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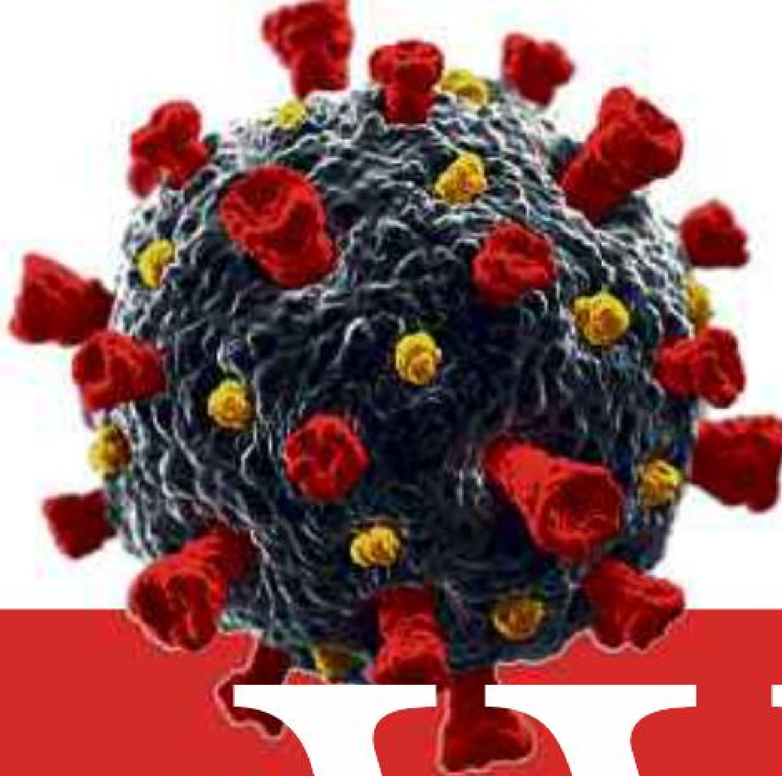

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Pick of the bunch

The cheapest markets in Asia

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MoneyWeek

28 August 2020 | Issue 1014

Britain's best-selling financial magazine

From the editor...

We have been gold bugs since 2001 (and still are – see page 5). Another longtime favourite of ours is Vietnam. In 2005 we noted that it was Asia's "other communist dynamo" (it still is). In 2007 the International Monetary Fund's (IMF) chief economist referred to it as an "emerging China". The IMF may have failed to forecast the global financial crisis in 2008, but that time it was on the money.

Vietnam is the star of Southeast Asia

©Getty Images

> *"Solid investment themes, like Chanel suits, always come back into fashion"*

Vietnam piqued our interest because it seemed to be following in China's footsteps with a ten-year delay. It embraced the free market in the mid-1980s, and since then has attracted attention as a cheap manufacturing base: wages are around a third of Chinese levels. It has also moved up the value chain as foreign investment and expertise has flooded in. Most Samsung smartphones are made there and it is a major electronics exporter.

There is also ample scope for consumption to expand given a demographic backdrop more favourable than China's: almost 75% of the population are between 15 and 64. Annual GDP growth has eclipsed 6% over the past five years; GDP per head almost tripled between 2002 and 2018. It also seems to be coping pretty well with Covid-19. All this makes it the star of Southeast Asia, a region that many have written off as a perennial underachiever because recurrent political upheaval undermines solid economic prospects. Thailand, the Philippines, Malaysia and Indonesia have certainly struggled over the past few years, but as Cris points out on page 18, there is still considerable potential here if you tread carefully. Valuations in these emerging markets now seem to price in much of the recent turbulence.

A broader point to keep in mind about emerging markets is that they are usually touted as sources of fast growth. Their rapid development is certainly impossible to ignore: they have grown so fast that they make up around 60% of global GDP today, compared with 48% in 2005 (measuring GDP in terms of purchasing power parity, which takes into account differences in the cost of living). Industrialised countries' share is 38%. Still, several studies have noted that capturing emerging-market growth in equity returns often isn't as easy as you'd think. Not only is there always the chance of political upheaval and economic mismanagement, but some of the fastest growers are often unlisted.

So it may be more helpful to think of emerging markets as a good source of income in the years ahead – especially now, with dividends in Britain and Europe butchered by the crisis. Emerging Asia looks most appealing in this regard. Growth tends to be brisker than in eastern Europe or Latin America (the latter is highly susceptible to commodity cycles), implying ample scope for dividends at least to keep climbing even if yields are not all that high.

It is the effect of compounding – the eighth wonder of the world, said Einstein – that makes reinvested dividends so crucial to healthy long-term returns. Cris looked at emerging Asia in a recent cover story and highlighted his favourite investment trusts to play the income theme: the **Aberdeen Asian Income Fund (LSE: AAIF)** and the **Schroder Oriental Income Fund (LSE: SOI)**. That reminds me: emerging Asia as a source of income is another theme we have liked since 2005. What goes around comes around. Solid investment ideas, like Chanel suits, always come back into fashion.

Andrew Van Sickle
editor@moneyweek.com

Loser of the week

Ride-hailing app Uber is once again in the news for the wrong reasons. Joseph Sullivan, the group's former chief security officer, has been charged with covering up a data breach, says Edvard Pettersson on Bloomberg. The breach, which occurred in 2016, compromised the personal data of over 57 million employees and users, and was resolved only when Sullivan authorised the payment of $100,000 in bitcoin to the perpetrators. The hacking incident was initially classed under Uber's "bug bounty" programme, whereby companies pay people to identify flaws in their security networks. But prosecutors say this was a huge breach that shouldn't have been passed off as a bug bounty episode; the programme normally caps payments at $10,000.

©Getty Images

Good week for:

Online booking company **Airbnb** announced on Wednesday that it has filed for an initial public offering (IPO), says Levi Sumagaysay in MarketWatch. The group had long been expected to go public this year, but the Covid-19-induced downturn in the global travel and hospitality sectors cast doubt on the move. However, it makes sense, reckon analysts. "People have been cooped up, and the virus-safe option is renting a house," says Tom White of broker D.A. Davidson.

Mike Ashley, the owner of Sports Direct, has bought long-time competitor DW Sports Fitness out of administration, says BBC News. Ashley's Frasers Group offered £37m to merge the leisure and retail company with his own, taking ownership of its clubs and stores. This means he has won a 20-year feud with rival businessman and former football player Dave Whelan, the firm's founder.

Bad week for:

The Iga-ryu Ninja Museum in Japan has been pillaged by thieves. The museum showcases ninja tools and trains clients from around the world in the art of stealth. Its admissions-fee safe, containing more than ¥3,000,000 (£21,240), was stealthily removed in the early hours last Thursday and has yet to be retrieved.

A father from North Tyneside has been saddled with £19,000 of debt after his six-year-old son inadvertently purchased a monster truck using his eBay account, says Nicole Conner in the Daily Mail. Mohammad Faraji had left his laptop open and his monster-truck obsessed son decided to purchase an early birthday present. The seller has refused his requests to refund the money.

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Cover illustration: Adam Stower. Photos: Apple Inc; Getty Images; iStockphotos

US market is weaker than it looks

Alex Rankine
Markets editor

Stocks have bounced strongly despite commercial carnage

©Getty Images

Onwards and upwards. America's S&P 500 surpassed February's highs last week, wiping out its pandemic losses. It is now up 5% for the year. The MSCI World index came within 1% of its February record early this week. Yet the new peaks obscure a market where the winning stocks and sectors have soared while many others remain under water, creating a "K-shaped" recovery chart.

More losers than winners

Surging US technology valuations have been the cornerstone of the stockmarket's unlikely recovery. The collective valuation of just five companies (Apple, Microsoft, Amazon, Alphabet – Google's parent company – and Facebook) now eclipses Japan's entire Topix index, say Richard Henderson and Eric Platt in the Financial Times. Yet the average S&P 500 stock is still 28.4% below the pre-pandemic peaks.

The gaping chasm between the haves and have-nots raises the threat of "increased regulatory and tax headwinds" for big US tech companies, writes Rupert Thompson of Kingswood. Yet their recent success reflects genuine "secular tailwinds" as the world goes increasingly online. And tech valuations are "still nowhere back to the highs" of the 2000 dotcom bubble. Valuation has become a tricky business, though, says Buttonwood in The Economist. The usual gauges of a market bubble, such as price/earnings ratios, are not much use because of sharp quarter-to-quarter Covid-19 disruptions. The US Federal Reserve's role in backstopping markets has further distorted the usual metrics, leaving investors to look for anecdotal signs of "irrational exuberance". There are plenty around: witness the way investors eagerly snapped up shares in bankrupt Hertz in June before regulators intervened.

It's not just the Fed

There is now an "utter disconnect" between equities and economics, says Liam Halligan in The Daily Telegraph. Against a backdrop of mass unemployment and "commercial carnage", stockmarkets everywhere have bounced strongly off the March lows. The culprit is obvious: major central banks have served up a combined "monetary boost of well over $5,000bn" in five months. The result is asset price inflation. It's not so simple, says Morgan Stanley. If central bank stimulus alone drove stock valuations, then you would expect markets to rally whenever monetary policy is loosened. But our research shows that rising or falling purchasing manager surveys, a measure of real economic sentiment, are a more decisive factor determining whether shares rise or fall. This holds true across different countries. Take Europe and Japan, where central banks have been buying up assets for five years, but stocks have gone sideways. "Fundamentals matter."

Still, markets are suffering from an "overdose of optimism", says Nils Pratley in The Guardian. Even if you think they are betting on an eventual V-shaped recovery, any sensible investor would demand a "margin of safety" given the evident risks. Yet US stocks are priced for perfection. As James Montier of GMO puts it, "the US stockmarket appears to be absurd".

Is the US dollar due a bounce?

The greenback looks likely to keep winning the longer-term currency contest

©iStockphotos

The dollar's fortunes could be set to improve, says Neal Kimberley in the South China Morning Post. The US Dollar Index, which measures the greenback's value against a basket of six other major currencies, has tumbled by more than 9% since March. But the further the dollar falls the more difficult it becomes to argue that it is still overvalued. New European coronavirus outbreaks have taken some of the shine off the rally in the euro. The dollar's valuation still faces short-term headwinds, says Nouriel Roubini for Project Syndicate. Federal Reserve monetary policy is even looser than that of other major central banks.

Yet in the longer term the currency's underlying strengths, the dynamism of US companies and the unsurpassed scale and liquidity of the dollar bond market, are likely to re-assert themselves. "Pax Americana is here to stay", says Imran Said in Quillette. Far from being eclipsed, America's share of world GDP has held roughly constant since 1980 at about 25% of global output. US equity markets dwarf all others by valuation. Some point to China's yuan as a potential dollar replacement, yet capital controls limit its prospects. The dollar was used in 38.77% of global payments in July this year. The renminbi's share was 1.86%.

Another factor driving the dollar's recent pullback is its status as a safe-haven asset. As markets have rallied in recent months money managers have felt less need for their greenback comfort-blanket. Yet as Steve Goldstein notes in Barron's, another safe-haven currency is still riding high. Bank of America says investors have been selling the dollar for the Swiss franc. Slumping real bond yields are reducing the appeal of dollar assets, leading US money managers to conclude that they might as well pay up for the safety of the "Swissie".

China adds shine to base metals

It is starting to feel "a lot like" 2009-2010 again in the metals market, says Andy Home on Reuters. Few expected a repeat of China's post-financial crisis "shock and awe" stimulus in 2020, but it is increasingly clear that that is what we are getting. The country's leadership has defied market expectations of a more socially orientated stimulus programme, instead unveiling plans for new railways, power lines and electric car charging points. Metals prices have reacted by going on a "super-charged rally". The S&P GSCI Iron Ore index has returned more than 28% so far this year. Seaborne prices for the steel-making ingredient have hit a six-year high.

Copper has also been breaking new ground, says Amrith Ramkumar in The Wall Street Journal. The metal briefly rose through $3 a pound in the US earlier this month, the first time it had done so in over two years. As with iron ore, robust Chinese demand is the crucial factor: roughly half of global copper production is consumed in the country.

China's appetite for industrial metals is likely to remain strong for at least the next 18 months, says Kieran Clancy of Capital Economics. Iron ore imports hit a record high of 112.65 million metric tons in July, a 24% increase on the year before. Perhaps the best bet is copper, whose supply is constrained by problems at Latin American mines. "Doctor Copper" is poised to lead the industrial metals rally higher.

Look to Europe for growth

Are European equities being left behind? The pan-European Stoxx Europe 600 index enjoyed a strong start to the week on the back of the S&P 500's new highs (see page 4) and the latest uptick in German business confidence (see page 11).

Yet a brief period of outperformance compared with the US index earlier this summer already appears to be over. The Stoxx Europe 600 has advanced just over 1% over the past month and is still down 11% for the year to date. By contrast, this year Japan's Topix index has fallen 4% and the S&P 500 and China's CSI 300 have gained 5% and 14% respectively.

©Getty Images

German chancellor Angela Merkel's government has announced additional stimulus measures

The main factor driving the divergence has been the strength of technology stocks, Guy Foster of Brewin Dolphin told Tommy Stubbington in the Financial Times. "The UK has virtually no tech, and Europe doesn't have that much."

The underperformance is part of a long-term trend. As Tom Bailey notes on Interactive Investor, the MSCI Europe index has delivered a total return of 94.5% over the last ten years, compared with 311% from the American equivalent. Europe's markets struggled after the financial crisis, not least because of rigid government budget rules that choked off growth.

But things are different in 2020, says a Goldman Sachs note. The German and French governments recently announced additional stimulus measures, while the €750bn European recovery plan will provide a dose of much needed fiscal solidarity with southern states, which have been hit hard by the pandemic.

An alternative to a pricey US

Wall Street money managers think that "Europe could be the antidote" to highly rated US stocks, say Ksenia Galouchko and William Shaw on Bloomberg. Rich valuations, election tensions and disputes with Beijing have initiated a "scramble for alternatives" to American assets.

This month's Bank of America Merrill Lynch fund manager survey finds Europe is their favourite region. Then again, this wouldn't be the first time investors have got excited about the old continent only for Europe's bourses to disappoint.

Lacklustre energy and finance companies still play an outsized role on European indices, but investors shouldn't underestimate Europe's hidden growth stories, says Ian Conway in Shares.

From Dutch semiconductor specialist ASML and German software giant SAP to the continent's world-leading pharmaceutical players, there are plenty of growth companies if you know where to look.

What's more, European shares come with less "concentration risk" than US portfolios, which have become worryingly reliant on a handful of technology mega-corporations. Growth-hungry British investors need only look "across the Channel".

Viewpoint

"You can see why governments might want to have zero, near-zero, or even negative interest rates, which tend to stoke inflation… It is in the self-interest of governments both to hold down the costs of servicing their national debts and to whittle down the real value of those debts by allowing a little more inflation year by year. Of course, no one in officialdom will admit that. They will do it quietly and surreptitiously, asserting that they are 'supporting the economy' by printing yet more money…. For a while it works. But eventually inflation will come through, interest rates will shoot up – and bond investors lose a packet. We don't need to go back to the 1970s and 1980s to see what inflation does to savings over time. The Bank of England's Inflation Report… was first published in 1992. And what is £100 in 1992 worth now? Just £46.27."

Hamish McRae, The Mail on Sunday

■ Gold is heading higher and higher

This is the third major gold bull market in the past 50 years, during which the price in US dollars has risen from around $35 to over $2,000, a gain of 5,319%. The latest run looks far from over. Money has been printed worldwide at an unprecedented rate while debt is soaring, both of which presage a jump in inflation as governments whittle the real value of their borrowings away. What's more, says Cazenove Capital, there is scant sign of exuberance, let alone irrational exuberance, in the market. For instance, in 2011 gold held in exchange-traded funds (ETFs) represented 10% of all ETF holdings worldwide. Today the figure is 2.5%. Similarly, above-ground gold stocks are worth 2.7% of total global financial assets, compared with 10% in 1981.

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

Three to buy

Anexo Group
Shares
This credit-hire and legal services firm could be an "Aim star in the making". After motoring accidents, Anexo steps in to provide replacement-hire vehicles. Bond Turner, its legal side, deals with personal injury and negligence claims, among others, and is currently involved in a class-action case against Volkswagen over vehicle emissions. Cashflow remained resilient during lockdown, enabling Anexo to continue paying a dividend. Analyst Andrew Simms of Arden thinks the shares could more than double from here thanks to a growing market share and more investment in the legal division. *132p*

Angling Direct
Interactive Investor
This fishing-tackle supplier seems to be enjoying a pandemic boost as Britons turn to solitary, staycation-friendly sports. Revenue rose by 21% in the six months to 31 July despite the long closure of stores, with online traffic

surging by 54%. Trading on the continent has also surged. There could be plenty of upside to come should this prove the start of a new trend. *60p*

Taseko
The Mail on Sunday
This Vancouver-based mining company is cashing in on copper as prices trade around a two-year high. The group has one site in production, with one more due to come online soon, as well as four other prospects. The outlook for copper remains buoyant: governments are using infrastructure projects to stimulate the economy, supporting metals demand. On the supply side, Chilean and Peruvian output has also been constrained by the virus. The shares offer a way for British investors to play structural demand for the essential industrial metal. *65p*

Three to sell

Crest Nicholson
Investors Chronicle
The UK housing market has been enjoying a surprise post-lockdown surge, but developers still expect lower prices later this year. This FTSE 250 housebuilder is among the most vulnerable because of its low operating margins. It remains exposed to the weak London market despite an ongoing effort to shift

into regional, affordable housing. The shares are on a steep discount to forecast net asset value but bargain hunters should steer clear: two inventory write-downs since last November mark a worrying pattern. The short sellers are circling. *191p*

Superdry
The Sunday Times
In spring 2019 co-founder Julian Dunkerton seized back control of this struggling clothing business with the help of activist investors, vowing to revamp a "misguided strategy". Yet since then the stock has declined by three-quarters. The pandemic has depressed trading but the brand's reliance on "department stores and city centres", the result of over-expansion in the good times, raises longer-term questions. A £57.8m cash pile may provide a temporary buffer, but it won't cover losses forever. Avoid the shares. *135p*

Synairgen
Motley Fool UK
Shares in this small biotech have soared 38-fold this year on hopes for its SNG001 treatment in the fight against Covid-19. Positive trials are encouraging but SNG001 still has further clinical hurdles to clear. The group may also be forced to turn to a pharmaceutical giant to scale up production and distribution. Potential partners are likely to demand a handsome cut of the revenue, so the valuation looks optimistic. Avoid. *231p*

...and the rest

The Daily Telegraph
Improving the economy's energy efficiency is becoming a key priority for governments and businesses. Industry-leading Irish insulation specialist **Kingspan** is well-placed to profit from the trend *(€64.60)*. Catalytic converter maker **Johnson Matthey** will lose out from the rise of electric vehicles, but its investments in battery technology and hydrogen mean investors should not unplug just yet. Hold *(2,295p)*. **IP Group** helps commercialise the innovations of British academics. Such early-stage investments are risky, but the portfolio is diversified and a 32% discount to net asset value is a further comfort. Hold *(74p)*.

Investors Chronicle
Buy into growth in the climate-friendly hydrogen business via industrial-gas specialist **Linde** **($248)**. The pandemic has not lifted all healthcare boats, with shares in surgical-products specialist **Advanced Medical Solutions** tumbling due to the widespread cancellation of elective surgeries. Yet sentiment should improve when business returns to normal, so take the opportunity to buy in *(215p)*.

The Mail on Sunday
More people are cooking at home, generating new business for **Cranswick**, one of Britain's leading pork producers. Dividends have increased annually for the past three decades. Shareholders may wish to cash in some of their profits but should keep "at least 50%" of their stake for the long term *(3,768p)*.

The Times
Franco Manca pizza-owner **Fulham Shore** has had "two record weeks of trading" thanks to the restaurant-subsidy scheme and should emerge strongly from the crisis as rivals fall away. Buy *(8.5p)*.

