MARKETS *P4*
India's compelling growth story

FOCUS *P20*
Founder-led firms add fizz to a portfolio

PLUS
Aston Martin's mid-life facelift
CARS *P33*

MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

21 JUNE 2024 | ISSUE 1213

Bankrupt Britain

The end of tax-and-spend

Page 16

BRITAIN'S BEST-SELLING FINANCIAL MAGAZINE

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Britain's best-selling financial magazine

From the editor...

Are we there yet? In the 1920s and 1930s election campaigns were often just three weeks long; if we could resuscitate that tradition next time round I would be most grateful. The last 14 years have often felt like a shambolic production of *Noises Off*, so it is perhaps no surprise that the government's campaign has continued in this vein.

On Wednesday we saw Rishi Sunak and David Cameron attempting to feed sheep at a farm in Devon, but the sheep moved away. Ah well. When the herd moves, it moves, as a former prime minister noted on his way out. He was another noise off this week, seemingly dragged out of a pub six gins deep to make a video in support of someone about to lose their seat.

When the herd moves, it moves – and it has shifted to Labour

©Getty Images

"The global AI industry is expected to consume as much energy as the Netherlands by 2027"

Too many Noises Off

This kind of rolling farce tends to obscure the important issues, of course, but neither party seems to be making much effort to discuss them in any case. We heard a great deal about inflation from the prime minister this week, with the annual rate falling back to the Bank of England's target of 2% for the first time since 2021. "We've got there," says Sunak, although we might not stay there for very long. As Yvan Mamalet of SG Kleinwort Hambres notes, the data don't provide much evidence that domestic inflationary pressures are softening. Service-sector inflation of 5.7% remains high, and core inflation (excluding food and energy) is still 3.5%. The global backdrop also points to upward pressure on costs, with oil still at $85 a barrel and the recent jumps in the prices of base metals (see page 24).

There has been some discussion of Labour's plans for taxation (see page 26), but the interesting thing about them is that they will be highly unlikely to move the needle. With the tax burden on track to reach a record 37.7% of GDP, the scope for extracting much more money from the populace seems limited. Higher taxes would also militate against the growth we so desperately need. Upping spending implies more borrowing, and hence higher spending on debt interest (see page 16).

The end of tax-and-spend means focusing on the supply side and the blockages to growth there. It is clearly time to put a rocket under the planning system that prevents us building new film studios or data centres (see page 19) to underpin activity in artificial intelligence (AI). A data centre was refused planning permission because the buildings could be seen from nearby motorway bridges. "How productive sectors like life sciences, AI and film are depends upon what we've built," says Sam Dumitriu of campaign group Britain Remade.

Having built the infrastructure, we need to ensure that we can provide it with reliable power. According to one estimate the global AI industry will consume as much energy as the Netherlands by 2027, while the population is on the increase (see page 14) and the intermittent nature of green energy remains a headache.

Making it easier to build nuclear power stations and, in particular, small modular nuclear reactors (SMRs), which can be moved around, would be hugely helpful here (we will take another close look at this highly promising energy subsector next month). Labour's 142-page manifesto contains one vague reference to SMRs being part of the future energy mix, and 20 references to planning. The herd has moved, but seems unlikely to progress very quickly over the next five years.

Andrew Van Sickle
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More cream for US fat cats

Bosses' pay in the US is increasing at the fastest rate in at least 14 years, with median CEO remuneration at blue-chip S&P 500 companies rising by 12% in 2024, compared with a 4.1% increase in overall US wage growth, says Patrick Temple-West in the Financial Times. Ballooning reward packages, such as the $56bn stock-options package approved by shareholders of electric-car company Tesla for boss Elon Musk (pictured), conditional on ambitious targets being met – the biggest in US history – risk "exacerbating social inequality". Some industry experts suggest escalating executive pay is driven by companies' desires to retain CEOs and prevent rival companies from poaching them. Yet excessive pay packages are no guarantee of success. Peloton, Nikola, Lending Tree and Paycom Software are among a handful of big companies to have offered their bosses "mega stock grants only to see their share prices sink".

Cover illustration: Adam Stower. Photos: Aston Martin; Getty Images

Good week for:

Regency period drama *Bridgerton*, starring Nicola Coughlan (pictured), has boosted the **British economy** by £275m over the past five years, according to streaming giant Netflix. The series has not only brought a renewed interest in clothing and interior-design trends with a historical twist, but it has also increased tourism to stately homes and made afternoon tea popular again, says The Guardian. Making *Bridgerton* is estimated to have supported nearly 5,000 local businesses and created thousands of jobs.

George Osborne, the former chancellor, has got off to a good start in his first year at the helm of the Agnelli family vehicle, Lingotto Investment Management, says The Telegraph. The London-based firm, chaired by Osborne since May 2023, made a £53.5m profit in the year to the end of December, up from £16.3m in 2022. The Italian industrialist Agnelli family traces its fortune back to the founding of Fiat in 1899. Osborne's pay was not disclosed in the filing.

Bad week for:

A missed putt from 3ft, 9in at Pinehurst in North Carolina last Sunday cost Northern Irish golfer **Rory McIlroy** the chance to claim the US Open title, says The Times. It would have been his first major title win in a decade. Instead, American Bryson DeChambeau took the $4.3m top spot, while McIlroy made do with $2.3m in second place.

Theatregoers are paying over £200 for the best seats in the West End for the first time, according to The Stage. Three plays, including *Romeo and Juliet*, are charging that much, while it costs £304 to see *Cabaret*, starring Cara Delevingne, in the dearest seats. Average prices for the top seats rose by 9.3% in a year, to almost £155.

©Getty Images; Netflix

Indian stocks bounce back

Alex Rankine
Markets editor

©Getty Images

Modi: out with the old, in with the old

"The new Modi government looks a lot like the old one," says The Economist. Indian voters recently stripped prime minister Narendra Modi's governing BJP party of its parliamentary majority for the first time in a decade, leaving it to rely on smaller parties to stay in power. Concern that a shaky coalition could undermine growth saw Indian markets plunge 6%, wiping $400bn off stocks in a single day earlier this month.

However, Modi has assembled a coalition that is broadly "sympathetic to his pro-business" agenda, with many of the key ministers from the last term remaining in place. The result? The BSE Sensex index "clawed back all its losses" within a week and is up 7% since the start of the year.

Modi has already achieved much since coming to office in 2014, says John Reed in the Financial Times. His government has "stabilised" a "wobbly macroeconomy", implemented much-needed tax reforms and powered into the digital economy. But India still faces "deep structural challenges" in areas such as farming, where "mass protests" have seen off previous attempts at reform. New Delhi wants to build up India's manufacturing base, but that requires difficult changes to labour and land laws. As one local business commentator puts it, if Modi didn't manage these reforms in the last ten years, "why would we see them now that the BJP don't have the majority"?

Complaints about a "two-track economy" that leaves too many people behind gained more traction than expected at the polls, says Jon Sindreu in The Wall Street Journal. That could well force Modi to "shift some of the attention he has paid to infrastructure and investment" toward social programmes to placate angry voters. Nevertheless, growth will continue as already agreed infrastructure projects bed in. Capital expenditure has hit more than a third of GDP. The "Indian growth story remains a compelling one".

Good news is in the price

The Mumbai bourse's recent gyrations serve as a reminder that professional investors are horribly "bad at assessing… political risk", says Nicholas Spiro in the South China Morning Post. India is the world's most expensive major equity market on a forward price-to-earnings basis, surpassing even the US. Indian shares deserve some of that premium thanks to rapid growth, quality companies and a "geopolitical sweet spot". But local stocks look "priced for perfection", leaving them vulnerable to bad news. Indeed, some foreign money managers have been quietly pulling out in recent months, taking the share of foreign ownership of Indian stocks below 18%, the lowest since 2012. Instead, local retail investors are "powering the rally".

India's election result shouldn't radically derail its impressive growth trajectory, says Thomas Mathews of Capital Economics. The economy could well double in size over the coming decade. But that doesn't make Indian stocks especially compelling. A "very benign" backdrop for India – from improved economic stability and the global hunt for alternatives to China – already looks priced in to shares. Indian stocks have had a good run, but further world-beating returns will be a tall order from here.

Do the dollar doomsters have a point?

©Getty Images

News of the dollar's demise has been exaggerated

"The dollar doomsters have got it all wrong," says Katie Martin in the Financial Times. A certain type of financial pundit is fond of saying that the greenback's days as the world's reserve currency are numbered, while invoking grand historical parallels with the fall of Rome.

The argument goes that sanctions against Russia and other rogue states are marginalising the US financial system. But the dollar bears have been saying much the same thing for two decades, even as the dollar trades near multi-decade peaks. True, the dollar's share of global official reserves has dipped from 65% in 2016 to 58.4% last year. But challengers remain far behind – gold, perhaps the most compelling alternative, makes up only 10% of global central-bank reserves.

On some measures, the yuan is rising fast, says The Economist. China's currency is already the "fourth-most active currency in global payments" and the Middle Kingdom now settles roughly half its external transactions in yuan. But experts have been talking about an emerging "yuan bloc" in east Asia since the global financial crisis, and it has still to appear. At just 2.3% of global foreign-currency reserves, the yuan has dropped back behind the Canadian dollar in the pecking order to sixth place.

Plenty of people are keen to see the dollar fall, says Peter Earle for the AIER think tank. A misleading news story about the supposed termination of a US-Saudi agreement to price crude in greenbacks recently did the rounds on social media – in reality there is "no formal treaty" and Riyadh has "transacted in non-dollar currencies for decades".

But the eagerness with which the story was picked up by financial bloggers does speak to a genuine trend. As Saudi Arabia slowly pivots its trade ties east, one of the pillars of the greenback's dominance is undeniably shaking.

New sanctions on Russia

The Moscow exchange has been forced to suspend dollar and euro trading following new US financial sanctions, say Alexander Marrow and Mark Trevelyan for Reuters. The US Treasury says the sanctions are "targeting the architecture of Russia's financial system" because of its role in directing capital to the Russian defence industry and acquiring "goods needed to further... aggression against Ukraine".

Russians seeking to secure dollars and euros now need to resort to costlier and more opaque deals on the inter-bank market, say Anastasia Stognei and Joseph Cotterill in the Financial Times. That raises the costs of importing and exporting in Russia. The currency trading suspension is like "a medieval town where the central market shuts down", says Janis Kluge of the German Institute for International and Security Affairs. "There will still be farmers looking to sell food and villagers looking to buy," but the deals are happening chaotically in "corners all over town". In the long term the sanctions will only promote "de-dollarisation" by "reinforcing" Russia's turn towards "friendly" currencies such as those of China (see page 4), says Nessim Aït-Kacimi in Les Echos. Before Russia's invasion of Ukraine the yuan made up "scarcely 1%" of currency exchanges on the Moscow exchange, but that figure reached 53.6% last month as trade ties deepen between Moscow and Beijing.

The next big accident


©Getty Images
Investors demand transparency after, not before, a disaster hits

"There is clearly an asset bubble going on in private credit," UBS's chairman Colm Kelleher told a conference in London late last year. Investors usually focus on public markets, says Michael Bromberg in Investopedia. But, below the radar, private markets have been growing fast. Private equity has attracted some attention, but there has been a concurrent boom in the lesser-known world of "private credit". This sees large institutions such as pension funds extend loans to firms that "may have trouble accessing credit" from traditional sources such as banks or bond markets, perhaps because the borrower has a credit rating that's "below investment grade".

Many banks reduced their lending after the global financial crisis, creating an opportunity for private credit funds. Since 2008, the private credit market has soared from $375bn to more than $1.6trn globally as of March last year, according to financial data group Preqin.

More recently, the jump in interest rates has propelled the sector to new heights, says The Economist. Dearer credit made banks even less keen to lend to riskier firms, leaving private credit as "the only game in town". Industry insiders heralded the arrival of a "new golden age". Last year was a vintage one for private credit, with "direct lending" enjoying 12% returns in the US, says Kat Hidalgo on Bloomberg. Yet the "shine is coming off Wall Street's new money spinner". Banks – which wobbled last year – are now "back" in the lending game. The renewed competition is driving down the interest rates that private credit lenders can secure on loans.

Opaque risks

Private markets used to be a niche affair, a sector where "sophisticated rich individuals" made calculated bets, says Gillian Tett in the Financial Times. Attractive returns have since prompted "mainstream" pension funds and endowments to "rush in", leaving ordinary savers exposed. The "costly and clumsy" reporting requirements on public markets can be a drag, but they do help investors understand the risks they are taking. Private markets are a more opaque affair. "Financial history shows" that investors only demand "basic levels of transparency after, and not before, a disaster hits."

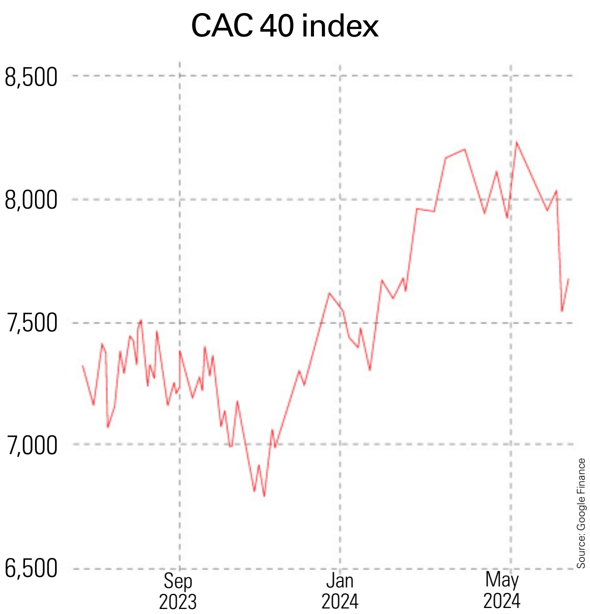
Regulators are well aware of the dangers, but loath to crack down: private credit has been an important support for business growth, says Jeremy Warner in The Telegraph. The Bank of England's Lee Foulger estimates that "non-bank finance" has accounted for "nearly all of the £425bn net increase in lending to UK businesses since the financial crisis". Yet some of these deals seem "too good to be true". What kind of firm agrees to interest rates on private loans "that can be as high as the mid teens"? Pension funds and insurers are now "up to their necks" in these "illiquid assets". Those on the lookout for "the next big accident waiting to happen" should keep an eye on "private credit".

Viewpoint

"The enduring undervaluation of British companies has... been a catalyst in persuading boards [of the merits of] buyback programmes... It's... less drastic than uprooting the company in search of deeper pools of capital elsewhere... [Buybacks have become so popular] that the Liberal Democrats have even proposed a 4% levy on FTSE 100 buybacks... In theory, investors can realise their own dividends from buybacks by selling shares from their new higher-value holding... since 2016, the top 20% of FTSE SmallCap companies by buyback yield – those spending the most on buybacks as a proportion of their market capitalisation – have delivered around twice the total return of the whole index... the UK's listed [firms] need all the help they can get... and if buybacks are the easiest way of providing a [share-price floor]... companies [should] use them."

Rosie Carr, Investors' Chronicle

French stocks take fright



The UK stockmarket has regained its title as the biggest in Europe. A luxury boom helped the Paris bourse eclipse London in 2022, but France's blue-chip CAC 40 index has dropped by nearly 5% since Emmanuel Macron called early parliamentary elections for the end of this month (see page 11). Macron's shock announcement wiped about $258bn off the value of French firms, says Sagarika Jaisinghani in Bloomberg. With an overall market capitalisation of $3.13trn, the French market is now slightly smaller than the $3.18trn valuation of London-listed stocks. Shares in the big French banks have slid by 10%; the banks have large holdings of public debt, which looks risky should free-spending populists come to power in Paris.

Cracks in the wall at Crest

The housebuilder has failed to exploit a benign backdrop in recent years. Should it now merge with rival Bellway? Matthew Partridge reports

Shares in homebuilder Crest Nicholson fell by 11% last Thursday after the company unveiled yet another profit warning, says Melissa Lawford in The Telegraph. But they clawed back most of the lost ground back a day later after Crest's new CEO Martyn Clark said it had turned down an unsolicited £650m takeover bid from rival Bellway that "significantly undervalued" the business. However, experts warned that Crest's recent poor performance means that Clark "will face a difficult turnaround job... shareholders may have wished management had asked their opinion" before rejecting the bid.

Even though Bellway's all-share offer works out at a 30% premium over Crest's share price in May, Clark clearly thinks that this is too little, says Joshua Oliver in the Financial Times. His main concern is that it would value the company at a discount to what he considers to be its "strong land portfolio". Still, Clark may be too optimistic about Crest's prospects as a standalone company. It has "struggled, even in the context of widespread gloom in the homebuilding sector", thanks to "building defects at older sites and buyers put off by high mortgage costs".

Home alone

Crest's past "prowess at making a horlicks of a market ostensibly loaded in its favour" is dragging down its share price, says Alistair Osborne in The Times. There is also the promise of "more nasties to come" over past problems with cladding and the risk of fire. Some brokers argue that a merger with Bellway would produce "at least £25m of synergies" and facilitate the purchase of larger sites. With the top 25 investors in Crest also owning 36% of Bellway, Clark "has a job on proving that a home-alone strategy works best for Crest".

Already, it seems that some of Crest Nicholson's biggest shareholders are "pushing" the board to agree some sort of tie-up with Bellway, says Sam Chambers in The Sunday Times. For example, asset management group Schroders, which owns 3% stakes in both companies, is sceptical about the odds of Crest managing to turn itself around as a separate company. It thinks that "the time has come" for Crest "to become part of a larger group". Similarly, asset manager abrdn, which also has both companies in its UK Value Equity Fund portfolio, thinks that neither Crest's board or its shareholders can deny that "there is logic to a combination with Bellway", though it believes that Bellway's bid "is not at an appropriate price".


©Getty Images
Housebuilding is far less profitable than it used to be

While Crest's shareholders may think that Bellway certainly has "scope to offer more" for Crest, it may only require a "nominal hike" to get the deal over the line, says Yawen Chen on Breakingviews. What's more, consolidation not only "makes sense for Crest in particular but also for UK builders in general". Previously "chunky" returns on capital employed "have slumped to single-digit levels", thanks to "cost inflation and a housing market wrestling with higher interest rates that make it harder for buyers to take the plunge".

Carlos Slim dials in to BT

BT's shares hit a one-year high last week after Mexican billionaire Carlos Slim bought a 3% stake through his family holding company, says Leah Montebello in This is Money. Slim is the "latest high-profile investor", alongside billionaire telecoms tycoon Patrick Drahi and Germany's Deutsche Telekom. The backing from one of the world's richest men may be seen "as a vote of confidence" in CEO Allison Kirkby, with BT's value now 20% higher since her arrival in February. But Slim's motives for buying are "unclear".

Kirkby's "short-busting" strategy of upping BT's dividend and making promises about its future free cash flow may have attracted Slim's attention, says Lex in the Financial Times. Or he may be after "the stability of a utility's cash flow"; it looks as if "group capital expenditure has peaked". Either way, less affluent BT shareholders "might take heart from Slim's interest", given that there is "scant evidence that the doubters have taken flight": BT's return, including dividends, has lagged the FTSE 100 by 11% over a year.

Slim's investment also provides insurance against the possible departure of the "cash-strapped" Drahi, who owns nearly a quarter of BT. Experts think that Slim's investment is most likely to be "an opportunistic strategic investment aiming to capitalise on BT's still fairly depressed share price", says James Warrington in The Telegraph. But it could also be "a beachhead to taking a stronger position" in the stock. He has been behind failed takeover bids at Dutch telecoms firm KPN, Telecom Italia and Portugal Telecom. What's more, it is only the latest example of a foreign billionaire "snapping up shares in British telecoms giants such as BT and Vodafone". At the very least, this "string of foreign billionaires on share registers means change could be on the horizon – and bosses will have to be on their guard".

Elon Musk is in the money

Elon Musk has received a big boost in the fight to retain the biggest compensation package secured by an executive at a US-listed company. Tesla's shareholders have approved a $45bn pay deal following a referendum, says Nick Robins-Early in The Guardian. The vote came after a decision by a Delaware court to strike down the payment on the grounds that Tesla's board "could not be considered independent from Musk's influence and reached that dollar figure through an illegitimate process". Despite the opposition of "prominent shareholders" such as Norway's sovereign wealth fund, most shareholders voted to endorse the pay package amid concerns that Musk "could turn away from the company if the package wasn't approved".

