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MoneyWeek

MAKE IT, KEEP IT, SPEND IT

24 MAY 2019 | ISSUE 948 | £4.25

Bet on British banks

The stocks poised for recovery

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From the editor-in-chief...

Emerging markets are the place to be if you want to make the best possible returns in the future. After all, that's where populations are growing; where the West's manufacturing is migrating too; and where new middle classes are emerging. Right? Maybe (see page 28 for one take). Or maybe not. The latest Barclay's Equity Gilt Study suggests something rather different. Population growth is not much higher in emerging markets than in developed ones, for example, so the idea that demographics can drive growth in the latter, but not the former, holds no water.

Adidas 3D-printed shoes

"Until recently, it made sense to shift manufacturing abroad. It's not the case now"

More importantly, however, technological progress is in the process of flipping from "supporting faster emerging market growth through globalisation to undermining it". Until recently it made sense to shift your manufacturing abroad: you could take advantage of cheap labour costs, but use technology to manage the complicated supply chains and logistical challenges that came with doing so.

But if you are looking at things afresh today, it doesn't make so much sense. Automation means it is often cheaper to use robots at home than people abroad. And if that is so, why make your product thousands of miles away from the market you plan to sell it in? There's a demand imperative here too: modern consumers like a little local specialisation – and that needs to be done locally. Go to an Adidas store in Germany and you can have custom-fit trainers 3D printed in the shop. Finally, says Barclays, modern automation requires "local collaboration": robots, workers, managers and engineers need to be on site to figure out kinks together. That creates an opportunity cost to outsourcing.

The upside to Trump's trade war

This localisation (or at least regionalisation) of US supply chains back onshore is already under way, but it could also soon accelerate. Think about Donald Trump's tariffs, says Gavekal Research's Charles Gave. If this means that firms that want to sell in the US have to produce in the US, produce in the US they will. This will have several pleasant effects (for the US). It will push up wages for those workers who are used (hooray!) and boost economic activity overall.

However, it will also "leave the rest of the world with huge productive overcapacity" and see a sharp fall in returns on invested capital as a result. Given that stockmarkets are very much "in the business of measuring returns on capital around the world in real time", where does that make you want to invest? The answer is certainly not emerging markets. Look at it like this, says Barclays, and you might think that the trend for "underperformance of emerging market assets and currencies that began in 2013 is set to continue over a multi-year horizon".

Matthew Lynn does not entirely agree (see page 14), but I find the case pretty compelling. If that leaves you thinking that now might not be the time to up your emerging market exposure, then turn to page 20 for Matthew Partridge's view on UK banking shares; page 18 for Max King's thoughts on the value in European markets, and the fund he would buy to benefit; page 5 for a reminder not to be too gloomy about UK equities; and page 27 for Richard Beddard's take on an interesting firm operating in two very different markets.

Merryn Somerset Webb
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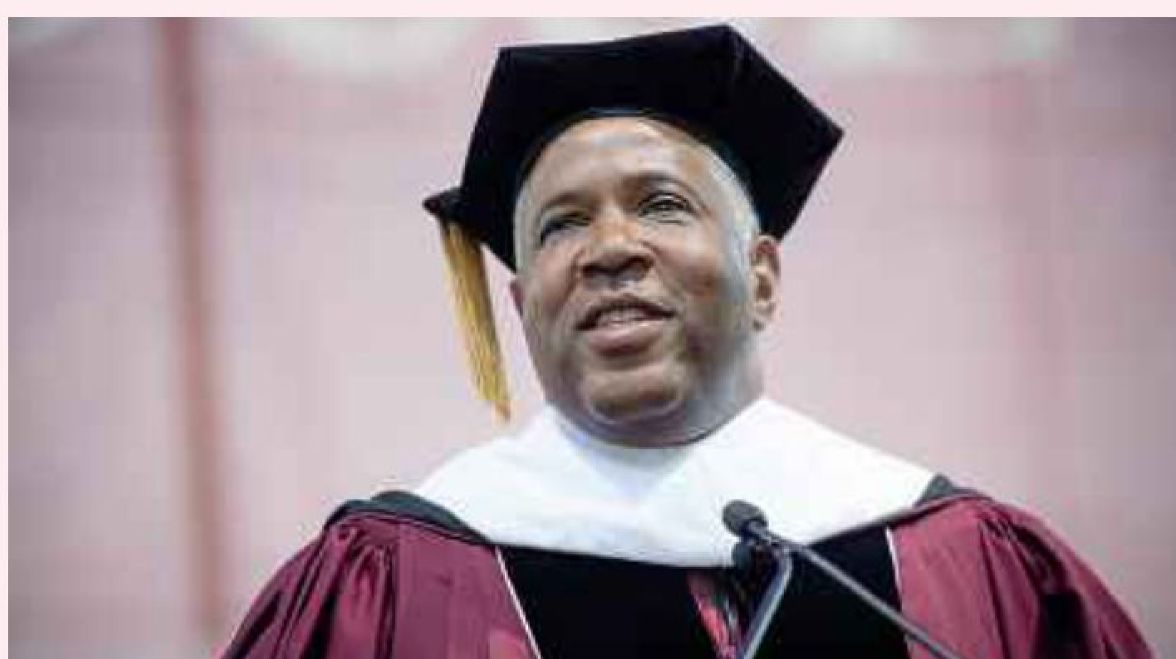
Philanthropist of the week



Almost 400 graduating students at Morehouse College in Atlanta in the US were pleasantly surprised this week when former student and billionaire tech investor Robert Smith (pictured) announced he would pay off the student debt of the entire class of 2019. Smith, who was receiving an honorary doctorate at the time, had already pledged £1.5m as a gift to the college. "This is my class, 2019," he said. "And my family is making a grant to eliminate their student loans." It is not yet known exactly how much his generosity could cost him, reports The Guardian, but it could be up to $40m. Student debt is becoming a political hot potato in the US, with the total outstanding estimated at around $1.5trn.

Cover illustration: Howard McWilliam. Photos: David Levene/Guardian/eyevine

Good week for:

Jordan Adlard Rogers, a care worker from Cornwall, is celebrating after DNA tests proved he is the rightful heir to a £50m country estate and a family trust that provides a "substantial income" from investments and rent on tenanted farmland. Adlard Rogers inherited the estate after his father, who did not acknowledge him, died of a drug overdose.

UK medical research got a £1bn boost as LifeArc, a charity that brings academics' life sciences research to market, sold most of its royalty stream from cancer drug Keytruda to a Canadian pension fund. LifeArc was formed in 2017 from MRC Technology, part of the Medical Research Council.

Bad week for:

Five European banks, including Barclays and RBS, have been fined more than €1bn by the European Commission for suppressing competition by rigging the foreign exchange market, reports The Guardian. The banks formed cartels to manipulate the spot market for 11 currencies, including the dollar, the euro and the pound. The fines are on top of those of £1.3bn imposed by the UK regulator over the same case in 2014.

Jamie Oliver (pictured) has called in the receivers at his restaurant empire, with up to 1,300 jobs on the line. The company, Jamie Oliver Group, which includes 23 Jamie's Italian restaurants, plus its Fifteen restaurant in London and Barbecoa, appointed KPMG as administrators. Oliver has put £13m of his own money into the business in recent years to help stave off bankruptcy, and has been looking for buyers for some time.

©Getty Images

New front in trade war spooks stocks

Alex Rankine
Markets editor

Blacklisting Huawei may lead to a tech cold war

"Here be dragons," says Christopher Beddor on Breakingviews. The White House's move against Huawei, the world's second-biggest smartphone maker, "takes the trade war into uncharted territory". The US president has added Huawei to an export blacklist on national security grounds. The order prompted Google to ban the firm from accessing some features on its Android operating system. The move follows prolonged attempts by American officials to persuade allies, including Britain, to bar Huawei from involvement in their 5G networks and potentially stokes "a new tech cold war". Stocks were unnerved at the thought. Domestic Chinese equities slipped by 4% in three days; America's S&P 500 has lost 3% from its record high.

Huawei has doubled its global share of the smartphone market in the last two years, says Jim Armitage in the Evening Standard. The latest escalation could trigger a potentially "devastating crisis" for the maker of one in five of the world's handsets. Google's move to sever ties means new Huawei phones will not have access to security updates or features such as Google maps. That might give Trump more leverage with Beijing, but it also denies consumers access to China's "cheaper, better technology".

Why now?

Donald Trump removed steel and aluminium tariffs on Canada last week, while Germany and Japan were cheered when he granted a six-month delay before tariffs on imported cars and car parts take effect. It now appears that the White House was merely "scaling down conflicts in other areas" in order to focus on the confrontation with China, says Arthur Kroeber in a Gavekal Research note. Some say this is about gaining leverage in trade talks, but Washington already had plenty. China exports four times as many goods to the US as vice versa. The real reason is that many in Washington regard Huawei as a genuine security threat, says Kroeber. They had avoided action until now to avoid "torpedoing" a trade deal, but with prospects for an agreement "in ruins" they saw "an opening for an aggressive move".

A black cloud over markets

Markets have yet to realise how rapidly the bilateral relationship between Washington and Beijing has deteriorated, says Zhiwei Zhang in a Deutsche Bank research note. President Xi Jinping last week condemned those intent on "remoulding or replacing other civilisations". The American Congress is currently approving an act that encourages Taiwan to increase its defence spending. The trans-Pacific confrontation is "spreading beyond" tariffs.

This is likely to create pervasive uncertainty and volatility over the next few months, although central bank action may limit the downside for stocks. The prospect of the Fed coming to the rescue at the first sign of trouble has kept US markets buoyant, says Sarah Ponczek on Bloomberg. News of weak US retail sales actually triggered stockmarket gains last week. "Bad news is good again. As long as it doesn't involve China."

Bonds signal gloom ahead

May has proved a turbulent month for investors, prompting many to wonder if the US bull market that began in March 2009 – the longest on record – is coming to an end. Those inclined to take a more negative view on the outlook for equities are pointing to signals coming out of the bond market. When investors are fearful they pile into safe fixed-income assets, such as government bonds, which drives down their yields. When bond prices go up, yields fall.

US retail sales are robust

Yields on ten-year US Treasury notes dipped as low as 2.37% last week, notes Peter Wells in the Financial Times, close to a 15-month low reached in March. Yields on short-dated three-month bills are higher than those that lock up your money for ten years. Such an "inverted yield curve" has "preceded every recession since World War II". Equity investors should take note, says Komal Sri-Kumar on Bloomberg. "Historically, the bond market has had a better record" than equities of predicting economic performance.

Bulls will note, however, that the inverted yield curve signal is hardly foolproof, and while the intensifying trade war is certainly a major headwind (see above), there are reasons to hope that this bull market will keep on running, as IG analyst Chris Beauchamp points out in City AM. The US "employment picture, corporate profits and retail sales" all suggest that a recession is still at least "a year away". Indeed, the rush to buy up safe-haven assets could be a sign that the market has not yet peaked. "Money has ... left the US and European equity funds this year," says Jon Sindreu in The Wall Street Journal, even though US first-quarter earnings topped expectations. "If the top of the market is a point of peak optimism" when investors go "all-in", then the most recent highs are "an unlikely candidate".

©Getty Images

Investors still too gloomy about UK

Investors are gloomy about the prospect of a Brexit deal, but that means that the worst scenarios are already in the price, Jason Hollands of wealth manager Tilney tells The Times. UK investors have deserted their own stockmarket en masse since June 2016, with £11.47bn of net inflows into global equity funds, says Hugo Cox in the same paper. That has significantly increased their exposure to America and the dollar in particular.

Meanwhile, it's interesting to note that for all the Brexit fuss, the MSCI United Kingdom All Cap index has "been the least volatile of any stockmarket index in the world since 2016", says Harry Brennan in The Daily Telegraph. The strong presence of multinationals such as Unilever on the London market has shielded investors. These firms make over 70% of their sales overseas and their international perspective eclipses domestic turbulence.

British investors, then, should take another look at their home market. Shares are cheap enough to produce healthy long-term returns, whatever the near-term turbulence. With a juicy dividend yield of 5% the FTSE 100 is one of the most attractive markets in the world for income-seekers.

British stocks are also on a cyclically adjusted price/earnings ratio (Cape) of 16, cheaper than Europe and a bargain compared with America. As we noted in a cover story earlier this month, Cape is a good indicator of long-term returns.

Reinflating Australia's bubble

Australia's voters were "too scared to rock the country's economic boat", says Clara Ferreira Marques on Breakingviews. Australia's centre-right prime minister, Scott Morrison, scored a shock victory in last weekend's general election, defying polls that had given the opposition Labor party a clear lead. Labor wanted to remove tax breaks and increase spending. Voters opted for Morrison's promise of tax cuts instead.

The country's benchmark S&P/ASX 200 rallied 1.7% on news of Morrison's surprise victory to hit an 11-year high, but investors shouldn't get ahead of themselves. There seems little scope for a surge in growth.

Australia dodged the global financial crisis and has gone 27 years without a recession, but the economy has started to wobble. In the first quarter, the annual pace of GDP growth was a mere 1.3%; the long-term average is around 3%. GDP only grew by 0.2% in the final quarter of last year and has shrunk on a per-capita basis for two successive quarters. The US-China trade war has undermined confidence in China's growth prospects, which bodes ill for Australia's coal and iron-ore exports. When China's credit boom slowed in 2014 the Reserve Bank of Australia stepped in to cut interest rates, says The Economist. But that only pumped up a housing and credit bubble. Australian household debt stands at 200% of disposable income. (America's 2007 household debt peak was 125% of income.) That bubble is now hissing air. House prices in Sydney are down 11.8% in the 12 months to April, says The Sydney Morning Herald, while those in Melbourne registered a 12.6% decline over the same period. The number of house sales has fallen 20% in a year to its lowest level since 1996, says George Tharenou of UBS. Along with sluggish wage growth, the housing slowdown is proving a "key factor" in "souring consumer sentiment", notes Chelsea Bruce-Lockhart in the Financial Times. That hardly bodes well for consumption.

©iStockphotos

House prices in Melbourne have slipped by 12% in a year

A last gasp?

Given the inauspicious backdrop, perhaps it's no surprise that the authorities are contemplating reinflating the housing bubble. The minutes of the last central bank meeting said a cut in interest rates would be appropriate if the labour market did not improve, and there is also talk of letting banks relax their mortgage lending requirements (tougher rules in this area had reduced demand).

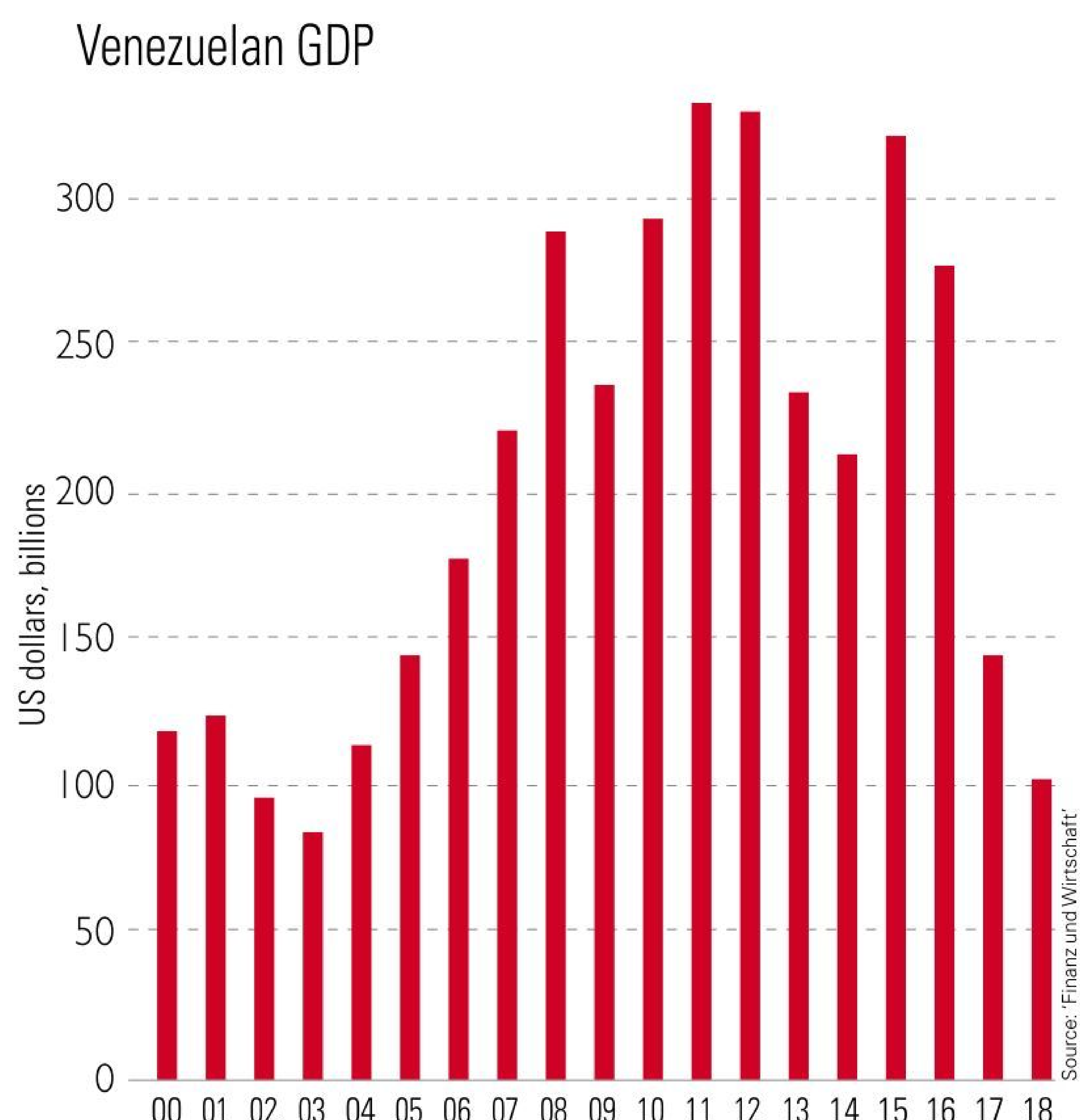
As consumers have already gorged on debt and mortgages, it's hard to see this moving the needle; in any case, as we learnt during the financial crisis in America and Britain, housing busts tend to develop their own momentum regardless of rate cuts. Australia seems ever more unlikely to extend its growth streak much further.

Viewpoint

"US political gridlock [is good news]. Stocks dislike active government because legislation shifts the rules, creating winners, losers and unintended consequences — and discourages risk-taking. Gridlock renders a do-little government. Inactivity gives executives more clarity to manoeuvre — like an obstacle course with stationary obstacles versus one comprised of big, sharp, painful, fast-moving ones. Which would you prefer? Central to this gridlock is last November's US midterm elections. Every four-year cycle the midterms create gridlock, a little or a lot... Hence, US presidents jam all big legislation into their first two years. That legislative flurry stokes uncertainty — hurting stocks [in] presidential years one and two. Then, midterms bring gridlock for years three and four. US stocks have traditionally celebrated gridlock by rising in 91% of all third years since 1925."

Ken Fisher, the Financial Times

■ A lost decade and a half

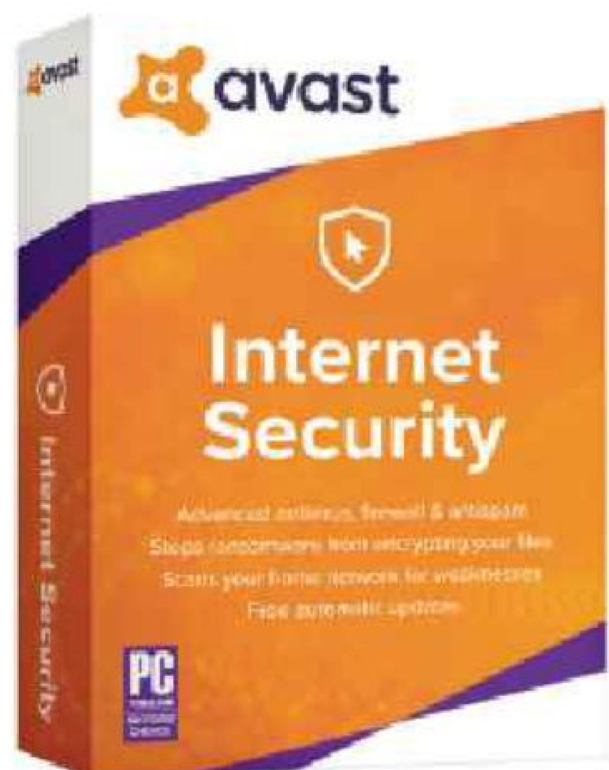


The Venezuelan government has stopped publishing official economic statistics, says Andreas Knobloch in Finanz und Wirtschaft. No wonder: the country is in a state of total collapse. According to the International Monetary Fund, the country's hyperinflation is getting worse, with the annual pace of price rises expected to climb from 2018's 1,000,000% to 10,000,000%. Falling oil prices have undermined export earnings. Shortages, sanctions, and pervasive corruption wiped 40% and 30% off national output in 2017 and 2018 respectively. Annual GDP has receded to levels last seen in the 2000s. The "downward spiral" is likely to endure until the political stalemate between the government and the opposition is resolved.

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

Three to buy

Avast
Shares
This Czech Republic-based technology security provider already protects 435 million people worldwide, with a focus on desktop users. Messaging app WhatsApp recently became the latest "big-name brand" to fall victim to hackers, so there is growing opportunity in the smartphone sector as well as scope to "upsell" premium services to existing users. On 13 times 2019 earnings, the stock is on a 40% discount to FTSE 250 peer Sophos. *298.75p*



Paragon Banking Group
The Sunday Times
"What a time to be a banker." Low interest rates, tougher regulation and rising competition are "squeezing profit margins on all sides". Yet Paragon, a "challenger" bank, is managing to grow its lending book and net interest margin nonetheless. Almost 90% of new mortgages go to professional buy-to-let investors, a niche clientele more profitable than traditional mortgage customers. Paragon may prove an "attractive" takeover target in a consolidating sector. *462.75p*

Lloyds Banking Group
The Mail on Sunday
This banking behemoth may offer its customers low interest rates and branch closures, but the investment case is more robust. Today's bank is a "leaner and fitter" outfit than the one that helped nearly sink Britain's economy during the financial crisis a decade ago. It is also a more "vanilla" savings and loans organisation than a risky investment banking-exposed peer such as Barclays. Recent performance has been "rock solid", if unspectacular. A yield of 5.2% and good dividend growth make the shares "well worth a look". *60p*

Three to sell

Galliford Try
Investors Chronicle
A profit warning has driven the shares down to just 0.9 times forecast book value, but that doesn't make Galliford Try a bargain. This housebuilding, regeneration and construction business has been hit by project deferrals and higher-than-expected contract costs, piling the pressure onto "wafer-thin" construction margins. A slowing housing market in London and the South East also bodes ill for the housebuilding operation. *556.5p*

Just Eat
The Daily Telegraph
Uber's "rocky start" as a public company means it is looking for a growth story to serve up to investors. Any decision to bolster its food-delivery operation, Uber Eats, poses a real competitive threat to Just Eat, whose software currently serves 26 million hungry customers "from Canada to Brazil". Competition is intensifying globally, putting "chunky" underlying profit margins – currently 49% in Britain – under pressure. Slowing order growth makes the price/earnings ratio of 26 look "heady". *622p*

Uber
Barron's
The cheap rides at Uber may be "coming to an end". The firm, which reported a "stunning" $3bn operating loss for 2018, does not have many options if it hopes to become profitable one day. Price rises would reduce passenger numbers and erode competitiveness against taxis, while reducing drivers' pay amid worsening labour relations – Uber drivers recently called a global strike – would aggravate problems with staff turnover. Bulls point to a shift to driverless vehicles, but the technology is still at an early stage. *$38.83*

...and the rest

The Daily Telegraph
The demise of its merger plans with Asda has triggered a fall in **J Sainsbury's** share price, but although it now looks cheap, the debacle leaves it without a strategy and could prompt turmoil in the boardroom – avoid *(207p)*.