A German view

Sweden's Getinge, founded 116 years ago in a small town of the same name, has since become one of the world's leading medical-technology companies, with 10,000 employees and a presence in over 40 countries, says Der Aktionaer. It produces a wide range of sophisticated equipment used in intensive-care units and operating theatres – ranging from anaesthesia machines to patient monitors. Ventilators have been key to the battle against Covid-19, and here Getinge accounts for 25% of the global market. Overall orders jumped by 17.5% year-on-year in the second quarter while earnings per share almost tripled. Margins are on the rise. The shares are a solid long-term bet.

IPO watch

"This has been a booming year for biotech IPOs [initial public offerings]", says Max Gelman on Endpoints News. "Not even a global pandemic could slow this train down." There were 47 flotations in the US by 20 August, matching the 2019 total. At this rate there will be over 70 biotech IPOs by the end of the year. These companies have raised approximately $11.4bn altogether. CureVac, a potential developer of a Covid-19 treatment, tops the performance table with a 300% rise since it debuted last week at $16. Seven other biotechs have seen their stock more than double: Schrödinger, Vaxcyte, Keros Therapeutics, Berkeley Lights, Alx Oncology, I-Mab Biopharma and ADC Therapeutics.

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City talk

● A bidding war for Asda has begun, says Laura Onita in The Daily Telegraph, with the supermarket looking set to fetch as much as £6.5bn. The main contenders are Apollo Global Management, with its bid led by former Debenhams boss Rob Templeman, and rival private-equity firm Lone Star Funds. Asda's owner, Walmart, wants to offload its British operations to free up cash to focus on "more lucrative" markets, such as India. But it will retain a minority stake to "share in the profits from any future stockmarket float".

● The biggest initial public offering (IPO) in history is looming, say Ryan McMorrow and Mercedes Ruehl in the Financial Times. Chinese finance and payments company Ant Group has filed to list in both Hong Kong and Shanghai. It is likely to raise a $30bn from selling between 10%-15% of the company, valuing it at $200bn to $300bn. This could beat the record $29.4bn mustered by Saudi Aramco last year.

Ant's valuation rests on the dominance of Alipay, its key service, used by 700 million people and 80 million businesses in China to "make mobile payments, invest in... funds, buy insurance and pay bills". It also makes loans. The money raised through the offering will be used to expand Ant Group's customer base and product range.

A $200bn valuation would be conservative, says Robyn Mak on Breakingviews. It has worked out a unique model whereby its partners (mostly commercial banks, insurers and fund managers) pay for Ant's artificial intelligence, risk profiling and other technology, helping it avoid "taking credit or product risk" while earning a 34% operating profit margin. US peers PayPal, Visa and Mastercard trade at 49 times profits, implying that Ant should have a market value of more than $300bn.

Apple at the top of the tree

The technology giant has become the first US company to reach a market value of $2trn. But its life may get harder now. Matthew Partridge reports

It took Apple almost 40 years to reach a market value of $1trn. But it took it just two more to hit $2trn, says Jack Nicas in The New York Times. Last Wednesday its shares climbed 1.4% to $468.65, making it the first US corporation to push through the $2trn barrier and cementing its title as the world's most valuable public company. This is a "new milestone" for the group, which was established in 1976 and floated in 1980. It has been responsible for "world-changing products", such as the Macintosh computer, the iPod and the iPhone.

The most important of these products was the iPhone, says Ben Martin in The Times. Launched in 2007, it created a brand "so strong and so consistent" that people "just got locked in". It has a "minimal" attrition rate, because "once you've got an iPhone you just don't switch".

However, Apple's more recent success has been due to the expansion of its services division, which has reduced the group's reliance on smartphone sales; these now account for less than half of overall revenues. Apple's "plethora of offerings", including its App Store, music service and Apple Pay, also gives it a "recurring revenue stream".

Riding the tech wave

Apple has also benefited from the general surge in technology stocks that has taken place since March, says Amrith Ramkumar in The Wall Street Journal. With "few attractive alternatives" to large tech stocks, many experts expect "other tech behemoths" to join Apple in the $2trn club. Amazon and Microsoft are currently valued at around $1.6trn, while Facebook's market capitalisation is $750bn.

Don't count on it, says the Financial Times. It's true that investors have shown a "big appetite" for Big Tech in recent months as the world has turned to technology to "stay connected". Apple has also so far managed to defy the "traditional arc" of a pioneering business by staying ahead of the field.

The iPhone proved a "game-changer"

However, the entire sector is threatened by tighter regulation amid heightened concerns over Big Tech's "increasing dominance". Some suggest that tech giants "should be subject to the same regulatory burden as traditional public utilities", while Apple's Chinese revenues and manufacturing operations could be hit by any US-China trade war.

In any case, while Apple might be a "great company" its shares aren't necessarily a good investment, says John Authers on Bloomberg. The stock trades at 35 times forward earnings, the highest valuation since 2007. This seems "over-optimistic". Plenty of growth is already priced in, while it will henceforth be difficult to find a new product to act as a "game-changer" like the iPhone. The price/earnings ratios of the other four technology stocks (Facebook, Amazon, Netflix and Alpahabet/Google) are also in "nosebleed" territory.

The race for a vaccine hots up

Shares in AstraZeneca bounced this week after the US government signalled that it is considering fast-track approval for the group's Covid-19 vaccine. In April AstraZeneca agreed a deal with Oxford University, which originally discovered the vaccine, to develop and distribute it.

The government could ask the US Food and Drug Administration (FDA) to grant an "emergency use authorisation" (EUA) based on data from the final-stage UK trial, rather than wait for the more extended study normally required by US regulators. Such a move, possible as early as September, would allow President Donald Trump to claim he has "turned the tide" on the virus. Not so fast, say Rhys Blakely and Henry Zeffman in The Times. AstraZeneca says it is "too early" to begin talks with US regulators about an EUA. Nonetheless, 17,000 people have been enrolled in trials in Britain, South Africa and Brazil. So if enough data emerged to convince AstraZeneca to apply for an EUA, the FDA would be under pressure to grant it quickly. It has already approved 21 Covid-19 drugs, including an antibody treatment, on an emergency basis.

Meanwhile, says Bloomberg, Pfizer and BioNTech claim that their joint Covid-19 vaccine is "on track" to be submitted for regulatory review "as early as October". The companies, which recently clinched a $2bn deal to supply 100 million doses to the US government, released more detailed data from early-stage trials suggesting that the drug was "well tolerated" with "mild to moderate fever in fewer than 20% of participants".

©Apple Inc; Asda; Getty Images

Was Putin behind the poisoning?

Alexei Navalny had enemies beyond the Kremlin. Matthew Partridge reports

German doctors have confirmed that the Russian dissident Alexei Navalny, who fell into a coma last week, was a victim of poisoning, say Melissa Eddy and Andrew Kramer in The New York Times. Navalny is the most recent of a large number of Russians to become "stricken" by a "mystery illness" after "drawing the wrath of Moscow". The country's security services are suspected of having used a range of poisons in attempts to eliminate opponents. Those targeted include investigative journalist Anna Politkovskaya, who was later killed by a gunman, and Putin critic Alexander Litvinenko. Navalny himself has been attacked at least twice before.

Navalny: silenced by poison

A uniquely important opponent

Some experts believe that President Vladimir Putin may have been behind the poisoning of Navalny while "panicking about protests in Belarus reaching Russia", says Emily Prescott in The Sun. With the Belarusian dictator Alexander Lukashenko facing mass opposition to "rigged" elections (see page 11), Putin might have feared spreading protests would cause a "Gaddafi-style toppling" of his regime – the Kremlin tends to see its former colonies as "mirrors". Putin may have decided that the only way to prevent a similar "mass protest" was to kill the "presumptive leader of the uprising to come".

The Russian government certainly has reason to fear Navalny, says Yana Gorokhovskaia in The Guardian. He isn't Russia's only pro-democracy activist, but he is a "uniquely important" oppositional force, running Western-style electoral campaigns relying on crowdfunding and "armies of enthusiastic volunteers". In 2013 he came second in the race for mayor of Moscow and was seen as such a threat by the Kremlin that he was banned from running in the 2018 presidential election. Still, it's possible that the attempted murder wasn't carried out directly on Putin's orders, but instead planned by someone else on the "periphery of the system" acting independently.

A culture of impunity

Navalny has been a "thorn in the Kremlin's side" for more than a decade, but the "list of potential ill-wishers is long", says Tom Parfitt in The Times. Even before he became focused on politics, Navalny was an activist shareholder, buying small stakes in "murky companies" to force them to open their accounts. His investigations uncovered evidence of bribery and embezzlement as well as kickbacks for government contracts. Although these investigations "almost never" led to resignations or prosecutions, they "angered" the Kremlin and "eroded" the reputation of officials loyal to Putin.

The number of his enemies means there is "no certainty" that the authorities or state-linked actors were responsible, says the Financial Times. Still, Russia's past behaviour makes Putin and his cronies "prime suspects until proven otherwise". Even if it turns out that the Russian leader is not directly responsible, he is culpable for allowing a "culture of impunity around such violence". Assassins are occasionally caught, but those who ordered the killings "are never found". Anyone seeking to engage with Russia should have "no illusions" about the nature of the system Putin has created.

Why schools must reopen now

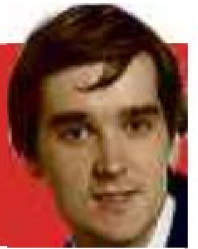
Safer than home?

Prime Minister Boris Johnson has announced that all schools will be open "full-time", with failure "not an option", says Katie Russell in The Daily Telegraph. However, signs of problems are already emerging. The government was forced to change its mind on face masks, which will now be mandatory in schools that are in local lockdown areas and left to the discretion of head teachers in the rest of the country. Unions are threatening to strike if their safety demands are not met.

The unions may have won the battle against fully reopening schools in the late spring and early summer, but this time it should be very different, says Ross Clark in The Spectator. Unlike then, we now have "real-world evidence" about the spread of Covid-19 in schools, with a report by Public Health England indicating that only 70 children and 128 staff tested positive after schools partially reopened in June, with most of the infections contracted outside the classroom. Chief medical officer Chris Whitty says children are more likely to suffer harm from schools not reopening than from Covid-19.

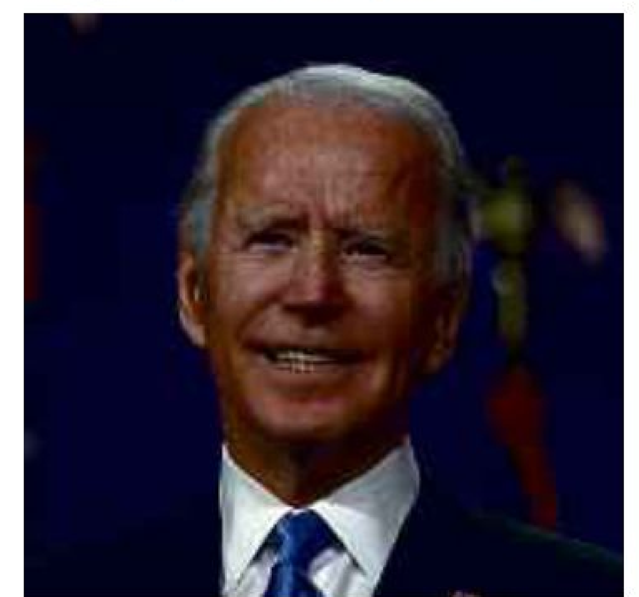
It is "abundantly clear" that that is true, says Simon Jenkins in The Guardian – more children have died in suicides, fights and accidents at home than of Covid-19. The current problems are a consequence of the government using a mix of "naïve slogans and dire menace" to scare people into complying with the lockdown. The relative honesty of most European governments explains why Germans, Swedes, Italians and Spaniards are "now returning to work and taking their children to school", while millions of English people are "punishing themselves and their economy by remaining scared".

Betting on politics



It's a good time for a rundown of the most popular markets on Betfair. With £63m now matched on the winner of the upcoming presidential election in the US, Joe Biden remains the favourite at 1.86 (54.6%), though the odds on Donald Trump being re-elected have narrowed to 2.24 (44.6%). In second place, £2.49m has been matched on the winning party, though the odds are nearly identical to the above market with Democrats on 1.78 (56.1%) and Republicans on 2.26 (44.2%).

In third position is the £2.43m matched on whether Trump will quit before the end of his first term. You can get 10.5 (9.5%) on him leaving and 1.1 (90.9%) on him seeing his term out. In fourth place is the £1.62m on a US recession before the end of 2020, with "yes" at 1.02 (98%) and "no" at 20 (5%). In fifth place is the £913,908 on the winner of the popular vote in the US presidential election, with Biden (pictured) at 1.23 and Trump at 5.6. The gender of the next president is in sixth with £333,932 matched. Male is at 1.01 (99%) and female is 36 (2.7%).



In seventh place £195,651 has been matched on the identity of the next UK prime minister after Boris Johnson, with Keir Starmer favourite at 3.35 (29.8%). Another market on the exact year Trump will leave is in eighth place, with £166,680 matched and 2021 as the most likely outcome at 1.78 (56.1%). The winner of the presidential election in California is in ninth place, with £124,184 matched; tenth is the outcome of the New Zealand election, with £86,000 matched.

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The case for a flat tax

Simplifying the tax system promises to cut incentives for evasion and avoidance, and boost work and entrepreneurship. Could it give post-Covid-19 Britain the lift it needs? Simon Wilson reports

Rishi Sunak: he needs to think big

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What is proposed?

That there should be just one single positive marginal rate of tax – 20%, say – rather than progressively higher rates as earnings rise (as under the current system). The idea is to simplify the system so as to encourage compliance and create an incentive for higher earners – thus boosting the economy. In theory, a flat-tax structure could be devised in which one single rate covers income tax, national insurance, corporation tax, value-added taxes and even inheritance tax. The US academics with whom a flat tax is most associated, Robert Hall and Alvin Rabushka, argued for a flat tax on both individuals and companies, for example. In general, however, the term "flat tax" typically means replacing the existing income-tax rules with a single marginal tax rate and sweeping away the various tax bands, exemptions and allowances.

Wouldn't that be regressive?

Not necessarily. Most models do include an exempted amount of income and sometimes a significantly increased personal allowance. Thus the tax remains progressive at lower rates of income and tax, but becomes close to proportional at higher incomes (ie, as the exempt amount becomes a steadily smaller share of the total income). Naturally, much depends on the details. According to economic modelling by the Institute for Fiscal Studies – examining four potential flat-tax structures for the UK, all of them intended to be revenue-neutral – some versions of a flat tax would in fact be progressive, in the sense of favouring lower earners. A simple flattening of income-tax rates alone does redistribute towards those with high incomes, but if NI contribution rates are also flattened, it tilts the reform in favour of lower earners.

Why change?

The rationale is that by simplifying the tax code – and making the single rate sufficiently low – you save people and businesses time and money, drive up compliance rates by reducing the incentive for tax evasion or avoidance and stimulate the economy by increasing the incentives for extra effort and risk-taking. As such, the flat tax is typically favoured by small-state conservatives and economic liberals. Proponents of flat taxes argue that they pay for themselves, since the higher rates of compliance and the expansion of economic activity contribute to the broadening of the tax base. As such, flat taxes bring in more revenue notwithstanding the lower rate, and can even mean the rich pay a bigger proportion of the total. Flat taxes can also cut away all the confusion and complexity that lets evasion and avoidance thrive – and hence allows resentment of the rich to fester.

"Flat taxes could end the conditions that allow resentment of the rich to fester"

Have any countries tried it?

Lots, mostly in post-communist Russia and eastern Europe. In 1994, Estonia replaced three tax rates on personal income, and another on corporate profits, with a uniform rate of 26% on both. Latvia and Lithuania followed suit – as did (from 2001) Russia, with a rate of 13% on personal income (but not corporation tax) and Slovakia (19% on personal and corporate income). In the years that followed several other central and eastern European countries, including Romania, Macedonia, Montenegro and Albania, all took the plunge with various forms of flat tax. The most studied of these examples is Russia, where evidence (for example from the IMF) suggests that its landmark 2001 reform did indeed increase compliance.

Would it work here?

Over the years the Tories have occasionally flirted with the idea. But backing for a flat tax has remained largely the preserve of think tanks and lobby groups. One main argument against a flat tax is that current taxes are complicated for a reason – it's not the number of tax rates that makes the tax code complicated, it's the fact that defining income is a complicated business – a job made harder in the context of a complex, globally integrated economy where many participants really are trying to avoid as much tax as possible. Income is complex: it makes sense that taxing it is complex, too.

What about the Russian example?

Those countries in eastern Europe that adopted flat taxes were all relatively poor with relatively weak governance and correspondingly large catch-up opportunities. By contrast, the UK has a well-established legal, corporate and fiscal framework, where the view that a flat tax could lead to a big jump in compliance looks much shakier. And the role of flat taxes in generating increases in the tax take in Russia and elsewhere has proved hard to quantify since those economies were at the same time subjected to so much additional radical reform. In recent years Latvia and Lithuania have both dropped their flat taxes and moved to a progressive system.

So forget the whole thing then?

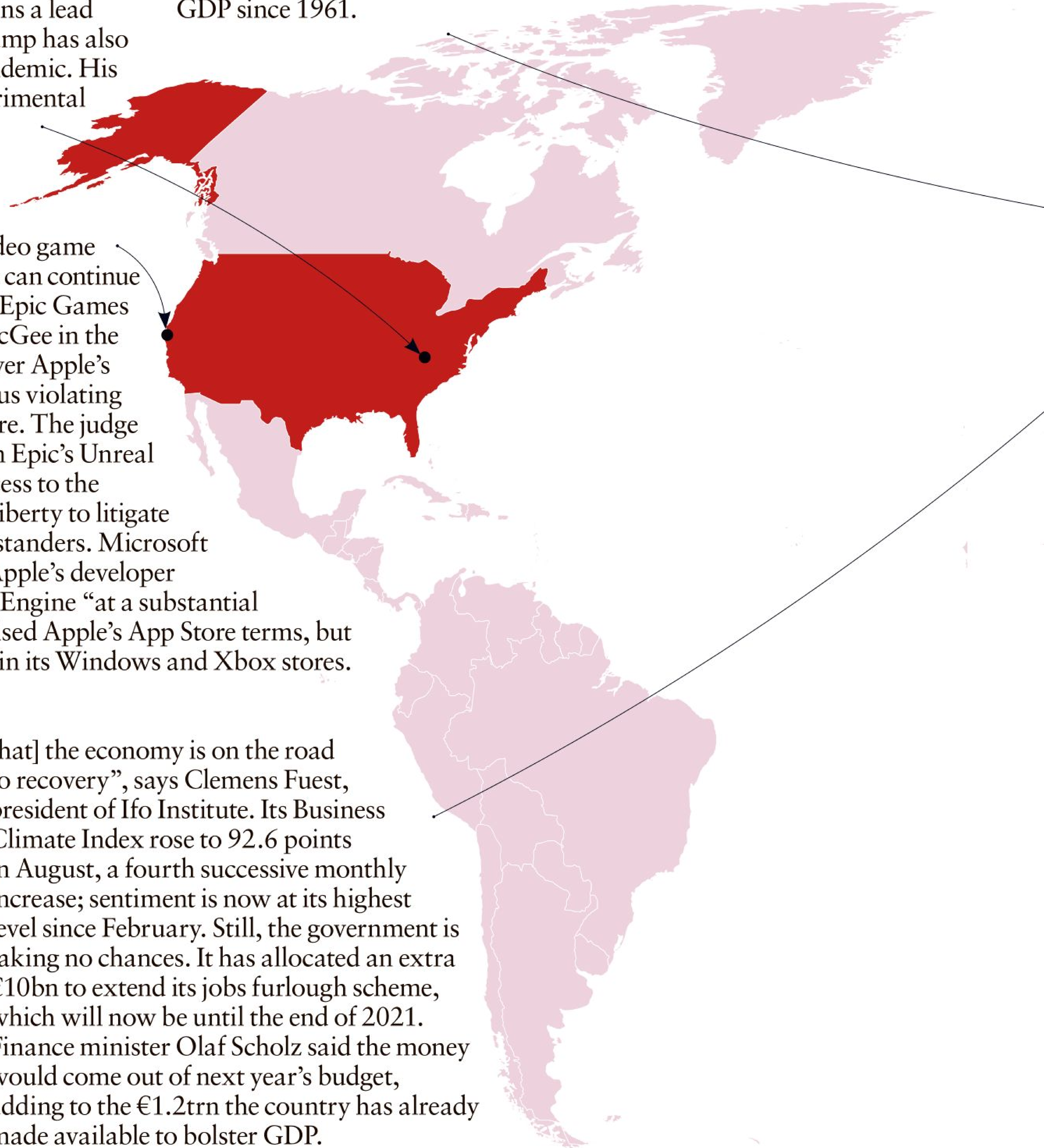
Any revenue-neutral flat tax would be a tough sell politically, since it would inevitably produce a large number of losers, most of them falling in the middle of the income distribution. But the chancellor, Rishi Sunak, will need to think big to fill the giant post-pandemic fiscal hole, says Ross Clark in The Spectator. His review of capital-gains tax is a start: it's far too easy for the wealthy to avoid tax by engineering income as capital gains. But he could "go the whole hog" and introduce a flat tax that covers income and capital gains, and even inheritances and investment income. Sunak's challenge is not to use a flat tax to cut the tax base, but increase it. Flat taxes are often seen as politically unviable because of the perception that millionaires pay the same rate as the low-paid. "But it doesn't have to mean that at all," as Clark says. One solution would be a "two-rate flat tax", say of 20% and 40%. "The important element is that all income, capital gains, etc, are treated the same way – and that therefore there are far fewer opportunities for avoidance." A two-tier flat-tax system would be simpler and fairer – and raise more tax.

