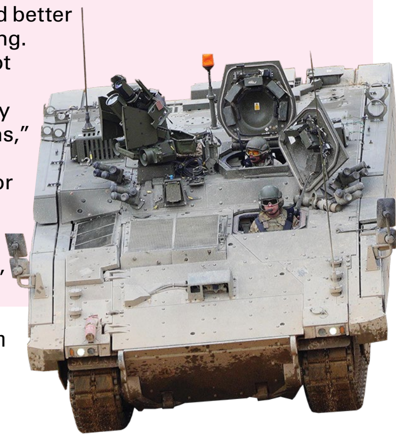
In the third quarter of 2022, the province's GDP was 4.8% above its 2018 level, but Great Britain's was only 1.1% above. "Northern Ireland's continued alignment with the single market has cushioned the blow from Brexit". The fewer trade barriers, the better.

It's worth bearing in mind, however, that Northern Ireland comprises just 2.2% of UK GDP, compared with 7.4% and 3.4% for Scotland and Wales respectively. So nothing in this deal will work miracles. But like my 5p down the back of the sofa, it's a start.

Andrew Van Sickle
editor@moneyweek.com

Boondoggle of the week

The Army's troubled £5.5bn Ajax armoured vehicle programme "has turned a corner", according to defence secretary Ben Wallace, says Sylvia Pfeifer in the Financial Times. The UK signed a fixed-price contract with US defence giant General Dynamics in 2014 to buy 589 vehicles, with the first to be delivered three years later. But the Ajax soon got bogged down with problems relating to noise and vibration, which damaged soldiers' hearing. Payments to General Dynamics were halted, but £3.2bn had already been spent. Those payments are due to resume, and the first vehicles are set to replace ones designed in the 1960s once trials have been completed in 18 months' time. The fix? New ear defenders and better seat cushioning. "These are not engineering solutions, they are mitigations," says Defence Analysis editor Francis Tusa. "None of this has solved the problems."



©Getty Images

Good week for:

Richard Walker, chairman of supermarket chain Iceland, will climb Everest to raise more than £1m for the National Brain Appeal to build the world's first Rare Dementia Support Centre. He will undertake the challenge in memory of his mother, Rhianydd, co-founder of the chain, who died in 2021 from early-onset Alzheimer's.

Stephen A Schwarzman, co-founder and CEO of private equity firm Blackstone, this week broke ground on a humanities centre at the University of Oxford that is being built with his £185m donation, the biggest ever received by the 800-year institution. The "King of Wall Street" hopes the new "Institute for Ethics in AI" (artificial intelligence) will help governments understand the "challenges and change" posed by machine learning.

Bad week for:

This year's Michelin Guide has unnerved France's leading chefs more than usual. It announced its losers a week before the winners, drawing unwanted media attention. Restaurant Monnaie de Paris, run by **Guy Savoy** (pictured) and lauded as one of the world's finest, had held three coveted stars since 2002 – up until now. "The demotion is of the order of an earthquake for a chef so well-known to the public," says Les Echos.

Penguin Random House has become the latest publisher to distance itself from **Scott Adams**, the creator of office-based comic-strip "Dilbert", that has run since 1989, over racist remarks he made last week. It will no longer be publishing his coming book *Reframe Your Brain*, which had been expected this autumn. Several US newspapers, including The Washington Post, have dropped the cartoon.

Cover illustration: Adam Stower. Photos: Deliveroo; John Deere; John Lewis

This year's "echo bubble" will burst

Alex Rankine
Markets editor

Technology bulls are "buzzing that the downturn of... last year is over and the boom of the past decade is back", says Ruchir Sharma in the Financial Times. Cryptocurrencies have risen by over 60% in the past three months, with Chinese tech and big US tech firms up more than 50% and 30% respectively.

Don't get your hopes up. "This surge [has] all the hallmarks of an echo bubble," a phenomenon where "investors refuse to give up on ideas that recently made them a lot of money." The 2000-2002 dotcom bust was "punctuated by three echo bubbles; the biggest saw a nearly 50% increase in the Nasdaq". Those rebounds eventually faltered following "serial disappointments".

US Federal Reserve chairman Jerome Powell is trying to persuade investors he means business on inflation

©Getty Images

The bear returns

The rally comes in defiance of rising US bond yields, says James Mackintosh in The Wall Street Journal. Ordinarily, better returns in fixed income should sap the demand for riskier assets such as tech shares. There were similar stock rebounds in March and summer last year; both rallies defied higher bond yields "for weeks" but ultimately foundered. The odds are that this is just another "dead cat bounce" (a short-lived rally within a wider bear market). Indeed, the S&P 500 has fallen back 3% since 1 February, a sign that "yet another bear-market rally" might be "coming to an ignominious end".

The post-October rally in global markets was predicated on hopes that slowing inflation would usher in a pause in interest rate hikes and ultimately a pivot towards cuts, says Russ Mould of AJ Bell. That faith has been tested by robust US economic data, signs that inflation is stickier than expected and the fact that "central bank policymakers continue to talk a tough game". US corporate profits, which ultimately underpin share valuations, are also under strain. "Consensus forecasts now think earnings fell in 2022", and forecasts for 12% earnings growth this year could prove an uphill struggle. Bulls may be betting that the US Federal Reserve will ride to the rescue with interest-rate cuts, but "history shows the Fed starts to cut only once something has snapped". Any monetary easing will come too late to save this rally.

Investors are struggling to price other important risks too, says Roger Bootle in The Telegraph. While some "attribute semi-magic powers" to markets' abilities to see the future, in reality investors are "hopeless" at evaluating factors such as "the likely outcome of the war in Ukraine or the... situation over Taiwan, to name but two known unknowns". When faced with risks they cannot quantify, "markets have a tendency to turn a blind eye and hope for the best". When unanticipated shocks arrive, they then "take a very nasty tumble".

Fed chair Jerome Powell has gone "almost blue in the face" of late trying to persuade investors that he means business on inflation, says Tom Stevenson in the same paper. Only now do they believe him. The rally of recent months "felt ambitious and premature". While shares may not fall back to retest the October lows, the likelihood is that prices will spend a while bouncing "along the bottom while the market, economy and corporate earnings become better aligned".

Global debt eases amid post-Covid bounce

Global debt saw its first annual fall in dollar terms since 2015 last year, says Marc Jones for Reuters. The latest quarterly Global Debt Monitor, published by the Institute of International Finance (IIF), shows that the total value of government, household, corporate and financial-sector debts dropped by $4trn last year to just under $300trn.

A post-pandemic rebound and high inflation, which erodes the real value of debt, cut the global debt-to-GDP ratio by 12 percentage points to 338% of GDP. The "retrenchment was driven entirely by wealthier countries", while debt in the developing world hit a fresh record peak of $98trn as a strong dollar raised external debt loads. Higher interest rates are making the world's debts more onerous, says The Economist. Average policy rates across 58 rich and emerging economies, representing more than 90% of world GDP, rose from 2.6% in the first quarter of 2021 to 7.1% by the final quarter of 2022. That has sent the combined interest bill of firms, households and governments in these countries up to an estimated $13trn, or 14.5% of GDP. The cost of the interest will hit 17% of GDP by 2027 if rates follow the bond market's expectations. While such a level is not unprecedented it is likely to push some more vulnerable industries and economies into debt distress.

Britain's high proportion of index-linked debt has left it in a pickle

©Getty Images

Higher inflation should give debtors relief, but the UK's "unusually large" stock of linkers – bonds with payments linked to the inflation index – has left it in a pickle, says Valentina Romei in the Financial Times. Britain pioneered index-linked bonds in the 1980s. Today, 22% of the debt stock is inflation-linked. Rating agency Fitch says UK interest payments reached 10% of government revenues in both 2022 and 2023, compared to less than 4% across most of Europe.

Lithium prices run out of charge

"Just last year, the world was going to have a shortage of lithium carbonate, one of the key raw materials" for electric vehicle (EV) batteries, says Wolf Richter on Wolf Street. The benchmark China lithium carbonate price "exploded by a factor of 15 in two years", rising from 40,000 yuan a tonne in late 2020 to 600,000 a tonne two years later. Those "crazy prices" incentivised new supply, while demand for EVs has started to stall this year amid the global slowdown. "When the hype fizzled as it always does, the price began to plunge." Chinese lithium carbonate prices have fallen by more than a third over the past three months to hit a one-year low, says Trading Economics. That said, prices are still up more than 600% since the start of 2021.

US lithium mining stocks plunged by 10% on 17 February following news that CATL, the world's biggest EV battery maker, was offering discounted prices, says Al Root in Barron's. The Chinese firm has reportedly agreed to embed a lithium carbonate price of 200,000 yuan a tonne into 50% of its batteries, a steep discount to the current spot price. The discounts speak to a wider "oversupply in the Chinese EV industry", but they won't do much to revive demand for a new set of wheels. Raw materials are a relatively small part of the final cost of an electric car; higher lithium prices have only added "a few hundred dollars to the average cost of an EV."

Emerging markets falter

Emerging Markets (EMs) are in trouble again, says John Authers on Bloomberg. The MSCI EM index plunged by 20% last year in dollar terms. Chinese reopening and hopes of US interest rate cuts in 2023 sparked a recovery, with the asset class rising by 7.9% in January alone, but it then relinquished most of those gains in February. Traders have begun to re-examine their bets on easier monetary policy and a weaker dollar.

That is a problem for emerging markets because there is "a marked inverse relationship between the dollar and US rates... and the price of EM assets". A stronger dollar increases the cost of commodities many emerging economies import, such as oil, and makes servicing dollar-denominated debts pricier. It may also force EM central banks, which "have currencies to defend", to hike interest rates, hitting growth.

©Getty Images

Brazilian equities are in the bargain basement

A benign backdrop

"Emerging markets suffered a 'perfect storm' of economic shocks over the past three years," says Stéphane Monier of Lombard Odier private bank. Yet with energy prices on the way down and China's reopening driving demand for commodities and stimulating Asian supply chains, things are finally looking up. Slowing growth in the US and Europe would once have sent EMs "staggering to the brink of financial instability", but today they are far more resilient. "More debt is denominated in local currencies, and financial markets in these economies have deepened", which reduces developing countries' dependence on flighty foreign capital.

Emerging markets also enjoy superior growth prospects, says Chelsey Dulaney in The Wall Street Journal. The International Monetary Fund estimates that they will grow by an average of 4% this year, compared with 1.2% in advanced economies.

"It's a relatively benign global backdrop. You're having improving global growth; inflation is coming down," says Sara Grut of Goldman Sachs. The trouble is that a lot of that news was already priced in to EM assets during the recent rally, limiting further upside.

Growing disenchantment with US technology opens up an opportunity for other growth stories in the years ahead, Mark Preskett of research firm Morningstar tells Jonathan Wheatley in the Financial Times. "Capital might start flowing the other way and be attracted to emerging markets."

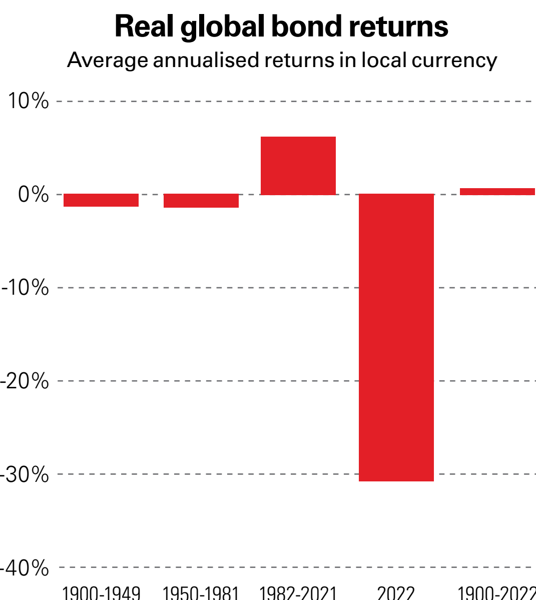
However, stagnation in South Africa and the implosion of Russian investments is a reminder that "not all emerging markets will rise together". Morningstar particularly likes Chinese, South Korean and Brazilian equities, with the latter on 7.3 times forward earnings, "well below their ten-year average of 11.3 times". Just remember how risky EMs are. "It's very easy to get it wrong and for a country to stay out of favour for years."

Viewpoint

"The hot topic among FTSE bosses is how much better their [share] valuations would be [if they were listed in America. UK firms want] to benefit from the US market's massive liquidity. That means getting into an index, where tracker funds automatically buy the shares... [but] that's not a foregone conclusion... A prospective member... must be 'American enough', filing annual reports with the US regulator and having substantial assets and revenues in the States. There is an annual liquidity test to make sure enough of the share trading has moved to the US... London... is [certainly] unloved... Stocks here... trade on a 30% discount to their global peers... [but] boards thinking about doing the New York flit should [recognise] that it's not necessarily an overnight fairy tale. [Still] that won't deter most when the Statue of Liberty seems to be holding a giant fistful of lucre."

Oliver Shah, The Sunday Times

The long bond bull market was a historical anomaly



Source: Financial Times / Credit Suisse / Dimson, Marsh and Staunton

A four-decade long "golden age" for bonds is over, says George Steer in the Financial Times. Global bonds delivered an annualised real return of 6.3% between 1982 and 2021, according to the Credit Suisse Global Investment Returns Yearbook. That compares well with the average global equity return of 7.4% over the same period, as bonds typically provide steadier returns than stocks. Yet in 2022 global bonds plunged by 31% for their worst annual showing in more than a century. UK bonds returned minus 39%. Investors should get used to worse bond returns, since the post-1982 bond bull market was an anomaly. "Since 1900 the average annualised real return for bonds across the 21 countries with continuous data was just 0.6%."

A struggle to gain altitude

IAG, the owner of British Airways, is back in the black, but faces a long battle to regain its 2019 profit level. Matthew Partridge reports

International Consolidated Airlines (IAG), one of the world's largest airline operators and the owner of British Airways and Aer Lingus, is back in the black, says Emma Powell in The Times. IAG has reported adjusted operating profits of €1.23bn last year, compared with losses of €2.97bn in 2021 and €4.37bn in 2020 – helped by fares rising by more than 10% above pre-Covid levels. It expects this recovery to continue, with profits of between €1.8bn and €2.3bn expected this year despite an uncertain economic backdrop and cost inflation.

IAG is clearly benefiting from a "notable revival" in the fortunes of the airline industry, says Philip Georgiadis in the Financial Times. Consumers' demand for travel is rebounding following the end of most Covid restrictions. European low-cost airlines have enjoyed "record bookings", while Air France-KLM has declared that it has "turned the page on Covid".

IAG even feels confident enough to "complete its long-running effort to buy Air Europa": it has agreed a €500m deal for the Spanish airline. However, even the latest upbeat figures can't obscure the fact that its full-year profit was still barely a third of the €3.3bn it reported in 2019.

Investors aren't being paid to wait

IAG's shares fell by 6% on the news, showing that there are still "areas of concern", says Russ Mould of AJ Bell. Investors will certainly need considerable patience: even IAG's management has admitted that it will take several years for the company to return to pre-Covid levels of profit, with "no dividend to reward shareholders for sticking around".

What's more, the "highly elevated" levels of debt could make the market "uncomfortable", particularly if "there is any indication it is preventing IAG from making necessary investments in its business". IAG's $11bn net debt pile, caused by the "epic collapse" in revenue during the pandemic, exceeds its $9.4bn market value. This leaves boss Luis Gallego with a choice between executing a "quick and painful fix via a big rights issue", or taking a "gradual journey back to health". Conscious that the company's debt costs are "relatively low", he seems to be choosing the latter, hoping that acquisitions, such as that of Air Europa, will boost growth and give rise to cost synergies. Still, "it's a bad time to be heavily leveraged", with longer-term investors "increasingly wary of investing in a company that operates with debt three times its earnings before interest, tax, depreciation and amortisation".

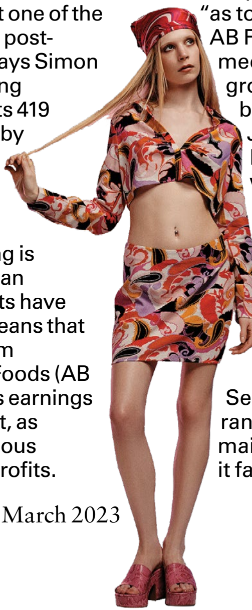
CEO Luis Gallego faces a difficult strategic choice

©Getty Images

At the very least, IAG's high debt has prompted several analysts to wonder whether "acquisitions should be the company's focus", says Clara Hernanz Lizarraga on Bloomberg. While Gallego argues that the Air Europa deal "will help bolster Madrid as an aviation hub to compete with Europe's largest airports", Barclays' analysts are "not convinced" by this argument. They point out that when you take Air Europa's balance sheet and lease debt into account, the deal will end up costing the company "around €2.8bn".

Pandemic boosts Primark and ABF

Primark's focus on the high street and cut-price fashion looks set "to make it one of the retail winners in the post-pandemic world", says Simon English in the Evening Standard. Sales at its 419 stores should jump by 16% to £4.2bn in the half-year to 4 March. This suggests that "consumer spending is holding up better than economic pessimists have feared", and also means that Primark's parent firm Associated British Foods (AB Foods) now expects earnings for the year to be flat, as opposed to its previous guidance of lower profits.



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Primark's success will inevitably reignite the debate "as to what it is doing in AB Foods' portfolio with mediocre performing grocery and sugar businesses", says Jai Singh on Proactive Investors. However, while it has been suggested "time and time again" that Primark "be spun off and flourish as its own enterprise", the bosses at AB Foods "have always resisted the urge". Selling a diversified range of products "is the main strength that leaves it fairly insulated" from factors such as a pandemic or war in Europe. So "spinning off a key part of what makes AB Foods a successful business wouldn't be a smart move".

AB Foods "has come through the pandemic in good shape", says Lex in the Financial Times. But there are clouds on the horizon. Primark's margins "are getting squeezed", although lower freight and energy prices will alleviate the pressure.

