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Prepare for the return of inflation

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Twitter chief's strategy is paying off

PLUS

Three of the best new bikes

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MONEYWEEK

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Healthy profits

Making money from medical technology

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MoneyWeek

26 June 2020 | Issue 1005 Britain's best-selling financial magazine

From the editor-in-chief...

If you had put $100 into big US growth stocks on 31 December, 2019, you would now have $111. Shares in these companies are currently trading not so much as though Covid-19 doesn't exist, but as though its existence has been a positive for their businesses (which you can argue – they're mostly tech stocks) and as though they were not already overpriced in December (harder to argue). Look at the speed and scale of the recovery of many of these stocks since March – and they are the ones most discussed in the media – and you will have only one thought: "There's a bubble out there."

©Alamy

The UK is opening for business – and the market is cheap

"Despite soaring tech stock valuations, there remains good value in markets as a whole"

There is still value to be had

Not so fast. Do not for a second think that just because US tech stocks are suffering from a gloriously exuberant bout of optimism bias, there is no long-term value in markets as a whole. There is. In both Europe and the US, says Verdad's Brian Chingono, cheap stocks are genuinely cheap. Take the cheapest 20% in the market (the "deep value" stocks) and you will see they trade at significant discounts to their long-term averages – in Europe the discount to the 20-year average is 13%, in the US, it is 17% (although European stocks are cheaper in absolute terms).

Look to the UK (now moving out of lockdown fast – see page 10) as well. Here, even with the many Covid cancellations taken into account, dividend yields are high and valuations perfectly reasonable (see page 5).

Two cheap investment trusts

If you like the idea of cheap (trust me, you do), and you want to find a way to hold some of the market's most interesting assets at a discount to their net asset value (NAV) you should also listen to our latest podcast (at moneyweek.com/podcasts) with Nick Greenwood of Premier Miton. Greenwood runs a fund of investment trusts, chosen in large part for their price (he looks to buy at a "significant discount to their intrinsic value"). We talk about many of the ones he is interested in at the moment on the podcast but one of particular interest might be **Artemis Alpha (LSE: ATS)**, a trust with a history of making unsuccessful private investments and underperforming as a result. Two years ago it relaunched with new managers. The unlisted holdings have been significantly cut (to below 10%) and matters are much improved. However you can still buy the revamped portfolio at a 19% discount.

I'm also interested in **Henderson Opportunities (LSE: HOT)** – run by James Henderson and Laura Foll who also run Law Debenture (one of the trusts in the MoneyWeek model portfolio). This trust is more focused on small caps than the latter and if you have any faith in the stock picking abilities and value bias of the fund managers (which we do) the shares should be pretty interesting on a discount of 20% to their NAV. If investment trusts on discounts are your thing (they probably should be) turn too to page 17, where Max looks at the private equity sector.

Finally a reminder that where and whenever you invest you should do so with at least some thought (see John's Money Morning newsletter from 24 June at moneyweek.com/wirecard-lessons). Turn to page 7 for the shocking story of what can happen when you don't. I really hope none of you went into last week holding Wirecard.

Merryn Somerset Webb
editor@moneyweek.com

A billion-dollar shocker

When hedge fund manager CQS held a call in early April to update investors on the 33% loss suffered by its $3bn flagship Directional Opportunities fund during March's market turmoil, fund manager and founder Michael Hintze (pictured) was nowhere to be seen, says the Financial Times. Investors were disappointed, demanding an explanation for why the fund had lost $1bn — its biggest monthly loss in its 15-year history.

On a call earlier this month, Hintze explained what happened, reports the FT. When coronavirus panic hit, many of CQS's structured credit bets (investments in riskier derivatives of corporate debt) "turned sour", driving almost all of the losses in March. Unfortunately for investors, he also reduced exposure to stocks, thus missing out on much of the rally in both April (the best single month for US stocks since 1987) and May. As a result, the fund ended last month down around 47%, a total loss of $1.4bn.

Cover illustration: Howard McWilliam. Photos: Getty Images; iStockphotos; Van Moof

Good week for:

©Getty Images

Sir David Attenborough (pictured) is leading an appeal to raise £12m to save **London Zoo**, says Elisa Menendez in Metro. The zoo is at risk of permanent closure after it was forced to shut for 12 weeks during lockdown. The fundraising campaign is part of a £25m rescue package to save more than 18,000 animals at risk.

Culture vultures will be deprived no more: museums, galleries and cinemas will be allowed to reopen from 4 July (see page 10). A report by the Creative Industries Federation showed the sector suffered heavy losses due to coronavirus lockdowns; the sector is set to lose £74bn in revenue, a 30% drop over last year and a loss of 406,000 jobs in 2020, says Martin Bailey in The Art Newspaper.

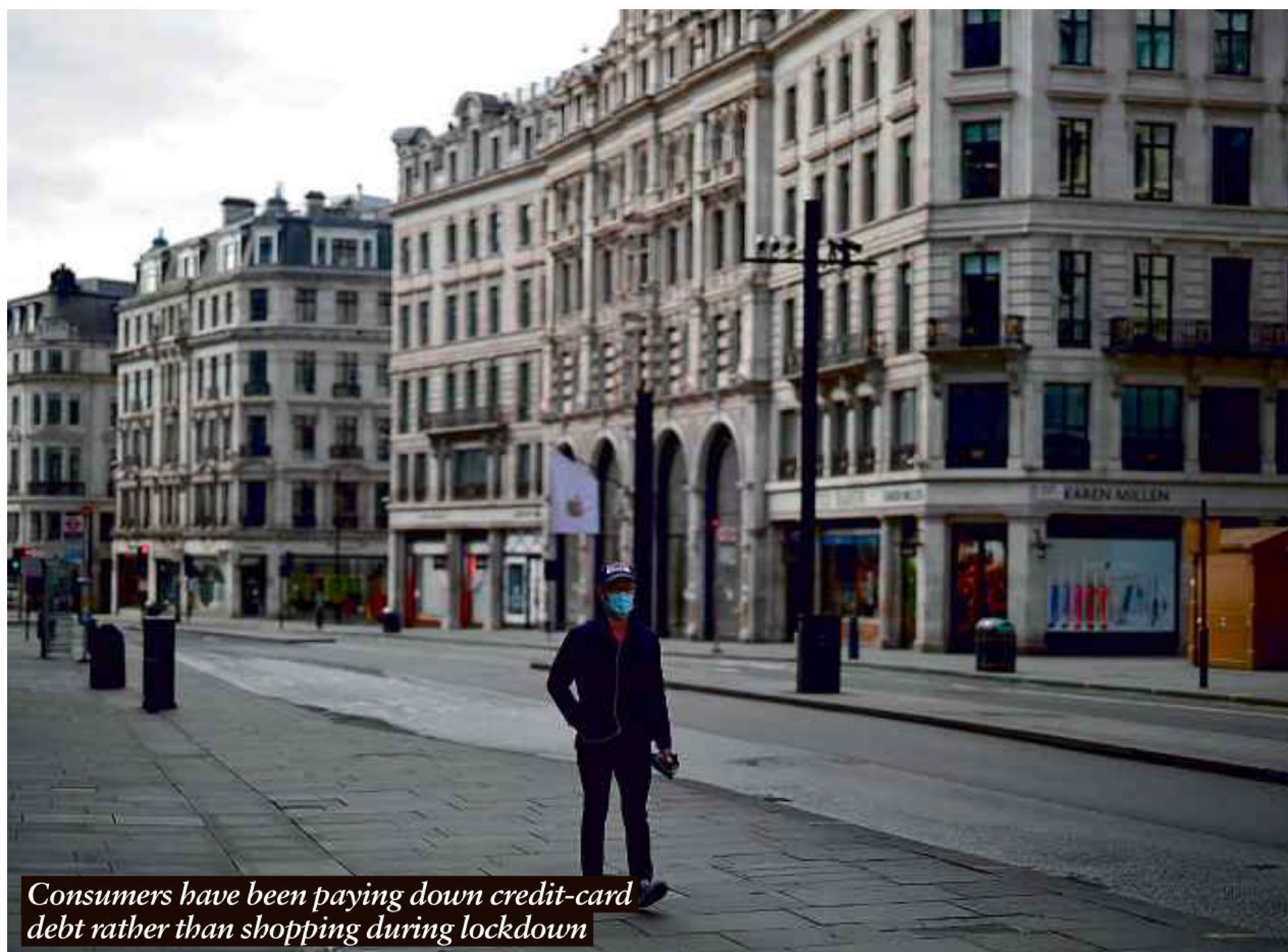
Bad week for:

A painting of the Immaculate Conception by 17th-century Spanish artist Bartolomé Esteban Murillo suffered a botched restoration this week, prompting calls for rules governing renovation to be tightened, says Isambard Wilkinson in The Times. The painting's owner paid €1,200 for the makeover, but the work of the baroque artist "was returned to the owner almost unrecognisable".

Clothing chain Eddie Bauer, film distributor Magnolia Pictures and ice cream brand Ben & Jerry's joined a growing advertising boycott that is targeting **Facebook's content** moderation practices, says Tiffany Hsu in The New York Times. Patagonia, the North Face, and REI previously pulled away after Facebook declined to take action against misinformation spread on the website. Facebook generates nearly all its revenue from advertisements.

Investors beware: inflation will return

Alex Rankine
Markets editor



Consumers have been paying down credit-card debt rather than shopping during lockdown

©Getty Images

Central bankers are behaving like "an ostrich putting its head in the sand", says Charles Goodhart on voxeu.org. The guardians of the world's currencies have unleashed unprecedented monetary stimulus in response to the pandemic. The US Federal Reserve's balance sheet has soared by about $3trn since March to over $7trn, more than one-third of US GDP. It could be close to $10trn by year's end. At £700bn, the Bank of England's balance sheet is worth roughly one-quarter of Britain's national income. History shows that "the correlation between monetary growth and inflation" is "as long as your arm". Yet markets and many economists are strikingly blasé about the risks.

CPI could spike...

For the moment inflation is quiescent. The annual pace of UK consumer price inflation (CPI) in May was just 0.5%, the lowest rate in four years. Month-on-month readings of core US inflation have fallen for three months running. And markets expect the pattern to continue, says James Mackintosh in The Wall Street Journal. US bond prices currently imply that inflation will be below 1% over the next five years.

The argument runs that tumbling oil prices and mass unemployment make deflation the greater immediate danger, says Karen Ward in the Financial Times. Analysts fear that the developed world could follow Japan into stagnation. But energy markets will not remain oversupplied forever and consumer spending – artificially constrained by lockdowns – could "roar back" when restrictions are lifted. That demand surge will run into constrained supply as global supply chains struggle to ramp back up, resulting in higher prices. Within a year we will see that inflation is "very much alive and kicking".

> *"With state spending soaring and the money supply rising gold is a great store of value"*

...or rise gradually

The extreme political, health and economic events of recent years mean that the future contains an "extraordinarily wide range of possibilities", from a deflationary spiral to a return to 1970s stagflation, reckons Neil Irwin in The New York Times. In the short-term inflation could be subject to a "yo-yo effect": just look at how oil prices have alternately crashed and then staged a 100% rally in a matter of months. If inflation makes a comeback it may come not as a sudden spike, but as a gradual trend.

Sceptics say that this view has been proved wrong before. The global surge in quantitative easing after the financial crisis did not trigger a sustained rise in inflation. Yet as MoneyWeek pointed out recently, in 2020 two things are different. Firstly, the banks are in much better shape than they were in 2008, so extra cash seems more likely to be redirected into the real economy via loans rather than being used to plug massive holes in balance sheets.

Secondly, consumers' debt is lower – indeed households have been paying down credit-card debt during the lockdown. That increases the chance of a spending surge once all of that pent-up demand can be released by economic re-opening.

Other trends also point towards a more inflationary 2020s. As Kenneth Rogoff says on Project Syndicate, globalisation has depressed the prices of many goods over recent decades, but the "post-pandemic world" is likely to be one where politicians and voters reject trade openness in favour of simpler and more local supply chains. That may bring more secure control over resources such as masks and medical equipment, but consumers will have to pay a premium for it.

Politicians learn to love rising prices

Politics is at the heart of the inflationary outlook, says Goodhart. Economists assure us that they "know how to deal" with inflation, but they forget that efforts to curb the price rises of the 1970s demanded painful interest rate rises. UK interest rates hit 17% in 1979. That triggered sharp recessions and mass unemployment.

There would be little political appetite for a repeat today. Populists of left and right are "not going to tolerate" spending cuts or interest rate hikes, says Eoin Treacy of Fuller Treacy Money. It is also far easier for left-wing radicals to argue for MMT ("modern monetary theory", sometimes derisively dubbed the "magic money tree") when central banks appear to be running a version of it already by "actively supplying governments with as much money as they require".

After "hosing down the economy with cash" for the pandemic, policymakers will struggle to tell voters that they don't have any money to spend, Albert Edwards of Société Générale tells Mackintosh. The shift towards more government spending is not confined to the political fringes either, adds Larry Elliott in The Guardian. UK government borrowing this year is heading towards a peacetime record, but "there is no appetite in the Conservative party for a repeat of Osborne's austerity regime".

Another reason the path of least political resistance implies higher spending, borrowing and inflation is that the easiest way to get rid of huge debts is through a rise in the general level of prices. If public borrowing is to soar then an inflationary spike – which erodes the real value of debt – will suit the world's finance ministers just fine over the coming decades.

Gold set for hot summer

Not all markets are so complacent about the inflationary threat. The price of gold hit $1,760/oz this week, the highest level since October 2012. In UK sterling terms the yellow metal has already hit new record peaks. In a time of soaring government spending and an expanding money supply gold looks like an attractive store of value, Dominic O'Kane of JPMorgan tells Connor Smith on Barron's.

Investors need a hedge against currency debasement and gold fits the bill, agrees John Authers on Bloomberg. It pays no interest, but in an era of negative government bond yields not many other "safe" assets do either. The gold market may be set for a "summer heatwave".

Will it be 2008 all over again?

Are we heading for another financial crisis? asks Frank Partnoy in The Atlantic. Readers will remember collateralised debt obligations (CDOs) from 2008. These securities, which packaged together US mortgages, caused billions of dollars in losses at banks. Now we have the CLO, or collateralised loan obligation. A CLO "walks and talks like a CDO", but instead of home loans they are backed by business loans. In the place of "subprime mortgages", we have "leveraged loans" made to "troubled businesses". The CLO market is bigger now than the CDO market was in 2007.

About half of borrowing in the $2trn US corporate leveraged loan market has been securitised as a CLO, says Telis Demos in The Wall Street Journal. Most are structured defensively and senior holders would be unlikely to lose principal on even the most pessimistic forecasts. The products seem unlikely to trigger serious losses for banks. "Triple-A rated CLOs have famously never defaulted," says Brian Chappatta on Bloomberg. There are legitimate concerns about the sustainability of US leveraged loans, but talk of a coming banking system collapse is fanciful. For instance, Wells Fargo's $29.7bn CLO exposure sounds large until you see that it is only 1.5% of its total assets. We have many problems, but a repeat of the 2008 financial collapse caused by securitised debt "isn't one of them".

Britain offers historic value

"Those struggling to break bad habits should take inspiration from the eurozone," says The Economist. The currency bloc blundered its way through the financial crisis, but this time around the response has been swifter. The proposed €750bn "EU Recovery Fund", to be financed by common borrowing, may be a first step towards easing imbalances between the north and south. The European Central Bank (ECB) has soothed markets with more than €1trn in emergency bond purchases.

The UK is being rubbished by the herd and looks a bargain

©Alamy

Why Europe lags America

The pan-European Stoxx Europe 600 has lagged global markets this year. It has slipped by 12% since 1 January compared with the S&P 500's 4% decline. The underperformance dates back to 2018, when Donald Trump started beating the tariff drum, says Holly Thomas in The Sunday Times. Exports comprise 45% of euro area GDP, making it unusually dependent on world trade.

Covid-19 has hit Europe hard. Credit-ratings agency Scope Ratings thinks that it may be 2022 before European countries return to 2019 levels of output. Nevertheless, things appear to be on the mend. Positive purchasing managers' surveys this week from Germany, France and the UK look consistent with "a textbook V-shaped recovery" for now, says Carsten Brzeski of ING. The narrative around European shares is brightening, says Morgan Stanley in an investment note. The continent's assets have been trading on a discount since 2010 because of "lingering fears" about a eurozone breakup. The proposed EU recovery fund may put that concern to bed.

The other market catalyst is Germany's unexpected conversion to fiscal stimulus, says Joseph de Weck for Foreign Policy. When Europe's biggest economy spends "not only German boats are lifted". Germany is the UK's second-biggest trading partner, so British exporters should enjoy some uplift too. British shares are also cheap compared with their continental peers. Dividend cuts and uncertainty over Brexit have soured sentiment towards the FTSE, says Ian Cowie in The Sunday Times. That creates a chance to buy low. With British stocks being "rubbished by the herd", contrarians and value hunters will spy opportunity. The UK still offers one of the best dividend yields in Europe and hosts many "quality companies" with diverse global revenues, says Teodor Dilov of Interactive Investor.

The value opportunity is indeed historic. Duncan Lamont of Schroders notes that on a trailing price/earnings, price/book and dividend yield, basis UK shares are trading at a 10%-20% discount to their 15-year median. Only emerging markets come close to such a large discount. With global stocks so pricey, the UK offers a rare pocket of value.

Viewpoint

"British firms have been forced to cut their dividends far further than their counterparts elsewhere. Where can investors turn?... Income investors tend to ignore America as the yield on the market is low at 2%; it is more than double this in Britain. But the market is large and within it there are a number of stocks that distribute large payouts. Many, such as Johnson & Johnson, the consumer goods firm, have increased their payment for the past 25 years or more. Microsoft is expected to become the world's largest dividend payer this year. While American dividends are steady, one fast-growing option is Asia, which now accounts for £1 in every £6 paid out in dividends globally... While Asia has not been unscathed and some companies have had to suspend their dividends, overall the amount paid out to shareholders in the region is growing."

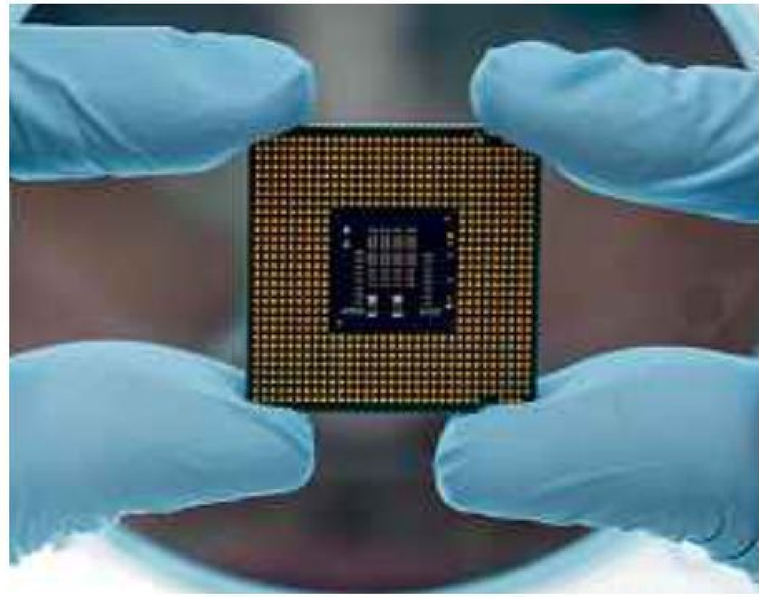
Jonathan Jones, The Sunday Telegraph

■ Britain's Great Depression

Between February and April, Britain's economy shrank by a quarter – about the same magnitude as America's during the Great Depression. March saw a slide of 5.8%, while in April alone a fifth of our gross domestic product (GDP) disappeared. That marked a record monthly drop almost 20 times worse than the steepest fall before the virus. That was in March 2009, when GDP fell by 1%. In the entire financial crisis it only slipped by 6% in total. GDP is now at the same level as it was in 2002. The Bank of England has cut interest rates to 0.1%, the lowest level since it was founded in 1694, and will soon have bought bonds worth £745bn, the equivalent of almost 40% of our GDP, with printed money.