Investors Chronicle
A £450m government investment in IT for GPs could prove a growth catalyst for healthcare software provider **EMIS** *(1,144p)*. **Games Workshop** caters to fans of fantasy worlds, but repeated earnings upgrades and a 3.5% forward dividend yield make this an investment case "firmly rooted in reality" *(4,032p)*. Specialist recruitment group **Robert Walters** is well-placed to benefit as ageing populations and technological change spark a global "war for talent" in coming decades *(582p)*.

Shares
North America-focused trust **Pershing Square** offers exposure to a portfolio of excellent businesses at a 26.7% discount to net asset value *(1,336p)*. In a "battered" holiday market, online retailer **On The Beach** has "stormed ahead of its competition" with a 41% jump in revenue in the six months to the end of March *(438p)*.

The Times
Insurer **Admiral** is a "class act", but rising costs and claims inflation make for "choppy seas" ahead – avoid *(2,120p)*. Buy office provider **Workspace** on weakness: it is a "highly profitable business" with a more flexible lease model that appeals to modern businesses *(960p)*. The risks are high, but **Uber** is "streets ahead" of the competition – a "worthy wager" *($41.29)*. Shares in "efficient" miner **Anglo American** look reasonable on 8.4 times earnings *(1,910p)*. Wealth manager **Quilter** is well-positioned in a consolidating market *(142.25p)*.

An American view

US hospitals "have switched en masse from paper to digital records" in the past ten years, says Avi Salzman in Barron's. That was excellent news for Cerner, one of the health IT firms that installed and maintained these systems, and the stock continues to look promising. It should now profit from a new shift. Medics have hitherto billed on a so-called "fee for service" basis, but the government increasingly wants to pay based on outcomes: hospitals have to prove that they are improving people's lives. Cerner's "population health management" system helps hospitals track patients' behaviour and thus improve their long-term health. The group has just started paying a dividend.

IPO watch

Finablr has made a lacklustre debut on the London Stock Exchange. The Dubai-based payments and foreign-exchange platform, whose brands include Travelex Holdings, UAE Exchange and Xpress Money, was priced at 175p for its initial public offering (IPO), but promptly slipped below 160p. It had already had to trim its price from the 210p-260p range previously indicated. "Investors may have had their fill of fintech flotations in skittish global markets," say Clara Denina and Abhinav Ramnarayan on Reuters. Finablr's debut followed Nexi and Network International; the latter is another payments group based in the United Arab Emirates. It floated in London in April.

City talk

● T-Mobile shares gyrated wildly this week after the head of the US telecoms watchdog said he would support the $26bn merger with Sprint, only for reports to suggest that the Department of Justice would block it. But there is "little reason" to stop the deal since "the competition concerns that effectively killed off a planned merger of the two in 2014 don't look so relevant now", say Jennifer Saba and Gina Chon for Breakingviews. The tie-up would also promote"super-fast internet that can act as a backbone for internet-controlled objects such as driverless cars", an important US strategic goal.

● Holidays in the Thomas Cook boardroom "should have long ago been cancelled", says James Moore in The Independent. The tour operator has announced a "thumping" pre-tax loss of £1.46bn for the last six months. Part of the downturn is due to economic uncertainty combined with rising hotel and fuel costs, but the "dead weight" of accumulated debt, which has "smashed through the £1bn barrier", has made things much more difficult. No wonder shareholders "have been jumping for the lifeboats". Chinese tour operator Fosun could jump in with a bid, but it could end up "throwing good money after bad".

● A Morgan Stanley report raised eyebrows this week as it slashed its "bear-case" price target for Tesla shares from $97 to $10. The stock is currently selling for $205. In this worst-case scenario, Tesla will miss its China sales target by 50%. Overall demand for Tesla's cars looks lacklustre – it delivered just 63,000 cars in the first quarter – and it needs to expand "aggressively" in the Middle Kingdom, but the trade war is putting this strategy at risk. Tesla is also still burning far too much cash.

Feeding frenzy in takeaways

Amazon is re-entering the online takeaway market with a stake in Deliveroo – and it isn't only rivals who should be worried. Matthew Partridge reports

UK food-delivery platform Deliveroo has announced that Amazon has become a major investor in its business through a new $575m funding round, notes Sam Shead in Forbes. This increases the overall amount invested in Deliveroo to $1.53bn, giving it "a war chest to cement its position" at home and finance further growth. Amazon, meanwhile, is "buying its way back into the meal-delivery market", which is expected to be worth $365bn by 2030, after its own service, Amazon Restaurants, "floundered".

Amazon's investment in Deliveroo could well be the "amuse-bouche" for a broader tie-up, says Alex Webb on Bloomberg, and there are "a lot of reasons [why that] would make sense". First, it's a good idea for Amazon to maintain a foothold in the food-delivery markets as rival food platforms in Latin America and India "are already extending into products such as pharmaceuticals and groceries, and that approach could spread to other regions". Another, more positive reason is that combining deliveries from Amazon and Deliveroo means both companies could make more efficient use of their delivery network during slack periods.

An Amazon-Deliveroo collaboration may be good news for the two firms involved, but their competitors won't be happy, says Dominic Walsh in The Times. Indeed, shares in Just Eat fell by 8% on the news, as it faces "further pressure on delivery fees" and more discounting. Further bad news comes from Uber's initial public offering last week. The transportation network company will probably use at use at least some of the $8.1bn raised to expand its Uber Eats delivery business. Just Eat isn't the only firm under pressure in a sector "that epitomises the promise and profligacy of Silicon Valley", says Stephen Wilmot in The Wall Street Journal. Indeed, when news of Amazon's investment hit the wires, "shares in Delivery Hero and Takeaway.com, which offer similar services to Deliveroo in other markets, also cratered". Mergers to shore up profitability are unlikely while money is "flowing so freely" into the sector; for now, investment will finance further rapid growth.

Amazon considers this a tasty morsel

Do we still need restaurants?

It isn't just rival delivery firms who should be worried by Amazon's partnership with Deliveroo, says Tim Bradshaw in the Financial Times. Deliveroo has been investing in "ghost kitchens", which prepare food in cheap, anonymous locations, such as converted shipping containers in car parks. The idea is to "use a combination of advanced food preparation, underused real estate and algorithm-driven optimisation" to bypass restaurants entirely, in order to "lower overheads and increase output". Whichever delivery service ultimately comes out on top, "the food industry is about to be disrupted just as thoroughly as department stores and taxi operators".

Ryanair struggles to regain altitude

Michael O'Leary is winding down his racing operations "in order to spend more time with his family", says Alistair Osborne in The Times. But after Ryanair's latest results, you have to wonder if he'd have done better to give up the airline and keep the horses.

Ever since Ryanair's dispute with the pilots' union in September 2017, the airline has "been struggling to hit former heights"; the shares have halved from their peak. They slipped again early this week thanks to a 29% drop in full-year profits to €1.02bn after tax.

Ryanair's problem is that many of its costs, notably rising fuel prices, are "out of its hands", while it is being forced to slash fares in order to maintain growth, says Ed Cropley for Breakingviews. Still, ancillary revenue was the "one bright spot" as "sales of everything from food and drinks to reserved seats and priority baggage jumped 19% to €2.4bn, a third of all the airline's top line". Indeed, if Ryanair is able to replicate last year's "bumper" performance by flogging "ever more expensive on-board snacks", this could add another €455m to Ryanair's top line, "all but wiping out the budgeted rise in fuel prices".

It's not just Ryanair that is feeling the pinch, as easyJet is also struggling owing to intense competition and a public "increasingly looking to save every penny and cent", says Jim Armitage in the Evening Standard. The group lost £275m in its winter half, but it is working very hard to reduce costs, and "this self-help will set [easyJet] up well for when times, eventually, improve".

May's last stand

The prime minister's "new deal" smelt fishily familiar. MPs are likely to pass on it. Emily Hohler reports

Theresa May "made her final big gamble" as prime minister on Tuesday, offering Labour a "new deal" that included the possibility of a second EU referendum, say Laura Hughes, George Parker and Sebastian Payne in the Financial Times. However, her ten-point plan, aimed at cross-party consensus, was "declared dead on arrival" by angry Conservative eurosceptics, and Labour leader Jeremy Corbyn called it a "repackaging of the same old bad deal". MPs are due to vote on May's new offer in the first week of June, but the vote has not been confirmed and some Tory MPs are calling for May to stand down "rather than risk another humiliation in the House of Commons".

The PM is on her way out

©Rex Features

Going down like a lead balloon

May's "package of concessions" includes a commitment to conclude alternative arrangements to replace the Irish backstop by December 2020, "so that it never needs to be used", and a parliamentary vote on whether the deal should be subject to a referendum, say Henry Zeffman and Oliver Wright in The Times. The new deal also leaves Britain, in effect, as a "rule-taker from Brussels on workers' rights, the environment, goods and foodstuffs", says the FT. No wonder it went down like a lead balloon, says Harry Yorke in The Daily Telegraph – 26 Conservative MPs who backed the deal in March, including Boris Johnson, Dominic Raab, David Davis, Iain Duncan Smith and Jacob Rees-Mogg, said they would "switch back to opposing it", while sources close to the 20-strong group of Labour MPs in Leave-voting seats have "indicated that only a handful will switch sides". The DUP and Labour confirmed they will reject it.

"By adding the opportunity for a second referendum [and] a customs union, and by threatening that she will stop her successor from reversing anything by implementing binding legislation, this was perhaps the greatest hijacking of the referendum yet seen," says Iain Duncan Smith in The Daily Telegraph, who can think of "no more effective way" of encouraging voters to desert the Conservatives and vote for the Brexit Party in the European elections. The Brexit confusion means that these elections, which historically have low turnouts, "stand to be consequential", says Yasmeen Serhan in The Atlantic. They will provide a "snapshot of where the public stands on Brexit" three years on from the referendum, and perhaps most importantly, "signal which voters are most mobilised to turn out in future elections".

Whatever happens, we can be "pretty sure" that Theresa May is on her way out, says James Blitz in the Financial Times. Assuming she departs without a deal, this – along with what looks to be a "thumping victory" by the Brexit Party in the European elections – will define the nature of the Tory leadership contest. May's failure will suit those like Johnson who want to "ram home a harder, cleaner Brexit", splitting the party and the country. The idea that a clean, no-deal Brexit would "work out just fine because of the provisions of the World Trade Organisation (WTO) treaty" simply isn't true, say Anand Menon and Catherine Barnard in The Guardian. If Britain leaves without a deal, many of the laws that govern our interaction with the EU will simply "cease to apply". This will "mean significant problems", particularly relating to travel and trade, including potentially "crippling" tariffs and border delays. "No other major trading nation trades purely on WTO terms." To take just one example, 750 UK-based TV channels will have to stop broadcasting in Europe or move there. The "no-deal slogan is appealing in its simplicity", but its supporters should be honest about the consequences.

Europe is now a "cacophonous" political landscape

©Getty Images

Populists gain ground in Europe

Europe's cohesion "is under siege", says Bloomberg. Populist groups anticipate "sizable gains" in this week's European elections, "giving them more power than ever before" over the institutions at the heart of the EU. Although the "Brexit fiasco" has lessened the appeal of leaving the EU (60% of Europeans believe membership is a good thing), populists want to "undermine it from within", halting the push for greater integration, curtailing the authority of Brussels and limiting the EU's ability to insist on adherence to "democratic norms". While it is true that Brussels is "prone to regulatory excess and plagued by a lack of popular legitimacy", its flaws "pale in comparison to the dangers posed by its critics". Left unchecked, the contagion of populism will "corrode Europe's identity as a democratic union" and "weaken Europe's influence abroad".

As it stands, these elections are set to create the most "fragmented and fractious European parliament" in history, say Patrick Scott and Ashley Kirk in The Daily Telegraph. The two largest groups, the centre-right European People's Party and centre-left Socialists & Democrats, are expected to "shed support", while eurosceptic parties, notes Romesh Ratnesar on Bloomberg, are "on track to win more than one third of the seats", forming a unified voting bloc with real clout.

At both national and pan-European levels, leaders need to understand what is fuelling populism – a "cacophonous" landscape that is ideologically and demographically diverse – and come up with "concrete solutions", says Bloomberg. Above all, this means expanding economic opportunity for the poor, reforming Europe's immigration system and making EU institutions more accountable. This won't be easy and it won't happen overnight, "but for the sake of Europe's future, it needs to start now".

Betting on politics

Saturday's election in Australia (see right) proved embarrassing for bookmaker Sportsbet, which not only sustained huge losses on winning bets on the Liberal-National coalition, but also incorrectly paid out on a Labor victory two days early. Overall, it is reported to have lost a total of A$5.3m.

By contrast, the two handicap bets I recommended, at 1.11 on Betfair and 4/6 on Bet365, both paid off, as did my recommended bets on the coalition candidates in Aston (Victoria) at 1/6, Kooyong (Victoria) at 1/5 and Casey (Victoria) at 2/5, as well as in Hughes (New South Wales) at 1/5.

Indeed, not only did the coalition win in each of those constituencies, but the Liberal candidates managed to increase their share of the vote in Aston and Hughes. Even in Casey, the closest of the four contests, Liberal Tony Smith (pictured) still managed to win on second preferences by a margin of just under 9%. Admittedly, since the bets were at short odds, they didn't make a huge amount of money, but a return of 29% is still pretty decent.

Given that the Australian polling companies came in for a tremendous amount of criticism in the aftermath of Morrison's victory, it may seem strange that one of the lessons from this election from a betting perspective is to pay attention to opinion polls. If you had looked at them closely you would have seen that Labor's lead narrowed as polling day approach, and was never big enough to justify the landslide that some bookies and betting markets were predicting.

Australia confounds the pundits

The centre-right retains power on a tax-cutting agenda. Matthew Partridge reports

In the run up to Saturday's election in Australia, the Labor party was ascendent in every opinion poll, with almost all pundits expecting it to remove the Liberal-National coalition from power, says Katharine Murphy in The Guardian. When the votes were counted, Prime Minister Scott Morrison ended up "the hero of the hour", managing "to snatch victory from the jaws of defeat". This means that after three years of turmoil, which has seen both major parties replace their leader, Australia has ended up "back where it started when former prime minister Malcolm Turnbull won the 2016 election by one seat".

Scott Morrison: "the hero of the hour"

No appetite for change

One of the reasons for Labor's shock defeat was that it "completely misread the nation's appetite for widespread economic change", says Stefan Boscia in The Spectator Australia. Labor promised a "spending spree" if elected, paid for by "ending a range of tax concessions and loopholes that disproportionately benefit older and wealthier Australians". While a more "charismatic and likeable" politician may have been able to sell such an "expansive" agenda to the electorate, in the hands of Bill Shorten, Labor's leader, it "simply scared people off". Labor's strategy "ignored the fact that Australia is an economically successful country that is naturally wary of change".

Morrison drew a contrast between his plans for "tax cuts for low- and middle-income households" and Labor's promises "to increase levies on capital gains, superannuation [that is, pensions] and family trusts to pay for social spending", and that helped him to victory, says The Times. However, the decisive issue was probably climate change. Morrison exploited economic modelling that "purported to show that the 45% reduction in carbon emissions proposed by Labor would cost 167,000 jobs". And Labor's opposition to the planned Carmichael coal mine led to large swings to the coalition in important Queensland marginals.

Morrison's victory could therefore have "global implications", says The Straits Times. Australia's share of global emissions may make it "a minnow" compared with China or the US, the world's top two greenhouse-gas polluters. But Morrison's exhortation to voters to choose between "jobs or climate" means that the Carmichael project is now much more likely to go ahead. If it does, "billions more tonnes" of coal will be available to export and burn in places such as India, "fuelling global warming and a growing climate crisis".

The election outcome in Australia has therefore revealed "the urgent need to broaden the message for reducing carbon emissions, and to separate it from the divisive culture wars afflicting Western democracies", says The New York Times. Morrison's victory "does not necessarily mean he will do nothing about greenhouse gases". Indeed, with growing pressure from the young for action on climate change, and from the candidates who pushed a climate-change agenda who did win, there's still a chance that he could confound the pundits and take a lead on the issue. After all, Australia is a country "where the ravages of man-made climate change are most evident".

Nationalist right crumbles in Austria

Heinz-Christian Strache: promised contracts for cash

A "lurid" video showing Austria's vice-chancellor and Freedom Party leader Heinz-Christian Strache "promising state contracts for cash" to a woman claiming to be a relative of a Russian oligarch has brought down the Austrian government, says Jonathan Tirone for Bloomberg. Strache was forced to resign. Chancellor Sebastian Kurz also fired the interior minister, Herbert Kickl. That was a "bridge too far" for the rest of the Freedom Party (FPO), and its ministers resigned en masse. With the coalition between that party and Kurz's Austrian People's Party now over, Kurz has agreed to call fresh elections in September.

Ditching the far right may be a blessing in disguise for Kurz, however, says Valerie Hopkins in the FT. Even before the coalition was formed, the FPO earned intense criticism for signing a co-operation agreement with Vladimir Putin's United Russia party. Despite this, the FPO was given control of all three of Austria's intelligence services, prompting the agencies of other Western countries to limit their co-operation with Austria.

Kurz may now strengthen his party's position in a new election if he can win over disgruntled Freedom Party voters, says Matthew Karnitschnig for Politico. By contrast, Europe's far-right parties are likely to face "uncomfortable questions" on the eve of the European elections about their own relationships with "unsavoury Russian actors", as they have generally pursued "a similarly Russia-friendly strategy" to the FPO. At the very least, the other far-right parties are likely to try to distance themselves from the Austrians, complicating efforts to unite Europe's far-right parties into a new political alliance.

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Another meltdown in Scunthorpe

Tallinn, Estonia

TransferWise co-founders cash in: Taavet Hinrikus and Kristo Käärmann, founders of money transfer platform TransferWise, along with other staff, sold $292m worth of shares this week. The sale implied that the whole company was worth $3.5bn – more than double its valuation at the last funding round in 2017 – making it Europe's most valuable fintech firm. Hinrikus and Käärmann set up the business in 2011 to cut the cost of transferring money between London and their native Estonia by matching up people making payments in either direction. It now processes £4bn in payments every month and employs 1,600 people, with plans to hire a further 750. It is unusual in the world of fintech start-ups in that it is not losing money. It made a profit of £6.2m in the year to March 2018. TransferWise has raised $689m in funding to date; the latest round means that it faces no pressure to go public, something the founders are loath to do."Why would we?" Hinrikus asked Steve O'Hear on techcrunch.com this week.

Scunthorpe

British Steel goes bust… again: British Steel has been placed in liquidation, threatening 5,000 jobs. Most are at its Scunthorpe plant, along with a further 20,000 in the supply chain. The company returned to profit after it was bought by private-equity firm Greybull Capital for £1 in 2016, but soon fell back on hard times with the price of steel falling and energy prices rising. However, after the EU suspended issuing carbon credits to UK businesses, it sought a £120m loan from the government to buy certificates to cover carbon emissions. Greybull asked for a further £75m to cover costs caused by uncertainty over Brexit, which had led to a slowdown in orders from European customers. The requested sum was then reduced to £30m. The government, while claiming it will leave "no stone unturned", said it was hampered by rules on state aid. Greybull has been criticised for the nature of its financial support of British Steel. It accrued £33.8m in interest on loans it made at 9.6% and took £250,000 a month in management fees.

Cajamar, Brazil

Goodbye to the Avon Lady: Brazil's Natura Cosméticos has agreed to buy Avon Products. The price had yet to be revealed. London-based Avon is listed on the New York Stock Exchange, and its closing price on Tuesday valued the company at $1.4bn. Barring any last-minute glitches, the deal would spell the end of a company credited with pioneering the direct-selling model. Its "Avon lady" sellers once went door-to-door in the US, peddling the brand's cosmetics. However, the intervening decades have seen tastes change, and Avon has struggled to keep up with savvier rivals using social media to sell beauty products online. The South American cosmetics company is the biggest in Brazil, with a market valuation of $6bn. In 2017, it bought The Body Shop from France's L'Oréal for €1bn.

The way we live now: an island exclusively for cruise ships

Towns and islands around the world are restricting the number of cruise liners that can dock at the same time to avoid being overrun, says Ben Clatworthy in The Sunday Times. As a result, operator Royal Caribbean International has come up with its own solution to the "cruise ship crush": its own island. "Perfect Day at CocoCay" is a £250m venture to be built at the edge of the Berry Islands in the Bahamas. The Caribbean "idyll" will boast the tallest water slide in North America, a helium-balloon ride taking holiday makers 130m up in the air, a 500m zip line and the largest freshwater swimming pool in the region. The only way to get there is by cruise ship. Luckily, CocoCay can accommodate two at a time, including Royal Caribbean's *Symphony of the Seas*: the world's biggest cruise ship capable of carrying 6,680 passengers and 2,200 crew over 18 decks. CocoCay will have restaurants, bars and the first bungalows built over water in the Bahamas, with packages starting at £230 per person for four nights. Royal Caribbean says passengers will be able to "soak up a slice of Bora Bora" – another tropical idyll located almost 6,000 miles away.

CocoCay: a tropical idyll?

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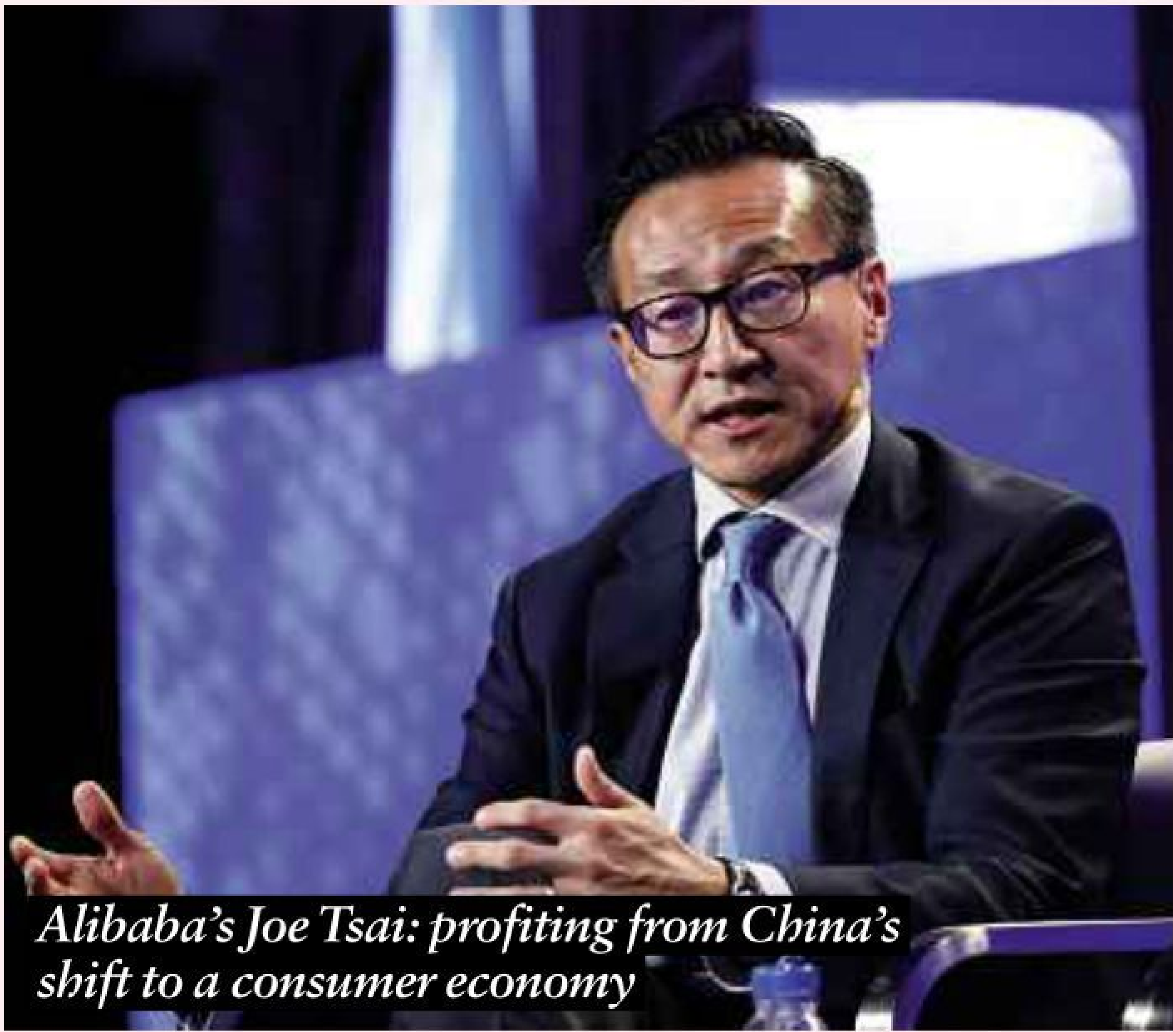
Alibaba's Joe Tsai: profiting from China's shift to a consumer economy

Hangzhou, China

Alibaba's sales soar: The Chinese tech giant has predicted that its annual revenues will increase by a third to Rmb500bn (£57.2bn) this year. In the first quarter, sales rose by 51% year-on-year to Rmb93.5bn. Alibaba, known as the Chinese Amazon, derives 83% of its revenues from online retailing, which suggests China's shoppers are in "fine fettle", says Louise Lucas in the Financial Times. That contradicts official statistics that showed nationwide retail growth for April had slowed to 7.2% – the slowest rise for 16 years. Alibaba's vice-chairman, Joe Tsai, shrugged off any suggestion that the slowdown could be due to China's trade war with the US, citing strong domestic demand. "We are not concerned with slowing exports growth… because China is shifting from an export economy to a consumption economy," he said. Alibaba is expanding into food delivery and growing its presence in less developed parts of China. The trade war has dampened Alibaba's share-price growth, which makes no sense, says Stefan Redlich on Seeking Alpha. After all, "Alibaba is a growth monster [with] stellar quarterly results" and a compelling long-term outlook.

