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MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

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From the editor...



How many swallows make a summer, and how many data points a trend?

There is no right answer, but one of our tasks as investors is to keep an eye on the evidence and judge if there is enough in either direction to confirm or refute our beliefs – keeping in mind the danger of confirmation bias, our tendency to seek out evidence that supports our views or values.

The evidence for inflation and interest rates staying higher for longer continues to accumulate. Britain's wage data this week was unexpectedly strong, as was US producer-price data; the US consumer-price gauge dipped slightly, meeting expectations. As for the medium term, Joe Biden's new tariffs on Chinese goods (see page 11) will put further upward pressure on prices. The return of Donald Trump to the White House is unlikely to be disinflationary either (see page 5), even if Arthur Laffer (still a fan of tax cuts) does consider Trump a free trader (see page 31).

Friendless FTSE in from the cold

There was also further evidence that people are coming round to the "Bargain Britain" argument. As I write, the FTSE is expected to finish the day at a new record high, which would be the 12th in a single month, a streak not witnessed since 1984, according to Panmure Gordon's Simon French.



The Japanese stockmarket remains a compelling choice

"UK blue chips' skew towards commodities bodes well if, as looks likely, inflation is sticky"

Global fund managers no longer deem the UK market the world's least appealing. Bank of America's monthly survey shows that it is now the third least-preferred asset class out of 21. Global fund managers actually added to their British holdings in May. It's also interesting to see that some big names are climbing gingerly onto the bandwagon.

A Schroders note highlighting the UK as a contrarian opportunity has just popped into my inbox, highlighting the market's cheapness across the board, poor sentiment, dearth of initial public offerings and "rock-bottom pension fund ownership" as bullish factors. There is vast scope for improvement in the last area: domestic pension funds own only 1.6% of the stockmarket, compared with 33% in the 1990s. In Japan, the figure is almost

50%. Meanwhile, the UK's unexpectedly fast growth in the first quarter, 0.6%, and news of the first expansion in GDP per head since 2022, is likely to have added to the good cheer in the past few days, reinforcing the notion that the UK is no longer a laggard among its major peers.

Alex reviews the case for the UK on page 4. The most compelling element is the cash yield of 7%-8%, a high buffer if, as looks increasingly likely, inflation remains higher than expected. The index's skew towards commodities, traditionally a hedge against inflation as their rising value tends to make goods more

expensive, is further good news. On that subject, on page 20 Dominic reviews the case for a copper bull market and explains how to gain exposure. On page 24 Max suggests another source of high yields.

Keep Japan in mind too. "Valuations are compelling, the currency is cheap and a market for corporate control is taking off", as Edward Chancellor notes on Breakingviews. Shareholder value is no longer frowned upon; deflation has been replaced by mild inflation, and profit margins have risen to almost 5.5% over the past decade, from a historical average of less than 3%. Warren Buffett started buying in 2020, some years after MoneyWeek. He may soon follow us into UK stocks too.

Andrew Van Sickle
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City divides residents

St. George, a wealthy suburb of Baton Rouge – a Bible Belt city in the Deep South state of Louisiana – has won the right to receive city status after a 12-year legal battle. The community remains divided, says Megan Agnew in *The Sunday Times*. Opponents argue that the new city will be "elitist, racist and protectionist, and that [city status] will exacerbate existing segregation" in the wider parish by allowing it to hold on to more of its tax dollars at the expense of poor, mostly black, residents, who will live outside the new city boundaries. Proponents see it as "exercising their absolute democratic and constitutional rights". The campaign began after wealthier parents set out to create their own school district, "ring-fenced" from a public-school system where grades were low and violence high. To be able to do that, they needed to create their own city. St. George will use the annual \$48.3m collected from sales taxes to fund schools and some other services. "The rich are making rules so they stay richer," one resident complained.



Good week for:

Blockbuster film *Kingdom of the Planet of the Apes* has raked in \$129m at the global box office since it was released earlier this month, making it the third-highest grossing film of 2024 so far, says Deadline. The latest instalment of the *Planet of the Apes* franchise, starring Freya Allan (pictured), grossed a combined \$72.5m in 52 countries, and \$56.5m in the US.

The waiting list to join **Soho House**, the exclusive New York-listed chain of private clubs located around the world, has hit a record high 102,000 people, says *The Times*. The number of members, which includes models Kate Moss and Kendall Jenner, increased by 10% year on year to nearly 262,000 in the first quarter of 2024.

Bad week for:

England and Manchester City football player **Jack Grealish** has been fined £666 and handed five penalty points for speeding at 44mph in a 30mph zone in Worcestershire last July, says BBC News. The 28-year-old was also ordered to pay £110 in court costs and a victim surcharge of £266, leaving him with a total bill of £1,042.

Italy will deploy 177 soldiers across the country to hunt **wild boar** in a bid to protect its €8.2bn prosciutto and sausage industry from swine fever, says *The Financial Times*. The year-long offensive is part of prime minister Giorgia Meloni's plan to reduce Italy's 1.5 million wild boar population by up to 80% in five years in order to stop the spread of the disease. Wild boars are seen as a public nuisance, munching on rubbish and causing car accidents. Between 2016 and 2021, they caused around €120m of damage. Some environmental groups have criticised the move.



Old Lady sticks with higher for longer



Alex Rankine
Markets editor

“We need to see more evidence that inflation will stay low before we can cut interest rates,” says Bank of England governor Andrew Bailey, but “I’m optimistic things are moving in the right direction”. The Bank’s Monetary Policy Committee has again held interest rates at their 16-year high of 5.25%, but speculation is growing that a rate cut is just around the corner, either at the next meeting in June or later in the summer. Annual UK inflation fell to 3.2% in March, the lowest level since September 2021.

Inflation peaked at more than 11% in October 2022, a 40-year high, says Michael Race for BBC News. The Bank began the current rate-hiking cycle in December 2021, with rates paused at a high plateau of 5.25% since last summer. Financial markets are now pricing in a first cut to 5% by August, followed by a second cut to 4.75% in November or December. More should follow next year.

Central bankers have slipped back into the narrative that the inflationary spike was all down to the pandemic and supply shocks caused by the Ukraine war, says Ryan Bourne in *The Times*. We shouldn’t let them re-write history. While the past few years have been turbulent, the fact remains that they kept interest rates too loose for too long. The result is that UK consumer prices now “sit about 12% higher than if inflation had remained at target since early 2020”. Alas, there is a risk that the Bank is now overcorrecting with needlessly tight policy.

Mortgages stay dear

Rate-cut expectations have eased recently as inflation proves difficult to stamp out,



©Getty Images
Bailey: “optimistic” about the possibility of jam tomorrow

says Laura Suter for AJ Bell. At the start of the year markets were pricing in 4.5% rates by year end, a level that they now appear unlikely to reach until early 2025. The rate cut delay spells higher-for-longer mortgage rates. UK Finance data shows there has already been a 26% year-on-year jump in mortgage arrears, a figure that will only keep rising. The predicted 0.25 percentage-point summer rate cut won’t make a big difference. For a £250,000 loan over 25 years it means savings of about £35 a month, “the same as a family takeaway”. Mortgages will still be “sky high” at the next general election, making life difficult for the Conservatives.

The average two-year fixed mortgage rate has risen from 5.55% in late January to 5.81% now because of the rate cut delay,

says Eleanor Butler for Euronews. That has cooled the housing market, with the average UK house price rising a modest 0.1% last month, according to Halifax.

Yet a predicted crash has conspicuously “failed to materialise”, says Mattie Brignal in *The Telegraph*. Low employment partly explains this resilience, but structural undersupply – caused by restrictive planning laws – plays the biggest role. What’s more, “philosophically, the English public is wedded to the idea of homeownership for financial security – this also underpins demand”, says Lucian Cook of Savills. While interest-rate cycles come and go, the long-term trend is clear. “Inflation-adjusted house prices in Britain have risen by a staggering 365% over the last 70 years.”

The penny drops and the FTSE booms

“Your eyes do not deceive you,” says Katie Martin in the *Financial Times*. The FTSE 100 really is booming. The London blue-chip index has gained 6% in the past month alone and 9.5% so far this year. While that performance is partly flattered by sterling weakness, in dollar terms the UK is still “one of the biggest gainers in Europe this year”.

That’s a turn-up for the books – the London market has “drifted sideways” for much of the past five years and is cruelly neglected by fund managers, both foreign and domestic. But with the Bank of England eyeing rate cuts, fears that the UK was unusually affected by inflation have eased. And on a trailing price-to-earnings ratio of 14 (the US figure is above



©Getty Images
Rolls-Royce: Britain is still home to world-beating companies

25), “bargain hunters” have finally realised that the UK is one of the cheapest developed markets in the world.

In the long run, “valuation is the ultimate arbiter of investment return”, says Russ Mould of AJ Bell. A low entry

price into a stock “both protects the downside, should anything unexpected go wrong, and maximises upside potential”. As firms rush to delist, the FTSE can feel “friendless”. Yet with US stocks expensive and the dollar

strong, it seems that dollar-based overseas investors are beginning to find the index irresistibly cheap. Add together dividends, buybacks and takeovers, and the UK market’s cash yield is 7%-8%, “a figure that easily beats inflation”. And if we are entering an “era of higher inflation”, then the FTSE’s bias towards inflation-resistant real assets such as commodities should turn from a weakness into strength.

The UK’s science base remains world-beating, says Alex Brummer in the *Daily Mail*. The likes of Shell, Rolls-Royce, GSK and AstraZeneca are highly rated by fund managers. There is a “mammoth mismatch” between public perceptions of Britain as a basketcase and the reality.

An exodus in the energy sector?

First Shell, now Total. Shell's CEO Wael Sawan sent shock waves through the City of London last month when he hinted that he could move the oil giant's listing to New York, says Stanley Reed in *The New York Times*. Now the boss of French oil giant TotalEnergies has made similar waves in Paris, saying that the board has to "seriously look at" the idea of shifting its main listing to New York. BP has so far "sounded cooler" on the idea of a move, says Carol Ryan in *The Wall Street Journal*. Shares in European energy giants "trade at a 45% discount to their US peers as a multiple of projected cash flows" on average. Low valuations put these firms on the financial back foot when bidding against US rivals for assets because they are unable to leverage high share prices in acquisition deals. Oil and gas companies face a much more hostile climate in Europe than in America, as "socially responsible" investors pull back from the industry.

The loss of TotalEnergies, the second largest stock on the French market, would be a severe blow, says Laurence Boisseau in *Les Echos*. Trading in big oil stocks is a key source of market liquidity. Yet there would also be downsides for TotalEnergies, not least the US propensity for disgruntled investors to launch "class action lawsuits" against boards, and strong opposition to a move from the French state, which founded Total a century ago.

US dollar dominates world

"The dollar is once again sending shivers through global markets," says Neil Shearing of Capital Economics. The dollar index, which tracks the greenback against a basket of major trading partners' currencies, has defied predictions of an imminent slump to climb 3% this year. It has risen by 16% in three years.

Inflation fuel

A strong dollar fuels inflation outside the US by increasing the costs of imports such as oil in local currency terms, since 40% of world trade is priced in dollars. The world has dodged a major financial upset so far because the dollar's ascent has been smooth rather than sudden. Yet the currency is approaching dangerous levels, especially for markets that are already exposed, such as Turkey and Argentina. "Central bankers are clearly getting nervous."

"Every major currency" has weakened against the dollar this year, with the pound, euro, yen and yuan all losing ground, say Joe Rennison and Karl Russell in *The New York Times*. The dollar index is "hovering at levels last seen in the early 2000s". A strong dollar can help non-US exporters by making their goods more competitive. British service exporters are enjoying booming trans-Atlantic demand. But it is a big problem for central banks: if US interest rates remain high,



The greenback has defied predictions of a slump

then non-US central banks will find themselves "stuck between supporting their domestic economies by cutting rates or supporting their currency by keeping them high".

Interest-rate differentials lie at the heart of the dollar's strength this year. Strong US inflation means that the Federal Reserve, the US central bank, is unlikely to reduce rates until "September at the earliest", says Katie Martin in the *Financial Times*, even as other big economies prepare to cut sooner (see page 4). With higher relative returns on offer in America, global investors will thus continue piling into the greenback.

The dollar index is still 7% short of its 2022 record high, so bulls say it has further room to rally. The euro is already near its weakest level in two decades, with Barclays' analysts warning

that new tariffs from a second Trump presidency "could push the exchange rate down towards parity" (see below).

The dollar remains indomitable, says Daniel Moss on Bloomberg. Some fret that overuse of US sanctions is driving global "de-dollarisation" and a flight into gold. But the greenback has seen off multiple challengers before, from the euro in the 2000s to talk of it being eclipsed by the Chinese yuan in the 2010s. Japan's decision to raise interest rates in March failed to spark the dollar sell-off many predicted. Dollar primacy is "embedded in the global economic system" through banking, commodity markets and the sheer heft of the US economy. For US presidents, the greenback is "more useful than an aircraft carrier".

Viewpoint

"Donald Trump's agenda... could create new inflation pressures... Plans include 60% tariffs on Chinese goods and 10% duties on other global trading partners... Economists [at] Oxford Economics found that [should Trump's agenda be implemented fully it] could push [US] prices up between 0.5% and 1% in 2026 and 2027... [In response] Trump's advisers... note that his 2017 and 2018 tariffs didn't result in an inflation spike... Still, Trump's proposal for tariffs in 2025 is far above what he implemented in 2017 and 2018. [He] has floated other new ideas, such as devaluing the dollar... Trump could try to undermine the independence of the Federal Reserve or even fire Fed Chair... Jerome Powell... Perhaps the key question... is how the race for Congress ends up... Split government [Congress and the presidency controlled by different parties]... is often... the preferred outcome for markets."

Ben Werschkul, Yahoo Finance

How the US culture wars move markets

Pershing Square Holdings
Valuation as a percentage of net asset value, Amsterdam listing



US investor Bill Ackman has restyled himself as an anti-woke "provocateur", says Liz Hoffman in *Semafor*. The Wall Street billionaire has grabbed headlines with harsh critiques of groupthink at US universities and corporate diversity initiatives. Retail investors can tap into Ackman's hedge-fund expertise through Pershing Square Holdings, a fund listed in London and Amsterdam. Pershing slumped to a 35% discount to net asset value last September after some questionable bets, but the discount has closed fast since Ackman's political sallies turned the little-known fund into a "right-wing meme stock", with Pershing gaining \$1bn in value in a month: the passions inflamed by US culture wars can actually move markets.

Shein is no shoo-in

The Chinese clothing retailer, rebuffed in New York, has decided to list in London instead. It's in a race against time. Matthew Partridge reports

The fast-fashion group Shein, valued at \$66bn in a fundraising round last year, is preparing to list in London, says The Guardian. Its attempt to float in New York earlier this year faced "regulatory hurdles and pushback from US lawmakers".

The news comes on the heels of warnings from the China Securities Regulatory Commission that it "would not recommend" a listing in the US. As a result, the online retailer may now file with the London Stock Exchange (LSE) as soon as this month.

London may be Shein's "second choice", but the news will be welcomed by both the government and the London Stock Exchange, which have both been "pedalling hard to attract" fresh initial public offerings (IPOs), says Susannah Streeter of Hargreaves Lansdown.

Still, despite the boost for the City, the company is likely to present "deep ethical issues for investors to navigate". In particular, Shein has come under "significant criticism" for the "huge volumes of cheap clothes it produces, the lack of transparency in its supply chain and its appropriation of other designers' work".

Overweight baggage

Shein certainly comes "with more baggage than a celebrity takes on holiday", says AJ Bell's Dan Coatsworth. However, the fact that it's a "household name" in many parts of the world, as well as a company that "everyone is talking about", thanks to the "attractive prices" that it offers, will give it a leg-up with investors.

What's more, many argue that the fact it wants "to be seen as a global player and not simply a Chinese firm flogging cheap togs overseas" means it will learn "to do things the right way and become a good corporate citizen". That "could encourage others to look hard at the UK as a listing venue".

Not so fast, says Alex Brummer in the Daily Mail. Even if you ignore the ethical issues, the IPO may not live up to the previous "heady valuation"



© Getty Images

from its last round of fundraising. After all, "fast fashion can be a volatile enterprise", as former "king of the high street" Philip Green found out the hard way.

What's more, while Shein is nominally headquartered in Singapore, its large exposure to China means that it could be caught up in the geopolitical fallout from any Chinese attack on Taiwan, such as sanctions, frozen assets or even delisting.

Many British fund managers have seen plenty of consumer-orientated companies "disappoint" after coming to the market in a "blaze of hype", says Sam Chambers in The Sunday Times. As a result, they may "proceed with caution".

Already, some observers are wondering whether the group's "stratospheric rise could soon level off" thanks to intense competition from Shein's rival Temu and the prospect of regulatory crackdowns on fast fashion. There is general agreement that Shein "can't put off its float for much longer" if it wants to get a decent price.

Anglo faces eventual takeover

"Embattled" mining giant Anglo American has set out a "radical new strategy" that will involve selling the famous diamond business De Beers, which once accounted for 85% of the world's mined diamonds, says Jillian Ambrose in The Guardian. Anglo American also plans to sell or demerge its South African platinum business and its steel-making coal assets.

The aim is to create a "radically simplified" company focused on "world-class assets" in copper, iron ore and fertilisers. The hope is that this will help unlock value for shareholders, making it easier for Anglo American to defend itself against a "takeover plot"

by rival BHP. Anglo American recently rejected a second offer worth £34bn from the Australian miner.

The approach from BHP has clearly served as a "catalyst" for Anglo American, say Bloomberg's Thomas Biesheuvel and William Clowes. But the move to "dramatically shrink and simplify" its business has been "years in the making"; the group has always been a "hotchpotch of commodities".

Selling De Beers also makes sense: the diamond market has become much more volatile in recent years, "whipsawing between boom and bust", while changing consumer habits are forcing it to spend

more and more on advertising, an area outside the "comfort zone" of a mining company. Still, the simplification strategy also paradoxically makes Anglo American more attractive to suitors. By getting "rid of a lot of the fat that someone like BHP wouldn't want", says Dan Coatsworth of AJ Bell, it makes a further bid more likely.

A buyer would not "have to waste time putting the business on a weight-loss programme". Anglo American offers "a ready-made portfolio of long-life copper and iron ore assets", saving any acquirer the cost of expensive exploration projects. It will be taken over, this year or once the break-up is complete.

BA's owner remains buoyant

International Airlines Group, the owner of British Airways, expects another record summer thanks to "unrelenting demand" from holidaymakers, says Philip Georgiadis in the Financial Times. The "buoyant" summer forecasts came as IAG revealed that people seeking winter sun in the Caribbean boosted first-quarter earnings.

Operating profits before exceptional items rose more than sevenfold year on year to €68m. Still, while demand for flying in Europe and across the Atlantic is "booming", IAG admits that conflict in the Middle East means revenues per passenger declined on routes to Asia and Africa.

IAG's first-quarter results appear "promising", with the board highlighting lower fuel costs, increased capacity and a stronger balance sheet, too, says AJ Bell's Russ Mould. But "it's not all plain sailing", especially since BA will "have benefited from Easter falling earlier than normal and squeezing into the reporting period".

There is certainly "scope to do better" when it comes to turning increased capacity into higher sales. What's more, there is "still a long way to go" before business travel returns to pre-Covid levels, with the negative impact of Zoom meetings "hitting IAG where it hurts". The "highly competitive" leisure market is now its "bread and butter".

The growth in leisure travel could slow as pent-up demand for travel subsidies and consumers "adjust to a world of higher costs", says Hargreaves Lansdown's Aarin Chiekrie. And IAG's plans to "spend big" on revamping its website and using data more efficiently, while much-needed, means shareholders' payouts "could take a back seat for a while longer".