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

Three to buy



Concurrent Technologies
The Mail on Sunday
Aim-listed Concurrent Technologies makes high-performance integrated computer systems that are used in such varied areas as telecoms, money printing and defence. The latter is the source of about 60% of sales and partly accounts for its "low stockmarket profile". Loyal employees who often stay with the firm for years make for a distinctive company culture centred on innovation and research. The order book is strong and it boasts a record of rising dividends. Buy. *108p*

Wincanton
The Times
Business at Britain's biggest logistics firm is already bouncing back after the lockdown induced by Covid-19. Activity is down by about one tenth on last year, but the slump seems to have bottomed out, with revenue advancing 7% on the month in May. The underlying business is robust, with grocery revenue up 26% in the year to 31 March and merchandise growing 5.8%. Long-term retail contracts with the likes of Morrisons, Sainsbury's and Waitrose should underpin growth whatever turn the pandemic takes. *194p*

XP Power
Money Observer
XP Power's equipment is essential for certain industrial and medical applications. It has shown its resilience before; last year profit was hit by the shaky semiconductor market and US-China tensions, but the firm still managed to deliver an impressive return on capital. Management is shifting more manufacturing to Vietnam in response to the trade war. The valuation is not cheap, but still appears "compelling" for a high-quality business. *3,560p*

Three to sell

BP
The Daily Telegraph
The oil price may have perked up, but BP's investors are bracing for a dividend cut. The oil giant recently slashed its long-term forecasts for oil and gas prices over the coming decades, causing it to write £13.9bn off the value of its assets. Management thinks that the pandemic will only speed up initiatives to decarbonise the economy. The group's solar power and biofuel operations give it future growth, but they generated a minuscule slice of last year's £224bn in business revenue. The stock has rallied 38% since the March low. That could be an opportunity to take profits. *322p*

Domino's Pizza
Shares
A strong brand and robust delivery network made Domino's one of the early winners from lockdown. Yet a recent trading update provides a more nuanced picture, showing that customers are increasingly opting for lower-margin items, such as desserts. Margins are also being squeezed by spending on the hygiene measures needed to keep customers and staff safe from the virus. Rising revenue is nice, but thinner margins and less certain earnings are more important. Take profits. *310p*

Signature Aviation
Investors Chronicle
This FTSE 250 firm offers fuelling and hangar services to the private-jet market. The shares have soared by 70% since March. Yet the group's flight activity fell by an annualised 77% in April. Longer term, downturns usually prompt corporations to cut back on private-jet spending, while long-distance meetings are becoming more fashionable. On a forward price/earnings ratio of 19 the shares are too richly priced given the risks. *224p*

...and the rest

The Daily Telegraph
The events industry has been rocked by Covid-19, but exhibitions specialist **Informa** is well run and reasonably priced on 11 times 2021 earnings: a buy for those prepared to wait for a recovery *(495p)*. Even a utility like **National Grid** has not been spared an earnings hit, but the dividend looks secure. Hold *(950p)*.

Investors Chronicle
Nestlé's food empire encompasses more than 2,000 brands. That makes it highly diversified at a time when consumers' habits are changing and supports generous returns of capital via dividends and buybacks. Buy *(CHF104)*. Business is returning to normal at price-comparison websites and a period of economic weakness could prompt more interest in price switching, so consider switching some cash to **GoCo Group** *(90p)*.

The Mail on Sunday
Shares in regulation, quality control and compliance software group Ideagen are up more than fivefold in six years. Some profit-taking may be in order, but recurring revenues, good growth prospects and a small dividend are reasons to keep at least some money on the table *(180p)*. Translation specialist **RWS** is well positioned to harness post-pandemic trends in IT and life sciences – a "cracking Aim investment" that should deliver further gains *(577p)*.

Shares
Investment manager **Polar Capital** focuses on structurally growing areas such as technology and healthcare and has an impressive record of delivering high returns on equity – buy *(455p)*. Investment trust **Hipgnosis Songs Fund** turns musical hits into dividends, with the current 4.5% yield especially attractive for income seekers *(116p)*.

An American view

The slump in US inflation-adjusted restaurant sales to 36-year lows has battered the shares of their food suppliers, says Daren Fonda in Barron's. That makes Performance Food Group worth a look. Some restaurants won't recover, but that implies fewer miles driven and more cost-effective distribution routes. Performance Food bought the second-biggest private distributor in the US last year and is one of the top suppliers to independent pizzerias, which have done especially well in the downturn. A third of its sales stem from providing snacks to vending machines, theatres and convenience stores; the latter have proved resilient. One analyst sees scope for the stock to rise by 70% from here.

IPO watch

Last week saw America's biggest initial public offering (IPO) of the year, says Nathan Vardi in Forbes. Shares in Royalty Pharma, an acquirer of pharmaceutical royalty streams, soared by 60% when they began trading. The company sold 77.7 million shares at $28 each, raising $2.18bn and valuing the group at $16.7bn. The group's founder and CEO Pablo Legorreta, a billionaire and former investment banker, helped pioneer the idea of investing in drug royalty streams when he set the firm up in 1996. It bought "revenue slices of blockbuster drugs" from Big Pharma "years before these products reached their peak sales".

©Domino's; iStockphotos; Nestlé.

City talk

● Unilever is now trading at a "very big discount" to Colgate and Procter & Gamble, says Hannah Uttley in The Daily Telegraph. No wonder. Not only were sales stagnant in the first quarter of the year, but analysts also expect more poor numbers at Unilever's half-year results next month.

This is putting "great pressure" on both CEO Alan Jope and chairman Nils Andersen, who are clearly worried about an activist investor coming in to shake things up, prompting them to revive plans to establish a single headquarters for the Anglo-Dutch company in London. However, in the longer run they will have to make more radical changes, including exiting the "rapidly declining" tea business, though it may be hard to find a buyer "during the depths of a global recession".

● German billionaire Heinz Hermann Thiele, who currently controls 15.5% of Deutsche Lufthansa, Germany's flag carrier, has threatened to "shoot down" the airline's €9bn bailout, because it gives the German state too much influence in the company, says Ed Cropley on Breakingviews. While he is clearly betting on the government offering better terms, such a move risks "[tipping] the airline into bankruptcy".

However, if Thiele was allowed to invest more money "on the same terms as the government", Lufthansa would get its money, "but Berlin's role would be diminished". That might even sit comfortably with chancellor Angela Merkel, who watered down the original plans for the German government to take a 20% stake in the airline. While other shareholders would be less pleased, there's "not much" they can do and a 'slightly smaller" state stake would be "in the interests of all private investors".

©Alamy; Getty Images; iStockphotos

Wipeout at Wirecard

The German blue-chip technology group, which specialised in payment-processing, has collapsed in scandal. Matthew Partridge reports

Markus Braun, who resigned last week as CEO of Wirecard, has now been arrested in Germany on charges of accounting fraud and manipulating the share price, says Simon Foy in The Daily Telegraph. He has been accused by authorities of "portraying Wirecard as financially stronger and more attractive for investors and clients" than it actually was (see story below for details). This comes after Wirecard admitted that €1.9bn (£1.7bn) of cash missing from its balance sheet "probably did not exist". The company is "now scrambling to stay afloat" and is considering a "massive restructuring".

The latest revelations have been a disaster for shareholders, who have seen Wirecard's share price plunge by more than 80% over the past few days, says the Financial Times. But things may get even worse, since the scandal throws into doubt the entire performance of its payment-processing business, which was previously deemed the group's key source of profits. Despite Wirecard's talk of cost cuts and asset sales, lenders are unlikely to accept a delay in payments if the company "does not have much of a real franchise that generates real cash flow". So there is a good chance that equity holders "will be left with nothing".

Ex-CEO Markus Braun faces charges of accounting fraud and market manipulation

Heading for insolvency?

It's clear that there's "little chance" of the company paying back creditors from its existing resources, says Liam Proud for Breakingviews. Still, lenders might as well be patient, since calling in the loans immediately "would tip the company into insolvency". The best solution might be to extend Wirecard's credit facility, giving the new boss James Freis enough time to "put together a financial rescue plan".

Nonsense, says Chris Bryant on Bloomberg. Even if Freis manages to get banks to keep extending credit, there's the issue of whether Wirecard "can hang onto its customers" after such an "epic failure" of internal controls and risk management. Indeed, the fact that there are "other providers of similar digital payment services" means that the company is "hardly irreplaceable". Factor in the anticipated "avalanche of litigation" and regulators forcing Wirecard's bank to close, and its days seems numbered. What's more, given its behaviour, the question isn't only "whether Wirecard can survive", but also "whether it should".

At least one creditor may have got out in time, says Margot Patrick in The Wall Street Journal. At the start of the year, part of SoftBank Group bought €900m worth of convertible bonds from Wirecard as part of a "strategic partnership". However, instead of holding onto the bonds, which at the time were seen as providing a "shot in the arm" for Wirecard, it arranged for Credit Suisse to package them up and resell them to third-party investors. The bonds now trade for 12% of face value, "stranding investors and European private banks that bought [them]".

The meteoric rise and fall of a fintech

The ongoing scandal is the latest chapter in the story of financial technology company Wirecard, says Kevin Granville in The New York Times. Wirecard was founded in 1999 and flourished in recent years as a provider of digital-payment services, prospering by "making contactless payments seemingly effortless for hundreds of thousands of merchants". Customers included Apple Pay, Google Pay and Visa.

Praised as a "homegrown technology success" in Germany, it was propelled into Frankfurt's blue-chip stock index, the DAX, in 2018. However, the very same year, Wirecard's "meteoric rise"

came to a halt, says the Financial Times. This is because an investigation by the FT examined its "suspected use of forged contracts", while a report by a top law firm found "evidence suggesting Wirecard's employees engaged in a pattern of book-padding and made up partners that couldn't be found" to inflate profits and revenues. Last year Singaporean authorities raiding its Asian offices. The final straw came earlier this month, with banks in the Philippines, the supposed location of Wirecard's "missing funds", confirming that the company "was not a client".

Wirecard's collapse is a "vindication" for short-sellers, who have been questioning its accounting for years only to be threatened with lawsuits for "defamation", say Paul Davies and Juliet Chung in The Wall Street Journal. It hardly helped that in 2019 Germany's financial regulator BaFin took the"unusual step of banning short-selling against the company".

How business property relief could reduce your inheritance tax bill

David Prosser

Inheritance tax (IHT) is the most unpopular tax of them all. YouGov research suggests 59% of Britons think IHT is unfair – more than they criticise any other tax they might have to pay. The polling group found support for reform of IHT from across the political spectrum – even Labour voters considered the tax as more unfair than any other in the survey.

There are some good reasons for these attitudes. Many people resent the fact that income and wealth on which they have already paid tax will be taxed for a second time when they pass it on to their heirs. They also dislike the idea their death could trigger a nasty tax bill – the last thing families want to be worrying about when they're grieving. And with IHT usually payable at a rate of 40%, the bill can be sizeable – as much as £270,000 on an estate worth £1m once the nil-rate band (the non-taxable element of your wealth) is taken off.

Perhaps worst of all, there is real anger that what was once a tax aimed at the very wealthiest families has become something that even people with relatively modest estates may need to worry about. IHT is potentially payable when someone passes on wealth totalling more than £325,000, a threshold that has not increased since 2009. There is now an additional allowance for people who pass on their home to their direct heirs, but even this only takes the allowance to £500,000.

Even with the sharing of allowances between spouses, given the rapid growth of house prices in recent years, many ordinary families are now caught in the IHT trap. And each year, this trap springs shut on more people. In the 2018-19 financial year, the most recent period for which figures are available, almost 30,000 families handed over more IHT to HM Revenue and Customs (HMRC) than ever before – some £5.36bn. That represented an average tax bill of £179,000 each.

More IHT pain ahead?

The problem may get worse: 2018-19 was the ninth successive year in which IHT receipts increased and the Office for Budgetary Responsibility, the independent body that scrutinises the public finances, expects the total bill to reach £6.3bn by 2023-24. The proportion of deaths that trigger an IHT bill has more than doubled over the past decade.

IHT is something of a political minefield. Inheritance Tax has frequently been criticised by Conservative politicians; Sajid Javid, the former Chancellor, even floated the idea of scrapping it altogether in the run-up to last year's general election. However, with the cost of the Covid-19 pandemic putting huge pressure on the public finances, the government cannot afford to lose the revenues that IHT generates.

Indeed, if there are to be changes to IHT, the tax may become even more onerous. There are plans to finally begin increasing the IHT threshold from the 2021-22 tax year onwards, albeit only in line with inflation. But who knows whether this will now go ahead? After all, estate duty, the forerunner of IHT, went as high as 80% in the years following World War II, when the UK was looking for ways to pay down the debts it had amassed during the conflict.

How to protect your wealth

It's not all bad news, though. There are some relatively straightforward ways to protect your wealth from IHT, reducing or eliminating altogether the bill your heirs will face. It's important to stress this isn't tax evasion or even tax avoidance; rather, it's perfectly legitimate and sensible financial planning.

Some IHT planning options are relatively well-known. Making small gifts to others – including your eventual heirs – will reduce the size of your estate and therefore the potential IHT bill due on it. You can make larger gifts too: these are known as potentially exempt transfers (PETs), because the rules say you must live for at least seven years after gifting for them to no longer be considered relevant for IHT purposes. Trusts are another option. When you move your assets into a

trust, they no longer count as part of your estate, so there will be less wealth on which the taxman can charge IHT.

However, these well-known IHT mitigation strategies do have drawbacks. With PETs, for example, you're relying on living for seven years to secure the IHT saving. Also, money you give away, whether through a PET or to a trust, is no longer available to you – what happens if, say, it turns out you need the money to cover the cost of long-term care in a residential home?

Business property relief

For this reason, IHT-planning strategies that rely on a tax concession known as business property relief (BPR) are becoming more popular with those willing to take on a degree of investment risk. BPR is less well-known than other IHT planning opportunities, but it has certain advantages.

"You could say BPR is IHT planning for those in the know," says Alex Davies, chief executive of Wealth Club, the UK's largest investment platform for high net worth and experienced investors. "Not many investors are familiar with it, but those who are really like it."

> "YouGov research suggests that 59% of Britons think IHT is unfair"

The idea is simple. Any investments in your estate that qualify for BPR will, under current rules, not count for IHT purposes as long as you have owned them for at least two years at the time of your death. This part of your estate can be passed on to heirs with no IHT to pay at all.

BPR was introduced in 1976 to help owners of family-owned businesses to pass those businesses on to their heirs without having to break them up to cover the cost of IHT. That remains the case, but the relief has been steadily extended over the years and now applies to a much wider range of assets – you do not need to run the business or own all of it for it to qualify for BPR.

Indeed, most unquoted companies – that is, companies whose shares are not listed on the stock market – potentially qualify shareholders for BPR, even if you only own a small proportion of their shares. Importantly, shares in many businesses listed on Aim, the London Stock Exchange's junior market, also qualify. Aim-listed shares can even be held in an individual savings account (Isa), which protects them from income tax and capital gains tax, so you can get these benefits as well as BPR.

One advantage of BPR is that this is a much quicker way to plan for IHT, since your investments qualify after two years, rather than the seven-year waiting period with PETs. You also retain access to your investments, should you need the money for other purposes, and you stay in control, with your wealth held in your own name. Another plus point is that BPR-qualifying investments do not count towards your IHT allowance, so this can still be set against the rest of your wealth.

Against that, all investments can fall in value as well as rise, which means you're taking a risk by holding some of your wealth in this form. Unquoted companies and Aim-listed shares have, in the past at least, been particularly volatile, so this risk is elevated. They can also be more difficult to sell – less liquid in the investment jargon. For this reason, investments that qualify for BPR are better suited to experienced investors who are happy to accept the risk of losses as well as gains.

One option, points out Davies, is to leave the process of managing a BPR portfolio to an asset manager specialising in this area. "I've always been a fan of DIY investing but this is one area in my opinion where it is best to leave it to the professionals," he says. Davies' view is that for many people, the risks of BPR will be outweighed by the advantages, particularly if they take expert advice. "The specialist asset managers will invest with capital preservation as a priority, but you could still lose your money," he warns. "However, if your estate could potentially face a 40% inheritance tax bill and you don't like the idea of giving money away, it could well be a risk worth taking."

How to beat the inheritance tax trap is available to download at **www.beat-iht.co.uk**

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Boris throws open the doors

The quarantine is over; the real difficulties only now begin. Emily Hohler reports

Johnson: the long hibernation is over

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Britain's "long national hibernation" is coming to its end, Boris Johnson has said, but he will "not hesitate to put on the handbrake" if required. On 4 July, ahead of other countries, pubs, restaurants, cinemas and places of worship will open in England. The two-metre social-distancing rule will be reduced to "one metre plus" with mitigations such as mask-wearing. Johnson is expected to announce the lifting of the UK's 14-day quarantine arrangements from certain countries soon. The government is "walking a tightrope", says the Financial Times. Prominent scientists, including David King, the government's former chief scientific adviser, have misgivings. Sir David warned that it was not yet safe to relax social-distancing rules indoors. Johnson, whose approval ratings (along with those of the government) have taken a big hit due to the handling of the pandemic, acknowledged that this is "one of the biggest calls of his premiership", says George Parker, also in the FT.

A risky gamble?

It is hard to avoid a sense that, "in a race to head off a terrible recession, lockdown is being exited somewhat on the fly and corners are being cut", says The Guardian. The reduction of the social-distancing rule was "transparently driven" by the desire to open up the hospitality industry. The chief scientific adviser, Patrick Vallance, and the chief medical officer, Chris Whitty, "conspicuously failed to offer full-throated support". There are "grey areas and hopeful assumptions". The new guidelines for pubs, which may involve registering customers' details, seem "ambitious". Self-policing distancing rules on "exuberant summer nights" will pose a "mighty challenge". Although the daily number of new infections is declining, it is still averaging more than 1,000 – more than France or Italy. A resurgence of cases in Germany and China have "underlined the stakes". It would be less of a gamble if the UK had an effective track-and-trace system in place.

Testing on a massive scale is the way forward

In the report published by his Institute for Global Change, Tony Blair says that a wide range of rapid tests are under development and argues that, with "government funding, commitment and accelerated permissions", they can be rolled out faster, says William Hague in The Daily Telegraph, who agrees that this should be an "overriding national strategy". While the cost could run into billions, it would be "very little compared to the costs of one day of lockdown".

Lockdown is not only harming the economy, it is "increasing inequality, social tension and unaffordable debt", says Hague. Cancers and other illnesses have gone undiagnosed, hundreds of thousands are likely to lose their jobs, and the education of millions of young people has been "severely damaged". The almost instant point-of use tests, used on a "truly massive scale" each week as people arrive from abroad, go to a conference or even just go out, could "produce the data to act quickly and avoid further lockdowns". Taking them would become our way of life, but that is "better than mass unemployment and widespread other illnesses becoming our way of life instead".

Trump turncoat goes on the attack

Bolton: a self-interested crusade

In a scathing interview on Sunday night, John Bolton, Donald Trump's longest-serving security adviser, said that he would not be voting for Trump in the forthcoming presidential election and that he posed a "danger for the republic if re-elected". In an interview with ABC News to promote his book, *The Room Where It Happened*, Bolton described the president as "stunningly ill-informed", "erratic and impulsive" and motivated only by his wish to get re-elected, says Aime Williams in the FT. He said that Trump was "played like a fiddle" by Russian President Putin and could be "manipulated by other foreign adversaries", including China.

However, critics are asking why, if Bolton was so opposed to Trump, he didn't testify in the impeachment hearing into the president's alleged misdeeds regarding Ukraine. Indeed, in order to "be in the room" and pursue "uber-hawkish foreign policies", Bolton was also apparently "willing to destroy the governmental structures that could check the president", says Jon Gans in The New York Times. Bolton's "lonely, self-interested crusade" against Trump speaks volumes about "where Washington finds itself".

There is clearly a sizeable majority who aren't enamoured of Trump, says Aaron Blake in The Washington Post. Sliding approval ratings reflect growing discontent at his response to the pandemic and the George Floyd protests and an election forecast by The Economist puts Joe Biden's likelihood of winning the presidential election at 85% and Trump's at just 14%. Whatever the truth or motives behind Bolton's memoirs, there are "plenty" of voters who buy into his view that a second Trump term could spell "chaos".

Betting on politics

As President Trump's polling woes mount, punters continue to move away from him. With £39.5m already matched on Betfair, Joe Biden's odds have tightened to 1.74 (57.4%), while Trump's have lengthened to 2.72 (36.7%). This is quite a change, given that two months ago Trump (pictured) was odds-on to be re-elected, and as late as last month was still favourite. Of course, betting markets have underestimated Trump before, giving him a 25% chance this time four years ago, but his polling situation in the key states is far worse now then it was previously.

Indeed, for the first time, punters seem to think that Trump is more likely to be replaced (for whatever reason) as the Republican candidate, than Biden is as the Democratic candidate. You can get 1.05 (95.2%) on Biden being the Democratic nominee, while Trump is 1.06 (94.3%) to be the Republican candidate. Given that Trump controls virtually all of the delegates to the Republican convention in August, the latter bet looks somewhat tempting, but the odds are just too short to recommend.