Jakarta

Jokowi re-elected in Indonesia: President Joko Widodo (pictured), commonly known as Jokowi, has been declared the winner of the Indonesian presidential election. With all of the votes finally counted after last month's poll, Jokowi secured 55.5% of the vote, compared with his rival Prabowo Subianto's 45.5%. However, the result will not be final until any complaints have been resolved, say Hannah Beech and Muktita Suhartono in The New York Times. Subianto is a former general whose ties with hardline Islamists alarmed many in the world's third-largest democracy. Jokowi is Indonesia's first elected president to come from outside the military and the country's ruling class. However, he performed less well in conservative areas, and his choice of a cleric as his running mate prompted fears that his reformist agenda may be undermined. Investors reacted to the news with wary optimism: the Jakarta Composite index rose by just 0.75%.

Johannesburg

Diamonds lose their sparkle: Diamond miner and trader De Beers blamed "macroeconomic activity" for a 25% slump in sales in May to $415m, compared with $554m the previous year. While this time of the year tends to be slower anyway because the industry has already restocked following the busy Christmas period, the latest disappointing sale underscores a wider trend in the market: falling prices caused by a glut in the supply of small diamonds. De Beers has been able to keep its prices relatively stable so far this year, but this could prove short-lived. Diamond buyers have been struggling to turn a profit as end-user demand has been stagnant, says Thomas Biesheuvel on Bloomberg. A weaker Indian rupee has also added to the problems by making the gems more expensive for Indian manufacturers, who cut or polish about 90% of the world's stones. De Beers is 85% owned by the London- and Johannesburg-listed mining giant Anglo American, and it sells diamonds at ten sales a year, known as "sights", in Gaborone, the capital of Botswana. Meanwhile, a shift towards synthetic diamonds is also rattling the industry. All eyes will be on future sales, but the global diamond market looks unlikely to enjoy a recovery any time soon.

Mumbai

Prime minister set for re-election: As India's seven-phase general election drew to a close early this week, exit polls suggested that Prime Minister Narendra Modi (pictured) was set for a second term in office, giving him another five years at the helm of the world's fastest-growing economy. They showed his Bharatiya Janata Party (BJP)-led National Democratic Alliance winning between 267 and 350 seats in India's 543-seat parliament, note Iain Marlow and Bibhudatta Pradhan in Bloomberg. In that case, the BJP will have a strong electoral mandate to forge ahead with economic reforms that it has struggled to implement and allow Modi to "push forward an agenda that includes a boost in infrastructure spending, support for farmers and measures that appeal to Hindu nationalists". The polls reassured jittery investors, says Holly Black on Morningstar. India's stock-market, the Sensex, climbed 2.6% as they were released, its biggest rise since March 2016. The final result had yet to be announced as MoneyWeek went to press. The polls are "notoriously inaccurate", as Bloomberg points out, but a "stable government committed to economic reforms" is certainly the best possible outcome.

Africa's ambitious free-trade deal

Populism and trade wars have put globalisation into reverse. African nations are bucking the trend with a comprehensive agreement that will create a vast new trade bloc. Alex Rankine reports

What is happening?

The African Continental Free Trade Area (AfCFTA) comes into force at the end of this month. The deal creates one of the world's largest free-trade areas by slashing tariffs across a $2.5trn market of 1.2 billion people. Fifty-two African states are now committed to cutting duties on 90% of goods and 27 countries have signed a protocol providing for freedom of movement. Rwandan president Paul Kagame hailed the deal as a "new chapter in African unity". The accord bucks a global trend as populism and trade wars on other continents set globalisation into reverse.

Africa is set to become one of the world's largest free-trade areas

©Getty Images

How integrated is Africa?

Poor infrastructure, elaborate customs procedures and high tariffs – currently averaging 6.1% – have long hampered the development of intra-African trade. The Gambia, for example, currently exports more to South Korea and the Netherlands than it does to neighbouring Senegal. All told, trade between African states accounts for just 15% of the continent's trade. In the EU the equivalent figure is 67%. The intention is for AfCFTA to be a stepping-stone to more comprehensive pan-African integration, with a customs union in the pipeline. The more distant dream is to create a frictionless single market allowing a South African factory to import parts from Niger to make into a product to be sold in Egypt, says Tom Rees in The Daily Telegraph. The AfCFTA is certainly ambitious, says Vera Songwe for the Brookings Institution think tank. It extends beyond goods – the stuff of a traditional free-trade deal – to include services, investment, intellectual property and possibly e-commerce.

Has this been tried before?

Plans for a pan-African common market date back to 1980, when the predecessor organisation of the current African Union (AU) announced the Lagos Plan of Action, which envisioned the creation of an African Economic Community (AEC) modelled on Europe's EEC by the millennium. In 1991 African leaders signed the Abuja Treaty to achieve that goal, but implementation has been slow. Efforts have instead been focused on sub-regional groupings. One of the oldest is the Southern African Customs Union (SACU), which dates from 1910 and sees five southern African states apply a common external tariff. Three other regional trade blocs joined forces in 2008 to start work on the African Free Trade Zone (AFTZ), a nominal free-trade area that runs up the entire east side of the continent from Cape Town to Cairo. In west and central Africa, 14 mainly francophone nations share common currency arrangements through the CFA franc. Integration within most of these groupings remains shallow, says Olu Fasan on the International Growth Centre blog. The best performer has been the East African Community (EAC), which includes Kenya and Tanzania. It has had a common market since 2010 and a customs union since 2005.

What are the challenges?

The biggest problem is that Nigeria, the continent's biggest economy and most populous nation, has yet to sign. The country's manufacturing interests have been lobbying hard for special protections, citing fears of "dumping" by more competitive foreign industries. With more than 190 million people, Nigeria's large internal market means that its leaders feel a less pressing need than smaller neighbours to secure access to a wider African market. Even if Nigeria does eventually get onboard, planned negotiations on competition rules, investment and intellectual property rights will provide plenty of opportunity for more fireworks between the continent's protectionist powers and more liberally inclined governments in countries such as Ethiopia, Rwanda and Ghana.

> *"The more distant dream is to create a frictionless single market across Africa"*

Would Nigeria make a difference?

The UN forecasts that if Nigeria joins the AfCFTA then intra-African trade could grow by more than 50% in the next five years as the continent taps into latent economies of scale. Yet even without a trade deal, much has gone right in Africa in recent years. GDP per head south of the Sahara is up 40% since the year 2000, notes The Economist. The biggest drag comes from relatively weak performance in recent years by the "big two" of Nigeria and South Africa, but the IMF forecasts that sub-Saharan growth will hit 3.5% this year, with notable strength from east African states such as Ethiopia and Rwanda.

So all good news then?

The "elephant in the room" is rising debt, says Yinka Adegoke for Quartz. Brookings reports that "at least" 14 African states are either in debt distress or at high risk after a decade of easy loans from China to finance infrastructure developments. Chinese trade with sub-Saharan Africa increased 226% between 2006 and 2018, reports The Economist, as Beijing poured money into railways, factories and ports. More grimly, China is also now the top supplier of arms in the region. The EU remains the continent's largest trading partner for now, with $156bn worth of trade last year, but China is not far behind on $120bn.

What about democracy?

The proportion of democracies on the continent has doubled since 1999, notes Daniel Treisman of UCLA. The 2018 Ibrahim Index of African Governance, which tracks factors such as rule of law, human development and human rights, shows that roughly three-quarters of Africans live in countries where governance has improved in the past decade. That is good news for investment and trade. The demographics also suggest that the region will play an ever-greater role in global affairs: by 2050, one in four humans are projected to live in Africa as the working-age population booms. Successful implementation of the AfCFTA can only help enhance the benefits that will flow from these positive trends.

Are your dividends at risk?

Vodafone cut its dividend by 40% earlier this month. How can you avoid similar disappointments?

John Stepek
Executive editor

Vodafone has recently slashed its payout

In November last year, telecoms group Vodafone said that it would maintain its dividend for the financial year. Chief executive Nick Read faced down market scepticism, saying that he was cutting costs and looking at selling phone masts to raise funds. The market wasn't convinced. Until last week, Vodafone was trading on a dividend yield (dividend per share as a percentage of the share price) of around 9%. That's when it succumbed to the inevitable – it slashed ("rebased", in corporate speak) its payout by 40%, as the cost of investing in next-generation technology (5G) continued to climb.

It's not the only FTSE 100 stock whose dividend is at risk (see below). So is there any way to shield yourself from dividend disappointment? One obvious figure to look at before you consider buying any stock on the basis of its dividend yield is dividend cover. You simply divide earnings per share (EPS) by dividend per share. A dividend cover of below one shows that the company's earnings don't cover its dividend payout, and suggest that the dividend is therefore on borrowed time. Vodafone, for example, had dividend cover of 0.9. Ideally, cover would be above two, although this is rare at the moment.

You can also go deeper with this analysis by considering where the money to pay the dividend is coming from. For example, is cutting costs to pay a dividend really a great idea? If these costs can be cut so readily, then why were they there in the first place? Cover is a basic measure and doesn't work uniformly. But it's a starting point.

Another useful warning flag is the dividend yield itself. The clearest indicator that Vodafone was heading for a cut was its extraordinarily high yield of more than 9%. If a blue-chip share yields 9% at a time when a bank account offers you maybe a bit over 1% if you're lucky, that tells you that investors don't believe it will be paid.

> *"A very useful warning flag is the dividend yield itself"*

Looking at dividend cover and yield won't, of course, protect you from unexpected events. Any company involved in resource exploration, for example, can be hit by natural or operational disasters. Any company operating in the drugs business might be storing up a future liability in the form of side effects that only become apparent over the long term.

As a result, the boring truth is that there's only one near-certain way to protect yourself from dividend cuts, and that's to diversify. You need to own a range of stocks across a range of industries so that if one cuts its dividend, your income isn't entirely ruined. And while the FTSE 100 is on an attractive yield right now, much of this is being provided by a handful of companies – so it also makes sense to diversify internationally. We look at some options in the box below.

How to secure your dividend payout

Vodafone may have cut its dividend, but several other big FTSE payers have a question mark hanging over their dividends, notes The Daily Telegraph. Utility groups Centrica and SSE are both under pressure (without even considering the threat of potential nationalisation).

Meanwhile, Vodafone's fellow telecoms group BT is also under scrutiny – its dividend has been maintained for now, and as a result it yields more than 7%. But its plans to build its 5G network will be expensive, and as Phil Oakley notes in Investors Chronicle, its dividend payout is almost entirely uncovered by free cash flow, meaning that it "had to borrow $1.4bn to pay its dividend", which cannot be sustained in the long run.

So what are the best options for diversifying your dividends? You could build a portfolio of high-yielding stocks: by picking 16 to 20 from different industries, you can diversify away the majority of individual stock risk, and insulate yourself from individual nasty surprises, such as the Vodafone cut.

If you don't fancy building your own income portfolio, another option is to invest in an income-focused investment trust. Trusts have the facility to smooth out dividend payments over time by storing reserves in good times and paying them out in harder times. Trusts that are UK-focused with dividend reserves covering more than a year's worth of payouts include **Dunedin Income Growth (LSE: DIG)**, which yields nearly 5% and trades at a discount of nearly 10% to net asset value (NAV), and whose top holdings include Prudential and Unilever; and **Merchants Trust (LSE: MRCH)**, which yields 5%, trades at a slight premium, and holds big names such as BP and GlaxoSmithKline.

For more global exposure, look at **Murray International (LSE: MYI)**, which trades at a small premium to NAV, yields more than 5%, and invests in a wide spread of equities from around the world.

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Guru watch

Rakesh Jhunjhunwala, founder, Rare Enterprises

"The China-America spat on trade is a great opportunity for India," reckons Rakesh Jhunjhunwala, the billionaire investor often described as India's answer to US tycoon Warren Buffett. With the Indian government taking steps to make it easier to do business in the infamously bureaucratic nation, "I don't see any reason why growth in India will not come back with a bang", Jhunjhunwala tells Tanvir Gill of CNBC.

India's economy has been struggling with upheaval in the banking sector and weak investment, but reforms to

the tax system alongside efforts to tackle corruption under Prime Minister Narendra Modi (pictured above, and who at the time of going to press looks likely to win re-election for another term), mean that things are gradually improving, he says. "The journey to limit crony capitalism: it's a journey, not a destination. Slowly but surely in India, crony capitalism has died and governance is what brings about real growth."

While a Modi victory may not bring a repeat of 2014's bonanza year for the Indian market, Jhunjhunwala remains upbeat. One of the most appealing sectors, he reckons, is the airline industry. Air travel is "a big growth story", yet there are only a few players in India, some of whom are insolvent. New rivals are unlikely to emerge in the near future because of the huge costs involved in setting up in the country. "So you're not going to have new airlines, this market is going to grow, there are going to be three groups of solvent players... what's going to happen? I'm extremely bullish."

18+

WHAT IS AVAXHOME?

AVAXHOME -

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Unlimited satisfaction one low price
Cheap constant access to piping hot media
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The casualties of Trump's trade war

Chinese tech giant Huawei is under fire. Many Western firms may suffer collateral damage

Matthew Lynn
City columnist

Led by the US, Western governments have become increasingly worried about the rise of Huawei. The maker of everything from handsets to network infrastructure, the Chinese conglomerate has turned itself into one of the global giants of the industry. As control of information systems become a key battleground in geostrategic conflicts, Huawei is probably not to be trusted. It has already been blocked from building the next generation of mobile networks in the US, and in many other countries too.

This week the conflict escalated with the decision by Google to restrict Huawei's access to a range of its apps. Huawei will no longer have access to updates of the Android operating system and newer versions of its phones may not have apps such as Gmail, Google Maps, or YouTube. Other big US tech companies, such as Intel and Qualcomm, may follow suit. In effect, Huawei will be frozen out of the US's technological ecosystem. Tech firms have become the infantry in Trump's bitter trade and technological war with China.

The first shot in a new war

That will hurt Huawei. It is already the third-biggest handset supplier in Europe, with 17% of the market, and on some measures it is now the second biggest in the world, overtaking Apple and behind only Samsung. Losing access to the latest Google apps will be a significant blow. Will anyone really want a smartphone without YouTube and Google Maps, even if it does come with a great camera and snazzy headphones? It is open to question. One thing is certain: it will slow down Huawei's advance.

Huawei CEO Richard Yu may thrive under the pressure

©Getty Images

But it will also hurt Google, for two reasons. First, Huawei is a big firm. It makes great phones at competitive prices and, while some people may buy a different model, others will still get a Huawei and just use a different mail or map service. At the margin, Google will have to sacrifice some market share.

More seriously still, Huawei has already said it is working on its own operating system. Whether that succeeds or not remains to be seen (although you'd hardly want to bet against it). Google will have created a powerful new competitor. Wars are never predictable, and the trade kind are no different from the military version in that respect. The break with Huawei may mark the beginning of the end of Google's dominance of search and mobile apps.

It doesn't stop there. If the White House is determined to weaponise USA Inc in its struggle against China's rising economic power then a whole range of companies and industries will be caught up in the conflict. Intel and Qualcomm already look set to sever at least some ties with Huawei, and other Chinese tech companies might be next. Other tech firms may be forced into line. Facebook can probably forget about China and so can Netflix. Amazon already seems to be retreating from its modest operations in that country.

Beyond that, aerospace is an obvious point of conflict as the Chinese start to build up their own ability to make commercial aircraft (the 90-seat ARJ21 Chinese-built jet is already in service, with a bigger plane set to launch in 2021). Pharmaceuticals may well be next. We can add media and banking to the list, as well as agriculture and cars. In any, and perhaps all, of those industries access to the Chinese market and collaborations with Chinese companies may soon be restricted in the interests of US foreign policy.

Maybe Chinese power needs to be curbed and maybe it doesn't. For shareholders, however, it can only be bad news. It will inevitably mean lower sales and weaker profits, and probably more competition as well. If a company doesn't have free access to one of the largest markets in the world, and one of the fastest growing, then it is going to be a lot less successful than it otherwise would be. That isn't yet reflected in the share prices of the major American corporations – but it soon will be. Expect their shares to fall.

Who's getting what

● Actors in *Game of Thrones,* the fantasy TV series that came to an end last week, won't have to rush straight into the next project to keep the wolf from the door. By the time the eighth and final series had wrapped up, those playing the main characters – including **Emilia Clarke** as Daenerys Targaryen, **Kit Harington** as Jon Snow, and **Lena Headey** (pictured) as Cersei Lannister – were on a reported £1.2m an episode. Headey was on screen for a total of 25 minutes in the final series, meaning her performance cost $144,000 a minute, says the Evening Standard.

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● The **director general of the BBC** is paid "considerably less" than the heads of other media firms, says the National Audit Office, despite overseeing more staff. The director general is paid £450,000 and receives benefits to the value of £30,000; the **CEO of Channel 4** is paid £471,000, plus £317,000 in benefits; **ITV's boss** gets £900,000 and an unspecified amount in benefits; and **Sky's head** gets £1.2m plus £3.7m in benefits. The BBC has 21,583 staff; Channel 4,858; ITV 6,055; and Sky 11,481.

● **Employees at Spotify**, the Swedish music-streaming platform, earned an average of €112,024 last year, reports Music Business Worldwide – that's down by 4.7% since 2017, but almost three times what it was when the service launched in 2009. The total for its 3,651 staff was €409m last year. Of the charges paid by customers, just over half makes its way to artists and record labels. Spotify made an operating loss of €47m last year.

Nice work if you can get it

Nigel Farage, who earns a salary of £92,000 as an MEP, received gifts worth up to £450,000 from insurance tycoon Arron Banks in the year after the EU referendum, says Channel 4. The amount included £13,000 monthly rent on a £4.4m house in Chelsea; £50,000 for a car and driver; and £1,500 a month for a private office. Banks also paid for visits to the US and more than £100,000 for a party in Farage's honour in Washington DC. None of the gifts were declared in the European Parliament's register of interest – though it's not clear whether he would have had to. However, Farage, who described himself as "skint" in 2017, has declared income from broadcast contracts worth between €590,000 and €790,000 since July 2014, reported The Times last year. Farage had his MEP's salary docked by half last year after auditors concluded he had "misspent" EU funds intended for staffing his office.

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The start of a hot new cold war

David Dodwell
South China Morning Post

Donald Trump may dismiss climate change, but a heated meeting of the eight-member Arctic Council makes it clear that the "transformation being wrought by global warming… has the makings of a very hot new cold war", says David Dodwell. Since Peter the Great, the 20 million sq km of icy wastes have been the "lonely preserve" of Russia. Four other countries – Canada, the US, Norway and Denmark – lay claim to land in the Arctic, but "few paid it much attention". Until now. In 2010 four ships plied the North Sea Route. In 2013, more than 71 used it, and numbers are rising fast. The route cuts the 48-day sea journey from Asia to Europe to 35 days, reducing fuel costs by around 40%. In 2008, the US Geological Survey estimated that the Arctic held 13% of the world's oil and 30% of the world's natural gas. "Then there's the gold, uranium, diamonds, rare earths and fish." No wonder so many are "licking their lips". Ten percent of all Russian economic investment is currently in the region; China has become a "massive foreign investor". Trump's main concern is the security risk. Realistically, however, it could take decades before its potential can be realised. Until then it's a commute for the "hardy few".

Buffett bets big on fossil fuels

Mark Mills
The Wall Street Journal

To "pundits promoting" an all-green future, Warren Buffett's $10bn bet on the future of oil and gas, helping Occidental Petroleum buy Anadarko Petroleum, looks like "betting on horse farms circa 1919", says Mark Mills. Broad sentiment is "bearish" on hydrocarbons (the oil and gas share of the S&P is at a 40-year low) and some 100 US cities have pledged a green energy future. But the reality doesn't yet match the rhetoric. None of the signatories to the Paris Accord have "come close to meeting the green pledges called for". Last year, energy demand grew at its "fastest pace this decade", with fossil fuels meeting nearly 70% of the growth for the second year running. Using renewables as a nation's primary energy supply is "far too expensive". In Sweden, the shift to wind power is dampening growth. China has "quietly restarted" massive domestic coal-power construction. US utilities have been "furiously" adding fossil-fuel-burning engines to the grid as back up. If renewables fail to deliver, nations will turn to hydrocarbons. Greens can push for punitive taxes, but ultimately wealthy nations won't "agree to subsidise expensive green tech for the rest of the world". The Oracle of Omaha has placed his bet.

A better way to reform capitalism

Editorial
Financial Times

Julian Richer's plan to transfer a majority stake in his firm, Richer Sounds, to his 520 employees is an unusual but welcome move, says the Financial Times. He is not alone. Encouraged by the new employee ownership trust (EOT) structure, which permits transfer of majority control to a trust without capital-gains tax, some 250 companies are thought to have done this since 2014. As the shareholder value approach comes under fire for promoting short-termism and high executive pay, there are "clear attractions". Employee ownership can raise productivity as well as growth, particularly in services that call for creativity. Richer is giving £3.5m of the £9.2m he receives in shares back in staff bonuses. EOTs can also pay annual tax-free bonuses of up to £3,600. Contrast this with Labour's proposed policy, which is to force all UK firms with more than 250 employees to divert 10% of their equity to "inclusive ownership funds" that would divide the dividends between staff and the government – essentially a "tax grab". Employee involvement is "more honest" and more likely to reform how businesses are run. Baby-boomers have a "unique chance to ensure that capitalism becomes more inclusive".

Why firms are slow to float

Philip Aldrick
The Times

In 1997, a year after Jeff Bezos secured $8m of venture-capital funding for Amazon, he listed his company for $438m, says Philip Aldrick. Since then, tech giants (such as Google, Facebook and Uber) have remained private for longer. Since 2004, the average time between founding and going public has risen from seven to 13 years. Why? Regulation and liquidity, in part. The 2002 Sarbanes-Oxley Act made being a public company "more onerous"; the 2012 Jobs Act allowed companies to have 2,000 shareholders rather than 500 before having to list. For founders, private markets offer the "freedom to accelerate growth" without quarterly reporting or demands for dividends. For venture capital, staying private allows a firm to "capture more of the value growth". Benchmark turned a $9m investment in Uber into $7bn. It would have "pocketed far less" had the flotation happened sooner. But "private markets are closed shops and the longer start-ups stay private, the less the value is shared around". Traditional investors, such as pension funds, are having to respond, "but access comes through venture capital, with its 2% annual fees and 20% share of the gain". Silicon Valley is famed for innovation; inclusive finance could use some.

