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MoneyWeek

MAKE IT, KEEP IT, SPEND IT

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Power your portfolio with energy drinks
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BRITAIN'S BEST-SELLING FINANCIAL MAGAZINE

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MoneyWeek

10 May 2024 | Issue 1207

Britain's best-selling financial magazine

From the editor...

Ten years ago, a survey in a regional city in Austria caused a furore. The plurality of graduates at the local university, 30%, said they intended to spend their working lives being civil servants, as they wanted to prioritise their work-life balance. Those who pointed out that in the long term there could not be a work-life balance for civil servants without at least some work being done by the private sector in the first place were brusquely invited to relax and work a bit harder on their own work-life balances.

When it comes to balancing work and life, Europeans emphasise the latter

©Alamy

"The bureaucracy and conformity of US corporate culture is a shock to the uninitiated"

I filed the episode away in my mind as a vignette of Europe's risk-averse, statist mentality (there are no more Austrian economists in Austria), but I recalled it this week after I read that Nicolai Tangen, the CEO of Norway's Government Pension Fund Global, the world's biggest sovereign wealth fund, has called Europeans "not very ambitious", and declared that "Americans just work harder". He also contrasted Europe's risk aversion and tendency to regulate with America's greater strides in artificial intelligence.

Work smart, not hard

It is only fair to point out that while Americans may work harder, they don't work smarter. The sheer inefficiency, bureaucracy and stultifying conformity of US corporate culture is always a shock to the uninitiated. But Europe's broader tendency to avoid risk and worry about downsides does contrast with America's dynamism, and it is increasingly evident that it is undermining innovation and productivity on this side of the Atlantic.

An interesting example is our approach to infrastructure, with Hinkley Point C becoming the most expensive nuclear-power station in the world. As Panmure Gordon's Simon French notes in The Times, 31,000 pages of environmental impact assessment have led to millions "being spent protecting a tiny number of fish in the Bristol Channel".

The upshot of this self-imposed complication at the macroeconomic level is that "attempts to eliminate risk have often superseded a rational, data-driven trade-off between risk and reward. The rewards of lower energy costs, affordable housing and cheaper travel are sacrificed at the altar of trying to eliminate a long tail of small risks".

It's a similar story in our best industry, finance, where "the real power in the City has shifted wholesale away from wealth creation to compliance", as Jeremy Warner notes in The Telegraph. Banks can "barely move for enforcement measures… terrified [regulators'] default position is to say no to everything". The same mentality is reflected in an ever-growing tax code. In the meantime, says Warner, the US has bounced back from both the financial crisis and the pandemic, while our GDP is a fifth smaller than it would be had the pre-crisis growth trajectory been maintained.

Throwing off the shackles and boosting productivity is especially urgent at a time of high and rapidly rising debt (see pages 4 and 19) and interest payments. It would also give UK stocks a big jolt, accelerating the recent recovery (are investors finally realising what a bargain it is?). Note that the stockmarket in Argentina, where president Javier Milei has been chainsawing his way through regulations, subsidies and public-spending budgets, and plans to fire thousands of civil servants, is the world's top performer so far this year with a gain of 44% in US dollar terms. The country's work-life balance is being radically rebalanced.

Andrew Van Sickle
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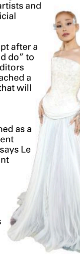
Rock on (when it's ready)

The Co-op Live arena in Manchester has had to cancel or postpone a string of concerts since it was due to open on 23 April, owing to technical problems, say Dipesh Gadher and Hugo Daniel in The Times. The Co-op retail group, which paid £100m for the naming rights, has pressured Oak View Group, the venue's operator, to reimburse fans for travel and hotel expenses. Oak View had previously only offered refunds on cancelled concerts or new tickets if a gig was rescheduled. Boy band Take That has already switched from the £365m venue – Britain's biggest indoor arena – to local rival the AO Arena, while a concert that has sold out by US singer Olivia Rodrigo (pictured) has been rescheduled. A gig by US rapper A Boogie Wit Da Hoodie had to be cancelled at the last minute after a nozzle from an air conditioning unit fell off the ceiling.

Cover illustration: Howard McWilliam. Photos: Alamy; Getty Images

Good week for:

Universal Music Group, the world's biggest record company, has ended its dispute with TikTok, allowing music from mega-star musicians, including **Ariana Grande** (pictured), to return to the Chinese social-media platform, says the Financial Times. TikTok, with its one billion, mostly younger followers, agreed to "improved remuneration" for Universal's artists and songwriters, and protections against the use of generative artificial intelligence.



Former Wimbledon champion **Boris Becker** is no longer bankrupt after a High Court judge ruled he had done "all that he reasonably could do" to fulfil his financial obligations, says BBC News. Becker owed creditors almost £50m in 2017. Becker still owes around £42m, but has reached a settlement with the trustees appointed to oversee his finances that will see him pay a "substantial sum".

Bad week for:

Italian singer and model **Carla Bruni-Sarkozy** has been questioned as a suspect in the case that saw her husband, former French president Nicolas Sarkozy, charged with witness tampering last October, says Le Monde. It is claimed a key witness was paid to retract a statement accusing Sarkozy of having accepted €5m from the late Libyan leader, Muammar Gaddafi. She denies wrongdoing.

Matadors have decried the Spanish government's decision to scrap an annual €30,000 prize for bullfighting. However, culture minister Ernest Urtasun told Spanish television that "Spaniards understand less and less that… these forms of animal torture are rewarded with medals that come with… public money".

©Getty Images

The rich world faces a debt reckoning

Alex Rankine
Markets editor

Neither Biden nor Trump has a plan for dealing with the problem

©Getty Images

Since the turn of the century, the world economy has endured three great shocks, says Ian Stewart for Reaction. First came the financial crisis, then the pandemic, and finally the energy crisis triggered by Russia's invasion of Ukraine. We have avoided "depression-style" ruin because governments stepped in to shield households and businesses with "vast programmes of public assistance". That has sent public debt spiralling. In the UK it has risen from 36% of GDP in 2007 to almost 100% today. Last year the government spent 3.9% of GDP on servicing debt, the highest level since the late 1940s. Excessive borrowing leaves the government exposed to mood swings in bond markets, as Liz Truss discovered during the 2022 gilt market "chaos".

Provisional figures from the Office for National Statistics show that the Treasury borrowed £120.7bn in the 2023-2024 financial year, equivalent to 4.4% of GDP, says Andy Bruce for Reuters. That was actually £7.6bn less than the previous year, when the energy price cap blew out the exchequer's budget. During the five years prior to the pandemic, the UK deficit averaged 3% of GDP per year.

Across advanced economies, public debt is set to hit an average of 120% of GDP by 2028, say Tobias Adrian, Vito Gaspar and Pierre-Olivier Gourinchas on the IMF blog (see also page 19). The debt explosion was enabled by the fact that for a prolonged period after the financial crisis real interest rates were significantly below growth rates, enabling governments to borrow without worsening their debt-to-GDP ratios. Yet public "debt dynamics" are no longer so benign. Long-term interest rates have risen markedly as markets price in uncertainty about future inflation and interest rates. And the medium-term growth outlook is weakening because of mediocre productivity growth, weaker demographics and continued scarring from the pandemic.

America's credit-card binge

The US is especially profligate, says The Economist. The federal government is running a $2trn deficit, equivalent to 7.2% of GDP, a figure that you would normally only expect during a recession or crisis. On current trends, by the late 2020s the US will have a higher debt-to-GDP ratio than any European country bar Italy. Neither Biden nor Trump has a plan to fix things (see also page 38). If spending cuts prove too difficult politically, then pressure might grow on the Federal Reserve, the US central bank, to prioritise the government's finances instead of fighting inflation, a loose money recipe with which many Latin American states are "all too familiar".

Excessive spending is already fuelling domestic inflation and, by forcing higher interest rates, is crowding out private investment in areas such as housebuilding, says David Brooks in The New York Times. US net interest outlays (national debt interest payments) this year will be 3.1% of GDP, outstripping defence spending of 3% for the first time, says Niall Ferguson on Bloomberg. History shows that, from Hapsburg Spain to the late British Empire, "any great power that spends more on debt service… than on defence will not stay great for very long".

The flight to gold continues

The developing world has developed a lust for gold

©Getty Images

Gold has eased from its late April highs. Trading above $2,300 per ounce this week, the yellow metal is still sitting on a 12% gain since the start of the year. Prices have rallied almost $600 in recent months against the backdrop of the Israel-Hamas war, a run-up that one gold dealer compares to the volatility of cryptocurrencies, says Harry Dempsey in the Financial Times.

That has left bullion prices exposed to a short-term pullback, but the longer-term investment case rests on whether you "believe the global monetary system is at the early innings" of a "transformation". With US debt rising "by about $1trn every 100 days" (see above), gold markets are "sniffing out" concerns about unsustainable government finances, says Max Belmont of First Eagle Investments.

Gold's resilience comes despite high US bond yields and a strong dollar, which would usually mark a soft period for gold prices, says Étienne Goetz in Les Echos. The market has been "profoundly changed" by the "voracious" appetite of non-Western central banks for the yellow metal. The World Gold Council reports that central banks bought 290 tonnes of gold in the first quarter of the year. Turkey was the top buyer with 30 tonnes, followed by the 27 tonnes bought by China.

At 2,262 tonnes, the Chinese central bank's reserves have grown 16% since October 2022 and March saw its 17th month in a row of net gold purchases, says Julian Jessop in The Telegraph. IMF data shows that the share of reserves that central banks hold in US assets dropped from 71% in 1999 to 59% in 2020. Like Russia, China looks to be constructing "a war chest safe from US sanctions". The gold market is too small to absorb all the country's capital. But talk of the demise of the dollar in the world financial system no longer seems as farfetched as it once did.

Investors eye up EM bonds

While public debt in the rich world rockets (see page 4), developing countries responded to Covid with more "conventional" policies, says Peter Warburton in the Halkin Letter. Emerging markets (EMs) ran a tight fiscal ship and raised interest rates when inflation emerged, helping them to retain market confidence. The result? EM bonds have outperformed G7 government bonds by an impressive 38% in US dollar terms.

Debt issued by the likes of China, Mexico and India pays a higher yield than that issued by developed economies because of the greater perceived risk of inflation or default. Yet that extra yield, or "spread", over US Treasury bonds has fallen from an average of 4.6% five months ago to 3.4%, close to a post-Covid low, Sergey Goncharov of Vontobel Asset Management tells Barron's. Yields move inversely to prices, so falling yields mean gains for existing bondholders.

The arrival of reforming presidents in Argentina and Ecuador have made these countries' bonds "unlikely fixed-income stars" this year, with returns of "up to 80%". Yet the core of the case for EM bonds is not such high-risk political bets, says Craig Mellow in Barron's. It is the fact that many pay a decent fixed income while being far stabler and better managed than in the past. Bond market "pros" are looking at "solid credits from the likes of Mexico, Indonesia, and Saudi Arabia".

The looming copper crunch

We are entering the "copper age", says Étienne Goetz in Les Echos. The price of the red metal has jumped by 18% this year to trade close to two-year highs of roughly $9,910 per tonne on the London Metal Exchange. Business intelligence company CRU Group estimates that $150bn in investment in new supply will be required between 2025 and 2032 to meet growing global copper demand.

©Getty Images

The red metal has reached a two-year high and looks set for further gains

Yet higher interest rates and environmental opposition to mining projects are making investors reluctant to stump up the cash. Copper "exploration budgets… have fallen since the early 2010s", says the Financial Times. Going from discovery to production can take more than ten years, increasing the risk that projects are derailed by politics or changing market conditions. Prices might need to rise by 20% to incentivise interest in new mines.

Looming shortfall

Miner BHP's recent bid for London miner Anglo American (see page 16) reflects growing interest in copper. Yet it is telling that commodity giants would rather bid for existing operations than open brand new mines. "Shifting assets from one owner to another" does nothing to address the looming copper crunch. Copper is vital for everything from electrical switches to solar panels and electric-vehicle components, says Sohrab Darabshaw in Metal Miner.

In 2022, global copper production was about 22,000 kilotonnes, compared with demand of 26,000 kilotonnes (recycling bridges the gap). In the long-term, demand may hit 33,000 kilotonnes, leading to a yearly deficit of roughly 6,000 kilotonnes by 2030. By one estimate, that could eventually push prices as high as $15,000 per tonne.

Analysts at Citi forecast a 1,000 kilotonne supply deficit over the next three years, says Megha Mandavia in The Wall Street Journal. China buys about half the world's copper supply. Booming electric-vehicle and solar-panel production has seen the country's copper demand rise by 18% year on year over the past five months. It remains to be seen whether this frenetic rate of production can be maintained, while demand from the domestic property market remains "flat on its back". The copper outlook is auspicious, but the metal "still isn't a one-way bet".

It takes "three times as much copper to generate the same amount of electricity on a solar farm as in a gas-fired power station", says Tom Stevenson in The Telegraph. For offshore wind it is "nearly eight times". Tomorrow's growth sectors have "an insatiable appetite" for the metal.

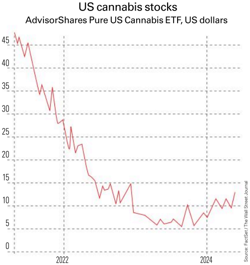
A long period of weak prices saw capital expenditure on new copper mines drop by more than 40% between 2012 and 2020. These are classic preconditions for a commodity-price supercycle – prices "do nothing for years", companies fail to invest, then a "credible demand-growth story" emerges and prices rocket.

Viewpoint

"It is easy for investors to lose a fortune in the financial markets – and even easier for governments. In 2022, Japan spent more than $60bn of its foreign-exchange reserves defending the yen… And for what? Today the yen is weaker still… The yen has been falling… because of simple economic logic. The gap in interest rates between Japan and America is yawning… the Japanese government… says that volatility in the currency has been excessive, but its opaque criteria for selling reserves may well have made that problem worse… [Tokyo's] urge to intervene is driven by… political calculation and national pride. A cheaper yen makes imports… of energy… more expensive, which is painful for voters. There is no doubting Japan's firepower: at last count it had almost $1.3trn of foreign-exchange reserves to run down. But it is a waste to spend them doing battle with currency traders."

The Economist

America's pot high wears off



About half of US states have legalised cannabis for recreational use in recent years. This year sales are set to top $30bn, a third the size of the domestic tobacco market, says Carol Ryan in The Wall Street Journal. Yet cannabis shares have lost an average of 23% a year since late 2020. Federal prohibition still makes it illegal to trade pot across state lines, while banks and institutional investors remain wary of helping pot growers. The federal government plans to downgrade the classification of cannabis from Schedule I ("alongside heroin") to the more benign Schedule III, with the likes of ketamine. Full national legalisation is unlikely, but the prospect of softer federal enforcement has given cannabis shares a lift this year.

Apple still mildly bruised

The technology giant has dazzled investors with a record share buyback. But its recent difficulties look far from over. Matthew Partridge reports

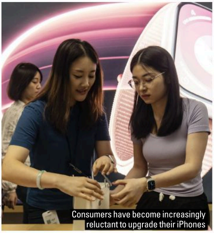
Apple's stock bounced by more than 7% after the company unveiled the biggest share buyback in corporate history, says Leah Montebello in This is Money. The decision to buy back $110bn worth of stock "lifted the mood on trading floors around the world" and means the group is now worth more than the whole FTSE 100. Returning cash to shareholders "puts Apple in line with its Silicon Valley rivals" Meta and Alphabet, which "have been trying to woo investors" with dividends and buybacks.

Moreover, while overall sales fell, the second-quarter results still "surpassed the market's modest expectations", says Hargreaves Lansdown's Guy Lawson-Johns, with CEO Tim Cook forecasting a return to growth this quarter. And the fact that the iPhone 15 and iPhone 15 Pro Max were the best-selling smartphones in urban China suggests that "Apple's allure remains intact". Finally, the company reported some encouraging progress in services, the likes of the App Store and Apple Music, which have higher margins than the traditional hardware business.

Buying some breathing space

Not so fast, says Russ Mould of AJ Bell. The fact that it has now beaten forecasts for five years in a row has certainly gained it "some breathing space" after a period in which the market had "started to question if it had lost its way". Still, many of the "core problems" remain, so it may simply have "bought itself some time rather than found a full solution". Difficulties include "struggles in China, weak iPad sales, declining demand for wearables and a lacklustre period for Mac laptops". With consumers "increasingly reluctant" to upgrade their iPhones, which still provide Apple's "bread and butter", it desperately needs to pull a "rabbit out of the hat".

One saviour for Apple could be artificial intelligence (AI), says Lex in the Financial Times. Cook seemed to drop a big hint in this direction during the earnings call when he



©Getty Images

Consumers have become increasingly reluctant to upgrade their iPhones

spontaneously declared that generative AI was a "critical opportunity" . Expect an iPhone "with generative AI capabilities". OpenAI and Anthropic already offer generative AI chatbots via smartphone apps, but Apple "could offer a more comprehensive service by embedding a third-party AI assistant in its operating system", or it may even be going further by making its own.

Apple is already working on its own chip designed to run AI software in data-centre servers, say Aaron Tilley and Yang Jie in The Wall Street Journal. This move, which builds on its experience designing chips for iPhones, iPads, Apple watches and Mac computers, could give Apple an advantage in the "AI arms race" and placate investors "impatient over the company's perceived lack of progress" in the field. At the very least it would give the company "more control" over its destiny when it comes to AI. It would ensure that if AI functions can't take place on Apple's devices, they can at least be introduced on its own chips.

Smith & Nephew looks rickety

Medical-equipment maker Smith & Nephew (S&N) has been "rocked" by a shareholders' revolt over proposals to hike its CEO's pay to nearly £10m, says Jessica Clark for This Is Money. But while S&N received a "bloody nose", with 43% of its investors voting against a pay increase branded "excessive" by city advisory group ISS, the proposal still passed. With US-based CEO Deepak Nath becoming the latest boss at a British firm to seek a higher salary in the face of significant opposition, there is clearly a big debate over executives' compensation. While some argue that such "fat-cat" pay is too much, others contend that FTSE CEOs are "underpaid" compared with their US peers.

