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MoneyWeek

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29 JULY 2022 | ISSUE 1114

Cracked currency

Will the euro crisis flare up again?

Pages 3 and 14

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Britain's best-selling financial magazine

From the editor...

MoneyWeek has been around long enough to see several big trends recur. Most of them have been fascinating to cover. But one key theme of the past decade fills me with dread, because it was like watching a slow-motion car crash: the euro crisis. It may now be making a comeback, as Alex explains on page 14.

The launch of the euro coincided with the start of a global upswing, so the currency's intrinsic flaws were overlooked. Everyone was getting used to the conversion rates (an irksome 13.76 schillings to one euro in Austria). Because the eurozone encompassed most EU members it was trumpeted as a giant leap forward for European integration.

The launch of the colourful notes coincided with a global upswing

©Getty Images

"The euro is a deflationary straitjacket for the south; a recipe for recession and rancour"

A sub-optimal currency area

Many analysts, however, pointed out that there had never been a successful single currency without a single government, and that the euro was far from what economists call an optimal currency area. The basic idea is that groups of structurally similar economies, who often tend to experience similar business cycles, are best suited to sharing a currency. A similar approach to money management helps too, as it pre-empts fights about any joint budgets and potential debt issuance. Benelux, Germany and Austria would arguably be an optimal currency zone: wealthy manufacturing-based economies with a shared instinct for sound money. What we got instead, of course, was northern Europe plus the inflation-prone south's less healthy balance sheets. The prospect of sharing a currency with people who can't budget, and would probably need a bailout at some stage, unnerved many northern Europeans, but such objections were steamrollered by the integrationist tide. When the financial tide went out after the crisis, investors' fears over the sustainability of the southern countries' debt duly proved justified and bond yields soared. Since bond yields are implied long-term interest rates, that exacerbated countries' solvency problems.

In the absence of a central fiscal authority to send money to poorer parts of the currency area to temper the impact of a downturn, only painful reforms and a clampdown on prices and wages would restore competitiveness and fuel confidence in stricken states' ability to grow out of debt.

Cue endless wrangling between the European authorities and southern governments, and a cascade of market panic attacks focused on different countries until ten years ago this week Mario Draghi promised to do "whatever it takes" to keep southern bond yields low. The prospect of the European Central Bank hoovering up enough bonds to keep the yields down kept the wolf from the door, and a similar mechanism, the Transmission Protection Instrument, was launched last week, again against a backdrop of turmoil in Italy.

The wolf is still there, however. There is still ample scope for market panics and political clashes between Brussels and the member states, while the EU's construction of a fiscal union (with an incipient banking union and a Covid-19-induced recovery facility allowing the EU to borrow collectively) is proceeding at the speed of a hungover giant sloth. More broadly, the eurozone is still stuck with a structure that acts as a deflationary straitjacket for much of the south, a recipe for recession and rancour. Until there is a European government or the euro is dismantled, the eternal crisis can only be managed or fudged – never resolved.

Andrew Van Sickle
editor@moneyweek.com

Bursting bubble of the week

Trading basketball trainers is no longer a slam dunk, says The Wall Street Journal. Demand for limited-edition shoes had soared in recent years, boosted by easy money, the growth of online marketplaces and pandemic-induced supply shortages, and the global resale market was estimated to be worth $6bn last year. Now, as the economy slows, prices are slumping. A pair of Nike Dunk Low Retro White Black trainers sold for $290 on the StockX online marketplace in February, but are now going for less than $200, while a pair of Air Jordan 1 Retro High OG "Patent Bred" valued at $300 in April now fetches around $230.

However, "some hotly anticipated releases of limited-edition shoes still command top dollar". Earlier this month, Nike released a limited edition of Air Force 1 trainers created by the late Louis Vuitton designer Virgil Abloh, initially priced at $2,750. All pairs quickly sold out and are now selling on StockX for more than $11,000.

©Alamy; Getty Images

Cover illustration: Adam Stower. Photos: Getty Images; Intuitive Instruments

Good week for:

Microsoft co-founder Bill Gates (pictured) is giving $20bn to his foundation to fund a 50% increase in its annual spending by 2026, says the Financial Times. The **Bill & Melinda Gates Foundation**, which Gates set up in 2000 with his then-wife, currently spends $6bn per year on trying to fight disease and poverty. Gates has pledged to donate most of his $120bn fortune before he dies.

The head of a "failing" Ministry of Defence quango received a £100,000 bonus last year, says The Times. **Simon Bollom** heads the Defence Equipment and Support body, which has been accused of wasting billions on botched procurement deals. These include the £5.5bn Ajax armoured vehicle programme that was launched 12 years ago and has not produced a single deployable vehicle.

Bad week for:

A New York preacher known for his designer suits, luxury cars, gold and diamonds was robbed of $1m of jewellery by gunmen during a sermon on Sunday, says CNN. **Lamor Miller-Whitehead** – who previously served five years in prison for fraud – pushed back against subsequent criticism of his lavish lifestyle. "It's my prerogative to purchase what I want to purchase," he said.

Amazon is increasing the price of its **Amazon Prime** service – which offers free next-day delivery and video-streaming – for European users in response to higher costs, says the Financial Times. The annual fee will rise by an inflation-busting 20% to £95 in the UK. Rates in Germany will go up by 30% and in France by 43%. The company raised fees in the US by 17% earlier this year.

Beware of cheap emerging markets

Alex Rankine
Markets editor

Commodity exporters such as Brazil were a bright spot until raw-material prices turned down

©Alamy

This year has seen a "brutal sell-off" in emerging markets (EMs), say Marcus Wong and Melissa Cheok on Bloomberg. EM dollar-denominated bonds posted the worst first-half showing since at least 1994; local-currency debt saw record losses and stocks tumbled the most since 1998.

Commodity exporters have been a bright spot, says Netty Idayu Ismail, also on Bloomberg. Soaring prices for energy, foodstuffs and metals made "the currencies and bonds of Brazil to Mexico and South Africa… the best performers among developing-nation peers in the first five months of 2022". Yet even that trade has turned as materials prices soften on fears of an impending recession. The iShares MSCI EM ETF has lost 19% so far this year.

"More pain for EM assets lies in store," says Franziska Palmas of Capital Economics. Firstly, because rising interest rates and bond yields in developed markets will tempt capital away from EM assets. "Second… a slowdown in global trade could weigh on EM corporate earnings growth. Gloom on Wall Street will also carry over to emerging markets, which are perceived as riskier than developed ones."

A more resilient asset class

A strong US dollar has fuelled fears of an emerging-markets crisis. "The archetypal emerging-market crisis was in 1997-98", says The Economist. Rising US interest rates broke Thailand's currency peg with the dollar. The resulting panic "floored South Korea and Indonesia" before wreaking further havoc in Brazil and Russia. Yet a repeat in 2022 is unlikely. Today the EM index is dominated by Asian giants such as China and India, which are "more self-contained financially, with state-led banking sectors and bond markets... largely closed to foreigners". Only 16% of EM debts are in foreign currencies. Local banks do most of the lending. "Instead of sudden crises that spill back across borders and to Wall Street, many places face slower-burn and home-grown dangers: inflationary spirals or zombie banks." Still, while EMs as a whole are less vulnerable to a crisis, there are a few exceptions (see below).

EMs have changed in other ways, too, says Andrew Ness of the Templeton Emerging Markets Investment Trust. The rise of Asia has brought diversification. "We've seen a transformation away from commodity-driven economies to… growth drivers that are much broader, like domestic consumption, technology and innovation." The asset class increasingly contains world-class businesses, too. "Emerging markets have gone from being the followers to global leaders in... advancing technology."

Emerging markets look cheap, but tread carefully, says Mohamed El-Erian in the Financial Times. A global recession would weigh heavily on EMs, which tend to be highly cyclical. EM bulls are also making the bold assumption that "the internal social and political fabric" of these countries "will be able to absorb a significant hit from prices of food and necessities". There are some opportunities in EMs, "but rather than general investing by tracking indices", the current climate calls for "a more selective approach" to placing your EM bets.

Who will follow Sri Lanka into a debt crisis?

Zimbabwe is among the countries that could prove vulnerable

©Alamy

Sri Lanka will not be the last country to plunge into a debt crisis. The island nation defaulted in May this year as soaring global food prices and a tourism slowdown caused by Covid-19 collided with years of profligate state spending. Inflation is running at 54.6% and essentials such as food and medicine have run short.

Which countries could follow? The situation is especially acute in Africa, say Danny Bradlow and Magalie Masamba on The Conversation: "22 countries are either in debt distress or at high risk of debt distress", according to data from the International Monetary Fund (IMF). While most African debt is owed to governments in rich countries or "multilateral institutions like the World Bank", a growing share is held by private investors. "The amount of bonds issued by African states on international markets has tripled in the last ten years." These instruments have been bought by "insurance companies, pension funds, hedge funds" and investment banks. The countries with the shakiest debt positions include Mozambique, Zimbabwe, Malawi and Zambia.

Governments borrowed freely after the financial crisis, says The Economist. "In 2019 public debt stood at 54% of GDP across the emerging world." Budget deficits then soared amid the pandemic, but now the bill is coming due. A global slowdown and tighter "financial conditions will be more than some governments can bear".

Debt relief is on the international agenda, but the trouble is that lending is less transparent than it used to be because of China's emergence as the world's biggest bilateral creditor. Work by Sebastian Horn and Christoph Trebesch of the Kiel Institute and Carmen Reinhart of Harvard University suggests that "almost half of China's lending abroad is unreported".

Why isn't gold doing better?

Gold is being overshadowed by "king dollar", says Ranjeetha Pakiam on Bloomberg. The greenback's strength this year is weighing on the yellow metal, which is priced in dollars. Prices have fallen to a 16-month low of $1,700 an ounce. You would think that "market turmoil, inflation and war" would boost gold, says Hardika Singh in The Wall Street Journal. Yet higher US interest rates and a strong dollar are major headwinds.

"People associate high inflation with a strong gold market [but] what really matters is how central banks [deal with] inflation," says Bart Melek of TD Securities. Investors think that central banks will hike interest rates aggressively, which has sent yields on government bonds surging. Gold and bonds compete as "safe-havens". Unlike gold, bonds also pay interest, making them more attractive than gold as yields rise. Still, while gold is down about 4% this year, it has been doing far better than most bonds or world stockmarkets of late.

What would it take to spark a rally? An "indication that the US Federal Reserve is nearing the end of its rate hikes", Peter Spina of GoldSeek.com told Myra Saefong in Barron's – either because debt markets can't cope or because the economy is being tipped into a recession. That would see the dollar "cool" and lead to lower bond yields. "It may be safe to bet that the metal will prove once again just how precious it is to investors – under the right conditions."

Cracks appearing in China

"For a market deemed on the verge of 'uninvestable' a few months ago", China looks "pretty perky", says Craig Mellow in Barron's. The CSI 300 index lost 23% between 1 January and a low in April, but has since rallied 11%.

Without abandoning "zero-Covid", officials have signalled a shift to a more "dynamic" approach that makes greater use of targeted testing and largely eschews draconian lockdowns of the type seen in Shanghai this spring. Stimulus is incoming, with the central bank easing lending conditions and another infrastructure splurge on the way. Crucially for investors, "regulatory assaults on internet companies have eased" – witness Alibaba's 40% share-price gain since mid-March.

©Getty Images
The Middle Kingdom is losing its appeal to investors

"Stringent Covid lockdowns" saw China's economy contract by 2.6% between April and June, say Li Wei, Ding Shuang and Hunter Chan of Standard Chartered. Yet more recent data "points to a continued economic recovery", with industrial production up 3.9% in the year to June, while the retail sector expanded by an annual 3.1%.

"We expect China's economy to improve further in the run-up to the 20th Party Congress [this autumn] on increased stimulus and less disruptive Covid-control policies."

The economy is not in the clear yet, says Ian Williams in The Spectator. A sagging property market "now threatens to spill over" into "a local banking crisis", as shown by recent scandals at "provincial banks". The sector is "heavily indebted" and "weighed down with bad loans". That compounds fears over local-government debt worth an estimated 44% of GDP lurking in the opaque financial system.

Cheap for a reason

The Nasdaq Golden Dragon China index, which tracks US-listed Chinese firms, lost 67% between February 2021 and June 2022, says David Brenchley in The Times. Is this a buying opportunity? Chinese shares have become "regarded as a pariah asset the same way energy was in 2020", says Mike Coop of Morningstar Investment Management. Like energy shares, they could soon enjoy a renaissance. The MSCI China index trades on an undeniably cheap cyclically adjusted price-to-earnings (CAPE) ratio of 11.9.

Yet money managers now prefer to gain exposure to China via nearby regional markets or Western firms with operations in the country rather than by buying local stocks directly, says Sofia Horta e Costa on Bloomberg. "Even if you have a positive macro view on China, [it's] hard... to sell Chinese stocks," says Jamie Dannhauser of investment firm Ruffer.

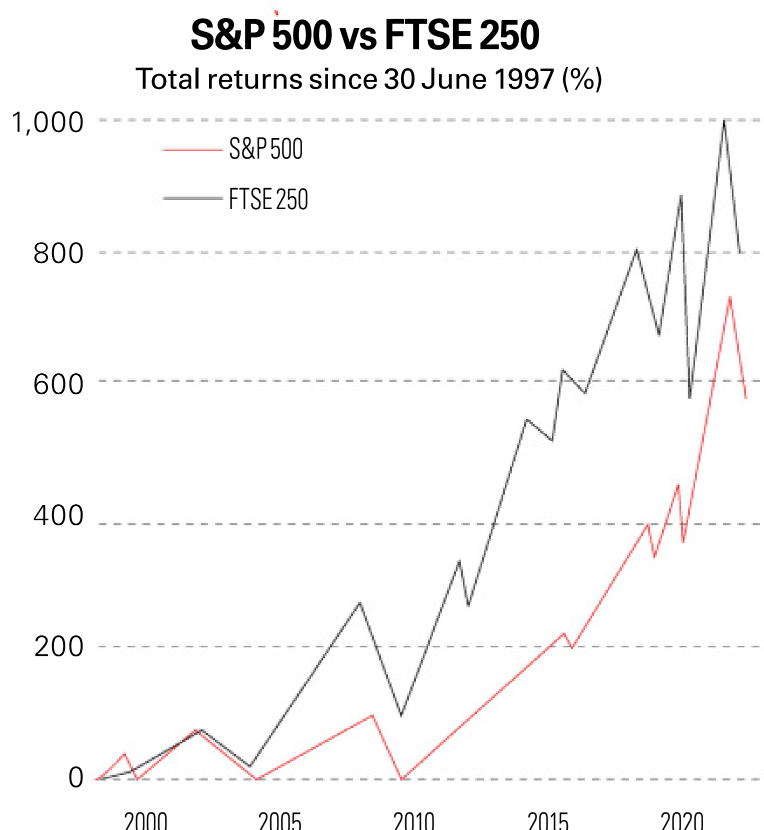
Some European pension funds reportedly "no longer want China in their portfolios because of rising geopolitical and governance risks". As Ruffer's Matt Smith puts it, "the supertanker of Western capital is starting to turn away from China".

Viewpoint

"Between 2000 and 2015, [US] consumption of steel fell 15%, aluminium 32% and copper 40%. Energy consumption, which has always been directly correlated with GDP, fell 2% between 2008 and 2017, while GDP expanded by 15%. How has this happened? Capitalism, the profit function and innovation... The incentive to dematerialise is about to get a lot stronger. The war in Ukraine has pushed up the price of... oil by 30%... this year, fertiliser prices have almost doubled and unionised workers are pushing for pay increases... To respond to these inflationary forces and maintain healthy profit margins, [firms will have to] digitise faster... If the impact of... geopolitical uncertainty is less oil, less trade and more expensive labour then we are only going to arrive there faster... For tech investors, that means long-term future cash flows may soon become medium-term ones."

Arthur Sants, Investors' Chronicle

■ British mid-caps beat US large-caps



America's benchmark blue-chip S&P 500 may have grabbed the financial headlines over the past decade, but on a total-return basis (including dividends) the humble FTSE 250 has performed better over the past 25 years. The UK mid-cap index has returned 813% since the middle of 1997, compared with 611% for the S&P 500. "Smaller companies find it easier to grow their businesses than large firms. They're also more nimble and able to change their strategy more quickly," says David Brenchley in The Sunday Times. The FTSE 250 has tumbled 17% this year, but that may represent a buying opportunity given the index's record. The FTSE 250's forward price-to-earnings (p/e) ratio has fallen from 19 in June last year to a bargain 12.8 times this April.

VW boss runs out of road

The auto titan's tenure at the German car giant came to a premature end after he fell foul of the group's powerful owners. Matthew Partridge reports

Until the end of last week Herbert Diess looked "every inch the modern, global auto titan" , say John Arlidge and Jon Yeomans in The Sunday Times. However, the CEO of Volkswagen was evidently "too brash, too bold and in too much of a hurry for many of the company's key stakeholders". VW announced that he had been forced out three years before the end of his contract by a unanimous vote of the carmaker's supervisory board. The move has upset many institutional shareholders, with analysts calling it "another illustration of dysfunction at VW".

Diess's departure was at least partly the result of "a series of public blunders", says Joe Miller in the Financial Times. These include saying he was "not aware" of detention camps in China's Xinjiang region and using the insensitive phrase "EBIT macht frei" at a company event. He also gained "notoriety" for his "skirmishes" with VW's "powerful works council, which controls several seats on the company's supervisory board". Unions were particularly "angered" by his suggestion that the group had 30,000 excess staff and his complaints that Tesla employees managed to produce an electric car in just a third of the time it took VW.

Herbert Diess committed a series of blunders

Clashes with the workers

Diess's gaffes and "frequent clashes with powerful worker representatives" may have played a role in his departure, but they were survivable as long as he had "unwavering support" from the billionaire Porsche and Piech family, the majority owners of VW, says Monica Raymunt and Christoph Rauwald on Bloomberg. However, his "key project failures" gradually persuaded the family that "he had to go". These failures include delays to the "scheduled rollout of important new models, including the electric Porsche Macan SUV" as well as struggles "to muster broader support" to implement a €89bn electric-vehicle (EV) and software strategy. Still, even his harshest critics acknowledge Diess' "strategic vision" and his "achievement in transforming VW's culture for the [EV] age", say William Boston and Georgi Kantchev in The Wall Street Journal. His emphasis on moving away from fossil fuels "has seen VW's brands, including Porsche, Audi, Seat... and Bentley develop core electric models with a plan to shift fully to EVs this decade".

The change at the top "probably won't derail Volkswagen's electric vehicle ambitions", especially since Porsche – under VW's new CEO Oliver Blume – "has rolled out the successful Taycan model and expects green vehicles to be as profitable as combustion engine cars in two years". A "fresh start" may even help Blume persuade the wider company to raise investment in EVs "while improving lacklustre profitability". But Blume's appointment could muddy Volkswagen-Porsche's already complex governance: he will still be in charge of Porsche even though Volkswagen plans to list the luxury brand. If this set-up produces a "greater muddle", investors "may start to miss... Diess's gaffes".

