OPINION *P26*
What should we do about greedflation?

PERSONAL VIEW *P32*
China's top electric-car makers

PLUS
A royal treasure trove
COLLECTABLES *P40*

MoneyWeek

MAKE IT, KEEP IT, SPEND IT

5 MAY 2023 | ISSUE 1154

The fuel of the future

Building the hydrogen economy

Page 28

BAILLIE
GIFFORD
POSITIVE
CHANGE
FUND

Constructive capitalism.

With your help it can power positive change.

A bold statement, but we truly believe that capital thoughtfully and responsibly deployed can be a powerful mechanism for change. Our **Positive Change Fund** seeks to identify high quality growth businesses who are providing solutions to global challenges. We think those businesses will prosper and flourish, at the same time delivering attractive returns to your portfolio. Want to help us power positive change?

Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

Find out more at bailliegifford.com/positivechange

Actual Investors

Baillie Gifford & Co Limited is the Authorised Corporate Director of the Baillie Gifford ICVCs. Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co. Both companies are authorised and regulated by the Financial Conduct Authority.

MoneyWeek

5 May 2023 | Issue 1154

Britain's best-selling financial magazine

From the editor...

Those who fail to learn from the past are doomed to repeat it. That is why, after the financial crisis, Russell Napier, one of MoneyWeek's favourite analysts, set up the Library of Mistakes in Edinburgh. Illuminate financial history and we can learn from our mistakes, he hoped.

Perhaps the political and economic establishment should arrange a field trip to the library. The past few weeks have been marked by bad ideas that just keep coming back, like zombies refusing to die. We keep hearing about rent controls in London. These always produce a shortage of rental accommodation since they remove the incentive for landlords to make flats available.

©Shutterstock

Bad ideas keep coming back, like zombies refusing to die

"If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidise it."

Failed 1970s policies return

Similarly, the fuss over greedflation (see Merryn's monthly column on page 26) has prompted calls for price controls, despite their equally lacklustre pedigree. They also backfire by causing a reduction in supply.

It's always worth recalling Milton Friedman's take on the issue: "We economists don't know much, but we do know how to create a shortage. If you want to create a shortage of tomatoes, for example, just pass a law that retailers can't sell tomatoes for more than two cents per pound. Instantly you'll have a tomato shortage. It's the same with oil or gas."

I've always suspected that bad ideas are more likely to recur when the generation in charge are too young to remember the last disaster they caused. That seems plausible enough for price controls, a policy from the 1970s, but there is no such excuse for this week's recurrence of Help To Buy, one of the silliest ideas of the past decade or so (against some very stiff competition indeed).

The government should drop the notion, for reasons that we have rehearsed often in MoneyWeek: a policy designed to get first-time buyers onto the housing ladder stoked overall demand, raising prices further (and enriching the big housebuilders). A far better approach would have been to leave the absurdly overvalued market alone to correct itself, making houses affordable for far more first-time buyers. The hands-off policy is also a far better bet for the problems to which price and rent controls are supposed solutions. Capitalism is self-correcting, as economist Joseph Schumpeter noted with his work on "creative destruction"; get in the way of the system's natural tendency to reset, and you end up frantically designing solutions to problems you inadvertently caused with your approach to a previous problem.

Cowboy builders

That's what Ronald Reagan was getting at when he joked about the state's approach to the economy. "If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidise it." In this scenario governments end up in a vicious circle of problems and half-baked solutions causing yet more problems – like cowboy builders reassuring a homeowner that their next solution will definitely fix the hole in the roof (that they caused trying to install a cooker).

In this case, the housing market, boosted to excessive levels by a central bank keeping the price of money far too low for far too long (to temper the effect of the bursting of a bubble it originally caused) has finally embarked on a long overdue correction. Just leave it alone.

Andrew Van Sickle
editor@moneyweek.com

Writers' strike paralyses Hollywood

©Getty Images

Hollywood screenwriters went on strike this week for the first time in 15 years, says The Economist. It wasn't for want of work. There were a record 600 original scripted TV shows in 2022, but "writers' rooms", where scripts are written, now last for fewer weeks with fewer writers as studios try to save money. Writers also argue that in the era of on-demand streaming, the industry has yet to find a way to share the spoils from reruns (known as residuals) fairly. Studios are pleading hard times. Cinema releases accounted for 45% of revenue before Covid. Audiences are returning, but not in the same numbers, while Netflix announced job cuts last year. The last strike cost California $2.1bn as production stopped and crew were laid off.

Cover illustration: Howard McWilliam. Photos: Alamy; Getty Images; London Electric Vehicle Company

Good week for:

A High Court judge has ruled that French actress **Eva Green** (pictured) is contractually entitled to her $1m fee for a science-fiction film that was never made, says Variety. *A Patriot* ran into financial trouble in 2019 before being abandoned. Production company White Lantern Film and Sherborne Media Finance had filed a counterclaim insisting that Green had set out to undermine the film in order to buy out the script.

Katie Taylor, an Australian fashion designer who sells her clothing range under her maiden name Katie Perry, has won a long-running trademark dispute with US pop star Katy Perry, says Rolling Stone. Despite the singer, whose real name is Katheryn Hudson, having used the name "in good faith" to sell merchandise during the Australian leg of her 2014 tour, the court ordered her company, Kitty Purry, to pay as-yet unspecified damages.

©Shutterstock

Bad week for:

Italian authorities compiling an inventory of the late actress **Gina Lollobrigida's estate** have found that €9m in assets are missing, says The Times. Family members of the actress accuse Andrea Piazzolla, Lollobrigida's 35-year-old friend, who managed her assets and cared for her in her final years, of syphoning off funds. He denies wrongdoing.

The Cabinet Office has sent former prime minister **Liz Truss** a bill for £12,000 to cover the expense of missing bathrobes and slippers, and of food and wine consumed, at the grace-and-favour Chevening estate last summer. It says the costs were incurred for party-political reasons rather than on state business. Truss, who was foreign secretary at the time, has asked for an "accurate invoice".

Chinese stocks' geopolitical discount

Alex Rankine
Markets editor

Consumers have spearheaded the economic rebound

©Getty Images

China's economy is "back in business", says Nathaniel Taplin in The Wall Street Journal. The world's second-largest economy is enjoying a reopening boom. GDP expanded by an annual 4.5% in the first quarter. The rebound has been led by consumers, with retail sales surging by 10.6% year on year in March. Even the "long-suffering... housing market" is showing signs of revival.

While consumption roars, manufacturing is struggling. China's manufacturing Purchasing Managers' Index (PMI) fell to 49.2 in April from 51.9 in March (readings below 50 denote a contraction), even as the services PMI registered a robust 56.4. Western shoppers are not buying as many Chinese-made goods as they did during the pandemic. Still, officials in Beijing won't be too worried about the lopsided recovery, says John Authers on Bloomberg. They have spent years trying, largely fruitlessly, to "rebalance" the economy towards services and consumption. It now seems "rebalancing has finally happened".

The consumer-led nature of China's recovery means it "will have less impact on the rest of the world than in previous upswings", says Gareth Gettinby of Aegon Asset Management. Previous rebounds in China have been decisive for global growth. "In 2009 and 2016, for example, significant stimulus focusing on infrastructure led to a rebound in world trade". Yet this time infrastructure spending is likely to slow, which will "dampen" any rebound in commodities.

Analysts predict a 22% jump in operating income for MSCI China companies this year, the fastest growth since 2011, say Sofia Horta e Costa and Tania Chen on Bloomberg. Yet you wouldn't be able to tell by looking at the stockmarket. While shares did enjoy a bounce last autumn as zero-Covid was scrapped, the rally soon lost steam. The local CSI 300 benchmark has gained just 3.5% in 2023.

Foreigners sit out the rally

As Mixo Das of JPMorgan Chase notes, the MSCI China index is on just 7.6 times expected operating profit, 9% cheaper than the average over the past 20 years and 34% below the figure for the MSCI All-Country World index. Such discounts have previously only appeared in times of "acute stress", such as the 2015 stockmarket crash. This time the discount reflects geopolitical tensions and a less friendly business climate. Many global fund managers are "steering clear after seeing wartime sanctions erase the value of Russian investments", Hayden Briscoe of UBS Asset Management tells Tom Westbrook for Reuters. The issue is not so much potential returns but whether investors can get their capital back at all in a crisis. "Foreign money... particularly from the US, is reluctant to invest."

Data firm EPFR reveals that allocations to US-domiciled China funds plumbed record depths last October and have been falling on an annual basis since 2019. While some investors see short-term returns in prospect, the long-term outlook is far hazier. "Decades-long foreign bullishness on China's capital markets is breaking down."

The end of the banking crisis?

"For now, let's take a deep breath," says JPMorgan Chase's CEO Jamie Dimon. "This part of the crisis is over." Dimon's bank took over San Francisco-based First Republic Bank this week after the latter became the latest institution to be undone by rising interest rates.

On Monday, US regulators seized control of First Republic and then immediately sold it on to JPMorgan for $10.6bn, says The New York Times. First Republic is the second-largest US bank by assets to collapse in history, behind only the 2008 failure of Washington Mutual.

First Republic catered for a wealthy clientele, many of whom held deposits in excess of the $250,000 federally insured limit. That made it especially vulnerable to the bank run that started with the failures of Silicon Valley Bank and Signature Bank in March. The federal deposit insurance fund will pay out $13bn as part of the deal, which will prevent First Republic customers from losing any of their deposits. The acquisition makes JPMorgan, already America's biggest bank, "even bigger".

First Republic is the second-largest US bank by assets to collapse

©Getty Images

Shares in JPMorgan rose in Monday trading in response to the news. The KBW Bank index, which tracks the 24 top US bank stocks, plunged by 25% in March when the crisis began and has yet to recover the lost ground.

Yet beyond the banking sector, "stockmarkets have largely escaped collateral damage", says Ross Clark in The Spectator. Including Credit Suisse, "we have now had four major banking collapses in the space of six weeks, with remarkably little spillover into the economy at large". Many analysts think that First Republic's failure draws a line under the turmoil. Yet if "one of the too-big-to-fail banks got into trouble" the crisis could yet take on a wholly different scale. "Only a brave person" would say we are past the worst.

Russian stocks are rallying

Russian stocks have hit their highest level since April 2022, say Daria Mosolova and George Steer in the Financial Times. Strict capital controls have left Russians with few other investment options, while generous dividends from energy giants and banks are prompting many to buy income stocks. Despite the recent rally, the Moex index remains 39% lower than its pre-invasion high of October 2021. Trading volumes fell by 41% in 2022 as international investors fled.

Similarly, the rouble crashed by 40% after the invasion, only to rally to within "6% off its pre-invasion levels", says Dan Ashmore of Invezz. The asset price recovery is somewhat artificial: "80% of the money made abroad by Russian businesses is required to be swapped into roubles", while foreign investors have been blocked from exiting their local investments.

Putin can thank Russian technocrats and high energy prices for buoyant markets, says Lawrence Freedman in The New Statesman. The idea that "sanctions might oblige the Russians to give up on Ukraine" has proved "far too optimistic". Nonetheless, an exodus of firms is depriving Russia of "future investment in oil and technology", while young men are departing in droves; 10% of IT workers left Russia last year, generating "severe labour shortages" in the sector. Russia hasn't fallen "off a cliff", but the economy's "long-term prospects are bleak".

London market loses an Arm

"New York is a much deeper market than London and… because of Brexit idiocy… the image of the London Stock Exchange has suffered a lot in the international community," Hermann Hauser, co-founder of Arm, tells Radio 4's *Today*. The microchip designer is listing on America's Nasdaq despite intensive lobbying from Rishi Sunak to pick London, says Simon Foy in The Telegraph.

Hauser says that "Arm could not raise the $10bn it was hoping to attract on the London market." Last week Irish construction firm Kingspan became the latest company to announce plans to delist from London. The run of delistings wouldn't be so bad if the City could attract new flotations. Yet in the first three months of 2023, London's main market saw only two initial public offerings (IPOs) raising a total of £63m, says John-Paul Ford Rojas in the Daily Mail. That's 99% below the record £5.7bn for the first quarter of 2021.

Amsterdam has become the key listing venue in Europe

©Getty Images

Pension funds buy bonds

Amsterdam is now the "go-to listing venue in Europe" , say Swetha Gopinath and Michael Msika on Bloomberg. Last year, London accounted for just 8% of European IPO proceeds, the lowest since 2009. Average daily traded volume on the FTSE All-Share index has plunged from £15bn to £4.7bn since 2007. The UK market's decline "began well before Brexit". In the early 2000s the British government changed pension accounting rules. The result? The share of portfolios that Britain's defined-benefit plans invested in UK stocks fell from about 50% in 2000 to just 2% by 2021. The London Stock Exchange "effectively lost its biggest source of capital".

The accounting changes "required companies to disclose the deficits of their defined benefit pension schemes… one consequence of this rule change seems to have been a shift in the asset allocation of… pension funds away from equities and towards bonds", says Adam Hoyes of Capital Economics. Yet its role in driving the FTSE's slump has been "overstated of late". The "bulk of the switch away from equities in the UK pension and insurance industry occurred between 2000 and the early 2010s", yet the big valuation gap with US shares only emerged after 2016. Perhaps institutional investors are simply "more downbeat on the long-term growth prospects of the UK" and so favour foreign stocks. Still, in turbulent times and with interest rates rising, cheap British shares at least have limited downside, says Philip Coggan in the Financial Times.

The FTSE 100 is on just 12.4 times trailing earnings and yields 3.7%. While pension funds have fled, individual UK investors seem to be keeping the faith, says Charlotte Gifford in The Telegraph. Data from Interactive Investor shows that the average UK investor has a 30% exposure to UK shares, well above the 4% that UK stocks represent as a share of global equities.

Viewpoint

"[Ark Invest CEO] Cathie Wood's new forecast [is that Tesla] will trade at… $2,000 [per share] in 2027 [compared with $160 now]. It is impossible for me to understand what runs through the head of an individual who says something like that. If… Wood really believes it, she is unqualified to manage money… Full stop. If she doesn't believe it but is saying it to try to lure investors to her stumbling fund, she is… acting in bad faith… [You might think that] statements like this… are so obviously wrong that nobody will take them seriously, but… some retail investors will read what Wood said and… buy TSLA stock thinking they are going to make a fortune. But they will only get fleeced… The odds of TSLA [soaring to such levels] are about as high as the odds of the Red Sea parting again. Wood should know that and should not be leading investors into the jaws of hell."

Michael Lewitt, The Credit Strategist

The surge in Chinese state-owned enterprises

Chinese state-owned enterprises (SOEs) – in which Beijing has a controlling stake – typically trade at a discount to their more profitable and efficient private-sector counterparts, says Jacky Wong in The Wall Street Journal. But now China is putting a new emphasis on SOEs as it pursues strategic goals. The Hang Seng China State-Holding Enterprises index has gained 8.3% in 2023 compared with a 1.5% decline for the wider Hang Seng China Enterprises index. Shares in PetroChina, China Railway and China Mobile have done especially well, the latter helped by plans to invest in the digital economy and mobile networks. The SOEs' outperformance shows that investors doubt "private firms will get a fair shake in post-Covid China".

Game over for Activision

Britain's Competition and Markets Authority has vetoed Microsoft's takeover of the videogaming group. Matthew Partridge reports

Microsoft's $69bn takeover of Activision Blizzard has been dealt a "potentially fatal blow", says Bloomberg's Katharine Gemmell. Britain's Competition and Markets Authority (CMA) has vetoed the tie-up, arguing that it would lead to "higher prices, fewer choices and less innovation for UK gamers", especially with respect to cloud gaming (playing games online rather than downloading them to a console or PC). Crucially, it said that its concerns "couldn't be solved by remedies such as the sale of blockbuster title *Call of Duty* or other solutions". While Microsoft plans to appeal, "there has never been a successful appeal in the UK on an antitrust decision".

This is a bad decision, says Brian Albrecht in The Telegraph. It seems "the regulator still thinks of markets as static objects to control, rather than as dynamic processes to foster". Even if Microsoft did reduce competition by "removing Activision games from competitors' platforms", it would "provide a strong incentive for consumers to purchase a console or gaming subscription", creating "a market with real potential for independent game developers to benefit". Microsoft also "created the whole idea" of cloud gaming in the first place and is constrained "by the prospect of rivals emerging.

Red flags for regulators

It is certainly "rare" for a UK regulator to be "willing to step into the path of US Big Tech's steamroller", says Nils Pratley in The Guardian. Still, Microsoft should have realised that the marriage of "a big content company" like Activision to a "big next-generation platform provider" like Microsoft "was never going to be a slam dunk". Indeed, both US Federal Trade Commission (FTC) and the European Commission "are also all over it". What's more, any promises from Microsoft would have had to be policed, forcing the CMA to dive "into a cloud market that is still in its infancy". The CMA's decision seems to have been "lost on Wall Street", which has "other priorities", say Richard Waters and Kate Beioley in the Financial Times. Microsoft's shares actually rose by 7% the same day, after it reported a rebound in its cloud-computing division and "reiterated a determination to capitalise on its early lead in generative AI [artificial intelligence]". In contrast, pure cloud-gaming platforms "have been slow to take off", with Google closing its "ambitious" Stadia games project last year and Amazon's Luna platform struggling to gain traction.

Selling blockbuster titles such as Call of Duty wouldn't allay the regulator's concerns

©Activision Blizzard

The CMA's decision has been more negative for Activision, wiping 10% off the shares, says Anita Ramaswamy on Breakingviews. This is not surprising given that Microsoft was willing to pay a 45% premium to Activision's undisturbed price in January 2022. Still, the stock's slide seems an overreaction, as the company is highly profitable. Considerable cash reserves, as well as a $3bn breakup fee from Microsoft, would give Activision a "hulking war-chest" to spend on other acquisitions or stock buybacks.

Will Deutsche's Numis deal backfire?

Numis, a broker for small and medium-sized companies that has been in business in London for 150 years, has decided to "abandon its independence", say Patrick Hosking and Martin Strydom in The Times. It has accepted a £410m all-cash bid from Deutsche Bank. The news sent shares in Numis up by 67%. The tie-up is expected to provide "a much-needed boost to the City", especially as corporate brokers "have faced thin times, with a shortage of flotations and other capital raisings as well as lower volumes of equities trading".

Deutsche's decision to "swoop" on City broker Numis may feel "a bit like a return to the 1990", when big lenders bought some of "the most revered names" in stockbroking and merchant banking, says Alex Brummer in the Daily Mail. However, while Deutsche clearly thinks that Numis's "useful tech and media clients" can help "offer a route back to broking glory", many clients "value the personal connections and service of the smaller financial groups", and feel lost when served by a bigger company.

So, rather than boosting the German bank's business, the deal may simply end up creating room "for challenger brokers and merchant bankers who recognise the value of nurturing clients". You can argue that this is a "wildly expensive way to cross-sell to just 166 corporate broking clients" or ask why Deutsche "is buying a cash equity franchise just three years after closing its own", says Bryce Elder in the Financial Times. And why isn't Deutsche buying back its own shares, on just 0.3 times tangible book value, instead?

However, the deal comes at an opportune time for Numis given that it that it has reported a 72% drop in annual profit in 2022, on sales down by a third. It is also good news for Numis' joint CEOs Alexander Ham and Ross Mitchinson, who have reportedly agreed to sell their shares and options to Deutsche for £14m.

Metaverse hampers Meta's recovery

A few months ago, social-network company Meta was regarded as "bloated", with sales sliding, users departing and the shares collapsing, says Danny Fortson in The Sunday Times. Today, the stock has nearly tripled from its November low following a return to growth.

True, sales growth remains "pedestrian" at just 3%, especially compared with the "go-go years" where "30% quarterly growth was unfurled with metronomic consistency". However, investors are confident that CEO Mark Zuckerberg's "cost-cutting plan" will "deliver fatter profits even as growth slows". They also think that Meta's use of artificial intelligence (AI) will "not just grow the number of users, but keep them on its apps".

Meta's increasing sales provides evidence that it "is weathering what could become a difficult advertising environment", good news given that "nearly all of the money the company makes comes from that business", says Anita Ramaswamy on Breakingviews. Still, "in order to grow ads by 26%, the company had to slice the average price per ad by 17%", which "suggests Facebook can't command as much of a premium for eyeballs as it previously could". What's more, while AI-based recommendations "have already increased the amount of time users spent on Facebook and Instagram and boosted ad sales", Zuckerberg's obsession with the metaverse means that "his attention – and cash – is divided between two new endeavours in a way that his competitors' are not".

Zuckerberg's insistence on pursuing both AI and the metaverse means that Meta's research and development (R&D) spend in the first three months of the year eclipsed $9bn, a third of sales and "twice as high as Alphabet and Microsoft", says Lex in the Financial Times. The numbers coming out of Reality Labs, its virtual reality business, are particularly "ugly", with the unit posting "an operating loss of almost $4bn. For now, at least, "the idea of the metaverse as integral to our social and work lives is a bust".

Alliance Trust
INVESTING FOR GENERATIONS

ARE YOU PATIENT ENOUGH TO PROFIT FROM IT?

71% of us wish we were more patient in at least one aspect of our lives. But patience isn't just a virtue – it has real-world value, too.[1]

As an investment trust that's been trusted for generations, we understand a few things about patience.

Our research shows that investors who remained invested through the ups and downs could have built up a Patience Pot worth as much as £192k over 30 years.[2]

So if you want to make the most of your investments, it could pay to choose an investment trust that truly understands the value of patience.

