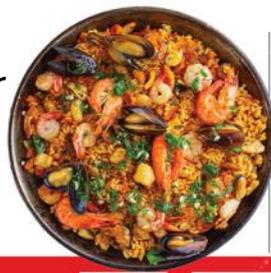


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Election fears  
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# MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

28 JUNE 2024 | ISSUE 1214

## Soaking the rich

Would a global wealth  
tax work?  
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## From the editor...



"How can anyone govern a country with 246 varieties of cheese?" Charles de Gaulle famously

wondered. Not, perhaps, with the Fifth Republic he helped design. The upheaval in France (see pages 4 and 10) has prompted another spate of articles about a Sixth Republic in France, especially in the German press. This is partly *schadenfreude*. When all you read about is how your country is the sick man of Europe, a potential constitutional crisis next door makes a pleasant change. But it is also because ructions in the French bond market, and a possible new outbreak of the euro crisis, rapidly become Berlin's problem.

Consider how this might play out. The centre has been squeezed mercilessly between the far right (RN) and a far left bloc. As *The Economist* points out, the latter's fiscal wish list was dismissed by a French business boss as "such madness" it makes the watered-down RN wish-list look almost reasonable".

### The centre has not held

But the key point is that they are both highly spendthrift, statist outfits with long shopping lists and even less interest in trying to stay below the EU's budget deficit limit of 3% than the current government. France has not run a surplus since 1974 and the annual overspend last year reached 5.5%. A government heading even further



Charles de Gaulle's Fifth Republic may be past its sell-by date

**"Any power spending more on debt interest than on defence won't stay great for long"**

in the wrong direction, or for that matter a minority government leading to total paralysis and likely further fiscal drift, would further unnerve debt holders.

The proportion of overseas investors is higher than in other big bond markets. Last year, according to the International Monetary Fund, foreign investors held roughly 50% of the French public debt market, compared with about 30% in the US, UK and Italy. So it looks vulnerable to an exodus.

As bonds fall and yields rise, making it harder to service the debt pile already worth 110% of GDP, a vicious circle of selling could set in, as it did with Greece, as the prospect of getting on top of the debt seems ever more unlikely. It will fall to Germany, currently trying to keep a lid on its own spending, to design a fudge – or hold its nose and countenance yet more

quantitative easing, perhaps – to calm things down. The broader point is that deficits don't matter (as leftist economists and right-wing supply siders both like to say) until the bond market decides that they do; remember Liz Truss.

Where else might deficits come to matter more than they do now? How about in America over the next few years? Historian Niall Ferguson notes that "any great power that spends more on debt service (interest payments on the national debt) than on defence will not stay great for very long. True of Habsburg Spain, true of

ancien regime France, true of the Ottoman Empire, true of the British Empire, this law is about to be put to the test by the US".

The US public debt-to-GDP ratio is 100%, and set to reach 122% in ten years. The Congressional Budget Office expects interest payments to equal more than the total combined amount of medicare and defence spending in 2028. If governments keep spending like the current ones, they will be forced to stop.

"Private investors can't and won't buy government debt whose repayment is doubtful in inflation-adjusted terms – or will demand such high rates the debt will explode even higher," says John Malden in his *Thoughts from the Frontline* newsletter. "This time isn't different."

**Andrew Van Sickle**  
editor@moneyweek.com

### Firms feel the heat

The impact of extreme heat on workers' productivity is increasing as heat waves become more frequent and intense, say Alicia Clanton and Brian Delk in Bloomberg. Diminished cognitive performance, poor sleep, and weather-related disruptions to commutes contribute to heat-related productivity losses. According to the Adrienne Arsht-Rockefeller Foundation Resilience Centre, extreme heat costs the US \$100bn annually in lost labour productivity, and this figure could double by 2030. Heat stress caused more than 800 fatalities and over 70,000 injuries among US workers between 1992 and 2017. Outdoor industries such as construction, mining and agriculture experience the most impact. Some countries, like China, have clear guidelines for protecting workers from heat-related illnesses. Chinese workplaces that can't keep temperatures below 35°C outdoors and 33°C indoors must pay workers subsidies between \$1.24 and \$30.90 a day.



### Good week for:

The coming-of-age animation *Inside Out 2*, starring Ayo Edebiri and Amy Poehler, has become the biggest film of 2024 so far, raking in \$725m globally. The Disney Pixar sequel is on track to become 2024's first billion-dollar picture and the first film to top \$1bn since *Barbie* last summer, says Forbes.

Canadian writer **Naomi Klein** has won the inaugural Women's Prize for Non-Fiction, sponsored by Findmypast, for her book *Doppelgänger*, while US writer **VV Ganeshanathan** has been named the winner of the 29th Women's Prize for Fiction, sponsored by Audible and Baileys, for her novel *Brotherless Night*, says BBC News. They take home £30,000 each in prize money for their books.

### Bad week for:

Tickets for pop star **Justin Timberlake's** (pictured) latest tour were heavily discounted even before his arrest for drink-driving in the US last week, says *The Sun*. The 43-year-old's *Forget Tomorrow World Tour*, his first in five years, had been struggling to fill arenas in the US, with prices reduced in an attempt to boost sales. Some seats for his show in Pennsylvania are priced at just \$16. His latest album, *Everything I Thought I Was*, has been beset by poor sales and mixed reviews.

Four members of the billionaire **Hinduja family** have been convicted in a court in Geneva for exploiting their domestic staff, says the Financial Times. Britain's wealthiest family was accused of flying staff in from India to work at the Hinduja's palatial home in Switzerland, where their passports were confiscated. Employees slept in substandard conditions; they were paid only every three to six months and received less than one-tenth of the salary they were entitled to under Swiss law. The money was transferred in rupees into Indian bank accounts that they couldn't access in Switzerland.



# Has the AI boom reached its peak?



**Alex Rankine**  
Markets editor

Shares in chip designer Nvidia, the darling of the artificial intelligence (AI) boom, have soared 160% so far this year. However, they entered a correction on Monday (defined as a 10% fall from a recent peak), tumbling more than 12% over three trading days to wipe more than \$400bn off the market valuation, says Alvin Cabral in *The National*, an Emirati newspaper. The sell-off has seen Nvidia cede the title of the US's biggest company back to Microsoft, after briefly surpassing the software giant last week.

Nvidia “has run very hot and priced a scenario that even many in the industry would never have felt possible at this stage in the cycle”, says Chris Weston of broker Pepperstone. Still, “AI has far further to go... [and] Nvidia remains the epicentre” of the investing world. The sell-off was driven by profit-taking after a “fantastic run”, says Ian King for Sky News. The shares were trading on a heady 45 times expected earnings last week.

## A one-stock market

The US market has become dangerously reliant on Nvidia, says James Mackintosh in *The Wall Street Journal*. Nvidia alone has accounted for 44% of all gains in America's S&P 500 index since the start of 2022. Over the same time period the average stock in the index has gone almost nowhere. It's not just Nvidia, says Robert Armstrong in *the Financial Times*. The boom has lifted ten other semiconductor industry players, plus the five big tech giants. Between them, these AI-linked stocks have accounted for 56% of the US market's gains since the current rally began last October. A broader



Nvidia CEO Jensen Huang has been on a wild ride

upswing in non-tech shares has petered out since March, leaving things even more dependent on AI hype.

The semiconductor firms' huge revenue comes from selling chips to the big tech firms for their AI projects – Nvidia's success thus represents a direct cost for other parts of the AI complex. It's not hard to imagine a scenario where a tech titan slashes its AI investment budget, precipitating panic across the market.

But comparisons between AI and the late '90s dotcom bubble are a little overdone, says Tom Sieber in *Shares*. Infamously, that boom saw investors buy up any stock with “.com” in its name. The same trick isn't working this time – of the 12 US-listed stocks with “AI” in their name, ten have fallen over the past year,

with an average drop of 32%. So “we're not at the Dutch tulip mania stage yet”.

The focus on Nvidia hides a broader disillusionment with AI, says Parmy Olson on *Bloomberg*. Just 5% of US companies are actually using the technology. Firms have been quietly cutting back on new investments, with McDonald's recently scrapping its US “AI drive thru” after buggy implementation frustrated customers.

Concerns about cost, data security and “hallucinations” – AI's tendency to fabricate information – are significant barriers to adoption. AI will be transformative in certain “niche” use cases, but talk from leaders at OpenAI and Google of the technology “creating abundant wealth... solving climate change and curing cancer” are surely overselling things.

## French election unnerves bondholders

Bond traders are on tenterhooks ahead of Sunday's French parliamentary elections, with Marine Le Pen's populist National Rally party leading in polls (see also page 10). President Emmanuel Macron's impulsive decision to call snap elections has “brutally exposed the parlous state” of the nation's finances, says Marcus Ashworth on *Bloomberg*.

Bond markets have smiled on France under Macron – the French government can still borrow for ten years at 3.1%, compared with 4.1% for the UK. But things are heading in the wrong direction. French ten-year bonds already trade at similar levels to those of Portugal. Now traders are asking whether France is really



Marine Le Pen is leading in the polls

a better credit risk than Italy. True, at 137% of GDP, the land of *la dolce vita* has a higher debt load than France. But unlike Paris, Rome is managing to shrink its annual deficit, which is expected to come in at roughly 4.3% this year.

France, by contrast, has a US-style deficit of 5% of GDP and little idea how it is going to shrink it, says *The Economist*. Its debt-to-GDP ratio is stretched at 111%. Still, talk of a Liz Truss-style meltdown or even a new euro crisis appears

overdone for now. “No big political party wants to quit the euro.” France enjoys reasonable growth and modest debt-servicing costs at 2% of GDP (the UK's figure is almost 4%). The problem is a political one. France needs to make spending cuts, but it's hard to see how that can happen given the febrile political backdrop.

French uncertainty has helped push the pound up to a 22-month high against the euro, says Mehreen Khan in *The Times*. Investors regard Britain's own general election as a financial “non-event”, with a Labour victory already priced in. UBS analysts say that Britain, after years of being scorned by investors, could soon be regarded as an “island of stability” in Europe.

## Hot money flows into Singapore

Singapore is booming, but the resulting influx of money could be proving “too hot to handle”, says Shuli Ren on Bloomberg. Since the 2008 financial crisis, wealth management has emerged as the most profitable division in banking, and much of the industry is setting up shop in Singapore. East-West tensions have helped Singapore emerge as a major hub for wealth management (some of the “shine” has come off former top dog Switzerland since it joined in Western sanctions on Russia). Chinese firms, such as clothing retailer Shein (see below), have also been moving their headquarters to the city-state in an effort to remain palatable to both geopolitical blocs.

Now scandals are putting a question mark over the city’s clean reputation. Singaporeans have been gripped by a “sensational” £1.8bn money-laundering case that implicated ten Chinese nationals as well as multiple banks, property agents, precious-metal traders and a top golf club, says Kelly Ng for BBC News. With regional wealth booming, Singapore attracted £343bn of assets from abroad in 2022, a figure that has almost doubled in five years. Indeed, more than half of Asia’s private wealth industry is now clustered in the former British colony, which benefits from a reliable legal system and a cosmopolitan workforce. Yet, as London has also discovered, it is a challenge to welcome “the super wealthy... without also becoming a destination for ill-gotten gains”.

# Inflation is tamed at last

The UK has “won the race” in getting headline inflation back to target, says Sanjay Raja of Deutsche Bank. The annual rate of inflation hit the Bank of England’s (BoE’s) 2% price target in May for the first time since 2021. By contrast, US and euro area inflation are running at 3.3% and 2.6% respectively.

The return to target has been helped along by falling goods prices (down an average of 1.3% over the past year) thanks to cooler food-price inflation and falling household energy tariffs. Yet the “fly in the ointment” remains stubborn price rises in the services sector, where inflation is still running at 5.7% year-on-year as high wage costs bite (average UK pay rose 6% in the year to February-April, excluding bonuses). The bad news is that UK inflation is thus unlikely to stay at 2% for long and looks likely to average 2.5% in the second half of the year.

### Rate cuts are coming

Cooler inflation should open the door to interest-rate cuts, but not straightaway. Last week the BoE’s monetary policy committee again voted to hold interest rates at 5.25%. Seven committee members opted to hold, with two supporting a cut.

The minutes of the meeting marked “a significant change in tone” for the Bank, say Dearbail Jordan and Faisal Islam for the BBC. “While not



BoE chief Andrew Bailey: his prayer for better times has been answered

a done deal,” Threadneedle Street has sent “a clear signal to the markets” that “a rate cut is now the most likely outcome at its next meeting” in August. It would thus join the European and Swiss Central Banks, which have already begun cutting rates.

At 5.7%, annual services inflation is still running at about twice the level consistent with inflation remaining at the 2% target, says Chris Dorrell for City AM. Given that obstacle, investors were “pleasantly surprised” by the Bank’s “relatively dovish tone” at the meeting (easier money is usually good news for markets). Policymakers noted that a near-10% increase in the minimum wage this spring contributed to services inflation, but that future rises are unlikely to have such a big impact.

Stretched homeowners will ask why the Bank is not already cutting borrowing costs. For one thing, slashing rates shortly before a general election would have been a bad look politically, not least because of Rishi Sunak’s attempt to claim credit for falling inflation, says David Smith in The Sunday Times. High services inflation also remains a genuine concern because “it is the closest thing we have to a measure of domestically generated inflation”.

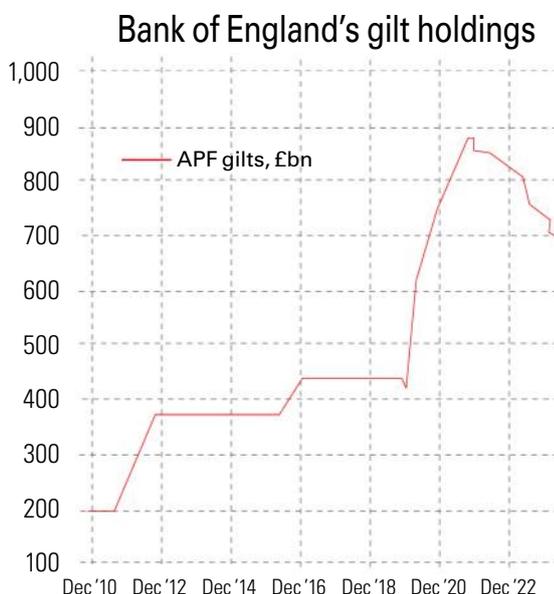
Still, the big picture is that rates are “coming down” – whether the first cut comes in August or September. Rejoice, “better times lie ahead” for the economy. Not that those improvements will come in time to help the government – whose idea was it to call an early election?

## Viewpoint

“There is something inherently distasteful about fast-fashion... An entire generation of young people are being taught... that it’s fine to wear something for a few weeks then chuck it... because it only costs a couple of quid.... The idea that [ultra-fast fashion operator Shein’s] decision to shun New York and seek a stockmarket float in London is a major coup for Britain is nonsense. The Square Mile may be in need of a serious boost, but surely it’s not... that desperate?... Shein’s cheerleaders seem to be wilfully overlooking... [the fact that] management wants to come to the UK... not because London is... more attractive as a place to raise capital, but because of the questions and criticism that it has faced in America... If a company finds real scrutiny so uncomfortable, isn’t that a big red flag in itself?... It is emblematic of how desperate London’s plight is that the red carpet is being rolled out for Shein.”

Ben Marlow, The Telegraph

## ■ The Old Lady presses on with QT



Because of quantitative easing (QE), the stock of assets in the Bank of England’s Asset Purchase Facility (APF) peaked at £895bn in 2021, mostly comprising £875bn of government gilts (see chart). The Bank started reversing QE in 2022, in a process known as quantitative tightening (QT) – selling off assets and erasing the proceeds from the banking system. APF gilt holdings are thus down £177bn from the peak, a 20% reduction, says Sanjay Raja of Deutsche Bank. Some economists thought the Bank might slow the pace of QT to support the economy. Yet recent statements from the central bankers suggest they are inclined to press ahead with QT, which seems to be having less impact on the real economy than many feared.

# Sweet deal for Tate & Lyle?

The food-ingredients group has scooped up a competitor to benefit from growing demand for healthier food. Matthew Partridge reports

Tate & Lyle's shares fell by 9% after it confirmed that it will focus on healthy food products by buying ingredients-supplier CP Kelco for \$1.8bn, say Helen Cahill and Isabella Fish in *The Times*.

Tate & Lyle says the deal will help it meet a target of annual revenue growth of between 4% and 6% by capitalising on mounting demand for healthier foods. It also hopes that buying CP Kelco will expand the group's range of products that can help "sweeten foods, provide the right texture and improve fibre content".

The deal comes amid intensifying scrutiny of ultra-processed foods such as flavoured yoghurts and sweet snacks, with research increasingly linking them to diseases including cancer and Type 2 diabetes, says Eri Sugiura in the *Financial Times*.

Tate and Lyle says the problem lies with "the lack of nutritional content rather than the processing itself", and that CP Kelco's technologies "would help them develop new products addressing this". The deal will also help grow Tate & Lyle's footprint in fast-growing emerging markets.

