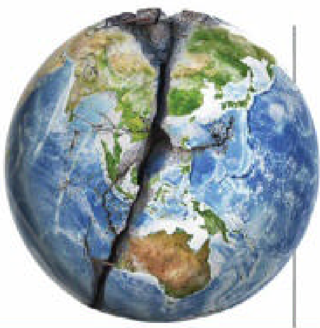
ANALYSIS
How the world became too fragile



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20 MAY 2022 | ISSUE 1104

Hunting for a cure

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MoneyWeek
20 May 2022 | Issue 1104
Britain's best-selling financial magazine

From the editor-in-chief...

This week we learnt something I suspect most of us already knew: inflation is high and rising. UK data for April has the consumer prices index (CPI) rising at an annual rate of 9%, a 40-year high. Measured by the retail prices index (which CPI replaced) it's 11.1%. It was last 11% in February 1982, having breached 11% for the first time since January 1952 in January 1974. In short, 11% really doesn't happen very often.

However, here is something that has never happened: 11% RPI and 1% bank rate. In early 1974, the rate was 12.7%. If you'd had cash in the bank, you'd have made a real return (ie, beat inflation) for much of the 1970s. There were nasty bits in the mid-1970s when RPI inflation breached 20% and rates were just 15%, but in all, holding cash in the 1970s wasn't as destructive to your wealth as you might have thought.

Two points on this. In the 1970s, inflation was caused mostly by external factors (such as the sharp rise in energy prices in 1973). High interest rates proved all but useless in tackling that – at the end of 1973, inflation was 10.6% and rates 13%. Our central banks might talk a big game on rates, but look back to the 1970s and you might think they are merely indulging in gesture economics. They can't get rates to 11%-plus without crashing everything – and given that they know it won't work, why try? Federal Reserve chair Jerome Powell this week said that "no one should doubt" his resolve. The Fed, he says, will push until inflation comes down in a "clear and convincing way". Bet it doesn't.

Jerome Powell: talks tough, but will he act?

©Getty Images

"If you really want to survive this, you need to beat inflation – not be beaten by it"

Making a real return

The other lesson is that you won't make a real return on cash this year. Every penny in your account will steadily lose large amounts of its value (until you give in and spend it). After ten years of 9% inflation, £100 will be worth £42. An aside: I am glad, for the purposes of this example, that UK inflation is 9%; the online calculator I used only goes up to 9%. Presumably the young people who designed it could not fathom anything higher. Time for a refresh.

The commentary on all this is miserable. Seven in ten people plan to cut their energy consumption. Two thirds are changing their shopping habits; 20% plan to borrow to cover expenses. And so on. What should you do? The papers are full of tips. Stop buying coffee. Buy cheaper-brand goods. Bulk buy. Rent out your driveway (earn "passive income"!). None of this is much help. If you really want to survive this, you need to beat inflation – not be beaten by it.

Start by ensuring you get what interest you can on your cash (Investec offers 2%, so you can cut your real-terms loss to a mere 7%). Shift some money into one of the few things with any chance of beating inflation – listen to our podcast (moneyweek.com/podcast) on this (commodities and more commodities, says Barry Norris), or turn to page 18 for ideas.

But most vital of all, make more money. An MP was much mocked this week for telling people to get better-paid jobs to beat the cost-of-living crisis. Her detractors have a point. But they miss one too. The market is very tight (the unemployment rate is 3.7% and there is more than one vacancy per unemployed worker). If you move job you will almost definitely get a better deal. Stay put, and you have an excellent chance of getting one too. I have said this before. But with the RPI at 11.1%, it is worth saying again. Ask for a pay rise (see page 28).

Merryn Somerset Webb
editor@moneyweek.com

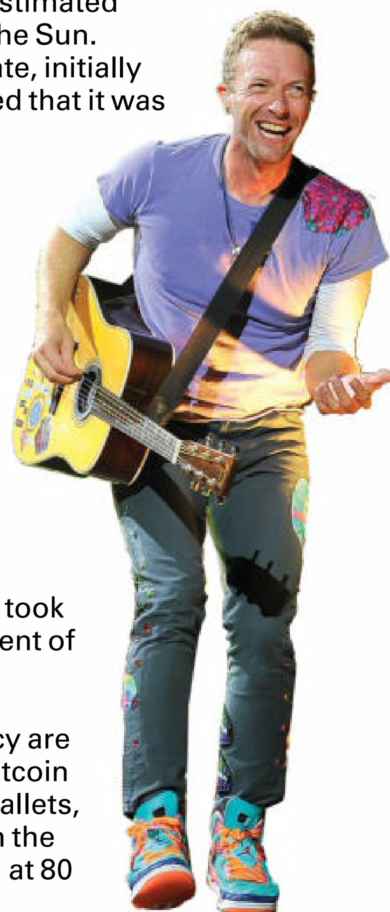
Debunked theory of the week

The news that McDonald's is to sell its 847 Russian outlets and leave the country after more than 30 years is "the final nail in the coffin of the Golden Arches theory", says Ross Clark in The Spectator. In 1996, New York Times columnist Thomas Friedman argued that two countries that both had McDonald's franchises would never go to war, because the presence of the burger chain signified that these societies had become too consumerist to risk economic stability for a war. At the time, "it was a lovely idea, born of the age of liberal-democratic triumphalism", albeit obviously nonsense: there were McDonald's branches in Belgrade when Nato bombed Serbia in 1999. Now we can clearly see the real lesson is that McDonald's won't hang around once a country goes to war. It's "less an interesting observation on economics, geopolitics and philosophy than a straightforward statement that armed conflict ain't good for the hamburger trade".

Good week for:

Pub owner **David Gorton** found a 364-year-old coin worth an estimated £12,500 under the floorboards during renovation work, says The Sun. Gorton, who runs the Grade II-listed Old Cottage pub in Margate, initially thought he had vacuumed up an old penny, but later discovered that it was an Oliver Cromwell silver shilling dating back to 1658.

Rock band **Coldplay** (singer Chris Martin pictured, right) have already grossed $40m in ticket sales for its world tour, despite pricing tickets at least 25% lower than any major peer, says Bloomberg. The group is charging an average of $77.80, roughly the same as on the last tour five years ago, which has helped sell more tickets than any other act over the last two months.



Bad week for:

Three Hong Kong burglars who stole a HK$2.3bn (£230m) scroll written by Mao Zedong and sold it for just HK$200 (£20) have been jailed for two and half years, says the South China Morning Post. **Ho Yik-chiu**, **Ng Wing-lun** and **Hui Ping-kei,** who took artworks valued at a total of HK$5bn (£500m) from the apartment of a collector in 2020, had no idea of the value of their haul.

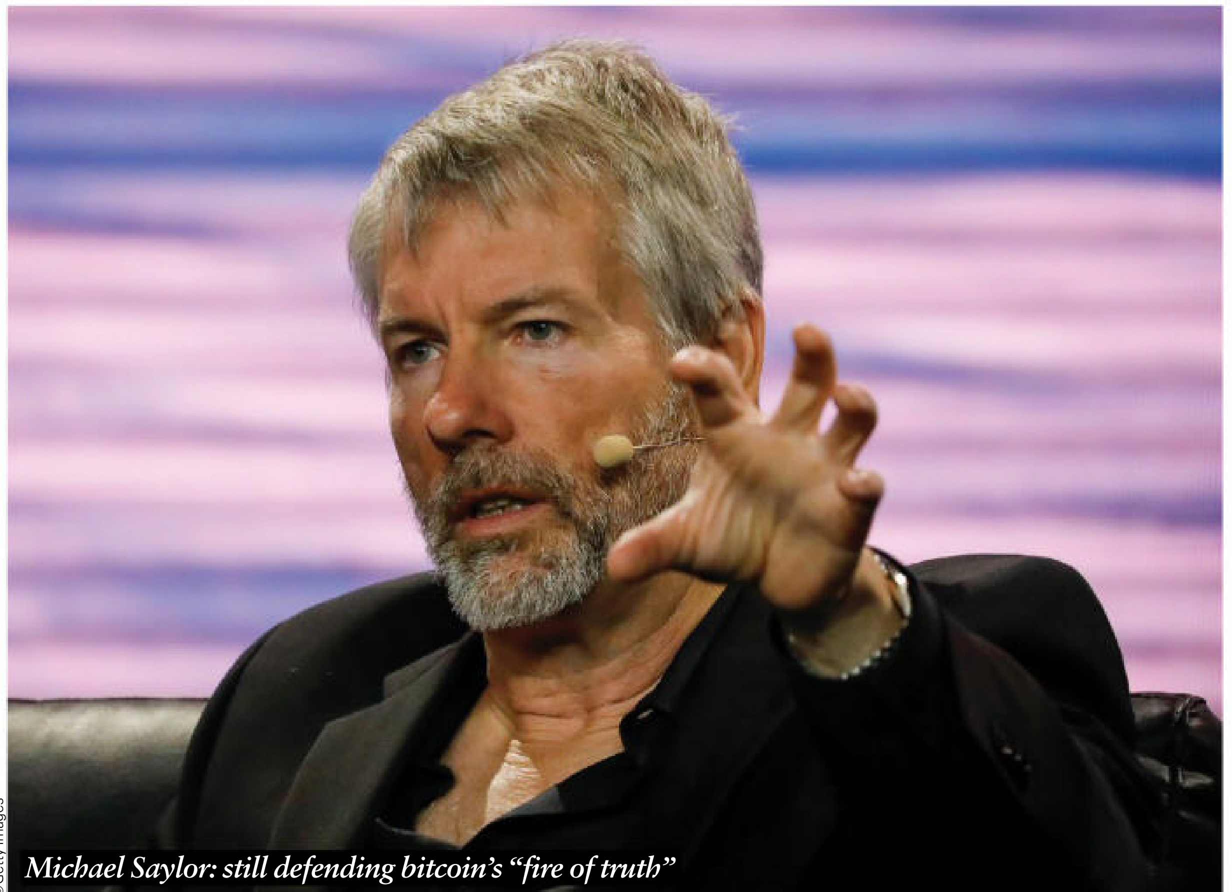
El Salvadorian president **Nayib Bukele's** bets on cryptocurrency are backfiring badly, says The Wall Street Journal. Bukele made bitcoin legal tender, spent $200m on rolling out bitcoin ATMs and e-wallets, and bought 2,301 bitcoin that are now worth $74m, down from the $103m he paid. El Salvador's bonds due in January are trading at 80 cents on the dollar, indicating a high risk of default.

©Getty Images

Cover illustration: Howard McWilliam. Photos: Getty Images; Gunther Werks

TerraUSD crisis sends crypto tumbling

Alex Rankine
Markets editor



©Getty Images

Michael Saylor: still defending bitcoin's "fire of truth"

Cryptocurrencies have gone "into a full meltdown… in a sell-off that graphically illustrated the risks of the experimental and unregulated digital currencies", says The New York Times. Bitcoin prices slumped as low as $26,000 at the end of last week, down 60% since a peak in November. The overall cryptocurrency market has seen its market capitalisation slashed from $2.9trn at last year's peak to about $1.2trn now.

The sell-off was triggered by the meltdown of stablecoin TerraUSD. A stablecoin is a cryptocurrency whose value is pegged, typically to the US dollar. "There are basically two kinds of stablecoins: asset-backed and algorithmic," says Jack Denton in Barron's. Some stablecoins – such as Tether, the biggest – back up their value with collateral. By contrast, algorithmic stablecoins such as TerraUSD "aim to maintain their pegs through arbitrage and incentive mechanisms involving other cryptocurrencies. When the price deviates from a dollar, traders can profit through a swap with another token". That peg broke last week, with TerraUSD, which is supposed to be valued at one dollar, now worth just 12 cents.

Critics of Terra "had argued that its algorithm was more like a Ponzi scheme than a real reserve-backed currency", says Alex Hern in The Guardian. Terra's value is meant to be maintained by a pairing with "a floating token called Luna. In theory, when the Terra value drops too low, Luna holders are supposed to automatically trade their coins in, propping the price up", but the value of Luna tumbled along with its sister coin after investors took fright. The fact that Terra, a "shining light" in the new world of "decentralised finance", collapsed so quickly has shaken confidence in cryptocurrencies, with some even fearing a "Lehman Brothers moment".

Reckoning time

"Hundreds of cryptocurrencies have been minted in a flurry of speculation" in the last few years, says The Wall Street Journal. "Anyone can create a virtual currency, market it to investors and use the money as he pleases… what could go wrong?" While "the best may find a permanent place in the financial marketplace… more than a few will wash out in this liquidity purge".

Cryptocurrencies once attracted attention from regulators because of concerns about money-laundering. Now they are also worried that ordinary consumers could get burned, says Eva Szalay in the Financial Times. "An estimated 16% of Americans and 10% of Europeans were exposed in some way to cryptocurrencies or related assets."

Now, as rates rise and demand for speculative assets falls, bitcoin is not behaving like "digital gold", says Lionel Laurent on Bloomberg. It looks more like "a leveraged gamble". There are still plenty of true believers. MicroStrategy co-founder Michael Saylor describes bitcoin as "a swarm of cyber hornets serving the goddess of wisdom, feeding on the fire of truth, exponentially growing ever smarter, faster and stronger behind a wall of encrypted energy." But the reality is "that burning smell is not from the fire of truth so much as speculative valuations going up in smoke."

The rise and fall of NFTs

"Cryptocurrencies, blockchains, NFTs and the constellation of hyped-up technologies known as web3 have been celebrated as a way to liberate the internet from the tech giants who control it now", says Farhad Manjoo in The New York Times. Instead, these new technologies are "doing the opposite: polluting the digital world in a thick haze of errors, swindles and expensive, largely unregulated financial speculation that ruins whatever scrap of trust still remains online".

©Getty Images

An NFT of Jack Dorsey's first Tweet has collapsed in value

Non-fungible tokens (NFTs) are unique digital tokens. Like cryptocurrencies, NFTs exist on a blockchain (most commonly the Ethereum blockchain). Unlike cryptocurrencies they are "non-fungible", meaning that they are not interchangeable for each other. Where bitcoin aspires to be digital cash (or digital gold, as its advocates call it), an NFT is supposed to be the digital title deeds to a particular property or artwork.

The NFT market enjoyed a big boom last year, say Alex Hern and Dan Milmo in The Guardian. An investor paid $69m for a work by visual artist Beeple. Items created by Coca-Cola, including "customised jackets to be worn in the metaverse", fetched $575,000. The first tweet by Twitter co-founder Jack Dorsey, dubbed the "Mona Lisa of the digital world", went for $2.9m.

Yet the boom has now come unstuck. An attempted re-sale of Dorsey's tweet attracted just $14,000 in auction bids earlier this year. Trading in NFTs "fell to a daily average of about 19,000 this week, a 92% decline from a peak of about 225,000 in September, according to data website NonFungible", says Paul Vigna in The Wall Street Journal. The number of active wallets in the NFT market is down 88% since last November. Google searches for "NFT" have fallen 80% since January. "The NFT market is collapsing."

Uncertain times for the HK dollar

Authorities in Hong Kong have spent US$1.49bn defending the Hong Kong dollar's peg to the US dollar. It is the first time in three years that the Hong Kong Monetary Authority (HKMA) has intervened to support the currency. The Hong Kong dollar has been pegged to the dollar since 1983, trading in a narrow band between 7.75 and 7.85.

This doesn't mean the peg is set to break, says Matthew Brooker on Bloomberg. Those betting against it should recall how it "withstood speculative attacks during the 1997-1998 Asian financial crisis". The HKMA operates a currency board system in which the monetary base contracts as the exchange rate falls. This automatically pushes up interest rates (to 20% during the Asian crisis) and brings the system back into balance. At present, "there's almost zero sign of stress" – rates have barely budged from 0.2%.

The stability provided by the peg has been a key factor in Hong Kong's success, says Neal Kimberley in the South China Morning Post. But it also means the city imports US monetary policy as the Fed tightens. That is painful for Hong Kong, where the jobless rate is relatively high and the economy shrank in the first quarter of 2022, while inflation remains low. Growing rivalry and economic de-coupling between the US and China means "it is time for a fresh debate" about whether linking Hong Kong's monetary policy to America's still makes sense.

Optimism ebbs in India

"The bears are here for India's stock markets," says Megha Mandavia in The Wall Street Journal. "While a full-scale massacre isn't necessarily imminent, investors should brace for a nasty mauling."

India's BSE Sensex index has been a top pandemic performer, gaining 77% over the past two years, despite a severe wave of Covid-19 in early 2021. Investors have been optimistic about the country – a thriving technology sector and major economic reforms are among the "novel confluence of forces standing to transform its economy over the next decade", says The Economist. Yet the bullish mood may now be under threat for now. The Sensex has slid almost 8% so far this year.

©Getty Images

The bull run may be over for now

The end of the party

The end of the party is partly due to the Reserve Bank of India (RBI). It recently raised rates for the first time in more than three years, by 0.4 percentage points to 4.4%, and is set to go much higher. Investment bank Goldman Sachs is forecasting a further 1.25 percentage point increase in rates this year.

As in many countries, higher interest rates are being driven by soaring prices: domestic inflation hit a 17-month high of 6.95% this March, well above its target range of 2%-6%. However, the RBI has a distinctly tricky task ahead of it, says Mimansa Verma in Quartz India. Its challenges also include supporting the rupee, which faces multiple severe headwinds such as "soaring crude oil prices, the US Federal Reserve raising its interest rates, and an exodus of foreign money". For example, the country imports 80% of its oil, so as oil prices soar, the current account deficit is set to increase. These factors help explain why the rupee has fallen against the US dollar, recording a new low of Rs77.73 a dollar this week.

Fleeing foreigners

These factors help to explain notably weaker demand for Indian stocks. "Foreign investors have been selling stocks in India since September, taking out nearly $24bn," says Bloomberg. Now there are signs that domestic retail investors are starting to sell. High-flying tech stocks have been particularly hard-hit, with the sector falling by nearly 21% this year.

The performance of the country's largest initial public offering (IPO) is another disappointing sign, says the Financial Times. This month, the government sold a 3.5% stake in state-run Life Insurance Corporation (LIC). While the IPO had been scaled back in size, it was still three times oversubscribed and priced at the top of its range. There were expectations that it would "yield windfalls for millions of investors". Yet the shares fell 9% in their first day of trading this week. "The drop demonstrates that the country's equity market is losing its appeal."

Viewpoint

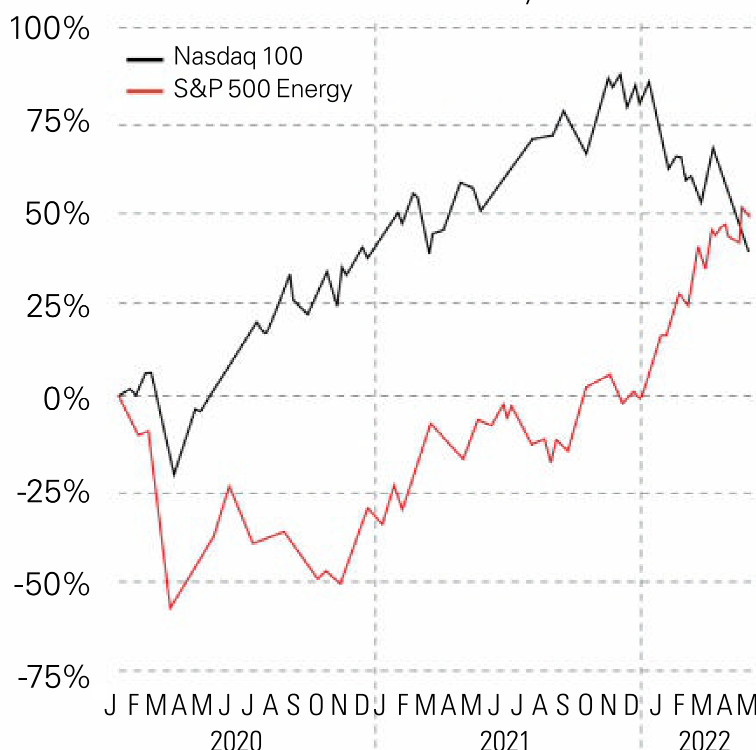
"We're headed into yet another recession and I have the sense that the excesses of our time can only be resolved with another dramatic institutional failure... My guess is that we'll see the unexpected failure of a private equity firm, sick with hidden leverage, and with no central bank willing to take sole responsibility for the mess... the global private equity companies are in it for the fees. They are asset-gathering, not cutting bureaucracy and rationalising product lines. The private equity companies have developed bureaucracies of their own and the founders are no longer hungry outsiders... They have become a small group of self-dealing oligarchs... A recession is a time to clean away excess borrowing and the unaccountable over-mighty. These days, those would be among the private equity companies and the giant asset managers."

John Dizard, Financial Times

■ Energy back ahead of tech

Nasdaq 100 vs S&P 500 Energy

Total return since 1 January 2020



Source: Yahoo Finance

Tech stocks are coming back down to earth. The Nasdaq 100 index of America's biggest tech giants gained 85% between the start of 2020 and the end of 2021 as lockdowns boosted demand for e-commerce, distance working tools and home entertainment. Over the same period the S&P 500 Energy sector lost 6%. However, that pattern has reversed sharply since the start of the year as energy prices soar and big tech wobbles. The result is that since the start of the pandemic an investor who bought an energy exchange-traded fund (ETF) such as the iShares S&P 500 Energy Sector ETF would have received a total return of almost 50% after fees, beating the 41% total return from a tech tracker such as the iShares Nasdaq 100 ETF.