Find out why now is the right time to start profiting from patience with Alliance Trust.
alliancetrust.co.uk/patience

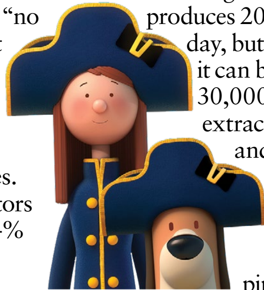
1. Alliance Trust conducted a survey via Opinium Research, January 2022.
2. The Profit from Patience Report, Alliance Trust, September 2022 alliancetrust.co.uk/patience

When investing, your capital is at risk. The value of your investment may rise or fall as a result of market fluctuations and you might get back less than you invested. TWIM is the authorised Alternative Investment Fund Manager of Alliance Trust PLC. TWIM is authorised and regulated by the Financial Conduct Authority. Alliance Trust PLC is listed on the London Stock Exchange and is registered in Scotland No SC1731. Registered office: River Court, 5 West Victoria Dock Road, Dundee DD1 3JT. Alliance Trust PLC is not authorised and regulated by the Financial Conduct Authority and gives no financial or investment advice.

MoneyWeek's comprehensive guide to this week's share tips

Four to buy

Admiral Group
The Telegraph
Shares in this provider of car and travel insurance as well as financial and legal services have lost 10% in a year. Peers have issued profit warnings as claims increase and car-repair costs spiral. Admiral's own recent performance has been "no thing of beauty", but it now has a third more clients than it did in 2019. That leaves it well placed to profit when a recovery arrives. In the meantime investors can enjoy a "juicy" 5.4% prospective dividend yield. *2,259p*



Afentra
The Mail on Sunday
This Africa-focused oil and gas business buys mature assets that are already in production but could be made safer, cleaner and more productive. The group is set to buy a stake in an oil field off the Angolan coast. The field produces 20,000 barrels per day, but Afentra thinks it can boost that to 30,000 with "modern extraction techniques and more proactive management". Several similar transactions are "in the pipeline". *25p*

Property Franchise Group
Shares
While the wider property market slumps, the private rented sector continues to go from strength to strength as structural undersupply and pricier mortgages push ever more people into long-term renting. Britain's biggest property franchisor runs 76,000 tenanted managed properties through nine brands. In 2022 revenue rose by 13%, while pre-tax profit climbed by 38%. Management is getting better at harnessing data to find efficiencies, which should also help generate continued growth. *275p*

Currys
The Sunday Times
Shares in the owner of Dixons, Carphone Warehouse and PC World have plunged by 72% over the past five years. Many short sellers thought Covid-19 spelt the end. But the gloom looks overdone. Half of sales come from the UK, 40% via the Nordic arm and the rest from Greece. There are glimmers of hope in the UK as "better supply chains and IT systems" keep costs under control. A stronger balance sheet should also help it outlast struggling Scandinavian rivals. On eight times earnings, the shares are a bargain for the brave. *57p*

Two to sell

Franchise Brands
The Telegraph
This group brings together 650 franchisees across seven brands working across business-to-business services such as plumbing, drainage and commercial kitchen maintenance. The shares have gained 120% over the past five years, but the recent £200m acquisition of Pirtek Europe, "a specialist in... hydraulic hose replacement", gives us pause. The deal opens up new opportunities, but also new geographical and business risks, as well as adding £110m of debt to the balance sheet. Worryingly, management has described the deal as "transformational", a phrase that in corporate speak "can sometimes be code for 'we really wanted this business so we may have overpaid for it'". Sell. *183p*

Hochschild Mining
Investors' Chronicle
Social conflict in Peru has

affected this Latin American gold and silver miner, with the company forecasting 2023 output of 307,000 ounces of gold equivalent, a 21% drop from 2021 levels. The firm is betting on an expansion of its Inmaculada mine in the country's south to bring back production, but that will depend on "much delayed" approval from the government. While gold's rally bodes well, high production expenses offset it: "all-in sustaining costs (which include capital expenditure) were $1,364 per gold equivalent oz in the year". Given the risks and a "rising debt pile" it is time to sell. *76p*

...and the rest

Investors' Chronicle
The long pandemic slump is over for Premier Inn-owner **Whitbread**, with latest full-year results showing revenue per available room up by 55% to almost £60. The group still has scope to consolidate the fragmented German short-stay market, and "excellent operational execution" thus far means we hope there is more to come. Keep buying *(3,316p)*.

The Mail on Sunday
Niche North Sea energy play **Jersey Oil & Gas** is raising money to develop the offshore Buchan field, thought to contain 100 million barrels of oil. Moving to production will be an expensive task, but tax incentives that allow oil firms to offset much of the cost of new investment against the energy windfall tax should help generate interest. The group's experienced managers should deliver. Buy *(245p)*.

The Telegraph
Shares in retailer **WHSmith** have been hit by Covid and weak household sentiment but the latest half-year figures show "good progress". Management continues to pivot away from the high street towards more profitable outlets in airports and train stations. On 19 times forward earnings the shares aren't cheap, but the "captive" travel market means this "high-quality" stock is worth sticking with. Hold *(1,546p)*.

The Times
Builders' merchant **Travis Perkins'** "ambitious and costly expansion... of its Toolstation" arm across the UK and Europe comes at the worst possible time amid the housebuilding slump. The shares have slid by 20% in a year but with little clarity about when the expansion will yield rewards, they are best avoided *(936p)*.

A German view

Medical-devices specialist Abbott Laboratories earned a mere $730m from Covid tests in the first quarter of 2023, down from $3.3bn a year earlier. But it has plenty of other irons in the fire, according to WirtschaftsWoche. In 2022 alone it came up with 125 new products, receiving permission to launch new heart catheters. The group's glucose-measuring system Freestyle Libre was also developed further. Diabetes is a core area for Abbott – in the US, the group's main market, there are 34 million sufferers. Overall sales are likely to reach $40bn this year, with net income of $6bn pencilled in. The group has $10bn of cash for product development and has paid a dividend for 100 years on the trot.

IPO watch

India's fourth-largest pharmaceutical group, Mankind, is to float in Mumbai. It has priced the initial public offering (IPO) at the top of its range, raising Rs43.3bn (£421m) and valuing the group at Rs433bn (£4.2bn). Mankind makes drugs for several illnesses but is most famous for a brand of condoms called Manforce, says the Financial Times. Sovereign wealth funds and the Canada Pension Plan Investment board were among the key buyers, eager to scoop up shares in a pharma brand with a heavy emphasis on the domestic market. Much of the sector exports generic drugs. Mankind has given the lacklustre local IPO market a fillip. Just three firms floated in the first quarter.

©Admiral Group; Getty Images; Whitbread Group

To build your return potential, we take real estate to another level.

abrdn Real Estate Investment Trusts

As an asset class that can diversify risk, deliver income and broaden return potential, real estate is unique. Which is why we offer a range of strategies to harness its power.

From directly owning real estate assets to investing in property companies, our real estate investment trusts seek to capture opportunity across UK commercial real estate and the dynamic European logistics sector.

From residential to retail, industrial to warehousing, see how abrdn real estate investment trusts aim to build more possibility into your portfolio.

Please remember, the value of shares and the income from them can go down as well as up and you may get back less than the amount invested.

Request a brochure: 0808 500 4000

invtrusts.co.uk/realestate

Issued by abrdn Investments Limited, registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL, authorised and regulated in the UK by the Financial Conduct Authority. Please quote Q207.

The two faces of the new King

King Charles III is perfectly placed to bridge the divides in today's Britain. Emily Hohler reports

Against a background of strikes and a cost-of-living crisis, Britain will be "pulling out all the stops" for the coronation of King Charles III this weekend with a "three-day jamboree" that is expected to cost taxpayers at least £100m, says Yasmeen Serhan in Time. Though a "more scaled-back affair" than the late Queen Elizabeth II's coronation in 1953, it is estimated that the event will cost roughly double that of his mother's, which set a record for the "most expensive ceremony ever held by the monarchy". Post-war rationing was still in place at the time, yet the "huge spectacle" was deemed a "vast success". However, "history is unlikely to be of much comfort for many Britons", more than half of whom believe that the coronation shouldn't be funded by taxpayers, according to a recent YouGov poll, with some even suggesting that the royal family should "foot the bill".

The bigger picture is that another YouGov poll finds that two-thirds of Britons currently support the monarchy and "doubts" over whether the King will be good for the institution have "faded away", says Ben Clatworthy in The Times. In all, 62% think he will be a good king, up from 39% in March last year, and according to Ipsos, the King's personal approval ratings have also risen, even if Princess William remains the most popular royal.

Let's embrace the weirdness of our Green Man King

©Getty Images

The radical aristocrat

"The case against Charles" will be well known to anyone who's watched *The Crown*, read Prince Harry's memoir or picked up a tabloid in the past 50 years, says Helen Lewis in The Atlantic. "He was cold to his first wife, distant to his second son… And he used to have an aide to squeeze his toothpaste onto the brush." Nonetheless, this "descendant of nearly 1,000 years of mildly inbred aristocrats is less frothingly anti-woke than the average Fox News talking head". Buckingham Palace officially supports academic research into the family's links with the slave trade and Charles attended a 2021 ceremony where the new republic of Barbados "formally dispensed with his mother's services as head of state". Charles's worldview "blends eco-radicalism with deep traditionalism", springing as it does from an "aristocratic sense of merely passing through the world, of being a custodian for the next generation".

His attempts to "reconcile old and new" are "everywhere in the ceremony", from the "vegan-friendly" oil that will be used to anoint him, to his refusal to allow cameras to film the anointing, "which he considers to be a moment of connection with God". At the same time, he has previously defined himself as a "defender of faiths" as well as "defender of the faith".

The "sheer strangeness of this event, its apartness from modern Britain, is the essence of its meaning," says Aris Roussinos in Unherd. As Charles is anointed, we will "witness, like puzzled anthropologists, the ancient rituals of our own lost British tribe". The King, "mocked" for decades as a "weirdo who talked to his plants", "represents two divergent paths for Britain".

Take agriculture. The "collapse of much of Britain's intensive agriculture model has heightened the growing clash between those who believe it is the way to food security", and those who "believe it is despoiling Britain's fields, forests and waterways" while not even keeping our farmers in business or the nation "fed and healthy". Charles, a longstanding advocate for small family farms, can "bridge this gap". His choice of the Green Man as the symbol on the coronation invitations is a symbol "intentionally rich in opposing meanings". Fate has placed Charles at the "nation's apex". To "heal the new divisions of the coming age" there are worse options than "embracing the sheer weirdness" of our Green Man King.

Pay deal will not fix broader NHS crisis

Nurses have won a 5% rise

©Getty Images

On Tuesday, the NHS Staff Council signed off on the government's offer of a 5% pay rise for more than a million NHS staff in addition to a one-off payment of up to £3,789, despite continuing opposition from unions including the Royal College of Nursing (RCN) and Unite, says Connie Dimsdale on inews. Pay rises will apply to all nurses, paramedics and other non-medical NHS staff in England. The RCN will now hold a fresh ballot to renew its six-month strike mandate.

The deal did not include doctors, who are locked in separate pay disputes, notes William Atkinson on Conservative Home. The "Corbynista leadership of our junior doctors" and the British Medical Association are demanding a 35% increase for their members, a sum that is "simply unaffordable" and one that is "designed for not negotiating" – in spite of the fact that a typical junior doctor already makes £37,000 in their first year, which hardly makes them the "most hard-pressed of workers".

Nonetheless, there's no escaping the fact that we have a major problem, says Nora Colton in The Telegraph. A third of our doctors are emigrating to countries such as Canada and New Zealand; nurses are leaving the profession at an accelerating rate. This is not only due to falling real-term pay, but "high rates of sickness, burnout" and " harassment". Nor can we recruit from abroad. "The UK finds itself in the middle of a global healthcare crisis", with the world requiring 84 million health workers by 2030, up around 30% from the 64 million it had in 2020. At the same time, there are around three times more young people applying to medical school than there are places due to medical school caps. We should address our "internal obstacles to training" and fix the "mess of our medical education system". A "comprehensive workforce plan could be the start of the path to long-term change".

Betting on politics

Just over a week ago US president Joe Biden announced he was running for re-election in 2024. Small but lingering doubts remain on the betting markets, however, about whether he even will even get to be the Democrat's nominee. With £1.86m matched on Betfair, Biden is at 1.33 (75.2%) to win the nomination, with fringe candidate Robert F. Kennedy Jr at 18.5 (5.4%), vice-president Kamala Harris at 20 (5%) and California governor Gavin Newsom at 22 (4.5%).

As I've said before, I can't see a realistic scenario where anyone other than Biden or Harris is the Democratic candidate, though don't bet any money on either if you've previously followed my advice. One bet I would take is the 1.13 (88.4%) on Smarkets on Harris being on the Democratic ticket, as either the vice-presidential or presidential nominee. The odds are short, but the fact that Biden made her a prominent part of his announcement speech shows that he's not going to replace her as his running mate.

Meanwhile, Donald Trump remains the clear favourite to become the Republican nominee for the third time in a row. With £2.4m matched on Betfair, the former president is at 1.59 (62.8%) to become the GOP's candidate, with Florida governor Ron DeSantis at 4.5 (22.2%) and former ambassador to the UN Nikki Haley at 29 (3.4%). Senator Tim Scott is at 42 (2.4%).

Trump may be in a strong position in the polls, but I think the markets are under-estimating the chances of him suffering a major legal setback, especially in his ongoing civil case in New York. I remain convinced that DeSantis offers value, though as with Biden and Harris, don't bet more if you've already put money on him. Either way, I'd take Betfair's 1.18 (84.7%) on DeSantis announcing his candidacy before September 2024.

Starmer sets out his stall

Corbynism is out… but what exactly is in? Matthew Partridge reports

In a move that will "anger" many Labour MPs and activists, Keir Starmer has confirmed he will U-turn on his promise to abolish university tuition fees, say Nick Gutteridge and Daniel Martin in The Telegraph. The policy was the second of his ten "key pledges" when he ran for the Labour leadership three years ago, yet now he admits he is "likely to move on from that commitment" as it is "now unaffordable". He has instead pledged to find a "fairer solution" for funding university.

Starmer: the KC is for turning

©Getty Images

A turning point for Labour

Completely abolishing tuition fees would have cost £9bn and it would have benefited only half of school-leavers, says Rachel Cunliffe in The New Statesman. But that consideration doesn't make the status quo any less unfair. The high interest rates on student loans, combined with the relatively low repayment threshold, has created an "underclass of additional taxpayers" that sees half its income "eaten up before they even see it". Those wealthy enough to repay their loans quickly, or old enough not to have got caught in the trap, get off lightly.

It's clear that Labour policy more generally is at a "turning point", with tuition fees just one of a series of moves that will "draw a complete line under the economic arguments of Jeremy Corbyn's leadership", says Tamara Cohen on Sky News. Pledges to nationalise public utilities, increase income tax for the top 5% of earners and abolish universal credit have all been dumped. Starmer clearly hopes that, with a general election looming, these changes "will hammer home the message that fiscal discipline is now key", and pre-empt Conservative claims that Labour is planning a "tax bombshell". But given that Labour is maintaining a "significant lead in the polls", it could be argued that Starmer is being "too cautious".

The party of houses

Moving Labour to the centre ground by abandoning past spending promises makes sense given that the public finances are "obviously in a weaker state" than before Covid, says John Rentoul in The Independent. The trouble is that, while ditching many of his earlier policies, he hasn't come up with any concrete alternatives, leaving it uncertain whether his plans "to hug the Tory government as closely as possible on tax and spending" are genuine or merely temporary political posturing. Starmer "shouldn't be surprised that neither his party nor the electorate are persuaded that he knows what he is doing".

Trying to appear "ambitious" at the same time as steering clear of Conservative plays on fears of Labour "profligacy" may seem impossible, says Patrick Maguire in The Times. Housing, however, is one area where Labour can be both radical and responsible. Tory backbenchers have forced Rishi Sunak to back down on mandatory house-building targets for councils. In contrast, Labour is moving towards a "carrot and stick" approach, with councils forced to work together to come up with plans for development, but also given "cash and infrastructure as the prize for new housing". Combined with a loosening of the green belt and the building of a "generation of new towns", this could boost the economy and crown Labour as "the party of home ownership".

US bumps up against debt ceiling again

McCarthy: his hands are tied

©Getty Images

The US is heading for "the messiest fight" in a decade over America's legislative debt limt, says Alan Rappeport in The New York Times. Technically, the US government has already breached that limit, which caps the amount of money the federal government can borrow to pay its bills, including those for programmes already authorised by Congress. It has been using "accounting manoeuvres" to get around this, but the space for these "could be exhausted by June". Then the US would be forced to default on its debt, which could be "economically devastating" and "plunge the world into a financial crisis".

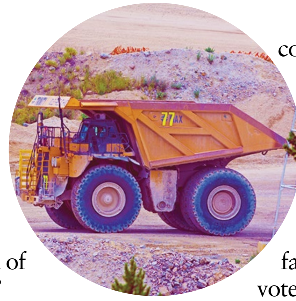
This has become a "perennial issue", says Lauren Fedor and Colby Smith in the Financial Times. This time, however, the protracted nature of the standoff between Republicans, who control the House of Representatives, and the Democrats, who control the White House and Senate, has raised tensions. Already the Biden administration has been forced to shift from its demand that Republicans lift the limit without condition to seeking to negotiate a compromise.

One idea being pushed by a bipartisan group of Democrat and Republican moderates is to allow the limit to be suspended in return for establishing a "deficit-reduction commission" and budget controls, says Steven Dennis on Bloomberg. It remains unclear whether the Biden administration, or the Republican house speaker Kevin McCarthy, would accept such a deal, not least because the latter "owes his job to Republican hard-liners who insist on trillions in spending cuts". So far, Democrats "aren't talking up" a remaining option: "executive action to bypass the debt limit".

Vancouver

Teck's change of tack: Canadian miner Teck Resources has abandoned its bid to split itself for want of shareholder support, say Karen Kwok and George Hay on Breakingviews. That could give its suitor, Swiss commodities giant Glencore, the chance for a "surgical strike" after its initial $23bn bid was rejected by Teck's board. Glencore's offer would have handed Teck's owners 24% of a combined company that would have then demerged into an energy-transition metals business and another focused on coal. The problem for Glencore is how to improve its offer, with its 22% premium to the share price already worth $4.7bn, without eating into the $5.2bn-worth of cost savings Glencore has scoped out for the taking. "A sweetener of, say, 10% would… give away too much of the benefits [from a merger]."

It's possible Glencore boss Gary Nagle has identified further savings, or he believes a combined company would command a higher valuation multiple, which would cover the cost of a richer premium. Glencore has the cash. But a smarter move would be to offer a "disproportionately higher premium" for the super-voting stock of the Keevil family, whose shares carry ten votes apiece, but are collectively worth just 1% of the total stock. That might upset the holders of ordinary stock, but Nagle should take the risk.



Seattle

Amazon's mixed results: Online retail and internet services giant Amazon posted better-than-expected profit and revenue in the first quarter compared with a year earlier, with sales rising 9% to $127bn, says Matt Day on Bloomberg. But there was a big caveat to the results – sales growth in the Amazon Web Services (AWS) division rose by 16% to $21.4bn, its slowest pace of growth and much slower than the almost 40% year-on-year quarterly growth at the start of 2022. It could yet fall to single digits, analysts fear. AWS is the biggest seller of rented computing power and software services, outcompeting rivals Microsoft and Alphabet. It has been Amazon's main source of operating income for years, bankrolling the company's bets and supporting Amazon's online retail business when the latter has struggled to turn a profit. In the latest quarter, sales have flatlined. Therein lies the danger, says Jennifer Saba on Breakingviews. "The star of the show… is showing cracks" and Amazon is "starting to resemble its regular ol' retail rivals". Like Walmart and Target, it is entering the natural cycle of alternating between lowering prices to attract customers and lowering costs to boost the bottom line. Its enterprise value of 11 times the next 12 months' forecast gross earnings also resembles Walmart and Target, whereas it used to be far higher. "Amazon is morphing into a main street mainstay."

Dearborn

Sales revving at Ford: Michigan-based Ford Motor has reversed a $3.1bn first quarter loss last year with a $1.8bn net gain in the first three months of 2023, fuelled by strong demand for high-end pickup trucks and SUVs, says Nora Eckert in The Wall Street Journal. Total revenue rose 20% in the quarter from a year earlier to $41.5bn. However, its electric-vehicle (EV) unit lost $722m in those three months. While Ford claims to view its EV business as akin to a start-up, investors are closely watching pricing dynamics in the car market for signs of weakness. Ford has reduced the price of its electric Mustang Mach-E for the second time this year, and on some versions by as much as 8%, while rival Tesla has undertaken to adjust its own prices to boost sales. Ford can do this because it has cut $5,000 from the cost of production per car of the Mach-E since it was launched two years ago, owing to cheaper batteries, according to CEO Jim Farley. But the market "seems unconvinced" that is sustainable, says Jonathan Guilford on Breakingviews.

For now at least, the "gas-guzzler cash cows" of Ford and GM Motors can fund these EV losses with other, conventional models, unlike Tesla, and still-as-yet unfulfilled post-pandemic demand allows them to "put on a brave face". Across the Atlantic, meanwhile, car sales at Porsche and Aston Martin grew in the first quarter thanks to "buoyant" demand for luxury cars, says the Financial Times.

