MARKETS *P4*
Japan's stocks are blooming

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No need for more maths whizzes

PLUS
The architect of Thatcherism
PROFILE *P35*

MoneyWeek

MAKE IT, KEEP IT, SPEND IT

21 APRIL 2023 | ISSUE 1152

The dash for gas

A fossil fuel with a future

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MoneyWeek

21 April 2023 | Issue 1152

Britain's best-selling financial magazine

From the editor...

"Nobody knows anything." Always remember screenwriter William Goldman's famous dictum when confronted with economic and market forecasts, especially if they have been as consistent as a weathervane. Following the banking turmoil, the fashionable view of the global economy's prospects seems to have shifted to a "hard-landing" recession. This scenario has eclipsed "a fashionable opinion just weeks ago" that the world would shrug off higher interest rates entirely, says The Economist. In January analysts were expecting a mild recession.

There are always excuses, of course. Forecasting has become especially difficult of late; wild swings in growth and a sharp fall in the number of people responding to economic surveys during Covid have muddied the waters. GDP revisions in the single-currency area are four times larger than normal. On the subject of revisions, it has always intrigued me that the preliminary official estimates of GDP growth tend subsequently to be nudged downwards in the US, but upwards in Europe – a sign perhaps of the can-do optimism inherent in the US economy.

Covid triggered a fall in the number of people responding to economic surveys

©Getty Images

"It appears the majority of Britons don't understand what inflation does to money"

A slow-motion brake pedal

Then there are the usual lags in the economic impact of monetary tightening, estimates of which have also always been within a fairly wide range. "Imagine driving a car that has a ten-second delay after you step on the brake pedal before the brakes actually do anything," says John Mauldin in his Thoughts From The Frontline newsletter. "There would be more than a few wrecks." But that is what central banks have to do.

Given this backdrop, it's no surprise that the International Monetary Fund's (IMF) forecast that Britain will be the worst performer in the G7 this year was widely dismissed; the organisation is notorious for missing the 2008 crisis (along with everyone else) and underestimating growth after the Brexit vote. Its forecast of long-term real interest rates returning to pre-Covid levels also incurred criticism this week, as it implies that the economy will continue to struggle over the next few years. The IMF's long-term outlook may prove superior to its short-term ones, says economist Julian Jessop, but "better policy choices that boost productivity and growth" can prevent its scenario unfolding.

The IMF's prediction on real-interest rates, however, is a reminder to focus on the big picture and trends, not the short-term, one- or two-year noise. And the big picture hasn't changed. Whatever the global economy does in the next year or two, historical precedent and stubborn core inflation (see page 12) in the developed world point to price rises being stickier than widely expected – a dearth of workers and the retreat from globalisation presage the same. The structural stagflation scenario we have been warning about for some time remains likely.

Do people realise what that could do to their money? Perhaps not. A survey by Aviva suggests that only 37% of Britons understand compound interest on savings, and just 44% grasp the impact of inflation. In other words, 66% don't realise that with inflation at 10%, the real value of the money in their savings account would halve in 7.2 years. If they did, we would also hear a lot more about stocks and inflation: the total return of the S&P 500 in the stagflationary 1968-1982 period was -27%, notes Deutsche Bank. Bring on Rishi Sunak's maths lessons (see page 16). Nobody knows anything.

Andrew Van Sickle
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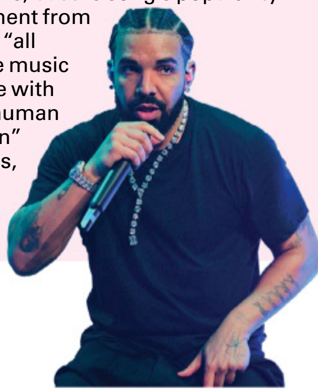
Controversy of the week

Heart On My Sleeve, a new song that went viral online last weekend, has been pulled from multiple music-streaming platforms, including Apple Music and Spotify, at the request of Universal Music Group (see page 20), says Nichola Rutherford on BBC News. The publisher is claiming copyright infringement after the song's anonymous creator, known as Ghostwriter, used artificial intelligence (AI) software to closely mimic the voices of rappers Drake (pictured) and The Weeknd (both of whom are on Universal's roster of artists), singing about the pop star and actress Selena Gomez. It was streamed 629,439 times before it was taken off Spotify – worth $1,888 at the platform's lowest royalty rate of $0.003 per stream. AI has been used in music before, but the song's popularity prompted a statement from Universal. It asked "all stakeholders in the music ecosystem" to side with "artists, fans and human creative expression" against "deep fakes, fraud and denying artists their due compensation".



Cover illustration: Howard McWilliam. Photos: Getty Images

Good week for:

The Super Mario Bros. Movie (pictured), an animated adaptation of the signature video game by **Nintendo**, has become the most successful film at the box office so far this year, rewarding the game maker's recent efforts to sell its characters across other forms of media, says Nikkei Asia. It has grossed $677.9m worldwide since its release on 5 April, thanks in part to the long Easter weekend.

Warner Bros. Discovery plans to make a big-budget, decade-long television series based on the Harry Potter books by **JK Rowling**, who will be an executive producer on the latest adaptation. The author reportedly makes up to $100m a year in royalties from the books, West End shows, theme parks, video games (including this year's *Hogwarts Legacy*) and the eight films that have collectively made $7bn at the global box office.

Bad week for:

Conservative US commentators and politicians, including Florida's Republican governor Ron DeSantis, are leading a boycott of **Bud Light** after the beer brand featured Dylan Mulvaney, a transgender social media influencer with ten million followers, in a promotion. Bud Light has also been criticised for failing to stand by Mulvaney when the CEO of brewer Anheuser-Busch, Brendan Whitworth, appeared to issue a "bizarrely convoluted" apology.

The Venice Simplon-Orient-Express will no longer depart from London Victoria from 2024 owing to Brexit-induced delays at the border, its operator Belmond has said. Passengers will instead have to take a Eurostar train across the Channel to Calais, where they will pick up the European train, says The Observer. A compartment in a vintage 1929 carriage cost from £3,530 to £10,100 per person.

©Alamy; Getty Images

Global investors rediscover Japan

Alex Rankine
Markets editor

New Bank of Japan (BoJ) governor Kazuo Ueda has "the worst job in international finance", says William Pesek in the Asia Times. Over the past decade his predecessor, Haruhiko Kuroda, who stepped down this month, has embarked on money printing on a vast scale, turning the BoJ into what amounts to "the world's biggest hedge fund", with a 52% share of Japan's government bond market as well as a chunk of domestic stocks.

Kuroda instituted a policy of yield curve control (YCC), which sees the BoJ guide short-term rates to -0.1% and implicitly cap the ten-year Japanese government bond yield at 0.5% (buying bonds via open-ended money printing), says Leika Kihara for Reuters. Japan has been the last big holdout for ultra-easy money even as other central banks have tightened policy in the past year. Yet with domestic inflation sneaking above target and the yen plunging, "markets are rife with speculation that Ueda will move towards tweaking YCC this year".

A new wave of foreign investors may soon reach Japan; Warren Buffett has been buying

©Alamy

Beware a massive funding crunch

That could trigger the next big shock to global markets, say Ruth Carson, Masaki Kondo and Michael Mackenzie on Bloomberg. Japan's decade of ultra-low rates have "sent a wall of money overseas" in search of better returns. "Japanese investors became the biggest holders of Treasuries outside the US." They also own "about 10% of Australian debt and Dutch bonds" and 1%-2% "of the stockmarkets in the US, Netherlands, Singapore and the UK". Overall, this "mountain of offshore investments" is "worth more than two-thirds [of] Japan's economy". A rise in domestic rates could encourage Japanese asset managers, already stung by last year's global bond rout, to repatriate funds, triggering a massive funding crunch across global bond markets. Still, Ueda has less scope to raise rates than most investors realise, says Martin Wolf in the Financial Times. With too many goods and too little consumer demand, the country is almost uniquely prone to deflation, which puts a lid on how high interest rates can rise.

Foreign investors, meanwhile, are rediscovering the market, says Jacky Wong in The Wall Street Journal. "Many companies are sitting on net cash" and better corporate governance and shareholder activism is gradually encouraging more generous dividends. Many Japanese stocks trade below book value, a sign of value, while the Topix "index trades at 13.3 times expected earnings, slightly below its ten-year average of 14.8 times".

Major Western investors have begun to move back into Japan, says Mitsuru Obe in Nikkei Asia. US hedge fund Citadel reopened its Tokyo office last month after a decade of absence. Warren Buffett visited Japan this month and gave it his stamp of approval. His Berkshire Hathaway company has built up 7.4% stakes in five big local trading houses, a way to gain broad exposure to the local market.

Japan is one of the last markets where investors can still borrow at low rates and then buy up assets that look cheap compared to other big markets. For now, the move is more a trickle than a stampede, says Joseph Kraft of Rorschach Advisory. But Berkshire and Citadel may be "early indicators" that a new wave of foreign interest in Japanese equities is at hand.

Chinese shoppers boost European stocks

"Boosted by the good results of the luxury sector, the Paris Bourse hit a new high every day" last week, says Sophie Rolland in Les Echos. Luxury conglomerates Kering, Hermès, L'Oréal and Louis Vuitton owner-LVMH jointly account for almost one-quarter of the CAC 40's total market capitalisation. The index has gained 14% this year.

"In a world coping with inflation, war and bank runs, it seems counterintuitive that demand for luxury is still running hot," says Carol Ryan in The Wall Street Journal. European luxury stocks have gained 23% this year.

Meanwhile, Hermès saw its revenue grow by an annual 23% in the first quarter. The boom reflects strong demand as Chinese reopening triggers a shopping frenzy. The ultra-wealthy are spending more than ever: "A wealthy shopper who shelled out around €50,000 in designer shops in 2019" would typically have "spent €135,000 in 2022", according to investment research group Bernstein.

Luxury-goods stocks such as Louis Vuitton-owner LVMH comprise 25% of France's CAC 40 index

©Getty Images

China-exposed sectors in the developed world such as luxury, commodities and semiconductors have outperformed the broader market over the past five years, says The Economist. "If you look at valuations in rich-world stockmarkets, you would never know relations between China and the West are at a 50-year low." That is a reminder for investors that "foreign companies with Chinese exposure are still a much better way to benefit from Chinese economic growth than the domestic stockmarket", which has long disappointed.

Yet the market's refusal to apply any sort of geopolitical discount to China-exposed shares might still prove naive. "One of the two views – the increasingly bleak outlook of diplomats, or investors' sanguine approach – will prove to be wildly wrong."

The source of the next crisis?

Which will be the next financial landmine to "go bang", asks Oliver Shah in The Sunday Times. Commercial property is a good bet. The sector's 3% prospective returns looked appealing at a time when "money was pretty much free". Yet "when the all-in cost of money suddenly spikes to about 8%, the bet can sour very quickly". Investors had been worrying for years about the "bloodbath" in retail. Now the trend towards working from home is putting offices in peril too. Prices have fallen by about a fifth from their apex "across various property subsectors".

In the US, commercial-mortgage-backed securities (CMBSs) have "dropped to levels not seen since the early days of the pandemic", says Sam Goldfarb in The Wall Street Journal. The rout could spell more trouble for banks, which hold "46% of all commercial real-estate debt". Small US regional banks look especially exposed. Delinquencies "have been rising fairly steadily" in the office sector amid "soaring" vacancy rates in many US cities.

The received wisdom has become that Covid "has landed commercial property a mortal blow", says Stuart Kirk in the Financial Times. "In the UK, only about 30% of offices are occupied – half pre-Covid levels." Yet the trouble may now be priced in: "The big US real-estate trusts have already lost anywhere between a quarter and half of their value." Risk-tolerant bargain hunters might begin to spy opportunity.

The credit crunch returns

A US credit crunch appears to be underway, says Michael Wilson of Morgan Stanley. Last month's banking crisis was expected to cause a tightening in lending conditions. Now the first signs of a squeeze are emerging. US Federal Reserve data shows that commercial bank lending fell by nearly $105bn in the two weeks to 29 March, the biggest drop in data going back to 1973. "Almost $1trn in deposits have left the banking system" since the Fed began raising interest rates last year. That is forcing banks to "sell mortgages and Treasuries at a record pace to offset deposit flight" while tightening lending standards.

Banks were loath to lend even before SVB's collapse

©Shutterstock

"Banks were reluctant to lend even" before the collapse of Silicon Valley Bank (SVB) precipitated last month's crisis, says The Economist. As Mike Scott of asset manager Man Group notes, "lending standards had tightened to levels that, in previous business cycles, preceded recessions". Now the lending screws are being tightened further. Investors are "shunning bank shares". Yet the broader market has shrugged off the trouble, says Katie Martin in the Financial Times. America's S&P 500 index has gained 7% since regulators took over SVB on 10 March.

Have rates peaked?

Some are still nervous: the 2008 crisis was "a tragedy in several acts" that took months to unfold. But most on Wall Street have concluded that "the string of bank failures has passed without morphing into something uglier". If anything, the trouble has helped shares by slashing expectations for how high US interest rates will go before peaking. Two-year US government bond yields, a proxy for rate expectations, have dropped by a percentage point since March.

Those inclined to a glass-half-full view will note that last month's demise of Credit Suisse, a globally systemic bank, ultimately caused little "more than a temporary wobble in financial markets", says a note from Capital Economics. The "much-ballyhooed" post-2008 reforms to the banking sector "have indeed made the core of the global financial system more robust". But some banks are clearly struggling to adapt to higher interest rates after a long period of ultra-loose money: "Further casualties are likely over the coming months."

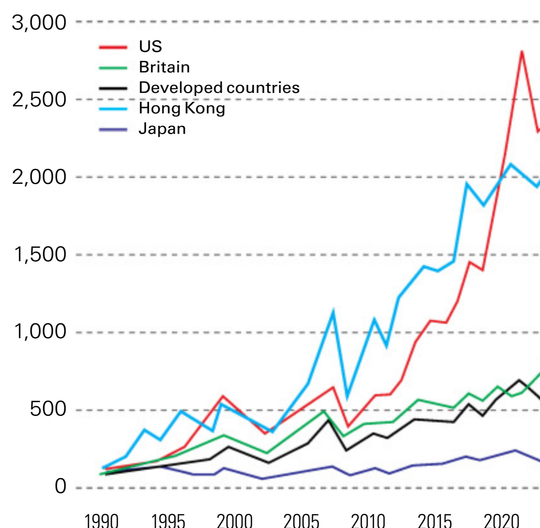
The turmoil at US regional banks and Credit Suisse may appear to have been "idiosyncratic" problems, says Neil Shearing, also of Capital Economics. Yet "a common thread" is that "management failures" only came to light once the easy-money tap was turned off. A "full account" of last month's crisis may "take years" to emerge, but a key early takeaway is that "panic and fear" spread much more quickly in the digital age. "The collapse of SVB… the second-largest bank failure in US history, took place in just 36 hours… regulators and policymakers have some catching-up to do."

Viewpoint

"Corporate greedflation in this economic cycle is astonishing. The latest [US] profits data delivered another shock to my weakening confidence [in] the capitalist system… corporates in developed economies (especially the US) have used the excuse of rising raw material costs to push prices up well beyond cost pressures, to expand profit margins to unprecedented levels. Companies have used first the pandemic and then the war in Ukraine to 'profiteer'. [Rising profit margins are historically unusual in a weakening economy.] At a time when social cohesion is already fraying… companies generating super-normal profit margins in a crisis can only inflame social unrest… [If this continues then policymakers will step in. Financiers are not] sympathetic to the use of price controls and windfall taxes [yet] something seems to have broken with capitalism."

Albert Edwards, Société Générale

■ American equities have outstripped global rivals



Over the last three decades Americans have been "getting more productive more quickly than workers in other rich countries", says The Economist. A major factor is US corporate management culture, which is more competitive and profit-driven than elsewhere. One recent study concluded that America Inc's high-quality management explains "as much as half of the productivity lead that it has over other developed countries". That has translated into superior stockmarket performance. $100 invested in the S&P 500 index in 1990 would have grown to $2,300 today. By contrast, the same amount invested in a tracker of developed markets excluding America would today be worth "just about $510".

THG is a tasty morsel

Business is going from bad to worse at the e-commerce group. Will it be taken over by a private-equity firm? Matthew Partridge reports

Online retailer THG – formerly known as The Hut Group – "has joined a string of mid-sized British companies at risk of being swallowed by private equity", says Jasper Jolly in The Guardian. The shares have rocketed by 45% following a takeover approach from America's Apollo Global Management – even though THG admitted that it was a "highly preliminary and non-binding indicative proposal", and that there was "no guarantee a firm offer would be made".

THG, which floated on the London Stock Exchange in late 2020, has seen its value slump by 90% from its initial public offering price. Given its disastrous performance to date, it's not surprising that investors are rejoicing at the prospect of a private equity firm swooping in and putting everyone "out of their misery", says Alistair Osborne in The Times. Still, investors shouldn't get too excited. For one thing, THG hasn't revealed many details about the indications of interest, which don't seem to have come with anything "as vulgar as a price attached". And remember that this time last year, THG "lobbed in totally unprompted, other bid proposals, none of which went anywhere". It's also telling that the news came just before the company released its results.

THG would later surrender some of the gains from Monday's news, falling by 18%, after it revealed a disappointing performance last year and a slow start to this one, says Katie Linsell on Bloomberg. Not only did adjusted earnings more than halve in 2022 compared with the prior year, but sales also turned negative in the first three months of the current year. THG now expects "low to mid single-digit revenue growth this year" compared with the "double-digit revenue uplifts" of previous years.

Eye-popping discount

Nonetheless, it's not impossible that funds could be interested in THG, says Lex in the Financial Times. Its "straitened circumstances", including "four profit warnings in the space of a year", don't detract from the fact that the group "trades at an eye-popping discount to the sum of its parts". Broker Liberium believes that even if you apply an "undemanding" valuation of one times forward sales, THG's "highly rated skincare brands and well-trodden online platforms" might alone be worth £1.4bn. Health brands such as Myprotein and Myvegan may be worth another £1.8bn. Add in another £500m for its e-commerce technology and the enterprise value would jump to £3.7bn, double Monday's figure.

There has certainly been a lot of private-equity interest in listed British companies lately, says Alex Brummer in the Daily Mail. Apollo is in the process of buying John Wood Group, too. There are also "plenty more bids on the table" from other firms, with Network International "close to accepting an offer by Francisco Partners and CVC"; events company Hyve has "agreed a deal with Providence Equity Partners, another US firm". With 14 offers by private equity firm for UK companies, it very much looks like "Britain is being sold on the cheap".

The health brands could be worth £1.8bn

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De La Rue in deep distress

Kevin Loosemore, the chairman of banknote printer De La Rue, has quit "after months of... criticism of the company's leadership by one of its largest shareholders", say Joanna Partridge and Alex Lawson in The Guardian. De La Rue has produced three profit warnings and seen its stock slide by 62% in the past year. Activist investor Crystal Amber Fund had tried to force Loosemore out on two previous occasions.

De La Rue's management is blaming the company's predicament on the fact that "demand for banknotes around the world is at its lowest level in 20 years", says Noor Nanji on the BBC. Part of this is due to the fact that during Covid many central banks "stepped up orders for bank notes during Covid as they always did in economic crises", which means that "they were now delaying new orders as they ran through their stock".

The hope is that things will pick up in nine to 12 months. But De La Rue also admits the firm has been hit by the fact that people's use of cash is on the slide in many nations, as online and contactless transactions have become more popular.