Money talks

"She's way better than me in the talent department. But she doesn't have the same drive, and… I feel social media plagues her and makes her feel like: 'People are going to give me things because I'm her daughter.'… She grew up with money, and I didn't. So everything is going to be different. But what can I do?"
Pop star Madonna (pictured) on her daughter Lourdes's poor work ethic, quoted in Vogue

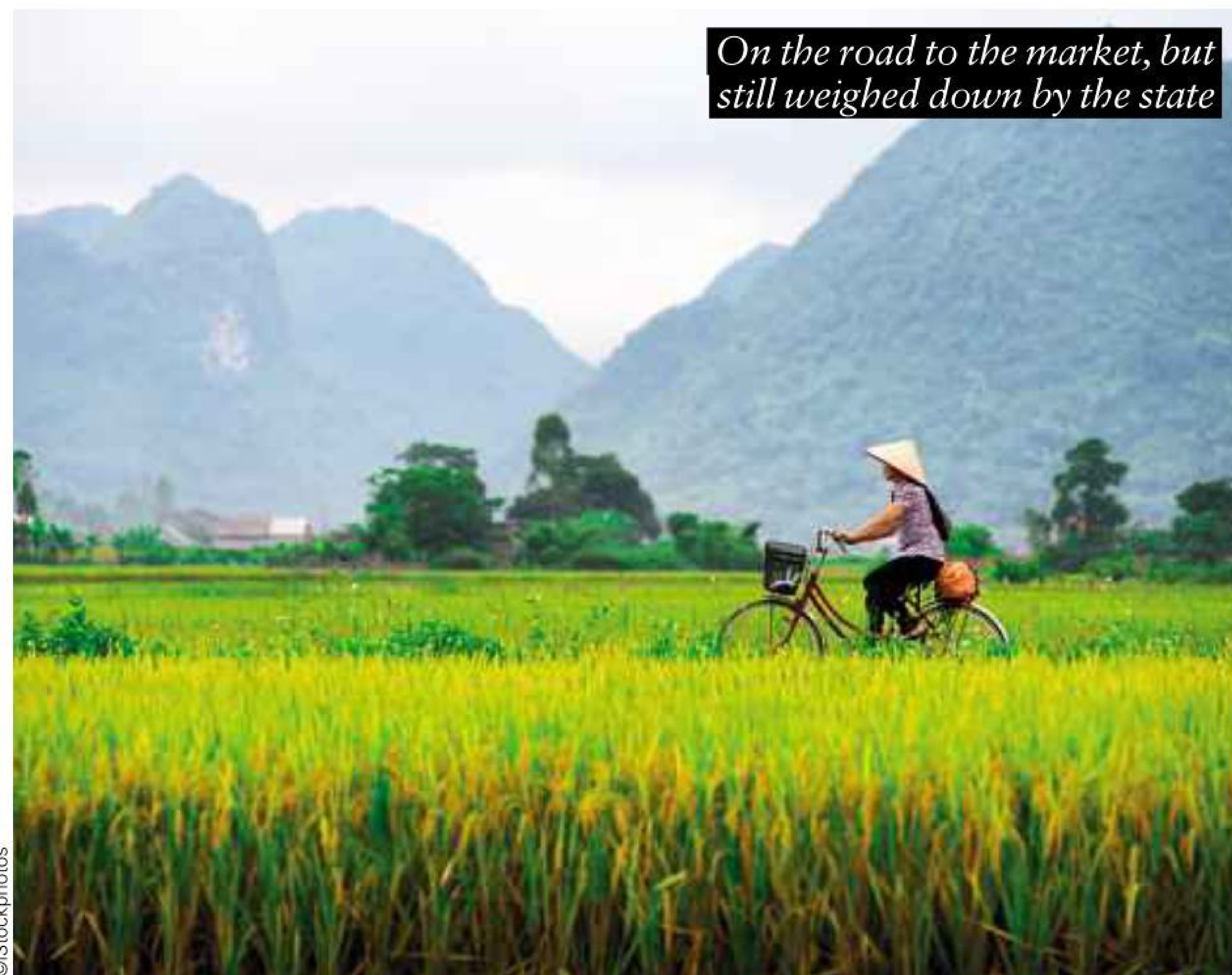
"It's like Louis XIV smoked crystal meth and decorated the apartment."
Former White House spin doctor Anthony Scaramucci on Donald Trump's taste in interior design, quoted in The Mail on Sunday

"I went in there like *un sauvage*. I still say you don't need to know mathematics to be the finance minister. You just need to be able to say the word 'no'."
Guy Verhofstadt on his time as Belgian finance minister, when he developed a reputation as a harsh cost-cutter, quoted in The Observer

"[Director Quentin] Tarantino insisted on casting me in *Pulp Fiction,* which was produced by [Harvey] Weinstein. But it's no coincidence I was the only actor not to make any money from it. He's a bully and a predator."
Film star Rosanna Arquette, who says her rejection of Weinstein's advances damaged her career, quoted in The Guardian

"Both might have gone to art college, but they didn't, because it costs money now… [Art has] basically disappeared from the school curriculum, so then it becomes pretty much impossible to go to college if you're from a certain social sector… nobody's going to look at an art degree and say: 'Well that sounds like it's worth 60 grand.'"
Pop star Jarvis Cocker on his sister's children, quoted in The Observer

State capitalism is no alternative



On the road to the market, but still weighed down by the state

voxeu.org

Donald Trump recently hailed Vietnam as a role model for North Korean development. The staggering success of its economy, and that of China, has triggered a debate in recent years over whether "state capitalism" offers better prospects for growth and development than the more liberal kind. Our own research on the effect of Vietnam's accession to membership of the World Trade Organisation (WTO) suggests not, say academics Leonardo Baccini, Giammario Impullitti and Edmund Malesky.

A partial liberalisation

Since its market-oriented reforms of 1986, Vietnam has moved a long way from strict central planning. The state, while remaining committed to socialism in theory, removed itself from a wide range of distortionary activities, market prices prevailed and a large number of state-owned enterprises (SOEs) were merged, dissolved or sold off. The reformed SOEs were expected to set their own prices based on market costs and were allowed to retain their profits and reinvest them as they saw fit. Yet while Vietnam sought to reduce the number of SOEs, it simultaneously entrenched them by merging them into large conglomerates and limiting entry into strategic sectors.

On the eve of WTO accession, the remaining SOEs accounted for less than 10% of total Vietnamese firms, but were present in all sectors of the economy and contributed a large share of capital (80% in agriculture and electricity, 40% in manufacturing). They were more profitable and less productive than private firms. Importantly, the productivity difference between state and private enterprises expanded substantially after WTO entry.

As predicted by trade models, firms' profitability declined (as competition from foreign trade increased) and poorly performing firms were driven out of the market (improving productivity). However, this trade-induced selection only applied to private companies. By clearing the market of unproductive private firms, WTO entry increased manufacturing productivity by 3.7% annually in the five years following accession. No similar productivity improvement was seen in the SOEs. A model suggests that the productivity gains from trade five years after WTO entry would have been 66% higher if SOEs were replaced by private firms.

SOEs may have the benefit of guaranteeing economic stability in turbulent times, but they create serious obstacles to the structural adjustments needed for a country fully to reap the benefits of trade integration.

Make the green belt greener

capx.co

The "green belt" has become a sacred cow second only to the NHS in the British political imagination, says Eamonn Ives. It is synonymous with rolling hills, verdant forests and precious habitats. Parts of it conform to that image – several thousand hectares are designated Sites of Special Scientific Interest, for example. Yet much of it is devoted to agriculture, which decimates biodiversity and drenches the land in chemicals. Some of it is concrete wasteland. So a bold call by Liz Truss, chief secretary to the treasury, to build one million houses on the green belt is welcome.

Counterintuitively, that might be good not just for the housing market, but for the environment too. Urbanisation can provide scope for more biodiversity than that of "unspoilt" land. Housebuilder Barratt, for example, works with the RSPB to ensure that new developments will be friendly to birds and allow wildlife corridors so creatures can move around unhindered. And housing that isn't put on the green belt is put elsewhere – often just the other side of that belt, raising the environmental cost in terms of longer commutes and more transport infrastructure and air pollution. Politicians need to be frank about these facts and starting selling them to the people.

Better ways to hire talent

conversableeconomist.blogspot.com

Economists tend to assume firms will figure out how to get the right workers they need for the job. What if that is wrong? wonders Timothy Taylor. Only about a third of firms monitor whether their hiring practices lead to good employees, according to the Harvard Business Review, and they spend a huge amount on the process – an average of $4,129 per job in the US, and many times that amount for managerial roles.

So it would make sense to get it right. What works? First, think about promoting and filling positions from within. If you persuade someone to leave their current employer by offering them more money, what you get is a worker more interested in the money than in work challenges and career opportunities. Second, test the actual skills that will be useful in the job before hiring. Third, give applicants a realistic understanding of what the job actually involves. And finally, evaluate hiring by following up on how employees actually perform. A job market will always have some element of musical chairs, but it should also encourage lasting matches when the fit is a good one.

Is your new employee engaged with the job?

Class determines attitudes to Europe

piketty.blog.lemonde.fr

Three years after the referendum on Brexit and scepticism about Europe is still strong, particularly among the most disadvantaged sections of society, says Thomas Piketty. The problem is deep and long-standing. In all referendums for the last 25 years the working classes have expressed their disapproval of the Europe presented to them. The richest and most privileged classes have supported it.

Why this class division? Because the working classes are nationalist, xenophobic and perhaps even backwards – at least, according to those who are better off. But such attitudes are not confined to the lower classes and there is a simpler explanation: the EU, as built in recent decades, is based on competition between countries, on fiscal and social dumping in favour of the most mobile economic actors, and functions objectively to the benefit of the most privileged. Until the EU takes measures for the reduction of inequalities – for example, a common tax that affects the richest, enabling the taxes of the poorest to be lowered – this situation will continue.

Ride Europe's rebound

Fidelity European Values offers exceptional promise at a great price

Max King
Investment columnist

The last few months have been a disappointment for the end-of-the-world crowd. Some Remainers will be dismayed by the stability of sterling and the acceleration of economic growth in the UK to 0.5% in the first quarter. Brexiters are disappointed by the pick-up in European growth to 0.4%, with unemployment at a ten-year low and even Italy out of recession. Meanwhile, the recovery in equity markets this year suggests that investors are losing interest in politics and focusing on corporate factors instead.

However, there is a long way to go. Sam Morse, the manager of the £1bn **Fidelity European Values (LSE: FEV)** trust since 2010, points to strong residual negative sentiment towards Europe. Fund flows into EU equities are near 15-year lows, and fund-manager surveys show that investment intentions are at six-year lows. Earnings growth in Europe has lagged the US, but valuations are significantly lower. At the end of March, the US market was valued at 17.2 times 2019 forecast earnings, and the eurozone at 13.2. If economic growth and growth in profits is picking up, European markets could at last outperform the US.

Novo Nordisk is a world leader in diabetes treatment

FEV, once run by respected fund manager Anthony Bolton, has an enviable record. It launched in 1991 and has returned a compound annual average of 13.8%, compared with 9.1% for the FTSE Europe index, enough to multiply an initial investment 35-fold. The three- and five-year performances, 53% and 68% (respectively 12% and 22% ahead of the index), are among the best in its sector. The dividend yield is 2.8%, yet the shares trade on a discount to net asset value of 9%. The annual outperformance may have decelerated to 2.8%, but these are still exceptional returns at a great price.

"Don't let politics get in the way of a good investment"

Thinking long term

A popular route to outperformance is overinvesting in small- and mid-cap companies, but Morse sticks to the big companies. "Ninety-five percent of the portfolio is of a size to be in the FTSE 100, as larger companies look relatively attractive." Instead, he follows three principles: a focus on dividend growth, a long-term view, and the management of downside risk. Fidelity's research shows significant outperformance by companies that consistently grow their dividends over those that cut or just maintain them.

The FEV portfolio "yields between 75% and 95% of the market, but with faster growth". A long-term view is shown by portfolio turnover barely above 15% per year, which means that stocks are held on average for six years, and 60% of holdings were held five years ago. Protection against downside is demonstrated by a strong tendency to outperform in down months; in 2018, for example, the trust lost only 4.8%, while the market was down 9.5%.

The portfolio includes consumer stocks such as Nestlé, LVMH and L'Oréal, healthcare stocks such as Roche, Sanofi and Novo Nordisk (the world leader in diabetes treatment), and financial stocks such as Deutsche Börse and DNB (the leading Norwegian bank), but not the lame-duck German banks. There are no car companies or retailers, no recovery stocks, and none that look suspiciously cheap.

For most of the trust's life, European markets outperformed the world, and have only lagged in the last ten years. Morse won't be drawn as to when outperformance will return, but notes that the dollar is "10%-15% overvalued against the euro" and that "Europe is very out of fashion". The EU may have its structural problems, but the opportunities for profit will at least continue. Don't let politics get in the way of a good investment.

Activist watch

Shares in tech incubator Allied Minds rose 15% with the news that activist investor Crystal Amber had built up a 4.2% stake, says Lucy White in the Daily Mail. The company, which invests in early stage businesses, has been struggling in recent months. In April it told shareholders that its cash levels had shrunk, prompting it to put investing in new firms on hold for now. Crystal Amber will "put a cat among the pigeons" though, as it intends to call a shareholder vote to oust all the members of Allied Minds' board. It also wants to wind up the company and sell its remaining assets in order to return cash to shareholders. Despite the company's recent share-price bounce, the price is still down 90% from its August 2015 high of 725p.

Short positions... infrastructure funds get heebie-jeebies

■ **Shares in listed infrastructure funds and utilities fell last week following Labour's publication of its plans to nationalise energy providers and pay less than market value in the process, says Gavin Lumsden on Citywire's Investment Trust Insider. Labour may reduce the level of compensation paid to shareholders to reflect what it calls the "asset stripping" and "profiteering" of the sector since privatisation in the 1980s. In response, shares in National Grid fell nearly 5%, while shares in energy supplier SSE fell just over 4%. Severn Trent's stock declined by 1%. Shares in infrastructure funds also fell, with International Public Partnerships dropping 4%.**

■ Foreign funds are shunning the Saudi stockmarket in the days leading up to its entry into the MSCI Emerging Markets (EM) index, says Steve Johnson in the Financial Times. Upon its promotion at the end of this month, the Saudi market will make up 1.42% of the index from 28 May, and double that as of August. However, the average emerging market fund has just 0.09% invested in Saudi Arabia, with 90% of funds holding nothing, according to Copley Fund Research. This is "highly unusual". Western funds may be steering clear because of environmental, social and governance (ESG) concerns. But given that there is scant evidence of managers avoiding countries with "patchy" ESG records, the trouble may be that Saudi Arabia is so dependent on oil, said investment manager GQG Partners.

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Forget the financial crisis: it's time to bet on British banks

Over a decade after the meltdown, investors are still reluctant to consider the main high-street players. But their worries are overblown and the stocks are cheap, says Matthew Partridge

British banks have been in the news for all the wrong reasons. Last week we saw queues outside Metro Bank, while it recently emerged that the Bank of England tried to prevent the prosecution of executives at Barclays for not disclosing the funding the bank received from Qatar during the financial crisis. Stock returns have also been disappointing, with HSBC, Barclays, RBS, Lloyds and Standard Chartered all lagging the stockmarket over the last decade. However, look beyond the headlines and you will see that the major listed British banks have been grappling successfully with the legacy of the financial crisis, putting their houses in order in advance of any economic downturn, fending off competition from challenger banks, and getting down to the important task of growing revenues and profits.

Recovering from the financial crisis

Concerns that British banks haven't properly dealt with the legacy of the financial meltdown of 2007-2008 are clearly having an impact on the sector. Even though the crisis was over a decade ago, "it has taken a long time for the public to forgive the banks for what took place in 2007-2008", says David Miller of Quilter Cheviot Investment. Recurrent negative publicity over various cases of misconduct, notably the scandals over the fixing of Libor (a key interbank lending rate) and the mis-selling of payment protection insurance (PPI), have hardly helped. Still, the good news, according to Miller, is that "there's a big difference between how British banks are perceived by the public and how they are regarded by their peers – and compared with institutions in Europe and America, British banks have a good reputation". For example, regulators have forced them to increase the capital set aside to cover losses on loans. The buffer between assets and loans is far higher than the rules stipulate.

The average Tier 1 capital ratio (a key gauge of financial strength measuring equity capital as a proportion of overall assets) has more than doubled since the crisis to 18% today; the regulatory minimum is 10.5%. This means that banks could still survive even if the value of their assets fell by nearly one-fifth. More generally, there's been a "dramatic change" in the culture, which means that "they are now run in a much more prudent way".

Less legal hassle

The huge amount of money that British banks have paid out in fines and settlements may not have been good for their bottom line, but at least it means that the remaining legal risk has "greatly diminished", says Simon Gergel of Merchants Trust. Even though there is still a chance that there could be a surge of PPI claims in the run-up to the deadline (29 August), banks are "getting to the end of the process". While legal risk "will never completely go away", much tighter compliance means that "the potential losses from fines and lawsuits should be significantly lower than they were before". Of course, there are still "pockets of concern", such "as loosening credit standards" in unsecured store-cards and zero-percent balance transfer cards, says Philip Matthews, co-portfolio manager of the TB Wise Multi-Asset Income Fund. However, balance-sheet quality "appears to have been demonstrably improved". Overall credit standards have also been tightened, "considerably reducing the riskiness of the assets held on banks' balance sheets". Far fewer high loan-to-value mortgages have been written compared with ten years ago. Banks have retained less of their leveraged loan exposure on their own balance sheets. The average unsecured loan exposure is lower and the banks have "pulled back from very high risk commercial real-estate lending".

"The potential impact of Brexit on the banks has been overstated"

Liquidity, meanwhile, has vastly improved. One of the key causes of the crisis was that banks moved away from relying primarily on customers' deposits to meet short-term obligations and instead started to lean on external money markets. Indeed, just before the crisis started they typically had only enough liquid assets, such as cash and short-term debt, to cover six weeks' worth of funding. This caused huge problems when the money markets suddenly dried up from the summer of 2007 onwards. By contrast, today they have "sufficient liquidity to cover two years of wholesale funding outflows", says Matthews.

Well prepared for a slowdown... if one comes

Investors also shouldn't worry too much about the possibility of a slowdown hitting the banking sector, reckons Gergel. The changes that the banks have been forced to make will ensure they are well prepared. From the start of last year, the Bank of England has forced banks to follow new global accounting standards that require them to make provision for any potential losses in advance of any downturn rather than as it happens. This should pre-empt nasty surprises for investors and temper concern over systemic problems once a downturn arrives. While such provisions are currently having a negative impact on banks' balance sheets, it looks as though it will be "relatively minor".

Besides, there is no guarantee that the recession many people are expecting will actually take place. Even the potential impact of Brexit has been overstated. While the potential loss of the right to sell financial services across the EU will affect investment banks, it will have scant impact on retail banks. It's also important to remember that HSBC and Barclays are global banks with offices and operations around the world. So neither Brexit disruption nor a British downturn will particularly hurt their bottom line.

A Brexit boost?

What's more, if Brexit ends up being softer than expected then a great deal of pent-up demand will be released, boosting the economy and banks' balance sheets. "We've been living with Brexit for three years, so banks have had plenty of time to prepare for the worst," says Miller. Indeed, as part of the new, tightened regulatory regime, banks are regularly required to undergo "stress tests", which

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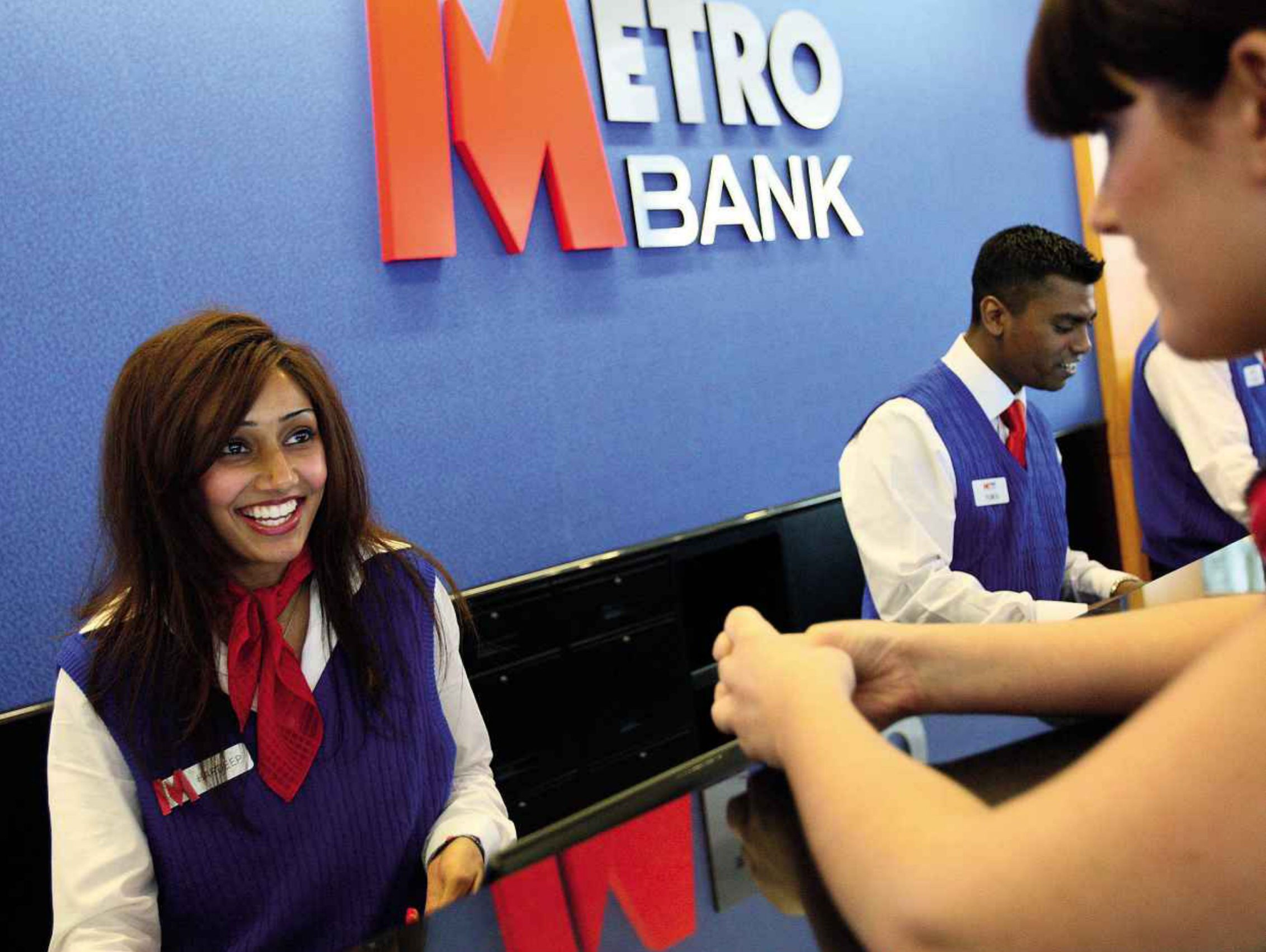

Metro Bank has not been able to threaten the big banks

examine the effect a recession or a sudden drop in house prices has on their balance sheets. All the major banks have repeatedly passed the tests, which suggests that a slowdown should be relatively easy for them to deal with. Rather than worrying about an economic slowdown that may never occur, investors should be more concerned by the fact that the Bank of England's enthusiasm for interest-rate rises seems to have dissipated. Higher interest rates are generally good for banks because they can earn more on their loans. However, interest rates could rise unexpectedly quickly if inflation suddenly picks up – a scenario that could take central banks by surprise, as we have often pointed out over the last few months.