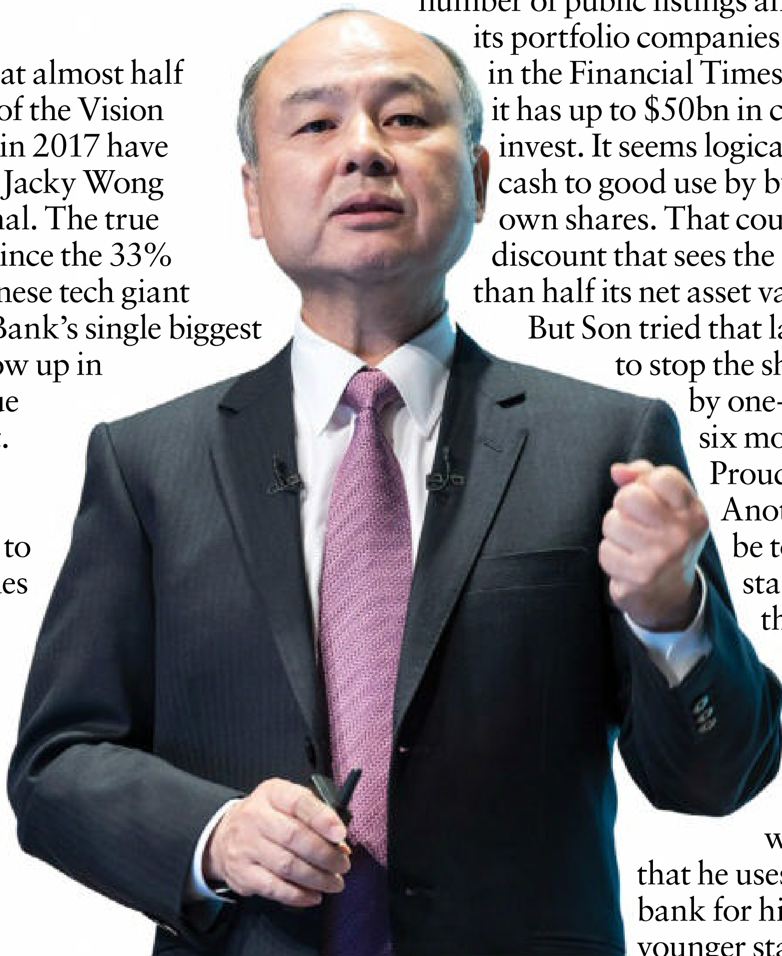
Son's boom turns to bust

The collapse in high-flying tech stocks has resulted in enormous investment losses for SoftBank. Matthew Partridge reports

Japanese tech conglomerate SoftBank reported a loss of ¥1.71trn (£10.5bn) for the year ending in March, resulting from huge investment losses of about ¥3.5tn (£21.9bn) in its flagship Vision Fund. The markdowns in the fund were prompted by the rout in technology shares over the past few months, says Ben Martin in The Times. The regulatory clampdown on tech companies in China, where SoftBank has a large number of investments, played a major role: shares in transport app Didi have plummeted by almost 70% since the start of the year. However, SoftBank's misfiring bets go beyond Beijing: investments in South Korean e-commerce firm Coupang and the Southeast Asian taxi, food and payments app Grab have suffered similar falls.

It's worse than it looks

The bad results mean that almost half of the cumulative gains of the Vision Fund since its inception in 2017 have now "evaporated", says Jacky Wong in The Wall Street Journal. The true damage is even higher, since the 33% drop in the value of Chinese tech giant Alibaba – which is SoftBank's single biggest investment – doesn't show up in the income statement due to accounting treatment. Mercurial founder and CEO Masayoshi Son (pictured) has promised to boost SoftBank's fortunes by selling assets, but he may find that difficult, given that the shift in investors' sentiment – from "relentless growth at any cost" to profitability – is pushing the valuations of early-stage private companies down.



The results were indeed "disastrous" with "things only likely to get worse" in the short run, says Gearoid Reidy on Bloomberg. Still, Son has a record of confounding his critics, both in the aftermath of the dotcom bust (when SoftBank's shares dropped 99%) and also after the initial Covid-19 panic. While there have been many high-profile failures in recent years, there have also been some notable successes. A $2.2bn investment in Coupang "is still $6bn in the black even after its recent plunge". Crucially, SoftBank still has more than enough cash on hand to pay creditors and access to cheap funding in Japan.

Buybacks or break-up

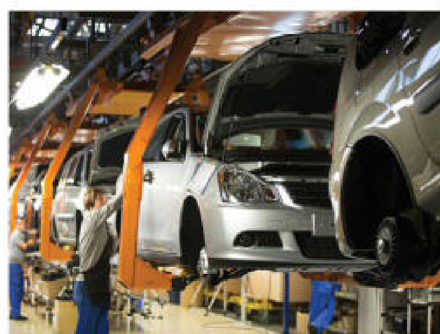
Still, SoftBank managed to complete a record number of public listings and divestments of its portfolio companies last year, adds Lex in the Financial Times. This means that it has up to $50bn in capital that it can invest. It seems logical for Son to put this cash to good use by buying up SoftBank's own shares. That could help narrow the discount that sees the firm valued at less than half its net asset value of $150bn.

But Son tried that last year and it failed to stop the share price falling by one-third in the past six months, says Liam Proud on Breakingviews. Another option would be to sell the listed stakes in order to make the group "a more focused bet" on private technology stocks. "But that would be no fun for Son, who would lose the assets that he uses as a kind of piggy bank for his investments in younger start-ups."

Renault's painful exit from Russia

Renault has ended its majority ownership of Russian car brand Lada, says Bloomberg. The French carmaker will sell its 68% holding in AvtoVaz, Lada's parent company, for a symbolic one rouble to the state-run Central Research and Development Automobile and Engine Institute. The deal marks the end of a relationship that began when Renault took control of Lada for $1bn in 2007. The firm has retained an option to buy back the businesses within the next six years, but will take a €2.2bn writedown as a result of the sale.

The exit carries one financial benefit: Renault was still paying 45,000 workers in the country, even though production had halted, says Lex in the Financial Times. But there's no getting around the fact that this will be painful for Renault. AvtoVaz had been a promising division with sales and profits rising until the pandemic struck. Even on a conservative valuation, the subsidiary would "have been worth €2.5bn a matter of months ago".



Selling AvtoVaz is the culmination of a terrible few years for Renault, but "all might be forgiven" if this crisis makes it rethink its capital allocation, says Stephen Wilmot in The Wall Street Journal. Strip out the value of its 43% stake in partner Nissan and Renault's shares are valued at just $615m – even cheaper than most carmakers. But new CEO Luca de Meo "seems serious" about shaking the firm up, perhaps by selling part of the Nissan stake to fund the transition to electric vehicles (EVs), or splitting into EV and non-EV businesses. If he can pull this off, it might "unearth the value buried in the company's rock-bottom stockmarket valuation".

City talk

● Ryanair's Michael O'Leary says it's "impractical, if not impossible" to give useful profits guidance for this year", says Alistair Osborne in The Times. Still, he's "so confident of a getaway summer that he's laying on 115% of pre-Covid-19 capacity". In any case, Ryanair looks "better placed than rivals" to benefit from an upsurge. It did not sack pilots and cabin crew during the pandemic, so it can avoid the rehiring problems plaguing rivals. It's not awash with debt and it locked in 80% of this year's fuel needs at much lower prices. This adds up to a very "formidable competitive position".

● London is the "underdog" to New York in the battle to host the return of chip designer Arm to the stock exchange, but "there is no convincing reason to believe Arm would be more successful as a US-listed company", says Chris Hughes on Bloomberg. Yes, US stocks normally trade at a premium to UK ones, but "Arm will attract investors from around the world wherever it lists". Domestic demand would be strong given that UK-focused investors "don't have any other way of gaining substantial exposure to the semiconductor sector". The firm would go into the FTSE 100 almost immediately, forcing passive funds to buy it. Finally "Arm's DNA is British" – its headquarters are in Cambridge and it used to be listed in London – and so investors "won't need re-educating in the business's moving parts".

● It's no surprise that online furniture retailer Made is now "in the profits warning business", says Nils Pratley in The Guardian. New sofas and kitchen tables are very "deferrable purchases". But the size of Monday's alert was "extraordinary". Sales are expected to fall as much as 15% this year, compared with previous forecasts of 25%-35% growth. Last year's float at a value of £775m was "an exercise in optimism". With shares now down 75%, Made clearly has "much to prove".

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

Three to buy

Adobe
Shares
Software firm Adobe has consistently strong financial performance, exposure to structurally growing markets and a powerful balance sheet. The company is a dominant player in the production of digital content, through programs such as Photoshop and InDesign, and controls 50% of the creative software market. Its tools are also likely to make it "a key creative force in building the metaverse". Sales have grown from $9bn in 2018 to $15.8bn in 2021, with 92% from recurring subscriptions. "Once the global economy and markets are able to find some stability, Adobe will once again win the recognition the business richly deserves." *$376.91*

Next
The Telegraph
This retailer's shares have fallen amid concerns about the impact of the cost of living crisis. But it has the financial strength to survive and take advantage of changes in the sector. Next expects to generate £220m surplus cash in 2022 and some of that could be spent on acquiring stakes in businesses that could join its "total platform" – a service that lets other sellers use its online infrastructure in return for a cut of sales. *6,052p*

Serco
The Sunday Times
"Straitened state coffers tend to trigger an outsourcing boom." That should be good for Serco, which provides services at prisons, hospitals and other state facilities, yet markets haven't priced the possibility in. Business is already strong – it won £5.5bn of work last year – and it is paying regular dividends again, yet trades on a price/earnings ratio of just ten. "The company looks set to flourish even as Britain's economy wilts." *147p*

Three to sell

ITV
The Times
This broadcaster is aiming to launch a new streaming service, funded from inconsistent advertising revenue (set to be 6% lower than this time last year) and cash from its studios business. The project is "fraught with risk". The launch, content and streaming data and technology will cost £65m this year, and £200m in 2023. Analysts expect pre-tax profits to shrink from £746m last year to £725m and £625m this year and the next. Avoid. *6,846p*

Marshalls
Investors' Chronicle
Paving company Marshalls has just bought the roof tile maker Marley at an enterprise value of £535m, but investors remain unconvinced by the deal. The price is roughly twice what Marley fetched in a private equity sale three years ago and intangible assets make up a large part of the purchase value, creating a greater risk of writedowns if trading doesn't meet expectations. The repair, maintenance and improvements sector, which accounts for 53% of Marley's sales, is heavily exposed to price rises, and after growing strongly last year, sales may shrink this year and next. Marshalls' sales in its domestic end market are already down 8% this year. Sell. *578p*

Telecom Plus
The Telegraph
This multi-utility supplier has a strong business model and is well-placed for growth – with many energy suppliers going out of business, households will be looking for new ones. A period of investment in its services may be drawing to a close, which should lead to higher profits. However, the stock trades on almost 30 times forecast earnings for the year to March 2023, which looks a full valuation. "Time to (reluctantly) take profits." *1,562p*

...and the rest

Investors' Chronicle
Watches of Switzerland has a customer base that should cope with rising inflation, since fluctuations in home energy or food costs aren't going to dissuade customers for high-end goods. Buy *(931p)*. **CMO Group**, which sells building products online, has been hit by supply-chain disruptions. Sell *(127p)*. Plastic maker **Victrex** has faced "double-digit" cost headwinds after Russia's invasion of Ukraine sent oil prices soaring. Sell *(1,668p)*.

Shares
Home Reit buys and maintains properties for homeless people for a fraction of what it costs local councils to house people in less suitable accommodation. Its income is linked to inflation. Buy *(120p)*. Science-kit maker **SDI** forecasts sales for the year to April 2022 to be £49m, up from £35m in 2021. Buy *(170p)*. Professional services provider **K3 Capital** is well diversified and buffered against economic stress. Buy *(230p)*.

The Mail on Sunday
Private-equity firm **Oakley Capital** has a conservatively-valued portfolio of growth companies. Buy *(415p)*. Phone network **Airtel** operates in 14 African countries and has huge growth prospects. Buy *(138p)*.

The Times
Residential landlord **Grainger** has a growing portfolio of 7,400 properties with occupancy at a record 98%. Buy *(289p)*. Software firm **FD Technologies** has increased its profit and revenue guidance for 2022, driven by exceptional performance of its KX data-analysis software business whose revenues rose by 25% last year. Buy *(2,415p)*. Gas firm **Energean** should turn profitable after starting production at its flagship Karish project in Israel this year. Buy *(1,292p)*.

A Canadian view

TC Energy "may be just the antidote investors need to cope with the current global turmoil", says John Heinzl in The Globe and Mail. The firm gets 75% of its earnings from natural gas pipelines in North America, with the rest from liquids pipelines and power generation. Around 95% of earnings are from regulated industries or long-term contracts, ensuring stability. The shares yield about 5% and the dividend has gone up every year for 22 consecutive years. Investments in new pipeline and nuclear power should keep payouts growing at 3%-5% per year. (Canada withholds 25% tax on dividends, which reduces to 15% under the UK-Canada tax treaty if your broker accepts the NR301 tax-relief form.)

IPO watch

CVC Capital Partners, Europe's biggest private-equity firm, is postponing plans for an initial public offering (IPO) until later this year or early 2023 as a result of recent market turmoil, says the Financial Times. CVC, which manages roughly $120bn in assets, had been planning to carry out a multibillion euro float of around 10% of its business on the Amsterdam stock exchange in June. The firm plans to use a structure where the listed business would receive only the predictable fee income that it gets from managing its private-equity funds. The lucrative but lumpy performance fees that CVC receives for buying and selling companies for the funds would remain in private hands.

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Northern Ireland stuck in Brexit fudge

Boris Johnson's bodged Brexit deal must now be reckoned with. Emily Hohler reports

"Two of Boris Johnson's most reckless chickens are coming home to roost," says Simon Jenkins in The Guardian. In order to "get Brexit done" and "topple" Theresa May, he told Northern Ireland's Democratic Unionist Party (DUP) that he would not allow a border in the Irish Sea. "He promptly allowed one", signing the Northern Ireland Protocol to that effect.

Following Northern Ireland Assembly elections on 5 May – in the midst of a cost of living crisis and with public services under huge pressure – an "enraged" DUP is refusing to take part in the power-sharing government until that border goes. Johnson is now "threatening to unilaterally renege on the protocol, in turn enraging the EU… Precisely this trap was built into hard Brexit from day one. Everyone knew it." The question is what new "fudge" Johnson can "conceivably fashion" to extract himself from this "mess".

The difficulty lies not with the substance of the protocol, says Martin Wolf in the Financial Times. Economically, Northern Ireland (which now enjoys "unique dual access to both the EU and UK markets", points out The Daily Telegraph's James Crisp) is outperforming the UK. Nor does the difficulty lie with majority opinion in Northern Ireland: the 5 May elections delivered "53 members in favour of the protocol and only 37 against".

The problem is with the unionists, who favoured Brexit in 2016 and whose parties only received 40% of the vote earlier this month. Why does our government want to give fewer than 350,000 unionist voters and a "vastly smaller number of potential troublemakers the power to break the withdrawal agreement with the EU", even though Britain's interests lie in the "best and most stable relations with the EU, our biggest trading partner"?

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Liz Truss with her EU counterpart Maros Sefcovic: expect more drama

Return of the Brexit wars

Quite, says Neale Richmond in The Times. British government claims that the elections prove the protocol isn't sustainable are "categorically false". Westminster is trying to appeal to its "pro-Brexit base" with these "political games", but by threatening "once again" to "breach international law", it is damaging Britain's reputation in Northern Ireland, the EU, the US and elsewhere.

"Nobody can credibly claim" that the protocol is working perfectly, says The Daily Telegraph. Moreover, the preference remains a negotiated settlement; to "fix" not "scrap" the deal. Plus, Brussels is unlikely to act until the law is passed or takes effect, which is likely to take months and will face opposition in the Lords, says James Crisp. The bill also contains an "olive branch", an "explicit" override clause so that it can be instantly replaced if an agreement with Brussels is reached. At present, the EU carries out checks on non-EU goods and animals entering its territory, which, argues the British government, is having a "chilling effect on trade from the rest of the UK", Northern Ireland's main trading partner. M&S chairman Archie Norman said 700 pages of forms have to be filled to get two trucks to Northern Ireland, requiring 160 man-hours. The foreign secretary, Liz Truss, wants a "green lane" for goods destined for Northern Ireland, for border control to be under British jurisdiction and for Westminster to apply the same tax rate changes in Northern Ireland and the UK.

Insiders say Truss's EU counterpart, Maros Sefcovic, has already said he is willing to "agree to significant compromises to eliminate all customs and food safety checks", say Joe Barnes and Nick Gutteridge in The Daily Telegraph. The "key deadline" is 28 October, says Adam Payne on Politics Home. The DUP has to agree to form a government by that date. Expect talks to continue into the summer and "another Brexit cliff edge" then.

©Getty Images

Xi: stay at home for ever

China raises the drawbridge

Beijing has imposed a "de facto international travel ban" that prevents citizens from going overseas for "non-essential" reasons as it "ramps up" enforcement of its zero-Covid policy, says Jessie Yeung on CNN. There is speculation that officials are cracking down because growing numbers are trying to leave after two years of draconian controls that have included citywide lockdowns, mass testing and mandatory quarantine. At present, an estimated 220 million people are in full or partial lockdown in 32 cities. The administration says the ban is necessary to "reduce the risk of infection", but Beijing may simply not want its citizens to leave.

China has a long history of isolation and outbound travel was "heavily restricted" until the early 2000s when incomes were rising and the rules were relaxed. According to official data, Chinese citizens made 670 million overseas trips in 2019; last year inbound and outbound trips totalled around 73 million. Even before last week's announcement, travel was hard. Borders are still largely shut to outsiders and those entering are subject to strict 21-day quarantines. Last year China issued 7.98 million documents for foreign travel, less than 6% of those issued in 2019.

Reports continue to surface on social media of people having passport applications rejected and of students having their passports clipped as they try to board planes, say Qiao Long and Chingman on Radio Free Asia. One employee at an overseas study consultancy says Beijing doesn't want citizens being inculcated with Western values. Xi Jinping's explicit aim is to make China self-reliant, says Michael White in Financial Review. As the Chinese economy slows and investors "turn to US and European markets where interest rates are rising", it has become all the more important to retain wealth and talent. No wonder Beijing is also making it harder to obtain investment migration visas to Australia, Canada and elsewhere.

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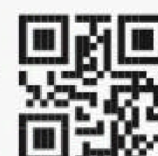

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The food-supply crunch

India has exacerbated a global supply squeeze. Matthew Partridge reports

India's wheat is staying at home

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Global food prices surged when India announced at the weekend that it had imposed a ban on exports of wheat, "stoking pressure on food costs as tight global supplies roiled international markets", say Hudson Lockett and Nic Fildes in the Financial Times. The move represents a change of mind for India's government, which until recently had denied it would halt exports. It changed course as "domestic inflation surged to the highest level in eight years on the back of rising food prices". The Indian government argues the ban is necessary to help secure India's "overall food security".

Batten down the hatches

India isn't alone in deciding to "batten down the hatches" by restricting exports, rather than allowing producers free rein to "capitalise on record prices", says Mehreen Khan in The Times. However, such moves risk "tipping the world's poorest people into starvation" and could force other countries into "tit-for-tat retaliation to protect their domestic supply" – no less than 35 countries have already restricted the export of grain in recent months. India's restrictions could backfire as the country is especially vulnerable to changes in global food prices, which account for 45% of its domestic inflation basket.

For all India's harsh words, there are though grounds for hope that its grain export ban could prove to be "less explosive" in practice than it sounds in theory, says Jasmine Ng on Bloomberg. The government has, for example, said that it will not only allow producers to honour deals that were agreed before the ban came into force, but will also continue to export grain on a government-to-government basis. Indeed, almost immediately after the ban was announced, it was confirmed that Egypt's purchase of 500,000 tonnes of Indian wheat will be allowed to go ahead. However, though the ban won't completely stop Indian exports, there is no doubt it will reduce the total volume.

Ukraine-sized hole

Still, whatever trade the Indian government allows, it's now pretty clear that hopes of an Indian "export boom" – that it could fill the gap left by the war in Ukraine and become the eighth largest exporter in the world – are now off the table, says Reuters. Predictions that improved seed selection and farm management could lead to a record crop yield this year have been scrapped in the wake of a severe heatwave, and the government now accepts that the country will struggle to cover its own "massive needs". This is bad news for global markets, which had been "banking on millions of tonnes of Indian wheat being available for shipment over the coming months".

The very fact that markets are paying so much attention to India, which has traditionally been a relatively minor exporter of wheat, "underscores the fragility of global food supplies", says Diksha Madhok on CNN. Russia's invasion of Ukraine, which is among the top five global exporters for a variety of key agricultural products, had already shocked global food markets. Russia is continuing to blockade Ukraine's ports, and the country is now unable to sell those commodities – an estimated 20 million tonnes of wheat alone is stuck in transit. Expect more disruption.

Turkey frustrates Nordic Nato ambitions

Erdogan has leverage

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Hopes that Sweden and Finland could be quickly admitted into Nato were thrown into doubt when Nato member Turkey, which has a veto, said it would block their applications, say Richard Milne and Laura Pitel in the Financial Times. The security alliance had hoped to formally begin accession talks on Wednesday – its secretary general, Jens Stoltenberg predicted that the first stage of the application could be approved within weeks. Turkey's opposition makes that unlikely.

The country's president, Recep Tayyip Erdogan, objects to Sweden and Finland joining as both countries have given shelter to members of groups that Ankara considers "terrorist", say Bruno Waterfield and Oliver Moody in The Times. These groups include the Kurdistan Workers Party (PKK), the Syrian Kurdish YPG, as well as followers of Fethullah Gulen, whom Ankara accuses of orchestrating the 2016 coup attempt. Turkey has demanded the extradition of 33 individuals in Sweden and Finland.

Turkey's main concerns may be related to the Nordic countries' Kurdish policies, but its "gripes with Nato run deep and its wish-list is long", says Selcan Hacaoglu on Bloomberg. Chief among them is that Turkey wants the US to reverse its decision to punish the country for buying weapons from Russia by excluding it from the F-35 advanced aircraft programme.

Turkey will find it "challenging" to use its leverage over Nato expansion to achieve these aims, but it has previously "shown it's willing to dig deep" to achieve its goals. Turkey does not object to Swedish and Finnish membership on principle, so an eventual compromise seems possible.

Betting on politics

With the American mid-term elections less than six months away, the bookmakers and the betting exchanges are gradually adding new markets on specific contests, rather than just on who will win overall control of the House or Senate. Chief among them is Smarkets, which has markets on a large number of individual Senate seats (including some intra-party primaries) and on five gubernatorial contests in Georgia, Texas, Michigan, Pennsylvania and Florida (although the markets on Michigan and Pennsylvania have seen relatively little activity so far).

In terms of betting value, I'd go with Ladbrokes' market on the contest in New York. True, the odds on incumbent Kathy Hochul (pictured) winning the Democratic nomination are too short at 1/33 (97%) to recommend. But the 1/8 (89%) on the Democrats retaining control of Albany, while still relatively short, looks a lot more reasonable given the Democrats' strength in the Golden State.

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Indeed, New York has always been strongly Democrat-leaning – Biden beat Trump by more than 20 percentage points in 2020, in line with similar performances all the way back to Bill Clinton in 1996. The Republicans have occasionally broken through, but the last time one was elected governor was two decades back in 2002. With polls putting Hochul around 15 to 20 points ahead of her most likely Republican opponents, I'd suggest that this is a good time to bet on the Democrats winning again.

