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MoneyWeek

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A post-Covid crisis

What's gone wrong in the aviation sector?
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MoneyWeek

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Britain's best-selling financial magazine

From the executive editor...

Inflation is still the biggest topic in investment. To get an idea of what's going on and where we might be going, let's consider a stylised picture of the economy over the past two years or so. In 2020, coronavirus triggered a lockdown that stopped people from going out for a prolonged period. But governments stepped in to pay workers who would otherwise have lost their jobs. So consumers maintained their pre-pandemic buying power, but could only spend their money on "indoor" goods and services, such as exercise bikes and Netflix subscriptions. Demand for these spiked.

You might think the beneficiaries of this surge would have recognised it as temporary. But it seems not. Many appear to have either assumed the extra demand was permanent, or favoured a strategy of stocking up just in case. As a result, some companies now have too much inventory, or have been surprised when demand this year has fallen short of forecasts, and some may also have hired too many staff. But just as the "staying in" sector over-ordered based on a temporary surge in demand, so the "going out" sector has underinvested based on a total collapse in demand. That's the fundamental reason for airport chaos (see page 14) right now, for example.

The question now is: what happens next? You might think that the implication here is that inflation is indeed "transitory" – we just need to wait for the pig to pass through the python, as it were, and everything will return to "normal". But this is a grave misunderstanding of how inflation works, according to none other than the Bank for International Settlements (BIS), often described as the central bankers' central bank.

Inflation changes behaviour

©Alamy

"Unionisation is not at 1970s levels, but we're seeing more and more strike action"

When inflation starts to feed on itself

In a recent paper, the BIS argues that there are "two basic inflation regimes – 'low' and 'high'", notes Dario Perkins of TS Lombard. During a "low" inflation regime, spikes in specific sectors will indeed be transitory – rising prices lead to higher supply and prices come back down. But once you move into a "high" inflation regime, things change, "with inflation itself becoming the focal point for private-sector decisions". In other words, inflation becomes a problem when it starts to change our behaviour.

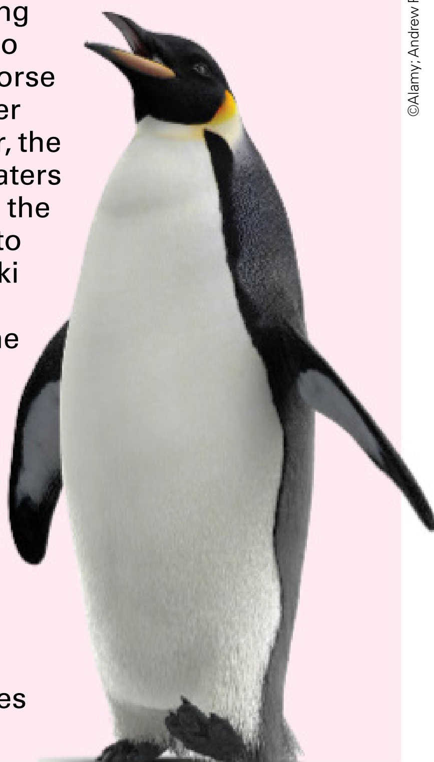
It's very clear that this is already happening. Unionisation may not be as extensive in the UK as it was in the 1970s, but we're starting to see more and more strike action nevertheless – dockers in Liverpool are voting on action now after rejecting a 7% pay rise as "inadequate" (which, given that inflation in June came in at 11.8%, is perhaps understandable). Royal Mail's workers have also voted to strike, while BT's staff are going on strike at the end of the month. In short, the inflation genie is well and truly out of the bottle.

So what can you do about it? On page 22, Rupert looks at a selection of real estate investment trusts (Reits). Property is traditionally viewed as an inflation hedge (although it's a bit more complicated than that), but perhaps more importantly, Reits represent a handy source of dividend income. Meanwhile, on page 26, Cris looks at a very intriguing play on cheap South Korean stocks. Finally, don't forget that inflation also means you need to be more proactive with your personal finances – Ruth considers what rising interest rates mean for your mortgage and your savings on page 28.

John Stepek
editor@moneyweek.com

Inflation squeeze of the week

The impact of the cost-of-living crisis is even trickling down to penguins and otters in Japan, says Vice. Hakone-en Aquarium in Kanagawa, south of Tokyo, is cutting costs by buying cheaper varieties of fish, moving from the fattier aji (also known as Japanese horse mackerel) to the slimier saba variety. However, the aquarium's fussiest eaters aren't impressed with the change and continue to insist on aji, says Hiroki Shimamoto, the head zookeeper: some of the penguins turn their beaks up when offered saba, while the otters try it, but then spit it out. The cost of running the aquarium has risen 20% since the beginning of the year, as Japan's import costs and energy prices have climbed.



Cover illustration: Adam Stower. Photos: ©Alamy; McLaren; Shutterstock

Good week for:

Boris Johnson (pictured) is near the end of his time as Britain's top gun, but he still took the chance to have a joyride in a £75m Typhoon fighter on a visit to RAF Coningsby in Lincolnshire last week, says ITV. Johnson's official spokesman said the outgoing prime minister needed "a detailed understanding of the working capabilities of the RAF".

Wild bison are roaming the British countryside for the first time in 6,000 years as part of a £1.1m rewilding project, says the Daily Mail. Three European bison – the closest relatives to steppe bison once native to the UK – have been introduced into an enclosed area of West Blean and Thornden Woods in Kent to help manage the landscape.

©Alamy; Andrew Parsons/No 10 Downing Street

Bad week for:

An Australian traveller was fined A$2,664 (£1,530) for bringing a Subway sandwich from Singapore, says Channel News Asia. **Jessica Lee** bought the sandwich before her flight and still had half uneaten when she arrived in Perth. Customs officials found the sandwich included chicken and lettuce and Lee was fined for breaking Australia's biosecurity laws by not declaring the contents.

Officials in Rome are planning a cull of the estimated 20,000 **wild boars** that have encroached on the capital in an attempt to stop an outbreak of African swine fever that may jeopardise Italy's €20bn pork industry, says The Washington Post. The European wild boar population has spiked in recent decades and is causing growing problems in cities such as Rome, Barcelona and Berlin.

An era of high inflation has arrived

Alex Rankine
Markets editor

US consumers are still coping with rising interest rates and higher prices

©Getty Images

In recent weeks investors had started to bet on "firm signs that the inflationary peak is in sight", says Nils Pratley in The Guardian. "We're not there yet." Annual US inflation hit 9.1% in June, the highest level since 1981. The price rises were driven by soaring energy prices, up 41.6%, the biggest jump since April 1980. Annual rises in food costs, up 10.4%, and shelter, up 5.6%, also registered new multi-decade highs. UK consumer price inflation hit a new 40-year high of 9.4% last month (see page 12).

Central banks will keep on tightening

The inflationary pot "just keeps bubbling over", says Danni Hewson of AJ Bell. Markets expect the Federal Reserve to raise interest rates by 0.75 percentage points later this month. Analysts also think the Bank of England will raise rates by half a percentage point next month. You might feel like you've heard this one before, but there are "signs that an inflation peak might finally have begun to arrive" as it's "clear things are cooling off" in commodity markets.

US pump prices have fallen back in recent weeks thanks to lower oil prices, says Justin Lahart in The Wall Street Journal. "The S&P GSCI agriculture index, which includes crops such as corn and cocoa, has fallen by a quarter since its May peak". The industrial metals index is down by a third. Still, annual core inflation – which strips out food and energy prices – is still a worryingly elevated 5.9%.

With the US labour market firing on all cylinders, policymakers may well decide that "rising wages could put lasting upward pressure on prices", causing them to press ahead with interest rate hikes.

A new economic age

The latest inflation figures are more bad news for President Biden, says Samira Hussain for the BBC. "The real value of American hourly earnings has dropped faster than at any time since the 1980s." Unhappy voters may punish the Democrats at November's mid-term elections.

Biden will have to pin his hopes on data suggesting that so far "US consumers are bending but not breaking under the weight of rising interest rates and higher prices", says the Financial Times. American retail sales rose 1% last month, while strong job creation is keeping unemployment down at 3.6%. Still, signs of "evident strain" among poorer households are emerging. During the pandemic, US personal savings rates spiked above 30%. That number has since tumbled below 6%, the lowest level since 2013. Whatever central bankers do, history suggests that larger "tectonic forces" herald structural inflation ahead, says Stephen Mihm on Bloomberg. The past four decades of disinflation were driven fundamentally by globalisation – cheap Chinese labour and fierce international competition kept prices low. Similarly, mild inflation was seen between 1870 and 1914, a previous period of globalisation that was ended by conflict between the great powers.

Between Donald Trump's trade wars, Brexit trade barriers, pandemic-ridden supply chains and the invasion of Ukraine, recent events have thrown "one wrench after another into the carefully calibrated global economic machinery". Eras of low inflation "don't last forever".

Eurozone heads for paralysis

The eurozone is fighting "fires on all fronts", says Mehreen Khan in The Times. Squabbling in Italy's governing coalition has left the bloc's third-biggest economy heading for "a summer of political paralysis", with the future of prime minister Mario Draghi in doubt.

Between record energy prices, the threat of Russian gas being switched off and the prospect of recession in Germany, policymakers in Brussels and Frankfurt already had enough to deal with.

European governments have begun to work under the assumption that Russian energy will be cut off entirely this year, say Ewa Krukowska and John Ainger on Bloomberg. The European Commission is reportedly preparing a plan for "a voluntary 15% cut in natural gas use by member states starting next month" to conserve stocks for winter. The Commission thinks a Russian gas cut-off and a harsh winter could wipe 1.5% off EU GDP. Germany has reduced its dependence on Russian gas from 55% to 35% since the invasion of Ukraine, says Philip Oltermann in The Guardian, but that still leaves it heavily exposed to Putin's whims. For now, politicians hope to spare households from rationing while imposing restrictions on industry, which accounts for roughly one-third of gas use. Yet the chemical and pharmaceutical industries are warning of unintended "domino effects" from more supply-chain disruption.

Governments will allow coal plants to produce more power

©Getty Images

"The good news is that the EU's tanks are now almost 60% full", more than this time last year, Leslie Palti-Guzman of data firm Leviaton told The Economist. Europe has also become a major importer of liquefied natural gas (LNG), with imports up 70% year on year in the first quarter. "To the chagrin of greens" European governments are also granting waivers for "filthy coal" plants to "crank out more power".

Taiwan props up its stockmarket

Taiwanese stocks have slumped this year amid the wider tech sell-off, with the local Taiex index down 20% from its January high. Small wonder, given that IT firms account for more than two-thirds of the MSCI Taiwan Index. Chip giant Taiwan Semiconductor Manufacturing alone accounts for more than a quarter of the Taiex index. Taiwan controls 90% of the world's advanced semiconductor manufacturing capacity.

Last week officials in Taipei decided the sell-off had gone too far, says Rebecca Feng in The Wall Street Journal. They authorised the National Financial Stabilisation Fund to step in. "The fund has the equivalent of $16.7bn to deploy, but didn't specify how much it would spend and what stocks it intends to buy."

It's the eighth time the fund has been deployed since it was created in 2000. "The fund typically invests in dozens of large-cap Taiwanese stocks, holds them for some time and then gradually unloads its holdings as the market calms down."

Taiwan's finance ministry said the intervention was needed to address "a clear lack of market confidence". Global investors "have withdrawn nearly $35bn since the start of the year", say Charlotte Yang and Cindy Wang on Bloomberg. Historically, intervention from the stabilisation fund has "heralded rallies for weeks and sometimes even months after announcements".

The junk-bond bubble bursts

High-yield bonds are finally living "up to their name", says Randall Forsyth in Barron's. Yields on debt issued by companies with lower credit ratings plunged during the pandemic, as prices rose owing to ultra-low interest rates (yields move inversely to prices).

But now yields in the US high-yield market have soared by 4.2% since the start of the year to more than 8%, says Rachna Ramachandran of GMO. "There have been only two other instances in which yields have doubled so quickly" in the past 30 years: the 2008 financial crisis and the start of the pandemic in 2020.

The yield spike has brought painful losses for existing bondholders. The iShares iBoxx ETF, which tracks US investment grade debt, is down 15% this year, with a Bloomberg index of high-yield, or "junk" debt also falling 14%. Euro-denominated corporate debt is being similarly hard hit, says Sophie Rolland in Les Échos. Down 13% in the year to 20 June, the market slump far exceeds the 4% it lost in 2008, until now the worst year on record.

As well as feeling the effect of higher interest rate expectations, European debt is being hit by the European Central Bank's (ECB) move to stop purchasing fresh debt with printed money this month. The ECB holds nearly 15% of all investment-grade euro corporate debt following previous rounds of asset purchases. Tightening credit conditions have seen "dozens of corporate bond deals" pulled from the European market, says Ian Johnston in the Financial Times. New corporate debt issuance fell 17% in the first half compared with a year before, with European high-yield debt issuance plunging 78%.

©Getty Images

Central banks such as the US Federal Reserve cannot be relied upon to ease credit

"Bond markets have had a rough year," says Matt Grossman in The Wall Street Journal. "Red-hot inflation makes the fixed payments offered by most debt investments less appealing." Yet as the yields offered by corporate debt rise, investors are "giving bonds another look". Debt issued by blue-chip firms with reliable balance sheets is appealing: "it offers higher returns than government bonds but with relatively little additional risk".

Will defaults spread?

The key uncertainty is to what extent defaults will rise. In past downturns investors could count on central banks stepping in to ease lending conditions, says Joe Rennison in the Financial Times. Yet now, with inflation soaring, they can't.

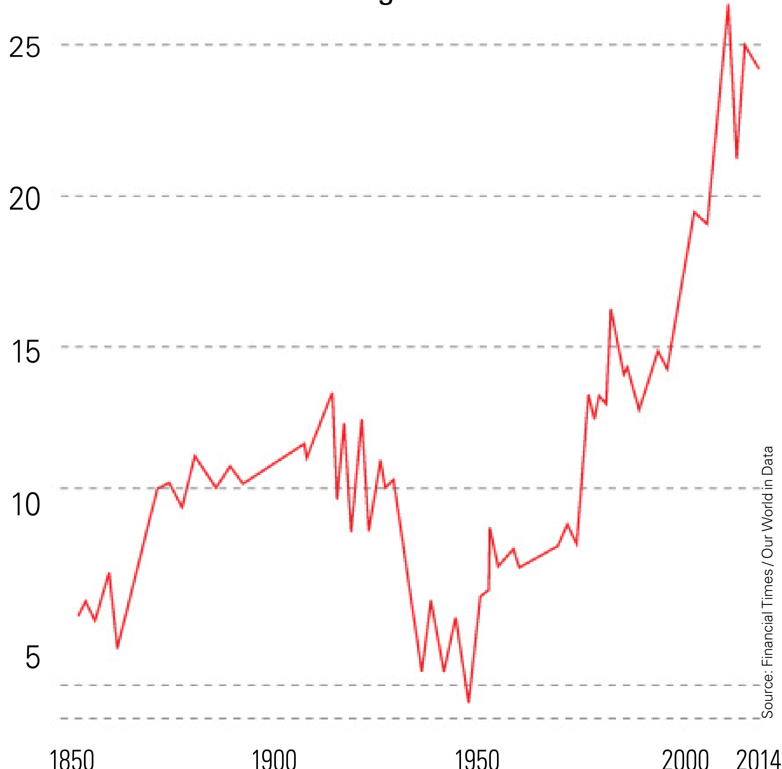
Credit rating agency S&P Global Ratings thinks US corporate defaults will "rise to 3% by next March, up from 1.4% the previous year", says Julia Horowitz for CNN Business. Still, most corporate balance sheets are reasonably solid after firms "took advantage of rock-bottom borrowing costs over the past two years to stash cash and… refinance their debt". For now, "those who trade corporate bonds aren't overly anxious".

Viewpoint

"At the recent… St Petersburg International Economic Forum, Putin struck a triumphalist note, crowing that …'gloomy predictions about the Russian economy's future didn't come true'. There has been no meltdown, not least thanks to eight years of conscious sanctions-proofing in Russia, and down to the financial wizardry of technocrats like central bank chair Elvira Nabiullina. Yet economic war, like the mills of God, grinds slowly… Russia is heading for a year-on-year decline in GDP of up to 15%, and inflation has hit 17%. Although it is easy to be mesmerised by the huge sums of money still heading to Moscow, largely thanks to its exports of oil and gas, the problem is that Russia cannot… buy what it needs, from microchips to spare parts, thanks to sanctions. It is in… the same position as consumers in late Soviet times, with roubles in the pocket but nothing on which to spend them."

Mark Galeotti, The Spectator

■ The era of globalisation is not over



Globalisation has been a boon for the world's poorest people, says Martin Wolf in the Financial Times. "Between 1980 and 2019… the share of the world's population in extreme poverty fell from 42% in 1981 to just 8.6% in 2018". Since the 2008 financial crisis, global trade has ceased to expand faster than the world economy, feeding a perception that the era of globalisation is over. That is a mistake. In fact, world trade as a percentage of global GDP remains close to all-time highs. What is true is that trade liberalisation efforts have "essentially stalled" since China joined the World Trade Organisation in 2001. Freer trade encourages economic development. "These opportunities need to be spread more widely, not less so."

Alibaba: hacked off

The Chinese tech giant is at the centre of a huge data-breach scandal – and the clampdown on the sector could now intensify. Matthew Partridge reports

Chinese e-commerce giant Alibaba Group Holdings has been hit by "what appears to be one of the biggest data breaches in history", says Cissy Zhou in Nikkei Asia. Its shares fell by 6% last Friday after executives were called in by the Shanghai police to be questioned about the affair.

The problem began a fortnight ago when a hacker offered to sell records online from the Shanghai police database. He said he had "information about one billion Chinese citizens" and posted a sample of 750,000 records. The Chinese authorities are furious that the data, which reportedly contains "names, ID numbers, phone numbers, addresses, criminal records and even online orders" appears to have been stolen from a server hosted by Alibaba.

The leak is particularly embarrassing for Alibaba given that founder Jack Ma "was an early evangelist of the use of data in policing and social control", says Karen Hao in the Wall Street Journal. Indeed, Ma's claims that Big Data "would help the public security agencies track down thieves and predict terrorist attacks" has helped Alibaba become "the biggest public cloud-service provider in China". But this relationship has not always been smooth. The ministry in charge of technology suspended a cybersecurity partnership with Alibaba's cloud-computing unit last December after Beijing alleged the company "failed to report a global software vulnerability to it in a timely manner."

©Getty Images

Alibaba founder Jack Ma was an early evangelist for using data in policing

Was it the government's fault?

Still, it looks like Alibaba is being made a "scapegoat" for the Chinese government's failings, especially its "astonishing lack of cybersecurity caution despite its own user data protection mandate", says Yawen Chen on Breakingviews. It seems that in this case the government left the data "sitting around without a password", which means that "anyone could have accessed [it] if they knew the web address". However, even if Alibaba wasn't at fault, this may not matter, as the scandal could dent other clients' confidence, "especially those from the public sector".

Alibaba isn't the only firm worried about the fallout, say Sarah Zheng and Coco Liu on Bloomberg. This episode may only "fuel Beijing's resolve to clamp down on domestic tech giants and accelerate a move away from their private cloud services". Such a migration is already under way, with the ongoing crackdown on "formerly high-flying tech giants" nudging risk-averse institutions toward state-owned providers.

Technology firms are now also likely to be affected by a new Chinese antitrust law, says Lex in the Financial Times. The law, which comes into force in August and requires Chinese companies with global sales of $1.8bn to receive government approval before merging, doesn't target the technology sector specifically. But it will have an "outsized impact" on the industry. Before the pandemic and the clampdown, Alibaba and Tencent "accounted for nearly half of all venture-capital flow for acquisitions in mainland China".

Aston Martin fuelled by Saudi cash

Aston Martin's shares jumped by a fifth last week as investors celebrated a capital injection from Saudi Arabia. The group "will raise £653m via a placing and rights issue", with Saudi Arabia's Public Investment Fund (PIF) injecting £78m into the company and agreeing to take part in a separate £575m rights issue.

PIF will thus become Aston Martin's second-largest shareholder, with 17% of the shares and two seats on the board. Executive chairman Lawrence Stroll argues that the deal "is needed to tackle Aston Martin's oversized balance sheet", with about half of the new funds put towards debt reduction, says Lex in the Financial Times. It should also give the company "more headroom to launch planned models". Still, all this will "not come cheap". The Saudis will get a 25% discount for their first £78m of shares. Minority shareholders are being required to contribute £150m, a tall order given that those who invested in the initial public offering in late 2018 incurred losses of 96% . Those who refuse will be diluted by nearly 60%.

