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MONEYWEEK

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Kick the tyres

How to find stocks that will go the distance

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MoneyWeek
5 June 2020 | Issue 1002
Britain's best-selling financial magazine

From the editor-in-chief...

You have to dig around a bit for good news at the moment. It isn't in fashion. But here is some. In April, UK households paid off £5bn-worth of credit card debt and £2.4bn of personal loans (see page 26 for help on how to do this yourself). That's the most on record. At the same time UK savings rates are on the rise: according to money management app Yolt, their users put 70% more into savings accounts in April than in February. They also put 63% more into various investments. Thanks to generous furlough schemes, the ability to take mortgage holidays (and so to focus on chipping away at higher-interest debt) and, of course, the full cancellation of many of our usual routes to overspending, we are saving more than we have in a long time – £16.2bn in April compared to around £5bn in a normal month.

You will say this is temporary. You could be right. As soon as lockdown ends and the real tally of lost jobs begins to show (see page 19), a large number of people will lose their ability to save very quickly. And many of those who have been forced into retrenching over the last few months but who also hang on to their incomes post-lockdown will return to their old habits sharpish (note the three-hour queue outside Ikea at the weekend).

But the key point is that many households have used the crisis period to build resilience into their household balance sheets. This should feel pretty good (go to moneyweek.com and listen to my latest podcast with ex-Bank of England governor Lord King on how this worked for the UK as a whole on the way into the Covid crisis). It may become a new habit. It may not be possible for it to become a new habit. But it does mean that as we come out of the crisis, people will be in a much better position than they might have been – something that suggests that the V-shaped recovery the stockmarket is expecting remains a genuine possibility (see page 4 on the extraordinary recovery of equities since March, and page 14 for Cris's thoughts on why valuations still matter).

Ikea re-opens: flatpacks have never looked so tempting

"Many households will emerge from the crisis with far more resilient balance sheets"

Commodities look cheap

With that in mind you might start to turn your eye to the commodity sector, an area we haven't (bar precious metals) been much interested in for a while. The S&P Dow Jones Commodity Index is down around 5% a year over the last decade and commodity stocks as a whole are currently trading at an 80% discount to the S&P 500 (see page 5 and also page 4 for news on how the oil market is moving). Contrarians will sense an opportunity there.

Resilience should not just be the thing to look for in your household balance sheet. It is also the new buzz word in investing. Long-term investors will increasingly want to be sure that the companies they hold are focused more on being able to weather crises than they are on ramping short-term stock price performance via borrowing and buybacks. How do you make sure you do this too? See our cover story on page 20 for thoughts on the process and the best picks. If you run a small business turn, too, to page 27. State aid is winding down – make sure you are as ready as you can be.

Finally, a word on one of your favourite subjects, house prices. Post-lockdown the great fear of property owners (and great hope of would-be buyers) is that post-lockdown prices will fall fast. Will they? Max thinks not – see page 23.

Merryn Somerset Webb
editor@moneyweek.com

Loser of the week

Czech billionaire Petr Kellner's push into China was meant to "turbo-charge" one of eastern Europe's biggest fortunes, say Alexander Sazonov and Venus Feng on Bloomberg. Instead, Kellner's fortune has dropped to $10bn, the steepest such drop seen this year among the richest eastern Europeans outside of Russia. In all, Kellner has seen his value drop by $2.5bn since January. It's mostly due to a $1.5bn fall in the value of his stake in consumer lender Home Credit – he was forced to scrap a planned public listing for the company in November after investors demanded a lower valuation. Now the coronavirus outbreak has added to Kellner's woes – China's sluggish economy has resulted in consumer lending activity shrinking, following countrywide lockdown measures. That's not great news for Home Credit, which "has most of its loan book in that country", leaving question marks over what's next for his Asian expansion.

Cover illustration: Adam Stower. Photos: Rex Features; Getty Images

Good week for:

British holidaymakers will be "most welcome" in Portugal this summer despite the Covid-19 pandemic, says Tom Burridge on the BBC. Portuguese foreign minister Augusto Santos Silva said he hoped an air bridge between the UK and Portugal could be secured by the end of June, meaning arrivals will not have to self-isolate, adding that any travel quarantine "was an enemy of tourism".

Nearly **500,000 people** logged on to watch the likes of Sandi Toksvig (pictured), Tori Amos and Stephen Fry at the first online Hay Festival, says the BBC. The 33rd edition of the literary event was free and was broadcast online over the past two weeks after it received donations of £350,000 that helped it go ahead in its digital format.

Bad week for:

Australia's alcoholic drink producers have seen "dramatic volume declines" due to the coronavirus pandemic, says Rachel Arthur on Beverage Daily. April was the worst month on record for sales of beer, wine, and spirits, resulting in an A$8.5bn loss in business revenue. The closure of bars, clubs, and restaurants in April and May has resulted in "significant declines" for beverage producers, with home stocking-up in March not doing enough to offset overall figures.

Thousands of Muscovites say they have been wrongfully fined by the smartphone app that the city requires quarantined patients to download, says Daria Litvinova in The Seattle Times. Authorities issued around 54,000 fines, adding up to $3m. The app – which pesters patients for selfies to prove they are at home – has nearly 70,000 registered users.

The bulls start to stampede

Alex Rankine
Markets editor

Consumption accounts for 70% of the US economy

©Getty Images

The global stock rally has "reached a tipping point", writes John Authers on Bloomberg. The S&P 500 has bounced by more than a third since its March nadir, with the FTSE 100 advancing by almost 25% over the same time period.

Many commentators have been perplexed by the strength of the comeback. The virus is still far from under control, a vaccine looks far off and global unemployment has risen to Depression-era levels. Yet bulls argue that the economy will be able to stage a swift recovery now that lockdowns are being lifted and point to the tidal wave of central-bank liquidity juicing market returns.

Cyclicals join the party

The rally has been spearheaded by technology and pharmaceuticals, but in recent weeks more cyclical businesses such as carmakers, retail and travel have been catching up. That suggests that rather than simply pricing in the winners and losers of lockdown, markets are now optimistic that the economy as a whole is heading for better days. The market has staged a recovery far swifter than that seen after previous crashes, notes Authers. The "great majority" of S&P 500 stocks are now trading above their 50-day moving average, a technical measure that historically spells further gains to come. The "force and momentum" of the current rally can no longer be denied. Investors who were once sceptical are now "prepared to believe the best".

The "doubters" are turning into "believers", agrees Richard Henderson for the Financial Times. American retail investors have decided to buy the dip. Morgan Stanley reports that users of trading app Robinhood have "more than doubled their positions" in US blue chips since the rally started. Strikingly, depressed travel businesses American Airlines and cruise operator Carnival are among the most popular plays. Steven DeSanctis of Jefferies says that frenetic trading of biotech stocks has started to resemble the "frothy buying" of the dotcom bubble.

Fundamentally unsound

US consumer spending dropped by 13.6% in April, the biggest monthly fall on record. American consumption accounts for about 70% of US GDP and is a key driver of global growth. Yet with more than 40 million unemployed, many are tightening their belts. The Congressional Budget Office forecasts that the pandemic will cost the world's biggest economy a cumulative $7.9trn in lost real GDP over the coming decade. That dims the outlook for company profits, the key driver of equity valuations. Analysts expect a 20% year-on-year drop in S&P 500 earnings over the next four quarters, reports Justin Lahart for The Wall Street Journal. Falling earnings and rallying stock prices have pushed the US market's valuation up to 21.6 times expected earnings, "territory last seen during the dotcom bubble". Optimists say that the role of markets is to look through the turmoil to better days ahead. But the relentless drumbeat of bad earnings data could yet put the faith of stockmarket bulls "to the test".

Oil rallies – but a full recovery is a long way off

US futures plunged below zero in April due to Covid-19's destruction of demand and a US-Saudi price war. Yet oil then staged an 88% rally during May.

Slowly reopening economies and the recent producers' deal to cut output by ten million barrels per day in May and June – a deal that this week looked set to be extended – have stabilised the market. Brent crude continued its rally early this week, eclipsing $40 a barrel.

Fields in the North Sea are becoming uneconomical

©Getty Images

The recovery still leaves the industry and the countries that depend on it in a difficult spot, says Ed Clowes in The Daily Telegraph. Many US shale drillers need prices above $50 to survive. Distressed debt in North American energy tops $190bn. Saudi Arabia has been forced to bring in tough austerity measures to balance the books, slashing benefits and effectively tripling VAT. Lower prices saw Russian GDP contract by 28% in April. Closer to home, some analysts warn that the shakeout could "accelerate the death of the North Sea", where fields are becoming uneconomical.

The pandemic has also eclipsed the oil market's usual geopolitical worries, says Samuel Burman of Capital Economics. So great has the demand destruction been that even if Iran blocked the crucial Strait of Hormuz shipping route there would be little impact on prices; many Middle Eastern states are cutting back exports anyway.

The most bullish analysts think the supply glut could end in weeks, writes Ellen Wald for Barron's. Yet economic reopening is just the first stage on the path to more normal demand for the word's favourite commodity. Fear of the virus remains widespread, meaning many are still avoiding travel and leisure. The market must also contend with the scarring effects of a deep recession. The journey back to pre-crisis levels of oil demand will be a long one.

More extreme monetary policy

The UK is heading for negative interest rates, say Morgan Stanley analysts Jacob Nell and Bruna Skarica. Economic weakness is likely to prompt the Bank of England to slash rates below zero at the end of this year. While the top priority now is propping up the Treasury's splurge through quantitative easing, the focus will shift to interest rates once government furlough schemes end in the autumn. It wouldn't be a temporary measure either: the experience of other countries shows that negative interest rates can "persist for years".

Talk of a world in which savers pay for someone else to take their money moves us into "Alice in Wonderland territory", as Ruth Sunderland points out in the Daily Mail. In practice, negative interest rates are unlikely to mean interest income for mortgage borrowers and deductions on balances in savings accounts. But they make for a more brittle banking system and stoke wealth inequality by making it harder for the poor to grow their cash savings and adding yet more liquidity to asset markets.

"Ultra-extreme monetary policy" has wrought enough damage as it is, agrees Liam Halligan in The Daily Telegraph. How else to explain the absurdity of a stockmarket rally during the worst UK economic decline in 300 years? Launched in 2009 as a "£50bn, one-off emergency response", the Bank of England's QE programme is today worth £645bn. Loose monetary policy is "way past the point of doing any good".

US-China tension mounts

Could a resumption of the US-China trade war sink the stockmarket? US secretary of state Mike Pompeo has announced that Washington no longer considers Hong Kong to be autonomous from mainland China following the imposition of a new security law, jeopardising the city's privileged economic and legal relationship with the US.

The "combative rhetoric" is hardly creating the stable backdrop the global economy needs if it is to bounce back from Covid-19, say Michael Farr and Dan Mahaffee for CNBC. Markets have yet to succumb to the grim economic news worldwide, but we could be approaching the "last straw" – the moment when just one more negative development finally pushes markets over the edge.

The political crisis has taken a heavy toll on Hong Kong's Hang Seng index, which has tumbled by 15% since the start of the year. The index has significantly underperformed other Asian markets, with mainland China's SSE and Japan's Topix down just 5% and 6% respectively this year.

The city's stocks enjoyed a good start to the week, advancing 4.4% over Monday and Tuesday, but concern is growing that the "Phase One" US-China trade deal could be under threat. China has promised to buy $36bn in US agricultural products this year as part of the truce. There was confusion this week as reports that Beijing had halted the purchases conflicted with news that state-owned firms had placed new orders for 180,000 tonnes of American soybeans.

The US no longer considers Hong Kong autonomous from mainland China

©Alamy

Decoupling gathers pace

On other fronts the American and Chinese economies are drawing further apart. The Luckin Coffee accounting scandal has prompted greater scrutiny of the 150 or so Chinese companies listed stateside, says Craig Mellow in Barron's. Political and regulatory pressure to evict the likes of Alibaba and Pinduoduo from New York exchanges is "real and mounting". Yet denying Chinese businesses easy access to American capital may not carry the sting it once did. Social media giant Tencent Holdings has not suffered from its Hong Kong listing, returning more than 150% over the past five years.

The US has other ways to tighten the financial screws on Beijing, says Mike Bird for The Wall Street Journal. The announcement that Hong Kong is no longer to be considered autonomous could mark the first step towards a policy of restricting the ability of Chinese banks to conduct international trade in dollars, a favoured US tactic against adversaries. US moves to isolate Hong Kong strike at China's most important "point of access to global finance". That could ultimately undercut the Chinese leadership's overseas ambitions and place new strains on the country's "debt-laden property developers".

Viewpoint

"There is… a growing consensus across many [emerging-market] boardrooms that corporate success is not measured in the level of sales growth alone. Instead, from tech giants in Korea to the oil majors in Russia, a whole range of emerging-market firms are now committing to pay out a higher proportion of profits to shareholders. Even some of the state-run firms in China have increased their payouts to shareholders, egged on by gradual governance reform. This is very positive for emerging-market equities. Extensive and idle cash balances are all too often the source of subsequent poor investment… emerging markets now boast a wide range of businesses that, due to their low valuation levels, offer investors an attractive dividend yield and plenty of prospects for income and capital growth over time."

Charles Sunnucks, Jupiter Emerging and Frontier Income Trust

■ Can palladium regain its record peak?

Years of supply deficits and robust demand from the car industry, where palladium is used in catalytic converters in petrol engines, drove prices to a record high above $2,800 an ounce in February. The slump has wiped 30% off the price, says Myra Saefong in Barron's. The key to regaining the all-time high will be car sales in North America and China (diesel engines are more popular in Europe and they require platinum in converters). Chinese car sales rose by 4.4% year-on-year in April, but US ones were down 53%. Still, after the rebound there may be a longer-term shift towards cars, as they provide more protection against viruses than public transport and planes, says R. Michael Jones, CEO of mining group Platinum Group Metals.

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

Three to buy

Chubb
Barron's
Shares in this New York-listed global insurer have fallen by 20% this year. Insurers pick up the tab when disasters such as Covid-19 strike. Yet although the insurance industry's pandemic losses could ultimately reach $80bn-$100bn, that is less than the $150bn wiped off the sector at the lowest point of the market rout. Earnings should bounce back over the coming years, thanks in part to higher premiums as the industry reassess risks. On a little over book value, the shares look decent value. *$124*

Inspecs
Shares
This Bath-based eyewear frames specialist has a "clear growth vision". It is a "one-stop shop" for retail chains in search of frames for sunglasses and spectacles. A focus on affordability also leaves the company well-positioned for an era of consumer belt-tightening. In the longer term, the $131bn global eyewear market is growing, thanks to increasingly

wealthy emerging-market consumers. As a small and agile outfit, the firm's growth prospects are auspicious, although there is always the risk of competition from larger players. Buy. *190p*

McBride
The Sunday Telegraph
This manufacturer produces own-brand cleaning products such as bleach and soap powder for European retailers. Performance has been weighed down by rising raw-material costs and higher marketing spending from big brands, leading to three profit warnings in a year. Yet with the pandemic turning us all into "hygiene addicts", the outlook has brightened. On just 7.6 times next year's earnings the shares look due a rerating. *57p*

Three to sell

easyJet
Motley Fool UK
News that easyJet will restart some flights from 15 June has cheered investors, but the industry still faces huge challenges. The UK quarantine rules are likely to dampen summer demand and it may take years for passenger numbers to return to pre-pandemic levels. A rights issue may be needed to repair the balance sheet. Warren Buffett recently bailed out of his US airline investments, declaring that "the world has changed" for the sector. It seems wise to follow his lead. Avoid. *700p*

TI Fluid Systems
Investors Chronicle
This vehicle fluid specialist helps produce about one-third of the world's brake and fuel lines and 15% of its plastic fuel tanks. Management is also pushing into hybrid and electrical vehicles, which should ensure the group's long-term viability. Yet there are more immediate problems. The US-China trade war meant that sales were weakening even before the virus. This is a cyclical industry heading downwards. Sell. *176p*

Wood Group
Investors Chronicle
This Aberdeen-based energy services company has been diversifying, but nonetheless remains worryingly reliant on the fortunes of oil and gas businesses. Oil prices have stabilised somewhat since US prices fell below zero in April, but remain historically weak. That means new exploration projects are being cancelled or delayed by clients. The firm's margins are unimpressive compared with its peers'. Management has slashed salaries and paused the dividend in response to the crisis, but that leaves investors with little reason to stay put. Sell. *202p*

...and the rest

The Daily Telegraph
British mid caps have had a rotten time, but the **Schroders UK Mid Cap** trust offers a way to buy into the recovery at a "striking" discount *(420p)*. **LondonMetric Property** owns the sort of large distribution centres and localised "last-mile" facilities that are in high demand from tech giants. Buy *(201p)*. Low interest rates make water utility **Severn Trent's** forecast 4.3% yield attractive, but revenue could take a hit if customers miss bills because of the virus. Hold *(2,371p)*.

Investors Chronicle
Retailer **Halfords** stands to gain from a new £2bn government cycling programme, helping it draw a line under a disappointing period *(166p)*. The pandemic has accelerated pre-existing trends towards online retail, but warehouse landlord **Tritax EuroBox** looks unduly cheap. Buy *(81p)*.

The Mail on Sunday
Capital Drilling provides gold miners with up-to-date drilling kit and expertise, enabling them to unearth more of the metal. With gold at eight-year highs, the shares should shine *(61p)*.

Shares
A profit warning from **Pets at Home** is disappointing news, but pet care is a resilient market and management has also maintained the dividend – keep buying *(236p)*. The reopening of car showrooms is a positive tailwind for used-car retailer **Motorpoint**. Keep buying the shares *(215p)*.

The Times
News of a joint venture between pubs and brewery group **Marston's** and Denmark's Carlsberg has put some "fizz" into the shares, which are a buy on 10.6 times forecast earnings *(67p)*.

A German view

The race for a Covid-19 vaccine and the ageing of the global population is an auspicious backdrop for the biotech sector, says WirtschaftsWoche. Consider playing it with Switzerland's BB Biotech, an investment vehicle that takes stakes in fast-growing, mostly listed, biotechs developing drugs in a wide array of fields. At present it owns shares in 35 companies, with 41% of the portfolio accounted for by firms working on rare diseases; cancer and neurological diseases comprise a respective 27% and 15%. The stock has climbed by an annual 15% since it listed in 1993, and there should be plenty more upside ahead. BB Biotech also boasts an impressive 5% yield.

IPO watch

JDE Peet's has given "Europe's depressed IPO [initial public offerings] market a shot in the arm", says Hanna Ziady on CNN. Last Friday the owner of Pete's Coffee, whose key brands include Jacobs and Douwe Egberts, raised €2.25bn in an Amsterdam listing, valuing JDE at €15.6bn. The flotation, Europe's biggest this year, is a "big bet that coffee is recession-proof". The company's sales stem mostly from coffee consumed at home, a subsector that has grown during the pandemic as millions of people have had to avoid offices and cafes. Europe, the Middle East and Africa recorded only 28 IPOs in the first three months of 2020, the lowest quarterly tally in over seven years.

©Getty Images

City talk

- Shares in TUI, Europe's largest tour operator, have bounced by 60% after Spain announced that tourists could return from July, says Christopher Thompson on Breakingviews. TUI now hopes that a "bookings bump" from "sun-starved northern Europeans", combined with the sale of its stake in a joint venture, will help it avoid a "cash crunch". But quarantine rules "may keep sun-lovers at home", while a forecast 40% year-on-year decline in revenue this year will "pile pressure" on the balance sheet; debt has already reached six times earnings. It would be "prudent" to raise capital while the "sun is shining".

- Jean-Dominique Senard, who leads the global alliance of carmakers Nissan, Renault and Mitsubishi, has yet again ruled out a "full-blown merger" of the trio, says Stephen Wilmot in The Wall Street Journal. But this round of production cuts will involve a "much deeper level of cooperation" than hitherto. Each member will focus on its strengths in areas such as "vehicle type, technology or region". Still, the decision to remain legally separate entities "means leadership teams will be left constantly balancing interests". This could get messy.