Still, the latest results underline the perception that "the worst is over for IAG" and that any current risks to demand "look more like turbulence than a complete grounding". BA's "strong, trusted brands" will also be an asset at a time when several smaller airlines have gone bust, which means there's "more market for the taking".

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

Six to buy

Alcon

The Telegraph

Alcon, the world's biggest producer of contact lenses and equipment used in eye operations, has enjoyed impressive growth since it was spun out of Swiss pharmaceutical giant Novartis in 2019. Its underlying earnings before interest and tax have climbed by more than 50%. It has invested more in research and development (R&D), helping it launch new products. The shares are not cheap on 25 times forecast earnings, but their appeal lies in the scope for "highly profitable growth over many years to come". *CHF72*

Domino's Pizza

The Sunday Times

Shares in Domino's Pizza have declined by 13% since January, but the pizza chain is opening 70 new branches this year and saw a 37% jump in orders through its app in the first quarter of 2024. Like-for-like sales were down by 0.5% in the same period, thanks partly to the marketing budget being set aside for a bumper summer, with Euro 2024 kicking off in June. Analysts expect a 10%



rise in underlying earnings to £148m in 2024. Domino's is highly cash-generative, having paid out £427m to investors since March 2021. "Use its share-price dip to tuck in." *322p*

GSK

Investors' Chronicle

A potential \$30bn litigation is being priced into GSK's shares from US lawsuits over its heartburn drug Zantac. But Citi analysts expect most of the remaining cases to be settled in the next six months for less than \$3bn. GSK's revenues have eclipsed expectations in the past two quarters and it's launched new products, including the Jemperli cancer drug. Litigation could hurt in the short term, but at this price it's "worth looking at the bigger, and now far brighter, picture". *1,733p*

Relx

Shares

Reliable revenue, profit, and cash-flow growth have allowed Relx to increase dividends consistently, even during the pandemic. The FTSE 100 company has transformed itself from being a publisher into becoming a provider and analyser of business-critical data. It has invested in innovation around data analytics and artificial intelligence. On a 2024 price/earnings (p/e) ratio of 26.9 the shares are not cheap, but Relx can deliver consistent mid-single-digit growth, making it a good long-term bet. *3,299p*



3M

Barron's

3M, the American maker of Post-it Notes and Scotch tape, has been struggling with legal problems relating to chemicals

and potentially faulty earplugs sold to the US government. But the conglomerate has been making big changes, resulting in a "smaller, safer, and more nimble company". It spun off its healthcare business, announced legal settlements, reset its dividend and hired a new CEO. Growth is set to improve now that US manufacturing is picking up. *\$97*

Smith & Nephew

The Mail on Sunday

Many analysts believe Smith & Nephew (S&N) is undervalued. The medical-equipment manufacturer has struggled with supply chains and inflation, particularly in orthopaedics, but new CEO Deepak Nath's 12-point plan has shown some progress. While the FTSE-100 company is facing headwinds in China and may miss ambitious targets, it is still innovating in robotic surgery and wound care. The stock looks cheap on a low forward earnings rating and yields 3%. S&N is "far from perfect", but the "company is cheap and worth buying for short-term upside". *1,007p*

...and the rest

Shares

Investors in MicroSalt, a producer of low-sodium salt for food manufacturers, could be rewarded if the Aim-listed company's patented intellectual property fulfils its potential over the next decade. But revenue remains modest, and the firm has incurred significant operating losses due to investment in the brand and new products.



Still, the shares are up 65% on February's flotation price thanks to the potential to disrupt the food industry. Buy *(71p)*.

The Telegraph

Emerging-market asset manager Ashmore offers a dividend yield of more than 8%, backed by a balance sheet where the net cash pile represents half of the firm's net assets and a third of its stockmarket valuation.

The depressed valuation reflects "gloom and not much of the potential upside", but the group "could yet emerge from its trough of despond". Hold *(192p)*.

Investors' Chronicle

Barclays has a chequered recent history, but the success of its UK retail business, which launched mobile banking earlier than rivals, suggests that the core business is profitable and competent. Its US investment banking arm could be sold off, which would improve its

return on tangible equity, and management is making progress on reducing costs. Buy *(202p)*.

The Mail on Sunday

The Octopus Renewables Infrastructure Trust invests in a range of renewable energy sectors. Factors such as inflation and wind speed have affected revenue and deepened the discount to net asset value. But the group enjoys a steady rate of return, with 84% of revenues fixed or contracted until March 2026, and a solid dividend. The shares are a hold *(76p)*.

An American view

Albemarle, the world's largest lithium producer, has been hit hard by the drop in lithium prices amid unexpectedly slow growth in sales of electric vehicles (EVs), in which lithium is a key material. However, lithium prices have started to stabilise, says Barron's. Demand for EVs is growing steadily and producers have reined in plans to expand, so supply is likely to decline. Stronger growth in China, moreover, could give the metal an additional fillip. Analysts expect the US company's sales to exceed \$10bn by 2028, with earnings reaching \$28 per share. This growth is yet to be reflected in Albemarle's stock price, which could soon be "recharged and ready to roll".

IPO watch

German drugmaker Stada Arzneimittel could return to the stockmarket in the autumn if it does not receive high enough bids for a sale, says Reuters. An initial public offering (IPO) in Frankfurt, valuing Stada at €10bn, is being prepared by private-equity owners Bain Capital and Cinven, who have yet to decide how much of their stakes they intend to sell. Stada spun off its Russian operations in December, a step considered necessary before selling the company owing to war-related sanctions against Moscow. Bain and Cinven bought Stada in 2017 for €5.3bn, taking one of the last independent generic drug firms in Europe private.



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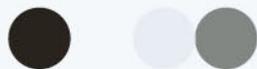
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Putin settles in for the long haul

The Kremlin has shifted strategy and is seeking China's help. Emily Hohler reports

Vladimir Putin arrived in China for a two-day state visit on Thursday, the Russian president's first foreign trip since the March "sham election" that handed him a fifth term as president. According to *The Economist*, the two leaders issued a joint statement saying the Russia-China relationship had "no limits" or "forbidden areas of co-operation".

Russia is an "ever more important partner in China's push against American might" – economic ties have strengthened since Russia's invasion of Ukraine in 2022 and there are "signs of deepening military links". The visit marks Putin's 43rd meeting with Xi Jinping and the two men are "genuinely chummy".

Putin's appointment of economist and technocrat Andrei Belousov as defence minister last Sunday, to replace the dismissed Sergei Shoigu, who had served in the role for 12 years, is timely, says Bethany Elliott in *Unherd*. It confirms Putin is "settling in" for a war of attrition with Ukraine, which will be "won not on the battlefield but on the balance sheet".

China's contribution of critical goods is key. Russia's "triple-shift arms factories have become a feature of its expanding war economy", with security now gobbling up 6.6% of GDP, says Roger Boyes in *The Times*. At current rates of expenditure, Putin has 18-24 months to bring his war to a "successful" conclusion. Anything longer



Defence minister Sergei Shoigu is out as Putin seeks victory in Ukraine

could "stretch" China's patience, and cause "serious" social and economic disruption.

Test for Xi's world view

China's "burgeoning economic ties" with Russia are one of the clearest signs that it is seeking to "reshape global geopolitics in its direction using trade – and at the expense of the US" – to create a parallel world order, says Joe Leahy in *The Financial Times*. Xi and Putin both champion a "multipolar" model of global affairs, with a "diminished role for the US-led West".

Bilateral trade reached \$240bn last year, up 26% in 12 months, and although China says it is not providing Russia with weapons, it has refused to condemn the invasion and has become a "crucial conduit of goods for Russia's defence industry", raising hackles in the US. China supplies Russia with tech, machinery and tools as well as things such as diggers and lorries, says *The Economist*. The US is now "ramping up pressure" on China to stop selling high-priority goods and has ratcheted up sanctions on Sino-Russian trade twice this month.

Chinese exports to Russia have dropped sharply in recent months, which may be due to "active risk aversion" by Chinese firms

in the face of sanctions, says Andrew Roth in *The Guardian*. Similarly, China's major banks are "throttling payments". However, Russia is proposing "a decentralised payment system that the West would be unable to track" and this week's summit may be used to "brainstorm options to circumvent US restrictions... developing tools that could be used by other countries".

Putin does hold "some cards", as Russia is an important source of food and energy for China. According to Reuters, China saved \$4.3bn in the first nine months of 2023 by buying discounted Russia oil, while China's Russian gas imports have "soared nearly 40%" since the invasion.

The war is a "stress test" for Xi's "new world view", says Leahy. But Russia is just part of the picture. China claims to be the biggest trading partner of 120 countries and it does business with most "regardless of their politics". This limits its political influence and some analysts wonder whether this could ultimately lead to "more chaos rather than a coherent geopolitical norm". As for the China-Russia axis, ties could sour. As the saying goes, "There is no such thing as everlasting friendship between countries. Only everlasting self-interest."



Lee has warned the UK against "interfering"

Tensions rise between UK and China

On Monday, prime minister Rishi Sunak warned of the rising threat from an "axis of authoritarian states like Russia, Iran, North Korea and China" as three men appeared in a London court on charges of spying on behalf of Hong Kong.

The following day, Hong Kong's leader John Lee warned against "any attempts to interfere in the work of its overseas economic offices" (one of the three men worked at its London trade office), noting that the UK has a trade surplus with the city, says Kahon Chan in the *South China Morning Post*. Hours later, the UK foreign office summoned the Chinese ambassador, Zheng Zeguan.

A spokesman for the Foreign, Commonwealth and Development Office said it was "unequivocal in setting out that the recent pattern of behaviour directed by China against the UK, including cyberattacks, reports of espionage links and the issuing of bounties is not acceptable". Zheng reportedly described the UK's behaviour as "wrongful" and the accusation against the Hong Kong government as "unwarranted" during the meeting, warning the UK not to "go further down the dangerous path of jeopardising China-UK relations".

During this week of "tit-for-tat" allegations and denials, Anne Keast-Butler, director of

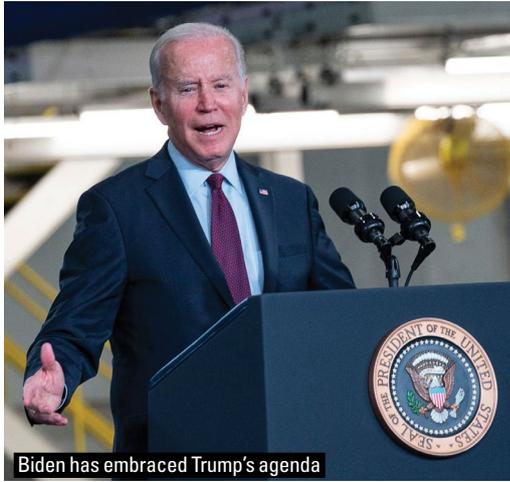
GCHQ, also warned that China presents a "genuine and increasing cyber risk to the UK" and is her agency's current "top priority", says John Paul Rathbone in the *Financial Times*. In a "direct echo" of a statement by the British government last year, she described China as "the epoch-defining challenge".

Western spy agencies have been talking of a need to focus on China for years, says Gordon Corera of the BBC. Senior officials worry the threat has not been taken seriously, leading the West to "fall behind in intelligence terms" and making itself more vulnerable to Beijing, which is seeking to shape a new international order.

Trade wars heat up

Biden announces 100% tariffs on Chinese EVs. Matthew Partridge reports

In a move that is “likely to inflame trade tensions between the world’s two biggest economies”, the US has imposed “more stringent curbs on Chinese goods worth \$18bn”, says Larry Elliott in *The Guardian*. The centrepiece is a 100% tariff on Chinese-made electric cars (EVs), but the US will also hike tariffs on lithium batteries to 25% (from 7.5%), on critical minerals to 25% (from 0%), and on both solar cells and semiconductors to 50% (from 25%). Tariffs on steel, aluminium and personal protective equipment – which range from zero to 7.5% – will also rise to 25%. President Joe Biden’s administration says the measures are intended to “stop cheap subsidised Chinese goods flooding the US market and stifling the growth of the US green technology sector”.



Biden has embraced Trump’s agenda

of producing a vast number of cars at a much lower cost”, says *The Economist*. The immediate impact will be limited because much trade in the tariff-hit categories has already shifted away from China, but US consumers will be the ones to pay the price for Biden’s tariffs, both in the short term, as they will spend more on EVs, but also in the long term, as domestic producers will be under less pressure to develop cheap goods. It may also represent a “lost opportunity” for the environment – lower prices for EVs, solar panels and batteries from China “would have boosted their appeal to consumers”.

Expect more walls

Indeed, trying to divorce the industry from China’s supply chain will make EVs a harder sell, says Jonathan Guilford on *Breakingviews*. Without access to “cheap, advanced Chinese tech”, US EVs might remain “expensive, niche products”, especially given that US domestic efforts are “faltering”. Ford and GM have cut their manufacturing targets, leaving Tesla, where growth is already starting to slow, as the remaining “creaking pillar” of America’s EV efforts.

US protectionism is here to stay, says James Politi in *The Financial Times*. Trade policy is set to be the “heart” of this year’s presidential contest as Biden and Donald Trump compete to appear the “most aggressive protector of working-class American jobs in the face of rising Chinese manufacturing prowess”. Biden has “embraced” Trump’s protectionism and gone further; Trump and the Republicans, for their part, want to go further still.

A shot in the green foot

Both the US and the EU have expressed “alarm” at the rapid growth of China’s electric-vehicle manufacturing, says Richard Spencer in *The Times*. At the end of last year, China’s BYD overtook Tesla as the world’s leading seller of EVs. Its basic model sells in China for just £8,000. Critics argue that the low prices are the result of hidden subsidies from Beijing (see also page 19) in the form of “cheap land from local government, cheap loans from state-run banks and cheaper energy”, and “unfair” Chinese trade practices with regard to technology transfer, intellectual property and innovation.

China may well have achieved much of its advantage through its own unfair mix of protectionism and subsidies, but it is now “well ahead” of US firms in the EV sector and is “capable

Betting on politics

He may have been threatened with jail for contempt of court, but punters seem to think it more likely that, come November, Donald Trump’s residence will be the White House. With £16.4m matched on Betfair, there has been a noticeable shift to the former president, who is now at less than evens again at 1.98 (50.5%), with Joe Biden’s odds moving out to 2.62 (38.1%). Robert F. Kennedy is at 36 (2.8%), Michelle Obama is at 46 (2.2%) and vice-president Kamala Harris at 70 (1.4%).

I think Biden’s chances have been underrated, but don’t bet any more money if you’ve already taken my advice.

Another presidential contest that is worth a punt is for the leadership of the European Commission. Ladbroke’s is running a market on the contest and has current president Ursula von der Leyen a strong favourite to retain the job at 1/3 (75%), with former Italian PM and head of the European Central Bank Mario Draghi at 7/1 and Croatian PM Andrej Plenkovic at 10/1.

Von der Leyen appointment in 2019 was controversial, and there were attempts to get the European parliament to block her. Since then, she’s courted controversy by throwing her weight around as if she were a proper leader, rather than just head of the EU’s civil service. Her mismanaging of Covid vaccine procurement was a particular low point, and one which is the subject of an ongoing investigation.

But von der Leyen has been smart enough to take steps to secure her position, winning the endorsement of the centre-right EPP bloc, which is almost certain to be the largest grouping in the parliament. She’s also seized on the issue of “disinformation” as a means to justify why she should remain in office. Whatever your views on her, I suggest taking the bet on her to win.

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EU expansion hopes scuppered in Georgia

Georgia’s government has pushed through a foreign-agents law in the face of international condemnation. Despite 30 days of protests by hundreds of thousands in the capital, the government has mandated that media or civil society groups that receive more than 20% of their funding from abroad will have to register as organisations serving the interests of a foreign power.

The government argues the law is “no different” from similar laws in other countries, such as the US Foreign Agents



Registration Act, says Marc Bennetts in *The Times*. But the Georgian law goes further than most in that it requires media organisations that receive overseas funding, but are not acting on behalf of a foreign

government, to declare themselves foreign agents. Analysts think the new law is part of a “Kremlin-inspired” plot by the ruling party to sabotage Georgia’s bid to join the EU, which is supported by around 80% of Georgians. The EU has already warned that the law will

negatively affect Georgia’s chances of membership.

The idea of expanding the EU to the east by 2030, as European Council president Charles Michel (pictured) proposed last August, seems “too ambitious”, says Tony Barber in *The Financial Times*. Events in potential candidate countries, such as Serbia, North Macedonia, Bosnia and Herzegovina, and Georgia, show that “the obstacles to enlargement go beyond the challenge of redesigning the EU’s institutions and financial arrangements to make it possible”. Domestic political trends, “Russian and Chinese meddling” and “deeply entrenched forces” remain arrayed against it.

London

Wages still rising: Pay in Britain increased more than expected in the first quarter of the year despite a cooling labour market, raising doubts over when the Bank of England will cut interest rates for the first time in four years. Annual regular wage growth, including bonuses, held steady at 5.7% in the three months ending March, according to the Office for National Statistics. This was ahead of City analysts' expectations of an increase of 5.5%. Excluding bonuses, the pace of rising wages stood firm at 6% compared with the same

period a year earlier, but they were also slightly higher than analysts' expectations of 5.9%. Despite the strong earnings data, the unemployment rate edged higher to 4.3% in the same period – the highest level since last summer – from 4.2% in the previous three months. The employment rate was steady at 74.5%, while job vacancies decreased and unemployment benefit claims rose slightly.

Last week, the Bank of England's Monetary Policy Committee voted by seven to two to keep interest rates at a 16-year

high of 5.25% (see page 4), with some members wanting to see further proof of pay pressures softening before cutting rates next month. "While the further easing in regular [specifically] private sector pay in March suggests that wage pressures faded a bit faster than the Bank of England expected, broader measures of wage growth are probably still a bit too strong for the Bank's liking," says Ashley Webb of Capital Economics. "At the margin, this may make the Bank a bit more uneasy about first cutting interest rates in June."

Washington, DC

Balancing act: The pace of rising US consumer prices slowed by 0.1 percentage points to 3.4% year on year in April from the previous month – the slowest rate of increase since spring 2021, says David Uberti in *The Wall Street Journal*. Excluding volatile food and energy prices, the annual "core" consumer price index (CPI) eased to 3.6%, from 3.8% in March. Investors "saw positive signs" that the Federal Reserve's "inflation flight is gradually slowing down the US economy", with the yield on the ten-year Treasury bond ticking lower. Central bankers can "comfortably" keep interest rate rises on hold at the next meeting in June. Still, price pressures abound. Wholesale prices rose more than expected in April and that puts up "another potential roadblock to interest rate cuts any time soon", says Jeff Cox on CNBC. The producer price index (PPI), which measures the price of goods leaving factory gates, rose 0.5% month on month in April, having shrunk 0.1% the previous month. "Whether we see rates reduced in July, September or December will depend on how inflation changes in the coming months, how the economy performs, and whether any issues arise in the financial system or jobs market," says Richard Flynn of Charles Schwab. "In the meantime, we watch and wait."

Rio de Janeiro

Oil boss ousted: Brazil's president Luiz Inácio Lula da Silva has sacked Jean Paul Prates (pictured), the boss of state oil company Petroleo Brasileiro, following a clash over dividend payments, says Bloomberg. Prates, who is the fifth CEO of the company known as Petrobras to leave in three years, had struggled to handle

the competing demands of external investors and the state. The decision to oust the boss of the world's seventh-largest oil producer by output has raised investors' concerns over growing political interference by the Brazilian government.

Prates had opposed the decision by government-appointed board members to withhold the payment of an extraordinary

dividend, though it eventually returned half its cash to investors. The government is Petrobras's biggest shareholder, with a 36.8% stake and more than half of voting rights. It has been pushing Petrobras to reduce investor handouts, invest more in renewable energy and help stimulate Brazil's economy. Magda Chambriard, the former head of Brazil's oil and gas regulator, is in the frame to take over in the role. Prates, a former senator in Lula's left-wing party, was appointed CEO of Petrobras in January 2023 and had come under pressure from politicians for not lowering fuel prices sufficiently. Petrobras's American depository receipts (ADRs) fell 10% in pre-market trading in New York on Wednesday.