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Newbury

Vodafone in deal talks: UK telecoms giant Vodafone said that it is pursuing several "live" deals in the European telecoms market as it reported its full-year results on Tuesday, says the Financial Times. The firm announced that sales were up 4% to €45.6bn, while core earnings were up 5% to €15.2bn. Both matched expectations, but management warned that inflation is likely to be a drag on returns in the year ahead. The numbers are unlikely to assuage pressure from shareholders, including activist investor Cevian Capital, to overhaul its businesses and strategy.

However, the arrival of a supportive new shareholder may give the firm some backing in its battle with activists. Etisalat, the state-controlled United Arab Emirates group, said that it has amassed a 9.8% stake in Vodafone. "A state-owned entity should prove more accommodating of an ex-growth stock with a chunky 6.3% historic dividend yield." That said, Etisalat may still encourage disposals and could even bid for some of Vodafone's emerging market subsidiaries, although it has ruled out the option of buying the whole company.

Meanwhile, Vodafone's main focus for acquisitions is now the UK, Spain, Italy and Portugal. Huge network investment costs and low profitability are encouraging most European telecoms firms to consider consolidation. However, after recent missed opportunities to strike deals in Spain and Italy, Vodafone is "running out of options", says Ed Cropley on Breakingviews. Hence it's said to be in merger talks with smaller UK rival Three, which is controlled by Hong Kong tycoon Victor Li via his CK Hutchison business. A deal could work, but Vodafone must avoid agreeing to a bad deal out of "desperation". "The risk is Li demanding a higher valuation for Three because of its faster growth."

San Francisco, US

Trolling Twitter: Elon Musk's tweet last week that he was putting his $44bn bid for social-media network Twitter "temporarily on hold" triggered a 20% tumble in the stock in pre-market trading, says Lex in The Financial Times. A tweet two hours later, saying he was "still committed to acquisition", sent it back up. But the shares still languish 24% below Musk's $54.20-a-share take-private bid. Since making the bid public on 14 April, there has been a heavy sell-off of tech stocks: the Nasdaq Technology index has dropped 14%. Shares of carmaker Tesla, which make up the bulk of Musk's wealth and which he planned to use as collateral, are down 25%.

Musk (pictured) says he wants to confirm Twitter's findings that fake accounts make up less than 5% of users. "This sounds like posturing prior to claiming a material adverse change, enabling escape from a $1bn break fee". The probable outcome is a renegotiation. Since the bid, Twitter has reported weak earnings and some top brass have resigned. Online advertising is "broadly under pressure", adds Dan Gallagher in The Wall Street Journal, and there is also the "growing competitive force" of TikTok. "If Musk walks away, Twitter's shares will crater," says Lex. The board may have "to bow to a lower offer".

Bentonville

Squeezed shoppers: Walmart, the world's biggest retailer, saw its share price fall by as much as 11% on Tuesday after first-quarter results disappointed investors. Same-store sales (excluding petrol) beat expectations, rising by 3% on the year, but "net profit was half of what Wall Street was pencilling in", says Jinjoo Lee in The Wall Street Journal. Higher wage and energy costs hit margins, while supply-chain upheaval and lower-than-forecast clothing and home furnishing sales resulted in bloated inventories. There were also signs that increasingly squeezed customers are trading down to cheaper, own-brand goods. Meanwhile, rival retailer Target saw its shares plunge by more than 20% after it reported similar trends in its first quarter – healthy revenues but higher-than-expected costs and signs of consumers trading down.

Consumers' caution is not all bad for Walmart, says Andrea Felsted on Bloomberg. "While some shoppers will inevitably trade down, or put fewer items into their baskets, others will move from pricier retailers to Walmart." And it has plenty of clout with suppliers. But these results bode ill for other firms. "If Walmart is struggling even with its thriftiness and superior scale, then smaller and less efficient retailers are in for a very difficult time."

The way we live now... the dark supermarkets delivering to your door in minutes

Getir has 140 stores in 20 UK cities and towns

The corner shop is no longer the easiest option, says The Times. Delivery services such as Getir, Gorillas, Gopuff, Jiffy and Zapp will bring you snacks, essentials and more, without the hassle of walking a few minutes down the street.

The "dark supermarkets" that underpin these services aren't open to customers, but these ultra-compact warehouses – often shopfront stores with blacked out windows – are a growing presence on urban high streets. "In recent months, there has been a race to rent as many small units as possible in often affluent neighbourhoods." There are now 200 dark stores in the UK, but this could rise to as many as 1,500 by 2030, according to market-research firm Interact Analysis.

These business are still loss-making: they are offering large discounts off first orders and big student discounts to try to build market share. "Retail analysts predict that only a few of the current wave of start-ups will survive." Some may end up in partnership with traditional supermarkets: Tesco is now trialling Gorillas' fulfilment centres at five of its larger stores.

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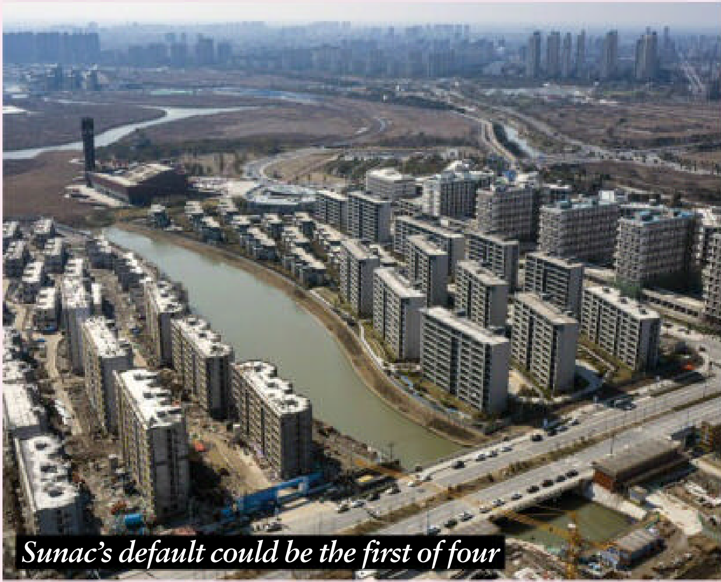
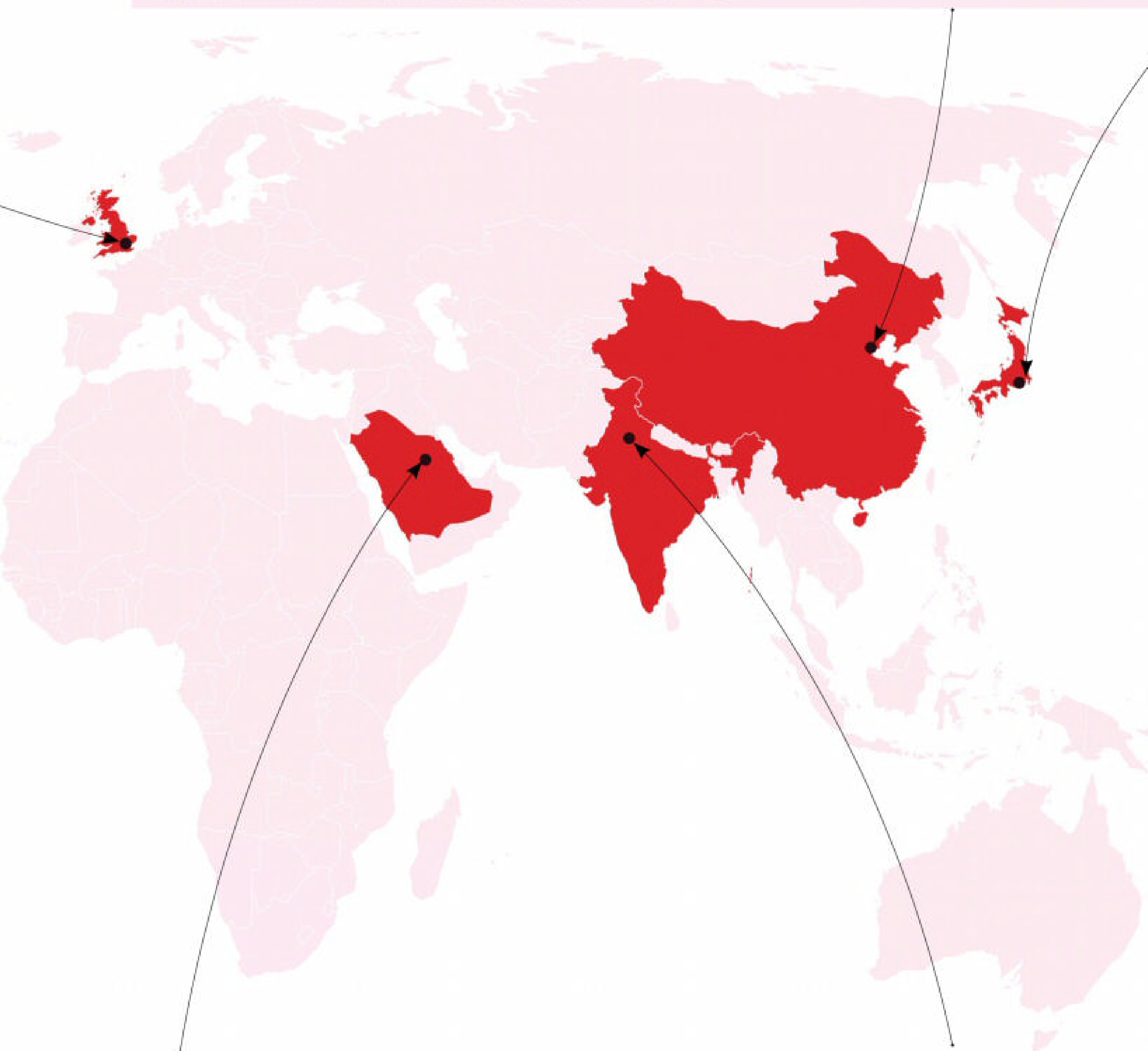

Sunac's default could be the first of four

Tianjin

Shaky foundations: Chinese property developer Sunac has defaulted on a $750m offshore bond and says it is likely to default on three others over the next two weeks, says Nikkei Asia. Sunac, which is China's fourth-largest developer, missed a total $104.73m in interest payments last month, but had a 30-day grace period to make good on each one. The first deadline expired last Wednesday. It has made a principal repayment on a RMB400m (£47m) onshore bond on time this week, a decision that demonstrates "its grasp of the politics of Chinese debt", says real-estate website Mingtiandi (the Chinese government cares more about firms repaying local bondholders than foreign ones).

"China's property sector has been grappling with a debt crisis since last year, following a nationwide crackdown on excessive leverage and a string of defaults," says Bloomberg. Sunac is the latest of more than a dozen developers to default and the biggest to do so in 2022 – Evergrande, the second-largest developer, defaulted last year. Many offshore bonds issued by developers are now trading at under 60 cents on the dollar, as investors expect more defaults amid the real-estate market slump. Sales of new homes in China plunged 33% during the early May holiday compared with the same period a year.



Yokohama

Hard road ahead: Carmaker Nissan has reported a net profit of ¥215bn (£1.3bn) for the year to March, the first time since 2018 that it has been in the black, says Nikkei Asia. However, the firm said it expects annual operating profit in the coming year to be little changed, at around ¥250bn, due to rising raw material and logistics costs. Toyota, its larger rival, reported record sales and profits, but said that it expects operating profits to fall 20% to ¥2.4trn this year, due to an "unprecedented" cost surge. Honda also said that operating profits are likely to fall, from ¥871bn last year to ¥810bn.

The Japanese firms "are giving more warning signals about the road ahead than their American peers", says Stephen Wilmot in The Wall Street Journal. General Motors and Ford are implying that they can offset higher costs by increasing prices. Yet the weak yen and a focus on cheaper, more economical models favour Japanese firms. "If the going is anything like as tough as their forecasts imply, it will likely be worse for Detroit."

Riyadh

Oil slick: "High oil prices are profitable for Saudi Aramco – and even more so for the Saudi government," says Rochelle Toplensky in The Wall Street Journal. But the "conflicting incentives that kept most international shareholders away" from Aramco's 2019 initial public offering "were on full display" in its latest results. While Aramco turned a $39.5bn profit and made 27.2% return on average capital employed, the royalty payments it makes to the Saudi government rob investors of greater rewards.

Aramco must pay "15% when oil is under $70 a barrel, 45% on the marginal value above $70 and below $100, and 80% on anything over $100. So most of the value over $100 a barrel goes to the Saudi government". The company is also constrained by oil-cartel Opec's production quotas. So while it has again overtaken tech giant Apple to be the world's most valuable listed company, shareholder returns have trailed Shell, ExxonMobil and Chevron. "Operationally Aramco may be a well-oiled machine, but for any investor other than the Saudi state it remains a slippery prospect."

New Delhi

Don't hang up: India and China's relationship is "nothing if not acrimonious", but the "high drama" over Chinese smartphone maker Xiaomi's India subsidiary conceals a "significant bilateral dependency", says Megha Mandavia in The Wall Street Journal. The $34bn Chinese giant is facing official allegations of tax evasion and illegally masking remittances as royalty payments. Xiaomi denies wrongdoing and accuses India's financial crime-fighting agency of using "threats of physical violence to extract confessions", according to Reuters. There is no love lost between the countries: since a violent border clash in 2020, India has banned more than 300 Chinese apps and toughened up rules for Chinese firms investing in the country, but their smartphone makers need each other. Thanks to a lack of cheap alternatives Chinese smartphone players' market share increased from 60% in 2019 to 76% in 2021 (although there are now more local Indian rivals "waiting to pounce," says Breakingviews). Xiaomi is the best-selling brand with a 24.9% market share, and much of the Indian market remains untapped. What's more, almost all Chinese smartphones sold in India are made in India. The two countries "can't hang up on each other just yet".

18+

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Sri Lanka's crippling debt crisis

The South Asian country has been hit by a triple whammy of economic shocks and has gone to the IMF for a bailout. It may just be the first domino to fall in a global debt crisis. Simon Wilson reports

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Gotabaya Rajapaksa: struggling to cope

What's happening?
A full-scale economic collapse and political crisis, with every chance of further violent unrest. Last week the parliamentary speaker warned of an imminent hunger crisis. This week the "new" prime minister Ranil Wickremesinghe – a septuagenarian on his fifth stint as PM since the 1990s – warned that the country had run out of petrol, and that it desperately needed $75m of foreign currency to pay for essential imports to avoid social collapse. For months, the government of president Gotabaya Rajapaksa has been struggling to cope with an inflationary spiral and a lack of foreign reserves that has led to shortages of food, fuel and medicines, and rolling power cuts. In recent weeks, public anger has spilled over onto the streets. There have been multiple cabinet reshuffles and failed attempts to form a national unity government. But so far Rajapaksa has clung on – albeit without a fully functioning government – in part because the opposition doesn't fancy the job of fixing his mess.

What's caused the crisis?
A mix of long-run factors and shorter-term triggers. Sri Lanka's economy has long been dominated by export-orientated crops and more recently the garment industry. Its economy is therefore highly vulnerable to global economic downturns and external shocks, with declines in exports driving regular balance-of-payments crises from the mid-1960s onwards. Still, until now post-independence Sri Lanka has never defaulted on its sovereign debt and was a relative success story by South Asian standards.

What went wrong?
Even before the Rajapaksas took power, "financial trouble was brewing", says Karl Schultz on Bloomberg. During the family's first stint in office (under the presidency of Gotabaya's brother Mahinda in 2005-2015), the government took out big loans from China to invest in infrastructure projects. But many of those stalled and foreign debt more than doubled between 2010 and 2020. Things got worse from 2019, due to a combination of terrible luck and disastrous policy decisions. In April that year, Sri Lanka's thriving $4.4bn tourism sector took a big blow from a series of church bombings that killed nearly 300 people, including some foreign nationals.

"Its foreign reserves are now down to a few tens of millions of dollars – in effect nothing"

What was the effect of that?
Tourism collapsed by as much as 80%, and then the following spring the pandemic hit, making any recovery impossible. Together, these blows would have challenged any government. But the Rajapaksas proved unequal to the task. Gotabaya Rajapaksa was popular for bringing an end to the 26-year civil war as a head of the ministry of defence in 2009, during the time when Mahinda was president. Though accused of war crimes in the fight against the Tamil Tigers – and corruption – he was elected by a landslide in 2019 on a security-focused platform in the wake of the bombings. He then brought Mahinda back as PM, along with several more relatives as ministers. But "untrammelled authority seems to have gone to the Rajapaksas' heads", says The Economist.

What have the Rajapaksas done wrong?
First, they immediately pushed through massive but unaffordable tax cuts that seriously weakened the government's finances, despite warnings that they were recklessly dangerous. They then failed to reverse course as the pandemic halted tourism, downgrades closed the door to fresh borrowing and foreign reserves dwindled. Next, with the economy and fiscal position worsening fast, in April 2021, the Rajapaksas banned the use of chemical fertilisers to try and save money. The predictable result was chaos, and a slump in rice production of between one quarter and one third – and an even bigger crash for tea, a key export earner. Although the ban was withdrawn in November, the damage was done – accelerating the inflationary spiral that was worsened this spring by the commodities spike following Russia's attack on Ukraine.

What will happen now?
A formal default looks imminent, and the government's chances of clinging on appear slim. "The threat this time round for the Rajapaksas' survival is real," political commentator Kusal Perera told the Financial Times. "They want someone to take over who could diffuse this heat, and after a while to negotiate an exit path for them." The country is due to pay $8bn this year in debt repayments and interest on a foreign debt pile of $50bn. But its foreign reserves are now down to a few tens of millions of dollars – in effect nothing – leading it to suspend payments last month and start talks with the IMF on yet another bailout. The government is also seeking new bilateral loans from the US, China and Japan. Sri Lanka is the "first country to buckle" under the mounting pressure of the "three-pronged" global crisis, says Larry Elliott in The Guardian – namely, the pandemic, the rising cost of debt, and the sharp increase in global food, fuel and fertiliser prices caused by Russia's invasion of Ukraine. It's the first, but unlikely to be the last.

Where's next?
The list is "long and varied", says Elliott. The UN's trade and development arm, UNCTAD, recently assessed that 69 countries are currently facing a triple whammy of shocks in the form of rising food prices, rising energy prices and tighter financial conditions. Of these, 25 nations are in Africa, 25 in Asia and the Pacific, and 19 in Latin America and the Pacific. So far, the IMF has opened rescue talks with Egypt and Tunisia – both big wheat importers – and with Pakistan, which has imposed power cuts because of the high cost of imported energy. Sub-Saharan African countries at risk include Ghana, Kenya, South Africa and Ethiopia. Argentina recently signed a $45bn debt deal with the IMF, and other Latin American countries at risk include El Salvador and Peru.

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Dotcom bust 2.0 is upon us

It's carnage in the tech sector. That spells opportunity for canny investors

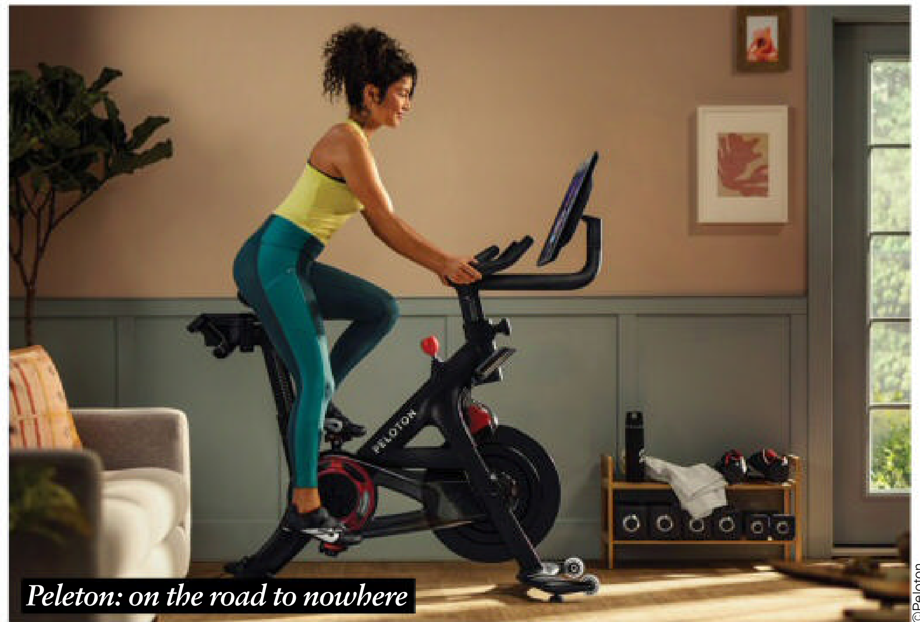
Matthew Lynn
City columnist

It has been a terrible year for the technology stocks that were the big winners from lockdown and were meant to be at the core of any investment portfolio. The Nasdaq is already down by 28% since January and is deep into bear territory. Between them the major technology companies have lost almost $3trn in market value. Apple and Microsoft have both lost half a billion each; Alphabet, the parent of Google, has lost $400bn, as have Tesla, Meta – as Facebook now calls itself – and Amazon. Netflix is down by 60% since the start of the year and the once high-flying exercise bike maker Peloton is down by 80%. It is carnage.

It is easy enough to understand why. As the Federal Reserve starts steadily raising interest rates to control inflation, and stops printing dollars like crazy, money has started to become tighter, and that is hitting the value of every kind of asset. At the same time, some of the hype around lockdown has started to evaporate. It turns out that we don't really want to spend the rest of our lives at home, watching streamed gigs, eating delivered food and keeping fit with apps. We like to go out from time to time. Many of the predictions of a permanent shift to a purely digital economy have turned out to be premature and some of the business models touted at the height of the pandemic are now looking very flimsy.

It's 2002 all over again

It is all starting to look a lot like the dotcom bust of 2002. On 9 October of that year, the technology sell-off reached its peak, with the Nasdaq down 78% from its turn-of-the-century highs. Right now, the collapse of this year is tracking the dotcom collapse of 2001 and 2002 closely. The backdrop is similar. A wild bubble had built up over several years, with valuations chased ever higher. Led by the venture-capital funds, too much investment poured into flimsy ideas. Retail investors were sucked in, naively believing that it was an easy way to make a lot of money. What lessons can we learn from the last dotcom bust? There are three big ones.



Peloton: on the road to nowhere

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First, it will run for at least a year before the bottom is reached. The bubble didn't pop in one day, with a spectacular collapse, but dragged on for almost 18 months. There wasn't any point buying the dips, because each one was followed by even steeper falls. It was a long, grinding process that wiped out all the euphoria of the previous years.