Nath's pay is clearly "absurd in the abstract", says Nils Pratley in the Guardian. However, there's "no denying that the gap between boardroom pay norms in the UK and US has widened in recent years". What's more, controversial pay increases at the London Stock Exchange Group and AstraZeneca suggest that companies can use the "backdrop of panic about defections from London" to force through such packages. With S&N following suit, despite the group's poor recent performance, it's hard not to conclude that "the boardroom pay game in the UK has changed forever". Pay aside, S&N's shareholders have good reason to be concerned, says Hargreaves Lansdown's Derren Nathan. It seems"the pent-up demand" built up during the pandemic is "starting to normalise". A change to the way China buys its hip and knee replacement devices has also caused problems and will remain a "headwind" for 2024 as a whole. Operating margins are "still well below pre-pandemic levels". The stock's valuation is also below its long-term average, while the "high debt levels and drive for product innovation" mean that there may be little room for higher payouts for shareholders.

Cash keeps gushing at BP

BP is to "push on" with buying back another $1.75bn of shares despite missing profit expectations for the first quarter, says Emma Powell in The Times. It reported profits of $2.7bn in the first three months of 2024, down by nearly 50% from the same period last year, and even lower than the £2.87m analysts had expected. BP has blamed the reduced profits on the ongoing fall in gas prices of the past two years, while profits have also been hit by lower refining margins across the industry, in addition to an outage at a major US refinery.

Large dividends and buybacks mean shareholders "are unlikely to be too concerned" about the fall in profits, says AJ Bell's Russ Mould. If it maintains this pace for the whole year, BP "will return more than 11% of its stockmarket valuation to investors, a cash yield that easily exceeds Bank of England base rates, government gilt yields and inflation". What's more, the fact that it is generating enough free cash flow to cover the money it is giving back to shareholders means that such returns will be "affordable". BP will not be forced to cut back on capital investment or take on additional debt. However, environmentally focused investors may be worried by the fact that BP has flagged oil trading "as an area of strength in the first quarter".

Indeed, many investors now expect BP "to scale back its climate targets further", says the Financial Times. While BP currently aims to reduce oil production by 25% from 2019 levels by 2030, this is a smaller reduction than the 40% reduction originally planned. What's more, shareholders believe that new boss Murray Auchincloss, who took over in January, "is prepared to be more flexible as demand for oil and gas continues to grow". The fact that BP is alone among major oil companies in making such a dramatic pledge, especially at a time when oil firms are seen as "providing countries with energy security rather than being terrible companies polluting the world" would give him further cover for revising the target.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MoneyWeek's comprehensive guide to this week's share tips

Five to buy

Chemring
The Telegraph
The market continues to undervalue defence contractor Chemring, which specialises in missile-defence systems. The company has a solid balance sheet, a sound competitive position, and long-term growth potential. The industry's prospects have been transformed since Russia invaded Ukraine, with Nato members expected to increase military spending. Chemring's order book has grown by over 50% in a year. *375p*

Thales
Barron's
French defence group Thales, whose offerings range from aerospace to digital security, is flying under the radar, but that might not be the case for long. Thales is embedding AI products in its systems, making it "anything but a run-of-the-mill defence contractor." Thales has booked 13 large orders, including a €2bn contract with the UK Ministry of Defence. It currently trades at a very reasonable 17.8 times forward earnings. *€162*

Sanderson Design
Investors' Chronicle
Despite Sanderson Design's full-year profits falling, the luxury-interiors group's licensing sales, which stem from the use of its designs on rugs, blinds, tableware and bed linen, broke the £10m mark for the first time. It also secured two major licensing renewals with Blinds 2go and Brink & Campman. North American volumes grew, making it Sanderson's second-largest market. With a solid balance sheet and increasing licensing activities, the stock, on 7.4 times projected earnings, is worth buying. *96p*

Scottish American Investment Company
Shares
The Ballie Gifford-managed Scottish American Investment trust is trading at an 8% discount to its net asset value (NAV), offering a great opportunity to invest in high-quality assets on the cheap. The trust invests in steady long-term compounders with resilient dividends, an approach similar to that of Warren Buffett and Terry Smith. The fund boasts a 12.4% compound annual return over ten years. *503p*

Spectra Systems
The Mail on Sunday
Aim-listed Spectra Systems has acquired Cartor, a 100-year-old high-security printing company that produces encrypted barcoded stamps. Spectra's technology allows central banks to detect whether banknotes are genuine or not. Spectra and Cartor are jointly looking to incorporate technology that injects special powder into plastic banknotes and is detectable by sensors, thus hoping to edge their way into a market dominated by De La Rue and Canadian group CCL. The two companies could be a formidable force, especially as several central banks are keen to add a third outfit to the banknote duopoly. *217p*

One to sell

Centrica
The Sunday Times
Centrica's profits peaked in 2022 and 2023 amid the surge in wholesale energy prices. But now it seems the glory days are over. With commodity prices stabilising, Centrica's income is set to fall this year. Despite the group's wide array of activities in the energy market, there is "no single dazzling area of appeal", and the British Gas retail arm has failed to keep up with "fast-growing industry tiddlers". Buybacks suggest the firm is focused on propping up demand from shareholders in the short term, not on long-term investment. The balance sheet is robust, but the group's prospects look dull. Pocket recent share-price gains and sell. *134p*

...and the rest

The Telegraph
Tesco offers an attractive long-term outlook owing to favourable market conditions. The retailer's sales and earnings per share rose by 7.2% and 14% respectively in the latest financial year, allowing it to raise dividends by 11%. Market share in the UK has increased, while customer satisfaction metrics have improved. Ongoing pessimism among investors is contributing to a low valuation, while the stock also offers a relatively generous dividend yield. Buy *(290p)*.

Shares
Premier Inn owner **Whitbread's** third-quarter and full-year results were in line with forecasts as the UK hotel market continues to recover from Covid. The German division has reduced its losses, with revenue per available room jumping by 20% in the 12 months to February, and is expected to break even this year. Whitbread's underperforming Beefeater and Brewers Fayre restaurants are being converted into hotel rooms to boost margins. By February 2029, Whitbread expects pre-tax profits of £80m-£90m, up from £30m-£40m in 2027. Hold *(3,176p)*.

Investors' Chronicle
J Sainsbury's full-year pre-tax profit fell by 15% owing to the restructuring of the financial-services unit. But grocery revenue climbed by 9.4% and the Nectar Prices scheme helped bolster competitiveness. Sales growth of 12% for the premium Taste the Difference range suggests that some consumers are trading up as food inflation

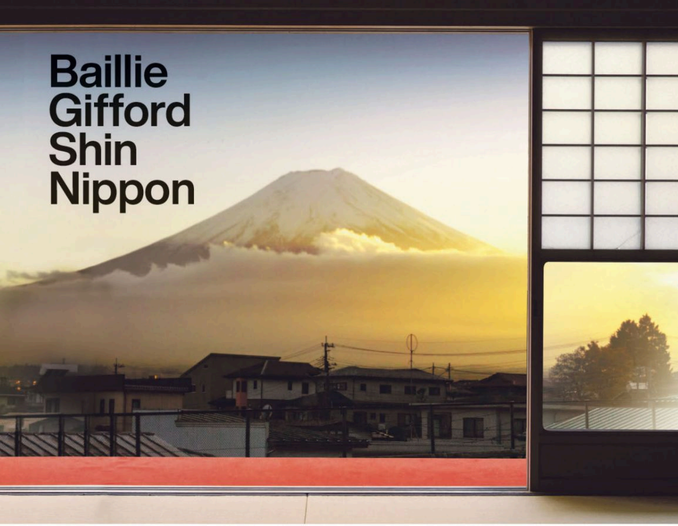
slows. The company expects retail operating profit to rise 5%-10% to over £1bn this year as grocery volumes benefit from easing food inflation. A valuation of 12 times forward earnings is fair given the outlook. Hold *(261p)*

A German view

The expansion of data centres, the spread of artificial intelligence and the creation of cryptocurrencies all require huge amounts of electricity, says WirtschaftsWoche. In the US much of it is generated from gas, while demand is on the rise from other sources too. The liquefied natural gas industry is expanding and Mexico's overall need for gas could double by 2030. All this bodes well for America's Kinder Morgan, which operates a network comprising 127,000 kilometres of pipelines and 139 terminals for gas, petrol and various other oil derivatives. It charges a fee for the use of its facilities. This year the bottom line looks set to grow to almost €3bn. The stock yields 6%.

IPO watch

Etihad Airways, the Abu Dhabi-based carrier of the United Arab Emirates, has selected several investment banks to help it launch an initial public offering (IPO) that could raise up to $1bn, says Bloomberg. The Abu Dhabi investment fund ADQ, which owns the carrier, is targeting a listing at the end of this year. The flotation will create the first publicly traded major Gulf carrier and bolster the sheikhdom's status as a transport hub. The sale of shares is also intended to boost the UAE's stockmarket and help diversify the economy away from oil. Etihad recently expanded its fleet, but has struggled to close the gap with its regional rivals Dubai-based Emirates and Qatar Airways.



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Is a Labour victory now inevitable?

Local election results were not encouraging for Rishi Sunak. Emily Hohler reports

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Labour gained almost 200 seats and ten out of 11 mayoralties

"Whichever way the results are spun, last week's local elections were ugly for the Conservatives," says The Sunday Times. They lost more than half the council seats they were defending and were left with just over 500. Labour gained almost 200, ending up with more than 1,100. Labour also won ten out of 11 mayoral seats, with London mayor Sadiq Khan elected for a historic third term.

Rishi Sunak "seized" on a polling device that extrapolates the results into national vote shares, putting Labour on 35% and the Tories on 26%, leading to a hung parliament, says Rafael Behr in The Guardian. This might happen, but the analysis by Oxford academics Colin Rallings and Michael Thrasher "inflates the likelihood" by ignoring Scotland, where Labour hopes to make big gains at the expense of the SNP, and assumes that Liberal Democrats and Greens do as well, when voters may vote tactically for Labour.

"National equivalent vote" exercises are a poor guide to general election outcomes, says George Parker in the Financial Times. People often back smaller parties in local elections, basing their choice on who they would like to run things in their area.

A better kind of defeat

The picture wasn't entirely rosy for Labour, with analysis showing that Labour's position on Gaza had cost it support, says Robert Booth in The Guardian. Despite the party's huge gains, there was "an almost 18% drop in the Labour vote in areas of England where more than a fifth of the population identified as Muslim". This prompted Keir Starmer, Wes Streeting and a "majority of Labour MPs" to place a "bulk order for olive branches and white flags", says Allison Pearson in The Telegraph. Is the "lesson Labour needs to learn… that you better genuflect to threats from Islamic hardliners, or else"?

Despite it being a political occasion, "by custom strictly secular", Mothin Ali, the Green Party's winner in Gipton and Harehills, used his victory speech to support Palestine, shouting "Allahu Akbar", a religious slogan "unfortunately, more familiar to the British people as the death cry of terrorists". "Scenting weakness", the Muslim Vote, a pressure group, has sent Starmer a list of 18 demands for Labour to win back support. These "do not come from moderate British Muslims". If Starmer "buckles", he will "soon find himself snatching defeat from the jaws of victory".

So far, Starmer's central objective has been to "remove every obstacle that could stand in the way of a disaffected Conservative" switching to Labour, seeking to reassure them that his party is "just as patriotic, just as strong on defence and crime", and "just as prudent with the public finances", says Jonathan Freedland in The Guardian. This doesn't change the fact that the Tories are so unpopular "because so much is broken and there is not enough money to fix it". Once this problem has swept the Tories out of power, "it will become Labour's problem", too.

A Tory defeat looks fairly inevitable, says William Hague in The Times. "No British government in modern history has ever won re-election after more than 13 years in power." The Tories have been in power for 14. But since defeatism is "wrong in principle" and "quick fixes unavailable", the Tories' best option is to think longer-term. The electorate deserves a debate on how we prepare for a world that "might change more in the next five years than the previous 50". It requires "more security and more innovation", something the government can explain "clearly and bluntly". If Labour fails to match their ideas, there will be something "important to argue about". And if the Tories still lose, they will at least be a "better opposition for having framed the future correctly".

Swinney: plus ça change...

©Getty Images

Continuity candidate takes power in Scotland

John Swinney has been sworn in as the seventh first minister of Scotland, following the resignation of Humza Yousaf last week. Cabinet posts are to be confirmed on Thursday, with a "significant role" promised for Kate Forbes, who announced she would not run for the leadership against him, says Neil Pooran in The Independent.

One could argue that the return of a veteran who has "already served as leader, finance secretary, education secretary and deputy first minister proves that the SNP is in the grip of a tiny cabal" and that the "lack of a leadership contest prevented new ideas being aired", says Dani Garavelli in The Guardian. Yet it feels as though, by electing Swinney, who has promised to focus on "bread-and-butter issues", the SNP has "made its smartest move in years".

But will he do so, asks John Gray in The New Statesman. Swinney is the "continuity candidate". "Continuity in the SNP means continuing decline, the reduction of a once hegemonic party to a spent and marginal force." At the peak of Nicola Sturgeon's power, nearly the "entire political class was fixated on gender deconstruction, imported American 'anti-racism' and net-zero cultism". If he unifies the party around her"hyper-liberal agenda", he will "lead it to irrelevance or extinction". If a "stopgap", the result will be the same, and he will own the "heavy defeats" that await the SNP in the Westminster and Holyrood elections.

To be fair, Swinney says he wants to "get back to mainstream business", says Chris Deerin, also in The New Statesman. He has said his ministers will be "focused on delivering services on which the public depend, on health, education, housing and transport, so people see their lives are getting better". The problem is we're used to SNP leaders "promising much and delivering little". Will Swinney be any different? "Scotland – and who can blame it – will reserve judgement."

Ceasefire hopes dashed

There seems to be no end in sight to war in Gaza. Matthew Partridge reports


Netanyahu: sticking to his guns

©Getty Images

An announcement on Monday by the Palestinian terrorist group Hamas that it had accepted a ceasefire proposal "sent people in the streets of Rafah into temporary jubilation", say Julia Frankel and Jack Jeffery in The Washington Post. It also raised hopes in Israel among the families of hostages that "they might soon see their loved ones" again. Any "glimmer of hope" that the war could end proved to be "short-lived", however, when Israel rejected the proposal. The next day, Israel sent tanks into Rafah, seizing the main border crossing between Egypt and Gaza.

The war goes on

It would be unfair to blame Israel for the failure of the latest round of negotiations, says The Wall Street Journal. Hamas may claim to have "accepted" a "genuine ceasefire-for-hostages deal", but actually it made a counter-offer, with its own demands. Among these were that Israel must unilaterally end the war on terms that would leave Hamas free "to control territory, remain in power and plan the next massacre", without any consequences. This is far from unusual behaviour for a group whose leaders "have dragged out negotiations for a ceasefire for months, with no intention of freeing hostages".

Hamas's proposal promised to release just three hostages a week, including the bodies of those it has already killed, says The Economist. It also wanted the "final say" on which Palestinian prisoners are to be released in exchange, as well as an Israeli withdrawal from central Gaza. The permanence of any ceasefire had also been left intentionally "vague". These are "not trivial differences" from Israel's terms, but they "could probably be resolved through further negotiations", raising the question of whether either side actually wants a deal.

Politics comes before peace

A temporary ceasefire would relieve international pressure on Israel, while giving it some flexibility as to future plans, but it seems that prime minister Benjamin Netanyahu is more interested in holding together his fragile governing coalition than advancing Israel's strategic interests, says Steven Erlanger in The New York Times. Two of his most hardline supporters have already vowed to leave the government if he makes too many concessions and agrees to a ceasefire. A halt to the fighting would also lead to new elections, which "could mean loss of power and a renewal of the various court cases against him".

The prospect of losing power following any ceasefire certainly gives Netanyahu a further incentive "to stick to his guns", agrees Simon Tisdall in The Guardian. But the leadership of the "inhumanly fanatical" Hamas is also blocking a deal – not to mention being responsible for starting the war in the first place. Indeed, for the past few months Hamas has "hidden behind Gaza's civilians", sacrificing them to further their "delusions about the final destruction of Israel". In short, there seems, sadly, to be no end in sight to the "sheer gut-wrenching misery felt by ordinary people" in the region, Jewish and Muslim, Israeli and Palestinian alike.

TikTok's battle for survival in the US

©Getty Images

The social-media app TikTok is "battling for its survival" in the US, say Sapna Maheshwari and David McCabe in The New York Times. The app's owner, China-based ByteDance, is suing the federal government in an attempt to block legislation that would force it to sell TikTok or face a ban. ByteDance argues that the law violates the right to free speech by "effectively removing an app that millions of Americans use to share their views and communicate freely". Supporters of the legislation say that the app is a "national security threat" as the Chinese government "could lean on ByteDance" to turn over sensitive data on TikToks' users, "or use the app to spread propaganda".

That's the pretext, but many prominent supporters of the ban, such as senator Mitt Romney (pictured), have admitted they dislike TikTok because they believe videos posted on it are fuelling "the growing backlash against the Israel-Gaza war", says Seth Stern in The Guardian. The legislation is not limited to its initial target either, but "opens the door for future bans of other platforms" simply on the say of the president.

The stated security concerns are valid, says the Lex column in the Financial Times, and the legislation is consistent with prior action from US regulators. Still, it's hard not to see this as a sign that "the global internet is splintering further apart". Other countries are also "attempting to use specific bans and connection blocks to wall off users". India has banned TikTok over privacy and security concerns, and China has done the same with WhatsApp. The US action against TikTok is unlikely to be a "one-off".

Betting on politics

With the local elections in the United Kingdom now out of the way, Ladbrokes has turned its attention to the European parliamentary elections that are due to take place early next month. It is running no fewer than 24 markets, including one on the party that will get the most seats in 21 out of the 27 EU states. It is also offering a market on which political grouping will get the most seats, the number of seats that the European People's Party will get, as well as who will end up being the president of the EU Commission.

In most countries, it is already clear which party will end up coming out on top, so it's no surprise that many of the favourites have extremely short odds. For example, in Spain the centre-right People's Party is at 1/12 (92.3%) to get the most seats. You can get the same odds on the Labour Party winning in Malta. Both these parties should be strong favourites, but my general rule is to avoid betting when the odds are 1/10 (90.9%) or shorter, so I'd give these a miss.

Instead, I would bet on Portugal. At the moment the centre-right Democratic Alliance is favourite at 1/2 (66%) to come out with the most seats, with the Socialist Party at 13/8 (38.1%) – the Democratic Alliance won a national election earlier this year. However, polls suggest that the rise of hard-right Chega is starting to eat into the Democratic Alliance vote, with the Socialists ahead in four out of the last six polls, and only narrowly behind the Democratic Alliance in the two others.

Of course, much could change over the few weeks between now and early June. But it's hard to deny that the Socialists currently look like good value. I would therefore suggest that you bet on them getting the most seats in Portugal.

