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5 JULY 2024 | ISSUE 1215

Broken Britain

Can Labour fix it?
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From the editor...



There is always someone worse off than you. After almost a decade of shunning our stockmarket and making fun of our politics, global investors seem to have decided that we are a comparative safe haven.

Equities have hit a record high, with merger-and-acquisition activity rebounding strongly; the pound has risen to a two-year peak against the euro and looks set to reach a pre-referendum high of 80p against the single currency, according to Barclays. Hedging against weakness in sterling has dwindled to a seven-year low.

The political backdrop looks appealing compared with other big economies. Investors have been pricing in a centrist Labour government with a large majority that is not beholden to its left wing, presaging a period of stability, at least.

Britain is a safe haven

Across the Channel, meanwhile, the centre has collapsed, squeezed between economically illiterate far left and far right blocs, and the crisis will rattle Brussels, too (see page 12). In the US, it looks as though voters will be given the choice between someone gaga and someone semi-gaga and sociopathic (see page 8). Here, the choice, as so often, has been between the "evil of two lessers", but they aren't that bad.

It is also interesting to note that the outlook here has improved in absolute, not



Labour has made housebuilding a priority

"A key problem is that decades of overactive government have undermined capitalism"

just relative terms. Business investment, which stalled amid the uncertainty following the Brexit vote, has ticked up. Consumer confidence is at its highest level since late 2021, thanks partly to real wage increases and, for 1.5 million households, the prospect of lower mortgage costs when their two-year fixes come up for renewal later in 2024, according to the Bank of England's latest Financial Stability report. A likely reduction in interest rates later this year also augurs well for mortgage costs.

The cyclical upswing, while helpful, takes place against the backdrop of pressing structural problems, however. The new government faces a towering in-tray. The economy has stagnated for years as productivity growth, the key to higher-living standards, has ground to a halt. In our cover story this week, independent economist Julian Jessop takes a close look

at the state of the economy and gauges whether Labour can fix it. It bodes well, at least, that the party has made housebuilding a priority, but there are also grounds for caution.

These are mostly to do with Labour's intention to seek a more active role for government. But the British state is already extremely active, as Stuart points out on page 18. It has bloated considerably since the pandemic, and will keep expanding. By 2028-2029 government spending as a percentage of GDP will reach 42.5% of national income.

Time for some anti-obesity drugs, you would think, but the trend is in the opposite direction. The parties' manifestos proposed hundreds of policies that would increase the regulatory burden. There is also an interesting broader discussion to be had on how decades of overactive government have undermined capitalism, as Stuart explains.

None of this, however, has been discussed in the past few weeks. It may not be in the news until we have remained stuck in the mud for several more years, a scenario that looks all too plausible given the overall likely impact of Labour's plans. Many observers are hailing a change of direction like the one seen in 1979, but this feels more like 1974.

Andrew Van Sickle
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Buffett's billions

Warren Buffett (pictured), the 93-year-old co-founder and boss of conglomerate Berkshire Hathaway, has put an end to the long-running speculation of what will happen to his fortune after his death, says Karen Langley in *The Wall Street Journal*. Buffett, who has already given away more than half his shares in Berkshire during his lifetime, retains around \$130bn in stock. He will leave almost all that remains to a new charitable trust overseen by his three children and it will be up to them to decide unanimously how the money is spent. "I like to think I can think outside the box, but I'm not sure if I can think outside the box when it's six feet below the surface and do a better job than three people who are on the surface who I trust completely," Buffett tells the paper. The "Sage of Omaha" has been a long-standing supporter of the Bill & Melinda Gates Foundation since 2006, donating roughly \$43bn to the charity over the years.



Good week for:

Broadcaster **Gary Lineker** has earned more than £125,000 from his podcast *The Rest is Football* since England's first Euro 2024 match against Serbia, says *The Times*. Downloads for the football pundit's show, also featuring Alan Shearer and Micah Richards, increased by 62% and views on YouTube by 83% after Lineker aired his scathing criticism of England's poor form at the tournament. Revenue is shared equally between Lineker, Shearer and Richards, with a quarter going to production company Goalhanger Podcasts, which Lineker jointly owns.

Ella Purnell (pictured), star of Amazon Prime's \$153m hit drama *Fallout*, is the latest British actor to score a success in US television. The series, set in a post-apocalyptic Los Angeles, is the most streamed original series of the year, according to Digital i, an analytics firm. Other recent British successes include Olivia Cooke in *House of the Dragon* and Bella Ramsey in *The Last of Us*, while Aimee Lou Wood will appear in the third season of *The White Lotus*.

Bad week for:

Online ticket outlet AXS slashed ticket prices for the reunion tour of British pop group **Girls Aloud** by at least half due to poor ticket sales, says *The Sun*. Some fans complained of having paid up to £200 a ticket when some of the more expensive seats were later selling for £58.85 each. The band concluded its *The Girls Aloud Show* tour of 30 dates this week.

The holding company of hedge fund manager **Crispin Odey** has recorded a £37.1m "goodwill impairment" due to the winding down of Odey Asset Management, the investment firm he led for three decades, says *Bloomberg*. Last year, the *Financial Times* reported on fresh allegations of sexual assault made against him, prompting Odey to sue for defamation.



Keep buying into the commodities boom



Alex Rankine
Markets editor

“Global growth is tepid, but commodity prices remain high,” say Carlos Arteta, Philip Kenworthy and Ayhan Kose in a World Bank blog. Energy, food and base metals prices are predicted to stay close to 40% above 2015-2019 levels over the coming year. Why? For one thing, oil supplies are tight. As of late June, members of the Opec+ cartel were holding back more than six million barrels of oil a day—nearly 7% of global demand. Secondly, geopolitical shocks are multiplying—much of the current commodity tension dates from the destabilisation of energy and grain markets caused by Russia’s 2022 invasion of Ukraine.

Thirdly, despite trouble in the local property market, demand from China—the world’s largest consumer of metals and energy—has been stronger than expected. Infrastructure investment and expanding factory capacity in electronics and electric vehicles have buoyed the Middle Kingdom’s appetite for raw materials. Finally, climate change is proving inflationary, both through disrupted harvests—most recently of cocoa and coffee crops—and because of demand for metals for the energy transition.

The everything rally unwinds

After surging in 2022, last year was a more tepid one for commodity prices. The S&P GSCI index, which tracks 24 major raw materials, ended 2023 down 12%, but the index has climbed back more than 10% in the first half of 2024. Copper, the key energy-transition metal, is up 14.5% this year, while gold has gained 13% in dollar terms. Brent crude oil is up 11%, although it has slipped back since a peak in early



The energy transition is hungry for metals

April. Metals have had an excellent run this year, with gold and copper making new records and silver hitting levels not seen in 13 years, says Ole Hansen of Saxo Bank. The case for holding precious metals remains solid as US rate cuts come into view. “Energy and grains” could make the running as we enter the third quarter and industrial-metals markets “take a breather” and “consolidate” around their new higher levels. The long-term outlook for copper is encouraging, but another price jump looks “unlikely to emerge in earnest before 2025” when new supply begins to dry up.

The “everything rally” in industrial metals such as copper, aluminium and zinc “will continue to unwind” in the second half of 2024, agree Capital Economics analysts in a note. The market is currently

focused on rising demand for green technology, but while that will keep metals prices elevated, it will “not completely offset the drag... from the slowdown in China’s property sector”. Traders may be surprised as a sharp drop off in Chinese construction activity emerges as “the dominant driver” of industrial metals prices later this year.

There is still good reason to hold commodities, say Goldman Sachs’ analysts. Over the past 50 years a 1% rise in US inflation has, on average, led to a real (inflation adjusted) return of seven percentage points from commodities. Energy has been the most robust inflation hedge, as prices rise during supply and demand shocks. Gold is particularly useful in scenarios where central banks lose credibility or geopolitical risk rises.

Why share buybacks are on the rise

Global dividend payouts hit a first-quarter record of \$339.2bn in the first three months of the year, according to the Janus Henderson Global Dividend index. UK dividend growth, however, was “relatively pedestrian”, says Andrew Jones of Janus Henderson. Dividends rose 2.4% on an underlying basis to \$15.3bn. Ordinary (ie, not special, one-off payments) dividends are forecast to come in at £79.7bn this year, still 6.5% below the all-time high of £85.2bn paid out in 2018, says Russ Mould of AJ Bell. Brexit, the pandemic and surging inflation have all taken their toll on UK plc.

Instead, buybacks are growing in popularity. The FTSE 100’s forecast ordinary dividend yield is 3.8% this



Brexit, Covid and inflation have taken their toll on UK plc

year, but that rises to 5.3% when you factor in buybacks already announced. Buybacks are more flexible for boardrooms than dividends, notes James Gard for Morningstar. As Paul Schultz of the University of Notre Dame

puts it, a dividend reflects “a company’s capital discipline, its respect for small investors, and its prudence”. But many British blue chips slashed payouts during Covid—there was a 44% drop in 2020 compared with 2019. While

understandable, trust in promises, once broken, can be difficult to restore.

“Share buybacks are more prevalent in the UK than we’ve ever seen before,” Nick Shenton of Artemis Income tells Hargreaves Lansdown. Since the start of 2021, BP has reduced its share count by 17%; Barclays is down 14%. A common argument for buybacks is that the shares are undervalued. True, “asking a company’s CEO whether their shares are undervalued is akin to enquiring of your local car dealer whether it’s time for an upgrade—you shouldn’t expect an unbiased opinion”. But with British shares trading at historically low levels, this time “we are inclined to agree with the CEO”.

Signs of life in UK housing

The UK housing market is “stabilising” following last year’s dip, says Reed Landberg on Bloomberg. Building society Nationwide reports that house prices rose 1.5% in the year to June, and ticked up 0.2% between May and June. Interest rates are still at a 16-year high, with the result that transactions involving a mortgage have fallen nearly a quarter on pre-Covid levels, while there’s been a 5% increase in those involving cash buyers. The total number of housing transactions is running at 15% below 2019 levels.

Elevated mortgage rates have put a dampener on transaction activity, says Helen Crane for This is Money. The average five-year fixed mortgage rate for someone buying with a 20% deposit is now 5.09% – compared with 2.24% back in 2019. The typical UK house is now worth £266,064, up £3,825 on a year ago. However, prices are still 3% short of their all-time high in the summer of 2022. Recent price rises have been stronger in the north and the midlands – up 2.4% on a year ago – than in the already expensive south, where prices have fallen marginally.

Average pay growth has been robust of late, says Robert Gardner of Nationwide, but rising mortgage costs have eaten into it. “Today, a borrower earning the average UK income buying a typical first-time buyer property with a 20% deposit would have a monthly mortgage payment equivalent to 37% of take-home pay – well above the long run average of 30%.”

The return of the carry trade

“The Japanese government no longer knows what to do,” says Yann Rousseau in Les Echos. Tokyo has promised a “firm fight” against yen volatility, but the currency continues its “inexorable slide”, recently hitting its lowest level against the US dollar since 1986. This spring the country’s finance ministry spent ¥9,800bn (£48bn) on currency-market intervention to prop up the yen. That sparked a brief rally, but the “respite” lasted only “a few days” – then it plunged again.

The yen has dropped 12% against the dollar this year, says Mary McDougall in the Financial Times. In March Japan ended eight years of negative interest rates, but rates are still barely above zero. The central bank has been “cautious” about the prospect of further rises, even as the US central bank, the Federal Reserve, holds rates high.

The resulting US-Japan yield gap has powered a re-emergence of the “carry trade”, says Anna Hirtenstein in The Wall Street Journal. The trade sees investors borrow in yen at low interest rates and then park the cash in higher-yielding currencies for an easy profit. The carry trade is driving renewed selling in the yen. Data from the Commodity Futures Trading Commission shows that “asset managers have amassed the biggest net short position, or bet against, the yen in at least 18 years”.



Kazuo Ueda has kept the printing presses running

Good for stocks?

A weak yen is traditionally regarded as a boon for Japanese stocks, says Jacky Wong in the same paper. More than half of the firms on Japan’s Topix index are exporters, and thus benefit from a weak currency. The likes of Toyota and Honda are enjoying “record profits” on the back of the yen’s slide.

However, there are two drawbacks to a weak yen, say Winnie Hsu and Masaki Kondo on Bloomberg. Firstly, the currency’s “relentless slide” increases import costs. That makes Japanese households poorer, weakening the domestic economy and harming local retail stocks.

Secondly, a weaker yen erodes the returns of foreign investors. The local Topix index has gained 20% this year in yen terms, but only about

7% in sterling terms. The yen’s “slump” is starting to prove more harmful than helpful to Japanese shares. Foreign investors have been net sellers of Japanese shares for five weeks in a row.

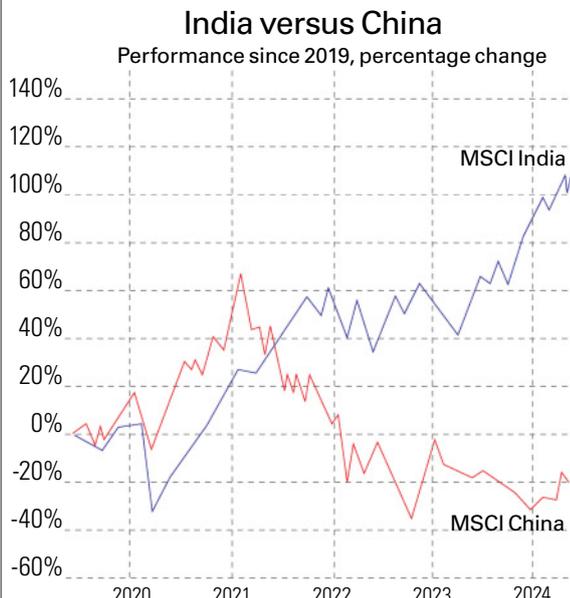
Much blame lies at the door of the Bank of Japan, says Russ Mould of AJ Bell. Under governor Kazuo Ueda the bank has “managed one meagre interest-rate increase”, and it is still printing money as part of a quantitative-easing programme. The yen has slumped 62% against gold since the start of last year, vindicating “gold bugs” who have flagged Japan’s bad public finances, “weak demographics” and self-defeating central bankers. We should watch closely – Japan is far from the only developed country to have got itself into this dangerous predicament.

Viewpoint

“Since the start of 2009, the US S&P 500 has seen returns of 14.5% per year. Trees don’t grow to the sky. Above-average returns are followed by below-average returns, and vice versa. That’s how averages work. Mean reversion will rear its ugly head eventually. Look back at the historical... record of the US stockmarket: there are clear cycles of above-average and below-average performance. The hard part about investing is that no one really knows what the difference between a cyclical and secular bull market is in real time. Investors thought we were going into a depression when the 1987 Black Monday crash hit. No one could have known the bull market still had another dozen years or so to run at that time. It’s much easier to define secular markets after the fact than it is in the moment. Returns will slow at some point. I just don’t know when and I don’t know why, which is why I diversify.”

Ben Carlson, *A Wealth of Common Sense*

■ Tiger leaves dragon in the dust



India is one of the few countries to have outperformed the US’s all-conquering stockmarket, says Jacky Wong in The Wall Street Journal. The MSCI India index is up more than 110% since late 2019, beating the Nasdaq’s 99% climb. India’s spurt comes even as stocks in a neighbouring Asian giant hit the skids – the MSCI China has dropped about a fifth over the past five years in dollar terms. Strong Indian growth is driving a corporate earnings boom, with net profit for listed Indian companies rising 17% year over year for the quarter ended in March. Indian stocks now command a 60% premium to other markets in the Asia-Pacific (excluding Japan) region. India deserves a premium rating, but “higher multiples... are prone to overshoot” during a rally.

BP's paler shade of green

The oil giant has retreated further from its target to cut oil output. Where does that leave the sector's net-zero credentials? Matthew Partridge reports

BP's CEO Murray Auchincloss says the group has stopped bidding on new offshore wind projects in order to simplify operations and reduce costs, says Emma Powell in *The Times*. At the same time, BP will spend more on new oil and gas assets, particularly in the Gulf of Mexico and the US Permian basin, where it already has a large presence. The moves hint at a further retreat from the "pivot towards greener forms of energy" embarked upon by former CEO Bernard Looney, especially since the energy-transition strategy has caused "disquiet" among investors and drawn criticism from activist investor Bluebell Capital.

That BP will be "scaling down its renewable-energy ambitions" is no surprise, says Gaurav Sharma in *Forbes*. Its attempt to build an offshore wind portfolio has "often seen the company overbid for renewable energy assets over and above even established players in the industry" – assets that are "not expected to generate revenue for years". The strategy was also "out of sync" with shareholders' desire for "a focus on [the] core oil and gas business along with a slightly tempered approach to the energy transition".

Still the green leader

Even after the latest "tweak", the company is "still streets ahead of most of its rivals in terms of its transition strategy", especially since it is "the only major to have a formal target to reduce oil and gas output", says Nils Pratley in *The Guardian*. Still, last year Looney reduced this target from 40% by 2030, compared with 2019's output, to 25%, and few would "be surprised if BP's renewables ambitions were scaled back again" in the next few years. BP's strategy now seems very far from Looney's declaration that there is "no turning back" on green investment.

Rival major Shell has also "tempered expectations over the pace of change", says Tom Wilson in *The Financial Times*. And the US giants are becoming "bolder than ever" in their commitment to oil and gas, with



US oil giants may prove greener than BP or Shell

ExxonMobil even filing a lawsuit against an activist shareholder "that has been pressuring the company to set more ambitious transition goals". Overall, this suggests that Big Oil "is unlikely to lead from the front, opting instead to build the capability to enter new markets for lower-carbon energy products as demand evolves".