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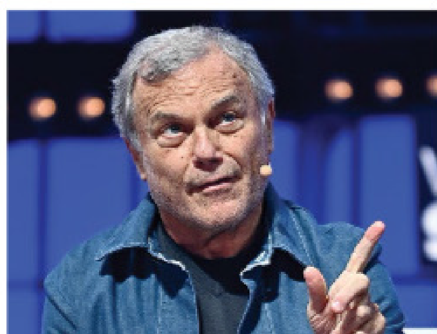
Martin Sorrell's S4 slips up



©Getty Images

Last week saw some bad news for investors in S4 Capital, Martin Sorrell's (pictured) "rapidly expanding advertising start-up", says Patricia Nilsson in the Financial Times. The shares halved after the company cut its full-year guidance on earnings before interest, taxes, depreciation and amortisation to £120m, which was much lower than the previous consensus of between £154m and £165m. S4 claimed that revenues were still "robust" and blamed the reduced profits on soaring staff costs, especially in the creative department "where the content for the digital marketing that S4 has pitched itself as an expert in gets made".

S4 has suffered a "disastrous period", says Jamie Nimmo in The Sunday Times. The share price has plunged from £8.70 last September, valuing it at £5bn, to a mere £1.24. Confidence in S4 has also been badly hit by the fact that PwC "twice delayed its audit of the annual results", before confirming "serious failures" in S4's accounting.

Sorrell's dreams of overtaking WPP, which he left in 2018, are in tatters, says Nils Pratley in The Guardian. His projected bonus has been wiped out. He also faces awkward questions about how to finance S4's "roll-up strategy" (it has bought 29 agencies since its inception in 2018).

Since he has ruled out issuing any new shares below 425p, "deal-making is presumably off the table". Past arrangements with digital-native founders "who have hitched themselves to S4's wagon" in return for shares "may become more expensive to satisfy". Overall, it seems he has "a crisis on his hands".

An Anglo-French satellite merger

Shares in the French satellite company Eutelsat fell by 17% after it confirmed merger talks with OneWeb, a British rival part-owned by the UK government, says The Guardian. The idea is that Eutelsat will merge with OneWeb, which provides broadband coverage from space, to create a business "50/50 owned by shareholders in both companies".

The British government currently owns almost a fifth of OneWeb, while French and Chinese state-owned entities hold stakes of 20% and 5% respectively in Eutelsat. The governments of the UK and France would each have seats on the board, while Sunil Bharti Mittal, whose Bharti telecoms business is the largest shareholder in OneWeb, will become co-chair of the new firm with an 18% shareholding.

This deal, sold as a "merger of equals", represents an apparent vindication for the government, especially former advisor Dominic Cummings, who persuaded it to step in and rescue OneWeb from bankruptcy with a $500m injection two years ago, says Tom Howard in The Times.

The bailout, which came after technology investor SoftBank, the main backer, declined to put in more money, was controversial at the time. But with the new firm estimated to be worth $6bn, the UK government's 10% stake will be worth $600m, giving it a total profit of $100m. Still, SoftBank will also do well out of the deal as it "still retains a substantial stake in OneWeb".

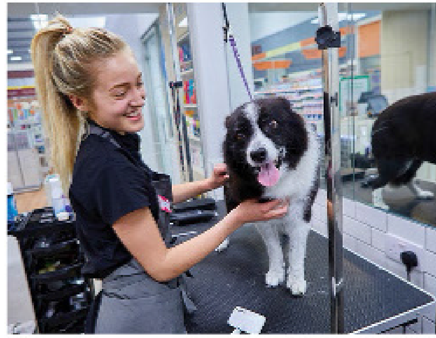
This may look "like a good deal for OneWeb" and its backers, who seem to have done well, says Liam Proud on Breaking views. Still, it's not surprising that Eutelsat shareholders aren't particularly pleased. Their company is being effectively transformed "from a cash cow into a venture-style bet on the future of space communications".

The new company will need to invest large sums as OneWeb "is still miles away from completing its second-generation satellite network". Even if this is successfully done, the new company will then face competition from Elon Musk-owned SpaceX's Starlink and Amazon's Project Kuiper.

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

Three to buy

Pets at Home
The Telegraph
Pet food and accessories retailer Pets at Home has outperformed the FTSE 250 index by 13 percentage points since February 2020. The group operates 457 shops across the UK and offers grooming services and veterinary appointments. It has a strong online presence, a new distribution facility opening next year and a "sound" financial position. What's more, the demand for pet-related products and services is "relatively inelastic". The stock's current price does not reflect its long-term growth potential



or its ability to navigate weak consumer confidence. *321p*

Pod Point
The Sunday Times
This electric-vehicle (EV) charging business has had a "disastrous time" since it listed at 225p last November; the shares now sit at around 100p. Charging infrastructure has not kept up with the 400,000 EVs already on the road, which is why Pod Point "merits scrutiny as a possible investment". It is a young company that has yet to generate profits. But it is a leading player in the growing market of at-home charging points. French energy giant EDF has a majority stake in it and it could be the subject of a takeover deal if bigger industry rivals choose to plug into the market. It's a risky bet, but with the stock down and EV popularity on the up, it's worth a buy. *100p*

SDI
Shares
SDI group is a collection of firms that manufacture and design equipment used in sectors ranging from healthcare to precision optics. The shares are trading on a price/earnings (p/e) multiple of below 20 for the first time in two years, so this looks like a buying opportunity. SDI is highly profitable, with gross margins of around 65% and returns on equity and investment of 22% to 25%. The board has proved adept at identifying acquisition targets to fuel growth at "conservative" prices. *148p*

Two to sell

abrdn
Investors' Chronicle
The £500bn asset manager's share price has fallen by 40% over the last year, and the stock is also among the 20 most-shorted London-listed shares. The outlook is inauspicious. Analysts have grown "concerned about a seeming lack of strategic direction". It has struggled with outflows and is falling victim to passive funds as investors shift away from active managers. The shares are trading just below their five-year average but still aren't compellingly cheap. The group's upcoming results "could yield some surprises" but "it seems unlikely that any major boon will be revealed". Shares have been downgraded by analysts and Citi, Credit Suisse and RBC Capital Markets have all issued sell recommendations. "Plausible catalysts for a quick share price recovery" seem unlikely. *154p*

Royal Mail
The Times
A vote for strike action by postal workers spells even further trouble for Royal Mail shareholders. Profits for the 12 months to the end of March are likely to come in at break-even for the core business, far below guidance of over £300m given in May. The guidance, moreover, excluded any impact from strike action. The company has also been hampered by rising costs and lower sales owing to the "structural decline" in letter volumes (down 6% in the three months to June). Avoid the stock. *297p*

...and the rest

Investors' Chronicle
Drinks-maker **AG Barr**, whose brands include Irn-Bru, has managed to avoid the London market's "tidal wave of profit warnings, toasting three profit upgrades in the past 12 months". Investors are overlooking the solidity of its portfolio and the scope for strategic acquisitions to advance growth. Buy *(550p)*.

The Mail on Sunday
Shares in **Cohort**, a small, independent UK defence and security-technology group, are currently selling for *529p*, which represents a buying opportunity. The company has addressed the problems that caused poor performance at its half year results and its order book is now "stronger than ever". Cohort will also benefit from the West's need for "smart, innovative defence companies to keep ahead of the game".

Shares
L&G Global Health & Pharmaceuticals Index Trust offers exposure to the healthcare sector, a "defensive and relatively stable" area of the market. Despite its steady growth and "defensive" traits it trades at a "relatively attractive" rating. Buy *(121p)*.

The Times
GlaxoSmithKline's "punishing identity crisis" has been settled by the "long-awaited demerger" of its consumer healthcare arm, Haleon. Now the rebranded **GSK** has to prove it can use extra cash to bolster its drug pipeline and drive growth; early signs of progress so far this year are encouraging. Buy *(1,783.4p)*. Streaming giant **Netflix** lost a million subscribers in the quarter to the end of June as it grappled with cost of living pressures, rising competition, account sharing and the post-pandemic fall in demand. Most of these headwinds won't abate any time soon, so avoid the stock *($223)*.

A German view

Troubled times call for reliable sources of growth and income, says Focus-Money. Enter America's pharmaceuticals giant Eli Lilly. It has been paying its investors a dividend for more than 100 years, while it also has a very promising pipeline. It has just received approval for a new diabetes treatment that helps people monitor their blood-sugar level. Tirzepatide may also be approved as a weight-loss treatment: it is the first drug of its type to activate two hormones present in the intestine. These then produce insulin and temper hunger pangs. Five more drugs are to be launched in the next 18 months. Producing an antibody treatment for Covid-19 has bolstered recent profits further.

©Alamy; Pets at Home

IPO watch

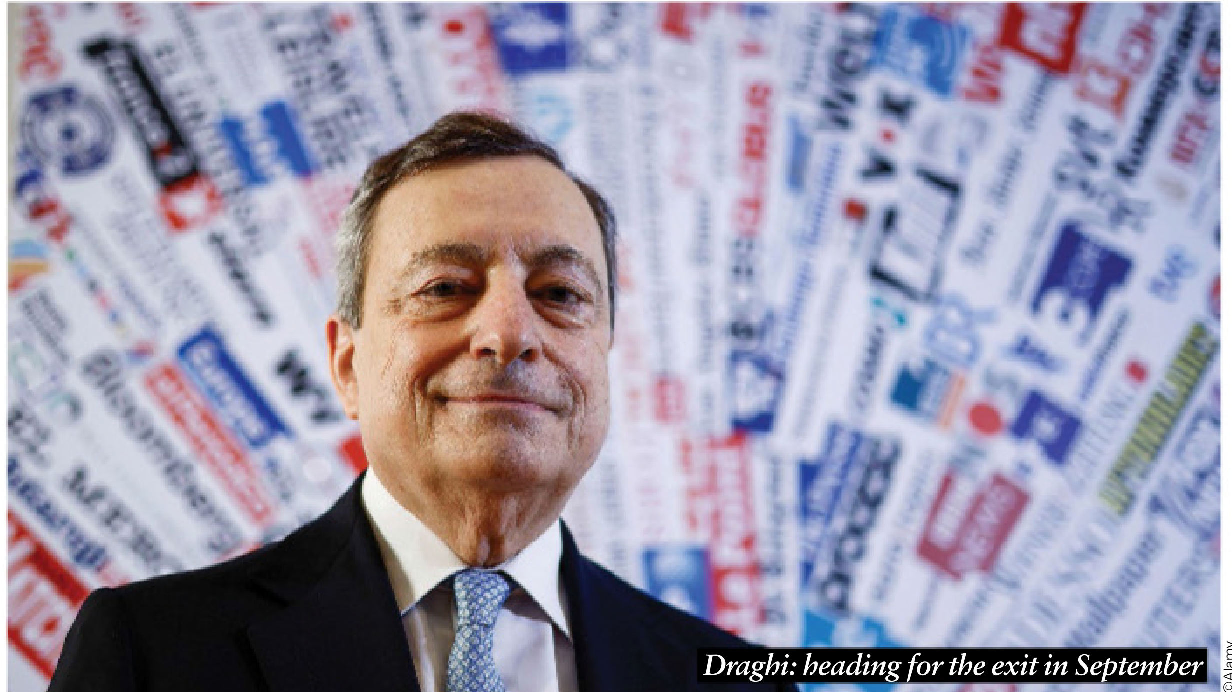
Hong Kong-based financial services platform AMTD Digital has become the New York Stock Exchange's biggest initial public offering (IPO) this month, says Bloomberg. The company offers insurance advice and broking along with marketing and asset management services. AMTD sold 16 million shares at $7.80 each to raise $125m during the offering, implying a market capitalisation of $1.44bn. The shares soared by 108% on listing, marking the biggest first-day jump this year for an IPO worth over $25m. It has been a quiet year for IPOs: 2022's 145 flotations have raised just $18.7bn, compared with 648 firms mustering a record $219bn at this stage last year.

Game over for "Super Mario"

Italy's dysfunctional political system has seen off another prime minister. Jasper Spires reports

Mario Draghi's resignation has plunged Italy "back into the political chaos for which it became famous… and from which he momentarily rescued it", says The Observer. Draghi was forced out as prime minister last week after the right-wing League and Forza Italia parties followed the left-wing Five Star Movement in withdrawing their support and breaking up his precarious coalition. He will now stay on as caretaker until elections are held on 25 September. "The ensuing uncertainty has serious implications not only for Italians but for Europe and the EU."

Unquestionably, it's a bad time for Draghi to go, says Tony Barber in the Financial Times. Since being appointed in February 2021, he has guided Italy through the pandemic, devised a reform programme to unlock €200bn for Italy from the EU's post-pandemic recovery fund, and set out plans for Europe to decouple from Russian energy and to support Ukraine.



Draghi: heading for the exit in September

©Alamy

Many Italians are asking why they are discarding "a statesman of rare quality" when the country needs "wise, efficient and principled leadership". His departure is not down to the voters, but to professional politicians who prefer the "wheeling and dealing that is the hallmark of Italian politics" and creates such a rapid turnover of administrations. At 17 months, Draghi has lasted longer than average for the 69 governments since World War II.

Draghi's "defenestration" has left the Italian and international establishment "reeling in horror", says Thomas Fazi on UnHerd. When he became the latest in a string of unelected, technocrat prime ministers, there was broad consensus that "a Draghi government would be a blessing for the country, a final opportunity to redeem its sins". Yet reality has not met expectations. "Draghi leaves behind a country in tatters." Italy is mired in a "polycrisis" of declining consumer spending, lower business investment and rising prices (inflation is at 8.6%). GDP is forecast to grow by just 0.9% next year. And one should not forget the fact that he devised the most punitive, discriminatory and segregational mass vaccination policies in the West", extending vaccine passports to most public spaces and restricting many people from working. No wonder a recent poll shows that 50% of people aren't happy with how the government has performed.

Bringing on the Brothers

The big winner from elections is likely to be the far-right Brothers of Italy party, led by Giorgia Meloni, says David Broder in The New York Times. In 2018, her party secured just 4% of the vote, but in the last few years it has been a beneficiary of the "breakdown of the barriers between the traditional centre-right and the insurgent far-right across Western Europe and America". It now leads the polls on more than 20% and could become "the first far-right party to lead a major eurozone economy", most likely in coalition with the League and Forza Italia (the party of former prime minister Silvio Berlusconi).

That would raise "grave doubts" about whether Italy can pass the reforms required to access the EU's recovery fund, says The Economist. The League was resisting deregulation and tax reforms. Other parts of Draghi's plan – including justice reform and changes to competition laws – "will now die with his government".

However, what a Meloni-led government will do in power is unclear, says Maria Tadeo on Bloomberg. She is popular now "because opposing policy is easier than making tough choices". Once parties get into government, public support dissipates. Italy has "an extraordinary ability to build and burn politicians… for Meloni, becoming the next premier… may prove a poisoned chalice".

Nancy Pelosi: should she stay or should she go?

©Getty Images

US-China tensions come to a simmer over Taiwan

US House speaker Nancy Pelosi's planned visit to Taiwan would make her the most senior US politician to visit the country in 25 years, but her trip is causing anxiety.

US president Joe Biden has said the Pentagon is not in favour of the visit. China, which claims the democratically governed island as part of its territory, has warned of "forceful measures" if it goes ahead. The concern in Taipei, says the Financial Times, is that it is trapped between two bad outcomes – of being punished by China if the trip goes ahead, and of China being emboldened if Pelosi cancels the trip.

Pelosi should go, says Henry Olsen in The Washington Post. Taiwan is an important part of the global economy – dominating the crucial semiconductor market, for example – and it cannot be allowed to fall to China. A visit by Pelosi now would signal that "Taiwan's quest to remain free is supported by top US leaders". Backing down in the face of Chinese protests would send a message of weakness. Better to stand firm now than sit and wait for Beijing's next move.

That would not be wise, says the South China Morning Post. The one-China principle is the political foundation of China-US relations, and Biden reaffirmed US commitment to it just four months ago. A visit now would raise tensions, provoke China "greatly" and bring potentially disastrous consequences for every country in the region.

A "dramatic response" from China cannot be ruled out, says War on the Rocks. But something more than symbolic visits are now needed, which are "no longer up to the task of deterring an increasingly assertive and capable China". If anything, such visits risk "precipitating a crisis without meaningfully raising Taiwan's ability to cope with the fallout". Better would be concrete action, including ensuring that arms sales and large-scale training assistance for Taiwan's military are a part of upcoming legislation. Taiwan needs "more than just friendship right now".

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Who will be the next PM?

The debate has generated much heat and little light. Matthew Partridge reports

A debate between the two remaining contenders for the Tory leadership, foreign secretary Liz Truss and former chancellor Rishi Sunak, ended in a "bloody stalemate" on Monday, say George Parker and Jasmine Cameron-Chileshe in the Financial Times. The contest to succeed Boris Johnson as Britain's prime minister reached "new levels of acrimony" in the debate. Sunak said Truss's plans for immediate tax cuts would plunge millions into misery, crash the economy and lead to a big spike in interest rates. Truss countered that her tax cuts would boost growth and that it was Sunak's "negativist, declinist" tax rises that would put Britain into recession.

Truss v Sunak: a "bloody stalemate" so far

"Trust me"

Truss's belief is that immediate tax cuts will ease the pressure on incomes and aid the supply side of the economy, says The Times. But this "doesn't mean tax cuts automatically pay for themselves by unleashing extra investment and consumption". They must be "paid for by spending cuts or alternative sources of revenue". With "little spare capacity" in the economy, and inflation already overshooting the target rate of 2% by more than 7 percentage points, the Bank of England would then be forced to "inevitably respond with faster and more substantial increases in interest rates".

Sunak might be right that, in an "overheated economy with more job vacancies than there are unemployed", the stimulus created by tax cuts "might be too much of a good thing", says Charles Moore in The Daily Telegraph. And the fact that a quarter of government debt is linked to inflation means that a more restrained attitude to tax cuts is the only way "to maintain international confidence in our public finances and prevent a sterling collapse". Still, Truss's policy may be the more popular one with a party membership that has experienced "more tax, regulation, big government, intrusive and woke bureaucracy and stonking prices for daily necessities than they can remember since the 1970s". Tory party members "have to be offered something different. She is doing so, a bit. Mr Sunak is really just saying: 'Trust me.'"

Levelling what?

Indeed, their apparent "appetite for tax cuts", rather than "hair-shirted fiscal responsibility", is such that Sunak has already been forced into a "screeching U-turn", says Patrick O'Flynn in The Spectator. Just days after branding Truss's approach "not Conservative", he is now "trying to grab some of her tax-cutting brownie points by promising to scrap VAT on domestic energy in the autumn", despite attacking just that idea barely a few months earlier. Truss has effectively exploited the debate to position herself as both a Johnson loyalist and a "candidate of change", constrasting that with Sunak's disloyalty and promise of more of the same.

Meanwhile, all this talk about tax means that "levelling up", a key pledge of the Johnson government, has been all but forgotten, says The Economist. That matters as it may well alienate those voters in the "red wall" seats that the Conservatives captured from Labour at the last election. That could bode ill when whoever ends up leading the party next goes to the country.

Food supply deal in jeopardy after Russia strikes

Putin's stranglehold is loosened

"Barely had the ink dried" on last week's deal, agreed with both Russia and Ukraine via the UN and Turkey, to allow grain exports to resume from blockaded Ukrainian ports, when Russia hit the port of Odesa with two cruise missiles, says the Financial Times. The strikes were purportedly aimed at military targets in the port area, rather than at the ships themselves, but the deal was thrown into question by the attacks. Wheat future prices, which fell after the deal, ticked back up again after the strikes. Even before the attacks there was widespread scepticism about how many ship owners would be prepared to risk sailing into Ukrainian ports or pay the hefty risk premiums being demanded by insurers.

