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MAKE IT, KEEP IT, SPEND IT

1 APRIL 2022 | ISSUE 1097

Polluting pays

Why we need to invest more in dirty industries

BRITAIN'S BEST-SELLING FINANCIAL MAGAZINE

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MoneyWeek

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From the editor-in-chief...

The cost of living crisis is real. It is partly about rising prices, and partly about rising taxes. You can feel the price bit all around you. Rents are at a 13-year high (rising over 8% at the end of last year). Oil prices are high and likely to stay high (see page 18). Fertiliser prices rose 43% last week alone (see page 5). Pulp and packaging prices are rising (much of our pulp came from Russia), as are sunflower oil and wheat prices (major exports from Ukraine). Some might say we could do better all round if we gave up wheat and the agricultural tyranny it brings (see page 21). But that isn't much help right now: food-price inflation is at a decade-long high at 5.2%, and we may well see double digits by year-end. This is real scarcity inflation and it isn't transient.

Credit cards took a hammering in February

©Getty Images

"I'd like to tell you there is a simple solution to the surging cost of living. There is not."

We're mostly getting poorer every day

On to tax. National insurance is about to rise by 1.25 percentage points for staff and employers, while more people will be dragged into higher-rate income tax bands: the thresholds are not budging until 2026. Say you get paid an extra 4% this year and it just tips you into the 40% bracket. Then say inflation is 9%. You'll have taken an inflation-adjusted pay cut and had to pay more tax on it. A nasty double hit.

Your other allowances won't help (see page 30). Quilter has looked at the UK's eight main ones. Six have either been frozen (so they are lower in inflation-adjusted terms), or have actually fallen over the last decade. The pensions lifetime allowance (LTA) is currently 28% lower than it was a decade ago, falling from £1,500,000 to £1,073,100. Had it been raised in line with inflation it would now be £1,885,000. That £1,073,100 might sounds like a rich person's number. But as Aegon points out, that would buy an annuity that – after tax – will produce an income of £2,180 a month. Not really a rich man's number. The upshot of all this is simple: most of us are getting poorer every day.

No easy answers

Can we cope? Sort of. We still have (for now) the wealth built in the asset-price boom of the last decade and we have savings: UK savers entered 2022 with £1.9trn on deposit (on a pathetic interest rate of 0.14%), enough to cover spending needs for 18 months. Unfortunately this cash is concentrated in the accounts of the over-55s. So borrowing is on the rise too. The latest Bank of England data shows credit-card borrowing came in at £1.5bn in February versus just £100m in January. That is the highest monthly amount since records began (in 1993). This is possibly less because consumers are going on spending sprees than trying to maintain lifestyles amid fast-rising prices: 83% of adults reported higher living costs in March 2022 to the Office for National Statistics.

I'd like to tell you there is something simple you can do to make this OK. There is not. If your income isn't CPI (consumer price index), or, better, RPI (retail price index)-linked (mostly it isn't), this isn't easy. At all. There are a few tax tweaks available. Use your allowances (what is left of them) and look at whether salary sacrifice can mitigate the NI rise a little (page 31). Otherwise listen to our podcast with Troy's Charlotte Yonge for tips on preserving the real value of your capital (she likes gold very much) and, if you are happy with a proper amount of risk, see page 28 for opportunities in shipping.

Merryn Somerset Webb
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Marketing misfire of the week

©Distinctive Assets

This year's Oscars goodie bags (pictured) are as strange as ever, says The Times. All Academy Awards nominees are given a an unofficial collection of gifts assembled by Los Angeles-based marketing company Distinctive Assets (the Academy of Motion Picture Arts itself stopped handing out official gifts 20 years ago), which are full of products from brands that hope to score some free publicity through association with the stars. This year's collection – valued at $140,000 according to some reports – include offers for arm-sculpting liposuction and free construction work for their homes. But the most controversial is a certificate for a one-square-foot plot of land in Scotland that claims to make the recipient the title "Lord, Laird or Lady of Glencoe". The certificates give neither ownership of the land, nor a title, says Scott Wortley, a law lecturer at the University of Edinburgh. Legally speaking, they are "utter b*ll*cks".

Good week for:

Tickets for shows by **Chris Rock** (pictured) soared after the comedian was slapped by actor Will Smith at the Academy Awards ceremony this week, says Business Insider. The price of a table at Rock's next show rose from $338 to $450 on reselling site StubHub after the incident. Rock, who was presenting the awards, made a joke about Smith's wife, Jada Pinkett Smith, prompting Smith to storm on stage and strike him.

Craft brewer **Stone Brewing** has been awarded $56m in compensation after beer conglomerate Molson Coors infringed its trademark, says Reuters. Stone Brewing argued that Molson Coors had been losing market share to craft brewers and that its focus on the words "Stone" and "Stones" in adverts for Keystone beer were an attempt to capitalise on Stone's goodwill.

Bad week for:

Fans of **Cadbury's Dairy Milk** will effectively be paying more for their chocolate fix after Cadbury's owner Mondelez shrank the size of a 200g bar in response to rising costs, says the BBC. Bars will now be 10% smaller – 180g – but will still cost £2.

A German antiques dealer named as **Roben D.** has been arrested on charges of illegally aiding the $4m sale of an Egyptian golden sarcophagus, says The Times. The sarcophagus was stolen during the Egyptian revolution in 2011 and traded through several dealers before being sold to New York's Met Museum in 2017. Roben D. is also accused of illegally selling $55m of artefacts to the Louvre Art Museum in Abu Dhabi.

©Getty Images

US bonds sound a recession warning

Alex Rankine
Markets editor

America's recession alarm has sounded. The most watched part of the US yield curve – which plots the yields on different maturities of US government bonds – has briefly inverted for the first time since 2019. In normal conditions, investors holding longer-duration bonds will demand higher yields than those holding shorter ones. But if markets think that interest rates in the future will be lower than they are now – eg, because a recession forces interest rate cuts – then the usual pattern can invert.

On Tuesday, yields on the two-year US Treasury note rose as high as 2.45%, a fraction above the 2.38% yield on the ten-year bond. Other parts of the curve, including the five-year to 30-year and the five-year to ten-year spreads, had already inverted, but the two-year to ten-year spread is the most closely watched. Previous inversions have predicted every US recession since the 1970s (although the curve has also sounded a few false alarms). The recessions usually follow between six to 24 months after the yield curve first inverts.

Recessions and inflation – as in the 1970s – would be a painful combination

This time really could be different

Yield-curve inversion might not be what it was. Some argue that the 2019 inversion, which heralded the Covid-19 recession the following year, was a fluke. Markets don't possess magical epidemiological foresight. Certainly, central-bank quantitative easing (QE) programmes have distorted the bond market in recent years, says Shuli Ren on Bloomberg. "The yield curve is getting flatter by design".

The US Federal Reserve has begun to raise interest rates, with markets expecting a cumulative 2% hike by the end of the year. That raises the yield on short-term government debt (such as the two-year Treasury note). At the same time, "until early March the central bank was still buying longer-dated Treasuries", which depresses their yields. Financiers are used to taking an inverted yield curve as a "signal of impending doom", but it may just be that central bank meddling "has broken the most reliable barometer of recession risks".

"The yield curve's recession signal is distorted," agrees Michael Contopoulos of Richard Bernstein Advisors. Take away the US central bank's "massive purchases" of government bonds and the "ten-year yield would be closer to 3.70%", considerably higher than the current two-year yield and far off inverted. As the Fed unwinds QE, there is scope for longer-dated yields to rise.

The end of negative yields

Regardless of the shape of the curve, government bond yields have been climbing (and prices falling) across the board. "The Bloomberg Global Aggregate bond market index has lost over 11% since its peak in January 2021," says Robin Wigglesworth in the Financial Times. The index has "lost $2.4trn in value so far in 2022", reckons Matthew Hornbach of Morgan Stanley. As it does so, debt that yields less than 0% is also becoming rarer. In 2020 there were $18trn in "sub-zero" bonds globally (ie, investors effectively paid some governments and firms to borrow). As yields have risen, that figure is down to $2.9trn today. The yield curve may be giving unclear signals, but another bond-market distortion is more visibly unwinding.

Moscow reopens its "Potemkin market"

The reopening of the Moscow stock exchange last week has been labelled a "Potemkin market" by US officials, says Lex in the Financial Times. There's substance to that charge: Russia reportedly spent $10bn from its National Wealth Fund to boost share prices, helping shares rebound by 4.4% on the opening day. Investors could only trade a limited amount of stocks, foreigners couldn't sell and short-selling was banned. Still, if inflation takes off in Russia then its Moex index may prove something of a refuge – Turkey's inflation woes have been accompanied by a 144% rise in its Bist 100 index in local currency terms.

A rebound in stocks and the rouble says nothing good about Russia

Interest rates are now at an eye-watering 20%, which has helped to stabilise the rouble, says Caitlin Ostroff in The Wall Street Journal. The currency is still down 17% since before the invasion, but at about 85 roubles to the dollar it has come back a lot from a record low of 151 in early March. Capital controls have made it difficult for residents and investors to sell the currency. "It is fair to say that the rouble is not a market price," says Robin Brooks of the Institute of International Finance. "If there were a free flow in both directions, we would see a far weaker rouble."

Crucially, since sanctions still allow Russia to sell oil and gas internationally, the country will continue to enjoy a positive balance of payments while oil prices surge. And as exports stay strong, imports are likely to fall as foreign firms pull out and technology transfer is banned, says George Pearkes of Bespoke Investment Group. Sanctions aim to "stifle" Moscow's ability to wage war while disrupting the local economy by choking off foreign investment. "The net effect [of sanctions] is perversely quite positive for the rouble… but also do not conflate rouble strength with good economic outcomes for Russia."

The yen loses its safe status

"In times of crisis, not much in financial markets roars 'safe haven' louder than the Japanese yen," says Jamie McGeever on Reuters. From the 1990 Gulf war to the 2020 pandemic, Japan's currency usually rallies in tough times. Japanese asset managers – "one of the world's biggest investor pools" – bring funds home when the going gets tough. And slower growth usually sinks commodity prices, another win for a major energy importer such as Japan.

But not this time. The yen has hit a seven-year low against the dollar, says Takako Gakuto in Nikkei Asia. With annual inflation still at just 0.9% the Bank of Japan, the central bank, has not joined the global rush to hike interest rates – this week it was forced to buy huge amounts of government bonds to keep yields close to target. Short-term Japanese interest rates are -0.1%, with long-term rates held close to 0%.

Thus the "infamous" yen carry trade is back, says John Authers on Bloomberg. This trade sees investors borrow in yen at cheap rates and "park the money in a country with higher rates". It usually unwinds in a crisis, as investors rush back to the perceived safety of Japan, but that has not happened this time. A weak yen tends also to give Japanese stocks a boost (it makes exports cheaper, boosting corporate profits). Yet this year stocks have followed the yen south. The "tectonic plates" of global finance are shifting in unpredictable ways.

