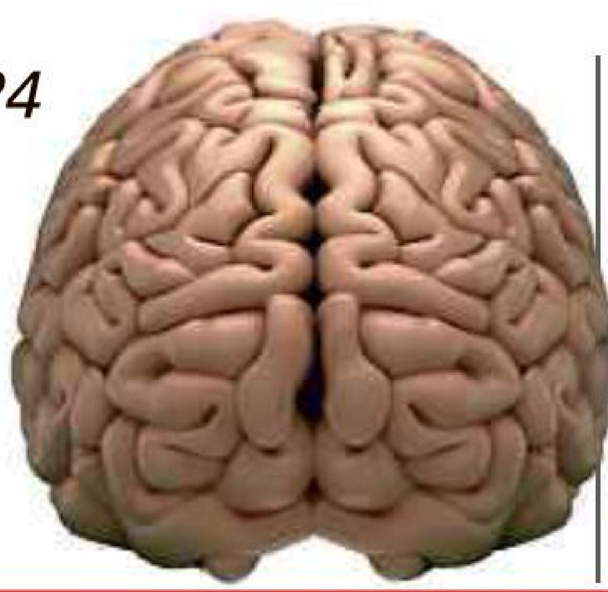
INVESTMENT FOCUS *P24*
The drug firms taking on Alzheimer's



PROFILE *P33*
The Spac king ponders his next move

PLUS
All you need to hit the beach
TOYS *P38*

MoneyWeek

MAKE IT, KEEP IT, SPEND IT

21 MAY 2021 | ISSUE 1052 | £4.50

Hand it over

Why the vaccine patent grab is a bad idea

Page 14

SCOTTISH MORTGAGE INVESTMENT TRUST

We seek out entrepreneurial companies changing the world in every way.

We call it investing in progress.

Look at our portfolio and you will discover that we seek out companies revolutionising everything from how we all shop, eat and travel to how we bank and look after our health. By using our skills as actual investors in this way, we believe we can deliver exceptional growth for your portfolio. Join us and invest in progress. Over the last five years the **Scottish Mortgage Investment Trust** has delivered a total return of 347.9% compared to 98.5% for the index*. And **Scottish Mortgage** is low-cost with an ongoing charges figure of just 0.36%**.

Standardised past performance to 31 March*	2017	2018	2019	2020	2021
SCOTTISH MORTGAGE	40.9%	21.6%	16.5%	12.7%	99.0%
FTSE ALL-WORLD INDEX	33.1%	2.9%	10.7%	-6.2%	39.6%

Past performance is not a guide to future returns. Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

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Actual Investors

*Source: Morningstar, share price, total return in sterling as at 31.03.21. **Ongoing charges as at 31.03.21 calculated in accordance with AIC recommendations. Details of other costs can be found in the Key Information Document. Your call may be recorded for training or monitoring purposes. Issued and approved by Baillie Gifford & Co Limited, whose registered address is at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Trust. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised and regulated by the Financial Conduct Authority.

MoneyWeek

21 May 2021 | Issue 1052

Britain's best-selling financial magazine

From the editor-in-chief...

Ask any banker or lawyer who works in private equity how busy he or she is right now, and you'll get the same answer, says Ben Martin in The Times. This is, one lawyer told him, "the busiest period we've seen in the last 20 years". There have been three £1bn-plus bids for FTSE 250 stocks in the last week – and so far this year 38 UK stocks (including RSA Insurance, William Hill and Aggreko) have become merger or takeover targets to a value of about £42bn.

William Hill: a target for private equity

©Alamy

"A country with fewer listed stocks may end up electing more anti-business governments"

You can see this as good news. Until recently, much of the rest of the world (and much of the UK too) had fallen for the idea that post-Brexit Britain would be a basket case. They priced our assets accordingly – Simon French of Panmure Gordon (MoneyWeek podcast with him coming soon) reckons that even after controlling for our heavy weightings to low-growth stocks, "UK public companies remain between 10% and 15% undervalued against their international counterparts". It could be more: on page 18, John explains that on one measure at least, the UK is on a 40% discount to the US.

This isn't really fair. Uncertainty over Brexit is all but gone (it isn't perfect, but at least we know where we are); the UK's vaccine rollout has been a stunning success; and our economy is now both opening and recovering nicely (perhaps too nicely – GDP growth will be 6%-7% this year and inflation is rising – see page 4). So it makes no sense for the UK to attract a political discount (you could even say that we are in a rare period of political stability, so should command a premium). That's why private equity is swooping now. They know that cheap doesn't stay cheap long – the UK market is so far up just under 8% this year.

Most MoneyWeek readers will, I think, be invested in the value in the UK, and be pleased to see everyone else coming round to our way of thinking. I am too. There is, however, a concern here – the shrinking of our public market. Private equity (PE) has been growing faster than public markets for years (three times as fast since 2000). As long as interest rates are low (it's a debt-driven business) that's likely to continue. PE fans will say it doesn't matter: as long as a firm is well run, who cares who owns it? They're wrong. It does matter. Private firms are not as visible or accountable as listed ones, and people notice. A 2008 study from economist Alexander Ljungqvist even suggests that fewer listed stocks can eventually lead to more anti-business governments. This makes sense. If voters can't make a direct connection between the shares they hold and the businesses around them, they might see no problem in rising regulation and a rising business tax burden, for example. After all, business is "someone else" and "someone else" is always the person who should be paying the taxes.

For now we can worry less than we might otherwise – initial public offerings are finally back (£32bn so far this year), compensating for the mergers and acquisitions to a degree. But ideally, it would be better if the UK was slightly less attractive to PE – maybe we should buy before they do. For more on where to find value see page 32 (Japan) and page 30 (rare value in the US). Otherwise, if you are so excited about possible holidays that you don't care about share valuations, turn to page 28. You'll need insurance. However, as Covid-19 has opened a new world of extra charges and exemptions for an industry that thrives on confusing detail, you'll need to read your policy even more carefully than usual. Don't get caught out.

Merryn Somerset Webb
editor@moneyweek.com

Scam of the week

Scammers pretending to be **Elon Musk** (pictured) have stolen millions of dollars through cryptocurrency frauds as more "financial cheats" look to cash in on the public interest surrounding "highly volatile cryptocurrencies" such as bitcoin, says the Financial Times. The US Federal Trade Commission (FTC) reported that consumers lost over $80m to crypto scams between October and March, with more than $2m of those losses involving people claiming to be Tesla co-founder and on-off crypto enthusiast Musk (see page 5). More than 7,000 scams were reported in six months, 12 times as many as the year before. Investors lost an average of $1,900 to the scams, which "purported to offer investors tips" to help them trade. Young consumers who began trading at the start of the pandemic had been particularly vulnerable, the FTC said.

Cover illustration: Howard McWilliam. Photos: ©Getty Images; iStockphotos; Marks & Spencer

Good week for:

Wild swimmers are set to benefit from a £78m investment into sewage-free water backed by the Rivers Trust that could see the Teme near Ludlow in Shropshire and the Leam near Leamington Spa become the first rivers to meet a "sufficient" standard for bathing, says The Times. Swimming in natural waters has soared in popularity in recent years, but the only river in the UK to have official bathing status is a stretch of the River Wharfe in West Yorkshire.

Leonardo DiCaprio (pictured) announced plans to donate $43m to "rewild" **the Galápagos Islands**, says Indy100. The initiative is in partnership with conservation charity Re:wild, and it will include attempts to reintroduce locally extinct species into the remote Pacific archipelago, such as the Floreana mockingbird, the first mockingbird described by Charles Darwin, as well as protecting existing endangered animals.

Bad week for:

Ice-cream lovers may struggle to get their hands on a 99 Flake this summer, after snack firm Mondelez, which owns Flake-maker Cadbury, said it's having difficulty meeting demand for the "crumbly chocolate topper", says Metro. The combination of ice cream and a Flake is thought to have got its name in the 1920s, when "99" was Italian slang for something special, and in those days cost one pre-decimal penny (0.42p). The typical price now is £1.50.

American retail giant Target is turning its back on **trading-card aficionados** and will stop selling Pokémon and sports trading cards to protect its staff and other shoppers after a dramatic increase in the re-sale value of the cards prompted "chaos and threats to staff", says The Guardian. The decision follows a fight over cards in a Target parking lot, which ended with one man pulling a gun. Boxes of the 1999 US first edition Pokémon recently sold for $400,000 at auction, while a single mint-condition card sold for $300,000, up from $16,000 in 2019.

©Getty Images

Markets rattled by US inflation surge

Alex Rankine
Markets editor

"There's no inflation…nothing to see here…oh…," says James Knightley of ING. The US Federal Reserve has spent the last few months insisting that talk of impending inflation is overblown. That argument looks harder to sustain after US inflation surged to 4.2% on an annual basis in April, its highest reading since September 2008. Core prices (which exclude volatile food and energy costs) jumped 0.9% in a single month, their biggest monthly rise since 1981. Inflationary pressure will only intensify from here due to a "vibrant, strengthening" recovery in an economy that has "supply constraints".

The inflation spike has rocked markets. Global stocks had their worst week since February, with the FTSE All-World index finishing last week down 1.5%. The selling continued into this week, with major US and European indices continuing to fall back on Monday. Gold, a traditional inflation hedge, hit a three-month high. Still, a bout of share-price weakness was "overdue" after such a lengthy rally, says Rupert Thompson of Kingswood. For now, the damage looks contained: the S&P 500 hit a new record high just a fortnight ago. A reopening economy had been expected to boost inflation, but not by this much. For markets, "the trillion-dollar question" is whether this is merely transitory, as the Fed insists, or "a sign of things to come".

The Fed "prides itself" on following the data, says Will Denyer of Gavekal Research. So what about the data that shows US consumer inflation expectations for the year ahead have risen to 4.6%, or the fact that market expectations, as measured by the ten-year breakeven rate – the gap between yields on conventional bonds and inflation-protected bonds – are at "near decade highs"? Even professional forecasters, who are usually sceptical about inflationary talk, now see inflation averaging above the 2% target over the coming decade. The Fed's ultra-loose monetary policy, which includes near-zero interest rates and $120bn of monthly asset purchases, is increasingly difficult to justify.

Used-car prices are soaring in America

©Alamy

Stockmarkets are on thin ice

America is a society where people "are used to getting what they want when they want it", says The Economist. Yet supplies of everything from chicken breasts to microchips to lumber are running short (see page 5). Used-car prices soared an astounding 10% month-on-month in April. With fiscal and monetary support turbocharging the economy, investors should expect more "inflation scares".

Central bankers are playing down the inflation threat, but they are hardly neutral observers, says Anthony Rowley in the South China Morning Post. Hiking interest rates would have disastrous consequences for the governments and corporations that have loaded up on debt since the pandemic began: to raise their borrowing costs now would "invite a global debt crisis of fearsome proportions". Economists and investors had believed for decades that high inflation was a "thing of the past" no matter how low interest rates remained. That "dam of investor confidence" has "been breached". A "severe market correction" is coming, it is just a question of when.

Recovery powers a buyback boom

"We're buying back stock because our cup runneth over," JPMorgan Chase's chief executive Jamie Dimon told investors last month, before announcing a "$30bn share-repurchase plan", says Caitlin McCabe in The Wall Street Journal. The bank is not unusual. After slashing payouts to preserve cash last year, many blue-chips are swimming in greenbacks. The money is now heading for "shareholders' pockets". US firms have already announced $504bn of share buybacks so far this year. That is the fastest pace "in at least 22 years". The first quarter also brought the fastest quarterly rise in dividend payouts since 2012.

The buyback surge is being powered by "blowout first-quarter" results on both sides of the Atlantic, say Aziza Kasumov and Siddharth Venkataramakrishnan in the Financial Times. Firms in the Stoxx Europe 600 index are on course to achieve year-on-year earnings growth of 90%.

Jamie Dimon: his cup runneth over

Share repurchases are attractive to companies that are flush with cash, but uncertain about the future. Dividend hikes can be difficult to reverse if business conditions worsen. Buybacks, by contrast, can be used "more opportunistically" when a firm has cash to spare.

The FTSE is enjoying its own "buyback bonanza", says Jim Armitage in the Evening Standard. Big UK firms have announced more than £8bn in buybacks so far this year, according to data from AJ Bell. In theory, this should deliver capital gains to shareholders, but that's not guaranteed: BP is "a buyback champion", but you wouldn't think so from its share price recently. That's why critics see buybacks as "financial engineering". When management can think of nothing better to do with extra cash than to buy the company's own shares, it can be a sign that a firm is operating in a "boring, low-growth industry".

©Getty Images

Bitcoin tumbles on Musk criticism

It turns out that "the source of value for bitcoin" isn't its use as a currency after all, says Matt Levine on Bloomberg. Last week showed us that one of the main drivers of the price is now simply "Elon Musk's whims".

The cryptocurrency roared off the starting blocks this year, more than doubling between 1 January and 14 April, when it topped $64,000. Much of that rally came after the Tesla founder said on 8 February that his firm had invested $1.5bn in bitcoins and would accept it as payment for its cars.

Then Musk rocked the market last week after deciding that the environmental cost of bitcoin mining was too high and that Tesla would no longer take bitcoin payments. That sent prices tumbling more than 10%, leaving bitcoin well off its highs, at around $40,000 this week.

While Musk blows hot and cold on cryptocurrencies investor Charlie Munger has made up his mind. "I hate the bitcoin success," he told shareholders at the recent annual general meeting of Berkshire Hathaway, the conglomerate controlled by him and Warren Buffett. "I don't welcome a currency that's so useful to kidnappers and extortionists and so forth.

"Nor do I like shovelling out a few extra billions and billions and billions of dollars to somebody who just invented a new financial product out of thin air. So, I think I should say modestly that the whole damn development is disgusting and contrary to the interest of civilization."

Asia fears new Covid-19 surge

"There are bad market days, then there is the 8%-plus free fall that gripped Taiwan stocks", says Barbara Kollmeyer in Barron's. Taiwanese shares suffered a brutal sell-off on 12 May as worries about global inflation and overheated speculation on semiconductor firms collided with fears about rising local Covid-19 cases. The market later recouped some of its losses, but the early-day plunge was the worst that the tech-heavy Taiex index has suffered since 2000 when the dotcom bubble imploded.

©Getty Images
Taiwanese stocks plunged last week

Betting it all on chips

Investors had been feeling cheerful, say Lauly Li and Cheng Ting-Fang in Nikkei Asia. The global semiconductor shortage has driven surging interest in Taiwanese chip makers. Industry leader Taiwan Semiconductor Manufacturing Company (TSMC) makes up more than 30% of the local stockmarket, while smartphone chip designer MediaTek is the third-biggest firm. Taiwan's highly successful campaign against Covid-19 added to the optimism. Local retail investors have been diving in; the island has 11.24 million share-trading accounts, equivalent to almost half of the local population. Their exuberance left the market richly priced: price-to-book value has risen from 1.64 to 2.4 over the past 12 months.

This was a "classic story of exuberance and leverage", adds Mike Bird in The Wall Street Journal. The Taiex had soared 48% over the past year and increasing numbers of investors have been borrowing to invest. When share prices fell, it triggered margin calls, forcing investors to sell even more in order to raise cash. Such leveraged equity purchases always heighten volatility and they are on the rise elsewhere, particularly in the US, India and Korea. Taiwan – now 8% off its April highs – won't be the last market to find that soaring margin debt carries "the risk of messy sell-offs".

Covid-19 concerns

The spike in Covid-19 cases prompted Taiwanese authorities to impose their strictest restrictions since the pandemic began, although these stop short of a full lockdown. Other parts of Asia are also suffering from renewed outbreaks. Singapore announced tighter measures last Friday after finding several clusters. The Straits Times index responded by falling 2.2%, its worst daily performance in 11 months, says Reuters.

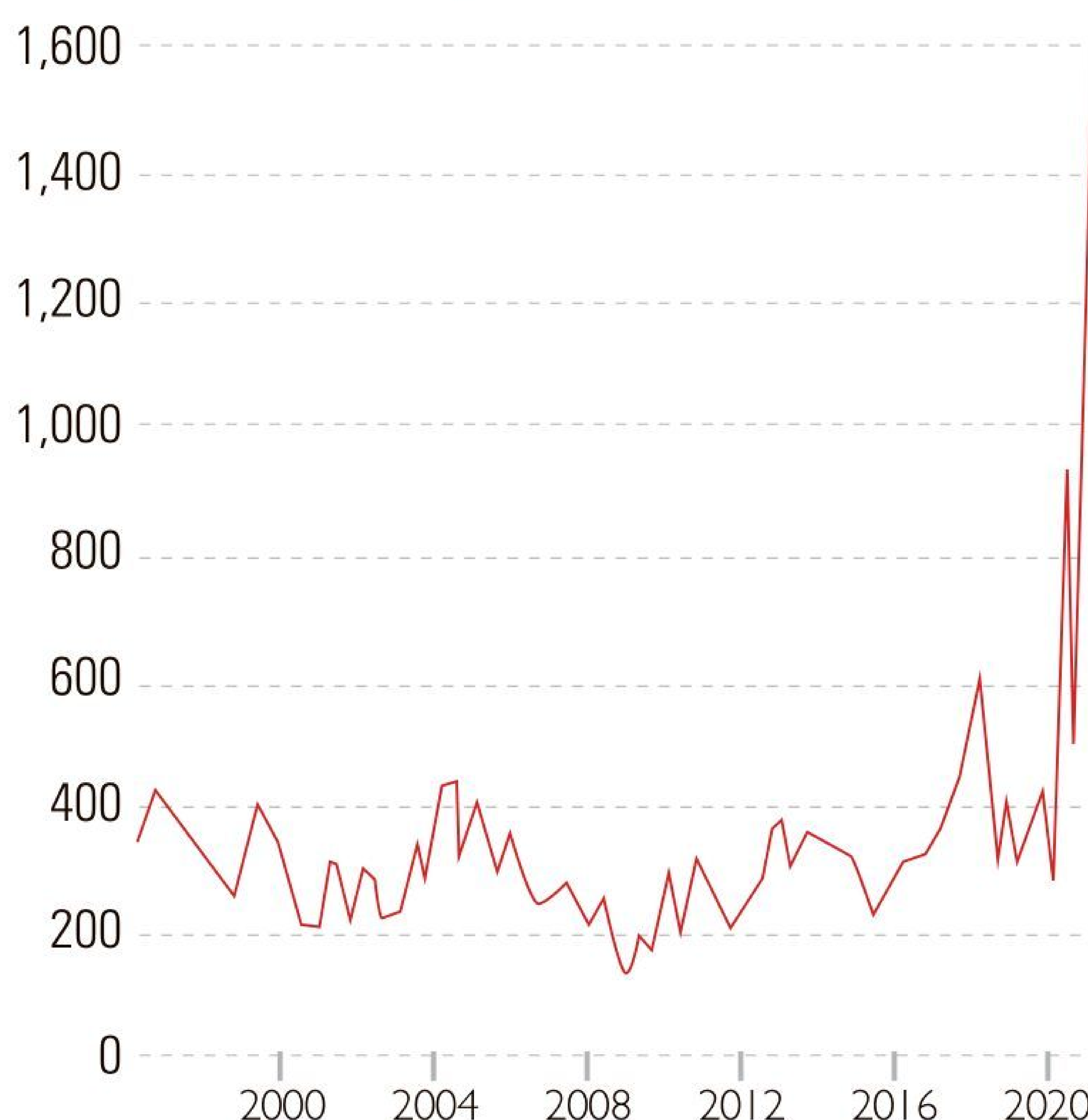
The situation in Southeast Asia is concerning, says Amy Gunia in Time. The region fared "relatively well" last year, but cases are now rising and vaccinations rates remain low. In Thailand, where infections have risen 18-fold since December, fewer than 4% of people have received a first jab. In Vietnam, it's less than 2%. This wave could spread "like a bush fire across the region", says Abhishek Rimal of the International Federation of Red Cross and Red Crescent Societies.

Viewpoint

"I've often remarked that the high yield [bond] market not only offers investors lousy food but that the portions are too small ... today the market is offering what can best be described as prison food and starvation rations ... The average spread of high yield bonds over US Treasuries ... dropped below 300 basis points (3%) in April for the first time since 2007 when it hit a record low of 2.33% ...There is little value in the public corporate bond market today; yields are low, covenants are non-existent, and liquidity is awful ... High yield bonds should only be bought when spreads are wide, not when they are tight as they are today. The rest of the time the market offers a very poor risk/reward proposition ... The market is shaping up for turbulence ahead but that may only mean that the government will jump in again to save investors in this age of moral hazard."

Michael Lewitt, The Credit Strategist

America's lumber boom



US lumber (sawn timber) prices have headed to the treetops. The price of 1,000 board-feet of lumber hovered between $200 and $400 for years (one board-foot is a volume one foot by one foot by one inch), before prices more than tripled in a year. The squeeze happened because the sawmills cut output last spring, anticipating a prolonged slump because of Covid-19 – only for a house-building and renovation boom to take them by surprise. So while the wood for a new house might have cost about $10,000, today it goes for $40,000 – if you can even get it. About 30% of US lumber comes from Canada, where supplies are constrained by everything from beetle infestations to wildfires, while the US south has plenty of raw timber but not enough sawmill capacity.

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

Three to buy

ZOO Digital
Shares
One way to "tap in" to the boom in streaming services is through Aim-listed ZOO Digital, a small firm "ripe for strong profitable growth over the coming years". It runs a platform that allows users to repackage their content for different geographies, languages and formats. When film production was shut down due to the pandemic, ZOO Digital remained busy helping clients – including Netflix, Amazon and Apple – repurpose

their back catalogues. Revenue guidance for the year to March 2021 was upgraded to £39.5m, a 33% increase year-on-year. As production for new shows "springs back to life, prospects look even better". *121p*

Royal Mail
The Sunday Times
A year ago, Royal Mail "was in dire straits". Now it sounds "increasingly bullish", not least because GLS, its international parcels business, is "flying". Around half of the group's profits come from GLS and management hopes to double the division's earnings to €500m (£430m) by 2024-2025. Some analysts think this business alone is worth more than Royal Mail's £2.5bn market cap. "For now, as GLS keeps delivering, this is a buy." *516.2p*

Restore
The Daily Telegraph
Document management and data specialist Restore "stayed in the black in 2020" and its "sound finances" mean it is "well placed to see through even a bumpy recovery". A high price/earnings ratio "does not entice", but the "efficient integration" of information-management firm EDM and a possible uptick in IT recycling, shredding and office removals as companies reassess their need for office space should give profits a boost. *402p*

Three to sell

Greggs
Mail on Sunday
The closure of all of its 2,000 stores throughout multiple lockdowns meant the bakery chain saw its sales drop by 30% in the year to January 2021. But customers have been "flocking back" since shopping restrictions were lifted and management "hopes profits will recover to 2019 levels this year". Still, shares have been heading up in recent months and "long-term investors could hedge their bets, sell some shares, and bank a bit of profit". *2,498p*

Volution
The Daily Telegraph
Shares in fans and ventilation-systems manufacturer Volution have had a "very strong run" over the last six months and "have got well ahead of themselves". The firm's price/earnings ratio has soared to over 21 from 13, while the price/book ratio has jumped from 2.3 to 4.5. These measures don't always "revert to the mean", but a convincing case is necessary to justify why they deserve to sit "permanently higher than they were". Sell. *419.5p*

Trainline
Investors' Chronicle
Ticketing site Trainline has become the joint-second most shorted stock on the London Stock Exchange. This seems to "reflect the belief that the number of people commuting each day will never return to pre-pandemic levels". While Trainline could capitalise on the boom in "staycations", there were "industry trends in motion before 2020" that should worry investors: a reform of the "complex network of private train operators has long been on

the cards". Revenues dropped 74% to £67.1m year-on-year to February 2021 and losses before tax deepened to £107m from £80.2m. On a p/e ratio of 46 times forecast earnings for 2022, this is a sell. *436p*

...and the rest

The Daily Telegraph
Carnival, the cruise company, has seen its shares double from their pandemic lows. But the firm's debt grew from $11bn in November 2019 to $18.9bn in 2020 and it's estimated to be burning through $500m every month. Sell *(1,552p).*

Mail on Sunday
Digital 9 Infrastructure, which listed in March, plans to invest in the underground cables that bring the internet into homes and offices. This is a "fast-growing industry that governments around the world are keen to promote". It's a good long-term buy *(112p).*

Shares
Virgin Wines's upgraded outlook sees sales for the current year coming in ahead of previous expectations. The easing of lockdown could affect its success, but the firm is confident the "accelerated shift in consumer behaviour" will continue driving online retail. Buy *(246p).* Concrete maker **Somero Enterprises** has also benefited from the shift to online shopping as the need for warehouse space increases. The shares have been performing well for months and the firm has upped its 2021 guidance due to surging demand in its "key US market". Buy *(459.49p).*

Investors' Chronicle
Housebuilder **Barratt Developments** has benefited from a booming property market, but "positive headlines around housing transactions" do not mean the "pace of share-price gains" will continue indefinitely. Hold *(782p).* Miner **Metal Tiger** looks well poised to benefit from the rise in copper prices, which have hit a ten-year high of $10,000 per tonne. The firm's decision to seek a dual listing on the Australian stock exchange "couldn't come at a better time". Buy *(32.27p).*

An American view

Anybody who has tried to buy a home appliance in the US lately "knows it's very much a seller's market", says Barron's. Robust demand and limited supply have boded well for manufacturer Whirlpool, which is now increasing prices 5%-12% "across the board". The stock is up 36% this year, to $246, but considering Whirlpool's "financial progress, market position and earnings power", it still looks "inexpensive" on ten times forecast earnings. Some investors worry that earnings will peak as this shortage passes, but that ignores the "mega-tailwind" that is coming as a whole generation buys houses. "Whirlpool offers a cheap way to play a sustained upturn in housing. Investors can clean up."