## Healthy yet tasty

Tate & Lyle hopes the deal will ensure the combined entity can supply "producers looking to make food which is healthier

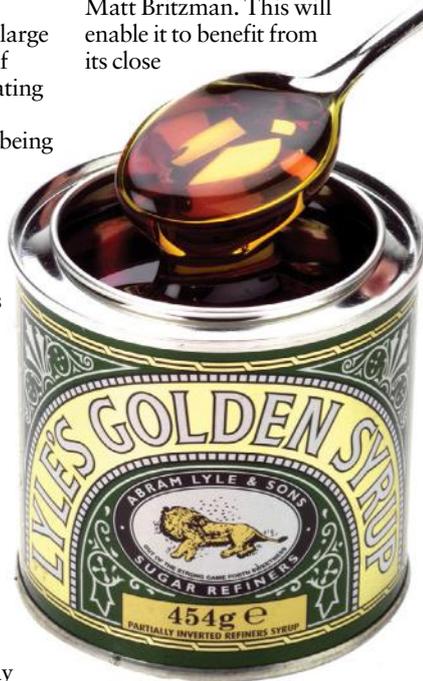
but still tasty enough to fly off the shelves", says AJ Bell's Russ Mould. But the scale of the deal is "clearly making some investors nervous" – large deals "have a nasty habit of destroying rather than creating shareholder value".

The fact that the deal is being funded through a mixture of debt and cash means it will lead to extra strain on Tate & Lyle's balance sheet. Much depends on its ability to deliver savings by combining operations, as well as the promised improvements in revenue growth and margins.

The deal's returns "look underwhelming", says Aimee Donnellan on *Breakingviews*. After all, CP Kelco has struggled recently, with its operating profit falling to \$62m in 2023. Even if you add \$50m of expected cost synergies, the \$1.8bn outlay only yields a 5% return, which is "a long way" from Tate & Lyle's 9% cost of capital.

Still, you could argue that CP Kelco is only in a "temporary slump", and with inflation falling, next year's return could be near 8%, suggesting the takeover "has at least a path to passing the taste test". The deal, combined with the sale of its Primient joint venture, completes Tate & Lyle's "transformation into a

fully fledged speciality food and beverage solutions business", says Hargreaves Lansdown's Matt Britzman. This will enable it to benefit from its close



relationships with customers, which "add an element of stickiness to the business", while leveraging its technical expertise. A "strong" management team, and a balance sheet "with enough firepower to expand" also give "scope for optimism".

Still, the potential impact of new weight-lo – it will take some "knockout performances" for sentiment to shift.

## J Sainsbury boots its bank

The new CEO of NatWest has made his "first big strategic bet", says Ben Martin in *The Times*, with NatWest set to acquire most of Sainsbury's banking operations.

As well as receiving £125m from the supermarket to take the bank off its hands, the move swells the high street lender's assets by £2.5bn, the biggest increase since the 2008 financial crisis, when NatWest almost collapsed.

Sainsbury's will retain its commission-income businesses, such as insurance, ATMs and travel money, as well as Argos Financial Services. Analysts described the tie-up as "smart".

The fact that Sainsbury's is paying NatWest £125m suggests this is a "bad deal" for the supermarket, especially when you consider that Tesco received £700m from Barclays for its bank, says AJ Bell's Russ Mould. But Sainsbury's will end up making money, as it will get back £250m in excess capital, which has been "earmarked for shareholders", either via a special dividend or buyback.

What's more, the deal makes sense more broadly. It leaves Sainsbury's "with a sharper focus on food and general merchandise". Indeed, the supermarket "has been on a roll" over the past few years thanks to its strategy of "focusing primarily on food and removing any distractions elsewhere in the business".

At one stage banks were considered a "good fit for supermarkets" as they could "cross-sell financial services to loyal shoppers and enjoy lower overheads by operating in-store kiosks instead of costly brick-and-mortar branch networks", says Lars Mucklejohn in *City AM*.

However, over the past few decades, supermarkets have learned the hard way that scaling a bank "requires significant capital and human resources, while the mid-sized banking sector "has grown ever more crowded since the financial crisis".

As a result, it should come as no surprise that the latest deal means that M&S is now "the only UK supermarket with a challenger bank". And even that is a wholly-owned subsidiary of HSBC.

# Polling group proves unpopular

Shares in YouGov almost halved last week after the research and data analytics company issued a warning that sales bookings had been unexpectedly low in the past three months, says Julia Kollwe in *The Guardian*. Demand was slow in Europe, the Middle East and Africa. As a result, the polling firm now expects this year's sales to total between £324m and £327m, while adjusted operating profit is set to reach between £41m and £44m. Analysts had forecasting revenue of £341m and profits of £67m.

In theory, you might assume that YouGov would enjoy a "bumper time" given the demand for polls in the run up to the upcoming general election, says AJ Bell's Russ Mould. But its polling operation only makes a small contribution to group revenue. The data analytics side is more important and this is where the company is "struggling".

The company made investments in anticipation of an expected acceleration of growth over the next few months that has failed

to appear. Nonetheless, at least the recently acquired consumer-panel business is performing as anticipated.

Overall, YouGov's "drubbing" is a symptom of the "broader slowdown in consultancy services", as the boom in external advice that followed the pandemic fades away, says Lex in the *Financial Times*. Many big consultancy and analytics firms, such as Accenture and McKinsey, have been forced to cut jobs in response to the squeeze. YouGov is particularly vulnerable as it specialises in the "type of ad hoc projects or soul searching that businesses commission when the going is good".

Still, in the longer run YouGov is well placed to profit from the fact that "gathering accurate views is getting harder in a data-hungry world where the public are becoming less willing to respond". The advanced techniques developed by its polling arms, such as "multi-level regression with post-stratification", should have commercial applications.



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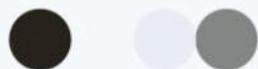
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# MoneyWeek's comprehensive guide to this week's share tips

## Five to buy

### GSK

*The Times*

GSK's market value has fallen sharply recently owing to legal battles over its heartburn drug Zantac, which has been hit by fears that it increases the risk of cancer. The pharmaceutical giant has also faced criticism for its handling of mergers and Covid-vaccine development. However, GSK has been steadily improving its drug pipeline, increasing research and development (R&D) spending, "fattening up" its margins, and has a "chunky dividend yield to boot". Possible litigation costs are "already priced in." *1,615p*

### Oxford Instruments

*The Telegraph*

Oxford Instruments, which manufactures equipment used to analyse matter at an atomic and molecular level, has risen by 20% in 18 months. Despite a decline in its operating profit margin owing to investments, its return on equity is 18%, and it maintains a strong net cash position. With plans for acquisitions and a reorganisation, Oxford is positioned for future growth. The stock is "worthy of its

premium valuation" and is a "long-term purchase". *2,630p*

### Northcoders

*This is Money*

Manchester-based Northcoders offers three-month coding boot camps to train individuals for lucrative careers in technology. Some 14,000 applicants vied for 1,000 spots in 2023. Last year was tricky for Northcoders as hiring in the tech sector faltered, but a swift recovery is expected this year. With 80% of boot-camp applicants being state-funded, Northcoders plays a vital role in addressing Britain's need for skilled workers in key sectors. The stock is for "adventurous investors". *165p*

### Ashtead

*Investors' Chronicle*

Full-year profits at this industrial-equipment rental group dipped slightly owing to slower rental growth and speculation about a switch of its primary listing to the US. With the majority of rental revenue generated in the US, the strategic rationale is evident. However, the current interest-rate environment is hampering performance, given \$8bn of

net debt. Despite potential disruptions, the equipment-rental company is optimistic. It's a "long-term buy." *5,358p*

### Nike

*Barron's*

Nike's shares have declined by 12% this year, with the US sportswear giant facing headwinds from slower sales in China, the high cost of living hitting consumers, inventory problems, and competition from upstarts. But the Summer Olympics, a focus on innovation, and new product



launches are expected to boost the brand. Despite potentially disappointing financial results in the short term, Nike's pipeline and market-leading position make it a worthwhile investment. "When it comes to Nike stock, just do it." *\$96*

## One to sell



### Motorpoint

*Investors' Chronicle*

Motorpoint reported a 25% drop in revenue and a £10m loss in a "difficult" year to 31 March 2024, marked by "market

headwinds... and vehicle price deflation". Demand for cars has been affected by the macroeconomic backdrop, resulting in decreased sales volumes and inflated used-car prices. In response, Britain's largest car supermarket has been offering cheaper vehicles, leading to a rise in volumes in the fourth quarter. But despite cost-cutting measures and double-digit growth in retail sales, Motorpoint's valuation of 35 times forward earnings is "very pricey". *123p*

## ...and the rest

### The Telegraph

Crest Nicholson's poor recent results have prompted analysts to cut earnings forecasts. Despite this, the housebuilder has minimal debt, so it should withstand a difficult trading period. State support for the building industry and potential interest-rate cuts could benefit the firm. Crest's low valuation could be a boon if it "can get its house in order". Hold *(248p)*.

### This is Money

Time to ACT produces corrosion-resistant coatings

for hydrogen and nuclear plants and makes wind-turbine generators. ACT is expected to play a role in the transition from fossil fuels to green energy. ACT has just won its first US contract. It is already profitable and expects to double sales this year. "This tiddler is well worth a closer look." Buy *(50p)*.

### Shares

Shares in Ultimate Products plunged after the company issued a profit warning owing to ongoing challenging trading conditions. However,

long-term prospects for the homeware-products brand manager remain positive. The group expects overstocking difficulties brought about by Covid to subside, while it should also benefit from a rebound in consumer confidence and a "sales-boosting" refresh of the Beldray brand. *(132p)*

### Investors' Chronicle

Tool and equipment rental group Speedy Hire's full-year results were "creditable" despite tough conditions. The construction sector is under



pressure, but sentiment is improving. Proactive pricing has helped boost free cash flow, while contract wins bode well. A valuation of eight time profits is "hardly prohibitive, but we [remain] cautious". Hold *(34p)*.

## A German view

Switzerland-based luxury-goods behemoth Richemont is sitting pretty, says *WirtschaftsWoche*. Its global reach is such that a slowdown in one key market can be compensated for by a robust performance elsewhere. There has been a slowdown in China, which has been the group's fastest-growing market over the past few years. But solid expansion elsewhere helped boost sales by 3% in the year to 31 March 2024 to €20.6bn, while operating profits reached €4.8bn. The jewellery division, which contains brands including Cartier and Van Cleef & Arpels, and comprises 70% of revenue, saw sales growth of 6%. The group is sitting on €7.4bn of cash and yields 2.2%.

## IPO watch

Luxembourg-based private-equity firm CVC Capital Partners is planning an initial public offering (IPO) of Zabka Polska, valuing Poland's largest convenience-store chain at between \$7.5bn and \$8bn, says Bloomberg. Zabaka is expected to list in Warsaw in September, raising between \$1bn and \$1.5bn. This is set to be Poland's largest flotation since e-commerce operator Allegro's \$2.8bn float in 2020. CVC bought Zabka from MidEuropa Partners, a central European private-equity outfit, in 2017, in what was then the biggest deal in Poland's food-retail sector. Zabka operates more than 10,000 shops, mostly run by franchisees, and recently expanded into Romania.

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# UK election race hots up

It's been a bad week for Nigel Farage and the Tories. Matthew Partridge reports

After weeks in which it gained ground on the Conservatives in opinion polls, the Reform Party finds itself on the back foot following Nigel Farage's claim last week that the West had "provoked" Russia's invasion of Ukraine by expanding Nato membership to Russia's borders, says Brian Wheeler on the BBC. Farage's comments drew "condemnation from leaders across the political spectrum". Keir Starmer said they were "disgraceful"; Rishi Sunak argued they were "dangerous for Britain's security".



Sunak has been damaged by the betting scandal

"hard to say" whether this "will be enough to dent Farage on polling day", but it's clearly the first "substantive wedge his enemies have identified with which they could potentially split the Reform coalition". This is why "they're hammering at it with all their might".

## Just a game

Meanwhile, the simmering scandal over election betting is dealing a "blow" to the Conservatives, says

The Telegraph. Sunak is facing criticism for "not acting sooner" after eventually suspending two Tory candidates over allegations they used inside information to bet on the election date. Labour has also been forced to suspend a candidate who admitted to betting against himself. Reports indicate that "as many as 15 Conservative candidates and officials are under investigation by the Gambling Commission". Polls suggest the controversy "has now cut through more with the public" than previous election gaffes.

The law on betting is "complicated" and there is a "fuzzy line" between "legally gambling while in the know", as most savvy punters do, and "actively cheating by employing specific confidential information to gain unfair advantage", says Gaby Hinsliff in *The Guardian*. The accused have denied wrongdoing, but the scale of the investigation and its "tawdry" nature is damaging as it raises questions about a culture that the supposedly "squeaky-clean" Sunak was "specifically chosen to clean up". Even some Tories admit it reinforces the perception that politicians "operate outside the rules that [they] set for others" and "the sense that politics is just a game to elites".

## Hammering at a wedge issue

Some Western scholars agree with Farage that Nato's expansion into central and eastern Europe after the cold war made Russia's position "intolerable", says *The Economist*. But both they and Farage "have the argument upside down" – "countries join Nato not to antagonise Russia, but because they are threatened by it". Russia has a long history as an imperial power and, like most declining empires, it "finds the prospect of becoming just another country hard to swallow". Abandoning Ukraine, or attempting to impose peace on it, as Farage seems to want, "would only invite the next aggression from Putin".

Farage's views are unlikely to help him politically, says Mary Harrington on *UnHerd*. Many British voters are sympathetic to a less interventionist foreign policy, but surveys and anecdotal data suggest that Ukraine is an "exception" – most people back UK support for Ukraine's war against the Russian invasion. Farage's views are particularly "out of step" with the older portion of his base. It's

## Macron squeezed between left and right

With French voters just days away from going to the polls in the first round of the French elections, president Emmanuel Macron's decision to call a snap poll looks more and more like a "grievous mistake", says *The Guardian*.

Far from catching up with Marine Le Pen's far-right National Rally, which may end up "within striking distance" of an overall majority in the National Assembly, Macron's centrist Together movement "languishes in a distant third place". He and his allies have now been overtaken by the left-wing New



Popular Front (NPF), an alliance of left-wing and progressive parties that looks set to be the main challenger to Le Pen in numerous second-round contests.

The French left was until recently widely regarded as a "spent force", says Yasmeen Serhan in *Time*, but it has put aside internecine squabbles to create an alternative for left-leaning voters who would otherwise have felt compelled to support Macron (pictured) to stop Le Pen. Macron has argued that neither the left

nor the right can "be trusted on key issues such as the economy", but polls suggest his argument simply isn't "cutting through" to voters.

Whatever happens, Macron himself will remain in office until 2027 and retain "extensive powers" over defence and foreign policy, says *The Economist*. But new domestic policies, including the budget, need to be voted through by parliament. So even if no party gets an outright majority, Macron may be forced to ditch many of his hard-fought reforms to get a budget passed. Macron wanted his legacy to be a France that had shifted towards "economic modernisation". That now looks unlikely.

## Betting on politics

There is little respite for the Conservatives in the betting markets. With £8.3m matched on Betfair, the odds on Labour getting the most seats has shortened to 1.01 (99%), while the odds on the Tories have lengthened further to 160 (0.06%). Similarly, the odds on an overall Labour majority have lengthened to 1.04 (96.2%).

The only shred of good news for the Tories is that the number of seats that they are expected to get on Spreadex has increased slightly to 114-120.

Spread-betting aside, there are still a few pockets of value on the betting markets. Firstly, I think Nigel Farage's views on Putin (see left) have damaged Reform, especially with voters in towns and villages where the Ukrainian flag flies above the village hall, and at the very least ended the (always remote) chances of them surpassing the Conservatives.

I'd therefore lay (bet against) Reform getting more than 20% of the vote at 4.9 (20.4%). This is equivalent to betting that they won't get more than 20% at 1.25 (80%).

I'd also bet on Labour overtaking the SNP in Scotland. With £17,023 matched on Betfair, Labour are 1.23 (81.3%) to win most seats in Scotland, with the SNP at 4.6 (21.7%), the Liberal Democrats at 40 (2.5%) and the Conservatives at 250 (0.4%).

With all the projections in Scotland suggesting that Labour will come out on top, I suggest betting on Labour winning that particular contest.

In terms of individual constituencies, I'd bet on Labour taking Glasgow East (which they came close to winning in 2017) from the SNP at 1/4 (80%) with Bet 365. I also think they will win Glasgow North East at 1/7 with Ladbrokes (87.5%) and Glasgow North at 1/7 (87.5%) with Bet 365. Finally, I'd bet on Labour to unseat George Galloway and win Rochdale at 8/15 (60%).

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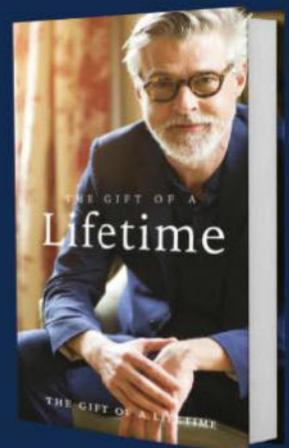
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### Arlington

**Boeing buys back supplier:** Boeing is closing in on a \$4bn deal to reacquire Spirit AeroSystems, the supplier who built the 737 Max 9 fuselage that lost a panel in mid-air in January, says The Wall Street Journal. Boeing believes buying back Spirit will improve the safety and quality of its manufacturing and that spinning off Spirit in 2005 may have hit quality control.

When Spirit's fuselages fell behind schedule, unfinished parts were transported to Boeing facilities. An investigation found that the mid-air blowout was caused by forgotten key bolts during one of these transfers, says Melvin Backman in Quartz. As part of the deal, Spirit will separate operations that make parts for Boeing's rival Airbus, which accounts for about a fifth of Spirit's revenue.

Meanwhile, the US Department of Justice is considering criminal charges against Boeing for breaching the terms of its deferred prosecution agreement. In 2021, Boeing admitted to misleading regulators and paid \$2.5bn after two crashes killed 346 people. However, prosecutors claim Boeing has failed to meet its obligations.

Prosecuting Boeing is a challenge thanks to its "big economic footprint" as a major exporter, says Breakingviews' Robert Cyran. Commercial aviation is essentially a duopoly between Boeing and Airbus. Debarment from government contracts and fines is ineffective, leaving the possibility of appointing monitors to oversee the company and report back to regulators.