Charlotte

Trump wins nomination: The Republican Party has formally given incumbent Donald Trump (pictured) the go-ahead to run for a second term in office. More than 300 delegates gathered at the Republican National Convention in Charlotte, North Carolina, for a unanimous vote, "underscoring the grip the president has on a party that only four years ago harboured deep reservations about his candidacy", say Catherine Lucey and Andrew Restuccia in The Wall Street Journal. Despite the official "Land of Promise" theme of the convention, the party painted a "grim picture" of a Democratic victory, "conjuring images of riots in the street, an uptick in crime and a flood of policies that could bankrupt taxpayers". Playing the fear card appears to be working. "Polls show [the economy] remains the core concern of voters, and the only main policy area where President Trump retains a lead over Joe Biden", says David Charter in The Times. Trump has also been keen to be seen to be getting to grips with the pandemic. His administration is contemplating fast-tracking an experimental British coronavirus vaccine (see page 7).

London

Spending returns: Diners used the government's Eat Out to Help Out discount restaurant scheme, which ends on Monday, 64 million times in the first three weeks of August. That is "equivalent to nearly every person in the country dining out to protect jobs", Chancellor Rishi Sunak pointed out. The enthusiasm to spend was also evident on the high street in July, where retail sales rose by 2% month-on-month, and were 3.1% higher than in July of last year. "Consumers are currently relaxed [about] their personal finances, having saved over lockdown and on their likely overseas summer holiday, although this may change when government support pares off over the autumn", says Jon Hudson of Premier Miton. Retail job cuts "surged to their worst level for more than a decade in August", says Tom Rees in The Daily Telegraph. The Confederation of British Industry's quarterly employment survey produced its worst reading in 11 years this month. And the national debt has eclipsed £2trn, the first time the debt burden has been bigger than annual GDP since 1961.



Cupertino

A partial court victory for Apple: A verdict on the spat between Apple and Epic Games, creator of popular video game *Fortnite*, arrived this week. A US court ruled that Apple can continue to ban *Fortnite* from its App Store but should not stop Epic Games from providing software to other apps, says Patrick McGee in the Financial Times. The two firms were at loggerheads over Apple's 30% App Store fee, which Epic tried to circumvent, thus violating the App Store's terms and incurring a ban from the store. The judge warned Apple not to hurt other companies who rely on Epic's Unreal Engine software to make games by revoking Epic's access to the iPhone's development system, adding the two were at liberty to litigate against each other but shouldn't "create havoc" for bystanders. Microsoft took Epic Games' side, saying denying Epic access to Apple's developer software would place creators reliant on Epic's Unreal Engine "at a substantial disadvantage", says the BBC. Microsoft has also criticised Apple's App Store terms, but operates a similar policy with regard to software sales in its Windows and Xbox stores.

Berlin

Business confidence hits six-month high: The German economy shrank by a revised 9.7% between the first and second quarters of this year. It was still the biggest contraction since records began in 1970, and far bigger than the previous record of 4.7% from the first three months of 2009. "We expect German GDP to contract by slightly more than 6% [over 2020]... followed by a 4% increase in 2021," says Deutsche Bank. Yet, even assuming a vaccine will be widely available by the middle of next year, "the pre-Covid output level will not be reached before mid-2022". Meanwhile, "sentiment among German business leaders is continuing to improve… [indicating that] the economy is on the road to recovery", says Clemens Fuest, president of Ifo Institute. Its Business Climate Index rose to 92.6 points in August, a fourth successive monthly increase; sentiment is now at its highest level since February. Still, the government is taking no chances. It has allocated an extra €10bn to extend its jobs furlough scheme, which will now be until the end of 2021. Finance minister Olaf Scholz said the money would come out of next year's budget, adding to the €1.2trn the country has already made available to bolster GDP.

The way we live now: Italy's big babies told to grow up

"Mum, please will you pay the bill?"

Some children require a bit of a push to leave the nest. In Italy, it seems, they need a court ruling. In a judgment made public last Friday, the Italian Supreme Court declared that young adults do not have the right to financial support from their parents. Dismissing the appeal of a 35-year-old who had been demanding money, despite his annual income of €20,000, the court ruled that he was not entitled to a monthly allowance from his parents, marking a symbolic change for a country with a long history of children who struggle to cut the cord. An estimated 64.3% of adult children between the ages of 18 and 34 still live with their parents, say Livia Borghese and Nicola Ruotolo on CNN. Italians have even coined a phrase for them: *bamboccioni*, or "big babies". The phenomenon appears to have got worse as opportunities for young people have dried up; Italy's economy has stagnated for the best part of two decades . Italy is just "an extreme example" of a broader problem, says Camilla Cavendish in the Financial Times: younger generations' prospects look grim in many countries, and "the Bank of Mum and Dad is working overtime".

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The airline looks secure for the next 18 months

London

Virgin avoids crash landing: Virgin Atlantic has secured a £1.2bn rescue deal with its creditors that would keep it going for at least 18 months and save 6,500 jobs, says the BBC. The airline said the agreement puts it in a position to "rebuild its balance sheet", having previously warned that it would run out of cash by September. The company now needs approval from the High Court in London, which it will request on 2 September. Shareholders, banks, aircraft owners and suppliers approved the deal, with around £400m coming from Virgin's main shareholder, Sir Richard Branson's Virgin Group. There was good news for Aveva too this week. It is poised to become Britain's most valuable software company after it completed the £3.8bn takeover of a US rival, says Matt Oliver in the Daily Mail. It is buying data company Osisoft, which will boost its market value to over £10bn, propelling it above Sage, the accountancy software firm that was worth £8.1bn this week. Aveva said it will benefit from the trend in manufacturing whereby companies turn to software to track equipment performance and supply chains as a way to cut costs. It is the second major deal by Aveva in three years; it merged with France's Schneider Electric in 2017.

Minsk

Belarus in turmoil: Tens of thousands of protesters have gathered in Minsk to decry the re-election of President Alexander Lukashenko (pictured) and the "fierce crackdown" that followed the controversial vote, says Ann M. Simmons in The Wall Street Journal. The protest on Sunday, dubbed "March for a New Belarus", marked the 15th day in a row that Belarusians have come together to force a new election following the 9 August poll. Lukashenko, who has been in power for 26 years, claimed an 80% victory over main rival Svetlana Tikhanovskaya. She was forced to flee the country after the election. The EU is preparing sanctions against officials they say rigged the poll and are now violently dispersing protesters. Around 7,000 people were detained in the immediate aftermath of the vote, and though officials maintain they have been released activists say some people are still missing. Internet services have been disrupted, and the state has hampered the publication of two independent newspapers. Tikhanovskaya has called on her supporters to continue to protest to keep the pressure on Lukashenko.

Lusaka

Zambia ditches prudent central bank governor: Zambia's currency and Eurobonds slumped after President Edgar Lungu (pictured) sacked central bank governor Denny Kalyalya, prompting questions about the independence of the institution, says Taonga Clifford Mitimingi and Matthew Hill on Bloomberg. The move comes at a critical time for the country's economy, which is forecast to contract by 4.2% this year. Debt is climbing and the budget deficit soaring as the pandemic reduces revenue. Zambia's kwacha fell to a record low of 19.2 to the US dollar this week. Lungu didn't give a reason for removing Kalyalya, who has repeatedly urged the government to restrain spending as the debt pile has grown rapidly. He was replaced by Christopher Mvunga, the current deputy secretary to the cabinet. Elsewhere on the continent, Nigeria's economy shrank at the fastest pace in at least a decade in the second quarter of the year as the crash in oil prices and the global fallout from Covid-19 dented output, says Ruth Olurounbi on Bloomberg. GDP shrank by 6.1% from a year earlier, compared with growth of 1.87% the previous quarter. Oil production fell to 1.81 million barrels a day from 2.07 million barrels in the previous three months, the lowest since the first quarter of 2017 — the last time Africa's largest economy contracted. The International Monetary Fund is forecasting a fall of 5.4% for Nigeria's GDP this year, the biggest decline in almost 40 years.

New Delhi

Cold war with China continues: India has "quietly moved" to phase out Huawei equipment from its telecoms networks amid an intensifying standoff with China, says Matthew Field in The Daily Telegraph. Officials in New Delhi have been asking telecoms executives to reduce their reliance on kit produced by Chinese company. Huawei is "effectively banned" from India's 5G trials despite its initial involvement, and fellow Chinese telecoms firm ZTE has also been barred ."It's open now that the government is not going to allow Chinese equipment," a telecoms industry executive said. "There is now clarity... It's really game over." Huawei has been accused of posing an espionage risk by US officials, and has found itself caught in a growing technology dispute between the US and China that has seen US allies "rein in" its use. Tensions between New Delhi and Beijing are already at their highest level in decades: at least 20 Indian soldiers were killed in a Himalayan border fight with Chinese troops in June, after which India banned Chinese social media app TikTok in retaliation.

Private equity should make its move

Money is cheap and bargains abound – it's a great time to make a bid for some struggling companies

Matthew Lynn
City columnist

For BT's long-suffering shareholders, it was the first sliver of good news in a long time. On Monday the share price suddenly spiked following reports that the telecoms giant had started asking its advisers to prepare a defence against a bid from a consortium of private-equity investors. It might happen and it might not. But what is clear is that BT is ripe for a takeover.

BT's dismal conjuring act

Over the last five years, BT's shares have fallen from around 500p to 100p. Even the bid speculation clawed back only a few percentage points of the losses. For a firm that is meant to be both a technology play, through its broadband network, and a media play, through its sports channels, it is a dismal performance. From two of the most exciting, high-growth industries in the world, it has conjured up very little.

True, the cost of installing broadband networks is huge. Sports rights are expensive to acquire and difficult to monetise, especially when you are clearly the second-placed provider. And BT has been weighed down by huge pension costs. It has been a difficult business to manage. Relatively new CEO Philip Jansen is trying to turn it around, but it is hard to argue that the firm has been well run.

For a private-equity firm, the attractions are obvious. BT's control of crucial infrastructure will provide plenty of long-term cash. The broadcasting unit could be closed down, or spun off. Its EE mobile unit could be integrated into the main telecoms company. And it could refocus itself as a pure broadband and voice company, with lots of cost cuts and astute debt management to churn out more cash. It is the kind of business private-equity funds can be good at running. It would be a huge deal – BT is still valued at more than £10bn and there would be a premium to pay on top of that. And the government's support would have to be secured, especially given that rolling out fast internet connections has been made such a high political priority. But it could still be a money-spinner.

BT: a promising target for private equity

©BT Openreach

And why stop there? This is a good moment for private equity to swoop on a whole range of major companies. With interest rates at record lows and likely to stay there for a very long time, debt will never be cheaper. And there are plenty of underperforming big beasts on the index.

Three more promising bid targets

Pearson, for example. The media conglomerate has been spectacularly mismanaged over the last decade, selling off valuable assets in newspapers and publishing just as they were about to make a success of digital, while investing in education just as it was about to come under assault from cheaper web-based competitors. It is hard to see how it can be turned around without a complete change of management. Over five years the shares have fallen from 1,200p to just over 500p. There would be lots of value for a bidder to unlock.

Or how about Lloyds? The bank has been nursed back to heath after the financial crash a decade ago, but you couldn't tell from the share price. At less than 30p, the shares are back down to the level they were at in 2011. If nothing else, a private-equity firm could ruthlessly strip out costs and boost profits. It might even be able to break parts of Lloyds up to sell to Amazon or Apple: both companies are keen to get into financial services as fast as possible. At £20bn, it wouldn't be financially impossible.

If a buyer wanted to think bigger, there is always BP. At 280p, the shares are back at levels last seen in the mid-1990s. The company keeps trying to reinvent itself as a green energy supplier and, while that is a noble enough aim, it might be better simply to run it for cash until the last petrol car and oil-fired boiler gets scrapped. With funds under so much pressure to divest from fossil-fuel businesses, it might well find it easier to operate as a private, rather than a public, company. There wouldn't be so much scrutiny. At close on £60bn, it is a huge firm – but a consortium of private-equity funds could raise the money. With the economy in the doldrums right now, there will never be a better time to strike.

Who's getting what

● Publishing company Pearson has hired **Andy Bird** (pictured), the former chairman of Walt Disney's international operations, to be its chief executive. He will receive contributions towards the rental costs of a flat in New York "for business purposes", shares worth $9.3m, for which he is paying $3.75m, and an annual salary of $1.25m.

● The outcry over Rio Tinto's destruction of an ancient Aboriginal site in Pilbara, Western Australia, in May is set to cost CEO **Jean-Sebastien Jacques** £2.7m in bonuses. Two other executives at the world's biggest iron-ore miner are also to have their bonuses cut. The sacred Juukan Gorge rock shelters, which had been inhabited 46,000 years ago, sat on eight million tonnes of high-grade iron, valued at £75m. Rio Tinto did have authorisation for the blasts, but admitted it had "failed to uphold" one of its "core values – respect for local communities and for their heritage".

● US companies are awarding executives multimillion-dollar "retention" bonuses shortly before declaring bankruptcy, says the Financial Times. In one instance **Brad Holly**, Whiting Petroleum's CEO from November 2017, got $6.4m at the end of March, less than a week before the firm filed for bankruptcy protection. Whiting is expected to emerge from that process next month, at which point Holly will get an additional $2.53m severance payment when he stands down from the role. The firm paid out $14m to executives in the days before it declared itself bust.

©Getty Images

Nice work if you can get it

MPs have voiced concerns over the £24.7m of public money paid to a pro-China business group since April 2011, says Ross Kempsell in The Times. The China-Britain Business Council (CBBC) is a private company that is partly funded by the Department for International Trade. The latest payment was for £380,367.77 in April. When Boris Johnson blocked Chinese telecoms group Huawei from Britain's 5G network, the CBBC expressed its "disappointment" that "British homes and businesses will not benefit from Huawei's market-leading and competitive products". "CBBC believes that this decision is first and foremost a response to assertive US trade policy," it said. The body insists the money has bought "something like £2.35bn of export wins" over three years. Others caution against using taxpayers' money to fund a body that "seems to lobby on behalf of Beijing's interests".

Hunting for value in EM funds

Many emerging-market stocks look cheap – but few funds are betting on them while the risks remain high

Cris Sholto Heaton
Investment columnist

One of the headaches of buying out-of-favour assets is that the more out of favour they become, the harder it gets to invest in them. Take cheap emerging market shares. Ever since the rally began in April, emerging markets have polarised between a small number of hot stocks, mostly in the tech sector, and a large pack of also-rans. The same is true in developed markets, of course; Alphabet, Apple, Amazon, Facebook, Microsoft and their peers have soared ahead since April. Yet the gulf in emerging markets is even wider.

The MSCI Emerging Markets Growth Index now trades on a price/earnings ratio of 24 times forecast earnings, while the MSCI Emerging Markets Value Index is on 10.5. These way these indexes are constructed isn't perfect (somehow Samsung Electronics – which I would say is more growth than value – manages to appear in both), but you get similar results if you try to look at the divide in other ways.

Brazil's president, Jair Bolsonaro: investors are shunning the country

Where are the value managers?

Given that, you'd expect at least some emerging-market managers to be taking the risk of loading up on value. After all, even though tech is leading the way in developed markets, you can still find die-hard value managers preaching the merits of financials, energy or other depressed sectors. Not so in emerging markets. Finding a broad fund that doesn't have Alibaba, Tencent, Taiwan Semiconductor Manufacturing, Samsung Electronics and so on as its largest holdings is surprisingly difficult. That's partly because these firms have performed so well that a modest starting position is now a large one – and few managers will be keen to take the risk of selling winners like these to buy beaten-down losers. And yet when valuations are this far apart, the argument for committing part of a portfolio to risky stocks is at its strongest.

"The growth index is on a p/e of 24, the value index on 10.5"

So where can investors look if they want to buy value? One option is to pick cheap countries. Investors are disillusioned with Southeast Asia (see page 18), but they are outright despondent about Brazil and they don't much like Russia. So exchange-traded funds such as **iShares MSCI Brazil** (**LSE: IBZL**) and **HSBC MSCI Russia Capped** (**LSE: HRUB**) could be worth a look. The fate of both will depend on a rebound in energy and commodities. Alternatively, look for unloved investment trusts on wide discounts to net asset value. **ScotGems** (**LSE: SGEM**), which invests in emerging-market smaller companies, has done badly since floating in 2017. Its portfolio is down 25% over the past year. Yet the quality of its holdings looks okay; at least part of its problems is due to being heavily weighted towards markets that have struggled. A discount of 24% should narrow if those countries stage a recovery.

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

The price/sales (p/s) ratio is a method for valuing a company, similar to other metrics such as the price/earnings (p/e) ratio and the price/book (p/b) ratio. A firm's p/s ratio is usually calculated by dividing its market capitalisation by its revenues. So a company with a market cap of £25bn and sales of £10bn has a p/s ratio of 2.5.

You'd get exactly the same result if you divided the share price by revenues per share. But unlike earnings or book value, revenues aren't usually reported on a per share basis, so using total sales means one less step in the calculation.

Just like a p/e ratio, a low p/s ratio may imply a cheap stock. However, sales aren't the same as profits, so the p/s ratio requires even more care when deciding if a stock is cheap.

Different sectors have very different profit margins, so the p/s ratio is most useful when comparing companies within the same sector. It can be especially helpful when looking at firms whose earnings are temporarily depressed as a result of one-off factors, but which should later return to a more normal level. This is often the case in cyclical industries.

The p/s ratio can also be useful when comparing early-stage growth stocks against their peers. These firms may be growing rapidly, but not yet making a profit, rendering the p/e ratio useless. The p/s ratio tells you how much the market is paying for each pound of sales. Of course, the value of this depends on whether your assumptions about a firm's future profitability are realistic: a business with little prospect of making a profit will be a bad investment even if the p/s ratio is low.

The p/s ratio does not take debt into account. This means that when one firm has more debt than an otherwise identical rival, it will look cheaper (but may well be riskier). To get a picture that includes debt, use enterprise value (equity market capitalisation plus the value of outstanding debt) divided by sales instead.