Ironically, the US energy companies may prove more environmentally friendly than either BP and Shell, says Stefan Andreasson in *The Conversation*. While BP and Shell have respectively spent 8%-12% and 12%-15% of capital expenditure (capex) on renewables in recent years, ExxonMobil has earmarked 17% of capex from 2022-2027 for green projects, "including carbon capture, lithium mining, hydrogen and biofuels". What's more, BP and Shell's efforts are "arguably a poorer fit for the majors' core skill set" than ExxonMobil's move to become a leading lithium producer for EV batteries, "which fits its drilling specialism". The core difference is that the US has developed much more "helpful" incentives for such behaviour.

Rivian plugs itself into VW

Shares in electric-vehicle (EV) maker Rivian Automotive jumped by a third last week following news of Volkswagen Group's \$5bn investment in the business. Rivian will form an equally controlled and owned joint venture with VW to "share electric-vehicle architecture and software that could eventually be used by the German carmaker's brands", which include VW as well as Audi and Porsche.

It's hoped the deal will allow both companies to cut vehicle costs by increasing scale and accelerating innovation. While the first cars to hit the road with the full Rivian stack of software and central computing won't arrive until 2028, parts of the

technology will appear in selected models earlier.

The move comes at a critical time for both firms, says Arjun Neil Alim in *The Financial Times*. VW is facing a possible "extinction event" thanks to "sophisticated competition" in the EV market from both Tesla and low-cost Chinese rivals. Delays caused by VW's in-house software developer are a "key stumbling block", too.

The investment could also prove to be a "lifeline" for Rivian, whose share price, which briefly eclipsed VW's a few years ago, has fallen by 90% from its peak. The recent bankruptcy of rival Fisker shows what can happen to EV startups that fail "to

secure an investment from an established automaker".

"If anybody doubted before this week that Rivian has compelling EV technology, they probably don't any more," says Stephen Wilmot in *The Wall Street Journal*. But can it make EVs profitably at a price likely to lure US consumers away from combustion engines?

Since its inception in 2009, Rivian has racked up far greater losses than Tesla. While Rivian hopes that "design tweaks... falling lithium prices and renegotiated supplier agreements will cut the bill of materials enough to make the company profitable at the gross-margin level", this will still be "a long, narrow road".

Nike just isn't doing it

Nike's shares slumped by a fifth last week after the world's largest sportswear group reported unexpectedly weak quarterly sales and scaled back its outlook for the year ahead, say Sara Germano and Jaren Kerr in *The Financial Times*.

Nike now expects sales to fall by a mid-single digit percentage amid a slowdown in demand. This earnings miss follows a prolonged restructuring started by management in December, when it also suffered a big fall in the stock after warning of softening demand from consumers.

While the company insists it is taking "aggressive" action to reorganise inventory at Nike-owned stores, some analysts are beginning to wonder whether "the company's best days [are] behind it".

Only two years ago Nike was "riding high", thanks to the "seemingly never-ending clamour for its Air Force 1 and Air Jordan trainers", says Sam Chambers in *The Times*. However, it now seems to be "on the wrong end of consumers' fickle tastes".

In contrast, Adidas Sambas and Gazelles are back in fashion, while "up-and-coming rivals" such as On Running and Hoka are "jogging on to Nike's turf, too". The core problem seems to be a failure of management. Nike "stuffed the market" with its shoes, undermining their exclusivity, and culled its wholesale customers in favour of online sales, in the mistaken belief that "shopping habits had changed for good".

There are signs that Nike "is trying to get its head back in the game", says Sharon Lam on *Breakingviews*. Its CEO admitted a few months ago that the online shift has "gone too far" and is "refocusing on working with retail partners – and gaining access to their customers".

Executives are also promising a "revamp", with more investment in innovation. But they "have a lot of ground to make up". Shareholders in Nike have suffered a loss of 30% in a year. The stock is on 25 times earnings, below Deckers' 31 and On's 37. As Nike itself admits, "a comeback at this scale takes time".

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

Five to buy

IMI
The Telegraph
Shares in engineering company IMI (active in sectors ranging from industrial automation to life sciences) have risen by 77% since March 2019. Despite mixed operating conditions, the company's revenue rose by 4% in the first quarter, with a restructuring programme set to generate £15m of benefits. IMI's strong financial position, competitive edge and solid balance sheet make it well-placed to profit from potential improvements in the global economy. Despite "less scope for capital gains", with a price/earnings (p/e) ratio of 15.2, IMI offers "long-term investment appeal". **1,780p**

Babcock
The Times
Babcock International, one of the biggest contractors to the Ministry of Defence, has undergone a remarkable turnaround, which has coincided with increased defence-sector spending. It has restructured and reduced debt. Babcock's future looks promising given anticipated growth in defence spending,

improved cash flow and encouraging contract wins. A forward p/e of 14 looks reasonable given the sector's auspicious outlook. **532p**

Tesco
This is Money
Tesco's stock has rallied by 50% since September 2022, buoyed by rising sales and profits. With a leading market share and



strategic initiatives such as Tesco Marketplace, which allows consumers to shop for third-party products, the retailer's future looks bright. With improving economic conditions and customers "responding with their wallets", existing shareholders should "sit tight", while new investors could "grab a few [shares] and hope [they head] up towards those halcyon days of 2007". There's "plenty more growth to come". **309p**

Dell
Shares
Dell Technologies is known for laptops and PCs, but it is also a major player in servers. The US firm is set to enjoy growth in servers required for artificial intelligence (AI) applications as "organisations demand the best AI kit to power their tech"; a recovery in PC sales; and an improvement in its storage business. Dell should also benefit from an impending upswing in spending on technology hardware as companies refresh their products. **\$138**

CMC Markets
Investors' Chronicle
"Hats off to management at CMC Markets." The online-trading platform reported a 15% rise in net operating income to £333m in the year to 31 March 2024 thanks to new strategic initiatives. CMC has expanded across new regions and agreed a tie-up with financial technology group Revolut. CMC aims to reduce foreign-exchange expenses. The p/e-to-growth ratio of 0.9 implies that "growth prospects may not be fully reflected in the price". **330p**

One to sell

Victoria
Investors' Chronicle
Although Victoria cut net cash outflow in its latest financial year, revenue declined as high inflation and the rising cost of credit weighed on consumers' sentiment. The designer, manufacturer and distributor of floorcoverings increased its gross margin and made cost savings, but saw an 18% decline in underlying cash profits. Executive chairman Geoffrey Wilding says demand has yet

to recover to pre-Covid levels. Even if it does, further measures are needed to restore the net margin, including reducing the leverage ratio before refinancing existing bonds. **Sell. 183p**



...and the rest

The Times
Polling and data analytics company YouGov issued an unexpected profit warning last week, wiping out almost half of its market value. YouGov faces challenges in its data-products business in Germany, Austria and Switzerland. While it recently acquired the consumer panel services business of GfK to boost its position in Europe, concerns linger about its growth in the highly competitive US market. Investors should "wait for further evidence

that it can revitalise growth" before considering investment. **Hold (455p)**.

Investors' Chronicle
AO World's adjusted annual pre-tax profit nearly tripled



to £34.3m in the year to 31 March 2024, outperforming expectations, after the electricals retailer simplified operations. Despite a drop of almost 10% in sales owing to strategic changes and lacklustre household spending, new customer numbers reached 600,000, and AO is aiming for double-digit revenue growth and adjusted pre-tax profit between £36m and £41m in 2025. With reduced net debt, AO is set to benefit as Britain's electrical market recovers. **Hold (111p)**.

This is Money
Coral Products, a small plastics business based in Merseyside, serves high-profile clients including Tesco, BT and the Ministry of Defence. New CEO Lance Burn aims to expand the relationship with Tesco, while recent efforts to streamline divisions are delivering. The shares have dipped recently, but sales and profits are expected to expand. Burn is "determined" to turnaround Coral, and "early signs are promising". **Buy (15p)**.

A German view

Investors in the market for a cash-rich, defensive company should look no further than Spain's Viscofan, says Wirtschaftswoche. It is the world's biggest producer of artificial sausage casings, with 19 production sites worldwide in countries ranging from Belgium and Serbia to Brazil and Australia. The distribution network spans 100 countries. The factories are highly capital-intensive, which deters potential rivals, so the group looks secure in its niche. It recently expanded into plant-based sausage skins to cater for vegetarians. The balance sheet looks solid and the stock boasts a free cash flow yield of 7.5% for 2024, providing scope for juicy dividends and share buybacks. The shares currently yield 4%.

IPO watch

London Tunnels, which plans to transform an abandoned network of tunnels in Holborn into a tourist attraction with two million visitors annually, has ditched plans to float on the London Stock Exchange, says The Guardian. It intends to raise £30m by listing on Euronext Amsterdam, saying it hopes this choice will allow it to exploit fully the size and scale of the European equity and capital markets. Several high-profile companies have chosen to list in Europe and the US rather than London. The tunnels were built to provide shelter during the Blitz, but were never actually used for this purpose. The site is supposed to open in 2027.

Joe Biden's doddering debate

A TV performance made obvious what we all knew. Matthew Partridge reports

Joe Biden met with Democratic governors on Wednesday as the president faces “increasingly concerning polls and growing calls to withdraw his candidacy” following a “calamitous debate performance” against Donald Trump, say Robert Tait and Sam Levin in *The Guardian*. Biden has blamed his “garbled” and “low-energy” performance on jet lag from international travel, but there are reportedly 25 Democratic members of the House of Representatives preparing to call for Biden to step aside, and one Texas congressman already demanding that he stand down. Polls suggest that one in three Democrats think Biden should go.

No good option for Democrats

Replacing Biden might not provide the electoral boost that Democrats are hoping for, says David Charter in *The Times*. Even the poll showing that many Democrats want him to quit revealed that no prominent elected Democrat would do any better against Trump, although former first lady Michelle Obama did have a large hypothetical lead. Interestingly, the poll also found that Biden’s “disastrous” and “stumbling” debate performance hadn’t harmed him as much as many think – Biden and Trump “remain neck and neck among all registered voters”.

There is no good option now for Democrats, says Janan Ganesh in *The Financial Times*. If they choose someone else to run, they are essentially saying: “We tried our utmost to sneak an untenable candidate past you but the scrutiny of a live television debate foiled us. Ah well, here’s his replacement.” But letting him run would be



Biden: will he make it to the end of the sentence?

worse, as his age-related “glitches of speech and manner, glaring enough already”, are only likely to get worse. Some 72% of registered voters think he hasn’t the wherewithal to be president. The Democrat failing to find a replacement for Biden, which should have begun as soon as he was elected, is of a piece with the modern left: whenever it becomes obvious that something must be done, they find a way to avoid doing it.

Trump victorious

While Biden was struggling to finish his sentences and stay in the race, the Supreme Court dealt a “major blow” to one of the efforts to prosecute Donald Trump for election interference, says Jess Bravin in *The Wall Street Journal*. The court ruled that former presidents “enjoy sweeping immunity” for official acts while in office. Lower courts will now have to draw the boundaries between what counts as official and unofficial, but the ruling pushes the trial beyond the November election.

It’s been accepted for decades “that a president is immune from civil liability for actions taken in office”, says an editorial in the FT. But the court has now extended that principle, arguing that an “energetic, independent” executive should not be deterred from taking necessary action by concerns over potential criminal prosecution after leaving office. The court’s ruling shunts responsibility for holding the president to account to the Senate and House of Representatives. But by prioritising an “energetic” presidency over an accountable one, “the court’s conservative justices have chipped away at a central pillar of the American system”.

Betting on politics

The odds on the US presidential election are swinging around after last week’s debate (see left), with Joe Biden out to 8 (12.5%) on Betfair at the time of writing. What’s more, virtually all the markets related to the UK election will be settled by the time you read this.

So let’s take a look at the controversy surrounding political betting that has come up in the past few weeks, especially in relation to people allegedly acting on inside information about the election date (as well as betting on other candidates to win).

Like any form of gambling, political betting relies on the understanding that all parties act with a basic degree of integrity and common sense. Indeed, over the past few years I decided not to lay bets myself to avoid any conflicts of interest while writing this column.

However, most of the major political bettors are usually involved in politics themselves to an extent, even if it only to knock on doors at election time. It would be a shame if the deeply foolish actions of a few individuals led to overregulation that effectively killed the market.

So what should you do when your views as a punter conflict with your own political ties? Despite canvassing for a political party, I’ve been happy to recommend betting on other parties winning in seats where I think the odds favour them. However, there are some betting markets, mostly involving overseas contests, that I would have felt uncomfortable tipping.

You should never bet on a party or candidate just because you support it, but you do need to respect the voice of conscience. Perhaps the best way is to heed the advice of JP Morgan. Those concerned about the risk of their investments should, he said, “sell down to your sleeping point”.

The far-right steps up in the Netherlands

After months of negotiations following an election that “sent shock waves through the Dutch political system”, the Netherlands swore in its first hard-right government this week, says Claire Moses in *The New York Times*.

Previously seen as a “bastion of liberalism”, the Netherlands is now one of several European countries that have “experienced electoral swings to the right”. Geert Wilders (pictured) agreed to forgo becoming prime minister to increase the chances of



forming a right-wing coalition, but his far-right party, which topped the polls, will still wield “significant influence” over the new cabinet. Indeed, it will get the biggest share of ministers and secretaries to the new cabinet, including the crucial position of minister of asylum and migration.

The new government may end up giving the EU a “rough ride”, say Koen Verhelst and Eva Hartog on Politico. Many in Brussels are complaining that the new coalition’s agreement to

secure opt-outs for migration and environmental rules, as well as reducing its contribution to the bloc’s budget by €1.6bn, amounts to “a three-front war against the EU”. Indeed, the new PM, Dick Schoof, has also been tasked with securing stricter rules on the free movement of people, long considered to be “one of the EU’s crown jewels”.

Migration is a particularly “hot-button issue” given that it “caused the collapse of the previous government and dominated last year’s electoral cycle”, says Jorge Liboreiro in Euronews. A few countries have been granted opt-outs from EU wide agreements, but they “are a rarity”. The scene seems set for an “explosive” showdown.

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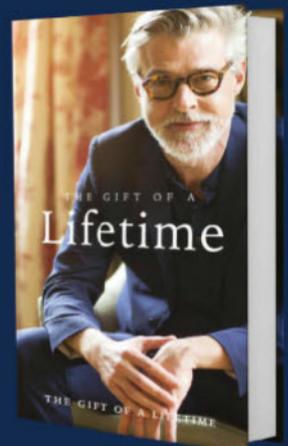
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New York

UK data firm snapped up: BlackRock, the world's largest money manager, has snapped up Prequin, a London-based data company, for £2.55bn, says Sky News. The deal will hand a cash payout of about £2bn to Prequin's founder, Mark O'Hare, through his family's holding company, Valhalla Ventures, which owns just under 80% of Prequin. The rest is owned by Prequin's employees, who will net about £510m from the sale. O'Hare is expected to become a vice chair at New York-based BlackRock. The deal marks BlackRock's

first venture into providing financial information, says the Financial Times. In recent years, there has been a surge in the acquisition of data providers, such as S&P's takeover of IHS Markit and the London Stock Exchange Group's purchase of Refinitiv, as companies strive to meet investors' demands for detailed financial market information. BlackRock also bought Global Infrastructure Partners for \$12.5bn earlier this year.

Prequin, founded 21 years ago, specialises in tracking the performance of private

equity and hedge funds. After the deal closes, Prequin will probably operate as a separate offering while integrating its data feeds into BlackRock's Aladdin platform and risk-management services. "For all the power BlackRock wields with its \$10trn of assets managed, all it really wants to be is an S&P or Moody's," says Lex in the same paper. BlackRock has "furiously" tried to position itself as an analytics firm and it hopes that as private markets mature, they will need to standardise. "Prequin can then become the 'winner-take-all' benchmark."

Frankfurt

Inflation still sticky: "The eurozone's inflation reading for June didn't bring much that we didn't already know," says Bert Colijn of Dutch bank ING. Consumer prices edged one percentage point lower to 2.5% year on year, according to the latest "flash" estimate, while core inflation, which strips out volatile food and energy prices, remained at 2.9% from May. But it is services inflation, at 4.1% annually, that is still too "sticky". The "uncertainty" that creates "remains the most important barrier to further rate cuts materialising". Expect services inflation to "stay elevated in the second half of the year, falling only slightly, to 3.8%, in the next few months," say Claus Vistesen and Melanie Debono of Pantheon Macroeconomics. The Euro 24 football tournament may be boosting prices in German hospitality and the Olympics in France could do likewise. Oil prices may also rise further in the near term before falling back in August. Only then will inflation slow to around 2%, which "should be enough" for a second 0.25-percentage-point interest-rate cut in September.

La Paz

Coup unravels: Bolivia faced a failed coup attempt when armed troops with armoured vehicles stormed the presidential palace in La Paz, says The Economist. The leader of the uprising, Juan José Zúñiga, a military commander until his sacking the day before, called for a new cabinet and accused politicians of destroying the country.

President Luis Arce (pictured) confronted Zúñiga and appointed new heads of the armed forces. After three hours, the soldiers left. The attempted putsch makes Bolivia "appear more unstable and chaotic to businesses, investors, and tourists". It came amid a political and economic crisis, with Arce and former president Evo Morales both vying for power ahead of next year's elections. In 2019, Morales ran for an unconstitutional third term, eventually resigning after pressure from the army. Arce was elected in 2020 but faced

opposition from Morales' allies in Congress, with efforts to secure loans and attract foreign investors blocked.

The army's involvement may have deepened the crisis – when Zúñiga was arrested, he accused Arce of asking him to stage an uprising. Meanwhile, Bolivians are dealing with high inflation, a dollar shortage, scarce fuel, and a weak exchange rate. Government spending on imported fuel has nearly bankrupted the country, natural-gas extraction is declining, and its debt has been downgraded. Its economic woes can be traced to Morales' presidency, when the state took control of strategic sectors such as oil and gas to reduce poverty, says Nicolas Forsans in The Conversation. The resulting overreliance on oil and gas left it vulnerable to a commodity downturn.



