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MoneyWeek

MAKE IT, KEEP IT, SPEND IT

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Roaring ahead

The car industry moves up a gear
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BRITAIN'S BEST-SELLING FINANCIAL MAGAZINE

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7 June 2024 | Issue 1211

Britain's best-selling financial magazine

From the editor...

"The plan is working, and we must stick to it," Rishi Sunak keeps saying. Given the chaos of the past few years, he sounds like a cowboy builder assuring a homeowner that he can definitely fix the hole in the roof he accidentally created while trying to redo the bathroom – and more cheaply than Keir, that dodgy plumber down the street.

The data and mood music have certainly improved of late. Inflation has come down, even though core inflation remains sticky (the government never mentions that bit, of course). Growth has ticked up and sterling has hit its highest level on a trade-weighted basis since the Brexit referendum (oddly the government hasn't mentioned this either). This is an auspicious backdrop for the UK stockmarket, where sentiment seems finally to be improving and equities remain appealing (see page 5).

Only nine cities in Britain have a tram or an underground system

©Alamy

"Since 1955, quarterly GDP growth under the two main parties has been almost identical"

No credit where it isn't due

None of this, however, is the government's doing. During election campaigns we are assailed with endless promises about what the government or the opposition can do, when the truth is that they have scant influence on the stockmarket and economy, certainly in the short to medium-term. There is little they can do to affect underlying trends and the key drivers of growth and equities, the interest-rate and business cycle (inflation has not fallen because Sunak has a plan). While structural reforms will improve an economy's underlying growth rate, the impact on GDP and stocks will tend to be offset by cyclical downturns or shocks such as the financial crisis.

It shouldn't surprise us, then, that since 1955, quarterly GDP growth under the two parties has been almost identical, as Panmure Gordon's Simon French points out: an average of 0.57% under the Tories and 0.59% under Labour. Using French's figures, equities have done better under Labour; an AJ Bell analysis starting in 1962 gives the Tories the edge.

Politicians never like to admit that big trends are beyond their control, so we can't expect the two parties to acknowledge that government can't create wealth; they can simply design the framework in which it occurs. The framework could do with plenty of work, as our stagnant GDP per capita and enduring productivity problem make clear, but we have heard very little about this key issue from either party.

At the centre of this Gordian knot is the planning system and our inability to build growth-enhancing infrastructure quickly. We have lumbered ourselves with such complicated procedures that it takes 13 years to build a new offshore wind farm. Ben Hopkinson of campaign group Britain Remade also notes that only nine cities in Britain have a tram or an underground service, while in France and Germany the respective figures are 30 and 60. Allowing local mayors to approve transport projects could help accelerate construction.

Labour has made some encouraging noises about implementing mandatory local housing targets in a bid to boost housebuilding, and redefining the green belt, though we will see what remains in the manifesto. But it has also made discouraging noises with policies likely to hamper growth (see page 16), so the upshot may well be five more years of drift and decay. By then, perhaps, we will have had enough of cowboy builders, and finally be willing to gut the house and start again.

Andrew Van Sickle
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Book festivals' funding in doubt

Asset manager Baillie Gifford is in make-or-break talks with seven British literary festivals that it supports on whether it should continue to sponsor them, says Harriet Agnew in the Financial Times. The Hay Festival and Edinburgh International Book Festival have ended their partnerships. The Edinburgh-based firm, with £225bn of assets under management, came under fire from singer Charlotte Church, comedian Nish Kumar and activist group Fossil Free Books for its investments in fossil fuels and purported links to Israel. Baillie Gifford's literary patronage has spanned 20 years and includes the annual £50,000 prize for non-fiction. Festival organisers are now fretting over the future viability of their events. Baillie Gifford said "only 2%" of its clients' money is invested in companies related to fossil fuels and that the "assertion that we have significant amounts of money in the occupied Palestinian territories is offensively misleading" (see also page 22).

Cover illustration: Adam Stower. Photos: Alamy; Getty Images; Shutterstock

Good week for:

French footballer **Kylian Mbappé** is joining Spain's Champions League winners Real Madrid, where he will earn €15m a year in salary, rising to €20m, says Sky Sports. The 25-year-old will also receive a €85m signing-on bonus, spread over five years, and 80% of his image rights. Mbappé will leave Paris Saint-Germain in July.

James Kane and **Barbie Agostini** retrieved a safe from the bottom of a lake in New York, containing soggy $100 bills worth around $100,000, while magnet fishing, says The Guardian. The practice involves using high-powered magnets to trawl the bottom for metal objects. They can keep the cash as there was no crime connected to the money and no way of finding the original owner of the safe.

Bad week for:

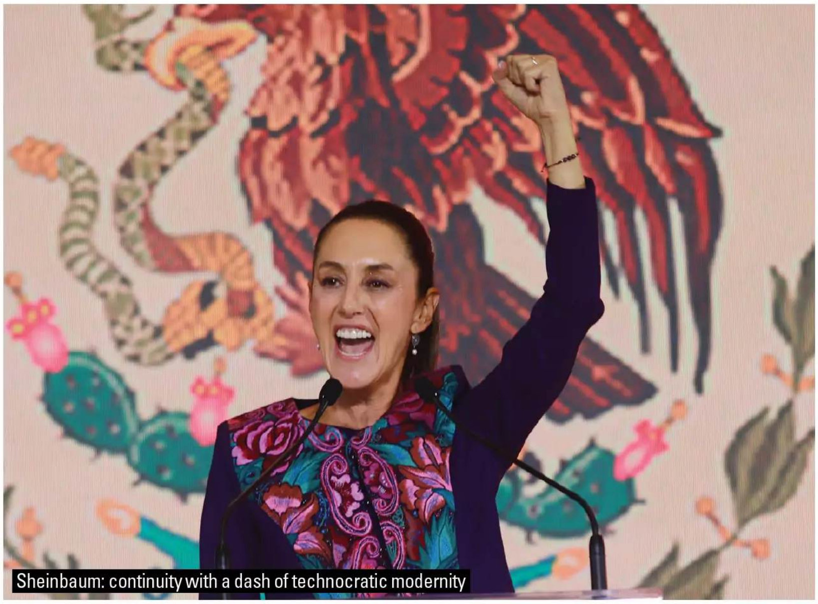
US singer and actress **Jennifer Lopez** (pictured) was "heartsick" at having to cancel her summer tour of 30 North American cities amid poor ticket sales. The *This Is Me... Now* tour would have been her first headlining tour in five years, says Forbes. The cancellation comes at a rough time for Lopez, with sluggish sales of her latest album and her $20m, self-financed film, *This Is Me... Now: A Love Story*, and latest Netflix venture, *Atlas*, both slated by critics.

Former Scottish health secretary **Michael Matheson** has been handed a 27-day suspension from Holyrood for racking up an £11,000 bill on a parliamentary iPad, says STV. Matheson will also have his salary docked for 54 days. He had tried to use parliamentary expenses to cover the bill, but later admitted it had been incurred by his children using the device to watch football while on holiday.

©Getty Images

Mexico's authoritarian turn

Alex Rankine
Markets editor



©Shutterstock

Sheinbaum: continuity with a dash of technocratic modernity

Left-winger Claudia Sheinbaum will be Mexico's next president after an electoral landslide. Sheinbaum secured between 58% and 60% of the vote in Sunday's presidential election, compared with about 28% for her main conservative rival. Sitting president Andrés Manuel López Obrador (known as AMLO) was prevented from seeking re-election by term limits, with Sheinbaum pledging to carry forward his political programme.

AMLO is hugely popular, but has had a fraught relationship with investors during his six-year term in power. Nevertheless, the country's IPC stock index has gained more than a fifth over the past five years, while economic growth has been creditable. That's not a bad showing given AMLO's background as "a self-proclaimed leftist revolutionary", says Barron's. While social spending has risen, he has avoided budget splurges for most of his presidency. Debt remains a reasonable 50% of GDP. Mexico has been the biggest winner of the US-China trade war, which has seen vehicle and electronics manufacturers scramble to relocate to America's southern neighbour.

AMLO's legacy might prove a poisoned chalice, says The Economist. Gang violence is rampant and corruption is as rife as ever. Yet Mexicans were sceptical that the opposition would do a better job, and many working-class and rural voters are "in thrall" to the charismatic AMLO and Morena, the governing party.

The end of the party?

Mexican markets have been in party mode, says Michael Stott in the Financial Times. Stock issuance tripled last year and corporate bond sales were the highest in eight years. Bulls argue Sheinbaum offers continuity with "a dash of technocratic modernity". But the Mexican "revellers" have been ignoring some rather "large elephants" in the room. Cartels now control an estimated third of the nation's territory, by one estimate, and public finances have weakened after AMLO ditched austerity to engage in a pre-election spending bonanza – the country is now running its highest fiscal deficit since 1988.

Mexico boasts "a rising middle class" and "enviable demographics, with a median age of 30", says Mary Anastasia O'Grady in The Wall Street Journal. But economic progress has come "despite AMLO, not because of him". His endless feuding with courts that blocked his orders has undermined the rule of law. Now Sheinbaum is championing reforms such as direct elections to the Supreme Court that could steamroller the last remaining opposition to Morena.

The ruling party also secured a two-thirds supermajority of the seats in the Mexican lower house and almost as many in the Senate, leaving it well-placed to pass constitutional amendments.

That prospect triggered an earthquake in Mexican markets on Monday, says John Authers on Bloomberg. The S&P Mexico Bolsa index plunged almost 10% in dollar terms, its third worst day in two decades. The sharp sell-off is "probably" an overreaction, but there's no doubt that the prospect of the Mexico taking an authoritarian turn is "terrifying" investors.

Opec is losing its price war

©Getty Images

Opec+ is to start pumping more oil

"The Opec+ [oil] cartel has all but thrown in the towel" on its dream of $100-a-barrel, says Javier Blas on Bloomberg. The oil producers' grouping, which is led by Saudi Arabia and Russia, has agreed to extend long-standing collective output curbs of 3.66 million barrels per day (mbpd) through next year. But additional voluntary cuts of 2.2mbpd by eight of its members will be gradually unwound, starting this coming October. Global oil demand is about 100mbpd, so that amounts to 2% of supply coming back onto the market.

Brent crude was trading at $76 a barrel on Tuesday, down 16% since the $91-a-barrel high for this year that it reached in early April. Opec's supply curbs aim to prevent a global oil glut and keep prices high, say Summer Said and Benoit Faucon in The Wall Street Journal. The decision to keep most of the cuts running threatens to "tip global oil markets into a supply deficit". That said, a soft global economy and "a context of rising output from… non-member producers" such as US shale and new producer Guyana is putting significant downwards pressure on prices.

Opec's task of holding prices "artificially high" is proving increasingly difficult, agrees Lex in the Financial Times. Opec is losing market share to producers outside the group. In the past it has responded to that problem by launching a "price war" – flooding the market with cheap crude to drive others out of business – but that looks to be off the table this time. US shale producers are far more efficient than they used to be, making them hard to dislodge with cheap prices.

Opec is still succeeding in keeping prices higher than they would be – Citi analysts estimate that the marginal global oil price sits somewhere around $50-$60 a barrel, well below the current level. But there are limits to the group's strategy, and the cartel "may be running out of road".

British housing in the doldrums

Despite high interest rates, the UK property market continues to hum. Lender Nationwide reports that house prices advanced by 0.4% in May, leaving the average house worth 1.3% more than a year before. The market has been surprisingly resilient given major "affordability pressures", says Nationwide's senior economist Andrew Harvey.

Confidence has "improved noticeably over the last few months, supported by solid wage gains and lower inflation". Average UK pay excluding bonuses rose by 6% in the first quarter of 2024 compared with a year before. That's a 1.9% rise in inflation-adjusted terms.

But mortgage rates have ticked up since the start of the year, says Zoe Wood in The Guardian. The average two-year fixed mortgage costs 5.92%, up from 5.56% in late January. In more bearish housing news, data from property firm Zoopla shows that Britain's supply of homes for sale is at an eight-year high.

There is a "glut of three- and four-bedroom family homes coming up for sale, after a chronic shortage of these types of properties during the pandemic", says Ed Magnus for This is Money. Prices "have been flat for a year and a half, with the slight increase in May leaving them in line with their January 2023 level," says Andrew Wishart of Capital Economics. The "big picture" is one of a stagnant market that is "waiting for interest-rate cuts".

FTSE stocks bounce back

"Britain's stockmarket might finally be shaking off years of underperformance," says Lucy Raitano on Reuters. The FTSE 100 has been left out of the "AI mania" gripping global markets, but enthusiasm over technology is starting to wane. The UK's blue-chip index made new record highs in May and is up by 7% so far this year, the same as the more domestically focused FTSE 250.

London's bias towards "old economy" sectors such as raw materials and banking have held it back in recent years, but that weakness is turning into a strength, says Bastien Bouchaud in Les Echos. Commodities are real assets and thus look attractive in a time of persistent inflation, while higher-for-longer interest rates will boost bank profits. Thanks to Shell and BP, energy accounts for roughly a fifth of all FTSE 100 profits. "A 10% rise in oil prices… translates into a two percentage point rise in FTSE-100 profit growth," says Lilia Peytavin of Goldman Sachs.

London has plenty of room to catch up: the FTSE 100 has gained 12.5% over the past five years, losing its position as Europe's dominant market to France's CAC 40, which is up 49% over the same period.

The prolonged uncertainty following the 2016 Brexit referendum prompted investors to attach "a higher risk premium to UK equities", Steve Magill of UBS Asset Management tells David Thorpe in FT Adviser. Global investors thought that UK assets were risky, so they were only willing to buy them at a discount. Yet calmer political waters in Britain (and more turbulent ones overseas) mean that the Brexit risk premium now looks to have disappeared.

©Getty Images

The UK's Brexit risk premium has disappeared

With an election date on the calendar, global fund managers are feeling increasingly positive about the UK, say Farah Elbahrawy and Naomi Tajitsu on Bloomberg. Investors appreciate certainty and there is little doubt about who will win the election; there is little difference between the two parties on macroeconomics in any case. UK stocks are paying twice the dividend available in many comparable markets, but "continue to trade near a record-low discount" to other developed markets.

Mid-cap magic

The FTSE 100 has done well recently, but the baton could yet pass to the mid and small caps of the FTSE 250. The pound has risen against most other large currencies this year. That's a headwind for the profits of FTSE 100 multinationals (which make much of their money in foreign currency), but good news for smaller, domestic companies, which find that their money goes further.

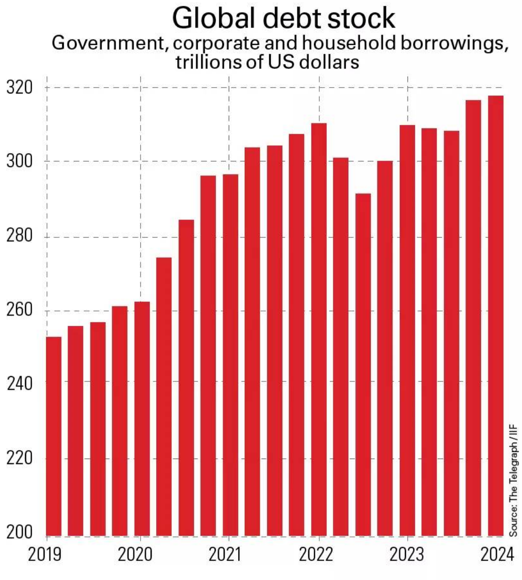
Small and mid caps are on big discounts to large caps, Rachel Winter of Killik & Co tells Christopher Johnson in Morningstar. In addition to a strong pound, they will also enjoy a boost from eventual interest-rate cuts and a (modestly) better outlook for the domestic economy. There looks to be "particular value" in UK "small and mid-cap opportunities".

Viewpoint

"In terms of the [government] debt load, to me, it's a future tax liability… [therefore] the debt burden is going to prove to be deflationary… as we've seen in many parts of the world before… debt is not inflationary. People who think that we can inflate our way out of it are totally mistaken. You can't inflate your way out of these debts because the inflation… attacks… the poor and attacks… the elderly, and the Fed [and other central banks] will resist it. There's no social appetite to having inflation eat away our debts… the debt [load]… is a deadweight drag on [economic] demand. It's actually one of the reasons why I think rates and inflation are going to be coming down. People have it half-assed backwards, they think that the debt is inflationary. No, I think the Japanese experience taught that debt at these levels is definitely disinflationary."

David Rosenberg, Rosenberg Research

■ The world's debt burden hits new high



Global debt surged to a new record high of $313trn last year, says the Institute of International Finance's Global Debt Monitor. As a share of GDP, world debt dipped by 2% to 330%, the third consecutive fall as economies recover from the pandemic. Globally, state debt is worth $89.9trn, 29% of the total outstanding debt stock. Non-financial corporate debt makes up 30% and household borrowings 19% (the financial sector accounts for the rest). Public finances are stretched after Covid and the 2022 energy crisis, says Tom Stevenson in The Telegraph. Nations thus have a vested interest in higher inflation to erode the real value of the debt – perhaps 4% a year instead of 2% (but see Viewpoint, left, for another perspective).

The Czech's in the post

Billionaire Daniel Kretinsky has bought the Royal Mail's parent company amid little political resistance. Can he deliver? Matthew Partridge reports

Last week, billionaire Daniel Kretinsky "confounded" the market by clinching a £5.3bn deal to take over London-listed International Distribution Services (IDS), the parent company of Royal Mail, says the Financial Times. In an attempt to "appease politicians and postal workers", Kretinsky's EP Group has committed to protecting key principles at IDS during the first five years of ownership. Binding commitments include "keeping its UK tax residency, maintaining Royal Mail's costly obligation to deliver mail everywhere in the UK at the same price and recognising the postal workers' union", as well as restrictions on separating Royal Mail from IDS's profitable parcels business.

It's too soon to relax, says Phillip Inman in The Guardian. Whatever he says, "everything about the 500-year-old institution could now be at risk". The "string of commitments" he has made will be "vulnerable to renegotiation after just a few years". His pledges relating to brand identity, headquarters and tax residency will only last for five years, and his promise not to break up the company and maintain the same benefits for staff will have an even shorter lifespan. What's more, the government will have little leverage in future negotiations, given that Kretinsky is likely to use the "debt pile" he is financing the deal with as a "poison pill" to pre-empt future nationalisation.

A dangerous, highly geared takeover

The "eye-watering" amount of debt that the Czech tycoon will be taking on should be enough to "ring alarm bells from Royal Mail's headquarters in Clerkenwell right across the City and all the way to Westminster", says Ben Marlow in The Telegraph. Two-thirds of the £3.5bn in cash that EP Group is paying will be borrowed from a syndicate of banks. With interest rates at a 16-year high, and Royal Mail already carrying £1.7bn of debt, the group is in for "the sort of highly geared takeover that has imperilled many household names".


©Shutterstock
The tycoon has tried to appease politicians and postal workers

Despite all the potential problems, along with objections from some shareholders over the price, the political response so far has been surprisingly "muted", says Alistair Osborne in The Times. There was "barely a peep" from the Tories, while the shadow business secretary Jonathan Reynolds issued an "anodyne statement" simply saying that Labour would hold the tycoon to his promises. Given that the UK "will get only one chance to sell a business with the King's head on it to a foreign billionaire, it would be nice if we didn't do it half-asleep".

Investors "aren't totally sure the deal will succeed", says Yawen Chen on Breakingviews: IDS's share price "is about one-tenth below the offer". Yet a "big chunk" of the discount simply reflects "the anticipated delay until investors get the money", rather than fears that it will be blocked outright. With implicit "political support" from both major parties, the takeover seems set to show "that there are exceptions to the prevailing nationalist anti-mergers and acquisitions mood".

Heartburn drug causes a headache

Pharmaceutical giant GSK has suffered a "significant setback in its costly legal battle over Zantac", say Emma Powell and Alex Ralph in The Times. A court in Delaware has ruled that experts can testify on behalf of just under 70,000 plaintiffs who insist that the heartburn treatment gave them cancer.

The decision exposes the group to risky jury trials after victories in other US courts. The fall leaves GSK's shares more than a quarter lower than in July 2022, when investors started to sell them off owing to fears about "potential multibillion-pound liabilities stemming from a wave of lawsuits".