However, in the longer run Primark's refusal to embrace online shopping on the grounds that this would cost too much leaves it vulnerable to competition. Note too that "sales are still not back to pre-pandemic levels everywhere in Europe".

Pfizer targets biotech's cancer drug

Drug giant Pfizer is in talks to buy biotech Seagen in a deal that would be worth at least $30bn, say Jared Hopkins and Jonathan Rockoff in The Wall Street Journal. Seagen has pioneered a class of cancer therapy known as antibody drug conjugates.

The treatment "works like a guided missile attacking tumours with toxic agents". Not only has it been approved for cancers such as Hodgkin's and other lymphomas, but it has also "shown promise in combination with an immunotherapy against other kinds of tumours".

Seagen has more than nine studies evaluating its antibody drug conjugates with immunotherapies. The combination could be used to treat a range of conditions, including lung and colon cancer.

Pfizer's interest in Seagen comes at a time when the drug giant is "struggling to convince Wall Street that it can manage a transition" set to slash annual sales by 33% to $70bn this year, says Jamie Smyth in the Financial Times. Pfizer expects sales of its Covid vaccine and antiviral pill to decline by 62% to $21.5bn in 2023.

It also faces the expiry of market exclusivity for blockbuster drugs including cancer medicines Xtandi and Ibrance, which will "blow an additional $17bn hole in annual revenues by 2030". The firm's market value has slipped by 25% since it peaked in December 2021.

Seagen may be a "natural target" for drug companies, especially a company such as Pfizer, says Robert Cyran on Breakingviews. Still, given that biotech takeovers "tend to involve paying an average premium of around 50%", you can expect this one to come with a price tag of $41bn.

Such expenses may prove difficult to justify given that the company is expected to earn a mere $500m of operating profit by 2025. Even if Pfizer could double this figure by cutting costs, it would still only produce a "measly 2% return on the buyer's investment". Given the "conservative" outlook of pharma companies, it is "harder to imagine a deal closing" than you might think.

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Five to buy

Jet2
Shares
Household budgets are under strain, but many families consider their "week in the sun" to be non-negotiable, which will keep driving the recovery in the travel industry. This airline won a reputation for putting customers first during the pandemic and Jet2 is now the UK's top holidays firm by passenger numbers, eclipsing Tui. Planes are fuller than they were pre-Covid and margins are much higher. On less than ten times earnings the shares could keep soaring. *1,297p*

Keystone Law
The Sunday Times
This listed law group's stable of 400-odd self-employed lawyers "work from home and receive 60% to 75% of total fees", with the rest going to Keystone. The model, which doesn't require extensive office space, means that overheads are "a shadow of big-name rivals". The shares have drifted down over the last year amid a "recruitment crisis" in commercial law. But the jobs market will eventually stabilise and demand from clients remains "robust". With the shares on a 38% discount

to the five-year average price/earnings (p/e) ratio, this is an opportune moment to "buy... the dip". *510p*

Microlise
The Mail on Sunday
This transport technology group provides kit to clients including Marks & Spencer and Royal Mail. The products track the upkeep of vehicles and optimise delivery routes. More than 200,000 British drivers use Microlise's software and its footprint continues to expand across Europe and Asia. Multi-year contracts and high rates of customer retention make for stable revenue. There is also scope for growth as rising fuel and labour costs make Microlise's technology more appealing than ever to corporate clients seeking to halt the squeeze on margins. *113p*

Schneider Electric
Investors' Chronicle
This French industrial giant provides kit that helps factories, homes and offices to run more efficiently. CEO Jean-Pascal Tricoire is stepping down after a 17-year tenure that has brought robust growth in revenue and dividends. The shares have soared by 687% in 20 years. Tricoire's exit brings transition risks, but the rollout of industrial subsidies in the US and Europe, and rapidly expanding infrastructure needs in emerging markets, are auspicious. *€157*

WPP
The Times
This advertising group has posted its third consecutive annual rise in organic revenue. The market remains wary of the shares after previous blunders, but management has cut debt and streamlined a once-bloated structure through a series of disposals. That should help close a valuation discount with global peers. The year ahead may prove tricky amid the consumer squeeze but the firm "is making the right strategic moves" to flourish in the long-term. *1,053p*

One to sell

PZ Cussons
The Telegraph
This consumer products group, whose brands include Imperial Leather soap and Carex hand wash, has reported higher margins in Africa and Asia, but these were overshadowed by a drop in operating margins at the Europe and Americas division. The recovery in developed markets will be a tough slog as hard-pressed consumers trade down to cheaper brands or even "cut down on baths to save money". Given the economic and political uncertainty that goes with the group's heightened focus on emerging economies, "a high-teens earnings multiple feels about as high as this stock can go". It is thus "time to pull the plug". *190p*

...and the rest

Shares
Hold price comparison specialist **Moneysupermarket.com**. The cost-of-living crunch has sent consumers onto the site in search of deals on mortgages, credit cards and savings accounts. The "big money-spinner" of energy switching is on hold for now, but the freezing of that market won't last forever *(233p)*.

While pharmaceuticals group **Indivior**'s drug portfolio is delivering solid growth, that is offset by uncertainty over litigation, with the firm recently unveiling a $290m exceptional provision. It seems impossible to assess the risk of new information emerging in legal cases and triggering further share-price upsets, so we will "cut our losses". Sell *(1,599p)*.

The Mail on Sunday
Online advertising business **CentralNic Group** is "growing at a rate of knots" and may even start paying a dividend in the coming year rather than focusing its financial power on growing via acquisitions. The shares have soared by 140% in five years, so nervous investors might see "a good opportunity to sell out and bank the profits". However, with some brokers tipping further upside within the next 12 months, others may choose to hold *(140p)*.

The Telegraph
Shares in technology products retailer **Currys** have disappointed over the last few years. Still, while weak consumer confidence makes for a bumpy short-term outlook, recent trading in the UK was unexpectedly good and on a p/e ratio of 6.5 the shares still offer a "margin of safety". Hold *(77p)*.

The Times
Booming metals prices have financed generous dividends at miner **BHP Group** of late. Payouts may have peaked in this commodity cycle but few other sectors offer such "ebullient cash returns". Hold *(2,751p)*.

A German view

This is Mexico's moment, says WirtschaftsWoche. US firms are now increasingly inclined to consider investing and manufacturing there as America turns away from China. And Hispanics now comprise around a fifth of America's population, making them a powerful political force. All this bodes well for Grupo Televisa, one of Mexico's top cable and television providers. An improving Mexican economy will bolster advertising revenues. Moreover, Grupo Televisa holds 45% of Univision, the leading Spanish-language television provider in the US. Politicians will spend heavily on wooing Spanish speakers in the run-up to the 2024 election. The stock also yields 2.4%.

IPO watch

Abu Dhabi National Oil Co, the biggest oil company in the United Arab Emirates, is to float its gas division, marking the world's largest initial public offering (IPO) so far this year, says Bloomberg. Demand for the shares has been so strong that the group upped the proportion of Adnoc Gas it plans to sell from 4% to 5% early this week. The 5% stake of 3.84 billion shares will cost $0.61 each, implying a market value of $50.8bn. Trading in Adnoc Gas starts next week. The IPO should raise up to $2.5bn, eclipsing the previous Abu Dhabi record of $2bn set by chemicals group Borouge in 2022. The Middle East was a rare bright spot in the global IPO market last year owing to high energy prices.

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Is Brexit finally done?

A deal with the EU over Northern Ireland suggests "Brexitism", at least, is dying. Emily Hohler reports

After nearly seven years of "political turmoil", Rishi Sunak seems "destined to be the prime minister that finally got Brexit done", says The Times. The Windsor Framework is a "remarkable political achievement". The compromises Sunak has secured from Brussels are "substantial" and the deal "paves the way for a new era of closer cooperation" with the EU in vital areas such as scientific research, energy security and illegal migration.

As the European Commission president Ursula von der Leyen lavished praise on "dear Rishi", "only the most churlish would deny" that this was Sunak's finest hour, says Matthew D'Ancona in the Evening Standard. How it must "vex" Boris Johnson – who thought he could solve the issue with the "sheer force of his charisma" and "brazen readiness to breach international law" with the Northern Ireland Protocol Bill – that it is Sunak's "attention to detail, mastery of the brief and technocratic talent that have got the deal over the line".

Most importantly, it addresses the customs checks and bureaucracy that have hurt businesses, says The Times. Now, British goods that are staying in Northern Ireland will use a "green lane" of minimal customs checks; goods going into Ireland and the EU will take a "red lane". The deal also "goes a long way" to addressing the concerns of unionist politicians and the European Research Group (ERG) of hardline Tory Brexiters, who say the protocol undermined Northern Ireland's position within the UK and compromised its sovereignty. The new deal removes 1,700 pages of EU law and limits the number of EU rules to the minimum needed (3%), to ensure Northern Ireland's continued access to the EU's single market while avoiding a hard border on the island. "Crucially", Sunak has negotiated a "Stormont Brake" (see box), which gives the Northern Ireland assembly an "effective veto on any new or amended EU laws taking effect in the province". Sunak even "boasted" that Northern Ireland's "very special position" in the EU single market made it a "magnet for investment", exposing the "bitter contradiction and the absurdity that has defined British politics" since Brexit, says Rafael Behr in The Guardian – that to avoid "economic arson and diplomatic isolation" you need to "think like a remainer".

"Dear Rishi" with von der Leyen: our PM's finest hour?

©Getty Images

No small victory

Sunak has hinted that he will press ahead without the approval of the ERG or the Democratic Unionist Party, which has been blocking the restoration of power sharing in the Northern Ireland assembly in protest at the Protocol. Given the DUP's "track record of dire misjudgments and declining support, a little humility might be in order", says Andrew Rawnsley in The Observer. But even if they resist, which they will, they have no right to a veto. And if Sunak has to rely on Labour's support to secure parliamentary approval (which Keir Starmer has promised), almost all voters and much of the media will back him, adds Matthew Parris in The Times.

The bottom line is this deal leaves the government still "only partly sovereign over all its territory", says David Frost in The Telegraph. However, "most of our political class is choosing not to look too closely" because they "are tired of the whole problem". Brexit has been so divisive that both Sunak and Starmer have an interest in it "drifting to the margins of political debate", agrees Behr. Hence, both collude in the fiction that this deal means "Brexit really is done" when, in reality, it resets relations for "rolling talks to tie up loose ends on all kinds of issues" from fish to financial services. But if Brexit will never be done, "Brexitism as the doctrine of national renaissance through conflict with Brussels is dying", and that is no small victory.

What is the "Stormont Brake"?

Rishi Sunak's "rabbit in the hat" is the so-called "Stormont Brake", says Oliver Wright in The Times. This will allow 30 of the Northern Ireland assembly's 90 members, from at least two parties, to submit a "Petition of Concern" to prevent a new EU single-market law from applying in the province. One of the most contentious issues with the current protocol is that it obliges Northern Ireland to follow future as well as existing EU single-market rules, despite having no say in making them. It is not a complete veto, however. Westminster would need to support it – ie, the UK government actually pulls the brake – and if the European Commission objected, the dispute would "have to go through an independent binding arbitration process".

Sceptical: Sammy Wilson

©Getty Images

The brake is a "complex trigger, carefully designed to resist pulling by itchy Eurosceptic fingers", but it is still a big concession as it "allows for a unilateral UK halt" to the application of EU laws in Northern Ireland, says Rafael Behr in The Guardian. Sammy Wilson, the DUP's chief whip, described it as a "delaying mechanism" rather than a brake and predicted that the UK government would be reluctant to pull it in any case, being "fearful of the consequences of trade for the rest of the United Kingdom" and "retaliatory action" from the EU.

Before operating the brake, some stiff conditions must first be met and a "specified procedure" must be followed, adds David Allen Green in the Financial Times. For example, any new legislation must be challenged within two weeks, businesses and civic society must be consulted, and it needs to have a "significant impact specific to everyday life… in a way that is liable to persist". Moreover, for this to happen, the Northern Ireland assembly will "first need to be restored and operational" and, as the BBC's Enda McClafferty points out, leaving the DUP behind on the deal could "kill off any hope of Stormont returning". Ultimately, the brake "must be an instrument, not an ornament". Brussels will be "reluctant" to "make the conditions for the brake less onerous", but unless unionists can be convinced that "this new mechanism will make a real difference," it may "have to move on this".

Did Covid leak from a lab?

The FBI says yes, but we may never know for sure. Matthew Partridge reports

America's Federal Bureau of Investigation (FBI) has stepped into the debate over Covid's origins, with its director, Christopher Wray, stating that the agency now believes the virus originated in a Chinese government-controlled laboratory, say Joshua Thurston and Didi Tang in The Times. China has called such claims "defamatory" and details of how the FBI came to its "medium confidence" conclusion remain "classified". But the FBI is not alone. Just a few days ago it was reported that a 2021 study by the US Department of Energy (DoE), which oversees a network of laboratories in the US, has also assessed with "low confidence" that Covid "is likely to have stemmed from a lab leak in China".

FBI chief Wray says Covid originated in a Chinese lab

©Getty Images

The science says probably not...

Those conclusions run counter to that from several scientific studies as well as reports by a number of other US intelligence agencies, including the Central Intelligence Agency (CIA), which remains undecided, say Nicola Davis and Amy Hawkins in The Guardian. It is not that a lab leak is outside the bounds of possibility, but previous coronavirus epidemics have been known to have animal origins, there has been a lack of transparency due to a lack of cooperation from Beijing, and the debate has quickly become "heavily politicised". This makes it hard to come to a definitive conclusion.

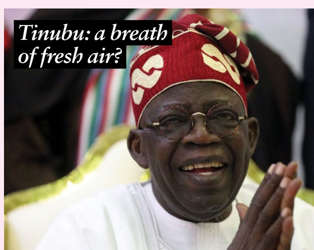
Indeed, the truth is that we may never know, says Faye Flam on Bloomberg. Other investigations have favoured the hypothesis that the virus jumped to humans from an animal in a market, and a group of scientists publishing in the journal Science last year said the market hypothesis was a "better fit" for the available data. But key evidence from the Wuhan labs and markets was lost, destroyed or never collected, meaning the data we have is incomplete. The likes of Donald Trump, on the one hand, and overzealous "fact checkers", on the other, have "rushed to certainty" on this issue. The debate has now turned into a "team sport". But unless there is powerful new evidence, those showing the most confidence on the issue will "deserve the least attention".

... but the politics of it remain salient

True, the case for a lab leak is not definitive, says The Wall Street Journal. But it is yet more evidence that the "media and public-health group-think" about Covid was "mistaken and destructive". The "salient detail" in the DoE's judgement is that it was based on secret new intelligence. And China has covered up whatever evidence it has about the virus's origin, and refuses to let the WHO conduct a thorough probe. That is "*prima facie* evidence that it fears what an independent inquiry might find".

But the West has not exactly covered itself in glory either. In April 2020, The Wall Street Journal published an editorial pointing to the possibility of a lab leak and raising doubts about Beijing's claims. The "media conformity caucus" derided the article for "peddling a conspiracy theory" that had been "debunked". Since then we have also learned that US public-health officials wanted to hide that US financial aid to the Wuhan lab may have contributed to research that led to a leak. Whatever the truth about the origins of the virus, we deserve to know the facts about such deception.

Tinubu wins contested victory in Nigeria


Tinubu: a breath of fresh air?

After a closely fought election Africa's most populous country and largest economy has replaced one "ailing septuagenarian" with another, says Richard Assheton in The Times. Yet despite sinking huge sums into building a nationwide political structure, Bola Tinubu only managed to win Nigeria's presidential election with a mandate of fewer than nine million votes in a country that is home to more than 200 million. The losing candidates, who won nearly two-thirds of the vote between them, have denounced the election as a "sham".

Tinubu will have his work cut out, says The Wall Street Journal. In recent years Nigeria has been "battered by a surge in violence and conflict", with more than 10,000 Nigerians killed in violent incidents last year, including attacks by Islamist terrorists. Scores more have been kidnapped for ransom, "which has grown into an industry". Meanwhile, Nigeria's economy has shrunk by about 30% since 2014, as "theft and underinvestment" have eroded returns from Nigeria's main export, crude oil.

Tinubu is promising change, but his record does not bode well, says the FT. Critics accuse him of turning the state of Lagos, which he ran for eight years until 2007, into his own personal fiefdom, and he has faced allegations of corruption and questions about his vast wealth. Nigeria has huge potential, says Ruth Maclean in The New York Times: it is abundant in gas, minerals, fertile lands and water, and its creative and technology industries are booming. Tinubu "will now have to prove that he can hit the ground running", says the BBC, "and that he is still the same formidable force who built modern Lagos".

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Betting on politics

Jacinda Ardern's decision to step down as prime minister of New Zealand in late January shocked the world. Her successor, Chris Hipkins, faces a tough fight to remain in power when New Zealand goes to the polls in the general election in October. With £11,952 matched on Betfair, punters have the opposition National party as favourites to provide the next PM at 1.43 (67.5%), compared with Labour at 3.2 (31.3%), and any other party at 120 (0.8%).

It's not surprising that the Nationals are favourites to win given that the euphoria around Labour, which enabled Ardern to win a resounding (for New Zealand) victory in 2020, has long since faded. Indeed, the Nationals have been consistently ahead of Labour in the polls for around a year. These figures, combined with Ardern's poor approval ratings, almost certainly played a large part in her decision to leave office.

However, the change of leadership has caused Labour to close the gap, with three out of the five polls putting Labour ahead and one putting the two main parties neck and neck. Labour is also helped by New Zealand's complicated electoral system, based on a form of proportional representation, which means that the performance of minor parties, such as the Greens, ACT New Zealand and the Māori Party, plays a role in determining the balance of power. Unofficial projections suggest that the three left-of-centre parties would come close to a majority.

Part of the poll bounce is down to Hipkins enjoying a honeymoon period, but he's already been smart enough to ditch some of Ardern's more unpopular policies. I therefore believe that the chances of Labour winning are significantly better than punters are expecting. I suggest you bet on Labour to retain power after October's election.