De La Rue's management may claim that at least some of its problems are due to factors outside its control, such as "the post-Covid banknote market" says Alistair Osborne in the Times. But then why has the firm hitherto insisted on making forecasts that many experts considered clearly "not achievable"? The fact that De La Rue is now in negotiations with lenders over "an amendment to its banking covenants", while also asking the pension trustees to defer "£18.75m of deficit repair contributions", does not suggest that it is "a well-run group".

© Bank of England

Glencore feels the urge to merge

Glencore's bid for rival miner Teck Resources "has come under renewed pressure", says Helen Cahill in The Times. Legal & General has decided to "vote for Teck's pre-existing plan to spin off its coal assets rather than lend support for a $23bn merger of Glencore with its Canadian competitor. Next week Teck shareholders will vote on the board's bid for a demerger of its coal assets into a new company called Elk Valley Resources.

Glencore, by contrast, wants to merge the two firms – creating "the third-largest copper miner in the world" – and spin off the combined coal assets. There would also be a separate firm made up of Glencore's thermal coal business and metallurgical coal assets run by Teck. The Canadian miner deems this plan to be "opportunistic and unrealistic".

Glencore argues that combining the two companies would produce a UK-listed "red-metal giant poised to take advantage of a green commodities supercycle", as well as another company, listed in America, that would "shovel all cash it generates to shareholders as the world weans itself off the black stuff", says The Economist.

However, Teck says such a move "would expose Teck's shareholders to Glencore's thermal-coal business, which may command less enthusiasm from investors than coking coal for steel mills". While it is possible that Teck "could be forced to the negotiating table" with Glencore if its own restructuring plan fails to win enough support, many of Teck's key investors will be a "hard sell".

Even if Glencore doesn't pull off the merger, it can still follow the advice of its activist investors by spinning out its own coal assets, says Megha Mandavia in The Wall Street Journal. While Glencore has said it will "gradually run down its coal mines ... before 2050", getting rid of them now would help it "focus... on green transition-friendly metals like copper, nickel and zinc". It would also help attract environmental and social-governance (ESG)-focused investors leery of Glencore's dependence on coal profits".

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

Six to buy

Empiric Student Property
Shares
While the wider property market wobbles, student accommodation remains one area with positive dynamics. Empiric's shares trade on a 19.3% discount to 2023 forecast net asset value (NAV), much cheaper than the 3.1% premium at peer Unite. Empiric has a patchier record than its bigger rival but its move towards "clustering" – developing new accommodation near existing sites to harness economies of scale from building management and other services – shows promise. The group is also moving into the untapped postgraduate market. *91p*

Ferguson
Barron's
America's biggest distributor of plumbing and HVAC (heating, ventilation and air-conditioning) kit moved its primary listing from London to New York as it refocused on its North American business. On a modest 14 times forecast 2023 earnings the shares still trade at a UK-style discount to US peers, but that gap could close. The firm's size may see it eventually join the S&P, which would trigger huge automatic investment inflows from tracker funds. Add in ample scope for consolidation in the sector and don't let anyone tell you that "leaky faucets and malfunctioning air conditioners can't be exciting". *$126*

Intelligent Ultrasound
The Mail on Sunday
This Cardiff University spin-off works on technology that makes medical scanning faster and safer. The company has developed products that use artificial intelligence (AI) to help clinicians carry out obstetric and local-anaesthetic procedures. The firm's technology has already "been snapped up by dozens of hospitals" as well as US giant GE Healthcare. The firm is a "minnow" for now and still loss-making but it should make money "over the next two years". This is a chance to get on board early. *7p*

Intertek
The Telegraph
Performance at this assurance, inspection, product testing and certification business is closely linked to the performance of the global economy. The shares have thus disappointed ever since the arrival of the pandemic, but the firm has stayed "highly profitable" and, over the past five years, has averaged an impressive 31% return on equity. The reopening of China, the source of 19% of total revenues, should provide a welcome fillip in the year ahead. On a price/earnings (p/e) ratio of 19.2 the shares aren't cheap, but "upbeat growth prospects and sound fundamentals mean it is worthy of its premium valuation". *4,044p*

Lam Research
Investors' Chronicle
This US wafer-fabrication specialist is one of the firms whose complex inputs help produce the computer chips that go into smartphones and computers. Demand for electronics is sagging amid a post-pandemic slump, but on a forward p/e of 17 the shares trade on a big discount to the sector. That partly reflects greater exposure to cyclical demand for memory chips. Still, Lam remains "highly profitable" and billions in US subsidies will more than offset the loss of China's market amid geopolitical wrangling. A cheap chip recovery play. *$507*

Young & Co's Brewery
The Sunday Times
This upmarket chain of 223 managed pubs has withstood Covid-19, inflation and the cost-of-living squeeze better than most. Like-for-like sales rose by almost 25% in the six months to 26 September, while pre-tax profit climbed by 15%, an impressive performance given the meltdown elsewhere in the sector. A strong balance sheet is even allowing the firm to snap up a few pubs on the cheap. The share price is well below its pre-pandemic level of £16, but the coronation and Rugby World Cup should be good for business, so drink up the shares. *1,160p*

...and the rest

The Mail on Sunday
Shares in Texas-based "predictive analytics" business **Spectral MD** have leapt on news that it will delist from Aim and move to the US Nasdaq as part of a "complex takeover deal". The firm's DeepView tool offers hospitals a "sophisticated" means to determine "whether wounds will heal on their own or require specialist help". Perplexity about the details of the deal have left the shares on a substantial discount to the offer price. Existing shareholders "should sit tight and await developments" *(44p)*.

Shares
Laboratory landlord **Life Science Reit** offers investors exposure to the niche but world-leading British life-sciences scene. On a 33% discount to the most recent available net asset value (NAV) and yielding a prospective 6.5% the shares are still a buy *(62p)*.

The Telegraph
FTSE 100 packaging company **Smurfit Kappa** offers a "potent mix of capital growth and income potential". Its 100% renewable product lines are an advantage in a time of growing environmental awareness. Packaging is "not the most riveting" way to invest your money, but "interesting companies do not necessarily make for sound investments". Buy *(2,952p)*.

The Times
Polymer maker **Victrex** has had a tough few years. The firm makes Peek, a "strong, light and resilient plastic material used in cars... medical implants, mobile phones [and] industrial machinery". The material taps into "mega-trends" such as fuel-efficiency and population ageing, but rival materials do exist. Nevertheless, the shares are "worth a punt" at this level *(1,556p)*.

A German view

Orange, formerly France Télécom, is getting leaner and meaner, says WirtschaftsWoche. It has embarked on a revamp, shedding peripheral divisions such as its bank and television service OCS in order to refocus on its core telecoms business. This is in solid shape, with the number of mobile customers climbing at an annual pace of 5%. Growth is especially brisk in Africa and the Middle East, where demand for mobile-based money transfers and financial services, a key focus for the telecoms giant, is on the rise. Orange is bolstering its presence in Senegal and Mali. The annual payout, meanwhile, is set to rise by another 4% this year. The stock's trailing yield is just over 6%.

IPO watch

"Hong Kong could use a shot of something," says Breakingviews. Enter ZJLD Group, a maker of the white spirit known as baijiu, which comprises 66% of China's alcoholic-drinks market. It is set to start trading next week. At the top of the marketed price range the initial public offering (IPO) would raise $812m, making it Hong Kong's biggest listing this year. In that case ZJLD would be worth $5.4bn. The hope is that the flotation will "invigorate valuations in a city dragged down by a global technology rout". It may start a trend: on the mainland the state is directing funding to strategic sectors such as semiconductors, so more consumer companies may now head to Hong Kong.

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The SNP: in a hole without a ladder

Scotland's ruling party is mired in scandal. Will the opposition seize their chance? Emily Hohler reports

When Nicola Sturgeon resigned as Scotland's first minister in February, it would have been "hard to imagine" the "mess" the Scottish National Party would be in mere weeks later, says the Financial Times. Her husband, Peter Murrell, the SNP's former chief executive, was arrested earlier this month as part of a long-running police investigation into more than £600,000 worth of donations that have gone "missing" from the party coffers.

Even as her successor, Humza Yousaf, sought to "seize the narrative" on Tuesday by presenting his governing agenda (see page 14), the SNP treasurer Colin Beattie was taken in for questioning. Speaking to BBC Radio 4 in her first interview since losing the leadership contest to Yousaf, Kate Forbes described this as a "critical moment" for the SNP, warning that Yousaf needs to take "decisive action". Sturgeon is currently keeping a low profile, but there are concerns that she may be the next person to be arrested; Yousaf, reports the BBC, has dismissed calls for the suspension of Sturgeon, Murrell (who was later released) and Beattie from the party while the investigation is ongoing.

The SNP is in the "deepest of holes" and Yousaf seems to "lack anything resembling a ladder", says Chris Deerin in The New Statesman. Still, his "grandly named" policy prospectus – 'New leadership, a fresh start for Scotland' – was "nothing if not brazen". After 16 years of "anaemic, risk-averse SNP government and months of nationalist disarray", he blamed all of Scotland's ills on the UK government's "economic mismanagement", a "hard Brexit", a "disastrous… mini-Budget" and Scotland's "lack of borrowing powers". His audience was "driven to imagine how great things would be if Yousaf and his colleagues had been free to impose their full will on a Scotland entirely liberated from London's yoke. After all, look at the wonders they've achieved with the powers they already have."

Sturgeon and Murrell: sailing into a storm

©Alamy

Bidding for the left vote

"Despite touting himself as the continuity candidate… his statement of intent did feel like a fresh start," says Kenny Farquharson in The Times. In his speech, Yousaf announced "delays, resets and rethinks" on Sturgeon policies: the bottle deposit-return scheme, restrictions on alcohol advertising, the national care service. As for steering a new course, his compass is "pointing very much to the left" with tax rises for wealthier Scots and more redistributive policies. There is a practical reason for this: "survival". A "resurgent" Scottish Labour party could take up to 20 seats from the SNP at the next general election. "In the fight for the votes of socialist Scots, the SNP cannot afford to be outbid on the left."

Before attempting to show that his party can "provide capable government", Yousaf needs to "reform his party and provide a proper accounting" (which will be complicated by the legal probe), says the Financial Times. The problem is that distancing himself from the SNP establishment "from which he sprang" and showing a "political savvy he has not hitherto evinced" will not be easy, particularly for someone with a "lacklustre" record who was supported by "little over half of party voters in a divisive poll". None of this should be cause for celebration in London. Support for the SNP appears to have sagged more than support for independence and, with young Scots tending to see themselves more as Scottish than British, "the sovereignty cause has demographics on its side". Current events provide an opportunity for Conservatives and Labour to regain Scottish seats and a chance to "remake the case for why Scotland is better off within the UK".

Sunak preaches "Holy Scripture"

©Getty Images

Unfinished business in Northern Ireland

A gala dinner in Belfast on Wednesday hosted by Rishi Sunak marked the culmination of a "mammoth series of events" marking the 25th anniversary of the Good Friday Agreement, says the BBC.

In a speech to close a three-day conference at Queen's University earlier in the day, Sunak hailed the deal as "one of the most extraordinary achievements of our lifetimes". Although there was no "explicit mention" of Stormont or the Democratic Unionist Party, the prime minister's words about fulfilling the "true promise" of the agreement will be seen as an echo of the government's "call for power-sharing to be re-established", says Amy Gibbons in The Telegraph.

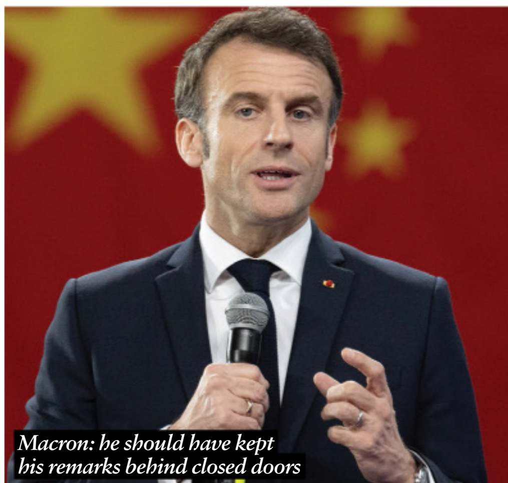
The agreement, may be "revered as Holy Scripture", says Daniel Hannan on Conservative Home, but let's "not pretend" that it was the "best we could have done". Although Northern Ireland is unarguably "incomparably happier" than it was during the Troubles, it "does not follow that it was the only, or the best, mechanism for government". It has been tweaked over the years, but we are still "left with the spectacle of two big parties propping each other up, like exhausted boxers in a clinch, each supposedly pummelling the other, but both quietly content with a system that keeps the perks flowing".

We should take the week's "carnival of triumphalism" with several spoons of salt, agrees Paul Goodman on the same site. The deal isn't necessarily a model for defeating terror elsewhere, it hasn't normalised politics (the "mechanics remain those of forced coalition, the politics that of tribal sectarianism") and the executive hasn't sat in recent years, "leaving a democratic deficit". However, post-Brexit, "the combined effect of the Northern Ireland Protocol and the Windsor Agreement" is to leave Northern Ireland in a unique, and potentially prosperous, place.

Macron ducks China fight

The EU cannot avoid the conflict over Taiwan. Matthew Partridge reports

The G7 group of leading nations has reaffirmed its support for Taiwan against Chinese aggression following remarks by French president Emmanuel Macron that "sparked an international backlash", say Kana Inagaki and Joseph Leahy in the Financial Times. Macron suggested that the EU should distance itself from the conflict between Washington and Beijing over the self-governing island that China considers to be its territory. A "diplomatic uproar" followed when Macron argued during a trip to China that Europe should avoid the "trap" of getting "caught up in crises that are not ours". The French president complained that Europe was being used as "a chess piece" in a competition between the US and China and "risked becoming a vassal" of the US.


Macron: he should have kept his remarks behind closed doors

©Shutterstock

Antagonising China

Little wonder that Western leaders have been left scrabbling to cover Macron's "diplomatically dangerous" comments, says The Economist. His remarks have damaged his personal credibility, undermined Western unity and given hope to "China's ambition to divide Europeans and peel Europe from America". Macron's understandable reluctance to be drawn into war should be "for closed-door talks among allies, not public musings".

Maybe, but Macron's words are indicative of the fact that European nations have different views on how best to deal with Beijing, says Silvia Amaro on CNBC. Some countries favour a closer relationship with the US, given its critical role in security and defence; others are "afraid of antagonising China and endangering deep economic ties". Even more hawkish leaders, such as Ursula von der Leyen, president of the European Commission, are resisting US ideas of completely dissociating from Beijing – the EU has too much of an interest in preventing Beijing from supplying arms to Russia and in getting China to reduce its carbon emissions.

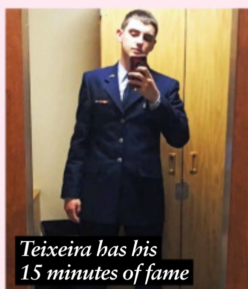
The Opec of silicon

Still, Macron is naïve if he thinks Europe can just ignore China's misdeeds, says Matthew Syed in The Sunday Times. After decades of "resetting the world order through stealth and increment" and building alliances with autocracies, China is "engaging in ever-more blatant land grabs in the South China Sea, inciting border disputes with India, and threatening anyone who stands in its way". Indeed, at the very moment Macron was in China, Beijing was telling senior Chinese officers "to prepare for real combat after conducting three days of military rehearsal in preparation for a blockade and bombardment of Taiwan".

Even if Europe were indifferent to Taiwan's fate, the island's role as the largest producer of computer chips means that it (and the rest of the global economy) would still be caught up in the economic crossfire from any Chinese attack, says Ambrose Evans-Pritchard in The Telegraph. It is likely that both Tapei and Washington would rather destroy Taiwan's chip-manufacturing plants than let the "Opec of silicon chips" fall into Chinese hands. An invasion could then lead to "the technological equivalent of a sudden stop in global oil supply from Saudi Arabia, Kuwait and Russia all at the same time". Chip-dependent Europe would find itself stripped bare with no strategic agency whatsoever".

Pentagon shaken by document leaks

America's national-security bureaucracy was left "shaken" last week when a 21-year-old military reservist, Jack Teixeira, uploaded hundreds of classified files to an internet forum "to show off to friends", says The Economist. The files included "detailed assessments of Ukraine's armed forces, the course of the war and the effectiveness of particular American weapons there". They also included "a variety of CIA reports on world events, including private conversations inside allied governments, among them Israel, South Korea and Hungary". The US has acknowledged that the materials "are highly classified and contain sensitive information".


Teixeira has his 15 minutes of fame

The leaks contain "few startling revelations", says the Financial Times. But the news nevertheless "deals a new blow to US prestige and security". The information could be of use in Russia's military operations and jeopardise the intelligence-gathering capabilities of the US.

As with previous leaks, it's not obvious any real harm has been done, says Frank Ledwidge in The Guardian. But the fact that they took place at all is worrying for they suggest that rather more serious leaks have happened. And while Russia's intelligence agencies may sometimes give the impression of being "inspired by Inspector Clouseau", they have a long history of highly effective work.

China's capabilities dwarf those of Russia. "Rather than fulminating about the latest embarrassment and casting about for people to blame, US intelligence needs to get busy sorting out the systemic vulnerabilities it has created for itself. It can be sure that Russia, China and others are working very hard to exploit them."

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Betting on politics

In a fortnight, those living in 230 unitary, metropolitan and district councils in England will be voting in local elections. Until recently, the betting exchanges and bookmakers have largely ignored these contests. This is starting to change. Smarkets is offering markets on control of Surrey Heath, West Berkshire and Wirral, and although none are liquid enough to recommend, Ladbrokes is also offering eight markets on Cheshire East, Sheffield, Swindon, Walsall, Bolton, Stockport, West Berkshire and East Cambridgeshire.

The situation is complicated by the fact that in some areas the entire council will be up for re-election, while in others only a third of the seats will be up for grabs, which makes it much harder for control of councils to change hands. And the results will be determined by local, as well as national, factors. Still, two clear betting opportunities stand out – in Sheffield and Swindon.

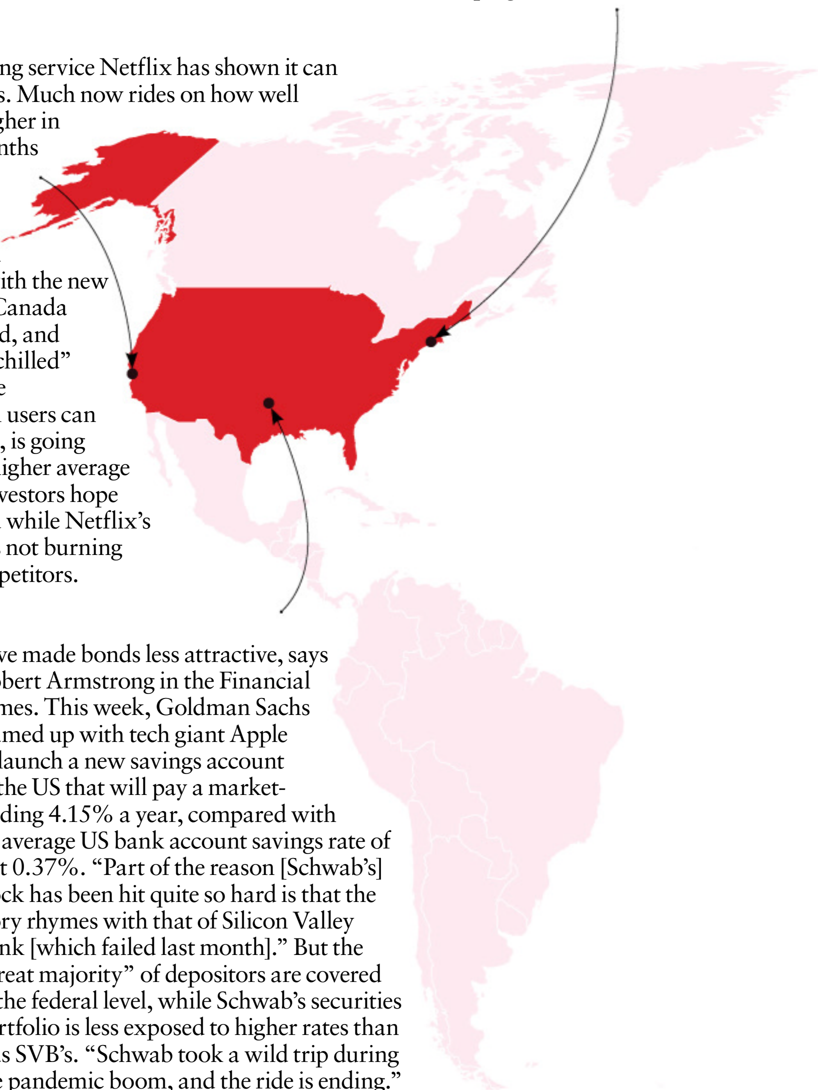
In the case of Sheffield, Labour is favourite on 4/5 (55.6%) to get a majority, with no overall control at 1/1 (50%) and a Lib Dem majority at 16/1 (5.8%). With 39 seats already, Labour needs to gain only four more seats to gain a majority on the 84-seat council. Given that Labour is polling much better nationally than it was when the last round of elections took place two years ago, this should be relatively straightforward, so I'd suggest betting on Labour to win.