- Nestlé's plant-based "Incredible Burger" is now merely "sensational", after the food giant agreed to change the name, says Emiko Terazono in the Financial Times. A Dutch court said the name was too close to US rival Impossible Foods' Impossible Burger and could confuse people. This is part of an "intensifying battle" between food producers over dominance of the fast-growing meatless burger segment. Sales of plant-based meat substitutes have soared in Western markets, especially in the US as slaughterhouses have become coronavirus "hot spots".

©Getty Images, iStockphotos

Trump takes on Twitter

The president's row with social-media giants is another sign that Big Tech may face a regulatory and political clampdown. Matthew Partridge reports

It has been a "momentous week" for social media, says Tae Kim on Bloomberg. Twitter's shares slumped by 9% after the company decision to regulate some of President Donald Trump's "most controversial posts" sparked a "backlash" from the president.

After Twitter added a fact-check warning label to two of the president's posts about voting by post, Trump insisted he would "strongly regulate or close" social-media platforms. He then signed an executive order that "seeks to limit some of the broad liability protection social-media companies have under federal law".

Trump is targeting Section 230 of the Communications Decency Act, says Charlie Savage in The New York Times. This prevents social media being sued for libel by stating that it "will not be treated as the publisher or the speaker for making others' posts available".

It also means social-media firms can't be sued for making "good faith" decisions to remove or restrict posts they deem "obscene, lewd, lascivious, filthy, excessively violent [or] harassing", even if such material is constitutionally protected. Trump's executive order argues that if they remove posts in "bad faith", they should lose their immunity.

Twitter's shareholders shouldn't panic, says David Smith in The Guardian. "[The] bark of [the] executive order is likely to be worse than its bite." The courts look set to rule that a change in the law would require an act of Congress. What's more, Trump's "dependence" on social media means he can't go too far (or even quit Twitter) since he could end up losing one of the key platforms of his presidency.

Facebook takes a different approach

Ironically, Twitter's rival, Facebook, is under fire for taking the opposite approach to Trump's posts, with employees staging a "virtual walkout", says Deepa Seetharaman in The Wall Street Journal. It took place in

A new executive order attempts to limit social media's federal liability protection

©Alamy

response to Mark Zuckerberg's decision to leave up a post from Trump about recent social unrest that many say "violated the company's rules about inciting violence". While Zuckerberg said he found it "deeply offensive", he argued that it was better to leave it up in order "to have this discussion out in the open".

Both companies may not be in any imminent danger, but in the longer run some sort of regulatory change may be on the cards, says Lex in the Financial Times. After all, Trump's opponent, Joe Biden, has also called for Section 230 to be changed. He wants social media "to be more responsible for misinformation".

Such cross-political support for change "could push Congress into greater scrutiny of the law". If this happens, then all social-media companies could either be obliged to "limit publication to a far smaller group of users", which would hit advertising, or "monitor everything that is posted on their sites", requiring a "huge increase in headcount".

Is this the end for Ted Baker?

Ted Baker is sinking deeper and deeper into the mire. Founder Ray Kelvin (pictured), who had to step aside from the company last year over allegations of inappropriate behaviour, has seen his holding in the fashion company fall by more than half as part of an emergency £105m fundraising, say Jasper Jolly and Sarah Butler in The Guardian.

Most of the money will come from a share placing. This comes "hot on the heels" of the sale and leaseback of Ted Baker's London headquarters, which raised £72m to pay back lenders in March.

Kelvin is paying a "heavy price" to keep his business afloat, but something needs to be done, says Ben Marlow in The Daily Telegraph. Since Kelvin left there have been "four profit warnings"; a board "clearout"; an audit error that led to a "massive overstatement" in the value of the clothes sitting in warehouses and "then finally Covid-19". All these have wiped 90% off the stock in a year.

Still, throwing money at the problem "is no guarantee it will go away", especially since around half the £200m raised this year will go to creditors and bankers. Investors should avoid the temptation to invest in this "dog of a stock", says Jim Armitage in the Evening Standard. Not only do lockdowns and homeworking mean that it's the "worst ever time" for Ted Baker to be selling pricey suits and party frocks, but demand for Ted's "fancy fashions" is also unlikely to bounce back soon enough for the business and brand to retain "long-term relevance and credibility". The upshot? While turning around a "soiled brand" is always difficult, it looks "nigh on impossible" in this market.

No-deal Brexit looms again

Talks on Britain's exit from the EU remain deadlocked. Matthew Partridge reports

Here we go again: the UK's Europe adviser, David Frost, and the European Commission's head of the UK task force, Michel Barnier

While much of Britain "seems to have gone to the beach" thanks to the recent easing of the lockdown, political and economic undercurrents remain dangerous, most notably over Brexit, "a giant creature that's been lurking in the shallows", says Douglas Fraser on the BBC. Thanks to several months of "inconclusive talks", little has been achieved on securing a trade deal before the transition period expires at the end of the year, and there is a growing consensus that progress is needed soon if we are to avoid the UK leaving the EU on World Trade Organisation (WTO) terms.

Sticking points

The two big sticking points are over European demands for a "level playing field" on regulation and an agreement on fisheries, says the Financial Times. The EU insists that the UK agrees to follow a "common regulatory framework" after Brexit, but the government rules that out and says that has not been demanded in other countries' trade deals with the EU. Fisheries policy also remains a "stumbling block" over fears the EU will "attempt to assert the role of the European Court of Justice" in any deal.

Don't expect the UK to make any big concessions, says John Keiger in The Spectator. German chancellor Angela Merkel and French president Emmanuel Macron are likely to try to repeat their "good cop, bad cop" routine, but their power has been greatly reduced since the days of Theresa May. Indeed, divisions over the response to coronavirus have split the northern and southern countries in the EU, leaving it "weaker and more divided than it has been since the 2008 great financial crash". In contrast, the UK government "is in a much stronger position domestically". In any case, the two sides remain "too far apart for a deal to be feasible".

Secret desires

If the two sides fail to agree a deal, then many in the cabinet, including possibly the PM himself, will be secretly pleased, says Mujtaba Rahman in The Guardian. After all, any version of a deal with the EU will "ultimately tie the UK into EU rules and regulations in some way", something that Boris Johnson and the senior members of the cabinet "are loath to accept". In contrast, leaving on WTO terms would allow them to ditch EU regulations and pave the way for a trade deal with the US, which would allow them to claim success in their project of creating "Global Britain".

The coronavirus crisis may also make it easier for the government to press on with a no-deal Brexit, says Jill Ward on Bloomberg. Many economists argue that a failure to agree a deal will mean that the economy's "shaky recovery" from the coronavirus pandemic will be "hobbled", but it would also mean that the "cost of leaving without a deal will be obscured by the far more extensive damage wreaked by the virus". Maintaining trade links with Europe also seems less important at a time when people are arguing for the need to bring supply chains closer to home. Both the UK and the EU continue to insist that a deal is their preferred outcome, but the "deadlocked talks and the limited time left mean the risk of no agreement is rising: analysts at Eurasia Group now put the odds of that outcome at 55%".

Trump plays it tough as America burns

Trump: still picking fights

Violence and unrest is gripping America following the murder of an African-American man by a police officer, but the president's inflammatory remarks about events seem calculated only to pour petrol on the fire. But his "law-and-order, tough-on-protesters" stance is part of a deliberate strategy to emulate Richard Nixon, says David Siders for Politico. Nixon used an appeal to the "silent majority" angered by widespread riots in 1968 to win the election that year; Trump is hoping that today's voters too will "recoil" at the images of "chaos and looting" and "look to the White House for stability". He is hoping such a message will go down well in the suburbs, which he narrowly won in 2016.

But this time is different, says Tim Stanley in The Daily Telegraph. Nixon was running as an "outsider"; Trump is the incumbent, who will be blamed for the condition of his country. And unlike Trump, who seems to delight in "picking fights", Nixon presented himself as a "moderate" and a "midway choice" between "chaos on the left and extremism on the right". And voters have changed too: social and racial attitudes have evolved, and in the age of the smartphone, most "do not automatically back the police if a citizen dies at their hands".

Many Republican "stalwarts" are worrying that Trump's reaction to a "national tragedy" could have "disastrous electoral implications", says Alana Abramson in Time. Trump's rhetoric will alienate key swing voters, and allow presidential candidate Joe Biden to claim to be just the tonic the country needs. Adding racial tensions to the economic and public health crises could "prove fatal" for Trump's chances of re-election.

Betting on politics

Donald Trump's response to the protests in the US (see left) and a widening gap in the polls between him and his rival for the presidency in the November elections, Joe Biden, has persuaded the betting markets to move away from the president, with the odds of Trump winning lengthening to 2.26 (44.3%) on Betfair. Interestingly, while Betfair puts Biden at 2.06 (49.5%) to be the next president, punters think that the odds of a Democrat in the White House is 1.91 (52.3%), implying there are still those who think that Biden will stand down.

One politician who seems to have come out of crisis in better shape, at least for now, is Nicola Sturgeon (pictured) –

the net approval rating for Scotland's first minister has gone up from negative levels at the start of March to a net positive rating of 13%, according to pollster Opinium. Nearly three-quarters of Scots approve of her handling of the coronavirus crisis, and some polls suggest the SNP will win a landslide in 2021.

This has led some to speculate about another independence referendum. William Hill is offering 16/1 (5.9%) on one this year, 5/1 on one in 2021 (16.7%) and 1/7 (87.5%) on one in 2022 or later. I did tip 2020 back in March 2017, but even if the SNP do win a landslide next year, they will still have to get Westminster's permission, which the prime minister, Boris Johnson, won't allow. Even if he did it would take a long time to negotiate terms. So, I'd take the 1/7 on one not happening before 2022.

©Getty Images

The EU's "Hamiltonian moment"

The bloc's new recovery fund marks a fundamental change of direction. Emily Hohler reports

The unveiling of the European Commission's €750bn recovery fund, made up of €500bn of grants and €250bn in loans, has been described by EU supporters as the bloc's "Hamiltonian moment", that is, comparable to the actions of the first US Treasury secretary who brokered a historic deal in 1790 for America's federal government to assume the states' debts in return for new tax powers, says Tom Rees in The Daily Telegraph. Under the plan, proposed by German Chancellor Angel Merkel and French President Emmanuel Macron, €500bn would be borrowed from financial markets and paid back from future EU budgets, marking a "transformation of the EU's powers".

The Merkel-Macron deal: it's a game-changer
©Getty Images

Hailing the moment as a breakthrough in healing EU tensions may, however, be "premature". All 27 EU members must agree, including the "frugal four" (Austria, Denmark, Sweden and the Netherlands), which have already "signalled their disapproval". The frugals are likely to demand cuts to the size of the €750bn pot, propose a higher ratio of loans to grants, and may insist on "tough conditions" attached to those that are granted. The headline figures are intended to "impress the gullible", says Wolfgang Munchau in The Financial Times. With "no shortage of low-interest-rate borrowing", loans are "irrelevant", and "not everything called a grant constitutes a fiscal transaction". Some are used to generate lending. "By my calculations, the fiscally-relevant part of the package is a little over €400bn", most of which comprises a €310bn recovery fund. Dividing that equally over four years, that represents an "annual fiscal boost of 0.6% of the EU's 2019 GDP". It's "not nothing", but it's hardly a "Hamiltonian moment". The deal may not even "fly legally", since the EU is "not supposed to run on debt".

What makes the Merkel-Macron deal a "potential game-changer" is the "financial mechanism" to which the pair are now "publicly committed", says Anatole Kaletsky in Project Syndicate. The "key innovation" is financing the fund with bonds issued directly by the EU and guaranteed by its own revenues (presumably to "avoid the vexations of jointly guaranteed 'Eurobonds'"). Such reliance on the EU in turn implies the creation of a "fiscal federation". To guarantee and service this level of borrowing, the EU requires more tax revenue. A consensus seems to be emerging that any new EU taxes should be based on economic activities that transcend national boundaries such as digital and carbon taxes. The third innovation is allowing the EU to "leverage its activities with borrowing". Today's near-zero interest rates for triple-A sovereign borrowers mean the potential leverage "available to the EU from a modest amount of extra revenue is enormous". There are of course "big obstacles" to achieving unanimous backing, but "if EU leaders can rise to the challenge, Europe's 'Hamiltonian moment' will finally have arrived".

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Washington DC

Expect a "swoosh-shaped" recovery: The economy will take almost a decade to recover from the pandemic, the US Congressional Budget Office (CBO) predicts. It puts the economic cost at $7.9trn by the end of 2030, "equivalent to nearly three times the annual output of Britain", says James Dean in The Times. Rather than the swift "V-shaped" recovery many had hoped for, the CBO expects the turnaround to be "swoosh-shaped", like the Nike brand logo. Democratic senators Chuck Schumer and Bernie Sanders requested the update to the January CBO predictions to support their call for an additional $3.4trn in stimulus measures. Consumer spending fell by 13.2% month-on-month in April, the biggest drop since records began in 1959. On the flip side, the personal saving rate, which measures saving as a proportion of disposable income, rose from 12.7% in March to 33% the following month. "This is the basis for believing that spending will rebound strongly as lockdowns are eased, but it will also make it easier for Republicans in the Senate to keep pushing back on the idea of further stimulus", says Ian Shepherdson of Pantheon Macroeconomics.

Berlin

Recovery on the horizon: The German economy is on course to shrink by 6.6% this year, the Institute for Economic Research (Ifo) has predicted. However, its survey of 9,000 companies points to a sharp rebound of 10.2% in 2021. "On average, these businesses expect their own economic situation to normalise within nine months," says the Ifo's Timo Wollmershäuser. That optimism was supported in IHS Markit's composite Purchasing Managers' Index, covering both the services and manufacturing sectors. The index rose to 32.3 from 17.4 in April. (A reading below 50 indicates a contraction.) The mood was more pessimistic in France, where the government revised its forecast for French GDP to shrink by 11% in 2020, compared with an earlier 8% prediction. "We need to stay the course of reducing tax for households and giving businesses the margin to digitise, robotise and innovate," finance minister Bruno Le Maire said. In Switzerland, GDP shrank by 2.6% in the first quarter from the last three months of 2019, the biggest quarterly contraction since 1980.

Islamabad

Locusts plague India and Pakistan: In the midst of the pandemic, India and Pakistan are "battling another crisis – their worst locust attack in nearly three decades", says Kiran Sharma in the Nikkei Asian Review. According to the UN Food and Agriculture Organisation, a swarm one kilometre-squared contains about 40 million locusts, which consume as much food in one day as 35,000 people. They can travel 90 miles a day and lay up to 1,000 eggs per square metre of land. In 1993, assistance was provided to both countries and an area of around 628,000 hectares sprayed with insecticide to prevent the locusts migrating to other regions. This time, although India's wheat harvest is complete, precluding extensive damage to major crops, Pakistan is set to incur losses of around £2bn in wheat and a further £2.3bn in summer crops, which are now being planted, says The Guardian. This will be "economically devastating" for a country where agriculture accounts for 20% of GDP and more than half the population live and work in agricultural areas. Pakistan is already suffering from "crippling" 12% inflation and the economic burden of Covid-19. Locust devastation could render basic foods unaffordable.

Kinshasa

Congo suffers another Ebola outbreak: A second Ebola outbreak has hit the Democratic Republic of Congo 1,000km away from the ongoing outbreak in the country's east, which has caused at least 2,243 deaths since 2018, says Reuters. The World Health Organisation says authorities have identified six cases in the north, including four deaths, near the port city of Mbandaka, home to 1.2 million people. The country is fighting to contain this new Ebola wave alongside Covid-19 and the world's largest measles epidemic, says Sky News. Coronavirus has been detected in seven of 50 provinces, with 3,000 recorded cases and 72 recorded deaths, although the true figure is likely to be much higher. Measles poses the worst health threat. Since 2019, there have been 369,520 cases and 6,779 deaths. The economy is taking a battering too. The country's extractive industry is forecast to fall 5.6% year-on-year as Covid-19 causes a slowdown in global trade and it recently cut its 2020 economic growth forecast to -1.9%.

The way we live now: the rise of female butlers

"Had Jeeves and Wooster been created today, it is likely they would have been a mixed duo," says Tom Ball in The Sunday Times. Data from the British Butler Institute (BBI) reveals that half of all students training to become butlers are female. This marks a significant increase from 10% as recently as 2015. Programmes such as *Downton Abbey* have led to a rise in demand "among foreigners and more newly wealthy clients", according to Gary Williams, principal of the BBI. Around 70% of demand for butlers comes from non-British households, notably Russians, Americans, and Middle Eastern families. Anne-Claire Ravnic, 42, a lady butler who works in Knightsbridge, said the "changing nature" of the clientele was partly behind the shift towards female butlers. Middle Eastern families often request a female butler owing to rules governing gender separation in Muslim households. The overall shift towards greater gender equality in the workplace also helps explain the ascendancy of female butlers. Butlers can expect a starting salary of as much as £40,000, with the more experienced receiving up to £150,000, "along with the perks of free accommodation, meals and foreign travel". The highest-paid butler in the world, who works for a billionaire in Miami, reportedly earns £2.2m a year.

Jeeves and Wooster would be a mixed duo today

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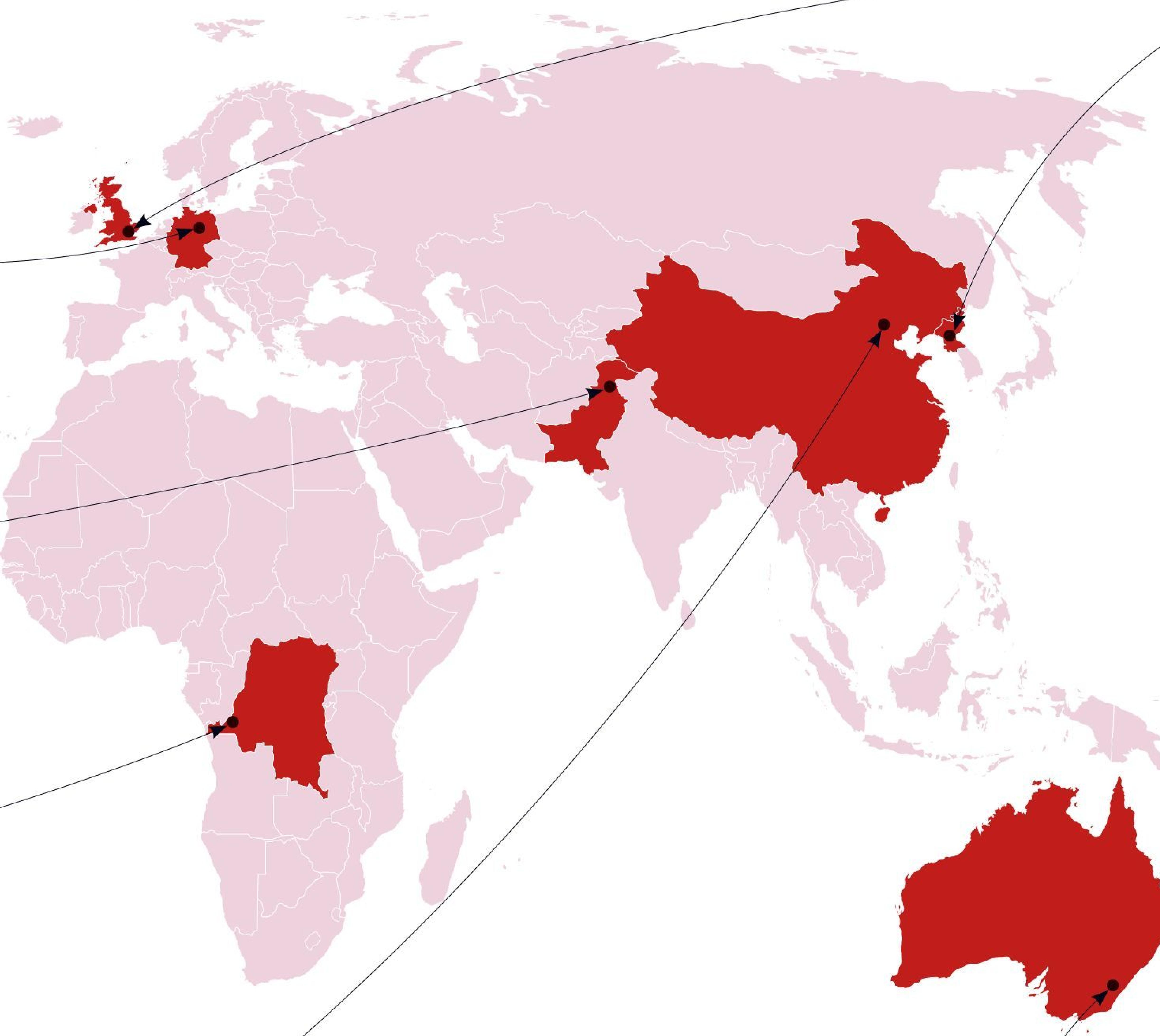
Consumers have paid debt off during lockdown and seem ready to go shopping again

London

Households' record debt repayment: The number of deaths related to Covid-19 reached 61,920 on Tuesday, while lockdown restrictions eased further this week. A hint of a manufacturing recovery was recorded in May, compared with April's near-30-year low. The IHS Markit/CIPS Manufacturing Purchasing Managers' Index tracking activity in the sector rose to 40.7 from 32.6, yet it was still below the 50 level that indicates growth. But "the glass-half-full perspective is one where the rate of contraction has eased considerably since April, meaning – [without] a resurgence of infections – the worst of the production downturn may be behind us," says IHS Markit's Rob Dobson. With shops shut, households repaid a record £7.4bn of unsecured debt in April, the biggest monthly net repayment since the Bank of England's records began in 1993, "fuelling hopes... consumer spending will rebound after lockdown", says Valentina Romei in the FT. Retailers, in turn, have cut their prices by the most in a month since 2006, say the British Retail Consortium and market research firm Nielsen. Prices fell by 2.4% in May.