Markets warm to Brazil again

Latin America is proving "a darling destination for investors in 2022", say Anisha Sircar and Rodrigo Campos for Reuters. Low valuations and soaring commodity prices have given the region's stocks a boost. Currencies in Brazil, Colombia, Peru and Chile are the "four best-performing across emerging markets against the dollar" so far this year.

Stronger local currencies help flatter gains for foreign investors. The MSCI Emerging Markets Latin America (LatAm) index has gained 25% in dollar terms year-to-date, even as the broader MSCI Emerging Markets (EM) index has dropped 8%. That spurt of outperformance is welcome after a long spell of disappointment. In the three years up to 14 March, the MSCI Latin America index fell 4.7%, compared with a 9.8% gain for the MSCI Emerging & Frontier Markets index, says Kathleen Gallagher for Investment Week. Brazil, the region's biggest economy, fell into a severe recession in the middle of the 2010s. It was barely recovering before Covid-19 struck.

Yet with commodity prices rising, prospects are now looking up. Data from the Institute of International Finance shows that "on average, 72% of total exports in the largest Latin American countries were linked to commodities last year".

©Getty Images

Brazilian president Jair Bolsonaro is spending big as the election looms

With Russian supplies disrupted, the world is especially desperate for Brazilian crops, Colombian oil and Chilean copper. The region's markets are closely correlated with commodity price movements; the last big boom coincided with the great commodity supercycle of the early 2000s.

Brazil is back in fashion

Brazil plays an outsize role in the landscape, since its stocks account for 62% of the MSCI LatAm. The local Ibovespa index has gained 15% so far this year. "High yields" and "cheap stocks" are drawing in investors, says Vinicius Andrade on Bloomberg, with $14bn of net inflows by foreign investors since mid-December. "Even after the recent rebound, the Ibovespa is trading at 7.7 times forward earnings, below its ten-year average of 11.7 times."

Not everything is rosy, says The Economist. Generous pandemic fiscal help and the "worst drought in 90 years" have combined to drive Brazilian inflation up to 10.5%. Incumbent president Jair Bolsonaro is a "fiscal chameleon" and is splurging public money in a bid to boost his flagging support.

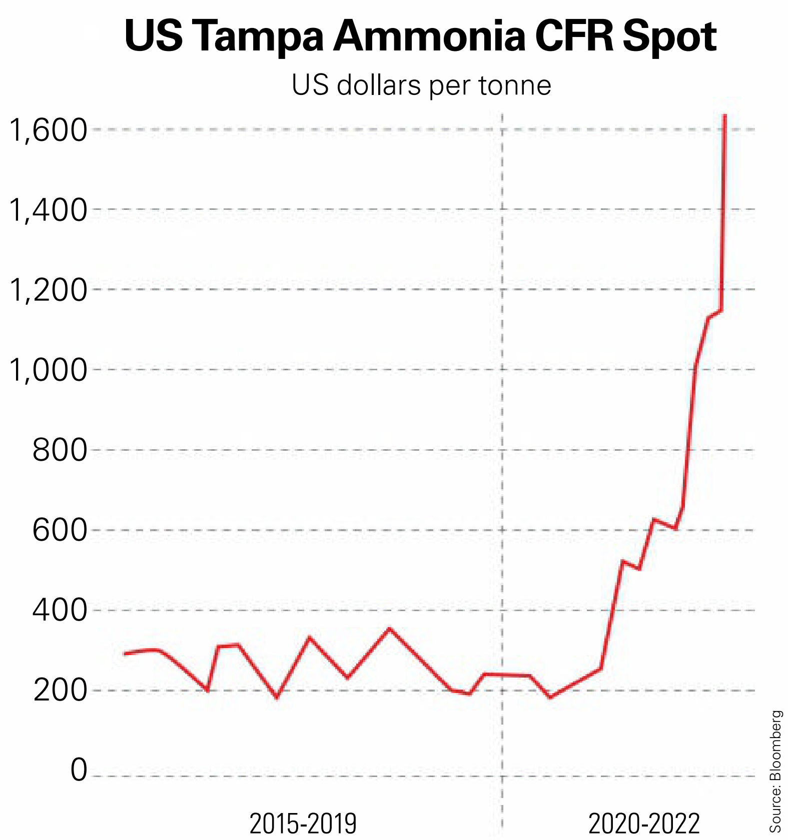
That plan isn't working. Polls suggest that Bolsonaro is on course to lose to former president Luiz Inácio Lula da Silva in elections this autumn. Leftwing Lula's victory in 2002 "spooked the markets, but he was reasonably responsible in his spending in his first term, at least". The rally shows investors are confident that Lula will "govern moderately" should he triumph again.

Viewpoint

"In the early hours of 8 March the [nickel] price doubled. The London Metal Exchange (LME) suspended trading... judging that prices no longer reflected the underlying physical market... it went further... [by cancelling] all trades made after midnight... The LME justified its actions as protecting the integrity of the physical market. In doing so, it created a divide. On one side are the miners and metal-bashers that rely on [it] for trading, pricing and hedging services. On the other side are fund managers, who use its futures and options to gain exposure to commodities... The LME... seems to have favoured the first group over the second... But speculators are vital. Producers sell futures to insure themselves against a price rout that would threaten their solvency. Someone has to take the other side... Though nothing the LME has done is illegal, trust in it has also been compromised."

Buttonwood, The Economist

■ Fertiliser prices hit a record



Soaring natural-gas prices are making fertiliser more expensive. Natural gas is "the main input for most nitrogen fertiliser, forcing some producers in Europe to cut output", says Bloomberg. A US gauge of nitrogen fertiliser soared 43% last week to hit $1,625 per tonne, a record in its 29-year history. Russia and Belarus account for more than a third of global supplies of potash, another key fertiliser ingredient, but Russia has now curbed exports in response to sanctions, says Barron's. "Results are predictable: potash fertiliser prices have soared by three-quarters this year." Africa is thought to rely on Russia for up to 70% of its fertiliser supply. As corn and wheat prices soar, "nations far from the conflict will pay the heaviest price".

National Grid finds a buyer

Australian bank Macquarie is to acquire a chunk of the UK's gas network. Does the deal make sense for either party? Matthew Partridge reports

Australian bank Macquarie is to spend £4.2bn on a controlling stake in a critical part of the UK's gas network, says Gill Plimmer in the Financial Times. The deal will involve it taking a 60% slice of National Grid's gas transmission and metering business, with an option to buy the remaining 40% in the future. Macquarie will acquire 7,660km of pipes transporting gas to heat homes, and power industry and electricity generation across Britain – this on top of its ownership of Cadent, which runs half of the eight local gas distribution networks, which it bought in 2017.

National Grid had been looking for a buyer to take a majority stake in its transmission unit for some time, says Archie Mitchell in the Daily Mail. The decision to sell to Macquarie will, however, "worry many in the City" because of its "questionable" track record. Indeed, it is already known as the "Vampire Kangaroo", a nickname it acquired after "developing a reputation for buying companies, loading them with debt and sucking out money for shareholders". The deal also comes at a time "when foreign investors are under scrutiny as fears grow that the UK is losing control of key businesses and infrastructure".

©Getty Images

The sale is a worry to many in the City

The Vampire Kangaroo's record

Macquarie claims to have invested £50bn in UK infrastructure over the last 15 years, says Tom Howard in The Times. It owns "a large slice" of Southern Water, a number of airports, including Aberdeen and Southampton, as well as Kcom, which owns the telephone network in the Hull area. But its record is far from spotless. When the firm ran Thames Water between 2006 and 2016, it drew criticism for loading it with debt while paying huge dividends, and ended up being fined £20m for pumping sewage into the Thames.

The deal shows that the two companies have very different visions of Britain's energy supply, say George Hay and Antony Currie on Breakingviews. The Australian bank is clearly betting that Britain will depend on natural gas for decades to come – its plans to eventually pump hydrogen through the gas pipelines "may only start to pan out in the 2030s". National Grid, on the other hand, thinks "electricity demand will surge over the next few decades as key sectors like transport switch from oil to electrons as a power source", which is why it "splashed out" $11bn on a UK power distribution business last year.

The National Grid Gas (NGG) sale, early completion of a second UK/France network and the Western Power acquisition mean that National Grid's portfolio will be weighted 70% toward electric, says Hargreaves Lansdown's Laura Hoy. That approach isn't risk-free. The NGG sale could "face pushback from lawmakers now that energy independence has become a priority" and its ability to make money from electric power will be at least partially determined by regulators. Still, such risks are a "necessary evil" as NGG positions itself for a "lower-carbon future" and gives the firm the "pros of a utility, but also growth opportunities".

Barclays will ride out the storm

Barclays has been landed with a £450m bill as well as facing delays to its share buyback plan and scrutiny from regulators after the bank "mistakenly issued $15bn-worth more of financial products in the US than it had permission to", says the Financial Times. The mistake centres on its decision to issue $36bn of exchange-traded notes, which are linked to oil and volatility futures, despite the fact that it only registered $20.8bn (see Strategy, page 18). As a result, it will have to repurchase the notes at the price they were originally issued at. Shares dipped by 2.3% on the news.


©Getty Images

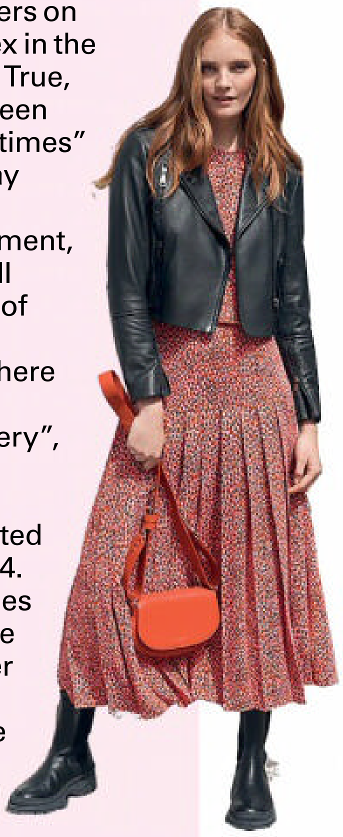
The problem may seem little more than a "clerical error", but it is proving "embarrassing and costly" and "raises further questions" about how the bank is run, says Rochelle Toplensky in The Wall Street Journal. Barclays has already been forced to commission an independent review into the matter and regulators are also conducting inquiries. Recently appointed CEO C.S. Venkatakrishnan will be in the spotlight, given that he was in charge of risk management at the time the paperwork was filed.

Regulatory investigations over the latest blunder will only add to the reputational pressure produced by the ongoing probe into the relationship former CEO Jes Staley (pictured) had with disgraced financier Jeffrey Epstein, says Hargreaves Lansdown's Susannah Streeter. Soaring inflation and sluggish growth are also big challenges. Still, the underlying performance of the business is "positive" – the bank is well capitalised, well diversified and the prospect of higher interest rates "should help boost its net income margins".