### London

**Beyond beer:** Britvic has rebuffed a £3.1bn offer from Carlsberg, arguing it "significantly undervalues" the British soft-drink maker's "current and future prospects", say Madeleine Speed and Ivan Levingston in the Financial Times. The Danish brewer of Tuborg and Kronenbourg made an initial bid of 1,200p per share before upping its all-cash proposal to 1,250p, a 29% premium to Britvic's recent share price. Carlsberg has until 19 July to make another bid or walk away. The proposed deal is part of Carlsberg's strategy to go "beyond beer" and expand its cider and soft drinks segments, as well as its bottling business in Britain. Britvic, which makes Tango and Robinsons, also bottles drinks for US giant PepsiCo in the UK. Carlsberg is PepsiCo's bottler in Norway, Sweden, Switzerland, Cambodia and Laos.

Britvic's refusal appears "illogical" as its shares have never reached the level of Carlsberg's revised offer, says Aimee Donnellan in Breakingviews. Being scooped up by a larger firm would allow it to expand in low-sugar drinks as well as in Brazil, where it has ambitious plans. But Britvic can make a case that it can manage on its own, with sales in Brazil set to grow by 23% this year. Britvic hopes its product mix of low-sugar drinks and premium cocktail mixers will help it gain a similar valuation to rival Fevertree.

### Beijing

**Stand-off in South China Sea:** The Philippines has accused the China Coast Guard of piracy after a boarding party with bladed weapons stormed their vessels in the disputed South China Sea, says Al Jazeera. The clash took place when Filipino soldiers attempted to resupply sailors stationed on the Sierra Madre, a ship grounded on the reef in 1999 to bolster Manila's claim to the reef. One sailor was badly injured.

Beijing denied wrongdoing, saying its actions were aimed at stopping an "illegal" resupply mission. The situation at Second Thomas Shoal, within the Philippines' exclusive economic zone, has become increasingly tense, with China disrupting regular missions to the Sierra Madre.

China claims almost the entire South China Sea based on its "nine-dash line", an artificial demarcation on some old charts – a view rejected by an international tribunal in 2016. Brunei, Malaysia and Vietnam also claim parts of the South China Sea. China has built artificial islands and military outposts in the region and its coastguard is authorised to use lethal force against foreign ships and detain foreign "trespassers" without trial.

The Philippine ambassador to Washington, Jose Manuel Romualdez, warned a conflict with China over the Second Thomas Shoal could draw in countries across the Indo-Pacific region, potentially leading to nuclear war, says Demetri Sevastopulo in the Financial Times.

## The way we live now... the trades take to TikTok

"A lot of people say we are making it sexy again," said Aaron Witt, 29, who posts Instagram videos of giant excavators and earth-moving machines. "There is a negative stigma around construction. In the world I grew up in, no one went into the trades." Builders, plumbers, electricians and carpenters are using social media platforms to showcase their work and gain a massive following, says Will Pavia in The Times. They are sponsored, have endorsement deals, and some even have fashion lines. Lexi Abreu, an electrician, has 1.1 million followers on TikTok, while Melissa Petersmann, a heavy equipment mechanic known as "The Diesel Queen", has half a million followers on Instagram.

These tradesmen and women argue that social media videos offer transparency and help change the perception of their jobs, especially concerning women in construction.

While some old hands may not relate to the trend, it has led to a shift in the demographic of tradespeople in the US, with younger individuals entering trades and earning a good living. "A good carpenter is making \$90,000 to \$110,000 a year. We clear over \$200,000 from advertising and social media," carpenter Matt Panella said. "[We] can make double off social media what we do building."



# Brace yourself for a tax squeeze

Politicians are in desperate need of more cash. Where will they find it? Simon Wilson reports

## What's happened?

If Labour wins the election next week, it plans to toughen the rules on non-doms further, and there's widespread speculation about higher capital-gains tax. In March, chancellor Jeremy Hunt pinched one of Labour's long-standing flagship policies by announcing the effective abolition of the UK's "non-dom" regime. Under the rules, which date back to the 19th century, foreign citizens living in the UK, but whose permanent home ("domicile") is overseas, can avoid paying UK tax on their foreign income and gains for up to 15 years provided they do not bring income or capital gains back into the country. Hunt's March budget slashed the amount of time people can benefit from that status from 15 years to four, effective from April 2025.

## What will Labour do?

If elected, Labour says it will be even tougher, reversing the Tories' plan to let non-doms who will lose benefits from next April permanently to shield from inheritance tax any foreign assets held in an offshore trust. Given the UK's unusually high inheritance-tax rate of 40%, this could be the clincher that sends the super-rich heading for friendlier climes, according to wealth managers. Labour has ruled out rises in the rates of income tax, national insurance and VAT (although sticking with the Tory policy of raising tens of billions by freezing thresholds). But in order to avoid massive spending cuts, or higher borrowing, it will need to put up taxes – and the very wealthy are likely to be in its sights.

## Will there be a wealth tax?

The only party committed to a wealth tax (that is, a tax on rich people's assets, rather than their income or spending) is the Greens. They propose a 1% annual levy on wealth above £10m, and 2% on assets above £1bn. Labour has ruled out a wealth tax (it didn't even pledge one under Jeremy Corbyn), although not rises in capital gains or council taxes. The main argument in favour is that the rich have got much richer, says David Smith in *The Sunday Times*. In 2010, the combined wealth of the top 100 people in that paper's Rich List was £172bn. This year it was £594bn.

## What's the argument against?

Wealth taxes are hard to implement, damage entrepreneurship and you don't end up raising much money. In 1990, 12 of the 38 countries in the OECD group of wealthy nations had a wealth tax, but they raised an average of only 1.5% of tax revenues. Now there are just three: Spain, Switzerland

and Norway. Many countries abandoned wealth taxes "because they were perceived to be unpopular, economically damaging, administratively cumbersome and prone to avoidance and evasion, while not actually delivering much revenue", says Stuart Adam of the Institute for Fiscal Studies. If Labour wants to squeeze more cash out of the 1% – people earning more than about £180,000 a year, most of whom are employees or the self-employed – or indeed the 0.1% – the business owners and investors who earn more than around £700,000 – it will need to find other ways.

## How do the rich avoid tax?

If you're a salaried employee it's hard to do and you'll get into trouble. But if your income is in the form of capital gains or dividends, it's much easier. For example, partners in private-equity firms, and certain other investment managers, are typically taxed on the capital gain on so-called "carried interest". In effect, it means they pay only 28% instead of the 45% additional rate of income tax. Labour has pledged to scrap that loophole. And there's another odd law that they really ought to fix, argues Dan Neidle, the ex-City law firm partner who now campaigns for simpler and fairer taxes. People who have built up a business in the UK who take dividends, sell the business, and move to Monaco just days later, are not liable for tax on their gains. The UK, unlike the US for example, imposes no exit tax on those heading off to tax havens. Such a tax was extremely hard to impose under EU law, but is a genuine Brexit opportunity. Labour should make the most of it.

## What else should it do?

Equalise capital-gains and incomes taxes, argues Neidle. However, it would be unfair to tax gains that are merely the function of prices rising over time, and so there needs to be an "indexation allowance" to adjust for inflation. In other words, we need to return to exactly the tax regime introduced in the 1980s by that socialist firebrand Nigel Lawson, whose eminently sensible reforms – equalising CGT with income tax rates – were later reversed and made



A return to the regime of socialist firebrand Nigel Lawson would be welcome

© Getty Images

less fair by Gordon Brown. Another route to realising more taxes from the very rich would be to tax property more heavily. Council tax, for example, is capped at relatively low flat rates, rather than paid in proportion to properties' values.

## What about a global wealth tax?

US president Joe Biden is promising to find \$500bn over ten years for social programmes by charging a 25% tax on the unrealised capital gains of the 10,000 Americans who are worth \$100m or more. That would be so "nightmarishly complicated" that it's highly unlikely to work, even if it happens, says *The Economist*. But a global wealth tax on individuals' existing assets could be an idea whose time is coming, says Martin Sandbu in the *Financial Times*. The global corporate tax reform known as Pillar 2 – instituting global minimum tax levels on large multinationals – is something of a "miracle". But if one miracle, why not two?

## What's the second?

An international scheme to tax the wealth of the world's 3,000 billionaires – a 2% annual levy – would net up to \$250bn (£197bn) a year in extra revenue, according to a report by the French economist Gabriel Zucman. The report was commissioned by Brazil as current holders of the G20 presidency, and the proposal will be discussed at next month's meeting of G20 finance ministers in Rio de Janeiro. And this is only from billionaires. Once in place, and secured by more onerous and universal exit taxes, it is "hard to see why fiscally squeezed politicians would decide to spare those with merely hundreds, or even scores of millions", says Sandbu. "A global wealth tax could arrive sooner than you think."

# It pays to just say no

British mid caps are learning the value of turning down offers from potential buyers. That is a welcome change



**Matthew Lynn**  
City columnist

The fate of Britvic, the soft-drinks maker, hangs in the balance. The company has firmly rebuffed three offers from the brewing giant Carlsberg, and its share price, perhaps not surprisingly, is already up by almost 40% since the start of this year. Earlier this week, Pepsi said it would not stand in the way of a change of control, a significant concession as Britvic distributes its products in the UK. Carlsberg may well come back with a higher offer, perhaps as early as this week. The important point, however, is this. Britvic did not simply accept the first, or indeed the second offer, that came along. It has been holding out for a higher price, and arguing the case for an independent future.

We have been seeing more and more of that among medium-sized British firms over the course of this year. The sale of Hargreaves Lansdown has been running for months, and the stockbroker finally looks set to be sold to private-equity firm CVC, but only after turning down the first offer and insisting on more money. Even now, some of its major shareholders are publicly demanding the board hold out for a higher price, or else reject a takeover completely.

Earlier this year, the electrical chain Currys also turned down multiple offers from the US buyout house Elliott, as well as approaches from Chinese retailer JD.com, and remained independent. Insurance company Direct Line likewise turned down offers from its Belgium rival Ageas, arguing that neither genuinely reflected the value of the company. The UK's medium-sized companies are increasingly finding

the courage to say no to offers to buy them out. That is a welcome change.

There are three reasons for it. First, share prices typically rise after a rejected bid. Direct Line's, for example, shot up from 160p to 220p when the first bid was announced, and although they slipped again slightly once the deal fell through, the price has held above 200p, and the value of the company has risen by 55% over the last 12 months. Likewise, Currys's shares stayed higher after the bid fell through, and remain 45% up over the last year. Bidders may have reasoned in the past that management would be worried about the shares tanking if the company was not sold, and could use that to hustle a deal through at a cheap price. But that tactic is not working any more. A bid can be rejected, and the shares will still remain a lot higher than they were.

## Britain looks attractive again

Second, UK equity prices are at historic lows. In the wake of our departure from the EU, and years of sluggish growth, Britain is one of the cheapest major markets in the world, and the mid caps are especially poorly rated. For private-equity firms, and foreign bidders, there are lots of bargains available. Yet there are signs this is starting to turn around. Global investment is starting to flow into the UK again, and it is catching up with some of its peers, while political turmoil in France, and perhaps soon Germany, means that the UK looks relatively safe by comparison. If a company sells out now, it is selling at the bottom of the market. Managements have started to figure that out. It makes more sense to turn an offer down and wait for sentiment to improve. It might take a year or more, but the price can only get better.



Britvic is wise to hold out for a better offer

Finally, a bid is often the key to unlocking a revival in the fortunes of a business. Once an offer is tabled, investors start to take an interest. If the company is good enough to attract a takeover offer, then perhaps it is worth holding for the long term? Likewise, a bid may often reinvigorate management and staff. After fighting for their independence, and arguing that the firm has a viable, independent future, a management team may have fresh energy and determination and, with some wind in its sails, the business may well start to perform a lot better. In the wake of a failed bid, all sorts of opportunities and markets may start to open up. By contrast, if it is sold it will simply disappear into a far larger conglomerate, and many of the existing staff be replaced. Shareholders and boards will always accept an offer if it is generous enough. But they don't have to sell out as soon as there is an approach. It may well work out a lot better if they just say no.

## City talk

● "Shareholders should be wary" of Berkeley's plan to create its own build-to-rent business, says Lex in the Financial Times. Although the "rationale for rental looks sound", with demand for rental property outstripping supply, and Berkeley having already made about 1,000 build-to-rent sales, establishing a rental platform is a different business from house building. Housing sales are one-offs, and tenants have the option to walk if they are not kept happy. A third party to manage the early stages of the project would eat into Berkeley's returns, so an in-house platform would be needed, especially if it plans to sell the division. Also, Berkeley sells its expensive London

dwellings to private foreign investors, and a Labour government could hit this source of demand with higher stamp duty for foreign property investments.

● Ocado had urged investors to think of it as a supplier of "whizzy automated technology", as opposed to a "domestic online grocer struggling to make a profit", says Nils Pratley in The Guardian. The pitch worked during Covid when everybody wanted shopping delivered to the door. The shares soared to £29 (they are now at 296p). CEO Tim Steiner even declared "a

dramatic and permanent shift towards online grocery shopping." But demand abated post-pandemic, as the hubristic Steiner should have suspected it would. Ocado is in a public row with Marks & Spencer, North American partners Sobeys and Kroger have paused the opening of new warehouses, and an exit from the FTSE 100 looms. "Ocado is a place where the medium-term seems perpetually to lie around the next corner."

● Prudential's boss Anil Wadhvani has a "long slog" ahead to

close the valuation gap with faster-growing rival insurer AIA, says Katrina Hamlin in Breakingviews. Prudential's stock trades below its book value, while the equivalent figure for AIA is more than two times. Prudential's \$2bn share buyback was a "pleasant surprise", but it reduces excess capital, flatters earnings per share, and won't reinvigorate the business. Last year, Wadhvani spent 10% of \$1bn to bolster technology and distribution, and he'll have over half left to spend this year. Meanwhile, the pivot to Asia has left Prudential open to "risks as well as rewards" as it digests changes to regulations in Indonesia and a slowdown in Vietnam.



# Hunting for the big themes

Spotting an era-defining trend is one route to outsized returns. What can we learn from the last 75 years?



**Cris Sholto Heaton**  
Investment columnist

Look back over many decades and you can spot a handful of big themes that dominated markets for five or ten years at a stretch. They were rarely the only way to make money, but latching onto one of them at the right time was a huge help.

We are clearly in a different economic regime to a few years ago, so it's worth considering what will be the defining theme of this era. That's easier said than done – but one starting point is to identify the top themes of the past 50 or 75 years.

For the past decade, the answer was tech. You could make outsized returns in other sectors (eg, luxury), but tech has dominated the discussion. Rock-bottom interest rates were the key characteristic of our era, but you would have made less from directly betting that rates would stay low than buying the big tech boom that they helped fuel. That's an important lesson about finding the best way to profit from an insight.

In the 2000s, we had many choices. Emerging markets, energy and natural resources, and gold were all linked: the rise of China and other emerging markets drove demand for commodities and probably precious metals. The other big theme was the real-estate boom, which ended in disaster and the global financial crisis, but was all that many people cared about at the time.

## More tech and emerging markets

Most investors would again pick tech for the 1990s, but there were notable differences to the 2010s. First, the recent bull run was driven by established large caps that were still achieving spectacular growth. Conversely, while there were profitable stocks in the dotcom bubble, very speculative start-ups played a bigger role. Second, tech came to prominence later in the

## 30 years of two big trends

Price returns in GBP, rebased Jan 1990=100



decade. Before that, emerging markets were arguably the centre of the hype, before they started to run out of steam in the middle of the decade and collapsed into crisis in 1997-1998.

The obvious 1980s theme is Japan, which grew to be the largest stockmarket in the world. Many stockmarkets did well in this era, rising from depressed valuations, but Japan also got a boost from a rising currency, making it compelling for foreign investors. Of course, buying bonds on 15% yields in 1980 also turned out well – but few investors were calling for that at the time and a key part of a big theme is that it has a compelling, positive story that everybody is talking about.

The 1970s were an era of volatility and high inflation: great for energy, commodities and gold, and not much else. Buying equities in the 1974 panic set investors up very well for the following decade – but it didn't pay off for a while. The main feature of the late 1960s was the "Nifty 50" bubble of US growth stocks. The 1950s and early 1960s feel murkier, but key trends were the rebuilding of Western economies after the war, the rise of the consumer and a broad equity boom. That's almost another (re)emerging market story.

History does not repeat itself exactly or predictably, but there are a few obvious insights in looking at how these themes rotated (see chart). Next week, we'll apply that to look at some likely contenders for the big theme of the 2020s.

## Guru watch

**Peter Spiller,**  
founder,  
**Capital**  
**Gearing Asset**  
**Management**



High-quality infrastructure stocks offer "fantastic prospective returns with relatively low risk", says Peter Spiller, the veteran investor who has managed the Capital Gearing Trust for more than 40 years. UK-listed specialist infrastructure trusts performed poorly last year and now trade at wide discounts to net asset value (NAV), yet this cannot be explained by fears that their NAVs are overstated since they have reported "extensive sales of assets at or above book value".

Instead, the discounts reflect "technical dislocations", say Spiller and his co-managers in Capital Gearing's recent annual report. With short-dated government bonds offering reasonable yields for the first time in a decade, demand for other sources of income is weaker and so shares in listed income trusts have slumped. With these stocks offering compelling value, Capital Gearing has "added materially" to its holdings.

US equities look dear, especially since the long-term tailwind for earnings provided by falling interest rates and tax rates is likely to become a headwind in the years ahead. But there is value elsewhere, notably in UK-listed equity trusts, which – like specialist infrastructure funds – trade on the widest discounts since the global financial crisis. "We are optimistic that these holdings will provide better returns than broader equity markets."