The way we live now... big fat Indian weddings

"The business of big fat weddings [in India] is getting bigger and fatter," with the industry now worth \$130bn a year – double the size of the market in the US, says Penelope MacRae in The Times. Indian couples spend an average of \$15,000 on their nuptials, and this is expected to increase in the world's fastest-growing economy. Leading the charge for opulence are the Ambanis, India's richest family, who recently hosted a lavish wedding party costing around £120m, where "celebrations took excess beyond excess". Prime minister Narendra Modi has even urged Indians not to

hold their weddings overseas and "wed in India" in a bid to "keep the cash in the economy".

Critics argue that extravagant spending by the super-rich is obscene in a country with social inequalities and widespread poverty, while others say weddings are intrinsic to culture and generate income for various sectors. The jewellery industry gets over 10% of its income from brides. All attempts to pass legislation to curb spending on weddings, which can drive poor and lower middle-class families into debt, have so far failed.



The Ambanis know how to throw a party

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Adani refuted Hindenburg's report

Mumbai

Hindenburg row escalates: The Securities and Exchange Board of India (SEBI), India's markets regulator, has accused activist short-seller Hindenburg Research of sharing a report into alleged fraud at Indian conglomerate Adani Group with New York hedge fund Kingdon Capital Management before it was published, say Bhuma Shrivastava and Bei Hu on Bloomberg. That report, after it was released in January 2023, wiped \$153bn off Adani Group's market value, despite its founder, Gautam Adani, denying Hindenburg's allegations. The group, involved in energy, mining and ports, has since recovered the bulk of the stock losses. Hindenburg called SEBI's latest letter "nonsense". As part of its investigation, SEBI detailed how Kingdon agreed to pay Hindenburg 25% of any gains it made by shorting Adani's shares, based on the research supplied by Hindenburg. Trades were routed through the Mauritius-based K India Opportunities Fund, aided by Indian lender Kotak Mahindra. SEBI has accused Hindenburg of "misrepresentations" and of violating local security laws by not being registered in India as a research firm. "SEBI's summons ought to embarrass Hindenburg," say Una Galani and Shritama Bose on Breakingviews. But it has also implicated one of India's top private banks in a short-selling attack that sparked a nationalist backlash. "Going after overseas investors can hit closer to home."

Seoul

SK Group doubles down on AI chips: SK Group, South Korea's second-biggest conglomerate, is looking to invest 80trn won (£45.4bn) by 2026 in order to secure the position of SK Hynix, its chip-making arm, as the main supplier of advanced memory chips to Nvidia, says Kim Jaewon on Nikkei Asia. The group plans to fund the development of high-bandwidth memory (HBM) chips – used for artificial intelligence (AI) – data centres and personalised AI assistant services to strengthen its supply chains for the emerging technology with money saved by "improving profitability, optimising its business structure and creating synergies". SK Hynix has been "[riding] the AI boom. The company was an early mover in the field of HBM... and [it] is forecast to control over half the global market this year". Almost all of the HBM chips used by US semiconductor giant Nvidia are supplied by SK Hynix for use in graphics processing units and SK Hynix's stock has soared 65% this year, compared with just 4% for its bigger domestic rival, Samsung Electronics, over the same period. But Samsung, the world's biggest memory-chip maker, is playing catch-up. Its own HBM chips are currently being certified for use by Nvidia as an alternative supplier, while US firm Micron Technology is also angling for market share. For now, SK Hynix is still in the lead, particularly with regards to chip-stacking technology (combining chips to improve speed and processing capabilities).

Pretoria

New cabinet: South African president Cyril Ramaphosa (pictured) has announced a new coalition government, comprising seven parties, nearly a month after his African National Congress (ANC) lost its majority for the first time since the end of apartheid 30 years ago, say Rob Rose and David Pilling in the Financial Times. After fierce haggling over ministerial positions, Ramaphosa kept 20 out of 32 posts, while the opposition Democratic Alliance (DA) was given six. The rand strengthened against the dollar on the news. Ramaphosa diluted the DA's influence by giving another six posts to smaller parties, including the Pan Africanist Congress (PAC), the Afrikaner nationalist Freedom Front Plus, Inkatha Freedom Party (IFP), the Patriotic Alliance, and the Muslim Al Jama-ah party. Enoch Godongwana remains finance minister and will have two deputies, incumbent David Masedo and DA's Ashor Sharupen. Julius Malema's Economic Freedom Fighters and uMkhonto weSizwe (MK), led by former ANC president Jacob Zuma, were excluded.



moneyweek.com

Brisbane

Fire complicates sale: Anglo American, led by Duncan Wanblad (pictured), faces a setback in its plan to sell its steelmaking-coal assets as production at the Grosvenor mine in Australia has been suspended after a fire, say Ian Walker and Christian Moess Laursen in The Wall Street Journal. The miner expects production to remain halted for several months due to the damage caused by the underground methane fire, which could affect the timing and valuation of a potential sale. The planned disposal was part of Anglo's overhaul in response to a takeover attempt by Australian rival BHP. The mine in Queensland accounts for around 30% of Anglo's \$4.5bn coal business, which was expected to be the easier unit to sell compared with trickier deals for its South African platinum operations and De Beers diamond unit. Anglo had hoped to find a buyer for the unit, which could be worth at least \$5bn, given that similar deals have been struck recently. If a sale is not possible, Anglo may have to consider selling other mines piece by piece, or selling the entire business to BHP at a lower price.

5 July 2024 **MONEYWEEK**

Macron faces his Waterloo

The French president's gamble has not paid off. What next for France? Simon Wilson reports

What's happened?

French voters go to the polls this weekend in the second round of France's snap legislative elections, with its centrist president, Emmanuel Macron, facing disaster and humiliation – and France facing months of political stasis and economic turbulence. Following the resounding victory for the hard-right National Rally (Rassemblement National, or RN) of Marine Le Pen in the European Parliament elections, less than a month ago, Macron stunned allies and opponents alike by announcing an immediate general election. Macron wanted to seize the moment and take the battle to the far right, with the aim of uniting the centrist bloc, dividing the left, and isolating the RN. Rather than a bold tactical manoeuvre, it has proved more of a reckless gamble. Macron is facing his Waterloo.

What were the results?

Voters flocked to the polls, with the highest turnout in decades and the RN taking a record 33%. A hastily assembled left-wing alliance, the New Popular Front – taking in socialists, greens and communists – was second with 28%. Macron's centrist coalition, Ensemble, limped home third with just 21%. Under the French electoral system, a candidate getting 50% wins outright. Otherwise, the top two candidates in each constituency, plus any other candidates getting more than 12.5% of registered voters, go forward to the second round. In the first round, the RN was placed first in 296 seats – enough to give it a parliamentary majority (meaning 289 seats in the 577-seat National Assembly) if it can repeat the feat this weekend. But in a “Republican front” effort to stop that, more than 200 third-placed candidates from the left-wing alliance and Macron's centrists have dropped out to leave a straight fight between the RN and one other candidate. Analysts still expect the RN to be easily the biggest party, but short of a majority. A hung parliament, and political gridlock, loom – with a constitutional bar on calling fresh elections for a year.

Has Macron been a good leader?

From the point of view of business and investors, his presidency to date has seen a “sustained effort to remake France as a modern, business-friendly economy” and has been a broad success, says *The Economist*. Since 2017, Macron's governments have reformed labour laws, making it easier to take on workers; two million jobs have been created and more than six million businesses set up. Macron has cut business taxes and wealth taxes,

“boosted education and started to reform the unaffordable pension system. France's growth is above the eurozone average, and poverty rates below it.”

Why is he getting kicked by voters?

It's partly the terrible timing of an election three years earlier than needed, on the back of defeat in the European elections – traditionally a chance to give incumbents a kicking. It's partly the unforeseen ability of the left, normally hopelessly divided, to quickly form a united front. And it's partly the backlash against what many voters see as Macron's arrogant, elitist manner and unpopular reforms, especially on pensions. The other crucial factor is the transformation of the RN, formerly the National Front, which over the past decade has shifted from its openly racist and quasi-fascist roots into a hard-right nativist party with a broader appeal, exemplified by its young candidate for prime minister, Jordan Bardella, aged just 28. “There is now a sizeable share of the mainstream right that would consider voting for the National Rally – or at least no longer sees it as a threat,” says pollster Stéphane Fournier. “That is especially the case when the other candidate is from the left, which many conservatives are more scared of.”

How are markets reacting?

Monday saw a classic relief rally, as markets judged that the RN had slightly underperformed expectations, making an outright RN majority less likely. The CAC-40 index rose 2.4% in early trading – its best daily performance for two years – with bank stocks in particular surging, led by Société Générale and Crédit Agricole. Bond prices, which had fallen during the campaign, began to rise again. But that burst of initial optimism is likely to prove misplaced, says the *Lex* column in the *Financial Times*. Investors are betting that political gridlock would be a better option than a RN government, which is promising a fiscally reckless programme of protectionism, welfare spending and unfunded tax cuts – including slashing VAT and exempting anyone under 30 from income tax. The underlying reality, though, is that France is facing a prolonged period of great political uncertainty, and entering it with exceptionally high debt levels – a potentially toxic mix.



Bardella – the 28-year-old who would be French PM

How much debt does it have?

Total government debt has reached 112% of GDP, up from 66% two decades ago and among the highest of rich countries after Japan and the US, both of which are far larger economies. Its current government deficit is more than 5% of GDP, and its credit rating has been downgraded twice in months. Already, the spread of French government bonds over their German equivalents is close to multi-year highs, reflecting the fragility of investor sentiment, says Neil Shearing of Capital Economics. The fear is that a “fiscally incontinent” RN government would cause a repeat of the crisis that hit the UK in the autumn of 2022. That's a worry, since France is not just the eurozone's second biggest economy but the world's fourth largest bond market.

Is this a realistic prospect?

The thing about deficits is that they don't really matter – until the bond market decides that they do, says Pierre Briand on *Breakingviews*. The prospect of a lame-duck president, and either a 28-year-old hard-right prime minister with gigantic spending plans, or a centrist technocrat with no real mandate or authority, means instability is looming. This is “not just a crisis for France” – but for the whole of the EU, says Andrew Neil in the *Daily Mail*. France will have a parliament – and perhaps even a new government – packed with eurosceptics and politicians who “despise the soft-left technocratic consensus that rules in Brussels”. Macron is a “busted flush”, and with Olaf Scholz limping on as chancellor of Germany, Europe will be “bereft of leadership” at a time of geopolitical peril. The UK, meanwhile, is moving from one majority government to another, with a minimum of fuss. Britain, for all the clamour and rancour of the election campaign, suddenly seems an “island of stability”.

The black hole in government

Any plans to raise more taxes will have to reckon with the fact that the tax collectors are not up to the job

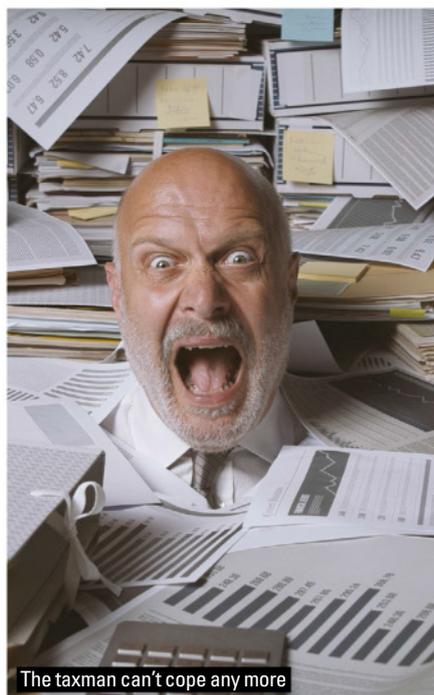


Matthew Lynn
City columnist

The posters will have been taken down, the advertising campaigns completed, the removal vans rolling into Downing Street. By the time this column is published (Friday), Keir Starmer will almost certainly be putting together his government. There will be lots of talk about examining the books and sorting out the mess the Tories have left behind. But there is a flaw in Labour's plan.

Labour has made a whole series of promises to improve the NHS, fund government services properly and strengthen workers' rights. It has said very little about how it plans to pay for it all. But whatever its plans are, it will have to rely on the tax collectors to find the money. There is the problem. HMRC is becoming less and less functional with every year that passes.

Last month, HMRC asked people to delay their retirement because it was proving too difficult to calculate lifetime pension limits. Earlier this month, it had to apologise after 500,000 people did not receive child benefits on time. In March, the National Audit Office reported that delays in answering phone calls from taxpayers had reached all-time records, and a plan to give up answering phone calls completely had to be overruled by the chancellor. More than half its staff are still working from home for most of the week despite clear instructions to return to the office. Another audit office report in January found that the cost of tax breaks had been underestimated by billions of pounds because the tax officials kept getting their sums wrong. The list goes on and on. Almost every week brings another story of mistakes, delays and mis-management at the one



The taxman can't cope any more

department that is responsible for financing the rest of the government machine. It is clear that HMRC is demoralised, poorly run, and hopelessly inefficient. It is a surprise any tax gets collected at all.

Yet Labour expects it to do a lot more work. It is planning a crackdown on "tax avoidance" to raise extra money, but given that HMRC can't answer the phone any more it is hard to believe that is going to be very successful. That is just the start of it. The big taxes, such as income tax, national insurance, VAT and, to some extent, corporation tax more or less get collected automatically, and private employers do most of the hard work of making sure the money is passed on to the Treasury every

month. Labour has said it will not increase any of those major taxes. So it will have to raise lots of small, fiddly taxes instead. Putting VAT on school fees will not be as easy as it looks given that it will almost certainly be taken to the European Court of Human Rights, on the grounds that it breaches "the right to education". Clamping down on trusts for non-doms does not sound easy, given that most of them can pay for excellent lawyers to argue each case.

The money won't arrive

Implementing the tax rises Labour may be contemplating will be no easier. It might well decide to raise capital-gains tax, for example. But that is always hard to collect, given "gains" can be shifted from one year to another. Or it might decide to add a "gifts tax" to add to inheritance tax so that it can't be avoided by giving away assets during a person's lifetime. But again, it can be hard to say what is a gift and what isn't. It might impose national insurance for landlords, but it will be difficult to determine what is income, and what counts as expenses, and it will be hard to stop them from shifting assets into limited companies instead. It might try new green levies, such as a tax on getting more than five flights a year, but it is tricky to keep track of how many times people are getting on an aeroplane. The list goes on and on.

You would need a hyper-efficient tax-collecting machine for any of that to have a chance of success. HMRC is not one. Even in the 1970s, when marginal rates soared to 90% or more, the Treasury found it hard to squeeze more than about 36% of GDP out of the economy. It would require hard work, diligent inspection and many well-paid and motivated staff. Labour can raise stealth taxes if it wants, but the money won't arrive. That is the black hole in its plans.

City talk

● It's not been a good week for CEO Emma Walmsley (pictured) and her bid to "reboot" British pharmaceutical giant GSK, says Alex Brummer in the Daily Mail.

GSK's shares fell with a "wallop" after the NHS chose US rival Pfizer's vaccine for the respiratory syncytial virus (RSV) over GSK's "pricier and more efficacious jab", while the US Centre for Disease Control has opted not to recommend GSK's RSV vaccine for under-60s.

Meanwhile, a court in the US state of Delaware is to rule on whether GSK's ulcer drug



Zantac may partly have caused some types of cancer. "Trying times."

● "Things are hotting up" for electricals retailer Currys, says Alistair Osborne in The Times. CEO Alex Baldock hasn't had the

easiest tenure, with his turnaround interrupted by Covid, the cost-of-living crisis, and fending off a bid from US hedge fund Elliott. Still, there are "signs of progress".

Adjusted pre-tax profit rose by 10% to £118m in the year to 27 April 2024. Nordic operating profit rebounded by 135% to

£61m and the UK's figure jumped by £2m to £142m. Yet Baldock "squeezed more out of a business where sales keep going backwards", and his "efforts to lift revenues and margins via extra sales on credit, flogging more accessories, and offering repair services have only got him so far". But now he hopes that freer-spending consumers and new artificial intelligence (AI)-enhanced gadgets will help. Positive sales growth could bring a higher market rating. Currys trades at a 25% discount to peers Best Buy and Ceconomy, and Fnac Darty.

● Britain's pub industry has been struggling in recent years, with nearly 15,500 pubs

closing since 2000 owing to cheap supermarket alcohol and soaring energy (and other) costs. But it's "not all doom and gloom", says Lex in the Financial Times. Independent firms have been hit harder than larger pub groups; the likes of Young's and Fuller, Smith & Turner have reported strong annual profits. Pub groups have adapted to changing consumer trends, offering coffee, hotel rooms, and better meals. But share prices and valuations don't always reflect the industry's improvement. Cost pressures are easing, and Labour has pledged to reform business rates. "The Great British pub will live on, although increasingly its strength will be in numbers."

Four ideas for the decade

The big stockmarket themes of an era tend to be about tech or wealth. Will one of these define the 2020s?



Cris Sholto Heaton
Investment columnist

Last week, we looked at the stories that defined different stockmarket eras over the last 75 years and produced exceptional returns. A few obvious lessons stand out for investors who are now searching for the big theme of the 2020s.

One is that big, multi-year bull markets tend to centre around positive ideas, such as exciting new technology or rising consumer wealth. There are exceptions such as the 1970s, where inflation and supply shocks favoured energy, commodities and gold, but these are in the minority.

Another is that a boom normally turns into a bubble and then a bust. To profit from big trends, you need to find a compelling story, be willing to let your winners run, but avoid becoming a true believer who can't sell when the end comes.

So let's consider a few contenders. The obvious one is artificial intelligence (AI), which clearly fits the pattern of previous themes. Valuations look rich, but we know that big trends can keep running for years despite high prices. Instead, the bearish case is that big tech is investing a vast amount (see issue 1211) and it's not clear if the returns will justify this. We should be alert for signs that the cycle is coming to an end.