City talk

● Retail group Next claims that it could generate £14.7bn of cash between now and 2037. That may seem like hubris, or a gesture to reassure investors after it trimmed this year's profit forecast by £10m, says Nils Pratley in The Guardian. But if you look at the small print of the forecast, its logic is compelling as it is based on the savings from a shift from physical stores to online. The credibility of its forecast seems bolstered, too, by the fact that the boss has had "many years of success" and "has no plans to retire". Many companies are claiming to be "in the game of attracting long-term shareholders". Next is showing that they mean it.

● The struggling UK fashion brand Ted Baker was right to reject a "jumble sale price" representing just a sixth of its value from four years ago when it spurned an offer of 137.5p a share from Sycamore Partners on Monday, says Lex in the Financial Times. True, investors have been "battered many times" since founder Ray Kelvin left amid claims of harassment, but the brand still retains a degree of strength with customers and there are signs of a "tentative recovery", with both net profitability and dividends expected to resume in 2024. With bank facilities of £80m available to tide the retailer over until then, shareholders are in a strong enough position to wait until any potential buyers make a more reasonable bid.



● Bayer's shareholders are to decide on whether to keep Werner Baumann in his role as CEO at a shareholder meeting in April, but it's surprising they didn't lose patience years ago, says Ed Cropley on Breakingviews. The shares have fallen by 25%, lagging the DAX by 45%, mainly due to the toxic side-effects of Baumann's $62.5bn acquisition of Monsanto in 2018. But things could get worse. Its drug division is "facing the loss of up to 40% of its sales from expiring patents in coming years". The financial logic of a break-up now looks "compelling".

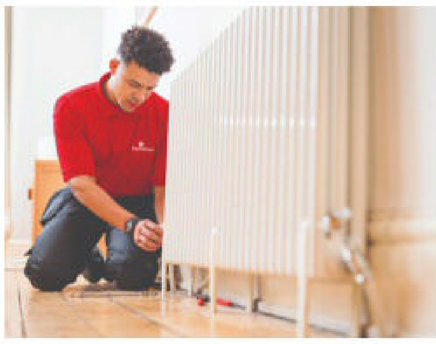
©Ted Baker

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

Three to buy

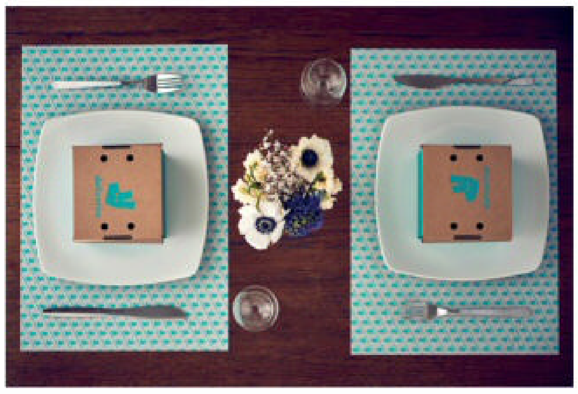
Cambridge Cognition
The Sunday Times
We're living longer, but "our brains can't always keep up". Cambridge Cognition makes specialist software for tasks assessing brain health during clinical trials. The company is a "tiddler" with a market cap of just £35m, but revenues rose 50% to £10.1m last year when it signed up more clinical-trial contracts than at any time in its history. It also turned a "very modest" profit and now has a "decent cushion of £3.8m net cash" thanks to an increase in customers pre-paying for its software. Buy. *142.8p*

HomeServe
Shares
Household repairs service HomeServe has sold off due to concerns about its growth prospects in the UK, but the "star performer" is its US business. Management says earnings from this are running ahead of schedule. Meanwhile, the UK arm could benefit from the "current squeeze on consumers' finances", which is "likely to encourage more people to take out insurance policies in order to avoid large repair bills". The firm has a proven operating model, a solid balance sheet and a strong acquisition pipeline, all of which should help it grow. *675p*



National Express
Investors' Chronicle
Public transport will play a key part in the government's goal to reach net-zero emissions. The UK Climate Change Committee expects between 9% and 12% of car journeys to switch to journeys made by bus by 2030. That bodes well for coach firm National Express. The company suffered during the pandemic, but made it through "without crippling the balance sheet". In the two years to December 2021 net debt fell from £1.22bn to £1.02bn. Buy. *224p*

Three to sell



Deliveroo
The Times
Shares in food-delivery app Deliveroo are trading at just a third of their 390p listing price. The company has set itself the target of breaking even at some point between the second half of 2023 and the first half of 2024 before turning a profit, but it's struggling with a post-pandemic comedown and the increasing competitiveness of the food-delivery market. It has £1.3bn on its balance sheet, over half of its market capitalisation, but this balance "is only heading one way" as it seeks to invest in improving its platform and increase marketing spend. It has also faced a number of legal challenges over the status of its workers. Avoid. *113.6p*

Informa
The Telegraph
An "uncertain outlook for the world economy" is a risk for the business information and exhibitions firm. Some countries in Asia and Latin America are yet to recover from the effects of the pandemic and remaining travel restrictions in some parts of the world do not bode well for its events business. There is scope for it to build its subscription revenues and develop its online presence, but it remains too dependant on in-person events. Sell. *549p*

Restaurant Group
Investors' Chronicle
Restaurant Group's main brands, such as Wagamama and Frankie & Benny's, have posted promising figures, but "finance charges pushed it into the red" and it fell to a third consecutive annual loss. Revenue is still significantly below 2019 levels and it would be "unwise to underestimate the economic headwinds", from higher energy costs to labour shortages. There are some positives to take from its latest results, but the future looks too uncertain. Sell. *74p*

...and the rest

Investors' Chronicle
Cineworld has "material uncertainty" over whether it can repay debt and avoid a "potentially disastrous" lawsuit bill. Sell *(39.1p)*. Funeral provider **Dignity's** premium valuation looks unjustified given the likelihood of a lower death rate post-pandemic. Sell *(445p)*. German medical conglomerate **Fresenius** can unlock value by restructuring. Buy *(€32.14)*.

The Mail on Sunday
Law firm **DWF** has ambitious expansion plans and a "decent dividend", with 6.6p pencilled in for the year. Buy *(115p)*.

Shares
Recruiter **FDM** can "plug IT skills shortages" for customers who are investing heavily in digital transformation and security. Buy *(1,002p)*. Warren Buffett's **Berkshire Hathaway** is a "sound defensive option". Buy *($352.50)*. **Essentra** is shedding packaging and filters to become a "streamlined" components company. Buy *(310p)*. Digital infrastructure investor **Cordiant Digital Infrastructure** has received anti-trust approval for a Polish acquisition that will double its assets. Buy *(106.6p)*.

The Telegraph
Many investors think discount retailer **B&M European Value** will benefit from the cost of living crisis, but that's "too simplistic" Its existing lower-income customers are likely to cut back more than most. Sell *(577.4p)*.

The Times
Retailer **Next** is growing its online presence and diversifying into new areas such as furniture, paint, wallpaper and ski wear. Buy *(6,358p)*. Construction firm **Henry Boot** should benefit from the strength of the housing market. Demand for its industrial and logistics assets should also protect it against inflation. Buy *(315p)*.

An American view

Pesticide maker FMC isn't a household name, but soaring food prices should encourage investors to take a look at it, says Al Root in Barron's. Cash-rich farmers will be willing to spend more on crop-protection products, which in turn will make it easier for agricultural-products suppliers to raise prices. FMC's sales could grow by 5%-7% this year and earnings per share by 10%. However, "spiking commodity prices isn't a long-term strategy for value creation": the case here rests on investments in research (6% of sales per year), including "more sustainable technologies" such as peptides and enzymes. Despite the growth potential, FMC trades on 15 times forecast earnings – a discount to the S&P 500.

IPO watch

Cordiant Global Agricultural Income (CGAI), a new investment trust set up to provide financing for farmers in South America, is aiming to raise $300m through a listing on the London stock exchange in early April, says The Mail on Sunday. The firm will provide long-term loans of up to $50m for agricultural businesses that want to expand, improve efficiency and become more sustainable. It will start with a portfolio of eight loans totalling $115m and the managers say they have a deal pipeline worth almost $1bn. CGAI is targeting a 4% dividend yield on the $1 initial public offering (IPO) price in the first year, rising to at least 6.5% by 2024, and a total net asset value return of 10% per year.

China plays the long game

It is nervous about angering the West for now, yet works towards a new order. Emily Hohler reports

Hopes for a breakthrough following peace talks in Turkey on Tuesday have been played down by both the Kremlin and Ukraine. Oleksandr Danylyuk, a former national security adviser to Volodymyr Zelensky, says Russia's stance is part of a "game" and that he expects Russian military efforts to now focus on Donetsk and Luhansk, so that Vladimir Putin can "show a victory". On Wednesday, Russia's foreign minister Sergei Lavrov arrived in Beijing for the ministerial conference of Afghanistan's neighbours, his first visit to China since the invasion, and, in a video released by the Russian foreign ministry, said that Moscow and Beijing were leading the way "towards a multipolar, just, democratic world order".

Beijing continues to try to "have it both ways", says Jude Blanchette in The Washington Post. It abstained from key votes in the UN criticising Russia, has avoided using the word "invasion" and repeatedly blamed the US and Nato for the war. At the same time, it has largely complied with sanctions, made "repeated, if vague calls for a negotiated settlement", and provided humanitarian assistance to Ukraine. "But make no mistake": the worse it gets for Russia, the more China will "step up its support".

Putin and Xi: a close personal relationship

Drawn together

Tensions exist, "not least because of the growing economic gap" (China's economy is ten times larger), but not only do Xi Jinping and Putin enjoy a "close" personal relationship, the "broader geopolitical chessboard" draws them together. China wants to avoid secondary sanctions (access to the international market and US dollar remain vital), but it could help Russia in ways that are "difficult to track", such as access to dollars via offshore accounts.

Opposition to US hegemony is the foundation of China and Russia's post-Cold War relationship, "from the 1997 Joint Declaration on a Multipolar World and the Establishment of a New International Order to the recent 'no limits' partnership", say Jacob Mardell and Francois Chimits on Nikkei Asia. Nevertheless, an "adventurous rescue of the Russian economy" is nowhere near the top of the Chinese Communist Party's agenda. As Xi eyes an unprecedented third term later this year, the priority is domestic economic stability. Disappointing domestic demand, Covid-related struggles (see page 10) and spiking commodity prices already endanger the country's 2022 growth target. Beijing is therefore "likely to limit support to the opportunistic purchase of strategic assets and commodities at low prices".