Pyongyang

Kim taps cronies for cash: Kim Jong-un (pictured) is demanding money from North Korea's elite to counter the double threat of coronavirus and sanctions, says Edward White in the Financial Times. The country faces its sharpest economic downturn since 1997. As a result, it is issuing bonds for the first time since 2003 in order to raise foreign currency to cover as much as 60% of the country's budget. The plan is to force wealthy businesspeople to pony up. The country's economy has been decimated by its coronavirus restrictions, which caused trade with China to fall by over 90% year-on-year in March, while prices of imports shot up, say Simon Denyer and Min Joo Kim in The Washington Post. North Korea instituted one of the world's "earliest and strictest lockdowns", closing borders and restricting domestic travel. Despite state claims that the country has remained free of Covid-19, independent sources report widespread quarantines and deaths. Credit-ratings agency Fitch is forecasting a 6% decline in GDP in North Korea this year, the worst since a 6.5% fall 23 years ago.

Beijing

Manufacturing returns to growth: Manufacturing activity in China expanded in the month of May, with the Caixin/Markit Manufacturing Purchasing Manager's Index (PMI) reaching 50.7, says Huileng Tan on CNBC. PMI readings above 50 indicate an expansion. Output climbed at its fastest rate since January 2011 as Covid-19 restrictions on work were gradually eased, while demand remained subdued. The key problem is that external demand is still weak as nations worldwide remain on lockdown. Meanwhile, the outlook for consumption is inauspicious. Weak labour market conditions are "likely to hold back recovery"; the gains in manufacturing activity fell "far short [of] reversing the jump in lay-offs during the outbreak". Forecasters at Oxford Economics think the Chinese economy will expand by 4.4% year-on-year in the second half of 2020, some way below the 6.1% pace seen in 2019 as a whole. Meanwhile, the Chinese city of Wuhan, where the coronavirus outbreak began, has found no new cases after testing almost its entire population, while it has identified only 300 asymptomatic carriers of the virus. The city-wide testing effort, which cost $126m, was launched in mid-May after a cluster of new cases raised fears of a second wave.

Canberra

The end of a 30-year growth streak : Australia is set for its first recession in nearly 30 years after bushfires and the pandemic caused the economy to contract marginally during the first quarter of 2020, says Jamie Smyth in the Financial Times. The full impact of the shutdown will arrive in the second quarter, when GDP could shrink by as much as 10%. Two successive quarters of contraction denote a recession. Though he accepted the economy was facing its biggest downturn since the 1930s, Reserve Bank of Australia governor Philip Lowe (pictured) said he has detected "positive financial signs due to the nation's success controlling the spread of coronavirus". The country has reported just 102 deaths and 7,000 cases. Meanwhile, the state of Victoria has joined China's Belt and Road programme, a "trillion-dollar flagship foreign-policy initiative", says Rachel Pannett in The Wall Street Journal. The deal entails co-operation on infrastructure and manufacturing. It is "driving a wedge" between Melbourne and Canberra, where animosity towards Beijing is rife as the two countries "spar" over China's handling of the outbreak.

Putin's grip on power

The Russian president had been looking forward to a spring of triumphs, including a new constitution that strengthens his hand. Now he faces multiple crises and a fractured elite. Simon Wilson reports

Putin's handling of coronavirus could weaken his authority

©Alamy

What's happened?

Russia's president Vladimir Putin announced this week that a key constitutional referendum – originally scheduled for 22 April but postponed due to the coronavirus pandemic – will now go ahead on 1 July. The public will vote on a range of reforms that broadly strengthen the powers of the state, make it harder for Putin's opponents to assume political power, and include a new presidential term limits clause that resets Putin's own tally of terms to zero. If it passes, it means Putin – who has ruled Russia as president or PM since 1999 – could now remain in power until 2036. To encourage a "yes" vote, the Kremlin's reforms must be voted on as a single package – one that handily includes some big financial incentives, such as improved minimum-wage guarantees and a constitutional right to pensions that are indexed to inflation.

Will it go through?

It's very unlikely that the Kremlin would be going ahead with the vote if it weren't sure it could still win it. The delicately balanced reforms reflect the tacit grand bargain that has characterised Putin's long reign: relative economic prosperity in return for authoritarian rule and the veneer of "managed" democracy. Putin's approval ratings have fallen significantly in recent years, from above 80% to just 59%. The approval of three-fifths of the population is something most Western leaders can only dream of, but Putin's ratings have dropped sharply (by six points) in the pandemic. Many analysts believe the grand bargain is showing ominous signs of fraying.

Why's that?

The double whammy of this spring's oil price war with Saudi Arabia followed by Covid-19 and its economic impact. Putin had been looking forward to a spring of triumphs: a win in the crucial plebiscite followed by a Victory Day parade (marking 75 years since Soviet Russia's defeat of Nazi Germany) attended by world leaders. Instead, Putin's strangely disengaged and rudderless handling of the coronavirus crisis – conspicuous by his absence for long periods and handing de-facto control to underlings and state governors – has dented his authority. Nor is the crisis abating. Russia now has more confirmed cases than anywhere in the world except the US and Brazil (more than 430,000 as of Wednesday), and its daily tally of new cases has remained stubbornly high (around or above the 9,000 mark) for the past month. In terms of deaths, Russia's confirmed toll is only 5,215, but many analysts believe Russia is massively under-reporting deaths from Covid-19 – a strategy of secrecy and denial that merely stores up more trouble for its government.

"The elite Putin governs is riven by conflict"

How's the economy doing?

Putin's decision to trigger an oil-price war in early March was "disastrously timed", says the Financial Times. The price of Russia's chief export and the mainstay of its economy and government finances collapsed just as Covid-19 forced the economy into shutdown, with the result that Russia now faces a worse crisis than the 2009 global recession. Initial estimates of the collapse in GDP this year range from 5% to 12%, pushing the spending deficit up beyond 6% of GDP. Russia has taken a rather different approach to the crisis than many other countries. Despite having reserves of around $143bn at the start of April (9.8% of GDP), the Kremlin has put only around 2.8% of GDP into fiscal stimulus measures aimed at keeping the economy afloat (that compares with 10% in the US, and more in many European countries). Moreover, the figure is only around 1% in terms of direct payments to firms and wage support for individuals; the rest is in the form of loan guarantees and tax deferrals.

Will it work?

Some analysts think its economy is better placed to withstand the twin impacts of epidemic and oil-price shocks than it was in 2008 or 2014 because it has little external debt and significant currency reserves. But that looks optimistic, reckons Owen Matthews in The Spectator. When the rouble lost half its value after the annexation of Crimea (and subsequent sanctions) in 2014, Moscow banned the import of EU foodstuffs to boost the economy and ensure "devalued roubles would hold their local purchasing power". This time round, while the UK and other Western nations will print or borrow their way out of trouble, sanctions mean Russian private businesses remain cut off from money markets and "Russian sovereign debt is only attractive when underpinned by healthy oil revenues". The lopsided Covid-19 financial assistance – benefiting big employers more than entrepreneurs – will only entrench the dominance of state-linked big businesses, says Clara Ferreira Marques on Bloomberg. "In the short term, this will strengthen the hand of a vulnerable president." Longer term, "it spells stagnation".

Will Putin survive?

Much ink has been spilt over the past two decades forecasting how the Putin endgame might unfold. Yet this time something really has shifted, argues Russian academic and analyst Tatiana Stanovaya in The Moscow Times. From a distance, Russia's elite may seem consolidated under Putin, an impression reinforced by his bid to "reset the clock" on presidential term limits. In fact, the elite for whom Putin governs is "riven by conflict" between multiple factions fighting "not just over influence and property, but also over ideology". In particular, there's a fundamental breach over Russia's future between nationalist securocrats and more economically oriented technocrats. This poses a problem for Putin, especially given that he's "increasingly absent from everyday decision-making". As a result, he "risks being more captive" to the different factions' "initiatives, their shortcomings, and their constant disputes and squabbles. In many respects, the Putin system's unity and cohesion have never been more important than now, when they are the least in evidence".

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The challenge for income investors

It's not hard to understand why so many income-oriented investors are feeling disillusioned at the moment. Big companies, from oil major Royal Dutch Shell to telecoms group BT, have been cutting dividend payouts that were once viewed – in the pre-coronavirus days – as being relatively secure. So does the current dividend crisis undermine the whole logic for investing for an income through dividends?

It's fair to describe the Covid-19 crisis as the perfect storm for dividend-focused investors. The pandemic is hitting dividend-paying businesses from all directions. Many of the most generous dividend payers are in the banking sector and insurance. Both have been ordered by the regulators to stop dividend payouts and to strengthen their balance sheets. To add insult to injury, any government bailouts are likely to come with strings attached – one of which may be to cut future dividends.

The future looks bleak for dividends

One way of capturing investors' concerns is to look at the somewhat arcane market for "dividend futures". Put simply, these markets allow traders to bet on what the likely payout from dividends across a given stockmarket will be for a future period, starting with the present year. While the estimates will never be perfect, it's sobering to realise that futures traders now expect to see a 50% decline in 2020 dividends in Europe versus a 20% decline in the US.

Looking at the first four months of 2020 versus 2019 data from Bloomberg, we can see that businesses in mainland Europe, tracked by the Stoxx 50 index, have already cut their dividends by 39%. The equivalent for the FTSE 100 by the end of April, was a 17% cut. And dividend futures suggest that the decline will get even worse.

Nevertheless, despite all this potential for doom and gloom, it's important to put this crisis into a longer-term perspective. The first key point is that earnings have fallen in previous crises, without dividends falling as far as had been expected. And even when they did fall, they subsequently rebounded. Nobel prize-winning economist Robert Shiller looked at previous peak-to-trough declines in dividends per share, stretching from November 1973 through May 2009. In the global financial crisis, US earnings per share fell by 92% (peak to trough) while dividends fell only 24%. Likewise, in the dotcom crisis, earnings fell by 54% and dividends only 6%.

> **"A cow for her milk, a hen for her eggs, and a stock by heck for her dividends"**
> **– *John Burr Williams***

Remember – it's total returns that matter

It's also important not to fixate on dividends. Economists observe that there are four components to total returns from investing in shares. The first is the absolute dividend pay-out itself. Secondly, this can then be reinvested into buying more shares. The dividend also has a tendency to grow over time, usually by more than the inflation rate, as many companies chose to focus on progressively increasing the payout. Lastly, the share price itself can go up or down based on investors' perceptions of future growth.

Many of the most successful technology companies pay no dividend at all (Amazon for instance) and choose to use their cash flow to grow sales. As a result, investors might chase these "growth" stocks, pushing up valuations even without a dividend. Arguably, much of the recent recovery in US stocks is being driven by this momentum towards "growth" stocks, where dividends are next to non-existent.

A focus just on dividends and more specifically just on those companies that pay a high yield might be self-defeating. Analysts at French bank Societe Generale have consistently found that a pure high dividend yield strategy underperforms most other strategies, largely because it means investing in "value traps" – cheap stocks that pay a high initial yield but don't have the financial strength to carry on paying out. Their analysis, along with that of others such as US researchers Ned Davis Research, suggests a better strategy is to focus on either those businesses that pay a sensible lower yield (4% or more) and have a strong balance sheet; or to find firms with even lower initial yields or no payouts at all, but where dividends might start to grow substantially in the future. Dividends can be a sign of a focused, efficient firm – but arguably it's better to redirect your attention to quality businesses with a thriving business position that are throwing off cash at a growing rate. If they happen to pay dividends, so much the better!

Lessons from the go-go years

The fate of the Nifty Fifty reminds us that it's dangerous to pay too much for the certain winners of tomorrow

Cris Sholto Heaton
Investment columnist

I've been thinking a lot about the late 1960s and the parallels with today. Not because of protests in America, Hong Kong and elsewhere. Not because of the pandemic sweeping around the globe – influenza then, coronavirus now. Not because of the spectre of conflict (the Vietnam war, the looming US-China cold war). Those comparisons are valid – there are good reasons why people are starting to describe 2020 as the worst year since 1968. But it's really the US stockmarket of 40 years ago that interests me.

The 1960s were the go-go years, to quote the title of a contemporary history by the journalist John Brooks. Solid growth and a climate of optimism created a strong bull market. But by the end of the decade, a small number of stocks were driving the gains. These were known as the Nifty Fifty – there was never a single list of 50 stocks, but the usual candidates include many familiar names such as Polaroid, McDonald's, Johnson & Johnson, Coca-Cola and Hewlett-Packard. These were know as "one-decision stocks" – all you had to do was buy and hold them indefinitely.

The market faltered in 1968, with the S&P 500 dropping 33% over the next 18 months. It recovered to set new highs in late 1972, by which point the Nifty Fifty were typically trading on price/earnings (p/e) ratios of 40-50 or more (Polaroid peaked on around 90). Then it plunged into a vicious bear market from 1973 to 1974.

Today, the US again depends on a handful of high-growth names. Exclude Alphabet, Amazon, Apple, Facebook, Microsoft and Netflix from the S&P 500 and the remaining S&P 494 would be only modestly ahead of the rest of the world over the last five years, according to calculations by Gerard Minack of Minack Advisors. The strength of the US rebound since March is entirely due to these stocks and their peers, such as Adobe, Nvidia and PayPal. They were stars before the pandemic; now, they are seen as sure winners from a changing world. Valuations now range from surprising low for Apple (25) to quite steep for Amazon (118).

"In 1972, Polaroid peaked on a p/e of around 90"

Polaroid: it was the future once

©Getty Images, Alamy

Not all the Nifty Fifty were bad long-term investments – some eventually beat the S&P 500. Those in consumer staples or healthcare and with less extreme p/e ratios of 30-40 tended to do better – the only spectacular success of a high-priced stock was Walmart, which, despite a p/e of over 50, returned more than twice as much as the index. But all suffered badly in the mid 1970s due to their steep valuations. In the same way, some of today's stars will be long-term successes. But the history of the Nifty Fifty suggests their high valuations are vulnerable to the unexpected (see right) – and by extension, so is a bull market that is heavily dependent on them.

I wish I knew what technical analysis was, but I'm too embarrassed to ask

Technical analysis refers to the use of trends in market data – such as the price of securities and volume traded – to attempt to forecast the future direction of markets. It does not take account of fundamental data such as a company's earnings. Instead it focuses solely on how individual securities and groups of securities are trading.

Users of technical analysis argue that the collective actions of buyers and sellers mean that all available fundamental information should already be reflected in current prices. However, the way in which investors interact as they respond to the flow of new information creates recurring patterns of behaviour, so recognising these patterns may allow chartists to anticipate what is likely to happen next.

There are a large number of technical analysis indicators, some of which are quite complex. However, the core of this strategy is the idea that prices trend – ie, tend to move up, down or sideways over a period of time. So the simplest approaches revolve around looking at these price trends on charts – hence technical analysts are known as chartists. An analyst may look at trend indicators such as the moving average over, say, the last 50 days, as well as price patterns that they believe indicate whether the trend is likely to change. These may include resistance (a price that the security has not been able to exceed) and support (which it does not fall below).

Technical analysts may also look at relative strength (how well certain stocks and sectors are doing compared with others) and breadth (how many stocks are rising compared with the amount that are declining). Some will also employ a range of numerical indicators that aim to measure sentiment towards a security or the wider market. Momentum indicators look at how quickly prices are changing, volatility indicators focus on how volatile prices are and volume indicators are based on the amount being traded.

Guru watch

Michael Cembalest, chairman of market and investment strategy, JP Morgan Asset & Wealth Management

Opinion polls in swing states suggest that Joe Biden's chances of winning the US presidential election in November are rising, says Michael Cembalest, the top investment strategist at JP Morgan's $2trn investment-managment arm. And the chances of the Democrats conducting a clean sweep of the presidency, the House of Representatives and the Senate are now around 45%, according to political-betting markets. So investors need to consider the implications for US stocks if Biden (pictured below) and his party end up with full control for the next few years.

While some voters see the former vice president as an establishment candidate, "I wonder if the people in question have looked at Biden's policy positions". On taxation and antitrust

enforcement (ie, business-competition laws), as well as healthcare and clean energy, "this is a very progressive economic agenda".

Reversing Donald Trump's corporate tax cuts might take 200-300 points off the value of the S&P 500, due to their impact on earnings at a time when valuations are high. Tougher antitrust rules could target the tech sector, with its high levels of concentration and consolidation: the revenues of the 15 largest tech firms amount to over 8% of GDP, close to the near-9% peak that the 15 largest industrial firms reached in 1969. That might be a headwind for markets, given tech is generating the highest sales and earnings growth and "has more than doubled the return on the rest of the stockmarket since 2010".

A symbol of all that's wrong with the EU

The bloc's competition commissioner wields enormous power over industry, and abuses it

Matthew Lynn
City columnist

Margrethe Vestager loves to portray herself as the European Union's competition powerhouse. The bloc's competition commissioner talks endlessly about how she is turning Brussels into a self-proclaimed regulatory superpower and how she's the only person willing to stand up to the power of Big Tech, dishing out fines so huge they are now a major source of EU revenues. Vestager is the closest thing the European Commission has to a superstar. But there is a problem. It is increasingly becoming clear that she is also out of control and that her frequently illegal decisions, and her absurd faith in the power of regulation, are doing huge damage to the European economy.

The courts row back

Last week, the EU's second-highest court overturned her decision of four years ago to block the merger of the O2 and Three mobile networks in Britain. There were, it concluded, "errors of law" in the decision and the EU had failed to prove that consumers would be harmed. That is not the first time Vestager has been overruled by the EU's own courts. Last year an order to make Starbucks pay back €30m in taxes to the Netherlands was overturned. Many more appeals are making their way through the legal system. Google is fighting back against the fines it has been forced to pay and the changes demanded to its business model. Apple is fighting back against the vast fine levied on it for basing its operations in Ireland. Legal experts argue both cases have a good chance of success.

Many of Vestager's decisions are simply bizarre. It is hard to understand why Apple's tax arrangements were a "competition" issue rather than, er, a tax one. Likewise, the EU's insistence that Amazon and Google somehow harm competition won't make much sense to consumers or businesses. Open search and sales platforms have made most markets much more competitive than they used to be and price competition is often so brutal that it is virtually impossible for anyone to make any money. Meanwhile, a few favourite European companies appear to be able to do anything they want to. Germany's massive bail out of the airline Lufthansa, along with a block on any foreign takeovers, appears to have been just fine with the Commission. Competition laws are being suspended to prevent Chinese takeovers, while Volkswagen's manipulation of diesel emissions, probably the worst corporate scandal of the last decade, doesn't seem to have prompted any serious criticism from Brussels.