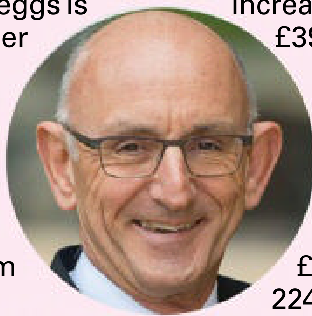
Second, a lot of weak firms will be washed away. During the dotcom mania, just about any twenty-something with a laptop and a business plan sketched on the back of an envelope could raise a few million in minutes. Some very poor ideas received a lot of funding. Pets.com, which sold pet food online, managed to rack up losses of $147m in a single year before folding. E-Toys spent millions on marketing before quickly disappearing. Shares in theglobe.com soared 600% on their initial public offering, but its site was quickly overtaken by social-media giants such as Facebook. It will be the same this time around. As a bust unfolds, it is impossible for firms simply to raise more capital from the markets to sustain themselves. Any firm not cash-flow-positive will soon be in trouble – and that covers a lot of business. Before long, we'll see a wave of collapses, bankruptcies and recriminations.

Pick up the bargains

And yet, finally, some real bargains will eventually emerge. By the autumn of 2002 a lot of high-quality companies were once-in-a-generation buys. At the bottom of the market, Amazon, then mainly just an online books retailer, had fallen by 90%; over the next couple of decades it went on to conquer the world. EBay's shares more than halved, but went on to rise tenfold in the following years. When this bust is over, there will be plenty of bargains. Netflix has already fallen heavily, but whatever its problems it still has an incredibly powerful brand. Likewise, Uber may face plenty of difficulties, but it has mastered logistics like few rivals. Tech remains the most exciting industry in the world, with the strongest growth prospects. Anyone who can pick the winners from the survivors will do well.

Who's getting what

- Bakery chain Greggs is facing a shareholder revolt over its executives' high pay and bonuses, says The Guardian, despite dodging repayment of £87m in government furlough support received in 2020. Chief executive **Roger Whiteside** (pictured) took home bonuses worth double his basic salary of £575,209, taking his total pay to £1.9m. That's 79 times the earnings of the average employee. Finance chief Richard Hutton trousered a pay rise of 11.4% in 2021, followed by a 3.5% increase this year to £393,300.



- Tesco's CEO **Ken Murphy** collected a remuneration package worth £4.7m last year, 224 times the total pay and benefits of the median member of staff at Tesco, which was £21,217, says Sky News. Murphy was paid a basic salary of £1.5m, plus £3.2m of bonuses for supporting the company's recovery during the coronavirus pandemic and supply-chain challenges (including a shortage of drivers). The supermarket giant's pre-tax profits leapt to £2.03bn in the year to 26 February, up from £636m the previous year.

- A top executive at Moderna, the Covid-19 vaccine maker, quit after only one day, taking a year's salary of $700,000 for his trouble, says The Times. **Jorge Gomez** joined the drugmaker last Monday, but was required to step down following an investigation into financial reporting matters at the firm he previously worked for. He forfeited his signing-on bonus and other benefits, said to be worth about $3m.

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Nice work if you can get it

The bosses of North Sea oil and gas companies have received "bumper payouts", boosted by the recovery of prices following the pandemic, despite growing calls for a windfall tax, says The Guardian. As the war in Ukraine lifted energy prices, oil giants saw huge returns and climbing share prices, which have elevated pay for executives. The chief executive officers of the ten largest North Sea operators received a combined £54.4m in their last financial year, up from £29.4m in the previous period.
The chief executive of the North Sea's largest operator, Harbour Energy's Linda Cook, landed a £4.6m "golden hello" bonus on top of her usual £6m salary. BP's CEO Bernard Looney, who has said that high prices have turned his company into a "cash machine" as profits more than doubled, is in line for a £4.5m payout, up from £1.7m in 2020.

Can value keep winning?

Value stocks have been on the comeback trail since 2021. Is this a flash in the pan or a lasting trend?

John Stepek
Executive editor

Here at MoneyWeek, we've long believed that one of the most important factors driving long-term returns is the price you pay in the first place. Buy an asset when it's cheap and you can expect to get better returns than when an asset is expensive. This explains our mild bias towards "value" stocks (those that look cheap based on various "fundamental" valuation ratios such as price/book value – see below), as opposed to "growth" stocks (those that look expensive on most measures, but promise rampant growth well into the future – as long as everything works out).

It's no secret that the past decade or so has been brutal for value investors. In the low-interest rate, money-printing era that followed the great financial crisis in 2008, growth stocks outperformed value to an extent not seen except during the dotcom bubble of the late 1990s. But now that interest rates and inflation are rising, value investors are enjoying their day in the sun.

For example, Cliff Asness of investment group AQR moved his funds towards favouring global value stocks in November 2019. This turned out to be unlucky timing as the pandemic initially favoured growth stocks. But it has served him extremely well more recently. In the four months to the end of April, the flagship Absolute Return fund is up nearly 30%, which came on top of a gain of nearly 17% in 2021, notes Robin Wigglesworth of FT Alphaville. This comes at a time when wider markets have fallen hard, with once-popular growth-focused funds such as the ARK Innovation exchange-traded fund or the Tiger Global hedge fund hit even harder.

Cliff Asness: a value champion

Where are we now?

The question is: can this continue? In terms of relative valuations, in a brief update last week Asness pointed out that value stocks are still almost as cheap relative to growth stocks as they were at the peak of the dotcom bubble in 2000. So on that front, there is little doubt that value remains far cheaper than growth.

> *"Value stocks are still cheap relative to their growth counterparts"*

Meanwhile, it's hard to see the macroeconomic backdrop shifting back to a more growth-friendly regime. Inflation remains extremely high. Even if central banks lose their nerve on raising interest rates, stubbornly high inflation implies that investors should be keener to get their money sooner, which in turn shifts their focus to value over growth.

This doesn't mean you can invest in "value" indiscriminately. Value might have outperformed growth, but the MSCI Value index is still down for the year. However, it does suggest that the broader shift away from expensive growth-dominated markets (such as the US, for example) towards cheaper markets with "old world" stocks (such as the FTSE 100) still has legs.

I wish I knew what book value was, but I'm too embarrassed to ask

Book value is also known as shareholders' equity or net asset value (NAV). It is the value of all of a company's assets, less all of its liabilities (debts). It can be found on the balance sheet in a company's annual report. Book value is sometimes used as an estimate of what a company would be worth if all of its assets were sold for their balance-sheet values. It's often used in this way to value firms such as banks, housebuilders and insurers.

When you know the book value, you can get an idea of how cheap or expensive a share is by dividing the share price by the book value per share (hence the price/book – or p/b – ratio).

A p/b of below one means that – technically speaking – you can buy the company for less than its assets are worth on paper. In other words, if you could buy the whole company, you could sell everything it owned and still make a profit.

One potential problem with this, of course, is that the book value of a company may not reflect what you would actually get were you to sell its assets. In particular, it may contain lots of intangible assets, such as goodwill, which often relates to the value of a brand.

Intangibles – unlike a factory, say – are hard to measure objectively. They may in fact not be worth very much at all, particularly if they need to be sold urgently. So if a company persistently trades on an unusually low p/b ratio, that could imply investors doubt its assets are worth as much as it claims, rather than meaning it's a bargain. That said, intangible assets may also be undervalued.

If you subtract intangible assets from a company's book value, you end up with a more conservative number, tangible book value, based on hard assets, such as land, buildings, machinery, stocks and cash. You can then divide this figure by the number of shares to get tangible book value per share. If you can buy a stock for a lot less than this figure (a relatively rare event), you may be getting a genuine bargain.

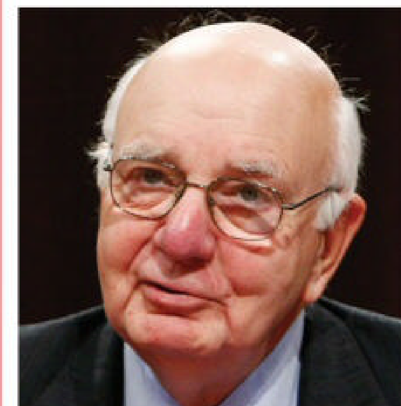
Guru watch

Richard Bernstein, chief executive, Richard Bernstein Advisors

"The [Federal Reserve] wants to be viewed as a conscientious inflation fighter, but the extremely negative real Fed funds rate says otherwise," writes Richard Bernstein, founder of Richard Bernstein Advisors, in the Financial Times. The "real" Fed funds rate is the difference between the US central bank's target interest rate and inflation. When it is positive (ie, interest rates are higher than inflation), that should be "enough to slow nominal growth".

For example, in the early 1980s, under Paul Volcker (pictured below), the last Fed governor to battle severe inflation, the real rate peaked at "more than 10%". Today, however, with inflation at a 40-year high, "the real Fed funds rate is now negative to a degree... far beyond historic averages" – sitting at negative 7.5% versus a 50-year average of 1%.

The Fed hopes to raise rates enough to curb inflation without causing a recession. However, it's also possible that we get neither a "soft" nor a "hard" landing, but instead that the Fed fails to cool the economy at all and inflation stays "high for some time" – and markets seem to be underestimating this possibility, which represents opportunity. Some traditional inflation hedges such as inflation-linked US government debt and real



estate investment trusts have attracted attention, but "investors remain broadly underweight assets that benefit the most from inflation", including energy, gold, cyclical stocks, commodity-reliant countries and assets such as timber land and farm land.

©Alamy; Getty Images

The income investor's dilemma

Rising interest rates are starting to make many popular income funds look less attractive

David Stevenson
Investment columnist

Income investors are in a quandary. Rising interest rates make many conventional bonds a difficult sell. Why invest in an asset class that will clearly fall in value as rates rise? And that's ignoring the fact that real yields are already in deeply negative territory (see page 17).

Rising rates also put pressure on investments further up the yield ladder. If UK ten-year government gilts now yield over 2% and US Treasuries over 3%, why invest in a riskier asset if the yield is just 4%-4.5%? The direction of travel for bonds is now obvious and I wouldn't be surprised if the headline ten-year rate might shoot past 3.5%-4% in the UK and 5% in the US before the current rates cycle peaks.

Feeling the heat

So income-oriented funds in the 3%-5% range have started feeling the heat. Take core UK infrastructure funds. These currently yield an average of 4.7%, according to fund analysts at broker Numis. These traditionally traded at large premiums to net asset value (NAV), but have now dropped to an average of around 10%.

UK commercial property funds, which yield 4.4% on average, are also having a tough time, especially since many investors are also still cagey about the long-term impact of the working from home shift and its effect on leases and valuations. Discounts to NAV have widened out to around 20% on average. But arguably the clearest example is in the industrial real estate investment trusts (Reits), where average yields across the sector are around 3.6% and Reit values have fallen by 14% this year. Residential-focused funds are also having a tough time, even if average yields are higher at 5.2%. A year-to-date return of 6% has seen the average discount widen to 10%.

Tufton Oceanic: a solid yield from ships

©Alamy

But headline yields only tell us part of the story. Investors are looking through to the quality of cash flows and whether yields are based on long-term contracts with inflation protection. Thus Supermarket Income Reit has been more resilient despite a 4.7% yield. After a 5.4% rise this year, it's trading at a 10% premium. Its portfolio is full of long-lease assets with huge creditworthy counter parties, backed up by inflation protection.

Look for strong cash flow

Income investors might consider seeking protection in funds yielding above 5%-6%. The impact of rising rates on these higher-yielding funds might be more muted, especially if rates were to start to come down drastically after having achieved the desired effect. The key at these high yields is to make sure that the managers are credible and cash flows are steady.

Some of the infrastructure lending funds, such as **GCP Asset Backed Income (LSE: GABI)** – on a 6.3% yield – and **RM Infrastructure Income (LSE: RMII)** – on a 7% yield with a 2.8% discount – both look interesting. I'm also a quiet fan of the **Axiom European Financial Debt Fund (LSE: AXI)**, which invests in a wide range of bank and insurance-sector paper. Its managers are hugely experienced in this very niche area and the fund currently yields 6.7% on a 10.9% discount. Remember that banks might be one of the few sectors that may actually benefit from increasing rates.

Biopharma Credit (LSE: BPCP) invests in loans and royalties in biotech and pharmaceuticals. It offers a 5.1% income yield and is trading at a small sub-2% discount. The US dollar share class (**LSE: BPCR**) yields closer to 7%. The more adventurous can look at **VPC Speciality Lending Investments (LSE: VSL)**, which lends money to financial intermediaries around the world. It's a much riskier bet than BioPharma, not least because it has a fair slug of equity in fintech, but it trades at an 18% discount and offers a yield of 8.9%. Last, shipping fund **Tufton Oceanic (LSE: SHIP)** is still churning out a 5.8% income yield off the back of its portfolio of mid-sized bulkers and small tankers.

Activist watch

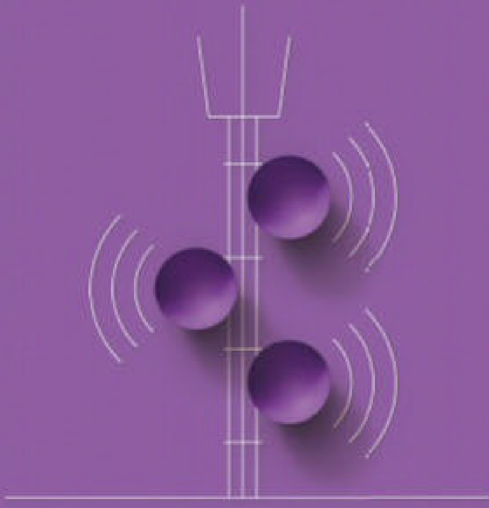
Saint-Gobain, one of France's oldest industrial firms, is under pressure from investor Bluebell Capital to restructure its business and replace its chair in response to what the activist calls "underwhelming performance", says the Financial Times. Bluebell – which holds a stake of 0.5% in Saint-Gobain – wants the firm to spin-off, list or sell its distribution operations and focus on building materials. Government pressure to improve the energy efficiency of buildings should offer "significant opportunities" for building-materials firms, says Bluebell. Saint-Gobain's margins have been weak for many years, while its share price has also lagged behind peers, including Swiss firm Sika, which it previously tried to buy.

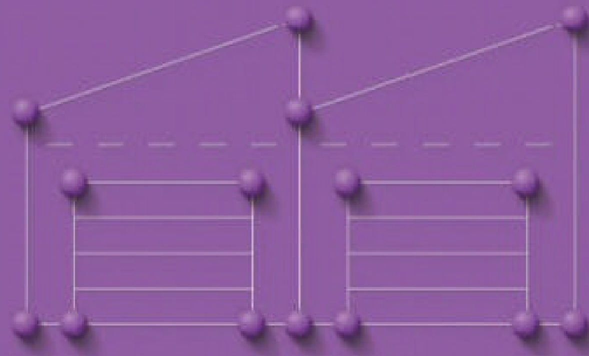
Short positions... BlackRock's green U-turn

■ **Investors are selling many of the funds that are most likely to beat the market in the long term, says Lauren Almeida in The Telegraph. Outflows from funds that invest in small and medium-sized British companies were substantial in recent weeks, according to data from fund platform Calastone. UK-focused funds had net outflows of £836m in April, with two-fifths of that coming from small and mid-cap funds – a much larger proportion than their share of assets under management. That reflects both the market turmoil and the grim outlook for the UK in particular – the Bank of England says that rising energy prices and the cost of living crisis could push the economy into recession later this year. Yet while small firms are often more exposed to economic downturns than larger ones, they tend to outperform on average over the long term. Smaller-company funds have nearly tripled investors' money over the past 15 years, compared with a 100% rise in the FTSE 100.**

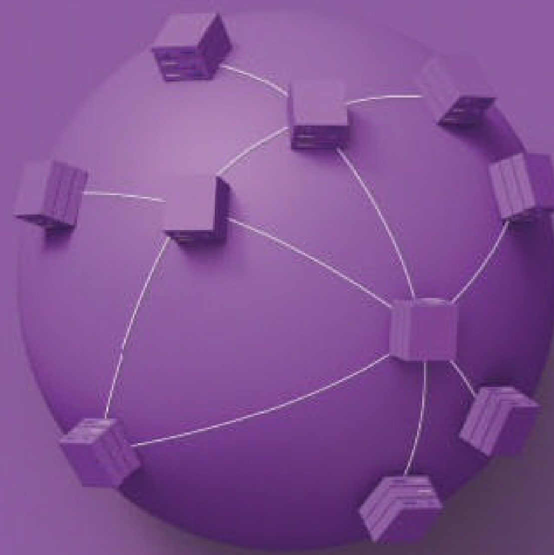
■ BlackRock will vote against most climate-related shareholder resolutions this year because they have become too extreme or prescriptive, says the Financial Times. The world's largest asset manager is concerned about resolutions that aim to stop financing fossil-fuel projects, force companies to decommission assets, or set absolute targets for reducing emissions. "We do not consider them to be consistent with our clients' long-term financial interests," says BlackRock. In addition, it argues that energy security requires greater short-term investment in fossil fuels following Russia's invasion of Ukraine. In recent years, BlackRock has pushed companies to embrace green energy, with chief executive Larry Fink saying in January 2020 that "climate risk is investment risk".

INVESTING IN COMPANIES





THAT OWN THE PHYSICAL ASSETS



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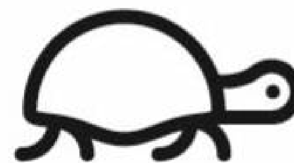

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Springtime for German arms makers

Andreas Wagner
The Sunday Times

Nobody in Germany "wants to say it out loud", but Vladmir Putin's war has been "good for business", says Andreas Wagner. Most Nato countries are upping their defence spending; none more so than Germany. At the outset, chancellor Olaf Scholz "vowed instantly" to invest €100m, increasing the country's defence budget from 1.4% of GDP to at least 2%. Profits at weapons manufacturers Heckler & Koch and Rheinmetall – which makes ammunition, tanks and trucks – are already surging. "There are concerns about this new era of German rearmament, however." As author and peace activist Jurgen Grasslin points out, Germany will now have the third largest military budget in the world. Other areas, such as education and healthcare, could suffer, leading to social unrest. Additionally, "so dark are the memories of Nazi Germany" that pacifism is "deeply" ingrained in the modern conscience. Weapons production was banned from 1945 until the early 1960s and Germany was only able to rearm after 1955. Even then, being bordered largely by "friendly states", Germany was able to save billions by not spending much on its military (the "peace dividend"). Grasslin certainly isn't the "only sceptic" when it comes to the new budget.

Sanctions will also squeeze Asia

Brahma Chellaney
Nikkei Asia

As many as 37 countries, from Japan to Australia, have joined the US-led sanctions campaign to "isolate and squeeze Russia", says Brahma Chellaney. In so doing they have raised global energy and commodity prices, as well as Russia's revenues, in a "self-defeating trap". Worryingly, Europe's "scramble" to source alternative energy sources and stock up supplies is creating "costly competition with the thriving economies of Asia, the world's largest energy consumer". The EU has also "opened a path" for China to up land-based imports from Russia, which cannot be blockaded in the event it invades Taiwan. The changing dynamics "compound the challenges for Japan", whose firms are invested in the Russian Sakhalin 1 and 2 and Arctic LNG 2 projects deemed "essential" for its energy security. Replacing just its Sakhalin-2 LNG with spot-market LNG could raise its "total yearly import bill by as much as 50%". Energy markets can "ill-afford a large economy like Japan joining Europe's scramble". Cash-strapped countries such as Sri Lanka are already in difficulty. The risk is that the EU may end up "severely penalising developing economies" and derail post-pandemic economic recoveries.

No, the trains don't run on time

Simon Kuper
Financial Times

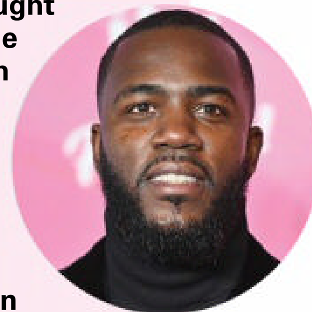
Forget the "crisis of democracy", says Simon Kuper. The crisis of autocracy is "even more consequential". From the 2008 financial crash to 2021, authoritarians were often praised for their "supposed efficiency". Leaders could think long-term and take big decisions, and their economies did well. Now, however, they have "hit trouble". China's zero-Covid policy has led to the effective incarceration of millions, its vaccines are of "dubious efficacy and widely distrusted", and its carbon emissions now exceed those of all developed countries combined (so much for long-term thinking). In Russia, the economy could shrink 10% this year, only 50% of citizens are fully vaccinated and thousands are fleeing. Hong-Kong is experiencing "authoritarian-induced brain drain". Inflation in Turkey has hit 70% because of the president's "wacky beliefs" about interest rates. Ethiopians face famine. Meanwhile, in democracies, most people are "jabbed and free". Democracies tend to have friends because they share values and compromise. Look at Ukraine. "Since 2020, authoritarian states have given the world disease, war and now hunger… These systems are like rotten trees, forever threatening to topple on to our better-kept houses."

The huge backlog of stupid fines

Michael Simmons
The Spectator

While Boris Johnson and Keir Starmer "await the police's judgment", 136,000 fixed penalty notices have been issued to others caught by their lockdown rules, says Michael Simmons. A Leeds student was fined £10,000 for "organising a snowball fight"; a beggar £434 for holding out his cap at King's Cross; a Devon landlord held a Christmas gathering the same night as the Downing Street "bash" and was fined £4,000. The police aren't investigating any more offences, but there is a huge backlog. Meanwhile, no one in Downing Street has been charged more than £50. Fair Trials, a legal watchdog, says many of the fines are "unjust and unlawful", but the system is "set up to discourage" challenge and only 2% have been contested. And if you don't pay your fine, you are dealt with under the "single justice procedure" (SJP), which is "designed to stop cases going to court". Cases aren't heard publicly and are instead adjudicated by a magistrate and a legal clerk. Since "little effort is made to notify" people, many don't even realise they are the subject of an SJP. A man from Reading discovered he'd been fined "via his local paper". If the authorities take a long time to "decide Starmer's fate, it will be understandable. Thanks to him, they have rather a lot on."