When the deal was originally agreed in 2018, the idea of Musk making so much money from stock options "appeared merely theoretical", says the Financial Times. By endorsing the deal, shareholders have implicitly agreed with Musk that Tesla's subsequent share-price increase "beyond all expectations" is solely down to "his acumen". This is debatable. Musk "has often appeared to ignore Tesla", as shown by reports of his "redirecting Nvidia chips meant for Tesla to his other companies". He also devoted an "inordinate amount of time and capital to his quixotic acquisition of Twitter".

The vote also endorsed Musk's decision to move Tesla to Texas, which may help "loosen Delaware's grip on American corporations", says Theo Francis in The Wall Street Journal. At present, two-thirds of S&P 500 companies are incorporated in Delaware. But the fallout from the case underlines complaints that "Delaware's shareholder protections have gone too far". For its part, Texas has been "wooing businesses" with "promises of lower taxes" and the creation of the state's "own specialised business court system". There is also the prospect of a new Texas Stock Exchange "more CEO-friendly" than New York's.

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

Five to buy

Diploma
The Telegraph
Diploma's shares have soared by 68% in 18 months, outperforming the FTSE 100. The supplier of specialist technical products such as gaskets, wiring and seals is growing strongly, justifying its high price/earnings (p/e) ratio. Diploma's sound financial position allows it to buy high-quality firms. Given the group's "sizeable competitive advantage and impressive long-term growth potential", the shares are worth buying. *4,094p*

Pets at Home
The Sunday Times
Pets at Home has lost a quarter of its value since the Competition and Markets Authority (CMA) began sniffing around the vet industry last September. The regulator is concerned that corporate consolidation has weakened competition. Although a recovery in the share price may not come this year, the grooming business remains profitable, the vet arm operates with "stonking" high margins, and the company has launched a new app and distribution centre. The CMA is unlikely to cause serious injury to the retail business, which has significant growth potential. *308p*

Cerillion
Shares
Cerillion offers billing and customer-relationship-management software to telecom operators. With a growing global market, strong financials and an expanding client base, the long-term outlook is auspicious. It has achieved consistent revenue and margin growth. Cerillion scores highly on key metrics such as returns on capital and operating margins and "throws off oodles of cash". The Aim-listed stock could also be a target for private-equity firms. *1,578p*

Phoenix Group
Investors' Chronicle
Phoenix has transformed itself from a small player to a blue chip by acquiring redundant life-insurance policies and running them off for cash, which has funded large dividends. Questions about its long-term sustainability have grown, but Phoenix aims to focus on new growth areas rather than making large closed-book purchases, with a particular interest in pension risk transfers. The upside to its share price will come from management continuing with its strategy for cash generation and dividend growth. *483p*

Adriatic Metals
The Mail on Sunday
Silver is quietly gaining momentum. With declining silver stores and increasing demand, prices are predicted to rise to over $50 an ounce by 2025, from $23 today. Adriatic Metals, based in Bosnia, is poised for growth with strong government and local support. Adriatic has transitioned to commercial production rapidly. Expansion plans in Serbia and Europe aim to ease reliance on commodities from China and Russia. Young miners aren't for "widows and orphans", but Adriatic could prove "rewarding for the adventurous punter". *203p*

One to sell

Workday
Investors' Chronicle
HR software provider Workday boasts 10,000 corporate customers and has experienced rapid sales growth in recent years. Heavy investments in new products and marketing have undermined the group's operating margin. Workday's high expenditure, particularly on share-based compensation, raises concerns about its future growth and ability to compete as the adoption of artificial intelligence (AI) spreads. If sales fall because companies stop expanding HR departments or use alternative software, then the high valuation bodes ill. "Things need to go perfectly", and there are "plenty of reasons to think they won't". *$207*

...and the rest

The Telegraph
Pub operator **Fuller Smith & Turner** has just announced the sale of 37 tenanted pubs. A 6% capital gain over the past three-and-a-half years is "hardly cause to crack open the Champagne", but there is value to be had through portfolio management, share buyback schemes and improved trading. The pub estate, concentrated in London's City and the West End, could drive sales growth and profits back to pre-pandemic levels with improved footfall. Hold *(704p)*.

Shares
Vending machine and photo booth operator **ME Group**, previously known as Photo-Me International, has revealed robust results for the six months to April, with revenue up by 8.6% and pre-tax profit climbing 13.6%. The Wash.Me laundrette business saw the fastest growth. The company hopes to deliver another record profit this year. With a near-5% dividend yield and earnings expected to expand, the group's shares remain attractive. Hold *(163p)*.

Barron's
WD-40, which makes low-viscosity oil providing lubrication for squeaky doors and stubborn nuts and bolts remains a strong, consistent brand. The US firm consistently returns cash to shareholders, ditches underperforming segments and expands its product's uses. The company has a "high-quality" management team, a growth strategy, and a 25% return on invested capital. Buy *($225)*.

Investors' Chronicle
Wise's shares fell after the expected annual growth rate for underlying income was revised to 15%-20% from 20%. The money-transfer company has been investing heavily to expand its customer base, leading to a 25% rise in administrative expenses. Wise is on 29 times forward earnings. The revised profit growth forecast was "not the perfection that the rating demands". Hold *(713p)*.

A German view

Swiss pharmaceutical giant Roche has received some good news, says Wirtschaftswoche. Its new lung-cancer drug Alecensa has been approved by the EU, having gained access to the American market earlier this year. It now looks likely to achieve sales of CHF1bn in 2024, making it the group's 16th "blockbuster" (a treatment achieving annual sales of more than CHF1bn). There should be plenty more in future, as the pipeline contains 68 promising drugs close to approval or in the final stages of clinical trials. It also augurs well that the Swiss franc has fallen back from its highs, lowering costs. Net income should reach CHF13bn this year. The stock also yields 4%.

IPO watch

Shares in Alef Education, Abu Dhabi's first initial public offering (IPO) of the year, slumped on their first day of trading, says Bloomberg. This is rare in the Middle East, where flotations have generally produced near-guaranteed returns on their debut. The stock fell by as much as 19% from the offer price of 1.35 dirhams (29p) per share. The IPO was oversubscribed, with investors putting in $20bn in orders. It was priced at the top of the range, raising 1.89bn dirhams (£406m). The education technology company's debut on the Abu Dhabi stock exchange is the worst since 2021. In the last three years, 14 firms have floated, with shares rising by 31% on average in the first session.

Finding value in Burgundy

A tough, but possible quest

We've been on the prowl and hunted down the elusive beast. In its June selection Mr.Wheeler's Wine Club brings you a white Burgundy line up that doesn't break the bank.

Average Burgundy prices have risen by roughly 150% since 2017. A series of challenging, low-yielding harvests depleted producer stocks, setting the market – which already was one very much of sellers' – on fire. The fact that many collectors and investors jumped at the chance to own an even-rarer rare bottle, added fuel to the flames. Although 2023's bumper harvest allowed producers to replenish their cellars, en primeur campaigns received it with scepticism – demand for previous vintages remains high, with ongoing pressure on the buying side.

And yet, this does not tell the full story of Burgundy wine. The region has always been shaped by contrasts and a sometimes cruel winner-takes-all dynamic. Napoleonic inheritance laws and an intricate hierarchical quality system, have added to the complexity of endless microclimates and geological variations. Burgundy remains a fascinating, multi-faceted region where lesser-known or maverick producers and appellations can easily be overlooked.

In this month's club selection we offer a glimpse of a side of Burgundy that remains less explored and arguably more authentic – and that allows you to stock up for summer without remortgaging.

The Mâconnais has long been a source of value and also of progressive, sustainable winemaking. As seen in **Jean Loron's Rift 71 Mâcon-Villages 2022**, a pure, gently spicy Chardonnay with a chiselled acid line and no added sulphur. Also from the Mâcon, the **Quintaine Viré-Clessé 2020** delivers muscular minerality and fleshy concentration while also paying tribute to some of Burgundy's most important stakeholders: the quality-driven cooperatives that allow small growers to survive.

Another cooperative – Vignerons de Buxy – is behind the complex and balanced **Montagny 1er Cru Les Chaniots 2022**, proof that value can also be found higher up in the quality pyramid. Assertive on the attack, with floral and herbal notes adding nuance, it opens on the mid-palate with a fleshy core of ripe orchard fruit and creamy citrus. Some serious cellaring potential here. Similarly in **Gérard Thomas' Saint-Aubin 1er Cru Les Perrières 2022** which shamelessly defies its neighbour's prices. While Puligny-Montrachet often commands three digits per bottle, this Perrières shows a comparable balance of luscious fruit, buttery creaminess, savoury nuttiness and refreshing acid for less than £40. The only catch? These bottles – like all of the above – are rare animals, not easy to grab: blink and they won't be there anymore. Snap up your white Burgundy selection now!

Mixed case
(3 bottles of each)
~~£314.40~~ £286.50
Inc free delivery
Save £27.90

2020 Viré-Clessé 'Quintaine', Cave de Viré	2022 Rift 71 Mâcon-Villages, Jean Loron	2022 Saint-Aubin 1er Cru Les Perrières, Gérard Thomas	2022 Montagny 1er Cru 'Les Chaniots', Vignerons de Buxy
~~£19.95~~ £17.75	~~£18.95~~ £17.50	~~£42.95~~ £39.50	~~£22.95~~ £20.75

Mr.Wheeler Wine Club - June selection
Special offer for MoneyWeek readers

About Mr. Wheeler

Mr.Wheeler was founded upon the Wheeler family's more than 140 years of experience in the wine trade. Now with 6th and 7th generation at the helm, the company remains true to the principles that have guided the Wheelers since 1883: carving an ever bigger space for quality wines, at a fair value for both consumers and suppliers, while delivering the best customer service. The company ships directly from producers, guaranteeing identity and provenance, from grape to glass.

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SCAN ME

Britain's coming red tyranny

Starmer: meet the new Supreme Leader

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Labour is on track for a win so big it threatens democracy. Emily Hohler reports

The latest Survation seat-by-seat analysis is "admittedly" one of the most advantageous to Labour, but if it is correct, the party will win 462 seats at the general election and the Tories 72, giving Labour the "most overwhelming majority" for 200 years, bar 1931, says William Hague in The Times.

This would seriously weaken parliamentary democracy. It would mean Labour having the chairmanship of 19 of the 27 select committees and eight of the 11 seats on a typical committee, while around "two-thirds of all private members' bills and all government legislation would come from Labour MPs".

No one should have such "untrammelled power", particularly a government as "raw and untested as this one", agrees Robert Colvile in the same paper. However, accurate projections are difficult given the "unusually large number of seats where the numbers are tight". What is clear is that, with Nigel Farage's Reform party in the race (see below), the Tories find themselves squeezed from all sides, losing votes to right and left in every constituency.

Labour's blank cheque

Voters can't even be sure what Keir Starmer will do, says George Parker in the Financial Times. The Labour leader has gone "out of his way" to reassure wealth creators that he is "on their side", but his 134-page manifesto is a plan drawn up by a centre-left party whose "revealed preference is to squeeze the better-off when more money is required" (see page 26). What we do know is that Starmer has displayed a "ruthless tendency to say what he needs to say to get elected… while being willing to abandon his positions when circumstances change".

Last week he told Sky News that he only endorsed Jeremy Corbyn for PM in 2019 because he was "certain" he would lose. His own "notably left-wing manifesto for the Labour leadership in 2020 was also swiftly abandoned once he had secured the votes of the left-leaning activists he needed to win the contest". Trust is in short supply.

Labour's guiding principle is its "faith in the necessity of government to improve the economy and society", says The Observer. Britain has been "profoundly misgoverned for 14 years". Productivity and business investment have "stagnated" and, despite rising taxation, our public services are "underfunded" and under "intolerable stress" – much of which is down to pandemic policies, despite conspicuous silence from both parties on the subject, notes Will Jones on The Daily Sceptic.

Life expectancy in some areas is falling, infant mortality is rising and many people are living with their parents in their mid-30s because housing is "prohibitively expensive". Relative to this "mess", Labour's manifesto is "slight", says John Harris in The Guardian. For all its "social-democratic purpose" – pledges to "gradually renationalise the railways and create a publicly owned energy supplier" and give workers more rights – it relies on a "level of growth that tests most economists' belief". Nevertheless, if Labour does win, "things will palpably feel better, fairer and saner, and unseen possibilities may slowly start to bubble to the surface".

If Labour wins, it will have a "blank cheque to take Britain back to the 1970s", says Robert Jenrick in The Telegraph. The frustrations of natural conservatives who are drawn to Reform, and who are "so angry" with the Tories that they are willing to split the right-of-centre vote and gift Labour a landslide, are understandable.

However, "extreme ideas" from Labour would "quickly come to the fore", ranging from more taxes to leniency on illegal immigration, more "unaccountable quangos" and the probable "surrender of our independent trade and regulatory policy to Brussels". The Conservative Party has a lot of work to do, but a vote for Reform will result in a "calamitous one-party state".


Farage has his eye on a longer-term prize

©Getty Images

The rapid rise of Reform UK

Warnings from the Tories that a vote for Reform UK will lead to a Labour supermajority are "obviously self-serving", but the fact remains that Labour will "utterly dominate parliament" within a few weeks, says The Independent.

"Even without the presence of Nigel Farage, inside or outside parliament, the Conservatives seem set to embark on another civil war just as soon as the polls close" with a "much-denuded" Tory party looking for "fresh leadership" amongst their survivors. Whoever wins the crown and "finds favour with a tiny, hard-right membership" will then have to work out what to do with Farage.

Speaking in South Wales this week, Farage said he hoped Reform would "become a real opposition" to a Labour government and that his party's real hopes lie in the 2029 general election, says Sky News. Launching his "contract with the people" on Monday – a policy document of just 25 pages – he set out his party's vision to repair a "skint" UK.

The first two of his five core pledges relate to reducing immigration. The other three "ask voters" to "imagine no NHS waiting lists", "good wages for a hard day's work" and "affordable, stable energy bills". Reform is also promising a "raft of tax cuts". TikTok has proved to be one of the party's "most effective tools", with a rapidly growing account of roughly 183,000 followers (Labour has 200,000), says Zoe Crowther on Politics Home. This coincides with a rise in popularity nationwide, with a YouGov poll putting the party at 15% among 18 to 24-year-olds compared with 7% for the Tories.

Whatever happens on 4 July, the Conservative Party needs to "rebuild, and quickly", says The Independent. Above all, it needs to "resist the lazy assumption" that either Farage or Boris Johnson can "unite the right and position it to win the next general election simply by adopting the ludicrous Reform manifesto".

Macron's high-stakes gamble

The president's snap poll may go against him. Matthew Partridge reports


Macron's camp trails the right and left in the polls

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French president Emmanuel Macron responded to a "battering" in the European Parliament elections by calling a "snap ballot", says The Times. This has been seen as a "high-stakes gamble" that aims to "wrong-foot" the far-right National Rally and "discredit it as a serious party of government". But that is "looking increasingly like a losing bet". Opinion polls show a far-right alignment leading with up to 33% of the vote, chased by a left-wing alliance on 28% and Macron's camp "trailing distantly in their wake, struggling to reach even 18%".

The youth drift right

Even more worryingly for Macron and centrists, it's not just older voters moving to the right, says Yasmeen Serhan for Time. As recently as five years ago the young French (like their British counterparts) were thought to be "more likely to throw a milkshake at a far-right politician than vote for one". This has changed – 32% of voters under the age of 34 voted for the National Rally in the European elections, compared with only 5% for Macron's party. Indeed, Jordan Bardella, the National Rally's 28-year-old president, "has proven to be a social-media sensation in France, boasting 1.6 million followers on TikTok".

All this points to steady progress in Marine Le Pen's efforts to "detoxify" her brand, making her party – once thought of in liberal circles as being "beyond the pale" – "an almost acceptable form of governance in waiting", says Jeremy Warner in The Telegraph. Indeed, business lobbies have been flocking to Le Pen's door, hoping that, once in power, she will follow the path of her fellow far-right politician Giorgia Meloni, the Italian PM who since assuming power has moderated her outlook, and who "broadly speaks their language". Such a path is risky, however. Taking Le Pen's policy pledges at face value, she would "bust the bank were she to implement the whole of her policy agenda in one go".

The Overton window shifts

Bardella and Le Pen's manifesto contains a large dose of "economic populism" along with "hard-right nationalism", says The Economist. It promises large-scale tax cuts, a partial rollback of Macron's pension reforms, and only "vague" statements on how all this would be paid for. One estimate predicts that it could end up expanding the French deficit by a net €100bn extra each year, equivalent to about 3.5% of GDP, which would cause an "already high" deficit to become a real danger.

Some of Le Pen's policies on Europe, such as restoring the primacy of French law, or withholding French payments to the EU budget, could also cause "economic turmoil and threaten the survival of the EU", says the Financial Times. There is the lingering suspicion that her party would create "an atmosphere of crisis" and use that as an excuse for calling for "emergency powers", threatening the very future of French democracy itself. And even if the right doesn't succeed in winning power, it has already succeeded in shifting the "Overton window" – policies "once regarded as on the extreme right have moved into the mainstream".

Putin cosies up to Kim Jong Un

©Getty Images

Russia and North Korea signed a "breakthrough" new deal agreed during Russian president Vladimir Putin's trip this week to the "reclusive state", says Simone McCarthy for CNN. The strategic partnership replaces previous deals signed in 1961, 2000 and 2001, and most ominously includes "the provision of mutual assistance in the event of aggression against one of the parties to this agreement". The visit comes as tensions "remain elevated" on the peninsula, where North Korean president Kim Jong Un has in recent months "ramped up" the bellicose rhetoric and scrapped a long-standing policy of seeking peaceful reunification with the south.

The visit and deal are very much a "diplomatic two fingers" to the West, says Ivor Bennett on Sky News. It is a result of "Russia's isolation from the West" and "the blossoming friendship between these two pariah states". North Korea has since September sent nearly five million artillery shells to Russia as well as dozens of ballistic missiles, some of which have been used in Russia's war in Ukraine. For its part, Russia has "provided the poverty-stricken nation with much-needed economic aid and diplomatic support", as well as vetoing a UN resolution to renew the mandate of the panel of experts monitoring sanctions enforcement.

The deepening alliance is based on a "shared desire for survival", says The Times. "This summer may be Putin's last chance to seize territory in Ukraine and position himself favourably for negotiations. His artillery needs feeding. So do the benighted people of North Korea. Guns for butter. That is a deal both sides can appreciate."

Betting on politics

With just over a fortnight to go at the time of writing before voting day in Britain's general election, there has been no let up for the Conservatives on the betting markets. With £6.38m matched on Betfair, Labour is at 1.02 (98%) to get the most seats, while the Conservatives are at 65 (1.5%). In a similar vein, the odds on Labour to gain an overall majority have slightly shortened to 1.05 (95.3%) with no overall majority at 27 and the Conservatives at 110.

The spreads are even more dire for the Conservatives than they were this time a week ago. Spreadex put Labour unchanged at 427-437, but has reduced the Conservatives by around 11 to 104-112. The Liberal Democrats seem to be the big winner from these movements – the party is up by 12 to 56-60. The Scottish National Party is up one at 20-23 and Reform UK's spread is up by one seat to 4.5-6.5.

If I had to say, I think the polls and various models are understating the number of seats that the Conservatives will get. I'm not a fan of political spread-betting, but I'd definitely take the 2.6 (38.4%) available on Betfair on the Tories getting 100 seats or more. Despite this, there is still some value in betting against the Conservatives in a couple of places.

One such seat is Lewes, which was held by the Liberal Democrats between 1997 and 2010, before narrowly going to the Conservatives in 2015. Given that the Conservatives managed to hang on by only 2,457 votes in 2019, and are likely to lose votes to Reform, I suggest you take the 1/5 on Bet 365 (83.3%) on the Lib Dems emerging triumphant there. Similarly, I'd take the 1/7 (87.5%) on them gaining Cheltenham, and 1/8 (88.8%) on them coming out ahead in Carshalton and Wallington, both of which are even more marginal than Lewes.

Milan

The trouble in trainers: British private equity firm Permira has shelved its €600m initial public offering (IPO) of Italian luxury sportswear brand Golden Goose because of the "significant deterioration in market conditions" amid the political uncertainty in Europe. The IPO in Milan had been lauded as one of the highlights of 2024 with a €3bn enterprise value. But the IPO faced headwinds from "the 3Ms" – Doc Martens, mid-cap status and French president Emmanuel Macron, says Craig Coben in the Financial Times.