Vestager: out of control

©Getty Images

Industrial strategy by the back door

In truth, Vestager has been waging a campaign to use competition policy to create a European industrial strategy. But it isn't obvious that people in Europe want an industrial strategy cooked up in Brussels and even if they did they probably couldn't agree on what it should be. Her war on technology more often seems waged on behalf of old vested interests than for consumers. Perhaps most seriously of all, Vestager's insistence that Europe can regulate its way to success is simply crazy. She makes a lot of noise about using the size of the European market to impose global regulatory standards that companies everywhere will have to follow. But while that might be great for the regulators in Brussels, it doesn't make the European economy any stronger.

Meanwhile, Vestager herself comes under very little scrutiny. Before Brussels made her the most powerful regulator in the world, she was an obscure Danish minor-party politician who had never held a proper job and was shuffled off to the EU as part of a complex coalition deal. Danish voters never thought much of her, never mind voters anywhere else. It is as if we suddenly found Jo Swinson – remember her? – was in charge of European industry. A few of us might be scratching our heads and wondering how that happened. Vestager symbolises everything that is wrong with the EU. Unelected, unaccountable and out of control, it is hard to see how the continent can ever prosper with someone wielding so much power over the economy.

Who's getting what

● **Nick Read**, the boss of telecoms giant Vodafone, took home £3.7m for the year that ended in March, up from £3m for the previous 12 months, even as the firm has withheld its payout to investors, says The Daily Telegraph. Read, who was promoted to the top job in 2018, was paid a £1.1m salary, the same again as an annual bonus, £1.4m in long-term awards, and the rest in pension and benefits. Read, and other senior executives, had recently offered to give up a quarter of their salaries to charitable causes over the next three months in response to the pandemic.

● Influential shareholder advisory firms ISS and Glass Lewis urged investors in Alphabet to vote against the $281m it paid its CEO, **Sundar Pichai** (pictured), for last year, ahead of the Google-parent company's annual meeting of stockholders, says The Times. Pichai took over from founders Larry Page and Sergey Brin in December. His salary is due to rise to $2m this year, up from $650,000. The remainder of his pay comes from long-term bonus awards.

● The head of SoftBank's $100bn Vision Fund, **Rajeev Misra**, has been awarded a 113% pay rise for the year that ended in March, "despite overseeing an $18bn value destruction", says the FT. The former Deutsche Bank debt trader, who leads the Saudi-backed fund, was paid $15m, up from $7m for the previous 12 months. In that time, the group suffered a historic loss as a result of the implosion of WeWork and hits from the pandemic.

Nice work if you can get it

SpaceX founder Elon Musk achieved his boyhood dream of shuttling American astronauts to the International Space Station – the first time that has happened from US soil in nine years, says Chris Isidore on CNN Business. This week Musk also bagged options to buy almost 1.7 million shares in Tesla, the electric-car company he also runs, at $350.02 a share. That's about half the price of what the shares cost now, which would make his windfall worth around $770m. The award came due in early May after Tesla maintained an average market value of more than $100bn over the course of six months. These options are the first of 12 possible blocks of stock achievable under the compensation plan approved two years ago, meaning Musk could be in line for a further 20.3 million shares to add to his 20.8% stake. "It could potentially make him the richest man in the world, or if he would prefer, the solar system."

Could an ill wind hit renewables?

Infrastructure is a good investment – but watch out for hidden risks, particularly in renewable energy

David Stevenson
Investment columnist

Infrastructure as an asset class is mostly accessed via specialist investment trusts, but as it has (rightly, in my view) grown more popular, we've seen the rise of what are in effect infrastructure funds of funds, structured as open-ended vehicles. In other words, these funds grow or shrink as investors buy in or withdraw money, unlike an investment trust which has a fixed number of shares in issue which investors trade with one another. VT Gravis UK Infrastructure and FP Foresight UK Infrastructure Income, the two biggest such funds, have between them more than £1bn in assets under management, and I remain bullish on both.

Wind energy: too cheap for its own good?

©Alamy

Big fish, small pond

But some – including a fund manager I talked to recently – have raised concerns, both about these types of funds specifically and infrastructure more generally, which seem worth addressing. First and most obvious is the issue of common shareholdings. Both the aforementioned funds have seven names in common in their top ten holdings list, including HICL, Foresight Solar and Renewables Infrastructure (TRIG). These seven comprise 43% of the Gravis fund's holdings and 44.4% of Foresight's (although not in the same mix). This is not unusual or worrying (big US funds often hold the same subset of big tech stocks), except that a) these holdings are investment trusts, which sometimes suffer poor liquidity (ie, they're hard to buy or sell without moving prices), and b) the funds hold quite a chunk of them.

"Renewable fund valuations could be vulnerable"

Broker Numis reckons that the classic infrastructure funds have a combined market capitalisation of around £18bn. There's roughly another £10bn in medical, student and social property trusts. So that's around £28bn all told. That means these two funds on their own comprise about 3% to 5% of the total capital invested in listed infrastructure. According to my worried fund manager, the risk is that the Gravis and Foresight funds "are forced buyers of their trusts when they receive subscriptions and they might be setting the price for these trusts". In other words, the funds (and their investors) are the dominant buyers and sellers of these trusts.

To be clear, these worries are not entirely echoed by market makers and analysts who cover this sector. Most reckon the ownership of big trusts such as HICL and TRIG is fairly well diversified. As one put it to me: "It's not like Woodford/Invesco in P2P lending where they were half the registers in a lot of cases." Simon Elliott, who heads funds research at Winterflood, also isn't too fazed. The six big infrastructure funds "have an average market cap of more than £2bn, while seven of the 13 renewable funds have market caps greater than £500m".

What if?

William MacLeod, managing director at Gravis Advisory, adds that 11 of the trusts held in his Gravis UK fund (about 63% of its total listed investment trust exposure) are FTSE 250 members, with natural daily traded volumes in the millions. Thus the fund's share dealings in the likes of HICL and TRIG are "rather insignificant" compared to wider market activity. Meanwhile, Mark Brennan, lead fund manager for FP Foresight UK Infrastructure Income notes that the fund owns "less than 5% of the issued share capital of all our holdings", with an average ownership level of 2%.

However, I'm not entirely convinced these diversification strategies will stand up in a worst-case scenario. Infrastructure has held up well in tough market conditions. But, say, an external factor knocked the whole sector for six. If that happened, we could see selling across the sector. In turn, these funds of funds, with their big holdings, might be forced to sell into this volatility if unit holders also decided to run for the exit.

Such a rush is hardly far-fetched. It seems like ages ago now, but just last year we saw market jitters over Labour's proposals to curb private sector infrastructure investment. But I would be most cautious around renewables. Again, my fund manager contact has a specific fear: "Why would you invest in anything where the marginal cost of production is zero, as pressure on pricing will always be downwards? Dividend cover is very skinny with these trusts … income will come under pressure as power prices inevitably come down."

Now, I think the idea that marginal costs will head to zero is a tad alarmist (see below for more on power pricing) but concern about the valuations of renewables more generally is widespread. Note that the Foresight fund has been cutting its exposure to UK renewables since the second half of 2019 "in reaction to pricing and valuation", according to Brennan.

The risk to me is that if there is a sudden rush for the exit within infrastructure over the next few years, it might happen in the renewables space where premiums are still high. If that worst-case scenario did occur, we might see investors flee both the trusts and the funds of funds holding them, fuelling a downwards spiral. As I said, I'm still bullish on them – but investors should remain alert for signs of strain in the underlying trusts.

Renewables, power pricing and valuation risk

Renewables are flooding the UK power market at an increasing rate. Wholesale prices are determined by the marginal cost of generation, which – as renewables typically have very low marginal costs – is pushing wholesale prices down. JPMorgan analysts recently warned that renewables were "cannibalising" revenues, noting that data from Bloomberg New Energy Finance suggests that UK baseload electricity prices will fall in real terms (ie, after inflation) by 4% a year to £19 per megawatt hour (Mwh) by 2040.

The danger is that many UK renewable funds expect prices to rise by 0.6% a year over that time, to £52/Mwh. JPM reckons this mismatch could see the share price of such funds fall by a third on average.

Moreover, many renewable funds' direct exposure to power prices has been rising, because subsidy flows have fallen. JPM may be wrong – as Winterflood's Simon Elliott warns, "any number of experts have struggled to consistently forecast prices". However, he also acknowledges that sector's "risk/return characteristics … [are] undoubtedly changing".

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It pays to take care of the jobless

Editorial
Bloomberg

An effective unemployment-insurance system is vital, says Bloomberg. It "helps people get by when they lose jobs", improves productivity by supporting workers as they find "the best match for their skills" and "mitigates recessions" by maintaining spending power. The pandemic has exposed the failings of the US system. As of 25 April, more than 25% of the 28 million who had filed claims were still waiting to be processed. Today's system has its origins in the New Deal, which shifted management "largely to the states". The result is a "confounding inconsistency". Washington, for example, provides an average of 48% of wages for a maximum of 26 weeks; Florida provides 31% for 12 weeks and has such a "daunting claims process" that only 10% of claimants ever get paid. Voters need to start holding their governments to account. Congress could make more federal funds available, contingent on measurable progress, and should consider handing it over to the Social Security Administration. That would "improve efficiency, provide more consistent benefits and free workers to move where the jobs are". Yes, such reform carries a cost, but ultimately it will lead to "a more resilient, prosperous and equitable nation".

Pandemic is a boon for the robots

Garry White
The Daily Telegraph

As businesses are forced to automate processes to comply with social-distancing rules, fully autonomous robots are "on the verge of living up to their science-fiction hype", says Garry White. A deal was recently signed that will allow robots to connect to the cloud, allowing them to be programmed "on the fly" via the internet and, ultimately, allowing them to access "vast amounts of processing power and data". Units are already in evidence. A café in South Korea has deployed a robot barista; and Rwanda is using robots to conduct mass temperature screenings and monitor patients. Perhaps most significantly, Boston Dynamics's long-awaited canine robot, Spot, will soon be on sale for the price of a small car. Spot has already been used to encourage social distancing in a Singaporean park and to screen for Covid-19 at a US hospital. The next few years will see the wider use of service robots for jobs such as disinfection, and food preparation and delivery, and in the post-Covid world, there will be greater acceptance of them, despite the threat they pose to low-paid workers. If they can prevent a deadly infection at no risk to human life, "the advantage lies with them". The robots "really are rising".

Flood of state aid will distort EU

Editorial
The Economist

Since the outbreak of Covid-19, the "trickle" of requests to circumvent state-aid rules by EU members has turned into a "flood", says The Economist. Nearly 200 subsidy schemes and bailouts worth more than €2trn have been approved. The goal is to avoid bankruptcies, but if the cash continues to flow, such schemes could boost firms' long-term prospects. Already, poorer states worry that because a few rich countries are doing most of the spending, their firms will eventually "get gobbled up". But while in the past any temporary relaxation of the rules has been just that, this crisis has "amplified" voices calling for permanent change, not least as it would enable supply chains to be more easily repatriated. Plenty of members would be happy to see the back of the rules: Ireland and the Netherlands have fallen foul of them by giving tax breaks to multinationals. Poland and Italy like the Franco-German idea of creating national champions. Meanwhile, China and the US are "pampering their own firms with subsidies". Given that France and Germany made possible the recent €750bn support package to redistribute money to poorer states, their call for an adaptation of the rules may be hard to ignore.

Is this the end for the skyscraper?

Peter Franklin
Unherd

Over the last decade London has "sprouted towers of all shapes and sizes", but the pandemic has exposed the "vulnerabilities of the globalised economy – and the superstar, sky-scraping architecture that houses it", says Peter Franklin. Suddenly, the "herding" of people into centrally located, open-plan office blocks and high-rise apartments where people breathe the same re-circulated air and share the same lifts doesn't "seem like such a good idea". By contrast, when you build on a human scale, you can "do without the life-support systems". You just take the stairs, open the windows and cycle to work. And "when the connection between the metropolis and its hinterland matters more than the exclusive club of global cities, then we can face the collapse of global aviation and carry on". But we've built for a world without plagues. According to Knight Frank, a record 60 tall buildings were completed in London last year. A further 525 are in the pipeline. But with leasing activity plummeting, can London continue at this pace? And when the government talks about levelling up, is it aiming to level up to a "globalised, glass-tower economy that just doesn't make sense any more"?

Money talks

"I am not broke, but tax men are awful." Slavica Ecclestone, former wife of Formula One billionaire Bernie Ecclestone, quoted in The Sunday Times

"I can name 100 things more important now than fixating on how much money I have." US socialite and businesswoman Kylie Jenner, who was removed from Forbes magazine's list of billionaires following claims that she had inflated her net worth, quoted in The Mail on Sunday

"Getting divorced was a very costly business." Author Peter May on his worst financial decision, quoted in The Sunday Telegraph

"I would make tax laws really simple. We need a 'this is it, do this, just pay up' type of system. I think every complication, every exclusion is just an invitation for people to game the system and that's not good financially, spiritually, morally or emotionally for anyone except a certain kind of accountant." Screenwriter Frank Cottrell-Boyce on what he would change about the financial world, quoted in The Sunday Telegraph

"It would be very easy for me to get lost in a narrative that is constantly perceiving life as a life of victimhood for me as a black person. [Yet] there are strange perks. For example, when I was younger there was a Saturday school that I used to go to. That you had to pay for unless your family were poor… That was my privilege. I got to go for free because my mum is poor." Actress Michaela Coel, quoted in The Times

"Neither. Work is better. I don't want to retire — I don't understand the concept. I want to travel and I love my job." Restaurateur Oliver Peyton on whether he prefers property or a pension to fund retirement, quoted in The Sunday Times

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Bring the high street back to life

conservativehome.com

The "death of the high street" has long been predicted and the Covid-19 crisis only adds to the challenges it faces, say Nicholas Boys Smith and Hugo Owen. Just how much the pandemic will affect future shopping and recreational habits, and for how long, remains unclear, and that very uncertainty means many businesses are going to struggle and put off investment. If our high streets and town centres are to remain "vibrant and relevant" places, landlords and business owners are going to need a helping hand.

Loosen the rules

One way to achieve that would be to simplify the rules that govern what buildings get used for what purpose. These are currently very complicated and, if you want to change the use to which a building is put, you have to apply for full planning permission in some cases, or at least seek prior approval, which can take just as long. And a lot of the time, the rules make little sense. "Why can't a bank become a yoga studio? Why can a laundrette become an office but not a shop?" Simplifying the rules need not be radical – some local authorities are doing it already – and could extend existing mechanisms in English planning law that allow commercial buildings to switch between different uses for a time to "give new retail space the best possible chance of economic survival by discovering what the market wants".

Technology could also help. Why shouldn't a space be a "shop by day, a dance studio or an art class by night"? Why shouldn't a small business hire a shop for a day or two a week, as the need arises? A village or suburban run of shops might not be able to support a full-time shop, pub or post office, but why not one that operates as all three at different times of the day? Technology is making new types of "pop-up" shops or offices possible, facilitating rapid changes of décor and providing targeted advertising.

Some of the existing rules make sense – we don't want iron smelting in the suburbs, and there is "a good case for regulating how buildings look and affect the public realm". But as long as there is no nuisance in the form of noise or pollution, why should we mind what goes on inside? If high streets are to continue to perform their historic role as a place where a community comes together for agreeable interaction, they will have to be responsive to what people want. Parliament has shown "how fleet of foot it can be when need arises". It "should now permit the same flexibility and freedom to our high streets and town centres so that they can respond to the slings and arrows that await them in the months and years ahead".

We need to make town centres fun again

©Alamy

The market has a role for vaccines

bloomberg.com/opinion

Coronavirus vaccines must first go to healthcare workers and others in critical jobs, rather than those who would pay the most for them, says Tyler Cowen. Still, that doesn't mean markets should play no role. At the present time, there are many candidate vaccines, sometimes based on different scientific approaches, which means that multiple vaccines could end up circulating, offering varying degrees of protection and risk. If you had to choose, wouldn't it make sense to seek guidance from prices? They will reflect information about the perceived value of both protection and risk – information perhaps not accessible or settled upon by health authorities. Market prices would also be useful signals when resources need to be allocated to improve particular vaccines. Selling off remaining vaccines once critical workers have been served might do more to encourage additional production than would bureaucratic allocation. Vaccines that do not scale because of costly storage or transport requirements, for example, might do the world good if they were sold as "luxury goods ... making it easier for the wealthy to travel safely" and hence "boost trade and investment and revitalise business confidence". Even when the product is a vaccine, "the traditional virtues of markets still can serve some useful purposes".

How to find a new job

fastcompany.com

If you're "reeling from a recent layoff" due to the pandemic, "you're not alone", says Diana Shi. Many millions of people around the world have lost their jobs. Yet despite the "grim circumstances", the "tried-and-true methods" of getting back on your feet still apply.

1. Choose how you'll frame things. "Think strategically" about how you will "gracefully address the layoff" once you're back in front of a potential employer. Put together a "thoughtful response that will emphasise your strengths".

2. Share the news. Let people in your network know that you're "on the prowl for a new position". If approaching individuals with a pitch, however, "do this delicately" to avoid seeming self-centred amid a global crisis.

It's a good time to reach out

©iStockphotos

3. Exploit the Zoom boom. Business leaders, like the rest of us, are isolated in their home offices, conducting business, and feeling lonely. It is a good time to reach out and connect.

4. Nurture your mental health. Grinding yourself down with self-doubt and worry will only "hinder your ... professional progress". Find methods to keep yourself positive and take care of your mental health.

Move Hong Kong to the British Isles

1828.org.uk

I was "delighted" to hear that Hong Kong's British national (overseas), or BNO, passport holders will be granted a path to British citizenship should China impose its new national security laws, says Matt Gillow. This, along with actions from the US, sends a "clear message" that the free world will not stand idly by while the Communist regime tramples on human rights. Still, only 300,000 of Hong Kong's 7.5 million people are currently BNO passport holders. People born after 1997 are ineligible.

The post-coronavirus world is going to see "a major struggle" between China and the US. For too long, the West has stood by as China's rise makes its way of doing things seem valid. Britain must "choose a side" and do more. One option is to join Taiwan and the US and offer easier routes to citizenship. Another would be to "proactively extend British citizenship to all Hongkongers and build a new charter city, New Hong Kong, on our shores". Whatever the path, we must not let Hong Kong become "collateral damage" in this "new cold war".

Look beyond profits to find firms that will go the distance

When times are tough, a strong balance sheet is crucial if companies are to keep ticking over and bounce back. Richard Beddard explains the basics and highlights some promising companies to consider buying now

In March, as the lockdown began, companies fell over themselves to let us know that sales and profits were set to slide – but their balance sheets were strong. No wonder. When profits are rolling in, executives and investors often pay balance sheets scant attention. But when earnings dry up, the balance sheet becomes crucial. A strong one can save a business from oblivion. A company's balance sheet, or as it is officially known, the statement of financial position, sets out what a company owns (its assets) and what it owes (a reflection of how the assets are financed) on a particular date. All assets must be financed, so the two sides of the balance sheet balance.

A beginner's guide

A company typically publishes its balance sheet quarterly or semi-annually, so its financial position can change significantly between updates, particularly if it is a seasonal business or the economic backdrop has changed. Although the pandemic has closed many businesses and severely affected others, most published balance sheets have yet to reveal the scars because many companies had just reported their results for the full year as we went into lockdown; regulators have also given others six more months to report. For now, all we can gauge by looking at most balance sheets is whether a firm went into the financial crisis in a strong position.

The financing side of the balance sheet includes liabilities, which, like bank debt, often attract charges – usually interest – and must at some point be repaid. There is another form of funding however: equity, money given to the business by shareholders in perpetuity. Although shareholders can sell shares to other investors, a company is under no obligation to repay equity. Companies that finance most of their assets with liabilities are said to have weak balance sheets. If they start earning less money they may be unable to pay interest on debt or other obligations, such as payables, money owed to suppliers. Conversely, companies funded mostly by equity are said to have strong balance sheets because shareholders cannot demand repayment if the firm gets into trouble. This gives them breathing room when things get rough.

The story of a company

A balance sheet bears the triumphs and scars of a corporate lifetime because a company's financial position today is the cumulative total of countless transactions since it was formed. In a successful company, retained profit will tend to be the biggest source of equity funding: this is profit earned by the business since its inception that has not been returned to shareholders. Some of it may well be earmarked for dividends, but the rest will have been invested to earn more profit or saved for a rainy day. Renowned US fund manager Peter Lynch judged a company's balance sheet by comparing the amount of debt to the amount of equity. He said: "A normal corporate balance sheet has 75% equity and 25% debt... An even stronger balance sheet might have 1% debt and 99% equity. A weak [one] might have 80% debt and 20% equity."