Tricky themes for picking winners

After Covid, I thought healthcare might be the next big broad theme. This hasn't happened, but the profitability of the GLP-1 agonists (Wegovy/Ozempic and Mounjaro/Zepbound), which may help tackle many conditions beyond obesity, might attract more interest in the sector. The difficulty is that opportunities for other breakthroughs abound, but competition is tough and there is more scrutiny of prices. It doesn't feel like there is the rising tide to lift all boats that characterises a

MSCI India

Net total returns in sterling



big theme. Investors need to find the successful innovators within the wider sector. Good for stock-picking, awkward for tracking an index.

Supplying the world's energy needs while cutting carbon emissions will be a huge task. Profiting from the transition may be hard, because many ideas will be dead ends or not profitable (note Shell pausing construction of a huge biofuel plant in Rotterdam this week, or Ørsted writing down two wind projects in the US earlier this year). I tend to think the obvious yet still not fully priced-in implication is the resources (eg, metals) that the electric economy will need. This makes a bullish case for some commodities.

Many emerging markets look cheap enough to deliver good returns, but I wouldn't bet on a broad mega-boom like the 2000s. Today's world is different: global tensions provide less support for upbeat stories of convergence and cooperation. The most likely emerging-market theme I can see is India. It's already gone a long way (see chart), it's not cheap and has plenty of room for error. But it also has unique potential for domestic catch-up growth on a vast scale.

Whether any of these will stand out as driving force of the 2020s when we look back from 2030 is guesswork. It may well be something else that is barely on the radar yet. Nobody should go all-in on any of them. Still, all look like worthwhile areas for investors to spend some research time.

Guru watch

Laura Foll,
portfolio
manager,
Janus
Henderson



Britons have concentrated on paying down debt since the global financial crisis, "putting on hold expenditure on big-spend items", says Laura Foll, who co-manages several investment trusts at Janus Henderson, including the Law Debenture trust that is part of MoneyWeek's investment-trust portfolio. So it's no surprise that the economy has been "flatlining" recently.

Since consumer spending accounts for about 60% of Britain's GDP, growth will only pick up "when households finally lose patience with their saggy sofas and crazy-paving patios", says Foll on Citywire. However, "while 'squirrelling away' acts as a drag on economic growth in the short term, it also builds the potential for a powerful 'splurge and surge' when people relax their spending habits".

Greater consumer confidence and job security could encourage cautious savers to start spending again, while a potential interest-rate cut by the Bank of England could further incentivise consumers on big purchases such as homes. The good news is that UK households now have lower net debt and a better savings rate. The same cannot be said of the US, and that could lead to a shift in perceptions of the two economies. "We [could] see confidence returning in the UK while our US counterparts go through their own period of balance sheet rebuilding."

The companies most exposed to the UK consumer trends – and likely to benefit from rising consumer spending – are small and mid caps, says Foll, pointing to stocks such as building supplies firm Marshalls, sofa specialist DFS and bicycle retailer Halfords, all of which have seen weaker earnings. "I do not know when that will happen. But I am confident that by the time we have the data to confirm we are all out there, waving our credit and debit cards, it is likely to be too late to pick up these shares cheaply."

I wish I knew what a tracker fund was, but I'm too embarrassed to ask

Tracker funds (also known as index funds or passive funds) aim to track the performance of a particular index, such as the FTSE 100 or S&P 500. The funds may hold all, or a representative sample, of the stocks in the underlying index (physical replication), or replicate the performance of the index via buying derivatives (synthetic replication).

The aim is to have as low a tracking difference (the gap between the performance of the index and the fund) as possible. Since the goal of a tracker is to match the index, significant outperformance is as concerning as significant underperformance (even if it

might not feel like that to an investor), because it suggests problems with the way the fund is being run.

Tracker funds can be traditional open-ended funds (unit trusts or open-ended investment companies [Oeics]) or exchange-traded funds (ETFs) listed on a stock exchange. Investment trusts are almost never used as tracker funds because – unlike ETFs – they have no mechanism to keep the fund's share price in line with the value of its assets.

The first tracker open to ordinary investors was the Vanguard Index fund, which launched in the US in 1975. Rivals were sceptical as to

whether it would ever succeed, arguing that people wouldn't be satisfied with merely matching the market, but the concept caught on.

The big advantage of passive investing is cost: a FTSE 100 tracker fund can have an annual charge of well under 0.1% a year. An actively managed fund could easily charge ten times as much, with no guarantee it will beat the index (most don't over time). A closet tracker is an active fund that sticks close to its benchmark index to avoid under-performing the market too drastically (and thus losing clients). Investors in a closet tracker are being charged the higher fees of active management in exchange for passive performance, or worse.

Venture into the Great White North

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Max King
Investment columnist

Investors often forget that North America is not synonymous with the United States. Above it lies Canada, with an eighth of the population, but a larger land mass. Much of it is virtually uninhabitable, but it means that Canada is rich in natural resources while still having a population around the size of California's. In investment terms, Canada is no laggard. **Canadian General Investments (LSE: CGI)**, a £757m investment trust listed in London as well as Toronto, can boast a return of 192% over the last ten years and 85% over five (11.4% and 13.1% per annum). These figures are respectively a little behind and comfortably ahead of the MSCI All Country World index. Over 25 years, it is one of the best-performing funds in the investment-trust sector.

The trust's performance is also well ahead of that of the Toronto Stock Exchange; it was helped by being able to invest a quarter of its capital in the US. It was established in 1930 with control passing in the 1950s to the Morgan family, which owns 52% of the shares and is active in its management. The family controls its management company, Morgan Meighen. Greg Eckel is the lead fund manager. CGI's focus on a medium- to long-term timescale is encouraged by the Canadian tax system. Realised profits are



subject to corporation tax unless distributed as dividends, so CGI has an incentive to cut its losers to generate tax losses and run its winners; 58% of the portfolio value is made up of unrealised gains and annual portfolio turnover averages just 10%.

A deep discount

Realised profits are distributed by way of a dividend, whose upward path is smoothed. At the current price, the shares yield 2.5%. The shares are trading at a discount to net asset value (NAV) of 40%, close to the top of the five-year range and almost double the low, but buybacks to reduce the discount and bolster NAV are discouraged by the tax rules. Nvidia was the largest holding on 30 April, worth 7.1% of the

portfolio, and has been held since 2016. Since then "we have taken profits each year, totalling over C\$120m (£69m), but I am happy to continue to have a position", says Eckel. Other large investments include TFI International, a Canadian transport and logistics firm, Canadian Pacific, WSP Global (a consulting outfit) and Descartes Systems (technology solutions for logistics). Apple and Amazon are also in the top-ten holdings at 3.1% and 2.7% of the portfolio.

Around 14% of the portfolio is in energy (including Precision Drilling and Canadian Natural Resources) and 11% in materials, including gold mining (Franco-Nevada) and uranium mining (Cameco and NexGen). There is a high exposure to

technology (21% of the portfolio versus 9% in the Toronto index), but little to financials (13% vs. 31%). A debt facility of C\$175m enables a ratio of debt to net assets of 12%, at the low end of the historic range thanks to an interest rate of 5.9%. Eckel is cautious in the short term. "After a terrific run in the market, we are likely to see a pause, with the economy slowing due to high interest rates." Inflation, excluding mortgage costs, has fallen from 8% to below 2%, so interest rates are likely to fall. GDP growth, just 1.1% in 2023, is likely to pick up next year.

With federal debt barely 40% of GDP, the lowest marginal effective tax rate in the G7 and foreign investment flowing in, the long-term outlook is favourable. The market trades on a multiple of under 15 times trailing earnings, much less than the US, but this is partly explained by the low ratings of banks (30% of the market) and commodities companies (another 30%). The CGI portfolio "is more expensive, due to the US holdings and the low exposure to telecommunications and utilities". Canada will do well in another bull run for raw materials, as Eckel notes. "The nuclear renaissance is already helping, as is interconnectivity with the US. The combination of an excessive discount to net assets and good long-term prospects makes CGI a trust to lock away."

Activist watch

Activist investor Engine Capital has acquired a 5% stake in C&C Group, and is pushing the producer of Magners Irish Cider to launch a strategic review and sell itself, says Bloomberg. The US hedge fund believes Dublin-based and UK-listed C&C could be an attractive target for industry players or private-equity firms and that its stock is trading at a discount compared with private-market transactions. C&C's shares fell by 13% in June after it booked a €150m charge and its CEO departed owing to previously disclosed accounting adjustments. The British and Irish alcoholic-drinks industry has seen increased consolidation. Engine sees potential in C&C's assets, including Italian sparkling winemaker Ferrari Trento and Scottish brewer Tennent's.

Short positions... India's debt market comes of age

■ **India is to receive billions of dollars in foreign inflows now that JPMorgan is to include the country's sovereign debt in its emerging-markets index, the first time that the bonds of the world's fastest-growing economy have been part of a major benchmark, says the Financial Times. This is the result of years of market reforms by the Indian government; 28 government bonds worth over \$400bn will give India a 10% share of the widely tracked measure. Around \$11bn has already flowed into Indian bonds ahead of the inclusion, with \$30bn expected to arrive over the next ten months. Given Russia's ejection from JPMorgan's index and China's weakening economy, India could soon be added to other fixed-income benchmarks. Indian bonds will enter Bloomberg's Emerging Market Local Currency Government indices from January, while the FTSE Russell is considering adding Indian debt to its benchmarks too.**

■ Alliance Trust and Witan Investment Trust are to merge in the investment-trust sector's biggest deal to date, says The Times. The new entity, Alliance Witan, will have net assets exceeding £5bn and will enter the FTSE 100 index. This merger comes amid declining demand for trusts and increased pressure to consolidate. Wealth managers, who have traditionally been key buyers of trusts, have been consolidating and requiring larger and more liquid assets, prompting trusts to seek deals to bulk up. Retail investors have shown less interest of late as surging interest rates have bolstered the appeal of cash. Alliance Trust and Witan said greater scale would lower fees for investors and deliver better value for shareholders. Analysts expect further consolidation in the trust market.

The proles prepare for power

John Harris
The Guardian

The significance of wealth, privilege, and private education among British politicians is often overlooked, says John Harris. Research shows that only 7% of Rishi Sunak's senior Tory colleagues come from working-class families, but with Keir Starmer's team, the figure is put at 46%. Some 13% of Labour's shadow ministers were privately educated, compared with about 65% in the Tory cabinet. The Tories' collapse is partially due to the return of leaders from privileged backgrounds disconnected from the lives of ordinary people, despite the party's efforts to present a more relatable image. This is evident in Boris Johnson's insouciant misrule and Sunak's insensitive decisions regarding universal credit and disability benefits. Labour may well end up adopting similar policies "couched in slightly different language". Nonetheless, Britons at the general election did get to choose between a party "surrounded by the crapulent reek of the Bullingdon Club, and another whose deputy leader is a one-time home help from Stockport". Sweeping the Tories away could mark a shift "away from the tyranny of school ties, members' clubs, and private jets, and the slow birth of something better".

Why the omerta over Covid?

Daniel Hannan
The Telegraph

The strangest feature of the election campaign was the silence over the government's handling of Covid and the opposition's stance on the issue, says Daniel Hannan. It seems we just "don't want to think" of it. "We don't want to remember the enormities, indignities and absurdities we endured. And we certainly don't want to admit that a policy we demanded might be at the root of Britain's problems." Ninety-three per cent of people backed the first lockdown, 85% the second, and a sizeable majority opposed the lifting of restrictions in 2021. Many, including the opposition parties, demanded harsher methods and wanted them to continue. The result "squats like a poisonous toad in the middle of every policy discussion", even if we "affect not to see it". The number of children persistently absent from school has surged. The economy remains sluggish as people stay away from work. The trains run later than usual due to a lack of staff. A secondary market has developed in dates for driving tests. The cost-of-living crisis was a direct consequence of all that printed money. Taxes have risen to pay for it all. And we direct our anger at all this mostly at those politicians who held out the most against pressure to go even further. "Funny old world."

Wake up to water shortages

Editorial
Bloomberg

Drought-hit Mexico City has not yet run out of water, as some headlines had warned. But cities do need to wake up to the increasing threat of drought and water scarcity, says Bloomberg. Cape Town coined the term "Day Zero" in 2018 to warn residents when their taps might be shut off following a drought. But cities everywhere are vulnerable. More than 80 global metropolitan areas have faced severe water shortages this century due to rapid urbanisation and climate change. By 2050, it is estimated that 2.4 billion city dwellers could face water scarcity. To address this, cities should focus on reducing demand and increasing supply. Measures might include promoting water conservation through public messaging, mandating efficient appliances such as low-flush toilets, limiting leaks and pilfering, improving drainage and storage systems, treating wastewater, urging farmers to use more efficient forms of irrigation, and charging more for heavier usage. But water and sanitation subsidies and agricultural and power handouts require urgent rethinking, and governments, industry and farmers will need to be onboard with reform. If that's "a tall order, cities should remember that the costs of inaction will be a lot higher than zero".

Find a quiet spot this summer

Harry Mount
The Spectator

"Europe is revolting against the tourist invasion," says Harry Mount. Venice has started charging a tourist tax. Mallorca, Menorca, Ibiza and Formentera are protesting in favour of limits to tourism. Barcelona is planning to ban Airbnb. In the Cinque Terre, on the Italian Riviera, some of the coastline is now one-way, to restrict tourist traffic. You can see why. The famous cities and resorts of Europe have become "one vast Queueworld", where tourists "gather in great numbers, intense heat and, increasingly, intense misery". Yet it's not hard to find "blissfully tourist-free" alternatives. For every crowded hotspot, there is a nearby city or beach that is overlooked. Treviso, for example, is just half an hour from Venice by train, and is a revelation. Its canals are not on the scale of Venice's, but they are empty, and although the "charming, cheap pizzerias were buzzing with plenty of Italians", the only "annoying tourist" around was me. There are spots like this in every corner of the continent. You can play the same game in England, too, of course. I know of two hidden beaches that are always empty at the height of summer. Where are they? Ah, that would be telling. "The first rule of Quiet Spot Club is – never reveal your favourite ones."

Money talks

"I'm not very good with money because I lived so much of my life not having any. The phrase 'look after the pennies and the pounds will look after themselves' – that's all well and good for someone who isn't scared to open their post. I have a huge block when it comes to my finances. It's causing me anxiety just talking about it. I recently found out I was paying for a mobile phone I didn't have. The company was surprisingly sympathetic and reimbursed me for it."
Comedian Shaparak Khorsandi (pictured), in The Sunday Times



"It was the biggest pay cheque of my life... no disrespect to people who like to cook, but watching meringue dry and being told how many different kinds there are, I honestly thought I was going out of my mind."
Comedian Sandi Toksvig on her role in *The Great British Bake Off*, quoted on the MailOnline

"People are always asking me where the outlook is good... But that's the wrong question. The right question is: 'Where is the outlook most miserable?'"
Legendary investor John Templeton, quoted in The Telegraph

"You could acquire the greatest female artists for a few hundred thousand pounds, whereas the male artists were costing anything between several tens of millions and £200m... As I researched it more and more, I thought you could put together a museum-quality collection of female artists for the price of one male artist."
Art collector and retired hedge-fund manager Christian Levett on opening the Female Artists of Mougins Museum in France, quoted in The Times. It is the first museum in continental Europe with an all-female permanent collection

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We live in a post-heroic age

unherd.com

In 1993, then US president Bill Clinton abandoned Somalia after 18 American soldiers were killed in a failed raid. You could say this marked the start of the “post-heroic age”, says Edward Luttwak – although the basic attitudes had emerged long before. In 1989, the USSR, whose generals could “once lose 15,000 men without batting an eyelid”, abandoned Afghanistan after less than that were killed over almost a decade of fighting.

Today, no one is up for a fight. In 2022, Russia could have mobilised its regular army formations and recalled two million reservists for its war with Ukraine. Putin did neither, “fearing the fury of Russia’s mothers”. Nato’s capacity to help Ukraine is hamstrung by similar considerations. French president Emmanuel Macron’s call for arms and troops to be sent “fell on deaf ears”. Italy’s

ministers said they would not send one soldier. Even during the wars in Iraq and Afghanistan, European units for the most part were limited to “cautious patrols close to heavily fortified bases”. At least one Nato government sent agents to pay the Taliban to leave their patrols alone.

Similarly, China’s president Xi Jinping may be “a bellicose man”, yet the loss of four men during a skirmish with India led to national acts of remembrance and generous compensation for the families. How then could it cope with losing 4,000 a day in a war for Taiwan?

The exception to the rule is Israel, which will not be forced to abandon its military plans due to combat casualties. In the aftermath of the 7 October atrocities, “most Israelis were eager to fight, including all those reservists with families who flew back from their homes in



Silicon Valley or New York to rejoin their old units”.

Fertility rates provide the explanation. The wars of history were fought by “spare” male children. Even as late as the mid-20th century, the average European family had several children. One would inherit the family land, another marry, leaving one spare to go into the church, or off to war. A loss would be mourned, of course, but would not extinguish the family line. Today, with the average fertility rate of women

across Europe at less than two and still falling – the EU average was 1.46 in 2022 – there are no “spare children”. China’s rate is 1.1. Israel is the “only country in the world where even secular, university-educated, professionally employed, married women have two or more children on average”. This is the reason Israel is not “post-heroic”. But in the West, why do we keep militaries that are not prepared to fight? “Our calculations of the true balance of power need to be revised.”

Brexit wasn't worth it

iea.org.uk

Free-market liberals were divided over Brexit, says Kristian Niemietz. Those in favour looked forward to a day when Britain was free of the EU’s centralising tendencies, protectionism and corporatism. Sceptics argued Britain’s “home-grown statism would be every bit as bad as anything the EU could come up with”, and Brexit would just make it harder to trade with our neighbours. The Brexit-sceptics have probably won the day. But the main reason Brexit has hurt free-market liberalism is not policy but that it has radically changed the “debate culture and climate of opinion” – for the worse. One of the main social consequences of the Brexit vote has been the radicalisation of “The Sensibles”, a political tribe that bases its politics on “whatever is considered respectable, reasonable, grown up and nuanced”. In our time, The Sensibles are vaguely on the left, love Rory Stewart, hate Nigel Farage, but are not Corbynites or ultra-woke (though nor would they be so gauche as to criticise wokery, which would be “gammon” and low-status). But what they hate above all is Brexit, and they just “cannot get over it”. That means that anything even vaguely associated with Brexit – read free-market liberalism – has become tainted by association. Thanks to Brexit, classical liberals now struggle to get a fair hearing.