Instead, I recommend you take the 1/8 (88.9%) on Trump to win Indiana. It's a solidly Republican state that has voted for the GOP in every election (with the sole exception of 2008) from 1968 onwards, and which Trump won by a margin of 19% in 2016. Even today, the latest polls give him a 10% lead over Biden. Unless Trump's core support completely deserts him, and they seem to be largely with him, he should be able to carry the state.

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Gunning for a deal Down Under

It might seem a minor matter compared with Brexit, but a trade agreement with Australia is a big deal

Matthew Lynn
City columnist

It is only the 14th largest economy in the world. It is almost 10,000 miles away. And it mainly specialises in mining, with some sheep farming on the side. As official talks start, many will dismiss a trade deal with Australia as nothing more than a minor side-show of interest only to a few swivel-eyed Brexiteers intent on recreating the Empire. That is a mistake.

A gateway to the East

It's not hard to understand why leaders on both sides were so keen to get the talks started. Australia doesn't have a trade deal with the EU – it is negotiating one at the same time – and while we were inside that trade bloc Australia's exporters faced tariffs and often quotas, especially on agricultural goods, when they were selling into the UK. All of a sudden, its companies will have a huge new market. Of course, Australia has done just fine without that. Until this year, it had witnessed the longest recorded economic expansion ever. It is a rich country. But a deal with what was historically one of its most significant partners will help it to grow faster.

For Britain, by contrast, it might seem like a minor matter compared with the deal we hope to strike with the EU. After all, the EU is the largest economic bloc in the world, with a combined GDP more than 15 times the size of Australia's. Yet the Australian deal matters a lot and arguably even more than an EU one. Here's why.

Firstly, Australia can be a gateway to the far faster growing Pacific for British firms. True, the Australian economy is not especially large, and New Zealand is just a rounding error in global output. But both

A more important trading partner than he seems

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countries are a part of a Pacific economy that is booming. Over the course of this century, Asia will be the world's fastest growing bloc, followed by North America, with Europe some way behind. Regardless of what policies are pursued, demographics make that a certainty. Europe's population is declining and its output will fall with it. A UK-Australia deal will help plug British companies into that market. The UK has already applied to join the Trans-Pacific Partnership that will link countries such as Canada and Australia with Singapore, Japan and Vietnam among a ring of fast-growing Asian states. That is a potentially huge market – and a deal with Australia is a great starting point.

Next, in a global trading economy based increasingly on digital services, language and culture matter far more than proximity. The internet doesn't have transport costs, so it doesn't matter whether the customer is ten thousand or one just one mile away. There is a huge English-speaking world into which we can sell e-books, music, design and consulting services, legal advice and financial products. Already the bulk of our exports are services, and an increasing percentage of those are completely digital. Our trade with the English-speaking world can grow far faster than it can with anywhere else – Australia is the perfect place to start.

A template for future agreements

Finally, and perhaps most importantly, it will be a template for future post-Brexit trade deals. The first deal the UK strikes will set the tone for each one that follows, and it will establish the kind of commercial relationships the UK wants. What should a deal look like? It should be open, tariff-free, with no quotas, and with no restrictions on takeovers, and it should maximise the opportunities for companies and individuals to deal freely with one another on whatever terms they choose. But it should also respect each country's sovereignty, and ditch all the cumbersome, legalistic baggage that has hampered other trade deals – and the EU most of all – over the last decade. Deals with Japan, the US, China and of course the EU are all far more important in terms of size. But if the Australian deal works, and is seen to work, the UK can replicate it with other countries. Australian and British firms will probably be trading happily with each other long before Brussels ever gets around to agreeing a deal with the UK.

Who's getting what

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● **Theresa May** (pictured) has been in demand from big banks and American universities since stepping down as prime minister last year, says The Times. In that time, she has agreed to give eight speeches around the world, for which she was paid on average £100,000 for each, according to the register of MPs' interests. May has also declared 14 occasions when she received hospitality from Heathrow airport for use of its VIP package, worth £4,200 each time. The service includes chauffeur-driven cars and use of the royal Windsor suite.

● Dutch bank ING's chief risk officer, **Steven van Rijswijk**, will be taking over from Ralph Hamers in the top job when Hamers leaves to take charge of Swiss rival UBS in the autumn. Van Rijswijk has worked at ING in various parts of the business for 25 years, including in the bank's wholesale banking division. He joined the board three years ago. While details of his new pay package have yet to be announced, van Rijswijk was paid a total of €1.8m, including a base salary of €1.2m, for 2019. Hamers earned €2.6m in total.

● Close Brothers has appointed **Adrian Sainsbury** to head the merchant banking group from September, replacing Preben Prebensen. Sainsbury will be paid a £550,000 annual salary, says the FT. He joined the bank in 2013 as the chief executive of the commercial division, and from 2016, he served as the ma naging director of the banking division. Prebensen is leaving after 11 years at the helm.

Nice work if you can get it

Too many companies are returning top brass pay to previous levels having cut them as a gesture of solidarity during the pandemic, says Kate Burgess in the Financial Times. That's acceptable for firms such as utility Severn Trent that turned to neither taxpayers nor shareholders for help. Others "should adopt the brace position" and prepare for a backlash. Foxtons, the estate agent, for example, "risks irritating investors and staff" as it returns its top executives to full pay after just two months. CEO Nic Budden's £1.2m total package last year was "more than 30 times that of the average agent's remuneration". The company raised cash from shareholders, furloughed staff and deferred what levies it could, including national insurance. It will take a long time for many big businesses to fully recover. "Top brass pay should recover at an equivalent pace."

Washington DC

States struggle with virus: Southern and western states, including California, Arizona and Texas, have reported spikes in new cases of Covid-19. Hospitalisations nationwide rose 5% within 24 hours on Tuesday, the biggest increase since 14 April, and the third increase over the previous five days. "Further big increases are inevitable," says Ian Shepherdson, chief economist at Pantheon Macroeconomics. Larry Kudlow, the top economic official at the White House, dismissed fears of a second wave of the virus. "We've got the testing procedures [in place]," he told CNBC. Meanwhile, the number of newly unemployed people applying for benefits has shown signs of stabilising. New applications edged lower by 58,000 to a seasonally adjusted 1.5 million in the week ending 13 June. "While it is the fewest weekly applications since mid-March, it also showed the pace of layoffs is no longer significantly easing," says Eric Morath in The Wall Street Journal. Struggling freelancers and businesses are relieved that Steven Mnuchin, the Treasury secretary, is considering extending the deadline of 15 July for tax filings. The date has already been postponed once, from 15 April.

Berlin

Light at the end of the tunnel: Authorities in the western German state of North Rhine-Westphalia scrambled to contain an outbreak of Covid-19 after 1,500 workers at a meat-packing factory tested positive for the virus, says BBC News. A total of five localised outbreaks have been reported in Germany. But this hardly amounts to a second wave, according to Ian Shepherdson of Pantheon Macroeconomics. Meanwhile, the widely monitored Business Climate Index, from the Institute for Economic Research (Ifo), indicates that "the rebound in Germany has been a little quicker, and the slump in GDP probably smaller, than we had anticipated", says Andrew Kenningham, chief Europe economist at Capital Economics. The index recorded the biggest monthly increase since 1990. But in Europe's seven biggest economies the slow distribution of state aid for businesses risks hampering the recovery, says Alexander Weber on Bloomberg. "Less than 15% of [the money] made available by governments via banks as loan guarantees for business has been used."

Minsk

Europe's last dictator is in trouble: Thousands of Belarusians took to the streets in ten cities across the country this week to protest against President Alexander Lukashenko's (pictured) re-election campaign, says Mary Ilyushina on CNN. Opposition activists have accused Lukashenko of attempting to eliminate candidates from the presidential race after two of his main opponents were arrested. Known as "Europe's last dictator", Lukashenko has ruled the former Soviet republic since 1994 and is running for the sixth time. "The situation threatens to spin out of control for Lukashenko," Belarusian expert Maryna Rakhlei told Andrew Higgins in The New York Times. He is struggling "to silence the protests as they are largely on social media and spread like forest fire". A key problem is that Lukashenko's handling of the Covid-19 pandemic has been "slow and tin-eared", says Sean Williams on Wired. The country has registered nearly 60,000 cases and over 350 deaths, but experts agree the true figure is far higher. Reliant on oil and machinery exports, the economy is tanking. GDP is expected to shrink by 4% this year.

Buenos Aires

Debt restructuring talks poised to collapse: Argentina's negotiations with foreign creditors over the restructuring of $65bn of debt are close to collapsing, "threatening to plunge the economy even deeper into crisis", say Benedict Mander and Colby Smith in the Financial Times. Both sides refuse to budge, with the Argentinian government saying it "cannot responsibly commit" to creditors' demands. The country's largest group of creditors, including BlackRock, Ashmore and Fidelity, maintained the government had "walked away from a sustainable and sensible solution" they had offered, which among other adjustments reduced the average coupon rate to 3.6% from 4.25%. The creditors may take Argentina to court. The economy has been in recession for nearly two years and was "all but paralysed" when the nationwide lockdown began, says the Buenos Aires Times. GDP shrank by 5.4% year-on-year in the first quarter of the year and unemployment rose to 10.4% in that same period. The second-quarter numbers will be grim.

The way we live now: France's tax on bad grub

This Anglo-Saxon rubbish will kill you

France's eternal campaign against malign foreign trends undermining its way of life has moved up a notch. "French senators want to introduce a tax on bad food amid evidence that the nation is endangering its health by adopting lazy eating habits," says Adam Sage in The Times. The fee would be levied on foods containing high levels of salt, sugar and fat. The idea is to stop the population from hoovering up more and more "Anglo-Saxon-style pre-cooked meals". Senators "hold out little hope" of convincing people to abandon prepackaged food altogether, but they think manufacturers could adopt better practices. The "tax on bad grub" would resemble the levy imposed on soft drinks two years ago, which varies from €3.08 per 100 litres for drinks containing less than one kilogram of sugar per 100 litres to €24.12 for those with 15 kilograms of sugar. The amount of sugar added to drinks fell after the soft drink tax. France is known as the land of "unripened vegetables and sophisticated home-cooking", but the precooked meal market has grown by 4% a year since 1960; the time people spend in their kitchens has fallen by 25% in 25 years.

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The two-metre rule has been relaxed, much to the relief of the hospitality sector

London

Economy reopens: Much of England's hospitality and leisure sectors will reopen for business on 4 July with a relaxation in the two-metre social-distancing rule. Prime Minister Boris Johnson warned the latest easing of the lockdown could be reversed if there is a rise in infections of Covid-19. Chancellor Rishi Sunak is drawing up plans for deferred tax rises and cuts to public spending in his autumn Budget, the Financial Times reports. A temporary reduction in VAT for the hospitality sector as early as July could also be on the cards. Britain's carmaking industry has also called for a cut in VAT and more government support. The important services sector, however, is showing signs of recovery. An interim IHS Markit/Cips purchasing managers' survey for the sector rose to 47 in June, from 29 in May. Despite the reading of less than 50 still indicating a contraction in activity, the rise was the biggest since records began in 1998. Meanwhile, formal negotiations for a trade deal with Australia began this week (see page 11); the aim is to conclude them by the end of the year. And Japan said it has just six weeks to agree a trade deal with us if its parliament is to ratify it in time for it to apply from 1 January 2021.

Tokyo

State struggles to process aid claims: Around 40% of the cash allocated to Japan's households to temper the impact of the coronavirus has yet to reach its recipients, says Bloomberg, despite being approved in late April. The money is "stuck in Japan's ageing administrative pipeline, blocked by paperwork, complexity and a lack of staff". Other elements of Prime Minister Shinzo Abe's (pictured) $2.2trn aid package aren't faring much better. Only 14% of the $920bn earmarked for smaller firms has been lent out and only 5.8% of aid to companies maintaining their payrolls.
A key problem appears to be that Japan's government apparatus is unusually small; it employs 6% of the population, far below the rich-country average of 17.7%. The delays also highlight the need for "digitalisation and reform", according to Fujitsu's Martin Schultz. All the delays may help explain why there is little sign of the V-shaped recovery seen elsewhere. As Miguel Chanco of Pantheon Macroeconomics notes, the rebound expected in June is far too weak to save "even a sliver of the second quarter".

Pretoria

Can SAA take off again?: The South African government has received unsolicited proposals from unnamed private investors and potential airline partners interested in forming a new national airline based on South African Airways. The demise of the national carrier, which has been in bankruptcy protection for six months, has been blamed on Dudu Myeni (pictured), who was appointed chairwoman of SAA by her close friend, the former president Jacob Zuma despite having no relevant prior experience, says The Times. Myeni has been declared a delinquent director and banned for life from holding directorships by a high court judge who labelled her as "grossly negligent".
The news about the possible restructuring comes just days before a vote on a rescue plan by administrators that proposes a bailout of at least 26.7bn rand (£1.2bn) to include funds to pay lenders and an 80% cut in the workforce, says Bloomberg. The government is "having to tread a fine line between its desire for a viable national airline" and the need to provide yet another unpopular bailout. The domestic airline, SA Airlink, wants to block any rescue attempt; it is owed 700m rand by SAA and wants the carrier liquidated.

Singapore

Lockdown loosened as election looms: Singapore is heading to the polls on 10 July after Prime Minister Lee Hsien Loong said he believed an election could be held safely despite concerns that it could prompt a rise in Covid-19 infections, say John Geddie and Aradhana Aravindan on Reuters. The country has one of Asia's highest tallies of Covid-19, but it eased strict lockdown measures last week after they had been in place for over two months.
It received praise for its early containment efforts, implementing one of the world's strictest lockdowns to tackle a surge in imported cases and outbreaks in cramped workers' dormitories. Despite its small size, Singapore has been the worst-hit Asian country, says Yen Nee Lee on CNBC, with over 42,400 confirmed cases. The island state's "open and trade-dependent economy" has been severely affected. GDP contracted by 0.7% year-on-year in the first quarter and is expected to shrink by between 4% and 7% this year. The government announced four rounds of fiscal stimulus worth almost 100 billion Singapore dollars (£57bn) – 20% of GDP.
Lee warned the country has yet to feel the full economic fallout from Covid-19: "Despite all the measures we have taken, there will be more business closures, and more retrenchments". Unemployment, already at a ten-year high of 2.4%, "will go up".

Should the triple lock be scrapped?

It had been a key plank of the government's offer to older voters, but the promise to gold-plate the state pension is looking increasingly unaffordable. Simon Wilson reports

Happy days for pensioners – but they might not last for much longer

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What is the triple lock?

It's the guarantee, introduced by the coalition government in 2011, that the state pension is increased each year by either the (CPI) inflation rate, the rise in average earnings, or 2.5% – whichever of those three is the highest. The lock applies to both the "basic" state pension and the higher, flat-rate pension paid to people retiring since April 2016. This year, for example, the pension rose by 3.9% in April, in line with the rise in average earnings last year. But when the government introduced the triple lock, it did not foresee the prolonged stagnation in real earnings growth, which has meant that a guaranteed 2.5% increase has served pensioners very well compared with workers. In the ten years since the financial crisis, state pensions have increased 37% in cash terms, compared with less than 20% for average earnings. The triple lock has become part of the Tory pitch to older voters: it was reaffirmed in the party's election manifestos in 2015, 2017 and 2019. But now, chancellor Rishi Sunak is reportedly preparing to dump it.

Why does it need unlocking?

The triple lock has been criticised for years as no longer appropriate in an age of low wage rises and growing inter-generational inequality. But now there's a particular problem due to the wild fluctuations in wages expected as a result of the Covid-19 shutdown. Depending on the depth of the recession and the strength of the rebound, the government could be facing a massive pensions liability as wages fall but then bounce back by as much as 18% in 2021. This year, wages have "artificially" slumped as a result of the furlough scheme. But next year, they are expect to bounce back as people go back to work full-time, or are made redundant. Under the existing triple lock, pensioners will still get 2.5% next year. But in 2022 they'll benefit from the huge bounce back in 2021 earnings. Plainly, that's "not fair on working people", says The Sunday Times. "The triple lock should be stood down and replaced by a double lock to give pensioners 2.5% or the inflation rate."

What are the figures?

The latest forecasts from the Office for Budget Responsibility (OBR) suggest that average earnings will fall 7.3% in 2020, but rise by 18.3% in 2021. They reckon inflation will be 1.2% this year and 2.3% next year. Of course, these figures may turn out to be way off the mark: there is too much uncertainty about the post-Covid-19 recovery to be sure of much. However, what this scenario means for state pensions is that, with the triple lock still in place, the flat-rate pension would rise by 2.5% in 2021 and 18.3% in 2022. That's a two-year cumulative rise of 21.3%. For the flat-rate pension received by people who have retired since April 2016, that means a jump from £175.20 a week to £212.45.

How does that compare to no triple lock?

If the state pension rose in line with the OBR's predictions for average earnings, it would increase 9.7% over the next two years (down 7.3%, then up 18.3%). Clearly, that's still a decent uplift. Or, if the pension rose in line with predicted inflation it would rise by just 3.5% (1.2% and then 2.3%), rising to £192.15 a week. And if the triple lock became a double lock (removing the earnings link), it would increase by 5.1% (two years of 2.5%) over the same period to £184.07. That "double-lock" scenario is what many pundits are expecting to happen – perhaps with a promise of reintroducing the full triple lock after two or three years.

"Retaining the triple lock would cost £34bn more than an inflation-linked option"

What's the effect on the public finances?

These might sound like small sums, but there are an awful lot of pensioners. The triple-lock promise "simply wasn't designed for a world where inflation or earnings are veering so wildly from one year to the next", says Tom Selby of AJ Bell. According to his analysis, based on previous OBR costings and its estimates for future inflation and earnings, retaining the triple lock for 2021 and 2022 would cost over £22bn more than a straight link to average earnings and £34bn more than if it were only protected in line with inflation. That's a big chunk of money and compares to overall UK government spending of £109bn on pensioners in 2018-2019 (expected to rise to £115bn in the current year, on OBR figures).

So what will the government do?

The government has two options, says Selby. "Carry on with the state pension triple lock and create a colossal chasm in the public finances, or revisit the policy and risk the wrath of millions of pensioners." However, any break of the triple lock is likely to kick off a new round of debate about its long-term sustainability. Rather than remove the earnings link, most previous proposals to modify it have proposed removing the 2.5% guarantee. According to the Social Market Foundation, removing that guarantee could save the government £20bn over the next five years.

Is the triple lock really unfair?

Some defenders of the triple lock (such as Stephen Bush in the New Statesman) argue that attacking it on grounds of inter-generational fairness is misconceived. That's because today's pensioners are only going to benefit from it for a fairly short period of time. In the long run, the triple lock represents a strengthening of the state's role in pension provision and the people who will benefit most from decades of guaranteed increases are the young. And there's certainly a lot of ground to make up. Currently, the UK devotes a much smaller percentage of GDP to state pensions and other benefits for pensioners (around 5%) than most other advanced economies. However, the bigger picture is that the triple lock is already becoming unaffordable, given demographic trends, and Britain already has a relatively big and sophisticated private system; it makes sense to rely more on that to help ease the burden on the state over the longer term.

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Have small companies lost their edge?

Countless studies have shown that over the many decades following World War II, there have been two essential building blocks to building wealth over the long term. The first is that shares, otherwise known as equities, have greatly outperformed bonds (albeit that has become a little less clear cut in recent decades). The second lesson is that within those equity markets, it has been a case of "the smaller the better".

In simple terms, although companies with a smaller market capitalisation (market cap – the number of shares outstanding multiplied by the share price) are much riskier, the long-term returns from holding these stocks greatly outweighs those risks, producing returns far superior to holding government bonds, or even leviathan-scale businesses with a very large market cap.

Small is beautiful

We can see this clearly in one of the longest equity index series on record, namely the Numis Smaller Companies index (NSCI). This is backed up by a regular annual review, written by Paul Marsh and Scott Evans of the London Business School. The index was created 32 years ago by Professors Marsh and Elroy Dimson, and is the definitive benchmark for monitoring the performance of smaller and mid-sized companies in the UK.

According to these academics, a £1 investment in the NSCI made when it launched in 1955, would have been worth £6,417 by the end of 2018, with dividends reinvested. The same investment in the minnows index, the Numis 1000 (made up of even smaller companies), would have grown to £15,213, while a corresponding investment in the FTSE All-Share would have yielded just £991.

This research is backed up by countless other studies in the US and beyond. There has, in effect, been a "small cap premium" – take more risk, and you get greater rewards. The consensus view among many small cap fund managers is that smaller companies can be nimbler, more focused on domestic markets and thus capable of sustaining higher long-term earnings growth.

> "structural factors have given global mega caps a distinct advantage"

The rise of the behemoths

However, this small cap premium varies hugely over time, and in recent months and years, the tectonic plates beneath the modern investing landscape appear to have started moving in new directions. If we take a look at the market moves in recent months in the US, for instance, a very different picture emerges. The five largest stocks in the benchmark US equity index, the S&P 500, now account for about a fifth of its total market capitalisation. That's higher even than the 18% concentration level reached during the dotcom bubble in 2000.