Debt comes in many forms, though, and it is wise to include them all. Back in 2008, rental obligations were not considered a form of debt by accountants and many investors simply ignored them. That's changing today, and we are mid-way through the implementation of new regulations that require rental obligations to be counted as borrowings.

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Will a beefed-up balance sheet save sofa seller SCS?

When we're insecure about our incomes we'll put up with tatty upholstery rather than buy an expensive new three-piece suite. As the economy sagged during the financial crisis of 2007-2008, so did our sofas, with sales at SCS Upholstery, a chain of soft furnishings retailers, slumping by 15% year-on-year in the six months to January 2008.

Profit is the difference between revenue and costs, and because the company made relatively little money on each sofa sale before the crisis hit, and the costs of running shops and warehouses are mostly fixed in the short-term, SCS was now selling sofas at a loss. In six months it lost £8.5m. When the company reported its results in March 2008, it may not have looked as though it was in trouble, but it was.

The balance sheet showed cash of £15m in January and no bank debt. But payables, the money SCS Upholstery owed its suppliers, sofa manufacturers, had ballooned from £33m to £49m. Essentially, the company was borrowing from suppliers to pay the rent and staff, and keep the lights on.

Companies cannot delay payments indefinitely, though. By May 2008, SCS Upholstery's cash surplus had shrunk to below £5m. Sofa manufacturers also trading on thin margins had financed their businesses by borrowing, using invoices for furniture supplied to SCS Upholstery as collateral, a practice known as factoring.

Recognising the risk that the invoices might not be paid, the banks providing the finance required credit insurance, but in early June a prominent insurer withdrew cover and overnight, the use of suppliers as a source of finance dried up.

Suppliers demanded early payment on outstanding orders and on some orders that had yet to be fulfilled, which gobbled up SCS Upholstery's remaining cash. The company's bank refused to let it draw on an overdraft facility, and with that, SCS Upholstery had run out of financing options. Within a month it couldn't pay the rent, and the administrators were called in.

There's a happy ending to this salutary tale, although not for shareholders who lost everything. The bankrupt company was sold to Sun Capital Partners, a private equity firm, which plugged the funding black hole and returned SCS Upholstery to the stockmarket in 2015 as SCS Group. This time around, SCS may have learned from the financial crisis.

The SCS Upholstery of old, a low-margin business dependent on its suppliers for finance, had a weak balance sheet, even though it had no bank borrowings.

In its new form, SCS has weathered the first stage of the pandemic. At the end of May, it reopened stores in England, although stores in Scotland and Wales remained closed. However, we're only in the early phase of the recession. Investors will take some comfort from the fact that unlike 12 years ago, SCS successfully drew on its £12m borrowing facility, which gives it £48m in cash (as of 25 May) to act as a cushion against poor trading. According to the paperwork accompanying SCS's flotation, this time it is less reliant on suppliers who in turn rely on credit insurance. SCS has a stronger balance sheet, although only time will tell if it is strong enough.

Harry Potter-publisher Bloomsbury has been nurturing an academic and professional division, which is growing rapidly

Don't overlook payables and pension funds

Payables are often overlooked too. In good times companies that use suppliers as a form of funding are thought to be efficient because there is no associated interest cost but in a crisis, as SCS's story on page 20 highlights, a company may not have the money to pay them. A similar reliance on outside capital probably explains the tussle between airlines and their customers over refunds for flights cancelled due to the pandemic. As with the sofa industry, customers pay upfront for flights, but if the airline cannot fly, it must refund the money. So customers too can be an unreliable source of finance.

Some companies, moreover, still operate final-salary pension schemes. If they are to remain adequately funded, any deficit must be filled over time. This creates yet another obligation. The returns a company can generate from the assets listed on its balance sheet also matter. Highly profitable companies are less likely to run out of money because they can sustain a bigger drop in revenue before they make losses. Their creditors are more likely to be lenient in tough times, mindful that when circumstances improve they should make lots of money to repay them.

Finally, the quality of the assets on the balance sheet also affects our perception of its strength. Cash is king, but most other assets can be worth less than their stated values when a company hits the skids. If managers decide their assets are impaired (worth less), they "write down", or reduce their value. To keep the balance sheet balanced, they must also reduce retained profit and therefore equity, which increases the firm's reliance on liabilities. Balance sheets stacked with intangible assets are most at risk because they are impossible to value accurately. Typically, intangible assets represent the value of acquisitions a company has made. When deciding how much to pay for another firm, an acquirer will estimate the returns it expects to make from it. Almost by definition, though, a company in trouble is not making adequate returns, the intangible assets will not be living up to expectations, a writedown may be coming, and debt will loom larger compared to its reduced assets.

"Balance sheets stacked with intangible assets are most prone to writedowns as they are impossible to value accurately"

Cimpress and 4imprint: comparing two rivals

A closer look at the balance sheets of two companies in the same sector helps elucidate these concepts. Outwardly, 4imprint and Cimpress are similar businesses. Their origins lie in print, business cards and brochures. Although these products are still the mainstay of Vistaprint, Cimpress' biggest division, Cimpress has diversified into promotional goods: customised T-shirts, mugs, and computer peripherals, for example. That has brought it into direct competition with 4imprint, which has specialised in promotional goods for years.

4imprint incubated the direct sales channel, which has now been its only business for two decades. It connects corporate buyers with a network of suppliers that customise blank products. 4imprint barely gets involved in customisation or logistics; its focus is on running the network, placing orders on behalf of clients

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that are customised and shipped by suppliers. Cimpress, however, has spent a decade acquiring other print and customisation firms. It thinks that to drive down the cost of mass customisation it must own the suppliers. Its competitive advantage is its "mass customisation platform", the technology that does the work. Both businesses earn high returns on capital and have grown at similar rates in recent years. It will be fascinating to see which of them is more successful in the years ahead, but judging by the past enshrined in their balance sheets, there is only one winner – and it is 4imprint.

Why 4imprint is stronger

The asset side of 4imprint's latest balance sheet is dominated by current assets, cash and assets the company expects to turn into cash within a year: receivables (money owed by customers, primarily) and stock. Intangible assets made up less than 1% of total assets. Funding is split, 45% equity and 55% liabilities, so 4imprint's balance sheet is not the strongest. However most of its liabilities are payables. It has no bank debt and a modest pension deficit.

Like a homeowner whose house has declined in value to a level below the purchase price, Cimpress is in negative equity. Retained profit is negative, meaning that cumulatively Cimpress has made a loss. Negative equity also means Cimpress' liabilities are greater than its assets. According to its most recent balance sheet borrowings alone were 92% of total assets, and there is little comfort to be found on the other side of the balance sheet. Intangible assets were 45% of the total.

Promotional goods are worn by workers, or given to customers at exhibitions. They're meant to be seen at gatherings, or adorn office desks. During lockdown, 4imprint reported an 80% year-on-year drop in orders. For both companies, such conditions are unprecedented. Further waves of the pandemic and a slow economic recovery would be damaging too. The upshot, however, is that 4imprint shareholders are likely to be sleeping more easily.

Shares in 4imprint are down by 31% from their pre-pandemic highs. Still, at £24 the stock is still trading on a debt-adjusted price/earnings (p/e) ratio of 18. Investors have not given up on high-quality businesses with strong balance sheets even where trading has been walloped. Finding undervalued shares with strong balance sheets that are trading reasonably well is even trickier. Perhaps trading is improving at 4imprint: two non-executive directors added substantially to their holdings at the end of May. Here are five more companies with strong balance sheets that should survive and prosper:

Anpario: securing the food supply

Cash-rich **Anpario (Aim: ANP)** makes natural animal-feed additives – alternatives to antibiotic growth promoters, which are banned or discouraged around the world. Revenue growth has been subdued in recent years as the company has sloughed off less profitable contract manufacturing and an organic animal feed business, but profit growth has been respectable.

The company's prospects may improve as it takes more control of distribution in key markets. Meanwhile, securing the food supply has been a priority for governments during the pandemic, meaning more money for farmers to spend on feed.

Bloomsbury Publishing: moving online

Bloomsbury (LSE: BMY) reported almost £32m of cash at its year end in February, but it has since issued and sold more shares to ensure it can continue paying advances to authors. The company remains

Name	Balance sheet date	Market capital-isation (£m)	Equity as a % of total assets	Net cash as a % of total assets	Debt-adjusted p/e ratio
Anpario (ANP)	31/12/19	84	88%	34%	19
Bloomsbury Publishing (BMY)	29/2/20	174	65%	7%	14
D4T4 (D4T4)	30/9/19	80	81%	38%	21
Quartix (QTX)	31/12/19	188	67%	24%	33
Tracsis (TRCS)	31/1/20	176	64%	31%	18

Trailing 12-month data. Source: SharePad, 29/5/20

most famous for publishing the Harry Potter books, routinely among its top selling titles, but it has experienced a slump in demand for printed books owing to the closure of bookshops. For a decade Bloomsbury has been nurturing an academic and professional division which is growing rapidly and profitably. The company is knitting these titles together into digital collections, an initiative that moved into profit in the year to February 2020.

"Investors have not given up on high-quality businesses with strong balance sheets even where trading has been walloped"

D4T4: capturing data

D4T4 (Aim: D4T4) helps companies capture, manage, and analyse their data. It sells software and hardware, including its own patented software, Celebrus, which captures consumers' behaviour when they use websites and apps, and feeds the data to a company's other systems in real time. Celebrus allows business systems to react "in the moment", tailoring messages and detecting fraud.

Although D4T4's capabilities are applicable to a wide range of industries, it has established a reputation in banking and finance, sectors which so far have been fairly resilient. The company has declared that revenue and profit for the year just ended will be lower, however, as customers switch from perpetual licences to subscriptions. This will depress profit until D4T4 builds up its installed base.

Quartix: growth prospects at a reasonable price

If small businesses suffer, **Quartix (Aim: QTX)** does too. It supplies a vehicle tracking service to small fleet owners for a monthly fee. A generic device that can be self-installed relays the locations of their vehicles and how they are being driven in real-time through configurable software. Quartix's superpower is keeping the cost of selling and delivering the system down, which is why it is a very popular tracking system for money conscious smaller businesses in the UK, and growing subscriptions rapidly in Europe and the US.

Quartix also supplies insurance companies, but its gradual withdrawal from this lower-margin market has tempered revenue growth in recent years and perhaps hidden the appeal of the fleet business from some investors. The group believes it can emerge from 2021 with its £8.5m cash surplus intact.

Tracsis: a serial acquirer with a strong balance sheet

Tracsis (Aim: TRCS) is the product of around 15 acquisitions since it spun out of the University of Leeds' computing department in 2004. The businesses supply other firms and government bodies in the transport sector with software, hardware and services. Rail software and technology is the jewel in the crown, earning the bulk of profit.

The road division, on the other hand, is harder to like because it relies more on services such as traffic surveys and event parking, which earn lower margins and next to none during lockdowns. Nevertheless, like all the companies featured here, Tracsis has a highly profitable past, and its formidable position as a supplier to rail companies has been underlined by new multimillion pound orders in May.

The housing market may avoid a nasty crash

Prices were already weakening when the virus arrived; London in particular looks good value, says Max King

There is a general presumption that the reopening of the UK housing market following the pandemic freeze must be negative for house prices. But it is too early to be sure. Lucian Cook, the head of residential research at Savills, warns against jumping to any conclusions until data on transactions is available.

In March, new buyers' enquiries and new instructions collapsed "like never before", making it "difficult to get an indication of the impact on prices for a while". Generally, economic downturns coincide with falling house prices. In recent years, however, house prices have been falling in inflation-adjusted terms. The absence of a run-up in house prices before the virus "should insulate the market from significant house-price falls", reckons Cook. In the short term, sentiment will be a factor, but "in the long term, it will come back to economic fundamentals".

The first of those is affordability. With interest rates at 0.1%, the cost of mortgage debt is very low, despite more limited availability. Unemployment, however, could be a more serious problem, bringing some forced sales and making people cautious about moving up the housing ladder. Savills uses the forecasts of Oxford Economics. It predicts a 15% drop in GDP in the second quarter followed by an 8% rebound in the third and slowing growth thereafter. A downside scenario has a further 2.5% drop in the third quarter, but higher subsequent growth. The baseline forecast results in unemployment rising from 4% to 6%, not enough to have a significant lasting impact on the housing market, but the downside scenario has unemployment reaching 10%.

These factors, together with government action to support jobs and a benevolent approach to arrears by lenders should temper the impact on housing. Nonetheless, the number of transactions will take several years to recover to the pre-pandemic level of 300,000 a quarter, owing to a lack of confidence by both buyers and sellers. Savills's central expectation is that prices will rise 15% over the next five years, with a 5% decline this year followed by steady increases in subsequent years. Its more pessimistic scenario sees a 10% fall this year, but faster growth thereafter.

Will the southeast keep lagging?

Savills expects a continuation of the recent trend – perhaps interrupted by an uptick in regional unemployment in the short term – of London and the southeast underperforming the Midlands and north, given how extended house prices relative to the national average became, particularly in London. Prime central London prices, however, are 20% below 2014 levels, while prime London properties and those in other regions worth more than £2m are 5% below, having been heavily affected by tax changes and political uncertainty. So these markets "were looking pretty good value" going into the downturn. Savills reports higher unprompted web traffic than before the pandemic, while new buyer registrations, both from British and overseas buyers, have risen strongly.

"More working from home will make people want more space and boost demand for second homes"

©Alamy

Prices in areas such as Bayswater are down 20% on 2014

In a survey of 600 clients, 37% of respondents have become less committed to moving over the next six months, but 27% more inclined to do so. Over 12 and 24 months, that negative balance reverses to +9% and +29% more committed to moving. "Spending much more time at home has made the quirks and idiosyncrasies of home more apparent, which may act as a spur to moving." Covid-19 has also made rural properties much more appealing, especially for those with school-age children, offering the prospect of a renaissance for those locations. This preference extends to suburban London; people want larger houses with gardens.

This is not necessarily negative for central London or other urban locations. For international buyers, total buy, sell and hold costs are competitive with other major cities worldwide and they will have noted the comparative leniency of the UK's lockdown. Younger people will still want to live in cities and those now hankering for village and country life may come to miss the vast array of restaurants and entertainment facilities. The cost and convenience of travel will favour city living, especially as roads become more congested and public transport returns to normal. "Further price softening in London will offer a compelling buying opportunity," says Savills.

Undoubtedly, there will be more working from home. This will increase the space requirement at home, favouring houses over flats and properties with even modest gardens to those without. Demand for second homes will probably increase; the government's advice to stay away from them in the lockdown was widely ignored. Price expectations in the Savills survey show nearly half expecting no change and half expecting price falls. But buyers are more negative than sellers, so may have to adjust their expectations. Though Cook didn't give explicit advice to those thinking of moving, the message between-the-lines was "get on with it and don't expect any bargains".

Five tips for would-be traders

Trading stocks can be tempting – but for many, it's ruinous. Michael Taylor of Shifting Shares looks at how to avoid the pitfalls

The sort of volatility we've seen during the coronavirus outbreak tends to draw new traders to the stockmarket like moths to a flame. Spread-betting firm IG Index recently reported an influx of 22,500 clients in just 36 days. The problem is, most new traders are ill-prepared to cope with the realities of trading. Understanding the five concepts in this article won't turn you into a stockmarket wizard overnight, but it might help you to avoid being the proverbial moth – and give you a better idea of whether trading would suit you or not.

1. Position sizing: don't bet the house on one stock

The two most important concepts to understand before trading are "position sizing" and "risk management". The size of your positions determines your level of risk – your potential capital loss. Many new traders pile in with a large percentage of their portfolio, which is their first mistake. They then see those positions gradually eroded, because new traders aren't prepared to cut their losses. This is their second mistake. "The first cut is the cheapest" is one of the best-known market mantras for a reason. Of the traders I know who have blown their accounts, every single instance was due to having either too much exposure to one position, a failure to cut losses early, or both.

The goal when position sizing is to make your position big enough to mean something, but not large enough to do serious damage. You will inevitably get hurt when trading. Avoiding overexposure to any one position is the only way significantly to mitigate the very real risk of blowing your account. I never put more than 10% of my total account into a single stock – not even for a short-term trade. For example, many traders piled in after seeing the directors of beer, wine and spirits supplier Conviviality buying the stock in March 2018 in the wake of a profit warning– yet just four days later the listing was suspended and eventually the share price was written down to 0p. The total loss of 10% of a portfolio is painful – but it's not fatal.

A further trick with position sizing is to scale your positions. When you're winning consistently, you want to be gradually increasing your position sizes in order to compound your account faster. For example, if your overall portfolio grows by 10%, you can increase your position sizing by 10% too. Remember, however – this is even more critical when losing. By scaling down your accounts when losing, you increase the number of trades you can place before you blow your account. Remember: capital preservation is key in this business. Downside risk must always come first.

2. Risk management: always know the downside

The size of your positions may vary depending on the placement of your stop-loss (the point at which you will exit the trade if it is going against you), but you should aim to keep the risk per trade a consistent size. If you are not consistent about how much money you can lose on any one trade, then how can you expect to make consistent profits? Losing isn't a choice – but the amount you lose is always a choice. If you can keep your nicks and cuts small, and minimise your risk each time, then you give yourself the opportunity to stay in business.

Here's an example. Say we have two trading positions of £2,000 and £4,000, with a 10% stop on each. In trade one we will lose £200, and in trade two we'll lose £400. However, in some positions, a looser stop will be required.

Trading is tempting – but always focus on the downside

If "support" (a technical analysis term referring to a level at which the share price has historically rebounded) is 15% away and we are running a 10% stop, then it's likely we'll be flushed out of the position.

To adjust our position size for risk, we first take our monetary risk on the trade (the amount that we are prepared to lose on the position) and divide this by the difference between our entry price and intended exit price (or stop loss). This gives us the number of shares that we need to buy.

So say we wanted to buy shares in Sammy's Sandwiches at 20p and if it falls to 16p, we'll cut our losses. This would give us 4p risk per share (the difference between the entry and exit). Now say we want to risk a maximum of £500 on the trade. Our calculation would be £500 / 4p = 12,500 shares to buy. Using this calculation, you can keep your risk constant, while adjusting your position sizes for better entries.

3. Be consistent

One of the most poorly understood aspects of trading is this: you need to be consistent in order to be successful. Many get-rich-quick marketers push the idea that traders can work whenever they want, wherever they want (I discussed this in my previous MoneyWeek article looking at scam artists promoting binary options "signal" schemes). However, while the market gives potential traders unlimited freedom and creativity of expression – which is one of its most attractive features – the reality is that you are restricted. You must focus your creativity in certain areas. The best traders follow the same routine, day in, day out, and they'll trade the same set-ups over and over again. Many spread-betting providers have flashing lights all over their platforms, designed to entice you into taking a position. But trading is about working outside of market hours and the mechanical execution of the strategy you have already mapped out.

> *"The best traders follow the same routine, day in, day out"*

One trick I use to remain consistent is to create checklists and reminders on my laptop. A simple reminder that the opening auction is starting means I'm less likely to miss it because I was too absorbed in a piece of news. Human beings are terrible at multitasking – the brain can hold only a few pieces of information in its working memory at any one time. Having a checklist of questions such as "does this trade meet my criteria?" and "is this trade a part of my strategy?", will help you resist impulsive "boredom trades" and ensure you are trading in line with your goals.

4. Keep a trade journal

If you don't get into the habit of journalling or tracking your progress, you'll struggle to improve. It is very hard, if not impossible, to identify the consistent failures in your trading if you are not logging them – you can't fix a problem if you don't know that you have one. Noting small successes as well as areas for improvement will give you tangible opportunities to improve. Trading can also be an emotional sport. A journal will help keep you accountable for your mistakes. By keeping yourself in check, you avoid the risk of trading on "tilt" – that is, trading on emotional reactions rather than logical judgement. Many accounts have been blown by traders who were no longer thinking straight for extended periods.

