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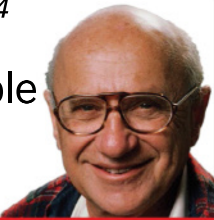

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MoneyWeek

7 April 2023 | Issue 1151

Britain's best-selling financial magazine

From the editor...

"The stockmarket has predicted nine out of the last five recessions", we are always told. Conversely, it often marches onwards and upwards for no good reason. This looks like one of those occasions.

The first quarter saw a vigorous recovery in equities, led by US technology stocks. But the market's rebound was not as solid as it looked (see page 4) and the pervasive belief that America will avoid a recession may soon be tested.

©Getty Images

Easter lunch will be unpleasantly pricey this year

"The pervasive belief that the US will avoid a recession may soon be tested"

There are almost enough straws in the wind to produce a small haystack. Peter Warburton points out in the Halkin Letter that there were 111 bankruptcy filings in January and February 2023, compared with 49 in the same two months last year (and 384 in the whole of 2022).

Momentum in the labour market, hitherto extremely strong, is ebbing. The breadth of payroll increases narrowed in February: only 56% of industries reported job growth, while the respective figures for January and 2022 as a whole were 68% and 69%.

Clouds gather over growth

The purchasing managers' index (PMI) gauge of US manufacturing activity has slid to its lowest level in almost three years and the sector is shrinking. All subcomponents of the index are signalling a contraction for the first time since 2009. And all this just as a credit squeeze is beginning, presaging fewer loans to small and medium-sized enterprises, lowering business investment and overall growth.

At the same time, inflation remains sticky; the latest PMI of the service sector revealed "stronger service sector price increases, linked largely to faster wage growth", notes Chris Williamson of S&P Global Market Intelligence. Price rises accelerated in Britain again last month; our economy is more inflation-prone than its major counterparts (see page 5).

So we remain on track for stagflation, which makes it all the more important to find as much income from equities as possible: reinvesting dividends every year, along with (hopefully) some capital growth, greatly improve your odds of earning a real return.

This week we have taken a close look at appealing yields beyond the traditional UK equity income sector. On page 30, Max assesses some alternative income funds, defensive London-listed trusts with global operations trading on large discounts to the value of their underlying portfolios.

On page 26, Rupert looks at real-estate investment trusts, many of which have been sold off heavily in a generalised panic about commercial property. Throwing in the odd stock with less of a yield but excellent growth potential – owing to a wonder drug (see page 38), say, can also help your portfolio out of the stagflationary soup.

A flash in the pan

As for traditional stores of value, bitcoin, continually touted as the new gold, is simply nowhere near as good as the old gold, as Merryn explains in detail on page 34. The cryptocurrency seems highly unlikely to be around in a few centuries' time, while gold has been a trusted form of money for millennia. Having some in your portfolio should help defray the cost of this year's Easter meal now that food prices are rising at their fastest rate in 45 years. The eye-watering expense aside, a very happy Easter to all our readers. We don't publish next week; your next MoneyWeek will arrive on 21 April.

Andrew Van Sickle
editor@moneyweek.com

Big down payments on levelling up

©Getty Images

Councils have spent "a staggering" £23.4m on consultants to help them bid against each other for money from the state's £4.8bn Levelling Up fund, say David Dubas-Fisher and Rob Parsons in the Daily Mirror. Worse, most of the money did not yield results, including £2.7m spent on second-round bids, which were "doomed" from the start because the councils had already received funds in the first round, according to Freedom of Information requests submitted by The Northern Agenda, a politics newsletter. Durham County Council spent the most on consultants of the 334 out of 389 local authorities that responded, with £1.3m. It was successful in its bid for £20m of funding. A total of 283 councils made 532 bids for £9.2bn, of which only £2.9bn has been awarded. Critics have compared the bidding process to a "begging bowl culture". Still, it's not all bad news, says James Beal in The Times. Ahead of next month's coronation, the government has set aside £8m to issue every public body with a portrait of the king.

Cover illustration: Adam Stower. Photos: Getty Images; Sotheby's

Good week for:

Singer **Selena Gomez** (pictured) has become the first woman to attract 400 million followers on social media site Instagram, more than fellow musicians Ed Sheeran, Beyoncé, Elton John and Madonna combined, and "a key marker of a brand's success", says The Sunday Times. She is reportedly paid up to $1.5m per sponsored Instagram post. Sales of her popular cosmetics brand Rare Beauty reached $60m in its first year in 2020.

©Shutterstock

Alan Sugar, host of *The Apprentice*, has sold his 50% stake in Tropic Skincare, the cosmetics business in which he invested £200,000 as part of the TV reality series in 2011. He and the company's founder, Susie Ma, who finished third on *The Apprentice*, split a £10m dividend in 2020 and £2m in 2019. The details of the sale have not been disclosed, but his investment in Tropic Skincare is thought to have been his most profitable on the 18-year-old series. The company generated £90.6m in sales and £10.5m in pre-tax profits in 2021.

Bad week for:

Match of the Day presenter **Gary Lineker** may have won his four-year battle with HMRC over its demand for £4.9m in what it said was unpaid tax, but he had to spend between £250,000 and £400,000 on lawyers and accountants, estimates IR35 Shield, a tax compliance company. The issue was whether Lineker should have been classed as a direct employee of the BBC and BT Sport.

The Treasury has frozen this year's sovereign grant for the third year running. **King Charles** will receive the same £86m from the state to cover official expenses that Queen Elizabeth II received in 2020-2021, an inflation-adjusted drop in income of £12.3m.

Don't fall for talk of a new bull market

Alex Rankine
Markets editor

Is the technology boom back? US tech shares have enjoyed their best quarter since 2020 as traders bet that US interest-rate hikes are coming to an end. The Nasdaq Composite index gained 16.8% between January and March 2023, its strongest showing since the second quarter of 2020, when the pandemic sent Silicon Valley stocks soaring. The wider S&P 500 index finished the quarter with a 7.4% gain. The pan-European Stoxx 600 rose by 6.7%, while Japan's Topix gained 7.3%. The FTSE 100 was left behind by the renewed tech rally, finishing up by 1% for the quarter.

Equities have had a "wild" start to the year, says Akane Otani in The Wall Street Journal. A strong January was followed by a sell-off in February, as "hot" economic data suggested that interest rates would need to stay higher than anticipated. In March, investors were blindsided by the banking crisis, which fuelled fears of a 2008-style meltdown. Yet over the past fortnight, fear has gradually given way to bets that the banking troubles will force the US Federal Reserve to begin cutting interest rates in the second half of this year. That has helped tech stocks, which are especially sensitive to interest rates – dearer money reduces the present value of future earnings.

Traders seem to be betting that the trouble at US regional banks more closely resembles the 1998 collapse of the Long-Term Capital Management hedge fund rather than 2008, says Randall Forsyth in Barron's. The 1998 incident persuaded the Fed to ease monetary policy, which subsequently fuelled the "dot-com melt-up". The S&P 500 Banks index, a sub-component of the S&P 500, has fallen by 13% since the start of the year. But the market appears to have concluded that "the woes in the banking sector will stay in the banking sector", says Nicholas Jasinski in the same publication. That looks optimistic. "There doesn't need to be a full-blown financial crisis for the market to feel the impact of the banking woes." The coming credit crunch (see page 5) will choke off the capital available to the real economy, which will eventually come back to bite corporate profits and share prices.

Shares in Facebook-owner Meta jumped by 70% in the first quarter despite its "venture into the... sleep-inducing metaverse"

©Getty Images

Tenuous tech valuations

"Don't fall for" talk of a new bull market, says Robert Burgess on Bloomberg. Last quarter's equity gains were driven by "a very small percentage of stocks": for example, Nvidia rose 94% and Tesla was up 91%. Yet the average stock stagnated – on an equal-weighted basis, the S&P 500 rose by just 0.5%. That is not the sign of a healthy market. The last time the S&P 500 rose more than its equal-weight counterpart by as much as between January and March 2023 was "the final three months of 1999", just before the dotcom crash.

The price/earnings (p/e) ratios of tech stocks have risen back to levels that are "far too high for a 5% interest-rate environment", says Michael Lewitt for The Credit Strategist. "They are even too high for the [low-interest rate] world that investors still believe in but no longer exists." The tech giants' market values are "unsupported by their underlying earnings power and many of them are facing existential business challenges", such as Facebook-owner Meta, whose shares rallied 70% in the first quarter despite its "venture into the thus far sleep-inducing metaverse". A nasty sell-off may be coming.

US regulators' colossal crypto crackdown

Cryptocurrencies have joined in the tech rally. Bitcoin prices leapt by 69% in the first quarter, although they remain down by 38% over the past year. The rally comes despite an unprecedented legal assault by US regulators against the crypto industry's biggest players.

Last week, America's Commodity Futures Trading Commission sued Binance, the world's biggest crypto exchange, "alleging that it illegally allows Americans to trade crypto derivatives", says Brooke Masters in the Financial Times.

Separately, US crypto exchange Coinbase has been warned that it may be charged with securities violations. "Official attitudes have hardened" since the collapse of cryptocurrency exchange FTX last November.

Digital-currency exchange Binance is being sued in the US by the Commodity Futures Trading Commission

©Getty Images

FTX had cosied up to regulators but "turned out to be so lacking in basic financial controls that millions of customers' assets were allegedly plundered by its executives". We are seeing "a regulatory onslaught and crackdown of epic proportions", John Reed Stark, a cybersecurity consultant, tells Bloomberg. US regulators used to focus on crypto scams, but now they are taking on "major players". The UK takes a more positive view of cryptocurrencies, but Rishi Sunak's efforts to bring the industry to London are being undermined by British banks, which are reluctant to work with a tainted industry, say Anna Irrera and Emily Nicolle on Bloomberg. For all the talk of taking on traditional finance, crypto firms need banks to receive deposits in traditional currencies and to pay suppliers and employees.

"When crypto started, the purists were saying crypto will bring down the banks," says Simon Jennings of the UK Cryptoasset Business Council, an advocacy group. "But ironically, it's the banks that could bring down crypto."

Venture capital party is over

Silicon Valley venture capitalists care about profits again, says The Economist. The venture capital (VC) sector, which provides investment and industry know-how to unlisted start-up firms, boomed in the era of low interest rates. "Hedge funds and sovereign-wealth investors" piled into VC in search of returns.

In 2021 the amount of money flowing to start-ups doubled to $640bn. But last year the music stopped, with private start-up valuations plunging by an annual 56% in the fourth quarter of 2022. The downturn has prompted VCs to ditch speculative loss-makers in favour of start-ups that show they can generate cash.

Governance is also a new priority after the wrongdoing of VC-backed crypto exchange FTX last year. VC "prospered in a... decade that placed a premium value on storytelling — perhaps because the price of money had none", says Michael Casey in the Financial Times. "Levitating on the vapour of tantalising valuation mark-ups", many VC leaders "mistook the advantages of low interest rates... for their skill".

The industry is now hoping to pivot away from software to energy, hardware and biotech, which are receiving massive subsidies from Washington. Yet most Silicon Valley VCs "lack the expertise and networks to originate and evaluate deals in deep tech", and have little idea how to run capital-intensive businesses. Efforts to reinvent VC are "likely to fail".

Bearish cartel hikes oil price

"Opec+ is back with a bang," says Jinjoo Lee in The Wall Street Journal. The grouping of 23 oil exporters has surprised commodities traders by announcing a 1.66 million barrels per day (mbpd) cut to production from next month, with Saudi Arabia and Russia each removing 500,000bpd from the market.

The news sent Brent crude prices up by 6% on Monday to more than $84 a barrel. Collectively, the oil cartel accounts for 40% of global supply. The announcement came outside Opec's normal meetings schedule, a sign that producers are anxious to counteract falling prices. Brent crude fell towards $70 a barrel last month, a 15-month low, amid fears of a global recession.

©Getty Images

Dearer petrol will bolster inflation

Targeting $99 a barrel

"Officially, the cartel wants price stability in oil markets. But in truth, they simply want higher prices," says Ipek Ozkardeskaya of Swissquote Bank. The target seems to be around $90 a barrel. The move will revive talk of oil hitting $100, but that looks an uphill struggle given the shaky global demand outlook. Chinese manufacturing unexpectedly stagnated last month. Oil may stabilise only "within the $75-$80 range".

The oil market looked finely balanced before the cut, and now appears headed for a deficit this year, says Caroline Bain of Capital Economics. "We have revised up our end-2023 Brent forecast to $90 per barrel ($85 previously)." While pricier petrol shouldn't be a game-changer for the inflation outlook, it is far from helpful, becoming another factor pushing the global economy towards stagflation.

The latest cuts come on top of two million bpd that Opec+ removed last October, say Benoit Faucon and Summer Said in The Wall Street Journal. The White House vowed "consequences" for Saudi Arabia, supposedly an ally, after that decision but ultimately took no action.

Now Riyadh is aligning itself with Moscow again. Russia's 500,000bpd cut is largely symbolic. It "was announced weeks ago and [is likely to have been] involuntary as the damage to its economy from sanctions... deepens". Sources "familiar with the decision" report that "it was negotiated primarily between the Saudis and the Russians to get ahead of a global slowdown and raise prices to fund Saudi Arabia's ambitious domestic projects". Riyadh needs cash to fund a range of "so-called gigaprojects", including a new city in the desert and a built-from-scratch tourism industry.

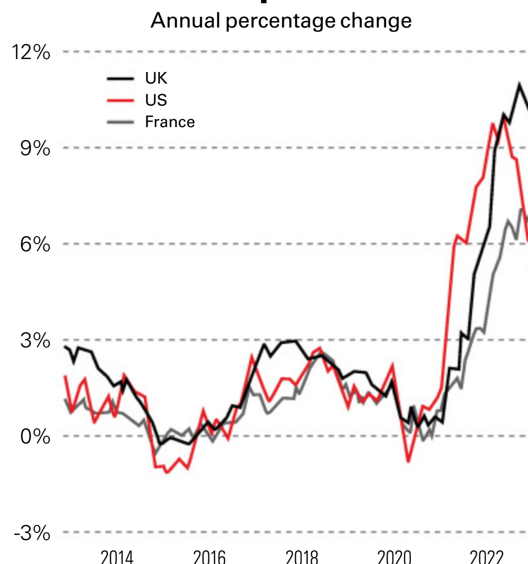
The output cut is a "bullish sign for prices", but it also sends a strong bearish signal about oil demand, says David Fickling on Bloomberg. Recovering demand had been projected to be running well ahead of supply by the last quarter of this year. Yet Opec+ appears to see a weaker economy ahead. The oil producers have so little faith in their product's prospects they plan to extract as much profit as possible while they still can.

Viewpoint

"Use of social media and messaging apps, which spread information at lightning pace... marks a break from past crises. Meanwhile, new digital-finance tools let nervous depositors withdraw funds as soon as the notion strikes them [without needing to go to a physical bank branch]... Historically, banks have benefited from high transaction costs and the low financial literacy of customers, which together have kept depositors from moving too much money. Today... the investing populace is both more aware of the alternatives to bank deposits and has more opportunity to invest in them... [All this] innovation has sped up sudden market wobbles, truncating panics that would have taken months in the 19th century to weeks... [With their customers gaining the upper hand], the profits banks have enjoyed for decades – or centuries – might... become harder to sustain."

Buttonwood, The Economist

The "British curse" makes a comeback



The "British curse" of chronically high inflation is back, says Jeremy Warner in The Telegraph. Price pressures appear to be ebbing in the US and much of Europe. But in the UK inflation rose to 10.4% in February. "Structurally, the British economy seems to be particularly vulnerable to external shocks," as shown by the disproportionately large effects of the financial crisis and the pandemic on UK output and the public finances. One critical vulnerability is energy dependence: amid rising prices, "gas and oil together account for 76% of total UK energy consumption in 2019, compared with a European average of just 57%". With wage increases still strong, the "inflationary genie" will be hard to put back in the bottle, "especially in Britain".

Virgin crashes to earth

Richard Branson's rocket company has gone under after a tumultuous two years on the stockmarket. Matthew Partridge reports

Richard Branson's rocket company Virgin Orbit, founded in 2017, has filed for Chapter 11 bankruptcy protection in the US after failing to secure enough money to keep going, says Thomas Kingsley in the Independent. The move, which the group says is designed to secure "an efficient and value-maximising sale", comes just days after the California-based satellite-launch company said it would axe 85% of its 750 staff and stop operating "for the foreseeable future", an announcement that wiped another 50% off the stock.

This is all a far cry from the start of 2022 when Virgin Orbit, spun off from Branson's Virgin Galactic sub-orbital space tourism group in 2017, went public in January last year with a valuation of $3.7bn, says Callum Jones in The Times. The company had "promised to transform access to space by using a customised 747 jet as a mobile launch site, releasing a rocket able to carry small satellites into orbit". However, life as a public company "has been challenging", with Virgin Orbit losing 90% of its value even before the latest announcement. The group suffered a "setback" in January, when a faulty fuel filter thwarted its first attempt to launch a satellite into space.

©Virgin Orbit

Virgin founder Richard Branson is losing the space race

Botched take-off

The failed mission this year was certainly embarrassing, but it "should not have been the end", say Peggy Hollinger and Simeon Kerr in the Financial Times – "launch failures happen, especially at the beginning". Virgin "had already been more successful than most, with four completed missions out of six since it flew its first rocket in 2020". However, several financial "missteps" made it particularly vulnerable, including "the decision to go public via a special purpose acquisition company [Spac] just as sentiment turned on space investments". This meant that it raised barely half the money it expected to, putting it an immediate disadvantage.

Virgin Orbit's "financial mismanagement" didn't end with the botched listing, says Michael Sheetz on CNBC. Company insiders are particularly critical of senior management, many of whom were hired from Boeing, "which has had its share of space-related snags over the years". They have complained about a "lack of cross-department coordination" and "wastefulness in ordering materials". Most importantly, management failed to grasp that the firm's business model meant it needed to launch at least a dozen missions a year to cover a cash burn rate of roughly $50m every three months.

Whoever was to blame for Virgin Orbit's failure, it's clear that "Branson's dreams of becoming a cosmic pioneer now look like the stuff of pure fantasy", says Ben Marlow in The Telegraph. Not only has he "been unable to persuade anyone else to put their hand in their pocket", but rising interest rates and a "falling appetite for risk" mean that "investors are increasingly shying away from unproven business models and loss-making start-ups". Many of Branson's ventures have failed, but this flameout "may top the lot".

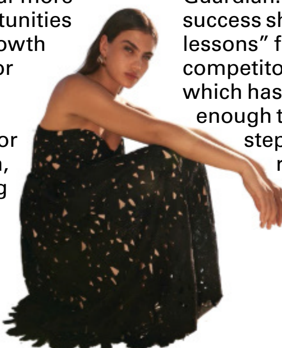
Next remains in a league of its own

Next's shares slid sharply last week as the retailer reiterated that profit and sales are likely to fall this year, says Katie Linsell on Bloomberg. Simon Wolfson, CEO of the company that is "considered a bellwether for the British retail sector", said that "the combination of inflation in our cost base" and the fact that top-line sales "are likely to edge backwards is uncomfortable".

With the latest British Retail Consortium data suggesting that shop price inflation hit a record 8.9% this month and has yet to peak, it seems shoppers are "finding their money going on necessities rather than fashion". Don't panic, says Alistair Osborne in the Times. Wolfson "is renowned for kicking off the new financial year with conservative guidance — and then going on to beat it", so take his downbeat forecasts with a pinch of salt. What's more, while his short-term forecast may be a "bit gloomy", he is much more upbeat about the medium-to-long term, declaring that Next now has "far more ideas and opportunities for long-term growth than it has had for some time".

The CEO has three key ideas for boosting growth, including "taking equity stakes in retailers it thinks it can improve"; "offering a website and Next's expanding distribution clout to other retailers"; and "developing new brands".

Remember, too, that "the Next brand isn't necessarily at a saturation point in the UK", as it still only has a market share of around 6% in women's clothes, says Nils Pratley in The Guardian. The company's success should provide "hard lessons" for struggling competitors like John Lewis, which has failed to be quick enough to take necessary steps, such as rationalising its property portfolio, in response to the rise of online shopping.



©Next

Chinese technology giants do the splits

Shares in the Chinese e-commerce firm JD.com bounced last week after it unveiled plans to spin off its property and industrial divisions and list them in Hong Kong, says Iris Ouyang in the South China Morning Post. While JD will keep more than 50% of the two units, it is hoped the move will "enhance efficiency and help the subsidiaries realise their potential".