The financial implications of successful Zantac lawsuits could be "enormous", says Jess Jones in City AM. Shore Capital recently estimated that the overall legal risk has knocked $30bn off the value of GSK's shares. Product liability lawsuits in the US can cost huge amounts of money: Bayer has set aside $16bn to resolve lawsuits over its weedkiller Roundup. But analysts at both Citi and Redburn both estimate that GSK will be able to settle for a "far smaller" amount than the markets are pricing in.

The market's reaction to GSK's setback "looks exaggerated", especially as it has been "difficult to prove the link to cancer by synchronising the illness with the period of the individual's drug use", says Yawen Chen on Breakingviews.

Nevertheless, even if the direct financial hit isn't as painful as the market is expecting, the Delaware ruling may prove to be a "distraction" from GSK's planned "reset". An appeal by the pharma giant could take eight to ten "focus-diverting months", while any fine "would take a bite out of profitability". Furthermore, while the company says "its capital spending plans are unaffected by the ruling", anything that affects CEO Emma Walmsley's "ambitious" pipeline of 12 new drugs would be a "downer".

BHP: three strikes and out

Anglo American "has survived" a near-£39bn takeover attempt by Australian mining rival BHP, say Jillian Ambrose and Jane Croft in the Guardian. The five-week pursuit came to an end after Anglo's board rejected BHP's eleventh-hour appeal to extend the takeover talks for a second time following three failed offers. The managers criticised the "highly complex and unattractive structure" of the proposed deal.

The main sticking point was BHP's plans to sell off some of Anglo's South African business interests as part of the takeover. These were opposed by the South African government, Anglo's largest shareholder, making rejection all but inevitable. Anglo-American's CEO Duncan Wanblad "may have seen off a rival three times his company's size", but he still had to convince investors "that he can deliver what he has promised will be a radical restructuring", says Emma Powell in The Times. He has promised to "strip back the business and focus more heavily on the copper assets that Mike Henry, the BHP boss, had set his sights on".

This will involve selling off the metallurgical coal division, the South African-based Amplats platinum unit and De Beers, the diamond company. But uncertainty hangs over "whether Anglo will achieve the sales and spin-offs according to the timeline that has been laid out, while also releasing enough value to satisfy shareholders".

If Wanblad doesn't deliver in the next six years, BHP may simply "come back", says Stephen Wilmot in The Wall Street Journal. In that case, "Anglo's defence that it can do a better job managing the breakup will carry less water". What's more, with investors' expectations "irrevocably raised", another big miner may approach Anglo with an offer.

One possibility is Glencore, given its record of dealmaking. It is now an integrated miner and commodity trader deemed "a rare success in the sector". BHP's takeover attempt reflects the "scramble for new commodities... as big miners contemplate [deals] again after a long period of capital discipline".

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

Four to buy

IAG
The Telegraph
British Airways' parent company IAG's strong financial performance, decreasing debt, and "dirt-cheap" valuation make it a compelling long-term investment. The positive first-quarter results, notably increased operating profits and passenger numbers, reflect improving conditions in the overall industry. With global demand from passengers on the rise and interest-rate cuts looming, IAG's solid fundamentals and growth potential suggest significant progress. "Irrespective of any positive or negative personal feelings towards British Airways… IAG remains a worthwhile long-term investment." *174p*

Impax Environmental Markets
The Mail on Sunday
Impax invests in environmentally focused small and medium-sized firms, from hazardous waste treatment in the US to reusable pallets in Australia. It "combines green credentials with hard-nosed commercial nous". It should benefit from increasing support for green initiatives from governments, investors, and consumers. Notable investments include DSM-Firmenich, which has created a digestion aid for cattle that reduces methane emissions. The shares are a "bargain". *396p*

Moneysupermarket
The Sunday Times
Moneysupermarket, which receives a fixed fee when a product is sold, has seen a decline in sales as car insurance premiums have stabilised. But slowing revenue streams are not new; the firm has been battered by volatile household energy bills, and the "gloom" seems priced in. The stock is on a low earnings multiple with a 6% dividend yield. The group has seen growth in its SuperSaveClub loyalty scheme and is broadening its market share through acquisitions and offering price-comparison services to third-party brands. It's "good value." *222p*

CVS Group
Shares
Veterinary services company CVS Group is being investigated by the Competition and Markets Authority for potential unfair practices in the pet-care market. The regulator is concerned about high medicine prices and thinks large companies are hampering competition. Despite this, CVS's shares rose following the announcement, suggesting that the market has priced in "most, if not all, the bad news". With shares trading far below their 2021 peak and a low price/earnings (p/e) ratio, CVS presents an attractive opportunity for long-term

investors. It aims to double earnings over the next five years through organic growth and acquisitions, particularly in Australia and the UK. CVS has a "strong record of growth" and is "conservatively financed." *1,154p*

One to sell

Wizz Air
Investors' Chronicle
Wizz Air has just reported its first annual pre-tax profit in four years. But the company faces capacity constraints as engine maker Pratt & Whitney has grounded 50 of its aeroplanes to check for engine problems. Although Wizz Air will take delivery of 21 new aeroplanes this year, capacity is expected to be flat. While the company's guidance of a full-year net profit exceeds analysts' expectations, concerns remain about its longer-term prospects, weak balance sheet, and delivery of 70 new aeroplanes next year. "There are more attractive opportunities elsewhere in the sector." *2,272p*

…and the rest

Shares
SharkNinja designs household appliances, from smart vacuum cleaners to barbecues. The stock has soared by 50% since December thanks to strong sales growth and raised guidance. The US firm's expansion plans and former England captain David Beckham (pictured) becoming a brand ambassador signal further potential. Stable margins support growth and a higher valuation. "Hold on to the stock for dear life." *($75)*

The Telegraph
Potential interest-rate cuts could be a boon to real-estate investment trusts such as **Shaftesbury Capital** and its portfolio of prime London properties. Despite concerns about the impact of Covid and changing work and retail trends, the stock is "cheap". Lower rates reduce borrowing costs, bolster Reits' profits, and make their dividend yields more attractive. They also boost economic activity, raising commercial real-estate values. Buy *(142p)*.

The Sunday Times
Norcros, one of Britain's biggest suppliers of bathroom products, has seen its stock drop owing to decreased home renovations. But Norcros is a well run and diverse business across countries, products, and price ranges. "When the housebuilders and DIYers... pick up tools again," it is poised to benefit. It's a long-term buy *(217p)*.

Investors' Chronicle
Budget carrier **easyJet's** new CEO Kenton Jarvis will not rock the boat, but softening demand and the group's less bullish tone compared with rivals "highlights a risk". Lower ticket yields could affect earnings. With shares trading higher, "bank profits". Hold *(460p)*.

A German view

Germany's state railway group Deutsche Bahn is investing €16bn in revamping its rail network this year, says Wirtschaftswoche. This bodes well for rail infrastructure and technology group Vossloh, which has secured a contract to provide Deutsche Bahn with at least 600 switches and carry out high-speed grinding on several key routes to improve the track. Vossloh's order book is worth €800m, or 1.3 times sales. Contracts in Denmark and China have been secured, while the buoyant global rail industry looks likely to ensure that the targeted €1.2bn of revenue will be surpassed this year. Next year net income could well reach €60m, a figure last achieved in 2015 – when the stock was a third higher.

IPO watch

Italian luxury sportswear brand Golden Goose is to list on the Milan Stock Exchange in June with a valuation of about €3bn, says the Financial Times. The company plans to float approximately 25% of the company, raising €100m, while selling an unspecified number of existing shares, to strengthen its capital structure and reduce debt. Owned by British private-equity firm Permira, Golden Goose is famous for its €500 "distressed" trainers and is popular with celebrities such as Selena Gomez. The initial public offering (IPO) is "one of the most anticipated in Europe", despite demand for luxury goods slowing down. Golden Goose achieved sales of €587m in 2023.

A reassuringly boring election

After years of chaos, a dull campaign might be just the tonic we need. Emily Hohler reports


©Shutterstock
The leaders' debate: could not succeed vs could not fail

"Keir Starmer is still going to be prime minister – the ITV debate didn't change that," says Tim Stanley in The Telegraph. "But now we know he's going to be a bad one. Nervy, shouty, easily flummoxed, he insisted that being a nurse was 'in my DNA' and appeared to claim responsibility for stopping a terrorist attack on several planes." It was "fair enough" to talk about the government's failures and he often sounded like a Conservative, "which is wise", but as Rishi Sunak "hammered home, there's a troubling absence of any "positive agenda for the country". Sunak also came off as "weird", but he was "briefed to hit Starmer on tax and did it well, to the point that I'm now certain a Labour government will cost the average Briton £2,000 in tax (so long as the average Briton has Qatari citizenship, sends their boys to Eton and owns British Gas)".

"In a sense Sunak could not succeed, and Starmer could not fail," says Matthew Parris in The Times. British voters are fed up with the current government and many see Sunak as a prime minister who has "failed to turn things around, and who scarcely deserves even their attention. Nor are they greatly interested in his challenger", who is heading to Number 10, however he performed.

Enter Farage stage right

The Tories so far have "campaigned as they have governed", says The Economist. They have been fractious, inconsistent and insular. Sunak's most "eye-catching proposal" is the introduction of a form of national service. Their main goal seems to be to "fend off Reform UK" and shore up support "among pampered older voters". Election campaigns are supposed to "stress-test candidates and parties", but since the Tories seem "incapable of providing proper competition", Labour can "afford to remain worryingly opaque". It can, says Philip Johnston in The Telegraph. The YouGov MRP projection on Monday implies Starmer will enter Downing Street with a "historic majority" of 194, with the Tories hanging on to just 140 seats.

Nigel Farage, who dramatically re-emerged into the "political limelight" with his announcement that he would stand as the Reform candidate in Clacton a mere week after ruling out playing a central role, argues that Reform can "supplant the Tories as the main opposition party". Has he really got the "personal magnetism" to push the party's vote up from around 11% to the 20% or more it would need to overtake the Conservatives, the "oldest and most resilient political movement in the world"?

Farage's activities will be "dismissed by the Tories as the cavortings of a fringe political narcissist", says The Times, but he could nevertheless "inflict serious damage" on the party. At his "surprise" press conference on Monday, he "laid into" Sunak and Starmer for "presiding over the most boring general election in modern times. Boring because both parties had surrendered to mass immigration, high taxes, falling living standards and endemic crime. The public, he said, had zoned out".

Farage is "undeniably a fantastic communicator", says Daniel Finkelstein in The Times. But the Reform Party is a "laughable concoction", with its "vast promises" to cut taxes while increasing public spending, and insistence that "clearly illegal" immigration procedures are "not illegal". The last ten years have been "chaotic", with five prime ministers and a Labour Party that "elected a Marxist as its leader who referred to Hamas as 'friends' and refused to resign when he lost the confidence of the vast majority of his MPs". We've had "years of turbulence and politics as entertainment". Britain is a country that "desperately needs something boring to happen. Let's make sure that it does".


©Getty Images
Zuma may end up kingmaker

Victory for democracy in South Africa

The African National Congress took a "pounding" in last week's election in South Africa, "crashing from 57% to 40% of the vote", says Alec Russell in the Financial Times. Since the ANC took charge at the end of white rule 30 years ago, it has become "so corroded" that "just about anything it touches seems to wither away". By accepting this election result, it has bequeathed "something of incalculable value to South Africa... Voters in Zimbabwe, Angola and other countries living under the dead hand of effective one-party rule will look on with envy". What happens next is critical. A coalition with the uMkhonto we Sizwe (MK) party of disgraced former president Jacob Zuma and/or the Economic Freedom Fighters, "a rag-bag of race-baiters and would-be expropriators fond of spouting Marxist-Leninist claptrap", would be a "calamity".

So far, the signs are encouraging, say Rob Rose and David Pilling, also in the FT. According to an internal draft discussion document, written by a senior ANC official, the ANC's "preferred option" is a "confidence and supply agreement" with the Democratic Alliance (DA) and Inkatha Freedom party (IFP), who would agree to back the ANC on critical votes. There are big obstacles, however. Gayton McKenzie, president of the Patriotic Alliance, who has been involved in talks, says that half the ANC membership would view a deal with DA as selling out and defect to MK, making Zuma the "most powerful person" in South Africa.

A coalition with the pro-market DA would represent a "very different direction", says The Telegraph. Over the last decade, South Africa's murder rate has risen 40%, economic growth has stagnated, blackouts are common and it has the highest unemployment rate in the world. After a decade of misrule, we must hope South Africa seizes this opportunity.

India cuts Modi down to size

The PM has suffered a big political setback. Matthew Partridge reports

Modi: the brand is dimmed

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Voters in India have given prime minister Narendra Modi his "biggest political setback in his decade of power", delivering a split result in the country's general election, says the Financial Times. In an "unexpected blow", Modi's BJP party lost its majority for the first time since 2014, winning only 240 out of 543 seats in India's lower house, down 63 from five years ago. In contrast, the opposition INDIA bloc, led by the Indian National Congress, performed better than expected, winning 234 seats. Modi plans to form a government with smaller parties in his National Democratic Alliance.

Where are the results?

So much for the BJP's "confident swagger" at the start of the campaign that it would win 400 seats, says Hannah Ellis-Petersen in The Guardian. Pundits too considered Modi's return to power with a majority "as almost an inevitability", with exit polls projecting a BJP landslide. The opposition seemed to have captured "widespread frustrations" among the masses – particularly in poorer rural areas – at "chronic unemployment, low wages and high inflation". In contrast, the BJP's "increasingly polarised messaging seeking to play on Hindu-Muslim divisions" seems to have failed to distract from the "government's failure to create quality jobs, particularly for the vast youth population".

It's not surprising Indians are wondering "where the results are", says The Wall Street Journal. While India officially grew by 8% in the last fiscal year, private consumption and investment are much lower and national unemployment is 8%, rising to 17% in cities – poor results given India's "natural advantages". Worse, rather than offering voters "a vision for escaping this malaise", Modi instead "touted various handouts such as food subsidies introduced during the pandemic". Still, while voters have shown that they want him to "do better", the question now will be "whether Modi takes this election warning to heart, or retreats into even more sectarian and authoritarian methods".

New lease of life for democracy

There is a "danger" that Modi will double down on his more authoritarian tendencies and amplify his polarising rhetoric, says The Economist. Still, the fear that India "might inexorably evolve towards a more autocratic form of government has receded" given that the BJP failed to win enough seats to ram through constitutional changes and the opposition parties have been given "a new lease of life", with debate and dissent "reinvigorated". Modi's "dimmed" personal brand makes the idea of him ruling for another ten years seem far less likely.

Modi is "confident" he will be able to negotiate a deal to keep him in power, claiming that his alliance still has a "mandate" to govern, but even this is not a total certainty, says Bloomberg. While the BJP-led coalition has "secured enough seats to form a government if it sticks together", leaders of the two small "kingmaker" parties within it that Modi will need to woo "have a history of switching sides". They are already being courted by the opposition, which is even open to one of them becoming prime minister. Agreeing the terms of a deal "may not be straightforward" – Modi may yet face a "reckoning" and have to make concessions.

Donald Trump bounces back from court verdict

©Getty Images

Until last week, no previous US president, serving or retired, had been found guilty of a crime, says The Observer. Former president Donald Trump broke that record when, despite his attempts to discredit the criminal justice system, a jury unanimously convicted him for "manipulating" the 2016 election by falsifying business records to cover up "a sex scandal that threatened his chances". With Trump due to be sentenced in July, he could in theory end up having to campaign for the presidency from prison, though his age and the appeal process mean he is unlikely to be jailed immediately.

The case always looked like a stretch, says The Wall Street Journal. The statute of limitations had expired on the charge of records falsification, so the prosecution was forced to construct a "bizarre turducken, with alleged crimes stuffed inside other crimes", to make their case. There a good chance that this "Russian doll" will be overturned on appeal, but even if upheld it sets a worrying precedent of using legal cases for political ends – something Trump may himself try later on.

The verdict won't have done his political chances any harm, says Frank Luntz in the Financial Times. Trump enjoyed his best online fundraising day in the 24 hours after the verdict, taking in $53m in campaign donations.

Focus groups of swing voters, while agreeing that Trump was guilty, didn't seem to care, considering his behaviour to be par for the course for businessmen. They did, however, condemn the Biden administration "for weaponising the courts and the legal system". It looks like Trump's "loudest critics" have provided the "ammunition" for his comeback.

Betting on politics

The UK general election campaign is now well under way (see previous page), and punters think that Labour is almost certain to win the most seats. Indeed, with £5.8m matched on Betfair, Labour is at just 1.03 (97.1%) to get the most seats, with the Conservatives at 46 (2.2%).

It's a similar story with the overall outcome – with a total of £4m matched, Labour is at 1.07 (93.5%) to get an overall majority, with no overall majority at 18.5 (5.4%) and a Tory majority at 55 (1.9%).

I've already backed Labour to win both the most seats and an overall majority, and I would be truly shocked if I lost either bet, not only due to the huge Labour poll leads, but because of the general public mood.

However, I have a rule of not tipping bets where the odds are shorter than 1.1, so even if you haven't already bet, it's now too late. Instead, I would suggest turning to some of the side markets.

Despite the re-emergence of Nigel Farage as Reform's leader, I think enough of the core Conservative vote will show up to keep them as the second largest party. I would therefore take Betfair's 1.14 (87.7%) on the Conservatives getting more votes than Farage, as well as the 1.14 on offer from Betfair on the Conservatives getting the most seats after Labour. Finally, I'd also tip the Conservatives getting more than 141 seats at 3.6 (27.7%).

Bet 365 is also offering bets on individual constituencies. While it's surprisingly hard to find much value, I'm going to recommend Labour holding Sheffield Hallam at 1/5 (83.3%). The Conservatives should comfortably hold Sevenoaks at 3/10 (76.9%). I'm also going to tip Labour winning in Eltham and Chislehurst at 1/10 (90.9%), Hartlepool at 1/5 (83.3%) and Brighton Pavilion at 7/4 (36.3%).

London

Rights issue: Utility firm National Grid has launched a £7bn rights issue, allowing shareholders to buy seven new shares at 645p – a 35% discount to the theoretical share price after adjusting for the dilution – for every 24 already held. The deadline to take up the rights is 11am on 10 June. "Its dash for cash is for a good cause," says Lex in the Financial Times. "Electricity grids are one of the major bottlenecks of the energy transition." The firm is investing £60bn between 2025 and 2029 to upgrade its network, almost twice as much as in the four years to 2024. But then, demand for electricity in Britain is set to double by 2050. "With this sort of opportunity ahead, National Grid does not want to find itself counting nickels and dimes."

The real question is why it doesn't instead cut back on its annual £2bn dividend, says Chris Hughes on Bloomberg. The rights issue is costing it £165m in underwriting fees. The answer has to do with the 6% yield. Many of its shareholders are income funds and "a big cut to the payout would risk sending them running for the hills". After the dilution on 12 June, the dividend per share will fall 15% – "as much pain as the owners can tolerate". "The situation is a reminder of the challenges facing any high-dividend 'income stock' that could potentially reinvent itself as a growth play."

San Francisco

Salesforce sells off: Shares in Salesforce fell 20% in one day, wiping about $50bn of its market value, after the software company fell short of revenue expectations for the first time since 2006 and issued a profit warning, says Reuters. Salesforce, founded and run by Marc Benioff (pictured), is one of the biggest and most influential software businesses in Silicon Valley. But it has been hit by cooling demand from customers and major deals taking longer to close. The company said revenue would be about $9.2bn-$9.3bn in the second quarter, which ends on 31 July, compared with about $9.4bn expected by analysts. The deals are also getting smaller, which is bad news considering tech giant Microsoft is rapidly expanding its cloud business thanks to demand for its generative artificial-intelligence (AI) services, says Dan Gallagher in The Wall Street Journal. But Salesforce is far from being an outlier. Other software providers, such as Workday, are also trimming guidance as firms invest more in generative AI. Salesforce has already started to sell its Einstein Copilot sales and customer-service assistant, and AI features such as conversation summaries and daily recaps will soon become available on its Slack messaging service. "Cloud software companies will eventually have to show that AI can make it rain for them, too."

Houston

Consolidation continues: US oil giant ConocoPhillips has agreed to buy Marathon Oil for $17.1bn to bolster its position in several key US shale basins, say Dean Seal and Benoît Morenne in The Wall Street Journal. The deal has an enterprise value of $22.5bn, including $5.4bn of debt and it is expected to close in the fourth quarter, subject to shareholders' and regulatory approval. Marathon's assets sit near existing Conoco wells in the Bakken and Eagle Ford basins in North Dakota and Texas, respectively. The company expects to make cost savings of $500m within the first full year of ownership.