Chinese policymakers have no wish to "further destabilise financial conditions", agrees Ruchir Sharma in the Financial Times. Around 25% of GDP and 40% of bank assets are tied to its beleaguered property market. The "perils" China faces, with rising debt (nearly 300% of GDP), shrinking population and "market turmoil", are "widely under-appreciated", and it risks "great damage" if it does anything to "cancel foreign capital".

Quite, say Adrian Wooldridge and John Micklethwait in Bloomberg, and the "mere rumour" that Russia had asked China for military assistance led to the biggest drop in China's stockmarket since 2008. But regardless of whether Xi decides to "ditch Putin", the invasion has "surely sped up" his imperative of "decoupling" from the West. US willingness to confiscate Russia's assets make China's "vast" dollar holdings look "like a liability". Joe Biden and Europe have "a lot on their plate", but the West needs "to address the wider economic ramifications of the war". Unless something is done, the world will soon divide into "hostile economic and political blocs". (See Briefing, page 14.)

Sunak has thrown a spanner in Johnson's nuclear works

Sunak baulks at cost of Britain's energy plans

Boris Johnson's energy strategy, promised within "days" on 9 March, has been delayed again, possibly until 4 April, says the BBC. The delay is attributed to disagreements between Johnson and Rishi Sunak, says Oliver Wright in The Times. Johnson wants the UK to get 25% of its electricity from nuclear power by 2050, which would require up to six new power stations. Sunak is said to be baulking at the cost, arguing it "represents poor value and would lead to substantial long-term increases in energy bills".

The Treasury argues that there are cheaper alternatives for providing a "base load" when generation from renewables fails or demand peaks. These include generating hydrogen with gas alongside carbon capture and storage, and investment in storage technology. It points out that nuclear power stations won't be "online" until the mid-2040s. Sunak reportedly also wants to grant new licences for North Sea extraction, says Heather Stewart in The Guardian, and has suggested that he is "not opposed to fracking in principle, but wants to see evidence that it is safe". Commenting on the delay, Sunak said the issues are "complicated" and that it is important to "get it right".

His reaction isn't surprising, says George Parker in the Financial Times. With tax levels rising to their highest levels since the 1940s and debt interest surging to £83bn next year, his "fiscal room for manoeuvre is limited". Johnson's nuclear goals imply additional government participation (it is already taking a 20% stake in Sizewell C), and a "big scaling up" of wind power is also planned.

To add to Sunak's pressures, there is the support scheme which compensates "certain energy-intensive sectors for carbon costs that are passed through in the price of electricity". It expires this week and industry has been pressing for an extension as energy costs soar.

China is back in lockdown

That will hurt business and cause global fallout. Matthew Partridge reports

China has embarked on "its most extensive lockdown in two years" in Shanghai in an attempt to contain the Omicron variant of the virus that causes Covid-19, says Didi Tang in The Times. The city, home to 26 million people, has previously managed smaller outbreaks with "limited lockdowns of housing compounds and workplaces", but the government has decided to go further, locking down the city's Pudong financial district and nearby areas this week, and placing the rest of the city into a five-day lockdown from Friday. Residents will be required to stay at home or in their offices, and there have been reports of panic buying, with supermarket shelves cleared of food, drinks and household items.

The more extreme measures will come to an end slowly

©Getty Images

Zero-Covid's last gasp

Shanghai isn't the only place to be affected. The large cities of Shenzhen and Shenyang, as well as the entire province of Jilin, have also been locked down in recent weeks, says The Economist. The restrictions will be a dampener on business sentiment, which has already been knocked by smaller-scale rolling lockdowns. China's purchasing managers' index for emerging industries, such as green technology and biotech, is now giving the worst reading since the index was launched in 2014. The pain will also be felt abroad – Shanghai is "deeply entangled in global supply chains".

China is deluding itself if it thinks that such measures will help it eliminate the virus, says the Financial Times. It only takes one missed case to renew the outbreak. And even if it did succeed in eradicating the virus domestically, the fact that the highly infectious Omicron variant is now endemic across most of the world means that even the strictest lockdowns can only delay the moment when the disease spreads through the population. The utility of China's zero-Covid strategy is "coming to an end" and it is time for China to prepare for an exit. It should focus instead on vaccines – more than 130 million Chinese aged 60 and above are not fully vaccinated.

Keeping a lid on social strife

The Chinese government does gradually seem to be softening its policy, say Amy Qin and Amy Chang Chien in The New York Times, and there are signs that the "public's patience is wearing thin". This has prompted Xi Jinping, China's president, to order officials to "limit the economic pain" from Covid-19 restriction, and the government is starting to copy policies common in the rest of the world, such as allowing the use of test kits at home and dropping some of the more extreme requirements.

All the evidence suggests that China must "edge away from zero-Covid", but Beijing is "unlikely to abandon the strategy before the year's end", says The Guardian. The hope is that lockdown and restrictions will buy time for "more effective domestically produced vaccines" – the country has refused to accept Western ones. The government also fears that a large-scale viral outbreak will threaten social stability before this autumn's national congress, where it is assumed that Xi will break precedent by claiming a third five-year term. China "is likely to creep towards living with the virus long after others have cast off all restrictions".

US regulator moves to clamp down on climate


The SEC is overreaching

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The lack of consistent financial reporting on climate-change risk means that investors and companies have had to "hazard their own guesses" over its impact on markets and the economy, says Anne Simpson in the Financial Times. This is set to change now that the US Securities and Exchange Commission (SEC) has voted to issue proposals for mandatory climate risk reporting by public companies in the world's largest regulated capital market. The move complements work by global bodies, such as the International Sustainability Standards Board, and will force companies to give investors more information, which "could revitalise capital allocation for the benefit of all".

Nonsense, say Jay Clayton and Patrick McHenry in The Wall Street Journal. Climate change is "one of the most complex and significant issues of our time", and there is a huge amount of uncertainty concerning what it will mean for domestic energy production, labour, transportation and housing, and national security. As such, it is too important an issue to be left to a single regulator, especially one whose remit is to facilitate the investment decision-making process, not make political decisions that are the domain of accountable lawmakers.

The whole area is a minefield, says John Foley on Breakingviews. Consider the difficulties companies will have getting their suppliers to disclose emissions data, for example – all work "heavily reliant on forecasts and work done by consultants". The SEC is shooting for the moon. Still, the changes it is seeking will probably come about in the end – if not forced by the SEC, then by the market.

Betting on politics

Despite a slight dip in the polls over the past few days, France's president, Emmanuel Macron, seems to be on course for a convincing victory in the first round of the coming elections, and a strong victory in the run-off. With £19,896 matched on Betfair, he is 1.05 (95.2%) to get the most votes in the first round, far ahead of Marine Le Pen, who is in second place at eight (12.5%). Most importantly, with £2.68m matched on Betfair, he is 1.11 (90.9%) to be re-elected as president, with Le Pen again in second place at 13 (7.7%).

The fact that Macron's victory is seen as inevitable has led both Betfair and Smarkets to offer some additional markets on various aspects of the contests. The most attractive of these is the one on whether the far-left candidate Jean-Luc Mélenchon (pictured) will get more votes than the far-right Éric Zemmour. With £2,253 matched, Mélenchon is the clear favourite to win the "head to head" contest between the two candidates at 1.19 (84%), with Zemmour out at 4.6 (21.7%).


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Up until recently Zemmour was ahead, but a late surge by Mélenchon means that he is at around 15% and Zemmour now back at 11%. It's not impossible that Zemmour will make a late comeback, but it's clear that he's being squeezed by Marine Le Pen, and Mélenchon is benefiting from the fact that Anne Hidalgo of the left of centre Socialists is going nowhere, with just 2% of the vote in some polls. I'd therefore suggest that you bet on Mélenchon to win this particular battle.

San Francisco

Instacart out to deliver: Grocery delivery and pick-up service Instacart will be breaking into the "ultrafast" delivery market over the coming months, says Laura Forman in The Wall Street Journal. Rapid delivery is a fast-growing business in some of America's largest cities, "but it hasn't been kind to all platforms". Stiff competition has prompted platforms to give out discount codes to "vie for business", which has led to heavy losses. As well as the expense of contracted workers, some rapid-delivery platforms have also turned to "darkstores" – small warehouses from which to quickly source and deliver goods. Rapid delivery service 1520 shut down after "burning through its funding" and Fridge No More also collapsed after talks with DoorDash fell through, despite its growing popularity. Even $15bn Gopuff failed to turn a profit last year.

This doesn't bode well for Instacart, which recently slashed its valuation by nearly 40% to $24bn, and "a further readjustment may be in store", says Jennifer Saba on Breakingviews. Sector rivals have also seen their valuations fall as Covid-19 restrictions ease. Its "slimmed down valuation has other implications" – technology employees might shun it for companies whose value is going up, and the company has "already lost some high-profile executives". "Further reckonings" could be "much more painful".

Mountain View

Google concedes on billing: Google parent Alphabet will allow some apps to offer their own in-app billing services in "a concession amid mounting antitrust concerns over app store fees", says Bloomberg. The "experiment" will start with streaming giant Spotify. If a user pays Spotify directly, instead of via Google's billing system, the company won't have to give Google its entire 15% fee, though a Google spokesperson said the company has yet to settle the financial terms. Google and Apple have been under pressure for requiring apps to use their payments system. Google takes a 30% commission on most app store purchases and subscriptions, though in recent years it lowered the fee for media providers such as Spotify to 15%. South Korea has already enacted a law banning operators from requiring developers to use in-app purchases.

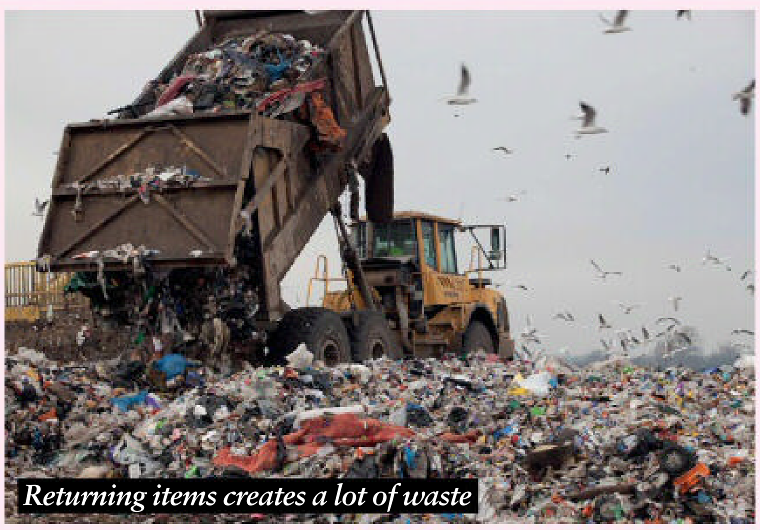
At first glance, the move looks "like an admission that the days of restrictive mobile app store domination and controversial high fees are coming to an end", says Lex in the Financial Times. But developers shouldn't get too excited. "App store providers seem intent on replacing any fees lost when their own payment systems are bypassed." In the Netherlands, Apple has suggested taking 27% of in-app purchases made via alternative methods. While Google's move does put pressure on Apple to loosen its restrictions, they are both unlikely to go as low as Microsoft Store's charge of 12%.

