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MoneyWeek

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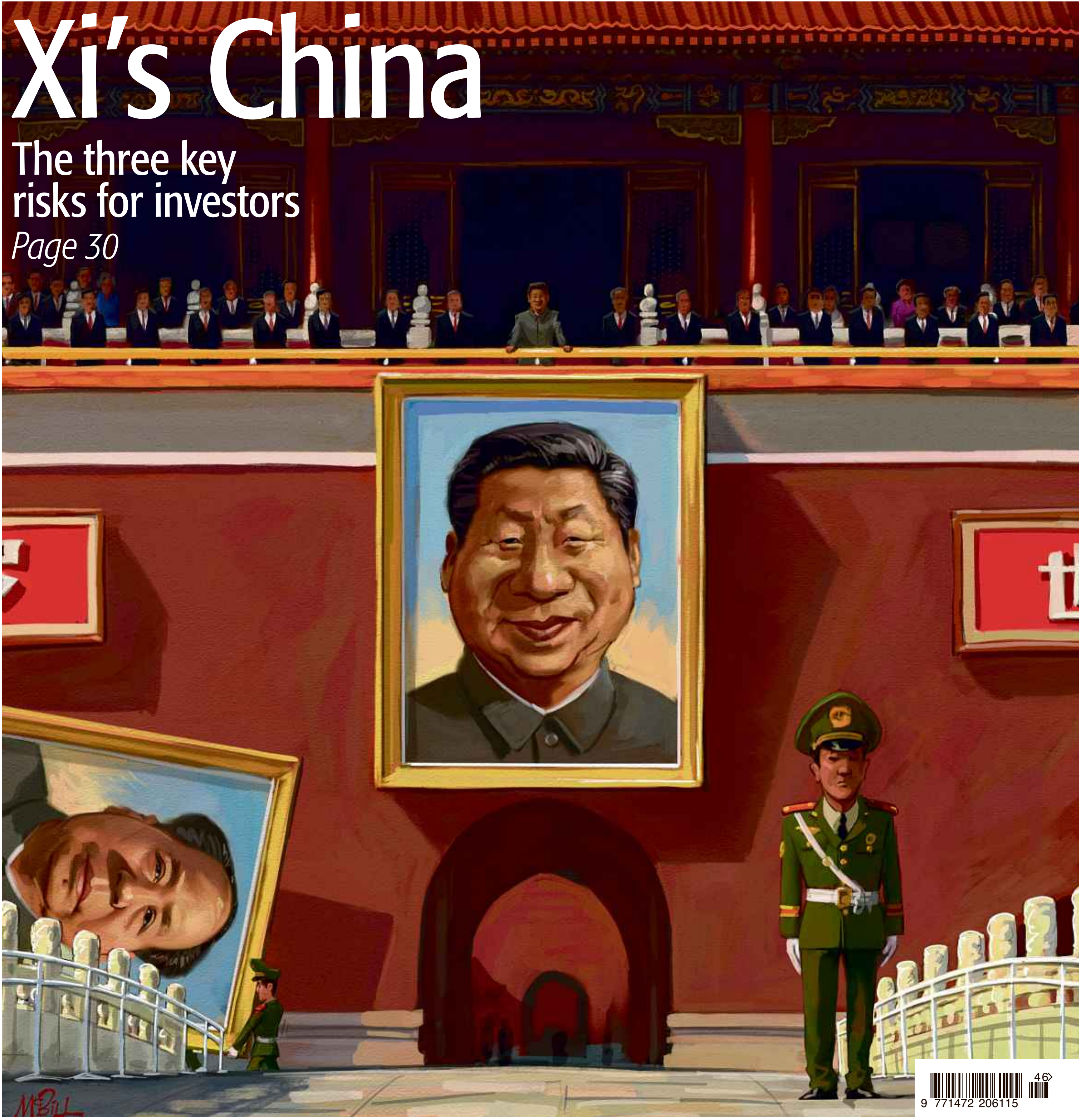

Xi's China

The three key risks for investors

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MoneyWeek

19 November 2021 | Issue 1078

Britain's best-selling financial magazine

From the editor-in-chief...

Governor of the Bank of England Andrew Bailey: no excuses now

©Getty Images

> *"Rich people have complained for years about inflation. But this round isn't about them"*

Interest rates are going to rise before Christmas – or at least they certainly should. This week's inflation numbers (see page 16) are just too high for the Bank of England to think it can continue to sit on its hands. In October, the consumer price index in the UK rose by 4.2% on the year, the fastest 12-month rise in a decade, and well over double the Bank's target of 2%. There are apologists aplenty for the number. Many note that if you take out food and energy prices the number falls to not much more than 3%, for example – and it is true that a good 50% of the rise is due to sharply rising energy prices (up 22.3%).

But here's the problem: as everything uses energy, the price of energy eventually feeds into the price of everything else – so excluding it doesn't make sense. Analysing inflation at the moment is tough – the long-term disinflationary effects of technological advancement aren't going away, and it is still hard to tell what is a Covid-19 dislocation and what is not. But it's also hard to deny the medium-term inflationary effects of the energy transition and the tight labour market. And at these levels it is impossible to pretend that it is not a problem.

Rich people have complained for years about rising costs (have you seen the price of a nice yacht these days?). But this round of inflation isn't about them. It's about the less well off. Energy price rises hit them hard, with both social and political implications (see page 28). Tax "bracket creep" does too. The UK has frozen both the income tax personal allowance and the 40% threshold until 2026-2027. So for many people, even an inflation-linked pay rise may not feel like one (much of it will go on higher tax as they slide into higher brackets).

The upshot is that the Bank – however much it wishes it could redefine "transient" to mean "five years" – must act fast to convince us that it is even remotely serious about stopping inflation getting out of hand. It avoided a rate rise at its last rate-setting meeting, arguing that with furlough ending, it couldn't be sure the jobs market was strong enough. It can't use that excuse next time: payroll numbers went up 160,000 last month (even as furlough wound down) and there are now 235,000 more employees in the UK than pre-Covid-19. There are no excuses left.

You may be a bit tense by now – rising inflation and rates won't feel good. Good news then that next week brings the (digital) MoneyWeek Wealth Summit. We have a fabulous array of panellists, all with views. Some would have you invest in the UK. The FTSE 100 is around 45% undervalued relative to the rest of the world (see page 7). You might say that's just because the rest of the world is stupidly overpriced. But given the choice between grossly overpriced and not grossly overpriced which should you choose? Quite. If you also want views on which UK shares to hold for the next decade (one might be M&S – see page 10) sign up now. Some would have you invest in the strategic metals that will facilitate the renewables boom; some say go Japan; some China; some pure US tech; and some (well, one) reckons that if you aren't invested in a Bored Yacht Club Ape NFT, then you are already too far behind the digital curve for comfort.

A final reason to sign up? I'm interviewing Nick Train, manager of the Finsbury Growth & Income Trust (see page 24), which I hold and I think a lot of you do too. The Summit is on 25 November. Get your tickets at moneyweekwealthsummit.co.uk. We hope to see you there.

Merryn Somerset Webb
editor@moneyweek.com

Hapless insider trade of the week

Puneet Dikshit, a 40-year-old partner at global consultancy McKinsey, has been charged with insider trading related to the $2.2bn acquisition of fintech firm GreenSky by Goldman Sachs, says Hugh Son for CNBC. Dikshit advised on the deal, and allegedly used his privileged information to buy almost 2,500 call options (essentially, a leveraged bet on the share price going up) in the firm in the two days before the deal was announced. His investment soared by 1,800% on the news, a profit of $450,000. Yet given his position he appears to have had limited financial knowledge. He apparently went on Google, using his work computer, to search for "what happens to options when company is acquired" the day before the deal was done. He now faces two counts of securities fraud and up to 40 years in prison.

Goldman Sachs

Good week for:

Pop-singer **Britney Spears** (pictured), 39, has regained financial freedom 13 years after her father took over her affairs, says Sky News. In 2008 a "conservatorship" stripped her of control of her estate after she suffered a nervous breakdown. Earlier this year she described the arrangement as "abusive" and hired a new lawyer to help her end it.

A US marshal has tracked down a bank robber who stole $1.2m from an Ohio bank in 1969 after inheriting the case from his father. **John Elliott Sr**. became obsessed with the chase but died last year before he managed to track Ted Conrad down. However, his son Peter, who adopted the same profession as his father, has now found the criminal, who died in Boston under a false name in May.

Bad week for:

Technology giant **Google** has lost an appeal over a €2.42bn fine imposed by the EU in 2017, says the Financial Times. Google incurred the penalty for breaching competition rules: it favoured its own comparison-shopping service over those of other companies on its results pages. Competition commissioner Margrethe Vestager had accused Google of conferring an "illegal advantage" on its own division.

Salvator Mundi, which sold at auction to **Saudi Prince Badr bin Abdullah** in 2017 for $450m, has been downgraded by Madrid's Prado Museum, says The Art Newspaper. It was sold as a Leonardo da Vinci, but experts listed it in a catalogue for a new exhibition as merely attributed to, rather than painted by the artist. Its provenance has always been controversial but this is the "most critical response from a major museum" since 2017, says CNN.

Cover illustration: Howard McWilliam. Photos: Alamy; iStockphotos

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How to jump-start your car collection

Get behind the wheel of an alternative investment

Most new cars lose a third of their value as soon as you drive out of the dealership. But not all cars spend 10-15 years gradually depreciating before being scrapped. Some are even worth more than you paid for them before you take your first drive, and others return from an initial dip to become valued at many times their original sticker price. The right car can be a worthwhile investment, so here are some tips on what to look out for when creating your own vehicular nest egg.

Two of the key factors in a collector's car are brand and rarity. Premium brands like Ferrari, Rolls Royce, Aston Martin, Bentley and Porsche can often produce collector's items, but it's not guaranteed. Everyday Porsche 911s from the late 1990s onwards are great cars, but only the special editions are likely to become collectable classics. On the other hand, a low volume modern vehicle such as the Pininfarina Battista – an electric hypercar capable of reaching 60mph in under 2 seconds – is likely to gain value, although it's not for everyone's pocket with a price of $2.2 million to begin with.

You also need to pay attention to mileage and originality. You might come across the phrase "matching numbers", meaning all the major components are the ones that shipped with the car from the factory, so the serial numbers match. A classic with a brand-new engine might drive better than it did, but it probably won't be worth as much as one with its original motor.

A vehicle that was owned by or associated with someone famous or has a unique background can also be worth more. For example, any Jaguar XKSS is worth a fortune, but Steve McQueen's one is now valued at $25 million.

Starting a car collection is not something to rush into. Investing in cars comes with risks and can involve significant capital. The cost of restoring cars to showroom condition can be high and you will need to also consider ongoing maintenance costs, storage expenses and insurance.

The more research you do, the more likely you are to find the right car. One of the best places to look is the website The Market. This is like eBay for classic cars, but with professionally produced listings. Just like any auction, investigate how much vehicles generally go for before making any bids, so you know what a bargain looks like when you see one.

Here is a selection of collectables to give you a taste of what to look out for:

Jaguar E-Type

Even vehicles that were relatively mass produced can become lucrative classics. Perhaps the best example of a common premium car in its day that has become

an appreciating classic is the Jaguar E-Type. Over its three Series, about 72,000 Jaguar E-Types were built. The first Series 1 cars cost £2,098. Now the cheapest E-Types are around £40,000 and an early Series 1 will be at least six figures – 50 times as much or more.

Porsche 964 Carrera RS

The Porsche 964 Carrera RS was the heir to the classic 911 RS 2.7 from 1973, which regularly sells for £250,000 or more. The 964 takes the same philosophy of losing creature comforts like rear seats, sound deadening and air conditioning to save weight, alongside a tuned engine with more power. You would think that taking things out would mean a lower price, but these cars still cost over £70,000 in 1992. Not long ago, you could pick one up for £20,000. Now you will pay at least £150,000, and prices continue to rise. Porsche has replicated the idea of removing weight and charging more with other models like the 968 CS (Club Sport).

Ferrari 250 GTO

The Ferrari 250 GTO is the poster child of classic collectables, and holds the record for the most expensive car ever sold at auction. A 1963 example is rumoured to have been acquired for $70 million in a private sale in 2018, and another sold at auction earlier that year for $38 million. The record for a public sale was chassis 3413GT, which garnered $48.4 million in 2018. The car's original price was $18,000.

Peugeot 205 GTI

Not all collectables need to be from premium brands. The Peugeot 205 GTI was the quintessential 1980s hot hatch – relatively cheap, stupidly quick and highly likely to get you into trouble. The 1.6 version was launched at £6,245 in 1984, and now you can't even find a high-mileage one for under £7,000. Low mileage examples have been known to go for over £20,000.

Ford Escort Mark 2 RS2000

Many collectible cars obtain their value through association with racing or rallying, like the Ford Escort RS2000. Its heritage is from Ford's rallying success with the first-generation Escort. The Mark 1 Escort RS1600 will set you back north of £70,000, with a concourse edition example likely to fetch over £100,000, more than 65 times the original price. The Mark 2 RS2000 cost £2,857 when new in 1975. Now they cost at least £30,000 and will likely go up in value as fewer survive.

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Central banks' credibility is at stake

Alex Rankine
Markets editor

The US Federal Reserve is "running out of excuses" for high inflation, says James Mackintosh in The Wall Street Journal. US consumer prices rose by 6.2% year-on-year in October, the fastest rate since 1990. Core inflation, which excludes volatile food and energy prices, hit an annual 4.6%, the highest since 1991.

Bonds swoon

"I expect lots of eyeballs were bulging out of their sockets when they saw the number come in," Seema Shah of Principal Global Investors told the BBC. Higher interest rates were not expected "before late 2022", but the Fed now faces pressure to act sooner.

The inflation figure triggered a bond sell-off, with yields on two-year US Treasury bonds soaring "by the most since the market turbulence of March 2020", say Kate Duguid and Naomi Rovnick in the Financial Times.

Investors appear to be betting that the Fed will have to tighten monetary policy sooner than expected. Market inflation expectations, measured by the ten-year break-even rate (the gap between yields on conventional bonds and inflation-protected ones), are at their highest level since 2006.

Stocks shrugged off the inflation news and continued to climb, says Jacob Sonenshine in Barron's. One reason is that corporate profits have so far proven robust. Companies have been able to pass on price rises to consumers without losing sales.

Secondly, while bond yields have climbed, they are still well below the rate of inflation. With returns on bonds so dismal, investors have little choice but to keep pumping cash into the stockmarket.

The US Federal Reserve is still hoping inflation will go away by itself

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Not so transitory after all

There has been a fierce debate this year between those arguing that inflation is transitory and those who see it as a more persistent threat, says The Economist. Central banks are in the former camp. They argue that pandemic-induced supply chain problems will right themselves in time, and that tighter monetary policy will not solve problems such as energy shortages: US petrol prices were up by 50% over the past year.

But inflation has not ebbed. Indeed, the 4.6% rise in "core" prices suggests that inflationary pressures are spreading. Rising rents and wages in America threaten a "feedback loop" in 2022 as "higher salaries beget higher inflation".

First, Fed policymakers said that "raging inflation" was just "catch-up for the deflation of last spring", but prices are now high even compared to pre-pandemic levels, says Mackintosh. Then they said that it was caused by "a narrow set of Covid-19-disrupted supply chains", such as semiconductors. Wrong again. Take away the "excuses" and the Fed's policy amounts to "hope that inflation will go away by itself" next year. For now, investors are giving it the benefit of the doubt.

That might not last, says Liam Halligan in The Daily Telegraph. "Leading central banks stand or fall on their credibility", but they are playing fast and loose with it: witness the Bank of England signalling a November rate rise that then didn't materialise. If central banks lose the trust of markets, traders will "rebel, ignoring future signals, lurching through peaks and troughs, causing financial chaos".

Emerging markets fall behind the developed world

The "lost decade" in emerging markets (EMs) isn't over yet, say Srinivasan Sivabalan and Netty Idayu Ismail on Bloomberg. The benchmark MSCI EM index has gained "a paltry 14%" since October 2010, compared to the S&P 500's near-300% rise over the same period. It has also trailed Europe and Japan.

Foreign investors pulled $90bn out of emerging-market debt and equities in March last year, says Jonathan Wheatley in the Financial Times. The emergency money central banks poured into the global system has since prompted a return: "Almost $790bn has flooded back" into EMs since April 2020. The flood of easy money depressed yields in developed markets, encouraging investors to go further afield. Now tighter US monetary policy could put that process into reverse, triggering a repeat of the 2013 "taper tantrum", when fears of tightening US monetary policy caused a disruptive sell-off in EM stocks and currencies. The MSCI EM index is down this year, while developed markets have rallied, say Sivabalan and Ismail. The ratio between EMs and US shares is at a 20-year low. EM stocks trade on roughly a 40% discount to their US peers on a price/earnings (p/e) basis, but "a poorer earnings outlook is discouraging investors from buying into that discount".

French stocks have outstripped their Chinese counterparts since 1998

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Investors may spy a bargain, but beware, says Chris Dillow in the Investors' Chronicle. Tighter US monetary policy and a stronger dollar (see page 7) will put stress on companies in the developing world that have borrowed in greenbacks. Some point to the long-term growth prospects of these economies. Yet "[the] link between... growth and equity returns is weak". Chinese GDP has soared since 1998, but investors would have done better investing in French or Danish stocks over that period.

Why the greenback is on the rise

The US dollar is on course for its largest annual rise in six years, says Saqib Iqbal Ahmed on Reuters. The US dollar index, which tracks the greenback's value against a basket of six major trading partners' currencies, has hit a 16-month high on bets that inflation will force the US Federal Reserve to hike interest rates sooner than expected.

Higher US interest rates increase demand for US government bonds and other dollar-denominated assets. The dollar index has gained 6.5% since the start of the year. Its rally has been accelerated by a fall in the euro, the second-biggest reserve currency, which has hit a 16-month low against the greenback.

While talk of a Fed interest rate hike spreads, European Central Bank president Christine Lagarde is in no hurry to tighten policy in the eurozone. The Japanese yen has lost 10% against the greenback so far this year. Sterling has just hit a 2021 low against the dollar. The dollar has also risen by 5% against the Brazilian real and 35% against the Turkish lira so far this year.

"Foreign-exchange markets were once a hotbed of lively, speculative activity", says The Economist. Benign inflation and low interest rates have "smothered" currency volatility over the past decade. Yet with different regions of the world recovering at different rates and consumer prices soaring, "currency markets" may not remain "an oasis of calm" for much longer.

It's time to buy British

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UK stocks have underperformed the global average every year since 2015

Britain's third-quarter GDP figures "disappointed – plain and simple", says Sanjay Raja of Deutsche Bank. The economy grew by 1.3% between July and September, a sharp deceleration from the 5.5% rise in the second quarter and worse than forecast.

Supply chain problems and weak business investment played a role, while the July and August "pingdemic [held] the economy flat" before a bounce in September, Sarah Hewin of Standard Chartered told the BBC.

GDP is still 2.1% below pre-pandemic levels, worse than most other advanced economies, says Raja. The recovery is still "ticking along", says Ruth Gregory of Capital Economics. But with headwinds from rising taxes and energy costs, "a period of sluggish growth until the middle of 2022" is in prospect.

Blue chips poised to catch up

Things are looking brighter for the FTSE 100, says Tom Howard in The Times. JPMorgan's analysts have been bearish on Britain in recent years but recently shifted their guidance, telling clients to buy "near-record cheap" British shares.

The FTSE 100 could do with a break. London stocks have underperformed the global average every year since 2015. The index has gained 11.5% so far this year, compared with a 27% rally on Wall Street or the 28% gain of France's CAC 40 (see below). Few global investors are excited by London's stodgy banks and oil companies. Brexit uncertainty and last year's dividend cuts haven't helped.

After such a poor run the MSCI UK index trades on a forward price/earnings (p/e) ratio of just 12, substantially cheaper than a rating of 16 in the eurozone or 22 in America, says Emma Powell in the same paper. Overheated global equity markets will run out of steam at some point. When they do there is much less potential downside for British shares than for those elsewhere.

JPMorgan, Barclays and Credit Suisse are more negative on the more domestically-focused FTSE 250 and small caps, says Elliot Smith for CNBC. The investment banks like British blue chips more than the British economy. About 80% of FTSE 100 revenues come from overseas, while a weakening pound (see column, left) also flatters overseas earnings in sterling terms.

Dividend payouts have rebounded after last year's disappointments, says Jeff Prestridge for FTAdviser. "Juicy company dividends… are one of the defining characteristics of the UK stockmarket". UK plc is poised to offer "an income of some 3.5% over the next 12 months". Try getting that from a savings account.

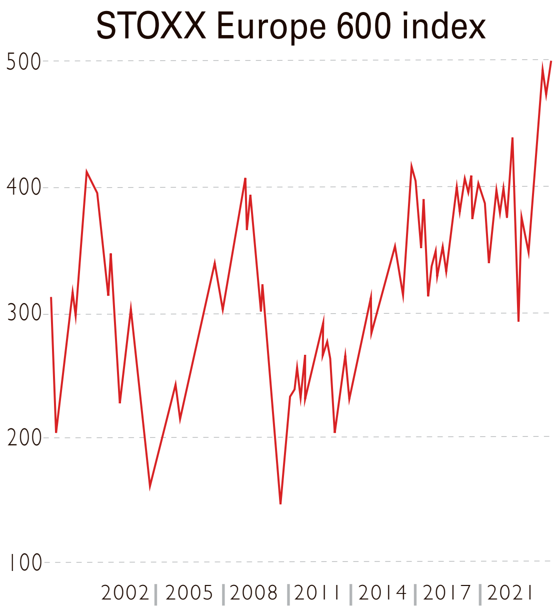
International investors may finally be deciding that the FTSE's weaknesses are in the price, says Cormac Mullen on Bloomberg. "Equity bulls looking for a cheap stocking filler" for Christmas are "betting on Britain".

Viewpoint

"Chancellors… like to introduce… a tax break here and a relief there… to gain a headline or two. Each one is sensible when assessed according to its own, internal logic. But the overall effect is to dramatically increase the complexity and unpredictability of the system… Under Gordon Brown, a tinkerer par excellence, the tax code trebled in size… under George Osborne, who eulogised simplification, it doubled again… the [UK] code now stands at ten million words, eight times longer than Marcel Proust's *À la Recherche du Temps Perdu*, the world's longest novel (Hong Kong's tax code is just 350 pages by comparison). No… expert can now predict how a new relief will dynamically interact with other elements of the code, creating loopholes and anomalies that provide lucrative opportunities for accountants but huge, dead-weight losses to business and society."