The outlook for nominal bonds remains poor due to structurally higher inflation and budget deficits in developed countries, but the prospects for index-linked bonds are "more nuanced". Real yields are solidly positive in the US. "Index-linked bonds trade in sympathy with nominal bonds," so weakness in one will mean weakness in the other. Still at these levels, the long-term prospects for index-linked bonds are "fair" – or even "excellent" if central banks hold down real rates to help governments finance their spending.

## I wish I knew what a real interest rate was, but I'm too embarrassed to ask

A "real" interest rate is simply an interest rate that has been adjusted to take inflation into account. (A "nominal" interest rate is one that has not been adjusted for inflation.) Real rates matters because inflation reduces the value of any future stream of income.

Take a bank account into which you plan to place £1,000. If inflation is running at 1% then a 2% nominal interest rate looks respectable – your savings will have more purchasing power a year from now. However, if inflation is running at 3%, your savings will have less purchasing power when you withdraw them in a year's time, even though the £1,000 will

have grown (in nominal terms) to £1,020. Of course, the advertised rate on a savings account will be the nominal one, not the real one.

The formal definition of the real interest rate is given by the Fisher equation (named after economist Irving Fisher) and is calculated as  $(1+i)=(1+r)(1+\pi)$  where  $i$  is the nominal rate,  $r$  is the real rate and  $\pi$  is the inflation rate. However, for most purposes it's much easier to estimate the real rate by subtracting the inflation rate (either the current rate or the expected rate, depending on whether you are calculating what you have earned in real terms or what you expect earn)

from the nominal interest rate. So in the first example above, the real interest rate is 1% (you are earning a real return of 1% a year). In the second example it's minus 1% (you are losing money in real terms).

One way to get an idea of expectations for inflation is to compare yields on index-linked government bonds (whose payments increase in line with inflation) with normal government bonds. The difference between the yield on UK gilts and index-linked gilts of similar maturities (or between US Treasuries and Treasury inflation-protected securities (TIPS)) gives the "break-even" rate – the level of inflation that means an ordinary bond will return the same as an index-linked one.

## Why the rich like Trump

Janan Ganesh  
Financial Times

Stephen Schwarzman, the CEO of Blackstone, is supporting Donald Trump, says Janan Ganesh. Other billionaires and entrepreneurs will follow suit. Why? “Don’t always look for the material motive. There is such a thing as *sincere* wrongness.” The first reason is they “struggle to understand fanaticism”. In commercial life, “all actors are negotiable, even if their price is high”. They might never come across someone totally committed to an abstract doctrine (socialism), or a cause or individual (Trump). This “blind spot for zeal is why corporations were such sitting ducks for woke” and why oligarchs once thought Putin was their “pliable instrument”. The second is that the self-made rich overrate contrarianism. Dissent is core to financial success: you wouldn’t buy an asset or set up a business unless you thought everyone else was missing a trick. But this does not transfer to public life. In business, get a call wrong and you might lose your shirt. But misjudge a proposition in politics and the consequence might be “societal ruin”. When contrarianism strays into politics, the result is not just “undergraduate insolence”, but “cavalier action and the mispricing of risk”. “The tail event in politics isn’t financial oblivion. It is oblivion.”

## “Levelling up” never happened

Alex Niven  
The New Statesman

Whatever happened to “levelling up”? asks Alex Niven. At the start of the decade, the Tories won a landslide on the back of a promise to “spread opportunity” across the UK. It even seemed, for a while, that something might come of it. If it were not for the “destroying angel” of Covid, the government of Boris Johnson and Dominic Cummings might have made good on its “tentatively statist vision” and created a “sort of British Gaullism”. Reinvestment in front-line public services and “populist industrial strategy” could have channelled money and resources into the English regions through a series of Johnsonian *grands projets*. This might have led to “the biggest revival of our infrastructure since the Victorians”, as Johnson himself promised. It failed to materialise. And none of the main parties has picked up the issue in the current election campaign. Meanwhile, the wound the policy was supposed to salve continues to fester. The north remains “severely disadvantaged” and its transport system in disrepair. Many regional cities and towns still have not recovered from the austerity of the 2010s. The UK remains “one of the most spatially unequal and over-centralised countries” in the OECD club of developed nations.

## The rise and rise of solar power

Editorial  
The Economist

US telecoms giant AT&T introduced solar-power technology 70 years ago, with the hope it could replace batteries running equipment in remote areas. Solar power has since grown, with today’s panels covering an area half the size of Wales and providing 6% of the world’s electricity. Its “exponential” growth shows no signs of abating, says The Economist. Solar capacity doubles every three years, and solar cells will probably be the “single biggest source of electrical power on the planet by the mid 2030s”. Solar is expected to become the largest source of all energy by the 2040s. “On current trends, the all-in cost of the electricity [it produces] promises to be less than half as expensive as the cheapest available today.” Cheaper solar energy will slow down climate change, boost productivity and improve living conditions, especially in Africa, where 600 million people lack access to electricity. Storage challenges remain and electrifying the aviation and freight industries is tough. And the dominance of China raises concerns about reliance on a single country. The US has implemented tariffs on Chinese solar equipment, but the global market still has room for expansion. We could create a “world where nobody need go without the blessings of electricity”.

## Send plastic recycling to the scrap

Frank Celia  
Quillette

“Plastic recycling is a scam,” says Frank Celia. Only about 9% of plastic worldwide gets recycled and studies have shown that facilities that do recycle it have been “spewing massive amounts of toxins called microplastics into local waterways, soil, and air for decades”. The “very industry created to solve the plastic-waste problem has only succeeded in making it worse”. This has implications for waste management. With the limitations of recycling becoming increasingly apparent, the feasibility of waste-to-energy solutions, such as burning plastic rubbish as fuel, is being reevaluated. However, the reliance on single-use plastics presents challenges in finding viable alternatives. Some 400 million metric tonnes of non-biodegradable plastic are made annually; nearly half of this is for single-use items. Around 1,100 million metric tonnes are to be produced by 2050. Plastic is one of the hardest materials to recycle and is expensive to process. “How we extract ourselves from this tragedy needs to be debated.” But plastic recycling should be “sent straight to the same graveyard” as “other grandiose 20th-century ideas that didn’t just fail miserably, but also made the problems they sought to fix demonstrably worse”.

## Money talks

**“In my father’s era you were brought up, if you were rich, to give money to many things. You gave to the opera house, orchestras, cancer charities, lifeboats, dogs for the blind. Young philanthropists aren’t interested in spreading their giving. They want their pet causes. And how many young philanthropists do you know who are interested in the arts? Not many. That’s going to be a big problem.”**  
Philanthropist Vivien Duffield (pictured) on Britain’s new super-rich, quoted in The Sunday Times



**“I have a big money bin and I go swimming in it. You gotta get exercise somehow.”**  
Tesla’s boss Elon Musk on what he does with his money, quoted on X

**“I wasn’t paid as much. I wasn’t given the same opportunities. Some people are like: ‘So why are you still working so much now?’ Because I’m being given the opportunities now. Maybe then, I wasn’t allowed to prove myself.”**  
Supermodel Naomi Campbell on not being paid as much as her white counterparts earlier in her career, quoted on Channel 4 News

**“Until you can manage your emotions, don’t expect to manage money.”**  
Investing legend Warren Buffett, quoted on X

**“This is greed, not need. There are lots of people who shoplift for as many hours in a week as I work, which is a lot.”**  
Lucy Brown, director of security at John Lewis, quoted in The Mail on Sunday

**“I’ve seen such misery from people who’ve made money their purpose in life. As a family, we’re financially irresponsible and I couldn’t be prouder that I’ve bred that into my children.”**  
Jewellery designer Theo Fennell, quoted in The Times

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# How the West went communist

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

I first argued that we are living through a second Cold War, with China as the main ideological rival to the US, back in 2018, says Niall Ferguson. That view is less controversial now than it was then. But what struck me more recently was that perhaps it's the US in the role of the USSR. Maybe "we are the baddies". If that sounds risible, "take a closer look".

We see a version of the "soft budget constraint", a key weakness of the Soviet system, in the US's inexorably rising budget deficit. Biden's industrial policy has inserted the central government into the investment decision-making process. Productivity gains in the US non-farm business sector have been stuck at just 1.5% since 2007. The share of GDP going on interest payments on the federal debt will be double what is spent on national security by 2041, despite the growing threats

posed by the "new Chinese-led Axis", and the US is saddled with a military that is "simultaneously expensive and unequal to the tasks it confronts". All these failings have a Soviet feel to them.

"Even more striking" are the political, social and cultural resemblances. Gerontocratic leadership was "one of the hallmarks of late Soviet leadership", for example. Cynicism about public institutions was also a notable feature of late Soviet life. Surveys of US public opinion find a "similar disillusionment". The "mass self-destruction of Americans captured in the phrase 'deaths of despair'", from the abuse of opioids and so on, is also familiar from the Soviet experience, where young men in particular smoked and drank themselves into early graves. We've even had a "massive disaster that lays bear the utter incompetence



Who are the bad guys?

and mendacity" of government. "For Chernobyl, read Covid."

And all the while, as in the Soviet Union, the elite *nomenklatura* class "double down on a bizarre ideology that no one really believes in". In the USSR, the "great lie" was that the party and state existed to serve the interests of the workers and peasants. In today's US, the elite pretends its main concern is advancing the interests of minorities and that the principal

goal of foreign policy is to combat climate change.

"It was a common liberal worry during the Cold War that we might end up becoming as ruthless, secretive, and unaccountable as the Soviets because of the exigencies of the nuclear arms race. Little did anyone suspect that we would end up becoming as degenerate as the Soviets, and tacitly give up on winning the cold war now underway."

# Three cheers for neoliberalism

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

It has somehow become conventional wisdom that neoliberalism was a failure. That is wrong, says Allison Schrager. Whatever the precise policy mix, neoliberalism represented a general acceptance that market prices convey valuable information, that people respond to incentives, that resources are limited and, above all, that policies involve trade-offs. In other words, that in most situations market-oriented solutions are better than the alternatives. This remains true. Do neoliberal policies, including lower marginal tax rates, free-trade deals, easier flows of international capital and lower debt and regulation, always go perfectly smoothly and leave everyone better off? No. Perfection is not to be expected. But the last 40 years have been some of the most prosperous in world history. Between 1990 and 2015, the share of people living in extreme poverty fell from 36% to less than 10% and global life expectancy rose by eight years. Living standards improved, not just in the poor world, but in the West too. All that is now at risk as policymakers pursue statist alternatives. The promise is of stability, which sounds appealing. But there are costs – a more predictable economy is also a less dynamic one. "In a world with growing debt and an ageing population, that's not a choice we can afford to make."

# WFH works just fine

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

The Covid pandemic "upended lives around the world", says Nature. For mainly higher-skilled, higher-earning office workers in sectors such as computing, marketing, accounting and finance in particular, it meant an almost overnight change in working practices. Working from home, previously seen as an "oddy or a perk", became the norm.

Many employers want to roll those changes back, fearful that it harms productivity, creativity and collaboration. Some have mandated a return to the office, provoking staff revolts. But a new study by Nicholas Bloom and co-authors, published by



©Getty Images

Nature, shows that employers have little to fear. More than 1,600 graduate employees in the study were randomly assigned to one of two groups for a six month period – one working five days a week in the office, the other spending two days a week at home. The latter generally had greater job satisfaction, were less likely to quit and were as productive as the full-time office workers. The pandemic was "a large, uncontrolled experiment in working practices". Now at last we are starting to "put some science behind it".

# How to boost UK productivity

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

London is the only large city in the UK with a world-leading economy. It is also the only one with a world-leading and high productivity transport system. That is not a coincidence, says Tom Forth. Manchester and Sheffield are the largest neighbouring cities in Europe without a motorway connecting them. Leeds is the largest city in Europe or the US with neither a tram nor a metro system.

Why? Investment in transport within and between England's big cities has been too low for too long. And high construction costs mean the money invested has not gone far enough. Beyond investment, national policy has been poor and basic innovations not pursued. Productivity in the sector is low. This matters. In Birmingham, for example, studies have shown that poor transport is a cause of smaller labour markets and thus lower productivity. We don't need to think big or have a national policy to fix this, just focus on what has worked here and abroad: local projects funded by local governments, focused on cities. This is the way to "break out of our productivity problem".

# When to sell your holding in a trust

Deciding when you should get out of a fund depends on your assessment of the manager's strategy



**Rupert Hargreaves**  
Investment columnist

Deciding when to sell a holding that has been in a portfolio for a long time can lead to crippling indecision. But investors need to sell, both to realise profit if the investment has done well, and to exit a poorly performing holding (if buying was the wrong decision in the first place).

The idea that one can buy and hold an investment forever is fiction (unless you're content to hold an index fund for life). Moreover, it is vital for investors continually to review and reevaluate their positions to determine whether or not they fit their original investment criteria. That's why the process of selling is, in my opinion, the most important skill for investors to master.

## Fleeing struggling funds

There are many struggling funds out there, and investors are leaving in droves. Some of the biggest recent disasters include the SDL UK Buffettology fund, which has seen its assets under management dwindle from £1.8bn to below £500m. The Jupiter UK Mid Cap fund has seen its assets slump from £3.5bn to under £450m in a few years. These funds have failed to live up to investors' lofty expectations and they are not the only ones. Active investment funds have borne the brunt of



Former star fund manager Neil Woodford should not have strayed into speculative small caps

the selling as they're easy to exit, but investment trusts have also felt the pain.

Take the Finsbury Growth & Income Trust, managed by one of the UK's star fund managers, Nick Train. Over the past five years, the trust has produced a net asset value (NAV) return of 14.4%, compared with 37.3% for its FTSE benchmark. As the trust has been trading at a deep discount to its assets for some time and has been buying back shares to reduce the discount, net assets have fallen from £1.72bn to £1.66bn over the same period.

Capital Gearing Trust is another example. Its continual repurchasing of shares to try to reduce its discount has pushed

assets down below £1bn (assets have declined by 23% since the end of 2023 compared with a total return of approximately -8%), and as fees are charged on net assets, fees as a percentage of assets have risen.

The first stage of deciding when to sell starts when you buy the fund. All too often investors acquire a fund without understanding what they own. It's not enough to just buy a fund because it has made lots of money over the past five years. Past performance is no guarantee of future returns.

Instead, investors must understand the factors that have contributed to performance, and they must be behind the fund manager's strategy. If

you understand the strategy, it's easy to gauge whether a manager has deviated from it. That in itself is a reason to sell. Neil Woodford was a fantastic UK equity-income investor, but when he strayed into speculative small-cap venture investing, he stepped out of his comfort zone.

If a manager hasn't deviated from the strategy, it should be easy to assess what's gone wrong. It could be the market, poor stock selection, or country selection. In most cases, if a manager hasn't deviated from their approach, it's essential to evaluate their performance against other metrics over a long period of time – three to five years.

There is no magic formula to determine if a manager has lost their edge or has made too many mistakes. It's always going to be more art than science, but it's important to give them time to prove their worth and ensure that they are not being dismissed as inadequate simply because they have been caught in a short-term market downturn. A period of three to five years is enough to see if the manager can stack up against peers, or can recognise their errors and change direction.

If performance continues to deteriorate, then it could be time to sell. Loss aversion (trying to avoid losses by holding on to poor investments) is one of the most damaging psychological biases. It might be painful to take a loss, but there are always new opportunities out there.

## Activist watch

Elliott Investment Management has revealed an 11% stake in Southwest Airlines, worth \$1.9bn, and called for new leadership at the US low-cost carrier, says CNN. The shares rose by 6% on the news. The activist investor criticised Southwest's "poor execution" and failure to update its strategy. The shares have halved since 2021 and now trade below pre-Covid levels. The airline's struggles have been exacerbated by delays in receiving Boeing 737 jets owing to safety and production difficulties, resulting in a freeze on hiring pilots. Elliott called for "increased customer choice, improved cost execution, and updating outdated IT systems". Southwest is the only airline lacking seat reservations for passengers, a policy it has hinted it may change.

## Short positions... profit from cheap British stocks

■ **Artemis Income, Liontrust UK Growth, and Royal London UK Smaller Companies are the UK funds investors should opt for to exploit the fact that Britain's in the bargain basement, according to analysts at Hargreaves Lansdown (HL). The FTSE 100 trades at a 45% discount to the S&P 500. The investment platform has also released the top-ten funds favoured by its customers. Artemis Income is the top choice for clients too, thanks to its experienced manager and emphasis on dividend-paying companies. Four of the top ten funds picked by HL's clients have an income bias, reflecting the UK's dividend potential. Invesco UK Equity High Income, Jupiter Income, and Marlborough Multi Cap Income are also popular choices. The list includes three passive funds, highlighting the popularity of low-cost passive funds in undervalued markets such as the UK. Other selections include Fidelity Special Situations, and Royal London Sterling Extra Yield Bond.**

■ **Asia-focused long/short funds gained an average of 2.8% in May and 7.5% between January to May, says Reuters. US and Europe-focused hedge funds gained on average only 1% in May and 6% in the first five months of the year. The strong performance of Asian hedge funds was due largely to China-focused funds; Japan-focused funds had mixed results, according to UBS. The MSCI Asia ex-Japan index has gained 8% so far this year, and Japan's Nikkei 15%. Greenwood's Asset Management's flagship fund, Golden China, rose by 8.3% for the year to May thanks to Chinese technology and energy stocks. Pinpoint Asset Management's China fund rose by 11.4% in the first five months. Despite recent weak economic data, MSCI China stocks are up by 23% from their January low.**

# The 2020s will soon begin to roar

Gloom over stagnant growth looks overdone, says Max King. European and UK stocks are highly appealing

Amid all the despondency about the economic prospects of “the West,” it’s refreshing to find an optimist with a coherent argument. Chris Watling of Longview Economics believes that the West is on the threshold of an economic boom. “It is anathema to talk about it given recent experience,” he admits. But he points out that inflation, although sticky, is dissipating. Interest-rate cuts have already started and will spread to the US and UK. The US economy has performed well, helped by productivity growth, and now faces a soft landing rather than a recession, which will be followed by renewed growth.