Challengers' challenge overstated

British banks have also had to deal with new competitors. Since the crash, several "challenger banks" have emerged that aim to steal business from the incumbents. The government has encouraged the newcomers, such as Metro Bank, on the principle that increased competition will force existing banks to offer better service and more value for money. Two years ago RBS announced that it was setting up two funds, with a total value of £775m, to make it easier for small businesses to switch to challenger banks, as well as to encourage financial innovation more generally.

But while it would be wrong to write off the newcomers, the evidence suggests that the challenge they pose to the main players has been overstated. The recent turbulence at Metro Bank indicates that banking "is a matter of confidence and scale, so the challenges are more towards the newcomers than the big four", says Helal Miah, investment research analyst at The Share Centre. Matthews believes they don't pose a significant challenge to the big players. After all, challenger banks "have disadvantages of their own... rapid levels of growth bring with them operational issues, as well as potential credit issues" if an unexpected economic downturn materialises.

Co-opting technology

A more significant long-term threat to the established institutions comes from financial technology (fintech) companies, which aim to use software or artificial intelligence to steal business from banks or make them obsolete. "We are in the middle of a wave of technological disruption," admits Georg Ludviksson, founder and chief executive of software company Meniga, which helps retail banks in the UK and Europe deal with the impact of technological change.

Still, investors in the big institutions should be reassured by the fact that they are working extremely hard to stay on the cutting edge of technology, so that if there is a technological revolution, they are not being left behind. Indeed, not only are the main banks "fighting back by copying what the challengers are doing", but they are also "taking the initiative". Certainly, "all the banks realise that where technology is concerned they have to move faster and change", and as a result "most of them are making a lot of progress". In fact, technological change in banking could end up helping big British banks more than

Continued on page 22

"The fintech trend could end up helping big banks more than it hurts them"

Continued from page 21

it hurts them. Ludviksson points to the example of telecom firms such as Three, which have used the power of their brands to reinvent themselves as sales and marketing powerhouses, allowing them to outsource more capital-intensive, lower-margin tasks.

In that scenario, the big players could end up partnering with fintech firms to focus on those parts of banking that are more profitable. Even in the worst-case scenario, the traditional banks are hardly going to be supplanted in the near future. The fintech sector will only succeed by concentrating on niches "and then scaling up". It should avoid trying to "replicate everything that banks currently do".

Returning to profitability

Not only are the fears surrounding the British banking sector overblown, but there are also some compelling positive reasons for investing in it. Having absorbed nearly £100bn of costs, banks "are much better positioned to pay dividends or undertake share buybacks", says Matthews. Despite intense competition, traditional retail-banking activities remain highly profitable. One particularly lucrative area is mortgages, "with new business generating returns well above the cost of capital". This has been especially good news for Lloyds, which has used its strong focus on these bread-and-butter areas to generate "strong" returns on equity.

Things have been a little more complicated for the corporate and investment banking divisions of the major British banks. One of the big problems is that investment banking is a much more global industry, which means that British and European firms are competing "against large-scale US banks with less punitive regulatory regimes". The investment banking divisions of RBS and Barclays are "well off their return aspirations", leading to calls for Barclays to spin off its investment-banking arm. However, both banks are having some success in cutting costs, which should make it easier for them to boost margins and return on capital.

There are some other potential areas of growth that banks are starting to explore. A greater emphasis on investment advice and financial products that will help people plan for the future should pay dividends. "It's clear that people are being expected to take more responsibility for their own financial security, so if you can offer good advice then you are in a good position," says Miller. He also notes that banks such as HSBC, which derives most of its revenue from outside the UK, have an opportunity to expand this business in fast-growing areas of the world, such as Asia. Standard Chartered, another global player, has the same opportunity.

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HSBC is well-positioned to expand in Asia

A sector for income seekers

One indication that the British banking sector is in much better shape than it was a few years ago, and has finally put the legacy of the great financial crisis behind it, is the increase in the level of profits. According to data from The Share Centre, last year the listed UK banks made a collective profit of £27.7bn, nearly triple the levels of £9.5bn five years ago. While this is still below the record level of £34.4bn in 2007, dividends have also increased sharply from £7.7bn to £11.6bn during the same period. The combination of falling share prices and rising profits has resulted in enticing dividend yields, especially compared with other industries.

"British banks' dividends have risen from £7.7bn to £11.6bn over the past five years"

The banking sector's best bets

HSBC (LSE: HSBA) is the largest UK bank by market capitalisation, and one of the largest banks in the world. The fact that it derives 85% of its revenues from outside Britain means that it should be insulated from any downturn in the UK economy and should also benefit from growth in emerging markets, especially in Asia. Despite this, it still trades at only 11.2 times 2020 earnings and yields an attractive 6%.

One British bank that should also benefit from growth in emerging markets, but is trading at a much bigger discount than HSBC, is **Standard Chartered (LSE: STAN)**. Around 90% of Standard Chartered's revenues come from the Middle East, Africa and Asia, giving it exposure to some of the fastest-growing parts of the global economy. Its increasing profitability has enabled it to announce that it will spend £770m buying back shares. It trades at a discount of 47% to its book value and offers a dividend yield of 3%.

Barclays (LSE: BARC) is in the middle of a public row between activist shareholder Edward Bramson – who wants either to shut down or divest the investment banking division – and chief executive Jes Staley, who opposes such a move. Staley seems to have won the argument for the moment and has made some changes designed to give him more direct control of the division. More broadly, Simon Gergel of Merchants Investment Trust thinks that Staley is doing a good job of cutting costs and reducing the level of debt. Barclays trades on a 2020 price/earnings ratio of 6.5, with a dividend yield of 4.7%.

Lloyds (LSE: LLOY) was one of the banks, along with RBS, to receive a bailout from the government. It resulted in the Treasury taking a 43% stake in the company. However, two years ago the final tranche of government shares in the bank were sold, which means that is now completely free from government interference.

David Miller of Quilter Cheviot Investment believes it's made "good progress" in pushing through the structural changes needed for the institution to prosper, as shown by the 8% return on equity, a key gauge of profitability. It currently trades at a yield of 6%, and said that it now feels confident enough to start paying dividends quarterly rather than annually.

One challenger bank worth considering is **CYBG (LSE: CYBG)**, which was formed when National Australia Bank decided to sell off Clydesdale Bank and Yorkshire Bank and float them as a separate company. Last year, CYBG bought Virgin Money (which owned Northern Rock), which should help increase its asset base and diversify its business away from mortgages.

While it unexpectedly failed to gain any money from the banking competition fund set up by RBS (it went to Metro Bank), management has promised to outline a detailed medium-term plan for growing the bank. CYBG trades at 7.3 times 2020 earnings and yields 3.7%.

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Equity release: handle with care

Make sure you are getting the right product and choosing from all the available options

Sarah Moore
Investment editor

Age UK prefers its own provider

©Alamy

The charity, Age UK, does all sorts of good work. It provides a wealth of information and advice, and generally tries to make life better for the elderly. But apparently it also makes money by directing you to an equity-release advice service, Hub Financial, which is weighted towards products offered by Hub's own parent company, Just, says The Daily Telegraph.

Note that when people are sent to the advice service, they go through Age UK's commercial arm, Age Co. This was formed in the wake of criticism from the Charity Commission in 2016, which pointed out that the charity was channelling people towards an energy tariff that wasn't the cheapest option in the market; it emerged that it had formed a partnership with provider E.ON. While this separation seems right and necessary, it's doubtful whether many people would draw the distinction between a charity and a commercial body whose websites have very similar branding.

As far as the equity-release arrangement is concerned, when someone takes out an equity-release loan (borrows money against their property), Age Co gets up to 0.75% of the value of that loan. Although Hub discloses that it only compares deals from five companies, "the way its advice process is structured means that in most cases a customer will be offered a deal by just one panel member – Just", says Adam Williams in The Daily Telegraph. "Hub's staff follow a methodology that prompts them to offer Just for the most common consumer needs."

The story, while also casting Age UK in a rather unfortunate light, underlines the importance of making sure that you get the right equity-release product for you. As we've discussed in MoneyWeek many times over the past decade, equity release used to have a terrible reputation for ripping people off, and not without reason. Many people took out loans where the interest payments were rolled up to be paid off at the end. If the loan ended up being worth more than the value of the property associated with it, people's heirs found themselves saddled with massive debts to repay.

> *"Reputable providers will provide a no-negative equity guarantee"*

Thankfully, the industry has cleaned up its act in recent years, largely because it is now regulated by the Financial Conduct Authority. And it has become increasingly popular. Equity-release loans worth a record £935m were taken out in the first three months of this year, up 8% on 2018, according to the Equity Release Council. If you're considering equity release, make sure you're as well-informed as possible before signing up. You will have to take financial advice on the decision, and must use a specialist broker when choosing a product. Ensure you factor in the combined cost of this advice, legal services and the required property valuation. Depending on the type of plan, expect to pay between £1,500 and £3,000 in arrangement fees, warns the Money Advice Service.

Watch out for plans that include hefty exit fees, which fall due if you want to pay back the loan early. If you think you might move in future, you will probably want a product that allows you to "port" your loan to another property. You should also consider potential complications, such as whether the money you receive will affect your benefit entitlements. Finally, note that reputable providers will offer a no-negative equity guarantee, which means you or your estate should never have to pay back more than the value of your property.

Pocket money... hope for London Capital investors

■ It is possible that people who invested money with collapsed firm London Capital & Finance (LC&F) will receive compensation after all, says BBC News. Having previously ruled this out because LC&F was not regulated for the purpose of selling its products, the Financial Services Compensation Scheme (FSCS) has now said it will "explore whether there are grounds for compensation". The FSCS will look at whether any of the conversations LC&F had with investors counted as providing financial advice, or whether it carried out activities that could "trigger compensation". Those affected should register with the FSCS for updates, but should be prepared for a long investigation before any decisions are made.

■ Digital bank Monzo has launched a new energy-switching service, says Sam Meadows in The Daily Telegraph. The service promises it can save people up to £300 by helping them to switch energy providers. Yet strangely it only offers the option to switch to one of two suppliers, Octopus or Ovo Energy, which could mean users could pay £115 extra per year because they are not given access to the cheapest deals on the market, according to data from comparison site energyhelpline. There are currently 42 tariffs on the market cheaper than those offered through Monzo, said energy switching service Look After My Bills. Monzo said it was "upfront" about not telling customers about every option on the market, but that it would not alert customers to the fact that they could save money by shopping around.

■ Although the number of family members, mainly grandparents, claiming childcare credits has increased sevenfold to 10,084 in two years, a further 1.1 million people could still be missing out, according to insurer Royal London. Any family member under the state-pension age earning less than £118 per week, and looking after a child under the age of 12 to help out the child's parents, may claim adult childcare national insurance credits, says David Byers in The Times. This is important, as it can help people meet the requirement of having 35 years of national insurance contributions in order to claim a full state pension. Do note that claims can be backdated to 2011.

Millions fall foul of pensions rule

The money purchase annual allowance has had some unintended consequences

David Prosser
Business columnist

Almost a million savers could face punitive tax charges on their pension contributions because they have unwittingly triggered a substantial reduction in their annual contributions allowance. Between April 2015 and September 2018, 980,000 people made flexible withdrawals from their pension fund, according to pension provider Just Group.

They may now fall foul of the money purchase annual allowance (MPAA). This rule reduces the normal £40,000 annual allowance on pension contributions by a factor of ten. If you go over £4,000, you are taxed at your highest rate of income tax on the excess.

The MPAA was introduced alongside the pension freedom reforms of April 2015 to prevent people making withdrawals from their savings only to immediately reinvest this money to claim extra tax relief. However, it is now catching people out in ways policymakers didn't anticipate. Some people, for example, have taken advantage of the pension freedoms to move into part-time work, making withdrawals from their pension savings to maintain their income but continuing to contribute.

Part-time work could boost your pension contributions tax bill

©Getty Images

People with irregular earnings, including the self-employed and directors, have also dipped into pension funds in order to smooth out their income, but have every intention of continuing to save. Even those taking an income but not expecting to make further contributions may change their mind if their circumstances change – because they receive a pay rise, say.

When does it apply?

The MPAA applies to the total pension contribution made across all money-purchase pension schemes (defined-benefit plans do not count) whether by you, your employer or a third party. The reduced allowance doesn't come into force if you simply take the 25% tax-free lump sum from your pension, but any subsequent withdrawals would be classed as a flexible payment and trigger the tighter limits.

The MPAA will also apply if you move your savings into a "flexi-access drawdown scheme" and begin taking an income, or if you just cash in your entire pension as a lump sum, though there is an exception for those cashing in small funds worth less than £10,000. Savers buying investment-linked annuities offering variable levels of income are also caught – but not those with conventional annuities with a guaranteed level of income for life.

Finally, note that savers affected by the MPAA don't even have the option of using the carry-forward rules, which allow most people to mitigate their exposure to tax by bringing forward unused pension contribution allowances from the previous three years.

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3 **Gold is a hedge** - Gold has historically had a weak correlation to movements in the financial markets and is frequently used as a hedge against inflation or to offset falling stock markets.

4 **Scarcity** - Deposits of gold are relatively scarce and new supplies of physical gold is limited. This natural scarcity and high production cost is the ultimate reason why gold holds value.

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WeWork launches Ark

The co-working office provider is set to become its own landlord

Sarah Moore
Investment editor

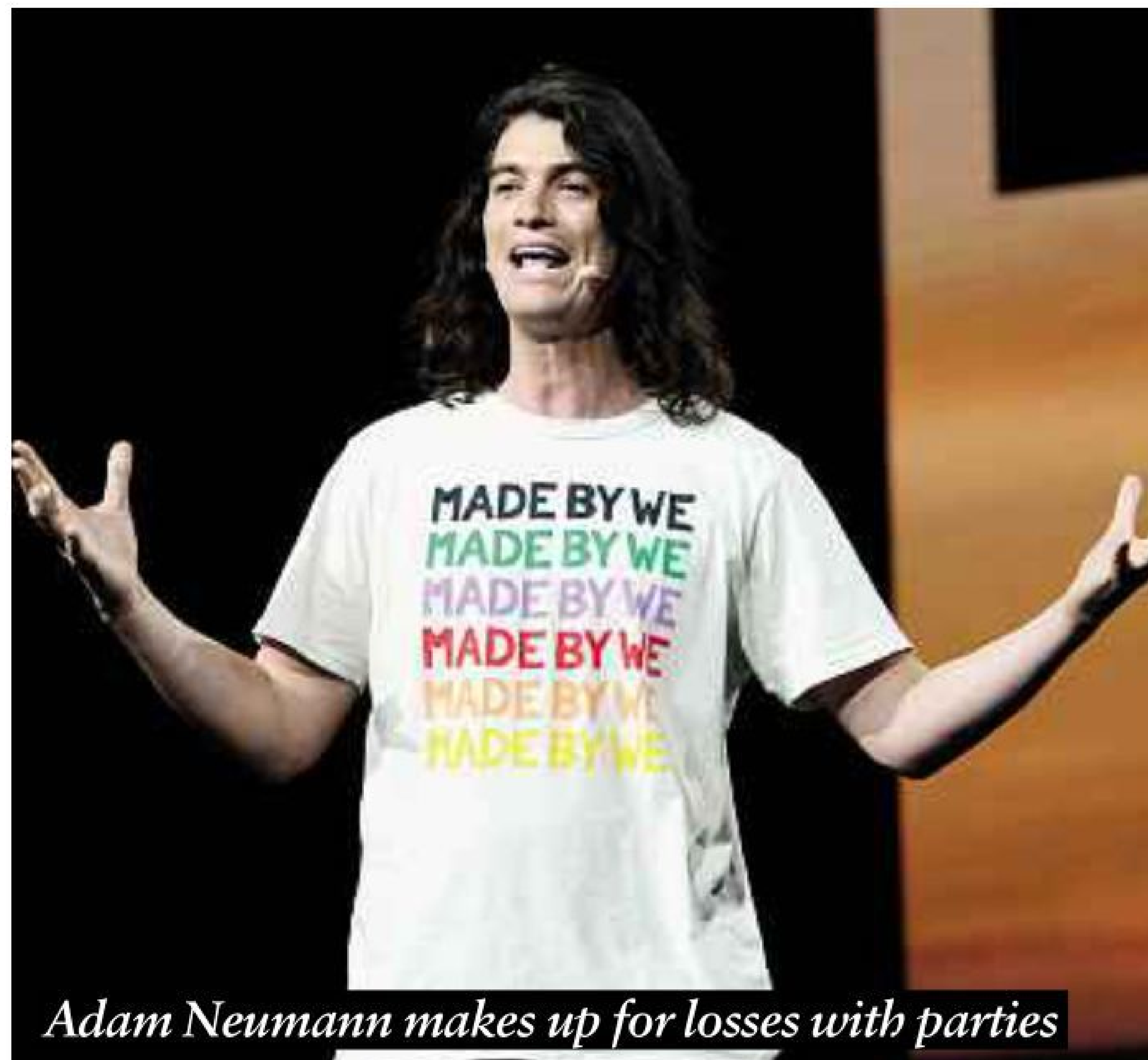
Office-space leasing group WeWork lost $264m in the first three months of 2019. This came as a surprise to no one, given the company's reputation for burning through cash. However, the loss is slightly lower than the one in the same period in 2018. The group also doubled sales to $342m, while its locations and members also rose by 100%, to 485 and 466,000 respectively.

WeWork's business model involves taking on long-term leases in buildings, and then sub-letting to companies looking for office space. The fact that its losses have begun to fall is certainly a tentative step in the right direction, and a more tangible sign of success than in 2017, when WeWork chief executive Adam Neumann told Forbes that the company's valuation had less to do with its revenue than its "energy and spirituality".

If it intends to go through with its proposed stockmarket flotation, WeWork must demonstrate to interested investors that it does have the potential to be profitable one day. This should be possible if it slows growth, said Artie Minson, WeWork's president, recently.

Shaky foundations

WeWork's stratospheric rise has been accompanied both by stories of antics at its achingly cool offices, and by somewhat bemusing business makeovers. While celebrating a 2014 funding deal, Neumann "partied so hard he broke a floor-to-ceiling window in his office... since then, he's been known to make company-level decisions on what look, from the outside, like whims", notes Ellen Huet in Bloomberg Businessweek. He has previously been criticised for the fact that he owns buildings in which WeWork is a major tenant, the implication being that this creates a conflict of interest, because Neumann's company is paying rent straight to him. Presumably partly in response to this, WeWork has now come up with a new wheeze, says the Financial Times. "The most controversial real-estate start-up on the planet figured out a way to become its own landlord."



Adam Neumann makes up for losses with parties

©Getty Images

"WeWork has to show interested investors that it could one day be profitable"

Its new subsidiary, Ark, will raise money to buy property that it will then rent back to WeWork. Neumann has said he will sell the properties he owns back to Ark, for the amount he paid for them, even if they are now worth more. The idea, a pparently, is that the value of Ark's buildings should go up because having WeWork as a tenant makes the buildings more attractive.

Ark will be run as a separate entity, but "there's obvious room for conflict: if real-estate rates fall in a city, WeWork will want to reduce leases, but Ark may have other ideas", says Robert Cyran on Breakingviews. There are potential benefits, including the ability to sell a building if WeWork needs money. But ultimately, "the main challenge for WeWork hasn't changed. Many of its expenses are locked in for the long term, but much of its revenue isn't".

Bittersweet profits for landlords

Buy-to-let investors in the UK have suffered a dismal few years. The government's determination to make the sector less appealing to investors has seemingly worked. As we pointed out in last week's issue, the number of landlords in the UK has fallen by 120,000 in the past three years, according to figures from estate agent Hamptons International. Nevertheless, these landlords are leaving the sector with fairly significant profits. The average landlord in England and Wales sold their buy-to-let property in 2018 for £79,770 more than they paid for it (before tax), having owned it for nearly ten years on average.

Last year, 85% of landlords sold their property for more than they paid for it, with 15% making a loss. As you might expect, those selling property in London made a profit almost three times the national average, selling for a £248,120 profit. However, landlords made more money in 2017, selling for a £83,430 profit, with London landlords making £272,120. It's also important to take into account the potential opportunity cost of leaving the sector.

Until a few years ago, buy-to-let was a fairly reliable source of income and capital growth for many. The government was concerned that landlords were pushing up prices beyond the reach of first-time buyers. While its clampdown has cooled the buy-to-let frenzy, it's a shame that the Help to Buy programme is having the same effect.

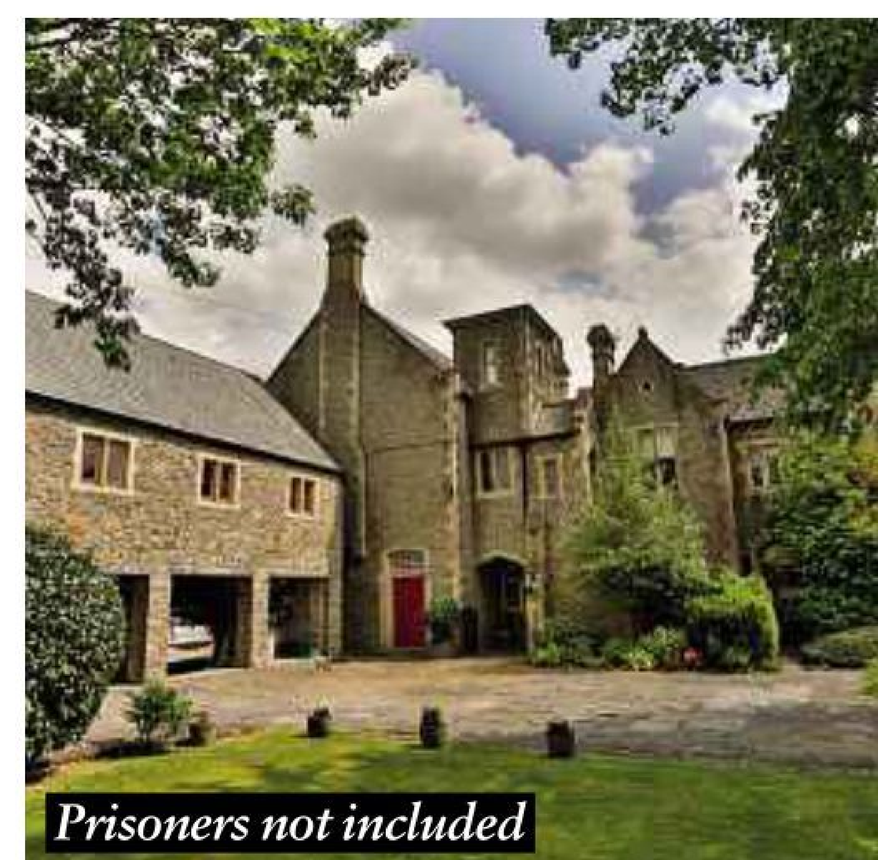
Guess the price... Villa Eden Del Mar, California, USA

This landmark 1920s property on the Monterey coast was designed by the architect George Washington Smith in the style of a Spanish palace. It has a grand reception room with 180-degree views of Pebble Beach and the Pacific Ocean, and the luxurious interiors include carved wooden ceilings and marble tiled floors. The house has six bedrooms and is set in 2.8 acres of gardens that include a large courtyard with a fountain, an ocean-front lyceum, a penthouse apartment and a caretaker's cottage. But can you guess the asking price? Answer on the side of this box.

$37m. Carmel Realty Company, +1 831 277 8044.

Law and order in the home

A Grade II-listed former courthouse in Temple Cloud, Somerset, has been converted into an eight-bedroom family home, and is now on the market for £795,000. The property was built in the Victorian Gothic style in 1857 as a magistrates court and police station. Three of the original prison cells have been turned into bedrooms, complete with hatches that were used to pass food to prisoners. The property also retains a 40ft long Baronial courtroom with vaulted ceilings, which can be accessed via a glass bridge, as well as a stone staircase and trapdoor, through which prisoners were once led.



Prisoners not included

Avon Rubber will bounce back

The breathing and dairy farming equipment maker has a promising future

Richard Beddard
Investment columnist

The first half of Avon Rubber's financial year, which ended in March, saw a decline in revenue and a sharper decline in profit compared to the same period a year before. The company described the six-month period as "transformational".