Swindon is another council where Labour is favoured, this time at shorter odds of 1/2 (66.7%), with no overall control at 13/8 (38%) and a Conservative majority at 16/1 (5.9%). Labour will need to gain at least six councillors, but it should benefit from the fact that this is a straight fight between Labour and Conservatives, with only one independent on the council. So, I'd bet on Labour taking control.

New York

Goldman Sachs misses out: Rising interest rates have been a gift for big US banks with large loan books and loyal depositors, says John Foley on Breakingviews. They tend to lend at high rates, borrow at low ones and pocket the difference. JPMorgan, Bank of America and Citigroup collectively made 34% more in interest in the first quarter than they did a year earlier. But not Goldman Sachs. Interest was just 15% of its revenue, with the latter falling 5% year on year as the fees it earned from its core trading and investment banking sagged. Rising rates cooled corporate bosses' and private equity firms' risk appetite.

Goldman is trying to amass its own deposit hoard, but that is coming at a cost, as evinced by the "rich" interest rate it is offering on a new savings account with Apple (see below). In the meantime, the consumer business "continues to be a source of red ink". The rewards are there, as the 40% return on equity JPMorgan's retail bank has enjoyed shows, but "building that business from scratch as the credit cycle turns is the kind of expensive ambition that tests investors' patience". Goldman is also considering selling Greensky, the buy-now-pay-later lender it bought only a year ago. Boss David Solomon (pictured) "isn't to blame for the forces holding Goldman back". It's just that the bank excels when rates are low and high-yielding investments of the kind it peddles are scarce. Solomon is now reshaping the bank for all seasons.



Los Gatos

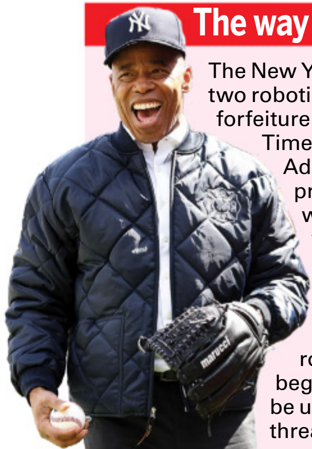
Out with the freeloaders: Film and television-streaming service Netflix has shown it can adapt to a business model partially based around adverts. Much now rides on how well it can crack down on password sharing, says Dan Gallagher in The Wall Street Journal. Netflix is delaying by three months the rollout of its "paid-sharing" plans in major markets, including the US, following a test of the strategy in Canada. There, the crackdown was met with a "cancel reaction" by consumers that was followed by "increased acquisition and revenue" as subscribers came to terms with the new reality. Netflix says the number of paid-up members in Canada is now higher than before "paid-sharing" was introduced, and that revenue growth is now accelerating. But the delay "chilled" investors. The stock fell 8% in after-hours trading before recovering. At least the new advertising model, by which users can pay less for a subscription in return for watching adverts, is going well. Its advert-based memberships are already driving higher average revenue per member than the standard memberships. Investors hope the "paid-sharing" plans meet with similar success. And while Netflix's days of hypergrowth in new users are now behind it, it is not burning through piles of cash to acquire new viewers like its competitors.

Dallas

Savers seek better returns: Texas-based brokerage firm Charles Schwab, as well as US custodian bank State Street, reported declines in customer deposits in the first quarter – "the latest sign that rising interest rates continue to weigh on banks' balance sheets", says Justin Baer in The Wall Street Journal. "Banks of all sizes had grown to rely on customers' deposits as a cheap source of funding they in turn [could] put to work by making loans and buying bonds and other securities." But deposits at Schwab fell 11% from the previous quarter to $326bn, and by 30% from a year earlier. State Street held $224bn of deposits at the end of March, down 5% from December and 11% year on year.

The trouble is that customers are now looking elsewhere for better returns, while rising rates have made bonds less attractive, says Robert Armstrong in the Financial Times. This week, Goldman Sachs teamed up with tech giant Apple to launch a new savings account in the US that will pay a market-leading 4.15% a year, compared with an average US bank account savings rate of just 0.37%. "Part of the reason [Schwab's] stock has been hit quite so hard is that the story rhymes with that of Silicon Valley Bank [which failed last month]." But the "great majority" of depositors are covered at the federal level, while Schwab's securities portfolio is less exposed to higher rates than was SVB's. "Schwab took a wild trip during the pandemic boom, and the ride is ending."

The way we live now... "the man" reckons with the machine



The New York City Police Department (NYPD) is acquiring two robotic dogs for roughly $750,000, using asset forfeiture funds, says Dana Rubinstein in The New York Times. "Digidog is out of the pound", city mayor Eric Adams (pictured left) proclaimed in reversing his predecessor Bill de Blasio's decision to stop using what the then-mayor's spokesman had called "creepy, alienating" technology. But Adams, a former police captain elected in 2021 to restore order, has struggled to cut crime. So his administration is, in Adams' words, "scanning the globe" to find a technological solution. The robot dogs, made by Boston Dynamics, are "the beginning of a series of rollouts", he says. They will be used in life-threatening situations, such as bomb threats, and not on routine patrols.

Technology also creates problems for authority. "Content generated by [Chinese] generative artificial intelligence [ie, chatbots] should embody core socialist values and must not... [subvert] state power", the Cyberspace Administration of China, a regulator, has ruled. The Communist Party faces a conundrum, says Ian Williams in The Spectator. While it "wants to lead the world in AI, it is terrified of anything with a mind of its own".

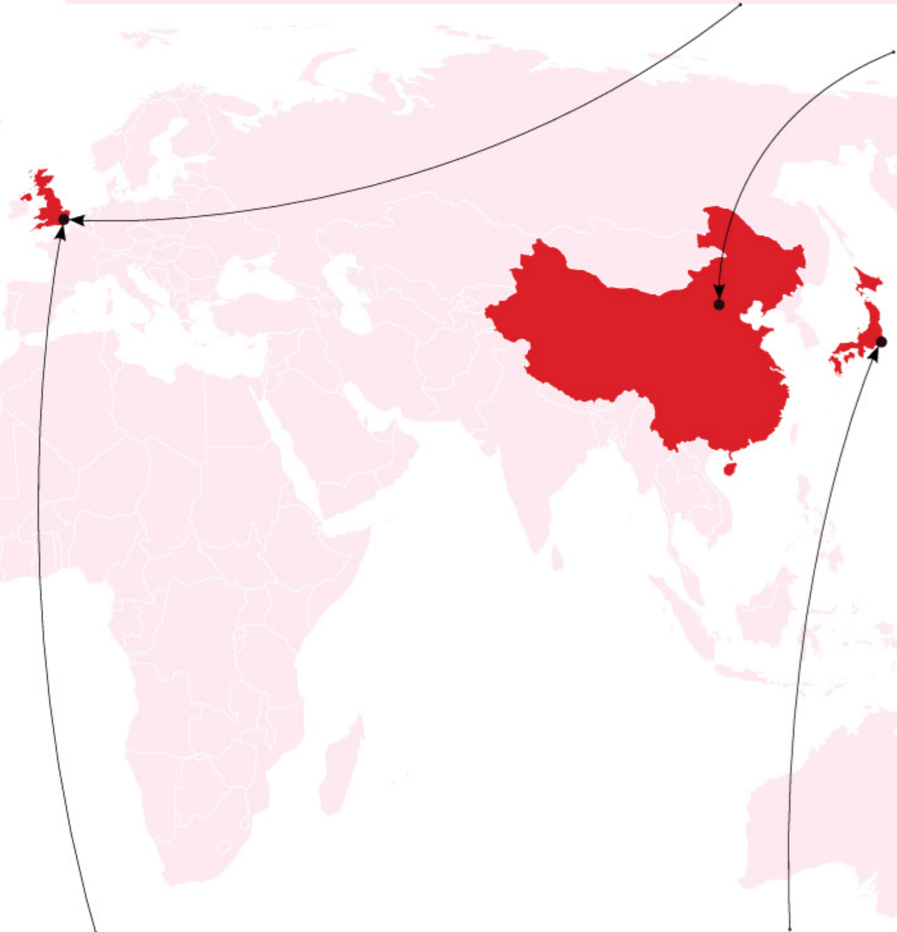
©Getty Images; Rovio

London

M&A has received a shot in the arm

©GSK

Biotech deals pick up: Mergers and acquisitions (M&A) in the pharmaceuticals sector have been revived following a slump in activity last year, says Lex in the Financial Times. Bargains are now rare. Firms are paying an average premium of 125% in the seven $1bn-plus deals this year, compared with around 75% in the previous three. As for GSK, it is paying around double for Canada's Bellus Health, at $2bn. That's thanks to the spin-off of its consumer division Haleon last year, which freed up £7bn, and GSK now needs to deploy that capital to boost its underwhelming pipeline and close its one-third valuation discount to the wider sector. Bellus's single asset is camlipixant, a drug for chronic coughs in a market devoid of treatments. It is in late-stage trials and sales could reach $1.1bn by 2028, estimates bank Jefferies. US rival Merck, however, is working on its own treatment, gefapixant, and it, too, is betting big with a $10.8bn takeover of Prometheus Biosciences, despite the Californian biotech having no approved drugs, says Ananya Bhattacharya on Quartz. Prometheus is working on a drug to treat autoimmune conditions that Merck hopes will offset the expiration of the patent in 2028 on its Keytruda cancer drug.



Beijing

China rebounds: The Chinese economy grew by an annual 4.5% in the first quarter of 2023, following Beijing's abrupt U-turn on its zero-Covid policy last December, says Jo Leahy in the Financial Times. The rebound, driven by a robust expansion in exports and infrastructure investment as well as a rebound in consumption and property prices, exceeded analysts' expectations for growth of 4%, but fell short of Beijing's full-year target of 5%. Xi Jinping (pictured), whose unprecedented third term as China's president began last month, is eager to revive the country's economy after growth of just 3% in 2022, one of the weakest annual rates in decades, says CK Tan in Nikkei Asia. China's central bank "beefed up liquidity support" this week after cutting lenders' reserve requirements and the government has rolled out stimulus measures. Dozens of cities have done likewise as well as easing rules to "boost" the property sector. China's recovery is vital to global economic growth as developed nations grapple with persistently high inflation, rising interest rates and sluggish expansion after Covid and Russia's invasion of Ukraine.

London

Inflation sticky: The Bank of England's monetary policy committee (MPC) is expected to raise interest rates again by 0.25 percentage points when it next meets on 11 May, to take the base rate to 4.5%, says Mehreen Khan in The Times. That's because inflation is proving "more stubborn than expected". The consumer price index stayed in double-digit territory in March, slipping to 10.1% on an annual basis, from 10.4% in February. Falling energy prices should mean inflation falls to around 7.8% in April, says Paul Dales of Capital Economics. "The problem is that there is less evidence of disinflation elsewhere." Food prices are rising at the fastest rate since 1977. Worse, annual core inflation, which strips out volatile energy and food prices, remained stuck at 6.2% in March. "The recent flatlining of the economy [which recorded 0% monthly growth in February] will surely lead to some easing in domestic inflation", but at a pace "more glacial" than expected. Workers, meanwhile, continue to get poorer, with real wages falling 3% in February from a year earlier. The danger is the MPC overreacts with monetary "overkill" in the form of excessive rate rises, says economist Julian Jessop. Previous tightening could still see inflation fall "sharply" in the coming months.

Tokyo

Sega swoops on Angry Birds: Sega Sammy, the Japanese videogames maker behind Sonic the Hedgehog, has made a €706m offer for Finland's Rovio Entertainment, the creator of the popular smartphone game *Angry Birds*. The bid, at €9.25 a share, is a 19% premium on the share price, but almost a fifth lower than the price five and a half years ago, when Rovio listed in Helsinki with a valuation of €896m. Sega based its bid on projections that the global gaming market would grow to be worth $263.3bn by 2026. Released in 2009, *Angry Birds* became one of the most downloaded apps ever, "playing a critical role in bringing casual mobile gaming to the global mainstream", say Leo Lewis and Tim Bradshaw in the Financial Times. But it set "an early high-water mark that Rovio has struggled to surpass". The firm has proved "consistently profitable", but it "never fully recovered" the confidence it lost following a profit warning in 2018, soon after its listing. Rovio did successfully "expand the intellectual property" of its games into films, toys and comics, but *Angry Birds* still accounts for around 65% of revenues, and its mobile games 90%. Talks with Israel-based Playtika ended last month following the latter's $810m offer.

The state of Scotland

The ruling party north of the border has grand ambitions but a lousy record in office. Can the new first minister turn things around? Simon Wilson reports

What's happened?

The Scottish National Party's (SNP) new leader, Humza Yousaf, set out his priorities in his maiden speech to the Holyrood parliament as Scotland's first minister on Tuesday – promising a "fresh start" that would "seize the opportunities of net zero to build a green wellbeing economy". Yousaf, formerly the health minister under Nicola Sturgeon, said his government would reduce poverty, support small businesses and use all his government's power to mitigate the effects of what he called the UK's failed economic model. But the speech was overshadowed by the ongoing ructions engulfing the governing party (see page 10). Hours before Yousaf delivered his speech, police arrested the SNP's treasurer, Colin Beattie, for questioning over the party finances.

What's going on?

Beattie's arrest was part of a police investigation that has heated up in recent weeks, with the arrest for questioning of the party's ex-chief executive, Peter Murrell, who is Nicola Sturgeon's husband. The inquiry relates to complaints and allegations made over the party's use of a £600,000-plus fund raised by activists that was supposed to be ring-fenced for campaigning on Scottish independence. No one has yet been charged, but the arrests of Beattie and Murrell, and the police search of Murrell and Sturgeon's Glasgow home, have destabilised the already fractious party.

How has the SNP done to date?

The great paradox of the nationalist cause, says The Economist, is that a "movement which dreams of building a wholly new and different state" has, after 16 years in government, a distinctly modest record of improving the existing one. On education, where Scotland used to boast attainment levels well above other similar rich countries, its performance is now distinctly average. According to the Pisa rankings, where teenagers sit a standardised test, it has now fallen behind England in both maths and English. Meanwhile, the share of 18-year-olds going to university has grown faster in England, despite Scotland using public funds to underwrite free tuition. Scotland has lower and falling life expectancy, compared with England and European peers, while deaths from drug misuse have trebled since 2007 to more than 1,300 a year. Scotland spends 27% more per capita on public services than England, and 13% more than Wales. To afford this, it relies on fiscal transfers from the UK. Yet Scotland has one of the lowest life expectancies in western Europe, and the highest proportion of preventable cancers in the UK.

Yousaf: a socialist inherits a poisoned chalice

©Getty Images

Can Yousaf turn things round?

The signs aren't good. Scotland's biggest challenges are economic, and many of the UK's problems are amplified north of the border, says Melissa Lawford in The Telegraph. For example, almost a third of economically inactive people are out of work because of ill health, compared with a quarter in England. Meanwhile, Scotland faces a greater demographic challenge, with an older population putting more pressure on taxpayers, and GDP growth forecast to be consistently below the UK's for the next 40 years (according to the Scottish Fiscal Commission, the official spending watchdog). Since the UK devolved power to Holyrood 25 years ago, Scotland's growth has trailed the rest of the UK. Stripping out the offshore oil industry, GDP has risen 38% since 1998 versus 48% for the UK as a whole, on Bloomberg figures. Scottish GDP per capita rose 11.5% between 2010 and 2019, compared with 14.7% in England, 13.8% in Northern Ireland and 18.3% in Wales. Critics say Yousaf, a self-described "socialist" with no business or economic experience, is hardly the man to get to grips with the challenge.

> *"The SNP dreams of building a new state, but has a poor record of running the existing one"*

How are the government finances?

Terrible, with a deficit at 12% of GDP – double the UK's 6% and far higher than the single-digit norm in most European countries. "The outlook for the Scottish government's budget, even within the union, is really, really difficult," says David Phillips of the Institute for Fiscal Studies. According to Phillips, Holyrood faces a funding crunch in 2024, and government funding will fall year-on-year by 1.6% for the next four years. Yousaf's government can't expect a growth spurt to turn this round. The Scottish Fiscal Commission forecasts five years of weak growth all the way to 2027-2028 (when it predicts the growth rate will still be just 1.5%). Graeme Roy, chair of the commission, warns that long-term structural issues, such as the ageing population, will hold back Scotland's prospects relative to the rest of the UK.

Could they put up taxes?

Income tax is higher than in England, and the gap widened this month – increasing the risk that the wealthy will head south. The higher rate is now 42% (40% in England) and it kicks in at just £43,663 (£50,271 in England). The additional rate is now 47% (45% in England); this kicks in at £125,140. Overall, says the IFS, the SNP's tax and benefit changes mean the richest 10% of households will be £2,590 poorer in the current fiscal year than English and Welsh counterparts with the same income, but the poorest 10% will be £580 better off.

Is independence the answer?

Independent economist Richard Marsh, who worked for Nicola Sturgeon's Sustainable Growth Commission and advises the Scottish government on statistics and modelling, recently produced a report concluding that a Scottish exit from the UK would lead to significant fiscal consolidation – meaning hefty spending cuts or a combination of spending cuts and tax rises. Marsh's central estimate is that leaving the UK would cost Scotland over 250,000 jobs, a near £30bn hit to economic output, and a loss in gross value added of more than £16bn. In other words, secession means the Scottish economy "shrinking by at least 10%", says John Ferry in The Spectator. "Talk about shock treatment."

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Do we need more maths whizzes?

The prime minister's grand plan to boost the economy is a distraction from the real issues

Matthew Lynn
City columnist

Six months into his premiership, Rishi Sunak comes across more and more as the UK's head boy. In a speech on Monday he announced plans to make sure the nation is proficient in mathematics. Students will be made to stick with the subject until they are 18 (although not to do an A-Level). A group of advisers, including mathematicians and business representatives, will examine the "core maths content" taught in schools, and look at whether a new qualification is necessary. According to Sunak, numeracy is at the heart of a modern, dynamic economy. A "cultural sense that it's OK to be bad at maths", he told his audience, had left the UK one of the least numerate countries in the developed world, and that unless everyone comes out of school with at least some mathematical dexterity, they risk getting left behind in the jobs market.