©Aston Martin

Investors should think hard before being "suckered by this road trip" again, says Alistair Osborne in the Times. While Stroll has improved operational performance, this isn't a big deal as "the previous regime had flooded dealers' forecourts with motors that they had to discount to shift".

And the group is still burning cash at an alarming rate. In any case, who "wants to be a passenger in a corporate vehicle that shouldn't be a public company", now partly owned by "the human rights disaster that is Saudi Arabia"?

GSK spin-off Haleon is heavy with debt

On Monday, Haleon, the biggest initial public offering (IPO) in London since Glencore's £37bn flotation in 2011, made a "lacklustre" debut, says Judith Evans in the Financial Times. Spun out of GlaxoSmithKline, Haleon is worth £30.5bn, making it "the world's biggest standalone consumer health business as well as one of the FTSE's largest 20 companies".

However, even when you take into account Haleon's £10bn debt, the total enterprise value of the company is still well below the £50bn that Unilever offered at the end of last year. This gap should prompt further questions from investors as to why CEO Emma Walmsley and the rest of the board rejected Unilever's bid.

Despite the underwhelming start, the £50bn Unilever put on the table is "likely to stick in investors' heads as a valuation goal" says Emma Powell in the Times. But this sounds like "wishful thinking, not only because of the turmoil enveloping markets", but also because it would imply "15% sales growth for the next ten years and an operating margin of 30%".

Even the current valuation looks optimistic given that it is "above that attached to both Unilever and Reckitt Benckiser". What's more, while Haleon does have some advantages such as "brand strength", pressure on household spending could well make accelerating sales growth from the current "pedestrian growth rates" even harder.

If Haleon does struggle to raise sales growth significantly, then it will have to increase margins if it wants to boost profits, says Lauren Almeida in The Daily Telegraph. However, there seems scant scope for bolstering profitability given the "increasingly competitive market" and margins already higher than those of its competitors. As a result, Haleon's large levels of debt, which came about from its decision to pay GSK and Pfizer large dividends as part of the demerger deal, could become a "major problem". Indeed, Haleon's management has already warned that this level of debt "could have a material impact on the business".

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

Six to buy

Associated British Foods
The Sunday Times
Shares in Primark's owner Associated British Foods have fallen far below pre-pandemic levels owing to rising inflation and shaky consumer confidence. Higher wages and energy prices are increasing Primark's operating costs, and although it will raise prices in the autumn, margins will suffer this summer. It's a similar story at the food business. However, "the sell-off looks overblown". Primark is "an obvious beneficiary" of shoppers looking for more affordable alternatives, and the "demise of weaker rivals" will also increase customer numbers. Steady demand for food should offset volatility in the retail sector. The stock looks "excellent value" on a 2022 price/earnings (p/e) ratio of 11. *1,620p*

Auction Technology
Investors' Chronicle
Auction Technology might be one of the few companies "happy about inflation". The group's online platform connects auction houses with potential bidders. The company started out as a magazine before creating a live bidding platform for antiques and launching a website. Over the last ten years it has expanded into new products and sectors, and now boasts bidders from over 160 countries and 3,800 auction houses. Its scale provides a "good economic moat" and makes it appealing to new clients. The company has also benefited from the shift to online auctions throughout the pandemic. *893p*

Cranswick
The Daily Telegraph
Market turmoil shouldn't deter investors from buying shares in companies with "the financial strength to outlast, and even capitalise on, an uncertain economic outlook". Enter food producer Cranswick. It has an "extremely solid" financial position. Sales and net profits have risen at a double-digit rate on an annualised basis over the last five years. Only 8% of last year's sales were from international markets, so there is ample scope for long-term growth. The shares have slipped by 25% in 12 months. It's time to buy the dip. *3,068p*

Forterra
The Mail on Sunday
Britain uses 2.4 billion bricks every year. Forterra is one of the UK's biggest brickmakers, and the decline in its share price seems "unjustified". The company sells all of the 500 million bricks it makes every year and its customers include large builders' merchants, which are "financially robust". It is a highly cash-generative company, which helps explain the attractive and growing dividend. It has also passed on rising energy and labour costs to customers, facilitating an expansion in capacity. *264p*

McDonald's
Shares
Shares in the fast-food giant might not be as exciting as "younger, faster-growing"

rivals, but it has consistently outpaced the market and remained a reliable dividend grower. Its affordable products have filled the gap in the market left by restaurants that succumbed during the pandemic. It has 38,000 outlets worldwide, which it has refitted in recent years. McDonald's is expected to enjoy mid-to-high single-digit earnings growth next year, which will become "increasingly attractive to investors looking for stability". *$253*

Morgan Sindall
The Times
Construction and regeneration group Morgan Sindall's recent announcement of new three-year targets might have seemed odd given inflation's threat to profitability. But the company plans to win a greater share of repeat and longer contracts. Around 60% of its work is for the public sector, which could help shield it from a slowdown in commercial construction. It has a strong balance sheet and has consistently operated with a net cash position, giving it a good buffer should the economy slow further. The shares looks cheap. *1,878p*

...and the rest

Investors' Chronicle
Supermarket Income Reit owns, or co-owns, 69 supermarkets across the country. Its clients offer a long-term, stable rent roll and it has continued to increase its dividends. Buy *(123p)*.

Shares
Vehicle-hire and accident-management group **Redde Northgate** has "come a long way in the past few years". The market has overlooked just how well it could keep doing, making now a great time to buy *(336p)*. **Watches of Switzerland** should "buck the wider retail doom and gloom" thanks to its luxury products and clientele who are largely unaffected by the cost-of-living crisis. Buy *(759p)*.

The Daily Telegraph
The FTSE Aim All-Share index has fallen by a third over the last year, which has hurt the share prices of aggregates specialist **Breedon**, fund manager **Impax Asset Management** and eyewear producer **Inspecs**. But they are all solid companies and investors should buy the dips *(64p, 550p, 234p)*. **Cadence Design Systems** makes software that allows customers to design consumer chips and counts the world's biggest chipmakers as clients. The value of its software is "obvious", yet it has few competitors. Buy *($157)*.

The Times
Investment manager **Ashmore Group**, which specialises in emerging markets, has been hit by volatile markets and "rising US bond yields". Further earnings downgrades look possible. Avoid *(201p)*. Investors are "preparing for the roof to fall in" at builders' merchants firm **Grafton Group**, whose brands include Selco. But the company's "large pile of cash, improved margins and… geographical diversification" make it a buy *(786p)*.

A German view

Shares in e-commerce specialist Shopify have fallen sharply in recent months as investors have fled growth stocks. But the slide looks overdone, says Börse Online. The group provides subscription-based software that allows companies to build online shops, and it also provides logistics and payment services. Covid-19 gave Shopify a big boost as companies rushed online. The group now boasts more than two million stores in 175 countries. This global presence entices not only new clients, but also software programmers keen to develop new applications. The group is now focusing on opportunities in business-to-business transactions.

IPO watch

The Hong Kong stock exchange saw its busiest day in more than a year on 13 July, says The Wall Street Journal. Chinese lithium producer Tianqi Lithium launched the largest initial public offering (IPO) of 2022 so far, selling $1.7bn of stock. Retailer Miniso Group Holding, asset manager Noah Holdings and natural-gas distributor Huzhou Gas also floated that day. All four opened below their IPO prices and stayed there for most of the day, reflecting ongoing nervousness among local investors over the impact of China's lockdown and zero-Covid policies. The first half of 2022 was the slowest for new listings in over ten years, and the amount raised fell by 91% year-on-year.

©Alamy; McDonalds; Primark

Short-changed in Saudi Arabia

Joe Biden had little to show for cosying up to the country he called a pariah. Jasper Spires reports

"The Middle East has become a place where US presidential ideas, especially big ones, go to die," say Aaron David Miller and Steven Simon in Foreign Policy. Take US president Joe Biden's decision during his electoral campaign in 2019 to label Saudi Arabia and its crown prince Mohammed bin Salman (MBS) a "pariah" over the murder of dissident journalist Jamal Khashoggi. Now, after shunning MBS for two years, "the siren call of Arab hydrocarbons amid Russia's invasion of Ukraine and rising gas prices have forced Biden back in". Last Wednesday, he attended a Gulf Cooperation Council summit of Middle East leaders in Jeddah, with a list of urgent goals that included securing a commitment from the Saudi government to bring down oil prices by raising production; addressing Israel's place in the region; and strengthening local alliances against the geopolitical influence of Russia and China.

Biden's friendly fist-bump with Mohammed bin Salman

©Getty Images

Yet few thought his visit went well. "The Saudi wager prompted howls of hypocrisy from activists and allies at home and in the Gulf states," say Justin Sink and Jenny Leonard on Bloomberg, while it's highly questionable how much the talks achieved. "The payoff may be months away – if it comes at all." MBS reportedly agreed in private to increase oil production, according to The New York Times, but publicly, Saudi foreign minister Faisal bin Farhan Al-Saud reiterated that decisions about oil production would be made by the Opec+ producer cartel, which would require the co-operation of Russia. Any announcement is likely to be delayed until the next Opec+ meeting in August, say Sink and Leonard, meaning the impact on prices will fall close to the US mid-term elections in November.

Biden insisted he was getting results on his wider political aims, say David Sanger and Peter Baker in The New York Times, framing the bolstering of America's relationships in the Middle East as "part of a renewed form of superpower competition" with China and Russia. Most notably, Saudi Arabia agreed to turn its nation into a "test bed" for the US's Open-RAN (Open Radio Access Networks) 5G and 6G technology – an important step in competing against China's Huawei, which has already made "significant inroads in the region". Biden could also point to an agreement to open Saudi airspace to flights from Israel, representing "first tentative steps toward possible normalisation of ties between Israel and Saudi Arabia".

No progress and bad signals

Still, the failure to manifest a Saudi commitment to increasing oil production without Opec's blessing stands as "a not so subtle way of saying Saudi will maintain its warming relations with Vladimir Putin regardless of what the US thinks", says Karen Elliott House in The Wall Street Journal. "The president walked away with no progress – not only on oil, but on peace in Yemen, confronting Iran and everything else." Russia remains a strong influence in the region, while its allies in Tehran have now reportedly enriched enough uranium to build a nuclear weapon.

Meanwhile, the sight of Biden greeting the crown prince with a friendly fist-bump also drew criticism from those who felt it undermined America's efforts to challenge human-rights abuses in the region. "Visuals like these help MBS consolidate power, and now Biden has given him a supercharged one," says Karen Attiah in The Washington Post, the paper Khashoggi wrote for. "Make no mistake about the meaning of the signal the president of the United States has just broadcast across the world." Thus while Biden and MBS "took a step to mending their troubled relationship, the US leader left the kingdom… with few big successes and doubts as to whether the visit was worth it", says Jarrett Renshaw on Reuters.

After graduation comes the hunt for a job

©Getty Images

China's youth unemployment crisis

Soaring youth unemployment is a brewing crisis for China, *writes Simon Wilson*. Beijing's pursuit of a zero-Covid strategy via harsh lockdowns has whacked the economy and it's hitting young people hard. In April, the jobless rate among 16-to-24-year-olds climbed to a record 18.2%, three times the overall urban unemployment rate. Moreover, another 11 million students will graduate in the coming weeks, says Matthias Kamp in the Neue Zürcher Zeitung. Even those who find jobs see sharp falls in real wages. That's fuelling fears that "young people without jobs or prospects for the future could take their frustration to the streets".

This marks the "final nail in the coffin of the implicit post-1989 deal between the state and college graduates", says Eli Friedman in ChinaFile. The Chinese Communist Party has demanded absolute obeisance, but China's highly educated youth "could expect nearly boundless opportunity" arising from "perhaps the greatest economic expansion in world history". That tacit bargain is collapsing, with unknowable consequences. And the impact of the slowdown on China's 300 million migrant workers could be more serious still, since young migrants depend on secure employment in order to access vital local services, such as healthcare and education.

China found solutions in similar crisis before, says Yawen Chen on Breakingviews. In the 1990s, Beijing slashed public sector employment, but WTO entry unleashed double-digit export-led expansion that mopped up surplus workers. After the 2008 global crisis, the government invested in infrastructure to support jobs. This time such methods won't cut it. The days of rapid growth are gone, and public finances are stretched. The current slump risks descending into Japan-style stagnation, followed by "social instability among legions of out-of-work people, and not enough jobs to go around". Xi's "worst nightmare" is getting closer.

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And then there were two

The Tory leadership contest is in its final phase. Matthew Partridge reports

After two "excruciating" televised debates and five ballots of Conservative MPs, Rishi Sunak and Liz Truss emerged on Wednesday as the two final candidates to become the next leader of the Conservative Party.

The winner will become "the third prime minister anointed in the past six years without being voted into office by the general electorate", says Hannah Jane Parkinson in The Guardian. The final say once again "has been given to the circa-160,000 members of the Conservative party", with the result due on 5 September.

One of these two will be the next PM

©Getty Images

Trusting the membership

The fact that the Conservatives are placing their fate in the hands of the membership shows they have learned little from what happened with outgoing prime minister Boris Johnson, says Daniel Finklestein in the Times. Despite the fact that Johnson's weaknesses were "well known" and his "failings as a minister understood", MPs bowed to pressure from Conservative party members and choose him as one of the two to go forward to the final ballot.

The fact that someone so "obviously unsuited to the premiership" was selected "should prompt a rethink" – and not just for the Tories. The previous practice of MPs of both the two principal parties choosing their leader "would have prevented the twin fiascos" of Johnson and Jeremy Corbyn.

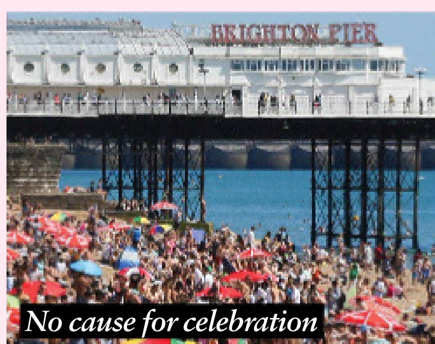
That said, Conservative party members are more "canny" than their MPs might think, says the Economist. Surveys suggest that the views of the Conservative rank and file are "roughly in line with bog-standard centre-right opinion", and if anything slightly more centrist on economics than the typical Conservative MP. And MPs "do not have a monopoly on wisdom", as shown by the subsequent failure of Theresa May, the overwhelming choice of MPs in 2016. Still, the process of creating a "de facto presidency" by having leaders directly elected by a party's membership "is a recipe for constitutional stress", and sits uneasily with the idea of parliamentary sovereignty.

A long process

A further anomaly is that the system "requires a lower threshold to win the leadership than to retain it", says Daniel Hannan on Conservative Home. "You can become party leader with the support of a third of your MPs", but require half to survive a subsequent vote of no confidence. Note, too, that the sheer length of the process encourages rival camps to "smear" each other with personal attacks thus "ensuring that the eventual winner makes enemies along the way". It also means that "for the rest of this month, and all of next, Britain's administration is paralysed" with "no new decisions made or announced".

Still, having a genuine contest for Conservative leader that takes place over several weeks comes with several benefits, says Charles Moore in the Daily Telegraph. While some may have found the debates so far "ghastly", they have least exposed some of the two remaining candidates' weaknesses, while forcing them to "answer back" to their critics. This scrutiny has made them "better politicians".

The silent disaster of heatwaves



No cause for celebration

©Getty Images

This week, Britain was hit by a heatwave that "shattered" records, with temperatures of up to 40°C in some areas, says The Guardian. Much of Europe was also affected, with "wildfires raging in France, Spain and Portugal". Polls suggest that people already consider climate change Britain's fourth most pressing problem, so these events "could lead to it climbing further up voters' priorities".

Heat is shaping up to be a "silent disaster", say David Fickling and Ruth Pollard on Bloomberg. "Heatwaves could become a far more damaging phenomenon in the 21st century than more familiar cataclysms such as cyclones and floods".

India is currently struggling with a heatwave that in some parts of the country is bringing a combination of both high heat and high humidity perilously close to the limits of human tolerance. If future heatwave temperatures rose just a few degrees higher, it might "kill tens, even hundreds of thousands... overload electricity grids, cause power plants to shut down [and] make harvests fail".

At this point, reducing carbon emissions won't be enough to tackle the threat, says the Economist. "Even if greenhouse-gas emissions are cut to net-zero by the middle of this century, temperatures will go on rising for decades."

Governments will need to invest in mitigation measures, including early-warning systems and improved infrastructure, to both help people stay cool and protect water and electricity supplies, as well as revising building codes to "ensure that new homes and offices can cope".

Betting on politics

Rishi Sunak may have got support from 137 MPs, compared with 113 for Liz Truss, but Truss is favourite to emerge as the next prime minister. With £2.98m matched on Betfair on the market for the next PM (along with a further £2.4m on the next Conservative leader), punters have Truss at 1.68 (59.5%). However, they still think the contest might not be a walkover, as Sunak (pictured) is only out at 2.46, which means they still give him a 40.7% chance of winning.

My guess is that the contest is going to be a bit closer than the markets suggest. It's true that Truss has a clear lead in the latest YouGov poll of members, with 54% of the vote compared with Sunak's 39%, but this isn't completely insurmountable, especially given that there will be now six weeks of campaigning and debates before the results are in.

©Getty Images

You can expect the MPs who voted for Sunak, as well as most of those who voted for Penny Mordaunt – narrowly beaten by Truss, with 105 votes – to campaign on his behalf in the media. This should help sway some votes.

Sunak's team will be hammering home the message that polls have consistently shown that the Conservatives will do much worse under Truss than Sunak.

While such arguments don't always work, the fact that the Conservatives are in power, rather than opposition, might focus minds. As a result, while Truss just might edge it, I think the result is uncertain enough to make it worth betting on Sunak at 2.46 to be the next PM with Betfair.

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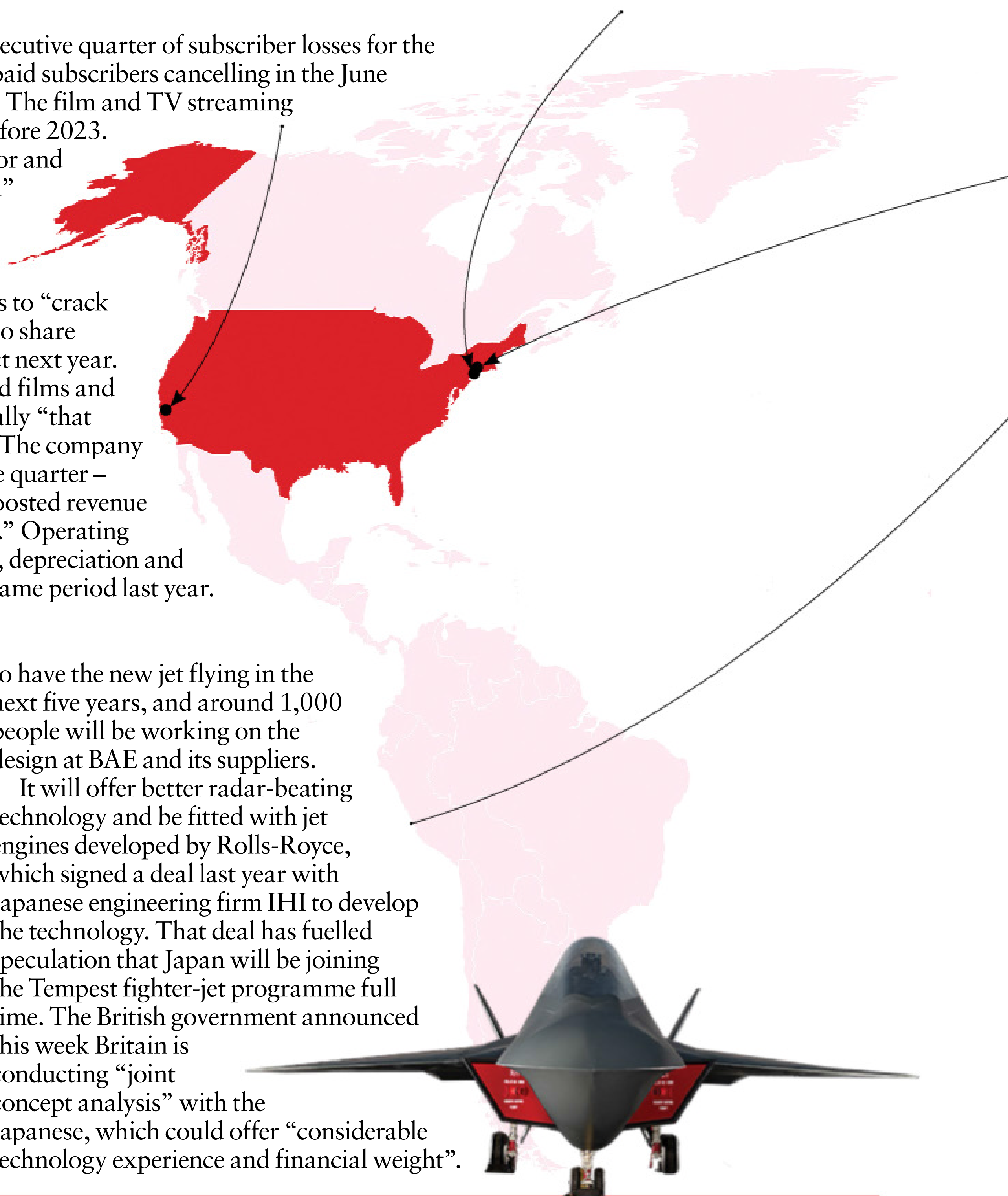
Hoboken

Celsius collapses: New Jersey-based Celsius Network, one of the world's biggest cryptocurrency lenders, appeared in a New York bankruptcy court this week, says Jonathan Randles in The Wall Street Journal. It defended its decision to freeze customers' withdrawals last month, arguing it did so to prevent customers who stayed with the platform from being "left holding the bag". Celsius has filed for chapter 11 bankruptcy protection, which gives it breathing space from its creditors while it formulates a repayment plan for its users and weathers the downturn in the cryptocurrency market. The court questioned whether that would be possible given the volatility in cryptocurrencies.

