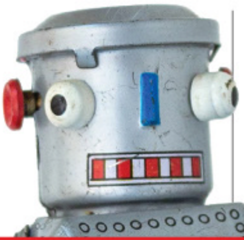
MARKETS *P4*
The AI boom is living on borrowed time



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MAKE IT, KEEP IT, SPEND IT

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Building bonanza

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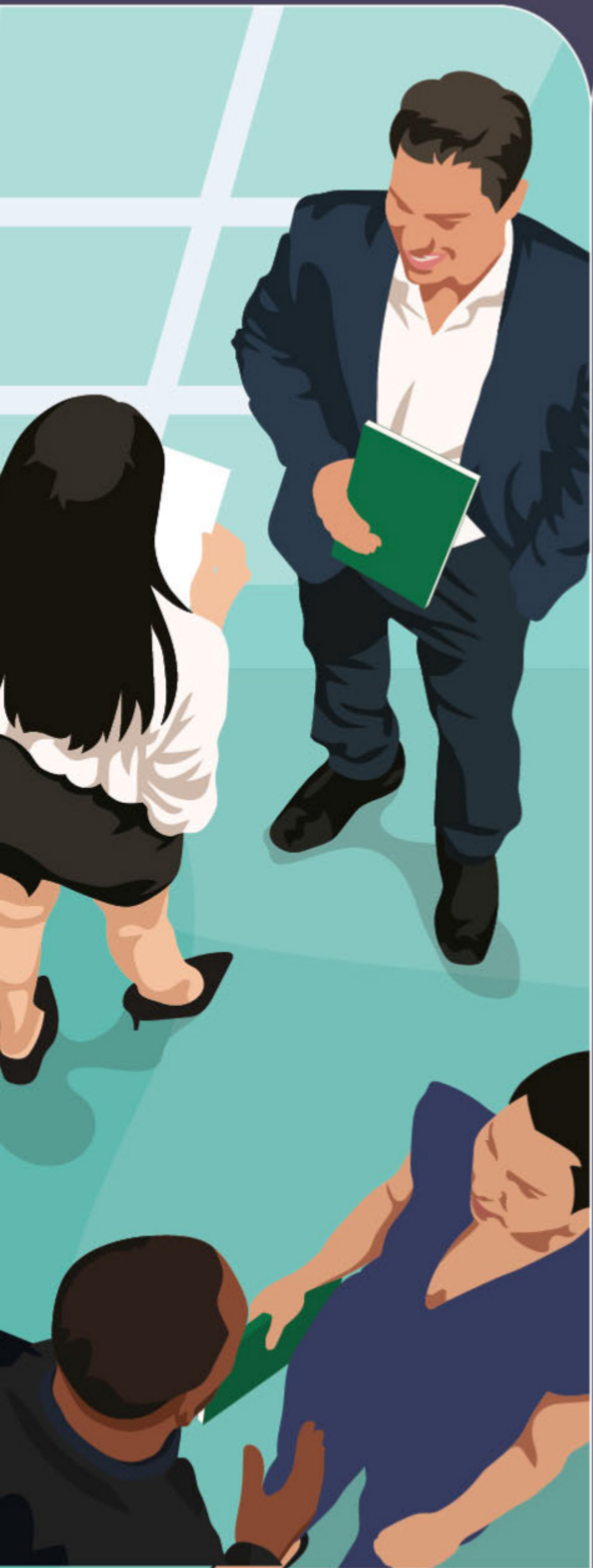

MoneyWeek

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Britain's best-selling financial magazine

From the editor...

How do you identify the top of a bubble? You can't. However absurd a trend seems, there is no telling when it will collapse – the market can remain irrational longer than you can remain solvent, as JM Keynes pointed out. Headlines warning of a technology bubble have been a consistent feature of the financial press ever since the financial crisis, with a brief interruption during Covid.

But it is interesting to compare huge booms with previous manias and note any recurring patterns, which in turn could give an indication of approximately where we might be in a long-term cycle. Human nature doesn't change. Economic historian Charles Kindleberger outlined five key stages of bubbles and busts.

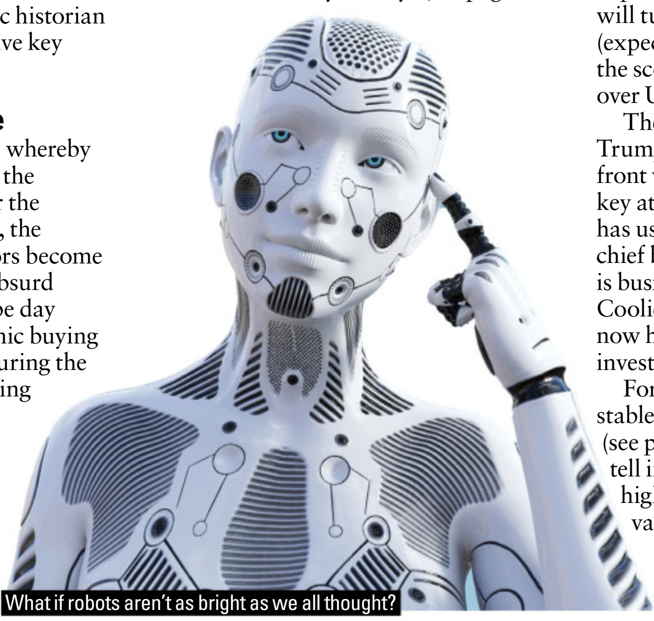
The five stages of a bubble

The first he called displacement, whereby an innovation suddenly changes the outlook; think of the railways or the internet. In the expansion phase, the narrative takes off. Then investors become euphoric, bidding stocks up to absurd levels and quitting their jobs to be day traders. The crisis phase sees panic buying turn to panic selling, and then during the final stage, contagion and plunging prices as markets succumb to irrational despair.

So where are we with the artificial intelligence (AI) frenzy? Price/earnings (p/e) ratios have reached sky-high, though not dotcom levels; Nvidia is on a trailing p/e of 75, for instance.

Still, it is striking that the world's 50 most valuable mining companies have a joint market capitalisation of $1.4trn, according to mining.com. That is not even half of Nvidia's $3.3trn.

The sudden departure of bearish strategists is also a hallmark of a bubble. The exit of JPMorgan's Marko Kolanovic, known as the last bear on Wall Street (see page 16) echoes that of Merrill Lynch's Charles Clough in 1999. He had stayed bearish as the US stockmarket soared towards its 2000 peak, but was vindicated soon afterwards. And there are now more and more people wondering if the emperor's new clothes are really as fashionable as everyone says (see pages 4 and 19). This could begin to counteract the rampant enthusiasm for AI evident in the US stockmarket.



What if robots aren't as bright as we all thought?

Even if the euphoria stage still has a few years left in it, however, the next few months look potentially bumpy. The macroeconomic backdrop is deteriorating (see page 4), with inflation far from vanquished and growth beginning to weaken. Unemployment, already back at late 2021 levels, is rising rapidly, and consumption has weakened (see page 12). A recession may be looming.

The political backdrop is also a mounting headwind. With Donald Trump's re-election bid (see page 11) now expected to receive a boost, attention will turn to his mercantilist programme (expect 10% tariffs across the board) and the scope for strife with allies, not least over Ukraine.

The sheer unpredictability of the likely Trump government on the domestic front will also have to be factored in. A key attraction of America is that politics has usually taken a back seat: "the chief business of the American people is business", as former president Calvin Coolidge put it. If the American people now have to worry about politics far more, investors may demand cheaper stocks.

Fortunately for us, we have a politically stable alternative market on our doorstep (see page 5). And while we can never tell if high valuations will get even higher, mean reversion tells us that low valuations certainly will.

Andrew Van Sickle
editor@moneyweek.com

Japan finally ejects floppy disks

Japan has scrapped regulations requiring the use of floppy disks for administrative purposes, 13 years after their manufacture ceased, says The New York Times. The floppy disk, invented in the 1970s, was once a common form of memory storage, but newer technologies, including flash drives and cloud systems, have replaced it. Japan, known for advanced consumer electronics, robots and high-speed internet, has been strangely slow to let go of outdated technology such as floppy disks and fax machines. The country only began phasing out floppy disks in 2021, with officials and businesses transitioning to different systems, although some sectors, such as the textile industry, which makes kimonos, still cling to old technology. Taro Kono, the digital minister, has declared victory in the "war on floppy disks", with fax machines being his next target. Some, however, are wary about adopting modern technology. "There wasn't any risk of getting hacked," said Nobuyuki Koto, a town official. "Now we have to be careful about data security."

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Cover illustration: Howard McWilliam. Photos: Getty Images

Good week for:

Spain's **Carlos Alcaraz** (pictured) retained the Wimbledon men's singles title, thrashing seven-time champion Novak Djokovic in straight sets, says The Guardian. Meanwhile, Czechia's Barbora Krejcikova was crowned Wimbledon women's singles champion, beating Italy's Jasmine Paolini 6-2, 2-6, 6-4. Alcaraz and Krejcikova bagged £2.7m each in prize money, a 14.9% increase from last year.

British and Albanian pop star **Dua Lipa** has added a second date at Wembley Stadium following "incredible demand" for her first London show, which sold out in just five minutes, says NME. Lipa will end her Radical Optimism tour at the 90,000-capacity venue next summer on 21 June, with tickets selling from £164. Her previous Future Nostalgia tour grossed $101.4m worldwide from 80 shows.

Bad week for:

The Roman Baths Foundation has lost more than £90,000 after stopping visitors from tossing coins into the cold plunge pools, which acted as wishing wells, and asking them to use contactless payments instead, says The Telegraph. The change was made owing to a decline in the use of cash since Covid and to protect the baths. The charity collected just £9,490 for the 2023-2024 financial year from the baths, down from £104,129 in 2018-2019.

French cyclist **Julien Bernard** was fined 200 Swiss francs (£174) for stopping briefly to kiss his wife during a time trial in the seventh stage of the Tour de France, says BBC News. The International Cycling Union fined him for "unseemly or inappropriate behaviour during the race and damage to the image of the sport".

The AI boom is on borrowed time

Alex Rankine
Markets editor

In San Francisco "it is taken as read" that artificial intelligence (AI) "will transform" the world, says The Economist. But for all the hype, the technology has so far had "almost no" discernible impact on business practices or productivity. There are signs of a "backlash" to the AI boom, says Neil Shearing of Capital Economics. Recent investment analysts' notes have highlighted "the technology's shortcomings".

Such a period of disillusionment was inevitable. New technologies always see a lag between introduction and wider economic effects. IT developed in the 1980s and early 1990s didn't raise US productivity until the late 1990s. "The boost to productivity from AI will be substantial," but it could be a few years yet before that feeds through to corporate earnings and GDP. Just as during the "railway mania" of the 1840s, "investors are... attempting to capture the benefits of new technologies ahead of them fully materialising in the real economy".

The railway mania of the 19th century at least left us infrastructure

©Getty Images

An overrated technology?

At the peak of 19th-century railway mania investors were pouring the equivalent of "around 7% of Britain's national income" into rail projects, says Edward Chancellor on Breakingviews. As today, there was much grand talk of technology advancing "human civilisation". Overcapacity and resulting losses were "large and largely foreseeable". There were, for example, "three separate lines connecting Liverpool with Leeds". The boom ended with a financial crisis in 1847. Yet the parallel between AI and rail is not perfect. By the 1840s steam locomotives were a fairly mature technology. By contrast, the "hype over self-teaching computers" appears much more exaggerated.

Daron Acemoglu of MIT argues that AI buzz "obscures the reality of what is really a quite limited technology", says Andrew Orlowski in The Telegraph. By his estimate, "just 4.6% of tasks can be reliably automated". That makes AI more comparable to an Excel spreadsheet than the harbinger of a "fourth industrial revolution". AI uses pattern recognition to guess the right response to a query, but an "intrinsic feature" of such machines is that they confidently "make stuff up" when they can't find a reliable answer (a problem known as "hallucination"). This renders AI "useless for many potential use cases". Previous technology bubbles left us Victorian railways and internet fibre infrastructure. But today's tech firms are "spending $1trn on data centres" that will soon become outdated as new chips hit the market. "This is capital incineration on a vast scale."

Financial "bubbles can take a long time to burst", so there is reason to stay invested for now in the beneficiaries of the AI spending splurge: the "chip manufacturers, utilities and other companies exposed to the coming buildout of the power grid", says Jim Covello of Goldman Sachs. AI is hardly the first Silicon Valley "tech hype cycle… Virtual reality, the metaverse, and blockchain" also attracted huge investments, but still have few real-world applications. Covello thinks that "if important use cases" for AI "don't start to become more apparent in the next 12-18 months", then investors' enthusiasm "may begin to fade".

US growth is on the wane

"Central banks are winning the battle against inflation," says The Economist, "but the war is just getting started." US inflation has fallen swiftly from 9.1% two years ago to 3% last month. But a return to the low-inflation world that preceded Covid is unlikely. Donald Trump's promise of 10% across-the-board tariffs if he re-takes the White House will send a new inflationary shock through the world economy, while green investment and climate change are keeping commodity prices high.

Recent US inflation data undershot forecasts, reassuring economists that the country is well on the way to the 2% target. Some have begun to fret that unemployment could be a bigger menace than inflation, says Matt Egan on CNN. Unemployment has ticked up to 4.1% and has risen for three months in a row, a "yellow" light that tight monetary policy is starting to hurt the US economy. Unless it begins to cut rates soon, the US Federal Reserve risks "injecting inflation-fighting medicine into an economy that no longer needs it". A first US rate cut is expected in September, but one wonders why the Fed should wait, adds Aaron Back in The Wall Street Journal. Recent weeks have brought a succession of "warnings from consumer-facing companies that American shoppers are" tightening their belts.

Markets now expect the US Federal Reserve to cut interest rates two or three times before the end of the year

©Getty Images

Just a few months ago some Fed officials were hinting that the US economy was so robust that they might not cut rates at all this year, says Edward Harrison on Bloomberg. But recent data suggests "the US is much closer to a recession than anyone thought". Markets have thus almost gone back to where they were at the start of the year – predicting two to three quarter-point US rate cuts before the end of 2024. The prospect of easier money will support US stocks.

UK gilts regain their appeal

UK government bonds are known as "gilts" because of the golden edges of the original bond certificates, says Francesco Guerrera on Breakingviews. But they have been anything but gilt-edged of late. Over the past three years, holders of UK sovereign debt have lost 24%, almost twice the loss on eurozone debt and more than three times as much as the decline on US Treasury bonds over the same period.

Blame the turmoil of five prime ministers in eight years, combined with rising interest rates as the Bank of England raised rates from 0.1% in December 2021 to 5.25% in August 2023. Bond yields and prices move inversely, so higher interest rates (and yields) inflict capital losses on existing bond investors. They also mean dearer borrowing costs for the Treasury. Three years ago the UK was paying 0.6% to borrow for a decade. That figure has since surged to 4.1%.

Gilts are traditionally said to offer a "risk-free return", but yields dropped so low in the 2010s that investors joked that they offered "return-free risk" instead, says Philip Coggan in the Financial Times. But bonds are once again competitive, with UK ten-year gilts poised to pay a real return of about 2% – not bad for a proven portfolio diversifier. The big risk is if inflation turns out to be more persistent than expected. Gilt investors in the 1970s ultimately endured real losses exceeding 90%.

British stocks due a bounce

With the US beset by political violence and France facing parliamentary gridlock, Britain is rapidly starting to look like "an island of stability", says Alex Brummer in the Daily Mail. The "Truss tantrum" is becoming a "distant memory"; the UK has had "two successive quarters of robust growth", while a "centrist" administration with a big majority" takes the reins.

In a sign of growing market confidence, the pound has risen to a one-year high against the US dollar. After a multi-year slump, sterling has been one of the top-performing currencies so far this year.

Stocks haven't quite joined in, with a 5.5% gain for the FTSE 100 lagging other big markets in 2024. There is a question mark about UK public finances as public borrowing approaches 100% of GDP, say Naomi Rovnick and Anousha Sakoui on Reuters. UK gilts have underperformed their US and German counterparts so far this year (see column).

©Getty Images

The "Truss tantrum" is now a distant memory for markets

Slowly turning bullish

Still, for the first time since the 2016 referendum, major financial institutions are turning bullish on Britain. "Given the perceived political stability leading to better sentiment, we think there's a tactical opportunity for UK equities," says Wei Li of BlackRock, the world's largest asset manager.

On a near-50% valuation discount to the US, the FTSE's "risk-reward [ratio] is pretty favourable", says Dennis Jose of BNP Paribas. It will take time before foreign investors return to London, but one catalyst for a rally might be a forthcoming shake-up of takeover rules that is designed to staunch London's loss of companies to foreign exchanges (see page 12).

"Segments of the City and the broader business community are, of course, concerned by potentially costly tax increases," says Patrick Jenkins in the Financial Times. Loopholes favouring private equity will be closed, and "there are suspicions that capital-gains and inheritance-tax regimes could be made more punitive". But Keir Starmer has done a good job convincing the Square Mile that a Labour government "will be a source of stability and predictability". His promise of better relations with the EU is a priority for international financiers, who have had to pay to "double up on staff, functions and capital" to deal with post-Brexit red tape.

The UK market is trading on 12-13 times forecast earnings, compared with 16 in Japan and a "meaty" 23 times in the US, says Russ Mould of AJ Bell. That discount is partly justified – the UK's financial and commodities firms don't have the same stellar growth prospects as Silicon Valley tech.

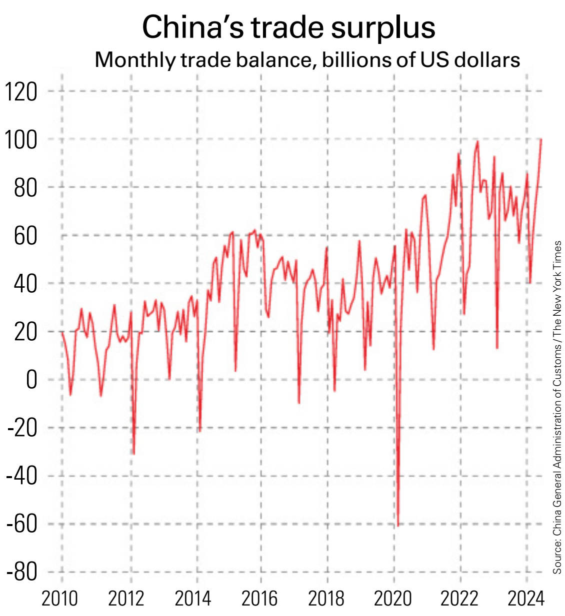
However, the last decade of low inflation, low growth and low interest rates was especially favourable for tech stocks. This era of higher inflation and higher interest rates, could leave London positioned to outperform.

Viewpoint

"Rachel Reeves... wants [Britain's] pension funds 'to drive investment in homegrown businesses'... [and Canada] is looking at how to increase pension-fund investment in domestic assets [while] a former Italian prime minister recently argued in favour of an EU-wide auto-enrolment pension scheme... What explains the rise of pension-fund nationalism? Many countries, other than America... fret about low levels of business investment. The most promising high-tech firms flee [to the US]... Time, then, to shake down pension funds... Removing barriers that prevent funds from investing in domestic assets is a laudable enough goal... Yet savers have reason to be sceptical that extra domestic investment will produce higher returns... the MSCI Canada and Britain indices have returned 4% and 3% a year in dollar terms [over ten years], while US stocks have returned 13%.

Buttonwood, The Economist

■ Middle Kingdom targets Western consumers



China's monthly trade surplus with the rest of the world hit a record $99bn in June, says Keith Bradsher in The New York Times. Exports surged by 8.6% year on year to $308bn, the highest level in almost two years, while imports fell by 2.3% year on year to $209bn. Chinese households have been tightening their belts amid a prolonged property market slump, leaving the country's factories ever more reliant "on access to the West's affluent consumers", says Larry Elliott in The Guardian. Vehicle exports rose by an annual 18.9% in value terms in the first half of 2024, with semi-conductor exports up by 21.6%. Foreign governments have started hiking tariffs on Chinese products to protect their own manufacturers.