Leave those kids alone

The PM has a point. The British school system does not sufficiently prioritise maths, and it generates far too many arts graduates who are poorly equipped to work in artificial intelligence, computing, biotech or, indeed, finance, all industries where the UK has the potential to be a world leader, but where it risks getting left behind if there are not enough skilled, numerate workers. The country could certainly use a few more mathematicians, and it would not hurt any of us to be better with numbers.

Even so, there are two big problems with Sunak's grand plan. The first is that it is not really clear that we actually need a lot more maths whizzes. The UK economy has some strengths in areas that require high levels of numerical skill, such as finance and life sciences; but our strongest industries are professional services such as law and consulting, fashion, music and publishing, and design and retailing. Those require a whole range of skills, but high-level maths is not typically among them.

Sunak would do better to focus on competitiveness

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Sunak is taking a very top-down view of the economy, in which the government decides what industries the country should be specialising in and then directs people towards them. It would be far better to encourage young people to develop whatever skills they feel most passionate about, and then help them to find ways of selling those abilities into a global market. Forcing people who can't tell one side of an equation from another to spend huge amounts of time working on something they are basically not very good at is not a productive use of their time or resources.

Britain's alarming decline

The bigger, and more important, problem is that the plan is a form of displacement activity. Sunak's government has presided over an alarming decline in our competitiveness. The UK's rate of corporation tax has been pushed up from 19% to 25% at a time when most other countries have been cutting their rates. The UK now charges almost as much as France or Germany, but without the skills or infrastructure to match those countries, and although there are deductions for investment they will, in practice, only be claimed by a small percentage of companies.

Personal taxes, too, have been pushed up, with allowances frozen, and the threshold for the top 45% rate lowered to £125,140 a year. The UK is hardly an attractive place for executives to base themselves any more. The layers of regulation are stifling and it is now virtually impossible to build anything without fighting through the courts for years, and even then new projects get blocked by the government. An obsession with climate change and hitting arbitrary net-zero targets means the power system is unreliable. The list goes on and on. A few established businesses can still make money from captive markets, but it is very hard for new ones to break through, or to attract global companies to invest in Britain.

Against that backdrop, better maths won't make much difference. If we want to improve the performance of businesses then there are easier places we could start than with the education system. The real problem is the UK's declining competitiveness – and until he starts fixing that, getting better at adding up won't solve anything.

City talk

©easyJet

● Things are looking up for easyJet, says Alistair Osborne in The Times. True, a forecast half-year loss of £415m doesn't sound great, but CEO Johan Lundgren (pictured) now expects full-year results of £260m. Demand is up – despite the cost-of-living crisis – and capacity is tight, so fares are rising. The shares are back to 520p, from sub-300p in October, but they were twice that when the airline last produced the kind of second-half result that Lundgren promises. "Deliver it and investors should be flying."

● The hostile takeover of engineering group GKN by turnaround specialist Melrose in 2018 was "a key test for British capitalism", says Neil Unmack on Breakingviews. Melrose was lambasted as an "asset stripper" and politicians from all parties lobbied to stop the deal. Five years on, Melrose has slashed costs, but there has been "little sign of reckless financial engineering". Net debt is now £1bn, after taking on twice that to fund the deal. The pension deficit has fallen. Meanwhile, investment in research and development has continued. The financial returns for Melrose from the deal are not yet clear, but the spin-off of car-components division Dowlais this week should unlock value. Splitting Dowlais from the aerospace arm that remains with Melrose could "open the door to more dealmaking" for both businesses, through buying smaller rivals or merging with a larger one. "And thanks to its relatively respectable behaviour at GKN, Melrose's next deal may even have less political noise."

● There's a "takeover frenzy" for British companies led by foreign private equity houses, says Maggie Pagano in the Daily Mail. Bids and deals in the past few weeks include oil-services group John Wood, e-commerce platform THG (see page 6), veterinary medicines company Dechra, payments business Network, events planner Hyve and real estate investment trust Industrials. "What all these bids have in common is that Britain is being sold on the cheap." The weak pound and the persistent discount between London and other markets makes solid firms very attractive to overseas buyers. The UK must speed up reforms to get pension funds back into stocks. "If domestic investors won't buy their own shares, then someone else will."

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Transition time for markets

The key themes of the new era aren't yet clear – but we're prepared for inflation to stick around

Cris Sholto Heaton
Investment columnist

We're one year on from the point where central banks belatedly began raising interest rates and it's still far from clear what this new investment era will be like. Many sensible analysts seem to doubt that it will be vastly different to the past decade: they expect inflation to tick back down to around the 2% target, and rates to be cut significantly in response to slower growth and the threat of recession.

Our MoneyWeek ETF portfolio tries to avoid staking everything on a specific idea – it aims to be positioned for a broad range of likely outcomes. I don't believe I have any greater skill in forecasting the economy than anybody. Still, the path to this scenario feels narrow, because the world has changed greatly in the past few years.

Supply-chain security – "reshoring" and "friendshoring" – is a much bigger theme than it was. This seems intrinsically inflationary, so long as you accept that it was the shift to making so much in China that held down prices over the past couple of decades. The focus on energy security and the energy transition – after at least a decade of underinvestment in the sector – also appears inflationary. Some argue that ageing demographics are deflationary, but that's not clear – there are valid arguments that global ageing will be inflationary. In any case, this is much longer-term pressure and surely outweighed by other factors in the medium term.

Pent-up demand will support prices

Meanwhile, for all the fears about the cost of living crisis and recession, the reality seems to be that anybody who can spend wants to do so – perhaps a combination of believing that things will get more expensive (inflation expectations) and just wanting to get on with life (the pandemic aftermath). This evidence of pent-up demand implies that recessions may be short-lived.

This is reflected in our ETF selection. We have nothing in nominal government bonds, but we have a small amount in US inflation-linked bonds (US bonds will probably do better in a crisis than UK ones). We have gold, because we think it will do well in severe inflation – and indeed it has done well for us lately (up 18% since the start of 2022). We have oil and gas – a leaf from the 1970s stagflation playbook, when energy was both a cause and a beneficiary of high inflation. We still have some real estate. Notwithstanding fears about a credit crunch in the sector, history suggests it should do well in a scenario in which inflation consistently runs above interest rates.

It's not clear which stockmarkets are likely to do best in this new regime, so we remain fairly evenly balanced between different categories for now. Cash need no longer be such a drag, thanks to higher rates on savings deposits or moneymarket funds. In short, while there's nothing to celebrate in terms of performance – we're flat in nominal terms over the past year – there's no obvious reason to change right now.

MoneyWeek's ETF portfolio

Holding	Weight
Vanguard S&P 500 (LSE: VUSA)	10%
Vanguard FTSE Dev. Europe (LSE: VEUR)	10%
Vanguard FTSE 250 (LSE: VMID)	10%
Vanguard FTSE Japan (LSE: VJPN)	10%
iShares Core MSCI Em. Markets (LSE: EMIM)	10%
iShares Dev. Market Property Yield (LSE: IWDP)	10%
SSGA SPDR MSCI World Energy (LSE: ENGW)	10%
iShares $ TIPS (LSE: ITPS)	10%
iShares Physical Gold (LSE: SGLN)	10%
Cash	10%

I wish I knew what a cash shell was, but I'm too embarrassed to ask

A cash shell is a listed company whose assets consist largely of cash or cash equivalents and no significant operating assets. The company's directors or investors will often be looking for an opportunity to buy or merge with another company that has an operating business.

A cash shell may set up, raise funding and list specifically with the intention of carrying out an acquisition. In this scenario, they are frequently referred to as a special purpose acquisition company (Spac). This term originated in the US in the 1990s, but has become popular globally – perhaps because it sounds more purposeful and respectable than "cash shell".

Merging with a cash shell can be attractive for a private firm that wants a listing, but doesn't want to go through an initial public offering. This is known as a reverse merger or reverse takeover. The shell company is the surviving listed entity, but the shareholders of the private company typically become the majority shareholders, the private firm's board and management become the board and management of the listed company, and the name and ticker change to reflect the private company's business. The promotion of Spacs for this purpose led to rapid growth in cash shells listing in 2020-2022, most notably in the US.

However, cash shells are not always created with this strategy in mind. Some may be the remnants of firms that once had operating assets, subsequently disposed of most or all of their business, but have not wound up and returned cash to investors. These are sometimes known as "dirty" or "legacy" shells – as distinct from "clean" shells that have never had a trading business.

Rules governing cash shells and Spacs vary. However, many exchanges are not keen to have small, illiquid stocks with no trading activities listed on their markets indefinitely, and may require them to be liquidated or suspended if they do not do a deal within a certain amount of time.

Guru watch

Chamath Palihapitiya, founder, Social Capital

©Getty Images

Higher interest rates have "created a wave of destruction with many unintended consequences", says Chamath Palihapitiya, the investor known as the "Spac king" for his role in backing several special purpose acquisition companies. "The amount of absolute value destruction, not just in companies, but entire sectors ... was alarming," he writes in the latest annual letter to investors in Social Capital, his investment firm.

The US market for Spacs – or cash shells as they are commonly known in the UK – boomed in 2021, but many have since slumped. Notable flops include space tourism business Virgin Galactic, online real-estate investor Opendoor, healthcare firm Clover Health and online bank SoFi – all of which were among the 10 deals in which Palihapitiya was involved. In addition to the Spac bust, crypto, software as a service (SaaS) and biotech all saw enthusiasm fade and valuations decline during 2022. "The era of excess, abundance and zero interest-rate policy has come to an end. Last year, we likened it to ending the best party in town – but instead of simply turning on the lights, the past year has been more akin to getting cold water thrown in our faces."

The end of cheap money is a "generation-defining economic regime change" that will alter how much investors are willing to pay for loss-making growth stocks. "The mathematical truth of high interest rates is that it renders your company valueless," he says. "A company's success will be judged by its profits and market leadership—not faux 'profitability' metrics or your ability to latch your company on to the latest trend or fad."

Leverage will also be more perilous – a lesson that Palihapitiya himself learned after falling share prices put pressure on a loan that was collateralised by his investments. "What initially seemed like access to free money became a liability that we managed carefully so we could continue to do business as usual."

Malcolm had always dreamed of owning a yacht when he retired.

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Doctors are not underpaid

Kate Andrews
The Spectator

It is "incorrect" to say that junior doctors, who were on strike for the whole of last week at a time when NHS waiting lists exceed seven million, are "outrageously underpaid", says Kate Andrews. Although their pay scale starts at around £29,000, a typical doctor for NHS England is paid more than £37,000 in their first year while average earnings for a Foundation Year 2 doctor exceed £43,000. A few years on, and a junior doctor's wage approaches double the average wage. That's before factoring in the taxpayer-funded 20% contribution to their pension pot (the UK average is under 5%). Jeremy Hunt removed the £1m lifetime allowance on pensions in a bid to stop the exodus of doctors. "Very few other professions" get close to that limit. What is true is that doctors are "trapped in an often dysfunctional bureaucracy" that can require them to work in "dangerous" conditions. The British Medical Association itself has been placing more emphasis on the staff shortages, "endless" night shifts and "zero breaks". Reform is essential. The consensus for years has been that the NHS should remain one of the most centralised healthcare systems in the world. The result is lower salaries for workers and worse outcomes for patients.

What America gets right

Editorial
The Economist

Nearly 80% of Americans expect their children to be worse off, yet their "anxiety obscures a stunning success story", says The Economist. America accounts for 58% of the G7's GDP, compared with 40% in 1990. "Adjusted for purchasing power, only those in uber-rich petrostates and financial hubs enjoy a higher income per person." As for the "ingredients of growth", the US has nearly a third more workers than in 1990 (compared with 10% in western Europe) who are both more educated and more productive. US firms are also more innovative. They own more than a fifth of patents registered abroad and all five biggest corporate sources of R&D are American. The country's less generous safety nets are becoming more so, and thanks to this, incomes for the poorest fifth have risen in real terms by 74% since 1990. What can we learn? Size matters – it spreads the costs of R&D and helps raise finance. A younger population which includes many immigrants (17% of the workforce) helps, too. Finally, firms enjoy a lack of red tape and a flexible labour market. "Shadows" exist – a struggling middle class, rising drug and gun deaths – but living standards are likely to continue going up, provided politicians don't "mess up".

Don't let AI ruin our music

Hayleigh Bosher
The Conversation

Universal Music Group, which controls around a third of the recorded music industry, has been asking music-streaming services such as Spotify to "stop developers from scraping its material to train AI bots to make new songs", says Hayleigh Bosher. It's already possible, on a "royalty-free music generator" such as Mubert, to generate music based on material "from real musicians". If AI programs are using labels' music catalogues without permission, either to train them or by copying parts of the music, it could be seen as copyright infringement, and if streaming platforms are seen to have facilitated such illegal activity, they could be found guilty of secondary copyright infringement. However, the UK government has been "muddying the waters" by proposing to make an exception to allow artistic works – music, art, film, photography – to be used as "training data" by AI programs in an effort to make the UK a tech-friendly environment. So far, thankfully, it has met with "widespread objections". It all "boils down" to whether we think "human creativity deserves greater protection than machine creativity". The fact that music brings such value to the world, far beyond "raw economics", is surely "a strong argument for protecting it".

Our elites are detached from reality

Aaron Bastani
Novara Media

Food prices have risen 18% in the past year, rent has increased by 11.5% and gas prices have more than doubled, says Aaron Bastani. Interest rates are 4.75%. No wonder nearly a third of adults struggle to meet housing costs. The Bank of England governor claims that inflation will fall below 2% by early 2024, but this isn't "serious analytical thinking", it's "cognitive bias" based on the past two decades. Of "greatest concern", however, isn't the data, nor the "blind optimism", but the "indifference" from the political and media elite, who tend to be older, richer and therefore have an "entirely different relationship to the economy" than most workers. The average MP is 50-59, the average non-exec is over 60 and the editors of our national newspapers are all over 50. This cohort enjoy decent private pensions, a state pension "insulated from austerity" (it will rise 10% this year) and "buoyant" house prices. They aren't affected by crippling childcare costs and the rental crisis. This has "profound implications for long-term problem-solving". Whether we can meet future pension obligations, climate change obligations or upgrade our infrastructure are questions that are "no longer asked, let alone answered" by those in power.

Money talks

"It was devastating because I was put into a financial situation that I had no idea of. I was at the height of my career and I found out that we were in debt to such a degree that I didn't own anything. I had to give it all away – the homes, everything. [My husband] had invested it in properties and things I knew nothing about, all of which he got me to personally sign. [He was] one of the top professionals in the financial industry."
Actress Jane Seymour (pictured) on the collapse of her third marriage, quoted in The Times

"Always fly first class. Or your children will."
Opinion columnist Jeremy Clarkson in The Sunday Times

"Most people in life don't have a choice, they haven't had it all, they don't know what it's like to prance around in the south of France with a Rolex on. Well I've done it all, I could do it a million times over, but that isn't what makes me happy. It isn't and it never will be."
Artist Tracey Emin on mixing with the 1%, quoted in The Guardian

"If you work harder than I do at the same job, and are commensurately better rewarded, then that is 'justice'. If your extra reward is then taken from you in taxation, then that is 'social justice'. Concepts which are intended to sound much the same are more like polar opposites: to use language thus is to pervert it."
Former chancellor Nigel Lawson, quoted on cato.org

"I've got a bit of that working class 'chippiness' so I like staying in posh hotels even though I sometimes get a look saying: 'Are you sure you're staying here and not in the Travelodge down the road?' I want to reply: 'My money's as good as yours.'"
Comedian Geoff Norcott, quoted in The Telegraph

©Getty Images

The new elite…

edwest.substack.com

Academic Matthew Goodwin argues, in his new book *Values, Voice and Virtue*, that Britain is under the sway of a new elite, says Ed West. The old establishment, still holed up in its old bastions in the Royal Family, the House of Lords and the public schools, is losing power to a new elite formed in the expansion of the universities, deindustrialisation, and the reign of the free market.

This "new middle-class professional elite" is symbolised by the likes of Keir Starmer, Hugh Grant, James O'Brien and "more than a few columnists, media editors and BBC managers", and, unlike the old one it is replacing, leans overwhelmingly to the left. Had only university graduates voted at the last election, Jeremy Corbyn would currently be prime minister. In fact, one reason Labour lost the last election is that it doubled-down on attracting the new urban elite while turning its back on its old supporters.

This argument seems to upset a lot of people – not least those accused of being part of the new elite. They were quick to point out that they were not in fact in power, and pinning the blame for social problems on them rather than those who were in government was a bit of a reach.

We should not, of course, diminish responsibility for the state of the country from the governing Conservatives, says West. But it is strange to see people denying that British cultural and social elites are by some distance more progressive than the British public and that they have a huge bearing on the country's direction.

If you were to poll the most influential 5,000-10,000 people among senior academics, the people who run TV and radio, scientists and medical professionals, and leading figures in the charitable sector, civil service, and police and justice system, they would surely be to the left of the British public on social issues (if to the right of them on economic ones).

He did win after all

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The Tories may be good at winning elections, but they are not so effective at making the country conservative. And that's little surprise. The current government is by many metrics more liberal than New Labour and the average Tory MP is about as conservative as the average Labour voter.

One reason for the decline of the conservative elites is that progressives have made their values institutional through equality laws. Almost every major institution has DEI (diversity, equity and inclusion) departments, whose function is to make progressive ideas the norm. In fact, these ideas now constitute the state religion, and there are "blasphemy laws" in place to protect it.

Why, then, is the new elite so reluctant to admit that it *is* the elite? Simply because it was born in the "bravado and rebellion of the '60s", and a "defining characteristic" of the elite is that it will never admit to being one.

… is not "woke"…

unherd.com

That the "woke" elite identified by Goodwin (see above) is "overrepresented in certain sectors" is a horror story that is certainly true, says Kathleen Stock on Unherd. Still, that doesn't mean elite ranks generally are "brimming with them". Today, most of the people who were formed in the expansion of the universities work long hours in finance, business, the civil service or law, and do not spend much time thinking or talking about politics. They earn large amounts of money, "live in nice clean houses cleaned by other people", and send their children to private school. But they have not changed character from the time when they were at university – which is to say that they don't have the time or the inclination to talk about politics, tend to laugh at shouty activist types, and are cultural philistines who would prefer to get back to watching game shows or the footy. They are as baffled as the rest of the country about woke issues. But because they didn't form a strong political backbone at university, yet like to consider themselves on the right side of history, they are now prone to simply accepting the "incoming wave of moral cant" from younger, more strident generations. "Their political inarticulacy has made the organisations they run ripe for power grabs, but they are not directly waging any war."

… but it *does* rule the country

iea.org.uk

In communist countries, there was no problem identifying the elite, says Kristian Niemietz. The ruling party constituted the political, economic and cultural elite. But in pluralistic societies such as Britain there is no such thing as "the elite" – rather, "multiple, overlapping elites and establishments". Specify whether you are talking about economic, political or cultural elites, and much of the debate stirred up by Goodwin (see top story) should evaporate.

Except it doesn't because the cultural elite is harder to define and "cultural power" harder to measure. It is no less real for all that. Post-Covid, for example, books about "white privilege" and "structural racism" were suddenly everywhere. Why? Because Britain has a woke cultural establishment that has the power to "force its obsessions on the country". It is a form of power that prime ministers do not have. "There is a cultural elite. That elite is woke; it is eco-alarmist; and it is Marxist or Marxism-adjacent. Its members hate to be called 'the elite'. But that is all the more reason for doing it."