How to get rich quietly

collabfund.com/blog

“Nature is not in a hurry, yet everything is accomplished,” wrote Chinese philosopher Lao Tzu. Giant sequoias, complex organisms, towering mountains – nature builds impressively, but silently, slowly, almost invisibly. This is the way to make money too, says Morgan Housel. Just like in nature, it’s the power of “quiet compounding” that gives the most impressive results.

moneyweek.com

Every few years we read in the news about an ordinary Joe with no education and a low-wage job who nevertheless managed to accumulate a fortune through the power of compounding – saving or reinvesting the interest so you earn interest on the interest. They never “bragged or flaunted” or compared how they were doing with others – they just quietly compounded and grew rich.



There are two ways to use money. One is as a tool to live a better life. The other is as a yardstick to measure yourself against other people. “The first is quiet and personal, the second is loud and performative. It’s so obvious which leads to a happier life... Instead of trying to look smarter than everyone else, you make a quiet bet that things will slowly get better over time. You’re not in a hurry, yet everything is accomplished.”

Closing the gender pay gap

capx.co

Probably incoming Labour chancellor Rachel Reeves has declared she’s going to deal with the gender pay gap, says Tim Worstall. Finally, a politician making a promise that not just can be, but definitely will be kept! For we don’t have a gender pay gap now. Reeves’s pledge is already “done and dusted”.

There is a gap between the average pay of men and women. But as Nobel-prize-winning economist Claudia Goldin has shown, this is not because women are discriminated against – at least, not any more. What is happening is that people who make different life choices earn different amounts of money. Among young professionals in their early 20s, for example, there is no gender pay gap. A gap only opens at the likely age of first childbirth. Women with children have a pay gap of about 9% with childless women, which rises for each subsequent child. There’s also a gap between childless men and men who are the primary carer for children. Considerations such as these explain all the observed earnings gaps between men and women.

5 July 2024 MONEYWEEK

Now we need a smaller state

Sadly, we're unlikely to get one anytime soon. Stuart Watkins reports

As you slip all the election leaflets and pledges that have come through your door over the past month into the recycling, you might like to reflect on the fact that party manifestos in 1945 were between 3,000 and 6,000 words in length. By 2019 they had swollen to more than 20,000, according to the Institute for Government. The Labour Party manifesto of 1945 contained just seven specific pledges; there were more than 160 in each of the Labour and Conservative manifestos of 2019. Both the Labour and Tory party manifestos this year had swelled to more than 26,000 words. Among all that verbiage, including that in the manifestos of the other parties, lurked a total of 361 uncosted policies that would increase the regulatory burden on business, as Matthew Lesh points out for the Institute of Economic Affairs – policies that are likely to have far larger economic impacts than any of the proposed fiscal changes.

If you're thinking that this might tell us something about the direction of travel politically, you'd be right. Big Brother is extending his reach. "For a remarkably long time, the British state remained at about the same size," as a new report from the Institute for Fiscal Studies (IFS) points out. The IFS defines the size of the state as government spending as a proportion of national income. Outside of times of economic crisis, this remained at about 40% in the years from the mid-1950s until the start of the Covid-pandemic, despite "large, epochal changes to what the state does": persistent rises in spending on social-security benefits, state pensions and health and social care have been offset by large reductions in spending on defence and, more recently, on debt interest. "The state was the same size in 2019-2020 as it was in 2007-2008, on the eve of the financial crisis. In other words, almost a decade of 'austerity' simply returned the size of the state to where it had been after a decade of New Labour governments."

Since 2019, however, the state has bloated considerably, with government spending as a proportion of national income reaching historic highs during the Covid pandemic and remaining at higher than usual levels thereafter, says the IFS. The spike during the pandemic was partly due to a fall in economic output, and partly to government policy, including the £70bn spent on the furlough scheme. The size of the state has fallen back again since, yet remains at a higher level than before the pandemic. Over the course of this parliament, spending has grown by 4.5% of national income, or £124bn, significantly higher than under any other post-war Conservative parliament, and the fourth-fastest growth in the size of the state under any parliament in the post-war era.

Again, more sluggish than expected economic growth and bigger than expected growth in spending on debt interest, social-security benefits and pensions have played their part. This unsightly weight gain is, however, unlikely to be transitory, argues the report. Health spending is set to continue to rise and, after decades of cuts, so is defence spending. Struggling public services, demographic pressures and geopolitical uncertainty make it hard to cut the size of the state further. The size of the state is as a result set to settle at higher levels than its pre-pandemic average:

“Almost a decade of ‘austerity’ simply returned the size of the state to where it was in 2008”



It's time to go into battle for liberalism again

by 2028-2029, spending is forecast to be 42.5% of national income, reckons the IFS, 2.9% above pre-pandemic levels (partly a result of persistently higher debt interest spending, but even excluding this the size of the state will be larger).

The socialists of all parties

And yet there is no ambition in either of the main parties to cut the scope of what the state does. The "socialists of all parties", as Hayek called them, seem agreed now, as they were in his own day, that progressive political movements and legislation are the ones that increasingly extend the role of government intervention into all aspects of our lives. This view, which became an orthodoxy in the early part of the last century, and a dogma by the middle of it, "was that the story of human progress in the modern world was the story of increasing state power", as Margaret Thatcher put it in the inaugural Keith Joseph Memorial Lecture in 1996 (available at capx.co/liberty-and-limited-government). Whatever the material or social pressures that may be cited as pretexts for the growth of the state, it is these ideas that lie at the root of it, and are what must be challenged if we are, to quote Keith Joseph, to avoid a break with the whole evolution of Western civilisation, and abandon the views of Richard Cobden and John Bright, of Adam Smith and David Hume, of John Locke and John Milton, and indeed the "salient characteristics of Western civilisation as it has grown from the foundations laid by Christianity and the Greeks and Romans".

It is not simply a matter of economics. The triumph of the ideas of the left, said Thatcher, meant that "all that remained to the right were the arguments of accountancy – essentially, when and how socialism could be afforded". That seems a fair and pithy summary of the election campaign that has just ended. But the case for a smaller state rests not just on the sums, or on worries about where the money is going to come from, but on deeper philosophical issues. It is about placing "far greater confidence in individuals, families, businesses and neighbourhoods than in the state", as Thatcher put it, because that is where you



“Government has been expanding for nearly a century in virtually all measurable respects”

Financial Times. “Government has been expanding for nearly a century in virtually all measurable respects, as a spender, borrower and regulator.” Contrary to conventional wisdom, welfare spending, for example, has risen in most of the developed economies tracked by the OECD think tank; even in the US it has risen by more than the average. The original Keynesian idea that governments should save during economic recoveries so that they could spend heavily to ease recessions was already dead by the 1960s – governments ignored the first part of the formula and pursued the second with gusto, using stimulus and loose money to goose recoveries and running significant deficits in good times and bad. The “oft-criticised age of austerity is more aptly described as an era of constant stimulus”.

The result of these decades of “overactive government”, says Sharma, is a “crisis of capitalism”. Recessions since the turn of the millennium may have been “fewer and farther between”, which “no one minds”. But mounting debt is prolonging and slowing recoveries, and productivity growth has collapsed. A “growing body of evidence points the finger of blame at a business environment thick with government regulation and debt, in which mega-companies thrive and more corporate deadwood survives each crisis”, resulting in less growth, less fairly distributed. Government leaders are “trying to please everyone” with ever-increasing spending pledges, but the results are “more likely further to undermine growth, widen inequality and deepen popular mistrust”.

So what is to be done? Those who long for a past golden age of social democracy should reflect that this would require less government, not more, says Sharma. And the growth and prosperity that social democracy seeks to manage better comes from capitalism, a necessary condition of which is limited government. “A genuine departure would require restraint” on the part of our leaders, especially at times of crisis. They often speak of the economy as an “engine” that needs “fine tuning” through their interventions. This thinking needs to change. “Economics is not as hard a science as many imagine. The real sciences explain life as a cycle of transformation, ashes to ashes, yet political leaders still listen to advisers claiming they know how to generate constant growth. Their overconfidence needs to be contained before it does more damage. Capitalism is still the best hope for human progress, but only if it has enough room to work.”

An election of vast importance

The party taking power this week is faced with a choice. It can “cut the scope of what the state provides, perhaps in an attempt to return the state closer in size to its post-war average”, as Bee Boileau, an author of the IFS report, points out – or it can raise taxes, or it can borrow more. In other words, it will have to go against its manifesto commitments, since both main parties promised to increase the scope of the state, ruled out major tax rises and committed to debt targets that preclude more borrowing. Unless there is a near-miraculous spurt of economic growth, “one of these options must be chosen. The trade-offs here cannot be solved by denying their existence”.

The election campaign was, of course, fought in just such denial. But what happens next? A plausible scenario is that the probably incoming Labour government ends up disappointing voters, as both Robert Shrimley and Janan Ganesh argue in the FT, leaving them fed up and open to a more radical, economically liberal alternative come the next election. “The UK is approaching a general election of vast importance for its future,” says Ganesh. “It just has to get this week’s one out of the way first.”

will find the liberty and creativity that are a necessary precondition for human flourishing and economic progress and growth. Contrary to the utopian dreams of the left that one day it could be done away with, the state will always be necessary, but to underpin the conditions for a prosperous and fulfilling life, not to try to generate them.

Individuals flourish only in society, within the bounds placed by “custom, convention, tradition, belief, national institutions, or what the ancient Romans would describe as ‘piety’”, Thatcher believed, and those bonds need ultimately to be guaranteed by the state. But “society” ultimately means other people, not the state. The state should limit itself to what only it can do – preserve law and order, protect and enforce property rights – and do that well and efficiently.

When it oversteps its bounds, when it becomes master not servant, a player rather than an umpire, it has a “huge capacity for evil” and is a “potential threat to all the moral, cultural, social and economic benefits of freedom”. The cause of limited government, said Thatcher, is the secret of that “continual progress” that allows individuals, societies and economies to flourish.

All this may sound very abstract, as Thatcher admitted. To answer that charge she pointed in her lecture to how these abstract issues become a way of life in reality for those lucky enough to live in countries where liberal norms prevail. But for us today, who live in the shadow of the Covid lockdowns, it may all sound rather more concrete. Even if you agree that the Covid-era restrictions and mandates were necessary to respond to a genuine emergency, they showed just what the state in its nature is, what it is ruthlessly good and efficient at, and just how miserable life is the more successfully it imposes its will – not to mention the ruinous economic and social consequences.

The decline of capitalism

Whatever you think of Thatcher’s attempts in office to turn this vision into a reality, it’s sadly true that the era of small government promised by her and Ronald Reagan never actually happened, as Ruchir Sharma, author of *What Went Wrong With Capitalism*, points out in the

Broken Britain: can a Labour government fix it?

Nothing seems to be working, and productivity, the key to higher living standards, has stagnated. Julian Jessop assesses whether the new government's plans to stoke growth will succeed



Keir Starmer's suited and rebooted Labour Party looks set to sweep to power and says it is ready for business. But Labour will also inherit an economy suffering from a chronic lack of growth, a housing crisis, and failing public services. Nothing seems to be working properly and productivity has stagnated. Can Labour get the economy moving again?

One point in Labour's favour is simply the chance to make a fresh start. Investors crave political stability and a centrist government with a large majority should deliver that. Indeed, UK bonds, equities and the pound are already starting to benefit as "safe havens" from the electoral risks in other European countries, notably France and the US. The UK might now have a prime minister, a chancellor, and even a housing minister who remain in their posts for a full five years.

Another tailwind is that the economic prospects for this year and next have already brightened considerably. The Conservatives could have fought an election in the autumn against the backdrop of two quarters of decent economic growth, several months of inflation at or below the 2% target, and at least one interest-rate cut from the Bank of England. In the meantime, confidence is gradually returning to the financial markets, to businesses and, most importantly, to consumers. Rishi Sunak and Jeremy Hunt deserve credit for putting the train back on the tracks. But an incoming Labour government will now reap the benefits.

Must do better

The performance of the economy over the 14 years of Conservative government has still been poor. The headline numbers may look reasonable – since 2010 the UK has recorded the third-highest growth rate of all the G7 group of major economies, behind only Canada and the US, and outpacing Germany and France.

However, adjusting for the increase in the UK population, average annual growth in GDP per head has been the weakest under any government since 1945. After taking account of inflation, real wages have barely grown at all. The root of this problem is the weakness in productivity, which measures how efficiently inputs such as labour and capital are used to produce a given amount of output. Since 2010, output per hour worked in the UK has grown at roughly half the rates of Germany and Japan, as well as Canada and the US.

It is unfair to pin all the blame on the Conservatives. The rot set in in the wake of the global financial crisis (GFC) of 2008, under Labour's watch. Productivity growth has also dropped off sharply in most major economies. But the suffering of others is no consolation. UK output per hour would now be at least 20% higher if productivity had continued to grow at its pre-GFC rate. This problem becomes even clearer if you think of that as a 20% shortfall in living standards.

Moreover, weak productivity and sluggish growth have made it harder to deal with social challenges, such as reducing poverty and tackling climate change, and to raise the tax revenues needed to meet growing demands on public services.

The legacy of the long period of poor economic performance has included a sharp rise in government

debt, which has risen from 65% of national income in 2020 to nearly 100% now.

Naturally, if you ask two economists to explain this "productivity puzzle" you'll hear at least three different answers. Some think the slowdown in productivity and economic growth might be structural and long-lasting. They blame factors such as diminishing returns from the digital revolution and the increasing environmental and demographic constraints. Others give more weight to economic shocks, notably Covid and the energy crisis. Again, the Conservatives are not to blame for these events. But the government of the day must take responsibility for any policy errors. Depending on your point of view, these mistakes might include the poor handling of Brexit, or leaving the EU at all, as well as the responses to Covid and the approach to "net zero".

The Bank of England is not above criticism either. The extended period of low interest rates kept many relatively unproductive firms afloat, while money printing under the policy of "quantitative easing" provided the fuel for the surge in inflation. But most commentators agree that one of the UK's biggest problems is the relatively low levels of investment – both public and private – in everything from infrastructure and housing to technology and skills.

Here, the Conservatives and Labour part ways again. The Conservatives fought the election on a promise to reduce the size of the state, with tax cuts financed by efficiency savings and a reduction in the welfare bill, and with a renewed focus on deregulation. The emphasis was on creating the conditions under which the private sector can thrive, then letting businesses and households crack on with the minimum of interference from the state.

An active state

Labour proposes a more active role for the government. In part this is a revolt against the "austerity" under the Conservatives that aimed to reduce government borrowing through a combination of spending restraint and tax increases. But many fear this is about to make a comeback, whoever wins the election.

The coalition years between 2010 and 2015 in particular are sometimes described as a period of "savage cuts". This language is over the top. In reality, the overall amount of day-to-day spending essentially kept pace with inflation, and spending on the NHS and schools continued to grow in real terms. Nonetheless, some departmental budgets did suffer substantial cuts, especially in capital spending. Moreover, the increases in spending on health and education failed to match the rise in the numbers of patients and pupils.

Demographics presents a further challenge. UK government spending on healthcare was broadly stable as a share of national income during the 2010s. However, this ratio increased by about half a percentage point in the 2010s in Germany and in France, and by nearly two percentage points in Japan, to meet the demands of an ageing population.

This prompts the question of why on Earth anyone thought austerity was a good idea. The official view at the time, both in the UK and elsewhere, was that it

"Economic prospects for this year and next have brightened considerably"



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Keir Starmer and Rachel Reeves may be feeling far less cheerful in a year's time

was necessary to tighten fiscal policy, even at the cost of a weaker economic recovery, in order to prevent an even worse outcome. UK politicians and officials were particularly worried by the financial crisis then beginning to engulf Greece.

And they believed that the economic drag would at least be partly offset by an increase in private spending, as tight control of public spending kept interest rates low and prevented “crowding out”. Supporters of austerity can also point to the apparent success of the policy in stabilising the ratio of public debt to national income at around 80% by the second half of the 2010s, before another jump in the wake of Covid.

Was austerity a mistake?

But most economists now, by contrast, think that austerity was a mistake. Instead, the government should have exploited low interest rates to increase spending, both to provide an immediate boost to demand and to increase investment for the longer term. Critics of austerity have also noted that the international creditworthiness of the UK was never seriously in doubt. Unlike Greece, the UK was not a member of the euro and therefore retained its independence on monetary policy and the ability to create money to service debts.

Looking back, it is impossible to be certain what would have happened without the tight control of spending. Opponents of austerity might argue that a more expansionary policy could have boosted growth and therefore lowered the ratio of debt to GDP more quickly. Supporters might counter that interest rates would not have remained so low if fiscal policy had been loosened instead, and that simply pumping more cash

into unreformed and inefficient public services would not have delivered much better outcomes.

But it is not unreasonable to argue that austerity hollowed out the state to such an extent that large parts of it, including many public services, are now barely functioning. The NHS and social-care systems were ill-prepared for Covid, while underinvestment in alternative energy sources left the UK especially exposed to the fallout from Vladimir Putin's invasion of Ukraine.

It is also hard to disagree with the argument that the state underinvested during this period in “public goods” that cannot be left to private markets, such as flood defences, the military, and the criminal justice system, and in other critical infrastructure projects, such as reservoirs, the transport network, and nuclear energy.

The big question, though, is can Labour do any better? Labour has prioritised boosting productivity, with the aim of securing the highest sustainable growth rate of any major economy. It is not clear how this would be done. But Labour's manifesto does at least set out the broad principles: delivering economic stability with tough spending rules; a new partnership with business to boost growth everywhere; a National Wealth Fund to invest in jobs; planning reform to build 1.5 million new homes; devolution of power across England; and a New Deal for Working People.