Burberry is out of fashion

The luxury group's attempt to go upmarket appears to have failed, denting sales and rattling investors. What now? Matthew Partridge reports

CEO Jonathan Akeroyd is quitting Burberry after a tenure of less than two-and-a-half years, say Jennifer Creery and Angelina Rascouet in Bloomberg. The shares slid by almost a fifth on the news. Burberry has also suspended its dividend and admitted that the slowdown in luxury-sector sales had continued into this month. It says that if the backdrop doesn't improve it could suffer a first-half loss, while full-year earnings will undershoot expectations. Burberry is considering job cuts – mainly corporate roles in the UK – to slash expenses.

The trading update certainly makes "tough reading" for investors, say Susannah Streeter and Aarin Chiekrie of Hargreaves Lansdown. Previously highlighted weaknesses have worsened, with sales between April and June down by "an eye-watering 20%". The decision to suspend dividend payments is a "desperate measure to preserve cash and fortify the balance sheet". It suggests that fortunes "aren't expected to pick up in the near term". New boss Joshua Schulman has "a lot of work to do" to prove to investors that "calmer seas lie ahead".


©Getty Images

Revenue slipped by a fifth in the second quarter of 2024

Yet more upheaval

This isn't the first bout of "upheaval" that Burberry has experienced, says Ben Marlow in The Telegraph. Akeroyd's predecessor Marco Gobbetti left in 2021, followed by chief designer Riccardo Tisci and finance chief Julie Brown a year later. Along with the recent "flurry of profit warnings", this suggests that Burberry's problems aren't temporary or "simply a function of a weak consumer backdrop", but are a symptom of a company that is "blighted by a much deeper malaise". In particular, it seems to be "in denial" about the fact that its decision to try to take the company "upmarket" simply "hasn't worked".

"Schulman, who hails from more aspirational luxury brands Coach and Michael Kors, faces a daunting challenge," agrees Lex in the Financial Times. "Brand elevation was never an easy sell" for a business from "a solid mid-market background" that "has no cachet in, say, high-margin leather goods". Yet, the company still insists it will "tweak its strategy, rather than reverse out of it completely". While such a gradualist approach could help Burberry "reconnect with its traditional fans without abandoning its upmarket dreams entirely", it could also see it "falling between two stools", so a "sharper swerve" may be needed.

In any case, it is unlikely someone will rescue shareholders by swooping in with an offer, says Aimee Donnellan on Breakingviews. The shares have almost halved in value since January, which might "whet the appetite of deep-pocketed buyers" such as LVMH. However, such groups are "after higher-end luxury than Burberry". In any case "it's difficult to make the numbers stack up". Private-equity buyers "are unlikely to ride to the rescue" either – Permira's struggles to list Golden Goose will make buyout groups "wary".

Ocado delivers good news for once

Shares in the online retailer Ocado jumped by a fifth on Tuesday after its latest interim results showed it has "nudged up" its cash-flow and profit forecasts, says Isabella Fish in The Times. Not only have pre-tax losses at the group narrowed to £154m in the six months to the end of May, but group revenue also rose by 12.6% to £1.5bn.

It also expects annual underlying cash flow to climb by £150m, up from a previous forecast of £100m. Ocado's solutions business, which licences warehouse and logistics technology to retailers, seems to have done particularly well, with sales increasing by 21.8% to £241.4m.

The upgrade will "go some way towards allaying investors' fears over the business", says Lex in the Financial Times. The company has suffered a "series of blows", including a decision by US supermarket chain Kroger to close three sites powered by Ocado's technology, along with declining revenue from its retail arm.

Shareholders will also be happy that Ocado's management has said the group will not need to raise more cash and repeated its plan to become profitable on a pre-tax basis in five years.

The upgraded results and guidance will certainly be "music to the ears of investors hoping Ocado might be in a better position to start delivering the goods financially in the not too distant future", says AJ Bell's Dan Coatsworth. However, it still needs to "make a habit of regularly producing results like these" if it wants to "make the critics put away the knives they've been sharpening for some time".

That "may not be easy" given its "slow progress" in signing up new technology partners for its grocery logistics platform, while a few existing partners "have scaled back expansion plans involving Ocado". Ocado's relationship with its UK retail partner, Marks & Spencer, also remains "fragile".

Alphabet shops for cybersecurity

Google's parent company Alphabet is in advanced discussions to complete its biggest acquisition on record, say Lauren Thomas and Berber Jin in The Wall Street Journal. It plans to buy cybersecurity start-up Wiz for $23bn.

Although Alphabet has been a "more conservative" acquirer than some of its peers in recent years, it has been keen to bulk up its cybersecurity business, spending nearly $5.4bn on another such firm, Mandiant, two years ago. The deal could also help boost Alphabet's presence in cloud computing, a growing market, but one in which it is a "distant third" after Amazon and Microsoft.

Buying Wiz will not be cheap, with the reported price equal to 33 times sales, says Jennifer Saba on Breakingviews. A deal of this size is also certain to "draw government scrutiny", especially since Alphabet is already "battling the Department of Justice on two fronts, over its dominance in search and advertising".

Still, those risks "are worth taking" as the deal could help "bolster its safety credentials". This could be a particularly important selling point given that Microsoft has been "under fire for its lapses in safeguarding information", with both the US government and telecoms provider AT&T complaining about a "massive hack". And with cloud computing "rapidly increasing its contribution" to Alphabet, it's worth taking some risk.

But agreeing to a deal may not be in the best interests of Wiz, says Cory Weinberg for The Information. It is not only the "fastest-growing start-up ever", but also sits "at the intersection of almost every mega-valuable tech trend – artificial intelligence, cloud computing and security", and "could in theory be ready for a blockbuster [listing] by next year".

Is it worth giving all that up for a deal that "would face months of antitrust review by regulators that have proved hostile to big tech mergers and acquisitions?". "[Regulatory] purgatory" could hamper product development and rattle clients. Wiz will have to "choose wisely".

Rosé

Trying to see the world through pink bottles

About Mr. Wheeler

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

A month of changes and debates. Mr.Wheeler's Wine Club weighs in, with an optimistic reflection on victory and defeat, by way of rosé wine

July has been a month of changes, debates and tournaments. Mr. Wheeler's Wine Club weighs in, with an optimistic reflection on victory and defeat, by way of rosé wine

At the time of writing, as we select the wines for this month's Wine Club selection, we still don't know who's been crowned European Football Champion, who will lead the next UK government or whether Joe Biden is indeed running against Donald Trump. That's a lot of questions hovering over our heads. What we do know is that the longest day of the year is behind us and we might as well make the best of this summer before the world – and the markets – implode.

We therefore turned to that source, so rare these days, of simple joy and relaxed pleasure that is rosé wine. And even here unanimity is impossible: there's team pale and refreshing, on the one hand, and team intense and food-friendly, on the other side of the pitch. Our selection is a match of sorts between the two squads. And we hope you'll enjoy being the referee.

Pale styles are of course dominated by Provence, where light-hued rosés were first produced. Famille Negrel have been mastering the style for two centuries, as seen in their **Nuit Blanche 2023.** The grapes are harvested by night for freshness and aromatic nuance yielding a floral, super drinkable Côtes de Provence. More fruit-forward and unctuous, **Château Bellini Coteaux Varois-en-Provence 2022** makes good use of Syrah and Cinsault, both varieties adding delicious herbal nuance. For a more poised, Grenache-led iteration with a filigreed mineral backbone, **Maison Ravoire Costeval Rosé 2022** will truly transport you to a lavender field, kissed by the Mediterranean sun.

Those looking for a bit more muscle and colour need to head north. At the foot of Mount Ventoux, Domaine de Mourchon makes the fleshy and zesty **Séguret Rosé Loubié Côtes du Rhône Villages.** Broad and weighty in the mouth, with plush tannins and lingering red fruit and pink citrus, it reveals the more intense, continental side of Grenache and Syrah. Continue further north for two superb pink takes on Pinot Noir. We can't get enough of **Étienne Daulny's Sancerre Rosé 2021;** filigreed, with the appellation's trademarking minerality and lively acid, this is one to convert rosé sceptics. Across the border, from Pfalz, the deep-hued, partially barrel-fermented **Reichsrat Von Buhl Bone Dry Rosé 2023** looks like a light red, drinks like a pink and fills the mouth like a serious white. Powerfully delicious.

Whether toasting a victory or nursing a wound, do it with a glass of rosé in hand. There's a shade of pink for everyone in our July selection – buy it while stocks last!

Mixed Case
~~£196.40~~
£176.80
Save £19.60

Maison Ravoire Costeval Rosé 2022
~~£14.95~~ **£12.95**

Von Buhl Bone Dry Pinot Noir Rosé 2023
~~£15.95~~ **£13.95**

Famille Negrel 'Nuit Blanche' Rosé 2023
~~£14.95~~ **£13.75**

Étienne Daulny Sancerre Rosé 2021
~~£17.95~~ **£16.50**

Mourchon Séguret Rosé 'Loubié' 2023
~~£14.95~~ **£13.75**

Château Bellini Coteaux Varois-en-Provence Rosé 2022
~~£19.45~~ **£17.50**

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

Six to buy

Build-A-Bear Workshop
The Times
Small US retailer Build-A-Bear Workshop has returned more than 300% since 2019. It had struggled owing to its focus on shopping centres, but has thrived by expanding its digital strategy and scoring licensing deals. It is now eyeing global expansion. The stock is on a forward price/earnings (p/e) ratio of 6.8, cheap given its healthy gross margin, strong balance sheet and growth potential. Build-A-Bear could be a good long-term pick. *$26*

Glencore
The Telegraph
Glencore has produced a 52% capital gain since 2017, hugely outperforming the FTSE 100 index on 8%. The miner's performance remains strong, with both production guidance and the marketing segment's profitability on track. Glencore's focus on commodities used in renewable infrastructure and electric vehicles aligns with the increasing demand for sustainability. Despite financial and share-price volatility, Glencore's "risk/reward opportunity remains sound". Glencore is suitable for investors with "a long-term view". *476p*

Scancell
This is Money
Cancer treatments generate sales of £175bn annually, and sales are expected to more than double this decade. Aim-listed Scancell is working on a promising treatment for advanced skin cancer. It combines its vaccine with two widely available drugs and has an 85% success rate in trials. Scancell's therapy is simple, cost-effective, and easier on the body than alternatives. CEO Lindy Durrant "believes she is on to a winner". If she's right, "Scancell could fly, and that makes the shares well worth considering". *12p*

Card Factory
Shares
Card Factory's growth potential is underappreciated. The greeting card and party supplies group has a strong financial position; it has reduced debt and reinstated dividends. Card Factory aims to increase revenue to £650m by 2027. With more than 1,000 shops in the UK and Ireland, the retailer has room to open more shops, expand online, and capitalise on its rival Clintons' woes. The company's upcoming financial forecasts look promising, and it has a low p/e ratio. *100p*

Begbies Traynor
Investors' Chronicle
Insolvency specialist Begbies Traynor's revenue has trebled while adjusted pre-tax profit has increased sixfold over the past decade. The company has become "more rounded", with 30% of revenue generated by its property unit and 12% by an advisory business. Begbies Traynor expects "elevated" activity in its core insolvency arm thanks to high interest rates making companies' refinancing negotiations harder. With the shares trading below their five-year-average p/e, Begbies looks undervalued. *102p*

Ford
Barron's
Ford Motor's shares have declined by 16% in the past year despite plans to distribute 40% to 50% of annual free cash flow as special dividends. The US carmaker aims to cut $2bn of costs, focus on improving quality standards, and reduce spending on electric vehicles to bolster profitability. Analysts' price target is $21, implying scope for a 60% share-price gain. "Trimming the capital budget might be the best sign Ford is getting serious about its stock price. Investors should, too." *$12.87*

...and the rest

The Times
Quilter's shares trade 25% below their 2020 high. Yet the wealth manager has simplified its model by selling divisions to focus on the UK. The operating margin has improved, and its focus on improving efficiency and building scale has led to higher inflows. New rules from the FCA, the City regulator, bring uncertainty, but Quilter receives few complaints from customers and is an "improving business with an attractive dividend." Hold the shares *(122p)*.

The Telegraph
Medical device manufacturer **Smith & Nephew's** stock has been a "shocker" as profit margins and returns on capital have failed to improve despite efficiency programmes. Activist investor Cevian has become a shareholder, prompting expectations of potential change. CEO Deepak Nath plans to achieve a 20% profit margin in a year by addressing ongoing weaknesses in various divisions. Smith trades at a discount to US competitors, justified by its lower margins. A shake-up inspired by Cevian could boost the firm's prospects. Hold *(1,100p)*.

This is Money
York-based **OptiBiotix's** SlimBiome is similar to Ozempic, but made entirely from natural ingredients. It helps users lose weight, lower blood pressure, improve mood, and enhances gut bacteria by reducing cravings. SlimBiome is available through various retailers, including Amazon and Holland & Barrett. OptiBiotix has struck deals with Tata Group and Costco and plans a global launch next year. SlimBiome has no side effects and is cheaper than its medical counterparts. "If the world wakes up to its potential," the shares could soar. Buy *(15p.)*

A German view

U-Haul was founded in 1945 by Sam and Anna Mary Schoen, a couple trying to move from Los Angeles to Portland, says WirtschaftsWoche. They couldn't find a trailer to rent and were therefore restricted to the possessions that fitted in their car. Today, the group is the biggest North American provider of trailers, lorries, tractors and self-storage units for people organising their own moves. It boasts a US market share of 60% and is also represented in ten Canadian provinces. In recent years it has focused on expanding its storage business to complement the equipment-rental divisions, which has made it the third-biggest self-storage group in North America.

IPO watch

Shares in Rosebank Industries surged by 78% on the shell company's first day of trading on the London Stock Exchange's Aim small-cap market last week. Rosebank, run by one of the founders of Melrose Industries, intends to follow a similar strategy of buying struggling industrial businesses, improving them and selling them for profit. Rosebank raised £50m at the initial public offering (IPO) and is targeting acquisitions worth up to £2.3bn, funded by issuing new shares and debt. While this approach has worked for Melrose and is "good for the country as well as the fixer's pockets", there are no guarantees for Rosebank, says AJ Bell's Dan Coatsworth.

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Taking the brakes off Britain

Keir Starmer has unveiled his blueprint, but much remains unclear. Emily Hohler reports.

The king presided over the first Labour parliament for 15 years

On Wednesday, at the first state opening of parliament under a Labour government since 2009, King Charles unveiled Keir Starmer's plan to "take the brakes off Britain", outlining 40 draft laws that include a programme to build 1.5 million houses, a plan to nationalise the railways and a workers' rights bill.

Planning reform (see page 14) is the centre of the plan and has "already been trailed as a panacea to solve the related conundrums of low growth, costly infrastructure projects and stunted housing supply", says Archie Bland in The New Statesman. Starmer has been "less vocal in recent days" about his workers' rights plans, which could "represent the first flashpoint" between government and business, says George Parker in the Financial Times. Measures include banning zero-hours contracts, ending "fire and rehire" practices, strengthening statutory sick pay, making flexible working the default from day one and making it easier for unions to strike.

Another 15 or so bills relate to "economic stability and growth" and feature measures on audit reform and corporate governance. A pensions bill is designed to help 15 million people with private-sector pensions "get better outcomes" and release cash for investment. Other key measures include the creation of a state-owned GB Energy to back the green transition, devolved powers for the regions over economic development, the renationalisation of railways when franchises expire, new legal powers for the Office for Budget Responsibility, a National Wealth Fund Bill with a £7.3bn fund to invest in projects across the UK, a "clampdown on polluting water companies and sanctions on bosses". There's also a bill to "throw the remaining 92 hereditary peers out of the House of Lords".

Notable omissions

There were some notable omissions, says Charles Hymas in The Telegraph. There was no mention of Labour's commitment to force peers to retire at 80, nor the pledge to lower the voting age to 16. Despite pressure from campaigners, Starmer "stood firm on his refusal to scrap the two-child benefit cap". Plenty of Labour MPs will be "smarting" at Starmer's other omissions, says Andrew McDonald on Politico. These include Starmer's pledge to increase UK defence spending to 2.5% of GDP and a specific artificial intelligence bill (Labour's manifesto promised to introduce regulation).

"Arch-Europhiles" in his party will be disappointed that his government merely seeks to "reset the relationship" with European partners and "work to improve" the UK's trade and investment relationship with the EU. However, the speech confirmed Labour's commitment to Rishi Sunak's generational smoking ban and the end of the Rwanda deportation scheme.

"What ties this whole agenda together is what the US Treasury secretary Janet Yellen has described as a "modern supply-side" approach to the economy that "reverses the small-state pro-market paradigm to advocate for a more muscular, strategic state, and active partnership between business and government," says Jonny Ball in The New Statesman. But building a "supposedly post-neoliberal economy on a shoestring budget won't be easy". Much higher growth is needed to avoid more austerity or a "dramatic breach" of the Treasury's own fiscal rules.

Starmer's beliefs – in hard evidence (eg, climate change) and that inequities must "be resolved by state power" – are easier to discern than the "ideological heart" of his government, says Andrew Marr in the same paper. It is "only when the hard moral choices" are made that we will get a sense for this. What he really cares about is competence, says Esther Webber in Politico. Incompetence cost the Tories the election. "If Labour can indeed demonstrate an ability to deliver the reward could be great."

The early release scheme is due to start in September

Fixing the prison crisis

An expected pledge to fast-track the removal of foreign criminals was not mentioned in the King's Speech, following justice secretary Shabana Mahmood's announcement last week that thousands of criminals, including burglars, drug dealers and fraudsters, will be released 40%, rather than 50%, of the way through their sentences to ease prison overcrowding, says Charles Hymas in The Telegraph.

There are roughly 87,869 prisoners in England and Wales and 88,818 prison places – 10,422, or 12% of these, each costing £47,000 a year, are taken by foreign nationals.

The early release scheme, due to start in September, is expected to reduce numbers by 5,000. Few will "take comfort" from this news, since about 25% of prisoners reoffend, says Melanie Phillips in The Times. But if the previous government "pushed this problem under the carpet" (Rishi Sunak was warned on 15 May that he risked breaching his legal responsibilities if he failed to act), at least the new prisons minister, James Timpson, has relevant experience.

The Timpson Group has hired more than 1,500 ex-prisoners since 2008 and "hardly any of them get into trouble". He says only a third of inmates "need to be locked up"; a further third should be doing community sentences and "the rest mainly need support with mental illness or chaotic lives".

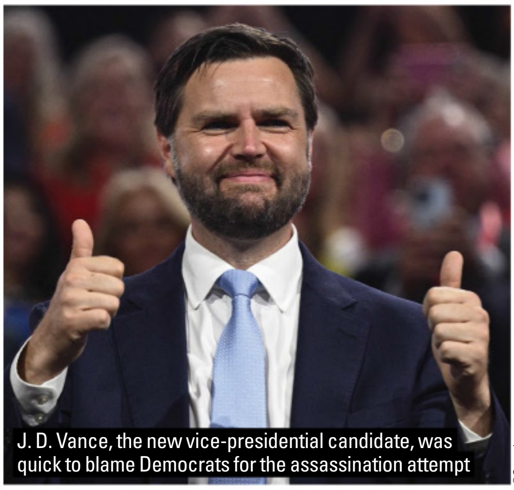
Better training, employment and mental-health support have been "central" to success in Norway, where reoffending rates are among the lowest in the world, says the Financial Times. But Labour also needs to act on pledges to build new prisons, ease court backlogs and support prison staff.

"The best way to alleviate pressure on the prison system, however, is to ensure people do not go there in the first place." That means reducing poverty and "boosting the prospects of left-behind places, where antisocial behaviour is a key concern".

Violence and polarisation

An unsettling election has taken another dark turn. Matthew Partridge reports

On Saturday a US presidential campaign "already seething with contempt and chaos" took an "even darker direction" with the "most serious assassination attempt against a president or presidential candidate since Ronald Reagan in 1981", says the Economist. While the "shocking" attempt on Donald Trump's life thankfully failed, it highlights the rising political violence in America. The last few years have seen the attempted murder of Republican congressional leader Steve Scalise, the invasion of the home of then House speaker Nancy Pelosi – and the "violent sack" of the US Capitol. It also provides yet another "twist and turn" in a contest that has already been "thrown off its rails".