Last week, Celsius's CEO Alex Mashinsky (pictured) disclosed a $1.2bn hole in the company's balance sheet. Celsius says it owes users $4.7bn, representing most of the lender's $5.5bn in total liabilities. Celsius, which was set up in 2017, allowed users to earn interest on cryptocurrency deposits and take out loans using deposits as collateral. But it is not a bank and cryptocurrencies are not regulated, Ryan Browne points out on CNBC. Deposits were also pooled, so assets may be considered the property of Celsius, not users. The upshot is that users hoping to recoup their funds "are likely to end up disappointed".

San Francisco

Viewers switch off: Netflix reported its second consecutive quarter of subscriber losses for the first time since it was founded in 1997, with 970,000 paid subscribers cancelling in the June quarter, says Sarah Krouse in The Wall Street Journal. The film and TV streaming service does not expect subscriber growth to return before 2023. Netflix has been hurt by rising competition in the sector and a US consumer market "saturated with rising inflation" that could be eating into discretionary spending. It is working on a lower-price, advertisement-supported option for consumers to appeal to those tightening purse strings during the economic downturn and plans to "crack down on password-sharing" by charging households to share accounts. These moves are expected to come into effect next year. Executives emphasised the need for more hit shows and films and "aggressively" marketing content. But is its content really "that good", asks Lauren Silva Laughlin on Breakingviews. The company still had 221 million paying customers at the end of the quarter – 5.5% more than in the same period last year, which boosted revenue nearly 9% to $8bn. "But it's being squeezed elsewhere." Operating margins are tighter and earnings before interest, taxes, depreciation and amortisation (Ebitda) were down compared with the same period last year.



Farnborough

Whipping up a storm: Defence company BAE Systems is starting work on its first supersonic fighter jet prototype in nearly 40 years, says Howard Mustoe in The Telegraph. BAE's sixth-generation warplane forms part of the wider Tempest programme with the Ministry of Defence. Its aim is to deliver the next generation of fighter jet for the Royal Air Force by 2035. The last time Britain built a supersonic fighter prototype was in 1986 when BAE's predecessor, British Aerospace, made a demonstrator that was ultimately developed into the Eurofighter Typhoon, which the new jet will be replacing. The new prototype will be in the "same category as when Sir Frank Whittle developed the jet engine" and it is a "fundamental step forward from an engineering point of view in doing combat", BAE's Herman Claesen said. The company hopes to have the new jet flying in the next five years, and around 1,000 people will be working on the design at BAE and its suppliers.

It will offer better radar-beating technology and be fitted with jet engines developed by Rolls-Royce, which signed a deal last year with Japanese engineering firm IHI to develop the technology. That deal has fuelled speculation that Japan will be joining the Tempest fighter-jet programme full time. The British government announced this week Britain is conducting "joint concept analysis" with the Japanese, which could offer "considerable technology experience and financial weight".

The way we live now... luxury holidays for dogs

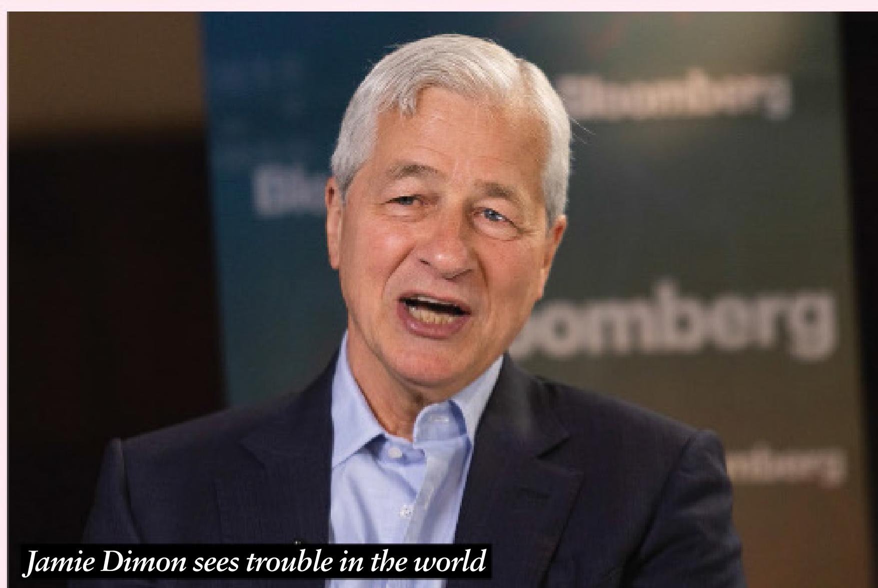
Paddleboarding for pooches

Demand for luxury dog-sitting services is soaring, says Simon Usborne in The Sunday Times. Britain's pet population swelled during the "pandemic puppy boom" and now those new owners want to travel. They have discovered, however, that they are "leashed to hopelessly cosseted animals".

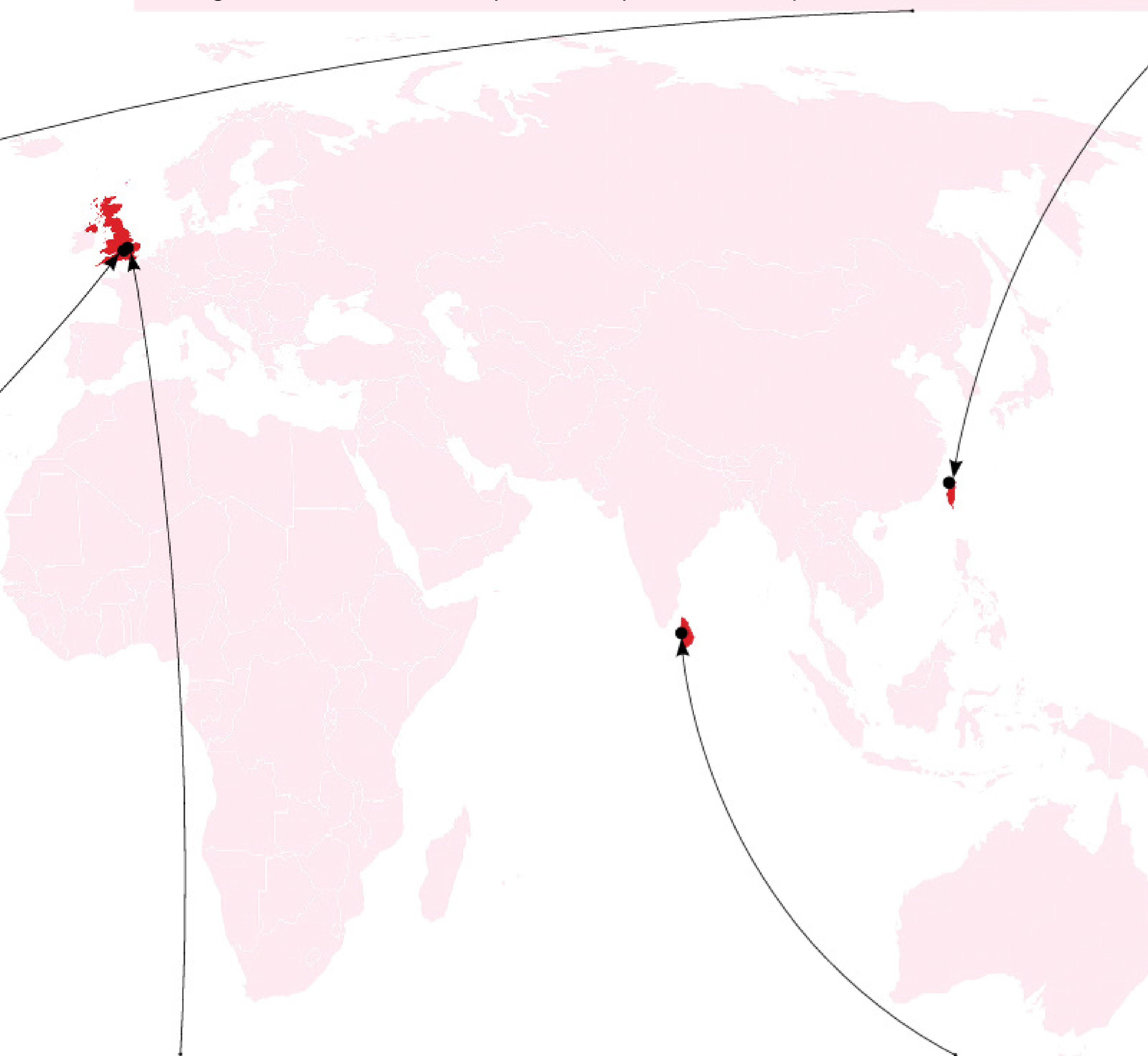
"Kennels, sitters and apps designed to pair dog lovers... report a paw-fect storm." Membership of TrustedHousesitters, a service that charges sitters and dog owners £99 a year to match them, has doubled since travel restrictions ended, while listings have quadrupled. Standard kennels, which cost from £20 a day, no longer cut it. "It has gone completely crazy," says Rebecca Linnell, founder of the Country Dog Hotel & Spa in Somerset. Costing from £90 a day, dogs are collected by Land Rover, enjoy paddleboarding, film nights (*101 Dalmatians* is a favourite) and cuddle up with staff on beds made up with Soho House cushions. The hotel is able to accommodate 16 dogs. But, as Linnel tells the paper, she could "open 12 hotels today and fill them right away".

New York

Traders to the rescue: The big five Wall Street banks have posted their second-quarter results. JPMorgan Chase, the biggest bank by assets, recorded a 28% fall in profit from a year earlier, to $8.7bn, as it set aside $428m for loan losses. Boss Jamie Dimon blamed geopolitical tension, inflation, waning consumer confidence, interest rates and "the never-before-seen quantitative tightening". Goldman Sachs reported a 47% drop in net income to $2.9bn and warned of staff cuts. Profits at Bank of America fell by 32% to $6.2bn following a $523m provision for credit-card losses. Morgan Stanley posted a 29% drop in profit, to $2.5bn, while Citigroup recorded a 27% fall, to $4.5bn. In each of these cases, a "big decline in deal-making activity" across the sector accounted for lower profits, say Telis Demos and Aaron Back in The Wall Street Journal. Fortunately, fixed income, currency and commodity (FICC) traders rode to the rescue, aided by market volatility. FICC trading revenue rose by an average 35% for the five in the quarter compared with last year.



Jamie Dimon sees trouble in the world



Taipei

TSMC's cautious outlook: Taiwanese semiconductor maker TSMC's latest results have helped ease fears over decreasing demand for chips due to high inflation and a market glut, says Arjun Kharpal on CNBC. The world's biggest chipmaker posted record net income of T$237bn (£6.6bn) for the second quarter, a 76.4% increase on the same period in 2021. The company expects revenue for the third quarter of between $19.8bn and $20.6bn, up from $14.8bn for the same period the previous year. Despite its success, TSMC will remain cautious on spending, adding it would push some of its capital expenditure to 2023 due to "greater challenges in the supply chains", which are prolonging delivery times for some chipmaking equipment.

While the amount TSMC has earmarked for capital expenditure next year is towards the lower end of its previous range of up to $44bn, it is "still a huge amount", says Brooke Sutherland on Bloomberg. TSMC is still planning to build a $12bn plant in Arizona, though construction and labour costs have been higher than expected and the company is looking for subsidies. TSMC's more "cautious" tone echoes that of other chipmakers, such as Micron Technology, which has forecast weaker sales for the current quarter.

London

Inflation at 40-year high: Consumer prices are rising at the fastest pace since 1982. Headline inflation rose to 9.4% in June year-on-year, up from 9.1% the previous month. On a monthly basis, prices were 0.8% higher, from 0.7% in May. Fuel prices were the main driver. The average price of petrol rose by 18.1p a litre in June, the biggest rise since equivalent records began in 1990. Food prices also rose by 9.8% during the month, up from 8.7% in May, to the highest rate since 2009. The inflation rate puts the Bank of England under pressure to raise interest rates further. A 0.5 percentage-point rise was "on the table", Bank governor Andrew Bailey said on Tuesday. The consumer price index is set to rise higher with the raising of the energy price cap in October, which will lead to higher household bills. However, strip out energy and food prices, which tend to be volatile, and annual "core" inflation slowed slightly to 5.8%, from 5.9% in May. That downward trajectory should continue, "easing to about 5% by year-end and to around 2% or so in a year's time", says Samuel Tombs of Pantheon Macroeconomics.

Official house-price data, also released on Wednesday, showed property prices have continued to rise. The UK House Price index rose by 12.8% in the year to May, up from 11.9% in April. The average price of a house now stands at £283,496.

Colombo

New president: Sri Lanka's parliament has chosen six-time prime minister Ranil Wickremesinghe (pictured) as the country's new president, says Saroj Pathirana on Al Jazeera. It is "a remarkable turn of fortunes for a man considered 'politically dead' by some analysts". Wickremesinghe came to power mostly thanks to support from the ruling Sri Lanka Podujana Peramuna party after having unsuccessfully participated in the presidential elections twice since 2000. Former president Gotabaya Rajapaksa had named Wickremesinghe as acting president after he fled the country to Singapore last week, where he resigned following months of civil unrest. However, the news incensed protesters who accused Wickremesinghe of protecting the country's ruling elite. Wickremesinghe says he's confident he can "turn the economy around" in 18 months, despite Sri Lanka having been brought to a virtual standstill after months of shortages. The country defaulted on its external debt in April and is currently suffering its worst financial crisis since it became independent in 1948. Annual consumer price inflation is running at around 50%.

©Getty Images; BAE Systems

Aviation sector in new nosedive

Airlines and airports seem woefully unprepared for the rebound in demand for flights after the pandemic. Why? And when will the outlook improve? Simon Wilson reports

What's going on?

Travellers around the world are struggling with post-pandemic disruption at airports. The worst of it is here in Europe, creating chaos for millions of Britons desperate for a holiday. While Asia's travel industry is still navigating Covid-19 and America suffers from a shortage of pilots, it is Europe where various kinds of turmoil have "converged to inflict maximum pain on consumers", said Bloomberg. Last week, Heathrow announced a daily cap of 100,000 on passenger numbers until 11 September. Emirates, the Dubai-based airline, blasted it for fomenting "airmageddon". London's airports are among the worst affected in Europe. Between the start of April and the end of June, 8,200 flights were cancelled at Heathrow and 6,800 at Gatwick. That compares with 8,600 at Frankfurt and 6,400 at Munich. But outstripping them was Amsterdam's Schiphol airport, with 14,200 cancelled flights. Meanwhile France, Spain, Italy and Portugal are all doing relatively well, says aviation-data group OAG.

Ryanair is gaining a reputation as the most reliable post-pandemic airline

©Ryanair

What's causing the problems?

The chaos is down to "tourism rebounding unexpectedly fast" and crashing into an underprepared aviation industry, says The Economist. Deprived of holidays for years, people are "revenge travelling". The weak euro is helping to boost demand from outside the eurozone. The disruption to aviation is a highly visible example of a wider structural issue: businesses struggling to get fully staffed owing to near-full employment across Europe. The same problems seen at airports are also evident in care homes, hotels and "other places that need a lot of unskilled staff. They simply get less attention." Unemployment is at 6.6% in the eurozone, the lowest since the single currency was launched two decades ago. In Germany it is just 2.8%. The willingness of Poles or Bulgarians to fill the gaps has slumped, since they can now find plenty of good jobs at home.

Any other factors?

The disruption has been exacerbated by a series of strikes. Soaring inflation and pay demands have in recent weeks seen strikes involving everyone from firefighters and air-traffic controllers to cabin crew, cleaners and baggage handlers – across European countries from Scandinavia to Italy. In addition, Russia's war in Ukraine is a factor in restricting available airspace across the continent. According to Lufthansa, the war is causing bottlenecks in the skies that have contributed to flight delays and disruption. All these factors have left airlines and airports struggling to meet demand, especially those airlines, including British Airways and Lufthansa, that slashed their workforce at the start of the pandemic. The German carrier cut around a third of its workforce to 100,000 people at the height of pandemic restrictions, leaving it short of cabin crew, ground staff and pilots as demand for travel recovers. "Did we drive some savings too hard? No doubt," said CEO Carsten Spohr earlier this month, as he announced 3,100 cancellations for July and August, or around 4% of Lufthansa's capacity at the summer peak.

Which workers are needed in particular?

A chief cause of delays and cancellations is a shortage of ground-handling workers, said Bloomberg. It's physically demanding work involving unsociable hours for poor pay. German ground staff typically start on about €20,000 a year – not enough to fill the gaps when the labour market is tight and there are easier options available. "Everyone's asking, where have they all gone? And the answer is always: Amazon," says Sir Tim Clark, president of Emirates.

> *"Everyone wonders where the ground staff have gone. The answer is Amazon"*

Why is the UK one of the worst affected?

In part because our Covid travel restrictions were relatively long-lasting and unpredictably stop-start compared with other European countries' measures. According to the Annual Population Survey, the number of full-time "air-travel assistants" (this includes cabin crew and check-in staff) almost halved from 40,100 in 2019 to 20,500 in 2021. Meanwhile "air-transport operatives" (including staff who refuel aircraft and handle baggage) fell by more than half, and air-traffic controllers slumped by 28%. BA and easyJet also say that uncertainty over Britain's furlough scheme, which was extended on an unpredictable rolling three-month basis, made it harder to plan. They have also complained about the slow and lengthy security checks for new workers.

Who's coping well?

One of the relative success stories of the past few months is Ryanair, not typically known for good customer service, says Jim Armitage in The Sunday Times. Last month easyJet cancelled 741 flights from UK airports and British Airways 421, but Ryanair scrapped just 25. How has the airline managed it? By furloughing more staff, and doing a deal to keep people on through the pandemic on reduced pay rather than slashing headcount. It was a calculated risk that now means the carrier is "gaining a new reputation among travellers as the most reliable post-Covid airline".

How is the sector doing more broadly?

Not very well. Shares in major airlines (as measured by the Bloomberg World Airlines index) have fallen 25% since February. Once the disruption stabilises, the world's biggest carriers will have to "work to deleverage their balance sheets from billions of dollars in debt accumulated during the crisis", says the Financial Times. Together, ten big US and European airlines have built up $193bn in gross debt over two years, up from $109bn in 2019. "There is no quick fix," says Izabela Listowska of S&P Global Ratings. Some smaller airlines have already stumbled: SAS has just filed for bankruptcy protection. But for survivors, the surge in demand means that cash is flowing back, and industry-wide losses are forecast to fall to about $10bn this year, with profitability possible in 2023, according to Marie Owens Thomsen, chief economist at the International Air Transport Association.

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The lesson from the Uber scandal

Lobbying politicians will always backfire. Tech firms should openly stand up for free markets

Matthew Lynn
City columnist

©Getty Images

Emmanuel Macron, pictured with Uber CEO Dara Khosrowshahi, supported the firm's lobbying before he became president

The massive leak of files from Uber last week has blown open the ride-sharing giant's lobbying machine. European commissioners were rushing from meeting to meeting with lobbyists. Politicians were dazzled with campaign donations, jobs for families and friends, and the promise of lucrative consultancy contracts.

Meanwhile, Uber's staff openly boasted about how the company was built on law-breaking, tearing up labour laws and suppressing dissent. Drivers were encouraged to get into fights with their opponents because violence works. Managers were instructed to hit the "kill switch" to delete data whenever regulators or police threatened to seize it.