Guru watch

Anatole Kaletsky, chief economist, Gavekal

"I was wrong to turn bearish," says Anatole Kaletsky, the self-proclaimed "perma-bull" commentator who became unusually downbeat when the Covid-19 crisis hit. In March, as the sell-off in most assets reached the bottom, he argued that it was "too early to buy equities". And just a couple of months ago, he was dismissing the rapid rally as "market madness" driven by a flood of bored gamblers who had turned to stocks when they couldn't bet on sports during lockdown. But more recently his optimism has been restored:

there are now "three clear reasons" why "equity markets are more likely to continue moving higher than to retest their lows, even if the world is hit by another wave of Covid".

One is that "the scale and speed of fiscal stimulus and monetary expansion ... turned out to be far larger than I ever imagined politically possible". This has averted "economic disaster". Second, while these policies are not guaranteed to return the world economy to normality within two years (although the odds they do are fairly good), for now investors seem to have "100% conviction" that they will. That belief can't really be proved wrong for at least a year or so. But most importantly, there's good reason to hope that this crisis will produce a "structurally stronger world economy" in the coming decade, rather than the weak growth and high unemployment that many fear. Governments have now "enthusiastically embraced" Keynesian economic policies; if this persists, it will drive "a boom in long-term investment".

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Social housing in the spotlight

Affordable homes are a hot political topic. That bodes well for the sector's investment trusts

David Stevenson
Investment columnist

The government seems inclined to rely on private housebuilders to provide affordable housing

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Affordable and social housing has been moving up the political agenda. There is widespread concern about a shortage and there have been calls for a state spending spree to build more, but the government appears more inclined to rely on private housebuilders and housing associations to fill the gap. In that case, private-sector funding of social housing will need to increase – good news for investment trusts in the sector.

Why share prices have rallied

The biggest fund in this area, **Civitas Social Housing (LSE: CSH)**, has seen its share price rally by 25% this year, with the **Triple Point Social Housing Reit (LSE: SOHO)** not far behind. The social-housing policy backdrop hasn't been the key driver; investors realise that government backing for (subsidised) rent rolls is a better bet in a crisis than commercial leases, where tenants are walking away. Triple Point has said that 100% of rent due in the second quarter of 2020 had been received.

Both Civitas and Triple Point operate specialised supported-living accommodation for adults, many of whom have learning disabilities or mental-health care needs. Civitas, which yields around 5%, has also been quietly moving its focus towards a niche called high-acuity (medically intensive) care properties – shifting the business closer to healthcare than traditional social housing, which might in turn mean that the yield is dragged towards 4% as investors' interest grows.

Both trusts report strong pipelines of new projects. Civitas has bought a £12m new-build, supported-living and healthcare facilities in Wales. It provides 65 beds for people with learning disabilities, autism and mental health needs.

Civitas also benefits from a low loan-to-value ratio of around 25% and is looking to boost dividend cover in the coming year to one. Triple Point recently completed the acquisition of 16 properties (comprising 70 individual units) for a total of £9.6m. Its dividend – the yield is also 4.9% – is already covered.

Then there is **Residential Secure Income (LSE: RESI)**, which focuses on shared ownership. Rent collection has been unaffected and it boasts a strong growth pipeline. It recently announced the acquisition of 73 shared-ownership flats at the Clapham Park development in London.

As of 28 July the portfolio consisted of 205 homes, of which 88 were occupied, 44 were reserved and 58 were available for shared owners. The yield on this fund is 5.6% but the discount to net asset value (NAV) is 15%, which could tighten quickly if interest in social housing grows. However, the shared ownership model seems more exposed to a possible housing market downturn in 2021 as first-time buyers' finances deteriorate after the end of furlough.

A potential bargain

The fund most exposed to a housing slowdown is the **PRS Reit (LSE: PRSR)**. This fund invests in newly-built family housing for rent, a sector many think is primed for rapid growth as institutional investors move into the space vacated by buy-to-let landlords. PRS is at the forefront of this push and again, so far, rent collection looks strong. PRS Reit reported a 98% collection rate in the second quarter. It has built 2,082 homes since May 2017.

The board is targeting a dividend of at least 4.0p for the financial year to June 2021. There is some evidence that the economic downturn might encourage demand for rented accommodation: PRS reports that rental demand remains high, with over 500 reservations awaiting a move-in date. That will add £4.6m of annual rent once occupancy has started. PRS Reit has slipped by 15% this year and trades on a 20% discount to NAV. But my sense is that there is a shortage of affordable family homes. If PRS Reit can avoid a nasty spike in arrears in 2021, it could be a bargain.

Activist watch

Impala Asset Management, the activist investor that has had Harley-Davidson in its sights this year, says it has been impressed with the changes implemented by CEO Jochen Zeitz to turn the 117-year-old motorcycle company around, says Rajesh Kumar Singh on Reuters. The $2.4bn hedge fund pushed for the removal of Zeitz's predecessor, Matt Levatich, in January 2020 and subsequently attempted to install two directors on Harley's board. It also called for "operational fixes" to help the group recover market share. Bob Bishop, founder and investment officer at Impala, reckons that Harley is "on the right track" for the first time in five years: Zeitz has "rebooted" the business by shifting the focus back to big bikes, traditional markets such as the US and Europe, and older and wealthier customers.

Short positions... global dividends plunge

■ **Global dividends have suffered their worst quarterly drop since 2009, plunging by $108.1bn – an annual decline of 22% – in the second quarter of 2020 as firms scrambled to conserve cash, says Angharad Carrick in City AM. Over half of the members of the Janus Henderson Global Dividend Index cancelled them outright; 27% made major cuts. Payouts fell in every region except North America, bolstered by the resilience of Canadian payouts. Europe and the UK were hit hard, with payouts falling by two fifths as the continent's largest dividend payer, France, saw payouts sink to their lowest level in at least a decade.**

Janus Henderson expects global dividends to fall by 19% this year, or 25% in the worst case scenario, says Attracta Mooney in the Financial Times.

■ The winding-up of Neil Woodford's collapsed Equity Income Fund is now set to take even longer than expected. Investors were expecting the annual accounts at the end of this month, but Link Fund Solutions, the administrator, says they may be delayed until the end of September. There was "no mention of a timeline or any progress... on the sale of the assets", says AJ Bell's Laura Suter. Link is about to pay another £183m to investors, taking the total returned to £2.45bn. The fund was worth £3.8bn when it was suspended in June last year. Its latest valuation suggests "there could eventually be another £287m to come when the final, and most-difficult-to sell assets, are offloaded", says Patrick Hosking in The Times. Bruised investors can surely expect more from Link than "robotic press releases".

How do we know what colour dinosaurs were?

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Britain's boom in rent-seeking

Ed Conway
The Times

Not too long ago, the technology sector's key aim was "to make the best hardware or software", says Ed Conway. These days, though, "taxing other bits of the supply chain is increasingly what passes for good business in Silicon Valley". Consider the row between Epic Games, the creator of the wildly successful *Fortnite* video game, and Apple and Google. The two tech giants have set up their own stores, the App and the Play Stores respectively, where other software developers can sell their apps but must give the giants 30% commission. Epic is understandably irritated by this – but instead of insisting on these taxes being scrapped, it wants to emulate the tech giants, establishing its own platform to sell its own and other firms' games to users directly, "taking a slice of cash going to other developers too". This sort of rent-seeking, with companies trying to earn profits mainly from assets rather than from making things, is to be found everywhere these days. In 1980 income from net interest payments comprised only a tiny proportion of UK firms' profits; by 2010 the figure was 10%. Wondering why capitalism is "broken"? Here "is surely part of the explanation".

Predictably disastrous rent controls

Franz Schellhorn
Profil

The cost of renting flats in Austria is rising quickly, says Franz Schellhorn, which has prompted calls for the government to step in. The state is in a "regulatory frenzy" post-Covid, but it should ignore the outcry. Governments' attempts to improve affordability – by capping rents or regulating the length of leases, for instance – have always achieved the exact opposite of their intended aims. Take Berlin's latest experiment, for example. This year it introduced a five-year freeze on rents, affecting 90% of the flats on the market. The initiative has been a "disaster": unsurprisingly, landlords are increasingly opting to sell their flats rather than offer them for rent. The supply of price-fixed flats to rent has slipped by 45% in the past year. Reducing landlords' income also removes an incentive to renovate and improve old buildings. Politicians seem to be in complete denial about the fact that this is a market comprising supply and demand; if you make life harder for landlords, they will be inclined to leave the market, squeezing supply. The upshot is a dearth of flats to rent and increasingly shabby old buildings. Let's not turn our cities into grotty East Berlin.

Don't fall for the degrowth delusion

David Behrens
CapX

Commentators from all sides of the political divide have taken to dismissing growth as a "golden idol of narrow-minded capitalists", says David Behrens. Many see the pursuit of growth as an alternative to the pursuit of social needs such as public health and sustainability. This "could not be more misleading". Economic growth affects the lives of ordinary people, not just in the West, but in developing nations too. GDP correlates with countless key metrics of living standards. In sub-Saharan Africa, for example, real average GDP per capita grew by 42% between 1990 and 2018, while extreme poverty, infant mortality and undernourishment fell. Growth increases access to resources that make people safer and healthier. In the age of coronavirus, continuous growth has led to lifesaving breakthroughs in medical technology, which could lead to a vaccine. Many environmentally-conscious critics correlate growth with unsustainability, but ignore the reality that growth means doing more with fewer resources and leads to green innovations. Growth makes everyone's life easier and more satisfying, but, more importantly, it's also a "vital driver of progress" in society.

Vegans are murdering the planet

Patrick West
The Spectator

Veganism and environmentalism go hand in hand in the popular imagination, says Patrick West. Both are championed by progressive types who argue that eating less methane-emitting cattle and more agriculturally efficient crops are the first steps to be made to halt climate change. But a report by the UK Sustainable Food Trust challenges this notion. Global production of soya beans, for example, has doubled over the past 20 years. Many of us know about the devastation of rainforests due to palm oil cultivation, but less is known about the "comparable ruination" caused by soya bean production. The planet would be better off if we gave up the soya milk and drank milk from cows that graze on grass. And this is only the most "glaring battle ground". Veganism is "mostly the preserve of the cosmopolitan middle classes, whose diet often includes quinoa imported from South America, almonds from California [and] pomegranates from India". Booming demand for these foods also has high social and environmental costs. A "sensible and rational" vegan diet is fine, but sticking to it is "boring and time consuming". That explains the "allure of today's exotic vegan diet, a voguish affair that is rather bad for our planet".

Money talks

"I love to work when ultimately I don't have to work any more, not just because I have a [rich] husband, but because I'm OK anyway financially. But work is fun. It helps me meet interesting people, it allows me to empower people who are looking to make this world just a little bit better."
Russian supermodel Natalia Vodianova (pictured), who is currently engaged to Antoine Arnault, heir to luxury group LVMH, quoted in The Times

"Trying not to be depressed that while the BBC don't want to make any more *Stargazing Live*, they will pay Scarlett Moffatt to make a podcast about how she doesn't believe in the Moon landings."
Comedian Dara O'Briain's astronomy show is being axed while reality television star Moffatt keeps her podcast on conspiracy theories, quoted in The Mail on Sunday

"I wanted to prove to my parents that I could make some money. They were still living above the shop and I wanted to buy them a house."
Former chancellor Sajid Javid on his decision to work in the City after graduating, quoted in The Times

"Successful investing is about having people agree with you... later."
US financial writer James Grant, quoted in a Price Value Partners note

"It's a genuine mystery to me why the producer of Phish Food needs to make political statements on how to respond to humanitarian issues, when all it's doing is selling cow juice in silly buckets to people who've smoked too much dope... It's not even that commercially smart for the company, given most people hate wokeism and all it stands for."
Sunday Times columnist Camilla Long on Ben & Jerry's after the ice-cream brand called for Britain to let in migrants coming across the Channel

©Getty Images

Britain's creaky state needs fixing

Education secretary Gavin Williamson: given the "disbenefit of the doubt"

©Getty Images

conservativehome.com

It's the same story every time, says Daniel Hannan. Something bad happens. We demand, in an "angry but unfocused way", that "Something Be Done". We focus our anger on politicians – and urge them to step back and trust the professionals instead. Then, when they screw up, we again rage at the ministers.

Who should carry the can?

The Covid-19 crisis has been no exception, from the failure of Public Health England (PHE) and the NHS to procure protective medical equipment to the exams fiasco. "It has long been a convention in this country that ministers carry the can – a good and necessary one. The problem is when ministers have had nothing to do with the can until it is thrust into their hands." Education secretary Gavin Williamson, for example, did not personally draw up the algorithm that predicted students' grades. The procedure agreed upon drew on input from hundreds of interested parties, including the unions. But Williamson had the can thrust upon him, and no one needs to point to any specific failing because politicians "enjoy the automatic disbenefit of the doubt".

What this debacle and the "obvious incompetence" of PHE and NHS administrators shows is the "hopelessness" of our "quango state". Britain was sick long before it caught the coronavirus. But as in previous crises, it is the administrative state that is failing, not the country as a whole. In March 1978, for example, outgoing ambassador Nicholas Henderson penned a valedictory despatch bemoaning the mess Britain was then in. Yet Britain was then on the cusp of a national revival. "In the 1980s, free to pursue their ambitions, the British outperformed every European economy and resumed their place at the world's top tables."

We shouldn't make the mistake of thinking that the failure of our bureaucracies denotes a general national failure. Before the Covid-19 crisis hit, Britain was a "prosperous and successful country, leading the world in biotech and artificial intelligence, higher education and the audiovisual sector, legal and financial services". That hasn't changed. We "face a specific and remediable problem, not a general decline".

Back in January, the government's determination to tackle the quangocracy seemed "a slightly recherché and eccentric priority. Not any more". Ministers must by now be aware of "how rusted and useless the machinery of state has become. They have four years to fix it".

US metal bashing did not decline

voxeu.org

It is well known that US manufacturing has been in decline since 1979, say Teresa Fort, Justin Pierce and Peter Schott. Some blame globalisation or the introduction of new machinery for the job losses. But a closer look reveals a different picture. Our study of the US Census Bureau's Longitudinal Business Database, which tracks the employment of private, non-farm US employers from 1977 to 2012, highlights three trends that help explain what has happened. First, the decline in manufacturing firms' manufacturing jobs since the peak in 1979 is more than offset by a rise in their non-manufacturing employment, particularly in retail and business services. Over the period, manufacturing firms shed 6.7 million manufacturing jobs but gained 10.6 million non-manufacturing workers. Second, most of the jobs lost were due to plant closures within firms that continued as a going concern. Third, US manufacturing job losses were particularly severe in the north and east of the country, due to firms relocating to the south and west. "Combined with previous research demonstrating a concomitant increase in US manufacturing real value added, these trends suggest substantial increases in labour productivity, and an evolution of US manufacturing in line with US comparative advantage."

The return of the cruise

theconversation.com

When the cruise industry was put on hold due to coronavirus, it wasn't just bad news for tourists, say Liz Sharples and Kokho Jason Sit. The CLIA trade body says the hiatus would also cost the UK economy £888m and lead to the loss of more than 5,000 jobs. The industry supports more than 40,000 direct jobs in the UK and generates £10bn.

So a lot is riding on the MSC Grandiosa, the first major cruise ship to take to the Mediterranean in almost five months. A range of measures have been brought in to "limit the spread of the virus", such as regular testing and cuts in passenger numbers, which the cruise industry hopes will help restore consumers' confidence.

Cruise liners are taking the leap

©Getty Images

Slashed prices might also help lure them back. There are already deals available to book for next year, offering discounts on cabin upgrades and drinks packages. Customers might not need much luring, however. Cruise passengers are "notoriously loyal" and studies have shown that tourists soon flock back following disasters. A survey by the CLIA says that nine out of ten passengers will "probably or definitely" cruise again. All aboard!

Lockdown hammer smashes progress

aier.org

Widespread fears – of overpopulation, terrorism, inequality – are usually wildly overblown, says Donald Boudreaux. But my "natural state of optimism" is taking a battering in the face of Covid-19 "hysteria". The image that arises is of a sledgehammer. The blunt and heavy instrument of lockdown has been swung down on society by the state. While it presses down on the rubble, there is little scope for human creativity and markets to work their magic.

When the hammer is finally lifted, will we "rise, dust ourselves off and climb back onto the happy track that we were on prior to March 2020"? It's possible, of course. But the hammer itself is now a new part of reality. We now know that it is there, "looming overhead". We have good reason to worry that the state will swing it down again every time any new pathogen emerges and makes news – as is inevitable. Who will want to start new ventures and invest knowing that that hammer is on a hair trigger, ready again to destroy livelihoods and billions in capital value?

Why you shouldn't overlook Southeast Asia

The region started this decade as the next hot emerging-market growth story. Investors were let down by weak growth and bad politics, but it's getting cheap enough to be interesting again, says Cris Sholto Heaton

It was just over ten years ago that investors began rediscovering their enthusiasm for Southeast Asia. After shunning the region in favour of China, India and other countries, such as Brazil, many suddenly became aware that it had just as many points in its favour as more fashionable emerging markets.

A young workforce, especially in countries such as Indonesia, the Philippines and Vietnam. The promise of soaring foreign direct investment as companies shifted manufacturing away from China. An expanding middle class and rising consumer spending. A huge opportunity to reach new customers in sectors such as financial services. Steady progress in cutting trade barriers and improving the flow of goods and services via the Association of Southeast East Asian Nations (Asean) trade bloc. Abundant optimism that countries could raise already strong growth further by investing in infrastructure and introducing economic reforms. The list was long and the story was compelling.

While Southeast Asia never became a blockbuster investment theme in the way that the Brics (Brazil, Russia, India, China and South Africa) did in the previous decade, the potential for an area with a combined population of more than 600 million to create an economic powerhouse still attracted plenty of attention. I remember many fund managers who had no interest at all in any of these countries in 2009, but were very keen to talk about what they were buying there a few years later.

And so between the bottom of the global financial crisis in 2009 and the beginning of 2013, the MSCI Asean index – which includes the emerging markets of Indonesia, Malaysia, the Philippines and Thailand, plus the developed but closely connected market of Singapore – returned almost 170% in US dollar terms, compared with around 100% for the MSCI Emerging Markets. The MSCI Philippines, MSCI Indonesia and MSCI Thailand indexes all gained 200%-250%.

Not just a Covid-19 meltdown

Fast forward to today. The MSCI Asean is down by more than 17% this year in US dollar terms, compared with a loss of just 1.5% for the MSCI Emerging Markets. Fears about the impact of Covid-19 on the economy have played a part in that. Some countries, such as Thailand, are especially dependent on tourism; others, such as Indonesia and the Philippines, have inadequate healthcare systems that have struggled to cope. But in reality, this is just the endgame for a trend that's been in place for several years.

The MSCI Asean peaked as long ago as the beginning of 2018, but it had been struggling to make consistent headway since those stellar returns ended around 2013. Gains over the last five years averaged just 0.3% per year; the equivalent figure for MSCI Emerging Markets is 6.5%, even after the recent sell-off. And this weakness is broad-based; the best performer over five years is Thailand (3.25% per year), the worst is the Philippines (-5.2% per year).

"The MSCI Asean index is down more than 17% this year"

This is definitely not the kind of performance that investors were promised when they decided to forgive and forget Southeast Asia's last cycle of boom and bust in the mid 1990s. That era culminated in the Asian crisis of 1997-1998, International Monetary Fund bailouts for Indonesia and Thailand, and a trail of economic wreckage and social upheaval across the region. The damage this time is nowhere near as bad. The disillusionment is more muted. But make no mistake, Southeast Asia is out in the cold again.

The region is a diverse set of countries, so one can't pin this depressing record on a single factor. Some economies are quite geared to the commodity cycle, so the 2010s have been much less helpful to them than the 2000s; others are not and should have benefited from lower commodity prices. But there are two broad trends that probably explain much of the problem.