J. D. Vance, the new vice-presidential candidate, was quick to blame Democrats for the assassination attempt

©Getty Images

The conventional wisdom is that the attack might move the contest "decisively" in Trump's favour, says Gideon Rachman in the Financial Times. But the view that the "election is over" is a little too "fatalistic". While many politicians might expect to gain a "significant sympathy vote", Trump is a "highly polarising" figure. Millions of "never Trump" voters are unlikely to become "Yes Trumpers", however appalled they are by the "vile attempted murder". The sight of Trump surrogates, including his newly annointed running mate J. D. Vance, "already blaming the Democrats for the attempt on his life" could even end up whipping up passions that "might scare off some floating voters".

Doubling down on the brand

The assassination attempt and Joe Biden's "erratic" debate performance a few weeks ago have both provided "unsettling reminders of how important it is to have a qualified successor in the wings", says James Orr in The Telegraph. That's why many Republicans were quietly hoping that Trump would pick a prospective vice-president who could either appeal to moderates, or someone from the establishment. Their hopes have now been firmly dashed. In choosing Vance, Trump has doubled down on his "nation-first brand of conservatism", focused on protectionism, immigration controls and isolationism.

A convert to Trump

Vance may not seem to be a natural Trump supporter, since he has a "résumé that trended towards the traditional centres of power in Republican politics", and even "once blasted Trump as comparable to heroin", says Gabriel Rubin on Breakingviews. However, recently he has become a "fully fledged Trump acolyte", presenting the former president as "the change needed to reorient a sclerotic political system" that has "sold out" the interests of workers in favour of multinational corporations and "lax immigration policies". Such an agenda plays on "a grim trend towards calcifying social immobility among working-age men".

Vance's presence may win over voters in swing states, but it is "raising concerns across Europe that an already sceptical Trump might be persuaded to abandon Ukraine in its war against Russia's invasion", says The Wall Street Journal. Vance has called for US foreign policy to "pivot" from Europe to East Asia and he has also been a "leading voice among ultra-conservative Republicans opposed to sending funding to Ukraine".

Nato's uncertain future

Last week's Nato summit marked the 75th anniversary of the "most durable and successful defensive alliance in history", says John Foreman in The Spectator. It also underlined its "remarkable transformation" over the past decade, with members agreeing a further €40bn of support for Ukraine over the next year.

But the meeting also "missed some important opportunities", most notably the failure to secure a "multi-year financial settlement" for Ukraine, whose future status within the organisation remains "fudged". The self-congratulation over the fact that most members now spend at least 2% of GDP on defence masks the fact that one-third still don't. Finally, the agreement of a new strategic approach to Russia remains "well overdue".

It's not surprising that the summit was "underwhelming", as many members are divided, says the Financial Times. The United States may soon be led by a president demanding that European members "carry much more of the burden of their own security". Leaders in France and Germany are also battling "rising populism" that could "constrain their ability to raise defence spending". Even Britain is caught between an "intense fiscal squeeze" and a need to reverse "the depletion of one of Nato's most capable militaries".

Such uncertainty within Nato's membership "could scarcely come at a worse moment", as the "dangers to the democratic world are greater than at any time since the Cold War's end", says The Economist. Russia is still waging war in Ukraine, while China "menaces" Taiwan, which "it claims as its own", and is "bullying" neighbours such as the Philippines. Moscow and Beijing have also intensified their "no limit" partnership, while Iran and its proxies "are engaged in a deepening conflict with Israel and American forces". To counteract such an "axis of autocracy", a "strengthened and enlarged" Nato is needed more than ever.

Betting on politics

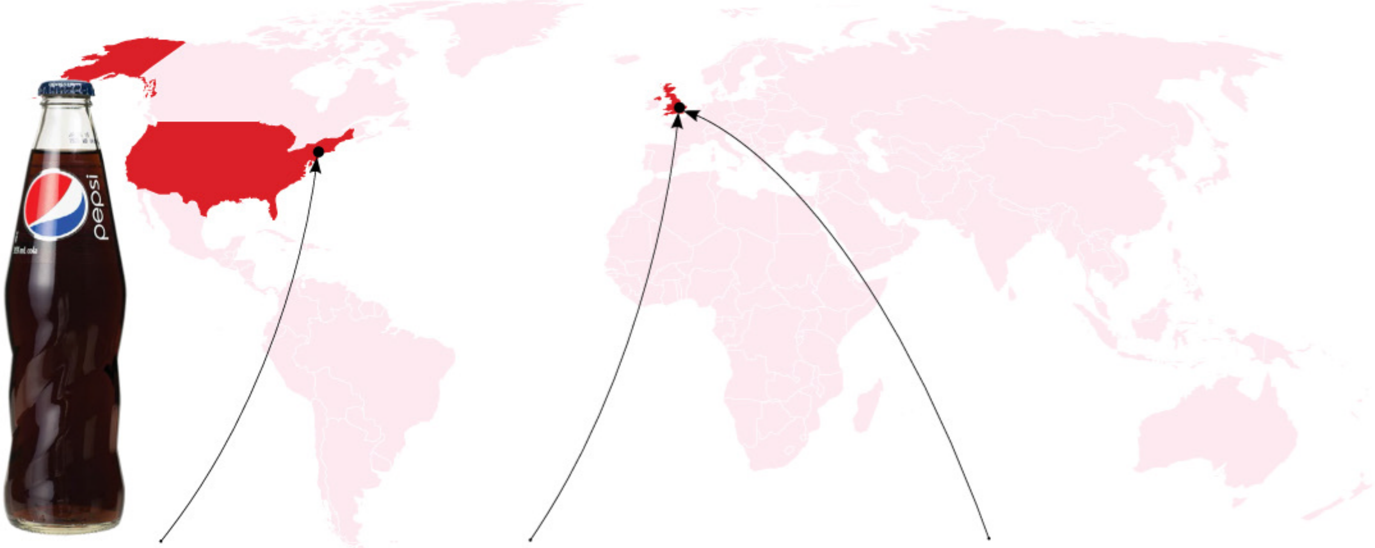
It isn't surprising that the events of the past week have seen punters move to Donald Trump. However, Joe Biden has also received a boost, probably because the attempt on Trump's life has moved attention away from efforts to get him to stand down.

With £29.1m matched on Betfair, Trump is at 1.44 (69.4%), with Biden at 5.8 (17.2%). Vice-president Kamala Harris is at 16.5 (6%), with Michelle Obama at 36 (2.8%) and Gavin Newsom (once seen as a leading contender to replace Biden) now out at 70 (1.4%).

As I've said many times before, I think it's very unlikely that Biden will quit the race. If he does, Harris is the only one who can practically take over. However, I do think the move towards Trump has been overdone, since history suggests that any feelings of sympathy tend to disappear pretty quickly, especially as he is a very divisive politician. In any case, with more than three months to go, and the polls still very close, it is far too early to write off the Democrats.

However, the attempt on Trump's life does show the importance of reading the small print. Both Betfair and Smarkets have a detailed series of rules regarding the election. Both of them suggest that the markets could be kept open until Congress certifies the result in January if there is any dispute. They also make it clear that if a candidate withdraws (for any reason) before the election takes place, all bets on them will be lost (although things are a little more complicated if something happens between the election and the declaration of the result).

This may seem harsh, but given that betting exchanges act as middlemen, not risk takers, they have to be fair to both sides of the bet. This is another good reason to make sure that you diversify your betting roll.



Harrison, New York

US consumers close wallets: American households "are in trouble" and "investors are paying heed", says Aaron Back in The Wall Street Journal. US packaged-food giants PepsiCo and Conagra Brands have both warned that shoppers are under pressure. US inflation cooled to 3% in June, its lowest level in more than three years, due to weaker petrol prices. However, the cost of groceries and other staples has increased in the past year.

Pepsi's second-quarter sales volume fell at its North American crisps and beverages units and the company has moderated its outlook for the year. "Consumers have become more value-conscious with their spending patterns and preferences across brands, packages and channels," Pepsi said.

Conagra, maker of the meat snack Slim Jim, has also experienced a decline in second-quarter organic sales, prompting price cuts to attract consumers. That led to some improvement, but Conagra nonetheless gave a cautious outlook for the fiscal year. "It's not one of these events where we sprinkle a little money on the consumer and they forget that they ever experienced runaway inflation," Conagra's CEO Sean Connolly said.

Pepsi's and Conagra's shares have declined by double digits over the past 12 months, while the S&P 500 index has grown by roughly 26% over the same period. "If the US consumer keeps flagging, that sort of performance could be hard to maintain." (See page 4.)

London

New FCA listing rules: The Financial Conduct Authority (FCA) is to implement major changes to London's stockmarket rules this month, the most significant in more than 30 years, to burnish Britain's appeal as a listing destination, says Kalyeena Makortoff in The Guardian.

The City watchdog's new rules will eliminate the two-tier system of standard and premium listings, simplifying the process for companies coming to market. Firms will no longer need shareholders' votes for large mergers or takeovers. These changes follow recommendations made by the former EU Commissioner for Finance, Jonathan Hill, in 2021. They also include reducing the compulsory number of shares offered to outside investors and allowing dual-class shares to provide founders with more control.

The FCA hopes these changes will prevent companies from leaving London for rival financial hubs such as New York, where they can secure higher valuations. However, AJ Bell's Dan Coatsworth says the "reforms risk diluting the quality of the UK stockmarket" by "giving shareholders less of a voice on matters like acquisitions".

It may result in FTSE 100 trackers and pensions being exposed to risky assets such as THG and Deliveroo, adds Alistair Osborne in The Times. "Fewer rules may force investors to do better research," but they "may also hurt the UK's reputation for good governance" and "it's not obvious that will make our market more attractive".

London

Sticky services inflation: The annual pace of price increases in Britain held steady at 2% in June, slightly stronger than expected, while the sticky services sector has pushed back expectations of an interest-rate cut next month. The consumer price index (CPI) was unchanged from the Bank of England's target, which it hit in May for the first time since 2021. Core inflation, which strips out volatile food and energy prices, remained at 3.5%.

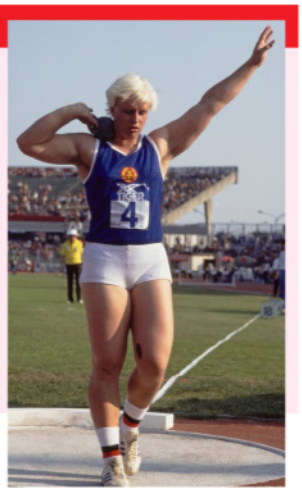
Restaurants and hotels were the biggest drivers of inflation, with Taylor Swift's *Eras* tour boosting hotel prices. Although this may reverse in July's data, Sanjay Raja from Deutsche Bank believes an August rate cut is now "finely balanced". "A lot will now depend on the strength of the May wage and unemployment data."

Service-sector inflation, which is closely watched by the central bank as a gauge of underlying inflation, remained steady at 5.7%, ahead of analysts' expectations of 5.6%. Sticky inflation in the services sector, which accounts for 80% of the economy, may keep interest rates at 5.25%.

"It's the stability of services inflation at 5.7% that's the blow," said Paul Dales from Capital Economics. "As a result, the chances of an interest-rate cut in August have diminished a bit more. [The Bank] may also be worrying about the possibility that more of the rebound in activity is being driven by demand rather than supply. If so, that wouldn't bode well for the persistence of inflation."

The way we live now... an Olympic Games on steroids

An Olympics-style event allowing doping and backed by US billionaire tech entrepreneur Peter Thiel is seeking to raise $300m, say Mark Bergen and Eyk Henning on Bloomberg. The Enhanced Games is in talks with investors to finance its first competition next year and hopes to make it an annual event. Various cities are reportedly interested in hosting, although a date and location are yet to be set. A smaller trial event was held last year, permitting the use of performance-enhancing drugs in track and field, swimming, weightlifting and other sports. Competitors must pass medical screenings and only use substances approved by the US Drug and Food Administration, such as steroids and growth hormones. "I believe science is on my side," claims co-founder Christian Angermayer, pointing to anonymous surveys revealing widespread doping among athletes. But the games have drawn criticism from the International Olympic Committee and anti-doping authorities. The London-based firm is also backed by the US cryptocurrency investor Balaji Srinivasan. The games will feature ten events, including freestyle swimming and the 100-metre sprint.



Former East German shot-putter Ilona Slupianek used anabolic steroids in the 1970s

Starmer's battle with the blockers

Labour wants to see 1.5 million homes built in five years. Will it happen? Simon Wilson reports


Starmer and Reeves: taking on the Nimbys

What's happened?

A new Planning and Infrastructure Bill was given top billing in the Labour government's first King's Speech on Wednesday – confirmation that it wants to put planning reform at the heart of its first legislative programme. There was little additional detail about what the bill will contain. However, the chancellor, Rachel Reeves, has separately spelt out a range of measures that the government hopes will "accelerate the delivery of high-quality infrastructure and housing" by liberalising regulations and making it easier to build. For decades, said Paul Johnson in The Times, Britain has chosen to "prioritise the interests of those who already have homes and live in nice places over the interests of those who need homes close to where there are well-paid, highly productive jobs", but who can't afford to buy – and can barely afford to rent. The consequent undersupply of housing has been a drag on economic growth, and addressing it is a major national challenge.

What is the extent of the problem?

According to the Centre for Cities, if the UK had built houses at the average rate for western Europe between 1955 and 2015, we would have added a further 4.3 million homes to our stock. Instead, our restrictive and unpredictable planning system has long hindered house building, which peaked in the 1960s at twice today's levels. The knock-on effects include house prices at ten times average earnings, and a 1% vacancy rate. Under-supply acts as a drag on disposable incomes, and it also makes the labour market more rigid, hampering growth. It lengthens commuting times, reduces the size of the talent pool, and makes it harder for workers to move to growth-generating areas with higher productivity and higher pay. It's also an issue that successive governments have failed to get to grips with. They have zigzagged between top-down targets and locally driven plans and created huge uncertainty for investors. In recent years, Conservative ministers often found their good intentions stymied by internal opposition from their own MPs and Nimby-inclined voters. Both housing starts and completions have fallen, and planning approvals are at an eight-year low.

What exactly will Labour do?

Using a range of existing powers (including sweeping changes to the National Planning Policy Framework due later this month) and new legislation, it will restore mandatory housing targets for local authorities, with the overall goal of adding 1.5 million homes over a five-year parliament. It will promote development on uglier parts of the green belt (so-called "grey belt" areas such as disused car parks and petrol stations rather than genuinely "green" areas).

A presumption in favour of development in the new bill means that local communities will only be able to determine "how, not if, homes and infrastructure are built", the government says. A new taskforce charged with getting stalled projects moving has already started. And the new legislation will also reform compulsory purchase rules governing major infrastructure and affordable homes, to make sure compensation payments to landowners are "fair, but not excessive" – unlocking more sites for development, the government claims. The bill also promises the modernisation of council planning committees to improve local decision-making and increase capacity, while the government has separately promised to pay for 300 new planners for local authorities. There are also plans to set up a "new town commission" later this year, to decide on suitable sites, including on the fringes of existing conurbations.

> *"There is no harmonious, conflict-free solution to this long-standing issue"*

Will it work?

There is a chance, at least, that this time could be different, said Kristian Niemietz in The Spectator. Firstly, Labour made its credo of "Yimbyism" (yes in my back yard) an explicit theme of its campaign, so it can credibly claim a democratic mandate for its policies. Secondly, it has a younger, and more urban, electoral base than the Conservatives. Angering rural Nimbys is still a gamble, but "not an obviously crazy one". Thirdly, its rhetoric has been confrontational, which suggests that it knows it will make enemies. That's good: there is "no harmonious, conflict-free solution" to this issue, but the nettle must be grasped. The crucial task will be to ensure that the economic benefits of development are shared locally, so that as many residents as possible are won over. In that regard, Labour still has to flesh out a "long-term agenda".

Will it actually boost growth?

It's necessary, but not sufficient, said David Smith in The Sunday Times. Nobody in the housing sector thinks 1.5 million new homes, an average of 300,000 a year, can be delivered over the course of this parliament. Total house building, defined by net additional homes, has been on a downward trajectory and is likely to come in at 160,000 in 2024-2025, so there is already a massive deficit to make up. The annual average over the past 30 years has been 160,000, and 164,000 this century. And the last time 300,000 new homes were built in a year was 1969-1970, when nearly half were put up by local authorities or housing associations. Moreover, there's no automatic relationship between more houses and higher growth, and those expecting a panacea are doomed to disappointment.

What else might Labour try?

Reeves is ambitious on housing and has made a good start, said Ryan Bourne in The Times. But she needs to go further. Using targets to counteract existing bad planning laws is sensible. But what we really need is a more enduring, institutional overhaul of planning that makes more land available for development in general, and adopts zoning laws – commonplace in much of Europe – whereby applications complying with land use and building codes get approval automatically. The government has fired an opening shot, according to The Economist. But "its battle with the blockers has just begun".

Good riddance to Bidenomics

Joe Biden will not be re-elected and America will be better off without his wasteful economic policies

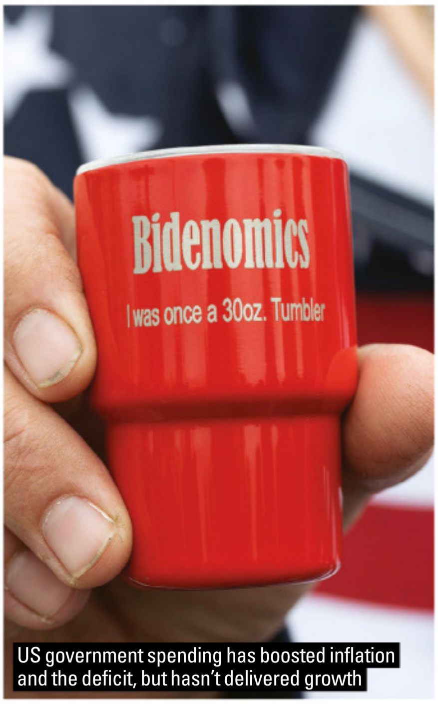
Matthew Lynn
City columnist

If Joe Biden's catastrophic performance in the US presidential debate hadn't already sealed it, then the attempted assassination of Donald Trump certainly did. It seems inevitable that either the increasingly frail Biden will stand down very soon or he will lose to Trump in the election in November. Whichever way it plays out, the current occupant of the White House will be a one-term president, and when he goes, he will take "Bidenomics" – as the hugely expensive experiment in industrial subsidies and protectionism is known – with him.

Biden was elected as a moderate, unifying figure, but on economic issues he has been the most radical US president for a generation. Bidenomics has been a hugely ambitious and highly expensive project to reshape the American economy. Massive subsidies have been offered to build green infrastructure and bring production of vital equipment back to America. Money has been thrown at wind and solar power, building a new electricity grid, subsidising the switch over from petrol to electric cars, and decarbonising homes and offices. The government has opened its cheque book for a new generation of semiconductor factories designed to make the US the world leader in tech manufacturing. Meanwhile, tariffs have been slapped on Chinese imports, such as the 100% levy on its electric vehicles (EVs).

High stakes and limited success

It is not hard to see what those in the Biden administration have been trying to do. They wanted America to become a leader in the production of green energy and reduce reliance on Chinese factories to keep phones, websites and data centres running. They believe dominance of green tech and chip production will secure economic leadership for the rest of the century, and thwart China's ambitions to become the world's leading industrial and financial power. The stakes are very high.