Overall, the picture is of a firm rising to dominance using methods that the Corleone family in *The Godfather* might have found a little on the pushy side. Yet while nobody would deny that Uber went over the top, we shouldn't lose sight of the real scandal here: the fact that the companies were not able to make their case in the open.

We should recall that Uber was taking on and challenging one of the most restrictive industries in the world. Before it arrived on the scene, it was virtually impossible to get a taxi in Paris (a report in 2000 found the city had fewer taxis than in 1920). In London, the black cabbies kept an iron grip on the trade, charging sky-high prices, while anyone hoping to get back to zone five after midnight could expect to be advised to find an alternative method of transport (except in more colourful language). In New York, cab licences were so tightly controlled that they changed hands for tens of thousands of dollars. Uber's super-slick app broke cartels in major cities around the world, providing lots of flexible, well-paid work to drivers (mostly recent immigrants as it happens), and lots more choice to consumers. In London, a service that had become largely restricted to executives on expense accounts was suddenly opened up to teenagers getting home from a club in the middle of the night.

Make the case for freedom

Uber's mistake was that it chose to stay in the shadows while trying to change this. It should not have been Emmanuel Macon, then still France's finance minister, that it was lobbying to help re-write the country's taxi regulations (or London mayor Sadiq Khan in the UK), but ordinary voters. Because it failed to do so, it ended up being heavily regulated anyway.

Drivers now have to be offered holiday pay and a range of other benefits. The result? Prices have gone up, the availability of cars is down, and the company's share price has collapsed, falling by 50% so far this year alone.

We can see the same fate befalling other tech giants. The UK government is clamping down hard on Airbnb rentals, with the result that hotels are now often cheaper than borrowing someone's apartment. The social-media players are collaborating with the government's online harm bill, turning themselves into petty censors. Amazon stays meekly silent as its marketplaces that open up industries to micro-entrepreneurs are regulated out of existence. Google is too timid to explain how search and maps increase choice instead of restricting it.

Yet giant tech companies should be standing up for free markets and free speech. Uber had a perfectly respectable case about how it was benefiting consumers. So do Airbnb, Amazon, Tesla and many others. The lesson from the Uber leaks is surely that backdoor lobbying doesn't work. Only making a robust case for freedom and choice is effective in the long run.

City talk

● "Not another 'shock' result at Playtech," says Alistair Osborne in The Times. "How many more can chairman Brian Mattingley deliver?" In February, a mysterious group of Hong Kong investors voted down the £1.2bn takeover that he'd agreed between the UK gambling-software firm and Australian gambling-machine maker Aristocrat Leisure. After that came the "thunderbolt" news that Playtech CEO Mor Weizer was in talks with Hong Kong's TTB Partners about a possible bid. Then last week, Mattingley met with TTB and was told the bid was off due to market conditions, sending the shares down 18%. Mattingly says that came as "quite a shock" to him and Weizer, which is unfortunate: in their line of work, they should "have a vague appreciation of the odds". Regardless, it seems "ridiculous" that Weizer can "spend months flirting with a bidder, fail to deliver, oversee vast value destruction and carry on" – not least when he got paid £9.15m last year.

● "Another day, another profit warning from a motor insurer," says Nils Pratley in The Guardian. First, it was minnow Sabre Insurance, whose shares tumbled 40%. At the time, CEO Geoff Carter was "adamant" that this was an industry-wide problem rather than just his firm, and it looks like he was "on the money". Direct Line has now reported severe price inflation, supply-chain delays for vital spare parts, longer repair times and customers "driving around in courtesy vehicles for weeks on end". Its shares are now off 18%, while Admiral, "from which a profit warning is surely only a matter of time", is down 25%. "This industry-wide prang for shareholders does not reflect well on City analysts' collective ability to sniff trouble… most of this stuff has been an open industry secret for weeks."

● "We've reached the reverse profit warning stage of the incoming recession," says Bryce Elder in the Financial Times. "Deliveroo shares are up nearly 6% because it expects to subsidise fewer takeaways." A trading update showed customers are placing smaller orders, so if Deliveroo keeps its currently negative margins at the same level, it can expect a slightly smaller loss. "Super!" Of course, margins logically don't matter to shareholders right now. "Deliveroo is a concept stock. It's a simple long-term bet on whether food delivery economics can ever work." The company is forecast to keep burning £150m-£200m of cash a year until 2024, but since its "top of the nonsense" float in 2021 raised £1.1bn, it's well positioned to do so. Still, if the target for positive cash flow gets pushed back any further, there's a risk "all confidence in CEO Will Shu goes".

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Don't get too comfortable

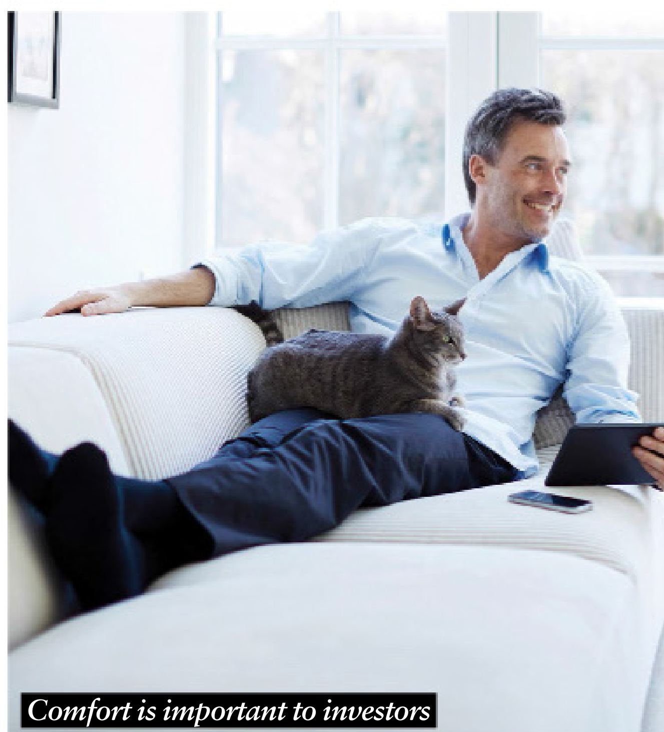
Stocks have a good way further to fall, if this measure of how comfy investors feel is anything to go by

John Stepek
Executive editor

Two key things matter for stockmarket valuations. One is earnings (both current and anticipated). The other is what investors are willing to pay for those earnings. At any given time, investors as a group may be willing to pay more for a given pound or dollar of earnings than they are at other points. This is what market analysts mean when they talk about "multiple expansion" or "contraction" – they mean that the price/earnings (p/e) ratio is going up or down, driven purely by changes in the "p" rather than any change in the "e" (see below). That raises an interesting question: what makes investors more or less willing to pay "up" for earnings, especially at times of extreme over or undervaluation?

During the dotcom bubble in the late 1990s, Jeremy Grantham and Ben Inker of US asset manager GMO created a model to try to work out what factors drive valuations. In theory, when earnings are high relative to history, investors should be warier of over-paying for those earnings, because corporate profit margins are prone to "mean reversion" (in other words, they generally return to a long-term average). Yet the pair (looking at US data and stockmarkets) found the opposite. When margins are high, investors act as though they'll stay high.

Meanwhile, the other key factor driving p/e is inflation – as long as inflation is low (around 2%) and stable, investors are happy to pay more for earnings. In other words, concluded Grantham and Inker, investors value stocks based on how comfortable they feel today, rather than on any expectations for tomorrow – hence the name they gave to their research, the "comfort model".



Comfort is important to investors

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The comfort model argued for high p/e during the post-financial crisis era, as corporate profit margins remained high and inflation remained quiescent. That's exactly what we got. Now it seems it also called the turn correctly, with stockmarkets crashing since late 2021, as inflation became the number one enemy. The question now is: what does the "comfort model" imply about valuations today?

"Investors value markets based on how comfortable they feel"

Long story short, they're still too high. Matt Kadnar at GMO provides an update in which he notes that even though the S&P 500 has fallen sharply, it still trades on a "fairly lofty p/e of about 30". The comfort model, by contrast, suggests it should be closer to 19. As a result, despite the slide in stocks, the disparity between actual valuations and the model's predicted valuations is as high as it was in the dotcom bubble. A surge in corporate earnings seems unlikely. Signs of falling or stabilising inflation might justify higher p/e – but given the scale of the disparity and the likely ongoing volatility of inflation, this also looks like wishful thinking. So the most obvious way to close the gap is for prices to fall. Tread warily.

I wish I knew what a p/e ratio was, but I'm too embarrassed to ask

Many investors use the price/earnings (p/e) ratio as a measure of whether a share is cheap or not. There's a good reason for that – it's one of the simplest valuation measures out there. You simply take the share price, and divide by the earnings (profits) per share. So a company with a share price of 50p and earnings per share (EPS) of 5p would have a p/e ratio of ten.

A p/e ratio which is based on forecast earnings is often referred to as a forward p/e ratio, while one based on past earnings is sometimes described as a trailing p/e. P/e ratios are also sometimes referred to as "multiples", as in: "Acme widgets is trading on a multiple of ten times its earnings".

In effect, a p/e of ten means you are paying £10 for each £1 of earnings, while a p/e of 20 would mean you are paying £20 per £1 of earnings. So clearly, in theory, the lower the p/e, the cheaper the share. However, a lower p/e does not always mean that a company represents good value. If investors are only willing to pay £5 for each £1 of current earnings, say, then this implies that they don't really believe current earning levels can be sustained. Instead, there may be serious problems that will hinder future growth or lead to falling profits.

Meanwhile, those trading on higher p/e ratios might look expensive – but in fact, might be expected to grow exceptionally strongly (for example, high-flying tech stocks typically trade on relatively high p/e).

Also bear in mind that some industries are extremely cyclical (mining and housebuilding are good examples). They tend to trade on low multiples at the high point in the economic cycle (when they are very profitable) and high p/e at low points (when they may be loss-making). The cyclically adjusted price/earnings ratio (also known as the Cape ratio, or Shiller p/e), which averages earnings out over ten years, is one way to correct for this.

Guru watch

Nouriel Roubini, chief executive, Roubini Macro Associates

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"My baseline would be one of a recession by the end of this year," Nouriel Roubini, of economic consultancy Roubini Macro Associates, tells Bloomberg. Moreover, due to a range of supply shocks including the ongoing impact of the coronavirus pandemic, particularly in China, and Russia's invasion of Ukraine, this won't be the sort of recession we've been used to – instead we'll suffer both slow growth and high inflation, or "stagflation".

"If you're looking at consumer confidence, if you look at retail sales, if you look at measures of manufacturer activity, if you look at housing, they're all slowing down very sharply at a time when inflation is still very high." Roubini, who earned the nickname "Dr Doom" during the last financial crisis for his (rightly) bearish views on US housing markets, reckons that as a result of all this, stockmarkets could fall by as much as 50% if the 1970s is any guide. There is more bad news for investors – with inflation also driving up interest rates, bonds will prove no shelter. As for alternative assets such as bitcoin, in Roubini's view, "the value of most cryptocurrencies is zero".

In the recent past, investors have grown used to being bailed out by central banks slashing interest rates when markets have crashed. But this time round, the US Federal Reserve and its peers have "no choice". They have to "keep on tightening, even if that's going to lead to a hard landing", because they cannot risk losing credibility and allowing long-term inflation expectations to become "unanchored."

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The key to effective sanctions

Nathaniel Taplin
The Wall Street Journal

Last year Lithuania "irked Beijing by permitting Taiwan to open a local representative office with 'Taiwan' in the name", says Nathaniel Taplin. China saw it as a step towards recognition of the self-ruled island, which it regards as its own territory. You might think Beijing would find it easy to punish an economy just 0.4% the size of China's. Informal sanctions did see Lithuanian exports to China tumble 80% in six months. Yet they had little political impact because only 1% of Lithuanian exports went to China before the measures. As with Trump's tariffs on China or European action on Russian oil, attempts to sanction exports directly often prove "ineffective". Sanctioned countries just sell their wares to someone else. What does seem to work is "targeting key links or components of the global supply chain". A US chip ban is slowly strangling Chinese giant Huawei, while Russian carmakers are now being similarly squeezed. The likes of Lithuania "could find themselves very vulnerable to Chinese pressure if Beijing finds ways to strong-arm" customers or suppliers into boycotting their industries. The question of who controls global technology supply chains has never been so crucial.

The French state needs to step back

Dominique Seux
Les Echos

"You have to have a certain nerve to claim that the [French] government isn't doing enough to support purchasing power", says Dominique Seux. In fact, it is doing more than almost any other European country to cushion the impact of inflation. Paris has already capped electricity price rises at 4% this year, with gas frozen altogether, at a cost of more than €20bn. Now the government has unveiled a new package of measures, including plans to scrap the TV licence and provide extra help for motorists, pensioners and students. On top of the measures already announced, that takes the total bill to €43bn. The state also plans to nationalise entirely energy giant EDF. The French tendency to turn automatically to the "comfort blanket" of the state every time a crisis hits rests on a misconception that living standards are slipping. In reality, however, official statistics show that average household purchasing power has risen every year since 2014 (with the exception of 2020, when it merely stayed constant). Yet even with public debt already worth 113% of GDP, the media continues to clamour for the state to do more. "Covid-19 two years ago, inflation now – what's next?"

Solving the productivity puzzle

Ruchir Sharma
Financial Times

Why has productivity growth weakened in developed economies since the 1970s? Optimists suggest that since key innovative technologies (such as web search) are free, they don't get included in productivity metrics, says Ruchir Sharma. Or they say another wave of tech-driven productivity improvement is coming thanks to artificial intelligence. Pessimists counter that whereas capitalism once produced world-changing advances (electricity, gas engines) it now creates mere distractions like social media. In fact, both groups are missing the big story: the vastly expanded role of government – widespread bailouts, and monetary and fiscal stimulus – has wrecked "entrepreneurial dynamism" and fostered bloated markets, monopolies and debt-addicted "zombie" businesses. As state interventions proliferated, corporate defaults fell, and so did productivity. Following the 2008 crisis, annual productivity growth fell to 0.7%, less than half the pace of the previous three decades. But in emerging economies, where "the role of the state has broadly declined" since the 1970s, productivity has grown strongly. Too much government has "undermined creative destruction, the lifeblood of capitalism". Fix that, and productivity will follow.

China's debt bubble set to burst

Minxin Pei
Nikkei Asia

The violent scenes outside the People's Bank branch in the Henan capital Zhengzhou this month were an unmissable warning sign that a "debt reckoning" in China may be imminent, says Minxin Pei. The local government sending in paid thugs to silence hundreds of protestors – who were demanding their lawful compensation for money lost when several Henan banks collapsed in April – has shocked even "the most jaded observers of China's political scene". But worryingly, the same "weak supervision, poor risk management and corruption" that drove Henan's small rural banks into insolvency are "systemic" among China's 4,000 small and medium-sized banks with nearly $14 trillion in assets. If a large number of them fail together, a "chain reaction" would threaten the whole financial sector. A second "ominous warning light" is the prospect of more defaults in China's debt-ridden property sector, in addition to Evergrande. A third is the political and economic implosion in Sri Lanka, and the tens of billions lent by China's large banks to other poor countries as part of Belt and Road infrastructure projects. If big banks lose big money abroad, they can't bail out smaller banks at home. Investors "should brace" themselves.

Money talks

"To believe that you are worth the money you earn and to believe in your ability to make money. A lot of people have a lot of money blocks such as: 'I don't make money, I'm poor, I'm skint, I can't make money.' I've learnt to believe that I have a huge potential to earn a lot of money and the more I believe in that, the more money I earn and it feels really good."
Miquita Oliver (pictured), television presenter, on the most important thing she's learnt about money, quoted in The Sunday Times

"I've never really done things for the money, so it's quite hard for somebody, because of the character that I am, to sway me in any way."
Singer Heather Small on the pressures of the music industry, quoted in The Guardian

"I currently drive two Rolls-Royces in London. If I go on holiday, I want the best. We often spend Christmas at Claridge's hotel, followed by a week skiing in St Moritz. I might as well enjoy my success because I've worked damn hard for it."
Peter Cruddas, founder of online trading platform CMC Markets, quoted in The Daily Telegraph

"I was doing a TV show and the production company wanted to keep me exclusive. So in the late 1990s, I was paid £10,000 for agreeing not to do another TV show with a different production company. It was ridiculous."
Rosemary Shrager, celebrity chef, quoted in The Mail on Sunday

"When I first started doing comedy I made literally no money... The first money I got was £80 in cash, driving five hours to Plymouth and back... The petrol was £60 and I only had 15 minutes of jokes. But I was just as happy as I could be."
Jimmy Carr, comedian, quoted in the Daily Express

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Chile's crackpot constitution

quillette.com

On 4 July politicians in Chile unveiled a proposed new constitution, says Rasmus Sonderriis. Violent protests that began in late 2019 revealed widespread discontent with the present pro-market constitution, adopted in 1980. That document was originally drawn up under the Pinochet dictatorship, although it has been revised since the country returned to democracy in 1990.

Foreign media portrayed the protests, which saw city centres "disfigured" by vandalism, as "understandable anger produced by economic inequality". Global progressive news outlets enthusiastically saluted a Chilean society awakening from its "neoliberal slumber" and "market fundamentalism".

In May 2021 voters chose a Constitutional Convention, a body tasked with drafting the "new Magna Carta". Owing to a mixture of low turnout and a "fit of anti-establishment contempt", the 155 people elected "were light years to the left of any elected assembly in the history of Chile". The new document has been written by "combative activists", not experts in constitutional law.

A woke chastity belt

What did they come up with? While the current constitution has been dubbed "a neoliberal straitjacket, its proposed replacement is to become a woke chastity belt". The recently unveiled draft provides for "a massive expansion of the role of the state in delivering services, and especially in upholding a new moral order of ubiquitous ethnic and gender quotas". The document is written in lenguaje inclusivo, "a socio-linguistically engineered dialect" that proposes "cumbersome workarounds" to stop Spanish grammar from being so sexist.

The draft is fast losing public support. Homeowners are unhappy to learn that their property can be expropriated at whatever the government thinks is a "fair price", instead of "the market rate that compensation is presently required to meet". The economically crucial mining industry is worried about plans to ban excavation near glaciers and to give nature ill-defined "rights". Chile is the world's biggest producer of copper and second-biggest lithium excavator. A "politician-controlled Council of Justice" "vested with supreme powers to nominate…and dismiss judges" has "alarmed" the legal profession. The new constitution will be put to a referendum on 4 September. Yet "the Constitutional Convention's antics" have seen support for the new document plunge below 50%. Chile may finally have awoken from "its revolutionary trance".

The protests supposedly marked an awakening from "neoliberal slumber"

© Getty Images

Battling investment bullsh*t

ft.com

The investing industry is full of "bullsh*t", says Benn Eifert. The "most common and insidious form" is not outright fraud, but "overoptimism: offers of tantalising risk/reward [ratios] that defy any notion of reality". Look out for psychological pressure tactics such as scarcity – "you're about to miss the big returns; the fund is about to close" – or attempts to "launder credibility" through "brand-name firms or authority figures". Outrageous claims are especially common in new technologies, such as cryptocurrencies. "It should be self-evident that a 20% low-risk investment return cannot exist." If a product offers "projected returns far above historical equity returns", or rewards far higher than bond yields with scant risk, then steer clear.

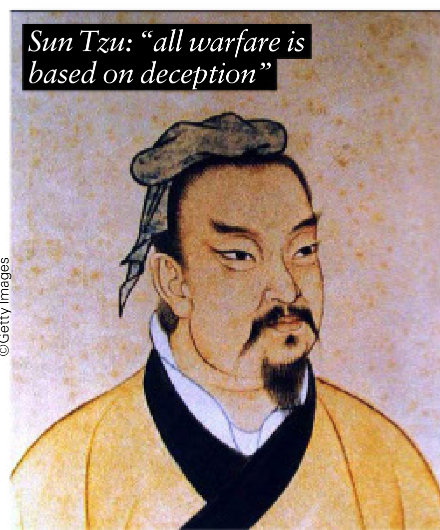
Also be aware of "perverse incentives for the people selling the investment". The recent boom in special purpose acquisition companies (Spacs) has seen sponsors and bankers "walk away with millions of dollars" in fees even as many of these vehicles have gone on to do terribly for their investors. The Spac bubble is also a reminder not to fall for "anti-establishment language". The people using it are not trying to share "Wall Street's riches" with you, "they're looking for new marks".