Washington DC

Chips Act opens its wallet: The US Department of Commerce has opened the application process for companies to receive semiconductor manufacturing subsidies under the $53bn Chips Act, say Yuka Hayashi and Asa Fitch in The Wall Street Journal. Recipients must refrain from expanding chip-making capacity in China and "countries of concern" for ten years, and the Pentagon will also gain "secure access" to "leading-edge" chips made at the facilities in the US being funded. The US buys 90% of its advanced chips from Taiwan – "a national security vulnerability that is untenable", says commerce secretary Gina Raimondo. Recipients must not use the grants to pay dividends and they must declare any intentions to buy back stock for five years. Firms receiving more than $150m will hand over "a portion" of the profits from facilities generating an unexpectedly big profit. As part of the government's social agenda, unionised workers should also be employed in the construction of the facilities, such as those detailed in plans unveiled by Intel, Taiwan's TSMC and South Korea's Samsung – leading contenders to receive funding.

President Joe Biden, who signed the Chips Act into law last year, wants to create two advanced chip-manufacturing hubs in the US by 2030. Manufacturing incentives account for $39bn of the funding and $13bn has been earmarked for research and development, and training. The act marks a reversal of "a free-trade policy that for decades encouraged US businesses to pursue efficiency by moving production overseas where costs are lower".

San Francisco

Salesforce weakens: "Selling is the one thing Salesforce has long excelled at. Until recently", says Dan Gallagher in The Wall Street Journal. "The company founded by salespeople to make software for salespeople is in… the worst sales slump in its history." Revenue growth for the fiscal fourth quarter, which ended in January, was forecast to fall below double digits for the first time, year on year, since Salesforce was listed in 2004. Annual revenue growth had averaged 25% a quarter since breaking through the $10bn revenue mark in early 2018. Co-founder and CEO Marc Benioff (pictured) is under pressure.

At 58, he is one of the few tech founders of his generation still running things, but activist shareholders are queuing outside his door, while several executives have already left, including his second co-CEO in as many years. "Benioff's job might not be in danger – yet. But he might also be hard-pressed to deliver good news in the near term." He can at least take solace in that the "cloud [computing] recession forming on the horizon" covers the whole sector, says Bill Peters on MarketWatch. The "freemium" and "pay for what you use" business models helped these companies to grow fast during the pandemic. Investors now fear, however, that as their business customers watch their bottom lines, these models will come under more scrutiny.

Richmond

Altria explores deal: Altria, the Virginia-based maker of Marlboro cigarettes, is in advanced talks to buy e-cigarette start-up Njoy Holdings for at least $2.75bn and plans to sell its stake in vaping firm Juul Labs, says Jennifer Maloney in The Wall Street Journal. Altria, the biggest cigarette maker in the US, has been trying to develop or buy e-cigarettes for years amid falling sales of traditional cigarettes. It paid $12.8bn for a 35% stake in Juul in 2018, "only to see the vaping market leader tumble" from its top spot as a "series of crises" led to hundreds of lawsuits alleging that it had targeted minors. Although it has resolved most of the litigation, a question mark hangs over its future.

Tobacco firms, meanwhile, are vying for bits of the US e-cigarette market as regulators "reshape the industry". Njoy currently has just 3% of the e-cigarette market in the US (Juul has 26%), but it is one of the few makers with "clearance from federal regulators". Although the deal would fall short of the $5bn price tag some Njoy investors had hoped for, the firm only "emerged from bankruptcy protection" in 2017 and it would still "represent a corporate turnaround story".

The way we live now... the champions of football fashion

Pourliotopoulou: the face of Venezia FC

©Venezia FC/Chris Kontos/Twitter

Theopisti Pourliotopoulou, a Greek model wearing a gold football shirt and snapped sitting by the Grand Canal in Venice sipping coffee over breakfast, is the face of Venezia FC – not its players, says Sarah Rappaport on Bloomberg. The club has gone bust three times since 2004, and it cannot compete with its bigger rivals for matchday revenue or "bankable" stars. But Venezia FC is winning in the fashion stakes. It has opened two new retail outlets in addition to its flagship store, where its shirts sell for €110. Merchandise sales went from €730,000 in the 2019-2020 season to €3m a year later, and should be even higher in 2023. Venezia FC is "football's most fashionable club", declared fashion title Highsnobiety.

The turnaround is the brainchild of chief brand officer Ted Philipakos, who was brought back to the club by club president and former NYSE CEO Duncan Niederauer. Philipakos partnered with German design studio Bureau Borsche to capitalise on Venice's chic. He is doing something similar at Athens Kallithea FC, where he is president, tapping into Athens' "punk sensibility" to deliver an edgier look. Last year, football stars Cristiano Ronaldo and Lionel Messi were also enlisted to front Paris fashion house Louis Vuitton's World Cup campaign.

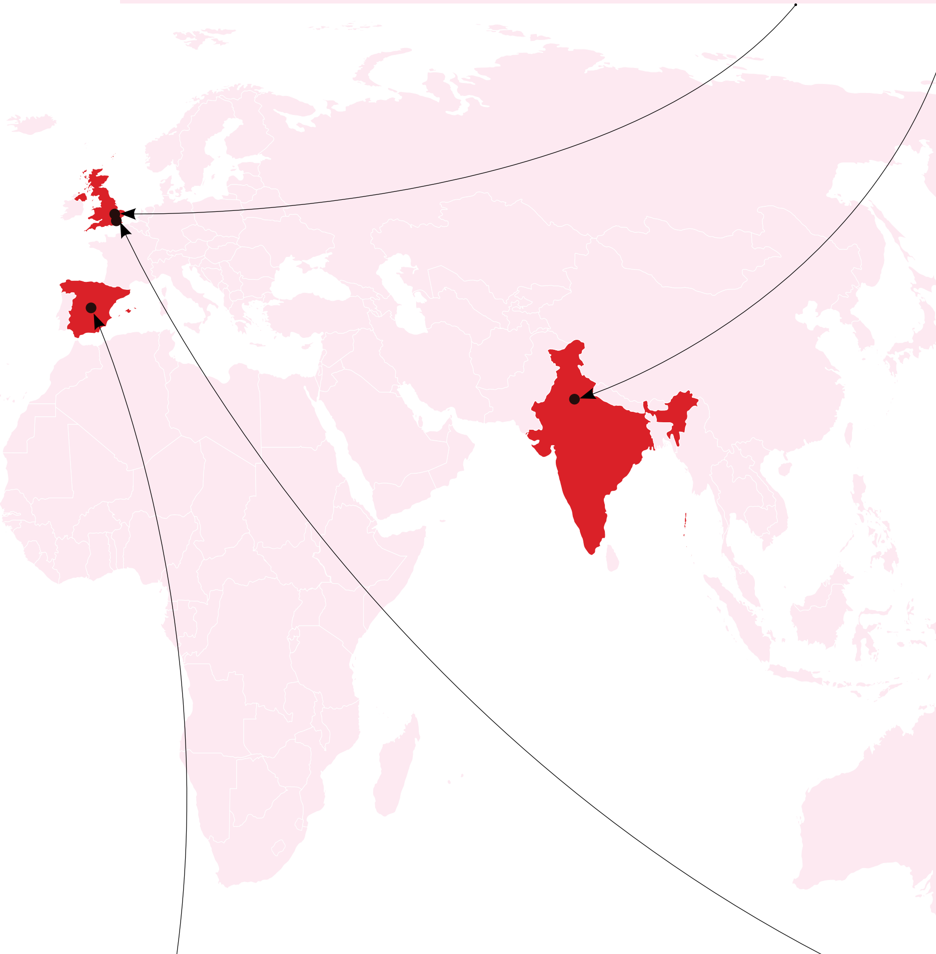
©Getty Images

Reality is out of stock at Ocado

©Shutterstock

Hatfield

Ocado fails to deliver: Pre-tax losses at Hertfordshire-based online-only supermarket Ocado widened to £500.8m last year, from £176.9m in 2021 as customers cut back on spending in the face of rising food-price inflation – which reached a record-high 17.1% in February, year on year, say Sarah Butler and Julia Kollewe in The Guardian. The average Ocado order shrank to 46 items, worth £118 last year, from 52 items worth £129 a year earlier. Ocado had also been expecting to receive £191m next year from the final instalment of its £750m 2019 joint-venture deal with Marks & Spencer, but now says that payment will be roughly 40% less. Revenues from its joint venture, called Ocado Retail, fell 3.8% last year, despite reporting record sales over Christmas. Ocado has revived its policy of matching Tesco's prices after CEO Tim Steiner had ditched it two years ago. It is also putting on hold plans for two new distribution centres in England. Ocado's "breezy" statement was "not even in the same picking warehouse as reality", says Ben Marlow in The Telegraph. The lockdown boom Ocado experienced had always been "desperately over-egged" and "no amount of sugar-coating can change the fact that a trebling of annual losses to more than half a billion pounds counts for a wretched year".



New Delhi

Dialling in to Paytm: Telecoms tycoon Sunil Mittal (pictured) is exploring a merger of his financial services unit, Airtel Payments Bank, with start-up Paytm's payments bank, says Anto Antony on Bloomberg. The talks are at an early stage. Shares of Paytm have risen 40% since their lows last November, but they have never traded above their initial public offering price since listing in late 2021. Paytm, however, has narrowed its losses. It denies it is in talks, but a deal would make some sense, says Shritama Bose on Breakingviews. The path to profitability for Paytm, part of $4.9bn One97 Communications, lies in becoming a direct lender to its 85 million monthly customers. Its licence currently restricts it to taking deposits (currently frozen for new customers), but Mittal, founder of India's second-biggest telecoms company by subscribers, could smooth the way by replacing Chinese investors amid India's "awkward" relationship with China. Chinese online giant Alibaba sold its shares last month and Ant Group could be next. The two banks also work in different niches, so overlap should be minimal. Tycoons and lenders make for "awkward bedfellows in India Inc" – regulatory approval would have to be sought for even a 10% stake. "But a home-grown problem may be a lesser evil [than a Chinese one]."

Madrid

Santander's sunny outlook: Spanish bank Santander sees higher interest rates in Europe as the basis for returning half its profits to shareholders via dividends and stock buybacks for the next three years, up from 40% at present, says Jesús Aguado for Reuters. The lender had relied more heavily on Latin America since the 2008 financial crisis but now expects to achieve a return on tangible equity of 15%-17% until 2025, up from 13.4% last year. Executive chair Ana Botín (pictured) is fending off calls to break up the €60bn banking group, says Liam Proud on Breakingviews. Rivals have been offloading far-flung businesses – HSBC has left consumer-banking in France and Canada, Citigroup is leaving Mexico and BNP Paribas has sold off its US retail-banking unit. "Botín, by contrast, is clinging to her global empire, which spans São Paulo to Southampton." Her "not-so-subtle" three-year plan is her chance to prove the sprawling group is worth more intact. "If Botín can pull it off, investors will have to concede that her globalised strategy makes sense. Right now, they're sceptical."

London

Property market tumbles: House prices fell by 1.1% in February from a year earlier – the first drop, excluding the pandemic period, since November 2012, according to building society Nationwide. The average price of a home now stands at £257,406 – 3.7% below the peak last August. Banks also approved just 39,637 mortgages in January, the lowest figure (barring the pandemic) since 2009, according to Bank of England data. However, house prices would have to fall by 21% before mortgage affordability would be restored to last year's level, notes estate agency Hamptons. If mortgage rates don't fall, then a correction in the housing market is "likely to be more severe and protracted, and take the total fall in prices closer to 20%-30%", says Andrew Wishart of Capital Economics. The consultancy expects a 12% fall this year. Meanwhile, swap rates, which are used to calculate fixed-mortgage rates, are only rising. Would-be buyers, already contending with rising consumer prices, are holding off in the expectation that house prices have further to fall. That is bad news for Purplebricks, says Tom Knowles in The Sunday Times. The online estate agency put itself up for sale last month, having expanded overseas too quickly. It was worth £240m when it floated in 2015, and just £22m last week.

The joys of a four-day week

A trial involving 61 firms and 2,900 workers has found that a shorter working week leads to happier workers, better productivity and no loss in profits. Is it too good to be true? Simon Wilson reports

What's happened?

The world's largest trial to date of a four-day working week – with no drop in salary – has just published its results, with the organisers claiming a "resounding success" in terms of both commercial benefits and happier, healthier staff. The trial was run by the non-profit advocacy group 4 Day Week Global, with input from think-tank Autonomy, plus academics at Boston College (in the US) and Cambridge University. The scheme involved 61 firms and 2,900 workers in sectors ranging from banks to fast-food restaurants to marketing agencies – and it ran in the UK from June to December last year. The firms were not required to adopt a rigid one-day-off-a-week model, so long as employees had a "meaningful" reduction in work time. But they did have to keep workers' pay at 100% of its previous level. Same pay, less work – but achieving the same in terms of output.

What would tempt him back into full-time graft?

©Getty Images

What's the idea behind all this?

Essentially, that work really does expand to fill the time available – and that if we cut out the wasted time we can all go home earlier and come back refreshed and more productive. The idea is that much of what goes on in many workplaces, particularly white-collar workplaces, is low-productivity and can be cut without harming the business, says Juliet Schor, the project's lead researcher and an economist at Boston College. "Sticking to a rigid, centuries-old, time-based system doesn't make sense," she reckons. "You can be 100% productive in 80% of the time in many workplaces."

So what did the UK trial find?

There were significant benefits in terms of employees' health, staff absences and staff retention. Researchers found that 39% of employees reported being less stressed at the end of the six months, and 71% had lower levels of burnout. Levels of anxiety, fatigue and sleep issues decreased, and health improved. Overall, there was a 65% reduction in sick days taken, and a 57% drop in the number of staff leaving compared with the period a year earlier. These are not just statistics – they are lives transformed, says Matt Rudd in The Sunday Times. Rudd spent months tracking the study and interviewing participants. "Without exception, every employee I spoke to has found the switch life-changing." Also without exception, so has every employer. Six months into the pilot scheme "you can hear the enthusiasm in their voices and see it in their bright, well-rested faces".

> *"Work really does expand to fill the time available"*

What about commercial benefits?

There was no slump in revenue: revenues rose 1.4% over the six-month period, and were up 35% year on year. A survey conducted halfway through the trial found 46% of companies said their business productivity had remained about the same, while 34% reported a slight improvement and 15% a significant improvement. "Before the trial, many questioned whether we would see an increase in productivity to offset the reduction in working time, but this is exactly what we found," says Brendan Burchell, the Cambridge sociology professor who led the research. "Many employees were very keen to find efficiency gains themselves. Long meetings with too many people were cut short or ditched. Workers were much less inclined to kill time, and actively sought out technologies that improved their productivity." Of the 61 companies that took part, a remarkable 56 of them (92%) are sticking with shorter hours for now, and 18 firms (30%) say the change will be permanent.

Any grounds for scepticism?

Plenty. Most obviously, this is a trial carried out by an advocacy group, with a self-selecting sample of 61 highly motivated companies. The companies all applied to join the trial and committed to two months of preparations, including workshops, coaching, mentoring and peer support. Lots more companies expressed interest, but decided against it. Indeed, the trial originally had 70 firms involved, but nine dropped out at an early stage. Another big caveat is that the companies' employees didn't actually cut working hours by a fifth – the average cut in hours was 11%. In practice, there was an average drop in working hours from 38 hours to 34 hours, and some workers sometimes did "modest amounts of work" on the fifth day.

What other evidence is there?

Research in various countries has shown mixed or inconclusive results, says Patrick Thomas in The Wall Street Journal. In Germany, efforts to shorten working hours in the decade to 1994 might have hurt employment, according to a study by Rutgers University economist Jennifer Hunt. A 2009 study led by economist Matthieu Chemin of McGill University suggests that a 35-hour policy in France that began in 2000 did little to increase employment. One country that did show positive results was Iceland. In a 2015-2019 study involving more than 2,500 employees across industries, researchers found most workers adopting a shorter week without a pay cut maintained or improved their productivity and reported reduced stress.

Should we adopt a four-day week?

Clearly, the concept isn't going to suit all companies or business sectors; the trial was itself skewed towards smaller firms and office-based work. But the results of the trial – in terms of staff satisfaction and retention especially – could certainly prompt some chief executives to consider their options. Those who do might want to take account of another striking nugget contained in the report. When asked what kind of incentive they'd want to return to a full five-day schedule, 70% of the 2,900 employees said they'd require a pay rise of between 10% and 50%. Another 8% wanted more than 50% extra. And 15% of employees – more than one in seven – reckoned that no amount of money could tempt them back to the joys of full-time graft. The report's authors offer this as further evidence of the trial's "resounding success". Corporate bosses flirting with the idea might not be so sure.

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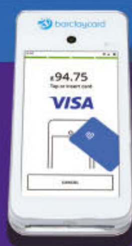

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Sweep away this bureaucratic racket

Money-laundering rules are absurd and restrict competition. It's time for some common sense

Matthew Lynn
City columnist

We all know the drill. Every time you need to open a new bank account, or hire a solicitor, or change your insurance policy, you run into a wall of money-laundering checks. You have to find a couple of utility bills, less than three months old of course, even though no one gets them in the post any more, and if they ask for them to be sent, the postal workers are on strike anyway. You might well need a certified copy of your passport as well. And perhaps of your driving licence. You might well have to record a video of yourself and send that across as well. It has turned into a nightmare. A simple transaction that should take a few minutes, and a couple of swipes on your phone, turns into days of hassle. Not very surprisingly many of us just give up and decide it is not worth the bother.

It is about to get worse. The Economic Crime and Corporate Transparency Bill will add another whole layer of checks and regulations that we will all have to comply with. Every time there is any kind of financial scandal there are demands for more and more money-laundering controls. It is easy for governments to agree to that. It doesn't cost them anything and it makes ministers look tough. At the current rate we soon won't be able to hop into an Uber or buy a drink at a bar without showing our passports and a couple of utility bills.