The way we live now... Debrett's guide to modern manners

Turn it off and watch the film

©Getty Images

The *Debrett's Handbook* to polite society has been revised to mark the King's accession to the throne and to update its guidance on modern manners since the last coronation in 1953, says Patrick Kidd in The Times. Naturally, that means a new section on the correct use of technology.

Debrett's, founded in 1769, would still rather you communicated with handwritten cards. But if you must resort to your mobile phone, switch it off in theatres and cinemas and refrain from looking at it when buying something at the till – and never at the dinner table. If working away from the office on your laptop at a café, order food and drink regularly "when settling in for the long haul" and try to choose a café that's not too busy. When talking on the phone, it is rude to have loud conversations while on the train, say, and gentlemen should avoid "[sitting] with your knees wide apart as if to show who is king of the jungle". If one has just got engaged, it is a courtesy to inform one's parents before announcing it to the world on Twitter. "People are more informal and relaxed these days", says Liz Wyse, editor of the handbook. "But for special occasions or in a professional context they do care about getting it right."

©Alamy; Getty Images; Shutterstock

London

Profits gusher: Oil major BP posted underlying earnings of $5bn for the first quarter – lower than the $6.3bn for the period a year earlier, but 16% higher than analysts were expecting, says Carol Ryan in The Wall Street Journal. BP's trading division can claim much of the credit, benefiting from the volatility in energy prices. Even so, the stock dropped 7% in early trading. Investors are disappointed by BP's downsizing of its share buyback plan for the current quarter to nearly $1.8bn, from $2.8bn in the previous three months. BP allocates 60% of surplus cash flow for buybacks, but a build-up of working capital meant operating cash flow was lower than expected. Oil and gas companies have used the surge in energy prices following Russia's invasion of Ukraine to lavish shareholders with dividends and buybacks. Prices are still higher than normal, but they are well off their peaks due to a mild winter and China's slow recovery. In the meantime, BP's "challenge may be to manage investors' higher hopes". That said, "Big Oil is [still] making money hand over fist", says Lex in the Financial Times. Investors will also be asking what they intend to do with all this cash. In the US, ExxonMobil and Chevron together made $18bn in net income in the first quarter. One answer is to go shopping.

Profits from oil are still plentiful

©Getty Images

Tokyo

The eyes have it: Japan's Astellas Pharma has agreed to buy US drugmaker Inveric Bio for $5.9bn in its biggest acquisition to date, giving it access to a range of ophthalmology treatments, says Rocky Swift for Reuters. Inveric's avacincaptad pegol (ACP), branded as Zimura, is in trials to be used to treat macular degeneration, a common cause of vision loss in the elderly. Japan has one of the world's fastest-ageing populations. If approved by US regulators, it could go on sale by the end of the year. Astellas, Japan's third-biggest drugmaker by sales, has been on a shopping spree since 2019 to shore up its pipeline against expiring patents. It will pay a 22% premium on the shares. The deal is the second-most-valuable cross-border acquisition by a Japanese pharma in five years, behind Takeda's $6bn takeover of a unit of Nimbus Therapeutics last December. Meanwhile, Pfizer is to start offloading its 32% stake in Haleon, the consumer health business spun out of GSK and listed in London last July with a £30.5bn valuation, say Jamie Smyth and Nicholas Megaw in the Financial Times. Since then, the shares in the maker of Advil painkillers have risen 14%, valuing Pfizer's stake at £10bn. Pfizer is reducing debt following its $43bn purchase of Seagen.

Asunción

Election victory: Santiago Pena (pictured), leader of Paraguay's ruling conservative Colorado party, has won the presidential election, tightening his party's grip and "defusing fears" that the country's long-running ties with Taiwan would be cut, says The Guardian. The Colorado party has dominated the landlocked South American country for more than 70 years, one of just 13 countries to have official diplomatic relations with Taiwan, which China regards as a renegade province. Pena secured 42% of the vote, more than 15 points ahead of centre-left rival Efrain Alegre, who had argued for switching recognition from Taipei to Beijing. He now faces a "challenge to rev up Paraguay's farm-driven economy, shrink a major fiscal deficit and navigate rising pressures from soy and beef producers to ditch relations with Taiwan in favour of China and its huge markets". Following his win, Pena called for "nationwide unity and consensus", says BBC News. The economy is expected to grow by 4% this year, but the country has "relatively high levels of poverty and corruption".

London

HSBC shows who's boss: "HSBC has delivered its strongest rebuttal so far to demands laid out by its pushy Chinese shareholders: knockout earnings", says Una Gulani on Breakingviews. Shenzhen-based insurer Ping An, HSBC's biggest shareholder, is campaigning to split off the bank's Asian business to improve performance. But HSBC "smashed expectations" in doubling its quarterly pre-tax profit to $9.3bn in the first three months from a year earlier, excluding one-offs gains. Boss Noel Quinn says the growth is sustainable. If he's right, "investors are way undervaluing the $150bn bank". Either way, the earnings call could not have come at a better time for Quinn, who argues a break-up would destroy value in the bank. To be fair, "there is a decent argument in favour of a split", says Lex in the Financial Times. Notwithstanding additional costs, a separately listed HSBC Asia would probably "achieve a higher multiple than the 0.8 times tangible book [value] that the group trades on" at present. Even so, shareholders should vote down Ping An's proposal. HSBC is doing just fine as it is and "the plan serves China's push for greater influence with Asian business too neatly… The separation message may ultimately be right. The messenger and its timing are not."

Cronyism corrodes trust in Britain

The country may not be blighted with the corruption that infects poorer nations, but a lack of transparency in government is becoming an issue of real concern. Simon Wilson reports

What's happened?

Richard Sharp, the outgoing BBC chairman and ex-banker who was once Rishi Sunak's boss, and has donated some £400,000 to the Conservatives, broke the rules on public appointments by neglecting to disclose to the recruitment panel that he had helped arrange a £800,000 loan guarantee for former prime minister Boris Johnson. He also broke the rules by not telling them that he'd informed Johnson about his application. Sharp feels hard done by, says The Sunday Times, because he informed the cabinet secretary, Simon Case, of the loan plan. But he was "sunk by his lack of transparency" in the interview process. It is this "lack of transparency at the heart of the UK government machine that so often leads to recrimination and scandal".

Sunak's actions are welcome, but don't go far enough

©Getty Images

Is the UK a corrupt country?

Most of us associate "corruption" with less-developed nations – in Africa, say, or the Middle East – where people genuinely do seek power to loot public coffers and officials have to be bribed to get everything from a passport down to a street vendor's licence. By that standard, the UK is not corrupt. Here, a career in politics – or the police force, say – is rarely motivated by the desire for personal enrichment. Indeed, many parliamentarians earn far less than they might do outside politics. Yet this view is also complacent, says Bronwen Maddox in the Financial Times. "British clubbability blends at times into cronyism and privileged access… ease of contact can turn into the use of public office for private gain."

What is cronyism?

Cronyism means "donations, patronage, handshakes and a whole panoply of reciprocal favours" that fall short of corruption, says Matthew Syed in The Sunday Times. This rot in public life predates Johnson and will outlive him. It's not merely about "knighthoods for chums and ermine for political donors, but the revolving door between government and big business that has, in recent years, become more like a freight train". Half of all ministers in the May and Johnson governments went on to work for firms over which they had exercised regulatory oversight.

> *"British clubbability blends at times into cronyism and privileged access"*

Are things getting worse?

Yes, according to the anti-corruption watchdog Transparency International. In the most recent annual "corruption perception index" published by the group (in January 2023), the UK fell sharply in the global league table of the most transparent countries – and was given its lowest ever score (73 out of 100). The table ranks countries in order of perceived transparency, with Denmark at the top (scoring 90), and South Sudan (13), Syria (13) and Somalia (12) at the bottom. Until 2017, the UK was consistently in the top ten. This year it fell from 11th to 18th place, with researchers citing "woeful inadequacies" in upholding political integrity, and "worryingly low" levels of public trust. The fall in our headline score of five points put us in embarrassing company as one of five nations to drop five points or more this time – the others being Qatar (-5), Myanmar (-5), Azerbaijan (-7) and Oman (-8). The damning assessment was published two days after Rishi Sunak sacked Nadhim Zahawi as Tory chairman over his murky tax affairs. But it reflected a range of issues, worries and scandals.

What exactly?

The report cited further revelations over the government's unlawful "VIP lane" during the pandemic, which fast-tracked offers of protective equipment from companies with political links – and appeared "systemically biased in favour of those with connections to the party of government". It also highlighted the appointment of politically connected people to public-sector roles during the pandemic. In addition, the Transparency International report cited 40 potential breaches of the ministerial code that were not investigated over the past five years (and where details emerged during the review period, the year to October 2022). Further, it cited evidence from a cross-party parliamentary watchdog that decisions on awarding money from the £3.6bn towns fund – designed to boost economic growth in struggling towns – were "not impartial and were politically motivated". It also cited a Sunday Times investigation into wealthy donors to the Tories, who donated at least £3m and were then given a seat in the House of Lords.

Why does all this matter?

Good governance and probity matter for a range of moral, social and political reasons – and also economic ones. Transparency International measures perceptions of corruption and its findings are used as a benchmark by analysts and investors. According to Daniel Bruce, the body's UK chief executive, the sharp fall in the UK's standing is a "powerful indictment of a recent decline in standards in government and controls over the use of taxpayer money" that should worry those in power as well as the rest of us. Business executives and other experts are "concerned about insufficient controls on the abuse of public office and increasingly view corruption and bribery as a real issue in Britain".

How could we combat cronyism?

The fact that Sunak has appointed a new ethics adviser (after Johnson's quit) is welcome, says Transparency International's Steve Goodrich. But "giving them full autonomy and more powers to investigate and report their findings" would be even better. And ideally the government would support a House of Lords bill on ethics and integrity, delivering a raft of changes to raise and enforce standards in government. Second, we need a transparent register of ministerial lobbying (as the US, Canada and Ireland all do already). And we could cap the amount party donors are allowed to give each year. None of these things are likely to happen overnight. "But given the state we're in currently, I'd counsel our political leaders that the favoured strategy of delaying does not seem to be working."

BING! BANG! BONG!

That's the sweet sound of taking control of your investments with AJ Bell.

Feel good, investing.

Capital at risk.

How to prevent a new banking crisis

Social media has undermined the trust that banks have always relied upon. Radical change is needed

Matthew Lynn
City columnist

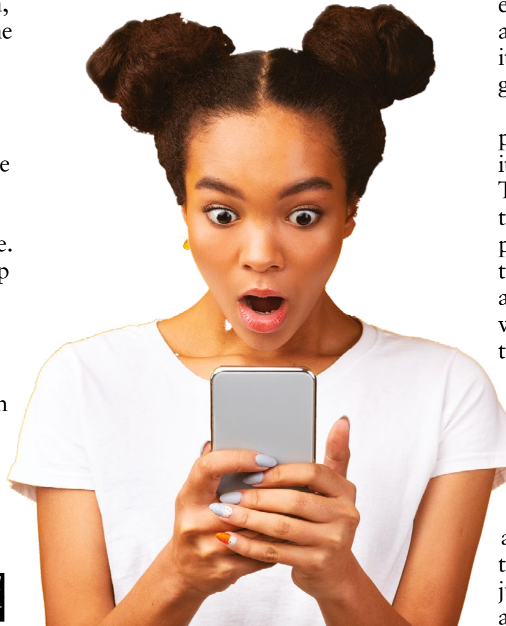
The demise of First Republic won't have come as much of a surprise to anyone. Its shares had been under sustained speculative attack for weeks, and even though some of the largest financial institutions in the US tried to prop it up, it had clearly lost the confidence of depositors. By last weekend, it could no longer survive by itself, and the Federal Reserve arranged a quick sale to JPMorgan, a bank that is increasingly taking over most of the financial world.

We can add First Republic to the list of bank failures that started with Silicon Valley Bank earlier this year and spread to Credit Suisse. Whether the mini-banking crisis of 2023 ends there remains to be seen, but it would hardly be a great surprise if one of the major eurozone banks were next.

True, there are individual explanations for what went wrong in each case. Silicon Valley expanded too rapidly and made a bad call on interest-rate rises. Credit Suisse had been in trouble for years and hit by a series of scandals, so when speculation started it was always likely to be in trouble. First Republic was caught out by the cheap mortgages offered to wealthy customers, triggering big losses as money started to become more expensive again. And yet there was also a thread that was common to all of them: the speculation against each bank started on social media.

A study from economists at James Madison University published last week confirmed what we already suspected – that social media, and especially Twitter, played a big part in the downfall of Silicon Valley Bank. The authors' analysis suggests that other banks face similar risks. SVB was, of course, uniquely vulnerable to a Twitter-based bank run. As its name would suggest, it specialised in holding deposits for the California-based tech companies. The tech community is exceptionally well networked and used to sharing information online. Once speculation started that the bank was in trouble, there was no way it could be contained.

SVB is hardly unique, however. Everyone is now online, and everyone is using social media. Speculation about the safety of any bank could come from anywhere. We are lucky it has not happened yet in this country. After all, most of the challenger or app-based banks are not yet very profitable, and many are still making losses, suggesting that they are not exactly 100% safe. A social-media scare followed by a bank run could happen at any moment. All it takes is for a few rumours to get started on Twitter and everyone will rush for the exit.



A social-media-style panic could start a bank run at any moment

One tweet from disaster

The reality is that social media has made traditional banking impossible. All banks rely on confidence to some degree. They collect deposits, and they lend out more money than they have in deposits, or they invest it in other instruments, on the assumption that only a small percentage of their customers will take their money out on the same day. So long as everyone trusts the bank, it is a good model, and one that can make a lot of money if you get it right. But as soon as confidence evaporates it becomes impossible to sustain. It doesn't even matter very much whether there is any basis to the speculation or not. Once it has started, everyone has an incentive to get out before the bank closes.

Speculative rumours have always been a problem for banks but before social media, it was far less easy to spread information. There were only so many people you could tell in person, and a newspaper would not print it without checking whether it was true or not. No one on Twitter checks for accuracy, and information flies around the world in an instant. A bank is always going to be just one rogue tweet from disaster.

We have to recognise that the internet has changed the way banking operates. The only real option is to have central-bank guaranteed deposits, and to separate that off from lending, so that any money you put into a regulated bank account is 100% guaranteed. Without that kind of assurance, the economy will just become even more unstable than it already is.

City talk

● Burberry chair Gerry Murphy "handbagged" prime minister Rishi Sunak at a business summit last week over the removal of VAT refunds for foreign visitors, says Maggie Pagano on Reaction. The decision – which was made by Sunak when he was chancellor – has made the UK the "least attractive shopping destination in Europe", says Murphy. Wealthy tourists are switching to Paris and Milan to avoid the tax. "Watching Sunak fend off Murphy's accusations was painful." The prime minister had no answer except a "weasel worded get-out" about the need to raise tax. That doesn't wash: research by Oxford Economics suggests that restoring the tax break would mean a £4.1bn boost to GDP and create a net gain of £350m in tax. There's little sign the government is rethinking its own goal, but Sunak and chancellor Jeremy Hunt should take note of this lobbying. "If they continue to ignore the needs of business, then they are the ones who will have more time on their hands to go shopping."

● "First a fags bloke. Now a health freak. Things are lurching around a bit at Reckitt," says Alistair Osborne in The Times. The firm has picked Kris Licht, head of its health wing, to replace interim CEO Nicandro Durante. The ex-BAT boss, who was Reckitt's senior independent director, took the job after Laxman Narasimhan left abruptly to join Starbucks. Having spent 28 years selling cigarettes, Durante "always looked a drag on Reckitt's highfalutin' purpose", but he's "made a decent fist of his interim job". Reckitt's choice of an outsider, in Narasimhan, was "disruptive", so investors will be glad to see an internal appointment with a focus on delivery and consistency – plus "less ciggie stardust, too".

● "One of two major questions hanging over Vodafone has been answered," says Francesca Washtell in The Mail on Sunday. Interim CEO Margherita Della Valle will keep the top job at the telecoms firm, after a four-month search triggered by the departure of Nick Read in December. Della Valle was chief financial officer during Read's reign, so she may not be a popular choice with some investors who wanted a fresh start. However the key unanswered issue is whether she can speed up a potential merger between Vodafone and Three. "Right now, the City is waiting for the phone to ring."

©Getty Images

Bag thousands of bonus points with Barclaycard's new Avios Card offer

The Avios reward scheme, pioneered by British Airways, is considered by some to be one of the best reward schemes in the world mainly due to its flexibility.

There are lots of different ways to collect Avios points, and there are lots of different ways to spend them as well, from flights, hotels, car hire, and online shopping.

What's more, points can be used across a range of airlines and holiday providers - you're not limited to British Airways (BA).

A Barclaycard Avios Card is a great way to pick up Avios points with day-to-day spending.

The new bonus offer from Barclaycard

Barclaycard has two Avios products, an Avios Card and an Avios Plus Card, and from the 17th April 2023, the company has doubled the welcome bonus for those applying for either by the 30th May 2023.

The Barclaycard Avios card is the standard offering but it still has some fantastic features:

- If you apply by 30 May 2023, you'll collect a double welcome bonus of 10,000 Avios (usually 5,000 Avios) if you spend £1,000 in your first three months. New customers only. T&Cs apply
- Collect 1 Avios for every £1 spent on eligible purchases, with no monthly fee.
- Spend £20,000 on the card within 12 months and you'll receive a British Airways cabin upgrade voucher to use on an Avios Reward Flight booking. T&Cs apply.
- Get up to five months of Apple TV+, Apple Music, Apple Fitness+, Apple News+ and Apple Arcade for free with your new Barclaycard. Continues as paid subscription after trial. UK only, T&Cs apply.

Representative example – most accepted customers get

- 27.9% APR representative (variable)
- 27.9% purchase rate p.a. (variable)
- Based on a £1,200 credit limit
- £0 monthly fee

The approval of your application depends on your financial circumstances and borrowing history, so do the terms you may be offered. Eligibility and conditions apply.

The Barclaycard Avios Plus card comes with a much bigger Avios bonus and you can earn more points with spending:

- If you apply by 30 May 2023, you'll collect a double welcome bonus of 50,000 Avios (usually 25,000 Avios) if you spend £3,000 in your first three months. New customers only. T&Cs apply.
- Collect 1.5 Avios for every £1 spent on eligible purchases, with £20 monthly fee.
- Spend £10,000 on the card within 12 months and you'll receive a British Airways cabin upgrade voucher to use on an Avios Reward Flight booking. T&Cs apply.
- Airport Lounge Membership – access over 1,000 airport lounges worldwide at a discounted rate of £18.50 per lounge pass, per person.
- Get up to five months of Apple TV+, Apple Music, Apple Fitness+, Apple News+ and Apple Arcade for free with your new Barclaycard. Continues as paid subscription after trial. UK only, T&Cs apply.

Representative example – most accepted customers get

- 77.6% APR representative (variable)
- 27.9% purchase rate p.a. (variable)
- Based on a £1,200 credit limit
- £20 monthly fee

The approval of your application depends on your financial circumstances and borrowing history, so do the terms you may be offered. Eligibility and conditions apply.

Enjoy flights, hotels and more with Avios

You can spend your Avios on all kinds of travel experiences. Here are some examples of where your Avios could take you:

- 18,500 Avios + £1 for an off peak, economy return flight for one passenger from London to Milan*
- 23,500 Avios + £1 for an off peak, economy return flight for one passenger from London to Barcelona*

**Plus £1. Reward Flight Saver fares offers a fixed cash and Avios amount and are subject to availability. Other pricing options are available. All tangible examples accurate as of January 2022. With Avios, you can explore your favourite destinations on other ways too by spending your Avios on car hire or hotels.*

Check your eligibility: **barclaycard.co.uk/personal/avios**

Disclaimer

The approval of your application depends on your financial circumstances and borrowing history, so do the terms you may be offered. Eligibility and conditions apply. 10,000 Avios welcome bonus, usually 5,000, when you spend £1,000 in the first 3 months. Barclaycard Avios for the 10k and Barclaycard Avios Plus for the 50k Avios welcome bonus, usually 25,000, when you spend £3,000 in the first 3 months. New customers only. Offer ends 30 May 2023.T&Cs apply.

Brought to you by

Investing beyond borders

Regional indices can be better balanced and more diversified than almost any individual market

Cris Sholto Heaton
Investment columnist

The choice between investing in single-country funds and regional funds is not simple. You can make a compelling argument that a portfolio of country funds has many advantages. Investing norms vary between countries for a variety of reasons, including legal and cultural differences. It's arguably tricky for a manager to be on top of all of these nuances. There can be plenty of hurdles for individuals and small teams in making investment decisions across a region, including language barriers and other factors that make it harder to carry out research and due diligence.

Set against that, there's one obvious limitation to many single-country funds. Is the market really deep enough for a manager to build a full portfolio of high-conviction investments? Or will they be adding some companies that perhaps aren't as good to comply with their requirements to be diversified?

"There's one obvious limitation to many single-country funds"

Not just an EM problem

It's very clear when you look at some countries – particularly in emerging markets – that a single country fund can be extremely challenging: once you knock out stocks with poor liquidity or bad corporate governance, the choices often become very limited. You'd really struggle to assemble single-country funds in much of Southeast Asia or Latin America or Eastern Europe that come anywhere close to balancing diversification, liquidity and governance. In these areas, you usually want to go for regional funds.

Conversely, markets such as China and India are easily large enough for single-country funds, if you choose. But what of developed markets?