IPO watch

Commodities dealer Marex hopes to float on the London Stock Exchange in June with a valuation of up to $800m (£565m), says the Financial Times. The firm is a broker on the London Metal Exchange, where it accounts for 16% of trading, and the planned initial public offering (IPO) comes at a time when commodities are seeing the biggest boom since the early 2000s. Last year, Marex reported pre-tax profits of $55m, up from $47m the year before. It is controlled by JRJ, a private-equity group, which bought a majority stake in 2010 and built it into one of the world's largest commodity brokers through a series of acquisitions. JRJ has reportedly been trying to exit its investment for several years.

©Alamy; Carnival Corp; GLS

City talk

©Alamy

● "It's a case of new CEO, same old problems" at yoghurt maker Danone, says Andrea Felsted on Bloomburg. Antoine de Saint-Affrique, who took the top job after Emmanuel Faber was ousted in March, must defend Danone's dairy arm from competition, fend off "upstarts" such as Oatly in plant-based products, revive sales of bottled water, and respond to slumping birth rates in China, which could limit demand for infant formula. De Saint-Affrique has an "impressive" record at Unilever and chocolatier Barry Callebaut, but to keep investors onside, "he needs to quickly find solutions to Danone's seemingly intractable problems".

● Anyone would think Michael O'Leary has been listening to Donald Trump, says Alistair Osborne in The Times. After Boeing's 737 Max suffered two fatal crashes, Trump advised the firm to give it a new name. Maybe that's why the Ryanair boss keeps referring to the jet as the "Gamechanger", after upping his discounted order from 135 planes to 210.

More seats and greater efficiency will "undercut rival's fares" and "turbo-charge the carrier's recovery" after a €815m loss last year, getting it back to "pre-Covid-19 growth" next year, reckons O'Leary. But much will depend on the new plane.

"He must hope nervous flyers don't think it a game change too far."

● A 6% fall in BT's share price suggests investors are "spooked" by CEO Philip Jansen's plans to transform the "ailing former state monopoly" by investing in full-fibre broadband, says Ben Marlow in The Daily Telegraph. True, the £4.9bn budget looks scary when profits fell 23% to £1.8bn. But this "heavy lifting" was neglected by previous bosses. "Perhaps Jansen will succeed where others failed."

AT&T ditches media dreams

The communications group is spinning off its WarnerMedia business just three years after buying it. Matthew Partridge reports

When John Stankey became chief executive of AT&T last year, he promised to rethink the direction of the $230bn telecoms conglomerate, says Jennifer Saba on Breakingviews. This week he showed that he's "keeping his word" by announcing that AT&T will be merging most of WarnerMedia, its news and entertainment division, with television network Discovery. AT&T will receive $43bn, while AT&T's shareholders (not AT&T) will own 71% of the new company, which will be run by Discovery's chief executive David Zaslav. AT&T shares rose by around 2% after the move was announced.

The deal marks an "embarrassing U-turn" for the group, which only created WarnerMedia three years ago when it splashed out $85bn on Time Warner, says Simon Duke in The Times. The idea was that the deal, which took more than two years, and a court fight, to get approved, would usher the television and movie industry into "the digital promised land". In the end, it left AT&T "saddled with about $161bn in debt", while also failing to "harness the potential of its media assets", as TimeWarner was left behind by the rise of streaming services such as Netflix and Disney+.

WarnerMedia assets such as Wonder Woman *may do better in Discovery's hands*

©Warner Brothers Inc

Making the right decision

AT&T's decision to get rid of Time Warner may be an admission of failure, but it is the right decision, says Dan Gallagher in The Wall Street Journal. After all, AT&T has a "pressing need" to invest in expensive technology like 5G to "keep its network business competitive". That will be easier now that it doesn't have keep up with the "billions being poured into new streaming content" by Disney, Netflix, Apple and Amazon. What's more, "unwinding its largest acquisition to date" may also help snap it out of the "permanent deal mode" that it has been in since the late 1990s.

The deal also represents a big opportunity for Zaslav, says Tara Lachapelle on Bloomberg. This "king of trash TV" is now in charge of the HBO, CNN, TBS and TNT networks, the Warner Bros movie studio and the DC Comics superhero franchise. What's more, he now has the opportunity to combine HBO Max and Discovery+ into "a streaming super-app" that could give Netflix Inc. and Disney+ "a run for their money". While the new company "will be saddled with $55bn of debt", Zaslav believes that by 2023 it will be generating $8bn of free cashflow, which should help it pay down borrowings quickly.

With Netflix's subscriber growth "slowing" and the streaming market becoming "increasingly crowded", the industry's leaders "are still to be decided" and the new company "could prove to be a strong contender for the streaming crown", says Ben Woods in The Daily Telegraph. However, it means that its competitors, including Comcast, are now faced with "a decision to make". This is because many Comcast investors believe that it should follow suit and split its "huge broadband network" from its media empire which includes "not only Sky but NBCUniversal in America".

A show of support for GlaxoSmithKline

Several large shareholders have signalled that they will support GlaxoSmithKline (GSK) in its battle with hedge fund Elliott Management, giving a "huge boost" to the pharma company's "under-fire" management, say Alex Lawson and Emma Dunkley in The Mail on Sunday. Elliott is said to be pushing for a "dramatic" new plan that could see the FTSE100 firm "sold off in parts or swallowed up by a foreign rival". However, BlackRock, GSK's biggest investor, its fifth-largest shareholder Dodge & Cox,and insurer Royal London have reportedly urged firm's chairman Jonathan Symonds to carry on with plans to

©GSK

overhaul its drugs pipeline and to spin off its consumer healthcare division next year.

The intervention will provide "some relief" for GSK's chief executive Emma Walmsley (pictured), and there may be more good news to come, say Alex Ralph and Dominic Walsh in The Times. GSK's Covid-19 vaccine, which it is developing in conjunction with Sanofi, has showed "positive results" in recent trials. GSK and Sanofi have "trailed others in the race to provide coronavirus jabs", but may now have a product available by the end of the year.

This shows why GSK should hang on to its vaccines unit, says Lex in the Financial Times. The division is a "crown jewel" that "has increased revenues by 50% and nearly doubled profits in the past four years" thanks to the Shingrix shingles vaccine, while its respiratory syncytial virus vaccine looks promising. Research into the immune system is driving both the vaccines and pharma business. Splitting this up would be "the wrong prescription".

Cyber-attacks are a growing threat

Criminals shut down a pipeline suppling 45% of fuel used on the US's east coast. Emily Hohler reports

©Getty Images

Cybercrime is becoming a bigger headache the more we rely on networked computer systems

The recent cyber-attack on Colonial Pipeline, which forced the firm to shut down an oil pipeline supplying 45% of the fuel used on the east coast of the US, is a wake-up call, says The Economist. Despite "more than a decade of attention to cyber-security", America's infrastructure – the energy and power grids on which the economy and society depends – remain "exposed to hackers". As more devices are connected to the internet, as more cars run on electricity, and as transmission lines connect distant power systems to balance intermittent wind and solar power, this vulnerability will only increase. This poses a "particular headache for President Joe Biden, who is trying to win support for climate proposals in his $2trn infrastructure bill". He must make a credible case that he can make America's system "both greener and more secure".

A worrying precedent

The "list of lessons" from this incident is long, say David Sanger and Nicole Perlroth in The New York Times. Colonial, a private firm, may have believed it was impenetrable, yet its walls were "easily breached". Even after it paid the extortionists, DarkSide – a ransomware gang believed to be based in Russia – nearly $5m to recover its data, the process of decrypting it and turning the spigot back on has been "agonisingly slow".

And while these lessons are useful to learn, the "bad news" is that adversaries, be they cyber-criminals, terrorists or superpowers, have learned "how little it takes to incite chaos" across a swathe of the US, even without bringing down the electric grid. Additionally, Colonial's decision to pay the ransom "emboldens" bad actors. Companies across the US, including police departments, have chosen to pay extortionists rather than "suffer the loss of critical data" or rebuild computer systems. Usually, they and their insurers decide that the ransom is worth paying.

Elliptic, a London-based analytics firm which inspected cryptocurrency wallets used by DarkSide, says the gang have amassed at least $90m in payments from 47 victims over the past nine months, says Charlie Mitchell in The Times. Most of the payments were to affiliates of DarkSide, which rents its ransomware to other criminals who then pay them a percentage of any successful attack.

And DarkSide is not alone. In the past week alone, insurance giant Axa has been hit by ransomware attacks across Asia, says The Washington Post. Closer to home, hackers are sharing stolen medical information online to pressure the Irish government into paying a $20m ransom following a cyber-attack on its healthcare system, says The Independent.

Ransomware is a major threat to virtually every sector, says Misha Glenny in the Financial Times. Bitdefender, a cyber-security firm, reported an annual jump of 485% in registered ransomware attacks last year. This is happening because we are outsourcing every aspect of our lives to a "jungle of ever more complex networked computer systems" built on an internet infrastructure that wasn't developed with security in mind.

The hacking of US-based SolarWinds last year, whose software manages the security and administration of 300,000 companies worldwide, was the "more dangerous start" of the era of cyber-vulnerability. Demands for "secrets" not cash lends credence to the US theory that Russia was behind it. Until the three cyber-powers – the US, Russia and China – set some rules, "commercial, geopolitical and military competition will continue to bleed into the more mundane world of cyber-security". As the chances of this happening are close to zero, it's up to individuals, companies and governments to act.

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Cry freedom, then retreat

Will freedom be postponed yet again?

As we get our "first taste" of liberty, the government now says that Freedom Day "may be off", says Allison Pearson in The Daily Telegraph. "It makes no sense": 37 million people have had one vaccine and 20 million are fully protected. Yet those "adorable funsters" from the Scientific Advisory Group for Emergencies now warn of up to 10,000 hospitalisations per day in July from the Indian variant. Less prominently reported is the fact that jabs appear to be 97% effective against it, or that it is found in "hotspots" such as Bolton and Blackburn, places where members of ethnic minority groups have been reluctant to have the vaccine. Even then, there is no "tsunami" of hospitalised patients.

Despite the variant, people that have been vaccinated are to be allowed to holiday in the EU, under rules due to be approved today, says Lucy Aspden in The Daily Telegraph. A decision on whether to add the UK and other countries to the EU's "safe list", meaning Britons could travel in the bloc without proof of vaccination (but probably with proof of a negative test), will be taken at the same time. The EU is expected to permit non-essential trips by those who have had two doses. PCR tests are being mooted as an alternative for children and unvaccinated adults.

EU countries will still be free to decide their own policies, says Abigail Malbon in Condé Nast Traveller. Greece has already said that it will welcome travellers from the UK provided adults show a certificate proving they have had either both doses of a vaccine, antibodies or a negative test. Since it is on the "amber" list, tourists will have to quarantine on their return. So far, amid conflicting government travel advice, "chaotic scenes" were reported at Heathrow, as thousands of people boarded flights to amber and red list countries and long queues created what MP Yvette Cooper described as a "super-spreading risk".

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A test for post-Brexit Britain

Protectionists step in to stall the first big free-trade deal. Matthew Partridge reports

Michael Gove: holding firm against free trade

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The British government is locked in a "ferocious internal battle" over a trade deal with Australia, say Peter Foster and George Parker in the Financial Times. The deal is particularly important as it will be the first "big post-Brexit trade deal that is not a 'rollover' of existing agreements the UK enjoyed as an EU member", but with Australian and New Zealand negotiators "holding firm" on demands for full tariff liberalisation, the deal is facing opposition from ministers such as Michael Gove, who argue that having to compete with Australian farmers would result in the "slow death of British farming".

Hard to digest

The battle over Australian food might seem like a "niche subject" for an "ideological conflict", but supporters of the deal, especially trade minister Liz Truss, see it as an important test of whether Britain is truly open to free trade, says Oliver Wright in The Times. Truss and her supporters argue that a failure to open British markets to other countries would "send a signal" that the "UK's focus was still on Europe" and could prevent Britain from joining the Trans-Pacific Partnership free-trade area.

It's not surprising that agriculture is proving a sticking point, as it is usually one of the issues that is "hardest to digest" in such deals, says Dharshini David on the BBC. The government admits that increased Australian exports of beef and lamb to the UK will be the main force boosting imports from Australia by an estimated 83%. However, it argues that any liberalisation "would take years" and the tariffs protecting farmers would only be removed gradually. Besides, the huge distance between the two countries is likely to mean that British farmers will still enjoy a considerable advantage, as shown by the fact that Australia is not taking advantage of all the tariff-free quotas that it enjoys at the moment.

Farming groups, though, worry about the "dangerous precedent", says Joanna Partridge in The Guardian. The National Farmers' Union is concerned that the principle of "open access" would be applied in future trade negotiations. Indeed, it claims that trade negotiators in the US and Canada have already said that they will "definitely be looking for the same" access as Australia in future talks.

It's time to open up

So what, says Matthew Lynn in The Spectator. One of the main reasons for Britain leaving the EU was that it would enable us to move away from a situation where agriculture was "ridiculously protected" to the "more liberal regime" we enjoyed before we joined. Allowing in cheaper imports, while separately paying farmers for maintaining the landscape, will leave us with a win-win situation where we'll have "more carefully maintained countryside", cheaper food, as well as the wider economic benefits "from all the free-trade deals we will be able to do with countries that are more competitive at farming than we are". "The UK opted for free trade in agriculture when it repealed the corn laws more than 150 years ago. There is no point in going back on that now."

Betting on politics

The battle over who gets to inhabit Gracie Mansion, the official residence of New York's mayor, is reaching its climax. With £47,588 matched on Betfair, former presidential candidate Andrew Yang (pictured) is the favourite to win the Democratic nomination at 1.89 (52.9%). with Eric Adams, borough president of Brooklyn, in second place at 2.2 (45.4%). Of the other announced candidates, New York City comptroller Scott Stringer is at 17.5 (5.7%); former sanitation commissioner Kathryn Garcia is at 26 (3.8%) and activist Maya Wiley is at 34 (2.9%).

Initially Yang was seen as the clear frontrunner due to his cult following during last year's quest to become the Democratic nominee for president. But while his concern about the effects of technology and support for a universal basic income won him many devoted supporters, he has proved less adept in navigating the murky waters of New York politics, and his poll ratings have declined. There is also the question of New York's voting system, which will let people rank up to five candidates.

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At the moment, most polls have no candidate getting more than a fifth of the first-round votes, with Adams narrowly triumphing over Yang in the final round. However, they also suggest that Stringer has substantial support, and could come close to surviving until the very end. I suggest you bet on Adams and Stringer for combined odds of 51.2%. To weight it properly, bet £8.88 of a £10 betting unit on Adams and £1.12 on Stringer.

Israel-Palestine: the status quo will continue

Israel's PM Netanyahu: the US still has his back

©Getty Images

US president Joe Biden is coming under pressure from left-wing Democrats in Congress to change long-standing US policy towards Israel and "publicly criticise" it for its current bombardment of Gaza in response to attacks from Hamas, says Will Pavia in The Times. Some have urged the administration to place restrictions on military aid or to use it as "leverage" to put pressure on Israel. Other senior Democrats back a "traditionally supportive" stance, although even they have expressed "concerns" over the death toll.

Critics of Israeli policy are particularly angry at the decision to approve $735m in arms sales says Oliver O'Connell in The Independent. The deal was approved before the current conflict began, but the Biden administration has confirmed that it intends to go through with the sale, rather than postpone it until after a ceasefire is agreed. Congress could block it, but such a move is unlikely given the extent of support for Israel among lawmakers.

It's not surprising Biden is reluctant to get involved, says Matthew Kroenig in Foreign Policy. The Israel-Palestine conflict is simply "not the high-priority global agenda item that it was two decades ago" and many in Washington now consider the entire region a distraction as the US "shifts its attention to the Indo-Pacific". The US has "invested enormous energy in attempting to solve this dispute for decades with little to show for it". Now, the conflict appears as "a small civil conflict" with few geopolitical ramifications. "Unfortunately, it seems like a continuation of the status quo – one that has prevailed for decades now – is likely to continue."

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Seattle

Bezos may buy Bond: Amazon is in talks to acquire film studio Metro-Goldwyn-Mayer for around $9bn, reports The Information. MGM is one of the last big independent Hollywood studios not to have been gobbled up and a takeover would cap a "rush of streaming deals that are set to make 2021 a record year for media takeovers", say Kelly Gilblom and Spencer Soper on Bloomberg. MGM has been a "takeover target" for years, but made a "fresh push" for offers last year after being hit hard by the pandemic in 2020, when it was forced to postpone the release of its latest Bond film four times. The studio wants to capitalise on the growth in streaming services, which has increased demand for large libraries of content. Its back catalogue also includes the Rocky films and *The Silence of the Lambs*. Meanwhile, Amazon is reorganising its entertainment operations with the return of Jeff Bezos' long-term lieutenant, Jeff Blackburn, to run a new Global Media & Entertainment arm, says the Financial Times. The firm is busy "creating, acquiring or licensing" music and video content for its 200 million Prime subscribers.

Cayman Islands

Crypto-exchange Binance in money laundering investigation: Binance, the world's biggest cryptocurrency exchange, is being investigated by the US Department of Justice and Internal Revenue Service, says Tom Schoenberg on Bloomberg. Binance is not accused of doing anything wrong, but officials are worried that "cryptocurrencies are being used to conceal illegal transactions" and US citizens are evading taxes on trading profits. The US Commodity Futures Trading Commission was already looking into whether Binance allowed US citizens to make illegal trades involving derivatives. And in October, Forbes reported on a leaked document from 2018 which alleged the exchange had "conceived of an elaborate corporate structure designed to intentionally deceive regulators and surreptitiously profit from crypto investors in the United States". Binance, founded in 2017 by Canadian-Chinese businessman Changpeng Zhao, said "we take our legal obligations very seriously and engage with regulators and law enforcement in a collaborative fashion".

Bogotá

Tax protests turn violent: Demonstrations in Colombia, which started as a protest against a proposed tax reform on 28 April, have escalated into demonstrations and violent clashes with the police in 19 of the country's 32 provinces, reports The Wall Street Journal. Around 40 people have died and hundreds have been injured. The chaos is worst in the large city of Cali, delaying Covid-19 vaccinations while infections soar. The government had little choice over the tax reform – it risked having its debt downgraded to junk by rating agencies, which would further raise the cost of Covid-19-related borrowing – but the news was released into a "highly combustible atmosphere" of frustration and anger at one of the world's longest lockdowns, says the Financial Times. Last year, GDP dropped by 6.8%, unemployment soared, and poverty rose 42.5%. The proposed reform, while billed as a tax rise for the wealthy and corporations, lowered the tax threshold at which salaries are taxed to 2.6m pesos (£500) a month, and introduced a tax on the water supply to lower middle-class homes as well as an ill-timed tax on funerals, says the BBC.

Hong Kong

JD spin-off aims to deliver: Tech firm JD Logistics is hoping to be one of Hong Kong's largest initial public offerings (IPOs) so far this year, looking to raise up to $3.4bn, says CNBC. The logistics offshoot of JD.com, the Chinese e-commerce giant, will sell 609.1 million shares, or 10% of the company's total shares. An over-allotment option could increase this by 91 million shares, which would raise a further $510m. At that size the firm would be one of the biggest deals in Hong Kong, following the IPO of video-sharing app Kuaishou Technology in late January, which raised $5.4bn. JD Logistics posted revenues of $3.5bn for the first quarter of 2021, up 64.1% from the same period the year before. But its gross profit for the quarter was down 72.7% to $35.8m, a downturn it blamed on the pandemic's impact and on having added 60,000 workers to its workforce throughout the year. The IPO is expected to be a "barometer of investors' appetite towards major share sales" after a rocky week for global equities markets caused by concerns about inflation around the world.

The way we live now: advertisements get an AI upgrade

Mirriad's technology was used to add a coffee brand into a kitchen scene in Call My Agent!

Product placement is getting "a 21st-century upgrade", says Tom Knowles in The Times. Beloved TV shows and films "that came out decades ago" could soon feature modern advertising, thanks to new artificial intelligence tools that scan scenes looking for places where a "product can be inserted".
A billboard "for a brand still relevant today" could be placed on the street or the side of a building in a film from the 1990s. British firm Mirriad has already digitally added product placement to shows including US sitcoms *Modern Family* and *How I Met Your Mother*, as well as French drama *Call My Agent!* (pictured). The technology could also allow brands to change depending on where the programme is being shown. Mirriad is working with Chinese tech giant Tencent to "serve different product placements within the same show", creating bespoke advertising, meaning viewers watching the same shows at different times could see different products. But the brands have to be altered "to fit with the time and tone of the film" — it's not just any advertisement that can be placed "in an old Casablanca film".

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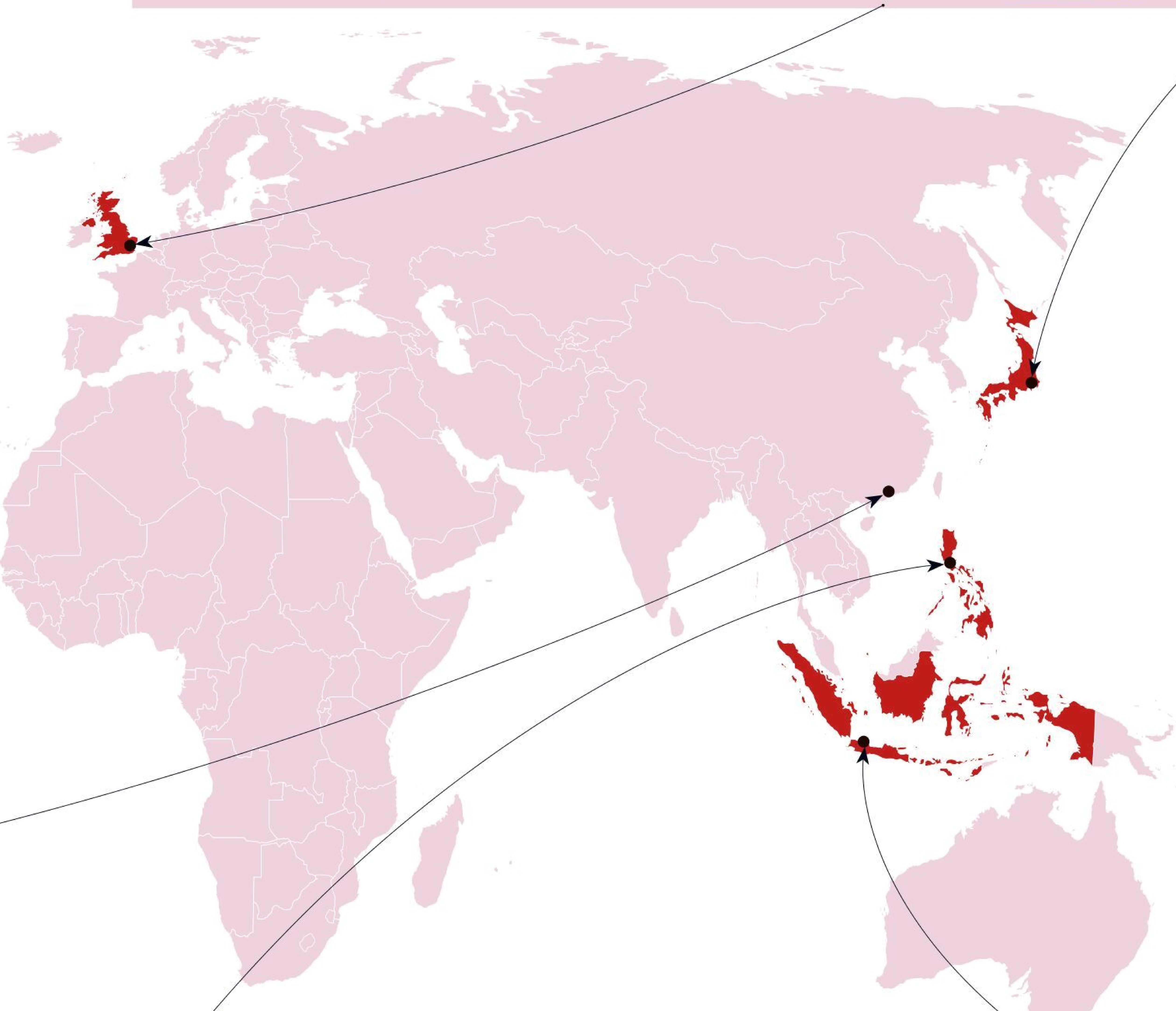
London

J'aime le bailout: Eurostar, the cross-channel passenger train whose business has been all but destroyed by the pandemic, has secured a £250m bailout from investors to enable it to continue operations, says the Financial Times. The company is to receive £50m in shareholder equity, £150m in investor-guaranteed loans, and restructuring of a further £50m in existing loans. Eurostar is owned 55% by SNCF, the French state-owned railway, which is putting in £50m, and 5% by the Belgian state railway. Other investors include Hermes Infrastructure and Canadian pension fund CDPQ, which between them bought the British government's 40% stake in 2015. The UK government, which did not play any part in the bailout, despite the company's headquarters being in London, faced an "awkward conundrum", says Robert Lea in The Times. It couldn't afford to let "a talismanic and economically important link between Britain and the continent collapse", but on the other hand was reluctant to bail out a company "which was majority-owned by the French taxpayer". At its peak, Eurostar carried more than ten million passengers a year with annual revenues of £1bn. That has fallen to just one daily return service between London and Paris.