London

Britishvolt's nickel tie-up: UK battery start-up Britishvolt has partnered with Indonesian firm Bakrie & Brothers to develop a sustainable nickel refining capacity in Indonesia, says Nick Carey on Reuters. The companies' joint venture, Indovolt BV VKTR, will work to provide nickel sulphate, a crucial ingredient in high-performance electric vehicle (EV) batteries, using renewable energy in line with Britishvolt's green goals. Down the line, the pair may look at developing a 15GW "gigafactory" in Indonesia.

Indonesia is a top nickel producer and president Joko Widodo (pictured) is keen to capitalise on the surging demand for nickel to turn the country into a "global hub for producing and exporting EVs". Nickel prices have soared to over $100,000 a tonne due to the war in Ukraine. Russia is currently the biggest producer of battery-grade nickel, responsible for around 15% of global supply, and fears of disruption have sent EV battery developers looking for different sources, says Neil Hume in the Financial Times. Volkswagen-backed European battery-start up Northvolt has said it would buy nickel from Canadian mines. The International Energy Agency estimates nickel demand will need to grow 19-fold by 2040 if the world wants to achieve the targets set out in the Paris agreement on climate change.

The way we live now... the booming business of returns


Returning items creates a lot of waste

"Inside Liquidity Services' 130,000-square-foot warehouse in Garland, Texas, the aisles aren't lined with typical merchandise", says Katie Schoolov on CNBC. They're stacked with returned items from retailers, such as Amazon and Target, "all in the process of being liquidated". The industry, once the preserve of mafia money laundering, is "booming". Liquidators buy up returns in bulk, process and resell them through online auction sites and bargain shops. Everything from televisions to entire gym floors are sold.

The sector has more than doubled in size since 2008, rising to a value of $644bn in 2020, as the supply of returned items has surged. In 2021, a record 16.1% of all US retail purchases were returned, while online shoppers sent back 20.8%. Demand for used goods is also rising among younger, eco-conscious buyers, aiming to cut carbon emissions. Returned items in the US that aren't liquidated are often destroyed, releasing an estimated 16 million metric tonnes of CO_2 and creating 5.8 billion pounds of landfill waste every year.

Edinburgh

Menzies snapped up: UK aviation services firm John Menzies accepted a £571m takeover bid from Kuwaiti suitor Agility Public Warehouse "that had been sweetened for a third time", says Christopher Jasper on Bloomberg. Menzies' board backed the 608p a share offer in cash. The bidding had started at 460p. Menzies' stock was priced just below 500p in early 2020, before the pandemic decimated the aviation industry and demand for its support services, such as ground handling, fuelling and cargo services, all of which Menzies provides. Agility has said it plans to combine Menzies with its National Aviation Services arm to create a larger group.

Menzies offers its services at more than 200 locations in 20 countries, while NAS operates in over 55 airports across South Asia, the Middle East and Africa. A previous offer of 510p per share was rejected earlier this month, and the Edinburgh-based firm had given Agility until 30 March to make a new one, says Emily Hawkins on City AM. Menzies' board remains "fully confident in the recovery and outlook of the global aviation services industry" as travel restrictions ease, and feels it is set to benefit from "long-term structural growth drivers" in the future.

The deal has been cleared for take-off

Tokyo

Toshiba split rejected: Toshiba shareholders have rejected a proposal to split the Japanese conglomerate into two at an extraordinary general meeting, representing a "major win" for foreign activist shareholders and a "setback for management", says Mitsuru Obe in Nikkei Asia. The meeting, which was attended by 189 of its 228,586 shareholders, mostly individual investors and former employees, was designed to showcase the management's "convincing strategy" to revive Toshiba's flagging fortunes. However, the suggested initiative met with opposition from foreign shareholders, who spelt out the risks and questioned Toshiba's ability to "turn itself around on its own".

The vote is not binding, but Toshiba will struggle to proceed. It is now likely to "explore other options, which may include selling itself to a buyout fund and going private", an option strongly favoured by activists. Agreeing to Toshiba's own turnaround plan "would probably have been a negative signal for the stock and corporate governance reform in Japan writ large", but since there is "no clear path forward" for a sale to private equity either, the firm is left in "limbo", says Jacky Wong in The Wall Street Journal. The drama continues.

Madrid

Inflation soars: Consumer prices in Spain are rising at the fastest rate in almost 40 years. Annual inflation jumped much higher than expected to 9.8% in March from 7.6% in February, driven by higher food, fuel and electricity costs. Month on month, consumer prices rose 3% from 0.8%; and by 3.9% from 0.8%, according to the European Union's figures, when harmonised with the rest of the eurozone. "The data will stoke concern about stagflation [low growth and high inflation]", while the governor of Spain's central bank, Pablo Hernández de Cos (pictured), warned the war in Ukraine would dent confidence as well as drag down consumption and investment, says Alonso Soto on Bloomberg. Christine Lagarde, the president of the European Central Bank, has resisted calls to raise interest rates faster, blaming Russia's invasion for a "difficult phase" in Europe.

Initial estimates based on regional data, also released on Wednesday, suggest inflation in Germany is also running at multi-decade highs. Year on year in March, the inflation rate rose from 5.1% in February to 7.3%, the highest since 1974. On a monthly basis, consumer prices rose 2.5% from 0.9%. Expect inflation to average around 8% this year, says Carsten Brzeski of bank ING. For consumer prices, it is "up, up and away".

New Delhi

IPO blow: In a "blow" to foreign funds and stock exchanges wanting to "tap into the country's tech boom", India has "frozen plans" to allow Indian firms to list overseas without first listing in local markets, says Aftab Ahmed on Reuters. Government officials said this sudden reversal in policy (new rules for overseas listings were supposed to be announced in February) was driven by the belief that there is "enough depth in local capital markets for firms to raise funds and get good valuations". Indian equity markets are booming in response to a "pandemic-induced flood of easy money".

Last year, more than 60 companies listed in India, raising a total of $13.7bn, more than the three previous years combined. The "terrible performance" of some "newbies", such as fintech firm Paytm, is "hardly an indictment given the global technology rout," says Una Galani on Breakingviews, and external factors have all strengthened New Delhi's case. US laws introduced last year allowing regulators to de-list US-listed Chinese firms who don't comply with audit inspection requirements, and the "unexpected ferocity" of sanctions against Russia, have both underscored the need to pursue "self-sufficiency".

Globalisation in retreat

Global trade has been in decline for some time, but Russia's invasion of Ukraine marks a big turning point, say some commentators. What will that mean for investors? Simon Wilson reports

What's happened?

A growing number of big investors, including bosses at BlackRock, Oaktree Capital Management and Allianz Global Investors, have gone public with predictions that the war in Ukraine will prove an inflection point in the global economy. "The Russian invasion of Ukraine has put an end to the globalisation we have experienced over the last three decades," wrote Larry Fink, chief executive of the world's largest asset manager, BlackRock, in his annual letter to shareholders last week. The isolation of Russia from capital markets will promote a trend everywhere towards national independence and hasten the development of rival economic blocs led by the US and China. A world in which cheap offshore manufacturing and smooth global supply chains hold costs down will be replaced by "a large-scale reorientation of supply chains", and that will be inflationary, says Fink. That implies lower growth and lower returns for investors.

Economic logic is not the only thing CEOs have to keep in mind

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Is Larry Fink right?

One metric that offers a reasonable proxy for "globalisation" is international trade as a share of global GDP. That share surged from 25% in 1970 (World Bank figures) to 50.7% in 2000 and peaked at 61% in 2008. This was an era when Western policymakers believed that trade and investment would bring the world closer together politically. From 1992 to 2008, Russian gas exports grew tenfold. Between 1985 and 2015 Chinese goods exports to the US rose by a factor of 125. And in the 1990s annual global flows of foreign direct investment rose by a factor of six.

So what went wrong?

In the wake of the financial crisis, global trade fell sharply before bouncing back a bit. But it has never again hit that 61% – instead trending lower and falling to 51.6% by 2020. Meanwhile, global flows of long-term investment fell by half between 2016 and 2019. The Ukraine war follows hard on the supply-chain shocks of the US-China trade war, the Covid-19 pandemic, and the semiconductor shortages – all of which have focused attention on supply-chain sovereignty and domestic production. In other words, globalisation has been in retreat for some time, as John Micklethwait and Adrian Wooldridge point out on Bloomberg "But Russia's invasion of Ukraine marks a bigger and more definitive assault than the previous ones."

Why is this retreat happening?

Two main reasons, say Micklethwait and Wooldridge. First, because "geopolitics is definitively moving against globalisation" and towards a world dominated by two or three great trading blocs (an Asian one led by China, perhaps with Russia as its energy supplier; a US-led bloc; and perhaps a third centred on the EU). But just as important is a change in mindset. CEOs now understand they are in a world where political matters trump economic logic. They are recalculating accordingly, shifting from a "just-in-time" mentality to "just-in-case" – by preparing to bring production closer to home in case their foreign plants are cut off, for example. Historians may well decide that "the definitive moment globalisation died was when China, India and South Africa all abstained on the United Nations vote condemning Putin's invasion", says Robert Peston in The Spectator.

What will that look like in practice?

Already, French president Emmanuel Macron has committed his country to self-sufficiency in pharmaceuticals. The EU has vowed to wean itself of Russian gas, oil and coal by 2027. Joe Biden has promised to "make sure everything from the deck of an aircraft carrier to the steel on highway guardrails is made in America from beginning to end". But this "fetishising of domestic manufacturing over advancing cross-border trade in services and networks" is ironic, argues Adam Posen in Foreign Affairs. In fact, it is the latter sectors that have truly advantaged the West over Russia in implementing effective sanctions, and that have deterred Chinese businesses from bailing Russia out. Sadly, the retreat from globalisation will diminish both innovation and the return on capital in the world economy, and "it will do so on every side of the economic divide", says Posen.

"The mindset has shifted from just-in-time to just-in-case"

Growth will suffer then?

Yes. It will lead to higher prices for inputs, already seen most dramatically in the oil and gas price surges, but also in soft commodities and metals, as Emma Duncan points out in The Times. Higher input prices push up consumer prices and reduce output, thus hitting employment and wages. The other "source of economic pain will be lower demand, as markets are closed off to each other". World trade will fall – hurting the global economy, and Britain (an open, trading, service-based economy) more than most. "About 63% of our GDP is traded, compared with 26%, 36% and 49% of America's, China's and Russia's respectively." Globalisation is in retreat, and we are "going to miss it when it's gone".

What can be done?