Nestlé is the largest stock in the MSCI Europe index

©Nestlé

Some are so narrow that a single-country fund makes no sense: take Denmark, where Novo Nordisk is 55% of the index. You would never normally say this about the UK, France or Germany. Yet growing concerns about the shrinking UK market (see page 5) raise another interesting question. Would many investors be best served by a regional European fund, for example?

All the European markets arguably have some problems with balance or low exposure to certain sectors, but in aggregate the MSCI Europe index looks very well-balanced. Just in the top 10 you get food giant Nestlé, tech lynchpin ASML, luxury goods group LVMH, oil major Shell, bank HSBC and several pharma firms.

Europe has lagged US equities for more than a decade, but as a result the US is now 68% of the MSCI World index, which creates its own risks. Remember that Japan was once more than half the global market. Holding a large-cap Europe tracker fund alongside a US one is an obvious way to create a more balanced portfolio, while being much simpler than picking country funds.

I wish I knew what a tracker fund was, but I'm too embarrassed to ask

Tracker funds (also known as index funds or passive funds) aim to track the performance of a particular index, such as the FTSE 100 or S&P 500. The funds may hold all, or a representative sample, of the stocks in the underlying index (physical replication), or replicate the performance of the index via buying derivatives (synthetic replication).

The aim is to have as low a tracking difference (the gap between the performance of the index and the fund) as possible. Since the goal of a tracker is to match the index, significant outperformance is as concerning as significant underperformance (even if it might not feel like that to an investor), because it suggests problems with the way the fund is being run.

Tracker funds can be traditional open-ended funds (unit trusts or open-ended investment companies [Oeics]) or exchange-traded funds (ETFs) listed on a stock exchange. Investment trusts are almost never used as tracker funds because – unlike ETFs – they have no mechanism to keep the fund's share price in line with the value of its assets.

The first tracker open to ordinary investors was the Vanguard Index fund, which launched in the US in 1975. Rivals were sceptical as to whether it would ever succeed, arguing that people wouldn't be satisfied with merely matching the market, but the concept caught on.

The big advantage of passive investing is cost: a FTSE 100 tracker fund can have an annual charge of well under 0.1% a year. An actively managed fund could easily charge ten times as much, with no guarantee it will beat the index (most don't over time). A closet tracker is an active fund that sticks close to its benchmark index to avoid under-performing the market too drastically (and thus losing clients). Investors in a closet tracker are being charged the higher fees of active management in exchange for passive performance, or worse.

Guru watch

©Getty Images

Stanley Druckenmiller, founder, Duquesne Family Office

The risks posed by the battle over the US debt ceiling (see page 11) are dwarfed by the long-term risks of unchecked government spending, says former hedge-fund manager Stanley Druckenmiller. "This focus on the debt ceiling instead of the future fiscal issue is like sitting on the beach at Santa Monica worrying about whether a 30-foot wave will damage the pier when you know there's a 200-foot tsunami just 10 miles out," he tells Bloomberg in a email, arguing that spending on social security and healthcare is unsustainable and will have to be slashed.

America's fiscal position today "looks much worse than I had imagined 10 years ago", says Druckenmiller, who retired from managing money for clients in 2010, after a career in which he averaged returns of 30% per year over 25 years. In addition to a lack of fiscal restraint by politicians from both parties, he also blames the US Federal Reserve for the easy-money policies that led to reckless behaviour in markets, banks and governments. "By still owning a large amount of government debt, the Fed continues to create the false illusion that it can help with our fiscal problems."

The five percentage-point increase in interest rates over the past year was a step towards "trying to correct the biggest mistake in Fed history", but the central bank's commitment to sound money does not seem strong. "At the first signs of trouble, the Fed last month, and in just four days, undid most of the small progress they had made in reducing their balance sheet."

As a result of poor US policy, Druckenmiller's only high-conviction trade at present is to be short the US dollar, he told an investor forum last month. While the dollar is down 10% against a basket of leading currencies since November, he expects it to slide further, especially if the central bank cuts rates as the economy weakens. "Currency trends tend to run for two or three years."

Wokery is destroying capitalism

Roger Bootle
The Daily Telegraph

Due to specific government policies and "more elusive" cultural factors, the UK does not currently enjoy a "very favourable" climate for business, says Roger Bootle. Most notable is the recent corporation tax hike from 19% to 25%, but a succession of personal tax increases and a "barrage of intrusive regulations" haven't helped. Then there is the "deeper anti-business culture across society". In large firms, "jiggery-wokery" appears to have taken over, while the subliminal message on our TV screens is that if you have "got on in life" you have been "up to no good" (take the villainous self-made businesspeople in *Inspector Morse*). Similarly, in employment tribunals, the "default position" seems to be that employers are unscrupulous and workers are oppressed. When I am introduced at conferences, the "thing of which I am most proud" – founding and building research firm Capital Economics – is often ignored. The eminent economist Joseph Schumpeter is noted for his view that "capitalism would eventually fail because its very success would support and underwrite the establishment of groups in society devoted to its downfall, and their views would come to dominate the political culture. This is exactly what seems to be happening now."

Romania needs more workers

Editorial
The Economist

Romania is fast becoming a country of immigrants, not emigrants, says The Economist. Birth rates collapsed after the 1989 revolution and millions left; today, with the economy growing steadily for a decade, the country faces "severe labour shortages". The hospitality and construction sectors are having to recruit workers from abroad. Demand has been hugely boosted by the EU's post-pandemic reconstruction funds: Romania will get €27bn. This, together with other EU funding streams, could swell the country's coffers by more than €80bn by 2027. However, Romania's bureaucracy is so "overwhelmed" that many workers never arrive, having been "filched" by other countries before their visas are processed. In 2017, Romania had an annual quota of 3,000 permits for non-EU workers. By 2022, that had risen to 100,000, though many were used by workers already in the country. One of the difficulties is that Romania's "punitive tax rules" and welfare system make it "pointless" for many to work part-time. All this is leading to demographic change. The number of non-EU nationals has risen by 110% in five years. By 2030, there could be 600,000 foreigners in Romania. In a country of 19 million, that is a "big and very rapid change".

BoE must get a grip on inflation

Martin Wolf
Financial Times

The Bank of England's Huw Pill lecturing Britons on the need to "accept that they're worse off" isn't "useful", says Martin Wolf. "What is useful" is for the BoE and other central banks to "do whatever it takes to bring inflation back under control". Groups are affected differently by inflation. Businesses can "adjust prices faster than workers can force up wages" while people on benefits are likely to find it "especially difficult" to increase those benefits (the real level of unemployment benefits has fallen 12% in the past year). The fact that the inflationary process is "unjust" is "one of the reasons it is so politically and socially corrosive". If, as I expect, growth in nominal wages continues at today's pace (around 6%), productivity growth stays low, and so "unit labour costs continue to rise quite fast", the core inflation rate seems "likely to stabilise" well above the BoE's 2% target. Moreover, monetary policy is "not even tight by normal standards" – the base rate of 4.25% is well below core inflation, "never mind the headline rate of over 10%". Fixing income distribution is up to the government. What the BoE "can and must do is stop inflation from remaining too high for too long". The costs of not doing so "would be huge".

Farmers tackle the greens

Eva Vlaardingerbroek
The Spectator

The recent "landslide victory" for the BoerBurgerBeweging party (BBB) (Farmer-Citizen Movement) in the regional elections in the Netherlands is internationally relevant, says Eva Vlaardingerbroek. Remarkably, the country is the second largest exporter of agricultural products in the world after the US. Yet the Dutch government, a coalition led by Mark Rutte and his People's Party for Freedom and Democracy, plans to close 30% of all cattle farms by 2030 in order to halve nitrogen emissions and comply with EU regulations. The attack is part of a "larger conflict" between the government's "authoritarian green agenda" and the "silent majority paying for it all". Although technically the 15 March elections were regional, they also indirectly determine the composition of the Dutch senate, of which the BBB is now the largest party. Indeed, the 2025 general election may now be brought forward, which could lead to BBB founder Caroline van der Plas becoming prime minister. But how can she keep her promises to farmers when neither the government nor the EU are willing to budge? Her refusal to officially dismiss the nitrogen crisis narrative suggests she may be playing a long-term game to appeal to more voters, but it's a delicate balancing act.

Money talks

"For me it's not about buying things, it's being able to wake up and not worry about money."
Actor India Amarteifio (pictured) on the value of money, quoted in The Sunday Times

"Finance: the art of passing currency from hand to hand until it finally disappears."
Robert W. Sarnoff, CEO of former US electronics giant Radio Corporation of America, quoted in Forbes

"Just don't say it. Economists need to engage brain."
Simon French of Panmure Gordon after Huw Pill, chief economist of the Bank of England, told Britons to get used to becoming poorer, quoted in The Mail on Sunday

"The King is not heartless or reckless, but if the family members are not part of the core family and not working for the Crown, it is fair for them to house themselves and fund themselves."
A senior royal source on King Charles's plan to slim down the monarchy, quoted in The Times

"It is somewhat perverse that, on the day we left the single market, a decision was made to make the UK the least attractive shopping destination in Europe."
Burberry's chairman Gerry Murphy on the removal of VAT refunds on foreign tourists' shopping, quoted in The Mail on Sunday

"Any calls you get on Sunday, you're going to make money. Those rare calls are the best since they are inevitably from seriously distressed sellers."
Warren Buffett, quoted on Twitter

"Rich people invest early — before a company launches its first product and before a building is built. Everyone else comes along later once a lot of the value has been created."
Economist Dror Poleg, on Abnormal Returns

©Shutterstock

The delights of Swiss politics

Switzerland: beautifully dull

©Alamy

newstatesman.com

One of the things that strikes you when you visit Switzerland is the silence, says Matthew Engel. Sundays are still observed with "eccentric zeal", but it's little different on weekdays. "No traffic noise, no footsteps, no chatter… some visitors find it a bit chilling, sinister even."

But it's of a piece with the country's politics. There is no single head of state and little interest in the political "minutiae and manoeuvres" that obsess other countries. Power is "thoroughly devolved" and every Swiss adult receives about six times a year a "thick envelope seeking binding referendum votes". Yet this does not fuel enthusiasm for politics. Turnout is often below 50%.

There are "other delights". "Everything and everyone is clean." The trains "glide serenely and punctually across the country" and 16% of all journeys are made by rail, three times the average in Britain. There is little fear of low-level crime. The Swiss obey laws governing behaviour at home that are mostly unwritten and enforced by peer pressure. The rules of a Swiss Sunday are "fierce and unique": no laundry, no car washing and no lawn mowing, and nearly all shops are closed. Owners of apartment blocks usually codify their own rules: no pets, no music, no loud laughter. "Manners are compulsory."

The fact that there is still conscription is one factor that might help explain the sense of national togetherness. But there is another: business. "The business of Switzerland is business," says one Swiss journalist. "The main job of the federal government is to coordinate the framework that allows business to operate. Ruthlessly if necessary." The crucial beneficiaries of this are the banks, big pharma, Nestlé and a few arms dealers. And while there is free movement for people, unwelcome business competitors get a "cool reception". Their home-grown supermarkets, Migros and Coop, dominate the high streets, and Aldi and Lidl find it hard to get a look-in. Amazon has no foothold in Switzerland, and it is complicated and pricey to get its packages from abroad.

Not all have admired the result. The Swiss are "not a people so much as a neat, clean, solvent business", said William Faulkner. Jonathan Raban was less admiring: "A whole country of phobic hand washers living in a giant Barclays Bank."

"And yet. You can argue whether this is the world's most beautiful country, but it is surely the least ugly. Houses on mountainsides are usually repulsive; Swiss chalets look as though they were carefully placed by God. Even the politics has a rare beauty about it… There's nowhere else like it."

Incentives can save the Earth

theguardian.com/commentisfree

A new film, *Paved Paradise*, tells the story of the "most remarkable ecological turnaround on Earth", says George Monbiot: the transformation of Costa Rica. The change was catalysed by Alvaro Umaña, the environment minister in Óscar Arias's government from 1986 to 1990. Before then, Costa Rica had one of the world's worst deforestation rates. Today, forests cover 57% of the land, close to the maximum possible. How was this achieved? Incentives were key. Cattle ranching was unproductive, but marginally more lucrative than allowing the forest to stand. So Umaña offered small farmers $64 a year, the amount his department had calculated as the opportunity cost of foregoing a cow. The smallest landholders were offered grants; larger ones were offered soft loans. The result was that 97% of those who received loans protected or restored the trees on their land. When the scheme needed more money, Costa Rica arranged "debt for nature" swaps – its foreign debt was cancelled on the condition that the money saved was spent on conservation. A tax on fossil fuels and a boom in ecotourism further filled the coffers. But the main lesson Costa Rica offers the rich world is that something can be done to protect the natural world. Political will and quality of government is what makes all the difference.

The planet's karmic revenge

nytimes.com

In the 1950s, as mass-produced plastic came to dominate material culture in the West, French philosopher Roland Barthes predicted that this "magical stuff" would replace all others, even perhaps life itself, says Mark O'Connell. His nightmareish vision is becoming a reality. Modern life is all but unthinkable without it, but its "virtually immortal" nature means it is now showing up in our bodies too. A 2019 study claimed that we may be consuming as much as a credit-card's worth every week. Micro- and nanoplastics – tiny shards of plastic pollution that are now ominpresent in the environment – are in the air we breathe, the water we drink, the fish we eat, even in mothers' breast milk.

There's no escaping the stuff

©Getty Images

Should we be worried? Perhaps. We already know it causes harm to fish, reducing fertility and altering behaviour. Seabirds too are ailing because of it. But even if it turns out that it's nothing much to worry about, the psychological impact would remain. It feels "apocalyptic", like some kind of "sly and poetically appropriate divine vengeance" that the fate of humanity is to "achieve final communion with our own garbage".

The workers have no party

compactmag.com

Both the main parties in the US have abandoned the workers, says Batya Ungar-Sargon. Democrats, historically the party of labour, are now a coalition of the dependent poor and college-educated progressives. Democrats claim workers abandoned them because they are "hypnotised" by culture-war fear-mongering from the right. But cultural and economic issues are more tightly connected than Democrats like to think. Marriage, for example, is seen as a conservative issue, but married people earn more, by as much as 30%. Being raised in a single-parent household is the number-one predictor for downward mobility for children.

The Republicans, meanwhile, once the party of CEOs and country clubs, now has a voter base made up of workers without a higher education. But the party has little idea what it can deliver for them. Behind the scenes, the donor class is quietly seducing Republicans away from their voters, leading them to denounce trade unions, for example – the best route for workers into political life. Workers feel that neither party represents them. They're right.

Going off-piste with a guide

The MIGO Opportunities Trust invests in other funds dabbling in specialist and often illiquid areas

Max King
Investment columnist

The news that Nick Greenwood, manager of the £80m **MIGO Opportunities Trust (LSE: MIGO)**, would be leaving its management company, Premier Miton, was unwelcome for shareholders but should not have been a surprise. His co-manager, Charlotte Cuthbertson, left abruptly last November without explanation and now works at Tyndall.

MIGO buys investment trusts at a large discount to their intrinsic value. These trusts invest in listed equities but also private equity, commodities, property and debt. This is a risky area; some of the trusts are bargains offering compound returns through both strong underlying performance and narrowing discounts, but others will prove to be lame ducks, justifying the high discount.

The trust's performance over three years, 41%, is good for one well diversified between different asset classes and thus offering less risk overall, but the past year has been difficult (-2%) and the five-year record of 19% is disappointing.

However, there is a very good explanation for this. The discount to net asset value (NAV) at which the investment-trust sector trades has widened in the past year from negligible levels to 16%, constituting a substantial headwind for MIGO to battle against.

Vietnam, a promising market out of favour with investors, is in the portfolio

©Getty Images

In addition, all sub-sectors have suffered in underlying performance terms, so the trust has, in fact, done well to preserve value. From here, high discounts and the prospect of better underlying performance should steer the trust towards much better times.

So why have the managers left? The fact that MIGO's independent directors have terminated Premier Miton's management contract and invited tenders from other management companies, albeit allowing Premier Miton to compete in the process, gives a valuable clue. Neither they nor those that know the trust can doubt the commitment of Greenwood and Cuthbertson to both the trust and to a segment of the market in which they have deep and expert knowledge.

What is likely is that the managers have fallen badly out of favour with their employer. The relationship between investment and corporate managers can be a fraught one; corporate management often resent the relationship between fund managers and their investors and, in particular, the role played by independent directors of investment companies.

A different set of rules

For investors, these independent directors are a key attraction of investment trusts but corporate management, keen on maximising profits, can see them as a pain in the neck. Perhaps Premier Miton just didn't understand that a trust investing in specialist and often illiquid investment trusts could not be managed according to the same rules as an open-ended fund investing in larger firms. Premier Miton's chance of keeping the contract without the required in-house expertise looks slim. The directors are more likely to move the trust to another management company on the understanding that Greenwood and Cuthbertson would settle there.

Why should investors care about the future of a relatively small trust? Not only does MIGO's portfolio offer the prospect of excellent returns, but those who invest in it can more easily resist the temptation to buy off-piste funds themselves. Most investors have limited time to spend on their investments and should focus on more mainstream propositions, using MIGO to cover this awkward, risky and time-consuming area of the market.

Forty holdings account for 83% of the portfolio, while cash awaiting investment accounts for the rest. Larger holdings include Georgia Capital, which has benefited from the phenomenal performance of Bank of Georgia, on a 55% discount to NAV. Phoenix Spree Deutschland (Berlin residential property) trades on a 48% discount. Out-of-favour areas such as biotechnology, private equity, Japan and Vietnam are also represented. It is tempting to wait for the dust to settle, but the opportunity to buy MIGO at a discount to NAV that is itself on a large discount to the NAV of funds investing in undervalued areas of the market is now. Trust the directors to make the right decision.

Activist watch

Carl Icahn made his reputation as a corporate raider in the 1980s and has "made a career out of starting corporate brawls", says Bloomberg. This week renowned short-seller Nathan Anderson's investment group Hindenburg Research wiped a quarter off the value of Icahn Enterprises by shorting the shares. It claimed that the company is vastly overvalued on a premium of more than 200% to its net asset value. It also raised questions about Icahn Enterprises' dividend, which is mostly paid in the form of newly issued shares. "Icahn has been using money taken in from new investors to pay out dividends to old investors," says Hindenburg's report, calling it a "Ponzi-like" set-up that is unsustainable.

Short positions... best steer clear of best-buy lists

■ **Treat investment platforms' best-buy lists with caution, says David Brenchley in The Times. The newspaper crunched the numbers with investment group SCM Direct, assessing the performance of the lists at Hargreaves Lansdown, Fidelity International, Interactive Investor and Bestinvest since January 2019. Only 8.8% of the recommended funds finished in the top 10% of their sector, and 22.7% were in the bottom quintile. Just over half of the funds were ranked in the bottom 50% of their category. The lists also had a high churn rate, which appears inconsistent with platforms' advice that investors should hold funds for the long term (at least five years). Moreover, the process whereby platforms choose best-buy funds can be opaque and differs from provider to provider. SCM Direct's Alan Miller notes that the latest data matches other studies with "scant evidence of above-average fund selection... it is amazing that the regulator continues to allow these lists".**

■ "Chumocracy is a scourge of the listed business world," says Oliver Shah in The Sunday Times. The latest example is Jupiter Fund Management. The shares have dwindled from more than 600p in 2017 to 129p today, a trend the "overly cosy" board has been unable to arrest. Last June Andrew Formica, who ran Janus Henderson until 2018, resigned as CEO. He had been hired by an independent director who also used to run Henderson. Formica was replaced by Matthew Beesley, a former head of global equities at, "err, Henderson". A recent opportunity to bring in a fresh perspective was squandered when chair Nichola Pease left last week. Insider David Cruickshank got the position instead. It is past time for a "proper shake-up".

After the tumble: the top tips in technology

Last year was a dismal one for the tech sector's equities, owing to dearer money and dwindling confidence following the SVB debacle. Philip Pilkington reviews the past few decades and assesses the outlook

The information technology (IT) sector has changed a great deal over the decades. When we think about the 1970s today, we think of old computer games like *Pong*, while today the sector is associated with smartphones. Yet these popular perceptions do not match the performances of IT stocks over the decades.

The best performer of the 1970s was Avnet, which clocked in a 190% return over the decade – pretty meagre by today's standards. Many would find it hard to identify Avnet or what the company does today, but it is a distributor of electrical components with a storied history going back to the early 1920s. In the 1970s, Avnet partnered with the now better known Intel to supply computer peripherals and software.

The second-best performing tech stock of the decade was Hewlett-Packard (HP), a much more recognisable household name. HP produced a return of just over 167% over the decade. The company was supplying what were then called computers, but what today would be more recognisable as advanced calculators and advanced products for scientific research. HP was so focused on business and scientific products in the 1970s that when Apple co-founder Steve Wozniak offered them the results of his research on the Apple I personal computer, they turned him down five times, prompting him to start his own company with Steve Jobs.

A lot changed in the 1980s, both in terms of technology and stock returns. It is the 1980s that many of us associate with the emergence of the computer as we now know it; but this is not reflected in the market. The best returning tech stock of the 1980s was Badger Meter, with a whopping return of around 4,020% over the course of the decade. But Badger Meter was not a typical tech company in the sense that we think of one today. It was a pioneer in devices that measured water quality and flow.