A simple question

Surely we should stop to ask a very simple question. Does any of it actually achieve anything? The case of Yevgeny Prigozhin might tell us something important. Prigozhin is probably about as dodgy a character as it is possible to imagine right now. The head of Russia's brutal Wagner Group, a private military corporation, he is one of Vladimir Putin's key allies, and responsible for some of the worst crimes committed during the invasion of Ukraine. And yet according to a report in the Financial Times he was able to pass the UK's money-laundering checks by simply offering a gas bill in the name of his 81-year-old mother. He was even sanctioned by the British and American governments at the time. None of that mattered. He ticked a few boxes and so it was all fine.

Prigozhin: ticks all the boxes

©Getty Images

It is not the first time something like this has happened. In 2021 NatWest received a hefty fine for failing to detect money laundering in a case where it accepted £700,000 in cash brought into a branch in black bin liners. But, hey, it was fine as they had a recent council-tax bill. And yet we never seem to hear of any criminals or terrorists actually getting caught. No one ever calls the police because a utility bill wasn't presented, nor does it ever seem to lead to any arrests. In truth, there is no evidence that any of the money-laundering checks ever catch any real criminals.

Are you a Russian warlord?

No one wants to go back to the days when you could simply walk into a bank with a suitcase full of cash and open an anonymous account, no questions asked. But our ineffective and meaningless money-laundering rules have become a vast bureaucratic racket. And it is one that imposes huge costs on the economy. The rules restrict competition by making it harder for us to switch from one company to another, and for start-ups to break in to the market. Indeed, one of the main reasons the banking market remains dominated by the big four clearing banks, despite plenty of web-based start-ups with far better service, is that money-laundering rules make it too much hassle for many of us to switch accounts. The same is true of other financial services. The rules are meant to protect us, but what they really do is allow inefficient monopolies to lumber on despite high prices and poor customer service.

Here's a simple suggestion. We should sweep them all away. Beyond simple ID, no one should have to answer any questions to open a bank account or buy a house. Instead, we should just let companies apply a little common sense – such as asking if someone happens to be a Russian warlord before taking them on as a client. That would be cheaper, less bother for the rest of us, and more effective as well.

City talk

● We should have "deep reservations" about the market's focus on banks' interest-rate margins, says Alex Brummer in the Daily Mail. With inflation and rates rising, high margins come at the expense of savers. Banks should focus on providing better savings rates and customer service – rather than axing branches – to reap longer-term advantages. Take Lloyds, where CEO Charlie Nunn (pictured) wants to find new streams of income, including paying more attention to mass-affluent customers. That sounds like a good way to go, but remember, "if there is a loss of goodwill among consumers, they will look elsewhere".

● "Boring Bunzl has always been a misnomer," says Alistair Osborne in The Times. The supplier of "bins, bulks and bog roll" has grown dividends almost every year for three decades – a small delay in 2020 during the pandemic is the only exception. Only Halma and Spirax Sarco can match that among London-listed firms, reckons CEO Frank van Zanten. Bunzl's latest payout is up 10% on the back of a 17% rise in sales and a 18% increase in adjusted operating profit. The group is a "finely tuned acquisition machine" that now operates in 31 countries, and van Zanten thinks the aftermath of Covid will yield more potential opportunities among the kind of family-owned firms that he targets. Meanwhile, underlying growth was robust, up 6.6% thanks to price rises, despite a 5% drop in Covid-related sales. The shares are now trading just off record highs. "Call it boring, if you like."

● Rolls-Royce's results were "almost encouraging" given new CEO's Tufan Erginbilgic's dramatic description of it as a "burning platform", says Nils Pratley in The Guardian. A swing to £505m of positive cashflow "is not small change even in the context of a group this size". No wonder the share price surged by a fifth. Still, on a long-term view, Rolls' record is a shocker – a five-year total return of -67%. The aerospace business remains capital intensive and a return on capital of about 4% "is a road to ruin if... you are borrowing in debt that still isn't ranked as investment grade". True, "gentler breezes are blowing" as the pandemic passes, but investors should "contain their enthusiasm for the idea that Rolls can move seamlessly to a higher glide path".

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A forecast for low returns

Negative real interest rates have often been followed by low real returns for both stocks and bonds

Cris Sholto Heaton
Investment columnist

The Credit Suisse Global Investment Returns Yearbook is well known to anybody interested in the history of markets by now. When Elroy Dimson, Paul Marsh and Mike Staunton began their study of historical returns back in the 1990s, organised and accessible data on long-term returns was scant for all but a handful of countries (principally the US). Today we have a better idea of what kind of returns we can expect, thanks to this research and similar projects.

Still, knowing what markets have returned on average is very matter to forecasting what they might return in the current environment, which is why the one of most interesting snippets in the latest update (out last week) is a look at whether there is a relationship between real interest rates today and future returns on stocks and bonds.

A clear connection

It seems reasonable to expect some relationship here. "If real equity returns are equal to the real risk-free rate plus a risk premium, it follows that when the real interest rate is low, subsequent real equity returns will also be low," as the study puts it. Personally, I tend to think about what moves markets in a mechanistic way. If rates become very negative, central banks will probably put them up to try to bring down inflation. Higher rates make cash more attractive relative to bonds and stocks, which will tend to bring them down, depressing medium-term returns.

This assumes a framework like our current one, where central banks target a certain level of inflation and adjust interest rates to try to meet it – but similar mechanisms apply in other situations. Runaway inflation increases uncertainty and investors are ultimately likely to demand a higher return on stocks and bonds to compensate.

Rates versus future returns

Real interest rate	Equity returns	Bond returns
Below -11%	-5.6%	-11.6%
-11% to -2%	1.7%	-3.4%
-2% to -0.1%	4.9%	1.2%
-0.1% to 1.3%	4.8%	1.3%
1.3% to 2.6%	5.1%	1.6%
2.6% to 4.4%	7.7%	3.8%
4.4% to 9.3%	9.1%	6.1%
Above 9.3%	10.2%	9.2%

Source: Dimson, Marsh and Staunton

The study compares real interest rates in a given year with real bond and equity returns over the next five years using data back to 1900 (the periods of hyperinflation in Germany and Austria are excluded). The authors find that when real interest rates are extremely negative, subsequent real bond and equity returns are on average negative. If real rates are strongly positive, that tends to be followed by strongly positive returns. All this is summarised in the table above.

It's worth noting that markets have spent most of their time in the middle of this range. Just 5% of the observations relate to times when real rates were below -11% and another 5% to times above 9.3%. Both those conditions are very extreme. There is a risk to putting too much weight on conclusions that are associated with limited data – they can often be associated with just a couple of historical periods and specific conditions that prevailed then. Still, considering that real interest rates are somewhere between moderately negative (in the US) and very negative (in the UK) at the moment, it is consistent with the idea that returns are likely to be weak or even negative in the next few years, especially for bonds.

I wish I knew what a real interest rate was, but I'm too embarrassed to ask

A "real" interest rate is simply an interest rate that has been adjusted to take inflation into account. (A "nominal" interest rate is one that has not been adjusted for inflation.) Real rates matters because inflation reduces the value of any future stream of income.

Take a bank account into which you plan to place £1,000. If inflation is running at 1% then a 2% nominal interest rate looks respectable – your savings will have more purchasing power a year from now. However, if inflation is running at 3%, your savings will have less purchasing power when you withdraw them in a year's time, even though the £1,000 will have grown (in nominal terms) to £1,020. Of course, the advertised rate on savings account will be the nominal one, not the real one.

The formal definition of the real interest rate is given by the Fisher equation (named after economist Irving Fisher) and is calculated as $(1 + i) = (1 + r) \times (1 + \pi)$ where i is the nominal rate, r is the real rate and π is the inflation rate. However, for most purposes it's much easier to estimate the real rate by subtracting the inflation rate (either the current rate or the expected rate, depending on whether you are calculating what you have earned in real terms or what you expect to earn) from the nominal interest rate. So in the first example above, the real interest rate is 1% (you are earning a real return of 1% a year). In the second example it's minus 1% (you are losing money in real terms).

One way to get an idea of expectations for inflation is to compare yields on index-linked government bonds (whose payments increase in line with inflation) to normal government bonds. The difference between the yield on UK gilts and index-linked gilts of similar maturities (or between US Treasuries and Treasury inflation-protected securities (Tips)) gives the "break-even" rate – the level of inflation that means an ordinary bond will return the same as an index-linked one.

Guru watch

Steve Eisman, portfolio manager, Neuberger Berman

The days of beating the market by investing in tech stocks is over despite the recent rally, says Steve Eisman, the investor who made his name betting against subprime mortgages before the global financial crisis. "Paradigms change over time," he tells Bloomberg. "Sometimes those paradigms change violently, and sometimes those paradigms change over time because people don't give up." Right now, we're in the second scenario, with many investors still reluctant to accept that the tech firms who dominated the market over the past decade will not do so in an era of higher interest rates.

Previous paradigm shifts included the rotation from conglomerates in the 1990s to tech stocks during the dotcom bubble. Tech gave way to financial stocks in the early 2000s, until the global financial crisis. A long period of low interest rates then favoured growth companies. "When rates are zero, you're paid to speculate"and so investors were keen to get in early with firms that seemed to have an enormous total addressable market (TAM). "People are always looking for the next Amazon."

What happens now depends on whether the US Federal Reserve cuts interest rates soon. "If [Fed chair Jerome Powell] leaves them there, I think we'll have a paradigm shift. If he cuts it again, we'll go back to what we were, which is growth stocks… I think he's gonna leave them there and then we'll have a paradigm shift."

High rates are unlikely to spark the kind of crisis we saw 15 years ago because the financial sector has much less leverage. "There aren't a lot of people… [who] understand how much the financial structure of the United States and Europe has really changed." US housing also poses few risks, because homeowners have locked in low rates, unlike last time, and can continue to pay their mortgages while employment remains strong. Thus a frozen market – where sales dry up – is the more likely outcome.

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Tax can help stop gun crime

Gillian Tett
Financial Times

The latest mass shooting in Mississippi is "grimly familiar", says Gillian Tett. The Gun Violence Archive estimates there were 650 mass killings in the US last year; a year in which 44,000 people were killed by guns.
To many, it "seems obvious that far stricter controls are urgently needed on firearm sales and ownership", but a ban on sales alone would not solve the problem, given the estimated 400 million guns in circulation. Perhaps some "dry economic analysis" could help break the political stalemate. A paper by Sarah Moshary, Sara Drango and Bradley Shapiro finds that first-time gun buyers are the most likely to be deterred by price and that demand for handguns is "far more price sensitive than for assault weapons". Strikingly, if would-be gun buyers can't buy a handgun, they are "unlikely to switch to an assault rifle", but buyers of assault rifles will switch to a handgun. Handguns account for 90% of all gun homicides and at least 60% of mass shootings. The trio conclude that "a tax that increases the price of all guns by 10%" would avert more gun purchases than a ban on assault rifles.
The "number crunching should not detract from the human… costs of gun violence", but a hefty tax hike would achieve more than "hand-wringing".

A chance to be a pocket superpower

Ambrose Evans-Pritchard
The Telegraph

Paragraf is the "sort of gold-dust company" the UK really needs, says Ambrose Evans-Pritchard. It is the world's first and only manufacturer of super-fast, energy-efficient 2D graphene chips for sensors. China is spending $80bn trying to "crack this technology", knowing that the first country to make them at scale will "dominate" clean-tech, biotech and AI. Yet Paragraf can't find the right site, infrastructure or skills to expand rapidly, so is being throttled. CEO Simon Thomas is now "eyeing America, where Joe Biden's $52bn CHIPS Act is raining money". Rishi Sunak should listen to tech leaders' "*cri de coeur*". It is a "reasonable bet" that "modest sums of taxpayers' money" deployed swiftly and efficiently could "turn the UK into a pocket superpower in the fastest-growing segment of the chip market". The government should offer research and development tax credits, full expensing for plant and machinery backed by a strategic investment fund for emerging technologies. It should expand its "high-potential" visa scheme to all advanced science and engineering graduates, prioritise hi-tech sites for planning, and not be shy of taking equity stakes. Let's hope Sunak's digital strategy doesn't disappoint when it emerges.

Italexit is still on the cards

Wolfgang Münchau
The New Statesman

So far Giorgia Meloni, Italy's far-right prime minister, says that she has no plans to take Italy out of the eurozone, but who knows what she may do later to stay in power, says Wolfgang Münchau. The real reason Italy "booted out" seven prime ministers since 2011 was their "failure to address the lack of productivity growth", which has been virtually non-existent since joining the euro and has led to the spread of "poverty traps" from the "hopeless south" to the rest of the country. According to the European Commission, 13 of Italy's 20 regions have now "entered a doom loop of emigration, low educational attainment and low investment". To address this, Meloni has sought fiscal transfers from richer EU countries, and since the pandemic Italy has received nearly €70bn. The funds are conditional on economic reforms, but the pace of implementation is slowing and the pragmatic Meloni will be unwilling to expend political capital on "pushing through changes". Meanwhile, richer EU countries are resisting further transfers. Italy is "too large to save and too large to fail. Eventually, something has to give". For as long productivity growth goes unaddressed, a euro exit remains a possibility. "Underestimate Meloni at your peril."

The scary rise of the chatbots

Henry Kissinger
The Wall Street Journal

The technology behind ChatGPT, an artificial-intelligence chatbot, will eventually "redefine human knowledge", change how we perceive reality and "reorganise politics and society", says Henry Kissinger. ChatGPT may seem like a lightning fast, articulate librarian-scholar and savant (it makes probabilistic judgements based on billions of data points), but it can also misinform. It provides no citations. "Malicious actors" are already injecting "manufactured 'facts'" into the internet – that is, ChatGPT's "learning set". In time, AI will enter fields of endeavour from science to education. Machines have capacities that "remain undisclosed even to their inventors". The implications of this transcend commerce and science; it will infuse all aspects of human reality.
Yet its creators aren't addressing the problems it will create. For example, the vast cost of these machines could lead to the most effective being controlled by a powerful few. Will humans ever be able truly to trust or adequately challenge the machines? Will reliance on them diminish our critical abilities? We need to reassert our humanity by ensuring that these machines remain objects and provide "the real answers" ourselves.

Money talks

"To be honest, a part of me just felt like: 'Not another flipping profile.' I pity the profiler, because… it's all been written so many times. But, I need to promote something. What we do, it costs a lot of money – so that's the exchange. Ha!"
Actress Helena Bonham-Carter (pictured) on doing yet another interview, quoted in The Times

"So many people want to be MPs that the law of supply and demand suggests they need not be paid anything at all."
Cricket commentator John Arlott, quoted in The Economist

"I was not careless. I had good investments with the car dealerships, with real estate. I was cash-poor and asset-rich. You have a divorce, you have another one. [The money] goes quick! It wasn't that I was spending it on the Ferrari and the gold Rolexes… I had a lot of income, but I had a lot of expenditure. I've financed three families."
Tennis legend Boris Becker on his financial troubles, quoted in the Financial Times. He was imprisoned for four breaches of bankruptcy rules

"I feel bad for you. You're never going to have good sex again if you make more money than a man. If you do make more, lie to them. Because otherwise you'll never have a romantic relationship again."
Actress Pamela Anderson shares advice she received from her mother, quoted in The Sunday Times

"Her parents and grandparents had been on stage. She understood that it was a feast-or-famine existence. And that if you're going to be an actor, that means you won't earn money… if you're going to be an actor, you have to get a trade, so my mum suggested I get a job as a waiter."
Jack Dee on his mother discouraging him from becoming a comedian, quoted in Metro

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Britain's great tomato famine

edconway.substack.com

Britain is suffering a "tomato famine", says Ed Conway. Supermarkets are also desperately short of lettuces and peppers. Why? The most immediate cause is bad weather in the south of Spain and the north of Africa, which is where we get those vegetables at this time of year. Some have blamed Brexit. Both are part of the answer. But something more important is going on too. It's ultimately all about energy.

A fossil-fuel mulch

Strictly speaking, all economic activity is a form of energy transfer. We need energy – in human, animal, vegetable or chemical form – to get things done, including the production of goods and services. Most of the UK's tomatoes (and this applies to other crops too) are grown not in fields, but in vast greenhouses. This makes the production process far more efficient, but uses a lot of energy. The greenhouses are heated via a gas boiler. The tomatoes are fed with carbon dioxide and fertiliser – the production of both uses fossil fuels as a raw material and consumes energy. "Tomatoes... are a fossil-fuel product in three dimensions."

When gas prices spiked following Russia's invasion of Ukraine, many domestic farmers were priced out of business and we had to go looking elsewhere for tomatoes. Imports from Europe (ultimately from north Africa) spiked. And now the countries we are importing from are having problems with their harvest. In short, if it weren't for the energy price spike, we'd have plenty of homegrown tomatoes.

This leads to a broader point, which is that energy might also be at the root of our productivity crisis. Energy prices began to fall in the mid-1990s, a period that corresponds with a period of rising productivity in manufacturing. Prices then stopped declining in the early 2000s and have since soared – correlating with a time of declining productivity. Coincidence? Probably not.

Wherever you look, energy is "a big deal". Imagine a world where energy were genuinely cheap and limitless. Eliminating carbon emissions or directly capturing much of it from the atmosphere would then be feasible. We could fly from one side of the world to the other in a few hours. We could end water shortages and hunger. We have spent much of the past 50 years trying to reduce energy consumption – for good reasons. But if we could crack the puzzle of how to produce abundant, clean, affordable energy, the world would be a "far healthier, more productive place". To adapt the phrase James Carville used when campaigning for Bill Clinton in 1992, "it's the energy, stupid".

It's the energy, stupid

©Getty Images

OK, Doomer, time to cheer up

noahpinion.substack.com

Angry and unhappy? Well, so you should be, is the view of a growing "doomer subculture" on the internet. The "OK Doomer" Substack is a case in point, which claims we're living through the end times. But look at what doomers are depressed about, and we see that things are nowhere near as bad as they say, says Noah Smith. "Late capitalism" keeps getting later and later, but even as it has "conquered the world", humanity has grown richer now than it has ever been. For the past three decades, income growth has been concentrated in low-income countries. Poverty is down at every level. Child mortality, illiteracy and hunger are all down too. Meanwhile, inequality has been restrained by steadily growing levels of government redistribution. In the US, the share of wealth owned by the richest has trended downwards over the past decade, and wage inequality and unemployment are down too. We have seen off Covid with vaccines and are making progress with regard to climate change, even if it remains for now a serious challenge. No list of facts will be enough to turn pessimism into optimism, but it should make us better able to appreciate the relative importance of the various risks and threats we face. A "culture of negativity" does not help when what is needed is focused effort on solving real problems.