US government spending has boosted inflation and the deficit, but hasn't delivered growth

©Alamy

There have been some successes. Solar-power generation has grown by 75% over the last four years, and eightfold over the last decade, even if it still only accounts for 4% of energy generated in the US, compared with 60% for fossil fuels, and 18% for nuclear. Firms from Intel to TSMC have been building new semiconductor plants. But this has come at huge cost. The total cost of the programmes will come in at $800bn, according to estimates by Credit Suisse, and given that most of the subsidies are in the form of open-ended tax credits the final bill may well be a lot higher. It is one of the main reasons why the government deficit has remained so high, at 5.3% of GDP, and why total debt has soared to 123% of GDP, even though the economy has been growing strongly and debt should be coming down.

Mind-boggling waste

Yet much of the money has been wasted on a mind-boggling scale. For example, it included a $7.5bn plan for installing new EV chargers, so all those subsidised EVs could be powered up on the road. After three years, only seven chargers had actually been installed. There was a rural broadband plan to connect remote homes to the internet, at a cost of $42bn, but not a single home has been connected.

The chip plants are coming online, but have been beset by planning delays and a lack of skilled workers. There's little evidence the vast spending has improved competitiveness, lifted wages, or created durable new industries. EVs are increasingly looking like the wrong technology, the battery industry is crashing, and the chip market is awash with over-capacity. The US has been growing, but mainly on the back of deficit spending, and record shale oil and gas production that has made it the world's largest producer of fossil fuels.

Biden's economic plan was pushed by a small group of radicals around the president and one reason they have been so desperate to keep their man in place, despite his clear incapacity, is so they can keep control of the agenda. But there was very little mandate for this radical economic programme. When Biden goes, so will Bidenomics – and, given its dismal results, not before time.

City talk

©Getty Images

● "Storm overflows spills remain an area of significant focus for our industry" notes Severn Trent, the water utility that last year paid CEO Liv Garfield (pictured) £3.18m for running a firm that's subjected us to "a shower of sludge", says Simon English in the Evening Standard. No surprise there. Severn Trent unimpressively aims to halve spills by 2030, while "water bills will go up, of course, to pay for what the water sector was supposed to have been doing anyway". Garfield – who has pocketed almost £16m over five years – won notoriety last year when she emailed her fellow utility bosses to suggest they "gang up to fend off the threat of nationalisation from a new Labour government". There's little sign Labour will do that – "it is still in bending over backwards to be pro-business mode" – but it is hard to see arguments "on any level, financial or otherwise", against doing so. "No one outside of the £3m a year utility CEO class would think it an unfair reward for shoddy performance."

● "So much for London's uninviting stockmarket," says Alistair Osborne in The Times. Simon Peckham, who was CEO of turnaround firm Melrose until he stood down in March, is back in business. His new vehicle Rosebank Industries raised £50m at 250p per share last week, before surging to more than 700p after listing on Aim. The float is supposed to be a prelude to raising further funds for a deal worth up to $3bn. Perhaps Rosebank could consider a bid for Dowlais, the car-parts firm that has been "on the skids" since listing last year. Dowlais was spun out of GKN by Melrose, which took control of the engineering group in a £8bn "hostile slugfest" in 2018. Melrose originally valued the business at £3.5bn; its market cap is now just £970m. "Maybe Peckham could have another go at that."

● "Physical stores are back in fashion," says Lex in the Financial Times. British Land recently sold its one-half stake in Meadowhall in Sheffield for £360m, the biggest deal in years, while Land Securities upped its stake in Bluewater in Kent. Rents are rising for average-quality properties and there's almost no new supply in the pipeline. Specialists such as Hammerson and Unibail-Rodamco-Westfield have outperformed the wider real-estate sector this year. "There is value there for those willing to search for bargains."

An improving outlook

UK mid caps have perked up and the rally may run further, but long-term investors should remain selective

Cris Sholto Heaton
Investment columnist

Sentiment towards Britain as an investment destination seems to be improving (see page 5). Sterling is back above $1.30, while the mid-cap FTSE 250 stock index is at its highest since April 2022 and has outperformed the large-cap FTSE 100 over the last three months. Since the FTSE 250 is seen as the best gauge of domestic sentiment – nearly half of its constituents' sales come from the UK, compared to around 20% for the FTSE 100 – that may imply views on the UK economy are becoming more optimistic.

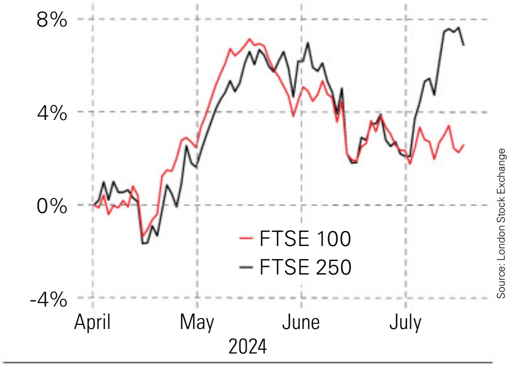
Hopes of an end to the incessant political drama of the past few years must be helping. I wasn't impressed by the substance of the agenda unveiled in this week's King's Speech (page 10), which was a mix of woolly aspirations (talk of boosting growth without the concrete measures that are needed) and further state interference in matters of personal choice (the resurrection of Rishi Sunak's anti-smoking law). However, what matters is sentiment, and many will welcome evidence that Britain now has a rather dour, statist government, rather than a three-ring circus.

There should be enough relief and goodwill to give Labour a chance to come out with some solid proposals for fixing the housing and infrastructure crisis (page 14). So you can make a pretty convincing case why this rally will continue. When a market as unloved as the UK begins to turn the corner, even small bits of good news are fodder for bulls.

A market to be selective

The reason I struggle with a long-term, strategic argument for being bullish on UK mid caps is the one I set out in March (issue 1200), around the time that the FTSE 250 seems to have picked up.

UK large caps versus mid caps
Price returns in sterling



The market has hollowed out. Good companies get bought because they are cheap. New ones don't list. The mid-market gets smaller and potentially lower quality on average (what's left is what buyers don't want). I'm sceptical that the new listing rules (page 12) will change that.

So FTSE 250 trackers still don't appeal to me that much. I'd rather look at the UK as a market where lack of interest may create opportunities for picking stocks or whole sectors. On the income side of my portfolio, I've begun accumulating some of the larger infrastructure and renewable energy trusts. When interest rates were near-zero, these traded at premiums to net asset value (NAV). Now they trade at sizeable discounts, partly because higher rates mean higher debt costs (which may reduce their returns, since they tend to use debt to part-fund investments) and partly because a 4% yield on a government bond has made them less compelling in comparison.

There are obvious risks. Infrastructure trusts could be beneficiaries of a government that wants investors to help rebuild Britain, but also targets if they look like they are profiteering (I am cautious about water assets). Renewables funds have even more complications, including exposure to volatile power prices. Still, the largest trusts yield 4%-7% in infrastructure and 6%-8% in renewables (depending on dividend growth rates). At this point, they seem worth a look.

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

The term "real assets" is most commonly used to refer to physical assets, as opposed to financial assets whose value comes from a contractual claim. Traditional examples of real assets include real estate (both residential and commercial), natural resources (energy, mining and agriculture) and infrastructure (transport, utilities and telecoms).

By contrast, stocks and bonds are considered to be financial assets. When you buy one of these, you don't own something tangible, although the business or loan might in turn be backed by a physical asset. Some assets – such as index-linked bonds – can be expected to deliver real returns (ie, returns explicitly linked to inflation), but are not generally referred to as real assets under this definition.

There are three main benefits that real assets can bring to a portfolio, at least in theory. First, many have historically offered some protection against inflation. For example, some types of infrastructure have a contractual right to raise tolls or tariffs in line with inflation. Property rents can often be increased as inflation rises. In some real-estate sectors it's increasingly common to have explicit inflation-linked annual increases. Meanwhile, higher commodity prices are often a direct cause of inflation, and thus commodity-producing assets – and the companies that own them – often do well when inflation is high.

Second, infrastructure and real estate often produce steady, reliable cash flows. There may be some variation depending on the state of the economy, but many sectors are very defensive. But this is not true of commodities – earnings from commodity producers tend to go through cycles of boom and bust.

Third, real assets can add diversification to a portfolio. Since they have different characteristics to financial assets, and often produce strong returns when other assets struggle (such as during high inflation), they can help to deliver smoother overall performance.

Guru watch

Marko Kolanovic, former chief market strategist, JPMorgan

"It's been 25 years since Wall Street had a serious bear hunt," says Alexandra Semenova on Bloomberg. "It appears another one is starting up now." After 19 years at JPMorgan, strategist Marko Kolanovic has made an "abrupt exit", seemingly pushed out after "warnings of an imminent equities crash never materialised and the S&P 500 continued to hit fresh highs".

Kolanovic is not a household name outside Wall Street, but he had gained recognition for a series of contrarian calls. Those included a well-timed prediction in 2020 that the market would rebound from pandemic and hit record highs within months, says Christiaan Hetzner in Fortune. But he remained bullish throughout 2022 even as rapid-rising interest rates sent the US market into a slump. Then, just before the arrival of ChatGPT "ignited interest in generative AI... he changed his bullish stance and began to fear the arrival of a recession in 2023".

The recession has yet to appear, but Kolanovic has held on to his downbeat views. "A negative stance on equities has hurt the performance of our multi-asset portfolio over the past year", but "we do not see equities as attractive investments at the moment and we don't see a reason to change our stance," he wrote in a note to clients in May.

High valuations, interest rates that are likely to remain restrictive, signs of weakness in consumer spending and geopolitical uncertainty are likely to weigh on markets. "We don't think that narrow themes like AI chips can compensate for all of those traditional market challenges that historically worked against the cycle."

Overall earnings growth will need to accelerate in the third and fourth quarter to meet investor expectations for 2024, Kolanovic argued. "That is unlikely, especially if the recent spell of softer activity dataflow continues." The S&P 500 is likely to finish the year around 4,200, he said at the time. When his departure was reported at the start of July, the index set a new record, at over 5,500.

A green trust to tuck away

The ESG bubble has burst, but environmental technology is still a long-term opportunity

Max King
Investment columnist

Sustainable agriculture is one of many themes in Impax's balanced portfolio ©Getty Images

Three years ago, the idea that a fund focused on environmental markets and resource efficiency would be regarded as "contrarian" would have been ridiculous. Yet such has been the backlash against the "net zero", "climate change" and "environmental, social and governance (ESG)" agenda that any fund which puts kow-towing to the environmental establishment above the pursuit of profit has been hammered.

Renewable-energy funds have sunk from trading at large premiums to net asset value (NAV) to a weighted-average sector discount of 22%. Funds focused on "sustainability" have underperformed and ESG has gone from being the focus of every investment presentation to becoming a token page at the back.

Investors have returned to concentrating on companies that focus on maximising profits rather than saving the planet. Hence firms involved in the exploration and production of hydrocarbons are back in demand, as are the aerospace and defence sectors.

Caught up in the bust

Impax Environmental Markets (LSE: IEM) long predates the recent boom and bust cycle, having launched in 2002. Its objective is to "achieve sustainable, above-market returns over the longer term by investing globally in firms that are developing innovative solutions to resource challenges in environmental markets". Had it sacrificed returns to curry favour with the fundamentalists, it would not now have assets of over £1bn.

Inevitably, it has still been caught up in the sell-off. The share price peaked at nearly £6 in late 2021, when it traded at a premium to NAV, but now trades below £4, on a discount of about 10%. Performance in NAV and share-price terms has now fallen behind the MSCI All Country World index over all time periods since inception.

Yet the portfolio's valuation premium relative to global equity markets is below its ten-year average, despite supportive expectations for company earnings growth, says lead manager Bruce Jenkyn-Jones. "Small and mid-cap stocks, the major part of the portfolio, continue to trade at a discount to large-cap peers and many investments are at valuations well below their peaks, despite strong growth drivers."

A balanced portfolio

The portfolio of roughly 60 stocks is international, with 49% based in North America, 36% in Europe and 10% in Asia Pacific excluding Japan. It is also well-balanced by theme: 21% in resource efficiency and waste; 18% in energy management and efficiency; 17% in water infrastructure and technologies; 13% in food and agriculture; 10% in alternative energy; 9% in digital infrastructure; 6% in transport; and 4% in environmental services.

These broad categories include packaging firms replacing plastics with paper, construction groups focused on renovation and refitting rather than new-build or on improving their energy efficiency, and food businesses displacing chemicals with natural ingredients.

Others seek to benefit from the modernisation and growth of electricity networks, from reducing the water intensity of the semiconductor industry, reducing the environmental impact of steel manufacturing, or improving the reliability and cost of renewable energy.

The portfolio is growth orientated: the average earnings multiple is 20% above the MSCI index, but growth is 1.5 times higher, which will steadily erode the valuation premium. After the backlash against the climate-change agenda, "expectations are now much more realistic and valuations much more fairly priced", says Jenkyn-Jones.

New technology offers the opportunity for significant environmental improvement while raising living standards and the quality of life. The investment opportunity is not going to disappear and few can claim the expertise of the team at Impax. This is a trust to lock away for the long term.

Activist watch

US activist investor Jana Partners has acquired a "significant" stake in cybersecurity firm Rapid7 and is pushing the company to sell itself, says The Wall Street Journal. The plan is for US investment firm Cannae Holdings, with whom Jana has a strategic partnership, to team up with a private-equity firm to buy Rapid7 – a strategy Cannae has executed before. Jana is also calling for Rapid7 to improve its operating performance to boost its share price, which has declined more than 30% this year and by 60% over the past three years. Rapid7 specialises in software that helps businesses assess security risks. Cyberattacks have boosted demand, but Rapid7 recently reduced its 2024 outlook and is under pressure to cut costs.

Short positions... record outflows from UK funds

Retail investors pulled a record £1.8bn out of British equity funds in May, according to data from the Investment Association. Losses on that scale are "quite the accomplishment for a sector that has been in outflow for eight years", says Laith Khalaf of broker AJ Bell. "Even more troubling for UK asset managers is the fact the trend seems to be accelerating." Since 2016, £54bn has been withdrawn from UK equity funds, driven by structural changes such as passive investing and a growing tendency to benchmark stock portfolios against global indices. British stocks represent just 4% of the MSCI World index, but retail investors have historically been overweight in UK-listed equities. However, they are rebalancing to hold more of their assets in international stocks, which means steady outflows from the UK and into other markets such as the US, which makes up around 70% of the world index and has far outperformed the FTSE 100 in recent years.

Home Reit, the real estate investment trust set up to invest in accommodation for the homeless, is to wind down, says Citywire. The trust needs to repay £115m in loans by the end of the year and has concluded that doing so will leave it with too small an asset base to continue. Fund manager AEW, which took over the running of Home Reit in May 2023 after original manager Alvarium was ousted amid claims of failings in the trust's troubled property portfolio, will dispose of all the remaining assets. Shareholders will need to approve the wind-down, but key investors have said they will support it. Home Reit's shares have been suspended since January 2023 and it faces an investigation by the Financial Conduct Authority and legal action from investors, while it is in turn attempting to sue Alvarium.

The world's population bomb

Syed Munir Khasru
Nikkei Asia

According to the United Nations, the global population will rise from 7.6 billion to 9.8 billion by 2050, and to 11.2 billion by 2100, says Syed Munir Khasru. Can we accommodate the rise? Asia, home to 60% of the population including India, the most populous nation in the world with around 1.43 billion, will "bear the brunt" of it. While this could fuel GDP growth, it also "places immense strain on resources and infrastructure". As urbanisation accelerates, the UN estimates that three billion people will require new housing and basic infrastructure by 2030. There is a shortage of healthcare workers globally, with ageing populations making the situation worse. Population growth and increased consumption is also a key driver of climate change. CO2 emissions will increase, as will water scarcity, and rising sea level rises and subsidence could threaten major cities, potentially leading to mass migrations and conflicts. We will also need to educate and find jobs for people at a time when artificial intelligence could replace millions of jobs. Global cooperation from all stakeholders from governments to civil society is needed to avoid "disaster". The "sheer scale of the challenge demands nothing less than a reimagining of how we live, work and coexist".

A dearth of financial advisers

Moira O'Neill
The Financial Times

Last July, the Financial Conduct Authority, the City regulator, introduced new rules known as the Consumer Duty to improve standards for financial-services customers. But consultants The Lang Cat find they may have had a "deleterious effect," says Moira O'Neill. The number of people getting professional advice has since fallen from 11% to 9% , with many advisers using the changes as an opportunity to "rationalise" client numbers. More than half now refuse to "serve those with low investable assets". This was predictable, given the associated costs of the new rules. To qualify for advice today, you typically need £100,000 (the median cost of an investment plan is £7,597 over five years). Even before the reforms, the industry was suffering from a shortage of recruits: 75% of current advisers are due to retire within ten years. Does this matter? Australia has far fewer advisers per head, not least because it has "default" solutions for retirees wanting a retirement-income strategy (retirement is a "key point" for needing advice). So although everyone should have access to affordable advice, reducing the need for advisers at key points with, for example, the UK's imminent "pension dashboards", may be the best approach.

Undersea cables under siege

Editorial
The Economist

Undersea cable security is becoming a big issue, says The Economist. The fear is that underwater communications could be "crippled in a crisis or in wartime, or tapped for secrets in peacetime". More than 600 active or planned cables "criss-cross the world's oceans, running for more than 1.4 million kilometres in total and carrying most of the world's internet traffic. Each year, more than 100 cables are damaged, but it is hard to distinguish accidents from sabotage. A report by London's Policy Exchange finds that there have been eight unattributed cable-cutting incidents in the "Euro-Atlantic region" since 2021, and more than 70 recorded sightings of Russian ships behaving "abnormally" near critical infrastructure. Cables have also been severed in the Red Sea and near Taiwan. Western governments are "scrambling" to erect better defences. The first Critical Undersea Infrastructure Network was convened by Nato this year and the EU is contemplating a network of "underwater stations". Repairs are difficult; more so in wartime. The US has been "disrupting" cable deals in Asia, fearing Chinese espionage. These fears also explain why Western governments are so keen to keep details of cable routes "under wraps".

Should we pay granny to babysit?

Tyler Cowen
Bloomberg

Why has Sweden, a country which provides "first-rate and well-subsidised" childcare, started paying grandparents to look after their grandchildren, asks Tyler Cowen. Occasionally, even "apparently foolish ideas" have "compelling rationales". Until now, parents who preferred to return to work after the birth of a child were not allowed to draw their normal salary and still get the full childcare benefit, creating a disincentive to do so. If grandparents can be paid to take care of children, however, the extended family doesn't lose the money if the parent returns to work. Grandparents and parents can of course settle up between them, if grandparents don't wish to be paid. A side effect is that, if the parent who returns to work is a high earner, government tax revenue will increase, helping to pay for the policy. For a single parent, the logic holds "all the more" (the costs of a career break are greater; the need for enlisting help from grandparents is more necessary). Yes, the policy still costs some money upfront; one could argue it "commodifies family relationships". However, a policy which helps parents back to work, makes grandparents happier and provides benefits to children does have merits that aren't obvious at first glance.

Money talks

"I grew up in the Eighties wanting to work on Wall Street. I read *Liar's Poker* [by Michael Lewis] and it seemed really exciting. So I went to business school in Canada and got a summer job on Toronto's version of Wall Street. When I got there I was shocked. It was not just boring; it was literally just about money. If I look back on my life, I'm really grateful for that job, because it taught me what I absolutely didn't want to do."
South African restaurateur Kimbal Musk (pictured), brother of Elon, quoted in The Times

"Class distinctions do not die; they merely learn new ways of expressing themselves."
Academic Richard Hoggart, quoted in The Sunday Times

"The only person who likes all kinds of art is an auctioneer."
Oscar Wilde, quoted in The Guardian

"If it's just one weird billionaire saying, 'do this thing', I don't think you'd ever get anything done."
Bill Gates on the need for collaboration, not just money, to solve problems that affect entire societies,quoted in The Times

"We may have got our freedom, but we have swapped one privileged group for another."
South African township dweller and trauma counsellor Nkepile Masite on the post-apartheid era, quoted in The Sunday Times

"The nature of compound interest is it behaves like a snowball of sticky snow. The trick is to have a very long hill."
Warren Buffett, quoted in AlphaSense

"Ninety-nine percent of investors shouldn't try to get rich too quickly – it's too risky. Try to get rich slowly."
Investor John Templeton, quoted on X

©Getty Images

The Fed fumbles in the dark

Jerome Powell: does he know what he's doing?

theatlantic.com

Arguably the single most important question in finance is whether and when the US Federal Reserve will cut interest rates, says Rogé Karma. Lower them too quickly and inflation could take off again. Keep them high too long and the economy could suffer. The decision could even affect the outcome of the presidential election. Wall Street and the White House "anxiously await the Fed's next move".It's a shame, then, that no one understands the relationship between rates and inflation – "not the experts who study them, the investors who track them, nor the officials who set them".