Autodesk and Oracle dominated the 1980s

The second and third-best performers of the 1980s are more familiar to modern eyes: Autodesk and Oracle respectively. Both are, of course, leading software companies. Autodesk catered to industrial design companies, providing them with software to model products, architecture and engineering work. Oracle, as it does to this day, provided extensive database management. Oracle and Autodesk's success in the 1980s paved the way for the integrated world of computation and tech that we see today.

In the 1990s, the industry matured, and the stock returns went gangbusters. Yet the names we see amongst the top performers of the decade are still somewhat surprising. In first place is Steel Connect, the supply-chain management company, with an eye-watering return of 87,633%.

These returns were almost completely reversed after the dotcom bubble burst, with the stock falling 99% – but not before the company bought the naming rights to the newly built stadium of the popular American football team the New England Patriots. Steel Connect's decline is a reminder that during a technology bubble even those companies in a solid, unsexy business could get caught up in the madness. The runner up during the booming 1990s was Cisco Systems. Today Cisco is known as a sprawling conglomerate that does it all, from manufacturing networking hardware to developing software. Cisco's success in the 1990s was closely associated with the rise of the internet and specifically the widespread adoption of the internet protocol (IP) communications system.

"Apple does not appear among the 25 best-performing tech stocks of the 1990s"

Cisco went on to become, in 2000, the most valuable company in the world before crashing back down to earth as the dotcom bubble popped. Once again, this highlights that it was not just fanciful businesses like the infamous Pets.com that rode the ups and downs of the bubble. Interestingly, we must reach far down the list to see many of today's top performers. With a return of 9,370% Microsoft was only the seventh-best performing tech stock in the 1990s. Apple does not even appear in the top 25.

While the 2000s saw the emergence of many of the companies that shape our world today, the top performers, once again, surprise. Ansys tops the list with a return of nearly 1,500%. Ansys develops and markets complex engineering software. It has continued to go from strength to strength.

Today the shares are 15,000% up on their level at the beginning of the millennium. Recently, however, the company has found itself caught up in scandal, with the South China Morning Post reporting that the Chinese military used its software to design hypersonic missile technology.

There are some household names in the top ten of the 2000s, with Apple coming in at number nine and Blackberry (formerly Research in Motion) at number ten. Blackberry is another stock that teaches hard lessons to tech investors. In 2008, Blackberry's stock peaked at around $145. But it soon crashed by over 95% and has never since recovered.

Yet Blackberry was no simple bubble. At the peak of its success, it dominated the business phone market. No serious businessman would have been caught dead in the mid-2000s without a Blackberry, with its full Qwerty keyboard and email access. But with the release of the iPhone 1 in 2007, Blackberry's fate was sealed. When investing in tech it is not hard to get caught out by companies that are the toast of the town, until another one comes along and blows it out of the water with the latest innovation.

Today's Big Tech: the Faang stocks

In early 2013 television pundit Jim Cramer had Bob Lang from TheStreet on his show *Mad Money*. Lang introduced the audience to a new acronym – Fang, comprising the top tech stocks, Facebook, Amazon, Netflix and Alphabet (then Google). Fang would later be expanded to Faang to include Apple.

The reason Lang highlighted these stocks and why markets continued to chatter about the Fangs for years afterwards is because they effectively ran the show. At the time of writing, the Fang stocks have lost much of their glow, but they still account for nearly 20% of the market capitalisation of the S&P 500. When markets

©Alamy

Pong was a popular computer game in the 1970s

were roaring in the 2010s, the Fangs led the pack. Between the start of the decade and their peaks in 2021, Amazon rallied by 1,995%, Alphabet 964%, Microsoft 1,043%, Meta (Facebook) 890%, and Netflix 6,900%. While these stocks have since fallen by between 17% and 45% from their peaks, they remain well above where they started the 2010s.

While these larger companies dominated the big indices, enthusiasm was generated for start-ups. Investors went in search of the holy grail: a small, relatively unknown start-up that would one day become a Fang. In the 2010s, venture capital poured over the markets like rain. In 2006, venture-capital investment in the US stood at about $30bn. By 2021, that number had peaked at over $345bn – an 11-fold increase. The buzz was all about tech.

Venture capital investment is a bit like running a casino. The profits come not so much from playing the wheel yourself and trying to pick winners, but rather by stacking the odds in your favour. Venture capital portfolios spread relatively small amounts of money over many investments. Many, if not most, of these investments will fail but the ones that succeed will result in profits for the investors because the return the successful company generates will be so much larger than the initial investment. A decade of data reveals that out of 4,000 venture capital investments, the top 100 generate between 70% and 100% of the overall profits.

This accounts for the frenetic activity and vibrancy that we have seen in Silicon Valley over the past 15 years. It also accounts for why, if you ever get an up-and-close look at the industry, you see many bad ideas and more than a few "fake it till you make it" types amongst the would-be entrepreneurs. Both make for great headlines and so the financial press is chock full of both winners and losers.

While the bulk of the returns on Wall Street were generated by Big Tech, the market buzz of the 2010s and early-2020s was driven by Silicon Valley. The two trends were symbiotic. The innovation sector fed the narrative of the tech boom and occasionally contributed a new Big Tech player to the stockmarket, while the Big Tech players provided sufficient size to push the stockmarket ever higher. That is, until recently.

Decline and fall

In the autumn of 2021, the Nasdaq index peaked at 15,971. It had been quite a ride. From the start of the present cycle in 2009, the index had rallied by 980% – annual returns of nearly 22%. But in the autumn of 2021, the Nasdaq started its decline. Today the index stands around 26% lower than it did that autumn, meaning that annual returns since 2009 have fallen from around 22% to 16%. This is still a robust return, provided, of course, the index does not fall any further.

While it is hard to attribute a specific cause to market declines of this kind, it is notable that in the autumn of 2021 inflation had started to pick up. When the Nasdaq peaked in November it had reached 6.8% in the US, far higher than the 1.2% seen the same month the year before. Throughout the year, both investors and central banks had been engaged in inflation denialism, telling

Continued on page 24

"Venture-capital investment is like running a casino: it helps to stack the odds in your favour"

Continued from page 23

themselves that the price rises were just transitory and would soon settle down. By late 2021, the transitory narrative was no longer credible and so investors prepared for central bank rate hikes to try to control the inflation. Dearer money lowers the present value of future earnings, so down went the Nasdaq.

But this was only the beginning of tech's troubles. The repricing of the Nasdaq and Big Tech was a case of markets looking at the new environment and revaluing the stocks. These repricings, however, did not consider that the tech industry itself might come under pressure. Yet the events of the past few weeks have shown that this is a real possibility.

In March 2023, rumours began to swirl about the viability of Silicon Valley Bank (SVB). SVB was a bank set up specifically for start-ups in 1983 and it had a good track record. The eventual collapse of SVB was unusual in many respects because, contrary to some media reports, the bank did not engage in any unusually risky practices.

SVB's portfolio was mainly invested in long-term government debt and mortgage-backed securities, both of which are considered to be safe assets. But as interest rates rose precipitously, the value of these investments fell.

SVB carried very large deposits on its balance sheet because most of their clients were start-ups who received large injections of initial investment capital that they would live off for their first few years as a business. When these depositors realised that they were not covered by deposit insurance because their balances were too large, they got spooked, pulled out their deposits and SVB collapsed.

Then something happened that may taint the tech sector for a long time: the Federal Deposit Insurance Corporation (FDIC) stepped in and bailed out SVB's depositors. FDIC insurance is only supposed to cover deposits of up to $250,000, but many of SVB's depositors were much larger. The FDIC said that it was undertaking the bailout because of "systemic risk" but, as many pointed out, SVB was in no way systemically risky – and its depositors were certainly not.

Incompetent venture capitalists

The former chair of the FDIC, Sheila Bair, wrote an article in the Financial Times after the bailout, pointing out not just that the bailout was suspect from the point of view of the FDIC's mandate, but that the SVB depositors "are a 'who's who' of leading venture capitalists and their portfolio companies. Financially sophisticated, they apparently missed those prominent disclosures on the bank's websites and teller windows that FDIC insurance is capped at $250,000." Not only were the SVB depositors connected, but they also appeared to be incompetent at financial management.

It seems likely that the tech sector will lose its sheen from the FDIC debacle. Many of the prominent members of the Silicon Valley business community portrayed themselves as libertarian rebels; innovative, independent entrepreneurs who created from scratch while the big incumbent players relied on shady connections and dubious government contracts. No more. Now Silicon Valley was a major recipient of a government bailout.

Already under pressure from contracting stockmarket valuations, the tech sector has now lost a major part of the story that makes it attractive. It is no longer an industry of scrappy entrepreneurs standing up to The Man. Rather, it is a sector of financially illiterate bunglers who, when the chips are down, go cap in hand to Uncle Sam. In March of this year, twilight started to fall over Silicon Valley.

©Alamy

In the 2000s, serious businessmen had to have a Blackberry

Salvaging winners

This is by no means the end of the tech sector. In the coming years, it seems likely that the weaker players will be shaken out and there will be less excess in the venture-capital sector. But many of the big players will remain. Put simply, Amazon and Alphabet are not going anywhere anytime soon. But because their valuations remain high, despite their decline since their peak in 2021, investing in these companies is now as much about timing as anything else.

The question potential investors should be asking themselves is whether the market carnage is over or whether it is just beginning. If you think it has ended, it might be worth dipping your toe into some of the Big Tech stocks. But if you believe it is just beginning, it is better to do your research now and hold cash to scoop up stocks on the cheap when the market declines.

The most robust targets are Amazon, Alphabet and Microsoft. Other Big Tech companies have potential problems with their business models. Meta (Facebook), for example, is not popular with younger generations and has limited scope for growth. Young people are not using Facebook but rather other platforms such as TikTok. Facebook has undertaken some clever acquisitions, like Instagram, but it has failed to innovate and so investors should be careful of getting saddled with an older incumbent player that is surrounded by competitors and unable to hold its own. Netflix has a similar problem – it does not have a solid monopoly position in the market for streaming video and so is seeing competition emerge from the likes of Amazon Prime, Disney+, YouTube TV, and others.

"Amazon, Alphabet and Microsoft have clear monopoly positions"

Amazon, Alphabet and Microsoft, on the other hand, have clear monopoly positions. Amazon dominates in online shopping and is unlikely to be challenged any time soon. Alphabet is number one in online search and competitors have made few inroads. Microsoft has a chokehold on subscriptions for business software and cloud computing. The business models of all three are robust and so investors should try to buy the stock of these companies when it looks cheap.

Microsoft's stock is down by 25% from its peak, Alphabet's 43% and Amazon 79%. While these may seem like huge declines, they are simply back at pre-pandemic levels. During the lockdown these stocks went gangbusters as people started to believe that life had changed forever and would be lived online.

As things got back to normal, shares sold off. None of these stocks are vastly overpriced and if you think that the pain for the tech sector is now in the past, all three are robust investments. If, however, you think there is more negative action on the horizon, hold on to your cash and get ready to pounce when the time is right.

The world's best market

Japan puts Western economies to shame and offers good value for both equity and bond investors, says Max King

When, in 2011, I last came to Japan, the Nikkei 225 index was at the bottom of a long bear market, having fallen by 75% in 22 years. Periodic rallies had not been sustained as, it was commonly agreed, most Japanese companies were not run for profit. Protected from shareholders and predators by cross-holdings, boards focused on themselves and staff loyalty.

Government bonds yielded just 1.25%, the lowest in the world, which seemed absurdly overvalued given Japan's high government debt relative to the size of the economy. Many had sold bonds short in the expectation of higher yields but this trade became known as "the widowmaker" as it had persistently failed.

The yen was trading at 120 to the pound, making Japan seem expensive, and the economy had stagnated for 20 years. Japan had to change, everyone thought, and become more like the West rather than languishing in outdated social, political and economic structures.

It didn't take long to realise how wrong this view was. The Japanese economy expanded slowly because the population was falling, so growth in GDP per capita was competitive with other Organisation for Economic Co-operation and Development (OECD) countries. Low population growth was partly the result of negligible immigration but Japan's reluctance to open its doors will have attracted the envy of countries, such as the UK, suffering housing shortages.

An almost total absence of crime meant low expenditure on law enforcement and security while the number of lawyers, just one tenth in relation to population compared with the UK, suggests a lot less waste of resources in litigation, regulation and compliance. Japan, it seemed, had never closed a railway line, which resulted in superb public transport. Needless to say, the railways are privately run.

The service sector was regarded in the West as absurdly overstaffed, disguising unemployment, but what that meant was outstanding service. Japan's vast cities were possible because neighbourhoods were self-contained, with residents not needing to drive out to hypermarkets and retail parks. Far from Japan moving to the Western layout, the reverse is taking place.

A culture of zero inflation

Most important of all was the culture of zero inflation. Prices for the same goods were the same almost everywhere and didn't change. It didn't occur to businesses to raise prices. If they had, customers would have walked away.

I came back to the UK thinking that Japanese bonds, far from being overpriced, were good value given zero inflation, and so it proved; the Japanese economy was no basket case and, as its companies evolved, equities would perform strongly over the long term.

Twelve years on, the numbers have changed. The Nikkei 225 index stands at 27,500, up from 10,000 12 years ago and yields 2%. The yen has fallen to 167 to sterling, limiting the equity gains for UK investors, but now looks far too cheap. Japan is now an inexpensive country to visit, while living according to Western habits and tastes has gone from expensive to reasonable, and living as the Japanese do has gone from reasonable to cheap.

"The Nikkei 225 index has risen from 10,000 to 27,500 in 12 years"

Annual inflation is no longer zero but, on the latest numbers, just 3.3%. This is the result of higher energy costs but the reopening of Japan's nuclear reactors, closed in 2011, will reduce its dependence on imported energy. Ten out of 33 have reopened and another 16 are awaiting approval. The culture of zero inflation hasn't changed. With little immigration, property prices are low and renting is eminently affordable.

Public transport is always bang on time

©Getty Images

The number of tourists is now a multiple of the number 12 years ago and the country is much more international, and thus easier to navigate. This must have fostered significant growth in the small businesses that service this change and technology has affected the economy as much as anywhere else – notably in cashless payments. Growth is therefore very visible.

Petrol costs just £1 a litre and there are very few electric vehicles. On the other hand, there are few big fat cars and a vast number of compacts, most of them hybrids. Overall, Japan has probably been more successful at reducing hydrocarbon consumption in road vehicles than the UK.

Everything works. Public transport is always bang on time, there are public conveniences everywhere (even at the top of a mountain I climbed), vending machines for drinks are ubiquitous and assistance for travellers is always at hand. Courtesy is deeply ingrained in the Japanese culture.

Perhaps most importantly, Japan appears at peace with itself. Change happens slowly but the direction of travel is one way. This must be a godsend for businesses and citizens, making planning for the future simple. It is a crowded but immaculate and beautiful country.

For those keener to invest than to visit, the prospect is equally attractive. With the yen so cheap, currency appreciation is likely to add to returns, rather than lower them, as it has for the last 12 years. The stockmarket trades on about 12 times prospective earnings, more expensive than the structurally and politically challenged UK market but considerably cheaper than the US. Moreover, companies are much more focused on profits. Thirty-year government bonds yield 1.35% but ten-year yields, negative three years ago, are still under 0.5%. Don't be so sure that this is unattractive compared with 3.5% on ten-year US Treasuries or 3.8% on UK gilts; the big return should come from long-term currency appreciation.

Investment in Japan will never again be as exciting as it was in the 1980s, when for a time it constituted around half of global indices. But for steady long-term returns it is probably the most attractive of all developed markets across all asset classes.

What should we do about greedflation?

Companies' price hikes have been driving inflation. But the trend is ending now, says Merryn Somerset Webb

You can call it greedflation. You can call it price-gouging. You can be polite and call it profit-led inflation, middleman inflation, excuse-flation or sellers' inflation. But whatever you call it, it is back. And that is not a good thing. Societe Generale's Albert Edwards is, he says, shocked. In his four-decade career he has never seen anything quite like the "astonishing" extent to which companies are indulging in what he calls greedflation (Edwards has no need to be polite). So what is it and what makes today's bout of it so astonishing? Normal inflation is a function of rising (or stable) demand, and sharply shrinking supply. An imbalance. The former is the type we saw in early 2020, as everyone rushed out to buy large lockdown TVs. The latter kicked in later that year as the lockdown destroyed supply chains.

Greedflation is different. It happens when demand is stable but there is a story of some kind in the public domain that makes your customers believe an outsized price rise is necessary. A story such as, say, a war in Ukraine, a pandemic wiping out the world's chickens or a scary semi-conductor shortage. Get a good one and you can pass on a legitimate cost increase but also bung a few extra percentage points on top. The extra gets caught up in the story, bamboozled consumers pay up and profits bounce. Here's a US bakery owner explaining it to Bloomberg: "Whether it's rye flour, or bird flu that impacts eggs, when it makes national news... it's an opportunity to increase the prices without getting a whole bunch of complaining from the customers." Bonuses all round.

In normal circumstances this wouldn't last. Capitalism is generally self-correcting – competitors slash prices to take market share, and margins (and inflation) fall back. Look back as long as we have records, says Edwards, and you can see that profit margins have always been mean-reverting. This time, however, the mechanism seems a bit clogged up. More than half of EU inflation is now a direct result of profit growth. There is evidence of the same in the US.

Earlier this year Isabella Weber and Evan Wasner of the University of Massachusetts had a good look at the data in a paper called *Sellers' Inflation, Profits and Conflict: Why Can Large Firms Hike Prices in an Emergency?* In it they note that the "overlapping emergencies" and the reporting of those emergencies in the last few years have handed a fabulous gouging opportunity to retailers, legitimising price rises and "creating acceptance" on the part of consumers. "This renders demand less elastic," something that gives companies cover to all raise prices together – something they can't usually do.

The result? US corporate profit margins hit a record 13.5% in the second quarter of 2021, even as oil, gas, freight and food prices fell back. The share of the economy taken up by corporate profits is now higher than at any time since 1929. This, then, is "predominantly a sellers' inflation that derives from the ability of firms with market power to hike prices". The same dynamic is on the go in Canada, where grocery store prices are reaching record highs but farmers are seeing little, if any, of that price growth

"US corporate profit margins hit a record in mid-2021, even as oil, gas and food prices fell back"

Tesco recently trimmed the price of a pint of milk by 5p

(the National Farmers Union says retail prices have completely "decoupled" from food input prices). It is the same story in the UK, where food inflation is nearly 20%.

The best thing to do is nothing

So what is to be done? Politicians have ideas: there is nothing they like more than an opportunity to place the blame for tricky things on companies. Liberal Democrat leader Ed Davey wants the government to assess whether retailers have been "profiteering" in the cost-of-living crisis, and you will have heard many mentions of price controls. Even Edwards, generally a pretty red-in-tooth-and-claw capitalist, thinks that there could now be a case for price controls (even though they have never worked) because "something seems to have broken with capitalism". We are not so sure. Consumers might have been tolerant so far. But there is reason to think they won't be much longer.

Firstly, if consumers can't pay, they won't pay, and the fiscal buffers most people built up in the pandemic are now fast disappearing – just as rate rises start to be felt in mortgage rates and the effects of negative real wage growth are sinking in. The people who feel forced to strike for higher wages are not also going to be the people who give the corporate world a long-term free pass. Secondly, companies need to have an eye to their brands. Brand damage is very easy to cause and very hard to fix (yes, looking at you, Nike). Bolstering margins worked just fine when greedflation was only discussed in the odd broker's note. It doesn't work so well when it has its own hashtag on Twitter, consumers' resentment is growing and politicians are looking for scapegoats.

Finally the world's CEOs, while greedy, are not necessarily also stupid: they will have read the same mutterings about price controls we have, and they will know they need to stop the conversation in its tracks: doing so might cost them a few points of margin in the short term to do so but it will save them a lot more long term. The concerned might note that Tesco recently made a noise about cutting the price of four pints of milk by 10p and the cost of a pint by 5p. Sainsbury's immediately followed suit. We live in a something-must-be-done world. But the best thing to do about greedflation (for now) is absolutely nothing.

©Alamy

Margot had hoped to inherit the entire family art collection.

Wouldn't you prefer to know how to look after your most valuable assets?

Oury Clark, Straight Talking Financial Advice Since 1935.

Find us at **www.ouryclark.com/margot**

The value of your investment can go down as well as up and you may not get back the full amount you invested. Oury Clark is subject to the UK regulatory regime, this advert is therefore targeted at consumers based in the UK.

Building the hydrogen economy

The gas will play a key part in the transition to renewable energy. Bruce Packard reviews investors' risky options

What do Roman Abramovich, Jim Ratcliffe and Peter Hargreaves have in common? You might be thinking of trophy assets like super-yachts or football clubs, but all three have been early backers of the hydrogen economy. The gas has been used for decades in industrial processes such as oil refining and ammonia production – to create fertiliser in agriculture, for instance. However, hydrogen does not occur naturally, except in stars; we can't dig hydrogen out of the ground and burn it like natural gas. So more than 90% of the 70 million tonnes of the world's current annual hydrogen production comes from burning fossil fuels.

The attraction of hydrogen is that electrolysers can split water molecules into hydrogen and oxygen. The gas can then be stored and converted to power via a fuel cell; the only waste product is water. Think of hydrogen not as an energy source, but as an energy carrier, like electricity. Elon Musk is not a fan, suggesting that it is "the most dumb thing I could possibly imagine for energy storage", but governments and corporations have identified hydrogen as capable of delivering a shift from burning fossil fuels to renewable energy.