A business is not a family

rlo.acton.org

Businesses today often claim that their organisation is a "family", says Michael Matheson Miller. The idea, of course, is to signal to employees that they are valued and not seen as simply cogs in a machine. It also reflects the need we all have for a sense of meaning from our work.

But a business is not a family, and we should stop saying that it is. Firstly, it is simply not true, and everyone knows it. You cannot get the sack from your family, however much they may want to. That's what families are for – to nurture you whatever your mistakes and failings. Businesses take you on

You can't get the sack from family

©Getty Images

conditionally in order to achieve their own goals. Repeating a falsehood just because it sounds nice creates cynicism, and calls the very notions of truth, sincerity and the moral seriousness of leadership into question.

Secondly, it lowers the bar for leadership. If the boss pretends that she sees you all as family, she may see this sentiment as a substitute for building structures that are actually supportive, moral and human-centred. It would be better to be clear about what is wanted and expected from employees.

Private equity's discount dilemma

Many trusts trade on wide discounts, but there's no reason to think that valuations are overstated

Max King
Investment columnist

Are London listings toxic to valuations?

©Getty Images

Do the exceptionally wide discounts to net asset value (NAV) of private equity trusts represent a bargain or are they a warning of trouble ahead? Keynes reminded us that "markets can remain irrational longer than you can remain solvent", but markets can also be prescient. Investors often smell trouble before companies acknowledge it but does that apply to private equity trusts?

Pantheon (LSE: PIN) trades at a 50% discount to its end of February NAV, but after adjusting for listed holdings and cash of about 57p a share, the discount is 56%. Due to lags in the posting of valuations by the underlying funds, just 30% of the unlisted portfolio was valued at the end of December, with the remainder at the end of September. The NAV return over the past year is 12% and the scope for write-downs has diminished rapidly.

Other funds of funds – **HarbourVest Global Private Equity (LSE: HVPE), Abrdn Private Equity Opportunities (LSE: APEO), CT Private Equity (LSE: CTPE)** and **ICG Enterprise (LSE: ICGT)** – also trade on discounts to NAV of more than 40%, despite double-digit returns over the last year.

Apax Global Alpha (LSE: APAX), which invests in Apax funds, trades at a smaller 35% discount and yields 7.4%. Its one-year performance is 5%. However, 14% of the portfolio is in listed equities.

Conservative valuations

Among trusts that invest directly in companies, the shares of **Schiehallion (LSE: MNTC)**, managed by Baillie Gifford, trade at a discount of 42% to the end of January NAV. Its 74 holdings were revalued 451 times during the year so are likely to be right up to date.

HG Capital (LSE: HGT) trades at a 27% discount to NAV to the end of 2022 after a total return of 5.4% for the year. With an annualised performance of 16.5% over 20 years, it is a top performer. HGT's portfolio was valued at 27.2 times cash flow, but valuations were supported by £404m of realisations at an average uplift to book value of 28% on the exits.

Oakley Capital (LSE: OCI) trades at a 32% discount and also has an outstanding record. It returned 24% in 2022, in line with its five-year record. About two-thirds of the increase was driven by earnings growth and the rest by multiple expansion. Exits and re-financings on 26% of the portfolio generated £244m, representing an average uplift to carrying value of 70%. This is a strong indicator of conservative valuations.

Literacy Capital (LSE: BOOK) trades at a discount of only 5%, but its shares have returned 147% since listing in 2021. A recent disposal was at a 110% uplift to carrying value. It surely deserves a premium.

Likewise, **3i (LSE: III)** trades on a 2% discount, but its average premium – which reflects the value of its fund-management activity – is 14%. 3i's largest holding is the European discount retailer Action, which accounts for 63% of NAV, and it reported a 23% rise in sales in 2022 and 46% growth in operational cash flow. Action expects to open 1,300-1,400 new stores in the next four years, compared with 938 in the last four, supporting further growth.

Out of favour

Some argue that the reason why private equity trusts are so cheap is that their valuations are too high and don't reflect economic and market reality. However, this would require a sector-wide conspiracy by boards, valuers, auditors and managers. This is absurd.

More pertinently, the whole investment-trust sector trades on a 17% discount to NAV. UK listed companies trade at large discounts to comparators overseas. Some have listed or migrated their listings overseas, and others, such as Shell, BAT, Prudential and HSBC are under pressure to follow. So the problem for private equity trusts may be that a London listing is toxic to valuations across the board. It is hard to see what will change that.

Activist watch

An activist investor is pushing picture agency Getty Images to explore deals with tech firms or put itself up for sale, says Reuters. Trillium Capital argues that the firm can find new growth opportunities for its image library through deals with Adobe, Meta Platforms, Microsoft or Nvidia – and that all of these firms could be takeover suitors. Getty went public in a merger with a special purpose acquisition company (Spac) in July 2022 and briefly traded at more than $37 per share, but has now fallen to roughly $6. About 80% of the shares are owned by the Getty family, the Koch family and asset manager Neuberger Berman, says Barron's, and Trillium has also suggested they should consider taking it private again or looking for a private-equity buyer.

Short positions... Burford wins a big victory

■ **The manager of the Ashoka India Equity (AIE) Investment Trust is aiming to bring off the first listing of a new trust in London for 18 months, says Citywire. Mumbai-based WhiteOak Capital, founded by AIE manager Prashant Khemka, wants to raise £100m for the Ashoka WhiteOak Emerging Markets Trust (AWEM). The trust will invest in growth companies at reasonable valuations across emerging markets globally, with an environmental, social and governance (ESG) filter. There will be no fixed management fee, but the manager will receive a performance fee based on outperformance over the MSCI Emerging Markets index over three years. A discount control mechanism will allow shareholders to redeem at net asset value (NAV) once per year. AIE, which raised £45m when it listed in 2018, now has a market value of about £200m due to strong returns and fundraising. It has returned 126% over three years, compared with 94% for the MSCI India index.**

■ Shares in litigation-finance fund Burford Capital have risen to a four-year high after a recent ruling put it in line for a multi-billion-dollar payout, says the Financial Times. A US court has found in favour of the plaintiffs in a lawsuit over the nationalisation of energy firm YPF by Argentina. Burford, which funds legal cases in exchange for a share of the proceeds, has invested around $600m in the YPF litigation. Damages have yet to be decided, but may be worth between $3.2bn and $6.4bn to Burford, reckon analysts at stockbroker Jefferies. The win is a validation for Burford, whose shares halved in 2019 after a short-seller attack. Still, investors remain "wary of the opacity and complexity of litigation as an asset", and tighter monetary policy may further reduce the appeal of this type of unconventional investment.

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The dash for gas: a fossil fuel with a bright future

With uses ranging from bolstering international energy security to filling the gaps left by renewables, natural gas will be a crucial source of power for years to come, says Matthew Partridge

Until early 2022 it was assumed that the days of gas – and other fossil fuels – as an energy source were numbered. However, the Russian invasion of Ukraine and the economic consequences of the upheaval in energy markets have "increased the amount of attention paid to energy security", says George Grant of Stag Energy. This in turn has "led to a greater acceptance of natural gas" as an energy source. However, the surge in interest in gas isn't just a short-term trend. It is a response to a growing awareness that it will play a key role in the transition to renewable energy, a shift that will take longer than widely expected.

Renewables remain unreliable

Renewable energy is getting cheaper and more efficient, while it also stands to benefit from the determination of governments around the world to meet ambitious targets for reducing carbon emissions. However, it will be some time before they can completely replace traditional sources of energy. In some cases, even building enough capacity to meet peak demand may be difficult, says Dominic Whittome, economist at Prospect Law. For example, while Britain's cloudy climate means that offshore wind power is the most cost-effective source of renewable energy, "most of the sweet spots in the North Sea have now been taken".

Of course, it is possible to build wind farms on land. But these are a "lot less commercially attractive" as it is much harder to get planning permission for them, which takes time and money, says Whittome. Onshore wind farms also tend to be smaller, so "they do not benefit from economies of scale in the way that offshore farms do". A shortage of wind-turbine machinery, and concerns that the effectiveness of wind power may be reduced by "global stilling" (decreasing wind speeds caused by global warming) are also major impediments to the adoption of wind power.

However, even where commercially viable sources of renewable energy are available, most of them suffer from the major flaw that they are "generally intermittent and somewhat unpredictable", says Stag Energy's Grant. The one possible exception to this, biomass – burning plants and trees to generate power – is controversial with environmentalists, who believe that it only works if the wood burnt is sustainably regrown, which can take a long time. Although battery technology can store the energy for a few hours, it still isn't good enough "to provide long-term security of supply through long periods of cold, still weather in the winter".

"Gas produces less than half the carbon dioxide of coal and a third less than oil"

A fuel on standby

The limitations of renewable energy means that until the problems with long-term storage are finally solved, most countries will still need a transitional fuel to provide "standby capacity for times of low renewable generations as an insurance policy", says James Smith of the Premier Miton Global Renewables Trust. Gas is ideal for the job as "open-cycle gas turbines are relatively cheap to build, and... keeping them in standby mode [is] reasonably cost-effective". In the event they need to be used, gas turbines "can be quickly run up to their full generation load, offering the flexibility to ramp up and down as the grid operator requires".

Another reason why gas is an ideal transition fuel is that it is much greener than other fossil fuels, says Jags Walia, head of listed infrastructure at Van Lanschot Kempen. Gas produces less than half as much carbon dioxide as coal, and around a third less than oil. And its environmental benefits aren't limited to lower carbon emissions. Natural gas plants produce much less sulphur dioxide and nitrogen oxide than either coal or oil for the equivalent amount of energy.

The suitability of gas as a transitional fuel is highlighted by the fact that many of the world's major carbon emitters are increasing their natural gas production, even as they are reducing their use of other, more polluting, sources of energy such as coal, says Walia. For instance, total US consumption of natural gas increased by 26.5% between 2012 and 2022, according to the US Energy Information Association (EIA). In China it jumped by more than 150% during the same period.

Extensive, expensive infrastructure

Another key reason why gas has a long future ahead of it is because "there's a huge amount of infrastructure that currently uses gas, and which can't be quickly replaced without significant costs and disruption", says Niall Trimble, managing director of The Energy Contract Company. For example, in the UK nearly a fifth of natural gas is used directly by heavy industry. While larger firms may be able to afford to switch to hydrogen, "a lot of smaller and medium-sized firms may struggle with the increased capital expenditure".

While industry would find it hard to replace natural gas in its day-to-day operations, many households would find it nearly impossible, says Trimble. Around half of homes in the US and Germany use natural gas for heating; in Britain the figure is 85%. Just over half of the total amount of gas used in the UK is consumed in homes. The British government has pledged to ban gas boilers in new homes from 2025 and California intends to ban the sale of gas heaters by 2030. Trimble is sceptical as to whether such bans will come into force.

In particular, Trimble notes that there are "big problems" with heat pumps, the proposed replacements for gas boilers, which aim to heat homes and water by taking air from outside. Heat pumps are extremely expensive, costing around £15,000 compared with roughly £2,000 for a gas boiler, and there are doubts about their reliability.

The upshot? While it is technically possible to phase out gas in homes, this will take a lot of time "and people won't be happy with it". As a result, he expects that governments will be forced to delay such measures. Other experts, such as Clive Moffatt of Moffatt Associates, the founder and chairman of the UK Energy Security Group between 2017-2019, agrees. He deems the large-scale roll-out of heat pumps "neither technically feasible", nor "scalable" or "affordable".

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Liquefied natural gas can be shipped all over the world

The cost of carbon capture

One interesting technology that could reduce the environmental impact of gas further is carbon-capture and storage technology. As we discussed in our in-depth feature in issue 1111, this entails trapping the carbon emissions from gas (and other sources) and storing them underground.

Until recently, Trimble has been very sceptical of the technology: "While it has been around for a long time, people have struggled to get it to work at a reasonable cost". However, he expects significant progress in the next five years, especially as governments are now starting to invest money in it.

One recent example of governments investing in carbon capture is the decision of the UK government to allocate £20bn over two decades to support the development of carbon-capture technologies. While it is uncertain "what projects will need to do to qualify for the funding", this "proactive stance" is "a bold step in the right direction", says Anthony Catachanas, CEO of Victory Hill Capital Partners. He is also impressed that the government realises "the need to promote the reuse of the captured emissions" rather than merely storing them.

Catachanas thinks that the reuse of captured emissions in industry is key to making carbon capture commercially viable. Victory Hill is involved in a joint venture in Nottinghamshire with Landmark Power Holdings to capture the emissions from natural gas, with the aim of re-using them in the food industry, which currently has to import much of the carbon dioxide it needs from abroad.

The project has already agreed a 15-year deal with Buse Gases, one of the leading suppliers in the industrial and speciality gas markets, that will see Buse Gases buy the carbon for use in making carbonated drinks.

When will green energy finally arrive?

Given that the speed and the destination of the transition will depend on both government policy and technology, it's not surprising that experts like Catachanas think that it is "very hard to predict" how long we will be using gas.

However, there is a general consensus that, at the very least, it will take "a decade or two" to start moving away from gas. Smith, who is highly optimistic about the extent to which clean energy can take over from fossil fuels, accepts that gas will continue to play a major role "for at least the next ten to 15 years".

Others think the future of gas is secure for a lot longer than this. "Given the role of gas in the energy transition, and the decades the energy transition will take to achieve, we expect gas use to have decades ahead of it," says Walia.

Trimble goes even further, suggesting that gas will continue to be part of the global energy mix until 2050, the deadline for reducing net carbon emissions to zero. Meanwhile Grant thinks that even phasing out gas by this date will be tough "without stronger government policy and/or incentives". And Moffatt is even more bullish about the future of gas, arguing that the idea

Continued on page 26

"Britain will spend £20bn over two decades to develop carbon-capture technologies"

Continued from page 25

of eliminating net carbon emissions by 2050 is simply unworkable. He thinks that the amount of gas in the energy mix in the EU and elsewhere will have to increase over the next few decades to compensate for the intermittent supply of renewable generation, the elimination of coal-fired generation capacity and the retirement of a large number of nuclear power stations.

He also thinks that there should be a public-service obligation on gas suppliers and shippers in the UK to store a greater proportion of their estimated demand for gas for heat and power, thereby underpinning new investment in gas storage.

Drill local, buy global

The energy crisis – and the increasing realisation that gas is set to play an important role in at least the short and medium term – is also forcing governments around the world to reduce restrictions on drilling.

For instance, last year the UK government decided to proceed with further gas exploration and development in the North Sea, even though it had previously adopted a framework that made it very hard for new projects to go ahead. Moffatt thinks that North Sea drilling should be encouraged and expects the windfall tax to be revised downwards.

He also expects that prime minister Rishi Sunak will ultimately be forced to follow the policy of his predecessor Liz Truss, who removed restrictions on fracking during her brief premiership.

While the current occupant of Number 10 quickly reimposed the moratorium, Moffatt thinks it is hard to dispute that fracking "has an important role to play in reducing our dependence on imported gas" provided appropriate safeguards are in place and "developers are forced to sell a proportion of their output to UK energy suppliers". However, he emphasises that neither North Sea drilling nor fracking will reduce the need for better gas storage in the UK and elsewhere.

The rise of LNG

Globally, the big story is the rise and rise of liquefied natural gas (LNG). This process cools natural gas to -162°C so that it can be turned into a liquid, enabling

©Getty Images

Captured carbon can be used in fizzy drinks

it to be economically and safely shipped over large distances in giant tankers, before being turned into a gas again when it reaches its destination.

The closure of Russian pipelines has forced Europe to embrace this technology, with countries across the continent, particularly Germany, building new LNG facilities "at breakneck speed", says Victory Hill's Catachanas. With Europe now trying to eliminate its dependence on Russian gas, which still accounts for around 10% of its supplies, this should continue for the foreseeable future.

Not only will the rise of LNG be good for the companies that are building infrastructure, such as terminals, but it will also change the nature of the market for gas, reckons Catachanas. By eliminating the need to transport gas via a pipeline, LNG will benefit producers who have large gas reserves but are far from major customers in Asia and Europe. This is good news for Latin America (and to a lesser extent the US).

Overall, as a cost-effective fuel that "complements renewables on national energy grids", says Catachanas, natural gas seems likely to play an important role in energy supplies for years to come.

> *"The closure of Russian pipelines has forced Europe to embrace liquefied natural gas (LNG)"*

What to buy now

Energy giant **Shell (LSE: SHEL)** is the seventh-largest producer of natural gas. However, it has ambitious plans to increase production of gas while reducing its oil output, believing oil to be a declining sector. It is also putting money into liquefied natural gas (LNG), with 18 carriers and 65 chartered vessels, which jointly comprise 11% of the global LNG shipping fleet. The stock is on a 2024 price/earnings (p/e) ratio of seven and yields 4.2%.

Norwegian energy giant **Equinor (Oslo: EQNR)** is Europe's second-biggest producer of natural gas, with a large number of fields in development. In an attempt to reduce its carbon emissions it is investing large sums of money in carbon capture and storage, most notably the Northern Lights project.

This aims to store carbon emissions from onshore industries in a terminal on the Norwegian west coast, and then inject it 2.5 kilometres below the sea bed. Equinor trades on a 2024 p/e of 6.7 and offers a dividend yield of 8.2% (which is more than covered by its earnings).

Another energy giant worth investing in is **TotalEnergies (Paris: TTE)**. Total "is well positioned to benefit from the switch from delivering natural gas via pipeline to transporting it through LNG", as it has made large investments in this area, says Dominic Whittome of Prospect Law.

It is now one of the top three LNG sellers in the world. Even though Total's revenue grew by 75% from 2017 to 2022, and its earnings per share jumped by 350% during the same period, it still only trades at 6.7 times 2024 earnings and comes with a dividend yield of 5.2%.

A purer play on the rise of LNG is through the US natural gas producer **Cheniere Energy (NYSE: LNG)**. The group was originally set up to import LNG into the US. But now, thanks to America's shale gas boom, it buys gas from local producers, liquefies it, and then exports it to 30 countries on five continents. It is currently the largest LNG producer in the US, and the second biggest globally. Since 2017 sales have risen nearly sixfold and profits have soared by 1,350%. Cheniere Energy trades at a 2024 p/e of 12.5.

Another way to benefit from the boom in LNG is **Excelerate Energy (NYSE: EE)**. Excelerate owns a portfolio of ten floating storage regasification units, ships that store and transport LNG and also turn it back into a gas, as well as three flexible integrated terminals (E-FIT) that facilitate the import of LNG.

It also works on building terminals and LNG infrastructure for third parties, with a presence around the world, from Brazil to Germany. Although its earnings per share have doubled since 2019, with sales nearly quadrupling, the stock still trades at only 18.5 times 2024 earnings.

Golar LNG (Nasdaq: GLNG) is another company that designs, builds, owns and operates infrastructure to turn natural gas into LNG, and then back into gas again. It is currently focusing its operations on floating LNG facilities that allow gas produced by offshore rigs to be changed into liquid form. One for value investors, it currently trades at only 7.7 times expected 2024 earnings, and is priced at a discount of 5% to its tangible assets.

The slow-motion slump of fiat money

Countries are turning away from the greenback, but other currencies look vulnerable too, says Dominic Frisby

In 2004 James Turk and John Rubino published *The Coming Collapse Of The Dollar And How To Profit From It: Make A Fortune By Investing In Gold And Other Hard Assets*. Amazon tells me that I "purchased this item on 18 Feb 2006". Isn't digital record keeping amazing?

It remains one of the best books about gold and gold investing that I have ever read, beautifully articulating the anti-dollar, anti-fiat, anti-money printing, pro-gold narrative. Those that followed the advice of the book will have made good money – as long as they got out in 2011.