Too much money chasing too few returns

One is simply the glut of investment. In the first half of the past decade, as investors got increasingly excited about the region and piled back into local markets, valuations rose to a point where there was no margin for error if expectations weren't met. Several countries were trading at price/earnings (p/e) ratios above 20 at their peaks. If economic growth had accelerated and corporate profits done likewise, that could have been justified. But they didn't: even before Covid-19 upended the world, most of Southeast Asia was going the wrong way. Indonesia began the decade with GDP rising by more than 6% per year and aspired to lift that to 7% or more; by the end of last year, it was struggling to hit 5%. The Philippines started at 7%, last year it posted 6%. This may sound okay – but it's not enough given their young and growing populations.

Profits in some cases peaked as long ago as 2013-2014 and suffered years of declines; smaller firms were especially affected. The exact reasons vary between sectors and countries, but in many cases it's due to rising competition and increased investment, creating capacity that wasn't matched by higher demand.

Not all of this is Southeast Asia's fault. Growth has been disappointing in most of the world since the global financial crisis; the winners have typically only been winners in relative rather than absolute terms. But the inability to take advantage of what growth there is – and to use the global glut of cheap money to invest in and improve its economic potential – is self-inflicted. The perennial millstone for most of the region is a set of political systems that range from the merely bad to the stupefyingly dysfunctional. At the start of the decade, it felt like the trends in most of these were finally moving in the right direction; as we reach the end, they have slipped backwards.

An endless series of dreadful elections

Most notably, the Philippines elected the authoritarian yet incompetent Rodrigo Duterte as president. His six-year term will at best end up undoing the limited amount of political and economic progress that was made under his predecessor Benigno Aquino III; more likely, his assaults on his opponents and rampant cronyism will leave an already corrupt political system and flimsy rule of law in far worse shape. Unlike fellow

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Vietnam is risky, but has exceptional prospects for growth

incompetent populists such as Donald Trump in the US and Jair Bolsonaro in Brazil, Duterte continues to enjoy very high public approval ratings, which testifies to how low the standards in Philippines politics are. The best hope for the country is that this does not translate into the ability to hand the presidency to a relative or an aide when his term ends.

Duterte is the most horrendous example. But in Indonesia, Joko Widodo has been a growing disappointment as president. Although he came to power in 2014 on a platform of cleaning up the country, reforms have been limited and anti-corruption forces have been weakened. In his second term he has cosied up to Islamists, choosing a cleric as his vice president, and to key figures from Indonesia's era of dictatorship. Jokowi, as he's popularly known, is promising sweeping reforms and more investment in infrastructure, some of which may yet come to fruition; he is by no means an outright disaster like Duterte. Still, so far Indonesia has not taken major strides forward under his tenure.

Elsewhere, the ongoing schism between the electorate of Thailand and the ruling elite shows no signs of ending. Voters would like to pick a government that they believe represents their interests, but the elite dislike the leaders that the majority chooses and quickly evict them from office through coups or legal chicanery. After the last coup in 2014, the military junta rigged the electoral system in their favour to ensure the 2019 elections produced an elite-approved government headed by former junta leader Prayuth Chan-ocha. The erosion of even the veneer of democracy wouldn't necessarily be a disaster if the government had the competence to follow the policies Thailand needs. So far, they've shown no signs that they do, which is no surprise – if the elite knew how to improve the lives of the majority of their people, perhaps they'd be able to win a fair election.

And then there's Malaysia, which offered the sole glimmer of political progress last time I wrote about the region in MoneyWeek a couple of years ago. Back then, voters had surprisingly kicked out the corrupt and increasingly hopeless United Malays National Organisation (Umno) party that had ruled the country since independence. The replacement was an unruly coalition headed by Mahathir Mohamad, a former Umno leader who is deeply flawed but still one of the best leaders Malaysia has had and a good deal better than his successors. Unfortunately, predictable infighting in the coalition led to the collapse of the new government. Now Umno is back in power under new leadership and showing no signs that it has learned any lessons during its spell out of office.

Vietnam, of course, remains stable under its nominally communist one-party state. Wealthy Singapore is still governed by the People's Action Party (PAP), which – like Umno – has been in power since independence, but – unlike Umno – has at least some idea how to make a country richer. But overall politics in Southeast Asia has been a vast disappointment in the past decade, which goes a long way to explaining why the progress that investors hoped for – and, crucially, paid up for – has not materialised.

Continued on page 20

"Indonesia began with 6% GDP growth, by last year it was 5%"

Continued from page 19

When pessimism is an investor's friend

At this point, it probably sounds like there are no good reasons to invest in Southeast Asia – and the more this sentiment takes hold among investors, the better. That's because all the positive points about the region – demographics, foreign direct investment, the evolution of consumption and so on – haven't vanished. The problem is that they've been outweighed by high valuations, poor growth and bad governance. Valuations are now being corrected and growth goes in cycles; sooner or later, good times will return to these markets. Whether investors will then want to hold these countries for the long term or just until the cycle peaks again will depend on whether politics improves and that remains impossible to say.

Let's be clear: Southeast Asia will not lead the emerging market recovery from Covid-19; the trend suggests that the East Asian economies of China, Korea and Taiwan will take that role. But opportunities are emerging for patient investors to capitalise on when the global recovery is under way.

Best of all, there's Vietnam. It is unique in Asia – possibly even in the world – in having a clear path to following the kind of development model so successfully embraced by Korea, Taiwan and China: a focus on export manufacturing in which companies consistently strive to move up the value chain. Demographics, education, location, low labour costs, foreign investment – all are helpful. There is no certainty that it will succeed. The government made major mistakes in the past: it squandered billions trying to make inefficient state-owned conglomerates into national champions instead of concentrating on helping private businesses. But the ingredients are there that could lift Vietnam to at least middle-income status and hopefully beyond. Like most frontier markets, Vietnamese stocks have a frustrating record of boom and bust, but on a p/e of less than 16, it is an attractive if risky bet for the next decade.

Both Indonesia and the Philippines now look better value (on p/e ratios of 14.5 and 13.5 respectively).

A glove factory in Malaysia: demand is booming due to Covid-19

The coming year will be dreadful for earnings due to Covid-19 and if the political headaches on the previous page don't worry you, they should. But at these prices, there is a better balance between potential and risk than there was when they traded at over 20 times earnings. Singapore offers decent value on a p/e of 11 (its economy won't grow fast, but many of its companies benefit from regional growth). Malaysia and Thailand still look expensive, on valuations of 20 and 19.

Finally, because the Covid-19 crisis followed years of poor returns, investors who were still bothering with the region were already favouring larger companies whose valuations have held up better in recent years. That means that opportunities in small stocks are likely to be even greater. Bold investors – and there is probably little appeal to investing in a region like this at present unless you feel bold about its prospects – should look beyond the obvious. That's why my main picks below include trusts for small caps and Vietnam, and also include a few smaller stocks, rather than the banks, telecoms and so on that dominate the index.

> *"Vietnam is a boom and bust market, but is an attractive bet for the next decade"*

How to buy into Southeast Asia

The best way to invest in Southeast Asia now is through an investment trust. Investing in an out-of-favour region requires patient, permanent capital. Otherwise the impact of fellow investors giving up and pulling out their money can be too hard to manage. Just this month, Waverton said that it is closing its Southeast Asia fund after assets shrunk too far. This is an unfortunate loss: I wrote about this fund several times in MoneyWeek and still think it had the right long-term strategy for markets like these. It demonstrates only too well the difficulty of running open-end funds in situations like these and also shows the extent to which investors have turned against the region.

As far as I know, there are no dedicated regional funds left for UK investors, so my pick is **Aberdeen Standard Asia Focus (LSE: AAS)**. This is an Asian small-cap fund, but like many Aberdeen funds, it is more heavily invested in Southeast Asia than its peers. Slightly under half of the portfolio is in the region. That weighting has been a drag on performance: its net asset value has gained just 32% over five years, against a 69% gain for the MSCI Asia Pacific ex Japan index. But if you believe Southeast Asia will recover, that shortfall is exactly why you'd consider investing. The trust had ongoing charges of 1.16% last year and is on a discount to net asset value (NAV) of 13.6%.

Vietnam is at most a tiny holding in any broad Asia or Southeast Asia fund, so if you are keen on its long-term potential, you need one that invests only in the country. There are two main ones listed on the London Stock Exchange: Dragon Capital's **Vietnam Enterprise Investments (LSE: VEIL)** and VinaCapital's **Vietnam Opportunity Fund (LSE: VOF)**. The former invests mostly in listed stocks, while the latter has around 57% in listed stocks and most of the rest of the portfolio in unlisted stocks and private equity. Five-year returns are similar: Vietnam Enterprise Investments has grown its NAV by 63% in US dollar terms over five years, compared with 47% for the VN index benchmark, while Vietnam Opportunity Fund has returned 61%. VEIL had ongoing charges of 2.16% and is on a discount to NAV of 10%, while VOF had ongoing charge of 1.7% and is on a discount of 19% (funds with unlisted assets tend to trade at a larger discount due to greater uncertainty over their value).

Investors who prefer to buy stocks directly may want to start in Singapore, where plenty of companies look quite cheap if you are optimistic about a recovery. **Jardine Cycle & Carriage (Singapore: C07)**, part of the Jardine Matheson group, mostly operates in the motor trade in Indonesia. The trailing p/e ratio is just 6.4, although this year's earnings will be much worse. **Silverlake Axis (Singapore: 5CP)** is a Malaysian firm that supplies software to several major regional banks. It's on a trailing p/e of 11. **Thai Beverage (Singapore: Y92)**, one of the region's largest beer and spirits firms is trading on around 15 times last year's earnings. **Delfi (Singapore: P34)** is the leader in confectionary in Indonesia; it's suffered from rising competition, but a trailing p/e of 11 prices in a lot of bad news. **Haw Par (Singapore: H02)** makes the iconic Tiger Balm liniment and owns other assets, including a stake in a major Singapore bank (UOB).

A brighter future after Covid-19

This period of structural economic upheaval may cause more good than harm, says Max King – if Britain can take advantage

One of the more interesting books on my reading list at university was S. B. Saul's *The Myth of the Great Depression*. By "Great Depression", Saul meant not 1929-1933, but 1873-1896, a period of sustained price deflation that caused real hardship in the UK. Positive supply shocks and revolutionary technologies drove down prices. For instance, the opening up of the prairies, the pampas and Australia to farming, combined with falling freight rates by land and sea, lowered the cost of food.

In *Black Diamonds*, Catherine Bailey points out that in 1870, Britain produced half the world's coal. But by the mid-1920s, it produced barely a fifth as new producers in Africa, China and India dug coal at one-third of the British cost. The distress among coal miners, agricultural workers and the landed gentry who had built their fortunes on coal and farming was widely evident. Rural areas, such as East Anglia, depopulated and emigration soared. In the economy as a whole, however, nominal wages were at least stable and real (inflation-adjusted) wages rose as prices fell. Output in real terms rose as most of the economy prospered. So why was this period widely thought of as a depression? The distress of the losers was much more visible than the content of the winners and that drove perceptions.

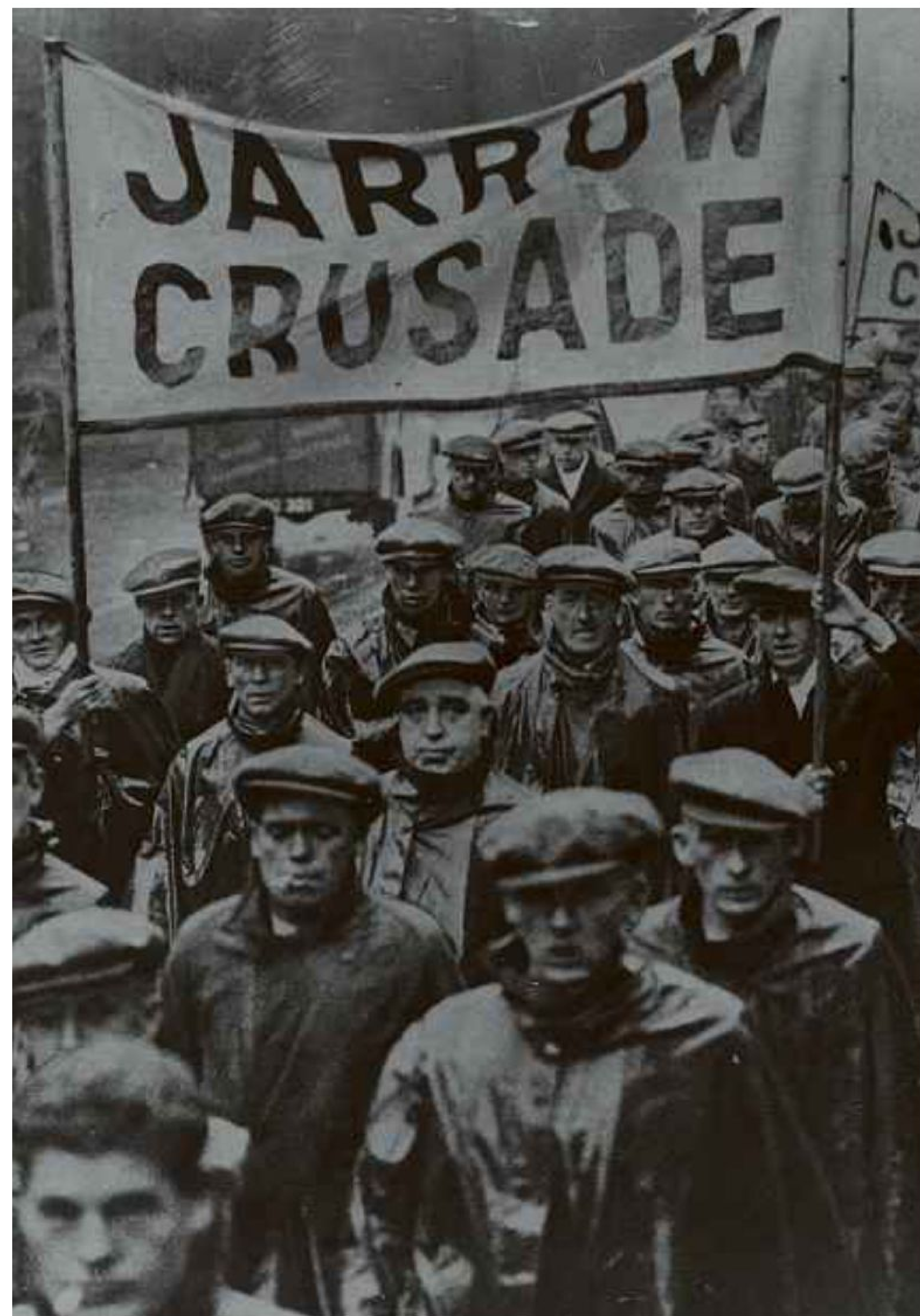
Similarly, the 1920s were a difficult time for the UK, especially for traditional industries such as iron and steel, shipbuilding and coal mining, exacerbated by the austerity caused by Britain's rejoining of the gold standard in 1925. But in 1931, Britain abandoned the gold standard and the economy enjoyed a boom, driven by what were then new industries such as cars, electrical goods and aircraft. Unlike France, which only devalued in 1935, Britain declared war in 1939 from a position of sustained economic strength. Yet the popular narrative, driven by pictures of the Jarrow marchers and tales of the suffering of the miners, is that this was a period of unemployment and deprivation. In a period of structural economic change, the losers were again more visible than the winners.

And so to another period of economic upheaval, the early 1980s. A sclerotic economy was upended by tight monetary and fiscal policy together with the consequent appreciation of sterling. Unemployment soared to over three million. But while industrial output fell, services continued to grow. When all the data revisions were in, it became clear that the recession was shorter and shallower than thought at the time; output fell by less than 3% in 1980-1981 and grew strongly thereafter.

Another leap forward?

Is economic history repeating itself? Gloom about the economic outlook is pervasive as businesses close down and job losses are totted up daily. But maybe a shake-out and a technological leap forward is just what the economy needed. As is normal in recessions, companies have had to cut costs, improve efficiency and change their business practices. A slow migration to online shopping has been massively accelerated by lockdown and many struggling businesses have closed down, but it's not obvious that the productive capacity of the economy has suffered. A shift from consumption to savings and investment may actually improve stability. Employers have found that working from home raises productivity and new business opportunities have opened up.

"Employers have found that working from home increases productivity"



©Getty Images
In times of change, losers are more visible than winners

Growth should accelerate in the next decade

Anatole Kaletsky of Gavekal Research thinks that markets are signalling a capital-intensive improvement in the structural and technological drivers of growth. While others assume that massive fiscal stimuli around the world financed by money printing will lead to inflation, Kaletsky says that "in a world of excess capacity and mass unemployment, the present combination of vast government borrowing with monetary expansion will not fuel inflation until most of the excess capacity is exhausted".

With China continuing to develop and the EU no longer constrained by its members from fiscal and monetary expansion, "there are both macroeconomic and structural reasons to expect stronger growth in the coming decade than in the past ten or 20 years". Consequently, "Covid-19 does turn out to be a blessing in disguise for economic policy and asset prices".

Kaletsky, though, is writing about the world, not the UK. Here, equities are not signalling great optimism about the future. The opportunity for a far better outcome than conventional wisdom expects is there, but the risk of government bungling is ever present. Driven to panic by the budget deficit, the government could crush enterprise by hiking taxes. Extravagant expenditure on pointless vanity projects, such as HS2, is official policy and there has been plenty of reckless spending in its Covid-19 response. Bungled trade negotiations, misguided policies and overconfidence in a centralised state look more likely than not.

For now, there should be no need to worry about markets, the global economy, inflation or the euro. Another "myth of the Great Depression" is playing out. But whether Britain will outperform, as it did in previous periods of structural change, or underperform with dire consequences, as France did in the 1930s, is far from clear.

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A windfall for teenagers

Child trust funds are maturing. Where should the money go?

Ruth Jackson-Kirby
Money columnist

With the first child trust funds set to mature in September teenagers are going to get their hands on a total of around £6bn. So what should they do with it?

Children born between 1 September 2002 and 1 January 2011 were given a child trust fund (CTF), the precursor to junior individual savings accounts (Jisas). The government deposited £250 (or £500 for low-income families) into the account; then parents, family and friends could add to it. If the child turned seven before 31 July 2010, they got another £250 or £500 from the government.

So, even if no-one else ever paid any money into the account there could be as much as £1,000 plus interest waiting for the child when they turn 18. "Lucky teenagers will be able to celebrate attaining adulthood…[with] free money from the government," says Ian Cowie in The Times. How much they'll get depends on which CTF option their parents chose.

If they stuck to cash then £100 would now be worth around £171, given average interest rates on savings accounts. That's enough to beat inflation, but pales when compared with the returns CTFs invested in the stockmarket may have enjoyed. "Those willing to accept some risk have mostly been well rewarded," says Cowie. "The average UK All Companies investment trust turned £100 back then into £220 now."

While some may only have a few hundred pounds in their account, others could have far more. "Someone who got the two £250 government contributions" as well as £100 a month from their parents since birth, and invested the money in the FTSE 100, would now have £33,564, says Rupert Jones in The Guardian. But whatever the size of the CTF, it is now time to decide what to do with the money.

Where to find lost accounts

If the CTF provider has the right contact details the child should receive a statement to remind them about their account and how much is in it just before their 18th birthday. They can then withdraw the money once they are 18. You can track down lost CTFs via the Share Foundation's free search service (findctf.sharefound.org) or the government's own Find a Child Trust Fund web page (gov.uk/child-trust-funds/find-a-child-trust-fund).

If they don't take the cash, then the money will automatically be moved into another tax-free account, which is likely to pay a pitiful interest rate. So, if the money isn't going to be spent it is important to shop around and find a good new home for it instead."Interest rates are low... so they should think about investing it instead, for something like a house deposit in the future," says Martin Shaw of the

©Alamy

Some lucky 18 year-olds will celebrate adulthood with free government money

Association of Financial Mutuals in The Daily Telegraph.

If the money is going towards a house, then a Lifetime Isa could be a good new home, as long as you have less than £4,000 to invest. It can continue to grow tax-free and when it's used for a deposit on a first home the government will add a 25% bonus. But you can only save a maximum of £4,000 a year and it can only be accessed to buy a house, or once you are over 60, so be certain before choosing this option.