**The way we live now... the ethics of resurrecting the dead**

Artificial intelligence (AI) ethicists from the University of Cambridge have called for the regulation of "deadbots" – digital recreations of deceased individuals that could cause psychological harm to both their creators and users, says Alex Hern in *The Guardian*. Such chatbots could be created by uploading conversations with dead relatives and marketed to parents with terminal illnesses or those who want to catalogue their lives.

"Unscrupulous companies and thoughtless business practices could cause lasting psychological harm and fundamentally disrespect the rights of the deceased," the researchers argue. Best practices should be implemented to limit interactive features to adults only and ensure that

the systems are transparent about their operations and limitations. This technology already exists, as in the GPT-3 chatbot created by Joshua Barbeau, which speaks with the voice of his late girlfriend. Meanwhile, genealogy site MyHeritage's Deep Nostalgia feature creates animated videos of users' family members from still photos, while its DeepStory feature generates talking videos.

"Rapid advancements in generative AI mean that nearly anyone with internet access and some basic know-how can revive a deceased loved one," says Dr Katarzyna Nowaczyk-Basińska, one of the study's co-authors. "This area of AI is an ethical minefield."





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Della Valle is making Vodafone leaner

London

Dividend halved: Vodafone will halve its dividend to 4.5 cents per share from next year “with an ambition to grow it over time” as it steps up investment in mobile networks, says James Warrington in The Telegraph. The cut could free up roughly €1bn a year in cash flow. The FTSE 100 firm posted a full-year 6.3% rise in service revenue from its telecoms business to €29.9bn, excluding its Italian and Spanish businesses, which it has agreed to sell. Group revenue fell 2.5% to €36.7bn after the disposal of a stake in its towers business and the sale of its Hungarian and Ghanaian businesses last year. CEO Margherita Della Valle has set out to make Vodafone more competitive. The shares have declined 40% over the past five years and the company plans to cut 11,000 jobs and invest a further €100m to improve its customer experience. Meanwhile, ministers have given the go-ahead to the merger of Vodafone’s British arm with rival Three UK, but the Competition and Markets Authority, the regulator, has raised concerns over price increases. “Vodafone’s problem... is that it has been fighting on too many fronts, in too many markets, while it has been carrying too much debt that has crimped its ability to invest and compete,” says Russ Mould of AJ Bell. “The capital investment requirements to stay competitive meant the dividend was, ultimately, too big to defend.”

Tokyo

Looking on the bright side: Japanese tech conglomerate SoftBank has posted a ¥227.6bn (£1.2bn) loss for the year that ended in March – its third straight annual loss, although smaller than the previous two of ¥970.1bn and ¥1.7trn respectively. That was mainly due to realising losses in its investment in Alibaba, and SoftBank has now almost entirely rid itself of its stake in the Chinese online retailer, says Lisa Kim on Nikkei Asia. It wasn’t all bad news, however. The company did turn quarterly profits of ¥950bn and ¥231.1bn in the fourth quarter of 2023 and in the first three months of this year. Moreover, SoftBank will increasingly shift its focus to investments in artificial intelligence (AI) – and in particular Cambridge-based chip designer Arm Holdings, in which SoftBank owns a 90% stake. Arm’s shares are up roughly 70% since its US listing in September, and the \$110bn company plans to create an AI chip division. SoftBank has also invested just over \$1bn in British self-driving start-up Wayve Technologies and it is in talks to buy British semiconductor start-up Graphcore. “Arm has decades of experience in chip design” but “catching up with the likes of [US-based] Nvidia on designs for the graphics processing units used in... AI is another task altogether,” says Lex in the Financial Times. SoftBank risks overpaying. But at least its investments now have a “common theme” and the next step for the company “will be figuring out a way, credibly, to get Arm involved”.

Paris

Sanofi teams up with Novavax: French drugs giant Sanofi has thrown US-based biotech Novavax a lifeline in the form of a \$1.2bn licensing deal for the latter’s Covid vaccine, say Patrick Wingrove and Bhanvi Satija on Reuters. Sanofi will also take a 4.9% stake in Novavax for \$70m, which values the US drugmaker at \$1.4bn – nearly double its market capitalisation as of last week, but “a far cry” from the \$20bn it had been worth in 2021. Novavax, which first warned in February 2023 that it was struggling to continue as a “going concern”, will receive an up-front \$500m cash payment, with more on the way provided certain targets are met, along with royalties. Sanofi will co-sell Novavax’s Covid vaccine in most countries from next year and gain access to Novavax’s flagship Matrix-M adjuvant technology – an alternative to the messenger RNA technology employed by Pfizer and Moderna. The company made almost \$7.5bn last year from the sale of its vaccines. Separately, Sanofi used the occasion of French president Emmanuel Macron’s annual pitch to foreign investors to announce a €1.1bn spending spree to ramp up production capacity at its facilities in France, says Myriam Chauvot in Les Echos. The company will also seek to speed up the development of drugs in its pipeline.

Taipei

Uber delivers: Ride-hailing platform Uber is to buy rival Delivery Hero’s Foodpanda business in Taiwan for \$950m in cash, “shoring up its control of a key Asian market”, say Sarah Zheng and Chien-Hua Wan on Bloomberg. Uber’s meal delivery unit, UberEats, has outperformed globally in 2024 and it has been “neck-and-neck” in Taiwan’s delivery market for years. The deal, which Uber hopes to complete by mid-2025, is one of the largest takeovers in Taiwan outside the semiconductor industry. Uber also agreed to buy a 3% stake in Delivery Hero for \$300m – a 30% premium to Monday’s closing share price. Last year was Uber’s first full year of profitability in its “tumultuous history” and it is now seeking to grow its food and grocery business globally, says Camilla Hodgson in the Financial Times. About 12% of total revenue came from the Asia-Pacific region in 2023. The deal is subject to regulatory approval, a “potential wrinkle” given that Uber and Delivery Hero are the “two dominant players” in the Taiwanese market.



Britain's brewing drugs disaster

An uptick in deaths from synthetic opioids has some worried that we may in this country be heading for a repeat of America's opioid crisis. Will it get that bad? Simon Wilson reports

What's happening?

Police in Wales arrested two people last month on suspicion of supplying drugs laced with nitazenes – an exceptionally dangerous synthetic opioid that can be hundreds of times stronger than heroin – to inmates at HMP Parc prison in Bridgend. Earlier this year, six prisoners died after taking illegal drugs, and at the time the deaths were thought to be related to spice, a synthetic cannabinoid whose use is widespread in prisons. Since then, post-mortem examinations found that four of the six deaths were in fact linked to nitazenes, a class of synthetic opioid that remains rare in this country, but which is used by dealers to contaminate – essentially beef up – street drugs, including heroin, cocaine and spice. The Bridgend deaths have renewed fears among policymakers and police of a brewing opioid crisis in the UK. This week Labour MP Beth Winter called on the UK government to take back direct control of Parc prison from its private operator, G4S.

What exactly are opioids?

It's the name for any drug (legal or illegal) that acts on opioid receptors in the brain and spinal cord to produce morphine-like effects that block out pain. Morphine, heroin and prescription painkillers such as codeine, Vicodin, Percocet, OxyContin (oxycodone) and tramadol are all opiates, and together with a class of opiate-like synthetic or semi-synthetic drugs – chiefly methadone and fentanyl – they are collectively known as opioids. They are powerful painkillers with important uses in modern medicine, but are also highly addictive, and their suitability for the long-term treatment of chronic pain is bitterly controversial. Their over-prescription and illegal misuse has famously fuelled a deadly crisis in the US and Canada. In the US, drug overdose deaths more than doubled between 2013 and 2021, which saw 106,699 drug overdose deaths recorded. Of these, around 70,000, or two-thirds, involved synthetic opioids. Alejandro Mayorkas, the homeland security secretary, calls fentanyl overdoses “one of the greatest challenges that we are facing as a country”; it's estimated that the soaring drug death rate costs the US \$1.5trn each year.

“The soaring drug death rate costs the United States \$1.5trn each year”

What about the UK?

Compared with the US, the figures are thankfully small. More than 100 deaths linked to synthetic opioids were recorded in the UK last year, according to government figures. It may be that the UK, and other European countries, will avoid a US-style crisis in part thanks to their “nationalised, non-profit-driven health-care systems”,



says The Economist. Doctors here are more reluctant to prescribe opioids, meaning Britain is unlikely to develop a problem as big as America's. Even so, the upward trend is clear. Drug deaths in England and Wales have risen every year since 2012, and in 2022 (the last full year for which data is available) the total was 4,907 – or 89% higher than a decade before.

But no cause for alarm?

On the contrary, the worry is that the potential for a crisis is there. Indeed, what public-health experts most fear is that by the time a massive problem shows up in the statistics, it will be too late to start tackling it, says Jake Shepherd of the Social Market Foundation (SMF). For example, a study of 24 European nations by the European Monitoring Centre for Drugs and Drug Addiction found that the UK has the highest estimated rate of problem opioid use. There were 58 reported fentanyl deaths in England and Wales in 2021, compared with 140 in the whole of the EU. In England and Wales in 2021, almost half (45.7%) of all drug poisonings involved an opiate such as heroin and morphine. And in Scotland, the most common type of drug implicated in drug misuse deaths is already opioids, a factor in 82% of all overdose deaths.

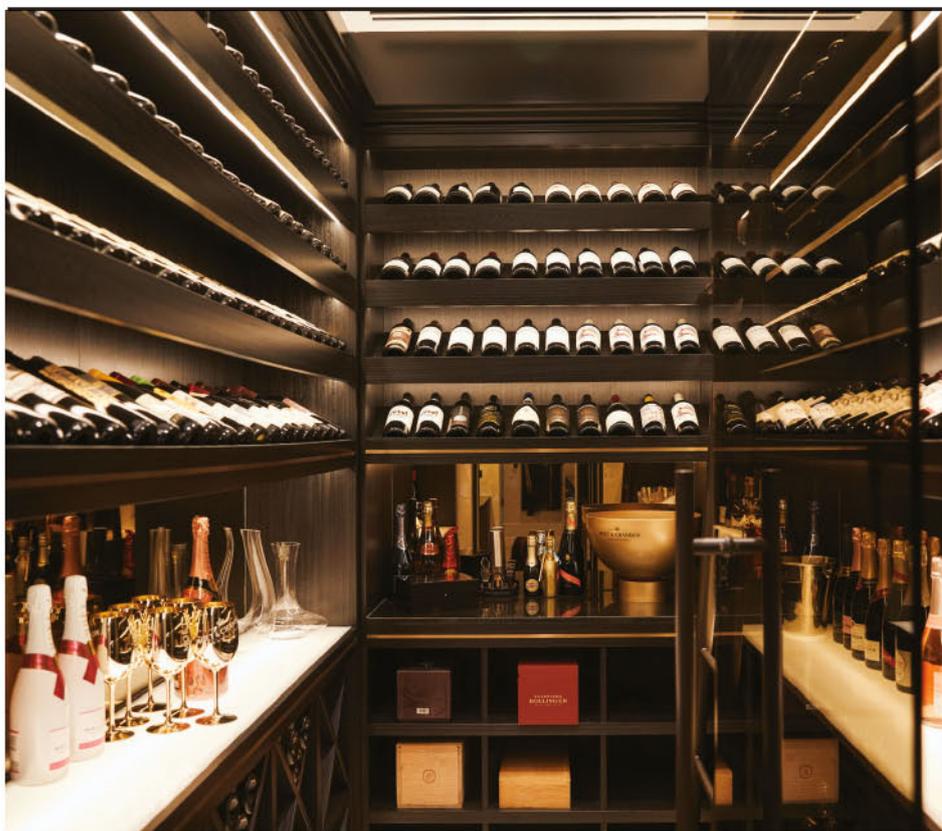
What might fuel a surge?

Many experts have warned that changes in the global drugs trade – principally a growing shortage of heroin from Afghanistan due to the Taliban's 2022 ban on opium – makes a boom in synthetic opium use more likely. Last year, the UK reported a marked increase in the amount of fentanyl seized by border officials. And in

January, experts from the Faculty of Public Health warned that the 54 nitazene-related UK deaths reported over the previous six months by the National Crime Agency were likely to be just “the tip of the iceberg”. That's because these drugs are an emerging threat, and are still not routinely tested for in post-mortem toxicologies. Many recent nitazene-related deaths have been linked to contaminated batches of heroin. However, the opioids are also being detected in cannabis and illicit vapes, as well as in prescription products traded illegally, such as fake oxycodone (OxyContin), diazepam (Valium) and alprazolam (Xanax).

What should the government do?

In March, the government announced an enhanced surveillance and early warning system, to include the testing of waste water and the tracking of overdoses being reported by the emergency services. The aim is to monitor the presence of synthetic drugs in the UK, and assess when and where they are being cut into other types of drugs. But a wider, whole-system approach will be needed if Britain is to ensure it avoids the misery and social costs of a US-style crisis, argues the Faculty of Public Health. Necessary measures include the expansion of heroin-prescribing and drug-checking facilities, and the establishment of overdose prevention centres (Britain is one of very few countries in Europe that does not have safe drug-consumption rooms, although one is shortly to open in Scotland). The UK should learn from the US where appropriate, says the SMF's Jack Shepherd, with preventive strategies including syringe services, fentanyl test-strip provision, and the creation of a drug-overdose health alert network. “If the American experience tells us anything, it's that no price is too high for being proactive and intervening early.”



Unique assets require unique insurance

Many investors own alternative assets as part of a diversified portfolio, but the unique nature of these assets means they require bespoke insurance to protect against loss.

If you've got valuables in your home, it's sensible to keep an eye on what they're worth. This might seem like an obvious statement at first. After all, if you paid for the item in the first place, you're going to have a good idea of what it's worth, right? However, it can be easy to underestimate the value of such possessions, especially if you haven't had them valued recently as markets for certain items, particularly collectable items, can move quickly.

Of 1,000 people surveyed by NFU Mutual in January 2024, six in 10 High-Net-Worth Individuals considered themselves to be collectors, making them even more susceptible to the risk of undervaluation and underinsurance.

Underinsurance means the amount you're covered for by your insurance is less than the cost of replacing or repairing your precious items. This can happen when the valuation of items you own is not up-to-date, either due to a lack of information or a fast-moving market. That's why it pays to stay on top of market trends, have your items valued regularly and contact your insurer if you believe there's been a sudden change in the value.

Understanding the value

The risk of undervaluation is perhaps most prevalent when it comes to jewellery, especially gold jewellery. The price of gold and other precious metals has surged over the past

few years. According to the Royal Mint, the price of gold is currently trading at just over £1,900 per ounce, up £435 in the past five years.

Mark Smith, Managing Director at one of NFU Mutual's carefully selected valuation partners, Quastel Associates, explains: "The main reason gold is at an all-time high is instability in the world. The wars in Ukraine and the Middle East, and previously, the pandemic, too. People move away from stocks and shares and property and move to safe commodities. This not only affects clients' gold bullion and coins, but those who have gold content in jewellery."

It's all too easy to forget about gold jewellery or even gold bullion if it's locked away out of sight. That doesn't stop it from appreciating in value with the rest of the market. Gold is generally thought of as a passive investment, but to ensure you don't end up out of pocket if the worst should happen, it pays to keep an eye on what it's worth.

Exciting market

Another market that's seen a boom in recent years is the whisky market. The record for the world's most expensive bottle of whisky was broken last year after a bottle of Macallan 1926 went for £2.1m at a Sotheby's auction in London. But it's not just the high-end stuff that's been going up in value.

At the end of last year, Investment bank Noble & Co said analysis based on about 8,500 transactions of "fine and rare" single malts showed prices for the year had fallen 7%, but this followed a 19% jump for 2022.

Despite the weakness last year, it remains an exciting time for whisky collectors. Mark at Quastel Associates says: "It comes down to a few magical things that affect value: age, rarity, the distillery and importantly it's also about brand, such as Macallan." The most sought-after bottles will remain in demand, and prices will likely continue to rise, that's why it's important to stay up-to-date with values and the market.

Time and value

The luxury watch market has also seen an increase in recent years. Whereas in the past, you could walk into a showroom and buy an expensive watch, today, the market is much more exclusive. There are long waiting lists as companies can't or don't want to keep up with demand. To get your hands on these watches, you'll need to try and get your name on a waiting list or have a pre-existing relationship with a buyer.

As this dynamic has unfolded, second-hand demand has boomed. Today, luxury watches might fetch prices far higher than their retail price, and that's why it's more important than ever to maintain regular valuations for these pieces - it might cost far more to replace the item than you paid for it in the first place.

No one wants to spend time worrying about how much their valuables are worth, and worrying if their insurance valuations are up-to-date. That's where NFU Mutual Bespoke Home Insurance can help with trusted partners who can, for a fee, provide a valuation of your belongings.

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Airlines brace for turbulence

As crisis hits the airline duopoly, competitors from China and Brazil are straining at the leash



Matthew Lynn
City columnist

If you haven't already booked a summer holiday it would be a good idea to get a move on. Prices are going up all the time. Michael O'Leary, the pugnacious boss of Ryanair, has already warned that fares may have to go up by as much as 10% this summer because of the shortage of new aeroplanes to meet all the demand for flights. Air Lease, one of the largest suppliers of aeroplanes to all the budget airlines, warned last week that delivery delays from both Boeing and Airbus were likely to persist well into 2025. What was one of the fastest-growing industries in the world is being held back not by a shortage of skilled staff, or landing slots at overcrowded airports, but because there are not enough aeroplanes being made to meet all the demand for new aircraft.

Why the delays?

It is not hard to understand what the problem is. The US manufacturer Boeing has suffered the biggest problems, with well-documented safety issues in its best-selling 737 series of aircraft. It may well not get up to full speed again until the summer of 2025, or perhaps even later. Its great European rival Airbus has been warning since February that deliveries of new aircraft will be delayed all through this year because of hold-ups along its complex supply chain. Put the two together, and it is simply impossible to get a new aeroplane right now. There are not enough to go round.

We all know what happens when there is a gap in the market. Someone steps in to fill it. China has already launched the Comac C919, the country's first passenger aeroplane. A direct competitor to the

Boeing 737 and the Airbus A320, it is already in service in the domestic market, and the manufacturer is starting to get it ready for export. Earlier this month Brazil's Embraer, which specialises in small and private jets, said it is looking at building a 737/A320 rival. China's Comac has also announced that it has started work on the C939, a far larger jet that would compete directly with the Boeing Dreamliner on long-haul routes. Add it all up and it's clear that the duopoly that has dominated the aerospace industry for the last 30 years is under threat. For the first time, they are seeing real competition.

True, manufacturing passenger jets requires vast investment, a highly skilled workforce, developed supply chains, and relationships with the airlines that take a decade or more to build. It is one of the world's most complex, sophisticated industries, requiring plenty of support from governments and lots of patient work by management and investors. Indeed, one of the main reasons why there are only two players in the industry right now is that it is so expensive to develop a new aeroplane that it is virtually impossible for anyone else to break into the market.

But that is starting to change. The safety issues at Boeing and the delays at Airbus are creating a market that is more open than it has been for a generation or more. The longer that lasts, the more airlines will start



China is primed to step into the gap in the market

looking around for someone else who can supply them with new aircraft. The door will be wide open for fresh competitors. Western governments and the manufacturers need to make sure that closes as quickly as possible. The US needs to ensure that Boeing fixes its production problems as fast as it can, even if it requires a complete change of leadership, and perhaps a change of ownership as well. And the European governments (including the UK, given that the wings are made in this country) need to make sure that Airbus can ramp up production, even if it requires investment in new factories.