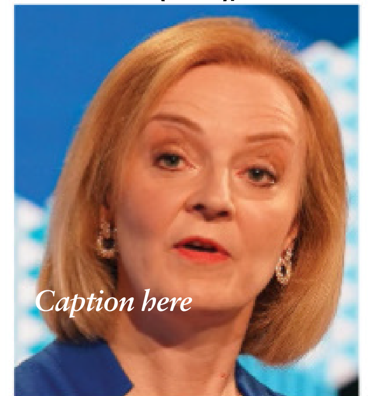
If the deal fails, that could have serious consequences for the rest of the world, says The Economist. Before the war, Ukraine was one of the world's most important exporters of wheat. The Russian capture and blockade of Ukraine's southern ports has have left 22 million tonnes of wheat and other grains stuck in silos, taking a dangerous toll on a global food supply already strained by coronavirus disruptions and poor harvests.

Despite the Russian attack, the agreement is moving ahead, says The Washington Post. Ukraine has begun organising vessels to join a "caravan" of ships to export grain from the three ports covered by the agreement. The deal includes security assurances for both Ukraine and Russia, which have agreed not to undertake attacks on merchant or civilian vessels or port facilities. But "everyone is clear-eyed about the risks". "We are in a state of war," a Ukrainian minister said. The deal "doesn't change that fact".

Betting on politics

With £3.8m matched on Betfair on the market on who will be the next PM and £3.5m matched on that for the next Conservative leader, punters appear convinced that Liz Truss will be succeeding Boris Johnson – she is the clear favourite to beat Rishi Sunak. Indeed, she is now on 1.21 (82.6%) in both the next Conservative leader and the next PM markets; her opponent is at 6 (17.2%) to become the next leader. Punters have also dismissed the idea that Johnson might try to withdraw his resignation – you can get 1.02 (98%) on him not being prime minister by the time of the next Conservative party conference.

Perhaps the most interesting market is that on Truss's vote share. According to Ladbrokes, 55%-60% is the favourite at 9/4 (30.7%), with 60%-65% at 10/3 (23.1%), 50%-55% at 4/1 (20%), 45%-50% at 5/1 (16.6%), 65%-70% at 6/1 (14.2%), over 70% at 11/1 (8.3%), 40%-45% at 16/1 (5.8%) and under 40% at 33/1 (2.9%). With £4,994 matched on Smarkets, 55%-60% is 3.85 (25.9%), 60%-65% is 4.7 (21.2%), 45%-50% is 5.8 (17.2%), 65%-70% is 8.2 (12.1%), 40%-45% is 12.5 (8%), over 70% is 13 (7.7%) and under 40% is 17 (5.9%).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Truss's position looks formidable at the moment. Still, there are a few weeks left to go, and I can't see her getting more than 60%. So I'd advise you to bet on her getting either 40%-45%, 45%-50%, 50%-55% or 55%-60% of the vote for combined odds of 73.1%. To properly split a £10 bet, put £4.20 on 55%-60%, £2.74 on 50%-55%, £2.27 on 45%-50% and £0.79 on 40%-45%.

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London

Price hikes: Consumer-goods giant Unilever upped its prices by 11% in the three months to June from the year before as it sought to pass cost increases on to consumers, says Judith Evans in the Financial Times. The company is also investing in advertising to foster loyalty and keep consumers from being tempted by cheaper alternatives. But finance chief Graeme Pitkethly (pictured) warned that the company was navigating a "truly unprecedented cost landscape". He expects profit margins to remain lower for the rest of the year; cost inflation is predicted to peak in the second half. Unilever has had to contend with steep rises in commodities such as palm and crude oil, natural gas and kerosene distillates.

Underlying sales grew 9% in the second quarter from a year earlier, ahead of analysts' expectations of 7%.

CEO Alan Jope can "breathe a sigh of relief", says Dasha Afanasieva on Breakingviews. "But with volumes falling and full-year profitability expected at the bottom of his guidance range, there's no room for more inflationary surprises." Price hikes came at the expense of lower trading volumes across Unilever's three main divisions, with home care the hardest hit. Underlying revenue rose by a yearly 12% for the quarter as the price of products jumped 17%, but sales volumes slipped by 4%. Unilever's operating margin is likely to drop to 16% this year, the bottom of Jope's predicted range, and investors will be wanting to know when it will move back towards his 20% pre-pandemic goal.

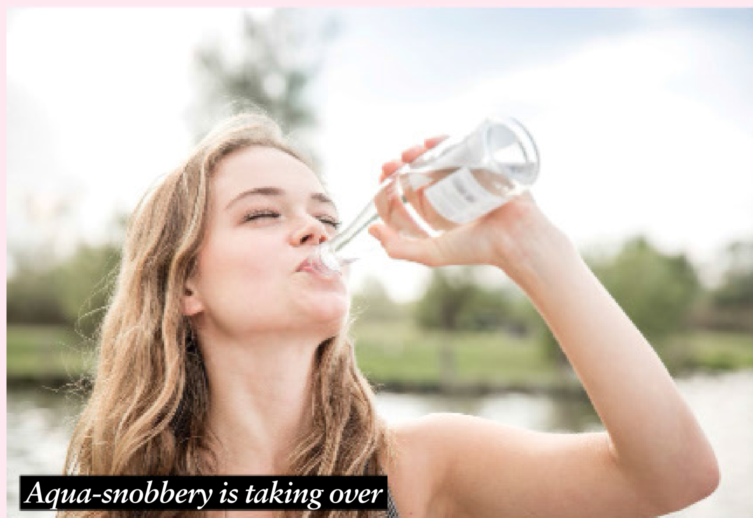
Mountain View

Advertising revenue slows: "Google's massive advertising business had some heavy lifting to do with its second-quarter results", says Dan Gallagher in The Wall Street Journal. "It managed – barely." Advertising revenue at Google parent Alphabet grew 12% year on year in the second quarter to $56.3bn, compared with overall revenue of $69.7bn – a 13% increase from a year earlier – as advertisers reined in spending during the pandemic against a backdrop of global uncertainty. Advertising revenue on its video-streaming platform, YouTube, grew by a record-low rate of "just" 5% year on year. Fortunately, Alphabet's traditional search business is five times bigger than YouTube, and its 14% growth to $40.7bn was enough "to carry the day". Still, the tech giant warned it would cut back on hiring. "When even Google battens down the hatches, a decent storm is likely on the way." Microsoft reported a similar story. It posted fiscal fourth-quarter sales of $51.9bn, a 12% increase year on year and its slowest rate of growth in two years due to supply-chain disruptions, the same drop-off in advertising revenue growth and the end of the Covid-driven boom in computing and video-gaming. Microsoft, too, is freezing hiring.

Bentonville

Inflation nibbles away at Walmart: Arkansas-based retail giant Walmart expects its second-quarter profits to suffer price markdowns, prompting a 10% drop in the shares, says Sarah Nassauer in The Wall Street Journal. Sales of general merchandise and clothing in particular have been hurt by the rising cost of living. Overall, it expects comparable-store sales for its Walmart US division to rise 6% for the same quarter from the same period a year ago, but the growth is owed to "less profitable" items such as food. Steady household spending has so far supported the domestic economy in spite of rising consumer prices, but inflation is now running close to its highest level in decades and the Federal Reserve is expected to raise interest rates in response. The "supermarket colossus" makes up nearly a tenth of all retail sales in the US and it is the biggest private employer in the country, says John Foley on Breakingviews. So its profit downgrade is a "widespread problem". The company has two problems – "the goods its customers no longer want, and the goods they actually do". It now has $61bn worth of inventory lying around, compared with $44bn at the beginning of 2020. Getting back to that figure "will be ugly and involve heavy markdowns". That consumers are buying more food, which generates lower margins, rather than goods, also makes that harder. The trend "could stick" as "regular Americans" change their spending habits.

The way we live now... splurging on bottled water


Aqua-snobbery is taking over

"The pretentiousness has now reached the height of Arctic absurdity," says The Times. Exotic bottled water brands are flying off the shelves with increasing rapidity. "Spitsbergen will set you back a mere £120... Patagonia, a little pricier at £130... Breeze, purportedly distilled from the fog of the Canary Islands – a mere snip at £12 a bottle." Estimated consumption of overpriced water in Britain will be more than £2.3bn in 2026. Never mind the cost-of-living crisis. What makes it all the more unbearable is the marketing behind these products, concocting qualities and profiles to distinguish a particular bottle's "flavour", "terroir", "vintage" and "delicate mineral variations". "Creamy, with a delicate finish? Light and smooth or with body and elegance?" It's all there.

A fifth of Britons only drink bottled water in a boast of "aqua-snobbery", encouraging the overflow of landfills with bottle wastage and emptying their bank accounts. "Is this a throwback to the days when water was contaminated ... or is it scaremongering about the chlorine in British tap water?"

©Getty Images; Unilver

Russia is turning the screws with gas

Moscow

Gas supply restricted: Russia resumed pumping gas to Europe following repairs to the Nord Stream 1 pipeline last week. That allayed immediate fears of an indefinite shutdown, says The Times. However, the supply, when it resumed, was 30%-40% below normal volumes, "leaving President Putin with substantial leverage over Germany and some of its neighbours". Germany has been forced to put together a €15bn rescue package for Uniper, Europe's biggest buyer of Russian gas, in exchange for a 30% stake in the company. On Tuesday, European Union members agreed a watered down "solidarity package" designed to shield Germany and other economies from a shutdown this winter by voluntarily cutting gas usage by 15% between August and March. Some "refuseniks" abstained, however, while Russia said it would limit supplies to a fifth of capacity. While Britain is less reliant on Russian gas in theory, the price it pays is still closely correlated to European prices, says Jennifer McKeown of Capital Economics. Wholesale gas prices in Britain surged to their highest level since March, when Russia invaded Ukraine, to 375p a therm – four times as high as a year earlier. The upshot is that "inflation pressures will be relatively persistent in Europe", interest rates higher and recessions more probable.

Beijing

Property bailed out: China will set up a fund to shore up at least a dozen property companies in the heavily indebted sector, says financial news outlet REDD. China Construction Bank and the People's Bank of China will inject RMB80bn (£9.8bn) into the fund, which can be expanded up to RMB300bn. Its aim is to restart stalled development projects by buying developers' bonds, issuing loans and buying shares. Property buyers had threatened to stop mortgage payments on uncompleted flats if construction stalled, say William Langley and Sun Yu in the Financial Times. Real estate accounts for almost a third of total output in the world's second-biggest economy, but it has suffered a liquidity crisis since developer Evergrande defaulted on its debts last year. The firm's CEO, Xia Haijun (pictured), and finance chief have resigned after a probe found the firm had diverted funds from its subsidiary, putting at risk a restructuring plan for $19bn of offshore bonds, says Yawen Chen on Breakingviews. That its liabilities alone amount to $300bn suggests that Beijing will have to come up with a much more substantial lifeline.

Atlanta

McProfits are fizzing: Americans "aren't yet cutting back on life's simpler pleasures", as quarterly earnings results from Coca-Cola and McDonald's have shown, says Aaron Back in The Wall Street Journal. Atlanta-based Coca Cola's organic sales rose by 16% in the second quarter from the year before, thanks to price increases and higher sales volumes. The company raised its outlook for full-year sales. Fast food giant McDonald's reported global comparable sales for the same three-month period rising 9.7% from 2021, driven by price increases. Consumers "tend to delay purchases of big-ticket items" when recessions hit but trading down in beverages only comes when people are really feeling the pinch, meaning Coca-Cola has some way to go before it feels the heat from the rising cost of living. That is a testament to its brand value. McDonald's has seen lower-income consumers trade down to value items and fewer combo meals, but "high single-digit" price increases have sustained the top line. The two companies' results "highlight the resilience of packaged food makers, especially in the United States", despite consumers' shift towards eating at home. Coca-Cola CEO James Quincey has confirmed the soft-drinks maker will increase prices yet further in markets where costs are increasing overall to pass them on to consumers.

Hong Kong

Alibaba upgrades listing: Mainland Chinese investors will be able to buy and sell e-commerce giant Alibaba's stock after the company applied for a primary listing on the Hong Kong Stock Exchange (HKSE), says Cissy Zhou on Nikkei Asia. The upgrade to its current secondary listing will allow it to join the Hong Kong's Stock Connect scheme with the Shanghai and Shenzhen exchanges, through which mainland investors can trade Hong Kong-listed shares. Alibaba first listed on the New York Stock Exchange in 2014, when its $25bn initial public offering (IPO) was the biggest ever. Since then the share price has almost halved thanks to competition and a regulatory crackdown in China. In November 2019 it added a secondary listing in Hong Kong. Secondary listings require less time, are cheaper, and are exempted from certain rules. Alibaba's chairman Daniel Zhang (pictured) said the upgrade was about "fostering a wider and more diversified investor base". Yet US regulators have increased their scrutiny of Chinese companies, threatening to delist those that hide their audit records. If Alibaba does end up leaving New York, expect other Chinese companies to follow.

Will the euro crisis flare up again?

With Italy's borrowing costs rising quickly, and inflation climbing, the European Central Bank has unveiled a new tool to help indebted states. Is it 2012 all over again? Alex Rankine reports

Christine Lagarde lacks her predecessor's ability to charm bond traders

©Getty Images

What's happened?

On 21 July the European Central Bank (ECB) raised its key interest rate by 0.5% to 0%. It was the ECB's first hike in over a decade and ended the era of negative interest rates. ECB president Christine Lagarde also introduced the bank's new "transmission protection instrument" (TPI), a plan to prevent governments in the euro area's periphery from being submerged by rising borrowing costs. The ECB says that it will buy the bonds of countries it believes are suffering "unwarranted, disorderly market dynamics". As Marcus Ashworth on Bloomberg puts it, "TPI" might as well stand for "To Protect Italy".

What's the problem?

Italy's borrowing costs are rising. This time last year Rome could borrow for ten years at 0.6% and for five years at a sub-zero rate, but the figures have leapt to 3.4% and 2.6% respectively. The collapse of Mario Draghi's government (see page 8) and the prospect of a more spendthrift one coming to power has sparked the latest ructions. With a debt-to-GDP ratio of 150%, Italy can ill afford its borrowing costs to surge. What's more, the spread between German and Italian ten-year government bond yields, a key gauge of stress in the eurozone, has risen from 1.4% in January to 2.4% this week – a sign that ECB interest-rate rises are hitting the bloc's weakest states the hardest.

Did Lagarde's intervention work?

Markets were underwhelmed. Ten years ago this week, Mario Draghi, Lagarde's predecessor, famously vowed that "the ECB is ready to do whatever it takes to preserve the euro". Those words made clear that the ECB would backstop eurozone sovereign debt and marked the end of the acute phase of the crisis. Lagarde hoped to emulate Draghi, but bond traders found the TPI plan vague. The message was "we do what we want, when we want", Paul Donovan of UBS Global Wealth Management told Katie Martin in The Financial Times. And the scheme might well tempt traders to test the ECB's intervention levels. While Lagarde lacks Draghi's ability to charm bond traders, the real problem is that a decade ago inflation was barely above zero, says Martin. "Now it is 8.6%." So there seems little scope for further potential monetary easing.

What's the worst-case scenario?

Soaring bond yields can become a self-fulfilling prophecy, bringing on the very insolvency that nervous traders have begun to fear. The backdrop for Italy's public finances is not propitious: the country is almost as dependent on Russian gas as Germany. Even its world-class manufacturing and luxury goods will not be much help as the global trade cycle turns. Draghi's successor is likely to be a less careful manager of the public purse. If that happens then the ECB may judge that a future rise in bond yields is "warranted" by reckless spending and decline to intervene.

So is this a new eurozone crisis?

Not yet. While Italian bond spreads have risen, they remain short of the 5% level they reached at the height of the sovereign debt crisis a decade ago. As John Authers notes on Bloomberg, while that crisis revolved around the solvency of a whole set of countries (Portugal, Italy, Ireland, Greece and Spain), this time it's squarely about Italy. The others have got their public finances in order, for now at least. The Greek experience also suggests that when push comes to shove, politicians and populations are reticent about crashing out of the euro: it would turbocharge imported inflation and see the value of bank savings collapse (they would be re-denominated in a new, weaker currency). Still, high inflation is exposing the eurozone's fault lines anew.

"Portugal, Greece and Spain have got their public finances in order – for now"

Would the ECB bail out Italy?

In practice, the ECB has often shown itself willing to fudge rules when eurozone survival is at stake. Lagarde has given herself plenty of wiggle room. As Willem Buiter notes on Project Syndicate, the flagship Draghi-era crisis tool – Outright Monetary Transactions (OMTs) – was never actually used because of its "robust eligibility requirements". The new TPI framework loosens those conditions, with the ECB giving itself wide scope to determine if widening bond spreads are "warranted" (essentially, it will decide whether a country deserves to see its borrowing costs spike or not). The Commission will also help gauge if a state is running sound fiscal policy. That will raise the stakes in any budget battle between Brussels and Rome: "An assessment that a troubled country has breached the fiscal rules [could now make] it ineligible for monetary support," says The Economist.

Will the new government cause trouble?

"Italy's next government is unlikely to bring the country's future in the eurozone into doubt," says Jack Allen-Reynolds of Capital Economics. Euroscepticism has lost ground of late. A future government would also have a big incentive to stick with Draghi's reform plans to keep receiving instalments of the €200bn Italy is due from the EU's "Next Generation" Covid recovery fund.

So there's nothing to worry about?

Talk of "Italeave" and eurozone break-up appears overdone for now, but markets are having to price in the risks of drama to come. Even if it doesn't risk Italy's euro membership, a new government in Rome won't be happy with dutifully following the reform plans laid down by Draghi. "Looser fiscal policy" is likely, says Allen-Reynolds. "Parties' demands for extra funds for their favoured policies was one of the reasons that the [Draghi] coalition fell apart". The trouble is that could jeopardise the country's access to the EU pandemic recovery funds. The plan's provision for jointly-issued EU bonds is a crucial first step towards the type of fiscal burden sharing that could ultimately fix the eurozone's structural problems. Trouble in Rome could make it harder to persuade austere northern Europeans to agree to a repeat. As Luigi Scazzieri of the Centre for European Reform, a think-tank, told the Financial Times, "the whole idea of joint borrowing by the EU is at stake here".

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Big Tech's push into medicine

The technology giants have long wanted a slice of the medical action. They are making a big mistake

Matthew Lynn
City columnist

There have been rumours for years. There have been presentations, speculations, and occasionally even a minor product launch. But right now it is finally happening. The technology giants are making their long-awaited push into healthcare.

As so often, Amazon led the way, paying $3.9bn for One Medical in the US, a primary healthcare organisation that covers almost 800,000 people across 25 states. For Amazon, it is a huge step up in its attack on the medical market. It bought online pharmacy PillPack for $750m in 2018 and since then has started selling through its own pharmacy as well. But this is the first time it has taken control of a major healthcare provider.

Apple has similar ambitions. Last week, the company set out its strategy for making healthcare its next major expansion, with devices, apps and services based around its existing products. There is speculation that it may make a similar acquisition to Amazon. Google has also targeted the industry, as has Meta. Healthcare is shaping up to be a major battleground for some of the world's biggest and richest companies.