Alternatively, "it's easy to convert a CTF into an adult Isa and moving the money across won't count towards their annual tax-free limit", says Shaw. The best rate currently available on a cash Isa is 1.3% from United Trust Bank, but it is a seven-year bond. For instant-access accounts, NS&I are paying 0.9%.

5 Reasons to Buy Physical Gold...

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

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

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

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

5 **No counterparty risk** - When you invest in physical gold you own it outright. You are not reliant on banks or financial institutions. In contrast, you are reliant on firms for gold futures, gold certificates, or ETFs - exposing you to counterparty risk.

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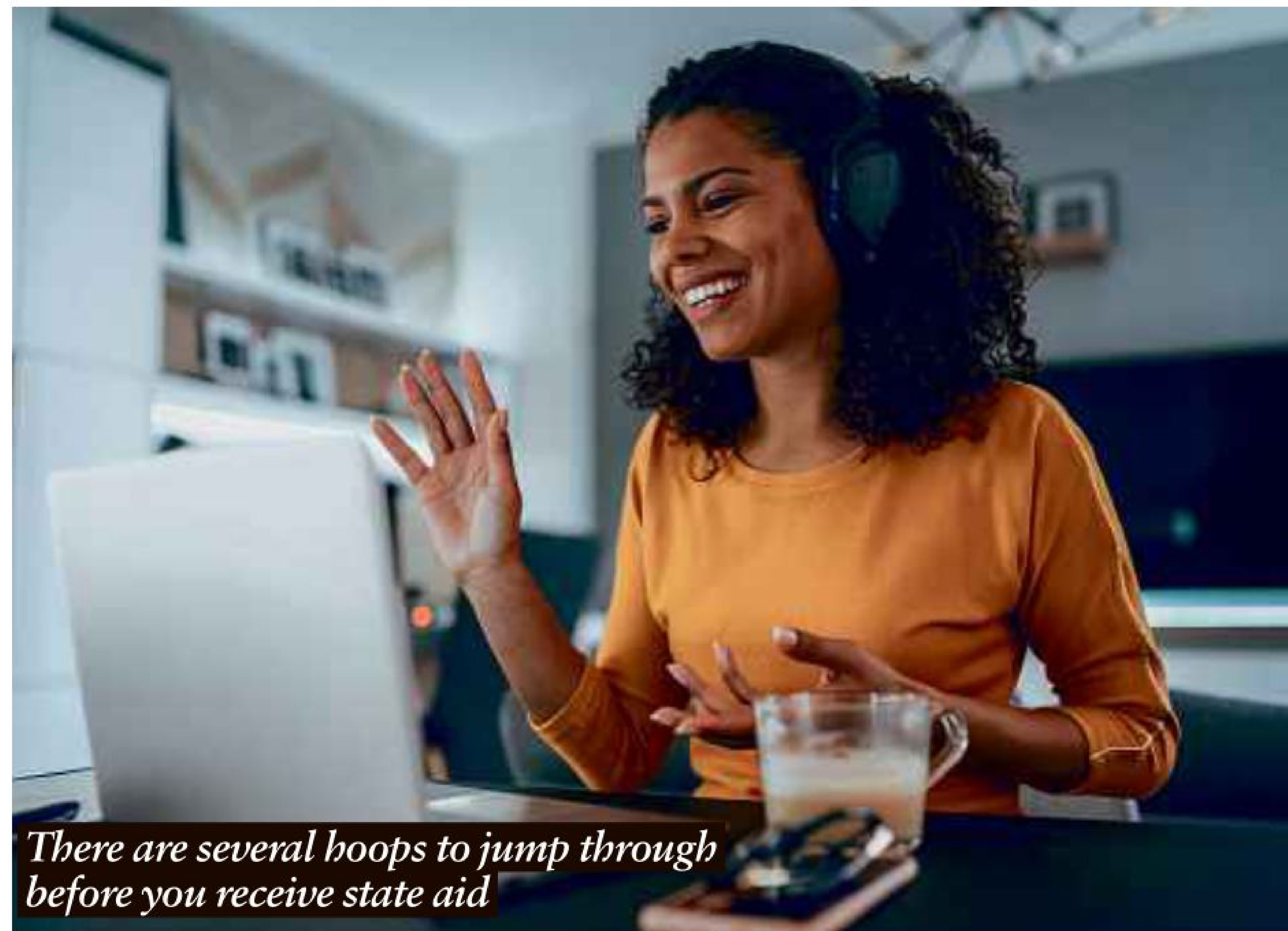
Help for the self-employed

The second round of the government's SEISS scheme is now open

David Prosser
Business columnist



There are several hoops to jump through before you receive state aid

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Self-employed people adversely affected by the Covid-19 pandemic have just over six weeks to claim support from the government's Self-Employment Income Support Scheme (SEISS). The second round of the scheme, which offers grants of up to £6,750, opened last week and applications will be accepted until 19 October.

The SEISS aims to fill some of the gap into which many self-employed workers have fallen because they are not eligible for other types of business support. Assuming you meet the qualifying criteria, it will pay 70% of your average monthly trading profits over the past three tax years. The non-repayable grant is paid in a single instalment and covers three months' profits, up to a maximum of £6,750 (the equivalent of £2,190 a month).

In theory, HM Revenue & Customs will contact you if it thinks you are eligible, inviting you to apply. But in the first round of the scheme, not all those eligible received invitations, so it's important to check. Equally, the fact HMRC suggests you may be entitled to claim doesn't mean you definitely qualify. There is some evidence people have been wrongly paid grants and they may have to return this money.

The key criteria

The qualifying criteria can get quite technical, but the basics should give you a good idea of whether you are eligible. You must have filed a tax return for the 2018-2019 tax year; your average annual trading profit over the past three years must have been less than £50,000; and you must earn more than 50% of your total income from self-employment.

If you meet these criteria, go through HMRC's application process to check whether you definitely have a claim. Importantly, however, you must also be able to show your business has been "adversely affected" by Covid-19. And in this second round of the SEISS, the test is whether the business has suffered after 14 July.

This means whether or not you claimed help in the first round of SEISS is irrelevant to your application this time around. In practice, "adversely affected" will mean different things to different firms. HMRC's examples include people who have been unable to work because they are on sick leave owing to Covid-19, or because they're shielding or self-isolating, or have caring duties. It also cites companies that have had to scale down or close altogether due to the virus – because of loss of business, for example, but also because of supply chain problems or employees' inability to come into work. There is no hard and fast definition, but you do need to keep evidence that proves your claim. HMRC may ask for details in the future.

> *"If you claimed help in the first round, you can apply again"*

One irony of the scheme is there is no requirement to show you actually need the money. If your business is trading comfortably for now but has suffered at least some adverse effects from the virus, you may claim. Whether you do so or not is then a personal decision. To make your claim, use the official government portal on the gov.uk website. You will need a Government Gateway account, your self-assessment unique taxpayer reference, your national insurance number and your bank details. Make the claim yourself, rather than asking your accountant to do so.

Revenue-based loans launched

Could revenue-based finance help your business grow? Many small businesses are reluctant to take on debt, even where it could power valuable investment, because they worry about their ability to remain on top of repayments if their trading deteriorates. But what if your loan cost less in that case?

This is the pitch being made by a number of innovative new business lenders such as Uncapped, which has just launched in the UK. It offers loans of between £10,000 and £2m with a flat fee of 6% of the sum borrowed and repayments that flex from month to month until the loan is repaid. In good months for the business the borrower pays more, but when revenues go down, so does the loan repayment.

Uncapped is one of several lenders pioneering this type of finance in the UK; others include Fleximize and Uplift1. These lenders are taking advantage of advances in data analytics, making their loan offers on the basis of detailed scrutiny of borrowers' accounts.

Revenue-based finance isn't appropriate for all businesses. Lenders are targeting companies with predictable revenue streams, such as those that charge their customers monthly subscription fees, and those that primarily trade online. But for those eligible, this could be a less risky way to borrow for future investment.

Teaching entrepreneurs leadership

● Entrepreneurs who launch fast-growing companies are not necessarily equipped with the management and leadership skills they need to run their organisations as they expand. If that sounds familiar, a free government scheme launched as part of its attempt to support small businesses in the wake of the pandemic could prove valuable. Ministers have committed £20m to the Small Business Leadership Programme, which offers online coaching designed to help decision-makers in small and medium-sized firms develop strategic leadership skills. The scheme runs over ten weeks and will be delivered by a consortium of business schools with government backing. To apply, you must be a decision-maker or member of the management team at a business with between five and 249 employees.

● Small business advisers are warning that many directors of limited companies do not realise they are potentially eligible for statutory sick pay (SSP) if they are off work because of Covid-19 or for another reason. While the self-employed typically miss out on SSP, those who are set up as limited companies are employed by those companies when they act as directors. This means they are entitled to claim SSP of £95.88 a week for up to 28 weeks. Typically, you can't claim SSP until you have been off work for four or more days in a row, though the government has changed the terms of the scheme for Covid-19 cases so that people become eligible for help from day one.

● A fifth of small enterprises in the UK are planning to downsize their offices and encourage more remote working in the wake of the pandemic. Research from Santander suggests many see a chance to reduce costs by cutting down on the space they use, having traded successfully without it during lockdown.

Three global small caps set for a big bounce

A professional investor tells us where he'd put his money. This week: Trevor Gurwich, Portfolio Manager, American Century Global Small Cap Equity Fund

Early in the Covid-19 crisis our focus on companies with accelerating and sustainable earnings growth prompted investments in companies that were beneficiaries of stay-at-home measures. Examples included online education, video-gaming and data-centre companies.

We are now observing the recovery in markets that have been hit by the virus. Signs of improvement or stabilisation are being buttressed by substantial fiscal stimulus measures. As a result, our investment strategy is now also highlighting companies that may have suffered during the crisis but are likely beneficiaries as economies begin to reopen.

A gym operator in solid shape

Take **Basic-Fit (Amsterdam: BFIT)** a low-cost gym operator in Benelux, France and Spain. It operates in markets that are underpenetrated and not very competitive. While the company's revenues were severely affected in the short-term due to lockdowns and stay-at-home measures, we believe it may benefit as economies start to reopen.

Encouragingly, the company experienced low cancellation rates during the first months of the pandemic, which bodes well for its medium to long-term profitability.

Basic-Fit is also well positioned owing to its investments in technology. Its software should allow it to manage the entry and booking processes at its gyms effectively and facilitate social-distancing measures. Gym memberships are also now rising. Furthermore, Basic-Fit recently raised extra funding, which we believe will be supportive of future revenue growth and market-share gains at the expense of the company's weaker competitors.

Chinese luxury cars are ready to motor

Another eye-catching stock is **China Yongda Automobile Services (Hong Kong: 3669)**, a nationwide car dealer specialising in luxury vehicles. Yongda has a leading position in the sale of BMWs and Porsches, brands with strong growth prospects and pricing power.

Last year, sales of new cars in China dropped sharply and the sector was hit hard in the first quarter by Covid-19. However, premium-car sales rebounded in April. Showroom traffic at car dealerships also recovered. We believe Yongda is well-positioned to deliver top-line growth and margin improvement as car sales continue to strengthen. It is also a beneficiary of rising car ownership and the growing popularity of luxury goods in China. Covid-19 may also raise car-ownership rates as consumers avoid public transport.

Crocs crunches costs

Crocs (Nasdaq: CROX), a global leader in casual footwear, is another potential recovery beneficiary. The company spent years trying to make its operations more efficient and reduce costs. Before the crisis the business was performing well, with sales rising. However, the pandemic led to supply disruptions and store closures. The shares declined by over 70%.

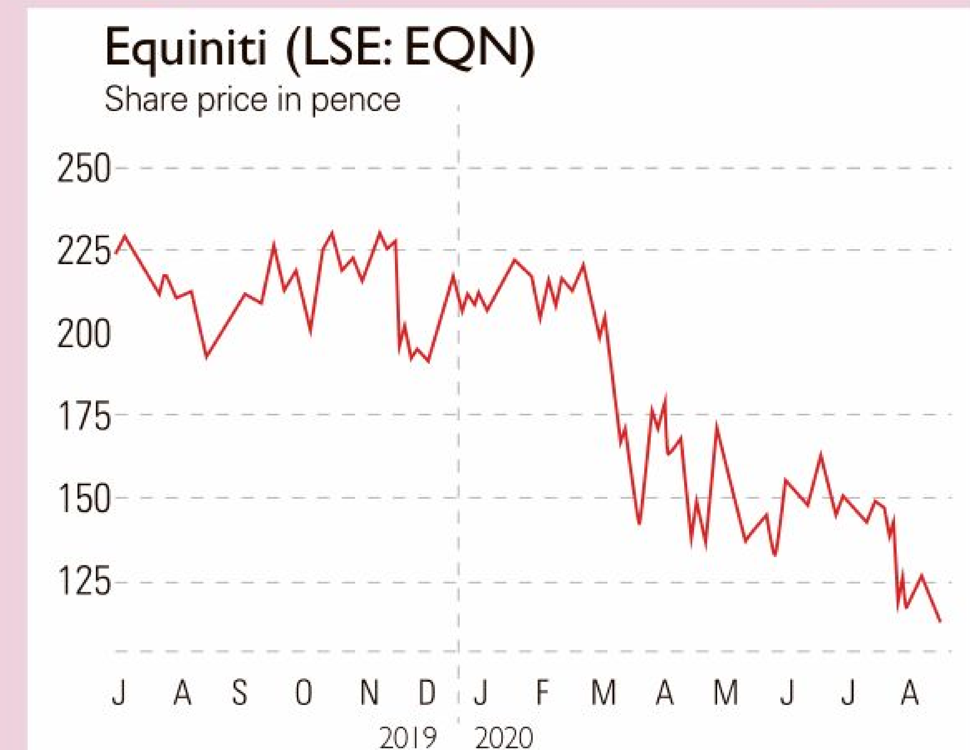
"Covid-19 may boost car ownership as people avoid public transport"

We viewed the share-price decline as an opportunity to own a well-run business with a strong brand. Crocs has seen a recovery in sales in China and Korea, while crocs.com and other digital-commerce channels have remained open. Consumers' migration to online shopping also bodes well. We believe store reopenings and a lower cost base will create sustainable and accelerating earnings growth.

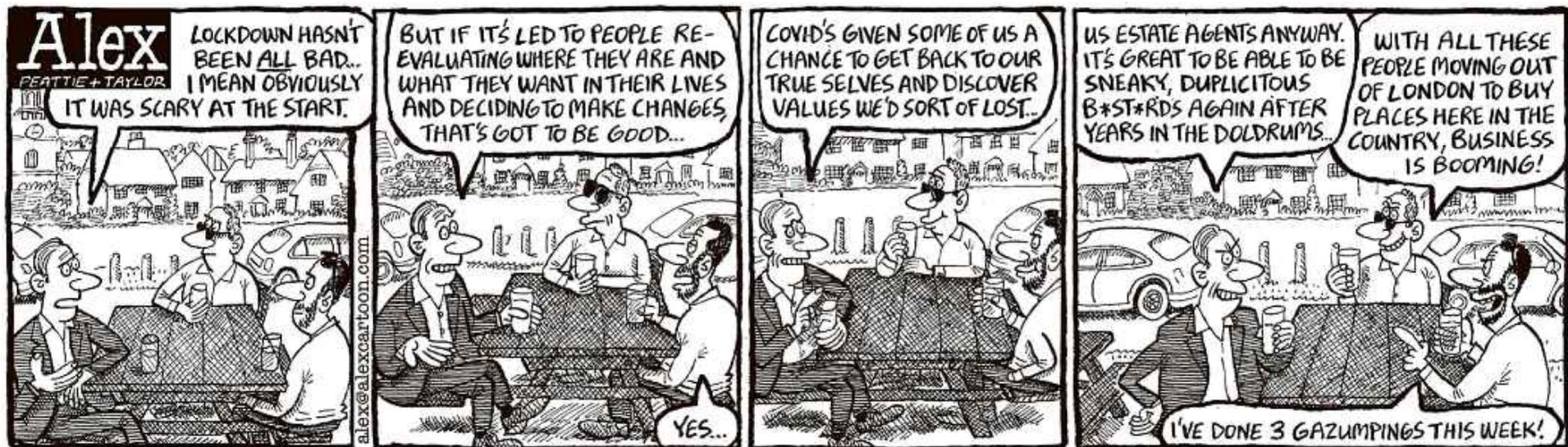
If only you'd invested in...

ASOS (LSE: ASC) is a UK retailer of online fashion and cosmetics to young adults. It sells over 850 brands as well as its own range of clothing and accessories. Shares in the company jumped by 10% last week on unexpectedly good news, says Paul Summers in The Motley Fool. ASOS said that sales growth for its full financial year (ending 31 August) is likely to reach between 17% and 19%. The stock has been one of the market's best performers since the crisis began, says IG, thanks to the public's affinity for affordable clothing. The shares have gained 118% in 12 months.

Be glad you didn't buy...



Equiniti (LSE: EQN) is a technology-focused financial and administrative services provider. Even before the pandemic the outlook was "clouded" by market volatility, weakening interest rates and the worsening trade relations between the US and China, says Mark Robinson in the Investors Chronicle. But the withdrawal of over £38bn of dividend payments by UK-listed businesses "nearly wiped out" earnings for the company, which helps many firms with payout-related administration, while Covid-19 hit software deals. The stock has slipped by 43% in the last year.



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The downfall of Trump's philosopher king

The American president's combustible former chief strategist, Steve Bannon, has gone down in flames, accused of milking a political fund for personal gain. It's not the end we'd have expected, says Jane Lewis

News that Donald Trump's former chief strategist, Steve Bannon, has been arrested and charged with fraud is bound to have ruffled a few feathers. Bannon may be yesterday's man in US politics, but he still sits at the centre of a global "spider's web of rightwing activists and politicians", says Tortoise Media. Along with three others, Bannon is accused of milking the $25m We Build the Wall fund, says The New Yorker – allegedly "siphoning" off more than $1m from donations made by hundreds of thousands of Americans, and "hiding payments through a shell company". Bannon denies the charges.

©Getty Images

*"I've made enough money. I've got not just f*** you money, I've got f*** everybody money. I could live any lifestyle I wanted"*

A taste for the high life

For years, Bannon – a former naval officer, Goldman Sachs banker and documentary-maker – has been promoting himself as a "thought leader… deeply interested in history, philosophy and economic supply chains". Yet if these charges are true, the "would-be philosopher king" would stand revealed as "just another grifter looking to exploit Trump's supporters" for his own gain.

Bannon, 66, used to boast that he had no worries on that score. "I've made enough money," he told The Times two years ago. "I've got not just f*** you money, I've got f*** everybody money… I could live any lifestyle I wanted." And for a "self-proclaimed man of the people", he clearly likes the good things in life – living "in a state of perpetual motion" prior to his arrest, "flying private" when possible and staying in luxury hotels around the world. When arraigned last week, Bannon looked "as though he had just come off a long Grateful Dead tour". He'd actually been "summering" off the coast of Connecticut on a $28m yacht belonging to exiled Chinese billionaire Guo Wengui.

Bannon's life has been "a succession of Gatsbyish reinventions", says Bloomberg. Born in Richmond, Virginia, into a working-class family, he joined the US Navy after graduation and dates his political awakening to the 1979 Iranian hostage crisis, where, from a vantage point in the north Arabian Sea, he saw "how badly Jimmy Carter f***ed things up".

Transferring to the Pentagon, Bannon took a masters in national security at Georgetown, before being lured by "the siren of Reagan-era Wall Street". He specialised in media and entertainment mergers and acquisitions at Goldman Sachs, before moving to Los Angeles to become a Hollywood wheeler-dealer.