Rival technology company Alibaba has also said it will restructure into six autonomous entities covering everything from e-commerce to digital media and entertainment. Each unit could be floated on the stock exchange.

The decision of JD and Alibaba to split themselves into separate companies "accomplishes Beijing's broader aim of carving up tech titans and diminishing their influence over swathes of the economy", says Bloomberg.

However, it has also ignited hopes that Beijing is "unfettering the private sector, allowing its biggest names to again pursue business and fundraising", leading to a "revival of the Chinese tech IPO [initial public offering] train" after regulators "pulled the plug on Ant Group's record IPO". Several Chinese tech groups "have lodged or resubmitted their Hong Kong listing applications in just the past week", with TikTok-owner ByteDance and ride-hailing giant DiDi Global "waiting in the wings".

Chinese tech investors "cheering for break-ups" should "be careful what they wish for", says Robyn Mak on Breakingviews. JD's two subsidiaries are both "niche businesses", with the property wing deriving half its yearly sales from JD itself.

What's more, note that JD Logistics and JD Health International, which are already listed, have slumped by 75% and 50% respectively since their flotations. The restructuring also means that the overall JD group structure "now looks unnecessarily messy, with four major segments sitting atop nine divisions, some listed and some unlisted". Spinning off divisions "has merit if it is part of a drive to maximise shareholder value". But "there's a beauty to simplicity".

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1. Alliance Trust conducted a survey via Opinium Research, January 2022.
2. The Profit from Patience Report, Alliance Trust, September 2022 alliancetrust.co.uk/patience

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A big post-Brexit trade deal

The UK has signed up to an 11-member trade bloc. Matthew Partridge reports

The UK government has finally wrapped up "two years of haggling over quotas and tariffs" and unveiled an agreement to join the "Comprehensive and Progressive Agreement for Trans-Pacific Partnership", or CPTPP, an 11-member Asia-Pacific trade bloc, says the Financial Times. Providing parliament approves the deal, the UK will be the first country to join the CPTPP since the group was established in 2018 (following Trump's decision to remove the US from a similar TPP pact). Accession to the bloc, the members of which include Canada, Mexico, Japan and New Zealand, will make 99% of UK goods exports to CPTPP countries eligible for zero tariffs.

Trade deal is a "huge triumph" for Kemi Badenoch

©Getty Images

Point of no return

When the idea of Britain joining the CPTPP was originally proposed there were "howls of derision", says Shanker Singham in The Telegraph. But with the accession process "now finally in the home stretch", the deal represents "a huge triumph" for prime minister Rishi Sunak and minister for trade Kemi Badenoch. It also marks the point at which Brexit "cannot be reversed". The CPTPP bloc has an "equivalent economic weight to the EU minus the UK" and the differences in the rules between the two bodies makes it impossible for the UK to rejoin the EU, or even the EU's customs union, without first leaving the CPTPP.

Supporters of Brexit may say "this is the ultimate pay-off of our decision to leave the EU and write our own rules", says Nick Dearden in The Guardian. The trade-off, though, is that Britain will now be forced to "accept imports even where there are real differences in standards". We will come under "inevitable pressure" to "accept food containing pesticides that have been outlawed here, antibiotics in livestock farming or hormone-treated beef". Worse, the "corporate court system" at the heart of the CPTPP "will allow corporations to sue the British government for treating them unfairly". All this for a boost to GDP estimated at 0.08% over ten years.

Benefits for Britain

The immediate benefits for Britain will be limited given that we already have free-trade agreements with all the countries in the bloc except Malaysia and Brunei, says The Times. And it will do little to improve market access in services, which account for 43% of Britain's exports. Still, membership will give Britain influence over how the bloc might develop in the future and "a seat at the table among what are forecast to be some of the world's fastest growing economies over the coming decades". Britain will also wield a veto over future entrants, which include China. The real significance of the deal, says George Magnus in The Spectator, lies more in geopolitics than in any boost to GDP.

The US will be happy that Britain "could help block China's entry to the CPTPP without the US ever needing to join", says Phillip Inman in The Observer – the agreement is so toxic Stateside that Joe Biden has "refused to consider reopening talks about US membership". Joining comes with a political bonus for Britain's Conservatives, too. Any future Labour government might now find itself "on the wrong end of a court judgment" if it tries to push environmental protections, carbon taxes, or enhanced workers' rights.

Donald Trump is back

Donald Trump faces the first-ever criminal case brought against a former US president, says Joe Miller in the Financial Times. He has been indicted and formally charged in connection with payments he allegedly made to buy the silence of adult-film actress Stormy Daniels while running for the White House in 2016. Prosecutors say that Trump paid her $130,000 via his lawyer to cover up an affair she claims she had with Trump years earlier.

This indictment is more than a mistake, says Will Lloyd in The Times: it is "stick-a-fork-in-the-mains-socket stupid". Trump was yesterday's man, holed up in Mar-a-Lago, miserable, lonely and playing golf. His opponents still think they can get revenge through procedure. What they never learn is that all Trump craves is attention, and they keep giving it. This case would not have been brought for anyone but Trump and it would have been far better to "let sleeping dogs lie". As it is, "Trump is back" – "filling his fundraising coffers, mobilising loyalists" and, if the polls are right, "consolidating his hold on his base of supporters".

If Trump has committed a crime, it would be wrong to duck prosecuting him, says The Economist. But it would have been wise to wait for a case that could not be dismissed as a technicality and where the law is clearer. That may arrive soon, says Dennis Aftergut on MSNBC. Prosecutors in Georgia are considering an indictment on "the political crime of the century" – Trump's alleged attempts to overturn the 2020 election. The evidence here is far stronger, and less vulnerable to claims that the prosecutions are political and without grounding in evidence. "These are troubled times at Mar-a-Lago."

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Betting on politics

Despite a small Conservative uptick in the opinion polls, punters still believe that Labour is firmly on course to win the next general election. With £1.1m matched on Betfair, Labour is the strong favourite to get most seats at 1.27 (78.7%), with the Conservatives at 4.7 (21.2%) and the Liberal Democrats at 190 (0.05%). The betting markets also think Labour will get an outright majority, with the odds at 1.76 (56.8%). No overall majority is at 3.1 (32.2%) and a Conservative majority at 8.4 (11.9%).

One interesting market is on Labour's vote share (excluding Northern Ireland). With £12,412 matched on Smarkets, punters put the odds of Labour getting more than 40% at 2.16 (46.3%). They also think the odds of Labour getting between 35%-40% of the vote are 3.55 (28.2%). The odds of 30%-35% are 3.7 (27.02%), and the chances of getting less than 30% are 5.1 (19.6%).

Even with a modest Conservative revival, Labour is still polling at between 45%-50% of the vote. Indeed, the last time the figure fell below 40% was back in September just before Liz Truss became prime minister. It is, of course, possible that many voters could change their minds before the next election, but Labour will be helped by the fact that neither the Lib Dems nor Greens seem to be gaining much support at the moment, with the Lib Dems polling consistently below 10%.

As a result, I find it hard to see how Labour could end up getting less than 35% of the vote. You should therefore bet on Labour getting more than 40% and between 35%-40%, for combined odds of 74.4%. If you want to split a £10 betting unit correctly, put £6.21 on Labour getting more than 40% and £3.79 on the party getting between 35% and 40%.

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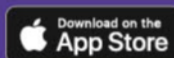

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Stamford

Wrestling's new tag-team: Connecticut-based World Wrestling Entertainment (WWE) and Endeavor Group are merging within a new parent company that will combine professional wrestling with mixed martial arts (MMA) under one roof, says Dean Seal in The Wall Street Journal. Endeavor, which owns the MMA league Ultimate Fighting Championship (UFC), will hold a 51% stake and WWE the remainder in the new entity, which will be listed on the New York Stock Exchange with the ticker "TKO". The deal gives Endeavor an enterprise value of $12.1bn and WWE $9.3bn. Both will contribute cash to the new entity so that it holds $150m, with Endeavor picking up any left over after the deal closes. Endeavor CEO Ari Emanuel will head the new company, while WWE's majority owner, Vince McMahon (pictured), is slated to become its executive chairman. McMahon had retired as CEO of WWE last year amid an investigation into sexual misconduct only to return as executive chairman in January to pursue the sale.

The plan to unite WWE and UFC "is packed with financial theatricality characteristic of their competitions", say Streisand Neto and Jonathan Guilford on Breakingviews. "[But] this storyline, including [$70m of] projected synergies, leaves a lot to the imagination." How "real blood-and-tears" UFC will benefit the "Spandex soap operas" of WWE "is not entirely clear". For investors, the show "isn't yet compelling".

San Ramon

Music stops at WANdisco: The departures of co-founder and CEO David Richards and chief financial officer Erik Miller from WANdisco are "not connected to the findings to date of the independent investigation" into accounting discrepancies, according to the British software company, says Ian Johnston in the Financial Times. Instead, new leadership is "in the best interests of all stakeholders" as it seeks to lift the suspension of its shares. Last month, investigative firm FRP Advisory began to probe allegations that the company, with headquarters in California and Sheffield, and listed on London's junior Aim stockmarket, had falsified $15m in revenue last year. The findings so far "support" the view that a single senior sales employee was responsible for the "irregularities", the company said. In 2022, WANdisco had announced several lucrative deals with unidentified clients, which caused the share price to rise 215% between January and March. Last month, the company added its name to the list of British firms planning to list in the US. "The scale of the corporate governance failures is… a big blow to investors who have bankrolled WANdisco to the tune of more than £200m… on the promise of bumper profits tomorrow," says Steven Frazer in Shares.

Austin

Tesla gets back on track: Electric vehicle (EV) maker Tesla delivered 422,875 vehicles in the first three months of 2023, representing a "modest" 4% quarterly gain on the previous three-month period, and a 36% rise from a year ago, say Akash Sriram and Hyunjoo Jin for Reuters. Still, the figure sets a new quarterly record for deliveries against a "bleak economic outlook". CEO Elon Musk (pictured) is aiming to deliver two million vehicles this year, a 52% increase on 2022. Having missed last year's target, Tesla has slashed its prices globally by as much as a fifth, and investors are watching to see if the gamble pays off in driving up sales without eroding margins too severely.

Meanwhile, Tesla may follow Ford in partnering with a large Chinese company to build an EV battery factory in the US, in a reminder of the contortions US companies are enduring to qualify for US green subsidies, says Liam Denning on Bloomberg. "The Venn diagram of 'clean tech suppliers' and 'China' is… a flat circle." Tesla's expansion in China owes much to China's CATL lithium-iron-phosphate cells in its batteries. But the US government is loath to allow a Chinese national champion to "expand… partly on the back of US taxpayers". If Musk, as has been reported, is planning to meet Chinese premier Li Qiang in China, it suggests "the Tesla chief [has retained] his knack for pouring napalm on troubled waters".

The way we live now... AI love you

Eugenia Kuyda, the founder of artificial intelligence (AI) start-up Replika, never set out to create erotic, role-playing robots. The idea behind the app was to help people get over the loss of loved-ones. But "sex has been a driving force in every era of internet technology", says Ellen Huet in Bloomberg Businessweek. Kuyda discovered AI is no different. Replika allowed paying, age-verified premium users to switch on "girlfriend" or "boyfriend" mode, and even "marry" their avatars. Women comprised 40% of users claiming relationships, and by last year the company was making millions of dollars a month in subscription revenue. But this wasn't what Kuyda had envisioned and the company turned off the "romantic" features, fearing reputational damage. Overnight, the avatars became distant. "I've lost my… funny and loving husband", says one user. "I knew he was an AI, he knows he's an AI, but it doesn't matter. He is real to me."

Now, AI is coming for "real" human erotica, says Sean Thomas in The Spectator. Computer-created images are incredibly lifelike and tailored to any desire. "If internet porn was like opium… AI porn will be like heroin."

Kuyda's business took on a life of its own

©Getty Images

Helsinki

Finland joins Nato: Russia's border with Nato roughly doubled on Tuesday when Finland officially became the 31st member of the military alliance, say David Crossland and Bruno Waterfield in The Times. Sanna Marin, who as prime minister led her country's bid to join following Russia's invasion of Ukraine, was removed from office at the ballot box only the preceding Sunday. Her centre-left Social Democrats, despite winning a greater vote share than at the last election, came a narrow third with 43 seats in parliament and 19.9% of the vote, behind the conservative National Coalition (48 seats) and the populist Eurosceptic Finns Party (46 seats). Petteri Orpo, the leader of the National Coalition, must now try to form a coalition, which could take months. He needs to reach the 101-seat majority to form a government. Marin, still only 37, is idolised abroad and popular at home, but her record in office had been marred by the growing public debt. Finland's budget deficit rose to €8bn this year, precipitating deep cuts to the generous welfare state and a reduction in benefits for the middle classes. Local pundits speculate that Marin may now seek to succeed Ursula von der Leyen as president of the European Commission at the 2024 European elections.

Marin: popular at home and abroad

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Taipei

Tour angers China: Beijing threatened to "resolutely fight back" if Taiwan's president Tsai Ing-wen met Kevin McCarthy, the US speaker of the House of Representatives, in California this week, says Simone McCarthy for CNN. A "defiant" Tsai is making stop-offs in the US while on a ten-day tour of Guatemala and Belize, which both have official diplomatic relations with Taiwan, as did neighbouring Honduras until last week when it switched in favour of Beijing. Last year, when then-speaker Nancy Pelosi visited Taipei, Beijing responded by encircling the island, which it claims as its territory. This time, Beijing is expected to tread a more cautious line. For Tsai, entering the final year of her two-year term, the tour underlines her achievements with US relations. The main opposition Kuomintang party, however, is friendlier to Beijing and a "fierce response could push voters away". French president Emmanuel Macron and European Commission president Ursula von der Leyen are also heading to China, and Beijing may not want to overshadow their visit with "military posturing". It is, instead, more likely to follow the script of using trade bans to send a message, says Thomas Shattuck for Barron's. But even there Beijing needs to be careful. When it banned Taiwanese pineapples in 2021, "freedom pineapples" sprung up in the US and Japan. Banning other, more critical goods, such as Taiwan's semiconductors, "would also do damage to China's economy".

Paris

L'Oréal buys a beauty: French skincare giant L'Oréal has agreed to buy luxury cosmetics brand Aesop for an enterprise value of $2.5bn. It marks a shift in its buying strategy for the Lancôme owner, which had "typically targeted brands at an earlier stage in their development to harvest significant revenue synergies", notes Molly Wylenzek, an analyst at bank Jefferies. "Aesop's development is already well under way." The Australian brand, founded in 1987, "has developed high-end cachet among skincare devotees with its range of pricey creams and lotions", says Vinicius Andrade on Bloomberg. Its current owner, Brazil's Natura, acquired its majority stake in 2013 and the sale will help it to cut debt and focus on its other brands, which include Avon. Aesop, which reported revenue of $537m in 2022, is Natura's most profitable brand, but CEO Fabio Barbosa is seeking to simplify the company's structure.

Meanwhile, a judge in the US has given the go-ahead for US cosmetics group Revlon to shed $2bn in debt and emerge from bankruptcy, says Sujeet Indap in the Financial Times. Lenders will take possession of the group, which owns Elizabeth Arden, and shareholders, including billionaire Ron Perelman, who held an 85% stake following a hostile takeover in 1985, "will be wiped out".

London

Show's over: Cineworld, the world's second-biggest cinema chain, is set to emerge from US Chapter 11 bankruptcy protection with a restructuring deal that hands all of its equity to lenders. The debt-for-equity swap will be accompanied by an equity raising of $800m and $1.5bn of new debt financing to repay the $1.9bn financing facility that had formed part of the Chapter 11 process. The deal cuts Cineworld's debt by $4.5bn. The chain has ruled out a sale of its businesses in Britain, Ireland and the US, "absent [a significant] all-cash bid". "[CEO] Mooky Greidinger (pictured) is a glass half-full sort of chap", says Dominic Walsh in The Times. He and his brother, Israel, Cineworld's deputy CEO, were "thrust into a battle for survival" during the pandemic, but many of their decisions, such as pulling out of a deal to buy Canada's Cineplex, which landed them a bill for C$1.2bn (£714m) in damages are "self-inflicted wounds". Greidinger says the restructuring is a "vote of confidence" in the business and its strategy. His shareholders may not agree.

Rioting over retirement

President Emmanuel Macron wants to make French workers wait two more years before they can claim their pension. The new law has triggered violent protests. Alex Rankine reports

What's happened?

Emmanuel Macron has been trying to raise France's retirement age from 62 to 64. The bill was approved in the Senate, but his minority government failed to secure a majority for the change in the National Assembly, the lower house. On 16 March prime minister Elisabeth Borne announced that the reform would instead be forced onto the statute book using article 49.3, a controversial constitutional provision that allows the government to pass laws without a parliamentary vote. The move has provoked a wave of strikes, protests and riots. The situation became so unstable that the authorities had to delay the visit of Britain's King Charles.

The president is hoping that protests will continue to dwindle

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Why raise the retirement age?

Macron says reform is needed to ensure the survival of France's generous pension system. OECD data shows that "France has one of the lowest rates of pensioners at risk of poverty in Europe, and a net pension replacement rate – a measure of how effectively retirement income replaces prior earnings – of 74%", says Aurelien Breeden in The New York Times. That compares with 58% in the UK. But the system doesn't come cheap. Government spending on pensions comprises 14.5% of GDP, compared with 10.4% in Germany and 5.1% in the UK. With life expectancy rising, by 2070 there will be just 1.2 workers paying into the system for every retiree, down from 1.7 in 2020 and 2.1 in 2000.

How do French pensions work?

Unlike in the UK, the bulk of French pensions are public. Payments are made on a "pay-as-you-go" basis, funded via national insurance contributions levied at roughly 15%-16% of salaries. Private top-up pensions are growing amid doubts about the solidity of the state system, but they remain marginal. In 2021 such schemes accounted for just 2.25% of all pension payments, says Aurélie Blondel in Le Monde. The state system was set up after World War II to provide for those whose private pensions had been wiped out by inflation. Rather like the NHS in the UK, the system is regarded as a symbol of post-war progress. French politicians on both left and right contrast their system favourably with ones that depend on market-led private pensions. These, they say, expose retirees to the risk of market crashes or inflation that could ultimately deny them a dignified old age.

"Spending on pensions makes up 14.5% of GDP, compared with 5.1% in the UK"

Do the French really retire at 62?

At 62, France's retirement age is lower than in European countries such as Spain (65), Germany and Italy (both 67). But this comparison is somewhat misleading: 62 is really the early-retirement age for those who have had long careers (for example, they started working straight after school). Workers born after 1973 need to pay into the system for 43 years before they can retire on a full pension, so a person who joins the workforce out of university at 21 will already need to wait until 64 at the earliest to retire. Those without enough years of payments into the system must wait until 67 before they can get a full pension. That said, on average French workers do leave the labour force earlier than most. Just 57.3% of 55-64-year-olds in France are employed, compared with 64.7% in the UK and 73.7% in Germany.

Why are people so angry?

About 70% of voters oppose the reform. This is partly due to fantasy economics – France's far left continues to campaign for the wholly unrealistic goal of a retirement age of 60. Many voters also think the changes are unjust: blue-collar workers, who often labour in more physically demanding roles and have had longer careers than those who went to university, will be most affected by the higher retirement age.

The government has also failed to convince voters that reform is a priority. According to official projections, the pensions system could be in real trouble by 2030, but for now it is not in immediate peril. The fact that Macron forced the measure into law without a parliamentary vote and in the face of public opinion has crystallised a widespread sentiment that he is out of touch and governs in the interests of the rich. "Democratic leadership requires the constant and careful forging of consent," says The Economist. Macron's "haughty top-down governing style irks many".

Is France unreformable?

Major street protests and strikes have defeated government reforms before, notably seeing off changes to public-sector pensions in 1995 and labour market reforms in 2006. But in recent years union-led protests have lost their bite. In 2010 then-president Nicolas Sarkozy successfully raised the retirement age from 60 to 62 in the face of massive protests, while Macron's previous reforms to labour laws also went through despite trade-union opposition. In an era of remote working, it is harder for the unions – especially militant train drivers – to shut down the economy as they once did.

What happens next?

France's Constitutional Council will rule on the reform later this month, although it is unlikely to throw it out entirely. Macron will be hoping that the protests dwindle. While about 740,000 people took to the streets on 28 March, more than a million did so the previous week. The number of strikers in the public and transport sectors is also declining, while a strike of Paris binmen has been called off. Moderate union leaders have called on Macron to pause the implementation of the reform in the interests of social peace, but the president is unlikely to bend. He often insists on the idea that in France laws should be made by the government and not by the street.