The memory of the disappointing London IPO of Doc Martens in 2021 lingers, while Golden Goose shares had been priced near the bottom of their range. Mid-cap IPOs, as Golden Goose's would be, have less margin for error, and demand greater price concessions. The deal size may also have been too large, leading to a lack of fundamental demand. Macron's snap parliamentary election also hasn't helped, causing a sell-off in European equities.

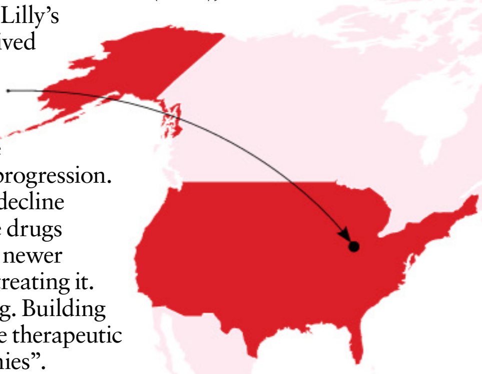
Ultimately, the withdrawal from the IPO may have spared investors from immediate losses and raised questions about "whether the market is open to the substantial number of mid-cap IPOs in the pipeline".

Meanwhile, Nike is expected to report a 1% increase in annual sales – its worst performance since 1999, says Lex in the same paper. Competition, cautious consumers and strategic mistakes, such as relying too much on retro trainer sales and neglecting the athletics market, are to blame. Profits are growing again thanks to cost cutting, "but confronting new upstart rivals will require a faster pace of change".

Indianapolis

New Alzheimer's drug: Biogen and its partner Eisai may benefit from the entry of a new competitor in the Alzheimer's drug market, says David Wainer in The Wall Street Journal. Last year their drug Leqembi was approved by the US Food and Drug Administration (FDA), but it has struggled to gain traction. Pharmaceutical giant Eli Lilly's Alzheimer's drug, Donanemab, on the other hand, received unanimous support from FDA advisers and is awaiting approval. The increasing prevalence of dementia as people live longer presents a market opportunity. Both Leqembi and Donanemab target amyloid plaques in the brain and they can potentially slow down the disease's progression. Donanemab, in particular, showed promise in slowing decline by 35% in a study of more than 1,730 patients. As these drugs generate returns, it will boost confidence in researching newer therapies to shift focus from coping with the disease to treating it. Currently, there are 19 drugs in mid- or late-stage testing. Building a market for Alzheimer's drugs won't be easy, but "more therapeutic options are good for patients as well as for drug companies".

Elsewhere, biotech Moderna's market value has surged 40% since the discovery of bird flu in US cows in March, with fears that it could mutate to spread between humans. Moderna's mRNA technology, used in its Covid vaccine, may have an advantage over traditional vaccines, says Robert Cyran on Breakingviews. Governments are already stockpiling vaccines due to the potential economic damage of a deadly bird flu pandemic.



New Delhi

Vodafone sells stake: Vodafone has sold the bulk of its shares in Indus Towers, an operator of mobile network towers in India, to pay down debt, say M. Sriram and Nandan Mandayam on Reuters. The London-listed telecoms giant raised Rs153bn (£1.4bn), which will be used to pay off bank borrowings of €1.8bn against its Indian assets, including a stake in "debt-saddled" Vodafone Idea, the country's third-biggest operator by number of subscribers. Vodafone, which had owned 21.5% of Indus Towers before the share placing, had planned on selling a 10% stake, but increased its offering to 18% after encountering strong investor demand. Airtel, India's second-biggest operator, picked up a roughly 1% stake to increase its overall stake in Indus Towers to around 49%. Vodafone has held on to a 3.1% shareholding in the company.

CEO Margherita Della Valle (pictured) has recently completed sales of units in Spain and Italy as part of her plans to streamline the group. Vodafone is also currently awaiting regulatory approval in Britain for its planned merger with Three.

The way we live now... rising apathy in the workplace

British workers are embracing "quiet quitting" by putting the bare minimum into their work to avoid being sacked, says Irina Anghel on Bloomberg. The phenomenon is estimated to have so far cost the economy £257bn in lost output, according to consultancy Gallup – a sharp decline in productivity compared with other wealthy nations.

Gallup revealed that only 10% of British employees show "engaged" behaviour, which could be costing Britain 11% of gross domestic product. Brexit and the pandemic, combined with unclear expectations at the office, have been blamed for lower engagement levels. This is reflected in the run-up to the general election, where the Tories are polling behind Labour and Reform UK, says Anghel.

"Quiet quitting" will pose a challenge for whoever wins, as Britain struggles to revive its economy and enhance living standards. "The best and brightest are not going [to] want to come to England if this is a terrible place to work," says Gallup's Jeremie Brecheisen. "They're much more likely to want to go to Canada or America or Germany or somewhere else where they know it's going to mean a better work experience."


Whatever it is, it can wait


©Alamy
Restaurant prices are rising more slowly

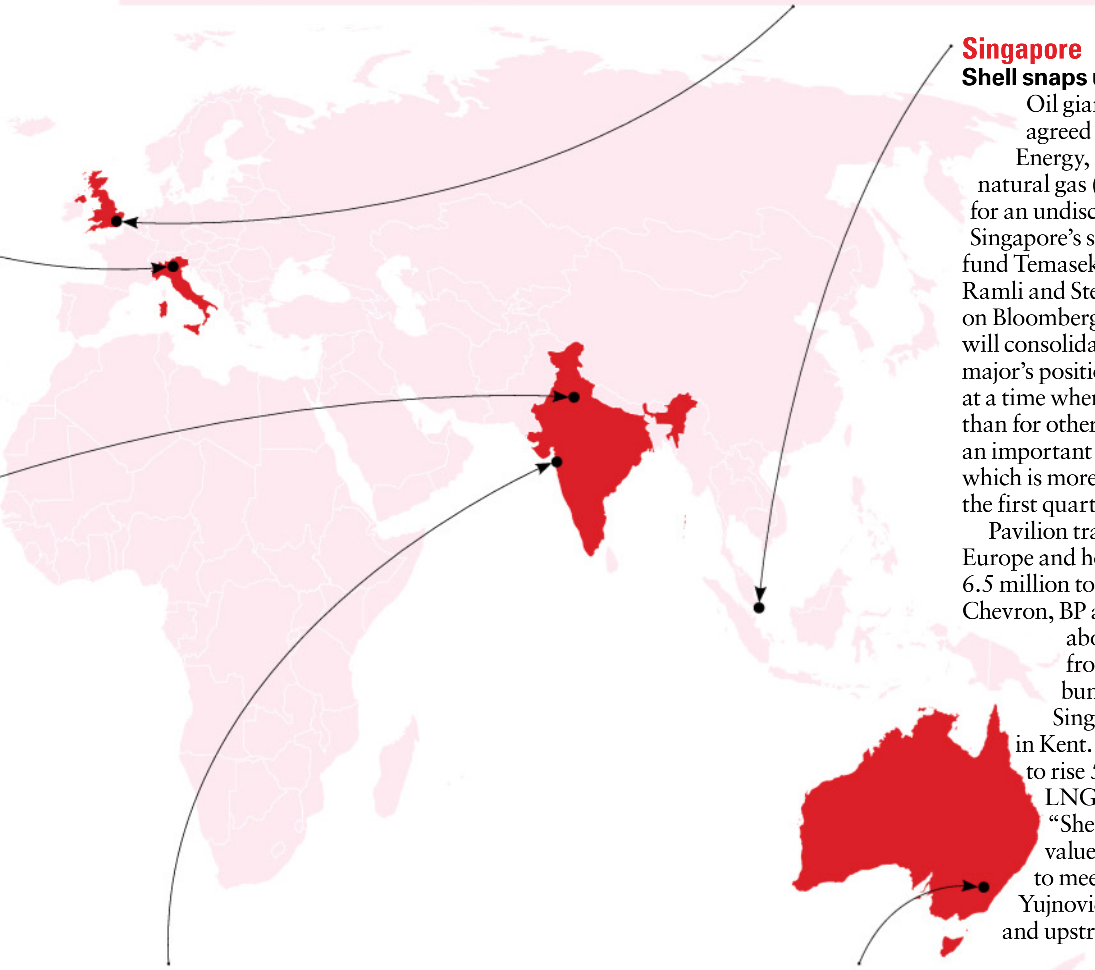
London

Inflation falls to the BoE's target: Inflation as measured by the consumer price index (CPI) fell from 2.3% in April to the Bank of England's 2% target last month. "As expected", the pace of rising prices in the clothing, recreation and the restaurant sectors slowed, largely due to the base effect of the sharp price rises a year earlier, says Ruth Gregory of Capital Economics. The core rate of inflation, which strips out volatile food and energy prices, fell to 3.5% year on year in May, from 3.9% the prior month, and within that, core goods CPI inflation "slipped below zero" for the first time since October 2016. But inflation in the services sector, which covers around 80% of the economy, nudged down "only slightly" and, at 5.7% year on year, it is still well above the 4.1% rate in the eurozone. So while the Bank is still expected to follow the European Central Bank in making an initial cut to interest rates (from 5.25%) in August, that forecast is now "looking a little shakier". That 2% figure will be "heralded by Rishi Sunak on the campaign trail as vindication [of his government's policy]", says Laura Suter of AJ Bell. "In reality, much of the leg work was done by the Bank… but that's unlikely to stop [the Conservatives] from doing a bit of glory-stealing." In the longer run, the "future path for rates" will be shaped by the fiscal policies of the next government.

Singapore

Shell snaps up LNG trader: Oil giant Shell has agreed to buy Pavilion Energy, a liquefied natural gas (LNG) trader, for an undisclosed sum from Singapore's sovereign wealth fund Temasek, say David Ramli and Stephen Stapczynski on Bloomberg. The acquisition will consolidate the FTSE 100 energy major's position as the world's biggest LNG player at a time when demand for LNG is increasing faster than for other fossil fuels. Gas is expected to play an important role in the transition away from coal, which is more polluting. The deal should close by the first quarter of 2025, subject to approval.

Pavilion trades and ships LNG in Asia and Europe and holds long-term contracts totalling 6.5 million tonnes per year from suppliers such as Chevron, BP and QatarEnergy. This is equivalent to about a tenth of Shell's total LNG sales from last year. The deal also includes bunkering businesses and terminals in Singapore, Spain and the Isle of Grain in Kent. Shell expects global LNG demand to rise 50% by 2040 and plans to grow its LNG business by up to 30% by 2030. "Shell is strongly positioned to deliver value from this transaction while helping to meet… energy security needs", says Zoë Yujnovich (pictured), Shell's integrated gas and upstream director.



Mumbai

Hyundai lists Indian unit: South Korean carmaker Hyundai is on track to list its Indian business in October in what will be one of the biggest initial public offerings (IPOs) on the subcontinent, say Chris Kay and Song Jung-a in the Financial Times. Hyundai plans to sell up to 17.5% of its holding in Hyundai Motor India, which could raise roughly $2.5bn and value the unit at $25bn. Hyundai, the second-biggest car company in India, aims to increase capacity at its Indian plants with the proceeds from the listing. Hyundai Motor India joins the increasing number of listings in India as the domestic stockmarket continues to thrive. So far this year 112 companies have moved to the world's fastest-growing economy, compared with 179 in 2023, according to data provider Tracxn. The IPO will crush the "Korean discount", where companies trading in Seoul are "plagued by lower valuations than [their] Asian peers because opaque conglomerates dominate the market", says Shritama Bose on Breakingviews. Companies tend to shy away from floating their subsidiaries due to the inefficiencies of managing multiple listings and the difficulty of taking a company private in India. Yet, the country's "increasing importance as a growth market and its buoyant stocks may be changing the balance of the equation".

Canberra

China mends ties: After years of acrimony, relations between Australia and China are thawing, highlighted by the symbolic four-day visit of Chinese prime minister Li Qiang (pictured) to Australia. The trip, which is the first by a senior Chinese leader since 2017, followed a number of high-level meetings as Bejiing and Canberra have "sought to mend frayed ties in a lucrative trade relationship" which has seen Australia's trade with China jumping to "record levels" in the past year, says Nic Fildes in the Financial Times. Diplomatic relations became severely strained in 2020 when then-prime minister Scott Morrison called for a public inquiry into the origins of Covid. Australia was also the first country to ban Chinese vendors, including Huawei, from its 5G network.

Beijing responded with "punitive tariffs, sanctions and informal bans" on about A$20bn (£10.5bn) of Australian goods. Australia managed to "weather" these due to a "surge" in commodity prices, and the election of Anthony Albanese in 2022 proved a "catalyst" for the rapprochement.

How to fix the migration issue

Despite decades of broken promises from both parties, net migration is at record levels. What is to be done? Simon Wilson reports


©Alamy
We've become addicted to low-wage workers

Is immigration currently high?

Yes. Last year about 1.2 million people moved to the UK, almost certainly the highest number in history. "Net migration" (the term widely used to mean net inward migration, that is immigration minus emigration) was 764,000 in 2022 and 685,000 in 2023 – about triple the level at the last general election in 2019. That's a far cry from the "tens of thousands" promised by the Conservatives at both the 2015 and 2017 election. Overall, since 2010, when the Conservatives came to power (initially in coalition with the Lib Dems), ten million people have moved to the UK, and 6.3 million have left, meaning net migration of 3.7 million. As the authors of a recent Centre for Policy Studies paper arguing for far greater controls on immigration (they include two Tory MPs, Robert Jenrick and Neil O'Brien) point out, that influx is the equivalent of the populations of Edinburgh, Leeds, Sheffield, Nottingham, Stoke, Bristol and Cardiff put together, or more than the entire population of Wales.

Where will it go from here?

In February, the Office for National Statistics (ONS) published its latest projections for the UK's population. The ONS thinks the number of people living here will hit 70 million by 2026 – a decade earlier than previously envisaged – and then grow to 73.7 million over the following decade. Net inward migration is expected to account for more than 90% of the 6.6 million increase in population between 2021 and 2036. If that rise does happen, it will mark a speeding up, rather than a slowing, of the UK's population growth due to migration. To put it in context, in the 25 years up to 1997 (when Labour came to power under Blair), cumulative net migration was 68,000. In the following 25 years to 2022, it was 5.9 million – almost 100 times as high.

So we weren't always attractive?

No, for much of the latter 20th century – in nearly every year from 1947 until the early 1980s – Britain saw net emigration (or "negative net migration" in the jargon). At the time, this was not seen as a positive, and policy-makers fretted about the "brain drain" of talent. Broadly, positive net migration is a sign of a thriving and globally competitive economy, says Ed Conway on his blog. Potential immigrants were clearly unimpressed by the slow growth (in global terms) and high inflation of Britain in the 1960s and 1970s. Net migration also turned negative after 1988, as Britons took advantage of new free-movement rules in the European Community. Then, the most recent period when the UK saw negative net migration was in 1992 and 1993, when we faced a toxic combination of a deep recession, high unemployment and double-digit interest rates.

So we should celebrate rising immigration?

There's the rub. Positive net migration is a sign of a prospering economy, but very large numbers of newcomers can put strains on societies for well-known reasons: pressure on public services and housing, and (for some voters) fears over social cohesion and cultural differences. The current upsurge in migration is a global issue: the US, Canada, Australia and many European countries are also seeing large increases, and many countries are seeing more heated debates, and the rise of nativist and/or anti-immigration politics. Here, the UK has become uncomfortably reliant on foreign workers, says Jeremy Warner in The Telegraph – and changing that will involve difficult trade-offs.

Such as what?

Jenrick and O'Brien argue that it's a myth that immigrants boost the economy in terms of GDP per capita, pointing out that the past 15 years have been marked by both high immigration and ultra-low growth. But even so, cutting migration numbers significantly would be likely to entail a more inflationary and lower-growth economy, and massive labour shortages in social care, healthcare and hospitality. Jenrick argues that the UK should cherry-pick the brightest, becoming what he calls a "grammar school" of the Western world for the highly skilled and talented. But that's hardly a new idea; "the world and his dog are in hot pursuit of that particular holy grail". There are no easy answers here, which is why it's such a hot electoral issue.

What are the parties proposing?

Nothing credible. The trouble is, says Matthew Syed in The Sunday Times, that decades of deceit and broken promises from politicians on this issue have fatally corroded trust. Voters can hardly be blamed for thinking that none of them have a clue what to do, or the ability to do much. The key, according to Syed, would be to "accept short-term pain for long-term gain". The UK needs to end its "addiction to low-wage labour, which saves money in the here and now, but stores up vast liabilities because such workers are net recipients of tax funds – a classic Ponzi scheme". We need higher wages to attract British workers, while focusing immigration policy on wooing "high-skilled individuals, who tend to integrate superbly and whose enterprise and ideas will not just boost GDP per capita, but also enrich our society, as immigrants so often do". In the short term, an incoming Labour government may face less pressure on this issue than is widely presumed, says Delphine Strauss in the Financial Times. Net migration is now on a downward path, and it's likely to fall this year and next as Rishi Sunak's measures to cut it take effect and student numbers fall. Moreover, Labour's core supporters are more sanguine on the issue than those on the right.

And the long run?

In the long term, says Larry Elliott in The Guardian, a lower-migration UK would need to transition to a different economic model – higher wage, higher productivity, more highly automated. That's a task that would obviously not be easy or cost-free, either for taxpayers or consumers – or for politicians. Ending the UK's dependence on cheap foreign labour would involve much higher investment in the NHS and social care, a comprehensive industrial strategy designed to boost skills, action to help adults with numeracy and literacy, and tailored programmes to increase the number of people seeking to make the transition from welfare to work. "Since 2010 successive Tory governments have promised to reduce immigration, but the economy has become addicted to it. Ending this dependency is not going to be easy. Cold turkey never is."

THE WEEK Junior

GENERAL ELECTION 2024

UK General Election 2024
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Britain is bankrupt

The biggest deception in this election is the pretence that a few tax tweaks can save us from our economic fate. The reality is more grim

Matthew Lynn
City columnist

The prime minister played fast and loose with some Treasury forecasts of tax rises. The Labour Party has some imaginary numbers about "investing" in the NHS and creating "green jobs". Meanwhile, the Lib Dems sail on with fun days out at Center Parcs and promising some minor giveaways. With only two weeks left until polling, all the major parties are arguing furiously about trivialities. And yet there is an ugly truth about this general election that no one wants to admit: the UK is far closer to bankruptcy than most voters realise.

Taxes are already at a 70-year high, and yet we are nowhere close to balancing the books. Over the course of this year, we will add another £87bn of debt, according to the Office for Budget Responsibility (OBR), or 3.1% of GDP. And that is when the economy is recovering – we should be paying back debt at this point in the cycle, not racking up even more. The debt-to-GDP ratio is close to 100%, and has tripled over the last 15 years, according to the Resolution Foundation, the largest ever increase in peacetime. We are very close to the 112% level that has just seen France's credit rating downgraded, and a major sell-off of its bonds as that country also heads into a general election dominated by completely unrealistic promises.

It doesn't stop there. We are still racking up huge off-balance-sheet debts. There is already more than £200bn of outstanding student debt, forecast to rise to £400bn by the 2040s, and yet no one believes that graduates will ever earn enough to pay it all back. We have £2.6trn in "unfunded" public-sector pension entitlements, and as the state employs more and more people – we added another 132,000 people to the government payroll over the last year alone, according to the Office for National Statistics – that figure will rise and rise.

A few minor tweaks to the tax system are not going to fix that. As the OBR has pointed out, the tax burden is set to rise to 37.7% of GDP by 2027, the highest level it has ever reached. You can argue that a handful of European countries manage to get more out of their weary citizens, but there is no empirical evidence for that ever working in the UK. Even the high-tax Labour chancellors of the 1970s, such as Dennis Healey, who promised to tax the rich "until the pips squeak", raised less than Jeremy Hunt is taking out of the economy.

A terrifying fiscal crunch

We are heading into uncharted fiscal waters. We face extra spending on health and social care as the population ages. We have record levels of worklessness that have to be paid for. And we need to spend more on defence to respond to a more dangerous world, as well as hundreds of billions on net-zero. And yet we may well have already hit the limits of the amount of tax that can be squeezed out of companies and individuals. Raise taxes any higher, and entrepreneurs will drift elsewhere, companies will relocate, and individuals will take early retirement or reduce their hours.

Indeed, there are already signs of that happening. In response to the prospect of yet another steep increase in windfall taxes, energy companies are already getting out of the North Sea, with Deltic Energy only last week the latest to quit the sector. The UK is starting to top the charts for an exodus of

©Getty Images

Any future chancellor will be taking more than a nibble of your earnings

millionaires, as non-domiciled tax breaks are removed, and personal taxes are pushed higher. If there is a crackdown on the self-employed and small businesses we can expect many of them to take early retirement if they are in their 50s, or move abroad if they are younger. An incoming Labour government may have tax rises planned, but it will be surprised by how few of them raise any significant revenues.