Bannon's move into libertarian politics gained him a sinister reputation he enjoyed playing up: "Darkness is good", he liked to say. It also coincided with an emerging talent for tapping the really big money, says Forbes. Both Breitbart, an alt-right opinion site he founded, and later the Trump campaign were bankrolled by the billionaire Mercer hedge-fund dynasty. He was, however, always a divisive figure in Trump's court and, when the president "cast his former Svengali aside" in 2018, the Mercers followed suit, says The Times. Since then, Bannon has "travelled the world" on "a quest for relevance and funding".

There was always a chance that "a character as combustible as Bannon" would "end up in jeopardy", says The Times. But it was easier to imagine him "going out in a blaze of glory" making "grand declarations about revolution". In this instance, Trump is probably right: Bannon's downfall is a "sad event".

Great frauds in history… *the Butchers' corrupt banking empire*

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Jacob Franklin Butcher was born in Maynardville, Tennessee, in 1936. He worked in his father's store, which operated as an informal local bank, before graduating from the University of Tennessee and serving in the US Marines. In 1968 Jacob and his brother, C.H. Butcher Jnr, bought a small bank in Lake City. Over the next 15 years they would build a banking empire. By 1982 the brothers controlled a consumer finance company, as well as 27 banks, though a combination of equity stakes and management contracts, with total reported assets of $3bn ($7.95bn in today's money).

What was the scam?

To finance the buying spree, they would loan money from one of the banks to another, which was then used to purchase shares in a third institution, leaving the banks with high levels of debt. They also began to embezzle money to support their lifestyle, holding lavish parties with Jimmy Carter and Imelda Marcos and making a large number of reckless loans, including one to pay for a 60-foot yacht for Jacob. To hide the fact that their banks were insolvent, the brothers started to use fake loans to shuffle money between them, taking advantage of the fact they were audited on different dates.

What happened next?

By 1982 federal agents and state regulators working on individual cases started to realise that large amounts of money were being transferred around the various parts of the brothers' empire. As a result, they raided all institutions simultaneously in November 1982. This revealed the true extent of the fraud, leading to the collapse of 11 of the banks, including the United American Bank, which was the main part of the group, as well as the Southern Industrial Banking Corp, run by C.H. Butcher Jnr. Both brothers were convicted of fraud and spent time in jail.

Lessons for investors

Federal insurance ensured bank depositors got their money back, with US taxpayers picking up the estimated $382.6m ($940m) in losses. The 7,000 depositors in the uninsured Southern Industrial Banking Corp would have to wait up to a decade to get only two-thirds of their money back. Jacob Butcher told a reporter in 1976 that borrowing large amounts was like "going barefooted in the spring" – "for the first few days, the gravel really hurts. But then your feet toughen up and you don't notice it". Investors would be wiser to remain aware of what they're treading in.

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I have chosen six wines this month that are ever so slightly off the beaten track. Not so far as to be odd or intentionally quirky, but far enough to challenge the palate and, hopefully, make you fall even more in love with the diversity in our wonderful world of wine. While we love to stick to our vinous grooves, it is only by experimenting that one can truly appreciate the subtleties, traditions and regional distinctiveness of some of the world's most delicious but little-known wine styles. Yapp Brothers is a vinous treasure trove of the unexpected. I have followed their wines for over three decades and I continue to marvel at the kaleidoscopic array of flavours in this elite merchant's portfolio. Here are six wines for late summer, early autumn entertaining.

Matthew Jukes *Matthew*

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Prices shown below are per case of 12 bottles. Wines are also available in a 12 bottle mixed case (2 of each of the wines) **excellently-priced at £168.20 (saving a huge £12.00).** It's a chance for you to try them all, and it is the most popular choice with readers of *MoneyWeek*.

2019 Château La Canorgue Blanc, Luberon, France

For those new to this thriller, you will get a wondrous shock when you smell the aromas as the perfume is astounding. Musk, stone fruit, lemon oil and greengages sashay around your olfactory system while the weight and deportment of the fruit on the palate is staggering. It has the same depth as a flashy Meursault and it does the same job on your dining table, too. Made from organically grown Roussanne, Marsanne, Clairette and Bourboulenc, but with none of the oiliness that one finds on hefty Northern Rhône models this is a truly joyous wine.

CASE PRICE: £183

2018 Chinon Blanc, Jean-Maurice Raffault, Loire, France

This is the rarest of the six wines on this page, given that 98% of Chinon is red, and so this is not only a desperately rewarding wine, but it is also a fascinating curio, too. Made from organically grown Chenin Blanc, this is a bone dry wine with a brittle, crystalline chassis which is more Sauvignon-perfumed than I expected. But there is also a beguiling mid-palate weight here, too, which is a Chenin Blanc hallmark and this makes it a foodier proposition. Ideal paired with posh fish dishes, you can even turn up the spice as this wine has a steely spine and it's up for a challenge.

CASE PRICE: £167.40

2017 Willems-Willems, Riesling Trocken, Schiefer Oberemmel, Saar, Germany

Unlike everyday German Rieslings, there is something enchanting about this wine which offers a break from the norm. Delicate, gentle and rather demure at first, the slate soils introduce a stern finish which changes the game and adds unexpected drama and tension. There is a prickle of spice and white pepper, which cuts through the lovely grapefruit freshness and this means it is a wine which transforms from ballerina to ninja in the blink of an eye. So instead of genteel aperitif work, it craves sushi and sashimi with lashings of wasabi.

CASE PRICE: £183

2018 Saumur Champigny, Domaine Filliatreau, Loire, France

This wine is, quite simply, off the scale. I am a lifelong fan of Filliateau's reds and there are a good few bottles in my cellar, but this wine is not heading in that direction because it needs no ageing at all. It is 100% drinking now meaning this sumptuous wine can head straight for your dining room table. This is the finest, forward-drinking Cabernet Franc of the year and it is slippery, violet-scented and damson-soaked. The flavour is effortless, gliding across the palate serenely and then it finishes so clean and bright each sip comes with its personal exclamation mark!

CASE PRICE: £167.40

2017 Côtes-du-Rhône, Mon Coeur, J. L. Chave Sélection, France

You will find CdR in every single wine retailer in the country, but every so often a wine pops up that is priced like an all-so-ran, but which is made by a genius. Chave's name sends shivers down the spines of elite Rhône collectors and Yapp is the UK agent for their Hermitage wines. J. L. Chave Sélection is the négociant arm of the estate and the wines are therefore more affordable but no less elite. Drinking stunningly, this is your plush, posh, autumnal red for game and wild mushroom dishes and this flavour at fourteen quid is a preposterous steal!

CASE PRICE: £167.40

2018 Domine des Oullières, Harmonie, Coteaux d'Aix en Provence, France

I am a huge fan of the rather rare blend of Cabernet and Syrah (check out The Great Australian Red on my website). There are a few examples in France, but mixing the Rhône and Bordeaux is far from encouraged! Harmonie is a terrific example, bringing Cabernet Sauvignon, Grenache and Syrah together with wonderful results. Feisty, hearty and honest, this is a slice of Provence with all of the accompanying spice and herb detail that one could wish for. It is super value and brazenly authentic, marking a joyful renaissance for this rare style of wine.

CASE PRICE: £141

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Avoiding the rat race to the Costa del Sol

Luxury travel agents are beginning to seem like the sensible option. Chris Carter reports

Why not take a private aeroplane to St Barths?

©Alamy; Getty Images; iStockphotos

The pandemic has put paid to many a travel plan up and down the country. So much so that even a soggy, little caravan in Carmarthenshire is starting to look like luxury accommodation – assuming you can beat back the crowds to get your foot in the door. There is, however, one demographic, at least in the US, that "appears to be more optimistic, making plans and holding onto reservations", says Kenneth Kiesnoski for CNBC – "the affluent vacationer". This "resilience" has given heart to a travel industry that has otherwise seen little else besides cancellations. "Affluent travellers tend to be a little more comfortable with the wait-and-see scenario," Misty Belles, managing director at Virtuoso, a global network of luxury travel agencies, tells Kiesnoski. "Because they're well-versed at travel and it's such an ingrained part of their lifestyle, our clients are really more in that sit-and-wait camp."

Holiday like the Queen

Of course, sitting and waiting for your holiday to St Barths is made easier if you can do it in the comfort and style to which you are accustomed. ThirdHome, the "world's most luxurious home-swapping website", has seen an "uptick" in enquiries for Reserve, its "most exclusive platform", Giles Adam, the company's European president, tells Tatler's Anya Meyerowitz. To qualify, your holiday home should be worth around £5m. "As well as offering an opulent lifestyle synonymous with their own, and the opportunity to explore properties often out of bounds, this type of holiday offers members the luxury of time," says Meyerowitz. They are, in other words, "exempt from the The Great (Staycation) Race".

Perhaps even the Queen could be tempted to give home swapping a try. The Balmoral estate, up in the Highlands of Scotland, "is around 50,000 acres and the good news is that you can visit, or even stay on the estate", says Camilla Swift in Spectator Life. But even if Her Majesty can't be persuaded to swap the "big house" with you, there are a number of holiday cottages to rent – although these are being occupied by members of the royal family this year, notes Swift. "But holidaying like the Queen doesn't have to mean Balmoral." There are numerous stand-ins that have been used for filming: Ardverikie House, on the shores of Loch Laggan in Inverness-shire, is one that has featured in *The Crown* and *Mrs Brown*. The "beautiful turreted" Gate Lodge is available for rent on the estate.

St Barths calling

But as lovely as the Highlands are, they are not St Barths. Luckily, when the Caribbean island's siren call becomes too much to bear, "top travel concierge companies are coming into their own and luxury brands are stepping up", says Francesca Syz in The Daily Telegraph. "Previously travelling was a lifestyle choice, but now most of our clients simply are not prepared to go on public transportation. It has become a necessity," Ikenna Ordor, founder of Starr Luxury Cars, tells the paper. His company has just launched Starr Luxury Jets to take advantage of the new demand for private air travel. And if you're a nervous flyer, Ordor can arrange a yacht instead. Luxury hotel and villa firm Oetker Collection, meanwhile, whose properties include Le Bristol in Paris and Eden Rock in St Barths, has partnered with Sparfell Aviation, "so now guests can bypass the conventional airport lounge when going to stay at any of its properties by offering a private charter service from any airport in the world", says Syz. None of this comes cheap, as Christian Wright notes in The Wall Street Journal. But in these travel-restricted times, "the loonily extravagant world of private jets, cliff-side villas and ultra-exclusive hotels [begins] to seem… strangely sensible".

> *"Affluent travellers tend to be a little more comfortable with the wait-and-see scenario"*

Help! My American super-passport doesn't work!

A new trend is emerging among wealthy Americans who have been forbidden to travel due to the pandemic, says Natalie Compton in The Washington Post – buying a second passport. "We've had Americans contacting us and saying, 'Listen, I cannot believe that my American super-passport cannot get me into as many countries as it used to before. What can I do?'" Armand Arton, the president of financial firm Arton Capital, which specialises in citizenship through investment, tells the paper.The answer, says Kate Springer for CNN Travel, is shell out for a second passport. Investing as little as $100,000 in Dominica or St Lucia will get you the passports of these Caribbean islands. A US passport will set you back $900,000. A British passport, if you were wondering, will cost you $2.6m.

This week: houses near beaches – from a beachfront resort on Mahoe Bay in the British Virgin Islands, to a cottag

▲ **Seastar, Porthcothan Bay, Padstow, Cornwall.** A family house overlooking Porthcothan Bay, about 600 yards from the beach. It is currently used as a holiday home and let for up to £2,500 during the high season. 5 beds, 5 baths, dressing room/bed 6, 2 receps, kitchen, garage, workshop, garden. £1.15m Knight Frank 01392-423111.

▶ **Stack Point House, Swanpool, Falmouth, Cornwall.** A contemporary house set in landscaped gardens on its own 30-acre estate with headland, coastline and extensive water frontage leading to Swanpool Bay. 4 beds, 4 baths, 2 receps, open-plan kitchen/living area, conservatory, detached 1-bed annexe, pasture, woodland. £2.25m Savills 01872-243201.

▶ **The Gunnery, Kingsdown, Kent.** A contemporary house created from a former World War II gun emplacement in a clifftop position just above the beach, with 180-degree views across the Channel. The house has floor-to-ceiling windows throughout. 4 beds, 4 baths, open-plan kitchen/living area, study, cinema room, two wine cellars, lift, terraces, barbecue area, gardens, 1.5 acres. Price on application. Strutt & Parker 01227-473707.

e on the seafront in Truro, Cornwall, just a short walk from Tavern Beach

Pilchards, St Mawes, Truro, Cornwall. A modernised, Grade II-listed cottage on the village seafront, a short walk from Tavern Beach, with uninterrupted views across the water to St Anthony's Head. The cottage has sash windows with painted shutters and window seats, exposed stone walls throughout, a stone fireplace and a newly fitted kitchen. It has a seating area to the front and a courtyard to the rear. 2 beds, 2 baths, recep. £850,000 Savills 01872-243200.

Heddfan, Little Haven, Pembrokeshire. A modernised bungalow on a terraced site above the village of Little Haven, within easy access of the beach. It has a two-bedroom annexe currently used as a holiday let. 4 beds, 2 baths, 2 receps, kitchen, workshop, gardens. £795,000 Fine & Country 01834-862138.

Villa Gris Nez, St Margaret's Bay, Kent. A semi-detached, Victorian villa in an elevated position above the beach at St Margaret's Bay, with far-reaching views across the Channel. The modernised interiors included a recently fitted kitchen and it comes with a conservatory overlooking the landscaped gardens. 4 beds, 2 baths, recep, dining kitchen, sun lounge, study, parking. £935,000 Bright & Bright 01304-374071.

Outback, Jurys Gap, Camber, East Sussex. A renovated, timber-framed cottage with a corrugated roof just 100 yards from the beach. The cottage is set on the outskirts of Camber, just behind the recently redesigned sea wall, and has far-reaching coastal views. Bed, shower, kitchen/living room, fenced garden, parking, power-connected horse box. £215,000 Philips & Stubbs 01797-227338.

Aquamare, Virgin Gorda, Mahoe Bay, British Virgin Islands. A rare opportunity to buy a beachfront resort that comprises three buildings and a two-bedroom manager's house on Mahoe Bay, surrounded by lush landscaping that includes three infinity pools and a private beach. Each villa has five en-suite bedrooms. The properties are connected by footpaths and open onto a sandy recreation area adjoining the main beach. 1.7 acres. $19.8m Christie's International Real Estate +1 284 542 2118.

McLaren's superlative track-day toy

The 620R is a thrilling machine on the racetrack, and you can drive it home too. Jasper Spires reports

This is the "raciest McLaren road car yet", says Top Gear. Its new 620R offers lovers of track-day toys a taste of devastating racing-car power, and you can drive it home. It's not the most practical of cars for everyday use. Indeed, it has no "nose-lift" as standard, so it "might not even make it off some driveways". It will set you back £250,000 and at speed it might potentially "write cheques your driving talent won't cash". But it is "the most exciting and involving" McLaren you can buy. It's a lot of money for what is for the most part a "dedicated track toy", but it will "draw you in". Driving it is sure to become "quite addictive".

It's an indulgence, but a "perfectly executed one", says Auto Express. "There's a precision to the chassis that only motorsport experiences can deliver, the 3.8-litre V8 engine is tuned to its peak, and the experience of driving it on road or track is unlike" that of any other car, including its McLaren stablemates. It goes from rest to 62mph in 2.9 seconds and on to a top speed of 200mph. Isn't that a bit much for the road? "Not really." True, there is a "hard edge to the chassis that picks out lumps and bumps" in the road, but "the pay off is a car that fizzes with energy and is awash with ability that doesn't make you risk everything to enjoy it".

For around £60,000 less you could have McLaren's 600LT, which will be better to drive on the road and on a track test beat a Ferrari Pista and Porsche 911 GT3 RS, says Andrew Frankel in Autocar. The 620R is, of course, both "quicker and even better to drive on track", but around £60,000 better? Probably not, but "that's not what people are paying for". With only 225 being made worldwide, this will be the rarest McLaren road car in existence. That makes it "not just a very special car, but a quite exceptionally rare one, too".

"This is not just a very special car, but a quite exceptionally rare one, too"

Wine of the week: Charles Dickens' favourite tipple

2017 Klein Constantia, Vin de Constance, South Africa – 50cl bottle

Matthew Jukes
Wine columnist

The latest release of the legendary Vin de Constance is sensational. And it is the only wine, in more than 14 years as your wine scribe, for which I cannot include a guaranteed price or indeed a stockist. It is being "shipped" from 3 September, and will be available from the "usual great merchants" at a "stable" price. I guess this means it will be sold for around the £60-mark and your search engine will provide the rest of the information you require.

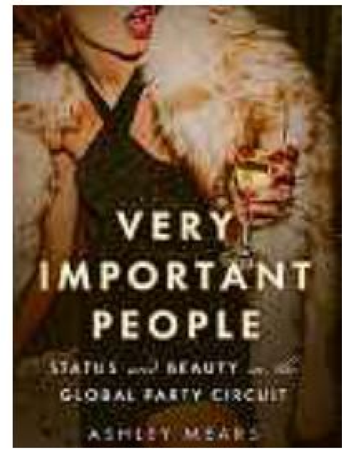
I trust you will forgive this lack of clarity, but I wanted the timing of this piece to be spot on, not least because this is the most remarkable young Constance I have ever tasted (and I have seen a few!). This epic sweetie, fashioned from super-sweet muscat de frontignan grapes, and coming from one of the most dramatic properties in the Cape, uses a recipe handed down from the 1700s. Adored by Dickens, Baudelaire, Brontë and Napoleon, to name but a few luminaries, this inspirational wine is one of the only truly great sweet wines which tastes stunning from the off and then matures gracefully for an eternity.

I didn't write down any florid descriptors in my tasting notes this time. I simply wrote "pristine sunshine + perfect site = sheer heaven".

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

Book of the week

Very Important People
Status and Beauty in the Global Party Circuit
By Ashley Mears
Princeton University Press, £25



Have you ever wondered how you get an invitation to go behind the velvet rope in exclusive nightclubs so you too can enjoy hobnobbing with VIPs and celebrities and indulge in the expensive champagne? If so Ashley Mears's *Very Important People: Status and Beauty in the Global Party Circuit* will prove enlightening. It examines the business relationships that underpin the whole party scene.

Mears shows that the entire nightclub economy is based on an implicit exchange between wealthy men who spend large sums of money to be around attractive women and the women (mostly models) who give up their time to indulge them and at the same time experience a level of luxury they couldn't otherwise afford. The reality behind the velvet rope is that only a small number of big-spending customers (known as "whales") actually pay for anything – everyone else gets their drinks for free, or are even paid in order to keep the club full of beautiful women and hence be attractive to other punters too.

These are hardly earth-shattering revelations, but the author has a unique perspective. She herself once worked as a model (she is pictured on the catwalk in those days) and was a regular of the party scene, and is now an associate professor of sociology at Boston University. Her experience makes her well placed to fill us in on some missing details. The party scene has its sleazy elements, for example, but most of the bigwigs aren't primarily interested in having a relationship, or even a fling, with the girls who sit at their tables. Their presence is more a way of flaunting status – just like the expensive bottles of fizzy plonk. And while the models might look like they are having a wonderful time of it, they usually end up staying in bunk beds in cramped villas and follow schedules of mandatory partying as regimented as any job. This leads to a high turnover of models.

©Getty Images

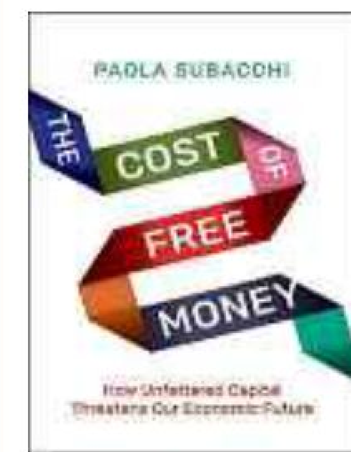
Perhaps the most interesting characters in the book are not the models, but the freelance promoters hired by the clubs to draw women in. They can be paid large sums, but need to be able to persuade glamorous girls to turn up for free, and then keep them attending the club regularly, resisting the lure of competitors. The work tends to attract sharp-elbowed hustlers, who burn out by the time they reach their 30s, or move on to other things. Mears notes that many such promoters are much more cynical than she is about what goes on between the women and the customers.