The Chinese enemy within

conservativehome.com

Nato is getting serious about the threat from Russia, says Sarah Ingham. On China too the era of diplomatic nicety is over as Western leaders increasingly acknowledge Beijing's attempts to subvert global rules, control key technologies and instigate "malicious cyber" operations and disinformation campaigns.

Signs of China's far-reaching influence are easy to see – just look at our addiction to cheap Chinese imports. Yet "few are willing to start examining China's deeper reach into our society", whether in the form of telecoms or energy infrastructure. Much remains murky. "Does the China Investment Corporation, part of Beijing's sovereign wealth fund, still have its holding in Thames Water?" We should also examine the PRC's hold on our universities. In 500BC the military strategist Sun Tzu noted that "the supreme art of warfare is to subdue the enemy without fighting". Another of his maxims is that "all warfare is based on deception". One wonders "what Sun Tzu would have to say about Britain gearing up to fight enemies abroad only to find out that they have been warmly welcomed within".



Sun Tzu: "all warfare is based on deception"

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Does money buy happiness?

collaborativefund.com

"For a lot of people the process of becoming wealthier feels better than having wealth," says Morgan Housel. "Most of us are unfathomably wealthier than we were a generation or two ago," but we don't feel correspondingly thrilled. What really gets the dopamine pumping is the feeling of being "on an upward path". That's why US households are feeling so gloomy about losing $700bn in wealth in the recent market slump, even though "US household net worth is $80trn higher today than it was ten years ago".

The key is to be patient with investing, knowing that for all the volatility and reverses "if you can stick around long enough the odds of eventual growth and success are in your favour". And resist getting addicted to the sensation of growing wealthier. "It's a game that can't be won, but offers the illusion of a finish line right around the corner... Money buys happiness in the same way drugs bring pleasure: Incredible if done right, dangerous if used to mask a weakness, and disastrous when no amount is ever enough."

18+

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A reliable source of inflation-linked income

Real estate investment trusts (Reits) offer investors access to a wide range of commercial and residential property assets. Rupert Hargreaves explains why we rate them so highly

One of the easiest ways to earn an income is to invest in real estate investment trusts (Reits). In their simplest form, these vehicles are investment companies specialising in buying, developing, selling and holding property.

Reits have two key advantages. First, they enable investors to access property asset classes unavailable to most individuals. For example, I hold Great Portland Estates (LSE: GPOR). This company owns a portfolio of properties in and around central London, such as the 22-storey City Tower in the City of London.

Even if I could somehow find the money to buy this sort of asset, getting hold of someone to sell to would be another challenge altogether.

These unique central London assets rarely change hands and deals are often negotiated behind closed doors. Great Portland has the connections and the funding to do the deals I'd never be able to do myself. But I can buy the shares.

Second, Reits can be highly tax-efficient. They don't pay tax on property-rental income as long as they distribute a certain percentage to investors. Instead, tax is levied at the investor level as property income. This has certain tax benefits compared to dividends. What's more, if the Reit is held in a stocks and shares individual savings account (Isa), or a self-invested personal pension (Sipp), there is no tax to pay on rental income whatsoever.

The tax treatment of Reits

The tax regime for Reits is quite complex so I will concentrate on how UK-based investors who own shares personally may be taxed (there are different rules for overseas investors and corporations that own Reits).

Reits are exempt from corporation tax on rental income and gains from property sales. To qualify for the regime, the rental business must represent 75% of profits and assets (there must also be at least three properties in the portfolio). To maintain its tax status, 90% of property income must be distributed each year.

However, there are different rules around income from property management, interest income and property trading. If more than 30% of the value of a property is spent developing that asset, and it is sold within three years, the gains will be liable for corporation tax. This is all really the responsibility of management so individual investors might not be too concerned about how a company maintains its Reit status. Where it gets interesting is the taxation of income for Reit shareholders.

Qualifying income is distributed to investors via a property income distribution (PID). These are treated as profits of a UK property business and not a dividend. Tax is then levied at the investor level, or the taxpayer's marginal tax rate as property income: 0% up to £12,500 a year and 20% up to £50,000.

If you hold a Reit in a taxable account, you receive the PID after 20% tax has been deducted at source. That will discharge any basic-rate tax liability. Higher-rate and top-rate taxpayers will owe an additional 20% and 25% tax respectively. However, Reits held in an Isa or a Sipp will receive the PID gross of tax and no tax will be due on the income.

> *"These trusts must pay out 90% of their property income to shareholders every year"*

Now the dividend allowance has fallen to just £2,000, this looks comparatively appealing. However, one thing to note is that Reits can distribute normal dividends alongside PIDs if they decide to return cash from non-rental sources, such as property trading income. These dividends are taxed in the usual way. The upshot of this rather convoluted tax regime is that it makes most sense to own Reits in an Isa or a Sipp rather than in a traditional dealing account, so that you don't have to deal with any tax at all.

As Reits don't have to pay corporation taxes on rental income, they can offer more in the way of income than other equities. And in the current economic climate, these investments also have another potential advantage: inflation protection. Property, as a so-called "real", or tangible asset, has usually performed well in inflationary climates (although not always) and many Reits have inflation-linked rental agreements with their clients, providing a level of insulation against rising prices. With that in mind, here are five of the highest-yielding Reits on the market today.

A large portfolio of inflation-linked assets

Residential Secure Income (LSE: RESI) has a simple goal: to deliver inflation-linked returns by owning affordable shared-ownership and retirement rentals across the UK. Managed by the specialist asset management group Gresham House, the firm owned 3,233 homes at the end of March, generating rental income of £15.2m and an annualised net rental yield of 4.8%. Further acquisitions are planned to boost the value of the portfolio. The company managed to push through rent increases of between 3.8% and 5.5% across its portfolio this year; 97% of its income is inflation-linked.

Residential Secure exhibits all of the qualities that I think make Reits one of the best ways to invest in property. Not only does the business have a large and growing portfolio of inflation-linked assets, but it has also been able to build the portfolio by borrowing at rock-bottom rates. The weighted average cost of debt is 2.1% over a 23-year period. The stock currently offers a dividend yield of 5.1% and the net asset value was 108.4p at the end of March. The inflation-linked nature of the company's portfolio suggests it will be able to increase the payout as prices rise in the years ahead.

An income giant with growth potential

One of the highest yields in the Reit sector comes from **Land Securities (LSE: LAND)** – Landsec. Interestingly this is also the biggest Reit in the UK. The company owns approximately 24 million sq ft of retail, leisure, workspace and residential hubs, making it one of the best ways to play the UK property market.

Overall, 65% of the group's portfolio is London-based, mainly offices and retail. However, after acquiring MediaCity and U+I in late 2021, the trust is planning to grow its exposure to mixed-use urban neighbourhoods materially in the coming years.

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Reits allow investors to profit from property assets in central London

Management believes the company can deploy £1bn of capital into these development opportunities, diversifying away from the group's core markets. As the company implements its development plans, there is scope for higher cash returns and growth potential. The stock offers a dividend yield of 5.8% .

Making money from sheds and boxes

One of the key themes of the past decade has been the shift away from bricks-and-mortar retail towards e-commerce. This has ignited a race for space among retailers fighting for market share. Companies that can deliver the best service at the lowest cost for their customers are going to win.

Demand for so-called big box sheds has surged as a result. These giant facilities help retailers fulfil orders, and builders have been struggling to keep up with demand. An essential part of this market is the last-mile infrastructure. These are facilities in towns and city districts that enable retailers to sort parcels and get them to the right houses when they are offloaded from the giant lorries that crisscross the country every night.

Urban Logistics (**LSE: SHED**) focuses on finding and developing these assets. Last year the company raised £358m of equity to help fund growth, and it also earned itself a place in the FTSE 250.

The group owns 113 "mid-box urban logistics assets" covering 8.3 million sq ft (an average of around 75,000 sq ft, whereas larger out of town big box units tend to exceed 100,000 sq ft each). It has a further £53m of developments in the pipeline and demand for these units is strong. Just 6.9% of the portfolio is vacant and the weighted average length of its leases is nearly eight years. Management thinks the company can push inflation-linked rent increases on to customers – who are already fighting over space – as it expands. The stock yields 4.8% and trades at a discount to the last reported net asset value (NAV) per share of 188.8p.

In the big box space, my pick is **Tritax Big Box Reit** (**LSE: BBOX**). According to this company, record take-up of large logistics warehouses (42.4 million sq ft in 2021) has led to record-low levels of supply.

Management is capitalising on this by ploughing money into new developments. The company is starting between three million and four million sq ft of new developments this year, with 8.8 million sq ft planned in the near future. Many of the developments planned over the next 12 months are already contracted out, giving the firm a high level of visibility over rental growth.

The weighted average length of leases is 13 years and management is confident that thanks to market supply-demand fundamentals, it can push through inflation-linked rent hikes. With so much growth potential and a 3.7% yield on offer, this stock looks a compelling buy.

Diversified income stream

Custodian Reit (**LSE: CREI**) is my fifth and final pick. It is one of the most diversified Reits on the market with 160 assets and 347 tenancies split across the office, retail, warehouse and industrial property sectors.

It has also been hoovering up assets it believes can add value for shareholders, such as the recently acquired retail warehouse in Cromer, let to Homebase with a net initial yield of 6.3%. The portfolio is managed by Custodian Capital, which looks after £15bn of global assets. Its size gives it access to the best deals before they hit the market and Custodian has been able to take advantage of that. The trust is targeting a dividend of 5.5p per share this year, suggesting a yield of 5.5% on the current share price.

"The shift towards e-commerce has prompted a race among retailers for big-box sheds"

A terrible six months for investment trusts

The first half has not been kind to closed-end funds owing to their skew towards growth stocks and the global downturn, says Max King. But they will recover

It has been a terrible six months for investment trusts. The FTSE All Share Closed End Investments index slumped by 18.9% compared with a fall of 4.6% for the FTSE All-Share index. Compared with global equities, the performance is better as the MSCI All Countries World index lost 11% in sterling. With the average discount to net asset value (NAV) in the sector widening to 9.8% from 1.5%, the underlying assets performed broadly in line with global equities.

After a stunning 2020, 2021 hadn't been a great year, with the Closed End Investments index returning 12.8%, compared with 19.6% for the MSCI index. That was despite a fall in average discounts, but this year it seems that investors are losing faith in the investment-trust structure.

Value has eclipsed growth

Equity trusts had become increasingly focused on "growth" investing – partly the result of the outperformance of growth over value over many years, and partly due to the heavy focus of equity issuance on "growth" areas.

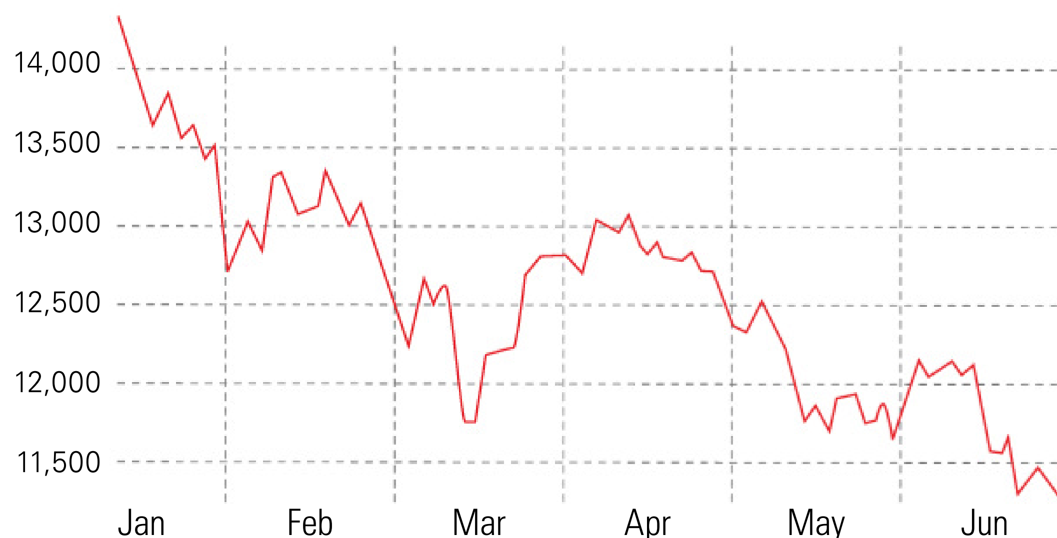
This explains why the UK market, with its high weighting in resources and value stocks, has outperformed this year. But although funds investing in the UK are still over-represented in the investment-trust sector, it has become increasingly global in recent decades.

While the MSCI ACWI Growth index lost 19.6% in the first half of 2022, the corresponding value index lost just 2.2%. Technology and technology-related companies, including biotech, had soared in previous years, but fell sharply, due to disappointing earnings, a revaluation of prospects, and contagion from the casualties.

This hit Baillie Gifford, the star fund management company of earlier years, hard. Its trusts accounted for six of the ten worst performers, including Schiehallion, its private-equity trust, down 52.7% and US Growth

"Japan, once perennially expensive, has become perennially cheap"

FTSE All Share Closed End Investment index



The 1920s only roared in America; elsewhere there were no booms

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down 52%. Equity trusts are also heavily overweight in mid- and small-cap companies around the world and while these have a consistent record of outperformance in the long term, 2022 has been the exception to the rule.

Even in the UK, where the FTSE 100 lost just 3% in capital terms, the FTSE 250 index dropped 20%. Moreover, while the FTSE 100, along with other large-cap indices, appeared to have bottomed in mid-June, small and mid-cap indices continued to fall.

The healthcare sector has the image of being a "growth" sector, but trades at a discount to the market in the US, so it qualifies as "value". It also performed poorly, although the focus of the investment trusts specialising in this area on biotechnology rather than the integrated major companies exacerbated their poor showing. However, there were signs of a sustained recovery by the end of the half.

Japan, once perennially expensive but now perennially cheap, also performed poorly, held back by the weakness of the yen. Emerging markets disappointed too, despite appearing cheap, but performance in recent years was an illusion. It had been propelled by the technology sector, particularly the Chinese giants, such as Alibaba and Tencent, but a clampdown by the Chinese authorities sent their shares tumbling. A tentative recovery now appears to be under way.

Good news on performance, valuations and disposals failed to sustain the private-equity sector, where discounts to NAV widened precipitously as NAVs rose and share prices fell. Investors believe either that the numbers are wrong, or that the fortunes of the sector are about to plunge, so they are following the

herd rather than the experts. Even if the herd is right, reality is rarely as bad as feared.

Sentiment has also been hit by the unfolding disaster of Chrysalis Investments, regularly disparaged in MoneyWeek. Chrysalis lost 56.5%, making it the worst performer of all trusts. Remarkably, though, Literacy Capital, floated with little fanfare in mid-2021, returned 36%, making it the second-best performer in the investment-trust sector after Riverstone Energy, up 47%. Riverstone Energy, however, had been a disastrous performer in 2019 and 2020 so its share price remains at only half its peak.

> *"Doom and gloom are popular. There is little mileage for the view that eveything will be okay"*

Commodities come back to earth

The resources sector was the bright spot in the market, but its fortunes turned abruptly when commodity prices showed signs of peaking. BlackRock World Mining Trust's share price rose 34% to a mid-April high, but then lost nearly all of its gains. At least the trust pays a generous dividend.

Also performing well was the "flexible investment" sector, including funds such as Ruffer, Capital Gearing, Personal Assets and RIT. They seek to protect investors in bear markets at the expense of underperformance in bull markets by investing in non-equity asset classes such as inflation-linked bonds, precious metals and infrastructure funds.

On average, these funds still lag global equities over three and five years, but RIT (despite poor performance in the first half), and Caledonia Investments are honourable exceptions, while Ruffer has been on a roll in the last three years. The other bright spot was the alternative-income sector, comprising property trusts (Reits), infrastructure, alternative energy and debt funds. This has been the growth area of the market and good performance almost across the board in the first half seemed to justify it.

The combination of generous, steadily rising dividend yields with moderate capital growth from businesses with low economic sensitivity and good inflation protection has proved attractive.

According to the Association of Investment Companies, in the last ten years equity trusts have fallen from 76% of the total (5% private equity) to 56% (12% private equity), with all the growth coming from alternative income and the flexible investment sectors. This trend continued in the first half, with nearly all the £2.4bn of new issuance, compared with £9.5bn for the whole of 2021, accounted for by these sectors.

There were no new issues in the first half, although this is more of a problem for the corporate brokers than for investors. There are gaps in the market – notably in conventional energy – but specialist managers have proved reluctant to float a trust, knowing that the best time to launch one was when energy prices were low and investors weren't interested.

Closed-end funds remain popular

The AIC shows investment trust assets down from £280bn to £265bn, still the second highest on record, so their growing popularity over open-ended funds looks likely to endure. However, the rise in trust discounts, which has exacerbated poor performance, is a warning sign that patience is wearing thin.

The second half should bring better market conditions, but there could be more shocks and surprises over the summer. Sentiment is very negative, which is a positive indicator for markets as it implies that there is little room for deterioration.

But with economic growth slowing, developed markets facing – or already in – at least a mild recession and analysts reducing earnings forecasts, further patience may be required.

Inflation is probably peaking in the US and close to a peak in the UK and Europe, but how far and fast it falls back depends on energy prices. The oil price is back below $100 a barrel and future prices are at large discounts to current ones, but this trend could reverse.

Interest rates have further to rise, with the US Federal Reserve expected to raise US rates by 0.75% in July and as much again in September, but that should mark the peak. Government bond yields already appear to have peaked with the yield on the ten-year US Treasury back below 3%, having reached 3.4%, though ten-year gilt yields under 2.5% still look anomalously low. The good news is undoubtedly tentative, but markets never wait for certainty before they rally.

As historian Niall Ferguson says, "there's a lot of doom and gloom in the air and the profession of being Dr Doom is a very popular one in the US – all you have to do is predict a financial disaster every year. There is very little mileage for the view that everything will be okay".

We may not be facing "the Roaring Twenties", but Ferguson points out that the 1920s "were not great anywhere outside the US" and represented an economic bubble that imploded in 1929.

"If the 2020s do end up resembling the 1970s," he adds, "at least the 1970s were fun, when 'we're doomed' was a comic tagline, not an obsession."

If we're not doomed, equity markets will rebound and investment trusts, helped by moderate borrowings, will outperform. Buyers will return in force and discounts could narrow as rapidly as they have widened, resulting in outsized returns. Whether that happens in the second half of 2022 or the first half of 2023 hardly matters. Unless you believe that markets are heading a lot lower, waiting risks missing out.

A double discount in Korea

The Weiss Korea Opportunity Fund offers a way to buy leading companies at a 50% discount

Cris Sholto Heaton
Investment columnist

South Korea occupies an unusual place in global markets. It's a wealthy, innovative economy that's home to major international groups – such as Samsung, LG and Hyundai – that have strong positions in key industries. Yet the market is consistently cheap in nominal terms. The MSCI Korea index trades on 7.8 times forecast earnings, against 14.5 for the MSCI World.

There are several reasons why it's on such a low valuation. Corporate governance remains an issue: family-controlled conglomerates (*chaebol*) dominate the economy and many have not always treated minority shareholders fairly. The stockmarket is still classed as emerging by MSCI – whose developed and emerging indices have a huge impact on how much gets invested where – due to trading restrictions. Many big firms operate in cyclical industries, and cyclicals trade at a discount to defensives. And in the past, the presence of nuclear-armed North Korea just across the border stood out as another risk, but maybe in today's world that's a less idiosyncratic peril than it used to be.

However, governance is improving and promotion to developed status must eventually happen, so it seems plausible Korea will some day trade at a higher valuation.

Hyundai Motor is WKOF's largest position, at 14% of the portfolio

©Getty Images

The **Weiss Korea Opportunity Fund (Aim: WKOF)** offers an unusual way to back that idea.

Buying at a discount

WKOF invests solely in Korean preference shares. These aren't prefs in the standard UK sense of shares that pay a fixed dividend: in Korea, prefs are typically non-voting shares with a variable dividend that's usually very slightly higher than the ordinary stock, but otherwise represent a standard equity interest. Prefs were typically issued around three decades ago when founding families wanted to raise more capital without giving up control. There are around 123 issues outstanding, says WKOF, ranging from Samsung Electronics to obscure firms that are best avoided.

Buying into non-voting shares may seem riskier, but in Korea a founding family typically holds enough of the voting rights to have control, so an investor in prefs isn't at an obvious disadvantage to minority investors in common shares. In the past, investors in prefs have been treated equally to those in common shares, says Mark Lewand, head of investor relations at Weiss. Hence Korean prefs shouldn't necessarily trade at big discounts to common stock.