Eyes on the prize

It's not hard to understand the attractions. In most countries, healthcare provision is inefficient and expensive, with outcomes that could be vastly improved. The sector could certainly use new technology and new ideas, in management and delivery as well as drugs and treatments. And it is a huge industry, accounting for 10% of GDP in most countries, and even more in the US. With populations ageing, it is only going to grow. Even a tiny slice of the market will be valuable. The problem, however, is that this will take the tech giants into dangerous political territory. "The deal will expand Amazon's ability to collect the most intimate and personal information about individuals, in order to track, target, manipulate and exploit people in ever more intrusive ways," warns the Open Markets Institute, an organisation that campaigns for stricter antitrust regulation.

Your watch is keeping track of you – and not just for the good of your health

©Getty Images

There is truth in that. It is one thing to monetise our record of browsing for new phones or holidays, and then use that information to feed us advertisements or recommendations for different products. That happens all the time, and we more or less accept it as the price we pay for all the free products we get from the internet. It is a different matter to collect and manipulate our health records. There is a reason why doctor-patient relationships have always involved a degree of confidentiality. The tech giants can promise to respect that. But they have been so cavalier with the use of data in the past, and so reckless about finding ways of making money from it, that no one is likely to believe them.

It's not like slinging books

The political scrutiny will be intense. Even in a relatively free-market system such as the US, the government is a major player and in just about every other developed country in the world it is the dominant force. It's one thing to disrupt the market in books, music, clothes or food retailing. They are already very competitive markets. It is something else to open up hospital services, GP surgeries, or even pharmacies to new ideas.

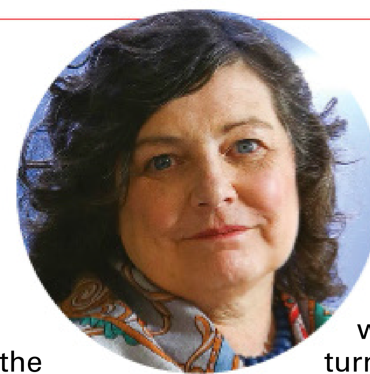
On top of all that, doctors everywhere have formed themselves into the fiercest trade unions ever seen. None of them will give up any of their privileges easily, and they invariably have the public on their side. Governments are not going to sit back and see how the dust settles – they will stop the process before it has even started.

The reality is that, if the tech giants become major players, they will invite intense regulatory scrutiny and provoke a political backlash. Most of the major tech companies are already skating on very thin ice, with lots and lots of governments, regulators and activists demanding that they be broken up, that they pay more taxes, and that their power be curbed. Healthcare could easily be the tipping point: the moment when all that talk finally turns into action. It is not worth it – and if the likes of Apple and Amazon don't get that they will have big problems in the years ahead.

City talk

● When Marks & Spencer unveiled its new top trio of executives in March, chairman Archie Norman said the three would be "flying in formation". That plan didn't last long, says Nils Pratley in The Guardian. "Wingman Eoin Tonge, aka the finance director and chief strategy officer, has pressed the eject button." Tonge is off to AB Foods – which owns Primark and various food businesses – for understandable reasons. "ABF, worth £13.3bn, is a relative jumbo jet compared with M&S's £2.8bn." Now M&S's future will depend more than ever on how well co-chief executives Stuart Machin and Katie Bickerstaffe work together. "Other companies have found the double-act formation hard to sustain."

● Mark Hartigan, the CEO of insurer LV, has finally loosened his "limpet-like" hold on his job, says Ruth Sunderland in the Daily Mail. Hartigan, who got a £511,000 bonus for 2021 "despite the costly failure of his egotistical plan to sell off the business to private equity" will step down once a replacement is found. Perhaps the prospect of "utter humiliation" at the annual general meeting – where members want a no-confidence vote – "focused the minds of his board colleagues". Still, Hartigan stays on his existing contract until a successor takes over, and may even accrue another bonus. Members can't force him to hand back the cash, but they can send a signal by voting against the 2021 pay report. "They should take the opportunity to vent their spleen." And chairman Simon Moore, who "has done himself no favours by larding praise on Hartigan", should advise the CEO to donate his 2021 bonus to charity and tell him to say sorry. "The very least that he owes the members he served so poorly is an apology."



● After Anne Boden (pictured) quit as chief operating officer of Allied Irish Banks in 2013, she said her aim was "to create 'a perfect bank'", says Jamie Nimmo in The Sunday Times. The result was Starling Bank, which last week turned profitable for the first time: it earned £32.1m, having lost £31.5m the year before. "We've proved that this model really works," says Boden. Still, "as with all bank statements, the devil was in the fine print". Starling's income included a grant handed out by Banking Competition Remedies as part of a programme to reduce NatWest's grip on the small-business banking market. "The sum? £32.9m. Enough to lift it to a profit."

©Getty Images

The market miseries

Fund managers feel as pessimistic now as they did in 2008 and early 2020. So is it time to fill your boots?

John Stepek
Executive editor

Fund managers are feeling down

©Shutterstock

Sentiment is a useful thing for investors to keep an eye on. The logic behind this is that markets are driven by expectations. As a result, if sentiment is at an extreme – either bullish or bearish – then there's a good chance that markets are at a turning point. Why? Because if everyone is a bull, there's no one left to buy. And if everyone is bearish, well, things can only get better. With this in mind, the latest monthly survey of global fund managers from Bank of America (BoA) is quite the eye-catcher. It reveals that global fund managers are pessimistic to an extent only seen at periods of extreme investor stress, such as the Lehman Brothers collapse of late 2008 and the peak of coronavirus chaos in spring 2020.

In particular, the proportion of fund managers who think a recession is likely is now at a level only previously seen in April 2020 and March 2009 – both of which were significant turning points for markets. While there are reasons to be fearful today, most people would surely agree that things aren't as bad as they were during the financial crisis, or at the outbreak of the pandemic. Does this level of misery mean that it's time to buy?

> *"Saying 'it's different this time' is just asking for trouble"*

There's one big difference

Saying "it's different this time" in the investment world is just asking for trouble. But as readers may well remember, there is quite an obvious difference between today and those two occasions. In both March 2009 and April 2020, central banks were stepping in with what can only be described as "shock and awe" levels of quantitative easing (QE) to underpin investment markets. On this occasion, it's central banks who are causing much of the angst with their (by recent standards) aggressive action against inflation.

So the odds of seeing a major bottom until there is some sign of central banks at least relenting seem low. Could that point come soon? A look at other indicators in the BoA survey shows that the amount of cash being held (more cash is more bearish) and desire to take risk, are also near record lows. However, previous lows in these two indicators have come not right at turning points, but several months beforehand (eg, risk aversion last reached this level in October 2008, directly after the Lehman Brothers collapse). In other words, if the (fairly short) history of this survey is anything to go by, there are signs a decent buying opportunity could come within the next six months.

Of course, timing the market is not a sensible strategy. The key for long-term investors is to focus on buying what is undervalued today, not what might go up tomorrow. But if you have been hanging on to more cash than usual, now might be a good time to start putting some of it to work.

I wish I knew what growth and value were, but I'm too embarrassed to ask

Investors in stocks can follow a number of different approaches – often referred to as "styles" – when deciding which stocks to invest in. Of these, the two most often used to classify investors are "growth" and "value".

Growth investors look for companies that are expected to grow their earnings faster than their sector or the wider market. They will often be willing to buy shares on valuations that appear quite high compared with other companies if they believe they may be justified by future profits. This approach places more emphasis on the firm's potential, as opposed to its current financial situation.

Value investing is the opposite. Value investors focus on companies that appear to be cheap today (or sometimes stocks that should be cheap in the very near future if the business recovers after a recession or crisis – this is sometimes known as "special situations" investing). While growth investors are typically mostly concerned with earnings, value investors often look for stocks that trade at a discount to book value (assets minus liabilities) or offer high dividend yields.

Some investors see this distinction as artificial. A successful growth investor still needs to be confident that a company is not so overvalued that its earnings can't justify the price they are paying. A value investor has to consider whether a stock is cheap for a reason – perhaps the underlying fundamentals of the business are faltering and will lead to falling profits or even bankruptcy.

That said, growth versus value provides an easy way to divide the market into stocks that are popular and high-priced and those that are out of favour and trade on lower valuations. Historically, the value segment of most markets has tended to beat growth over the long run (which may be attributed to exuberant investors overvaluing potential growth). However for most of the post-financial crisis era, growth has beaten value.

Guru watch

©Getty Images

Cliff Asness, co-founder, AQR Capital Management

Despite doing better in relative terms in recent times, the valuation gap between value and growth stocks (see below for definition) is still vast compared to history, Cliff Asness, co-founder of AQR Capital Management, tells Bloomberg. Indeed, it's "still within hailing distance of the tech bubble peak... We still have prices I didn't think I'd see again in my career."

AQR, which specialises in "quant" investing strategies, has had a very strong year, with its longest-running strategy gaining more than 35% in the five months through May, reports Bloomberg. Yet despite this massive gain (particularly given the backdrop of a nasty fall in wider markets), Asness believes the value rebound could last for some time longer. "The last time we saw this, the tech bubble, it took about three, four years, to come in" to something approaching the historic norm. "And then it kept going to where value actually got... more expensive than normal."

©Alamy

The experience of recent years has taught Asness and AQR that specific strategies can "trend" for "long periods in both directions", longer "than even we would have guessed". That might imply that investors should be willing to bet more aggressively on a strategy when it's working, even though "that's always a little scary".

Overall, he notes, "I'm not married to value. If I ever thought shorting value was the right strategy, I would do it." But given the current gap in valuation (or "spread") between growth and value, "I think we're nowhere near gonna find that."

A wake-up call for Germany

Charlemagne
The Economist

"Years of complacency have landed Germany in a pickle," says The Economist's Charlemagne columnist. For decades, political leaders lulled voters with "intoxicating talk of perpetual prosperity with minimal friction and zero emissions". They woke to the sound of Russian tanks rolling into Ukraine, and now find that all the promises were built on cheap imported manpower and energy. The reckoning with past mistakes lacks urgency. Half of Germany's nuclear power-generation capacity was shut down virtually overnight in the wake of the Fukishima disaster, yet the Greens in the coalition government are still insisting that closure of the remaining ones go ahead. And despite sitting on plentiful natural gas reserves of its own, German production has collapsed, partly because extraction would rely on fracking, for which the public holds an "irrational fear" – not least thanks to a propaganda campaign led by the pro-Kremlin *Russia Today* programme. Yet the solution to Germany's woes lies in its own hands. Gas producers say that, given a chance, they could double their output from fracking in as little as 18 to 24 months. That could see Germany pumping gas well into the next century and trim imports by some $15bn a year.

Russia's economy is imploding

Jeffrey Sonnenfeld and Steven Tian
Foreign Policy

Some commentators argue that sanctions on Russia have been ineffective. That is far from the case, say Jeffrey Sonnenfeld and Steven Tian. The Kremlin's numbers have become increasingly unreliable as the war has gone on. A detailed look at alternative data sources reveals the truth – that sanctions are having a "devastating" effect, and that the case for the resilience of the Russian economy is based on myths. Russia cannot, for example, simply redirect its gas exports and sell to Asia instead of Europe, as most of its exports are reliant on pipelines that flow into Europe. Similarly, being forced to redirect its oil supplies to Asia has led to falling prices, meaning Russia is in danger of losing its status as an energy superpower. "Russia needs world markets far more than the world needs Russian supplies." Imports of other goods have collapsed by more than 50% in recent months. Some sectors have been hit with inflation of 40%-60%. Indexes of business activity are plunging. The Kremlin's finances are under strain. Even the much vaunted strength of the rouble is down to "unprecedented and draconian" capital controls. More action is needed, but, "by any metric and on any level, the Russian economy is reeling".

A turning point in China's rise

Lauren Johnston
Nikkei Asia

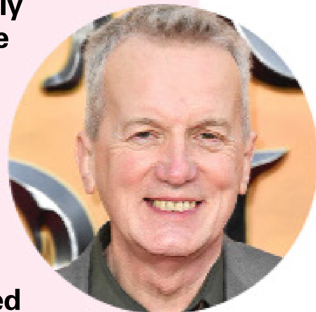
What Xi Jinping called a "strategic partnership for a better future" between China and Africa back in 2010 was often decried as colonialism by African leaders, says Lauren Johnston. In response Xi promised to " improve the structure of China-Africa trade" and seek to identify opportunities for exports from African countries. A "milestone was reached" in this project when a Chinese ship recently became the first to berth at Nigeria's first deep-water port, which was financed by the China Development Bank. Nigerian Ports Authority managing director Mohammed Bello-Koko hailed the arrival of the ship from Shanghai as "historic"; it signified Nigeria's readiness to "take trade facilitation a notch higher"and play its part in optimising trade across the African Continental Free Trade Area, "a pact connecting 1.3 billion people across 55 countries that the World Bank believes can transform Africa's economies". There are two globally significant investments ready to take advantage of the port: Dangote Group's petrochemical complex, an oil refinery with a capacity of 650,000 barrels, and the $2.5bn Dangote fertiliser plant. The deepening ties between Africa and China look set to change the world economy.

The NHS is now on its knees

John Burn-Murdoch
Financial Times

Millions "dropped out of the workforce" in the pandemic, so it's no surprise Britain's labour force is now smaller than it was in 2019, says John Burn-Murdoch. But in other countries many returned to the labour market as quickly as they left it. Britain is the only developed country where the number of working-age people who are neither employed nor looking for work has risen nearly every quarter since 2019. The number was higher in the first quarter of 2022 than at any time since the pandemic started. The reason? Chronic illness. Two in three of the half-million Britons aged 15-64 without a job cite long-term illness as the reason for remaining out of work. This is not happening anywhere else – in many European countries levels of economic inactivity due to long-term sickness did not change throughout the pandemic – and Britain's rise in chronic illness predates Covid. "The most plausible remaining explanation is grim: we may be witnessing the collapse of the NHS." The 332,000 patients that have been waiting for over a year for hospital treatment is a close match to the 309,000 people missing from the labour force due to chronic illness. Other countries' healthcare systems proved resilient to Covid; the UK's "is on its knees".

Money talks



"I probably should have those big career thoughts, shouldn't I? It actually came about by accident, but it's ended up being the biggest labour-of-love job I've done."
Comedian Frank Skinner (pictured) on whether he started out with a plan to become successful, quoted in The Guardian

"I believe in the yogic concept of dharma, meaning the world will provide for you. If you relax, have the right energy, and focus on what you want, the money you need to live that life will come. People might think that's airy fairy nonsense, but it does seem to happen."
Explorer Ed Stafford, in The Sunday Times

"Money don't mean s* to me... I always tell people – they think money's gonna make them happy, they've never had money before – when you have a lot of money, you can't expect nobody to love you. How am I gonna confess my love to you when you have $500bn?"**
Former boxer Mike Tyson, quoted on Yahoo Movies

"The notion that tax cuts, without any spending cuts or substitute source of revenue, will so stimulate the economy that the budget balance will improve, enabling further tax cuts to be made... is a spurious kind of virtuous circle and emphatically not part of my thinking."
Nigel Lawson, chancellor under Margaret Thatcher, in The Sunday Times

"While I was in Spain, I got a passion for reading the Financial Times. I found it quite exciting, reading about commodities and foreign exchange. I decided to throw myself into that industry... I went from being skint to making £250,000 a year, which was a lot of money in 1988."
Saxo Bank co-founder Lars Seier Christensen, quoted in The Mail on Sunday

©Getty Images

The apocalypse is upon us

unherd.com

The recent heatwave has "intensified an already simmering apocalyptic mood", says Mary Harrington. Whether it's panic over health and safety issues, wild fires or the global food supply, the "vibe is everywhere". Apocalypse has come to mean "the cataclysmic end of everything", but the ancient Greek understanding was that it is an uncovering or a disclosure – not the end of the world so much, as the end of a worldview.

A cabal of wealthy suits

And it's not just cranks and prophets who are coming to see that our current way of life cannot continue. The Dutch farmers' protests over proposals to slash emissions that they say unfairly penalise them is the latest manifestation of our current predicament. A "cabal of wealthy suits" in government and think tanks seeks to put an end to extractive industries and those that rely on them. Those who most directly make their living from such industries are caught in the crosshairs and want answers. Things may not be able to go on as they are, but can industrial agriculture really survive decarbonisation? What will we grow and who will own the land? Who will work it?

Idealists dream of a small-farm revolution – even as land ownership is concentrated in ever fewer hands. Others place their hopes in technology – robotisation of farming, gene-edited crops, and so on – yet that would mean even more dependency on Big Finance and biotech. The suspicion grows that what is being presented as a "project to save the world" is really a "project to save the laptop class at the expense of everyone else", who face having to make do with "meaningless, UBI [universal basic income]-funded, AI-governed lives", staring out of their pod homes over thousands of acres of robot-tended agro-industry while awaiting their drone delivery of insect protein.

Dutch farmers: an unwilling sacrifice for the laptop class

©Getty Images

Beneath both the futile resistance and the grandiose plans is a "bubbling sense of madness" as we start to see how interconnected the challenges are and how "unimaginably unlike the present the future needs to be if we stand a chance of surviving". The apocalyptic revelation seems to be that "endless progress on the industrial model has already ended" and "getting out of the bind we are in is going to be grim". While the technofuturists present their scenarios, green movements are turning from policy to millenarianism and the young are saying they don't want to have children. Others just take the opportunity to take potshots at the Tories, or alternatively claim it's all a fuss about nothing. "None of this is madness; it's revelation. It's going to be a bumpy ride."

China spurns skyscrapers

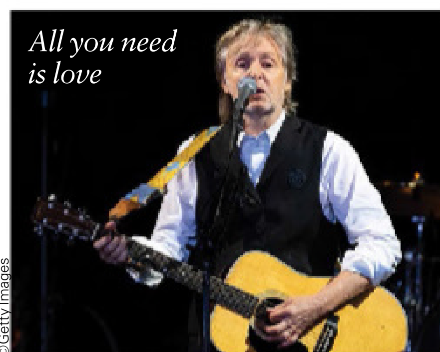
bloomberg.com/opinion

Modernisation and economic development created a mad rush to erect tall buildings in China over the course of the 20th century, says Adam Minter. The towering skyline in Shanghai's business district came to symbolise China's rise. The rest of the country quickly followed suit and China now leads the world in terms of the number of skyscrapers. The rush to build urban environments that would signal China's rise in the global hierarchy helped created a booming economy and construction industry, and the benefits were far-reaching. But although the towering business districts may look impressive from a distance, the result was lifeless streets in unaffordable locations, and dangerous, poor-quality buildings. Now, the country's chief economic planning and housing agencies have announced restrictions on the construction of tall buildings. The new rules cover everything from park design to the banning of "weird" foreign architecture with the aim of "optimising" city life. Housing regulators will seek to prioritise low-rise suburbs with good transport connections, narrow roads, small blocks, walking and cycling paths, and amenities conducive to city life. Cities will be built on a more human scale, in order to attract residents, not investors. It could represent a "monumental shift" for China.

Turn on, tune in, drop out

tinyurl.com/4tdudwh4

With more and more people quitting their jobs or taking early retirement, it seems we are living in an age of "anti-ambition". As "one of that happy band, let me suggest why", says Chris Dillow. With modest effort, it is possible to live well on an average income. Beyond a certain point, "most middle-class 50-somethings" will have acquired enough wealth to be able to enjoy a good standard of life, spend more time with loved ones, take days out and holidays, and enjoy most of the best culture has to offer. The acquisition of wealth beyond this point is "futile". All Jeff Bezos has over you are the dubious pleasures of going on amusement park rides alone and taking trips into near-space, putting him on a par with a mid-ranking Soviet Union Air Force officer of 61 years ago.