Many strategists now maintain that we are witnessing a "scale-always-wins, winner-takes-all" process at work. In simple terms, various structural factors have given global mega caps a distinct advantage which has flowed through into stronger share price strength (in relative terms) compared to small cap equities. And the trend has been turbo-charged during the recent market rally, with very large cap stocks dominating returns.

Will small caps come back?

Analysts at US firm State Street have been digging around inside a broad stock market index called the MSCI World index. They discovered that during the panic and subsequent sell-off, the breakdown of the losses in equities varied between the constituents. The mega cap stocks (defined as the top five stocks across key markets, which makes up to 20% of the index) showed little impact from Covid-19. The top five emerging market companies contributed less than 5% of the index's loss, despite having a 23% weight within the index. The number becomes more extreme for European companies – at just 1% – and "even more staggering for the US, in which the top five actually recorded a gain, but the rest of the index was responsible for 100% of the entire loss. Whilst most have suffered due to the virus, the virus has also solidified the mega caps!"

Small caps, and especially those within perceived growth sectors such as technology and healthcare, have subsequently aggressively rebounded in the months following the March panic. But the mega large cap leviathans continue to dominate. So are we genuinely seeing this permanent "winner-takes-all" shift, as some have hinted? Or is this a passing fad with small caps eventually re-asserting their edge? The one thing that financial history teaches us is that most markets and trends eventually revert to the mean (the average) over the long term – in which case small caps' day will surely come.

The end of a tailwind

A weak pound and strong dollar are unlikely to keep bolstering returns for British investors over the next decade

Cris Sholto Heaton
Investment columnist

Currency effects have done a great deal to improve returns for British investors over the last few years. The gross total return on the MSCI World index in US dollars has averaged slightly under 6% per year over the last five years. The return in sterling terms has been slightly over 11% per year. You didn't even have to invest in markets that have done well in both currency and stockmarket terms – such as the US, which is more than 50% of the MSCI World index – for this to work in your favour. The MSCI Emerging Markets has returned less than 1% per year over the same time in US dollar terms, but more than 5.5% per year in pounds.

The less-happy implication is that if sterling were to recover over the next five years, it would become a drag on international returns. And the pound now looks cheap by historic standards. The Bank for International Settlements calculates real effective exchange rates (see below) back to 1964 for a basket of 27 countries: this shows sterling near historic lows ever since the Brexit referendum in 2016. The only time it was lower was in 2009, during the global financial crisis.

"Sterling has been near historic lows since 2016"

Cheap currencies tend to rise eventually

Forecasting currency movements is an awkward business – there isn't much evidence that any method works consistently and broadly. That said, some research* suggests that real exchange rates may be a useful predictor of medium-term changes in exchange rates under certain circumstances. They are only helpful when looking at countries that have floating exchange rates (that includes most developed economies, but excludes a lot of emerging markets, which intervene to manage the value of their currencies) and follow an inflation-targeting policy (central banks adjust interest rates to target a set level of inflation, which is what most major economies now do).

The pound has not recovered since Britain voted to leave the European Union

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This suggests that sterling is likely to strengthen in the years ahead. That said, there are some caveats. First, sterling's weakness partly reflects the extreme uncertainty around Brexit, which is not over. Second, it's not clear that inflation-targeting will remain the dominant approach in the post-Covid-19 era – there might be more focus on stoking growth – and so real exchange rates might adjust through higher inflation instead. Still, given that sterling – and many other currencies – look cheap against the US dollar, there is a decent chance that the dollar will weaken (see right). Hence high US exposure seems unlikely to provide the long-term currency tailwind that it has done for more than a decade.

**Martin Eichenbaum, Benjamin Johannsen and Sergio Rebelo, Monetary policy and the predictability of nominal exchange rates, 2019*

I wish I knew what a real exchange rate was, but I'm too embarrassed to ask

The currency exchange rates that we see and use every day are nominal exchange rates. They tell us what we get if we swap a unit of one currency for another – for example, a pound-dollar exchange rate of $1.25 means that we get 1.25 dollars for every pound. This is all that matters if we are buying something from abroad or sending money internationally. But it doesn't tells us everything we want to know about the value of different currencies.

For more insight into this, we can use the real exchange rate (RER), which combines the nominal exchange rate with the ratio of the price of goods or services in the two countries. Say that a burger costs $5 in the US, but £3 in the UK. Then the real pound-dollar exchange rate based on burger prices is 1.25×(3÷5)=0.75. This is lower than one, which says the pound is undervalued (the RER will be one if the burger costs the same in both countries once both exchange rates and local prices are taken into account).

In practice, a real exchange rate is calculated by using the price of a basket of goods and services (eg, a consumer price index) not one item. And we consider the trend in the RER index over the long term, rather than at a single point in time. Due to frictions such as trade barriers, transport costs or local taxes and their effect on price, the RER between two countries might persistently be higher (or lower) than one and what really matters is whether it is much higher or lower than usual.

We are often interested in how cheap or expensive a currency is on a global basis. For this, we can consider its effective exchange rate (EER), which is an index that measures the nominal value of a currency against a basket of other currencies (eg, a country's major trading partners). The real effective exchange rate (REER) is an index calculated in the same way using RERs and provides a measure of a country's competitiveness. A low REER means its exports should be more competitive on price.

Guru watch

Stephen Roach, senior fellow, Yale University

"Scorn has long been heaped on those daring to question the supremacy of the US dollar as the world's dominant reserve currency," says Stephen Roach, the former chief economist at Morgan Stanley. But the time is coming when America can no longer count on this "exorbitant privilege". The result is likely to be a 35% decline in the real effective exchange rate for the greenback.

The seeds of this shift were sown by a persistent shortfall in US domestic savings: in the first quarter of 2020, net national saving was just 1.4% of GDP. This forces the US to draw heavily on surplus savings from abroad to invest and grow – which in turn means it has run a current-account deficit every year since 1982. The Covid-19 crisis will stretch this to breaking point due to "exploding government budget deficits", forecast to be almost 18% of GDP this year and nearly 10% in 2021. With domestic saving unable to fill the funding gap, the current-account deficit will widen well beyond its record of -6.3% in 2005.

"Reserve currency or not, the dollar will not be spared under these circumstances," especially as the "painfully visible manifestations of America's sharply diminished global leadership" are now too bad to ignore. Sceptics will say that "there is no alternative" to the dollar, but they should note that the currency's share of official foreign-exchange reserves has dropped by more than ten percentage points since 2000. "America's saving and current-account problems are about to come into play with a vengeance."

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Profit from private equity

This promising sector has recovered steadily from its spring slump, but still offers value

Max King
Investment columnist

Shares in the listed private-equity sector have recovered steadily from their sharp falls, although many still trade at tempting discounts to net asset value (NAV). However, whereas the NAVs of trusts investing in listed equities are updated daily, those of private-equity trusts are calculated infrequently and even then may be based on a valuation point several months in arrears.

Despite some updated valuations and stockbrokers' estimates for others, the numbers remain uncertain. Many businesses have been directly affected by the lockdown, others indirectly, and some have even done well out of it. Nobody knows how long it will take for business to return to normal, or even what that "normal" may look like. That presents investors with both opportunity and risk.

It's not 2008 all over again

Myrto Charamis of Numis Securities argues that the sharp falls in share prices reflected the view of many investors that the sector represented equity exposure leveraged by debt and commitments to invest, as in 2008. However, "the majority came into this crisis better capitalised than in 2008, with few utilising leverage and commitments being modest".

He expects the negative impacts to come firstly from a decline in the equity multiples of comparable listed companies (these are used to value private-equity funds' holdings) and secondly from the impact of the pandemic on earnings. Mitigating factors are "the sector's focus on defensive areas such as technology, healthcare and consumer staples, and resilient underlying assets".

The share price of **3i Group (LSE: III)**, the £8bn giant of the sector, slumped in the first quarter as investors feared the impact of the pandemic on investments such as Action, the fast-growing European discount-store chain, which accounted for 40% of NAV at year-end and was valued at 18 times earnings. In fact, 3i has reported a NAV of 804p, much better than expected, with the Action valuation only reduced to 17 times earnings. The vast majority of its stores had reopened by mid-May and were trading well. A number of other investments, including Audley Travel, have been adversely affected, but 3i is optimistic longer term. The shares trade 3% above Christopher Brown of JPM Cazenove's estimated current NAV of 818p, which is good value by past standards.

3i Group's holdings include Action, a fast-growing European discount chain

©Alamy

HgCapital Trust's (LSE: HGT) tech-heavy portfolio has insulated it from the economic impact of the pandemic, though half-year results to 31 March still showed a 6.2% fall in NAV to 236p, with 5% growth in portfolio profits cancelled out by an 11% fall in the valuation multiple of earnings. The resulting small premium, combined with a good medium-term outlook for the portfolio, makes HgCapital Trust one of Brown's favourites.

A clear standout

Within the fund of funds subsector he describes **Pantheon International (LSE: PIN)** as "a clear standout, with the most robust balance sheet and the widest implied discount", though the shares have recovered to 2,075p, a 24% discount to NAV. About 90% of underlying valuations date back to 31 December, but Pantheon deducted an 8% provision, 226p per share, to arrive at its NAV.

Its fund-of-funds rival, **HarbourVest Global Private Equity (LSE: HVPE)**, appears similarly cheap on a 23% discount with 81% of the portfolio last valued at 31 March and the 10% in quoted equities at 31 May. The average first-quarter decline in valuation was only 7.3%, much of which may have been recovered by now. Its strong record and focus on high growth and venture-capital investing makes it another of Brown's favourites.

Oakley Capital Investments (LSE: OCI) is the preferred pick of Conor Finn at Liberum. At 214p, it languishes on a 38% discount to the 31 December value of 345p per share, but Finn points out that after several realisations in the last six months, the trust has net cash of 78p per share. If the cash is stripped out, the investments are valued at a 49% discount. A number of Oakley's investments, including Time Out and Inspired (a private schools group), will be suffering at present, but this discount seems excessive. The sector may no longer be in the bargain basement, but there is still value in an important area of the market.

Short positions... US investor flips Woodford's assets

■ The American investor buying cut-price assets from the failed Woodford Equity income fund is selling the equities shortly after completing the deal, says Daniel Grote on CityWire. Acacia Research bought up to 19 of the fund's biotech stocks in a £224m agreement with Link Fund Solutions, the failed fund's administrator. Stakes worth up to £150m in eight stocks have been transferred to Acacia, which has raised around £128m after promptly selling them off. Prices were only disclosed for Aim stock Midatech Pharma, which show that Acacia bought a 9.9% stake off the Woodford Fund for just £65,000 at a little under 1.7p per share and sold it for over £871,000 at 21p per share just days later. It is "genuinely shocking" that the shares were sold at a considerable discount to their market capitalisation; you can see why Woodford's investors would feel "aggrieved", says Ryan Hughes of investment platform AJ Bell. Shares in Acacia are up by 58% since news broke of its "swoop" on Woodford's former assets.

■ Alexander Darwall (pictured), manager of the Jupiter European Opportunities Trust, has said that his huge bet on German financial technology company Wirecard was the "biggest mistake of his career" after it emerged that the company was missing €1.9bn (see page 7), says Patrick Hosking in The Times. Darwall had criticised journalists and whistleblowers for raising doubts about Wirecard and at one stage held a stake equivalent to 17% of the trust in the company. Wirecard, one of Europe's biggest fintechs, had faced accusations of financial impropriety for years. The trust has now sold its holding, but declined to reveal the price.

The coming US-EU trade war

Wolfgang Münchau
Financial Times

The US doesn't want the world to tax the "monopoly profits of its tech companies" (it walked out of multilateral talks last week). The Germans want to "press ahead with a sordid gas pipeline deal with Russia" against America's wishes. The EU protects its car industry from foreign competition, but "hyperventilates" when Donald Trump threatens to do likewise. These are some of the main signs of a "fast approaching transatlantic trade conflict", says Wolfgang Münchau. A US investigation has already concluded that France's digital tax constitutes discrimination. Another investigation into the digital tax plans of the UK, among others, is pending. My advice is for the EU to "pick the right fight": digital tax. The US position is "unreasonable". The digital economy has performed well during the pandemic and tax avoidance by corporations has become a big political issue. As for everything else, the EU should compromise. The US is likely to come out of the slump faster than the EU (its economy is more robust and it is less dependent on global supply chains) and therefore has less of an incentive to align its policies. Unfortunately, however, "everybody is behaving unreasonably". This is a "conflict that will play out".

Amazon's difficult choices

Editorial
The Economist

The "digital surge" brought about by Covid-19 appears to confirm Amazon's "inexorable rise", says The Economist. Nevertheless, it faces problems. Firstly, its social contract is "fraying", even if some criticism is "misguided". For instance, it's not a monopoly (last year Amazon had a 6% share of all American retail sales) and its new warehouse and delivery jobs offset the decline in shop assistants. Its expansion plans do, however, imply "huge creative destruction in the jobs market" and its role as a "digital jack-of-all trades" (it has a cloud and logistics arm, AWS, which is open to third-party retailers) creates conflicts of interest that are being investigated by Congress and the EU. It also suffers from "financial bloating". It has gone from being asset-light to owning $104bn of plant. Returns excluding AWS are "puny". Then there's the competition – from Costco to Netflix – which is "thriving". In much of the world, regional competitors such as Alibaba rule. What can it do? Raise wages and it loses its low-cost edge; spin off AWS to please regulators and "the rump will be financially fragile"; raise prices and its competitors win market share. Twenty-five years on, Jeff Bezos's vision for his firm may be coming true, but running it is "no easier".

Japan's stuffy work culture gets a jolt

Noah Smith
Bloomberg

The pandemic may help shift Japanese corporate culture, says Noah Smith. For decades this has been based on the idea that employees will be at the same company for their entire career and will work punitively long hours. Since the 1990s the system has "been under strain", with elderly managers unable or unwilling to change. Lifelong employment has become a trap; clubby male-bonding culture creates a barrier to gender equality and hours worked don't necessarily translate to greater productivity. The government has been trying to change this, but the homeworking trend brought about by the pandemic may accelerate the shift. GMO Internet's CEO has been "so pleased" that he is questioning the need for an office at all. The country's biggest business organisation, Keidanren, has suggested that telework policies should be made permanent. More than 60% of Japanese workers say they want to continue working from home. Managers, meanwhile, have had to measure productivity by the number of discrete tasks performed rather than hours. Since Japan's "outmoded, inefficient corporate culture is one of the country's main obstacles to regaining lost competitiveness", remote work could provide just the jolt it needs.

Do the rich really dodge all their tax?

Douglas McWilliams
The Spectator

A study by the London School of Economics and Warwick University claims that the "average person with total remuneration of £10m" had an effective tax rate of just 21% – a lower rate than that paid by someone earning £30,000. They are supposed to be paying 47%. So what's going on? asks Douglas McWilliams. It has much to do with the methodology. The rich use tax reliefs – on pensions and also in investment schemes such as the EIS – but the money is taxed on the way out instead of the way in. Yet the study treats the schemes as if the income were untaxed. As for charitable donations, yes, relief is given, but it is still a donation. The main way they have arrived at this rate of 21% is by "creating a new concept" – "remuneration": "the sum of income earned and capital gains". But while incomes are regular, capital gains (eg, from selling your company) are not. To encourage entrepreneurs, capital gains tax on business assets is 20%. Yes, there are tax dodges used to present income as capital gains; HMRC tried to close one with its disguised investment management fee rules. But in general, the authors have gone too far. At such a time, "one would expect academics to avoid inflaming social discord with dodgy claims".

Money talks

"I was invited to Elton John's white tie and tiara party. I didn't have a tiara. I managed to borrow one from a jewellers and did buy a very expensive dress (thousands of pounds) because I felt I had to look the part. I eventually got my money's worth as I'm still wearing it ten years later."
Television producer Lorraine Heggessey (pictured) on the most extravagant thing she's bought, quoted in The Sunday Telegraph

"At one point we had eight or nine county court judgments because we couldn't afford to pay our utility bills. We had to buy blue £5 tokens for gas. All the work I was doing in the pubs and clubs almost dried up. It was a case of hiding behind the sofa when anyone came round for money."
Singer Russell Watson, in The Sunday Times

"After a couple or three days, you go: 'You're lucky to be alive, you're lucky to have a job'. Almost no one has money in the banks. I read somewhere that a huge percentage of Americans wouldn't have $400 to put between their hands in an emergency."
Actor John Malkovich on losing his life savings to fraudster Bernie Madoff, quoted in The Guardian

"I'm sure Warren Buffett is a great guy, but when it comes to stocks he's washed up. I'm the captain now."
David Portnoy, founder of sports and pop culture blog Barstool Sports, quoted on Bloomberg. He is leading a large group of neophyte day traders in the US equity market

"Acting is a process of exploration. You're trying to make sense of the world for yourself. There's an Edward Albee quote, which is 'If you're willing to fail interestingly you tend to succeed interestingly'. You're not always going to get it right."
Actress Natalie Dormer, in The Sunday Telegraph

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Let's move on from the 1990s

Wave farewell to a dead decade

©Getty Images

conservativehome.com

The Nineties "technically ended 20 years ago" – yet the ideas dominant then "are still with us, staggering around like a zombie in a garish 'Global Hypercolor' T-shirt", says Neil O'Brien. They need to be killed off.

Zombie ideas live on

The 1990s was the decade when we were supposed to have reached "the end of history" and could look forward to the "universalisation of Western liberal democracy as the final form of human government". Holdouts such as China would come round to our way of thinking in time if we engaged with them. "Amazingly", these ideas are still "trotted out", even though the opposite has happened. China has become more authoritarian, not less, and the West is kowtowing to it.

The 1990s was also the decade when we realised that industrial policy does not work. People still believe this to be true. How, then, to explain Huawei, which went from being an idea in 1987 to the world's most powerful telecoms firm? Could it have anything to do with the lucrative contracts from China's army, the massive state subsidies and investment in R&D, the dash of industrial espionage? South Korea has boomed since the 1990s thanks to industrial policy, as did Taiwan. Silicon Valley tech firms are built on the US's "incredible military/innovation complex". We don't even remember our own successes: Rolls-Royce was a good investment, as were Margaret Thatcher's interventions to promote microcomputers, car production and biotech.

And remember how the "information superhighway" would be a force for "liberty and international friendship"? How the "world wide web" would promote competition in business? In reality it has created a "Hobbesian war of all against all, populated by state-funded bots pumping out disinformation" and "giant monopolies" that have stamped rivals out.

In the 1990s, nationalism was so passé that British Airways replaced the Union Jack on its planes with a "funky" new utopian image. Now the Union Jack is back, Britain has left the EU and the nation is so divided by culture wars that "large numbers of people are no longer even able to understand one another". Part of the explanation is the "vast expansion of universities, believed in the Nineties to be an unalloyed good".

The "future isn't what it used to be", clearly. "Yet, sad as a dead Tamagotchi, the assumptions of the 1990s linger on ... like fax machines, pagers and your old 'macarena' CD," it's time for them to go in the dustbin of history.

A new world, much like the old one

ritholtz.com

Do you believe, as many do, that the post-pandemic world will be unrecognisable? Then, says Barry Ritholtz, "I offer you for sale, at a reasonable price, this bridge connecting lower Manhattan to Brooklyn". Futurists and doomsters are predicting the end of big cities, the office, public transport, universities and big public gatherings. Count me a sceptic. We've been here before. The 9/11 attacks and the 2008 financial crisis too were predicted to have "changed everything" – yet everything actually went back to normal, with mostly modest adjustments. And when big change does come, we tend to lack the imagination to recognise it. The Wright brothers' maiden flight was hardly noticed by anyone.

Cities, universities, offices, shopping malls – all these things were popular for a reason. They will be again before too long. "Humans have a well-documented capacity to adapt to both good and bad. This is why your big new television eventually becomes just 'the TV', or why that fancy, all-wheel drive, twin-turbo, mid-engine V10 racer eventually becomes just 'the car'." If we weren't able to adapt like this, we "would be crippled by both despair and joy". Lots *will* change, but change was already underway before the virus hit. These trends may accelerate. Just don't pretend they're anything new.

Three cheers for Primark

1828.org.uk

As lockdown restrictions began to ease, queues started to form outside shops, says Emma Revell. Cue the sneering: "Really? Primark? Three months stuck at home and that is where you decided to go and queue?" To a certain kind of individual, Primark "represents everything wrong with the world". Its products are cheap and mass-produced, its fast-fashion is not great for the environment, and its working practices, especially on the production line, "leave much to be desired". Perhaps – but do its customers deserve derision?