The fear now is that the unions will lose control of the movement, causing it to degenerate into a more violent and chaotic affair like the 2018-2019 *gilets jaunes* protests. While France's centre and left are at each other's throats, the far-right has been curiously quiet. The main long-term winner of the crisis is likely to be Marine Le Pen.

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Be brave and snap up some banks

British lenders have, so far, come out of this crisis with their heads held high. Now it's time to be bold

Matthew Lynn
City columnist

There is no question that March was a sobering month for the banking industry. The collapse in confidence was sudden and dramatic. It started with Silicon Valley Bank in the US, spread very quickly to this side of the Atlantic with a final collapse of confidence in Credit Suisse, and then Deutsche Bank came under such a sustained attack on the stockmarket that the German government had to rush out a statement saying it was confident it was not about to collapse – not usually a good sign for any financial institution. We will see over the next few weeks whether that is the end of it, or whether it represents the start of something larger and a lot more worrying.

An interesting point, though, is that, so far, the UK has been largely immune from the crisis. All the major high-street banks have sailed through the storm as if not much was happening, and even the new generation of challengers and app-based banks don't seem to have been affected. Sure, share prices were down. Lloyds is down by 6% over the last month, and Metro Bank, which you might expect to be a lot more vulnerable, was down by 26% (although it is still up by 20% over the past 12 months). But that is still a big contrast to the major banking crisis of 2008 and 2009.

UK banks were right in the middle of that, with Royal Bank of Scotland requiring a full-scale rescue, and HBOS, which combined Halifax and Bank of Scotland, forced into a hasty merger with Lloyds. Even Barclays had to raise extra capital. This time they have hardly been affected. This is hopefully a sign they are far stronger and better run, and better regulated, too, than in the past.

British banks should look for a way in

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That spells opportunity. There are, after all, a lot of very, very cheap banks out there right now. In the US, the regional banks have all seen their share prices hammered. Shares in First Republic dropped by 90% in the wake of the SVB collapse, and many more of the smaller US institutions saw collapses that were almost as dramatic.

Nerves of steel

Bargain hunters have already been moving in. First Citizens, a North Carolina bank, has taken over most of the remaining assets of SVB. The hedge fund Citadel Advisers has taken a big stake in Western Alliance Bancorp, and other fast-moving investors may well have been quietly buying up shares in companies that had fallen to their lowest prices in a couple of decades.

Perhaps the major British banks should take the opportunity to swoop. True, HSBC, probably under some pressure from the Bank of England, took over the London operations of SVB for a pound. With £6bn of deposits and a strong client base among London's tech companies, that may well prove a bargain. Apart from that, though, they have been sitting on the sidelines. That may prove a mistake. There are suddenly lots of bargains out there. PacWest, based in Beverly Hills, and with other branches in some of the wealthiest parts of the US, has a great franchise, but its shares are down almost 60% this year. On this side of the Atlantic, many of the eurozone banks are suddenly looking very cheap again. Spain's CaixaBank and the Bank of Ireland are both cheaper than they were just a few weeks ago. For one of the major UK banks they would be a fairly simple acquisition, and investors would probably be relieved to be offered a decent price right now.

True, it takes nerves of steel to buy a bank at a time when share prices are collapsing. We still don't know whether the collapses of SVB and Credit Suisse were just isolated incidents or simply the start of a wider loss of confidence in the system. Acquiring a bank is always fraught with risk, given that it is often impossible to tell what liabilities are hidden somewhere on the balance sheet. Yet the share prices of many well-run banks, with solid local marketplaces, have fallen to the lowest levels in two decades or more. They are never likely to get any cheaper, and there is no other way to access all those customers. The major British banks have spent ten years getting their houses in order, running themselves conservatively and avoiding taking on unnecessary risks. The moment has surely arrived to be bold.

City talk

● BAE Systems was "caught napping" in 2021 when CEO Charles Woodburn (pictured) almost left to join Rio Tinto, says Francesca Washtell in The Mail on Sunday. The defence giant had to offer him a "golden handcuffs" deal with a £2m bonus if he stays at BAE for three years. That showed the difficulties of succession planning "for a job that requires exceptional experience and ultra-deep vetting". To make the problem even greater, pay at US defence firms is even higher – hence BAE has revealed in its annual report that it had to hike the performance-linked bonus for the boss of its US unit to a maximum of 440% of salary. That's "far larger than the deal for Brits", but even so "Woodburn is hardly a pauper". He bagged £10.7m last year, including £6.8m from a three-year incentive scheme.

● Mark Hartigan, the ousted CEO of LV, "has waltzed off into the sunset waving a £485,000 farewell cheque", says Alex Brummer in the Daily Mail. Hartigan stepped down after a failed attempt to sell the 180-year-old insurer to US private equity firm Bain. The proposed sale "flew in the face of the best interests of the members" but £43m was wasted on advisers' fees before a "spirited public campaign" saw it fall through. LV is mutually owned, so that money would have added to the next bonus on policies and pensions for its 1.2 million members. "To see Hartigan leave the scene clutching a golden goodbye is the ultimate insult." In his three years in charge, he received more than £3m while making LV members – many of them elderly – worry about the future. "If he had an ounce of decency he would return his exit payment so it could be used towards improved member services."

● Prime minister Rishi Sunak has made halving inflation one of his "five key pledges" and it will be a "political disaster" for him if this isn't achieved, says Jonathan Prynn in the Evening Standard. So Tesco chair John Allan won't have soothed any nerves in the government this week by saying that he doesn't know when the rise in food prices will peak. Food inflation is at a 45-year high of 18.2%. "The danger is that the longer it stays elevated, the harder it will be to persuade workers to accept lower pay awards and the more the embedded the wage-price spiral becomes."

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A boost from safer shares

Adding low-volatility stocks to a portfolio can help to reduce risk without holding back returns

Cris Sholto Heaton
Investment columnist

Most of the investment factors that seem to be reliably associated with higher long-term returns are easy to understand. For example, value stocks – ie, companies with comparatively low price/earnings or price/book ratios, or higher dividend yields – will include many troubled businesses. If they weren't, investors would be willing to pay more for them. So if they are (in hindsight) priced to deliver higher average returns than the market, that makes sense: investors who hold them are being rewarded for taking greater risk on each individual stock. Similarly, smaller companies are generally riskier than larger ones, so it makes sense that they are also priced to deliver higher returns on average.

Still, there's one well-documented anomaly that is hard to justify. Stocks with less volatile share prices seem to outperform. Since investors typically use volatility as a (flawed) measure of risk, this is hard to justify. The explanation that appeals to me most is a behavourial one put forward by Robert Haugen and Nardin Baker more than a decade ago: essentially, lower-volatility stocks tend to be more boring and less newsworthy. Brokers, fund managers, traders and the press tend to be attracted to more exciting stories – and so racier stocks tend to be a bit more popular and hence a bit more expensive relative to duller ones.

Dull stocks such as Unilever have healthy returns

Holding up in down markets

Whatever the cause, perhaps the most important feature of low-volatility stocks is that they tend to fall less when the market drops. So while they often get left behind during booms, they have lower losses to recoup after a bear market, and that adds up to higher overall returns. I have long tried to take advantage of this in my portfolio: my large cap holdings tend towards the duller end of the market (ie, consumer staples and healthcare, although I hold a bit of large-cap tech and luxury as well), which tends to perform well when my riskier smaller stocks don't.

A new study from Pim van Vliet and Harald Lohre at Robeco looks at this approach more rigorously, comparing the benefits of holding bonds and gold in a portfolio with adding some low-volatility stocks. For example, they find that adding 10% gold to a portfolio that is otherwise 50/50 bonds and equities reduces the risk of losses, but it also reduces return compared to a 50/50 bond and stock portfolio.

However, a "defensive mix" in which the equity part of the portfolio was filled with low-volatility stocks as well as adding gold did better all round. The overall return barely fell compared to a 50/50 stock/bond portfolio, while losses were lower, producing a higher Sortino ratio (see below). Surprisingly, it had less risk that a portfolio that was 70% bonds. In short, regardless of how much gold or bonds you hold, low volatility stocks can be very useful in improving the trade-off between risk and return.

I wish I knew what the Sortino ratio was, but I'm too embarrassed to ask

The Sortino ratio is a method of measuring the risk-adjusted return of an investment or a portfolio – ie, the amount of return you get for each unit of risk that you are taking. There are several ways of measuring risk and consequently there are a number of different metrics used to assess risk-adjusted returns, which can produce different conclusions.

Perhaps the best-known measure is the Sharpe ratio. This is calculated by dividing the excess return on an investment (ie, the difference between the return on the investment and the return from a risk-free asset such as a government bond) by the standard deviation of the returns (ie, how much the returns vary over time).

The Sharpe ratio by definition treats all volatility alike, whether it's the result of the asset rising in price or falling. Investors generally don't feel the same: they tend to be glad if their investments are going up and only concerned about them falling. So while the Sharpe ratio is simple enough to understand and calculate, it arguably doesn't measure what people care about most.

The Sortino ratio tries to compensate for this by focusing on "downside risk". It is calculated by dividing the difference between the return on the asset and the target return (which will often be the risk-free return, for example, but could be another target) by the "downside deviation", which is a measure of the variation in returns that fall below the target rate. This means that it ignores volatilty in returns that beat the target.

As with the Sharpe ratio, a higher Sortino ratio should be better: it means that you are getting more return for the amount of risk. However, no measure of risk and return can be taken in isolation. Investors should consider the entire pattern of returns, including numbers such as maximum drawdown (the biggest top to bottom loss) that the investment has reported over the period.

Guru watch

Seth Klarman, chief executive, Baupost

An era of "virtually unlimited low-cost capital" came to an end last year, with significant consequences for markets, says Seth Klarman, the value-focused US hedge-fund manager who oversees around $32bn through his firm, Baupost. "A boom based on easy-money policies will inevitably contain the seeds of its own destruction," he wrote in his latest annual letter to investors, according to the Financial Times. The sharp rise in interest rates last year was "kryptonite" for the "everything bubble" that grew in the pandemic and had pushed up assets with little inherent value.

"These included scores of profitless early-stage companies that could have come public only in a bubble, a staggering volume of bonds that sported cartoonishly low yields, most of the absurd 'meme stocks', and stocks such as Tesla – intensely hyped, egregiously overvalued, and priced only for the smoothest of rides – whose shares dropped by nearly two-thirds," says Klarman. Investors ignored "financial profligacy, a proliferation of dubious business models, and obvious red flags" in their rush to funnel cash into businesses that reported high revenue growth but had poor fundamentals. While some of these stocks have seen their shares rebound this year, the sell-off "probably has further to go".

Baupost's own exposure to the tech sector, which included Alphabet, Meta Platforms and delivery app Just Eat Takeaway, posted losses last year, although this was partly offset by $1.6bn of gains from wider market hedges. The fund has taken advantage of market weakness to add to several holdings: Baupost tripled its stake in Amazon during the fourth quarter of 2022 and also increased its stakes in Alphabet and Meta, reports Marketwatch. Klarman also said that he invested in three "extremely undervalued" Chinese companies, which amounted to Baupost's largest exposure to China for several years.

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Big Tech's battle for AI supremacy

Editorial
The Economist

The AI "frenzy" is in "full swing", says The Economist. Microsoft has implanted AI into almost all its productivity software, including Word and Excel. Google has done likewise with Gmail and Sheets. OpenAI, the firm behind ChatGPT, has launched a new version of its powerful chatbot. Apple, Amazon and Meta are all busy with new products, too. Big Tech, worried about becoming the next Kodak, is rising to the challenge of this "platform shift" with a "deluge of investments". In 2022, the big five tech firms poured $223bn into research and development, up from $109bn in 2019. That was on top of $161bn in capital spending, a figure that has doubled in three years. A fifth of the companies' combined acquisitions and investments since 2019 has involved AI firms, considerably more than was poured into other recent fads. The firms are following different strategies – pursuing some combination of investment in AI companies and start-ups, acquiring them outright, funding research and hiring talent. Who will come out on top remains to be seen, but all these AI bets are already starting to pay off by making operations more efficient and facilitating further breakthroughs. They are the "modest beginnings of the AI revolution".

Don't fear this NHS "land grab"

Camilla Cavendish
Financial Times

Privacy campaigners are "raging" because NHS England has asked all hospital trusts to upload patient data on to what will become a central database, says Camilla Cavendish. This has been described as a "land grab" by software companies and has raised concerns over the security of sensitive data. "But the hysteria is misplaced." Anyone who has had dealing with it will know that the NHS is "hopeless at joining up information". NHS staff are at "breaking point", and they deserve decent IT systems to help them do their jobs. Last year, London's Chelsea and Westminster hospital cut inpatient waiting times by 28% just by consolidating data and processes. That change was made possible by a "quiet revolution" during Covid when the government brought all relevant information together. In a few months, the UK went from being a "data desert" to a world leader in terms of knowing who was most at risk from the disease, which hospitals needed ventilators and so on. This is how "data saves lives" yet it is still too often seen as some kind of sinister plot. That's why transparency is vital – public trust needs to be secured, not just because it saves lives but because it will enable Britain to become a world leader in life sciences.

Meloni sends Italy backwards

Rachel Sanderson
Bloomberg

Italy's far-right prime minister Giorgia Meloni has moderated her politics in office, but when it comes to cracking down on tax cheats and Italy's giant black economy, she is going in the wrong direction, says Rachel Sanderson. Last year, Italy brought in an additional €20bn, its "biggest-ever haul", after introducing measures to stop tax evasion – including laws to require companies to produce electronic invoices. With almost a quarter of its economic activity done off the books, Italy loses more than €99bn a year to tax evasion. Meloni's approach of introducing low, flat taxes then trusting people to pay up, risks reversing the gains made. Her ideological opposition to technology and desire to make cash king again will also be a boon for tax cheats. One of Meloni's first proposals was to raise the limit for cash payments from €2,000 to €5,000 and to allow business owners to refuse digital payments for transactions below €60 (an idea since abandoned). She has also offered an amnesty, allowing tax evaders to bring back assets hidden outside Italy for no penalty. That may give the economy (not to mention crime) a short-term boost, but lower revenues also mean less for hospitals, roads and schools. Meloni is "sending Italy backwards".

A safari on the shop floor

Harry Wallop
The Times

Starbucks' new boss Laxman Narasimhan has been spending some of his time on the shop floor, serving coffees and frothing milk, says Harry Wallop. Cynics will see this as a PR exercise to win over disgruntled workers. And bosses who attempt it are generally just a nuisance to the workers anyway, who have to babysit them and show them how to work the till. But the exercise can be a helpful one. The 1990s BBC documentary *Back to the Floor* showed Dino Adriano, then CEO of Sainsbury's, genuinely appalled at working conditions and embarrassed to admit that his salary was 55 times larger than his workers'. Dave Lewis, Tesco's CEO, launched a "Feet on the Floor" initiative a decade ago, which obliged 8,000 head-office staff to spend a day a fortnight in stores. In Japan, the "gemba walk" is a management principle where bosses hit the factor floor to speak to workers. Too few executives do this kind of thing these days for fear of being cornered or put on the spot. So Narasimhan should be applauded. It might well be a PR schtick, but it's better than hiding behind a desk. If he spends his time genuinely listening to staff, it won't be a complete waste of time. "Nothing beats actually speaking to those whose wages you pay."

Money talks

"After I won the Oscar, my salary doubled, my friends tripled, my children became more popular at school, my butcher made a pass at me and my maid hit me up for a raise."
Actress Shirley Jones (pictured), who won the Academy Award for best supporting actress in *Elmer Gantry* (1961), quoted on Facebook

"Get married, start a family and set up a business."
Traditionalist philosopher Roger Scruton on what people should do to further the cause of conservatism, quoted in The Critic

"Starting salaries have gone crazy. My firm pays £170,000 to our newly qualified associates (after two years of training) and we also pay for them to go to law school — almost £60,000 a year for the two years they're training. Giving £170,000 to a 24-year-old is like giving a hand grenade to a monkey."
An associate at a US law firm in London on the massive salaries and major perks being offered by US legal groups to attract graduates in the City, quoted in The Times

"Man whose job it is to control inflation calls on workers and businesses to control inflation."
Former Treasury economist Julian Jessop on Bank of England governor Andrew Bailey's recent calls for unions and companies to moderate their wage demands and price increases, quoted in The Sunday Times

"Hollywood is like high school with money."
Philanthropist and investor Michael Ovitz, former president of Walt Disney, quoted in The Wall Street Journal

"The equivalent of publicising fad diets, quack cancer cures or creationist theories."
Economist Larry Summers on Modern Monetary Theory (MMT), quoted in The Sunday Times

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Can industrial policy work?

Industrial policy is for the birds

©Getty Images

conversableeconomist.com

The US is conducting a "major experiment" in industrial policy, says Timothy Taylor. All countries pursue policies that have an effect on industry, of course. But in the narrower sense of the term, industrial policy is when governments seek to grow specific industries using subsidies or trade protection in the hope that growth there will benefit the broader economy in the long term.

The US Chips and Science Act is funnelling $280bn into the building of a domestic semiconductor manufacturing industry, for example; its Inflation Reduction Act commits $579bn over the next ten years to the greening of the economy; and the Infrastructure Investment and Jobs Act commits $1.2trn to infrastructure projects.

Will it work? An article in Deloitte Insights by William Eggers and co-authors shows why it will not be straightforward – after all, if it were, everyone would be doing it. The chances of success depend upon many complex interactions. Under the infrastructure act alone, for example, more than 45 federal bureaus and 16 federal agencies will be allocating funding to 369 new and existing programmes. Whether that is a success or not will depend on whether this bureaucratic structure can administer the money in a way that boosts competitiveness and "isn't just a money trough for the politically connected".

It's not just bureaucratic constraints either. The country could need up to a million additional electricians for the clean-energy transition, for example. And there's the "thieving squirrel" problem: just as when you put out bird food you risk it all being taken by thieving rodents, so government spending on this scale risks waste, fraud and abuse that must be prevented with proper compliance, reporting and transparency rules.

A lousy record

For these reasons, industrial policy does not have a good record globally or historically. There are few successes to point to, and a "large pile of failures". And that matters – the resources committed to industrial policy could all have been put to other uses. It could have been spent on supporting pregnant mothers and infant children, for example, or rebuilding public schools, or training electricians.

It's not that industrial policy can never work, but it's not as simple as its supporters say, and there are enormous obstacles to success. As the Deloitte authors say: "Once a law is passed, there is a temptation to assume that desired results will follow. But much will depend on how government actually executes its strategy."

In defence of equality

branko2f7.substack.com

Policies that seek to increase equality are based on implausible economic reasoning and models, says Branko Milanovic. These assume that taking wealth from one person and redistributing it to another will lead to a greater sum of happiness in society, but there is no way of knowing this or of measuring it. Yet it is possible to reject the ideological basis for pro-equality policies and still remain concerned about income inequality.

We should be concerned with it for three main reasons: high inequality depresses levels of economic growth; it has poisonous political effects as the wealthy come to dominate political power; and because high levels of inequality are simply repugnant on moral grounds as it denies individuals the opportunity to lead good and pleasant lives. That last point feeds back into the first: inequality of opportunity also negatively affects economic growth. And that in turn lowers the pace of material improvements for society as a whole. So it is possible to reject "welfarist" economics and yet still feel strongly that economic outcomes should be made more equal. Inequality reduces opportunity for individuals, slows growth and threatens democracy. Are these not reasons enough?

Hollywood's Second Coming

thefp.com

Rainn Wilson, the actor most famous for playing the dweeb in the US version of *The Office*, has complained about the "anti-Christian bias" in Hollywood. As soon as the David character in *The Last of Us* started reading from the Bible, you just knew he was going to be a horrible villain, he says. "Could there be a Bible-reading preacher on a show who is actually loving and kind?"

©Alamy

The answer now is yes, says Olivia Reingold. *Jesus Revolution*, based on the true story of a 1970s movement that turned its back on hippy culture for God, has been a surprise hit. The film earned back its $15m budget the weekend it opened. By comparison, *65*, a sci-fi flick with a $91m budget, made just $12.3m. Since its release on 24 February, the film has grossed $49m in sales, beating many of this year's Oscar nominees.

"People are hungry for goodness, people are hungry for change," says Roma Downey, who runs the studio behind the film. Expect a feast after the famine. There are hopes that the success of the film will "greenlight" other similar projects. The story of George Foreman, the heavyweight boxer turned preacher, is due next month for starters.