All you need is love

©Getty Images

If you enjoy what you are doing then, of course, like Paul McCartney (pictured), you will want to carry on into old age. But for the rest of us, there's no point in keeping on working just to acquire "trinkets". "The one great thing that wealth buys is not so much goods and services as freedom – the ability to step out of the rat race."

We need family-centred policy

thecritic.co.uk

The Tory leadership contest has focused on tax as an issue, but more important is to tackle the "root causes" of the problems in our society, says Rakib Ehsan. That means supporting family life, as a new report from the Centre for Social Justice argues.

Family, as the academic Tony Sewell has said, is the "bedrock of our society", and there is "overwhelming" evidence that two-parent families provide the best start in life for children. It is the arrangement that is "most strongly associated with stable family life and positive youth outcomes, such as school attainment, mental well-being, cognitive development and non-involvement with crime". Yet the marriage rate is at its lowest level since records began. In 1971, the UK had 570,000 one-parent families; 50 years on, in 2021, the figure had reached three million, or 15.4% of families in the UK.

Polling shows there is majority support for family-centred policymaking, such as giving more financial support to families through tax breaks. "Britain is in need of repair, and family stability holds the key."

18+

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AVAXHOME -

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How to find the market's solid soaraway stocks

The success of major indices is based on a handful of spectacular performers. Dr Mike Tubbs outlines the key characteristics of shares capable of rising tenfold or more – and suggests where to start looking

All investors dream of finding stocks that rise tenfold or even 20-fold. These "ten-baggers" and "20-baggers" typically produce their spectacular gains over a period of five to 15 years. The term ten-bagger was coined by Peter Lynch, who managed the Magellan Fund from 1977 to 1990. Over this period his fund turned a $1,000 investment into $28,000.

To achieve this excellent performance, he invested in many companies whose share prices grew by between ten and 30 times – or more – during that 13-year period. Multi-baggers needn't produce their stellar gains immediately. Lynch cites WalMart as an example of a company that went public in 1970 and went on to appreciate 30-fold after 1980.

WalMart shares rose tenfold from 1972 to 1982, then climbed from $0.38 in June 1982 to $10.80 in March 1993, an increase of 28 times in less than 11 years – or 284 times in 21 years. The shares hit $43.40 in December 1999 but only reached that level again in June 2008. The record high of $160 was in April of this year, but the shares have been selling for $130 recently.

This price history shows that a ten-bagger can go on to increase by another ten, 20 or even 30 times. There may also come a point when the shares flatline or fall for several years or merely yield steady, unspectacular growth.

It is therefore all too easy for an investor to sell too early and miss out on a further tenfold growth spurt – or to hang on too long and lose some of the initial gains. It is important to check whether a company's initially successful business model for profitable growth is still working.

Amazon provides another cautionary tale for those inclined to sell out after a nasty slide. The shares rose from $0.08 in June 1997 to $4.70 in December 1999 to make it a 58-bagger in under three years, but then collapsed as the dotcom bubble burst, reaching $0.36 in November 2001.

They then rose to $3.60 in mid-2007 (a ten-bagger in under six years) but powered on to a high of $186 in July 2021, a 52-fold increase in those 14 years. They are now around $115. Amazon's business model was stronger than most dotcom companies and it both broadened its product range and entered cloud-computing via AWS (Amazon Web Services) to ensure continued profitable growth.

My best multi-baggers

Two of my early ten-baggers were UK engineering companies Halma and Renishaw. I invested in Halma, a safety specialist with products ranging from air pollution gauges to eye-health monitors, at 112p in 2002. It became a ten-bagger in May 2017 and a 20-bagger three years later. Had I invested at the market nadir in March 2009 when Halma shares had dropped to 1,556p, they would have reached ten-bagger status by March 2019 – just a decade rather than the 14-15 years it took for me.

That highlights two more key points: the advantage of investing at a stockmarket low and the importance of sitting tight when there is an economic crisis as opposed to a problem with the company itself. I invested in Renishaw, which makes high-precision measuring and calibration equipment, at 344p in mid-2002. The shares reached 3,440p (a ten-bagger) in May 2017 and 16-bagger status in January 2018. Again, had I invested in Renishaw at 258p in March 2009 at the time of the financial crisis, it would have become a ten-bagger in just under six years, by February 2015.

"Sell if there is a company-specific problem, but not merely because of an economic downturn"

An additional fillip from dividends

Halma also illustrates the substantial income that can be derived from a more mature multi-bagger. Halma has a 43-year record of raising its dividend by 5% or more every year. However, since the share price has also risen, the yield for those buying today is only 0.9% at the recent price of 2,144p. But those who bought Halma at 112p in 2002, as I did, received a 2022 dividend of 18.88p per share. That translates to a yield of 16.9% on their original investment.

Several US technology stocks have become multi-baggers. One example is Alphabet (Google's parent company), which rose tenfold between December 2008 and January 2020, and then powered on to become a 20-bagger by October 2021. Another is Salesforce, the market leader in software for customer-relationship management. It had become a 20-bagger by January 2018 and a 30-bagger in January 2020.

A third US example is Intuitive Surgical, the leading robotic-surgery company, whose shares rose 18-fold between March 2009 and September 2018. McDonald's, meanwhile, is an excellent example of a US dividend-paying stock that became a 16-bagger in the 16 years to 2019. The annual dividend is now $5.52, implying a 43% yield on a 2003 investment.

The odds are better in Britain

A study by Schroders of the decade to the end of December 2021 revealed, surprisingly, that UK stocks had a higher chance than their US counterparts of becoming ten-baggers over the last decade. Taking only stocks with a market value over £150m, there were 63 out of 915 UK stocks (6.9%) that became ten-baggers compared with 257 out of 4,515 US stocks (5.7%). UK examples included the retailer JD Sports, Ocado, analytics business YouGov, industrial equipment-hire firm Ashtead, Halma and Rentokil.

The fact that only 6% or 7% of stocks become ten-baggers or better explains the observation that most of the growth in market indices such as the S&P500 or Nasdaq can be explained by the outperformance of a small number of stocks. The Schroder study found that expanding profit margins and sales growth were the largest drivers of shareholder returns – useful indicators for investors eyeing up potential multi-bagging stocks.

The key attributes

These high-flying companies tend to display some or all of the following characteristics. One is a so-called "wide moat": something that provides a sustainable competitive advantage to defend it against potential rivals seeking to enter the market.

©Intuitive Instruments

Shares in Intuitive Surgical, America's top robotic-surgery group, rose 18-fold between 2009 and 2018

Without a moat, a growing, profitable market will attract other companies offering very similar products or services, and this added competition will drive down margins and slow the growth of the first entrant.

Moats can be based on innovative and patented new products that satisfy important customer needs; recognisable and trusted brands; or a cost advantage from favoured access to low-cost materials or from economies of scale.

Another possibility is switching costs: would customers incur a lot of cost and hassle in changing to a competitor? Finally, government regulatory approvals can also comprise a moat. We will look at examples of these five types of moat.

Renishaw, the precision-metrology company, is an excellent example of a company whose moat is based on innovative and patented new products. It has long invested twice the proportion of sales into research and development (R&D) typical of its sector (electronic and electrical engineering).

This R&D is focused on patentable inventions used to come up with a stream of new and improved metrology products that are essential for its manufacturing customers in a wide range of industries.

The power of top brands

Diageo is a good example of the power of a company with highly recognisable brands such as Johnnie Walker and Lagavulin whisky, Gordon's gin, Captain Morgan rum, Guinness and many others. Customers will pay extra for top-notch labels.

Alphabet boasts a very recognisable brand (Google) with a dominant market share of online advertising. Coca-Cola's wide moat is based on both a cost advantage, which it achieves through sheer scale, and a highly recognisable brand stemming from a proprietary formulation of the soft drink.

I remember years ago buying quarry floor tiles from a UK family company whose cost advantage was a source of low-cost materials: they owned their own quarry with high-quality clay that made excellent crack-resistant floor tiles.

Salesforce's moat is based on switching costs as well as innovative products. Salesforce started with customer-relationship management software in 2000 and was the first company to deliver its software conveniently over the internet and charge a subscription.

Software as a service, or SaaS, was an innovation. Salesforce offers a wide array of different SaaS software products, and customers would find it both costly and onerous to change supplier. Indeed, there here is no point in doing so as Salesforce has a wide range of excellent offerings.

Government regulations on safety provide a moat for pharmaceutical and medical device companies since a new drug, for instance, has to go through three stages of clinical trials and an approval process before gaining marketing authorisation. This regulatory approval process, coupled with patents, provides wide moats for novel drugs and medical devices.

Continued on page 22

"Customers would find it an expensive hassle to ditch Salesforce for a rival"

Continued from page 21

In addition to a wide moat, ten-baggers often boast innovative new products and a strong position in a growth market, with sufficient finance to enable the company to expand quickly. Renishaw is again a good example with its innovative, patented products yielding a healthy profit stream, enabling the firm to invest in R&D and expansion while maintaining a cash balance and paying dividends.

What can go wrong

These stellar stocks sometimes come unstuck. Several companies have reached ten-bagger status but then run into problems that cause the share price to fall sharply or stop rising. This can sometimes be due to a major problem with a product, as happened with Boeing. The shares rose from a low of $33.40 in March 2009 to achieve ten-bagger status in January 2018; they then reached a high of $440.60 in February 2019, just before the second 737 Max crash in March 2019. Add in the Covid-19 pandemic and associated drop in air travel and the shares fell 78% to $95 in March 2020.

Questions about a company's accounts – whether ultimately validated or not – can also be a large setback. Burford Capital, the world's largest commercial litigation-funding specialist, became a ten-bagger in just over three years and a 20-bagger in six. But in August 2019 it became a target of the US short-seller Muddy Waters, which queried Burford's accounting practices – in particular, the valuation of ongoing cases. Burford's shares fell from 1,600p in July 2019 to 700p a month later and 313p in March 2020. The company has defended its accounting and its shares have recovered to 900p now, but remain still some way below their highs.

Changes in a growth market can also undermine investors' expectations. Fever-Tree Drinks saw growing sales of its novel mixer drinks propel the share price from 175p in December 2014 to 3,863p in September 2018 to make it a 22-bagger in under four years. But fears about flattening demand for its pricy mixers caused the share price to drop back to 2,149p in December 2018 and 935p in March 2020. The shares are now around 920p, having fallen this year on fears of cost increases eating into margins.

Overall, key warning signs to look for in a potential or actual ten-bagger include: weakness in the company's moat (including the threat of disruptive technology); weakness in sales growth and/or margins; accounting irregularities; problems with a major product; and a large or unrelated acquisition. In a worst-case scenario, one must be alert for outright fraud. US energy firm Enron was a high flier, rising from a single-digit share price in the late 1980s to a high of $91 in mid-2000, but then tumbled to less than $1 by November 2001 as it became clear that management was cooking the books. The company filed for bankruptcy in December 2001.

Benefiting from bolt-on acquisitions

Big or unrelated purchases can be warning signs for a multi-bagger or a company that might become one. However, a number of multi-baggers have used bolt-on acquisitions to enhance their technology or market position or build a new and related division.

One example is Halma, the 20-bagger. Halma acquires related companies that have global niches in markets with long-term growth drivers. It has acquired more than 50 companies and disposed of several others whose growth had slackened.

Another UK example is Judges Scientific, which has put together a portfolio of scientific and testing-instrument companies. The shares rose from 64p in February 2009 to 2,375p in March 2014 to make it a 37-bagger in five years. The shares then fell and only reached 2,375p again in April 2018, before rising almost another four times to a high of 8,640p in October 2021.

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Boeing's stock slumped by 78% in the year to March 2020

Multi-baggers are fairly rare, as the Schroder's study shows: among companies with a market capitalisation of more than £150m, 7% of UK stocks and 6% of US stocks fit the bill. That's why Peter Lynch's Magellan portfolio contained up to 1,400 stocks, so he could be confident of having a good number of multi-baggers. That's far too many stocks for a private investor but you do need a portfolio of a reasonable size to raise your chances of having a few really successful ones.

To boost your odds further, look for companies with a wide moat, innovative technology or products, a strong position in a growth market, and sufficient finance and cash flow to maintain high growth. Signs that these conditions are being met include strong sales growth and high and increasing margins.

It is sometimes possible to identify a multi-bagger because it is following a similar business model to a previously successful one. For example, SDI is a digital-imaging, sensors and controls specialist with some similarities to Judges Scientific, the 37-bagger highlighted earlier.

Both companies have made a number of bolt-on acquisitions. SDI's shares rose from 9p in September 2015 to 215p in November 2021, making it a 24-bagger in six years. SDI was my tip of the year in December 2020 at 104p; it had more than doubled to 217p by November 2021. Had I spotted it in March 2020 at 40p, the gain would have been more than five times.

What to look for now

I am not going to give hostages to fortune by listing potential multi-baggers. But you should select companies that are already showing sales growth with good margins thanks to a sustainable business model. Make sure you understand why the company has a wide moat; check that it has a strong position in a growing market and generates sufficient cash to be able to continue its high growth rate.

Monitor its results, news and trading updates carefully for any signs that may indicate a change in its successful formula, such as slackening sales growth or shrinking margins. But do not be misled by a company's share price falling owing to a general retreat in share prices.

The financial crisis of 2008-2009 provided an excellent buying opportunity for shares in potential multi-baggers. And if you hold one that has matured to a steady growth stage but pays increasing dividends, consider hanging onto it for the double-digit yield it gives on your original investment. Happy hunting.

"Fever-Tree has lost momentum amid fears of flattening demand for its pricey mixers"

The benefits of a bond bear market

Falling prices and rising yields are bad for bondholders but good for pension savers, says Max King

Is the rise in bond yields and corresponding fall in prices bad news or good news? It depends on your perspective. In the past year yields on ten-year gilts have risen from 0.5% to a mid-June peak above 2.5%, though they have since slipped back below 2%. Yields on 30-year gilts have risen from less than 1% to over 2.5%, resulting in a capital loss of 20%. Given that these yields remain below those of the comparable US Treasuries, against the historic norm, it is likely that they will continue to rise and that the multi-century lows of a year or two ago were an anomaly.

This is clearly bad news for holders of gilts, but most private individuals sold out long ago. Maybe some pension funds have kept hold of some, though they would be wise to keep that quiet. Insurance companies, heavily restricted by "solvency" rules, are major holders of gilts, but mostly short-dated ones with little capital risk and a modest yield premium over cash deposits.

The big holders, according to the Financial Times, are now "overseas" investors – central banks on behalf of their governments deploying their foreign-exchange reserves – and the Bank of England, which has bought back £875bn of gilts, 45% of the total in issue. This means that the UK government's debt-to-GDP ratio, nearly 95% gross, is only 52% net, though that would rise if they have to sell some or all of those gilts to rein in excess liquidity. Excess liquidity would be the result of a surge in bank lending – severely curtailed since the financial crisis – but that looks unlikely.

The other big loser from higher gilt yields is the government – and hence the taxpayer, who, as existing gilts mature and are refinanced, will have to pay a higher interest rate. Debt-service costs, excluding those on gilts owned by the Bank of England, are now £40bn per annum, 1.7% of national income and 4.3% of public spending. This is set to rise inexorably.

Expect fewer government vanity projects

On the other hand, ultra-low borrowing costs have encouraged the government to spend vast amounts of money on vanity projects, such as HS2. Reining in state extravagance would be positive for taxpayers and the economy. Other potential winners are risk-averse pensioners, who are seeing annuity rates rise. The lump sum in their pension pots will buy a higher lifetime income than a year ago. Annuity rates have risen by around 23% from their low in early 2021.

The other big winners are members and providers of fully-funded defined-benefit pension schemes. Notable among these is the Universities Superannuation Scheme (USS), a £90bn fund covering over 400,000 people employed in higher education. In recent years, the fund has been reporting mounting deficits, reaching £14.1bn at the March 2020 valuation. Assets were calculated by the actuaries to be only 83% of commitments, though calculations depend on a number of assumptions, including longevity, future contributions, investment returns, future pension entitlements and, crucially, discount rates. The latter, the rate at which future liabilities are discounted to the current day, are based on gilt yields.

"Modern monetary theory' has been buried by the rise in bond yields"

University staff have gone on strike over their pensions

A sensible critic might argue that there are so many uncertain assumptions as to make the conclusions highly unreliable, but the trustees have to follow the "professional" advice of the actuaries and the employers have to implement the recommendations, subject to any pushback they can exert.

The employees had seen a remorseless squeeze on their entitlements and a sustained rise in their contributions. The rise in employers' contributions was passed onto them in lower pay increases. The result was understandable fury and a series of trade union-supported walkouts across the country.

A further squeeze on benefits was implemented at the start of April but, soon after, USS announced that its 31 March valuation had shown that the deficit had fallen to just £1.6bn, making the scheme 98% funded. Moreover, this was primarily due to an increase in assets rather than to a higher discount rate, the result of higher gilt yields, reducing liabilities.

Since gilt yields rose further in the second quarter and, notwithstanding the recent decline, are likely to keep climbing, the position of USS and other defined-benefit schemes is set to keep improving. In the short term, weak markets, notably equities, will have reduced assets but these losses will soon be recovered as markets resume their long-term move upwards.

Staff should now be able to look forward to a reinstatement of benefits and/or lower contributions while the financial squeeze on higher education will diminish. The losers are the actuaries, whose reputation is tarnished, and the trustees who loyally followed them. As one bemused finance director said: "The pensions system is supposed to reduce the volatility of everyone's exposure to the vagaries of markets, but it's done precisely the opposite."

One other loser from the rise in bond yields is "modern monetary theory", which posits that government spending should not be constrained by rising debt as central banks can just create money to finance it. This theory has now been buried. Finally, the rally in bond markets helps limit the scale of necessary interest-rate rises and underpins equity markets but, in the longer term, a return to yields moderately higher than much lower inflation would mark a return to sanity.

A retail bond with a 6.5% yield

This new issue from LendInvest could be attractive to income seekers willing to take some risk

David Stevenson
Investment columnist

London's retail bond market was launched a few years ago to help private investors buy corporate bonds. It seemed a good idea at the time – private investors in the US and Italy regularly buy individual fixed-income securities, such as tax-efficient municipal bonds. Yet it has never really taken off and in recent years new issuance has slowed to a trickle, mostly from smaller charities.

However, a few commercial issuers have stuck with the retail bond market, among them alternative lender LendInvest. It issued two five-year bonds: one in 2017, paying 5.25%, and another in 2018, paying 5.375%. Both were oversubscribed. The company has now announced a third five-year bond, this time with a substantially increased yield of 6.5%. Even in an era of sharply rising interest rates, this may appeal to some investors.

The new bond will mature on 8 August 2027. It has a face value of £100 – in common with most retail bonds – and will pay an interest rate of 6.5% per annum (£6.50 per bond), with interest paid twice yearly on 8 February and 8 August. The minimum investment at launch is £1,000, but will trade in smaller denominations after launch on the London stock exchange's order book for retail bonds. The offer period for the launch is expected to close at 4pm on 3 August 2022. LendInvest is also offering holders of its outstanding bonds the opportunity to exchange them for this new issue.

Most retail bond investors simply wait for the income to roll in

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Property-backed loans

The first step with a bond like this is to understand the security. LendInvest is an Aim-listed company set up 14 years ago. It makes bridging, development and buy-to-let loans. Its unique selling point is that it uses its own platform to complete loans quickly for borrowers and securitise them for institutional investors. Latest annual results showed assets under management grew 36% to £2.1bn from the year before, and adjusted earnings before interest, tax, depreciation and amortisation (Ebitda) was up 90% to £20.3m.