There's just one thing: the dollar never collapsed. Sure, its purchasing power has steadily eroded. Each year it buys you 10%-15% less house, less S&P 500, and less goods and services than the previous year. If you compare 2004 prices with today the dollar buys less than half as much house or S&P 500 as it did then.

Have US wages more than doubled by way of compensation? No. They have gone from $60,000 to $75,000. The taxes you pay on them have gone up too. Sterling has been even worse. In the early 2000s a pound got you two dollars and some people could actually afford a house.

But does a 55% loss of purchasing power over 20 years count as a collapse? Not really. Currency collapses happen over quicker time frames, as in Weimar Germany, Zimbabwe or Venezuela.

The dollar-is-going-to-collapse narrative really got going around the global financial crisis in 2008 and with all the money printing that followed. In a way, it spawned bitcoin. (If you think gold bugs are extreme in their anti-fiat narratives, go and have dinner with some bitcoin maximalists.)

A shift in the narrative

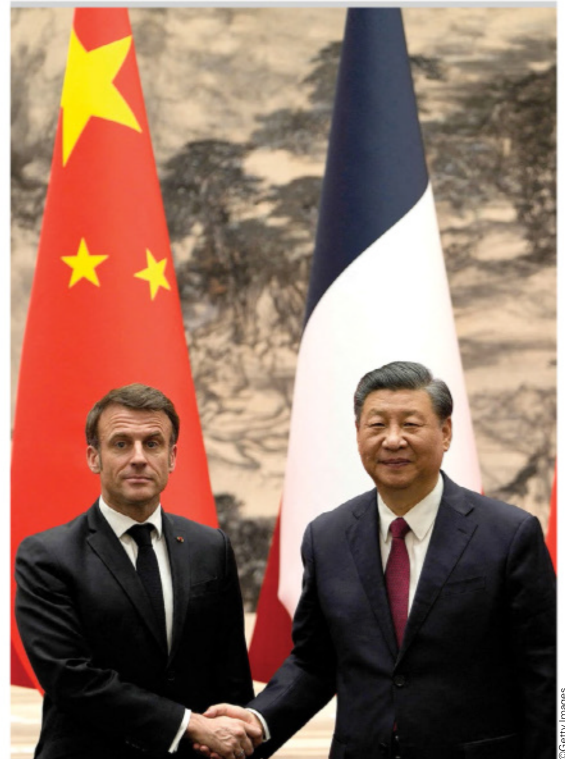
But then, after 2011, gold went into a bear market. "Bear market" isn't strong enough to describe what happened to gold mining. Gold mining really did collapse. The dollar, meanwhile, actually strengthened. Not versus stuff we actually buy, like houses, equities or cars, but versus other currencies.

I'm saying this because I have noticed a discernible change in narrative over the last year. No longer do we hear about the imminent collapse of the US dollar or of fiat currency. Now the buzz word is "de-dollarisation".

The US dollar is the global reserve currency. It is the default for international trade. Participants trust Swift and the international banking system enough to use them for payment. But there are many nations who would prefer, if they could, to use something else. China would, I've little doubt, like to see its yuan replace the US dollar. Russia would rather use roubles. And so on.

The de-dollarisation theme took hold in the wake of Russia's invasion of Ukraine, when the US weaponised its financial might to confiscate Russian dollars and freeze Russia out of international trade. At the St. Petersburg International Economic Forum – dubbed the Russian Davos – eminent attendees from more than 70 nations around the world regularly talk about a new system of international settlement. There

"Some countries are increasing their gold holdings at the fastest rate since the 1960s"



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Emmanuel Macron and Xi Jinping: looking beyond the dollar

was an India-Russia business forum last month, where Russia's State Duma deputy chairman Alexander Babakov stated that an alliance of Brazil, India, Russia and China was working on a new currency secured by gold and other commodities. On a visit to China a fortnight ago, France's President Emmanuel Macron told President Xi Jinping: "I want to take the opportunity to insist on one point: we should not depend on the extraterritoriality of the US dollar."

We know that China has in recent weeks made trade deals with major international commodity suppliers Russia, Brazil and Saudi Arabia to bypass the dollar altogether and trade using the Chinese yuan.

We also see nations increasing their gold holdings at the fastest rate since the 1960s. They are not just increasing their gold holdings, but they are increasing their gold holdings relative to other assets. Gold is occupying a larger portion of their portfolios, in other words. This is de-dollarisation in action.

People like talking about crashes. Crashes sell. But they are for the media. De-dollarisation is becoming very much a theme now, a mainstream narrative, in a way that collapse never could be. I think it's only going to become more of a theme.

But what of James Turk and John Rubino's collapse? That was not a single event, but a gradual process, even if the net result, a 50% loss of purchasing power, is similar. And what of the next 20 years? Do I think it's possible that houses, cars or equities will cost less than they do now? I don't think there's a chance in hell. In fact, I'd be surprised if they are only double what they are today.

Your wages, or your children's wages, might be a bit higher. Your taxes? They'll be higher. Your government, or your state as we tend to call it in the UK? That'll be a lot bigger. While many nations are taking steps to de-dollarise, I would take steps to avoid the constant erosion of fiat money, whether pound, dollar or euro. De-fiatise. I don't think that's going to catch on as a term. But combating the erosion of your purchasing power is very much the focus.

Dominic Frisby writes the newsletter The Flying Frisby: theflyingfrisby.com

The boom in US infrastructure

America is finally upgrading its fixtures and fittings, says David J. Stevenson. That spells opportunity for investors

The next US presidential election takes place on 5 November 2024 – and the Democrats have already scored one big win. Prior to last year's mid-term elections, they controlled the presidency and both Houses of Congress. Governments love lifting their spending in pre-election years.

Holding the country's purse strings meant that the Democrats have been able to boost their presidential candidate's election chances by splashing out cash provided by US taxpayers (and by Treasury bondholders, the funders of the country's national debt) on a range of new building projects.

One of the main mechanisms here has been the Infrastructure Investment and Jobs Act (IIJA), aimed at upgrading roads, bridges and transit systems. This was signed off in November 2021 by president Joe Biden, whose message to the people was: "America is moving again, and your life is going to change for the better."

Political rhetoric notwithstanding, there is no doubt about the need for improvement. Since the 1960s, when most of the country's major infrastructure systems were built, the US population has more than doubled. Many of these structures are becoming dangerously overstretched.

"Civil engineers [have warned] that many bridges are structurally deficient and that antiquated drinking water and wastewater systems pose risks to public health," noted the Council on Foreign Relations (CFR) think tank in November 2021. "The US lags behind other developed countries in infrastructure spending."

The cost of clogged-up roads

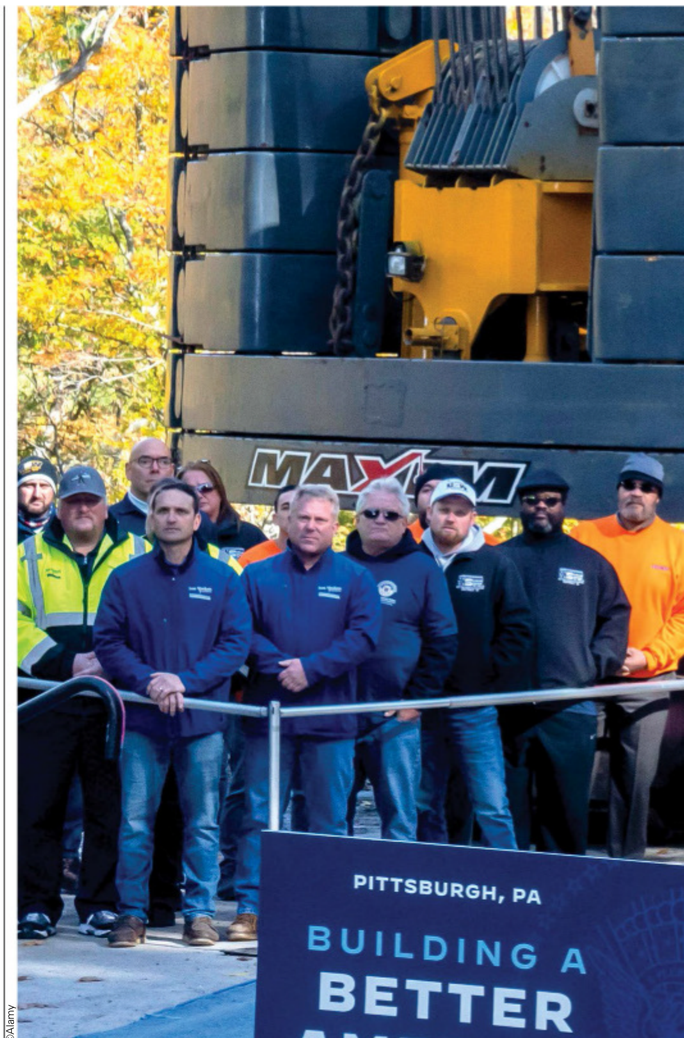
Delays caused by traffic congestion cost the US economy more than $120bn a year, says engineer and historian Henry Petroski. He also highlights the damage to productivity caused by bridge collapses and dam breaches, as well as by badly maintained roads, railways and waterways.

Since the 1980s, the American Society of Civil Engineers (ASCE) has compiled regular "report cards" on the condition of US infrastructure. While recent years have seen some progress, the ASCE's 2021 report still only deems it worth a C-. It also predicted that the current decade is set to see an "infrastructure investment gap" of almost $2.6trn. If left unaddressed, this could cost the US $10trn in lost GDP by 2039. US GDP totalled $23trn in 2021.

Between the IIJA and the Inflation Reduction Act (IRA), Congress has now allocated an eye-watering $1.25trn across the transportation, energy, water resources and broadband sectors for the next five to ten years. This legislation has funded about 20,000 endeavours so far. "There are projects coming out of the ground as we speak," former New Orleans mayor and project co-ordinator Mitch Landrieu tells NBC news. "Almost every physical project you see… has a federal dollar in it. Some will take a little bit more time, but… we're rebuilding the entire country."

Of course, we've heard such talk before. But Landrieu reckons that Americans will clearly see the programme's benefits by the next election. "US construction started 2023 on the right foot", says We

"The US population has doubled since the 1960s, when most infrastructure systems were built"



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President Joe Biden has spearheaded the spending spree

Build Value magazine. A report by data provider Dodge "shows a 27% increase in new starts in December 2022, the first rise since 2017… [thanks chiefly] to the start of construction of large projects. Another boost came [in] January from the White House's Mega Grant (National Infrastructure Project Assistance) assigning $1.2bn to nine projects."

So is it too late for investors to get involved? In fact, the story is only in its early stages. While this is an "historic amount of money", says The Brookings Institution, a Washington-based public policy organisation, "the bulk of it is still sitting in federal coffers." Granted, spending the cash may not be as simple as politicians expect. Construction-sector prices are rising. The US labour market is tight, making it harder to recruit workers for major building projects. Debt-servicing costs are climbing as interest rates rise, squeezing budgets. And any fall in state or local government revenues could also curb projects. Still, the spending plans are so large they are bound to have a major impact on upgrading US fixtures and fittings.

Don't fret about debt

What about the debt ceiling spat, though? US tax revenues are woefully inadequate to pay the country's bills. The shortfall has to come from ever-increasing sales of Treasury bonds. In turn, Congress has regularly lifted the debt limit (the maximum amount that the US federal government can borrow to fund its spending).

Following last year's mid-term elections, however, the Republicans gained a majority in the House of Representatives. Reaching consensus on lifting the debt ceiling has thus become tougher. House Republicans have refused to agree to it without promises of spending

cuts. This is "forcing the Treasury to take so-called extraordinary measures to keep paying its bills", notes CNBC. "The non-partisan Congressional Budget Office (CBO) estimated the administration will exhaust its emergency tools this summer, raising the prospect of a default unless lawmakers raise or suspend the ceiling."

That would be the country's first-ever debt default. However, Congress has lifted the debt ceiling 78 times since 1960. It is probable that a compromise will be reached this time too, meaning that the US infrastructure programme is unlikely to be curtailed by borrowing constraints.

Could a deteriorating economy derail the infrastructure spree? The latest Institute for Supply Management (ISM) manufacturing index, a key production measure, "is very much in recessionary territory", says Andrew Hunter at Capital Economics. He notes that there has been "only one previous occasion over the past 60 years where the index has fallen to that level without an economic contraction following.... Banking sector turmoil... has only strengthened our belief that domestic demand growth is set to weaken sharply". Expect "the wider economy to follow the manufacturing sector into recession".

More bang for a buck

Note also that the last two weeks of March saw US bank lending contract at the fastest pace on record. Yet while America's finances are set to encounter increasing pressure, there's a flipside that actually makes higher infrastructure spending even more likely.

Infrastructure provides large top-down benefits to the economy. There is a major multiplier effect: the economic gains are much greater than the money spent.

"For every $1 spent on infrastructure, as much as $3 is added to GDP growth"

A 2014 study by the University of Maryland calculated that for every $1 spent on infrastructure investments, as much as $3 is added to GDP growth. The latter benefits even more in recessions. Morgan Stanley predicts that a $1trn decade-long package could add 0.2% to GDP annually and create 715,000 jobs over ten years. "Add to this the potential boost from fiscal stimulus and it could add as much as 0.4% to 0.8% to annual GDP growth rates," according to Ellen Zentner, Morgan Stanley's chief US economist.

So which areas will do best from higher US infrastructure spending? "Energy is the IRA's biggest beneficiary," says Brookings. "We estimate energy-focused programmes will receive $276bn over ten years. The IRA intends to… invest across the entire value chain, including construction of clean-energy facilities ($114.5bn), generation of clean electricity and research into cleaner fuels ($105.5bn), and incentivising more energy efficiency through building retrofits ($51.4bn)."

In summary, then, American infrastructure provision offers investors major opportunities. "With so much money available across so many programmes, strategic implementation is now the most urgent priority", says Brookings. However, "when it comes to infrastructure, the era of big government isn't over – it's just getting started".

What to buy now

Few prospectors made money panning for gold in the mid-19th century Californian gold rush, but picks-and-shovels suppliers flourished. It is likely to be a similar story with US infrastructure spending: buy shares in the makers of the machines doing the hard work.

Terex (NYSE: TEX) is a global manufacturer of materials-processing machinery and aerial work platforms. This $2.9bn company designs, builds and services a range of products employed in construction, maintenance, manufacturing, energy, recycling, minerals and materials management.

In 2022, Terex's sales climbed by 14% to $4.4bn, income from operations increased by 28% to $420m and earnings per share (EPS) surged 41% to $4.32. The order backlog jumped by 22%. Net debt on 31 December 2022 was $471m, down from $595m three months earlier. The annual dividend was hiked by 10%.

For 2023, Terex is forecasting sales between $4.6bn and $4.8bn, with EPS between $4.60 and $5. The stock is on a price/earnings (p/e) ratio of 8.7, with the multiple expected to drop to eight next year and just 7.7 in 2025. Yet recent equity-market weakness has contributed to a near-30% share price fall since early March. Terex is a cheap stock with good growth potential.

Consider also **Herc Holdings (NYSE: HRI)**. Worth $3bn, it is now one of the leading US equipment rental suppliers, with 356 locations in North America. The company's fleet includes aerial, earthmoving and material-handling equipment, trucks and trailers, air compressors, and compaction and lighting.

Last year's equipment-rental revenue increased by 34% to a record $2.55bn. Adjusted earnings before interest, tax, depreciation and amortisation (Ebitda) rose by 37% to $1.23bn – another record – while net income rose by 47% to $330m, equivalent to EPS of $10.92. Admittedly, net debt was up $1bn but that was largely due to the fleet being renewed. A fourth-quarter dividend hike puts the yield at 2.3%.

For 2023, Herc expects adjusted Ebitda growth of 18% to 26%. The shares are on a p/e of 7.2, dipping to 6.7 next year and 6.1 in 2025. Yet the stock has almost halved since November 2021. This is another excellent buying opportunity for another cheap stock with ample scope for growth.

A new home for savings

Structured deposits offer cash-like returns with potential upside

David C. Stevenson
Investment columnist

Cash seems a little more attractive these days, especially if you are willing to lock your money up in a fixed-term account. You can get about 4.5% for a one- or two-year fix (there isn't much of a premium for a three- or five-year one right now), mostly from smaller banks and building societies such as Hampshire Trust Bank and Tandem. The biggest high-street names offer a maximum of about 4%, such as Tesco Bank, TSB, Halifax and National Savings & Investment.

All UK-regulated banks and building societies have Financial Services Compensation Scheme (FSCS) protection for savings accounts, but this only covers amounts up to £85,000 per person per institution (not per account). So if you have a large lump sum to save, you will need to chose providers more carefully.

Structured deposits

However, traditional deposits aren't the only home for your cash – experienced investors could also look at structured deposits. These are increasingly sold by firms who usually focus on riskier structured products, but are very different to their traditional offering.

In essence, they are deposits with major global banks – such as Société Générale, Barclays, Goldman Sachs or Royal Bank of Canada (RBC) – structured to provide a variety of returns. The underlying deposits are still FSCS protected, but you can have variants that offer non-conditional, fixed interest, others that pay conditional interest that is linked to the level of a stock market index, or a combination of both. Fixed-rate products may pay over 4% for three to five years, while the conditional deposits have the potential to target 6%-8% or more. There's the opportunity to invest via an individual savings account (Isa), making returns tax-free.

Rising demand

Over the past six months, there's been increasing demand for structured deposits, says Richard Harry, an independent financial adviser (IFA) who tracks the structured deposits market and sells direct (see bestpricefs.co.uk). The most common products look like a fixed-income bond, but have a small "equity kicker" such as an extra 0.5% at maturity if, say, the FTSE 100 is higher, says Ian Lowes, another IFA who runs a review of the sector (see structuredproductreview.com).

One of the most successful products for both of them has been the IDAD Barclays Inflation-Linked Deposit Plan April 2023. This provides a gross interest payment at maturity equal to the rise in the retail price index between January 2023 and January 2027, plus a potential additional 2% interest if the FTSE 100 closes at or above its initial level. "To keep up with 'real returns' this is the only deposit in the UK structured deposit market that is shaped in this way," says Harry.

This month, Tempo Structured Products, one of the major structured product providers, has entered the structured deposit market with a range of six structured products in conjunction with Société Générale and RBC. These have varying degrees of stockmarket linkage – for example, one five-year deposit with RBC pays a core 2% interest rate plus the potential for bonus interest of 3.75% each year if the market doesn't fall.

Tempo is championing the use of plain English and ensuring that its product literature is independently "crystal marked" as jargon free by the Plain English Campaign. It uses the language of cash and savings products rather than more complex investment instruments – for example, by including details of annual effective rates (AER) for all its products, not just simple interest rates that are more commonly used for structured deposits. This could make them easier to understand and accessible for people who are more familiar with savings than investments.

Do more with your cash to earn higher rates

Attractive if rates come down

There must be a decent chance that central banks "pivot" at some point and rates will come down. If you think that scenario is likely, fixing an FSCS-backed structured deposit return via an Isa wrapper might make sense for some – though not all – savers and investors. Even though the interest paid by structured deposits can be linked to stockmarkets, they offer full return of capital at maturity without any stockmarket risk – unlike traditional structured products.

That said, it is important to understand the terms of each product before investing. Note that there may not be a guaranteed right to cash in early if you need the money – and that doing so may mean that you get back less than you paid in. They are definitely not suitable for anybody who may require immediate access.

Pocket money... Labour vows to ban "rip-off" renewals

● The Labour Party has vowed to ban "rip-off" subscriptions that automatically renew, if it wins the next election, says The Mirror. New laws will force businesses to offer customers the option for manual renewal – where they must agree to renew each time payment is taken – although they will still be able to consent to automatic renewal if they wish.