There has been a wave of consolidation across the US oil patch recently, with rivals Exxon Mobil, Chevron, Occidental Petroleum, and Diamondback Energy shoring up their oil and gas assets in deals worth a combined $150bn, which were mostly focused on the Permian Basin in West Texas and New Mexico. The Marathon deal, despite its size, is not transformative for Conoco as it doesn't lengthen inventory life and it doesn't give Conoco substantial exposure to new frontiers, says Jinjoo Lee in the same paper. But it does give Conoco substantial free cash flow. Conoco's acquisition probably marks a new phase of dealmaking where big companies buy smaller shale producers now that the most attractive assets have been captured. Demand for oil has probably also peaked for now and colidation helps to cut costs, says Robert Cyran on Breakingviews. Next time, it could be Conoco that becomes the target.

The way we live now... when holidays become sick days

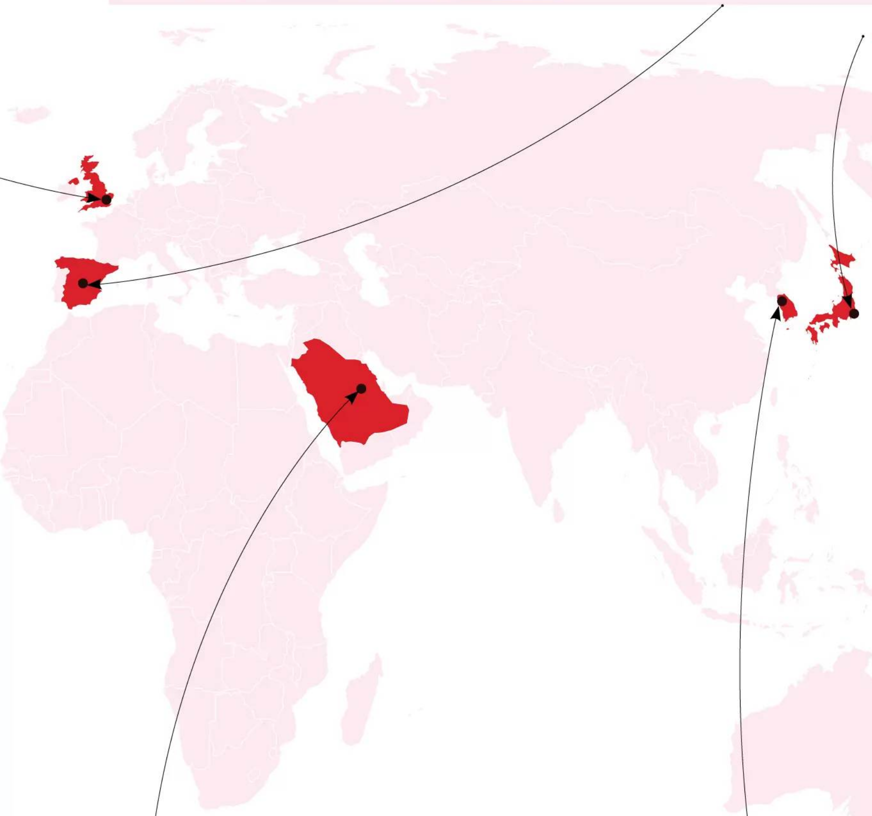
Relaxing comes at a cost

Belgium has introduced a law allowing workers to recover holiday days they spent sick, says Bruno Waterfield in The Times. Known as "leisure sickness syndrome", more than one in four Belgians fell ill while on holiday last year. Since the beginning of 2024, workers in Belgium, as in Britain, can present a medical certificate to retrieve their lost leave, a rule that has been in effect in the EU since 2012. Research shows that about 50% of workers fall sick during the "decompression of the first few days" on holiday, as "we fall ill more easily when we relax", explains Lode Godderis, a professor of occupational medicine. A study by Protime, a Belgian employment services company, showed that 27% of employees were sick during their holidays, with a higher percentage among women due to occupational risks and additional responsibilities in their private lives. On average, five days of leave are lost annually due to illness. Another study found that the number of employees with psychological complaints has increased by 80% over the past five years, owing to the post-pandemic trend of remote working and constant availability through smartphones.

©Getty Images
Hackers stole customers' data

Madrid

Banking group hacked: ShinyHunters, a notorious group of hackers, has posted an advertisement on a hacking forum attempting to sell what it claims is "confidential information belonging to millions of Santander staff and customers," says Joe Tidy on BBC News. The gang also claimed responsibility for hacking Ticketmaster last month. Researchers at Dark Web Informer, which spotted the advertisement, say the data for sale includes 30 million people's bank account details, six million account numbers and balances, and 28 million credit-card numbers, says Mike Sheen on This is Money. Access to Santander's database is reportedly available for $2m. The Madrid-based bank with branches in Britain didn't immediately comment on the accuracy of the claims, but it did admit that on 14 May it became aware of an "unauthorised access" to a database relating to customers of Santander Chile, Spain and Uruguay, reassuring customers that it had "immediately implemented measures to contain the incident" and that the affected database did not contain "any credentials that would allow transactions to take place". Both breaches relate to a "major ongoing hack of a large cloud-storage company called Snowflake", Hudson Rock, a cyber-security firm, has claimed. However, some experts say ShinyHunters' claims should be "treated with caution", as they may be inflated.



Tokyo

Testing scandal: Toyota's headquarters were raided by Japan's transport ministry in relation to a scandal involving faulty safety data, says Annabelle Liang on BBC News. A government investigation found issues with Toyota, Honda, Mazda, Suzuki, and Yamaha Motor related to certification applications and included issues with pedestrian safety tests and engine control software. The probe was triggered by a string of improper testing incidents that hit Toyota subsidiaries, including Daihatsu Motor. Akio Toyoda (pictured), chairman of the world's largest carmaker, issued his second public apology this year, says the Financial Times. Although the companies stated that the faulty data did not compromise the safety of their cars, several models had shipments and sales suspended in Japan. The widening scandal is expected to increase pressure for governance reform at Toyota, with the world's two most influential proxy advisers, ISS and Glass Lewis, recommending a vote against the reappointment of Toyoda, despite the company posting a record profit for the year to March, driven by hybrid car sales. "There is a limit to how often a company can pledge to tighten oversight before it loses credibility with investors and customers alike," says Lex in the same paper.

Riyadh

Aramco sells more shares: Saudi Arabia aims to raise $12bn from a secondary placement of its shares in Saudi Aramco, equivalent to 0.64% of the state-owned oil company, to fund ambitious plans to diversify away from oil. Its $30bn initial public offering took place in 2019. Aramco's long-held task of containing supply to keep prices high could be a "double whammy for the company's attractiveness relative to the broader oil sector", says Lex in the Financial Times. The $1.9trn firm holds the largest proven oil reserves and produces nine million barrels per day, contributing to a significant portion of the world's oil production. Aramco plans on spending $48bn-$58bn this year on making its energy production more sustainable, investing in cleaner oil-extraction methods, reducing methane emissions, increasing natural-gas production, and investing in liquefied natural-gas projects and petrochemicals. It has also set its sights on solar and wind generation thanks to its hot deserts with strong winds. "None of these green bets is a guaranteed winner," says The Economist. Many of Aramco's decarbonisation plans are designed to keep the world using its products. But given the level of investment in non-oil areas, Saudi Arabia's strategy cannot be dismissed as mere "window dressing".

Seoul

Closing the gap: Chipmaker Nvidia is looking at high-bandwidth memory (HBM) chips from South Korean tech giant Samsung and Micron Technology, which are designed to work in tandem with its artificial intelligence (AI) accelerators, say Vlad Savov and Jane Lanhee Lee on Bloomberg. HBMs are essential to training AI platforms, such as ChatGPT, but Nvidia is currently reliant on SK Hynix as its sole supplier. That presents an opportunity for Samsung, which has "fallen well behind" its smaller domestic rival. However, there is still "engineering" work to be done to Samsung's chips before Nvidia could approve them, said Nvidia's boss Jensen Huang (pictured). SK Hynix is enjoying its fastest revenue growth since 2010, but it has struggled to keep up with demand. Both SK Hynix and Samsung plan to expand production capacity.

Meanwhile, US chipmaker Intel has agreed to sell a 49% stake to Apollo Global Management in a venture that controls a manufacturing facility in Ireland for $11bn. Intel will use the money for a "massive expansion" of its factory network.

Labour's plans for tax and growth

Despite election-time wranglings, Labour's current policies look little different from the Conservatives'. So is big change really coming? Simon Wilson reports


©Getty Images
Starmer and Reeves: on the brink of power, but to what end?

Will there be massive tax hikes?

Not to the extent of raising them by £2,094 per family, in any case. That tendentious claim was at the centre of the first meaty row of the election campaign this week, when Rishi Sunak repeatedly levelled it at Keir Starmer in their first TV debate (see page 10). The Labour leader branded it "absolute garbage". The disputed figure is based on a putative price tag of £38bn over four years for specific Labour policies, and became the subject of a typical election-time row. But in reality Labour's plans are very similar to those of the Conservatives.

How so?

Just like Sunak and Hunt, Labour has ruled out any increases to rates of personal income tax, national insurance, VAT or corporation tax in the next parliament. Labour is even committed to the Tories' policy of keeping income-tax thresholds frozen until 2028 – completing Sunak's plan for the biggest stealth tax increase in history: bringing 3.7 million more people into the income-tax system, creating 2.7 million more higher-rate taxpayers and putting 600,000 more into the top 45% rate of tax. According to the Office for Budget Responsibility, the fiscal drag effect means the Treasury will be pulling in an extra £33.6bn a year, every year, by 2028 – roughly equivalent to putting 5p on the basic rate of income tax. That might be a genuine attack line for Sunak were it not a continuation of his own policy.

What else will Labour do?

The party has ruled out any new form of wealth tax. But it has committed to some specific tax rises, including the levying of VAT on private-school fees for the first time, a further tightening of non-dom tax rules, and a pledge to close the "carried interest loophole" on private-equity bonuses. Rachel Reeves, poised to be the first woman to hold the office of Chancellor of the Exchequer, has also promised to publish a "business tax road map" covering the whole term of the parliament within the first six months of taking power. Reeves has ruled out any "emergency budget" on taking power, and instead will wait until the completion of a comprehensive spending review in the autumn before making major spending commitments. But the reality is that the review is unlikely to bear much resemblance to either party's current plans.

> *"Investors should not expect any sudden shocks following a Labour victory"*

Why's that?

Because the UK's public finances are approaching a crunch point, according to both the IMF and the Institute for Fiscal Studies. Last month, the IMF projected a funding gap of roughly £30bn in 2025-2026 – implying big real-terms cuts in spending without higher taxes or borrowing. As yet, neither party is facing up to that, and instead are squabbling over relatively small differences – such as whether the pensions triple-lock should be made even more generous (as the Tories propose). The Conservatives, who have presided over the highest tax burden for 70 years, are "enthusiastic co-conspirators in this fiscal charade", says Robert Colville in The Sunday Times. Both parties are pretending that ending non-dom status will "bring revenue flooding into the Treasury, rather than leading to an exodus of international investors". But it's Labour that is "going to form the next government. And at the moment, the figures it's throwing around bear precious little relation to the likely reality." In a recent poll, 56% of voters said that they expected their taxes to go up if Starmer wins. "Which suggests the other 44% haven't been paying enough attention."

What about its "fiscal rules"?

Again, Labour will adopt the current government's fiscal rule requiring public debt to be falling as a proportion of GDP at the end of a rolling five-year forecast. That's designed to reassure voters, but it will constrain Labour's choices in office, says the IFS's Helen Miller in the Financial Times, while ruling out specific rises will severely limit its options for broader tax reforms. When it comes to macroeconomics, too, Labour's prospectus is "characterised by conspicuous continuity", says Felix Martin on Breakingviews. Reeves won't tinker with the Bank of England's independence, nor its 2% inflation target. "Her sole flirtation with novelty is a pledge to add fighting climate change as a supplementary objective" – and even that has its roots in a tweak made by Sunak as chancellor in 2021. So similar are the parties' plans, indeed, that some analysts now refer to "Heevesianism" – a broad Hunt-Reeves, Tory-Labour, economic consensus.

Why so cautious?

Labour's positioning is an odd mix of promised "change" – its one word slogan – and cautious continuity. Inevitably, then, it's going to disappoint at least part of its electoral coalition. My hunch, says Felix Martin, is that investors should not expect any sudden shocks or policy reversals in the wake of a Labour victory. A sense of greater steadiness will be welcome after the upheavals wreaked by successive Tory governments. But in the medium run, Labour's hope that sticking to the current approach and hoping that higher growth will bail them out is likely to lead to fiscal and macroeconomic turbulence.

Labour will be under pressure from its core supporters to increase spending, says Julian Jessop on CapX. And Reeves's plans to reduce her own room for manoeuvre – with a tougher fiscal rule of balancing the current budget, and handing more oversight to the Office for Budget Responsibility – look unwise and unnecessary. Meanwhile, Labour's "plan for growth" includes some sensible (and cost-effective) proposals, notably planning reform. But it also includes several others that will "dampen growth, including clunky interventions in the labour market and the umpteenth iteration of a failed 'industrial strategy'". Without growth, Labour's tax headaches will get all the more painful – and the political fruits of continued stagnation are likely to be bitter indeed.

Things can always get worse

The socialists haven't even taken power yet, but the ill effects of their policies are already being felt

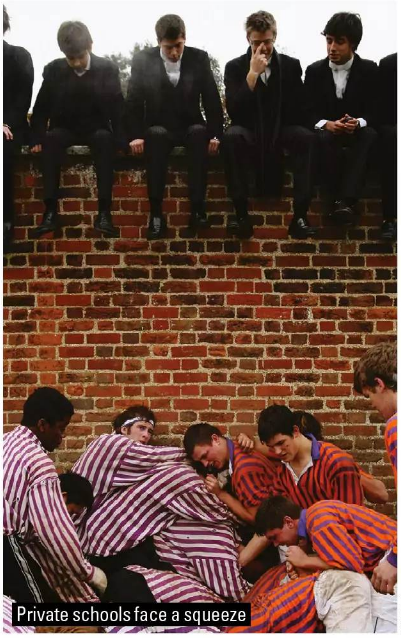
Matthew Lynn
City columnist

Labour leader Keir Starmer and his shadow chancellor Rachel Reeves spend a lot of time trying to reassure everyone that they will not push taxes any higher. They have already guaranteed not to raise the rate of income tax, of corporation tax, or of VAT over the lifetime of the next Parliament. Given that the Conservatives made the same promises back in 2019, and then raised taxes to a 70-year high, most voters will probably take that with a large pinch of salt. And even if the party is not planning to raise those three taxes, that doesn't mean its determination to collect more revenue for the state won't do a huge amount of damage. In fact, we are already seeing it.

Apocalypse now

Take the imposition of VAT on school fees. Two schools have already said they will have to close because they don't believe parents will be able to absorb the extra costs. That is before the increase has been put into law. Sure, the major public schools will be just fine, but a lot of smaller, specialist schools, many of them catering to pupils with special needs, will almost certainly be crushed by the extra tax. Indeed, the teaching unions are already complaining about the jobs that will be lost.

Likewise, we are seeing the impact on the North Sea, where Labour is promising to ban all new exploration licences, effectively closing down the industry, as well as imposing extra windfall taxes in the unlikely event that any of the companies still drilling for oil and gas ever manage to make a profit. The Aberdeen & Grampian Chamber of Commerce argued in a report last month that 100,000 jobs could be lost in the industry, and that foreign investors were already abandoning the UK, in what it described as an "apocalyptic scenario".



Private schools face a squeeze

©Getty Images

The City is not looking much healthier. According to the latest update from the Office for Budget Responsibility, income-tax revenues are already £200m down from its earlier estimates because bonuses payments in financial services, which are typically taxed at the highest rate, have been significantly lower than expected. Meanwhile, there are already reports of foreign staff leaving the UK ahead of Labour's clampdown on non-dom status, which will further depress tax revenues.

It may not stop there. Labour may decide to "equalise" capital gains and income taxes, which in effect would mean a huge increase in the tax levied on selling a company or even just equities. It may limit pension-tax relief. It may reduce the threshold for charging VAT, bringing hundreds of thousands of small businesses and tradesmen into the net. It could impose national insurance on the rental income of landlords. All those ideas have been put forward by some of the party's favourite think tanks. Add it all up, and one point is clear. The incoming government is likely to push taxes significantly higher.

Labour isn't working

Meanwhile, job vacancies are falling, with the latest quarterly survey by KPMG showing the steepest fall in three years, while the official unemployment rate has risen to 4.3%, compared with 3.9% last year. It is not hard to work out why. Labour is planning a huge increase in employment rights, making it harder to fire anyone who is not performing, and mandating extra rights to flexible working. The result? Perfectly sensibly, many businesses, and small businesses in particular, are thinking a lot more carefully before hiring someone.

Labour has not taken power yet. But everyone knows it will be in office by next month. And they are already taking account of that. The trouble is, the economy is very fragile. Every time a school closes, jobs are lost, and the state has to pay for children to be educated. When an oil well closes, or does not get built, tax revenues are lost, and we have to import the energy instead. When jobs are lost, even if they were on zero-hours contracts, there is less tax collected, less spending, and a higher welfare bill. Far from restoring growth as it keeps promising, Labour will very quickly find itself facing a far weaker economy –and it will only have its own policies to blame.

City talk

● Boohoo's co-founders Mahmud Kamani and Carol Kane and CEO John Lyttle are a "right bunch of try-on merchants", says Alistair Osborne in The Times. At least they were, until a backlash by shareholders scuppered their "greedy bonus scheme" of £1m each plus a "refreshed" incentive plan, courtesy of chairman of the pay committee, Iain McDonald. He has a history of antagonising investors – witness his performance at THG, formerly The Hut Group.

McDonald said the scheme was needed to ensure management would be "motivated and retained". But Kamani owns 12.6% of the fast-fashion retailer, and "isn't that incentive enough?" And where could they possibly go, in any case? Who would want a group of managers responsible for turning "a 413p share price four years ago into 34p" now?

● John D. Rockefeller bought shares that paid dividends and sold the losers to offset capital-gains tax, says Simon English in the Standard. In the first quarter of 2024, London-listed shares paid £12bn to investors, which might have made "Rockefeller break a smile". It marked the best quarterly tally in years; "not bad" for a time when the market was in the doldrums. On the continent, payouts fell.

It's worth remembering that "[even] when the stockmarket was gloomy, most of the City functioned fine", and dividends symbolised the "sturdiness" of British firms. And now that the exchange seems to be coming back to life, with listings ticking up, "perhaps we can stop worrying about London's status as a global financial centre".

● M&S's performance has "radically improved", says Nils Pratley in The Guardian. pre-tax profits jumped by 41% to £672m in the year to 30 March 2024. With his predecessor having tackled logistics, CEO Stuart Machin has now "sharpened prices and the product offer" and closed the group's many underperforming shops. This revival could be the "real deal". M&S has had 12 consecutive quarters of sales growth, rival Debenhams has disappeared and John Lewis's recovery has yet to begin. Furthermore, the balance sheet is strong, Machin has admitted that digital operations still need investment, and "headaches" in the international operation look to be "fixable".

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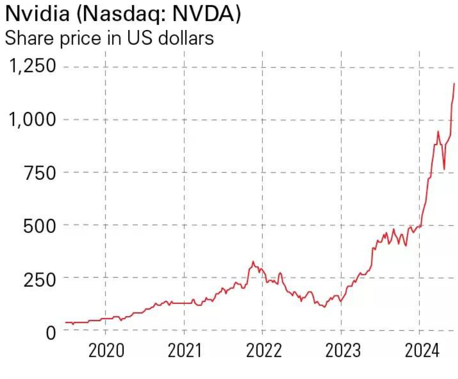
Betting big on AI investment

Nvidia's unprecedented rise has been driven by staggering growth in capex plans at its big tech peers

Cris Sholto Heaton
Investment columnist



Sometimes it's helpful to step back and look at a long-term chart. The rise of Nvidia is one of those times. Over the past 18 months, it has rocketed from a market value of under $500bn at the start of 2023 to becoming one of just four $2trn companies early this year and now rapidly closing in on Apple and Microsoft at the $3trn level.