Lefties and the housing crisis

iea.org.uk

They could not get Jeremy Corbyn elected, but the left are still the "culturally dominant force" in Britain, and they set the agenda, says Kristian Niemietz. They have the power to "force their obsessions" on us, whether that is the latest "woke fad" or "Doomsday environmentalism". They could, then, also cancel "Nimbyism" if they chose. Why don't they?

Socialists tend to look at the stated intention of a policy, while liberals look at the indirect, longer-term effects. Socialists like rent controls, for example, because they lower rents; liberals oppose them because they lower the supply of rental housing, increase demand and gum up the market. But on the crucial Nimby issue of house building, both should agree – we need more houses, increasing supply is a way to lower the price, and building more houses is the obvious way forward.

Why don't they cancel Nimbys?

©Getty Images

The trouble is, the left is "hyper-tribal", and won't support anything "The Bad People" like, especially not if anyone stands to make money from it. By "refusing to leave their comfort zone", "the socialist left shares the blame for perpetuating Britain's housing crisis".

Who should pay for childcare?

adamsmith.org/blog

Chancellor Jeremy Hunt is looking at measures that could reduce Britain's childcare costs, which are among the most expensive in the world, reports The Guardian. But that is not, in fact, quite true, says Tim Worstall. Hunt is not looking at reducing childcare costs at all. He is merely looking at altering who has to pay for them.

Childcare must, of course, be done. But who should pay? There are only three possible answers. The first is the parents. The second is someone else who the parents pay. The third is that taxpayers should pick up the bill. Or, to put it another way, that everyone else in the country should go to work in order to care for others' kids. In some parts of London, childcare for two costs £42,500 a year.

The argument for the state picking up the tab is that there is some benefit to society – it makes us richer in some economic or even moral manner if we are working rather than raising our own children. But whatever your take on that, the actual question remains. It is not whether childcare should be free, because that's impossible. The question is, who pays?

Choose companies, not countries

Asian markets are cheap and set to rebound, but investors should favour a flexible regional fund

Max King
Investment columnist

It's natural to assume that countries with the highest economic growth generate the best investment returns, but that doesn't stack up. "Australia is the best market in Asia and China the worst," says Robin Parbrook, co-manager of the £500m **Schroder Asian Total Return (LSE: ATR)**. "It is the returns on capital of companies, not economic growth, that drive investment markets." Chinese firms have a record of over-investment and poor capital allocation, he says, which means the Chinese market has lagged far behind its economy.

That said, the MSCI China index has risen more than 50% in the past three months, based on optimism about the reopening of the Chinese economy. Even so, it trades on only 11.3 times prospective earnings and 1.5 times book value, so looks cheap. The index is 40% below its 2020 high and has returned barely 3% compound over ten years in US dollar terms, suggesting there is much more to go for. However, Parbrook is not optimistic.

"All Asian funds are over-weight and technology is not a reopening play. We are not optimistic about property, but without the sector it is hard to get the economy really going." Home ownership is already very high, with 80% of millennials owning their homes.

China should step up now the economy has reopened

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Meanwhile, China's demographics are similar to Japan's 20 years ago, but with fewer women – posing an even greater problem for the future birthrate. And companies are moving production outside China, which creates a structural drag on the economy. "China is seeing a cyclical rebound but challenges remain."

Thus ATR has an exposure of just 6% to China plus another 13% in Hong Kong, compared with 38% and 7% respectively in the MSCI Asia ex Japan index. There is 22% invested in Taiwan, including 8.3% in the largest holding, the semiconductor giant TSMC. "There is lots to like in India, except the valuations and Indian analysts are always too optimistic." Still, 15% is invested there, only a little less than in Australia, where Parbrook favours healthcare, banking and mining stocks. Singapore accounts for 10%.

Top performers

ATR has returned 49% over five years and 32% over three, well ahead of the MSCI Asia index, and trades on a 2% discount to net asset value (NAV). The £250m **Invesco Asia Trust (LSE: IAT)** looks better value on a 7% discount with a similar five-year performance, but rather better (38%) over three and a strong 8% over one year.

Having locked in significant profits in China earlier in 2022, manager Ian Hargreaves was early to raise exposure again, and had 34% exposure at year-end plus another 16% in Hong Kong. With under 5% in Australia and barely 2% in Singapore, the portfolio is very different to ATR, though TSMC is still the largest holding. Samsung, ATR's second-largest holding, is not far behind.

The best-performing Asian trust over five and three years (100% and 80%), but worst over one year (-11%), is Baillie Gifford's £620m **Pacific Horizon (LSE: PHI)**, trading at a small premium to NAV. PHI has negotiated the bear market in growth stocks rather better than other Baillie Gifford trusts.

The £490m **Pacific Assets (LSE: PAC)**, managed by Stewart Investors, will appeal to China sceptics, with a five-year record second only to PHI and a one-year record similar to IAT. Stewart Investors has long been concerned by the governance of Chinese firms and the state, hence a weighting of just 10% there and only 5% in Hong Kong. Still, a 43% exposure to India is punchy, to put it mildly.

With Asia recovering but valuations well below historic averages, these markets look set to shine. Scepticism towards China may be warranted, but also towards India on valuation grounds. This points strongly towards a trust with geographic diversification and an ability to switch from highly to lowly valued markets.

Activist watch

Andy Hornby, CEO of the firm that owns the Wagamama, Frankie & Benny's and Chiquito chains, is under attack from an activist investor, says the Daily Mail. Oasis Management, which holds a 6.5% stake in The Restaurant Group (TRG), says that urgent changes are needed after the shares slumped 66% in the past year – a performance "disproportionately worse than what the impact of the challenging sector backdrop would alone justify". It argues that Hornby – who headed banking group HBOS from 2006 to 2008 and has been at TRG since 2019 – and the board have "lost focus on long-term value creation". TRG said that it had performed strongly relative to peers and rejected Oasis's request for a board seat and for a strategic review.

Short positions... signs of hope for Jupiter and Abrdn

■ **The new team at fund manager Jupiter should count its lucky stars, says Lex in the Financial Times. CEO Matthew Beesley, who took over in October, unveiled encouraging full-year results this week. While assets, revenues and profits fell, they still beat forecasts. Inflows from institutional clients rose £2bn. Still, Beesley had the good fortune to take over as stocks rebounded. "Jupiter's new team must prove conclusively that its poor run of form has reversed for good." Fellow straggler Abrdn also showed "the odd glimmer of progress" despite £10.3bn of net outflows, says Alistair Osborne in The Times. CEO Stephen Bird has closed or merged 58 funds, strengthened its wealth-manager portal, bought the Interactive Investor platform for £1.5bn and now sold its discretionary fund management arm, all in an effort to deliver stickier earnings and client relationships. "Bird has much to prove. But at least you can begin to see the shape of his vision."**

■ Amati Strategic Metals has made a "modest return" of 8% since it launched two years ago, but has a "compelling investment case", says Jeff Prestridge in The Mail on Sunday. The £90m fund is intended to profit from the transition away from fossil fuels by investing in companies that mine crucial metals such as lithium and copper. These are used for everything from electric cars to wind turbines. Managers Georges Lequime, a former mining engineer, and Mark Smith, a geologist, have the expertise to analyse companies that "are not necessarily on the radar of rival fund managers". Geopolitical tensions mean that access to some existing sources of strategic metals will become more uncertain, so they are especially interested in smaller companies that are developing new mines.

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Where to find Britain's top technology stocks

The UK market has never been considered a fertile hunting ground for tech stars. But there are plenty of promising companies beyond the old economy, says Michael Taylor of Shifting Shares

Last year the technology sector got spanked: America's tech-heavy Nasdaq index fell by 33.5%. The FTSE 100 index, however, outperformed America's S&P 500 in 2022 – a rare occurrence and a result of our blue-chip index being full of "old-economy" stocks rather than tech stars. The UK market doesn't have a tech-friendly reputation. Tech firms here have achieved poorer valuations than their US counterparts because British investors tend to be risk-averse. US investors have a bigger risk appetite when it comes to funding loss-making firms until they achieve the hoped for scale.

This means they can then take advantage of the firms' rapid growth and convert it into huge profits. But the UK market is more interested in dividends, so it isn't as willing to fund unprofitable ventures. No wonder Britain's popular unicorns (start-ups worth at least $1bn) often relocate to America.

Moreover, although the London Stock Exchange has been trying to revive London's reputation as a premier spot for flotations, or initial public offerings (IPOs), the poor performance of recent high-profile tech listings Deliveroo and THG (formerly known as The Hut Group) has done little to bolster confidence.

Steer clear of companies raising funds

Nevertheless, there are plenty of UK technology stocks listed in London. In the small-cap sector in particular there are several unique stocks that offer potential upside. But first of all, any company that is in need of a potential fund raising is one I'd be steering clear of. Last year you could spot a company that needed financing and then short it, knowing that the prospect of a fundraising would be likely to drive the price lower. But much of the heat has been taken out of the market now and shorting is a risky strategy. I'd still avoid companies that potentially need to raise money, and so I've excluded them from this round-up.

The market's rally since October has restored investors' confidence (although I have a feeling we are not out of the woods yet). Companies that are cash generative should be favoured as they are not reliant on external cash injections; investors are now favouring profitable growth over growth at any cost. Interest rates have risen, which has increased the cost of capital and the required rates of return on investment projects, which in turn has lowered investors' appetite for risk. Let's have a look at some tech stocks listed in London.

"Recent tech initial public offering flops have done nothing to burnish the London market's reputation"

Deliveroo (LSE: ROO) has been a poor performer since it listed on 31 March 2021 at an offer price of 390p. The shares trade around 80p, so that's about 75% of the firm's value up in smoke. The price fell last week owing to a delay in its results that hasn't been explained. On 19 January 2023 the market was told that "management will provide 2023 guidance at FY 2022 results on 16 March 2023". But in that trading update the business was performing better than expected, with adjusted earnings before interest, tax, depreciation and amortisation (Ebitda) breaking even in the group's second half and the value of transactions rising.

Last-mile delivery is a sector that will have few winners. Each competitor needs to achieve the optimum amount of sign-ups in order lower delivery times and achieve scale. It's a consolidating market and Deliveroo is one of the biggest in the UK (although its international business is almost as large in terms of sales). Keep it on your watchlist should the share price break out of the 100p-resistance area – it has the scale and potential firepower to snap up struggling competitors.

The other high-profile IPO of the Covid-era was **THG (LSE: THG)**, which floated at 600p. At its current price of 56p the stock is also more than 90% down. An offer of 170p was leaked to the press in May 2022; the bid lapsed and the shares sank with it. THG is a complex business that few seem to understand properly and it has been heavily shorted. The share price has yet to recover. I would avoid this stock for that reason.

WANdisco (Aim: WAND) is an example of what can happen when a stock widely deemed unappealing suddenly starts exciting investors. Its shares have rocketed to almost 1,300p from a low of 210p in May last year. WANdisco provides cloud migration and replication services, as well as real-time analytics and services relating to the internet of things (IoT). Essentially, companies that wish to move big data from one place to another use WANdisco to do so.

The company has posted contract win after contract win and announced in December that sales would be significantly ahead of investors' expectations. This turnaround has been sparked by the advent of 5G mobile networks, as they are good enough to carry the amounts of data required. WANdisco is forecast to make a loss of $11.15m in 2024 and so anyone buying the shares would need to be hoping for continued rapid revenue growth and scale.

Overlooked gems in the small-cap sector

So far we've looked at the bigger tech stocks in London, but what about the small-cap sector? This is often an auspicious hunting ground with overlooked gems, as many institutions only analyse stocks if they are above a certain market capitalisation. This means that the market can be both illiquid and inefficient, providing us with opportunities.

One firm I have followed for some time (and am no longer holding) is **Eagle Eye (Aim: EYE)**. It is a promising software as a service (SaaS) stock in the business of marketing and real-time digital promotions. SaaS businesses create software and sell it, usually on a subscription basis. Eagle Eye helps other companies with systems governing the redemption of codes and vouchers, for instance, as well as loyalty schemes (Pret A Manger's coffee subscription is run by Eagle Eye). These services help establish and expand a relationship with clients. The company has been listed since 2014, but only in recent years has it become cash-flow positive and profitable. Profit forecasts for 2023 and 2024 make this an eye-wateringly expensive share to buy, so unless there are significant upgrades I would be reluctant to buy this on valuation alone. However, I can see this stock being a multibagger over the longer term.

Journeo (Aim: JNEO) is a UK-based specialist provider of transport technology operating through

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Will Deliveroo deliver? Keep it on your watchlist for now

two segments: fleet and passenger systems. The former provides video surveillance to improve passengers' and drivers' safety, while passenger systems comprise hardware and software for billboards and ticketing. Until recently I'd pegged this stock as a slow burner that wasn't for me. That could change given the recent acquisition of IGL Limited, which will add £12m in revenue and approximately £2m in pre-tax profit to the enlarged group in the first full year of the acquisition. The stock is on a price/earnings (p/e) ratio of below seven, so if the acquisition does start to drive serious growth, then the stock could be in for a rerating. It's one to watch.

A gambling stock that's back on track

Best of the Best (**Aim: BOTB**) is a gambling business that has made effective use of technology to transform its margins. You may have seen it at work in airports or shopping centres (a typical scenario would be a car accompanied by a sales person trying to sell tickets to win it). Now everything is done online. The stock was in the right place at the right time when lockdown hit: people suddenly had more money and time to invest or gamble. The shares soared to 3,500p, but the group warned on profits as acquisition costs increased and players' spending declined.

I hold a long position here as the half-year report showed the business is still profitable and players' numbers have normalised, which suggests the return to growth is back on track. The family office of gambling-software entrepreneur Teddy Sagi has taken a 29.9% stake, implying scope for expanding internationally.

PCI-PAL (**Aim: PCIP**) provides software to help companies take payments and store customers' data securely, helping them comply with financial regulations. It's a UK-focused business, but is beginning to expand rapidly in the US, Canada and Australia. Its recent interim results revealed sales growth of 33% and sustainable cash-flow breakeven is being targeted for late 2023. However, Sycurio, a software group, has launched a patent-infringement lawsuit against PCI-PAL, which has now filed counter-claims. This is definitely a reason not to buy shares in the company (although I hold a long position here), but any positive news on the legal case is likely to lead to a rerating.

Altitude (**Aim: ALT**), which owns a platform connecting buyers, sellers and manufacturers of promotional merchandising, featured at 31.5p in my "four small caps to buy in 2023" article in MoneyWeek last December. Since then, the company has announced an unexpectedly positive trading update, with broker Zeus upgrading its pre-tax profit forecast for the year to 31 March 2023 to £0.8m from £0.5m. Technically, this isn't a UK technology stock, aside from the London listing. While the p/e ratio (even after the profit upgrade) looks expensive, there is a huge market to go after. Continued execution by management could make the stock a multibagger over time.

Michael Taylor holds long positions in BOTB, PCIP, and ALT. You can get Michael's monthly Buy The Breakout newsletter for free at shiftingshares.com. Follow Michael on Twitter @shiftingshares.

"A recent acquisition could transform the prospects of transport-technology group Journeo"

The shareholders are revolting

A backlash against fund managers has begun. But more of us should be raising hell, says Merryn Somerset Webb

In 1966 author John Brooks decided he was missing a trick when it came to financial fun: he had never attended a "Stockholder Season" – the month in the spring in the US when most big companies held their annual meetings. He had heard that managers planned to clamp down on shareholders' "unruliness". In 1965 the chair of the Communications Satellite Corporation called on guards to "eject bodily two badgering stockholders" and hecklers had to be escorted off the premises at the Consolidated Edison meeting too. Shocking stuff – and it suggested the 1966 season was going to be "a particularly lively one".

It was. In the 1960s some individual investors became famous in their own right for their AGM antics. They all turned out for 1966. Mrs Wilma Soss of New York attended hundreds of meetings on behalf of a group of women shareholders (demanding the election of female directors and frequently having her microphone turned off mid-flow). There was Mrs Davis, known for wearing a Batman mask to the Radio Corporation of America's meeting for no obvious reason. And there were the Gilbert brothers, who travelled the country loudly representing the interests of their own family fortune.

It was all lots of fun. But it was more spectacle than anything else. The truth, said Brooks in his book *Business Adventures*, was that while theoretically ultimate economic power rested with the shareholders, they were mostly "deprived of it" by several factors, "among which are their indifference to it in times of rising profits and dividends, their ignorance of corporate affairs and their sheer numbers". Sosses and Gilberts were in the minority. The result? Almost all votes had what Brooks called "a Russian ring": 99% of the votes were cast as the managers wanted. The directors of the top 500 companies represented a concentration of power that made the "medieval feudal system look like a Sunday school party".

Fund managers: the new Russian ring

Things have both stayed the same and changed. There is still a Russian ring in most shareholder meetings. But it is not the corporate managers who are in charge. It is the fund managers. Most of us hold our equities via funds rather than directly, so our votes and hence the power to use them rests with managers we have chosen. That means that the very big names – BlackRock, Vanguard and State Street – make all other forms of power look a little Sunday school.

They've been using their power. Larry Fink (who as the CEO of BlackRock, the world's biggest asset-management firm, is arguably the world's most powerful man) has spent years insisting that companies must have a mind to economic and social governance (ESG). They must decarbonise, take climate action, focus on diversity, and so on... or else. There would, he said in 2020, soon be "significant reallocation of capital to address the climate threat", for example. All this might be what some shareholders want. But having it imposed by the managers we employ to look after our money (rather than our morals) without asking us is bizarrely undemocratic.