Did wokery sink the bank?

fee.org

Silicon Valley Bank (SVB), which went bankrupt last month, was fully "woke", says Jon Miltimore. It pledged at least $5bn to green investments and donated $73m to Black Lives Matter and other causes. Was this the cause of the bank's demise?

Some say no, pointing out that macroeconomic factors had "triggered financial chaos" across the world. This lets the bank off the hook too easily. It did make "rookie mistakes", failing to diversify its investments and manage risk. But why was it so negligent? One of the dangers in "wokeism" is that it is hostile to concepts such as individual merit. So little surprise that the board of directors was rather thin on investment banking experience. Board member Elizabeth Burr scorned the idea of focusing on the numbers in a 2021 interview, claiming that "racism and white supremacy" were more important concerns. SVB had a "diversity, equity and inclusion" executive, but no chief risk officer. Wokeism may not have been the primary factor behind the bank's collapse. But it surely played a role.

Critical metals for an electric world

A new ETF offers an easy way to track the miners that will profit most from decarbonisation

David C. Stevenson
Investment columnist

Electricity currently accounts for roughly 20% of global energy use, but targets to decarbonise the global economy imply that figure will have to rise to more than 50% by 2050. Most investors have tended to jump on the obvious driver of demand – more batteries, in cars, homes, and connected to the grid. Thus over the past few years we've seen a profusion of funds targeting the battery value chain. But diversifying your exposure is crucial.

The energy transition will require significant amounts of critical minerals – eg, lithium, nickel, cobalt, copper and rare earth elements (REEs) – used in wind turbines, solar panels, electric-vehicle batteries and electrolysers. It's by no means certain that we will have enough of all the refined metals and minerals needed, considering the scale of what's required. That's where a new exchange-traded fund (ETF) from thematic issuer HANetf and Canadian resources specialist Sprott comes in handy.

Profit from precious metals key to the energy transition

©Getty Images

Tracking the miners

The **Sprott Energy Transition Materials ETF (LSE: SETM** for the dollar class and **LSE: SETP** for the sterling class) aims to track the performance of a selection of miners and refiners in the energy-transition materials industry – ie, the firms that produce critical minerals. The commodities covered in the fund are copper, lithium, nickel, cobalt, graphite, manganese, rare earths elements and silver.

No one metal is allowed to have more than 25% exposure in the index. No individual stock can be more than 4.7% of the value of the index. There are 77 holdings at present, geared towards mid caps (42%) and small caps (33%), although there are some better-known names such as Freeport McMoran, Canada's First Quantum Minerals and Australia's Lynas. The total expense ratio is 0.75%.

This is a welcome arrival in an area where there aren't many focused alternatives. There is one well-established active fund with an excellent record: the Volta Fund from Westbeck Capital, a specialist in the natural resources sector, which goes both long and short stocks in this space. However, it's only for wealthier investors and institutions.

There is a very small index-tracking fund called the **Elementum Physical Electric Vehicle Metals ETC (Milan: TEVB)**, launched a year ago, which invests in the physical metals used in cars (ie, not the firms that mine them but the physical commodities). At launch the mix of metals in the fund included copper (40%), palladium (28%) and nickel (18.7%), with small amounts of cobalt and platinum. Another option is a broader thematic focus on the energy transition that includes carmakers and the electronics companies supplying chips. That's the approach that's been taken by battery-focused ETFs such as **L&G Battery Value-Chain ETF (LSE: BATG)** and **WisdomTree Battery Solutions ETF (LSE: CHRG)**.

Focus on the small fry

You could also argue that the **BlackRock World Mining Trust (LSE: BRWM)** is a beneficiary of the same trends. This actively managed equities fund has big investments in mining firms directly involved in the critical materials space such as Glencore. Copper exposure runs at 21.5% of the portfolio, with platinum metals at 1.8% and Nickel at 1.5%. However, the biggest exposure is to diversified miners with a wide range of operations that include other commodities such as iron ore or coal critical that aren't linked to this theme.

Still, my hunch is that the critical-materials firms owned by the Sprott ETF will end up becoming targets for big institutional investors, possibly pushing up prices. This specialised fund will give you the right basket of key stocks to take advantage of that trend. However, bear in mind that we are talking about small- and mid-cap miners. Commodity prices and their shares will both be highly volatile. Thus it's one for adventurous investors only.

Activist watch

The number of Korean companies targeted by activists has risen sixfold in three years as investors try to improve weak corporate governance standards, says the Financial Times. Tobacco firm KT&G is the latest to come under pressure. Activist fund Flashlight, which holds a 1% stake, wants it to spin off its ginseng unit and add two independent directors to the board. Last year, K-pop agency SM Entertainment bowed to pressure from Align, another activist, to add an independent auditor to its board and ended unprofitable deals with its founder. Its shares have now nearly doubled since last year's low. "There are so many undervalued companies due to poor governance. We are just targeting low-hanging fruits first," says Changhwan Lee of Align.

Short positions... Blackstone pounces on Industrials

■ **Crowdcube, the UK's largest crowdfunding platform, has moved into venture capital trusts (VCTs), says the Financial Times. The firm has partnered with Octopus Investments, the biggest VCT manager, to offer Octopus VCTs to a wider range of small investors. Clients will be able to invest from £500 in the VCTs, compared with a usual minimum of £3,000-£5,000. However, in an awkwardly timed development, Clim8, an investment platform that raised £6.6m from Crowdcube users in 2020 and 2021, said it would close customer accounts at the end of May after failing to raise more capital. While Clim8 remains solvent, crowdfunding backers – who hold 15% of its shares – are not certain to get back their investment. While the Octopus VCT funds are not invested in Clim8, critics say this shows why attracting novice investors is risky. "Three thousand pounds is already quite low for what is an asset class for sophisticated investors," says Jason Hollands of Bestinvest.**

■ This week's 168p per share offer for Industrials Reit by US private equity giant Blackstone "is no steal", says Alistair Osborne in The Times. The price – which has been agreed by the board – is a 42% premium to the undisturbed share price and a 3.7% premium to last September's net asset value. Still, the shares stood at 174p back then, so it's not a knockout either. Yes, there's been a market rethink: industrial asset prices have dropped 22%, according to valuer CBRE. Yet property is always cyclical. Industrials Reit is seeing rent uplifts of 36% on new lettings and it's not creaking under debt, with a loan to value of 30%. Blackstone has previously snapped up Hansteen and St Modwen. The fact it's come back for Industrials implies the market is still undervaluing these smaller industrial Reits.

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From stand-up gigs to MoneyWeek

A career as a comedian proved an ideal training ground for financial journalism, says Dominic Frisby

Stand-up comedy teaches you lots of things. How to stand on stage in front of a bunch of strangers. How to present yourself. How to entertain people. How to cope with pressure. How to deal with difficult situations and difficult people. How to think on your feet. Communication. Clarity. These are all useful life skills that you might call upon in any number of other situations. Everyone should be a stand-up for a bit.

But there is a lot more to being a stand-up than what you see on stage. Behind the scenes, every comic is running a small business. Every day you are pursuing gigs. You're sending out emails, making phone calls, posting on social media, all with the aim of promoting your brand and getting better work.

You're running a diary. You're invoicing for the gigs you have done. You're chasing money from slow payers while trying to extract it from unsavoury promoters trying to wriggle out of paying you at all.

You are travelling up and down the country up to seven nights a week to places you have probably only ever heard of, meeting all sorts of different people. As a result comics often know the country as well as anyone, all the while trying to keep costs down so that you can exit the gig at a profit. On top of all of that, but most fundamental of all, you have got to write an act that people find funny.

You learn so many skills doing comedy. Even if you are not destined for stardom, which most of us aren't, the discipline still equips you for life. You need only look at the many people who started out as comedians who have since gone on to achieve huge success in other fields, from Joe Rogan to Volodymyr Zelensky, to know there must be something in it. Yet, if you're a potential employer looking at someone's CV and you see the word comedian, I bet that makes you less likely, not more likely, to call them in for an interview.

In fact, most comedians who decide they've done it for long enough and want to try something else find it near-impossible to secure employment because they have comedian on their CV. The only option for most is to set up another business.

In the 2000s, when I was a jobbing stand-up comedian, occasional actor and prolific voiceover artist, I was trying to work out how to invest and grow my and my dad's money. We were trying to turn our small pot of money into a big enough one to bring a musical, *Kisses on a Postcard*, to the West End.

With all the growth in China and the astonishing proliferation of global debt, commodities – especially gold – seemed the place to be. There were lots of clever people on the internet talking about this stuff, and so I started a podcast as a means to meet and learn from them all.

Meeting Merryn

One of the people I interviewed was Merryn Somerset Webb, who at the time was editor of MoneyWeek. "We need people like you to come and write for us," she said. "Come into the office next week." So I did. Here I am, 17 years later, still writing for MoneyWeek, articles for both the magazine and the website that have been popular and, in terms of longevity at least, successful. I've since published three books, with a fourth on the way. I've written several documentaries, one of which was a huge internet sensation (even if I was never properly credited). I think my partnership with MoneyWeek has worked for all involved. Yet I have this weird, hotchpotch career as "financial writer and comedian".

"Meeting someone in the flesh inspires trust in a way that a million emails can't"

©Shutterstock

Dominic: comedy teaches you crucial transferable skills

If I had sent my CV in to Merryn, all she would have seen was stand-up comedian, voiceover artist, occasional actor, Johnny-come-lately podcast host and unpublished novelist. I don't think she would for a second have thought: "I need to get this bloke writing for us." Any employer would have looked at my CV and passed it by.

That's why I don't believe there is any substitute for face-to-face meetings. Meeting someone in the flesh inspires trust in a way that a million emails can't. Often it works in reverse too. You really admire someone online for what they've written or said, but then you meet them in person and realise this is not the type of person you should be listening to.

When you meet someone through an interview for a podcast, rather than a normal conversation, it's a heightened encounter. You get through so much more in an hour than you otherwise would.

Those who host popular podcasts can turn out to be experts. How many people do Joe Rogan, Konstantin Kisin or Steven Bartlett know as a result of their podcasts? They are super-connected – and trusted. Any introductions they make will carry weight.

As it turns out, stand-up comedy was the ideal training ground for being a financial writer. In comedy, if the audience doesn't understand you, they don't laugh. If they don't laugh, you die. Thus does the comedian quickly learn the vital discipline of clarity. You also learn that you have to entertain people if you want to keep their attention.

Some of the broadsheet financial journalists – people who regularly win Finance Journalist of the Year – are as dull as ditchwater and about as clear. I barely make it past the first paragraph. But they probably got the gig because their CV looked right.

Dominic Frisby writes the investment letter The Flying Frisby: theflyingfrisby.com

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ESG: the revolution is over

The idea that investors should care about more than just the bottom line could be a craze that is on the way out. That might be no bad thing. Stuart Watkins reports

We may already have passed "peak ESG". Environmental, social and governance (ESG) investing is the idea that investors should buy companies based not solely on their expectation of profit, but on their evaluation of whether the companies are acting responsibly for the environment, for society and in terms of corporate governance – that is, whether the benefits of commercial activities are likely to flow not just to the bottom line but to all who have a stake in the firm's success.

That may sound to you reasonable, even worthy and noble, and if so you'll be pleased to hear that the idea has long been "front and centre in the minds of executives, investors, regulators, business students, and even the public", as Alex Edmans of the London Business School puts it in a recent paper, *The End of ESG*. Major corporations are appointing "chief sustainability officers" to the board, justifying strategic decisions based on their ESG impact, and tying executive pay to ESG metrics. A total of 4,375 investors managing $121trn had signed the Principles for Responsible Investment, a UN-supported network of financial institutions committed to ESG, by the end of 2021. Regulators are ruling on which corporate activities may be labelled "sustainable". In 2020, $17.1trn (that is, $1 in every $3 under professional management) was invested in ESG strategies in the US – 42% higher than in 2018. There have been similar levels of growth around the world.

But the backlash has begun. US Republicans in states around the country have started introducing bills that would ban banks and other financial groups from "discriminating against" energy companies, sellers of guns, and other businesses, reports the Financial Times. And the "CEO of Anti-Woke", Vivek Ramaswamy, a fund manager and entrepreneur who has campaigned against ESG, is running for US president. Such political pushback might have contributed to an exodus: sustainable funds and exchange-traded funds (ETFs) have seen the largest quarterly outflows in more than five years, according to a report from Morningstar, a US-based financial research firm. US mutual funds and ETFs deemed "sustainable" bled $6.2bn in the quarter that ended on 31 December (although they still netted $3bn in 2022, ending the year with $286bn in net assets).

What's not to like?

Why would Republicans, or anyone else for that matter, be opposed to firms doing good things? One answer is that the Davos crowd – the corporate and policymaking elite who meet yearly under the auspices of the World Economic Forum (WEF) – are right behind the idea. In our current highly divisive political environment, that alone is enough to condemn it in the eyes of those hailing from the political right. When the WEF, which incorporates ESG principles in its own investment practices, met this year, Tesla and SpaceX founder Elon Musk tweeted that the "S" in ESG stood for "satanic".

> *"Corporate executives who back ESG are preaching pure unadulterated socialism"*

But perhaps the best riposte to the doctrine was published when ESG was barely a glint in WEF founder Klaus Schwab's eye. Before they were rebranded as ESG, the ideas under that umbrella were known as "corporate social responsibility", and they were effectively taken apart by Milton Friedman in an article in 1970 for The New York Times Magazine, entitled "The Social Responsibility of Business is to Increase its Profits" (you can find it available free online). Friedman did not pull his punches. Corporate executives who say that business should not be concerned "merely" with profit, but also with promoting desirable social ends, are "preaching pure and unadulterated socialism", whether they realise it or not, and are hence the "unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades", Friedman wrote. The doctrine of corporate social responsibility necessarily involves accepting the socialist view that political mechanisms, not market ones, are the appropriate way to determine the allocation of resources. The result must necessarily be tyranny and misallocation of resources.

The corporate executive, says Friedman, is of course a person in their own right, and as such has many responsibilities that he "recognises or assumes voluntarily – to his family, his conscience, his feelings of charity, his church, his clubs, his city, his country". Shouldering the burden of those responsibilities may rightly be characterised as acts of "social responsibility" when he is acting on his own account, when he is the "principal". But in his role as corporate executive, he is not the principal but an agent responsible to shareholders, and the time, energy and money he spends should rightly be devoted to their purposes.

The purpose of a company in a free-enterprise system will generally be to "make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom". In this way, customer needs are met and the executive can be held to account – has he succeeded in this endeavour, or not? – according to a good and reliable metric: profits. If he is to be held instead to other standards, he will always be able to justify any failing by claiming that he has been busy doing good instead – something that is a matter of judgement and opinion, and is effectively impossible to measure.

In an interview for IESE Insight, Edmans gives the example of supermarket Sainsbury's, which suffered a backlash for not supporting the living-wage campaign. But in a recessionary environment with tight margins, paying higher wages would mean putting prices up in the midst of a cost-of-living crisis. Should Sainsbury's executives be praised or penalised by ESG criteria? Some ESG investors shun fossil fuel firms, yet there is research to suggest that the best way to decarbonise is to hold on to those companies and engage. So should an ESG investor shun funds that hold Shell, or not?

There is no objectively right answer, but executives will be under pressure to make the politically correct response – under pressure, that is, from people who want businesses to pursue political goals rather than commercial ones because they have not been successful at persuading sufficient numbers of people of the virtues of their ideas in the political realm, and have turned instead to other means. Matt Goodwin of the Policy Exchange recently polled a large and nationally representative sample of voters to probe their views on "woke" issues – such as whether a firm should promote and enforce political agendas on their workers and customers – and found large majorities against them. The attempt to impose radical but politically unpopular ideas behind the backs of voters will always face a backlash eventually (see Brexit, Trump, Sturgeon).

Contrary to the caricature of Friedman's argument often presented, it is not that the social goals desired

©Getty Images

Milton Friedman: ESG-style PR exercises are a "fraud"

are unimportant, nor even that businesses should necessarily ignore them. It may well be in the long-run interest of a corporation that is a major employer in a small community, for example, to devote resources to providing amenities for that community, or to improving its environment, as Friedman pointed out in his 1970 article. That may have all kinds of desirable effects for the company – making it easier to attract desirable employees, perhaps, or to reduce the wage bill. But in such cases, there is a "strong temptation to rationalise these actions" as an exercise in social responsibility, especially given a climate of opinion that is hostile to "capitalism", "profits", the "soulless corporation" and so on. "Corporate social responsibility" then becomes merely a "way for a corporation to generate goodwill as a byproduct of expenditures that are entirely justified on its own self-interest". In modern parlance, it is a form of "greenwashing"; basically, a PR exercise.

It is, of course, up to business owners and executives whether they want to "cloak" their activities in this way, but at the same time, it's hard, says Friedman, not to admire those "who disdain such tactics as approaching fraud". In any case, Goodwin's poll confirms that the public are not fooled. When asked why firms make political statements, only 10% thought it was because "they genuinely believe in them"; more than four in ten thought it was for publicity or to distract attention from bad behaviour.

Interestingly, the contradictions inherent in the doctrine are brought into especially sharp relief when it is used to justify wage restraint by trade unions, says Friedman. When union officials are asked to subordinate the interest of their members to some more general purposes of "social responsibility", such as keeping inflation in check, the consequence is likely to be wildcat strikes, rank-and-file revolts and the emergence of strong competitors for their jobs. "We thus have the ironic phenomenon that union leaders… have objected to government interference with the market far more consistently and courageously than have business leaders." Again, Friedman wrote that in 1970, but he might as well have written it yesterday.

Sidestepping the argument

These arguments may appeal or repel, depending on your politics. But there might be a way of reframing the issue to the satisfaction of both sides. As Edmans points out in *The End of ESG*, ESG investing should not need a specialised term to describe it, implying that it's some kind of niche activity. In reality, successful ESG investing is just investing. Investors should care about all the factors that generate long-term financial returns, not just those now labelled ESG. Edmans first got interested in this in the early 2000s when he wrote a paper showing how "blockholders" – large shareholders – enhance a company's long-term value, not just by assessing its quarterly earnings, but by doing a "deep dive" into all the intangible assets that create value, such things as corporate culture and customer loyalty.

"Doing so is costly and time-consuming, but [the blockholders'] large stakes make it worthwhile," says Edmans. "In turn, if a company knows that its key shareholders will assess it on long-term value not short-term earnings, this frees it to focus on the former and not fret so much about the latter. Importantly, the shareholders were just that – shareholders. They weren't ESG investors; they weren't analysing a company's long-term value because they were forced to by regulation or pressured to by clients. They just wanted to beat the market, and you can only do so with information that's not already in the price." The best examples of such investors, says Edmans, are Warren Buffett, Bill Miller, Peter Lynch – that is, not "ESG" investors at all, merely investors seeking long-term value.

ESG is, in the end, really "nothing special", says Edmans, and it should really have had its day – not because the issues it is addressing are not important, but because it makes sense to subsume those issues under the more general heading of simply seeking to build great companies. ESG cannot be "reduced to a set of numbers". Companies need not be forced to report on matters that aren't relevant to value creation. Nor need the concept be politicised. "A company's relationships with its employees, customers, communities, suppliers, and the environment are highly value-relevant; [and] there's nothing particularly cultish, liberal, or – dare I say it – 'woke' in considering them."

"In reality, successful ESG investing is just investing"

Snap up the bargains in UK commercial property

Real estate investment trusts are out of favour due to rising interest rates and fear of weak demand. The sell-off has been so indiscriminate that many now offer compelling value, says Rupert Hargreaves

In the UK we love property. For most people, the biggest asset they'll ever own is their house, and buy-to-let investing has become somewhat of a national pastime.

Ask most people if they invest in stocks and shares, and the answer is usually "no, it's too risky". But ask them if they invest in property, and if they're not already a buy-to-let investor, the chances are they'll say they want to be – although whether or not this remains a sensible option with interest rates where they are today remains to be seen.

If you need evidence that the UK loves property more than anything else, consider that the value of the UK's housing stock hit a high of £8.7trn last year, according to real estate firm Savills. That's around three times the size of the UK equity market (£2.4trn at the end of February 2023) and pension savings (around £3trn).

Yet while the UK loves to own and invest in physical property, real estate investment trusts (Reits) are often overlooked, despite offering attractive tax treatment, solid income and a useful way to diversify a portfolio.