The West has become dangerously complacent. This is the last major industry in which the US and Europe are dominant – aerospace is still completely controlled by the West, with two giant companies supplying aeroplanes for the entire world. Along the way, they generated hundreds of thousands of skilled jobs and tens of billions of export earnings. Right now, it is under threat. If China, and perhaps even Brazil, get a foothold in the industry, they will be impossible to stop – and another major industry will have been lost.

City talk

● "The flight of the Concord has been in the wings for ten days" since rival bidder Blackstone tabled a \$1.30-a-share offer for Hipgnosis Songs Fund, says Alistair Osborne in The Times. But Concord Chorus, a US music-rights firm that made a \$1.25 bid and has now decided not to try to beat Blackstone's offer, has done Hipgnosis's shareholders a favour. Hipgnosis had been "spinning dud after dud" under its investment adviser, Hipgnosis Song Management, chaired by Merck Mercuriadis (pictured)



and majority-owned by Blackstone.

Blackstone would not have "paid up if Concord hadn't made a proper ding-dong of it".

● "Flotation flops in the UK tend to be remembered for years, whereas... disasters in New York are quietly forgotten," says Nils Pratley in The Guardian. Cazoo, a British used-car website, chose a US listing in 2021 because high-growth companies were supposedly "better understood by US investors". So much for that.

Cazoo's shares have plummeted by 99.9% since its debut, and the company will now appoint administrators.

The group struggled to make money, generating losses of £700m in 2022, and a forced retreat from Europe in 2022 reflected the ongoing malaise. In early 2024 the group declared that it would sell its stock and become an online marketplace for the car dealers it had originally hoped to combat. The lesson? UK fund managers aren't "dinosaurs" who don't "get" cash-burning tech companies. They can make "rational judgements," as demonstrated by their reluctance to award Cazoo the £6bn-plus valuation it achieved on the US bourse.

● "Few outside of the energy industry and Scotland would have heard of Wood Group," says Lex in the Financial Times. But the engineering firm has been attracting attention from buyout groups. Dubai-based Sidara is the latest to have become interested. It proposed 205p per share, valuing Wood at more than £2bn, but its offer was rejected.

Wood has made slow progress in its turnaround. It is struggling to deleverage after a 2017 takeover. The departure of Wood would add to "hang-wringing over the state of London's market", but Wood is a "prime example of when take-private deals of struggling companies may be no bad thing".

The inexorable rise of India

One market has stood out of the emerging market pack, helped by a growing pool of domestic investors



Cris Sholto Heaton
Investment columnist

The relentless focus on the tech sector means you could be forgiven for thinking the US has been by far the top-performing stockmarket in the last few years – but it's not. While America has done extremely well, there are a handful of countries beating it. Most of these are small markets or special situations, but there are a couple of exceptions, of which India is the most notable.

India has had an unusually good run since the pandemic, especially for foreign investors. While this is a market that has frequently delivered high – but volatile – nominal returns, it's also suffered from high inflation and persistent currency depreciation. In 1994, one pound bought around 50 rupees. Today, it's around 105. As a result, returns for a British investor haven't always been vastly better than the wider emerging-markets universe, as the chart shows for the last 20 years.

However, Indian stocks have rocketed since 2020 and greater currency stability has let foreign investors share in most of those gains. The rupee has done okay against the wobbly pound, but even measured in a stronger currency – eg, the US dollar – the gains have been substantial. The MSCI India is up by 14% per year, including dividends, in dollar terms over three years.

A strong case but a strong run already

The bull case for India is very familiar by now. Economic reforms are unlocking faster growth, leaving it well placed to take advantage of its youthful demographics at a time when many developing and emerging economies are ageing. India is now the world's fifth-largest economy, with a GDP of around \$4trn – close to overhauling Japan and Germany. The domestic market is huge, which is a crucial advantage if the

India versus emerging markets
Total return in sterling, January 2004 = 100



world retreats from globalisation. Private-sector businesses have been allowed to earn high returns from the rapid growth of the economy: that sounds like an obvious statement, but it is a very strong selling point for emerging-market investors who have been stung by China's turn away from capitalism over the past decade.

It used to be said that foreign institutional investors (FIIs) had an outsize influence on the Indian market, but this looks like a domestically driven boom. India has done a good job of deepening its domestic capital markets, including the critical step of encouraging more individuals to put their money into mutual funds and stocks rather than gold and bank deposits.

The obvious risk is that the market has risen so much, as Christopher Wood notes (see right). The MSCI India trades on a price/earnings ratio of around 26 times trailing earnings and 22 times forecast earnings. India has always tended to be a high-priced market because earnings have grown at a high pace (not least due to inflation), but valuations at these levels make me a little cautious. One has to worry a bit about how retail investors who have only really seen a bull market might react in a downturn. That said, if nothing serious goes wrong with the economy, India will be a growing share of global portfolios in the years ahead, even if there are setbacks. Next week, I'll look at some of the main options for investing.

Guru watch

Christopher Wood,
global head of
equity strategy,
Jefferies



"India is the best equity story in the world on a ten-year view," says Christopher Wood, the veteran equity strategist and long-standing India bull, in a recent research note. India's stockmarket value will more than double to \$10trn within the next decade, from \$4.3trn today, primarily driven by domestic flows.

Over the last ten years, the government headed by prime minister Narendra Modi has delivered "fundamental structural reform, which has created the framework for the country to realise its full potential in terms of taking advantage of its intellectual and physical capital as well as its positive demographics", says Wood.

India has invested vast amounts in infrastructure, which has greatly improved logistics and the efficiency of the economy; reformed its insolvency and bankruptcy procedures; and kicked off a boom in the residential property market, which is in its third year. These changes have left the economy in a position where it is realistic to expect real GDP growth of 7% per year and corporate earnings growth of 12%-15%.

However, the stockmarket still accounts for less than 2% of the MSCI ACWI index of developed and emerging markets, and remains only a small part of most investors' portfolios. "The remarkable point now is how little foreign investors are invested in Indian equities," says Wood. "Global equity funds are barely invested in India at all even though it is now consensus... that India is the world's next big growth story. This lack of exposure to India by global investors is, frankly, absurd."

After such strong gains, there is always a risk of correction. "The biggest risk in the Indian market is simply how well it has done of late." Valuations look expensive, particularly among mid-sized companies. "Still, these valuations should be seen in [the] context of the acceleration in growth which should be anticipated as a consequence of the developing [capital expenditure] cycle."

I wish I knew what inflation was, but I'm too embarrassed to ask

Inflation is the rise in the general level of prices in an economy (or a sector of an economy) over a given period of time. Alternatively, it is sometimes defined as the decline in the purchasing power of each unit of money, which amounts to the same thing.

Inflation is usually measured by looking at the change in a price index that is based on the average prices of a basket of goods and services. Typically we look at the year-on-year inflation rate (eg, the change in the price index between May this year and May last year), or the annualised rate over longer periods (eg, if the price index is up by 9.3% over

three years, that's an annualised inflation rate of 3%).

When we talk about inflation in general, we are usually referring to inflation in the consumer price index (CPI). This index is a representative sample of the items a typical consumer spends their money on, such as food, fuel, clothing and entertainment. However, we might also want to know about changes in the prices that manufacturers receive for what they sell. This is measured using a producer price index (PPI), based on a basket of products ranging from raw materials to finished goods. Changes in the PPI generally precede changes in the CPI,

since rising or falling costs for producers (such as materials or labour costs) will ripple down the supply chain until they affect the prices that consumers pay in shops.

Calculating inflation is surprisingly complicated. The selection of items in the index, the mathematical method used to average them and adjustments to reflect changes in the quality of items over time all affect the result. Two indices may produce different rates, as is often the case with the UK's CPI and its older retail price index (RPI). Important items such as food and fuel have volatile prices, so we may need to look at an index that excludes these to get a sense of underlying trends (known as core inflation).

The big-tech scramble for energy

Editorial
The Economist

Big tech needs “a lot more” computing power and is investing heavily to get it, says The Economist. In the first quarter, Alphabet, Amazon and Microsoft invested a total of \$40bn, mostly in data centres to deal with growing artificial intelligence (AI) workloads. According to JPMorgan Chase, Alphabet, Amazon’s cloud arm, Meta and Microsoft consumed 90TWh of electricity in 2022, as much as Colombia. Tech titans also want their energy to be “clean”. “Combined with rising demand from increasingly electrified transport, heating and parts of heavy industry,” this is putting strain on electricity producers and distributors. Since utilities have “neither the money nor the appetite” to make the required grid investments (which need to rise to \$800bn a year by 2050 for all electricity to decarbonise), the tech giants themselves are “getting in on the clean-energy action”. This month, Microsoft announced a joint deal to build 10.5GW of renewables capacity in the US and Europe by 2030. Big tech is also investing in nuclear power and “dabbling” in geothermal energy. Some wagers – such as Sam Altman’s backing of Helion, a nuclear-fusion start-up – may seem “fanciful”, but 18 months ago so did the idea that AI could “paint like a human”.

Chicago is drowning in debt

Judge Glock
The Wall Street Journal

Chicago has the second-worse debt-load of any large city of around \$43,000 per taxpayer, says Judge Glock. This might be bearable if the city had low city and state taxes, but these are also among the nation’s “harshest”. Nor are the city’s economic fundamentals strong. White-collar firms can no longer be relied on to “fund the city’s excesses”: downtown Chicago’s office vacancy rate has hit a record high of 25.1%. “Unprecedented debt,” high taxes, a “declining” business sector and a “shrinking, poorer” population are “no recipe” for success. Chicago is also in a “league of its own” when it comes to the fixed costs of bond interest charges and pensions, which account for more than 40% of local budgets. Only about 25% of its pension obligations are funded, with “nothing set aside for healthcare”. Added to city and state liabilities are those of obscure government entities such as the Forest Reserve District, and although long-term municipal debt is supposed only to be used for capital improvements, Chicago has been using it to meet legal and maintenance costs and failed to use its generous pandemic funds to “reform its bad habits”. “Miracles” have saved Chicago before, but today’s problems “have no clear solution”.

Save madly and you can retire early

Amy Wang
The New York Times

The Financial Independence, Retire Early (FIRE) movement started in the early 2000s with a mantra of extreme saving, but it has since come to include all those who would like to stop working when they choose, says Amy Wang. Some get there by “simply saving madly”; others by hunting for tax loopholes, risky market bets, or big entrepreneurial gambles. The “overarching credo” is that, in today’s “unpredictable financial landscape”, long careers have “become bad investments”. In the US today, where more than 60% of the workforce live pay cheque to pay cheque and the average American is in five- to six-figure debt, simply learning to understand your own finances can feel like having a “secret weapon”. The original FIRE doctrine revolves around delayed gratification: save, ideally, 50%-75% of each pay cheque and quit when you have enough. Adherents are “not necessarily big earners or genius mathematicians with incredible impulse control. Their superpower is expert planning”. Aspirants typically aim to save enough to spend \$100,000 a year, which can take “as little as a decade”. The real goal is to have the freedom to make choices about how you spend the rest of your life – which may, or may not, involve working.

What will Labour do in power?

Roger Bootle
The Telegraph

The question of what a Labour government would do is preoccupying the financial commentariat, says Roger Bootle. With government debt running at around 100% of GDP, if it relaxed the fiscal rules to permit higher borrowing, the result would be higher bond yields. Since debt interest already amounts to 3.7% of GDP and 8.4% of all government spending, I reckon Labour will do everything to avoid this. Instructing the Bank of England to stop paying interest on banks’ deposits with it would save the Treasury around £40bn a year, allowing public spending to rise by more than 3%. Alternatively, Labour could raise taxes or introduce new ones; however, “tax receipts are already approaching a post-war high” and even Labour knows that higher taxes are “not a good way to try and boost economic growth”. If it can’t raise taxes and cannot be “very fiscally expansionary”, it may well focus its attention on regulation to placate its “horde” of eager new MPs. Again, this is unlikely to bolster growth and Labour knows growth is key. Hence its plan to “radically reform the planning system”. This will mean policies sustained over two or three parliaments; exactly the kind of long-term thinking that is needed.

Money talks

“Are you basically a modern-day pirate?... You seem to be robbing your staff blind.”

Liam Byrne MP (pictured), questioning P&O Ferries’ CEO Peter Hebblethwaite, quoted in The Guardian. Some P&O seafarers are receiving an hourly rate as low as £4.87



“I can make you jobless in this industry... I’m not your mum. I only care about results.”

Qu Jing, vice-president of Chinese search giant Baidu, quoted in the Financial Times. She was reportedly fired after posting videos on social-media saying she wanted staff to work hard and didn’t care if it affected their personal lives

“The world is not driven by greed. It’s driven by envy. Envy is a really stupid sin because it’s the only one you could never possibly have any fun at.”

Veteran investor Charlie Munger, quoted on Fee.org

“I did a lot of maths. I made a lot of money, and I gave almost all of it away. That’s the story of my life.”

The late mathematician, Cold War code breaker and quantitative hedge-fund manager of Renaissance Technologies Jim Simons, quoted on X

“Why do we need to make the rich richer to make them work harder, but make the poor poorer for the same purpose?”

South Korean economist Ha-Joon Chang, quoted in The New York Times

“The Democrats are the party that says government will make you smarter, taller, richer and remove the crabgrass on your lawn. The Republicans are the party that says government doesn’t work, then they get elected and prove it.”

US satirist P. J. O’Rourke, quoted in Reader’s Digest

“If you’re working 40 hours a week and you can’t cover your bills, that ain’t your fault. It’s the fault of the slags paying you.”

Actor Danny Dyer, quoted on X

©Alamy

The world's most vital chart

[edconway.substack.com](https://www.edconway.substack.com)

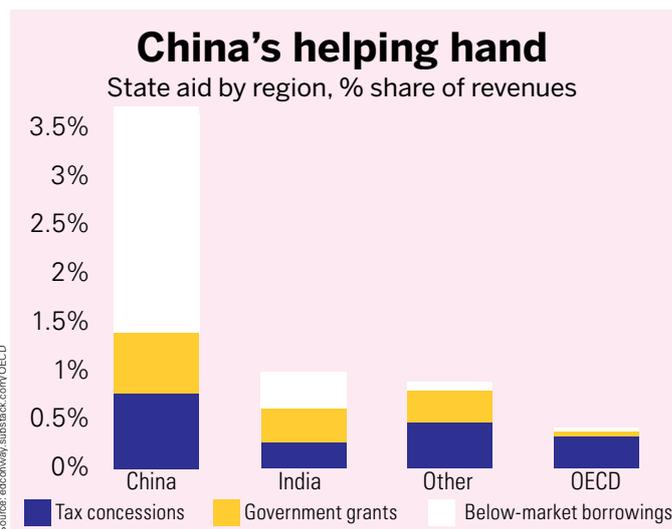
This chart (right), from a report by the OECD think tank, helps us answer one of the most important questions in the modern world, says Ed Conway. “If you’re wondering how and why it is that so many parts of the UK and US have deindustrialised so fast, or why China has such a commanding lead in the production of everything from steel and concrete to solar panels and electric-car batteries, then this chart provides part of the explanation.”

What it shows is just how much of a helping hand the Chinese government gives its companies, whether in the form of grants, tax breaks or below-market-cost borrowing – they enjoy state aid that is nine times the developed-world average. And that is only part of the picture. How, for example, to account for the fact that

the Chinese government has done “everything in its power to locate lithium mining in the country”? Or that it is happy to “burn as much coal as necessary” to make the chemicals and power the plants which enable the rest of the supply chains to function?

We’ve known for a long time that China is doing this, but without the data to back it up, rich countries have struggled to challenge the practice in formal multilateral bodies such as the World Trade Organisation. When China makes steel, aluminium or solar panels, they are “not competing on a level playing field”. The result has been the deindustrialisation of the US and UK, and a fair few other countries. “This is one of the biggest issues in the global trading system.”

Trade economists might conclude that the facts point simply to “comparative



advantage” – that China is winning because it’s just very good at what it does. But when you look at the whole picture, it becomes clear that what China is really enjoying is “competitive advantage” – it’s hard for anyone else to compete because China is enjoying too many unfair advantages. Take into account the cost of the industrial jobs lost in the West, and it’s “not altogether obvious that we’re getting a good deal here”, cheap electric cars and wind turbines or not.

If we are committed to achieving net-zero, then we are committed to trying to create another industrial revolution. China has the lead in that endeavour, largely because the West became “enormously complacent about the power of industrial strategy” – or rather “what happens to a *laissez-faire* nation in the face of industrial strategy elsewhere”. Perhaps we should, as some economists say, do nothing. But let’s not pretend that doing nothing is “somehow a neutral choice. It’s not.”

How specs boost growth

[lawliberty.org](https://www.lawliberty.org)

Despite a modest rise in interest in the subject in the wake of the financial crisis, it is “painfully obvious” that the understanding of economic history is “still lacking in many circles”, says Peter Coclanis. A recent study of the economic effects of untreated presbyopia – the age-related inability to focus on nearby objects – in developing countries illustrates this point. The study involved a randomised controlled trial in rural Bangladesh, and the aim was to see how simple, inexpensive interventions could boost incomes. The main finding was that participants given free reading glasses reported earnings about 33% higher than those who had received no glasses. In other words, glasses improve both the vision and the income of poor Bangladeshi workers. It was reported as if it was a “gobsmacking” revelation – but this would be unsurprising to anyone conversant with economic history. The Harvard-based economic historian David Landes, for example, has shown how the invention of spectacles in the medieval period more than doubled the working life of skilled craftsmen. In fact, it was the European lead in the optical arts that enabled the development of many technologies in areas vital to economic productivity. The economic importance of spectacles has “long been a well-established historical fact”.

We Brits love bad service

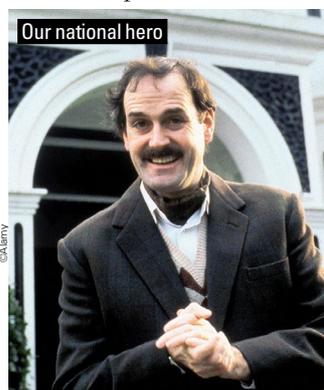
[bloomberg.com](https://www.bloomberg.com)

“Every nation has its eternal truth,” says Matthew Brooker. Brazil, for example, is “the country of the future – and always will be”. Britain’s is represented by Basil Fawlty, the downtrodden, snobbish and rude hotel owner in the classic sitcom *Fawlty Towers*.

Stories of bad and declining standards of service have been a staple of British life for decades.

[moneyweek.com](https://www.moneyweek.com)

The data tell the same story. A biannual customer satisfaction index compiled by the Institute of Customer Service fell to its lowest since 2015 in January. This matters – the institute’s research shows that firms that earn superior customer



satisfaction ratings make more profit. Improving customer service should be an “easy win”. So why doesn’t it happen?

French chef Michel Roux once attributed it to the class system. “Freed from servitude” by the collapse of this system, we British have been “rebelling against any hint of it ever since”. We admire the “destructive grandeur” of Fawlty’s attitude as he rails against “the unreasonable demands of his occupation, such as being nice to people”. Could the British be better at customer service? Surely. We just don’t want to be.

Revive the spirit of 1994

[unherd.com](https://www.unherd.com)

It has been 30 years since the opening of the Channel Tunnel rail link between Britain and the European continent, says Jonathan Glancey. “Politically, technically, financially and culturally”, the “chunnel” was a “profound achievement”. A Royal Mail stamp marked the occasion and the queen was among the first passengers.

Given the state of our trains today, it is “extraordinary” to think that the tunnel was a privately financed venture. Construction costs may have risen by 80%, from a planned £2.6bn to £4.65bn (in 1985 prices), but it was, unlike the fiscally “incontinent” HS2, successfully completed within just a few years. In 2009, shareholders were paid their first dividend.