One trick to avoid becoming too emotional is to think of the money in your account as points, not pounds. I also write down notes about what's going on in the world and how it may be possible to profit from the various scenarios. When Covid-19 started ravaging Italy and it was clear this was a serious global threat, I began to look for stocks that would suffer in order to short them. It's also useful to think of, and write down, three trading ideas to explore. If you can consistently create fresh ideas, some of these will eventually move from being intangible thoughts in your journal to becoming tangible profits in your account.

5. Don't pay up for a good story

As any good salesperson knows, stories sell. Firms often attract investors using a good story, typically involving a bold claim about owning world-changing technology, for example. The technology may exist – it may even work – but owning a working technology and commercialising it are two different things. However, as with any good story, there are usually plenty of keen listeners to be found. Fever can strike any stock and bring hordes of delirious punters bidding it up to stratospheric levels. Riding this fever can be profitable to trade – but don't get left holding the baby when it comes back down to earth. Focusing on your strategy will give you a much greater chance of success than listening to the siren stories of the stockmarket.

The key takeaways

Trading isn't easy, but proper preparation raises your odds of success. If you are tempted to dabble in trading stocks, only do it with money you're fully prepared to lose, and remember these six key practical tips.

- Never risk more than 10% of your account in a single position, but be prepared to lose 100% of every position you trade – because one day you will.
- Scale position-sizing up when you are winning and down when you are losing.
- Keep your risk levels constant – use the equation "monetary risk/risk per share" to work out how many shares you need to buy.
- Use checklists and alerts or reminders to keep a consistent routine and to avoid relying on working memory – this decreases decision fatigue.
- Keep a trading journal for accountability and generating trade ideas.
- Know how to spot a good story but never fall in love with a stock – don't overstay your welcome.

For more from Michael, visit shiftingshares.com

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Why innovation is important to income investing

Storm Uru, manager of the Liontrust Global Dividend Fund

Today, the idea that "every company needs to become a software company" is almost a cliché. No matter your industry, you're expected to reimagine your business model to make sure you're not the next local taxi company or hotel chain caught off-guard by your equivalent of Uber or Airbnb.

The playbook used to be simple – size and market power mattered – and the strategy was to create value by controlling the value chain and re-deploying capital to grow your competitive position. From retail to manufacturing, this concept is now broken, and more companies than ever are required to pivot and innovate in a digital world to keep pace with a new generation of software companies.

Industry dynamics used to change at a rate that incumbents could respond to – but not anymore. Enter a well-funded, highly motivated group of software-focused entrepreneurs intent on disrupting every industry, armed with new business models that tend to have a near-zero marginal cost of manufacturing and distribution.

The velocity and breadth of innovation caught many incumbents by surprise, resulting in lowered expectations for future growth. In response, management teams are now aggressively reallocating capital to digital transformation, and, in some cases, missing the structural change by continuing to pursue old strategies from tried and tested playbooks.

It's increasingly clear that digital transformation isn't easy. McKinsey recently published a report highlighting that most companies fail to achieve a return on investment in digital transformation initiatives greater than the cost of capital.

Research conducted by the OECD shows that digital transformation is leading to a confounding outcome. Those with leading digital capabilities are simply extending their lead. This is why we invest in global leaders, who do not just rely on size and market power but also have a culture of innovation and are able to extend their market leadership position and increase dividends long into the future.

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AVAXHOME -

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How to deal with credit-card debt

Feeling the pinch? There are cheaper options than a payment holiday

Ruth Jackson-Kirby
Money columnist

Almost 1.5 million payment holidays have been granted on credit cards and personal loans since the lockdown began. While a payment holiday can be a lifeline if your income has nose-dived, there are cheaper alternatives. The trouble with holidays on credit cards is that – just like mortgage holidays – they aren't free. You may not be making any repayments, but the lender is still charging interest on your debt.

What you owe is growing, so your monthly repayments will have to rise when the holiday is over, or it will take you longer to clear your debt. If you take a three-month payment holiday on a £4,000 credit-card debt with a 21.9%APR, you'll owe an extra £203 when the holiday ends. This highlights why "only those who really can't afford to make payments... should [take] payment holidays on things like credit cards, which have higher interest rates than mortgages or unsecured personal loans", says George Nixon in This is Money.

If you want some breathing space from credit-card debt the cheaper option is to move it onto an interest-free credit card and only make the minimum repayments until your income recovers. TSB is offering 0% for up to 30 months on its credit card. Transfer a balance from another credit card to the TSB card and you could avoid interest for two and a half years. But you will pay a 2.95% balance-transfer fee. A better option might be Santander's balance-transfer card. It offers

Juggling your debt is easier with 0% credit cards

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18 months of 0% with no balance-transfer fee. Once you've moved your money onto an interest-free credit card you could reduce your repayments to the minimum amount if you are struggling. The Santander card has a minimum repayment of 1% of the balance, or £5. On a £4,000 debt that means monthly repayments of £40. What's more, if you take a repayment holiday from a credit card with a 0% rate you won't have any interest added to your debt. You shouldn't lose your promotional rate either as the Financial Conduct Authority, the City regulator, has said that lenders should ensure borrowers don't suffer the normal consequences of non-payment.

> *"Move to an interest-free card if you are struggling with the debt load"*

Whether you take a payment holiday or not, make a note of when the interest-free period ends. When your finances improve increase your repayments and try to clear the debt before you start being charged interest. If you can't do that move your debt onto another 0% credit card to avoid hefty interest charges. The TSB card charges 19.9%APR when the interest-free period ends and the Santander card 18.9%APR.

Pocket money... a total ban on tenant fees

■ There has been a surge in demand for short-term fixed rate bonds. "Savers may well be rushing to secure a competitive rate over the next 12 months before rates worsen," says Rachel Springall from Moneyfacts in The Sunday Times.

However, savers should not be tempted to stash their money away for the long term. The difference in interest rates for the average one-year and five-year fixed-rate bond has declined to just 0.39%, compared with 1.17% in 2016.

"Savers will earn just pennies by locking their money away for five years instead of one year." The best one-year rate is currently 1.45% from Ford Money. RCI is paying the top rate on five-year bonds: 1.8%.

■ Landlords are being warned they face fines of up to £30,000 if they are still charging fees to new tenants. If you rent out property in England, you were banned from charging fees to tenants who signed new agreements after 1 June 2019. But you could still "charge exit fees and... levy charges for inventories, maintenance and administration" on older tenancies, notes Adam Williams in The Daily Telegraph. That ended on Monday when a complete ban on all tenant fees came into effect. You now face a fine of up to £30,000 if you fail to comply. "Tenants can reclaim their money through the courts and landlords can be fined £5,000 for a first offence, rising to £30,000 for subsequent violations."

■ CommuterClub, a firm that offers workers loans to buy annual train tickets, was in the spotlight this week for mishandling refunds. Customers are reporting "months spent chasing refunds that should happen in 30 days, being told they can speed up the process if they pay a £20 fee, and cancelling their membership only to find hundreds of pounds still being taken from their bank account", says Katherine Denham in The Sunday Times.

Don't count on a holiday abroad

It seems we're not letting lockdown get in the way of our dreams of a summer holiday abroad. "Since the start of May millions of pounds have been spent on holidays that may not take place," says Marianna Hunt in The Telegraph. With travel firms offering big discounts, people have rushed to grab a bargain.

The problem is it may turn out to be a hellish experience rather than a holiday. The government has warned that it is unlikely Britons will be able to holiday overseas. People travelling abroad from 8 June will have to quarantine for 14 days when they return, a system that is also being enforced in several European countries.

"Holidaymakers aren't going to be able to take trips where the quarantine period at both ends totals 28 days," says Rory Boland, editor of Which Travel.

The problem for people who have been busy booking holidays is that if they have to cancel, they are going to find themselves at the back of a very long queue for a refund. And they are "unlikely to be able to buy travel insurance that would cover them for disruption caused by coronavirus, as many insurers have added Covid-19 restrictions to their policies", says Hunt.

Book a package holiday and you are entitled to a full refund by law. Pay with a credit card and you can also seek a refund from your credit-card provider under Section 75 of the Consumer Credit Act. But as we've already seen, many firms are dragging their heels when it comes to refunds. The best advice is not to book until you are sure the borders will have reopened and your trip can go ahead.

"Airlines and holiday companies must be given clear... guidance on what dates [they can] sell flights and holidays for," says Boland. Don't be tempted by great deals from holiday firms that may never actually deliver that trip.

State support on the slide

Government aid for small firms is winding down. Make plans now

David Prosser
Business columnist

Small businesses and self-employed workers claiming support from the government have some planning to do. The Job Retention Scheme (JRS) and the Self-Employment Income Support Scheme (SEISS) will both now become less generous and will end in October and August respectively.

The JRS allows companies to lay staff off for a period – put them on furlough – but continue paying them by claiming up to 80% of wage costs from the government. This support is available until the end of July, but while the JRS will then continue until 31 October, employers will be expected to contribute more, according to plans set out last week by chancellor Rishi Sunak. In August, they'll be asked to pay employers' national insurance contributions and pension contributions, which the JRS currently covers. In September and October, the government's contribution to wages will fall to 70% and 60% respectively.

Consider your staffing costs

Employers therefore need to start thinking about what labour they will need in the months ahead and what they can afford. This will vary according to when your firm can return to more normal working patterns and how sales recover. But try to make at least some forecasts.

Many businesses will still be able to claim help with the cost of national insurance from the Employment Allowance, so factor that into your estimates. Also, around 40% of employers haven't been claiming for the cost of pension contributions, so the impact of asking businesses to pay these from August may be less damaging than expected.

The JRS will close to new entrants on 30 June, so you won't be able to claim any help for staff you haven't furloughed before then. You also need to understand how the rules on redundancies work. If you think you won't be able to keep all staff on as the JRS is withdrawn, there are strict rules on consultation and notice periods to follow.

Chancellor Rishi Sunak is asking employers to contribute more to their wage bill from August

©Andrew Parsons/10 Downing Street/Crown ©/PA Media

More positively, the chancellor has agreed that from 1 July it will be possible for furloughed workers to return to work on a part-time basis. In other words, you'll be able to bring staff in for the hours that you need them while continuing to claim support to pay their salaries for the time when they're at home. This could provide crucial flexibility for businesses getting up and running gradually.

> *"Furloughed workers may return on a part-time basis from July"*

As for the SEISS, this is the scheme aimed at self-employed workers – but not those who run limited companies – earning less than £50,000 a year. The first grants from this scheme, worth 80% of average profits but capped at £7,500, should have begun arriving in bank accounts in recent days. They cover the period from March to May. The government will also pay a second grant to cover June, July and August, with payments calculated using the same formula, but capped at £6,750.

Get your claim in for SEISS support quickly: applications for the first grant must be made online to HM Revenue & Customs by 13 July, with the second grant process then beginning in August. HMRC is supposed to have contacted all the self-employed workers it thinks are eligible for help, but some people may have slipped through the net. Check the Gov.uk website if you think you fit the criteria but have heard nothing.

Should you put off your VAT bill?

Companies with a VAT payment due between 20 March and 30 June can defer the bill until 31 March 2021 as part of the government's support package. In practice, that means you can defer what you owe from quarterly tax returns that were filed by 29 February, 29 March and 29 April, for which tax would normally be payable by 7 April, 7 May and 7 June respectively. Payments on account, annual accounting advance payments and monthly return payments are also eligible for deferral.

However, just because you can put off your bill doesn't mean you should. This is a loan – an extension of the time you have to pay your VAT to help with short-term cash-flow problems – not a cancellation of the debt. And when the bill does finally fall due next March, you'll also be expected to pay the VAT ordinarily due at that time. So it makes sense to pay now if you can.

Still, think carefully about your cash-flow expectations for the rest of this year, including costs such as bringing staff back from furlough and making workplace safety changes. It may be sensible to keep your VAT cash back to give yourself a safety net. You could take a Bounce Back Loan from the government scheme to cover the cost of your delayed liability. These are cost-free in the first year, so if you don't end up needing the money for your VAT, you can repay the loan and be no worse off.

An update for the business-rate support scheme

Good news for businesses based in shared-office buildings that have hitherto missed out on financial support. The government has added £600m to plug the gap in its small business rates relief scheme. This is the plan offering £10,000 in cash grants to businesses based in premises with a rateable value of less than £15,000 for business rates purposes. The scheme also pays £25,000 to companies in the retail, leisure and hospitality sectors where they inhabit premises with a rateable value of between £15,000 and £51,000. However, some 10,000 companies based in shared office buildings and other workspace properties were not initially eligible for support, because the Valuation Office Agency, which sets business rate valuations, has never assessed the units they rent. Businesses in premises run by companies such as WeWork (pictured) therefore received nothing. Now the government has extended the scheme to ensure these businesses do, after all, receive support. The grants are managed by local authorities, so if you think you may be eligible, contact your local council for advice.

©WeWork

■ Small and medium-sized enterprises can also claim financial support for the cost of two weeks' statutory sick pay if employees are forced to take time off work because they fall ill or have to self-isolate. This benefit, on offer to firms with fewer than 250 employees, could be increasingly important as the government gets its track and trace system up and running. Claims must be made through HMRC.

Winning stocks that will weather the storm

A professional investor tells us where he'd put his money. This week: Pieter Fourie, head of global equities at Sanlam, selects three resilient companies

With neither a cure nor a vaccine in the immediate offing, the Covid-19 crisis shows no signs of abating and there is still a great deal of uncertainty over how long and deep the resulting economic downturn will be. Our focus therefore continues to be on investing in resilient companies that stand the greatest chance of withstanding the ravages of this pandemic.

Sadly, in the short term, it's not going to be easy for businesses in any sector. Apart from a lucky few, most companies are currently focusing on survival, not growth.

Investors should look to get behind those likely to prevail within their sector. Here are three businesses that we believe are well positioned to weather the storm and should offer investors a steady return over the medium term.

The shift to online operations

Almost overnight businesses and schools had to move their operations online and individuals were forced to find new ways of socialising with friends and family. One big winner of this shift was **Microsoft (Nasdaq: MSFT)**. Its cloud technology allows multiple people to be online at any one time and its applications experienced a huge spike in usage as schools and businesses adopted them.

Microsoft Teams, the software giant's equivalent of Zoom, reported over 75 million daily active users (DAUs) by the end of March – up 70% from reported 44 million on 18 March. Looking to the future, the pandemic is likely to accelerate the adoption of Artificial Intelligence (AI), analytics (discovering and interpreting patterns in data), customer behaviour services and video-conferencing. This will be beneficial for Microsoft, a company involved in large digital-transformation projects and AI offerings.

A top tip in the travel industry

One of the big losers of the pandemic is the travel sector. With lockdowns imposed across the world, travel has almost come to a complete standstill and travel stocks have taken a big hit. With that in mind, it's perhaps surprising that we feel positive towards **Booking Holdings (Nasdaq: BKNG)**, the owner of the online travel platform Booking.com, when the outlook for this sector remains decidedly unclear, if not bleak. But in terms of business resilience, Booking.com is a contender. Our estimate is that it could survive three years with no revenue. In addition, hotels will increasingly lean on it as they set about attempting to fill rooms, which means it will perform solidly in this downturn.

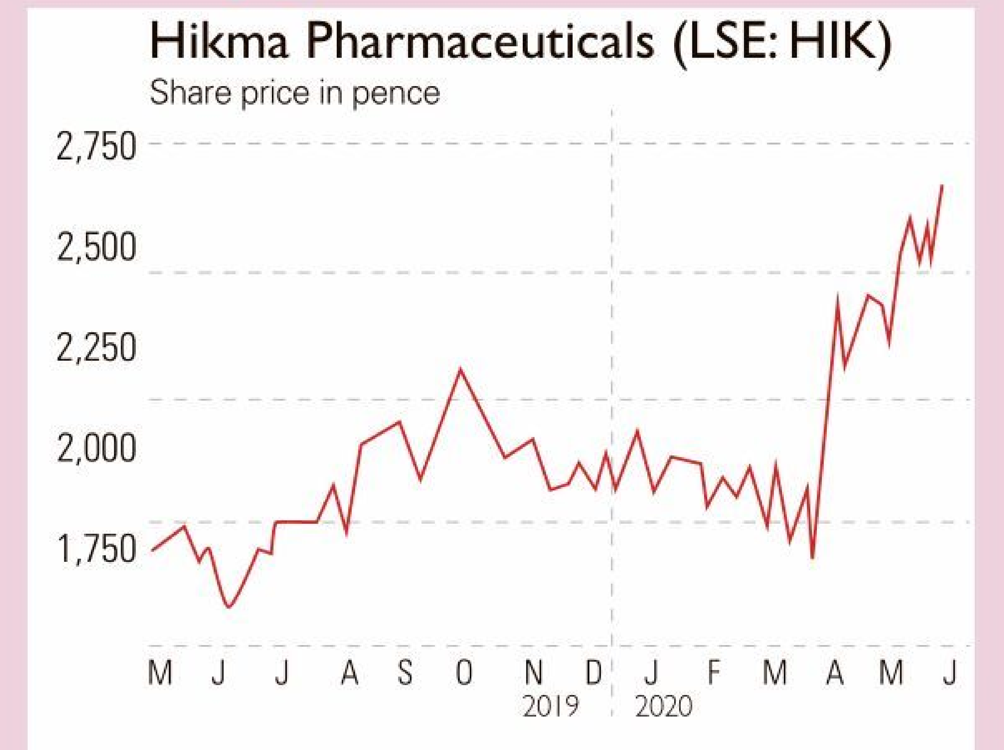
Hospital equipment is a growth area

Drug companies seeking a vaccine have been in the spotlight. But vaccine manufacturing is complex, heavily regulated to ensure safety and difficult to expand profitably. The immediate benefactors of the Covid-19 crisis are manufacturers of hospital equipment.

"Booking.com could survive for three years without revenue"

Philips (Amsterdam: PHIA) produces hospital ventilators, which have been in high demand as governments around the world seek to increase the number of ventilators available in intensive care units (ICUs) and build strategic stockpiles. Philips also produces ultrasound systems for the management of Covid-19-related lung and cardiac complications, so it is well positioned to take advantage of the current crisis and any future coronavirus outbreaks.

If only you'd invested in...



Hikma Pharmaceuticals (LSE: HIK) is a multinational pharmaceuticals group headquartered in London that produces both branded and generic treatments. By the end of the first quarter the company was confident that it was on track to fulfil its full-year revenue forecast. Hikma says it has seen increased demand across its portfolio, with hospitals eager to get their hands on anaesthetics and sedatives amid the coronavirus pandemic. Investors have also been impressed by a 16% rise in the 2019 dividend. The stock has gained 56% in a year.

Be glad you didn't buy...

Shares in **Hunting (LSE: HTG)**, a British supplier of equipment such as drilling tools to the oil industry, have slipped by 67% over the last 12 months, a collapse that has accompanied the drop in oil prices induced by Covid-19, says Giulia Bottaro in Proactive Investors. The group said in April that it will implement cost-saving measures, including ceasing non-essential capital expenditure and a hiring freeze, though it still paid $5m in dividends. The company has been downgraded from "buy" to "neutral" by Swiss bank UBS as an upturn in oil prices is not expected any time soon.

Dad, I shrunk the empire

The heir of the Lagardère business empire has been bailed out by the French establishment – again. But this time he is determined to prove his mettle. Jane Lewis reports

©Getty Images

Twenty years ago, LVMH founder Bernard Arnault sat down for dinner with his old friend, Jean-Luc Lagardère, at the Paris Polo Club after their regular game of tennis, says the Financial Times. They were joined by Lagardère's son and heir, Arnaud. At the time, Lagardère was the more celebrated of the two business leaders – having built one of France's great industrial empires, with interests ranging from aerospace to publishing. But he already had an eye on his own mortality. "If anything happens to me," he told Arnault, "you must look after Arnaud." Three years later, he died.

Fast-forward two decades, and the luxury tycoon – now the richest man in Europe – appears to be honouring his pledge. Last week, Arnault announced he would buy 25% of Arnaud Lagardère's personal holding company, through which he controls the publicly traded Lagardère Group. The deal saves Lagardère junior "from an embarrassing reckoning with his French creditors". Perhaps more importantly, it also gives him "a powerful ally" in his "long-running battle" with Amber Capital – the London-based hedge fund that has been agitating to overhaul the group, now mainly a media empire whose assets include the publishing house Hachette, a chain of newsagents, and several high-profile magazine titles including Paris Match and Elle.