Fully tax-free income in an Isa or Sipp

The UK's Reit regime was launched in January 2007 as part of a drive to open up the UK's financial markets to international investors. While they are still a relatively new structure in the UK, Reits were first launched in the US in 1960, and 45 countries worldwide now have provisions for Reits in their tax laws. Most established UK property companies quickly chose to convert into Reits, so the history of many of these businesses goes back much further than 2007.

Put simply, Reits are property companies with tax benefits. They don't need to pay capital gains tax on property sales, and there's no tax on rental income as long as 90% of income earned from rents is returned to shareholders. These benefits make Reits an incredibly tax-efficient strategy for investing in property.

Reits pay property income distributions (PIDs), which are similar to dividends, but qualify as property income, not dividends. Therefore, they're taxed differently (at your normal rate of income tax, not the dividend tax rate). Basic-rate tax (20%) is withheld at source and you are liable to additional tax if you fall into a higher tax bracket.

However, if held in an individual savings account (Isa) or self-invested personal pension (Sipp), Reit distributions are tax-free – some platforms arrange for the PID to be paid gross, others reclaim it later. That means as long as the Reit is returning 90% of its qualifying rental income to investors, there's no tax at the company or investor level. To put that into perspective, a non-Reit returning all its profits to investors via dividends would only be able to return 75p of every £1 earned. A Reit would be able to return the whole £1 of rental income. Even basic and higher-rate taxpayers would be better off receiving income from a Reit rather than a standard UK company.

"Many Reits are trading at large discounts to their net asset value"

As well as these tax benefits, Reits also come with stamp duty benefits compared with other routes to investing directly in property – stamp duty on share transactions is only 0.5%. For non-residential property transactions, the rate is 5% for properties worth more than £250,000. And if you're a residential buy-to-let investor, the rate is 8% over £250,000. On these tax benefits alone, it's worth considering Reits for your portfolio. However, they also help investors gain exposure to sectors they'd usually be unable to buy access to without a huge pool of capital. For example, few small investors are going to be able to buy a portfolio of central London offices and residential properties, but you can do just that with a Reit.

The Reit opportunity

Despite their appeal as tax-efficient income investments, many Reits are trading today at large discounts to their net asset value (NAV). At the end of February, the largest UK-listed Reits were trading at an average discount to NAV of 13%, according to analysts at Stifel, with some trading at a discount of as much as 50%.

What's more, a quick glance at the residential and commercial Reits sector in the UK shows investors can earn a yield of as much as 9.5% – a very desirable return in the current environment.

So why are Reits so cheap? It comes back to interest rates and the cost of capital. If a property has the potential to earn £5m in rental income a year, and an investor can borrow the money to acquire this asset at 3%, they might be willing to pay up to £100m for the asset. This would give them a 5% return on the asset, easily covering financing costs and then some.

But in a world where the Bank of England base rate sits at 4.25% and could rise as high as 5%, investors are not going to want to lock their money in at a 5% return – that would hardly cover their cost of capital. A return of 7% might be more acceptable. Assuming the asset still generates the same level of income, to earn a 7% return, a buyer would only be able to pay £70m. That asset, which was worth £100m a few years ago, could now be worth a lot less.

This is part of the reason why Reits have fallen out of favour. Higher interest rates will hurt property prices, and this will hit NAV values.

To make matters worse, some sectors are going to suffer a hangover from too much enthusiasm in the past few years. The logistics sector is particularly exposed, notes Stifel property analyst John Cahill. This sector has experienced a boom in demand as retailers have rushed to build out their online arms, and investors have been happy to supply extra capital. These dual tailwinds have pushed up property prices and supply. However, with the outlook for retail darkening, interest rates rising and supply increasing, the sector is facing a bleak future. The market is pricing in downward NAV revaluations, which in some cases could be as high as 30% to 35% (hence the current NAV discounts).

That's the bear case, but not every Reit is the same. In some cases, even though Reits have revalued their portfolios, the market is pricing in even deeper declines. These may not materialise.

Some property investors will undoubtedly take losses on their property holdings in a high interest-rate environment. Those investors that have yet to hedge

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British investors are obsessed with property – but prefer to stick to houses

their debt will face higher interest rates, and leveraged tenants might struggle to pay their bills.

There are also environmental rules to consider. Commercial property owners will need to renovate their buildings to the meet an energy performance certificate (EPC) rating of C by 2027 and B by the end of the decade. If they do not do so, it will no longer be possible to rent these properties out. This will mean substantial capital expenditure for landlords with a large amount of below-spec property.

However, high-quality assets, let to tenants on inflation-proofed rental agreements, are beginning to look very attractive amid the current market turmoil.

More attractive index-linked model

One of the reasons why Reits look attractive is because in many cases, "the baby is being thrown out with the bath water", says Marcus Phayre-Mudge, the manager of the TR Property Investment Trust. "We have a lot of businesses that have fixed their debt, either through swaps or other instruments. And on top of that, we've now got an increasing amount of our universe which has index-linked or annual increases in rents."

Traditionally, in the UK commercial property market, rents would be reviewed on a set timetable, usually every five years, by "two blokes in suits". However, it's increasingly moving towards the European model whereby rental agreements are index-linked, bringing a level of stability and predictability to the market. In a high-inflation environment, these index-linked contracts are highly attractive – especially when companies have been able to fix their debt at a low rate of interest. Taking our example of a £100m property above, if its income of £5m grows with inflation (at around 10%), that will offset some of the higher cost of debt. An index-linked rental agreement will have seen the income rise to £5.9m over the past two years. A buyer could pay about £85m for this asset to earn a 7% return, a full £15m more than a non-index-linked rental agreement.

Moving tenants off five-yearly upward-only rental review contracts onto index-linked agreements is a slow process, but some companies are already ahead of the curve. Phayre-Mudge picks out **Supermarket Income Reit (LSE: SUPR)** and **LXi Reit (LSE: LXI)** as two trusts with long-duration portfolios (ie, long leases) that have been built around the index-linked European model.

Index-linked contracts don't prevent interest rates from having an impact on property values, but they provide a level of protection for asset values and support dividend growth. However, the market does not seem to be distinguishing between those companies with index-linked income streams and high-quality assets. It just seems to be selling everything.

Searching for unique qualities

As well as inflation-linked income streams, some Reits own unique assets, which are only gaining in value. The future of the office market has been subject to a lot of speculation over the past three years as the pandemic has upended working habits. However, it's becoming clear that the office isn't dead – it's just evolved.

"High-quality assets on inflation-linked rents are beginning to look very attractive"

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Phayre-Mudge argues that places like central London, central Manchester and central Birmingham are going to remain attractive places to invest because they are attractive places to work.

Central London is a case in point. Last year, take-up of office space in the capital rose 24% compared to 2021, according to property consultants Knight Frank. While total letting volume was still down on pre-pandemic levels, a lack of high-quality, energy-efficient space in the most sought-after locations saw rents jump. Rents in London's West End hit their highest levels on record of £127.50 per square foot. Meanwhile, City rents remained stable at rates of £77.50 per sq ft.

Rents in central London are rising as demand is rising and supply is constrained. Since 1994, the total stock of offices in the West End has actually declined even though the number of office workers has risen nearly 80%, according to **Great Portland Estates (LSE: GPE)**, one of the largest-listed London landlords with a large portfolio of properties in the West End. It's no wonder rental growth has risen 180% during this time, far outpacing inflation.

This trend is going to get worse. The number of office buildings in the pipeline is below average for the next three years, even though demand is picking up. In parts of the capital, GPE reckons there's less than ten months of office demand in the pipeline. A lack of supply, which can't easily be cured, rising demand and rising rents mean all of the London-focused Reits look attractive, argues Phayre-Mudge. GPE, **Derwent London (LSE: DLN)** and **Helical (LSE: HLCL)** are the three pure-play companies with exposure to the London market.

Another way to play the office theme is through **Workspace (LSE: WKP)**. The group is London's leading provider of sustainable, flexible work space, which is becoming increasingly sought after as businesses try to adapt their office footprint to more flexible ways of working. Workspace owns most of its buildings and has a robust balance sheet with debt as a percentage of property value standing at 32% based on the September 2022 valuation of the portfolio.

Leases tend to be shorter and more flexible than other office owners, allowing Workspace to hike its rents if and when it thinks it can. Right now the stock is trading at a vast discount of around 50% to its 30 September 2022 EPRA net tangible assets per share (see below) and yields 5.8%.

Government-backed income

Healthcare Reits such as **Primary Health Properties (LSE: PHP)** and **Assura (LSE: AGR)** also look attractive after recent declines. These companies own primary healthcare facilities, which are leased to the NHS and other providers.

This gives them two desirable qualities. They're unique assets (GP surgeries are designed to be healthcare facilities and it requires a lot of work to change it for other uses), and rents are backed by the government in a market that's only growing.

Neither Assura nor PHP have been able to escape the recent sector sell-off, but their attractive qualities mean they're both worth taking a closer look at. They yield roughly 6.4%.

Leave it to the experts

There are plenty of Reits with unique offerings in the sector, but if you'd rather not pick sector winners, one of the large, diversified players, such as **British Land (LSE: BLND)** or **Land Securities (LSE: LAND)** could be a good alternative.

British Land reported an EPRA NAV of 695p at the end of September and Landsec's stood at 1,010p.

Central London remains an attractive place to work

Both stocks are trading at 40%-50% discounts to these figures. We might see some downward revaluations over the coming year, especially with warehouses and offices in the portfolio, but such a substantial decline in NAV is unlikely, suggesting there's value to be had here. They yield 5.6% and 6.2% respectively.

For a double discount, Phayre-Mudge's **TR Property (LSE: TRY)** is selling at a 8% discount to NAV with a 5.2% dividend yield. This FTSE 250 constituent is unique in the investment trust sector, focusing on property stocks and property-related companies. It owns a range of European and UK Reits, as well as a small collection of physical properties. As a way to invest in the whole sector, and lean on the experience of a well-connected manager, it's certainly worth a look.

Rupert owns shares in GPE and TR Property.

"Rents in the West End hit their highest levels on record"

A key figure in valuing Reits

There are generally two ways companies will report NAV values. There's the IFRS NAV, which uses total shareholder equity as defined by International Financial Reporting Standards accounting standards, and there's also EPRA NAV, which uses guidelines set out by the European Public Real Estate body. EPRA NAVs are becoming increasingly universal as Reits try to streamline their reporting and appeal to investors.

Whatever figure is quoted, the logic behind any NAV is simple enough. It is designed to give investors an idea of how much the property the company owns is worth, minus any liabilities such as debt. To arrive at a NAV, the company takes the total value of all property assets, minus any liabilities, and divides that number by the total share count.

For example, if a Reit has a portfolio of ten properties, each worth £1m for a total value of £10m, with no debt, and it has ten million shares outstanding, the NAV per share would be £1 (or 100p).

However, investors should be careful around NAV values because UK Reits mark their properties to market on a regular basis. This means the Reit will commission a valuation of its portfolio when it reports its results, and surveyors have to come up with their best estimate of the portfolio's value.

These estimates are based on other transactions in the market. In periods of market stress (like today), this process becomes much harder. Buyers and sellers don't tend to sell properties when they think they're going to get a bad deal, so valuers have to use a level of judgement. They're only considered negligent if they're more than 15% out either way on values, so that's a band of 30%.

NAVs also take into account leases. If a company has an asset with a ten-year lease with a great tenant and yearly inflation-linked rent reviews, that asset is going to be worth more than an asset with similar physical qualities but without a long-term tenant.

That's not to say that NAVs should be ignored – they're a helpful indicator of the value of a Reits portfolio. However, they need to be reviewed in the context of the market and the company's portfolio.

"The question for investors is not necessarily 'is that the right value' but 'what has changed since that valuation date' and 'what do you think will happen over the next year or two'," says John Cahill of Stifel.

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Capital and income from it is at risk

Go abroad for alternative income

High yields are available from London-listed global trusts in a wide array of fields, says Max King

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BBGI Global Infrastructure has invested in the Canada Line SkyTrain in Vancouver

Look beyond the traditional UK equity income sector to alternative income funds, and you will find enticing yields growing in line with inflation, low or no sensitivity to the economic cycle and, thanks to share-price weakness in 2022, attractive discounts to net asset values (NAVs). But many of these funds carry a risk investors habitually ignore: their businesses are very dependent on the UK. Domestic revenues and earnings are vulnerable to weaker sterling, the long-term trend of which has been downwards.

The misfortunes of the social-housing funds, such as Civitas and Home Reit, serve as a reminder that much of the public and third sectors resent private-sector involvement, especially if it is for profit. Taxation can be changed on a whim, as it was for renewable energy: "windfall taxes" have been levied to reduce the profitability caused by high prices, no matter how desirable extra investment is seen to be. Regulations and laws can be changed suddenly based on little more than a storm on social media about supposed "rip-offs," leaving investors stranded.

Cautious investors will prefer to accept a slightly lower yield and slightly more expensive price for the added security of geographic diversification. The long-term record of these funds usually shows higher returns despite the initial handicap.

For example, **BBGI Global Infrastructure** (**LSE: BBGI**) has returned a compound 9.3% per annum since 2011 from a portfolio of which only 33% is based in the UK. The collection of 56 assets is "low-risk, based on availability, not demand", according to Duncan Ball, co-CEO; 36% of the assets are based in Canada and the rest split between Australia, the US and Europe. Around 51% of assets are in the transport sector (roads and bridges), 21% is in healthcare and 9% in education. As a self-managed fund, "we are incentivised by performance, not by asset growth", so annual costs are well below 1% and total assets barely £1bn. Yet, says Ball, "our pipeline is strong from both secondary investment opportunities and those direct from strategic arrangements with construction companies". The shares yield 5.1% and trade at a 3% premium to NAV, but that doesn't make them less attractive than their ostensibly cheaper rivals.

"The public and third sectors resent private-sector involvement, especially if it is for profit"

From airport equipment to windfarms

3i Infrastructure (**LSE: 3IN**), with over £3bn of assets, has an even better long-term record but takes more risk. It dubs its strategy "core-plus": it invests in assets with modest exposure to the economic cycle, targeting an investment return of 8%-10%. In fact, the compound annual return since the strategy was adopted in 2014 has been 18%.

Only 17% of the portfolio is in the UK, with 66% in Europe. The key investments, 14% of the portfolio each, are TCR, which leases airport ground-support equipment, and ESVAGT, which provides maintenance vessels for offshore wind farms. TCR clearly suffered from the reduction in flying during the pandemic, illustrating that the trust is not immune from external factors. The shares trade at a 2% discount to NAV, having recently completed a small fundraising, and yield "only" 3.5% but the investment record is outstanding and likely to continue.

Pantheon Infrastructure (**LSE: PINT**) was listed in late 2021, so it has not yet built an investment record. Consequently, its £477m of assets was only 54% invested in eight businesses as of 30 September; its shares trade at a 21% discount to a NAV which has yet to climb above the issue price; and it paid a dividend

of just 1p last year. Since then, a further £159m of new investments have been made and broker Stifel estimates that net cash is now just 12% of net assets, of which half is committed. PINT has committed to paying 4p of dividends this year, raising the prospective yield to 5.1%.

In the 30 September update, the UK made up just 11% of the invested portfolio. Digital infrastructure comprised 43% and power & utilities 35%. With the support of Pantheon's network, the portfolio approaching full investment and a good yield in prospect, the shares are, as Stifel argues, a "buy".

In the renewable-energy sector, there is a heavy focus on the UK but some potential bargains in the overseas specialists. The shares of **Ecofin US Renewables Infrastructure (LSE: RNEW**, £109m of assets) and **US Solar (LSE: USF**, £267m) trade on discounts to NAV of 17% and yield around 7%, but the managers of the former resigned in the summer. A new team has been appointed and the fund is reportedly back on track, but it remains subscale and will need to trade at a premium to be able to grow by issuing shares.

Tiring of the discount, the board of USF put the company up for sale in October but if they fail to find a buyer, the fund will be stranded. As for RNEW, returns have, so far, been disappointing and the asset value, translated into sterling, is vulnerable to the dollar weakening further.

The shares of **Aquila European Renewables (LSE: AERI)**, with €450m of assets, trade on a puzzling 24% discount to NAV and yield nearly 6%, despite a total investment return of 13% last year. About 56% of assets are in Spain and Portugal, 38% in Scandinavia and 6% in Greece, with a fairly even split between wind and solar. The recent results were highly reassuring about the outlook for future returns and the dividend.

The best geographic diversification in the sector is at the £250m **Ecofin Global Utilities And Infrastructure Trust (LSE: EGL)**, of which I am a non-executive director (NED). The shares trade at around NAV and yield 3.7% but the compound NAV return over five years has been 14.7%; 41% of the portfolio is in North America, 40% in Europe, and 12% in the UK. The investments are all in quoted shares covering transportation and water utilities as well as energy. Much of the performance has been generated by the transition of traditional energy utilities to renewables.

"TR Property's shares, on a 5.4% yield, are highly attractive to contrarian investors"

Load up on battery-storage firms

Among the three battery-storage companies, the best geographically diversified is **Gore Street Energy Storage (LSE: GSF)** of which I am also a NED. Christopher Brown of JPMorgan Cazenove estimates that following recent acquisitions, 30% of capacity will be in the US in 18 months. There is also significant exposure to Ireland and a single project in Germany within net assets of £525m. The shares trade on a 16% discount to NAV and yield 7.3%.

Inevitably, the property Reits are heavily focused on the UK, other than a few highly specialised funds. The exception is **TR Property Investment Trust (LSE: TRY)** with £1.35bn of assets, of which 44% are in Britain and 56% in Europe. Over 90% of the portfolio is invested in listed equities, many of which trade at a significant discount to NAV. The shares, along with the sector, which the portfolio has consistently outperformed, are at a low ebb but pessimism regarding commercial property seems overdone. This makes the shares, on a 5% discount and yielding 5.4%, highly attractive to contrarian investors.

Just as those investing in equities for income should not confine their strategy to UK-focused funds, those investing in alternatives should have broader horizons. Patriotism may not, as Samuel Johnson said, be "the last refuge of a scoundrel" when it comes to investment, but it is very damaging to wealth accumulation.

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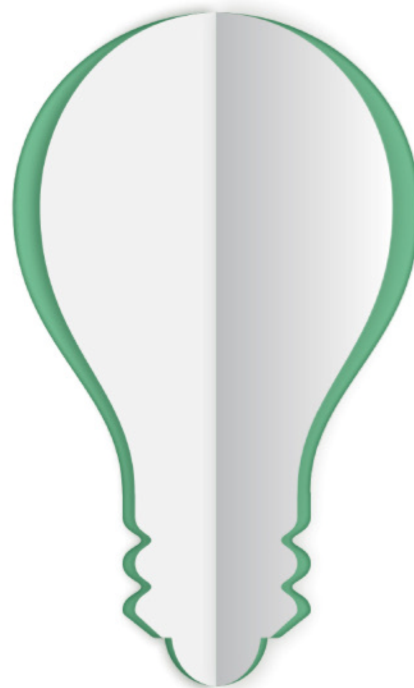

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How housebuilding boosts GDP growth

There is a clear link between construction, urban productivity and prosperity, says David C. Stevenson

Lost in the debate about planning and the thorny subject of whether and how to build more new homes, is the less controversial subject of why housebuilding is good for GDP growth and even helps improve national productivity. If the number of new homes built declines, it is probably not good news for economic growth. The rough estimate among those of us who are enthusiastic about building more new homes (Yimbys, or "Yes, in my back yard") is that we need 340,000 new home starts every year, including social and affordable housing, to meet demand – although there are some who think this number is far too high.

We are very unlikely to hit that target in the next few years, according to the Home Builders Federation (HBF). It blames a probable 122,000 decline in annual new home starts on a series of policy initiatives. They point to proposed changes to the national planning framework that could account for an annual fall in new homes of 77,000, with nutrient-neutrality requirements by Natural England cutting another 37,000 to 41,000 homes. Water-neutrality requirements might chip in a fall of another 1,500 to 1,900 and something called Recreational Impact Zones reduce the tally by a further 1,200 to 2,100.

According to the HBF and its consultants at Lichfields, this drop in 122,000 houses will result in 378,000 fewer jobs being supported, including 4,000 graduate and apprenticeship positions. There will also be a fall of about £20bn in economic activity generated, £3bn less investment in affordable housing, £3bn less spending in local shops, £1.5bn less in tax receipts, £135m less in council tax, £100m less spending on new or improved schools and £35m less investment in local spaces.

The price of Nimbyism

I can hear Nimbys muttering that of course homebuilders want to build more homes. But countless studies strongly suggest that declining home starts will dent economic growth. In 2010, for instance, Oxford Economics, commissioned by Savills, concluded that every 100,000 new homes built would create 228,000 direct construction jobs and a further 228,000 jobs on the supply side.