The eurozone has been stagnating as it deleverages, but growth is now set to quicken, led by southern Europe, while the UK will benefit from real growth in wages, rising corporate profits and a pick-up in the housing market. Since the “Brown boom” in 2008, household debt has fallen from 95% of GDP to 80%. It will now expand, as it did in the Barber boom of the early 1970s and the Lawson boom of the 1980s.

Consumer debt relative to GDP has also fallen sharply in the US and Europe, after a short surge in 2020 as Covid cut economic activity. This puts into context the rise in the ratio of government debt to GDP. As governments have borrowed, households have retrenched, so overall debt relative to economic output has been flat or declining in many countries.

The trigger for the retrenchment of households was the 2008 financial crisis, which forced the banking sector to de-risk. “A well-capitalised banking sector now has capacity to expand.” The primary avenue for this is mortgages; in the UK, net mortgage lending is depressed, as are US existing and pending home sales and Spanish building permits. Mortgage-debt service costs as a percent of GDP have fallen sharply.

## Governments bash their balance sheets

The media narrative in Britain is about the shortage of housing and its unaffordability, but nine million households in England now own their properties outright and only 6.5 million have mortgages. Net housing wealth has risen from £3trn in 2008 to £7.1trn, creating huge potential for equity withdrawal, which surged in previous boom periods. Twelve million renting households face rising costs, providing a strong incentive to buy, with affordability improving as interest rates fall. In the US, net housing wealth has risen from \$8trn in 2012 to \$32trn.

Household savings ratios have risen in the UK to levels only seen in 1990 and the pandemic; in Europe, they also stand at historically high levels, although less so in the US. There, the corporate sector has “terrific” cash flow, even excluding the technology sector. “It’s been governments that have been bashing their balance sheets in the last five to ten years,” says Watling, “not the private or household sectors.”

We hear much about Germany struggling, but little about southern European countries that “have been getting their houses in order since the euro financial crisis of 2011”. Germany “will be the sick man of Europe”, weighing down on eurozone interest rates, while southern Europe, helped by tourism and golden



Spanish stocks cost only ten times forward earnings

visas, continues to grow. One result of this acceleration in growth will be higher tax receipts and, potentially, consequent falls in budget deficits and public debt-to-GDP ratios. In the UK, this could finance large tax cuts or, more likely, the throwing of yet more money into the public-sector black hole. But there is a caveat. The determination of governments, actual and potential, to close down North Sea hydrocarbon production and the industries and services that depend on it, to deter tourism and to drive out non-domiciles, the wealthy and the well-paid (a sort of reverse golden visa) could lead to growth remaining far below potential.

What about equities? “With a change in the global economic outlook, you tend to get a change in market leadership,” says Watling. US valuations “are rich, and not just for the Magnificent Seven that now account for nearly 20% of the global market capitalisation”. The top 10% of US stocks make up 75% of the total valuation of the S&P 500 index, a similar figure to 1929. Every sector except energy and real estate is at, or near, the top of its historic valuation range.

However, Tan Kai Xian of Gavekal Research reminds us that “in the absence of a US recession – and there is no reason to believe a recession is imminent – US equities are likely to continue to trend higher on a 12-month time horizon. But a pullback in the second half of the year, on the back of higher economic and market volatility, is a substantial risk”.

The rise in corporate profits that Ed Yardeni of Yardeni Research expects may value the S&P 500 at an expensive 21.5 times 2024 earnings. But that falls to 19.9 for 2025 and 17.9 for 2026. US stocks may require patience and merit some profit-taking, but not panic. Watling prefers the potential in Europe and the UK. He points out that the Italian market had, as of 31 May, outperformed the US this year, but still trades on less than ten times prospective earnings, while the Spanish market trades on only a little more. “These markets are now getting earnings growth, having retrenched for ten to 12 years.” In the UK, he favours Lloyds Banking Group, “one of the most hated stocks in the world... It will give back lots of capital and grow earnings, but is valued at just five to six times expected earnings”. Unless the next government imposes major new taxes and financial burdens on it, that is.

*“Southern European countries have been getting their houses in order since the euro crisis”*

# Until the pips squeak

Keir Starmer has been vague about where the money for his plans will come from. The answer is our wallets and bank accounts. Dominic Frisby reveals what the taxman will target next

The latest polls show Labour on course for such a thumping majority (with less than 50% of the vote – how rubbish is first-past-the-post?) that it will be able to do what it likes. There is scope for a lot of invasive government. Despite Starmer's purges, and his clear intention to present Labour as centre-left, there is still a socialist mindset within the party that does not respect personal property. It feels entitled to it. So today I want to explore what Labour might do, especially if the socialist-leaning instincts in the party come to the fore, and consider ways you can protect yourself.

The party intends to produce "500,000 new, skilled jobs in the industries of the future" as part of its energy plan and put "13,000 more police on the streets". It hopes to pay "doctors and nurses overtime to work evenings and weekends" and give the NHS "the staff and technology it needs". Labour's plans have one thing in common: they require spending. Yet taxes as a percentage of GDP are already at an 80-year high and debt as a percentage of GDP is close to 100%.

Where's the money going to come from? About that Labour has been vague, which makes sense: the less specific Starmer is now, the more scope he will have to do what he wants when he comes to power. Labour has pledged to move the "current budget into balance" and "ensure debt is falling". We appreciate the thought, but there is not a hope in hell. Deficit spending will continue, as it has for decades, and the national debt will rise. So there is one thing that is guaranteed: the pound gets further debased. It will buy you a lot less in five years' time than it does now. Whether we see the 33% declines in the pound's purchasing power we have seen since 2020, I'm not sure, but declines are nailed on.

Yes, sterling is holding up moderately well in the foreign-exchange markets, which know Labour will win, but that is just comparing it with other fiat currencies. Own plenty of gold and bitcoin and use such "non-government currencies" as your savings vehicles. They will outperform sterling quite comfortably by the time of the next government.

What Labour desperately needs, moreover, is growth, which is hard to achieve when government is expanding, which it will, and taxes are rising. Which taxes, though? Labour has promised that there will be no increases in national insurance, income tax rates, or VAT. It has also pledged to cap corporation tax at 25% throughout the parliament. Just because a party promises no increases does not mean they won't happen. Franklin D. Roosevelt confiscated US citizens' gold in 1933, without ever having mentioned gold in his manifesto.

And there are plenty of recent examples. The departing Conservative government increased national insurance when it said it wouldn't, increased taxes when it said it would lower them, and failed to honour its pledges on renters' reform, home building, immigration, social care, and more besides. Circumstances change and so will pledges, especially with a prime minister already known as Captain Flip Flop.

## The politics of envy

But let us nonetheless take Labour at its word. Where's the money going to come from, then? Some increased revenue, it says, will come from clamping down on tax avoidance and modernising HMRC. Easier said than done. That promise always gets made and it

never happens. One of the few things Labour has been specific about is VAT on school fees. With only 7% of children actually going to private schools, it seems Labour has decided, in these times of envy, that the policy will be a vote-winner. George Bernard Shaw's insight applies: "A government that robs Peter to pay Paul can always depend on the support of Paul".

While it purports to be an attack on the rich, it is really an attack on the middle classes, many of whom will now put their children into state schools. This extra burden on an already overburdened education sector does not justify the limited increase in revenues that will come from VAT, never mind the practicalities of imposing this charge and the schools that will go bust as a result. But I don't think extra revenue is all this is about. It's exploiting the politics of envy.

With the added pressure for places at good state schools, it also means homes in catchment areas will command an even higher premium than they do already. But this tax also tells you about one group that is going to get tapped heavily: the wealthier end of the middle-class. A lot of them read MoneyWeek.

## A triple whammy

Labour's big unmentionables have been capital gains tax (CGT), inheritance tax (IHT) and council tax. All three, I expect, will go up. Starmer has avoided saying CGT won't go up, which means it will. I expect to see it rise to levels that equalise it with income tax (ie, 40% above £37,701 and 45% above £125,140). One thing that won't get equalised is the tax-free allowance, though. Jeremy Hunt brought that down from £12,300 to £3,000. It won't go to £12,570 in line with income tax. In fact, they might well get merged, so the first £12,570 you earn in income and capital gain combined comes tax free. In other words, the taxpayer loses another £3,000 of tax-free allowance.

Labour has ruled out CGT on your main residence, but I wouldn't be surprised to see it anyway. Stamp duty will endure, even if it means more atrophy for homes above £1m. Let's hope Labour realises that CGT and stamp duty together will kill business, otherwise housing becomes an even more expensive market to transact in. IHT, meanwhile, will not come down. In fact, it will probably go up. Changes will be justified on the grounds of unearned wealth and exploit the same politics of envy as with VAT on school fees. The rate could rise to 50%, while areas of relief (the seven-year gift rule, perhaps, or the relief on main homes) might be removed.

So to council tax. Angela Rayner said that Labour is not planning rises "at the moment". Council tax is an obvious target because the banding, the prices at which homes are valued, is based on 1991 valuations. The revenue goes to local coffers, however, and Labour will be more interested in revenue at the national level. Local taxes also tend to be highly controversial. Remember the golden rule, as articulated by Louis XIV's minister of finance, Jean-Baptiste Colbert: "The art of taxation consists of so plucking the goose as to obtain the most possible feathers with the least possible hissing". Local taxes create hissing.

There is, in addition, the fact that council-tax rises target the "wrong" people. The rates are higher in Labour-voting boroughs, which are often less well off, and Labour will not want to tax these people as much.

*"The pound will buy you a lot less in five years' time than it does now"*



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### Could the Labour leader even come after Isas?

One solution is to levy higher council taxes on the most expensive properties. All in all, council-tax rises are probably coming, but they are not the prime focus.

With that Colbert quotation in mind, let us turn to wealth taxes. There has been a lot of talk about them, but they are not as simple as they might seem. Income tax works well because it is easy to collect. The employer collects it for the government, and faces harsh penalties if it doesn't. Ditto VAT, only it is the retailer on whom the responsibility to collect falls. So there is minimum hissing.

Wealth taxes, however, rely on declarations. There is much more scope for non-compliance, whether deliberate or accidental. Say the government wanted to impose a 5% net-worth tax. It would have to find out about your real estate, both at home and abroad, and reach a fair valuation. It would have to find out about your stocks and bonds, your possessions, your vehicles, your savings, your Isas, your pensions, your cryptocurrencies, your art, your antiques. Anyone who has ever had to value an estate for IHT knows what a headache this is. It can take many months and even then the eventual number is heavily disputed.

### Too much hissing

The government can force banks to collect a lot of this information, and the bank can then get heavy-handed with you if you don't comply, but there is still an awful lot of scope for non-compliance. Most will be honest about what they own, but many will not – and hope that HMRC does not have the resources to investigate them properly, which it doesn't.

Many people have valuable things they don't even know have value, or can't access. I'm not saying a "net-worth tax" won't happen, just that they are not quite as easy to levy as they sound. And imposing a net-worth tax without having previously mentioned it would do so would be quite something, even with the majority Labour is about to have. There will be much hissing, especially if the middle class gets hit, which it will because of higher property prices.

That said, I do think we will see changes to wealth-reporting requirements, which is a first step in that direction. If there isn't a net-worth tax, there are some wealth taxes that could quite easily be imposed, such as a new savings tax. Savings are easy to identify and then tax. Banks will be forced to disclose them. There is some £1.5trn held in savings accounts in the UK, so there is plenty to be tapped (although much of this is held

in Isas, which are supposed to be tax-free). Starmer has made noises about ordinary working people not having savings, so I doubt he will have too many qualms here.

An equity and bonds holdings tax is also a possibility, with banks and brokers to report and collect it. I doubt, however, Starmer will tax gilt holdings or remove the CGT exemption on gilts: he will want that particular income tap to remain free-flowing.

Note too that the tax-free goalposts on Isas can quite easily be changed. And there are a lot of people who have built up large pots, which no doubt Labour will be eyeing up. The £20,000 annual allowance might be reduced, or more likely there will be a maximum tax-free cap of, say, £100,000. Taxing existing holdings strikes me as difficult, but not impossible. If you haven't already made this year's contribution, get moving.

Tax relief on pension contributions looks vulnerable too. The £60,000 limit will probably come down and the tax-free lump sum is likely to be not quite so tax-free. An off-shore wealth tax is also an option. You must declare any holdings you have overseas and then pay tax on them. Lots of scope for non-compliance, of course. Doesn't mean it won't happen. Remember Shaw's Peter and Paul. A luxury-goods tax, meanwhile, would work like alcohol, fuel, and tobacco duties.

With many Britons leaving UK, others will follow. I would not rule out some kind of exit tax. The US, Canada, Australia, Germany, France and Denmark all have exit taxes – in many cases, taxes on unrealised capital gains. (Imagine paying a tax on the gain, not realising it, and that gain turns to a loss. Horrible.)

There is also a lot of noise about Great British Energy to "harness Britain's sun, wind and wave energy" with a windfall tax on oil and gas giants. That makes British oil and gas companies uninvestable. Labour says it will deliver 100% clean power by 2030 – never mind that clean power is neither clean nor green. It clearly hasn't read Alex Epstein's *The Moral Case for Fossil Fuels*. The upshot? Essential fossil fuel will inevitably get more expensive, and the country will function less well as a result. Labour says it is going to reduce energy bills. This is not possible without subsidies somewhere else, which have to be paid for.

*Dominic Frisby writes the investment newsletter, The Flying Frisby. More at theflyingfrisby.com. He is the author of Daylight Robbery: How Tax Shaped Our Past and Will Change Our Future*

*"If you have not already made use of this year's Isa allowance, get moving"*

# These small caps promise big gains

Michael Taylor of Shifting Shares reviews his selections from December 2023 and suggest some new plays

We're now coming into the second half of 2024. As I often mention, six months is hardly a reasonable time frame in which to gauge the success or failure of a stock. Investing over such a short time frame is gambling, although the good news is that many smaller companies have enjoyed an excellent start to the year. Let's see how my picks for the first half of 2024 have fared.

## Renold (Aim: RNO) 34p, now 52p

My first pick was Renold, a UK based manufacturer of industrial conveyer chains and machine components. I mentioned the company had a large debt pile, and that this could hamper its performance should it suffer a downturn, but I felt that was more than priced in with the price/earnings (p/e) ratio of less than 6. And with a current price of 52p, up from 34p when I tipped it, I think the market agrees with me (at least for now!).

Renold announced on 15 April that the results for the full year were going to be materially ahead of expectations, so it's clearly firing on all cylinders. I don't see any reason to change my view – if anything, recent developments have reinforced my optimism.

## Supreme (Aim: SUP) 112.5p, now 160p

Supreme is well-known for its vaping division but beyond that it is also Britain's biggest battery and lighting distributor. It has established close ties with Duracell, Panasonic and Energizer. Vaping generates much of the revenue and much of the profit, and Labour looks set to introduce a ban on disposable vapes. The modest p/e of less than seven reflects that.

Growth in the vaping division will be harder to achieve and impossible to forecast. Will retailers stock up on disposables before the ban in anticipation of vapers bulk buying? Or will vaping decrease as disposables are removed from sale? My belief is that vapers will continue to vape and use whatever products are available.

With house broker Shore Capital expecting to decline slightly to £22.6m in the year to 31 March 2025, I feel there is upside here, as the balance sheet has moved from a net debt to a net cash position thanks to the company's strong cash generation. This gives the proven CEO room for manoeuvre because the business is now in an even better position to make acquisitions. As with Renold, I don't see any reason to change my view here and believe the thesis is playing out exactly as I hoped.

## Afentra (Aim: AET) 31.5p, now 53.6p

I included Afentra in my picks because I believed in the management team. They are old hands from Tullow Oil who had backed themselves by buying stock in the market. The business strategy is sound, too. By buying existing oil assets and making them more efficient, the company can generate strong free cash flows, which can then be reinvested in more assets. So far, this strategy is bearing fruit, and with the share price not far off doubling already I feel there is much further to go.



A clampdown on disposable vapes is looming

## BSF Enterprises (LSE: BSFA) 10p, now 5.6p

BSF Enterprises is as risky as they come and I highlighted this in December. Its business plan is to replace animal tissue with lab-grown scaffold-free bio-equivalents. The scaffold is the structure that holds the meat together, and it is often synthetic or plant-based in lab-grown meat products, altering the texture of the meat. BSF's hope is that the cultivated meat should look, taste, and smell exactly like animal tissue, and so the potential market here is huge.

The company has failed to set the market alight in recent months, however. A lack of tangible progress has seen the shares slump. While the cash position is still impressive at £1.37m as of 31 March 2024, meaning the company has plenty of time, if it can't progress to a level that raises the valuation of the company, then the next fundraising round may not prove a great success. This stock remains strongly at the speculative end of the market.

## PCI Pal (Aim: PCIP), 50p, now 54p

PCI Pal provides payment solutions for remote "card not present" transactions. It is currently being sued by competitor Scurio in the US. A UK trial is now over, with a total victory for PCI Pal in both the trial and the appeal; Scurio has been weakened because some of its patents have been invalidated.

Management said before this trial that the case was designed to slow down PCI Pal and cause it to lose focus. Admittedly, some of the money raised in 2021 was redirected from growth to the lawsuit, but a small top-up fundraiser of £3.5m, held in March, increases the war chest further; £1.3m is also on the way from Scurio.