Matthew Syed, The Sunday Times

■ European stocks break out of 23-year range



Source: Google Finance

Strong third-quarter profits have driven European stocks to record highs. The pan-European STOXX 600 index had been stuck below and around the 400-point level for more than two decades, but this year it finally broke out of that range. Strong performances by energy and financial firms and the promise of continued easy money from the European Central Bank have kept prices buoyant. The luxury sector has also outperformed, helping propel France's CAC 40 to its first record close since September 2000. Morgan Stanley notes that the MSCI Europe index is still on a record "33% discount" to US shares on a forward price/earnings (p/e) basis, says Michael Msika on Bloomberg. There should be more gains to come.

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

Three to buy

SDI
Shares
Scientific-products maker SDI, whose offerings range from digital-imaging equipment to electrochemical sensors, has had "a very encouraging" recovery. It says it has enjoyed "very strong sales and profits" recently thanks to an unexpectedly good performance from Monmouth Scientific, which it acquired last December. The company looks set for multi-year growth. The shares have gained 23% in six months but there should be further to go. *216p*

Wizz Air
Investors' Chronicle
Budget carrier Wizz Air has struggled with the implementation of vaccine passports because vaccination rates in its key markets (central and eastern Europe) are lower than in the rest of Europe. However "there is hope of a rapid turnaround": the percentage of Romanians who are fully vaccinated is expected to jump from 30% to 75% by February. The carrier reported improvements on last year for the six months to 30 September: ebitda reached €164m compared with an €81m cash loss in the same period last year. It has yet to regain pre-pandemic heights, but should continue to benefit from the travel rebound in 2022. *4,805p*

OSB Group
The Mail on Sunday
Lender group OSB floated in 2014 with a market value of £400m. Today it is worth over £2.25bn. CEO Andy Golding has "put together a business with lower costs, higher profit margins and stronger customer loyalty than virtually all its peers". Brokers are expecting full-year profits to jump by 60% to £425m. The group's strong balance sheet and the promise of share buybacks and a special dividend next year make it a buy. *501p*

Three to sell

High Tide
The Motley Fool
High Tide, a cannabis retailer, is not a profitable business "and likely won't be for a long time". It has reported sales of C$152m (£90m) and losses of C$32m (£20m) for the year to the end of October. Its gross margins of 36% "aren't bad, but they're likely to get... worse" following the recent launch of its "discount club loyalty plan". This will attract more customers but hamper longer-term profitability. Avoid. *C$9.82*

CureVac
The Daily Telegraph
CureVac is a German mRNA specialist, like Covid-19 vaccine developer BioNTech. The latter's shares have jumped since last year when it announced the partnership with Pfizer had resulted in an effective jab. Unfortunately the resemblance between the two mRNA firms "does not extend to share-price performance". The stock has lost two thirds of its value since February. There was hope its vaccines would be effective against new coronavirus variants, but development has lagged more than expected and the company has abandoned its first-generation vaccine. Investors should sell now before the share price becomes even more volatile. *$35.87*

Games Workshop
The Sunday Times
Games Workshop sells table-top figurines for fantasy settings such as *Warhammer*. It is "embroiled in a skirmish with... customers". Determined to protect its intellectual property, it is clamping down on fans ripping off its miniatures with 3D printers. That is not unreasonable, but "rather more brutal" is the decision to punish fans creating animations based on their characters. Customers are irritated and the stock has slid. Sell. *£96.60*

...and the rest

Shares
Ford Motor Company has refreshed its product range, pivoting towards electric vehicles. The strategy seems to be paying off: Ford was the top-selling US carmaker in the last two consecutive months. Buy now for long-term growth *($20.50)*. Electrical goods retailer **Currys'** shares went up after it revealed a £75m share buyback programme and robust performance for the six months to 1 October. It has also managed to "mitigate supply chain and staffing issues". Keep buying *(134p)*.

Investors' Chronicle
DCC is "an eccentrically diversified conglomerate", supplying oil and petrol in the UK, beauty products in Germany, and "bits of cable" in France. Operating profits rose by an annual 15.5% in the six months to 9 November. Hold *(6,254p)*. **Electrocomponents**, which distributes electrical and industrial parts, has benefited from the growth in online spending. It reported a 91% year-on-year increase in pre-tax profit to £142m for the six months to September and its customer base has grown by 24% in the last two years, but it's not immune to cost pressures. Hold for now *(1,178p)*.

The Motley Fool
Latin American travel portal **despegar.com** was having a hard time even before the virus. Revenue slipped in 2019. Third-quarter sales in 2021 are expected to total 43% less than in the same quarter two years ago. Avoid *($11.49)*.

The Daily Telegraph
Gerresheimer, which makes phials for vaccines, has seen its shares drop by 18% in a year. But demand for vaccines and their containers isn't going anywhere. Hold *(€79.40)*.

A German view

Sartorius, a supplier of pharmaceutical and industrial-laboratory equipment, is among the main beneficiaries of the pandemic, says Der Aktionaer. It has just reported a 54% rise in sales to €2.5bn for the first nine months of 2021, with virus-related activities accounting for a fifth of the figure, while earnings per share almost doubled. The group has helped manufacture the hundreds of millions of vaccine doses developed by Pfizer, Moderna and others. Its offerings range from a platform for antibody screening to products designed for water purification and cannabis testing. The stock recently joined the expanded DAX blue-chip index, and looks set to stay there for a long time.

IPO watch

US electric-car manufacturer Rivian made one of the biggest market debuts in history with its $11.9bn initial public offering (IPO) last week, says Harry Robertson for Markets Insider. The company has hitherto delivered a paltry 150 cars, and it suffered a loss of $994m in the first half of 2021 as it invested in boosting production rapidly. However, demand is robust, with 55,400 pre-orders for their R1T and R1T SUV models combined. The shares rose from $78 to $122.9 on their first day, valuing the firm at $107.6bn. The firm's 38-year-old CEO, R.J. Scaringe, is now worth $2.2bn. Rivian's top shareholder is Amazon, which owns around 20% of the company.

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PAST PERFORMANCE

	Aug 16 - Aug 17	Aug 17 - Aug 18	Aug 18 - Aug 19	Aug 19 - Aug 20	Aug 20 - Aug 21
Net Asset Value	**29.0%**	**1.0%**	**-5.7%**	**50.3%**	**4.5%**
Share Price	**35.1%**	**0.3%**	**-2.8%**	**52.8%**	**9.7%**
MSCI China Index	**37.2%**	**-0.6%**	**1.1%**	**24.9%**	**-7.7%**

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 31.08.2021, bid-bid, net income reinvested.
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City talk

● Shares in Marks and Spencer rose by almost 20% last week after the group hiked its annual profit forecast by 40% on the back of "stellar" interim results, says Graham Ruddick in The Times. Pre-tax profits jumped by 53% from pre-pandemic levels as full-price sales rose by 17%. You could almost argue that M&S and some of its peers have benefited from Covid-19. It drove "struggling" competitors out of business and forced them to "accelerate their online operations and to… integrate it with their shops". One of the most striking things about the results is "just how little the high street actually matters to [M&S] today". Footfall at its shops selling clothing and home products "was down by 36% compared with two years earlier". No wonder, then, that the "company's emphasis on the high street is going to fall further", with at least 110 locations set to be either "closed or relocated".

● Shares in Cineworld have jumped after the latest trading update suggested that cinemagoers "are returning to the silver screen", says Lex in the Financial Times. Cashflow turned positive in October thanks to a combination of revenues from ticket sales combined with "cash-rich customers spending heavily on high-margin snacks and drinks". This is all good news for investors "hoping for a happy ending to story that once looked as though it might result in bankruptcy". Still, there is "still a huge pile of debt weighing the company down", with net borrowings topping $8bn, reflecting a "debt-fuelled acquisition spree" as well as rescue funds. A rights issue that would "dilute long-term shareholders by nearly half at the current share price" looks "inescapable".

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J&J is doing the splits

The healthcare giant has become the latest conglomerate to hive off a business or divide into smaller units. Matthew Partridge reports

The group's consumer division will be spun off

Healthcare giant Johnson & Johnson (J&J) is to embark on the biggest shake-up in its 135-year history, says Julia Kollewe in The Guardian. It will spin off its consumer arm, "known for its Band-Aid plasters, baby shampoo and Listerine mouthwash", in order to "focus on developing medicines and medical devices". Still, even without the consumer business it will "remain the world's largest healthcare company": the pharmaceutical and medical-devices divisions should produce revenues of $77bn this year.

The decision to sell the consumer business makes sense, says Lex in the Financial Times. After all, the "marketing and logistics" needed for selling products such as shampoos and painkillers are very different from "those required for developing and promoting blockbuster drugs". While consumer products are a "slow-growth, low-margin" business that "relies heavily on advertising spend and faces plenty of competition from other brands", drugs and devices are "high-risk and capital-intensive", which deters competition, while there are also huge potential pay-offs when a drug succeeds". With the stockmarket at new highs it should be able to get a good price for the consumer unit.

Litigation casts a shadow

J&J will have to overcome some hurdles before it can be confident of getting a good price for the spun out division, says Aimee Donnellan and Robert Cyran on Breakingviews. In particular, it will need to convince the market that the ongoing litigation over asbestos in talcum powder is behind it. While J&J says that its recent spinoff of the unit responsible for selling the product "may have insulated the company from further harm", the courts "may decide otherwise". However, if it can resolve this issue then an independent consumer business could be either an attractive takeover target for a company such as Procter & Gamble or a merger candidate for GSK's consumer business.

J&J's decision to demerge might make some sort of sense, but it's "no home run", says Aaron Back in The Wall Street Journal. After all, some shareholders may prefer the "cushion" that diversification provides; the consumer business "helped J&J weather a pandemic-driven disruption in medical-device sales as patients deferred certain kinds of care". For all the rhetoric about unlocking shareholder value, all the evidence suggests that consumer-facing healthcare companies actually "tend to fetch more", especially since drug companies need "massive investments" in order to "stay ahead of patent expirations and other challenges".

Whether it is a good idea or not, J&J isn't alone in "doing the splits", says Ian King on Sky News. In recent years drug giants such as Merck and GSK have separated consumer healthcare from their main business. Industrial conglomerates General Electric and Toshiba are both splitting into three separate companies. Much of this is prompted by CEOs deciding to take "pre-emptive action" against activist shareholders "unafraid to take on some of the world's largest companies" in a bid to unlock shareholder value.

Johnson Matthey's battery dies

Chemicals business Johnson Matthey (JM) lost a fifth of its value last week after "throwing in the towel on its battery business, cutting revenue guidance, and waving goodbye to its CEO", says Oscar Williams-Grut in the Evening Standard. The company, best known for making catalytic converters, said it would sell its battery-materials business, set up in 2012, after concluding that returns "will not be adequate to justify further investment": the market is rapidly becoming "high-volume [and] commoditised". It hopes to earn £340m from the sale, though analysts believe that it "may struggle to find a buyer at that price".

No wonder shareholders are disappointed, says Patrick Hosking in The Times. JM's nickel, cobalt and lithium-based technology had been deemed a "potential game-changer for the wider UK car industry". Still, the company's decision was right: intense competition meant that it would not "be able to command a premium price for its range". The board should be commended for deciding not to throw "more capital at a lossmaking venture".

JM may have finally made the correct call, but the idea "that the competitive risks have become apparent only in recent months doesn't stand up", says Nils Pratley in

The Guardian. Analysts had been warning "for ages" about the fact that battery makers in China, Korea and Japan were better placed to succeed in this area. Now JM will have to find a new idea to compensate for the loss of income from catalytic converters, which will disappear with petrol cars.

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Was COP26 a success?

More is being achieved to halt climate change than often meets the eye. Emily Hohler reports

Mark Carney is leading the green push from Big Money

©Getty Images

"King coal is dead, long live king coal!" may be a "fitting epitaph for COP26", says Philip Patrick in The Spectator. The climate summit culminated with an agreement not to "phase out" but "phase down" coal, thanks to "hardball negotiating" from India and China. All anyone will have to do to fulfil the commitment they made in Glasgow is, seemingly, to "promise to use slightly less coal in the future".

There was "no real reason to expect COP26 to succeed where the previous 25 COPs had failed", says Gideon Rachman in the Financial Times. Carbon-dioxide emissions have continued to rise for their duration. Leaders may endorse the need for "radical action", but the "political pressures they are under is a recipe for inaction". In China, the government is opening new coal-fired plants to avoid energy shortages. With the world's second-highest production and fourth biggest reserves, India is heavily reliant on coal. Closer to home, Emmanuel Macron's efforts to raise fuel prices sparked more than a year of "turmoil".

On the path to salvation

So, can COP26 be seen as a success in any way? asks The Economist. Ultimately, the task of the 197 UN delegates is to keep the world's temperature to within 1.5°C of what it was in the mid-19th century. Modelling shows that if the latest round of "nationally determined contributions" (NDCs) to reduce greenhouse emissions were delivered, there would be a 68% chance of temperatures rising to 1.9°C-3°C, with a median value of 2.4°C. But there is cause for optimism. While, for now, talk of net zero around 2050 is "mostly just talk", if various pledges are met – China's goal is 2060 – the range falls to 1.5°C-2.6°C. Then there are the moves, outside the UN process, by "coalitions of the willing". These are groups of countries, companies and cities which come up with joint targets based on action in particular sectors. According to Climate Action Tracker, the pledges on coal, forests, methane and electric vehicles together add "the equivalent of two gigatonnes to the four-gigatonne reduction achieved by the NDCs". All such efforts count, just as the "UN-sanctioned circus of COPs" is better than no forum at all.

Glasgow was actually hosting three summits simultaneously, says Ambrose Evans-Pritchard in The Daily Telegraph. Whether you think we are "doomed", "stuck in climate purgatory" or "on the way to salvation" depends on which you attended. I stuck mostly to the last: the gatherings of "technologists on the front line" and the "corporations racing ahead" of the political class. I heard about Rolls-Royce's electric plane, the launch of Maersk's first zero-carbon ship in 2023, the Breakthroughs Programme to help poor countries develop smart grids and electrify transport. It is irrelevant whether the wording is "phase down" or "phase out" – global markets will "no longer fund new coal at viable cost". The "industry is uninsurable". And while the political and environmental journalists covering COP26 suspect a "greenwashing stunt" when Mark Carney talks of a $130trn alliance of financial firms committed to the 1.5°C target, "few understand how quickly Big Money" has become the "arch-enforcer of the green order". Green tech has reached a tipping point, and once markets "smell new fortunes, it becomes a cascade". COP26 began to "sort out the plumbing of global climate finance". Next year, COP27 should have just one item on the agenda: an international agreement on a border-adjusted carbon tax, adds Annabel Denham in the same paper. At a time when it's "politically imprudent" for leaders to "make their citizens poorer", carbon pricing would deliver decarbonisation cost-effectively – and fairly".

Johnson: all MPs will have to learn to live on a mere £82K

©Getty Images

Boris moves to shut down sleaze scandal

Boris Johnson has been "bounced into proposing a ban on MPs working as paid consultants or lobbyists" in a bid to shut down the sleaze scandal engulfing Westminster following his "ultimately unsuccessful attempt" at rescuing Owen Paterson, says Jim Pickard in the Financial Times. The PM made his announcement on Twitter, pre-empting Keir Starmer, who then laid out similar plans. Labour tabled a motion in the House of Commons on Wednesday to ban MPs from holding certain jobs. Meanwhile, an objection from Tory MP Christopher Chope means that Paterson's conduct and the government's response will again be debated in the Commons, "prolonging" the agony for the government, says Henry Zeffman in The Times.

Although Labour has its own divisions on the issue (like Geoffrey Cox, Starmer also carried out legal work as an MP, the "only difference being the hours billed", notes Zeffman), the past fortnight has "opened up a chasm" between the "red wall" Tory MPs and "more traditional Tories", says Isabel Hardman in The Spectator. The "most sleaze-intolerant MPs" tend to be those first elected in 2019, many of whom represent "previously Labour constituencies and have smallish majorities that are in jeopardy if an appalled public turns on the Tories", says Andrew Rawnsley in The Observer. For them, £82,000 a year is a very good wage. The Tories arguing for outside jobs have often been sitting on "fat majorities" for years, feeding a "sense of entitlement". The "hoariest justification" is that outside jobs keep them "in touch" with the man on the street. Strangely, no MP lists "street cleaning" as their outside interest.

Whether the ban actually happens – and it should – will depend on whether Johnson is more afraid of media "heat" and public "disgust" than the wrath of those Tory MPs who, like him, "cannot possibly live" on an MP's wage.

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Belarus weaponises migrants

The EU is once again seeing a crisis at its borders. Matthew Partridge reports

Belarus is exploiting misery for geopolitical gain

©Getty Images

With a "growing humanitarian crisis" on the border between Belarus and Poland resulting in the death of a number of Middle-Eastern refugees, the European Union has agreed a fresh round of sanctions against Belarus, says the Financial Times. The measures are aimed at airlines, travel agencies and individuals in Belarus that are involved in an "illegal push of migrants" that the EU says has been orchestrated by Minsk. The Irish government has also agreed to measures affecting its own aircraft-leasing industry, ordering companies to recall 17 aircraft belonging to Belavia, the Belarusian state airline ferrying many of the migrants to Minsk.

The EU is hardly innocent

Belarusian president Alexander Lukashenko is "notoriously unpredictable", says Marc Bennetts in The Times. But his decision to fly in refugees from the Middle East, and then transport them in hired busses to the border with Poland, is clearly intended "to pressure the EU into scrapping its sanctions against Belarus". These sanctions were imposed due to his regime's "brutal crackdown" on the opposition after an election that was "widely accepted to have been rigged". He is also angry at Poland for hosting opposition media outlets that his regime has banned.

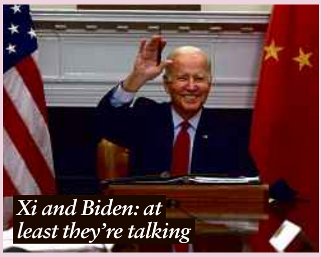
Lukashenko's actions are "appalling", but they have been encouraged by the EU's string of "shortsighted and transactional agreements" with its neighbours in recent years, especially the 2016 EU-Turkey deal in which member states turned a "blind eye to Turkey's human-rights violations" in return for stemming refugee arrivals into the EU, says Anna Iasmi Vallianatou in The Guardian. The EU also has similar arrangements with Libya. As long as Europe continues to speak with a forked tongue on the migration issue, appearing to welcome them and yet at the same time fearing a flood, countries such as Belarus, Morocco and Turkey will continue to exploit the fact.

Putin is behind it

This crisis was provoked by Belarus, but it's clear who is really behind it, says Edward Lucas in The Sunday Times. Despite Russia's denials, the fact is that Lukashenko is so "dependent on the Kremlin for the cash and muscle he needs to stay in power" that "one brief phone call from Putin would be enough to make him back off". Instead, Russia is encouraging Belarus to run a Tony Soprano-style "protection racket" as part of a "high-stakes game of geopolitics", taking advantage of human misery in an attempt to "expose the West's weaknesses, heighten internal tensions, stoke divisions and shred its credibility".

Weaponising refugees isn't Putin's only game, says Mark Almond in The Daily Telegraph. The situation on the Belarus-Poland border is a welcome distraction from his moves on Ukraine, which is his "real priority". Putin sees a "big pro-Western Ukraine" as an "existential" threat to his regime, and Nato should "take Russian troop movements on its western borders seriously". The recent buildup of soldiers on the Ukrainian border looks very like Russia's moves just before the annexation of Crimea in 2014.

Xi and Biden's strained chinwag



Xi and Biden: at least they're talking

©Getty Images

The first official meeting between US president Joe Biden and China's leader Xi Jinping "produced no breakthroughs in a relationship that has spiralled dangerously downward", says Steven Lee Myers and David E. Sanger in The New York Times. Although officially cordial, the meeting revealed "acrimony" between the two superpowers that "could prove difficult to resolve" – the two leaders failed to even "cobble together the sort of joint statement that has typically punctuated summits between the United States and China over the decades". Indeed, the individual statements issued after the three and a half hours of talks read like "catalogues of mutual grievances that offered little room for compromise".

Taiwan remains a particular point of contention, says Keiran Southern and Didi Tang in The Times. China claims it is "patient and willing" to make the "utmost effort" to achieve peaceful unification with the island; Xi also warned Biden that "backing Taiwanese independence would be like playing with fire" and that China would be willing to take "resolute measures" to assert control. For his part Biden said that the US "strongly opposed unilateral efforts to change the status quo or undermine peace and stability across the Taiwan Strait" and criticised China's abuses of human rights in Hong Kong, Xinjiang and Tibet.

The talks have "done little to wind down tensions", says the Financial Times. Vague words on nuclear arms control and working together on climate change were also "light on detail and commitments". Still, the fact that the pair were able to talk for three hours is important. A dialogue has begun – let's hope it will be "the first of many".

Betting on politics

In the next few weeks there are likely to be a flurry of by-elections. On 2 December, voters in Old Bexley and Sidcup are due to go to the polls to elect a successor for the late James Brokenshire. Two weeks later, voters in North Shropshire will determine who replaces the disgraced Owen Paterson (pictured). There will also be a by-election in Southend West soon (though Labour and the Liberal Democrats will not put up a candidate out of respect to the murdered David Amess) and possibly one in Leicester East if Claudia Webbe is recalled.

The Tories are unsurprisingly favourites to win both the first two contests. With £16,483 matched on Smarkets, the Conservatives are 1.09 (91.7%) to win in Old Bexley and Sidcup, with Labour on 12.5 (8%) and the Lib Dems on 40 (2.5%). In North Shropshire, £13,110 has been matched, with the Conservatives at 1.35 (74.1%), the Liberal Democrats at 4 (25%) and Labour at 24 (4.2%). You can also get 1.39 (71.9%) on the Conservatives winning both, 3.65 (27.4%) on Old Bexley and Sidcup only and 20 (5%) on them losing both.

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I have previously tipped the Conservatives to win Old Bexley and Sidcup, but the current odds are now too short for me to recommend. I'd also avoid North Shropshire since the odds seem about right. Instead, I'd bet on there not being a by-election in Torridge and West Devon before May 2022, even at the short odds of 1.11 (90.9%). The behaviour of Geoffrey Cox may be controversial, but it didn't break any rules, and he's very unlikely to suddenly resign.

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Washington DC

Biden signs roads bill: President Joe Biden (pictured) has signed his $1.2trn infrastructure bill into law. It includes $550bn in new spending on roads, bridges, airports and broadband, and hands the Democratic president a rare victory over those who said a bipartisan deal was impossible. However, the bill instructs the US Treasury to move $118bn to the Highway Trust Fund, which Treasury secretary Janet Yellen says will happen on 15 December – the same date that Yellen warns the government could run out of cash, unless the $28.9trn legal borrowing limit is raised or suspended "as soon as possible", note Amara Omeokwe and Andrew Duehren in The Wall Street Journal. Consumers, meanwhile, put aside inflation worries to hit the shops early before Christmas. Retail sales rose by a monthly 1.7% in October, up from 0.8% in September. Industrial production was also higher at 1.6% month-on-month thanks to a recovery in vehicle manufacturing and the unwinding of earlier hurricane-related disruption, says Andrew Hunter of Capital Economics. But with global supply problems likely to persist, don't expect this rapid pace of growth to last.