For policymakers, deglobalisation adds to the fiscal pressure of a low-growth world. Rishi Sunak's spring statement fiddled with tax rates. But arguably far more important, says James Heywood on CapX, was his promise of a major review of how the tax system creates incentives for investment. That could prove crucial to reinvigorating growth and productivity. Meanwhile, we'll have to learn to invest in an inflationary environment that compresses multiples and shrinks profits, says asset manager Thomas Friedberger. Investors will have to position themselves to "take advantage of these mega trends: energy transition, cyber security and digitalisation", he told the FT. Monica Defend, head of the Amundi Institute, suggests a focus on sectors such as energy and defence that will benefit from "strategic autonomy". Virginie Maisonneuve, of AllianzGI, believes the shift could "drive innovation" by linking renewable energy with artificial intelligence to enhance efficiency, for example.

Give Chelsea to the fans

The sale of the football club was an opportunity to try something new and radical

Matthew Lynn
City columnist

The sanctioning of Roman Abramovich, the Russian oligarch who has controlled Chelsea football club for nearly 20 years, and who started the flood of foreign money into the game, resulted in the club going up for sale. By the time you read this we might know who has bought it. Potential bidders for an asset that was expected to command well over £3bn included a consortium led by the owners of the LA Dodgers; another led by the Ricketts family who own the Chicago Cubs; a team led by the property developer Nick Candy; and one or perhaps two others who may yet make the final round. An offer from Amazon, Netflix, Disney, or Sky's owner, Comcast, would really shake things up – there could well be a surprise before the deal is finalised. But whoever ends up buying it, there was a missed opportunity here – this could have been the moment to reinvent the way one of the UK's most successful industries is run.

Britain's Hollywood

The UK government is, quite rightly, vetting all the bids. It has said that all the money from the sale will go to charity, with much of it ultimately dedicated to helping the refugees flooding out of Ukraine. But why are we selling it to another foreign multinational sports franchise? The Premier League is a great UK commercial success. It is the most popular sporting contest in the world; in many ways it is an asset as valuable to the UK as Hollywood is to the US. But its ownership is a mess, dominated by an odd mixture of Gulf States, absentee American sports conglomerates, or Asian or Russian billionaires. Only a handful of clubs still have British owners. None of them have any links to the towns where the teams are based and many owners are using the clubs simply to improve their reputations. They have no interest in the towns where they are located, or even the long-term success of the sport. The sale of Chelsea in such strange circumstances is a chance to try something new. Here are four options we should be thinking about.

The UK's thriving footie industry deserves better

©Getty Images

First, give it away. The club could simply be placed in the hands of a supporters' trust, with anyone who had held a season ticket for five consecutive years given a share. After that, it would be up to the fans to decide what to do with it. They could run it as effectively as they pleased. They could list it on the stockmarket, or if they really wanted to they could sell it to someone else. Sure, it would not have as much cash to spend on transfers as it might with another mega-rich owner. But there is plenty of money in football these days. Free of debt, there is no reason why Chelsea should not be self-sufficient financially and still do well.

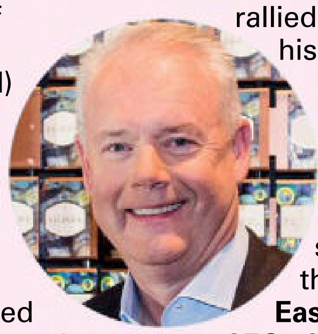
Second, donate it to Chelsea. One share could be given to every resident in the Royal Borough of Kensington and Chelsea. With 156,000 of them, and a £3bn price tag for the club, that would come to almost £20,000 per person. Alternatively, why not give a share to everyone in London? Either way, the club would be owned by its local community.

Experimenting with ownership

Third, turn it into a national asset. The club could be put into a new company owned by the government and then floated. The money raised would be enough for at least a small temporary tax cut, which might help with the cost of living crisis. Finally, it could be placed in the hands of a broadcaster. Folded into the BBC, ITV or Channel 4, it could be the basis for a new sports streaming service, and at virtually zero cost. If streaming is the future, as many experts believe, that could create a powerful new UK company.

There may be other options, but the point is this: there is nothing necessarily wrong with foreign owners and global sports franchises. Over the last two decades they have brought a lot of money into the game and turned it from a domestic into a global contest. But the Premier League could use some different forms of ownership. The sale is a chance to try something new, creating models that might work better. We should take some time to debate that – not just flog it off as fast as possible.

Who's getting what



- Starbucks' chief executive **Kevin Johnson** (pictured) is to receive a golden goodbye of at least $60m when he steps down from his role at the coffee chain, to be replaced by former CEO Howard Schultz, says MarketWatch. During his five-year tenure, he earned $79m, despite underperforming the US benchmark S&P 500 index. Johnson even made an extra $12m paper profit on his 3.2 million shares and options in Starbucks, with a gross value of almost $300m, after the share price rallied on the news of his retirement.

- A £2.9m annual all-share bonus from a new incentive scheme lifted the pay of **Warren East**, the outgoing CEO of aircraft engine-maker Rolls-Royce, close to pre-pandemic levels last year, says the Financial Times. His total pay came to almost £4m for 2021, significantly up from the £1.1m he got the previous year, when the pandemic sent "shock waves" through the industry. Prior to that, he earned nearly £4.1m in 2018. East has to hold 40% of the new shares for three years, and the rest for four years.

- GE's boss **Larry Culp** has agreed to a roughly $10m-a-year cut in his potential pay after shareholders raised concerns over 2020 pay packages, says The Wall Street Journal. For 2021, Culp was paid $22.7m, including a cash bonus of $4.2m, a $15m equity award and $2.5m in salary. That was substantially less than the $73.2m he took home the previous year and roughly in line with the $24.6m he was paid for his first full year leading the company in 2019.

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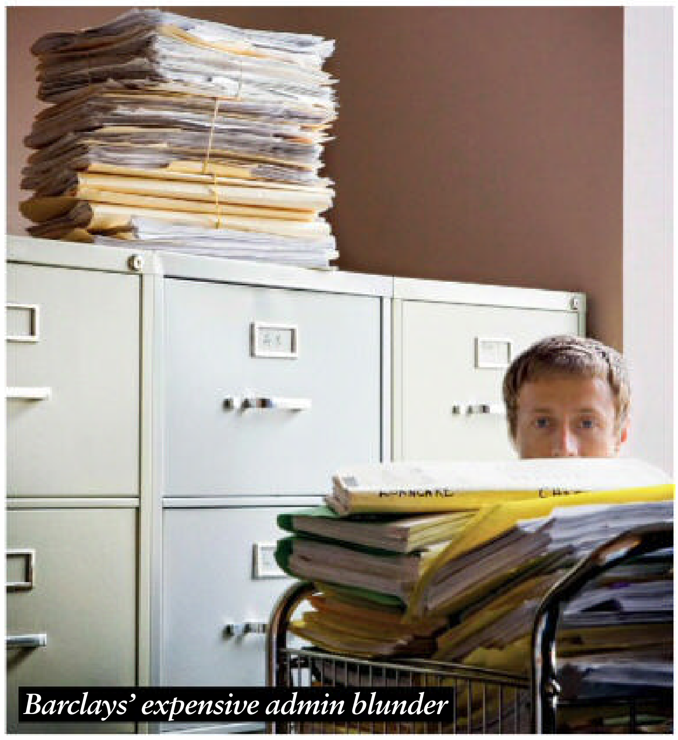
Nice work if you can get it

Wall Street has handed itself the biggest collective windfall in decades, says Misyrlena Egkolfopoulou on Bloomberg. According to New York state's comptroller, the average bonus has risen 20% this year to a record-high of $257,500. Payouts at Goldman Sachs are up 23% to around $30m on average for top performers, followed by Jefferies with $25m. "The bump for dealmakers is roughly twice that." Despite the air of nervousness due to pandemics, wars and financial uncertainty, plenty of "Wall Street's traditional courtiers" – estate agents, private-jet services, purveyors of luxury goods – are "still dreaming of the golden crumbs that might fall off the bonus cake". In particular, the rise of "hybrid working" is causing the "well-heeled" to seek out more space and amenities in the city, such as properties with extra rooms for offices, apartment-building lounges, rooftops and gyms.

A costly paperwork error

Barclays has just revealed that it'll have to shell out nearly half a billion for a failure to fill in the right forms

John Stepek
Executive editor



Barclays' expensive admin blunder

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Investors in Barclays got a nasty shock this week when the bank revealed that a US paperwork blunder will cost it around £450m (see page 7). Put simply, Barclays messed up the administration requirements around the issuance in the US of financial products called structured notes and exchange-traded notes (ETNs – see below).

So what went wrong? Any financial securities sold to the public in the US have to be registered with the US financial regulator, the Securities and Exchange Commission (SEC). As Bloomberg's Matt Levine explains, this is usually done via a blanket "shelf registration statement", which contains a "very large arbitrary number for how many securities you might sell". In 2019, Barclays registered to sell just under $20.1bn of securities in a statement. The trouble is that apparently it forgot to keep track of how much of this $20.1bn capacity it had used, and ended up issuing a combined $36bn securities or so – around about $15bn in the last year – instead of $20bn, before realising its error.

"Barclays issued $15bn more securities than it should have"

A minor mystery solved

The error does appear to explain why Barclays stopped issuing new shares in two of its most popular ETNs – one tracking the Vix volatility index (VXX) and the other tracking crude oil prices (OIL) – a couple of weeks ago. This was at the height of market volatility around Russia's invasion of Ukraine. The decision resulted in dramatic price moves for both the VXX and OIL products. The inability to issue new shares meant the ETNs could no longer track their underlying indices. Instead they become more like an investment trust – where the price is driven by supply and demand for the shares, and so can trade at an entirely different price to the value of the underlying assets – which, needless to say, is not the point of an ETN.

The £450m cost is due to the fact that, because the securities were issued in error, holders have "a right of rescission". In other words, Barclays has to buy them back at the original sale price. Of course, anyone who made a loss on their structured notes, or perhaps on these two ETNs, will almost certainly exercise this right and get their money back at Barclays' expense. As you'd expect, the bank is conducting a review into what went wrong.

We suspect that few MoneyWeek readers trade ETNs, and we've also railed against structured products often enough to dissuade you from them too. And in this rare case, investors may well have benefited from the error rather than lost out. But it's another very good demonstration of why you shouldn't invest in anything that you don't understand thoroughly. If even a banks' back office can't get it right, what hope do you have?

I wish I knew what an ETN was, but I'm too embarrassed to ask

An exchange-traded note (ETN) is a financial security that trades on a stock exchange and is designed to deliver the return on an underlying index to an investor, after fees. That sounds a lot like an exchange-traded fund (ETF), which also trades on a stock exchange and aims to give an investor an easy way to track an underlying index.

However, the structure of the two securities is very different. An ETF usually owns the securities in the index it tracks (or in the case of a synthetic ETF, enters into a swap deal with a bank, which is backed by collateral held by the ETF, whereby the bank agrees to deliver the return on the index).