The company is expected to be both cash-generative and mark its first year of profitability this year, but of course the lawsuit is going to be a weight on the stock price owing to the uncertainty it creates. However,

*"PCI Pal, a payments group, is being sued by a US rival, but it is shored up with plenty of cash"*



**“PensionBee’s strategic partnership in the US opens up an even bigger market”**

people have a pension somewhere, they’re unlikely to move it. That means PensionBee could close its marketing department tomorrow, and while it might not generate much new business, its existing business is unlikely to leave for some time – generating future cash flows.

It looks as though the business is starting to scale up. Adjusted earnings before interest, taxes, depreciation and amortisation (Ebitda) was almost positive in 2023, and is expected to be in the black in 2024. Assets under Administration (AuA) increased by 44% to £4.9bn, and the efficiency of the group’s marketing increased, too, with net inflows per £1 of marketing spend jumping by 22%.

A strategic partnership in the US, which will be part-funded by PensionBee, opens up an even bigger market – a US-based global financial institution wants to use the PensionBee brand to grow its market share. While the stock must be classed as expensive, as only £1.25m of net profit is forecast for 2025, while the market capitalisation is \$357m, it is easy to see how the predictable and repeatable revenue can underpin a bright future.

#### **Intercede (Aim: IGP), 138p**

Intercede is a technology company that offers identity and credential-management software. One of its products includes a platform called MyID. Since the new CEO took the helm the business has been focused on expanding its product suite and increasing sales.

It’s taken some time but sales are now starting to gain traction. And with a gross margin of 97%, additional sales fall straight to the bottom line.

That has been shown by the company’s full year net profit for 2024 jumping to £6m from £1.3m the year before and cash accelerating to £17.2m versus last year’s £8.3m. With no debt, the balance sheet is rock solid and there is a hint of value-accretive acquisitions in the pipeline to accelerate growth further.

The company has done its best to tell the market that thanks to a large one-off contract in 2024, which boosted earnings significantly, 2025’s profits will be slightly lower than the previous year’s. One-off contracts are good in my book, because it shows the company can win big projects and it can also mean there may be future contract wins of that calibre in the future. With a punchy p/e ratio of 25, the market is pricing the company as a strong turnaround. And with eight profit upgrades already, I am inclined to agree.

#### **Cavendish Financial (Aim: CAV), 12.5p**

Cavendish Financial is the result of a merger between Cenkos Securities and finnCap. These were two mid-sized brokers active in UK equity capital markets who have now joined forces and are no longer competing against each other. As a result, £7m of annualised cost savings have been locked in already as of December last year, and delivered more quickly than forecast.

The business has a strong balance sheet, too, with cash totalling £20.8m as of 31 March 2024, compared with the company’s market value of £48.1m.

Full-year sales rose by 7% to £54m. This isn’t rapid growth, but build in the cost savings and the business is much leaner than its previous two entities were. And if you think the interest-rate cycle has peaked (my belief is that it has), then risk will be back on the menu for UK stocks and deal flow should pick up. With more than 200 clients, Cavendish is in a prime position to take advantage of the rebound in the UK small-cap sector.

*Michael Taylor holds long positions in RNO, SUP, AET, PCIP, FTC, IGP, PBEE, CAV, and warrants in BSFA. You can get more of Michael’s trade ideas at newsletter.buythebullmarket.com*

PCI Pal couldn’t have asked for a better outcome in the British trial, and its robust cash position makes clear to Sycurio that it can count on shareholders’ support. Its share placing in March was oversubscribed and took place at the prevailing market price.

Sycurio offered 90p per share for PCI Pal after launching the legal case. My belief is that the stock’s true value, should the lawsuit uncertainty be removed, is well above 100p. But the stock must be regarded as speculative. So far, then, my picks are doing well overall. Here are another four stocks to consider for the second half of 2024.

#### **Filtronic (Aim: FTC), 71p**

Filtronic is a UK-based company that makes radio-wave components and subsystems used in telecoms infrastructure, aerospace and defence. More excitingly, it is involved in low-earth orbit (LEO) space markets and is working with SpaceX, the company founded and run by Elon Musk. It has a strategic partnership with SpaceX and there is the option for SpaceX to take some equity in Filtronic, with 10% of the share capital.

The company has been on a tear so far in 2024, hitting highs of 71p from a starting price of 21p. But Filtronic has been winning more, bigger contracts recently, and these have yet to filter down to the bottom line. It goes to show that companies can and do enjoy revivals.

Filtronic has been going since the dotcom area, and enjoyed a significant price appreciation in its share price during this period. My belief is the company has now turned a corner and this could be just the start of a brighter future.

#### **PensionBee (LSE: PBEE), 155p**

PensionBee is an online pension provider and, I believe, an overlooked business. Why? Because PensionBee has incredibly “sticky” customers. Once

# How to keep your phone safe

It pays to be vigilant and organised when it comes to protecting your personal data



**Ruth Jackson-Kirby**  
Money columnist

Around 22 mobile phones are stolen every hour. The Office for National Statistics recorded 196,000 phone thefts across England and Wales in the year to March 2023. The chances are, then, that it will happen to you or someone you know at some stage. Your first concern should be your own safety, reporting the crime, and working out how you will replace your phone. But in the digital age there is a lot more you need to think about.

An investigation by The Sunday Times has found that “many phones stolen on the streets of the UK ended up on a market in Shenzhen, southern China”, says Louise Eccles in The Sunday Times. “Losing your phone... puts your personal data and finances at risk.”

If you have a smartphone there are steps you can take to minimise the damage if it is stolen. Firstly, make a note of your phone’s unique International Mobile Equipment Identity (IMEI). You can find it by dialling \*#06# on your phone. Keep a record of this. If your phone is stolen, you can give it to your phone company so they can

block its use. Your network provider should be able to block your sim, but without the IMEI number they can’t block the actual phone. So the thief could put a new sim in and use it. If you have mobile phone cover your insurer may also want to know this number in the event of a claim.

Make sure the Find My Phone feature is turned on. This allows you to log into your phone account from your computer, tablet or another mobile phone so you can see where it is and mark it as lost. You can also use this feature to reset your phone. Resetting will wipe all your personal information so a thief can’t use it. These days losing your phone can also mean losing all your photos too, along with important information stored in apps, messages and your contacts. Protect yourself by making sure your phone is set to back itself up regularly automatically.

## Managing passwords

Use strong passwords – your phone may suggest these for you, or you can get them from online password generators – and store them in a password manager so you don’t have to remember them all. That way you won’t need to write them down anywhere, “especially



not in your phone’s notes app”, says Eccles. If you do have anything personal stored in your notes, lock them. You can lock individual notes so that a password is required to access them. Try to use two-factor authentication for your accounts and apps as much as possible. This means you must verify your permission to access the account in two ways, making everything much more secure. Increase your chances of being reunited with your phone by registering it on Immobilise.com. That’s the register the police use to find the owners of seized stolen goods.

If your phone is stolen then there are several steps you need to take immediately, says Amy Axworthy on Which.co.uk. Use Find My Phone to locate your device and lock it. Report the theft at your local police station or call 101. Contact your network provider and cancel your sim so that no one can use your phone to make calls, send texts or go online. “You might be responsible for any bills that are racked up by a thief if you have a

contract,” says Axworthy. Some networks will cap the charges at £100 if you report your phone lost within 24 hours. If you use mobile banking tell your bank. They might suspend your mobile banking app and cancel any cards saved in your mobile phone’s wallet. It’s also worth changing your banking passwords. While you are at it change other critical passwords, such as your Apple, Google or Samsung ones as well as your email passwords.

If you use your phone as a trusted device for two-factor authentication, make sure you change that so thieves can’t use it to help them access your accounts. Finally, think about how your phone is insured. It may be covered as part of your home insurance or as a benefit on a packaged bank account. If it isn’t, consider getting standalone mobile phone insurance. You can get a policy for under £70 a year for the latest smartphone models and a lot less if you have an older phone.

## Pocket money... lock in high interest rates now

● It’s time for savers to lock in a good interest rate ahead of expected rate cuts, says Charlotte Gifford in The Telegraph. At present, fixed-rate bonds are paying lower interest rates than many easy-access accounts. This is because banks are anticipating a rate cut. But taking a slightly lower long-term rate now will pay off when the rate cuts appear.

Easy-access accounts tend to have variable rates so these can be slashed as soon as the Bank of England has announced a cut. Vanquis Bank’s three-year bond paying 4.8% seems worth a look, as does RCI Bank’s two-year bond paying 5%. If you haven’t used up your individual savings account (Isa) allowance for 2024-2025, consider United Trust Bank’s three-year cash Isa paying 4.55%, or their five-year Isa offering 4.2%.

● “Credit card debt is cutting into people’s ability to get a mortgage,” says James Pickford in the Financial Times. Outstanding balances on credit cards rose by 9.9% in the year to March, according to UK Finance. Unsecured debt such as credit cards can affect your mortgage affordability as lenders will include your credit-card repayments in your monthly outgoings. A sizeable credit card debt could see your mortgage application declined.

● Plusnet customers who use the broadband company’s mobile-phone service “have just weeks left to either switch to another provider, or face losing their mobile number”, warns Miles Brignall in The Guardian. The company announced in May that it will close its mobile-phone

division. It is the latest service Plusnet has stopped offering as it moves towards becoming a broadband-only supplier. It no longer offers TV, and landlines will be dropped in December 2027.

Customers have 40 days to ask for their porting authorisation code (PAC) which enables them to take their existing number to a new provider. To get the code, text PAC to 65075.

● A record number of debt-relief orders (DROs) were taken out in May, figures from the Insolvency Service show. The number hit 3,716, an 8% increase on the previous high set in April. A debt relief order can help you write off debts you can’t afford to repay. It is one of the formal insolvency options alongside individual voluntary arrangements (IVAs) and bankruptcies.

# Should you draw or defer?

The decision on how soon to take the state pension is finely balanced



**David Prosser**  
Business columnist

More than one in nine Britons now works beyond their 65th birthday, according to data from the Office for National Statistics (ONS), roughly twice as many as 20 years ago. Some are doing so out of choice; others by necessity given their financial situation. But either way, if you've still got income coming in at the point when you can start claiming your state pension, it may make sense to wait.

Under the current rules, men and women alike are entitled to start receiving their state pension once they turn 66, though this will go up to 67 between 2026 and 2028. However, you don't have to take the money straight away. And if you choose to defer drawing your state pension, you'll be entitled to more money once you do claim it.

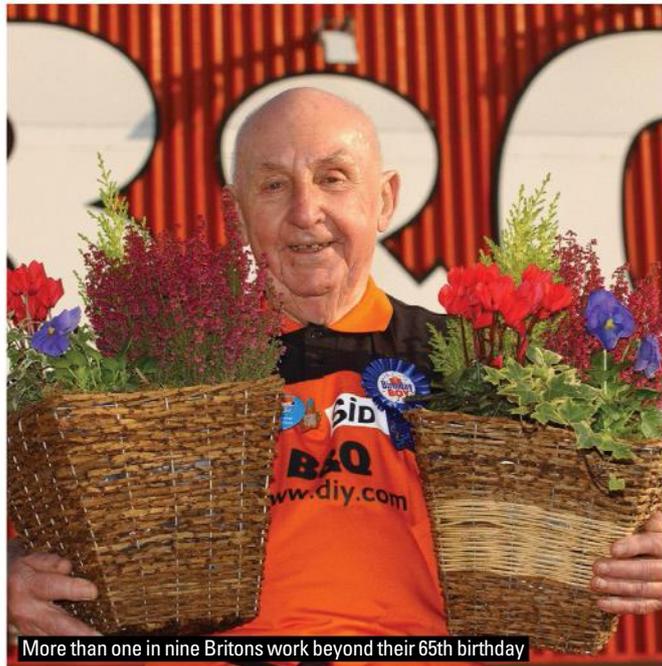
The bad news is that these arrangements have become markedly less generous in recent years. For a long time, those deferring their state pension claim received 10.4% extra income for each year of delay. Today, however, you get only 5.8% extra for each year of delay once you start claiming.

In cash terms, someone opting not to take their £11,500 state pension this year would be entitled to £667 of extra income if they started claiming in a year's time. But crucially, they would have missed out on £11,500 of income by that point – and it would take just under 18 years to earn that back through the extra income they will be entitled to in the future.

In other words, the decision about whether to defer a state pension claim is a gamble on life expectancy. The longer you live, the better off you'll be overall by deferring; but there is also a risk that you'll die before you reach the break-even point.

The decision is finely balanced. The ONS says the average 65-year-old man can expect to live for another 19 years, rising to 21 years for the

moneyweek.com



average woman. But those are just statistics – if you're currently in good health, you may live much longer; equally, you could die sooner, particularly if you're in poor health.

There are also some complicating factors to consider. For example, if you're still working, it's possible that you're

currently paying income tax at a higher rate than you will be once you're fully retired. In which case, you'll pay less tax on your state pension if you defer claiming it, reducing the number of years it will take to be better off overall.

On the other hand, if you're on a very low income

– and particularly if you're receiving state benefits – any extra pension you get through deferring may be wiped out by reductions in your entitlement to these supports. In which case, deferring your claim will definitely leave you worse off.

There isn't a right or wrong answer here. Everyone's circumstances will vary and whether to defer is a personal decision – ultimately, most people won't be sure they have made the right decision for many years.

Importantly, you don't have to defer for a full year. You'll get extra pension if you put off your claim for as little as nine weeks. Also, if you've already started taking your state pension but now think deferring makes

## Labour drops revival of LTA

Labour appears to have dropped plans to reintroduce the lifetime allowance (LTA) on pension savings, which was abolished last year. While Labour had previously promised to reverse that decision, the party's general election manifesto made no mention of the LTA.

This reprieve allows savers with large pensions to breathe a little easier. Under the LTA, any pension pot above a certain level – £1,073,100 in the 2022-2023 tax year – was subject to tax charges of up to 55%. In the short term at least, no one will now face this levy.

Still, it is worth pointing out that Labour has not formally ruled out bringing back the LTA, and could choose to do so in the future if it wins next week's election. The party has already said that it intends to conduct a review of the pensions landscape.

Savers with large pension funds also need to be wary when they start taking their benefits. The standard arrangement is that you can take up to 25% of your pension fund savings as a tax-free lump sum. However, the way in which the government abolished the LTA means that this tax-free lump sum is limited to £268,275: 25% of the old LTA. Don't try to claim more tax-free cash than you're entitled to.

sense, you're entitled to suspend your income for a period; you'll then qualify for extra money on the same terms as someone who deferred their claim before they started taking their pension.

## News in brief... ignore financial influencers

● Not everyone will be pleased to see inflation fall back to 2%. The reduction is likely to mean lower annuity rates for pension savers seeking to buy a guaranteed lifetime income when they retire. This is because insurers price annuities with reference to gilt yields; these rise and fall in line with interest rate expectations, and therefore in line with inflation. Sharing Pensions, a specialist in this area, expects annuity rates to fall by 1.4% in the coming weeks, given the impact so far of lower inflation on gilt yields.

● Are you looking after your grandchildren over the summer holidays? If so, and you have not yet reached retirement age, your hard work could help you secure additional state pension income. This is because carers for grandchildren under

the age of 12 are typically entitled to claim national-insurance (NI) credits, which count towards your state pension entitlement. For you to qualify, the child's parents must be eligible for child benefit, and give you permission to apply for NI credits. See the Gov.uk website's advice on Specified Adult Childcare credits for details.

● Beware TikTok videos purporting to offer financial advice, including tips for retirement saving. A survey conducted by Almond Financial warns that 87% of the financial videos on the social-media channel are potentially misleading. Almond says financial influencers on TikTok are typically unregulated, don't give any risk warnings and are often selling training courses or e-books rather than providing useful advice.

# This bank could break

Axos Financial is highly exposed to America's commercial-property slump



**Matthew Partridge**  
Shares editor

The past four years has radically changed the landscape of the US property market. The residential market has surged, with the average house price now nearly 50% higher than in January 2020. However, it has been a very different story for the commercial-property market due to remote working. Despite the best efforts of some prominent technology companies, all the evidence suggests that the return to the office in the US has stalled. Office vacancy rates have continued to increase as firms decide to save money by not renewing their leases, or selling their offices.

Around 15% of office space in the United States is vacant (double the pre-Covid figure), but the rates are even higher in the major cities, such as Los Angeles and Chicago. In San Francisco, more than 20% of office space is vacant. This is not only bad news for property companies, but also for banks such as Axos Financial (NYSE: AX).

As short-seller Hindenburg Research has pointed out, instead of cutting its exposure to the flatlining commercial market, Axos has significantly increased lending to the commercial sector, nearly doubling it over the past three years. Commercial property (counting apartment blocks, which are also doing badly) now accounts for slightly more than half the bank's loan book.

## A vulnerable loan book

Although headquartered in California, Axos has made a particularly strong push into New York's commercial-property sector. While the city's vacancy rates are roughly the same as those in the US as a whole, there has been a surge in repossessions in recent months, and experts predict worse to come. The rate at which commercial properties are being foreclosed is one of the highest in the US, and rising. Even



more worryingly, Axos' loan book is especially concentrated on a relatively small number of individual projects, with one developer comprising nearly 5% of its total loan book.

There are also anecdotal indications that in a bid to expand, Axos has lowered its lending standards, taking on commercial loans that other lenders in the area are unwilling to back and making high-risk loans to firms in other sectors, such as cryptocurrencies. Despite these risks, investors continue to be extremely bullish

*"The group has reportedly lowered its lending standards, yet the market remains bullish"*

about Axos. Although most comparable mid-sized US banks typically trade at, or on, a small premium to the value of their net tangible assets, Axos is valued at a much larger 51% premium.