Seattle

Coffee break: Former Starbucks boss Howard Schultz has urged the current management to spend more time in the coffee chain's stores, says Max Zahn on ABC News. The shares have plunged 17% since the company revealed a slump in sales last week. Starbucks is often viewed as a bellwether for US consumer spending, which accounts for nearly three-quarters of economic activity. Certainly, sector peers McDonald's and Yum Brands, which owns KFC and Pizza Hut, have reported a similar slowdown recently. Consumers are contending with "stubborn inflation and a spike in credit card debt".

But Starbucks also isn't doing itself any favours. The company has failed to "sustain a surge in demand" during the pandemic by adapting to the new environment. Starbucks could afford to charge a bit more then; less so now. A dispute with the labour union Workers United centred on the Israel-Hamas war, and a resulting consumer boycott, also hasn't helped. Really, it boils down to waiting times, says Lex in the Financial Times. There are apparently 170,000 ways to customise a coffee. Current CEO Laxman Narasimhan is rushing out new equipment to make complicated drinks when he ought to simplify the "staggering" menu. "Trying to go in too many directions can leave a business going nowhere."

Menlo Park

SEC seeks out Robinhood: The Securities and Exchange Commission (SEC), the US markets regulator, has issued retail trading platform Robinhood Crypto with a "Wells notice", informing it of possible legal action over its cryptocurrency listings, says Reuters. The SEC has made a "preliminary determination" to recommend enforcement action, which may involve civil litigation, a cease-and-desist order, fines and limits on business activities as part of its ongoing crackdown on crypto tokens, many of which it regards as unregulated securities. Retail trading in securities not registered with the SEC is illegal in the US. Robinhood, along with crypto exchange Coinbase, which is involved in its own legal dispute with the SEC, disagree that the tokens constitute securities and they accuse the regulator of overreach. The SEC has taken an increasingly hard line against digital assets since the failure of Sam Bankman-Fried's FTX crypto exchange in 2022, says Will Schmitt in the Financial Times. Robinhood was founded in 2013 and has since grown its customer base to 23.6 million, with $119bn assets under custody. Cryptocurrencies accounted for $135m of the $785m transaction-based revenue it made last year. The platform has paid out large sums in the past to resolve regulatory cases, including $65m to the SEC in 2020 and $70m to industry regulator Finra in 2022.

Burbank

Disney disappoints: Disney delivered a mixed second-quarter report, which did include several positives, including "a surprising and first-ever" operating profit in its film and television streaming segment, says Dan Gallagher in The Wall Street Journal. On the other hand, operating income in the experiences segment, covering theme parks, is now expected to be flat this quarter. Analysts had been hoping for a 12% gain from a year earlier and the shares sank 10% on Tuesday. That was the biggest fall since November 2022, when a "disastrous" earnings report ultimately cost then-CEO Bob Chapek his job. On returning to the post, Bob Iger (pictured) went out of his way to stress that he was "very, very bullish about our parks".

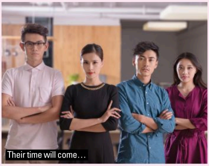
Disney said it would invest $60bn in parks, cruise lines and resorts over the coming decade – "timely" given rival Universal is opening a major new theme park in Florida next year. The company's cable-TV empire has shrunk, but it was from the parks business that the stable revenue was to come. "They also make an outsize contribution to Disney's bottom line." Granted, Disney's stock came into the earnings call this week "hot", having risen 29% in 2024, well ahead of peers. The rise helped Disney's board "beat back" criticisms from activist investor Nelson Peltz. Now "the Magic Kingdom will need to show it can keep the treasure flowing in."

The way we live now... the workers clapped out at 35

Chinese video app KuaiShou is dismissing junior workers in their mid-30s, say Kai Waluszewski and Eleanor Olcott in the Financial Times. Meanwhile, internet search firm Baidu plans to become more "youthful by promoting more workers born after 1980... and many departments in China's civil service restrict entrance exams to those under 35".

The "curse of 35" has long plagued white-collar workers in China, with older staff perceived as expensive and less willing to put up with long working hours because of responsibilities at home. As a result, many Chinese companies have an average employee age below 30. Tens of thousands of jobs have been cut in recent months as the tech sector reels from Beijing's regulatory crackdown, leaving employees in their 30s anxious and struggling to find new jobs.

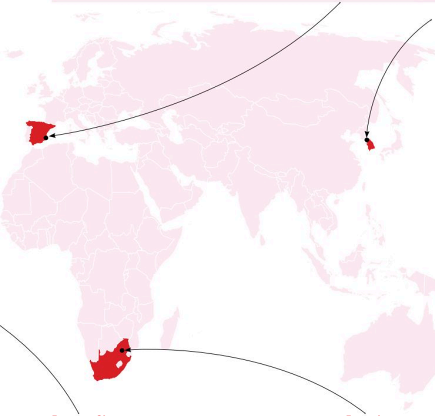
Labour laws do not explicitly prevent discrimination. "Between 20 and 30, most people are full of energy. You are more willing to... sacrifice yourself for the company," said a former employee. "But once you become a parent and your body starts ageing, how are you going to keep up the 996 schedule (9am to 9pm, six days a week)?"


Their time will come…

Alicante

Bank draws a blank: Spanish bank BBVA resurrected a merger proposal from late 2020 for Alicante-based Sabadell, which was ultimately rejected by the smaller rival and owner of TSB in Britain, says Jesús Aguado for Reuters. BBVA, led by Carlos Torres Vila, had made the "attractive offer" for a €12bn all-share merger that consisted of one newly issued BBVA share for every 4.83 Sabadell shares, representing a 30% premium as of 29 April's close. Since then, however, BBVA's share price has fallen by around 10%, while Sabadell's has risen by roughly 9%, shrinking the premium to 7.8% and valuing Sabadell at around €11bn. BBVA had sought to create a lender with 100 million customers and assets of €1trn, second only to Santander among banks in Spain. Higher interest rates and "robust" profits have increased speculation in increased mergers and acquisitions (M&A) activity, although, as the rejected offer shows, "clinching deals is far from easy". There is also the question of how TSB – "one of the smaller UK challenger banks" – would fit into BBVA's broader strategy of bolstering its position in developed markets, says Lex in the Financial Times. "A sale makes more sense", but finding a buyer "might be tough". In the meantime, BBVA would probably focus on Atom Bank, "the struggling UK digital bank" that already counts BBVA as its biggest shareholder.

BBVA's merger offer was rebuffed

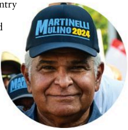


Seoul

Fair winds from IPO: Shares in HD Hyundai Marine Solution, the maintenance and repair unit of South Korea's biggest shipbuilding conglomerate HD Hyundai Group, had nearly doubled at the end of their first day of trading on Wednesday, says Kim Jaewon on Nikkei Asia. Its parent company owns a number of shipyards in the country, which will make it easier for HD Hyundai Marine Solution to win steady orders from the ships built. Another tailwind will come from the increase in orders from ship owners requiring repair and maintenance services due to environmental regulations. A third reason for the shares' performance is that relatively few were offered. The 8.9 million shares – 20% of the stock – raised KRW742.3bn (£435m), making the initial public offering (IPO) South Korea's biggest since LG Energy Solution raised KRW12.8trn in January 2022. The boost "should buoy sentiment" in the country's stockmarket, which "suffers from an anaemic valuation", says Robyn Mak on Breakingviews. The benchmark Kospi 200 index has risen just 4% this year, underperforming regional rivals in Japan, Taiwan and even Hong Kong. There's "much to like" about HD Hyundai Marine Solution – earnings "surged" 44% last year to 151.1bn won. Others may well now be encouraged to list. "South Korea's markets are primed to go full steam ahead."

Panama City

Mulino wins: José Raúl Mulino (pictured), a former security minister, has won the presidential election in Panama despite standing in as a candidate for Richard Martinelli – a popular former president convicted of money laundering, says Christine Murray in the Financial Times. Martinelli, who led the right-wing Realising Goals party, had been supporting Mulino from the Nicaraguan embassy since being handed a ten-year prison sentence last year, disqualifying him from running. Mulino inherits a country facing "some of its most complex economic and social challenges" since the restoration of democracy following a US invasion in 1989. For the past five years, Panama has been run by Laurentino Cortizo, whose implementation of one of the world's "strictest lockdowns" plunged the country into recession, says The Economist. Financial woes have been compounded by the closure of the Cobre Panamá copper mine and a "crippling drought", leading to traffic limits on the Panama Canal, through which 6% of global maritime trade passes.



Pretoria

Government could dig in: Australian mining giant BHP's rejected $39bn offer for London- and Johannesburg-listed peer Anglo American has put "South Africa and its mining sector on the spot", says George Hay on Breakingviews. Should the £140bn Australian return with an improved offer, it could "see one of the Rainbow Nation's most familiar companies largely withdrawn from the country" in which it was founded in 1917. That's because BHP wants to spin off Anglo's controlling stakes in Anglo American Platinum (Amplats) and Kumba Iron Ore, worth just $13bn combined. To be sure, platinum and iron are not integral to the "all-important" energy transition, where the money is, but selling these assets would see Anglo "effectively check out of South Africa", a country in which the mining sector has declined from 21% of GDP in 1980 to 7.5% in 2022. Anglo has been "more of a help… than a hindrance" to the government and has invested $6bn in South Africa in the past five years. It has proved a reliable partner in the sector's frequent labour disputes – all reasons for Pretoria, which owns 7% of the company, to be "awkward" about any merger. It may prefer a rival bid, but any suitor would "seek ways to unlock the value of Anglo's assets in ways Pretoria might not like".

Boeing's sea of troubles

The aircraft maker has aimed for short-term financial gain in a long-term industry, and the consequences are being felt. Can the company turn itself around? Simon Wilson reports

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Despite cultural problems, Boeing will fly high again

What's happened?

One difficulty after another is besetting Boeing, the world's second-biggest maker of commercial aircraft, which has been hit in recent months by a succession of safety scares and damaging claims from whistleblowers. This week in the US the Federal Aviation Authority (FAA) announced a fresh investigation into Boeing's safety culture after it confessed it may have failed to conduct legally required inspections involving the wings of some 787 Dreamliners. It's just the latest in a series of reputational blows for the firm this year.

What else has gone wrong?

On 5 January, a section of fuselage fell off the side of a 737 Max while flying over Oregon. The aircraft made a successful emergency landing with no serious injuries. It transpired that the bolts supposed to secure a section of the aeroplane had never been fitted. The incident prompted investigations by the FAA and a criminal probe by the Department of Justice. In March 2024, a Latam-operated Boeing 787 suddenly lost altitude during a flight from Sydney to Auckland, injuring 50 passengers; separately, the landing-gear on another Boeing plane malfunctioned at Houston airport. Then, in April, a Southwest Airlines Boeing 737-800 plane lost its engine cover during take-off. All these incidents have created a crisis of confidence in Boeing, and given credence to a series of disturbing claims from whistleblowers.

What are the claims?

In April, Sam Salehpour, an engineer at the aeroplane-maker, told a Congressional hearing that there is "no safety culture" at Boeing, alleging that employees who raise the alarm are "ignored, marginalised, threatened, sidelined and worse". He claimed he had identified safety issues affecting "more than 1,000" jets in service. Salehpour's testimony came weeks after the death of another high-profile whistleblower, John Barnett, a Boeing veteran of 30 years before his retirement in 2017. Barnett claimed workers who were under pressure had fitted sub-standard parts to aircraft on the production line, concerns ignored by management. In the days before his suicide, he had been giving evidence in a whistleblower lawsuit. Last week, another whistleblower, Joshua Dean, also died, of a respiratory illness. Conspiracy theories have flourished following the deaths, compounding the reputational damage to Boeing.

Wasn't there trouble before?

Yes. In March 2019 all Boeing 737 Max aircraft were grounded worldwide following two fatal crashes involving the Max 8 model. Investigations found that both tragedies were partly due to failings in the aircraft's software. Following changes to the design and software, regulators worldwide (including the UK's Civil Aviation Authority) recertified the aircraft safe to re-enter service 20 months later in November 2020. Since then there have been no similar incidents or issues with the relevant software. However, on several occasions Boeing has been forced to ground, halt production, or delay deliveries of Max series planes due to various unrelated technical problems.

Why has it all gone so wrong?

Many analysts date Boeing's troubles to its 1997 merger with McDonnell Douglas. In the following years, says Bill Saporito in The New York Times, the corporate culture shifted from one that prized engineering excellence and safety above all to one based on cost control and putting profits ahead of perfection. The company moved its HQ twice, chopped and changed chief executives, and began to outsource far more work – cutting costs, but also hampering oversight. More recently, an "obsession with quarterly results and share-price momentum" saw $61bn handed out in dividends and share buy-backs between 2014-2020, says Aviation Strategy's analysts – with far too little being spent on developing new products or safeguarding quality. "Boeing began to favour short-term financial management in a long-term industry," says The Economist. By contrast, its rising European competitor, Airbus – the two have a virtual duopoly in the passenger jet aircraft market – "focused less on investors and more on its aircraft".

"Airbus did better by focusing less on investors and more on its aircraft"

How do the two firms compare?

Boeing's share price has halved over the past five years, whereas Airbus's is up 38%. Five years ago, Boeing's market capitalisation was around two and a half times that of Airbus, but now the firms are roughly equal – with Airbus moving up. Since 2019, Boeing's combined annual losses have totalled $24.5bn, whereas Airbus has made $10bn of profits. Boeing still leads the market with its wide-body aircraft. But the popularity of Airbus's single-aisle offerings put the European giant far ahead overall, with a 62% share of the pair's combined market (according to Cirium's analysts). "The market share has shifted heavily to Airbus with the launch of the A320neo. That is not going to change," says Aengus Kelly, chief executive of AerCap, the world's largest aircraft-leasing company. Boeing should focus on the next generation of aeroplanes and build a "serious competitor" to rival whatever Airbus might offer, he told the Financial Times.

What else can Boeing do?

The company says it has taken action since the January blow-out, including additional inspections, more staff training and encouraging employees to speak out about quality and safety concerns. Dave Calhoun, Boeing's CEO, announced in March that he would step down at the end of the year; it came after the company reported a $355m loss for the first quarter of 2024. But all is not lost, says Peter Georgescu in Forbes. Boeing has deep-rooted cultural problems, but it still has a big market share, in a market where barriers to entry are steep and its customers are desperate for it to succeed, compete and innovate. With a board and new leadership determined to refocus on long-term quality and safety, there's every chance that it can fly high again.

UK must fight to keep its mining giant

The FTSE 100 is at risk of losing another big name to foreign bidders. The government should step in

Matthew Lynn
City columnist

It is the kind of mega-deal the City has not seen for years. The Australian-listed resources giant BHP offered £31bn for its UK listed rival, Anglo American. It was a complex offer that involved Anglo demerging assets before being bought out. Anglo has already rejected it, and its rising share price has taken its value to £36bn. It's clear BHP is not going to succeed with its offer, and that a counter-bidder may well step in, or BHP be forced to pay more.

Who else might bid? Glencore is one obvious rival suitor. Another would be Rio Tinto. Both the mining conglomerates would make obvious merger partners, and they would be reluctant to allow BHP to walk away with such a prize asset without trying to buy it themselves. It could even be a potential acquisition for BP or Shell. After all, they are also in the natural-resources business, and Anglo could help them diversify away from a declining fossil-fuel business – Anglo is a major copper miner, and the metal is vital for the infrastructure needed for the transition to net zero.

Whatever happens, it looks as if there will be a bidding war that will push the final price well above the 2,700p mark at which Anglo is currently trading – a 38% gain since the start of the year. Plenty of UK share portfolios will look a lot healthier by the time the war is over, and it will be enough to push up the FTSE 100 index.

The government is staying out of the battle for now. On one level that is the right decision. The UK does not have "national champions" and Anglo American is as much a South African company as a British one, with deep roots in the former's mining industry. We have traditionally left it to investors to decide who owns which companies, and if they want to sell out to a different owner that is up to them. The money will probably be invested back in the UK anyway. Interfering with the market ends up doing more harm than good.

This case is different

The trouble is, the London stockmarket is rapidly disappearing. The number of companies listed in the City has fallen by a quarter over the past decade, and was down by another 6% over the last year. Businesses are being bought out, or shifting their listing elsewhere, and very few new ones are floating to take their place. Even Shell has raised the alarming possibility that it might shift its listing to New York.

The London stock exchange is slipping into a vicious circle where fewer and fewer companies are listed, valuations fall because there is very little for investors to put their money into, and that makes the exchange even less attractive. Once that trend gets established it may well prove impossible to break. Within a couple of decades, the London exchange may well be as completely forgotten as the once-thriving Manchester or Liverpool exchanges.

If Anglo is taken over by BHP and Australia remains its sole listing, as seems likely, then yet another major company will have left the London market. We don't expect another £30bn-plus conglomerate to be floated any time soon. It will accelerate the decline of the exchange and could even prove to be the moment when it becomes terminal. Behind the scenes the government should be trying to stop that happening. True, its power is limited. Anglo American has a global shareholder base, the hedge funds have already piled into the shares, and they will be looking for the company to be sold at the highest possible price.

©Getty Images

The FTSE is in a hole, and keeps digging

Still, a little arm twisting from ministers could help a rival domestic offer for the company to emerge. Glencore is a more than credible bidder, and with a market value of £57bn could certainly afford it. So is Rio Tinto, with a value of £180bn. The two British oil giants, BP and Shell, could certainly afford it as well. The BHP bid undervalues Anglo American. That much is already clear from the share price. And an all-UK deal would create a British resources giant and keep the business listed in London. The UK should be doing everything it can to make it happen.

City talk

● "The days when businesses queued up to join the public markets in the City... seem a long-distant memory," says Jonathan Prynn in the Evening Standard. London's global initial public offering (IPO) league table today makes "depressing reading," with the capital dropping out of the top 20 for money raised so far in 2024.

The market's fortunes depend on Shein and Shell. If the Chinese retailer lists in London, it would be a "huge fillip that could open the floodgates" for other technology firms such as Zopa and Zilch to follow. But if Shein spurns London, and Shell acts on CEO Wael Sawan's "obvious frustration with its London rating" and moves to New York, it would be a "shattering symbolic blow from which the City would find it hard to recover".

● Aston Martin Lagonda wants to become "the world's most desirable, ultra-luxury British performance brand", says Alistair Osborne in The Times. Apparently, it is now in a "period of transition", which "beats what it has so far achieved in its stockmarket life: ...going backwards at great velocity until it runs out of fuel". After going bust several times and failing to raise funds through an IPO, along came CEO Lawrence Stroll, a "Formula One nut", who since 2020 has launched several new models and raised millions of pounds through share sales and debt refinancing.