The direct benefit from the production of 100,000 new homes per annum would be to increase tax revenues by at least £2.3bn a year, rising to £3.1bn a year within a few years. This level of increased housing output could add 1% of growth to the economy (by the end of the second year).

International comparisons are also useful. A few years ago the HBF's US counterpart, the National Association of Home Builders, produced a report entitled *The Local Economic Impact of Home Building*.

The estimated one-year impact of building 100 single-family homes in a typical local area included $28.7m in local income, $3.6m in taxes and other revenue for local governments, and 394 local jobs. In addition the annually recurring effects of constructing 100 single family homes in a typical local area amounted to $4.1m in local income, $1m in taxes and other revenue for local governments, and 69 local jobs. The US also offers a useful analysis of the consequences of building affordable and social housing. A US report for the Center for Housing Policy found that building 100 affordable homes generates $11.7m in local income, 161 jobs and $2.2m in taxes and government revenue. Similarly, a report from Shelter Scotland found that "every £100m invested in affordable housing supply via both public and private finance generates £210m of economic output in the wider economy and sustains 1,270 jobs".

"Britain needs around 340,000 new homes every year to meet demand"

©Getty Images
Nimbys will protest, but we need the boost to growth

The message is unequivocal. Building more new homes creates economic activity as well as giving people somewhere to live. The economic effects are obvious: jobs are created both directly in construction and indirectly by improving local economies, and there are benefits from greater consumer spending and improved tax-raising powers for local authorities.

Should we invest in robots instead?

Now one perfectly legitimate criticism of this argument is that the capital deployed in building these homes could be allocated to more productive industries. So rather than spend more money on new homes, we should spend it on more robots, for instance. That is a perfectly valid argument and is based in part on the observation that productivity in housebuilding (and construction more generally) is generally very low compared with other sectors.

I think this criticism is valid but ignores a key truth: home construction is supported by a well lubricated banking system perfectly happy to lend off the back of mark-to-market valuations. I see no evidence that those same banks would all switch that capital to lending for industrial producers to buy more robots.

Moreover, there is ample evidence that if you let successful cities become more successful, they become more productive, which in turn boosts national productivity. In simple terms, more homes (especially

affordable ones) in London, Manchester and Birmingham will attract more skilled workers to them, which will boost the city's productivity and make the whole country richer. Strangle those cities with overly restrictive planning rules, and we all lose.

"More homes in big cities attract more skilled workers, boosting national productivity"

Impact of planning constraints

That is the message from a paper by economists Chang-Tai Hsieh and Enrico Moretti looking at 220 metropolitan areas. They found that excessive planning constraints lowered aggregate US growth by more than half between 1964 and 2009. "[We] find that a major impediment to a more efficient allocation of labour across US cities is the constraint to housing supply in high total factor productivity cities."

A study of the Chinese housing market reinforced this point about agglomeration. "The underlying logic is that housing prices change population density by attracting people with high purchasing power and discouraging those unable to afford housing, whereas increased density helps to promote productivity since the settled inhabitants always have highly developed work skills and are well educated."

As a recent report by the Policy Exchange think tank observed, "high housing costs in the UK's most productive cities are eating into putative gains in [national] productivity. Manchester and Birmingham, the two cities with the greatest productivity potential outside of London in the UK, also have some of the greatest restrictions on development in the form of green belt. Improvements in productivity are being capitalised in higher house prices." This review also cited another report by the Centre for Cities estimating that Manchester and Birmingham are respectively £15bn and £11bn behind their productive potential.

So, even if you think that we don't need to build more new homes everywhere – and Yimbys like me think we do – you need to build more homes in the most productive areas of the UK if you want to boost economic growth. And if you want to raise economic growth in the short term, by employing more workers and boosting local spending, you need to build more new homes – lots of them and probably more than few near you. Or you can accept lower national GDP growth, poorer public services and more societal strife. Your choice.

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Why bitcoin will never eclipse gold

The yellow metal has no equal as a store of wealth, says Merryn Somerset Webb

Bitcoin is back. One digital coin will now cost you £22,700, 65% more than in December. This makes sense to lots of people. The banking crisis has, one fan tells us, "drawn attention to bitcoin as a new way of storing wealth that is free from centralised points of failure". Hold bitcoin and you get a hedge against inflation, an asset that will rise in price (thanks to limited supply) and of course a medium of exchange.

Maybe, maybe not. More likely not. Bitcoin sounds grand in theory. In practice it is anything but. The cryptocurrency isn't a hedge against inflation (it is still down 35% in a year). It isn't trusted: if there was any good in it, the bad is doing a fine job of driving it out (I give you FTX). It isn't easy to use, and as most of those who try to use it find out, it isn't madly convenient.

Unless you have illegal intentions you might as well use an actual bank to transfer your money around the place. Bitcoin is also becoming less convenient. In today's world, everything needs an on- and off-ramp via the existing monetary system: you need to fill your Coinbase account with something before you buy your crypto in the first place. You might think that your bitcoin is sticking it to the man (it's decentralised and independent of government) but you need the bank the man runs to get in and out of it. That's an increasingly big problem for crypto fans.

There has been much talk recently of how US regulators are coming for crypto (they definitely are). But a more immediate problem is that an awful lot of US banks won't bank anyone in the business. Financial firms are, says Bloomberg, increasingly imposing lengthy application forms on crypto businesses, "turning away smaller companies and in some cases refusing to work with the sector altogether". The same is happening in the UK, where banks are placing daily limits on how much their customers can send to crypto exchanges every month. The truth is that while bitcoin – and even some other crypto coins – might work in a vacuum, they are little use when they have to interact with the real world.

Avoid the hassle of cryptocurrencies

So here's the question. If you want something that has all the good-sounding bits of bitcoin without all the hassle, why not go for something else? Perhaps physical bitcoin, as John Stepek and I like to call it; God's bitcoin as Orbis's Alec Cutler puts it – or, as it is known to most people, gold. Imagine, says Cutler, that a divine ruler had written a white paper for gold, just as the inventor of bitcoin apparently did for his new currency. Humanity will, he might have thought, need "a convenient and reliable vehicle for the preservation of wealth and universally trusted medium of exchange, for both government-issued and peer-to-peer transactions", one that "will maintain its value for all eternity".

What would this perfect vehicle look like? It would be durable, distinctive, easily divisible – and easy to use. You would be unable to manufacture it from other elements. There would be a limited amount of it on earth and it would be difficult to find and to process – so the total amount available would be finite and the amount in circulation would grow at only a small percentage every year. Over time it would become globally trusted, because nothing else would ever be found that combined all the characteristics that made it work so well. So here we are. Gold has been used as a medium of exchange for millennia – and it works just as said divine being might have wished it would. It is also the only thing that does. The problem with gold, however, is that while gold is hugely reliable long term (for most of history one ounce has equated to the rough price of a hand-made, high-quality set of clothes, for example) it isn't, as Duncan MacInnes of Ruffer points out, madly reliable in the short term.

Inflation and the war in Ukraine have both bolstered the yellow metal

©Getty Images

It doesn't go up and down in tandem with inflation in the short term. Sometimes it overshoots and stagnates, sometimes it lags and then plays catch up. We may now be getting to a catch-up stage. Gold has been lagging: an ounce currently comes in at £1,600 while a bespoke Savile Row suit comes in at more like £5,000. But there are signs that might not last much longer. Look to last year: the gold price did nicely in sterling but barely budged in dollar terms. You could look at that and say it is useless – after all, inflation was around 10% everywhere by the end of year.

However, you could also look at it and think it is rather amazing that it managed that: gold provides no yield, so with interest rates rising from roughly nothing to 4%-5% last year, the opportunity cost of holding it soared. Yet people still held it. That will have been partly with an eye to inflation but the rich would also have had an eye to Russia. Once you have witnessed just how quickly and efficiently Western countries can confiscate the assets of the citizens of other countries you might begin to think to yourself that holding physical gold in a non-Western location seems like a pretty good idea, says MacInnes.

> *"The Chinese and Indian central banks have been buying gold in large quantities"*

Central banks are clearly thinking something similar: both the Chinese and Indian ones are known to have been buying up large quantities (they must have read God's white paper). They aren't stocking up (as far as we know) on crypto. The **Ruffer Investment Company** (**LSE: RICA**) has about 5% of its assets under management in gold and gold equities. For higher exposure, readers might look to long-term MoneyWeek favourite the **Personal Assets Trust** (**LSE: PNL**), where that is more like 11% – with 9% in actual bullion. Nothing digital there.

Merryn Somerset Webb is a senior columnist for Bloomberg. You can follow her on Twitter and Instagram @merrynsw

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Cutting mortgage costs

Fixing your home loan is one way to trim your monthly payments

Ruth Jackson-Kirby
Money columnist

Interest rates on fixed-rate mortgages rose to a peak of 6.65% in the aftermath of the mini-Budget last September. Dearer credit lowered demand for property, sending the post-pandemic housing boom into reverse. And while the market has since stabilised, rates are still far higher than they were this time last year.

The average rate for a two-year fixed rate product is now 5.29%, according to Moneyfacts, while the rate for a five-year fixed-rate mortgage is 4.95%. At the beginning of 2022, both were around 2%.

However, more offers are coming onto the market and mortgage rates are not expected to rise much further because additional interest rate hikes by the Bank of England have been priced in. Meanwhile, the rates on standard variable mortgages (SVR) have now eclipsed 7%, a level not seen since 2008. In light of that, is now the time to fix your mortgage?

Locking in a longer deal

The Bank of England's base rate is now 4.25%, the highest level since 2008. Borrowers who locked into a five- or ten-year fixed mortgage before the mini-Budget chaos will not have to worry – they are likely to be benefiting from a lower rate. But borrowers whose deals are expiring soon will face a sharp rise in their monthly payments.

Still, those considering refinancing imminently will be relieved to see that fixed-rate mortgages have fallen back since the end of 2022. It is now cheaper to lock in a five-year fixed rate than to take a two-year fixed deal and much cheaper than staying on an SVR. "The incentive to fix is clear," says Rachel Springall of Moneyfacts. "A rate rise of 0.25% on the current average SVR of 7.12% would add approximately £772 onto total repayments over two years", based on a £200,000 mortgage over a 25-year term.

Extend your mortgage term

In addition to looking for the cheapest fix, there are other steps you can take to keep your mortgage repayments down. One option is to lengthen your mortgage term. Most people opt for a 25-year mortgage term when they first get a mortgage. However, it is possible to get a mortgage of up to 40 years with some lenders.

Lengthening your mortgage term can make a big difference to your monthly repayments. For example, someone with a £200,000 mortgage at an interest rate of 2.75% would repay £922 a month over 25 years. If they lengthened their mortgage term to 35 years that repayment would drop to £742. Of course, there's a catch to this. A longer term means that you'll pay significantly more interest over the life of the mortgage: £34,810 in the above example. So only lengthen your mortgage term if you really need to.

Lower your LTV

Another way to cut your repayments is to use your savings to overpay your mortgage. Doing this while you are still on a low rate means you can make a big dent in the capital you owe, so your repayments will be lower when it is time to remortgage.

Overpaying could also give you access to better rates if it takes your loan-to-value (LTV) ratio – ie, the amount you need to borrow relative to the overall value of the house – into a different bracket. The lower your LTV, the cheaper the deals you can get, so examine how much you would need to pay off to unlock lower interest rates.

You may find a small overpayment could make a huge difference. Assume a borrower with a house worth £450,000 and a £275,000 mortgage has an LTV of 61.1%. If the borrower can pay off just £7,000, it would take their LTV below 60%. This would mean they could get the best-buy five-year fix deal of 3.16%, with monthly repayments of £1,293.

The property bubble has been hissing air

©Getty Images

Without the overpayment the best rate they could get would be 3.22% – that's an extra £43 a month. Over the five-year term they would save £2,074 in interest. If they had left that £7,000 in the bank, it would have earned just £1,274 interest in the best five-year, fixed-rate savings account.

Clean up your credit record

Finally, improve your chances of being accepted by a range of lenders. Check your statutory credit report with all three credit reference agencies (Experian, Equifax and Transunion). If there are any errors, have them corrected. Get on the electoral roll if you're not already on it. Pay off any unsecured debt (eg, credit cards) and try not to apply for other credit in the six months before a mortgage application. You may even want to cut back on your spending for a bit, so that if lenders check your outgoings, they will be confident that your finances are in good shape.

Pocket money... start investing in your Isa today

● It pays to be an "early-bird" individual savings account (Isa) investor, says Laith Khalaf of AJ Bell. The investment platform has compared two hypothetical investors. One put £3,000 in a global equity fund on the first day of every tax year since 1999-2000 (with the calculation repeated starting in 2008-2009) while the other one waited until the last day before paying in the same sum.

The early-bird starting in 1999-2000 would now have £200,373; the last-minute investor has £191,000. Repeat the experiment starting in the middle of the global financial crisis, 6 April 2008, and the early-bird still comes out on top, with £94,443 compared to the last-minute portfolio's £88,044. "It's not just the performance in the first year that matters in the long run." The initial stake may have fallen quickly in 2008-2009, but it is compounded every year after that, and in time the portfolio begins to make money. These statistics are a reminder that you should do better if "your money is at work in the market for longer". It is time in the market, not timing the market, that matters.

● Now that interest rates are rising, it has become much easier to breach the personal savings allowance (PSA). The PSA is £1,000 for basic-rate taxpayers and £500 for the higher-rate bracket. Someone in the latter would incur a tax bill with £11,000 in an account paying £4.62% if the money is locked away for two years, says Rachel Rickard Straus in The Mail on Sunday. A basic-rate payer would breach the PSA if they put more than £23,000 in that account. Always use a cash Isa first.

● Consumers are in for huge price hikes on their mobile and broadband packages this month. Telecoms firms are allowed to raise prices in line with inflation during a contract, and then add a further 3.9%. Some companies will base their hike on the CPI reading for December; some on the (higher) RPI in January. O2 users will face a 17.3% price rise for phone minutes, text and data. If you are out of contract (your locked-in period has expired), you could switch to a Sim-only mobile deal, as they can cost just £6 a month and don't lock you in, says George Nixon in The Times. Broadband firms without inflation-linked rises in their contracts include Hyperoptic, Now, Sky and Virgin Media.

Rethink your lifestyle fund

It is likely to have suffered large losses and was designed for a previous era

David Prosser
Business columnist

At first sight, pension providers' "lifestyle" funds look eminently sensible. The principle of these funds is that as savers close in on the date at which they will cash in their pensions, they can no longer afford the risk of exposure to assets such as shares, which tend to be more volatile.

If such assets plunge in value, there may not be time for recovery. Lifestyle funds therefore automatically shift pension savers' money into assets that are more stable, typically over the five to ten years before their expected retirement date.

Unfortunately, this approach has proved disastrous for savers reaching retirement in recent months. Most lifestyle funds depend heavily on fixed-income assets: gilts and other bonds. And while historically such assets have been far less volatile than equities, that has not been the case over the past year or so. A bond market collapse in 2022 – exacerbated in the UK by the disastrous mini-Budget last autumn – has caused huge damage.

Leading pension providers hold billions of pounds of savers' money in lifestyle funds, some of which have delivered stinging losses over the past year. Providers including Aviva, Clerical Medical and Scottish Equitable saw the value of their funds fall by around 25% – or even more – over the year to the beginning of March.

In other words, someone looking to cash in their pension fund today will have 25% less cash with which to purchase an annuity income – a setback that will hit them for the rest of their lives. For someone with a pension fund worth £250,000 a year ago, the losses of the past 12 months translate into an annual annuity income worth around £2,800 less than they might have expected. The security that lifestyle funds were supposed to deliver has proved illusory.

In part, savers cashing in their pension funds in recent months have been unlucky.

Kwasi Kwarteng's mini-Budget last year exacerbated the bond collapse

©Getty Images

The extraordinary losses in the bond markets came at the worst possible time for them. However, pension experts have been warning about the dangers of lifestyle funds for some time. It's an approach to retirement saving that has come to look very outdated.

One problem is that a highly unusual economic environment led to bond markets becoming hugely overvalued. Years of ultra-low interest rates, plus policies such as quantitative easing, inflated bond prices to unprecedented levels. When policymakers began raising rates in response to soaring inflation, the bubble burst, with pension savers caught in the fall-out.

A flawed premise

More fundamentally, the premise of lifestyle funds feels flawed. The idea was dreamed up at a time when the majority of pension savers built up as large a fund as possible and then used it to buy an annuity when they wanted to retire. Today, more people opt for income drawdown than annuity purchase, leaving their pension funds invested with the aim of generating more income over time. In that case, a wholesale shift into bonds and other supposedly low-risk – but also low-return – assets makes little sense.

Savers now need to learn the lessons of recent months. Many signed up for lifestyle funds many years ago; they may even have forgotten where their money is sitting, or what retirement date they set. Check which funds your pension is exposed to – and whether they take a lifestyling approach. Then think hard about whether this is still appropriate for you, taking expert advice if necessary.

Should you look into Lisas?

Lifetime individual savings accounts (Lisas), introduced in April 2017, are a halfway-house between saving for a property and for old age. Contributions to the tax-free plans get a state top-up. But you can only withdraw penalty-free if you are using the money to buy a first home or you are aged 60 or over.

Some experts think Lisas, have a valuable role to play. The fund manager Fidelity has just launched a Lisa for members of workplace pension schemes it runs. It argues the plans give savers additional flexibility on top of conventional pensions. On the other hand, investment platform Interactive Investor suggests abolishing Lisas, saying they confuse savers.

Lisas can only be opened by savers aged between 18 and 39, although you can keep contributing until 50. You can pay in up to £4,000 each tax year – which can be invested in a wide range of assets – and get a bonus of 25% of your contribution (ie, up to £1,000). Contributions count against your £20,000 annual Isa allowance.

There are two main flaws. First, if you take money out before you reach 60 and it's not for a first home, you lose 25% of the total amount withdrawn. If you work through the numbers, that means 6.25% of your own contribution as well as the lost bonus. Second, if used for a home purchase, the property must cost £450,000 or less, which may be a problem in some areas such as London. These badly-designed rules mean that a Lisa is not a straightforward choice for many savers.

News in brief... auto-enrolment extended

● Delaying an increase in the state pension age by seven years will cost taxpayers more than £60bn, according to the Institute for Fiscal Studies. Ministers had been expected to announce plans to raise the state pension age to 68 by 2039, but last week said this decision would be postponed until after the election. The current arrangements, with the increase not completed until 2046, therefore remain in place.

● People who have gaps in their state pension savings records will now have three additional months in which to take full advantage of rules that allow them to boost their retirement incomes. The deadline for making voluntary national insurance contributions to cover gaps going all the way back to 2006 had been set for 30 April. But the Department for Work & Pensions has struggled to cope with applications for the scheme. It is therefore extending the deadline to 31 July; those making extra payments after that date will only be able to cover gaps going back six years.

● A private member's bill that will extend the automatic enrolment system to millions more savers has won government backing. The move means that employers will soon have to enrol staff in pension schemes if they are 18 or over, compared to 22 under the current system. The lower earnings limit – the pay level beneath which employees do not have to be enrolled – will also be abolished.

Eli Lilly set to win battle of the bulge

The pharmaceutical giant's new wonder drug against obesity is likely to be approved soon

Stephen Connolly
Investment columnist

New medication has emerged to fight obesity, and the evidence suggests it is by far the best yet. Those who took it in clinical trials lost a significant 22.5% of their body weight on average, 50% more than the nearest rival. These game-changing results have attracted so much interest that analysts think US pharmaceutical giant **Eli Lilly (NYSE: LLY)** may be sitting on what could be the biggest-selling drug ever.

Branded Mounjaro, the medicine is already approved for treating type-2 diabetes. It is taken to cut blood glucose (blood sugar) alongside a regimen of diet and exercise. Investors now expect US health regulators at the Food and Drug Administration (FDA) to allow the drug to be used against obesity, too. The path to sign-off has already been fast-tracked by the FDA (it will review the results of clinical trials more quickly than usual). It has studied the positive data so far and knows well that breakthrough treatments for obesity are urgently needed.

Popping a pill is so much more appealing than endless workouts

©Getty Images

Global epidemic

The incidence of adults and children with excess body fat is rising fast enough in many parts of the world to be described as an epidemic. The consequences, from heart disease to cancer, are cutting lives short and straining medical resources.