Money talks



"I never thought I'd sell out the Hammersmith Apollo… then you do one night and it sells out. And that's exciting. Then you do three and four, and it turns to ten. And you're like: 'Whoa, man, I'm happy with that.' Then you do the O2… you're like: 'Wow, bloody hell man, this is just going all right. Yeah, I think I'll keep at this, man!'"
Comedian Mo Gilligan, quoted in The Guardian

"Just after I'd left [TV show] *Gladiators*… I lost a house deposit of £30,000 and didn't even care. I put down the deposit then decided to go to America, forgetting about the house I'd made an offer on. I'd just signed a TV deal for loads of money to be Action Man, so I just let it go."
Mark Griffin, quoted in The Sunday Times

"I might not be here tomorrow so I spend. Well, it's my money. Why should someone else have it?"
Darts champion Peter Wright, quoted in The Telegraph

"It was 2019 when I sold a Banksy print. Four years earlier, I had won the print by the street artist in a raffle, for which I'd paid £500 for a ticket… I was getting married and the market for Banksy's artwork was hot. So I sold it for £85,000."
Rugby star Ollie Phillips, quoted in The Mail on Sunday

"It's really difficult from a parent's point of view. You want to give your children the best start and the best chance. But you're always wrestling with the fact that if I just make it so easy, and I can do this and do that, is she going to learn from any mistakes? You want money that much – there's a pub down the road, go and work behind the bar or something. That's my view."
Former footballer Michael Owen, quoted in the Daily Mirror

©Getty Images

Bill Gates paves the road to hell

It's not easy saving the world

©Getty Images

unherd.com
"It's not easy being a regular multi-billionaire," says Toby Green. Until recently Bill Gates, the founder of Microsoft, was just "the guy in the mansion next door". Then came the pandemic, and he became "the point at which all conspiracy theories meet". Gates has since been accused of planning the whole for his own benefit, of seeking to control the world's population through vaccine passports and microchips, even of being a mass murderer. Gates has not liked that. Judge me by my actions, he insists. Let's do that.

The New World Order

In his book on the pandemic, Gates tells us what his model is for the world, based on what he feels has worked over the past two years: isolate contacts, close borders, lockdown as quickly as possible, remove restrictions slowly and cautiously. Meanwhile, invest huge sums in public-health systems and vaccine production, and fund a global emergency response unit to monitor outbreaks. The aim, says Gates, is to vaccinate the entire world, twice if necessary, within six months while lockdown measures restrict the spread of the new pathogen.

That may sound reasonable – at least to those who haven't been paying attention to what's going on in Shanghai. Six months of lockdown for a billionaire with comfortable gardens and libraries is one thing. For most of the rest of us, it is something else. And it's something we'd have to get used to. In the past 20 years, pre-Covid-19, there were already three outbreaks that would surely have triggered Gates's plan: Sars in 2003, avian flu in 2005 and swine flu in 2009. In each case, enormous fatalities were falsely predicted. The next outbreak can't be far off, and future lockdowns have been "baked in as the new normal".

Gates is quiet about the financial reality behind this. Multi-billions of dollars of taxpayers' money is funnelled into research; commercial products are then made and vast profits privatised. An anti-viral from Merck was authorised as a Covid-19 treatment to great fanfare in 2021. It was initially developed as a veterinary drug using millions of public money. It is now being sold back to the US government – at a profit of 4,000%. Meanwhile, shutdowns exacerbate wealth inequalities.

But for Gates, technology is the answer to all problems. The suffering caused by lockdowns he hopes to ameliorate by getting everyone studying and working in a digital world instead. "No doubt he means well. But you don't need to indulge the conspiracy theories to realise that the road to hell is paved with good intentions."

Three truths that sound wrong

theconversation.com
Businesses and governments often turn to economists for advice, says Renaud Foucart. Yet it is a curious fact that, when economists largely agree with each other about important matters, their advice is ignored. Here are three truths that sound wrong to most people. First, a "lowest-price guarantee" means you will end up paying too much. Such price pledges are commonly found, yet decades of data show they are mostly a subtle way for retailers to collude on higher prices as they no longer have anything to gain from offering a discount. Second, housing subsidies given to tenants often benefit landlords. Giving people more to spend on housing raises demand, the main effect of which is to increase rental prices, which goes into landlords' pockets. A cut in housing benefits in the UK in 2011-2012, on the other hand, drove prices down and hurt landlords the most. Finally, investors who consistently beat the market are probably doing something illegal. There is no magic formula to predict short-term changes in the value of a financial asset unless you know something the rest of us don't. Such "insider trading" is illegal, but it happens. During the 2008 crisis, for example, politically connected investors who knew where the government would intervene made much more money than others did.

How to get staff onboard

hbr.org
Firms are finding it hard to hire right now, and the cost of staff turnover has always been higher than many employers realise, say Donald Tomaskovic-Devey and Reyna Orellana. That makes the "onboarding" process vital if you are to retain staff. Some firms are raising wages and offering signing-on bonuses, but there are better ways to help ensure that younger workers stick around. Here are three.

1. Create "career jobs". Bad jobs signal that you don't care whether workers come or go. Career jobs instead promise a future, make people feel valued, pay good wages over predictable hours, and offer visible career and wage progression.

It pays to make them feel welcome

©Getty Images

2. Ensure a positive first day. Don't assume that new workers are ready to work and will figure things out. Introductions and hand-holding are vital.

3. Communicate and explain expectations clearly. Every workplace has rules about expected behaviours. These may seem obvious to supervisors, but arbitrary or unreasonable to youngsters – banning the use of mobile phones, for example, will seem like cutting off a lifeline. Be clear about what the rules are and why they exist.

The economics of Twitter

iea.org.uk
In the debates about free speech on Twitter, it is often claimed that the social-media platform is now more of a "public utility" and that therefore there is a case for regulating it like one or nationalising it, says Kristian Niemietz. Is that true?

Clearly not. To count, Twitter would have to be a "natural monopoly". These arise when the fixed costs of providing a service are so high that realistically there is only room for one company in the market. Classic examples are the energy grid and sewage system. Yet Twitter has many competitors that do the same thing. The cost of setting up a rival is expected to come down and the cost of switching is zero. So what then explains Twitter's dominance? The truth is that Twitter is not a "public square" or utility at all, more a neighbourhood with several competing pubs, yet where all the cool people happen to concentrate in the same pub, and where the main motivation for going is to hang out with the cool people and find out what the right fashionable opinions are. Forget Elon Musk. These are the people with the real power.

Why the inflation scare will fade

Loose monetary policy sent inflation soaring. A looming crunch will bring it down equally fast, says Max King

The front cover of The Economist on 23 April showed a picture of Benjamin Franklin with his hand covering half his face in horror, topped with the headline "The Fed that failed". So it seems. The US Federal Reserve's preferred measure of inflation – the personal consumption expenditures (PCE) price index – has surged to 6.6%. On the consumer price index (CPI) measure, inflation has hit 8.5%. The comparable UK number is 9%, but expected to go higher, while inflation in the eurozone is running at 7.5%.

Yet long-term followers of The Economist's covers know that it has a reputation as one of the world's most reliable contrary indicators. Is it time to wonder if the inflation panic, far from becoming embedded, is peaking and will soon fade rapidly?

Forgetting the lesson of monetarism

"Inflation is like toothpaste," Karl Otto Pöhl, the head of the Bundesbank in the early 1980s, said at the time. "Once it is out of the tube, you can hardly get it back in again." But for the last 30 years, the annual rate of UK inflation oscillated around 2%, never rising above 5%. Consequently, the monetarists who dominated economic thinking 40 or 50 years ago have gradually been forgotten. "Inflation is always and everywhere a monetary phenomenon," said Milton Friedman. Or "inflation is an increase in the quantity of money without a corresponding increase in the demand for it", as Ludwig von Mises put it.

Yet "in the pandemic, we paid people to stay at home – a classic recipe for inflation", says Chris Watling of Longview Economics. Monetary growth in 2020 had been the highest since 1943. That's why monetarist guru Tim Congdon, the founder of Lombard Street Research and now the founder and chairman of the Institute of International Monetary Research at the University of Buckingham, was warning last autumn that "a rate of inflation of between 5% and 10% is to be expected in the US until the end of 2022, owing to a monetary overhang from the almost 35% growth in the two years to mid 2021. That surely stretches the notion of transitory."

Today, there is a widespread view that higher inflation is a global phenomenon, says Watling. However, Japan is seeing continuing deflation while the annual rate of Chinese inflation is 1.5%. While broad money growth in the US accelerated by 24.7% in the two years to mid 2021, by 15.8% in the UK and 9.1% in the eurozone, the acceleration in Japan, China and India was much less. This is no coincidence.

"Of course, pandemics and wars always cause inflation," adds Watling, as a result of supply-side shocks. However, it was the monetary policies of Western central banks that caused this to spill over into general inflation. This is being exacerbated at present by tight labour markets, which are leading to wage rises. In the 1970s, a wage-price spiral followed until tight monetary policies caused a recession.

However, monetary data suggests that a crunch is under way. US monetary growth has slowed on a three-month annualised basis to 3%, points out research firm Macrostrategy. Just two months earlier, the rate had been 6.2% and 5.4% in the eurozone, 3.8% in Japan and 2.2% in the UK.

"US monetary growth has slowed from 6.2% to 3% in two months"

©Alamy

Milton Friedman: inflation is always a monetary phenomenon

We're likely to avoid recession

"Overheating and upward pressures on underlying inflation will persist for a few quarters yet, but then inflation will exceed monetary growth. Asset price weakness is then almost certain as a precursor and associate of recession," says Congdon.

"The recent moderation in money growth implies that inflation will come down closer to the norms of the 2010s… but the lags are such that both this year and 2023 will feature annual inflation rates typically above 5% and sometimes above 10%." Growth in bank credit in the US will require the Federal Reserve to go on raising rates, but this is more muted in Japan and the eurozone, while regulatory pressure in the UK to raise the capital ratios of banks will be deflationary.

Watling is not convinced by the argument that we will see recession in the UK, thanks to £200bn of excess savings. He agrees that "inflation will come down in the medium to long term from where it was" but is optimistic that the supply and demand for energy will come into better balance in 2023, with high prices curtailing demand, stimulating output and causing prices to drop. If he is correct, inflation will come down sooner and faster than expected.

Real monetary growth might not turn negative, so economic growth in the West would still slow but recession would be avoided. In either scenario, interest rates have further to rise but should remain below 3%. This might mean that US government bond yields, which recently approached 3%, are near a medium-term peak. However, Watling warns about long-term complacency. He believes that a 30- to 40-year downtrend in bond yields came to an end in 2020 and that the trend will be upward for equally long.

The outlook for equities depends on whether recession will be avoided. However, the behaviour of energy prices – with the oil price hovering around $100 a barrel rather than hitting new peaks – suggests that Watling will be proved right and The Economist, once again, will have got it wrong.

The end of the era of optimisation

A focus on maximising returns has made economies too fragile, says Edward Chancellor

In recent decades, we have lived through an era of optimisation, which was enthusiastically embraced by American executives, in particular. Under the banner of delivering shareholder value, companies contracted out manufacturing to suppliers on the other side of the world, ran down inventories – operating instead on a "just-in-time" basis – and replaced equity funding with debt. Optimisation boosted the components that determine return on equity (ROE): corporate profit margins, asset turns and leverage. US public firms boasted the highest returns in the world, reporting a 17% ROE last year, compared with just 9% for Japanese firms.

However, as Nassim Nicholas Taleb pointed out in his 2012 book *Antifragile*, the pursuit of optimisation creates instability. Thus, in recent years, we've witnessed a succession of "optimisation crises". The global financial crisis of 2008 showed that undercapitalised banks were overly dependent on capital markets for liquidity. When Covid-19 struck many countries discovered their public health systems had too few hospital beds and inadequate staffing levels to cope with the pandemic. Vladimir Putin's invasion of Ukraine has further exposed weaknesses in Europe's energy system. Not only was Germany hopelessly dependent on Russian oil and gas, but the country had also underinvested in its military.

Optimisation has rendered the corporate world more fragile. Companies with too much debt are vulnerable to unexpected downturns. Globalisation works wonders when all goes according to plan, but it's a complex trading system prone to unexpected breakdowns. Pandemic lockdowns disrupted global supply chains, and those disruptions were still unresolved in late February when Russia unleashed the largest military operation in Europe since World War Two. Globalisation has been badly fractured. Earlier this year an American ban on the import of goods manufactured in China's Xinjiang region caused a pile-up of shipping in the port of Los Angeles.

The easiest way to reduce fragility is to build more redundancy, or slack, into the system. For instance, after the global financial crisis regulators required banks to hold more capital. Now the UK government has announced that it will increase the number of healthcare staff available at periods of peak hospital demand. Germany is looking to construct terminals for imports of liquefied natural gas and has promised to spend more on defence. Slack is the new buzzword.

The tide is turning for companies

The corporate world is also seeking to reduce fragility. Having experienced frequent supply disruptions, some companies are turning away from just-in-time production. Others are looking to bring manufacturing back onshore.

The era of optimisation sounded the death knell for vertically integrated companies which owned and controlled the entire production process. The tide could be about to turn. Companies will have to bring more key activities in-house, suggests Julien Garran of MacroStrategy in a note entitled "The End of Optimisation". European luxury goods brands are already buying their suppliers, he says.

The return of inflation exacerbates this trend. Rising prices are often accompanied by supply bottlenecks, but also create uncertainty about input costs. Companies respond by hoarding stocks, which requires them to operate with more working capital. Higher inflation and interest rates also raise the cost of operating across overextended global supply chains.

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Japan has retained more of its manufacturing base

> *"The US market will lose its premium rating"*

The end of optimisation will produce winners and losers. So-called "platform" companies that have few physical assets face a bleaker future if they are required to invest in their own manufacturing facilities. Taleb observes that small firms are inherently less fragile than larger ones, while large corporations are doomed to break. These factors make it more likely that "value" stocks, which trade at low multiples relative to their underlying assets, will outperform more highly priced "growth" stocks, Garran predicts.

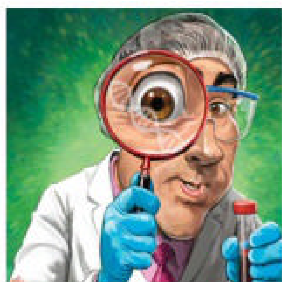
US companies sport the highest valuations in the world, but these companies have also taken on masses of debt in recent years in pursuit of financial optimisation. In future, it will be harder for companies to boost their earnings per share and stock price simply by borrowing to repurchase their shares. The US market will lose its premium rating.

The end of optimisation requires fewer financial engineers and more genuine engineers. That should be good news for Japan, one of the few developed economies to have retained its manufacturing base. The concept of shareholder value has always been viewed with suspicion in Japan, where companies have given priority to the interests of other corporate stakeholders: customers, suppliers, employees and society at large. Japan's conglomeration of business organisations, known as keiretsu, also operates with plenty of redundancy. In the past, Japanese companies may have delivered suboptimal returns compared to their US counterparts, but they are less indebted and more robustly designed for uncertain times ahead.

A longer version of this article was first published on Breakingviews.

Rare diseases and uncommon profits

Treatments for medical conditions with only a small number of sufferers can still be very attractive for pharma companies and investors because of government incentives, says Dr Mike Tubbs



A "rare disease" is – by definition – something that only affects a small number of people. We can even put a specific number on this: the US considers a rare disease to be one that afflicts less than 200,000 and the EU uses a similar benchmark of 250,000. However, while each rare disease is uncommon, there are a relatively large number of different diseases that qualify – around 7,000. That means an estimated 25 million to 30 million Americans have a rare disease – although many will be undiagnosed because most doctors may never have seen patients having one of the rarer diseases.

However, diagnosis is only the first part of the problem when it comes to tackling some of these conditions. Providing effective treatments can be an even larger hurdle, because they are not an obviously attractive opportunity for pharmaceutical companies. First, small patient numbers make it difficult to mount sensibly sized clinical trials. Second, if a drug succeeds and is approved, it may have only a small market because of the small number of patients suffering from that disease. Given that companies must often spend a lot of money developing and testing drugs, it may be impossible to make a profit from their research at any reasonable price level.

This meant that only ten new treatments for rare diseases were brought to market in the decade 1973 to 1983. However, since 1983 over 730 new treatments have been developed and approved. This massive increase was driven by the US Orphan Drug Act of 1983, which gives a series of incentives to companies to develop rare or orphan disease treatments. In 1993, Japan adopted a similar incentive scheme, and this was followed by the EU in 2000.

The US incentives include a seven-year marketing exclusivity period from approval for orphan products (ten years in EU and Japan), US tax credits of 50% for research and development (R&D), and R&D grants for clinical trials. These incentives have stimulated the development of new drugs for rare diseases that affect many thousands of people. Thus the market for orphan drugs – the term for drugs that would not be profitable to produce without government assistance because the conditions are so rare (aka, "orphan diseases") – is steadily growing: it should be around 18% of the overall pharmaceuticals market by 2024, up from 12% in 2016, according to Evaluate Pharma, a market-research firm.

"The market for orphan drugs is growing at around twice the rate of other drugs"

A high-growth market

Unfortunately, there are still several diseases affecting only one in a few million people where the numbers affected are too small to encourage work on treatments, or to support sensibly sized clinical trials. One example is stoneman syndrome, where tendons, muscles and ligaments turn to bone, usually from the neck and shoulders downwards. This gradually restricts body movements, leading to death. Nothing can be done to halt or slow the disease. Stoneman syndrome is very rare and affects about one in two million people or around 160 in the whole US. An even rarer disease is HGPS (Hutchinson-Gifford progeria syndrome), a genetic disorder affecting one in four million people. Those born with HGPS age much more quickly than normal and typically die in their mid-teens to early twenties. There is no known cure.

However, there has been significant progress on many other conditions. Cystic fibrosis (CF) is an example of a less rare disease with tens of thousands of sufferers in the US that is now treatable. CF is a genetically inherited disease that causes persistent lung infections and makes it difficult to breathe. It is estimated that 30,000 Americans suffer from CF, with 1,000 new cases diagnosed each year. Vertex Pharmaceuticals is the leader in CF treatments, which it supplies to 83,000 patients worldwide earning CF revenue of $7.6bn in 2021 from four CF drugs.

As this suggests, orphan drugs can be a meaningful source of revenue. The overall worldwide market is expected to double from $107bn in 2017 to $217bn in 2024, according to Evaluate Pharma, with the US accounting for around 70% of that. The compound annual growth rate of 12% from 2020 to 2024 is twice the predicted growth rate of the non-orphan drug market. This is helped by the fact that orphan drugs tend – necessarily – to be relatively expensive: the average cost per patient per year is $150,000 for orphan drugs in the US, compared with $34,000 for non-orphan drugs. One of the most expensive is Alexion's Soliris for PNH (paroxysmal nocturnal haemoglobinuria, which can cause blood clots) and aHUS (atypical haemolytic uremic syndrome, which also causes blood clots and organ damage), which costs over $400,000 per patient per year. PNH affects about one person in a million, with aHUS affecting about two per million.

Who's who in orphan drugs

The orphan drug market is often split into oncology (cancer) and non-oncology drugs. By 2024, the non-oncology market is estimated to be 55% of total, with the oncology market 45%. The orphan oncology market is dominated by large pharmaceutical companies: the only two of the forecast top 15 for 2024 that are not divisions of big firms are Seagen and Ipsen. These are both oncology specialists developing treatments for a range of cancers, some of which are rare cancers. However, the non-oncology orphan market is expected to be more diverse, with eight smaller companies in the top 20.

While large pharmaceutical companies are big players in orphan drugs, revenues from these drugs will be just a modest proportion of their total sales in most cases. For example, if we consider a few major players, these proportions range from Pfizer and Sanofi with around 20%, Roche 26%, Novartis 28%, AbbVie and Johnson & Johnson 29% and Takeda 34%. A couple of large pharma firms have done deals in recent years to bulk up their orphan-drug portfolio, testifying to the attractiveness of some of these niches. Thus Bristol-Myers Squibb bought Celgene in 2019, lifting its share to 37%, and AstraZeneca bought Alexion last year. Alexion is expected to have $7.2bn orphan drug

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Ronald Reagan signed the US Orphan Drug Act, which transformed the economics of rare-disease treatments

sales in 2024 and AstraZeneca was already on course to have about $4.1bn, giving a total of $11.3bn. This would make the combined company the fifth largest in the world by orphan drug revenues, and will take the contribution from orphan drugs to about 29% of sales.

Investors are attracted to the rare diseases sector in part because the revenue growth rate for rare diseases is much higher than that of pharmaceuticals generally. This suggests a focus on those companies that either only make rare disease drugs or have a high proportion of turnover from rare disease treatments. However, it is important to identify those companies with rare disease treatments likely to show high growth within their periods of marketing exclusivity and patent protection. We therefore look at several pipeline rare disease drugs and their likely growth rates.

Promising drugs in the pipeline

There are 137 orphan drugs in phase III or filing for approval with total potential sales of $32.6bn in 2024. Another 99 drugs are in phase II with potential 2024 sales of $10.3bn. Many of these are being developed by smaller companies, including Argenx, Bluebird Bio, BioMarin Pharmaceutical, Blueprint Medicines and Horizon Therapeutics. For example, Argenx (which had sales of $497m in 2021) has six pipeline drugs for rare diseases in clinical trials. The firm is still making losses ($408m in 2021) since it has only one approved drug on the market: Vyvgart for a form of generalised myasthenia gravis – a rare long-term condition causing muscle weakness. However, Vyvgart is in trials for five other conditions, and there are two other drugs in clinical trials with three pre-clinical candidates. Bluebird Bio (sales of $3.7m in 2021) has Zynteglo on the market for patients with beta thalassaemia (who cannot make enough beta-globin, a component of haemoglobin, and therefore have low red blood cell counts and require frequent blood transfusions). The drug releases patients from the need for lifelong regular blood transfusions. Pipeline treatments for severe genetic diseases include three in phase III for cerebral adrenoleukodystrophy, TDT (transfusion-dependant beta-thalassaemia, requiring lifelong blood transfusions) and sickle cell disease, plus a phase I drug for sickle cell disease and several pre-clinical projects.

Biomarin Pharmaceutical (sales of $1.85bn in 2021) has seven products on the market and a pipeline consisting of a phase III treatment for severe haemophilia A, two in phase I/II and four pre-clinical drugs. Blueprint Medicines (sales of $180m in 2021) has Ayvakit on the market for advanced systemic mastocytosis (a rare condition characterised by excess mast cells, which can cause inflammation leading to organ damage) and Gavreto for patients living with rare forms of advanced non-small cell lung cancer, or thyroid cancer caused by a faulty gene. The pipeline consists of four potential drugs in early-stage clinical trials for genomic-defined cancers, a cancer immunotherapy and several pre-clinical projects.

Horizon Therapeutics (sales of $3.2bn in 2021) has seven medicines on the market and six in clinical trials (two in phase III, four in phase I/II), each of which is

Continued on page 26

"There are 137 drugs in phase III or later with total potential sales of $32.6bn in 2024"

Continued from page 25

aimed at two-to-five different diseases, and three pre-clinical. One phase III drug is for myasthenia gravis, which can cause double vision, difficulty swallowing, slurred speech and weak arms and legs. There are many other small biotech companies with modest sales and one or two potential drugs in their late stage pipelines.