"Maybe I'm an atypical boss, so what? Being happy in one's private life is a source of stability for a chief executive"

"French tycoons like to scratch each others' backs," says Bloomberg. Especially, it seems, when the threat is "hedge-fund humiliation". Arnault is actually the third Gallic billionaire to ride to the rescue of the Lagardère's "indebted heir" in his time of trouble. *Vive la* French establishment! Arnaud Lagardère, now 59, clearly holds a special place. But he has also attracted "plenty of scorn for both his management style and the performance of the business", says the FT. Considered something of a playboy, "Lagardère spends several months of the year in Florida and once skipped a board meeting to attend the Roland-Garros tennis tournament in Paris". During his tenure, he has refocused the group away from its industrial heritage to concentrate on the media side of the business – with mixed success. In 2018, the left-leaning newspaper Libération splashed him all over the front page under the headline *Papa, j'ai rétréci l'empire* ("Dad, I shrunk the empire").

A reluctant chief executive?

Lagardère is obviously no dunce: he took a masters in economics before joining the family firm in 1986, and spent his apprenticeship as the *dauphin* working in different roles across the group. Nonetheless, his extracurricular activities with the opposite sex have long been the subject of public fascination, and many have concluded that Lagardère is "a reluctant chief executive". Lagardère threatened to sue one French paper that "questioned his dedication", but the press continued to have a ball.

"Maybe I'm an atypical boss, so what?" a defiant Lagardère told the business paper, Les Echos. "Being happy in one's private life is a source of stability for a chief executive." Well, not necessarily. Now financially shored up, the *enfant terrible* of French business intends to make Lagardère "a global leader" in book publishing and travel retail, notes the FT. "I have spent a lot of time defending myself and the company, now I want to move forward," he says. "If I'm lucky, I have 15 or 20 years left ... to strengthen my family's company." *Le tout-Paris* is watching.

Great frauds in history… *Arthur Nadel's day-trading scam*

Born in New York on New Year's Day in 1933, Arthur Nadel went on to graduate from New York University (NYU), followed by NYU Law School. His law career came to an ignominious end when he was disbarred in 1982 for misappropriating money held in an escrow account (though the money was eventually repaid). Nadel then moved to Sarasota, Florida, trying out various business ventures, interspersed with stints as a piano player. In the 1990s he and his fifth wife, Peg, founded a successful day-trading club. On the back of this success he launched a hedge fund, Scoop Management Company, which managed money for three funds run by Neil and Chris Moody.

What was the scam?

Nadel claimed that he would make money for investors by day-trading the Nasdaq (a technology-heavy index of stocks) using a computer programme. He was a poor trader, however, making only small returns during the technology boom, and large losses when the bubble burst. To cover up his failure, he reported consistently large returns, which enabled him to keep attracting enough money to repay those few investors who wanted their money back. During this period, Nadel and the Moodys earned around $42m each in fees based on the reported performance of the fund and the amount of assets under management.

What happened next?

The global financial crisis in 2008 made investors nervous, resulting in increasing numbers demanding their money back, and a sharp decline in the number of new investors. Nadel suddenly disappeared in January 2009, days before the fund was due to repay $50m, leaving a letter for his wife confessing everything. A few weeks later he handed himself in to the authorities, and was eventually sentenced to 14 years in prison. He died in jail in 2012. Neil Moody and his son, Chris, denied knowing anything about the fraud, but they accepted a brief ban from the securities industry as part of a settlement.

Lessons for investors

At the time of Scoop's collapse it claimed to have $350m in assets, but had only $500,000 in the bank. Actual investor losses totalled $168m, around half of which has been repaid through lawsuits and clawbacks from those investors who made money. Many investors put money into the scheme based on a fulsome recommendation from an independent investment newsletter, run by a neighbour of Nadel, which claimed to have done "due diligence", but later turned out to have received nearly $10m worth of payments from Scoop. Investment newsletters can provide useful tips, but it's always a good idea to do your own research.

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Stunning Collection of Six Thrilling Wines

from Tanners Wine Merchants

In order to attempt to lighten the collective mood this month, along with my six outstanding wine picks for you to bathe your palate in I have decided to give each bottle a personality. I often use this method of remembering wines and I thought it might be fun for you to imagine them as characters too, in the hope that these notions might further bring my descriptions to life. Tanners has responded to my plea by giving us the most characterful and animated selection of wines imaginable this month and they all have unmissable flavours, too. I hope that you take advantage of these great prices and that you continue to follow our MWWC recommendations in order to maintain your sky high standards of fine wine drinking this month. drinking this month.

Matthew Jukes

- All wines come personally recommended
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Prices shown below are per case of 12 bottles. Wines are also available in a 12 bottle mixed case (2 of each of the wines) and is **keenly-priced at £162.50, that's less than £14 per bottle.** It's a chance for you to try them all, and is always the most popular choice with *MoneyWeek* readers.

~~£11.90~~ **£11.00**

2018 Blauschiefer, Riesling Trocken, Kerpen, Mosel, Germany

This bone dry, superbly cleansing Riesling is made from grapes grown on blue slate soils, hence its name Blauschiefer. A welcome wave of affordable, taut, refreshing Rieslings is coming to our shores these days and these wines are particularly well-suited to our British palates as we have inched away from off-dry wines of yesteryear over the last few decades. Martin Kerpen's wine is a seemingly delicate and floral white with a surprisingly steely edge and for this reason it is a classic Jodie Comer.

CASE PRICE: £132

~~£9.20~~ **£8.50**

2019 Bagordi Blanco, Rioja, Spain

It is unusual to find such an expressive and aromatic white Rioja as these wines are usually a little less exotic, but perhaps this is because there is no oak interfering with the delivery of fruit in this wine. It turns out that there is a fair slice of Sauvignon Blanc on board, too, augmenting the indigenous Garnacha Blanca and this adds intrigue and élan. I like the unexpected and quirky nature of this crisp white wine and therefore I have awarded it Doon Mackichan status, not least because I spotted her in a pub the other day and she is one of my faves!

CASE PRICE: £102

~~£17.95~~ **£16.50**

2016 Château Cissac, Haut-Médoc, Bordeaux, France

As a nation we have a soft spot for Cissac because it is a faithful, dependable and honest claret, that you can rely on in times of Sunday lunch thirst. But what has happened in 2016? This polite village vicar of a wine has been transformed into a dashing, energetic, effortlessly suave number with masses of flair, class and breeding. In 2016, Cissac is a veritable David Niven of a red – impeccably tailored, aromatically dreamy and quick-witted to boot. You must bring David home to meet the family.

CASE PRICE: £198

~~£14.95~~ **£13.75**

2015 Château Laclaverie, Francs Côtes de Bordeaux, France

By contrast to Cissac, Laclaverie hails from the meaty, powerful 2015 vintage and it is made by the mercurial Nicolas Thienpont. This is a wine which comes from the wilds of the Côtes de Francs, now confusingly called Francs Côtes de Bordeaux, and it is purple in hue, succulent, showy and indulgent. A modern take on a classic Merlot-dominant blend, this is a glossy, luxurious wine and it is every inch a Rufus Sewell.

CASE PRICE: £165

~~£14.95~~ **£13.75**

2016 Margan, Breaking Ground Barbera, Hunter Valley, New South Wales, Australia

Andrew Margan's winery in the Hunter Valley concentrates on classic Aussie varieties like Shiraz and Semillon, but is also home to some more exotic European grapes, too. Barbera is usually found in Piemonte in Northwest Italy, but this Australian version is sensational. The volume has been turned up a few notches here with cola, blueberry and spice notes infiltrating the sleek blackcurrant core. This is most definitely an Aussie showman and you have already guessed who my vinous doppelganger is for this wine, yes, it's Hugh Jackman.

CASE PRICE: £165

~~£16.60~~ **£15.25**

2016 Celler Cal Pla, Priorat, Spain

You will need to steady yourself before you ease into a bottle of this red because it is menacing, malevolent and massive. That is not to say it is too youthful to drink, not a bit of it. This is just a wine that draws on the brutal Priorat terrain, sucking the energy from its soil and spitting it into this bottle. Heroic, powerful, dark and swarthy, this is a stunning creation for barbecue frenzies and it could only be represented by the peerless Javier Bardem. My agent will call his agent now.

CASE PRICE: £183

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An undiscovered gem in Mauritius

Chris Carter is impressed with a new five-star resort on the southern, less developed part of the island

The white sand beaches are a snorkellers' paradise

©Anantara

In February, I wrote about Beachcomber's wonderfully decadent Royal Palm resort, up on the northern tip of Mauritius. It's here, at Grand Baie, that many of the island's high-end offerings are clustered. But there is another, quieter, less developed side to Mauritius – one located at the island's southern end. It's just waiting to be discovered.

Last October, Thailand's Anantara opened its five-star Iko Mauritius Resort & Villas on the white sand beach of Le Chaland. It's just a ten-minute drive from Sir Seewoosagur Ramgoolam International Airport and is close to the charming, old French colonial capital of Mahébourg and the snorkellers' paradise that is the Blue Bay Marine Park.

The Iko is still a work in progress – it has designs on expansion. But it's looking pretty good as it is.

When I visited in December, it was a cosy haven of tastefully modern rooms, a poolside bar, several restaurants and a spa, set in tropical gardens, centred around a swimming pool, and with ocean views.

The 164 rooms face either onto the sea or the gardens. Decorated in clean, straight lines, using natural materials in shades of cream and browns, they have spacious bathrooms, with large showers and rounded bathtubs. Back out in the lobby, the blending of stone basalt, dark silent pools and light exudes an exotic temple feel that runs into the spa. There, the signature treatment, the Mauritian Salt Drift, is a three-hour indulgence of foot and body scrubs using local Tamarin salt and spices, a coconut body wrap, an Ayurvedic massage, topped off with a facial.

> *"The resort is a cosy haven set in tropical gardens around a swimming pool"*

Next to the pool, you will find the jazzy Karokan bar for a cold Blue Marlin beer and a thatched-roof restaurant that looks towards the beach. We sat down to an early supper of hot and cold creole favourites as the sun sank over the sea. The cuisine in this part of the world really is exquisite and still much overlooked.

Our short stay was just to fill time before making an onward flight to neighbouring Reunion Island. Sir Seewoosagur Ramgoolam International Airport is a fine facility, but a few leisurely hours at the Iko sure beats a long, stuffy wait for connecting flights at the airport.

The Anantara Iko Mauritius Resort & Villas is currently closed due to the pandemic, but is looking to reopen in September. Rates start from £241 per room per night (a 40% saving on the usual rate), including breakfast. Visit anantara.com/en/iko-mauritius

Wine of the week: two rare but brilliant creations from Fox & Fox

2015 Fox & Fox, Mayfield, Essence Pure Chardonnay Brut
£39.99, foxandfox.wine

Matthew Jukes
Wine columnist

I met Gerard Fox five or six years ago at a tasting. He mentioned that he and his wife Jonica had got into the wine game, back in 2004, by planting some vines, and that they were pretty happy with their early releases. I tasted their 2011 Mayfield, Essence Blanc de Blancs, back in 2016 and also their 2013 Mayfield Tradition Blanc de Noirs, in 2018, and wrote up both in my column for the Daily Mail.

Each Fox & Fox release is tiny, a thousand bottles here and a thousand bottles there. Since the early days, the vines are finding their feet and two new releases are worthy of extremely high praise. The 2015 Essence is sublime and it grows on the palate into a lovely crisp apple and lemon balm cocktail. It is a perfect paean to the great chardonnay grape. A slimline creature, with only 12% alcohol, it wears a generous 11.5g/L dosage, so this is a slender, but curvaceous wine. With superb class throughout, the nose starts quietly and it expands and relaxes into a delicious and thoroughly moreish creation.

In addition, 2014 Fox & Fox, Mayfield, CV Chairman's Vat Brut (£40, foxandfox.wine; £39.99, thebritishwinecellar.co.uk) is a tighter, more energetic and less louche number with only 8.5g/L dosage, and it is a blend of pinot noir, chardonnay and pinot gris. Dry, layered and intellectually stimulating, it is a brilliant wine with chalky, sour acidity on the finish and lush fruit throughout.

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

This week: houses with separate home offices – from a renovated Georgian townhouse in London's Chelsea with

Lower Jordans, Pulborough, West Sussex. A Grade II-listed, 17th-century cottage with a contemporary extension set in gardens with a garage with a studio above that is used as a home office. It has exposed wall and ceiling timbers, inglenook fireplaces and a kitchen with an Aga. 4 beds, 2 baths, 2 receps. £1.35m Sotheby's International Realty 01932-860537.

Rock Farm, Chilcote, Leicestershire. A Grade II-listed, 18th-century house set in landscaped gardens that include a range of outbuildings and an open-plan office in a converted barn with oak flooring and extensive power points. 7 beds, 3 baths, 3 receps, library, gym, studio, orchard, 0.75 acres. £1m+ Fine & Country 01332-973888.

Hill House, Chinnor Hill, Oxfordshire. A refurbished, extended period property in landscaped gardens with far-reaching views over the surrounding countryside. It has a self-contained annexe currently used as an artist's studio with floor-to-ceiling windows, a mezzanine and a wet room, which could be converted into an office. 5 beds, 3 baths, 2 receps, breakfast kitchen, 3.6 acres. £1.395m Knight Frank 01494-854030.

an office in the landscaped garden, to a Grade II-listed, medieval hall house in St Mary, Suffolk

◀ **Mortimers, Preston St Mary, Suffolk.** A Grade II-listed hall house dating from the 1400s with a range of traditional outbuildings that include an annexe used as an office. The house retains its medieval door frames, crown post, inglenook fireplaces and vaulted, beamed ceilings and has brick, quarry and pamment tiled floors. 4 beds, bath, 2 receps, breakfast kitchen, traditional barn and workshop, 4 stables, field shelter, manège, post and rail paddocks, gardens, 6 acres. £1.25m Carter Jonas 01787-882881.

▶ **Lydford House, Sixpenny Handley, Salisbury, Dorset.** This modernised, extended 1880s house comes with a large outbuilding, half of which has been converted into an office. The house has a kitchen with French doors leading onto the garden. 4 beds, 2 baths, 2 receps, study. £659,950 Winkworth 01722-443000.

▲ **Old Church Street, Chelsea, London SW3.** This renovated, Georgian townhouse in the centre of Chelsea has recently been refurbished, with glass and skylights used to create a light-filled, contemporary interior. The house comes with a separate studio in the landscaped garden, which is currently used as a home office. 3 beds, 3 baths, 3 receps, study, media room/bed 4, kitchen, dining room, storage vaults. £7.6m Savills 020-7578 9000.

◀ **Oakwell House and Brownside Cottage, Bardon Mill, Hexham, Northumberland.** A substantial Edwardian property set in large gardens that include a separate, two-bedroom holiday cottage and a detached home office with a spacious ground floor area, a mezzanine and a meeting room. 6 beds, 2 baths, 3 receps, breakfast kitchen, stable block, tack room, manège, gardens, paddocks, 5.47 acres. £899,950 Finest Properties 01434-622234.

▶ **Coat House, Coat, Martock, Somerset.** A Grade II-listed, mid-17th century house constructed out of Hamstone ashlar with stone-mullion, leaded-light windows and three acres of gardens that include a walled garden and a range of outbuildings that are ideal for home working. It has period fireplaces, window seats and a large breakfast kitchen with an Aga. 5 beds, 2 baths, 4 receps, study, gym, swimming pool, paddock, 5 acres in total. £1.4m Jackson-Stops 01935-810141.

Turn your living room into a cinema

Missing the big screen? Bring the experience home, says Nicole Garcia Merida

Getting that cinema sound

The **Sonos Arc** is the most expensive "soundbar" the company has yet produced and it's an impressive piece of kit, says Jeremy White in Wired. The Arc is a smart speaker with Dolby Atmos, a "pimped up surround sound" system, which can channel Amazon Alexa or Google Assistant. It has no less than 11 individual speakers along its 1.1-metre length, and it automatically adjusts to provide the best-quality sound based on your home-cinema set-up and what's playing. Using the associated app, you can play around with such "audio trickery" as enhancing the vocals or dampening the sound of explosions to avoid upsetting the neighbours. *£799, sonos.com*

A high-quality film projector

Entry-level film projectors may require screens and good curtains to keep the sun out; ultra-high definition (4K) models are pricey. The **Epson EH-TW9400** bridges that gap, says Will Donovan on GamesRadar. It is as close to 4K as you can get without paying around twice what this machine costs and the picture quality is "astonishing". It will project onto whatever it's pointed at and the adjustable lens means it is easier to position than cheaper units. It's a big lump, weighing in at 11kg, and does run loud, but you'd struggle to get better for the price. *£2,549, puretheatre.com*

The best TVs for image quality

To get the best possible image quality on a television, you'll need an OLED model, says Daniel Varghese in GQ. The **LG C9** is the one to go for. It "offers an absolutely stunning, extremely crisp image that'll wow anyone lucky enough to be invited to a screening at your place". It's available in 55 and 65 inches, but for optimal film viewing, the 77-inch screen is the way to go. "One downside of OLED technology is that these TVs don't get as bright as conventional LED models – plan on drawing the curtains if you're doing an all-day Scorsese marathon." *From £1,299, currys.co.uk*

Make yourself comfortable

©Marc Eggimann

The best thing about a home cinema as opposed to the real thing is that you can give yourself plenty of legroom, says Khemjira Prompan on TimeOut Bangkok. But why not make yourself really comfy by splashing out on a posh chair? The super stylish **Grand Relax** is designed by Italian architect and furniture designer Antonio Citterio, and is "specially designed to hug the contours of your body". It can rotate 360 degrees and the backrest can be locked at any angle. You can choose from several combinations of materials, including elegant fabrics and high-quality leather, and it comes with an Ottoman so you can put your feet up and relax with your favourite film. *From £4,150, vitra.com*

It wouldn't be the same without popcorn...

Popcorn is an integral part of cinema culture and this **Retro Popcorn Maker** by Smart can bring the experience home for you. The machine features a large, stainless-steel kettle with a built-in stirring system and pops up to 16 cups of popcorn per batch. It uses oil – there are machines that use hot air if you want a healthier snack – but there are "few better looking options", say Tom Capon and Jennifer Barton in The Sun. *£88.99, wayfair.co.uk*

Book of the week

The Rich in Public Opinion

What We Think When We Think About Wealth
By Rainer Zitelmann
Cato Institute, £19.99

In the aftermath of the great financial crisis of just over a decade ago, a number of bankers and financiers, most notably Barclays' Bob Diamond, argued that the denigration of their industry, and of the rich in general, had gone too far. The claims were met with a mixture of derision and outrage, but author and entrepreneur Rainer Zitelmann thinks they had a point. In this book, he argues that "prejudice" against the rich is widespread and essentially no less malign than any prejudice.

"Upward classism"

The book is divided into three parts. The first looks at the techniques and theories used to understand and measure bias, such as racism, and examines whether they can be applied to attitudes towards the rich – or what Zitelmann terms "upward classism". The next section looks at the results of detailed polling into popular attitudes towards the rich carried out in Germany, France, Britain and the US. Finally, the last section looks at attitudes towards the rich in the media and popular culture.

Of the three sections, the polling on people's attitudes towards the rich is the most interesting. Two things stand out. One is that British attitudes towards wealth (or what Zitelmann refers to as the extent of "social envy") are much closer to those prevalent in the US than those in France or Germany. The second is that, in all four countries, the biggest determinant of a person's attitude to the rich is not their age or even income, but whether they view economics as a zero-sum game. Those who believe that the size of the economic cake is fixed and that therefore the rich are rich because the poor are poor are much more antagonistic towards the rich than those who believe that one person's success enriches everyone else.

Bob Diamond: unfairly maligned?