The UK faces a terrifying fiscal crunch. As we discovered during the short-lived premiership of Liz Truss, the UK is uniquely vulnerable to a collapse of confidence in the currency, and the debt market can turn off the funding of the deficit at any moment. The blunt truth is that the UK is already perilously close to bankruptcy. It will only take a mild global downturn to make that painfully apparent, and yet no one wants to talk about it. There will be plenty of deceptions during the course of this election – but that is surely the biggest one of all.

City talk

● Athleisure retailer Lululemon is facing intensifying competition, says Andrea Felsted in Bloomberg. It has already cornered the North American womenswear market, so there is little scope for significant growth, and its sculpted leggings are not consistent with current trends for looser fits. Moreover, its "affluent but not uber-rich" customers appear to be cutting spending on luxury purchases owing to inflation and higher borrowing costs. Lululemon should provide a broad selection of colours, sizes, and styles and expand into accessories and international markets. As mid-market brands shrink, it could fill the gap. It could even hire a top-name designer. Although moving into the mainstream would bring more competition, "the risk is worth taking", especially since the shares have dropped 40% from the start of the year.

● The London stockmarket's size versus Paris (see page 5) is a "diverting yardstick", says Nils Pratley in the Guardian. But the fascination with size leads to the misguided view that Chinese retailer Shein's listing in London would be a "boost" for the City. Taking New York's cast-offs is no way to restore London's lustre. "What would count as success?" Consider the following: the founders of Melrose Industries are to return with a London-listed investment vehicle, Rosebank Industries, raising £40m-plus on Aim, London's junior market, before seeking deals of up to $3bn and moving to the main market. Melrose's executives are sticking with London because Britain is where they found success. The alternative was a private equity-style model. But adopting a quoted vehicle is a "vote of confidence in the public arena". The London bourse would be "livelier" if there were more like Rosebank. "[Shein] we can live without."

● Since 2000, regulations aimed at ensuring pension funds can meet liabilities at short notice have pushed them out of shares and into British bonds. This created a big market for government debt at a time when the government needed to borrow. But pension funds avoiding the stockmarket has gradually led to a dearth of capital for entrepreneurial companies and deepened pension deficits, as in the long run the return on bonds is likely to be lower than from shares. Time for a change. "How about it, Keir?"

©Getty Images

Complexities of the curve

The outlook for many commodities is attractive, but "roll yield" can still be a headwind if you're buying ETFs

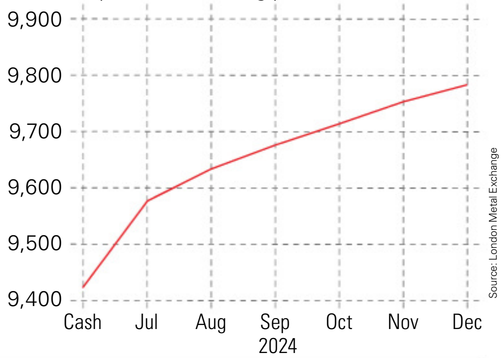
Cris Sholto Heaton
Investment columnist

Commodities spent much of the past decade in the doldrums, as the excitement about "supercycles" faded into a familiar boom-and-bust. In the aftermath of the pandemic, that's changed: investors are getting far more involved in metals markets, as James McKeigue explains on page 24. Meanwhile, long-term commodity bulls are getting a favourable hearing as they set out a case for rising demand and tight supply caused by the electrification of the energy system.

Bulls can get carried away by this in the short term: copper is actually down by $2,000 per tonne since Jeff Currie was interviewed by Bloomberg (see right). The dynamics look very complex right now. Chinese end-user demand is soft due to the weak economy (especially in real estate – construction uses a lot of copper). Yet Chinese copper stocks in warehouses have been building steadily and are at multi-year highs (that could reflect traders building positions in anticipation of a big government stimulus programme, which has so far not been forthcoming). That's a large amount of metal that might be dumped back on global markets.

Miners have announced various production cuts and other supply disruptions. Meanwhile, smelters – who turn ore into refined copper – have added large amounts of new capacity in China and elsewhere, to the point where Chinese smelters have tried to coordinate production cuts because too many smelters competing for tight ore supplies has driven them into the red. Put all that together and it sounds a bit like a recipe for very volatile prices in the near term, rather than a one-way bet upwards. Still, over the longer term, there is a strong argument that we have not invested enough in supply to meet future demand.

LME copper curve
US dollars per tonne, closing prices 18 June 2024



Backwardation and contango

However, it's also worth thinking about how short-term price dynamics can affect your returns when you are looking for the right entry point. If you are trading commodities, you're typically using either futures (see below), or an exchange-traded fund (ETF). The latter will in turn usually track an index of commodity futures. There are a few ETFs that hold physical commodities, but it's a minority – mostly precious metals.

To keep a futures-based trade open for a while means rolling the position over into a later month as each contract gets close to expiry. If you are trading futures, you must do this directly. With an ETF, the index mimics this process. Either way, your returns are affected by the "roll yield" or "roll return" – the difference between the price of the contract you sell and the contract you buy. When near-term futures are higher than later ones (backwardation– see below), you gain on the roll yield. When they are lower (contango), you lose.

Unfortunately, copper is in contango on the London Metal Exchange at present (see above), as are many other metals. This indicates immediate needs are fairly well supplied (users aren't rushing to secure supply). Note that this says little about the outlook – futures prices are not a reliable indicator of where cash prices will go in future! However, the negative roll yield might be a drag on returns if you're buying commodity ETFs now.

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

A futures contract is an agreement to buy or sell an asset – such as oil, gold, currency or shares – at a prearranged price on a prearranged date (known as the delivery date). Futures may be physically delivered (which means that the seller must deliver the asset to the buyer), or cash settled (which means they exchange a payment based on the difference between the initial price and the price when the contract expires).

Futures contracts for any asset are usually available with a range of delivery dates – this may be monthly, quarterly or less regular (for example, some delivery dates for crops may be aligned with harvest months). Each futures contract trades independently, with the price reflecting expected supply and demand on a given delivery date. For example, demand for heating oil is higher in the winter than the summer, so futures with delivery in winter months should trade at a higher price than those for delivery in summer months.

However, the relationship between different months is not constant. If there is a sudden shortage of supply, prices for immediate delivery (known as spot prices) and for the futures contract with the next delivery date (known as the near month or front month) might shoot up. Conversely, a short-term supply glut might cause spot and front-month prices to fall below prices for delivery in later months (known as back months or far months).

A situation in which spot prices are lower than front month futures and the front month is lower than far months – ie, a curve of prices that slopes upwards – is known as contango. The opposite situation, in which spot prices are higher than front month prices and back months are lower still is known as backwardation. Futures curves will move between contango and backwardation depending on factors such as supply and demand, and the actions of speculators and hedgers trading the futures.

Guru watch

Jeff Currie, chief strategy officer of energy pathways, Carlyle


©Getty Images

"Copper is the new oil," says Jeff Currie, the famously bullish commodities analyst who recently joined private-equity giant Carlyle after a long career at Goldman Sachs. "It is the most compelling trade I have ever seen in my 30-plus years of doing this," he told Bloomberg last month.

Demand for the metal is being driven by investment in green technologies to meet net-zero goals, such as electric cars and upgrading the power grid, as well as the AI boom that requires data centres with high energy needs. "Part of the reason why copper's rallied recently [is that] China's growth was over 100% in green [capital expenditure (capex)] last year, 30% this year. So everywhere you look in the world, we see environmental policy through green capex stimulating demand for commodities."

On top of that, incomes are being redistributed to lower-income groups, whose consumption tends to be more commodity intensive than higher-income groups, as well as increased military spending, "So unprecedented demand growth against unprecedented weakness in supply growth because we have not been investing".

Getting new mines going takes time. Miners still favour "finding ways to increase supply, particularly through [mergers and acquisition] activity, as opposed to having to do it through organic greenfield investment", says Currie – as shown by BHP's since-abandoned bid for Anglo American last month.

That suggests we are still at the start of the cycle, similar to what happened in the early 2000s with the mergers that created BHP and Rio in mining and ExxonMobil, BP and Shell in energy. "Prices have got to go higher and the conviction has got to be greater before you start to see that substantial rise in greenfield investment." So over the next two to three years, copper is likely to reach around $15,000 per tonne.

Fintech is enabling crime

Geoff White
The Economist

"Cutting-edge financial technology is fast becoming the handmaiden of organised crime", and the situation will only get worse unless governments and the tech industry can "find common ground," says Geoff White. While digitisation means financial transactions are increasingly logged, computer hackers have long experience in making "stolen funds vanish", assisted by crypto, which offers "near-anonymous" payments and largely escapes the eye of regulators. The problem is that the same three things that crooks want – a "financial environment with febrile activity and fluid asset prices", a global financial system and "non-existent or minimal regulation" – are the very things that also help start-ups to thrive. Calls for regulation lead to accusations of state overreach or that "trad-fi" wants to stymie competition. It echoes the debate over the encryption technology behind the likes of WhatsApp. Governments want some kind of legal access to communications; "techies" argue this is a slippery slope that would eventually render encryption useless. To break the impasse, governments need to understand the tech so that they can speak with authority; techies need to understand that they cannot be seen as willing enablers of crime.

Big Tech squashes start-ups

Mark Lemley and Matt Wansley
The New York Times

Silicon Valley "prides itself on disruption", but a "handful of incumbent tech companies" are sustaining their dominance, having learned how to "co-opt potentially disruptive start-ups" before they can become threats, say Mark Lemley and Matt Wansley. This matters. Dominant players have less incentive to innovate as new sales might "cannibalise" existing sales. Talented engineers are more motivated when their fortunes are directly tied to a start-up with potential for exponential growth. To stop the "cycle of disruption", the tech giants – Google, Microsoft, Amazon – invest in start-ups, even those outside their core markets, gaining intelligence about threats as well as the ability to influence their direction. They may shut down the start-up's tech, divert its assets to its own needs and, even if it does neither, "sap" employees' creativity. They have deep pockets and can leverage access to their data and networks, using political connections to "encourage regulation that serves as a competitive moat". Big tech and venture capitalists have a vested interest in staying cosy in order to do deals. There is much the government can do to solve this problem, and it should. It would be good for start-up founders, and good for consumers, too.

AI: a mixed blessing for the planet

Yifan Yu
Nikkei Asia

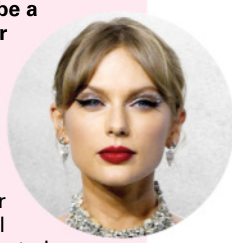
The environmental cost of artificial intelligence (AI) has, until now, been a low priority, says Yifan Yu. But experts are increasingly emphasising its "massive energy and water needs, growing emissions and electronic waste". A single ChatGPT query may consume up to 90 times more electricity than a Google search; generating a single AI image, as much energy as 522 smartphone charges. The "main culprits" are data centres. Between 2022 and 2026, their total electricity consumption is expected to double to roughly the entire annual consumption of Japan, as across the world countries race to maintain AI leadership. In terms of water, by 2030 the total usage by Chinese data centres could exceed three billion cubic metres, roughly equivalent to the annual residential water usage of Singapore. It's not all bad news. Tech giants are investing heavily in renewable energy sources. Moreover, AI is skilled at processing complex data and climate data is "famously voluminous and complicated". According to a Boston Consulting Group report, AI has the potential to mitigate 5%-10% of global carbon emissions by 2030 by "optimising resource deployment". This is equivalent to the EU's total annual emissions.

Make the Kremlin pay for war

Editorial
The Wall Street Journal

More than two years in, Western leaders are "starting to get serious about how to make Moscow pay for the war's monumental damage", says The Wall Street Journal. They are not "nearly serious enough". Last week, G7 leaders agreed to lend $50bn to Ukraine, with repayment to be funded from the future capital income on around $300bn of frozen Russian central bank assets. In May, Ukraine was given some interest income from these assets; the loan would allow for a "much larger one-off payment". But why not simply give Ukraine the whole lot? The current plan is not only complex, but odd, since the source of the interest income Western governments would use to repay their loan to Ukraine is themselves, due to how Russia's foreign-exchange reserves are invested. Depository institutions are also generating "windfall" revenue by investing those Russian assets. This revenue could be taxed at near-100%, but again, why not just hand over the whole lot? Ultimately, this plan reflects the G7's "failure to agree to confiscate all of the Kremlin assets". Europeans are scared of setting a precedent. The precedent that should worry them more is a "marauding nation" starting the "largest land war in Europe since World War II".

Money talks



"I want to be a stockbroker because my dad is one."
Pop star Taylor Swift (pictured), aged six, writing in her high-school yearbook, quoted in The Sunday Times. A year later she wrote that she wanted to be a singer

"Inflation is like alcoholism. In both cases, when you start drinking or when you start printing too much money, the good effects come first, the bad effects only come later."
US economist Milton Friedman, quoted on X

"I'm embarrassed that I let this happen to me… everybody's wondering what happened, and your wife is in the grocery line and she can't pay because a cheque bounced. You're in the most successful independent movie of all time, and you can't take care of your loved ones."
US actor Michael Williams on barely making any money from *The Blair Witch Project*, quoted in Variety. With a $35,000 budget and earning $248m worldwide, it was one of the most profitable independent films ever made

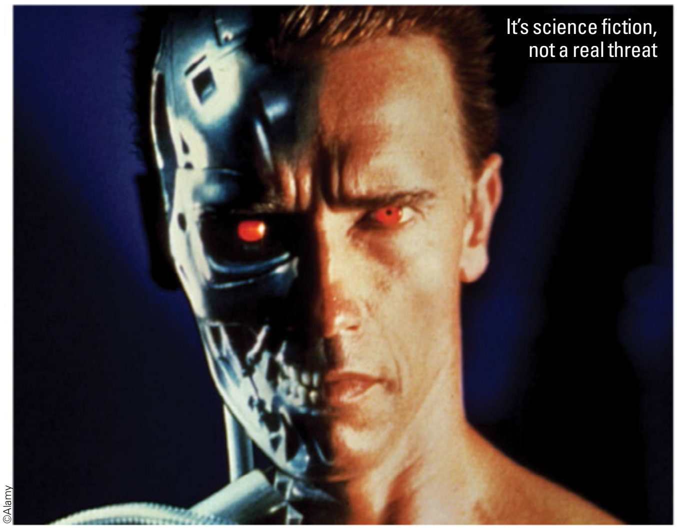
"It is better to be roughly right than precisely wrong".
John Maynard Keynes, quoted in The Economist

"I'm trying to find articles about why the planned economy is superior to the free market, but I can't seem to find any."
A classic cry for help on X

"I am creatively pragmatic. When you open your own business with no money, no interest from anyone else, you've got to hustle."
US fashion designer Michael Kors, quoted in The Times

"I lose money in this sport…I luckily have a very supportive girlfriend. When we go out, she pays for every single meal. I told her when I get sponsored, I'll pay for the meals."
American Eric Holt on the struggles of being an unsponsored track athlete, quoted on X

The machines will not rise up



©Alamy

lawliberty.org
The debate over artificial intelligence (AI) is a "battle ground between those who expect unprecedented productivity gains and those who see it as a harbinger of the world of *The Terminator*", says Alberto Mingardi. Barry Smith and Jobst Landgrebe, authors of *Why Machines Will Never Rule The World*, "may be alone in claiming the middle ground".

Machines, say the authors, will never *think*, nor will they aim to take our place and rule the world. "Narrow AI," as exemplified by ChatGPT, is a mathematical logic system, designed to perform specific tasks. It resembles a "closed environment", like those in science in which experiments can be performed with the confidence that each observed effect can be traced back to a clear cause. But the success of such models in physics and engineering tends to blind us to the fact that "the overwhelming majority of systems in the universe" are not like this, but are rather "complex systems" – they obey the laws of physics, but the complexity is such that we cannot use those laws to analyse or predict behaviour.

The human brain is such a complex system, and for "general AI" to exit, for it to emulate human intelligence, we'd have to be able to model the way the brain works. We can't. A case in point is the long-awaited self-driving car. Predictions of genuinely self-driving cars flooding the market and putting taxi drivers out of business have proved over-optimistic because the real world and human reactions to it are complex systems that cannot be modelled without reducing them to a simple system.

General AI is impossible because we cannot effectively model the human intelligence it is supposed to mimic, just as we can't plan economies. This is not just a matter of feeding chatbots more material, any more than a central planner could ever have sufficient data to make his decisions. Economies are affected by the decisions and actions of millions of people, and the idea that we can accurately model what they will want or decide is an example of what Hayek called a "pretence of knowledge". Similarly, "productive language is a creative act that cannot be emulated mathematically" and a crucial factor in all human thinking and conversation is desire – "there is no way to teach a machine to want something".

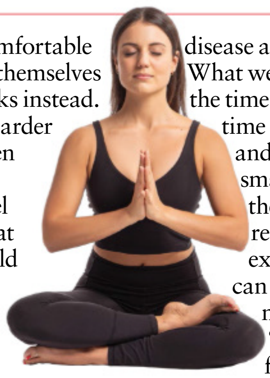
Narrow AI may improve productivity and displace some jobs. But it is simply a tool. This may be disappointing to those investors pouring their money into a speculative bubble, but humans have always tended to "divide between those who believe in miracles and those who enjoy being frightened".

Planning reform comes first

samdumitriu.com
Britain's film industry is a "national success story", says Sam Dumitriu, and demand for studio space is fast outstripping supply. Britain will need an estimated 2.6 million square feet of studio space to keep up with demand. Yet planning permission has been refused for a scheme to build a new £750m film studio on the site of an old quarry next to the A404. This story "illustrates what's fundamentally wrong with Britain's economy". Policymakers "constantly fret" about why investment levels in the UK are so low and why fast-growing firms are selling up to US competitors. Yet the answers usually advanced, involving tweaks to the tax and saving regimes, all "seem a bit peripheral" when a three-quarter-of-a-billion-pound investment into one of our strongest industries is refused planning permission to build on a quarry. The same council that rejected this also refused the construction of a £2.5bn data centre on another quarry near the M25. One of the reasons cited was that the buildings could be seen from nearby motorway bridges. Improving investment incentives and increasing the supply of capital are perfectly worthwhile goals, but "for them to have an effect we would still need investable projects in the first place". In other words, "planning reform comes first".

The art of doing nothing

time.com
You take a holiday but are distracted by the thought of your inbox filling up. You try to rest, but your thoughts race. "If this sounds familiar, you are not alone," says Jamie Ducharme. "Relaxing may sound like the easiest thing in the world, but for many people it's anything but." One psychology experiment found that people tasked with sitting still for a time were so uncomfortable they opted to give themselves small electric shocks instead. Doing nothing is harder than it seems. Often when people slow down, they just feel anxious about what they could or should be doing instead.


©Getty Images

Yet rest and relaxation are necessary for wellbeing. Chronic stress negatively affects nearly every aspect of mental and physical health and is a major contributing factor to chronic disease and premature death. What we have to do is make the time for rest, protect that time from intrusions, and practice, starting small and building from there. Tensing and relaxing and breathing exercises can help, as can reframing what we mean by relaxation. "Activity-orientated" forms of relaxation may be beneficial for those who struggle with slow mindfulness practices – "anything from gardening to cooking to reading to your kids could fit the bill".

Don't seek the centre ground

conservativehome.com
Chancellor Jeremy Hunt has rejected the idea that the Tories should shift to the right to "woo back" voters from Reform UK, saying elections are always won from the centre ground, says Harry Phibbs. That is not true. Margaret Thatcher was not known for moderation. Edward Heath, who was, lost three out of four general elections fought under his leadership. The one victory he had was fought on a manifesto that was "strong and distinctively Conservative".

Party grandee Keith Joseph argued that Conservatives should seek, not the centre, but the "common ground". The centre ground is a political compromise and where it is will be shaped by the extremists. Trying to claim it will mean "telling people what we think they want to hear", rather than fighting the battle of ideas for Conservative principles. Following the Liz Truss debacle, "traumatised Tories" seem "too timid to offer bold Conservative policies" and so are instead proposing "more technocratic tinkering". "Only by reclaiming the common ground can the Conservatives win and deserve to win."