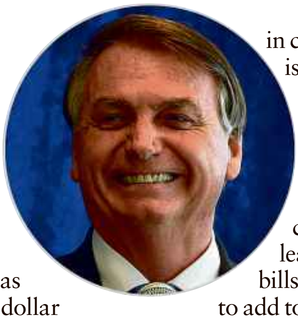
London

Inflation jumps to decade high: The consumer price index (CPI) is rising at the fastest rate since 2011. Annual headline inflation climbed to 4.2% in October, from 3.1% the previous month, driven by the 12.2% increase in the default energy-tariff price cap by the regulator, Ofgem. Core inflation, which strips out volatile food and energy prices, rose by 3.4% year-on-year. Meanwhile, the unemployment rate fell to 4.3% in September, from 4.5% in August, although rising average earnings, excluding bonuses, also slowed, to 4.9% year-on-year in September from 6% the previous month. A tighter jobs market and high consumer prices are heaping pressure on the Bank of England to raise interest rates. CPI is likely to remain above 4%, double the Bank of England's target, for the next nine months, rising to 4.6% this month and peaking at around 5% in April, says Samuel Tombs of Pantheon Macroeconomics. It is climbing "so rapidly it risks becoming embedded", says Oscar Williams-Grut in the Evening Standard. It's past time for the Bank to raise interest rates.

Havana

Protests nipped in the bud: Cuban authorities "snuffed" out demonstrations planned for Monday, says Ed Augustin in The Guardian. Organisers were prevented from leaving their houses that day. The protests were timed to coincide with the reopening of Cuba's borders in a bid to "jump start a tourism-dependent economy drowning in raging inflation and shortages of basic goods", says Bloomberg. Pre-pandemic, Cuba, which has a population of 11 million, welcomed more than four million tourists a year. The sector contributes 10.6% to the country's GDP and visitors bring hard currency critical to a government still facing Trump-era US sanctions and obliged to import nearly 50% of its fuel, food and other staples. According to official figures, Cuba's economy shrank by 11% in 2020. Economic hardship was one of the "driving forces" behind huge protests earlier this year, with Cubans demanding "freedom" and "food" from a government that has been in power for 62 years.

Brasilia

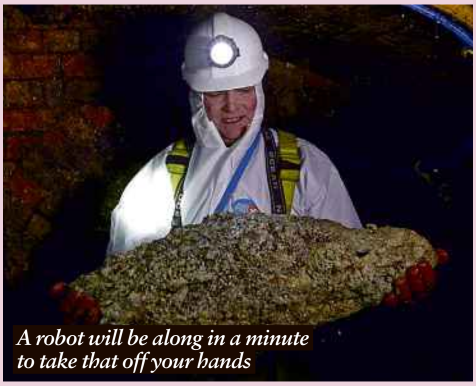


Inflation reaches five-year high: Brazil's consumer prices jumped in October, pushing annual inflation to 10.67%, the first double-digit reading in over five years. President Jair Bolsonaro (pictured) has dismissed it as a global issue; inflation has risen worldwide owing to rallying commodities and supply-chain bottlenecks. But Brazil's real has lost a quarter of its value against the dollar since 1 January 2020, which has compounded the problem by raising the price of imports. Over the last 12 months shoppers have seen a 48% price increase in refined sugar and a 38% increase in cooking gas. Brazil is also experiencing its worst drought in a century, which has hit hydroelectricity generation and forced utility companies to use costlier thermal plants, leading to higher power bills. The government is planning to add to a cash-transfer scheme for its poorest citizens in a bid to make Bolsonaro more popular ahead of the 2022 elections, but the worry is that this could exacerbate inflation.

The way we live now: state-of-the-art machines learn to do our dirty work

Robots are using machine-learning to clean up fatbergs in America's sewers, says Christopher Mims in The Wall Street Journal. Fatbergs are agglomerations of grease and hygiene products, often several metres in diameter, that block sewers around the world. The US has more than 875,000 miles of sewer mains that cost $30.97bn annually to maintain, and it is turning to state-of-the-art robots to help. A small army of artificial intelligence (AI)-run flying drones, swimming machines and crawling bots are probing the mains every day. They are equipped with tools to repair damaged pipes and water-jet cutters that can slice concrete and fatbergs alike.

Robots are proving helpful above ground too, says BBC News, serving post-pandemic pints. Israeli firm Cecilia.ai hopes to address worker shortages with its automatic bartender "Cecilia"; "a bit like a tall fruit machine, only with an animated female barmaid – Cecilia – appearing on a large, upright video screen. Customers can interact with her in the same way they do with Siri or Alexa. They can expect her to mix up to 120 cocktails per hour and hold her liquor well: she can accommodate 70 litres of varying kinds of spirits.



A robot will be along in a minute to take that off your hands

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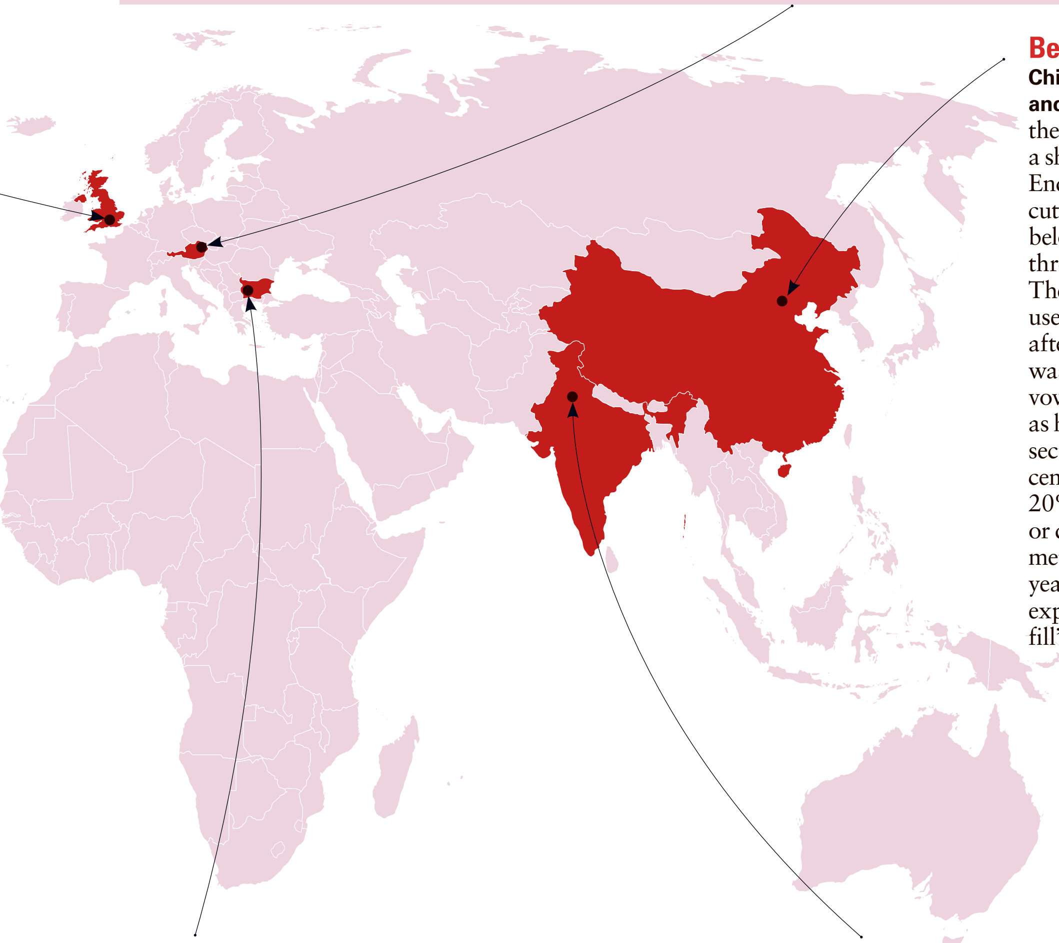
No jab? No punch

Vienna

Locking down the unvaccinated: Austria has implemented new rules that exclude those unvaccinated against Covid-19 from basic freedoms such as meeting friends, using public transport and drinking in bars, says Emma Midgley in The Daily Telegraph. That is stoking anger in what protestors are calling a "two-class system" and "apartheid lockdown". There are concerns the measures are already hitting the economy, with queues for attractions in Vienna becoming queues for vaccines. "More than 462,000 came forward for jabs, the highest total since July, in a country with one of the highest infection rates in Europe." Across the border, Germany is also heading toward stiffer restrictions for the unvaccinated, says Stefan Nicola on Bloomberg. Europe's largest economy posted a fresh pandemic record on Tuesday of 312.4 new infections per 100,000 people over the prior seven days. Deaths jumped by 265, the steepest one-day rise since 27 May. Meanwhile, Germany suspended regulatory approval of the £9bn Nord Stream 2 gas pipeline from Russia, causing wholesale gas prices to soar across the continent. Across the eurozone, consumer price inflation has risen to a 13-year high, from 3.4% in September to 4.1% last month, thanks mainly to rising household energy bills.



Beijing

China clamps down on property – and growth: Beijing's tightening grip on the country's real-estate sector is causing a sharp slowdown, say Tom Hancock and Enda Curran on Bloomberg. Banks have cut GDP growth forecasts for 2022 to below 5%, the weakest annual rate in over three decades bar last year's pandemic. The Communist Party has pledged not to use the property sector to fuel the economy after claiming that excess housing supply was "a threat to economic stability"; it has vowed to invest instead in other sectors such as hi-tech manufacturing. The property sector and related areas such as steel and cement production account for between 20% to 25% of GDP, and a slowdown or decline from the 900 million square metres of apartments constructed each year could "leave a gap in the economy that expansion in no other sector could easily fill". The government is also keen to avoid a big bankruptcy. "Indebted chip champion" Tsinghua Unigroup could be taken over by e-commerce giant Alibaba, securing a supply of semiconductors to fuel Alibaba, the country's largest cloud-computing platform. The deal could help Alibaba "score points" with Beijing after it was accused of "monopolistic conduct" by the government.

Sofia

New party, new government: Bulgaria's new centrist party We Continue The Change (PP) is to form a government this week after its surprise win in last weekend's national election. PP, set up just two months ago by Kiril Petkov (pictured) and Asen Vasilev, promises to end widespread corruption and "bring prosperity" to the EU's poorest country after winning 25.7% of the vote, says Tsvetelia Tsolova on Reuters. In order to form a majority the party is seeking the support of two other anti-corruption factions and the Socialist party. Analysts hope the victory will end the stalemate following two inconclusive votes in April and July. Opposition parties defeated the centre-right GERB party both times but were unable to form a coalition. The country needs a working cabinet to secure billions of euros in EU aid to boost growth and stay on track to adopt the euro in 2024. Bulgaria is struggling with a new wave of coronavirus and an energy crisis that has sent costs soaring, says Marton Dunai in the Financial Times. It has the world's highest coronavirus mortality rate and the EU's lowest vaccination rate. Fewer than a quarter of Bulgarians are fully vaccinated.

New Delhi

Diwali creates feel-good factor: Diwali, the Hindu festival of lights celebrated a fortnight ago, has renewed hopes the Indian economy will "regain its title as the world's fastest-growing large economy", says Benjamin Parkin in the Financial Times. Festive spending rose to a record 1.25trn rupees (£12.5bn), a 75% increase from last year, which highlights the sharp rebound in economic activity thanks to a big drop in coronavirus cases to around 11,000 a day from 400,000 in May. However economists have pointed out the rebound might not be sustainable owing to inflationary pressures and coal shortages. Six out of the 11 coal-fired power plants within a 300-kilometre radius of New Delhi were closed this week after a blanket of toxic smog spread throughout the city, but the government maintains it must expand its coal-fired power-plant capacity to meet energy demands. The International Monetary Fund predicts that India's GDP will grow by 9.5% for the year to 31 March 2022, more than any other large economy, following a 7.3% contraction last year. However, industrial output has slowed due to supply-chain issues and, although inflation dropped from 6% in June to 4.5% in October, recent price increases have hurt consumers.

The return of nuclear power

It was the future once – and now it seems it is again as governments look for ways to meet their net-zero targets. Simon Wilson reports

New nuclear technology will be one of the "50 shifting shades of green"

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What's happened?

The very modest success of the COP26 climate summit (see page 12) has refocused attention on the role of nuclear power as an almost zero-carbon, reliable source of non-intermittent energy that could prove crucial to meeting net-zero targets. "Nuclear power is the only carbon-free source that can deliver round-the-clock power, on demand, almost anywhere," says the Financial Times. Wind and solar are expanding fast, but nowhere near fast enough to take up the slack from fossil fuels. That means that nuclear will remain vital, at least as a transitional energy source and very conceivably in the long term too – especially if technological advances such as small modular reactors (SMRs, discussed at length in a recent MoneyWeek piece by Dominic Frisby) and microreactors develop as hoped. Indeed, at COP itself, major industrial nations including the US, Russia, and Brazil all described nuclear energy as a major part of their decarbonisation strategy.

Don't we rely on nuclear already?

Much less than we used to. Globally, nuclear power produces around 10% of the world's electricity, making it the second-biggest source of low-carbon energy after hydroelectric power. But that's a sharp drop from a peak of 18% in the mid-1990s. Many countries invested heavily in nuclear after the oil shocks of the 1970s, and in the ten years to 1992 the amount of nuclear energy consumed jumped by 130%. But that investment stalled in the 2000s, and some nations (notably Germany) pulled away from nuclear following the Fukushima disaster of 2011. In the UK, nuclear plants produced 16.5% of our electricity last year. Yet they're mostly old, and all but one is due to shut by 2030.

"China is building more nuclear reactors than the world built since the 1980s"

Any signs of a turnaround?

China, the world's biggest carbon emitter, is planning to build at least 150 nuclear reactors over the next 15 years, or more than the entire world has built since the mid-1980s. French president Emmanuel Macron said last week that his country "will for the first time in decades revive the construction of nuclear reactors" to reach its net-zero goal. The EU may be about to reclassify nuclear power as "green" to boost investment. Through backing for firms such as TerraPower and PacifiCorp, Bill Gates and Warren Buffet are championing a type of advanced small modular reactor (SMR) known as a "fast" Natrium reactor. And in the UK, a consortium led by aero-engine maker Rolls Royce (and backed by the taxpayer) is investing £405m into a fleet of 12 SMRs as part of a new push into nuclear power designed to help the government meet its net zero carbon targets. Rolls-Royce reckons the first ones could come online by the early 2030s.

But isn't nuclear power dangerous?

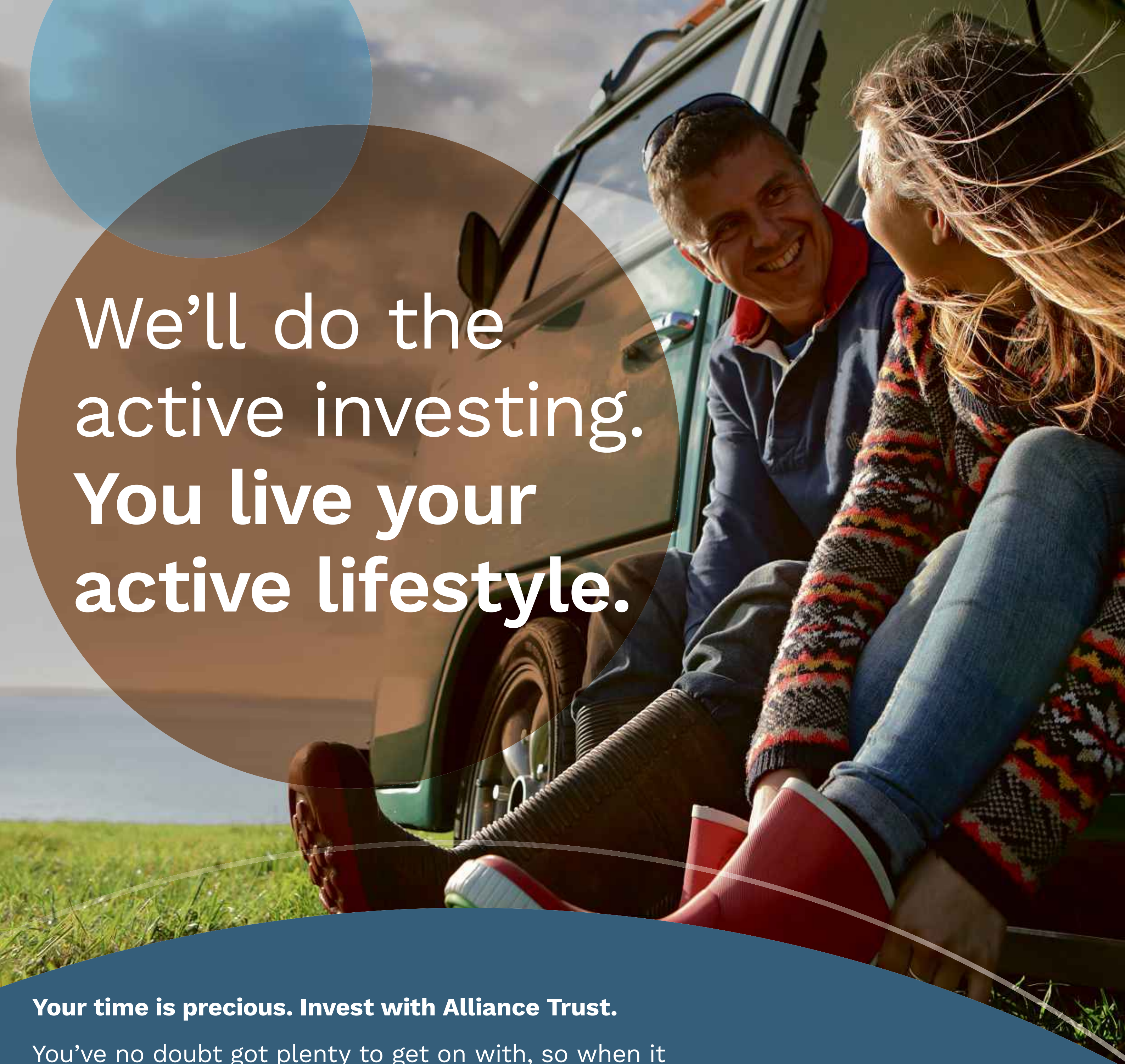
No. According to figures collated by OurWorldinData, nuclear energy is vastly safer, as measured by fatalities per terawatt hour of energy produced, than most other forms of generation. On that metric, coal causes 24.6 deaths, oil 18.4 deaths and natural gas 2.8 deaths. Nuclear, by contrast, causes just 0.07. (Wind is even lower at 0.04 and hydropower and solar lower still, at a 0.02.) Sixty-five years after the start of the world's first civil nuclear reactor at Calder Hall in England, "there remains no evidence of anyone's health being jeopardized by radiation releases from a European nuclear plant" other than Chernobyl, says Jonathan Ford on Bloomberg. But no other European reactor shares the flawed design of the Chernobyl one, and seismic events of the sort that caused Fukushima are unknown here. (The disaster at Fukushima caused just one death from radiation.) Nuclear is also, of course, much cleaner than fossil fuels – producing three tonnes of greenhouse-gas emissions per gigawatt hour, compared with 820 for coal, 720 for oil and 490 for natural gas. Even solar and wind produce more emissions than nuclear.

So it's a green energy?

That's the subject of intense debate – not least among environmentalists themselves. Jacopo Buongiorno, a nuclear-engineering professor at the Massachusetts Institute of Technology, calculates that, over the life cycle of power plants, which includes construction, mining, transport, operation, decommissioning and disposal of waste, the greenhouse-gas emissions for nuclear power are 1/700th those of coal, 1/400th of gas, and a quarter of solar. Nuclear takes up a tiny amount of land compared to wind or solar, and for the same power output the amount of raw material used to build a nuclear plant is also a tiny fraction of an equivalent solar or wind farm. All that makes it incredibly green. But sceptics say this ignores the nuclear-waste issue, and that nuclear has no chance of preventing global heating due to the complexity, expense and decades-long lead times involved. Money spent on nuclear is money not spent on better options, they say.

So why the excitement over nuclear?

In the real world, nations face "not a beauty contest around the best energy choices", but an "ugly contest" to pick the least-bad energy mix, says Gillian Tett in the FT. When it comes to transitioning away from fossils to renewables, we cannot let the perfect be the enemy of the good. Nuclear power may be flawed – it's expensive and politically risky – but it will be necessary if the world is going to rise to the challenge of halting climate change. "Those governments that continue to shun nuclear plants are haunted by the dirty secret that this move is likely to increase emissions." Meanwhile, in finance, ESG funds should be encouraged to embrace nuclear. There was much talk at COP26 of the wave of green money ready to hit markets. If some of that money accepts that "we live in a world of difficult energy trade-offs" – and funds the expansion of nuclear – it "may signal that the climate movement is also beginning to realise that we live in a world with 50 shifting shades of green".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1. As rated by Willis Towers Watson. 2. MSCI All Country World Index.

A vote of confidence in Brexit Britain

Shell and Unilever have upped sticks and moved to the UK. We should tempt more corporate giants in

Matthew Lynn
City columnist

It hasn't been a good couple of weeks for those who predicted the City would be turned into a wasteland if we left the EU. First Brussels decided that clearing of trades, a key piece of the plumbing of the financial system, can carry on in London for euro-denominated assets, even though a succession of European leaders vowed that it would have to move to financial centres on the continent. Now companies are shifting to a sole listing in London as well.

There were lots of warnings that dual-listed companies such as Unilever and Shell would ditch their British arms and choose to be headquartered inside the single market instead. And yet first Unilever, admittedly under pressure from its shareholders, and now Shell, the two great Anglo-Dutch corporate giants, have decided to consolidate in London instead. Shell is even dropping the Royal Dutch from its name.

The City should blow its own trumpet

There is, of course, a lot more to Shell's decision than just Brexit. It is much more about simplifying its ownership structure so that it can increase payouts to shareholders. The oil giant is under intense pressure from the activist investor Daniel Loeb to split itself up into a legacy fossil-fuel business and a faster-growing renewables unit, and the only way it can resist that is to get its share price moving back up again. By shifting its tax residency to Britain it will be easier for it to buy back its shares, improve returns and maintain independence. The important point for the UK, and even more for the City, however, is that Unilever and Shell are both huge companies and the bragging rights over their decision to base themselves in Britain are worth having. The City should capitalise on this and work out how to attract yet more multinationals.

Shell is moving its tanks to London

©Getty Images

First, it could promote itself better. The City should be making a big deal of the fact that two of the biggest companies in the world, faced with a choice between basing themselves in London or Amsterdam, have chosen the British capital. A one-line statement from the business secretary is not really enough. The City should be shouting about it, so that the rest of the world gets the message. That's what the French and the Dutch would be doing.