For many people, especially teenage girls, Primark provides

We need our shoppers

©Getty Images

an exciting experience. If you haven't got a lot of disposable income, you can still go to Primark and buy a full outfit with accessories for less than £20. That means independence for millions of young people, perhaps spending their first pay cheque or pocket money, getting their first taste of adult life.

The free market provides for all, including those on low incomes – and the "just plain bored". Three months stuck at home "is enough to turn even the most ardent minimalist into an impulse shopper. And the economy depends on them."

Private schools lead the way

capx.co

As state schools engage in a union-led fight to remain closed, private schools are pressing ahead with reopening. There's an "obvious motivation" – many private schools are in financial dire straits. This should be a reminder of the value of independent schools, and spur the Conservatives to press on with further reform on this front, says Henry Hill.

Since "the first major eruption of 'progressive' education in the Sixties", independent schools have been "a guardian of the British educational tradition", holding out, with grammar schools, against fads and maintaining a strong focus on academic achievement. This has made them a yardstick against which the success of the fads can be measured. Private schools are also valuable in their own terms. Each is a "little platoon", a community united around a clear purpose and with a unique history and set of traditions. It would be a "tragedy" if "such irreplaceable institutions were to wither away beneath an overweening ministerial ambition that the state do all that need be done".

Healthy profits: make money in medical technology

There's far more to the health sector than whizzy new pills, says Dr. Mike Tubbs. He reviews the latest developments in areas ranging from robotic surgery to joint replacements and suggests some top stocks

When it comes to health, drug research tends to hog the limelight – especially in the middle of a pandemic. But there's a great deal more to the overall health sector than the pharmaceutical or biotechnology companies that concentrate solely on new pills. There are five major subsectors: radiotherapy, diagnostics (detecting and monitoring disease), body-part replacements (from artificial joints to heart pacemakers), robotic surgery and advanced wound care.

The UK is well represented in health. Companies range from the FTSE 100's medical technology giant Smith & Nephew, a specialist in advanced wound care, orthopaedics and joint replacements, to Aim-listed Advanced Medical Solutions, which mostly serves the wound care and surgical markets. We examine a range of global health companies and suggest some of the better ones as potential investments.

The broad healthcare sector is defensive – it tends to be resilient to economic downturns – since people continue to need healthcare during recessions. However, the pandemic has shown that, under pressure, some healthcare companies are more defensive than others. This is because drug treatments for chronic diseases must continue, whereas joint replacements, for example, are elective and likely to be delayed when hospitals are under pressure from Covid-19 patients. This explains the differing share-price performances of healthcare companies from mid-February to the end of March. The FTSE 100 fell by 23% but Gilead Sciences (a large biotech) rose by 11%, whereas Smith & Nephew (hip and knee replacements) slipped by 21%.

Taking on tumours

Radiotherapy treats cancers with radioactivity, often using X-rays. As chemoradiotherapy, it is combined with chemotherapy (chemical drug therapy designed to destroy rapidly-growing cells) to treat most solid tumours. Radiotherapy equipment is almost a duopoly with two firms, Varian Medical Systems and Elekta, together accounting for up to 80% of the global market for systems (both equipment and related software). Varian is strongest in the US, Elekta stronger in Europe.

The two companies' latest product developments are very different: Varian has introduced a compact proton-therapy system (protons are sometimes used instead of X-rays in radiotherapy) costing around $30m. In 2019 Elekta introduced a magnetic resonance imaging (MRI)-guided radiotherapy system called Unity, priced at $6m. The key selling point is that a clearer image of the tumour makes it easier to alter the dose of radiation based on daily changes to the tumour's shape or size. Unity is selling well, with 75 orders received by June 2020. Elekta provides its comprehensive oncology software systems to smaller proton therapy companies in collaborative deals.

"A clearer image of the tumour makes it easier to alter the dose of radiation"

A picture of health

Diagnostics and body-condition monitoring includes imaging techniques such as MRI, ultrasound and PET (positron emission tomography, using radioactivity to measure metabolic processes); other key areas are blood tests and the monitoring equipment in intensive-care units. The largest diagnostics company in the world is Swiss drug giant Roche, but its diagnostics division comprises just 21% of total sales, so an investment in Roche is primarily in pharmaceuticals.

Companies involved in diagnostics include Philips Healthcare, Abbott Laboratories, Danaher and Thermo Fisher Scientific, together with Illumina, the world leader in gene sequencing. Philips is one of three firms in high-end imaging, which accounts for 44% of its sales, with the balance from patient-monitoring and related care (24%) and personal products (shavers, beauty, oral health and so on).

Abbott's sales stem mainly from medical devices (38.4%) and diagnostics (24.2%). Danaher has 36.8% of sales in diagnostics, 38.7% in life-science research equipment, with the remainder in environmental fields (water quality, for instance). Thermo Fisher has 15% of sales from diagnostics, 22% from analytical instruments, 27% from specialised life-science analysis and the remainder from other laboratory products.

Rebuilding the body

Replacement body parts range from passive, inert parts – such as knee and hip joints, stents and heart valves – to active electronic inserts, such as heart pacemakers. The major orthopaedic-device manufacturers (makers of hip, knee, shoulder and other joints) include market leader Johnson & Johnson (J&J), through its DePuy Synthes subsidiary, Stryker, Zimmer Biomet and Smith & Nephew.

Medtronic is the world's largest non-pharmaceutical healthcare company and markets a wide range of these products, including a pacemaker allowing users to have MRI scans safely (hitherto rarely possible). It has 38% of sales from cardiac and vascular therapies, 28% from minimally invasive therapies (surgical, respiratory, renal), 27% from restorative therapies (spine, brain) and the remainder from diabetes control. Abbott has 38.4% of its sales from medical devices, with 24.2% from diagnostics, 23.2% from nutritionals and the balance from generic drugs.

The surgeon's little helper

Robot-assisted surgery is a fast-growing area dominated by America's Intuitive Surgical. Intuitive has installed over 5,500 Da Vinci robotic-surgery systems in hospitals worldwide and more doctors have been trained in the use of its technologies than any other. The Da Vinci system is used for highly efficient laparoscopic (keyhole) operations, which leave much smaller scars and enable more rapid recovery than is possible with conventional open surgery.

Advanced wound care also covers a wide range of products, from surgical incision closures to materials designed to fight infection and promote rapid healing of wounds. Major companies in the US, the world's largest market for wound care, include Ethicon (part of Johnson & Johnson), Acelity, Medtronic and Cardinal Health. In the UK important firms in this context are Smith & Nephew, ConvaTec and Advanced Medical Solutions; Denmark has Coloplast.

©Intuitive Surgical

Intuitive Surgical's Da Vinci robot system is the market leader

Rapid innovators rising to the occasion

Before discussing the investment potential of healthcare companies, it is worth examining how some, mostly those that dabble in pharmaceuticals, have risen to the challenge of the coronavirus. The responses of some health companies demonstrate an impressive ability to innovate and bring new products to market quickly if required.

Consider Johnson & Johnson (J&J), which has been working on Covid-19 vaccines since January and announced in late March that it had selected a lead vaccine candidate; clinical trials will start by, or before, September. J&J is working with the US government in a $1bn co-funded programme and expects to have its first vaccines ready by early 2021. The company will produce over one billion doses of the vaccine on a not-for-profit basis. But J&J is competing with several other companies and groups that are well advanced.

Roche and Abbott have both had antibody tests (which reveal if someone has had the virus and is probably immune) approved by the NHS. Abbott is ramping up production to 20 million doses in June and beyond. Abbott has also produced two different antigen tests for Covid-19 (tests that tell if a patient has the virus). The first is for laboratory environments. Several million of these were produced in April.

The second, approved under the Food and Drug Administration's emergency-use authorisation procedure is portable (toaster-sized) for use in doctors' surgeries and care facilities. This will give a positive result in five minutes and a negative one in 13 minutes. Abbott ramped up production to produce 50,000 per day from 14 April. Medtronic, meanwhile, has publicly shared the design specifications for its proprietary ventilator to reinforce the global effort to make more ventilators for intensive-care units.

Lastly, AstraZeneca, GlaxoSmithKline and the University of Cambridge have formed a joint collaboration on Covid-19 testing and on the use of alternative reagents for existing tests to overcome current bottlenecks. They have been joined by diagnostics firm Novacyt, contracted to supply the NHS with 288,000 Covid-19 tests per week for six months from late April. Its shares rose from 14p in early 2020 to 335p at the end of May. Novacyt's test was the second (after Roche's) to be listed by the World Health Organisation.

Narrowing down the field

In selecting companies as potential investments we look for four main characteristics. The first is a leading global (or at least regional) position in its subsector, preferably market leader or number two. The second is a record of profitable growth, while the third is net cash or modest debt; this has become even more important now that the pandemic has emphasised the vulnerability of companies carrying high debt. The fourth is a record of innovation bolstered by a substantial investment in research and development for new products.

There are two general options for investment. The first is to select a large, diversified healthcare company

Continued on page 22

> *"Medtronic has shared the design of its proprietary ventilator to help combat Covid-19"*

18+

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Continued from page 21

with leading positions in several subsectors. Medtronic and J&J are typical examples of this approach. The second is via firms specialising in one subsector and with a leading global position in it. Typical examples of this approach are Illumina, which specialises in gene sequencing, where it is world leader; Intuitive Surgical for robotic surgery, or Elekta, the world number two in radiotherapy. Within the first option there are two types of firm: those covering more than one subsector within healthcare and those spanning both health and another sector that may be unrelated to health.

Investment options

In this section we select one or two excellent companies from each of the five subsectors mentioned earlier and include both diversified companies and some operating in only one subsector. All those selected have enduring advantages that protect their businesses from competitors, or "wide moats".

J&J probably has the widest moat, with market leadership in orthopaedics, in several drug markets, a major position in advanced wound care and a successful consumer-products arm. This diversity is a source of strength. Medtronic is the world's largest pure-play medical devices company, is diversified over several chronic disease areas and has a strong record of innovation, with new products protected by intellectual property (IP). Its moat depends both on IP and on its close relationships with physicians. They are loyal to the group as they have used its products for successful operations on many patients.

In diagnostics, Danaher is a strong competitor, with 37% of sales from diagnostic equipment, one of the highest percentages for the companies discussed above. Its other major business is in equipment for life-sciences research. Both divisions have strong recurring sales (84% for diagnostics in 2019). Abbott has around one quarter of its sales from diagnostics, with another 38.4% from medical devices, so it is another option along with Danaher and Medtronic.

In radiotherapy, Varian and Elekta are strongest in different world regions (Varian in the US, Elekta in Europe) and are prioritising different routes with their latest new products, so an investment in radiotherapy could be split between them. Illumina in genomic sequencing and Intuitive Surgical in robot-assisted surgery are both global leaders in their subsectors, with wide moats.

Two smaller British companies worth mentioning are Victrex and Advanced Medical Solutions. Victrex is the global leader in applications of PEEK, an advanced polymer material with a wide range of uses, including medical. Around nine million implanted devices worldwide (primarily in joints) contain PEEK. Invibio, Victrex's medical division, accounts for only 20% of revenue, but has a higher gross profit margin (83% compared with 54% for the industrial division). Victrex has a record of high profitability and had net cash of £42m at end March.

Advanced Medical Solutions (AMS) is similarly expanding its IP-protected branded products, which are mainly in the surgical rather than wound-care divisions, are higher-margin and currently make up 55% of revenue. Its two recent acquisitions are both in the surgical division. AMS had net cash of £65m at the end of its last financial year (December 2019). For those who prefer an investment trust to a selection of individual stocks, the Worldwide Healthcare Trust is a possibility.

However, in common with most healthcare-orienated trusts, it mainly invests in pharmaceuticals and biotechnology, which make up around two-thirds of the portfolio. Health equipment, services and life-science tools make up the other third.

The stocks to consider now

We now examine the investment potential of ten health-sector companies highlighted above, along with the Worldwide Healthcare Trust. It is instructive to look at each one's debt level, share-price performance as the markets fell, valuation and dividend yield. On debt levels there are three groups of companies. J&J, Varian and Elekta have low debt levels, Medtronic and Abbott have quite high but manageable levels and have been paying debt down, but Danaher has a high debt to EBITDA ratio following its acquisition of GE Healthcare and is therefore eliminated. Illumina, Intuitive, Victrex and AMS have net cash.

Johnson & Johnson also has a strong consumer-products arm

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Health is seen as a defensive sector so the shares of major healthcare companies should fall less than the market in times of recession. The pandemic caused markets to fall sharply, so this gives us an up-to-date experiment revealing the degree of defensiveness of various health-sector stocks . The FTSE All Share index fell by 24.9% between mid-February and the end of March. Varian and Elekta fell most (-30% & -29%), followed by Medtronic (-23.1%), Intuitive (-17.9%) and Victrex (-14.8%). The lowest falls were shown by J&J (-12%), Abbott (-12%), AMS (-9.7%) and Illumina (-8.6%). Worldwide Healthcare fell by -11%, putting it in centre of the latter group.

The price/earnings ratios (p/e) of Intuitive (46.6) and Illumina (48) are highest. Both are growing fast, but Intuitive's price is further above fair value. Next is Abbott (26.5), then Varian (23.6), Victrex (21.8), Elekta (20.3), Medtronic (16.9) and J&J (15.9). There is no analyst 2021 p/e for AMS, but I estimate 23.

Based on the combination of net cash or reasonable debt, defensive characteristics and valuation, we select all but Intuitive. Dividend yields of these companies are **Victrex (LSE: VCT**, 2.9%), **J&J (NYSE: JNJ**, 2.6%), **Medtronic (NYSE: MDT**, 2.3%), **Elekta (Stockholm: EKTA-B**, 2.1%), **Abbott Laboratories (NYSE: ABT**,1.5%), **Advanced Medical Solutions (Aim: AMS**, 0.65%), but no dividend yet for **Illumina (Nasdaq: ILMN)** or **Varian (NYSE: VAR)**. Elekta is the least defensive, but does have a reasonable yield. **Worldwide Healthcare Trust (LSE: WWH)** has a yield of 0.7%.

"Victrex is the global leader in the advanced polymer material PEEK, used in around nine million implants worldwide"

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Nikola: a Tesla wannabe

The electric-lorry group has yet to produce any – and looks ripe for a fall

Matthew Partridge
Senior writer

The jury may still be out on the long-term prospects of electric carmaker Tesla, with even founder Elon Musk admitting that it may be overvalued. But it has been one of the most successful investments of the past decade. The stock has risen 50-fold since it first went public in July 2010. No wonder, then, that investors have snapped up shares in similar companies, no matter how shaky their business model.

One such Tesla wannabe is lorry maker **Nikola (Nasdaq: NKLA)**. Its founder and CEO Trevor Milton says that he wants to move both pick-up lorries and the freight industry from petrol and diesel towards hydrogen power (hydrogen fuel cells convert the hydrogen into electricity, and there are no harmful emissions). The group also produces battery-powered electric vehicles. Milton claims that Nikola has already secured 14,000 orders for its trucks. Investors seemed to have hitched themselves to the company, with Nikola's share price surging from $13 in May to a peak of nearly $80 before slipping back to the current price of $70.

The company won't start making any hydrogen-powered freight vehicles until 2023

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Courting controversy

Despite this initial success, Nikola has already courted controversy, with Milton threatening to sue Bloomberg for libel. Milton claims that a Bloomberg article alleging that he misled investors in a presentation four year ago (by implying that a prototype Nikola semi-truck that he showcased could be driven, when it was in fact missing key parts) is "misleading". Prominent short-sellers such as Andrew Left of Citron Research have argued that Nikola is extremely overvalued. Nikola has even incurred the ire of Tesla's Musk, who called its technology "staggeringly dumb". Criticism from competitors and short sellers is one thing, but there are some solid reasons to be sceptical of Nikola. Firstly, it hasn't actually produced anything yet. While it claims to have a significant number of pre-orders, it won't start low-volume production of battery-powered electric pick-up lorries until next year, with the heavy hydrogen-powered freight lorries not arriving until 2023. Even its own projections admit that it will take time to build enough hydrogen fuel stations to make the technology attractive to freight companies.

"Tesla, GM, Ford, Daimler and Nissan will provide stiff competition"

Nikola's vehicles will also be launching into a market that is already extremely competitive. In addition to Tesla, big manufacturers such as GM and Ford are planning to launch electric pick-up lorries next year, alongside offerings from startups like Lordstown, Rivian and Bollinger. Similarly, Tesla, Daimler and Nissan have either launched electric heavy lorries or want to do so soon. The upshot is that the shares should fall further. I recommend shorting them at the current level of $70 at £20 per $1. Given the high degree of volatility, I suggest a looser stop loss than normal, covering your position if they go above $115. This gives you a potential downside of £1,000.

How my tips have fared

Even though markets have done reasonably well over the last fortnight, three out of my five long tips still declined.

International Consolidated Airlines Group (ICAG) dropped from 309p to 264p as new quarantine rules for travellers into Britain came into effect earlier this month.

Energy giant Royal Dutch Shell also fell from 1,472p to 1,376p. Television company ITV declined from 87p to 80p.

However, equipment rentals company United Rentals remained at $158, while pub chain JD Wetherspoon even managed to appreciate from 1,139p to 1,161p, thanks to confirmation that pubs will be allowed to reopen soon with reduced social distancing requirements.

Overall, my long tips are making combined profits of £2,128, mostly thanks to the £1,764 I have made on United Rentals, though this is down from £3,331 two weeks ago.

Interestingly, my two short tips have gone in opposite directions. Health insurance broker eHealth declined from $118 to $107.

However, online dating company Match Group went up from $89.51 to $95.73. My Match short is losing £708, while my eHealth short is £220 in the black, for a combined loss of £488 on my shorts.

I now have five long tips and three short tips. While this is more balanced than previously, my aim is to add a few more short positions in the next few week to even things up further, especially since the US market has rallied by a tremendous amount. The sharp rebound has propelled it to levels I considered overvalued even in February.

By contrast, I think that the UK market rally has further to go, especially since valuations are much more competitive. As a result, I won't be closing any of my existing long tips.

Trading techniques... stocks and job markets

In theory, good economic news should bode well for share prices, since it implies that profits and revenues of the firms in the index will be higher. So you might expect an inverse relationship between unemployment and short-term share-price movements. However, things are a little more complicated that you might expect. Since unemployment figures take time to compile (and are frequently revised in subsequent months), they are considered to be a lagging indicator, while shares are based on future earnings.

Another factor to consider is that falling unemployment is an indication that the labour market is tightening, which may mean that firms will be forced to increase their wages, reducing their margins and profits.

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Worse, falling unemployment could increase the pressure on central banks, such as the Federal Reserve in the US and the Bank of England in the UK, to either increase interest rates, or postpone planned interest rate cuts. Higher interest rates are usually deemed negative for shares because they increase the amount of money that firms have to pay on their debt and may also encourage investors to move their money into bonds.

A 2005 study by John H. Boyd of the University of Minnesota, and credit analysts Jian Hu and Ravi Jagannathan of Northwestern University, presents a mixed picture. It found that between 1961 and 1995, increases in unemployment led to below-average increases in share prices over the next 30 days during periods of economic contraction, but actually produced above-average increases in share prices during periods of economic expansion.

A truly gruesome twosome

The International Monetary Fund and the World Bank, set up in 1944, now look sclerotic and ineffectual, says Jonathan Compton

In July 1944 America and the UK spearheaded an attempt to agree a series of rules for the post-war global monetary system. The United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, brimmed with good ideas for a better world. The best of them was to make the US dollar the de-facto world currency. All others were then pegged to the dollar at a fixed rate while the greenback in turn was linked to gold at $35 per ounce. Member governments could demand that their dollars be converted into gold in certain circumstances.

In the context of the time it was a brilliant plan, ushering in a period of relative exchange-rate stability. Unfortunately it eventually came unstuck: huge increases in US expenditure, on the Vietnam War and various welfare projects, destabilised the dollar. The agreement was suspended and then collapsed between 1971 and 1973. The dollar standard designed at Bretton Woods ushered in a Cinderella moment for the global economy. Unfortunately, the conference also produced Cinderella's two ugly sisters: the International Monetary Fund and the World Bank.

The International Monetary Fund (IMF) was originally set up to oversee the fixed-exchange rate system based on the dollar. After the collapse of the Bretton Woods currency agreement it no longer had a purpose, but it promptly reinvented itself as a new body with the following grandiose mission statement: "to ensure globally the stability of the monetary system, foster co-operation, stability, trade, high employment, growth and reduce poverty". In short, God-like powers. The third creation of the conference was the World Bank (WB). Its more modest mission is "to reduce poverty and build prosperity in developing countries".