The trains should now be able to keep running



Tokyo

Coronavirus crunch: A resurgence of coronavirus infections caused Japan's economy to contract by an annualised 5.1% in the first quarter of 2021, despite having posted growth in the second half of 2020, says Megumi Fujikawa in The Wall Street Journal. Private spending was down 1.4% from the previous quarter as shops and restaurants closed during a government-declared state of emergency that ran from January through March, and was reimposed late April. However the downturn is seen as a "temporary interruption" to the country's recovery – the world's third-largest economy is benefiting from the recovery in the US and China, its two major trading partners. The country has had a "yo-yoing economic pattern" over the last year, and that is unlikely to change until it has vaccinated a large chunk of its population, an effort that "seems unlikely to speed up significantly in the coming months", say Ben Dooley and Makiko Inoue in The New York Times. Just over 3% of the country has received a first shot, and vaccines are unlikely to be widely available until the end of the summer.

Manila

IPO rush: Philippine food maker Monde Nissin is set to become the country's biggest-ever IPO, say Elffie Chew and Vinicy Chan on Bloomberg. The maker of Lucky Me Instant noodles in the Philippines and owner of meat alternative brand Quorn in the UK is in talks with Singapore state investment fund GIC and Hong Kong insurer AIA to become "cornerstone investors", as well as investment managers Fidelity and Capital Group. The firm has set a price of 13.50 pesos (20p) per share, which would put it on track to raise 48.6bn pesos (£0.7bn) and overtake SM Investments's 28.8bn-peso offering in 2005 as the country's biggest IPO to date. Shares are expected to begin trading on 7 June, and it plans to use the IPO proceeds to repay loans and for "general corporate use". While it "could have priced the IPO higher", says Anshuman Daga on Reuters, "it was best to leave some money on the table in these choppy markets". The Philippines has been a "laggard" in Southeast Asia in terms of capital market fundraising, but other deals in the pipeline include a 38.3bn-peso IPO for food firm Del Monte Philippines and a listing for electricity network National Grid that could break Monde Nissin's record.

Jakarta

A record merger: Indonesia is set for its largest-ever merger as ride-hailing and payments firm Gojek and e-commerce giant Tokopedia join to create a "multi-billion dollar tech company called GoTo", say Anshuman Daga and Fanny Potkin on Reuters. The company will deal in online shopping, courier services, food delivery and ride hailing among other services, in what will create the biggest privately owned technology firm in the region. The combined group is valued at $18bn based on the two companies' latest historical valuations, but is now expected to raise a fresh $2bn in funding at a much higher valuation that would pave the way for a potential $40bn IPO in Indonesia and the US later this year. The merger comes "amid a surge of competition" in the food delivery and ride-hailing markets in Southeast Asia after stay-at-home restrictions stoked demand for home delivery. GoTo's biggest investors include Alibaba, SoftBank, GIC, Alphabet and Tencent. Last month Grab, the region's largest ride-hailing and food-delivery firm, agreed to list in the US via a merger with a special purpose acquisition company that valued it at $40bn.

Joe Biden's Big Pharma patent grab

The US president has proposed waiving patents on Covid-19 vaccines in a bid to boost global supply. But it won't work on its own terms and holds dangers for the future. Simon Wilson reports

What's happened?

Earlier this month the US surprised the global community – and stunned investors in drugs companies – by backing the temporary suspension of some globally agreed rules covering intellectual-property (IP) protections for Covid-19 vaccines. A waiver of World Trade Organisation (WTO) rules to help tackle the Covid-19-emergency was first proposed by India and South Africa last October, covering patents not just for vaccines, but also diagnostic tools and therapeutic treatments. Both countries have a large manufacturing sector making generic (off-patent) pharmaceuticals. The US is not signed up to a broader waiver of that kin, but its support for a narrower waiver on vaccine patents is a surprise.

©Getty Images

Biden: the worst presidential decision since Nixon's wage-and-price controls

Why's that?

Because the US has a vast and powerful pharmaceutical sector and Washington has a long history of opposition to public-health measures that affect intellectual property rights. In 1996, it even threatened sanctions against Brazil for weakening patent laws to improve access to life-saving Aids drugs. Still, there's no guarantee that a patent waiver – that is, a temporary suspension of certain rules set out in the WTO's Trade-Related Aspects of Intellectual Property Rights (Trips) agreement – will actually happen. Until earlier this month, the idea had gained little traction, with the US, EU (notably Germany), UK and Japan all opposed. But US support makes it far more likely that some kind of waiver will be agreed.

What's the case for a waiver?

The hope is that the waiver will encourage a wider and more geographically diverse production base, as well as encouraging international co-operation. And also that the prospect of a waiver will encourage pharmaceutical companies to enter into more voluntary arrangements and non-exclusive licensing to enable the transfer of technology in a controlled and transparent way. The lesson of the Aids pandemic is that patents "stymie accessible treatment, cost lives, and offer little bona fide enhancement of innovation", says Laurie Garrett in Foreign Policy.

What's the case against?

First, that waiving patents on Covid-19 vaccines would not actually speed up global production or get more shots into arms. Second, that doing so would have damaging long-term effects on future innovation. To take the first, it's not IP issues that lie behind vaccine supply issues, it's a range of factors including shortages of critical raw materials, a lack of production facilities and the technology and expertise to manufacture them. We know vaccine patents are not the bottleneck to making more vaccines because "there are no factories capable of producing Covid-19 vaccines sitting idle because they don't have a patent", says Matthew Lesh on CapX. Moderna announced last October that it would not be enforcing its own patents – yet there is no generic non-Moderna production.

Why not?

Because it's too hard to copy given the obstacles. Pfizer's vaccine, for example, requires 280 components from 86 suppliers in 19 countries, from glass vials to lipids to special plastics. And AstraZeneca, having established a global supply network with more than 20 partners across 15 countries, ran out of engineers qualified to transfer its technology. Moreover, waiving patents will increase competition for scarce ingredients, with the risk that less efficient and less expert manufacturers would hinder the ability of existing producers to ramp up capacity. And there's an obvious issue with safety – and the knock-on effects on global confidence in Covid-vaccines as a whole.

> *"Waiving patents will merely increase competition for scarce ingredients"*

And the long-term consequences?

Security of property rights underpins the whole pharmaceutical sector, which is driven by massive – and massively high-risk – upfront investment in research and development. Weakening or waiving those rights would inevitably discourage companies from investing in future innovation. That would make the world less safe and more vulnerable to the next pandemic threat – and could conceivably even disincentivise investment in pharmaceuticals more broadly. Biden's "bewildering" support for this is "the single worst presidential economic decision since Nixon's wage-and-price controls", says The Wall Street Journal – destroying tens of billions of dollars in US intellectual property and surrendering America's advantage in biotech, a key growth industry. Certainly, when the next pandemic hits, the world will want the pharmaceutical industry to once again "drop everything and work like hell to make vaccines", says Tom Chivers on Unherd. "Maybe waiving IP rights will have no impact on their willingness to do that next time, but if there's even a small chance that it will, it seems a bad bet."

Will it happen?

Any agreement will need the backing of all 164 WTO members, and will take weeks or months to secure. Meanwhile, many poor countries have jabbed less than 1% of their populations, 44% of vaccine doses have gone to Europe and North America, and Covid-19 is raging in south Asia and Latin America – and all the while new variants are raising the risk-level globally. Investors are worried about a fall in pharma profits, says The Economist, but the danger – in terms of both health and economy – is far broader than that. If protracted negotiations at the WTO "suck energy away from other initiatives to transfer technology and increase vaccine supplies, that would really be something to fear". Far more useful than waiving patents, says The Washington Post, would be a concerted effort by Western governments to share their vaccine surpluses, and by Western pharma firms to strike more licensing deals and "share manufacturing know-how, experienced personnel, quality control methods, oversight and raw materials".

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A right royal celebrity folly

P&G wants the Sussexes to be its shield against the woke, but they are a costly distraction from real issues

Matthew Lynn
City columnist

Soaring commodity prices. A once-in-a-generation shift to online shopping. New hipster competitors and staff who want to permanently work from home. The consumer-goods giant Procter & Gamble (P&G) has plenty of problems to contend with. But hey, not to worry: Harry and Meghan, the Duke and Duchess of Sussex, are here to help. The company last week agreed a long-term deal that will see the Sussexes advise the conglomerate on issues such as gender equality, inclusiveness and resilience.

Really? It is very hard to believe that the royal-ish couple have any real insight to offer. In truth, the history of celebrities getting involved in businesses is very poor. From Jamie Oliver's role as a brand ambassador for Sainsbury's to Johnny Depp's publishing imprint for HarperCollins, the results have tended to be at best, mildly disappointing, and rarely worth the effort and time. The only people who will be celebrating Harry and Meghan's latest gig will be shareholders at Unilever and Nestlé, P&G's great rivals.

Navigating the culture wars

P&G was already one of the most "woke" of the major multinationals and it will now have Harry and Meghan on hand to offer guidance, support and advice on such tricky issues as whether its razor blades are sexist. Last week the company agreed a deal with the couple's Archewell Foundation for advice on gender equality, inclusive online spaces and resilience. Next time executives are worrying about whether a product is acceptable or not they can get one or other of them on the phone and figure out the best way of dealing with it.

The royal-ish couple has little to offer

©Alamy

Of course, on one level it is possible to see what P&G is getting at. Consumer-goods companies face an unprecedented level of political activism. Social-media storms can be whipped up, brands boycotted and products removed from the shelves at the blink of an eye. The Sussexes might seem like a useful shield to deflect any criticism. Any woke activists can at least be told it has the okay from Harry and Meghan, and perhaps that will deal with any criticism.

But there are three big problems. First, the celebrities don't actually know anything about business and have little useful to offer. A small handful of celebrities have managed to create significant businesses, but mostly they don't have the time or the skills to contribute anything meaningful to running a company. Meghan Markle knows a little about acting and marrying a prince, but it is hard to believe she knows anything about managing a major conglomerate. As for Harry, he has hardly clawed his way up from the shopfloor.

Secondly, their popularity can easily implode, with knock-on reputational damage to the company they are working with. Jamie Oliver is hardly the brand he once was, for example. Fame is a perishable, transient commodity; the Sussexes may have a following at the moment, but that could easily disappear in a few years. Worse, any form of scandal will damage the company's brand as well as their own.

A shot in the foot

Finally, this is all just a distraction from real problems. A multinational such as P&G faces plenty of real challenges. As we switch to shopping online, brands don't have the same power they once did. They face more and more competition, both from internet platforms – Amazon Basics is as much of a threat as supermarket own labels once were – and niche, artisan rivals. Meanwhile, raw materials are more expensive than ever, and staff are adjusting to home working. A consumer-goods conglomerate should be focusing on addressing those issues, not worrying about some political activists who will disappear in a few years. Still, at least Unilever and Nestlé will be raising a quiet glass of plant-based milk to the appointment. It is always good to see a rival shoot themselves in the foot.

Who's getting what

- Almost 30% of investors in Cineworld, Britain's largest cinema chain, voted against a controversial new award scheme under which bosses could be awarded more than £200m in shares if Cineworld's shares bounce back to pre-pandemic levels, says The Guardian. The company's chief executive, **Mooky Greidinger**, and his brother and deputy, **Israel**, would receive awards worth £33m each. Mooky was paid £791,000 last year, less than half the £1.68m he received in 2019, while Israel received £650,000, down from £1.3m.
- Estate agency Savills, the subject of a rare "red top" warning from the Investment Association trade body, paid chief executive **Mark Ridley** a £350,000 bonus despite failing to hit the profit target required to trigger an award last year. Pre-tax profits were £84.7m, against the minimum £120m required. The company also paid Ridley £500,000 for meeting 90% of his separate "key objectives" during the pandemic. Around a quarter of shareholders rejected the company's remuneration report at the AGM last week.
- **Rodney McMullen**, CEO of US retail giant Kroger, collected $22.4m in pay for 2020, his largest haul since becoming boss in 2014, says Bloomberg. His pay package rose by almost 6% from the previous year thanks to a bigger bonus, a larger package of stock awards and a salary increase. Meanwhile, median employee pay at Kroger fell by 8% to $24,617. The retailer introduced a $2 hourly "hero bonus" in early 2020 for shop and warehouse workers working during the pandemic, only for the bonus to be scrapped after just two months.

Nice work if you can get it

"A career as a Los Angeles lifeguard isn't all sun, surf and Pamela Anderson [pictured] running around in slow motion: there's also the fat salary, generous pension and enormous overtime pay to consider," says Ben Hoyle in The Times. Analysis by OpenTheBooks revealed that of almost 800 ocean lifeguards working in LA in 2019, seven made more than $300,000 including benefits and 82 pulled in at least $200,000; 31 made between $50,000 and $131,493 in overtime pay. Fernando Boiteux, the assistant chief lifeguard for the county, was the highest earner overall in 2019, with $391,971. After 30 years on the beach, lifeguards can retire at 55 on 79% of their pay "thanks to their formidable union".

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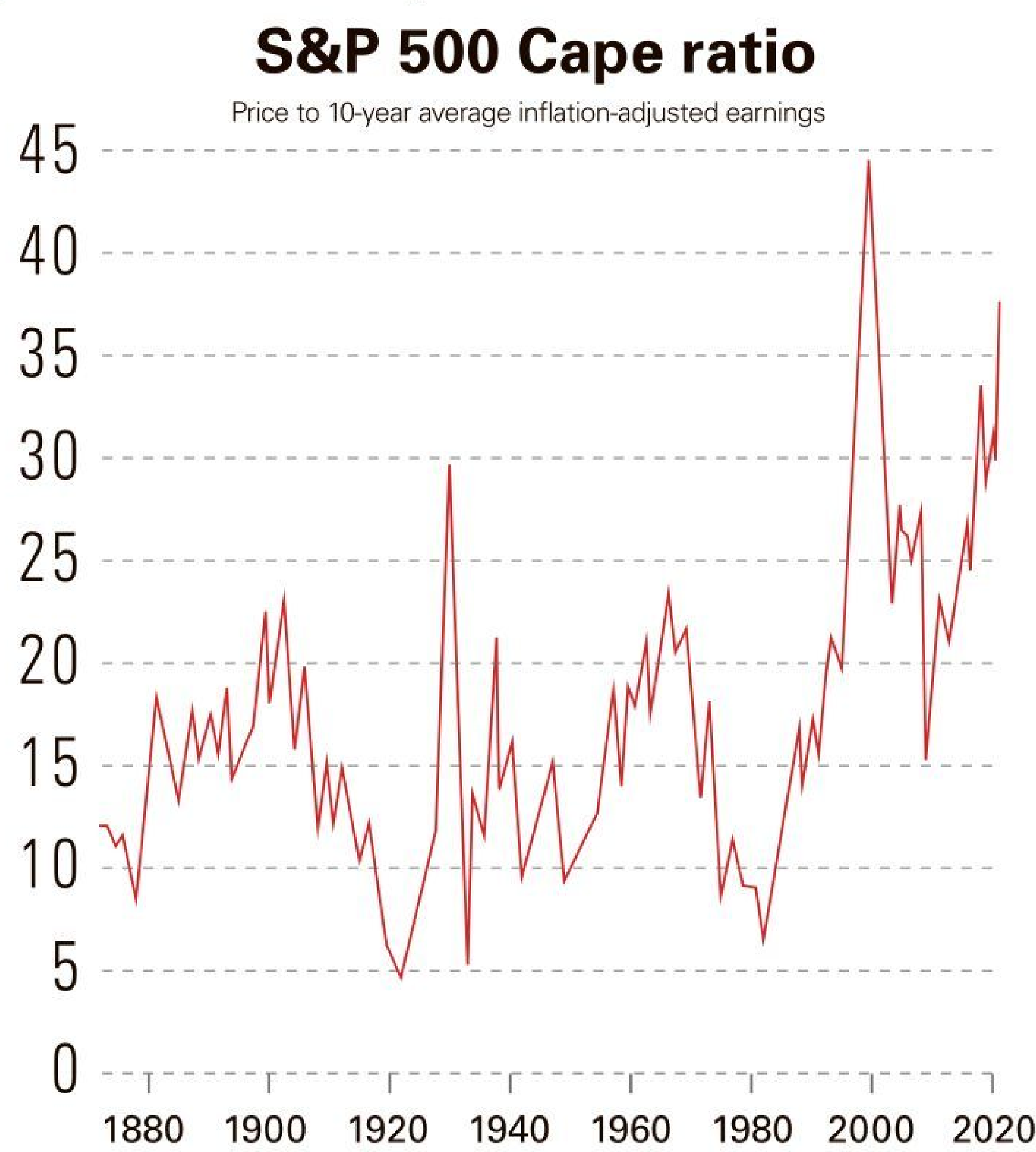
The US is pricey – buy the UK

US stocks haven't been this costly since the dotcom era. It's a good job it's not the only market out there

John Stepek
Executive editor



The cyclically-adjusted price/earnings (p/e) ratio (Cape for short – see below) has long been one of our favourite long-term valuation measures. Like every other measure, it's useless for short-term forecasts. But if you buy when a market is cheap on a Cape basis, your returns over a decade should be decent, even if it can't tell you much about the year ahead. And if you buy when it's expensive – well, history suggests you should prepare for disappointment. Particularly now.

One criticism of Cape is that the S&P 500 has been expensive on the measure for nearly a decade. For example, on his Irrelevant Investor blog, financial adviser Michael Batnick notes that in 2014 the US Cape rose above 25 for only the third time in a century, triggering all manner of warnings. Yet since then, returns have been running at a stunning 14% a year. Does that mean the Cape is broken? You can argue – as Robert Shiller himself has – that low interest rates justify a higher-than-average Cape. And as Batnick adds, the Cape's long-term average has risen over time. Yet it's also not worth splitting hairs at this point. The Cape is now around 37 and as the chart above shows, has only been higher during the dotcom bubble of the late 1990s. Like it or not, says Batnick, "37 on the Cape is a high freaking number". In short, it's hard to believe returns for the next ten years will match the past decade's.

So what's the answer? One is to look elsewhere. The US has strongly outperformed international markets over the last ten years, yet this is an outlier, as Charlie Bilello of Compound Capital Advisors points out. During previous periods other markets have matched or beaten the US.

"Compared with the US, the UK looks cheaper even than Italy"

Given that the US accounts for more than half of the global equity market, it would be a mistake to avoid all exposure. But taking profits on the US and perhaps even adjusting your asset allocation in favour of somewhere cheaper makes sense.

Luckily, UK investors have a convenient alternative on their doorsteps. As The Market Ear blog points out, judged on a forward p/e basis, the UK market trades at a 40% discount to the US, making it cheaper (in relative terms) than even Italy and emerging markets as a whole.

Britain's post-Brexit market shunning appears to be at an end, with the latest Bank of America survey of global fund managers suggesting investors are "long UK stocks for the first time since July 2012". And the FTSE 100 also offers exposure to the value stocks such as banks, that have struggled in recent years, rather than the high-tech growth stocks that have been in favour (see column). If you're looking beyond a simple tracker fund, one investment trust to consider is **Law Debenture (LSE: LWDB)**, which is part of MoneyWeek's model portfolio of trusts.

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

The price/earnings (p/e) ratio is a popular measure for assessing whether a share is cheap. It's a simple to calculate – you just divide the share price by earnings per share. A low number (eg, below ten) suggests that you aren't paying much for each £1 of earnings, while a high number indicates a stock may be expensive (unless it's growing rapidly).

The p/e ratio has one obvious weakness. Using just one year of profits means a stock – particularly one in a cyclical business, such as mining – can look cheap because profits happen to be peaking at that point and are set to plunge when business turns back down in line with the economic cycle. An analyst looking at a single company may be able to assess whether current earnings are cyclically high or low, but that's more difficult when considering the valuation of the overall stockmarket. The cyclically adjusted price/earnings (Cape) ratio tries to compensate for this by using average inflation-adjusted earnings over the past ten years, smoothing the effects of the economic cycle.

A 1988 paper by John Young Campbell of Princeton and Robert Shiller of Yale University concluded that the level of the Cape ratio was strongly negatively correlated with long-term returns: when it is high, future returns are lower. (The ratio is also known as the Shiller p/e due to Shiller's role in popularising it.) The Cape ratio later indicated that the US market was very expensive ahead of the dotcom bust in 2000, which helped it gain a name for itself, even though Shiller did point out that it is not a short-term forecasting tool.

It also signalled more weakly that stocks had become cheap during the 2008-2009 crisis (but did not fall as low as it had in past crises). This suggests that care is needed when comparing a Cape ratio with its long-term history – in part because accounting standards and the composition of an index change over time.

Guru watch

Barry Norris, founder, Argonaut Capital

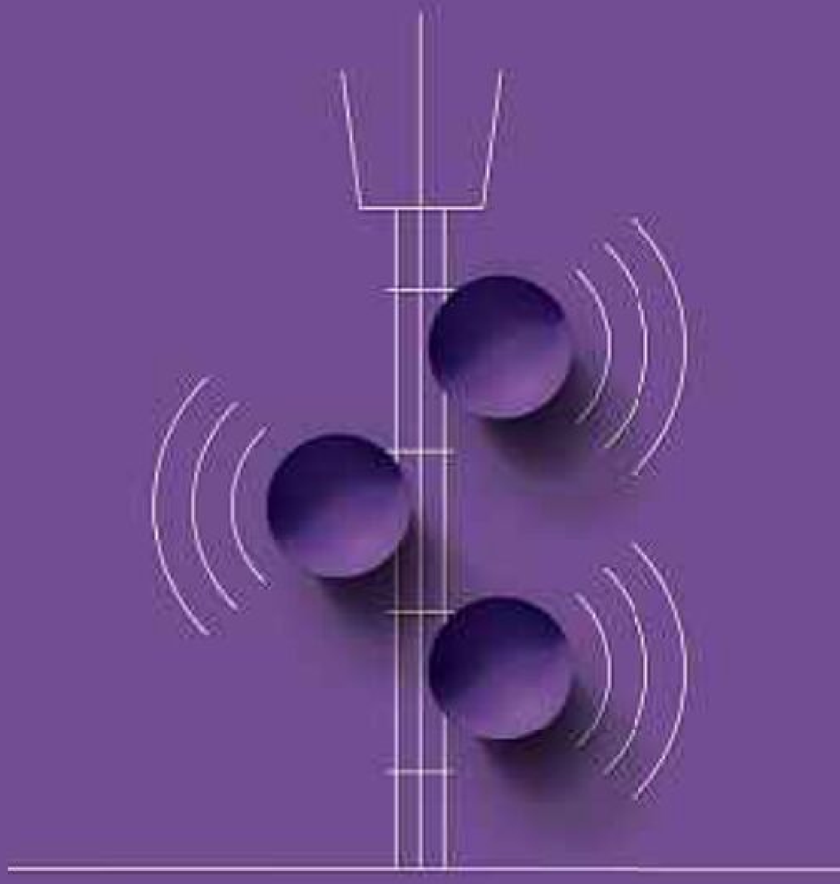
As lockdown retreats, Barry Norris is positioned for the good times to be over for pandemic-era growth stocks. Norris, who manages funds including Argonaut's Absolute Return fund, is short-selling (ie, betting on share prices falling) US food delivery group DoorDash and video-calling app Zoom. He's also betting against exercise-bike maker Peloton. It "became the must-have toy while we were all locked down", but it's hard to see that lasting as gyms reopen, he tells Citywire's Jeremy Gordon.