The tunnel remains “a symbol of what can be done”. How might we revive the spirit of 1994? How about a high-quality cross-country rail network connected to an equally impressive northern network? How about linking up “chunnel” trains with other British cities, as originally envisaged? “The Channel Tunnel, 30 years on, deserves to be celebrated.”

17 May 2024

MONEYWEEK

Dr Copper is in rude health

The red metal appears poised for a big jump, says Dominic Frisby. What should investors buy now?

I wish I had a bitcoin for every research report that has crossed my desk in the last three years about the looming copper-supply crisis. I'd be richer than Satoshi Nakamoto, the person thought to have developed bitcoin. Well, maybe not quite. But you get my point. Nevertheless, there is a chance that the narrative is now becoming reality. Bank of America (BoA) has just released a research report entitled *The copper supply crisis is here*. Meanwhile, the copper price is close to all-time highs and looks ready to break through them. In today's piece I shall look at copper's long-term price action, give you a quick overview of the market, examine the supply and demand situation and consider various ways to play the red metal.

A price cap since 2008

The \$4.20-\$4.60 per pound (lb) area has been a key resistance level on the chart of the copper price since 2008. Prices broke above them in the early 2020s and after a nasty correction are retesting those levels now.

I see parallels with the \$1.45-\$1.50 level, which proved a barrier for 25 years, from 1980 to 2005. Once copper broke through, it went north of \$4 in 2006. There have been bull and bear markets in the 18 years since, but nothing like that move from 2001 to 2006.

The question is, has this rally got legs? Analysts at Goldman Sachs think so: higher prices are the only way of encouraging more metal to a market that is short of supply. They have put a target of \$15,000/tonne (\$6.75/lb) – implying a 50% rise from current prices – for next year. Here's what they had to say (be warned, their prose is clunky): "The path to our average \$15,000/t price for next year reflects the necessary price level needed to generate requisite scrap and substitution effects to limit the deficit to a level which metal stocks in the system could solve".

Taking the last three years into consideration, prices surged and then collapsed following the invasion of Ukraine. Copper has been making higher lows since 2022, which is a good thing. Take note: copper collapses often seem to start in May. Going back to the 19th century, when you could buy a pound of copper for ten American cents, the red metal traded in a stable range from 1885 to 1929, and then crashed along with everything else. From 1933 it entered a bull market that lasted until 1975, with a few wobbles along the way. Copper then range-traded for 30 years before the next break-out in 2005. Since 2005 it's been in a range. We come back to that early question: are we about to break out again, or are we just at the top of the range?

The oldest metal

Many argue that copper is the first metal human beings used (there is a copper pendant that dates back to 8,700BC). I think humans' first metal was gold, but we can talk about that another time. Today copper is the third most-used metal in the world, after iron and aluminium. Its main use is in wiring, which accounts for about 60% of demand. Piping and roofing make up another 20%, machinery 10%, and other uses the final 10%. Around 65% of overall demand for copper is accounted for by electrical equipment, 25% is used in



Green technology is spurring demand for copper

industry and 10% in the transportation sector. The big growth area today is in so-called green technology and the electrification of everything.

Because copper has so many uses, it has become a barometer of economic health, earning the nickname "Dr Copper – the metal with a PhD in economics".

The country with the largest reserves and by far away the biggest producer is Chile, producing almost six million tonnes annually, or 28% of annual global supply. Chile is followed by Peru (12% of global supply); China (1,700 tonnes, 8%); the Democratic Republic of Congo (1,300 tonnes, 7%); and the US (1,200 tonnes, 5%). Between them those five nations account for 60% of global supply.

China is the world's largest consumer of copper and, despite also being the world's third-largest producer, is a net importer. About 54% of global demand for copper stems from China. That's a quite astonishing number, and it explains why copper analysts obsess over the sheer scale of China's demand for the red metal. China's internal production can't meet its own internal demand, let alone what it needs for its exports' manufacture, and between 2005 and 2020 it spent more than \$56bn securing overseas copper assets.

Europe is the next biggest user, at around 15% of demand, followed by the Americas, especially the US, which accounts for another 11%. Total annual demand is around 28 million tonnes. Copper costs around \$10,000 per tonne, so this is a \$280bn market.

A soaring supply deficit

Bank of America describes a "deceleration in mine supply", while Goldman Sachs has increased its deficit forecast, estimating "a 454kt [kilotonne] metal deficit for this year and a 467kt metal deficit for 2025". "With peak supply now fixed on the horizon mid-decade... the question has now become how high will copper prices have to trade to maintain market function." BoA notes that in China "apparent demand (refined production plus net imports, minus inventory changes) has rallied by 23% year on year in 2024... partly because spending on the green economy has held up". China's demand for housing, which accounts for about a third of its copper

"China is the biggest consumer of copper, comprising 54% of global demand"



“Veteran geologist Brent Cook thinks miner Arizona Sonoran Copper is the real deal”

use, does seem to be on the slide, but this has been more than offset by green spending, which is putting upward pressure on the demand for copper, even with spending on electric vehicles (EVs) declining a little. (Newer EVs don't use as much copper as previous models, even if an EV still needs more than a petrol or diesel vehicle.)

Beyond China and global electrification, other sectors worldwide have been adding to consumption, especially data centres. The rapid growth of artificial intelligence (AI) and cryptocurrencies implies increased need for copper, even if the jury is still out on whether fibre or copper cables will ultimately prevail in the cabling within the data centres.

Where to look now

I have long advocated owning copper. There is no shortage of methods, depending on your appetite for risk – from futures and exchange-traded funds (ETFs) to spread-bets and equities. Simply to play the copper price, without taking on risk relating to individual firms or mining, there is the **WisdomTree Copper ETF (LSE: COPA)**, but this will not make you rich. In fact, it's a very dull way of playing this market. Then there are the miners. If you don't want individual company risk, go for the **Global X Copper Miners ETF (LSE: COPG)**.

London has no shortage of options when it comes to large-cap mining companies. There are the giants: **BHP Group (LSE: BHP)**, **Glencore (LSE: GLEN)**, **Anglo American (LSE: AAL)**, **Rio Tinto (LSE: RIO)**, and **Antofagasta (LSE: ANTO)**. US-listed **Freeport-McMoran (NYSE: FCX)**, the world's second-largest producer (after Chilean state-owned **Codelco**) is a purer play than most of the mining giants, Antofagasta aside.

I own a large chunk of BHP in my own portfolio. It is the easiest way to secure broad base-metal exposure, and it pays a 5% yield. Glencore pays about 2% and I've been very tempted by it for a long time, but never quite got round to it. While I am not a seller here, I'm very wary about copper's tendency to sell off in May, especially after the run up we have had. I'm bullish over a one- to three-year time frame, but cautious in the short term. If I'm wrong and Bank of America is right, and copper breaks out, you want to

have some exposure already booked in to save you having to chase prices higher. It may be 2004-2006 all over again, and copper is about to re-rate.

Spicy junior miners

Now we come to the junior end of the market, where the juicy gains – and losses – are to be had. If you are feeling sufficiently daring, there are plenty of exploration and development plays. One to consider is **Arizona Sonoran Copper (Toronto: ASCU)**.

This is not one I own, but it was recommended to me by veteran geologist Brent Cook, who used to work with renowned precious-metals investor Rick Rule. Cook thinks it is the real deal. Real deal or not, its share price has been sliding since its flotation in 2021 at C\$2.35 (137p) a share. At the current price of C\$1.36 (79p), it has a market value of almost C\$150m (£87.4m).

ASCU is putting the previously fruitful **Cactus Mine** in Arizona back into production. It is in a prolific copper-mining region, has a multibillion-pound mineral resource, and requires relatively little capital expenditure. The mine should last for 18 years and generate more than \$1bn of cash flow, assuming current copper prices.

It contains an estimated three billion pounds of copper. **Rio Tinto**, via its **Nuton** subsidiary, owns 7%. The location of the mine, the economics and the scale all make it attractive. The problem with these development plays is that progress is so slow and vast amounts of capital get burnt. There is always a chance of a takeover, I suppose.

Amerigo Resources (Toronto: ARG) has done rather better. It produces copper from the waste material of Chilean state miner **Codelco's** enormous underground **El Teniente** mine. (El Teniente began producing in 1905 and has a predicted mine life up to 2082, so we do not need to worry that the copper will run out.) **Amerigo** has a market value of C\$290m (£169m) and pays an annual yield close to 7%. I don't own this one either – I wish I did. If the copper price goes up, so do its profits.

QCCU Copper (TSX Venture Exchange: QCCU), on the other hand, I do own, as its small market capitalisation, C\$22m (£12.8m), provides ample scope for growth. That said, it appears to have gone to sleep.

QCCU is developing a large copper project in Quebec, “the highest grade open-pit mine in Canada”. I thought its mineral reserve update would be a big catalyst for the stock. But decent though it was (two billion pounds plus of copper equivalent; it has some gold and silver too), the shares did very little. We now have to wait for a preliminary economic assessment and feasibility studies to come out later in the year. It has some \$7m in cash so it shouldn't have to dilute its shareholders too soon.

But on a value basis, compared with ASCU, for example, you have to say it's more compelling. Resources of this size and quality in safe jurisdictions such as Quebec don't come around very often. Accessibility and infrastructure are good, although there are suggestions that the group may have to get past some difficulties with local communities. Maybe that's what is holding the stock back.

I really don't recommend speculating in juniors unless you are prepared to factor in some pain. So much more seems to go wrong than right. But then along comes a bull market and all is forgiven. QCCU is the small cap one I own. At 12 cents, there is plenty of upside. What's the downside? Twelve cents – not a lot. But that's not how it works, is it...

*Dominic Frisby writes the investment newsletter **The Flying Frisby**. Find out more at theflyingfrisby.com*

The rot at the top is a threat to us all

Corruption in public life can no longer be considered the preserve of the odd bad apple – the rot goes deep. That has implications for the rest of us. Stuart Watkins reports

At the start of this year Britain was relegated from the Premier League of clean countries, as Dan Hough put it at the time in City AM. Transparency International (TI), a think tank which publishes an annual Corruption Perceptions Index that ranks the countries believed to be doing better or worse at rooting out public-sector corruption, gave the UK its lowest ever ranking at 73 (the closer to 100 the better), behind Denmark (90), Finland (87) and New Zealand (85), and on a par with France and Austria, if thankfully a long way ahead of the likes of Somalia (11), Syria, Venezuela and South Sudan (all on 13).

That doesn't sound too bad, you might think, but it places the UK out of the top 20 and with the lowest score it has ever achieved – it was just outside the top ten in 2021. And whatever the flaws in the methodology – the score is distilled from surveys of the views of experts and business leaders on abuses of public office for private gain – the index is probably at least suggestive of the direction of travel, which is backwards. The decline since 2018 is similar in size to that of Myanmar, Nicaragua, Liberia and Turkey.

Why have perceptions of corruption in Britain got worse? That is hardly a head-scratcher. A “steady stream of lobbying scandals” and “stories of jobs and contracts for the boys (and girls)”, which became especially evident in the Covid era, has “left an unedifying impression of who gets what and why in British politics”, says Hough. Transparency International cites the resignation of the government's anti-corruption champion over the conduct of Boris Johnson, who still hasn't been replaced more than 21 months later; the revelations of questionable procurement practices during the Covid pandemic; court disclosures that a major political donor to the Conservative party was a “person of importance in an industrial-scale money-laundering scheme”; and “continued concerns about the award of honours and peerages in return for substantial political donations and loyalty”. The list could be extended for those with strong stomachs.

Last days of Rome

But the rot goes deeper even than that, says Matthew Syed in *The Sunday Times*. Western nations broadly continue to score favourably in TI's index as they do not tend to engage in the kind of corruption asked about in their survey. Even in the declining UK, it is still rare for officials to ask for bungs or to syphon off public funds into Swiss bank accounts. Teachers, doctors and civil servants don't take bribes. What we should be more worried about is “a different kind of decay: subtler and more insidious”. It is the “legalised corruption that operates in plain sight and leads neither to retribution nor shame”.

Consider the case of David Cameron – a man who blocked changes to the rules on lobbying while prime minister, took a lucrative job with a man he had promoted while PM, then promoted the interests of his paymaster by frantically petitioning ministers after leaving office. The Conservative party was so unperturbed by the whole affair that Cameron was

given the role of foreign secretary just a couple of years after news of the scandal broke.

This is the “cancer” that has “been growing for decades, eating away at the quality of public administration, leeching our common lifeblood”, says Syed. Public trust in government has collapsed in the UK from 75% in the 1950s to a mere 19% today, a pattern seen in the UK and across the Western world. You get a sense of the scale of the problem from “the sheer number of politicians who pass through the revolving door and earn huge sums of money from companies over which they once had regulatory oversight; how political parties are funded by an ever smaller number of mega-donors; how those who chair public committees and tribunals know that their elevation to the peerage is in the gift of those over whom they sit in judgment”. Corporations in such a system seek not a competitive advantage in the market, but to cultivate a government ally to help protect them from insurgents and unwelcome regulation. What should concern us more than any individual scandal is the “general debauchment”, which recalls the last days of Rome.

It is certainly no longer credible to dismiss the excesses as one-offs, says Peter Riddell, author with Robert Hazell of *Constitutional Watchdogs*, a report for the Constitution Unit of UCL, on Conservative Home. They have contributed to the public's trust in politicians falling to an all-time low, and surveys show that the public values honesty in politicians above qualities such as being clever or hard working. Only 6% of the public believe that politicians who fail to act with integrity are dealt with effectively.

Riddell and Hazell recommend putting the current constitutional watchdogs – that can “huff and puff”, but have no powers beyond embarrassment, which does not as we have seen succeed with the shameless – on a statutory basis with enhanced powers to conduct and publish investigations. The prime minister must have the final decision and be accountable to Parliament for them, but “neither the prime minister nor from bitter experience civil servants can credibly investigate whether a minister has broken the ministerial code and whether the breach is serious”. Establishing the facts – but not the punishment – has to be the work of an independent body, says Riddell. “These changes could provide the necessary fresh start to sustain and revive public confidence that the conduct of ministers and officials is being properly monitored. But the key remains the behaviour of the prime minister and government and the lead they give to others. There is only so much that regulators and codes can achieve.”

An elite bargain

Various other solutions are on offer to rescue us from civilisational collapse. Transparency International calls for a cap on political donations and campaign spending limits, and the appointment of an “anti-corruption champion” charged with tackling the problem. Syed suggests a ban of at least five years on ministers and regulators working for companies over which they have oversight; a voucher system for the funding of political parties to give everyone an equal opportunity

“Corporations seek not competitive advantage in the market, but to cultivate an ally in government”



©Shutterstock

Cameron: the shameless cannot be shamed

to influence political parties through donations; and, a perennial favourite among the commentariat, to raise the salaries of ministers to attract better-quality politicians who could earn their lucre “fearlessly serving the public interest” rather than seeking to feather their own nests. Although the more likely result, as Tim Worstall of the Adam Smith Institute points out, is that society would in that case be more expensively governed rather than better governed. It might be better to cut and simplify government to the point where the “duffers” we’ve got might be able to do the job.

Perhaps these tinkering might make some difference, but if the rot goes deep then surely so must the treatment. The real problem, as Simon Kuper, who is writing a book on the subject, points out in the *Financial Times*, is that “Britain’s development bargain has broken down”. *Gambling on Development*, a 2022 book by Stefan Dercon, argues that a poor country tends to develop once its elite strikes a “development bargain” – basically agreeing that they will forgo the battle over the spoils of power and seek national development instead, lifting the wealth of the whole country. Examples include China from 1979, India from 1991 and Ethiopia until the recent civil war.

Britain’s elite bargain has broken down. The ruling Conservatives learned from four straight election victories that voters would back them no matter what, and the party lost its common project in the Brexit wars. “When a common project dies, what remains is self-advancement.” And when it becomes common knowledge that politicians are dishonest and just basically out for themselves – in polls record numbers

of Britons say they agree this is the case – the risk is that misrule threatens the legitimacy of the elite more generally. That’s precisely when development bargains are struck. Given that the Tories will probably lose power this year, “Britain’s elite may be getting there”.

Back to basics

If that thought cheers you up, just think what the reality might do. For the seventh year in a row, Finland has been ranked as the happiest country in the world in the UN World Happiness Report. All that walking in the clean air – in Finland, you are never more than a ten-minute walk from a park or forest – and the saunas must help. But the high levels of trust in the country are surely a factor too. Finland consistently ranks among the best in the world for transparency and perceived lack of corruption. Finns tend to trust their neighbours, public officials and their government, and the country is highly ranked for political, civil and press freedom.

So the solution is simple. As Adam Smith said long ago, “Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things”. The tolerable administration of justice calls for noble public servants who will, if anything, be held to a higher standard of upright conduct than the rest of us, because they can and should be expected to know and do better. That such a simple and obvious statement of basic liberal principle should seem like a wild utopian fancy is a sign of where we’re at.

“Misrule threatens the legitimacy of the elite more generally”

High yields without equities' risk

Investors seeking income should look beyond public debt, says Max King

Dazzled by yields that are both the highest for more than 15 years and higher than inflation, many investment advisors have been urging anyone who will listen to buy government bonds. This certainly suits governments, who have plenty of bonds to sell to finance yawning budget deficits. But does it make sense for investors?

With inflation falling, the argument goes, interest rates have peaked and will soon start to decline, helping bond yields fall further and give bondholders capital gains (bond prices move inversely to yields). US Federal Reserve chairman Jerome Powell said in early March that inflation was “not far” from where it needs to be to justify rate cuts and similar hints have been made in the UK and Europe.

But doubts are growing. Far from falling to the 2% target, US inflation has risen to 3.5%, slightly above the UK rate. The US economy is growing strongly, helped by productivity-enhancing investment, and labour is scarce, pushing up wages. In the UK, labour is also scarce, despite much lower growth, thanks to disincentives to work.

In both economies, services account for 70% of the economy and service-sector inflation is around 5%. There is little scope for lower energy, commodity and goods prices to go on reducing inflation.

Following America's lead

Ten-year US and UK bond yields at 4.2% and 4.5% respectively, up from 3.5% and 3.8% since January, have gone from discounting significantly lower rates in the US to only token cuts. Despite a better inflation outlook here, “it is difficult for the Bank of England and European Central Bank to cut rates without cover from the Federal Reserve”, says Adam English, manager of the M&G Credit Income Investment Trust.

“Will the Fed start raising the federal funds rate again?” wonders economic strategist Ed Yardeni, who was previously expecting moderating inflation to result in lower rates and a ten-year Treasury bond yield of around 4.5%. “We don't think so, but no cuts at all [have] become increasingly likely, as is a 4.75%-5% yield on the ten-year Treasury bond within the next few months, though we still believe that inflation will moderate to a 2%-2.5% range by the end of the year.”

This makes long-dated government bonds unattractive – so where should investors go for income and to balance the risk and volatility of an equity portfolio? A potential answer lies in the debt, loans and bonds of investment trusts.

Most of these funds specialise in low-quality debt but, as TwentyFour Asset Management points out, “typically, sub-investment grade securities will have a higher risk of issuer default, and are generally considered to be more illiquid than investment-grade securities”.

The investment-trust structure, with a fixed pool of capital, is well suited to illiquid securities that can be held to maturity, and there is no recession in sight to raise the risk of defaults. TwentyFour has an experienced team of credit analysts managing a broad spread of investments in their two trusts: the £800m **TwentyFour Income Fund** (LSE: TFIF) and the £200m **TwentyFour Select Monthly Income Fund** (LSE: SMIF).

The former invests in floating-rate securities and the latter in short-dated debt. So they have respectively



Will US Federal Reserve chairman Jerome Powell raise interest rates again?

no and little exposure to movements in interest rates. Trading at around net asset value (NAV) and yielding 10% (TFIF) and 8.9% (SMIF), both look attractive. The high yield more than compensates for the risk but, when things go wrong, the debt is described as “junk” rather than “sub-investment grade”.