Despite these efforts, James Bond's favourite carmaker still posted losses and experienced a cash outflow. Stroll promises a second-half turnaround, but who can be confident that Aston Martin won't "goof up" a new launch?

● Social media has been a boon for publishers since Covid, says Lex in the Financial Times. BookTok, a community within the TikTok app where influencers review their favourite books, has propelled formerly unknown authors and niche genres onto bestseller lists. The decline in overall print volumes in the US has been offset by the growth in adult and young-adult fiction, driven by fantasy, romance and coming-of-age genres. Harry Potter's publisher Bloomsbury raised its profit outlook after strong sales of the latest novel by fantasy author Sarah J. Maas. "Publishing has inadvertently scored a win in the competition for eyeballs."

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Essential but unfashionable

Energy remains an unloved sector, but it's impossible to imagine an AI revolution or green boom without it

Cris Sholto Heaton
Investment columnist

One striking feature of today's markets is how much investors seem to dislike energy. The sector isn't exactly languishing: the MSCI World Energy index has returned 25% per year over three years in sterling terms. Yet it still feels like a most reluctant bull market in which many buyers would rather not participate.

It certainly doesn't help that the heavy focus that many asset managers put on sounding green and sustainable left them completely on the wrong side of the market when oil roared back after the pandemic. But the general sense of discomfort around the sector goes deeper than that.

Take the questions around Berkshire Hathaway's energy business (see right) that have had plenty of coverage recently. I don't have a view on how attractive the business is for Berkshire in future and I can't pretend to have much insight into US utility regulation. The cynic in me thinks that Buffett's comments may be a rather obvious effort to jawbone regulators and courts into going a bit easier on his firm than a convincing threat to bail out. But I can certainly see that many Berkshire shareholders would be happy if the conglomerate stepped back from investing in energy and handed out more of its cash as share buybacks or even a dividend.

We can't have AI without energy

This reticence about investing in a difficult, grubby, old-fashioned sector is a problem. The world will need a significant amount of investment in energy infrastructure in the years ahead to achieve goals such as decarbonisation or electrification, as well as meeting our continually growing demand for more energy. It seems odd that the market is fixated on the potential of

SPDR MSCI World Energy ETF (LSE: WNRG)
Share price in US dollars

artificial intelligence (AI), without factoring in the demand that AI systems will create if rolled out on the scale that their proponents suggest.

Even if AI falls flat, the same goes for other digital-economy themes such as cloud computing. Already, annual electricity consumption by data centres is forecast to double between 2022 and 2026, to almost 1,000TWh, according to the International Energy Agency – roughly the current annual consumption of Japan. A true AI revolution – on which I remain unconvinced for now – will surely push demand far higher.

From boom to bust

This is why energy strikes me as increasingly interesting – it's a beneficiary of many trends and yet it remains unloved. The caveat is that the technology isn't a one-way bet. Last week, I wrote about the exchange traded funds (ETFs) that have done well over the past year (including nuclear power). If you also look at those that did badly, they include hydrogen, solar, clean tech, green energy, rare earths metals, strategic materials and so on. These ETFs are often very concentrated, with high weightings to smaller, pure-play companies that are prone to boom and bust. Some will be poised for a rebound – but personally, I see areas such as liquefied natural gas, copper and nuclear as being simpler ways to play the overall trend of higher demand for electricity.

I wish I knew what the Gordon Growth model is, but I'm too embarrassed to ask

The Gordon growth model is a simple but powerful way of valuing shares based on the dividends that the company is expected to pay in future. It gets its name from Myron Gordon, an economist who originally published the method in the 1950s, and is the most common and straightforward example of a class of valuation methods called dividend discount models. The theory behind these is that the value of a company is equal to the value of all the dividends that it will ever pay to investors, discounted back to their present value (so a dividend paid in five years' time is worth less than a dividend paid tomorrow).

To apply the Gordon growth model, you need an estimate for next year's dividend per share (D), the long-run expected stable growth rate of dividends (g), and the investor's required return (r). The model says that the price (P) of a particular share should be next year's expected dividend per share, divided by the investor's required return less the long-term dividend growth rate. Expressed as a formula, this is $P = D \div (r - g)$.

Let's assume that a company will pay a dividend of 10p per share, the long-term growth rate is 4%, and the investor wants an 8% return. The value of the share to this investor is $10 \div (0.08 - 0.04) = 250$p.

In practice, we can almost never know what dividends a company will pay far into the future, but we can try out different scenarios to get a range of estimates for its fair value. We can also invert the model and work out what assumptions are needed to justify the current share price of a company and whether they seem reasonable.

The Gordon growth model will not work for stocks that do not currently pay any dividends or those where dividend growth is so high that g exceeds r. These problems can be solved by using a multi-stage model, where dividends start in the future, grow at higher rates for a finite period of time and then settle down to a steady, lower long-term rate.

Guru watch

Warren Buffett, co-founder, Berkshire Hathaway


©Getty Images

Berkshire Hathaway sees few good opportunities for investing the record $189bn that it currently holds in cash, says Warren Buffett, the billionaire investor who co-founded the sprawling conglomerate. "I don't think anybody sitting at this table has any idea of how to use it effectively," Buffett told the Berkshire annual general meeting last weekend.

The group's cash is mostly invested in short-term bonds, which are earning a relatively attractive yield thanks to the US Federal Reserve's rate hikes – but Berkshire would keep holding cash even if rates fell. "We don't use it now at 5.4%, but we wouldn't use it if it was at 1%. Don't tell the Federal Reserve that, we prefer it. We only swing at pitches we like.""

The preference for cash reflects the long-standing difficulty that Berkshire has in finding compelling investments that are large enough to be meaningful for the group, which now has over $1trn in assets. "I don't mind at all under current conditions building the cash position. When I look at the alternatives, what's available in equity markets and the composition of what's going on in the world, we find it quite attractive."

In the past, Berkshire was able to invest cash generated by its financial divisions into capital-intensive sectors such as energy that earned steady returns. But this no longer seems so reliable. Its electricity and gas arm, Berkshire Hathaway Energy, faces a number of challenges linked to climate change, including billions of dollars in potential damages from lawsuits over wildfires caused by fallen power lines.

Buffett had already suggested that these risks might undermine Berkshire's enthusiasm for making further investments in the sector. "Berkshire can sustain financial surprises, but we will not knowingly throw good money after bad," he wrote in his letter to shareholders in February – an abrupt change from past statements that energy was central to the group.

The decline of the fund manager

Ben Wright
The Telegraph

Today's fund managers are no longer "masters of the universe", says Ben Wright. During the "golden age" of fund management in the 1990s and 2000s, when star fund managers such as Nicola Horlick became household names, Mercury Asset Management was looking after pension-fund assets for more than half of the firms in the FTSE 100. However, the death of defined-benefit pensions, the rise of cheap, index-tracking funds and firms' shift towards private-market strategies alongside a range of accounting, tax and regulatory changes over the past 30 years have caused "turmoil" in the industry. Add a "dash of scandal", such as Neil Woodford's fall from grace, and you "have a toxic brew". Aside from pensions, risk-averse Britons "tend to hoard their wealth in property and cash". All this has made life very tough for listed, middle-of-the road fund managers. Can they turn things around? Wholesale pension reform and mergers would help. One "intriguing possibility" is for UK banks to revive their asset-management arms. Could the share prices of UK-listed asset managers fall far enough for high-street lenders to be tempted to "correct their hasty divestments"? And would regulators and bank shareholders allow it?

Russian asset raid is a bad idea

Wolfgang Munchau
The New Statesman

The Group of Seven (G7) industrial countries is planning to raid Russia's foreign-currency reserves to pay for weapons for Ukraine, says Wolfgang Munchau. A sum of $210bn of Russia's $280bn reserves is held at Euroclear in Belgium. The US has now proposed a "hideously complex financial construction" based on the idea of using those frozen assets as collateral for a bond. Germany and Japan oppose the idea, since the argument that Russia owes money to Ukraine for war crimes could be used to argue that Germany owes war reparations to Poland and Japan to South Korea. It is also "uncharted legal territory". Russia could sue – or retaliate. There are an estimated 1,400 Western firms still operating in Russia. We're not the "only ones with the power". However, the main reason for caution is the eurozone's "precarious position in the wake of the debt crisis". The likes of China and Saudi Arabia have large holdings in the EU. They may think this is no longer worth the risk – and complex financial instruments "always conceal risk… What we are now trying to conceal is our inability to pay for the support we have pledged to Ukraine". Despite all this, the asset raid is likely to happen – the alternative is raising taxes or more debt.

The way to attract teachers

Lucy Kellaway
The Spectator

The government has a teacher recruitment crisis, yet the Department for Education is axing its £1.4m annual funding for Now Teach, the scheme I founded to retrain older professionals as teachers, says Lucy Kellaway. Its rationale is that it has been "cleaned out" by the estimated £1.5bn cost of the pay rise for teachers. It "still makes no sense". Only 50% of the teachers needed for secondary schools were recruited last year, fewer still in science and technology subjects, where we are strongest. Using "any old randomer" to teach maths, physics and computer science is a "micro disaster" for individuals and a "macro catastrophe" for the economy. This year, as the number of young recruits shrinks, the number of 50-somethings joining the profession has risen by a third. Now Teach has beaten its targets at bringing great teachers into schools. The government has responded by saying that it will start recruiting older teachers itself. "I'd like to see it try." Even if it finds older trainees, it may not keep them. It is the "promise of our network and support" that draws – and keeps – people in. Our teachers are 20% more likely to stick with it than older trainees who go it alone. We may be small, but we were growing, and would "like the chance to grow more".

Will AI transform shopping?

Jinjoo Lee
The Wall Street Journal

Shopping on the likes of eBay and Etsy can feel like "treasure hunting at a giant flea market", with millions of listings to sort through, says Jinjoo Lee. The average search on Etsy yields more than 10,000 items. No wonder online marketplaces are "keen to add artificial-intelligence [AI] functionality to their search bars". In April, eBay, with around two billion live listings, introduced an AI-powered feature called "shop the look", which provides users with a selection of outfits based on their shopping history. ThredUp launched an AI product this year that can "intuit what the user is actually looking for". However, a "fully conversational" online experience is some way off. Google finds that as "page-load time" rises from one to five seconds – and latency in generative AI is measured in seconds – the probability of a user giving up nearly doubles. Large language queries are about five times more expensive than traditional models, so users would need to spend more to justify the investment. In the near term, a better use of AI might be reducing hassle for sellers, for example by automatically filling out product information, as eBay is doing. Either way, for online marketplaces, "further breakthroughs" can't come "fast enough".

Money talks

"If socialists understood economics, they wouldn't be socialists."
Economist Friedrich von Hayek (1899-1992), quoted on social-media platform X

"This is about getting myself a nest egg, so I can get a place in the sun because I have a problem with British weather. And if there's a crisis, you can throw money at it. That's the best thing about money. The next stage is to have enough not to have to fly commercial. I'm 6'4" and I find flying absolutely awful."
Actor John Cleese on agreeing to act in the stage version of sitcom *Fawlty Towers*, quoted in The Times

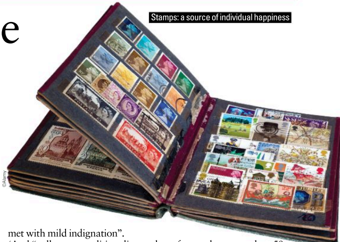
"The PhD student is someone who forgoes current income in order to forgo future income."
US journalist Peter Greenberg, quoted on X

"I think Rishi Sunak could fly over the UK in a helicopter and drop a million pounds down every chimney and they would still vote him out come October."
Reform party MP Lee Anderson, quoted in The Mail on Sunday

"Don't ask the barber whether you need a haircut."
Warren Buffett, quoted in the Financial Times

"[It] just doesn't make sense to stay here. This is going to cost me millions and millions of dollars and pounds every year in taxes on money that I've actually made abroad and businesses that I've built abroad… What's the logic of me living in the UK when other countries are offering no taxes at all? In Monaco there are no taxes, and no inheritance tax."
Entrepreneur and Tory party donor Bassim Haidar on the government's and Labour's plans to scrap the non-domicile tax status, quoted in The Guardian

Why the humble stamp lives on



Stamps: a source of individual happiness

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theatlantic.com

In a "decidedly digital age", the modern postage stamp seems to be "slowly disappearing from daily life", says Andrea Valdez. They're so overlooked that, as comedian Nate Bargatze has said, we're no longer even sure how many we should put on a letter, or what they cost. "You have to find out from old people."

The humble stamp has not had its day yet, however. The volume of mail may be in decline due to the rise of the internet, but the US postal service still sells about 12.5 billion stamps annually. (Fewer than eight billion letters were sent via Royal Mail in the UK in 2020-2021, according to The Guardian, down from a peak of 20 billion in 2005.)

But stamps serve a purpose beyond the functional. They "also tell a story about national identity" and technological and cultural change. Their invention, indeed, "triggered the information revolution", says Rachel Morel, the curator of the British Library's Philatelic Collection. And individual stamps are both "miniature art works and pieces of government propaganda", wrote Dennis Altman in his 1991 book *Paper Ambassadors: The Politics of Stamps*. "They can be used to promote sovereignty, celebrate achievement, define national, racial, religious, or linguistic identity, portray messages or exhort certain behaviour."

Decisions about stamp design and special commemorative issues are not taken lightly – for good reason, as any stamp design is "certain to irritate someone". When the US postal service announced a stamp to commemorate Elvis Presley, for example, some Americans were scandalised. The decision to put Bugs Bunny on one was "also met with mild indignation". (And "collectors, traditionalists and royalists" were "not amused" by the recent change to British stamps to include a printed digital code, as The Guardian reported at the time of their introduction.)

The design choices matter, however, for they propagate the official culture of a given state and allow governments to tell the story they want to tell. A number of African countries' stamps have featured Martin Luther King Jr, for example. The Apollo 11 mission has been featured on more than 50 stamps in other countries. More recently Ukraine has used its stamp programme to win hearts and minds in support of its war against Russian invasion.

Stamps are also a source of happiness, whether it's the simple pleasures of stamp collecting or the joy of receiving a letter. So why send an email, when "we know that nearly everyone's mood lifts when they receive actual letters"? "Choose the mailbox over the inbox" whenever you can.

The end of magical thinking

project-syndicate.org

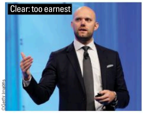
For more than a decade, some economists, mostly on the left, have rejected any idea of fiscal prudence as "austerity", says Kenneth Rogoff. They argued that the potential benefits of using debt to finance government spending far outweigh any associated costs. Dissenting voices were often ridiculed. "The tide has turned." Over the past two years, this type of "magical thinking" has collided with the "harsh realities" of high inflation and the return to normal long-term real interest rates. Advanced economies' average debt-to-income ratio will rise to 120% of GDP by 2028, according to the IMF, and, as higher borrowing costs become the new normal, they will "gradually and credibly" have to "rebuild fiscal buffers and ensure the sustainability of their sovereign debt". Developed countries rarely default on their domestic debt, "preferring to use inflation and financial repression to manage their liabilities", but a high debt burden remains generally detrimental to economic growth, by crowding out private investment and narrowing the scope for fiscal stimulus during crises. There's no need to panic: bouts of high inflation or financial repression are "rarely catastrophic". But it is lower- and middle-income citizens that bear the brunt of the costs. "Government debt is not and never has been a free lunch."

Resume your uneasy doze

economist.com

Atomic Habits by James Clear has been on the bestseller lists for 277 weeks, says The Economist. The book is "both ludicrous and helpful" at the same time, arguing that small changes of routine are the way to go, whether your goal is to be productive or eat healthily.

Comparing Clear's offering with older self-help advice is revealing. Arnold Bennett's *How To Live on 24 Hours A Day* of 1908, for example, covers much the same ground. Both authors "espouse the importance of discipline, ritual and habit in managing time more productively". But where Clear is earnest and seeks to fill the spare moments of an already hectic day with yet more tasks, Bennett is relaxed and wry. "If you can get 1% better each day for one year you'll end up 37 times better," says Clear, bizarrely. Bennett, on the other hand, cautions against a programme of self-improvement lest "one may come to exist as in a prison and one's life may cease to be one's own". If you think that "ingeniously planning out a timetable" will be enough to solve your problems, he writes, then "lie down again and resume the uneasy doze which you call your existence".



Clear: too earnest

©Getty Images

Britain's export boom

theconversation.com

Businesses in the UK are "beaming with pride", says Ibiyemi Omeihe, following the news that the country ranks as the fourth-largest exporter in the world in the UN's Conference on Trade Development report. The UK jumped three places in 2022, surpassing France, the Netherlands and Japan.

Post-Brexit, the UK has been "charting its own course in the international" sphere, breaking from established trade agreements and regulations, and trying to drive expansion in exports in response to global economic opportunities and challenges. The UK has "remained resilient", negotiating new deals with old and new trading partners, and signing up to strategic partnerships such as the CPTPP, a free trade pact with 11 countries. The picture is mixed – the growth is mostly evident in the services sector, while the goods sector lags. And it remains uncertain whether the positive direction of travel can be sustained. But the UK has ways at hand to maintain its momentum and is now well placed to "punch above its weight" in global trade.

Power your portfolio with energy drinks

The sector boasts the best-performing stock on record, and looks poised for decades of strong growth. Rupert Hargreaves explains why, and highlights the companies poised to benefit

©Getty Images

The Magnificent Seven group of technology stocks (Apple, Microsoft, Amazon, Nvidia, Meta Platforms, Tesla and Alphabet) have hogged the headlines in the past five years. But the performance of these firms pales in comparison to the best-performing stock of all time.

This business doesn't produce anything nearly as complex as the microchips or artificial intelligence (AI) tools the world's tech giants have spent billions of dollars developing. It simply mixes sugar and water, creates a brand and sells the drink. The company is **Monster Beverage (Nasdaq: MNST)**. Over the past 30 years, the stock has returned almost 200,000%, turning every $10,000 invested into nearly $20m.

This is fascinating. An energy drink is made of sugar, water and caffeine; it may also contain a few other additives. There's nothing special about it. What's more, it isn't a unique product. Go into any corner shop or retailer, and you'll find shelves of different brands, in varying packaging, all essentially offering the same thing – caffeine, sugar and water. There may be some variation in additives, or each product may be aimed at a different segment of the market, but the basic ingredients remain the same.