This term is often used as a euphemism for drastic change forced on companies by events they did not foresee. Avon's transformation is less hurried and more certain, despite the end of a massive contract last year. That contract had made Avon Rubber the sole supplier to the US Department of Defence (DoD) of the M50 general protection mask for ten years. The M50 is a gas mask that protects military personnel from chemical and biological hazards.

The agreement of the M50 contract over a decade ago marked a previous phase of transformation at Avon that left it with two specialist businesses: Avon Protection, which makes gas masks and breathing apparatus; and milkrite, subsequently joined by InterPuls to form milkrite/InterPuls, which supplies milking equipment to dairy farmers, principally the clusters and liners attached to cows.

Two new orders

Though the M50 contract has ended, Avon remains the DoD's sole supplier of the mask and it is negotiating a "sustainment" contract. Now that the US Army is well equipped, volumes will decline from the 179,000 units shipped last year to no fewer than 50,000 units in coming years, Avon expects.

Investors have been anxious to learn what will replace the lost business. Avon has announced two big new contracts lasting five years, also with its biggest customer, the DoD. The orders, for more specialised masks, means Avon Rubber will be sole-source

The group supplies the US military with specialised masks

supplier to the US Army, Navy, Marine Corps and Air Force. It has also recently become sole-source supplier of the new UK general service respirator.

Concerns that military revenues might decline as orders for the M50 fall appear to be mitigated by these new orders. Avon predicts order intake of between £53m and £80m a year for ten years from its current five biggest military money spinners, compared to total military revenue of £66m in 2019.

"The firm boasts unrivalled expertise in two markets"

The US is the world's biggest military spender, so additional revenues from other countries will not come in such big lumps, but Avon believes there is a growing requirement in Europe to replace ageing kit.

Meanwhile, it is bringing new products to market, growing its non-military respiratory protection business and developing the market-leading dairy businesses into a service provider by renting farmers the equipment they need. This part of the business is very profitable too. Though 80% of military revenue came from the US in 2018, making the DoD a very important customer, military revenue is only 40% of the total, mitigating some of the risk.

The dip won't last long

The stutter in Avon's performance actually has very little to do with the transformation of the military side of the business from a supplier of one product to one customer to a supplier of many products to many customers.

M50 shipments were down about 4% year-on-year and were more than offset by higher sales to the Norwegian military. The partial shutdown of the US government earlier in the year did most of the damage, delaying orders from US law enforcement and fire authorities, and delaying export licences for US-made products. Low milk prices also did their bit to reduce demand from cautious dairy farmers.

These problems are temporary. The US government has swung back into action (at least as far as Avon is concerned), the milk price has continued to rebound and Avon's order books are burgeoning. It expects to make good the deficit created in the first half of the year, grow revenue in "mid-single digits" over the full year to September 2019 and go into 2020 with a strong order book.

Military sales earn Avon the most money and it has largely conquered its biggest military market, so the company will grow steadily rather than rapidly in future. The shares are on a debt-adjusted price/earnings ratio of 20, – reasonable for a company with unrivalled expertise and customer relationships in two distinct markets.

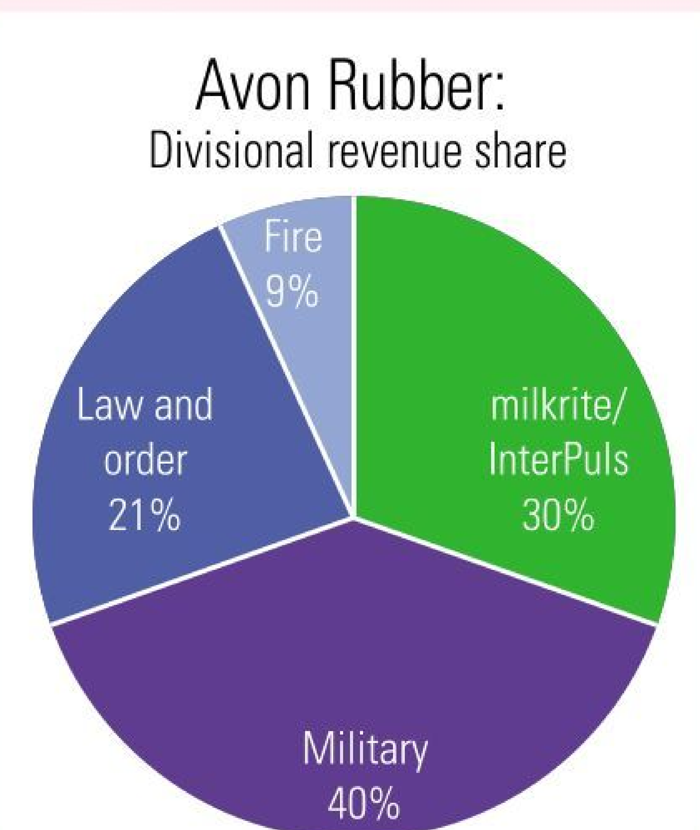
Kicking the tyres... Avon is thinking ahead

Most companies brief analysts from brokers and investment banks on the day they publish results. They are not allowed to say anything significant that has not previously been published, but inevitably in the course of these briefings the executives pass on information that adds colour to the story.

Some companies are enlightened enough to invite private investors or allow them to participate remotely. Avon publishes a webcast comprising the audio of the meeting along with the slides presented by the directors.

Towards the end of the webcast following the results in May, chief executive Paul McDonald responded to a question about the products Avon is developing. He said the products it is bringing to market under new contracts in 2019 – principally the M53A1 mask system (a derivation of the M50 designed for special operations) and the M69 aircrew mask system – have been five years in the making, and we will hear about further new products as the company gets closer to selling them.

Like many of Avon's senior managers, McDonald, who became chief executive in 2017, has been at the firm a long time. He joined 15 years ago and was formerly managing director of milkrite/InterPuls.



The signs are Avon prepared itself well for the end of its ten-year sole-source general protection mask contract, and it is still thinking ahead now.

Cash in on consumers in emerging markets

A professional investor tells us where he'd put his money. This week: Austin Forey of the JPMorgan Emerging Markets Trust highlights three favourites

The JPMorgan Emerging Markets Investment Trust seeks out high-quality businesses that can grow their earnings sustainably over the long term. We have 40 analysts around the world seeking companies that create value for shareholders and where corporate governance will not undermine that value creation.

We take a medium- to long-term perspective of approximately five years, which we believe is far longer than the average investor's; many of our picks have been part of the portfolio for over a decade. We have a bias towards companies with sustainable competitive advantages, consistent cash flow generation and strong management teams, and we want to buy them at sensible prices.

The portfolio is positioned to benefit from the secular growth in emerging-market consumption, including growing penetration of financial products in underbanked markets. Our key themes include emerging-market e-commerce – where the pace of adoption is faster than in developed markets – innovative IT software and services, and private-sector banks in India, which offer ample scope for organic growth and significant market-share gains.

"By 2022 there will be three billion internet users in emerging markets"

A top-notch private bank

India remains a long-term structural growth story. Some of our largest positions are in high-quality private-sector Indian banks, such as **HDFC Bank (NYSE: HDB)**, a leader in the field. The company continues to deliver operationally and take market share as quality private banks widen the performance gap with lower-quality financial institutions. Despite last year's turbulence in the sector following the collapse of IL&FS, we remain confident in HDFC's ability to deliver strong earnings given its stable margins, healthy asset quality, steady performance and superior management.

Burgeoning e-commerce in Latin America

The consumer remains front and centre of the emerging-market story. As of 2017, 2.1 billion internet users lived in emerging markets. By 2022, that number is likely to grow to around three billion, and three times as many internet users will live in emerging markets as in developed markets. That makes **Mercadolibre (NASDAQ: MELI)**, an online trading site for the Latin American markets, a good pick. Mercadolibre is an e-commerce and payments company with over 200 million users across the region. As part of its expansion plans the company has raised $1bn in a heavily subscribed public offering, as well as securing a $750m direct investment from PayPal in March, which should allow it to invest more heavily in its payment business.

A dominant player in IT services

Finally, our nose for bottom-up opportunities means we also have positions in smaller markets such as Argentina. Here we hold **Globant (NYSE: GLOB)**, an Argentine IT services business. We anticipate impressive growth for this dominant player as it continues to benefit from rising digital spending by (predominantly developed-market) companies. Despite macroeconomic uncertainty, management continues to see strong demand. The stock was further buoyed by the recently announced plans to acquire Avanxo, a leading cloud-based software company with a presence in the US and Latin America.

If only you'd invested in...

Spirax-Sarco Engineering (LSE: SPX) makes commercial and industrial steam and fluid systems including pumps, valves and piping. Based in Cheltenham, it operates in over 40 countries, with most of its revenue coming from overseas. It is steadily expanding, both organically and through takeovers, the latest of which was of France's Thermocoax for £139m. Despite slowing growth in key markets and currency fluctuations, sales rose to over £1bn for the first time in 2018. The share price has been rising for almost 20 years, and has gained 50% in the last 12 months.

Be glad you didn't buy...

William Hill (LSE: WMH) is a UK bookmaker that operates online and on the high street with 2,400 shops. The government crackdown on fixed-odds betting terminals (FOBT) and the introduction of a £2 maximum FOBT stake caused a £722m loss in 2018 as William Hill took an exceptional charge of £883m. FOBT restrictions are set to dent profits by £70m-£100m a year. Revenue rose by 2% in the 17 weeks to 30 April, though that included sales from recent acquisition Mr Green, a Swedish bookmaker. The share price has halved in a year.

©The Telegraph 2018

The crusade to clean up capitalism

The entrepreneur who put people before profits, and yet produced plenty of the latter, has been lauded for handing his empire over to his staff. What is his motivation? Jane Lewis reports

Everyone from politicians to newspaper leader writers has been queuing up to salute Julian Richer, who has just handed control of Richer Sounds – the hi-fi store chain he founded as a teenager – to his 522 staff. The move wasn't entirely a surprise: "My life's work is my legacy and I haven't got a spoilt child to run the business," Richer observed in 2013. But at 60, "he has reached the age when he thinks of posterity", says the Financial Times.

A committed Christian with a sideline in funk

Richer "made the big reveal" to staff, who erupted into cheers, in a small Salvation Army hall in central London, says The Guardian. A committed Christian, with a weekend sideline as the drummer in a funk band, Richer has long since passed responsibility to his "team of loyal lieutenants". His declared mission now is to clean up capitalism, in a crusade reserving special ire for "people who think it's funny and clever not to pay tax".

> *"Despite his £160m fortune, Richer is a big champion of Jeremy Corbyn's Labour party and admires John McDonnell"*

An inspirational speaker

Despite his £160m fortune, Richer is a big champion of Jeremy Corbyn's Labour party, notes The Sunday Times – and particularly admires the shadow chancellor, John McDonnell. "He said capitalism has to be radically changed, and I absolutely agree with the guy." Clearly a gifted speaker himself, the author of *The Ethical Capitalist* has become big on the corporate "inspiration" circuit. Hired last year by the ailing Marks & Spencer as an adviser on "culture change", Richer gave such a stirring talk that CEO Steve Rowe said he felt as if he'd had "17,000 volts put through me".

According to Richer, life began quite literally in M&S, where his parents met as trainee managers in the 1950s. "The people at the Kilburn store now joke that I was conceived in the changings rooms and they're going to put a plaque up." He "got his first taste for money" as a teenage boarder at Clifton College in Bristol, says The Sunday Times: he bought old turntables, repaired them, and sold them on. He left school at 18 to work in a hi-fi store, opening his first Richer Sounds shop at London Bridge in 1978.

That "tiny unit" went on to hold "the Guinness record for the highest rate of sales per square foot in the world" for several years as Richer Sounds evolved into a "highly successful niche retailer" in the 1990s. Despite (or arguably because of) its mantra, "people before profits", the chain has survived "four decades of tumultuous change in music and retailing" and last year notched up record results, says the FT. Cautious management (Richer owns the freeholds of 47 of the group's 52 stores) has helped, but the key was customer service; and, according to Richer, the key to that is a happy workforce. He has always championed providing secure, well-paid jobs. Staff perks include holiday houses and use of the company Bentley.

Practical Christianity

This "driven entrepreneur" can come across as "too good to be true", says The Guardian. But in his youth, Richer was something of a boy-racer. He bought his first Rolls-Royce at 23 and, four years later, a Georgian mansion in Yorkshire where he still lives, in low-key fashion, with his wife Rosie. "I had jets, helicopters, cars and all that," he says. "I had two helicopters at the same time. One wasn't enough." These days, he hosts Bible study groups and plays ping-pong. Richer says his embrace of Christianity in later life – he was baptised at 47 – has "reinforced" his ideas. "I call my faith practical Christianity. I just want to try and make the world a better place."

Great frauds in history... *Stanley Goldblum*

American insurance salesman Gordon McCormick set up Equity Funding Corporation of America (EFCA) in 1960. The idea was that people would buy a mutual fund and then borrow against the fund to pay the premiums of the life-insurance policy. Provided the mutual fund's returns outperformed the interest payments on the loan, people would be protected in the event of death and have money left over. Six months after EFCA was set up McCormick was removed in a boardroom coup, leaving Stanley Goldblum (pictured) in charge. In 1964 EFCA was floated on the stock exchange.

What was the scam?

Initially, EFCA started exaggerating revenues to attract new investors. When it began acquiring insurance companies of its own, it also started to sell fictitious policies to reinsurers (companies that buy insurance policies from insurers). This gave EFCA a large revenue boost, but meant it had to pay the reinsurers hefty annual premiums. At first it covered the costs of this by selling on more fake policies (turning it into a de facto Ponzi scheme). Later it started pretending the subjects of the policies had died to save on future premiums and pocket the death benefits.

What happened next?

In March 1973 Ron Secrist, a former EFCA executive, contacted Ray Dirks, a well-known insurance stock analyst, as well as the New York insurance commissioner. Dirks interviewed EFCA's management and, unconvinced by their depiction of Secrist as a disgruntled ex-employee, went to the Securities and Exchange Commission (SEC), though not before advising his clients to dump their EFCA shares. After learning about the fraud, the SEC suspended trading in EFCA shares. The company was formally placed under court supervision in April 1973, and a $100m discrepancy between reported and actual assets was discovered.

Lessons for investors

Goldblum was sentenced to eight years in prison for fraud (he served four) and EFCA's auditors were forced to pay $44m in compensation. Investors were wiped out (losing an estimated $300m) and the reinsurance companies were left holding $1.8bn in losses. The whole EFCA debacle demonstrates that investors should never solely rely on auditors – they cannot be relied upon to uncover fraud.

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MONEYWEEK WINE CLUB

Introducing our newest wine merchant

And the launch of our new website!

I have been a friend and customer of Domaine Direct for nearly thirty years. If you have heard of this elite wine merchant, then you will know that this is like being a member of an exclusive club. I am sure that some loyal DD fans will think it vulgar that I am telegraphing this glorious company's existence to outsiders, but the time has come to spread the word about some of their sensational wines, which I absolutely adore, regularly buy for my own cellar, and have also bought for countless wine lists over the years that I have had the pleasure of curating. Domaine Direct will no doubt now be able to cast its wondrous vinous spell on a wider wine-loving audience and this can only be good news for our collective well-being!

Cheers!

Matthew Jukes

- **All wines come personally recommended**
- **Exclusive discounts and FREE UK delivery**
- **No membership needed**

Prices shown below are per case of 12 bottles. Wines are also available in a mixed case, giving you two of each bottle for **just £209** — it's a chance for you to try them all, and is the most popular choice with *MoneyWeek* readers!

~~£21.00~~ **£19.50**

2017 Montagny, Le Clou, Domaine du Clos Salomon, Burgundy, France

Domaine Direct is, at heart, a Burgundy specialist and this is why five of my wines are made from Burgundian grape varieties. This devastating Montagny is a classic example of a DD discovery. Authentic, accurate, keenly-priced and with a flavour like a wine from a much more fanciable postcode, this is a joyous Chardonnay with an aura of a grand Côte d'Or white. Clos Salomon is a stellar estate and this wine, while youthful, will mellow for a few years, so load up.

Price per case: £234, saving £18

~~£20.34~~ **£18.75**

2013 Rully, 1er Cru Molesme, Jean-Baptiste Ponsot, Burgundy, France

Only about a third of Rully is red and we don't seem to see much of it in the UK, so it is a treat to be able to introduce you to this delicate, perfumed Premier Cru from the hands of Jean-Baptiste Ponsot. Since he took over the family Domaine in 2000, the wines under this label have been sensational, combining the wilds of the Côte Chalonnais with polish of J-B's own stylish winemaking.

Price per case: £225, saving £19.08

~~£9.70~~ **£8.95**

2017 Muscadet Sèvre & Maine, Sur Lie, Les Barboires, Domaine David, Loire, France

I trek up and down the High Street, with another of my wine hats on, and try as I might I cannot find a Muscadet as delicious or as affordable as this one. This is a benchmark Loire white wine and it is also a style which every single palate adores whether they know it or not. With a faint sea spray tang and an underlying citrus theme, this dry white beauty is an essential fridge door accoutrement.

Price per case: £107.40, saving £9

~~£15.30~~ **£14.40**

2017 Fleurie, La Roilette, Alain Coudert, Beaujolais, France

This is my favourite Beaujolais for a number of reasons. Firstly, it is one of Mrs Jukes' absolute go-to wines. Secondly, I find it on the wine lists of many of my favourite London restaurants, so this means I drink a lot of it and, thirdly, the nag on the label seems to me to be a trusted friend because it has never let me down. For a wine that I usually drink young and fresh, it also has an uncommon ability to age. It is sheer perfection in a glass.

Price per case: £172.80, saving £10.80

~~£25.80~~ **£24.00**

2016 Leeuwin Estate, Prelude Vineyards Chardonnay, Margaret River, Western Australia

I am happy to nail my colours to this wine's mast — Leeuwin is home to the most respected and adored Chardonnays in Australia. A previous winner of Winery of the Year in my annual 100 Best Australian Wines initiative, Prelude is the 'second wine' of the great Art Series label and in 2016 this might be one of the finest wines they have ever produced. If you adore this grape you will be in heaven with this wine in your glass.

Price per case: £288, saving £21.60

~~£20.34~~ **£18.95**

2016 Ma Maison, Pinot Noir, Martinborough, North Island, New Zealand

DD founder, Hilary Gibbs, maintains her rigorous Burgundian wine standards when venturing overseas to source wine. Dr Edward Leung's Ma Maison is a tiny 3ha property where he makes between 600-700 cases of sensual, aromatic Pinot Noir and it is as gentle and soulful as the Rully above. I have followed this wine since day one and it always elicits immense respect from everyone who tastes it. It is about as far removed from the powerful, inky Central Otago Pinots as you can get!

Price per case: £227.40, saving £16.68

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Precious memories of the Shire

Chris Carter sets out on a quest from Hobbiton to a destination determined to keep foreign visitors out

It may only be spring in Britain, but if you want to escape the chill of winter later this year with a trip to New Zealand, then it makes sense to get your planning in early.

Last November, with a warm, floral breeze in the air, my partner and I left Auckland and drove south for Rotorua. On the way, we stopped at the *Lord of the Rings* film set. Today known as Hobbiton, it is holy ground for ancient geeks like us. Our 23-year-old guide, Sam, from nearby Matamata, was only a small child when the first of the trilogy was released in 2001. "When I was a kid, I refused to see the film, because as they were from here, I didn't think they would be any good," he told me, displaying the famous Kiwi modesty. But the films became a huge hit.

©Stockphotos
Hobbiton: a place of special magnificence

Hobbiton is where director Peter Jackson located the Shire, home of the hobbits. Despite being almost 20 years old, the grounds are still carefully tended to by gardeners – 95% of the flowers are real. So, even if you're not an avid fan, it still makes for a lovely stroll around the diminutive village, lake and pub where the tour ends. And if you're not a fan, you're not alone. Apparently many visitors have never seen the films, said Sam. Some even make the visit mistaking Hobbiton for a preserved ancient Maori village, which is bizarre, considering that real Maori history is everywhere.

Hot springs

Arriving in Rotorua, we settled into Peppers on the Point (NZ$500, peppers.co.nz). This charming 1930s mansion sits on a promontory overlooking Lake Rotorua and Mokoia Island. It has been converted into a cosy hotel with several spacious rooms with views, as well as cottages with Jacuzzis, dotted around the grounds, which, if you look closely, also feature the step terraces from an old Maori *pa* (fortified settlement), and a small cave. According to legend, the *pa* came under attack from an enemy tribe before dawn, while the settlement's warriors were away on Mokoia. The chief, Tunohopu, hid his family in the cave, but not before his youngest son had been carried away. Tunohopu's warriors saw the fires and returned to drive off the marauders, who took the boy with them. Tunohopu went to his enemy's village alone and unarmed. His enemies were so impressed by the chief's bravery they handed back his son.

Maori history permeates this part of New Zealand. The area's hot springs were an obvious draw for the Te Arawa people, who, according to tradition, arrived from further north in Polynesia on an ocean canoe named Arawa. Two such springs feed into 28 mineral pools at Polynesian Spa (NZ$30, polynesianspa.co.nz). The Priest Spring is named after Father Mahoney, an arthritic priest, who was carried here in 1878, and claimed to be cured after a soak in its waters. It is slightly acidic and good for relieving tired muscles, while the Rachel Spring, named after a notorious Parisian cosmetician and conwoman, is alkaline. She promised "ageless beauty", which is stretching it. But the spring is apparently good for the skin. One way or another, convalescents have been coming here to take the waters since 1882. You can still see the preserved white-tiled baths from 1931. These are no longer in use, yet visitors still come to recover, not from physical ailments but from the stresses and strains of everyday life. It is worth paying extra for the "Deluxe Lake Spa", which comprises five additional, less crowded, pools.

Maori traditions

Where there's thermal activity, there are geysers. One called Pohutu shoots 30 feet in the air. You can find it at Te Puia, a project set in 173 acres on the edge of town aimed at teaching and preserving Maori traditions. Visitors watch a cultural performance, including the famous *haka* war dance – and even participate. (When a glaring Maori warrior tells you to get up on stage, you do it.) The centre is also a school for boys to learn traditional wood-carving, while the girls are taught to become expert basket-weavers. The tour really is an honest and excellent introduction to Maori culture (NZ$56, tepuia.com).

"The Zealandia sanctuary is there to protect indigenous plants and animals"

From Rotorua, it was down to "Windy Wellington" at the southern tip of the North Island. Take the cable car for gorgeous views over the bay, and to visit the botanical gardens at the top.

A geyser at Te Puia

From there, you can also catch a shuttle to Zealandia (NZ$19.50, visitzealandia.com). This wildlife sanctuary is surrounded by a high fence to protect the indigenous plants and animals by keeping foreign visitors out (tourists excepted). Keep an eye out for tuataras – these shy creatures, resembling large lizards, are the sole surviving members of their order, and at 200 million years old, they are sometimes referred to as "living fossils". No doubt they would enjoy the tour at Hobbiton.

This week: houses with dovecotes or follies – from a Georgian property in Wramplington, Norfolk, with an Asian-

▲ **North Barn, Fivehead, Taunton, Somerset.** A converted barn with a Grade II-listed dovecote with a vaulted ceiling and a thousand stone-built pigeon holes. The house has beamed ceilings and a wood-burning stove. 3 beds, 2 baths, 2 receps, breakfast kitchen, garden room, 1.92 acres. £599,000 Greenslade Taylor Hunt 01823-277121.