With two in five adults in the US and 25%in the UK officially obese, fat-loss medication is potentially a big market. The World Health Organisation says there are 650 million obese adults worldwide, with the World Obesity Federation expecting one billion by 2030. You can add to this the significant number of adults who are classified as overweight but not obese.

Health insurers in the US can be resistant to funding weight-loss treatments, while the UK's health service offers it selectively. But it is hard to disregard compelling clinical evidence demonstrating that cutting obesity can prevent a broad range of serious and costly illnesses, including heart disease, arthritis and tumours. Each new study extending these links is a probable catalyst for more potential sales of a weight-loss drug.

Lose weight, look good

There's the more consumer angle to consider, too. As Fabrizio Freda, CEO of cosmetics group Estée Lauder, has noted, a "30-year-old today gets more photographs of themselves in a day than their mother did in a year". In the digital age of the "selfie", image is very important for many, and they will pay to look good. Weight-loss drugs informally overlap with aesthetic medication such as Botox and dermal "fillers" to improve and "lift" facial appearance – and even general beauty care. If a product is fast, effective and beats the sweat of endless diets and workouts, it will sell.

What's more, users are often quite open about it, especially on social media where the prominence of aesthetic and beauty treatments can rocket overnight. No less a luminary than billionaire Elon Musk has said he has in part lost weight using Wegovy, a weight-loss drug made by Denmark's diabetes specialist Novo Nordisk and now overshadowed by Mounjaro. Hundreds of millions have viewed videos, creating a powerful marketing effect.

Bank of America sees this interest in Mounjaro converting into sales of $4.7bn next year, while UBS forecasts $30bn at the end of the decade. Consider that Eli Lilly's total sales this year across its entire range will be just over $30bn – matching the UBS expectation for Mounjaro alone – and you begin to appreciate the product's significance.

Of course, successful new products in big markets don't come cheap. But Eli Lilly is a 147-year-old, high-quality and diverse business worth over $325bn, and it should maintain its premium rating. With annual earnings likely to grow in double digits – potentially more than 20% – in the medium term, shareholders will beat broader market returns.

Almost 150 years of innovation

Eli Lilly discovers or acquires, then develops and manufactures, varied human medications that are sold in about 110 countries. These can be grouped broadly but not exclusively into diabetes, cancer and mental health divisions.

It started out in Indiana in 1876 and is now one of the biggest pharmaceutical groups in the world, with a market value of $325bn. Its diversity is its strength and Mounjaro is just one product – albeit a very fast-growing one with an extremely promising commercial future.

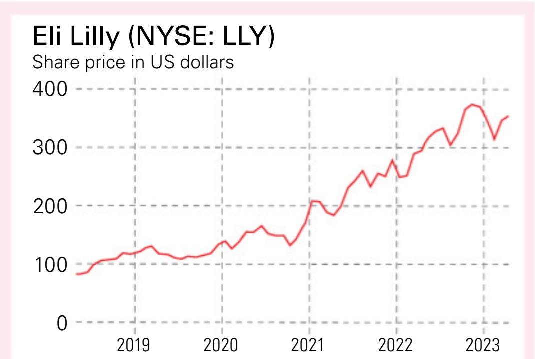
Key medications over the years have included Iletin, the first commercially-produced insulin medication in 1923 for treating diabetes, which was deadly at the time.

Lilly is still strong in this field, with Mounjaro the latest in a long line of treatments including Humulin and Humalog. It recently developed Trulicity, which encourages the body to release its own insulin and is growing very fast, with sales up by 28% in 2021 to $6.5bn.

Another impressive performer is Jardiance, an oral drug for controlling blood sugar and reducing cardiovascular risks.

The anti-depressant Prozac was so widely sold that it became a word in its own right, promoting the acceptance of mental health disorders within popular culture.

Also in mental health, Cymbalta has been a big-selling anti-depressant; Zyprexa for schizophrenia and bipolar disorder is also popular. Another high-profile medication is Cialis, the commercially successful alternative to Viagra for erectile dysfunction. Innovation continues, keeping the product pipeline flowing. Among other important growth products are Taltz for moderate-to-severe psoriasis, with 2021 sales up 24% to $2.2bn; Alimta which blocks cancer-cell growth predominantly related to the lungs; Verzenio for breast cancer; and Retevmo for migraines.



Bet on a building boom

Brick and tile manufacturer Ibstock will profit from a rebound in housing

Matthew Partridge
Shares editor

Housing markets across the world are losing steam, with prices falling from Sweden to San Francisco. After a long boom during the final part of the pandemic, higher interest rates and the rising cost of living mean that most markets are now correcting. The UK is no exception, with prices already declining and leading estate agents forecasting a further 10% drop. Still, there are signs that the worst may be over; witness the recent rise in mortgage approvals. There is also a structural shortage of housing, with growing political pressure to build more houses. Some firms should therefore benefit from any recovery.

One company that could do well from a rebound is Leicester-based **Ibstock (LSE: IBST)**. Ibstock doesn't build houses itself, but it makes many of the components that go into buildings. These include clay bricks, roof tiles and synthetic substitutes for stone.

Its position as Britain's leading manufacturer of several of these materials, notably clay bricks, has allowed it to pass on the rise in costs brought about by higher energy prices and raise its operating margins from 17.1% in 2021 to 20.9% in 2022. That helped boost pre-tax profits by 65% last year, while earnings per share doubled.

Going green

At the same time Ibstock has been investing in upgrading its technology. With green regulations ever more onerous, especially since the construction industry is one of the biggest contributors to the UK's net emissions, Ibstock has not only developed the UK's first low-carbon bricks, but also hopes by the end of the year to have the ability to manufacture them at scale, producing at least 100 million a year. It has set itself the ambitious target of making around 20% of its money from sustainable products by the end of this decade, cutting its overall carbon footprint by 40%. Its innovation doesn't end there, as it has also been investing money into developing a new generation of low-weight products.

There is political momentum behind housebuilding

©Alamy

Despite its strong track record of growing revenue by 40% over the past five years and its promising future, Ibstock is still attractively valued. It trades at only 10.9 times 2024 earnings, and boasts a double-digit return on capital, a key gauge of profitability; this helps fund a dividend yielding just under 5%. Ibstock also has plenty of cash on hand and relatively low levels of debt, which should give it a comfortable cushion if the downturn in the housing market turns out to be deeper or longer than expected.

"The group has plenty of cash and little debt, so it can weather a downturn"

The stock's fundamentals look solid, while the technical outlook is also encouraging. Although it is still down by nearly a third from its peak in March 2021, it is trading above both its 50-day and 200-day moving averages, which suggests that market sentiment is positive. I therefore recommend you go long at the current price of 172p at £11 per 1p, with a stop loss of 82p. This gives you a total downside of £990.

Trading techniques... using momentum

You can divide traders into those who focus on momentum, buying shares that have recently done well in the hope that they will keep soaring, and "contrarians", who target poor performers in the expectation that they will bounce back. While most traders fall into the former camp, the big question is how to gauge whether a share has momentum.

One popular way to do this is through the use of moving averages. The idea is to measure a share's current price against its average over an extended period, usually the past 50, 100 or 200 days, though some use an exponential moving average which gives greater weight to recent prices. If the share is trading above the moving average then this is a buy signal; if it is trading below it, you should sell. This is sometimes called a "chartist" approach since people used to superimpose a moving average over a chart of the price (most share-price websites allow you to do this automatically).

Several studies have suggested that using moving averages can boost your returns by reducing risk. One examined a strategy of leaving the stock market when the price closed 1% below the 200-day moving average and then returning when it closed 1% above the 200-day moving average. Applying this approach to the Dow Jones index between 1888 and 2012 would have boosted your annual return from 9.39% to 9.73%, but also cut volatility from 21.4% to 16.5%.

Sadly, the strategy involves frequent buying and selling, which can eat into returns. This would have you switching in and out of the market 376 times over 124 years. Still, even taking transactions costs into account, it has the potential to reduce the downside risk.

How my tips have fared

Four of my long tips rose over the past fortnight and three fell. Luxury clothing retailer Burberry rose from 2,349p to 2,572p, estate-agent Savills advanced from 966p to 982p and online retailer Asos increased from 747p to 827p. Discount chain B&M also went up, from 473p to 482p. But retailer Dunelm dipped from 1,131p to 1,106p, Telecoms group Gamma Communications declined from 1,105p to 1,095p and builder DR Horton slid from \$96.84 to \$96.64. My seven long tips are making a net profit of £2,400.

My short tips haven't fared well, with five of the seven moving against me. Electric-car charging firm EVgo increased from \$5.24 to \$7.79, ticketing group Live Nation went up from \$68.18 to \$70.15 and videogames retailer GameStop rose from \$16.62 to \$22.64. Solar-energy company Sunrun also advanced, from \$18 to \$20.05, while payroll company Paycom jumped from \$278 to \$305. Real-estate investment trust Digital Realty fell from \$101.23 to \$96.72, while AST SpaceMobile declined from \$6.04 to \$5.08. The short tips are making net profits of £518, down from £1,762. The short and long tips are making joint profits of £2,918.

I have eight long tips (Burberry, Dunelm, DR Horton, Savills, Asos, B&M, Gamma Communications and Ibstock) and seven short ones (EVgo, AST SpaceMobile, Digital Realty, Live Nation, Paycom, GameStop and Sunrun). I suggest you raise the stop-losses on Dunelm to 1,050p (from 1,000p), Burberry to 1,800p (1,775p), DR Horton to \$82 (\$80), Gamma Communications to 825p (800p), Savills to 675p (650p), Asos to 500p (431p) and B&M to 250p (243p). Cut the price at which you cover AST SpaceMobile from \$13.74 to \$10.

Three small, socially responsible stocks with a sustainable competitive edge

A professional investor tells us where he'd put his money. This week: David Elton, manager of the CFP Castlefield Sustainable UK Smaller Companies Fund

Responsible investing is integral to everything we stand for and do. Our framework for appraising any individual company includes ten positive investment themes in order to identify its contribution to specific social and environmental aims. Responsible business practices, along with sustainable products and services, can produce better long-term investment returns.

We seek to harness the potential of smaller British companies by investing in businesses that are financially sound, have a sustainable competitive advantage, and can grow over the long term. Despite the short-term challenges, we think smaller companies can offer attractive returns to long-term investors. The key attributes of faster growth potential and a tendency to be overlooked by investors still apply. Investing in smaller companies also supports our aim to invest responsibly and sustainably.

This is partly thanks to the greater scope for engaging with management and for aligning managers' interests with those of shareholders by ensuring that directors hold shares for a lengthy period of time. For those willing to look, there are high-quality smaller companies at attractive valuations out there, and the recent performance disparity has created further opportunities.

Wiping the digital slate clean

Within our Resource Efficiency investment theme is **Blancco Technology (Aim: BLTG)**, a provider of software that securely erases data from equipment such as servers, computers, and mobile phones. Secure data erasure is important to organisations for two main reasons. Firstly, it provides data security and protects sensitive information. Secondly, with the main alternative to device erasure being physical destruction, it helps address the growing problem of e-waste.

Last financial year, its software erased 52.8 million devices, giving each the potential to be reused and thereby also reducing emissions. With its accredited solutions and patent portfolio, Blancco is becoming the industry standard in data erasure – witness its healthy profit margins and double-digit revenue growth.

"Last year Blancco Technology's software erased 52.8 million devices"

A fighting fit low-cost operator

The Gym Group (LSE: GYM) operates a network of low-cost gym facilities through a flexible and technology-enabled model. With 230 gyms across the country, it is a leader in the low-cost segment. As well as the attractive commercial aspects, GYM has a clear positive social impact and fits into our theme of Health and Wellbeing. Providing affordable, accessible exercise facilities that supports a healthier society is of increasing importance. The pandemic and the current economic environment have created challenges for the company, but it continues to make strategic progress and should be in a strong position to continue taking market share as conditions recover.

The Gym Group owns 230 gyms across the UK

© Getty

Spearheading transport technology

Tracsis (Aim: TRCS) is a technology company that solves mission-critical problems within the transport sector. Sitting within our Sustainable Infrastructure theme, it contributes to a safer and more efficient transport system. It develops software and hardware products as well as offering consultancy, data, analytics, and other services. One of its offerings enables the maintenance of rail signalling assets, improving their performance and life cycle.

Tracsis has been primarily self-financing to date, with only £4m raised on markets since 2007, taking it to a valuation of more than £250m today. It recently made an acquisition in the US rail market with the potential to boost growth prospects further. Tracsis' strong track record, high recurring revenue and dominant market positions make it a high-quality business worth owning.

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Iron Man of comics falls to earth

Ike Perlmutter single-handedly rescued the comic-book superhero, bringing Spider-Man and the Hulk back to mass audiences. Why has Disney given him the boot? Jane Lewis reports

Isaac "Ike" Perlmutter will always be remembered as the "visionary executive" who established Marvel Studios "as the future of Hollywood" with *Iron Man* in 2008 – "kicking off a decade-plus of superhero dominance", says Fortune. After selling Marvel to Disney for $4bn in 2009, he wielded power on an even larger stage. But last week it all came tumbling down when he was ejected from the Magic Kingdom in less than heroic fashion. Disney, it was reported, "fired Perlmutter by phone as part of cost-cutting measures". As treatment of legends go, it could scarcely be more insulting.

©Shutterstock

"After selling Marvel to Disney for $4bn in 2009, he wielded power on a larger stage"

Call it the price of disloyalty. Perlmutter, 80, was a prominent supporter of activist investor Nelson Peltz, whose "proxy battle" to grab a seat on the Disney board and push for a revamp of the $180bn conglomerate was recently thwarted by returning CEO Bob Iger. Despite Perlmutter's 1% stake in Disney, he was eventually left running just "a rump operation". That may have been behind his decision to help Peltz, a friend and Palm Beach neighbour, to lay siege to the media giant.

A whittled-down Trumpist

Getting rid of Perlmutter was just a tidying-up exercise for Iger, Disney's "Cashmere Prince", as he reasserts his authority. It certainly "removes a longstanding source of tension", says The New York Times. Even before the activist tussles, Iger and Perlmutter had such a complicated relationship they could barely communicate face-to-face. Indeed, the Disney boss has spent much of the past decade trying to whittle down Perlmutter's "fiefdom".

Their cultures weren't exactly a fit. Perlmutter – one of Donald Trump's closest friends and campaign financiers, and a regular at the former president's Mar-a-Lago resort – "repeatedly clashed" with key Disney executives over everything from his "desire to skimp on catering at premieres" to his "opposition to Marvel movies that starred black or female superheroes". His behaviour was often extreme: a female employee once alleged that Perlmutter said he had a "bullet with [her] name on it" after a disagreement about an email.

Born in Israel (then Mandatory Palestine), Perlmutter served in the Israeli army in the Six Day war of 1967, before moving to the US with just $250. His first job "involved standing outside Jewish cemeteries in Brooklyn and being paid by grieving families to lead funeral services", says the Financial Times. From there, he moved on to selling toys on the street – and first became a fan of Marvel comics. A savvy operator, Perlmutter built up a thriving business selling "surplus goods" and in the 1980s "discovered he had a knack for investing in distressed companies". It was the Wall Street era of the "Barbarians at the Gate" and Perlmutter fought several hostile campaigns, extracting millions from targets including Revco drug stores and toy manufacturer Coleco – often after complicated legal battles. In 1998, says Forbes, "he beat out fellow billionaire Carl Icahn for control of the bankrupt comic-book firm" Marvel, and over the next decade succeeded in staging an epic revival with movies such as *Spider-Man*, *Daredevil*, *Hulk* and *Iron Man*. Yet all the while, he kept his head down. Perlmutter keeps such a low profile that he "once attended a premiere of a Marvel film in disguise" and proudly boasts he has never done a public interview, says Business Insider.

Extraordinary imbroglios

In his autobiography, Iger described Perlmutter as "a legendarily tough, reclusive character". He certainly has a knack for extraordinary imbroglios, says The Hollywood Reporter. In a story with as many twists as an *Iron Man* comic, Perlmutter recently won an eight-year Florida libel case proving he was not the writer of anonymous hate mail directed at other members of Florida's wealthy set – in a "bizarre saga" that "began as a feud over tennis courts". It's unclear what Perlmutter, who retains his Disney stake and an estimated $4bn fortune, will do next, says The New York Times. But it's unlikely to be boring.

The worst trades in history... the short that lost $24m

Robert Wilson was born in Detroit in 1926 and graduated from Amherst College in 1946 with a degree in economics. He then went to law school for two years before dropping out and getting a job at First Boston. He later moved to the National Bank of Detroit where he worked in the trust division. In 1958 he moved to New York and started trading on his own account. By 1968 he had quit his job to set up his own hedge fund.

What was the trade?

Wilson's strategy involved taking short positions in companies he felt were overvalued – in other words, he would place a bet on their price falling. Most of his short trades were extremely successful, but he is most often remembered today for his disastrous involvement with Resorts International. He believed that the hotel and casino chain was poorly run and was even fudging its profits, and thought that its decision to open a casino in Atlantic City was doomed to failure, given the city's cold and rainy climate. As a result, he started shorting the company at $8 a share.

What happened?

The new casino proved a huge success. Within two years the company's share price had risen tenfold to $80. Wilson closed out on some of his position, but stuck with most of the rest of it in the belief that the firm was still overvalued and the shares would fall back to reflect that eventually. But as word of Wilson's losses began to spread around Wall Street, other investors started to pile into the company. Eventually, when the price reached $187, Wilson was forced by his brokers to capitulate.

Lessons for investors

Wilson lost around $24m on his trade. That might be a relatively small amount compared with his fortune, which reached $800m before his death, but it shows the risks associated with short selling – your gains are limited to 100%, while your potential losses are infinite. Interestingly, another famous trader, George Soros, also took a short position in Resorts International, but he not only quickly closed it when the trade started to go against him, but also reversed direction by going long, making a profit on the trade.

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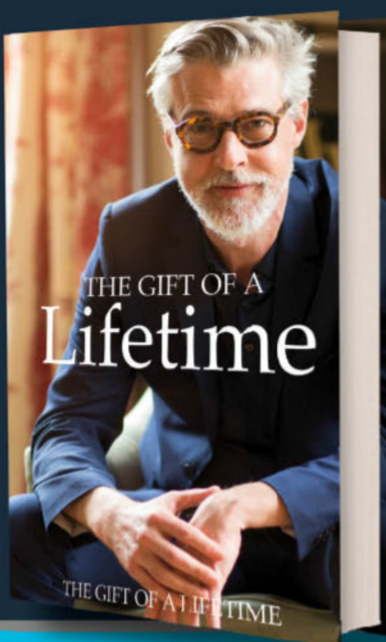

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		M	**A**	**M**	**J**	**J**	**A**	**S**	**O**		

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J	F	M	A	M	J	J	A	S	O	N	D
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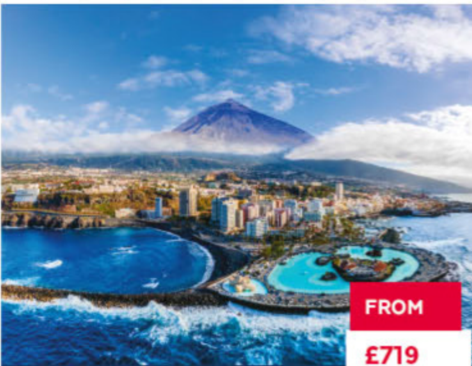
Holiday Departure Months

J	F	M	A	M	J	J	A	S	O	N	D
			A	**M**	**J**	**J**	**A**	**S**	**O**		



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Holiday Departure Months

J	F	M	A	M	J	J	A	S	O	N	D
		M	**A**	**M**	**J**			**S**	**O**	**N**	

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- A full day excursion to Antibes and Nice

Holiday Departure Months

J	F	M	A	M	J	J	A	S	O	N	D
			A	**M**	**J**		**A**	**S**	**O**		

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- A full day excursion to Granada including a visit to the Alhambra Palace and Fortress
- A full day excursion to Seville

Holiday Departure Months

J	F	M	A	M	J	J	A	S	O	N	D
		M	**A**	**M**	**J**		**A**	**S**	**O**	**N**	

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Britain in bloom

Three beautiful stays to celebrate the arrival of spring. Chris Carter reports

©Alamy

Alnwick Garden's Japanese cherry trees in blossom

"The poets had it right", says Rhiannon Batten in The Times. "After the muffled murk of winter, the newborn gleam of spring is so fiercely uplifting it's worth pausing to capture the thrill as the weather warms." The most rejuvenating way to do that is to book into a hotel.