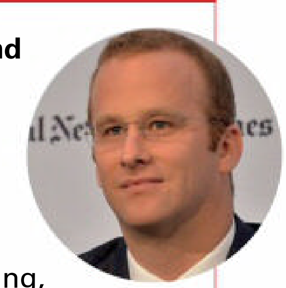
An ETN, by contrast, is a type of debt security, similar to a bond. The ETN is issued by a bank and, just like a bond, it has a maturity date. The ETN promises to pay the holder the value of its underlying index (after fees) at maturity, although of course it can be traded freely on the exchange. The fact that the ETN is issued by a bank means that it carries credit risk – in the relatively unlikely event that the issuing bank goes bust, the ETN won't pay out.

The first ETNs emerged in the early 2000s, but were popularised by Barclays Bank in 2006. The goal was to allow private investors to track the sorts of prices that are difficult and expensive to do via ETFs. For example, commodity and currency-tracking vehicles are often ETNs rather than ETFs, while ETNs are also used to track more esoteric indices, such as the Vix, mentioned above.

The ETN structure eliminates the need to hold the underlying asset (although the trade-off is that it exposes the investor to the credit risk of the issuer – which became a significant issue during the 2008 financial crisis). This in turn removes the risk of tracking error (ie, of diverging from the underlying index). However, they are less transparent than ETFs and the complexity of the underlying markets involved means they're not suitable for most investors.

Guru watch

Pierre Andurand founder, Andurand Capital



"I don't think that suddenly they stop fighting, the oil comes back... The oil's going to be gone for good," says commodities trader Pierre Andurand, founder of Andurand Capital. He tells Bloomberg's Odd Lots podcast that he expects crude oil prices to soar to $200 a barrel by year-end as rival producers struggle to replace Russian supply.

Andurand made millions by shorting oil when prices turned negative in April 2020, as a pandemic-driven supply glut overwhelmed physical storage capacity. He believes that the situation

has now dramatically reversed. Sanctions placed on Russia after its invasion of Ukraine have removed around four million barrels a day from circulation, and that will be hard to replace.

For example, US shale oil supply has been limited, partly because "a lot of the easy oil in the US has been drilled... I'm not sure there's room for... many decades of high production". There's also the question of investors' reluctance. "The whole industry had burned through $600bn of cash and the shareholders had taken a big hit." Now that they are making profits, shareholders are pressurising chief executives not to grow production too fast in case "prices crash again".

All of these factors make a supply response – beyond short-term releases from strategic reserves – very challenging. That's why the price has to rise to around $200 a barrel because that's the level at which "demand destruction" will kick in, says Andurand, which will also help "to accelerate the energy transition".

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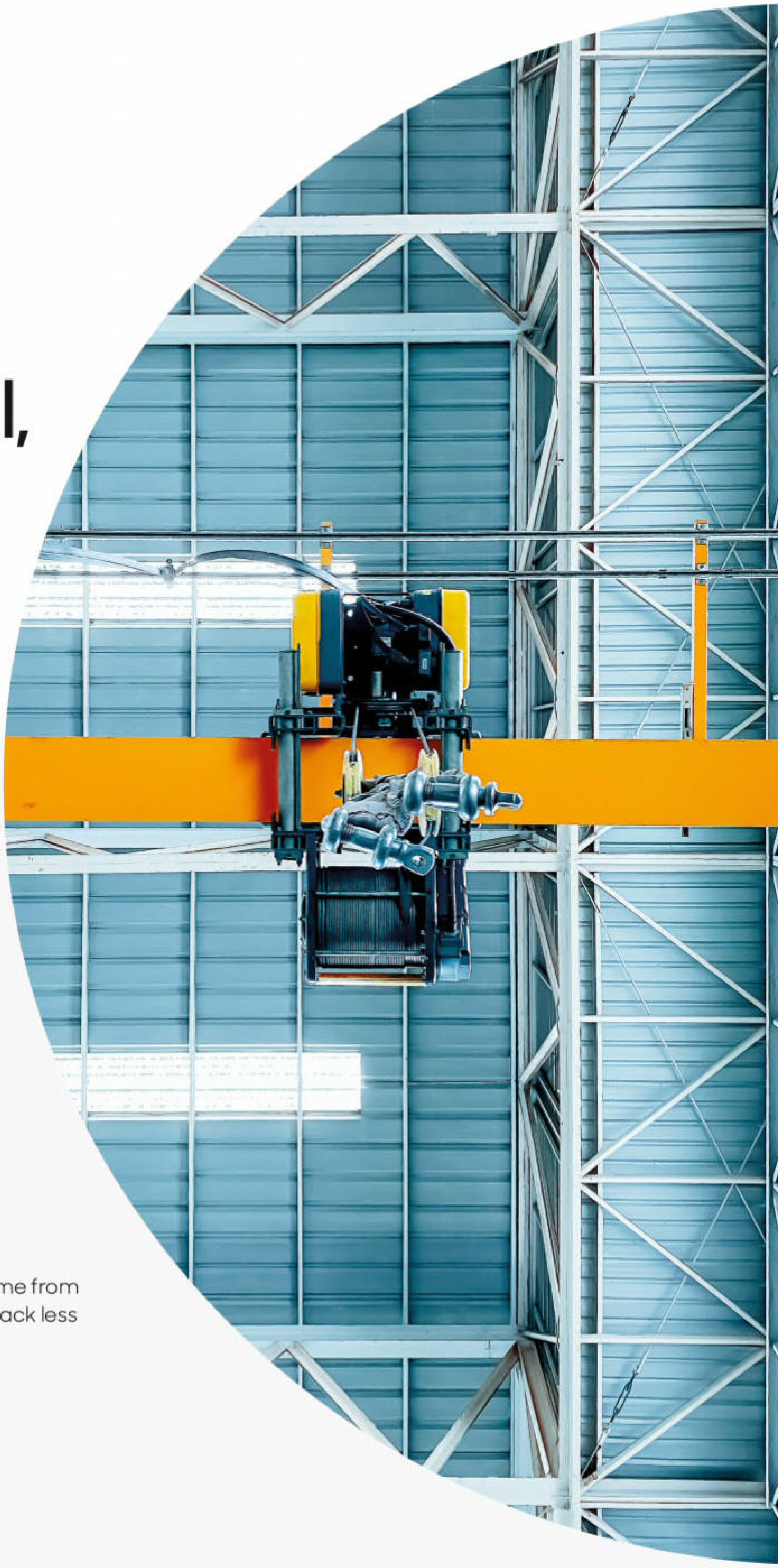

Living out a fantasy is not cost-free

Nina Xiang
Nikkei Asia

The computing power required by the "metaverse", purportedly the next stage of the internet where people can immerse themselves in digital alternative realities, will have a big impact on the climate, says Nina Xiang. The computing capabilities required will be "several orders of magnitude more powerful" than the current system. As a rough comparison, bitcoin mining consumes around 91 terawatt-hours of electricity annually. That is around 0.5% of global energy consumption worldwide and more than seven times the electricity use of Google's global operations. Considering at least a dozen tech giants are now "ramping up" infrastructure for the metaverse (everything from computing to storage and networking will need major upgrades), consumption may be many times greater than for bitcoin mining, particularly since video streaming and gaming are predicted to make up 87% of consumer internet traffic this year. In the light of global warming and related inequalities, proper studies are vital. If an avatar were to consume as much electricity as a living person in a developing country, it would "test the moral senses of every metaverse wanderer, especially those living in rich countries, regarding the true costs of virtual fantasy worlds".

China turns up the coal furnaces

Ambrose Evans-Pritchard
The Daily Telegraph

It would be a "grim irony" if China rescues Europe from an energy shock by selling us coal and "trashing the planet in the process", but this is what Citigroup thinks "may now happen", says Ambrose Evans-Pritchard. Beijing has reframed energy policy as a national security issue and, having been a "voracious energy importer", may yet become the only country with "spare coal and natural gas capacity to help normalise the global markets". China's domestic coal production is up 10% on this time last year, and coal plants are being reopened. Citigroup estimates China could increase coal output to 300 million tonnes a year by next year, displacing up to 107 billion cubic metres of gas – roughly China's entire imports of liquified natural gas last (LNG) year. Russia may "accelerate the swing" by dumping cheap gas on the market in a bid to undercut LNG and secure market share. In this scenario, Citigroup thinks gas could fall as low as $4 per metric million British thermal unit by winter. It expects coal prices to "crash" as early as May. The price for cheaper energy and falling inflation would to destabilise the climate. China already accounts for a third of carbon emissions. It could now "push us over the brink whatever the rest of us do".

Brace for the return of austerity

James Forsyth
The Times

The sudden arrival of inflation after four decades is a "political headache", says James Forsyth. "It makes everybody poorer (except the asset-rich)," Prices in Europe and the US are rising at the fastest rate in 40 years thanks to, among other things, years of ultra-low interest rates, post-Covid-19 supply-chain bottlenecks and spiking energy costs. The last two are only likely to get worse. Then there is the "general decoupling between the West and China". This has "transformed the political debate". Debt payments are expected to quadruple. "Where will the cash come from? You can hardly borrow your way out of a debt crisis." With the tax burden heading to a 77-year high, the prospect of raising taxes isn't "appealing". The best solution would be to move the economy out of the "low-growth rut", which is why Rishi Sunak is reviewing business taxation with a view to boosting investment in skills, R&D and capital (see Briefing, page 14). But it will take time for this to bear fruit. That leaves just one option: spending restraint (or austerity, as the opposition will call it). The period between now and the next election in 2024 is going to be "extremely painful" as a new generation of policy makers discovers why inflation so terrified their predecessors.

The return of the machine

Editorial
The Economist

Until recently, motorists took their dirty vehicles to car parks and disused petrol stations where migrants from Eastern Europe would wash them with sponges, says The Economist. In 2018, a parliamentary committee was informed that Britain had 10,000-20,000 hand carwashes compared with 2,000 automatic ones and around 4,000 DIY jet washes. The former were cheaper, and more convenient (no "traipsing" into the petrol station for a six digit code). Now, however, an industry which was once a "rare example of de-automation", is "re-automating". Last year, revenues for Wilcomatic, which runs around 800 automatic carwashes in Britain, were 15% higher than pre-Covid-19. The main reason for this is that the hand washers are vanishing. "The informal ones can be lousy employers" – a 2016 study in Leicester found that many paid less than the legal minimum wage – and Brexit means that Britain now has "fewer newly arrived unskilled immigrants". Covid-19 "further tilted the market". The government shut down hand carwashes for longer on the grounds of greater infection risk and the pandemic also discouraged people from paying with cash, which informal carwash owners "love". The industry has come full circle.