Future prospects with gene therapy

There is optimism that gene therapy could eventually cure many rare diseases, since around three-quarters of known rare diseases are linked with one faulty or missing gene. There are formidable costs and risks in developing safe and effective gene therapies. One of the first successful gene therapies was carried out at Great Ormond Street Hospital where Rhys Evans was treated for severe combined immunodeficiency, a rare disease making babies vulnerable to the smallest infection so they usually died before age two. Rhys's treatment was successful and he is now 21.

This and other early successes have led to 68 current active trials of gene therapies in the US, 28 in Europe and 12 in Asia, with the UK accounting for 12% of all global trials. Examples of companies active in this area are Alnylam (sales of $844m in 2021), Cellectis (sales of €57m in 2021), AveXis and Spark Therapeutics. AveXis's cure for spinal muscular dystrophy was developed from a technology platform developed by Regenxbio, whose pipeline includes a phase III project for curing "wet" age-related macular degeneration retinal disease and four phase I/II treatments for retinal and neurological diseases.

AveXis was acquired by Novartis in 2018 and Spark Therapeutics by Roche in December 2019 in further examples of how the larger companies frequently bolster their pipelines by doing deals with small biotech companies. The number of such deals has increased dramatically from around 15 deals per year worth about $3.5bn in 2010-2012 to around 100 deals worth $25bn in 2020-2021. The top-ten deals in 2021 included four by Takeda with one each for Vertex, Incyte, AbbVie, Zai Lab of China, Bayer and Eli Lilly.

Rhys Evans was cured by one of the first successful gene therapies

The largest of these was the $1.1bn deal by Vertex Pharmaceutical with CRISPR Therapeutics to lead development and marketing of CTX001, a therapy for sickle cell disease and beta-thalassemia.

"The annual value of deals with small biotechs has grown from $3.5bn to $25bn in a decade"

How to invest

The main biotechnology and healthcare investment trusts have relatively small exposures to rare disease companies. For example, **Worldwide Healthcare Trust (LSE: WWH)** has only Horizon Therapeutics in its top-ten investments, **Biotech Growth Trust (LSE: BIOG)** has only BioMarin Pharmaceutical and Horizon in its top ten, and **International Biotechnology Trust (LSE: IBT)** only has Alnylam in its top ten.

This means investors wanting to take advantage of the higher growth rate of rare disease treatments need to select a set of individual firms. Consequently, the best strategy will probably be a mix of some of the core big pharmas that have the highest percentages of turnover from such treatments, plus smaller rare disease firms with nearly all sales from rare disease treatments. I look at some of the main options for each in the box below.

The best bets on rare diseases

Of the six big pharma firms with the highest proportions of orphan drug sales, only **AstraZeneca (LSE: AZN)** and **Takeda (TSE: 4502)** give separate rare disease sections in their pipelines, while **Bristol-Myers Squibb (NYSE: BMY)** has the highest proportion of sales coming from rare disease drugs. BMS is strong in oncology and also cardiovascular and rare diseases following its Celgene acquisition and has 50 compounds in development. However, although Celgene's Revlimid for multiple myeloma is projected still to be the second best-selling orphan drug of 2024, with sales of $7.1bn, it faces generic competition from this year, while BMS's Opdivo cancer immunotherapy faces strong competition from Merck's Keytruda.

AstraZeneca has 12 orphan drugs in phase III clinical trials or filed for approval (most from Alexion), while Takeda has six in phase III or filed for approval (some from its acquisition of Shire). AstraZeneca also has a strong pipeline of cancer drugs, while Takeda has a fairly strong presence in gastroenterology, immunology and oncology. On balance, AstraZeneca is probably the preferable company. It's on a price/earnings (p/e) ratio of 15.7 based on forecast earnings for 2023, falling to 13.3 for 2024, at the recent price of 10,030p. Takeda, which is Japan's largest pharma company, saw its margins improve after the acquisition of Shire, since that deal gave it better access to the US market and a lower proportion of revenue from the more mature Japanese market where margins are lower. But it faces a number of patent expiries and its pipeline of new drugs is mainly early stage (the main risk of failures comes in late-stage clinical trials). The p/e is 16.3 for 2023, rising to 18.7 for 2024, at the recent price of ¥3,735.

Vertex Pharmaceuticals (Nasdaq: VRTX) is the largest orphan disease specialist, with 2021 sales of $7.6bn from four drugs. It has a dominant position in cystic fibrosis drugs: its drug Trikafta, which is predicted to be the fourth best-selling orphan drug of 2024 with sales of $5.5bn, will raise the proportion of treatable CF patients from 50% to 90%. The pipeline has three drugs in phase III. Vertex's p/e is 15.4 for 2023, falling to 14.6 for 2024, at the recent price of $235.

Of the smaller rare disease specialists, there are three main ones with substantial sales. **BioMarin Pharmaceutical (Nasdaq: BMRN)** has a monopoly position in several rare disease niches. The p/e for 2023 is 35 falling to 19.4 for 2024 at the recent price of $74.8. **Horizon Therapeutics (Nasdaq: HZNP)** has a 2023 p/e of 11.6 falling to 9.5 for 2024. **Alnylam Pharmaceuticals (Nasdaq: ALNY)** has a well-proven methodology for finding drugs to treat rare genetic diseases. The company will still be making a loss in 2023, but should make its first small profit in 2024.

Vertex Pharma. (Nasdaq: VRTX)
Share price in US dollars

Looking beyond these, **Argenx (Nasdaq: ARGX)** is making substantial losses and is unlikely to move into profit before 2025. **Regenxbio (Nasdaq: RGNX)** is also set to be making losses through to at least 2025.

Investors could choose AstraZeneca as a core holding, possibly supplemented by Takeda and/or Bristol-Myers Squibb and then add Vertex, BioMarin and Horizon with Alnylam, Argenx and Regenxbio as riskier further additions.

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Time to ask for a pay rise

A higher salary is the best way to combat the cost of living crisis

Ruth Jackson-Kirby
Money columnist

As the cost of living bites, many of us are looking for ways to make cutbacks. But is that the most effective way to balance your household budget? "Forget buying Tesco value baked beans, putting on an extra jumper or demanding government handouts – the single best way to combat rises in the cost of living is to expand your income," says James Coney in The Sunday Times. "In short, go and get a pay rise."

Most people are far more inclined to curb their spending than try to increase their income, according to a recent survey by Ipsos Mori. When asked what they would do if price rises meant they could no longer afford their lifestyle 49% said they would cut back on heating and electricity and 37% were prepared to give up their holidays, yet only 5% would ask for a pay rise. But if you're willing to buck the trend, improve your chance of success by laying the ground carefully. Simply asking for more money is unlikely to be successful. Ask your manager for a meeting to discuss your salary and give them some notice. The element of surprise is not useful in these situations. Then get prepared.

Make your case for a raise

Start off by finding out what most people in your job are being paid. There are plenty of online salary checkers that tell you the average pay for your job title. Alongside this, be ready to show why you deserve more money. "Your fundamental objective is to prove you're an asset to the business, so structure your case around this idea," says Geoff Fawcett, director of recruitment firm Hays. Make a note of what you have achieved and how you have contributed to your team. Back up your argument with financial facts. How have you helped bring more money into the business, or made savings?

Don't be derailed by the offer of a one-off bonus rather than a pay rise. Employers may argue that current soaring inflation rates are temporary, so you only need a one-time bump in your income. But there are two problems with this. "Often bonuses are not pensionable (so your employer gets away without making an additional contribution to your retirement), but also [while] inflation may subside, the price rises that it created will persist. So, your pay will lag them forever," says Coney.

If you can't agree a pay rise, see if there are ways you can boost your income by reducing how much tax you pay. Does your company offer any salary sacrifice schemes you could utilise? This could be a season ticket loan, a company car or health insurance. Are you using the marriage allowance to reduce your household's income tax bill? And consider looking for a new job. With plenty of vacancies and a shortage of workers, it's a good time to look for a new role. Workers who moved jobs are getting a 15% pay rise on average, says recruitment firm Robert Walters.

Don't resign yourself to cutting back on spending

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Go small for better rates

High street banks are being criticised for failing to pass on rises in the base rate to their savings customers. The Bank of England base rate is now 1% but most high street instant access savings accounts are still paying a pitiful 0.1%. HSBC, NatWest, Lloyds and Santander are all paying 0.1% on their easy access accounts, while Barclays pays just 0.01% on its Everyday Saver.

"It is unethical the way that high street banks are allowed to treat their customers with such scornful disdain," says Anna Bowes in The Mail on Sunday. "Barclays stands out as particularly despicable for not passing on any savings this year." However, you don't have to put up with these woeful rates. Several challenger banks are offering far better returns. For example, Chase is paying 1.5% on its app-based Chase saver account.

When you are choosing where to put your savings you may want to check who is swiftly passing on rate rises – so you benefit if the Bank of England shifts rates again. Since the last rise "just eight small banks and building societies have put up savings rates," says Will Kirkman in The Sunday Telegraph. That included Al Rayan and Atom Bank which are both towards the top of the tables paying 1.31% and 1.25% respectively. For the best branch-based account look to Virgin Money. It is paying 1% on its instant-access savings accounts which can be opened and managed in branch.

Pocket money... annuity rates are ticking up

● Annuity rates are increasing at the "fastest pace in more than 30 years", says Jessica Beard in The Daily Telegraph. For over a decade annuities have been a tough sell, because low rates have meant people would have to hand over large amounts of their pension fund to secure a small, guaranteed income.

But now these policies have "staged a comeback, as payouts jump from all-time lows", due to increases in the Bank of England's base rate and the knock-on rise in government bond yields. A new annuity bought with a £100,000 lump sum "now pays out £13,000 more on average over the course of a retirement than one bought last year".

● "Savers could bag up to £2,000 cashback by moving their pension or Isa," says Imogen Tew in The Sunday Times. Interactive Investor is offering switching bonuses on both individual savings accounts (Isa) and self-invested personal pensions (Sipps).

If your Isa is worth £10,000 – and you aren't an existing Interactive Investor customer – you can get £100 cashback if you transfer to them before the end of June. Both new and existing customers can also get cashback if they move a Sipp to the platform. If your pension is worth £10,000 to £25,000 you would get £100, rising to £2,000 if your pot is worth over £2m.

However, you should check the fees are cheaper than what you currently pay, "as this will affect your investments more than some one-off cashback". And make sure you won't lose any valuable benefits if you transfer your pension.

● "The bank branch that doesn't look like a bank is upon us," says George Nixon in The Times. Banks are continuing to close traditional branches, but new types of branches are appearing across the country.

Barclays has opened 130 "pop-up banks" in venues such as cafes and village halls. Halifax is trying branches that resemble coffee shops, with "a sandwich board outside, offering £2.65 lattes and £2 espressos". And Santander is preparing more "work cafes" like the one it opened in Leeds in 2019. This is open later than many normal branches, and has meeting rooms, free Wi-Fi and coffee discounts for Santander customers.

No rush back to the office

There are good reasons for many businesses to embrace flexible working

David Prosser
Business columnist

Good employees will work at home without supervision

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Should small business owners continue to let staff work from home in the wake of the pandemic? Senior government figures, including the prime minister, appear to think it's a bad idea and are urging people to get back to the office. They've even backed away from previous promises to give employees a legal right to request flexible working. However, just because you're not going to have to offer employees this benefit doesn't mean you shouldn't do so.

For many small businesses, flexible working makes lots of sense. There are several good business arguments for a permanent shift to this model. Above all, there is a growing body of evidence that flexible working policies boost output. One landmark study of 16,000 workers conducted by Stanford University found productivity increases of up to 13% at businesses that embraced flexible working. Rather than slacking off, staff trusted to manage their own time without supervision tended to work harder, the research concluded.

What if you could make those productivity gains while also reducing cost? Well, research from Hitachi Capital published earlier this year found the average small business with less than 50 employees could save £4,000 a month by shifting to hybrid working practices. That figure comes from a mix of reduced rent, as small businesses shift to smaller premises, and lower utility bills.

Then there's the issue of recruitment and retention. In a tough jobs market, where skills shortages are causing major difficulties for many employers, small businesses need to offer attractive working environments to compete for the best people. And all the evidence suggests people are looking for more freedom about how and where they work. A BBC survey found 70% of employees who had shifted to home working during the pandemic did not want to go back to full-time office-based work.

Set out a clear policy

In practice, there is no one-size-fits-all answer to this issue. For some small businesses, home working simply won't be an option for many staff, given the nature of what they do. And remember, flexible working doesn't mean staff simply work from home all the time: you may want them in the office regularly – say one or two days a week.

> *"There is evidence that flexible working boosts output"*

Indeed, there are good reasons to encourage at least some office-based time. It supports collaboration and team-building. It gives younger employees an opportunity to learn from colleagues. And staff themselves may want the option of coming into an office.

The key is to explore the best possible solution for your business and its staff and then to set out a clear policy on working from home. This should include details of which roles in the business are eligible for home-working; how often you expect home workers to come into the office; and whether these will be permanent arrangements.

Don't overlook other issues. Even when staff are working at home, your business is still responsible for their health and safety: you should be carrying out risk assessments on home workers. Check your insurance: does your employers' liability cover extend to staff working at home and what is the position on equipment taken out of the office? You will also need to ensure staff have the hardware and software that they need to do their jobs effectively – and make sure these arrangements aren't introducing cyber-security weaknesses into your organisation.

Time to brace for rising rates

Many small business owners have never had to worry about rising interest rates, because the cost of borrowing has remained at historic lows since the financial crisis of 2008. But now we are entering a new era. The Bank of England expects interest rates to rise from 0.75% today to 3% by 2023 to combat inflation. That's still low by historical standards, but higher rates will affect small businesses in all sorts of ways.

Most obviously, if your business has debts such as credit-card borrowing or a business loan, and this isn't arranged at a fixed rate, its monthly repayments are now set to increase. It is therefore important to check what rates you're paying – and whether now is the time to switch to a more competitive deal.

Moreover, even if you don't have business debt, your suppliers may have borrowing of their own to worry about. They may seek to raise prices to cover their additional costs as interest charges mount. So now may be a good moment to discuss terms with key suppliers, including a switch to fixed-price contracts.

Equally, don't ignore the impact of higher interest rates on your customers – the whole aim of increasing borrowing costs is to choke off economic growth contributing to inflation, which could hit your sales.

Another hit could come from exports. Rising interest rates normally lead to a stronger pound, reducing the sterling value of any sales you make in other currencies. This could reduce your profitability.

Petty cash... picking the right name

● Giving your small business a funny or witty name could boost its sales by almost a third, a new study claims. Research conducted by insurance firm Simply Business found 28% of consumers would be more likely to shop at a small business that has a witty name, while 64% would be more likely to notice such a business. Simply Business has launched a competition to find the wittiest small business name in the UK, offering a prize of £2,500 to the winner. Early contenders include Rough Around The Hedges, a gardening business based in Surrey, and Pane In the Glass, a Norfolk-based glazier.

● Could your business benefit from some management training? The government's Help to Grow scheme is a 12-week course that is 90% subsidised, and offers management training and networking programmes tailored to the needs of small business leaders. The programme, designed to fit in around leaders' day jobs, offers access to business mentors and advice on planning for business growth.

● The finances of six in ten small businesses are so squeezed that they are borrowing money in order to pay for essential insurance, new research suggests. A survey from Premium Credit suggests 59% of small businesses are borrowing an average of £1,105 each to cover business insurance costs, including cover they may be legally obliged to have in place such as employers' liability insurance, public liability policies and vehicle insurance.

JD Sports will get back on track

This sportswear retailer was a profitable trade in 2019 and is worth watching again

Matthew Partridge
Shares editor

The current market turbulence has provided some opportunities to revisit some tips that have previously proved profitable for this column. One of these is JD Sports, which nearly doubled in value when I tipped it for much of 2019. Since then, the firm has experienced a roller-coaster ride. During the initial days of the pandemic it lost two-thirds of its value, but then quadrupled, leading to a five for one stock split last November. However, in the last six months it has slumped again, nearly halving in price, so it is now cheaper than when I recommended closing the position in November 2019.

There are some logical reasons why investors are wary of the company. Rising prices and potential supply-chain problems in China threaten margins, while many worry that consumers will choose to respond to rising energy and food costs by cutting back on discretionary spending on clothes. There is also the risk that people returning to the office will switch from casual "athleisure" to smarter clothes – bad news for a company that makes its money from selling tracksuits, shoes and sportswear. Finally, there has been tension between executive chairman Peter Cowgill and some shareholders over his pay.

Sportswear and fashion have begun to merge

©Alamy

JD's enduring appeal

However, these problems are much less serious than you might think. Even before the pandemic, the worlds of sportswear and fashion had begun to merge, with people willing to pay large sums of money for branded apparel, especially limited editions of shoes. JD Sports' close relationship with companies such as Nike and Adidas – with Nike considering it a strategic partner – puts it in a good position to offer access to these high-margin items, as well as providing a moat against potential competitors.

Most importantly, JD Sports has an impressive record of growth with sales increasing each year, even during the pandemic, with overall sales tripling between 2016 and 2021, all while maintaining a high double-digit return on capital expenditure. The company also has a clear plan for maintaining this growth, especially in the United States, helped by several acquisitions over the past few years, including The Finish Line in 2018, Shoe Palace in 2020 and DTLR last year. It is also trying to increase its sales in Europe.

The combination of high growth and a falling share price means that it now trades at the bargain price of only 10.3 times forecast earnings for 2023. Of course, just because a share offers great value, doesn't mean that it can't be caught up in the current market turbulence, at least in the short run. Given that it has fallen so fast in such a short space of time, and that it is still trading below both its 50-day and 200-day moving averages, I'd hold off until it rises a bit to 140p. Once that happens, I'd go long at £20 per 1p, with a stop loss of 95p. This would give you a total downside of £900.

Trading techniques... awards and titles

A large salary and soaring share options aren't the only rewards that business leaders can receive for doing their job well. Titles, awards and other honours also frequently come with financial success.

For example, in the 2021 New Years' Honour List around 10% of UK honours were given in recognition for services to business and the economy. Even in countries that don't have a formal awards system, many business publications and organisations hold annual awards ceremonies for those who they feel have done an outstanding job.

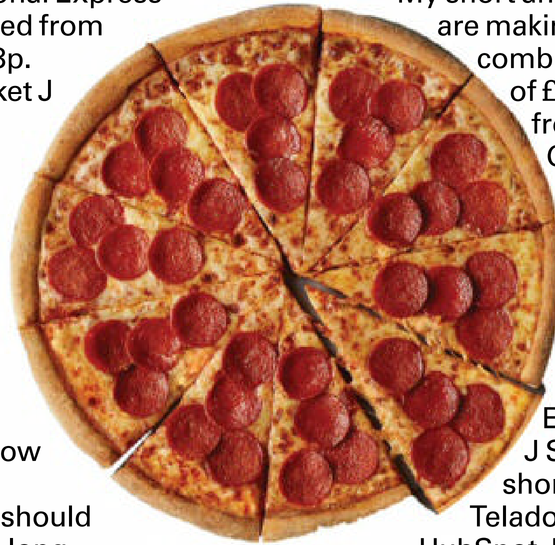
However, while the awards may leave the executives with a glow of satisfaction, some people argue that they are a signal to sell. Since titles and awards are usually given on the basis of past performance, rather than future potential, they may signal that a company's growth has peaked, in a similar way to the infamous "curse of the magazine cover" – the idea that by the time a business, trend or theme appears on the front of a mainstream magazine, the bull run is very likely to be nearing its end .

An even more cynical interpretation is that many awards end up distorting the behaviour of managers. For example, a manager might decide to pursue unprofitable acquisitions just to maintain or boost their public profile. Receiving an award might also discourage a manager from making financially profitable, but politically unpopular decisions, such as reducing the workforce to cut costs.

Studies seems to confirm that CEO awards and titles are indeed bad news. A 2016 study by Konrad Raff of the Norwegian School of Economics and Linus Siming of Bocconi University found that after the abolition of knighthoods and damehoods in New Zealand in 2000, both the share price and the profitability of firms run by former knights outperformed the wider market, but then underperformed when they were reinstated nine years later. Similarly, a 2009 study by Ulrike Malmendier of the Haas School of Business and Geoffrey Tate of the University of Maryland found that the US firms whose CEOs won a major award lagged the market by as much as 26% over the next three years.

How my tips have fared

As you might expect, the past fortnight hasn't been very good for my long tips. Construction firm Morgan Sindall fell from 2,155p to 1,972p, below the stop loss level of 2,100p, which means that the position was closed out at 2,100p. Airtel Africa dipped from 146p to 141p, while National Express also declined from 251p to 248p. Supermarket J Sainsbury went up from 237p to 245p, while both ASOS and Domino's Pizza Group remain below the level at which you should start going long. Counting Morgan Sindall, my long tips are making a profit of £2,365, down from £2,650.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However, the declining market that hit my long tips has been good news for my six short positions, which all moved in my favour. Cinema chain AMC fell from \$15.26 to \$11.71, remote medicine firm Teladoc Health declined from \$35.73 to \$32.16, marketing software firm HubSpot went down from \$380 to \$344, KE Holdings fell to \$12.15 and DWAC, the holding company for Donald Trump's social-media empire, fell from \$47.91 to \$45.75. Digital currency exchange Coinbase also fell from \$121 to \$61. Overall, my short positions are now making total net profits of £6,521, up from £5,312.

My short and long tips are making a combined profit of £8,886, up from £7,011. Going forward I now have nine open tips (long Airtel Africa, National Express and J Sainsbury, short AMC, Teladoc Health, HubSpot, KE Holdings, DWAC and Coinbase). I also have three pending tips (ASOS, Domino's Pizza Group and JD Sports). While I'm not going to suggest that you close any positions, I suggest that you should lock in some more profit by cutting the price at which you cover Teladoc Health to \$60 (from \$100), HubSpot to \$400 (from \$500), DWAC to \$50 (from \$55), AMC to \$20 and Coinbase to \$90 (from \$175).

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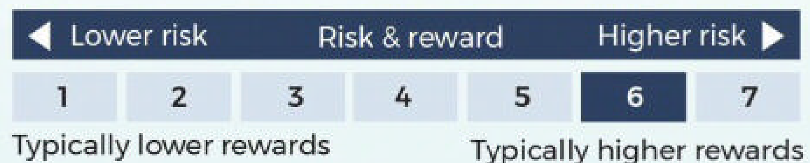

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Shelter from the storm with high-quality stocks

A professional investor tells us where he'd put his money. This week: Timothy Parton, JPMorgan American Investment Trust, picks four solid US firms

Last year ended on a high note for US stocks, which were in their third year of double-digit returns. Large caps were up over 20% and the S&P 500 was up over 100% over three years. However, 2022 has presented a more challenging environment. While pandemic-related risks have reduced, new headwinds such as inflation, rising interest rates and geopolitical tensions are affecting investors' sentiment.