As most investors know, the transformation of Nvidia is due to its domination of the market for chips for artificial intelligence (AI) systems. Nvidia used to be focused on graphics processing units (GPUs) – specialised chips that accelerate computer graphics. Researchers found that GPUs were very good at accelerating certain other types of calculations and Nvidia made the prescient decision to support these uses of its chips, on top of its then-core market of graphics cards. Nvidia-powered systems then drove key research breakthroughs in AI by making the huge amount of processing needed much faster to complete.

Nvidia continued investing in hardware and software to make chips more optimised for AI purposes. That left it far ahead of its rivals when AI went mainstream. Sales have soared, from quarterly revenues of $7bn in the first quarter of 2023 to $26bn in the first quarter of this year.

Benefiting from a capex boom

Yet the gains in the share price more than reflect that. Some analysts think the latest surge is due to a "gamma squeeze" (see below) – which means that when traders own a lot of call options in a stock and the stock makes a rapid and large move upwards, the sellers of the options have to buy more shares to hedge their position. That pushes the price up and probably sparks even more options buying, making the squeeze worse. But whether these technical factors explain the last half-a-trillion or so of market cap, it's obvious that markets are pricing in a lot of room to grow.

And no wonder: vast amounts are being invested into AI and the data centres to support it. The key big-tech players in AI – Alphabet, Amazon, Meta and Microsoft – have announced a combined total of $200bn in capital expenditure for this year – a 45% increase on last year and about 20% among US-listed companies . That means constant demand for Nvidia's chips – so much so that the firm hasn't been able to keep pace. Hence the revelation this week that Elon Musk diverted chips destined for AI development at carmaker Tesla to X (the company that most people still call Twitter) and his xAI startup.

What we don't yet know is whether this capex will earn a return. If you think AI will change the world it looks very timely; if you think the real applications are interesting but more limited than evangelists claim, you might worry about how much is being invested so fast. The tech firms have little choice but to commit: they know that if they don't invest and their peers do and AI changes everything, they are doomed. Investors need to keep a cooler head. I don't know what the answer is and I'm not selling yet. But we should be aware of the possibility of a capex bubble and what the impact will be on Nvidia, the tech giants and the wider US market if this is not money well spent.

I wish I knew what the Greeks were, but I'm too embarrassed to ask

In options trading, the Greeks is the name for a group of metrics that measure how sensitive the price of an option is to changes in the factors that are used to calculate its value in financial models such as the Black-Scholes formula. The name is used because the most important metrics are denoted with Greek or pseudo-Greek letters. There are five major Greeks, plus a longer list of others derived from them.

Delta measures how the value of the option changes in response to changes in the underlying price of the asset. It will be between -1.0 and 1.0, depending on the option type. If the option is deep out-of-the-money (the asset's price is a long way from the strike price of the option and the option is likely to expire worthless), the delta will be almost 0.0. When the option is deep in-the-money, a further 1% move in the price of the asset will cause a 1% move in the option's value, and the delta will be 1.0 for a call option of -1.0 for a put option.

Vega (not a Greek letter, but written with the letter "nu", which looks like a v) measures how sensitive the option's price is to volatility. It's expressed in terms of how much the value should rise or fall in response to a 1% fall in the asset price.

Theta measures how the option will be affected by the passing of time, also known as time decay. All else being equal, as an option gets closer to expiry, its value falls. Theta is a negative number, quoted in terms of how much the value will change per day.

Rho measures how much the option's value will change in response to interest rates. It's quoted in terms of the size of the change in the option if the risk-free rate rises or falls by one percentage point.

Gamma measures how much the option's delta changes as the asset price changes. Gamma is highest for options that are near-the-money (the asset price is close to the strike price) and lowest for those that are either deep in-the-money or deep out-of-the-money.

Guru watch

Richard Koo, chief economist, Nomura Research Institute

©Getty Images

China is in a "far more serious" situation than Japan was when the latter's bubble burst in 1990, says economist Richard Koo, who is known for developing the concept of the balance-sheet recession to explain what drove Japan's stagnation.

Koo argues that high levels of private-sector debt during a downturn cause companies and individuals to increase saving. This results in an worsening slowdown, as less is invested by businesses and consumer spending slows. China faces the risk of falling into this trap, while it also has other factors that could make the outcome even worse.

"Japan's population was still increasing for 19 years after the bubble burst. But in China, population decline and the bursting of the bubble started roughly at the same time, around 2022 and 2023," Koo tells the South China Morning Post.

"A declining population is worsening China's balance-sheet recession because people have reduced expectations of home prices recovering or rising. This is something Japan never had to worry about because its population was still increasing back then."

The "biggest advantage" China has over Japan is that the Chinese are already talking about balance-sheet recessions, whereas in the 1990s Japan was in "denial". But it will need to take decisive action, he says. A fiscal stimulus package of more than RMB4trn (£432bn) lasting about five years will be needed to restore confidence and jump-start the economy.

"The private sector is in a balance-sheet repair mode. The problem is that people are all doing the right things, trying to regain financial health and repair balance sheets. But if everyone does this at the same time, you will kill the economy."

Beijing must also make sure that it does not prematurely scale back the stimulus as Japan did in 1997, which meant the country took "10 years to bring its deficit back to the level of 1996", says Koo. "It wasted 10 years with that one mistake."

NHS has to draw a line somewhere

Max Pemberton
The Spectator

Obesity rates have nearly doubled in the UK since the 1990s and the NHS now spends around £6.5bn a year treating it, says Max Pemberton. Being overweight – which 60% of the UK population now is – costs the NHS twice as much as being a healthy weight. No intervention to reduce the figure has worked, and it is hoped that weight-loss injections known as GLP-1 agonists (Wegovy/Ozempic) could reverse this trend. Rishi Sunak says he is committed to rolling out these drugs, which can also be used to treat diabetes and have been found to cut the risk of heart attack and stroke by 20% after three years. But can we afford to medicate over half the population? Denmark's bill for these drugs doubled to more than $200m last year, accounting for a "staggering" 8% of the country's medicine costs. In the US, a recent report warns the drugs could "bankrupt" the health-care system. There is also a bigger question. The idea that "obesity is an illness" removes "any semblance of personal responsibility". And since it isn't, is it right that the NHS gets involved? In a utopia, everyone would get every treatment they want, but it isn't feasible. If our health service is going to survive, "we need to decide where the limits of its responsibilities lie".

AI is the bosses' friend

Nikki Sun
Nikkei Asia

Discussion around artificial intelligence (AI) has focused on worries about the displacement of workers and its potential to boost productivity, says Nikki Sun. "What has escaped scrutiny" is how AI is "shifting power dynamics". My research in China shows that it is "empowering employers much more than employees". It enhances employers' ability to monitor staff and is used to support demotions and layoffs. It can "flag" questionable browsing activity in real time and analyse workers' social-media feeds – and, in China, new employees often have to consent to "far-reaching data collection agreements". If they are fired, however, they tend to lose access to computer systems, and so can't challenge AI-based claims. Meanwhile, as AI allows workers to perform tasks previously beyond their reach (eg, coding), the pool of possible candidates widens, giving employers greater bargaining power; the rise of flexible, geographically dispersed workforces makes it harder for workers to mobilise collectively. Protection for workers "should be integrated into AI and data regulations", labour laws should be updated to reflect potential AI-enabled abuses, and workers granted rights to their data after their employment ends. "Regulatory intervention is essential."

Paying for babies is a mistake

Editorial
The Economist

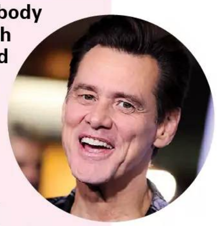
As birth rates plunge, politicians are keen to reverse the trend, says The Economist. South Korea is considering handouts worth $70,000 per baby. Its concern is understandable. Every rich country bar Israel has a fertility rate below the replacement rate of 2.1. In South Korea, where the fertility rate is 0.7, the population is projected to fall by 60% by 2100. Ageing and shrinking societies are likely to "lose dynamism and military might" and face a "budgetary nightmare" trying to fund pensions and healthcare. But it's a mistake to give handouts. The bulk of the decline in rich countries is down to younger, poorer women delaying their first pregnancy. Reversing this trend would be "bad for them and for society. Teenage pregnancies are linked to ill-health for both mother and child". Secondly, incentives don't work. Handouts go to babies who would have been born anyway. Existing schemes in Poland and France cost $1m-$2m per extra birth. "High-skilled immigration can plug fiscal gaps, but not indefinitely," given that this is a global issue. The big answers will lie in rethinking the welfare state and using new technologies to boost productivity and help with care work. "Baby-boosting policies… are a costly and socially retrograde mistake."

This book boycott is senseless

Alys Denby
CityAM

More than 200 authors have signed a letter from Fossil Free Books "threatening to disrupt and withdraw from events such as the Hay Festival and the Edinburgh Book Festival unless their sponsor Baillie Gifford 'divests' from the fossil-fuel industry and Israel", says Alys Denby. Their logic is curious. What is the link between climate change and the Gaza war? Why is Norway's sovereign-wealth fund cited as a shining example of an institutional investor "leading the way to a fossil-fuel-free world" when it is "entirely dependent on that country's oil"? But "who needs logic when your ultimatum is impossible to meet anyway"? As Baillie Gifford patiently explained, it manages other people's money and cannot make "ethical decisions" on their behalf. In any case, while 2% of that money is invested in fossil-fuel companies, 25% is invested in a way that "explicitly supports the net-zero transition". And if, as the letter complains, the likes of Amazon are complicit in the Gaza war, "so is every consumer" in the West. Unless we wish to be plunged into a "Hobbesian nightmare of darkness, poverty and chaos", we will need fossil fuels for the next 20-30 years. You might expect writers, a clever and curious lot, to "have thought this through".

Money talks



"I think everybody should get rich and famous and do everything they ever dreamed of, so they can see that it's not the answer."
US actor Jim Carrey (pictured), quoted on Medium

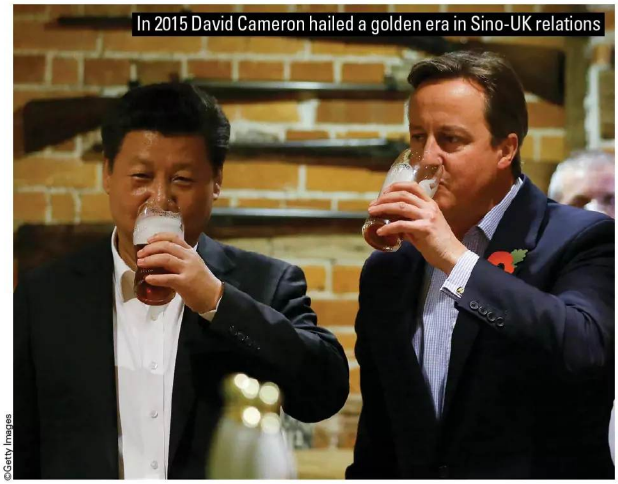
"When I was young, people used to say that hoping Korea would become a semiconductor powerhouse was like hoping for a rose to bloom in a garbage can. However, we managed to do it."
Lee Jong Ho, South Korea's minister of science and technologies, quoted on Bloomberg. He is hopeful that South Korea can become competitive in the burgeoning global space industry

"I'd never made any significant amount of money on a movie, including *Top Gun*, and I was depleting a bank account to a point where my accountant was like: 'This pandemic cannot last much longer'… But Tom was already Tom; I was waiting for my life to change."
US actor Glen Powell on film star Tom Cruise's refusal to let the studio put *Top Gun: Maverick* on a streaming platform during the pandemic and holding out for two years for a cinema release, quoted in The Hollywood Reporter. The decision paid off and the *Top Gun* sequel grossed $1.5bn at the global box office

"The wealth that creates the greatest pleasure is the wealth that you give away."
Stephanie Shirley, the technology pioneer who came to Britain on the Kindertransport trains and built a £3bn women-only software firm, F International, quoted in The Times

"The PM looked me in the eye. He had to stand on his wallet to get there."
Home secretary James Cleverly making fun of Rishi Sunak's great wealth and diminutive size, quoted in The Mail on Sunday

Wake up to China's threat



In 2015 David Cameron hailed a golden era in Sino-UK relations

quillette.com

When Chinese president Xi Jinping visited the UK in 2015, the British political establishment was in raptures, says Aaron Sarin. "In scenes that have aged about as well as shares in Evergrande, one of the chief tyrants of our age" was honoured with a 103-gun salute and a lavish state banquet. Prime minister David Cameron hailed a "golden era" in relations, and by 2018 more than 100,000 Chinese students were pouring into UK universities each year.

But while many came to study new technologies, some came to steal them. And even as relations have cooled, the UK's lack of serious pushback has made Beijing ever bolder. More than 200 UK companies are controlled or part-owned by Chinese entities; another 10,000 are vulnerable to China's industrial espionage; and many elite universities have built research relationships with institutions linked to China's military. Almost weekly another "national embarrassment" perpetrated by China emerges: party-sponsored thugs (one of them a British immigration officer) breaking into the UK home of a Hong Kong exile; or hacking and data breaches at the Ministry of Defence and the Electoral Commission.

Shocking lethargy

How has the UK responded? With "terminal naivete" and shocking indecision. The People's Republic of China (PRC) is labelled a "strategic competitor" yet not a "rogue state", even as it perpetrates a genocide of the Uighurs. Vice-chancellors line their pockets with giant salaries, paid for with Chinese money. British police forces use Chinese-made live facial recognition technology. And the same "dreamy negligence" is evident in the crucial energy sector. A Chinese state-owned entity owns 33.5% in Hinckley Point C, a nuclear power station that will produce 7% of all UK electricity, and 80% of three wind farms.

Some might argue that a Chinese company and the Chinese government are not the same thing. But the PRC is home to concepts like "party-corporate conglomerate" and "civil-military fusion". In modern China, every "business hangs and trembles on the lines of a giant spiderweb spun by the [Chinese] Communist Party [CCP]." The silver lining is that so many dissidents – from southern Mongolian separatists to Hong Kong exiles – are making their home in Britain. Some face grave dangers, thanks to the "CCP's infestation of British society". But those who aren't successfully intimidated "will represent a vital and clear-eyed antithesis to the dormant and drowsy British establishment. Now they live among us; perhaps they can wake us up".

No escape from the app trap

newstatesman.com

The phrase, "scan the QR code here to download the app", is right up there with "rail replacement service", says Ed Smith. Recently, on an otherwise idyllic spring holiday in Catalonia, we pulled up just outside the beautiful medieval village of Peratallada. But instead of exploring ancient alleyways, I found myself "in a municipal car park squinting at drop-down menus trying to punch in my address, date of birth and credit card details". Eventually I gave up, and spent my stroll worrying if I'd return to find a parking ticket. There's always been boring life admin to complete, and some apps save time. But this "appification" of life's everyday essentials – parking, ticketing, banking, shopping – forces consumers to divulge personal information and hoovers up all our leisure time and attention into a "small black rectangle that we daren't leave at home". The automation and digitalisation of routine tasks hasn't "advanced convenience. It has generated inconvenience, while expanding profits for people who don't deserve it." And once our entire lives are dependent on a single device, there's "no distinction between work and play. No life offline. No way out." What a strange version of capitalism: a "for-profit monoculture with the consumer bullied and beaten into submission. Thank you, Silicon Valley."

The Beatles' business tips

Bloomberg.com

Bored by business books? Me too, says Tyler Cowen. Management bestsellers are full of "exhortations" that are cliched, banal, or lacking in context. They're mostly written by people who want to get consulting or speaking-circuit gigs – and are out to avoid giving offence, rather than truly inspire.

Unenthused business-book readers should try books about sporting and entertainment icons instead. Authors who write about music stars, athletes and sports teams tend to be passionate experts who tell compelling, business-relevant stories: "How the teams were put together, how leaders emerged, how people dealt with setbacks and failures, and so on."

Alex Ferguson's (pictured) "scintillating" autobiography is "one of the best books I have read on how to understand and seek out talent". I've learnt loads about management and group dynamics from books about The Beatles. And Jerry Kramer's Green Bay Packers memoir *Instant Replay* is a classic in the field of team-building. "Business books can be found almost anywhere in a bookshop – once you know where to look."

The lost art of attack ads

prospectmagazine.co.uk

There's a long tradition of "attack ads" dominating UK elections, says Róisín Lanigan. Famously, Saatchi & Saatchi's "Labour Isn't Working" poster, featuring a long dole queue, was credited with winning the 1979 election for the Tories. In 1992, the "Labour's Tax Bombshell" and "Labour's Double Whammy" campaigns helped John Major to a surprise win. Alas, the age of the memorable attack ad is over.

"Social media has atomised our experiences of everything, including and especially politics." It is hard for a single campaign to have a radical impact, and trust in all political advertising is so low that both attack ads and positive ads are treated with extreme cynicism and caution. Of course, there's nothing new about campaigns using sleight of hand: on that famous 1979 poster, the down-trodden job-seekers were in fact volunteers from Hendon Young Conservatives. But in an era when we expect all politicians to dissemble, and we don't trust online advertising, it seems – paradoxically – that genuinely effective attack ads are a "lost art".

Speed bumps will not slow the car industry

Sluggish sales and disappointing levels of demand for electric cars have thrown a spanner in the works of global car makers. But the growth engine has merely stalled. Matthew Partridge reports

Over the past few months, the car industry has "never been far away from the headlines", says Jon Wallace of the Jupiter Green Investment Trust. The seemingly unstoppable rise of electric cars appears to have hit a speed bump, and governments have rapidly reversed ambitious targets to ban sales of new petrol-powered cars by the end of the decade. Meanwhile, the threat of competition from Chinese carmakers has prompted US president Joe Biden to hike tariffs on electric vehicles from the country. Are these problems just a bump in a road on the way to a new future – or something more serious?

Opportunities in emerging markets

Probably the most immediate challenge facing the industry is the fear that growth in car sales is likely be much slower in 2024 than it was last year, says Ben Laidler of asset manager eToro. But this was always "inevitable" given that global car sales grew 10% in 2023 as consumers returned to the market after postponing purchases due to the supply-chain disruptions of the past few years. Indeed, the absolute volume of cars sold around the world is still set to expand by around 3%, with any short- or-medium-term weakness in developed markets compensated for by stronger growth in emerging markets, "which are set to become the main driver of growth in the future".

Adrian Lewis, the chief financial officer of Inchcape, has direct experience of the growth in demand in emerging markets as his company works with major carmakers to sell their products to 40 markets in developing and mid-sized economies, outside the major markets of the US, Europe, UK and China. The larger markets, which represent around 20% of the world's population, currently account for 80% of the world's vehicle sales, but Lewis thinks that this is "starting to shift" – sales in emerging markets are "structurally growing faster than the global average", with organic growth rates of around 6% a year.

Lewis thinks this sales growth is due to two factors. The first is that the national income of emerging markets is growing faster than that of the world economy. The second is that a much smaller percentage of the population in most emerging markets owns a car than is the case in developed countries, "which gives much bigger headroom for future growth". Indeed, in some markets, fewer than around 10% of the population own a car; the comparable figure in the US is 70%-80%. In particular, Lewis is seeing "strong" growth in south and central America and "very good growth" in Asia, especially in the Asia-Pacific region.

"Emerging markets will be the main driver of growth in car sales in the future"

Nishita Aggarwal, an analyst at the Economist Intelligence Unit, agrees with Laidler and Lewis about the increasing importance of emerging markets to the wider car industry. He cautions that "factors such as geopolitical risks, elevated living costs, and higher interest rates may pose constraints on the growth of car sales", but nevertheless thinks that a "surge in demand in emerging markets", especially in Asia and Latin America, will ensure that the overall market continues to grow at a good rate. He estimates that the number of cars per 1,000 population in Asia is expected to rise from 110 in 2019 to an estimated 157 by 2028.

The rise of the electric car will continue

As well as being optimistic about the continuing rise in the demand for cars, Laidler is bullish about the pace of the move towards electric vehicles (EVs), dismissing recent fears that demand has peaked or hit a stumbling block. In his view, the supposed backlash against EVs – the current UK government has extended the deadline for a ban on new petrol cars from 2030 to 2035, for example – is more a case of "unrealistic expectations being corrected". After all, "even if global electric car sales are only growing at 25%, rather than 35%, this is still ten times the rate at which sales of internal combustion engine vehicles are growing at".