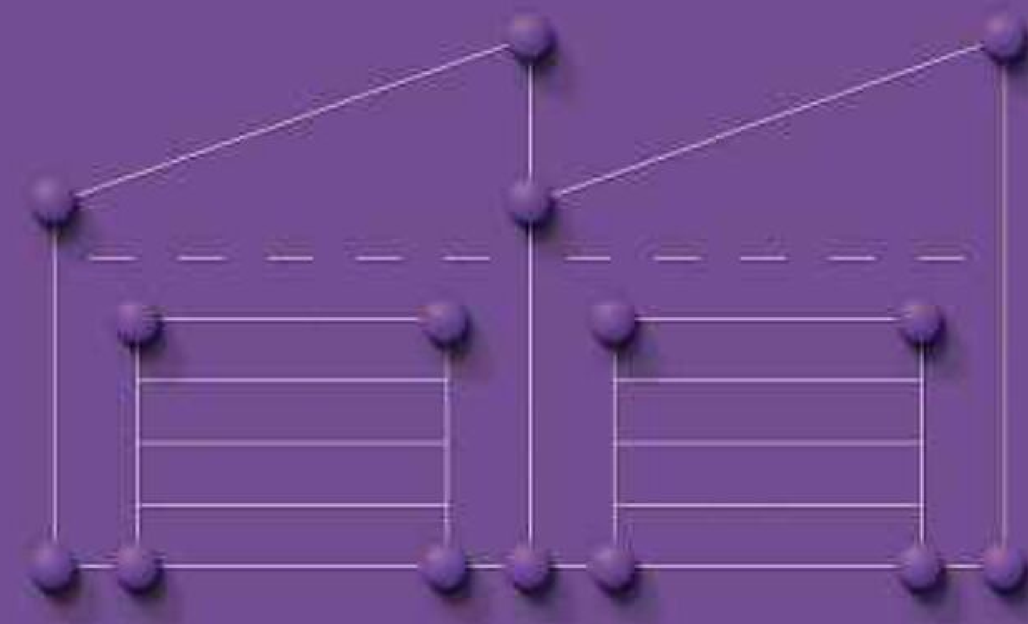
Norris is also sceptical about the current cryptocurrency surge, reckoning that "it's an investment boom that will go bust". As a result, he is shorting MicroStrategy, a tech stock that has soared since its decision to invest in bitcoin. "It's basically this guy who happens to find himself being CEO of a failing software company and then suddenly he sees the light – that actually he should just put it all into bitcoin," using a "load of debt" to do so.

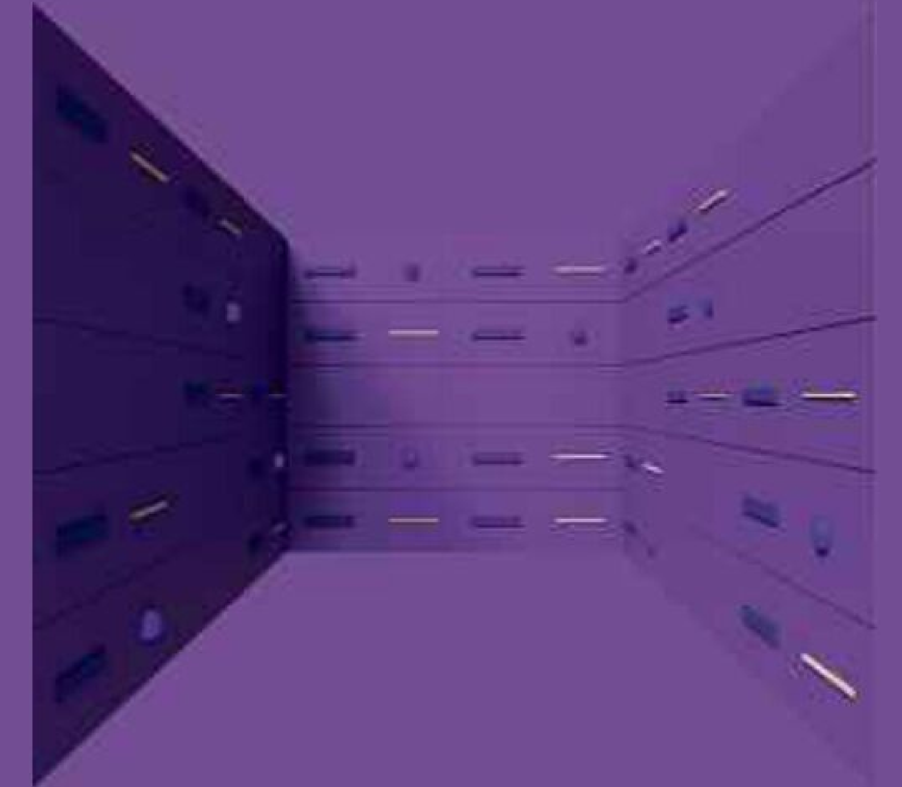
©Peloton

Argonaut Absolute Return fund has done well compared with its peers in recent years (up 17% in the three years to end-March versus the 5.8% sector average), helped by notable successful shorts, such as fraudulent German payments technology stock Wirecard. As for what Norris is betting on, his Argonaut Equity Income fund is investing in inflation plays, including Russian banks and oil firms, plus commodity producers such as Russia's Norilsk Nickel and South African miner Impala, which Norris likes for its exposure to platinum-group metal rhodium, used in catalytic converters.

INVESTING IN COMPANIES







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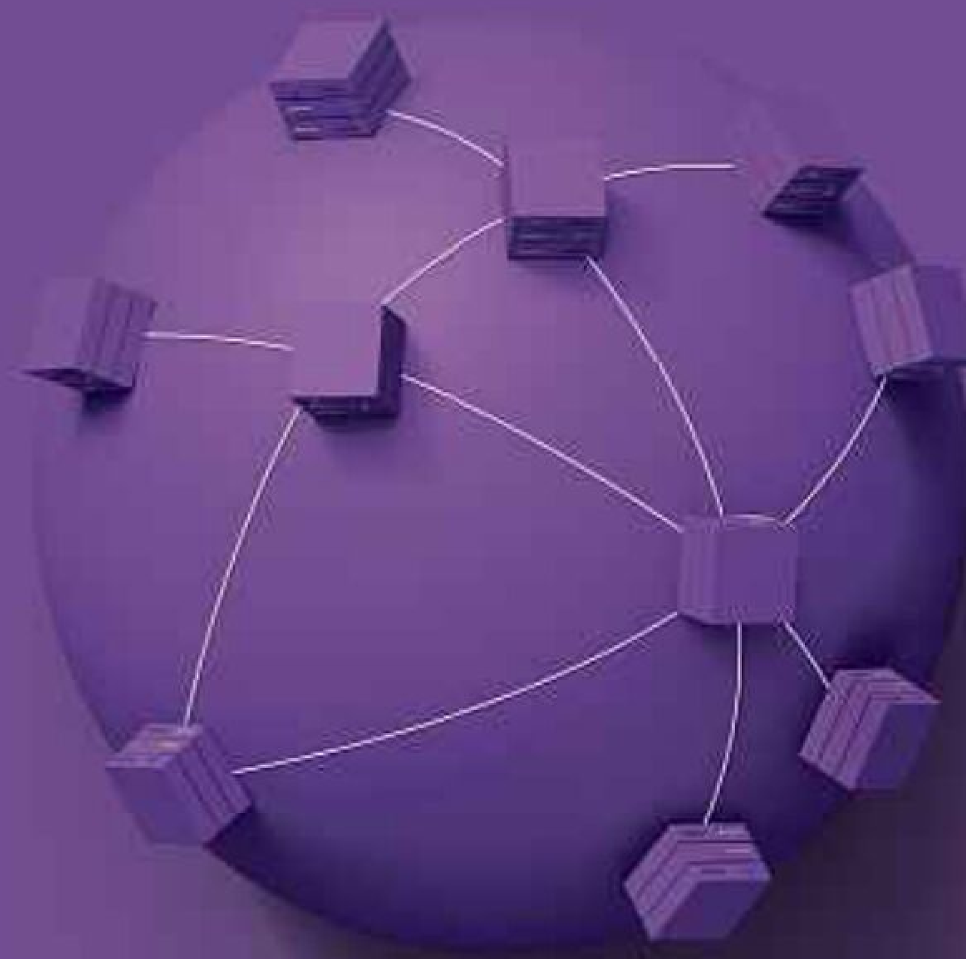

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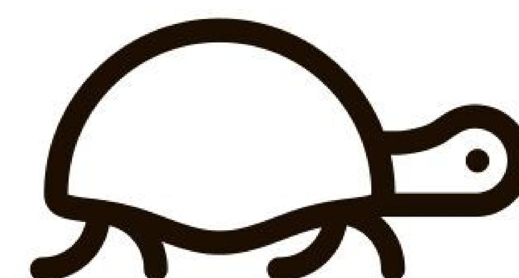

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Big Brother loves Big Tech

Lizzie O'Shea
Nikkei Asia

From the start of the pandemic, as borders closed, governments started to experiment with technological solutions to control the movement of people, track their contacts and enforce social-distancing rules, says Lizzie O'Shea. Vaccine passports, for which airlines are agitating, are the "logical next step". We should be wary. Whatever politicians say, it is unlikely that any initiative will be temporary and indeed there are "obvious reasons for those in power to treat these changes as permanent", climate change and ensuing migration being just one. If governments are "advancing their own agenda", so too are the "vendors selling high-tech solutions to social problems". The sums involved are "immense". The border security market could be worth $68bn by 2025; the biometric-systems market is "set to double to $65.3bn by 2024". The upshot may be a two-tier system of "privileged travellers" moving seamlessly across borders and migrants confronting "complex digital bureaucracies without rights of recourse". While vaccine documentation may be necessary to overcome the pandemic, we should take care to prevent this from "being subsumed within a broader push to entrench expensive, high-tech surveillance infrastructure".

Selling up to fund care is no scandal

Leo McKinstry
The Spectator

Selling the family home to pay for care costs is seen by many as a "scandal" resulting from the state's failure to provide a properly funded care system, says Leo McKinstry. Currently, those with savings or assets of more than £14,250 pay a share of costs; those with more than £23,250 meet their bills in full. The "flames of grievance" are stoked by the press, pressure groups and politicians, including the prime minister. Yet this is no scandal. Free social care would spell huge tax hikes, which in practice would mean hard-pressed wage earners forking out more to enable richer households to protect their inheritances. The over-65s own almost 50% of our housing. The Institute for Fiscal Studies says that 25% of children born in the 1980s are set to inherit upwards of £300,000. It is "only right" that some of this wealth should be tapped. Peter Lilley, the formal social-security secretary, put forward a solution in March: the creation of a state-owned, not-for-profit company offering insurance against having to sell assets for as little as £16,000, a charge that is only realised when the owner dies or the house is sold. We still know little of the social-care reforms scheduled for this year, but this offers a "workable, affordable way out of the current mess".

Globalised bosses return to their roots

Elisabeth Braw
Financial Times

"Globalisation has been good for companies in at least one important way: it has allowed businesses to scour the world for talent," says Elisabeth Braw. In 2018, nearly half of FTSE chief executives were foreign nationals. But the era of "borderless enterprise may be past" and, as geopolitical tensions rise, "the matter of national allegiance will resurface". Beijing, for instance, appears to have pressurised the CEO of Ericsson to lobby for Huawei in Sweden. After the West imposed sanctions, China accused H&M and Nike of "boycotting" its cotton and removed the brands from online maps, and Huawei suspended use of their apps. Today's governments believe that CEOs of Western firms should be "loyal not just to their shareholders but to the company's home country" if it provides "democracy and rule of law". But for their part, there is a risk that foreign-born leaders may have divided loyalties. US-based space transportation start-up Momentus recently "parted company" with its Russian CEO and founder Mikhail Kokorich over US national security concerns. This is not to say businesses should discriminate, but it "does mean they should get used to a reality in which they can be attacked as country proxies".

Grounded flights flatten FDI flows

Mike Bird
The Wall Street Journal

The overall economic story of 2021 is of "rapid return to normalcy", says Mike Bird. The story for foreign direct investment (FDI) is "very different". It fell to 38% last year, its lowest level since 2005. FDI is "particularly sensitive" to investors' ability to travel because it involves buying land, building and running facilities. Emerging markets and small, wealthy territories such as Hong Kong tend to attract a lot of FDI as a proportion of GDP. For much of developing Asia, vaccination rates are so low and travel restrictions look to be in place for so long that, according to consulting firm Kearney, FDI volumes may not return to their 2016 peaks until 2026. FDI was already weak pre-pandemic, blamed by analysts on "escalating protectionism, particularly between the US and China". Different economies will be affected differently. The UN Conference on Trade and Development recently announced that China had overtaken the US as the world's largest recipient of FDI. Meanwhile, green-field investments (ie, entirely new operations) in emerging and developing countries have fallen 43%. Their sensitivity to falling FDI, combined with less fiscal and monetary "firepower", means Covid-19 will be a double blow.

Money talks

"I've been poor, I grew up poor, and although in my early years I never made any money, I never went into acting to make money. All I ever wanted was not to have to work as a waitress; to be able to act full-time and not owe anybody money."
Actor Cush Jumbo (above), quoted in The Guardian

"It's still a man's world, because they may tell you that you're getting the same as your male co-star, but they could be lying through their teeth. So that is top of the list of things to change."
Actor Robin Wright on pay in Hollywood, quoted in The Daily Telegraph

"Despite selling 8,000 copies of my new biography of Ernest Bevin… the royalties haven't covered the cost of the picture and cartoon credits. Unless you're JK Rowling, don't write books for money!"
Politician and author Andrew Adonis, quoted in The Sunday Times

"If we're going to monetise our debt and we're going to enable more and more… spending… I'm worried now for the first time that within 15 years we lose reserve currency status and of course all the unbelievable benefits that have accrued with it."
Hedge-fund manager Stanley Druckenmiller, speaking on CNBC

"It was tough, but as a northerner I've always been a saver and I've taught my family to do the same."
Chef Marcus Wareing on dealing with the pandemic, quoted in The Times

"People say showbiz is hard work. I say, 'Look, I haven't worked since 1962, when I used to carry bricks up a ladder on a building site.' Work, to me, is doing something that you don't really want to do but you've got to do it in order to make money. That's what most people have to do."
Singer Tom Jones, quoted in the New Statesman

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Planning reforms will never happen

He won't find the forward gear

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Boris Johnson has promised a "radical shake-up" of the planning system to fix the housing crisis. "Call me a cynic," says Kristian Niemietz, "but I have heard this too many times to believe a word of it." We have been here before. The 2004 Barker Review of Housing Supply promised a similarly radical shake-up. When Nick Boles was planning minister a decade ago another one was promised, then another in a housing white paper from Theresa May's days.

A formidable machinery

Great things are promised, but then a "formidable machinery of Nimby opposition" springs into action, accusing the reformers of plotting to concrete over the countryside and riding roughshod over the wishes of local communities. These "cheap rhetorical tricks" work and the plans wither. In British politics, there is "one dependable iron law … the Nimbys always win".

Despite the decades of talk, Britain is still building fewer new homes per 100,000 people than comparable countries, despite having much greater potential for growth due to high levels of pent-up demand. What housing we do have is also smaller, older, and skewed towards the wrong places.

This failure to build enough houses is "the single biggest policy failure holding Britain back". It leads to some of the highest housing costs in the world, whether measured in absolute terms or relative to average incomes, or whether in terms of house prices or rents. It depresses productivity and growth (campaigner John Myers estimates that, with a sensible housing policy, Britain could easily be a quarter richer than it actually is). It leads to a higher tax burden by making higher housing benefit payments necessary. And it leads to higher consumer prices across the board because "the cost of property becomes part of the cost of just about everything".

Politicians keep hoping that they could somehow reform the system without "waking up the most powerful electoral force in Britain, Nimbyism". But this is not how it works. Margaret Thatcher did not "waffle" about the need to listen to the legitimate concerns of Arthur Scargill et al when she took on the unions. She described them as "the enemy within" – and that is the right approach. Nimbyism is when well-housed, well-off people, who were lucky enough to get on the property ladder in time, use their political muscle and rhetorical skill to deny the same opportunities to other people. The solution is not to "listen" to them, nor to "bring them on board" and search for a consensus. "It is to declare an all-out war on them."

How to measure "levelling up"

capx.co

A key plank of Boris Johnson's electoral success is his promise to do more for people in places like Hartlepool – the so-called "levelling up" agenda. But how will we know if he has succeeded? To take the debate from rhetoric to reality, the Legatum Institute has launched the UK Prosperity index, a "tool that draws on 70 datasets to track the pathway to prosperity across 379 local authorities in all corners of the UK", says Matthew Goodwin. The index shows that the UK is continuing to make progress in some areas – it has a strong and open economy, productivity is rising, and the infrastructure and natural environment are improving. Poverty rates are falling in many parts of the country and rough sleeping has fallen 43% in the last five years. Yet these gains are being undermined in some areas by issues such as rising violent crime, deteriorating mental and physical health, and an erosion of social capital, including family relationships. In Middlesbrough, for example, 10% of the population feel lonely. Public trust in institutions is also low in the industrial heartlands and teenage pregnancy rates high. The index provides a benchmark that will measure progress on issues such as these and a way to hold the government to account.

The return of the crafts

economist.com

The Arts and Crafts movement arose in the wake of the industrial revolution to oppose the replacement of craft work with more efficient production lines, says The Economist. The "small is beautiful" movement of the 1970s had similar aims. The movement is being reborn.

There are two ready markets for artisanal products. The first is consumers willing to pay a premium for goods deemed to be of extra quality. The second is those who spend to support local workers or reduce the environmental impact of their purchases. For workers, the appeal is of intrinsically more satisfying, creative work.

Knit yourself a better future

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The trend might help even prevent mass unemployment if craft work creates enough new jobs to replace those that have been automated away. The dangers are that, in the modern world, products and services often have to pass through regulatory hoops. So large companies will have the advantage. And craft work can be as dull and routine as any other – medieval guilds were highly hierarchical monopolies that stifled innovation. "Craft workers can thrive in the modern era, but only if they don't get too organised."

So how did we do in the pandemic?

econlib.org

It is only to be expected that governments will perform badly, but they do occasionally surprise by attaining mediocrity, says Bryan Caplan. Still, governments at all levels and in all nations did even worse than could be expected in the pandemic. "I remain stunned that lockdowns lasted more than a few weeks" – it would have been "far better to do nothing".

Regular folk also performed vastly worse than expected. The "initial level of paranoia was no surprise, but its sheer durability continues to shock me". One of the main lessons from happiness research is that pleasant interaction with other humans is our most important source of happiness. A "mild risk wrapped in official nagging" was enough to get most people to throw this under the bus.

On the plus side, businesses excelled. Business models were revamped rapidly and production lines kept running; vaccines that many predicted would never happen arrived in record time. This wasn't merely a triumph of science: mass production and distribution was also necessary. "And the pharmaceutical industry did it."

Profit from the green boom

Energy efficiency and energy storage funds offer another way to invest in renewable power

David Stevenson
Investment columnist

Energy efficiency funds are an increasingly popular part of the infrastructure asset class. Four London-listed funds are currently valued at over £1.5bn – going up in value by the month with new placings and fund raisings – and there will surely be more launches in the wings. I'm a non-executive director of one of these, the battery fund **Gresham House Energy Storage (LSE: GRID)**, so I'm not going to make any comment about the attractiveness or otherwise of any individual fund, but here's a quick run-through of the basics.

New equipment can make greenhouses more efficient

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A new kind of infrastructure

These funds look a bit like other infrastructure funds: they are income focused, backed by real assets, and generate inflation-linked dependable cash flows. The average yield over the next few years should be in the 4%-7% range, which explains why all four trade at big premiums to net asset value – 16% for **SDCL Energy Efficiency Income Trust (LSE: SEIT)**.

However, unlike many infrastructure funds, there is little government involvement (ie, no contracts underpinned by the state), although government policy can have an impact on revenues. They also act more like operational businesses, buying and selling services to commercial end-users.

With the energy-efficiency funds, these users might be corporate clients. For example, SEIT, which listed in 2018, recently invested in a US business called RED Rochester that provides services such as electricity, steam, water and compressed air to customers in a business park. RED has over 100 customers, typically on 20-year contracts, with renewals linked to their tenancies.

Meanwhile, **Triple Point Energy Efficiency Infrastructure (LSE: TEEC)** raised £100m in an initial public offering in October 2020 to invest in low-carbon heat distribution, social-housing retrofit and industrial energy efficiency, and distributed generation. One deal involves community heat and power (CHP) assets that generate heat for big commercial greenhouses. These are more efficient than the old engines and less carbon intensive. Even the carbon dioxide waste from combustion is used to enhance crop yields.

In both projects, we can see long-term contracts, frequently inflation linked, with defined cashflows. There are no worries about governments, subsidies, or wholesale power prices (unlike renewable energy funds).

Very big batteries

The two battery funds, GRID **and Gore Street Energy Storage (LSE: GSF)** are rather different. Renewable energy creates lots of power at the wrong times. These funds own storage batteries that take in electricity when it's plentiful (and thus cheap), and supply it when it's needed (and therefore expensive).

Clients include the national grid operators, who are keen to make sure that there is spare capacity in the system to cope with peak periods of use or sudden unscheduled outages.

These funds have been busy buying into new projects, some of which are in the fast-growing Irish market. Both have a strong sustainability angle, in that they enable the push towards renewable power in the UK. This may help explain why big institutions have been buying into them.

A victim of popularity

What of the risk? Rising inflation could increase equipment and operating costs. Higher interest rates might make their yields less attractive. Operationally, all these funds depend on complex optimisation and valuation models with varying inputs (forward market pricing, inflation, discount rates) which can change over time. Income investors should keep an eye on operational net cash flows to underpin dividends.

Government policy might change (eg, more nuclear power would make storage less important), although that is unlikely. The greatest risk is that too much money goes into these energy efficiency niches, pushing down rates of return.

Activist watch

Bus and rail operator FirstGroup's battle with its largest investor has intensified after Coast Capital Management accused the firm's management of "bungling the multibillion-pound sale of its US bus business earlier this year", says the Financial Times. Coast said the £3.3bn deal with Swedish private equity group EQT "significantly undervalues the business" and "stinks to the heavens". The activist investor owns nearly 14% of the company and has "waged a long campaign against FirstGroup's board and management", urging it to separate its US and UK operations. FirstGroup put its US business up for sale in March, and shares have dropped 14% since the deal was agreed with EQT in April.

Short positions... investors pay for managers' fears

■ **Investors have had to foot the bill after fund managers "racked up transaction costs" selling and buying stocks in response to the pandemic, says Sam Benstead in The Telegraph. Around 150 funds have "hidden costs" from trading that can sometimes be as much as four times higher than their advertised ongoing fees. Among the "worst culprits" were two funds from Liontrust: its $415m Income fund incurred 2.84% in trading fees on top of the ongoing 0.88% charge, and investors in its £250m European Strategic Equity fund had to pay transaction costs of 4.34% on top of the 1.75% advertised fee. Absolute return funds, which aim to make investors money in any market conditions, were among the ones that incurred the highest transaction costs, according to research by investment platform AJ Bell. Although tracker funds are "often praised for their low charges", some also left their investors to pay transaction costs "far in excess of their advertised fees".**

■ The India Capital Growth Fund has seen a "stunning turnaround" despite the ongoing Covid-19 crisis in India, with its share price more than doubling over the last 12 months, say Gavin Lumsden and Michelle McGagh on CityWire. The investment trust, which invests in mid-cap stocks, generated a 134% total return. Its net asset value (NAV) rose by 77%, beating the 60% rise in the Bombay BSE Mid Cap index, while the discount to NAV shrank from 38% last May to 13.5% now. Returns still lag its benchmark over ten years (under 90%, compared to 138% for the mid cap index). But the turnaround will "improve IGC's chances of surviving a tender offer next year", when it must offer to buy back shares. If too many shareholders opt to redeem their shares, it would leave the £110m market-cap trust too small to be viable.