So why do these products make such great investments? They seem to offer a unique combination of fat profit margins, robust free cash flows, and sensible capital-allocation policies.

Robust return on capital invested

The consumer-goods market is one of the most consistently profitable sectors, but it is also one of the most competitive. The cost of making products such as soft drinks, biscuits and shampoo on a large scale can usually be lowered thanks to economies of scale. And if you have a strong brand behind the item, it will have a degree of pricing power. That allows companies to propel prices higher to maintain profitability if costs rise. However, few companies in the space have real, global pricing power.

Coca-Cola is always cited as the classic example of a business with true pricing power that has maintained its edge for decades. But it is the exception, not the rule. Just look at Unilever, which recently announced that it intends to sell or spin off its ice-cream business, including the famous Magnum ice-cream brand, in an effort to improve margins and profitability. If Unilever, one of the biggest players in the fast-moving consumer goods industry, cannot help Magnum retain its competitive edge, who can?

Monster is one of the rare companies that has been able to build and maintain a competitive advantage. Over the past five years, the company has reported an average return on invested capital (Roic), a key gauge of profitability, of 24.8%. In 2019 and 2020, that figure rose to around 30%.

"Monster's stock has returned almost 200,000% over the past 30 years"

Roic gives investors an idea of how much the company earns for each pound, or in this case dollar, invested. Monster has been earning as much as 30 cents for each dollar invested in the business, roughly doubling that dollar every 2.5 years. That puts the business in the ranks of the most profitable companies in the world. These figures make clear that Monster has very lucrative products, while its operations require little in the way of capital spending. When its plants are up and running, there is no need for continual investment.

How does Monster compare with Coke on this metric? It is miles ahead. Coke's Roic has averaged 15% over the past five years and has fallen below 10% in several years during the past decade. Where the two companies differ is diversification. Monster has prioritised its core product, while Coke has expanded into different product categories, which has required more investment and marketing spending.

Here is another lesson of the success story of Monster and the energy-drink sector. Many companies in the market have stuck to doing what they do best: making energy drinks. Monster has made an effort to expand into different markets in recent years – in 2022, it acquired CANarchy Craft Brewery Collective for $330m. But its main line of business is still its core energy drink. CANarchy comprises a tiny percentage of overall sales.

Monster also operates an asset-light business model. The most capital-intensive part of the company's product, manufacturing the can, is mostly outsourced. While this has been a headache in the past few years as transport costs have surged (aluminium cans are expensive to move around), it has contributed to overall growth.

It is a strategy Coca-Cola has also pursued. The company sells the basis of the product – the Coca-Cola syrup – to third parties that specialise in bottling. Many of these firms have roots with the Coca-Cola company itself and have been spun off over the years. Coca-Cola HBC, listed in London, is one such entity. It has become a force to be reckoned with in the soft-drink industry in Europe as it has invested profits back into the business and expanded its product line.

Thanks to its asset-light business model and high returns on capital, Monster is awash with cash. At the end of 2023 it reported a net cash balance of $2.3bn. It doesn't pay a dividend, but it has been a big buyer of its own stock. Towards the end of last year, it announced another $500m share buyback – a significant event for a company with a $56bn market capitalisation. Monster is the easiest case study of how profitable and successful an energy drink company can be, because it's public. However, the 800-pound gorilla in the room is Red Bull.

Market leader

Red Bull wasn't the first energy-drink company, but it was the first to use the industry's fat profit margins and returns on capital to build a cult-like following. The company has always been private and closely held, but according to the data available its sales reached nearly $11bn in 2023, reflecting annual growth of 9% (Monster's sales for the same period were around $7bn).

Red Bull was founded in the mid-1990s by Austria's Dietrich Mateschitz. Mateschitz had been travelling around Asia and had stumbled upon a drink called Kratin Daeng. Aimed at labourers in Thailand, Krating

Take off: Monster achieved sales of roughly $7bn in 2023

Daeng contained caffeine, taurine, inositol (a form of sugar made in the body and found in foods) and B-vitamins as well as sugar and water. Mateschitz found that the product cured his jet lag and took the recipe back to Austria, where he founded Red Bull with partner Chaleo Yoovidhya (who invented Krating Daeng in 1967), for a total up-front investment of $1m.

Mateschitz's shrewdly repositioned Red Bull as a trendy product rather than something aimed at blue-collar workers. That remains true today, with the company thought to spend between 20% to 25% of sales every year on marketing and sports sponsorships (the figure for Monster is 5%). These investments are revenue generators for the group. Its Formula One team, for example, produced roughly £350m in revenue in its last fiscal year.

The energy-drink market is unusual in this respect. Brands have created cult followings through sponsorships and events, which have reinforced and developed their competitive edge. This ultimately allows them to maintain their pricing power.

Most people's cup of tea

This last point is important and brings me onto the demographics of the energy-drink market. According to marketing research agency Streetbees, which draws on the data of millions of people surveyed in the UK, the US, India, Kenya, Nigeria, South Africa and the Philippines, only 9% of people haven't tried an energy drink. A total of 32% consumed drinks regularly, and 58% had tried one "at least once". A little over two-thirds of regular consumers were under the age of 35. Two-thirds of respondents also said they consumed energy drinks for the energy boost, while a third said they drank the drinks to enhance their performance. A fifth said they did so specifically to enhance their performance during sports. When it comes to brand loyalty, 55% declared that they tended to stick to one brand.

This data provides a lot of insight into who is drinking these products and why. Brands such as Monster and Red Bull have cultivated an image of high performance, and their products give an energy boost to enhance that performance, particularly in the world of sports. The Monster Army is Monster Energy's athlete-development programme, supporting athletes in motocross, BMX, mountain bike, skate, surf, snow and ski events. Many of its consumers appear to associate themselves with these sports and the drive for success.

The cult of the brand extends beyond Monster and Red Bull. In 2020, YouTubers and sports stars Logan Paul and KSI launched a sports drink called Prime Hydration, which was followed two years later by Prime Energy. With a combined social-media following of more than 40 million, Paul and KSI's product became an instant social-media sensation.

People (mainly young people) weren't buying Prime Energy as an energy drink. They were buying it because they wanted to be part of something bigger. Bottles of Prime Energy, which now sell for £1.50, were going for 50 times that amount on Amazon as early buyers tried to profit from the boom. The case study tells you

Continued on page 22

"Surveys in major markets suggest that only around 9% of people worldwide have not tried an energy drink"

Continued from page 21

everything you need to know about the market's core customers. They are young, image-conscious, brand-conscious and not particularly price-sensitive.

Red Bull controls a low 40% share of the global market, with Monster in the high 30% range. Together, they make up roughly four-fifths of total sales. Outside these main players, the world's beverage giants, Coke and PepsiCo, both have a foothold in the market. Pepsi purchased the energy drink brand Rockstar for $3.5bn in 2020, which took it into this key market with the ownership of a brand.

Pepsi pops open a can

However, energy drinks are an afterthought for both the giant companies. They are still small parts of the overall business and that suggests they may not get the attention they deserve. What's more, investors looking at either business would end up owning a host of other brands, most of which are nowhere near as lucrative. Coke's Roic, which I touched on at the beginning of the article, says more than enough. These big beasts are slow and steady consumers' champions. They're not fast-growing, focused drink companies.

Pepsi knows this. That's why, in 2022, it took a $550m stake in energy drink maker **Celsius Holdings (Nasdaq: CELH)** as part of a long-term distribution deal. Celsius sells products under the CELSIUS Originals and CELSIUS Heat brand names, as well as powders used to make energy drinks. The deal with Pepsi gave Celsius access to Pepsi's distribution network, putting it in front of millions of consumers.

This has helped propel sales from $53m in 2018 to $1.3bn in 2023. Analysts think sales will surge to nearly $3bn over the next three years. Considering its record, I wouldn't bet against it. It produced the top-selling energy drink on Amazon last year.

Celsius's growth has earned it a high valuation. It is trading at more than 13 times sales, which would be seen as a rich valuation in any part of the market. Sector giant Monster is cheaper. It is on a price-to-sales (p/s) ratio of 7.8 and a forward price-to-earnings (p/e) ratio of 26.9.

I think that's cheap for a business that has earned a return on capital of over 30%. Although it is the more mature business, Monster still has plenty going for it and has the cash to fund any fightback against its market dominance. It could easily double or triple its marketing spend, and there are billions of dollars in cash on the balance sheet to buy back shares if growth stalls.

Away from the conglomerates and the focused players, there are several smaller, diversified companies that specialise in beverages for the consumer market. **Suntory Beverage & Food (Tokyo: 2587)** is a play on both the global energy and health-drink market as well as the resurgence of Japan's equity market. Suntory owns Boss, which is known as the "coffee of the working people" in Japan; Lucozade in the UK and Europe; and the V and Sting energy drink brands in the Asia Pacific region.

It also sells a range of other soft drinks as well as ready-to-drink tea and other health-food products. In addition, it offers a range of alcoholic beverages and has a notable market share in the high-end whisky market. It reported revenue growth of nearly 10% last year and is forecasting further growth of 5% this year.

While the group's growth has been fairly lacklustre over the past decade, initiatives to launch new products and enhance the performance of existing brands by doubling down on marketing have started to pay off. Earnings before interest, tax, depreciation, and amortisation (Ebitda) rose by more than 10% last year, and management has said it will continue to invest heavily in growth for the coming year, particularly on core brands, while improving its supply chains.

Vita Coco (Nasdaq: COCO) produces a popular line of coconut water sold in health-food shops and grocery stores and recently introduced Vita Coco Energy, containing caffeine. This firm is more of a health brand than an energy drink brand, but it does have a strong following and that is reflected in the group's profit margins. Last year the company reported a jump in gross profit, thanks mainly to lower shipping costs.

Lower costs boosted the gross margin from 24% to 37%, and that sent full-year net income to $47m from $8m. However, Vita Coco isn't expecting the same to happen in the year ahead. In fact, the company has only pencilled in revenue growth of 1% to $500m with a gross margin of 37%.

Still, it is returning cash to investors. In October last year, management approved a $40m share buyback, returning virtually all of the group's profit to investors. Vita Coco also has a strong balance sheet, with no debt and cash of $123m at the end of the first quarter – 8% of its market capitalisation of $1.5bn.

Scotland's favourite fizzy drink

I've saved my favourite company until last. **AG Barr (LSE: BAG)** is best known for its Irn-Bru brand, Scotland's favourite fizzy drink, but over the past five years, it has expanded into energy drinks. Irn-Bru has launched an energy-drink version of its eponymous product, and another AG Barr brand, Rubicon, has launched Raw Energy.

In 2022, AG Barr also acquired Boost energy drinks. Boost sits at the lower end of the price scale for energy drinks. Where you might pay £1.50 for Red Bull in your local shop, Boost retails for about 75p. It has always been a small player in the market, although that will change now that AG Barr can bring its financial firepower to bear.

Energy and sports drinks are the fastest-growing subcategories within the UK soft-drinks market. The group acquired Boost for £20m, with an additional £12m depending on future revenue growth. The price of the deal was just ten times profit on the initial consideration. When you look at the valuation of the likes of Monster and Celsius, that's a steal.

AG Barr itself isn't expensive, either. The stock is trading at just 15.3 times forward earnings, falling to 13.5 times for 2026. Boost is already contributing to the company's bottom line and AG Barr has net cash of about £53m to fund growth and marketing of its energy-drink products.

"Irn-Bru owner AG Barr's firepower will give the Boost drink brand a fillip"

Vita Coco is looking to expand its already strong following

Reduce risk and spread your bets

Hedge funds are typically the preserve of wealthy investors, but investment trusts provide access

Rupert Hargreaves
Investment columnist

Retail investors often overlook hedge funds, as these vehicles are not aimed at them. Hedge-fund managers are only allowed to market themselves to wealthy investors, with many demanding a minimum stake of at least £100,000. Hedge funds are not like the investment funds available to the everyday investor. They are lightly regulated and can invest in a wide range of assets. The most common fund used to be the long/short equity fund. Long/short funds buy the stocks they like best, the ones they think are going to go up, while shorting the ones they think are going to lose value: a hedged equity strategy. In theory, this strategy will lead to lower losses when the market is falling, underpinning smoother, higher returns in the long term.

Wide diversification

Long/short funds still dominate the $4trn sector. Still, there are plenty of other strategies, such as algorithmic trading funds, debt-focused funds, macro funds (which trade assets such as bonds and commodities), commodity-focused funds, activist hedge funds and funds managed by short-sellers, who seek out the market's disasters before they happen. But why would an investor want to own a hedge fund? Put simply,

Currencies are among the many assets hedge funds invest in

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hedge funds can provide diversification into various asset classes and provide exposure to different investment managers. Wealthy individuals may own stakes in several hedge funds alongside other investments to help them build exposure to trading strategies they may not understand or have the resources to trade.

Man Group (LSE: EMG) is the world's largest publicly traded hedge-fund firm, and a good case study of how hedge funds operate. It specialises in trading foreign currencies using computer models and last year one of the best-performing investment strategies was a fund called Man AHL TargetRisk, which generated annual returns of 14.1% by trading assets such as credit-default swaps, futures contracts on stock indexes and government debt for France, Germany, the UK and the US. Investors like this approach. The overall group's assets under management surged by 17% last year to a record high of $167.5bn.

Man Group takes annual management fees and performance fees if a certain performance hurdle is met on the funds. This is one of the easiest ways to profit from hedge funds without running the gauntlet of selecting one yourself. The stocks yield 5.7% and the company has been spending money to buy back stock. **Pershing Square Holdings (LSE: PSH)** is an investment trust that follows the strategy of the Pershing Square hedge fund. It has earned one of the best returns of any investment trust thanks to its focused portfolio – another hallmark of hedge funds, as unlike open-ended retail funds they don't need to conform to diversification rules. Over the past five years, Pershing Square's hedge fund has returned 203.5%.

BH Macro (LSE: BHMG) is another investment-trust hedge fund. BH Macro tries to trade global financial markets, using instruments such as debt, foreign currencies, swaps and commodities to earn a positive annual return. Over the past decade the fund has returned 95.5%, providing profitable diversification to a portfolio. The trust's sterling class is on a 12.2% discount to net asset value (NAV). If the discount stays wider than 8% over the year, shareholders are allowed a discontinuation vote in 2025. The board has bought back shares to try to close the discount.

Then there is **Tetragon Financial Group (LSE: TFG)**. While technically not a hedge fund, the close-ended company invests like one. Its portfolio is a mix of private assets, bank loans, venture-capital equities and real estate. Since the firm listed in 2007, its NAV has risen by 426%, more than double the return of the MSCI All Country World index. The shares yield 4.6% and the fund has been buying back shares. The shares currently trade at a 69% discount to NAV.

Activist watch

Activist investor Gatemore Capital Management has called for Paul Waterman to resign as CEO of Elementis, lambasting the chemicals company's "self-inflicted management failures", says This is Money. Gatemore, which owns 0.6% of Elementis, criticised the purchase of Mondo Minerals, which failed to deliver the promised synergies and added to debt, and highlighted Elementis's declining earnings per share and operating margins. The stock has underperformed peers and the FTSE 250 index by 76% and 86% respectively since Waterman took over as CEO in 2016. Gatemore wants Elementis to replace him and conduct a strategic review to make the group more attractive to buyers and speed up its cost-savings programme.

Short positions... investors bolster their defences

European investors are increasingly putting their money into exchange-traded funds (ETFs) tracking the defence sector, says the Financial Times. The three available ETFs had net inflows of $189m by 22 April, putting them on track to match the record haul of $321m the three funds made in March. This increase in investment coincides with a rise in defence spending by European governments after Russia invaded Ukraine. The VanEck Defence Ucits ETF is the largest fund, with retail investors owning about 60% of it. Wealthy clients of private banks, family offices, and independent wealth managers are also keen on the industry. Pension funds have traditionally excluded defence stocks, but some are rethinking this stance. Tom Bailey from HANetf, the issuer of the second-largest defence ETF, the Future of Defence Ucits ETF, said clients see them as a "hedge against geopolitical risk" and as a "long-term structural story".

St James's Place's customers pulled £3.26bn from the UK's largest wealth manager in the first quarter of 2024 amid an overcharging scandal, says The Telegraph. Net inflows at the FTSE 100 firm declined to £710m from £2bn in the same period last year. St James blamed its performance on clients withdrawing savings owing to the cost-of-living crisis and higher interest rates. But inflation has declined to a two-year low. The company has set aside £426m in redress for customers who have paid annual fees for advice they were not receiving. The company had said it would overhaul its fee structure and agree to cap charges for advice and funds to comply with the Financial Conduct Authority's new "fair value" rules. Funds under management increased by 16.5% to £17bn. It has nearly 960,000 customers.

Obesity: a huge market

The latest slimming treatments are far more effective than their predecessors, and look poised to become record-breaking blockbuster drugs for the pharmaceutical sector, says Stephen Connolly

Anti-obesity medication (AOM) is transforming how people look and feel about themselves. Many celebrities, including Elon Musk, have given it a go. Musk claimed that he lost nearly 30 pounds. The drugs – with increasingly well-known names such as Wegovy and Mounjaro – are making waves among investors too. AOMs have been one of the hottest themes over the past 12 months, perhaps second only to artificial intelligence (AI), and there is plenty of long-term growth to come. The global pharmaceutical giants behind obesity medication, such as Eli Lilly in the US and Novo Nordisk, based in Denmark, are already enjoying rapid sales and profit growth, a trend set to continue for years to come.

A weighty subject

Obesity is a huge market. The condition is defined as a complicated, chronic disease in which too many fat deposits undermine or damage a person's health. The World Health Organisation (WHO) now lists it as the fifth-biggest risk factor leading to death. It reduces quality of life as it can lead to diabetes, heart disease and some cancers, while it also affects bone health and reproduction.

This worsening human suffering, and the economic burden of coping with it, pose a challenge that this latest generation of AOMs seems to meet. Much more effective than previous weight-loss medications, these drugs are rapidly forming the new front line in the fight against obesity. They can improve long-term health, boost mental wellbeing and free up increasingly scarce healthcare resources.

The WHO reports that there were 890 million obese adults worldwide in 2022. You can add to this the 1.6 billion adults classified as overweight, but not quite obese. This adds up to 43% of the world's adults classified as overweight and obese – a sharp rise from 25% in 1990.

This uptrend is set to endure. The World Obesity Atlas predicts that over half of the world's population will be obese or overweight by 2030, due to poor eating habits, insufficient physical activity and genetic dispositions towards the disease. The World Obesity Federation projects that by 2035 more than 1.5 billion adults will be living with obesity. The condition is so pervasive that it is recognised by the WHO as an epidemic.