The bond is being issued by LendInvest Secured Income II, a special purpose vehicle that is a subsidiary of LendInvest. The subsidiary has its own ring-fenced balance sheet that consists of a basket of property-backed loans with an average loan-to-value of around 65% to 70%. There's a partial 20% guarantee by LendInvest, which means that if the property market collapses, the loans go into default and don't produce enough cash to repay the bonds, LendInvest will make up the shortfall in interest or principal to a maximum of 20%.

For investors content with the underlying credit risk, the next question is whether you want to invest in a corporate bond now. In market terms, the timing looks terrible. Inflation is around 10%, so a yield below that is eroding capital. Rates are going up, which will have a knock-on impact on corporate bond values. In terms of direct competition, UK government five-year bonds now yield 1.67% so you are getting 5% uplift from a riskier lender. The S&P UK Investment Grade Corporate Bond index yields 3.9%, so you're getting an extra 2.5% on that.

However, many investors look at retail bonds as products to hold to maturity and let the income roll in, so the impact of markets on bond values don't matter so much. The two key points are whether you are happy with the credit risk and whether the yield on offer for the full five years is enough to reward you for taking that risk. That hinges on whether you think inflation will remain elevated for the five years and whether rates will surge and then stay there for many years.

This product is not like a savings account – your capital is at risk here. But for reference, the best rate you can get on a five-year fixed-rate savings account is 3.3%. So the LendInvest's bond gives you a 3% uplift for taking extra risk. For some income-orientated investors, that will look much more attractive.

Activist watch

Activist investor Elliott Management has built a 9% stake in Pinterest, the image-sharing social-media company that boomed during the pandemic but is now struggling with a drop in users, says the Wall Street Journal. Pinterest reported a full-year profit for the first time in February, but slipped back to a loss in the next quarter as users spent more time offline. Co-founder Ben Silbermann stepped down as CEO in June and has been replaced by Bill Ready, who previously headed the commerce division at Alphabet. Eliott's investment looks like a sign of confidence in Ready's ability to boost profits through higher ad revenue from international markets, greater use of e-commerce, and expanding its user base to include more male users, says CNBC.

Short positions... Jupiter slashes Starling valuation

■ Jupiter UK Mid Cap has slashed the value of its stake in Starling Bank by around 16%, opening up "an extraordinary gap between how it and Jupiter's Chrysalis investment trust value their shared top holding", says Citywire. Chrysalis, which makes late-stage investments in unlisted growth companies, has been under fire for paying a £112m performance fee to Jupiter last year before suffering several setbacks, including a huge writedown in its stake in buy-now-pay-later provider Klarna. The "relative resilience" of Starling has shielded it from even bigger losses, but the writedown at UK Mid Cap – which is run by Richard Watts, Chrysalis's co-manager – "could pave the way for Chrysalis to cut the value of its own Starling stake during the next quarterly valuation". Starling accounts for 25.1% of Chrysalis's portfolio. Jupiter UK Mid Cap is subject to a 10% regulatory cap on unlisted investments; Starling now amounts to 7.9% of its portfolio and total unlisted exposure to 8.5%.

■ There is always debate over whether investment trusts or open-ended funds are best, says The Times. Data from Bestinvest compares 45 pairs of funds and trusts ran by the same managers. This shows 29 (64%) of the trusts delivered better returns than their sister open-ended funds over the past five years. While funds and trusts overseen by the same managers are usually run the same way, managers can have more scope to improve performance with trusts. Most obviously, the use of gearing (borrowed money) can boost returns when prices are rising. However, investors should also keep an eye on fees. Nearly two-thirds of the 29 better-performing trusts had lower charges than their sister funds. Conversely, in cases where funds beat trusts, 62% of the cheaper funds performed better.

Dunelm will keep growing

The furniture retailer is well placed to take more market share from rivals

Matthew Partridge
Shares editor

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The pandemic encouraged everyone to improve their homes

Covid-19 has shaken up the world of retail, creating both winners and losers. For the first 18 months it looked as if the home furnishing retailer **Dunelm (LSE: DNLM)** was one of the winners. Even though its shops were closed, it managed to shift quickly to online sales. It also benefited from people using the money they saved on travel and going out to improve their homes.

Between the end of March and October 2020, Dunelm's share price nearly tripled. Even as late as last September it was still substantially above the level it was in February 2020. However, over the past year its share price has fallen by more than 40% and is now languishing well below the pre-pandemic level, even though sales are much higher.

Of course, there are rational reasons for investors to be concerned. With inflation outstripping increases in pay, households may choose to cut back on buying new furniture, or at least defer purchases until the economic situation improves.

Dunelm's management admits this could be a problem in the short run. Still, there are some reasons for optimism. First, the latest earnings figures suggest that, while there has been a small decline in the past three months, sales are holding up better than many people expected and are likely to come in above expectations.

Investing effectively

Management is confident that investment in digital platforms, as well as improving the quality of physical stores and expanding the range of products available, will help the company continue to win market share from rivals. Over the past year 85% of Dunelm's sales growth has come from increasing market share, which is why it has consistently grown sales by double digits over the past two, five and ten years.

> *"Dunelm's growth has not come at the expense of margins"*

Crucially, this growth has not come at the expense of profitability. Operating margins been consistently around 10%-15% since 2016 and even rose in 2021. The company has also deployed its capital in an efficient manner, with a return on capital employed of roughly 30%. Despite investing in growth, it has consistently increased its dividend (with the exception of 2020 when it was suspended, like many other firms).

Despite this strong record, Dunelm is valued at just 11.8 times forecast 2023 earnings. The dividend yield is a compelling 5.6%. Encouraging fundamentals is one thing, but many people may still be wary about buying into a share that has fallen so much. However, there are some signs that Dunelm's share price may have bottomed as it is now trading above its 50-day moving average. As a result, I'd suggest that you immediately go long at the current price of 878p at £3 per 1p. In this case, I'd suggest that you put the stop loss at 578p, which would give you a total downside of £900.

Trading techniques... too hot to handle

The temperature has finally cooled down after shattering records last week, but what impact does extreme weather have on the market? Studies have shown that sunny weather is generally associated with stronger stock performance, perhaps because it makes people feel more optimistic. For example, a 2015 study by Gary Smith and Michael Zurhellen of Pomona College, California, compared the average stock returns on the US market days that were sunny (in New York) with those on cloudy days between 1948 and 2013. They found that the market did better on sunny days.

However, it appears the market is much less happy about high temperatures, which research suggests can actually hit returns. A 2019 study by Paul Griffin of the University of California, Davis; and David Lont of the University of Otago and Martien Lubberink of the Victoria University of Wellington, both in New Zealand, looked at the impact of extreme heat (as defined by the US National Oceanic and Atmospheric Administration) on share prices from 2008 to 2017. They found that the share prices of those companies that had their headquarters in the affected regions were significantly lower even 20 days after the beginning of the heatwave.

The same study also found that the declines were even bigger for particularly extreme or prolonged heatwaves, as well as those that coincided with a large amount of heat-related damage. Interestingly enough, the market doesn't seem to be as concerned about periods of extreme cold, even if they are prolonged or destructive, as the same study found that such cold snaps had no statistically significant impact on share returns, either in a positive or a negative direction.

How my tips have fared

In the past fortnight my open long tips have put in a strong performance, with two out of the three tips rising. Telecoms firm Airtel Africa climbed from 146p to 171p, while equipment-rental company Ashtead rose from 3,785p to 4,142p. Fast-food chain Domino's Pizza Group fell very slightly, from 276p to 275p.

The pending tips in both Hays Recruitment and sportswear retailer JD Sports rose above the levels at which you should go long on them, at 125p and 140p respectively. However, pet-supplies retailer Pets at Home and online-fashion retailer Asos still remain below the price at which you should start going long.

Overall, my long tips are making combined profits of £3,092. Unfortunately, my short tips didn't do so well last week, with four of my six open tips rising.

Remote-medicine firm Teladoc advanced from $39.59 to $41.89, Chinese real-estate firm KE Holdings climbed from $15.10 to $15.53, and digital-currency exchange Coinbase also rose from $54 to $67. DWAC, the holding company for former US president Donald Trump's social media venture, also increased, from $29.45 to $31.

On the plus side, cinema chain AMC fell from $14.95 to $14.92 while online-marketing firm HubSpot also declined from $295 to $292. In total, my short tips are making a combined profit of £6,330, slightly down from £6,543 two weeks ago.

My short and long tips are making a combined overall profit of £9,635. I suggest that you close the positions in Domino's and AMC, while cancelling the pending position in Asos. This leaves ten open tips: long positions in Airtel Africa, Ashtead, Dunelm, Hays Recruitment and JD Sports; and short positions in Teladoc, HubSpot, KE Holdings, DWAC and Coinbase.

I also suggest that you raise the stop loss on Airtel Africa to 135p (from 125p), while cutting the level at which you cover all the shorts as follows: KE Holdings to $25 (from $30); HubSpot, to $320 (from $325); Teladoc to $55 (from $60); DWAC to $45 (from $50); and Coinbase to $80 (from $90).

Safeguard your estate

The inheritance-tax threshold will remain frozen until 2026, but there are several ways to reduce your potential liability

Ruth Jackson-Kirby
Money columnist

More and more people are having to pay death duties. The Treasury raked in £300m more in inheritance tax (IHT) between April and June 2022 than in the same period in 2021.

The average IHT bill has risen by 27% in a year thanks to a combination of rising house prices and frozen IHT thresholds. Estates that are liable for death duties can now expect to pay an average of £266,000 to HMRC.

The amount beyond which IHT is due has been frozen at £325,000 since 2009. Inflation has risen "45% over this time and average house prices have increased 67%, pushing many over the threshold," notes Jessica Beard in The Telegraph. HMRC has doubled its IHT receipts in a decade.

The government also announced that both the £325,000 IHT threshold and the £175,000 residence nil-rate band (an extra allowance that can be passed on upon a person's death without any IHT being payable) will remain frozen until at least 2026. Only 4% of estates pay IHT, but as inflation and house prices continue to rise, more families are expected to be dragged into the death-duty trap.

Don't forget your pension

Still, there are several ways you can avoid passing on part of your estate to the taxman. One option – if you aren't close to the lifetime allowance – is to invest more into your pension and consider carefully what you spend first when you retire.

"Money left in your pension when you die is normally free of inheritance tax," says Sean McCann, a chartered financial planner at NFU Mutual. "Those with Isas and other savings and investments which are subject to inheritance tax should consider spending those first before taking money from their pension."

Make sure any life-insurance policies you have are written in trust. If they aren't, your family may lose up to 40% of their value to IHT. Putting them into trust is simple: most insurance companies have trust forms available free of charge.

Receiving an inheritance yourself in later life can turn your IHT planning on its head. Avoid difficulties by redirecting the inheritance if you don't need it. You can make a deed of variation on a will within two years of the death to give an inheritance to someone else, usually a child or grandchild.

You should also make the most of your gifts. You can gift up to £3,000 annually without it being included in your estate. If your child or grandchild is getting married you can give them £5,000 that year. You also have a small-gift allowance of £250. That is the limit for anyone who hasn't already benefited from your annual exemption.

Shelter your family from HMRC

©Getty Images

Gifts outside of these allowances will be included in your estate for IHT purposes if you die within seven years. You can also make regular gifts out of your excess income. There is no limit on how much of your income you can give away, as long as it doesn't affect your standard of living.

Finally, be charitable. "Any money you give to charity during your lifetime or on death is free from inheritance tax," says McCann. "If you leave more than 10% of your net estate to charity on your death, the rate of inheritance tax paid by your estate falls from 40% to 36%."

Banks begin battle to entice savers

After years of misery, things are looking up for savers at last. Numerous banks and building societies have finally been increasing interest rates on savings accounts following the repeated rises in the Bank of England base rate. Last week we heard that National Savings & Investments – the government-backed savings provider – has increased rates on several popular products.

The interest rate on its Direct Saver and Income Bonds has risen from 0.5% to 1.2%. NS&I's Direct Isa rate has gone up from 0.35% to 0.9%, and its Junior Isa rate has risen to 2.2%. "NS&I is the latest to join the fray, significantly increasing the interest rates on a range of its products to boost their appeal," Laura Suter, head of personal finance at AJ Bell, told the Financial Times.

However, don't rush to deposit your savings with NS&I – there are better rates available. Several other instant-access accounts beat the rate on its Direct Saver account. Both the Family Building Society and Nationwide are paying 1.5% and Yorkshire Building Society offers 1.48%.

If you do start enjoying bigger returns on your savings, check that you aren't going to breach your Personal Savings Allowance. If you earn more than £1,000 interest in a year, then you'll pay income tax on the excess. That falls to £500 a year if you are a higher rate taxpayer. If you are approaching your allowance limit, shift some of your money into an Isa to protect it. However, if this is the case don't turn to NS&I (its Direct Isa remains well behind the market leaders).

You can get a better Isa rate from Newcastle Building Society at 1.5% or Cynergy Bank and Shawbrook Bank at 1.4%. If you shop around, you can get a Junior Isa rate of up to 2.65% too, with the table-topper coming from the Monmouthshire Building Society.

Pocket money... Help to Buy ends

- Victims lost £1.5m to "Mum and Dad" WhatsApp scams between February and June this year, says The Sunday Times. The ruse involves someone sending you WhatsApp messages, purportedly from a friend or family member, saying they've lost their phone and have got a new number. Once they gain your trust they begin asking you for money.

  One person told the paper how she foiled the scam by texting "I know this sounds silly, darling, what's your middle name?" after receiving messages supposedly from her daughter asking her to pay an invoice. The reply? "I forgot. X" That stopped her transferring any money.

- The price of second-hand cars has fallen from a record high as soaring fuel costs have cut demand.

  Earlier this year second-hand car prices overtook the cost of new cars for the first time as shortages bit, but dropped by 2.5% month on month in June, says the Office for National Statistics. The cost-of-living crisis and soaring fuel costs made many rethink plans to buy a car.

- The government's Help to Buy scheme has helped many onto the housing ladder, but it has also been criticised for boosting housebuilders' profits, pushing up property prices and gobbling up taxpayers' cash, says The Guardian. The scheme launched in 2013 and will end in March 2023. If you want to secure a government loan to help you buy your first home you need to act fast. The deadline is 31 October, and you need to have reserved your home and applied for Help to Buy by then.

- The Financial Conduct Authority (FCA), the City regulator, "has warned insurers that the cost-of-living crisis could force struggling customers to cancel or cut back on personal insurance", says the Financial Times. The FCA has called on insurers to provide more support. It is concerned that those struggling to keep up their monthly payments could be left "without an adequate safety net".

Will the RLS come to the rescue?

The Recovery Loan Scheme's extension could help firms still getting back on their feet after Covid-19

David Prosser
Business columnist

The Recovery Loan Scheme (RLS) was launched to support businesses seeking to bounce back from the Covid-19 pandemic, but it struggled to gain traction before finally coming to an end on 30 June. Now, however, the government is relaunching the scheme amid growing concern about the difficulties many smaller businesses face raising capital.

The RLS went live on 1 April 2021 as the emergency-loan schemes for businesses set up during the pandemic came to an end. It offered loans of up to £10m per firm, with banks encouraged to lend through a government guarantee promising that the taxpayer would cover a sizeable chunk of any debt remaining should a borrower default.

A second flop

At the beginning of the year the RLS was revamped, with new rules to tailor it specifically to small and medium-sized enterprises. The maximum loan available was cut to £2m, and the government also reduced the proportion of each debt it guarantees from 80% to 70%.

Neither version of the RLS proved to be a resounding success. Fewer than 19,000 businesses applied for credit over the 15 months following its launch, with the average borrower taking out £202,000 of credit.

Nevertheless, ministers have decided to press ahead with a two-year expansion to the scheme, offered on the same terms as the revamped RLS. This reflects anxiety about the difficulties facing small businesses, as well as their struggle to secure traditional credit in the current crisis.

More than half a million businesses could go bust as a result of rising inflation, the Federation of Small Businesses (FSB) warned in the spring. The FSB also published separate research showing lending to its members had fallen to an all-time low. In theory, the RLS could prove to be a lifeline for businesses in trouble. Banks should be more open to lending to businesses that would otherwise be rejected as too risky, as they have recourse to a government guarantee for 70% of each advance, though the original 80% pledge provided more peace of mind.

Companies are still grappling with the fallout from Covid-19

©Getty Images

Small business groups and advisers question whether take-up of the RLS will be any higher throughout the two-year extension. Lenders may be unwilling to support businesses that in many cases already have substantial Covid-19 loans to repay.

> *"The programme could prove a lifeline for firms in trouble"*

On top of that, the scheme is expensive. Interest rates are capped at 14.99%, which is costly compared with the emergency-loan programmes launched throughout the pandemic.

Nevertheless, there will be businesses to which the RLS appeals. The scheme may prove cheaper than other types of business borrowing, and the 70% guarantee will allow lenders to look favourably at more applications.

Moreover, the RLS is flexible. Funding can be set up as traditional overdrafts or term loans, or businesses can open an invoice or asset-finance facility. The loans are repayable over three or six years, depending on the type of borrowing.

One important caveat is that business owners will need to check with lenders whether they are expected to provide a personal guarantee. It's important to recognise that while the government operates as a backstop for lenders, the legal liability for the loan remains with the borrower. Banks are entitled to ask for personal guarantees from business owners and directors on advances of over £250,000.

Price of invoice finance falls

Do your customers offer working-capital finance? Growing numbers of large companies are putting such arrangements in place for suppliers, enabling smaller businesses to secure finance on more affordable terms.

The schemes are a twist on the traditional forms of invoice finance available to small businesses, which enable them to borrow against the value of invoices yet to be paid, unlocking the cash tied up in their customers' bills. The provider charges fees and interest to provide the arrangement.

This type of invoice finance is useful but can prove expensive because small businesses often don't have strong credit ratings. Many large companies are now offering invoice-finance schemes of their own to suppliers, with the debt arranged through their own superior credit ratings, giving suppliers cheaper invoice finance.

The growing number of big companies offering these arrangements reflects the pressure cash-strapped suppliers face as costs rise. It also underlines nervousness about supply-chain disruption. The delays and shortages of the past year have prompted many companies to seek closer working relationships with key suppliers in the hope they will be prioritised in the event of further disruption.

Petty cash... pricey insurance premiums

- Leading banks are failing to treat their small business customers fairly, a new report from the Financial Conduct Authority (FCA) warns. The regulator says that too many banks are not providing support to small businesses trying to arrange payment plans when struggling to repay loans – often because staff have been poorly trained. Businesses that have suffered may be able to make a complaint to the Financial Ombudsman Service. The scheme is open to small firms with an annual turnover below £6.5m and fewer than 50 employees.

- Small businesses struggling with rising costs are also being hit with swingeing insurance premium increases,says the Federation of Small Businesses (FSB). Three in five have seen their insurance premiums rise in the last year. While many have sought to switch insurer to secure a better deal, new cover often comes with more restrictive terms.

- Small business owners who want their staff to return to the workplace full-time following the more flexible arrangements offered during the pandemic may struggle to recruit staff, the Institute of Directors suggests. Around 60% of businesses now plan to shift to hybrid working arrangements permanently, with staff very often pushing for more flexible arrangements. Many business owners are nervous about this trend – 40% believe employees working at home are often more productive but 37% fear productivity is negatively affected.