Despite that, many do, which creates two opportunities. First, Korean blue chips already trade cheaper than comparable global peers. Through prefs, investors can buy in at a double discount, says Jack Hsiao, WKOF's manager. Second, discounts change in response to corporate restructuring and better governance. A decade ago, Samsung Electronics' prefs used to trade at a 40%-50% discount, but that has narrowed to around 10%. WKOF has rotated out of Samsung into other blue-chip prefs with wider discounts, such as Hyundai Motor, where such catalysts have yet to play out.

Respectable returns

WKOF has returned 123% in net asset value (NAV) terms since its inception in 2013, against 50% for the MSCI Korea. Dividends are paid annually, with a trailing yield of 3.5% on Monday's close of 181p. The expense ratio is 1.8%, of which 1.5% is the management fee. A discount control mechanism keeps the discount fairly tight (2.2% on Monday). However, this is a small fund (assets of £127m) and the bid/offer spread can widen in these market conditions (now around 5%).

WKOF is a specialised single-country fund and not for every portfolio. Still, it looks cheap. The discount of its prefs portfolio relative to equivalent common shares is now 52%, as wide as it's been since 2013, putting it on less than five times earnings. If you expect Korea to rerate upwards eventually, it should be one to hold and a good time to start buying.

Activist watch

Activist campaigns against European companies reached a new record in the first half of 2022, says the Financial Times. There were 35 campaigns by activist investors during the period, an increase of 67% on the previous year, according to investment bank Lazard. More than one-third of those were directed at UK companies, including Nelson Peltz's successful push for a board seat at Unilever, pressure from Third Point to split Shell into separate oil and gas, and renewables businesses, and a demand by Chinese insurer Ping An that HSBC should break up into Asian and Western operations. Meanwhile, French firms have become popular targets for activists: they accounted for 20% of all campaigns so far, triple the rate of five years ago.

Short positions... Ruffer gets ready

■ **BlackRock, the world's largest asset manager, reported a bigger-than-expected fall in earnings for the quarter to 30 June, amid what CEO Larry Fink described as the toughest environment in decades, says the Financial Times. The firm's earnings fell 30% to $7.36 per share on revenue of $4.4bn, missing analysts' forecast earnings of $7.90 per share and revenue of $4.65bn. BlackRock, like many other asset managers, has been hurt by volatile markets: assets under management (AUM) dropped by 11% to $8.5trn – the second consecutive quarterly drop after it peaked at $10trn at the end of last year. Lower AUM meant lower management fees, a trend made worse by the stronger dollar, which decreased the value of fees obtained from other currencies. However, the decline in assets was down to falling markets rather than investors rushing for the exits: net inflows in the quarter amounted to $90bn, showing that "BlackRock's position has never been stronger", said Fink.**

©Ruffer

■ Wealth preservation fund Ruffer has cut its holding in shares to 25%, its lowest in almost two decades, says Citywire. The bear market is "only mid-grizzle" and doesn't offer a buying opportunity yet, reckons Duncan MacInnes (pictured), who became lead manager of the trust last week after Hamish Baillie stepped down, reportedly to take a career break. MacInnes has added hedges against stockmarket falls, increased exposure to long-duration index-linked bonds, and switched from gold miners to bullion in readiness for a "particularly dangerous period" ahead.

A temporary setback for Argentex

This currency-exchange specialist has missed expectations, but growth should resume next year

Bruce Packard
Investment columnist

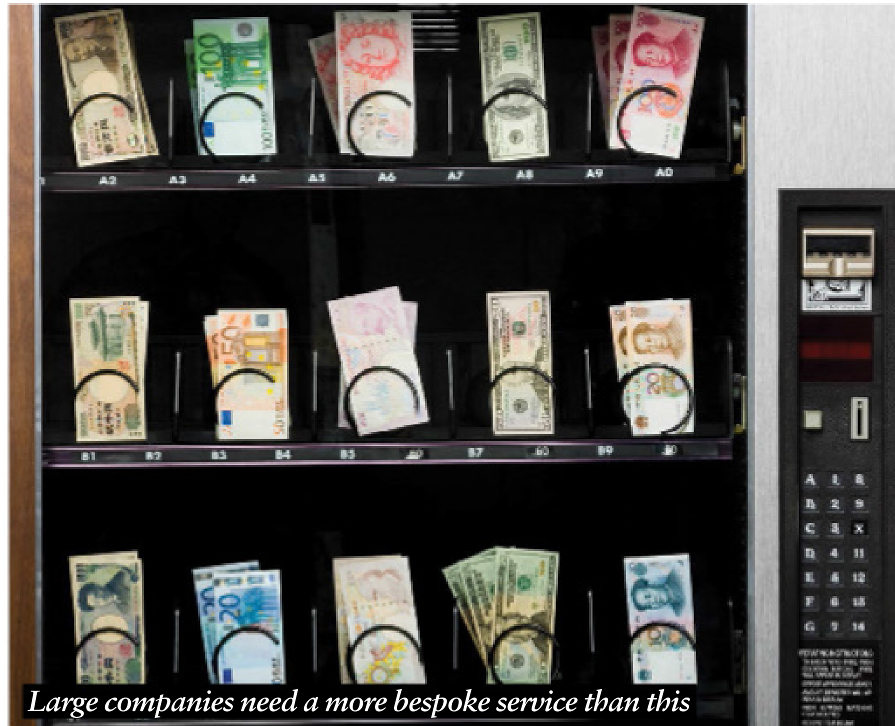
When a company floats on the stock exchange, the buoyancy of the share price represents a tension. Management wants to set a high price for the shares existing shareholders are selling, but that high price is anchored on future expectations. The higher the expectations, the higher the risk of disappointment following the listing though.

Currency trader **Argentex (LSE: AGFX)** was founded in 2011 and listed on Aim in June 2019 at 106p, valuing the company at a market capitalisation of £120m. It raised £12.5m in new capital in the initial public offering (IPO), while existing shareholders sold £46m of stock. At the beginning of 2020, the shares peaked at over 200p.

Then came the pandemic, then the departure of a co-CEO who sold his 10% shareholding, followed by earnings downgrades (see below). Investors are disappointed and the shares have tumbled 63% from their January 2020 high. That could now present an opportunity.

Beating the banks

Argentex acts as a "riskless principal", so does not charge commission for executing trades. Instead, revenue comes from the spread it receives from each deal. That spread is not fixed – pricing depends on the client's individual trading history and the dealer's discretion. All the trades are over the counter (OTC) rather than centrally cleared. This might be open to abuse, with traders charging what they think they can get away with, but Argentex says that it wins clients from banks due to superior pricing and service.



Large companies need a more bespoke service than this

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Argentex's customers are companies who need to convert between £1m and £500m annually into another currency. Its largest sector is financial services (ie, fund managers, pension funds and insurance companies) at 37% of revenue. It has signed up 239 clients in the last year to bring the total number of companies for whom it trades to 1,624. Given the bureaucratic nature of know your customer (KYC) and anti-money laundering (AML) forms, it's unlikely that clients would go to the trouble of switching if the savings were not worth the effort.

Investing in growth

On the other side of the trade are large global banks, who price the trades keenly in return for Argentex meeting minimum trading levels. These counterparties require collateral to be posted in order to deal in forward contracts. That has been a constraint on growth in the past, and some of the £12.5m raised from the IPO in 2019 was supposed to fund growth, by allowing Argentex to increase the total volume of forwards trades with existing clients and win new ones.

The second use of proceeds was to hire a larger sales team. The plan at the IPO was to more than double sales headcount to 50 people within two years. Based on the numbers just reported, it has fallen short, which probably explains the earnings per share (EPS) disappointment. The firm hired 22 new people in sales in the two years following the IPO, but it looks like it wasn't able to retain all of them. Headcount in sales is less than 40 people in the results to March. That's important because management says that the longest-serving salespeople are the most productive. In the first year, a salesperson generates on average £42,000 revenue, later growing to £1.8m in year five. There is a large jump from £0.5m in third year to £1.1m in year four.

This looks like a fixable problem, though it will take time. The firm is expanding internationally by opening offices in the Netherlands and Australia. And while Argentex started out with a similar model to a private bank – with a high-touch bespoke service – it is now also building an online trading platform for lower-value transactions. I own the shares, and despite the recent disappointment, they look like they offer good growth prospects at a reasonable price.

Tripped up by ambitious forecasts

In the two years before the IPO, Argentex's sales and operating profit roughly doubled to £22m and £9m respectively and forecasts were for rapid growth. Management felt comfortable with ambitious forecasts by Numis (its former corporate broker) of 12p in earnings per share (EPS) for the financial year to March 2022, which implied a 15% compound annual growth rate (CAGR) in the bottom line.

But results did not meet expectations. Argentex has just reported adjusted EPS of 7p for the year ending March 2022, which is 42% below the original forecast.

Management has taken the unusual step of changing the firm's year end from March to December, as well as changing the broker to Singer Capital Markets. Singer expects £47m of revenue in the year to December 2023, rising to £57m the following year, implying 18% growth CAGR from the level just reported. EPS is expected to drop this year, but recover to 6.4p in 2023 and 10.1p in 2024.

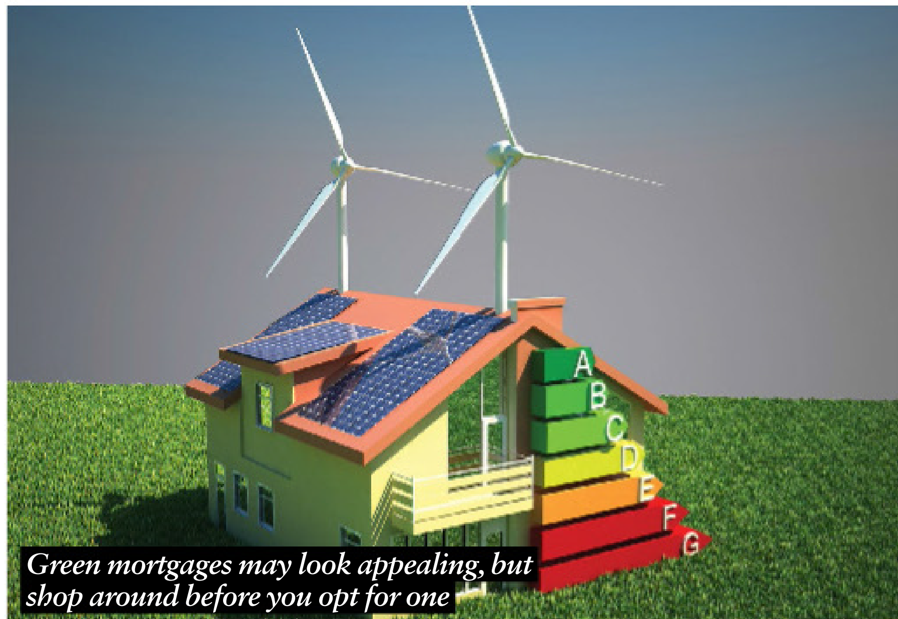
At a share price of 75p, that puts the shares on a forward price/earnings (p/e) ratio of 11.7 for 2023, dropping to 7.4 for 2024. It's worth noting that 2024 forecast is still 20% below the original forecast of 12p in 2022.

There are a couple of risks. Competition is one. Wise and Revolut could decide to target the corporate sector. Equals Money, a more directly comparable competitor, just reported that it is growing revenue at 84% in the first half of this year. Given the strong growth at competitors it is rather puzzling that Argentex rates itself above its peers for both price and service. A second risk is client concentration: the top 20 clients on average generate £621,000 of revenue, versus the long tail of customers who generate £14,000 on average. If one of those large clients failed to settle a forward contract, Argentex would be exposed to losses, as there is no centralised clearing.

How to outrun rising rates

Mortgage payments are rising, but there are ways to mitigate the impact

Ruth Jackson-Kirby
Money columnist



Green mortgages may look appealing, but shop around before you opt for one

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Homeowners, spoilt by years of rock-bottom interest rates, are suddenly having to grapple with dearer money. The Bank of England's base rate has risen from 0.1% last December to 1.25% today, propelling mortgage rates upwards. At the end of 2021 the average rate for a two-year fixed mortgage was 1.4%; that same mortgage now costs 3.74%, according to comparison site Moneyfacts. On a £200,000 mortgage that is a difference of £236 a month.

"Average mortgage rates are the highest we've seen since 2013," Sarah Coles from Hargreaves Lansdown told The Telegraph. "An awful lot of people are going to find themselves having to stretch their money further."

Should you go green?

One way to avoid high interest rates is to get a green mortgage. Though this was once a niche product, the number of green mortgages on the market rose by 18% in the six months to April, says financial data provider Defaqto. Green mortgages are intended to reward people for having an energy-efficient home. You prove to the lender that your home has an energy-performance certificate (EPC) rating of A or B and you either get cashback or a better interest rate on your mortgage. For example, Virgin Money's Greener Mortgage offers a two-year fixed rate of 3.1%. On a £200,000 mortgage this would save £828 a year, and there is also £300 cashback on offer.

The potential for big savings has caused a surge in interest in green mortgages. Research by financial advisers Twenty7Tec has found that online searches for eco-loans have quadrupled since last year. But don't assume a green mortgage is going to give you the best deal on the market. While interest rates tend to be lower than average you can still beat the rate if you look at the mortgage best buys. Virgin Money's Greener Mortgage is competitive but there are cheaper deals. Progressive Building Society has a two-year fee-free fix at 2.84%. There are other ways you can temper the rate shock. Overpaying your loan while you are still on a low rate can make sense – lowering your loan-to-value (LTV) ratio could move you into a lower LTV bracket, allowing you to receive lower rates.

Most mortgage lenders will let you overpay by up to 10% a year, but check. Get it wrong and you could trigger an early repayment charge that wipes out any benefit of overpaying.

You could also extend your mortgage term. While you could end up repaying for five years longer than planned, this decreases your monthly payment. Moreover, you can always reduce your mortgage term again when interest rates fall.

Protect your savings pot

Savers beware: rising interest rates could mean savers may have to pay tax on their interest for the first time in years. In 2016 the government introduced the Personal Savings Allowance (PSA). This meant basic-rate taxpayers could earn up to £1,000 interest a year before income tax became due. Higher rate taxpayers can receive up to £500 a year. However, rising interest rates mean the amount of savings you can have without breaching the PSA has shrunk significantly.

In January the best rate you could get on an easy access account was 0.67%. Now you can earn up to 1.56% from Virgin Money. So in January a basic-rate taxpayer could have had almost £150,000 in that easy-access account and not have to worry about tax.

Now the amount safe from the taxman in the best instant-access account is just £64,000. Higher rate taxpayers have seen an even greater reduction, from £75,000 at the start of the year to £32,000 in the current best buys.

If you are worried about breaching the PSA then move some of your savings into a tax-free account, such as an individual savings account (Isa). Alternatively, you can place up to £50,000 in Premium Bonds which pay tax-free prizes. But be warned, there is no guarantee you'll win anything with Premium Bonds and with inflation raging you can't afford to let your savings stagnate.

Pocket money... don't rush to cash in your pension

- "Families have been hit by the biggest jump in childcare costs on record," says Harry Brennan in The Daily Telegraph. Nanny fees now average £32,500 a year, a 13% increase from the year before. In previous years annual salaries rose by just 2%. The increase was mostly driven by surging demand and limited spaces in nurseries and other cheaper alternatives, as well as staffing shortages.

  Rising childcare costs are causing problems for parents across the country. Parents pay £138 on average for 25 hours of childcare for children under two; in 2001 it cost just £102. There is no long-term strategy from the government to support working families, Joeli Brearley, founder of the charity Pregnant Then Screwed, told The Daily Telegraph. "Childcare is a cost parents pay so that they can go to work and financially contribute to both their family and the economy." When that price is too high, "everyone loses out."

- Backlogs caused by Covid-19 mean that almost half a million learner drivers are waiting to take their test. Some desperate candidates "are paying double the going rate for tests on the secondary market, while others struggle to find an instructor," says Zoe Wood in The Guardian. One learner driver paid £530 for three tests as she couldn't get an appointment at her local test centre. A test booked with the Driver and Vehicle Standards Agency (DVSA)costs just £62.

  Tests and lessons were halted during lockdown. "This squeeze has turned driving test slots into a commodity, with firms exploiting the area of the DVSA booking system aimed at driving schools to bulk book tests to resell." Some slots are being sold for more than £200 each.

- Savers are being warned against rushing to cash in gold-plated pensions, says Toby Walne in The Mail on Sunday. Since 2015 anyone with a final-salary pension can trade in their monthly income for a one-off lump sum. Over 250,000 people have cashed in as a result. Savers are tempted to give up their generous final salary pensions because the "transfer values" quoted sound generous.

  But transfer values have been falling in recent months, from an average of just over £400,000 at the end of 2021 to around £300,000 in the first three months of 2022, partly due to rising interest rates, reports consultant Lane Clark & Peacock. Don't rush to cash in before values fall further. Several other factors could push them up in the future, such as how close you are to retirement and actions by individual scheme to improve their transfer values.

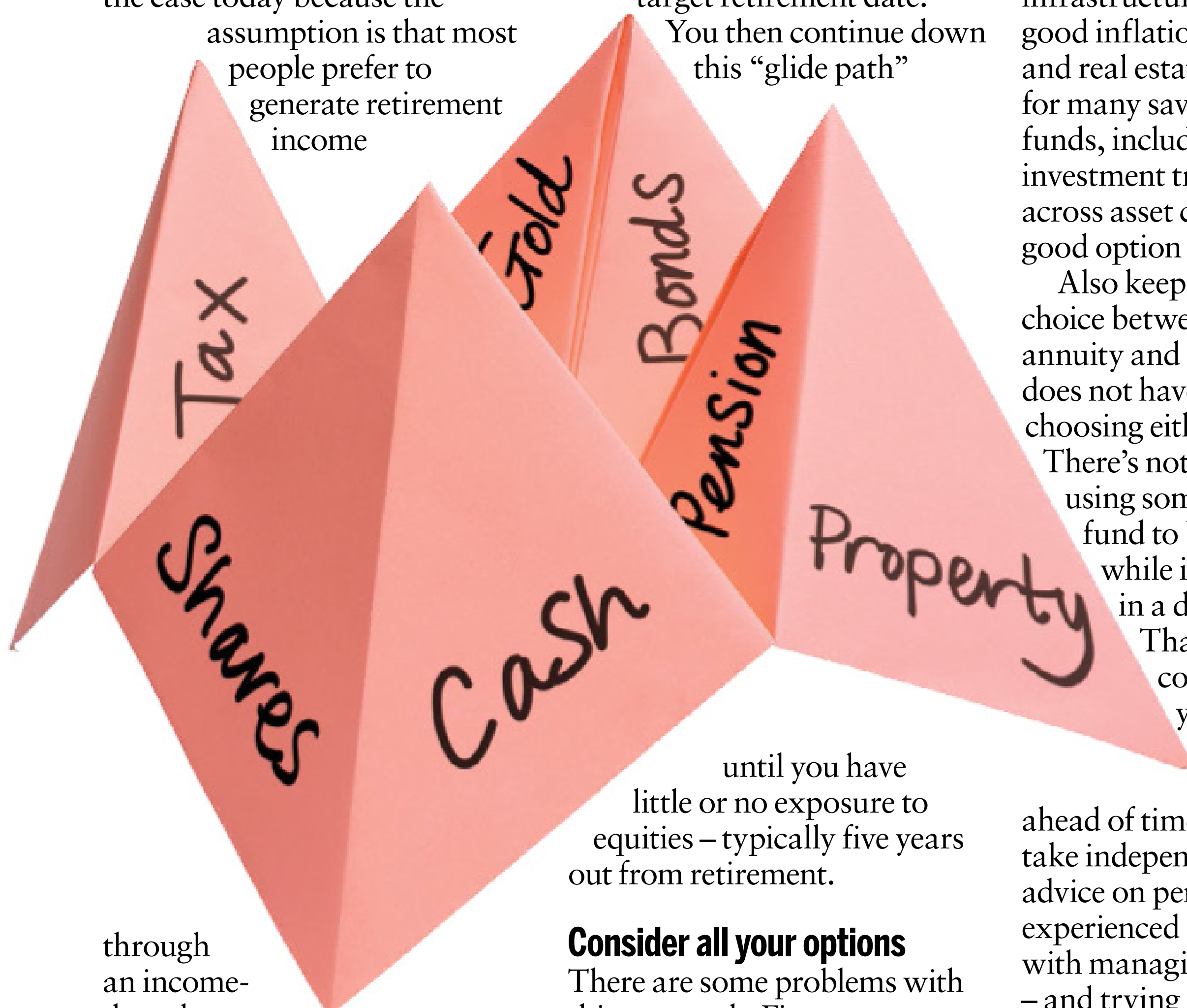
  If you choose to cash in make sure you know what you are giving up. "Although transfer values may look generous, they tend to be only around two thirds of what the pension is really worth."