Next, ensure our tax structures make it simple to base a multinational in the UK, and, perhaps more importantly, make sure they are flexible. The Dutch have been scrambling around this week trying to streamline the tax on buybacks that helped persuade Shell to shift its base, but it would have been better if it had made that change in advance. There is no harm in the UK tweaking its tax code from time to time if it helps convince some of the biggest companies in the world to move here.

Finally, offer a five-year tax break for any company moving a listing to the UK. The planned rise in corporation tax to 25% already looks like a big mistake, but even if that is not reversed there is no reason why there could not be an exemption for major firms that decided to switch their domicile to Britain. It would cost the Treasury some revenues; but it would also attract new businesses and their staff would pay plenty of tax. The UK would come out ahead – even before adding the value of the prestige that comes from hosting giant corporations.

Let's open our arms to American giants

Plenty of the mining conglomerates also have dual listings as do some of the tech companies. More importantly, there are lots of firms that will be pondering shifting their main base over the next few years. Ireland will have to raise its corporate taxes to meet the global minimum rate it has signed up to and that will make it a lot less attractive as a base. President Biden has already hiked corporation taxes, and has had a go at a billionaire's tax that could drive many American giants out of the country. The EU is increasing the levels of regulation and needs to come up with new taxes to pay for all its debts. As the decade unfolds, lots of major businesses may be looking for a more business-friendly place to base themselves in. The UK needs to lure them in.

Who's getting what

©Getty Images

● **Larry Culp** (pictured), chief executive officer of General Electric, will make "extraordinary financial gains" from the break-up of the US conglomerate, says MarketWatch. CEOs tend to get the biggest contract-termination payments during such changes. The exact nature of the break-up is as yet uncertain, but according to an earlier proxy statement, had a change of control taken place on 31 December 2020, Culp's performance awards would have been worth at least $100.4m. His total pay for that year was $73.2m, mostly from two stock awards.

● Close Brothers, the FTSE 250 merchant bank, was facing a backlash from investors this week over plans to nearly double the basic salary of CEO **Adrian Sainsbury**, from £550,000 to £900,000 for next year, says Sky News. His overall guaranteed pay would rise from £605,000 to just over £1m. The bank proposed the change because of EU rules that limit the proportion of variable to fixed pay for bank executives. Britain retained the bonus cap post-Brexit.

● Education secretary **Nadhim Zahawi** banked £1.3m from Gulf Keystone Petroleum while working as an MP from 2015 until he became a government minister in 2018, says the Daily Mirror. That included a final £285,000 settlement, according to his register of interests. Zahawi's total income from second jobs is unknown thanks to a parliamentary loophole that allows him to advise firms through a consultancy he had set up with his wife.

Nice work if you can get it

Ten university vice-chancellors earned more than £400,000 each last year, with nine of these pay packages worth at least ten times as much as their employees' average salary, says Nicola Woolcock in The Times. The report from watchdog the Office for Students (OfS) acknowledged evidence of "pay restraint" from some institutions, but the number of senior staff paid more than £100,000 was little changed from the previous year, says the OfS. Its analysis of university pay found 1.8% of university employees were paid at least £100,000, up from 1.7% from 2019. The average university boss's basic salary had risen by £1,000 to £219,000. Alice Gast, the head of Imperial College, was the highest paid, on £527,000. She was followed by Baroness Shafik of the London School of Economics, who was paid £507,000; the London Business School's Dr François Ortalo-Magné earned £498,000.

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Funds that fail in the real world

Many market-beating strategies could be an illusion caused by the constant search for new ways to sell funds

Cris Sholto Heaton
Investment columnist

There's a well-known problem in many fields of research where findings from one group of researchers can't be confirmed by others who try to repeat the same experiment. Areas such as psychology, sociology and medicine are especially prone to this – one study found that only half of a set of psychology experiments could be reproduced, with a number of high-profile and influential findings turning out to be false. This isn't necessarily because of fraud on the part of the original researchers. Patterns will often emerge by pure chance if you crunch a set of data for long enough, and the incentive for researchers to keep crunching until this happens means that they can end up with a finding that appear to be statistically significant but is really just noise.

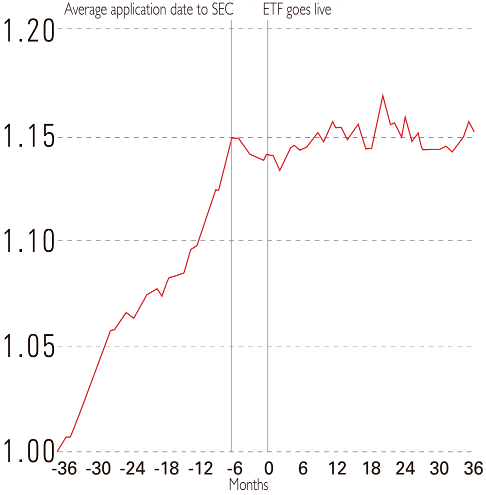
In theory, investing should have less of a problem than most fields. Ideas for strategies to deliver better performance will always be tested in the real world. If too many are failing, it should be obvious. Yet that assumption may be too optimistic, according to Campbell Harvey, professor of finance at Duke University in the US. In an interview with the Financial Times, he suggests that at least half of 400 market-beating strategies published in reputable financial journals can't be replicated.

Results in the real world

Some researchers come to the same conclusion – a paper by Kewei Hou, Chen Xue and Lu Zhang (*Replicating Anomalies*) found that more than 80% of results they studied could not be reproduced. Others dispute it: *Is There a Replication Crisis in Finance?* by Theis Ingerslev Jensen, Bryan Kelly and Lasse Heje Pedersen reckons most findings they review appear to hold up. The debate remains live on an academic level, but there is some practical evidence to support it.

Index performance after ETF launch

Average cumulative excess return for new US ETFs versus Russell 3000 (1993-2014)



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You've probably seen asset managers proudly launch new funds that have a great record in backtesting, but fail to deliver in the real world (this is true of many smart beta ETFs – see below). The chart above – from Research Affiliates and reproduced in a recent paper by Harvey – shows the average performance of the indices used for new US ETFs. On average, indexes strongly outperformed the market in the 36 months before ETF launches – but that outperformance tended to disappear over the next three years.

In some cases, the successful strategy will have been a statistical illusion from cherry picking or twisting data. Sometimes real-world transaction costs eat away at theoretical excess returns. Or the wider market environment may change (value strategies had a long record of success but have done badly for the past decade). Regardless of the reasons, investors should always be sceptical of new products promising miracle returns.

> *"Be sceptical of new products promising miracle returns"*

I wish I knew what smart beta was, but I'm too embarrassed to ask

Finance theory divides investment returns into two parts. Alpha is the value added through the decisions made by you (or the manager of the fund you hold). Beta is the return that results from the overall market.

Assume that a portfolio of investments goes up by 15% while the overall market rises 10%. In this case, beta is 10% and alpha is 5% (15%–10%). In reality, the calculation is a bit more complicated because it depends on whether the type of stocks in the portfolio would be expected to fluctuate more than the overall market, but this demonstrates the idea. Beta is what you get from simply being invested in the market (ie, what a passive index investor gets); alpha is what an investor gains or loses from active investment management.

Smart beta strategies lie between active and passive investing. A smart beta fund tracks an index, but with that index constructed differently to a traditional stockmarket index. Instead of weighting securities by size, a smart beta index selects or weights according to characteristics that may make them more likely to outperform the wider market. Common characteristics (often called factors) include variations on size (historically, small stocks tend to outperform larger ones on average); value (stocks that seemed cheap on metrics such as price/earnings or price/book have tended to outperform expensive ones); volatility (less volatile stocks have tended to do better); momentum (stocks that are rising strongly may be more likely to keep rising); and quality (profitable, efficient business with less debt have tended to beat weaker ones).

Advocates of smart beta say that it can deliver higher returns than passive investing in a cheaper and more systematic way than active investing. This makes sense in principle, but depends on the continued success of the factors chosen for the smart beta strategy. There can be no certainty that a factor that worked in the past will keep doing so.

Guru watch

Rob Arnott, founder and chairman, Research Affiliates

There are two characteristics of a bubble, says Rob Arnott, the investor often known as the godfather of smart beta. First, "we must make implausibly optimistic assumptions in order to justify prices", he tells Bloomberg. Second, "the marginal buyer doesn't care about valuation models". By that metric, tech isn't a bubble. Yes, the six big tech companies – Apple, Amazon, Alphabet, Facebook, Microsoft and Netflix – are worth $8.5trn, more than the entire Japanese market ($6trn). But for some stocks such as Apple, valuations aren't detached from reality. "You just have to make moderately aggressive assumptions and you can easily justify the price."

However, "micro-bubbles" abound. "When it comes to things like Tesla... and Netflix, you have to make very, very, very aggressive assumptions," he says. And how many buyers use valuation models to justify their decisions? "Hardly anyone." So they look like convincing bubbles.

The opposite are the "anti-bubbles"– situations where assets look cheap yet investors still sell. Consider state-owned enterprises (SOEs) in China and Russia. True, these states could "expropriate your wealth at will". But it's more likely they will carry on paying dividends that grow in line with the economy. At present, SOEs yield about 5%. In a world where the likely real return from most assets is far lower, you have to make "implausibly pessimistic assumptions" to conclude that these stocks aren't worth buying.

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Debt funds can pay dividends

TwentyFour Asset Management's two trusts are producing healthy payouts

Max King
Investment columnist

It has been a difficult year for investors in government bonds. Yields on ten-year issues are very low (1.6% in the US, 1% in the UK, just positive in Japan but just negative in Germany) but rising as prices fall, hitting capital returns and turning total returns negative. Most debt funds, however, have not only generated positive, if modest, capital returns but also paid dividends with a yield of more than 5%.

Typical are the two listed funds of TwentyFour Asset Management: the £575m **Income Fund (LSE: TFIF)** yielding 5.7% and the £180m **Select Monthly Income Fund (LSE: SMIF)** yielding 6.4%. The former invests in UK and European "asset backed securities" such as packages of mortgages and secured loans; the latter in the debt of UK and European banks and insurance companies as well as asset-backed securities and other high-yielding debt.

TFIF takes no "duration risk", investing in floating rather than fixed-rate debt. SMIF's investments are fixed-rate but with an average of just 3.2 years to redemption. Both funds focus on credit, buying debt offering a yield premium over risk-free government paper that they think is attractive. If this "spread" narrows, the capital value will appreciate, in addition to which a relatively generous yield will be collected.

Consumers are catching up on shopping but could face a squeeze from taxes and inflation next year

©Getty Images

"I am much happier owning credit than interest-rate duration," says CEO Mark Holman. "The fundamentals for credit are rarely, if ever, this good. Corporate earnings are fantastic, interest rates are ultra-low, there is fiscal stimulus like you've never seen before and default rates have plunged. They are likely to be below 1% in the US and Europe by the end of the year." Quality credit is vulnerable to higher interest rates "so this is the time to fish further down the risk spectrum in more lowly-rated credits. There are two to three upgrades for every downgrade, with downgrades focused on areas like retail, autos and property facing structural reform." As for upgrades, he thinks bank credit is attractive. "Banks had the best part of the pandemic and are now a massive part of the recovery but spreads over risk-free are still 300 basis points (3%). There is further to go as spreads have been just 100 basis points in the past." Secured loans also represent good value with margins of 600 basis points over risk-free rates.

In terms of geography, Holman prefers eurozone credit as it offers better relative value. The UK is next as there is still a Brexit premium; the US last. The same order of preference applies to bonds as he expects the US Federal Reserve to start tightening monetary policy soon. "I don't understand why they are still engaging in quantitative easing".

By mid-2023, he expects them to start raising rates with perhaps six or seven hikes in 12 months to reach a peak of around 2%. With ten-year Treasury yields likely to reach 2.5%, this would be "painful for bond investors but the price in terms of inflation of getting jobs back is acceptable to the Federal Reserve". History shows that "the peak in yields happens well into the hiking cycle so we are a long way from wanting to own Treasuries."

The Bank of England "is likely to be the first to raise rates in the first half of 2022" but the European Central Bank "might not be able to get rates above zero". The Federal Reserve is still insisting that inflationary pressures are "transitory" but the professed uncertainty and hence pragmatism of the Bank of England secures Holman's approval.

What could go wrong with this relatively benign thesis? Consumers are catching up on the spending lost in the pandemic but higher prices and taxes will squeeze net incomes. This could lead to a slowdown or even a recession next year, which would be positive for bond markets but not for credit spreads. TwentyFour might not see this coming but their record, annualised returns of 7% for TFIF and 8.4% for SMIF over five years, suggests otherwise.

Activist watch

Activist investor Gatemore Capital Management has been amassing a stake in furniture chain DFS since September, says Mark Kleinmann on Sky News. It sees "material upside" to the share price that could materialise through a "private-equity take-out at a significant premium" or a share buyback scheme, according to a letter to investors by one of the managing partners. DFS has a market capitalisation of £730m after a rise of 30% in the share price in the last 12 months. But the stock has barely risen since the group floated in 2015. It saw a jump in sales and a return to profitability in the year to 30 June, but there has been severe disruption to its supply chain. Gatemore has stakes in other UK retailers, including Moss Bros and Superdry.

Short positions... beware performance fees

■ **"In how many areas of life, other than fund management, do you pay someone extra to do their job properly?" asks David Brenchley in The Times. Investors are doing just that when they buy a fund with a performance fee on top of other charges – thus further undermining long-term returns. Fund management groups can "just about get away" with charging performance fees for assets that are usually inaccessible to ordinary investors, such as private equity. But it becomes "more galling" when the investments are more common. The two largest technology investment trusts, for instance, Allianz Technology and Polar Capital, come with performance fees of 12.5% and 10% respectively. And while Allianz has significantly outperformed in the past ten years, Polar "has barely done better" than a tracker fund. Among the other trusts with performance fees are 3i Infrastructure and Worldwide Healthcare (20% and 15% respectively).**

■ Star fund manager Nick Train's (pictured) portfolio of "UK consumer brands and evergreen franchises" has hampered his performance lately, says Jeremy Gordon on Citywire: the market remains "fixated" on fast-growing technology stocks. The Finsbury Growth & Income investment trust returned 20.9% in the year to 31 October, compared with 35.4% for the FTSE All-Share index. Markets have been rattled by recent performance at Unilever and London Stock Exchange Group. Shares in Tesla, meanwhile, gained 44% in October.

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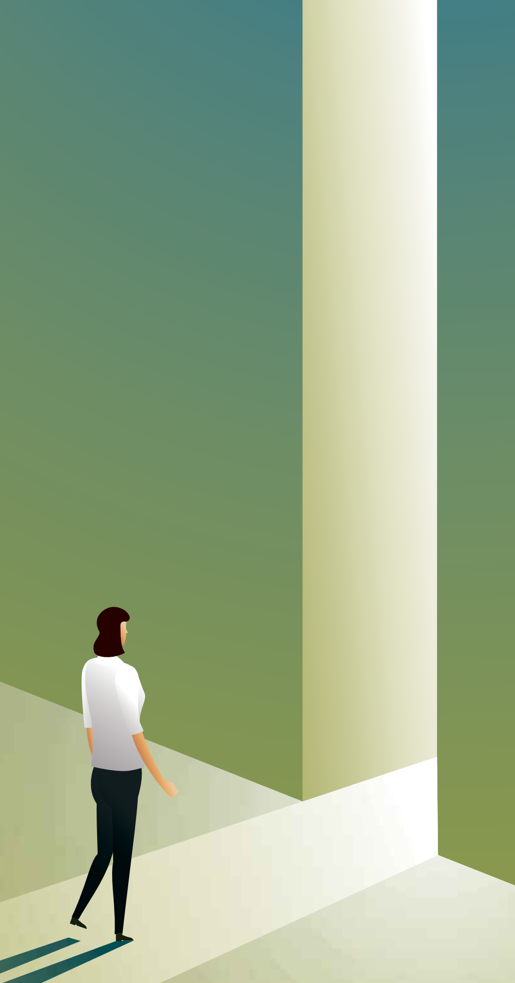

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Share price total return ($)[2]	50.8%	68.4%	138.3%	342.8%
Share price total return (£)	41.0%	62.5%	129.0%	409.7%
FTSE All-World TR ($)	28.0%	44.7%	90.6%	225.6%

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[1] Over the ten years to 30 September the US dollar NAV per share compound annual growth rate ("CAGR") was 14.8% and the public market benchmark (the FTSE All-World Total Return Index) CAGR was 12.5%. The peer group refers to the UK listed private equity fund of funds: BMO Private Equity Trust, ICG Enterprise Trust, JPEL Private Equity, Pantheon International Plc, and Standard Life Private Equity.

[2] HVPE introduced an additional US dollar share price on 10 December 2018; from this date onwards, the actual US dollar share price, as reported by the London Stock Exhange, has been used. Prior to this date, the US dollar share price had been converted from the sterling share price at the prevailing exchange rate.

Traditional assets soar; growth stalls

Rana Foroohar
Financial Times

For all the talk of cryptocurrencies and big data, most 21st-century wealth is still in bricks and mortar, says Rana Foroohar. A new study from the McKinsey Global Institute has some "eye-popping numbers". Looking at the balance sheets of ten countries representing 60% of global income, it found that two-thirds of net worth is stored in real estate and land. This has a lot to do with falling interest rates as well as "constrained land supply, zoning issues and over-regulated housing markets", say the authors. As a result, wealth and growth, which traditionally move "in sync with each other", are now "completely disconnected". Asset values are 50% higher than the long-run average relative to income. No wonder affordable housing has become a "rallying cry for millennials", while rents are soaring. Part of the problem is that not enough money is moving into "more economically productive places", which is "very bad news". What lessons should we learn? First, that "low interest rates haven't done much for business". Second, post-Covid-19 government spending programmes present an opportunity to "push money into more productive sectors". Third, it is only by fixing the housing issue that we can "rebalance our global ledger".

EU seeks to improve on paradise

Editorial
The Economist

"Telling Scandinavians how to run a labour market is akin to teaching the French how to bake baguettes," says The Economist. In Denmark and Sweden, employees benefit from some of the most generous wages and benefits on the continent and employers can hire or fire "with ease". The countries are "both a worker's paradise and a capitalist's dream". Yet the European Commission now wants all workers to be covered by a minimum wage, either through national law or collective agreement (as in Scandinavia), and although it wants to "shape how governments guarantee decent wages", rather than set levels, "all legislation comes with unintended consequences, particularly at the European level". With EU law covering minimum-wage rules, legal challenges would become possible, and a single judgement could set a precedent and "upend the Nordic labour model". The Scandinavian duo have made a formal protest, but "to no avail". And rules in this area are just the start of a "wider push on workers' rights". No wonder they are so concerned. There is "little scope" for dodging the legislation. Their system isn't broken, yet EU efforts to fix those that are could soon make Sweden and Denmark "resemble everywhere else".

Presidential hopefuls flirt with Frexit

John Keiger
The Spectator

The leading five candidates in France's April 2022 elections, excluding the pro-EU Emmanuel Macron, have French national sovereignty at the heart of their manifestos, says John Keiger. Regular opinion polls show these candidates, from the left and right, garnering some 65% of support, with those representing pro-EU policies garnering just 14%. Although no candidate favours a full Frexit, the common factor is the "attack on the supremacy of EU treaties over national constitutions" ("breathtaking" from some quarters, given the support shown for the EU's negotiating position during Brexit). The most "striking" aspect of all policies is the way they "hollow out the very heart of the EU: its legal basis". Where British Brexit negotiators "lacked the clarity of precision of written constitutional law and thus hit a wall of EU legal treaties and texts that brooked no change", the French, who "largely wrote the legal foundation of the EU, are masters in wielding legalistic, text-based arguments". Their ultimate target? That "sacrosanct principle", the supremacy of the European Court of Justice. This potentially opens a door for other members as well as providing the UK with an opportunity to renegotiate aspects of the Brexit agreement.

Sunak is not squeamish enough

Julian Morris
CityAM

Rishi Sunak, who claims to be "squeamish about tax rises", described the recently rubber-stamped global minimum tax – 15% on all multinationals with revenue of over €750m – as "a huge prize for the British taxpayer", says Julian Morris. "This could not be further from the truth." The new G20 deal will "entrench" higher taxes and could lead to a corporate exodus, costing the Treasury up to £7bn. It is also incompatible with "key" government policies such as the temporary super-deduction and the "free ports" policy. That corporation taxes damage economic growth is a "rare issue on which many economists agree". Shifting profits to lower-tax countries has led countries to lower their corporation tax rates. This has benefited all companies and, by incentivising investment, contributed to higher economic growth and rising incomes. In the UK, a reduction in the main corporation tax from 28% in 2010 to 19% in 2017 resulted in corporation tax revenues rising from under 2% of GDP to 2.5% over the same timeframe. If we are stuck with these proposals, the least we can do is lower the rate, allowing for "full expensing and exempting a wider array of financial companies". Otherwise, the chancellor "risks looking like a fool".

Money talks

"For me, money means help. My mam was a single mother with two kids. She scrimped and scraped, although we never wanted for anything. When I went on *The X Factor*, I just wanted a good life for my mam and my brother. Buying her a house was the best thing in the world. The majority of my money just goes to my family."
Perrie Edwards of girlband Little Mix, who won *The X-Factor* in 2011, quoted in The Sunday Telegraph

"It went from a bunch of hereditary thickos to a bunch of snollygosters who bought their entry."
Broadcaster Andrew Neil on the House of Lords, quoted in The Mail on Sunday

"My dad [said]: 'You're getting all uber-capitalist all of a sudden; you've always been dead against it.' I know, but [the capitalist system] is not going to disappear overnight and I'm sick of being poor... for the first time in my life I didn't do the two-for-one at Specsavers."
James Smith, frontman of the Yard Act, on how his anti-capitalist and anti-consumerist stance has softened since he found success and became a father, quoted in The Times

"Sometimes I struggle because I have a lot of expenses, but I like that sensation. It keeps me real."
Hollywood actress Salma Hayek, who is married to billionaire François-Henri Pinault, CEO of the fashion conglomerate Kering, quoted in The Guardian

"I had 17 Nobel laureates in economics send me a letter recently saying my proposals would actually reduce inflation, diminish inflation."
American president Joe Biden is convinced his huge stimulus package will not fuel inflation, quoted in The Washington Post

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Seven climate-change myths

unherd.com/thepost

As delegates to the COP26 climate summit head home, we have got used to being bombarded with disaster scenarios. Sceptic Bjorn Lomborg believes the panic and alarmism has been overdone. Global warming is real, but "not the end of the world", he says. It's just one problem among many others. Here are seven common myths.

1. Small islands are doomed

We hear that places like the Maldives and the Seychelles are going to end up under water. But these coral islands actually rise higher above sea level in storms as coral breaks off, washes ashore and accretes to the island. For the foreseeable future, the accretion is likely to be higher than the sea-level rise.