At present, customers only need to be informed that a renewal payment will be taken – by direct debit or continuous payment authority on a credit card – and may have to actively cancel if they no longer want the service. Britons spent £500m on subscriptions that renewed without them realising in 2021, and more than £300m on unused subscriptions, according to research by Citizens Advice.

● Investment platform Hargreaves Lansdown has cut fees for regular investors, says This is Money. Customers who make monthly investments into shares, investment trusts and exchange-traded funds by direct debit will no longer be charged a £1.50 dealing fee. Automatically reinvesting dividends from shares will also now be fee-free. Doing this previously carried a 1% fee, with a minimum of £1 and a maximum of £10.

Fee competition between platforms may be heating up. Last month, Hargreaves Lansdown removed custody and dealing charges on its Junior Isa and cut the custody fee on its Lifetime Isa from 0.45% to 0.25% per annum. Interactive Investor launched an Investor Essentials tariff in February, which lowers its monthly fee for customers with up to £30,000 to £4.99, down from £9.99 previously.

● Barclaycard has relaunched a double sign-up bonus offer on its two Avios cards, says Head for Points. Avios is the airmiles scheme for British Airways and a few other airlines. Apply for the Avios Plus card (£20 monthly fee) by 30 May, and get 50,000 Avios if you spend £3,000 in three months, up from 25,000. The fee-free Avios card will give 10,000 points for spending £1,000, up from 5,000 normally.

American Express is also offering 60,000 points (up from 30,000) for spending £6,000 in six months on its Platinum card (£575 annual fee), plus £200 travel credit, for applications by 13 June. These convert 1:1 into Avios and into several other airmiles and hotel schemes.

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What if your bank is bust?

How to protect your firm from the fallout of failures in the financial sector

David Prosser
Business columnist

It is sensible to split long-term funds between several banks

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Call it a warning shot. The collapse of Silicon Valley Bank last month plunged many small businesses in the UK into full-blown panic. Rapid intervention by regulators and the government meant businesses were able to keep trading with minimal disruption, and largely without financial loss. But the crisis was a reminder that 15 years after the global financial crisis, businesses are still highly vulnerable to problems in the banking sector.

Is there anything you can do to protect your firm from future failures, given that it is difficult to predict where these might strike? Well, a good starting point is the Financial Services Compensation Scheme's (FSCS) deposit protection agreement.

In the event that a bank goes bust, taking a company's money with it, the scheme will normally refund lost deposits of up to £85,000.

The arrangement is often thought of as consumer-focused, but companies, charities and other organisations can claim too. It covers banks, building societies and credit unions authorised in the UK.

However, there are some important caveats. Firstly, if you're a sole trader and have a personal account with the bank as well as a business account, you'll only be able to make one claim. If your business is set up as a separate legal entity – a limited company, say – you should be able to make separate claims for both it and your personal account. Similarly, if your business is a partnership, you'll only be able to make one claim, even though several partners may be named on the account.

Given the FSCS rules, it's a good idea to limit the money your business holds on deposit at any bank to no more than £85,000. That may not be possible for firms with larger turnovers – they may have large sums coming into and going out of the account on a regular basis – but it is sensible to split long-term funds between several banks.

However, avoiding the disruption on day-to-day operations that a bank failure could have is less straightforward. Businesses need constant access to banking services in order to bank receipts, and pay suppliers and employers. So even a few days of upheaval could be highly damaging.

"A key problem at SVB was the concentration of technology firms"

Here, your best option is to think very carefully about your choice of bank in the first place. New entrants to the industry have provided important competition to the incumbents, but are you confident in their longevity? In particular, don't pick a bank simply because many of your peers are using it. One particular problem at Silicon Valley Bank was the high concentration of technology businesses. Similarly, tread carefully with banks headquartered outside the UK – they may be subject to less stringent regulation in their home markets.

It also makes sense to have a fallback plan. One option is to open a business account with an alternative provider. You could move all your banking to it if there was an emergency with your main bank. This will inevitably be more administratively complex, but it could provide important protection. At the very least, holding an emergency pot of cash with a different bank could buy you valuable breathing space in the event of a problem.

A bumper year for venture capital trusts

Good news for small businesses looking to raise cash from equity investors. Venture capital trusts (VCTs) raised £1.08bn during the 2022-2023 tax year, which ended on 5 April. The total was slightly down on the 2021-2022 tax year's take of £1.13bn for VCTs, but was still the second-highest annual total ever. Two record funding years mean VCTs are awash with capital to invest in eligible companies – and 80% of new cash raised must be invested within three years under the terms of the scheme. For firms that meet the eligibility criteria, this may be a golden opportunity to secure funding on favourable terms.

The rules on eligibility are relatively narrow but will still cover large numbers of small businesses. Firms must generally be privately owned, rather than listed on a stockmarket, though some firms quoted on Aim, the London Stock Exchange's junior market, still qualify. They must have fewer than 250 employees and be less than seven years old. Less restrictive rules apply to "knowledge-intensive" businesses – those involved in certain types of research, development and innovation – but the same principles apply.

If that sounds like your company, VCTs can invest up to £5m a year in any one company, up to a maximum total investment of £12m (or £10m and £20m respectively for knowledge intensive businesses). Take legal and corporate financial advice before talking to a VCT.

Petty cash... apprentices are an asset

● Apprentices have helped small and medium-sized enterprises (SMEs) generate cost savings or additional revenues worth £550m in recent years. A study by technology company Multiverse shows that small companies taking on apprentices have recorded benefits including reduced staff turnover, lower costs and higher productivity. While SMEs have sometimes struggled with the red tape of apprenticeship schemes, the research suggests it is worth persevering – particularly at a time of skills shortages and elevated job vacancies.

● Small businesses need to get on top of energy bills before its too late, experts warn, amid fears that the less generous help available from the state could leave many firms exposed. On 1 April, the government's Energy Bills Discount Scheme replaced the previous support arrangement, offering less generous assistance to small firms struggling with high energy prices. For those that fixed their gas and electricity rates at very high levels last year, this could be particularly painful. Talk to your provider as soon as possible to understand what you will now pay and what you can do to mitigate high costs.

● Sales of personal-guarantee insurance increased by more than 90% at some insurers last year, as more directors made plans to protect themselves from personal liabilities relating to their business. The cover, available from a number of specialist business insurers, pays out in the event that a business is unable to repay loans that have been secured by guarantees from company directors. It can be a valuable way to ensure directors don't lose everything in the event of a business failure.

Take a measured approach to growth

Judges Scientific is a global scientific-instrument company with a strong position in niche markets

Dr Michael Tubbs
Investment columnist

The UK is second only to the US when it comes to scientific publications and Britain's strong position in science supports many scientific-instrument companies. There is a growing global market in this sector owing to steady organic expansion in scientific enquiry and experimentation, with higher education a key growth driver. The market is growing at around 5.5% a year and is set to reach $54.6bn in 2027.

British firms hold leading positions in many niche markets. A good example is **Judges Scientific (Aim: JDG)**, which has built up a substantial business by acquiring top-quality smaller companies in two major areas of technology and then expanding these businesses and helping them develop a global presence. The result is a group with a market value of £589m whose sales have jumped by 59% to £113.2m over the last five years.

Judges consists of 19 small companies grouped into two major product divisions – materials sciences and vacuum sciences (mainly ultra-high vacuum, or UHV, systems). Examples from materials sciences are PE Fiberoptics, which manufactures equipment for testing the optical fibres used in long-distance telecommunications, and Fire Testing Technology, the world's leading supplier of fire-testing instrumentation.

The group's customers include Cambridge University

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Examples from vacuum sciences include UHV Design, which supplies heating and manipulation equipment for use in UHV systems for materials research, and Korvus Technology, a supplier of systems for coating substances with thin films through UHV. Judges' customers include universities such as Princeton and Cambridge; major consumer goods and manufacturing companies such as Proctor & Gamble and L'Oreal; research and compliance organisations such as Cern, Geneva and the US National Institutes of Health; and large scientific equipment manufacturers such as ThermoFisher and Nikon.

Successful integration

Judges acquired Geotek in May 2022, the world-leading supplier of non-destructive testing instrumentation for analysing geological drill cores, together with a services business for core-logging and digitisation. This £80m acquisition is the largest Judges has made to date and the board said it would boost earnings in the 2022 financial year. The most recent acquisition was Henniker, a vacuum sciences company, in March 2023 for up to £2.3m.

Judges has a good record of purchasing and integrating acquisitions. Its acquisition criteria favour companies with sustainable sales, profits and cash generation; an established product range; and an international customer profile in a niche world market. Judges has a 'buy and build' approach, which means that it uses its experience, expertise and capital to support and expand the businesses it takes over and helps them enter new geographical markets.

The group uses robust financial controls to ensure its businesses continue to grow profitably while investing strongly in research and development (R&D) to ensure the continued competitiveness of their product ranges.

The 2022 annual results showed that materials sciences contributed 53% of turnover, with vacuum sciences comprising 47%. The addition of Geotek raised the materials-sciences proportion from 44.6%. Sales are international with only 12% going to the UK, 28% to the rest of Europe, 28% to North America, 12% to China & Hong Kong and 20% to the rest of the world.

Last year pre-tax profits reached £16m on turnover of £113.2m, giving a profitability ratio of 14.1%. Judges also revealed an adjusted operating profit of £30.1m. Net income for the year was £12.8m. Judges raises the dividend by at least 10% per year and the dividend has almost trebled since 2016 to 81p for 2022.

A solid and tax-efficient Aim stock

Judges' results for the six months to 30 June 2022 showed a continuing recovery from the pandemic, with revenue up to £46.4m from £43m in the first half of the previous year. However, the acquisition of Geotek in May 2022 substantially enhanced the company's financial performance. Revenue of £66.8m for the second half of 2022 represents a major improvement from the £48.3m recorded in the second half of 2021.

The group's order intake increased, led by North America, with the order book standing at a healthy 21 weeks at the end of August. By the end of December 2022 the order book had increased to 22.9 weeks. Encouragingly, Judges says it has seen "solid growth in organic order intake for the first two months of 2023".

The 2023 figures will include a full year of Geotek, which should continue to boost both revenues and profits. Unfortunately, the British government raised corporation tax from 19% to 25% in April, and this will affect earnings per share (EPS) for 2023. Still, Shore Capital, the company's house broker, estimates that the stock is on a forward price/earnings (p/e) ratio of 25. Analysts' one-year price target for the stock is 10,000p compared with the recent share price of 9,240p, leaving plenty of scope for further rises.

The interim dividend for 2022 was 22p, a 16% increase on the previous interim. The preliminary final dividend is 59p, a 25.5% increase on the previous year, making a total of 81p for 2022. The stock's forward dividend yield is 0.9%.

The directors have substantial stakes in the company. David Cicurel, CEO, holds 20.5% of the equity, with other directors holding 3% in total. So their interests are aligned with those of other shareholders.

Finally, Judges has the advantage of being one of a group of Aim stocks whose shares count as an asset free of inheritance tax after a qualifying holding period of two years.

Cash in on Computacenter

The IT services specialist is a top performer overlooked by the market

Matthew Partridge
Shares editor

When buying and selling shares there is always a temptation to focus on the companies hitting the headlines. However, sometimes the best trading returns don't come from the most high-profile stocks but from the ones that simply put in a consistently strong performance year in, year out.

One of these is **Computacenter (LSE: CCC)**, which has amassed an incredible streak of increasing adjusted per-share earnings for 18 years in a row. What's more, the latest evidence, including a 28.5% increase in revenue in 2022, suggests the company has plenty of room to grow even further.

Computacenter focuses on providing IT services to companies and governments, mostly in the UK, Germany and North America. It receives roughly 80% of its gross revenue from technology sourcing, helping companies install networks and buy equipment (such as cables).

While this sector is dependable and profitable, Computacenter has recently started to place much more emphasis on other areas such as software and consultancy. These markets offer higher margins and additional scope for growth, especially with companies now spending far more money on all aspects of their digital operations than they did before the pandemic.

"The group has focused on the US Midwest, an area tech firms have neglected"

Moving up the value chain

In addition to moving up the technology value chain, Computacenter is taking steps to expand its American operations, which now account for about 40% of its revenue. Last year it acquired US technology group Business IT Sources (BITS) to boost its revenue in America's Midwest, an area that has been traditionally underserved by technology sourcing and support companies, which tend to focus on the east and west coasts. At the same time, it is expanding its operations in other markets such as India, which are also experiencing strong growth.

There is ample scope for growth in software and consultancy

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Overall, Computacenter has a strong track record, with sales growing by 70% over the past five years between 2017 and 2022. It is expected to maintain this pace: revenue is expected to keep growing by roughly 10% a year over the next few years.

A high return on capital employed (ROCE, a key gauge of profitability) of between 18% and 25% in recent years has also helped to fund steady increases in the dividend, which is now more than double the level seen in 2017. Despite this, the stock is more than reasonably valued, trading at 13 times expected 2024 earnings, with a solid dividend yield of 3.15%.

As well as boasting strong fundamentals, Computacenter shares also look attractive from a technical perspective. Like many tech shares it fell sharply, and at one point was down by 40% from its pandemic peak in September 2021. However, recently it has bounced back, rising by 23% over the past six months, and is now above both its 50-day and 200-day moving averages. I therefore suggest that you go long at the current price of 2,264p, at £1 per 1p. In that case, I would set a stop loss of 1,364p, giving you a total potential downside of £900.

Trading techniques... interest rates

The US Federal Reserve meets in early May to decide on the direction of interest rates. Many analysts think there may be one more interest-rate hike in the next few months, but no more after that; rates could even start to come down later this year. In theory an interest-rate cut should be good for markets as it will reduce companies' borrowing costs, while making bonds relatively less attractive than shares. An interest-rate reduction could also prompt consumers to spend, boosting GDP, at least in the short run.

However, things are a little more complicated. For instance, a cut (or a hike) may have already been anticipated by the markets, and therefore priced into the price of shares by the time it appears. Note, too, that since 1977 the Fed has been under a mandate to promote "maximum employment" as well as stable prices. This means a cut in rates could be seen as bearish if it means the Fed is worried that the US economy is slowing. Even though the US Federal Reserve cut rates from 5.25% in September 2007 to a range between 0% and 0.25% in December 2008, the market crashed by 40% during this period.

Studies are similarly contradictory. Advisory and brokerage firm Strategas found that buying when the Fed starts to cut rates, and then selling when rates begin to rise, would have made you an average annualised return of 20% between 1982 and 2015. A 2010 inquiry found that between 1989 and 2009, an unexpected cut to US interest rates boosted the stockmarket by an average of 4% the next day. But after the 17 rate cuts between the start of 2000 and the end of 2022, the S&P 500 produced an average negative return of 1% over the following three months.

How my tips have fared

Over the past fortnight six of my long tips have appreciated. Retailer Dunelm rose from 1,106p to 1,141p, luxury-clothing retailer Burberry advanced from 2,572p to 2,587p, builder DR Horton climbed from $96.64 to $98.15 and telecoms group Gamma Communications increased from 1,095p to 1,112p. Discount chain B&M European Value Retail also went up, from 482p to 496p, while brick and tile maker Ibstock rose from 172p to 173p. However, estate agent Savills fell from 982p to 955p and online retailer Asos dropped from 827p to 741p. My eight long tips are making net profits of £2,376, down from £2,400 two weeks ago.

As for my short tips, real-estate investment trust Digital Realty fell from $96.72 to $93.25, AST SpaceMobile slipped from $5.08 to $4.44, electric-car charging firm EVgo went down from $7.79 to $6.24 and ticketing firm Live Nation slipped from $70.15 to $69.20. Gamestop also dropped – from $22.64 to $22.25. Payroll company Paycom remained at $305 while Sunrun increased from $20.05 to $20.50. Overall, the profits on my seven short tips increased from £518 to £1,050.

The short and long tips are making combined profits of £3,426 compared with £2,918 two weeks ago. I suggest you take profits of £789 on Dunelm Group. This means I now have eight long tips (Burberry, DR Horton, Gamma , Savills, Asos, B&M, Ibstock and Computacenter) and seven short ones (EVgo, AST SpaceMobile, Digital Realty, Live Nation, Paycom, GameStop and Sunrun). I recommend raising the stop-losses on Asos to 525p (from 500p), B&M Value Retail to 260p (250p), and Ibstock to 85p (82p). I would also cut the price at which you cover Digital Realty from $140 to $110.

Seize this opportunity to scoop up superior-quality growth stocks

A professional investor tells us where he'd put his money. This week: Fraser Mackersie, co-manager of the Unicorn UK Growth Fund, highlights three favourites

The past 18 months have been a tough period for growth investors, with interest rates rising rapidly in an attempt to curb surging global inflation. Growth company valuations have contracted significantly, as less value is ascribed to expected future profits owing to the higher discount rates. This trend has created a number of interesting investment opportunities in growth companies globally, and – of particular interest to us – in UK equities.

Companies' operational and financial performances during the past year and a half have remained relatively strong, with businesses continuing to implement their long-term growth plans. With interest rates now approaching levels widely expected to prove a peak, and with inflation set to subside during the remainder of 2023, we believe that current conditions have created an exciting opportunity for investors to back high-quality growth companies.

Secret of long-term success

In the Unicorn UK Growth Fund, we look to identify and back profitable and cash-generative companies capable of delivering above-market organic earnings growth over the longer term. Many of these businesses are aligned with multi-year structural growth themes.

Our focus on profitability, cash generation and balance-sheet strength means we can find companies with the solid foundation to fund and support ambitious growth aspirations. This approach also ensures that higher-risk, earlier-stage and cash-consumptive companies are left out of the portfolio.

Alpha Group International (**Aim: ALPH**) is a company we initially backed at its initial public offering (IPO) in 2015. Alpha started life on UK markets as a provider of corporate foreign-exchange (FX) services, but in recent years it has diversified into alternative banking (digital-banking services) for companies.

The firm's recent full-year results show that both sides of the business continued to deliver excellent growth rates, with revenue in the FX division expanding by 22% and Alternative Banking Solutions delivering sales growth of 41%. The company also announced plans to move from Aim, London's junior stock exchange, to the main market of the London Stock Exchange next year.

"Branded promotional-products supplier 4Imprint is the market leader in America"

4Imprint (**LSE: FOUR**) supplies branded promotional products (ranging from pens and notebooks to bags and clothing) to the US corporate market. The company experienced exceptionally strong sales growth in 2022 as a shift in its marketing expenditure to focus more on brand recognition delivered impressive results.

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Formula 1 racing teams are among FD Technologies' customers

The company is the market leader in the US but continues to command a relatively modest market share, providing ample scope for future growth. Recent highlights from the full-year results for 2022 included revenue growth of 45% and a sizeable special dividend, reflecting the strong trading performance and growing net cash position.

A deep dive into detailed data

FD Technologies (**Aim: FDP**) is a relatively small software and consulting business. The group's kdb+ software is the world's fastest time series database and real-time analytics engine. It enables customers, which include Formula 1 racing teams, Fortune 500 manufacturing companies and financial regulators, to analyse large amounts of data in real time. In 2022 the company entered a strategic partnership with Microsoft which made the engine available on the Microsoft Azure platform. Initial preview customers reported performance up to 100 times faster at one tenth of the cost of competing solutions.