Similarly, while earlier hopes that petrol cars could be phased out by the end of the decade now appear to be "unrealistic", focusing on delays to targets, or any of the other of what Laidler calls the industry's "growing pains", "misses the scale of the transition that is taking place". Indeed, a recent report by the International Energy Agency expects EVs to account for half of all new car sales by 2035. Given that EV sales currently account for just 18% of the global market, such a move would be "transformational". Besides, Laidler has no doubt that, whatever the exact timescale, a complete transition to electric cars at some point is "inevitable".

It's not just government policy that is driving the rise of EVs, but also improved cost competitiveness. The gap in price between EVs and traditional cars has shrunk due to a "dramatic reduction" in the cost of producing EVs over the past few years, says Dominic Vergine, CEO and founder of Monumo, which is using artificial intelligence (AI) to redesign the electric motor. Vergine expects the cost of EVs to come down further, and even fall below those of traditional cars as electric engines "are much simpler in engineering terms than traditional combustion engines", both to make and operate.

In any case, the upfront cost of an EV compared with that of a traditional car doesn't tell the whole story, says Vergine, as EVs are "much more reliable and durable". Electric motors, for example, "can run for millions of miles, compared with just tens of thousands for combustion engines". In the longer run, even the need to extract rare-earth metals, one of the few environmental drawbacks of EVs, should become much less of an issue. Manufacturers are starting to develop electric-motor designs that aren't based on the rare-earth permanent magnets that are currently present in virtually all EVs.

Overall, cost "is no longer the primary concern for potential EV buyers", and prices are only a short distance away from levels that should trigger "mass adoption", says Becrom Basu, a partner at L.E.K. Consulting. Contrary to perceptions of a backlash, "public interest in EVs remains high". Basu notes that UK survey data suggest that the overwhelming majority of EV owners are happy with their purchase, and remain committed to the technology. Nearly 30% of those who haven't owned an EV before are interested in buying one in 2024.

The need for more charging points for electric vehicles is a pressing problem

Overcoming range anxiety

Electric cars may be on the verge of overtaking their fossil-fuel counterparts, but the transition will rely on improvements in infrastructure, says Basu. Chief among these is better charging facilities. "Range anxiety," the fear that users of EVs will run out of charge and be left stranded in the middle of their journey, may no longer be a crippling barrier – the median range of EVs is about 340 kilometres, which satisfies 65%of the UK population in terms of the range they would need from a vehicle. A significant number of consumers still think of EVs as "impractical", however, due to the "perceived inconvenience of finding charging stations and the time-consuming nature of recharging".

The need for more charging points is a pressing problem, agrees Dominic Rowles of NTT Data Corporation. The good news for EV owners, or those thinking of making the switch, is that "there has been a lot of investment in this area". Governments around the world have been trying to increase the number of charging points, with "lots of development in the pipeline". Rowles expects us to be in a "very different place" by next year, with some estimates suggesting that the number of charging points in the UK will double from current levels by 2025.

Still, even when the number of charging points goes up, there will still be demand for premium services such as points that allow drivers to charge their cars much more quickly. Rowles notes that there are now companies that help homeowners rent out their EV chargers, and Airbnb is partnering with an electric-charger company in an effort to encourage hosts in the US to provide charging points for guests. Despite the competition, Rowles expects the need for charging infrastructure to create a market "where everyone should be able to make money".

Wallace is a bit more cautious about the commercial opportunities in providing EV-related infrastructure, at least directly. In his view, the improved vehicle ranges combined with companies' and governments' "aggressive capital investment" in charging points means that the infrastructure should rapidly catch up with demand. He also warns that the low barriers to entry in the sector may mean that profits end up being lower than many investors expect. But even if providing charging points doesn't lead to the expected bonanza, companies that supply the technology to the charging firms should end up doing very well.

Charging isn't the only supporting industry that will benefit from the rise of EVs. Andy Brown, an analyst at investment management firm Rowan Dartington, thinks that companies involved in mining the key minerals used in the creation of car batteries are likely to be the longer-term winners. Electrification should also be good news for the semiconductor industry, says Martin Frandsen of Principal Asset Management, as EVs typically require around three times the number of semiconductors found in cars powered by fossil fuel.

The gradual evolution of self-driving cars

Beyond EVs, the technology that really caught people's imagination is self-driving cars. But if you

Continued on page 26

"The supposed backlash against EVs is more a case of unrealistic expectations being corrected"

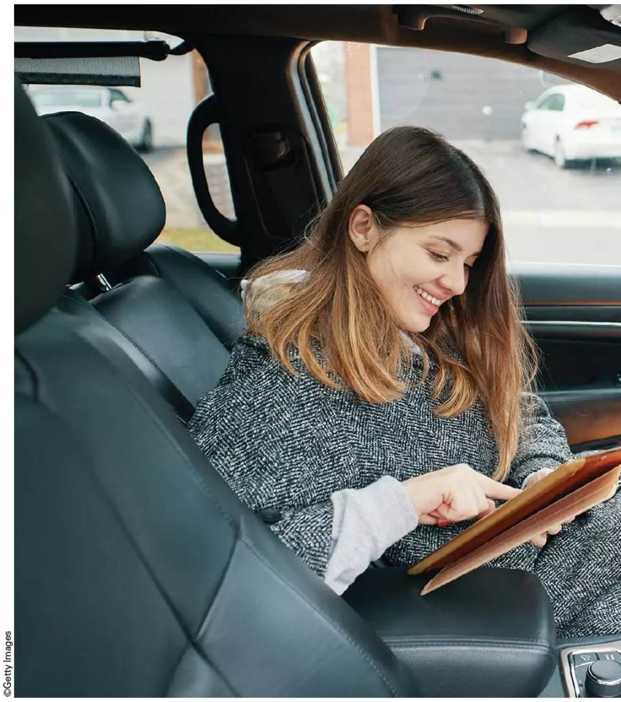
Continued from page 25

have dreamed of being able to sit back and let the car do the driving while you get on with something more interested instead, the reality might be disappointing. Such technological advance will not happen overnight. There has been "significant interest in self-driving technology for some time now", but the legalities surrounding vehicle ownership, personal responsibility and insurance are still to be settled, says Cameron Wade of Keyloop, a car technology provider. The fastest progress is likely to come in "controlled environments", such as motorways, where self-driving technology "could be adopted relatively quickly".

The majority of experts think we won't see truly autonomous cars on our road until at least 2035, and it could even take as long as 20 years, says Steve McEvoy of Expleo, a consultancy. A more likely scenario is "a gradual increase in autonomy levels before we achieve fully self-driving vehicles". New models could build on current driver-assistance technologies, in other words, with humans still retaining overall control and responsibility for their vehicles.

The rise of self-driving vehicles will be more a process of gradual evolution, agrees Mobeen Tahir of asset manager WisdomTree. Cars are already becoming "increasingly autonomous", with newer releases "adding more and more self-driving features". Indeed, the software has progressed to the stage where the main barriers to full autonomy are increasingly "psychological, rather than technical". Tesla's deal with Baidu, which it hopes will help convince Beijing to offer full-self driving options to its customers later this year, could end up being a "game changer". Certainly, the size of the Chinese market "means that a successful trial there would make it much easier to persuade regulators in Europe and the US".

The increasing number of self-driving features also plays into the rise of connected cars, which use the internet to share data with other devices, including those outside the car. Smartphone company Apple may recently have dropped its plans to make its own car, but


©Getty Images
The advent of self-driving cars has stalled

Tahir notes that Chinese smartphone manufacturer Xiaomi is looking to fill the gap left by launching its own car this year. Tahir thinks that cars could be "on the verge of their iPhone moment, where an ecosystem of applications could be built around the vehicle", such as apps that give users important real-time data about the performance and health of their vehicles. Companies that fail to keep up with these trends could end up "being left in the dust, just as Blockbuster was by Netflix".

China delivers the wow factor

Advances in self-driving and connected cars aren't the only innovations coming out of China. Felipe Munoz

The best stocks to buy now

As mentioned in the main story above, **Inchcape (LSE: INCH)** focuses on selling cars in around 40 emerging markets for a wide range of carmakers, both Western and Chinese. Thanks to strong economic growth and increasing rates of car use, Inchcape's business is growing, with revenue increasing by around 4%-5% a year over the past few years. Adjusted earnings per share have done even better, rising by more than 40% from 2019 to 2023. The company makes a return on capital expenditure of just under 20%. Despite this, Inchcape still trades at less than nine times estimated 2025 earnings and has a solid dividend yield of 4.5%.

Perhaps the most attractive Chinese car company is **BYD (Hong Kong: 1211)**. BYD started out as a battery-maker, before moving into cars. Its revenue grew nearly fivefold between 2019 and 2023, it now controls more than a third of the market for EVs in China, and it has moved into the top ten of car companies globally. BYD has also attracted the backing of Warren Buffett's Berkshire Hathaway (which owns around 10% of the company). Finimize's Russell Burns thinks that the firm will continue to do well as it starts to break into Western markets. It trades at 17 times 2025 earnings.

One Western firm eToro's Ben Laidler is particularly bullish about is **Volkswagen (Frankfurt: VOW3)**. He notes that it has pursued electrification aggressively, and set itself the target of having 80% of its cars electric by 2030. Already it is the third-largest seller of electric cars in the world. Another benefit is that expectations are so low, with Volkswagen trading at only five times 2025 earnings, that even if the company "just renormalises" you can make a lot of money from the uplift in the price-to-earnings (p/e) ratio. It has a dividend yield of 8.2%.

If Volkswagen is a little too slow moving for you, one European car company that Lucy Coutts of JM Finn thinks could do well from the transition to electric is **Ferrari (Milan: RACE)**. Its status as one of the most well-known luxury-car companies means it can rely on brand loyalty, which should protect it from Chinese competition. Not only do its hybrid models already outsell the pure petrol versions, but the company plans to sell its first fully electric car next year. The stocks are not cheap, trading at 43 times 2025 earnings, but this has to be viewed in the context of sales that are growing at more than 10% a year, and margins that enable it to generate a return on capital expenditure of 26%.

There are very few listed firms that are just pure plays on charging infrastructure, but Jon Wallace of Jupiter Green Investment Trust thinks that French company **Schneider Electric (Paris: SU)** is worth looking at. Schneider makes, installs and manages EV chargers as part of its wider business, which is focused on energy-related technology. Its business has experienced rapid growth over the past few years, with revenues growing by 40% between 2020 and 2023, and adjusted profits growing by 55% over the same time. Schneider trades at 24 times 2025 earnings.

Dutch semiconductor firm **NXP Semiconductors NV (Nasdaq: NXPI)** should do well from the increased demand for chips in the electric transition, says Martin Frandsen of Principal Asset Management. The rise of "connected cars" (see main story) could increase demand further. It isn't a pure play on the theme, but the car industry is NXP's largest customer. Overall, NXP's revenues have gone up by around half since 2019, with adjusted profits rising tenfold over the same period. Despite this strong growth, the shares trade at 17.5 times 2025 earnings, and even manage to pay a small dividend of 1.6%.

of JATO Dynamics recently came back from a motor show in China and was struck by "how competitive Chinese products are in terms of technology and even design". Indeed, when he took a look inside some of the latest Chinese models "it was clear that many of them no longer have any reason to envy the established firms in the West". Some of the best models "managed to deliver the wow factor in a way that you rarely see any more from the traditional incumbents".

As well as drawing level, or even ahead, of their Western rivals when it comes to quality, Chinese firms also have a "big advantage" when it comes to keeping costs low. This is especially the case when it comes to EVs. Despite recent falls in prices, EVs are still priced in the West as "high-end products", whereas Chinese carmakers "have managed to deliver them at prices that ordinary people can afford". This should make Chinese EVs attractive to those in Europe and elsewhere who can't afford high-end electric cars.

Chinese carmakers are already seeing signs that consumers' attitudes are starting to change. "Up until very recently there was a perception among Western car buyers that Chinese cars, like other products, were of low quality," says Rob Durrant, the head of PR and events in the UK for the Omoda and Jaecoo brands owned by the Chinese carmaker Chery. However, consumers in the UK and elsewhere are now starting to realise that Chinese firms are able to make cars that are "both better and cheaper than those produced in the West".

Although it is still "early days" for the brands that he is responsible for, Durrant finds it "heartening" that Chery's rollout in the UK, which is due to take place later this year, has already attracted a lot of interest. Seventy dealers have already signed up, and a number of companies have decided to take Omoda cars for their corporate fleets. He thinks that British (and European) consumers will quickly switch to Chinese cars "just as they did in the 1980s with Japanese and Korean cars".

Big trouble for the incumbents

So, where does this leave the legacy manufacturers? In real trouble, says Russell Burns, an analyst at Finimize. They will have to deal with switching over to electric the machine lines and plants that are still geared to petrol engines, and do so while earning the low margins on offer in the car industry. That task will be hard enough, but at the same time they will also have to deal with Chinese rivals, who can make "electric cars at a much lower cost than their European and US rivals, supported by aggressive government subsidies". As Burns bluntly puts it, "without increased tariffs, China wins".

Those tariffs have started to appear – US president Joe Biden has hiked duties on imports of Chinese EVs to the US to 100% – but this may not be enough to save the incumbents. The fact that the legacy car companies have to "keep investing in developing their petrol-based cars at the same time as moving to electric vehicles puts them at a major disadvantage", says Martin Frandsen of Principal Asset Management. This is not only down to the higher costs legacy firms are lumbered with, but also because they "will have to manage multiple investment cycles, compared with the more focused strategy of newer companies". Frandsen also sees legacy car businesses having to write-off investments in transitional technologies, such as hybrids, which seem to be now in long-term decline.

The combination of higher operational costs, greater need for capital spending, not to mention a highly uncertain future, may not be a "great cocktail from an investment perspective", but "things are not as black and white as the market makes out", says Frandsen. It seems premature to write off all the Western car companies, given that "they still have a long history of manufacturing and technological excellence" and even today "there is significant innovation taking place in legacy companies".

Chinese businesses "are definitely well placed" to take on the biggest Western companies, especially those with low margins, even with high tariffs, says Lucy Coutts of JM Finn. Indeed, even Tesla may struggle, as its gigafactories are dwarfed by those of its Eastern competitors. Still, she thinks that some incumbents, especially those who were willing to cut their profits in order to invest in electrical vehicles and AI, may have a chance, as will luxury carmakers. Indeed, the latter are particularly well placed as "they tend to have much higher margins and greater customer loyalty than the big carmakers".

A radical shake-up

Even if Chinese firms do end up dominating the car industry in the future, there is some hope that they could end up buying the legacy companies, both for their brands, and as a way to get around the tariffs that are starting to be imposed by the US and EU. This might lead to a "huge push back" in some quarters in the US, especially if overall production remains in China, but Coutts notes that the move is already happening – Chinese firm Geely owns a large stake in the Swedish firm Volvo, for example. Durrant agrees, noting that Chery's joint venture with Italian firm DR has helped to win over consumers who would otherwise be reluctant to buy from a Chinese manufacturer.

In summary, what we are seeing is the continued rise of EVs and the related infrastructure, the ongoing progress in the technology behind self-driving cars, and a fight between Chinese entrants and Western incumbents. Keyloop's Cameron Wade is surely correct when he says that the car industry is facing a "radical transformation within a short time frame". Investors can profit from the theme with the tips in the box on the left.

"Without increased tariffs, China wins the electric-car race"

We must preserve online anonymity

It can be abused by trolls, but it remains central to our economic and political freedom, says Dominic Frisby

A few years ago I wrote a script called *Four Murders and Some Funerals*, about an old lady who is the victim of a terrible miscarriage of justice. Seeking revenge, she kills one of the perpetrators by accident, discovers she's a natural at bumping people off, does away with the other three, and becomes a vigilante serial killer – righting wrongs wherever she finds them, usually where the law has failed. I still think it was a pretty good script, although it never got made: a bit like Miss Marple, only more savage and retributionist.

In any case, in order to write it I had to come up with several original ways in which an old lady might kill people. I had one person pushed down a lift shaft, another electrocuted in the bath, another shot and another poisoned. This all involved quite a bit of research, especially the various poisons. Should our heroine use cyanide, polonium, fentanyl or botulinum, for example?

For obvious reasons, I wasn't quite comfortable googling all the questions I had, so I took to Tor, DuckDuckGo and internet anonymity. I'm glad I did, because how to murder someone is one heck of an internet rabbit hole to go down. Before long I was reading about hiring Chechen hitmen and Lord knows what else.

Clearly, in the grand scheme of things, researching a script about a murderer is a fairly trivial use case for internet anonymity. But I don't think the day is far away when your internet search history (which Google keeps forever, by the way, unless you take steps to delete it) will be taken into account for things such as insurance risk, profiling, or a Chinese-style social credit score by potential employers and so on. I don't think several days' research into how to kill someone bodes particularly well.

Elon Musk, one of my followers on X, says Justin Trudeau, Canada's prime minister, hopes to impose a law whereby police can retroactively search the internet for "hate speech" violations and arrest people even if the offence occurred before the law existed.

But you don't have to be asking questions about how to kill someone to want anonymity. You might be living under some extreme theological regime, asking questions such as, "Is there a god?"; or under a totalitarian regime, asking questions about freedom; or under a corrupt and incompetent regime, asking questions about vaccine safety. You get the point.

Protect your reputation

Anonymity protects you. It limits the power that others have over you and the ability they have to control you. It enables you to protect your reputation, and stop things from being used against you, especially out of context. It gives you greater control over your own data and thus your destiny.

But let's say I did actually want to kill someone, and that I even researched how to do it, before deciding not to. The only crime I would be guilty of is thought. But if my search history can be used against me, it doesn't matter if, ten years later, I have moved on from my inquiry into researching murder. It's still there, and if the police or some activist decided to uncover it, I would, in the eyes of many, forever be guilty of murder, even if I had committed no such crime beyond thinking about it – which, I bet, most of us have at some point in our darkest hours.

"Anonymity makes people harder to control, so we can expect more attempts by politicians to prevent it"

Canada's Justin Trudeau is pursuing a new "hate speech" law

For me the most powerful use case is freedom of thought. Being anonymous is liberating. I'm sure that is why masked balls proved so popular. If you know you are being watched, you are less likely to explore new ideas outside the mainstream, ideas that family, friends, colleagues, or even society may dislike.

These may be philosophical, scientific or artistic ideas. We might want to express thoughts we otherwise feel unable to express. A lot of things, if judged from a different time or place, by people who lack complete knowledge or understanding, may seem odd or intolerable. Anonymity is a protection against having to worry about how actions are perceived and against constantly having to justify them. Anonymity is the nemesis of censorship.

The most compelling contemporary real-life example of why we need internet anonymity must be Satoshi Nakamoto, the presumed founder of bitcoin. We would not have the cryptocurrency without it. We are talking here about one of the most revolutionary technologies ever invented, and one that could fix our broken political and economic systems peacefully.

How? Because it enables people to opt out. It provides an alternative money system. "Fix the money, fix the world," runs the mantra. Remove the state's monopoly on money, and you reduce its ability to create money at no cost to itself and you limit its ability to do all the terrible things it does.

So I favour online anonymity, which is harder to achieve now than it used to be. But I also see that this is not a black-and-white issue. Many a murderous act has been plotted anonymously. Certain politicians, celebrities and others get an enormous amount of abuse from anonymous accounts. The privilege of anonymity is abused. "With freedom comes great responsibility"; with anonymity, even more so.

Many ministers will care more about the terrorist plotting and the online abuse than they will about the freedom to explore new ideas. And the anonymous are harder to control. So we can expect more and more attempts to prevent anonymity – which will mean it has even greater value.

There is turmoil in North Sea oil

The sector has been buffeted by the windfall tax. Michael Taylor of Shifting Shares surveys the scene

The outlook for the UK's North Sea oil industry is bleak. Be greedy when others are fearful, said Warren Buffett. But this adage only applies when others are wrongly fearful. Otherwise, you're just buying rubbish that you *ought* to be fearful of. Is that perhaps the case with oil and gas explorers in the North Sea?