In particular, Labour's would-be chancellor, Rachel Reeves, has promoted a new approach to economics: “securonomics”. According to the manifesto, this “will depend on a dynamic and strategic state. This does not mean ever-growing government, but it does

“The NHS and social-care systems were ill-prepared for Covid”

Continued on page 22

Continued from page 21

mean a more active, smarter government that works in partnership with business, trade unions, local leaders, and devolved governments”.

This leaves a great many questions unanswered. The first, and most immediate, is where will the money come from, especially for increased investment in public services. Rachel Reeves has doubled down on the existing fiscal and monetary framework, including the rules on government debt, leaving little room for higher spending without higher taxes.

The current plans assume that total spending will grow by 1% a year in real terms, which could easily be swallowed up by healthcare and defence, implying deep cuts in other budgets, such as the Home Office. Sounds familiar? This could be austerity all over again. Indeed, with interest rates back to more normal levels and debt now much higher, the original economic case for austerity is just a little bit stronger.

It is therefore hard for any party to rule out tax rises. The Conservatives proposed to solve this conundrum by boosting productivity in public services, and by savings on the welfare bill. But it may be even harder for Labour given the extra pressure for more spending from the party's core supporters and their greater willingness to see taxes rises to pay for it (on the assumption, of course, that those taxes are paid by other people).

Labour has said it will not be necessary to raise taxes to pay for the additional measures in the manifesto, aside from the tax increases already announced (which include extending the “windfall tax” on energy firms, imposing VAT on private school fees, and a further tightening of non-dom tax). Labour has also ruled out any increases to the main rates of personal income tax, national insurance, VAT, and corporation tax.

However, this still leaves plenty of scope for raising more revenue in other ways. It is easy to imagine a scenario where the new chancellor says that the public finances are in a worse state than she had anticipated. This would be a bit of a cop-out, but a newly elected government with a large majority may be able to get away with blaming the last lot.

Labour's promise not to raise taxes on “working people” is pretty meaningless too. It could just be interpreted as a commitment not to raise taxes on income from employment. But in practice, many working people also pay tax on income from capital or savings. It is important also to look beyond where the initial impact of a tax lands.

A large increase in capital taxes that, for example, hammers investment and jobs, would also have knock-on effects on working people. Obvious early targets include an increase in capital gains tax on second homes and closing some of the loopholes in inheritance tax. But this might only raise another £10bn, meaning Labour would be unlikely to stop here.

Another failed industrial strategy?

The second set of questions concerns Labour's relationship with business. There is plenty of talk about a new “strategic partnership”. But it is uncertain how this (and the National Wealth Fund in particular) would differ from the failed “industrial strategies” of the past, where successive governments tried and failed to pick winners worthy of taxpayers' support. The state may perhaps have some role to play in supporting the pure science that can lead to new inventions. But when it comes to creating commercial applications, or the diffusion of these innovations, there is ample proof that markets are more effective than government planning.

Labour has also promised to improve on the Brexit deal. But the Conservatives are moving in this direction as well, while still starting to exploit the benefits of



The Bank of England is partly to blame for lacklustre growth

leaving the single market and customs union (yes, there are many). There is plenty of talk too about a wave of private investment ready and waiting to boost the economy, especially for spending on infrastructure. But it is uncertain how this would differ from the old “Private Finance Initiative”, where taxpayers ended up paying higher interest rates and bearing more risk just for the sake of keeping debt off the government's books.

Thirdly, and related to this, how will Labour be able to balance its relationships with businesses with its relationships with the trade unions? Labour's New Deal for Working People will make the jobs market less flexible and increase the burdens on employers. The unions may also feel emboldened to resist the reforms that are needed to boost productivity in the public sector. The fourth big issue is the cost of energy. British households are already paying just about the highest prices for electricity in Europe. But Labour's unrealistic plans to decarbonise UK power by 2030 will load more costs onto consumers, businesses, and taxpayers.

Finally, Labour will have to be a lot more successful than the Tories in overcoming the “not in my back yard” (nimbyism) attitude that has long frustrated planning reform and held back infrastructure spending and house building. Sadiq Khan's miserable record on housing as London's Labour mayor is not encouraging.

However, there are good reasons to be optimistic. A commanding parliamentary majority should help Labour to overcome any political resistance. Labour's strong support among younger, urban voters desperate for affordable housing is a plus too. Above all, Labour appears to have made house building its top priority for the first weeks of the new government, including a plan to kick-start local reviews of “green-belt” boundaries. This is something that the Conservatives have been unable to deliver. But independent research suggests that allowing more building on just 1% of the green belt could get Labour halfway towards its target of 1.5 million new homes over five years.

There are reasons for scepticism as well. In particular, it is hard to square a national target for house building with Labour's plan to devolve more power to local authorities. The plan also relies on front-loading the spending on infrastructure to support an influx of new residents, again prompting the question of where the money will come from. Still, getting Britain building again could be the biggest single achievement of a new Labour government. There is still a lot else that could disrupt the economy and undermine productivity. But it is easy to see why so many voters are willing to give Labour a chance.

Julian Jessop (@julianhjessop) is an independent economist

“Labour's supporters are keen on tax rises, assuming they are paid by other people”

My top tips of the past two years

Since early April 2022 this page has highlighted more winners than losers



Rupert Hargreaves
Investment columnist

Over the past two years, I have recommended a wide range of stocks on this page. Overall, I've been right more times than I've been wrong, which is always encouraging for investors. It is worth reviewing mistakes and successes to understand what we can learn. This is by no means a comprehensive list of the ideas I have outlined in this magazine, but a sample of the winners and the losers.

Gushing dividends

The first two companies I ever recommended in these pages were Rio Tinto and BHP. In April 2022, I argued that these businesses had the scope to return vast amounts of cash to investors over the following years. That's just what happened. Rio returned 735p per share in 2022 and 2023 (14% of its share price at the time of my recommendation), while BHP returned 476p (19% of its share price at the time of the recommendation). Analysts expect this trend to continue, with a yield of 5.1% pencilled in for BHP in 2024, followed by a yield of 5.3% in 2025. Rio's forecast yield is 6.6% for 2024 and 6.5% for 2025.

In November 2022, I recommended that investors buy shares in the pub and hotel group Fuller, Smith & Turner when it was still recovering from the pandemic. Still, I liked its prospects, freehold-rich balance sheet, 2.5% dividend yield, and shareholders'



Fuller, Smith & Turner has risen by 37% since November 2022

discount of 15% in its pubs and hotels. The stock has returned 37% since the tip, excluding dividends. The company recently reported a bumper set of results for 2023, hiked its payout and outlined plans to spend millions on share buybacks while investing in its estate.

In December 2022, I highlighted AG Barr, the maker of Irn-Bru. This stock has returned nearly 20% since my tip (excluding dividends) thanks to profit growth and acquisitions, specifically that of Boost Drinks. With a yield of 2.7%, £49m of net cash on the balance sheet and two years of projected double-digit earnings growth ahead of it, there are still plenty of reasons to buy.

Reits disappoint

Throughout the first quarter of 2023, I focused on real estate investment trusts (Reits). I highlighted Supermarket Income Reit in January 2023,

and sadly, this has been a disappointment. Shares in the company have fallen by around 27% since the recommendation, although the dividend yield of 8.4% has softened the blow. What attracted me to the business in the first place, a high-quality property portfolio with inflation-linked contracts and blue-chip tenants, hasn't changed; the stock is also trading at a 20% discount to its last reported net asset value (NAV). On that basis, I think there is still value here.

I picked out Industrials Reit in February 2023, when the shares were trading at around 125p. A few months later, in April, private-equity giant Blackstone offered 168p per share to buy the company, delivering a handsome return in just a few months.

Another property clanger was Great Portland Estates, or GPE. I tipped this stock at the beginning of June 2023 on the basis that its portfolio of high-quality London offices, mainly based in the West End, was undervalued. In some respects, I was on the money.

The group recently reported its 2023 results and unveiled a high single-digit jump in leases renewed as tenants competed for the best-quality office space. Its properties, moreover, were fully occupied at the end of the year. However, the value of the company's portfolio has fallen as interest rates have consolidated at a higher level. Concerns about its balance sheet and the cost of its development pipeline have also intensified. At the end of

May, GPE laid out plans to raise £350m via a rights issue to offset some of these difficulties. I believe the company's portfolio has value, but the market doesn't. The stock has produced a total return of less than 1% over the past year.

Insurers prove a safe bet

Admiral (recommended in September 2023) was one of my better tips. Lower losses and higher insurance premiums charged to consumers have helped boost the company's bottom line. With dividends, the stock has returned 31% over the past year.

In December 2023, I recommended Premier Foods and Lancashire Holdings, the owner of Mr Kipling and other brands, and a Lloyd's of London insurance group. Both have performed relatively well in a very short space of time, with Premier Foods returning around 40% and Lancashire returning 20%, thanks to hefty special dividends. Both could grow further as they benefit from upswings in their respective markets. Premier Foods has a particularly exciting future after shedding the bulk of its pension commitments.

At the beginning of this year, I recommended two very different companies, The French Champagne group Laurent Perrier and Lloyds Banking Group. Laurent Perrier has, so far, proved to be a dud. The stock has fallen by 6% year-to-date due to concerns about the state of the luxury-goods industry worldwide, the rising competition of English sparkling wine, and climate concerns.

On the other hand, Lloyds has been a winner, with a gain of nearly 20% on a total return basis as the lender has benefited from the higher interest-rate environment and improved sentiment towards the UK economy. I'll stop at January 2024 because I believe anything less than six months is far too short to judge a company's performance. Still, when I look back again in a year or so, I hope I'll also be reporting on a record with more winners than losers.

AG Barr (LSE: BAG)

Share price in pence



The ins and outs of IHT rules

Negotiating inheritance tax, notably regulations relating to gifting, can be extremely complicated



Ruth Jackson-Kirby
Money columnist

We have one of the most complex tax systems in the world. The tax code is 21,000 pages long, 12 times longer than the complete works of Shakespeare. So it is not surprising it regularly causes confusion. One especially dense thicket of rules, regulations and allowances is inheritance tax (IHT). If you are worried about a future inheritance-tax bill, here's everything you need to know about the rules surrounding gifts.

Let's start with the IHT threshold. Only estates worth more than £325,000 are subject to IHT. On top of that we each have a residence nil-rate band of £175,000. This means up to £175,000 of your primary property can be passed to your children and grandchildren without attracting IHT.

If you are married or in a civil partnership you can leave everything to your surviving partner and it won't be liable for IHT. If you haven't used any of your IHT allowance on gifts to other people, then your spouse can add it to their own when they die. So, they could hand on an estate worth up to £650,000 plus property worth up to £350,000. These thresholds protect most people from ever having to pay the hated "death tax". Note that less than 4% of estates paid IHT in 2020-2021. The Institute for Fiscal Studies estimates that the

figure will increase to 7% by 2032-2033. Even then, 93% of people will die without having to worry about the levy.

Gifts that keep giving

So let's look at the rules around gifting to reduce a future IHT bill. Firstly, the simple bit. You can give away up to £3,000 every tax year and that will not be included in your estate when you die. Examples of gifts include money, jewellery and investments listed on the London Stock Exchange.

The £3,000 gifting allowance is the grand total of your annual gifts, not a sum designated to a particular person. So, you could give £1,000 to one person, £1,500 to another and £500 to another or you could give £3,000 to one person.

You can also make as many gifts of up to £250 per person as you like under the small gift allowance, if that person hasn't already benefited from your £3,000 allowance. If you are heading to a wedding or civil partnership this tax year, you can give an extra IHT-free gift. The amount you can give depends on how you are related to the happy couple. If one is your child, you can give £5,000, grandchildren and great-grandchildren can receive £2,500 and you can give £1,000 to anyone else. This is on top of the £3,000 allowance.

You can make regular gifts to somebody out of your income and they will be IHT free, so long as it can be shown



The £3,000 gifting allowance represents the grand total of your annual presents

that they form part of your normal expenditure, that they are made from your regular income (not out of capital) and you are left with enough income to maintain your usual standard of living. You should keep records to show that these requirements are met. These payments are on top of the other gifting allowances.

The seven-year rule

Now for the complicated bit, the seven-year rule. If you give away more than the amounts mentioned above, then it will be known as a Potentially Exempt Transfer (PET). If you live for more than seven years after you made a gift, it will be exempt from IHT. But if you die before the seven years have elapsed, the value of the gift will be included in your estate when IHT is calculated.

When valuing your estate, gifts made within seven years are deducted from your IHT threshold first. So let's say you give away £100,000 and die three years later, leaving an estate worth £500,000. The gift is deducted from your £325,000 IHT allowance, leaving £225,000 to be used against the remaining estate. That means IHT at 40% would

be levied on the remaining £275,000, creating a £110,000 tax bill.

If a PET exceeds your IHT allowance and you die within seven years, the excess will be taxed on a sliding scale depending on how much time has passed since the gift was made. If you die within three years, it will be taxed at the standard IHT level of 40%, but this tapers away to 8% in the sixth year. Let's say you give away £400,000, then die five years later, leaving an estate worth £200,000.

The PET is set against your IHT allowance and exceeds it. That means £75,000 will be taxed at 16% thanks to taper relief. The rest of the £200,000 estate will be taxed at 40%. That adds up to a £92,000 inheritance-tax bill. If multiple gifts have been made over the seven years before your death, then the oldest will be offset against your inheritance-tax allowance first.

The golden rule

The effect of all this is that taper relief on gifts made less than seven years before you die will only reduce your total IHT bill if the total value of the PETs exceeds the £325,000 allowance.

Many people assume that the potential liability on any gift of any size will be tapered and that this will help to leave more of the allowance to set against the rest of their estate when they die. However, because of how the taper relief rules operate – ie, that the PETs are offset against your allowance before the remaining estate and because it is the tax rate on the PET, not the value of the PET itself, that is tapered – it doesn't work that way.

Parking overhaul dismissed as poor

Under a new voluntary code of conduct, private car parks will allow drivers an extra ten minutes of parking time before issuing a ticket. Firms will also have to display clearly the rules of the car park and have a clear process for appeals against tickets. The new set-up covers members of the International Parking Community (IPC) and the British Parking Association (BPA) and comes into effect from 1 October. But motoring groups say the new rules fall short of government promises, and companies have until December 2026 to comply fully with them. If you receive a fine you think is unfair from a private parking

firm – usually called a Parking Charge Notice – don't pay it. "Usually, paying is seen as admitting the ticket was right – so you won't be able to appeal," says Citizens Advice. Check if the company is part of an accredited trade association (ATA) such as the IPC or BPA. If they are accredited, write to them using the details on the BPA or IPC websites explaining your objection and include your evidence. If this fails, appeal to the ATA they are a member of. If they aren't a member of the ATA and you received the ticket in the post, you can complain to the DVLA as they may have got your details illegally.

Beware CGT reforms

If you plan to sell your firm, look out for changes to capital-gains tax rules



David Prosser
Business columnist

Planning on selling your business in the next few years? You might have to pay more tax on the proceeds than expected. The next government could very well decide capital gains tax (CGT) is a good way to raise revenues, given those commitments not to increase income tax, national insurance or VAT.

This isn't a party-political point. Yes, Labour has consistently refused to rule out changes to the CGT system. But the last government review of the CGT rules was ordered as recently as 2020 by the then-chancellor – one Rishi Sunak. Eventually, ministers backed away from reforms, not least because the priority was to deal with Covid, but the review was a warning shot.

There's no denying that business owners get a generous break from the current CGT regime. When most people sell assets, the standard rate of CGT, 20%, is payable on any profit they make over and above their annual capital gains allowance, which was reduced to just £3,000 at the beginning of the current tax year. By contrast, most sellers of privately-owned businesses qualify for business asset-disposal relief – or entrepreneurs' relief, as it was known until recently.

This tax break allows business owners to pay only 10% CGT on their first £1m of profits when selling their enterprises. Assuming their company delivers a return worth more than £1m, business asset-disposal relief gives them a windfall worth the best part of £100,000.

Future government moves to dump this relief would therefore be costly. And if they were to be combined with an increase in the CGT rate, the pain would be even greater. The 20% CGT rate payable on gains from most asset sales looks modest compared to the higher and additional rates of income tax – 40% and 45% respectively – so a hike is

certainly possible. At the extreme, assuming CGT rates were matched to income tax rates, someone selling a business at a profit of more than £1m might face a bill that is almost £350,000 higher than it would be today.

Disposals to family members could also fall foul of CGT reforms. Today, if you sell your

It may soon become harder for small firms to wriggle off the taxman's hook

business for a price that does not fully reflect its market value – or give it away for nothing – your CGT calculation will be made as if you had received the

full value of the asset.

The only way to avoid a nasty bill is to apply for

holdover relief. This essentially passes on the CGT liability to the buyer of the business, who must pay any extra tax owed when they dispose of it. These arrangements are common

where business owners are passing on a company to their children.

Holdover relief, however, isn't set in stone. It could be restructured so that it becomes less generous, or even abolished altogether. That would pose quite a headache for many family-run companies.

Where does this leave business owners? The practical reality is that we simply don't yet know if there will be CGT reforms, or what they might include. Trying to time the disposal of your business to avoid a



Firms struggle with Covid loans

Thousands of small businesses struggling to repay loans taken out during Covid are hoping they may get more time. Groups including the Federation of Small Businesses (FSB) are pushing for a change in the rules of the pandemic loan schemes amid growing concern that the cost of repayments could push some firms into bankruptcy.

Already, almost one in five loans taken out under the Bounce Back scheme have seen defaults. The scheme enabled small firms to borrow up to £50,000 to get through the pandemic, with the state committing to repay banks if firms were unable to. A "pay as you grow" arrangement on Bounce Back loans does allow businesses to take payment holidays and to extend the term of their loans, but many firms still appear to be finding it difficult to manage their debt.