2. More people are dying

We have good data on how many people die from climate-related disasters and the fact is that there has been a dramatic decline in the number of deaths as the world has got richer. In the 2010s, there was a 96% reduction in deaths compared with the 1920s. And the numbers are continuing to fall.

3. Lockdowns will save us

Some people are suggesting ongoing lockdowns as a way to hold off disaster while changes are put in place. The fact is that in 2020, when nearly the entire world was shut down, we still emitted almost as much carbon as before. We still had to heat our homes. And when you stop doing one thing you do something else instead.

4. Electric cars are green

Unless you live in Norway, much of the energy that you pour into your electric car will have come from burning fossils. And the battery will have been produced in China, typically fuelled by coal.

The problem isn't as bad as it looks

©iStockphotos

5. Polar bears are doomed

Polar bears were alive the last time there was no ice in the Arctic, some five to eight thousand years ago. And population numbers are actually on the rise, from a low of about 5,000-10,000 to today's 25,0000.

6. Vegans are helping

The reality is that going meat-free is only going to help the climate situation a bit. We hear about reductions of 50%, but that's of the emissions from food alone. The total impact would likely be about 4%.

7. Wildfires are heating up

Wildfires have been on the decline in pretty much every year since 1900. Australia, for example, would see 12% of its area in flames in the 1900s. By the 2000s, that was down to 6% to 8%. In 2019-2020, it was a little less than 4%.

Americans feel flush and gloomy

nytimes.com/upshot

Americans are, by many measures, better off than they have been in years, says Neil Irwin. They have "seized the upper hand" in the labour market and won pay rises. They have quit jobs in record numbers, yet unemployment has been falling rapidly too. They are sitting on piles of cash: the median household's bank account was 50% higher in July of this year than in 2019. And yet, at the same time, polls show large majorities are in a funk about economic conditions. Why? Probably because inflation is rising. Consumers are seeing higher prices and no policies to correct them. They are seeing shortages and other inconveniences, which do not show up in inflation data but contribute to feelings of gloom. Economist Robert J. Shiller led surveys in the 1990s to ascertain why inflation frustrated people so much more than economic theory would predict. The answer, he found, is that people do not believe they will receive adequate pay rises to compensate them for rising prices, and that inflation will harm economic growth and national morale, and fuel political chaos. Inflation portends "arbitrary injustice, arbitrary redistributions and social bitterness", Shiller wrote. Inflation, says Irwin, is "about something more profound than dollars in people's pockets and the price of a gallon of gas".

How to be an effective leader

theconversation.com

The pandemic threw many businesses and their workers into crisis. But strong leadership can be the key to turning things around, says Christian Harrison. Here are the three key skills of effective leaders.

1. Be empathetic. Leaders "need to show they are human". The late Arne Sorenson, for example, former CEO of Marriott International, recorded a video message for employees that has since gone viral expressing compassion for his employees as his firm's revenues plummeted due to lockdowns.

2. Be decisive. Successful businesses respond quickly to change and adapt. When people were confined to their homes, Jeff Bezos of Amazon swiftly recruited 175,000 extra workers and increased pay. This was instrumental in helping to increase Amazon's profits.

Sorenson: a model of compassion

©Getty Images

3. Build effective teams. Leadership is about motivating people and that is only possible if leaders are role models. Carsten Spohr, for example, CEO of Lufthansa, inspired and impressed his colleagues for taking responsibility when a suicidal pilot deliberately crashed a plane. This helped build a culture of trust within the organisation.

Does it matter who's in power?

awealthofcommonsense.com

Corporate profits and small-business income have been on a steady upward trend in the US with no major reverses since the 1940s, says Ben Carlson. What's "striking" about that is that this long-term progress has been largely unaffected by high or low tax rates; Democrat or Republican presidents; inflation or deflation; rising interest rates or falling rates; booms and busts in the stockmarket; recessions and expansions… "and everything in between".

Politicians assure us they will do some good. But it doesn't seem to matter much who is in power. True, policies impact on certain households and businesses. And politicians can change the mood of the country. But the system itself matters much more. "The US economy is so dynamic that we're able to adapt to almost any scenario. Most people get out of bed in the morning wanting to improve their position in life. They want to learn more, make more money, get a better job, take care of their family or find fulfillment." They tend to succeed remarkably, despite all politicians can throw at them.

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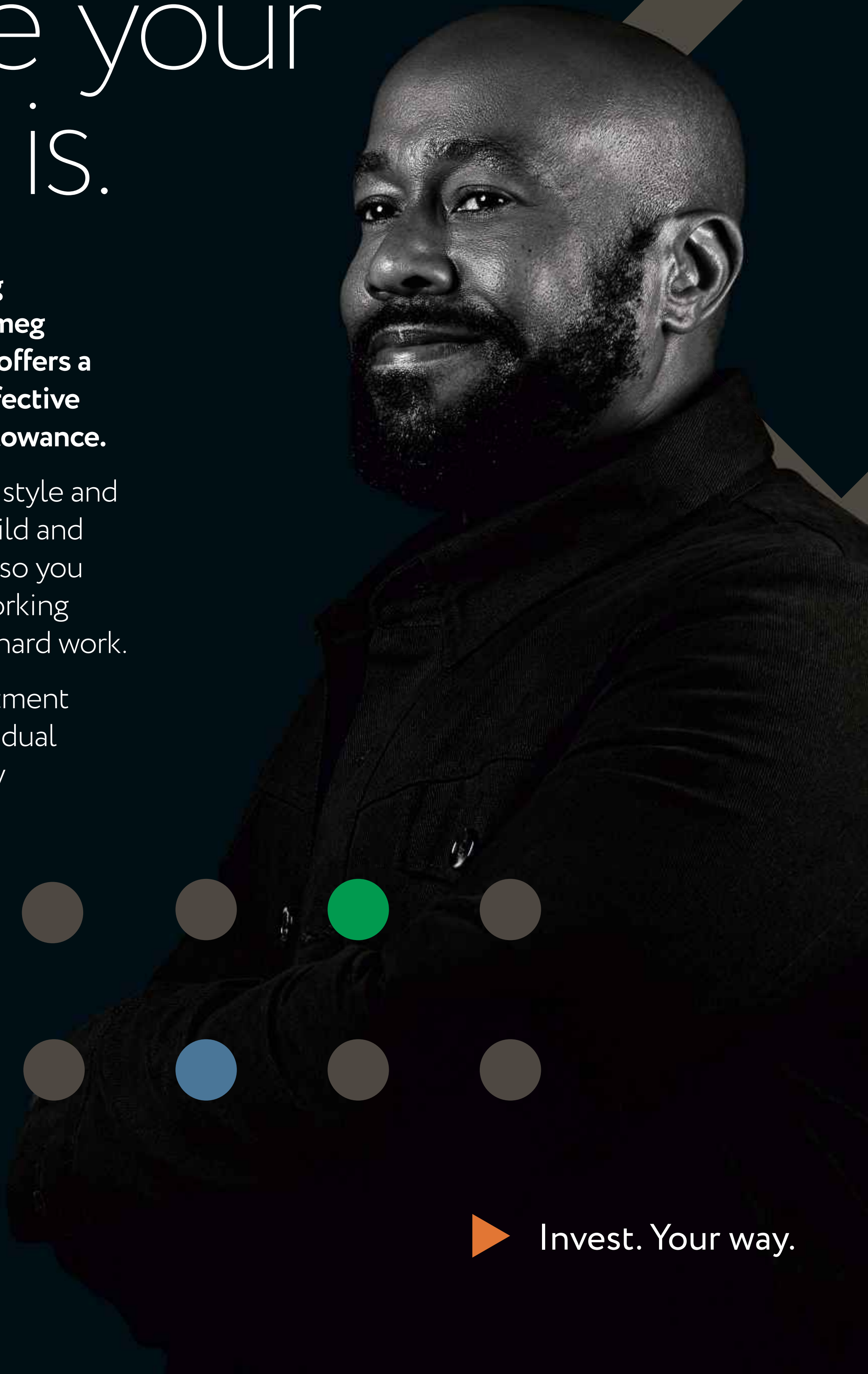

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Investors should be cautious about Xi's new era

The Chinese president's vision for the future is very different to the past. Stricter social control and the slow struggle to tackle problems in the economy may not be good news for markets, says Cris Sholto Heaton

There was just one official outcome from the Sixth Plenary Session of the 19th Central Committee of the Chinese Communist Party earlier this month. More than 300 top members of the party met for the last time before next year's national congress to approve a resolution on the party's history and achievements – essentially a document that talks at great length about how hard the party has worked, how much it has done for the people and how it will keep up its efforts in future.

That may seem a scant return for a four-day closed-door meeting, but it has symbolic significance. This is the third time that a Chinese leader has issued a resolution on the party's history: Mao Zedong did so in 1945 and Deng Xiaoping in 1981. By doing the same, Xi Jinping elevates himself alongside them in the pantheon of leaders, ahead of his predecessors Jiang Zemin and Hu Jintao. Xi is mentioned 17 times in the resolution, compared to seven for Mao, five for Deng and one passing mention each for Jiang and Hu.

The signal is clear. Not only will Xi continue as leader next year (there was no real doubt about this), but he represents a new era for the country, shaped solely according to his vision. The future is Xi's China, for better or worse. The problem is that the trends increasingly say that it will be for worse.

Running out of time for reforms

There are three distinct – though closely connected – reasons to be concerned about the outlook for China. The first is the structural weaknesses of the economy. Economists and investors have been talking for many years about the need to rebalance from investment towards consumption. The problem is that this isn't happening. Private consumption only accounts for around 39% of GDP, up from 35% a decade ago.

If China was investing productively, this would be less of an issue – but it's clearly not. You can see this in a number of areas, but one of the most important and high-profile areas is residential real estate. This accounts for around 29% of GDP when you factor in everything connected to it. There is little question that there is a huge real-estate bubble and a lot of very indebted developers building properties that are often purchased for investment rather than use (about 20% of Chinese residential real estate is reportedly empty).

The Chinese government is very much aware of this and wants to curb the excesses in the sector – hence the public crackdown on real-estate lending earlier this year, which has brought a number of developers such as Evergrande to the brink of failure. The difficulty is that squashing a bubble like this isn't simple – the economic linkages are complex and actions can have far-reaching consequences.

"Residential real estate accounts for 29% of GDP"

Most obviously, the collapse of developers affects anybody who has lent to them, suppliers who are waiting to be paid and buyers who have paid for off-plan properties that may not be completed. However, bursting a wider bubble in the sector will affect the wealth of people who have bought property, with effects on consumer confidence. Less demand for new land from developers will affect local governments, who in China need to cover much of their spending and investment from land sales rather than taxes or issuing bonds. The government is not blind to this. For example, last month it announced a pilot programme under which around ten cities will levy property taxes, with the idea of introducing it nationwide after 2025. This could put local-government finances on a sounder footing, making them less dependent on the property and land price bubble, and generally reducing the outsize role that the sector plays in the wider economy.

But many changes are not easy, quick, certain or controllable. The government's efforts to squeeze the sector may not go far enough, in which case unproductive real-estate investment will continue to be a long-term faultline in the economy, even if it helps to support growth for now. Or they may bring everything crashing down fast. In the last two months, property prices have fallen for the first time since 2015, which some analysts already fear could be the start of a slump that will spread to the wider economy.

Real estate is just one problem, albeit a very large one. There are plenty of other poor-quality investment by state-owned companies or local governments. The economy would be a lot sounder if this spending was instead flowing to individuals and households as income. None of this is a new idea – and Xi's flagship policy of common prosperity aspires to spread wealth more equally. However, the details of how this will happen are non-existent and China's window for dealing with these profound problems is shrinking because its demographics are becoming increasingly unhelpful. A decade ago, the dependency ratio – the ratio of old and young to working age people – was 34%. Now it is 42% and set to climb faster.

This will naturally bring down the long-term sustainable growth rate. Transitioning from a model driven by lower-quality investment towards a more balanced one isn't painless in the most favourable conditions, but it will feel even harder when the economy is growing more slowly. So the temptation to prop up growth through yet another round of investment is likely to become even greater if GDP drops to 3% (which might be the sustainable rate) instead of 6% in the years ahead. In short, the longer that China puts off real change, the harder it may be.

The heavy hand of the state

The second concern is the heavy hand of the state in all areas of the economy and society. Xi and his key advisers clearly believe that China has taken the wrong path. There are aspects to their vision that could be positive, at least in principle. For example, it is likely that Xi's wide-reaching anti-corruption campaign reflects genuine personal disgust with the level of corruption in modern China rather than a simple pretext to purge political rivals. That's not to say the campaign is well-conducted: it creates a climate of fear, it has served to crush opposition to him, and it does nothing to bring about the transparent and predictable rule of law that China badly needs. But the ambition of tackling corruption is understandable.

©Getty Images

Xi Jinping towers over a gala performance for the 100th anniversary of the Chinese Communist Party in June

Similarly, the crackdown on high-flying tech companies such as Alibaba that began last year is reasonable in many ways. These firms had grown very large, very powerful and often quite monopolistic, due to their success in skirting ineffective regulation. Taking action against them might be beneficial for the wider economy even if it hurts shareholders in those individual firms. The problem is the suddenness, the lack of clarity in terms of the government's long-term intentions and the abrupt reminder that private property rights are ultimately very limited.

China never gave up on the idea of a large role in the economy for the state, but it is unambiguous that Xi's administration sees the state as far more dominant than under his recent predecessors . Whenever there is a situation in which the government feels that private businesses are not serving its social goals, it will step in. Sometimes this is survivable. After Alibaba's time in the spotlight, Tencent took a beating over concerns that children are playing computer games too much: it and its rivals must now restrict access for children to just three hours a week at specific times. That's unwelcome for games companies, but not a fatal blow.

However, when the government decided to outlaw for-profit private schools for children earlier this summer, it destroyed a thriving private educational sector. US-listed shares in New Oriental Education & Technology, the largest and best-known provider, began 2021 at $17 and now trade at around $2. This decision was directed at the wide use of after-school classes and private tutoring by ambitious parents, which the government says puts too much pressure on children. The government also apparently hopes removing the social pressure to pay for expensive private tuition will raise the birth rate and eventually alleviate the country's demographic crunch (the expense of raising children is often cited as a reason why many people remain reluctant to have large families even though the one-child policy has been abandoned). There is certainly a good case that children are under too much pressure and so the aim may be laudable. But the fact that businesses that have been built up over decades can be wiped out so quickly shows how easy it is to end up on the wrong side of the government's new priorities.

However, the problem goes deeper than control of the economy. Under Xi, the state has cracked down ever more heavily on freedom of speech and discussion of any issues that could be considered sensitive. In the mid 2000s, what could be freely debated or reported had steadily expanded in China. The climate became somewhat more restrictive around the time of the Beijing Olympics and did not fully open up again – but in recent years the shift towards repression has become far more severe. Journalists are much more restricted in what they can report and censorship on social media has become stricter. Newspapers are now full of fawning articles about Xi's virtues and vision.

The ability to debate policies is constrained even in academia, while high-profile critics who might previously have enjoyed some element of protection because of their status and connections have been silenced. Real-estate tycoon Ren Zhiqiang, who had

"Under Xi, the state has cracked down on freedom of speech"

Continued on page 32

Continued from page 31

been a blunt critic of Xi and the party, was last year jailed for 18 years on allegations of corruption, in what was widely seen as a warning to others.

Obviously, to anybody who values freedom of speech, this is appalling. However, it's also bad for China regardless of the human-rights issue. Shutting down the ability to report, discuss and debate increases the risk of making mistakes. Policies are not publicly scrutinised, while the information reaching top decision makers become more one-sided.

More muscular at home and abroad

The third concern is international relations. Under Xi, China is cranking up its use of force. The worsening situation in the western province of Xinjiang was an early sign of this. There have long been human-rights issues in this region, but what has happened in the last few years is very different to anything seen before. The government has built what can only be called concentration camps and detained several million Uyghur Muslims without trial in an effort to stamp out any sense of a separate local identity and culture.

This was followed by the crackdown in Hong Kong. It's easy to understand why China's top leaders are concerned about mass protests (not only could these one day pose a threat to party rule, but many – including Xi – are probably instinctively fearful of social unrest due to their experiences in the Cultural Revolution). However, the imposition of the national security law – which has been used to crush all political opposition, no matter how peaceful – erases basic civil rights and the rule of law in Hong Kong. The "one country, two systems" promise, which was supposed to last until 2047, has been cast aside.

In this context, China's military threats towards Taiwan must be taken seriously. The government in Beijing has no legitimate historical claim to rule Taiwan, but the idea that it does – and that the island is a renegade province that should be reclaimed by force if necessary – is universally believed in China. Hence the growing nationalistic, militaristic sentiment in the country – shown by everything from comments by top figures in the party to regular videos of the army demonstrating weapons and exercises focused on a hypothetical invasion of Taiwan – is worrying. It's impossible to know if Xi genuinely has any intent to invade (displays of military power also help project strength abroad and stir national pride at home), but it is disturbingly plausible that he might conclude in five or ten years that it would secure his place in history. Even more unpredictably, governments sometimes lose control of the sentiments they stir up. One can imagine a scenario in which a leader struggling with other issues that dent his popularity and threaten his control – eg, a prolonged economic slump – gets carried down a path they didn't originally intend to follow.

All this is a very bleak perspective. The outcomes may be much better. China still has much long-term potential. Yet it is increasingly difficult to be confident at present. Investors have become used to talking about growth opportunities, but maybe a shorter-term focus on value will do better while we see how much more disruption Xi's vision will bring.

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Taiwan rightly fears that China will invade

"China's threats towards Taiwan must be taken seriously"

How to shift from growth to value in China

The long-term trends in China point to three distinct risks for investors. Economic growth in future may be much weaker than expected. The state may continue to squeeze private businesses. And the relationships between China and other countries – especially the West – may deteriorate, potentially to the point where we see a disorderly outflow of foreign investors (perhaps even forced by rules enacted either by Western countries or by China). All of these factors need to be taken into account in deciding what price you are willing to pay for Chinese stocks.

Many investors – including me – used to feel that the long-term potential of China (especially consumption themes) meant that the better businesses there were worth a premium to many emerging markets, (although many dreadful firms also deserved a huge discount). Recent trends are alarming enough that I'm no longer certain. I can see a scenario in which US-listed or Hong Kong-listed Chinese shares – which are bought by foreigners – steadily derate over the medium term to reflect these growing risks. The mainland A-share markets (Shanghai and Shenzhen) are a different matter, since these are driven entirely by domestic sentiment.

Undoubtedly some private sector businesses will do fine, but it may be increasingly hard to pick winners. Firms that seem well-placed may suddenly be undermined. To take an extreme example, I have had a long-term holding in a Hong Kong-listed soy-milk company called Vitasoy, which has grown strongly on the mainland. In July, an employee with mental-health issues attacked a policeman and then killed himself. The Global Times, a nationalistic tabloid, published an editorial attacking Vitasoy, leading to its products being pulled from various outlets (at least temporarily – the firm publishes an update at the end of this month, which may give some idea of how permanent the damage will be). Risks like this are hard to anticipate, but are a growing threat in the climate that now prevails in China.

One implication is that the better-run state-owned companies may become a more attractive choice. Some appear fairly cheap. For example, **China Mobile (Hong Kong: 941)**, the largest telecoms fim, yields 7.2% and trades on a price/earnings ratio of 7.1. **CNOOC (Hong Kong: 883)**, the best of the three state-controlled oil firms, yields 6.8% and is on a p/e of 6.2. **Ping An Insurance (Hong Kong: 2318)**, on a yield of 4.7% and a p/.e of 6.7, and **China Merchants Bank (Hong Kong: 3968)** on yield of 2.3% and a p/e of 11.9, seem to be appearing in more funds. I wouldn't be fully confident that financial-sector stocks like these are immune to economic risks or bad decisions in a slowdown – Ping An recently reported some losses from investment in a real-estate firm. However, I can see why investors who want exposure to domestic growth and are nervous about the private sector are gravitating towards them.

China funds that performed best in recent years – eg, JP Morgan China Growth & Income, up 200% in five years – were heavy in tech and consumer stocks such as Alibaba and Tencent. The penalty of not holding these stocks means that it's hard to find China funds that have a value or defensive bias in their current portfolio. The most obvious is probably **Fidelity China Focus**, which very clearly follows a value approach. I'd assume **abrdn China Investment Company (LSE: ACIC)** – a new fund created from the recent merger of an emerging markets trust and a Thailand trust – will lean towards defensive value. **FSSA China Growth** is not a value fund, but I'd expect it to be nimble in adapting to a changing environment, if necessary.

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Is it time to remortgage?

Banks are already starting to prepare for higher interest rates

Alex Rankine
Markets editor

Mortgage rates are rising. Finance website Moneyfacts reports that average two- and five-year fixed rates stood at 2.29% and 2.59% respectively at the start of November. That is a small increase compared to early October and marks the first monthly rise since June. Although the Bank of England held interest rates at 0.1% last week, lenders are positioning themselves for rate hikes ahead. Moneyfacts says that the number of deals offering rates below 1% has also fallen, from 131 in early October to 30 by 1 November.

When they do come, Bank of England interest-rate rises will most immediately hit the 850,000 people on tracker mortgages, say Fiona Parker, Amelia Murray and Helena Kelly in the Daily Mail. A rise in the base rate to 0.75% would cost a borrower with a £150,000 25-year tracker loan an extra £600 in annual mortgage payments, says AJ Bell. The 1.1 million households on standard variable-rate (SVR) mortgages will also feel the heat from an interest rate hike.

Staying on your lender's SVR after the fixed deal is up can still make sense for some people, say Rachel Mortimer and Will Kirkman in The Daily Telegraph. "If you have a mortgage that is relatively small, say under £50,000, it might not be worth remortgaging if the new mortgage fees outweigh the potential savings." Yet for most borrowers, fixed-rate mortgages are the clear choice. Today 81% of the mortgage stock is fixed, up from 41% in the late 2000s. For new loans the figure is even higher: over 90% of new mortgages are now fixed-rate, according to data from UK Finance; 46% are fixed for five years, and 45% for two years.

Beware steep exit fees

With rates heading up, some are opting to switch now to lock in a better rate, even if they have to pay steep exit charges to do so. Aaron Strutt of Trinity Financial tells the Financial Times that "one client recently decided to pay £12,000 in exit fees on two five-year mortgages... to lock in a low rate over ten years". Rising property values also mean some homeowners are now eligible for lower rates. But early repayment charges, typically about 5% of the loan, are only worth paying if you are desperate to escape your current deal.

If you don't want to pay exit charges there are other things you can do. Kate Palmer and Ali Hussain in The Times suggest overpaying the mortgage: "Even a small amount every month can make a dent over the long term, reducing the amount that you will need to borrow when you next come to remortgage". That will also help you get a better rate when you do. For those with six months or less left on their current deal it is time to go shopping, either by comparing online or contacting a mortgage broker. Lenders will typically allow you to lock in a rate three to six months ahead.