There are two main theories in the economic mainstream. The first is that raising rates is the cure for inflation, and it has been an article of faith ever since Paul Volcker raised rates in the early 1980s to squeeze out inflation rates of nearly 15% by causing a recession. He went down in history as "the hero who wrecked the economy to save it". Yet when the Fed reached for this same tool three years ago, the expected recession never arrived and inflation cooled anyway.

The second main theory is about "expectations". This says that Volcker established a faith in people's minds that the Fed will do whatever it takes to tame inflation, so now all the Fed has to do is signal that it is thinking of raising rates for the magic to work as people adjust their behaviour – workers demanding less wages, for example – in expectation of rising rates. This sounds plausible until you realise that the average Joe has no idea what the Fed is saying, or even whether the economy is in recession or not.

"Most troubling of all," high rates may actually exacerbate the inflation problem. Most of the gap between the inflation level the Fed is targeting and the reality today, for example, is down to housing. Higher rates may be prompting house owners to stay put to lock in the mortgage rates they secured when rates were lower, restricting supply and hence pushing prices higher.

This is a concern for the Fed, which is "terrified" of losing its reputation for being in control of inflation. "For the central bank, in other words, interest rates are like chemotherapy. They might have horrible side effects. They might not even work. But they're a lot better than taking your chances with the cancer of inflation."

Why do these views continue to prevail? Because inflation is "one of the single greatest threats" to the social order and it's nice to think it "can be controlled with the equivalent of a push of a button". So far we have been lucky and avoided an inflationary spiral. "Next time we may not be."

AI will not save the economy…

breakingviews.com

"The world's most advanced economies are in the grip of a prolonged productivity crisis," says Felix Martin. In the decade since the financial crisis of 2008, the growth of output per hour worked in the G7 group of nations slumped to less than 1% a year, less than half the rate of the decade before. This is the "single biggest economic problem facing the developed world" and the "source of much political angst". Has the saviour at last arrived? Many people think so, and hail the advent of artificial intelligence (AI). Goldman Sachs, for example, predicts it will boost productivity growth by three percentage points per year in the US over the next decade. But will it? Its prodigious predictive powers have enabled notable advances in certain data-heavy areas of chemistry and biology, for example. Yet progress relies not on spotting patterns, but on understanding them – and AI will be no help there. Others say it will reduce costs by automating more work. There is evidence that this will indeed be a help to some firms, but the aggregate impact of such improvements is likely to be "surprisingly modest". Current estimates of what work could profitably be replaced yields a broad rise in productivity of only around half a percentage point over ten years. "That is barely a tenth of the ground lost since 2008."

Britain's *capo dei capi*

unherd.com

Who else but a head of state would "dole out advice every single day" to a new prime minster? That is just what Tony Blair has been doing since Keir Starmer was elected, says Aaron Bastani. Before Starmer's government was even two days old, Blair was pontificating in The Sunday Times about everything from digital ID cards to reforming public services. Starmer may be "kingpin", but for many in the party, Blair will "forever be *capo dei capi*".

Blair's big idea is that AI will save us. A report from the Tony Blair Institute (TBI) assures us that "more than 40% of tasks performed by public-sector workers could be partly automated" using AI-based software, leading to savings of £41bn a year. You might presume, given the resources available to the TBI, that this was the result of detailed analysis by a world-leading expert. In fact, it came from ChatGTP4. The "various botched IT projects of new Labour" were driven by "Blair's default setting of tech boosterism". He's learnt nothing from this, which matters because he intends the TBI to be the key think tank influencing No. 10 – "if it isn't already".

Yes, Mr President

… nor will it save the NHS

theguardian.com

What if artificial intelligence (AI) "isn't that great"? What if we've been "overstating its potential to a frankly dangerous degree"? That, says Alex Hern, is the concern of leading cancer experts in the NHS, who warn that the health service is obsessing over new technology at the expense of patient care, and argue instead for a "back to basics approach", involving getting more staff and redirecting research to less trendy areas, such as surgery.

AI is a distraction from much-needed improvements and is probably just the latest example of the spread of "bionic duckweed", a term coined by Stian Westlake in 2020 to cover the use of the promise of technology that may or may not arrive in the future to argue against investment in the present. The term was inspired by a real-world example. In 2007, the UK government was advised against investing in electrified trains because "we might have… trains using hydrogen developed from bionic duckweed in 15 years' time". Seventeen years on, the UK continues to run diesel engines on non-electrified lines.

The tobacco industry is going smoke-free

Cigarette manufacturers have realised their traditional products are on the wane. But new opportunities have opened up – and should prove highly lucrative, says Rupert Hargreaves

Tobacco is one of the world's most divisive sectors. Ever since the first link between smoking and cancer was established in 1950, the companies that produce and sell cigarettes have been under pressure. The pressure intensified in the mid-1950s when the first lawsuits were filed against the US tobacco industry. Over the next 40 years, a steady stream of litigation worked its way through the courts.

Tobacco companies successfully defended their position until the mid-1990s, when more than 40 states started litigation against the industry. The battles ended with the Tobacco Master Settlement Agreement (MSA), agreed on 23 November 1998, between the four largest US tobacco companies (Philip Morris, R. J. Reynolds, Brown & Williamson and Lorillard) and the attorneys-general of 46 states.

The 25-year settlement forced tobacco companies to pay $246bn to state governments. At the end of this year, companies will have paid $165bn of the total, with the leading players handing out $5.8bn this year. However, this settlement only relates to the US. Other countries have levied more bills on the sector. In 2015, a Canadian court ordered three tobacco firms to pay C$15.5bn (£8.7bn), the largest award for damages in the country's history. (None of this has yet been paid.)

There is no denying that tobacco firms have a terrible reputation and products with strong, irrefutable links to terminal diseases. Still, despite this reputation and vast legal bills, smokers continue to smoke, and the industry's main players are still cash machines. If humans were rational beings, the tobacco industry wouldn't exist. But it does. According to the World Health Organisation (WHO), the number of smokers worldwide has declined by 20% since 2004.

A marked decline

While the agency's findings show that one in five adults worldwide is consuming tobacco – a significant decrease from one in three in 2000 – the world's population has increased by a third. So the overall number of people smoking has declined by less than the headline figures suggest. In some regions, the number of smokers has increased, even though the percentage of people smoking has fallen. Once again, this is purely a result of population growth and immigration.

If there is one place that showcases the conflicting sides of the tobacco argument more than anywhere else, it's New Zealand. In 2022 the country passed pioneering legislation that introduced a steadily rising smoking age to stop those born after January 2009 from ever being able to buy cigarettes legally.

The country trumpeted the changes as the dawn of a new age of better public health outcomes, which could save billions in healthcare spending and revitalise the health of younger generations. But the new coalition government repealed the law before it was due to come into force in July 2024, after deciding it was not worth forgoing the tax revenue. The money has been used to fund other tax cuts.

"Governments have been loath to stamp out the habit because it is a money-spinner"

Despite the detrimental impact on health and cost to the economy, governments have been reluctant to stamp out smoking because it is such a money-spinner. It's difficult to claim that consumers are not aware of the risks of smoking, and so, the argument goes, if they want to smoke they should be able to, but they should have to pay sin taxes.

However, over the past five years, there has been a seismic shift in the industry's direction. Tobacco companies have realised there is no future in cigarettes, but there is a future in nicotine. And today there's a range of different ways to deliver nicotine into the body, most of which are substantially less harmful than smoking. Some, like Philip Morris, are actually trying to kill off their legacy products in favour of so-called reduced-risk products.

This trend is playing out across the traditional "sin" industries. Tobacco firms are reinventing themselves with less harmful alternatives and alcohol companies are reinventing themselves with lower-alcohol products. Alcohol suppliers are also going upmarket, prioritising quality over quantity, a move driven by consumers. The trend towards healthier alternatives extends beyond alcohol and tobacco.

Consumers are moving away from unhealthy fast food and paying more for healthier, protein-rich alternatives. For example, in the first quarter of 2024, McDonald's first-quarter same-store sales grew by 2%. Sales at Chipotle, which is "cultivating a better world by serving responsibly sourced, classically cooked, real food with wholesome ingredients without artificial colours, flavours or preservatives", grew by 14% to $2.7bn.

Elsewhere, start-up Olipop, which touts its soda as a healthier alternative to sugary drinks such as Coca-Cola and Pepsi, has seen sales explode from less than $1m in 2019 to an estimated $500m for 2024. The soda is low in sugar and made with ingredients that include plant fibre and prebiotics.

This article isn't about the ethics of investing in the tobacco industry – readers who are not interested in the sector have probably already turned the page. Instead, this feature is a close look at a sector that is both reinventing itself and returning vast sums of capital to shareholders – so much so that in at least one case, a company is going to retire all of its outstanding shares within the next decade.

The reinvention of Big Tobacco

Tobacco stocks have hardly shot the lights out with returns over the past decade. Over the last ten years, shares in **British American Tobacco (LSE: BATS)** have returned 2.4% per annum, including dividends; **Imperial Brands (LSE: IMB)** has returned 2.9%; **Philip Morris (NYSE: PM)** 5.9%; **Altria (NYSE: MO)** 6.1% and **Japan Tobacco (Tokyo: 2914)** 4.8%. These companies have all underperformed their respective index benchmarks, although they have kept pace with cash and inflation.

Except in the case of Japan Tobacco, it has been a case of multiple compression. Shares in British American used to command a mid-teens price/earnings (p/e) ratio. Today, it's trading on a p/e of seven. Philip Morris used to command a multiple in the low 20s; now it's in the high teens.

Continuous litigation has prompted the sector to steer away from cigarettes

Multiples have fallen as investors have shifted away from the sector for two reasons. The rise of the economic and social governance (ESG) movement has driven capital away from perceived sin sectors. Meanwhile, tobacco firms' growth prospects have dimmed. Management teams have tried to deal with the latter with some disastrous initiatives, such as Altria's deal to acquire a stake in e-cigarette and vape firm Juul, which incinerated $13bn of shareholders' cash. Rather than show investors the company had a plan for future growth, it did the opposite. No other company has made such a catastrophic error, although other firms have incurred plenty of criticism.

Take BAT's decision to focus on debt repayment over the past two years rather than shareholders' returns (buybacks) when the stock was trading at some of the lowest levels in over a decade. This seemed to be driven by management's belief that it had made an error in buying Reynolds American in 2017 for $49bn – the company announced a $31.5bn write-down of US brands at the end of 2023 and has barely mentioned the deal for the past few years.

Although the tie-up lumbered the buyer with a pile of debt, it has not been a disaster. It is estimated that BAT is generating more than $8bn a year in extra profit from its US operations. Investment bank Panmure Gordon thinks the total cash generated from the deal since closing has been in the region of £24bn, covering 75% of the cost of group dividends during the period.

Elsewhere, Imperial Brands sold its premium cigar business for £1.1bn in 2020 despite forecasts suggesting the global cigar market could grow at a double-digit annual rate between 2020 and 2030 as the subsector piggybacks on the growth of the global luxury industry. Then, in 2022, Philip Morris won a $16bn battle for Swedish Match as part of its ambition to become a global champion of smoke-free tobacco products. The deal lumbered the group with a lot of debt and deflected management's attention when it should have been focusing on the growth of the overall business.

Over the past five years, tobacco companies have tried and largely failed to get investors interested in the sector again. Billion-dollar deals and plans to exit the smoking side of the business have hardly galvanised investors into action. So why is now a good time to look at the sector? It all comes down to these companies' efforts to focus on a smoke-free world.

A smoke-free future

What do these companies mean when they say they are aiming for a smoke-free world? Ultimately, it is the delivery of nicotine into the body via different routes, including products such as snus and chewing-nicotine pouches, as well as e-cigarettes in various forms. The other, slightly controversial form of smoke-free product is heated tobacco devices. Heated tobacco products heat real tobacco instead of burning it, and companies argue that because they don't burn it, these products are smoke-free – producing a nicotine-containing aerosol that is fundamentally different from cigarette smoke.

The market for these products has exploded over the past five years, and in 2023 it reached the tipping point. In 2023, smoke-free sales accounted for 37% of Philip Morris's total full-year revenues. Sales of its flagship IQOS heated-tobacco device overtook sales of Marlboro for the first time in the final quarter of 2023.

Getting to the bottom of how profitable these smoke-free products are is not easy. Most companies do not break out the figures. However, Altria has started to make the data available and the firm's numbers provide

Continued on page 22

"In 2023 smoke-free tobacco products accounted for 37% of Philip Morris' annual revenue"

Continued from page 21

a good insight into what the future holds for the sector. Altria's portfolio includes the US Smokeless Tobacco Company and NJOY – the latter acquired in June 2023 and currently selling the only pod-based e-vapour product approved by regulators in the US – along with a range of heated tobacco products. Based on numbers compiled by analysts at Panmure Gordon, this smokeless business has the potential to generate $3bn a year in annual sales by 2026.

That would be equal 17% of projected group net revenue and up 20% from 2023, compared with flat revenue over the period for the smokable business. As the smokeless division scales up, Panmure expects the operating profit margin to climb to just under 70% by 2026, compared with 76.9% for smokable. These products are only marginally less profitable than traditional cigarettes.

As smokeless products are also less of a health risk than traditional cigarettes, the legal risks to these businesses are also significantly reduced. That's the opportunity here. The transition away from cigarettes to other firms of nicotine delivery is just getting started, and there is huge scope for growth in the years ahead.

An inflection point

Now could be the perfect time to jump on board this trend. For the past five years, the future of smokeless products has been uncertain, both from a regulatory and a corporate perspective. All of the big tobacco players have been investing heavily, with little or no reward. That's starting to change. These companies have mostly got past the major start-up costs associated with developing and distributing new products.

Philip Morris, for example, has spent more than $10bn developing its range of smokeless and reduced-risk products. There have also been heavy marketing costs associated with the products as companies have tried to communicate the benefits to consumers of switching away from cigarettes.

Growth has also been held back by a proliferation of smaller companies that have tried to muscle in on the larger players. Juul was the best example. At its peak, Juul was valued at $38bn as investors rushed to buy into the company's success. It claimed it could take on the big players and become the world's most important vape manufacturer. The scale of the challenge overwhelmed the company, but not before it had spent billions of dollars in marketing.

In today's high interest-rate environment, investors are no longer willing to fund any business indefinitely, and there has been a pull back across the market, not just in the smokeless subsector, but in everything from food delivery to cryptocurrencies. Big Tobacco always had the distribution networks and resources to take over the smokeless industry, and now it is leveraging its vast footprint to get in front of consumers. With this major shift, all of the main players barring Japan Tobacco, which is only just embarking on the journey, are earning money from smokeless products.

Imperial Brands, Philip Morris and BAT look the most interesting among the five big players in the market. BAT moved past its obsession with debt earlier this year and sold part of its stake in ITC, formerly India Tobacco Company, to fund a share buyback. It is planning to repurchase £700m of shares this year and £900m by the end of 2025, by which time it should have reached its target to reduce debt to a range of two to 2.5 times earnings before interest, tax, depreciation and amortisation (Ebitda). Further buybacks seem likely. The stock is also cheap, trading at a forward p/e of 6.7 based on Panmure's estimates, falling to six by 2026. It offers a 9.8% dividend yield.


©Getty Images

The number of smokers worldwide has slipped by 20% since 2004

Imperial is an exciting proposition. The company has recently focused on debt reduction and cash generation. In October 2022, it launched a series of huge share buybacks that have reduced its issued share count by 10%. Purchasing shares creates a virtuous cycle. With fewer shares in issue, less cash is required to fund the dividend payout, leaving more money for remaining investors. Management has indicated it will continue down this path. If the current trend continues, the company will have eaten itself in ten years. On top of this, there is also a dividend yield of 7.7% on offer and Panmure has the stock trading on a 2026 p/e of just 6.1.

Philip Morris is the most expensive of the bunch, trading at a 2026 p/e of 13.7, but it should deliver growth worth paying for, with pre-tax earnings set to increase by roughly 50% between 2023 and 2026 (in part due to the Swedish Match acquisition, which only closed towards the end of last year). The stock also offers a dividend yield of 5%.

"Philip Morris is relatively pricey, but should deliver growth worth paying for"

Who's who in global tobacco

There used to be thousands of tobacco companies around the world, but over the past 50 years, as the industry's growth has stagnated, they have been forced to consolidate. Today there are just a handful of names that control most of the industry, and only a few of these are public. The largest of the non-public, state-owned names is China National Tobacco Corporation.

Of the listed firms, at the top of the pyramid is Philip Morris International (PMI). This company was created out of necessity, through a break-up driven by the tobacco lawsuits of the late 1980s and 1990s. The management team of Philip Morris, which was based in the US, decided to split the ownership of Marlboro, the world's most recognisable cigarette brand, between a US firm that would face the liabilities from US lawsuits and an international business. The US parent was rebranded to Altria and held onto the brand in the US, while Philip Morris International took the international tobacco business, shifted its headquarters to Switzerland, and was spun off as a separate listed company in 2008. Marlboro remains the flagship product for both Altria and PMI. In addition to its tobacco and smokeless products, Altria also owns 10% of brewing giant Anheuser-Busch InBev.

After Altria and Philip Morris, British American Tobacco (BAT) is the third-largest listed player. Until the company's acquisition of Reynolds American in 2017, the bulk of its sales came from emerging markets. That shifted with the move into the US. The group also owns a 25.5% stake in ITC, formerly India Tobacco Company, the cigarette market leader in India. (I've not covered ITC as tobacco is only part of the group's operations and almost 90% of India's tobacco products come in the form of black-market cigarettes.)

Imperial Brands, BAT's UK-listed peer, generates roughly a third of revenue in the European market. Of the £9.5bn in annual revenue reported by the group, £1.5bn comes from its logistics and distribution business, Logista (Imperial holds a 50.01% majority stake). Japan Tobacco is the smallest of the group. It still relies heavily on sales from cigarettes and is only starting to build its smoke-free business. However, it also has a food business and pharmaceutical arm, which offer a level of diversification. Revenue from these two divisions contributed about 10% of total group revenue in 2023.

Means-testing the state pension...

... would prove vastly complicated and intrusive, says Merryn Somerset Webb

In the middle of the second century AD, a young man wrote to his father in Egypt. Apion, son of Epimachos, had just reached the Bay of Naples, where he intended to join the Roman army. He wanted his parents to know he was safe and also that he had renamed himself Antonius Maximus. This, says Richard Abdy in his book *Legion: Life in the Roman Army*, would have been done "in anticipation of his eventual retirement" and consequent rise in status.

Assuming he made it through 20 years of battle and travel, he would have been awarded Roman citizenship (hence the name) and a pretty attractive retirement plan too – one with the equivalent financial value of between ten and 13 years' pay. Happy times. Also expensive times. Soldiers' pensions were cripplingly expensive for the Roman state, making up anything from 50%-80% of all state spending (depending on which historian you listen to). This led to all sorts of fiddles. Emperor Augustus put a new tax on inheritance. The amount of time soldiers had to serve before they got their cash was also extended.

Sound familiar? It might. While working for 35 years in the UK isn't quite the same as serving 20 in the Roman army, it gets you a similar type of pension. The median wage is around £35,000. Get the full state pension, as 80% of those who hit the state-pension age in the UK will, and you have a stream of income worth £200,000, according to the Institute for Fiscal Studies (IFS). That is the amount you would need to buy an index-linked annuity to pay you that level of income.