The gas is light and has much lower volumetric energy density than liquefied natural gas (LNG): it takes up a relatively large volume for a given amount of energy stored. It also freezes at a lower temperature, -253 degrees Celsius, compared with -162 for LNG. The upshot is that when producing hydrogen, transporting it, and converting it back to electricity via a fuel cell, the delivered energy can fall below 30% of the initial input, according to the International Energy Agency (IEA). As a result, most hydrogen is produced close to its end use.

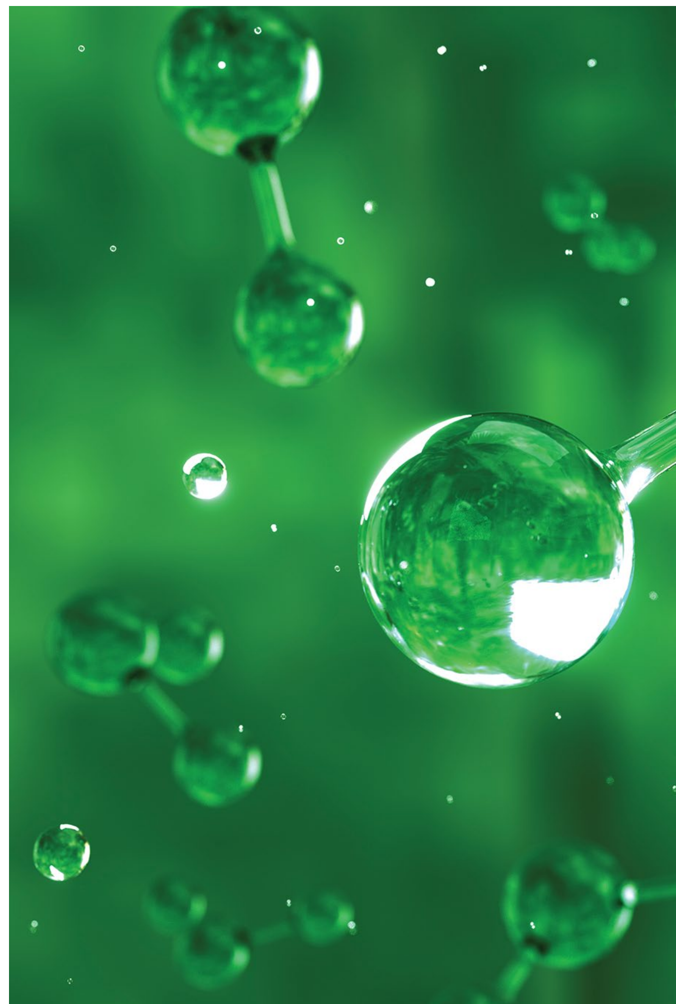
Unlike with software, the investment required in tangible assets, such as storage tanks, refuelling infrastructure, and pipes will be vast. At the start of 2021 there were over 228 announced hydrogen projects with a capital cost of $300bn. In the past 12 months the US has announced $370bn worth of funding for clean energy, of which $9bn which will be for regional hydrogen hubs. There will be no hydrogen businesses founded in a garage in Silicon Valley.

Blue, green, turquoise and pink varieties

Despite being a colourless gas, the source of the hydrogen determines a whole colour spectrum: renewable solar or wind power (green); natural gas (blue and turquoise); grey, black and brown (fossil fuels without carbon capture); and pink (nuclear) all refer to how the gas is produced. Blue hydrogen uses natural gas but stores the greenhouse gases geologically, whereas turquoise hydrogen also requires natural gas, but is a different process with a solid carbon by-product, making it easier to capture. Today roughly 95% of industrial hydrogen production is grey, using techniques such as steam-methane reforming.

Established fossil-fuel companies like Shell, which operates a blue hydrogen project in Alberta, or Spanish utility Iberdrola, which is developing a green hydrogen plant with 100 megawatts (MW) of solar panels, are likely to be a major source of funding. In the UK, Cadent, backed by Australian investment bank Macquarie, plans to trial "hydrogen villages" in Whitby and Redcar, using hydrogen to heat 2,000 residents' homes. Cadent will convert homes and install hydrogen appliances, then transport hydrogen by pipeline, with a natural-gas pipeline for households that opt out.

"The sector has historically traded like a speculative asset, such as a cryptocurrency"



Hydrogen does not occur naturally, except in stars

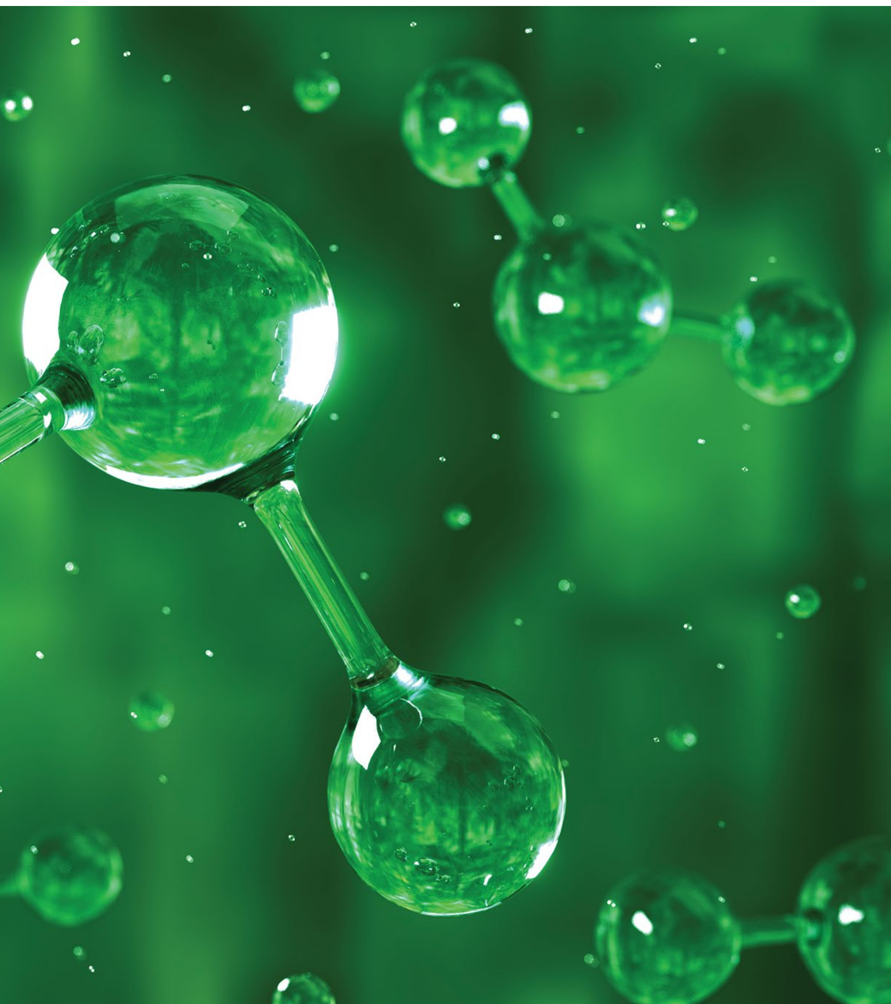
There are also competing electrolysers and fuel cells – some electric cars use hydrogen fuel cells. Aim-listed ITM Power makes electrolysers using proton exchange membranes (PEM). A drawback of PEMs is that they require precious metals such as platinum, but competitor AFC Energy has an alkaline fuel cell, using nickel in its electrodes rather than platinum, while Ceres Power Holdings, another hydrogen company, uses solid-oxide technology. Clean Power Hydrogen has developed a membrane-free electrolyser from easily available or recyclable materials.

Historically, the hydrogen sector has traded like a speculative asset such as a cryptocurrency. It recorded impressive returns in the liquidity-driven rally of 2020-2021, but sold off in 2022, even as investors worried about energy security after Putin's invasion of Ukraine.

A fund offering diversified access

Ceres, AFC Energy and ITM Power have been on Aim for more than a decade. More recently they have been joined by Atome Energy, Clean Power Hydrogen, Hydrogen Utopia and the investment vehicle HydrogenOne Capital Growth, backed by Ratcliffe. A month ago, Melrose, the industrial manufacturing business, demerged its automotive, powder metallurgy and hydrogen-storage operations into a separately listed entity, Dowlais. HydrogenOne and Dowlais have a premium listing on the main market of the London Stock Exchange, rather than Aim.

HydrogenOne Capital Growth (**LSE: HGEN**) is an investment vehicle containing hydrogen-focused assets


©Getty Images

across the world. It listed in 2021 and since then has invested more than £100m in hydrogen assets, and £18m of cash as of the end of December last year. More than 82% of the fund's assets are unlisted, while 3% comprise listed companies such as ITM Power and AFC Energy, covered below.

The group has been hit by the broad sell-off and now trades at a discount of about 50% of its December 2022 net asset value (NAV). As a fund, HydrogenOne is the most diversified way of investing in the sector. It may make more sense than concentrated investments in the fuel-cell or electrolyser companies below, where a clear winner has yet to emerge.

AFC Energy (Aim: AFC) is a "flex fuel cell" manufacturer of alkaline fuel cells, which uses nickel in its electrodes. There are competing methods of making hydrogen fuel cells, and AFC's alkaline fuel cells have much cheaper components than the proton exchange membrane (PEM) fuel cells that ITM Power (see below) makes. The downside is that its alkaline technology is less energy-efficient.

Recently AFC announced a successful field trial of its first prototype methanol fuel tower with Acciona, an engineering company listed in Spain. The company reported revenues of £2m in the year to 31 October 2022, and this is forecast by brokers to rise to £11m this year and then jump to £140m two years later, when the company is expected to break even. There are no institutional investors on the shareholder list, with the exception of Ervington Investments, which has connections to Roman Abramovich.

Atome Energy (Aim: ATOM) is a green hydrogen company with projects in Paraguay and Iceland. The projects are in such far-flung places because their fuel-cell technology operates more effectively with a continuous power source, so electrolysis using solar and wind power are less suitable. Iceland has an abundance of hydroelectric and geothermal energy, and Paraguay has hydro. Atome doesn't make its own electrolysers, but is buying membrane-free electrolysers from Clean Power Hydrogen, which listed on Aim in early 2022. Powerhouse Energy and Hydrogen Utopia have a similar business model to Atome, except they hope to use waste rather than hydro or geothermal energy to produce hydrogen.

"Some hedge funds are pessimistic: ITM Power is one of the most shorted stocks in London"

Atome is a spin-out from Aim-listed President Energy, which was involved in largely unsuccessful oil and gas exploration in Argentina. President, which has now changed its name to Molecular Energies, still holds a 25% stake. Peter Levine, Atome's chairman, who made his first fortune investing in Siberian oilfields, holds a further 23% of Atome shares.

FinnCap, Atome's joint broker, believes that the hydrogen company will need to allocate $660m to capital expenditure over the next five years, with a combination of debt and equity. That compares with a current market value of £35m, so management will need to convince investors of the viability of their projects in order to raise large sums.

A play on fuel cells and electrolysers

Ceres Power (Aim: CWR) has been listed since 2004 and makes solid oxide fuel cells and electrolysers. Its fuel-cell commercialisation is more advanced than its electrolyser, but it believes solid-oxide technology's high efficiency gives it an advantage over PEM and alkaline approaches.

Ceres' expertise lies in solid-oxide electrochemistry, but in terms of industrial scale mass-manufacturing it has partnerships with much larger companies. So the group has an asset-light, licensing model partnering with established companies including Weichai in China, Bosch in Germany, and Shell.

Revenues are forecast to more than double to over £50m in 2023, though the firm is still expected to make a loss for the next three years. Having raised £180m in 2021 it still has significant cash, so those forecast losses are manageable. After two decades of losses, investors will at some stage want to see that the promising technology can make a profit.

ITM Power (Aim: ITM) makes proton exchange membrane (PEM) electrolysers for grid balancing, energy storage and hydrogen production at Bessmer Park, Sheffield. ITM had net cash of £318m at the end of October 2022, having raised £250m of equity in 2021. Peter Hargreaves of Hargreaves Lansdown fame is a major shareholder, but ITM also has the backing of industry players such as Linde, one of the world's largest gas suppliers, which has invested £38m, and £30m from Snam, an Italian energy infrastructure company.

In October 2021, ITM and Linde announced the deployment of a 100MW electrolyser at Shell's Rhineland refinery, and they have signed two more 100MW deals with Linde for a site in Lingen, Germany. Sales are forecast to grow to £67m in the year to 30 April 2025, though the company is still expected to be heavily loss-making. However, its most recent set of results in January showed sales halving to £2m in the six months to 31 October 2022.

Following this disappointment Graham Cooley, CEO for 13 years, was replaced by Dennis Schulz, previously of Linde. The move follows several delays, blamed on supply-chain difficulties and rising costs, which have also seen the share price fall by 90% in two years. Even if sales do jump to £67m by April 2025, the market value of £460m reflects considerable optimism over the business model. Some hedge funds have taken a more pessimistic view: ITM Power is one of the most shorted stocks in London.

The great railway rigmarole

Railcards can save you money on trains – if you can work out which to buy

Cris Sholto Heaton
Investment columnist

Even by the dysfunctional standards of British train fares, railcards – which are supposed to get you cheaper tickets – stand out. National Rail (railcard.co.uk) says it sells nine main railcards. That seems mad by itself: how many ways do we need to get a discount? Yet once you include all those that only give discounts in some regions, the total rises to around 30.

Lack of space means we'll ignore most of those and just look at the nine major ones, plus the Gold Card that comes with some season tickets (see right). Unless otherwise stated, all cost £30 per year (some also have three-year deals for £70) and give one-third off fares. Several also give useful discounts on London Underground fares (see right again).

First, there are three aimed at young people: the 16-17 Saver, the 16-25 Railcard and the 26-30 Railcard. These are valid nationwide and are mostly sensible in their terms. The 16-17 is the most generous, with 50% off. The 16-25 and 26-30 give one-third off, but are subject to a minimum £12 fare in morning peak hours, so don't use them when booking short trips. Mature students (15-plus hours per week) can get a 16-25 card, regardless of their actual age.

Next, there are three nationwide cards for specific groups of users. These are the Senior Railcard (for over 60s), the Disabled Persons Railcard (which costs a reduced £20, or £54 for three years) and the Veterans Railcard (anybody who's served in the UK armed forces).

The Senior card only gives a discount for one person, but the Disabled card covers two people and the Veterans card covers the holder, a named companion and up to four children. The Disabled card is valid at any time. The Veterans one has a £12 minimum fee during peak times. The Senior one cannot be used in peak times within the Network Railcard area (see below).

If this already sounds confusing, the last three are where logic seems to break down entirely.

Pick a card, any card…

©Getty Images

Take the so-called Network Railcard, which you'd assume from the name gets you a discount across the whole network. Of course not: it only covers London and the South-East. From Monday to Friday, it can only be used off-peak and there's a £13 minimum fare (weekends are unrestricted). You can use the card to buy tickets for up to three companions travelling with you.

The Two Together Railcard is issued to two named people who must travel together, which seems less than ideal for balancing demand when trains are often full. It works nationwide, but from Monday to Friday it's only valid off-peak.

Finally, there's the Family & Friends Railcard, with a third off for two named adults and 60% off for up to four children aged 5-15. Again, it is not valid in Monday-Friday peak time in the Network Railcard area. Only one adult has to travel, but there must be at least one child with them. Children under five normally travel free on trains – but if the only child in your group is under five, you'll need to buy a child ticket to use this railcard. Hats off to the bureaucrat who came up with that gloriously petty restriction.

Gold Cards and Tube discounts

If you buy an annual season ticket in the south of England or an annual travelcard on the London Underground, it often comes with a Gold Card. This is essentially a better version of the Network Railcard: it covers almost all the Network Railcard area plus East Anglia and the West Midlands; is valid after 9.30am Monday-Friday with no minimum fare; and gives one-third off for up to four adults plus 60% off for up to four children aged 5-15. It also lets you buy another one-year railcard (16-25, Family & Friends, Senior, Two Together, Disabled Persons or Network Railcard) for just £10, either for you or another person, subject to eligibility.

Most railcards allow you to get a one-third discount on off-peak day travelcards for the Underground, but the Gold Card and some railcards (16-25, 26-30, Disabled and Veterans) also give you one-third off pay as you go (PAYG) off-peak fares on the Underground and London railway stations when using an Oyster smartcard. The discount applies both to individual trips and the daily off-peak cap, including any additional PAYG fares that an Underground travelcard holder pays when travelling outside their travelcard zone.

To get the lower PAYG rate, you need to set a discount on your Oyster, which can be done by staff at Underground stations. Annoyingly, this needs to be redone each time you renew your ticket – but few users ever set it in the first place. In 2019, there were 140,000 annual travelcards on Oyster, of which 123,000 did not have the discount set.

Pocket money... two more tips to cut train costs

● It's not just railcards that are needlessly hard to understand – the entire booking system is poorly understood. There's no other explanation for why so many people pay fees to book tickets through sites such as Trainline when you can get tickets for any train company fee-free via any of the other train companies, not just the one you are travelling on.

Many of these firms have well-designed websites and apps, such as LNER and GWR. Some run regular cashback offers through various credit cards: LNER's current offers range from 12% on some American Express cards to 5% on cards from multiple other banks such as Lloyds, Halifax and Barclaycard. Cashback offers are time limited, but some train firms let you buy vouchers that can be used to pay for tickets at a later date – a potentially useful way to lock in a discount even if you can't book the ticket before your credit-card offer expires.

A handful of train operators also offer some form of loyalty scheme. For example, LNER gives 2% credit on bookings for its own trains, while bookings via Transport for Wales for any trains can earn Avios air miles if you access it through British Airways' shopping portal.

● Splitting tickets can be a useful way to find lower fares, although examples of the immense value of this trick for certain routes greatly overstate the savings that you're likely to make on a typical journey. Splitting a ticket involves buying two or more tickets, with one to an intermediate station and the other from that station to your destination.

This can work out cheaper, either due to the strange ways in which tickets are priced, the ability to use a railcard for part of the journey, or the chance to break a ticket into peak and off-peak segments. The train you travel on must stop at the intermediate station, but you don't need to get off.

There are now multiple sites that calculate split tickets, many of which are powered by the same engine. They charge a percentage of the saving if you book via them, which you may consider a fair payment for a useful service not available elsewhere – but if not, you can use their results to book the same tickets directly with a train firm. No single site is always better at finding the best price than others, but tickets.railforums.co.uk helps support a website that is a useful source of advice and information on train travel.

Beware simple scams

Attacks on smaller firms are often less sophisticated than you might think

David Prosser
Business columnist

Fraud cases continue to soar, with crimes up by 151% last year according to research from KPMG. Small businesses are a favoured target, and the attacks are often far less sophisticated than you might think. Indeed, while many small businesses are worried about falling prey to elaborate cyberattacks, they may be overlooking the danger of simple scams.

Accounts-payable fraud is a particular vulnerability for many small businesses. One common problem is "long firm" scams, where a client makes a number of small purchases from your business over several months, all paid for on time, in order to build up trust; then it makes a much larger purchase and disappears without paying. You may also be vulnerable to fraud from within: employees creating fake invoices to divert money into their own accounts, for example.

Payroll is another area ripe for internal fraud if you don't have robust systems in place. It may be possible for staff to overstate their sales figures, exaggerate their working hours, or just to claim false expenses. Such scams can be hard to spot, particularly if they involve the collusion of an employee in the payroll team.

Other frauds take advantage of modern communications technologies. CEO frauds involve the finance department receiving an email from someone purporting to be a senior figure in the business. The email, which comes from an address that looks legitimate, instructs finance to make an urgent payment to a third party, which is the fraudster's account. Those behind such scams bank on finance teams scrambling to obey instructions from someone senior and therefore not making proper checks.

Invoice scams, meanwhile, depend on fraudsters identifying your regular suppliers. They then contact the finance team, pretending to be one of those suppliers, and provide new bank details for future payments. You may only realise you've been scammed when the genuine supplier gets in touch to ask why they have not been paid. The list of potential cons is a long one, with multiple variations on each type of scam – and that's before you start worrying about phishing emails and other forms of cyberattack.

Scrutinise payments and receipts carefully to fend off fraud

©Getty Images

Boosting internal controls

However, strong internal processes and controls will substantially reduce your vulnerability to fraud. Some of this is common sense – the Take Five campaign to reduce fraud urges everyone to protect themselves by taking a bit of time before releasing money or sensitive information.

Such a pause gives you a moment to think about whether any payment is legitimate. Time also gives you breathing space to make additional checks. Many frauds depend on emailed information. You can reduce the risk of scams such as CEO and invoice fraud with rules that require verbal confirmation of all requests for payments or bank account changes.

More broadly, conduct financial audits yearly, using an independent auditor if necessary. The key is to scrutinise payments and receipts carefully, making sure the figures add up. Where there are discrepancies, these must be investigated – mistakes happen, but these may also suggest fraud.

Good fraud awareness training and clear procedures for making disbursements will ensure that everyone in the business can help in the fight. Controls such as requirements for countersignatures and managerial sign-offs can help. Insisting on credit checks of clients can reduce your vulnerability to accounts payable fraud. Finally, if you're concerned about internal fraud, make it easy for staff to report their suspicions – for example, an email address to which they can make anonymous reports.

New accounting rules for limited companies

New rules will soon require limited companies to embrace digital technology and provide more information. New regulation, due to become law in weeks, is designed to increase transparency and reduce economic crime. But it could prove to be a headache if you're not ready to comply.