The **M&G Credit Income Investment Trust** (LSE: MGCI) has assets of only £130m, which accounts for a relatively high expense ratio of 1.2%, but it is backed by one of the largest investors in credit in Europe: 80% of its portfolio is investment-grade, albeit lower-grade typically rated BBB or BBB-. This means “low credit risk”, says English, “with a default rate below 1%. Defaults tend to be idiosyncratic rather than economy-sensitive.”

The shares, trading at a 5% discount to NAV, yield 8.9%, nearly 90% of the dividend being covered by a portfolio yield to maturity of 8.7% minus costs. A weighted average period to maturity of 3.7 years means the asset value is only moderately affected by changes in interest rates, whether up or down.

Such a high yield might be thought to imply risk but English says that “private, semi-liquid assets yield more than you would expect. Only about 30% of the portfolio is easily tradable.” Most securities are held till maturity but “we reduce risk when things are going well in order to be opportunistic in difficult times – such as during Covid”. This means “we have generated capital returns since inception”.

“It's a great product performing well without taking significant risk,” English says. “The returns are what you would expect from a portfolio with a much higher default risk.” Investors shouldn't expect much in the way of capital gains – just a dividend yield at asset value of 4% over the “sterling overnight index average”, currently 5.2%. Most reassuringly, English adds that “it's supposed to be boring”. The only mystery is why the fund isn't several times its current size – it deserves to be.

“The only mystery is why the M&G Credit fund isn't several times its current size”

The trusts with recovery potential

Some of the investment companies that have hit a rough patch will bounce back, says Max King. But which ones?

A trust that trades at a discount to net asset value (NAV) of 15% or more may represent a great opportunity to buy into a thesis that is out of favour, a good long-term manager going through a tough patch, or just a market in the doldrums. A return to form by the manager, a return to favour by the sector, or an increasingly optimistic outlook by investors promises outsized returns as the discount narrows.

But when the discount is more than 30%, investors should be wary. The manager may have made mistakes with his investments, or there could be a structural flaw in his thesis. Another potential problem is that the trust contains too much debt; alternatively, its focus may be too esoteric and illiquid for interest to return. It is perhaps worse when there is no obvious reason for the wide discount. This suggests that the problems are there but still hidden.

The shares might seem a tempting bargain but the discount could widen further, skeletons might fall out of the cupboard and the trust could go into crisis mode. That was the experience of the investors who chose to jump into Woodford Patient Capital Trust, Home Reit or the ThomasLloyd Energy Impact Trust. Others will have learned the lesson not to “bottom fish” by buying trusts on very big discounts. The recovery potential may be high – but so is the risk.

Recently, though, there have been some remarkable turnarounds. Hipgnosis Songs Fund built up a portfolio of over 65,000 songs in a four-year blizzard of acquisitions financed by share issues and debt. The share price peaked at 130p in late 2021 before more than halving to 60p just two months ago, over 60% below the NAV of a year ago. Concerns over corporate governance led to the departure of its CEO, a writedown of asset value and the departure of several non-executive directors. A strategic review by the new board revealed accounting irregularities, which slashed the asset value further. The appointment to the board of veteran activist Chris Mills marked a turning point and a bid battle ensued, leading to an agreed £1.3bn takeover at 104p a share.

Falling back to Earth

Baillie Gifford's flotation of its private-equity trust **Schiehallion Fund** (LSE: MNTN) in 2019 was met with such enthusiasm that the share price rose from \$1 to nearly \$3 by the end of 2021, with additional share issuance taking its market value to a peak of \$2.4bn. Two years later, the share price had collapsed to \$0.45 as confidence in its investments and the prices it paid evaporated. Schiehallion started to buy back shares at a 55% discount to NAV. Nick Greenwood, manager of the **MIGO Opportunities Trust** (LSE: MIGO), soon followed and the share price has since doubled to \$0.94, a discount to NAV of a mere 22%, with investors now reassured by recent results.

Confidence in the **Seraphim Space Investment Trust** (LSE: SSIT) also collapsed, with its share price falling from 128p in late 2021 to 27p in mid-2023, a 70% discount to NAV, which was down 7% on a year earlier. The share price has since recovered



Elon Musk's successful SpaceX should boost the space sector

to 66p amid a series of positive announcements and recognition that the growing success of Elon Musk's SpaceX is bullish for the sector. Of special note, ICEYE, which accounts for 20% of Seraphim's portfolio, announced that it had reached break-even and then raised additional funds.

Energy drains from battery-storage funds

The share prices of battery-storage funds Gresham House Energy Storage Fund and Harmony Energy Income Trust collapsed as the prices for their services, all in the UK, fell well below expectations. Along with the debts they had accumulated, this forced the former to cancel dividends and the latter to postpone its next dividend pending a review.

Improved service prices in March and April led to a recovery in revenues and their share prices bounced by 36% and 18% respectively, broker Stifel having pointed out that both funds “appear to be trading comfortably below the replacement cost of their assets”.

With positive news flow and secure finances behind them, Schiehallion and Seraphim Space should not only have further to go but also be good long-term investments. The recovery story for the two UK battery-storage companies is precarious, with too little international diversification and too much reliance on volatile UK pricing. There may be other recovery opportunities around; if there are trading or governance problems in any of the trusts trading on large discounts, they would probably have been discovered by now.

A good and safer alternative would be to invest in a trust that seeks out such opportunities, in particular MIGO Opportunities and its much larger sister trust, the AVI Global Trust (LSE: AGT), both of which specialise in identifying trusts, funds and companies trading at large discounts to underlying value but with improving prospects. Still, it is hard to resist the temptation to take the occasional direct punt – and a look at the portfolios of these two funds is a good place to start.

“The MIGO and AVI Global trusts specialise in cheap assets with improving prospects”

The best way to write your will

Failing to make detailed arrangements for your estate could cost your family dear when you die



Ruth Jackson-Kirby
Money columnist

Only half of us have taken the trouble to write our will. But without one your money could end up going to the Crown rather than your loved ones. Research by Canada Life has found that only 50% of UK adults have a will. The most common reason for not having a will was a belief that they weren't wealthy enough to need one. This was closely followed by the notion that their loved ones would inherit everything even if they didn't write a will. Both these assumptions are wrong.

"At any age, dying without a valid will in place can be a huge burden on your loved ones at a time when they may already be vulnerable and struggling to cope," Stacey Love, technical manager of tax, trusts and estate planning at Canada Life told FT Adviser. "Even if you are young, getting a will... should be on your bucket list, even if you don't think you have any real wealth to pass on. Digital assets such as social media accounts and crypto have value – data is the new gold after all."

If you die without a will your estate is subject to the laws of intestacy. Your family will have

no control over who inherits what. In the first instance everything goes to your spouse, but you must be married or in a legally recognised civil partnership. If you are married with children, then your spouse will receive the first £270,000 of your estate, with the rest split between the spouse and the children.

If you aren't married, then regardless of whether you live with your partner or you have children together, they will not inherit a thing. Instead, the money will pass to your children, grandchildren, parents, siblings, grandparents, or aunts and uncles in that order. If you are unmarried with no living relatives, your estate is inherited by the Crown.

Keep it in the family

Writing a will ensures that your estate goes to the people you love. If you have children, a will is also where you can choose guardians to look after them if they are under 18 when you die. Without a will this will be decided by the family courts.

When it comes to writing your will, you can do it yourself. Various high street shops sell will-writing packs, or there are online portals where you can do it. But it isn't wise. "It's usually best to get advice



from someone who is qualified, insured and who specialises in advising on wills and estate planning," says Stephanie Parish, a partner in private wealth at law firm Clarion, in the Daily Express.

Your solicitor will ask you what you own and what it is worth, who you want to leave things to and who you want your executors to be. These are the people who will carry out the terms of your will and sort out your estate after you die.

"Make a list of all your assets, including property, investments, bank accounts, insurance policies, pensions and personal items," says Parish. "Consider who you want to leave your assets to and in what proportion. What happens if any of those beneficiaries died before you? Do any of those beneficiaries have any vulnerabilities we need to consider – relationship problems, health problems, financial problems?"

These are all questions your solicitor can guide you through. When it comes to executors,

choose someone you trust who is responsible, organised and likely to outlive you.

Will you incur tax?

If you are concerned that your estate may be subject to inheritance tax (IHT), then you could leave a donation to charity in your will. If you leave at least 10% of your estate to charity, then your IHT rate will drop from 40% to 36%.

Once the will has been drawn up, have it signed and witnessed in accordance with the law to ensure it is valid. Then place it somewhere safe – your solicitor should keep a copy on file – and make sure your loved ones and executors know where to find it.

Don't forget to update it. If you get married or enter a civil partnership, then any pre-existing will will be invalidated, and you'll need to write a new one. You should also update it after major life events such as a birth in the family, a death or a divorce.

Top tips for a successful second-hand car sale

Used car prices have risen by roughly 30% in four years, writes Ruth Emery. Here's how to get the most for your motor. Firstly, mileage matters. According to online car marketplace Carwow, each time your car goes 20,000 miles it loses 20% of its value.

"But when you get to 60,000 miles, more value is lost – with car prices dropping around 27% compared with what they were worth at 50,000. This could be because the industry standard car warranty lasts for three years, or until a car reaches 60,000 miles, whichever is sooner," says John Rawlings, Carwow's

consumer editor. So change cars before you eclipse the costly 60,000-mile barrier.

Repair any damage before the sale. "A car with a good recent service history and MOT will be worth more, too. And get your car cleaned. Good photos will help you get a better price. "Take photos in landscape, without the flash on, and... include the number plate in at least one so that potential buyers can look up the car and carry out a history check," advises Rawlings.

Get your paperwork in order. While it's legally possible to sell a car without a V5C logbook, in practice it is very

difficult. If you've lost yours, get a replacement at gov.uk/vehicle-log-book. Rawlings adds: "And don't forget your service history; garages can usually print or email your records if they're missing."

There are various ways to sell a car: at auction, to a dealership, part-exchanging at a dealership, selling to a private buyer, or selling to a car-buying website such as We Buy Any Car. Selling to a private buyer can be the most time-consuming and the most risky, but could also result in the highest price. You can either advertise your car to a private buyer through an online

marketplace such as AutoTrader, or a website like eBay. You'll need to write a good advert detailing the specification and condition of your car, and have some decent photos. Bear in mind you'll need to pay a fee to advertise your car, and make sure you're alert to scams.

Finally, set a price. The AutoTrader website contains a free valuation tool. "It will also check prices of similar cars in your area to help give you the competitive edge," says Erin Baker, editorial director at AutoTrader. Other free online valuation tools include Carwow and What Car.

Booted by your bank?

If your company has had its account closed, there are several steps to take



David Prosser
Business columnist

Small companies' growth prospects are being undermined by unfair practices in the banking sector, including ongoing problems with debanking, according to a new report from MPs. Several hundred thousand small firms have had their accounts closed by their banks in recent years, making it very difficult for them to continue trading.

While many of the closures have been concentrated in sectors where banks are anxious about the potential for wrongdoing – including defence, pawnbroking and amusement machines – most debanking incidents do not appear to relate to actual misdemeanours. Often, banks appear to be looking for an excuse to close accounts, campaigners warn – such as a small company failing to complete routine paperwork on time. Moreover, every sector of the economy has seen account closures.

MPs say small businesses need greater protection from policymakers, including rules that require banks to be much more open about their reasons for shutting an account. In the meantime, however, firms also need to understand where they stand with their banks.

Pre-empt trouble

Firstly, it is important to do everything you can to avoid debanking in the first place. In particular, make sure you keep up to date with paperwork at your bank, particularly when it comes to requests for information and checks related to financial crime.

The UK's regulations on money laundering and corruption now require banks to do more due diligence on their customers than in the past; if they cannot satisfy themselves that your business is trading legitimately, they are entitled to close your account.

If your bank does decide to close your account, it usually has to give you two months' notice (and there are proposals to increase this period to three months) but it doesn't have to



tell you why. There is nothing you can do to force the bank to change its mind, but it is worth complaining if you're unhappy with the decision, not least because you must exhaust the bank's own complaints process before you are entitled to take your case to the Financial Ombudsman Service (FOS), the independent complaints service that now covers most small businesses as well as individuals.

Such complaints have risen by 81% over the past three years, the FOS warns, though it is important to understand that it won't normally be able to order a bank to continue offering you an account. However, a successful complaint to the FOS may be enough to secure compensation from your bank – it will also provide useful evidence to present to other banks when you are looking for alternative provision.

Start looking for a new account straight away, even if you are hoping a complaint to your existing bank will enable you to stay put. New account openings take some time to complete, and you may find some banks reluctant to take your business if you have had an account closed elsewhere. You will need to shop around, and be prepared to look beyond the traditional high-street names. Many challenger banks now offer excellent small-business services.

While you are looking for a new account, you can also continue to fight your case. In particular, check to see if your account might

have been closed because your bank has received incorrect information about you. For example, does Cifas, the fraud prevention organisation, which shares its database with the banking sector, hold a file on your business? Is there anything to worry about in your credit reference file with any of the agencies that maintain these records?

Finally, make sure you understand exactly what your bank is saying. With most closures, you will be able to continue banking until the cut-off date, when you will get the money in your account refunded in full. In a small minority of cases, however, banks freeze customers' accounts and may retain their funds. This should only happen if your bank suspects serious financial crime, but it could leave you in real difficulties.

Run away from standing charges

Small companies have become much smarter about shopping around for the best deal on gas and electricity, particularly as prices have soared in recent years. But new research from the Federation of Small Businesses (FSB) highlights the importance of looking beyond tariffs when comparing energy providers. Soaring standing charges are also hitting many firms hard, the FSB warns.

Standing charges are the fees that energy providers charge – typically per day – irrespective of how much energy you consume. The fee is supposed to cover the cost of providing a supply and investing in infrastructure, but the FSB warns that in some cases, standing charges are now 13 times higher than they were just three years ago. As a result, the fees are having a dramatic effect on firms' energy bills, and no amount of energy efficiency or shopping around for a cheaper tariff will make any difference.

The FSB has urged Ofgem, the energy-industry regulator, to launch an investigation into energy providers' practices. Small firms have less protection than households from regulation such as the energy price cap, it points out, so they may be seen as an easy touch by the energy industry. In the meantime, check your bill carefully – do you understand how much of it is accounted for by standing charges? And next time you look for a new energy supply contract, take these fees into account as well as providers' headline tariff rates.

Petty cash... time to switch

- The poor savings rates offered by the six big banks mean small firms are missing out on more than £200m of interest each month on their deposits. The big banks dominate the market for business savings accounts in the UK, but rarely pay competitive rates of interest; by switching to more competitive challengers, small businesses could net billions of pounds of extra interest each year, data from Allica Bank shows.
- More than half of small companies are relying on credit such as overdrafts and credit cards to pay insurance premiums, says Premium Credit. It's a way for firms to spread the cost of insurance, but analysts point out that this will mean firms face extra costs in addition to their premiums, with interest charges adding up.
- Small businesses in the UK saw a 37% increase in cybersecurity warnings over the past year, data from Censornet shows. While some small businesses think their larger peers are more likely to fall prey to an attack, every organisation is potentially vulnerable. Use the government's National Cyber Security Centre as a starting point for understanding how to protect your business.

A great British tech success story

Sage has reinvented itself after some stumbles and the future looks bright



Rupert Hargreaves
Investment columnist

The UK has some of the most exciting and successful technology businesses in Europe, but they're often overlooked. Many investors and analysts tend to focus on the so-called Magnificent Seven US tech giants, which dominate the global tech sphere. But here in the UK, we also have a number of companies that are leading the charge in their respective fields. They're often overlooked because investors don't understand their current technological story and prowess as they have shifted their business models and investors haven't quite caught up.

A great example is the emerging artificial-intelligence (AI) group Sage (LSE: SGE). It has been a mainstay of the UK tech industry for decades, and for most of that time it sold accountancy software to clients on a CD. Clients would buy the initial CD, paying upfront when they did so, and then have to pay for additional updates, which generated a steady, if lumpy, income stream for the group.

The company had a dominant position in the global accounting and payroll-software sector for around three decades. This started to change in the mid-2010s when it was attacked by competitors who had developed a faster, cheaper, and more adaptable approach to bookkeeping and payroll management.

At the heart of this transition was the cloud. Its competitors used cloud infrastructure to



AI can provide an invaluable helping hand for small businesses

remove the need for customers to buy CDs and install software. All they needed to do was log on to an account online and the cloud infrastructure would take care of the rest. There was no need to maintain records on hard drives in the office and foot the bill for the associated costs.

A journey to the cloud

Sage launched its own cloud product, SageLive, in 2009. The product was pulled within weeks after major flaws were discovered in the code. It took two years for the company to make it back to market with an improved product – a lag that the business simply couldn't afford. The first rebirth of SageLive was called Sage One. That was followed by Sage Life and Sage Impact. Then came the new Sage Live (two words, not one this time), Sage Accountant Cloud and, more recently, Sage Business Cloud Accounting (aka Sage Accounting).

Today, everything is grouped under the Sage Accounting banner, and the company's switch to cloud-based software is almost complete. At the end of its last fiscal year, Sage reported the penetration of its Sage Business Cloud offering had risen to 84% of its customer base, up from 75% the year before. The use of the cloud has also opened up room for the business to grow outside of its traditional offering. Software that needs to be installed on a user's computer has major limitations. It's only as good as the hardware that powers it. Cloud-based software's limits are controlled not by the customer, but by the company – in this case, Sage.

Powered by AI

Sage has taken advantage by turning what was a simple accountancy tool into an AI-powered productivity assistant. The latest version of this product was launched this month after an initial trial run. The tool is called Sage Copilot, and is designed to deal with simple, repetitive tasks and provide a helping hand for small businesses (the company helps around half of the small businesses in the UK manage their finances). These include things such as generating and sending invoices, work-flow automation and cash-flow management.

Simple stuff, but the tool helps free up valuable hours and resources every week. Sage will look to integrate Copilot with other apps so it can learn and develop its output for

owners. The tool will help companies get around the issue of hiring new employees in the tough labour market. Workers are also less interested in doing repetitive tasks, and automating those will help reduce friction and costs.

Predictable revenue

AI isn't the only reason Sage has an exciting future. Anyone who's managed a business will know that once you have accounting software, you don't want to change it. Doing so can be costly, time-consuming and runs the risk of errors. No business wants to make a mistake on its tax return as that will mean having to pay to put it right and then paying a fine. As such, there are very high switching costs for software providers such as Sage. To put it another way, customers aren't likely to switch, or if they do, it'll be once every couple of years. That gives Sage a highly predictable, stable revenue stream. And the high cost of switching means in turn that customer numbers are unlikely to drop if prices are raised. It's far easier to raise prices with customers paying a monthly fee, and the company also sees the benefit almost immediately.

This recurring revenue now accounts for the bulk of Sage's sales. For the year to the end of September 2023, for example, recurring revenue in North America was £944m, with other revenue coming in a £29m (Canada and the US account for the bulk of the company's overall sales). Last year, Sage reported earnings growth of 38.4%, thanks to a combination of new products, higher prices and higher customer numbers. Analysts have pencilled in growth of 11.7% for 2024 and 14.7% for 2025. Sage also launched a £350m share buyback last year as it looks to return extra capital to investors on top of its dividend (the yield currently stands at 1.7%).

Sage is a British tech success story, which has made some missteps in the past, but now seems to be firmly on the path to growth thanks to its unique qualities and investment in cutting-edge technology.

Sage Group (LSE: SGE)

Share price in pence



Cruise group steams ahead

Royal Caribbean is more profitable than rivals and reasonably valued



Matthew Partridge
Shares editor

One sector I have focused on several times in the past few years is the cruise-ship industry. Sadly, I've had mixed results. In September 2020 I tipped Carnival Corporation, followed by its rival Norwegian Cruise Line two months later, hoping that Covid restrictions would be lifted more quickly than people were anticipating at the time.