US equity markets have responded by rotating favour between value and growth. Except for the first quarter of 2021, when value outperformed, growth was the clear winner. Yet today, value stocks are once again outperforming as investors try to shield themselves from rising inflation and geopolitical instability. We expect markets to continue this relay, passing the baton between value and growth.

Looking ahead, we believe investors should look beyond immediate headwinds and consider the long term. It is therefore now more important than ever to focus on high-quality businesses with durable competitive advantages, which will provide stability should economic fundamentals deteriorate, or uncertainties escalate further. Our trust provides this balance through a diverse selection of high-quality value and growth names, which we believe will perform well over the long term.

"Focus on high-quality businesses with durable competitive advantages"

Finding value in banking and timber

On the value side of our portfolio, we remain overweight in financials. **Bank of America (NYSE: BAC)** is an example of a bank that has benefited from a favourable macroeconomic environment and has continued to report strong results in spite of headwinds. We remain confident in the ability of management to grow margins through efficiency improvements, and the diversity of its business mix is another reason we like this company.

Similarly, **Weyerhaeuser (NYSE: WY)**, one of the largest timber real estate investment trusts (Reit), has been the biggest beneficiary of the increase in global demand for timber. It is one of the largest private owners of timberlands in North America, with about 11 million acres, and managing an additional 14 million acres under long-term licences in Canada. The company manages these timberlands on a sustainable basis in compliance with internationally recognised forestry standards.

Innovation in agriculture and health

Through our growth portfolio, we are optimistic about progressive industry leaders that are investing in cutting-edge technology and artificial intelligence (AI). One such example is **Deere (NYSE: DE)**, a global leader in the production and distribution of agricultural equipment, including tractors. The company is developing innovative technology, including the use of machine learning and AI, to increase productivity significantly. This development has strengthened Deere's competitive leadership and should help to strengthen its long-term pricing power and profitability.

In healthcare, **Intuitive Surgical (Nasdaq: ISRG)** is the dominant market leader in robotic surgery, currently maintaining 79% of the global market. Through its flagship Da Vinci robot, Intuitive provides surgeons with 3D, high-definition views of the operating field and use of machine-manipulated instruments for smooth precision. These minimally invasive procedures benefit patients by ultimately reducing recovery times.

If only you'd invested in...

Pharmaceutical giant **AstraZeneca (LSE: AZN)** has made a strong start to the year, with first-quarter results beating expectations, says IG. The firm reported a 60% rise in sales to $11.4bn, helped by strong growth in its rare-disease subsidiary Alexion, which it purchased for $39bn in 2020 to diversify its product range away from oncology (cancer treatments). Total sales from oncology products also rose 25% in the quarter. Sales of its Vaxzevria Covid-19 vaccine generated $1.1bn, although most of these doses were sold on a non-profit basis. The share price is up by 38% in the past 12 months.

Be glad you didn't buy...

Shares in **Shopify (NYSE: SHOP)**, a Canadian software company that helps merchants to create an online storefront, have slumped after first-quarter sales failed to meet expectations, says the Financial Times. Sales to March grew by 22% year on year to $1.2bn, the firm's slowest-ever growth rate, while a $1.4bn net loss was the second consecutive quarter in the red. The firm was a big winner in the pandemic, as small retailers rushed to open online stores, but growth has slowed as people return to buying more in physical stores. The shares have fallen by 70% in the last 12 months.

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The King of Crypto Lunatics

Cryptocurrency entrepreneur Do Kwon liked to ruffle feathers and stir things up in his industry. But the collapse of his empire has left investors desperate and angry. Jane Lewis reports

"Right now, my role in the crypto industry is a little polarising," observed Korean entrepreneur Do Kwon in April. "Because, you know, we've been making a lot of big moves. And that ruffles some feathers." Back then the so-called "King of Lunatics" was riding high, thanks to the soaring value of two cryptocurrencies: Luna and its sister "stablecoin", TerraUSD. Kwon's vision was to create a stable digital "ecosystem" free from "the tentacles of Wall Street and government regulators", says Bloomberg. Boosted by the endorsement of crypto heavy-hitters such as Mike Novogratz of Galaxy Digital, he appeared to be succeeding. An influx of retail investors helped push Luna's price to an all-time high of $116; the overall Terra universe evolved into one of the biggest blockchain projects to date, with billions of dollars tied up in it.

©Getty Images

"This was the largest destruction of wealth in a single project in crypto's history"

The death spiral begins

Some critics likened it to "a ginormous Ponzi scheme". The jury's still out on that. But the devastating effect when both Luna and TerraUSD plunged into a market "death spiral" last week was arguably the same. "As the collapse of the Terra ecosystem" entered "its final, definitive stages", signs of the real-world wreckage were impossible to miss, says CoinDesk. Luna backers globally reported "huge losses, despair and hopelessness". In Kwon's home city of Seoul, there were fears of a rash of suicides prompting local police to strengthen patrols around key bridges as a preventative measure, reported The Korea Economic Daily. The fear extended to Kwon's own household. His wife reportedly sought police protection after an unidentified man broke into their apartment building.

As Kwon, 31, surveys the wreckage of his nascent empire, he might reflect that "there have been few falls as sudden and humbling in business history", says CoinDesk. It was certainly "the largest destruction of wealth… in a single project in crypto's history", says Charles Hayter of analytics firm CryptoCompare. At the start of last week, the project's market capitalisation was $41bn. By Monday of this week, Luna's value was zero; Terra was trading at $0.11.

Kwon's ascent was as rapid as his decline. After attending Daewon Foreign Language High School in Seoul, he won a place at Stanford University to major in computer engineering, says The Korea Economic Daily. Jobs at Microsoft and Apple followed, but Kwon was increasingly hooked by the crypto craze and, in 2018, he returned to South Korea to found Terraform Labs with a fellow entrepreneur, Ticket Monster founder Shin Hyun-sung. The pair quickly won backing for their idea of launching an "algorithmic" stablecoin – pegged to the US dollar but, unlike traditional stablecoins, not backed by dollar assets. The plan instead was to create a sister currency, Luna, whose fluctuations would help maintain the peg. An early investor was Dunamu, which operates South Korea's largest crypto exchange.

Puerility is a red flag

Online, Kwon seemed "to relish stirring up trouble" with a persona built on "combative and at times puerile tweets", says Bloomberg. He raised a "figurative middle finger" at SEC regulators and often dismissed critics as "cockroaches". With hindsight, Kwon's "vitriol" was "a huge red flag", says CoinDesk. So too, perhaps, was his hidden history – it emerges that he was "one of the pseudonymous co-founders of the failed algorithmic stablecoin Basic Cash, which crashed in 2021. "Now history seems to be repeating." At the end of last week, Kwon broke his silence and apologised to Luna and Terra investors. "I am heartbroken about the pain my invention has brought on all of you." That may not be enough to stop a deluge of likely lawsuits and possibly criminal investigations. Did Kwon really believe in his project, or was this "a lengthy and complex deception"? There's still a good deal of unravelling to be done.

The best trades in history… buying in a panic

Howard Marks was born in New York City in 1946 and went on to study finance and Japanese studies at the Wharton School of the University of Pennsylvania, then for an MBA at the University of Chicago Booth School of Business. Between 1969 and 1985 he worked for Citigroup, rising to vice-president. He then joined TCW Partners and ran a fund focusing on distressed debt, ie, bonds in firms that were either bankrupt or close to it. In 1995 he left TCW with several of his colleagues and founded Oaktree Capital Management, which specialises in bonds and private equity.

What was the investment?

Marks persuaded his partners to get Oaktree to raise an additional $10.9bn in capital in early 2008, believing that the global financial crisis was making distressed debt very cheap, and began making large investments of around $500m to $600m a week following the failure of Lehman Brothers. One of his investments was in nearly all the debt and loans of Pierre Foods, which specialised in pre-cooked food, which was growing strongly but facing bankruptcy due to a spike in the price of raw materials and from taking on too much debt.

What happened?

Oaktree ended up owning around 80% of the company after the restructuring that took place in 2008. Over the next few years the company continued growing, merging with Advance Company and Advance Brands to enable it to reinforce its dominance in the distribution of convenience-food products. The new company, renamed AdvancePierre, would in turn buy other food manufacturing companies. In 2016 the company floated and Oaktree reduced its stake to 42% before the entire company was bought by Tyson Foods a year later for $4.2bn.

Lessons for investors

Buying a company's debt with a view to taking it over is an unusual strategy – most distressed-debt holders aim simply to profit from a rise in the value of the bonds – and could have backfired had the restructuring process been more complicated than envisaged. In the event, however, Oaktree made a profit of $2.2bn, a 23-fold return on the capital that it invested. Oaktree's other investments during the financial crisis were also highly profitable, making $9bn. It can pay to buy when everyone else is panicking.

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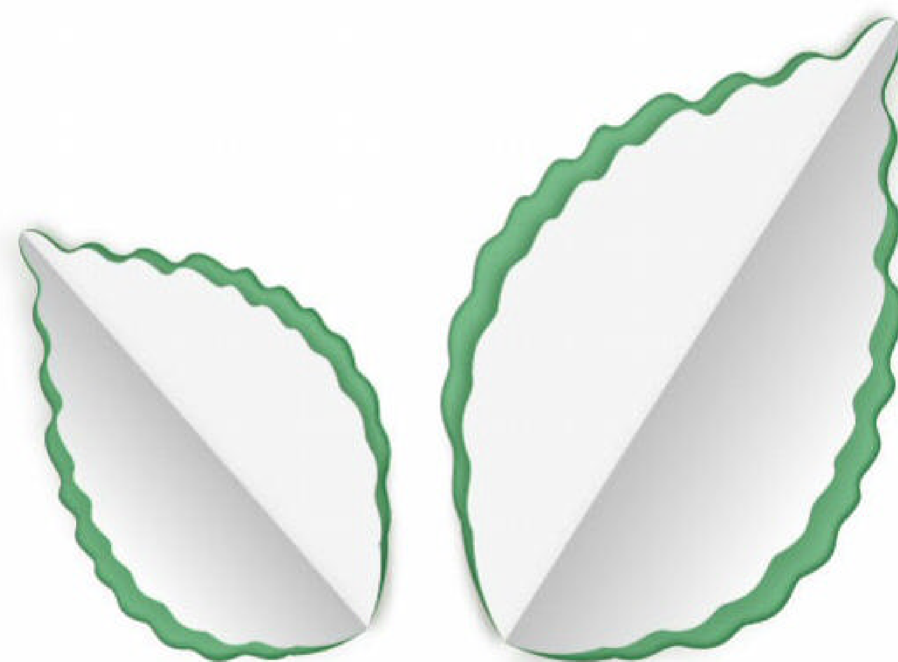

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Explore the great outdoors

Visit a mountaintop monastery in China and go kayaking in Quebec. Jasper Spires reports

The Hobbiton of the Greek islands

"Paxos is the Hobbiton of the Greek islands: green and very charming," says Dana Facaros in The Times. The Ionian island is lined with dramatic cliffs and grottos that you can swim to or visit by boat, and small lanes twist through olive groves, linking Gaios, the main town, with two other tiny ports, Longos and Lakka, which have pebble beaches. It's also well worth spending
a day on the neighbouring island of Antipaxos, which has two white-sand beaches and "Caribbean-like turquoise waters". Gaios is a charming and bustling small town with good local food and a port "sheltered by a pair of emerald inlets". A good base is Amalia Cottage, set in a charming nook that overlooks the port, just minutes from the sea. *Self-catering accommodation for two people for seven nights costs £1,135, including flights, transfers and car hire. See planos.co.uk/property/amalia-cottage.*

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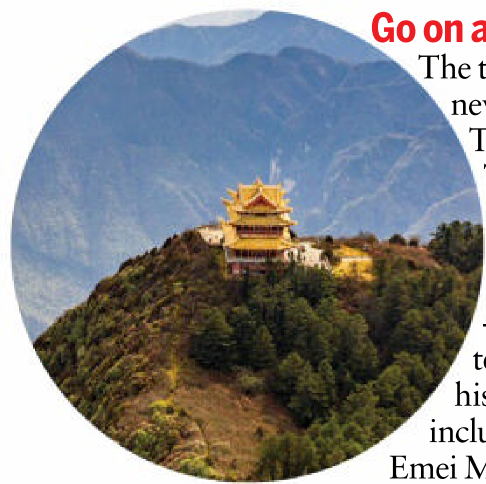
Go on a spiritual journey in China

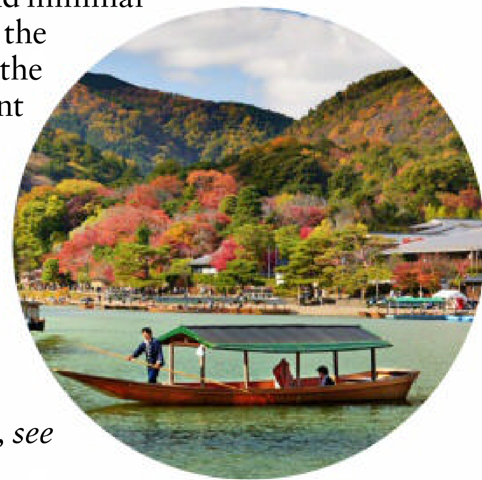


The tenth Lux hotel is one of the most exciting new hotel openings this year, says Vogue Travel. It is situated on the 1,400-mile Tea Horse Road, a seventh-century trade route, in Peach Valley in Ermei, China. Guests do not book mere stays, but "journeys" – culinary, cultural or spiritual – on which knowledgeable local guides teach you all you need to know about the history and traditions of the area. Attractions include the Golden temple on Wanfo Peak on Emei Mountain (pictured).

"One day could include a trip to a snow mountain, the next, tea with monks at a monastery." The hotel is situated close to two lakes, Lashi Lake and Nine-Tripod Dragon Pond, which lend a meditative quality to the location and make for ideal resting spots after your hikes up the mountains. *Rooms cost from £191 a night. See luxresorts.com*

Slow down and enjoy the beauty of a bamboo forest

"Modern, minimalist, and beautifully crafted, Mama Arashiyama is a new ten-room hotel and restaurant wrapped in gardens, just a short walk from the famed bamboo forests of Arashiyama," says Danielle Demetriou in Condé Nast Traveller. Situated in Kyoto in Japan, it is "simple and minimal with a natural edge", a "world away from the luxury sheen of five-star hotels" but "still the kind of place that makes you instantly want to redesign your own home". Arashiyama has a slow-paced, rural atmosphere that "feels like a breath of fresh air after visiting the tourist trails of central Kyoto" and the hotel is just off the main tourist routes, within walking distance of the bamboo forest. Nearby lanes are packed with "old-school tea rooms, sweet shops and restaurants". *Rooms cost $66 a night, see mama-arashiyama.jp.*



An outdoor lover's paradise in California

"There's plenty to see and do off California's Pacific Coast Highway – from the sea-lion rookery north of San Simeon to the vineyards of Edna Valley. But the coastal community of Avila Beach is often – mistakenly – overlooked," says Evie Carrick for Travel and Leisure. The stretches of white sand, the pier and oceanfront restaurants, and the shops are an obvious draw, but "look a little closer and you'll find an outdoor-lover's paradise". It's a perfect spot for experiencing the majesty of great sea life.
"The coastal waters off Avila Beach are home to sea otters and sea lions, and perhaps most notably, pods of grey whales… The great mammals can often be viewed right from Avila Beach Pier, but for an up-close look, you might want to book a tour with Avila Beach Whale Watching or rent a kayak and paddle into the bay." Rooms at the San Luis Bay Inn cost from $119 a night. See sanluisbayinn.com.

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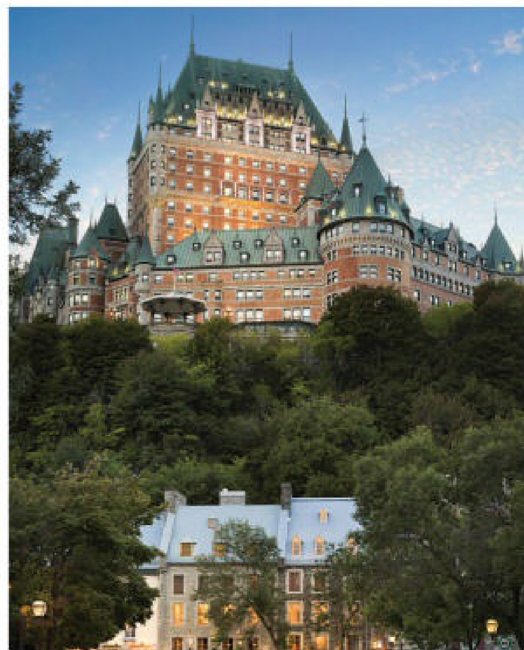
A stay in a fairy-tale castle in Quebec

"There is a certain wizardry to Quebec City, a place that is equal parts Edinburgh, Avignon and Carcassonne, and is frequently voted among the most beautiful cities in the world," says Jonathan Thompson in The Sunday Times. With its "noble ramparts, cobblestone lanes and handsome houses", and the breathtaking Montgomery Falls,
which has a torrent taller than Niagara Falls, this Canadian city is about to welcome its first direct flights from London. You can enjoy everything here, from strolling through the grand market squares and winding historic streets to adventure sports, including white-water kayaking, hiking and mountain biking. The Fairmont Le Château Frontenac, "which looms over proceedings like a Beauty and the Beast backdrop", is a wonderful base from which to explore – a funicular shuttles you from the hotel to the streets in under two minutes for less than £3. Rooms cost from CA$632 (£394), see fairmont.com.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This week: properties with impressive gardens – from a 13th-century castle with 70 acres in Angus, Sc

▲ **Brechin Castle, Brechin, Angus, Scotland.** A castle that incorporates parts of the original 13th-century building. It overlooks 40 acres of landscaped grounds that include a 13-acre walled garden. 16 beds, 10 baths, 8 receps, outbuildings, fishing on the River South Esk, 70 acres in total. £3m+ Savills 01356-628628.

▶ **Little Fishery, Maidenhead, Berkshire.** An Edwardian property on the River Thames with grand fireplaces, galleried landings, and a large breakfast kitchen leading onto award-winning gardens. 8 beds, 5 baths, 4 receps, 2 bed-annexe, garage, parking, landscaped gardens. £5.25m Hamptons 01628-436094.

▶ **The Watermill, Hythe, Kent.** A Grade II-listed, restored former watermill and mill house, built in 1773 on the site of an earlier mill. It is set in waterside gardens with stone bridges crossing the stream and a cascading waterfall at the northern end of the garden. The granary stores are now a 2-bedroom, self-contained holiday let and the original mill is used as a workshop. 5 beds, 2 baths, 3 receps, 1.55 acres. £1.8m Savills 01580-720161.

cotland, to a Grade II-listed former watermill in Kent with a self-contained flat used as a holiday let

The Quax, Ealing, London W5. A modern house in an elevated position at the end of a private driveway, set in enclosed grounds with an electric gate and multi-level landscaped gardens. The modern interiors have floor-to-ceiling windows and bi-fold doors leading onto the gardens, air-source heat pumps, solar panels and thermal insulation. 3 beds, 3 baths, home cinema, pool, gym, sauna, garage with electric charging point, roof terrace. £6m Hamptons 020-8840 4545.

Blacket Place, Newington, Edinburgh, Scotland. A large house set over three floors with a garden featuring stone walkways and a dining terrace. It has period fireplaces, the original tiles in the entrance hall and a contemporary kitchen with an Aga. 5 beds, 3 baths, recep. £1.6m+ Knight Frank 0131-222 9600.

The Old Vicarage, Woodhouse Eaves, Leicestershire. A Grade II-listed former vicarage built in 1840 by William Railton, the architect who designed Nelson's Column. It has large gardens and grounds with views of the Soar Valley. The interiors feature oak floors, sash windows with shutters, stone fireplaces, and a dining kitchen leading onto the garden. 4 beds, 4 baths, 2 receps, 1.48 acres. £2.4m Andrew Granger & Co 01509-235534.

Tower House, Rye, East Sussex. A Grade II-listed Georgian house within the conservation area of Rye. It has oak floors, sash windows with shutters, period fireplaces, an en-suite attic bedroom with vaulted beamed ceilings, and an enclosed landscaped garden with a circular lawn, ornate box hedging and topiary. 4 beds, 3 baths, 2 receps, cinema room, cellar. £1.4m. Philips & Stubbs 01797-227338.

South House, Oxted, Surrey. A country house set in substantial gardens and grounds that include formal landscaped gardens, a large pond, a substantial orangery, productive kitchen gardens and a walled rose garden with a dovecote. There is a heated pool next to the small oast house. 7 beds, 4 baths, 3 receps, 2 studies, breakfast kitchen, detached 2-bed cottage, double garage with games room above, tennis court, paddocks, 14.29 acres. £4.5m Jackson-Stops 01883-712375.

Making the great spectacular

Gunther Werks has turned the Porsche 993 into a masterpiece. Jasper Spires reports

"The Gunther Werks Speedster is a gorgeous and refined hot rod, the highlight of any automotive gathering," says Jonny Lieberman in MotorTrend. "Sure, it's a plaything… but there's nothing wrong with a bit of juvenile whimsy, a touch of high-concept frivolity." Gunther Werks takes classic Porsche 993s and upgrades them with the philosophy that "money is no object". "This machine is for serious car collectors."

A masterpiece of engineering

The result is an engineering masterpiece, roaring from 0-62mph in 3.5 seconds with a top-speed of 180mph. It weighs just 1,256kg, despite packing in enough circuitry and technological wizardry to boost the old 993 to new heights. Everything has been done to squeeze the best out of an already spectacular drive. The way it translates input into response is "utterly faithful", says Kyle Fortune for WhichCar. Thanks to a soundtrack that's pure racer as you reach the 7,800rpm redline, you will find yourself wringing the Gunther Works Speedster out to its maximum at every opportunity. The Speedster looks fantastic too.

An electrifying ride

The steering is another highlight, says Fortune on PistonHeads. "Your connection to the car and to the road is second to none, and there isn't a moment where the Speedster doesn't place its driver at the centre of the action." The absence of a roof plays into the drama, and aside from the possibility of rain, "it demands very few compromises in return for maximum reward".