The architect of Thatcherism

Nigel Lawson, the most consequential Tory chancellor of the 20th century, has died. His legacy lives on in the long line of chancellors who have tried to emulate him. Jane Lewis reports

When the chancellor, Jeremy Hunt, delivered his first autumn statement last November, in the chaotic aftermath of Kwasi Kwarteng's mini-budget, he name-checked Nigel Lawson several times. It's a measure of the enduring influence of "the man who was surely the Conservatives' most consequential chancellor of the 20th century", says Stephen Bush in the Financial Times. Decades after his 1989 resignation, following a bitter row with Margaret Thatcher, none of Lawson's successors has yet escaped his shadow. Some have rushed to embrace it. Rishi Sunak famously hung Lawson's portrait on his wall. Even Kwarteng's "doomed short stint at the Treasury was in many ways a result of over-imbibing the myths, rather than the reality, of what Lawson did and how he did it".

Lawson, who has died aged 91, was one of the first politicians to use the term "Thatcherism". He was certainly the chief economic architect of the revolution that swept away "the post-war consensus", says Larry Elliott in The Guardian. "For good or ill", the modern UK economy "was forged in the 1980s". Lawson's six-year spell at the Treasury ended in failure, with "a classic British boom-bust cycle", which left three million unemployed, interest rates at 15% and a record number of home repossessions. But by then he had transformed the landscape.

An arch tax-cutter, deregulator and privatiser of nationalised industries, Lawson presided over Big Bang – reinforcing the City of London's position as a global financial centre for decades to come, says The Telegraph. More than that, says Margaret Thatcher's biographer Charles Moore, Lawson brought an "infectious" confidence. One of his proudest early achievements was being the main advocate for axing the stringent exchange controls that had clipped the wings of British travellers for decades. It was done in 1979 and he marked the occasion by delivering every Budget wearing a specially designed Bank of England tie, inscribed "EC 1939-1979".

"Intellectually formidable, self-assured and somewhat mischievous," Lawson's reputation for brilliance was established early, says The Times. Born in 1932 in Hampstead, his father was a well-to-do tea merchant and his mother came from a wealthy stockbroking family. Although born Jewish, Lawson – who was educated at Westminster and later won a maths scholarship to Christ Church, Oxford – was a "committed unbeliever" who raised his own children as atheists. "He had extraordinary and constantly churning powers of reasoning," recalls his son Dominic Lawson, which influenced his switch to study philosophy, politics and economics (PPE). Extra-curricular activities included fencing, playing poker and acting (he largely eschewed university politics), but he had a zest "to understand and explain the world". An occasional date, Antonia Fraser, recalls driving round in a taxi with Lawson while he delivered a lengthy economic tutorial.

©Getty Images

"I had by now come to share Nigel's high opinion of himself" – Margaret Thatcher

No potatoes, no booze

Married at 23, following two years of national service in the Navy, where he commanded the motor torpedo boat *HMS Gay Charger*, Lawson's first career was journalism. He rose through the ranks of the Financial Times to edit the Lex column, before becoming City editor of The Sunday Telegraph. His first experience of hands-on politics came in 1963 when the then PM, Harold Macmillan, offered him a speechwriting job. Lawson eventually entered Parliament in 1974 as MP for Blaby in Leicestershire and soon made his name "goading Harold Wilson" during prime minister's questions, says The Times. When Margaret Thatcher won her landslide in 1979, she made him chief secretary to the Treasury and then energy minister before promoting him to chancellor in 1983. As she later tartly observed: "I had by now come to share Nigel's high opinion of himself."

A political loner, Lawson wasn't a natural glad-hander and could be stealthy. Thatcher benefited from this when, having anticipated the early 1980s miners' strikes, he quietly built-up coal stocks. But as their relationship deteriorated, she came to rue it. They clashed over the poll tax. But the ultimate cause of their fall-out was Europe. Although already showing signs of the euroscepticism that would see him champion Vote Leave in the 2016 referendum, Lawson advocated joining the European Exchange-Rate Mechanism, the ERM, as an anti-inflationary measure.

When Thatcher dug in her heels, he secretly adopted a policy of "shadowing" the deutschmark instead. She was furious. The formal reason for Lawson's resignation in 1989 (which lit the touch-paper that led to her own ousting a year later) was what he felt to be the undue influence of her economic adviser, Alan Walters. But the trust had long gone. Her eventual assessment of Lawson, says Moore, was that although he was brilliant, he was also "a gambler", and this frightened her.

While "stupendously" serious about policy, and motivated by a sense of public duty, in private Lawson "had a very strong sense of the absurd, which would often cause him to get uncontrollable giggles", writes Dominic Lawson. A heavyweight chancellor, in more ways than one, on retirement he lost five stone and wrote a best-selling diet book. Journalists used to ask enviously how he did it, says The Times. "Oh, no potatoes for a start," he would say. "And no cheese…And no alcohol." At that point, the conversation normally ended.

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- 1 night in Can Tho visiting Cai Rang floating market and Khmer Pagoda

Holiday Departure Months

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

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Wandering by rail

Take a train tour through these areas of great natural beauty. Chris Carter reports

©Getty Images
A train ride is a great way to see the Glenfinnan Viaduct

Recreational train journeys are experiencing a revival around the world, says Marisel Salazar in Condé Nast Traveller. They are eco-friendly, affordable and a great way to take in the scenery. Take Scotland, for example. The West Highland line starts in Glasgow and runs 180 miles to the "tiny picturesque" fishing ports of either Oban or Mallaig. On the Fort William to Mallaig section, travellers will be able to spot the ruins of Old Inverlochy Castle, just before crossing the River Lochy, and the Glenfinnan Viaduct. Another famous looped viaduct, known as the Horseshoe Curve, sits between the Tyndrum and Bridge of Orchy stops.

Spend a night or two at the charming Ballachulish Hotel in Glencoe along the way from Glasgow to Fort William for a taste of Highland hospitality. The Ben Nevis Distillery is also nearby for a quick tour and whisky tasting. *Ballachulish Hotel from £119 a night, ballachulish-hotel.co.uk*

Cotwolds walks

"A ride on the Oxford to Worcester railway, with orchards and winding rivers through the window, makes a lovely trip in its own right and is ideal for enjoying linear hikes between Cotswolds towns and villages," says Phoebe Taplin in The Guardian. You could, for instance, make the eight-mile ramble along the Evenlode valley from Charlbury to Hanborough, passing "the ruins of a Roman villa and woods pungent with wild garlic".

Worcester, not far from the Malvern hills and brimming with budget-friendly hotels, is a good base from which to make excursions. Gloucester's fan-vaulted medieval cloisters, which appear in three Harry Potter films, and the Waterways Museum, which covers two floors of a former grain warehouse on the docks, are only a shortish train ride away. The museum runs boat trips starting this month along a canal rich with birdlife. *Adults £8.50, canalrivertrust.org.uk*

France's Celtic corner

"*Liberté, égalité, intercité!* Britain may have invented railways, but France perfected them," says Oliver Smith in The Times. And "there is no greater entrée for a French holiday than riding the rails".

Brittany is a beautiful "Celtic corner", culturally akin to Cornwall and Wales, that is worth visiting by "chuntering" train for its"lush green landscapes" and "bracing beaches". One way to explore the region is to take the Eurostar from London to Paris and then a train to St Malo before making a rail circuit of the Brittany peninsula. Board a southbound service to the regional capital of Rennes and stay at the "design-led" Mama Shelter hotel. Then head westwards to the medieval ramparts of Vannes and onwards to the spire of Quimper's gothic cathedral. Leave the rails at Brest for a boat trip to see the "lonely" lighthouses on the island of Ushant. Then take the train back to the start along Brittany's northern shore. *Mama Shelter from £150, mamashelter.com*

Wine of the week: six Aussie reds from a stellar estate

2020 Torbreck, Woodcutter's Shiraz, Barossa Valley, South Australia

(£23.99, selfridges.com; £19.50, specialistcellars.co.uk; £21.50, davywine.co.uk)

Matthew Jukes
Wine columnist

Torbreck is my Australian Winery of the Year. I am currently taking no fewer than three of the wines in this article, including my featured Woodcutter's, around the UK on my 100 Best Australian Wines Roadshow. Feedback from the first half of this tour has been overwhelming, and this is no surprise when you taste these stellar red wines.

Since winemaker Ian Hongell arrived at this world-renowned winery nearly a decade ago, the wines have become increasingly refined. It is amazing to think you can drink insanely beautiful Torbreck shiraz for 20 quid! 2020 The Steading (£35 per bottle, averys.com; £23 per bottle in bond, laywheeler.com) is a thrilling grenache blend that makes many Châteauneuf-du-Papes slope off in shame. It is another bargain-priced, truly elite creation. 2020 The Struie (£44 per bottle, averys.com; £45.99, reduced to £34.49 per bottle in a Mix Six, majestic.co.uk) shows that tenderness and freshness are part of the modern Torbreck vocabulary. Using a slice of Eden Valley fruit to lift perfume and add spice, this wine has left people gasping for more.

A trio of mighty shiraz completes the picture. 2019 The Factor (£100 per bottle, averys.com) is the vinous equivalent of a rock concert. 2019 Descendent (£520.06 for six, laithwaites.co.uk) is incredible, and 2019 RunRig (£160 per bottle in bond, laywheeler.com) is monumental.

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

This week: properties with wildlife ponds – from a converted Grade II-listed stables on an estate in Che

Old Hall Stables, Brererton, Cheshire. A conversion of Grade II-listed stables that were formerly part of the Brereton Hall Estate. The interiors feature exposed brickwork, fireplaces with wood-burning stoves and a large kitchen with patio doors overlooking the mill pond. 4 beds, 4 baths, 4 receps, office, triple garage, 1 acre. £1.695m Fisher German 01565-757970.

Horse Hill Farmhouse, Norwood Hill, Surrey. A Grade II-listed house dating from the early 16th century with Georgian additions. The gardens have mature trees, an orchard, a pool and a lake. The house has exposed wall and ceiling timbers and wood-burning stoves. 5 beds, 2 baths, 2 receps, 2 acres. £1.75m Fine & Country 01737-789177.

Constantia Manor, Isfield, Uckfield, East Sussex. A country house and organic farm that is part of a conservation project to create a diverse natural habitat and private wildlife reserve including ponds, reed-fringed lakes, woodland and wildflower meadows. There is a log cabin used as a holiday rental and commercial units that are let out. 7 beds, 5 baths, 2 receps, office, gym, 187 acres. £5m Savills 01732-879050.

eshire to a country house with a holiday let and a 187-acre nature reserve in East Sussex

Heavers Mill, Framfield, Uckfield, East Sussex. A converted Grade II-listed water mill arranged over four floors, with a raised terrace and a private riverside sauna. The river running alongside the garden provides a haven for a variety of wildlife. The interiors include exposed wall and ceiling timbers, exposed stone work, and wood-burning stoves. 3 beds, 2 baths, 2 receps, detached office, triple-bay garage, stables, paddock, 6.5 acres. £1.375m Batcheller Monkhouse 01424-775577.

Detached house in Walkeringham, Doncaster, Nottinghamshire. A Grade II-listed Georgian farmhouse in a rural location with panoramic views. The landscaped gardens include a large wildlife pond with deck and pontoon. 3 beds, bath, 2 receps, snug, orangery, utility, office, outbuildings, outdoor covered seating area, gardens. £900,000 Fine & Country 01652-237666.

The Manor, Banbury, Oxfordshire. A Grade II-listed, 17th-century farmhouse in the Cotswolds with a range of outbuildings and adjoining cottages and apartments that are let on assured shorthand tenancies. There is a kitchen garden and wildlife pond. 4 beds, 2 baths, 2 receps, breakfast kitchen, study, office, 2 bed cottage annexe, 1-bed stable cottage, stables, courtyard parking. £1m Hayman-Joyce 01608-651188.

Cress Cottage, Sherrington, Warminster, Wiltshire. A Grade II-listed, 18th century village house in an Area of Outstanding Natural Beauty overlooking the village pond. It has been extensively renovated and has beamed ceilings, exposed stone work, an inglenook fireplace with a wood-burning stove and large gardens.3 beds, 2 baths, recep, utility, breakfast kitchen, 2-bed annexe, garage. £1m Hamptons 01722-480142.

Street Farmhouse, Lidgate, Suffolk. A Grade II-listed village house dating from the 16th century with mature gardens that include a large fish pond. The interiors have exposed wall and ceiling timbers, inglenook fireplaces, wood floors, a panelled fining room and a large country kitchen with Aga. 5 beds, 2 baths, 3 receps, breakfast kitchen, utility, cloakroom, triple garage, office/ annexe with ensuite bedroom, garden stores/gym/games room, parking, 0.62 acres. £1.195m Jackson-Stops 01638-662231.

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Bridge by Andrew Robson

Dodging the promotion

At Table One, West led the Ace of Clubs versus Four Spades, and followed with the King (normal-looking if uninspired). Declarer ruffed, crossed to the Ace of Diamonds, and led a Trump. When East's singleton King popped up, he could win the Ace, cash the Queen (felling West's Knave), and merely concede two Hearts. Ten tricks and game made.

Dealer South — Both sides vulnerable

North
♠ 109874
♥ Q5
♦ A832
♣ QJ

West
♠ J5
♥ 64
♦ 10654
♣ AK852

East
♠ K
♥ AK108
♦ QJ7
♣ 109763

South
♠ AQ632
♥ J9732
♦ K9
♣ 4

The bidding

South	West	North	East
1♠	pass	3♠	pass
4♠*	pass	pass	pass

* Six-losing tricks – I like it. Point-counters will not bid Four Spades, arguing, "Only ten points partner". Indeed, they may not have opened the hand at all (this is, for me, a clear One Spade opener, given the lovely shape).

At Table Two, West, French international Véronique Bessis, found the lethal switch at trick two (after one top Club) to the six of Hearts. Can you see what is about to happen? East wins the Ace-King of Hearts, whereupon the lead of a third Heart sees West able to ruff with the Knave. Down one.

Declarer, Barnet Shenkin of Scotland, now living in Florida, saved the day. On the first Heart (won by East's King), he dropped the nine of Hearts; he then followed with the Knave under East's Ace. Not believing that it was West who held the doubleton Heart in the light of declarer's falsecards, East reverted to Clubs.

Phew! Declarer had prevented the Trump promotion. He ruffed the Club, crossed to the Ace of Diamonds, led a Trump to the King and Ace, and was claiming his vulnerable game soon after.

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

Tim Moorey's Quick Crossword No. 1152

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 1 May 2023. By post: send to MoneyWeek's Quick Crossword No.1152, 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.1152 in the subject field.

TAYLOR'S PORT

Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 Joiner in B&Q (9)
8 Saw description of unfinished cake? (7)
9 Builder's mother and child (5)
10 Wife leaving person who's feeble and a rascal (3)
11 Dish left in refurbished hacienda? (9)
13 Very likely and unusual issue (4-2)
15 Food for your setter in the sun? (3, 3)
17 They could be involved with armaments (3-2-4)
18 First man without a mother (3)
19 Has to have massages by the sound of it (5)
21 It's what it is (7)
22 Rush to get healthy plant (9)

DOWN

1 Behave badly (3, 2)
2 Very crowded (6, 3)
3 Lessen (6)
4 A weapon (3)
5 Get rid of (7)
6 Surroundings (11)
7 Increase (11)
12 Sedimentary rock (9)
14 Formal evenings perhaps (7)
16 Photographer's accessory (6)
18 Amusing in a quaint way (5)
20 Diocese (3)

Name

Address

email

Solutions to 1150

Across 5 Altercation *C inside alteration* **7** Delaware *led reversed + aware* **8** Lite *L + ite(m)* **9** Iffy *(J)iffy* **10** Balmoral *balm + oral* **12** Needless *needles + s* **14** Done *Don + e* **15** Brrr *B + three RRs* **16** Evensong *even + N in so g* **17** Space cadets *anag.* **Down 1** Steady *anag* **2** Preamble *deceptive def* **3** Fare *homophone fair* **4** Rialto *anag* **5** Ace of hearts *anag* **6** Net earnings *deceptive def* **11** Las Vegas *vega in lass* **13** Dirham *anag* **14** Dasher *A in herds anag* **16** Ewe *ewe + r*

The winner of MoneyWeek Quick Crossword No.1150 is: Adrian Perry of Berkshire

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.

Sudoku 1152

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

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.

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

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Has capitalism failed?

Those who think so come out of the woodwork in every crisis. They're wrong

Bernie Sanders: a selfless devotee of socialism (net worth: $3m)

©Getty Images

Bill Bonner
Columnist

You can tell when we are in an economic crisis: the influencers start to tell us how "capitalism" has failed, that "the system" that made us so wealthy has now reached the end of the line, that there is no more juice in that lemon.

"The latest release of US whole economy profits data delivered another shock to my weakening confidence that the capitalist system is working as it should," says Albert Edwards, a strategist at Société Générale. Everything is getting more expensive, while wage fail to keep up with the cost of living. This "greedflation" is a result of company profiteering, says Edwards, first during the pandemic, and now to exploit the war in Ukraine.

No! Unbelievable! Those greedy SOBs; they raise prices, when they can get away with it! Well, thank God other segments of the population are more public spirited, more self-sacrificing and more civic minded. You don't see them trying to take advantage of a bad situation. Take the long-suffering consumer, for example. He realises that producers are always trapped between resource costs, labour, taxes and interest rates. So they always want to pay full price so that producers' profit margins can be maintained, right? No discount shopping for them.

And what about employees? You don't see them asking for wage rises when there's a shortage of skilled labour. Oh no. They happily stick with their low salaries so employers can keep prices as low as possible.

But if you're looking for true civic virtue, you can't ignore the public servants, who never ask for anything. Would they consider increases to their wages or pensions, knowing that governments are already a little short of cash? Of course not. Greed is uniquely concentrated in the corporate sector. And if businesses weren't so greedy, prices would be much lower, right?

> *"Capitalism is what happens when you leave people alone"*

We have that on the authority of at least two of the American peoples' most selfless representatives: Bernie Sanders (net worth $3m) and Elizabeth Warren ($67m). Also, TV host and political commentator Jon Stewart ($120m) deserves a mention for his performance grilling former treasury secretary Larry Summers. All of them believe their own salaries and profits are merely reflections of their worth – they deserve the money. Amounts earned by corporate management and stockholders, on the other hand, are just evidence of "obscene greed".

What troubles us is this: Stewart, Sanders, and Warren are paid to act like fools. Albert Edwards is not. He's a serious financial analyst. What's gone wrong with him? He must know that "capitalism" is no "system". It's merely what happens when greedy people – consumers, workers and owners – work out whatever arrangements they can. It is infinitely adaptable.

Capitalism doesn't care how much things cost. It doesn't care who works for whom, what they do, how they do it, or how they share the profits and losses. It only cares that, whatever they do, they do so voluntarily. That is really the only difference. Capitalism is based on win-win trades. Other "systems" are win-lose, where one group uses its police power or robbery or treachery to get what it wants.

"Capitalism" is just a word used to describe what happens when people – with all their faults and foibles – are left alone to get the job done. The alternatives – statism, central planning, various forms of state-sponsored collectivism – all require the use of force. And they give the "experts" more power and money. "The People", meanwhile, get poorer.

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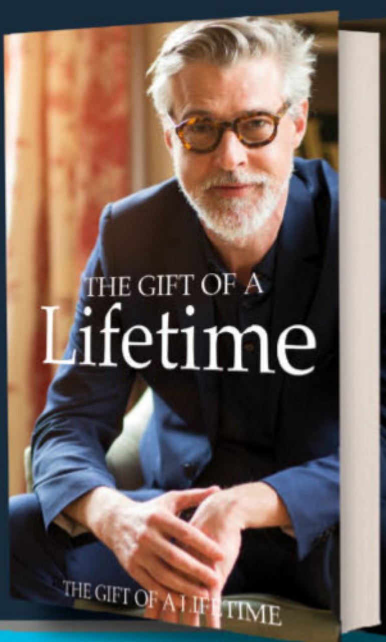

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