In both cases I was too early; I ultimately broke even after making a small loss on Carnival and a small profit on Norwegian Cruise Line. However, with Covid now a fading memory – 2023 set new records for the number of people travelling on cruise ships – I think it is time to take another look at the industry.

Part of the boom in numbers is clearly due to people taking holidays they had postponed during the pandemic. However, while cruises have always been popular with older tourists, especially those who are retired, they are increasingly popular with families too.

It is becoming increasingly common to see several generations holidaying together. Cruise-ship companies have also expanded the number and range of attractions on board their ships, making them destinations in their own right rather than simply a way to travel from one place to another.

A global operator

One company that has been in the vanguard of both trends is **Royal Caribbean Cruises** (NYSE: RCL). Royal Caribbean is one of the biggest cruise companies in the world, with three brands: Royal Caribbean International, Celebrity Cruises and Silversea. It also owns a 50% stake in TUI Cruises, a joint venture aimed at German tourists. The company runs 65 ships that call at 1,000 destinations on all seven continents. It has recently started expanding its fleet, with *Icon of the Seas*, the largest cruise ship in the world, entering service in January. It

“The company runs 65 ships that call at 1,000 destinations on seven continents”



has also been upgrading the private island that it owns in the Bahamas to make it a full-fledged resort rather than just a beach.

Royal Caribbean's revenue was more than 25% higher last year than it was at the pre-Covid peak in 2019, and is expected to grow by a further 28% over the next two years. While the group's profits still haven't fully recovered, they are set to eclipse their 2019 level this year and then continue to grow.

Margins and the return on capital employed (ROCE, a key gauge of profitability) are now slightly above where they were, and better than the figures at rivals Norwegian Cruise Line and Carnival.

Even Royal Caribbean's debt is starting to fall. Despite the strong fundamentals and encouraging outlook, the stock trades at only 11.2 times 2025 earnings. It also looks enticing from a technical perspective. The price is above the 50-day and 200-day moving averages. It has nearly doubled over the last year and beaten the S&P 500 over the last six and 12 months. I therefore suggest that you go long at the current price of \$142 at £30 per \$1. Put the stop-loss at \$109, giving you a total downside of £990.

How my tips have fared

It has been a mixed week for my nine long tips, with four rising and five declining. Investment and share-trading platform IG Group rose from 745p to 784p, Rolls-Royce Holdings increased from 413p to 420p and SSP went up to 221p. High-street clothing retailer Next also rose, from 9,178p to 9,276p.

Recruitment specialist STThree decreased from 435p to 433p, easyJet dipped to 525p and General Motors decelerated from \$46.04 to \$45.17. US building-materials supplier Builders FirstSource fell from \$187 to \$167 while Hollywood Bowl slipped from 345p to 341p. My long tips are now making overall profits of £1,216.

Sadly, my four short tips didn't do as well, with three out of four moving against me. Video-game retail chain GameStop shot up from \$11.29 to \$30.45, above the \$14 at which I suggested that you cover the position. Shares in Trump Media & Technology Group rose significantly again, increasing from \$46.49 to \$51.65. Solar-energy company Sunrun also appreciated, its price rising from \$10.72 to \$11.52.

Air-taxi firm Joby Aviation was the only one to go in my favour, ascending from \$5.19 to \$5.05. Overall, counting the £462 GameStop profits, my short tips are making a profit of £1,404, down from £1,919 a fortnight ago.

My combined long and short positions are making profits of £3,137, down from £3,702 two weeks ago. I would recommend taking profits of £234 on STThree, which means that I have nine open long positions now (easyJet, SSP, IG Group, General Motors, Builders FirstSource, Rolls-Royce, Hollywood Bowl, Next and Royal Caribbean).

With the covering of GameStop, I only have three open short positions left (Sunrun, Joby Aviation and Trump Media & Technology Group), which means that I need to find some more shorts. Meanwhile, I would also suggest that you increase the stop-loss on easyJet to 450p from 435p.

Trading techniques... the effect of spin-offs

Companies often merge with others; sometimes, however, they split. One way for a company to get rid of an unwanted business is simply to sell it off to someone else, such as another firm or an investment fund. The cash raised in this manner can be used to help the remaining business, either through reinvestment, paying down debt, or financing a dividend or buybacks. But this can annoy shareholders if they think that the company is being sold too cheaply. As a result, some firms choose to pursue a spin-off. While the company still

splits apart, the shareholders receive shares in the new company in proportion to their holdings in the parent company, with the two firms listed separately.

This way, the shareholders can decide for themselves whether to keep the shares in the subsidiary or sell them. The hope is that improvements in efficiency (both firms can focus on their core business) will ensure that the value of the two companies exceeds that of the original firm, though in the case of the spin-off the parent won't receive any cash. A 2015 study by Suffolk University, Boston,

of 378 spin-offs and 4,192 sell-offs from 1980 to 2011, found that on average news of both sell-offs and spin-offs boosted a firm's share price in the immediate aftermath of the announcement. Spin-offs had the bigger positive impact.

However, the post-divestiture performance of the parent was more mixed. When the subsidiary was sold outright the parent beat the market by an average of 1.68% in the year after the sale. But when the subsidiary was spun off into a separate group, the parent's shares subsequently lagged the market by 5.4%.

The infrastructure specialists securing sustainable long-term growth



A professional investor tells us where he'd put his money. This week: Jean-Hugues de Lamaze, fund manager at Ecofin Advisors, highlights three of his favourites

As an infrastructure and sustainable investment specialist founded over 30 years ago, Ecofin has developed expertise in the energy transition. This gives us a specific angle when analysing the listed infrastructure universe worldwide. Firms that transition to a decarbonised world typically gain exposure to faster growth and enhanced returns.

The large proportion of regulated or fully contracted activities makes future cashflows highly predictable, and such assets are less risky than the traditional commodity-driven investment model. Ecofin invests in global infrastructure through both closed-end and open-ended vehicles, with the Ecofin Global Utilities and Infrastructure Trust listed on the London Stock Exchange. Three main themes are currently dominating the sector.

One is the crucial role of power networks, which makes **National Grid (LSE: NG)** worth a look. Huge investment is required to renew and expand power grids as new renewables capacity needs to be interconnected. Operating in both the UK and the US, National Grid is one of the best positioned to benefit from the investment programme under a fully regulated framework.

Governments and regulators are here to ensure that allowed returns are attractive enough so that the heavy capital expenditure is implemented. National Grid is planning to invest £40bn globally over the next five years, which should deliver annual growth of 8%-10%, with inflation-proof returns on offer in the UK.

The power of artificial intelligence

The emergence of artificial intelligence (AI)-driven datacentres, mainly in the US, has highlighted how energy-intensive these can be. Electricity consumption from such centres is expected to increase fivefold over the next five years. This should represent the main driver to power demand worldwide after years of stagnation.

Enter **Vistra (NYSE: VST)**. With 90% of its power generation fully dispatchable, notably thanks to its nuclear capacity, Vistra can provide the power required by AI developments. Additionally, 46% of its generation capacity is based in Texas, where we expect structurally higher power prices owing to tight reserve margins. The stock is up by more than 150% since we



Veolia is the global leader in environmental services

initiated the position in November 2023, but it remains noticeably cheaper than other US electricity providers on an enterprise value/earnings before interest, taxes, depreciation and amortisation ratio of around eight.

The global commitment to net-zero emissions and the protection of biodiversity underpins the move towards a circular economy. Water scarcity, with only 1% of the globe's water surfaces usable for human consumption, represents one of the biggest challenges of the coming decades. **Veolia (Paris: VIE)** is the global leader in environmental services and should benefit greatly from these trends.

The group sees a €2.5trn potential global market for its services through decarbonisation, depollution and resource regeneration. We expect Veolia to deliver 10% earnings growth per year over the next few years, underpinned by synergies from the 2022 acquisition of key competitor Suez in 2022. The stock also yields 6%.

We believe that equity investors have yet to recognise fully the underlying value of such structural trends, with listed valuations still well below those of private markets. The significant amounts of cash raised by private equity in recent months to invest in infrastructure worldwide could well prove a major catalyst, as the spree in mergers and acquisitions (M&A) is only at an emerging stage.

“Power consumption from AI-driven datacentres is expected to rise fivefold by 2029”



Britain's next Rupert Murdoch

Hedge-fund manager Paul Marshall already owns upstart news channel GB News and has his sights set on The Telegraph. What is the would-be media mogul up to? Jane Lewis reports

London hedge-fund titan Paul Marshall has been “pulling strings behind the scenes at Westminster” for decades, says the Financial Times – positioning himself as a philanthropist, a political donor and an educational reformer. Now the 64-year-old evangelical Christian is being talked up as a media-mogul in waiting. Already the owner of the upstart British broadcaster GB News, and digital media group UnHerd, Marshall is gunning to take control of the Telegraph Media Group. If he succeeds, he’ll become “the most powerful figure in UK media since Rupert Murdoch”.



Called by God

Some argue that Marshall, who co-founded the \$62.5bn fund Marshall Wace in 1997, is already “the most significant media mogul to have emerged in the 21st century”, says The New European. And also potentially the most dangerous. Although friends and colleagues extol personal virtues of generosity, principle and loyalty – a recent piece in Prospect described him as “gracious, gentle and softly-spoken” – he has presided over “a constant churn of conspiratorial and hateful content” at GB News in its evolutions as a forum for the right in the UK culture wars. Marshall protests he is a hands-off proprietor, who wants diverse and robust debate, but a recent investigation of his own Twitter/X account led some to conclude that his views make him “unfit” to own a mainstream news outlet.

The central mystery is what radicalised him. Few who knew him ten years ago

“Gracious, gentle and softly spoken, everything Marshall does is driven by his faith”

“would have expected him to end up where he is now”. Back then, Marshall – best known as the big-hitting financier behind the Absolute Return for Kids (Ark) charity – was only “tangentially involved with British politics”, roughly “aligned with the Lib Dems”. Marshall’s parting of the ways with that party over Brexit appears to have triggered a “self-radicalising” odyssey. Others cite an incident involving his son, who was reviled online for “wrong think”, sparking a determination in his father to battle “cancel culture”.

The truth is much simpler and deeper, says Prospect. Everything Marshall does is driven by his faith. A regular congregant at Holy Trinity Brompton (a hub of the Church of England’s evangelical wing), he believes “traditional British liberalism” rests on a Christian ethic in society, and worries

about its “displacement”. Like a latter-day St Paul, he has a “powerful sense that he has been called by God”.

Born in 1959 in west London, Marshall was a product of the disappearing empire-trading classes. His father was managing director of the Philippine Refining Company (later Unilever Philippines) and the family spent stints there and in South Africa. Marshall read history and modern languages at St John’s College, Oxford, then headed for the City, joining the fund-management arm of S. G. Warburg, Mercury Asset Management. In 1997, he teamed up with Ian Wace to form their hedge fund with \$50m in funding.

Shaping the right

Despite a “near-death” experience in 2008, the firm – now 39.9% owned by US giant KKR – has continued to thrive while many rivals have faded, says the FT. Now worth around £630m, Marshall has always been “very driven” and believes that “money is a way to change the world”. His Ark charity now runs 39 schools across England to a high academic standard – many in areas of deprivation and ethnic diversity. An incoming Labour government would deprive Marshall of some of his “insider” power, says The New European. But with his influence growing, and Telegraph ownership still a possibility (thanks to his alliance with the deep-pocketed US hedge fund Citadel), he still has the potential “to own the British right and shape the Conservative Party”.

Laffer lives! But not as Trump’s next Fed chief

Economic advisers to Donald Trump presented the former president earlier this year with a shortlist of potential candidates to lead the Federal Reserve should Trump win this year’s presidential election, says The Wall Street Journal. One of the three suggested was Arthur Laffer (pictured), an economic adviser to Ronald Reagan, one of the founding theorists of supply-side economics and a champion of the tax cuts Trump signed into law in 2017. Laffer is best known for the moment in 1974 when he drew a line on a napkin – now



known as the “Laffer curve” – showing that tax rises do not necessarily lead to higher tax revenues because the rise discourages the activity taxed and encourages tax avoidance. Trump has not

committed himself, but Laffer has. When asked about the idea in an interview with the FT, Laffer said: “I’m 83.” That would not seem to be any great barrier in America’s gerontocracy, but Laffer has learned from experience. He accepted a position with Nixon in 1970, and then found himself trapped in

“the most anti-free-market administration on Earth. I found out what I don’t do well. So I made a vow that I would never, ever work for a government ever again. Ever. And I’m going to stick with that.” Laffer enjoyed more influence with Reagan and Trump, he says, by advising and refusing an official post.

How does Laffer square his support for Trump with the latter’s protectionist policies and tariffs? Trump is a free-trader, Laffer insists. “Anyone who imports two foreign wives has to be a free trader” – a joke Laffer says Trump did not find funny. But “any businessman who runs an international company has to be pro-free trade”. The pretence

he isn’t is merely a negotiating ploy to get other countries to the table. “Look at what he does – not at what he says.” The US may have had higher tariffs when Trump left office than when he entered, but he had signed major trade agreements too – he was trying to move in that direction, says Laffer.

As for the tax cuts, they did the trick as predicted, he says, contrary to some economists who deem the Laffer curve dead. Total tax revenues went up by more than they had in the two years prior to the cuts, and the result was higher growth rates, lower poverty rates, and lower unemployment among the poor. Laffer lives!

Delightful Devon

Natasha Langan stays at Dittisham Hideaway and goes on a foodie tour of Dartmouth

South Devon is hard to beat for a tranquil break, surrounded by beautiful countryside. Here, you will find 125 miles of Heritage coastline, Areas of Outstanding Natural Beauty and a National Park. The South West Coast Path, with its 19th-century origins as a coastguard patrol route to restrict smuggling, is now England's longest waymarked footpath – 630 miles stretching from Minehead on the edge of Exmoor to the shores of Poole Harbour. It offers walkers clearly marked routes along some of the finest coastline in the world. The routes around Dartmouth and Dittisham are gentle and scenic and they can be broken up with stops at the many pubs and cafés along the way.

Dittisham Hideaway is the perfect base from which to explore the area. It is nestled in a quiet valley with a babbling stream, surrounded by woodland. There are four cedar-clad treehouses, an iconic 1950s American Airstream caravan and the idyllic Shepherds Lodges, each with wood-fired hot tubs and private decks overlooking the stream and down the valley, some of which are dog friendly. We stayed in one of the lodges – 26ft of spacious and luxurious interiors built by local West Country artisans in a meadow of wild flowers with views down the valley. Clever touches include electric wheelbarrows (so you don't have to struggle with bags), barbecues and electric car charging points. It was so well insulated that, even though it was cold outside, we really didn't need the wood-burning stove. But we lit it for the romance and then opened the door to compensate. On the terrace, we made use of our wood-fired hot tub and watched the stars as we gently poached in the absolute silence of the valley, save for the sound of the stream and the calling of owls. The Wi-Fi and TV were excellent, but it seemed a shame to spoil the tranquility. Eventually, we retired to our comfortable bed with crisp Egyptian cotton sheets and blankets.

The picture-postcard village of Dittisham, on the banks of the River Dart, is located nearby. It was historically a hub for shipbuilding thanks to its natural deep waters. Today, you can take in the



The Shepherds Lodges offer cozy spots in the countryside

scenery from its waterfront pub or catch the ferry across to Greenway House, the former holiday home of Agatha Christie, just across the river. It is now a National Trust property with stunning gardens and fascinating interiors. The house remains as Agatha Christie left it, with a library full of first editions of her books and mementoes from her global travels with her second husband, the archaeologist Max Mallowan.

Taste of the sea

Devon is also renowned for its food. We were within a few miles of Dartmouth, a vibrant harbour town with a rich nautical history that is still home to Britannia Royal

Naval College. But we were here for the food, not the history, and

Dartmouth is brimming with places to eat.

For a refined meal

sinful *pomme purée* with truffle oil. The cod was the highlight, cooked to perfection and beautifully complemented by the smoked mussels and seaweed butter. There was really no need for dessert but we had some anyway – an apricot sorbet with white chocolate shell, hazelnut *cremeux* and bee pollen, that, although delicious, was outclassed by the chocolate with banana and passion fruit that had the potential to be cloying, but was so well balanced it was one of the best desserts I've ever had.

Alternatively, try some fish and chips at Rockfish (therockfish.co.uk), set up by local acclaimed restaurateur and cookery writer Mitch Tonks. There are branches throughout Devon as well as a separate takeaway in Dartmouth. Often the traditional examples of our national dish can be a soggy, greasy disappointment, but not at Rockfish. We opted for hake fished directly from the harbour in a perfectly golden, crunchy batter with proper mushy peas and tartare sauce. With a jug of house white and the bright interiors it was enough to help us forget the rather drizzly weather. If you have any space left, head for the Embankment (embankmentbistro.co.uk) for

afternoon tea with homemade cakes. This Grade II-listed building was originally the railway ticket office and it is now a charming restaurant on the waterfront from where you can watch the boats in the harbour.

It was a relief at the end of each of the two days we spent trying to eat our way around Dartmouth to head back to our lodge. We sat on the deck, sipping local sparkling wine and watching the buzzards flying above us – and we promised ourselves to return to this peaceful haven.

Natasha was a guest of Dittisham Hideaway. Devon Artisan Food Weekends this June include a tasting menu dinner for two at The Angel, a welcome basket of local produce and a Devon cream tea hamper from the Embankment. From £795 for two nights; see dittishamhideaway.co.uk



“The Angel on the harbour front showcases local ingredients in a pared-back setting”

The Angel on the harbour front is ideal (theangeldartmouth.co.uk).

At the helm is Elly Wentworth,

a *MasterChef: The Professionals* finalist. She takes pride in showcasing local ingredients in a pared-back, elegant restaurant. We started with chicken terrine and langoustine tortellini in lemongrass *velouté*, which were beautiful and light and yet loaded with flavour. I especially enjoyed the terrine, which I normally avoid due to an aversion to anything in aspic, but, once I could persuade my husband to give me a bite, I found it to be light on the jelly and heavy on the flavour, set off with some lightly pickled *shimeji* mushrooms. For mains, we had day-boat roast cod with smoked mussels and sea vegetables, and venison with chestnut puree and some

An elegant cruiser

The electric ABT Marian M 800-R is the result of a very special collaboration



The ABT Marian M 800-R is wonderfully quiet

Last year, Porsche decided to give us a glimpse of what the powertrain for its new all-electric compact SUV, the Macan, would be capable of by plugging it into an electric boat, says Greg Potts on Top Gear. That boat, made with Austrian boatbuilders Frauscher, was called the Frauscher x Porsche 850 Fantom Air – “a very cool name for a very cool boat”. At the time, that creation seemed “rather niche”. Now, however, it has “a proper rival” – the ABT Marian M 800-R.

Like the Porsche, it is the result of another German/Austrian collaboration. German tuning shop ABT Sportline, better known for

its limited-edition takes on Audis, Volkswagens and Lamborghinis, decided that it, too, wanted to “get in on the floating [electric vehicle] game”. So, it teamed up with Austria-based Marian Boats and the performance figures are remarkably similar to the Porsche. While the Porsche has a 100kWh battery, 563bhp, a top speed of 53mph and a 28-mile range, the ABT boasts a larger 121.5kWh battery and a more powerful 603bhp e-motor, which enables a range of up to 50 miles and propels the boat to a top speed of 53mph when in “full-fat ‘ABT mode’”. It is also wonderfully quiet, because, “while I enjoy loud cars and

bikes... I fully support the idea that [electric] means less noise to disturb you on your day off and less/no harm to the marine fauna and flora”, says Dragos Chitulescu for Autoevolution. And that is, after all, what Marian is all about.