The book suffers from repetition and Mears's hints about how the customers made their fortunes could have been developed further. Still, it is a fascinating glimpse into life behind the velvet rope, for those of us unwilling to pay huge sums to experience it directly.

> *"The models may seem to be having a wonderful time, yet follow schedules of mandatory partying as regimented as any job"*

Reviewed by Matthew Partridge

The Cost of Free Money
How Unfettered Capital Threatens Our Economic Future
By Paola Subacchi
Yale University Press, £20



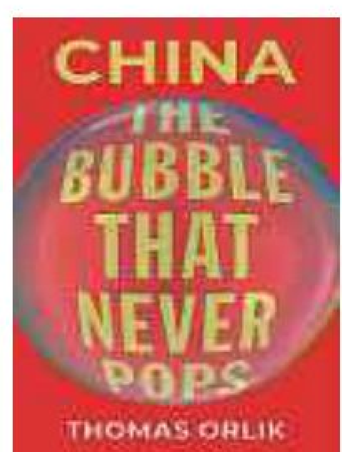
The problem with economic globalisation is not, as many leftists have it, free trade, but rather the free movement of capital, argues economist Paola Subacchi. The current footloose arrangements have encouraged short-term speculation at the expense of long-term investment, and allowed trade imbalances to build up.

The book traces how our current global monetary framework evolved from the Bretton Woods agreement in 1944, when the US dollar underpinned a system based on capital controls and managed alignment, to the present free-for-all. Subacchi argues that we need a new settlement to reflect the fact that we now live in a more multi-polar world – a settlement that would involve capital controls and more active demand management.

Subacchi is right that American economic nationalism could spark further global trade wars. And she's right that the experience of the euro shows that fixed exchange rates (or any other attempt to manage currencies) need also a system of fiscal transfers or restrictions on the movement of capital to succeed. However, in the case of the euro it seems clear that the problem is to do with the transfers, not the lack of capital controls. And even the system as it is has, as she admits, helped eastern Europe and the Baltic counties catch up with western Europe. There are worse things than a lack of control.

Book in the news... how China avoided its inevitable fate

China
The Bubble that Never Pops
By Thomas Orlik
OUP USA, £22.88, from 17 September



People have been predicting that China will face a "reckoning day" for many years, says Zhou Xin the South China Morning Post. Its "mountain of debt, economic slowdown and lack of new growth drivers" all point towards a "perfect storm in the making", they say. The expected crisis has, however, yet to materialise. Thomas Orlik, an economist at Bloomberg, agrees that a crisis is possible, but argues that those expecting one have downplayed other "institutional factors" that could keep China on track, not least its "stable" financial system, "determinedly developmental" state and "creative" policymakers.

One of the strengths of the book is that it resists "stridently ideological" interpretations of the Chinese model, says Thomas Hale in the Financial Times. Instead, readers get "a history of crisis and response", where policymakers learn from earlier experiences and act to keep the show on the road. Orlik lauds Beijing's "competence and flexibility" when faced with challenges, but a cynic might wonder whether at least part of this apparently strong record is down to the state's ability to control information, which puts limits on the bad news that reaches the outside world.

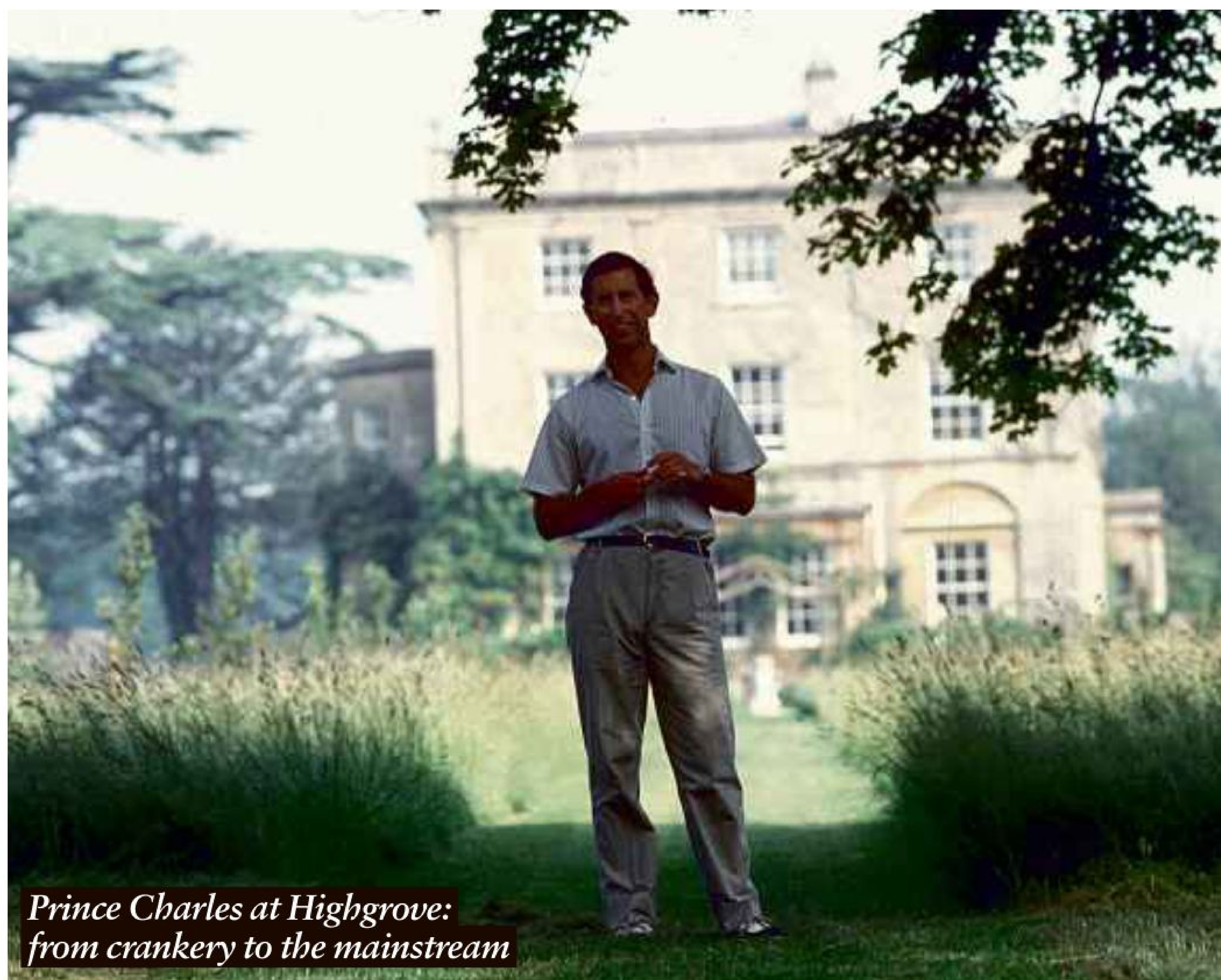
Orlik deserves credit for a "fine account" of the country's economic development, says Edward Chancellor in The Wall Street Journal. He writes well, combining an "economist's top-down analysis" with a "reporter's eye for fine detail". His argument that China is uniquely brilliant at managing crises is, however, "much the same" as the one that was routinely trotted out to explain how Japanese policy-makers ensured consistently strong growth, right up until the lost decade of the 1990s and early 2000s. The belief that the authorities won't allow a crash "has been a feature of all speculative bubbles".

©Getty Images
Can the authorities halt crises?

The tree-hugger who would be king

Prince Charles is standing down from other commitments. Is he preparing to take the throne?

Forty years ago, Prince Charles "embarked on a passionate love affair that has consumed him ever since", says Harry Mount in The Daily Telegraph. Mount is, of course, referring to His Royal Highness's passion for organic farming. In August 1980, the prince bought Highgrove House in Gloucestershire, and his experiment with the "organic farming dream" has been going on there ever since, expanding later to Sandringham and other royal properties. The affair, sadly, is to come to an end – at 71, Charles is "beginning to move into position as the next monarch", and he will say goodbye to the property when the lease runs out in April.



Prince Charles at Highgrove: from crankery to the mainstream

©Getty Images

"I just come and talk to the plants, really – very important to talk to them. They respond"

When the Duchy of Cornwall bought the farmhouse at Highgrove, with its 347-acre estate, for £865,000 in 1980, there was "only a kitchen garden, an overgrown copse, some pasture and a few hollow oaks", says Mount. Since then it has been expanded and transformed into a 1,000-acre farm that has helped preserve rare breeds of farm animal and produces more than 300 sustainably produced Duchy Original products, which have made millions in profit. Not bad given that, when he started, organic farming was considered the province of cranks. It is now "completely standard" around the world.

"And what do you do?"

Some of the prince's other beliefs have not yet become quite so mainstream. In a list of 70 facts about himself posted on his website last year, Charles said he shook hands with every tree he planted to "wish it well", reports Tom Ball in The Times. In an interview in 1986, he said that he talked to trees to help them grow. "I just come and talk to the plants, really," he said. "Very important to talk to them. They respond."

Another view that has yet to win general acceptance is the prince's belief that our towns should be somewhere worth living in. Nansledan, a new residential community in southwest England, "could be the most ambitious project undertaken in the 700 years of the Duchy of Cornwall", says Amie Tsang in The New York Times. Inspired by Charles's philosophy on architecture, the development near Newquay has been designed to allow residents to reach shops and schools without driving; marketplaces, plazas and nature reserves have been built-in for residents to enjoy and the houses have communal orchards and features to encourage the birds and bees. Residents may only paint their doors in approved colours. Local businesses are welcome to set up shop, but fast-food chains need not apply. It is all an attempt to "break the stranglehold of the conventional mould of monocultural housing estates" and create a sustainable and beautiful environment.

You might agree with the prince's beliefs, you might not, but in a world where the sane ones are currently trying to "control" a submicroscopic particle by ending human life as we know it, putting their pants over their faces and slathering themselves in hand sanitiser, it's hard to see his views as being all that crazy. In tribute, we link hands with the oak in our garden, raise them aloft and cheer our future king. We hope he may eventually be as successful a monarch as he has been an organic pioneer.

Quintus Slide

Tabloid money... it's high time Jeff got a round in

©Getty Images

● Marks & Spencer paid £65.4m in corporation tax last year, despite "fighting for its life", says Tony Parsons in The Sun on Sunday. "High-flying" Amazon, on the other hand, has paid only £61.7m in Britain over the last 20 years. Folks, Amazon boss Jeff Bezos (pictured), who has around £145bn to his name, "is just not getting his round in". This autumn, the chancellor should ask why Amazon is "paying loose change" in a country where it is "raking in" billions. "Don't soak the working man and woman, Rishi. Don't tax the grafters who are doing their best to support their families and the country. Make Amazon finally pay its fair share of tax." It is "practically printing money" over here, and unless it starts paying its way, it will come to be loathed. "So hit 'em hard, Rishi!"

● "The dress looked really nice on my Instagram feed," says Alexandra Shulman in The Mail on Sunday. It was modelled by "a slender, tanned blonde girl... I showed it to a friend... and we agreed it would be just the thing to take on holiday to Croatia in a few weeks". When the dress arrived by post, it was made of "an indescribable artificial fabric the colour of hospital linoleum with a sickly peach-coloured sleeve". The clue should have been the £27 price tag. As editor of Vogue for 25 years, I "should have realised that you get what you pay for". However cheap it might have been, it "couldn't match how cheap it looked". The return address was to a warehouse in China. It just goes to show "even old pros like me can fall victim to the sugar rush of a cheap online hit".

● Rishi Sunak's cheap meal deal has been hailed as "a runaway success", says Richard Littejohn in the Daily Mail. And the taxpayer-funded scheme has certainly given the crippled hospitality industry "a much-needed shot in the arm". The trouble is that the weekends, which weren't covered by the scheme, are "eerily quiet". Worse, "upscale restaurants have been besieged by riff-raff" wanting to take advantage of half-price menus". Restaurateurs "complain about staff being abused by impatient punters who fail to appreciate they are being run off their feet because of the increased demand". "Something that began as a modest, temporary stimulus... to put the hospitality sector back on its feet [came to be] viewed as an entitlement."

Bridge by Andrew Robson

Mr Flair

This week's deal features the magic of Zia Mahmood, Mr Flair. There is no more flamboyant player in the world – and Zia is still playing brilliantly as he nears 80.

Dealer South — Both sides vulnerable

North
♠ 1032
♥ A9
♦ 1073
♣ J9872

West
♠ AQ65
♥ KJ8764
♦ –
♣ 543

East
♠ 74
♥ 10532
♦ QJ4
♣ KQ106

South
♠ KJ98
♥ Q
♦ AK98652
♣ A

The bidding

South	West	North	East
1♦	1♥	pass	3♥
5♦*	pass	pass	double
pass	pass		

* Zia has not got where he is today by being timid with such distributional monsters.

West led a Heart and declarer won dummy's Ace. At trick two, he nonchalantly led the three of trumps. He was intending to finesse his five should East have played low – East's double of 5♦ strongly suggested that he held all the missing trumps. However East, USA's Steve Weinstein, cleverly inserted the Knave. He knew declarer would have big problems reaching the dummy to finesse against his other trump honour.

Winning the King of trumps (West duly discarding), declarer now advanced a sneaky nine of Spades. Time stood still while West decided what to do. If he had risen with the Queen, he could have cashed the Ace and given East a third-round ruff (or play any other card – as declarer cannot reach dummy to take the trump finesse).

However, eventually West played a low Spade. Zia seized his chance. He overtook his nine with dummy's ten, drew East's trumps via a marked finesse against his Queen, and merely gave up two Spades to the Ace-Queen. Eleven tricks, doubled game made, and a red-faced West. But he is not the first to be hoodwinked by the clever Zia; nor will he be the last.

For Andrew's three daily BridgeCasts, go to arbnh.com/bridgecast

Sudoku 1014

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

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.

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

MoneyWeek is available to visually impaired readers from RNIB National Talking Newspapers and Magazines in audio or etext. For details, call 0303-123 9999, or visit RNIB.org.uk.

Tim Moorey's Quick Crossword No. 1014

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 7 Sept 2020. Answers to MoneyWeek's Quick Crossword No. 1014, 31-32 Alfred Place, London, WC1E 7DP.

Across clues are mildly cyrptic whereas Down clues are straight

ACROSS
1 First book for a rock band (7)
5 Request a lift in part of Northumberland (5)
8 PM's concerned with "number one" mostly! (9)
9 Some returning appallingly sick (3)
10 Nato's supreme HQ design (5)
12 Whistles and that's for piggy (7)
13 Misdirect a soldier and this is the result unwanted? (3, 2, 4, 4)
15 Space to move around in parts of Boots (7)
17 Formal dances for cobblers? (5)
19 Partly domesticated creature (3)
20 Shop in Victoria close to the Queen? (9)
22 Coarse grass from southern border (5)
23 Excellent lager spoken of (7)

DOWN
1 Police informer (5)
2 Negative (3)
3 Sawbones (7)
4 Small, rapidly moving meteors (8,5)
5 Ballroom dance (5)
6 Remove (eg, a program) (9)
7 Credit (7)
11 Increased (9)
13 Tempts (7)
14 Awe-inspiring (7)
16 Aircraft passage (5)
18 More certain (5)
21 Nothing (3)

Name ....

Address ....

Solutions to 1012
Across 1 Seed **3** Brighten *homophone* **9** Earnest *homophone* **10** Yemen *anagram* **11** Parlour games *anagram* **14** Ops *cryptic def* **16** Taped *tap Ed* **17** Toe *two defs* **18** Diversionary *version in diary* **21** Pence *two defs* **22** Release *re-lease* **23** Turn tail *anagram* **24** Teal *hidden*

Down 1 Sheepdog **2** Error **4** Rat **5** Guys and dolls **6** Tempest **7** Non-U **8** Below the belt **12** Ropes **13** Very well **15** Spinner **19** Awake **20** Spat **22** RSI.

The winner of MoneyWeek Quick Crossword No. 1012 is: Kevin Clements of Edinburgh

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

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

A message from the president

What Donald Trump should say to the nation to end the Covid-19 crisis

Bill Bonner
Columnist

He should use his platform to tell the truth

My fellow Americans, I speak to you tonight about a grave matter of urgent importance. Our nation has faced many challenges in the 244 years since the Declaration of Independence. And we've made many mistakes. We are only human. And we get carried away from time to time and do stupid things.

We see a problem. Naturally, we want to fix it. Or we see a threat. Naturally, we want to protect ourselves from it. But not every problem can be fixed by the federal government. Nor can it protect you from every risk. Remember, we only have two kinds of power. We can take your money. Or we can tell you what to do. Every penny we spend must come from you. Every law we pass, every rule, every regulation, is an infringement on your freedom. Sometimes it is necessary. Often it is not. And sometimes, the fix is much worse than the problem. Consider Prohibition as just one example.

I'm speaking to you tonight because we are making another mistake – a big one. I'm talking about the "war" on Covid-19. It is driven by fear and hysteria. The truth is that this pandemic is no worse than many other flu pandemics we have lived through, and it is mostly harmless unless you are old and have other conditions. Our best strategy is obvious. Those who are most vulnerable should stay away from people who might have the disease and wait for the viral cycle to pass. The rest of us should get on with our lives.

Why not force everyone into a lockdown to eradicate the disease? First, in a country as large, diverse, and mobile as the US, there is no way that can work. Already, some 20 million Americans have probably been infected. There is no way to get rid of it entirely. Second, doctors can tell you how to avoid the disease. Vulnerable people should pay attention. But I represent the whole nation, not just those who are afraid of getting Covid-19.

> *"Government has two options. Take your money or tell you what to do"*

Shutting down our economic and social lives may help a few people avoid or delay the disease, but it also prevents people from living fully. It is by working together that we satisfy our material needs. It is how we earn the things we want and need. And it is by socialising that we satisfy our spiritual, psychological, and communal needs. Cut them off and we, as a people, are poorer. Those who suffer most are the young – those who are building lives, careers, businesses, and families; that is, those who are least vulnerable to the virus.

Today, as much as we want to avoid getting sick, other things matter, too. And we shouldn't hold 280 million Americans under the age of 65 hostage, just for the convenience of the 50 million over that age. If you are vulnerable and afraid of the disease, practise social distancing, wash your hands, wear face protection. As for the rest, let's let them live their lives – working, socialising, worshipping, without the state interfering. Thank you.

The bottom line

2.25m How much in Chinese yuan (£250,000) a phone number ending in five eights sold for in an online auction. The number eight is considered lucky in Chinese culture as its pronunciation is similar to the Mandarin word for "prosperity".

£500m How much the government has set aside to fund the Eat Out To Help Out scheme, which offers half off the price of meals, up to £10 per person in August. In the first two weeks, 35 million discounted meals were bought, "equivalent to over half of the UK taking part", according to the chancellor, Rishi Sunak.

$2trn The average "realised" pay (which includes cashed-in stock options and vested awards) of CEOs running the 350 biggest companies in the US last year. The CEO-to-average-worker pay ratio reached 320 to one, according to the Economic Policy Institute think tank.

€1,200 The monthly universal basic income that 120 Germans will each receive for three years, a sum that is just above the country's official poverty line. The pilot scheme, run by the German Institute for Economic Research, is being funded by 140,000 private donors.

€59.5m The asking price for property tycoon Nick Candy's 63-metre superyacht, named 11.11 after the birthdate of his eldest daughter, Luka.

$610m **How much London-listed drinks giant Diageo will potentially pay for Aviation American Gin, the brand co-owned by Hollywood actor Ryan Reynolds (pictured), as part of a deal that includes three other spirits. Shareholders will get $335m up front, and up to $275m depending on sales performance over the next decade. A bottle of the gin costs $27 in the United States.**

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