How billionaires will give your portfolio a boost

A professional investor tells us where he'd put his money. This week: Samed Bouaynaya of the Global Billionaires Fund picks three diverse global stocks

Billionaires are billionaires for a reason. Our global equity fund researched the performance of companies overseen and guided by billionaire owners back to 2004 and found that they outperformed their rivals. We now invest in 115 large-cap global companies held by 100 of the top billionaires (as ranked by Forbes and Bloomberg). Each stock makes up 1% of the fund and the maximum exposure to a single stock is capped at 1%. We rebalance the portfolio every January and this year applied a new environmental, social and governance (ESG) filter that eliminated some Russian oligarchs and underperforming Chinese billionaires.

It has been a tough two years for global stocks, particularly in emerging markets, but historically these have been first to recover. Asia is becoming increasingly important to the global economy while Indian billionaires are flourishing, although their companies are difficult to invest in from the UK.

A portfolio of 400 beers

Anheuser-Busch InBev (Brussels: ABI) owns more than 400 beers, including Budweiser, Corona and Stella Artois. Lockdowns heavily affected business but in 2021 InBev's North American sales, which account for one-third of revenues, rebounded by 4%. Asia-Pacific saw growth of 21%. Total revenue growth was up $6bn for the year and it is now summer in the northern hemisphere.

The suspension of the group's licence to brew Budweiser in Russia is unlikely to affect the top line. The group also turns by-products of the brewing process into plant-based proteins for sale to the food industry, which bolsters its environmental credentials.

China's leading EV manufacturer

Shenzen-based carmaker and battery group **BYD Company (HK: 1211)** has just overtaken Tesla in global electric-vehicle (EV) sales. It also overtook South Korea's LG as the world's second-biggest producer of EV batteries. Some of its stellar share performance in the past year (it is up by 40%) is due to avoiding the Covid-19 lockdowns that hampered its rivals.

Chemist Wang Chuanfu's company is living up to its full name: "Build Your Dreams". He started manufacturing rechargeable nickel cadmium batteries in 1995 before moving into cars, buses, trucks and bikes. In 2008 Warren Buffett bought 10% of BYD, enjoying a 33-fold gain by July 2022. While speculation that his stake is now for sale has affected the share price, BYD is the leader in China's rapid transition to EVs and is gearing up for a potentially profitable push into foreign markets.

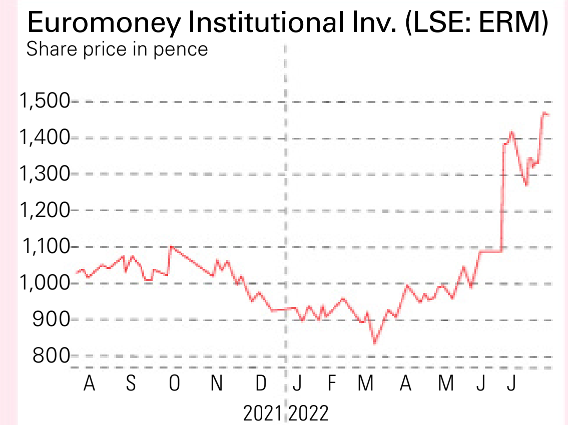
Profiting from natural stupidity

Investing alongside Carl Icahn, who owns 88% of **Icahn Enterprises (NYSE: IEP)**, is not for the faint of heart, but it has proved very rewarding. One of the very first activist investors, Icahn has been shaking up large US corporations since the 1980s by buying large stakes and urging management to make changes to benefit shareholders.

"Carl Icahn's personal wealth has risen by 20% since the pandemic"

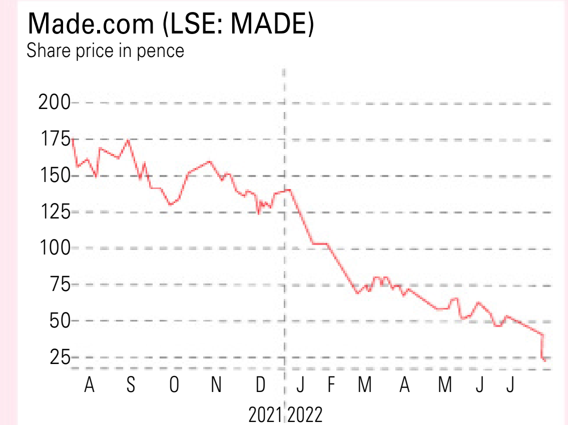
Icahn Enterprises holds investments across sectors including energy, automotive, food packaging, metals, real estate and home fashion, but the balance changes whenever potential value is unearthed. He famously said he makes money from "studying natural stupidity". His personal wealth has jumped over 20% since the pandemic, which makes it hard to question his judgement.

If only you'd invested in...



Shares in **Euromoney Institutional Investor (LSE: ERM)** jumped after it was sold to a private-equity consortium for £1.6bn, says Bloomberg. The offer, from Luxembourg-based private-equity group Astorg Asset Management Sarl and Britain's Epiris, represented a 34% premium to the undisturbed share price. The company sells subscriptions to Euromoney, a financial magazine, and runs conferences, which are expected to recover now that Covid-19 is retreating. The firm will be split between commodity-pricing data segment Fastmarkets and the rest of the divisions. The shares are up 46% in year.

Be glad you didn't buy...



Online furniture retailer **Made.com's (LSE: MADE)** share price has slumped further following its third profit warning in less than a year, says The Guardian. The cost-of-living crisis is denting consumers' home-improvement budgets. Made.com also announced job cuts. It now expects to make a £50m-£70m loss for 2022, with sales for the first six months of the year down by 19% compared with the same period in 2021 (although they were still up by 55% from 2019). Supply disruptions at ports, along with the need to clear excess inventory, have raised costs. The stock has fallen by 89% in 12 months.

©The Telegraph 2022

American dream on steroids

Jennifer Lopez built a business empire on top of an entertainment career, thereby paving the way for the likes of Reese Witherspoon and Gwyneth Paltrow. Jane Lewis reports

Jennifer Lopez postponed her wedding to actor Ben Affleck days before the ceremony was due to take place in 2003. "Twenty years, three marriages, five children, a Las Vegas residency" and "more than 18 fragrance launches" later, "Bennifer has been born anew for 2022", says the Financial Times. Earlier this month, the couple were quietly married at the drive-through Little White Chapel in Las Vegas.

Cynics may say that "Bennifer, the rematch" has "only vivified a flagging interest" in the couple's upcoming projects. "But it's hard not to feel a pinwheel of excitement for a fairytale narrative in which the publicly broken Affleck has been rescued by his Latina queen." And J.Lo, aged 53, is certainly on the up, having "clawed back a career from the precipice of irrelevance" over the past decade via a three-year run on the hit TV talent show "American Idol" and "a star turn at the Super Bowl".

"It turns out love is patient," J.Lo wrote in her newsletter, describing "a narrative arc" worthy of the many romantic comedies that she has starred in, says The Times. Indeed, according to Alice Leppert, professor of media and communication studies at Ursinus College, Pennsylvania, and co-editor of the journal Celebrity Studies, "People lost their minds when they reunited". We "invest" in celebrity to compensate for our own romantic disappointments and part of J.Lo's charm – forming the basis of her $400m fortune – is her girl-next-door quality. "Her rags-to-riches story represents the mythology of the American dream on steroids."

The daughter of Puerto Rican parents – her father was a computer technician, her mother a nursery school teacher – Lopez was raised in a cramped one-bedroom apartment in the Bronx where she would dance in front of the bedroom mirror pretending to be Rita Moreno in West Side Story. "I wanted to accomplish things. I had that kind of competitive spirit," she later told Rolling Stone. At 18, she dropped out of college, where she was studying business, to pursue dancing full-time. A stint on a popular comedy show led to appearances in music videos before her big break in 1996, when she landed the title role in a biopic of the Mexican-American singer, Selena – becoming the first Latin American star to earn more than $1m for a film and a role model for millions of young Latinas in the process.

> *"You have to work harder than everybody else… when everybody is sleeping, I'm doing more"*

Unstoppable cultural force

By 2000, by which time she had a triple-platinum album to her name, J.Lo had become "an unstoppable cultural force", aided by the emerging internet, says The Times. An appearance in a plunging Versace gown at the Grammy Awards triggered "one of the first viral fashion moments", prompting Google to launch its Images search engine. By 2004, the self-styled "Jenny from the Block" had launched a successful lifestyle brand (perhaps inspired by her relationship with the rapper P Diddy) that brought in more than $300m that year alone. It started with a fragrance and grew to include clothing, watches and bed linen. She is credited with pioneering "a new era of fame where celebrities became the product": creating "a blueprint" for later business empires built by Kim Kardashian, Gwyneth Paltrow and Reese Witherspoon.

Throughout her career, J.Lo – described by Rolling Stone as "warm, yet sphynx-like" – has continued "to reinvent herself"; noted Variety in 2019. At 50, the "multifaceted mogul" – then engaged to the athlete-turned-entrepreneur Alex Rodriguez – had "never been more formidable as an entertainer or more ferocious as a businesswoman". According to a business partner, "she understands the power in the pivot", believing that "the only thing stopping you is you". Lopez herself admits to "a constant drive for perfection" and puts it all down to solid graft. "My business philosophy is that you have to work harder than everybody else…When everybody is sleeping, I'm doing more. It's just a relentless pursuit of creativity."

The best trades in history... shorting Enron

Born in 1957 in Milwaukee, Wisconsin, Jim Chanos (pictured) graduated from Yale. He later joined Gilford Securities as an equity analyst, where he made his name as one of the first people to question the opaque accounts of Baldwin-United, a piano retailer that became an investment company; it later declared bankruptcy. In 1985 he set up hedge fund Kynikos Associates (named after the ancient Greek for "cynic"), which takes short positions balanced by being long on the wider market.

©Getty Images

What was the investment?

In the 1990s Enron was deemed one of the top energy companies in the world. However, in late 2000 a friend told Chanos about an article on the controversial accounting practices of energy firms, including Enron, which were treating expected profits from future deals as current profits. Chanos also saw that Enron had set up several satellite entities, which were engaged in trading with the main company but not subject to normal financial reporting rules. Finally, insiders were selling large amounts of shares. Kynikos started shorting Enron in November 2000.

What happened?

In early 2001 several executives unexpectedly left Enron; the share price had halved to around $40 by the time its CEO Jeff Skilling resigned in August. Kynikos thought Skilling's resignation showed that Enron was hiding problems and greatly increased its short position. A few weeks later Enron admitted it was being investigated by US regulators and had to restate its earnings. With creditors demanding their money back and a bid by Dynegy falling through, Enron declared bankruptcy in December 2001.

Lessons for investors

Chanos made around $500m from his Enron trade. Other successful short sales include Boston Chicken and Tyco International. Dubious accounting techniques, opaque financial structures and insiders dumping their shares can all be signs of trouble. But perhaps the most telling anecdote was from one analyst Chanos spoke to after he had begun shorting Enron, who, "while admitting that Enron was a 'black box' regarding profits, said that as long as Enron delivered, who was he to argue".

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Escape to the beach this summer

From laid-back bliss in France to a Greek island paradise. Jasper Spires reports

France's answer to Cornwall

"In this most British corner of France, the beaches have echoes of Cornwall – deep bays bookended by rock pools and green and heathered headlands. Except here, 200-odd miles due south, the weather's a bit better – the Ile de Groix even has its own microclimate," says The Telegraph. Ile de Groix is a "laid-back", "timeless" little island off the French mainland's west coast, lapped by the Atlantic and famed for its languid spots and coastal attractions. Cycling holidaymakers will make particularly good use of the flat ground by the seaside to drink in the views, gliding from beach to beach. "Grands-Sables is Groix's poster girl, a convex arc of fine, white sand – but there are numerous others, including pinot-blush Sables-Rouges and, a scramble down the rocks, the hidden nook of Poulziorec." Stay at the three-star Hôtel Ty Mad Groix with its 24 rooms, "sequestered" pool and a nautical-themed restaurant on the terrace. *From £69 per night, tymad.com*

©Alamy
Grands-Sables : a convex arc of fine, white sand

A boutique gem in South Africa

©Kim De Klerk/Tintswalo

The Tintswalo Atlantic boutique hotel in Cape Town, South Africa, is "uniquely located in the Table Mountain National Park", says Sally Hunter in Glamour. This, an "ocean-side hideaway", lies nestled at the base of the precipitous Chapman's Peak Drive. No social media post can compare to seeing the real thing for yourself. To call it picturesque would be "an absolute understatement". The Tintswalo Atlantic is composed of 11 suites named after islands and are "cleverly landscaped to complement the idiosyncrasies of the mountain-and-sea surroundings". Dining at the on-site restaurant, Chefs Warehouse, "is an evening to share with those closest to you and a moment in time for the memory box". Every dish was stunningly presented and cleverly thought out, as well as creating flavours "that I didn't know existed". *Island rooms cost from £308 per night, tintswalo.com*

Private paradise in Greece

"Unlike the Greek islands of Kos or Mykonos, Kefalonia isn't known for its nightlife, but that doesn't mean entertaining is off the cards… Avithos beach is just ten minutes away by car, so pile in and take the plunge," says Anna Prendergast for Condé Nast Traveller. Sea Lily, a villa on the south of the island, is close to Argostoli, houses six guests and has a large pool, plus there's plenty of good weather. When you're not lounging on the sandy shores of the Mediterranean, "stock the freezer with ice, pick up produce at one of Metaxata's mini-markets and invite guests over to grill some fresh fish on the barbecue after poolside cocktails". Your days will begin with the ocean and end with the sun. Then don your sunglasses and "take up the recovery position the morning after on one of the sun loungers overlooking the blue horizon". *Seven nights £1,562, plumguide.com*

©Alamy

Beach bliss away from the crowds

"The terrace of this boutique hotel is Cornwall at its most convivial, permanently packed with bright young things in slip dresses and neon board shorts," says Susan d'Arcy in The Times. "Even so, the crowd isn't nearly as cool as the view." Overlooking Cornwall's Summerleaze beach, The Beach at Bude is "a glorious evocation of those lazy-hazy-crazy days of summer", and offers guests the possibility of lapping up the august views and cool waters, away from the bustle of traditional tourist destinations. "As you tuck into an al fresco lobster lunch, you will see fishing boats drifting along the River Neet, kids splashing about in its tidal pool and parents chilling on deckchairs in front of pastel-coloured beach huts. And surfers, lots of them and always sucking in their six-packs." *B&B doubles from £145, thebeachatbude.co.uk*

©Alamy

Living la dolce vita in Capri

"The mystical, magical island of Capri has bewitched visitors for centuries," says Lilah Ramzi in Vogue. It is located off the Bay of Naples, in Italy, and sits "like a generous dollop of volcanic rock in the Tyrrhenian Sea". The island's history speaks for itself, its mythology chronicled early on by Homer, embellished by the hedonism of Roman Emperor Tiberius, and made a symbol of *la dolce vita* in the 1960s. However, less well-known are its beach clubs, among which the Il Riccio is the only one of its kind to be Michelin-starred. Lounge on the day bed and lunch at the restaurant, admiring the sea views. Then check in at the Caesar Augustus hotel. If heaven is a place on earth, it is to be found here. Alluringly suspended over the sea with 49 beautiful bedrooms and six suites, the Caesar Augustus will enrapture, impress, and satisfy. *From €1,500 per night, caesar-augustus.com*

©Relais & Chateaux

This week: properties with vineyards – from a palace in Braga, Portugal, with vineyards planted with thre

Longwells Vineyard, Warnham, Horsham. A timber-clad cabin with gardens leading onto a woodland glade in a certified organic vineyard planted with seyval grapes, which are popular for making English sparkling wine. 3 beds, bath, recep, kitchen, office, 2 outbuildings, 2.16 acres. £625,000+ Batcheller Monkhouse 01798-872081.

Chianti Castle, Tuscany, Italy. A restored medieval castle with its own chapel surrounded by vineyards and olive groves, currently producing up to 150,000 bottles of wine per year. 25 beds, 33 baths, receps, commercial kitchens, gardens, orchards, outbuildings, 222.4 acres. £17m Christie's International Real Estate +39 0575 788 948.

Sedlescombe Organic Vineyard, Staplecross, Robertsbridge, East Sussex. One of the oldest biodynamic vineyards in the UK. It comes with a bungalow subject to agricultural occupancy conditions, a visitors' centre, cafe and shop with a wine-tasting area, and has seven acres of vines planted with regent, solaris, monarch and pinot noir grapes. 3 beds, 2 baths, recep, grounds, parking, 16 acres. £1.95m Savills 01732-879050.

e varieties of local grapes, to one of the UK's oldest biodynamic vineyards in Robertsbridge, East Sussex

Castelo Póvoa de Lanhoso, Braga, Portugal. A palace built in 1906 surrounded by gardens leading down to the River Ave and vineyards planted with loureiro, trajadura and pedrenã grapes, which produce fine white and green wines. It has ornate ceilings and frescoes, a grand wooden staircase, tiled floors, and comes with a caretaker's house, outbuildings and a fully equipped modern wine cellar. 13 beds, 8 baths, receps, 99 acres. £6.6m Christie's International Real Estate +351 224 057 008.

Pilgrims Nook, Willow Woods, West Studdal, Dover, Kent. A 19th-century house with a newly planted vineyard with four grape varieties, including pinot noir and ortega. I has an indoor swimming pool and a conservatory. 5 beds, 3 baths, 3 receps, breakfast kitchen, annexe, gardens, 15.44 acres. £2.2m+ Finn's 01227-454111.

Coldwell Farm, Leominster, Herefordshire. A Grade II-listed, 12th-century farmhouse on a smallholding with large gardens that include a medieval orchard with damsons, quinces and cider apples, and a vineyard with mature vines. It has flagstone floors, beamed ceilings, exposed stonework and a country kitchen. 4 beds, bath, 3 receps, outbuildings, 11 acres. £1.1m+ Jackson Property 01568-610600.

Kingscote Estate Vineyard, Kingscote, East Grinstead, West Sussex. A commercial vineyard with 60 acres of vines and a winery producing 100,000 bottles of still and sparkling wine a year. It comes with a Grade II-listed farmhouse, a 2-bed coach house and a visitors' centre in a converted, 15th-century barn. 5 bed, 2 bath, 5 receps, orchard, 22 acres of woodland, 2 fishing lakes, 152 acres. £4.95m-£6.75m (available in 2 lots) Savills 01732-879050.

Willow House, Fressingfield, Eye, Suffolk. A Grade II-listed house with gardens that include a vineyard planted with Bacchus grapes, a wildlife area with a pond, and a bridge over a stream. The house has exposed wall and ceiling timbers, brick and tiled floors, a dining room with an open fireplace and a wood-burning stove, and a country kitchen with an Aga. 6 beds, 3 baths, 2 receps, study, 1-bed detached annexe, 2 outbuildings, greenhouse, 2.76 acres. £1.20m Strutt & Parker 01473-220433.

An SUV that's big on thrills

The new Jaguar F-Pace SVR delivers on performance and kicks. Jasper Spires reports

In 2025, Jaguar will re-emerge, butterfly-like, from its chrysalis. A brand reborn with an all-electric, all-new change of direction, meaning no more petrol-fuelled engine growls, says Ollie Marriage in Top Gear. But before the door closes on internal combustion, the new Jaguar F-Pace SVR will still deliver your kicks with a supercharged V8 engine.