Protecting your pension

How to shield your retirement fund from market turmoil

David Prosser
Business columnist

In days gone by, when the vast majority of savers used their entire pension fund to buy an annuity income at the point of retirement, planning to mitigate the risk of a last-minute collapse in the value of the fund was routine. That's not necessarily the case today because the assumption is that most people prefer to generate retirement income through an income-drawdown plan, where the pension fund remains invested.



That assumption is not unreasonable. Income drawdown plans are now more popular than annuities. However, thousands of savers still buy annuities each year – and with annuity rates up by a fifth this year, that number looks set to rise. Even those who opt for drawdown plans early in retirement often purchase an annuity later on.

Moreover, this year's volatility has been a reminder of the havoc stockmarkets can wreak on savers' plans. US shares fell 20% during the first six months of the year; parts of the UK market suffered similar setbacks. If you began the year largely invested in equities and with plans to retire this summer based on an annuity purchase, the corrections will have come as quite a shock.

The traditional way to head off risk is to begin shifting your pension fund saving out of equities well ahead of retirement. Many pension providers offer "lifestyle" investment strategies that automatically begin to move your money out of equities around ten years before your target retirement date. You then continue down this "glide path" until you have little or no exposure to equities – typically five years out from retirement.

Consider all your options

There are some problems with this approach. First, most lifestyle plans depend heavily on fixed-income assets. But in the current environment, where interest rates are expected to continue rising, a shift out of equities into bonds may be a case of jumping out of the fire and into the frying pan.

Furthermore, many savers who take out lifestyle plans set a retirement date when they first begin saving and then forget all about the arrangement. Their retirement date may change later on, but the plan proceeds on the basis of the original target. That may expose savers to too much risk if they now plan to retire earlier – or too little if they now expect to cash in their pension fund later.

> *"Market declines will have come as quite a shock"*

For these reasons, a more bespoke approach to managing risk in the run-up to retirement makes sense. If an annuity is likely to figure in your retirement plans, it is a good idea to lock in some of the gains you've made on your pension savings, but there are many ways to do that in practice.

Shifting from equities to bonds feels too crude. A wide range of asset classes and investment strategies now offer good risk-management potential. For instance, infrastructure assets provide good inflation-proofing features and real estate has a role to play for many savers too. Multi-asset funds, including the "flexible" investment trusts that can invest across asset classes, may be a good option for many.

Also keep in mind that the choice between purchasing an annuity and income drawdown does not have to be a case of choosing either one or the other. There's nothing to stop you using some of your pension fund to buy an annuity while investing the rest in a drawdown plan. That could be a good compromise, but you'll need to think differently about each pot of savings ahead of time. If in doubt, take independent financial advice on pension saving. Even experienced investors struggle with managing risk effectively – and trying to maximise the value of your fund for a set point in time can be challenging.

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Inflation to hit big schemes

Lawyers representing pension schemes run by BT, Marks & Spencer and Ford have told the High Court that government plans to change the way inflation is calculated could cost retirees thousands. The schemes are challenging plans due to come into effect by 2030 that would change the definition of the RPI measure of inflation so that it more closely tracks the CPI benchmark. That will also directly hit savers whose pension payments go up in line with RPI each year; they would then receive smaller annual pension increases as CPI is lower.

BT alone has more than 80,000 pensioners likely to be affected, the High Court heard, with the average pensioner losing £34,000 over the course of their retirement. The government has already ruled out compensation. Employers are also concerned about the impact on the finances of their pension schemes, many of which are heavily invested in bonds linked to inflation. UK pension schemes could lose as much as £100bn between them, requiring many employers to raise their contributions.

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News round-up

- The number of people underpaid state pensions because of repeated government failings could be as high as 221,000, the Department for Work and Pensions (DWP) has now conceded. The number represents a 67% increase on its previous estimate of how many people have been affected. Victims of administrative errors going back 20 years – largely women – are owed compensation of more than £1.3bn, the DWP believes.

- Pension dashboards, offering savers a digital view of all their pension schemes in one place, will finally start going live next year, a new government briefing paper promises. The initiative has been championed by pension experts as crucial for providing savers with a means to keep track of their retirement provision – many savers now have more than ten different pots of cash – but has been repeatedly delayed by technical hurdles.

- The number of employers offloading their pension schemes to specialist insurance companies is set to increase 25% this year, according to a report from actuary Hymans Robertson. Under the arrangements, known as pension buyout plans, employers pay to transfer their liabilities for providing staff with final-salary pensions to an insurance company. Members' pensions remain protected, but are payable by the insurer, rather than their former employer.

Be ready for the post-pandemic travel boom

A professional investor tells us where he'd put his money. This week: Frank Holmes of the US Global Jets UCITS ETF picks three stocks ready for take-off

The Jets Airline ETF tracks firms within the commercial airline, aircraft manufacturing, and airport- and terminal-services industries. This is the first unconstrained summer travel season in three years, so airlines and airports are bracing for what is expected to be a particularly busy three months. Airlines, in fact, have recently upgraded their second-quarter revenue projections, citing higher than expected demand. Here are three airline stocks I'm keeping my eye on as we head into the busy summer season.

An American low-cost leader

Southwest Airlines (**NYSE: LUV**) has the number-one position in 23 of the top 50 markets in the US, and the focus at present is on restoring the network to pre-pandemic levels. It's also concentrating on maintaining its low-cost advantage, a task that includes coming up with more efficient flight plans, optimising maintenance planning and modernising its revenue-management system.

In December 2021 the company signed a nine-year credit-card co-brand agreement with Chase, which has already proved very lucrative. These initiatives are expected to add between $1bn and $1.5bn to earnings before interest and taxes (EBIT) by 2023. Approximately 64% of Southwest's fuel costs is hedged for the rest of this year at around $60 a barrel. This puts the company in a better position than many of its larger peers.

The first to get back on its feet

Alaska Airlines (**NYSE: ALK**) appears to have the best balance sheet in the industry, with a 49% debt-to-capitalisation ratio. Since the start of the pandemic, it's been the first airline to stop burning through cash, the first to become cash-flow positive and the first to become profitable.

The company is moving toward a low-cost structure that should match Southwest's by next year. The group's operating margin has regularly eclipsed the domestic industry's over the past 20 years. Unlike other airlines, Alaska is working towards a single-type fleet, which should lead to millions in cost savings in aircraft swaps, maintenance and less need to train pilots. This is expected to more than offset higher labour and airport costs. Half of Alaska's fuel requirements are hedged until the end of this year at a cost of $71 a barrel.

Europe's climate-conscious carrier

Ryanair Holdings (**Nasdaq: RYAAY**) is the largest airline in Europe, with flights to nearly 40 countries. The budget carrier is well positioned to take advantage of an increase in demand for leisure travel as Europe drops its Covid-19-related measures and restrictions. To give you an idea of just how busy Europe may be this summer, the European airspace manager EUROCONTROL recently said it expects traffic in the upcoming months to stand at 90% of pre-pandemic levels. This could be a huge boon for Ryanair, which reported an average of 2,815 flights per day in April.

"Boeing's new 737-8200s reduce fuel consumption by 16% per seat"

Ryanair is also drawing in the growing number of climate-conscious consumers in the European market. In June 2021 the company took delivery of the Boeing 737-8200 Gamechanger aircraft, which reduces fuel consumption by 16% per seat. As of March 2022, Ryanair has taken delivery of 61 of these aircraft. It will reportedly acquire an additional 70 within the year.

If only you'd invested in...

Pharmaceuticals group **Indivior's (LSE: INDV)** share price has defied the ongoing bear market, says Yahoo Finance. The company specialises in developing machines to combat mental illness and substance-abuse disorders. It has been a consistent performer recently: in the first quarter of 2022 net revenue rose by 15% year-on-year to $207m, while operating profits climbed by 6%. Investors have also been impressed by its profitability: it boasts a five-year return on capital of 18.4%. The shares have doubled over the last 12 months, outstripping the market by 93%.

Be glad you didn't buy...

Twitter's (NYSE: TWTR) share price sank by 11% after its aborted $44bn sale to Tesla's CEO Elon Musk, says Bloomberg. It was struggling for years before the latest setback. It's been unprofitable for most of the past decade. One key problem is enticing people onto the platform; Facebook has 1.9 billion daily users, Twitter has only 230 million, a figure that is barely growing, notes The Economist. Facebook's parent, Meta, also rakes in more than $3 a month in advertising revenue per daily active user, while advertising revenue generates less than $2 a month for Twitter. Its shares are down 40% in a year.

The crooked cryptoqueen

Ruja Ignatova's charm and guile, honed in the dark markets of post-Soviet Bulgaria, persuaded millions to invest in OneCoin, her Ponzi scheme. Then she disappeared. Jane Lewis reports

In the summer of 2016, Ruja Ignatova walked on stage at Wembley Arena to greet thousands of fans. "She was dressed as usual in an expensive ballgown", says The Sunday Times. But her message was modern. OneCoin, "Dr Ruja" told the cheeringaudience, was the "bitcoin Killer" set to become the world's largest digital currency. Scarcely a year later, she had vanished, leaving behind a trail of destruction.

The missing "cryptoqueen" has never been seen since. It transpired that OneCoin was essentially a Ponzi scheme disguised as a cryptocurrency – there was no blockchain base, and buyers were offered commission to sell the currency on to others. Several made multi-million-dollar fortunes themselves from an asset whose "price" Ignatova effectively fabricated.

©Shutterstock

> *"Had the authorities delved a little deeper, they would have seen several red flags"*

Although OneCoin's "suckers" were offered seemingly absurd returns – sometimes running to "hundreds of percent a year" – the timing of the scam, which ran from 2014 to 2017, was perfect since it capitalised on the frenzied speculation taking off elsewhere in the crypto world. The victims, around one million people in 175 countries, collectively lost "somewhere between €3bn and €10bn euros" of their savings, says The Sunday Telegraph. When Bulgarian-born Ignatova disappeared in October 2017 – having quietly boarded a Ryanair flight from Sofia to Athens – she took $500m of investors' cash with her, according to her brother, who was arrested in 2019. Last week, the FBI belatedly added her to its "Most Wanted" list. "This is probably the biggest development in the case since Dr Ruja disappeared," says Jamie Bartlett, author of the hit podcast and book *The Missing Cryptoqueen*. It isn't clear why the FBI has acted now – it may have hit a dead end.

A convincing CV

How did Ignatova manage to persuade so many people to entrust their savings to OneCoin? As with the most effective scams, it was partly because some of her claims – not least her "glittering" academic and professional background – were true. Born to a Romani family in Ruse, Bulgaria in 1980, Ignatova emigrated to Baden-Württemberg in Germany when she was ten. Academically exceptional, she won a place at Oxford University and later studied for a PhD in private international law at the University of Konstanz. A stint in management consultancy with McKinsey & Co followed. That CV was enough to persuade The Economist to include her at one of its conferences – a speech she reran to good effect at recruitment presentations. Would-be investors were also shown copies of Forbes magazine with her portrait on the front cover, says the BBC. "It was actually... a paid-for advertisement from Forbes Bulgaria."

Once people were hooked, Ignatova's charisma did the rest. "Dr Ruja" came across as visionary, even messianic, force. Ignatova also made good use of lawyers, sending threatening letters to anyone questioning OneCoin's veracity. In more developed markets the supine attitude of regulators helped.

Had the authorities delved deeper, the red flags would have been self-evident. In 2012, Ignatova was convicted of fraud in Germany in connection with a company acquired with her father. A year later, she was involved with a multi-level marketing scam call BigCoin. Behind her respectable façade lay a murky background in the "dark markets" of post-Soviet Bulgaria, says Bitrate.com. Much of the money that flowed in from OneCoin was invested in the country, "siphoned into property deals and to a host of questionable individuals and companies". Ignatova may have disappeared because she was in too deep, and feared for her life. Notwithstanding a possible 80-year sentence if convicted, she might be better off if the FBI catches up with her first.

Doubling down on Black Wednesday

John Major was born in Surrey in 1943. After jobs in insurance and the London Electricity Board he moved into banking. In 1989 he became chancellor and played a key role in convincing Margaret Thatcher to join the Exchange Rate Mechanism (ERM), which fixed the value of sterling against various European currencies.

©Getty Images

ERM membership obliged the Bank of England to intervene whenever sterling fell below a certain value, by either buying pounds or hiking interest rates, in the hope that this would help curb inflation.

But the costs of German reunification convinced the Bundesbank (Germany's central bank) to hike rates, forcing the Bank of England to follow suit in order to burnish sterling's appeal.

But by 15 September 1992 investors had lost confidence in the pound and began selling it. The next morning the government decided – rather than quit the ERM – to raise interest rates to 12% (from 10%) and allow the Bank of England to keep buying pounds.

The dam bursts

Despite the Bank of England buying a huge amount of sterling, which reached £2bn an hour at one point, traders believed the UK would ultimately devalue, especially after rumours circulated that top officials in the German Bundesbank thought that Britain should leave. As a result, sterling continued to stay below the level mandated by the ERM even after the government hiked rates again, to 15%. By 7pm on the evening of 16 September, the government had thrown in the towel, with chancellor Norman Lamont announcing that Britain would "suspend" its membership. Immediately afterwards, the pound collapsed even further.

The decision to attempt to keep Britain in the ERM, instead of immediately leaving, is estimated by the Treasury to have cost the taxpayer £3.3bn (although once the UK left the ERM it could cut interest rates, boosting the economy). By contrast, many traders, most notably George Soros, made billions from betting against the pound in the run-up to Britain's exit. The ERM debacle shows that investors should think very carefully before doubling down on a losing trade: it is very easy to get trapped into throwing good money after bad.

A grand tour of Chichester

From the cathedral to Goodwood, the West Sussex city has much to offer, says Matthew Partridge

Goodwood's Festival of Speed: the Glastonbury of motor sport

The 18th-century novelist Daniel Defoe once declared that "if six or seven families were removed" from Chichester, "there would be not much conversation". Still, if you spend any time in this elegant West Sussex city, you will soon realise that what some might see as reticence is the self-confidence of an area that has no need to brag about its attractions.

Chief among these is Chichester's cathedral. Established nine years after the Battle of Hastings, it has survived Henry VIII, who destroyed its shrine to St Richard of Chichester, as well as Cromwell's troops who shelled, and then sacked it during the Civil War. It contains several outstanding examples of modern sculpture, and is famous for being the subject of Philip Larkin's poem *An Arundel Tomb*. The neighbouring Bishop's Palace Gardens are worth visiting too.

Other attractions include Pallant House Gallery, which has one of the most outstanding collections of modern art in Britain. History buffs will appreciate Fishbourne Roman Palace, a museum enclosing an excavated Roman villa that is only three miles away from the city centre. Chichester Festival Theatre also has a reputation for being one of the best theatres outside London, and it is the first stage on the road for many productions that end up in the West End.

The Glastonbury of cars

Chichester wouldn't be complete without a visit to Goodwood, especially during the Festival of Speed. Running during four days in late June, it's effectively the Glastonbury of motor sport. The main event involves timed runs along a specially designed hill-climb course in a wide range of vehicles, from vintage cars to F1 and supercars, culminating in the Sunday Shootout, won this year by a McMurtry Speirling driven by Max Chilton, which overturned the 23-year-old official record.

While it is possible to view the hill-climb from the trackside, this is extremely popular, so you might want to invest in a grandstand pass, which also shields you from the elements. In any case, there's a wide range of other events taking place during the festival, from air displays by the legendary Red Arrows, to rallying at a specially designed forest stage (reachable via a free shuttle) and even off-road vehicles and BMX bikes.

However, what really sets Goodwood apart from other motor events, apart from the location and atmosphere, are the hundreds of stalls. These range from individual distributors showcasing the latest supercar, such as the $2m Czinger 21C, to an entire area dedicated to future technology. Indeed, perhaps the only downside is that even the regulars still had so many things to see, no matter how many visits they made.

Stay like a country squire

There are plenty of fine hotels in and around Chichester. But if you want something a bit different and are happy to travel a little further afield, try Lordington House, a luxury B&B run by John and Audrey Hamilton. A 15-minute taxi ride from Chichester station, it has four rooms (three double, one single), located in a country pile that dates from 1623 and has an expansive garden that has been included in the National Garden Scheme.

The house has spacious dining and sitting rooms and retains plenty of period detail, from the 17th-century staircase to the comfortable Edwardian beds. The sense of history is also enhanced by the large number of historical paintings and artefacts, including Japanese calligraphy collected by John Hamilton during his career as an academic in Japan. The ship's bell taken from SY Morning, which played a vital role in Scott's 1901-1904 Antarctic expedition.

> *"It's not just the friendly welcome… but the willingness to go above and beyond"*

In addition to offering you the chance to imagine yourself as a country squire, Lordington House is made truly exceptional by the hosts. It's not just the friendly welcome and excellent breakfasts, but the willingness to go above and beyond. They not only arranged a table for me at the Horse and Groom pub in nearby East Ashling after I arrived late, but also gave me a lift there, as well as a further lift to Chichester in the morning. This is truly an undiscovered gem.

Matthew was a guest at Lordington House. Singles start from £70 a night, and doubles £140. Phone 01243-375862 or email hamiltonjanda@btinternet.com.

McLaren tames its wild side

The new Artura hybrid purrs like a pussy cat and roars like a lion. Jasper Spires reports

"New engine, new gearbox, new hybrid system, new chassis, new electrical architecture, new interior functionality… This is it. The start of an all-new generation of McLaren supercars," says Jethro Bovingdon in Evo. "The Artura might not be a radical departure in terms of design language, but beneath the (largely superformed aluminium) skin it's a significant step for the company and the starting point for the next chapter in McLaren Automotive's story." As a masterwork of delicate engineering, aesthetic design and raw power, "it could hardly be more promising".

The Artura's performance is "off the scale", purring like "a real pussycat" in the default electric mode before roaring to life, says John Howell on PistonHeads. "The numbers are explosive if you keep pulling gears" – 0-62mph in three seconds dead, and 0-124mph in just 8.3. "That tells you all you need to know about just how fast this car is."

Controlled fury

However, while the Artura can certainly howl off the starting line, it's a controlled kind of fury. "There's no silliness… It's pure sound. No pops from spits of unburnt fuel being fired into the exhaust to liven it up, and no valves that open depending on what mode you're in." Far from a wild beast of a supercar, McLaren have offered a meticulously precise driving experience. "On the move, the Artura feels extremely grown up and capable," says Steve Sutcliffe in Auto Express. "The harder you drive it, the better it gets… The brakes, steering, gear change and handling also go to another level once you push to unlock them."

In terms of sheer looks, the "Artura is unmistakable as a McLaren", from the hammerhead nose and boomerang air intakes at the front to the doors that open vertically, says Will Dron in The Sunday Times Driving. McLaren should be applauded for creating "such a sublime debut series production hybrid supercar". *From £189,200, cars.mclaren.com*

"As a masterwork of engineering and design, the Artura could hardly be more promising"

Wine of the week: a delicious eco-friendly rosé

2021 Château Galoupet, Nomade Rosé, Côtes de Provence, France

£23, clos19.com

Matthew Jukes
Wine columnist

I tasted a huge number of pretty pricey rosés the other day, and none of the wines was particularly earth-shattering. Many had expensive bottles and flashy labels to match their ambitious prices. One bottle stood out from the crowd. Looking more like a child's plastic cricket bat than an elite pink wine, Nomade is packaged in an eco-friendly, flat bottle made entirely from ocean plastic salvaged from seashores. It weighs just 63g, and everything, including the cap, is 100% recyclable. The flat design is 40% more space-efficient, too, whether it's destined for a shipping container, your fridge, or for maximising bottles in a picnic bag. When I showed the bottle to my wife, she said, "It had better taste good looking like that". By the time I had unscrewed the cap and we had both taken a sip, we were in no doubt that this was an extraordinary wine. Granted that £23 is not an everyday rosé price, but this is a delicious drop and its sustainability credentials are impeccable. Legend has it that in 2019 Jessica Julmy, MD of Rosés de Provence at LVMH Estates & Wines, first set eyes on Galoupet. From that moment, she embarked on a vinous journey to convert the estate to organic viticulture to make the most eco-aware and delicious wines imaginable. Château Galoupet will be fully certified in 2023, and she has made a bottle that fits through a letter box. I would say that this is already a job well done!

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

This week: houses with outdoor kitchens – from a cottage in Farnham with a pizza oven on an arcaded

▲ **Goldleaf Parkway, Canton, Georgia, America.** A house in the Reserve at Bridgemill, Georgia, with gardens bordering Lake Allatoona that include a gourmet outdoor kitchen with a commercial-sized grill. 6 beds, 5 baths, 2 receps, cinema, bar/games room, gym, swimming pool, 1-bed flat, 0.78 acres. $1.45m Harry Norman +1 404-495-8331.