The Coronavirus Business Interruption Loan Scheme (CBILS) is also seeing repayment difficulties and currently offers borrowers less flexibility, although term extensions are available. Around one in ten companies that made use of CBILS have fallen behind on their repayments.

Business groups such as the FSB now want to see additional options introduced for small businesses in difficulty – not least to avoid the taxpayer being burdened by large sums. So far, however, no additional assistance has been offered. The British Business Bank, which runs the schemes, urges businesses in difficulties to talk to their lenders.

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Petty cash... a big productivity problem

● The UK's problems with low levels of productivity are well documented. But small businesses seem to have a particular problem in this area. Consultant McKinsey warns the typical small company is only 84% as productive as the average larger one. Small companies are missing out on thousands of pounds worth of value per employee. That's bad for the business, but also for the broader UK economy – McKinsey says closing the productivity gap would add 2.1% to GDP. Common solutions include increased use of technology, more collaboration with partners such as suppliers, and expansion into new markets.

● Is your business in a position to install electric-vehicle charging points – in a staff car park or

garage, perhaps? If so, you may be able to claim back 75% of the cost of the work through the government's EV Infrastructure Grant. The scheme offers support worth up to £15,000 to small and medium-sized businesses, with up to £350 for each charging point installed, and up to £500 for each parking space enabled with supporting infrastructure.

● Small firms across the UK are forfeiting on £7.5bn of interest each year by failing to place cash on deposits in the most competitive business savings accounts. Allica Bank warns that businesses routinely fail to shop around for good savings deals. Firms in London and the Southeast alone are losing £2bn a year, but those in every part of the UK are missing out.

The world's best energy and mining companies with attractive valuations



Two professional investors tells us where they'd put their money. This week: Keith Watson (top) and Rob Crayford of CQS Natural Resources Growth and Income



CQS Natural Resources is a £154m investment trust focused on global energy and mining equities. We pick the commodities we are most bullish on and the stocks we think are most attractively valued. In normal times valuations are reflective of a bullish commodity outlook, but we believe distortions in the market led by an increased focus on the environment have allowed us to find attractively priced stocks in commodities we expect to appreciate.

This is driven by several factors. Institutions have sold fossil-fuel producers owing to constraints imposed by environmental, social and governance (ESG) criteria, while banks don't want to lend to the sector, meaning the stocks are cheap and new supply remains constrained. Similarly, sentiment for precious-metals miners continues to remain weak despite gold at all-time highs. These both create attractive opportunities.

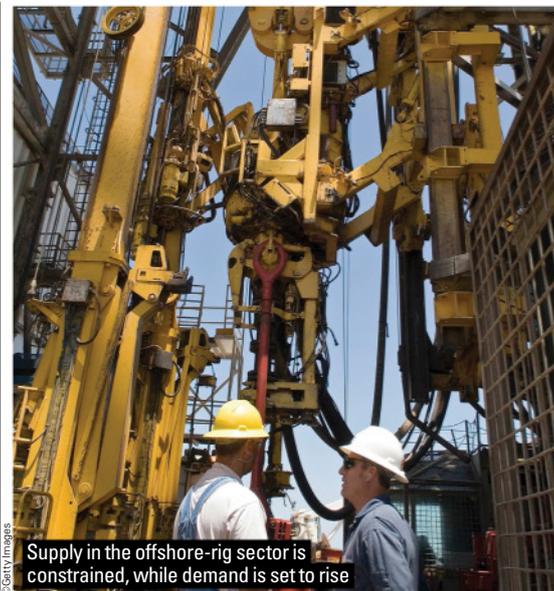
The next generation of energy suppliers

NexGen Energy (Toronto: NXE) is a Canadian-listed, £3bn uranium miner with the best undeveloped mine in the world in Canada's Athabasca basin. Uranium is used for nuclear power, the only zero-carbon form of base-load power. Demand for atomic energy is set to grow in the West as countries realise it will be crucial to meeting carbon-reduction targets.

This means reactors in the West will continue to see life extensions, with small modular reactors (SMRs) becoming an additional driver at the end of the decade. China continues to build ten reactors per year, partly for energy-security purposes, supporting demand. Supply growth remains constrained given years of underinvestment in exploration and development, while long permitting timelines for uranium should also help sustain tight markets and high prices for years to come.

Australia's Emerald Resources (Sydney: EMR), worth £1.3bn, is a gold producer in Cambodia with an asset in Australia. Funded by cashflows from their low-cost Cambodian gold mine, the Australian project should support a rerating of the stock as well as a strong pipeline for self-funded future growth. Cambodia also offers growth potential, with some exciting new discoveries. This best-in-class management team can build new mines more rapidly and cheaply than peers, as evidenced by the seven mines they have built previously. CEO Morgan Hart owns £74m of stock, remaining heavily aligned with shareholders. This stock

"Emerald Resources' low-cost Cambodian gold mine offers growth potential"



Supply in the offshore-rig sector is constrained, while demand is set to rise

has been one of the strongest performers in the sector, but we retain our position as the company should continue to deliver healthy organic growth over the next four to five years.

Emerging markets boost demand for oil

Consider also Transocean (NYSE: RIG), a £3.5bn US-listed offshore-rig operator. We like sectors with structural supply constraints while demand is projected to improve. Offshore rigs fit the bill. No one is building new large offshore rigs, as current rigs trade at around 50% of their new-build cost, while the lead time on a new build is seven years and there is no certainty of future demand or support from banks in thrall to the ESG agenda. Demand is projected to rise as emerging markets, especially India and China, require more oil, leading to stronger investment by the oil majors.

Day rates have already increased from \$100,000 per day to around \$500,000 for Transocean's high-end rigs, where the group dominates the market. But the nature of long-term contracts means this will continue to feed through as contracts roll over into newer, more expensive contracts over the next couple of years.



The God of Silicon Valley is reborn

Larry Ellison, the founder of Oracle, was a pioneer of the US tech scene in the 1970s, and was settling into his role as Grand Old Man. The AI boom has given him a new lease of life. Jane Lewis reports

There are plenty of videos on YouTube extolling Larry Ellison as “The God of Silicon Valley”. Some (though probably not Ellison himself) might quibble, but, in an industry fixated on youth, the Oracle founder, 79, is certainly a Grand Old Man. A pioneer of the 1970s Valley scene, he has steered his database company through every twist and turn of the industry since staging more apparently improbable comebacks than any of his vaunted peers.

Astonishing turnaround

In what is probably the twilight of his career, Ellison has just pulled it off again, says Lex in the Financial Times, as one of the big winners of the boom in artificial intelligence (AI). Four years ago, Oracle – then heavily reliant on “mature cash flows” – seemed destined to fade into dinosaur territory. But in a turnaround that even Ellison describes as “astonishing”, it has found a new role as the cloud-based “backbone” of the large language models that power the likes of ChatGPT.

The reward for this pivot is a near doubling of Oracle’s market capitalisation to roughly \$400bn, taking Ellison (who holds 40% of shares) back to his old stamping ground at the top of the rich lists. His personal wealth jumped 14% “overnight” last month as shares surged on news of Oracle’s “bumper outlook”, says Fortune. The macho, sailing-obsessed entrepreneur is now the “seventh richest person on Earth”, worth around \$138bn. That equates to rather a lot of yachts.

Ellison, as Vanity Fair observed in 1997, has always been driven by “burning ambition” – often taking the form of personal feuds. For years, he was obsessed



“In 1964, he put every penny he had into a turquoise Thunderbird and headed west”

with one-upping Bill Gates. His other stand-out character trait was a “pendant for making outrageous, publicity-seeking pronouncements” to gain a reaction – evidence of a “tender psyche”, perhaps attributable to his challenging start in life.

Born in the Bronx in New York at the end of World War II to a teenaged single mother, Florence Spellman, Ellison caught pneumonia at nine months and nearly died. His mother sent him to Chicago to live with a great-aunt and uncle who adopted him. He lost touch with her completely until 1991 when – spurred by the near-death experiences of both Oracle (which hit a financial crisis) and himself (in a body-boarding accident) – he hired an investigator to trace her. A reconciliation was effected but he never found his father.

Ellison went to high school in Chicago’s South Side, but dropped out of the University of Illinois when his adoptive mother died. A second attempt at college, at the University of Chicago,

also ended abruptly. By then he had discovered the Shangri-La of California in “the first flowerings of the hippy revolution”. In 1964, he put every penny he had into a turquoise Thunderbird convertible and headed west. “The one marketable skill he had was the modest amount of computer programming he’d acquired in high-school.” Ellison “bounced around from job to job” – taking in stints at Wells Fargo and Amdahl – before founding his own company in 1977 with \$2,000 of funding, says Business Insider. The idea was to create a “relational database”, then a “revolutionary idea”. Renamed Oracle after its flagship product in 1982, the company grew fast as the PC revolution got under way – floating in 1986. By the time Ellison was 49, he was a billionaire.

Barnstorming days

Flamboyant and controversial, Ellison built the company in his own image. Ellison had expensive tastes, spending lavishly both on his personal life and expanding Oracle. His acquisitive drive saw Oracle grab companies such as PeopleSoft and Sun Microsystems at the start of the century. Meanwhile, he indulged his love of competitive sports by racing sailing boats and buying tennis tournaments. In 2012, he bought the Hawaiian island of Lanai. Ellison has always been supportive of fellow mould-breakers – for good and bad. He sat on the board of the now disgraced Elizabeth Holmes’ Theranos, backed Elon Musk at Tesla and is a long-time Donald Trump supporter. The message from Oracle’s latest renaissance is that his own days as a barnstormer aren’t over yet.

Margot Robbie branches out into gin

Margot Robbie “defines any attempts at lazy categorisation”, says Roisin Kelly in The Times. “Blonde Aussie bombshell and global pin-up? Yes, of course. But she has also become a mogul”: a producer, investor, and, as of last month, “now a liquor baron too” – she has started her own gin brand, Papa Salt.

Robbie (pictured), 34, is perhaps best known for her starring role in the hit film



Barbie, which brought in \$1.4bn, and was produced by a company she founded, Lucky Chap, which has racked up 25 Academy Award nominations, 18 Bafta nominations, and raked in billions in box-office takings worldwide. Robbie first won fame playing Jordan Belfort’s wife in *The Wolf of Wall Street* and for her Academy Award-winning role as figure skater Tonya Harding in *I, Tonya*.

Forbes puts her estimated net worth at £46m.

She has come a long way from humble beginnings, says Julianna Cabili for Tatler Asia. Before making her way to the US, Robbie made a name for herself as a recurring actress in the long-running Australian soap opera *Neighbours*. She left the series in 2011 to pursue a career in Hollywood. Making it there was more challenging than launching a gin brand, says Robbie. There you’re basically selling an unproven idea. Gin is at least a tangible product.

Robbie is, of course, “far from the first A-lister to stick her name on a booze brand”, says Kelly. Everyone from Brad Pitt to Ozzy Osbourne has “waded into” the gin industry, a global market worth £12.7bn. Gary Barlow and Snoop Dogg are making wine, Kendall Jenner has backed a tequila and Cate Blanchett is the creative director of a saké brand. But Robbie and her husband and business partner have no further plans for conquering this world. “Our passions are movies and drinks,” says Robbie. “And now we’ve ticked them both.”

Five fabulous hotels in Lisbon

From fashionable and chic to old-world style and elegance, Portugal's capital has it all

A base for explorers

The Ivens has added “yet another stunning splash of colour” to an already colourful city, says Grace Taylor on *Elite Traveler*. “Painted in a chic shade of pink and spotted with white, chapel-like windows, the 19th-century building melts perfectly into the capital’s timeless charm.” It sits in the quiet Chiado neighbourhood, at the crossroads of two streets named after famed Portuguese

explorers Roberto Ivens and Hermenegildo Capelo. The theme runs throughout the aptly nicknamed “Explorer’s Hotel”, which is fitting seeing as The Ivens serves as “a perfect base for discovering the ever-evolving city”. While the public areas are maximalist – animal-print armchairs, dark wood bookshelves, tall tropical plants and chunky chandeliers – the rooms are more muted, creating “an ambiance of tranquillity”.



Explore the city from The Ivens

“For seafood enthusiasts, the upstairs Crudo Bar offers a variety of Lisbon’s freshest

shellfish, paired with a glass of chilled Champagne.”
From €431, theivenshotel.com

Lisbon’s “bougiest” hotel

The Vintage Lisbon is one of the city’s “bougiest” boutique hotels, says Estella Shardlow in *The Times*. It delivers a “masterclass in mid-century design, whether it’s the lobby’s low-slung leather couches and pendant lamps or the in-room bar carts”. The latter spaces don’t “shy away from punchy colour schemes [either] – a backdrop of inky blue, rich terracotta or moss green awaits”. Entry level rooms are spacious, while the suites “dial up the drama, featuring double rain-head showers and Juliet balconies”. The seafood dishes in the restaurant, Blue Bistrot, are “incredible” – “don’t miss the *bacalhau a bras*, a creamy, cockle-warming blend of codfish, eggs and straw potatoes” and head to the V Rooftop Bar for cocktails and views over Castelo de São Jorge. Swap the sightseeing altogether for a stint in the hotel’s subterranean spa – “a cave-like den containing a moodily lit pool, huge hammam and sauna”. From €220, thevintagelisbon.com

Palatial surroundings and fine dining

“Stone floors, a grand spiral staircase, original moulding, and magnificent bouquets of flowers” greet you the moment you step inside the Verride Palácio de Santa Catarina hotel, says Rosa Heyman in *Cosmopolitan*. The rooms are spacious and come with king-sized beds and “spa-like” bathrooms, along with “gorgeous” views of a historic quarter of the city. “Steps from the hotel’s covered [rooftop] terrace... you’ll find a beautiful swimming pool and several spots [to take a nap].” It’s just the place to relax after “a long day of traipsing along the cobblestone streets or touring Castelo de São Jorge”. Here, you will also find the bar for cocktails, and, one floor below, the fine-dining Suba Restaurant. A stay at Verride offers “comfortable luxury, with exquisite design and highly accommodating hospitality. If you’re in the mood to treat yourself, you can’t go wrong”. From €522, verridesc.pt



The historic side of the city

There aren’t many locations as appealing as the historic Alfama neighbourhood, says Clara Laguna for *Condé Nast Traveller*. It is “the soul of the city”. Here, local boutique



chain AlmaLusa has opened its third hotel, “embracing all things Portuguese – from interior design to cuisine”. The 25 rooms are “bright and warm, functional but with charming details” and each is unique. Three of the suites have views on the River Tagus, while the others look out on the cathedral of La Sé and the Alfama. There are decorative ceramic vases and trays made in Portugal in the rooms and the wooden floors creak – “a reminder that this building has a long history”. A Roman interior courtyard was even uncovered here, which has been preserved in a part of the building that is not open to the public. On the ground floor, the “diminutive” Delfina Café is “flooded with sunlight” and decorated with vintage maps. “You will long remember the homemade croissants served at breakfast, so light and delicious that they may be a highlight of your stay in Lisbon.” From €141, almalusahotels.com

Elegant luxury up in the hills

The Corinthia Hotel Lisbon occupies a position up in the hills, close to the Gulbenkian Museum, with views over the city and the Aqueeduct of Águas Livres, says Mary Lussiana in *The Telegraph*. Following a recent refurbishment, the elegant rooms and suites have been decorated “in a palette of light blues, greys and beiges, accessorised by Lisbon-sourced art. Bathrooms are clad in marble, with double sinks, rain showers and, in many rooms, egg-shaped standalone tubs. In the public areas, you will find “abundant fresh flowers which gleam under twinkling chandeliers” and, on the second floor, a “spacious” spa, with an indoor swimming pool, a well-equipped gym, and a water therapy circuit. Diners can choose from two restaurants. There is Evra, which places Portuguese cuisine at the heart of its menu. And, out on the terrace, there is Soul Garden, where the food “combines a dazzling blend of Asian and Latin American influences”. From €290, corinthia.com



The Cayenne comes of age

Two decades after its launch, the luxury SUV from Porsche has found its purpose

We're often told to find a purpose in life as we transition from adolescence to adulthood, says James Fossdyke in *The Sunday Times Driving*. "Some find it quickly, setting their sights on a career early and never wavering, while others take a little longer to work out where they fit in the grand scheme of things." If the new Porsche Cayenne GTS were a person, it would fit into the latter camp. Porsche would say its purpose is as a car for driving enthusiasts. But it's not easy to market a "massive, 2.2-tonne luxury SUV... [for] people who wear racing booties without a hint of irony". Then again, the Gran Turismo Sport (GTS) variants of Porsches have often come to represent "a kind of sweet spot in the range" – additional tweaks to the chassis and more power, says Ellis Hyde in *Auto Express*. Such is the case for the Cayenne GTS.

It uses the same twin-turbocharged four-litre V8 as in the cheaper Cayenne S, but with an extra 39bhp and 40Nm of

torque, "meaning there's now 493bhp and 660Nm at the driver's disposal, and enough for [it] to do 0-62mph in just 4.4 seconds". There is also a revised eight-speed automatic transmission and the active all-wheel drive system, which "sends all the grunt to the road", has received an extra independent water-cooling circuit to help when the car is "being driven hard for long periods".

An enjoyable all-rounder

"The stronger body control is welcome, the dual-valve damper tech managing the weight through direction changes when you're taking advantage of the V8's willingness to perform", says Stuart Gallagher in *Evo*. The car flows through softer turns and maintains its speed. "On tighter, more challenging routes, the V8 is best used to fire you out of the corner." It is "precise and remarkably composed when pushed". It remains the best in class as a high-performance SUV "all-rounder".



Porsche "can congratulate itself on a job well done", say Richard Lane and Matt Saunders in *Autocar*. Two decades on from its launch, "the big Porsche seems to have found an aesthetic that doesn't automatically repel critics, but that keeps patrons happy... This is a complete product, meticulously honed". "If you have been waiting for an uncomplicated, relatively traditional, but really enjoyable luxury SUV to... keep forever, this may be it."