That's more like six than ten years' salary, admittedly, but you will also have had auto-enrolment contributions from the state, which should bring it up to Roman levels. Either way, real money. Add in pension credit (paid to those who are in dire straits, but have not built up the entitlement to a full state pension) and winter fuel payments, and it comes to 5.1% of the UK's national income – and rising as the population ages and the UK government's triple-lock becomes politically impossible to abandon.

That has already led to conversations about pushing back the retirement age even further (it is now supposed to reach 68 between 2044 and 2046) and putting up other taxes; 2,000 years on, the row about the morality of inheritance tax has lost none of its fury. But the UK is now muttering about something Augustus would never have contemplated: a more progressive approach. Imagine that Apion found himself a new occupation after the army: a well-paid job advising a procurement committee, perhaps. Or say Epimachos died and left him a plot of land in Egypt just right for building high-density housing on. Imagine then that the army said they were means-testing retirement and he'd have to give a pile of the cash back. That might have caused riots.

A mushrooming mess

On to the modern UK. Why, ask fair-minded voters, should those with piles of cash already be awarded what is effectively a state benefit at a time when the UK's debt position is particularly nasty? The answer today is probably much the same as it was then. First, it is extremely difficult to means-test. If everyone had nothing but a defined-benefit (DB) pension (the type MPs and all civil servants have, providing a set inflation-linked income every year) it would work just fine. But they don't. And to test anyone without

©Alamy

The Roman army offered generous pensions for those who survived 20 years of battles

"70% of people do not think that the state pension will exist in its current form when they retire"

a DB pension (or with a DB and other things too) for income purposes you would need to test it against not just current income from their pension assets, but also against their potential income. Think how fast you would find everyone with a defined-contribution (DC) pension shifting their assets from dividend-paying income stocks into growth stocks if you did not.

Capital gains instead of income in an era of income-related means testing? Yes, please. But you'd also have to look at anything held outside a pension – and in particular at where income could be generated. So houses, paintings, jewellery – anything that could be sold for the cash to be held in income-generating assets. That might all be a good way get those pesky pensioners downsizing and freeing up houses. But it would also distort incentives. Why save elsewhere and stick to being auto-enrolled in a private pension if that income might end up reducing your state-pension income? Also, if it were to be remotely fair, means-testing would have to be hugely administration-heavy, complicated and intrusive. It would be almost like preparing for a wealth tax.

The government might not mind this (it appears fine with absurdly complicated taxes elsewhere). The population would. Every time there has been a mention of the stunning expense of the triple lock over the last few years, the opposition's default response has been to insist that those who have paid the UK's national insurance (NI) have paid for their pension and must have it. This isn't quite true (NI is merely a secondary income-tax that promises nothing), but everyone thinks it is – which matters just as much. There aren't many things that could bring the middle classes onto the streets, but not getting what they think they paid for pension-wise is one of them. Look at the WASPI campaign.

The government knows this. So means-testing probably won't happen. Something else might: a further shift in the date at which pensions are paid (some of the soldiers who came after Apion had to wait 25 years), perhaps, or a "reform" of the triple-lock that slowly cuts the real value of the pension, a bit like Roman coin-clipping. That said, the fact that these stories of means testing and misery keep popping up does come with an upside: 70% of people do not think that the state pension will exist in its current form at the time of their retirement. Those people might be ready to riot, but they will also be saving as much into their private pensions as they can. Everyone should be doing much the same.

It's high time to get creative

Any industrial strategy should not overlook one of our top national assets, says David C. Stevenson


©Getty Images
The fashion and textile industry supports 1.3 million jobs

Over the next few months there will be an animated discussion about the role of industrial strategy in boosting GDP. But the current obsession with investing in things you can touch and build might cause us to overlook what, in policy terms and growth terms, make Britain great: creative products and services.

Take steel as a contrast, and consider the following statistics. The UK steel industry, championed by MPs and think tanks, exports goods worth between £3.5bn and £4.5bn per annum, while the British music industry – with no political champions – exports between £2.5bn and £3bn annually.

The steel industry employs between 30,000 and 35,000 people directly. If we include indirect employees, the figure rises to 50,000-60,000. The music industry employs 190,000-200,000 people. And music is just one big part of the wider UK creative industry. The creative economy employs two or three million people, and has been growing at a terrific rate in recent years. It makes up 5%-6% of gross value added, a gauge of output used by productivity-focused economists.

The creative sector is also key to trade. Creative exports typically account for around 10%-12% of the our total exports of services, with the UK ranking as one of the top exporters of creative goods and services globally, usually in the top five countries. Exports of creative goods and services increased by 150% between 2010 and 2017. One crucial last aggregate measure: 90% of the value of exports from the creative industries is produced domestically. The creative industries are self-sufficient and focused on the domestic economy, yet they have a significant positive impact on trade.

A boost for the local economy

As we dig a bit deeper into the various subsectors, this vital role becomes even more obvious. Take the film and television sector, which employs 180,000-200,000 people. According to the British Film Institute (BFI), an industry body, the combined spend by film and high-end television production (HETV) in 2023 reached £4.23bn, 32% down on 2022 (due to Covid and a writers' strike), but almost level with pre-Covid output.

Of that, the lion's share was "contributed by HETV shows with £2.87bn, or 68%, with feature film production contributing £1.36bn, or 32% of the total spend... Inward investment and co-production of films and HETV shows combined delivered £3.31bn, or 78% of the combined production spend, [demonstrating] the UK's global reputation as the world-leading centre for international film and TV production".

Another recent report from Knight Frank observed that films with a £60m-£100m budget generate more than £750,000 in daily spending, and those with budgets over £100m generate over £1m in daily spending. The slight fly in the ointment is that 70% of film and TV studios are in the southeast and London alone. And those big numbers could grow much bigger.

An optimistic estimate by Knight Frank sees film production spending reach £8.7bn in 2028, which would require 2.6 million square feet of additional TV and film studio space. The upshot is that we are now mid-way through a boom in new studio construction in London and the home counties. The top ten schemes underway in 2023 and 2024 involve the construction of at least 160 sound stages and a total rollout of a staggering 3.77 million square feet.

"Exports of creative goods and services jumped by 150% between 2010 and 2017"

Some schemes, though, are facing local opposition. One big project in Marlow has already been halted. Buckinghamshire Council has denied permission for a proposed film studio at Marlow quarry. The BBC says that during a "meeting at the Strategic Sites Committee, concerns were raised that the site was an inappropriate development for greenbelt land and would have a significant impact on the local road network".

Councils pursue studios

Still, many other councils are jumping at the chance to host big studios. That's partly thanks to all that local spending I mentioned earlier, but mostly it's a matter of simple logic. Film studios are big-box sites that realistically are only likely to be used for one of three purposes: a logistics and distribution warehouse, a data centre, or a film studio close to the M25 and an airport.

The first involves lots of jobs, many of which are relatively poorly paid. The second is vital for the UK economy to keep up in the world of artificial intelligence (AI), but it doesn't involve many jobs (just lots of imported Nvidia chip sets). The last involves a lot of highly paid, highly skilled workers, many of whom might want to live locally.

And of course, film and TV are just part of a broader creative-services economy. Alongside music, there's also the UK's other great crown jewel – its gaming sector, which directly employs tens of thousands of very highly paid workers, with estimates often ranging from 20,000-30,000 direct employees, but maybe indirectly reaching as much as 40,000-50,000.

Exports are also at roughly the same scale as the music industry's at about £2bn-£3bn per annum, powering a huge export drive into the US. We should also not forget the crucial importance of another part of the creative industry – the fashion industry. According to the UK Fashion and Textile Association, the fashion and textile industry in the UK supports 1.3 million jobs, one in every 25 jobs in the country.

Talk to bosses in all of these subsectors, and they tend to offer the same narrative. UK governments have, to their credit, been innovative in encouraging inward investment. In the film industry, the recent initiative for UK independent films involving a 53% production credit on their expenditure wins many plaudits, yet it only applies to films with budgets up to £15m.

Likewise, the gaming sector has benefited from generous tax credits, but the Treasury keeps huffing and puffing about the credits and threatening to rip up the rule book. TV, which helps power much of the creative sector, largely misses out on these generous schemes.

"Some film studios have faced 600% increases in business rates in recent years"

Two key difficulties

Two topics keep popping up in industry forums. The first is business rates. Film studios pay huge amounts in rates, with some facing 600% increases in recent years. Rumours abound that at least one major studio development is being canned because of those costs. One insider says the problem isn't with the government as such, but with a quango called the Valuation Office Agency, which many accuse of hampering development.

But skills also matter. The broadcasting trade unions, for instance, complain that huge numbers of freelance workers are underemployed. The issue is the quality of training. There are too many low-quality, media-based courses, and not enough on-the-job skills training. There is too little funding for further education, yet sustained demand for skilled vocational training. It's wonderful that universities are churning out experts in media studies, rather less encouraging that we don't have enough highly skilled game developers.

What makes that problem much worse is that, bar a few exceptions – the e-games segment in Dundee – too much of this highly skilled work takes place in the southeast, east and, to a lesser degree (in TV) the north west. If ever there was an argument for levelling up, it would be in the creative sector. Studies have shown that there are creative clusters in Oxford, Bristol, Edinburgh and Sheffield, along with as many as 709 micro clusters around the UK, in places as diverse as Carmarthen in Wales and Louth in Lincolnshire.

Maybe the sensible thing to do for a new government focused on speeding up growth is not to spend hundreds of millions of pounds on single-place, mega-scale manufacturing facilities that sound "important", but employ a relatively small number of people. Focus instead on creative clusters and sectors using lots of skilled, well-paid people whose offerings sell well worldwide. It's time to create creative enterprise zones.

Move your savings now

We don't make our money work hard enough. Act fast to lock in a good rate

Ruth Jackson-Kirby
Money columnist

Is it time to move your money? Digital bank Chase has found that 57% of us keep our money in current accounts, blaming our financial inertia on the hassle of moving money and worries about accessing cash. But keeping your money in a current account means you're missing out on valuable returns.

Most current accounts don't pay interest. If they do it tends to be low, and it is taxable if your returns exceed your personal savings allowance (PSA) – £1,000 if you're a basic-rate taxpayer, £500 for higher-rate ones and £0 for the additional-rate band. This means money held in a current account is likely to be shrinking in terms of inflation. "[People] could be making their money work harder… by moving their savings into a high-interest savings account," says Shaun Port, Chase's managing director of savings.

At the other end of the spectrum, you have the active savers. These are the people hunting down the best rates, considering their tax bill and what rates may do in the future. They are currently causing a surge in the popularity of fixed-rate Isas, according to George Nixon in The Sunday Times."Savers are on track for a record Isa year, with £26.3bn deposited into cash savings accounts in the first five months of the year, including £12.3bn in April – the highest ever total for that month," he says. While official figures don't disclose the types of cash Isa, banks are reporting that customers are increasingly opting for fixed-rate accounts over instant-access ones.

Why? Firstly, as inflation has fallen the expectation that the Bank of England will cut interest rates has spread. You can see this when you look at the interest rates on offer. Three- and five-year bonds are currently paying lower interest than 12-month and two-year bonds – banks are predicting rate cuts so they don't want to have to pay high interest for longer than they need to. Locking in a high rate now means you can enjoy the bumper rates for longer. Instant-access accounts tend to have variable rates, so when the base rate drops the interest on these accounts will fall too.

Secondly, opting for a fixed-rate Isa over a standard account is sensible from a tax perspective. Many of these accounts roll up the interest and pay it all at once when the account matures. This increases your chances of a tax bill, as it is likely to wipe out your personal savings allowance in that final year.

For example, GB Bank is paying 5% on its two-year bond. Deposit £25,000 and in two years you'll get a £1,250 interest payment. That will drop to £1,200 for basic-rate taxpayers, or £900 if you're a higher-rate taxpayer. Plus you'll pay tax on any other savings interest that year as this account will have wiped out your PSA. Put it in a fixed-rate Isa and you don't need to worry about a tax bill. The best rates are 4.94% on Kent Reliance's one-year fixed rate Isa, or 4.7% over two years with Beehive Money.

A fixed-rate Isa will grow your savings faster than a current account

Avoid extras in parking apps

How many parking apps do you have on your phone? For most of us the answer is several. As more and more car parks require us to pay via an app, the extra charges these apps are imposing become more conspicuous.

"There are now about 30 different apps that drivers can use to pay for parking on land owned by private firms and local authorities, with rates varying hugely, from about 70p an hour to almost £14," says Ali Hussain in The Times.

The cost of parking has soared, with the public collectively paying £1.93bn a year – almost £5.5m a day – to park on public roads and council car parks, up from £1.66bn in 2017-2018. But on top of the price of parking, these apps "we are all forced to download now come with many different layers of fees; from green levies, 'convenience' and 'service' charges, to parking insurance and costs for getting a text message to confirm your parking", says Hussain.

"Another extra offer many motorists may have seen… when paying for a parking spot using PayByPhone is for mental-health counselling," says Toby Walne in The Mail on Sunday. On the payment page, the app offers you 50% off your first month with a licensed counsellor through BetterHelp. Another add-on you may want to avoid is insurance. PayByPhone offers to insure the contents of your car while you park. The policy, which lasts only minutes, can double the cost of your parking. But the odds are you are already insured via your home contents or car cover.

Pocket money... beavers reduce insurance costs

- The reintroduction of beavers in flood-prone areas is having a dramatic effect, says Joe Wright in The Telegraph. Storm flows on the River Otter in Devon have fallen by 30% during heavy rainfall since beavers were brought back. The University of Exeter has found that the advent of beavers can have major cost benefits for households in flood zones. If five properties considered to be at "very high risk" of flooding become reclassified as "high risk" thanks to the work of nearby beavers, average insurance costs would be reduced by £37,500 in a decade.

- Expect cheaper flights from Heathrow now that regulators have ordered it to cut landing fees, says Leah Montebello on This is Money. The Civil Aviation Authority (CAA) has said charges for airlines will drop to £23.73 per passenger in 2025 and £23.71 in 2026. This follows a row between Heathrow and airlines including British Airways and Virgin Atlantic. The airport wanted to be able to charge up to £40 per passenger to recoup losses caused by Covid. The airlines insisted it was "trying to price-gouge customers". The CAA has weighed in with the new price caps.

- A mortgage price war is "heating up" says Emily Braeger in The I. Virgin Money and Clydesdale Bank have both cut their mortgage interest rates, with Halifax and Barclays following suit. "It seems likely we will get a sub-4% five-year fix soon," Aaron Strutt of broker Trinity Financial told The I. Two weeks ago the average two-year fixed-rate mortgage was 5.97% and the average five-year fix was 5.53%. These have now dropped to 5.92% and 5.50% respectively. "Now that inflation is easing… mortgage rates have improved and the expectation is still that the Bank will be able to start reducing interest rates this year," David Hollingworth from L&C Mortgages told The I.

- "Politicians and campaigners have condemned proposed water bill rises for England and Wales, accusing the industry regulator of showing 'contempt' for customers who have endured poor service, sewage dumping and leaks," writes Alex Lawson in The Guardian. Ofwat has recommended that households pay an average £94 more over the next five years for their water to fund improvements in environmental standards.

A boost from the state

The new Growth Guarantee Scheme could help you grow your company

David Prosser
Business columnist

The scheme is expected to provide 11,000 businesses with loans

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Is your business thinking about borrowing to invest in the months ahead? If so, a new state-backed scheme might enable you to arrange finance on more attractive terms than a conventional debt facility. The Growth Guarantee Scheme (GGS) is the latest in a series of government-backed loan programmes aimed at businesses seeking to recover from the effects of the pandemic. The scheme, which opened on 1 July and is likely to run until March 2026, is expected to support around 11,000 businesses, primarily smaller enterprises, with ambitions to expand.

In practice, the GGS operates on similar principles to previous schemes of this type. The financing comes from private-sector providers – around 40 banks, building societies and other lenders have agreed to take part – but the government stands behind the loans. If a business defaults, the Treasury will cover up to 70% of the value of the advance to cushion the lender from losses. This guarantee should enable lenders to finance more businesses, and to do so at more competitive interest rates. Lenders themselves will decide what rates they are prepared to charge, but the British Business Bank, in charge of administering the scheme, insists pricing will reflect the benefit of the state guarantee.

Importantly, different types of loan will be available through the scheme, including overdrafts, term loans and asset- and invoice-finance products. Businesses will be able to borrow over terms ranging from three months to six years, depending on the type of finance they choose. The scheme is also flexible about loan size. In theory, firms can borrow up to £2m, but many will seek much smaller facilities. The scheme allows for advances worth as little as £2,000.

The GGS is open to businesses with an annual turnover of up to £45m, covering a broad range of small and medium-sized enterprises. Lenders are allowed to ask business owners and directors personally to guarantee the debts their companies take on – but are banned from requiring people to put their homes up as collateral.

"Firms with yearly turnover of up to £45m may apply"

It is also important to recognise that the GGS is aimed at businesses looking to invest to drive growth, rather than those that are currently struggling. The scheme's small print rules out loans to businesses in financial difficulties, including those going through insolvency proceedings. That said, businesses that are still repaying loans from other schemes linked to the pandemic – including the Coronavirus Business Interruption Loan Scheme, the Bounce Back Loan Scheme and the Recovery Loan Scheme – are not banned from taking part in the GGS. They may be eligible for smaller loans, but lending decisions will be at the discretion of the finance provider.

The bottom line is that for any small business considering taking on debt in the months ahead, the GGS is worth considering. Many small businesses have been reluctant to borrow over the past year or so, with bank lending decreasing. But with the economic outlook now brightening, demand for finance is expected to increase. The GGS won't necessarily be the cheapest – or best – option for your business. But where lenders are in a position to offer you a better deal on a standard product, they must give you this option. In that sense, there is nothing to lose by checking what the GGS might provide.

Seek out higher interest rates

Small and medium-sized enterprises are missing out on £2.29bn of interest payments every year by leaving excess credit balances in current accounts or poor-value savings products. A study published by United Trust Bank says the lost interest is equivalent to the cost of hiring 58,000 full-time staff earning the average UK salary of around £35,000. The data is based on analysis by United Trust Bank of where businesses hold their spare cash. Around £133.5bn of this money is sitting in firms' current accounts or savings accounts offering instant access to the money. These accounts pay an average annual interest rate of 1.44% a year, and many pay far less. Yet the typical notice account, requiring 30 or 45 days' notice if a business wants to make a withdrawals, offers 3.15% a year.

Many business savings account providers offer far higher interest rates, with the most competitive products now paying more than 5% a year. The entry of challenger brands and online providers to the small-business market has seen competition intensify, driving up rates. Many companies will at least want to retain instant access to some of their spare cash, and may be loath to ditch their current-account provider. But the effort of opening an additional business savings account with a rival bank or building society now looks more worthwhile than in previous years, when interest rates were near-zero and competition more limited.

Petty cash... how to register for VAT

- Businesses wondering whether they need to register for VAT for the first time, or are considering registering voluntarily, can now use a free tool from HM Revenue & Customs to check their status. All businesses with total VAT taxable turnover of more than £90,000 over the previous 12 months are legally required to register for VAT. But working out whether this applies to your business can be tricky. HMRC's online tool is designed to simplify the calculation, and to assess the impact of VAT registration on profitability, which is important to companies considering registering for VAT even if they aren't required to do so.

- Has your business run into a dispute with an energy provider that is proving difficult to resolve? If so, you may be able to ask the Energy Ombudsman to intervene. The scheme, largely aimed at supporting consumers, was expanded earlier this year so that businesses with up to 50 employees can also ask for help. However, many firms don't realise they are covered.

- Small business owners and the self-employed are not automatically excused from jury service, even though taking part in court proceedings could cause them more difficulties than those in regular employment. However, legal experts warn that many small business owners and self-employed people do not realise they are allowed to apply to defer their service – or even to put it off altogether – if they can show it would cause "unusual hardship" for their business. If serving would jeopardise your livelihood, for example, you have a good chance of being excused.