The market has ignored these problems, even though Axos is one of the most shorted small regional banks. The stock nearly doubled from \$33 in November to a high of \$61 last month. However, it has now fallen back by around 15%, and is trading below its 50-day moving average. I therefore suggest that you short Axos at the current price of \$53.75 at £40 per \$1. In this case, I'd put the stop loss at \$77.75. This should give you a total downside risk of £960.

## How my tips have fared

It has not been a successful fortnight for my ten long tips, with six falling and only four appreciating. Investment and share-trading platform IG Group rose from 788p to 829p, while General Motors accelerated from \$47.57 to \$48.11. Rolls-Royce Holdings climbed from 456p to 471p and high-street clothing retailer Next increased from 9,208p to 9,292p.

However, cruise-ship operator Royal Caribbean fell from \$155 to \$154, concession owner SSP dropped from 163p to 151p, while easyJet hit turbulence, diving to 450p. US building-materials supplier Builders FirstSource fell from \$146 to \$142 and Hollywood Bowl slipped from 319p to 315p. My long tips are now making overall profits of £471 compared with £763 two weeks ago.

My two short tips also put in a mixed performance, with one rising and the other falling. Air-taxi firm Joby Aviation moved against me, rising from \$5.09 to \$5.11. However, Trump Media & Technology Group fell from \$42.09 to \$33.52. The Securities and Exchange Commission (SEC), a US financial regulator, approved the sale of new shares in the group, fuelling fears that existing shareholders would be diluted. We also heard the company's revelation that it made a very poor \$770,500 in sales during the first quarter. My short tips are making a profit of £1,001, up from £964 two weeks ago.

My combined long and short positions are making profits of £1,472, down from £1,827 two weeks ago. I suggest that you close your positions in SSP, taking losses of £648, and easyJet, taking profits of £235. This means I now have eight open long positions (IG Group, General Motors, Builders FirstSource, Rolls-Royce, Hollywood Bowl, Next, Royal Caribbean and PayPal).

Still, even with the new tip, I only have three open short positions left (Joby Aviation, Trump Media & Technology Group and Axos Financial). Finally, I recommend that you increase the stop-loss on Next to 6,550p from 6,500p.

## Trading techniques... sell the rebrand

From time to time companies change their names. The move sometimes falls flat. Asset manager Standard Life Aberdeen received so much ridicule after it became "Abrdn" that it complained about "corporate bullying"; the shares have fallen by 50% since April 2021.

Yet name changes aren't uncommon, especially in the US. Nearly a third of firms on the S&P 500 having changed their name at least once. Rebranding in this way can temporarily boost a company's share price by helping it jump on an emerging trend.

A 2001 study by the Purdue University's Krannert School of Management found that during the dotcom era of the late 1990s, companies switching their names to include the term ".com" vastly outperformed the market in the next ten days.

This included firms whose core business was nothing to do with the internet. Ironically, a follow up study found that after the bubble popped, removing .com from a company's name also helped a stock beat the market, at least in the short run. Still, a name change is generally seen as a

sign of weakness or desperation. A 2021 study by the University of Texas at El Paso, St Francis Xavier University and the State University of New York found that between 1987 and 2017, name-change announcements generally produced a small negative reaction in the days following the alteration.

Similarly, a 2007 study by Coventry University and the University of Portsmouth found that British companies changing their name between 1987 and 2002 subsequently lagged the market for periods of up to 36 months.

# Top-quality stocks poised to benefit from long-term global growth



Three professional investors tell us where they'd put their money. This week: fund managers at Alliance Trust highlight three of their favourite companies

Most economists and analysts were wrong-footed by macroeconomic developments in 2023, with many expecting a recession that didn't materialise. This highlights the difficulty of basing an investment strategy on predictions of top-down factors such as GDP growth, interest rates or foreign exchange rates.

It is far better to focus on analysing the fortunes of individual companies. However volatile the macroeconomic environment, it should pay to look to the long-term fundamental strengths of businesses and build diversification into a portfolio through different ideas that pay off at different times.

## Air travel will keep taking off

Andy Headley at Veritas (top picture) highlights European giant Airbus (Paris: AIR), one of two key manufacturers of airframes, operating in a duopoly with US firm Boeing. Air travel remains robust and continues to grow, with an estimated 80% of the global population yet to set foot on a plane. The company's most important product is its short-haul, single-aisle plane – the A320 – which competes with Boeing's version, the 737. This new generation of planes are flying off the shelves on account of 20% greater fuel efficiency when compared with older planes, as airlines seek to reduce their carbon emissions. We believe Airbus' products are currently superior to Boeing's. The group's plan to increase production capacity by 50% should pave the way for strong growth and share-price performance over the medium to long term.

Meanwhile, Jonathan Mills (centre picture) at Metropolis examines Ashtead (LSE: AHT), a large industrial and construction-equipment rental company, operating in the US, Canada and the UK. It buys a wide variety of equipment such as cranes, diggers, floor cleaners and even film-studio equipment, renting it to businesses for industrial and commercial purposes.

For individual firms, rentals usually reduce costs as equipment tends to be fairly specialised and therefore infrequently used, and storage and maintenance is expensive. What's more, if equipment can be shared and more efficiently used, it's friendlier for the environment.



Airbus's planes are currently superior to rival Boeing's

An important part of the business model is that Ashtead is able to use its scale to purchase equipment in bulk at attractive prices and therefore rent it out on good margins. Ashtead is one of two leading companies within this sector, and with around 13% market share, there is plenty of room for growth.

## A revolution in diabetes management

Finally, Sunil Thakor (lower picture) at Sands Capital highlights the medical-device company Dexcom (Nasdaq: DXCM). It is a high-quality growth business and a leader in the field of continuous glucose monitoring. Diabetes affects an estimated one in eleven people around the world and is a potentially deadly disease.

Dexcom is one of the leading manufacturers of continuous glucose monitoring (CGM) devices, which are attached to the skin and track glucose to an app on your phone on an ongoing basis. These devices are revolutionising the management of diabetes, leading to fewer complications, greater longevity, and a higher quality of life. Within this oligopolistic market, Dexcom offers a particularly strong product and associated software, and distributes them effectively through strong marketing and sales. As a result, Dexcom boasts a steadily growing market share, and we believe the company has strong and improving financials.

*“Around 80% of the world's population have yet to set foot on a plane”*



# The billionaire with his eye on Everton

Dan Friedkin acquired his wealth through his family's car and autoparts empire and now has his sights set on rescuing the troubled Merseyside football club. Will fans be happy? Jane Lewis reports

"You might not recognise Dan Friedkin if you bumped into him," observed the *Houston Chronicle* earlier this year. Although the billionaire businessman is "one of the wealthiest people" in the city (*Forbes* puts his worth at \$6.4bn), he keeps a relatively low profile. In Europe, on the other hand, his star is rising and rising – because of his love of the beautiful game. Having bought the Italian club AS Roma in 2020, Friedkin has now emerged as a potential white knight for Britain's troubled Everton FC, says the *Financial Times*. Earlier this month he started talks to buy the heavily indebted club from its current owner, Farhad Moshiri, after another US suitor – the troubled Miami investment group 777 Partners – failed to complete its takeover.

If Friedkin (pictured, on right, with his son, Ryan) wins the club, fans can expect a dash of derring-do. Although his wealth derives from an unglamorous car and autoparts empire, he is also a Hollywood producer and "stunt pilot" with a passion for collecting vintage planes. When the director of *Dunkirk*, Christopher Nolan, was casting around for Spitfires to feature in the film, he discovered that Friedkin owned six of them – and went on to secure his services as the pilot of the aeroplane, ostensibly flown by actor Tom Hardy, that made a dramatic landing on Dunkirk beach. Friedkin later won an award for "best speciality stunt" for the feat.

Born in 1965, Friedkin "comes from a long line of aviator businessmen": his grandfather, Kenny – a former World War



*"Ploughing in £200m to help with the club's finances shows considerable good faith"*

II combat pilot – founded Pacific Southwest Airlines in 1949, establishing it as a pioneer in low-cost air travel. Friedkin's late father, Thomas, himself a stunt pilot, "extended the engineering passion into the world of automobiles", says *The Telegraph*, establishing one of the first Toyota dealerships in America. Gulf States Toyota is still at the heart of the family business empire. But, since taking the reins from his father in 1995, Friedkin has extended its reach into Hollywood as the force behind film studios Imperative Entertainment and Neon. An impressive list of films includes the epic 2023 western *Killers of the Flower Moon*, directed by Martin Scorsese, and the 2019 Oscar-winner *Parasite*. The Friedkin Group also owns a portfolio of golf courses and luxury resorts globally, including a safari company in Tanzania.

Friedkin has combined his "colourful career" with an avowed dislike of the limelight, says *The Telegraph*. But he's far from being a recluse. A father of four, he is described by colleagues as a "private person". He is "very poised", one told the FT. "Not the first to speak, but when he does he's always adding value." What will probably please Everton fans most, if he does buy the club, is that he "brings a similar passion to football as he does to aviation". According to one senior figure in the sport, "he feels every ball that's kicked". Certainly, he has won the respect of the citizens of Rome: not just for improving the financial fortunes of AS Roma, but for the respect he has shown for the club's traditions.

## Cautious optimism in Liverpool

Friedkin's acquisition of Everton isn't a done deal – although ploughing in £200m to help with loan payments and provide working capital shows considerable good faith. There is also the possibility that it could "re-ignite debate" about "multi-club ownership", says the FT, particularly when teams from the same stable are ranged against each other. The counter-argument is that none of Friedkin's teams (he also owns France's fourth-tier side Cannes) are likely to encounter each other in international competition any time soon. The overriding feeling in Liverpool, says long-term Everton fan Patrick Boyland in *The New York Times*, is one of "cautious optimism" after "years of near misses and false dawns". Friedkin represents "a significant upgrade on the baseball-cap crew from Miami".

## Britain's richest plumber launches a new venture

Charlie Mullins' father worked in a toy-car factory. His mother cleaned homes. Today, Mullins (pictured), 71, lives in a £10m London penthouse with a view of the Thames, say Sabah Meddings and Michael Sasso on Bloomberg. He can credit his "dazzling rise to the unlikely intersection of high finance and blue-collar labour".

Mullins left school at 15 with no qualifications and became an apprentice to a plumber. Over four decades, he built a successful firm, Pimlico Plumbers, that sought to



improve the industry's reputation for poor service. Smartly dressed workers in clean vans would turn up promptly, for a premium price. In the year ending May 2021, Pimlico reported £49.2m in revenue, distributing

£3.2m to Mullins in dividends. He sold out at the end of 2021 to Wall Street giant KKR for £140m.

Mullins now says he regrets selling. Sales have declined since the acquisition, a son and grandson have quit in frustration, and Mullins says he hears complaints about service from customers who assume

he's still in charge. The American buyers lack the personal touch associated with smaller, British companies, he says, and so he is now planning to go "head to head with his former empire" by setting up a new company, says Lucy Burton in *The Telegraph*.

WeFix will be trading when a non-compete clause agreed with Pimlico's new owners ends this September. A fleet of distinctive vans is ready to be rolled out, and the plan is for the venture to repeat Mullins' initial success and become the "Harrods of the handyman world". Mullins, who has become a celebrity thanks to his rock-star looks and conservative commentary for

the media, affirms there will be no "working from home" at We Fix. At Pimlico, he forbade workers to use their smartphones, and is known for his no-nonsense approach. Workers at WeFix will, however, get a share of the profits after a year's service.

While most rich founders mumble about making a difference, Mullins is straightforward about what gets him out of bed in the morning, says Lucy Tobin on *This Is Money*. "Money motivates me," he says. "Become an apprentice plumber, and you'll never run out of work, and you'll earn loads of money." It's a strategy that's worked, and he's sticking with it.

# Amazing Amsterdam

Five fabulous hotels in the city

## The grande dame of Amsterdam

The Hotel De L'Europe is Amsterdam's oldest independent luxury hotel, says James Fisher in *Country Life*. Its 19th-century, red-brick building sits beside the River Amstel in the heart of the city and the interior has recently "emerged from the chrysalis of old-fashioned elegance to become something newer, something chicer, something more current". The redesign has walked a fine line of updating while at the same time conserving the best bits of this grande dame. "The suites... are a tasteful mix of soft and neutral colour styles, mixed with contemporary style where appropriate," while the "delightful



The Hotel De L'Europe: one of Amsterdam's earliest independent luxury hotels

Old Masters in the lobby have been "paired with a modern sense of design and style."

As for the three restaurants, they are "something sublime". There is an authentic

Italian trattoria, a Parisian-style brasserie and, the jewel in the crown, Restaurant Flore, with its two Michelin stars. The food is "delicious". From €799, [deleurope.com](http://deleurope.com)

## Another side to the city

Hip London hotel brand The Hoxton has pitched up in the redeveloped Eastern Docklands – "think Amsterdam's answer to London's Royal Docks", says James Manning for *Time Out*. However, The Hoxton, Lloyd stands in "stark contrast" to the brand's other offering in the city, The Hoxton, Amsterdam. Here, "a calmer vibe prevails". Instead of canals, there are vast former docks and the building that today houses the Lloyd hotel was built in the 1920s for a shipping company – the name references the Lloyd's maritime insurance market in London. The hotel is "light, breezy and uncrowded, with lovely Art Deco tiling, high ceilings and a sprawling, south-facing terrace". You can tell that "a lot of love" went into the renovation by the "playful, 'accidentally on purpose' Wes Anderson details such as an abundance of quirky retro signage". "Like other Hoxton hotels... the rooms here are comfy, hip and slick" and the food is a big draw here too. From around €229, [thehoxtton.com](http://thehoxtton.com)

## A grand setting in the east

Breitner House is situated in "a quiet area" of Amsterdam East, overlooking Oosterpark, says Rodney Bolt in *The Telegraph*. The building was home to George Breitner, one of the leading Dutch artists of the 19th century, and it is filled with "museum-quality antique furniture, sumptuous fabrics, a mosaic of fine artwork, stuccoed ceilings dripping with crystal chandeliers and forests of fresh flowers". It's enough to make you feel as though you were on a film set. But the current owner, Camilla Braaksma, "brings a genuine warmth of welcome and creates a relaxed domestic atmosphere (albeit a grand one)". The suites are "sumptuously decorated" and the rooms are large compared with anywhere else in town. A prosecco breakfast is served every morning in the period dining room, with views over the park. "Presented among banks of flowers and fresh fruit... [it looks] for all the world like a Dutch 17th-century still life". From €645, [breitnerhouse.com](http://breitnerhouse.com)



## Grandeur on Dam Square

The Anantara Grand Hotel Krasnapolsky Amsterdam occupies one of the best spots in the city, on Dam Square, by the river, says Benjamin Parker in *The Independent*. Its origins lie in a small coffee house opened in 1856 by Adolph Wilhelm Krasnapolsky, who was a tailor by trade. "A traditional façade instantly gives way to a sleek, contemporary design on entry, blending Scandi furnishings with modern, circular lighting that bounces off polished surfaces." Over the years, the hotel has grown and today it is spread out over 55 canal houses. The 402 bedrooms have been decorated in "warm, natural hues" and all are a decent size for the city. Dining is an all-singing gastronomic experience – The White Room has been awarded one Michelin star. Breakfast is served in The Wintergarden – a lofty, 19th-century conservatory-style space with a "wonderful chequered floor and creeping greenery". Be sure to visit the spa as this is an Anantara after all. From £353, [anantara.com](http://anantara.com)

## Affordable digs in the west

The July Boat & Co hotel is "an affordable stay outside of the tourist traps of central Amsterdam", says Abigail Malbon for *Condé Nast Traveller*. You are still close enough to the action, however, to "experience everything the city has to offer" and bicycles can be rented to make getting around Amsterdam easier. The waterside neighbourhood of Houthaven offers "an impressive mix of old-meets-new architecture – think warehouse buildings alongside modern blocks". Nearby Westerpark (pictured) is a "wonderful place to stroll". Apartment hotels, such as Boat & Co, are not new, but the kitchenettes and larger living spaces are convenient, especially for longer stays. The decor is "colourful, with a warm palette of ochre, teal and salmon [and the] furniture is vintage and upholstered". That said, Vessel,

the hotel's restaurant, is "the real selling point", serving a "simple evening menu" with "plenty of crowd-pleasers". Boat & Co also has a spa and gym. From £110, [thejuly.com](http://thejuly.com)



This week: houses with tennis courts – from a William and Mary manor in Westbury, Wiltshire, to a hou



▲ **Glenead, Marlow, Buckinghamshire.** A Georgian revival villa in landscaped gardens that include an all-weather tennis court and tennis pavilion, and river frontage with a mooring on the River Thames. It has open fireplaces and a kitchen with handmade cabinetry. 6 beds, 6 baths, 3 receps, study, gym, 1 acre. £7m Hamptons 01628-878289.

▲ **Manor Farm, Saxtead Green, Woodbridge, Suffolk.** A Grade II-listed timber-framed converted barn with a 1-bed cottage, a range of outbuildings, and an all-weather tennis court. It has vaulted ceilings, wood-burning stoves and a kitchen with an Aga. 5 beds, 3 baths, dressing room, 3 receps, 7.5 acres. £1.75m Jackson-Stops 01473-218218.