Founder-led firms will add fizz to your portfolio

Companies managed by those who set them up tend to outperform. Dr Mike Tubbs explains why, and surveys the world's equity markets to gauge which ones currently look the most appealing

Companies managed by their founders are often better investments than those managed by newcomers for three reasons. Firstly, the founder usually has a substantial stake so their personal wealth rises with the firm's success. Secondly, the founder is an entrepreneur and likely to be good at spotting business opportunities. Thirdly, as far science and technology-based firms are concerned, the founder will hold the key patents and will defend them strongly, thus enabling the company to expand without larger competitors grabbing market share. The following examples illustrate these points.

Putting Polaroid in the picture

The first example is Edwin Land of Polaroid. Before the Second World War, Land invented a low-cost method of making optical polarisers (these let certain light waves through but block others) from plastic film. They found wide application in sunglasses and were used in military equipment during the war. After the war, Land invented the Polaroid instant camera, which produced refined black and white pictures in 15 seconds.

This was followed by instant colour photography in the 1960s, the compact SX-70 camera in 1972 and instant-colour movie film in 1977. In 1976 Kodak introduced an instant-colour camera based on Polaroid's SX-70 principles, but these were protected by patents. Polaroid sued for patent infringement and won a $925m settlement. The court ordered Kodak to withdraw all its instant cameras and films from the market.

Land was a great innovator who protected his inventions with patents (his 500th patent was filed in 1977) and these enabled him to prevent Kodak, the world's top photographic company, from marketing a copy of his key product. Polaroid's revenue rose from under $100m in the mid-1950s to $500m in 1970 and around $1.5bn by 1980. Polaroid's shares were one of America's top growth stocks in the 1960s and, with Xerox, one of the best of that era's "nifty fifty" US growth companies.

The second example of a founder-led firm is James Dyson and his range of household appliances. His range of dual-cyclone vacuum cleaners are the best-known products. Dyson's company was founded in 1991 and the early DC01 model became the UK's biggest-selling upright vacuum cleaner in just 18 months. Dyson went on to take 47% of the UK market by 2001. Dyson achieved record global revenues of £7.1bn in 2023 and invested £470m in research and development (R&D) to develop new products, including some based on robotics and AI.

In the early years before 1991 Dyson explored various licensing deals. Neither Hoover nor Electrolux were interested in his dual-cyclone cleaners because they feared the loss of valuable income from sales of replacement vacuum cleaner bags. Dyson sent confidential information and prototypes to a US company, Amway, as part of a proposed licensing deal. Amway decided not to take a licence but some months later introduced a cleaner of its own, based on Dyson's confidential information. Dyson sued for patent infringement and the case was settled by Amway agreeing to take a licence. Dyson is now the top brand by sales in the US. Dyson is so profitable that it has funded its own expansion and never needed to float on the stock exchange, so investors are unable to buy shares. These two examples show how a talented inventor with a patented invention and investment in R&D can start a company, produce a whole series of new products, and succeed against market leaders such as Kodak in photography, or Hoover and Electrolux in vacuum cleaners.

"Polaroid's revenue surged from $500m in 1970 to $1.5bn by 1980"

Our third example is Renishaw of the UK, founded by David McMurtry. In 1972, while working at Rolls-Royce on the design of Concorde's Olympus engines, he invented the touch trigger probe used to measure very small distances accurately. A year later McMurtry founded Renishaw with a colleague, John Deer. The first overseas sales subsidiary was established in the US in 1981 and Renishaw was fully listed on the London Stock Exchange in 1984, with turnover reaching £100m in 2000. Renishaw has sued rivals for patent infringement whenever it has found competing products using its patented technology. Renishaw shares rose from 77.6p in mid-1988 to more than 4,000p recently.

Our fourth example is Apple, co-founded by Steve Jobs and Steve Wozniak in 1977, which went public in 1980. Wozniak left in 1983 and Jobs hired John Sculley of PepsiCo as president, but Jobs and Sculley did not get on; Sculley and the board ousted Jobs in 1985. He left and founded both Pixar Animation and NeXT Computer. Apple continued to do well until 1990 but fared badly in the years up to 1996.

The share price slid from a peak of $0.64 in early 1991 to a low of $0.12 in 1997 and many observers thought Apple was doomed. In 1997 the board invited Jobs back in as CEO and the company revived and prospered with a series of new products (the iBook, iPod, iPhone, iPad, and iWatch) until Jobs' untimely death in 2011 at the age of 56. The share price reached $14 in late 2011, up more than 100 times from 1997's low. This example shows the danger of ousting an innovative founder in favour of an apparently experienced businessman from a lower-tech industry.

Leading the field

A 2016 Harvard Business Review article showed that founder-led companies in America's benchmark stockmarket index, the S&P 500, outperformed the others. From 1990 to 2014 total shareholder return was more than three times as large for the founder-led companies as for all others in the S&P 500. Large US founder-led companies include Amazon (started by Jeff Bezos), Apple (Steve Jobs), Berkshire Hathaway (Warren Buffett), Dell (Michael Dell), Facebook (Mark Zuckerberg), Google (Sergey Brin and Larry Page), Intel (Gordon Moore of Moore's Law fame), Microsoft (Bill Gates), Netflix (Marc Randolph), Nvidia (Jensen Huang) and Oracle (Larry Ellison).

Several of these are no longer managed by the founder. However, in all cases the founder grew the company to a substantial size. Furthermore, S&P 500 companies where the founder is still CEO generate 31% more patents, have patents that are more valuable and

James Dyson founded his vacuum cleaner company in 1991

are more likely to make bold investments that adapt and renew the business model. This is probably because founder-CEOs have the moral authority to make hard choices, know the detail of the business, have the right business instincts and are prepared to take a long-term perspective on investments that build the group. Renishaw, for example, has consistently invested about twice as much in R&D relative to sales as the average for its sector, and ensures that R&D is directed towards innovations that can be patented.

The next generation

The 11 large, listed US founder-led companies mentioned above have all been excellent investments for those who recognised their potential at an early stage. However, strong annual growth is much more difficult for large companies to produce, so it is worth looking at smaller founder-led firms with the potential to grow turnover and profits by ten times or more. There are, for example, several UK founder-led companies of modest size on Aim, London's junior stockmarket.

Several of these have already proven to be very good investments. One example is Judges Scientific, the scientific-instrument company founded by CEO David Cicurel who still controls just over 20% of the shares, so his interests are closely aligned with those of his shareholders. Judges' current market value is £687m and the shares have risen almost tenfold since 2014. Judges acquires small scientific-instrument companies and grows them by providing extra R&D, links to existing companies with relevant technology and access to its worldwide network of sales offices.

The UK excels in the field of scientific instruments, so Judges takes advantage of this. Its reputation as a good acquirer that develops its purchases makes it an attractive partner for private companies where the owner wishes to sell.

A second example is Elixirr International, the digital and artificial intelligence (AI) consultancy founded by Stephen Newton in 2009. He is the CEO and holds 28.7% of the shares, so his interests are closely aligned with those of his shareholders. The group's move into data analytics and AI consulting is enabling it to grow at double-digit rates at a time when traditional management consultancies are finding the market challenging. Elixirr was my MoneyWeek tip for 2024 at 472p, and it has been trading at 580p in recent weeks. Its market capitalisation is £270m and 2023 sales reached £86m, nearly triple 2020's figure.

Then there is Alpha Group International (previously known as Alpha FX) founded by Morgan Tillbrook in 2009. He is currently the CEO and holds 13.7% of the shares. Alpha operates in financial areas such as FX risk management and alternative banking. Alpha's market cap is £1bn and 2023 revenue was £110m (more than double 2020's £46m). The company was delisted from Aim on 2 May this year and moved to the main market.

The fourth and smallest example is EnSilica, the custom-microchip designer for the automotive, industrial, healthcare and communications sectors, founded in 2001 by Ian Lankshear, the current CEO who holds 19.6% of the shares. EnSilica's market value

Continued on page 22

"Elixirr, my MoneyWeek tip for 2024, has jumped by 22% this year"

Continued from page 21

is £45m and revenue for the year to 31 May 2023 was £20.5m (more than double 2021's £8.6m).

In the biotechnology sector, meanwhile, many small founder-led companies are still in the research stage where they are developing their technology, and their first products are some way from profitability. An exception is BioNTech, which developed the Covid vaccine based on its mRNA technology. The vaccine was marketed by Pfizer and enjoyed massive sales in 2021 and 2022. Although sales have greatly decreased since then, the income from those early sales has given BioNTech ample cash to develop its mRNA-based personalised oncology treatments, and vaccines for infectious diseases.

BioNTech was founded in 2008 by Christoph Huber, Ugur Sahin and Özlem Türeci. Ugur Sahin is the current CEO. In 2023 revenue reached €3.8bn, down from the Covid vaccine peak of €18bn in 2021. The stock's market value is $20.5bn. Investment platform and research group Morningstar sees the potential for the pipeline to produce sales of €8bn by 2033 (€3bn of mRNA vaccines, €2bn mRNA oncology therapies and €3bn of antibody-based oncology treatments).

Moderna is the other biotech that produced a Covid vaccine and its board is chaired by Noubar Afeyan, one of the four co-founders of the company. He owns 11.74 million shares worth more than $1.4bn. In a similar way to BioNTech, Moderna's revenue dropped from a Covid high of $18.9bn in 2022 to $6.75bn in 2023.

South American examples are NU (a digital banking platform) and Mercado Libre, founded by CEO Marcos Galperin in 1999 in his father's company's garage. His company is known as the Amazon of South America, selling a wide range of goods from electronics to supermarket basics with a 24-hour delivery promise. It also boasts a financial technology (fintech) division. Its headquarters is in Montevideo, but it is incorporated in Delaware. Its turnover in 2023 was $14.5bn, up from $7.1bn in 2021.

Where to look now

Earlier, we mentioned 12 large US founder-led companies, five UK examples and three others. Several large US companies such as Apple, Intel and Microsoft are no longer founder-led. However, Alphabet, Amazon and Nvidia still are. They boast the potential for further profitable growth. These three have all released strong results for the first quarter of 2024. They are also global market leaders in their sub-sectors: Alphabet in online advertising; Amazon in both cloud computing, through its Amazon Web Services (AWS) division – the biggest global provider, and online retail; and Nvidia in complex semiconductors for AI and cloud computing.

Alphabet is also the third-largest cloud computing group, behind Microsoft in second place. Both Alphabet and Amazon are spending heavily on AI but can afford to do so since both have amassed free cash flow of more than $50bn in the past 12 months. Nvidia is the market leader in chips for AI, and can't keep up with demand. Canadian market research group Precedence Research predicts the market will grow from $28bn this year to $104bn in 2029 and $227bn in 2032.

Alphabet's first-quarter results exceeded analysts' expectations for revenue (up 15%), net income and earnings per share. It announced a $0.20 per share dividend together with an additional $70bn share buyback. Amazon's results showed sales up by 13%, with net income and cash flow also up markedly. AWS's sales were up by 17% and the division contributed $9.4bn to total operating income of $15.3bn. Nvidia announced revenue up 19% on the previous quarter and predicted revenue of $11bn for the second three months of 2024. Net income was up by 44% over the previous quarter to $2.04bn. These results all attest to profitable growth.

We now turn to recent results from the five British companies: Renishaw, Judges, Elixirr, Alpha Group and EnSilica. Renishaw said of its third-quarter results to 31 March 2024 that it had made solid progress in mixed markets, and saw early signs of recovery in the semiconductor equipment market. Revenue was £172.4m for the quarter, up from £166m in the previous quarter and with net cash of £207m. Renishaw's founders, who hold over 50% of the shares, are in their eighties and, in early March 2021 they announced plans to sell the company. The shares rapidly rose to 6,500p, but after a July announcement that no suitable buyer had emerged, the shares fell and are now hovering around 4,000p.

Judges Scientific reported record results for 2023, with revenue up 20% to £136.1m and adjusted operating profit up 16% to £34.8m. Elixirr also announced 2023 revenue up 20% to £85.9m, with pre-tax profit up 40% to £22.1m. Alpha Group's 2023 results show revenue up 12% to £110.4m with underlying pre-tax profit up 11% to £43m. EnSilica's results for the half year to end November 2023 show revenue of £9.6m, up 11.5%. The company says it has seen a solid start to the second half with committed revenues of $73m and a pipeline of opportunities of around $512m.

The biotechs – BioNTech and Moderna – are highly risky because a lot will depend on the success or otherwise of their pipeline projects. Morningstar estimates the fair value of BioNTech's shares is $143 compared with the recent share price of $99. For Moderna, fair value is $227, compared with a recent share price of $148. Mercado Libre reported first-quarter 2024 results showing sales up by 36% to $4.3bn, with net income of $344m. However, Morningstar estimates a fair value of $1,500 versus the recent share price of $1,580.

The top choices

Turning to valuations, **Alphabet (Nasdaq: GOOGL)** has a forward price/earnings (p/e) ratio of 23, along with a recent share price of $178 versus an analysts' one-year share-price target of $194. **Amazon (Nasdaq: AMZN)** has a forward p/e of 40, a share price of $187 and a target of $225. **Nvidia (Nasdaq: NVDA)** is on a forward p/e of 47 (37 for 2027) and a share price of $125 compared with a target of $117. **Renishaw (LSE: RSW)** has a forward p/e of 24, a price of 3,985p versus a target of 4,133p and yields 1.9%. **Judges Scientific (LSE: JDG)** is on a forward p/e of 28, a share price of 10,000p and a target of 12,013p. **Elixirr (LSE: ELIX)** has a forward p/e of 15, a share price of 580p and a target of 882p. It yields 2.5%.

Alpha (LSE: ALPH) has a forward p/e of 31, a price of 2,430p and a target of 2,688p. **EnSilica's (LSE: ENSI)** forward p/e is 8.6 and its price 47.5p. **Mercado Libre's (Nasdaq: MELI)** forward p/e is a high 48, and the price $1,599 compared with a target of $2,008. **BioNTech (Nasdaq: BNTX)** is on a historic p/e of 27 at a share price of $86, while **Moderna (Nasdaq: MRNA)** is on a historic p/e of 49 at a price of $133 (both firms are forecast to make a loss in the current year). EnSilica's small size and Mercado Libre's high p/e raise their risk level. So a diversified set of founder-led investments might consist of two each of the large US and smaller UK companies plus one or two of the four riskier ones.

"The founder-led biotech firm BioNTech's Covid vaccine enjoyed massive sales in 2021"

©Shutterstock

Apple's co-founder Steve Jobs revived the firm in the 2000s

The strong appeal of private equity

HarbourVest is a fund-of-funds providing cheap access to fast-growing unlisted companies

Max King
Investment columnist

The popularity of any investment trust, and hence the discount or premium to net asset value (NAV) at which its shares trade, ought in theory to reflect its historic performance and its prospects for the future. Investors, however, are far from rational. A trust that has grown its NAV by 251% in ten years, doubling it in five, compared with the FTSE All-World index's total return of 138%, ought to be a market darling. But the shares of **HarbourVest Global Private Equity (LSE: HVPE)** trade at a discount of over 40%.

Doesn't that suggest that its portfolio is massively overvalued? That argument might be plausible if stockmarkets had crashed, the world was facing recession, valuations were defying gravity and disposals had ground to a halt. But markets have been rising steadily against a benign economic backdrop. The average valuation multiple for a representative sample of the portfolio at year end was a reasonable 14 times cash flow, average cash flow having increased 15% in the year.

A conservative valuation

In the year to 31 January 2024, around 10% of the portfolio was sold at an average premium to carrying value of 24%, which suggests that the portfolio valuation is conservative. A conservative valuation makes it easy to continue generating uplifts in the future. One of HVPE's largest investments, accounting for 2.1% of the portfolio, is Chinese fast-fashion group Shein, expected to list in London soon.

China's fast-fashion group Shein makes up 2.1% of the portfolio

©Getty Images

Why, then, doesn't HVPE buy back shares at such a discount? Actually, it has been doing so since September 2022, having bought back 2.9 million shares, nearly 4% of those in issue, and contributing 86 cents to a NAV of $50.47. The board has allocated $150m-$250m to a buyback pool, which JPMorgan estimates would add 2.9% to 5.2% to NAV at current prices. Are the shares illiquid? No, the market value of HVPE is £1,840m. Are costs high? Total expenses in the year were 1.8% of average NAV, of which one third was incurred in the underlying funds. Managing private equity is expensive, with costs more comparable to a listed company than to a fund investing in listed shares, but the returns are significantly higher.

HVPE invests via 63 funds managed by HarbourVest Partners and also in 16 co-investments. As a result, with 1,334 companies in the underlying portfolio, it is very well diversified. This means that there is little visibility of the underlying holdings, but the impact from individual problem companies will be very low. Investors appear to think the former matters more than the latter, but it is not obvious why. HVPE's peer group of "fund-of-fund" private-equity trusts trades on an average discount to NAV of 35% (HVPE's is the highest), with an average five-year return of 96% (HVPE's is the second-highest). There are other private-equity trusts with better records than HVPE, but trading on a lower discount. There are some on higher discounts, but with terrible performance records.

James Glass of Numis Securities points out that "in the UK, private equity... polarises opinion with a widespread view that it represents a culture of 'greed is good'. As a result, benchmarks for personal, charitable and institutional investment have no allocation to it". The UK's aversion is both unique and irrational, given that "listed private equity consistently outperforms public equity, net of fees, by an average 6.25% per annum".

Listed private equity provides investors access to an outperforming asset class that they could not access directly, with good liquidity at bargain-basement prices. Within a very undervalued sector, the combination of HVPE's very strong performance record and inexplicably high discount is hard to beat – especially with the board trying to narrow the discount and add to NAV by buying back shares.

Activist watch

Shares in Rentokil jumped by 16% on the news that renowned activist investor Nelson Peltz's fund Trian Partners had amassed a significant stake, says Bloomberg. Trian is now one of the ten biggest shareholders. The share-price gains gave the world's largest pest-control company a market capitalisation of £11.8bn. Rentokil's stock surged during the pandemic as people sought to kill viruses and bacteria; it also profited from the bed-bug outbreak once lockdown restrictions were eased. But it has struggled since then, losing more than a third of its value in a year. Trian said it had contacted Rentokil to "discuss ideas and initiatives to improve shareholder value". The nature of Trian's plans for Rentokil have not been disclosed.

Short positions... don't overlook the value in Europe

■ **Invesco is closing its UK equities team, which used to be led by star manager Neil Woodford, says The Telegraph. The US asset manager is to merge the London desk to create a "Pan European Equity Team" to encourage "collaboration" between staff. The news marks another blow to Britain's equity funds, which have suffered outflows as clients have withdrawn money amid "antipathy" towards British shares in recent years and the increasing popularity of low-cost index trackers. British firms have been quitting London to list in New York to secure higher valuations. The money in Invesco's UK Equity Income and High-Income funds has declined to £6.86bn, compared with £33bn when Woodford oversaw them at asset manager Perpetual, which was bought by Invesco in 2001. Woodford is being investigated by the Financial Conduct Authority, the financial watchdog, following the collapse of his own £3.7bn Equity Income Fund in 2019.**

■ Around £116bn was pumped into global exchange-traded funds (ETFs) in May, up from a paltry $69.6bn in April, according to data from asset manager BlackRock. The US stockmarket took the lion's share, with $55.7bn of net buying, a rebound from April's $18.1bn. But there were notable inflows into European equities, high-yield bonds, and utility stocks, says the Financial Times. European equity ETFs also attracted steady buying by US investors owing to robust earnings and economic trends on the continent. "We think [European equity ETFs] are under-owned. The aggregate amount that has come into them this year only reverses the outflows that we saw last year," says BlackRock's Karim Chedid. He also sees "relative value in high-yield [debt] on the European side".

Industrial metals will keep shining

The commodities are fuelling the energy transition, says James McKeigue, base metals editor at Fastmarkets

It has been an exciting year for investors in base metals. In May, copper hit record highs, while nickel, zinc, and tin prices have all seen double-digit gains this year. One thing all these base metals have in common is that we need them for the energy transition. Another is that they have all recently suffered from serious supply disruption. Lithium, meanwhile, also crucial to the energy transition, has seen its price plummet as supply has ramped up. Latin America is the key global store of most of the energy-transition metals. As countries and investors compete to secure supplies of critical minerals, the region's mining sector will see an inflow of capital.

An influx of cash

One of the reasons for the recent uptick in base-metals prices that is less understood is the influx of energy traders and funds. Energy-trading houses (such as Gunvor, Vitol and Mercuria) that made huge profits buying and selling oil have moved, or moved back, into metals. At present, the value of the metals market is far smaller than that of oil and gas, but as one of the traders told me: "We are diversifying today [for] what might happen tomorrow. If the energy transition takes off, we want to be there".