One important change will be that all limited companies will be expected to file their accounts to Companies House using approved digital software, just as HM Revenue & Customs (HMRC) now requires tax filings to be made this way. Check whether your systems meet the approval of Companies House – if not, you will need to make alternative arrangements.

Also, the right of some limited companies to file abridged accounts, which contain only minimal information, is to be abolished. All limited companies will now have to provide full accounts, though the exact detail of what is required may vary by size of organisation. Similarly, Companies House will require limited companies to file profit and loss accounts. These currently only have to be sent to HMRC. The body will also have more powers to check and challenge information – identity verification processes will be tightened, for example.

Petty cash... the next PPI scandal

- A decision by the government to scrap caps on the numbers of apprentices that small businesses can take on could enable your firm to recruit more widely. Until 3 April, the Apprenticeship Levy scheme limited businesses that don't have to pay the charge – including most smaller firms – to taking on a maximum of ten apprentices. That rule has now been scrapped, but small businesses will still be able to reclaim 95% of training costs from the state, with the payouts funded by businesses that do pay the Apprenticeship Levy.

- Were more than a million small businesses mis-sold fixed-price energy tariffs at the top of the gas and electricity market last year? Trade groups including the Federation of Small Businesses and British Chambers of Commerce say as many as a quarter of small companies in the UK were forced to sign up for fixed-price energy contracts that run for several years, just as prices in the sector hit a peak. Campaigners are calling for an investigation of last year's sales amid allegations that this could prove to be the "biggest mis-selling scandal since PPI", the payment-protection insurance scandal that rocked the banking sector.

- Customer relationship management (CRM) systems enable growing small businesses to capture all relevant data on their customers within a single software package. A new survey from Startups.co.uk has identified several affordable packages tailored to smaller firms. It deems HubSpot the best CRM software for small firms, with honourable mentions for tools including Monday.com, Freshsales and Zoho CRM.

Power your portfolio with the profits of China's electric-vehicle makers

A professional investor tells us where he'd put his money. This week: Ewan Markson-Brown of the CRUX Asia ex-Japan Fund highlights three favourites

The CRUX Asia ex-Japan Fund aims to find the highest-growth companies in the region by identifying opportunities in the market before the mainstream becomes alert to their potential, and holding them for three to five years though their early and mid-growth phases. We look for companies on course to generate revenue growth of 15% per annum, irrespective of size.

This often means we are positioning the fund to benefit from technological disruption. We do not buy blindly into an idea. Our strategy is to marry conviction in a theme with a thorough bottom-up approach: is management top-quality?

Does the company have an edge via intellectual property or a process that is hard to replicate? And, critically, does it have adequate capital to deliver? One area where we have high conviction for growth potential is the electric-vehicle (EV) industry in China. These are the three Chinese EV carmakers we think are best positioned and can grow market share.

Geely owns the maker of electric black cabs

©London Electric Vehicle Company

Drawing comparison with Tesla

Firstly, the dragon in the room: **BYD (Hong Kong: 1211)**. Weighing in at $95bn market cap and selling for 12.5 times forecast 2025 earnings, BYD is notable for being early to EVs, and for gaining early support from Berkshire Hathaway's Warren Buffett.

With 1.87 million EV vehicles delivered last year, BYD has sparked furious debate as to how comparable it is to Tesla, which produced 1.31 million pure electric-battery vehicles. Besides scale, BYD's biggest advantage is being highly integrated – it also makes the batteries and many of the electronic parts that go into their cars.

Then there is the worldly old-hand, **Geely Automobile Holdings (Hong Kong: 175)**. Geely Auto, its parent Zhejiang Geely, or its owner/operator Li Shufu either owns or holds long-time stakes in British, European and Asian carmakers.

The most recognisable is the London Electric Vehicle Company, which makes the iconic London black cabs. Geely also owns Volvo Car, Polestar and Lynk & Co, and has stakes in Aston Martin, Proton and Lotus. Though well-established abroad, Geely sells many more cars at home.

This $13bn market cap firm's domestic EV offerings are thoughtful and well targeted; we expect Geely to re-rate eventually as an EV carmaker, from the legacy carmaker valuation it has now. Geely is on a 2025 price/earnings (p/e) ratio of 9.1.

Young upstart will roar ahead

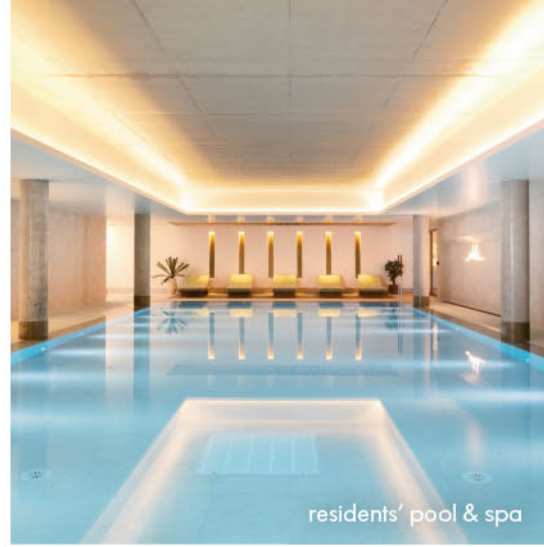
Finally, the young upstart – **Li Auto (Hong Kong: 2015)**. We think this $25bn market cap company, established in 2015, has the highest risk/reward profile of the new Chinese EV carmakers and is the most comparable to an early Tesla.

Li Auto's focus should allow it to dominate its niche in family sport-utility vehicles (SUVs), which are bigger cars that borrow design elements from heavier duty off-road vehicles. It is concentrating its manpower, engineering and manufacturing into a simple product offering with a lower price point and a higher-value proposition than competitors, which we believe will enable it to gain market share from established (and perhaps more complacent) brands. Li Auto is trading at 21 times forecast 2025 profits.

"Li Auto's strategy should allow it to dominate the SUV niche"

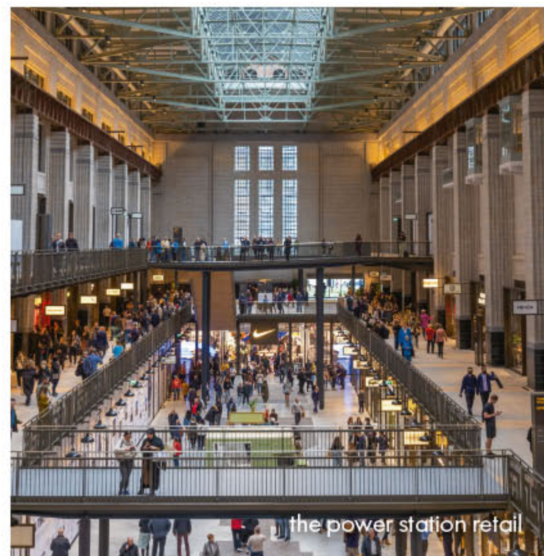
love where you live

from places to entertain, eat, drink, exercise, or simply unwind; life here has everything you need, right on your doorstep


residents' pool & spa

sky villa

sky lounge


the power station retail

a collection of elegant studios and one- to four- bedroom apartments, each with a unique identity available now

call us to arrange a viewing
+44 (0)20 3773 8865 | studios from £685,000

@batterseapwrstn

electric boulevard, battersea power station

The Rockefeller of the data boom

Michael Bloomberg's big break came in 1982 when he was booted out of his job and went it alone as a finance data provider. Now his huge empire appears unstoppable. Jane Lewis reports

If data really is the oil of the 21st century, there's no doubt who's playing John D. Rockefeller, says the Financial Times. Michael Bloomberg has built a $94bn private fortune from his eponymous financial data empire – "only Warren Buffett has ever made more money out of the business of money". Indeed, some argue that the Bloomberg behemoth, which has claimed one-third of the roughly $37bn global financial data and analytics market for more than a decade, is "so enmeshed with the financial industry that it may be of greater importance than any single investment group".

Bloomberg has always prized privacy as a competitive advantage. Yet it's remarkable how little scrutiny the core business of one of the world's largest private companies receives. That is now changing. The Bloomberg terminal – still by far the company's biggest cash cow – and its 81-year-old inventor are both now long in the tooth, and the company itself is "increasingly consumed with the question of Bloomberg after Bloomberg".

©Getty Images

"Only Warren Buffet has made more money out of the business of money"

A charismatic charmer

The past few years have been exceptionally good for Mike Bloomberg, financially. He has doubled his private fortune since 2017, according to Forbes (true to form, the founder does not appear in his own Bloomberg Billionaire Index). More to the point for a billionaire preoccupied with his legacy, he can claim "a history of epochal success", says GQ. Bloomberg arguably invented modern Wall Street, forged three successful terms as mayor of New York City, and got "his name on more buildings than Alexander the Great". The one thing he fell short of was "the very highest office". His 2020 attempt to become the Democratic presidential nominee "disappeared like a Manhattan vapour trail". Pro-choice, pro-immigration and pro-gun control, Bloomberg brought convictions to his politics that went far beyond his wealth. And yet he could not escape it: he assumed having so much money "would make him appear incorruptible", but critics always maintained he had bought power. "Money defined him, not in the kaleidoscopic carnival way it defines Donald Trump, but as a vast, lifeless stack of bills."

In person, Bloomberg balances a punishing work ethic and "granite self-confidence and moralism" with a charismatic charm, says New York magazine. On his way up in the 1980s, he bought a five-storey townhouse on East 79th Street where he hosted frequent dinner parties in an effort to become a force in New York's philanthropic and social circles. "He has a very quirky sense of humour, and he's very flirtatious," recalls one guest. And also very driven.

Bloomberg's grew up in a blue-collar suburb of Boston where "money was always tight", and went on to graduate from Johns Hopkins University with a degree in electronic engineering. He then took an MBA at Harvard before heading to Salomon Brothers on Wall Street. He rose quickly, and was made partner by 30, but clearly got up the noses of some of those in power. In 1979, he was demoted to head the "unglamorous" IT division, notes GQ. But it was here that he found his niche. Two years later, when Salomon merged with another firm, Bloomberg was booted out. With the $10m he got as compensation, he started his own company, Innovative Market Systems.

The first big break in 1982 was persuading Merrill Lynch to invest in 22 terminals – a coup the company's New York office continues to mark with a symbolic 22 fish tanks. Bloomberg went on "to ride the wave of digitisation breaking on markets around the world", says GQ. His "money-making machine turned him into a money-making machine", leading to rapid expansion into new fields and securing his "canonisation as a saint of capitalism".

Bloomberg after Bloomberg

What next? Those close to Bloomberg suggest he's likely to transfer ownership of his empire to a philanthropic trust, says the FT. But he plans on going nowhere yet, often pointing out that his mother lived to 102 – "a record he hopes to beat". Having spent a lifetime seeing off rivals, notably Thomson Reuters, Bloomberg is now so dominant that no one talks of "Bloomberg killers" any more. That makes it vulnerable. "We went against giants, and giants are usually easy to beat," says Bloomberg. Today, his firm is the biggest giant of all.

The worst trades in history... a punt on a medical miracle

In 2003, Stanford undergraduate Elizabeth Holmes, who had a fear of needles, decided to develop a device that would drastically reduce the amount of blood that needed to be drawn for medical testing and eliminate the need for samples to be sent to a laboratory. She founded Real Time Cures (renamed Theranos) in 2003 to develop the idea. By 2004 she had dropped out of Stanford to pursue it full time, and ploughed money from her trust fund into the company.

What was the idea?

To finance development, Theranos raised money through various venture-capital rounds. The initial sums raised were modest, starting with $500,000 in June 2004 (giving the company a valuation of $30m), but they rapidly grew and the company hit an implied valuation of $1bn after it raised $40m in 2010. In 2013 the firm announced a partnership with chain store Walgreens, propelling the firm and Holmes into the media spotlight. Theranos raised a further $543m in 2014 and 2015, giving it a valuation of roughly $10bn.

What happened next?

Acting on a tip-off from a former employee, Wall Street Journal reporter John Carreyrou investigated and discovered that the main idea was nothing but hot air and the technology didn't work. By 2018 Theranos was shut down and Holmes jailed for 11 years for fraud.

Lessons for investors

Investors lost nearly all of the $700m they put into the company. They were lured in by doctored reports that gave the impression that the technology had been validated by major drug companies and by faked demonstrations of its main product. They should have been more vigilant. The DeVos family, for example, admitted that they invested $100m without talking to executives or hiring outside experts to test their claims.

Restore your news-life balance

TRY 6 FREE ISSUES

The Week magazine stitches together news and views from over 200 global media sources, bringing you straight to the heart of the issues that matter (without any angle or agenda).

With everything you need to know in one place, The Week will give you space to step back from the noise and digest the news on your own terms.

Join over 300,000 readers today and **enjoy your first 6 issues for free**.

Start your free trial today

Visit subscription.theweek.co.uk or call 0330 333 9494

Terms & conditions: Calls charged at your standard network rate. Direct Debit offer. 6 issues free then continues from £45.99 every 13 issues for print (29% off the shop price) or £50.99 every 13 issues for print + digital (56% off the shop price). Your subscription is protected by our Money-Back Guarantee. Cancel anytime and we will refund on any unmailed issues.

T: 0117 911 7109
W: traveldepartment.co.uk/tw
Flights from London, Scotland & Northern Ireland
Please quote 'Money Week' when booking

The easy way to experience MORE...

FROM **£799**

Lake Garda, Venice & Verona

Fully Guided | 7 Nights | 3★ Half board, 4★ B&B/Half board

- Flights from London Gatwick, Edinburgh, Belfast or Dublin to Milan
- 7 nights in the beautiful lakeside town of Riva del Garda, Torbole, Limone or Malcesine
- A half day excursion on a boat trip around Lake Garda or a full day excursion to the medieval city of Bolzano
- A full day excursion to Venice, taking in St. Mark's Square and Basilica
- A full day excursion to Verona

Holiday Departure Months

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

FROM **£879**

Lake Como, Milan & St. Moritz
- including the Bernina Express

Fully Guided | 7 Nights | 3★ Half board, 4★ B&B

- Flights from London Gatwick, Edinburgh, Belfast or Dublin to Milan
- 7 nights in the lakeside town of Cadenabbia or Tremezzo
- A half day excursion on a boat trip around Lake Como, stopping in the town of Bellagio
- A full day excursion into the Swiss Alps, including the Alpine towns of Tirano, Poschiavo, Chiavenna, St. Moritz and a journey on the Bernina Express
- A full day excursion to Milan

Holiday Departure Months

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

FROM **£919**

Sorrento Coast, Pompeii & Capri

Fully Guided | 7 Nights | 3★ B&B, 4★ Half board

- Flights from London Gatwick, Edinburgh or Dublin to Naples
- 7 nights on the Sorrento Peninsula
- A full day excursion to the Island of Capri
- A full day excursion to include a morning walking excursion of Sorrento and an afternoon visit to the Pompeii excavations
- Full day excursion on the magnificent Amalfi coast by boat, to include stops in Positano and Amalfi with entrance to The Cloister of Paradise included

Holiday Departure Months

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

FROM **£929**

Highlights of Andalucia

Fully Guided | 7 Nights | 4★ Half board

- Flights from London Gatwick, Glasgow or Belfast to Malaga
- 4 nights in Loja and 3 nights in Granada
- A half day walking excursion of Antequera
- A full day excursion to the World Heritage city of Cordoba
- A full day excursion to Granada including a visit to the Alhambra Palace and Fortress
- A full day excursion to Seville

Holiday Departure Months

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

FROM **£1,059**

Discover Ancient Greece
including Athens, Delphi, & beachside Tolo

Fully Guided | 7 Nights | 4★ B&B/Half board

- Flights from London Gatwick, Edinburgh or Dublin to Athens
- 3 nights in Athens and 4 nights in Tolo
- A half day excursion of Athens
- A full day excursion to Delphi including the Temple of Apollo
- A full day excursion to the Argolis region, taking in Mycenae, Epidaurus and Nafplio
- A half day trip to the Island of Spetses

Holiday Departure Months

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

FROM **£1,239**

Prague, Vienna & Budapest

Fully Guided | 10 Nights | 4★ B&B

- Flights from London Gatwick, Edinburgh or Dublin to Prague, returning from Budapest
- 4 nights in Prague, 2 nights in Vienna and 3 or 4 nights in Budapest (depending on date)
- A half day guided tour in each city; Prague, Vienna and Budapest
- A half day excursion to the 13th century Bohemian castle at Ceský Šternberk
- A boat trip on the Danube in Budapest

Holiday Departure Months

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

What our customers say... **Excellent**

Rated 4.7 out of 5 (based on over 3,300 reviews)

Booking Terms & Conditions: Operated by Travel Department. ATOL Protected 9373. Prices are per person and based on two sharing. Single room supplements apply (excluding Solo-Friendly). A non-refundable / non-transferable deposit is required to book. Balances are due 10 weeks before departure date. Prices, taxes, flight times, holiday details & availability are subject to change. Prices subject to airline fuel surcharges. E&OE.

Three hotels fit for a king

You don't have to have blue blood to stay in these royal haunts. Chris Carter reports

A royal favourite

Whatever your feelings about the monarchy, the coronation of a new monarch is hard to ignore, says Dominic Kocur in The Week. The Goring in London's Belgravia enjoys a special relationship with the royals. It is the only hotel to have been granted a Royal Warrant for hospitality services and every reigning king and queen has walked through its doors since 1910, when The Goring was built. That might also have something to do with its location. The hotel is situated as close to Buckingham Palace as it is possible without actually being inside its grounds. "At dawn, guests could feasibly hear the yelp of a corgi." The current Princess of Wales called it home in the days before she married into the royal family, and The Goring was said to be a favourite of the Queen Mother.

Its Michelin-starred restaurant, The Dining Room, has put on a special coronation tasting menu for the occasion. "After all, it's not impossible a Windsor might drop in for supper unannounced one evening, as neighbours sometimes do." *From £595, thegoring.com*

©The Goring Hotel

Many a king and queen have walked through its doors

Highland retreat

The Granary Lodge is a luxury bed and breakfast located on the northern coast of the Scottish Highlands, in the grounds of The Castle of Mey – the holiday retreat purchased by the Queen Mother in 1952, says Ailbhe MacMahon in the Mail Online. The Queen Mother had used part of the 17th-century lodge as a garage to house her cars, and her chauffeur and staff stayed in what are today guest rooms seven and eight.

An animal centre under the auspices of the The Queen Elizabeth Castle of Mey Trust took up residence when the Queen Mother died in 2002, until 2016 when the building underwent a restoration to turn it into the present cosy guesthouse. King Charles, as Prince of Wales, formally opened the property in 2019. Guests can enjoy the sea views over the strait of Pentland Firth to Dunnet Head and Orkney. *From £165, castleofmey.org.uk*

> *"At dawn, guests could feasibly hear the yelp of a corgi"*

Perfect for polo

Coworth Park, in Berkshire, is a "divine foodie getaway just 40 minutes from London", says Anna van Praagh in the Evening Standard. It is the only hotel in Britain with its own polo fields, which explains why "you might just spot a few polo-loving royals in the summer". It was a favourite of the Duke and Duchess of Sussex before they moved to the US, and it is where Prince Harry spent the night before his wedding in 2018. Other activities, besides polo, include tennis, croquet and cycling around the estate, with its 35 "quaint" cottages. Coworth House, which sits at the heart of the property, is "steeped in history".

It was built in 1776 for William Shepheard, a prosperous merchant of the East India Company, and in the late 1800s, the Prince and Princess of Wales, along with Queen Alexandra, stayed here while visiting the races at nearby Ascot. *From £545, dorchestercollection.com*

Wine of the week: a gluggable Valpolicella for summer

2021 Valpolicella, Classico, Ca' La Bionda, Veneto, Italy

(£16.95, reduced to £15.75 each by the case, Lea & Sandeman, 020 7244 0522, leaandsandeman.co.uk)

Matthew Jukes
Wine columnist

We have reached the mid-point of spring, so in anticipation of warmer weather and summer looming, I have found you one of the most deliciously gluggable reds I have tasted in years. Valpolicella is a well-known style of Italian red wines beloved by trattorias and pizzerias up and down the country. Few realise just how vast a category of red wines Valpol is. From inexpensive supermarket plonk costing a couple of euros a litre to mind-blowing amarones at the top of the pile, which would require a quick call to your bank manager to secure funds for a purchase, the range is staggering.

La Bionda's version is the definitive spring/summer red wine, given it is an ethereal creature; gossamer-smooth, seamless, thrillingly delicious and blessed with a raspberry and red cherry theme. The whoosh of welcoming fruit is inlaid with faint liquorice and wild herb details, ensuring sophisticated palates will find as much to admire here as thirsty beginners. If you are serving spicier fare, chill it a few degrees, and if you are looking for a more robust red to serve with heartier dishes, then L&S has a stock of this heroic fellow – 2017 Caburnio, Tenuta Monteti (£20.95, case price £18.75). I cannot think of a super-Tuscan-shaped red that weighs in under £19 with as much swaggering bravado, incredible intensity and grandness of flavour as this beauty.

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

This week: properties with impressive topiary – from a Grade II-listed former nunnery near Bristol to a

Barrow Court, Barrow Gurney, Bristol. A Grade II-listed building originally constructed in the 12th century as a Benedictine nunnery. It has gardens that were laid out by Francis Inigo Thomas in the 1890s that feature ornate topiary and sculptures by Alfred Drury. 8 beds, 4 baths, 2 receps, 4.25 acres. £2.75m Hamptons 01173-691316.