Even when you aren't pushing for top speed, it is a great machine to spend time in, owing to its sophisticated interior furnishings. The steering wheel is small carbon-fibre and Alcantara-trimmed, the pedals' weights are "hefty" and "perfectly matched", while the gearshift is long and smooth, but precise, says Matt Prior in Autocar. On a good road, the Speedster is "electrifying". And there's a retro stereo system with Apple CarPlay to provide the perfect score, while the power steering and anti-lock brakes add to "an agreeable level of tech". At £650,000, plus donor car, it's not cheap. "But it's the best high-end driving has to offer." *See guntherwerks.com*

"It squeezes the best out of an already spectacular drive"

Wine of the week: a work of art from Provence

2021 Château La Mascaronne, Rosé, Côtes de Provence, France

(£81.00, per six bottles in bond, laywheeler.com)

Matthew Jukes
Wine columnist

There are few properties in the south of France as breathtakingly beautiful as La Mascaronne. There are 60 hectares of organically farmed vines here, and they form one contiguous plot surrounded by oak and olive trees on all sides. Michel Reybier, owner of Château Cos d'Estournel, a 2ème Cru in Saint-Estèphe, and the elite La Réserve hotels in London, Paris, Geneva, Zurich and Ramatuelle, bought this exquisite estate in 2020, and I raved about his inaugural vintage last year. On the whole, 2021 is not as lush a vintage as 2020, and lesser wines feel a little skinny and undernourished.

However, the top estates have brought a singular definition and elegance to their creations, and La Mascaronne is nothing short of a work of art in 2021. I tasted this beauty back in March, and it has been a rare form of torture waiting for stock to make it to the UK. In the intervening months, I have tasted hosts of 2021s, and this wine soars above all others with its grace, refinement and impressively long finish. This wine's endearing hallmark flavours are English rhubarb, pomegranate arils and delicate pink melon tones balanced by crystalline acidity. While I tend to single out grenache-dominant wines in my scribblings, La Mascaronne is made from 40% grenache, 25% cinsault, 20% syrah and 15% vermentino. This layering of ingredients brings the kaleidoscopic flavours found in this divine creation.

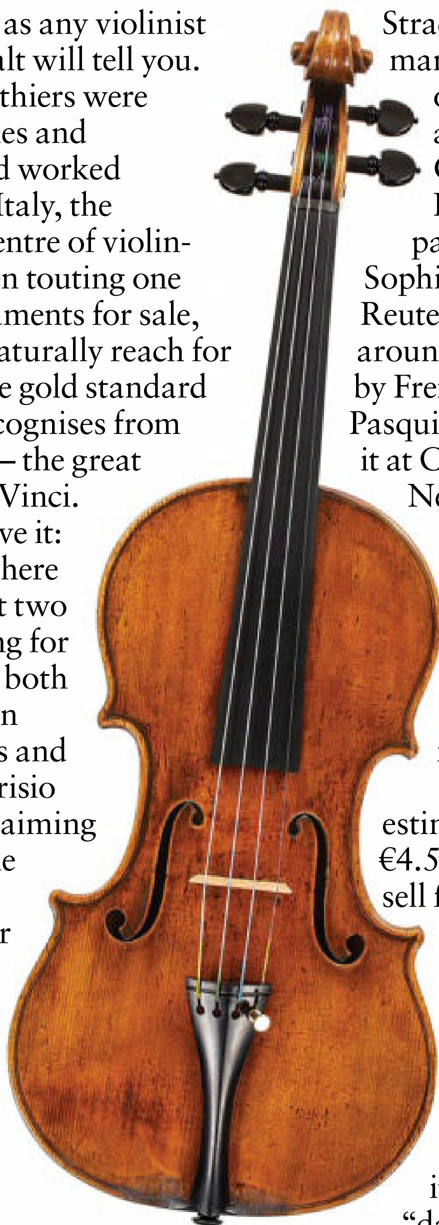
Matthew Jukes is a winner of the International Wine & Spirit Competition's Communicator of the Year (MatthewJukes.com).

The $15.9m fiddle

The da Vincis of violins are fetching stellar prices. Chris Carter reports

The finest violins in the world were made by Antonio Stradivari and Giuseppe Guarneri in the 18th century, as any violinist worth their salt will tell you. The Italian luthiers were contemporaries and both lived and worked in Cremona, Italy, the preeminent centre of violin-making. When touting one of their instruments for sale, auctioneers naturally reach for the superlative gold standard everybody recognises from the art world – the great Leonardo da Vinci. And so we have it: next month, there is not one, but two violins heading for auction, with both French auction house Aguttes and specialists Tarisio proudly proclaiming theirs to be the "da Vinci" of violins in their respective June sales.

First up, on 3 June at Aguttes, just outside Paris, is a "Del Gesu" violin, made by Guarneri in 1736, at the peak of his career. The maple-backed instrument is one of only around 150 that Guarneri made during his lifetime – he was much less prolific than his rival, Stradivari, even if the quality and longevity of those violins are a match for Stradivari's. "There are many violins, but this one is like selling a Rembrandt, a Goya, or even a Leonardo da Vinci painting," Aguttes' Sophie Perrine tells Reuters. It was bought around two decades ago by French virtuoso Regis Pasquier, who has played it at Carnegie Hall in New York and the Opéra Garnier in Paris. "For him, this instrument was perfect," says Perrine. Aguttes has given its "da Vinci" a conservative estimate of €4m to €4.5m, but says it could sell for up to €10m.



No woodworm

On 9 June, musical instruments-specialist auction house Tarisio is selling its Stradivari "da Vinci". It was crafted in 1714, when Stradivari was also at the peak of his career during what is considered his decade-long "Golden Period". Within this, the years 1713-1716 "are the epicentre", says Tarisio's Jason Price. Stradivari was at the "pinnacle of his powers", with the best woods and varnishes within his reach. Nearing 70 years of age, Stradivari drew on a lifetime of experimentation to create "the perfect model, both flat and broad, with an arching that had been refined to perfection". The edges of the one-piece maple back are "less wide, the purfling [decorative edging] is narrower and more compact and the corners are less blunted than other violins from the mid-teens". Analysis has confirmed it is a "healthy instrument, free of woodworm and unencumbered by serious restorations".

Tarisio is putting the Stradivari "da Vinci" up for auction with the added qualifier that it is also "ex-Seidel". This refers to its previous owner, Russian-American Toscha Seidel, one of the greatest virtuosi of the 20th century. Seidel declared to The New York Times in 1924, shortly after acquiring it, that "we precisely suit each other, and I am convinced it is one of the finest examples of the famous violin maker". He recorded several early Hollywood film scores with it, including Somewhere Over the Rainbow from The Wizard of Oz (1939). It is expected to sell for $15m to $20m, according to The New York Times, potentially breaking the previous auction record of $15.9m set by the "Lady Blunt" violin in 2011.

The "da Vinci, ex-Seidel": yours for $15m to $20m

Auctions

Going… The "infamous invisible" grey football shirt worn by Manchester United "legend" Eric Cantona during the 1995-1996 Premier League season is heading for sale with Graham Budd Auctions on 24 May, says the Mail Online. The side ditched the away shirts after losing four out of five games while wearing it, with the players complaining they couldn't pick each other out on the pitch as the grey shirts blended in with the crowds. While losing to Southampton, manager Alex Ferguson ordered his side to change into their third-choice blue and white strip, incurring a fine and losing the match anyway. But it paid off in the end – United went on to win the league title. The long-sleeved XXL-sized Umbro shirt bears the name of the French footballer and the number seven on the back. It is valued at £12,000.

Gone… The football shirt Diego Maradona wore when he scored the "Hand of God" goal against England in the 1986 World Cup fetched £7.1m with Sotheby's, setting an auction record for sports memorabilia, says BBC Sport. The previous record belonged to a jersey worn by New York Yankees star Babe Ruth, which sold for $5.6m in 2019. Maradona, who died in 2020, had swapped the shirt with midfielder Steve Hodge after his side beat England 2-1 at the Azteca Stadium in Mexico City. In the run-up to the sale, Maradona's family claimed it was not the shirt in question, but Sotheby's insisted it matched footage from the quarter-final game.

©Christie's 2022; Getty Images; Tarisio

A Warholian result at auction

Shot Sage Blue Marilyn (1964), a "lurid" print portrait of Marilyn Monroe by Andy Warhol, sold for $195m after fees last week at Christie's in New York, making it the most expensive contemporary artwork sold at auction, says Will Pavia in The Times. It is the second-most expensive artwork anywhere, after Salvator Mundi (c.1500), a painting attributed to Leonardo da Vinci, which sold for $450m in 2017, and it also set an auction record for a US artist. Christie's had billed the Marilyn as a masterpiece and rumours swirled that it might go for as much as $400m.

"This is the sort of silly money that an (in principle) infinitely reproducible print can attract," says Rachel Campbell-Johnston in the same paper. It's all about trophy status. "Warhol's pictures, so empty of content, so content with their emptiness, have paradoxically become among the most recognisable in the world." Part of the allure comes from the story about Dorothy Podber, a performance artist Warhol met at a party. "Can I shoot you [with my camera]?", Warhol supposedly asked her. She replied: "Sure, if I can shoot you." The next day, she turned up at Warhol's studio with a great dane named Carmen Miranda and a gun. She shot at a stack of Marilyns (which today are known as the "shot Marilyns"), but Shot Sage Blue Marilyn, despite the name, was apparently unscathed. Warhol barred her from his studio for life. Hedge-fund manager Ken Griffin reportedly bought Orange Marilyn for $200m in a private sale in 2017. Is Shot Sage Blue Marilyn worth its similar price tag? Either way, "for an artist who famously declared that 'making money is art… and good business is the best art', this auction price is a quintessentially Warholian result".

A festival of tone-deaf excess

The Met Gala has not changed – neither has the nature of celebrity

Kim Kardashian in her "sartorial tribute" to Marilyn Monroe

©Getty Images

The Met Gala, the "Oscars of fashion", is known for its "tone-deaf" celebration of excess, says Catherine Bennett in The Guardian. This year's event continued the tradition by celebrating the "gilded age", the period in 19th-century American history when wealth was concentrated in the hands of a few families. Plus ça change. Reality TV star and entrepreneur Kim Kardashian made waves at this year's event by squeezing into the dress Marilyn Monroe first wore when she sang Happy Birthday, Mr President to John F. Kennedy in 1962.

That Kardashian should presume to put herself on the same level as that cultural icon enraged some. Museum curators and fashion historians were left similarly aghast by the "idiocy" of the decision to put "celebrity before preserving cultural heritage – the ostensible point of the event". Monroe's "fragile, beaded dress" is now six decades old. It needs to be protected from perspiration, sunlight, temperature changes and humidity to preserve it. As it was, it was as if the V&A had invited the entire panel of Britain's Got Talent to a night in the Great Bed of Ware for a publicity stunt. And if Kardashian can causally slip on Monroe's dress for a celebrity bash, what's to stop others raiding historic costume collections and doing the same?

Kim is the new Marilyn

The reality is not quite so outrageous, however, says Racquel Gates on CNN. Kardashian only wore the actual dress for a few minutes on the carpet before changing into a replica. And it's not as if there were no precedent for such a display – museums and private collectors have exhibited vintage or archival pieces on celebrities and models before "in creative but potentially risky ways".

If Kardashian had taken the dress from an actual museum then maybe her critics would have a point, says Heather Schwedel on Slate. The dress was, however, on loan from the Ripley's Believe It or Not theme park in Orlando, Florida. You could argue that letting Kardashian wear the dress was "a sound business decision" by the park – it "may even be more valuable now", thanks to all the publicity. Ripley's is already proudly boasting that Kardashian has "added to the pop-culture significance of Monroe's iconic dress" and has promised to move it to the park's other location in Hollywood.

> *"The price of the dress has rocketed from the $1,440 that Monroe paid for it in 1962 to $4.8m"*

It is plausible that this should boost its value. The dress's association with celebrity had, after all, already caused its price to rocket from the $1,440 that Monroe originally paid for it in 1962 to the $1.26m that it raised at auction in 1999, which in turn rose to $4.8m in 2016, says Laura Craik in The Daily Telegraph. Besides, what could be more appropriate than that Monroe's dress should now adorn her modern equivalent? Far from being outraged, she would have appreciated that the dress should now adorn someone with, like her, "an innate talent for going viral", "an incorrigible meme queen" who "has been both fame's benefactor and its victim". Kardashian's wearing of that dress is a "sartorial tribute… from a fan who understands more about fame than most".

Quintus Slide

Tabloid money... a farcical battle between two pampered, preening glamazonians

● The party's over, says Clemmie Moodie in The Sun. In June 2006, "a gaggle of slightly orange, stiletto-heeled young women are dancing on tables, arms flailing, and nailing shots of Sambuca in Baden-Baden's Garibaldi's bar" – the term "wag" (footballers' wives and girlfriends) was then born. "I spent night after exhausting night trailing in the wake of these pampered, preening glamazonians" – among whom was a young Coleen Rooney (pictured). These women, with their "grotesque spending habits and love of Veuve Clicquot, became an unlikely cultural phenomenon". But today, as Rooney and fellow wag Rebekah Vardy go at it "hammer and tongs" in the High Court, racking up millions in legal fees over who did or didn't plant stories in The Sun, it's time to say enough. Mrs Justice Steyn, put us out of our misery and end this farce!

● The chasm between home-owners, watching valuations soar, and those excluded, is hurting society, says Leo McKinstry in the Daily Express. The average house now costs £286,000, almost ten times median earnings, while ownership has fallen "dramatically". Simply put, Britain is not building enough new homes. Just 1.3 million were built in the last decade compared with 3.1 million in the 1960s, and the government says it won't come close to meeting its promised 300,000 target of new properties for this year. Help to Buy was "disastrous"; developers sit on plots to push up prices. "A never-ending boom might be good for some households, but it is bad for the health of our nation."

● Spain is planning to offer three days of menstrual leave every month for female workers, says Jan Moir in the Daily Mail. "Truly, I can't think of anything more damaging to the long-term prospects of working women." Employers would be tempted to head off potential problems, such as resentful staff, simply by hiring a bloke instead. After centuries of demanding to be treated as equals, we now decide "oh, hang on, we're not equal after all". This is monstrously unfair, of course. Periods, pregnancy, menopause – pain and discomfort is a factor, to a greater or lesser degree, in all female lives. We all know men could never cope! "But menstrual leave is not a victory for feminism, but a step back into the dark ages of secondary citizenship."

©Getty Images

Bridge by Andrew Robson

No defence

Plan the play in Six Diamonds on a Diamond lead (West wisely unwilling to break open any other suit).

Dealer South — Neither side vulnerable

North
♠ A872
♥ A102
♦ K976
♣ K6

West
♠ KJ1054
♥ KJ87
♦ 4
♣ AJ3

East
♠ 96
♥ 96543
♦ 3
♣ 109752

South
♠ Q3
♥ Q
♦ AQJ10852
♣ Q84

The bidding

South	West	North	East
1♦	1♠*	2♠**	Pass
4♦***	Pass	6♦§	Pass
Pass	Pass		

* Close between double and One Spade. I like One Spade, hoping to make a take-out double (of Diamonds) next time.
** Good Diamond raise.
*** A stretch with a Queen-heavy hand.
§ Can hardly do less with such fine controls.

You win the Diamond and lead a Club to the King and a Club back. West wins the Knave and, after some reflection, continues with the Ace. You ruff and rumble your Diamonds.

On the penultimate Diamond, West must discard down to King-Knave of Spades and King-Knave of Hearts. Dummy comes down to the bare Ace of Spades and Ace-ten-two of Hearts. You lead the Queen of Hearts to the King and Ace, ruff a Heart (bringing down the Knave) and cross to the Ace of Spades to cash the promoted ten of Hearts. Slam made.

"I would have defeated the slam if I'd found the King of Hearts switch (when in with the Knave of Clubs)," said West ruefully.

Not so. You win dummy's Ace and run all the Diamonds. On the last Diamond, West must either bare his King of Spades or let go the Knave of Hearts. Dummy, discarding after West, will discard appropriately from Ace-eight of Spades and the ten of Hearts. There is no defence.

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

Tim Moorey's Quick Crossword No.1104

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 30 May 2022. By post: send to MoneyWeek's Quick Crossword No.1104, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: crossword@moneyweek.com with MoneyWeek Crossword No.1104 in the subject field.

Across clues are mildly cryptic while down clues are straight

ACROSS
1 Some loathsome four-letter word! (4)
3 Singular transport for Oxford student? (8)
9 Way up in the Alps? (3, 4)
10 Do very well with a spreadsheet? (5)
11 Letitia and Lorna could represent this (12)
13 Refuse bedding (6)
15 Iron shirt with no tails quickly (6)
17 Violinist who's committed more than one offence? (6,6)
20 Stone in an entrance (5)
21 Fruity sovereign's wife? (7)
22 Exciting, good and excellent (8)
23 Courier, for example, is kind (4)

DOWN
1 Roadblock (8)
2 Courtroom event (5)
4 Official authorised to sign, eg, deeds (6)
5 Constituency that's developed leftish creed (12)
6 Giant with one eye (7)
7 Slippery creatures (4)
8 A popular nursery rhyme (6, 2, 4)
12 Put up with (8)
14 Biblical sages from the east (3,4)
16 Very likely (4-2)
18 Day book (5)
19 Association of criminals (4)

Name ....

Address ....

....

email ....

Solutions to 1102

Across 1 Container ship **8** Upwards **9** Miaow **10** Table **11** Lustier **12** Advise **14** Hawser **17** Tunisia **19** Chops **21** Alley **22** Basmati **23** Skateboarding. **Down 1** Court-martials *homophone caught marshals* **2** Nawab *NA w a B* **3** Airless *(h)airless* **4** Nestle *Nestle(s)* **5** Ramps *deceptive definition* **6** Heavies *two definitions* **7** Power dressing *anagram* **13** Vanilla *all-in inside Va* **15** Accuser *a cc user* **16** Bamboo *B Am boo* **18** Skype *Sky + exercising = PE* **20** Omani *In a mo reversed*

The winner of MoneyWeek Quick Crossword No.1102 is: John Benson of East Haddon

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

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

Sudoku 1104

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

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

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The Fed has the wrong metaphor

The central bank sees itself as a pilot. In reality, it's a fire-starter

Bill Bonner
Columnist

The average American family is now spending $3,000 more per year for food and fuel, according to analyst Ed Yardeni. That is, households have $3,000 less to spend on other consumer goods and services, which are also seeing rapid price rises. There are some 400 Ph.D. economists on the Fed payroll. Did any of them foresee the obvious consequences of printing up trillions of dollars' worth of new money? Apparently not. Did any of them mention that it would make most Americans poorer?

But wait. Their job is not to speak truth to the powerful Fed governors, but to protect them from it. Armed with jackass theories and overblown conceits, they stand guard at the temple door. Fed governors are untested by the give and take of real-world commerce, uninstructed by the bid and ask of a real market economy. And with their own back-up team of like-minded Ph.Ds on the job, they never have to get a real job, never have to mingle with real businessmen, or sup with real investors. Their imaginations are thus free to believe whatever they want, no matter how absurd. They believe, for example, in the idealness of 2% inflation (a total fantasy, supported neither by theory nor experience). They believe in the doctrine of data dependence (otherwise known as "driving by looking in the rear-view mirror"), which is how the Fed ran into 9% inflation. "Who could have seen that coming?" they ask one another. But Fed governors were almost the only ones who didn't see it coming.

Mester: can she land the plane without spilling a drink in first-class?

©Getty Images

"The Fed has tossed a glass of water on the conflagration it started"

Fed governor Loretta Mester, for example, has no idea whether inflation is coming or going. She favours half-point interest-rate increases, reports Bloomberg, but would support bigger rises later if inflation doesn't ease by the second half of the year. That's "data dependence". You spend your whole career on the Fed payroll, pretending you know what you're doing, then when it becomes clear you've made a mess, you try a little rate rise to see what happens!

The problem is the metaphor. Fed governors see themselves as the press portrays them – expert pilots tasked with bringing the giant US economy down to earth without spilling a single drink in the first-class section. But not everything is as simple as flying a plane. A better metaphor is that the Fed wanted to liven up the party. It wanted higher rates of inflation. So, to get people moving, it set fire to the house. That was fun for a while, the flames gaily dancing in the living room, a warm glow in the parlour. But now the blaze is out of control. Instead of 2% inflation, it got almost 9%. The challenge now is to put out the conflagration without damaging the furniture. It tossed a glass of water towards the flames last week. Next quarter, it may try another 0.5% rate increase. Then maybe another spritzer in the third quarter. Until, still looking in the rear-view mirror, finally, Mester sees the house burnt to the ground.

The bottom line

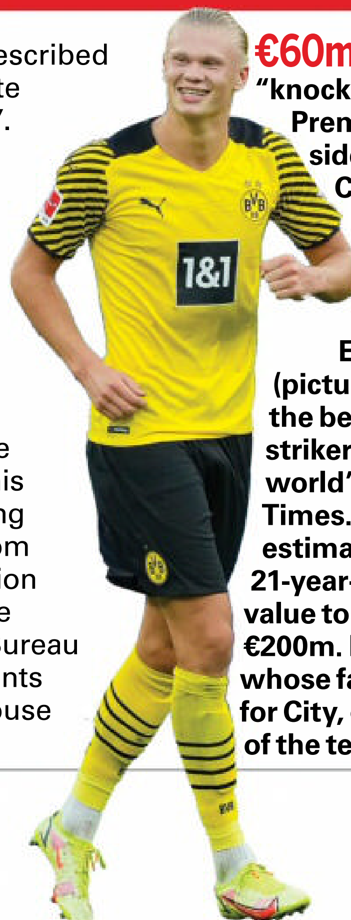
£3.6bn How much the Church of England says it will spend in its 12,500 parishes over the next nine years, representing a 30% increase in funding, says The Guardian. The money will support good works such as food banks and environmental work.

€265m The cost to Dijon of building the Cité de la Gastronomie, a vast centre exhibiting the grandeur of Gallic cuisine, with restaurants and a 3,000-bottle wine cellar. Dijon, along with Tours, Lyon and Paris, is vying to be the unofficial culinary capital of France.

$400,000 The value of a 0.54-carat "fancy vivid" purplish pink diamond from the legendary Argyle mine in Australia. The valuation is based on the offering of 2,000 shares at $200 each as part of a new coloured diamonds fractional ownership scheme being launched by Luxus.

£600,000 The asking price for Trehane House, a Grade II-listed early 18th-century house in 5.5 acres of Cornwall. The building, however, is little more than a shell, having burnt down in 1946, without insurance. It has been described as the ultimate "doer-upper".

$4bn How much in advertising revenue the American podcasting industry will generate by 2024, twice as much as this year, according to a report from US organisation the Interactive Advertising Bureau and accountants Pricewaterhouse Coopers.



©Getty Images

€60m The "knockdown price" Premier League side Manchester City will pay German club Borussia Dortmund for Norwegian Erling Haaland (pictured), "one of the best young strikers in the world", says The Times. The club estimates the 21-year-old's market value to be closer to €200m. Haaland, whose father played for City, grew up a fan of the team.

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