LLOYDS BANK
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Lloyds is offering a 1.07% five-year fix

©Getty Images

While lenders have been withdrawing the best rates – especially ultra-low ones offered to people with large deposits – there are still good deals on offer, says Palmer. You can find a 0.88% two-year fix with a £1,999 fee from Cumberland Building Society, while Lloyds Bank offers a 1.07% five-year fix with a £1,499 fee for re-mortgagers. Factor the fees into your calculation when deciding what deal is right for you. Indeed, those coming off two- and five-year fixed rates now are in luck, says Helen Crane for This Is Money. In November 2019 the average borrower paid 2.45% for a two-year fix, versus 2.29% now. "Those who fixed for five years in 2016, when rates were slightly higher still, could also find a better deal."

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The minimum pension age

The rules relating to tapping retirement savings have been tweaked, but are still confusing

David Prosser
Business columnist

When is the minimum pension age not really the minimum pension age? When you're in a pension scheme with a "protected pension age". But while there are plenty of these schemes, it is now too late to transfer into one.

This is a saga that has been going on since July, when the government announced that the minimum age at which you can begin drawing down private pension savings will increase from 55 to 57 in April 2028. However, the change does not apply to pension schemes offering protected pension ages: schemes where the rules explicitly state that savers will be allowed to access their cash at a specific age or on a specific date, rather than simply at the normal minimum pension age. In these schemes, the protected pension age takes precedence.

You may have to wait until 57 to celebrate drawing down your money

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Pension experts didn't like the reform. For one thing, the rules are confusing, effectively creating a two-tier system that allows some people to cash in their savings sooner than others. Potentially more seriously, many feared that the new rules were an open invitation to pension scammers and cowboy advisers. They worried savers would be encouraged to move savings into schemes with protected pension ages, even though doing so might be completely inappropriate for their needs.

In the run up to last month's Budget, the government therefore came under pressure to backtrack on its plans. Ministers initially resisted calls to change tack, but earlier this month did announce a partial U-turn. While they are sticking with the increase in the normal pension age, they have now said savers will not be able to transfer from one scheme to another in order to take advantage of a protected pension age.

In practice, this does not stop anyone transferring pension savings. But if you're currently a member of a scheme that does not offer a protected pension age and you move your money to one where this is a feature, you'll only be able to take advantage of it if you initiated the transfer before 4 November.

The hope is that its decision will nip mis-selling in the bud. Since there is now no possibility of transferring pension schemes in order to secure earlier access to your savings, rogue advisers will not be able to push this line.

Nevertheless, the system remains confusing and unequal. From 2028 onwards, some savers – in both individual arrangements and employer-run schemes – will still be able to begin drawing on pension savings at age 55. Others will not have access to their money at age 57.

If you're planning on retiring early, it is therefore important that you understand exactly what your scheme offers. If you had been planning to start drawing on your pension on turning 55 in 2029, say, it may be that you have to wait until 2031. That may require you to rethink your plans.

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Look beyond the gloom to find the best of British

A professional investor tells us where he'd put his money. This week: Simon Murphy, manager of the VT Tyndall Real Income Fund, highlights three favourites

The daily headlines in Britain can make grim reading: there has been constant news of fuel shortages, rising inflation and frictions over Brexit, while the pandemic is still with us. But take a closer look and the economic backdrop, from our perspective at least, doesn't seem nearly so bad.

There has been an extraordinary increase in household savings through the pandemic; the housing market has remained strong; and jobs and wages have recovered rapidly and vigorously.

So it is no surprise that UK consumers' confidence in their own personal financial situation recently hit a 14-year high. As such, we think there are tremendous opportunities in many UK-related stocks that are potentially being missed through all the doom and gloom.

A highly profitable bank for a low price

One such stock is **OSB Group (LSE: OSB)**, previously known as OneSavings Bank. Specialising in the professional buy-to-let (BTL) mortgage market, OSB is one of the fastest-growing, most profitable and well capitalised banks in the country. The outlook for the BTL market remains positive given attractive rental yields and high demand from tenants.

> *"We are excited by the transformation at high-street stalwart M&S"*

OSB's book of outstanding loans grows at around 10% per year, and there is plenty of room for further expansion given it currently has only 5% of the market. Owing to the specialist nature of the lending, combined with an exceptionally efficient administration infrastructure, the bank makes a return on equity (a key gauge of profitability), of more than 20% most years. Yet the stock is currently trading on a price/book (p/b) ratio of 1.3.

Home renovation on solid foundations

Another company that fits the bill is the UK's second-largest home-improvement retailer **Wickes (LSE: WIX)**. It used to be part of the Travis Perkins group but was demerged and listed on the London stockmarket in April 2021. It is a well balanced business spread across the three key areas of do-it-yourself (DIY), local tradesmen, and do-it-for-me (DIFM).

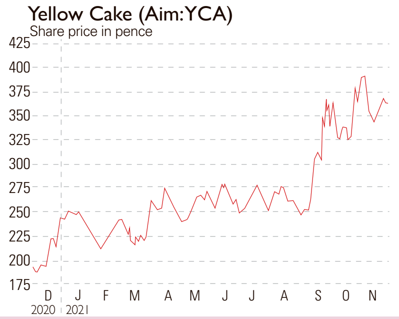
There are plenty of opportunities for growth as the nation continues to focus on improving its homes following the pandemic. The store estate is well invested, digital capability is strong and the operating model is highly efficient. Over 65% of sales start through digital channels but 95% are still fulfilled in-store. The current ten-times price/earnings (p/e) ratio looks far too low for the quality of the business and its ability to generate cash.

Not just any reinvention...

We are also excited by the transformation at high street stalwart **Marks and Spencer (LSE: MKS)**. The food side of the business has been steadily improving, reducing the use of promotions and gradually taking market share over the last two years. The addition of the Ocado Retail joint venture in 2019 is also a positive development.

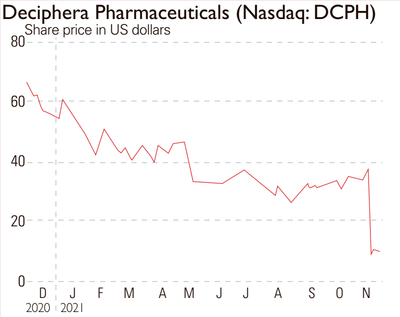
However, it is the improvement in the clothing and homeware side of the firm, accelerated in the pandemic and helped by the closure of high-street capacity elsewhere (Debenhams, for example), that offers the real potential for positive surprises. Profit forecasts for 2021-2022 were upgraded in the last update and we are hopeful of more to come. Investors, however, remain sceptical that improvement is sustainable: the stock is on a p/e ratio of 11.

If only you'd invested in...

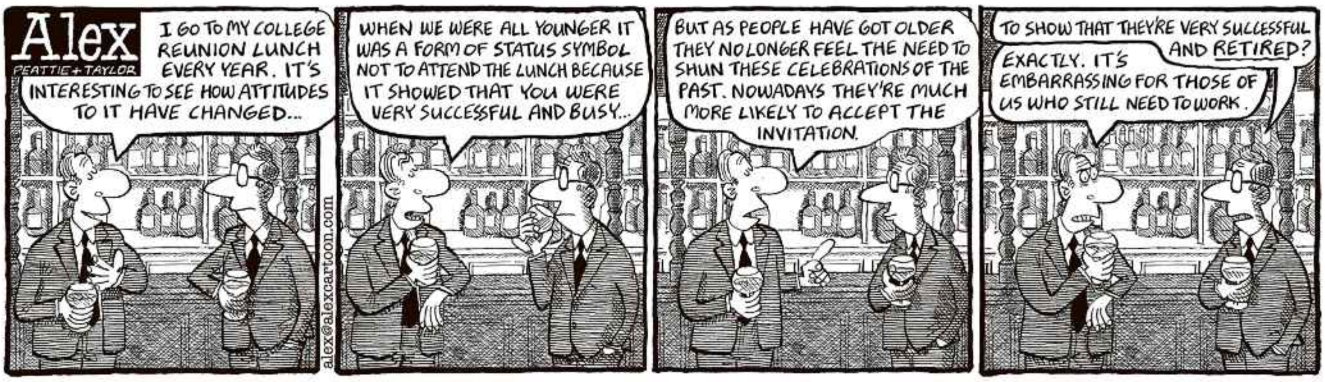


Shares in **Yellow Cake (Aim: YCA)**, a supplier of uranium oxide (used as nuclear fuel) have been given an additional recent fillip by the COP26 conference: nuclear energy is key to tackling global warming (see page 18). The company has just completed a $150m share placing, having raised $227m in two previous ones. It plans to double its holdings of uranium oxide to 18.9 million pounds between February 2021 and June 2022. The group is a key beneficiary of the rise in the uranium price, which has gained 70% this year amid robust demand and tight supply. The stock is up by 59% in a year.

Be glad you didn't buy...



Deciphera Pharmaceuticals (Nasdaq: DCPH) is a biopharmaceutical firm specialising in the development of new cancer drugs. The share price collapsed by 75% last week when trials revealed that the group's only product, a treatment called Qinlock, was ineffective at halting the progression of gastrointestinal cancers, says Phil Taylor on Pharmaphorum. The sharp drop in the stock price was preceded by months of decline as high research expenditure rattled investors. The company made an operating loss of $271m in 2020. Decipher's share price has slumped by 86% in 12 months.


Alex
PEATTIE + TAYLOR
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BUT AS PEOPLE HAVE GOT OLDER THEY NO LONGER FEEL THE NEED TO SHUN THESE CELEBRATIONS OF THE PAST. NOWADAYS THEY'RE MUCH MORE LIKELY TO ACCEPT THE INVITATION.
TO SHOW THAT THEY'RE VERY SUCCESSFUL AND RETIRED?
EXACTLY. IT'S EMBARRASSING FOR THOSE OF US WHO STILL NEED TO WORK.

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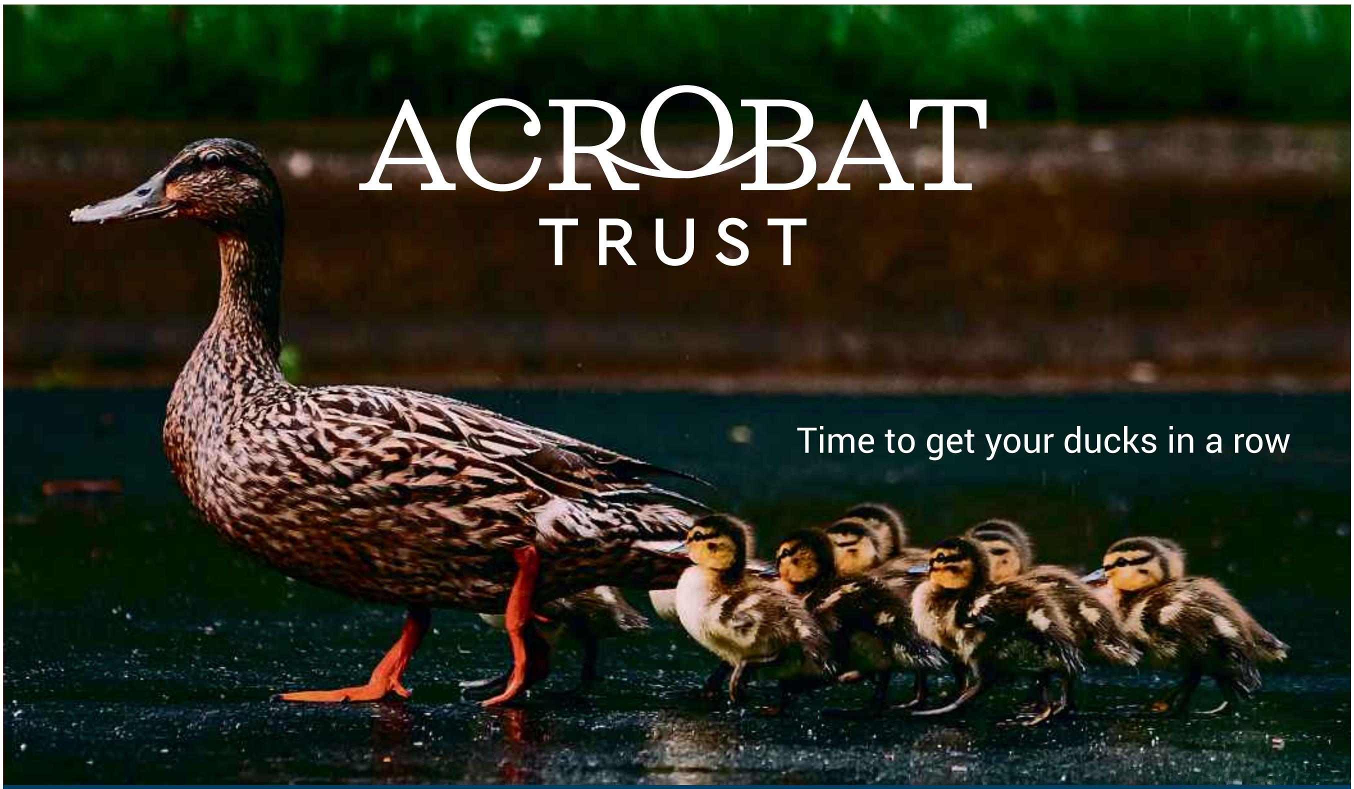
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*Source: Experian Hitwise based on market share of UK internet visits December 2018 - December 2019

The president of Wall Street

Since Jamie Dimon became CEO, JPMorgan has made total returns that easily outstrip its rivals and sits on $3.4trn in assets. What's the secret of Dimon's success? Jane Lewis reports

©Shutterstock

“Dimon dismissed the London Whale trading scandal as a ‘tempest in a teapot’. It wound up costing his bank $6.2bn”

In 2018, Jamie Dimon “thought about thinking about” a run for the US presidency, saying of the then incumbent Donald Trump: “I'm as tough as he is, I'm smarter than he is”. Eventually persuaded he had no chance, the JPMorgan Chase boss had to settle for an unofficial title instead: “president of Wall Street”, says The Sunday Times.

Bloodied but unbowed

What is indisputable is that Dimon, at 65, is one of banking's great survivors. Having “made it to the top with his idiosyncratic blend of arrogance, self-confidence and warmth”, he ensured JPMorgan emerged from the 2008 crash “bloodied but unbowed”, becoming the US government's buyer of last resort for stricken rivals like Bear Stearns. More recently, he has survived throat cancer and emergency heart surgery.

Detractors point to “errors of judgement”, such as the London Whale scandal of 2012, which Dimon initially dismissed as “a tempest in a teapot”, but wound up costing the bank $6.2bn. They also note his ruthlessness at pushing out potential successors. But ultimately performance counts. Since the dawning of the “Dimon era” in 2005, JPMorgan's total returns have easily outstripped those of competitors. With $3.4trn in assets, “the only bigger banks in the world are China's state-owned giants”.

Dimon – a descendant of Greek immigrants – had a cushioned start in life. Both his father and grandfather were stockbrokers and the family moved to New York's Upper East Side when Jamie was 12. After attending Browning, a private boys' school, he graduated from Boston's Tufts University with a degree in psychology and economics, and put in a stint as a management consultant before heading to Harvard for an MBA. Dimon got his big break when his father passed on an essay he'd written to Sandy Weill, then heading American Express, who took him on, says Vanity Fair. They went on to build the Citigroup banking behemoth, “pieced together merger after merger”. But the relationship, while close, was complicated. “The hyper-ambitious Dimon wanted Weill's job”; his mentor wasn't about to give it up, and in 1998 Dimon was abruptly fired – he didn't see it coming.

That humiliation galvanised him. He headed to Chicago “to lick his wounds”, taking control of the little-known Bank One, sprucing it up and eventually selling out to JPMorgan – in the process becoming CEO. Aside from his obvious drive, the secret of Dimon's success is his “genuine love of the ‘plumbing’ of the business”, says Vanity Fair. Others credit an unusual ability to be “both strategic and very hands on”, says The Sunday Times. Dimon is the kind of boss who remembers the names of juniors he meets in the lift. He also carries around a list of who owes him favours.

America's least-hated banker

Dubbed “America's least-hated banker” by The New York Times in 2010, Dimon has spent the past decade framing himself as a thinker and statesman. He likes to press the flesh, and apparently relishes his role as international powerbroker, claiming he's “not swayed by geopolitical winds”. And he certainly seems entrenched at JPMorgan, says The Sunday Times – recently accepting a “golden handcuffs” package of $49m in stock options spread over ten years. Dimon says “the board insisted” he accepted. Then again, “as both chairman and chief executive” of arguably the world's most powerful bank, “he really is the board”.

Great frauds in history… *Emil Savundra's car-insurance scam*

©Getty Images

Michael Marion Emil Anacletus Pierre Savundranayagam (aka Emil Savundra) was born in Ceylon (Sri Lanka) in 1926. His father prevented him joining the air force so he served with the Ceylon Engineers in World War II, rising to the rank of captain before being demoted after a drunken escapade. After the war he started then dropped out of legal studies and got involved in several dubious ventures, selling non-existent oil to the Chinese government and swindling a Belgian bank over a fictitious cargo of rice. He was imprisoned for fraud in 1954 before being released on health grounds, and was later deported from Ghana.

What was the scam?

In 1963 Savundra set up the Fire, Auto and Marine Insurance Company (FAM), offering Britons car insurance. The idea was to focus on low-risk drivers and use computer technology to automate policy decisions so as to undercut competitors, while offering much higher commissions to insurance brokers. The company was badly run and Savundra diverted a large chunk of the money received in premiums, which was supposedly to be invested in blue-chip shares and government bonds, into a shell company, Merchants and Finance Trust, which in turn lent him and co-founder Stuart Walker around £600,000 (£11.8m in today's money) on favourable terms.

What happened next?

Initially, FAM proved popular with the public. Taking advantage of a loophole that allowed it to escape an audit for its first two years, FAM raked in large sums in premiums and Savundra was able to enjoy a lavish lifestyle, indulging his passion for power-boat racing. But by 1965 the company had started to run out of cash. FAM started stalling on claims, and used forged documents to claim it had large reserves. By June 1966 it was forced to stop trading. Savundra and Walker were arrested in early 1967 and convicted of fraud a year later.

Lessons for investors

When FAM went bankrupt it owed around £3m (£59.4m in today's money), around half of which came from 45,000 unsettled claims. Liquidators were able to recover around £1m owed to FAM from brokers who hadn't fully handed over premiums, but creditors still got less than a third of what they were entitled to. The lesson here is that we can expect brokers on high commissions to have clouded judgement. And that if a deal looks too good to be true, then it probably is.

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Editor In Chief
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Executive Editor
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KEYNOTE

Nick Train
Joint Founder &
Portfolio Manager
Lindsell Train

Laura Foll
Joint Portfolio
Manager
Law Debenture

Charlie Broughton
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A perfect time to visit Kenya

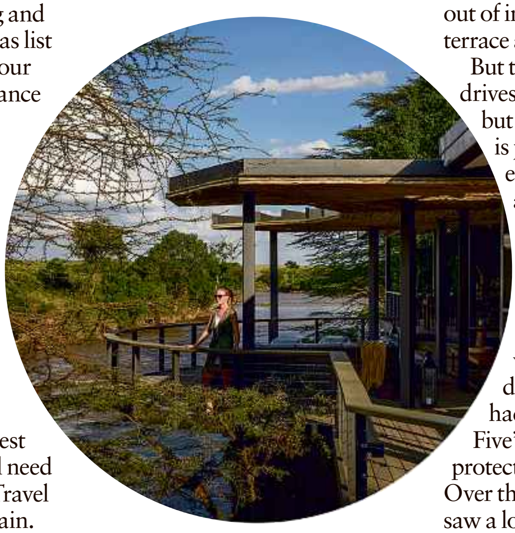
African safaris are as wonderful as they've always been, except now you get them all to yourself. Book one now, says Merryn Somerset Webb

We almost didn't make it to Kenya. Until the very last minute it looked like it might be just too hard. I booked the flights last winter (when BA were practically giving them away) on the basis that surely, come October, the pandemic would be all but over. So much for that. In September Kenya was still on the "red list" – and, even if it hadn't been, everyone was obliged to quarantine on arrival. When those obstacles disappeared, new ones arrived. BA cancelled our outgoing flight, but didn't get around to telling us (I only found out when I rang to check seating arrangements). And then there was the admin.

Travel in the age of Covid-19

Oh god, the admin. You'll need to apply for visas online. The forms are long and boring and ask you to do things such as list your e-visa numbers for your last visit. There is no guidance as to what you might do if your last visit was 25 years ago (or in the case of my mother, who was brought up in Nairobi and joining us on the trip, 50 years ago), long before e-visas were a thing. Then there is the Covid-19 performance admin. You will need your vaccine certificate. You will need your PCR test certificate, which you will need to upload to the Trusted Travel Initiative and print out again. And you will need a Jitenge QR code – this is something to do with a health surveillance system that should be active the entire time you are in Kenya, but you will never have to engage with again after arrival. You will then need to take all these bits of paper to the airport with you. Our party of five had 30 bits of paper between us – and such was the intense level of we-will-never-make-it paranoia that my husband and I ended up each carrying duplicate files of the lot just in case. Nightmare. Still, on the day we made it on to the plane. Phew.

Then as we taxied to the runway (where we sat for an hour) one of the stewards announced that the Kenyan immigration officials wanted more. We were all to fill out one of the forms again – on paper. There was a plane-wide shortage of pens – and some tears. The next hurdle was food. BA have been cost cutting. So there was almost nothing to eat: supper pre-arrival in Nairobi was half a sandwich each. Suffice it to say that a party that included one diabetic, one coeliac and two large teenagers didn't hit immigration (at 10pm) in the best of shape. We left the airport at 11pm – a shame as Nairobi was under a 10.30pm curfew. That meant that when we arrived at the Muthaiga Country Club (our first stop) after a bumpy drive in the rain (the main route in from the airport is very much still under construction); it was, apart from the man who opened the door, completely closed. We fought over the macadamia nuts in the mini bar and fell into bed, everyone else to sleep – me, to wonder what on earth I had been thinking, travelling long haul in an age of Covid-19.



Sanctuary Olonana may be remote, but it doesn't compromise on luxury

All worth it in the end

The answer was clear the next morning. I had been thinking exactly the right thing. The sun was out, there was breakfast – and Kenya is, in almost every way, glorious. We spent a day in Nairobi, first eating (a lot) and then heading, with the first of many charming Abercrombie & Kent guides, to a forest story-telling event in Karen (open fire, great tales, much dancing, great fun). The next day, everyone fully back on form, we flew to the Mara in a tiny plane (smaller, to the children's amazement, than the one we usually make them go on to their summer holidays in Shetland). I had memories of staying at Sanctuary Olonana in my twenties – so this was our first stop. It sits on the edge of the 1,500 sq km reserve, and offers about as much luxury (huge beds, free standing baths, fabulous food) as it is possible to get in such a remote spot. The rooms and the communal areas hang over the Mara River where several families of hippos live (noisily). You can watch them – and flocks of bright yellow weaver birds popping in and out of intricate nests – from the terrace as you have breakfast.