Some investment firms, meanwhile, aren't content with simply getting exposure to metals prices via stocks, bonds or derivatives. They want to enter the physical market too. As one explained to me, "having access to physical flows of metal gives us forward-looking data about demand that we use to guide our financial positions". These funds' financial bets on metals prices are often much larger than their physical holdings.

Even miners are caught up in the excitement. In April, Australia-headquartered BHP made an unsolicited bid for London-listed Anglo American. Copper was at the heart of the $38.8bn deal. If it had gone through, the deal would have created the world's largest copper miner, with 10% of global output. The bid failed in May, but now Anglo American is under pressure to divest some of its non-copper assets.

The reason for the upsurge in prices is the energy transition. We need to switch from fossil fuels to renewable energy, which means new power generation, transmission lines and electric vehicles – all of which require the metals listed above.

Another chapter in the demand story for these metals is our growing dependence on technology. We now put computer chips in everything from bicycles to washing machines and expect our devices to be connected to the internet or each other. This "internet of things" increases the need for energy-hungry data centres, as does the growth of artificial intelligence (AI). More data centres mean increased electricity generation and storage, boosting demand for copper, tin, nickel and zinc.

But the story is years old, so why are the investors piling in now? It's becoming more apparent we won't actually be able to build the mines needed to produce enough of these metals. And in a tightly supplied market it doesn't take much to make prices swing. Those dramatic price movements entice more investors and traders into the market because they make money in volatile environments – which further propels prices.

"A copper discovery used to become a producing mine in seven years; these days the process takes 20"

Chilean copper miners will make the country the world's no.1 producer

Supply squeezes

In May a host of base-metal prices hit highs on the London Metal Exchange (LME). The three-month futures contract for copper hit $11,104.50 per tonne on 20 May – a new all-time high. Nickel hit an eight-month peak on that day, with the three-month contract reaching $21,615 per tonne. Tin hit $36,050 per tonne last month, up by 47% since the start of 2024. The three-month zinc price closed at $3,062.50 on 22 May, a 24% gain in a month before and a 25-month high.

All of these metals have different markets, uses and dynamics, but they share some traits. Demand for all of them is expanding due to the energy transition and they have all suffered from disruptions to supply.

In copper the most dramatic hit to production came when the Panamanian government ordered the closure of Cobre Panama in late 2023. The mine, owned by Canada-listed First Quantum Minerals, comprised 1% of annual global copper supply, so its closure had a big impact. But more significant than this type of "black-swan" event are the structural factors that make it more difficult to produce copper. During 2023 and 2024, several large copper miners revised their annual production forecasts downwards.

Growing environmental and community activism has made it harder to build new mines. The average time to take a copper discovery into a producing mine has gone from seven years to almost 20, so miners focus on extending existing mines. But these "brownfield" projects invariably have lower ore grades or other technical challenges. The difficulty of producing more copper by the drill bit explains why BHP tried do it via the cheque book.

In the UK tin is associated with food cans or abandoned mines in Cornwall. Yet nowadays more than 50% of demand for tin is for soldering electrical components and computer processors. It is a key metal for the energy transition. It is part of the "solar ribbon" that connects the individual cells in a solar panel, while electric vehicles (EVs) use three times more tin than conventional cars. The "soldering metal" is also in the new computer chips that enable AI. So tin is a "future-facing" metal essential for both the energy transition and the fast-growing technology sector, yet it just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"Electric vehicles use three times more tin than conventional ones"

takes a quick glance at the world's main tin-producing countries to see why supply might be precarious.

A pickle in the nickel market

Peru, the world's second-largest tin producer, is subject to frequent bouts of civil unrest and political turmoil, which often affect mining operations and infrastructure. Bolivia is the world's fifth-largest producer and, like Peru, has a former president in jail, while the latter struggles with widespread discontent. Indonesia, the third-largest producer, has repeatedly threatened to ban tin exports, which makes future supply difficult to estimate.

In Myanmar, which is responsible for around 10% of global tin supply, the majority of tin output comes from an autonomous region ruled by an armed separatist group. At present 66% of nickel goes into stainless steel. But 15% of annual global nickel production is used for batteries. That percentage is rising rapidly as EV production increases and raises demand for batteries.

The supply picture for nickel is unclear. Over the last few years the market has been disrupted by an influx of MHP, a nickel intermediate product that's a halfway step between nickel ore and the fully refined nickel metal. MHP is mostly produced by Chinese-backed operations in Indonesia.

Because MHP is cheaper than refined nickel, and can be used to make batteries, it took market share from the traditional metal and caused the nickel price to fall by 40% in 2023. That in turn caused a slew of Western nickel mines to close in 2024. Those closures, and unrest in New Caledonia (a French-controlled island in the Pacific and the world's third-largest nickel producer) reminded investors that nickel supply is precarious.

"Accounting for all disruptions so far this year, we have recently revised our world primary nickel supply-demand balance to just a 47,000-tonne surplus this year, down from the 194,000-tonne surplus we previously forecast and a 223,000-tonne surplus recorded in 2023," said Andrew Cole, an analyst at Fastmarkets. There's one place the world can get its essential energy-transition metals: Latin America. The region is responsible for more than 50% of global copper production and holds over half of the planet's lithium reserves. Chile is the world's top copper producer; Peru is the second-biggest. But the most exciting countries don't appear in the official rankings.

Today Argentina exports almost no copper, but it has the potential to be a top global producer by 2030. Five huge copper deposits in Argentina have been discovered. Ecuador is another high-potential country, where scores of impressive discoveries have been made, but it has only one large-scale copper mine operating.

Brazil is the world's eighth-biggest nickel producer, which doesn't sound that impressive, but it has the third-largest reserves, so the growth potential is huge. When it comes to tin, Peru is the fourth-largest producer, while Brazil and Bolivia are the joint sixth-largest. In zinc, Peru, which is clearly a polymetallic country, is the second-biggest global producer, while Mexico is sixth and Bolivia is seventh. Finally in cobalt, Cuba has the world's fourth-largest reserves.

The "Lithium Triangle" of Bolivia, Argentina and Chile is thought to hold 56% of global reserves. Chile is the second-largest lithium producer in the world with Argentina the third-largest and Brazil fourth. Australia is the world's number-one producer, yet it produces lithium from hard-rock. It is a conventional mining process, with all of the costs associated with mining and processing ore.

In the Lithium Triangle, the lithium is found in brine pools located on salt flats. Lithium can be extracted from this brine by a process of evaporation where the sun does most of the hard work. It means Lithium Triangle production can be much cheaper than it is for its Australian competitors and is a process more akin to manufacturing or petrochemicals than to mining.

Latin America's potential to be a low-cost lithium producer is very relevant given the recent price fall. Fastmarkets assessed battery-grade lithium carbonate prices at $13,500 per tonne in June, down from an average price of $40,000 per tonne in 2023. Latin America's abundant supply of low-cost energy transition materials will be in increasing demand over the coming decade. Below, we look at some of the best ways for UK investors to get access.

Investment opportunities

A simple way to play the base metals, without taking the risk involved with particular projects or companies, is through an exchange-traded fund (ETF). One option is the **WisdomTree Copper ETF (LSE: COPA)**. In theory, you get more potential upside in a mining boom by investing in the miners, rather than in the underlying metal, as they are typically leveraged bets on the trend. In that case you can look at the **Global X Copper Miners UCITS ETF (LSE: COPG)**. Another option is the **Sprott Copper Miners ESG-Screened UCITS ETF (LSE: CPPR)**. At least 60% of its top-ten holdings have significant Latin America exposure.

In lithium, there are also several ETFs. **Global X Lithium and Battery Tech UCITS ETF (LSE: LITU)** gives exposure to both Latin American lithium producers and their customers, such as Tesla, further downstream. Another choice is the **iShares Lithium and Battery Producers ETF (LSE: LITM)**.

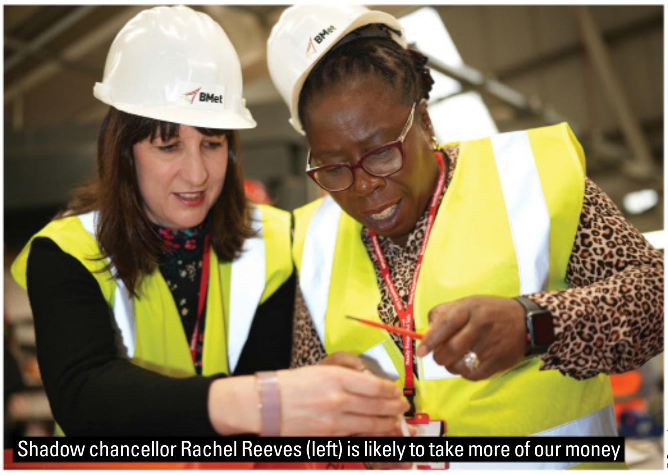
The best way for UK investors to play tin or nickel is through an exchange-traded commodity (ETC). In tin, one option is the **Wisdom Tree Tin ETC (LSE: TINM)**. In nickel there is the **Wisdom Tree Nickel ETC (LSE: NICK)**. They trade like equities on the stock exchange, tracking the movement in the futures market of the underlying metal.

The fee for this article has been donated to Fundación Juconi Ecuador, a non-governmental organisation that helps disadvantaged children in Ecuador.

Tax: the pips will squeak

Watch out for stealth rises and possible increases to inheritance levies

Ruth Jackson-Kirby
Money columnist


Shadow chancellor Rachel Reeves (left) is likely to take more of our money
©Getty Images

What would a Labour government mean for your finances? The manifesto includes a commitment not to increase income tax, national insurance or VAT. That's a relief, but Labour will have to cut spending or raise taxes to meet fiscal targets, according to the Institute for Fiscal Studies (IFS). That means it is likely to target more of our money.

Even if Labour doesn't officially increase tax, we will pay more. "Labour says it will maintain the freeze on income-tax thresholds [until 2028], dragging millions more people into higher tax bands," says Mattie Brignal in The Telegraph. This fiscal drag will see more of people's earnings go in tax and many people pushed into higher tax bands.

"The IFS estimates that it is the equivalent to putting up income tax by 6p," says Angharad Carrick in the Daily Mail. While Labour is keen to say it won't raise taxes, several weren't mentioned in the manifesto. "Capital-gains tax (CGT), inheritance tax and the pension lifetime allowance were all absent, leaving the door open for the future."

Capital gains in trouble

"Those who face CGT in the UK – primarily higher-rate taxpayers and entrepreneurs who realise gains from the sale of residential property, investments, and other chargeable assets – have already seen their annual exempt allowance slashed by the current Conservative government to just £3,000 a year," Rachael Griffin, tax and financial planning expert at Quilter, told the Daily Mail. We may be in for a "double whammy with higher rates and lower exempt allowances considerably increasing the capital-gains tax take".

There's good news and bad news for pensioners if Labour wins. Keir Starmer has committed to keeping the state pension triple-lock. That ensures that the state pension rises every year either by inflation, average earnings, or by 2.5%, whichever is highest. This year that meant the state pension rose by 8.5% (the wage-growth figure) to £11,502.40 a year. But this creates another problem. The personal allowance – the amount of income you can receive before tax is due – is frozen at £12,570. If the state pension rises beyond that level (which it is predicted to do in 2028-2029) pensioners will have to start paying income tax, if they don't already. Labour has refused to commit to protecting state-pension income from tax.

So pensioners could find themselves hit by a tax bill on their state pension under a Labour government. Finally, Labour may have said it won't increase VAT, but it is planning to add the tax to private-school fees. "The average fee for a senior day-school pupil is about £17,500 a year," says Rachel Mortimer in The Times. "If the full cost of VAT at 20% was passed on to parents, this would jump to about £21,000."

It's time to switch accounts

Current-account switching bonuses are back. Several banks are offering incentives to entice you to change your account. "The deals include up to £200, free gifts and cashback on spending," says Rosie Murray-West in The Sun. New customers at Nationwide can bag £200, while First Direct, Lloyds and Santander are all offering £175. TSB is paying £100 for switches. "But there are lots of other offers too." Several banks now offer cashback on current-account spending, along with top easy-access savings rates.

Santander is offering its Edge account customers 1% cashback on bills paid by direct debit and 1% cashback on grocery and travel spending. This is capped at £10 a month each, so you could earn £240 cashback a year. It also has a linked easy-access savings account paying 7% on balances up to £4,000. You get £175 for switching now.

"Banks tend to launch switching incentives when they want to reel in more customers," says Helen Kirrane on ThisisMoney.co.uk. It certainly works – the Current Account Switch Service data records spikes of new customers when cash bonuses are on offer. Some switching bonuses force you to stick around. Co-op Bank's deal gives new customers £75 when they switch their current account. They can then bag another £15 a month for five months if they open a regular saver account and pay money in regularly. So you get £150, but you have to work for it and stay with the bank.

Pocket money... beware the rise of conveyancing scams

● Home insurance quotes have risen by 42% in a year, says Fran Ivens in The Telegraph – the highest annual increase since records began in 2014. The average premium is now between £150 and £199. "Every time there is a storm and payouts, some insurers put up their prices," Mohammad Khan, head of general insurance at PwC, told the paper. "That is compounded by the fact that over the past two years the cost of repairing a house has gone up a lot." There have been 11 storms this season, compared with just four between June 2022 and July 2023.

● Jaguar Land Rover is to invest more than £1m to help police tackle car thefts. The money will be used "to target theft hotspots" and top up police forces' resources, says Tom Ambrose in The Guardian. "Insurance premiums for the company's luxury vehicles have soared recently, prompting it to relaunch its own insurance cover last October." Some insurers now refuse to cover Range Rovers due to fears over thefts.

● The number of British mortgages in arrears reached a near-eight-year high in the first quarter of 2024 as high mortgage rates took their toll, says Valentina Romei in the Financial Times. Mortgages in arrears rose to 1.28% of all loans, up from 1.23% in the previous quarter. In 2009 arrears reached 3.64%.

● Conveyancing scams have risen by 29% in a year, says Harvey Dorset on ThisisMoney.co.uk. Crooks hack homebuyers' email accounts to con them out of their deposit payments. Victims have an average of £47,527 stolen. The fraud begins with your, or your solicitor's, email address being hacked. The criminals then follow the emails about your property purchase. When the time is right they "send false payment details to the buyer that appear to be from the solicitor's email address". They sometimes even call, pretending to be from the solicitor's office. The scam relies on your being in a rush and stressed as you try to send a large sum to secure your new home. Protect yourself with a strong email password and watch out for the bank's warning that the name on the receiving account doesn't match the bank details you've entered. Check your payment instructions with your solicitor on a trusted phone number.

Boosting energy efficiency

Companies don't benefit from a price cap, so consider options carefully

David Prosser
Business columnist


Many companies are choosing solar panels to trim their bills

©Getty Images

Small businesses struggling to get costs under control may have been relieved to see Ofgem's announcement of lower energy prices earlier this month. However, the energy regulator's price cap does not apply to gas and electricity contracts for businesses, where there is no maximum charging regime. While Ofgem's move reflects falling energy prices on the wholesale market, which companies may benefit from, there is no automatic reduction in bills.

Indeed, the vast majority of firms now get no protection at all from higher energy costs. The Energy Bills Discount Scheme, which provided some support for businesses, came to an end on 31 March 2024 and has not been replaced. That makes it imperative for small businesses to take action for themselves on energy costs – particularly amid predictions that prices could rise again this autumn.

Modern technologies could play an important role here. New tools make it far easier for businesses to monitor how and where they are incurring energy costs, and therefore to take action. The cost of many energy-efficiency technologies is also beginning to fall.

Where to start

Smart energy-management systems, for example, provide businesses with a constant read-out of their energy usage. By incorporating sensors and meters with data analytics tools, such systems can identify inefficiencies in the way companies are consuming energy. It may be possible to reconfigure heating systems and lighting, for example, in order to lower costs. It may make sense to run certain types of equipment at a different time of the day.

Shifting to energy-efficiency equipment may also help to drive savings. Less power-intensive lighting systems, for example, could cut bills. In plant-intensive businesses, it may be possible to upgrade to more efficient machinery. Moreover, while making such changes will carry upfront costs, capital investment attracts tax reliefs. There is then an ongoing return from reduced operating expenditure.

Renewable energy provides further opportunities to save money, as well as to reduce the size of the firm's carbon footprint. Installing solar panels on top of buildings is an obvious first move, but many businesses are now looking at additional energy generation options, including wind turbines and even geothermal technologies. Again, the upfront costs will often count as capital expenditure.

It's not only hardware where investment can generate dividends. There will also be a return on investments made by businesses in employee engagement and training. Many staff are ready to play their part in helping the business to reduce its energy consumption – not least because of their own instincts on sustainability – but need help to do so. Even encouraging relatively simple behaviours, such as shutting down workstations at the end of each day, can make a significant difference in aggregate.

The key is to get started as soon as possible. One good way for businesses to kick-start their efforts to lower costs is to conduct an energy audit, potentially with the help of a professional adviser. This is an exercise to understand exactly how and where the business is consuming energy, so that it can identify opportunities for improvements. Conducting such audits relatively regularly will also help businesses understand whether they are moving in the right direction.

Expect reform of business rates

The UK's business-rates regime looks set for an overhaul following the election, with both the main parties now promising reforms – albeit with little detail available. The Conservatives are promising measures to reduce costs for high-street shops in particular. Labour says it is keen to level the playing field between high-street retailers and their online rivals.

Indeed, much of the focus has been on the retail sector, even though every business with physical premises is covered by the business-rates system. That includes offices, pubs, warehouses, factories and leisure facilities as well as high-street shops.

One positive change to help a wider group of firms would be simplification. A patchwork quilt of exemptions and reliefs, largely introduced over the past few years to help businesses deal with Covid, leaves many businesses scratching their heads about how much they have to pay. Overstretched local authorities struggle to respond to enquiries and requests for support; the fact that the rules vary in England, Wales, Scotland and Northern Ireland also makes life more difficult.

Small businesses – defined as those occupying less valuable properties – pay less in business rates, although the thresholds vary across the UK. There are also reliefs for retail, hospitality and leisure firms, and caps on the increases that businesses should face in any single year.

Petty cash... companies sit on cash

- While most surveys suggest that the confidence of small and medium-sized enterprises (SMEs) is improving, there is still a reluctance to borrow in order to invest. Data from the Bank of England suggests that SMEs have been repaying debt in greater numbers than borrowing, while other indicators show that many continue to sit on significant cash reserves. Such caution is understandable, but advisers are increasingly concerned that many businesses lack the firepower to capitalise on emerging opportunities as the economy recovers.

- Employees continue to be the weakest link in organisations' defences against cyber attacks. There have already been reports, so far unconfirmed, that the cyber attack that recently forced the NHS to cancel operations began with a phishing email. The incident underlines the importance of ensuring that all employees are on their guard against such attacks. Many firms are not doing enough to encourage ongoing vigilance, cyber-security specialists warn.

- Businesses looking to improve the artificial intelligence (AI) skills of their employees may be eligible for financial support from a new government scheme. The Department for Science, Innovation and Technology has unveiled a new pilot scheme aimed at SMEs in the professional business-services sector. Cash grants must be used to invest in AI skills training, with awards of up to £10,000 available depending on the size of the company. More details of the Flexible AI Upskilling Fund Pilot are available on the Gov.UK website.

An unloved (and uncovered) fintech

PayPoint has immense potential and is going cheap

Rupert Hargreaves
Investment columnist

PayPoint (LSE: PAY) is one of the UK's most overlooked and undervalued businesses. In a world where fintech companies, even those racking up huge losses, can attract multi-billion-pound valuations, PayPoint is languishing at a market value of around £440m and trading at a forward price-to-earnings (p/e) multiple of 8.6. It seems the market is struggling to understand how PayPoint works and the vital role it plays.

PayPoint is helping keep cash alive

©Getty Images

Filling a niche

PayPoint fills an interesting gap in the market between fintech and the world of cash payments. As well as offering point-of-sale systems for retailers, it allows consumers to pay bills, such as water and gas, in convenience stores with cash. It also helps retailers and consumers process digital payments and, via its Love2shop arm, provides employee and customer rewards and pre-paid savings solutions to thousands of consumers and businesses. In many respects, the company is a one-stop fintech shop for customers and retailers.

PayPoint's largest division in terms of income contribution is its shopping arm. This is related to the company's point-of-sale systems in stores. In fiscal 2024, the firm generated net revenue from this arm of around £66m, around a third of which was rental fees paid by merchants using its card machines and another third was fees linked to transactions processed through the terminal pay points. Around 10% came from fees tied to cash machines and "counter cash", a service PayPoint launched in 2021. The group launched this service – which enables anyone to withdraw specific denominations of cash from £0.01 to £50 from participating PayPoint retailers – in 2021 to help improve access to cash in underserved areas.