They face the populist Energy Profits Levy (EPL), or windfall tax. It was introduced in 2022 to exploit the "windfall" revenues from elevated oil and gas prices being received by companies operating in British waters as a result of Russia's invasion of Ukraine. It is set at 35%. Add their usual tax rate, and their headline rate is 75%. Labour intends to add another three percentage points to the EPL. The sector coughed up £10.6bn in overall tax revenue in 2022-2023, with £4.6bn coming from the Energy Profits Levy.

And while North Sea tax revenue is subject to fluctuations such as the oil price, the sterling-US dollar exchange rate, and whether or not there is a windfall tax, it is also dependent on capital investment to keep the profits flowing. Guess what happens when tax is too punitive? Companies stop investing.

Good, some will say, except the day after Jeremy Hunt extended the windfall tax to 2029 in the Budget last March, Chevron left the North Sea after 55 years. Chevron said this was not related to taxation, but Aim minnow Kistos Holdings says it has turned down deals because of the uncertain environment.

It is also no surprise that the EPL has been more punitive to the North Sea oil-and-gas focused companies than the diversified behemoths such as BP and Shell. And with a Labour victory looking likely, that is certainly not going to change.

Killing the golden goose

The fact is that the UK economy is dependent on oil and gas. Switching off oil and gas reserves tomorrow would see a complete breakdown in the economy, and worldwide millions would begin to starve, as without nitrogen-based fertilisers, crop yields would fall, costs would increase and food would become scarce and much more expensive.

Killing the North Sea economy through over-taxation will mean job losses affecting local economies, and instead of producing our own oil and gas, the UK will need to import it from elsewhere – at a higher price. One can only hope common sense will prevail. However, the North Sea isn't the only place oil and gas companies listed on the London Stock Exchange operate. In this article we'll look at several overseas explorers.

Afentra (**Aim: AET**) featured in my "Five small caps to buy in 2024" article last December, then trading at 31.5p. The stock has now hit 59p, and I believe it has further to go. The company has made three acquisitions so far, creating value for shareholders. The business aims to buy assets in Angola from major oil companies who believe the assets are no longer as valuable as they once were, and by leveraging connections and knowledge Afentra intends to increase the value of those assets. So far, the strategy is working.

Another stock that isn't North Sea focused and

"Labour intends to add another three percentage points to the energy windfall tax"

When taxation is too punitive, companies stop investing

has a lot of potential is **Gulf Keystone Petroleum** (**LSE: GKP**). It is the owner and operator of the Shaikan oil field in Kurdistan, and was a huge cash generator before the Iraq-Turkey Pipeline (ITP) closed, producing $374m in cash in 2022. Turkey shut the pipeline because Iraq won the right to control loading at Ceyhan, a port in Turkey. Turkey halted flows after the International Chamber of Commerce (ICC) directed Ankara to pay Baghdad damages for exporting oil from Kurdistan between 2014-2018 without the federal government's consent.

Overcoming geopolitical adversity

Since the ITP's closure the company has been restricted in its sales, and the shares have fallen as low as 82p from the pre-closure price of 173p. But despite this, the company has been able to sell oil locally at a price of $27 a barrel and more than cover its annual monthly cash expenditure. So much so that Gulf Keystone Petroleum has announced a $10m share buyback as a way of returning cash to shareholders, demonstrating real confidence by the board that the business is more than capable of sustaining itself while the ITP is closed.

The board also believes the share price is a "significant discount to the intrinsic value of the Shaikan field and does not adequately reflect the near-term cash-flow generation potential from local sales".

In the past, Gulf Keystone Petroleum has paid special dividends as a way of returning capital to shareholders. I personally prefer buybacks because dividends (unless the stock is in an Isa or a spread-betting account) attract tax, and with buybacks the tax is deferred. In addition, everyone likes to buy stocks that are going up, and this buyback has certainly helped drive the price higher.

There is certainly geopolitical risk here, and while there is a lot of talk about agreements, the ITP is yet to reopen. Until it does, Gulf Keystone is going to be


©Getty Images

"*Shares in Gulf Marine Services have risen sharply, but there could well be more upside*"

limited and will not be able to extract the real value of the Shaikan field for its shareholders.

One stock not directly involved in the drilling and exploration of oil and gas, but still working in the industry, is **Gulf Marine Services** (**LSE: GMS**). It's a UK-based operator of SESVs: self-propelled and self-elevating support vessels (they help shore up rigs, for instance). The products are hired out to many state oil companies based in the Gulf.

Management has backed the business consistently, with the executive chair Mansour Al Alami a regular buyer of stock. The company is highly cash generative, with adjusted Ebitda rising to $87.5m in 2023 from $71.5m the year before, and a net profit of $42.1m. This has resulted in the company's high net debt falling to $250.4m. Gulf Marine has become the multi-bagger I predicted last year, when it traded in the mid-single digits. With the value of the equity now much higher, the business's debt-to-equity ratio has dramatically improved. The debt has become less perilous as the company's equity is much stronger and able to support a bigger capital raise should it be needed.

It isn't required for now, however, and as long as the fleet's utilisation rate stays high, then the borrowings should continue to be repaid through excellent cash generation. Even though the shares have risen substantially, I feel there could still be more upside to come – the risk to the company is much reduced and the business is growing.

Star performer

A similar stock is **Ashtead Technology Holdings** (**Aim: AT**). It provides subsea-equipment rental and the installation, maintenance, repair, and decommissioning of infrastructure across the offshore energy industry. This was one of the rare successful floats in 2021 – it has been a star performer, listing at 160p and hitting highs of nearly 900p. One downside to this stock is that there is little balance-sheet strength. Once intangible assets are stripped out we are down to £3m in tangible assets. But if the company can borrow cheaply and get handsome returns on its assets through debt, does this matter? Well, not to me. But in a market downturn the answer may well be different.

Post-tax profit is set to reach £30.1m in 2024, compared with the prior year's £21.6m. This marks strong growth, and you pay for it with a price/earnings (p/e) ratio of 25. But if the growth continues then the shares could go higher. It's not for me, though, as I feel the low-hanging fruit has been picked.

One for the watch list

Back to the North Sea, and we have **Serica Energy** (**Aim: SQZ**) currently trading near its 52-week lows at 179p. With the EPL taking a huge amount of Serica's profits, the price has fallen significantly. The business currently trades on a 2024 p/e of just over four. It's a significant cash generator, with free cash flow forecast to be £123m this year.

The recent acquisition of Tailwind Energy bolstered Serica's reserves by 75% and significantly increased the company's oil production to roughly 50% of the overall figure; previously gas made up 90% of output.

The company has been an impressive creator of wealth for its shareholders over the long term, and despite the stock's poor recent performance I feel it deserves a spot on my watch list. Should there be any changes to the EPL, then Serica's stock price will respond in earnest.

Another stock likely to respond immediately in that instance would be **Enquest** (**LSE: ENQ**). This is a highly leveraged business with net debt of $344m, down from $481m in December 2023. Despite the high net debt, the business produced $300m in free cash flow in 2023 and has started its first shareholder distribution, with a $15m share buyback to be completed this year.

The business currently trades on an EV/Ebitda ratio of 0.8, and based on its cash generation I believe this is very cheap. Again, the EPL bears down on the stock price, but with the firm's cash generation and liquidity position of $534m it has plenty of options to acquire other firms and grow the business further.

Finally, one stock that may be worth a look once its debt-to-equity conversion has completed is **Petrofac** (**LSE: PFC**).

The stock price started sliding heavily in early April when the company announced that it was looking to convert a large portion of the debt on its balance sheet into equity, and was in talks with stakeholders and financial institutions to structure this transaction.

Whenever new money comes into a business, the providers often don't care about the old money, so the slate is wiped clean. This often means a big fall in the share price and a recapitalisation of the business.

At present shares are suspended, and should the transaction take place it will see Petrofac emerge with a stronger financial profile. However, if it doesn't happen, then Petrofac is likely to go bust as it is unable to repay its debt (indeed, in May it missed a coupon payment).

It is impossible to speculate on what any refinanced business will look like, but I feel this episode could potentially be a capitulation point, implying a potential recovery in the stock. I am short the shares at present but will look to close my position should the stock unsuspend.

Michael Taylor holds long positions in AET and GKP, and a short position in PFC. You can get Michael's monthly trade ideas at newsletter.buythebullmarket.com. Follow Michael on X (Twitter) @shiftingshares

An asset class ready to bounce

Emerging-market investment trusts offer access to some of the world's fastest-growing economies, says Max King

The recent revival of the FTSE 100 index means that the UK is no longer in the doghouse of world markets. That position is now occupied by emerging markets, with a 7% loss over three years for the MSCI Emerging Markets index in sterling compared with a gain of 24% for the UK's All-Share index.

Nevertheless, as Andrew Ness, the manager of the **Templeton Emerging Markets Investment Trust** (**LSE: TEM**) points out, emerging markets "generate 65% of global GDP growth [and] offer a range of world-class companies and exciting investment opportunities". Earnings growth "is forecast to be 18% – double the growth expected globally", yet emerging markets trade on just 12 times forward earnings.

Broken China

Asia comprises more than 80% of the index. China, India, Taiwan and Korea jointly comprise nearly 75% of it. Yet investors worry about the risk of Chinese aggression towards Taiwan, their investments in Russia having been wiped out when Russia invaded Ukraine.

They have become disillusioned with China, due to the collapse of the property bubble, which has hampered growth. In addition, political crackdowns, poor corporate governance and increasing authoritarianism do not inspire confidence. The performance of India has been phenomenal, yet it now trades on a multiple of 24 times historic earnings.

However, the Chinese market has bounced by 20% in the last three months as confidence has recovered. The Indian economy is growing by 6%-7% per annum, powering annualised earnings growth of over 20%. This year's strongest market has been Argentina, with a gain of 43% in US dollar terms, suggesting that there are opportunities outside the big four countries.

The success of Mercadolibre, the Latin American e-commerce company that has grown from start-up to a market value of $89bn in 25 years, shows that the entrepreneurial spirit thrives outside as well as in Asia.

The broader opportunity and the ability to switch focus between regions, countries and sectors makes emerging-markets trusts more attractive than Asian or country specialists. The sector leaders, TEM, with a market value of £1.7bn, and the **JPMorgan Emerging Markets Investment Trust** (**LSE: JMG**) with £1.2bn, have struggled over three years. Both have slid by 11% in that time frame, but have recovered strongly in the last year. TEM, on a discount to net asset value (NAV) of 15%, has returned 13% (compared with a 10% gain by the benchmark index), while JMG has returned 3% but trades on a discount of only 12%, perhaps owing to its strong long-term record.

The top performer over one year, however, is the £530m **Fidelity Emerging Markets Limited** trust (**LSE: FEML**), which has returned 17% and trades on a 11% discount. FEML was once the Genesis Emerging Markets Fund and had a market value above £1bn, but in 2021, after a period of mediocre performance, the directors panicked and switched management to Fidelity, despite Genesis's strong long-term record.

Templeton Emerging Markets (LSE: TEM)

Share price in pence

"This year's strongest market has been Argentina, with a 43% gain in US dollar terms"

Brazil makes up almost 5% of the MSCI EM index

Higher risk – and higher potential rewards

There followed a wretched couple of years, marked by a sizeable but disastrous bet on the ostensibly cheap Russian market. But since then, Fidelity has turned itself around. Managers Nick Price and Chris Tennant have the ability to invest in small and mid-cap firms as well as large companies, and may also sell short. This means performance can benefit from both winners and losers.

These short positions increase the risk, but also the potential reward, as does moderate gearing, achieved through derivatives rather than borrowings. The fund is also partly hedged by selling short index futures contracts, so that although the gross portfolio is worth 160% of NAV, net equity exposure is only 109%.

While the focus of the managers is on picking stocks, political and economic factors cannot be ignored. As a result, the portfolio is very light on exposure to China but compensates with high exposure to Hong Kong. Brazil, Mexico and South Africa merit an allocation of at least twice the MSCI index, but Taiwan and

South Korea are severely under-represented. By sector, financials and consumer-discretionary companies are favoured at the expense of healthcare, energy and technology. Although Taiwan Semiconductor accounts for 10% of the fund (2% more than in the index), only one other holding is above 5% and the portfolio is reasonably well diversified. Based on Fidelity's own analysis, the portfolio is growing faster than the benchmark index, boasts better cash generation and a higher return on assets, but is cheaper.

"Central banks raised interest rates early and brought inflation under control"

Inevitably, the managers are optimistic: "the asset class is trading at a deep discount to developed markets and we believe the outlook for emerging-market equities is improving, their central banks having been among the most proactive in the world when it came to raising rates early and bringing inflation under control".

Diversification within the sector

Four other emerging-markets trusts deserve a look. The £150m **Mobius Investment Trust (LSE: MMIT)**, set up by Mark Mobius after he "retired" from Templeton, has the best performance record over five years in the sector at 48%, compared with just 14% for the index.

Just behind it is the £280m **BlackRock Frontiers Investment Trust (LSE: BRFI)**, although its three-year performance of 44% is the best in the sector. But it invests outside the markets that dominate the MSCI Emerging Markets index (China, India, Taiwan, Korea, Brazil, Mexico and South Africa), so it has negligible overlap with other trusts in the sector.

The £430m Utilico Emerging Markets has gained more than 30%, but is a specialist trust focusing on utilities. It therefore has a negligible overlap with the rest of the sector and the index. Its shares, however, yield a generous 3.8%. Finally comes the recently launched **Ashoka WhiteOak Emerging Market Trust (LSE: AWEM)**, with a market value of £35m.

It has had a flying start since it listed just under a year ago, and is managed alongside Ashoka's highly successful New India Trust. AWEM has recently made an audacious approach to merge with the ailing Asia Dragon Trust, which has £700m of assets. If successful, this would create a major new trust in a sector that is just beginning to find favour among investors again.

Are you due a tax refund?

HMRC may well owe you money. Here's how to check and secure your payout from the taxman

Ruth Jackson-Kirby
Money columnist

We all hand money over to the taxman, but have you ever considered that the taxman should be giving you some cash? New figures from tax specialists RIFT Tax Refunds have revealed that the average taxpayer could be owed as much as £1,562 – an increase of 6.6% in one year. You can also backdate a tax claim for up to the last four years. The average four-year claim is just over £3,000.

There are plenty of reasons why you could be owed money by the taxman. It may be that you have overpaid tax via PAYE owing to having the wrong tax code, or you could be eligible to claim tax breaks or benefits. The most common reason for people getting a tax refund is expenses incurred while working.

These could include anything from fuel costs and accommodation to uniform expenses. If you are self-employed, you could be owed a tax refund because you've made payments on account – advance payments based on estimated income. If you earned less than the estimate, you could be due some money back.

Another reason for a refund could be charitable donations or certain tax-efficient investments (like the Enterprise Investment Scheme – EIS – or the Seed Enterprise Investment Scheme – SEIS), Dawn Register, head of tax dispute resolution at accountancy firm BDO, told The Telegraph. "Alternatively, you might have allowable expenses to claim against your employment income, you may not have worked for the whole of the tax year, or HMRC may have used an estimate in your tax code for the year which proved to be excessive."


©Getty Images
Expenses incurred in work, such as fuel, are often grounds for a refund

Expect a P800

If you are owed a tax refund you will usually hear from HMRC without having to do anything. The taxman will calculate that you have paid too much tax and get in touch with a P800 letter. You will usually hear by the end of November for the previous tax year. So, for the 2023-2024 tax year you'll hear from HMRC by 30 November 2024 if they are aware you are owed money.

However, if you think you are owed a refund but haven't heard anything you can also apply for a tax refund. "In some cases, you can claim the refund online – for example claiming some allowable expenses against your employment income," says Register. "In others, such as if you received a redundancy payment, you'll need to call HMRC to explain why you think you are due a refund."

Anyone who is self-employed can claim a tax refund via their self-assessment tax return. If you want to claim tax relief on pension contributions, charitable donations or tax-efficient investments, you will need to file a tax return or speak to HMRC. Once you have applied for a refund you could get your money back in as little as five working days, but the wait can be as much as eight weeks.

To avoid overpaying tax in future, make sure you check your tax code. One of the most common reasons for getting a rebate is because your PAYE tax code was wrong, and you paid too much income tax. All your income is taxed, whether it comes from employment, pension payments or interest on your savings. In order to track all your different sources of inome HMRC relies on your tax code. But many are wrong, meaning UK workers overpaid an estimated £5.8bn to HMRC, according to consumers' group Which.

In the 2024-2025 tax year the most common tax code is 1257L, but yours may differ depending on your location, your personal allowance and your tax rate. The figures 1257 refer to your personal allowance – most of us can earn £12,570 before we pay tax. So, your tax code figure should reflect the amount of personal allowance you are entitled to.

The letter L means you are entitled to the standard tax-free personal allowance. There are, however, plenty of other letters and codes depending on your own circumstances. You can find a full breakdown at gov.uk/tax-codes/what-your-tax-code-means. Familiarise yourself with your tax code and check it at the start of a new tax year or if you change jobs. Picking up on an error quickly will prevent you overpaying tax and having to apply for a refund.

Pocket money... banks apply credit crunch to customers

- "Although the mood music in the City suggests that interest rates are coming down sooner rather than later... providers of consumer credit don't seem to be listening," says Jeff Prestridge in The Mail on Sunday. Marks & Spencer has increased the rate on its credit card from 21.9% to 24.9%, and Barclaycard is increasing rates on its platinum card next month. Lloyds Banking group, meanwhile, has announced that interest rates on authorised overdrafts are changing.

The current typical rate is 39.9%, but some customers, such as those with Club Lloyds accounts, pay 27.5%. Rates will now range from 19.9% to 49.9%, depending on your credit rating and how you use your account.

- "Millions of people who rely on their family or friends to manage their finances cannot access some of the best savings rates because banks offering them will not recognise a power of attorney," says George Nixon in The Sunday Times.

Of the five best-buy one-year fixed bonds now available, four are offered by banks or savings platforms that don't allow someone acting as an attorney to open an account. A power of attorney gives a trusted person the authority to manage someone else's financial affairs if they cannot do it themselves. There are 6.85 million registered in the UK.

The best one-year fixed rate bond pays 5.22% from Raisin UK, but it doesn't accept applicants using power of attorney. The best rate that allows such applications is 5.15% from Union Bank of India UK.

- In 2021 the Pandora Papers were leaked, revealing the secret offshore accounts of the super-rich. Since then, HMRC has written to 1,000 people named in the papers nudging them to ensure they have declared everything. The letters have resulted in a mere 14 disclosures of additional income or gains, says Emma Agyemang in The Financial Times.

"HMRC have not done enough traditional investigation work. They have been relying on sending people frightening letters. But those people often still don't understand they're not compliant," Andrew Park from accountancy firm Price Bailey told the FT.

What next for apprentices?

How the two main parties' approaches to funding young workers differs

David Prosser
Business columnist

Many small businesses will be watching the political debate over apprenticeships with keen interest. While Labour and the Conservatives may have competing visions of how apprenticeship schemes should work in future, one thing is not in dispute: the number of smaller firms taking on apprentices has collapsed in recent years.

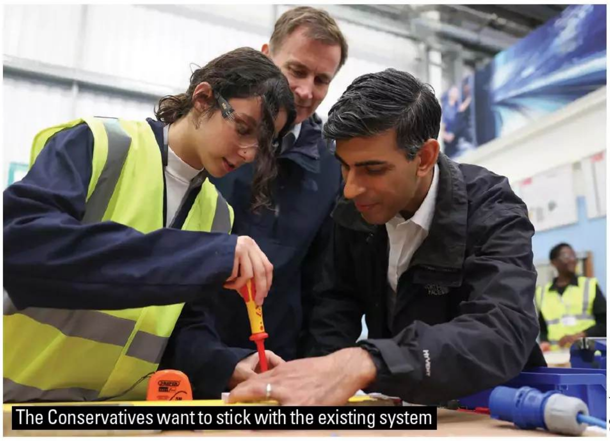
That's largely because the Apprenticeship Levy, the government's flagship policy on apprenticeship funding, was designed with bigger firms in mind. Smaller businesses are worried about the cost of funding apprenticeships, but also find it difficult to navigate a complex regulatory and administrative system. Nor have training providers done a good job of supporting employers.

Labour's headline proposal is to introduce greater flexibility into the apprenticeship system. In particular, it thinks employers should be allowed to use up to half of their funding from the Apprenticeship Levy – or be paid directly by the government – to fund training and apprenticeships for existing staff. The Conservatives, meanwhile, want to stick with the existing system, but provide more funding by scrapping some university courses they believe offer poor value.