Profit from the push for growth

Mercia Asset Management helps the government funds smaller companies in Britain's regions

Rupert Hargreaves
Investment columnist

Chancellor Rachel Reeves is spearheading the National Wealth Fund

©Getty Images

The Labour Party is eager to kick-start growth. A key part of its plan is the so-called National Wealth Fund, spearheaded by chancellor Rachel Reeves. It will see £7.3bn of additional government funding diverted into the three-year-old UK Infrastructure Bank. In addition, reforms will be made to the British Business Bank, an often-overlooked success story.

Founded in 2014, the British Business Bank has provided more than £12bn to smaller British businesses via equity and debt. It has been a key means for the government to channel funding to businesses. Earlier this year, it launched the Northern Powerhouse Investment Fund II, a £660m fund designed to build on the success of the first Northern Powerhouse fund by providing loans from as little as £25,000 to businesses in the North, as well as the £400m Midlands Engine Investment Fund II. The British Business Bank does not invest these funds directly. Instead, it relies on third-party fund managers, one of which is **Mercia Asset Management (Aim: MERC)**.

A regional player

Mercia, founded in 2010, has 11 offices around the UK. Its funds provide venture-capital finance, private equity, and debt finance to fast-growing small and medium-sized enterprises (SMEs) based mostly outside London. Its equity-investment funds typically deploy investments of between £100,000 and £20m.

Mercia ended its fiscal year to 31 March 2024 with assets under management (AUM) of £1.8bn, up 27% year-on-year, thanks largely to the award of several mandates from the British Business Bank (it won a £263m venture capital mandate from the Northern Powerhouse Fund II). Of the £1.8bn total, £1.6bn was fee-earning third-party capital, with £200m of Mercia's own funds. The company is precisely the sort of business the new government wants to be partnering with, alongside the British Business Bank.

Mercia fulfils a crucial financing role in the UK regional high-growth ecosystem, which suffers from a chronic lack of capital. It is also key to the country's venture-capital sector. Most larger private-equity and venture-capital providers won't consider an investment under £1m. So Mercia, which can invest as little as £100,000, is a real boon to smaller start-ups.

Mercia Asset Management (Aim: MERC)

Share price in pence

The company's growth over the past five years illustrates the scale of the opportunity here. At the start of 2019, the group recorded AUM of around £500m. Acquisitions and inflows from government initiatives have boosted that figure by 260% in five years; it was founded with assets under management of just £12m. In addition to winning several mandates from the British Business Bank last year, the group was awarded a £100m mandate by the Brownfield Regeneration Fund for the West Midlands. It also raised £60m via the launch of a venture-capital trust, the Northern 3 VCT.

Mercia has launched three VCTs (Northern 1, 2 and 3), and together they manage £356m for investors. VCTs have been a powerful tool for investors to reduce their tax liabilities, gain a stake in the business of the future and make capital available to smaller companies. Investors receive income-tax relief of 30% on VCT investments upfront and tax-free capital gains as well as income. Over the past three years, these funds have raised £3bn from investors. Mercia VCTs target a dividend yield of 4.5% and 5%. They have a bias towards software and electronics, and biotech and healthcare.

There are two ways Mercia makes money. It collects fees on the funds managed by third parties (management and performance fees) and profits from direct investments. Last year, its total revenue yield on third-party capital was 2.34%. No performance fees were paid (they were last paid in 2022 and added 0.35% to the total).

Shifting strategy

A core part of Mercia's business since the beginning has been direct investing. But earlier this month, the firm announced that it would focus on its profitable and fast-growing third-party fund-management business. It will not make any new investments, but it will help support those businesses already under its wing.

The change from investment company to trading company is still subject to shareholders' approval, but the plan is to focus on growing AUM to £3bn and doubling earnings before interest, tax, deprecation and amortisation (Ebitda) in three years. With the state and investors throwing their weight behind initiatives such as the British Business Bank and VCTs, these goals don't look too ambitious.

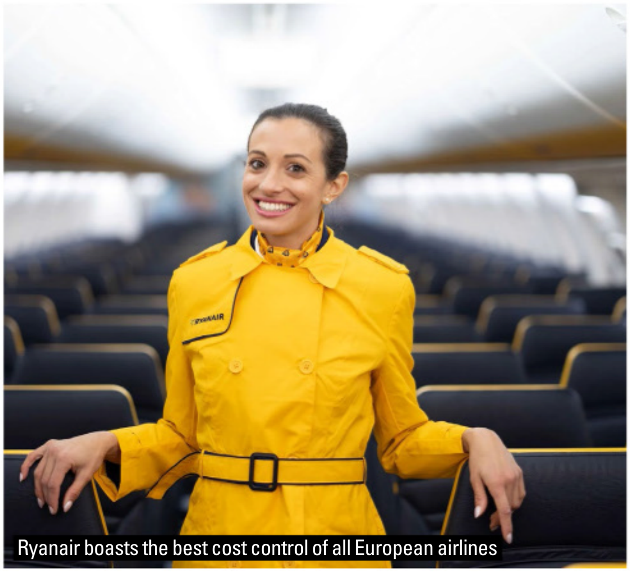
Over the year to 31 March the group reported sales of £30.4m and Ebitda of £5.5m. Most of the large mandates from the British Business Bank were awarded towards the end of Mercia's fiscal year, so the full impact on the bottom line wasn't reflected in the annual numbers. Unfortunately, the group reported an operating loss of £12.4m due to an £18.6m impairment on a direct investment. With the loss stripped out, the company reported earnings per share of 2p for the year. It also ended the year with £47m of cash, against its £147m market value.

Analysts at financial services group Canaccord Genuity think Mercia can liquidate its direct investment portfolio (worth £120m) within the next three years, which should give it scope for acquisitions to drive growth. The analysts have also pegged the group's net asset value (NAV) per share – the value of the direct investments, plus cash and intangibles – at 42.6p. Based on that number, Labour's investment plans, and Mercia's three-year goals, the stock looks like an undervalued growth play.

Europe's most competitive stocks will enjoy sustainable profit growth

A professional investor tells us where he'd put his money. This week: Marcel Stötzel, co-portfolio manager of the Fidelity European Trust, selects three stocks

Our investment philosophy is to look beyond the economic and political noise to find continental European companies that can deliver superior returns over a three- to five-year horizon. We look for firms that can deliver sustainable dividend growth, as history shows us that this characteristic is a marker of quality that can help to identify stocks likely to outperform the market. We seek to build a balanced portfolio and look for the best companies across sectors, favouring stocks with strong balance sheets, pricing power and a robust competitive position.



Ryanair boasts the best cost control of all European airlines

©Ryanair

Mining for profits

Sweden's **Epiroc (Stockholm: EPI-B)** is a global leader in underground and surface rock drilling. The company operates in an oligopolistic market and benefits from a very strong competitive position. Epiroc is well placed to capitalise on future commodity booms fuelled by long-term trends such as electrification and the growth of infrastructure. Meanwhile, a decline in the quality of ore is leading to a shift towards underground mining, which benefits Epiroc more than its peers owing to its superior product mix.

The group's customer base is extremely fragmented, which creates pricing power, and Epiroc also enjoys the benefit of repeated part replacements. As mining becomes more complex, Epiroc should be able to pass through higher prices and increase volumes. Epiroc is cash-generative and has low net debt, with an attractive and sustainable dividend. Given these positive fundamentals, we anticipate that Epiroc will be able to deliver high single-digit organic growth over the next five years.

"Rock-drilling group Epiroc will benefit from the upswing in commodity prices"

Ryanair (Dublin: RYA), Europe's largest low-cost air carrier, is the strongest player in a highly commoditised market. It has the best cost-management discipline of all European airlines and has historically delivered industry-leading returns on equity. The company has been the main European beneficiary of the post-pandemic recovery in demand for air travel as other suppliers (such as Wizz and Vueling) have struggled to boost supply due to their reliance on the delivery of new aircraft. This has supported pricing.

Having stopped paying dividends during the Covid pandemic, Ryanair has recently announced a new dividend policy and share-buyback programme. Emboldened by a secure balance sheet (the company has no debt) and high levels of cash generation, management has signalled its confidence in the firm's ability to fund both buybacks and a progressive dividend policy.

A great bank in an average market

Bankinter (Madrid: BKT), a Spanish domestic bank, is an example of where we like higher quality, best-in-class companies that operate in an otherwise average market. Management has a strong record of capital allocation and the business pays an attractive, mid-single-digit dividend yield. The shares are highly sensitive to interest rates, but we think the long-term outlook justifies this potential volatility.

Bankinter is one of the few banks in developed markets where we see genuine opportunities for organic growth, thanks to its client mix and focus on high-net-worth individuals, along with the backdrop of consolidation and restructuring happening in the wider Spanish market. This enables Bankinter to gain new clients through attrition as other players combine. Meanwhile, management has been investing in emerging operations in Portugal and Ireland to drive future growth.

Ferocious fintech founder cashes in

Nik Storonsky, the founder of Revolut, has shaken up the banking industry. He is now preparing a new project that could do the same to the venture-capital sector. Jane Lewis reports

©Getty Images

"He once observed that if you fired 80% of bankers, nothing would change"

Revolut's founder Nik Storonsky is cashing in. He plans to offload a small proportion of his stake as part of an imminent secondary share sale that could value the outfit he co-founded in 2015 at $40bn, says Sky, cementing its status as the UK's most valuable start-up.

The deal may alleviate some of the frustration over the continued delay in being granted a UK banking licence. Despite growing at breakneck speed (Revolut now has 40 million customers), and notching up a record £438m in profits last year on sales that nearly doubled to £1.8bn, that crucial piece of paper remains elusive. Three years after Revolut applied for the licence – which would open the door to new income streams – UK regulators continue to pull in their horns.

Among the hurdles were reports last year highlighting the "release of funds from accounts flagged by the National Crime Agency as suspicious". Storonksy, 40, finds it hard to contain his irritation with British politicians and regulators. Last year he threatened to take what would be a landmark flotation for the London Stock Exchange elsewhere. It may not have helped that his father is a director of a subsidiary of the sanctioned Russian gas giant, Gazprom. Storonsky, who has held British citizenship since 2004, renounced his Russian "birth" citizenship in October 2022 and has roundly condemned Russia's invasion of Ukraine, says Bloomberg. Perhaps for some, that wasn't enough.

Born in 1984 in Dolgoprudny, a town 20 kilometres north of Moscow, during the dying years of the old Soviet Union, Storonsky grew up in a Russia that was embracing "Western-style democracy and a free-market economy", says Fintech Magazine. Like his father, he excelled at science, taking a masters degree in physics at Moscow Institute of Physics and Technology, and adding a second one in economics. As well as being a brilliant student, he was "a keen athlete" – a state champion swimmer, he also took boxing lessons. He's still "an avid kite surfer" who enjoys the adrenaline rush.

An unforgiving work ethic

Aged 20 Storonsky moved to London, landing a trading job with Lehman Brothers before jumping ship to Credit Suisse when the Wall Street investment bank collapsed in 2007. The long hours shaped his unforgiving work ethic, but he found banking bureaucracy stifling, once observing that "if you fired 80% of bankers, nothing would change". Inspired by the example of "the new digital neobank start-ups" emerging in Asia, he left to found Revolut in 2015 with Vladyslav Yatsenko, a British-Ukrainian software developer. The plan, says Reuters, was to undercut mainstream lenders with a mobile app offering travellers fee-free foreign exchange – and then convert them into daily users with products ranging from stock and crypto trading to daily budget management.

As a much-hyped tech "challenger" bank, Revolut grew fast – expanding into Europe via a bridgehead in Lithuania, where it was granted an EU banking licence in 2021. The same year, a funding round led by Japan's SoftBank and Tiger Global Management saw the group hit a valuation of $33bn – eclipsing NatWest's.

The firm had a ferocious work ethic – Wired Magazine published an internal email from Storonsky warning that underperformers would be "fired without any negotiations". Indeed, in its quest to gain a banking licence, Revolut has proved a revolving door for a host of risk and compliance officers, notes the BBC. Now Storonsky has embarked on a new venture, says Fortune – a quantitative-investment firm for early stage firms that uses algorithms and AI to source deals. Having disrupted banking so effectively, he is "looking to pull off a similar feat in venture capital" with his Quantumlight fund.

Tech billionaire's son steps out of his father's shadow

Film producer David Ellison, 41, has "emerged from the shadow" of his "centibillionaire father", Oracle's co-founder Larry Ellison, says Christiaan Hetzner in Fortune. David Ellison's Skydance Media has clinched a $28bn merger with "ailing" giant Paramount, making Ellison one of the biggest players in US entertainment.

David Ellison and his sister Megan, also a film producer, have been "peppered with unflattering portraits" throughout their careers. For some, they are the "quintessential nepo babies" and "trust fund kids". Yet "money talks in Hollywood". In 2010, against the backdrop of the financial crisis, Paramount signed a $350m financing deal with Skydance. Ellison has since co-produced hits including *Mission Impossible: Ghost Protocol* and *Top Gun: Maverick* – as well as some inevitable flops.

David Ellison may have "bought his way into Hollywood because he was rich", but he has "stayed there because he is good", says Taffy Brodesser-Akner for GQ. His love of film comes from his mother Barbara (the third of his father's four wives). Together with Megan, the three would watch films from the family collection of "more than 3,000 VHS" titles, which they dubbed "their own personal Blockbuster". Barbara instilled a solid work ethic in her children, "giving them chores and $5 weekly allowances".

At the age of 13 Ellison took up aerobatic stunt flying, finding "the freedom intoxicating". On weekends he and his father would stage "mock dogfights over the Pacific", says Stacy Perman for the Los Angeles Times. In 2006 Ellison translated his passion into film, co-starring with James Franco in *Flyboys*, about a group of US pilots "who volunteered for the French military" during World War I. It flopped, but in the years since Ellison has fought to prove that he is more than just "a rich kid with what Hollywood likes to call dumb money".

Skydance "expects to generate about $1bn in revenue this year and more than double that amount in 2025". Now he is taking on a far greater challenge. Paramount is "weighted down in debt" and "struggling from the upheaval caused by streaming" and last summer's Hollywood strikes. Paramount is increasingly overshadowed by Netflix, says the Financial Times. Ellison has his "work cut out".

©Getty Images

Three unique Italian island breaks

From swaggering Palermo to stylish Capri, there's something to suit everyone, says Chris Carter


©JK Place

The dining terrace at J.K. Place Capri overlooks the Gulf of Naples

Island chic on Capri

The island of Capri isn't short on five-star places to stay, but J.K. Place Capri stands out, says Rosie Paterson in Country Life. The hotel only has 22 rooms and suites, and almost all of them have a sea view. Some are decked out in "nautical shades" of blue and white, with wooden floors and framed photos of racing yachts. "Others feel grander, with canopied beds and weighty, sherbet yellow curtains." The penthouse suite is "the height of Italian luxury", with "white, wainscot panelled walls, linen sofas and subtle Art Deco print upholstery". The dining room "spills out onto a lantern-lit terrace overlooking the Gulf of Naples". Restaurant JKitchen has a "fantastic reputation island-wide – especially for its innovative puddings and ways with pastry". The hotel also has private access to one of the few sand beaches on Capri. *From €1,250, jkcapri.com*

An overlooked gem

"Palermo is the most adorable and underrated city in Italy," says Stanley Stewart in Condé Nast Traveller. "It is a place of great swagger and humble intimacy – charming, chaotic, irrepressible, and beautiful." Whereas some of Italy's other great cities have a "calculated studied vibe" that can make them feel like museums, Sicily's capital "refuses to be gentrified". It is "as untidy as life and as temperamental as a Sicilian lover… [but] I would rather spend a day here than a week in smug, well-ordered Florence".

That said, Palermo is no provincial backwater. And, naturally, there are many backstreet trattorias and bars to visit. Stay at Villa Igiea, formerly "a statement of the wealth and good taste of the Florio dynasty, Sicily's 19th-century merchant princes". In 2019, hotelier Rocco Forte gave it "an impressive refurbishment that restores its past glamour… There are gardens of oleander, palms and cacti, and a swimming pool beneath a folly of Greek columns [while its] terrace bar is one of the Mediterranean's greatest balconies". *From around €510, roccofortehotels.com*

A Sardinian fantasy

Villa Las Tronas Hotel & Spa sits on a "rocky promontory lapped on three sides by the Sea of Sardinia" and a ten-minute walk to Alghero's old quarter, says The Telegraph. The building is a "late 19th-century fantasy, built on the ruins of an ancient watch-tower and shaped like a medieval castle, complete with turret and crenellations". It is "reassuringly dignified… but never stuffy".

> *"The hotel is built on the ruins of an old watch-tower and shaped like a castle"*

Most of the 24 rooms are finished in "a romantic, period style", with antique wrought-iron bed frames or button-back headboards, and "classic, dark-wood furniture". "Gourmet" fish dishes are served in Restaurant V, which has sea views, and the wine list features "some excellent Sardinian producers".

In the spa, guests will find a heated salt-water swimming pool, sauna, steam room and a small gym. If you'd rather relax outdoors, you can spend your "sea-gazing or sun-bathing on the terraces, wandering in the villa's extensive gardens, or cooling off in the open-air, sea-water pool". *From €265, hotelvillalastronas.it*

Wine of the week: a fabulously lush Bollinger at a keen price

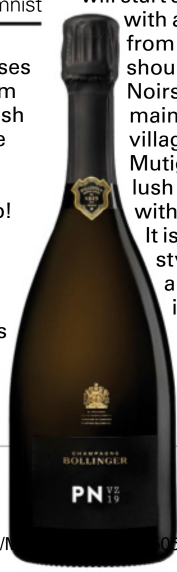
NV Bollinger, PN VZ19, Champagne, France

£82.00, reduced to £76.00 each by the case of 12 bottles at thefinestbubble.com; £78.20 each in a case of six at nickollsandperks.com

Matthew Jukes
Wine columnist

A decade ago, a few prescient Champagne houses began pondering how to increase spending from loyal consumers without investing too much cash in producing new and credible cuvées. A couple succeeded in augmenting their portfolios with wines that make sense within their overarching legends, and the very best of these taste superb!

Bollinger's non-vintage standard is Special Cuvée, which retails around £50. Meanwhile, La Grande Année, the often-glorious vintage release, hangs around the £150 mark, while the titan RD tips the scales at £250! These price tiers mirror other top-flight estates, so the desire among the elite is to encourage fans to move from the entry-level NV releases to something with an exciting story and a heftier price.



In the next few weeks, several keen merchants will start stocking this brand-new Bolly release with an RRP of £95, but a couple have broken from the traps with keen prices, and you should act fast if you like brilliant Blanc de Noirs-style wines. Made from 100% pinot noir, mainly from Verzenay, and blended with other villages, including Aÿ, Avenay, Louvois, Mutigny and Tauxières, this is a fabulously lush wine which focuses on the 2019 vintage with the oldest elements dating back to 2009. It is every inch Bolly in its plush, expansive style. I demand a pure pinot noir perfume if a wine trumpets this sonorous grape, and it is here in spades. A great way to indulge your Bollinger desires!

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

Visions of the future.

Osprey
Charging Network

At Osprey Charging Network we believe that the decisions we make today will impact the future of our planet.

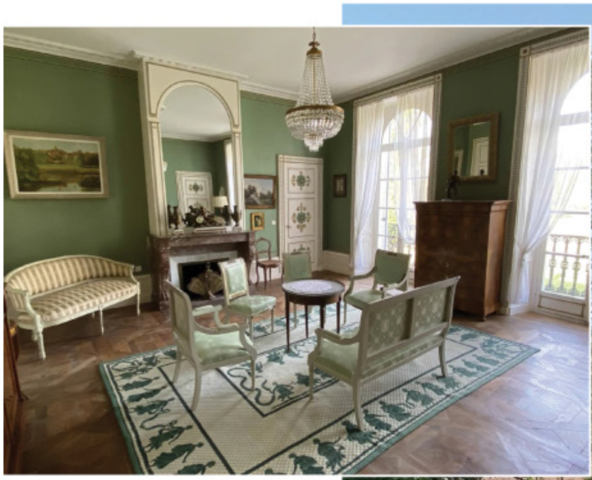
Osprey Charging is dedicated to building a cleaner, greener future by providing rapid EV charging solutions powered by 100% renewable energy. With over 1000 charge points nationwide, we make sustainable transportation easy and accessible for everyone.