Chateau Orcival, Puy-de-Dôme, France. A chateau dating from the 13th and 15th centuries, set in formal gardens with topiary and a lake. The interiors feature stone and parquet floors, large fireplaces, decorative panelling and modern kitchen and bathrooms. 12 beds, 7 baths, 3 receps, stables, 23.4 acres. €2.25m Groupe Mercure +33 (0)6 0747 2713.

Gwynsaney, Rhosemore, Mold, Clwyd. A Grade II-listed Jacobean mansion with views of the Clwydian Hills. The gardens feature box hedges and topiary throughout, a water garden, an award-winning pinetum and a walled kitchen garden. The mansion has been in the same family for 450 years. The front door shows signs of damage from a canon fired in the civil war. 8 beds, 5 baths, 4 receps, 27 acres. £2.5m Savills 01244-323232.

a 13th-century chateau with 23 acres in Puy-de-Dôme in France

◀ **Bleach Green Farm, Alum Waters, New Brancepeth, County Durham.** A traditional stone farmhouse built in 1764 and modernised by the current owners. The landscaped gardens are surrounded by manicured hedging and topiary and the grounds include ancient woodland and fishing rights on the River Deerness. 3 beds, 2 baths, recep, conservatory, stable block with hay shed, summerhouse, greenhouse, 17 acres. £1.2m Finest Properties 01434-622234.

▶ **Knightstone Manor, Ottery St Mary, Devon.** A Grade II-listed house dating from 1380. The gardens are framed by yew hedges and the grounds include wildflower meadows and woodland. 9 beds, 8 baths, 4 receps, 3-bed detached cottage, outbuildings, greenhouse, paddocks, 18 acres. £3.5m Jackson-Stops 01392-214222.

▲ **Long Pond House, Totteridge Common, London N20.** A house set in large landscaped gardens that feature a decked terrace, lawns with topiary, and ponds with a waterwheel feature. The house has wood floors, beamed ceilings, a large conservatory and a vaulted garden room with floor to ceiling glass doors. 6 beds, 6 baths, 2 receps, swimming pool, tennis court. 2 acres. £8m Knight Frank 020-7317 7966.

◀ **Penylan Hall, Oswestry, Shropshire.** A Grade II-listed Georgian villa that was extended in the Regency period in an Italianate style. A large dining terrace overlooks the formal gardens, which feature box hedging and topiary. The grand interiors retain period features including shuttered sash windows, fireplaces, tiling and high moulded ceilings. 8 beds, 6 baths, 4 receps, 2-bed coach house, 11.06 acres. £2.95m Knight Frank 01743-664200.

▶ **Northfield, Balerno, Midlothian.** A Grade B-listed baronial house built in 1910 by architect Walter Crum Watson. It is situated close to Edinburgh and surrounded by ornate gardens. The house has redwood floors, a grand entrance hall, wrought-iron banisters with a Scottish thistle design, a drawing room with barrel-vaulted ceiling, and a library with bespoke cabinetry. 6 beds, 3 baths, 3 receps, 2-bed cottage, 1.26 acres. £1.9m+ Savills 0131-247 3770.

A royal treasure trove

Sotheby's Coronation Sale features some real gems. Chris Carter reports

A treasure trove of royalty-related items went up for auction this week. Perhaps the most important was one of only two surviving copies of *The Declaration of Breda*. Had it not been for the issuing of this historic declaration by Charles II in April 1660 and its acceptance by the authorities in England, it's just possible we wouldn't be celebrating the coronation of his namesake, Charles III, tomorrow. We might still be living in a republic.

The Commonwealth of England had been established at the conclusion of the Civil War in 1649. Charles I, as the defeated party, had lost his head and Oliver Cromwell ruled as Lord Protector until his death nine years later. His son, Richard, took over, but not for long. The people, growing increasingly unruly, looked back at the pre-war days with nostalgia and began to agitate for the return of the king – that being the late king's son.

But before Charles II could return to Britain from exile in Breda, in the Netherlands, he first had to clear the air: "To all Our loving Subjects … after this long Silence, We have thought it Our Duty to Declare how much We desire to contribute thereunto… We can never give over the hope in good time to obteyne the possession of that Right, which God and Nature hath made Our Due… after so long misery & sufferings… with as little bloud and dammage to our People, as is possible…" In short, Charles was prepared to let bygones be bygones. (In fact, royal revenge would shortly be exacted on those responsible for his father's execution.)

King Charles II: let bygones be bygones

The greatest joy imaginable

Five copies of the declaration were dispatched; one each to the House of Commons, the House of Lords, the City of London, the Army and the Navy. As secretary to the general at sea, the copy bound for the Navy fell to the diarist Samuel Pepys. "The commanders all came on board [the flagship *Naseby*]...", Pepys wrote in his entry for 3 May. "I read the… declaration; and… not one man seemed to say no to it, though I am confident many in their hearts were against it. After this was done… the seamen did all of them cry out 'God bless King Charles' with the greatest joy imaginable." Edward Montagu, Pepys's benefactor and soon to be the first earl of Sandwich, set off for Breda to bring about the restoration of the monarchy. On 29 May, the crowds turned out to cheer the arrival of Charles II in London, on the king's 30th birthday. While three of the original copies of *The Declaration of Breda* are lost, the copy Pepys waved in the faces of the Navy's commanders was passed down through the Montagu family until it was last auctioned in 1985. It was valued at up to £600,000 by Sotheby's as the highlight of its The Coronation Sale.

Auctions

Going… The crown that Queen frontman Freddie Mercury wore for the finale rendition of *God Save The Queen* during his last tour with the band in 1986 is heading to auction with Sotheby's on 5 September. The 1,500 items in the sale passed to a friend after his death in 1991 and they will go on display from 4 August. The crown is thought to be modelled on the St Edward's coronation crown and it comes with the accompanying cloak in fake fur, red velvet and rhinestones. It has an £80,000 upper estimate. A pair of leather hotpants, which Mercury wore while performing in Birmingham in 1980, sold for £18,000 with Omega Auctions last week.

Gone… A signed travel Bible in a black leather case that belonged to Elvis Presley fetched $19,050 with Sotheby's in New York on 18 April. A fan gave Elvis the Bible, which has a picture of the singer and the inscription: "This book will keep you from sin and only sin will keep you from this book. With love, Joy Woodson." In 1982, it was given to its most recent owner by Elvis's aunt. Eddie Van Halen's customised red and white *Hot for Teacher* Kramer electric guitar from 1982 was the most expensive lot of the sale. The legendary guitarist played the poplar wood instrument as his main guitar until 1984, when he switched to guitars made from basswood. It sold for $3.9m.

The coronation trinkets to keep safe

Besides *The Declaration of Breda*, Sotheby's Coronation Sale (see left) also featured a host of letters penned by British kings and queens, including Henry III (1254) and George VI between 1913 and 1932, when he was known as Prince Albert. A collection of photographs relating to Elizabeth II's royal tours from the 1950s to the 1970s were also on sale, as was a diamond pin brooch, one of six gifted to her maids of honour at her coronation in 1953. Replica sets of the crown jewels, complete with the St Edward's Crown, which Charles III will wear at his coronation, were dispersed across the Commonwealth. One such set in the sale was valued at up to £15,000.

"Royal memorabilia has always been greatly sought after, but events like weddings and coronations certainly bring about a new wave of interest and curiosity," says Valentina Borghi of Chiswick Auctions. "Owning a piece of royal memorabilia such as a photograph signed by the late Queen Elizabeth or chairs from the investiture of Charles as Prince of Wales means owning a piece of history." Just such a set of chairs, along with those from the coronations of George V, George VI and Elizabeth II, appeared in Chiswick Auctions' Happy & Glorious sale this week.

As for the future of collecting, keep an eye out for autographs and memorabilia relating to Charles III and Queen Camilla, which are already attracting "strong interest", says Borghi. "Photographs and letters signed by the royal couple after their accession to the throne will be very valuable in the next few years." Just make sure you are happy with the condition of whatever you buy and know its more recent history. "A good provenance is always paramount when dealing with collectables."

©Alamy; Getty Images

Bridge by Andrew Robson

Assume East has the king

Plan the play in Four Hearts after West leads a low Spade, East's overcalled suit, East winning the King, cashing the Ace, and leading a third Spade, which you ruff.

Dealer North — Neither side vulnerable

North:
♠ 863
♥ Q10
♦ AQ32
♣ AKJ6

West:
♠ J75
♥ 8642
♦ J95
♣ 1095

East:
♠ AK1094
♥ 75
♦ K8
♣ Q842

South:
♠ Q2
♥ AKJ93
♦ 10764
♣ 73

The bidding

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

* Awkwardly placed, as he cannot make his planned no trump rebid without a stopper in the opposing Spades.
** Showing his delayed support for partner's known five-card suit, implying a decent doubleton.
*** Prepared to play the five-two fit, given his fine trump quality.

The danger of drawing trumps is that, should they be splitting in their most likely way (four-two), you will have none left. Diamonds must be broached first – but how? West never squeaked, in spite of holding three-card support for his partner's overcall, so you should be inclined to place the King of Diamonds with East.

Without the danger of a Diamond ruff, your best play would be to cross to the Ace of Diamonds, back to a Heart then lead a second Diamond, covering West's Knave with the Queen (if it appears) otherwise ducking. However, if West does have Knave-doubleton, East can simply give his partner a third-round ruff.

So, you must guess which is more likely: East with King-low, or King-low-low? Because he has greater Spade length, the former is surely more probable. Therefore, cross to a top Club and lead a low Diamond from dummy. East may well rise with the King from King-low, and even mistakenly from King-low-low. But if he boldly plays low (from his actual King-low), win West's return, draw trumps and lead a Diamond to the Ace. The King is felled and that's game made.

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

Sudoku 1154

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

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.

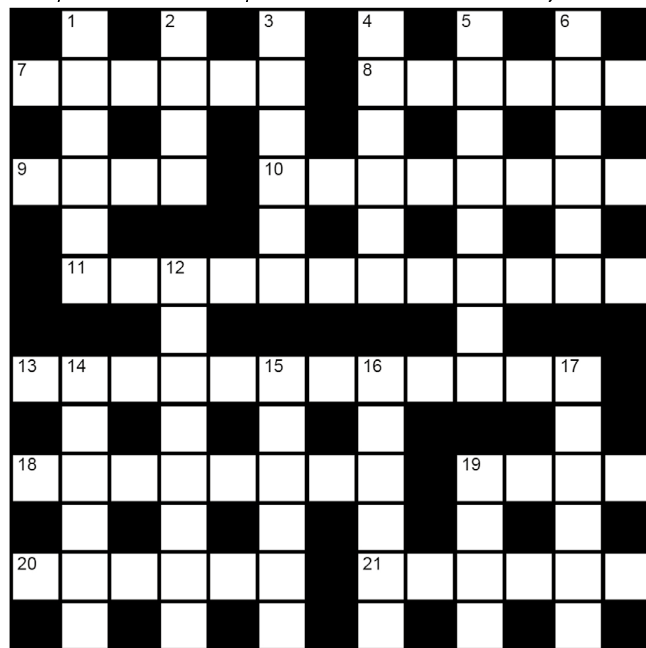
3	2	6	9	4	8	1	7	5
8	1	7	5	3	6	4	9	2
9	4	5	1	2	7	6	8	3
7	8	2	4	6	1	5	3	9
1	3	4	8	9	5	7	2	6
5	6	9	2	7	3	8	1	4
6	7	1	3	5	9	2	4	8
2	5	3	7	8	4	9	6	1
4	9	8	6	1	2	3	5	7

MoneyWeek is available to visually impaired readers from RNIB National Talking Newspapers and Magazines in audio or etext.
For details, call 0303-123 9999, or visit RNIB.org.uk.

Tim Moorey's Quick Crossword No. 1154

TAYLOR'S PORT

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 15 May 2023. By post: send to MoneyWeek's Quick Crossword No.1154, 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.1154 in the subject field.



All clues are mildly cryptic

ACROSS
- **7** Search all over the place for a drink (6)
- **8** Gear to be ordered for rascal (6)
- **9** Oscar's successor in pop (4)
- **10** Tim hopes cryptic answer is devilish (8)
- **11** Championship golf course lunch? (4,8)
- **13** With little love, they learn to adapt in empty lives? (6,6)
- **18** Derive numbers in hellish places (8)
- **19** Lager brought back in error (4)
- **20** View article and get angry (6)
- **21** Natural features of Bangladesh (6)

DOWN
- **1** Firm about old car – it won't cost much (6)
- **2** Scottish lady in Solway regularly (4)
- **3** What's left of bloomers? Goodness! (6)
- **4** Second best at home? Don't go out! (4,2)
- **5** Critic on The Spectator? (8)
- **6** Indian meal cold in one of the States? (6)
- **12** He and I could represent them (8)
- **14** Jaguars seen in parts of pound? (6)
- **15** Communist number turned up with Yankee over there (6)
- **16** Standard inns, for example refurbished (6)
- **17** Tricky issue around Tiger's Head rooms (6)
- **19** Place to park behind large country house (4)

Name ....

Address ....

....

email ....

Solutions to 1152
Across 1 Ampersand *2 defs* **8** Noticed *not iced* **9** Mason *ma + son* **10** Imp *(w)imp* **11** Enchilada *L inside anag of hacienda* **13** Odds-on *odd son* **15** Hot dog *deceptive def* **17** Men-at-arms *anag* **18** Dam *(A)dam* **19** Needs *homophone of kneads* **21** Pronoun *deceptive def* **22** Speedwell *speed well.* **Down 1** Act up **2** Packed out **3** Reduce **4** Arm **5** Discard **6** Environment **7** Enlargement **12** Ironstone **14** Dinners **16** Tripod **18** Droll **20** See.

The winner of MoneyWeek Quick Crossword No.1152 is: Helen Steers of London

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.

The US dollar is crumbling

The bright-eyed, globe-trotting dollar has had its day. Now it's limping home

Bill Bonner
Columnist

How can we Americans move on into the future when the past was so felicitous? We still have the world's reserve currency. We can "print" money at virtually no cost, and the rest of the world takes it at par value. You want to buy oil? Better have dollars. We can invade other countries, but they can't invade us. We have military bases all over the world. Our stocks are worth $45trn; our real estate $36trn. The face value of US government bonds alone is $31trn. And our writ is law all over the world. Do the Russians wish to modify the borderlines with their former Soviet sisters – that they drew themselves? Better ask us first! Nice, huh?

Well, say goodbye, because that's yesterday's world. That era came to an end in the final days of July 2020. It was then that the 40-year trend towards lower and lower interest rates – without inflation – finally reached its bottom. Tomorrow's world is going to be different.

Chinese and Brazilian leaders recently met in Beijing. "Every night I ask myself why all countries have to base their trade on the dollar," said Brazil's president, Luiz Inácio Lula da Silva. A lot of people are wondering the same thing. Members of the Brics group – Brazil, Russia, India, China, and South Africa – are expected to outpace the US-led G7 in terms of their contribution to the world's economic growth from this year, says Bloomberg. The Brics will contribute 32.1% of the world's growth, compared with the G7's 29.9%. By 2028, the numbers are predicted to be 35% and 27.8% respectively.

The Brics have more people. And since 2020, they have a bigger economy, too. Why do they need dollars? Part of the reason the US was able to "print" so much new money without causing inflation was that the extra dollars were spent on foreign-made goods. They were sent to places such as China and Vietnam, and they never came home, taken up instead by foreign central banks as "reserves".

But that is changing, and faster than predicted. The greenback's share in global reserves slid last year at ten times the average speed of the past two decades as a number of countries looked for alternatives after Russia's invasion of Ukraine triggered sanctions, says Stephen Jen on Bloomberg. Adjusting for exchange-rate movements, the dollar has lost about 11% of its market share since 2016 and double that amount since 2008.

> *"The dollar is still king – but the guillotine is waiting"*

Ahsan Iqbal, Pakistan's minister of planning and development, has stated that Pakistan is a long-time supporter of China's efforts to expand the use of the renminbi as a global currency, reports Silk Road Briefing. And in recent months, Brazil and Argentina have discussed the creation of a common currency for the two largest economies in South America, says ZeroHedge. Multiple former southeast Asian officials have spoken about the de-dollarisation efforts that are underway. And the UAE and India are in talks to use rupees to trade non-oil commodities in a shift away from the dollar, according to Reuters. For the first time in 48 years, Saudi Arabia too has said it is open to trading in currencies besides the dollar. Even Europe is thinking twice about the dollar, with French president Emmanuel Macron recently warning against the continent's dependence on the greenback The dollar is still king – but the guillotine is waiting.

Yesterday, the dollar was on top of the world. Today it is slipping. Tomorrow, we will find out what happens to all those trillions of dollars, now held overseas, when the greenback is no longer needed as a "reserve currency".

When they left, bright eyed and bushy tailed, dollars were the business arm of the world's rising power, going forth to build a glorious future. Now, the baby boomers of the currency world lie in their vaults dreaming of yesterday's love affairs and commercial triumphs. Their hair gray. Their foreheads creased with worry. Their backs hunched over. Weak. Fragile. Get ready to welcome them home.

©Getty Images

Editor: Andrew Van Sickle
Markets editor: Alexander Rankine
Comment editor: Stuart Watkins
Politics editor: Emily Hohler
Wealth editor: Chris Carter
Shares editor: Matthew Partridge
Senior digital editor: Kalpana Fitzpatrick
Deputy digital editor: Rupert Hargreaves
Online writer: Nicole García Mérida
Contributors: Bill Bonner, Ruth Jackson-Kirby, Max King, Jane Lewis, Matthew Lynn, David Prosser, Cris Sholto Heaton, David C. Stevenson, David J. Stevenson, Simon Wilson

Art director: Kevin Cook-Fielding
Picture editor: Natasha Langan
Chief sub-editor: Joanna Gibbs

Print managing director – wealth: Shaun Inglethorpe
Group advertising director: Peter Cammidge
peter.cammidge@futurenet.com
Account director: Freddie Smith
freddie.smith@futurenet.com
Chief financial and strategy officer: Penny Ladkin-Brand
Non-executive chairman: Richard Huntingford
Chief executive: Jon Steinberg

Customer service and subscriptions
Email: subscriptions@moneyweek.co.uk
Web: MoneyWeek.com/contact-us
Tel: 0330-333-9688
Post: MoneyWeek subscriptions, Rockwood House, Perrymount Road, Haywards Heath, West Sussex, RH16 3DH
Subscription costs: £139.99 a year (credit card/cheque/direct debit), £159.99 in Europe and ROW £179.99.

MoneyWeek magazine is an unregulated product. Information in the magazine is for general information only and is not intended to be relied upon by individual readers in making (or not making) specific investment decisions. Appropriate independent advice should be obtained before making any such decision.
Future Publishing Limited and its staff do not accept liability for any loss suffered by readers as a result of any investment decision.

Editorial queries: Our staff are unable to respond to personal investment queries as MoneyWeek is not authorised to provide individual investment advice.

MoneyWeek
121-141 Westbourne Terrace, London, W2 6JR
Email: editor@moneyweek.com

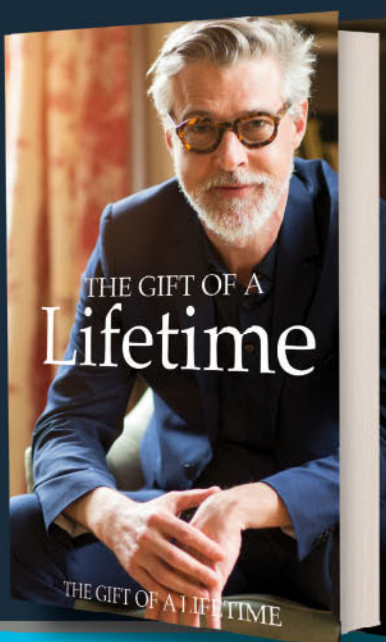
MoneyWeek is published by Future Publishing Limited
121-141 Westbourne Terrace, London, W2 6JR

© Future Publishing Limited 2023. All rights reserved. MoneyWeek and Money Morning are registered trademarks. Neither the whole of this publication nor any part of it may be reproduced, stored in a retrieval system or transmitted in any form or by any means without the written permission of the publishers.
© MoneyWeek 2023
IISSN: 1472-2062

Share Your Story.

Professional Autobiography Writing Services

In just 6 months we will create your own private autobiography to share with your family.



We will help you capture your life stories through personal, face to face interviews. This will be an easy, enjoyable and richly rewarding experience.

Our professional writer will then craft your book in words and pictures.

Your beautifully bound books will be a priceless gift for you and your family.

For the full story, call now

0330 808 6053 or visit: **www.lifebookuk.com**

Life Book memoirs

HUMMING ALONG

TB Guinness Global Equity Income Fund

The Fund invests in companies that have been well managed through a variety of economic environments.

We look for the persistent high cashflow which enables sustainable, growing dividends and long-term capital growth.

Investing with conviction, we give every company that meets our quality criteria an equal weight in the portfolio.

To find out more, visit guinnessgi.com/tbgei, scan the QR code or call 020 7222 5703.

Scan the QR code to find out if a hummingbird is faster than a cheetah.

POSITIVELY DIFFERENT

GUINNESS GLOBAL INVESTORS

Risk : The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations. You may not get back the amount you invested. Guinness Global Investors is a trading name of Guinness Asset Management Ltd., which is authorised and regulated by the Financial Conduct Authority. Calls will be recorded.

9000