Pakistan has borrowed from the IMF 22 times since 1958

Boondoggling around the world

There are many similarities between the two. Both are owned by their 189-country members, each of which has a seat on the board of governors. Both are stuffed with economists. They comprise nearly half of the IMF's 2,800 employees; the WB is four times larger. Most staff are based in the organisations' Washington headquarters, which are on the same street. Being multinational agencies their structures are bureaucratic and politicised. By an arcane gentlemen's agreement, the president of the IMF has always been a European, the managing director of the WB (with one exception) an American citizen.

There is a strong whiff of a boondoggle surrounding both. Pay and perks are lavish. On my occasional visits to their headquarters, the atmosphere was one of catatonia, with decision-averse staff focused on internal politics. I never saw the same person in the same role twice.

Structurally both look out of date, reflecting world economic power 50 years ago. America, Europe and Japan have the largest votes (but still also pay in the most money), with China only grudgingly allowed a bigger vote two years ago. The US, Germany, France, UK (and recently China) are the only countries with permanent executive board directors in both bodies, with Japan on the IMF only. America has a de-facto veto over decisions. Yet for all the overlaps and confusion in most people's minds, the differences are significant.

First the WB. The larger of the two, with a wider brief, greater financial firepower and more real roles than the IMF, it is usually below the radar. The financial model is excellent, providing long-term loans and investment to poor countries at interest rates well below those they would have to pay if they borrowed directly from capital markets. The WB can borrow from markets at ultra-low rates because it has a triple-A rating (the best). Last financial year it had an "active portfolio" – loans and investments in projects – of $244bn, ranging from infrastructure and energy to hospitals and agriculture. Bad debts are few and it often makes a profit from its own investments and from co-funding successful projects. Too good to be true? Of course.

> *"On my visits I never saw the same person in the same role twice"*

Ignoring constructive criticism

Although it has undoubtedly improved lives for many people, the WB's own Independent Evaluation Group reports show an inability to learn from previous mistakes, poor credit and investment controls and ineffective measurement of results – all accompanied by self-congratulation. Most proposed improvements are ignored.

Developing nations resent that the organisation remains dominated by North Atlantic countries, which are perceived – often correctly – to be using the WB and its programmes to fund their allies, supporters and interests. The WB has consistently lent to dictatorships where cronies siphon off funds as advisers, suppliers and contractors, making London and Switzerland major accidental beneficiaries of its largesse to crooks. Worse perhaps, projects have involved the wholesale removal of local populations and considerable environmental damage, all swept under the carpet. Change may come as the result of a Trump appointee, David Malpass, becoming the 13th leader last year. With a long record of being against multilateralism, he may bring in some necessary rationalisation before going native like his predecessors.

Turning to the IMF, like most bureaucracies it is keen to trumpet its successes and bury its problems. Of the three IMF managing directors between 2004 and 2019, one

later went to prison for embezzlement, one was a sexual predator forced to resign and the third, Christine Lagarde, was convicted in 2016 by a French criminal court for "negligence in a public office" when as finance minister she approved a €403m bung to one of President Nicolas Sarkozy's supporters.

The IMF's principal purpose is to act as the World's bad cop. Occasionally downturns risk spreading economic depression and bankruptcy. This is usually the result of a domestic credit cycle that has spun out of control. Sometimes foreign investors have pumped in so much money that local interest rates are forced too low and the exchange rate too high. Either way, the government or international creditors then call for the IMF.

This is one reason why the IMF tends to be unpopular. It appears only when there is a crisis and before providing credit lines from its own and other sources insists on "conditionality", also known as the Washington Consensus. This requires that the recipient country implement certain reforms. Governments are told to slash expenditure on pensions, welfare and subsidies, cut the number of employees and increase taxes.

Attaching conditions to any bailout makes sense and is required within the IMF framework. Its sole source of funds is the amount (so-called quotas) on which it can draw from its member countries, who in turn don't want to see their money disappear. The major benefit of conditionality is that it forces incompetent administrations into necessary reforms while providing a fig-leaf for politicians who can claim that these reforms were forced on them. Yet this medicine often fails, not least because the cuts crush domestic consumption, the key growth driver for most economies.

The prescriptions for small economies involving little money have tended to work out well; recent examples include Iceland, Cyprus, Jamaica, Portugal and Ireland. But the results of larger bailouts are at best equivocal. Greece and Italy's economies, for instance, are smaller than before the financial crisis. The only major long-term changes have been higher debt and unemployment.

This highlights the true purpose of the IMF: to prevent sovereign default out of fear of a domino effect. Yet this often involves repaying foreign lenders in full for their bad gambles while making recipient countries worse off than if they had defaulted and started from scratch. Worse, it distorts international capital markets by encouraging lenders to pour capital into the riskiest countries with higher interest rates, in the knowledge they'll be bailed out.

A self-induced crisis

Now the IMF is trundling towards its own self-made crisis. It has a history of glossing over bad debts with new loans: Pakistan has borrowed 22 times since 1958. The top five borrowers – accounting for nearly three quarters of the IMF's outstanding credit lines – in order are Argentina, Egypt, Ukraine, Greece and Pakistan. None has the ability to repay. It's a giant hole. Alarm bells should also be ringing for investors over the IMF's gradual policy reversal from capital without borders to allowing capital controls.

More than any other event these spell the end of global markets as, for the first time in 22 years, investors rediscover that in a crisis they won't be allowed to repatriate their money. This will change the whole approach to assessing country risk. Now in their 70s, the IMF and WB have become sclerotic and in the former's case, potentially dangerous. With the global slowdown that began last year now seriously exacerbated by the current pandemic, two key institutions set up to mitigate the worst effects are dangerously weak.

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Why investors can't ignore disruption

James Dowey, fund manager of the Liontrust Global Equity Fund

Disruption is on the rise and it is all around us. It is affecting every sector of the economy and the implications for the winners and losers it is creating are profound. Disruptive companies are attacking markets with new products and business models, driving huge profits and growth. It is also becoming increasingly common to see the destruction of existing products and business models and the companies – often long-lived and once-loved – associated with them.

The rise of disruption is measurable. In the early decades of the last century, it took 26 years for television to be adopted by 25% of the US population, and in the 1970s and 1980s, it took computers 16 years and the cell phone 13 years. But it took only two years for 25% of the population to adopt tablet devices.

A successful disruptor creates value for consumers over and above the existing offering in the market: lower prices, higher quality or a combination of both. Disruptors also capture a significant share of that value. A good disruption investor only invests when he or she sees both.

Disruption is the most powerful driver of shareholder value. A dollar of sales generated any other way – such as competing for market share among existing products – tends to generate far less than a dollar of shareholder value. But a dollar of sales generated through disruption on average creates almost two dollars of shareholder value.

Disruption investing is not the same as tech investing. When we map the disruption landscape in our research, we refer to the "Magnificent Seven of Disruption". These are automation, artificial intelligence, brand fragmentation, digitalisation, the environment, breakthrough science and platform business models.

The two giants of investment styles historically have been value investing and quality, or "moat", investing. We believe disruption investing is the third great investment style. It is about investing in the future and its time has come.

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Travel insurance traps

Post-Covid-19 policies are riddled with exemptions

Ruth Jackson-Kirby
Money columnist

Lockdown is being eased and rumours of quarantine-free air bridges to allow trips abroad are circulating. But before you book your escape you need to check your travel insurance.

"Insurance companies are introducing so many exemptions that industry experts have expressed concern that thousands will go abroad without adequate cover," says David Byers in The Times.

If you took out a travel insurance policy for a trip booked before 11 March, you should still be covered for cancellations relating to Covid-19. It was declared a pandemic on that date, so almost all policies taken out after 11 March, or trips booked using annual policies after that date, won't be covered for any disruption associated with the virus.

Times readers who have received renewal documents for their annual travel insurance "have been alarmed by the exemptions". In one example, new policy wording from Insure and Go states it won't cover "any claims caused by or relating to coronavirus disease".

What's more, "your policy will no longer cover you if the scheduled airline you booked becomes insolvent". It goes on to say it won't cover you if any company associated with your holiday goes bust. To make matters worse you could end up paying a lot more for these travel insurance policies that don't cover what you need. "Holidaymakers will be forced to consider travelling without insurance this year because premiums are expected to soar when tourism resumes," says Jessica Beard in The Telegraph.

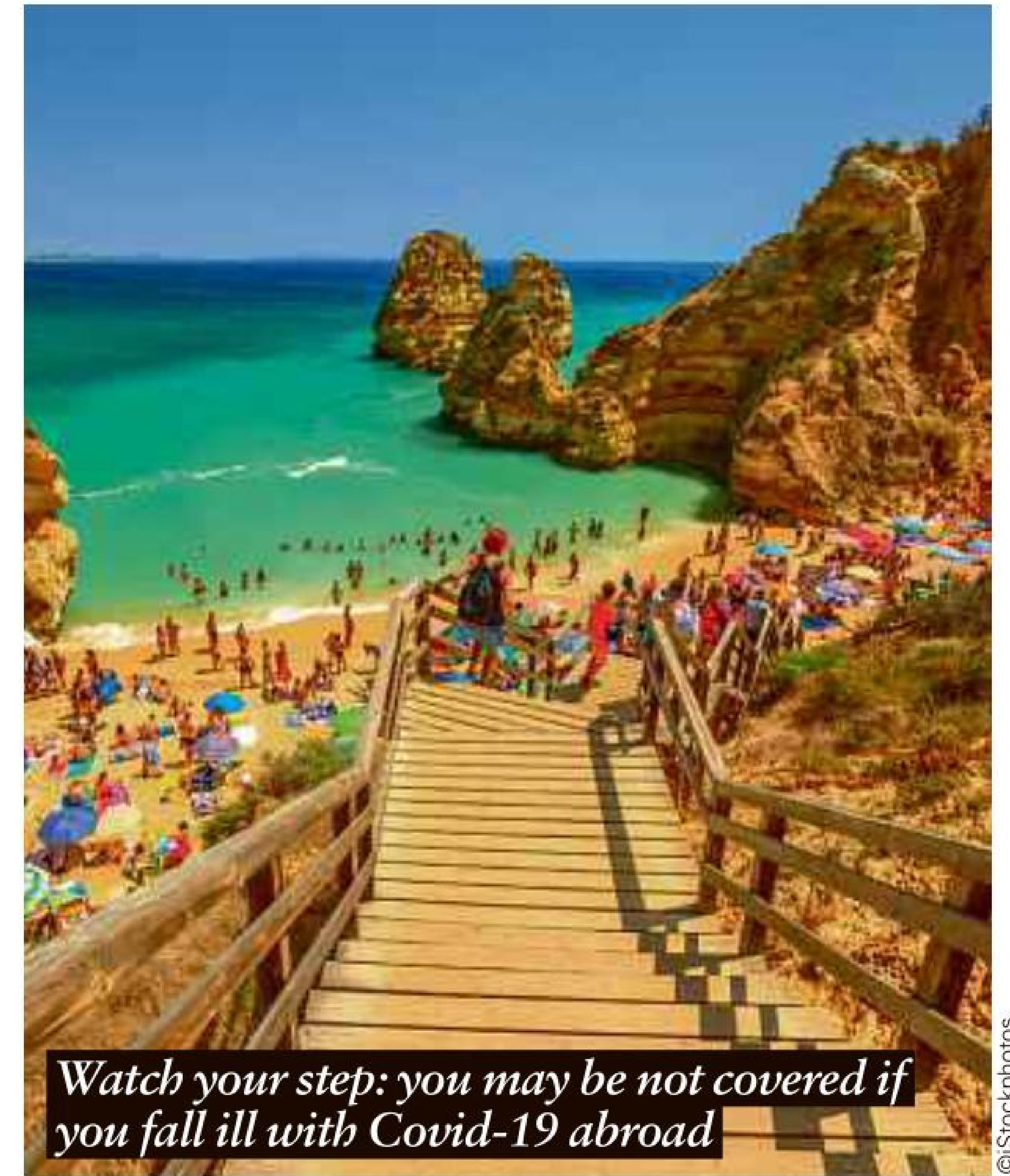
So, if you are planning a trip what do you do? If you have an annual travel insurance policy speak to your insurer to check what is and isn't covered. It is highly unlikely you'll get cover for coronavirus disruption if you book a trip now.

Smaller players return to the market

Nonetheless, there are some small insurers who are starting to offer policies with Covid-19 cover. They include Trailfinders, Staysure, Cover For You, Cedar Tree and Outbacker.

When you are looking for a policy it is more important than ever that you don't just opt for the cheapest premium. Make sure you are paying for a policy that will actually pay out if you need it.

One exclusion to be aware of with policies regarding corona cover relates to if, and when, you fall ill with the virus. Some policies cover you for emergency treatment and repatriation if you get Covid-19 while on holiday, but not if you contract it in Britain before you travel.



Watch your step: you may be not covered if you fall ill with Covid-19 abroad

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The number of insurers offering cover is expected to rise as lockdown eases. "Insurers are aware that travel insurance is important to raise consumer confidence in travelling," a spokesperson for the Association of British Insurers told The Times. "More companies will be looking to come back onto the market, and many are still reviewing the extent of their cover."

The travel industry has been hit hard by the Covid-19 lockdown and some may not survive. If you are booking anything to do with your trip, pay with your credit card: if a company collapses, you have Section 75 of the Consumer Credit Act as a last resort. This law states that if you have tried, and failed, to get a refund for a service that wasn't delivered from the company involved, you can get your money back from your credit card provider instead.

5 Reasons to Buy Physical Gold...

1 Gold is a safe haven asset - Gold is frequently used as a safe haven asset in times of economic turmoil or geopolitical uncertainty. For this reason, many advisors recommend allocating around 5% - 15% of their portfolios to gold.

2 Gold has a history of holding its value - Unlike paper currency, gold has maintained its value through the ages. It is an ideal way of preserving wealth from one generation to another. Plus, investment gold is not subject to VAT in the UK.

3 Gold is a hedge - Gold has historically had a negative 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 are limited. This natural scarcity and high production cost is the ultimate reason why gold holds value.

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*Source: Experian Hitwise based on market share of UK internet visits December 2018 - December 2019

Pandemic pounds pension schemes

It's time to review the impact of Covid-19 on your retirement savings and take any necessary action

David Prosser
Business columnist

Britain is gradually returning to work, so this is a sensible time to review the impact of Covid-19 on your pension planning. Firstly, if you're a member of a defined-benefit occupational pension scheme, is the employer that stands behind it still solvent?

With company failures set to increase, the guaranteed pensions that such schemes offer may now be in doubt. The golden rule in pension planning is that a defined-benefit scheme, with all the certainty it offers, is almost always a better option than other types of arrangement. However, if your employer goes under and there's not enough money in the scheme, your pension could be threatened.

A lifeboat for your scheme

All is not lost if your employer does go bust. The Pension Protection Fund (PPF), the industry lifeboat scheme, will then step in: it usually protects 100% of pensions already in payment and 90% of the pension entitlement savers have built up so far if they've not yet retired. However, if you've yet to claim your pension, the PPF does have limits. For example, someone retiring at 65 would not be able to claim a pension of more than 90% of this year's cap of £41,461, no matter how much entitlement they've built

Chancellor Rishi Sunak is contemplating ending the triple-lock guarantee

©Getty Images

up. If your pension is worth significantly more, you could really lose out.

People in this category who are worried about their employer's solvency therefore need to take independent financial advice on whether to transfer their defined-benefit savings to a defined-contribution scheme. You'll forfeit the certainty that the former offers, but for those who would be substantially out of pocket in the PPF, this may be a price worth paying.

Meanwhile, savers with defined-contribution pension plans have their own problems. The stockmarket declines of recent months – UK shares are down around 16% since the start of the year ,while the US is off by 10% – will have hit many savers' funds. Some fixed-income assets, particularly at the less risky end of the spectrum, have been more resilient, but the yields they offer have fallen sharply.

If you have some way to go before retirement, you can afford to take a sanguine view of this volatility, since there is plenty of time for your funds to recover. But it is still worth reviewing your pension investments regularly.

Are your plans still on track, are your chosen funds delivering competitive returns and is the way you have allocated your money still appropriate? Take independent financial advice if you're unsure.

For those closer to retirement and those who have begun withdrawing an income from their pension funds through income drawdown schemes, the market setbacks of recent months will be a more pressing issue. Taking financial advice will therefore be even more important.

If you're in the former camp, take a detailed look at your pension planning – you may need to reconsider your retirement finances, or even when you'll be able to retire, or you may be able to start making up any shortfalls with additional contributions. For those in drawdown, reducing the income you take from your pension – perhaps drawing on other assets or entitlements – could give your savings more time to recover. Or you may need to consider more radical steps. It may be time to think about an annuity purchase, say.

State pensions hit

Finally, don't overlook the potential impact of Covid-19 on state pensions. For many people, the state pension – worth £9,100 this year – provides an important foundation for their retirement finances. However, state pension increases in the years ahead are likely to be less generous.

The chancellor is thought to be considering dropping the "triple-lock" guarantee – that pensions will rise by the highest of price inflation, wage inflation or 2.5% each year – to protect the public finances in the wake of the pandemic (see page 14). In that case, this element of your retirement income may be smaller than you expect and you'll need to plan accordingly.

In the news... shop around for a drawdown plan

■ Pension savers who take out income-drawdown plans with the firms they've used to build up their retirement savings could end up thousands of pounds worse off, according to consumers' group Which. A saver with a £500,000 pension fund could pay £20,600 more in charges over the course of retirement with the most expensive drawdown providers.

For savers who have spent many years saving for old age with a particular pension provider, taking the income-drawdown plan it offers when it is time to retire is a natural step. But there is no requirement to do so and financial advisers urge savers to shop around: the best pension providers at the "accumulation" stage of retirement planning may be less competitive when it comes to "decumulation". Which's analysis, based on the fees levied by 28 pension providers, suggests that even on a £100,000 pension fund, the most expensive drawdown providers would charge £6,000 more than the cheapest alternatives.

■ The Department for Work and Pensions (DWP) has launched an investigation, the Financial Times reports, after incorrectly directing internet users to a pension-tracing site run by a commercial business rather than the government's own service. The government launched the Pension Tracing Service, which is free of charge, in 2016 to help people track down pension savings they have lost touch with, but the DWP – as well as several large pension providers and consumer groups – have wrongly been directing people to a similar service provided by a firm of independent financial advisers. The correct site is at gov.uk/find-pension-contact-details.

■ New legislation that will allow "no fault" divorces in England and Wales could leave many women worse off in retirement, experts warn. The new laws, currently going through Parliament, will make it easier and quicker for many couples to divorce, but this increases the risk of complicated financial assets getting overlooked during divorce negotiations. Research suggests women tend to lose out disproportionately when it comes to pensions and divorce: data from the Pensions Policy Institute shows the average divorced woman has less than a third of the pension wealth of the average divorced man.

Three top stocks set to thrive after the turmoil

A professional investor tells us where he'd put his money. This week: Ed Wielechowski, co-fund manager of the Odyssean Investment Trust

"May you live in interesting times." This apocryphal Chinese curse springs to mind when looking at today's equity markets. The initial wave of the Covid-19 virus may have peaked in Europe and the US, but the longer-term trajectory of the disease and its economic impact remain highly uncertain. Throw in geopolitical tension between China and the US and a Brexit deal still to be agreed, and "interesting" seems an understatement.

Investing against such a backdrop can be a challenge, but it also offers opportunities. At Odyssean we aim to exploit these by retaining a focus on our core philosophy – backing high-quality businesses where engagement can improve returns – and identifying companies that benefit from the current market situation.

Finding oversold first-rate cyclicals

When cyclicals sell off, investors need to judge the timing of a rebound and appropriate entry valuations. These are not easy questions to answer. We take comfort in backing market leaders at valuations supported by significant real assets. **Elementis (LSE: ELM)** fits this bill.

The company is a leading producer of speciality chemicals sold into a broad range of industrial and personal-care end markets. The group enjoys strong market positions with access to unique mineral assets underpinning differentiated, premium products.

The group should benefit from a cyclical recovery in demand after the virus, while synergies from recent mergers and acquisitions and targeted cost savings of $15m will help too. The shares trade on a price/book ratio of just 0.5 compared with a five-year average of 1.8, suggesting significant value.

Profiting from uncertainty

We also seek out companies that should emerge as winners from the current market disruption. Looking beyond the obvious, direct winners (such as online retail) we like are firms we think capable of gaining market share in uncertain times. **Volution (LSE: FAN)** falls into this category.

Volution is a leader in domestic and commercial ventilation equipment. The company has leading positions across the UK, Europe and Australasia in a growing market. Energy-efficiency standards are driving increased ventilation spend per property.

As a well-capitalised, larger player in a fragmented market, Volution should benefit from turbulence in the sector. Its ability to maintain supply and inventory should allow it to gain market share and its access to capital means it could buy up distressed smaller players.