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Hunting for a breakthrough in Alzheimer's disease

The cost of caring for those with dementia is a growing problem for healthcare systems around the world. Any firm that develops an effective treatment could stand to make a fortune, reports Matthew Partridge

Alzheimer's disease is not only one of the top causes of death worldwide – it is also a condition that is "incredibly devastating" for people, says Martin Tolar, chief executive of biotech company Alzheon. It's not just the victims who end up suffering, as the friends and family of those affected have to watch helpless while their loved ones lose their memories, their personality and the ability to carry out basic tasks. At present, most treatments "only deal with the symptoms of the disease, rather than altering the course", but the encouraging news is that this is set to change, in as soon as the next five to ten years.

These breakthroughs can't come too soon. The large number of people who now suffer from Alzheimer's has created a "huge unmet demand" for better treatments, says Cassie Doherty of Parkwalk Advisors, a fund that specialises in investing in university spin-outs. In the UK alone, over 500,000 people have been diagnosed with the disease, which accounts for around two-thirds of all dementia cases (vascular dementia accounts for most of the rest). It's a similar story across the entire developed world.

The direct cost of palliative treatments, plus the wider costs of the social and medical assistance that most Alzheimer's patients end up requiring, represents a huge drain on health and social care budgets. Some estimates put the total expense of treating and caring for Alzheimer's patients in the US healthcare system alone to be as much as $500bn per year. Such a figure may sound incredibly high, but Doherty agrees that it is "plausible" especially "when you take into account the costs of unpaid carers, such as family".

The situation is likely to get even worse over the next few years as the number of patients is "growing quickly". There is a strong, well-documented link between Alzheimer's and age, with around one in every three people over 85 suffering from the disease, so an ageing population is much more susceptible to the condition. This combination of high costs and increasing cases means that there is a "real commercial opportunity" for anything can help doctors and healthcare workers deal with sufferers.

More efficient diagnosis

Before any treatment can be carried out, patients first have to be diagnosed with the disease. At the moment, the only way to definitely diagnose Alzheimer's-related dementia is to carry out a brain scan (or in a few cases a lumbar puncture). However, since such procedures are expensive, costing up to £20,000, most healthcare systems tend to require patients to be assessed by several doctors before such a scan is approved. In the UK this follows a three-stage process, with a general practitioner (GP) first referring patients to a specialist, who then decides whether to order a scan.

This is inefficient, says Sina Habibi, co-founder of Cognetivity Neurosciences, a medical technology company specialising in dementia detection. He notes that the initial decision to refer a patient to a specialist is based on a GP's subjective assessment of a person's symptoms. This means that a large number of referrals end up involving the "worried well" who have "seen a movie or read a newspaper article about dementia and have convinced themselves that they have the disease". Visiting a specialist can be expensive for reassurance, with a full range of cognitive tests typically costing the NHS around £2,000 a time.

"The total expense of Alzheimer's in the US may be $500bn per year"

Even these tests aren't always accurate, resulting in people who don't have Alzheimer's being referred for scans, and people who do have the condition being told that they have nothing to worry about. In order to address this problem, Cognetivity has developed a series of visual tests, which Habibi says can last just five minutes, can be administered by non-medical professionals and have around a 95% accuracy, greater than existing tests such as the Montreal Cognitive Assessment. Its system has already been approved by several NHS trusts for use in deciding which patients are given a full scale magnetic resonance imaging (MRI) scan.

Mass screening could slow onset

The immediate goal of automated tests is to save health systems money by acting as gatekeeper separating those who are worrying unnecessarily from those genuinely in need of treatment. But in the medium terms, such processes could be used to screen for those suffering from early stages of the disease.

One of the unique features of Alzheimer's is that by the time symptoms start to appear "the disease has progressed for 15 to 20 years, and a lot of brain damage has already taken place", says Mark Edwards of ViewMind, another dementia-detection technology firm. However, there is a lot of evidence that even simple lifestyle changes in the earliest stages, such as adopting a better diet and being more active, can help slow the onset. While mass screening of patients is currently impractical, Edwards believes that ViewMind's system, which uses a virtual reality headset to measure the brain's ability to process visual information, could be used to predict those patients who are starting to deteriorate, decades before the disease progresses to the point where they are experiencing symptoms.

Genetic screening could also play a key role in determining who is going to be at risk of developing the full-blown version of the disease in the future, says Patrick Short of Sano Genetics, a genetic data-sharing platform. While "tens to hundreds of genes" may help determine a person's chances of getting Alzheimer's, the one that has a "particularly strong link" is the APOE gene that controls production of a protein called apolipoprotein E. One allele (variant) of this gene called APOE4 is found in only 25% of people, but is present in the majority of Alzheimer's patients. Only 2%-3% of people have two copies of APOE4, but this rises to 15% among those with Alzheimer's.

Encouraging investment in new drugs

Of course even the best diagnostic systems are going to be of limited use unless better ways to treat the disease are developed. Until recently, drug companies have been traditionally reluctant to invest money in this area, and even today "the amount of research

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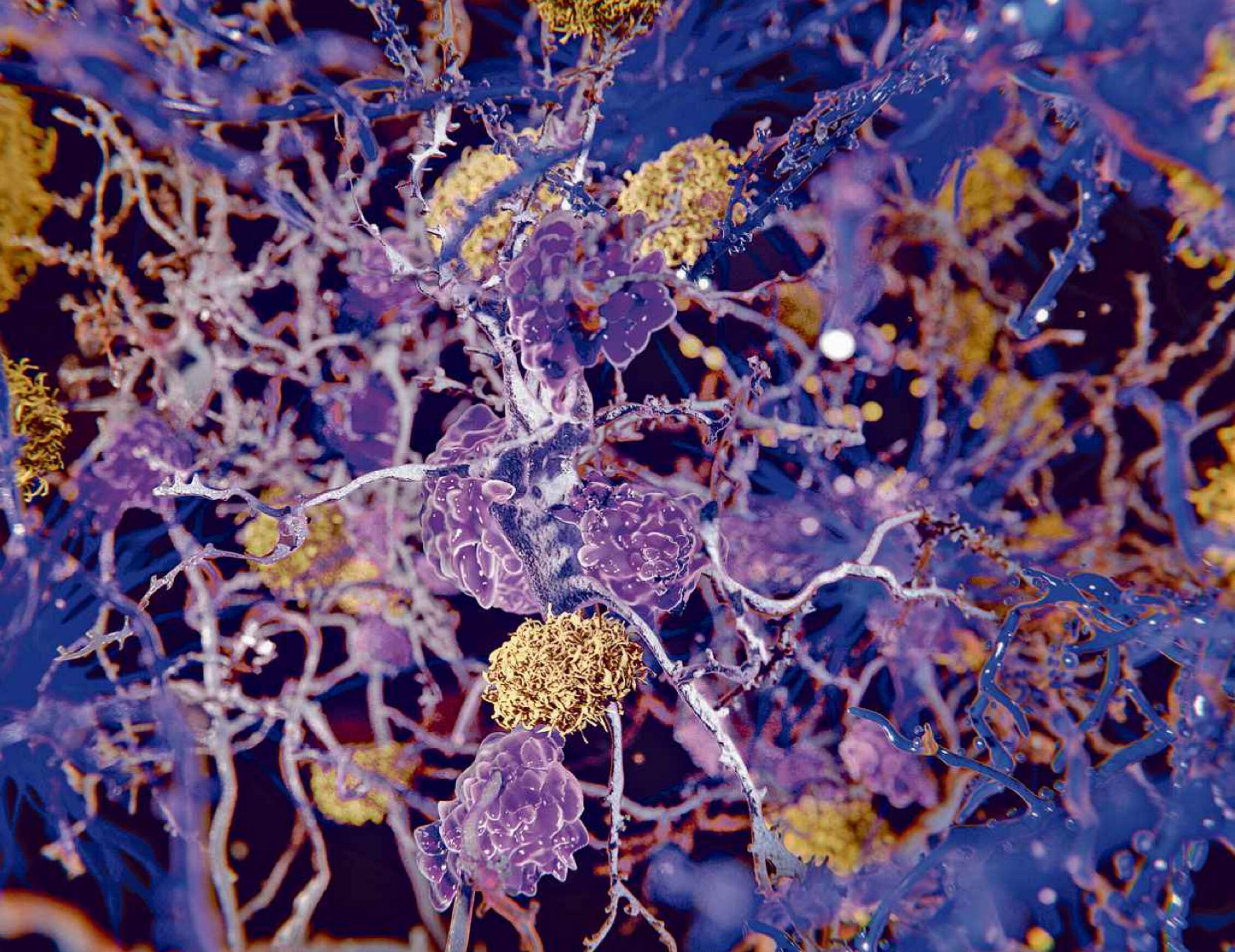

Amyloid plaques (the yellow structures) that damage neurons are a feature of Alzheimer's disease

and development in this area isn't as much as in other areas, such as oncology", says Parkwalk's Doherty. Not only are clinical trials in this area expensive, but "getting good clinical outcomes" from such trials "has proved to be difficult". The scale of the challenge is shown by the fact that as many as 300 clinical programmes have ended in failure in recent years.

The failure of so many trials means that "more work needs to be done" to further our understanding of the condition, says Doherty. However, the prospect of growing numbers of Alzheimer's patients putting pressure on healthcare systems is encouraging governments around the world to invest large sums of money into all levels of research. The UK government has been at the forefront of this, with the Medical Research Council and the National Institute for Health Research making research into Alzheimer's and dementia a priority. British universities, especially Oxford and Cambridge, are already starting to produce a lot of interesting discoveries.

While most drug trials have ended in failure, a few have managed to show enough promise to justify further investigation, says Doherty. At the moment there are around 18 drug trials that have progressed into phase III (the stage of the process that tests effectiveness in a large number of human patients) and 36 that are in phase II (which tests efficacy in a smaller number of patients). While there is no guarantee that any of these drugs will end up being approved, she is confident that significant progress is on the horizon.

Meanwhile, with billions available to those who are able bring a drug to market, pharmaceutical drug companies at now starting to realise that, despite the high cost of trials, "they can't afford to neglect the area", say Alzheon's Tolar. This is leading them to get back into the area by investing large sums, in an attempt to find a decisive breakthrough that will help them deliver a blockbuster drug. Like Doherty, Tolar is confident that all this increased interest means that "we are likely to see several approved treatments for the disease on the market within the next few years".

The leading contenders

The three main drugs that are attracting attention at present are Biogen's aducanumab, Eli Lilly's donanemab and Alzheon's ALZ-801. All three work – in different ways – on the theory that Alzheimer's is caused by a corrupted form of the amyloid-beta precursor protein (APP). This protein is thought to help the brain repair itself, but researchers believe that when APP breaks down and accumulates into amyloid plaques, it becomes toxic and damages the same cells that it is supposed to defend. When damage reaches a critical level, people start to suffer symptoms.

Of the three, the closest to making to market is aducanumab, which could be approved by the US Food and Drug Administration (FDA) as early as next month. If so, it would be the first approval in this area since 2003. However, while trials suggest that there is statistically significant evidence that the drug slows the progression of the disease in its later stages, the effect is relatively small. Indeed, with the FDA's own

Continued on page 26

"As many as 300 clinical trials for treatments have ended in failure in recent years"

Continued from page 25

advisory panel recommending against approving the drug, experts estimate that the chance of getting the green light is only around 50%.

There's also the added complication that, since amyloid plays a vital role in "protecting the brain against injury or infection", reducing the levels of healthy amyloid "can have big negative implications" for general health, says Tolar. Both aducanumab and donanemab have been linked to an increased risk of brain oedema (swelling due to trapped fluid). As a result, even if the FDA approves aducanumab, rival companies are still likely to continue working on their own treatments, in the hope that these could be more effective. For example, Tolar obviously hopes that Alzheon's drug ALZ-801 – which he believes could be approved by 2024, or even earlier if the FDA decides to speed up the process – could end up being the dominant treatment. He argues that existing trials have shown that it is much more effective than its competitors; that it has been associated with fewer side effects; and the fact that it is delivered through a twice-daily pill, as opposed to intravenous (IV) infusion, makes it more convenient for elderly patients.

Future treatments with gene therapy

Using drugs to target rogue amyloids, as well as tau proteins, another group of neural proteins that has been linked to both Alzheimer's and Parkinson's disease, is the most popular approach at the moment, but there's also been an increasing amount of interest in gene therapy. For example, the key to fighting Alzheimer's could be through a protein known as brain-derived neurotrophic factor (BDNF), thinks Mark Tuszynski, professor of neuroscience at the University of California San Diego School of Medicine. Since Alzheimer's patients tend to have lower levels of this protein, which helps rebuild brain synapses, he hopes that increasing the level of BDNF in the brain can not only slow the progress of the disease, "but also rebuild connections between parts of the brain" to improve the memory of sufferers.

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Gene therapy may also produce Alzheimer's treatments

However, getting BDNF into the brain is not easy. It isn't absorbed by the gut, so it can't be delivered by a pill, and it's blocked by the blood/brain barrier, so IV infusion is unlikely to work. Tuszynski's idea is to inject a modified virus carrying the gene into the brain, which will prompt nearby cells to start producing BDNF. Preliminary results from animal studies suggest that the boost from a one-off treatment could last for up to nine years, and have prompted his institute to set up a human trial of the technique. If everything goes to plan, this could be available as a treatment option within the next five years.

Meanwhile, researchers at Cornell University are targeting the APOE4 allele, which has been linked to both an increased likelihood of getting Alzheimer's as well as an earlier onset of the disease. They have begun a trial that floods the brain with a different allele, APOE2, which has been associated with a reduced risk of getting Alzheimer's.

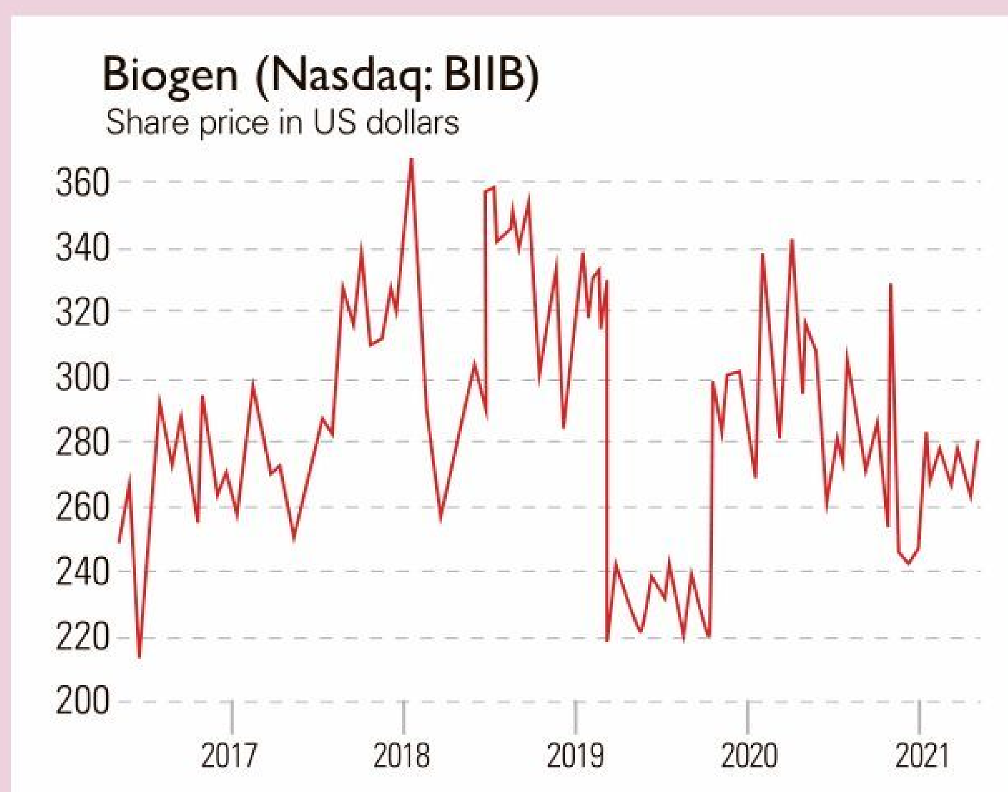
However, commercial use of gene therapies for the disease probably lie further in the future. We look at some firms with more immediate prospects below.

"The chance of aducanumab getting approved is around 50%, say experts"

The leading contenders in Alzheimer's drugs

Among the larger biotechnology and pharmaceutical firms, **Biogen (Nasdaq: BIIB)** stands out for putting a lot of resources into finding an effective treatment for Alzheimer's. Even if the FDA's decision on whether to approve aducanumab, which is due in June, ends up going against it, Biogen has four other Alzheimer's treatments undergoing clinical trials. These include BAN2401, which is in phase III, and gosuranemab (phase II), while BIIB076 and BIIB080 are in phase I (safety) trials. The downside risk is limited by the fact that Biogen already has several successful drugs on the market and trades at only 14 times forecast 2022 earnings.

Eli Lilly (NYSE: LLY) is also at the forefront of the race to develop new Alzheimer's drugs, with early trial data suggesting that its donanemab drug slows the progression of the disease. The firm is currently running multiple phase III studies for use in Alzheimer's patients at different stages of the disease, including pre-symptomatic patients. While the stock trades at a more expensive 23 times forecast 2022 earnings, this is more than justified by the fact that revenue has increased by more than 150% over the last three years.

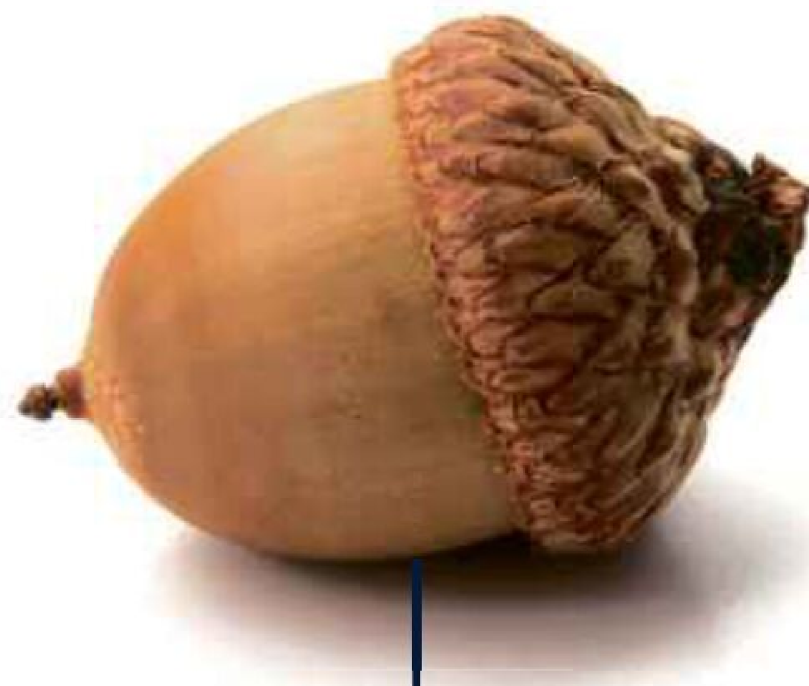


Alzheon, which is developing ALZ-801, is not listed (it has twice pulled a planned initial public offering), but there are a number of smaller biotech firms working in this area. **Alector (Nasdaq: ALEC)**, which specialises in neurology, has several Alzheimer's drugs in its pipeline, including AL002, which has reached phase II clinical trials. Its portfolio also includes other interesting prospects, such as AL001, which is in the final stage of trials to see whether it can help with frontotemporal dementia. Alector is partnering with pharma giant **AbbVie (NYSE: ABBV),** which is obviously not a pure play on Alzheimer's, but looks cheap at just 8.4 times forecast 2022 earnings.

Denali Therapeutics (Nasdaq: DNLI) is also focused on neurological diseases. This is one to watch, with a pipeline targeting diseases such as Alzheimer's, Parkinson's, dementia and amyotrophic lateral sclerosis, say Julia Angeles, Rose Nguyen and Marina Record of the Baillie Gifford Health Innovation Fund. Denali's most promising Alzheimer's treatment is DNL788, which has started phase I trials in partnership with Sanofi. The firm isn't making any money, but has enough cash to support development of its main drugs.

Loss-making **Axsome Therapeutics (Nasdaq: AXSM**) looks riskier, but has a combination drug therapy, AXS-05, in phase III trials for reducing agitation in patients with Alzheimer's (something that no drug is currently able to do). While this is palliative – it reduces symptoms rather than slowing the course of the disease – the ability to improve patients' quality of life means that sales could be as much as $3bn a year if the drug is approved. The FDA has granted it Breakthrough Therapy designation, meaning it will be eligible for an expedited decision after trials conclude.

Smithson Investment Trust



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% Total Return

12 months ending April	2021	2020	Since inception to 30.04.21
Smithson Investment Trust Price	+35.3	+7.7	+77.2
MSCI World SMID Cap Index (£ net)	+45.4	-9.4	+38.6

Source: Financial Express Analytics. Inception 19.10.18.

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Covered for Covid-19?

Most travel insurance offers limited protection for holidaymakers

Alex Rankine
Markets editor

Vaccine passports. Coronavirus tests before departure and return. Sudden reclassification of a country's risk status while you are abroad. The threat of an expensive stay in a government-run quarantine hotel on return. International travel in the pandemic era will make any traveller nostalgic for the time when all they had to worry about were long queues, rip-off charges and lost luggage.

So if you're planning a holiday, make sure you check how these risks will affect your travel insurance. Insurers have updated their terms since the first lockdowns in spring 2020 and most now offer some form of "coronavirus cover", but the exact details vary widely.

On the plus side, virtually every policy covers emergency medical costs and repatriation if you fall ill while abroad, says Harriet Sime in the Daily Mail. The usual advice when choosing travel insurance policies is to get "£2m of medical cover for Europe, or £5m beyond".

What's more, the majority of policies will cover circumstances such as your trip being cancelled because you have contracted the virus prior to travel. However, if you get a call from NHS Test and Trace telling you to isolate, you may be out of luck: only 18 out of 60 policies looked at by Times Money Mentor cover emergency repatriation in this case, says David Byers.

The traveller bears the brunt

Beyond that, the risks of travelling during the pandemic are increasingly being borne by the consumer. First, note that the majority of policies are currently only valid for a handful of destinations, says Ben Smithson on The Points Guy. The government advises against "all but essential travel" to amber and red list countries, giving insurers legal cover to void guarantees. Some specialist firms (who typically cover workers in war zones and after natural disasters) offer coverage for amber list destinations, but this is not the norm.

"No policies cover the risk of unexpectedly having to quarantine on your return"

In the past, you could usually claim if the government changed its travel advice before or during your trip. This is now exceedingly rare. If your green holiday destination turns amber you will be out of luck. Meanwhile, no policies that the Daily Mail examined would cover the cost of unexpectedly having to quarantine in a hotel on return. Travellers returning from countries that suddenly go on the red list will have to pay £1,750 per person out of their own pockets.