The annual economic cost of dealing with obesity worldwide is $3trn, a figure that will soar to $18trn by 2060, equating to a staggering 7% of projected global income. These figures include both medical expenses and lost productivity. In the US, the Centers for Disease Control and Prevention believe that the medical costs of obesity management alone were $173bn in 2019.

Goldman Sachs estimates that the number of Americans taking anti-obesity drugs will have trebled to 30 million by 2028, although their best-case scenario foresees 70 million. It points to several key drivers for the latest medications that support taking an optimistic view of their efficacy: accelerating uptake by patients as awareness grows; expectations that health insurers will increasingly stump up money for treatments; and patients taking the drugs for longer periods of time.

"Today 43% of the world's adults are overweight or obese, up from 25% in 1990"

Sales growth expectations for the potential market over the coming years are high. Goldman Sachs reckons that the AOMs segment can grow by nearly 50% a year from $6bn last year to $100bn by 2030. Within the industry, the CEO of the $145bn drug giant Pfizer, Albert Bourla, notes that some estimates put the size closer to $150bn. Such growth rates would suggest AOMs could outpace the AI or microchip markets, for example, which are likely to expand by anywhere between 7% and 30% a year over similar time periods.

Of course, it's early days and forecasts could be revised either way as more is learnt about how the medication is being considered, prescribed and paid for. For now, though, growth is rocketing. Wegovy, introduced in 2021, saw sales soar from $876m in 2022 to $4.5bn a year later. Maker Novo Nordisk expects sales to double this year, according to The Economist. Meantime, Eli Lilly's Zepbound, introduced in the US in November 2023, is expected to generate sales of $2.9bn in this first full year.

Beyond these financial gains, the latest medications are also delivering markedly better health outcomes for patients. The drugs are known as "glucagon-like peptide 1" agonists, or simply GLP-1. Clinical research is showing weight loss of ranging from 15% of body weight to more than 25%, which can be maintained over multiple years with continued use. GLP-1 drugs include Ozempic and Wegovy from Novo Nordisk, and Mounjaro and Zepbound from Eli Lilly (the company that first mass-produced insulin as a breakthrough treatment for diabetes around a century ago).

Cutting calories

These drugs were originally developed to treat type-2 diabetes, a serious health condition in which blood sugar levels are too high, affecting quality of life and increasing the risk of significant physical problems. The drugs cut blood sugar to safer levels. But evidence and trials subsequently confirmed that the medication also suppressed users' appetites and cut their calorie intake. Regulatory approval for some of them to be used specifically for obesity management followed.

This marks a big advance over previous generations of AOMs. Treatments that emerged in the 1940s and were used for decades were stimulants, including amphetamine. Concerns gradually grew around the potential for addiction, while serious adverse side effects, such as cardiovascular illnesses, were detected.

From the late 1990s, drugs such as sibutramine (developed by Boots in the UK) were prescribed "off-label" for weight loss, although they were serotonin inhibitors primarily intended for treating clinical depression. Marketed under brands such as Meridia, Reductil and Siredia, the treatment was withdrawn around 2010 because of heart attack and stroke risks. Another, orlistat, is sold as Xenical and works by stopping the absorption of fat (alongside a controlled diet). Many of these relatively recent anti-obesity drugs worked (side effects apart), but they were not so effective, with weight loss measured between just 3% and 11% at best.

But with efficacy having advanced in leaps and bounds with the latest drugs, the main problem for pharmaceutical groups is making sure people can gain access to them, because they are far from cheap. According to JPMorgan, a month of Wegovy would set you back around $1,350 and Zepbound $1,060. For many, this would be a struggle if not an impossibility, no matter how strong the desire to shed the pounds.

The immediate solution is to encourage more health insurers in the US to step in and foot the bill. Many don't because obesity treatments are seen as lifestyle related, rather than a health treatment. But attitudes are changing as increasingly widespread research points to the links between obesity and related illnesses, such as heart disease and mobility difficulties, which insurers pay to cover.

Wegovy, for example, showed better-than-expected cardiovascular benefits in a large-scale study last year. AOMs can also potentially help with conditions such as sleep apnea, chronic kidney disease, fatty liver disease and even Alzheimer's.

JPMorgan estimates that insurers' coverage of AOMs will jump from 40% today to around 80% by 2030, a sizeable shift underpinning analysts' upbeat sales and profit projections for the sector. The same research should also convince government-sponsored health services such as Britain's – where private health insurance is less widespread – to buy and supply more of the medication.

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Another difficulty for the sector is short supply of the active ingredients to make the medication itself and the "pens" that are pre-filled before distribution and used by patients to self-inject the correctly measured dose. Both Eli Lilly and Novo Nordisk are working to address these problems, although more efficient supply lines will take time to build. Novo bought manufacturer Catalent for $16.5bn in February to make the pens and other mechanisms.

Beyond short-term challenges, investors are presented with a medium-term growth sector dominated by Eli Lilly and Novo Nordisk. With their significant array of products, research capability and development pipelines, they are jointly expected to control more than 90% of the AOM market, according to Bloomberg. As a fast-expanding duopoly, they are now among the world's highest-valued pharmaceutical groups. In fact Novo Nordisk, worth $570bn, is worth more than the entire Danish economy.

What to invest in now

Strong though these firms' position is, other players are active in the field. High potential growth rates will inevitably attract new entrants. Pharmaceutical giant Pfizer, for example, is developing existing products and looking at licensing new ones to make inroads into the obesity market. Meanwhile, biotechnology group Amgen is trialling a product it thinks could have fewer side effects and require lower dosing than the current market leaders.

But newer entrants are unlikely to win more than modest market shares. Patents for the leading Wegovy and Zepbound products expire in 2032 and 2036 respectively. Drugs being trialled now by newcomers will take years to get to market, if they reach it at all. Meanwhile, leaders Eli Lilly and Novo Nordisk already have further developments coming through their pipelines.

Novo Nordisk, for example, recently saw its shares gain after cheering investors with news that patients using its experimental drug Amycretin lost an average of 13.1% of their weight after 12 weeks, more than twice the weight-loss rate of its existing blockbuster drug Wegovy over the same time period. Challengers would have considerable ground to make up.

Unless investors are looking for a speculative punt on finding the next big thing in obesity treatments, it would make sense to stick with the two established dominant players that have entrenched patent-protected positions untroubled by serious competition near term. US stocks have slipped from record highs; further retrenchments offer the chance to buy these quality pharmaceutical stocks on weakness.

Eli Lilly's (NYSE: LLY) shares trade in the US and can be bought easily online. The company is valued at more than $700bn, a sum likely to rise if the more optimistic expectations for sales and new applications for existing drugs come through.

Earnings per share are growing at over 30% a year. In late April, the group lifted its full-year outlook higher than previous expectations despite short-term supply problems leaving some demand unfulfilled.

Novo Nordisk (Copenhagen: NOVO-B) is traded in Copenhagen and is also straightforward to buy online. Results released in May showed a doubling in Wegovy sales in the first quarter. Sales of its Ozempic drug grew by 43%. There is plenty of potential for further positive news and catalysts over the year.

For those who do want to take more risk to back an outsider, research **Amgen (Nasdaq: AMGN)**, mentioned above. It rallied 13% in a single day in early May on high hopes for its potential diabetes and obesity drug MariTide. Data from phase-two trials (the second of three stages of clinical trials) is said to be encouraging. Phase three will now follow.

Stephen Connolly writes on business and finance and has worked in investment banking and asset management for 30 years (sc@plain-money.com)

"Novo Nordisk's shares rose on news that patients on Amycretin saw an average 13.1% weight loss after 12 weeks"

How migration affects growth

David C. Stevenson explores the complex relationship between immigration, growth and productivity

Refugees could work while their claims are scrutinised

We can have two but not three of the following: a dynamic economy, a dynamic (open) labour market and low migration. That, at least, is the conclusion of Hein de Haas, professor of sociology at the University of Amsterdam.

De Haas previously taught at Oxford University, where he co-founded and co-directed the International Migration Institute (IMI). He is the lead author of *The Age of Migration*, a seminal textbook in the field of migration studies. He also wrote the recent bestseller, *How Migration Really Works*.

We tend to look at immigration as something affected by factors such as war, climate change, inequality, the rise of social media or, perhaps, global transport links. But researchers in the field of migration studies tell us that one factor above all stands out: most migrants come in search of work to economies where there is robust demand for workers.

That demand for work is a product of flexible local labour markets, which have been extensively deregulated to improve productivity and boost growth. We deregulated these labour markets to ensure the economy was flexible enough to soak up under- and unemployed workers during times of economic stress. And here's the last link: a workforce with low unemployment and high employment is likely, all other things being equal, to be a more productive workforce, boosting GDP for all of us.

Back to De Haas: "I say… half-jokingly that the best way to stop migration is to wreck your economy, but there's a certain truth. We've made it much easier to recruit people from abroad on temporary contracts. So, you create a kind of economy and labour market that has an intrinsically high demand for labour. If you're not going to accommodate that legally, it may partly resolve itself illegally".

Seeking work

Scrub away all the propaganda and anguished debate about immigration and we end up with a brutal truth: most migration is for work opportunities in reasonably successful, wealthy economies that have high employment levels. This is far from what the left argues – migration is a question of desperate people, arriving on our borders, requiring help – or the right's focus on refugees.

Rates of migration are, according to virtually every academic who studies the subject, tightly linked to the business cycle. If the economy is doing well, lots of migrants come. When it's doing badly, not many migrants come, and many of those who are already here go back.

But surely, you might think, there are countries with dynamic economies, open labour markets *and* low migration? Annoyingly for migration hawks, experts such as De Haas disagree. Not one major developed world economy with higher growth rates and open labour markets boasts low levels of immigration.

In fact, plenty of economies we might aspire to such as Switzerland (think prosperous, solid growth, stable) in fact have higher levels of migration. People point to Japan and South Korea as possible counter-examples. Migration rates have indeed been low in these countries over the past few decades. Yet even here more recent data shows that both are now experiencing rapid upticks in migration rates owing to worsening labour shortages accentuated by rapid ageing. Furthermore, it would be hard to argue that Japan is a perfect example of an economy with high growth rates and a very flexible labour market.

"The best way to stop migration is to wreck your economy"

But the debates around migration and growth go deeper than the connection between migration and labour markets. It is often said that we can counteract the impact of an ageing economy by using immigration to keep it working; or we can encourage economic dynamism, the idea being that a more multi-racial, mixed society is possibly more entrepreneurial. According to De Haas, neither of these arguments stack up.

On the ageing point, demand for workers in, say, the care sector, will inevitably result in more migrants, as is currently the case. But De Haas suggests that using migration to counter the ageing trend is not a solution because the numbers required to correct the trend would be huge. "Demographers are quite clear on that, because the ageing trends are so deep and migrants also age. It's a temporary thing. It's not going to be a long-term fix."

Cause or effect?

But what about the idea that more immigration might help kickstart more creative destruction and more entrepreneurialism, and thus improve our economic growth prospects? According to De Haas, "Britain was a net-emigration country until the late 1980s. So, it was only when the British economy started to recover… and became dynamic and interesting again, that it started to attract migrants."

"So the tricky thing is the main causality runs the other way around. What I think I can say is that if you have a dynamic economy and migrants have this idea that [they] can make their dreams come true, [you] will indeed attract migrants who have good reasons to think they can be rewarded for their efforts."

What's clear in the work of De Haas and other migration academics is that there are choices

governments can make about migration and the economy. We could, for instance, tighten up how private-sector employment agencies recruit foreign workers. We could toughen up workplace inspections and make sure employers don't employ foreign workers when they shouldn't.

We could allow refugees to work while their claims are being scrutinised. We could make people work longer hours and years and increase the retirement age to boost the labour force. De Haas also suggests that the many jobs currently filled with migrant labour could be made more attractive to local workers; we should also help improve the skills of local workers.

But all these choices involve policy trade-offs and it is not obvious that any will increase our national productivity or make us wealthier. And as all societies face a fertility crunch and our ageing process intensifies, we might want to make our country *more* attractive to immigrants.

"You can't have your cake and eat it when it comes to migration and growth"

What if they go elsewhere?

"There seems to be this assumption that there's this quasi-inexhaustible source of labour out there," argues De Haas. But we should bear in mind that many of the countries currently supplying us with migrants are ageing themselves.

"So what will happen if there are lots of middle-income countries that are becoming destination countries in themselves, like Mexico or Turkey? These may attract migrants in their own right. So can we bet on the idea we will always be able to attract migrants?"

The key point here is that we need to stop seeing migration as something independent from bigger growth challenges alongside the demographic changes in our society. There are of course political choices we can all make depending on your point of view, but the upshot is that what drives most (though by no means all) migration is demand for workers.

Boost that demand, especially for younger workers, and you boost productivity and growth, but you also boost migration. If we want migration levels below, say 100,000 a year, the only surefire way of guaranteeing that is to blow up the economy, kill demand for labour, increase unemployment, lower productivity growth and put up walls on the border.

Or as De Haas argues: "You cannot think of immigration separately from labour market dynamics. You can't have your cake and eat it [when it comes to] migration and growth, which is something we don't want to hear. There are some real trade-offs there".

How to handle holiday money

Here are the top tips for dealing with cash, debit and credit cards while you are away

Ruth Jackson-Kirby
Money columnist

The sun is shining and summer is approaching, so have you thought about your holiday money yet? It pays to think ahead when it comes to buying currency. You have three main ways to pay when you're abroad – cash, debit card or credit card. We're going to look at the best options in each case.

Let's start with cash. Never buy it at the airport. Currency providers know that by the time you get to the airport you have no choice but to buy from them, and they charge you a fortune as a result. Research by Eurochange found that you'd pay around £169 more for €1,000 if you bought it at the airport.

Time is money

Your best option is to compare rates online and pre-order your currency either for delivery or to collect. MoneySavingExpert has an excellent comparison tool at travelmoney.moneysavingexpert.com. Pop in your location, when you go abroad and how much of what currency you need, and it will show you the best prices.

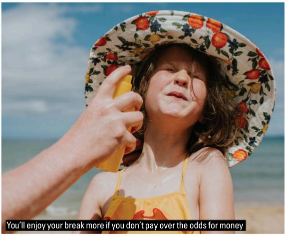
For example, I put in that I needed €1,000 in the next month. The best price was £862 from TravelFX with delivery or collection both possible. If I needed it within the next week the price jumped by £10.

If you have left it to the last minute, then you can collect the cash at the airport, but order it in advance, as this will slash the cost. For example, if I ordered €1,000 to collect later today at Manchester Airport it would cost me £875. If I simply turned up and bought it at the airport the price could be closer to £1,000.

While it can be handy to have cash with you on holiday, it is safer to pay by card. With plastic you are protected from losing your holiday cash or having it stolen and, depending on the type of card, you can get added consumer protection, too.

Using your cards when you are abroad can be expensive, though. Many cards charge extra fees for using cash machines abroad or using your card outside the UK, while some offer poor exchange rates.

For example, if you have a TSB debit card and you withdraw money from a cash machine while you are on a foreign holiday, you'll pay a 2.99% exchange load (that's a mark-up on the exchange rate) and a 1.5% ATM charge (minimum £2, maximum £4.50). Even if you use it to buy something there will still be the exchange load plus a £1 spending charge.



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You'll enjoy your break more if you don't pay over the odds for money

A far better option would be the Chase debit card. This has no charge for ATM withdrawals when you are abroad and no spending fee, plus you can earn 1% cashback on most of your spending.

Credit cards abroad

Unless you are abroad a lot, it may not make sense to shift your bank account to benefit from better rates on your debit card. A better option may be to get a credit card specifically for holidays.

Spend on the right credit card when you are on your foreign holidays, and not only will you get a great exchange rate and no extra fees, but you will also benefit from Section 75 consumer protection on purchases over £100.

This means that if there is a problem, your credit card provider is equally liable and can give you a refund if you can't sort things out with the retailer – especially useful if the shop is hundreds of miles from home on a back street in Rome.

The top choice

The best credit card for foreign use is the Barclaycard Rewards card. There are no fees for spending or cash-machine withdrawals when you are at home or abroad. Unusually, it also doesn't charge interest on ATM withdrawals if you pay off your balance in full within 30 days.

Many credit cards charge interest for cash advances like this from the moment the money leaves the machine. The key to keeping everything interest-free with the Barclaycard is to pay off your balance in full every month. The bonus with this card is that you will also earn 0.25% cashback on your spending.

Pocket money... mortgage rates head upwards again

- Mortgage rates have reached their highest level of 2024, with 47 lenders raising rates on their fixed deals in the past fortnight. The average two-year fixed-rate mortgage is now 5.93% and the average five-year is 5.5%. "This is still... a lot higher than the sub-2% rates many borrowers would have fixed deals at – deals that are now coming to an end, meaning thousands are facing a huge jump in payments," says George Nixon in The Sunday Times. Interest-rate cuts that had been expected soon seem likely to be postponed to later this year, and there may now be fewer reductions than initially anticipated. Banks and building societies are nudging up their rates to reflect the new outlook.

- "Libraries of things" are springing up around the country as we seek to save money and space, says Laura Whately in The Guardian. "[Instead] of buying a household item or a piece of clothing, or some equipment you might use once or twice, you take it out and return it." The London-based Library of Things has opened three new locations this year. In Wales Benthyg Cymru runs a network of more than 24 libraries, Edinburgh has the Tool Library and Bath a Share and Repair shop. The libraries all have a selection of items that you may find too bulky to keep at home or too expensive. There are many success stories, including one person who "rented a planer at £11 a day to fix two doors in her flat after being quoted £245 for a handyman to come in and do the three-hour job".

- A recent survey by the Association of British Insurers found that roughly two-thirds of us have no idea we pay tax on our premiums. It adds 12% to the price of most types of insurance policies and up to 20% to others, including pet and travel cover. Last year the levy produced a record £8.1bn for the government, says Holly Mead in The Times – a rise of 11% on the year before.

- Virgin Money is offering 10% interest for anyone who switches to one of its current accounts. But there's a catch. The 10% interest is paid only for the first 12 months. You'll also only earn 10% interest on balances up to £1,000. So the maximum reward you can get is £100, far lower than the switching bonuses some banks offer.

Tuck money away now

Almost half of self-employed workers are not saving for retirement

David Prosser
Business columnist

More than four million Britons are self-employed according to official statistics, but new research suggests almost half of them are not saving for retirement. A survey from CMC Invest reveals that 41% of self-employed workers are not paying into a pension, leaving them at risk of financial hardship later in life.