Growth stocks that can move up a gear

Finally, high-quality businesses in growth markets led by capable managers that could improve overall performance are highly appealing, but rare, investment opportunities. **SDL (LSE: SDL)** is an example.

"Volution is well-positioned to gain market share amid the turbulence in its sector"

It is a leading global provider of translations services and related software tools. The company serves blue-chip corporate clients in a market growing at a mid-single digit rate as content volumes grow exponentially.

SDL boasts a high level of recurring sales, plenty of scope for improving margins, a record of accretive bolt-on acquisitions, a strong management team and a healthy balance sheet. It's a long-term story we would like whatever the market conditions.

If only you'd invested in...

Avacta (Aim: AVCT) is a biotechnology company focused on its Affimer technology, an alternative to antibodies; the aim is to develop cancer immunotherapies. The stock has climbed to around 130p in the past few days, marking a 360% increase in a year, on the news that the Affimer therapy has managed to stop the Covid-19 virus from entering human cells. Avacta hopes to secure help from a large pharmaceuticals group to develop its drugs. The shares have outperformed the market over the past three months and the good news implies scope for further gains.

Be glad you didn't buy...

Hammerson (LSE: HMSO) is a major British property development and investment group. The stock has slipped by 71% over the past decade and by 63% in the past year alone, says The Times. The key problem is turmoil in the retail sector – rising costs and online competition have hit the high street hard. Chairman David Tyler is being replaced as Hammerson's board commits to a strategy overhaul, but "any turnaround plan is unlikely to be announced for some months". Hammerson will need to raise around as £1bn to shore up its balance sheet.

Twitter's chief comes of age

Jack Dorsey has had a turbulent ride of late, but his strategy of thinking big and biding his time seems to be paying off. Jane Lewis reports

©Shutterstock

When a tech billionaire announces a philanthropic project, they usually get "a tsunami of vitriol on Twitter", says the Financial Times. Since the coronavirus outbreak, the Twitterati have been quick to ridicule donations by Amazon's boss, Jeff Bezos, and Facebook's chief, Mark Zuckerberg, as paltry. But they cannot say the same of Twitter's founder and CEO Jack Dorsey, who has stumped up $1bn (or 28% of his fortune) for relief efforts. And when Dorsey turned on Twitter's "most famous user" – placing hazard-warnings on President Donald Trump's most misleading and inflammatory tweets in the wake of George Floyd's death – he gained a new set of enemies, but many admirers too. Supporters claim his leadership shows that "tech bros can grow up".

"Dorsey has stumped up $1bn (or 28% of his fortune) for Covid-19 relief efforts. Supporters claim this shows that 'tech bros can grow up'"

Two jobs Jack

Dorsey's career in Silicon Valley has often been "turbulent", says Business Insider. Having co-founded Twitter with Evan Williams and Biz Stone in 2006, he was booted out as CEO two years later – eventually returning to head the firm in 2015 after setting up the payments group Square. Recently his tenure has been challenged by a backlash from investors. Having floated in 2013, Twitter failed to turn a profit at all until 2018 and its income ($390m last year) is still dwarfed by Facebook's. Last year, activist investor Elliott Management began agitating for Dorsey's removal, claiming that "two jobs Jack" had spread himself too thinly. Given Elliott's fearsome reputation, the Valley promptly put Dorsey on "deathwatch", says Wired. Following a showdown in March, he gained a reprieve, but his survival still depends on meeting some tough targets.

Born into a close-knit St. Louis family in 1976, Dorsey was described by his mother as a "quiet and self-sufficient" child who developed a deep interest in how things worked at an early age. As a boy, Jack spent hours tuned in to his parents' old police scanner, charting the movements of ambulances and police vehicles. By the time he was 14, he had programmed an imaginary city on the family computer, but he's always had an interest in how all types of colonies, including natural ones such as those of ants, work.

Dorsey's law

Dorsey studied computer science and mathematics at New York University, but dropped out to move to California, says the FT. He first had the idea for Twitter in 2000, but realised that as "no one else had a mobile email device", the idea was ahead of its time. After toying with the idea of switching careers, he joined an ailing early podcasting firm, Odeo, and presented his idea at a "hackathon". By 2006, when Dorsey sent out his first Tweet, Twitter's moment had come, says CNN. "Growth exploded as actors, activists and politicians all started using the platform." Early put-downs about Twitter's triviality were soon put to rest during the Arab Spring, when "users saw revolutions unfold in real time".

Twitter's ban on political advertising and its stand against Trump is seen as being driven by principle, says City AM. But it might yet prove "a savvy business move" if the platform "starts looking the less swampier home for [commercial] advertising spending". Another case, perhaps, of abiding by Dorsey's law of waiting "for your Big Idea's time to come".

Great frauds in history... *the man who broke Barings Bank*

Nick Leeson was born in Watford in February 1967 and left school after A-Levels to became a clerk in the Lombard Street branch of Coutts bank. By 1987 he had moved to a "back office" (that is, support) role at investment bank Morgan Stanley before taking up a similar position at Barings Bank, where one of his duties involved investigating a case of fraud. By 1992 he had been promoted to the head of Barings Futures Singapore, where he was responsible for "front office" trading decisions as well as providing administrative support.

©Getty Images

What was the scam?

The primary task of Barings Futures Singapore was to carry out orders for clients and to make money by exploiting small differences in prices between the Singapore and Japanese markets. In an attempt to boost profits, Leeson started to make proprietary trades with the bank's own money, focusing mainly on Japanese market index futures. When these trades went badly, Leeson started to hide the mounting losses in a special account designed to correct trading errors. As the losses grew, he increased the size of his bets, hoping that a change in the market would enable him to repay the balance.

What happened next?

The collapse in the Japanese market following the Kobe earthquake in January 1995 led to yet more losses. They eventually grew so large that Leeson realised it was inevitable he would be discovered. He therefore fled Singapore the next month, confessing his crime in a note he left behind. Eventually captured by the authorities in Germany, he sought extradition to the UK, but was eventually sent back to Singapore, where he was sentenced to six and a half years in prison for fraud and forgery, before being released in 1999.

Lessons for investors

Leeson's losses cost Barings an estimated £860m, plunging it into bankruptcy. Despite last-minute attempts to organise a bailout, its main operations were purchased by Dutch bank ING for £1. This ensured that depositors were protected from losses, but subordinated bondholders in the parent company lost most of their £100m investment. Barings' management was not involved in Leeson's fraud, but their complacency and arrogance should have been big red flags for investors. Shortly before the collapse, chairman Peter Baring infamously boasted that it was "not actually terribly difficult to make money in the securities business".

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Stunning Collection of Six Thrilling Wines

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

Matthew Jukes

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

~~£11.90~~ **£11.00**

2018 Blauschiefer, Riesling Trocken, Kerpen, Mosel, Germany

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

CASE PRICE: £132

~~£9.20~~ **£8.50**

2019 Bagordi Blanco, Rioja, Spain

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

CASE PRICE: £102

~~£17.95~~ **£16.50**

2016 Château Cissac, Haut-Médoc, Bordeaux, France

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

CASE PRICE: £198

~~£14.95~~ **£13.75**

2015 Château Laclaverie, Francs Côtes de Bordeaux, France

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

CASE PRICE: £165

~~£14.95~~ **£13.75**

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

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

CASE PRICE: £165

~~£16.60~~ **£15.25**

2016 Celler Cal Pla, Priorat, Spain

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

CASE PRICE: £183

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Four of the best beaches in England

Blow away the quarantine cobwebs with a visit to the coast. Nicole Garcia Merida reports

One of the UK's last true wildernesses

"Strung with vast and often deserted beaches, the Norfolk Coast Area of Outstanding Natural Beauty is one of the county's primary draws," says Charlotte Wigram-Evans in National Geographic. "This dramatic, 175-square-mile stretch of rural England also features mudflats and salt marshes that teem with a rich variety of wildlife." The coastline can be explored on foot on the Norfolk Coast Path, or you can take a sailing boat into the maze of tiny waterways flanked by towering sandbanks, which "feel like one of the UK's last true wildernesses". Stay at the Victoria Inn, says Wigram-Evans. A stone's throw from Holkham Beach, it "brims with country charm" and is a perfect base for exploring the coast. *See holkham.co.uk*.

©Alamy
Holkham Bay: a dramatic stretch of rural England

Whale-spotting in Northumberland

The Northumberland coast is an Area of Outstanding Natural Beauty and a place of high drama, says The Daily Telegraph, with sweeping sandy beaches and isolated islands. It's a great place for walking, cycling, wildlife watching and water sports. The coastline is "punctuated by castles, at Bamburgh, Dunstanburgh and Warkworth, and the town defences of Berwick". The Northumberland Coast Path follows the coastline for 100 kilometres and there are trails for all abilities. Hire a bike or take your own for miles of quiet lanes and traffic-free cycle routes. For the bird watchers, activity at the seabird colonies peaks in June and July, and whales and dolphins can be seen year round. Stay at the penthouse apartment in Craster Tower, a Grade-II listed country house with sea views, situated above a picturesque fishing village. *See crastertower.co.uk*.

"Craster Tower is a Grade-II listed country house, situated above a picturesque fishing village"

A hidden gem in south Devon

Gara Rock Beach is a hidden seaside adventure playground, says Chris Haslam in The Times, situated near Salcombe in south Devon. It could easily "become your family favourite", although its "magnificence as a picnic spot is rivalled by competition at the top of the cliff", where you'll find an outlet selling pasties and ice cream, and the sea-view terrace of the restaurant at the Gara Rock hotel. The hotel is a good spot to stay, with "a hipster-chic" vibe, a sea-view spa and a cinema. Double rooms from £257 per night. *See gararock.com*.

A taste of the Caribbean

The Isles of Scilly have the closest thing you can get to Caribbean beaches in the UK, says Roshina Jowaheer in Country Living. This "magical archipelago" sits just 28 miles off the coast of Cornwall and has the same sparkling turquoise water and laid-back island vibe of the Caribbean without the long-haul flight. "The Isles of Scilly have been blessed with some of the most beautiful sands in the world… You can bathe or kayak the crystal-clear waters, take in the beauty of the coast by walking along a trail, or soak it all up from a beach bar or cafe." Stay at the Star Castle Hotel, a 38-bedroom family-run hotel that has an indoor pool, tennis courts and a golf course. Double rooms start at £179 per night. *See visitislesofscilly.com*.

Wine of the week: a phenomenal, plush chardonnay

2019 Hamilton Russell Vineyards, Chardonnay, Hemel-en-Aarde Valley, South Africa
£21.67 in bond per bottle, farrvintners.com; £22.50 in bond per bottle, uncorked.co.uk; £33.40, hedonism.co.uk; £35.99, thornewines.com; £34.99, harrogatefine winecompany.com

Matthew Jukes
Wine columnist

In particularly challenging vintages there is an outside chance that a winery can make truly remarkable wines. Some estates find it impossible to step up, but others, in the face of adversity, have the confidence, experience and sometimes luck to make the inspired decisions that result in remarkable outcomes.

In 2019, Hamilton Russell managed to swerve potentially catastrophic damage from smoke taint caused by a massive fire in January. An unusually warm May, June and July affected chardonnay dormancy and the resulting bud break was extremely uneven. In addition, the vintage was cooler than 2017 and 2018. Rainfall was lower than average, too, but during harvest, frequent showers caused sustained high humidity. HR's organic treatments proved highly effective against the threat of mildew. They also picked the day before the skies opened, too.

While the chardonnay crop was 44% down, this is the most remarkable HR chardonnay I have ever tasted. With stunning depth and juiciness, plush, but controlled oak and serious length, this is a phenomenal creation. There is exquisite balance here, too, and all of this class and luxury sits atop stiletto-sharp acidity and a restrained 13.2% alcohol level. Pound for pound, this wine is in contention for Chardonnay of the Year. "Against all odds" is a recurring theme for this terrific winery.

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

This week: properties with productive vegetable and kitchen gardens – from a 15th-century mill in Banbury, Oxfor

Clifton Mill, Clifton, Banbury, Oxfordshire. This restored, Grade II-listed, 15th-century mill retains its original mill wheel and grain loft. The gardens are divided by a bridge over the mill stream leading to a vegetable garden with fruit trees. 4 beds, 3 baths, 2 receps, 2-bed annexe, outbuildings, 3.14 acres. £1.6m Savills 01295-228000.

Halamiling, Lesnewth, Boscastle, Cornwall. A Grade II-listed farmhouse with a two-bedroom and a one-bedroom cottage set in gardens and grounds that include three trout lakes, a productive vegetable garden and a 40ft by 12ft greenhouse. 4 beds, 3 baths, 2 receps, outbuilding, pasture, woodland, 56.39 acres. £1.75m Strutt & Parker 01392-229405.

Red Croft, Skilgate, Taunton, Somerset. This period cottage has been converted into a large family property with the addition of a two-storey glazed atrium. The landscaped gardens include a greenhouse, productive kitchen gardens with raised vegetable beds and an orchard with pear, plum, damson and apple trees. 4 beds, 3 baths, 3 receps, dining kitchen, 2 garages, stables, pond, 2 acres. £725,000 Jackson Stops 01823-325144.

rdshire, to a 17th-century farmhouse on a residential smallholding in Barnstaple, Devon

◀ **Hollacombe Farm, Kentisbury, Barnstaple, Devon.** A renovated, 17th-century farmhouse with later additions in a residential smallholding with solar panels and a wind turbine on the edge of Exmoor National Park. The house has open fireplaces with wood-burning stoves. It comes with a two-bedroom cottage and is set in over 62 acres of agricultural land and woodland divided by hedgerows. 6 beds, 3 baths, 2 receps, gym, cellar, outbuildings, 62.76 acres. £1.2m Greenslade Taylor Hunt 01769-574500.

▶ **Hutcherleigh Barn, Blackawton, Totnes, Devon.** A converted period barn set in gardens that include a polytunnel for growing vegetables, a greenhouse and a two-bedroom barn conversion. It has beamed ceilings and a kitchen with an Aga. 4 beds, 2 baths, 3 receps, swimming pool, paddock, 7 acres. £1m Marchand Petit 01803-839190.

▲ **Glengarth, Cullingworth, West Yorkshire.** A detached Victorian property surrounded by open countryside with landscaped gardens that include a vegetable garden, greenhouse and a large paddock. The house has wood floors, sash windows and period fireplaces. 3 beds, 3 baths, dressing room, 2 receps, kitchen/living room, stable block, manège, 3 acres. £950,000 Carter Jonas 01423-580926.

◀ **Calveshill House, Chedworth, Cheltenham, Gloucestershire.** A refurbished, 17th-century house set in 11.63 acres of land that include an established vineyard, a herb garden and a vegetable patch. There is also a heated outdoor swimming pool, a hot tub and a tennis court in the grounds. 6 beds, 5 baths, 4 receps, library, bar, wine cellar, music room, coach house with an office above a triple garage. £3m. Strutt & Parker 020-7318 5095.

▶ **Cobbolds Mill, Monks Eleigh, Ipswich.** A Grade II-listed, Georgian-fronted, 15th-century former mill house overlooking the River Brett with gardens that include a mill pond and a kitchen garden. The house has exposed wall and ceiling timbers, a kitchen with an Aga, and a garden room overlooking the mill pond. 6 beds, 3 baths, 3 receps, 2 attic rooms, 3-bed cottage, studio, outbuildings, tennis court, traditional greenhouse, paddocks, woodland, meadow, 16.7 acres. £1.5m Savills 01473-234800.

Three of the best new bikes

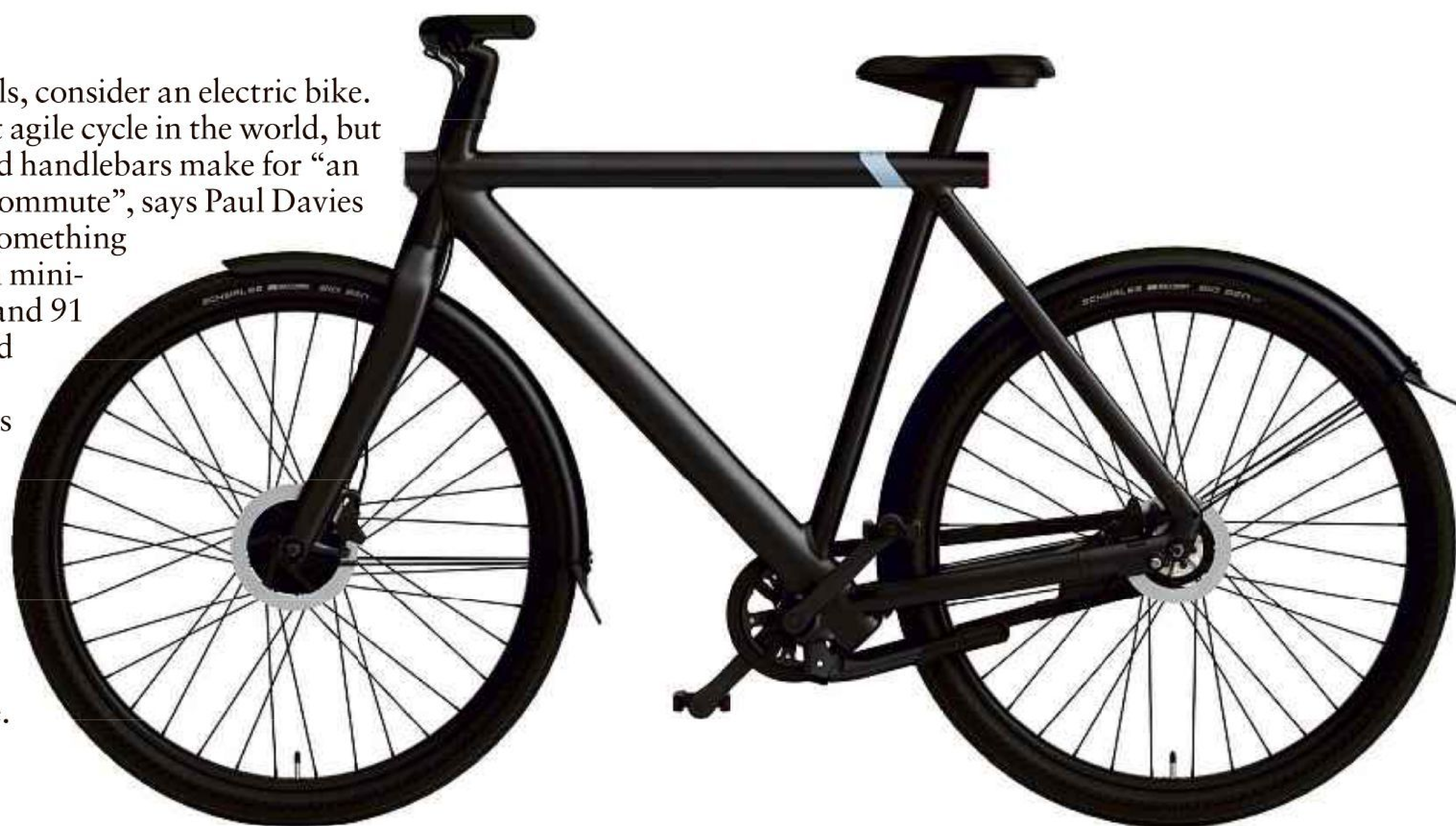
Looking for an alternative to public transport for the commute? Nicole Garcia Merdia has some ideas

Great fun, whatever the terrain

Mountain bikes are great all-rounders that can handle any terrain, says Jacqueline Neber in New York magazine. They are perfectly happy on the commute, but, should the biking bug bite and you want to head for faster or rougher terrain for fun, then you'll have a machine that can cope. The **Yeti SB130** is a great option and its unique "switch infinity" suspension system can handle the wildest terrain. It's a bike that "makes you want to ride harder just to see how far it can be pushed". It feels as good as anything else on the market for everyday use, but when you "ride aggressively it really comes alive and makes for a fun ride". *£7,199, biketart.com*

A helping hand with the hills

If you could do with a hand on the hills, consider an electric bike. **The VanMoof S3** may not be the most agile cycle in the world, but the cushioned seat and well-positioned handlebars make for "an ache-free experience, even on a long commute", says Paul Davies in The Daily Telegraph. It looks like something Batman would ride on an Amsterdam mini-break and has a range of between 37 and 91 miles, depending on what you demand of it. But the bike's "most thrilling" feature is a discreet boost button on its handlebar, which provides an "extra blast of torque" for pulling away at junctions or steep hills. A "kick lock" on the rear wheel activates the security system – an alarm goes off if "some joker starts manhandling it". The bike unlocks automatically via Bluetooth once your phone is in range. *£1,800, vanmoof.com*



Mosaic's made-to-measure machine

You can buy a bike off the shelf for a fraction of what a custom-made cycle will cost you. But what you won't get is a **Mosaic**, says Matt Phillips on Bicycling, meaning you will miss out on the "transcendent ride" such a machine provides, of a kind that "I've experienced only a handful of times during my long career testing bikes". Mosaic stands apart from other bespoke builders as it can deliver a custom-made frame to your doorstep in only six weeks – other builders can take over a year. "That quick turnaround doesn't translate to an inferior product… What you get is a carefully designed and beautifully constructed bike." The titanium frame of the RT-1 option makes the end product light and fast, and the frame is customised to your specifications. *Price on application, prestige-cycles.co.uk*

We rode a green wave to profits

"I don't know what it is, but I want one"

Abigail Forsyth struggled to get a hearing when she first came up with the idea of starting a business making reusable cups. "This is the stupidest idea I've ever seen," said one designer she approached. "This is just a cup," said a confused potential manufacturer. That was in Melbourne, Australia, in 2008, says Michelle Meehan on the BBC. Now, total worldwide sales at KeepCup have hit ten million.