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Check your plan before you board

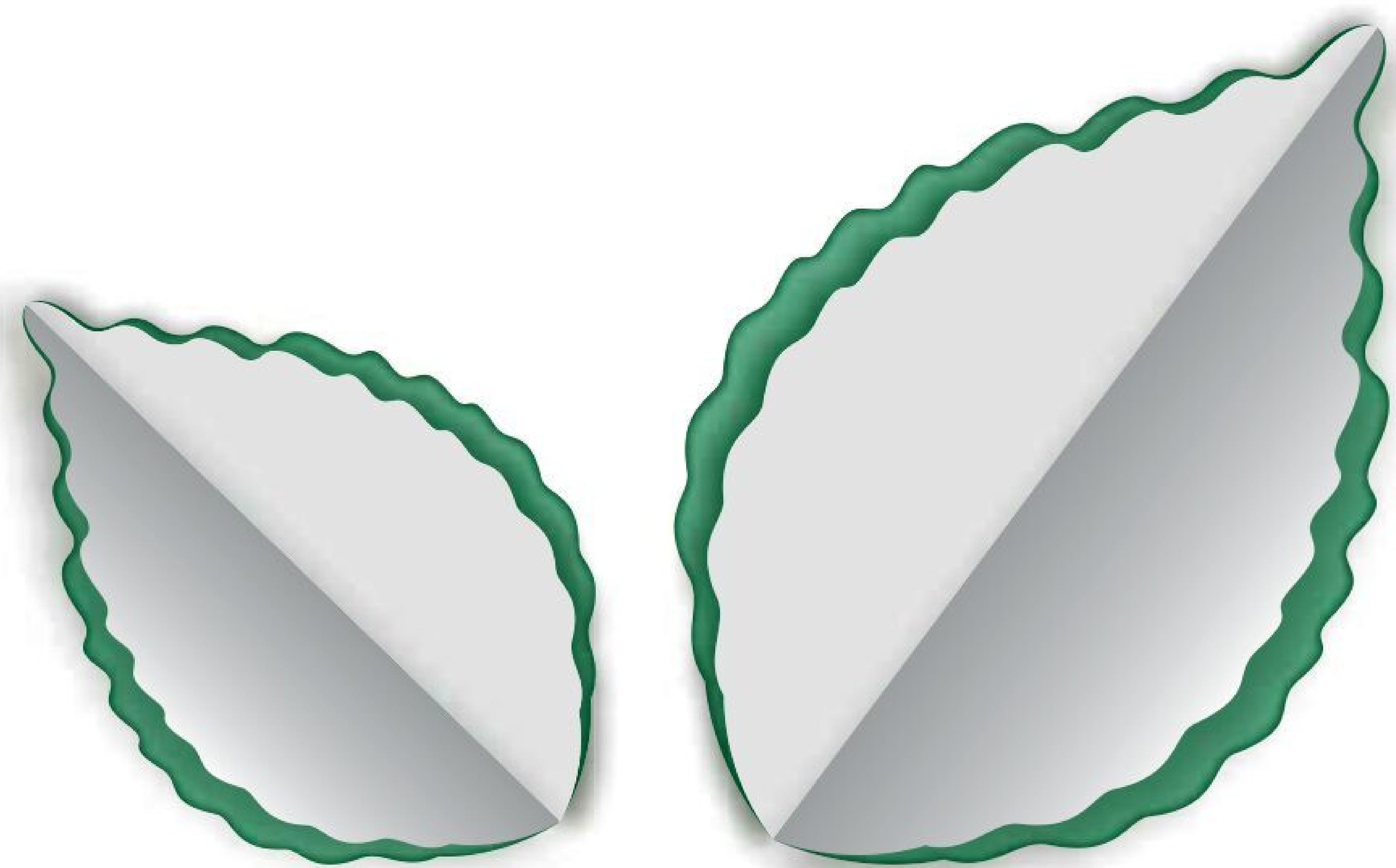
Other ways to reduce risks

With travel insurance offering a partial solution at best, look for other ways to reduce the risks, says Miles Brignall in The Guardian. Package holidays have greater protection under the Air Travel Organisers' Licensing (Atol) scheme. A change in travel rules would force the tour operator to cancel. Customers are then technically entitled to a refund within 14 days.

Try to book flexibly, says Jaymelouise Hudspith in The Daily Post. More airlines are now offering free date changes, while hotels and rental accommodation providers are increasingly allowing cancellation at short notice, sometimes as little as 24 hours.

Indeed, "wait until the very last minute if you can" before booking, says Lucy Perrin in Times Expert Traveller. "There are going to be some amazing deals … and the longer you leave it, the more of an idea you'll have on the places you can actually travel."

PAPER
LOVES TREES



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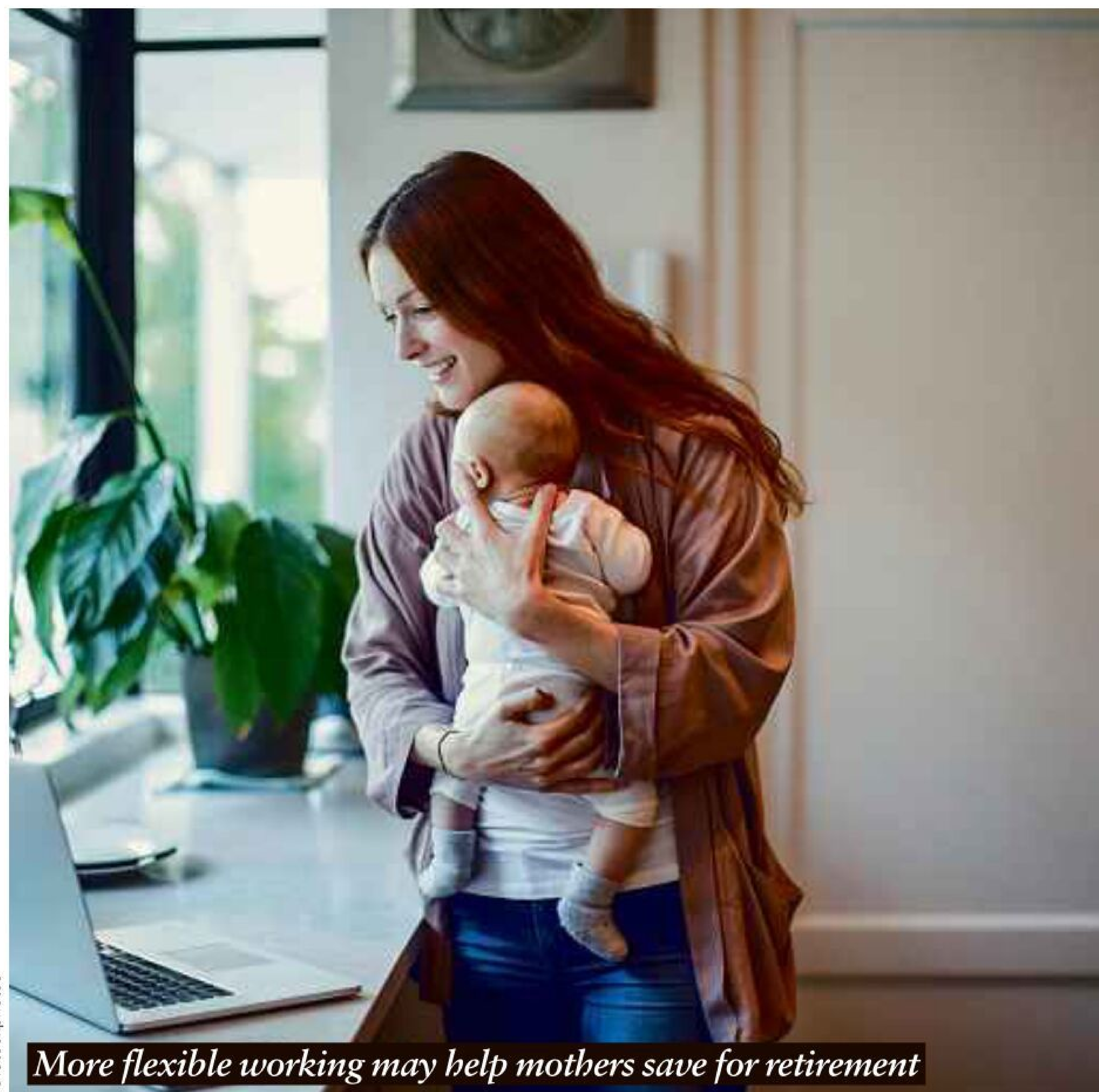
A post-pandemic pension

Flexible working may have a permanent effect on how we save for retirement

David Prosser
Business columnist



More flexible working may help mothers save for retirement

As the UK continues to ease Covid-19 lockdown restrictions and more employees return to work, the debate about the future of work goes on. If the move to more flexible arrangements continues, the impact on retirement planning could be greater than expected.

The most obvious point is that if people work fewer hours – because they choose to shift to part-time working, for example – they will almost certainly be paying less into their pension. Under the auto-enrolment pensions system, both employees and employers have to pay a minimum percentage of pay into pensions. If your earnings reduce, so will the cash going into your savings. Inevitably, that means a smaller pension fund when you reach retirement.

Moreover, many people do not realise that there are minimum levels of earnings to qualify for auto-enrolment. If your salary drops below £10,000 a year, your employer does not automatically have to enrol you in its occupational pension scheme. That could see you missing out on workplace pension contributions altogether.

This can be a real headache for the growing number of people with several part-time jobs. If each of them pays less than £10,000, they may not receive any pension benefits at all even if, in aggregate, they are earning well over the threshold.

Get enrolled if you can

If you are in this group, the thing to check is whether you are earning more than the lower earnings limit for national insurance contributions with each employer – this is currently £6,240. If so, you have the right to ask to be enrolled in the work pension scheme, even if your employer is not obliged to do this automatically.

Affordability will naturally be a key consideration. If your income has fallen – by choice or otherwise – can you afford to keep up with pension contributions, or even to make additional voluntary payments in order to keep your retirement saving ticking over? That will depend on your individual circumstances, but every penny of pension savings you can afford to make today will benefit you over the longer term.

> *"You must earn over £10,000 to qualify for auto-enrolment"*

It is not all bad news. Pension experts believe that a shift to flexible working could help many women save more for retirement. Women's pension savings, on average, lag behind those of men; this is partly because they are more likely to take time out of work to have children, but also because women typically take on more caring responsibilities over the long run, making it harder for them to work. If employers now have to take a more modern attitude to flexible working, many women may find it more straightforward to increase their hours and to boost their pension savings accordingly.

For example, the average full-time working mother has a pension fund worth £153,562 at retirement, against £123,061 for a mother who works part-time, according to data from investment platform Interactive Investor. That is a shortfall of more than £30,000 that some women may now be able to start making up.

Don't throw away old pension rights

Did you start saving for retirement prior to 6 April 2006? If so, you should make sure that you fully understand the pension rights you built up before that date, when major pension reforms were introduced in the UK. Many people have more generous rights than they realise under the old system.

In particular, since 2006, the tax-free cash you can take from your pension when cashing it in is usually limited to 25% of the value of your savings. But pre-2006 savings with many occupational pension-scheme providers, as well as certain individual plans, offered more generous arrangements. You may find that with pensions built up before this date, you have significant extra flexibility.

It is important to get to grips with this now for two reasons. First, it will help you plan for retirement if you know exactly what you are due. Second, while people are often urged to consolidate old pensions, if you transfer savings out of one of your pre-2006 pension funds, there is a good chance you'll forfeit these additional pension rights, leaving yourself worse off. If in doubt, take independent financial advice.

Dormant pensions will go to charity

● Some £880m of unclaimed pension savings and insurance benefits could be transferred to charity under plans confirmed in last week's Queen's Speech. The government is pressing ahead with plans to include these accounts in the existing dormant assets scheme, which gives cash from bank accounts to charity if it hasn't been accessed for 15 years.

Savers would still have the right to claim their money even after it has been handed over, but this underlines the importance of keeping track of old pensions – and hunting down those you think you might have lost touch with. The government's Pension Tracing Service can help you find details of former employers where you might have built up pension rights. The Pensions Advisory Service also has advice on identifying old pensions.

● Thousands of families missing out on child benefit payments because their earnings exceed £50,000 might be better off if they increased their pension contributions. Under rules introduced in recent years, families receiving child benefit effectively repay the cash through the tax system once their earnings move above a set threshold. However, pension contributions can reduce the value of your earnings when this calculation is made, enabling you to retain more of the benefit.

A cheap play on smart homes

This US-listed stock has languished in obscurity since it was spun off from its giant parent

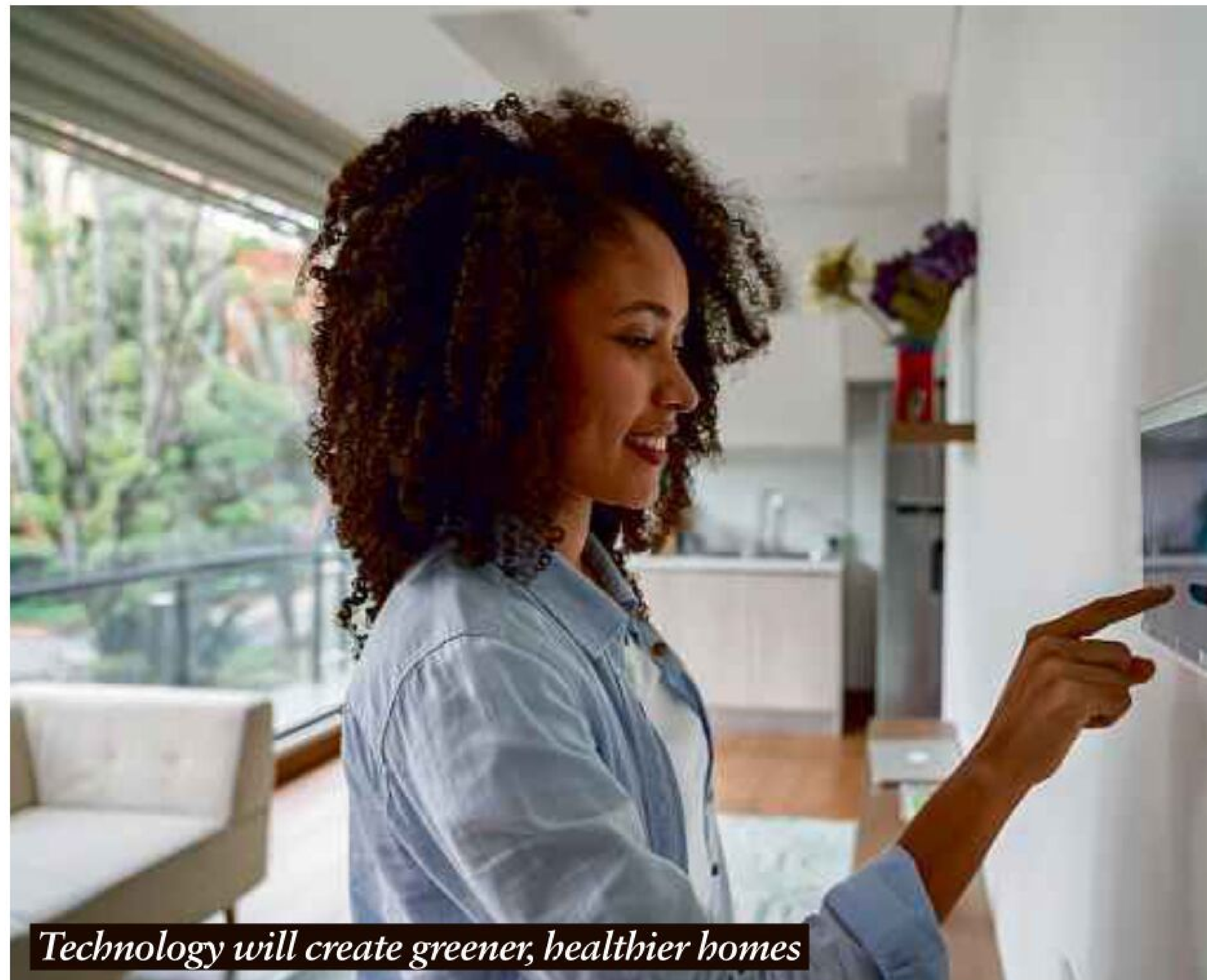
Stephen Connolly
Investment columnist

Security cameras or heating thermostats that can be monitored with a mobile phone are already important tools for many households. The smart-home transformation can automate our daily lives and help protect our homes and families from threats. So this market is set to grow further, but while leading technology companies like Microsoft and Amazon provide the power to deal with all the data it will produce, there are cheaper ways to play this theme.

The established tech players are clearly crucial as they bring the necessary scale – untold numbers of security cameras are set-off every hour, for example, and owners must be alerted wherever they are on their mobile phones. However, without the gadgets doing the monitoring there's no data to act on. This means the much smaller niche-players that produce, distribute and install all manner of monitors and sensors will also play a key role in connecting our homes.

An unloved orphan

One in this area that stands out as undervalued is Texas-based **Resideo Technologies (NYSE: REZI)**, a $4bn company spun-out of Honeywell, the global industrial conglomerate, in 2018. As often happens when losing a parent company, Resideo's shareholder support drifted away and interest from analysts dropped because it's so small compared to the group it left. The result is relative obscurity in stockmarket terms, which in part explains why the shares languish at $29 and a price/earnings (p/e) ratio of 14.5 (a sizeable 50% discount to the market). This looks very attractive given that Resideo is expected to grow earnings by over 20% a year.



Technology will create greener, healthier homes

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Held back by a poor start

Still, it's difficult to find companies with a good story, double-digit growth and a low valuation, raising the question of why Resideo remains so cheap almost three years after it became an independent company. The shares have been held back by a rocky first year when it undoubtedly lost support because of some poor forecasting and expectation management. Under-delivering earnings and reporting crushed margins all took their toll. From that low point, Resideo has been a turnaround play.

Under new management

The current chief executive, Jay Geldmacher, joined about a year ago: he is a 30-year veteran who's already led a spin-out company in the industrial technology area and has a record of delivering results. In the last quarter, sales were up 20% to $1.4bn over the year, margins climbed to 25.9% and operating profits grew strongly.

There's still much to do but Resideo is making the right progress. Its annual sales are around $5bn but it sees a $110bn addressable market across its product and distribution activities. And it has a strong base from which to secure more business in a fragmented marketplace – its products, such as movement and glass-break sensors, cameras, and leak and carbon monoxide monitors, are already present in 150 million homes worldwide and it's the number-one distributor of security devices. There is also the likelihood that people will increasingly pay to have equipment correctly fitted and maintained, as well as buying products for DIY solutions. Resideo serves both markets to differing degrees.

Green credentials

In an age when environmental issues are coming to the fore, creating greener or healthier homes can be a sales driver. Remote systems can significantly reduce energy usage and expenditure, as well as other waste (a hidden pipe that drips once a second wastes 2,700 gallons of water a year). Airflow and conditioning devices are also important, given that indoor air quality is often worse than outdoors.

So a lot of the right buttons are being pushed here: green credentials, links to hot tech themes (see below), strong growth and a 50% valuation discount to the market. Given the stock is so cheap, the downside seems limited. Resideo is worth a look.

An overlooked play on popular tech themes

Resideo's activities of home sensor and device production and distribution aren't what investors view as strong tech plays, but the firm is operating within the big tech theme of connecting our homes with our devices. It's also riding on some themes that have been setting other sectors alight – think of the adoption of the 5G mobile network for connecting everything, the remote internet cloud for the vast processing needed, and the internet of things (the term for networking everything from home appliances to cars to medical monitoring and diagnostic equipment).

So while Resideo isn't going to trade on the heady ratings of mainstream tech stocks, it deserves to be trading higher than it is, given new management is making progress and the turnaround appears to be gaining traction. If management continues to deliver sales in line with or above guidance while building margins, that will attract broader investor interest.

There are currently only about half a dozen analysts covering the stock and their views vary widely. There is some consensus for the idea that the shares should be able to reach a price of $36, from the current $29, but this is probably a bit too conservative. Trying to value it somewhere between its competitors on both the product and distribution side – such as Allegion, Acuity Brands or Wesco – could suggest a price target of above $40 over the next year, if the company stays on track.

It's worth noting that Resideo is not entirely hidden below the parapet. Billionaire US investor David Einhorn, the founder of hedge fund Greenlight Capital, highlighted what he called the fund's "medium-sized" position in Resideo in its investor letter earlier this year. He too suggested earnings should grow strongly and seemed happy continuing to hold the shares as turnaround progress continues.

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Why Japan is the place to look for cheap growth

A professional investor tells us where he'd put his money. This week: Joe Bauernfreund of the AVI Japan Opportunity Trust picks three undervalued stocks

In a world of excess capital, exuberant markets and high expectations for a strong post-pandemic recovery, it is difficult to find undervalued companies. But investors need look no further than Japan. Despite a muted impact from Covid-19 and a strong earnings recovery, the Topix has increased by just 18% in sterling terms over one year, compared to 33% for the MSCI World.

Time and again, value investors have held out much hope for Japan, only to be disappointed with false dawns and unmet expectations. However, attitudes towards shareholders are changing and we believe investing in Japan does not pose the same risks as it did a decade ago.

We look for high-quality businesses, which broadly speaking means companies that will generate a significant amount of shareholder value over three to five years. These are not hard to find – there are plenty of undiscovered wonderful firms in Japan, trading at amazing valuations. We engage constructively with management and offer ideas on how to rectify their share-price undervaluation. Low valuations, growing shareholder value and engagement is a potent combination for generating high returns.

"There are plenty of firms in Japan that trade at amazing valuations"

Elevating Fujitec

Fujitec (Tokyo: 6406) is a global lift manufacturer. Its maintenance contracts last for decades, producing steady recurring profit, which explains why Fujitec's global peers trade on an average enterprise value to earnings before interest and tax (EV/EBIT) multiple of 24. We put forward a public presentation last May outlining several improvement points, to which Fujitec reacted positively. Since then, it has discontinued its anti-takeover measures, increased the dividend payout, improved English-language disclosure and is taking steps to enhance its profit margins. These actions increased Fujitec's EV/EBIT multiple from seven in May to 14 today, and we expect that re-rating to continue.

Japan's IT revolution

Japan's IT systems are outdated, inefficient and in much need of improvement. **DTS (Tokyo: 9682)** provides system solutions to companies, such as those that use more efficient cloud-based services. Due to its size and excess cash, DTS trades on an EV/EBIT multiple of just seven, compared with peers on 15. It has grown profits annually at 7% for the past five years and we expect that pace will continue. While at an early stage, we have built a strong relationship with the management team, who find DTS's low valuation as perplexing as we do.

Cashing in on digital payments

Digital Garage (Tokyo: 4819) runs a payment-processing business that is well positioned to take advantage of Japan's shift away from a cash culture. Non-cash payments account for only 16% of consumption in Japan, compared with 54% in the UK. The government wants non-cash payments to more than double to 40% by 2025. This would be a huge boon for Digital Garage, which is aiming to compound profits at 20% for the next five years. The tailwind is reflected in the valuation of a close peer, GMO Payment Gateway, which trades on a forward price/earnings (p/e) ratio of 107, but not in that of Digital Garage, whose complex structure and poor communication means it trades on an implied p/e multiple of 20. However, with a nudge from us, it has started to improve disclosure and we expect that valuation gap to narrow.

If only you'd invested in...

Banknote and security-label printer **De La Rue (LSE: DLAR)** has been "attracting attention as a recovery play" ever since its new management brought it "back from the brink" halfway through last year, says Algy Hall in Investors' Chronicle. Costs associated with bailing out the firm came in at £3.1m, but the 303% surge in the share price since "shows just what a relief it was". If all goes to plan, the restructuring and investment should create a firm "capable of producing compound annual revenue growth of 9%". There is still a lot to do, but there have already been encouraging signs in De La Rue's order book.

Be glad you didn't buy...

Moneysupermarket.com (LSE: MONY) runs three price-comparison sites: MoneySuperMarket, MoneySavingExpert and TravelSuperMarket. The firm saw revenues drop by 20% to £85.5m in the three months to March 2021, as its travel and insurance arms struggled with the effects of the pandemic, says Philip Whiterow on Proactive Investors. Revenues for its money division dropped 26% to £18.1m, while travel revenue was "negligible". It also lost a large contract with a partner that contributed about £15m of revenue in 2020. The share price is down by 17% over the last 12 months.

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The social savant leading a revolution

Chamath Palihapitiya is credited with sparking the current market mania for Spacs and mob investing. He says his aim is to bring down the establishment from within. Jane Lewis reports

"Wall Street has always had its rock stars," noted The Wall Street Journal in March. But no one has marshalled the twin forces reshaping markets – the "blank-cheque" boom and the retail-trading surge – quite like Chamath Palihapitiya. The former Facebook executive belongs to "a new class of market influencers – social-media savants who've figured out how to take shots at the establishment while taking its money". Amateur traders hang on his every word for clues about his next target "and for the insults he hurls at the high-finance elite".

©Getty Images

The bandwagon starts rolling

The founder of tech-investing firm Social Capital is credited with creating the template for the "Spac" bandwagon. Although they've been around for decades, these special-purpose acquisition vehicles "exploded in popularity in 2020" after Palihapitiya teamed up with Richard Branson to bring his space-tourism outfit, Virgin Galactic, to market in late 2019 via a blank-cheque company, originally known by the ticker symbol IPOA. The stock price tripled in four months. Last year, Palihapitiya raised more than $4bn for five more Spacs – known as IPOB, IPOC, IPOD, and so on, says Bloomberg. "He says he'll eventually do 26 deals, one for every letter of the alphabet."