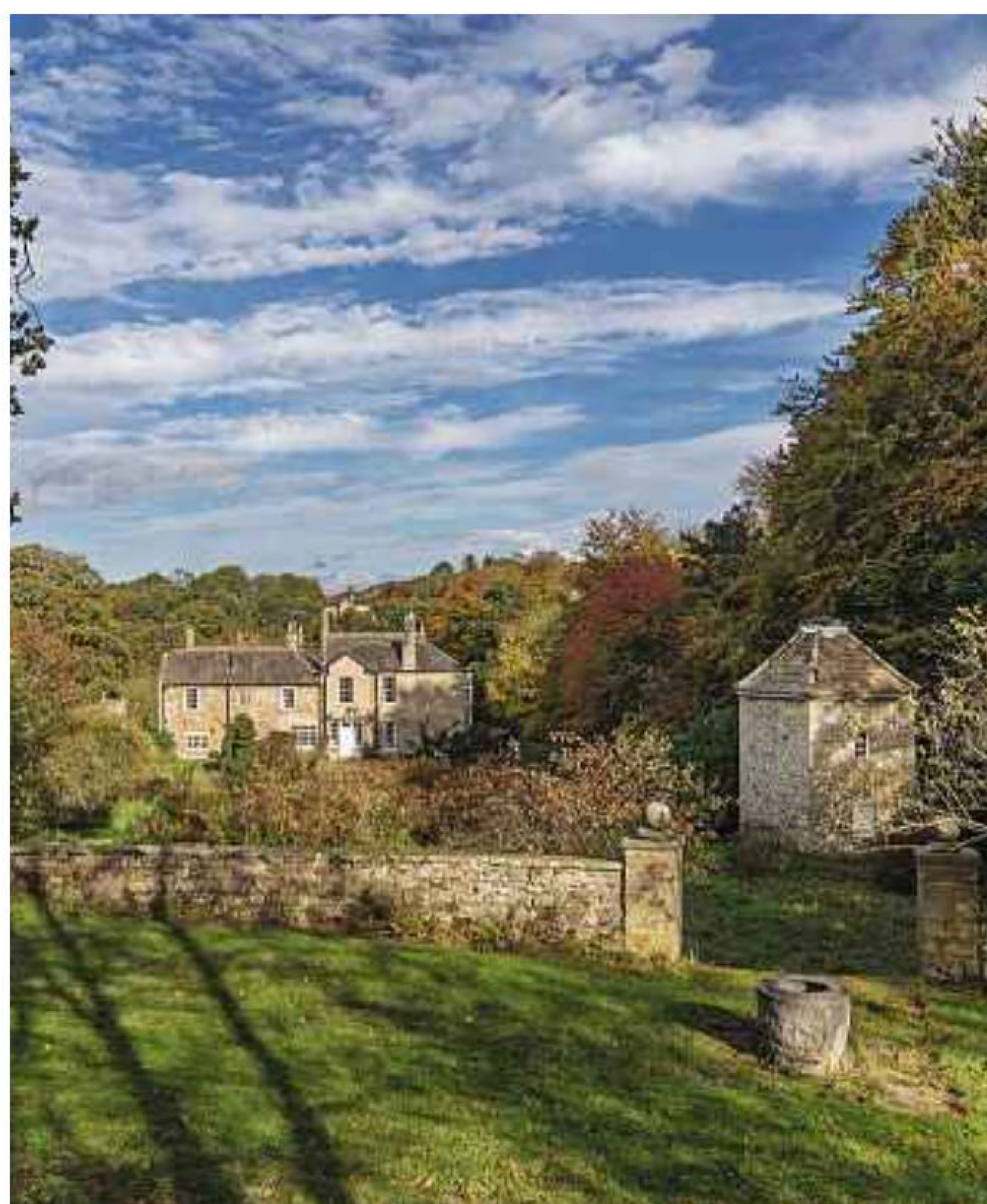
▶ **Athelhampton House, Dorchester, Dorset.** A Tudor manor house set in Grade I-listed, 19th-century gardens that include a circular dovecote. It has a Great Hall with a vaulted oak ceiling, 11 beds, 6 baths, 4 receps, 3-bed cottage, coach house, outbuildings, par-3 golf course, woodland, pasture, 29 acres. £7.5m Savills 01202-856800.

▶ **Manor Farm, Stanford in the Vale, Faringdon, Oxfordshire.** A Grade II-listed, 17th-century Yeoman house surrounded by landscaped gardens with a range of period outbuildings, including a converted, 2-bed dairy and a dovecote. It has beamed ceilings, wooden floors, and open fireplaces with period surrounds. 6 beds, 3 baths, 2 receps, barns, stabling and workshop, 10 acres. £2m Jackson-Stops 01285-653334.

style folly, to a Tudor manor house with a circular dovecote in Dorchester, Dorset

The River House, Wramplington, Norfolk. A Grade II-listed, Georgian house overlooking a mill pond with the River Tiffey running to the rear of the property. The landscaped gardens include a south-facing, Asian-style folly. The house has a newly added breakfast kitchen with a vaulted ceiling and views over the river. 6 beds, 2 baths, 3 receps, Victorian orangery, stables, outbuildings, tennis court, arboretum, river frontage, 6 acres. £1.65m Strutt & Parker 01603-617431.

Dovecote Barn, Fiddington, Gloucestershire. This converted period barn comes with an unconverted timber-framed barn, a Grade-II listed dovecote, stables and post and rail paddocks. The house has 4 beds, 2 baths, 2 receps and 3.78 acres. £695,000 Knight Frank 01242-246959.



Old Ridley Hall, Stocksfield, Northumberland. A 17th-century, Grade II-listed country house with later additions set in large gardens with a partially walled formal garden and a Grade II-listed dovecote. The house has period fireplaces and decorative plasterwork. 6 beds, 2 baths, 2 receps, 4 attic rooms, 2-bed annexe, paddocks, woodland, 9 acres. £950,000 Strutt & Parker 01670-516123.

Home Farm, Drinkstone, Suffolk. A Grade II-listed, 17th-century former farmhouse in a popular village with large, landscaped gardens that include a listed dovecote. The house has been updated to include a vaulted garden room with floor-to-ceiling windows overlooking the gardens. 4 beds, 4 baths, 2 receps, breakfast kitchen with Aga, 1-bed annexe, 2-bed pool house, paddock. 3.63 acres. £1.695m Strutt & Parker 01473-220444.

The Grange, Broadwell, Moreton-in-Marsh. A large Cotswold stone house on the edge of a village in an Area of Outstanding Natural Beauty, with views of Brailes Hill. The landscaped gardens include a summer house and a kitchen garden with a small wooden dovecote. The house has beamed ceilings, stone and wood floors and a wood-burning stove. 5 beds, 3 baths, 2 receps, breakfast kitchen, cinema room, 1-bed flat, 2-bed lodge, barn, paddock. £3.75m Knight Frank 01451-600610.

The ultimate tent for glampers

Camping enthusiasts need rough it no longer. Mick Sharp reports

For some people tents will bring back unwanted memories of enduring a week in the dank, damp smelly envelope of canvas your parents managed to somehow get vertical in a windy corner of a muddy field in the back of beyond. Their sense of achievement after an hour of folding, unfolding, swearing, hammering and bleeding from minor hand injuries was almost palpable. You just felt bored, uncomfortable and cold.

"Glamping", though, is an altogether different experience where people old enough to know better pretend to their friends they're "roughing it" in the "great outdoors" while, in reality, enjoying more creature comforts than in the average four-star hotel. But in a field. If you want to glamp in style, then Lotus Belle's 16ft Outdoor Deluxe may be the tent for you.

"Grab your glamping martini glass and settle in," says Dana Baardsen on bestproducts.com. "If this tent seems like something out of a fairytale, that's because it practically is." It resembles a kind of giant mushroom spaceship that has just landed on Earth.

The Outdoor Deluxe has two doors and two windows with zip-open mesh layers for maximum airflow while keeping creepy-crawlies out. It is made of a waterproof, yet breathable, canvas to minimise condensation. Lotus Belle says it can accommodate six twin-sized mattresses "with plenty of room for six people to practise yoga comfortably".

> *"It can take six twin mattresses with plenty of room left to practise yoga"*

And, says interestingengineering.com, "like Doctor Who's Tardis, this tent is a lot bigger on the inside than it looks from the outside", plus "it could not be easier to store and take with you". With a single centre pole and ten flexible and light poles it can be put together very easily, ensuring you are comfortable and cosy as you sit down to regale your fellow glampers with sorry tales of childhood holidays marooned in a muddy field in Llangollen.

Price: £2,690. Useable standing space: 27 sq m. Contact lotusbelle.co.uk

Wine of the week: a commanding and enchanting syrah from South Africa

2015 Kleinood, Tamboerskloof Syrah, Stellenbosch, South Africa
£23, Great Western Wine, 01225-322810, greatwesternwine.co.uk; £19.60, qwines.co.uk

Matthew Jukes
Wine columnist

I am rather ashamed that I haven't written up this wine before in MoneyWeek because it has been a masterful creation for many years. In 2015 it eclipsed the amazing 2014 which I, personally, didn't think possible. While the '14 was controlled, calm, classy and complex, the 2015 vintage, which includes 5% mourvèdre and 1% viognier in its makeup, is more densely packed and profound. Only two-thirds of the normal crop was harvested in this vintage and, while the cellar might not be as full as usual, the bottles are certainly stuffed with even more flavour than ever. Fifteen per cent new oak is used here and so the dramatic, mountainside fruit is allowed to express itself fully in this commanding, spicy, aromatically enchanting wine.

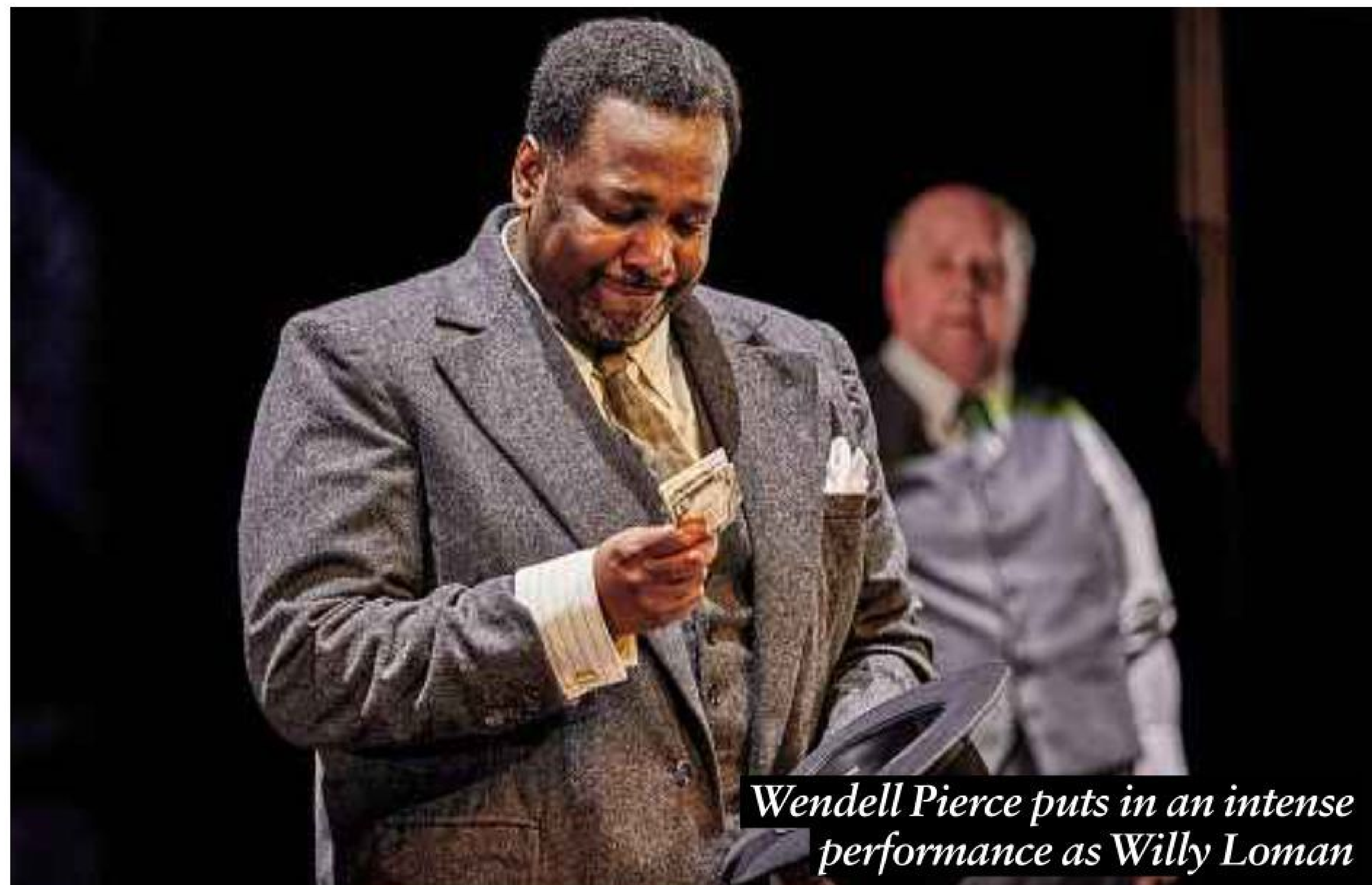
Talking of viognier, 2018 Tamboerskloof Viognier (£19.75, greatwesternwine.co.uk; £16.05, qwines.co.uk), with its cunning addition of 11% roussanne, is also an astounding wine and certainly the finest white I have tasted from this farm. The greengage theme makes it unlike any viognier I have tasted before. It is crisp and firm as well as sensual and provocative, and regular readers will know how fussy I am about this grape, so don't delay in securing both this wine and the incredible syrah. I urge you to visit the Kleinood website, too, and you will discover how much love and skill goes into the wines and olive oils made here.

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

This classic play is still vital

Death of a Salesman

Arthur Miller
Directed by Marianne Elliott and Miranda Cromwell
Running at the Young Vic until 13 July



Wendell Pierce puts in an intense performance as Willy Loman

"This is a long play, but there are very few wasted moments and even the minor subplots prove interesting"

Death of a Salesman is highly regarded as an American classic. Travelling salesman Willy Loman (Wendell Pierce) is finding it harder and harder to continue with his job, while his wife Linda (Sharon Clarke) worries about his sanity. Meanwhile, Willy's two adult sons drift aimlessly: former football star Biff (Arinzé Kene) dreams of owning a ranch, while his younger brother Happy (Martins Imhangbe) is a compulsive womaniser. As Willy tries to find a position closer to home, and the brothers attempt to set up in business together, the pivotal events that determined the course of the characters' lives are gradually revealed.

Two main themes run through the play. One of these is the impact on later life of missed chances – Biff's failure to take advantage of a scholarship and Willy's decision to spurn an offer by a relative to work for him condemn both to a life of mediocrity. Indeed, the narrative drive of the play partly comes from the Loman family's futile attempts to make up for those fatal errors.

However, the more important point that Miller is trying to make is about the emptiness of the American dream. Willy stayed at his job because of his desire to be a part of something bigger, yet he is ruthlessly thrown on the scrapheap by his employer the second he is perceived to be a liability. This production adds race into the mix by making the Loman family African-American, while the other characters are white.

Wendell Pierce, better known for his role as Lt "Bunk" Moreland in the TV series *The Wire*, is great in the role of Willy Loman. On the surface the character is all amiability, but Pierce conveys Loman's intense pride well, especially in the scene where Loman insists on treating financial assistance from Trevor Cooper's Charley as a loan. So when Loman finally realises that neither his hopes for a job closer to home nor his ambitions for his sons are going to be realised his anger becomes volcanic, setting the scene for the final showdown and the play's tragic conclusion. Kene and Imhangbe are also convincing as two troubled young men.

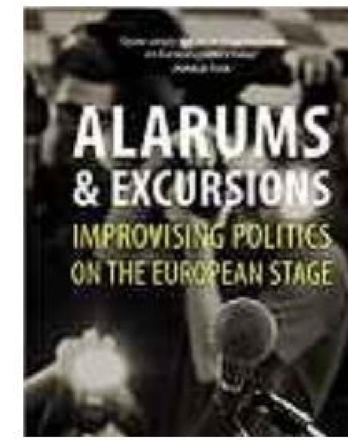
This is a long play – if you count the interval, the production runs for nearly three-and-a-half hours. But there are very few wasted moments and even the minor subplots prove interesting. The transformation of Biff's friend Bernard (Ian Bonar) from nervous waterboy to successful lawyer, for example, provides an ironic counterpoint to the story of the Lomans. This is an excellent production that well deserved the standing ovation it received on press night.

Reviewed by Matthew Partridge

Alarums and Excursions

Improvising Politics on the European Stage

Luuk Van Middelaar, translated by Liz Waters
Agenda Publishing (£25)



British politicians may feel they've spent the last few years in perpetual crisis mode, but those in Brussels have had bigger troubles, including the fallout from Brexit, the euro crisis, the situation in Ukraine, and the refugee crisis. This book, from a former speechwriter for the European Council president, looks at some of the key challenges that the EU has faced over the past decade.

The author attempts to be as objective as possible, but he clearly has little time for what he sees as selfish objections to granting greater powers to European institutions in areas such as fiscal policy and asylum and immigration. And when he looks at the fight between the functionalist (technocrats), federalist (integrationists) and confederationist (nationalists) visions of Europe's future, his sympathies are clearly with the federalists, while understanding that most people in Europe don't feel the same way.

He admits that when federalists talk about making Europe "more democratic" what they really mean is increasing the power of the EU at the expense of individual nation states. This disconnect between Europe's elites and its citizenry is, in his view, the big force driving the current populist backlash. The book could do with some editing, but it is a fascinating take on events in recent European history.

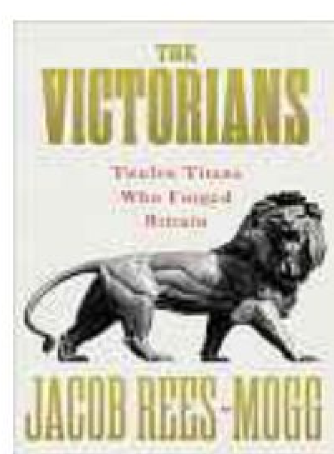
Book in the news... a mind-bogglingly banal work of self-promotion

The Victorians

Twelve Titans Who Forged Britain
Jacob Rees-Mogg
WH Allen (£20)

©Getty Images

British politician and prime minister Sir Robert Peel (1788-1850)



Conservative MP Jacob Rees-Mogg, well known for his traditional views on contemporary issues, here attempts to provide "a reassuring narrative of past British greatness through the lives of 11 men and one woman", says Kim Wagner in The Observer. These "titans" include the "usual suspects" – Palmerston, Pugin, Gladstone and Disraeli – who are "entirely defined by the fact that they were first and foremost Victorians whose every thought and action was representative of what the author takes to be particular 'Victorian' virtues".

This claims to be a work of history, but it is more self-promotion, says AN Wilson in The Times. Rees-Mogg's determination to draw parallels with the present means that "Peel's decision to abolish the corn laws becomes a parable about the European Research Group's patriotic decision to face down the Tory wets". Similarly, the constitutional lawyer Albert Dicey is included solely because he thought he could stop home rule by an appeal to the "people" via a referendum.

It is "mind-bogglingly banal", says Dominic Sandbrook in The Sunday Times. Rees-Mogg's "potted biographies" lack detail, and are not even interesting to read as he makes "no effort to create a sense of colour, incident or momentum". Even the "recondite classical allusions, florid turns of phrase [and] witty asides in Latin" that you might expect are absent. There "have been many books on the Victorians, but surely none as badly written" as this.

What are the royals good for?

The profits of designer labels for one thing. The Chelsea Flower Show for another

A fantastic marketing opportunity

In the good old days, news of a royal birth was disseminated around the country by men on horseback and announced by the town crier in the village square, all accompanied with 21-gun salutes. The Insta-tubes of today have sadly made such noble traditions redundant, but the British fashion industry was almost certainly popping champagne corks, if not firing off celebratory guns, on news of the arrival of young Archie Mountbatten-Windsor. Indeed, even before the Duchess of Sussex gave birth, experts were predicting that "this new royal arrival is expected to boost the UK economy by a staggering £1.25bn, thanks to an uplift of sales of childrenswear, toys and prams", according to Carolyn Asome in The Daily Telegraph.

The Prince George effect

Apparently, this boom is down to "the Prince George effect", named after Archie's cousin. When the Duchess of Cambridge "left the Lindo Wing with a newborn Prince George cosy in his car seat, swaddled in a bird-print Aden + Anais muslin cloth", the label almost immediately saw "a 600% increase in sales". Today, it is "a $100m global brand". Fast-forward a few years and "when Prince George wore a sold-out navy anorak from John Lewis for his first day at nursery the store reported a 447% uplift in enquiries for similar items".

The celebrity status of the royal children comes at a time when a growing number of top fashion houses are making clothes for "very small people", says PYMNTS.com. Indeed, "the truly sartorially advanced child can walk the walk in an $865 embroidered Gucci sweater or $390 Fendi sandals". The idea of parents wondering which of this year's Gucci, Prada and Balmain runway offerings will make for "the right look for their tiny tot" may sound absurd. After all, the wearers of such clothes are "likely to cover themselves in juice, mud, or whatever sticky things they can lay their hands on", or simply outgrow them within a few months. But, silly or not, the market for designer childrenswear is now worth "about $5.9bn a year" globally.

> *"The market for designer childrenswear is now worth about $5.9bn a year"*

If Archie and George do become unconscious "influencers" then they will only be following in their parents' footsteps, says Megan Friedman in Harper's Bazaar. Eight years after her marriage to Prince William, "the Duchess of Cambridge is still a fashion icon in the US – and clothing she wears can sell out instantly". Similarly, when Meghan wore a dress by the British brand Goat at Prince Charles' 70th birthday party, "the brand had a noticeable uptick in interest". Fashion-industry insiders believe that endorsement by any royal, but particularly the duchesses, "is like the mythical golden touch and can transform a brand's performance overnight".

They can sell tickets too, says Valentine Low in The Times. After it was announced that the Duchess of Cambridge was co-designing a garden in this year's Chelsea Flower Show, there was a "surge" in the show's popularity and "ticket sales doubled overnight". Almost all the 168,000 tickets were snapped up within a week of the event, with the cost of a ticket on the black market rising to nearly £500.

Quintus Slide

Tabloid money… a bottle of pure moonshine from an £8,000-a-week spa

● **From her £8,000-a-week German spa, the Lanserhof Tegernsee health retreat in Bavaria, Victoria Beckham posted a picture on social media of her latest beauty miracle – a £4 bottle of "moon water", which works wonders on your skin, says Amanda Platell in the Daily Mail. "So I am here at Lanserhof in Germany, and they've just given me this water, which is a special water," the former Spice Girl (pictured) gushed on Instagram. "It is collected locally, here in Munich, but only on a full moon," supposedly giving it magic powers. "Now I know why my mum had such lovely skin – our uncovered, corrugated-iron outside water tank was exposed to the moon all year round," says Platell.**

● If Jeremy Corbyn wins the next general election, it won't just be the billionaires who leave Britain, but "anyone with belongings", says Jeremy Clarkson in The Sun. "And who can blame them?" It is a considerable risk to start a business. "But what's the point when every penny you make will be stolen by Corbyn? You might as well stay in bed." To raise the money he is planning to spend, every household will have to cough up an extra £6,471 a year. "He's going to tax your savings, your house and your income. He's going to make your pension worthless, you'll have to burn the paper it's written on just to stay warm… I don't want to leave Britain. It's where my friends live, and my children… But if Corbyn wins, they probably won't… I'll be the last person here." But don't worry. I'll "turn out the lights before I go".

● Nobel Prize-winning economist Angus Deaton claimed recently that Britain was on the road to becoming one of the most unequal nations on Earth, says Brian Reade in the Daily Mirror. But there's hope. Julian Richer, owner of audio chain Richer Sounds, is handing 60% of his business to staff now that it has turned 60. Staff will receive £1,000 for every year they've worked there. Richer Sounds doesn't employ people on zero-hours contracts and it donates 15% of profits to charity. Hopefully it's a sign of the changing times. "I sense a changing mood among some young entrepreneurs… that it's not all about accumulating a wealth you can never spend and trampling your workers underfoot along the way… Maybe in the midst of today's corporate indecency there's hope for the decent."

©Getty Images

Bridge by Andrew Robson

Club pips

West found the best lead of a trump versus Five Hearts – knowing his side strongly held the side-suits, he calculated correctly that declarer would be seeking to score as many trumps as possible separately. Declarer won in dummy and started on clubs. A club to the ace and a club ruff saw East's king fall. He ruffed a spade and then led the jack of clubs for a ruffing finesse. West played low so declarer discarded dummy's singleton diamond and was delighted to see East also discard, not holding the outstanding heart. He was now able to crossruff his six remaining trumps. Eleven tricks and game made.