The decline of cash

Access to cash has slumped over the past decade. In 2011, 55% of UK payments were made in cash, but by the end of this decade that number is expected to be less than 10%. At the same time, over the past five years nearly 15,000 cash machines have been taken away and more than 2,000 bank branches have closed. However, there's still a key need for cash. According to the Bank of England, "cash remains a valued form of money for the elderly and those on lower incomes, with many using it to budget and manage their household finances". Almost a third of people over the age of 65 use cash as their preferred payment method. A 2020 study from the Financial Conduct Authority noted that nearly half of the "digitally excluded" population relies on cash.

The problem is that companies aren't listening. Have you ever tried to pay a utility or phone bill in cash? It's impossible. The same applies to shopping online and many retailers have gone card-only. Here, PayPoint fulfils an essential (and profitable) service. Two-thirds of payments processed through its network start with cash. As the world becomes more digital, PayPoint has the infrastructure in place to manage that shift.

A new partnership will drive growth here. In March, PayPoint signed an agreement with Lloyds Bank Cardnet to become the main acquiring partner across PayPoint's extensive network of more than 60,000 small and medium-sized business partners. The partnership will combine PayPoint's network with Lloyds' payment processing abilities and give retailers access to the bank's business banking tools and loans, including a free business bank account for 12 months. This partnership will be a "key driver" of growth from this year onwards, according to Liberum.

Another key growth pillar will be the company's expanded partnerships with Yodel, Vinted, and Royal Mail. PayPoint's Collect+ stores allow customers to collect, send, and return parcels. It's cheaper and easier for the delivery companies to send to one point, easier for consumers who are out at work all day, and the retailer is paid per parcel processed (without mentioning the stream of customers attracted into the store to collect parcels every day).

This is a small but growing business that's been given a shot in the arm by an agreement with Royal Mail, the country's largest parcel-delivery firm, signed in February. In its last fiscal year, volumes at the group's parcel arm jumped 77.5%, and net revenue rose 61.6% to £11.8m. The number of sites offering the service rose 12.1% from 10,514 to 11,786. Liberum thinks sales from this arm can more than double over the next three years.

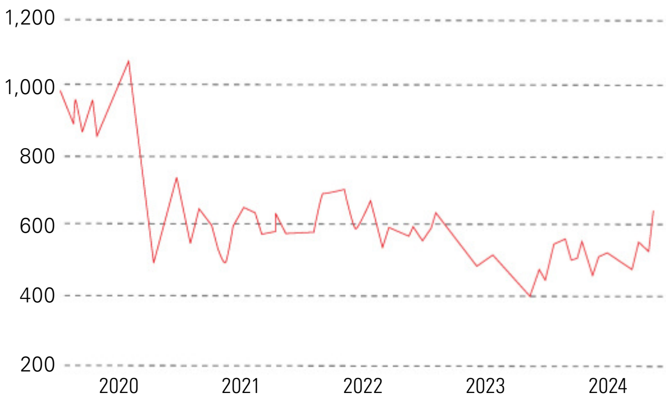
Going for growth

Liberum says the firm's offering to customers is "all about revenue growth and the operating leverage that it will bring" and analysts argue that 70%-80% of PayPoint's business is now "on a growth footing", up from 30%in 2019.

The market has failed to realise this opportunity. Management wants to hit £100m in earnings before interest, tax, depreciation and amortisation (Ebitda) in the next two years (fiscal 2026), up from the mid-£80m range today. "Progress can be achieved through leveraging the materially enhanced platform, unlocking new markets and revenue with enterprise-level solutions, intensity and focus on execution, and tight cost control and management," says Liberum. Management also announced a £20m share buyback alongside 2024 results on top of a final dividend of 19.2p (37.8p per share for the full year). That gives the stock an ordinary dividend yield of 6.8%. The total shareholder return (including buybacks) for the year is a shade under 11%.

Few other companies offer the combination of growth, value, and cash returns PayPoint presents today. For a company that fulfils such a vital role for tens of thousands of small businesses and their customers, it should be worth a lot more.

PayPoint (LSE: PAY)
Share price in pence



Emerging-market stocks combining long-term growth and sustainability

A professional investor tells us where he'd put his money. This week: Andrew Ness, Portfolio Manager of the Templeton Emerging Markets Sustainability Fund

Sustainable investing is a long-term, multi-stakeholder approach to value creation. It has a clear focus on positive, real-world, social and environmental outcomes. These are delivered and quantified in an effective, accurate and repeatable way. Our strategy is one of the few available to give investors pure emerging-market equity exposure with a focus on sustainability.

We invest in a diversified portfolio of companies in developing or emerging nations, focusing on firms with good or improving sustainability criteria as defined by our proprietary environmental and social governance (ESG) rating methodology.

One of the main investment opportunities we have identified is closing the funding gap. The Organisation for Economic Co-operation and Development (OECD) estimates that the gulf between the annual financing requirement for emerging markets to meet the United Nations' sustainable-investment goals by 2030, and current investment trends, is $3.9trn. Firms we invest in that represent attractive sustainable-investment opportunities and contribute to closing the funding gap include the following.

Powering smartphones and AI

TSMC (NYSE: TSM) is the world's largest semiconductor foundry. Through sustainable innovation in product development, the company benefits from higher efficiency and lower water and power consumption, preserving scarce resources.

The company supplies semiconductor chips for use in smartphones, artificial-intelligence (AI) servers, and cars. Major customers include Apple, Nvidia, and Qualcomm. TSMC has foundries in Taiwan, China and the US, with plans to open additional ones in Europe and the US. Our strategy is overweight the stock, reflecting our optimism over the long-term growth in global demand for semiconductors used in AI, consumer products and vehicles.

"Hon Hai should benefit from the global drive to diversify supply chains"

Hon Hai (NYSE: HNHPF) is the world's largest contract electronics manufacturing company. Hon Hai aims to reduce the power consumed by its products, reduce emissions and bolster overall efficiency. The company's business model focuses on original equipment manufacturing for consumer-electronics as well as cloud and networking products and components. Customers include Apple, Microsoft, and Cisco. Hon Hai has production facilities in China,

ICICI is one of India's largest private-sector banks

©Getty Images

India and Brazil. The group employs more than one million people and plans to establish itself as a contract manufacturer in the electric-vehicle industry. Our fund has a significant overweight position in the company, reflecting our view that Hon Hai is well positioned to benefit from the trend of global supply-chain diversification.

Financing India's development

ICICI Bank (NYSE: IBN) is one of the largest private-sector banks in India, with a network of over 6,000 branches. The bank provides individuals with access to capital for fulfilling basic needs, and helps fund small businesses, which drives employment creation in addition to social and economic development. It has a number of subsidiaries, including ICICI Prudential Life insurance, a separately listed company in which it holds a 51% stake.

India's economic growth, which has been the highest among emerging markets, is driving increased demand for financial services. We have a significant overweight position in the stock, reflecting our belief that ICICI will benefit from the increased penetration of financial services, ranging from bank accounts to life insurance.

The trials of a Lancastrian hero

Simon Sadler, who hails from Blackpool, rose to become the envy of Asia's financial scene, and returned in triumph to rescue the local football club. Is his "long hot streak" now over? Jane Lewis reports

When Simon Sadler bought Blackpool FC in 2019, he was described by The Guardian as a "local-boy-done-good". That's something of an understatement. Sadler was by then the doyen of one of Hong Kong's largest and most successful hedge funds – having grown his fund, Segantii Capital, from a $26m tiddler to a $6.2bn giant, with offices in London, New York and Dubai, in little more than a decade.

If his "long hot streak" was "once the envy of Asia's financial scene", Sadler's fall has been equally dramatic, says Bloomberg. In May, it was announced that the once-mighty fund would be wound down – and funds returned to investors – after the Hong Kong Securities and Futures Commission (SFC) started criminal proceedings against Sadler, and a former Segantii trader, Daniel La Rocca, on suspicion of insider dealing. The alleged offence, which both deny, dates back to a 2017 "block trade" involving the Hong Kong-listed retailer, Esprit.


©Alamy

"Out of nowhere, I'm the owner of a football club and fans are singing my name"

"This is a big deal. It's rare to see criminal charges of this magnitude brought against a prominent fund manager," a local industry figure told the Financial Times. If convicted, Sadler could face up to seven years in jail. For years, he was the go-to middleman for investment banks that wanted discreetly to sell large blocks of shares "off-market" to avoid depressing a company's share price. Having become one of the biggest players in Asia, Segantii's reputation soon spread to trading floors on Wall Street and the City: clients included Bank of America, Citi and Goldman Sachs. But the spectacular collapse of Bill Hwang's Archegos Capital Management in 2021 brought the workings of this market under the spotlight of regulatory scrutiny. Even before the insider-dealing charges, Segantii's business was suffering as risk-averse banks withdrew.

Sadler's reputation in Hong Kong, which he made his home, was mixed, notes Bloomberg. Former colleagues and associates describe him as "hard-charging, hot-tempered and foul-mouthed". He was renowned for running Segantii "with an iron grip". But the firm's Hong Kong office reeked of nostalgia for home. Sadler combined a belief in Chinese geomancy (he had a fengshui master visit regularly) with posters of Duran Duran and Manchester United. When he bought Blackpool FC for £10m (rescuing the club from the ruinous regime of local tycoon Owen Oyston), Sadler ordered dozens of the team's tangerine-coloured jerseys as presents for Segantii's employees. Back in Britain, he could barely contain his joy at taking over the club that had nurtured the legendary Stanley Matthews. "All of a sudden, out of nowhere, I'm the owner of a football club, I'm walking the pitch and people are singing my name. I'm getting soaked in Champagne."

An intrepid spirit

A Lancastrian to his core, Sadler, 54, was born in the seaside village of Bispham on the outskirts of Blackpool, and educated at the local Warbreck High School, notes the BBC. After gaining a business degree at the University of Manchester Institute of Science and Technology (UMIST), he headed for the City – beginning a career in finance with firms such as Dresdner Kleinwort Wasserstein and Deutsche Bank that eventually took in stints in Moscow and Hong Kong. When he founded his own firm in the former UK colony in 2007, the name he chose was replete with significance. The Segrantii (or Settantii), as The Blackpool Gazette observes, were a pre-Roman Celtic tribe with roots on the local coast – renowned for their seafaring prowess and a fiercely "intrepid spirit" that twice saw them see off Julius Caesar.

Last seen in London in May – unusually, flanked by bodyguards – Sadler's next court hearing in Hong Kong is scheduled to take place in July. In his hour of need, he might well reflect he could do with some of that ancient fighting spirit.

The original Davos Man returns to the shadows

Klaus Schwab, the 86-year-old founder of the World Economic Forum (WEF), was arrested when the US military swooped on his home in Switzerland. Following a deadly firefight, Schwab (pictured) was found dead in bed connected to an adrenochrome infusion machine to reverse ageing. This is not true. But the story went viral earlier this year when it was reported by satirical websites and taken to be fact by credulous doomscrollers. Schwab is actually in good health and in post. But the story is of a piece with Schwab's organisation, which has become the subject of many conspiracy theories.

More true, if less exciting, is that he is to resign as executive chair of the WEF, says Sam Jones in the Financial Times. He has been at the helm since 1971, transforming it from its modest beginnings as a conference for European businessmen in the Swiss resort of Davos into a highly profitable enterprise, worth £345m in 2022-2023.

The WEF is now a networking event that attracts heads of state and senior policymakers from around the world, a think tank and a network of ersatz NGOs. Schwab will step back in January to make way for Børge Brende, a former foreign minister of Norway.

A German-born mechanical engineer, Schwab came up with the idea for Davos while working as a business professor at the University of Geneva. He has used it as a forum to propagate his thinking – basically that the end of the Cold War settled all the great questions about human life and the future will be one of ever greater technological progress and commerce, guided by all-seeing, wise technocrats. For a time, it seemed this was indeed the direction of travel. But the kind of "stakeholder capitalism" envisaged is now a victim of its own contradictions, says Andrew Orlowski on Unherd. "Hard up and impoverished NGOs no longer press their noses against the glass, hoping to be included at the boardroom table. The tail now wags the dog." And the rise of the populist right in revolt against the WEF worldview horrifies Schwab. Out now is all talk of eating insects and a "Great Reset"; in come papers on rebuilding trust in a fragmented world. But despite the WEF's best efforts, Davos Man looks to have had his day. "It's the perfect time for the original Davos Man to return to the shadows too."

©Getty Images

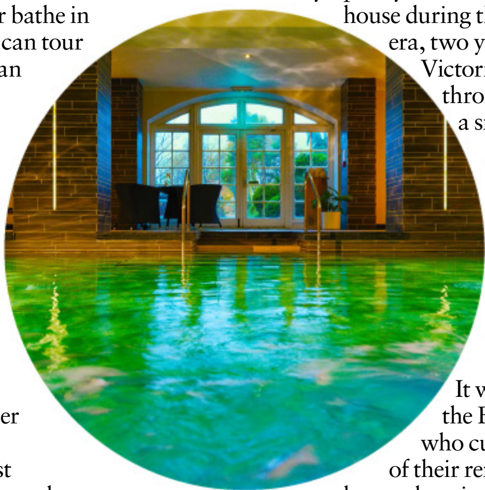
A charming stay in an elegant city

Matthew Partridge takes the waters at The Bath Priory hotel's luxurious spa

Sam Weller in Charles Dickens' *The Pickwick Papers* thought the spa waters at Bath had "a very strong flavour o' warm flat irons". I would have to agree, having tasted the waters for myself at the end of my tour of the historic Roman Baths. But while the taste of the water may leave much to be desired, the enchanting city of Bath is agreeable in all other respects. It has, for instance, retained the charm of a large market town, along with much of its Regency-era architecture. And you won't be short of things to see and do.

The Roman Baths are the main attraction, as you might guess from the name of the city. They were constructed in around AD70 and the baths were used for hundreds of years by the Romans, before they fell into disrepair when the Romans left. From the medieval period onwards, the baths started to be used again for recreational and therapeutic purposes, achieving renown during the Regency and Victorian periods.

You can no longer bathe in them today, but you can tour what remains, with an audio guide giving a detailed description of the facilities. The tour also takes in a museum filled with Roman artefacts, including tablets with curses inscribed on them.



Towering Bath Abbey

Bath Abbey is another local attraction that should be on your list of places to visit. It hosted a community of Benedictine monks from the seventh century until the dissolution of the monasteries under Henry VIII in the 1530s.

The abbey has been remodelled several times, most notably by the famous Victorian architect George Gilbert Scott, becoming one of the largest buildings in Bath, towering over the Roman Baths. Hour-long tours run during the day, in which you can ascend to the belfry and clock tower.

My guides Emma and Helena gave me an insight into the history of the bells, including why at one point they led to the Abbey being nicknamed the "slaughterhouse" by angry locals.


The Bath Priory will delight those who appreciate fine dining

©The Bath Priory

A suitably graceful hotel

Any hotel that calls Bath home has to be of a sufficiently high standard, such is the elegance of the city. Fortunately, The Bath Priory hotel does not disappoint. It is also conveniently situated at just a 20-minute walk from the city centre and less than five minutes from the botanical gardens.

The hotel takes its name from the fact that the land was originally owned by Bath Abbey's priory. It was built as a private house during the late Regency era, two years before Queen Victoria ascended the throne, and it became a small hotel in 1969.

"A visit to The Bath Priory's L'Occitane spa is a must for its range of treatments"

It was later bought by the Brownsword family, who currently run it as part of their renowned collection of luxury boutique hotels.

The hotel now has 36 rooms, including seven suites. My premier deluxe room was spacious and lavishly decorated, with a large marble en-suite bathroom and a sweeping view of the four-acre garden.

The garden, filled with a wide range of plants, is an attraction in its own right, and it is tended by Chelsea Flower Show silver medal-winner Jane Moore. Guests can also play croquet on the lawn, use the private boules court – perhaps getting in some practice for the tournament held every year in nearby Queen Square – or simply sip a drink on the garden terrace.

There is an outdoor swimming pool, but for those who prefer to relax inside, The Bath Priory's spa is a must. It is the first, and so far only, L'Occitane spa in Britain and it offers a selection of massages, facial and body treatments, including the hotel's very own signature treatment, as well as a massage that combines Swedish, Chinese acupressure and Balinese techniques. The spa also has an indoor pool, along with a sauna and steam room.

The perfect end to a day out

The Bath Priory offers two dining options for those who have worked up an appetite after a day's sightseeing. There is The Pantry & Terrace, which is a more relaxed setting. And there is the Restaurant, which will delight those who appreciate fine dining. I enjoyed an outstanding dinner at the latter – Devon crab with lime, mooli and peanut chilli caramel to begin, followed by Cornish wild turbot, served with a scallop mousse, girolle mushrooms, sea vegetables and Golden Oscietra caviar. For dessert, I opted for the dark hazelnut chocolate with butterscotch and passion fruit. Along the way, I was also treated to delicious, additional *amuse-bouche*.

As amazing as the food was, the thing that really impressed me about the restaurant was the quality of the service. That is something that is demonstrated throughout the hotel and most notable after a busy day spent visiting the Roman Baths and Bath Abbey, along with everything else this superb city has to offer. The Bath Priory takes special care of its guests.

Matthew was a guest of The Bath Priory. From £275 a night, based on two sharing, including breakfast. Package deals are also regularly available, including meals and experiences. Call 01225-331922 or visit thebathpriory.co.uk

In the prime of mid-life

Aston Martin's DBX707 may be middle-aged, but it has plenty of road left to run

Carmakers typically give their models a "mid-life facelift" around four years after launch, says Stuart Gallagher in Evo. "A nip here, a tuck there, possibly some more oomph somewhere. Job done, three more years of sales before its all-new replacement arrives." It's also an opportunity to address any lingering issues, such as the interior of Aston Martin's high-performance SUV, the DBX707. The carmaker had spent its budget on the car's bespoke platform and design. So when it came to "dressing the inside of the [car], Aston Martin was shaking the last pennies from its investors' piggy banks". At best, the interior could be described as functional. "It simply wasn't fitting for a car carrying the DBX's price tag." Fortunately, the makeover has been a "triumph". The surfaces have texture and there is "jewellery for the controls", which are also better integrated into the set-up. And the infotainment system with a touchscreen has been greatly improved.

"The facelift didn't actually result in many mechanical changes," says Top Gear. You still get the same Mercedes-sourced 4.0-litre biturbo V8, generating 697bhp and 663lb ft of torque in the DBX707. There is slightly more steering assistance in GT mode "to make motorway driving that little bit more comfortable" and the time it takes to accelerate from 0-60mph has fallen from 3.3 seconds to 3.1 seconds.

A tamed beast

"Out on the open road, the DBX continues to defy what anyone might reasonably expect of a 2.2-tonne family car with a high centre of gravity," says Richard Lane in Autocar. "It behaves much like a super-saloon – a... well-sorted one set up by a company whose engineers understand that good road manners are non-negotiable, but also have a sense of humour." The V8 engine gives a "bottomless, breathy performance, put cleanly to the road via an electronic differential and gargantuan Pirellis at the back". In Sport+ mode, the DBX becomes a "snorting brute". But it handles beautifully… and [it] has [a] playfulness to match its speed". In GT mode you have a "silken tourer on your hands".

An "incredibly capable car [has been made] even more appealing", says Paul Barker in Auto Express. "It's an absolute beast… with the soundtrack to match and a level of agility that something of this height and weight shouldn't be capable" of achieving.

Price: £205,000, astonmartin.com

Wine of the week: a delightfully deceptive rosé

2023 Domaine Pique Roque Rosé, Côtes de Provence, France

£15.55, reduced to £13.75 each by the case; £37 per magnum, reduced to £32.50 each by the case; £93 per double magnum, Haynes Hanson & Clark 020-7584 7927, hhandc.co.uk

Matthew Jukes
Wine columnist

Since I started writing this column in 2006, I have worked with the same MoneyWeek picture editor, Natasha, every week. As you would expect, she has a perfect eye, but I can assure you that nothing could prepare her for this week's challenge. In order to source the image that accompanies this article, I contacted the estate, and they sent me a generic, albeit high-resolution, shot. The problem is that the image looks like a bright pink rosé, and the astonishing thing about the astonishingly delicious 2023 vintage of Pique Roque is that it barely carries a pink gene in its DNA. So, Natasha's job is nigh-on impossible this week, and for that, I apologise.