The boom has made Palihapitiya a billionaire and a social-media star: the "Spac king" has 1.5 million Twitter followers and a popular weekly podcast, *All-In*, where he discusses technology, politics and investment strategies. His catchphrase, "Wet your beak!", was once gangster-speak for extortion; he uses it to mean "make tons of money on the stockmarket and feel good about it". At 44, Palihapitiya is "cocky, blunt and seems like the kind of guy who'd take pleasure in calling BS on the current stockmarket hype – if he wasn't the one behind it". Instead, he's prone to calling traditional value investors "morons". During the GameStop mania in January, when the brokerage Robinhood temporarily suspended trading in the stock, he said: "These motherf***ers should go to jail". He is also a poker player and "a vocal bitcoin investor", says Forbes: he used the cryptocurrency to buy an undeveloped property in Lake Tahoe.

"Palihapitiya's catchphrase is 'Wet your beak!', meaning, 'make tons of money on the stockmarket and feel good about it'"

The child of Sri Lankan immigrants to Canada, Palihapitiya grew up on welfare in Ottawa. In high school, he worked at Burger King and ran a blackjack game in the cafeteria for cash. After studying electrical engineering at the University of Waterloo, he joined the Bank of Montreal before moving to the US during the dotcom era. Palihapitiya's first tech job was at AOL where he gained a reputation for his "chutzpah" – and for stealing his boss's parking space. In 2007, he joined Facebook and persuaded Mark Zuckerberg to make him head of growth. Within four years, "the company had added almost a billion users".

Biting the hand that feeds

Palihapitiya has a habit of slagging off groups who have furthered his career – including Facebook, venture capitalists and the hedge funds that bought into his Spacs. But his line is that he's a social reformer in the business of making money to enact sweeping change, says The Wall Street Journal. He left Facebook in 2011 to found Social Capital "with a mission of backing young start-ups that want to solve the world's toughest problems" – such as climate change and social inequality – and once vowed to buy up the Hamptons and turn it into affordable housing. In 2007, he outlined his intention to join the establishment and "do my best to completely explode it from the inside". Of late, he has toyed with running for governor of California. Could be interesting.

Palihapitiya faces a "Reddit reckoning"

It's no wonder the Spac boom gained such traction on Wall Street, says Bloomberg. The way deals are engineered makes it "almost impossible" for backers to lose. Not only do sponsors get to keep 20% of the stock for themselves "as a kind of fee", but because listings are structured as mergers, they can sidestep initial public offering rules preventing them from talking openly about a business before its shares start trading. Thus "even an unprofitable company can make ambitious projections about all the money it's about to make" – manna for someone with the hype skills of Palihapitiya. Spacs were also low-risk bets for hedge funds because of rules enabling them to redeem their investments at the $10 level at which shares in blank-cheque companies are priced "if they don't like the deal that gets announced".

At the peak of the frenzy, everyone was muscling in, from space cadets to celebrity basketball players. But the boom that raised more than $180bn since the start of 2020 is now threatening to turn into "Spacopalyse now", says The Sunday Times. Anxious regulators have played a part. After warning the public "against buying into deals fronted by celebrities", the SEC, the US regulator, "pulled the handbrake" in April with an accounting change that will force "many Spacs to restate their financials" – prompting the rush to come to a screeching halt. Instead of "popping", shares in Spacs "now typically slide on takeover announcements", says the Financial Times. "The retreat of retail investors has been particularly bad," according to one Spac sponsor. The market is "dead, dead, dead".

Palihapitiya's acolytes have been hit hard by losses: shares in Virgin Galactic, for instance, are down nearly 75%. But it was concern surrounding another of his blank-cheque deals – the insurance company Clover Health – that may have done most to prompt the rout, says Bloomberg. In February, short-seller Nate Anderson of Hindenburg Research published a damning report entitled "How the 'King of Spacs' Lured Retail Investors into a Broken Business". The stock plummeted and the SEC is now investigating. Anderson reckons the Spac boom "has given the market more frauds to expose than at any time in the past decade". Indeed, "a Reddit reckoning" may be in store for Palihapitiya and fellow market prophets such as Elon Musk and Cathie Wood of ARK Innovation. Certainly, "Palihapitiya's ambition to create an alphabet of Spacs may have to wait a while".

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Early Summer Selection

This month I have chosen a perfect world tour of wines for your enjoyment. As always with selections of bottles from Swig, this sextet is an unexpected cornucopia of delights. It never ceases to amaze me how this mercurial merchant seems to come up with new and exciting wines every time I peer into their cellar and while some of you might have heard of Badenhorst I bet that Bauer, Distant Noises, Monte-Ficali, Terre de Mistral and Raúl Perez are new discoveries. Aside from Swig's perennial ability to shock and amaze my palate they also manage to keep their prices extremely pared back for our *MoneyWeek* wine club fans. Three cheers to Swig! Hick, Hick, Hooray.

Matthew Jukes

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Prices shown below are per case of 12 bottles. Wines are also available in a 12 bottle mixed case (2 of each of the wines) **excellently-priced at £159.00 (saving £22.80 per case).** It's a chance for you to try them all, and it is the most popular choice with readers of *MoneyWeek*.

2019 Gemishter Schatz, Christoph Bauer, Niederösterreich, Austria

What is Gemishter Schatz? If you blend 30% Welschriesling, 30% Sauvignon Blanc, 30% Neuburger and 10% Traminer you end up with this devastatingly impressive wine. Pin-sharp, mountain fresh, zesty and uplifting, you will find violet, grapefruit, rhubarb, lime zest and green apple skin vitality among other bracing sensations in this wonderfully refreshing, dry white wine. It will electrocute your senses with its insatiable joie de vivre.

CASE PRICE: £150

2020 Secateurs, Chenin Blanc, AA Badenhorst, Swartland, South Africa

Do not be misled by the diminutive price of this classic Cape white. This is the entry-level wine, but the 2020 vintage over-delivers to such a degree that it is a veritable Grand Vin. Allow it to breathe and don't chill it too much and you will discover layers of honeysuckle, pith, greengage and wild herb detail. Drink alongside everything from sushi to roast chicken, such is its array of food-matching talents.

CASE PRICE: £150

2020 Domaine Terre de Mistral, Rosalie, Sainte Victoire Côtes de Provence, France

With hundreds of new season rosés crowding the shelves right now you would do well to avoid the bandwagon and stick to serious recommendations from those in the know! Terre de Mistral is a wine with an uncommon depth of fruit and an accurate pomegranate and cherry stone theme. Silky smooth and with more weight on the palate, this is not an airy-fairy aperitif but a consummate gastronomic treat.

CASE PRICE: £150

2019 Distant Noises, Cabernet Sauvignon, Yarra Valley, Victoria, Australia

Made by a genuine superstar winemaker, Tom Carson of Yabby Lake fame, and drawn from the region in which he first found fame with Yering Station, the stunning Yarra Valley, this is a sensational Cabernet and one which impresses me with its restraint and composure as much as its purity and detail. Elegant, classy and bursting with élan, this is a claret-bashing number with a keen-as-mustard price tag.

CASE PRICE: £174

2019 Cedro, Chianti Rufina, Fattoria Lavacchio, Tuscay, Italy

While I usually wear my business hat when I visit a winery, I made an exception at Lavacchio. I stayed at the hotel here and I can tell you that this winery and estate is situated in an idyllic setting high up in the hills above Florence. This altitude blesses this wonderful Chianti with uncommon freshness and silkiness and this makes it a joy to drink now. Seamless, alluring and enticing, this is a delicious wine and I have even stood underneath the Cedro and soaked up the amazing view!

CASE PRICE: £180

2019 El Castro de Valtuille, Raúl Perez, Bierzo, Spain

I blow hot and cold with the Mencía grape variety. It often disappoints with drab, angular fruit notes and when winemakers try to fit it for a suit of oak they usually mess it up. But when it is unoaked, super-pure, blackberry-soaked and loaded with crunch I will happily do anything for a large glass. Serve this stunning creation slightly chilled and let it works its magic on your olfactory system. This wine is definitely one of the winners!

CASE PRICE: £150

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Portugal gets the green light

The government has given the all-clear for travel to this European favourite. Chris Carter reports

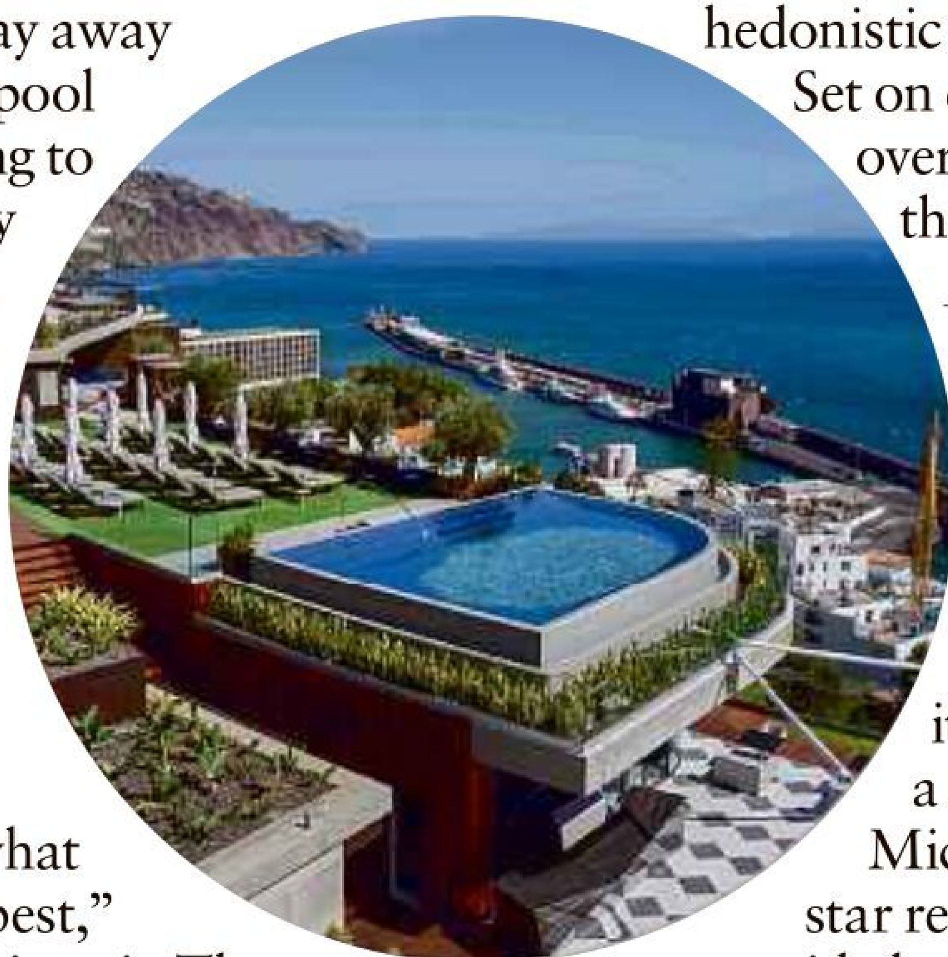
The Six Senses in the Douro Valley: a perfect spot to unwind

© Savoy Signature; Six Senses

Of the major European holiday destinations, Portugal is the only one so far to have made the government's green list of places travellers from England can visit once the country welcomes British tourists again. (The rules differ for travellers from the rest of the UK, so do check the latest information.) Fortunately, when it comes to holidays, "Portugal has it all", says Laura Hampson in the Evening Standard.

Wine country

The Douro Valley, for example, in the north of the country, "where rolling hills flank its namesake river", is one of the world's oldest wine regions, as well as a Unesco World Heritage Area. The Six Senses resort, 90 minutes east of Porto, sits in a renovated, 19th-century, terracotta-hued manor house, with 57 rooms and three villas set in 22 acres of land. "While your day away at the outdoor pool before retreating to the wine library in the evenings for in-house tastings." *From £449, sixsenses.com.*



A hedonistic beach retreat

"Beaches are what Portugal does best," says Mary Lussiana in The Daily Telegraph. "Fine golden sands run all along the Algarve coastline, in long stretches or tiny coves, framed by mellow limestone rocks." Vila Joya, in Albufeira, is the Algarve's "most hedonistic retreat". Set on cliffs overlooking the Atlantic, it houses a two-Michelin-star restaurant presided over by Austrian chef Dieter Koschina, a small spa, "abundant" gardens, and 22 individually decorated suites, all with ocean views (and some with private pools), not to mention "a cool white-on-white beach shack down on the sand" serving cocktails and sushi. "This is the kind of place that most people don't leave once they have arrived because nowhere outside is quite as lovely as where they are." *From £673, vilajoya.com.*

> *"The Savoy Palace in Madeira's charming capital has stunning sea views"*

A spa for sun-worshippers

The new five-star Savoy Palace, based in Madeira's "charming" capital, Funchal, is the Portuguese island's biggest hotel launch to date, says Leanne Bayley for Hello magazine. The suites offer "stunning views" of the sea and the bathrooms come with standalone baths, rain showers and "marble everywhere". In the spa, you'll find a sauna, Turkish bath, Jacuzzi, ice fountain, sensory showers and an indoor heated pool. Not that sun worshippers aren't spoilt for choice for sunny spots to "catch the rays" outside. The small infinity pool on the 16th floor is a great spot for enjoying the views. It's also just the place for sipping cocktails and watching the sun go down. *Doubles from €200, lhw.com.*

Wine of the week: a violet-kissed, silky red from the US

2018 Hedges Family Estate, CMS Red, Washington State, US

£20, reduced to £18 each by the case, robersonwine.com

Matthew Jukes
Wine columnist

I was delighted to be invited to attend a Washington State Zoom masterclass a couple of weeks ago and, having not visited this wine country myself, I found it very illuminating. This rapidly expanding industry is starting to hit the high notes and, although we tasted ten wines from some of the most famous names, covering riesling, semillon, merlot, cabernet and syrah, it was this red blend that was the standout wine.

Named CMS on account of its tri-varietal make-up – in this vintage it is 76% merlot, 20% cabernet sauvignon and 11% syrah – this is a sensational piece of sensitive winemaking by the brilliant Sarah Hedges Goedhart. The production reached an impressive 24,000 cases of 12 bottles, so you can order as much as you like, which seems a little incongruous in a region cram-packed with boutique producers.

At a third of the price of some of the wines in the line-up, this was still my preferred bottle given its stunning balance, harmonious palate and enviable detail. The violet-kissed perfume and silky red and black-fruited body is nothing short of mesmerising and it is drinking perfectly already.

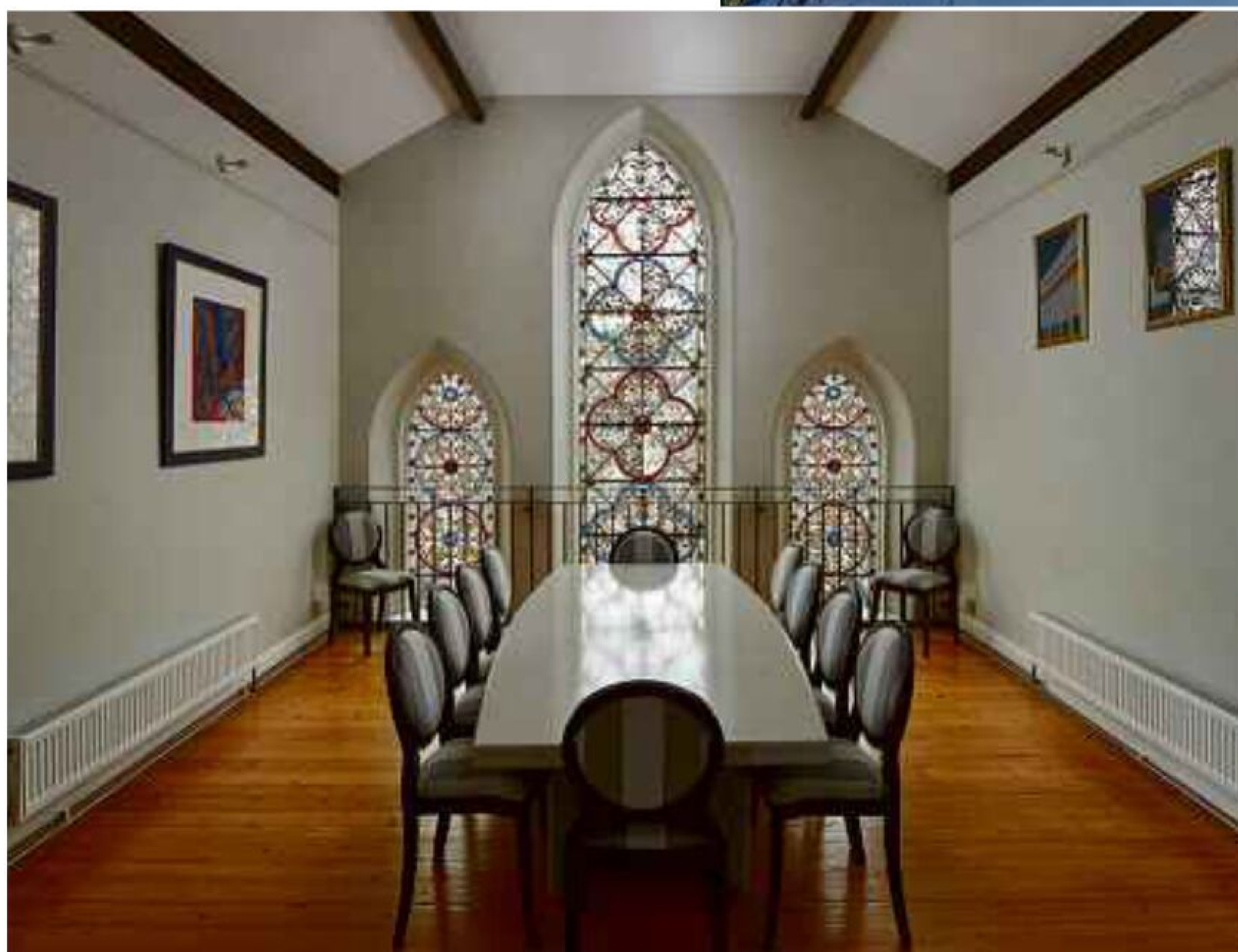
Its big brother, 2018 Red Mountain (about £38), arrives in the autumn, so if you are a committed Hedges fan by this time, then trade up to yet another heroic red blend from this fascinating estate.

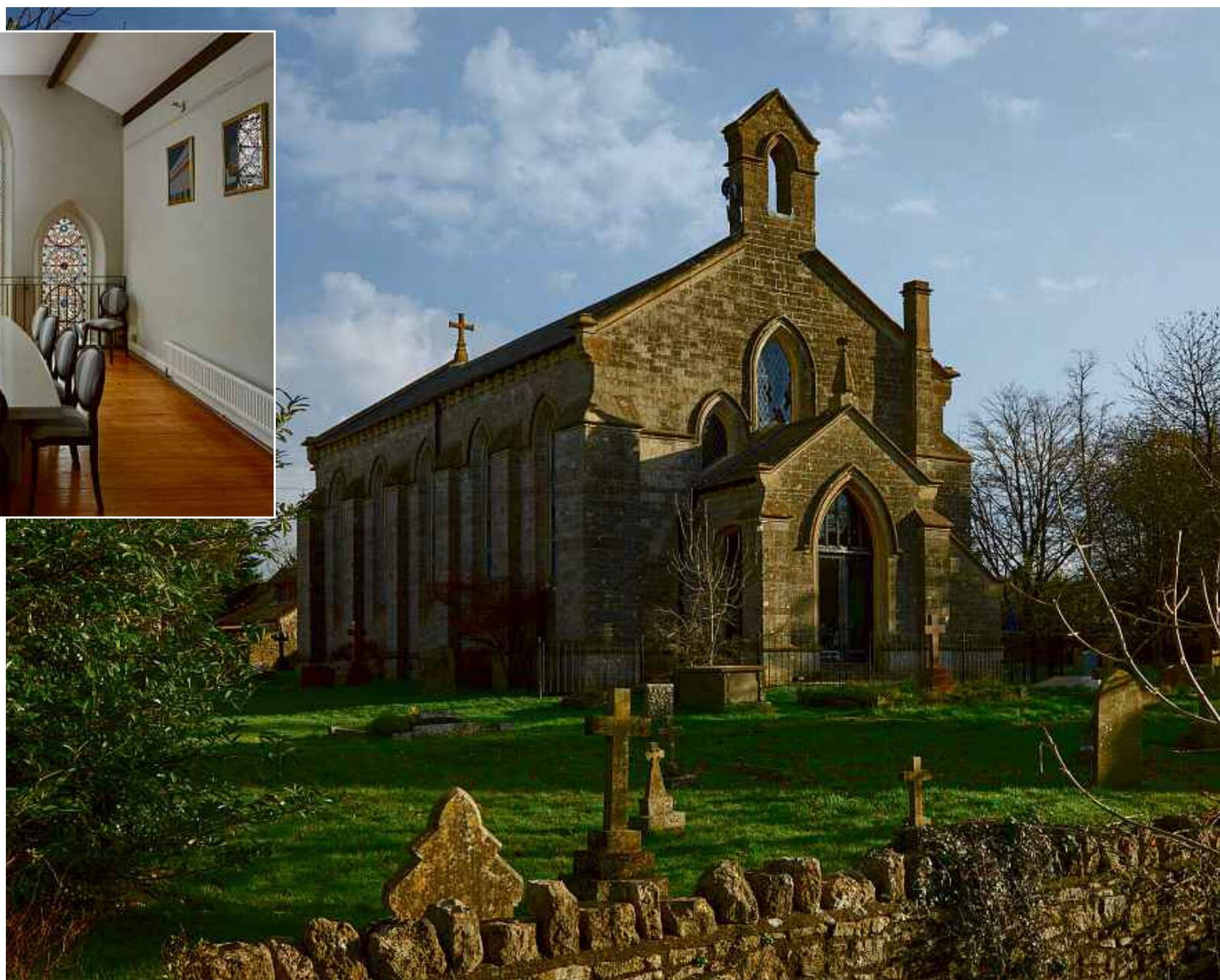
Matthew Jukes is a winner of the International Wine & Spirit Competition's Communicator of the Year (matthewjukes.com).

This week: properties for around £800,000 – from a Grade II-listed Georgian house in Bedale, North Yorkshire, to

Hilltop Farm House, Stalling Busk, Askrigg Leyburn, North Yorkshire. A renovated, 17th-century farmhouse in the Yorkshire Dales with views of Semerwater. It has beamed ceilings, open fireplaces with wood-burning stoves and a conservatory. 3 beds, bath, recep, 2-bed annexe, 2 acres. £775,000 Strutt & Parker 01423-706771.

Abbey, Courgeac, Charente, France. A restored, 12th-century former abbey overlooking parkland. It has exposed stone walls, large open fireplaces, beamed ceilings and a central stone spiral staircase. The grounds include two stocked lakes. 6 beds, 3 baths, receps, outbuildings, swimming pool. £802,000 Hamptons 020-7265 6571.





The Old Church, East Horrington, Wells, Somerset. A Grade II-listed, converted 1830s church built in a Gothic style with views towards Glastonbury Tor. It retains its exposed stonework and arched, stained-glass windows, and has a full-height reception hall with a central staircase leading to a dining room in the gallery. 6 beds, 3 baths, 2 receps, breakfast kitchen/living room, courtyard garden. £795,000 Knight Frank 0117-317 1997.

a converted church in Wells, Somerset, with views towards Glastonbury Tor

◀ **Crown Point, Waterside, Ely, Cambridgeshire.** The southernmost section of a Grade II-listed Georgian townhouse, the rear part of which is a former blacksmith's forge that retains its original hearth and bellows. The two parts of the building are joined by a glazed, vaulted hallway with access to a paved courtyard. The house has exposed walls, beamed ceilings, slate floors, sash windows and open fireplaces. 5 beds, 2 baths, 2 receps. £795,000 Savills 01223-347241.

▶ **Old Vicarage, Newlands, Keswick, Cumbria.** A former farmhouse in a village in the Newlands valley with Catbells fell as a backdrop. The house has exposed beams, wood floors, a feature fireplace and a garden with a secluded orchard. 3 beds, 2 baths, 3 receps, breakfast kitchen, 2-bed annexe. £850,000 PFK 01768-774546.

▲ **Hawks Nest, Wormsley, Hereford, Herefordshire.** A renovated, Grade II-listed, 17th-century house in an elevated position with views over the surrounding farmland. The house has flagstone floors, beamed ceilings, open fireplaces with wood-burning stoves and a large orangery overlooking the garden. 6 beds, 3 baths, recep, dining kitchen, outbuildings, 1 acre. £750,000 Jackson Property 01432-344779.