"Mrs Davis wore a Batman mask to the Radio Corporation of America's meeting for no obvious reason"

©Shutterstock

Mrs Wilma Soss: a pioneer of shareholder democracy

I am not the only one to think so. There's been a backlash. In December last year Florida let BlackRock know that it wasn't mad for enforced do-goodery and would be divesting $2bn from the firm. Texas has banned cities from having their money managed by companies that restrict investment in fossil fuels and weapons. Whoops. Fink isn't thrilled by the shift (which has gained significant momentum since the war in Ukraine reminded us of why we need fossil fuels and weapons). He says the ESG conversation has become "ugly". His response has been a bit of back-pedalling – but also (more excitingly) an attempt to get rid of some of his power.

It is clear, says Fink, that there are investors who have a view on corporate governance and "they want a meaningful way to express" it. Good news, then, that in 2021 BlackRock said that it would give institutional investors the right to vote directly on corporate issues at AGMs. More recently, Fink said that "in the future, every investor – ultimately including individual investors – has access to voting choice, if they want it".

We will be watching for that. In the meantime, there is another path to shareholder democracy. The UK's investment platforms are already making it easier for shareholders to use their right to vote. Interactive Investor introduced an opt-out system in 2021: everyone has the automatic right to vote their shares as a customer of the firm, something that led to a 30% jump in votes cast in 2022 (hooray). AJ Bell also offers easy online voting, as does eToro. And in January this year Hargreaves Lansdown (the biggest of the UK's stockbroking platforms) finally launched its own online voting service. Sign into your account, click "view shareholder meetings" and you can leave your instructions or register to turn up to the AGM and vote in person. That's real shareholder democracy. In 1966 Mrs Davis turned up at the AGM of the Communications Satellite Corporation wearing an orange pith helmet, red boots and "a black sweater bearing in white letters the legend 'I Was Born to Raise Hell'". More shareholders should use today's technology to take that approach.

Merryn Somerset Webb is the host of the Merryn Talks Money podcast with Bloomberg. Her latest book, Share Power, is now available in paperback.

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Claim pension-tax relief

High earners are missing out on millions of pounds every year

Ruth Emery
Money columnist

Pension savers are failing to claim millions of pounds of free cash from the government every year – with the taxman swallowing up £1.3bn in unclaimed tax relief over five years. According to a series of Freedom of Information (FOI) requests to HMRC, higher-rate taxpayers have left behind an average of £245m in pension tax relief each tax year, while additional-rate taxpayers have foregone about £18m every year.

In 2020-2021, higher-rate taxpayers missed out on an average of £425 each, and £527 in the case of additional-rate taxpayers. The total amount unclaimed between 2016-2017 and 2020-2021 was £1.3bn. Pension provider PensionBee, which submitted the FOI requests, called it an "eye-watering amount that should have gone back into savers' pockets – or better yet, their pensions".

Basic-rate taxpayers normally have the correct amount of tax relief added to their pensions. For example, when someone earning £30,000 a year (a basic-rate taxpayer) pays £100 into their workplace pension, they would usually get a £25 top-up from the government. This means that their 20% basic-rate tax they would have paid has been added back to their original contribution (25 ÷ 125 = 20%). Even children and people who aren't working can pay in up to £2,880 per year and get a top up of up to £720, which will take their total contribution to £3,600.

Higher-rate and additional-rate taxpayers are entitled to extra tax relief. The former receives 40% relief, while the latter can get 45%. Whether you automatically receive the full amount of tax relief on your pension contributions, or whether you have to claim back the extra money from HMRC, depends on how your pension is paid. If the pension provider uses a "net pay" arrangement (also known as "gross tax basis") taxpayers get the full amount of tax relief straightaway.

However, other providers, including personal pensions and some workplace pensions, use the "relief at source" method. This means the provider claims the first 20% of tax relief from HMRC and pays it into the pension pot. That's fine if you're a basic-rate taxpayer, but higher earners will be missing out on some extra money.

This is where the £1.3bn figure comes in: many high earners are failing to claim their additional 20% or 25% tax relief, on top of the 20% relief already paid. Some pension savers may be unaware they need to claim it, or are unsure how to do so.

If you already fill in a self-assessment tax return, you can claim the pension tax relief that way. According to PensionBee, around three-quarters of higher-rate taxpayers eligible to claim extra tax relief on their pension contributions through self-assessment fail to do so, while almost half of eligible additional-rate taxpayers don't claim via their tax return. If you're not registered for self-assessment, you can call or write to HMRC and claim your tax relief that way.

HMRC will usually adjust your tax code in order to pay the extra tax relief. If you don't have any earnings, you may be sent a cheque instead.

Chase money from previous years

If you're concerned that you've never benefited from this extra tax relief on your pension contributions, the good news is that you can claim it for previous years. Pension Bee explains: "If a pension saver is a higher or additional-rate taxpayer, and has missed out on tax relief above the 20% basic rate, they can claim relief dating back four years which, from the current tax year, is 2018-2019. It's possible to amend a tax return for up to a year after the original self-assessment deadline, either online or by contacting HMRC directly."

If you are not registered for self-assessment, call HMRC to claim your money

©Getty Images

PensionBee has created a Pension Tax Relief Calculator (pensionbee.com/pension-tax-relief-calculator) to show savers how much tax relief could be added to their pension pot. If they are not already receiving the full amount of tax relief from their pension provider, it shows the portion they could claim back from the government.

The figures obtained in the FOI requests reveal that the number of high earners not claiming their extra tax relief has been falling over recent years, suggesting that more people are becoming aware of the need to claim it.

Becky O'Connor, director of public affairs at PensionBee, comments: "While it's encouraging to see the number of eligible taxpayers with unclaimed tax relief declining year-on-year, the £259m left to the chancellor in 2020-2021 is still an eye-watering amount. Tax relief is a vital incentive that encourages people to save efficiently towards their retirement."

Pocket money... HMRC chases holiday-let owners

● Do you bother to increase your pension contributions when you get a pay rise? Research by the Institute for Fiscal Studies found that only 1% of us would up the amount we pay into our pension if we got a 10% pay rise. This report "is further proof that apathy reigns in workplace pensions", Mark Futcher, a partner at pension consultant Barnett Waddingham, tells the Daily Mail.

"Auto-enrolment's success lies in the fact that there are more people saving for retirement than there were a decade ago, but the biggest weakness is that people are not saving enough." The IFS recommends an increase in the default pension contribution on higher levels of earnings.

● Using data it receives from online-booking platforms such as Airbnb, HMRC has sent out "nudge" letters to holiday-let owners it thinks aren't declaring earnings from rentals on their tax return. The letters give you 30 days to respond or face a formal tax investigation.

"About 127,000 individuals in the UK declared ownership of businesses for furnished holiday lets in their personal tax returns in the 2019-2020 tax year, the latest year for which data is available," says Mary McDougall in the Financial Times. But Airbnb data for the same period suggests there were around 257,000 UK listings on the site in that period. The average host earns just over £6,000 a year.

● The energy regulator, Ofgem, has reduced its energy price cap, the maximum suppliers can charge a dual-fuel household per year, from £4,279 to £3,280 as wholesale prices have fallen. The reduction takes effect on 1 April. Household bills are still set to rise, however. At present the government's energy price guarantee (EPG), governing the amount a household can be charged per unit of gas or electricity, determines people's bills, says Martin Strydom in The Times – not the cap. When the EPG was introduced last autumn, it meant the average household with typical energy usage would pay £2,500 a year.

Now the EPG has been tweaked. Starting in April, the typical household will pay £3,000. By then, moreover, a £400 one-off subsidy from the state to alleviate the squeeze, paid in instalments, will also have ended.

The best business banks...

... are the new generation of challenger institutions, surveys repeatedly find

David Prosser
Business columnist

Could your business get a better deal from its bank? Despite fierce competition in the business banking sector, research suggests that more than half of small and medium enterprises (SMEs) have never changed providers. Many SMEs may therefore be missing out on lower charges and better service. In recent years, the government has sought to encourage competition by commissioning regular studies of the performance of business banks; the new generation of challenger institutions has repeatedly come out on top.

The latest such research has just been published. In work undertaken by the consultant BVA BDRC on behalf of the Competition & Markets Authority, SMEs provided their views of their current banks. The top five banks on overall quality of service – Monzo, Starling Bank, Handelsbanken, Tide and Metro Bank – are all relatively new entrants to the UK's business banking sector. Among the established high-street names, Lloyds Bank and Santander were the top performers, but both finished below the top five. The story was similar across almost every aspect of banking in the survey, with the new entrants and challenger brands consistently scoring more highly than their high-street counterparts. Only on overdraft and loan services did SMEs give the big banks equally high ratings.

The findings echo similar research from the consumers' group Which. When it surveyed is members earlier this year, Starling Bank, Monzo and Metro Bank consistently scored more highly than the big names. There are several reasons why these new players tend to do so well. On charges – business banking, unlike personal accounts, always carries fees – they are competitive, and often offer cheaper deals to customers switching to them for the first time. They are also more likely to offer a broad range of innovative digital services,

Starling Bank is among small firms' five favourite financial providers

©Starling Bank

making it easier for SMEs to manage their finances.

And while SMEs might expect the high-street banks to be able to leverage their scale and experience to offer better support, many firms are very happy with the help they're getting from new entrants. When asked to rate their banks' relationship management in the BVA BDRC research, SMEs consistently gave challenger brands higher ratings.

Switching gets easier

For firms thinking about switching account, the good news is that it is more straightforward than in the past. In particular, firms with fewer than 50 employees and an annual turnover of less than £6.5m are covered by the Current Account Switch Service, which applies to personal accounts. Under the scheme, providers guarantee to move your business account within seven working days; the switch is also backed by the Current Account Switch Service Guarantee, so any missed payments or fees incurred as a result of your switch will be reimbursed.

The scheme does not apply to larger SMEs, but the focus on switching has seen standards improve in recent years. Your new provider will generally take the lead on ensuring that the move proceeds as smoothly as possible. Even with a problem that has held back switching in the past – the detailed information that providers require in order to open an account – progress is being made. UK Finance, the financial sector trade body, now publishes detailed information on the documents you'll need to switch, with new providers introducing digital processes that make this much easier.

You are liable for liability insurance

Thousands of small businesses could face expensive penalties because they do not have mandatory insurance for their staff.

A study from Smart Money People suggests that 160,000 businesses in the UK with between one and nine employees are breaking the law because they don't currently have employers' liability insurance.

The cover, which is a legal requirement for almost every company that employs staff, pays out in the event that an employee suffers an injury or illness linked to their work. The insurance provides compensation and legal costs, and therefore offers crucial protection for employees.

However, Smart Money People's research suggests many SMEs are not currently paying for this cover, with the number of uninsured businesses appearing to have increased as economic headwinds have intensified.

While the need to save money may be pressing for many firms, cutting costs in this way could prove expensive.

In theory, businesses can be fined up £2,500 for each day they remain uninsured. Moreover, they would need to cover the costs of an incident from the balance sheet.

The threat is not hypothetical. The Health & Safety Executive has prosecuted a string of small businesses for failing to have employers' liability insurance in place.

Petty cash... accelerate or incubate?

● A report from Vodafone Business says 54% of SMEs have been targeted by cyber criminals over the past 12 months, up from 39% when it last conducted the research two years ago. Despite the increase, Vodafone's research warned that many SMEs do not recognise the risk they face, with almost a quarter either having no cybersecurity protection in place or not knowing how they are protected. The Government Cyber Essentials scheme provides basic advice for SMEs on how to improve protection.

● More women than ever before are starting new businesses. Women founded 150,000 new companies in 2022 – around 20% of all new company formations – according to the latest report from the Alison Rose Review of Female Entrepreneurs. The report also points to the increasing support for women setting up new businesses; some 190 financial services institutions have now pledged to improve female entrepreneurs' chances of success by signing the Investing in Women Code, up from 134 a year ago.

● Is your start-up in need of support in order to help it grow? If so, make sure you understand the difference between an accelerator and an incubator. Both offer growing businesses help, but in different ways. Incubators provide services such as office space and shared resources on an ongoing basis – and sometimes access to sources of capital, such as angel investors. By contrast, accelerators are fixed-term programmes – for a set period you'll get access to help, such as business mentorship, with seed funding also typically available.

Harvest profits from agriculture

Automation is revolutionising farming, and Deere & Co is leading the charge

Dr Michael Tubbs
Investment columnist

Russia's invasion of Ukraine underlines the importance of food supplies and the consequences of higher food prices. Before the invasion, Russia and Ukraine together supplied about 28% of the world's wheat exports, with Ukraine also comprising 14% of global corn exports. Energy prices have increased as Western sanctions minimise oil and gas imports from Russia.

This has raised costs for farmers through higher fertiliser, fuel and crop protection prices. Farmers therefore need to raise productivity and this requires further mechanisation and progress towards precision and robotic farming – all trends that reduce both costs and the need for seasonal labour, which is becoming scarcer.

Deere & Co (NYSE: DE), with a market value of $120bn, is the world's leading maker of farm machinery, ranging from tractors to sprayers and combine harvesters. It is now developing robotic farming systems. The group does business as John Deere, and farmers trust the brand because of its reputation for superior performance and reliability. They also appreciate its extensive service network, with 3,700 locations worldwide. Deere is an investment in the equipment that will be required by future farmers and one of the top players in construction machinery; this latter division should benefit from planned upgrades of US infrastructure.

The group's sophisticated products cut costs and promote efficiency

©John Deere

Infertile ground for rivals

Deere's 2022 results showed mainstream agriculture accounting for 46% of equipment sales, small agriculture and turf for 28%, and construction and forestry for 26%. A strong presence in small agriculture and turf is important, since that makes it difficult for competitors to establish a position there and then upgrade to supply larger farms. Deere also has a financial arm, which enhances sales by providing financing to its retail customers and wholesale financing for its dealers. The majority of Deere's sales (61%) are in North America, with 16.5% in Europe, 14% in Latin America and 8.5% elsewhere.

Deere has developed a smart strategy to improve farming productivity. This started with Deere reorganising its business around production systems such as corn, soy, small grains, cotton and sugar, to match the way its farming customers work. There is an estimated $150bn of incremental market opportunity for Deere by helping farmers to do more with less in each production system. Examples are the precision application of herbicides and fertilisers, and precision sowing for uniform crops.

Deere invests $1.9bn a year in research and development (R&D). Examples of innovation include its 2022 launch of the first autonomous tractor; "See & Spray" technology integrated into the world's best self-propelled sprayer (it reduces the cost of chemicals by 60%); and Deere's in-house accurate GPS positioning technology as the key to automation and farm profitability software.

Digital connectivity is key and Deere has 300,000 connected agricultural machines, a number that will more than triple by 2026. Deere's ExactRate combines the planting step with the application of liquid fertiliser.

AutoPath, which became available in 2020, takes high-resolution data from the planter, creates a digital map of where each seed was planted and sends this to the sprayer and, later, to the combine harvester. As a result, each piece of equipment can navigate the field knowing where each plant is.

The See & Spray technology saves herbicide since, in many fields, some 80%-90% of the field may be weed-free, so these areas are not sprayed. Deere is now implementing Sense & Act technology, whereby the environment of each plant is taken into account as soil quality, weed density and other measurable variables can vary greatly across a large farm, so different areas of crop need to be treated differently. Technologies such as cameras, computing, machine learning and automation are now revolutionising farming.

Steady growth for years to come

Deere's turnover dropped from $38.9bn in the year to 31 October 2019 to $35.3bn in 2020, the pandemic year, but then recovered to $43.6bn in 2021 and grew strongly to $52.6bn in 2022.

The 2022 results show operating profit of $8.85bn, giving an operating margin of 16.8% and net income of $7.1bn. Deere should benefit from strong agricultural fundamentals in 2023.

Deere's industrial divisions have a strong balance sheet with a debt/Ebitda ratio below one. The finance arm, which stimulates sales by providing finance to dealers and customers, has $37bn of debt, but also $42bn in receivables and $1bn of cash.

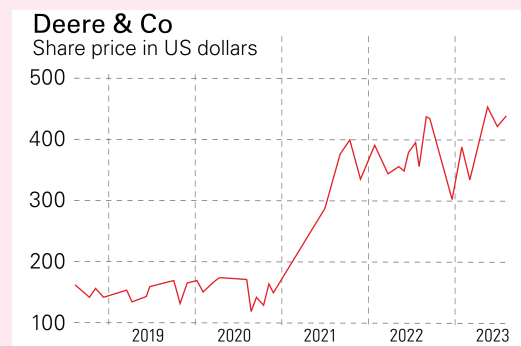
The results for the first quarter of Deere's 2022/2023 financial year show revenue up by 32% year on year to $12.7bn. Net income was up by 117% to $1.96bn, with earnings per share (EPS) of $6.55 – significantly above analysts' average estimate of $5.57.

Deere's recent price is $403. Analysts' one-year target for the stock is $472, 17% higher. With EPS estimates of $28.2 for 2023, rising to $31.9 for 2025, the forward price/earnings ratios (p/es) are 14.3 for 2023 and 12.6 for 2025.

The dividend has been increased or maintained every year since 2008 (when it was $1.06) and reached $4.36 for the 2021/2022 financial year.

The first quarterly dividend for the 2022/2023 year was $1.20, implying a payout of almost $5 for 2022/2023 or a forward dividend yield of 1.2%.

Deere has a strong position as a leading, technologically advanced firm supplying essential equipment to an industry whose products are always in demand. An investment in Deere carries the prospects of steady growth with a modest but rising dividend.



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Tap into global growth with these three top-quality British blue chips

A professional investor tells us where he'd put his money. This week: Callum Abbott, investment manager, JPMorgan Claverhouse Investment Trust

UK investors have enjoyed some excitement in recent weeks as the FTSE 100 has hit a series of record highs. This was in response to signs that global inflation could be easing and that central banks may be reaching the end of their sustained period of hiking interest rates. Larger UK companies have benefited from their strong international focus, as 82% of the post-tax profits in the FTSE 100 index come from overseas. As a result, these companies are less affected by the outlook for the British economy and have benefited from more positive global tailwinds.