Self-employed people often struggle to save for the future. For one thing, they don't have access to an occupational pension scheme provided by an employer. They may have less predictable income than someone who receives a regular pay cheque. They may simply feel they're not earning enough to put money aside that they can't dip into if needed.

The good news is that there are ways round these problems. Private pension plans are flexible, tax-efficient and affordable. Other tax-efficient vehicles offer opportunities to make savings that can be accessed in an emergency. And the power of compound interest is that even small amounts of savings made today can grow into large sums over the long-term.

The most basic type of personal pension is a stakeholder plan, where providers are not allowed to charge more than 1% a year in fees. Many charge considerably less. These schemes will typically enable you to make lump-sum investments as and when you can afford to do so, or to set up regular monthly contributions if you are amenable to that. You'll also be offered a range of different investment options.

Stakeholder plans can work very well. They are flexible, enabling you to change what you pay in as your circumstances dictate, and even stop paying in for a time if needs be. The low charges mean that fees aren't eating into the value of your savings. However, these arrangements may also be somewhat limited.

Do your homework to ensure you enjoy a comfortable retirement

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Stakeholder plans often offer fewer investment options, for example. Your choices about how you take income from the plans once you're ready to retire may also be restricted.

A personal pension could therefore be a better option. As with stakeholder pensions, you are making regular contributions to a fund, which is invested to generate as large a pot of cash as possible by the time you reach retirement. But personal pension charges aren't capped: providers are therefore able to offer more investment choice and greater functionality.

"An Isa allows you to dip into savings when you need to"

Self-invested personal pensions (Sipps) are particularly popular. Sipps put you in control of your pension investment strategy, maximising the investment options available. You can choose from a huge variety of investment funds, but Sipps can also be filled with individual shares and bonds, as well as other types of asset. All private pensions come with tax relief, so while self-employed workers miss out on pension contributions from an employer, they do get a top-up from the government. This is payable at your highest marginal rate of income tax, so paying £1,000 into a pension costs basic-rate, higher-rate and additional-rate taxpayers only £800, £600 or £550 respectively.

The downside to these arrangements is that money in a private pension can't be accessed until you're closing in on retirement. You can't currently make withdrawals before you reach age 55. For self-employed people lacking other savings, that can be a worry – they need to be able to get at their cash in the event of a rainy day. In which case, an individual savings account (Isa) might be a better option than a private pension. Isas are still highly tax-efficient because while you don't get up-front tax relief, there is no tax to pay on investment income and growth, or on withdrawals you make from your savings later on. But you can dip into the money if you need to – just remember that this will deplete the funds you have available for retirement.

Getting the full state pension

Will the Conservatives really be able to abolish national insurance (NI), as the prime minister has suggested? That seems unlikely in the short term, irrespective of who wins the election – indeed, the NI system has actually got tougher in recent years.

One central plank of the NI regime is the link between your contributions and your entitlement to a state pension. The money you pay in isn't ring-fenced, but you will only get your state pension if your record is long enough.

You need to make at least ten years' contributions to get any state pension at all – and 35 years to qualify for the full amount. In 2016, this was increased from 30 years.

Check your NI record online using the gov.uk website. This will enable you to see whether you're on target to qualify for the full state pension. You have the option of making additional contributions if not, but this may not always make sense.

Remember that qualifying years for NI are those in which you were working and paying NI contributions, but also those in which you were receiving NI credits – perhaps because you were unemployed, sick or carrying out caring duties.

News in brief... too much tech in funds?

● The big US technology companies – Google, Amazon, Facebook and so on – have delivered impressive returns for investors in recent years, but their performance has also been volatile. New research from PensionBee is therefore striking. It shows that roughly 10% of all defined-contribution pension fund money is invested in these tech giants. Defined-contribution schemes include all individual private pensions as well as most employer-run plans. If you're saving this way, check your exposure to Big Tech and consider whether you're happy with it.

● HSBC's annual general meeting last week saw it face criticism from pensioners angry about the "clawback" feature that some face with its occupational pension scheme. The bank, like many other large employers in the UK, once included this feature as standard. Such schemes pay staff a higher pension if they retire before they are eligible for the state pension, but reduce the income payable once state benefits kick in. Many savers say they had no idea their pensions would be cut in this way.

● Millions of pensioners enjoyed generous inflation-linked increases to their state pension benefits last month. But there was one exception: the 25p weekly supplement paid to the over-80s has not been increased since its introduction in 1971, and there are no plans to raise it. Indeed, time is now running out for the supplement – people turning 80 from around 2030 will no longer qualify for the additional cash.

The top companies powering progress and productivity in technology

A professional investor tells us where he'd put his money. This week: James Dowey, manager of the Liontrust Global Technology Fund, picks three favourites

The Liontrust Global Technology Fund invests in technology companies that create huge value for customers by driving down costs and prices and boosting productivity. When companies do this they create demand, develop products further and grow the overall market. This is a powerful driver of shareholders' returns.

Today we are right at the start of a major new innovation cycle driven by artificial intelligence (AI). We believe AI will prove to be one of the most deflationary innovations in history, taking costs out of businesses, improving productivity and fostering new innovations. There will be major winners and losers. Here are three companies we believe will win.

Making the most of software

Enterprise-software company **ServiceNow's (NYSE: NOW)** operational performance over the past 12 years since its flotation in 2012 takes some beating. It has grown annual revenues from $200m to $10bn and free cash flow per share by more than 50% a year – a phenomenal performance.

The awkward truth about the great digital transformation of the past couple of decades is that much of the expenditure has not delivered a positive return on investment. But ServiceNow is turning this around for companies – including 85% of the Fortune 500 – by managing the mess of existing software programmes and unlocking productivity.

ServiceNow's AI-enabled products generate substantial productivity gains. They have allowed the group to raise the price of resubscribing to its products by 60%.

Synopsys (Nasdaq: SNPS) provides software for the design of semiconductors and other electronic systems. Semiconductors' productivity has increased by a factor of more than ten million in the 37 years since the firm's inception, and Synopsys has been crucial to the sector's progress.

But the demand for rapid innovation in semiconductors is now stronger than ever given the rise of AI across the economy. There are new sources of demand for highly specialised chips from new customers and fast-growing new markets for Synopsys in broader computational design. So Synopsys has an exceptionally strong growth opportunity. It has invested an average of between 30% and 35% of its revenue in research and development over the past 37 years, another reason it looks likely to stay ahead of the game.

"The best way for companies to combat cyber-criminals' AI is with AI"

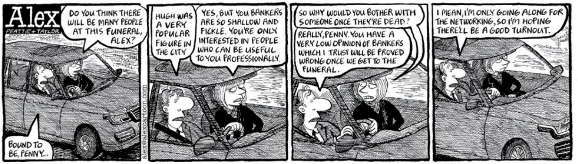
New sources of demand for highly specialised semiconductors are emerging

©Getty Images

Fighting cybercriminals with AI

AI is a game changer in cybersecurity because it is enhancing the capabilities of cybercriminals, implying many more and much faster attacks. It used to take a hacker hours to do damage once they had breached a company's system; now it takes minutes. The best way to fight AI is with AI. Cybersecurity group **Crowdstrike (Nasdaq: CRWD)** was built on an AI-based format from the start, while some major competitors have much more work to do to integrate new AI capabilities with legacy software.

Crowdstrike is generating strong productivity gains for its customers, delivering a sixfold return on each dollar spent. This is driving excellent growth and profitability, with revenues up from $300m in 2019 to more than $3bn today. Current annual growth of more than 30%, with an equally large free cash-flow margin, is an enviable combination and a mark of the strength of Crowdstrike's product for the AI age.



The driving force in electric cars

Wang Chuanfu was laughed at when he bought a clapped out Chinese carmaker and sought to transform it into a world-leading electric-car brand. They're not laughing now. Jane Lewis reports

In 2008, Charlie Munger convinced his business partner Warren Buffett to invest in a little-known Chinese carmaker, arguing that its founder, Wang Chuanfu, was a combination of the famed 19th-century US inventor and businessman Thomas Edison, and the hard-driving General Electric boss, Jack Welch. How percipient that turned out to be, says the Financial Times. In less than two decades, Wang's baby, BYD, has become a driving force in the global electric-vehicle (EV) market.

Elon Musk was dismissive. Yet BYD is now challenging Tesla as the world's biggest producer of battery-powered cars – briefly stealing its crown at the end of last year. In fact, the most likely to survive the current shakeout in the EV market are Chinese firms such as BYD, precisely because their models are both "more innovative" and "a relative bargain" compared with Western rivals, says The Economist.

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"BYD stands for 'Build Your Dreams'. That's exactly what Wang did"

The Chairman

To his employees at BYD, Wang, 58, is known simply as "The Chairman", says the FT. Yet his "unassuming demeanour belies a micromanager with a Stakhanovite work ethic", who is celebrated as a "rags-to-riches legend" in China. BYD stands for "Build Your Dreams", notes Herbert Diess, the former chairman of VW, in Time. That's exactly what Wang did. "Long before others in the automotive industry were waking up to it, he was convinced that electrification was the game to play." An engineer by training, Wang is also "reshaping the battery supply chain" – early bets on lithium-iron-phosphate batteries and solar energy "show he's not afraid to take calculated risks".

The entrepreneur's drive and perseverance date from childhood, says Kevin Xu on Interconnected. Born in 1966 in the town of Wuwei in China's central Anhui province, he was one of eight children and orphaned young, losing both parents before he left school. He was supported financially by an older brother who hoped that if Wang got into university he might "bring the whole family out of poverty". He ended up studying chemistry at the Central South University of Technology in the neighbouring province of Henan. Initially, Wang pursued an academic career. But, as with many of his generation, he was galvanised by Deng Xiaoping's market reforms.

In 1993, Wang went to the vibrant "special economic zone" of Shenzhen to supervise a new battery joint venture. Two years later, armed with a loan from a friend, he founded BYD as a lithium-ion battery supplier. The company quickly established a niche making mobile-phone batteries and other components for brands including Siemens, Nokia and Motorola. When BYD went public in Hong Kong in 2002, it billed itself as the world's second-largest battery-maker. The move caught the attention of Li Lu, the value investor behind Himalaya Capital – who was a protégé of Charlie Munger. After committing to an investment, neither was impressed when, a year later, Wang bought a clapped-out Chinese carmaker (for its manufacturing licence) and announced his intention to move into manufacturing.

Learning how to make a car

BYD's shares lost a third of their value on the news, says Interconnected. Wang didn't care. With typical thoroughness, "he bought 50 or so second-hand cars from all the best foreign brands, took them apart and learned how to make cars". This dedicated DIY approach still singles out BYD from the competition, says the FT. These days, Wang's life story and modus operandi is taught in Chinese business schools. But, in marked contrast to Musk, the Chinese billionaire (Forbes puts his worth at $14.2bn) keeps himself out of the limelight. Wang has built his dream, but even now remains an enigma.

The air stewardess who became president

Mitsuko Tottori (pictured) began her career as a member of the cabin crew at a Japanese airline in 1985. The company she worked for then was later absorbed by Japan Airlines. Now, aged 59, she is the company's president. The seeds of her success were sown more than a decade ago in the aftermath of the carrier's bankruptcy, says Reuters. It was the country's biggest ever corporate failure outside the financial sector, and led to "sweeping organisational changes", led by "God of management" and ordained Buddhist monk, Kazuo Inamori, who turned the company around. Inamori, who died in 2022, was "disdainful of hierarchy and unquestioning obedience" and encouraged all his staff to "act as business leaders". In a 2012 interview with the BBC, Inamori said Japan Airlines had been arrogant and did not care about its customers. But under his leadership, the airline started to promote people from frontline operations such as pilots and engineers, rather than from bureaucratic posts.

Tottori seized the opportunity and started to climb the ranks. "She may look quiet on the outside, but she has a strong core," one executive at the airline said. "She speaks her mind firmly at meetings." She became a senior manager of cabin safety in 2013 and took up her role as president in April. Her ascent has been hailed as a model for progressive change in corporate Japan, where opportunities for career advancement for women are still scarce and the gender pay gap among the worst in the G7. Tottori's leadership will be "characterised by a deep understanding of aviation operations and a commitment to safety", says CEO World magazine.

Her appointment may have "sent a shock wave" through the country's corporate sector. But Tottori doesn't like to think of herself as "the first woman" or "first former flight attendant" to get the role. "I want to act as an individual," she told the BBC. Success, she says, is not just about the mindset of the corporate establishment, but about women's attitudes too. It is "important for women to have the confidence to become a manager", she says. "I hope my appointment will encourage other women to try things they were afraid of trying before."

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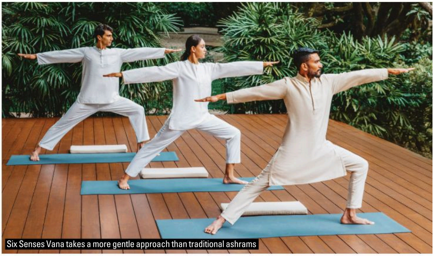
A retreat for body and soul

Flora Connell finds rest and spiritual rejuvenation at Six Senses Vana in India



©Six Senses

Six Senses Vana takes a more gentle approach than traditional ashrams

The search for solace often leads to India. It's a country with such a powerful culture, that – as American professor Robert Thurman once observed – it has a way of absorbing its invaders. The grand finale of the British Empire, for example, was The Beatles smoking hash in an ashram. That ashram was in Rishikesh, now the yoga capital of the world.

Rishikesh, on the banks of the Ganges, is a place where, it is said, the gods can better hear your wishes. I arrived there on Valentine's Day – appropriately, perhaps, because yoga, like Philip Larkin, teaches that "what will survive of us is love". I came here to recover from jet lag and adjust to the climate and altitude before heading for my final destination, just an hour away at Six Senses Vana.

Given that it's a place where you come for rest and spiritual rejuvenation, you might expect this famous retreat to be hidden away in the Himalayas, but it's not. It's set in a small patch of forest right in the middle of Dehradun, a chaotic city where cows, cars and scooters vie for supremacy on what feels like the busiest streets in the world. Yet as you pass through the gates, like entering the metaverse, or crossing to platform nine and three-quarters, you stumble into the stillness of Six Senses Vana.

Forest awakening

On arrival, you are baptised as a "Vanavasis" – someone who makes a home in the forest. Every guest is robed in a uniform of pearly white and slightly squeaky Crocs. All you need in your suitcase are knickers and socks. And maybe some cosy clothes for evenings in your room plus some yoga/swimwear/gym wear.

In the Amazon, Vana is the name given to the guardian angels of the rainforest – the spirits of our shadows. And among the therapists here, I found a heavenly host of them. The mystical, five-element acupuncturist, Dr Dimple, is unlike anyone I've ever met, and it was worth the trip just to see her. She gets booked up, so, if you visit, be sure to ask for her on arrival. The yoga department run by Josie is exceptional, too.

Unlike more traditional ayurvedic centres, Vana's approach is gentle. The nurses take you by the hand and

lead you like a child through the therapies – or if, like me, you are braving the infamous panchakarma treatment, gently across the battlefield. I highly recommend Dr Jaya, though I'm sure the other doctors are equally impressive.

So, what makes Vana unique? Well, it offers all three ancient Eastern systems of healing – ayurveda (the Indian "science of life"), traditional Chinese medicine and Tibetan medicine. It is the only retreat in which the Dalai Lama has allowed therapists trained at his medical school to work. And the Tibetan massages are the most relaxing you'll find.

Delight the senses

Another highlight is the food. The main restaurant, Salana, is the retreat's heartbeat. If you arrive early for dinner you can bag a table by one of the small fire pits under the stars. Everything is organic and sustainably sourced, and

> *"At Salana, the talented chefs will make you anything you (or your doctor) desire"*

the talented chefs will make you anything you (or your doctor) desire.

Sneaking into the kitchen with head chef Naveen, I found, unusually for a busy kitchen, no flying frying pans, but an atmosphere as calm as the meditation cave. Anyone having a bad day, Naveen tells me, is told to go home to keep the food safe from negative energy. Breakfast and lunch is a buffet – Indian and Western – while dinner is *à la carte*.

Go for a second-floor room overlooking the garden as these are bright in the morning sun, and you can bask on your balcony. The more expensive forest rooms are peaceful, but darker. The sun casts its last rays on the poolside, so this is where to retreat as the evening comes.

I would avoid the heat of summer. Already in March my Scottish skin suffers. It's best, perhaps, to go in January or February, or, if you don't mind the rain, there's also the monsoon season (June – September), which is meant to be the best time to receive ayurvedic treatment. Apart from knickers and socks, take books (somehow you don't feel like using your Kindle much). There is also a small library with quite a good selection. Don't leave without doing the Watsu therapy – a Japanese water therapy akin to being returned to the womb and born again.

There was a tall, majestic Indian man who would appear in the dining room in a dusty rose tunic. Each time the waiters, bewitched, would be transformed into an army of mad ants running around in circles. I asked one of the mad ants who he was. The general manager, she said. His calm and elegance neatly summed up the feeling of the whole place.

By the end of the stay, I found that "every leaf speaks bliss to me", as Emily Brontë once put it. You feel a Vanavasis for life and ready to make your home in the forest for good.

Flora was a guest of Six Senses Vana. From £590 a night in January, sixsenses.com

Porsche proves itself again

The German car marque can look forward to an electrifying future with the new Macan

Don't be fooled by the familiar name – "the second-generation Porsche Macan represents something entirely new", says Yousuf Ashraf in Evo magazine. "Not only has it gone fully electric, it's the first Porsche to be underpinned by the brand new Premium Platform Electric architecture… that will underpin future [electric vehicles] from the company." The original Macan was an "emphatic success" and now Porsche looks set to repeat the feat.

The new Macan runs on an 800-volt system, which means its charge can be topped up from 10% to 80% in just 21 minutes at 270kW. There's also a 95kWh battery in the floor that delivers a 381-mile range on a single charge in the entry level Macan 4, and 367 miles in the Turbo. Such potent chargers aren't always available, of course, so the Macan has a "trick up its sleeve", says Alistair Charlton for Wired. You can plug the car into a lesser 400-volt charger and the 800-volt battery is effectively split into two 400-volt packs, allowing the Macan to be charged at up to 135kW without a high-voltage charger. The Macan 4 is able to produce 300kW (402bhp) to accelerate to 60mph in 4.9 seconds and it has a top speed of 137 mph. In the Turbo, the rear motor is "beefed up" to produce 470kW (630bhp), with the 0-60mph time falling to a "supercar-like" 3.1 seconds. Top speed is 162 mph.