Ample scope for growth

Right now, one in four small businesses in the UK runs some sort of apprenticeship scheme, according to the Federation of Small Businesses. It has previously said that proper reforms of the rules would enable its members to offer two million additional apprenticeships.

Ministers have already made some progress on tackling the challenges standing in the way of smaller firms. For example, since April, small companies eligible for state funding for apprenticeship schemes have no longer had to top up this cash from their own funds when taking on young workers. The regulations on large companies sharing their funding have also been loosened to allow them to finance more apprenticeships at smaller businesses.



©Getty Images

The Conservatives want to stick with the existing system

Nevertheless, there is still a significant amount of red tape to work through when taking on apprentices. Businesses need to work with accredited apprenticeship providers – identifying the right provider for their industry – and to complete a sheaf of paperwork to secure funding. There are also strict rules on the support that learners must receive throughout their apprenticeships.

It's also important to recognise that financial support for apprenticeships is designed to cover the cost of the training itself. Employers will still need to pay their apprentices a salary – including for time spent in training and education – in line with the requirements of the national minimum wage. There is some additional support available for the youngest apprentices – and those with special circumstances – but this isn't a free lunch.

Still, there is widespread agreement that when apprenticeship schemes work well, there are significant benefits for employers. These include reduced recruitment costs, better staff retention rates and fewer skills shortages. Labour believes these benefits will accrue from support for existing staff as well as for brand new recruits – flexibility that some employer groups have been calling for. The Conservatives believe the existing scheme can be made to work better for smaller firms, with extra funding already available for employers concerned about cost, rather than the other issues holding them back.

An own goal by Man United?

Manchester United's on-field performance over the past season has been patchy. But now the club is turning its attention to its non-playing staff. Employees have been told they must return to the office full-time, with existing hybrid working deals to be scrapped for all staff. It's a bold move given that most employers are sticking with the hybrid model – including small and medium-sized enterprises. The British Chambers of Commerce (BCC) has found that fewer than 30% of smaller firms expect their workforce to be fully in-person over the next five years. Only a small minority work fully remotely, but hybrid models are almost ubiquitous.

The BCC, in common with other business groups, thinks hybrid working is effective for many employers. Offering flexibility helps firms recruit and retain a broader range of staff, the BCC says, but can also help employees to do certain types of work more efficiently. Equally, most employers – and many employees – value at least some face-to-face contact. As for ordering staff to return to the office full-time, most employment specialists advocate a more conciliatory approach, with working arrangements negotiated with staff rather than simply imposed upon them. That said, a growing number of larger employers are also taking a tougher line on this issue. Firms ranging from Boots to Barclays Bank are among those instructing staff to return to the office.

Petty cash... prepare for green red tape

● Thousands of small firms may need to do more work to prepare for a raft of new rules on environmental monitoring, measurement and reporting. While most of the legislation due to come into force in the UK over the next 12 months is aimed at larger companies – including the new Corporate Sustainability Reporting Directive – the new regimes often require firms to collect information from suppliers. Smaller businesses unable to provide detailed information on issues such as carbon emissions may therefore struggle to win contracts.

● New rules on the strength of banks' balance sheets could hit small businesses, a cross-party group of MPs has warned. The Prudential Regulation Authority, the UK's chief City regulator, has announced that banks will soon have to increase the amount of capital they hold against loans to small enterprises in particular. The aim is to improve resilience in the sector, but the Treasury Select Committee fears that the knock-on effect may be to make it harder for smaller businesses to borrow, as banks restrict finance to comply with the new rules.

● Simply Business's annual competition for the best small-business name has become something of an institution, with previous winners including coffee roastery Perky Blenders and the chick-hatching business Eggucation. Now this year's winner has been announced. Step forward Hastings-based locksmith Surelock Homes, which fended off tough competition from Manchester-based Indian street food business Tikka Chance On Me and Prints Charming, a clothes printing company in Fife.

A solid stock on full steam ahead

Shipbroker Clarkson leads its fast-growing field and boasts a compelling valuation too

Rupert Hargreaves
Investment columnist

If you spent too much time reading the headlines, you would think that London has become a global backwater with no interesting companies on its exchanges. Not so. There are many leaders in their respective industries listed here, and most are currently on sale. The world's foremost shipbroker, **Clarkson** (**LSE: CKN**),is a prime example. Shipbroking is a huge industry, but often overlooked.


The group matches ship owners and cargo owners

©Getty Images

A gigantic operation

Approximately 11 billion tonnes of goods are shipped around the world annually. That figure excludes oil, gas, grain and other commodities. Overall, shipping accounts for 80% of world trade, as it remains the most cost-effective and easiest way of moving goods and commodities. No one really knows exactly how big the industry is. There is no overall regulator or database on industry operators and ships, and it is possible to operate without any real oversight. Still, two things are clear. The sector is massive, and getting bigger.

Since 2007, according to the UK government, the size of the world's trading fleet has doubled. Based on the current order books for new vessels, growth will continue, particularly in the liquefied natural gas (LNG) tanker market. According to Clarkson, the current order book is equal to 50% of the existing global fleet, while Maritime Strategies International's 2023 outlook estimates that shipyard capacity will hit 81 million gross tonnes in 2030, up from 67.1 million today. The new space will be needed: shipyards are fully booked out until 2028, on average.

So, where does shipbroker Clarkson fit into all of this? The company plays a pivotal role in the industry, acting as a matchmaker between ship owners and cargo owners, facilitating vessel transactions and mitigating risk with the use of derivatives. The industry truly relies on a middle party such as Clarkson to function effectively.

Shipping is an incredibly diverse industry with numerous players, both large and small, and many more entities that operate outside the industry but require its services. This complexity doesn't easily lend itself to digitisation. There is a critical need for an intermediary that is trusted by all parties, with the right connections to execute the job in the most efficient manner.

Clarkson is the undisputed market leader in the shipbroking industry, a position that is difficult for competitors to challenge. In a broking or intermediary business without a centralised market (such as shipping), scale brings tangible benefits, as it maximises Clarkson's ability to match counterparties. Furthermore, as a public company, Clarkson operates with a highly visible brand and a clear regulatory structure, enhancing its financial stability and transparency.

The group has also built up an advantage when it comes to data. When shipowners and charterers face market conditions and geopolitical events they have not experienced before, they inevitably seek expert insights from a highly reputable third party. As a rule, it isn't easy to make money in the shipping industry. It requires a lot of capital to get started, and charter rates can be volatile, so returns on large investments are unpredictable. Moreover, the industry is highly cyclical. In a downturn, you might have to foot the bill of keeping ships in port empty, not to mention repair and maintenance costs, which rise with the age of the vessel.

Clarkson doesn't have to worry about any of these problems. It takes a cut out of every deal, and its only real overheads are staffing costs. It has an asset-light business model (it doesn't need to buy vessels) and can quickly reduce headcount in a downturn. While the company cannot escape the cyclicality of the industry in general, Clarkson's brokers operate across sub-sectors. Each shipping segment has its own demand and supply dynamics and, hence, its own cycle. That gives the company a level of protection against cyclicality. Over the past two decades, revenue has only been loosely correlated to shipping rates. For example, between 2022 and 2023, global charter rates fell by around a third. Yet Clarkson's overall sales rose.

Clarkson (LSE: CKN)
Share price in pence

Profitable piggybacking

While there have been some bumps along the way, the company has gone from strength to strength over the past two decades as it has piggybacked on the growth of the industry. Since 2004, Clarkson has delivered a compound annual growth rate of 12.7% for revenue, 11.2% for overall operating profit, 8.4% for underlying earnings per share, and 9.2% for the dividend per share.

With the industry projected to experience continued growth over the next decade (a forecast I can confidently make considering the current fleet order book), Clarkson appears well positioned for future expansion. According to brokers at Liberum, the stock is currently trading at an undemanding price/earnings (p/e) ratio of 14.7 for 2024, with a projected dividend yield of 2.6%, rising to 2.9% by 2026.

These figures don't even factor in the cash on Clarkson's balance sheet. The company has consistently maintained a robust balance sheet with net cash, partly as a defence against market downturns, but primarily to reassure its customers. A cash-rich, audited balance sheet is a significant competitive advantage in an otherwise opaque industry. Remove the £400m or so of net cash on the company's balance sheet reported at the end of 2023, and the cash-adjusted forward p/e drops to around ten. That's a compelling valuation for a global market leader.

Power your portfolio with renewable energy as the world goes greener

A professional investor tells us where he'd put his money. This week: James Smith, fund manager at Premier Miton Global Renewables Trust, selects three favourites

The past couple of years have been a very difficult time for investors in renewable-energy companies. The sector has suffered from poor sentiment due to the upswing in interest rates, which has hurt valuations. However, the underlying attractions of renewable energy are, I believe, better than ever.

Growth in renewable energy looks set to continue its rapid upward trajectory as governments around the world get serious about their obligations to reduce carbon emissions and tackle climate change.

Major buyers of power, such as the multinational global technology companies, also have an important role to play. Many of these firms no longer see it as acceptable to power their growth with electricity generated by fossil fuels. Crucially, these are creditworthy counterparties with deep pockets.

Demand for electricity in developed markets, which has been falling for several years as we have become more efficient, now looks set to increase, a consequence of new uses for electricity, such as transportation and potentially large-scale hydrogen production. New sources of demand, such as artificial intelligence and data centres, could provide a further boost.

The combination of a recent poor performance and an improving fundamental outlook has given rise to many attractive investment opportunities, particularly for those investors willing to look beyond the traditional leaders in the sector.

A complete transformation

RWE (Frankfurt: RWE) is a company that many people still consider to be a traditional utility, but while it does continue to operate some legacy coal assets, a timetable for closure for these has been agreed with the German government. RWE now firmly sees itself as being a renewable and low-carbon energy company.

Its US renewables business should be one of the key beneficiaries of the growth in demand for power from data centres in North America, and it recently signed 15-year power sales agreements with Microsoft for two new Texas wind farms that are currently under construction.

Furthermore, it is one of the major players in the fast-growing global offshore wind market, having managed to avoid some of the difficulties that have dogged other participants in that sector.

"RWE should profit from the increasing demand for power from data centres"

©Getty Images

Investment trust Greencoat Renewables focuses on wind farms

Another company profiting from the growth of the technology sector's demand for power is **Greencoat Renewables (LSE: GRP)**, which has signed a ten-year sales contract to supply power to a data centre in Ireland.

This company is less well known than its stablemate, Greencoat UK Wind, but it benefits from the fact that many of its assets come with fixed contracts, in contrast to its more market-exposed big brother.

Irish wind farms comprise 60% of the portfolio, with the remainder located in Germany, France, Spain and the Nordics. Like many other renewable-energy investment companies, it trades at a meaningful discount to its published net asset value (NAV).

Servicing the green revolution

Many investors advocate "pick-and-shovel" investing: buying the companies that supply a service to a sector rather than the sector itself. **Cadeler (Oslo: CADLR)**, which owns and operates wind-turbine installation vessels, is a good example.

Cadeler is benefiting from a shortage of the very large vessels capable of installing the new generation of offshore wind turbines. With four vessels already on the water and another seven to be delivered over the next four years, Cadeler is the established market leader.

The iron lady of Western Australia

Gina Rinehart, who inherited her father's mining business and made billions, is used to getting her own way. She has had to find out the hard way that that doesn't always work out. Jane Lewis reports

Be careful what you would ban. Crowds have been flocking to the National Gallery of Australia in Canberra after the country's richest person, mining magnate Gina Rinehart, tried to get an unflattering portrait of herself taken down. The painting – part of a multi-panel work by the renowned indigenous artist Vincent Namatjira – has since made the front page of many Australian newspapers and gone viral. "To wide amusement," visitors to the gallery have been posting selfies in front of the work, "aping Rinehart's slightly curdled expression", says Nikkei Asia. Talk about a lobbying attempt backfiring spectacularly.

©Getty Images

"Rinehart has turned her father's debt-ridden firm into an international behemoth"

A love-in with Trump

The episode marks a rare instance in which 70-year-old Rinehart – whose personal wealth was reported to have broken through the A$40bn (£21bn) mark this week – has failed to get her own way. The daughter of self-described "bushman-prospector" Lang Hancock, she has turned her father's debt-ridden iron-ore company, Hancock Prospecting, into an international behemoth, becoming, as The New Yorker observed in 2013, something of "a national obsession" within Australia. Rinehart's libertarian views, denial of climate change, and attempts to build a media empire have long made her a divisive figure – fanned of late by her support for Donald Trump. In both business and family life, she is renowned for being as tough as they come. The "iron lady" of Western Australia's rise has been "littered with ruthless deal-making, family feuds and litigation", says the Financial Times. In 2011, her two eldest children – John Hancock and Bianca Rinehart – launched a legal action over mining assets left behind by their grandfather, accusing her of "deceptive, manipulative and disgraceful conduct". The case is still dragging on.

Rinehart learned tough love from her father, says The New Yorker. He started out as a rancher, asbestos miner and prospector in Pilbara – a vast, sweltering wilderness in northwest Australia – before discovering a seam of iron ore that laid "the foundation of a mining fortune". As a child, Rinehart spent as much time as possible with her father, learning much about minerals. She also inherited some of his political views. Hancock was an ardent Western Australia secessionist – convinced the state could become "a paradise of free enterprise if it could only escape the stifling grasp of the eastern establishment", says The New Yorker.

A family feud

"The richest girl in Australia" and her father eventually fell out over their spouses. He distrusted her second husband, the American lawyer, Frank Rinehart; she was enraged when he married a young Filipina housekeeper – waging a vicious 11-year legal war with her stepmother over his estate following his death in 1992. Although a beneficiary of her father's royalty deals, Rinehart "transformed the family business by spotting, earlier than most, the vast potential of the China market", says the BBC. She hasn't lost her knack for grasping new opportunities: recently pushing hard into rare-earth metals and critical minerals such as lithium, says the FT. Last year, she scored a coup by stealthily scuppering an attempted US takeover of the Australian lithium producer Liontown Resources.

Rinehart might be controversial, but business associates reckon Australia "is a likely beneficiary one way or another" of her merciless determination to seize advantage. "When she makes a decision, it's final," says the chair of the Sydney Mining Club. That makes the National Gallery of Australia's stand all the more remarkable. Rinehart has apparently donated an "approved" portrait of herself to the gallery, along with strict conditions on how it should be displayed, says Business Insider. It's currently languishing in the vaults.

The real life Gordon Gekko who thought greed was good

In 1986, Ivan Boesky (pictured) told an auditorium full of impressionable business graduates at the University of California, Berkeley, that greed is good, says The Times. "I think greed is healthy," he said. "You can be greedy and still feel good about yourself." A year later, the film *Wall Street*, starring Michael Douglas as Gordon Gekko, whose motto echoed Boesky's words, came to "define the era of hubristic overconfidence in the money markets" before the 1987 crash.

Boesky ascended Wall Street on what he called a "Jacob's ladder of silver dollars" in the arbitrage sector – making big bets on companies on the brink of takeovers in the hope that the stock would soar on news of the deal. Indeed, often the news that Boesky was getting in was enough to prompt other speculators to follow, creating a self-fulfilling rise in the share price. But the real secret to his success was "big cajones", 18-hour days, endless cups of coffee, and little food. As Gekko said, "lunch is for wimps". Boesky died in May at the age of 87.

At the height of his powers Boesky was "the archetype of the savvy speculator", says Bloomberg. He started his ascent of Wall Street in 1975, setting up his own firm, bankrolled by his wife's family. By 1981, the Ivan F. Boesky Corporation had assets of more than $500m and had reputedly made more than $150m in profits from runs on CBS, Gulf Oil and Conoco. His trading portfolio at the top of his game has been valued at $3bn (about $8.7bn today) and his wealth at $280m ($818m in today's currency). But by 1986, investigators were circling and he was eventually charged with insider trading. Following his conviction for that crime, Boesky "became the poster child for Wall Street greed", featuring on the cover of Time magazine with the headline "Ivan the Terrible". He paid a $100m fine, a record at the time, and spent two years in prison, winning leniency by cooperating with the government and providing information that led to the downfall of the investment bank Drexel Burnham Lambert and its junk-bond king, Michael Milken.

Boesky kept a low profile after leaving prison and took to charity work. But on Wall Street, "all that mattered" to him was making money, Jeff Madrick, the author of *Age of Greed* (2011), told The New York Times in 2019. "He found a path to that, and he abused it badly."

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Indulge the mind, body and soul

Rejuvenation awaits at the Grand Resort Bad Ragaz in Switzerland, says Chris Carter

©Bad Ragaz

Tamina Therme is all about getting back to basics

It's all too easy to lose yourself at the Grand Resort Bad Ragaz, both literally and figuratively. The resort began as the Quellenhof hotel, built in 1868 in the spa town of Bad Ragaz, in the foothills of the Swiss Alps and close to the border with Liechtenstein. Over the decades, it grew in fits and stages. What is today the elegant Grand Hotel Quellenhof, the biggest building on the property, still stands, but it has been joined by the boutique Grand Hotel Hof Ragaz and Hotel Palais Bad Ragaz. The latter is the oldest, dating to the 18th century when the first bath houses were established by the local abbots – cleanliness being next to godliness and all that. All three buildings are interconnected by winding corridors and courtyards and each have their own distinct character.

Naturally for a spa resort, the focus of my junior suite at Quellenhof was the large marble bathroom. It had a deep tub, his and hers sinks, a separate shower and even a discreet television for while you're soaking. The bedroom was no less attractive, elegantly furnished, leading to a balcony on which to sit with a book and a glass of the local sauvignon blanc, to admire the gardens. Here, down below, you will come across works of modern art, some tending towards the mind-bendingly surreal and all part of losing yourself. The resort's owners are art collectors and this summer the hotel is playing host to some of the artworks at the ninth Swiss Triennial of Sculpture, which comes with the slightly tortured name, Bad Regartz. Bad indeed, but the art is good. It runs until the end of October.

But it is the spas you come for – both of them. First, Tamina Therme. The resort is home to the public baths of varying water temperatures and an array of saunas. Unsurprisingly, they are popular with locals, especially on the weekends, but hotel guests do get in for free. And as for the saunas, well, this is Switzerland and here they do not mess around when it comes to baking oneself. Barring an area set aside for modesty, you can leave your swimming costume at the door. Then, wrap yourself in a towel and relax. A stay at Bad Ragaz is all about peeling back the layers and getting back to the basics of a healthy mind, body and soul. Stripping off feels reflective of that. Just note the baths are now closed for maintenance work until early October.

Wallowing in the pool

There is, of course, the other spa! And this one is only open to hotel guests. It has two thermal water pools – one with jets for wallowing and one for swimming. (In fact, there is a third pool outside in the grounds, which is open in the warmer months.) There is a sauna reserved for swimming costumes, but, again, the best facilities are in the "textile-free" area. Take the plunge – literally, after melting away your troubles in the pair of saunas and two steam rooms. Then, take yourself off to the relaxation room to unwind further. Better yet, go for a treatment. I enjoyed the Tamina Flow Massage – the signature treatment, which, I was told, is a composite of all the therapists' favourite techniques, ranging from hard to soft. Stay awhile and the hotel will put together a "NEWYOU Method" plan to get your lifestyle back on track. But again, expect no nonsense. My therapist advised that I should try to get out from behind my desk more often. I don't disagree. But first dinner. The hotel's seven restaurants collectively boast a constellation of Michelin stars. I particularly enjoyed the restaurant Zollstube, which has a wood-cabin feel to it. The name, I'm told, is a Swiss-German version of those fuzzy concepts of cosiness and wellbeing that the Scandinavians use to sell us books. The local lake trout was excellent, perfectly seasoned and served with a herb butter. Then there is Verve by Sven, a smart restaurant with one Michelin star, where I had a very nice pan-fried pike perch fillet in XO sauce, served with a herb salad and yellow verbena.

> ***"A stay at Bad Ragaz is all about peeling back the layers"***

Water for the table? The Grand Resort, even for a spa hotel, takes its water very seriously and if you thought the choice boiled down to "still or sparkling", you're in for a pleasant surprise. Water sommeliers are on hand to advise on which to drink with your food and wine, and – as I learnt at a really quite interesting water tasting – the minerality and acidity do make a difference.