Nevertheless, UK companies continue to trade at lower valuations than many international peers. Many of these cheap companies are first-rate, boasting strong balance sheets and healthy dividends. This provides an opportunity for us as active investment managers to own world-class companies with international exposure, while valuations are compelling.

Well equipped for the future

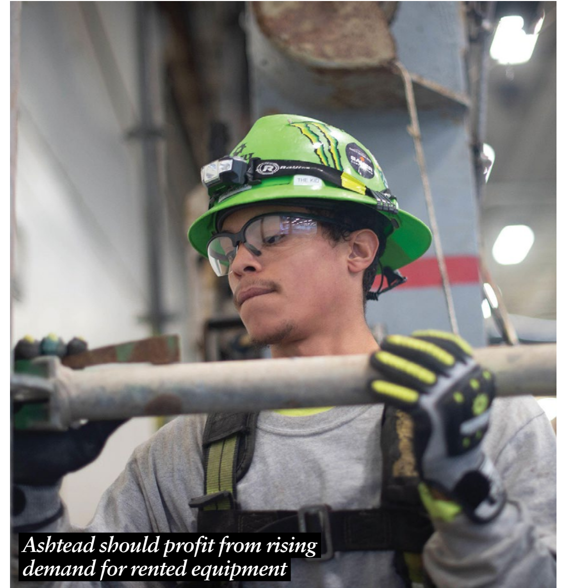
Ashtead (LSE: AHT) is a construction and specialised-equipment rental company with operations in the UK and North America. Performance has remained strong despite wider economic pressures, in part thanks to the company's ability to pass rising costs from inflation on to its customers. Meanwhile, demand for Ashtead's products has been buttressed by increased fiscal stimulus, particularly in the US, which accounts for over 90% of its earnings, and where there is still potential for further infrastructure spending.

Longer term, the rental opportunity in the US is particularly exciting. Rental penetration in the US is just 55% versus 75% in the UK, but the gap is closing. While the US market is "highly fragmented", the biggest operators, such as Ashtead, are gaining ground. We think it is a nascent market with a bright future.

Private equity with a long-term focus

British multinational private-equity firm **3i (LSE: III)** is an example of a company we believe will continue to offer attractive long-term growth prospects despite ongoing market uncertainties. The group owns companies that operate in four core sectors: business and technology services; consumer; healthcare, and industrial technology. It aims to target investments that it believes can double in size over their holding period and has an excellent record of achieving this goal. The

"AstraZeneca has benefited from one of the best pipelines in the industry"



Ashtead should profit from rising demand for rented equipment

group's largest asset, Action, is a discount retailer with two levers for growth. Firstly, the existing store base has delivered double-digit like-for-like sales throughout the business cycle. Secondly, there is a huge opportunity to open many more stores across Europe.

While many private-equity companies have been doing bigger and more expensive deals, 3i has remained focused on smaller transactions and bolt-on deals for its existing portfolio companies. We believe this acute focus on valuation will help 3i to enhance its returns over the long run.

A life-changing drugmaker

AstraZeneca (LSE: AZN) has built a portfolio of life-changing drugs in fields ranging from oncology to rare diseases. Unlike many peers, it has built up a significant emerging-markets business, making it a truly global company.

AstraZeneca has fared well in the recent challenging macroeconomic environment as its products are defensive in nature. It has also benefited from one of the best pipelines in the industry. We are confident that the company's successful innovation will drive considerable earnings growth into the future.

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The queen of Silicon Valley

Susan Wojcicki got lucky when she rented out her garage to Google in 1998. Now, she is stepping down from the helm of YouTube, which became a cultural phenomenon on her watch. Jane Lewis reports

News that Susan Wojcicki is resigning from YouTube after nine years as CEO "caused barely a rustle in the media pages" – a measure of how "little attention Wall Street analysts and entertainment industry scribblers pay to the business of YouTube, even though it has become a hub – as well as a byword – for global video", says The Economist. It also "does a disservice" to Wojcicki. On her watch, Alphabet-owned YouTube has become an integral part of the entertainment and information landscape.

At 54, Wojcicki "is as close to Mountain View aristocracy as you can get without being surnamed Brin or Page". Although one of the most respected female executives in the male-dominated tech industry, she'll always be remembered as "Google's first landlord", says Fortune. Shortly after Larry Page and Sergey Brin – then PhD students at Stanford – incorporated their search engine into a business in 1998, she rented the garage of her Menlo Park home to them for $1,700 a month. At the time Wojcicki was working in the marketing department at Intel, says CNBC. "I was worried about covering the mortgage. So I was willing to rent my garage to any student," she later told 60 Minutes. "Two appeared."

A new generation of creators

A Silicon Valley native, Wojcicki grew up on the Stanford campus where her father, Stanley, was chair of the physics department, says Business Insider. Her mother, Esther, taught journalism at Palo Alto High School. Wojcicki studied history and literature at Harvard, later claiming that an introductory computer-science course in her senior year "changed how I think about everything". She went on to take a masters in economics, and an MBA from UCLA – gaining intellectual heft and business acumen that came into their own when she met Page and Brin.

Google grew fast. In 1999 it moved into proper office space in Palo Alto, and Wojcicki ditched Intel to become its 16th employee and first marketing manager. Four years later, the outfit leased its ever-expanding "Googleplex" HQ in Mountain View, but the family vibe persisted, says Fortune. By now a titan of the emerging search sector, in 2006 Google bought Wojcicki's home "to serve as a monument" to the roots of the company. A year later, Brin became Wojcicki's brother-in-law when he married her sister Anne (they divorced in 2015).

The year 2006 was also the one in which Google

"In 2006, Google paid $1.76bn for YouTube – it was a bargain"

bought a one-year-old video site that was already wildly popular, but facing "widespread complaints about copyright infringement", says Fortune. Google was initially derided for paying $1.76bn for YouTube. "It turned out to be a bargain." Besides becoming a cultural phenomenon attracting billions of viewers, YouTube has proved a huge financial success – scooping advertising revenues totalling $29bn last year (up from $8bn in 2017), largely thanks to Wojcicki's guidance, says Bloomberg. Having "helped create and nurture Google's now dominant advertising business", she has repeated the trick at YouTube. Some of the big ideas hatched on her watch include YouTube TV, Premium and Shorts, and she has successfully cultivated "a new generation of creators".

The best decision of my life

Nine years at the helm is a long run for any chief executive in Silicon Valley, especially a non-founder. But Wojcicki may well have timed her departure nicely. Hit by last year's advertising slowdown, and competition from the addictive short-video app TikTok, a US Supreme Court case is now threatening the freewheeling style that has long been one of YouTube's biggest advantages.

Yet YouTube is also nicely poised for a new future "taking on the world's TV giants", says The Economist – the company's share of TV viewing recently eclipsed Netflix's. Some analysts think that Alphabet – currently on the back foot on AI and fighting wars on many other fronts – has "too much else on its plate" to give YouTube the focus it needs. They'd like to see a spin-off from "the mother ship".

Investors would certainly relish getting their hands on an independent public company whose valuation, on one estimate, could be an "eye-popping" $300bn. Not a bad legacy for the affable, understated queen of Silicon Valley. Renting out her garage, as Wojcicki observed last month, was "one of the best decisions of my life".

The worst trades in history... Neil Woodford buys small caps

Neil Woodford (born 1960) grew up in Berkshire, and studied for a degree in economics and agricultural economics at the University of Exeter. He then served in various junior roles at City firms, including Reed, TSB and Eagle Star, before studying at London Business School. In 1988 he joined Invesco Perpetual, running various funds for them for more than 25 years. Between 1988 and 2014, Invesco Perpetual High Income, Woodford's main fund, returned an average of 13.2% a year, significantly higher than the 9.3% that the FTSE All-Share returned over the same period.

What was the trade?

By 2014 Woodford was managing around £33bn across the various funds he ran. But after a falling out with his employers over claims they were interfering too much in his investments, he decided in 2013 to strike out for himself, founding Woodford Investment Management. He set up various funds, including Woodford Equity Income, which attracted large amounts of money from both institutions and private investors who were dazzled by his reputation. The new company started business with £5bn worth of assets.

What happened next?

The Equity Income fund was initially focused on blue-chip stocks, but Woodford also started buying smaller, unlisted companies. Initially, this was not a problem as money continued to flow in – the fund grew to £10bn by June 2017. But when the fund's luck started to run out and investors pulled out, Woodford was forced to sell off his blue-chips. The unlisted firms then became a bigger part of his portfolio. By June 2019 he was forced to suspend the Equity Income fund, and institutional investors pulled out of his remaining funds.

Lessons for investors

Some of the assets left in the fund remain to be sold, and the FCA regulator is likely to order the fund's administrator Link to partially compensate some investors, but it's estimated they may lose at least 40% of their investment over a period where overall share prices went up by a third. The failure of the fund was down to a combination of poor stockpicking and bad luck, but Woodford's decision to change his style and invest in smaller illiquid companies also played a big role. The scandal is a reminder that superstar managers are not infallible.

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Holiday Departure Months

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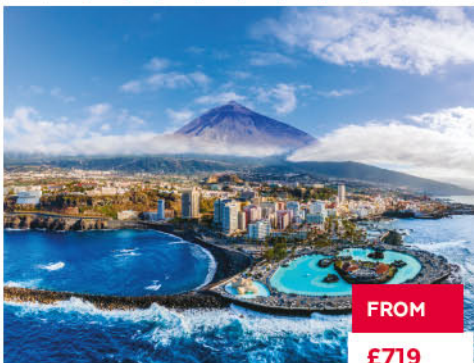

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- A full day excursion to Antibes and Nice

Holiday Departure Months

J	F	M	**A**	**M**	**J**	J	**A**	**S**	**O**	N	D

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- A full day excursion to Seville

Holiday Departure Months

J	F	**M**	**A**	**M**	**J**	J	**A**	**S**	**O**	**N**	D

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Three new Mediterranean stays

Plush hotels are opening from the Balearic Islands to the Amalfi coast. Chris Carter reports

Be seen in the south of France

The Plaza Nice Hotel on the Côte d'Azur is Anantara's first foray into France, says Chrissie McClatchie for Travel + Leisure. The building dates to 1848, when, as the prestigious Hotel de France, it was the place to be seen for wealthy Europeans. It still is. Since the Plaza's initial limited opening in December, the top-floor bar and restaurant, Seen by Olivier, by Portuguese chef Olivier da Costa, has been doing a "brisk trade". From here, guests have a 360-degree view of the Southern Alps in the distance, over the terracotta rooftops of Old Nice and across the Mediterranean Sea. "Our corner suite has four Juliet balconies and views through the palm trees of the public gardens… The room feels elegant yet understated and a palette of soft neutral colours is complemented by design details such as the textured Thai silk bedheads." *From £278 a night, anantara.com*

The Anantara Plaza Nice Hotel is a hit with the wealthy

A wild Balearic retreat

Son Bunyola, on the Balearic island of Mallorca, in Spain, is the newest addition to Richard Branson's Virgin Limited Edition collection, says Alicia Miller in the Evening Standard. And it's "not what you'd call understated". The 810-acre estate is part of a Unesco World Heritage site on Mallorca's northwest coast, with its "craggy peaks blanketed in olives groves, citrus trees" and vines. A 16th-century *finca* (manor house) is in the process of being revamped to include 26 rooms and suites. The old olive press will become one of two on-site restaurants, and the "sun-drenched old terrace will house a sizeable pool". Guests will be able to stroll through the Tramuntana mountains, or simply sit beneath the hotel's wood-beamed ceilings, sipping local wines.
From £523 from mid-June, virginlimitededition.com

The Amalfi coast's new family owned hotel

A swim in the Tyrrhenian Sea usually involves ladders and possibly even a bobbing pontoon, says Katie Bowman in The Times. But not at the new Borgo Santandrea, on Italy's Amalfi coast. The family owned hotel has its own private beach (a rarity on this rocky stretch of shoreline), "luring guests down from the hotel's cliff-top perch along a zigzag path through lemon trees and fragrant jasmine". Down by the sea, white and navy-blue beach huts reward the climb down, and there are also parasols and sunbeds, and a restaurant in an ancient fishermen's cave. "If there's a better beach snack than tempura courgette flowers stuffed with anchovies and pecorino, we've never eaten it." *From £670, borgosantandrea.it*

©Alamy

Wine of the week: a rich and intense Kiwi pinot noir

2020 Valli, Bannockburn Vineyard Pinot Noir, Central Otago, New Zealand

£49.50, omws.co.uk; £55, oxfordwine.co.uk; £33, per bottle in bond, farrvintners.com, laywheeler.com

Matthew Jukes
Wine columnist

Aussie wine scribe Tyson Stelzer and I compiled an annual classification of New Zealand pinot noir from 2008 until 2019 – you can download this, free to view, from my website. I ducked out of this commitment a couple of years ago because I could not, hand on heart, see the evolution of this style continuing apace. NZ pinot noir has come a long way over the last two decades, but the classification has, I think, settled with only a few important risers and fallers each year, so it lacks the dynamism and excitement it once had. That is not to say that there aren't a couple of amazing discoveries each year, and one estate that has skyrocketed is Valli. Today, I would classify Valli as a bona fide five-star estate. My featured pair were the standout pinot noirs at the recent annual NZ Trade Tasting.

Analysing the technical specs of these two wines in 2022, the main difference between the Bannockburn cuvée and 2020 Valli Gibbston Vineyard Pinot Noir (£33, per bottle in bond, farrvintners.com, laywheeler.com) is that the rainfall is about half and the sunshine days are 1,149 versus only 909 in the Gibbston wine. This directly influences the richness and fruit intensity found in the Bannockburn Pinot. The Gibbston cuvée is red-fruited, angular and ethereally perfumed, and it teases and rewards, and I adore both wines. You need them in your cellar.

Matthew Jukes is a winner of the International Wine & Spirit Competition's Communicator of the Year (MatthewJukes.com).

Spring has sprung

Reach for your Hunter wellies and Japanese secateurs and head out into the garden, says Jasper Spires

Hanging chairs are all the rage and the Swingrest Hanging Lounger from Dedon is among the most stylish and practical. It is wide enough to seat several people, or alternatively, just one or two sprawled out. The cushions atop the lounger's synthetic waterproof fibre base come in a variety of colours, allowing buyers to customise their preferred style to suit their terrace, veranda or patio garden. *£8,776, shop.mohd.it*

Hunter Original Wellington Tall Boots are essential for rummaging around in the flowerbeds and they come in classic "Hunter green" or navy blue. They are made from natural rubber and have been vulcanised for added protection from the elements. The boots are comfortable to wear, too, thanks to a soft polyester lining, which features the Hunter Original tread pattern, adding stability and grip in wet conditions. *£125, johnlewis.com*

The **Large Shou Planter pot** features a traditional hand-painted coral design – "*shou*" means "longevity" in Chinese. The pot has been given an antique-looking finish, mimicking natural weathering to provide a timeless and chic home for your small plants and a wonderful addition to your garden. *£375, oka.com*

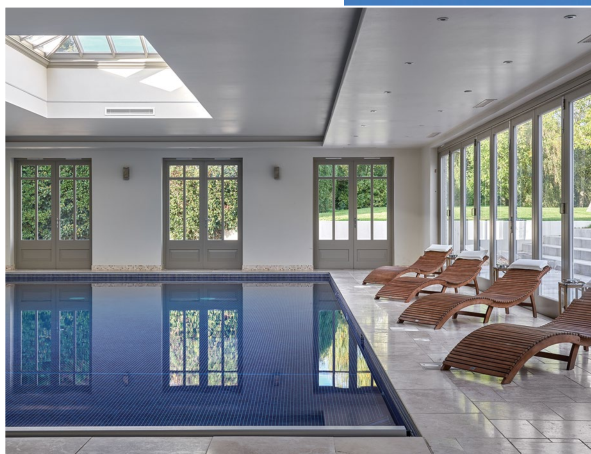
The **Niwaki GR Pro Right-Handed Garden Secateurs** are sharp, bold and precise. They have been "drop-forged and hand-finished" in Sanjo, in the north of Japan, where they are manufactured by a small family business. The secateurs are made from a pair of 5.5cm blades wrought in tough carbon steel, equipped with a chunky catch and a strong spring. They are tough and effortless to use. *£84, johnlewis.com*

The **Victorian Tall Wall Greenhouse** is a compact and attractive greenhouse that is ideal for patios and smaller urban gardens where space is an issue. It comes with two tiers of shelving, of which the second is collapsible to accommodate taller plants, exposing them to the maximum mount of sunlight possible. It is perfect for growing tomatoes in, for example. The traditional Victorian wood and glass design also features an automatic vent-opening mechanism, which helps to regulate the temperature inside. *From £689.99, forestgarden.co.uk*

This week: properties with indoor swimming pools – from a Georgian house in Scarcroft, Leeds, with a p

Great Tangley Manor, Wonersh Common, Guildford. A Grade I-listed manor dating from 1016. It has a Tudor frontage, a 19th-century Arts & Crafts extension and a 40ft heated indoor swimming pool. 8 beds, 7 beds, 2 receps, library, 2 studies, office, breakfast kitchen, stables, tennis court, moat, lake, 9.93 acres. £8.95m Strutt & Parker 020-7591 2207.

Oaklands Manor, Thorner Lane, Scarcroft, Leeds. A Grade II-listed Georgian house set in over 59 acres of grounds. It has an indoor swimming pool with a vaulted glazed ceiling and French doors leading onto a terrace, a hand-built kitchen, and a bespoke library. 6 beds, 6 baths, 3 receps, 2-bed flat, stables. £6.5m Savills 01904-617821.



Forest Green House, Dorking, Surrey. A Georgian house with an indoor leisure complex that includes a swimming pool, sauna and changing rooms, and has bi-fold doors opening onto a terrace. The house has a Palladian-style rear extension, Adam-style fireplaces, and the gardens include a two-bedroom cottage. 7 beds, 7 baths, grand reception hall, 4 receps, 2.7 acres. £3.85m Knight Frank 01483-617919.

ool with a vaulted glazed ceiling, to a 17th-century house in Wendover, Buckinghamshire

◀ **Mount Avenue, London W5.** A three-storey contemporary house set in gated grounds with a garden that includes a barbecue area and a large outdoor television. A swimming pool, a sauna, a gym, a games room and a bar with a seating area are situated in the basement, and there is a Jacuzzi on the roof terrace. The bespoke contemporary kitchen comes with Gaggenau appliances and there is a modern fireplace in the living room. 3 beds, 4 baths, recep, home cinema. £6m Savills 020-8018 7081.