▲ **Saxes Plat, Tismans Common, Rudgwick, Horsham, West Sussex.** An Arts & Crafts house built in the early 1900s with more recent additions, including a bespoke kitchen with an Aga and French doors leading onto a terrace. The gardens include a tennis court with a clubhouse that has a verandah, kitchen, bar and shower room. 7 beds, 6 beds, 2 receps, conservatory, workshop, stables, 2.3 acres. £3.5m Knight Frank 01483-617919.



use designed by Edwin Lutyens in Repton, Derbyshire, with a caged all-weather tennis court



◀ **Fingals, Dittisham, Dartmouth, Devon.** A Grade II-listed farmhouse in a valley less than a mile from the River Dart. The house comes with four self-catering properties set in landscaped gardens that include a lawn tennis court. The house has a panelled dining room, ornate fireplaces and a heated indoor swimming pool. 6 beds, 7 baths, 2 receps, breakfast kitchen, commercial kitchen, 1-bed annexe, 2 x 1-bed cottage, 2 x 2-bed cottages, 1 acre. £2m Knight Frank 01392-423111.

◀ **Thornbrough House, Corbridge, Northumberland.** A Grade II-listed 19th-century former farmhouse in the Tyne Valley with formal gardens that include a tennis court. It has beamed ceilings, fireplaces with wood-burning stoves and two large kitchens. 8 beds, 7 baths, 2 receps, 2 kitchens, study, outbuilding with stable and stores, garage, brick field shelter, 6.1 acres. £2m Finest Properties 01434-62234.



▲ **Chalcot House, Dilton Marsh, Westbury, Wiltshire.** A Grade II-listed William and Mary manor house in a private parkland setting that includes a walled garden, an enclosed tennis court, a swimming pool with a pool house, and the third-largest Turner's Oak in the country. The house has open fireplaces and a grand entrance hall. 11 beds, 8 baths, 2 receps, library, 2-bed cottage, 52.9 acres. £8m Strutt & Parker 01722-638305.



◀ **Easton House, Repton, Derbyshire.** A country house designed by Edwin Lutyens in 1907, set in formal gardens that include a separate Grade II-listed converted engine house and a caged all-weather tennis court. It has leaded-light windows, wood floors, open fireplaces and a bespoke breakfast kitchen with an Aga. 6 beds, 4 baths, 3 receps, study, breakfast room, office, gym, stables, outbuildings, 4.63 acres. £3.5m. Fisher German 01530-410840.

▶ **Canfield Road, Bishop's Stortford, Hertfordshire.** A Grade II-listed 15th-century manor house set in landscaped gardens that include topiary hedges, a heated swimming pool and a tennis court. It has exposed wall and ceiling timbers, flagstone floors and a dual-aspect reception room. 6 beds, 3 baths, 3 receps, breakfast kitchen, office, studio, attic room, pool room with kitchen area and shower room, equestrian facilities, grounds, paddocks, 5.6 acres. £2.695m Savills 07890-417295.



# The comeback king

There's more to this new McLaren Artura Spider than the convertible roof

Don't be distracted by the new convertible roof on McLaren's latest Artura Spider, says James Dennison in Car magazine. There is "so much more going on under the skin". For the British carmaker, the new Artura is a second chance to put right a number of issues. "That's not to say [the original car] was bad – far from it – but after a turbulent conception and launch to market, many felt there was more to come from McLaren's plug-in hybrid supercar." That means "almost no part of the Artura was safe from revision".

The Artura's peak power has gone up 20bhp to create a total of 690bhp derived from the combined efforts of the V6 and its hybrid module, says Jordan Katsianis in Auto Express. McLaren has optimised its bespoke twin-turbocharged 120-degree, three-litre engine from the ground up in order to integrate it with a hybrid system. Torque remains the same at 720Nm, with 585Nm of that coming directly from the engine, "and the whole shebang has been re-tuned to deliver a more linear rush

towards the red line". The exhaust system is also new, with a resonator "to let more noise into the cabin, and the gearbox has been tweaked with 25% faster shifts". The Spider hits 62mph in three seconds, "topping out" at 205mph. As for the chassis, there are new engine mounts, the suspension has been updated, along with new dampers and the brake cooling has been improved.

## A new lease on life

"The result is transformative, specifically of how it steers rather than how it rides and manages its body control, which remains at the same high McLaren standard," says Stuart Gallagher in Evo. "The compliant nature in how it breathes with the surfaces remains at odds with what your eyes are telling you should be happening beneath you." Yet it's the Artura's "new-found calmness" that is most striking. It is "still sharp and crisp in its responses, clear and



concise in its feedback, confidence-inspiring and rich in detail and feel when you start to eat away at a corner's radius". Losing the roof has made it 62kg heavier, but there has been "no dynamic pay-off". On the contrary, opening the top "showcases [the] motorsport DNA at every opportunity, delivering a supercar experience regardless of your speed".

"The McLaren Artura Spider is one cleverly packaged car, all told," says Jason Barlow for Top Gear. It has somehow gained "the character it was missing, while chasing out the gremlins that blighted its early days".

From £221,500,  
[cars.mclaren.com](http://cars.mclaren.com)



*"Opening the top showcases the motorsport DNA at every opportunity"*

## Wine of the week: a sensual Spanish white

2022 Gallina de Piel, ikigall, Penedès, Spain



**Matthew Jukes**  
Wine columnist

£17.35, [nywines.co.uk](http://nywines.co.uk);  
£17.50, [vinogusto.co.uk](http://vinogusto.co.uk),  
[latitudewine.co.uk](http://latitudewine.co.uk)

Some wines require you to work hard to unlock their mysteries. I love the challenge of working to find the combination, like a safe cracker on every sip. But these wines are technical creations, not always built for pleasure, but assembled to provoke comments, and they are usually unconcerned if the thumb goes up or down from the drinker, preferring to have been the subject of debate and



often frustration. Others solely concentrate on the art of offering pure and simple hedonism, welcoming the taster eagerly, rewarding the palate with gentle caresses of ripe, carefree, melodious fruit, and you find yourself metaphorically humming along within moments. Winemaker David Seijas left his job as one of the world's most lauded sommeliers years ago. Yet his knack for recognising and creating hit flavours that appeal to all comers without missing a beat is incredible.

Ikigall is an 85% xarel-lo, 10% malvasia de Sitges and 5% muscat of Alexandria,

organic white, and it offers a flavour like no other. Instantly appealing, sensual and lip-smackingly bright, this is not a loud wine but a heavenly, discreet and unusually complex creation with cascading white peach and green apple-skin notes that tease and tremble on the palate. When you fall for this wine, move on to 2021 Manar dos Seixas Galician Roots (£24.95, [nywines.co.uk](http://nywines.co.uk)), an 85% treixadura, 5% godello, 5% albariño and 1% loureiro blend.

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

## Bridge by Andrew Robson

### Finesse and Fin

Dealer West

North-South vulnerable

♠ –  
♥ A832  
♦ Q1096  
♣ AKQJ7

♠ AQJ1042  
♥ Q10  
♦ K3  
♣ 852

♠ K8  
♥ K96  
♦ AJ42  
♣ 10943

N  
 W  E  
 S

#### The bidding

South	West	North	East
	1♠	Db1	4♣*
Db1**	pass	5NT***	pass
6♣	pass	pass	pass

- \* Trading on the favourable vulnerability.
- \*\* "Cards", ie. optional.
- \*\*\* Pick a slam.

West tried a hopeful Ace of Spades, declarer ruffing. With a third-round Heart to lose, it appeared that declarer needed a successful Diamond finesse. But how likely was East to have the King of Diamonds – West would barely have an opening bid without it?

Declarer drew Trumps in three rounds, then advanced the Queen of Diamonds. However, he did not run it when East played low, instead rising with the Ace. One (small) hope was that the King would fall singleton (this did not materialise). However, declarer had another string to his bow – can you see what it is?

Declarer cashed the King of Spades throwing a Heart, then followed with the Ace-King of Hearts. Now he exited with a second Diamond. West won his bare King but, with his Hearts stripped, was forced to lead a Spade and give ruff-and-discard. Declarer ruffed in one hand and threw the Heart loser from the other. Twelve tricks and slam made.

Notice that running the Queen of Diamonds at trick three would have led to down one – also unavoidably losing to East's third-round Knave of Hearts late on. Also, notice that East-West have a good save in Six Spades (doubled) – only three down. That's less than the value of the opposing game, let alone slam.

For Andrew's four daily BridgeCasts, go to [andrewrobsonbridgecast.com](http://andrewrobsonbridgecast.com)

## Sudoku 1214

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

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

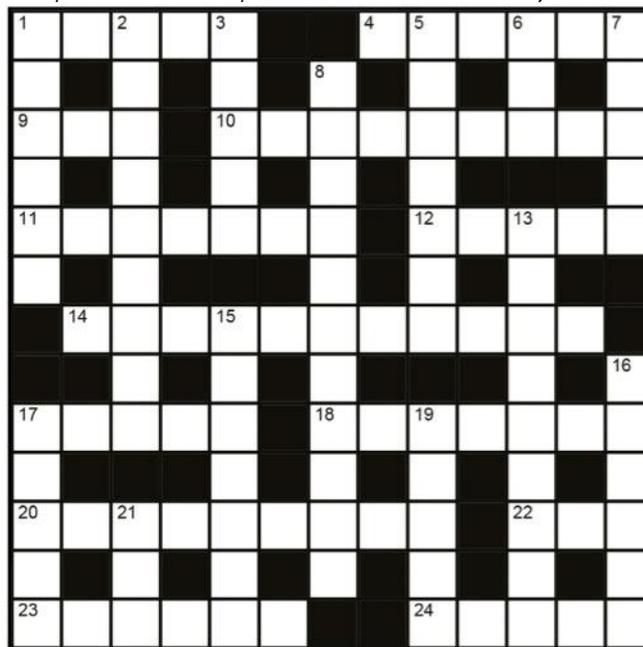
6	8	9	2	1	5	4	7	3
7	1	3	9	8	4	5	6	2
5	4	2	7	6	3	9	1	8
8	9	6	1	5	2	3	4	7
1	5	4	3	7	8	6	2	9
2	3	7	6	4	9	8	5	1
9	7	5	8	2	6	1	3	4
4	2	8	5	3	1	7	9	6
3	6	1	4	9	7	2	8	5

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[moneyweek.com](http://moneyweek.com)

## Tim Moorey's Quick Crossword No.1214

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 8 July 2024. By post: send to MoneyWeek's Quick Crossword No.1214, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: [crossword@moneyweek.com](mailto:crossword@moneyweek.com) with MoneyWeek Crossword No.1214 in the subject field.



Across clues are cryptic whereas down clues are straightforward

#### ACROSS

- 1 Character of sweet hostess (5)
- 4 Nice headgear? (6)
- 9 Bit of sunshine for fish (3)
- 10 New potholer lost makes a point (5,4)
- 11 Indian state girl's come a cropper (2,5)
- 12 China behind north-eastern country (5)
- 14 Part of the Tube (appropriately placed here) (7,4)
- 17 Ox a Cockney may use for cooking? (5)
- 18 Tasmania lacking a renewable energy (7)
- 20 EU final working with New Zealand gets contagious disease (9)
- 22 Head, a crazy person! (3)
- 23 Royal Navy in one part of vessel, the important part (6)
- 24 With passing of time, US war aim is a mistake (5)

#### DOWN

- 1 Cause anger (6)
- 2 Farm workers (9)
- 3 One of Islam's main branches (5)
- 5 Technical name for alcohol (7)
- 6 Self-image (3)
- 7 Multinational oil group (5)
- 13 Retiree (9)
- 15 Shaving of the head (7)
- 16 Exchange of teasing remarks (6)
- 17 Building block (5)
- 19 Knowing (5)
- 21 Evergreen tree (3)

Name .....

Address .....

email .....

#### Solutions to 1212

**Across** 1 Genesis two definitions 5 Latin sex in Latin = six 8 Ballerina anag 9 Nag two definitions 10 Sushi hidden 12 Element cryptic def 13 Anaesthetised anag 15 Stoical anag less v 17 Adept a dept 19 Rye two defs 20 Aristotle anag 22 Drake Francis D 23 Garland two definitions  
**Down** 1 Gibbs 2 Nil 3 Species 4 Spine-chilling 5 Lease 6 Tennessee 7 Negated 11 Soap opera 13 Assured 14 Traitor 16 Crane 18 Trend 21 Tea.

The winner of MoneyWeek Quick Crossword No.1212 is: Mr John Hancock of Norwich

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

Taylor's is one of the oldest of the founding Port houses, family run and entirely dedicated to the production of the highest quality ports. Late Bottled Vintage is matured in wood for four to six years. The ageing process produces a high-quality, immediately drinkable wine with a long, elegant finish; ruby red in colour, with a hint of morello cherries on the nose, and cassis, plums and blackberry to taste. Try it with full-flavoured cheeses or desserts made with chocolate.



# The hegemon slips

Biden and Trump are the perfect candidates for a nation in decline



No one can remain Top Gun for ever



**Bill Bonner**  
Columnist

America stands like a colossus on an increasingly slippery world. Earlier this month, more grease was added. The US's landmark pact with Saudi Arabia expired. It was the deal made in the 1970s by Wall Street bond dealer extraordinaire, William Simon. In essence, it solved two problems at once – one for the US, the other for the Saudis.

The US needed to export dollars. The Saudis needed to export oil. The agreement said that, henceforth, if you wanted Saudi oil, you'd have to pay in dollars. Then, the Saudis could exchange them for US Treasury bonds. The US would also provide "security" for the Saudi government. Presto! A "foreign entanglement" of the sort the founding fathers warned against.

The deal was kept secret. The Saudis did not want the rest of the Arab world to know how closely they were working with Israel's ally, the US. Even today, the "fact checkers" say that all this is "fake news" – that nothing formal ever existed that mandated the Saudis would sell oil only in dollars.

Formal or informal, the actual terms of the relationship have been away from the public eye for more than 40 years. But

that the deal expired on 9 June is a sign of the continuing decline of the West, which began around the end of the 1990s. In 1999, you could have sold the 30 stocks in the Dow index and got enough money to buy 41 ounces of gold. Today, you'll get only 17 ounces. In other words, the real value (measured in gold) of America's leading businesses has been more than cut in half. That's a sign of decline. Not definitive, but suggestive.

In 1999, the US and its allies were on top of the world. The US was the richest country in the world, the most admired, with the best technology and

*"The end of the deal with Saudi is another sign of US decline"*

coolest culture. It had a balanced budget. And except for bombing the hell out of Serbia, it was more or less at peace. The Soviet Union had recently given up, leaving the West without a rival.

It was at that unlikely moment that the US lost its footing. Elite firepower lobbyists took control of Congress. Balanced budgets and peace were soon things of the past. In 1999, the US owed \$5.6trn. A lot of money, but still manageable. Now it owes \$35trn. Much of this debt cannot be repaid. Instead, it and the fictitious wealth it

represents will disappear as the credit cycle runs its course.

Once astride the world, a hegemon must find the hapless, hopeless leaders who will help it slide off. The US has found them. Neither Joe Biden nor Donald Trump will cut spending. Neither will withdraw from the role of global Alpha Nation. Neither wants to restrain the firepower industry or break the war-mongers' grip on Congress.

How significant the end of the Saudi deal will be, in the near term, we don't know. As a practical matter, the world's oil markets function in dollars. Both buyers and sellers have dollars and know that dollars are easily converted to any other asset they want. But the slippage is under way.

The popular image of the US abroad has also been in decline over the past year, according to a new poll of opinion in 34 countries by the Pew Research Center. International confidence in US democracy has fallen too. When you've got the gun in your hand, you don't necessarily care what others think of you. But if the Top Gun, butt-kicking nation could remain in charge forever, we'd now be part of the Roman empire, not the US empire.

For more from Bill, sign up to his Substack newsletter at [bonnerprivateresearch.com](https://bonnerprivateresearch.com)

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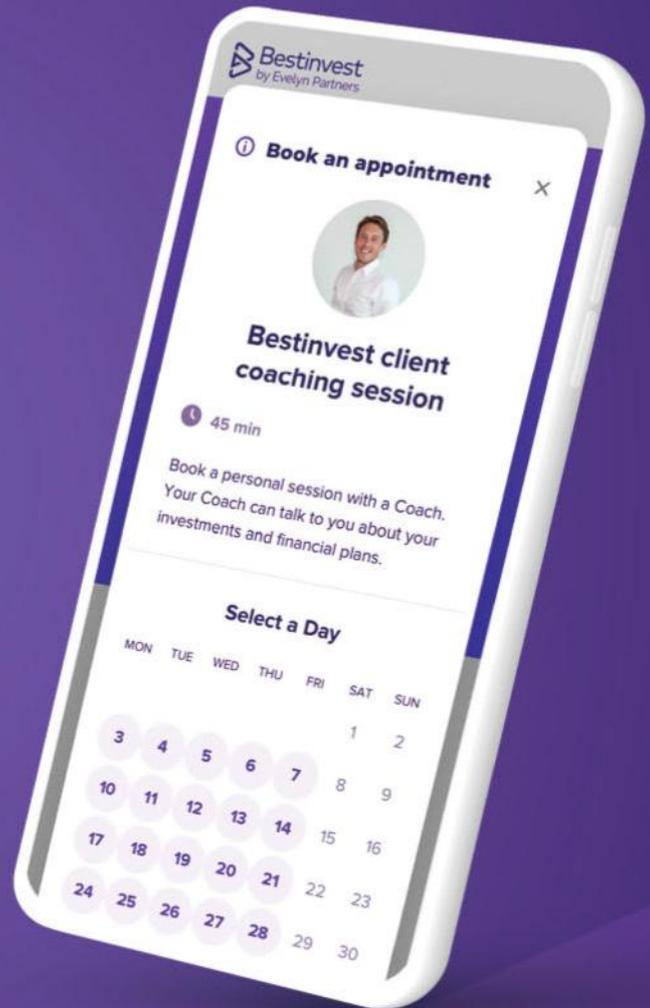
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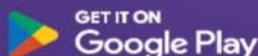
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