Frankly bonkers performance

How does it drive? "Simple answer? Really well," says Piers Ward for Car magazine. "The 4 feels comfortable and doesn't suffer from the usual foibles you get from air suspension, in that the rebound over harsh intrusions is really well-controlled." You can "tighten things up with the dampers" by switching the driving mode to "Sport", allowing for "better body control, which in turn gives you more confidence to push on and get the motors working harder in shuffling the torque front to rear, giving the Macan a much more dynamic feel". In Sport mode, the Macan "comes alive". The steering is "lovely" and "precise" and "thanks to the increased stability… it's possible to carry a frankly bonkers level of speed into corners".

So, "the new Macan isn't just an electric version of the existing car – it's much more than that", says Shane O'Donoghue in The Sunday Times Driving. It retains everything that was great about the petrol model in terms of driving engagement – it's just "considerably more modern, a little more practical and even more polished [as] a product".

A handful of diehard Porsche enthusiasts have never forgiven the carmaker for "supposedly bastardising the brand" by going electric. But "if you're ready to forgive Porsche for moving with the times", buying the new Macan is the way to do it.

From £69,800, porsche.com/uk

Wine of the week: sheer class in a glass

2023 Lirac Blanc, La Fermade, Domaine Maby, Southern Rhône, France

£13.95, thewinesociety.com

Matthew Jukes
Wine columnist

Looking back at my previous 971 MoneyWeek wine columns, I was shocked but not that surprised to discover that I have written up this white wine more than any other. Ignoring the price for a second, which makes it one of the finest value whites on Earth, the sheer class in the glass is staggering.

Made from a blend of grenache blanc, clairette, picpoul and ugni blanc, and with no oak employed whatsoever, this is a pristinely clean and uplifting white wine with a flavour unlike any other I can think of. There are faint hints of stone fruit on the nose and gorgeous succulence on the mid-palate, but in reality, this is not a run-of-the-mill white Rhône, because there is tension and verve here in place of oiliness and exoticism, which I often find slightly off-putting.

If you sketched the silhouette of this beautiful white wine, it would be identical to a racy Chablis, just with a subtly different flavour profile. It is a style of white wine that few would intentionally pick off the shelf, because Lirac is not a particularly well-known appellation, and its white wines are scarce (only about 10% of Lirac is white), but it is an absolute joy. Bursting with freshness and verve, this is a classic white wine for all-year-around drinking, and I can imagine it performing miracles at summer parties this year.

Take a break from Chablis, save a tenner, and reward your palate with one of the most remarkable wines I have found this year. Who would have imagined that a Lirac blanc would be the reigning MoneyWeek white wine champion?

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

This week: houses with kitchen gardens – from a coastal property in Wales with views over Cardigan Bay

Dassels, Braughing, Ware, Hertfordshire. A Queen Anne-fronted country house dating from 1600 with later additions, extensive outbuilding, a productive kitchen garden, a glasshouse, a croquet lawn and a wildlife pond. 6 beds, 3 baths, breakfast kitchen, 2 receps, study, equestrian facilities, 19.8 acres. £2.495m Savills 01279-756 800.

Boden Hall, Street Lane, Rode Heath, Cheshire. A Georgian house with a walled kitchen garden, a Victorian glasshouse, a lake and 69 acres of grounds that include six cottages let on assured shorthold tenancies. It retains its original fireplaces and has 5 beds, 4 baths, 3 receps, a two-bedroom flat and an orangery. £6.65m Savills 01244-323232.

Yr Hendre, St Dogmaels, Cardigan, Wales. A house overlooking Cardigan Bay with a kitchen garden with a greenhouse and raised beds, an orchard, summerhouse, hot tub and garden room. It has slate floors, wood-burning stoves, and a large kitchen/family room with French doors leading onto a terrace. 5 beds, 4 baths, 3 receps, study, stone barns, woodland, paddocks, 6.5 acres. £1.35m Country Living Group 01437-616101.

…, to a 17th-century manor house with a walled kitchen garden in Piddlehinton, Dorset

Alfords Farm, Milland, West Sussex. A large house in the South Downs National Park surrounded by extensive landscaped gardens that include a kitchen garden and an orchard with a fruit cage, vegetable patch and a large polytunnel. The house dates from the 1890s and has been extended to include a wraparound terrace overlooking the gardens. 8 beds, 4 baths, 3 receps, kitchen, study, office, outbuildings, stabling, barns, paddocks, woodland, 25.3 acres. £4m+ Knight Frank 01428-770562.

Muston Manor, Piddlehinton, Dorset. A Grade II-listed 17th-century manor house with a walled kitchen garden, a croquet lawn and a heated swimming pool. It has an oak staircase, stone fireplaces and a breakfast kitchen with a vaulted beamed ceiling. 5 beds, 5 baths, recep hall, 3 receps, 3.17 acres. £2.25m+ DOMVS 01305-757300.

Riddiford House, Winkleigh, Devon. A renovated 17th-century house with a walled kitchen garden with raised beds and a greenhouse. It retains its beamed ceilings, flagstone floors and inglenook fireplaces. The established gardens include three lakes and a woodland area. 5 beds, 4 baths, dressing room, 3 receps, recep hall, kitchen, laundry, study, office, music room, orangery, workshop, garages, gym, paddock, 6.5 acres. £1.1m+ Fine & Country 01805-624334.

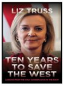
Glebe House, Moreton, Dorchester, Dorset. A Grade II-listed mid-17th-century house in need of some modernisation with a traditional walled kitchen garden with a greenhouse and a potting shed. It retains its original cornicing and fireplaces. 6 beds, 3 baths, 2 receps, breakfast kitchen, 2 studies, 2-bed cottage, outbuildings, stables, orchard, 1.21 acres. £1.25m Jackson-Stops 01308-423133.

Culverhayes, Sampford Courtenay, Okehampton, Devon. This house was built in 1870 on the edge of a village close to Dartmoor National Park. It is surrounded by landscaped gardens that include spring-fed ponds, a pavilion and a productive kitchen garden with a polytunnel. It has period fireplaces and a large breakfast kitchen that opens onto a courtyard. 7 beds, 5 baths, 2 receps, library, study, conservatory, 2-bed cottage, 4-bed cottage, 8.54 acres. £2m+ Knight Frank 01392-423111.

Book of the week

Ten Years to Save the West:

Lessons from the Only Conservative in the Room
Liz Truss
Biteback Publishing, £15.45



In 1965 the American historian Arthur Schlesinger Jr released a mammoth work on the Kennedy administration that ran to roughly a page for every day that JFK was president. Even had Liz Truss managed that level of detail, her memoir would have been little more than a pamphlet. Little surprise, then, that *Ten Years to Save the West: Lessons from the Only Conservative in the Room* combines an account of her 49-day stint in Downing Street with a look at her earlier political career, as well as her thoughts on British politics in general.

Foiled by the deep state

Truss's basic argument is that her premiership, and her time as a minister, was thwarted by a political establishment that was locked into a big-state, high-tax consensus. She blames the Treasury for leaking the costings of her budget, which sparked panic in the financial markets, and the Bank of England for refusing to intervene to put out the flames. The crisis gave her opponents within the Conservative Party the opportunity to pounce, bouncing her into replacing her chancellor, Kwasi Kwarteng, with Jeremy Hunt, who only a few days after being appointed demanded that she too depart to placate the financial markets.

Truss: bombast and self-justification

©Getty Images

> *"Truss was no aberration, but of a piece with 'cakeism'– she just had the bad luck to be there when the bill became due"*

To put it mildly, Truss's account is a rather selective interpretation of events. Before she entered Number 10, several figures had warned that slashing taxes at a time when the deficit and energy prices were soaring would be risky. Truss's own adviser, Patrick Minford, admitted during the leadership election that her policies could lead to interest rates hitting 7%. More generally, Truss never once pauses to consider whether her "slash and burn" approach to taxation was wise given her lack of a popular mandate or even the support of a majority of Conservative MPs.

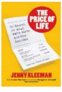
Still, beneath the bombast and self-justification, Truss has a point when it comes to the expanding power and influence of civil servants and regulators. The political vacuum that opened up over the last decade has sucked them in, and their role changed from being impartial public servants there to implement ministers' decisions to becoming mandarins with power in their own right, but no accountability. You could also argue in her defence that Truss was no aberration – her magical thinking on the deficit wasn't that far different from the "cakeism" that characterised her predecessor's response to the pandemic – Truss just had the bad luck to be there when the bill finally became due.

Truss's book fails to justify her actions as PM and is not the launch pad for the comeback she hopes for. But it is well worth reading for a behind-the-scenes look at a political implosion.

Reviewed by Matthew Partridge

The Price of Life

In Search of What We're Worth and Who Decides
Jenny Kleeman
Picador, £12.73



Most of us would be deeply uncomfortable with the idea of putting a price on a human life. But as Jenny Kleeman points out in this book, every time companies ponder whether to recall a dangerous product or the government decides how much to spend on road safety, we are essentially doing just that. Kleeman's book shines a light on this philosophical and economic conundrum by taking us on a journey through 12 types of transactions, from body broking to modern slavery, that involve valuing the price of life.

The stories vary in content and tone. Some are darkly humorous, such as the person who set up a fake hitman website – only to be deluged with requests from people seeking his services. Others are more serious, such as a look at how the NHS decides which life-saving drugs to pay for. Some are deeply sad, such as the tale of a teenager knifed to death in London over an empty carrier bag. But Kleeman's compelling writing finds the human element in each of them.

She makes a case that we need to be less squeamish about placing values on lives – notably in cases when the figures are impossible to justify. A case in point is compensation for those caught in terrorist attacks. As Chapter 5 highlights, the lack of a properly funded centralised scheme in Britain (and America) can mean some victims get little or nothing, while others involved in the same tragedy can end up with tens of millions.

Engaging and useful advice on how to build a share portfolio

The Event-Driven Edge in Investing

Six Special Situation Strategies to Outperform the Market
Asif Suria
Harriman House, £26.94

One of the big problems an investor faces when picking individual shares is the paradox of choice: the sheer number of companies on the market makes it hard to make a decision or be confident that your choice is the right one. Investors, then, especially those with a limited amount of time on their hands, would benefit from a strategy that helps them focus on that smaller fraction of stocks that look the most promising. One option is to use a filter or screen, one that sifts out only those stocks that have price momentum, say, or are growing rapidly, or offer good value. An alternative strategy is to look only at those companies going through particular challenges, or that have passed certain milestones. *The Event Driven Edge*, by experienced investor Asif Suria, outlines six types of events that signals opportunity for investors.

Those events are mergers; insider transactions (executives buying shares in their own company); stock buybacks; the creation of a special purpose acquisition company (Spac) listed on the stockmarket with the purpose of acquiring another company, spin-offs and management changes. Each of these events get their own chapter, and Asif explains how each can spark changes in the share price, and gives tips on how to increase returns. Most of the strategies he discusses are intended for investors looking to profit from a rise in a company's share price (going long); those more interested in going short (betting on the share price falling) will also find useful material, especially in the chapter on Spacs.

Suria's book is full of practical advice and is well written in a style that manages to be conversational and engaging without being simplistic. He includes plenty of illustrative case studies, many of which are drawn from his own experience managing money, and he is honest enough to include the mistakes that taught him some painful lessons. This will be a useful book for anyone looking to build their own share portfolio.

Bridge by Andrew Robson

What about on a Club lead?

Dealer South North-South vulnerable

North
♠ 7
♥ AQ9642
♦ AJ2
♣ AQ9

West
♠ Q8654
♥ 75
♦ 8
♣ K10632

East
♠ J9
♥ KJ108
♦ 1063
♣ J854

South
♠ AK1032
♥ 3
♦ KQ9754
♣ 7

The bidding

South	West	North	East
1♦	1♠*	2♥	pass
3♦	pass	4NT**	pass
5♠***	pass	7♦§	end

* Trading on the favourable vulnerability.
** Roman Key Card Blackwood, agreeing Diamonds.
*** Two of the "five Aces" (where the King of Diamonds is an Ace); plus the Queen of Diamonds.
§ There are no missing key cards, and North hopes his Hearts will set up.

Unwilling to expose partner's Trumps with a singleton Trump lead, West tried the seven of Hearts. This appeared to mark the King with East, so declarer won dummy's Ace. He immediately ruffed a Heart with the nine of Trumps, then cashed the King of Trumps and crossed to the Knave, West discarding. He ruffed a third Heart, West again discarding, then cashed the Ace of Spades and ruffed a Spade with dummy's last Trump.

At trick eight, declarer ruffed a fourth round of Hearts, bringing down East's King. He then drew East's last Trump with his Queen, cashed the King of Spades, then led over to dummy's Ace of Clubs to enjoy the two established Hearts. Thirteen tricks tricks and grand slam made via the top two Spades, the Aces of Hearts and Clubs, two long Hearts and seven Diamond tricks.

The most dangerous opening lead for West is a Club, removing dummy's late entry to the long Hearts. Declarer needs to finesse dummy's Queen at trick one to succeed, then ruff two Spades in dummy.

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

Sudoku 1207

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

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

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

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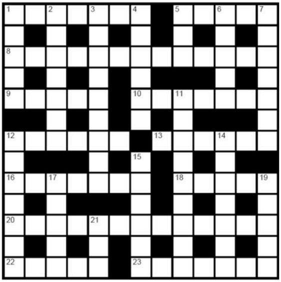
Tim Moorey's Quick Crossword No.1207

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 20 May 2024. By post: send to MoneyWeek's Quick Crossword No.1207, 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.1207 in the subject field.



Across clues are cryptic while down clues are straightforward

ACROSS
1 Writer who's rued his novel? (7)
5 Simultaneous discharge of artillery (5)
8 Forecast gas protection needs changing (13)
9 Plaza redesigned for South American city (2,3)
10 Headgear seen in Cork, first to last (7)
12 Publicity in place for a soft drink (6)
13 Secure farm building (6)
16 Cheat featuring in a couple of dailies with no end of gloss (3-4)
18 Direction of former prime minister? (5)
20 Male associated with brash notion that's over-complicated? (5,8)
22 Yarn some feel is lengthy (5)
23 Two men in Canadian city (7)

DOWN
1 Drive away (5)
2 Retail consumer (7)
3 Italian opera composer of *Emilia di Liverpool* (9)
4 Substitute (6)
5 Travel over the snow? (3)
6 Let (5)
7 Supervise (7)
11 Unrealised capacity (9)
12 School bags (7)
14 Coffee maker (7)
15 Very brave (6)
17 Approves (5)
19 Convenient (5)
21 Colour (3)

Name ....

Address ....

....

email ....

Solutions to 1205

Across 1 Gals *hidden* 3 Remember *re + member* 9 Airless *(h)airless* 10 Twerp *(An)twerp* 11 Protuberant *pro tube rant* 13 Sister *hidden* 15 Gazebo *gaze + bo(n)* 18 Desperation *anagram* 22 Lucre *c inside lure* 23 Tripoli *anag* 24 Wiretaps *pater reversed inside wis(e)* 25 Byre *hidden reversed* **Down** 1 Goalpost 2 Largo 4 Easter 5 Extra 6 Breathe 7 Reps 8 Refuse 12 Hornpipe 14 Sidecar 16 Acacia 17 Belt up 19 Scent 20 Irony 21 Flaw.

The winner of MoneyWeek Quick Crossword No.1205 is: Marion Paluchowski of Hawick

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

Stocks head to a cliff edge

When they fall over, you'll want to be in safety mode

Play offence while others are scrabbling for survival

©Getty Images

Bill Bonner
Columnist

Here on the back page, we are in "Maximum Safety Mode". Why? We suspect that a period of financial chaos is coming. We want to be ready for it. The primary trend – of continuously rising markets on a flood of cheap money – has turned down; it could last for many years. As prices sink, there are bound to be crises.

But we don't have to predict anything; we just have to notice that stocks are expensive. The S&P is selling at a cyclically adjusted price/earnings ratio of 34. That's twice the average price for stocks – in the 97th percentile historically. This suggests that stock prices could be cut in half, just to get back into a "normal" range. Our Dow/gold ratio, too, tells us that stocks have a long way to climb down. The ratio is usually around ten. Now, it's 16.5. Stocks will have to lose about 40% of their value to get down to the average.

But markets do not simply go to "normal" and stay there. They swing from overpriced to underpriced and back. Right now, stocks are on a downswing (or so we believe) of unknown magnitude. But since the feds pushed the last primary trend to an extreme, and since they now seem to be pushing this one to an opposite extreme, the coming period of chaos should be a doozy.

Our model tells us to stay put in safety mode until the Dow/gold ratio falls to five or lower (when you can buy the entire list of 30 Dow stocks for the equivalent of five ounces of gold). At that point, it will be time to channel our inner Warren Buffett and, as he put it, "play offence while others are scrambling for survival". Like Buffett, we are hoarding cash with that in mind (in our case, precious metals and dollars).

In the meantime, we continue to marvel at the astonishing ways in which the feds make a bad situation worse. As the US national debt surges, billionaire Leon Cooperman warns that the country is heading towards a financial crisis, reports The DailyHodl. "You have no idea when the stuff hits the fan," says Cooperman. "If deficits don't matter, as some people insist, then I'm being too conservative. But deficits matter… I think we're heading into a financial crisis in this country."

> ***"Stocks will have to lose 40% in value to return to the mean"***

The Treasury announced it would be borrowing $243bn in the April-June quarter and $847bn in the following quarter. That means the government's annual deficit will probably be much larger than the current projections of $1.5trn. The second-quarter figure is $41bn larger than they figured in January. But these days, as my colleague Dan Denning puts it, "what's $41bn in the context of $35trn", the current size of national US debt?

It is obvious to everyone that adding debt at this stage will lead to trouble. Big trouble. Soon, we will hit the doomsday trigger – with debt at 130% of GDP. Fifty one times out of 52, when that trigger level has been hit historically, there has been a big blow up.

Maybe this time it won't. The US is special, isn't it? The indispensable nation? The normal rules don't apply? Those apparent exceptions are going to be tried to breaking point as policy-makers seem determined to aim for chaos. The trigger for the crisis could come any day now. When that happens, stocks will go down. The markets are already looking rocky, but you ain't seen nuthin' yet. Nobody is yet "scrambling for survival". Not yet. And when they are, we don't want to be among them.

For more from Bill, sign up to his Substack newsletter at bonnerprivateresearch.com

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