◀ **Castle Hill, Church Lane, Middleton St George, County Durham.** This Grade II-listed village house dates from the 1700s. The house has been remodelled and extended, but retains its original ceiling beams and wooden skirting boards. It is set in large gardens that include a pond, barbecue area and a sun terrace that runs the length of the property. 7 beds, 3 baths, 2 receps, breakfast kitchen, garage, stables. £795,000 Finest Properties 01434-622234.

▶ **Stabann, North End, Bedale, North Yorkshire.** A substantial, Grade II-listed Georgian house in an elevated position at the north end of the town. It comes with a two-bedroom cottage and has walled gardens, a well-stocked vegetable garden with a greenhouse and further grounds with seating areas accessed via a private, gated driveway. 4 beds, 4 baths, 4 receps, study, breakfast kitchen, conservatory, double garage. £800,000+ Knight Frank 01423-535373.

Get comfortable on the beach

Make sure you're well prepared as you exit lockdown and head for the coast. Nicole Garcia Merdia reports

A place for the bits and bobs

A large, good quality tote bag for all the necessary bits and bobs is in order when it comes to beach days. This **striped shopper bag** from **Marks & Spencer** is just the ticket. It has a cheery, summery design and comes with an internal zipped pocket for your phone, keys and wallet. It's very easy to clean, too. *£25, marksandspencer.com.*

Good vibrations for the summer

The **Bang & Olufsen Beosound AI** is a powerful little speaker with True360 omnidirectional sound technology that will envelop you in your favourite beach tunes. Although small there is no compromise on audio quality and it's an ideal fit for any beach bag. It's also waterproof, completely resistant to dust and sand, and has a battery life of up to 18 hours, as well as a handy wrist strap. *£200, burtonblake.co.uk.*

Avoid the lobster look

Enjoy the sun safely with **Sisley's Sunleÿa G.E. Global Sun Care SPF50+**, which is especially ideal for very fair or highly sensitive skin. It acts as an anti-ageing shield, preventing wrinkles, dark spots and dehydration while encouraging a glowing tan. Most importantly, it protects from UVA and UVB rays, is rapidly absorbed, and doesn't leave a white cast on the skin. *£192, johnlewis.com.*

Shelter from the sun

If you've had enough sun or fancy a nap in the shade, set up the Miasun Biarritz beach tent by Fatboy. The cotton fabric is dipped in a UPF30+ coating, giving you more than 90% UV protection. It folds up into a compact portable clutch, and comes with aluminium poles and pegs for easy set up. *£100, selfridges.com.*

Keep the tinnies cool

Travel light but keep your goods chilled with the **Hopper Flip 8 portable cooler by Yeti**. It provides a high level of insulation and is designed to be durable but lightweight and easy to carry. It can carry up to eight cans of beer, or 5kg of ice, and comes in three different colours. *£199.99, uk.yeti.com.*

High-end art is still on fire

The art-market billionaires are coming out of lockdown. Chris Carter reports

The fashion for all things Jean-Michel Basquiat continues. Last week, the late American artist's 1983 skull painting *In This Case* (pictured) sold for $93.1m at Christie's in New York. Granted, it wasn't the $110.5m high-water mark for the artist, set by Japanese billionaire Yusaku Maezawa in 2017 for another of Basquiat's skulls from 1982, *Untitled*. But it did, at least, provide a reassuring "first glimpse of the demand for high-end art as the world begins to emerge from the pandemic", says Katya Kazakina for Artnet News. In all, Christie's inaugural 21st Century evening sale brought in $210.5m, with the Basquiat accounting for close to half of that. But the theme of the evening was "a shift in taste [that] was unmistakable".

Rather than the established artists making the usual headlines (Basquiat aside), the "fireworks erupted as buyers from all over the world chased after a new generation of stars". Jonas Wood's *Two Tables with Floral Pattern* (2013), for example, sold for $6.5m, well above its $4m high estimate. Nina Chanel Abney's *Untitled (XXXXXX)* (2015) fetched more than three times its high estimate at almost $1m, and Lynette Yiadom-Boakye's *Diplomacy III* (2009) made nearly $2m. In fact, ten new artist records were set that evening (including one for a $17m digital non-fungible token (NFT), naturally). By contrast, "the sales that came in under their estimates tended to be the more established names", says Tess Thackara in The Art Newspaper. Works by Martin Kippenberger, Gerhard Richter and Christopher Wool missed their low estimates (although Kippenberger's lot set an artist's record for a sculpture).

An art-market superstar

Still, Basquiat reigned supreme. "Basquiat was always an art-market star," says James Tarmy on Bloomberg. In the mid-1980s, he was making $1.4m a year, "even as his dependence on narcotics spiralled our of control", leading to his death, aged 27, in 1988. And yet, "despite decades of market success, prices for Basquiat's

©Christie's

> *"Basquiat's 1983 skull painting* In This Case *sold for $93.1m at Christie's in New York"*

work have only truly taken off in recent years, driven by demand from a small group of billionaires". *In This Case* was bought for just under $1m when it last appeared at auction, in 2002, before it was sold to last week's seller, Giancarlo Giammetti, co-founder of fashion label Valentino, for an undisclosed sum in 2007. Incidentally, a second Basquiat in the sale, *Untitled (Soap)* (1983-1984), fetched $13.2m, while Sotheby's sold Basquiat's *Versus Medici* (1982) for $50.8m, also last week.

Christie's will be hoping the art market is thirsty for more. This weekend, the auction house, this time in Hong Kong, is exhibiting four works by the artist in a bid "to reveal Basquiat's oeuvre to the Asian public", culminating in a sale on Monday of *Untitled (One Eyed Man or Xerox Face)* (1982), valued at up to HK$170m (£15.6m). Up and coming though the new generation may be, they still have a way to go before they outshine Basquiat.

Auctions

Going...

American businessman, art collector and museum founder Solomon Guggenheim was an avid admirer of "the father of abstraction", Wassily Kandinsky, acquiring his first work by the Russian artist in 1929. Over the years, Guggenheim collected 150 works by Kandinsky, one of which was *Tensions calmées* (1937, pictured). This great masterpiece of abstraction stands as one of his most important works, says Helena Newman of Sotheby's. Last seen at auction in 1964, Sotheby's expects it to fetch £18m-£25m on 29 June in London.

©Sotheby's

Gone...

Pablo Picasso's *Femme assise près d'une fenêtre (Marie-Thérèse)* (1932) sold for $103.4m at Christie's 20th Century evening sale in New York last Thursday. The painting depicts his muse, Marie-Thérèse, "as a winged goddess, a modern-day Nike" and was the first artwork to break the $100m mark at an auction since the spring of 2019. Mark Rothko's penultimate painting, *Untitled* (1970), also sold that evening, for $38.1m, as did Vincent van Gogh's *Le pont de Trinquetaille* (1888), for $37.4m. In total, the sale brought in $481.1m.

The $25,000 fridge door

A fridge door was one of the odder items to be auctioned last week in New York. But it is "an important artefact in the story of New York City", says Will Pavia in The Times. The door (pictured) had belonged to artist Keith Haring. On it are scribbled the names of the many people who attended his "legendary parties" in the 1980s, when Haring's flat was the "hub of artistic life in Lower Manhattan". Jean-Michel Basquiat appears to have signed "JM" down the bottom, just below "Madonna loves Keith" (the singer sometimes slept on Haring's sofa when she was struggling to make ends meet). Graffiti artists LA II (Angel Ortiz) and Fab Five Freddy (Fred Brathwaite)

©Guernsey's Auctions

also left their marks. Guests were even encouraged to write on the walls.

In 1990, Haring died of Aids, aged just 31, and the flat was let out again. The walls were repainted by the landlord, but the fridge remained, says James Barron in The New York Times. One "sweltering day", the new tenant returned home to find the refrigerator had "conked out" and had been dumped in the back alley "to be picked up with the garbage". She hastily recovered the door and, when she moved out in 1993, stored it at her parents' home. There it stayed until 2010, when her mother shipped it to her. It sold for $25,000, reports website Highsnobiety. Pop artist Andy Warhol's name was also on the fridge door. A moose head he owned was another bizarre object to appear in the sale with Guernsey's auction house last week – that one, says Highsnobiety, sold for $5,000.

The Trumps' $100,000 toilet bill

The former first family have come under fire for their demands on the Secret Service

The Roman satirist Juvenal once pointed out that it was pointless for jealous husbands to keep their wives under constant guard because there was no guarantee that the guards themselves could be trusted. It's probably safe to say that he wouldn't be surprised by some of the revelations contained in a newly published book about the US Secret Service, *Zero Fail* by Carol Leonnig, says Ashley Parker in The Washington Post. The book details the rumours and gossip about romantic relationships between Trump family members and their security agents, and "chronicles the successes, missteps and evolution of the agency tasked with protecting the American president". The author first reported on the agency for The Washington Post in 2012, when "a dozen agents and officers" stood accused of turning a presidential trip to a South American resort town into a kind of "Vegas bachelor party, complete with heavy drinking and prostitutes".

The Trumps had complicated relations with their security agents

©Getty Images

"A presidential trip to a South American resort town turned into a kind of Vegas bachelor party, complete with heavy drinking and prostitutes"

Bravery, valour and missteps

That, it turned out, was just one episode in a "wheels up, rings off" culture that has been entrenched for decades. The "what happens in the White House, stays in the White House" ethos required agents to turn a blind eye to the "steady parade of secretaries and starlets" who were escorted to JFK's bedroom, for example. But no president has had a more complicated relationship with his security agents than the last one. Donald Trump complained about his "fat" agents, for example – if they can't run down the street, what use are they going to be protecting my family, he complained – and spent a lot of time badgering them to carry out a "multimillion-dollar renovation" to replace all the lowered gates, supposedly because he hated the bump he felt when his limousine drove over them.

Trump's family made their own demands, says Arya Hodjat in The Daily Beast. Despite living in a house with six bathrooms, Trump's daughter Ivanka and her husband Jared couldn't spare one for the agents tasked with protecting their lives, it is claimed. The US government then rented out a basement bathroom from one of the Trumps' neighbours, for the use of agents, "to the tune of $3,000 a month". This arrangement, which began in 2017, ended up costing taxpayers $100,000. (The White House and the Secret Service denied that the decision had anything to do with the Trumps. Besides, anyone who has let workmen use their bathrooms might well sympathise with the Trumps.)

The Trumps' dissatisfaction did not, though, prevent them clinging on to their protection. Presidents can retain their security for life, but adult family members are supposed to lose their security agents once the president leaves office. But before he left the White House, Trump, like his immediate predecessors, extended post-presidency protections to his four adult children and two of their spouses by an extra six months, says Edward Helmore in The Guardian. The total bill is expected to reach $1m. Leonnig's book also details the bravery and valour of the agency – of how it refashioned itself after the Kennedy assassination and stood its ground in the White House on September 2011, despite knowing that the building was the next target. And whatever its failings, Trump needn't have worried about his portly protectors. Those assigned to office roles might well carry some excess baggage, but agents in the field must pass rigorous fitness tests, says Jake Lahut in Business Insider. A sprint to the toilet next door is unlikely to have troubled them too much.

Quintus Slide

Tabloid money... it's time for the government to put its money where its mouth is

● The Queen's Speech was a missed opportunity for real change, says Mercy Muroki in The Sun. As the results from the local elections showed, ordinary people aren't obsessed with Westminster gossip about fancy wallpaper and texts to vacuum-cleaner companies. They want a party they can trust with the economy and that doesn't sneer at them for their patriotism. The government needs to put its money where its mouth is. Universal Credit claimants have doubled to six million and will rise with the end of furlough. The poorest children face "a widening disadvantage gap" and young people are losing their jobs. "To win the hearts and minds of ordinary people who have put their faith in it to deliver, nothing short of bold, tangible solutions will do."

● Ordinarily, "my instinct is always to support all women and see the best in everyone", says Karren Brady in The Sun on Sunday. But with the Duchess of Sussex's new children's book, "I'm floundering". *The Bench,* by "Meghan, The Duchess of Sussex", will be published in June. It's not yet known whether the proceeds will go to charity. "But if they don't, using her royal title for commercial gain would seem slightly disrespectful." Hypocritical even. She says she wants a life away from royalty, then uses her status to publish a book. "Without her royal title, would anybody publish this book? I doubt it.... You can't drop the duties, slag off the family and still... benefit from your rank. Or rather you can, but people won't like it."

● "No, I don't have any walls painted with Farrow & Ball," says Jan Moir in the Daily Mail. "Not because I don't want to, but because I live with someone who bellows 'we are not paying £84 for a tin of paint, are you insane?' every time it is mentioned. The fact that you can get an equivalent amount of Dulux for £12 is the end of that particular discussion in my house." Television makeover guru Laurence Llewelyn-Bowen may be dismissive of Farrow & Ball's muted palette, but "I still hanker after sludge and fudge walls". And Farrow & Ball do bright colours too. The best thing in the BBC's new adaptation of Nancy Mitford's *The Pursuit Of Love* is the colour of the walls in the hotel loo at Linda's wedding. "I suspect it was Farrow & Ball's Lake Red, but it could have been Incarnadine or perhaps even Radicchio."

©Shutterstock

Bridge by Andrew Robson

Six-five died

West led the ten of partner's Hearts, declarer ducking and, knowing from the bidding East was five-six in the majors, winning the second Heart with the Ace. There does not appear to be a ninth trick unless West (now heartless) holds the Ace of Clubs. Or is there?

Dealer North — Neither side vulnerable

North:
♠ AQ32
♥ 6
♦ AK64
♣ KJ109

West:
♠ 96
♥ 103
♦ 1097532
♣ 763

East:
♠ J10875
♥ KQJ942
♦ –
♣ AQ

South:
♠ K4
♥ A875
♦ QJ8
♣ 8542

The bidding

South	West	North	East
		1♣*	2♣**
3♣	pass	3♦	3♥***
3NT§	end		

* Following the 4441 strategy "Taps" – open Hearts or Clubs (H or C – hot or cold).
** Michaels, showing five-five (or longer) in the majors.
*** Showing his sixth heart.
§ Stoppers in both majors (albeit only one in each). It would be trickier if South were stopped in only one. Logically, Three Spades would show a Spade stop but not a Heart stopper, leaving Double as the way to show a Heart stop but not a Spade stop.

Declarer led out four rounds of Diamonds. East could spare one Heart, the Queen of Clubs, and one Spade, but what could he discard on the fourth Diamond?

A second Spade discard would promote dummy's fourth Spade; the Ace of Clubs was clearly fatal. So away went a second Heart. This was no good, however, for he now held inadequate winners. Declarer simply forced out the Ace of Clubs, watched East cash but two Hearts, and scored the remainder when he next led a Spade. Nine tricks and game made.

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

Sudoku 1052

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

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

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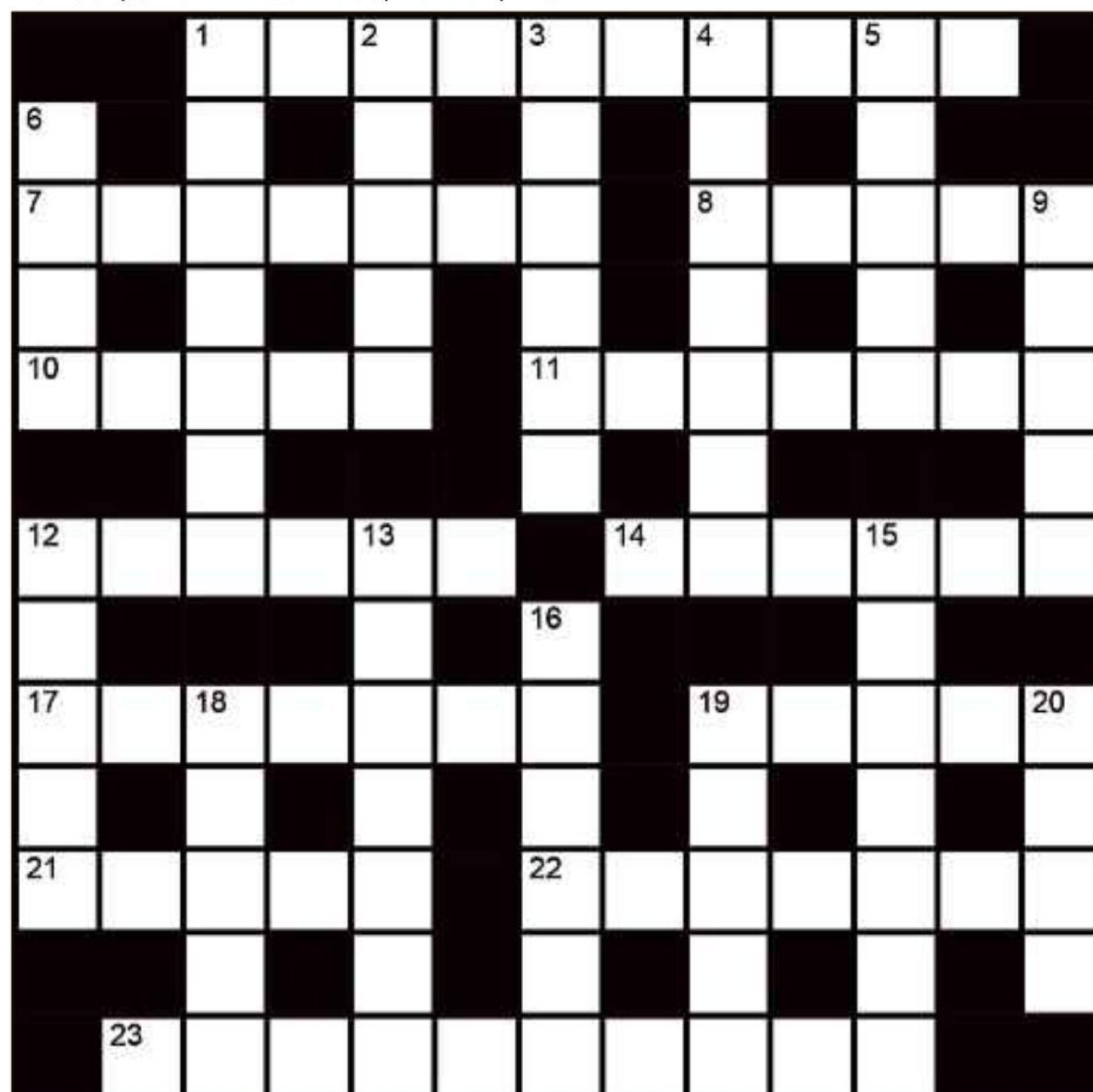
Tim Moorey's Quick Crossword No.1052

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 31 May 2021. Answers to MoneyWeek's Quick Crossword No.1052, 31-32 Alfred Place, London, WC1E 7DP.



Across and down clues are mildly cryptic

ACROSS

1 In which the offer can be a piece of cake (10)
7 Seaman on his own getting seafood (7)
8 Heard small dogs in heights (5)
10 Son not on time gets reprimand (5)
11 Comfort prisoner on his own (7)
12 Gun given to small child causes a stink (6)
14 Sounds like not so much Ecstasy for a tenant (6)
17 Girl has bust of more than ordinary protuberance (7)
19 Little rascal comes from singular temporary accommodation (5)
21 Anger about new kitchen appliance (5)
22 Lose one's grip on holiday journey (5, 2)
23 Check part of theatre sets for a second time (10)

DOWN

1 Calm situation around a centre in Montana (7)
2 Serious complaint by an individual is huge beef (1-4)
3 Draw second sailing-boat (6)
4 Cost of swans kept in Devon river (7)
5 Find fashion regularly on show in a state (5)
6 Girl left with dope (4)
9 Northerner married in Kent area (5)
12 Type of panel associated with The Sun (5)
13 Sort of South American wine, cold one by the sound of it (7)
15 Ageless working shows ability to keep balance in the main (3, 4)
16 What could be built at Lech? (6)
18 Wash inside for insecticide (5)
19 Start with sherry (medium) and everyone gets tiddly (5)
20 Kitty in a puddle (4)

Name ....

Address ....

Solutions to 1050

Across 1 Scatty *S + catty* 4 Tsetse *(b)est reversed twice* 8 Afghani *anagram* 10 Narco *(Me)norca anagram* 11 Prognosticate *anagram* 12 Portadown *port + a + down* 16 Spring chicken *spring + chicken* 19 U-boat *cryptic definition* 20 Stamina *Tasmani(a) anagram* 21 Elapse *e + lapse* 22 Hassle *anagram.*
Down 1 Swamps 2 Aggro 3 Trainer 5 Sinai 6 Terrain 7 Eloped 9 Instances 12 Pergola 13 Okinawa 14 Astute 15 Engage 17 Notts 18 Knits.

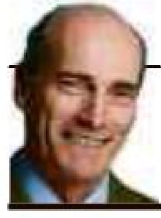
The winner of MoneyWeek Quick Crossword No. 1050 is: Molly Gibbs of Kent

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.

The greatest fool shows up

Would you buy shares in second-hand shoes? There are worse investments around…



Bill Bonner
Columnist

Trainers and firms that don't make money are soaring in value

©Alamy

You've heard, of course, of the "greater fool" strategy, in which a buyer pays a foolish price for something, betting that someone else will pay even more? Well, it looks like the greatest fool of all showed up at Sotheby's auction house earlier this month. It brokered a $1.8m sale of Kanye West's Nike Air Yeezy 1 trainers, making them the most expensive pair of shoes to sell, ever. They weren't even purchased by a footwear-loving collector, but by Rares, an investment company that plans to sell shares in the shoes.

What's the return on investment on a pair of used kicks? Answer: no less than on the 40% of the companies traded on the Russell 2000 that are losing money. So why not? If companies that don't make money are valuable, why not a pair of shoes? And if a pair of shoes, why not a thing that is no thing at all – an asset that neither toils to make money nor spins in the light of day for the amusement of onlookers? That's right, whenever you think the greater-fool theory has run its race, along comes an even bigger *dumbkopf* sprinting ahead. The cryptocurrency Dogecoin continues to hit new highs. A year ago, it was worth only $315m. Now, it has a market value of $80bn.

"Investing" in shoes is not the same as building a factory. The investment promoter won't learn to make precision tools. No one will ever punch a time clock and go to work in the shoes. And the "investors" will not be figuring out how to add real wealth by providing more goods and services; they will be subtracting wealth, allocating scarce capital to dead-end projects. The Fed's funny money may be unlimited, but the things needed to produce real wealth are not. Time, attention, energy, organisation, skill, savings, innovation, intelligence, raw materials – if you "invest" them in building pyramids, you get pyramids. Put them to work producing fractionalised trainer assets – and that's what you get.

> *"Funny money is unlimited; the things needed to produce wealth are not"*

Still, at least in the private sector the fools are wasting their own money. And the whole show could be corrected any minute by Mr Market. Over in the public sector, it's the deciders themselves who are on the rampage. Alexandria Ocasio-Cortez, a leftist congresswoman, wants to create a $10bn taxpayer-funded "Climate Corp" that would recruit some 1.5 million civilian soldiers to battle with Planet Earth. Everything AOC wants to do is already being done by dozens of federal programmes. But why not another one? If started, the Climate Corp – like the Peace Corps (still in business after more than a half-century of improving the world, with a $410m budget and not a single volunteer in the field!) – will be with us forever. And as long as the money-printing continues, so will the bad "investments". We'll count the bodies later.

The bottom line

31bn The value in Russian roubles (£298m) of the record 2.3 million loans made by microfinance firms to Russians in March, as disposable incomes have come under pressure from Western sanctions. The average loan was 13,000 roubles (£125).

£15,000 The bill for Boris Johnson and Carrie Symonds' break on the Caribbean island of Mustique in late 2019. The Parliamentary Commissioner for Standards is investigating due to "confusion" over who paid for the week-long stay in a luxury villa, says The Times.

€420 The estimated value of an elegant, 19th-century, double-sided Parisian public bench that had been put up for auction by the city, prompting a culture row. The radicals say the bench is "sexist" – women would not sit on it for fear of drawing sexist remarks, they claim. Traditionalists accuse mayor Anne Hidalgo of "wrecking" Paris.

£1,554 The average monthly rent in London over the year to the end of March, representing an annual 9.4% decline, as younger adults left the city during the pandemic, according to property website Zoopla. However, rents rose by 5% in Newcastle to an average of £649.

£134.99 The price of a Lego model of the flats from cult 1990s TV sitcom *Friends*. It follows the release in 2019 of a Lego model of coffee shop Central Perk, also from the show, which proved popular with fans and collectors.

©Getty Images

£7m The budget for London's latest tourism campaign. As part of it Sadiq Khan, the mayor, commissioned artist David Hockney (pictured) to redesign the sign for Piccadilly Circus Underground station. One online wag likened the result to a seven-year-old's drawing.

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