"Rekindling memories of Le Mans" with the F-Pace SVR Edition 1988, Jaguar's latest offering is about as exclusive as it is fast, says Yousuf Ashraf in Auto Express. Only 394 will be built and all of them cap out at a top speed of 178mph. The acceleration isn't bad considering the car's weight, climbing from 0-62mph in four seconds, and the handling is top notch. On the move, the SVR's engine response, steering and gearbox calibration can be tweaked to unlock an impressive breadth of ability – "a calm, opulent SUV which, while firm, tackles some scarred roads better than a standard F-Pace".

A Grand Prix experience

It's a difficult car to beat. "The F-Pace SVR even trumps the in-house hooligan Range Rover Sport SVR for sheer bonkers performance," says David Green for Sunday Times Driving. "There is something incredibly pleasurable (some would say childish) about seemingly bending the laws of physics as you throw a two-ton vehicle into a roundabout and accelerate out of it like you're exiting the La Rascasse [corner at the Monaco Grand Prix]. It certainly gees me up more than an espresso shot in the morning."

It's also a looker inside and out. "The cabin benefits from a smart new dashboard, higher quality trim, and a redesigned centre console," say Mike Duff and Mike Sutton for Car and Driver. "Jaguar won't be making vehicles like this for much longer. We will miss them when they are gone."

From £77,665, jaguar.com

"The F-Pace SVR even trumps the in-house hooligan Range Rover Sport"

Wine of the week: a scintillating chasselas

2020 Pouilly Sur Loire, Chasselas, Jonathan Didier Pabiot, France

£21.88, laywheeler.com

Matthew Jukes
Wine columnist

Made from the rare chasselas grape, this incredible white wine comes from sauvignon blanc's spiritual home in Pouilly-sur-Loire. So, why does Pabiot bother making a chasselas – a grape that very few have ever heard of? The short answer is that it is drop-dead gorgeous, but the longer answer is more intriguing. Jonathan's grandfather, Lucien, planted just one half-acre plot of chasselas, and the vines are now 45 years old. Jonathan has farmed his family's vineyards first organically and now biodynamically and it seems to me that this extraordinary care and attention taken in the vineyards has paid great dividends. While all of Jonathan's other wines are made of sauvignon blanc, this scintillating white is a constant memory of his grandfather while also celebrating a historical grape variety.

While chasselas may not be as famous as sauvignon, in the right hands it transforms into an ethereal, succulent and mesmerisingly unique wine. With a slightly fleshier mid-palate and less dramatic acidity on the finish than a traditional Pouilly-Fumé, this shimmering beauty looks ridiculously enticing already, and it manages to capture haunting orchard florals with invigorating breeziness, making it a shockingly pure experience. If you want to top up your basket, look no further than 2021 La Brise Marine, Château de la Négly, La Clape (£14.08). This is another bracingly vital French white.

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

A £16m tipple served with froth

The market in high-end whisky is looking very bubbly. Chris Carter reports

Earlier this month, a cask of 1975 whisky sold for £16m in a private sale to a collector in Asia. The single malt, known as Cask No 3, from the 207-year-old Ardbeg distillery on the island of Islay, sold for more than double the price that LVMH subsidiary Glenmorangie paid for Ardbeg and all of its stock in 1997, as Alice Lascelles and Oliver Barnes note in the Financial Times. For the next five years, 88 bottles, each worth £36,000, will be drawn from the cask every year and dispatched to Asia. "The sale," says the paper, "represents a new high-water mark for the increasingly competitive market in rare whisky."

"A cask of 1975 whisky from Ardbeg sold for £16m to a collector in Asia"

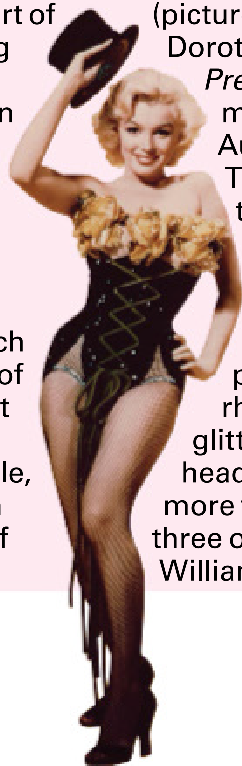
We are not talking about a simple rising of the tide here. That £16m figure is well above the previous record of £1m for a cask, when a 1988 Macallan was sold to an American buyer, only last April. And while that price somewhat unusually includes the costs of storage, insurance, bottling, labelling, distillery visits and taxes (you could infer a price closer to £8m for the whisky itself), it is still a significant mark-up. We can only presume the buyer will drink or give the bottles away. "They were so dear in the first place it's hard to see how they could deliver a return," says Lascelles. Is this yet another sign that the market in collectable assets is frothing?

Bottles of rare single malts selling for ever higher prices have grabbed the headlines in recent years. That trend culminated in 2019 with the sale at Sotheby's in London of a bottle of Macallan 1926 60-year-old for almost £1.5m. So why not seek out tomorrow's million-pound bottles? The same month the Macallan sold, Cask Trade launched its online platform, allowing collectors to buy and sell whole casks, and the Swedish-regulated The Single Malt Fund opened up to British investors. Braeburn Whisky, which specialises in the sale of investment-grade whisky casks to investors, is now on the fourth edition of its annual Whisky Cask Market Report. Its BC20 Whisky Cask index, which tracks and collates the values of 20 casks from assorted distilleries around Scotland, rose by 14.4% last year. The report notes that, since 2020, the investment market has "expanded considerably" as investors diversify into tangible assets and seek decent returns.

"It's an industry ripe for scalping," one industry insider tells the FT. "I strongly suspect there are multiple pyramid schemes that haven't yet been exposed." So do your research and get a "delivery order", which gives you legal proof of cask ownership, advises Andy Simpson of analysts Rare Whisky 101. And as with any market that has risen strongly over years, particularly one that continues to do so in an environment that has seen stocks and even gold flounder, while achieving a new high price record 15 times in excess of the previous record, beware the bursting of the bubble.

Auctions

Going... The Teflon-coated white coverall jacket worn by astronaut Edwin "Buzz" Aldrin during his trip to the moon and back as part of the Apollo 11 mission in 1969 was heading for auction this week with Sotheby's. It is the only piece of clothing from the mission that is available for private ownership (the others are kept in the National Air and Space Museum collections in Washington, DC), and as such was expected to sell for $2m. Following his moonwalk with Neil Armstrong, Aldrin found the engine arm circuit breaker switch had broken off and was lying on the floor of the lunar module. Without it, they couldn't return home. Aldrin, ever resourceful, jammed his plastic-tipped pen into the hole, and saved them both. The pen and switch were also expected to fetch $2m as part of the same sale.



Gone... The sequined leotard costumes and matching bicorne hats worn by Marilyn Monroe (pictured) and Jane Russell as Lorelei Lee and Dorothy Shaw in the 1953 film *Gentlemen Prefer Blondes* went up for sale earlier this month with California-based Julien's Auctions. They fetched $102,400. They were, however, outstaged during the sale by the figure-hugging gown worn by Monroe in *There's No Business Like Show Business*, made the following year. The flesh-tone crepe gown, embellished with silver and pearlised bugle beads, scattered rhinestones, sequins and silver and glittering flowers, came with a matching headpiece. Together, they sold for $218,750, more than double their pre-sale estimate. All three outfits were designed by Oscar-winner William "Billy" Travilla.

©Alamy

Undiscovered gems from the distilleries

It seems like just about everyone and their West Highland terrier has gone cask-whisky crazy. Edinburgh-based Artisanal Spirits Company, which listed on the London Aim junior stockmarket in June last year, says membership of its Scotch Malt Whisky Society (smws.com) grew by almost a quarter year-on-year in the six months to the end of June, to 35,500. First-half sales rose to nearly £10m, from £7.9m a year earlier, with revenues for 2022 forecast at around £21.6m. The club seeks out casks from 140-odd distilleries, which it then bottles and offers to members at cask strength. It's a business model that is becoming increasingly popular as whisky enthusiasts seek out undiscovered gems

away from the main distillery offerings.

House of Hazelwood is a collection of whiskies spanning seven decades and held in cask, built up by the Gordon family over the best part of a century. It claims to be "the greatest inventory of aged Scotch whisky held anywhere in the world". Every year, new stock is laid down for future generations to enjoy, and from this summer, that includes those from outside the immediate family. The collection is releasing selected small-batch bottles and special releases for the first time. Prior to bottling, a small proportion of the stock is monitored near Dufftown, in Speyside, where it can be sampled from the cask by private appointment. House of Hazelwood also runs its own "club". "Keyholders" gain access to members-only releases, private events and preferential access to new releases. See houseofhazelwood.com.

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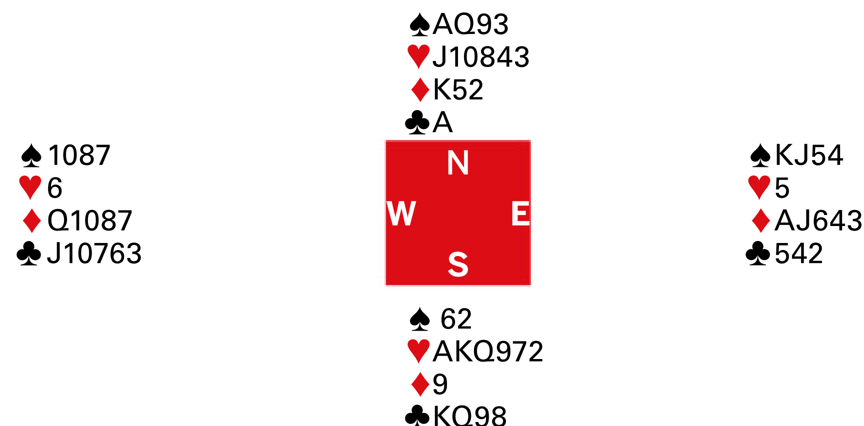
Bridge by Andrew Robson

Portland Party

West rued his choice of lead on this week's slam deal – either a Spade or a Diamond lead would have defeated the slam. Not so a Club...

Dealer South East-West vulnerable



The bidding

South	West	North	East
1♥	pass	5♥*	pass
6♥	pass	pass	pass

* The deal was played at London's Portland Club, where no conventions are allowed. Playing the full gamut of recommended slam-bidding tools, I'd suggest, One Heart – Four Clubs (splinter, short Clubs and a good Heart raise) – Four Notrumps (Roman Key card Blackwood) – Five Spades (two Aces and the Queen of Hearts: North pretending holding a fifth Heart) – Six Hearts. But I doubt West would have led a Club now ...especially if East made a lead-directing double of Five Spades.

Declarer won the Knave of Clubs lead in dummy. The simplest line appeared to be to lead a Diamond towards the King; if West held the Ace, he could play it, but dummy's promoted King would provide a discard for the losing Spade. If the King of Diamonds was beaten by East's Ace, there was always the Spade finesse to fall back on.

Declarer reflected that West might have led the Ace of Diamonds if he held the card. Thinking East would be more likely to hold the Ace, declarer crossed to a trump and played out the King-Queen of Clubs, discarding two Diamonds from dummy. He ruffed his fourth Club (to eliminate the suit) then led dummy's now bare King of Diamonds. East won the Ace, but was endplayed.

A second Diamond would enable declarer to discard a Spade from hand and ruff in dummy; a Spade would run to dummy's Ace-Queen. Slam made.

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

Sudoku 1114

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

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.

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

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Tim Moorey's Quick Crossword No. 1114

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 8 Aug 2022. By post: send to MoneyWeek's Quick Crossword No.1114, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: crossword@moneyweek.com with MoneyWeek Crossword No.1114 in the subject field.

Across clues are mildly cryptic while down clues are straight

ACROSS

1 Traded wood on time (5)
4 Crazy part of east London? (7)
8 Contracts for psychiatrists? (7)
9 Soccer team sick in Virginia (5)
10 Bow taken from a Roman Catholic (3)
12 Find a solution concerning a child not working (6, 3)
14 Expression that could bring about stuttering woe? (6, 7)
17 Cheesy long-running play in London? (9)
19 Head, a crazy person! (3)
20 Dropping son off, hit vehicle (5)
21 What you eat first in Eurostar terminal? (7)
23 Henry and his offspring like practical people (5-2)
24 Pole seen behind ambassador and old king (5)

DOWN

1 Remote (7)
2 Tune (3)
3 Male singer (5)
4 Vehicle (3)
5 Italian dish of pasta (7)
6 Acquired by illegal means (3-6)
7 Abnormally large person (5)
11 Mix-up (9)
13 Daisy-like bloom associated with Michaelmas (5)
15 No good (7)
16 Not working any longer (7)
17 Game (5)
18 Fruit (5)
21 Transgression (3)
22 Sailor (3)

Name ....

Address ....

....

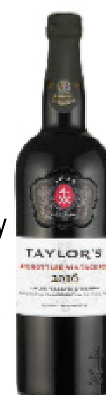
email ....

Solutions to 1112

Across 7 Set in motion *anagram* **8** Abacus *deceptive definition* **9** Credit *Ed in crit* **10** Learned *Lear + ned* **12** Caber *cab + er* **14** Scant *scan + t* **16** Diverse *divers + e* **19** Divine *IV inside dine* **20** Trader *re Dart reversed* **22** HMS Pinafore *anagram.* **Down 1** Usable *US able* **2** Otic *hidden* **3** Knesset *K + ness + ET* **4** Tosca *hidden* **5** Airedale *aired + (t)ale* **6** On fire *fir inside one* **11** Randiest *Andie's inside right = Rt* **13** Vietnam *v + anagram of meat in* **15** Chichi *chi chi* **17** Stewed *t inside anagram of Swede* **18** Benin *Ben + in* **21** Avon *reversal.*

The winner of MoneyWeek Quick Crossword No.1112 is: Robin Boardman of Halifax

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



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

Who's to blame for inflation?

No one, it would appear – certainly not those with their hands on the economy's tiller

Bill Bonner
Columnist

Inflation, like an alien invasion, appears out of the blue

You'd think inflation was like an invasion from space. It caught us all by surprise; no one on earth had anything to do with it. Janet Yellen was chairman of the president's council of economic advisers, a regional US Federal Reserve bank boss, then vice-president of the Fed, then Fed chair and now treasury secretary. She, more than any human being, should be held responsible for the last quarter of a century's inflationary policies.

She was right there in the room and at the head of the table when the Fed was pumping in cash and credit. Yet from her comments to the press you'd never get the idea that she had anything to do with it.

Yellen's brainwave

She is, though, now committed to bringing it back down. And what's her solution? Price controls! She and the Biden team are working on placing a price cap on Russian oil in order to "avoid potential future spikes in oil prices". Why didn't we think of that? Don't want prices to rise? Put on a price cap. Sure, why not? And maybe she could get some advice from Argentina or Venezuela on how to make those price caps work. In the meantime, don't expect inflation to back off. Once inflation is underway, it's hard to bring it back under control.

"There are two sure ways to ruin a country: war and inflation"

Hemingway wrote that there are two sure ways to ruin a country: war and inflation. With regards to the former, we've seen one dumb war after another since 1999 and are currently cheering on another one. With regards to the latter, the US has printed $8trn in new dollars since 1999; dropped interest rates below zero and kept them there for almost ten years; shut down the productive economy to defend against a bug that was mostly a serious threat to retired people; distributed billions of dollars in stimulus and raised unemployment benefits higher than salaries; curtailed investment in vital energy projects; and put sanctions on a major supplier of wheat and oil.

All these programmes transferred real wealth from the people who earned it to privileged groups who received it. And they've left everyone else poorer. GDP growth rates have come down. Prices have gone up.

The typical person now has to work more hours to afford the same standard of living. The average house in 1999 sold for $131,000. Today, it is $428,000. The average hourly wage in 1999 was $5.15. Today, it is $10.86. In other words, it took the average working stiff 12 years of work to pay for his house at the end of the 20th century. Today, he'll work for 19 years to pay for his digs.

We don't expect the poor fellow to do any long division. But when some future president tells him to light a torch and march on the Capitol, he'll probably do it. And this time, he'll surely bring a pike or two.

The bottom line

£39m How much the rock band Queen earned from royalties last year, according to the accounts of their company, Queen Productions Ltd. The band has become the first in Britain to sell seven million copies of an album – the band's *Greatest Hits* compilation is owned by one in four households.

£187m The combined total value, in today's figures, of assets belonging to several generations of the Windsor family that were kept hidden from the public thanks to an exception in the law that requires British wills to be published, says The Guardian.

£79,967 The value of a large diamond ring in the shape of a pink oyster mushroom that has broken the record for the most diamonds set in one ring, says Guinness World Records. The piece of jewellery, made by retailer SWA Diamonds of India, contains 24,679 diamonds.

$52trn The total "rent" (unearned profit produced after the total cost of production has been deducted) from global oil and gas sales since 1970, according to analysis by Professor Aviel Verbruggen of the University of Antwerp, in Belgium. That's equivalent to $2.8bn a day.

$10bn The cost of building and sending into space the new James Webb telescope. It was launched last year and Nasa has released the first detailed images. Its infrared sensors allow it to peer up to 13.5 billion years back in time.

$12.5m How much Margot Robbie (pictured) is being paid to play Barbie in a forthcoming film – the same as her co-star Ryan Gosling, who will play Ken. This makes Robbie the highest-paid actress of 2022, according to Variety magazine. Her fee, however, pales in comparison with the $100m Tom Cruise has so far earned from *Top Gun: Maverick*.

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MoneyWeek, 121-141 Westbourne Terrace, London, W2 6JR
editor@moneyweek.com

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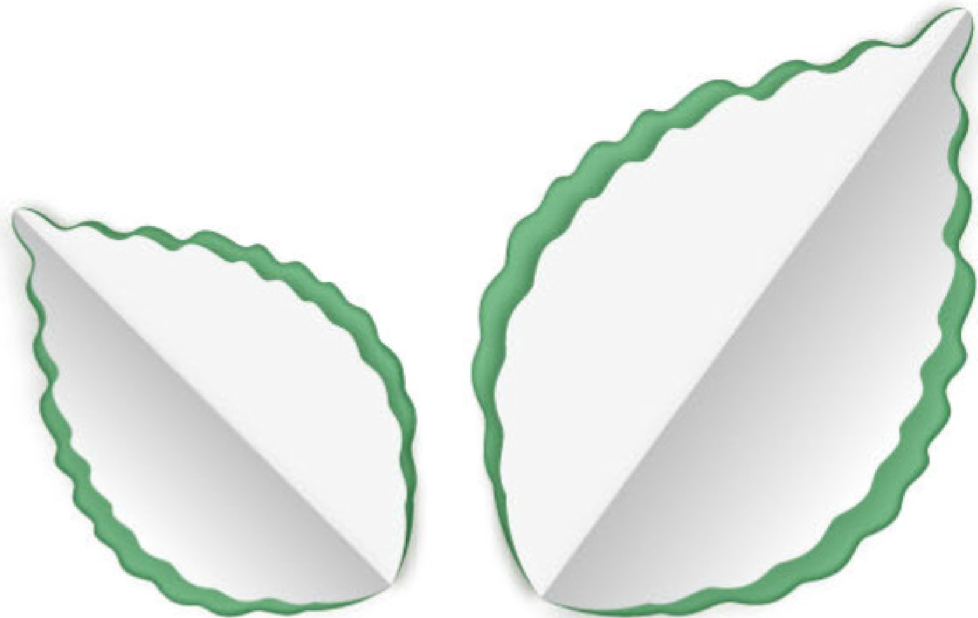

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