The fact that this is the palest vintage of this wine I have ever tasted makes it irresistibly attractive. While it is made from a blend of syrah, grenache, cinsault and cabernet sauvignon, it has robust ingredients, and its tension and presence are in no doubt. But add to this a wistful wildflower and red-cherry perfume and a thrillingly refreshing palate, and you have a truly magical elixir.

I have bought this wine every year since it arrived in the UK 17 years ago. It is dangerously delicious, ravishingly sexy, light, firm and cleansing, and it dips well under the price of virtually every famous-name rosé out there – even though you might need decent glasses to convince yourself of its true hue!

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

This week: converted properties – from a former Victorian water tower in Braintree, Essex, to a house in

▲ **The Cheese Factory, Longford Lane, Longford, Ashbourne, Derbyshire.** A converted 1870s cheese factory surrounded by landscaped gardens bordered on either side by a stream. It retains its original exposed brickwork and vaulted beamed ceilings. 6 beds, 3 baths, 3 receps, kitchen, office, 0.6 acres. £2.25m Savills 0115-934 8020.

▶ **The Oyster House, Newton Ferrers, South Devon.** This property was originally build to process Yealm oysters. It has oak floors, a modern fitted kitchen and bathrooms and a spiral staircase leading to a roof terrace. 3 beds, 3 baths, study/bed 4, open-plan living area/kitchen. £1.5m Luscombe Maye 01752-872417.

▶ **Clarence House, Royal William Yard, Plymouth.** A house in a development converted from a Grade I-listed British Navy victualling facility built between 1825 and 1831, which includes restaurants, bars, a cinema, hotel and office spaces. It has exposed stone walls, a curving stone staircase and balconies overlooking Plymouth Sound. 2 beds, 2 baths, recep, study, breakfast kitchen. £595,000 Marchand Petit 01752-873311.

a converted British Navy victualling facility with views over Plymouth Sound

◀ **Lyons Hall Road, High Garrett, Braintree, Essex.** A rare opportunity to buy a three-storey Victorian water tower that comes with planning permission to be converted into a four-bedroom family home, with the option of creating an additional level. The property has exposed brickwork and double-height reception areas with a mezzanine and a private terrace. The plot size is 0.092 acres and includes space for parking. £400,000+ Savills 01245-293233.

▶ **Derby Road, Victoria Park, London E9.** A converted Victorian Warehouse close to Victoria Park. The ground floor has 8.5-metre high ceilings and floor-to-ceiling glass windows. 4 beds, 4 baths, open-plan living area/kitchen, gym with Jacuzzi and sauna. £5.995m Hamptons, 020-3582 2292.

▲ **Sowden Lane, Barnstaple, Devon.** An unusual conversion of a Victorian subterranean water reservoir, which retains its original decorative brickwork and barrel-vaulted brick chambers. It has floor-to-ceiling arched doors leading onto terraces, wood floors, steel pillars, a grass roof, an internal courtyard, garages and a workshop. 4 beds, 3 baths, recep, kitchen. £825,000 Jackson-Stops 01271-325153.

◀ **The Mill, Cuddesdon, Oxfordshire.** A converted 18th-century four-storey water mill set within large gardens that include the original mill pond. The house retains its original beamed ceilings and painted textured stone walls, and has Juliet balconies that overlook the mill pond, and a large dining kitchen with an Aga. 4 beds, 2 baths, recep, study, integral garage, gardens, orchard, meadow, 2.2 acres. £1.65m Strutt & Parker 01865-366648.

▶ **The Kilns, Runfold, Farnham, Surrey.** This Grade II-listed house is one of five properties converted in the 1970s from a specialised facility for drying hops that was originally built in the 1800s to service the beer-production industry. It has beamed ceilings, wood floors and a vaulted dining room with internal glass walls and a south-facing garden. 5 beds, 3 baths, 2 receps, office, games room, breakfast kitchen, garage, parking, gardens. £1.15m Knight Frank 01483-617910.

Play of the week

Boys from the Blackstuff

Adapted by James Graham
National Theatre, transferring to the Garrick until 3 August


The iconic TV series has been brought back to life
©NT/Alistair Muir

"Gizza job. Go on, gizzit"

Boys from the Blackstuff was one of the most iconic and celebrated pieces of 1980s television. Originally appearing in 1980 as Alan Bleasdale's one-off television film *The Black Stuff*, about a gang of tarmac layers (hence the title), it reappeared as a state-of-the-nation BBC mini-series in the autumn of 1982, with additional episodes fleshing out the characters. Writer James Graham has now adapted it for the stage in a version directed by Kate Wasserberg. It has just finished a run at the National Theatre, and has now transferred to the West End.

The play focuses on five unemployed men: Chrissie (Nathan McMullen), Loggo (Aron Julius), George (Philip Whitchurch), Dixie (Mark Womack) and Yosser (Barry Sloane). Unable to find full-time jobs despite their best efforts, they are forced to supplement their meagre benefits with casual cash-in-hand work. Since this breaks the rules, it puts them in conflict with the benefits office run by Miss Sutcliffe (Helen Carter). When overzealous investigator George Moss (Jamie Peacock) organises a police raid on their work site, tragedy ensues, leaving them facing prosecution and even possible imprisonment.

Apart from a brief flashback, Graham wisely skips over the events of the original film (which also served as the opening episode of the mini-series) and focuses on the characters as they attempt to deal with life on the dole. Through clever staging and set design, we are seamlessly transported to a variety of locations from a Liverpool benefits office to a building site, to Chrissie's home and Liverpool Cathedral. The flashes of comedy are retained, but this is no farce, more a bleak look at hardworking people stripped of pride and integrity.

Indeed, the dominant theme is the extent to which the tough economic conditions of the 1980s and the benefit system created an incentive for deception, something acknowledged by Miss Sutcliffe in a speech early on. Moonlighting as a security guard, Dixie's status means that he is forced to turn a blind eye to theft, while Chrissie ends up having to choose between honouring the memory of co-worker Snowy Malone (George Caple) and putting food on his family's table by agreeing to lie in court. Even more poignant is Yosser Hughes, who, while not the sharpest tool, is hardworking to the point of desperation (hence his famous catchphrase: "Gizza job. Go on, gizzit".)

Unemployment is much lower than it was in the 1980s and universal credit (for all its faults) has bridged the "cliff-edge" between benefits and full-time work. Still, there are a large number of people barely managing, and the rise of AI is reminding us that the quirk of fate that caused the decline of Liverpool's docks could happen to anyone. This new adaptation succeeds in bringing these characters back to life for people who (like me) were too young to see the original series, while further developing the drama's important themes.

Reviewed by Matthew Partridge

All That Glitters:

A Story of Friendship, Fraud and Fine Art
Orlando Whitfield
Profile Books, £20

Over the last few decades, the market for fine art has mushroomed. So, too, has the opportunity for fraud. One of the most notorious scams was perpetrated by rogue art dealer and gallery owner Inigo Philbrick. He made headlines when he disappeared in 2019, leaving a trail of unpaid debts and dubious transactions in his wake, only to be captured by US authorities on the South Pacific Island of Vanuatu. Two years later he was convicted of fraud and ordered to return the $86.7m he had scammed from investors. In this book former friend Orlando Whitfield tries to make sense of what happened.

He has a unique perspective on Philbrick's rise and fall, having known him from when they were both students at Goldsmiths. The duo briefly formed a business partnership and Philbrick later hired the author to work in his gallery. They drifted apart, but remained close enough for Philbrick to send his former friend a batch of documents, in the forlorn hope that Whitfield would write an article to help clear his name.

The book also examines how the large sums sloshing around the modern art world, combined with little or no regulation, have created an environment where anything can (and frequently does) go. Indeed, one City trader confessed that he liked the art market as it allowed him to indulge in all the skullduggery banned in his day job. This cautionary tale should be read (and re-read) by anyone thinking of "investing" in art.

Television drama in the news... the online scam artist who netted £2.5m

Confessions of a Teenage Fraudster

Available on the BBC iPlayer

The rise of two-factor authentication and other online security measures makes carrying out even the most basic digital transaction seem as full of checks and balances as launching a nuclear missile. Despite this, credit-card fraud has hit record levels and continues to rise. This is partly down to the rising number of transactions, but fraudsters such as Elliott Castro are also to blame. This three-part BBC mini-series recounts how the Scottish teenager managed to steal £2.5m by demanding fake card charges over five years, before finally being caught.

Castro's spree was partly enabled by the unique conditions of the late 1990s, when online commerce was still in its infancy, and people thought nothing of giving security details over the phone. At the same time, banks preferred to write off fraudulent transactions rather than go to the cost and effort of investigating them properly. The lack of communication between various police forces and card companies also made things much easier for criminals.


©BBC

Some of Castro's cons were as crude as simply snatching a card from a bag or wallet. Others were much more sophisticated, and at times he impersonated hotel managers, doctors, airline employees and even a member of the fraud squad to extract information and stay one step ahead of the authorities. Even when caught, his chutzpah didn't fail him – he continued to run scams from inside a Canadian jail and tricked the police into not notifying the British authorities of his impending deportation.

Eventually, the stress and loneliness of criminal life caused Castro to make one mistake too many. But while serving a relatively lenient sentence, he turned his life around, and his contrition and regret seem genuine. The series is entertaining and eye-opening – it might even save you from falling victim to similar scams.

Bridge by Andrew Robson

West's insoluble dilemma

Dealer North | Neither side vulnerable

North
♠ 1054
♥ AK82
♦ 4
♣ AK864

West
♠ Q92
♥ 6
♦ A1098
♣ J10753

East
♠ 86
♥ Q10974
♦ KQ752
♣ Q

South
♠ AKJ73
♥ J53
♦ J63
♣ 92

The bidding

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

* The best rebid with or without East's Heart bid.
** Game try with Heart concern.

West's six of Hearts lead was a known singleton, given East's overcall. Declarer won dummy's King, crossed to the King of Trumps, then led a Diamond. His one round of Trumps may seem an error – given that East won the Diamond and led a second Trump. However, declarer rose with the Ace, then set to work establishing Clubs.

A Club to the Ace-King revealed the disappointing split, East discarding on the second round. Undeterred, declarer ruffed a Club, ruffed a Diamond, then ruffed a fourth Club. Next, with eight tricks in the bag, he led a Heart, putting West in an insoluble dilemma.

If West ruffed – a loser – then declarer would later score dummy's Ace of Hearts plus his last Trump. If West discarded a Club, then declarer would win dummy's Ace of Hearts and lead the promoted length winner in Clubs, forcing West to ruff and so promote his final trump. So West discarded a Diamond.

No good – declarer won dummy's Ace of Hearts and ruffed dummy's fifth Club. Ten tricks and game made via the Ace-King of Hearts and Clubs, the Ace-King of Spades and four low ruffs.

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

Sudoku 1213

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

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

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

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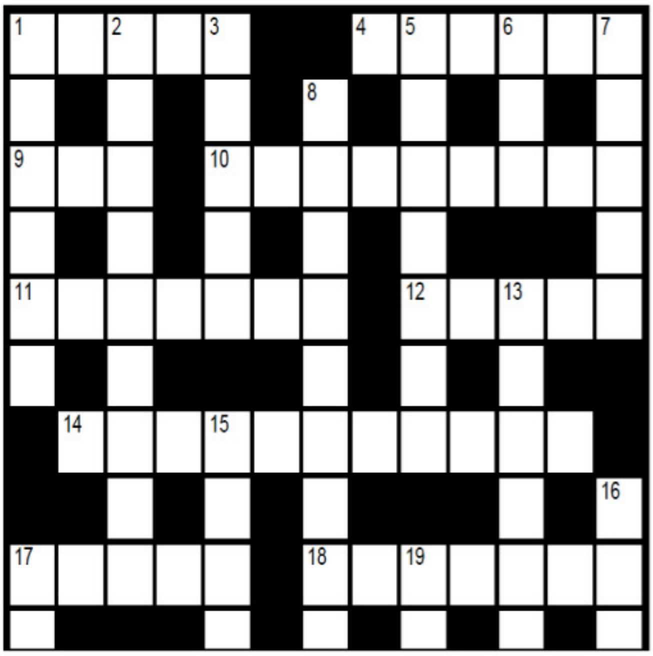
Tim Moorey's Quick Crossword No.1213

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 1 July 2024. By post: send to MoneyWeek's Quick Crossword No.1213, 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.1213 in the subject field.



Across clues are cryptic whereas down clues are straightforward

ACROSS
1 One mum with energy is awesome (7)
5 Rwandan expresses mild disapproval with head of immigration (5)
8 Pay norm is tight, showing this (9)
9 It may be smoked in Zeeland (3)
10 Spy is a bloke (5)
12 Reported traffic jam from device in BBC studio (7)
13 "Holy Smoke" comes from these? (13)
15 Online seller always holding back (1-6)
17 Aromatic shrub that's mentioned in magazine (5)
19 Oxford, say, features in whodunit (3)
20 Play without help, goalie not involved (2,2,5)
22 Offence by American is what leads to the beak (5)
23 Collects the rags for recycling (7)

DOWN
1 A letter opener (5)
2 Broadcast (3)
3 Very stupid (7)
4 Gradual increase in temperatures (6,7)
5 Secret meeting (5)
6 Betrayal (9)
7 Disease (7)
11 Instruction at school (9)
13 Banking orders (7)
14 Withdraw (7)
16 Former capital of Nigeria (5)
18 Large water jugs (5)
21 Be in arrears (3)

Name ....

Address ....

....

email ....

Solutions to 1211
Across **1** Shaken *hake inside Sn* **4** Organs *cryptic def* **8** Scan *scan + t* **9** Indiana *in + Diana* **10** Émigrés *anag* **11** Lisle *L + isle* **12** Headbangers *head b Angers* **17** Okays *(T)okays* **19** Chasten *anag* **21** In a mess *cryptic def* **22** Adage *ad + age* **23** Events *Eve + n + t + s* **24** Sevens *s + evens.*
Down **1** Sussex **2** Avarice **3** Enter **5** Red flag **6** Adams **7** Scared **9** Instances **13** Dissent **14** Rat race **15** Novice **16** Angers **18** Amaze **20** Abase

The winner of MoneyWeek Quick Crossword No.1211 is: Jo Gardner of Cleveland

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

A whole lot of nothing

When the cycle turns the US may find that its wealth has gone up in smoke

Bill Bonner
Columnist

The subject this week is nothing. Zero. The thing that isn't a thing. If you have a little of it, you accept it for what it is. Like an empty wallet, you know it won't take you very far. But what if you have a lot of it? Fifty trillion dollars' worth, for example? Then, you must feel a little like Donald Trump when he was down on his luck in the early 1990s. He was reportedly in the hole by $100m. But he was proud of it. The banks would never lend so much to a poor guy. Only a very rich man could be that poor.

America's great wealth is a source of pride too. But much of its proud tower is rickety, hollow, or simply missing. Often, there is nothing where there should be something. And since a third of Americans live "hand to mouth", we're going to see what happens when the mouth realises that the hand is empty.

We have stocks that are not worth a fraction of their prices. We have "meme" and "zombie" companies that are not worth anything at all. They may have negative value, in fact, since they take valuable resources and waste them. We have a mountain of debt, nearly $100trn of it, every penny of which is counted as an "asset" on the creditors' balance sheets. Probably only about half of it is "money good". The rest may go "poof" in the credit cycle's downturn. The safest part of this pile is US Treasury bonds. And yet they have gone down, in nominal terms, by about 20% since 2020; in gold terms, they have lost 30% of their value in the last four years, and 75% since 1999.

It's not just Treasuries that pretend to have value they don't have. All across the fixed-return world, there are unrecognised losses and make-believe wealth. The Federal Deposit Insurance Corporation notes that unrealised losses on available-for-sale and held-to-maturity securities rose by $39bn to $517bn in the first quarter. Higher unrealised losses on residential mortgage-backed securities, resulting from higher mortgage rates in the first quarter, drove the overall increase. This is the ninth straight quarter of unusually high unrealised losses since the Federal Reserve began to raise interest rates in 2022.

Banks have been required to hold US Treasury bonds as "reserves". That, they were told, would make them more "anti-fragile". But it did just the opposite. The banks also had plenty of private debt that went bad. They lent heavily to real-estate developers and speculators, for example. But now, commercial real estate is not worth what it was a few years ago. People don't go to the office as much. Employers need less space. And many speculators in commercial-property deals are unable to repay. In addition to the loan losses, there are the losses on the collateral itself. Green Street reports that the all-property commercial index is down more than 20% since 2021.

And here's yet another big category of fake money – crypto. The total market value of crypto is now approaching its all-time high, at about $3trn. But where did that come from? How can you discount a stream of earnings when there are no earnings at all? It is illegal to counterfeit dollars. But not to create your own crypto-currency. Everywhere we look – stocks, bonds, property, crypto – much of the wealth we see is a chimera.

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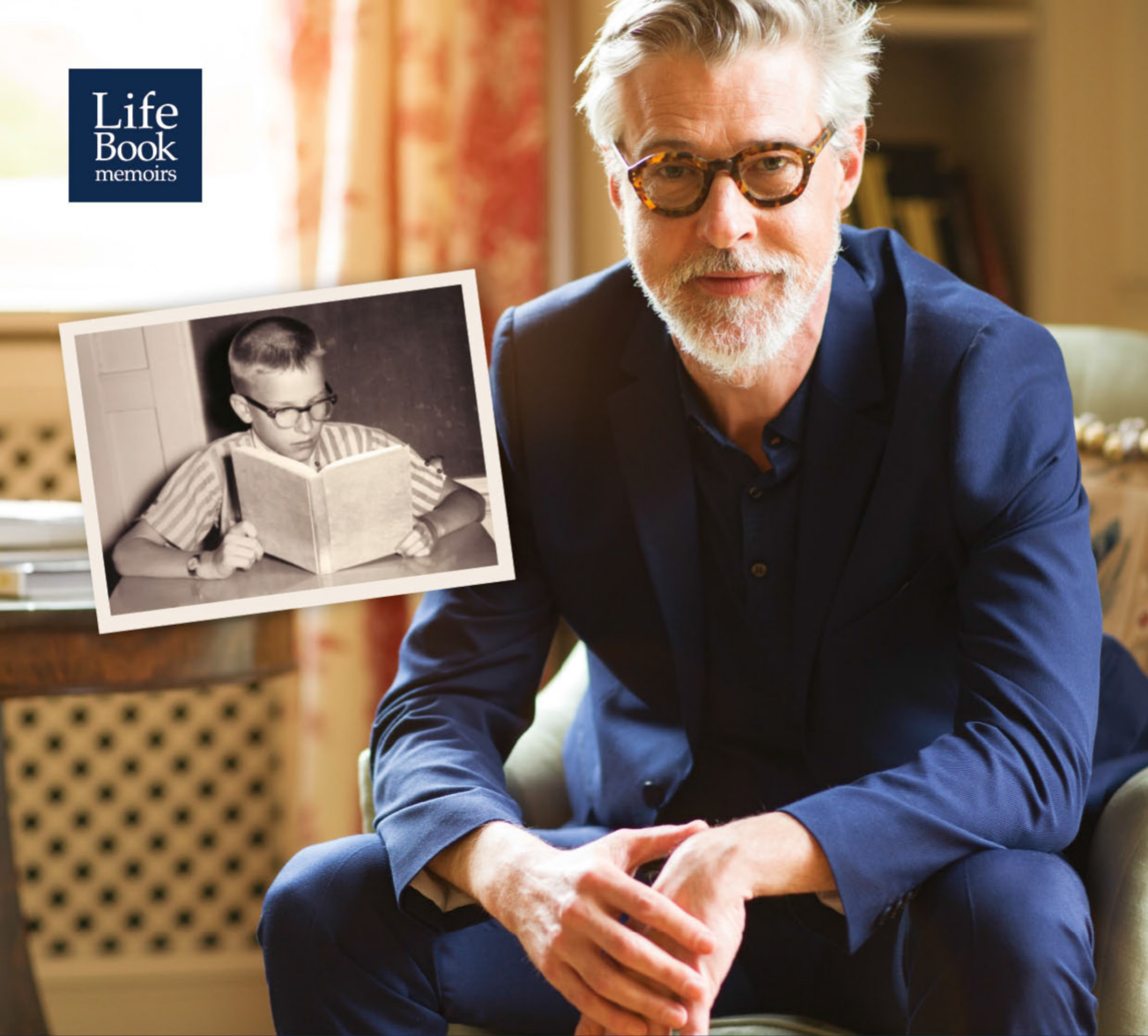
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