Visit **ospreycharging.co.uk** to learn more about our network and how you can be part of the change. Together we are not just charging towards a sustainable future, we are imagining and creating it.

This week: houses for around £1m – from a three-storey Victorian terraced house in Brighton, to a cor

Great Wollaston Lodge, Halfway House, Shrewsbury, Shropshire. A country house with an attached coach house set in landscaped gardens with a tennis court. It has period fireplaces, large bay windows, a hall with flagstone floors and a kitchen leading onto an orangery. 7 beds, 6 baths, 2 receps, office. £1m Knight Frank 0174-3664209.

The Stables, Woodland Park, Alva, Clackmannanshire, Scotland. A Grade B-listed converted 19th-century stable block and coach houses set around an internal courtyard and surrounded by gardens and woodland. 4 beds, 5 baths, 3 receps, library, breakfast kitchen, 2-bed flat, 3-bed flat, 1.2 acres. £1.095m+ Savills 0131-247 3738.



Chateau Dole, Bourgogne-Franche-Comté, France. A 17th-century chateau redesigned in the late 18th century in a neoclassical style with a range of outbuildings set in parkland gardens with a fountain and a pond. It has high ceilings, wood floors, large windows, classical fireplaces and French doors. 8 beds, 7 baths, breakfast kitchen, 4 receps, stables, workshops, barn, courtyard, 9.14 acres. €1.17m Groupe Mercure +33 3803 40200.

nverted 19th-century stable block in Clackmannanshire, Scotland

◀ **Newbiggin Hall, Carleton, Carlisle, Cumbria.** A Grade II-listed property close to the Lake District that was originally a 14th-century Pele tower and is now in need of some modernisation. It has grand interiors with a dining room with a listed fireplace, a vaulted entrance hall with a Georgian staircase, and two one-bedroom flats. 5 beds, 2 baths, 2 dressing room, 2 receps, study, kitchen, outbuildings, mature gardens and grounds, 3 acres. £1.1m Hayward Tod 01228-810300.

▶ **Oak Tree House Farm, West Witton, Leyburn, North Yorkshire.** A renovated former farmhouse and converted stables built in 1812 in open countryside close to Leyburn. It has exposed beams and open fireplaces. 3 beds, 3 baths, 2 receps, recep hall, kitchen, 2-bed barn, 1-bed stables, garage, workshop, garden, paddock, 0.9 acres. £1.1m+ Strutt & Parker 01423-561274.

◀ **Chapel House, Englishcombe, Bath.** A period property in the centre of a village surrounded by open countryside, which is just over three miles from Bath. It has a Georgian stone façade, beamed ceilings, a sitting room with a wood-burning stove and an L-shaped breakfast kitchen with a glazed ceiling and French doors leading onto landscaped garden. 4 beds, 2 baths, 2 receps, study, cellar, home office. £1.05m Hamptons 01225-685280.

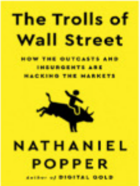
▲ **Kensington Place, Brighton.** A modernised Victorian terraced house spread over three floors in the centre of Brighton with views across the city. It retains its high ceilings, Victorian fireplaces, original tiled floors and has stripped floorboards, limewashed walls and underfloor heating in the contemporary kitchen, which leads onto a courtyard garden. 4 beds, bath, 2 receps. £950,000 Hamptons 01273-031915.

▶ **The Old Chancel, Sidmouth, Devon.** An unusual Grade I-listed house in the centre of town just a short walk from the sea, built between 1859 and 1864 and incorporating an original medieval chancel. It has stained-glass windows, heraldic decorations, Jacobean carvings and self-portraits of Peter Orlando Hutchinson, who rebuilt the chancel, carved into the woodwork. 3 beds, 3 baths, dressing room, 2 receps, kitchen, breakfast room. £1.1m Bradleys 01395-578444.

Book of the week

The Trolls of Wall Street

How the Outcasts and Insurgents are Hacking the Markets
Nathaniel Popper
Dey Street Books (£25)



America's "meme stock" frenzy in early 2021 saw short-sellers lose hundreds of millions of dollars. The share price of GameStop, AMC Entertainment and other seemingly doomed companies surged amid cult-like buying by hordes of individual investors who were determined to "crush the shorts". This new book by financial journalist Nathan Popper looks at WallStreetBets (WSB), the forum on the Reddit social-media website that was at the centre of the craze.

Popper isn't the first person to tackle the history of this strange episode. There have already been several books and documentaries about it, most notably the film *Dumb Money* last year. However, while other books just focus on the events immediately leading up to the surge in the price of GameStop, *The Trolls of Wall Street* tells the story of WSB from when it was set up in 2012.

The story here focuses on two main figures: Jaime Rogozinski, who started WSB and led it through its first difficult years, and Jordan Zazzara, the *de facto* chief moderator who led the efforts to prevent it from drowning in a sea of hate and scams.

Jaime Rogozinski founded WallStreetBets, but later lost control of the forum

©Getty Images

> *"The Covid restrictions created a swarm of new traders with money in their pockets and time on their hands"*

Popper emphasises that despite to its freewheeling reputation, WSB was much more tightly run than people imagine. Indeed, Rogozinski lost control of WSB after users revolted against his attempts to make money from the forum through an alliance with a company that was offering trading courses. This attempt to keep everything above board even led WSB to adopt a hostile attitude to cryptocurrencies in its first few years, meaning that many users would lose out on the huge boom in bitcoin.

Nonetheless, WSB remained focused on offering ultra high-risk tips, mainly based around options, of the type that have often been disastrous for retail traders. If it were not for the pandemic it would have remained no more than a footnote in internet history. However, the Covid restrictions created a swarm of new traders, with stimulus money in their pockets and time on their hands, who descended on the forum for advice.

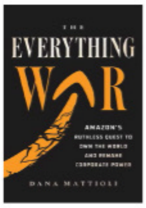
The influx meant many WSB tips became self-fulfilling prophecies, culminating in the meme-stock boom. Some saw this as a new chance for the little guy to get their own back on big hedge funds, while others argued that it has turned out to be a trap that encouraged the naïve to waste their money.

Popper admits that the evidence that Reddit users were able consistently to use WSB to beat the market is mixed at best. But he hopes that it has at least got a generation interested in the financial markets.

Reviewed by Matthew Partridge

The Everything War

Amazon's Ruthless Quest to Own the World and Remake Corporate Power
Dana Mattioli
Torva (£22)



Until ten years ago, the tech giants were seen as heroes, improving the way we live by disrupting markets. However, over the past few years public opinion has shifted, with people increasingly aware of the downside of a connected world. Most criticism has focused on social-media companies, but Amazon – which now accounts for nearly half of online sales in the US – has also come in for increasing scrutiny.

Critics such as journalist Dana Mattioli argue that the company has been able to grab market share by selling goods for little or no profit, or even at a loss. This resulting dominance has given it considerable power over its suppliers. Some allege that Amazon has forced them to disclose key information, then used it to flood the market with cheap copies. (Amazon denies engaging in these practices.)

Not all of Mattioli's criticisms are convincing, and even she is forced to acknowledge that most of Amazon's success comes from the way it has made shopping much more convenient. Still, *The Everything War* shows that this comes at a price – empty shopping centres, poor working conditions in Amazon's warehouses, and small and medium-sized manufacturers driven out of business. At the very least, the book makes a solid case for strong regulation to ensure a level playing field, and address some of the worst consequences.

Book in the news... a turning point in British politics

The Wild Men

The Remarkable Story of Britain's First Labour Government
David Torrance
Bloomsbury Continuum (£20)

In 1923, the Conservatives called an early election over trade policy. Instead of securing a refreshed mandate, they did unexpectedly badly and lost their parliamentary majority. While they remained the largest party, an alliance with the Liberals was out of the question, so they decided to relinquish power in favour of a minority Labour government, led by Ramsay MacDonald.

Roughly half of *The Wild Men* focuses on the big picture, including the many challenges that MacDonald's neophyte administration faced. Labour controlled less than a third of seats, while the lack of experience in government meant MacDonald was forced to turn to former Liberals to flesh out the cabinet, such as Richard Haldane as lord chancellor, and take on the role of foreign secretary himself. Despite this, many Labour Party members still expected MacDonald to carry out radical social changes.

In the end, the government lasted just under a year, but it was still able to make progress across a wide range of areas. The substance of the book is a survey of the key ministers and a detailed look at some of their main achievements, which included normalising relations with Russia, as well as laying the foundations for a major programme of housebuilding.

Not all the ministers were successful. Missteps by Patrick Hastings as attorney general – he sparked a backbench revolt after authorising the prosecution of a communist journalist for inciting mutiny – ended Labour's brief time in office. However, the administration helped reassure the public that Labour could be trusted to behave responsibly, laying the foundations for its return to power in 1929.

The Wild Men does a good job of shedding light on a key turning point in British political history, while small details such as the attempt to get ministers to continue appearing before the king in "gold embroidered coat, cocked hat and sword" remind us how hidebound parts of the political system still were.

Bridge by Andrew Robson

Casual low card is fatal

Plan the play in this week's Three Notrumps on the ten of Spades lead, West wisely choosing that in preference to a Heart from the Ace-Queen.

Dealer North — Neither side vulnerable

North:
♠ AQ85
♥ 104
♦ AKQ8
♣ A95

West:
♠ 10972
♥ AQ63
♦ 532
♣ J2

East:
♠ K4
♥ J985
♦ 1064
♣ 10763

South:
♠ J63
♥ K72
♦ J97
♣ KQ84

The bidding

South	West	North	East
		1♦*	pass
1NT**	pass	3NT	end

* Five-card Majors.
** Flat junk, not really worth a Two-level response.

Those declarers who played a casual low card from dummy soon regretted it. East won the King and switched to the Knave of Hearts (key play). Declarer was now sunk. He covered with the King (or the Knave would have won), but West could win the Ace, cash the Queen (pinning the ten), and follow with a third Heart to East's nine-eight. Down one.

A moment's thought by declarer would reveal the risk of playing low from dummy at trick one. The indicated play is to rise with the Ace, then hope to make four Club tricks. Cash the Ace, lead the nine to the King, then, noting West's Knave fall (making it twice as likely that East has the adjacent ten – the Principle of Restricted Choice), cross to a top Diamond and finesse the eight of Clubs. One further Club and three more top Diamonds make nine tricks and game made.

Note, East had to switch to the Knave of Hearts. On a low Heart switch, declarer can play low from hand and, after winning the Queen, West cannot profitably continue the suit (from his side).

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

Sudoku 1217

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

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

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

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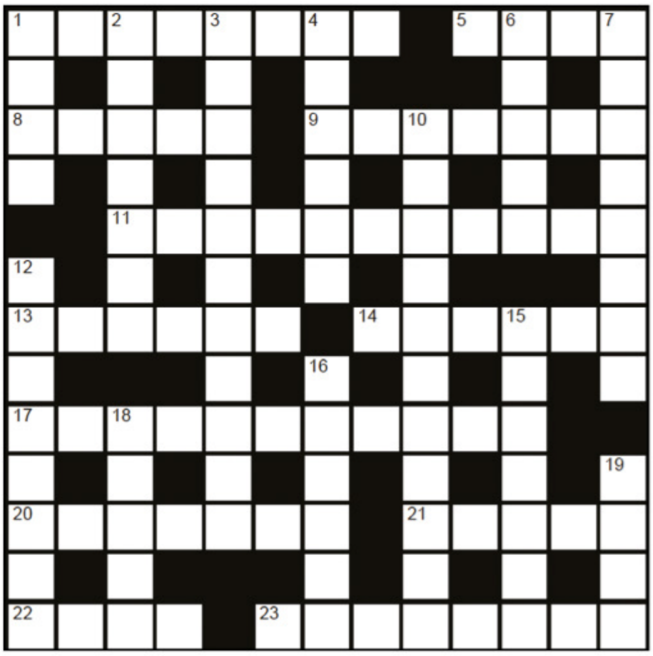
Tim Moorey's Quick Crossword No.1217

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 29 July 2024. By post: send to MoneyWeek's Quick Crossword No.1217, 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.1217 in the subject field.



Across clues are cryptic whereas down clues are straightforward

ACROSS

1 Theatrical star does like chocolates (8)
5 Criticise party? (4)
8 Odds from game of rugby failing to start (5)
9 Chambers has connections for men of letters? (7)
11 Surgery – could be it's agony, pal! (11)
13 Exam covering is a struggle (6)
14 Language in place abroad not caught (6)
17 Sweet guy protecting school children? (8,3)
20 Punishment in Cornish resort not unknown (7)
21 This sort of an answer's unhelpful! (5)
22 Sheep from Sussex county town polled (4)
23 Resolute introduction embracing new law (8)

DOWN

1 Copied (4)
2 Ship's officer in charge of provisions (7)
3 Leaving a post (11)
4 Use (6)
6 Farewell from Spain (5)
7 A tantrum (5,3)
10 Prize for second place (6,5)
12 Sudden failure or breakdown (8)
15 Forgetfulness (7)
16 Shy (6)
18 Cavalry weapon (5)
19 To some extent, democracy struggles for growth (4)

Name ....

Address ....

....

email ....

Solutions to 1215

Across **1** T-bar, *tea bar homophone* **3** Stiletto *anag* **9** Apricot *anag less I* **10** Green *grass with een for ass* **11** Presidential *P+ residential* **13** Single *two defs* **15** Geyser *homophone geezer* **17** Dressing down *cryptic def* **20** Inane *in(s)ane* **21** Artisan *hidden* **22** Swanlike *homophone* **23** Stew *reversal of wets*

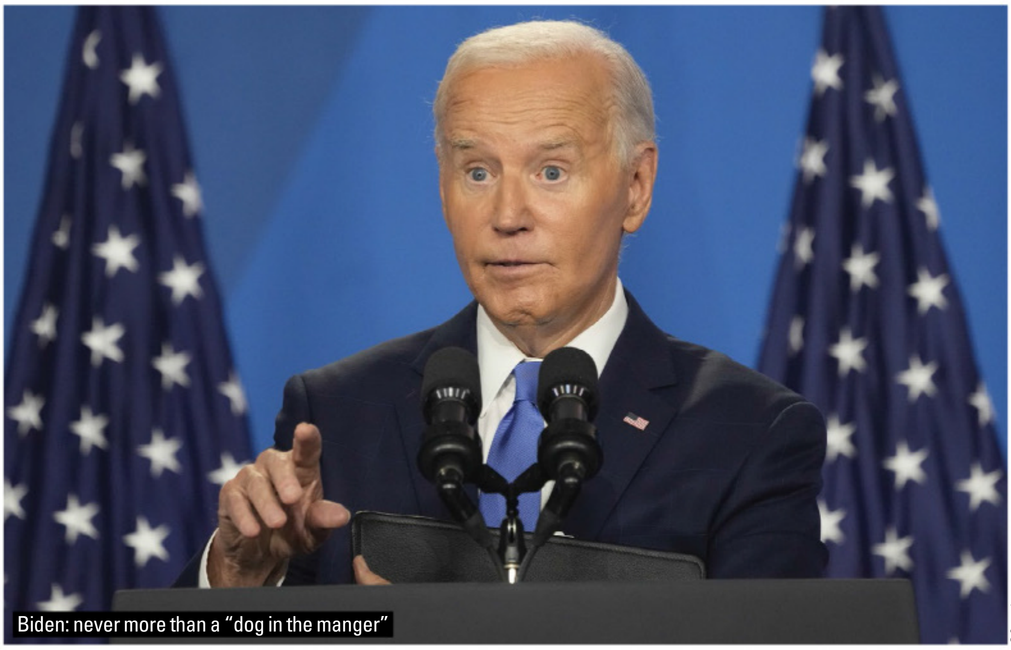
Down **1** Trappist **2** Agree **4** Tether **5** Lightweights **6** Toecaps **7** Oink **8** Achilles' heel **12** Brand-new **14** Nirvana **16** Hijack **18** Onset **19** Bias.

The winner of MoneyWeek Quick Crossword No.1215 is: Duncan Stirling of Bury St Edmunds

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

Beyond the herald's cry

The elites have a firm grasp, regardless of how doddery the president is


Biden: never more than a "dog in the manger"

©Getty Images


Bill Bonner
Columnist

Joe Biden gave another doddery speech last week. What does anyone expect? Put an old man at a podium, he's likely to dodder a bit. So what? Biden was never more than a figurehead. His only real role was as a "dog in the manger", making sure no one else, who might disrupt the system, got to sit in the Oval Office.

The US is already in the grip of the biggest, most costly experiment in monetary history – seemingly destined to prove, once again, that the authorities can't be trusted with the power to print money. Using fake money, they pushed real interest rates down to the lowest levels in 5,000 years, well below zero, and crippled the economy with $100trn in debt.

And now, the Big Reveal from Joe Biden. They opened the door and no one was home. Americans are still reeling from the discovery that their president, the man with the nuclear codes, is senile. The insiders are scurrying around to find a replacement. But White House honchos must have known their man was not up to the job. Was the idea that he would make it so obvious he was not going to be the actual president for another six months – let alone for four more years – that even he, through the accumulated fog of four-score years, could see that it was time to take himself off the stage?

There's no shame in getting old. That's the way it works. And it wouldn't be the first time a mental defective was in the White House. In October, 1919, Woodrow Wilson was on the toilet when he had a stroke. He fell over and hit his head. Thereafter, he was absent, unable to think or speak clearly. For the next year and a half, his wife and personal physician covered for him. They claimed he was fine, recovering from the flu, or from "nervous exhaustion". The nation was probably better off without him, anyway. Life went on as before. Later, Ronald Reagan was getting a little doddery in his second term. His wife, Nancy, turned to her astrologer, Joan Quigley, to help the president on key policy issues.

"The Big Reveal: they opened the door and no one was home"

Wilson had disgraced the nation with his meddling in Latin America. Then, after running for re-election as the man who "kept us out of war", he sent US troops to Europe, where more than 100,000 of them died. But the effect of it on the average citizen was probably modest. Reagan's team went on to ignore his "small government" promise altogether and more than doubled US debt. In both cases, what the voters had asked for had nothing to do with it.

Today, the problem is not that Biden is a cut-out, a puppet for the ruling elite. The problem is that the whole system is counterfeit. Democracy only works on a small scale. "Beyond the herald's cry," as Aristotle put it, the elites take over. In a country the size of the US, "the people" are far too remote from Washington to have any real influence on it. That's why state governments – with the exception of the biggest ones – do less harm than the federales.

Before 1971, the "power of the purse" gave citizens some residual control over their government. Taxes are something that "the people" understand. And a politician who raised taxes risked his career. But after the feds switched to fake, credit-based money, the insiders could print money and borrow it themselves – spending without having to raise taxes. Since then, as Emperor Hirohito put it following Hiroshima, the situation "has developed not necessarily to [our] advantage".

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

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समय पत्रिका,साधना पथ,गृहलक्ष्मी,उदय इंडिया,निरोगधाम,मॉडर्न खेती ,इंडिया टुडे,देवपुत्र,क्रिकेट टुडे,गृहशोभा,अनोखी हिन्दुस्तान,मुक्ता,सरिता,चंपक,प्रतियोगिता दर्पण,सक्सेस मिरर,सामान्य ज्ञान दर्पण,फार्म एवं फूड,मनोहर कहानियां,सत्यकथा,सरस सलिल,स्वतंत्र वार्ता लाजवाब,आउटलुक,सच्ची शिक्षा,वनिता,मायापुरी,इंडिया हेल्थ,रूपायन उजाला,ऋषि प्रसाद,जोश रोजगार समाचार,जोश करेंट अफेयर्स,जोश सामान्य ज्ञान,जोश बैंकिंग और एसएससी,इंडिया बुक ऑफ रिकॉर्ड्स,राजस्थान रोजगार संदेश,राजस्थान सूजस,सखी जागरण,अहा! जिंदगी,बाल भास्कर,योजना,कुरूक्षेत्र,हिन्दुस्तान जॉब्स

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