But the key thing here is game drives. The Mara might be all but empty of tourists, but it is jammed with everything else. We could see giraffes and elephants from the plane as we landed – and our guide, Benson, on picking us up at the Kichwa Tembo airstrip, reckoned we might as well go straight out on a drive. By teatime the kids had seen most of the "Big Five", including a lioness protecting her kill under a tree. Over the next few days they saw a lot more lions, a cheetah heading out on a hunt with her cubs, the tail end of the great migration (herds of 2,000 plus wildebeest on their way to the Serengeti), hundreds of zebra and antelope, various baboons, hyenas, mongooses, warthogs (warthog babies are the cutest thing in the Mara) and jackals, too many crocodiles (for my liking), a serval cat and a leopard shimmying down a tree.

The price of sheep

It was hard to leave the Olonana. But leave we did – for the Ol Seki Hemingways Mara, on the other side of the Mara. The drive there took us around the edge of the reserve, past many Maasai villages and their attendant herds of cows. This shifted the conversation between Benson and my husband, from who really saw the leopard first to the price of a good heifer relative to that of a sheep. Farming readers will be interested to hear that a cow in Kenya costs much the same per kilo as a cow in Scotland, but that sheep command a significant premium thanks to their ability to survive drought.

Our new guide, Patrick (there was a children-of-divorcees-style handover of our little group on the road between the two camps) was as keen as Benson on game drives, to which he added his own twist in the form of a cool box of beer to celebrate sunset on the go. Before we reached the Ol Seki we had seen what I think was the highlight of the trip for me: a herd of 20-odd elephants – including a ludicrously enthusiastic baby – washing themselves in a small waterhole. Perfection. As for that matter was the Ol Seki, a ten-tent camp perched on the edge of an escarpment looking out over the private Naboisho Conservancy area. Our family "tent" came with two giant bedrooms, two bathrooms, a kitchen (plus chef…) and a vast sitting/

Ol Seki Hemingways Mara: simply perfection

All images: ©A&K

dining area, all with completely breathtaking views out over the plain. More gorgeous drives followed where we saw a martial eagle stalking a tiny Thomson's gazelle fawn and – at dusk from our Land Cruiser with a Tusker beer in hand – a leopard having a stand off with a hyena.

However, the most extraordinary thing about all of this was not just that we saw it, but that we mostly saw it entirely alone. Tourism to Kenya is very severely depressed. Some of the hotels and camps claim to be up to 50%-60% occupancy. I'd be amazed if it was 20%-30%. Everywhere was empty. Stop to look at a lion and only a few years ago you would have seen a lion... and 15 other Land Cruisers full of people looking at said lion; this year you just see the lion and miles and miles of plains behind it. That's why we went, why I did all that admin and dragged my family half way around the world. I wanted them to see the Mara empty of people. It's also why you should do the same.

Back to reality

From the Ol Seki we flew to Malindi for the half hour drive to the Hemingways Watamu beach hotel – where we had the Indian Ocean to ourselves for a few days. A bit of swimming (warm water slightly freaks Scottish kids out), a bit of snorkelling (there is a healthy coral reef here), a bit of souvenir buying (no, you can't have too many *kikois*) and suddenly reality bit: it was the last night of the holiday and we had to fill in our UK passenger locator forms. Frantic buying of tests online and code inputting followed. Admin tension then lasted until we were on the plane home – there were five security checks before BA allowed us to board and the man in front of us was rejected at the last hurdle (something to do with his vaccine passport being in the wrong format). That bit was trying – and I hope for all our sakes that the admin burden will soon ease. But even if it doesn't, I would do it all again. It was worth every single QR code. So here is my advice: go now. You'll be doing your bit for the Kenyan economy at the same time – and you will have the experience of a lifetime.

Factfile

Merryn was a guest of Sanctuary Olonana. Abercrombie & Kent (*abercrombiekent.co.uk*; 01242 547 760) offers a ten-night trip to Kenya from £6,799pp based on two people sharing. This includes a safari at Sanctuary Olonana, Ol Seki Hemingways Mara and a beach break at Hemingways Watamu, plus flights, transfers to the safari, full-board accommodation when on the safari and accommodation on a B&B basis when on the coast.

Wine of the week: Farvie's difficult second album is a triumph

2019 Swinney, Farvie Frankland River Syrah, Western Australia

£85, greatwine.co.uk

Matthew Jukes
Wine columnist

Last year, I alerted you to the inaugural 2018 vintage of Farvie grenache and its sibling syrah. With scores of 19.5/20 and 19/20 respectively, these are two of the finest debut wine labels I have ever tasted. So how did these daring wines fare in the cooler 2019 vintage, and did they suffer from the all-too-familiar "second album syndrome"? I am beyond excited to announce that they are a triumph. The Farvie syrah gains a near-perfect 19.5 mark in my notebook, and Farvie grenache has to make do with a mighty 19!

In top-flight wines from warmer climes, such as South Australia's Barossa Valley and McLaren Vale, and the Rhône and Languedoc in France, syrah and grenache tend to summon up deep black-fruit notes only occasionally spiked with regal red-fruit tones. Spain has more luck with true red-fruit details, especially with bush vine garnacha. But Matt Swinney's epic vineyards in Frankland River coupled with Rob Mann's celestial winemaking mean these two wines taste densely red and labyrinthinely earthy, and therefore like nothing else on earth. Only 176 cases of each were made and you simply must have some in your cellar.

FARVIE
SYRAH
SWINNEY

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

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A Stunning Autumnal Selection

I know I bang on about value for money each month, but there is no reason for throwing good money at dreary wine, and while you might expect the elite merchants in our Club only to sell pricey bottles, this is simply not the case. This month, I have found six exquisite examples from Lea & Sandeman, which tip the scales at an average price of under £15 per bottle, and given their provenance and the winemaking genius behind these wines, this is an extraordinary feat of wine sourcing and fair pricing. Fill your boots.

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 £172 (saving £24.70 per case).** It's a chance for you to try them all, and it is the most popular choice with readers of *MoneyWeek*.

~~£15.50~~ £13.50

2020 Apremont, Sous le Roc, Domaine Fabien Trosset, Savoie, France

Imagine standing in the Savoie hills, glass of white wine in hand, chilled by the mountain breeze. The aroma of wildflowers is both on the breeze and in the glass. Its surroundings perfectly represent the pellucid liquid with its green-tinged fruit notes and bracing acidity of the rare Jacquère grape. It's a hell of a lot more interesting and unique than a commonplace Savvie B. Embrace this elite aperitif as it transports your palate to the foothills of the Alps.

CASE PRICE: £162

~~£15.50~~ £13.50

2020 Lugana, Felugan, La Feliciana, Veneto, Italy

I have always been a Lugana fan but am guilty of perhaps lazily going for the wines of the excellent and affordable Cà dei Frati. But La Feliciana has changed the paradigm. This sensational wine is not just affordable; it is a steal. Bristling with energetic acidity and blushingly beautiful pear and green apple fruit, this is a revelation, and it will perform both elite aperitif duties and all starters requirements, too, such is its depth of flavour.

CASE PRICE: £162

~~£12.95~~ £11.25

2019 Château Beaumont les Pierrières, Blaye Côtes de Bordeaux Blanc, France

M. Filliatreau, the owner of Château Beaumont, hit on a brilliant idea to bolster the panache and richness of his white wine. Each year, he ferments the early-picked Semillon and Sauvignon Blanc grapes in new barrels destined for his red wines. This ingenious idea makes a plush, lustrous and showy wine and a ridiculous bargain to boot. With unbelievable flavour, it can step up to main course fish and chicken dishes too!

CASE PRICE: £135

~~£19.95~~ £17.50

2019 Anjou Rouge, Sur la Butte, Château de Plaisance, Loire, France

Here we go! I have followed this wine for a good few years now, and in 'lighter' vintages, it sings a haunting and thoroughly mesmerising song, while in 'more concentrated' harvests, like 2019, it performs mini-miracles in the glass. Think Grand Cru Saint-Emilion depth of blackberry fruit meets pristine Loire Cab Franc freshness, and you are somewhere close to the majesty and excitement in this unassuming wine. Polished, sleek on the palate and one to watch.

CASE PRICE: £210

~~£15.50~~ £13.50

2020 Le Petit Roy, Domaine Jean Royer, France

French expressions often have more potency than English ones when describing certain wines. Le Petit Roy is a feu d'artifice (firework) with so much wonder it takes the breath away. It is a baby-Châteauneuf-du-Pape of sorts, but this ubiquitous expression loads it with weight and bulk, which it simply doesn't possess. This is a dark, swarthy and spicy wine stuffed with boysenberry and mulberry tones, but it is fresh, energetic, virile and swaggering on the palate and it will floor you with its charm.

CASE PRICE: £162

~~£18.95~~ £16.75

2020 Tim Smith Wines, Bugalugs Grenache, Barossa Valley, South Australia

I am a massive fan of this wine's sibling, Bugalugs Shiraz because it summons up the true identity of the variety, the skill of its winemaker and its historic wine region, while keeping the price at a manageable level. The same goes for this extraordinary Grenache. Made from ancient vines and harnessing 7% of 150-year-old Mourvèdre vines to add spice, this is a hedonistic, super-smooth, raspberry-themed brew that is already into its stride.

CASE PRICE: £201

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If you're serious about skiing, your own skis will repay the investment in fun. Chris Carter reports

One for the experts

"Back-to-back best-in-test winner? Count it," says US magazine Ski. The **Nordica Enforcer 100s** once again received high marks from the magazine for stability at speed, crud performance (powdery snow that has become compacted in places) and flotation (features that keep the skis from sinking deep into fresh snow). Built with two full sheets of Titanal (an aluminium alloy) and a carbon chassis laminate, these skis are not for beginners. "But strong skiers who know how to drive a ski are sure to find bliss." These "all mountain" skis were "right at home in any snow conditions I threw at it", says the magazine's tester Mike Britt. "It's an absolute hero ski." £435, snowfit.co.uk

A versatile all-rounder

The **Salomon QST Blank** seems like a powder-speciality ski, says Heather Schultz for Outside magazine, and it is, but it's also "wildly versatile". The skis are very lightweight, having been made with high-tech materials rather than metal, and the result is a great all-rounder that can "porpoise in and out of powder and spring slush energetically", and one "fat enough to float in bottomless snow". But it "also has enough sidecut… and oomph, especially in the belly of the turn", to make skiing down a fresh unskied trail "truly fun". It's impressive how "nimble and fun" they are. *£750, salomon.com*

Pick your own ski instructor

Winter sports enthusiasts looking to hone their skills in skiing and snowboarding can now arrange lessons with independent instructors quickly and easily with the arrival of new booking platform Maison Sport, just in time for the opening of the European ski season. The platform allows customers to look up the availability of professional, independent instructors in more than 350 resorts in France, Switzerland, Italy, Austria and Scotland, in real time. That, says Maison Sport, reduces costs for customers by as much as 50%, while handing more control over their earnings to instructors, who keep up to 93% of the cost of lessons. All of the instructors listed on the platform have been verified by their countries' governing bodies. Customers are also able to leave reviews. *maisonsport.com*

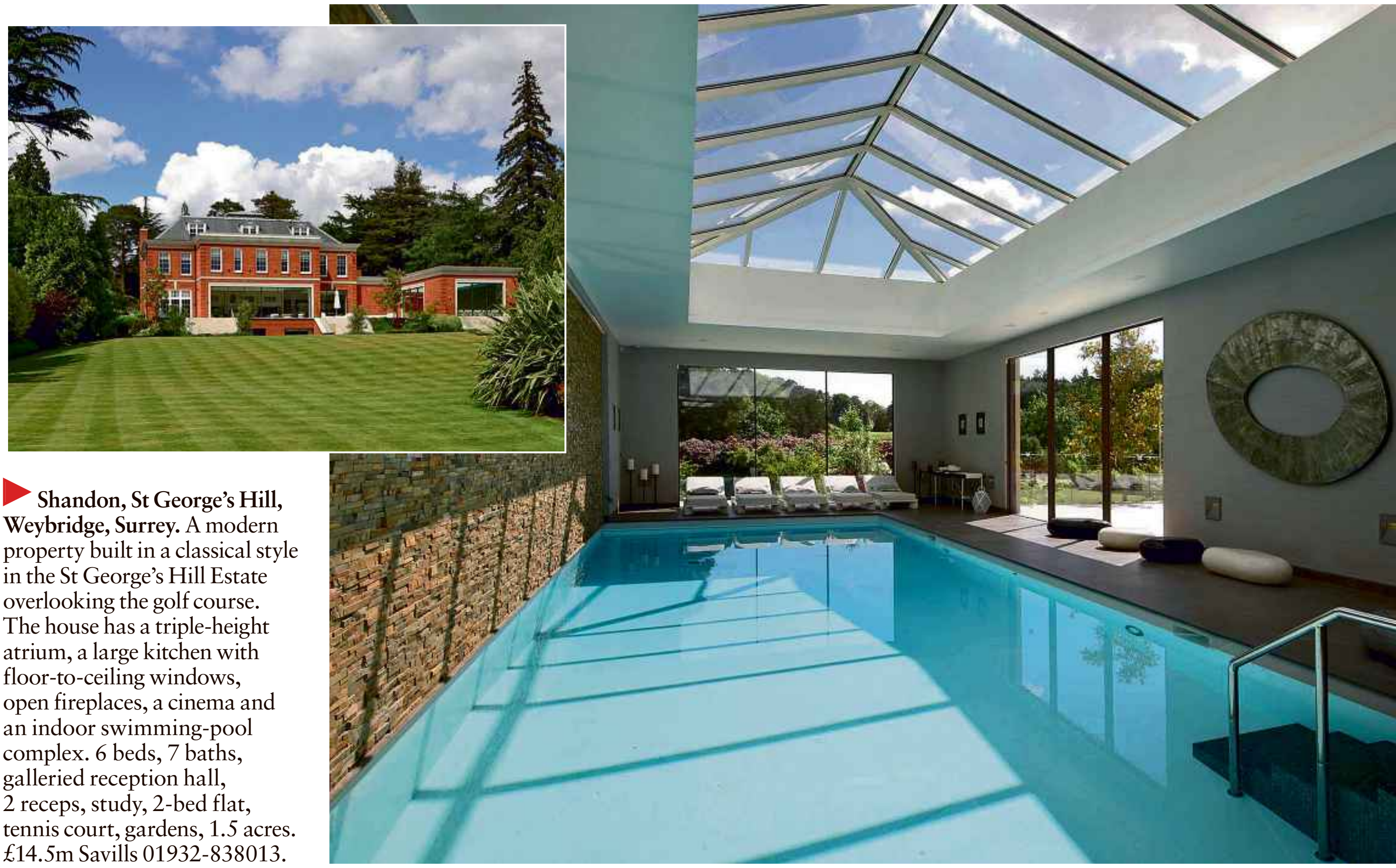
One for dedicated cross-country skiers

With each of the **Völkl Rise Beyond 96** skis weighing less than 1.3kg, the ease with which you can ascend off-piste slopes came as no surprise, says Ryan Stuart in Ski Canada magazine. "What we weren't ready for was how well it performed on the way down. Whether it was 15cm of fresh, spring slush or an icy couloir, it ripped like a much burlier ski." Everybody who tried them came back smiling. The skis are made from a complex mix of woods – poplar for stability, paulownia for lightweight flexibility and beech for strength. If you're in the market for a dedicated backcountry (off-piste) ski, "start here". *Around £465, including VAT and import duties, snowcountry.eu*

This week: properties with indoor swimming pools – from a modern house built in a classical style in Weybridge's St

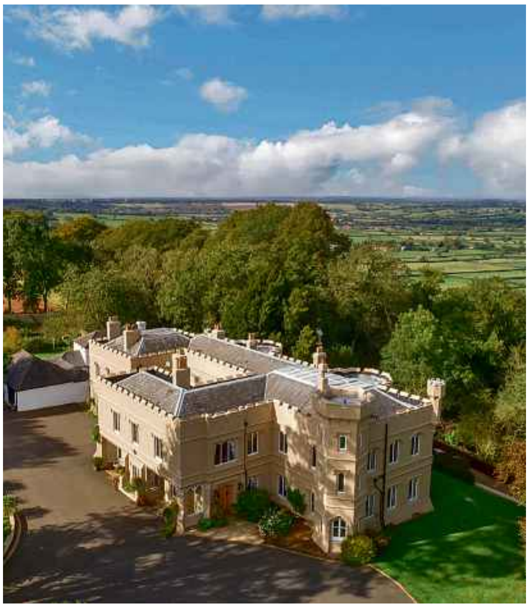
▲ **Compton Bassett House, Compton Bassett, Wiltshire.** A 1670s carriage house and stables converted to include a leisure complex with an indoor pool. The house has stone fireplaces and a large kitchen with bespoke fittings. 8 beds, 9 baths, 2 dressing rooms, 2 receps, 2 flats, cottage, tennis court, 69.63 acres. £6.75m Knight Frank 01488-688530.

► **The Manor House, Bradninch, Exeter, Devon.** A Grade I-listed 1540s house with later additions surrounded by landscaped gardens with a lake. The house has grand fireplaces with carved wooden surrounds and a leisure complex with an indoor pool. 6 beds, 4 baths, 2 receps, 1-bed flat, 7 acres. £2.5m+ Strutt & Parker 01392-229405.



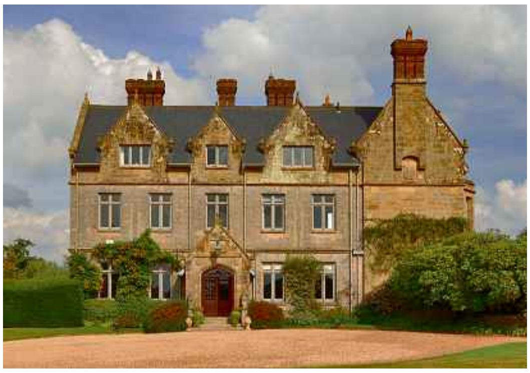
► **Shandon, St George's Hill, Weybridge, Surrey.** A modern property built in a classical style in the St George's Hill Estate overlooking the golf course. The house has a triple-height atrium, a large kitchen with floor-to-ceiling windows, open fireplaces, a cinema and an indoor swimming-pool complex. 6 beds, 7 baths, galleried reception hall, 2 receps, study, 2-bed flat, tennis court, gardens, 1.5 acres. £14.5m Savills 01932-838013.

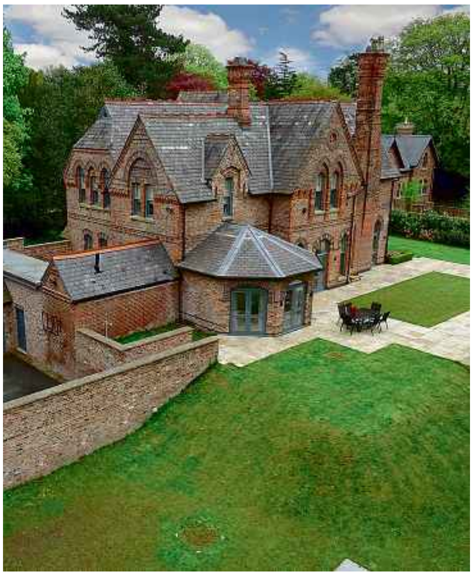
George's Hill Estate, Surrey, to a 19th-century Arts and Crafts villa with a leisure suite in Altrincham, Greater Manchester

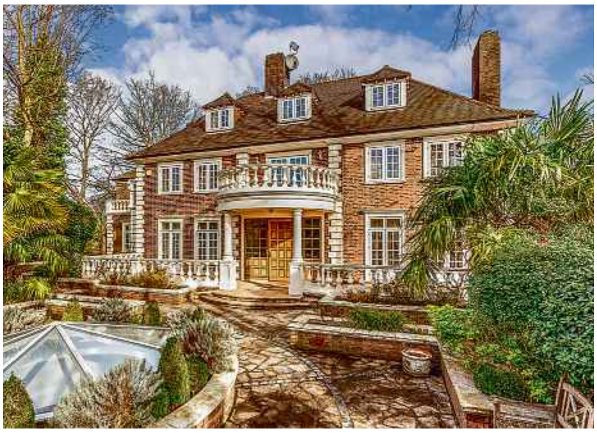


◀ **Wartnaby Castle, Melton Mowbray, Leicestershire.** A Grade II-listed early Victorian property built in the style of a Highland castle with castellated elevations and a hexagonal turret. It has a grand reception hall with a carved marble fireplace, half-wood panelled walls, galleried landing and full-height windows, and a detached swimming-pool complex with a Jacuzzi and bar area. 9 beds, 4 baths, 7 receps, 3-bed cottage, gardens, woodland. 26 acres. £2.65m Savills 0115-934 8020.

▶ **Thornhill, Ashurst Wood, East Grinstead, East Sussex.** An 1880s house on the outskirts of a village. It retains its original fireplaces and has a wood-panelled billiard room and an indoor swimming pool and gym on the ground floor. 8 beds, 4 baths, 2 receps, 1-bed flat, 3-bed cottage, 19.47 acres. £4.5m Knight Frank 01892-772942.



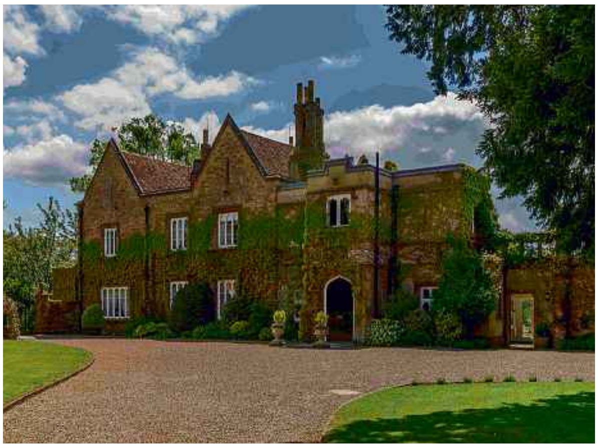




◀ **Denewood Road, Highgate, London.** A large house in gated, landscaped grounds close to Kenwood House and Hampstead Heath. It has wood floors, an elegant central wooden staircase and an indoor leisure complex with wood-panelled walls and ceiling that includes a swimming pool and games area. 7 beds, 6 baths, 2 shower rooms, 3 receps, breakfast kitchen, conservatory, roof terrace, spa, gardens. £9m Winkworth 020-8341 1988.