KeepCup's sustainable branding turned out to be cleverer than it seemed and it was able to ride a wave when concern spread about the environmental costs of disposable cups. The company produces and distributes reusable plastic and glass cups for sale around the world, and eventually aims to replace the single-use cardboard receptacles we had until recently taken for granted. But sustainability was never going to be enough – the product had "got to be sexy" if it was going to appeal to customers. From the beginning, it was "all about the design", she says. "People were saying, 'I don't even know what it is, but I want one'."

Sales have grown steadily over the years, thanks to word of mouth, and the firm's annual revenues are now reported to be more than A$8m (£4m). The growth has been organic, not needing any outside investors, and in keeping with the firm's green credentials, manufacturing is completed locally in the firm's two main markets, Australia and the UK. The business has been hit by the coronavirus crisis, but Forsyth is confident she can bounce back. KeepCup will one day, she says, be seen as the business "that

How I made £138m before 30

At the age of 19, Ben Francis, an Aston University student who made ends meet working as a Pizza Hut delivery driver, started to sell bodybuilding supplements online. He changed tack when he realised "no one really made clothes for the bodybuilding scene". So he spent his £1,000 in savings on a sewing machine and screen printer, and learnt how to make garments from his Mum, says Liam Kelly in The Times. The business ticked along until, in 2013, Francis (pictured) secured a stand at a trade show at the NEC. Then things really took off: in the first half hour after the show, the Gymshark website took £30,000 in sales.

Gymshark only sells directly to customers online, a strategy that has helped it cope with the coronavirus crisis pretty well. Gyms are closed, but people exercising at home have shopped online to get the clobber to look the part. Gymshark has benefited from that trend. Francis once dashed off designs from his West Midlands home then queued at the Post Office to get them out. Now he operates from a gleaming £5m, 42,000 sq ft premises near Solihull.

Gymshark was one of the first brands to make extensive use of "social-media influencers". Today, Gymshark has 1.7 million followers on Facebook and 4.2 million on Instagram, and Francis's girlfriend, Robin Gallant, runs a YouTube channel that advertises his products too, inducting another 400,000 subscribers into the brand's online culture. "We've led the direct-to-consumer revolution and built a truly community-first brand," writes Francis on his blog. The company made £18.4m in pre-tax profits in the last year, and maintained 193% compound sales growth from 2013 to 2016. Francis himself is not done yet – he has ambitions of rivalling the likes of Nike and Adidas in the coming years.

Francis met Paul Richardson, the firm's head of strategy, at his gym, and through him was introduced to the former Reebok boss Steve Hewitt, who is now chief executive. Francis still controls design and marketing. His stake in the firm has seen him amass a £138m fortune before he turns 30, but he insists he is not flash. His only extravagance is a pair of Triumph motorbikes.

©Alamy; Getty Images; KeepCup

The woman creating a Russian Amazon

Entrepreneur Tatyana Bakalchuk is "an anomaly", says Max Seddon in the Financial Times. In Russia's male-dominated business world, success often depends on ties to the Kremlin. Bakalchuk (pictured), though, is a self-made billionaire, the first such woman in the country. Wildberries, the business she founded in her Moscow apartment while on maternity leave in 2004, has "fought off venture capitalists and state-backed rivals" to become Russia's leading ecommerce site.

Bakalchuk, 44, now has a $1.1bn fortune, and became rich by "reaching deep into everyday Russian life". Her firm began as an online clothes retailer for women and took time to emerge as a serious business because ecommerce lacked an infrastructure – the long distances in Russia, poor roads and sclerotic postal service held up development. But she ploughed on regardless. "If I'd read business textbooks, I probably wouldn't have done anything. I'd have worked out the business model and realised it was impossible. But if you don't know, then it can't scare you." Today, the company offers four million different products from 35,000 brands and 26,000 suppliers.

Wildberries' turnover grew 88% in 2019 to Rbs223.5bn ($3bn), with net profit rising from Rbs1.88bn to Rbs7bn, making Wildberries the leader in Russia's fast-growing ecommerce market. Bakalchuk, who processed her first orders herself at home, now runs a business with no external investors and 48,000 employees, including 12,000 extra staff hired to cope with surging business as a result of Covid-19. In the first quarter of 2020, Wildberries doubled both turnover and sales year on year.

The secret to success, she says, is to start small and move slowly. "Russian entrepreneurs who go to schools such as Harvard are all obsessed with the idea that you come up with a business idea, raise money and grow as fast as you can." But when you do that "your business model will have feet of

The nation's smart new tie

Global Britain needs to drum up new business. A makeover will create the right impression

If you are struggling with debts, sometimes the worst thing you can do is downsize. When you turn up for a potentially transformative business meeting, you'll create a better impression stepping out of a Mercedes in a smart new suit than you would getting out of a Mondeo in crumpled old duds. Perhaps this explains why Boris Johnson – prime minister of a nation now up to its ears in debt, with a debt-to-GDP ratio that soared above 100% last week – is splashing out on the national equivalent of a new tie.

It's time to welcome back Britannia

©Getty Images

> *"One person who will be delighted by the return of HMS Britannia is Prince Philip, who has never forgiven or forgotten the decision to decommission the original yacht"*

Close to a million pounds is to be spent on a "red, white and blue makeover" for the prime minister's RAF plane, says James Tapsfield in the Daily Mail. The £900,000 paint job will splash "national branding" on the Voyager aircraft used by the PM on foreign trips and the Union Jack will feature on the rear of the fuselage and the fin. The idea has been "ridiculed" by those who worry that it will make our PM "look like Austin Powers on tour". But it is a good way to "wave the British flag" as Boris travels the world to "promote the UK" and drum up trade. The current rather miserable grey paint job may be evocative of the typical British summer – indeed, that is part of the point, making the military plane less visible – but the PM is hoping to project a more jolly image.

Get the Queen a new yacht

While we're at it, why not buy a smart new yacht too? The prime minister is considering plans to replace the Royal Yacht Britannia, says The Daily Telegraph, which was decommissioned in 1997. "Two new £150m ships" paid for out of the foreign-aid budget are in the offing, which would be made available to members of the royal family to help project Britain's image around the world on overseas tours to the Commonwealth and other countries. No decision has yet been made. As Johnson told party members during the Tory leadership campaign a year ago, he will ask the Queen if she wants a new yacht before commissioning a new one.

These projects have brought forth the usual criticism. Sean O'Grady in The Independent, for example, says he'd be all for them if "a single British job" would be saved or created. But they seem, to him, unlikely to do anything for British interests and are more about "those at the top enjoying themselves" on foreign jaunts. What really wins international respect is a "generous, internationalist disposition" and a government that takes its obligations seriously. A repainted plane or a new yacht cannot make up for the absence of these.

Perhaps, but appearances do matter, and a splash of colour surely never hurt anyone. It may delight and cheer many. One person who will certainly be delighted by the return of HMS Britannia is Prince Philip, who has "never forgiven or forgotten" the decision to decommission the original yacht in 1997, which had a special place in his heart, says Ray Thornton in the Daily Express. The original yacht "travelled more than a million miles for Britain" and was responsible for raising "billions of pounds in UK exports". It should be replaced. It will be an "invaluable ambassador for Britain".

Quintus Slide

Tabloid money... go out and get shopping – it's your civic duty

©Getty Images

● **Manchester United and England striker Marcus Rashford (pictured) scored a goal in forcing the government to retreat over free school meals, says Rod Liddle in The Sun. The football star wrote a letter to the prime minister and, as a result, 1.3 million of Britain's poorest kids will get free school-meal vouchers this summer. "Good for him. The government's decision not to pay for the vouchers was mean-spirited and cheap." You do have to wonder how the government decides policy when all it takes is "for a footballer to open his mouth". Still, "Rashford was right and deserves credit". And while Boris is at it, he could raise the minimum wage for people aged 25 and over. It is low wages that keep people mired in poverty. "This government needs to know the poor are watching and waiting... waiting for the promises of last year to be delivered."**

● Generally, the more luxurious and privileged the shop or restaurant, "the more insulated it appears from hardship" to its customers, says Alexandra Shulman in The Mail on Sunday. "But in this crisis it's different." On a recent shopping trip, central London was "a petrified forest" of empty offices, dark theatres, lifeless hotels and closed eateries. And "stepping into the shiny, vast temples of luxury and hospitality" seems "alien and even potentially dangerous". Knowing that everything touched would have to be cleaned or quarantined "made me feel like a leper". That's not "a very conducive state of mind for spending money... I fear it's going to take more than the relaxation of a two-metre rule to get us flooding back".

● "My dad was in the underwear business," says Vanessa Feltz in the Daily Express. If people didn't go out and buy his negligées, it meant the rented TV had to go back to the shop. "So, I was raised to believe that purchasing was my civic duty." In lockdown, I have chronically missed shopping. I am a recreational shopper. "Everything about the smell of the perfume counter, the whir of the escalator, the thrill of the hunt and the rustling of tissue paper tucked around the spanking new acquisition soothes and satisfies my soul." Boris Johnson has given us "carte blanche to splash out without guilt". So, to the question: why do I need those stilettos with sequinned strawberries? "Because I am a phenomenally fabulous citizen and I love them... See you in the queue."

Bridge by Andrew Robson

An aggressive lead causes difficulty

Dealer South — East-West vulnerable

North
♠ Q1097
♥ AK
♦ AQ5
♣ A1065

West
♠ –
♥ 10765
♦ 10742
♣ K9732

East
♠ 654
♥ 9843
♦ K986
♣ QJ

South
♠ AKJ832
♥ QJ2
♦ J3
♣ 84

The bidding

South	West	North	East
1♠	pass	4NT*	pass
5♠**	pass	5NT***	pass
6♣§	pass	6♠	pass
pass	pass		

* Roman Key Card Blackwood, agreeing Spades.
** Shows two of "five Aces" (including the King of trumps) and also the Queen of trumps. Note, he pretends to have the Queen of trumps because he expects the partnership to have at least ten Spades and therefore the Queen is unlikely to win even if missing.
*** Confirming all the "aces" and asking for kings with a possible grand slam in mind.
§ No kings.

I'm not sure I would have, but West finds the aggressive Club lead and declarer is in some difficulty (my partnership almost bars opening leads from Kings). Declarer rises with dummy's Ace (noting East's Queen) and must resist the temptation to take an early Diamond finesse. Instead, declarer cashes two rounds of Spades then the Ace-King of Hearts. He crosses to his third Spade, cashes the Queen of Hearts (throwing a Diamond – a Club discard would have worked as well) then leads a Club. West cannot rise with the King, or he squashes East's Knave and sets up dummy's ten for a Diamond discard. However, when West ducks and East wins, East finds himself endplayed to lead a Diamond away from the King or a Heart, enabling declarer to ruff in one hand and throw the Diamond loser from the other. Twelve tricks and slam made.

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

Sudoku 1005

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

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

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

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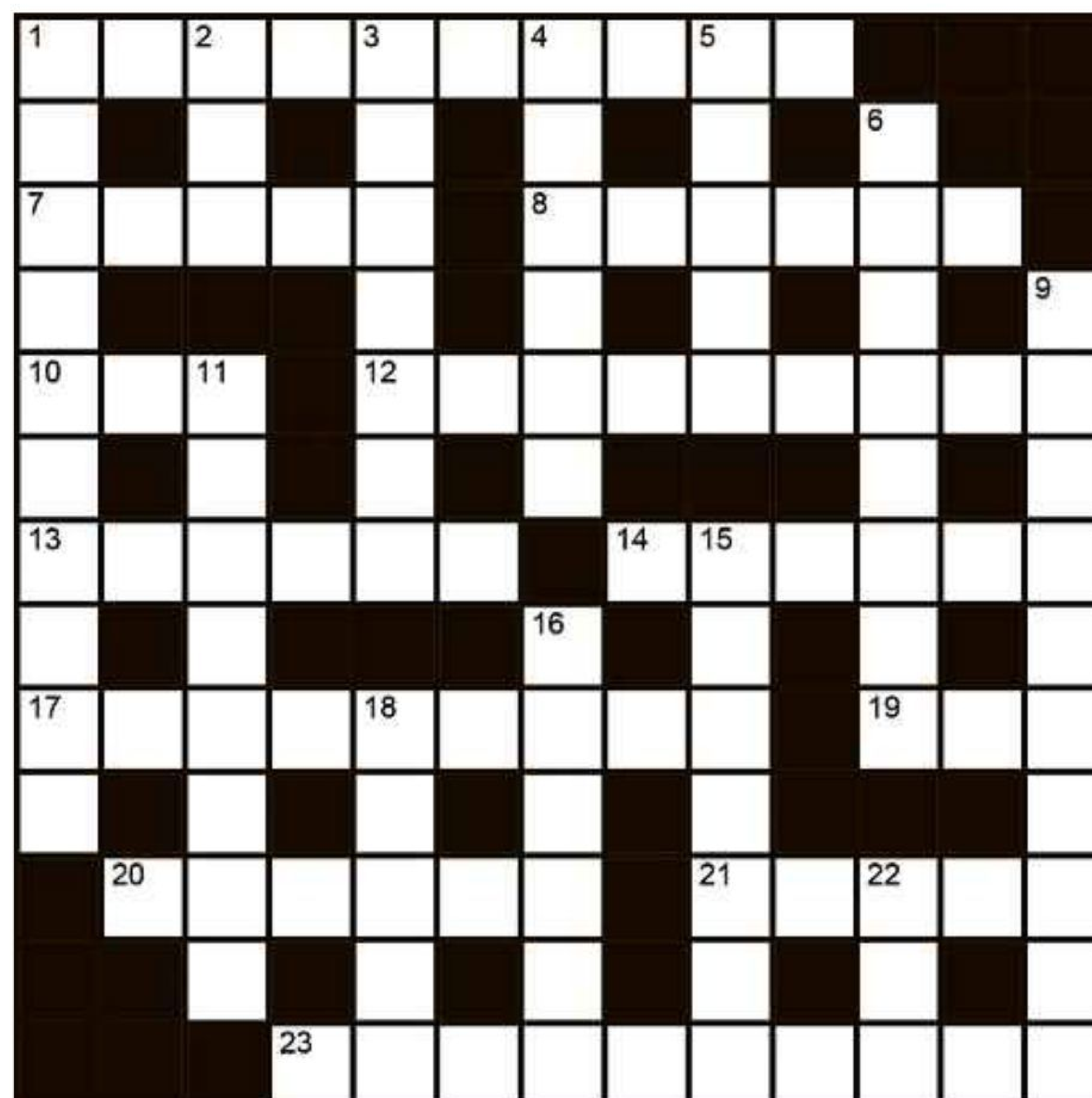
Tim Moorey's Quick Crossword No. 1005

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 6 July 2020. Answers to MoneyWeek's Quick Crossword No. 1005, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

ACROSS
1 Spirit today almost crushed, I do feel a heel (10)
7 A couple of circles for drummer (5)
8 Youngster's cutting tool? (6)
10 Girl from Trinidad (3)
12 Get garage rebuilt and you may need this (9)
13 AB and C is where I'm said to be at! (6)
14 Cooks side in two seconds (6)
17 Agreed on a change and it's cordial (9)
19 Braun, for example, leads with extremely varied advertising (3)
20 Live near Herts town in cave (6)
21 Brave leaving hospital quickly (5)
23 Thousands in France eating rump in Mediterranean port (10)

DOWN
1 Consent (10)
2 Study (3)
3 Pear-shaped salad ingredient (7)
4 Leave an organisation (6)
5 Tremble (5)
6 Walter_____, English poet (2, 2, 4)
9 The press (10)
11 In a tizzy (8)
15 Biblical sages from the east (3, 4)
16 Stands for artists (6)
18 West African country (5)
22 Entirely (3)

Name ....

Address ....

Solutions to 1003

Across 7 Showstopper *shows topper* **8** Boot sale *Boots ale* **9** East *(b)east* **10** Asunder *as under* **12** Bleat *anag* **14** Trash *t rash* **16** Possess *posses s* **19** Undo *hidden* **20** Operator *anag* **22** Estate agent *e state a gent*

Down 1 Oslo **2** Boston **3** Escaped **4** Dover **5** Appeal **6** Trespass **11** Stranger **13** Nosebag **15** Shorts **17** Shares **18** Month **21** Otto.

The winner of MoneyWeek Quick Crossword No. 1003 is: Charles Jackson of Somerset

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

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

Why the poor are poor

Is it all down to "the system"? Don't believe it, even if it's true

Bill Bonner
Columnist

You can beat the system… but not like this

In previous columns, we have lamented the fact that the poor have been stiffed while the richest fill their pockets from stockmarkets artificially inflated with fake money. Some of our readers have objected. What the poor in America get is not a result of public policy, they say – it's what they deserve. Maybe the Federal Reserve is juicing up the stockmarket, but if people are poor, it's their own fault.

There is just no excuse in today's America, said one reader, for being uneducated or poor. Others agreed, arguing that hard work, grit and clean living can still lift people out of poverty – that most of the poor are poor because of their own bad choices, not because of federal policy. The country was built by people arriving with little but the clothes on their back. They relied not on welfare, but hard work. They wouldn't have taken the welfare even if it had existed.

My readers are right! We completely agree. The system probably is corrupt, but an individual – with luck, brains and determination – can beat the system. And even if this is not true, he should still believe it. He is the only one who can really improve his life. And if he ever loses faith, he's finished. He can march in all the demonstrations he wants. He can vote and write letters to the editor, and ask his congressman to take the knee. But he, and only he, is likely to genuinely improve the circumstances of his life.

> *"Hard work, grit and clean living are still the way out of poverty"*

No one will polish his shoes for him. No one will get to work early for him, or prove to his boss he should be given a raise. No one will save money for him, learn new skills for him, or brush his teeth or comb his hair. And if he's counting on the feds to make his life better, well… good luck to him.

But if the common man ever starts to believe that the elite has betrayed him, has used him as canon fodder in a pointless war, or stolen from him in a scammy financial system, there's going to be trouble. Here on the back page, we only try to understand what is going on. And what we see is that the elite have ceased being useful stewards of the nation's institutions. Now, they have become predatory, exploiting the system and hogging the wealth.

The average working stiff has not had a real raise in four and a half decades – even in the midst of the biggest rush of technological and scientific progress in history. And now, saddled with debts, gagged by face masks, and idled by house arrest, young people are set to do even worse.

Will the masses ever figure out what is going on? Probably not. Instead, they will howl about "greed" or "racism". They will rant against "capitalism" and Wall Street… and vote for a scallywag who promises a Universal Basic Income, more stimulus, and more money-printing. And they'll get what they ask for… good and hard.

The bottom line

£1,900 The average savings of the typical worker employed in sectors shut down during the pandemic, according to the Resolution Foundation think tank. Those able to work from home typically have £4,700 stashed away.

€500 The amount a man in Vienna was fined for breaking wind loudly in front of police. Police said the man behaved provocatively and uncooperatively during an encounter with police, and "let go a massive intestinal wind apparently with full intent".

£100 The cost in subsidies for each rail passenger journey taken in the UK since lockdown. Billions of pounds of taxpayers' money have been spent on running near-empty services, says The Guardian.

$6m What the guitar played by Kurt Cobain during Nirvana's *MTV Unplugged in New York* performance fetched at auction, after fees. The singer played the famous 1993 show five months before his death aged 27.

£350m The latest bid for Newcastle United in the club's "seemingly interminable takeover saga", says The Guardian. The offer by American television executive Henry Mauriss is £50m more than the price already agreed upon between a Saudi-led consortium and Newcastle's current owner, Mike Ashley.

£6.4m **The size of the lifeline loan Victoria Beckham's fashion business received after racking up "huge losses", according to Lucy Needham in the Daily Mirror. The cash comes from Luxembourg-based London Investments. Beckham's high-end fashion chain lost £12.3m last year due to a "sales plateau" and has already had to be bailed out with £16m from a mystery shareholder, believed to be husband, David.**

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