Dealer East   East-West vulnerable

North:
♠ Q98532
♥ K10542
♦ 7
♣ 3

West:
♠ 74
♥ 98
♦ KQ103
♣ Q9542

East:
♠ AKJ106
♥ 6
♦ A9842
♣ K8

South:
♠ –
♥ AQJ73
♦ J65
♣ AJ1076

The bidding

South	West	North	East
			1♠
2♥	double*	4♥	4♠
5♥**	end		

* Negative – promising values and the unbid suits.
** Reasonable to bid on with a Spade void.

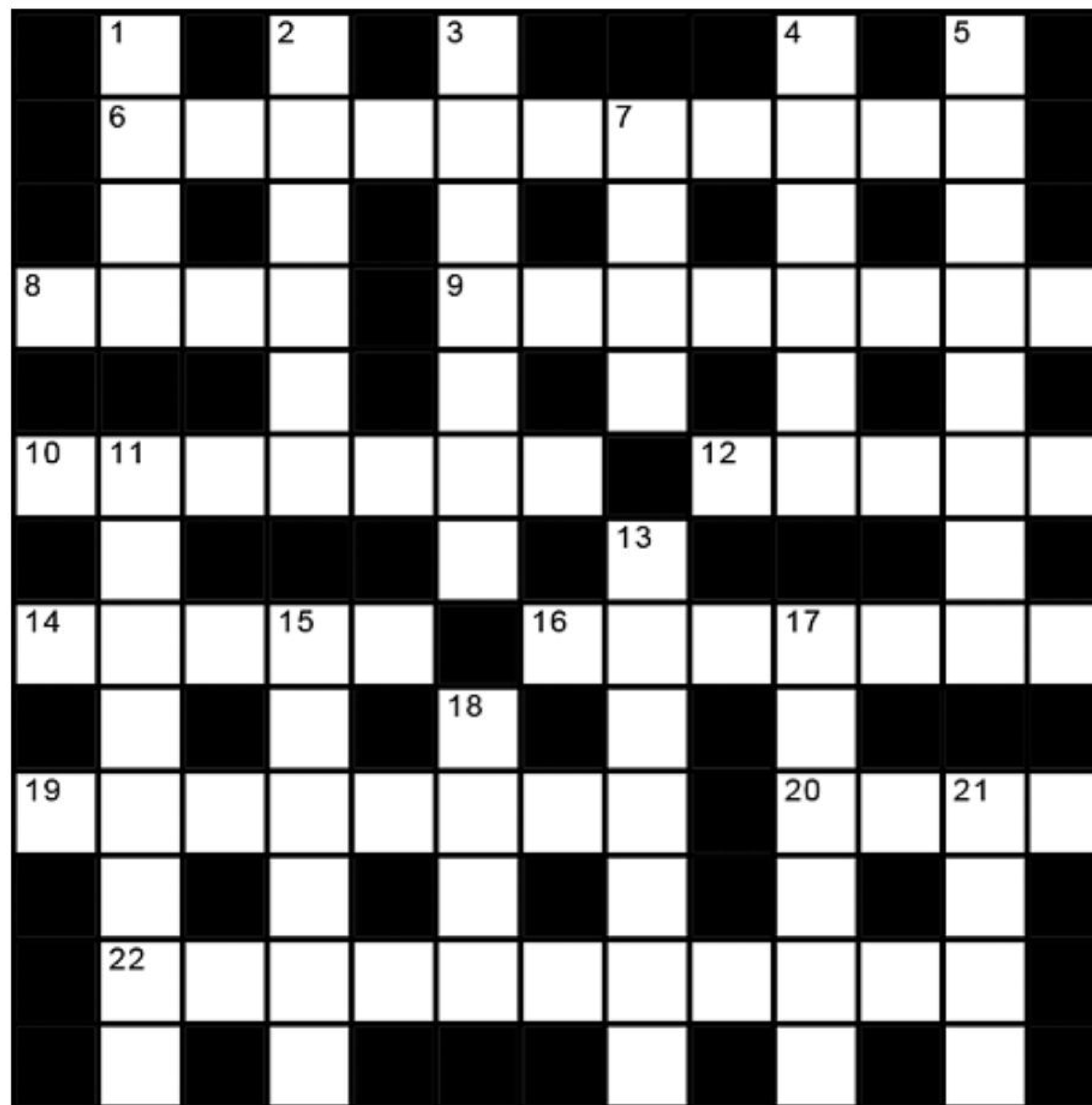
Interestingly, declarer can still succeed if he plays a diamond at trick two, West winning (East ducking his ace) and returning his second trump (best defence). He only scores eight trump tricks, but can make three club tricks by making full use of the pips. He wins the second trump in dummy and leads a club to (East's eight and) his ten. West wins the queen and leads a spade.

Declarer ruffs the spade, cashes the ace of clubs felling East's king, cashes the jack, and then leads the seven (from seven-six) for a ruffing finesse through West's nine-five. West covers (say) with the nine and declarer ruffs. He ruffs a spade, cashes the promoted six of clubs, and crossruffs the last three tricks. Eleven tricks and game made.

For all Andrew's books and flippers – including his new hardback The Next Level – see andrewrobson.co.uk.

Tim Moorey's Quick Crossword No. 948

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 3 June 2019. Answers to MoneyWeek's Quick Crossword No. 948, 31-32 Alfred Place, London, WC1E 7DP.



Down clues are straightforward whereas across clues are mildly cryptic

ACROSS
6 Dessert white wines no great shakes? (11)
8 No little women in golf club could be an advantage! (4)
9 Kitchen device isn't rare, oddly (8)
10 Woollen fabric that can be bettered! (7)
12 Loo in Regent Street (5)
14 Female magician in consumer magazine, we hear (5)
16 Think model is after drink (7)
19 One paddling is at once in trouble (8)
20 Pleasant resort in France (4)
22 Stuff for poultry – or paltry? (7, 4)

DOWN
1 Difficult (4)
2 City-state of ancient Greece (6)
3 German city almost totally destroyed in World War II (7)
4 A public or official writer (6)
5 Dangerous fibrous material (8)
7 German mister (4)
11 Member of government by a small exclusive group (8)
13 Small hardy horse on the American prairies (7)
15 Composer of the *Minute Waltz* (6)
17 Playwright of *The Caretaker* (6)
18 Scottish church (4)
21 Concluding passage of a piece of music (4)

Name ....

Address ....

Solutions to 946

Across 6 Samosa *Samos + a* **7** Angora *anagram* **8** A lot *anagram* **9** Eyeliner *homophone* **10** Debacle *anagram* **12** Laud *homophone* **14** Épée *hidden* **15** Goodbye *homophone* **17** Striking *two definitions* **18** Gaga *gag + a* **20** Horace *anagram* **21** Slip-on *no Pils reversed.* **Down 1** Gaul **2** South American **3** Gazelle **4** Again and again **5** Friendly **7** A few **11** Election **13** Longest **16** Eire **19** Gaol.

The winner of MoneyWeek Quick Crossword No.946 is R Banks, Kersey, Ipswich, Suffolk

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

Taylor's, a family firm for 325 years, is dedicated to the production of the highest quality ports. Late Bottled Vintage is matured in wood for four to six years. The ageing process produces a high-quality, immediately drinkable wine with a long, elegant finish; ruby red in colour, with a hint of morello cherries on the nose, and cassis, plums and blackberry to taste. Try it with goat's cheese or a chocolate fondant.

Sudoku 948

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

To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

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

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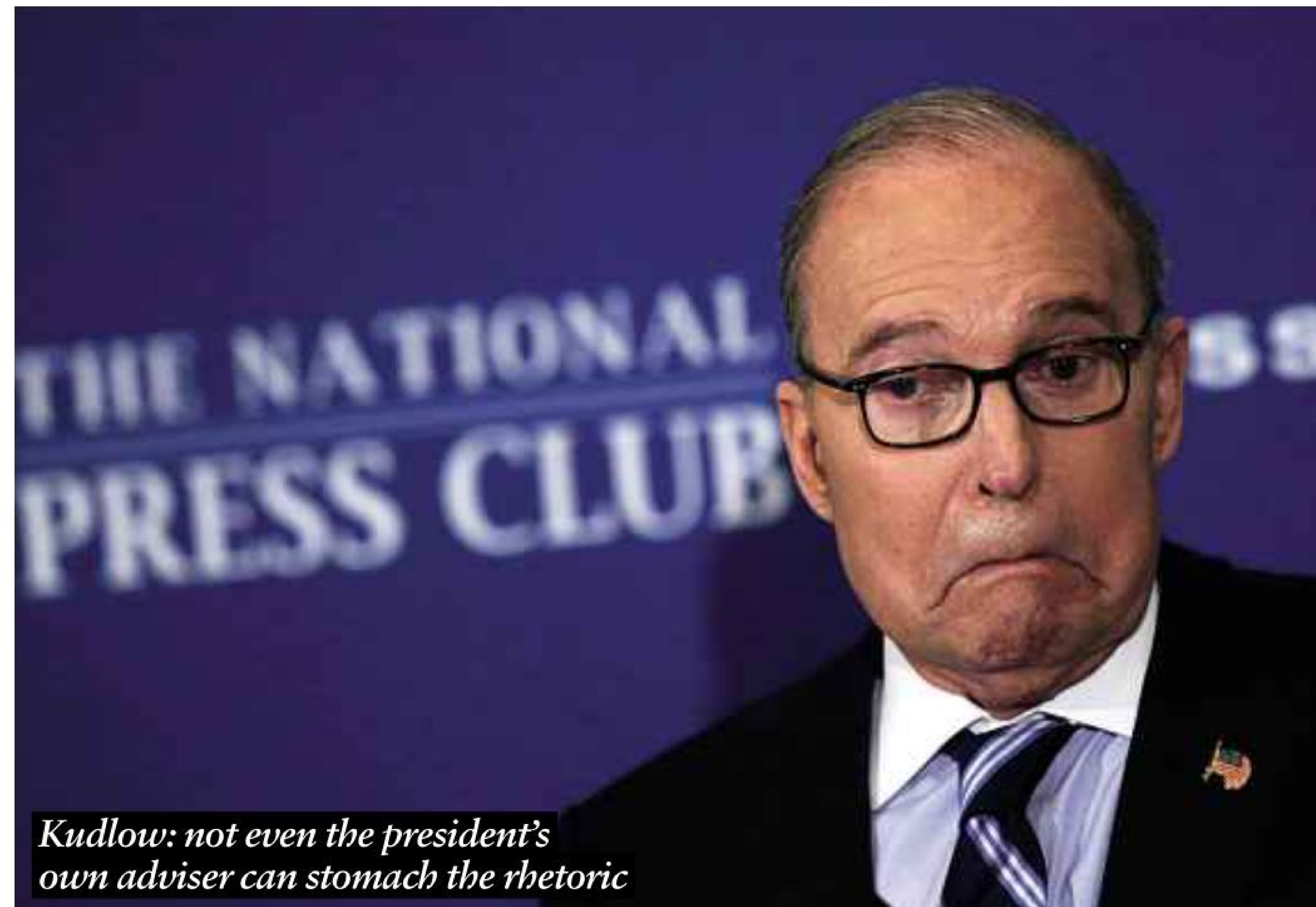
US shoots itself in the foot

Trump's trade wars will leave casualties on both sides

Bill Bonner
Columnist



Kudlow: not even the president's own adviser can stomach the rhetoric

The nice thing about Donald Trump is that he is "honest". Even when he is lying. He's a performance artist for whom truth and lies are more or less the same thing. It's the show that is true – the ratings, the base, the gross revenues. In order for a show to have wide appeal, in politics as in professional wrestling, the theme has to be simple: good versus evil, black versus white, us versus them. Truth, nuance and ambiguity have no place in it. Dig down into the details, and the story gets messed up. But why bother?

Even people who call themselves conservatives have stopped digging. They are now willing to let the feds tell them who they can and can't do business with, and on what terms. On his trade war with China, Trump says: "We'll make the Chinese pay." Even his own economic adviser couldn't quite stomach that one. "Both sides will pay," admitted Larry Kudlow.

> *"We know of no instance when people have been made better off by decree"*

We know of no instance in human history when people have been made better off by government proclamation, including one restricting trade, unless it eliminated some prior meddling (such as the end of Prohibition). One possible exception – and it is a telling one – is when you are preparing for a real war. It makes sense then, at least, for the government to deny resources to the enemy. That is what the Roosevelt administration did in the run-up to America's entry into World War II. Japan sought to maintain cordial relations with the US, but Roosevelt cut it off from oil and other vital supplies, effectively goading it into making a catastrophic mistake – attacking Pearl Harbor. And now, say tariff proponents, China is at war with us.

War is always a zero-sum game. You only win by making the other guy lose. There is no net positive outcome, at least not in an economic sense. Instead, the net sum is always deeply negative as factories, farms, fuel, houses, ports, and people are destroyed. So, if you want people to prosper, to enjoy peace and economic growth, you should avoid win-lose, negative-sum games. You want the feds to back off so that win-win deals between consenting adults can take place. And yet, the US seems to be pitching more and more towards win-lose, confrontation – and war. At home. And abroad.

China has been providing us with low-cost goods for nearly 40 years, with trade barriers coming down steadily. Suddenly, the China trade is unacceptable. And all over the world, the US is sticking out its elbows. Even European ships involved in the construction of a gas pipeline from Russia to Germany could be subject to US sanctions under a new bipartisan bill, reports Foreign Policy magazine. The bill is sponsored by Ted Cruz, who calls himself a "conservative". There is nothing conservative about trying to tell an ally from whom it should purchase its fuel.

The bottom line

$80 The proposed fare for flying from New York's JFK Airport to Manhattan in an air taxi unveiled last week by German start-up Lilium. The journey will take six minutes instead of an hour at present. Morgan Stanley estimates the air taxi market will be worth $1.5trn by 2040.

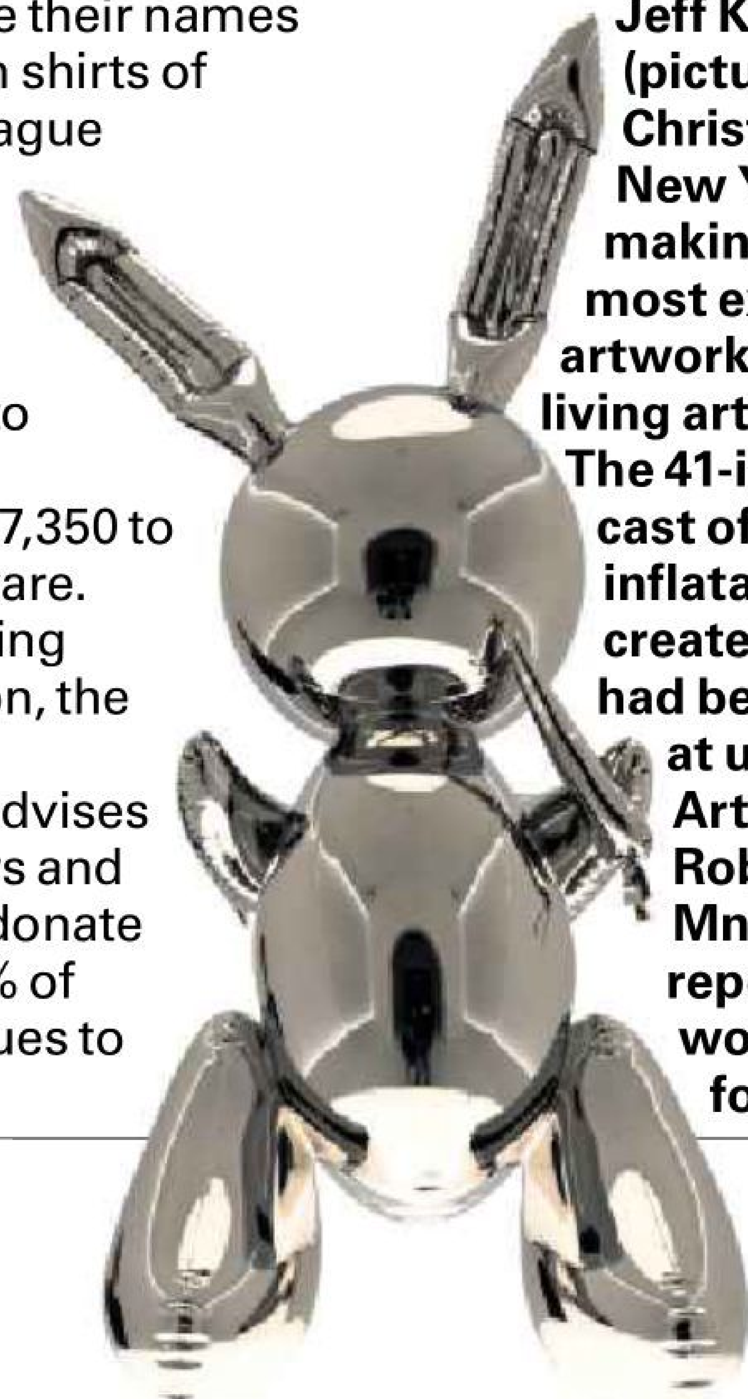
£2.75m The price of a limited-edition Aston Martin DB5 modelled after the gadget-laden one driven by James Bond in *Goldfinger*. The car will feature a revolving number plate, rear smoke screens, retractable bullet-proof shield, and "simulated" machine guns that pop out of the indicator lights.

£476 The price of some tickets on the black market to this week's Chelsea Flower Show. A woodland garden co-designed by the Duchess of Cambridge is thought to be behind the popularity of this year's sell-out event.

£655m The combined value of negligence payouts by the NHS last year – more than twice the £327m from compensating for botched treatments and delays four years ago, according to the litigation authority, NHS Resolution.

£117m How much eight gambling firms paid to have their names on the team shirts of Premier League football teams, despite only managing to donate a collective £7,350 to GambleAware. The Gambling Commission, the industry regulator, advises bookmakers and casinos to donate at least 0.1% of their revenues to the charity.

$91.1m The price fetched for *Rabbit* by Jeff Koons (pictured) at Christie's in New York, making it the most expensive artwork by a living artist. The 41-inch steel cast of an inflatable bunny, created in 1986, had been valued at up to $70m. Art dealer Robert Mnuchin reportedly won the bid for a client.



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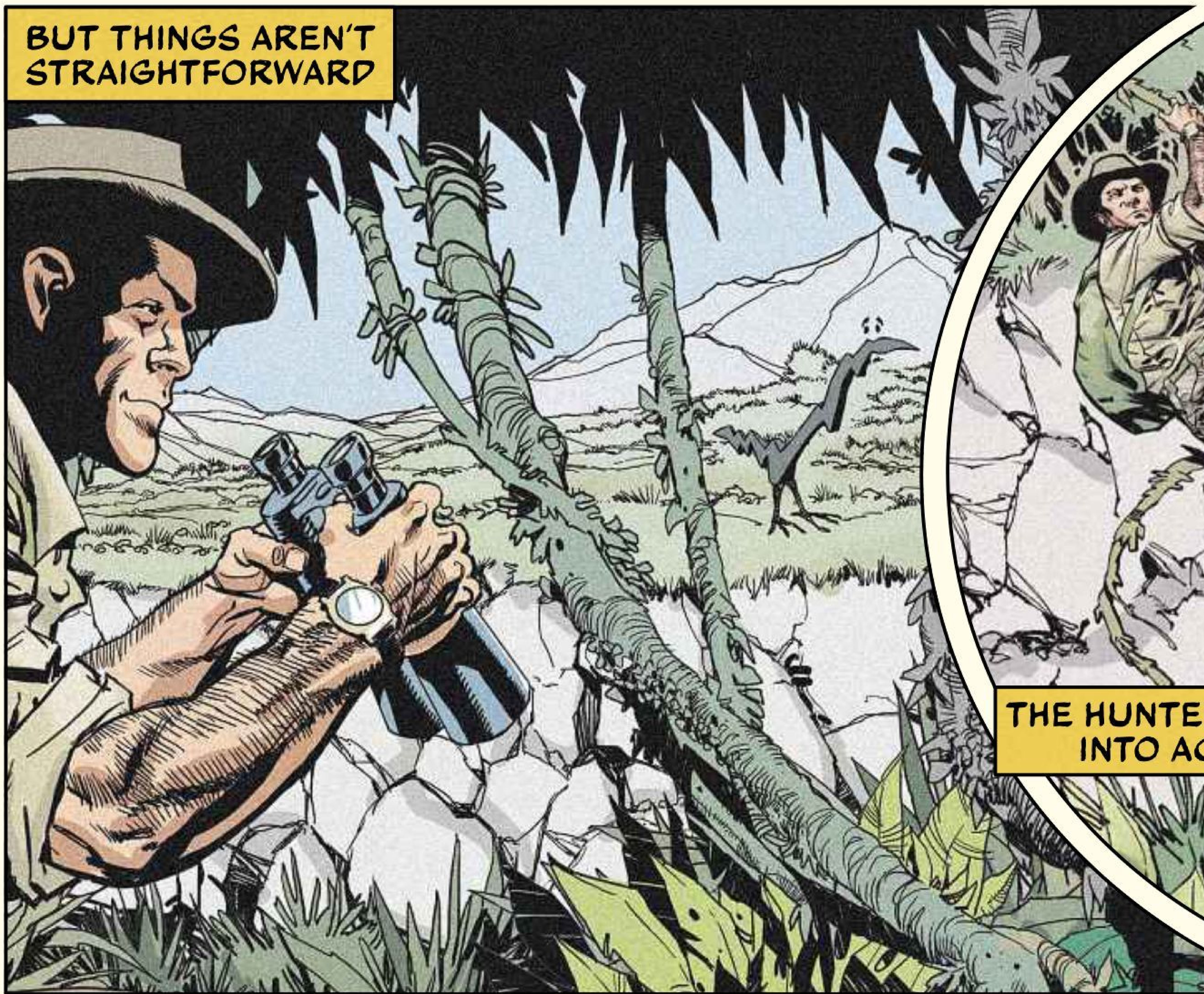
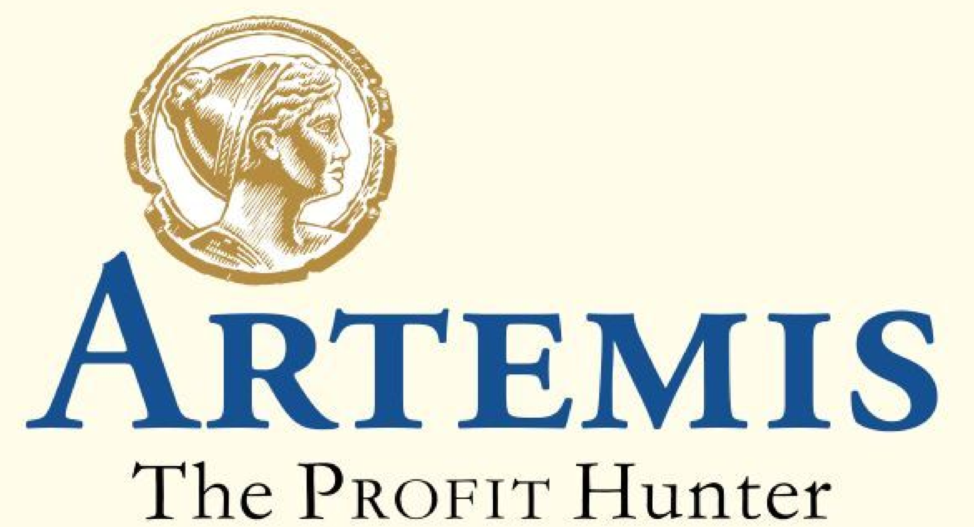


In today's environment, the hunter's *all-active* approach is more important than ever.

At times like these, the financial world can be both complex and daunting. And yet, there are still healthy Profits to be had. For those active enough (and astute enough) to track them down. The truth is, for the seasoned hunter, today's environment is just another action-packed instalment in their continuing story.



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