From £106,100,
[porsche.com/uk](https://www.porsche.com/uk)



Wine of the week: Jam with these English wines

NV Simpsons, Chalklands Classic Cuvée, England

£29, [simpsonswine.com](https://www.simpsonswine.com)



Matthew Jukes
Wine columnist

I expect everyone will need a big drink after yesterday's high drama. I type this column a week before election day, so I have no way of predicting the results, but in the spirit of fair play, I have chosen a wine, well, actually three, today that are all celebratory and calming so all parties and their supporters can drink from the same cup with a degree of confidence for the future.

Chalklands is a superbly refreshing, English sparkling wine with no raw edges, just



scintillatingly clean fruit. It is adorable, seamless and generously fruity with strawberry and green apple notes perfectly interwoven and topped with an ice-pick fresh finish. The latest release of this fabulous fizz is the best to date. You can drink this and two other Simpsons beauties at JAM on the Marsh (jamconcert.org), which starts today in Romney Marsh and the surrounding areas. JAM works with leading lights in the fields of music, theatre and visual art, so have

a look at the tremendous programme of events and don't miss out on 2023 Simpsons Gravel Castle Chardonnay (£19.50), a gorgeous, seamless, pithy and refreshing chardonnay that is our home-grown answer to Chablis. Also, 2022 Simpsons Railway Hill Rosé (£20) is a delicious pinot noir rosé that layers sumptuous cherry and strawberry fruit with teasing spices and strident acidity. This is Railway Hill's finest performance to date, with generosity and silkiness in every sip.

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

This week: properties with wisteria-clad façades – from a Cotswold stone cottage in Gloucestershire, to



▶ **Causeway Farmhouse, Woolavington, Somerset.** A Grade II-listed former farmhouse with a date stone of 1734, clad in mature wisteria and set in gardens with a range of outbuildings. It has beamed ceilings, inglenook fireplaces, and a country kitchen with an Aga. 5 beds, 2 baths, 3 receps, garden room, barn. £800,000+ Jackson-Stops 01823-325144.



▶ **Walnut Tree House, Lower Teddington Road, Kingston upon Thames, Surrey.** A restored 1720s riverside townhouse with a Victorian extension and a Georgian façade covered in wisteria. 7 beds, 3 baths, 2 receps, breakfast kitchen, office, conservatory, cellars, boat house, gazebo, gardens, parking. £5.5m Savills 020-8447 4410.



▶ **East Appleton, Richmond, North Yorkshire.** This 16th-century manor was once home to Richard Braithwaite, the court poet to James I. The house retains its beamed ceilings, large open fireplaces, and has underfloor heating, a bespoke breakfast kitchen with an Aga, and a range of stone outbuildings in the gardens. 6 beds, 4 baths, 2 receps, garden/dining room, study, stables, tennis court, orchard, 2 acres. £1.25m+ Savills 07816-372002.



to an 18th-century townhouse beside the river in Kingston upon Thames, Surrey



◀ **Westland Farm, Fox Hill, Petworth, West Sussex.** A Grade II-listed 15th-century former farmhouse set off a private lane in the Leconfield Estate in the South Downs National Park. It has exposed wall and ceiling timbers, large inglenook fireplaces, a rear extension with bi-fold doors opening onto the gardens and comes with two one-bedroom outbuildings, a two-bedroom outbuilding, and a home office. 3 beds, 3 baths, 2 receps, garden room, kitchen, 1.73 acres. £3m Knight Frank 01428-770560.

▶ **Pinks Cottage, Fairford, Gloucestershire.** A 17th-century Cotswold stone cottage with later extensions in a popular market town. It has open fireplaces, a kitchen leading onto the garden and an oak-framed atrium with a glass ceiling and terracotta floor tiles. 3 beds, 3 baths, 2 receps, study. £895,000 Butler Sherborn 01285-883741.



▶ **Kings Road, Windsor, Berkshire.** A Grade II-listed townhouse in Windsor backing onto the Long Walk, with a Georgian frontage covered in wisteria. It has sash windows, wood floors, wood panelling, and a large fully fitted kitchen with French doors that lead onto a garden terrace. 4 beds, 2 baths, 3 receps, breakfast kitchen, roof terrace, 2 balconies, garage, stores, front and rear gardens. £1.495m Strutt & Parker 01753-257217.



▶ **White Roding, Dunmow, Essex.** A Grade II-listed former farmhouse clad in wisteria with a two-bedroom barn conversion and a range of outbuildings set in formal gardens. The house has leaded-light windows, exposed wall and ceiling timbers, inglenook fireplaces and a farmhouse kitchen with an Aga. 5 beds, 2 baths, 3 receps, study, garages, stores, converted stable block, gardens, parking, 2 acres. £1.85m Fine & Country 01279-757500.

▶ **Wellers Mead, Denham, Buckinghamshire.** A converted 18th-century former steam and water mill that has been a family home since the 1920s. It has sash windows, period fireplaces, a breakfast kitchen with an Aga, and an indoor swimming-pool complex with a shower, sauna, bar, and French doors leading onto the garden. 7 beds, 4 baths, 3 receps, study, garage with 2-bed apartment above, kitchen garden with glass house, Victorian rotating summer house, 0.9 acres. £4m Hamptons 01753-886464.



TV show of the week

The Stormtrooper Scandal

Available on BBC iPlayer

The focus of the tech world may be firmly on artificial intelligence at the moment, but during the Covid pandemic non-fungible tokens (NFTs) were the big craze. NFTs are essentially a watermark that allows someone to register “ownership” of a piece of digital art on a “blockchain” digital ledger, and they were briefly popular before people twigged that paying large sums of money for something that doesn’t physically exist may not be the most sensible idea. NFTs’ day in the sun was brief, but interest in them did last long enough for the usual grifters and chancers to appear in an effort to cash in. This 90-minute documentary tells of one such notable attempt.

The story begins when art curator Ben Moore developed a project that involved prominent modern artists redecorating and customising stormtrooper helmets (from the *Star Wars* films). The resulting series of exhibitions generated lots of publicity for charity, but Moore made little or nothing. He therefore decided to try to turn photos of the artworks into NFTs, which were then auctioned off along with other related digital art. The coming together of *Star Wars*, modern art and the NFT craze meant that he made millions overnight, but the project quickly imploded amid a welter of lawsuits from artists, few of whom had agreed to take part, as well as



Artist Bran Symondson, a friend of Moore who introduced him to NFTs

©Stuart Bernard/BBC

“The whole debacle is a stark reminder for investors that the next big thing is not always what it seems”

Lucasfilm. This left investors with a load of items they were unable to trade, just as the NFT market started to collapse.

A cautionary tale

The documentary is livened up by a wide range of contributions from those involved, many of whom hide behind masks, pseudonyms and even fake voices, but the central character is Moore. On the one hand, it is hard to believe that someone involved in the art world could have been so ignorant of basic issues such as intellectual property, and he still incredibly claims to have no regrets. But the overall picture that emerges is of someone who is shambolic rather than mendacious. Indeed, the viewer even ends up feeling a bit sorry for the curator who went from driving a customised Bentley and bragging about

making millions to declaring bankruptcy and becoming the pariah of the art world within the space of days.

Moore may have been a walking disaster area, but the “investors” in the tokens also behaved foolishly. Even after Damien Hirst publicly forced Moore and his team to remove his work from the project, and it was revealed that most of the pieces of digital “art” were just the same mask, with a slightly different background, they continued to bid up the price of the tokens – presumably in the hope that some greater fool would take them off their hands. It is sad that they lost hard-earned money, but the debacle is a stark reminder for investors that the next big thing is not always what it seems.

Reviewed by
Matthew Partridge

Bloody Panico!

Or, Whatever Happened to the Tory Party?

Geoffrey Wheatcroft
Verso Books, £14.99

BLOODY PANICO!

OR,
Whatever
Happened
to the
Tory Party?GEOFFREY
WHEATCROFT

By the time you read this, the electorate’s verdict on Rishi Sunak and the Conservative Party will be in. At the time of writing, things

didn’t look pretty for the blue team. They’d failed to make big inroads into Labour’s poll leads and many of their supporters had flocked to Nigel Farage. Those MPs who hadn’t updated their CVs seemed more interested in campaigning for the upcoming leadership election than for the one taking place. Yet only three years ago the Tories were celebrating a historic victory in the Labour stronghold of Hartlepool. Where did it all go so wrong?

According to Geoffrey Wheatcroft, the problem lies with the recent crop of Tory leaders. David Cameron was doomed by his own arrogance, calling a referendum he thought he couldn’t lose, while refusing to take the most basic steps to win it. This in turn paved the way for Boris Johnson, who Wheatcroft sees as the most corrupt and unprincipled leader since Benjamin Disraeli, trashing the Tories’ perceived reputation for competence.

If you’re looking for a serious analysis of the Tories’ dramatic plunge into electoral purgatory, then this may not be the book for you. At just over 150 pages, it is barely more than an extended essay. That said, Wheatcroft’s meandering polemic is erudite and witty, even if the tone resembles an after-dinner conversation at high table with an elderly don who has had one sherry too many.

Book in the news... how Italy escaped its fate and prospered

Italy Reborn

From Fascism to Democracy
Martin Gilbert
Allen Lane, £35

Britain’s leaders may think they’ve got a hard task ahead of them, but as Martin Gilbert makes clear in this book, the challenges they face pale in comparison with those of Italy’s leaders in the aftermath of World War II. Their country had been devastated by years of fighting, and Benito Mussolini’s last ditch attempt to cling on to power in the north turned the battle between Germany and the Allies into a civil war. Throw in the occupation of Trieste, and a sizable Communist (PCI)

party, and it’s easy to see why as late as 1949 American analysts were still predicting that Italy would end up an economically backward dictatorship.

That it instead prospered, becoming an important member of both Nato and the European Economic Community, was in part down to two factors. Gilbert praises the visionary leadership of Alcide De Gasperi, who led Italy as prime minister from 1945 to 1953. He outmanoeuvred the Communists, routing them at the decisive 1948 election. He then steered Italy through several crises, including the turmoil following the attempted murder of the PCI leader by a lone extremist. Crucially, he managed to work with the Americans, persuading them to allow Italy to become part of the Marshall Plan. It was this support from the Harry Truman administration in

the US that prevented the Italian state from collapsing and laid the foundation for a period of unprecedented prosperity.

De Gasperi’s leadership was far from perfect. The constitution, the basis for Italy’s decentralised governance and proportional electoral system, may have ensured national unity, but its emphasis on consensus would later lead to political instability and gridlock – Italy has had 13 prime ministers since 1992. Yet this was undoubtedly a price worth paying compared with the alternatives. As Gilbert points out, although the PCI may have retained a degree of support throughout the postwar era, even it “had to adjust to a society where the proletariat zipped to cell meetings on scooters, or even in Fiat mini-cars”. Gilbert’s excellent book is a timely reminder that decline is not inevitable.

Bridge by Andrew Robson

Important Precaution

This week's deal sees declarer in Four Hearts with just eighteen high-card points. It was a fabulous contract, but there was an important precaution for declarer to take. West leads the King of Spades. Over to you.

Dealer North

Both sides vulnerable

♠ KQ843	♠ AJ9		♠ 75
♥ -	♥ A43		♥ KJ5
♦ K95	♦ A7643		♦ QJ82
♣ Q8762	♣ 109		♣ AJ54

	♠ 1062	
	♥ Q1098762	
	♦ 10	
	♣ K3	



The bidding

South	West	North	East
4♥*	pass**	1NT	pass
		pass	pass

- * May make, may steal.
- ** Might chance Four Spades.

Say you win dummy's Ace of Spades then lead Ace and another Trump, hoping to drop a singleton King – the best chance to avoid a loser. No good – West shows out on the first round, East wins his King on the second round, then leads his second Spade. West wins the Queen, leads a third round for East to ruff, and East cashes the Ace of Clubs. Down one.

Declarer must visualise this danger at trick one, like teammate Tony Forrester did at the table. The key play is to duck the Spade. Win (say) a low spade continuation with dummy's Knave, then play Ace and a second Heart as above. However this time, after winning his King, East has no Spade to lead to his partner and the ruff is lost. The best East can do is cash the Ace of Clubs and lead a second Club, hoping West holds the King. No – declarer wins his King, quickly cashes the Queen of Trumps drawing East's Knave, and claims his ten-trick game.

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

Sudoku 1215

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

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

MoneyWeek is available to visually impaired readers from RNIB National Talking Newspapers and Magazines in audio or etext. For details, call 0303-123 9999, or visit RNIB.org.uk.

moneyweek.com

Tim Moorey's Quick Crossword No. 1215

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 15 July 2024. By post: send to MoneyWeek's Quick Crossword No.1215, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: crossword@moneyweek.com with MoneyWeek Crossword No.1215 in the subject field.



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

Across clues are cryptic whereas down clues are straightforward

ACROSS

- 1 Ski-lift with refreshment place, we hear (1-3)
- 3 What tilts toe when badly fitted? (8)
- 9 Stew mostly tropical fruit (7)
- 10 What grass is, even for a fool! (5)
- 11 Quiet about the house is what Trump rarely is (12)
- 13 Record by one of the Bachelors? (6)
- 15 Guy heard in spring (6)
- 17 Telling-off for wearing casual clothes? (8,4)
- 20 Empty loco losing head of steam (5)
- 21 Skilled workman in part is a nuisance (7)
- 22 Graceful Bolshoi ballet? That's how an Aussie might announce it! (8)
- 23 Food returned by feeble types (4)

DOWN

- 1 Like a Cistercian monk (8)
- 2 Consent (5)
- 4 Tie an animal with rope (6)
- 5 Boxers (12)
- 6 Reinforced footwear coverings (7)
- 7 Noise of a pig (4)
- 8 Small but significant weakness (8,4)
- 12 Fresh and unused (5-3)
- 14 Ultimate experience of pleasurable emotion (7)
- 16 Illegally seize a ship, say (6)
- 18 Beginning (5)
- 19 Partiality (4)

Name

Address

email

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

Erratum: Owing to a technical error, the wrong grid was uploaded for the Crossword in 1213. There is no winner for 1213 and the competition resumes with the solution to 1214 next week. The missing clue for 1214, 8 down, is "Entering someone's property without permission (11)". Entries received without the missing clue will be accepted. We apologise for these two mistakes.

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 hinge points of history

Sometimes the doors slam shut on the paths to prosperity



Richard Nixon's money was backed only by a promise



Bill Bonner
Columnist

We're old enough to remember when we Americans were the "good guys". Yes, we made mistakes; the Vietnam war, for example. But that would soon be over and we had learned our lesson. Our money was good, our credit record unblemished. US universities were turning out more scientists and engineers than ever. China was a starving "Third World" country. The Soviet Union was led by geriatric incompetents, following a playbook that was sure to fail. And for the US, it was onward and upward. We, the Class of '70 – unbent, untempered and untested – would lead the way.

But that was before two critical "hinge points of history" creaked, and closed off the future we expected. First, in 1971, Richard Nixon declared a new "credit dollar" – a pure paper form of money, with nothing behind it save the "full faith and credit of the US government". Back then, the faith and the credit of the US was unquestioned. But although it went mostly unnoticed, the money switcheroo turned the US from a country that earned its way honestly, to one that lived by printing more and more credit dollars. In just a few months, balanced budgets were

history, trade surpluses turned into deficits, wage gains came to an end, and the foundation of a \$100trn debt pile was laid.

The second major hinge point came 30 years later. We were in Paris, walking through the Tuileries garden on our way home from the office, a memory that comes back unbidden, like a recurring nightmare, and a feeling of doom. We recall the employees gathering around a screen to watch the smoke rising from the World Trade Center, and then, unbelievably, the towers collapsing. One of our French staff members came up to us, with a gesture of solidarity

"It was onward and upward and the Class of '70 would lead the way"

and sympathy, and said: "We are all Americans now". That was probably the last time the US enjoyed the world's sincere respect and approval.

Walking through the Tuileries garden that September, 23 years ago, we had a sense that things would never be the same, that the peace and prosperity of the US-led world had come to an end. It was not that we feared more terrorist attacks; 9/11 was the most daring and successful terrorist assault in history, it was unlikely to be repeated and unlikely to threaten the empire of the West.

What we felt coming, like a bull driven mad by a fly, was the US response. The 9/11 attack was so successful, from the terrorists' point of view, not just because it brought down the iconic towers of the globalised order, but because it provoked the US to strangle itself. "We are continuing this policy in bleeding America to the point of bankruptcy," Osama bin Laden said. The trap was obvious. We jumped in anyway.

At that point, 2001, the US government had \$6trn in debt. Still manageable. The federal budget was still more or less in balance. And our real rival – the Soviet Union – had given up ten years before. Instead of calmly pursuing the perpetrators, at negligible cost, and otherwise sticking with the principles of a fiscally responsible, law-abiding civil society, the Bush administration, now in the grip of the neocons, the firepower industry and Israeli hardliners, launched a pointless war against nobody in particular (aka "terrorists"). US troops were soon on the march – against Iraq, which made no sense. The resulting wars cost the US about \$8trn, and as many as one million deaths. They also set the empire on a downward course, ruining itself with fruitless wars and endless deficits.

For more from Bill, see bonnerprivateresearch.com

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MoneyWeek

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MoneyWeek is published by

Future Publishing Limited

121-141 Westbourne Terrace,

London, W2 6JR

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ISSN: 1472-2062



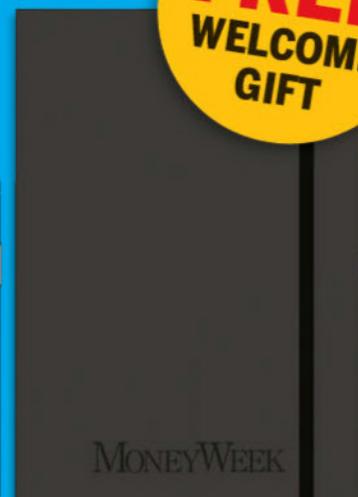
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