▶ **Mott Street, Loughton, Essex.** A Grade II-listed, 17th-century house close to Epping Forest. The façade has Dutch gables and Flemish bond bricks and the grounds include a swimming pool and a sun terrace with a bar, kitchen and hidden sound system. 6 beds, 4 baths, 3 receps, wine cellar, 1-bed annexe, 7 acres. £4.5m Savills 020-8498 6600.

▶ **Heather Warren, Churt, Farnham, Surrey.** A modernised period cottage overlooking Frensham Great Pond. It has floor-to-ceiling glazed bifold doors to the rear leading onto terraced entertainment areas that include an arcaded cinema terrace and a brick-and-stone gas barbecue and pizza oven. 4 beds, 4 baths, 2 receps, open-plan kitchen/living area, 2 annexes, landscaped gardens, pond, 2.3 acres. £3.75m Hamptons 01252-714164.

d cinema terrace, to a 17th-century house in Loughton with a kitchen on the sun terrace

◀ **Whitehouse, Torcross, Kingsbridge, Devon.** A contemporary house overlooking Start Bay and Slapton Ley with gardens that include a large dining terrace with a built-in barbecue area and external Bowers & Wilkins speakers. It has a System Six charcoal and white gloss breakfast kitchen and comes with solar panels and a garage with a Tesla battery and BP Pulse charger for electric cars. 4 beds, 2 baths, dressing room, recep, gym. £1.5m+ Strutt & Parker 01548-897616.

▶ Clayhill, Wigginton Bottom, Tring, Hertfordshire. A renovated Edwardian house on a quiet lane with gardens that include a party barn with a commercial-grade kitchen that opens onto a swimming pool with terracing. 2 beds, 2 baths, recep, study, conservatory, summer house, 0.17 acres, £875,000. Nash Partnership 01442-820420.

◀ **Hunters Lodge, Beggar Hill, Fryerning, Ingatestone, Essex.** A large country house with a detached spa building that includes a swimming pool, steam room, sauna and yoga room. It has an outdoor hot tub and dining terrace with an al fresco kitchen with a built-in barbecue, a fridge and other appliances.4 beds, 3 baths, 2 receps, 1-bed annexe, garaging for five cars, landscaped gardens, grounds, coppiced woodland, 5.8 acres. £2.8m+ Zoe Napier 01621-840333.

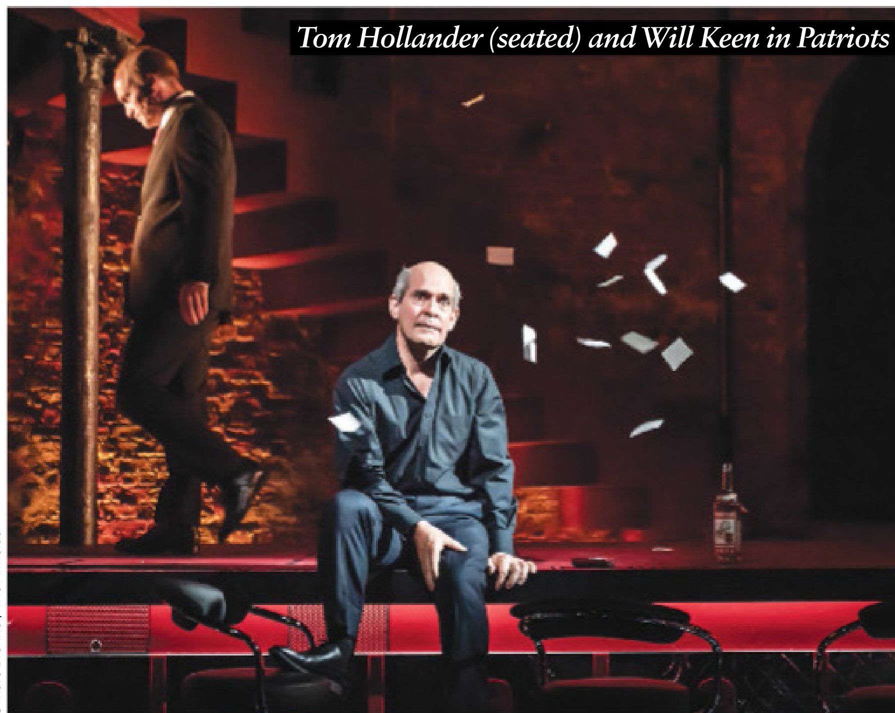
▲ **Forest Lodge, Knitsley, County Durham.** A contemporary country house with a wraparound terrace for al fresco dining, with a barbecue area, a wood-burning stove and a fire pit. It has floor-to-ceiling windows and an open-plan kitchen and living area. 4 beds, 5 baths, 2 receps, cinema room, stable block, barn, tennis court, 11.01 acres. Three holiday cottages available by separate negotiation. £1.85m Finest Properties 01434-622234.

▶ **Glentham Cliff Farmhouse, Glentham, Market Rasen, Lincolnshire.** A renovated, period house with an orangery with French doors leading onto a terrace and a garden room with a bar, a pizza oven and three sets of bifold doors opening onto the landscaped grounds. 5 beds, 2 baths, open-plan kitchen/living area, recep, study, conservatory, office, music room, gym with shower, garage, workshop and outbuildings, 2-bed cottage, gardens, 5.23 acres. £2m+ Savills 01522-508908.

Play of the week

Patriots

Written by Peter Morgan
Directed by Rupert Goold
Running at the Almeida Theatre in London until 20 August


Tom Hollander (seated) and Will Keen in Patriots

©Marc Brenner/ The Almeida

The 1990s saw the rise of the Russian oligarchs. These businessmen took advantage of the opportunities created by the fall of the Soviet Union to make vast fortunes and acquire political power. No one person epitomised this more than tycoon Boris Berezovsky, who at one point was considered the *éminence grise* of the Boris Yeltsin administration, and was reported to have played a significant part in picking Vladimir Putin as his successor. *Patriots*, written by Peter Morgan (the creator of Netflix's *The Crown*), tells the story of Berezovsky's journey from trusted adviser to public enemy and exile.

Identified as a mathematical prodigy at a young age, Berezovsky (Tom Hollander) is given a research role with a top professor (Ronald Guttman), but abandons his studies in favour of business. Becoming extremely rich as well as winning the ear of Yeltsin and his daughter (Aoife Hinds), he decides to sponsor neophyte businessman Roman Abramovich (Luke Thallon). At the same time, he plucks provincial bureaucrat Putin (Will Keen) from obscurity to ensure that the government continues to embrace economic liberalisation. However, Putin has other ideas. Meanwhile, FSB officer Alexander Litvinenko (Jamael Westman) becomes disillusioned with his job when ordered to assassinate Berezovsky.

"Tom Hollander delivers a commanding performance as the central character who ends up outsmarting himself"

Both Peter Morgan's writing and Rupert Goold's direction work hard to push the audience away from the familiar clichés about Russia. This includes having the cast speak in English accents, in a similar way to the 2017 film *Death of Stalin*, discussing bribery and murder as if they were ordering a gin and tonic at a club. The decision to have Will Keen initially play Putin as a shy, almost timid, drone effectively cuts against the popular image of the Russian despot, and allows us to see him gradually evolving into a sinister tyrant.

Hollander delivers a commanding performance as the central character, running around making deals and masterminding alliances, only to end up outsmarting himself by trying to impose rationality on a country unwilling to accept it. Indeed, if the play has one flaw it is that Hollander's portrayal of the oligarch is too sympathetic. Yet no matter how hard Morgan, Goold and Hollander try, it's impossible to be sorry for someone reduced to their last billion, especially at a time when the monster Berezovsky unleashed on the world is devastating Ukraine. Similarly, while Westman's Litvinenko is likeable, it's impossible to forget that he willingly worked for one of the world's most evil organisations. Still, this is a good production that provides a snapshot of a moment in time that, had it gone differently, could have transformed today's world.

Reviewed by Matthew Partridge

First Lady

Intrigue at the Court of Carrie and Boris Johnson
Michael Ashcroft
Biteback Publishing (£20)

Boris Johnson's time in office has lasted just three years, but has been more eventful than that of many longer-serving prime ministers. His administration had to deal with unprecedented challenges, while mired in scandals and feuding. Johnson's partner Carrie reportedly had a hand in both the policy decisions and the drama and is blamed by many for his political demise.

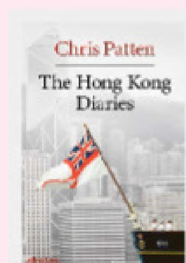
Unfortunately, *First Lady*, by former Conservative Party treasurer Michael Ashcroft, is largely a straightforward biography of Carrie. It covers her family and childhood, her time at university and her career in public relations, including her brief stint as head of communications for the Conservative Party. Only the last few chapters deal with her relationship with Johnson and her time as Britain's unofficial "first lady".

Ashcroft tries hard to uncover some interesting facts about his subject, but there is a limit to the amount you can say about the life of a mid-ranking professional in their thirties. While the book becomes a lot more interesting once it reaches Johnson's time in office, it still suffers from a lack of detail as to the true extent of her influence on policymaking, although she clearly seems to have played a role in some of his most disastrous appointments. As Ashcroft himself admits at the end, Carrie's actions can't "excuse Johnson himself from taking ultimate responsibility for how power is exercised".

Book in the news... the destruction of democracy

The Hong Kong Diaries

Chris Patten
Allen Lane £30



On the 25th anniversary of the British handover of Hong Kong to China, supposedly under the rubric of "two countries, one system" until at least 2047, Hong Kong's battle for freedom looks "increasingly beleaguered", says Martin Kettle in The Guardian. Still, the fact that a democracy movement still exists at all is down to the efforts of Chris Patten, the last governor of Hong Kong. Patten spent the final five years of British rule balancing the need "to ensure the 1997 handover to China went as smoothly as possible" with "entrenching the rule of law and trying to extend democracy". *The Hong Kong Diaries* combine his previously unseen diaries with a "passionate polemical essay" about China's "increasingly brutal sabotage of the Hong Kong deals".

Patten's diaries "are not recommended for those in search of a speed read", as they are "long", and frequently leave the reader "as tired as Patten must have been at the end of his days of endless meetings with the Chinese", says Simon Murray in The Daily Telegraph. However, they tell a "terrific tale", as they record the "end days of an empire which, at its height in 1922, was the largest the world had ever seen, covering a third of the world's land and ruling over 459 million people". What's more, they "read like a novel, full of good guys and bad guys".

As you might expect, Patten is very critical of the Chinese, who were opposed to the idea of a democratic Hong Kong, says Michael Sheridan in the Sunday Times. However, he also has few good words for the British Foreign Office, which he views as filled with "tricky appeasers" who "had given away too much, too easily" to Beijing by prioritising "keeping our trade and investments intact" over political freedom. Still, while recent Chinese actions to crush political plurality and suppress freedom of speech in Hong Kong mean that Patten's efforts to embed democracy ultimately proved "futile", it was "a brave and decent thing to try", and one that deserves to be "recorded for posterity in these pages".

Bridge by Andrew Robson

Which diamond?

West led the Knave of Spades against Six Hearts, and declarer tried dummy's Queen (the Knave could have been top of an interior sequence). Beating East's King with the Ace, declarer drew Trumps, eliminated Clubs by cashing the Ace-King then led a second Spade (best). West won the ten, and the question was: what should West lead now?

Dealer South — East-West vulnerable

North:
♠ Q9
♥ AK9862
♦ A107
♣ AK

West:
♠ J10832
♥ 4
♦ J94
♣ J983

East:
♠ K764
♥ 7
♦ Q63
♣ 107652

N / W ???? E / S

South:
♠ A5
♥ QJ1053
♦ K852
♣ Q4

The bidding

South	West	North	East
1♥	pass	4NT*	pass
5♦**	pass	5NT***	pass
6♦§	pass	6♥§§	pass
pass	pass		

* How many Aces?
** One.
*** How many Kings?
§ See (2).
§§ Settling for Six, as the partnership are missing a King.

Clearly West had to open up Diamonds – a black suit lead would give a ruff and discard, and allow dummy to throw a Diamond as declarer ruffed. But which Diamond?

There was only one Diamond that defeated the slam, and West found it: the Knave. Switch erroneously to a low Diamond, and declarer plays low from dummy, beating East's Queen with the King then finessing the ten. Switch erroneously to the nine of Diamonds, and declarer can cover with dummy's ten; he beats East's Queen with the Ace and leads to dummy's seven.

The switch to the Knave, however, left declarer without recourse. He did his best, winning dummy's Ace, and returning the ten (playing for West to hold Knave-nine doubleton). No good – East covered the ten with the Queen, and West's promoted nine took the setting trick. One down.

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

Sudoku 1113

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

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

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Tim Moorey's Quick Crossword No. 1113

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 1 August 2022. By post: send to MoneyWeek's Quick Crossword No.1113, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: crossword@moneyweek.com with MoneyWeek Crossword No.1113 in the subject field.

Across clues are mildly cryptic while down clues are straight

ACROSS
1 Painter one's seen in US state (5)
4 Reading certainly going backwards in sport (7)
8 Harmless to engage worker in US capital (5, 2)
9 Drink for Middle East ruler? (5)
10 President's moniker? Not entirely (3)
11 Tom writes off unfaithful types (3-6)
13 Entrepreneur making money from tourist on investments (5, 8)
16 Lawyers do caveats when ordered (9)
18 Something in Christmas pudding is poisonous (3)
19 What the Queen once got to lead? (5)
20 Actor Nigel following son and young lads (7)
21 Heaters activated in May? (7)
22 It may be present on edge (5)

DOWN
1 Sicilian port city (7)
2 Lear's speciality (8, 5)
3 Raise glasses (5)
4 Kind of chart (3)
5 Composer of *William Tell* (7)
6 Concerning the Bard (13)
7 Yorkshire city (5)
12 Piece of chamber music by Schubert (5)
14 Suggestive of touch (7)
15 Quick reply (7)
16 English racecourse (5)
17 Begin (5)
20 Ocean (3)

Name ....

Address ....

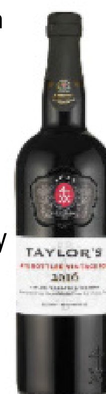
email ....

Solutions to 1111
Note: the puzzle number consisted of four ones
Across 6 Misanthrope *anagram* **7** Capone **8** Ozone **9** Insane *anagram* **12** Noose *e soon reversed* **13** One **15** Spawn *two definitions* **17** Sawyer *two definitions* **20** Drone **21** Begone **23** Ups and downs *misleading definition*
Down 1 ASBO *hidden* **2** Inferno *anagram* **3** Phlox *homophone* **4** Monopoly *misleading definition* **5** Berets *misleading definition* **6** Miami *reversal of I inside imam* **10** Sawhorse *saw + horse* **11** Ens *hidden* **14** Earbuds *anagram* **16** Podium *p + odium* **18** Runts *(g)runts* **19** Beano *two definitions* **22** Gown *hidden*

The winner of MoneyWeek Quick Crossword No.1111 is: Mrs Dawn. A. Taylor of Lincolnshire

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.



Why inflation is on the rise

Cheap Chinese imports are no longer enabling US money-printers

Bill Bonner
Columnist

Consumer goods from the Middle Kingdom kept American prices down

©Alamy

The US switched to a "soft" dollar in 1971. It was a dollar that looked for all the world like the 1969 dollar. But it was different. It was no longer convertible to gold, it was a technocrat's dollar – flexible, adjustable, and prey to temptation.

New dollars are conceived in the credit market. When banks lend, they don't actually reach into their vaults to draw down their depositors' savings. Instead, they just create the money "out of thin air", as a book-keeping transaction. It doesn't matter if there are any savings or not. Thus, as borrowing grew, 1971-2022, the money supply grew… and aged.

From 1971 to today, federal debt grew three times faster than GDP. And soon there was a big pile of grumpy, old debt that needed to be repaid. As long as the dollar was tied to gold, there were limits. Ultimately, dollars were redeemable for gold. And there was only so much gold.

> *"When banks lend, they don't use deposits, but create money out of thin air"*

But without the link, the sky was the limit. In addition to normal bank lending, the Fed could also "print" dollars and use them to buy bonds. This quantitative easing (QE), had the effect of putting whole legions of new dollars into service… and driving down interest rates so that even more people wanted to borrow.

Most financial assets are owned by the richest segment of the population. Between 1971 and 2022, their wealth – real estate, stocks, bonds, private businesses – increased by an estimated $72trn amid all the money-printing.

But how come consumer prices didn't go up alongside asset prices amid all this money-printing?

That's where the Chinese come in. In 1979, China decided it was time to join the world economy. Almost overnight, factories sprouted like bamboo shoots… and some 300 million peasants made their way to urban centres to work in them. With so many very affordable Chinese workers on the assembly lines, who needed to pay American wage earners more money; who needed them at all? And as Chinese factories turned out gadgets by the millions, why should prices go up? And so, the great trans-Pacific trade routes grew crowded. Ships from China rode low in the water, freighted with TVs, toaster ovens and refrigerators bound for US consumers. The Chinese made valuable goods. Americans printed up the money to buy them. And by December of 2021, the trade deficit with China had soared to $94bn for the single month.

That trend appears to have peaked. May 2022's trade deficit with China fell to $78bn. Why? There are few peasants left to exploit. And Chinese factories are paying more for their raw materials. So now, with its own labour and raw-materials costs rising, China is no longer enabling US money-printers. Consumer prices are rising everywhere.

The bottom line

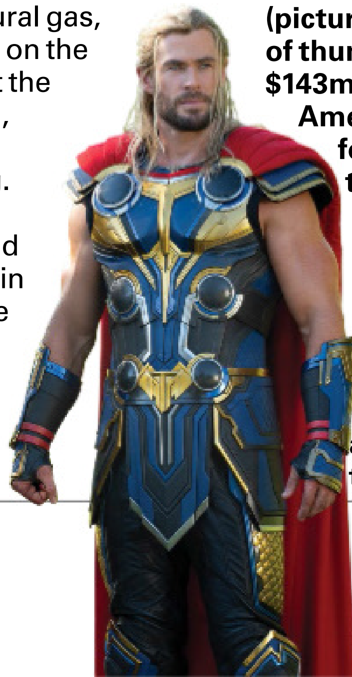
£39.4m The cost of the 169,291 tonnes of extra cardboard unnecessarily used annually owing to delivery boxes not fitting their contents, according to packaging specialists DS Smith. The 85 million cubic metres of extra air transported could fill 34,000 Olympic pools.

$169m The asking price for the most expensive flat ever listed in New York City when it was put on the market last summer. The penthouse apartment, at the top of a "spindly" skyscraper that sways in the wind, is once again up for sale, says The Times.

£2.3bn The forecast value of bottled water sales in Britain by 2026, during which time the market is expected to grow by a fifth, according to retail analysts Mintel. Despite environmental concerns, one in six people drink bottled still water every day.

$2.8bn The value of investment in developing nuclear-fusion technology in the last 12 months, compared with around $2bn over the past decade, according to the Fusion Industry Association. It found that 93% of companies in its survey believed fusion power could become viable by the 2030s.

$55 The price per ton of sand blasted into shale rocks to unleash crude oil and natural gas, a 150% rise on the $22 price at the end of 2021, says Bloomberg. Higher demand and supply-chain issues have left Texas shale oil firms facing a dearth.



©Marvel Studios/Disney

$302m The global box office takings for *Thor: Love and Thunder* in its first weekend. The blockbuster, starring Chris Hemsworth (pictured) as the god of thunder, made $143m in North America, the most for a film from the standalone franchise spun out of the Marvel Cinematic Universe (MCU). It is the fourth Thor film and the 29th in the MCU series.

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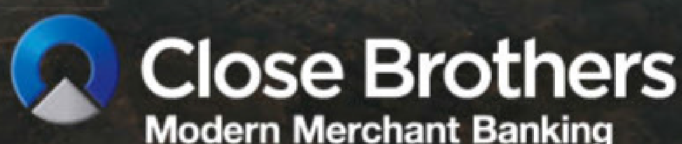

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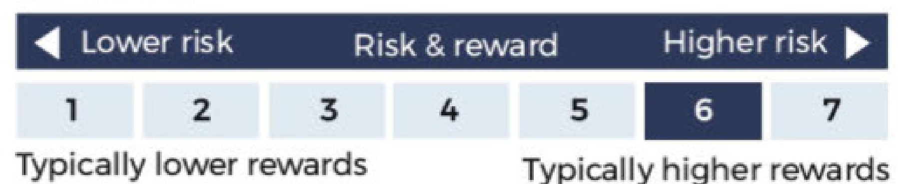

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