Plenty of room for fun

The newcomer boat is based on Marian’s M 800 Spyder and it features a “highly efficient semi-glider hull”, says Rachel Cormack in the Robb Report. “Tech aside, the M 800-R is one elegant cruiser.” ABT has fitted Alcantara seats, just like in its four-wheeled creations, to provide comfort while driving. The air intake for the engine

compartment is similarly based on the signature wheel arch vents of ABT’s Specials. And, of course, the red leather upholstery “pays homage” to the tuner’s corporate colours. “The 26-footer is rather spacious, too.”

Nine passengers can fit into the foredeck, while the aft features a giant sun pad. An illuminated steering wheel, high-tech 12-inch digital display and atmospheric underwater lighting are the other highlights. Production will be limited to just 20 units, each costing £465,000, including tax.

En.abt-marian.com

Wine of the week: three great-value wines from a stellar estate

2022 Dolcetto d’Alba, Bruno Giacosa, Piemonte, Italy

£25.01, armitwines.co.uk



Matthew Jukes
Wine columnist

The name Giacosa sends shivers down my spine. One of a handful of genuinely stellar producers in Barbaresco and Barolo, in Piemonte in northwest Italy, this estate is world-famous for its *etichetta rosso* (red label) wines. Giacosa’s Barolo Le Rocche del Falletto Riserva and Barbaresco Asili Riserva are some of the most collectable wines on Earth, and they cost a bomb, so the only way that I manage to drink them is to visit the region, order them in the most wonderful restaurants and close my eyes when the bill

arrives. If you want to indulge in Giacosa wines in the UK, you must talk to Armit, because they are the nominated importers here. I have picked out three wines that I feel represent terrific value for money so that you can dip your toe, and I hope this inspires you to visit Piemonte, a wine region I feel is so important that I publish a 130,000-word Report every year detailing the greatest wines.

First, my featured dolcetto, which is bursting with hedgerow fruit. Energetic, youthful, and mouth-wateringly delicious, while this is the first rung on the Giacosa ladder it lacks nothing in class. Next, a white: 2022 Roero Arneis (£29.61) is a widely respected and

top-class example of the vigorously refreshing arneis grape. Drink it chilled with crustacea and fresh fish, and you will be in heaven. Lastly, the finest value nebbiolo (the Barolo and Barbaresco grape) from the Giacosa stable is 2021 Nebbiolo d’Alba Valmaggione (£51.21). The 2021 vintage is a forward-drinking beauty, and I cannot recommend it enough.

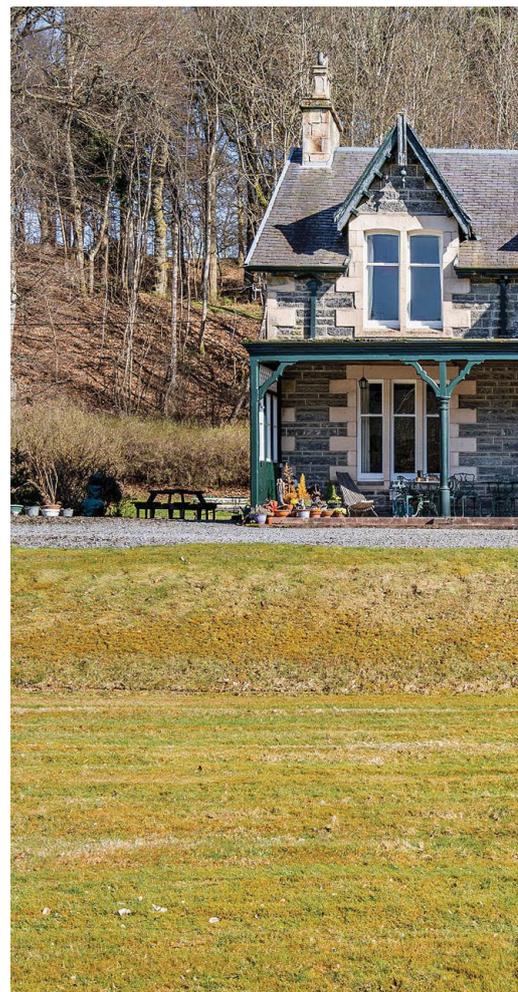
Matthew Jukes is a winner of the International Wine & Spirit Competition’s Communicator of the Year (MatthewJukes.com).



This week: houses for around £700,000 – from an apartment in a period building moments from London



▶ **Norman cottage, Veules-les-Roses, Seine-Maritime, France.** A cottage with an unrenovated building close to the coast. It has beamed ceilings, open fireplaces with wood-burning stoves, and a country kitchen with French doors leading onto a terrace. 7 beds, 4 baths, barns, garden. £677,904 Hamptons International 020-8618 4551.



▶ **Dalnasgadh, Killicrankie, Pitlochry, Perthshire, Scotland.** A Grade C-listed house surrounded by woodland in the Perthshire hills. It has period fireplaces with wood-burning stoves, a country kitchen with an Aga, and a coach house in the grounds. 5 beds, 3 baths, 3 receps, office, 1.75 acres. £700,000+ Strutt & Parker 07458-125668.



▶ **Stumpy Corner & Cleddau View, Haverfordwest, Pembrokeshire, Wales.** Two riverside properties with gardens leading down to the River Cleddau. The main house is currently used as a successful holiday let and has 4 bedrooms, two bathrooms, a dining kitchen and a sunroom. The second house has an open-plan kitchen and living room, 3 bedrooms and two bathrooms. £740,000 Country Living Group 01437-616101.



n's Hyde Park to a house on the shore of Grimwith Reservoir in the Yorkshire Dales



▶ **Millwood Manor, Barrow-in-Furness, Cumbria.** A substantial wing of a Grade II-listed 1860s Gothic manor house surrounded by mature gardens and woodland. It has ornate plasterwork, stained-glass windows, period fireplaces, a grand entrance hall with an ornate Victorian tiled floor, two archways divided by a marble pillar, and a country kitchen with a rangemaster cooker. 4 beds, 4 baths, 3 receps, 2 acres. £700,000+ **Finest Properties** 015394-68400.

▶ **Grimwith House, Grimwith Reservoir, Skipton, Yorkshire.** A stone-built house on the Grimwith Reservoir in the Yorkshire Dales close to the market town of Grassington. It has exposed stone walls and a fireplace with a wood-burning stove. 3 beds, bath, recep, dining kitchen, garden. £675,000 **River Homes** 020-8977 4500.



▶ **Gloucester Terrace, Lancaster Gate, London W2.** A refurbished first-floor one-bedroom apartment in a period building situated just moments from Hyde Park. The apartment has high ceilings, wood floors, double-height sash windows, an open-plan kitchen and living area, a large bedroom with fitted cupboards, a contemporary bathroom, and a balcony. £725,000 **Knight Frank** 020-7871 5060.

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▶ **Shurton, Stogursey, Bridgwater, Somerset.** A three-storey Grade II-listed Georgian house with mature gardens in the foothills of the Quantocks, an Area of Outstanding Natural Beauty. The house is now in need of some updating. It has fireplaces with wood-burning stoves, a formal dining room with wood floors, and a kitchen leading onto a conservatory. 8 beds, 2 baths, 2 receps, outbuildings, 0.66 acres. £700,000 **Savills** 01392-455755.

▶ **The Old House, Longborough, Moreton-in-Marsh, Gloucestershire.** A restored Grade II-listed 17th-century Cotswold stone cottage. The cottage has stone-mullion windows, exposed stone walls, beamed ceilings, flagstone floors, a sitting room with a large inglenook fireplace with a wood-burning stove, and a bedroom with a vaulted beamed ceiling. 2 beds, bath, 2 receps, breakfast kitchen, front and rear gardens, stone outbuilding. £650,000 **Butler Sherborn** 01451-830731.



Attic bounty hunters

Having a rummage for old toys could lead to a big pay day, says Chris Carter

In an auction house far, far away – Texas, to be precise – a collection of *Star Wars* memorabilia is heading for sale with Heritage Auctions (HA) on 31 May. Leading the way is a tiny three-and-three-quarter-inch toy action figure of Boba Fett, the bounty hunter from the sci-fi film series with – at least in this auction – a “hefty price on his head”, according to the auctioneers. Naturally, this isn’t any old Boba Fett toy.

In 1979, TV adverts invited kids to claim their free Boba Fett action figure, made by toy company Kenner – so long as they (or rather, their parents) bought four other *Star Wars* action figures. But what made the Boba Fett figure “super cool” was that it was able to “fire” a rocket. There was just one problem, however. Rival Mattel had withdrawn a similar toy from its Battlestar Galactica range on the basis that its plastic rocket was deemed a choking hazard. When the Boba Fetts were finally sent out by post, children found that the missile had been glued in place, with a note attached explaining why.

Still, a few prototypes that did fire the rockets survived. The example that is being offered for sale with HA (pictured) is unique in that it is the only one to feature a

hand-painted grey head and appendages and the highest bid as of last Friday was \$60,000. The lightsaber wielded by both Luke Skywalker and Rey in *Star Wars: The Last Jedi* (2017), a Darth Vader helmet and armour made for promotional tours



“The highest bid as of last Friday was \$60,000”

in the 1980s, and rare signed film posters are also among the almost 175 lots.

The sale ought to go well judging by toy specialists Vectis Auctions’ recent sale, held in

Teesside at the end of April. The roughly 670 lots raised £145,000, which included a Luke Skywalker figure, made by Palitoy and still in its box. It sold for £6,125. So, it’s worth

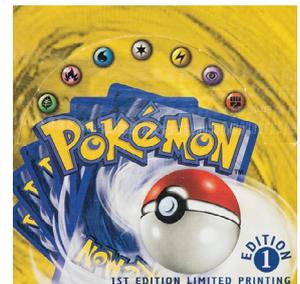
having a rummage in the attic for any *Star Wars* toys from the 1980s and 1990s. You can make a list of your findings and send it to Vectis, along with photos, to be evaluated by their experts free of charge. Suitable items can be entered into their auctions if you want to sell. Hertfordshire-based Excalibur Auctions are also specialists who offer an evaluation service. In January, a rare *Star Wars* Jawa figure sold with the auction house for £21,000.

As with the Jawa, a figure still in its original, unopened box will fetch a higher price than one that has been played with. But “even a collection of unboxed figures can fetch big money”, Tim Weeks, a BBC *Bargain Hunt* expert and toy specialist at Wessex Auction Rooms, tells *The Sun*. When buying new toys with an eye to selling them later on, leave them in the box – no matter how strong the urge to indulge your inner child by ripping open the packaging.

The Pokémon craze continues

While you’re rummaging around searching for *Star Wars* figures (see left), keep an eye out for any Pokémon cards, first released in 1996. The colourful playing cards, featuring fantastic animals with special powers, continue to fetch high prices despite being launched almost 30 years ago.

That has not gone unnoticed by certain criminal elements. In January, burglars broke into a shop selling trading cards in San José, California, making off with 35,000 Pokémon cards. And at the end of April in Pokémon’s home market of Japan, a yakuza boss was arrested with 25 stolen cards in his possession, notes *Le Monde*. A Pokémon-related crime wave has been raging across the country since at least 2022, encouraged by the high prices the cards continue to fetch.



In Staffordshire last week, a large collection of rare cards went under the hammer and fetched £55,000, double their guide price, with Richard Winterton Auctioneers. The 2,407-card collection included ten complete sets (those with every card from a set) and five master sets that included every variant of every card, says BBC News.

A test sheet of uncut cards with slight differences from those that eventually got made, along with those for a separate game, called *Magic: The Gathering*, also appeared in Heritage Auctions’ trading cards sale on 17-18 May, and attracted a bid of \$26,250 last week. Various cards from both Pokémon and *Magic: The Gathering* also appeared in the sale, including one featuring the character Charmander from 1999 that was printed as part of a competition, along with a first edition “Booster Box” of cards from 1999 going for \$156,250.

Auctions

Going... Eleven watches belonging to Hollywood actor Sylvester Stallone (pictured) are heading for auction with Sotheby’s in New York on 5 June. Stallone assembled the collection over 20 years, and it includes prestigious brands – including Rolex, Audemars Piguet and Piaget. The “undisputed centrepiece” of the collection, however, is the Patek Philippe Grandmaster Chime – “an exquisite and highly coveted masterpiece of haute horology”, says the auction house. Coveted by collectors, the Reference 6300G Grandmaster Chime will be making its first appearance at auction, where it is expected to fetch between \$2.5m and \$5m. It is, says Sotheby’s, “the ultimate champion” of modern watchmaking”.



Gone... The pocket watch that business magnate John Jacob Astor IV, the wealthiest man aboard the *Titanic*, was wearing when the ocean liner sank sold late last month with auction house Henry Aldridge & Son. Astor was last seen on the deck of the stricken ship on 15 April, 1912, smoking a cigarette with a fellow first-class passenger after helping his pregnant wife into a lifeboat, says Mail Online. The 14-carat gold Waltham watch, engraved with Astor’s initials, was used to identify his body, which was pulled from the water a week later. It sold for £1.2m, six times its guide price, to match the violin played by bandmaster Wallace Hartley for the most expensive artefact recovered from the disaster. The instrument’s case sold for £290,000.

Bridge by Andrew Robson

Wrecked by the five-nil?

Dealer South

North-South vulnerable

♠ A86
 ♥ J96
 ♦ 9
 ♣ AK9863
 ♠ KJ972
 ♥ -
 ♦ J76
 ♣ J10754
 ♠ Q4
 ♥ AKQ43
 ♦ AQ543
 ♣ 2



The bidding

South	West	North	East
1♥	1♠	2♣	2♠
3♦	pass	4♥	pass
5♥*	pass	5♠**	pass
6♥	end		

* Showing two losers in the opponents' suit.
 ** Showing the Ace.

West found the best opening lead of a (low) Club, won by dummy's King. Not put off by the fall of East's Queen, declarer tried to set up Clubs by ruffing a low Club. East discarded a Spade and declarer ruffed low. Switching tacks in light of the five-one Club split, declarer now crossed to dummy via the Ace of Spades, and successfully finessed the Queen of Diamonds. He cashed the Ace of Diamonds (throwing a Spade), then ruffed a Diamond (low). He now knew West had a void Trump – his overcall showed five Spades, and he had revealed five Clubs and three Diamonds.

Declarer next led dummy's King of Clubs. East had to ruff, or declarer would discard his losing Queen of Spades. East's five of Trumps was overruffed by declarer's Queen. Next declarer led a fourth Diamond, ruffing it low when West discarded. He next led a third Club, East ruffing with the seven and declarer overruffing with the King.

Declarer ruffed his fifth Diamond with dummy's Knave of Trumps, and then led a Club. East held ten-eight-two of Trumps; declarer held Ace-four of Trumps and the Queen of Spades. East ruffed with the eight (best), but declarer threw the Spade, and was able to beat East's return of the two of Trumps with his four and cash the Ace. Twelve tricks and slam made.

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

Sudoku 1208

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

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.

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

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Tim Moorey's Quick Crossword No. 1208



A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 27 May 2024. By post: send to MoneyWeek's Quick Crossword No.1208, 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.1208 in the subject field.

1		2		3		4		5	6	7
							8			
9						10				
	11					12				
13										
14				15					16	
17		18								
										19
20						21		22		
23						24				

Across clues are cryptic while down clues are straight

ACROSS

- 1 Grass finally neater? Could be down to this (8)
- 5 Send back US magazine issue (4)
- 9 Amerinds on the off chance avoiding English (5)
- 10 Two of us, according to East-Enders wander aimlessly (7)
- 11 What inefficient paint shop could be unexpectedly (3,2,3,4)
- 14 Play and part of one (3)
- 15 Stylish vehicles overturned (5)
- 16 Address in Madras? Right (3)
- 17 Abuse matters with men and it must be sorted out (12)
- 20 Electric gear for young lads? (7)
- 22 Subject of article by yours truly (5)
- 23 Heard band in rain (4)
- 24 What pate, potage and prawn cocktail have in common (8)

DOWN

- 1 Pass over (4)
- 2 Sign up (7)
- 3 Taken wrongly (12)
- 4 Tree (3)
- 6 Example (5)
- 7 Curry ingredient (8)
- 8 Warning for shoppers (6,6)
- 12 Jewelled band as headgear (5)
- 13 Little monkey (8)
- 16 Genuine (7)
- 18 Tyre in the boot (5)
- 19 Military canteen (4)
- 21 Pose (3)

Name

Address

email

Solutions to 1206

Across 1 Ta-ta *hidden* 3 Clematis *anagram* 9 Siberia *S + Iberia* 10 Raise *I inside anag of arse* 11 Crown jewels *crown + Jewel + S* 13 Sussex *suss + ex* 15 Crayon *C + rayon* 18 In due course *anagram* 22 Shred *sh(a)red* 23 Inexact *in ex act* 24 Opposing *op posing* 25 Shin *Shin(e)* **Down** 1 Test case 2 Taboo 4 Leaves 5 Morse 6 Thirsty 7 Sled 8 Orange 12 Unbeaten 14 Stirrup 16 Rhodes 17 Resign 19 Dodos 20 Reach 21 Oslo

The winner of MoneyWeek Quick Crossword No.1206 is: Daniel Swift of London

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

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Why the Fed stokes inflation

The alternatives are unthinkable



Expect another shower of easy money



Bill Bonner
Columnist

Whatever it may say, the US Federal Reserve doesn't really want to stifle inflation. It wants more of it. At 5% inflation, other things remaining the same, the US would cut the real value of its government debt by \$1.7trn in a single year. Trouble is, other things don't remain the same. At current levels of deficits, the US adds \$1.7trn in new debt per year. Tough situation. The Feds need either more inflation, or less spending. Our prediction: they will choose inflation.

The media reports that two things are pulling the Fed in different directions. Some recent inflation news, for example, is "negative". That is, it tells us that the economy is weakening and could use a dose of EZ money. The job market is weakening. New jobs posted in April were fewer than expected. Total employment rose, but at the lowest rate in three years. Unemployment went up. A better measure of the job market is the actual number of hours worked; the last reading of that measure was negative, indicating a weaker economy. And manufacturing (according to the Purchasing Managers' index) is signalling recession.

But what ho! Among the surface chop there was some

"positive" (inflationary) news, too. The Case-Shiller measure of house prices went up to another all-time high in February. Labour costs (including wages and benefits) rose more than expected. Prices at the wholesale level rose to their highest level in two years. And the decline in the US money supply seems to be bottoming out. All this suggests the US economy doesn't need cheaper credit, but higher rates to lower inflation. As it is, consumer prices are still going up at about two times the Fed's target.

Economists argue about which of these facts are most

"Beneath the newsy blather is a much different story"

important, and whether the balance of opinion leans towards rate cuts or hikes. The typical observer might draw a completely false conclusion: that the Fed has the power to tip the scales in whatever direction it wants. He might think that the Fed can always control interest rates, and with wisdom that surpasseth understanding can guide the economy along the path to prosperity and growth forever, neatly inflating with cheap money when needed and cutting off the stimulus when growth and inflation threaten to get out of hand.

But that's not the way it works. Beneath this newsy blather is a much different story – one with a beginning and an end, and a moral. It begins in 1971, with the introduction of a new dollar that the deciders could diddle. Over time, the Fed's easy money led people to borrow far more than they otherwise would. Today, total US debt approaches \$100trn, nearly four times US GDP. At a uniform 5% interest, the US would need to use almost 20% of its GDP just to pay interest, leaving the principal unpaid.

On the flip-side of borrowing is repaying. Mathematically, the US could pay down its debt. It would require abandoning its global empire, however. And trimming domestic social-welfare programmes too. Politically, it is impossible to make those changes; like an alcoholic, the country will have to "hit bottom" first.

That leaves inflation as the only real option. The Feds know that. They need to get inflation up, not down, so that the real value of the government's debt goes down to a more manageable level. That's why, even with inflation at twice the Fed's target, Fed chief Jerome Powell is still insisting the next move will be to lower rates. The public may not want higher prices. But the people who matter do – Big Money, Big Business and Big Government.

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