Alnwick Garden, in Northumberland, claims to have the world's largest collection of white-blossomed *taihaku* cherry trees. The Japanese species was thought to be extinct until, in 1926, the English botanist Collingwood "Cherry" Ingram spotted an 18th-century painting of a taihaku tree and realised he knew of one growing in Sussex. The tree was reintroduced in Japan, and in Alnwick Garden, you can see its descendants.

Stay at the cosy boutique Cookie Jar hotel, housed within a former convent. Its 11 bedrooms are located a 15-minute walk away, past Alnwick Castle. *From £180 a night, cookiejaralnwick.com*

New this spring

The Tongue Hotel, in the northwest Highlands, is a former 19th-century hunting lodge, originally built by the Duke of Sutherland that, as of this week, has reopened following an extensive refurbishment by its new owners. Modern touches have been added to the original paintings, wood panelling and antique furniture in the hotel's 19 renovated bedrooms, says Rachel Dixon in The Guardian. These are supplied with toiletries made on the Isle of Arran, homemade shortbread and even a decanter of sherry. The Varrich Restaurant and Brass Tap Bar have also undergone a make-over without losing their open fires, local beers and spirits and catches of crab, scallops and sea trout.

The Tongue sits on the scenic North Coast 500 (a 516-mile stretch of coastline running along the north of mainland Scotland), close to Varrich Castle and the Kyle of Tongue. *From £149, tonguehotel.co.uk*

A bolthole for any season

Atlanta Trevone is a collection of five fully revamped cliff-top self-catering Victorian properties, "perched dramatically over Trevone Bay, on Cornwall's wild, Poldarkian northern coast", says Rosalyn Wikeley in the Evening Standard. "These designed-to-the-nines stays perfectly cater to coastal capers, whether running a surfboard or picnic to the blonde mass of sand lining Porthmissen Bay or its rockier neighbour, Newtrain, where children fastidiously hunt for crabs and pretty shells." The Victoriana continues inside with roll-top baths and grand fireplaces, mixing with "sumptuous modernism".

As for the coastal walks, they are as scenic as they come. Muddy trails snake along the coast, with "arable fields one side and either a calm, twinkling turquoise or cliff-bashing frothy theatre on the other". This is a coastal bolthole for any season. *From £1,400 a week, atlantatrevonebay.com*

Wine of the week: five beautiful barolos

2018 Barolo, Comune di Verduno, Fratelli Alessandria, Piedmont, Italy

(£262.07 for a case of six bottles, justerinis.com)

Matthew Jukes
Wine columnist

The Justerini & Brooks annual Piedmont tasting is one of the finest focused events in the wine calendar. This year there were many pre-released wines to enjoy, and I will be writing all of these wines up in my annual report, which I will publish in the summer. But a handful of wines are already available in the UK, and I have picked five beauties for you this week. My featured Barolo was the most delicious of the young estate offerings, and with expressive, generously fruity nebbiolo flavours, it is dangerously close to drinking, too. With a sub-£50 price tag, this beautifully perfumed, sensual red is the perfect Piedmont ambassador for this epic wine region.

If you would like to trade up in intensity and decadence, then 2017 Barolo Gramolere Fratelli Alessandria (£376.07 for a case of six bottles) impressed me greatly, and it is so well balanced that it is drinking already.

Three inexpensive wines rocked my boat, starting with 2021 Barbera d'Alba Paolo Scavino (£15.18). It is hard to believe that this elite red wine, made by a superstar winery, is only £15. 2020 Nebbiolo d'Alba Valmaggiore Marco Marengo (£21.18) proved that early-drinking, but stunningly detailed, nebbiolo is not a pipe dream either. Finally, the 2021 Dolcetto d'Alba Elio Altare (£15.67) is another ludicrously cheap bold red made by another legendary estate.

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

This week: properties with notable histories – from an 11th-century estate in Godalming once owned by th

▲ **Tuesley Manor, Godalming, Surrey.** A Grade II-listed 15th-century house on an 11th-century estate once owned by Ranulf Flambard, the first person to be imprisoned and escape from the Tower of London. It has oak beams and an inglenook fireplace. 9 beds, 7 baths, 3 receps, 2-bed cottage, 1-bed barn, 12 acres. £4.95m Knight Frank 01483-617916.

▶ **Blo Norton Hall, Diss, Norfolk.** A Grade II-listed Elizabethan house on a 72-acre estate once visited by Virginia Woolf, who wrote a short story inspired by her stay. The house has 16th-century panelling, open fireplaces and an oak staircase. 9 beds, 9 baths, 4 receps, dining hall, park, meadow, woodland, moat, tennis court. £2.6m Savills 01603-229229.

▶ **Martyrs Cottage, East Bilney, Norfolk.** This restored Grade II-listed 1480s house is thought to have been the birthplace of Thomas Bilney, one of the first English Protestant martyrs. It retains its original ceiling beams, carved staircases and magnificent fireplaces, and the gardens include a two-bedroom cottage, a pond and topiary hedges.3 beds, 2 baths, 2 receps, breakfast kitchen. £840,000. Fine & Country 01328-854190.

ne first escapee from the Tower of London, to a house in Norfolk that inspired a story by Virginia Woolf

Four Gables, Brampton, Cumbria. An updated Grade II-listed 1870s house commissioned by the Earl of Carlisle and built by Philip Webb, one of the founding fathers of the Arts & Crafts movement. It has period fireplaces and wood floors and comes with a five-bedroom barn conversion, a three-bedroom cottage and a one-bedroom cottage. 7 beds, 4 baths, 2 receps, music room, breakfast kitchen, outbuildings, 4.3 acres. £1.95m Finest Properties 01434-622234.

Warblington Castle, Havant, Hampshire. A mid-14th-century house once owned by Margaret Pole, who was executed by King Henry VIII in 1541. The gardens include the remains of the house and moat she built on the site. 7 beds, 5 baths, 2 receps, study, kitchen, swimming pool, 3.83 acres. £2.35m Strutt & Parker 01243-832610.

St. Pancras Chambers, London NW1. A penthouse apartment in St. Pancras, the iconic Grade I-listed Victorian Gothic masterpiece designed by George Gilbert Scott in 1873. The main reception room was once the water tower for the original hotel and retains its wooden beams, joists, and period fireplaces. 3 beds, 3 baths, open-plan recep, breakfast kitchen, study, staff accommodation, lift, 2 parking spaces. £9.95m Hamptons 020-3369 4378.

The Old Manse, Manse Brae, Lochgilphead, Argyll, Scotland. A Grade B-listed former manse designed by Thomas Telford, the engineer who created the Caledonian Canal. It is situated in secluded gardens close to the Crinan Canal and has open fireplaces with wood-burning stoves and a contemporary kitchen. 4 beds, 2 baths, 3 receps, sitting room, double garage, outbuildings, gardens, 0.75 acres. £450,000+ Dawsons 01631-563901.

East Appleton, Richmond, North Yorkshire. This restored 16th-century manor house was once home to King James I's court poet, Richard Braithwaite. It retains its original inglenook fireplace and has a bespoke kitchen with an Aga. The property has also been extended to include a breakfast room with French doors opening onto a patio. 6 beds, 4 baths, 3 receps, study, dining room, stables, outbuildings, garden, 2.3 acres. There are also 5.73 acres available by separate negotiation. £1.45m Savills 01904-617821.

Diamonds are in the pink

The market in rare gems is booming. Chris Carter reports

It's not only in the blossoming cherry trees that Hong Kong has come out in pink. Sotheby's this week exhibited The Eternal Pink diamond in the city to celebrate its 50th year in Asia. After 7 April, the gem will go on a tour of the region, Dubai and Geneva before arriving at its final destination in New York, for Sotheby's Magnificent Jewels auction on 8 June. The Eternal Pink is a 10.57-carat Fancy Vivid Purplish Pink diamond that was cut from a 23.78-carat rough unearthed by De Beers at the Damtshaa mine in Botswana four years ago. It has been fashioned into a rectangular "cushion cut" with rounded edges. Carat and cut are two of the four Cs of coloured diamond valuation. As for its clarity, the diamond is "internally flawless", but it is the fourth C that really impresses – its "electric 'bubblegum'" pink colour.

The rarest hue

Natural diamonds are, of course, rare, and coloured diamonds are much rarer still. Fewer than 3% of diamonds submitted to the Gemological Institute of America (GIA), a non-profit organisation, for grading are coloured. And among this sub-set, pink diamonds are among the rarest. But oddly, that's not all that makes them special. Nobody is quite sure how pink diamonds get their colour. Trace elements of nitrogen and boron give yellow and blue diamonds their respective hues. But not pink diamonds. The leading theory is that they derive their colour from the stone's formation deep within the earth, under immense heat and pressure. And The Eternal Pink is not just officially "purplish-pink", it is "fancy vivid", which in the GIA's colour scale, is among the deepest hues. "This colour is the most beautiful and concentrated shade of pink in diamonds that I have ever seen or has ever come to market," says Quig Bruning, head of jewellery for the Americas at Sotheby's.

Soaring values

That market is both shrinking and soaring in value, as Oscar Holland notes for CNN. The Argyle Mine in Australia had, for a long time, produced the most pink diamonds in the world. But after its closure in 2020, the average price of the coloured stones rose 30% in the 12 months before June 2021, according to an index compiled by brokerage Australian Diamond Portfolio. Little wonder, then, that Sotheby's has placed on The Eternal Pink the highest pre-sale estimate per carat of any diamond – just over $3.3m. That gives the gem a valuation of $35m. The current record highest price per carat was fetched by the 11.15-carat Williamson Pink Star last October, when it sold for $57.7m ($5.2m per carat). Whether The Eternal Pink heralds yet another raising of the price bar remains to be seen.

"The Eternal Pink diamond is valued at $35m"

"Very now with a wink to history"

Pink is also very much on display at Christie's in London. The auction house in alliance with designers Jane Schulak and David Stark has revamped its "The Collector" biannual series of online sales. From this week, the usual array of English and European furniture, artworks, ceramics, silver and gold boxes are presented in "dynamic settings of all periods" for the first time in London, New York and Paris. Bidding on the individual lots closes sequentially on 18, 19 and 20 April in those three cities. Arranging them in a visually striking display shines a "spotlight on historic objects that are a direct path from the 18th century to the 21st century, recontextualising them as surprisingly contemporary", say Schulak and Stark.

The designers have assigned a fluorescent colour to each city – pink for London, yellow for New York and a reddish-orange for Paris. "It works beautifully as a backdrop for all the objects in the sale irrespective of period and origin," say the designers. The highlight of the London display, for example, is a George II red and gilt-japanned secrétaire cabinet from around 1730, with an estimate of £60,000 to £90,000. It mingles in the dinner setting with a group of 20th-century Meissen porcelain birds (£10,000 to £15,000) over a Victorian silver table service (£2,500 to £3,500). "It was essential to establish a visual thread between the geographies… to seamlessly incorporate such a wide variety of objects that might not otherwise find themselves in the same room," they say.

The result is anything but stuffy, as the designers wanted to avoid "freezing these objects in 'period' rooms", as they explain. "The unexpected pops of blazing colour give a context that is very now with a respectful wink to history."

Auctions

Going… A pair of Rolex Daytona watches that belonged to Paul Newman, and found in a box on his desk by the late actor's daughter, are expected to sell above their $1m upper estimates with Sotheby's in June, says Jacob Gallagher in The Wall Street Journal. The first is an inscribed 1993 Rolex reference 16520 "Zenith" Daytona with a pearly white dial that had been awarded to Newman, a keen racing driver, in 1995 when his racing team won the 24 Hours of Daytona Race in Daytona Beach, Florida. Newman auctioned the watch in aid of his charity in 1999, when it sold for $39,000, and at some point, he or a family member bought it back. The other is an inscribed 2006 white-gold reference 116519 Daytona, one of three given to Newman by actress Joanne Woodward.

Gone… A painting of the Grim Reaper steering a fairground bumper car, called *Brace Yourself!* and created by the anonymous artist Banksy in 2010, has sold for just over $2m with Julien's Auctions in California. The sellers were a British band, who were called *Exit Through the Gift Shop*. When Banksy wanted to use the name for his documentary film, he agreed to create the painting for them in exchange for the band changing its name to avoid issues with copyright. The band, now called Brace Yourself!, performed at the sale of the painting, which had been valued at $600,000. Early last month, *Brace Yourself!* had been displayed in the window of the Hard Rock Cafe in Piccadilly Circus. A portion of the proceeds from the sale will go to the MusiCares charity.

©Christie's; Julien's Auctions; Sotheby's

Bridge by Andrew Robson

Sagacious subterfuge

West wisely tried an unexpected attack versus Three Notrumps – South seemed ready for a Spade – and led the three of Hearts. Plan the play.

Dealer South — North-South vulnerable

North
♠ Q4
♥ J42
♦ 54
♣ KJ9876

West
♠ J1087653
♥ K93
♦ AJ7
♣ –

East
♠ 2
♥ 10765
♦ K10932
♣ Q105

South
♠ AK9
♥ AQ8
♦ Q86
♣ A432

The bidding

South	West	North	East
1♣	3♠	pass	pass
3NT*	pass	pass	pass

* Trickless but cannot afford to go quietly with 19 "Miltons" (the high-card point system was originally invented by one Milton Work).

At Table One, after playing a low Heart from dummy, declarer beat East's ten with the Queen and laid down to Ace of Clubs, naturally disappointed to observe West discard (a low Spade). He led a second Club to the Knave and East's Queen. East correctly judged that the only hope for the defence lay in Diamonds, switched to the ten of the suit. Declarer elected to withhold the Queen (it didn't matter) and when East led a second Diamond, declarer again played low. West rose to the occasion, correctly winning the Ace (to avoid blockage), returned the Knave and East won the King and cashed two long cards. Two down.

At Table Two, after ♥3, ♥2, ♥10, declarer found the delightful ruse of winning with the Ace (key play). When he inevitably lost a Club to East, East now thought there was a future in Hearts and returned the five. West won the King and was certain from trick one that East held the Queen. He duly returned a third Heart. A grateful declarer won his Queen and cashed his black-suit winners. Game made plus one – a lovely subterfuge I am sure you will agree.

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

Sudoku 1151

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

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

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

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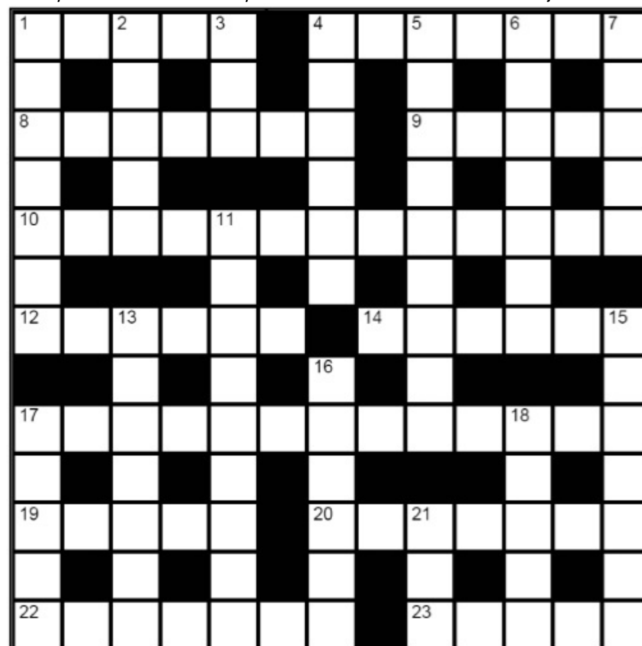
Tim Moorey's Quick Crossword No. 1151

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 17 April 2023. By post: send to MoneyWeek's Quick Crossword No.1151, 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.1151 in the subject field.

TAYLOR'S PORT



Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 Sailing vessel not the first in draw (5)
4 Most daring veteran in prime (7)
8 Eastern fighting is serious (7)
9 Complete idiot losing his head (5)
10 Do not get redundant Miss upset (13)
12 Nice lady comes from a blockage in M East (6)
14 New stakes for French city (6)
17 Footballer keeping order for RAF officer (4, 9)
19 Eat a large amount of Cheddar? (5)
20 Essentially girl is into painting (2, 5)
22 Difficult task for son with gypsy (7)
23 Back of supermarket spots rhubarb (5)

DOWN

1 Stay silent (4, 3)
2 Limited periods of time (5)
3 Gardening implement (3)
4 Swimmer (6)
5 State of the southern US (9)
6 Person taking part in something (7)
7 Weary (5)
11 Specific mention of somebody, eg on radio (9)
13 Ancient Roman silver coins (7)
15 Cancel (7)
16 Damage (6)
17 Earnings (5)
18 Theatrical entertainment (5)
21 Sombrero, eg (3)

Name ....

Address ....

....

email ....

Solutions to 1149

Across 1 Strolls *St + Rolls* **5** Aspen *a s pen* **8** Impending *I MP ending* **9** Ras *r as* **10** Rumba *rum b a* **12** Foresee *hidden* **13** No trespassing *on reversed + tres passing* **15** Artiste *hidden* **17** Regal *reversal* **19** Ego *eg o* **20** Ballerina *anag* **22** Taser *resat reversed* **23** Pungent *pun + gent*

Down 1 Skier **2** Rip **3** Linkage **4** Stiff upper lip **5** Anger **6** Perishing **7** Nest egg **11** Mutations **13** Nearest **14** Surgeon **16** Sober **18** Leapt **21** Ire.

The winner of MoneyWeek Quick Crossword No.1149 is: Fiona Bellas of North Yorkshire

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

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

What to do as banks falter

A simple rule will serve you well – "sell the bounce"

Jerome Powell: "How did this happen?"

©Getty Images

Bill Bonner
Columnist

"How did this happen?" That was the US Federal Reserve's reaction to the collapse of Silicon Valley Bank, according to the central bank's chief, Jerome Powell. Let us answer the question for him.

To make a very long story very short, a single investment rule would have served you very well from 1982 to 2022. Wall Street pros expressed it crudely: BTFD (buy the f***ing dip). They knew that, whatever happened, the Fed had their backs. What simple rule works today? STFB (sell the f***ing bounce).

For decades, stocks rose as interest rates fell. Then, starting in the late 1980s, the Fed made low rates a matter of policy. Stocks continued to rise. Investors learned to BTFD. By 2009, the Fed was lending money below the rate of consumer price inflation. By this stage, stock analysis no longer mattered. Crazy investments, with no hope of earning money, soared. "Don't worry about it," said the pros. "BTFD."

Meanwhile, since 1974, the federal government ran in the red (with the exception of a few years during the Clinton administration). In 2020 it went completely nuts and handed out trillions of dollars in "stimulus". In 2021, Joe Biden added another $1.7trn in his Inflation Reduction Act. The Fed's balance sheet – roughly measuring the amount of money and credit at large – rose ten times from 2000 to 2022.

The result was higher consumer prices, which the Fed began to "fight" with small increases to its key lending rate. But after more than 12 months of increases, the Fed Funds Rate is still trailing consumer price increases by 100 basis points (1%). Ultra-low interest rates, for an ultra-long time, led to today's $90trn debt and today's wobbly banks. Now, as interest rates rise, that debt

> *"Our debt is like a conscience haunted by an old sin"*

burden – like a conscience haunted by an old sin – becomes intolerable. Households can't pay their mortgages. Businesses can't refinance their bonds. And banks find that their long-term assets (such as Treasury bonds) are worth less than their short-term obligations to depositors. And there the Fed faces the stark choice. It's "inflate or die".

What does this mean for stocks? In the near term, it's hard to say. Stocks often go up as investors look for alternatives to fixed-income bonds. Sometimes they go down, as consumers' real incomes fall, along with business profits. But over time, bad money weakens trust in public institutions, in banks, in the currency, in the future – and the whole economy suffers. Almost everyone gets poorer. Some businesses – those that offer real goods and services at good prices, with decent profit margins – continue to offer decent earnings. Others fail. What can you do? STFB.

● Our drought-stricken ranch in Argentina has recently been drenched in rain. The rivers are high. The grass is greener than ever. We are told that this is due to global warming. Here on the farm, we hang our heads.

We have no doubt that we contribute more than our share to the world's carbon emissions. Our electricity comes from solar panels and our irrigation system works on gravity, but you can't run a farm without tractors, all of which run on diesel.

Yet despite the armageddon we are told is ahead, selfish people still want to eat beef. They want to drive cars. And turn on the air-con when it gets hot. Whether this brings the end of the world or not, who knows? But with our pastures flush with green grass, our cattle fat, and water running abundantly, all we know for sure is that, if this is the climate change we've heard about, so far, it is going our way.

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