▲ **Devisdale House, Bowdon, Altrincham, Greater Manchester.** A 19th-century Arts and Crafts villa remodelled to include a leisure suite with a swimming pool, Jacuzzi, sauna and gym with bi-fold doors leading onto a sunken terrace. The house has an American walnut staircase and a one-bedroom annexe. 4 beds, 4 baths, 3 receps, dining kitchen, cinema room, gardens, 0.75 acre. £3.45m Jackson-Stops 0161-928 8881.

▶ **Hunsdonbury, Hudson, Ware, Hertfordshire.** A Grade II-listed, 1830s Gothic revival house set in mature gardens and parkland. The house has a plaster rib-vaulted passage leading to the drawing room, detailed plasterwork ceilings, open fireplaces and leisure facilities that include an indoor swimming pool and a gym. 7 beds, 6 baths, 3 receps, study, breakfast kitchen, studio, stable block, all-weather tennis court, 3 lakes, woodland, 42.23 acres. £3.75m Strutt & Parker 020-7318 5025.



A blow-out month for watches

A changing market is putting new brands in the spotlight. Chris Carter reports

It has been a blow-out month for watch sales and the fun's far from over. Christie's and Sotheby's in Geneva have sold CHF22.8m (£18.5m) and CHF15.2m (£12.3m) of collectable timepieces respectively. And Phillips in association with Bacs & Russo, a consultancy, stole the show with CHF68.2m (£55.2m) raised at its recent "Geneva Watch Auction: XIV", almost doubling the previous record high for an auction total. Several other records went along the way at the Phillips auction, including the highest price for a watch from an independent watchmaker – the Philippe Dufour Grande & Petite Sonnerie in yellow gold wristwatch sold for CHF4.8m (£3.9m). Watches by Omega, Roger Smith, and Christian Klings also all fetched record-high prices. All of the watches on offer found buyers – a rarity known in the auction world as a "white glove" event.

That could be because more are turning up, says senior consultant Aurel Bacs. "One sometimes wondered if the auctioneers weren't on the tribune of a UN assembly, with 3,000 participants coming from 84 countries," he said. "[It] felt from the rostrum that there is more volume and depth in the watch market than ever before, with competitive and active bidding coming in from all around the world." Collectors are also getting younger, notes Carol Besler in the Robb Report. Sotheby's reported that 31% of its bidders were new faces, and 38% of the total were under 40 years. One effect of this demographic change is that what constitutes a "grail" watch, such as a Patek Philippe or a Rolex, is being redefined, with independent makers "starting to see soaring numbers", some of which represent new designs.

"The Patek Philippe 'The Blue Royale' with sapphires is expected to fetch £960,000"

What to bid for next

Next up in the auction calendar this month is Phillips' "The Hong Kong Watch Auction: XIII", 25-26 November. The top lot is the unique Patek Philippe Ref. 3448/100 "The Blue Royale" platinum perpetual calendar wristwatch with sapphire-set indexes and moon phases, from around 1973 (pictured). Patek Philippe's groundbreaking reference 3448 was first introduced in 1962 as the world's first self-winding perpetual calendar wristwatch, a unique feature it claimed all to itself for the following 16 years. The watch for sale is the only known example to have sapphire-set indexes around the dial. It is expected to fetch HK$10m (£960,000).

Another highlight from the sale is an auction debut for a Rolex Daytona reference 6241 yellow gold chronograph wristwatch with a "Paul Newman John Player Special" dial, known as "The French JPS", from around 1968. One of the rarest Daytonas ever produced, it is valued at up to HK$9.4m (£900,000). On 27 November, in Hong Kong, Christie's is auctioning a Patek Philippe split-second chronograph Ref. 1436 in yellow gold, made for US banker and watch collector Henry Graves Jr in 1946. It has been given a high estimate of HK$23.5m (£2.3m).

Auctions

Going...

Check your change, says Marc Shoffman in The Sun. There are hundreds of online listings for rare Kew Garden-themed 50p coins, with some having sold for up to £700 on Ebay. The Royal Mint released 210,000 of the limited edition 50p coins, depicting the Chinese pagoda at Kew Gardens, in 2009 to mark the 250th anniversary of the Royal Botanic Gardens. Their rarity means they have topped the latest 50p scarcity index from tracking service Change Checker. By comparison, ten million Brexit 50p coins entered circulation last year, bearing the inscription "Peace, prosperity and friendship with all nations". Other coins are also in demand. Last week, a rare Lord Kitchener £2 coin, from 2014, fetched £1,200.

Gone...

Rumours of the existence of a mint condition "no H" penny from 1882 had circulated among coin collectors for over a century, says David Brown in The Times. Some called it a myth. The Victorian penny's (pictured) allure stems from a peculiarity in its design. Almost all pennies struck that year came from the Heaton Mint in Birmingham and featured an "H" for Heaton below the Britannia emblem. But a small number of "no H" pennies were also minted in London, with somewhere between 16 and 50 thought to exist. Most are in "fair condition". However, in the summer, an elderly collector appeared at London auction house Baldwin & Sons, bearing the mint condition penny. It sold last week for £37,200.

One for bibliophiles

A 1968 Omega Speedmaster Professional, reference 145.012-67 SP, worn by American novelist Ralph Ellison, will be auctioned in New York on 12 December with Phillips. *Invisible Man* was the only novel Ellison published in his lifetime, in 1952. In it, Ellison's nameless narrator chronicles "the black experience in America of being 'invisible' to society at large – as if the black experience takes place in a parallel universe that only overlaps American society in acts of violence, oppression, and exclusion", says Jack Forster on Hodinkee. The book is "one of the 20th century's most revered works of American fiction".

And for lovers of literature, that only adds to the Speedmaster's lustre. "Watches are terribly personal things," says Gary Shteyngart in The Wall Street Journal. "How many times a day had Ellison looked down at the same dial and rushed toward an appointment, a dinner, a drink, or toward the humidor to light one of the cigars with which he was perpetually acquainted?"

Ellison owned the watch until his death in 1994, aged 81. The Speedmaster was resold in 2016, along with two other watches, at an auction in New York for $6,000. "That's the sad part", the watch's consignor, collector Ted Walbye, tells Shteyngart. "If it was a major celebrity like Marlon Brando or Paul Newman, it would have so much cachet in terms of pop culture." For a watch owned by one of America's greatest 20th century writers, you'd think it would command a high price, says Forster. But it carries an estimate of only $10,000 to $20,000. "It looks like there's a chance that a Speedmaster with the most important literary provenance I can ever recall for a timepiece at auction might go for a song."

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Authenticity Guarantee

Every detail makes us tick.

Watches over £2,000 are now independently authenticated to guarantee the one you buy is the real deal.

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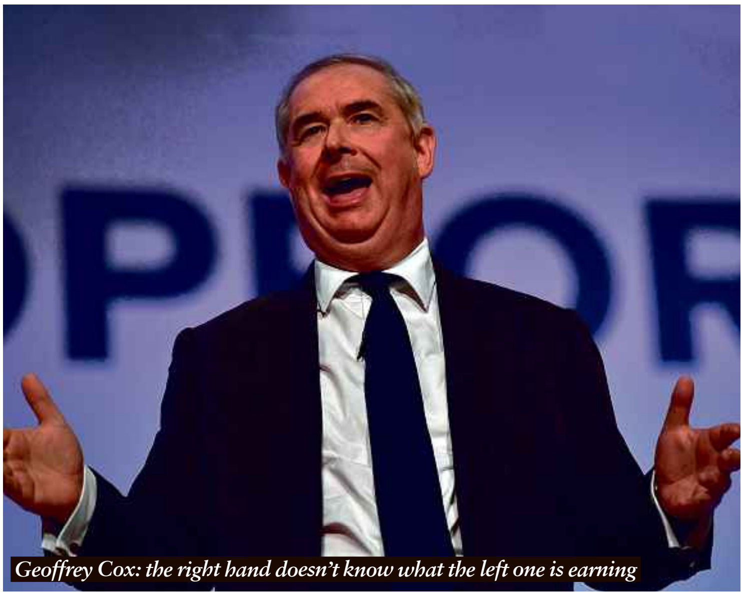
Everyone's Everything

Authenticity Guarantee is independent from, and not associated with, any brands sold on eBay.

A modest proposal for dealing with sleaze

Let's just sack the lot of them and choose their replacements by lot



Geoffrey Cox: the right hand doesn't know what the left one is earning

©Getty Images

> "Theresa May has earned almost £2m on the international lecture circuit since resigning as prime minister"

It's only a fortnight after Bonfire Night, so one is naturally reminded, following the latest Tory "sleaze" scandals, of the adage that the gunpowder plot conspirators were the last to ever enter Parliament with honest intentions. MPs are facing mounting public disgust over revelations about their lobbying activities, which has spiralled into a wider debate over second jobs, says Greg Heffer on Sky News. All eyes are currently on former attorney general Geoffrey Cox, who has been revealed "to have voted by proxy in the Commons, while earning hundreds of thousands of pounds for legal work more than 4,000 miles away in the Caribbean".

Cox's "lucrative moonlighting" for the British Virgin Islands is stealing the headlines, but he's not alone in having a side-hustle, says Peter Geoghegan in The Guardian. Theresa May, who is still an MP, has earned almost £2m on the international lecture circuit since resigning as prime minister. Former chancellor Sajid Javid, now the health secretary, "had only been out the door of No 11 Downing Street for six months before taking up a role 'advising' JPMorgan for £150,000 a year". Overall, more than 90 Conservative MPs, and three Labour members, have second jobs in consultancy or as directors.

Should we pay them more?

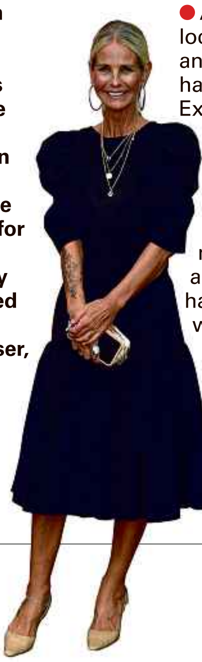
It is wrong for MPs to lobby on behalf of firms that are paying them, says Peter Bottomley MP in The Times. And those who choose to enter public life shouldn't expect an "easy, comfortable or risk-free" ride. Still, they are entitled, like other professionals, "to be rewarded fairly, neither excessively nor meanly". It seems strange that even "middle-rank judges" end up being paid more than 50% more than those who are tasked with drawing up the laws that they enforce. Heads of schools and GPs face a "sustained cut in income" if they choose to enter public service.

That's why MPs should be paid more money, says Clare Foges in The Sunday Times. That would "weaken their attraction to on-the-side sinecures that damage Parliament's integrity" and make it easier to restrict or ban such jobs, and it would also attract better candidates. The "real crisis" here is "not the integrity of MPs but their quality" – too many lack the "substance" to think about issues deeply and are instead content to act as "government stooges". Indeed, paying MPs more needn't even cost the taxpayer more money – we could just employ fewer of them.

This argument is always aired at times of scandal – we wonder whether there are any other professions where revelations of serious professional misconduct are met with calls to give the perpetrators a pay rise? And it's not as if they're doing badly. Their salary of £82,000 may seem like peanuts to Tory squires and lawyers, but it puts them in the top 3% of the British income distribution, as Stewart Slater points out in Country Squire magazine. Perhaps better would be to take a leaf out of William F. Buckley's book. He said he'd "rather be ruled by the first 2,000 names in the Boston telephone directory than the faculty of Harvard". True, Buckley was a Yale man. But the basic reasoning seems sound to us.

Quintus Slide

Tabloid money... "My name is Ulrika and I'm a middle-of-the-night shopper"



● **I've lost count of the number of women who tell me that they, like me, endure disturbed or sleepless nights, says Ulrika Jonsson (pictured) in The Sun. Maybe it's the age thing, or the overwhelming sense of responsibility that women bear, or perhaps it's the dogs and the snoring men we share our beds with. Whatever the reason, I might wake at two or three in the morning, then reach for the smartphone for some "gratuitous, irrelevant and superfluous shopping… I get sucked in by ridiculousness because my mind is blurred and my sense of morality has already escaped out of my open window." Cleanser, shampoo, canine stuff, unnecessary clothing and, most recently, a window-cleaning device have all been bought on midnight spending sprees. "I need to seek help for my addiction, clearly. This can't go on. My name is Ulrika and I'm a middle-of-the-night shopper."**

● A study reveals we spent £6.6bn in lockdown on a dazzling array of goods and – guess what – we wish we hadn't, says Vanessa Feltz in the Daily Express. "Never have I been so delighted to be a smartphone incompetent." Dud buys bought by frustrated millions included gaming equipment, tools, clothes, shoes, home gym apparatus and musical instruments, but in the end, all of this stuff failed to bring us the happiness we craved. "Now we Brits wallow in a welter of debt and recrimination." We are reared to worship what is seasonal and new. But nothing is actually "new". Rather, we are simply told to "buy another one", while fashionable means whatever your mum was wearing in 1973. Don't fall for it. "Hang on to your cash."

● Britain is not a corrupt country, says Peter Hitchens in The Mail on Sunday. "I know… because I lived in the Soviet Union, which was corrupt." Russia's oligarchs and grotesque billionaires didn't emerge when communism fell. They flourished under the old system. If you wanted a decent flat, you paid a bribe. At the most basic, you could not get into a restaurant without bribing the doorman. If the traffic police stopped you, you handed the officer a ten-rouble note folded into your driving licence. Resolving not to do these things, "I found very quickly that I could neither live nor work without becoming part of it. That is corruption. It corrupts everyone all the time." In Britain, on the other hand, most people do their jobs honestly and without trying to extort bribes. "Be very grateful for it."

©Getty Images

Bridge by Andrew Robson

A Sure Thing problem

This week's deal from a world youth championship is an elegant Sure Thing problem. Declaring Six Clubs, you win West's passive Club lead in hand, and immediately lead the Knave of Spades (best). This is covered by the King and Ace. Next you play King of Diamonds, Diamond to the Ace, and ruff a Diamond (high – no Queen falling). How can you guarantee your slam from here?

Dealer South Both sides vulnerable

♠ AQ97
♥ A964
♦ K6
♣ K64

♠ K10642
♥ J3
♦ Q973
♣ 98

N
W E
S

♠ 53
♥ K10875
♦ 542
♣ 732

♠ J8
♥ Q2
♦ AJ108
♣ AQJ105

The bidding

South	**West**	**North**	**East**
1♣	pass	1♥	pass
2♦*	pass	4♣	pass
5♣	pass	6♣**	pass
pass	pass		

* Many would play that such a "reverse" would show slightly more strength. Put me down for a skewed One Notrump rebid, both my doubletons containing pictures (most relevantly Hearts given partner bid Spades).

** A highly suitable hand in context: minor-suit Kings (facing length) and major-suit Aces (facing shortage).

The location of the ten of Spades is irrelevant on the correct line. Draw trumps throwing Hearts from dummy, lead the eight of Spades to the Queen, then lead back the nine of Spades, discarding your remaining Diamond. You are happy to lose to the ten of Spades, because dummy's seven, a promoted winner, will take care of your Heart loser. Twelve tricks and slam made.

At one table, North-South overbid to Seven Clubs. Declarer won West's Club lead and led the Knave of Spades, covered by the King and Ace. He cashed the King of Diamonds, crossed to the Ace and ruffed the ten. He cashed the Ace of Hearts then ran all his Clubs, squeezing West in Spades and Diamonds. Wow – grand slam made.

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

Sudoku 1078

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

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

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

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Tim Moorey's Quick Crossword No. 1078

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 29 November 2021. Answers to MoneyWeek's Quick Crossword No. 1078, 31-32 Alfred Place, London, WC1E 7DP.

1		2		3	■	■	■	4		5		6
	■		■		■	7	■		■		■	
8									■	9		
	■	■	■		■		■		■		■	
10		11			■	12						
■	■		■		■		■	■	■		■	■
■	13							14				■
■	■		■	■	■		■		■		■	■
15				16			■	17				18
	■		■		■		■		■	■	■	
19			■	20						21		
	■		■		■		■		■		■	
22					■	■	■	23				

Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 Directors get on (5)
4 Foundation of book – no change (5)
8 Who may have slain dames with dancing? (6, 3)
9 Beheaded villain on stage in the past (3)
10 Grants reported for some tennis players (5)
12 Small party in furore: Spectator (7)
13 V-sign giving defence? (11)
15 Saw tomb desecrated by marsupials (7)
17 Like gardens, out of line (5)
19 Play and part of a play (3)
20 The dealer unfortunately hit (9)
22 Car in the spotlight? (5)
23 Managed Church Farm (5)

DOWN

1 Dances (5)
2 Do sums (3)
3 Smart (7)
4 Musical groups (5)
5 Preparatory drudgery (9)
6 Deficient (5)
7 Style of clothing, neat and informal (5, 6)
11 Puzzling (9)
14 School tutor (7)
15 Level quayside area for loading etc (5)
16 Book containing maps (5)
18 Extent from side to side (5)
21 Sprint (3)

Name ....

Address ....

....

Solutions to 1076

Across 1 Plain *sounds like plane* **4** Trapper *rep part reversed* **8** Trainspotting *anagram* **9** Mangalore *anagram* **11** Ewe *sounds like you* **12** Cinema *anagram* **13** Ration *oration less o* **16** Aga *hidden* **17** Startling *start + ling* **18** Station master *anagram* **20** Penance *Penzance less Z* **21** Karma *arm inside Ka.*

Down 1 Potomac **2** Again and again **3** Nun **4** Top dog **5** At the last **6** Prime minister **7** Rogue **10** Admission **14** Nigeria **15** Sarnie **16** Aesop **19** Ark.

The winner of MoneyWeek Quick Crossword No.1076 is:
Ian Franks of East Yorkshire

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

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

Saint Greta's indulgences

The faithful are returning from their Glasgow convocation. We remain heretics

Bill Bonner
Columnist

Fossil fuels saved more lives than Saint Greta ever will

©Getty Images

In an earlier age, Greta Thunberg, now making her way home from the COP26 climate summit in Glasgow, might have turned to God or the church. But this is the 21st century. And today's most popular faith is climate change. Saint Greta believes, with all her heart and mind, that she can lead the world to victory over rising temperatures. Unlike some of the poor saints that went before her, Greta is unlikely to feel the hot flames licking her toes. But she may eventually come to see the many confusions and contradictions of her faith.

Signalling her exalted status among the disciples, for example, she eschewed flying to the US to give a talk at the 2019 UN climate summit. Airplanes give off carbon dioxide, you see. So she took a private yacht instead, taking almost two weeks to cross the Atlantic. Tot up the value of the boat crew's time, their flights back to Europe, boat servicing, maintenance and mooring, not to mention the initial investment to build the 60-foot racing yacht, and you're looking at a total investment of millions of dollars. And not to put too fine a point on it, everything takes energy. Energy is measured in the prices we pay for things. So, if it cost Greta $700 to cross the Atlantic by plane and coach fare, that would be a fair measure of all the energy that went into to it. Greta's trip must have cost 100 times as much, and required far more fossil fuel than a seat on a commercial airline.

> *"Such complexities do not seem to trouble the mind of the saint"*

Still, such complexities do not seem much to trouble the mind of the saint. "You have stolen my dreams and my childhood with your empty words," she has said. "People are suffering. People are dying… and all you can talk about is money and fairy tales of eternal economic growth. How dare you!"

But if people are dying, it's not because of fossil fuels. Just the contrary. Scientists have found no evidence of worsening trends in the severity of hurricanes and wild fires. Nature still "acts up" from time to time. But, thanks to fossil fuels, humans are much less at risk. Once, an early frost or a dry summer could mean starvation. Now, it means you pay a little more for your peaches.

Likewise, in a poor country, such as Haiti, a hurricane could mean thousands of deaths – both from drowning and subsequent disease. In Florida, a storm of the same strength might just take tin off roofs and topple porch plants. Why the difference? Each resident of Haiti uses about 394kg of "oil equivalent" per year, according to the World Bank. In the US, the total is 6,804. Wealth – made possible by fossil fuels – helps humans survive nature's hissy fits. Higher standards of living increased lifespans. Better sanitation, better nutrition, better access to medical care – all were made possible by fossil fuels. Millions of lives have been saved by the Industrial Revolution. How many lives will Saint Greta save?

The bottom line

86 The percentage increase in the number of superyachts longer than 30 metres sold in the first nine months of the year, compared with the same period in 2019, before the pandemic, according to industry publisher The Superyacht Group. Vessels typically cost up to $600m.

56 The amount in Japanese yen (36p) that a train driver in Japan had his wages docked by following a mix-up in June 2020 that caused a one-minute delay to the rail service. The driver is seeking ¥2.2m (£14,300) in damages from his employer for mental anguish.

€200 The value of vouchers the Italian government is offering Italians for free visits to thermal baths in a bid to jump-start the hospitality sector following a pandemic-induced slump. Around 260,000 applicants received vouchers before the website crashed.

$78m How much Amazon founder Jeff Bezos has reportedly spent on La Perouse Bay, a remote 14-acre estate on the Hawaiian island of Maui. The property, on a fishing reserve flanked by lava fields, had been bought by energy mogul Doug Schatz in 1996 for $4.2m.

$400,000 How much an original Apple computer built by firm co-founders Steve Wozniak and Steve Jobs in 1976 has fetched with John Moran Auctioneers in California. Only 200 of the computers, encased in rare Hawaiian koa wood, were sold in kit form.

$1.6bn How much videogames firm Unity is paying for a division of Weta Digital, part of the New Zealand-based visual-effects studio co-founded by Oscar-winning director Peter Jackson (pictured), which has worked on fantasy blockbusters such as *The Lord of the Rings* and *Avatar*.

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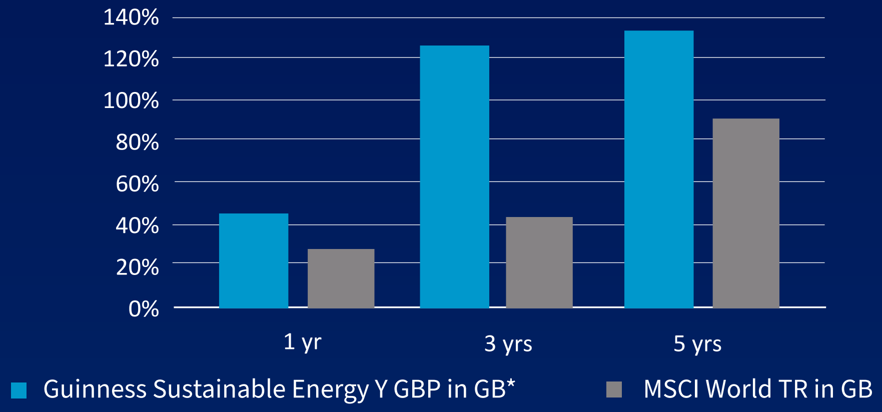

	Sep' 21	Sep' 20	Sep'19	Sep' 18	Sep' 17
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Index	23.5%	5.2%	7.8%	14.4%	14.4%

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