©Alamy

> *"The biggest determinant of a person's attitude to the rich is whether they view economics as a zero-sum game"*

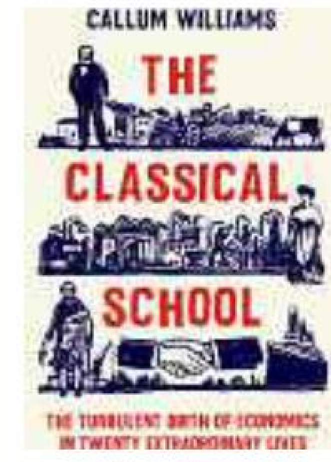
Zitelmann's argument that the rich are not only denigrated, but unfairly so, is much less convincing. He doesn't consider the possibility that some of the popular criticism of the behaviour of the wealthy might actually be justified. He notes, for example, that 92% of the coverage of the "letterbox companies" at the centre of the Panama Papers scandal was negative, without acknowledging that at least some of those companies were used for illegal and dubious purposes.

At a time of rising populism and concern about the power and influence of the rich, even the most dedicated contrarian would find it hard to argue that extremes of wealth are of no concern at all. Still, the book's insights into our often contradictory attitudes toward wealth and money make the book well worth reading.

Reviewed by Matthew Partridge

The Classical School

The Turbulent Birth of Economics in Twenty Extraordinary Lives
By Callum Williams
Profile Books, £15.99



John Maynard Keynes famously said that "practical men who believe themselves to be quite exempt from any intellectual influence are usually the slaves of some defunct economist". How true that is will become apparent if you read this primer by Callum Williams, a journalist at The Economist. He profiles the lives and thoughts of 20 early pioneers in the development of economic thought and shows how even the worst of them have insights that help explain the background to modern-day problems.

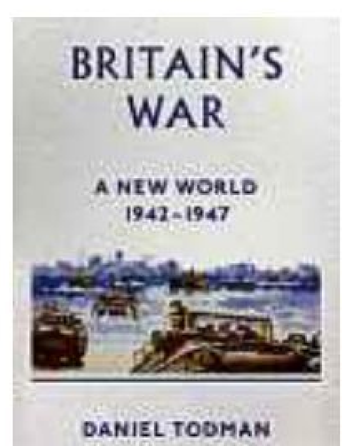
Jean Baptiste Colbert, for example, argued that the way to build the wealth of nations was to accumulate it in the form gold and silver. That was naïve. Yet Adam Smith went too far to the other extreme when he argued that the amount of money in an economy has no impact on output, even in the short run. Similarly, economics might have a better reputation today if it had followed the empiricism of the 17th-century landowner William Petty more than the abstract scholarly equations of Alfred Marshall.

Williams is an entertaining writer, enlightening his readers without boring them and using biographical detail not just to enliven the subject but to show how life experiences can determine attitudes. He has a knack for grabbing your attention and forcing you to think again about how the history of economic thought throws light on current policy debates.

Book in the news... the war that marks us still

Britain's War

A New World 1942-1947
By Daniel Todman
Allen Lane, £35



The "vast battery" of literature on the Second World War makes it "nearly impossible" to write an original book on the British experience, says Simon Heffer in The Daily Telegraph. Professor Daniel Todman, however, won great acclaim four years ago for his account of the early years of the war, which placed Britain's preparedness for conflict in the context of its "moral and financial health" in the late 1930s". His latest book, *Britain's War: A New World 1942-47*, takes the story from the fall of Singapore to post-war austerity in an account that brings out "usually underplayed aspects" of the war, such as the financial dimension.

One of the things that really stands out in Todman's account is the extent to which Britain became a "warfare state", with an "economy and technology built around national strategic priorities", says Peter Clarke in The Guardian. With the help of statistics, Todman helps the reader "appreciate the texture of people's lives in an era when rationing constrained consumption". He also emphasises the extent of Britain's dependence on the US, both on the military front and for domestic consumption – the Lend-Lease scheme proved a lifesaver for a Britain that was at the centre of an empire that was "not just broken but broke".

Life on the home front wasn't all "common endeavour and sacrifice" though, says Jonathan Ford in the Financial Times. As Todman's book makes clear, the "great industrial mobilisation" raised output and workers' pay at the same time – the average male civilian wage rose by 46% between 1938 and 1942. Todman also looks at how politicians tried to manage growing expectations about post-war life "while also waging total war and maintaining Britain's place in world affairs". What "emerges strongly" is "a reminder how these postwar years set an emotional course that still marks the nation". The UK was victorious, but "also wary about choosing between Europe and the Commonwealth and empire. Where that left the country was ultimately uncertain. These are dilemmas that live with us still."

The Bentley of mattresses

For the price of about two of the luxury cars, you could be the proud owner of a new bed

You can't put a price on a good night's sleep, they say. So perhaps the musician Drake got the bargain of a lifetime when he forked out $390,000 for a mattress. The musician made headlines recently when a tour of his luxury apartment for an Architectural Digest cover story revealed that the Canadian rapper had literally been sleeping on a fortune.

Only ten of the Grand Vividus beds – conceived by Drake's interior designer and architect Ferris Rafauli in conjunction with luxury mattress makers Hästens – have been made, says Megan Hills in the Evening Standard. Four master craftsmen in Sweden take 600 hours to make one, installing a complex spring system designed to make you "feel like you're floating". That must be nice and feeling good in the bedroom is clearly important to Drake: "The bedroom is where I come to decompress from the world at the end of the night", he says, "and where I open my eyes to seize the day".

Drake: "The bedroom is where I open my eyes to seize the day"

©Getty Images; Hastens

> *"Given that he has a $3.5m car in his garage, why not a $390,000 mattress in his bedroom? The latter seems almost thrifty in comparison"*

An extravagant pleasure palace

Drake's bed is in keeping with the rest of his "pleasure palace", as Mayer Rus reveals for Architectural Digest. The "extravagant" mansion in Toronto measures 50,000 square feet and contains an indoor basketball court to NBA regulations crowned by a 21-square-foot pyramidal skylight, a grand piano customised by Japanese artist Takashi Murakami and a "monumental iteration of Lobmeyr's iconic Metropolitan chandelier", originally designed by Hans Harald Rath for the Viennese maker to decorate the Metropolitan Opera in New York City in 1963. The dazzling light sculpture has more than "20,000 pieces of hand-cut Swarovski crystal" and is the "second largest installation of its kind in the world".

Drake's 3,200-square-foot master-bedroom suite, too, is opulent, even leaving aside the aforementioned mattress. There is a "4,000-pound tub of faceted black marble carved from a single block" and a two-story closet "adorned with amethyst hardware, rock crystal, and seating upholstered in diamond-tufted shearling with polished nickel studs". It's the "perfect place" to display the musician's "extensive wardrobe" and collection of trainers, which the artist has been "amassing for years".

Spending more than most people spend on their car for a bed may seem extravagant, but this is celebrity culture. As Poppy Noor notes in The Guardian, Jennifer Lopez spends $1,200 a week on a bizarre facial regime and pop singer Rihanna spends $25,000 a week on her hair. And given Drake has a $3.5m car in his garage, why not a $390,000 mattress in his bedroom? The latter seems almost "thrifty" in comparison.

If you like the idea of floating off into dreamland every night but are baulking at the price, fear not. You can get a slightly more downmarket Hästens's bed – and, we're sure, a perfectly decent night's sleep – for just £2,495. See hastens.com/en.

Quintus Slide

Tabloid money... even the ice-cream man has gone cashless

● Our local ice-cream van is only taking card payments, says Lee Boyce for This is Money. "You have to go on his website, book a slot, pick your flavour and pay by card, before he jingles his way into your cul-de-sac." What is for the moment a temporary measure due to Covid-19 might turn into something permanent. As fewer consumers use cash, "the economics supporting the provision of a cash infrastructure... [comes] under threat". The pace of the steady march to a cashless future has been quickened by the pandemic. Yet one in five people still rely on cash, including the elderly, disabled and those on low incomes. Shops say it's safer and quicker to use cards in the pandemic and, on the whole, they're right. But will the ice-cream man ever accept cash again?

● *Newsnight* presenter Emily Maitlis's "mad-eyed monologue" about the row over Dominic Cummings' drive to Durham proves the BBC is biased, says Tony Parsons in The Sun. "That is where my fury, contempt and anger burn – at a corporation that still pockets £4bn a year from the Brexit-voting, Tory-supporting nation who they loathe." The BBC should stop pretending it is politically neutral and learn to get by without public funding. The broadcaster has been annexed by the likes of Maitlis, and they "will never ever get over Brexit... [they] grind their teeth at that 80-seat Tory majority and... this week sensed a chance to claim a pound of juicy Leaver flesh". It was "overexcited propaganda".

● The definition of who is posh has changed, says Alexandra Shulman in The Mail on Sunday. "An old title and a crumbling estate on the Borders is no longer the key signifier of posh, if that word is meant to carry any superiority and privilege." The wealthiest these days have made their own way in the world. They are no longer those who have "inherited a Coutts account from the times of the Norman Conquest". "The old tropes of aristocratic style – doggy-haired soft furnishings, collapsed armchairs... dim lighting, muddy boots in the baronial hallway – are relics of the past." So, a photo of Prince Charles last week, sat behind a cluttered desk, "brought cheer to my heart". Charles is "old-guard posh". Not like the rich young things of today.

©Alamy

Bridge by Andrew Robson

Tell-tale agonising

West led the King of Clubs and the Four Spade contract – which looks to have three Club losers and a Diamond (not to mention the King of trumps) – was now undefeatable. If East played low, the Clubs would be blocked and West would never score his third-round winner, declarer later able to cash the Ace of Diamonds and lead to dummy's ten to set up the Queen for a Club discard.

Dealer West North-South vulnerable

North:
♠ J97
♥ AJ107
♦ Q104
♣ 1076

West:
♠ 43
♥ K83
♦ J96
♣ KQ543

N
W E
S

East:
♠ K
♥ Q9654
♦ K7532
♣ A8

South:
♠ AQ108652
♥ 2
♦ A8
♣ J92

The bidding

South	West	North	East
	pass	pass	1♥*
1♠	2♥**	2♠	3♥
4♠***	pass	pass	pass

* Five-card Major.
** More useful than Two Clubs.
*** Could be wrong, but South cannot miss this opportunity to try for the vulnerable game bonus.

In practice East overtook the King of Clubs with the Ace, returned his second Club, and received a third-round ruff with his King of trumps. But what next? A Diamond could be run round to dummy's Queen; and a low Heart to West's King and dummy's Ace would expose his Queen to a ruffing finesse.

East did the best he could, exiting with the Queen of Hearts, but declarer read it (East had agonised). He won the Ace, ruffed a Heart, crossed to the seven of Spades then ruffed a third Heart, bringing down West's King. He crossed to the nine of Spades and threw his Diamond loser on the promoted Knave of Hearts. Game made.

For Andrew's new daily BridgeCasts, go to Patreon.com/andrewrobsonbridge

Sudoku 1002

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

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

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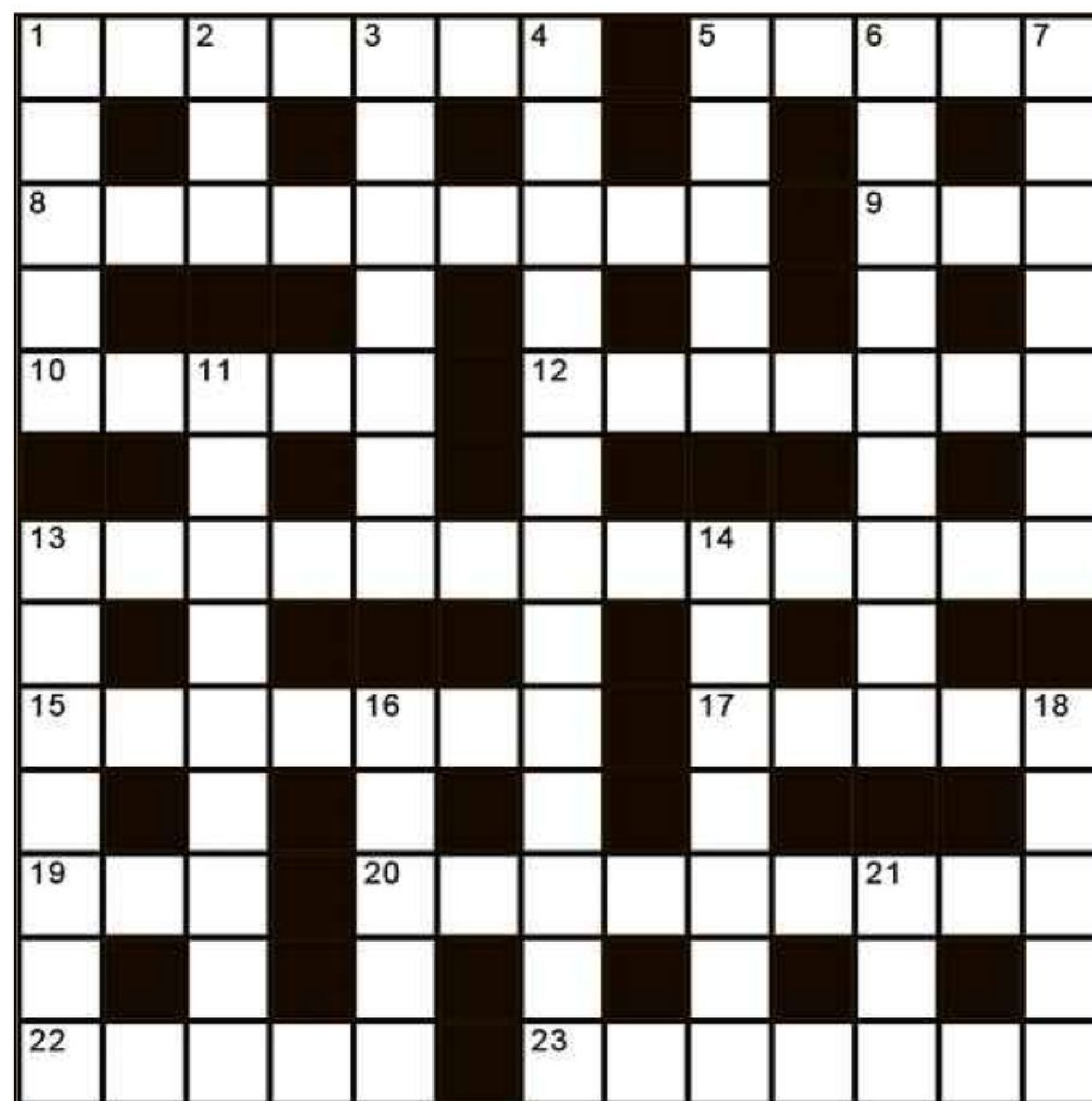
Tim Moorey's Quick Crossword No. 1002

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 15 June 2020. Answers to MoneyWeek's Quick Crossword No. 1002, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

ACROSS
1 Split personality could be found here? (7)
5 Some calibration's in the balance (5)
8 Delights in appearances on the stage (9)
9 It paves the way for Jack (3)
10 Perfume despatched as one's heard (5)
12 Mum's vehicle key is item often in a handbag (7)
13 Terribly insecure Titan showing doubts (13)
15 Irishman into tea and bread (7)
17 Joins course (5)
19 Some backed whimsical belief (3)
20 Quiet and living in Lincoln, perhaps (9)
22 Coarse grass from southern border (5)
23 Attempt to deceive in outfitters? (3,2,2)

DOWN
1 Board game (5)
2 Unfashionable (3)
3 Quisling, for example (7)
4 Subsidiary part supporting a solo (13)
5 Endures (5)
6 Military unit comprising several companies (9)
7 Outstanding payments (7)
11 Cried out (9)
13 Rascals (7)
14 Cancel out (7)
16 US maker of consumer electronics (5)
18 Demon (5)
21 Put away (3)

Name

Address

Solutions to 1000

Across **1** The Italian Job **8** **Twist**er **9** Omega **10** Stevenson **12** Bal **13** Dribs **and** drabs **15** Mrs **16** Rainmaker **19** Ached **21** Di**sh out** **22** Little Boy Blue.
Down **1** Titus **2** Epidemics **3** Title **4** Lor **5** Adorned **6** Joe **7** Beatles **11** Sinai **12** Blackpool **13** Damn all **14** Strudel **17** Messy **18** Retie **20** Hit **21** Dab.

The **BEATLES HIT** "Twist and Shout" (from 8, 13 and 21 Across) gives an anagram of **THOUSAND,** the puzzle's number

The winner of MoneyWeek Quick Crossword No.1000 is: James Davies of Somerset

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

Taylor's, a family firm for 325 years, is 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.

The glory days of capitalism

Will we ever see their like again? It seems increasingly unlikely

Bill Bonner
Columnist

Socialism has risen from the grave; capitalism, sadly, has passed

©iStockphotos

We are still in Argentina. Still cut off from the rest of the world (the airports are closed). We are making the best of it by learning as much as we can from a failed economy. Consider this brief history of one of the most successful investments of all time.

The story begins in 1916 when Robustiano Patrón Costas got off the train in Orán, Argentina, and became convinced that the area was suitable for a modern sugar mill. It seemed very unlikely at the time. The surrounding countryside was a wilderness, with very few people and none of the support infrastructure that a large plant would need. No towns. No skilled labourers. No roads. No electricity.

Nevertheless, he got together a group of investors and began a breathtaking project. They cleared thousands of acres and built an extensive irrigation system. The land had to be ploughed and planted. Different strains of sugar cane from all over the world. Pests and plant diseases had to be identified and defeated. A railroad had to be built to transport the sugar cane to the mill. That was just the beginning. In cutting season, 8,000 labourers were needed. Patrón Costas and his associates had to build a whole town for them to live in.

> *"Alas, the appeal of risk-taking and hard work was already waning"*

The sugar mill was immense, powered by its own electric plant. In 1945 it produced 51 million kilos of sugar and four million litres of alcohol. By the 1980s it was the largest sugar mill in the world. The investors got rich and workers prospered, too. Robustiano Patrón Costas ran for president of Argentina in the 1940s. Alas, the appeal of risk-taking, hard work, and real growth was already waning. Patrón Costas lost to the socialist Juan Perón. The country has been sliding ever since.

Even with 100 more years of technology and an abundance of capital, it would be almost impossible to build the firm Costas built, Tabacal, today. It took 17 years of struggle for the project to prove itself. Who would risk his money for such a long-term payout today? The project would be almost doomed to failure. The environmentalists, the tax men, the labour unions, the banks, the lobbyists, the politicians, the bureaucrats and the "community" – all would line up to prevent him from ever putting a stake in the ground. And if, by some miracle, he were able to overcome such opposition, he would be regulated and controlled, his margins would evaporate in inflation and his profits would be taxed away.

We asked the fourth generation of the Patrón Costas family for an update. Three generations lived off the wealth until the 1980s, when soaring inflation and poor management caused everything to fall apart. "By the late 1980s," we were told, "all we could do was sell out. We got enough to pay our debts. That was about it." *Sic transit gloria capitalista.*

The bottom line

£7bn The total value of the refunds owed by airlines and holiday companies to travellers from cancelled bookings due to the pandemic, according to consumer group Which.

14.3 The percentage rise in year-on-year grocery sales in the 12 weeks to 17 May, the fastest rate of increase since comparable records began in 1994, market research firm Kantar has found. Sales at the Co-op rose by 30.8% and at Tesco by 12.7%, followed by Sainsbury's (12.5%), Morrisons (9.8%) and Asda (6.5%).

£3.3m The cost of a replica of the Aston Martin DB5 that was given to James Bond in the 1964 film *Goldfinger*. Production of the 25 pre-ordered cars started last week. Their smoke emitters, oil-slick sprayers, bullet-proof shields and (fake) headlight machine-guns mean the cars are not allowed to be driven on public roads.

$400bn The fall in investment in the global energy sector this year, a 20% drop and the biggest-ever annual fall, due to the pandemic. The International Energy Agency warns this could lead to greater reliance on cheaper, but dirtier, fossil fuels.

$55m The estimated cost to Nasa each time it sends its astronauts into space aboard SpaceX's capsule, compared with the $86m it currently hands to Russia's space agency to do the job for it.

©Getty Images

£9 The price per bottle of Kylie Minogue's own brand of rosé wine from Provence, France, launched last Thursday by Tesco on the 52nd birthday of the Australian singer (pictured). "Forget the 'Enjoy! With love, Kylie x' marketing message," says The Times's wine critic Jane MacQuitty. "Anyone spending the best part of a tenner on this... needs their head examined."

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