▶ **The Grange, Wendover, Buckinghamshire.** A Grade II-listed 17th-century house with a Georgian wing and an indoor swimming-pool complex with bi-fold doors opening onto the garden. 7 beds, 6 baths, 4 receps, breakfast kitchen, study, library, 1-bed annexe, 0.57 acres. £3.5m+ Fine & Country 01296-625919.

▲ **Sadberge Hall, Middleton St George, County Durham.** A Grade II-listed Queen Anne-style house dating from 1896. It has been updated to include a leisure suite with a swimming pool, spa, sauna and shower room, a bespoke country-style kitchen, and a large orangery. 5 beds, 4 baths, 3 receps, office, snooker room, games room, 1-bed apartment, 3-bed gate lodge, stables, tennis court, 41 acres. £4m Finest Properties 01434-622234.

◀ **Plas Cambria, Mold, north Wales.** A country house set in grounds that include 63 acres of woodland, a lake and a boat house. It has an indoor heated swimming-pool complex with a Jacuzzi, a steam room and a gym, and a sun room with bi-fold doors opening onto a terrace. 5 beds, 4 baths, 2 receps, breakfast kitchen, garden room, 2 studies, 1-bed boat house, garages, landscaped gardens, 85 acres. £2.75m Fine & Country 01766-800555.

▶ **The Old Palace, Wrotham, Kent.** A Grade-II listed 14th-century country house on the edge of a village with gardens that include a leisure suite with a heated swimming pool. The house has exposed wall and ceiling timbers, medieval oak boards, inglenook fireplaces, and a large breakfast kitchen with an Aga. 7 beds, 5 baths, 2 recep halls, 4 receps, study, media room, 2-bed cottage, garage block with studio, greenhouse, summer house, paddocks, 6.4 acres. £3.395m Hamptons 01732-430290.

Book of the week

The Big Con

How the Consulting Industry Weakens our Businesses, Infantilizes our Governments and Warps our Economies
Mariana Mazzucato and Rosie Collington
Allen Lane, £25

Consultants have been behind some of the biggest scandals of recent years, from the collapse of Enron at the turn of the millennium to the failure of the UK's test-and-trace scheme during the Covid pandemic. Mariana Mazzucato and Rosie Collington argue that this is no coincidence. Companies and the state have both become dangerously dependent on guns for hire who charge a fortune for advice that is rarely of value.

Management consulting arose in the early 20th century out of a perceived need for "scientific management" to get costs under control. It got a further boost in the 1950s and 1960s as companies embraced computers. Three decades later, a desire to maximise short-term shareholder value and "reinvent government" saw leaders in the public and private sectors turn to management consultants not only to help with project management, but also to determine the basic direction of policy in the first place.

The state makes up for lack of expertise with salesmen
©Getty Images

> *"Consultancies offer their services at a discount only to end up giving advice that favours their clients"*

The brightest not best

The management-consultancy industry likes to portray itself as a fount of wisdom issuing from "the brightest and best", but the reality is very different. Consultants may have strong academic credentials, but usually have little specific experience or expertise in the areas that they end up dealing with. Indeed, the recruitment and training process is designed to reward those who can sell their arguments to clients, rather than give the best advice.

Perhaps the most critical problem, however, is that consultancies are beset with conflicts of interest. As the authors point out, it's common for consultancies to offer their services at a discount to governments, only to end up giving advice that just happens to favour their clients in the private sector. The overuse of consultants has also degraded in-house expertise in government, creating a dependency.

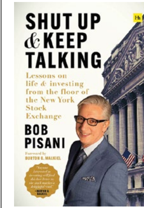
No magic bullet

The Big Con does a good job of tracing the rise and rise of management consultants and highlighting some of the pitfalls. But what's the alternative? There's no magic bullet for the problems Mazzucato and Collington highlight, but their suggestions – enforcing greater transparency around conflicts of interest, investing in the civil service to improve "state capacity" – sound useful. But with public finances hobbled by pandemic-era spending, governments are unlikely to resist the temptation to continue using consultants as a stopgap measure.

Reviewed by Matthew Partridge

Shut Up & Keep Talking

Lessons on life and investing from the floor of the New York Stock Exchange
Bob Pisani
Harriman House, £25



If you've ever been in an investment bank or a major financial institutional, the chances are you'll have seen televisions mounted on the wall tuned to one of the major financial news channels, constantly delivering market updates. One of the most well-known of these stations is America's CNBC. In *Shut Up & Keep Talking*, CNBC's Bob Pisani reveals the lessons he has learned in his 25 years of reporting from the floor of the New York Stock Exchange.

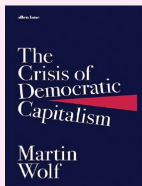
Pisani tells us what a financial reporter actually does and shares anecdotes about meeting Fidel Castro and Robert Downey Jr. But the real meat of the book is in the middle two sections where he examines the major shifts in the financial industry that took place on his watch, most interestingly the shift from floor to electronic trading.

The section on investing is particularly useful as Pisani is honest about the mistakes he has made, which helps the lessons stick in the mind, even if you have heard them before. It is one thing to be told about the importance of diversification, for example, but it's not a lesson you'll forget when you hear how Pisani lost a small fortune when he placed all his bets on General Electric out of loyalty to CNBC's then owner. Investors will find this a useful and informative book.

Book in the news... a good talking-to from the liberal elite

The Crisis of Democratic Capitalism

Martin Wolf
Allen Lane, £30



For those of us old enough to remember the fall of the Berlin Wall, "recent history has been something of a shock", says The Economist. The "triumph of liberal political and economic systems" that seemed so clear then has since been spoiled by "rich-country blunders, the rise of authoritarian China, and ultimately by a distressing loss of faith in democracy itself in what was once called the free world". True, China's appalling handling of the pandemic and Russia's military incompetence make this "crisis of democracy looks less dire than it did a year or two ago", but the "need to understand democracy's retreat remains urgent". This book by financial columnist Martin Wolf is therefore timely.

Wolf argues that the fault lies with the form capitalism has taken in recent years, says Bill Emmott in the Financial Times. The model has too often been to create "quasi-monopoly profits", and then "buy the political influence needed to defend them". This "may be undermining, or even destroying", the democracy that for so long has saved capitalism from itself. Wolf argues that the solution lies in tougher antitrust enforcement, stricter financial regulation to create much bigger capital requirements for banks, more powerful trade unions to improve the share of wealth going to labour, and higher taxes "to enable states to provide security, opportunity, prosperity and dignity" for all.

Wolf's book gives these ideas a "new urgency", says Emma Duncan in The Sunday Times. But it covers so much ground that there is too little of the "exploration or investigation that might throw new light on familiar issues". Wolf also "has little time for anybody who disagrees with him", which gives his writing a "didactic style" that will irritate many readers. Wolf ends up taking the same path as so many in the liberal elite – that of "talking down" to the ordinary reader. That is a mistake because it means his "hugely important" message is more likely to go unheard.

Bridge by Andrew Robson

Vegas variations

Who has the upper hand on this week's Four Spades from a tournament in Las Vegas (not my favourite place – but each to their own), declarer or defence?

Dealer South — North-South vulnerable

North: ♠ K873 ♥ A83 ♦ 83 ♣ AK72

West: ♠ 95 ♥ 2 ♦ AQJ5 ♣ QJ10965

East: ♠ A2 ♥ J1074 ♦ 10976 ♣ 843

South: ♠ QJ1064 ♥ KQ965 ♦ K42 ♣ –

The bidding

South	West	North	East
1♠	2♣	3♣*	pass
3♥	pass	4♣**	pass
4♠***	pass	pass	pass

* Game-forcing Spade raise.
** Ace-showing control bid, looking for the Spade slam.
*** Little extra strength; also, the Ace of Clubs opposite is an unnecessary asset.

West led his singleton Heart, and declarer made the autopilot move of playing low from dummy, winning in hand and leading a Spade to the King. East won the Ace, and now resisted the temptation to give his partner an immediate Heart ruff. Needing two Diamond tricks, which could only come from his side, he first led the ten of Diamonds.

If declarer ducked the ten of Diamonds, East could revert to Hearts, allowing his partner to ruff and cash the Ace of Diamonds. If declarer covered the ten of Diamonds with the King, West could win and, crucially, underlead his Diamonds to put his partner back on lead with the nine for the Heart ruff. Down one.

However, you as declarer should always prevail. Rise with the Ace of Hearts in dummy at Trick One (key play), enabling you to cash two top Clubs discarding two Diamonds. At most one Spade, one Diamond (only one, crucially), and a Heart ruff, can now be lost. Ten tricks and game made. As we know, more fatal errors are made at trick one than any other trick.

For Andrew's four daily BridgeCasts, go to andrewrobsonbridgecast.com

Sudoku 1145

9	8							
			6	1	7			
		7						
8	4			9			3	5
5								4
1				4			6	2
						5		
			2	3	9			
			8			7	9	6

To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

8	1	6	5	3	2	7	4	9
4	3	7	6	9	8	2	5	1
9	2	5	4	7	1	8	6	3
2	4	1	7	5	9	6	3	8
6	7	8	2	1	3	5	9	4
5	9	3	8	4	6	1	7	2
7	8	2	3	6	4	9	1	5
3	5	9	1	8	7	4	2	6
1	6	4	9	2	5	3	8	7

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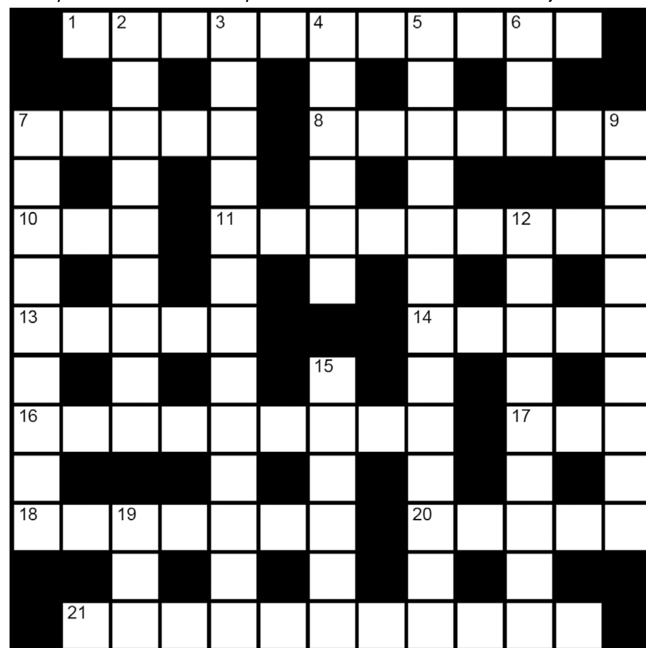
Tim Moorey's Quick Crossword No.1145

TAYLOR'S PORT

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 13 March 2023. By post: send to MoneyWeek's Quick Crossword No.1145, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: crossword@moneyweek.com with MoneyWeek Crossword No.1145 in the subject field.



Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 First dance with nothing on may go down like one! (4, 7)
7 Pop in charge after endless period of reflection (5)
8 Determined first man to be seen in front of soldier (7)
10 Cuban regularly backed US network (3)
11 Some won them over being active (2, 3, 4)
13 Name of German involved with RAF alongside New Zealand (5)
14 Famous footballer's foul reported (5)
16 Conventional types reported in the water off Gibraltar (9)
17 Ask about music from Jamaica (3)
18 Bush no longer in office needs support (7)
20 Author Martin's wrong (5)
21 Met noble before entering conclusion (11)

DOWN

2 Comfortable seating (4, 5)
3 Pasternak novel (6, 7)
4 Modifies (6)
5 What to do on an answerphone (5, 1, 7)
6 Unfertilized eggs (3)
7 Policy set out for the electorate (9)
9 Sheridan play (3, 6)
12 Worrying compulsively (9)
15 Disturbed (6)
19 Brown (3)

Name ....

Address ....

....

email ....

Solutions to 1143

Across 1 Demoralised *anag* **9** Rabat *RA bat* **10** Retreat *re = on + treat = free event* **11** Cur *curt less t* **12** Edwardian *Edward & Ian* **14** China *two defs* **15** Moped *2 defs* **17** Aggregate *anag* **18** Rob *initials* **20** Snuff it *nuff inside sit* **22** Osier *rosier less r* **23** Winter's Tale *anag.*

Down 2 Embarking **3** On the face of it **4** Arrows **5** Interim report **6** Eke **7** Croc **8** Stoned **13** Impartial **14** Coarse **16** Banter **19** Bard **21** Uni.

The winner of MoneyWeek Quick Crossword No.1143 is: Sally Mattson of Cambridge

Tim Moorey is author of How To Crack Cryptic Crosswords, published by HarperCollins, and runs crossword workshops (timmoorey.com)

Taylor's is one of the oldest of the founding port houses, family run and entirely dedicated to the production of the highest quality ports. Late Bottled Vintage is matured in wood for four to six years. The ageing process produces a high-quality, immediately drinkable wine with a long, elegant finish; ruby red in colour, with a hint of morello cherries on the nose, and cassis, plums and blackberry to taste. Try it with goat's cheese or a chocolate fondant.

Life in a wrecked economy

Travelling on the road to ruin is not always that unpleasant a journey

Bill Bonner
Columnist

One of the first lessons from a wrecked economy with a 99% inflation rate is that… it's not so bad. People still eat, smile, wear fashionable clothes, enjoy music and read books. Of course, government policies are idiotic. Corruption is widespread. And everyone, trundling along on the road to ruin, gets poorer. But they don't necessarily have a bad time.

We recently went out to dinner in our old neighbourhood, Palermo Soho. We hadn't seen it in a couple of years. But things change fast in Buenos Aires. The streets were full – people going to bars and restaurants, shoppers or just people out for a walk. "You have to understand," says a friend. "People want to spend their money. Nobody saves it."

We barely recognised the place. The shops had changed, with new bars, restaurants, shoe stores and fashion shops on every street corner. It was bigger, with more people and more things to do than we recalled. It also seemed more woke, more leftist. Socialism has become a fashion statement. One restaurant had a neon sign proclaiming that "capitalism is a failure". Pictures of Che Guevara were everywhere.

Our favourite restaurant, too, had changed. It used to be a small, corner eatery with local customers and a simple Argentine menu. Now it has spread out into the street, serving hundreds of meals – to tourists. It has become one of the city's popular go-to restaurants. Disappointed by the changes, we were nevertheless impressed by the food – it was almost as good as ever. But the bill was a shocker: 100,000 pesos! But we were still adapting to the monetary system. Do the maths, dividing by the black-market rate, and the whole thing came to about $53 per person.

When inflation is running at 99%, better to just spend it

©Alamy

"The more precise the statistic, the bigger the lie behind it"

But numbers never tell the whole story. They leave out the most important parts. There is the price of food, but there is also the taste of it. Who puts a price on a kiss? Who calculates the value of a kind word? Who charges for the sunrise? There are averages, but nobody lives the average life. People live in their own particular world, with a quality all its own. And the quality of a place, too, is often missed by the numbers.

That is what makes fraudsters out of world improvers, activists and central planners everywhere. They have numbers. They have statistics. But they don't know what they're talking about. Here on the back page, we don't trust numbers – at least not those used to justify public policies. That's why we rarely provide a forecast, estimate or calculation without a qualifier: "about" or "around". Because the numbers seldom tell the truth. And the more precise the number, the bigger the lie behind it. Unpack the maths – even our own – and you find assumptions, adjustments, and enough statistical wiggle for an earthworm farm. We don't trust any number or any fact – even those we make up ourselves.

The bottom line

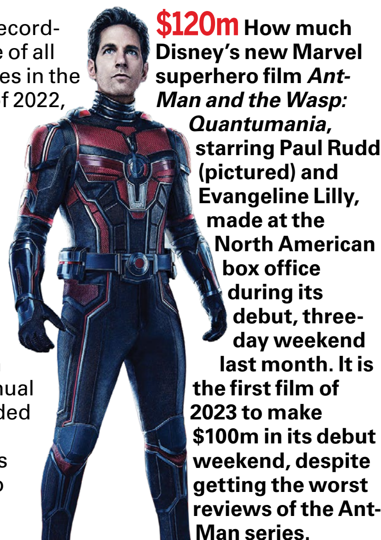
$3.8m How much an 800 sq ft ocean-view mobile home is selling for at Montauk Shores on Long Island, New York. The plots of land sold for up to $25,000 in the 1970s, but Montauk has steadily become as expensive as the Hamptons to the west, says The Times.

£53,000 The average total debt of dental students in their final year of study, up from £24,734 in 2013, according to the British Dental Journal. Fees increased twice in the years to 2016 – also the year in which student grants were removed.

£4.90 The price per mile for a 1.3-mile ride on the new Luton Dart railway link between the airport terminal and Luton Airport Parkway station, when it opens this month. That's more than the £3.70 per mile for the Heathrow Express, currently Britain's most expensive rail line.

95p The price for a standard 500g bag of pasta, which has almost doubled from 50p two years ago, says BBC News. The official rate of annual food-price inflation is 16.7%, but the actual rate appears to be much higher for some everyday items.

£8.7trn The record-high total value of all 30 million homes in the UK at the end of 2022, according to estate agent Savills. That figure rose by just over 5% in the year, equivalent to an extra £425bn, although that was lower than the £700bn annual increase recorded in 2021. Rising mortgage costs are expected to lead to a dip in values in 2023.



$120m How much Disney's new Marvel superhero film *Ant-Man and the Wasp: Quantumania*, starring Paul Rudd (pictured) and Evangeline Lilly, made at the North American box office during its debut, three-day weekend last month. It is the first film of 2023 to make $100m in its debut weekend, despite getting the worst reviews of the Ant-Man series.

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