A few days of being gently baked, steamed and massaged, and eating good food leaves you with a spring in your step. So, on a sunny Sunday morning in March, I made the short stroll down to the River Alpenrhein, set against the snow-dusted mountains, and breathed in the crisp, clean air. It really is the best place to lose yourself.

Chris was a guest of the Grand Resort Bad Ragaz. From £296 a night, based on two sharing, see resortragaz.ch/en

Mercedes-AMG's head-turner

The replacement for the old GT, the new GT 63, is a car that demands attention

Enough people liked the old Mercedes-AMG GT to buy a few examples of the "supremely costly" Black Series, released in 2021, but "not nearly enough for its replacement to continue in precisely the same format", says Nic Cackett on Pistonheads. The old GT was a "curiously Marmite two-seater", when what customers really wanted was a "practical, usable and, yes, comfortable high-end sports car". AMG listened, so now we have the new, flagship GT 63. It is "slipperier and better-proportioned". The rear is "sleeker… and the long nose sharper". There's "a meanness to it" and "like all the best AMGs, it seems to glower at you for causing it to be stationary. Little wonder it turns heads".

"We're struggling to think of anything else we've tested recently that has drawn so many double takes from the general public," says Alex Ingram in Auto Express. "Desirability really matters when you're asked to sink £165,000 into a performance car, but public opinion seems to suggest that Mercedes-AMG has absolutely nailed it." Yet there is more to the GT 63 than just looks. AMG has taken a "more mature, hi-tech approach" to its development. The car has sprung an extra two seats in the back and the boot offers a "generous" 321 litres of space. "One of the key selling points of any AMG model is under the bonnet, and here the latest GT continues with the brand's legendary twin-turbocharged 4.0-litre V8… [It] makes 577bhp and a thumping 800Nm of torque all the way from 2,500rpm to 5,000rpm."

For all that power, the new GT is "very easy and undemanding" and "rather satisfying" to drive, says Top Gear. Plus the noise of the "thumping" V8 is "corking". "A big lift in third or fourth gear when the engine is nice and hot and the exhaust valves are fully open will provide the kind of high-performance V8 bassy cackle that sounds like firecrackers in an oil drum. Lightly addictive… Above 3,000rpm throttle response is all but immediate and the rate of acceleration is suitably fearsome." It hits 62 mph in 3.2 seconds and the top speed is 196 mph.

The new GT remains the "V8 hot rod wild child", say Matt Saunders and Greg Kable in Autocar. No wonder it turns heads. It is a car that "demands your full attention, and seldom lets you relax much at the wheel". This is "full on, maximum V8 volume sporting entertainment – and 'over the top' remains what it does better than almost any rival".

"We're struggling to think of anything that has drawn so many double takes"

Mercedes-amg.com/en

Whisky of the week: an English revolution

Fielden, Rye Whisky of England, 48% ABV

£60, 70cl bottle, fielden.com, bbr.com

Matthew Jukes
Wine columnist

I came across Fielden's MD, Mark Harvey, at the launch of Walpole Brands of Tomorrow 2024. I am not a whisky expert, but it took no time for me to fall wholeheartedly into the legend surrounding Mark's passion project. He only uses heritage grains and traditional farming techniques with no chemicals and no tillage to farm his crops. This mantra is known as restorative continuous cropping, and it leads to immeasurable improvements in biodiversity in the fields, encouraging life to bloom above and below the soil. This Elysian vision is depicted on his whisky label. The company has planted heritage grains in 15 farms from Cornwall to Norfolk, so there is serious ambition here. These grains are favoured because of their stunningly complex flavours and not their high yields.

The flagship, Fielden Rye, which I am proud to feature this week, is like nothing I have ever tasted. It has the generosity and silkiness of an elite Armagnac, with hints of white peach, fig, macadamia nut, mandarin zest and wild honey over a truly civilised but masterful whisky core. What I admire so much about this flavour is that I never reached for water or ice. It was complete, harmonious, genteel and mouth-coating while rewarding my palate with the longest and most sophisticated senescence of glorious flavours.

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

Property

This week: Grade-I listed properties – from an apartment in a neo-classical terrace designed by John N

▲ **Chester Terrace, Regent's Park, London NW1.** A renovated apartment in a Grade I-listed terrace designed by John Nash, situated on the edge of Regent's Park. It has wood floors, decorative fireplaces and a spa with a sauna and a swimming pool. 5 beds, 3 baths, dressing room, 2 receps, parking, roof terrace. £14.5m Knight Frank 020-7483 8334.

▶ **Bingham's Melcombe, Melcombe Bingham, Dorchester, Dorset.** An estate with a Grade I-listed nine-bedroom manor house, a four-bedroom dower house, and two three-bedroom cottages set in gardens with a stream and a Grade II-listed bridge. Farmland, parkland, river frontage, 112.2 acres. £8m Knight Frank 01935-810064.

▶ **Sandford Orcas Manor, Sherborne, Dorset.** A Grade I-listed manor house dating from the 1550s with earlier origins. It has leaded light stained-glass stone-mullioned windows, carved stone fireplaces, oak floors, Jacobean panelling and a great hall with a grand carved 16th-century fireplace. 9 beds, 3 baths, 3 receps, study, breakfast kitchen, 3-bed cottage, stables, outbuildings, gardens, pasture, 12 acres. £4.2m Savills 01202-856800.

Nash on the edge of London's Regent's Park, to a Jacobean hall in Nantwich, Cheshire

Dorfold Hall, Acton, Nantwich, Cheshire. A renovated Grade I-listed Jacobean hall surrounded by Victorian gardens with a walled garden and a wildflower meadow. It has a grand reception room with panelled walls, an ornate ceiling, and period fireplace. The outbuildings include a restore clock tower, an RIBA award-winning event space with a commercial kitchen, and four cottages. 10 beds, 9 baths, 3 receps, library, kitchen, flat, arable land, 101 acres. £11.4m Savills 01952-239529.

Barnham Court, Barnham, West Sussex. A restored Grade I-listed 17th-century house built in an English Baroque Artisan Mannerist style with formal Anglo Dutch parterre gardens. It has a hall room that spans the length of the building. 4 beds, 4 baths, 3 receps, tower room, flat, cottage, 6.2 acres. £4.1m+ Jackson-Stops 01243-786316.

Lawkland Hall, Lawkland, Austwick, North Yorkshire. An estate on the edge of the Yorkshire Dales with a restored Grade I-listed 16th-century house with cross-leaded stone-mullioned windows, oak and linenfold panelling, stone fireplaces and the Ingleby coat of arms engraved over the front door. 9 beds, 4 baths, 3 recep, kitchen, 2 x 3-bed cottages, outbuildings, let farm with farmland, 545 acres. Available in three lots. £5.25m Strutt & Parker 01423-706765.

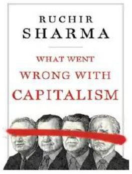
Leigh Barton, Churchstow, Kingsbridge, Devon. A restored Grade I-listed traditional Devon building dating back to 1120 with a range of attached 15th-century buildings, two Grade II-listed cottages, a gatehouse and gardens that include a lake created from a medieval fish pond. It has flagstone floors, beamed ceilings and open fireplaces. 4 beds, 3 baths, dressing room, 2 receps, 3 acres. £2m Marchand Petit 01548-857588.

Glemham Hall Estate, Little Glemham, Woodbridge, Suffolk. An estate close to the Suffolk Heritage coastline with a Grade I-listed 16th-century manor with earlier origins, which was remodelled in 1708. The gardens were laid out by Humphrey Repton in 1791. It has a grand entrance hall, period fireplaces and panelled walls. 12 beds, 5 dressing rooms, 7 receps, conservatory, 7 cottages, gardens, parkland, river frontage, arable land, let farm, 1,763 acres. £19m Strutt & Parker 01473-220449.

Book of the week

What Went Wrong With Capitalism

Ruchir Sharma
Allen Lane, £25



It's safe to say that capitalism is not enjoying the greatest of reputations at the moment. The economic success of the US once provided the inspiration for a generation of policymakers and intellectuals from India to China, says Ruchir Sharma. Now, even the Americans seem to have fallen out of love with the free market. Indeed, only half of Americans under 40 now say in surveys that they support capitalism; a third even say they are open to the idea of communism. Sharma agrees with such critics that change is needed, but differs in that, like his hero Ronald Reagan, he sees big government not as the solution, but as a large part of the problem.


Reagan: big government is part of the problem
©Getty Images

> *"The idea that government in most developed countries, including the US, has retreated, is a myth"*

The idea that government in most developed countries, including the US, has retreated, is a myth, says Sharma. Government spending and the numbers of regulations have significantly increased over the last few decades. The political desire for tax cuts without spending reductions has created chronic deficits, causing national debt to spiral. At the same time, the unwillingness of central banks to permit even the smallest correction in markets has resulted in a perpetual series of bailouts and monetary stimulus packages, and artificially low interest rates have kept a swathe of chronically unprofitable zombie firms alive.

Where deregulation has taken place, Sharma contends that much of it has been in the wrong areas. The removal of controls to prevent predatory pricing, for example, and a reluctance to block the merger of large firms, has undermined small and medium-sized firms and led to the consolidation of entire industries. This in turn has given dominant companies unprecedented pricing power at the expense of consumers and workers. The easy money and the increased profit margins enjoyed by oligopolies has also led to an explosion in wealth inequality, further fuelling popular discontent.

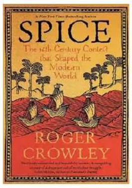
You could argue that the example of Greece and other countries in the European crisis of the 2010s suggests that simply doing nothing when markets go into crisis is not a practical or politically palatable option. But even if you agree with the general direction monetary policy has taken, it could surely have been carried out in a better way.

Sharma, for his part, and for all his criticism of overregulation, bailouts and deficits, is no libertarian absolutist – he points to the examples of Switzerland and Sweden as countries that show that a sound fiscal policy and open markets are not necessarily incompatible with a humane welfare state, for example. The book is in places a bit long-winded, but overall makes for an intriguing read.

Reviewed by Matthew Partridge

Spice

The 16th-Century Contest that Shaped the Modern World
Roger Crowley
Yale University Press, £20



Globalisation is a hot topic, but the phenomenon is nothing new, as historian Roger Crowley shows in this fascinating book. Globalisation really began, he says, in the 16th century, when European explorers discovered South America and Asia. The impetus wasn't so much lust for gold or precious metals as a taste for the exotic spices and flavourings that came from Asia. Crowley examines the lives of the early explorers, from Ferdinand Magellan, who led the 1519–22 Spanish expedition to the East Indies, through to later voyagers such as John Cabot (born in 1450), who was instrumental to the development of transatlantic trade.

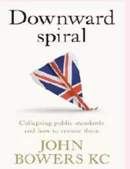
Spain and Portugal tried to divide up the rights to these lucrative trade routes among themselves, but informal agreements quickly broke down. Exploring was thus a dangerous occupation, as both Magellan and Cabot were to discover. By the end of the century, advances in nautical understanding vastly improved the chances of success, leading joint stock firms, such as the East India Company, to get involved.

Crowley seems torn between presenting an analysis of the impact of changing trade patterns and a more traditional narrative history, and in the end the economics gets pushed out by his accounts of some of the major voyages. But the book is well written and gives the reader a sense of what it is must have been like to sail into unknown territory thousands of miles from home.

Book in the news... can any reform stop the rot?

Downward Spiral

Collapsing Public Standards and How to Restore Them
John Bowers
Manchester University Press, £20



The years leading up to the 1997 general election saw a spate of scandals, including "cash for questions", which led to a lot of soul-searching about standards in public life. Over a quarter of a century on, with a Conservative government facing another defeat, little seems to have changed, with ministers and MPs, most notably former prime minister Boris Johnson, departing under a cloud. Barrister John Bowers argues that this continued decline in the behaviour of elected officials shows that our political system is not fit for purpose and needs to be radically reformed.

Reforms carried out after 1997 aimed to increase transparency, but they were incomplete and still left the government of the day as the final arbiter of whether misbehaviour had taken place, as Bowers points out. This conflict of interest and lack of formal codification meant that the system still relied on the people in charge observing the unwritten rules of behaviour, which completely broke down when public officials simply refused to play the game, as did Johnson. Bowers wants the rules to be toughened up, put on a statutory basis, and enforced by independent monitors who are free from political interference.

Bowers' long and detailed book highlights many problems with the current system. The body in charge of preventing ministers taking jobs with the companies that they formerly dealt with is, for example, only advisory and is understaffed. Some of his suggestions for reform, however, such as for laws that enforce "honesty" and "integrity", could end up becoming instruments of political warfare (as Bowers admits at the end). And by restricting the government's ability to influence everything from public appointments to ministerial selection, they would represent a massive transfer of power from elected politicians to unelected civil servants and judges. At the end of the day, it is better and more democratic for the public to punish bad behaviour at the ballot box than to rely on any code or committee.

Bridge by Andrew Robson

Winners count Winners

Dealer South Neither side vulnerable

North
♠ KJ86
♥ QJ108
♦ A85
♣ 32

West
♠ 3
♥ AK3
♦ K1074
♣ KQJ85

East
♠ 1042
♥ 76542
♦ Q963
♣ 7

South
♠ AQ975
♥ 9
♦ J2
♣ A10964

The bidding

South	West	North	East
1♠	Dbl	2NT*	pass
4♠	pass	pass	pass

* Good Spade raise – the equivalent of a Three Spade bid (or better) without West's take-out double.

West refrained from leading a top Heart v South's Four Spades, instead leading the King of Clubs. Lots of possibilities present themselves, such as ducking the King of Clubs, preparatory to some ruffing in dummy. This would not have been a success (East ruffing the second round).

Count your winners. Assuming three-one Trumps, you have six Trump tricks (counting a ruff with dummy's remaining Trump – after Trumps are drawn). You have the two minor-suit Aces. And you also, crucially, have two Heart tricks – after the Ace-King have gone. The best line is to win the Ace of Clubs and lead a Heart.

Say West wins the King of Hearts and switches to a Diamond (best here – although risky). Win the Ace and lead the Queen of Hearts, discarding a Diamond from hand (key play). Whatever West does, you can win (ruffing the likely Diamond), draw Trumps in three rounds, then cash your promoted Knave-ten of Hearts, discarding two Clubs. Ten tricks and game made.

Easy to miss – but if you focus primarily on counting your winners, you're more likely to find the right line.

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

Sudoku 1211

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

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

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

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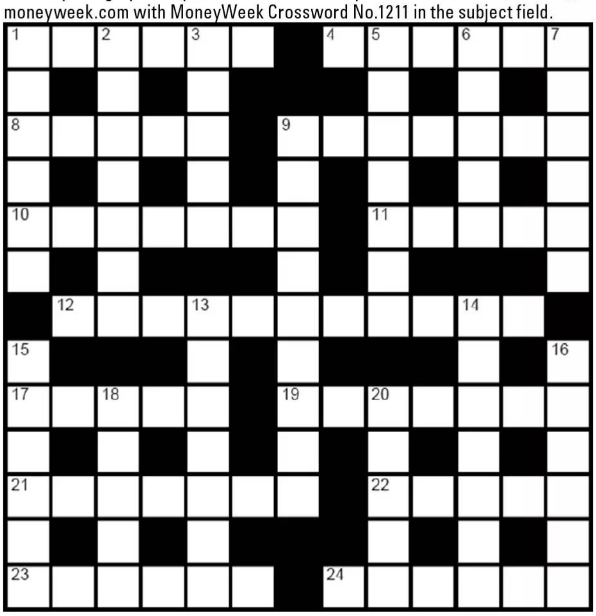
Tim Moorey's Quick Crossword No. 1211

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 17 June 2024. By post: send to MoneyWeek's Quick Crossword No.1211, 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.1211 in the subject field.



Across clues are cryptic whereas down clues are straightforward

ACROSS

1 Stirred fish in tin (6)
4 Instruments, some are vital (6)
8 Not enough time given to survey (5)
9 Jones perhaps at home with a goddess (7)
10 Regime's changed creating these? (7)
11 Cotton yarn length shortened by an inch (5)
12 Top bass really annoys rock fans (11)
17 Approves sweet Hungarian wines being unopened (5)
19 Moderate change in net cash (7)
21 Where to see the military disorganised? (2,1,4)
22 Saw publicity mature (5)
23 First lady foremost in noisy Trump southern rallies (6)
24 Son quits a game (6)

DOWN

1 English county (6)
2 Cupidity (7)
3 "Come in!" (5)
5 Symbol of communism (3,4)
6 Sort of apple (5)
7 Frightened (6)
9 Examples (9)
13 Opposition (7)
14 Competitive struggle for wealth (3,4)
15 A beginner (6)
16 Town in western France (6)
18 Stun (5)
20 Humble (5)
22 Items in a sporting programme (6)

Name ....

Address ....

....

email ....

Solutions to 1208

Across 1 Strimmer *s + trimmer* **5** Emit *reversal* **9** Incas *in cas(e)* **10** Meander *me and 'er* **11** Out of the blue *cryptic def* **14** Act *double def* **15** Smart *reversal* **16** Sri *hidden* **17** Mistreatment *anag of matters men it* **20** Shavers *double def* **22** Theme *the me* **23** Teem *homophone* **24** Starters *initials.* **Down 1** Skip **2** Recruit **3** Misconstrued **4** Elm **6** Model **7** Turmeric **8** Caveat emptor **12** Tiara **13** Marmoset **16** Sincere **18** Spare **19** Mess **21** Sit.

The winner of MoneyWeek Quick Crossword No.1208 is: Christine Blinston of Keswick

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

Unbelievable returns

Nvidia is the hot new thing on the stockmarket. Can it live up to its promise?

Pelosi made a mint from Nvidia – could you too?

©Getty Images

Bill Bonner
Columnist

Nancy Pelosi, a member of the US House of Representatives, and her husband, Paul, have made nearly $4m so far from Nvidia call options that they acquired last November, reports Unusual Whales, a financial services platform. Good for them!

But Nvidia has made a lot of people a lot of money. In its latest report, Nvidia reports a 262% boost in sales, year on year. Net revenue rose 265% with a net profit margin of 57%. Apparently, Nvidia is about the most amazingly swell thing to happen in the financial markets since Global Crossing was founded in 1997. (Global Crossing was set to be the most important company in the new economy; it was thought to control an internet choke point. Alas, the company declared bankruptcy in 2002.)

Now, Nvidia has the pole position. It is growing at a blistering pace. And it's expected to keep growing. It was only four years ago that Nvidia was worth $150bn. Now it is worth 20 times that much. Along with Apple and Microsoft, it is one of the three biggest companies in the world. Together, these three companies are worth more than the annual GDP of Germany or Japan or any of the world's countries, save two – China and the US. And so far this year, Nvidia's investors have a gain of 132%.

Nvidia specialises, we are told, in graphics processing units (GPUs), first associated with video and computer games and now a key part of artificial intelligence (AI). Here on the back page, our GPU needs are limited. But what we're wondering is how much real need the rest of the world has, and whether it is enough to justify a $3trn price tag.

Let's look at the numbers. In order to justify a $3trn price, assuming an average price/

> *"You'll have to wait 2,400 years to get your money back"*

earnings ratio (after the growth phase), the company should be able to produce about $200bn of profit each year, and keep it up year after year so that the total return on Nvidia's stock at least exceeds what you could get from US government Treasuries.

Can Nvidia do that? Income for the last 12 months was $43bn. Say it doubles next year and doubles again the following year. Now, we're up to $172bn, and within hailing distance of the target. This assumes, however, that the company sells four times as many chips, while keeping the same profit margin. How likely is that? It also assumes that new technology doesn't get any newer, leaving Nvidia stranded on an island of the past, or that competitors don't steal a march on the company, coming out with better, or cheaper, GPU chips.

It would be almost unbelievable for Nvidia to do all these things. But it's already done almost unbelievable things. Maybe it will do more. But the most unbelievable thing of all is that the company must not only hit the earnings target once, it must also sustain its position long enough for investors to recover their money. The idea, we suppose, is that Nvidia will become like the Coca-Cola company: providing refreshment for generations of AI users while delivering reliable dividends over many years.

At the current market capitalisation, Nvidia would quickly have to quadruple or quintuple its earnings, maintain them there for the next 15 years – and distribute all of it to investors – just to make investors even. Currently, Nvidia pays out only 1% of its income in dividends. At that rate you'd have to wait 1,200 years to get your money back. After tax, it could be 2,400 years. What are the odds?

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

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