Money talks

"I think if I wasn't queer, I'd probably be working at…. Ernst & Young. Doing some sort of mid- to top-tier accountant role… Subconsciously, very early on, I knew I was not going to thrive in a corporate environment. The way I speak, let alone dress, was not encouraged."
Comedian Joe Lycett (pictured), quoted in The Guardian

"You shouldn't be loyal to your bank. They don't deserve it; it's your money. Your job should be to pay as little to your bank as you possibly can and earn as much from your bank as you possibly can. It doesn't pay to be loyal."
Mark Mullen, boss of online lender Atom, quoted in The Times

"If you care about the reality of doing good and not the perception of doing good, then it is very hard to give away money effectively."
Tesla CEO Elon Musk, quoted on Business Insider

"I had a dream when I was a kid that one day I'd go back to my school in a sports car and talk to the kids about ambitions and goals and how anyone can achieve anything they want if they work hard and stay focused. Years later, when I could afford it, I bought that dream car, an Audi TT, for cash, and I did indeed return to my old school to give a talk. I remember pulling into the car park and thinking: 'Oh my God, I've made it!'"
Journalist and television presenter Steph McGovern, quoted in The Telegraph

"I think what I'm really proud of is that I've always managed to be my own person, I've always made my own money, I've always taken care of myself. And my kids came out great."
Actor Jane Seymour, quoted in The Guardian

How wheat corrupted us

unherd.com

Russia's invasion of the "breadbasket of Europe" has reminded us that food is political, says John Lewis-Stempel. The connection was once well understood. "Beef and liberty" was the slogan of the 18th-century London dining club, The Sublime Society of Beef Steaks, which understood the link between sirloin and the freedom of Britons. But if meat brings liberty, wheat has brought little but tyranny.

A hard slave-master

Ever since the grain was first cultivated 10,000 years ago, wheat was a "slave-master". It demands constant attention and weeding. It locked us into a seasonal cycle that we have been unable to escape ever since. It made us more sedentary and replaced our varied ancestral diets with something far more restricted and unhealthy. It made us more organised and cooperative, but also more "docile and disconnected from nature".

Wheat also facilitated the rise of the state. As James Scott, author of *Against the Grain*, has pointed out, wheat was the best way to tax people – being visible, divisible, assessable, storable, transportable and rationable, all things much harder to achieve with livestock (easy to transport and hide) or root vegetables (which can be left in the ground till the tax collector has gone). Societies which relied on livestock and tubers rarely became states.

The taxing of wheat then enabled the emergence of non-productive elites, who required an "armed wing to defend their regime". Wheat fuelled the necessary population rise to staff the army and provide nutrient-poor but energy-dense fodder for the masses. The early grain states were, says Scott, "population machines", domesticating people as the farmer domesticates the herd.

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Now it's people that are herded

Later Western society was eventually organised around the production and consumption of wheat and it became a political tool. Since the Second World War, the "chief agricultural aim of government has been productivity – quantity over quality". Wheat farming became a yield-obsessed industry increasingly dependent on labour-reducing but expensive technology, including biotechnology. It became a "cereal killer" of small, family farms, turned swathes of the UK countryside into a "coffin for nature", doused in toxic chemicals, and spews greenhouse gases into the atmosphere.

In short, humanity took a wrong turn with wheat. If the Russian invasion of Ukraine forces a rethink, that will be no bad thing. Pastoralism is the intelligent solution. "Beef and liberty! More meat, less wheat!"

Inflation is not the biggest problem

stumblingandmumbling.typepad.com

"Everyone says we have an inflation problem," says Chris Dillow. "Everyone is wrong." The biggest reason for the inflation we're seeing is that petrol prices and utility bills are soaring. Even if prices in the rest of the economy were flat and inflation below its 2% target, we would still be handing over a bigger chunk of our incomes to "monopolistic utility companies and foreign despots". This is an echo of an old problem, described by David Ricardo in 1815, who thought that as the economy and population grew, demand for food from the limited supply of fertile land would raise food prices, choking off growth and transferring income from productive workers and capitalists to owners of land. Trade and technical progress meant this never happened for food, but "the gist of it has proved right" – we are just transferring our incomes to the owners of utility companies and oil and gas reserves instead. In the last 20 years, gas and electricity bills have doubled relative to wages. Accelerating the shift from fossil fuels and nationalising the utilities and oil companies to socialise their rents might help, but would "not fully solve the problem". As long as productivity is stagnant, so too will be real incomes. Our "fundamental problem", as "all sensible economists have been saying for years", is a lack of productivity growth.

The danger in doomscrolling

bloomberg.com/opinion

"Doomscrolling" refers to people's tendency to run through their social-media feeds ceaselessly to learn the latest about the pandemic or the war, says Tyler Cowen. This "never-ending stream of information shapes our perception of time" and makes it seem like the bad things have been going on for longer than they have. This matters.

A few generations ago, people would have heard that there was a big battle going on over a place called Dien Bien Phu, and would learn about what happened on the nightly news or in the morning newspaper. These days, every moral outrage is taken in as it happens, giving rise to an increasing sense of urgency that something desperate must be done to stop it. This is dangerous because it makes it harder for leaders to pursue strategies of patience and for us to understand what's really going on. Russia's military prospects have been underrated, for example, as it has failed to achieve its objectives. Yet Hitler took five weeks to conquer Poland and that is usually regarded as a military success. "We are not at peace with our grasp on time" – and this is becoming a major problem.

©Getty Images

Our grasp on time is slipping

A path out of divisive politics

thecritic.co.uk

The UK government's official response to last year's Sewell report on race and ethnic disparities was welcome, says Rakib Ehsan. The "grievance-industrial complex" would have us believe that racism and "white privilege" lie at the heart of societal problems. "As well as being empirically suspect, this threatens to fundamentally undermine social solidarity in our multiracial democracy."

Tony Sewell's work reveals the reality that, within both the white and black British populations, certain ethnic groups perform far better than others on a range of social and economic metrics. Asian minorities of Indian and Chinese origin, for example, are thriving, and outperform the white British majority at school and in terms of median hourly pay. This shows that "an optimistic, family-orientated traditionalism rooted in hard work and discipline is an effective agent of social mobility". Britain must "free itself from excessive political correctness" and pursue instead "an inclusive social-policy agenda that has families and communities at the heart of it".

Time for biotech to boom again

These three healthcare trusts are a good way to invest in a sector that should turn around soon

Max King
Investment columnist

Monitoring patients should produce better outcomes

©Alamy

The remarkable speed at which scientists were able to discover new vaccines and treatments during the pandemic and roll out mass usage seemed to show that there is no medical affliction which is beyond the scope of ingenuity and innovation. This seemed likely to usher in a new golden era for the healthcare sector, and for biotechnology in particular, that would boost the private companies at the forefront of the medical revolution.

Instead the biotech sector is in its biggest bear market in 30 years. In 12 months, the S&P Biotechnology index has lagged the S&P 500 by 64%, falling nearly 50% back to the level of mid 2015. The broader healthcare sector has fared better, thanks to the resilient share prices of big pharmaceutical firms and healthcare service providers. But smaller, innovative companies focusing on research and development rather than short-term cash flow have suffered.

Time for the tide to turn

In the year to 28 February, the net asset value of **Worldwide Healthcare Trust** (LSE: WWH) was down 9%, and that of its sister trust **Biotech Growth Trust** (LSE: BIOG) was down 35%, each 22% behind their benchmark indices. "Fundamentals did not matter," says Sven Borho, co-manager of WWH. "Everything was driven by macro trends such as growth into value". In addition to the poor performance of biotech (22% of WWH's portfolio, 82% of BIOG's), exposure to the massive under-performance of Chinese companies (8% in both), also hurt the trusts, he notes.

"The biotech sector is in its biggest bear market in 30 years"

Still, "the healthcare sector now trades on a 20% discount to the S&P 500, the same as in the financial crisis", says Borho. "Every single time it has traded at such a discount has been the very best time to be invested, especially in innovation and growth." Meanwhile, the threat of drug pricing reform and regulatory change in the US has lifted. "We are very confident of recapturing much of the lost performance of WWH and BIOG… We have bounced back from setbacks before."

Controlling the costs

By far the best performer in the sector is the £1bn **BB Healthcare trust** (LSE: BBH), which is up by 84%, over the past five years. Manager Paul Major has focused on the rising cost of healthcare – which accounted for 10% of US GDP in 1980 but is now 18% – as a key theme. "The compound annual real growth rate of NHS expenditure is 2.25% but needs to be 3.5%. Thanks to ageing populations, scientific progress and increasing wealth, healthcare is the secular growth story of our age but it needs to be paid for."

BBH invests in firms that "provide innovative solutions for broken healthcare systems around the world". For example, healthcare waste in the US is estimated at $750bn per annum. "The political discussion in the US is about prescription drugs but they only account for 10% of total spending. Hospital care accounts for 31% and physicians and clinics 20%." This is where efficiency can improve, says Major. "Hospitals are expensive and nobody wants to be there, so newer care models are needed. The first interaction of patients with healthcare needs to be online."

Other areas of focus are diagnostics, patient monitoring, disease prevention and changing behaviour. "People do not follow medical advice or behave rationally so they need to be nudged. For example, 15% of those with cancer in the US are not receiving treatment. Sensory technology can be used for monitoring the treatment of patients so that their arrival in hospital represents a last resort."

"Healthcare is the best place to be invested for the long term," says Major. Midcaps are out of favour, valued at near five-year lows, but "historically have done better and recovered strongly from periods of derating". There are signs of a turnaround. All three trusts should be great investments.

Activist watch

The largest shareholder in asset manager WisdomTree is teaming up with an activist hedge fund in an attempt to force out CEO Jonathan Steinberg, says the Financial Times. Graham Tuckwell, the founder of ETF Securities, ended up with an 18.7% stake in WisdomTree after selling his firm's European business to it in 2017. The deal was intended to make WisdomTree a bigger player in ETFs: Steinberg said he expected assets to eventually reach $100bn, but so far the firm has reached $78bn. Tuckwell has accused Steinberg of destroying half WisdomTree's market value, and is now working with hedge fund Lion Point, which owns a 3.1% stake, to get himself and two other nominees onto the board. WisdomTree's shares have fallen 79% since their peak in 2015.

Short positions... Mark Barnett's second shot

■ **SDCL Energy Efficiency Income Trust has raised £100m in its second fundraising round in a year. The trust, which invests in energy-efficiency projects, hopes to take advantage of rising demand for energy-saving solutions caused by soaring prices, says Investment Week. The placing was increased from £75m to £100m due to strong demand. In September it raised £250m, up from an initial target of £175m.**

■ **Scottish Widows is to sell all stocks and bonds of firms where tobacco is more than 10% of sales, says The Times. It also plans to screen out all firms that get more than 5% of sales from thermal coal and tar sands (down from 10% now). The decision will affect the pensions and savings of over a million customers, although the effects will be limited: these announcements "tend to be marketing opportunities… more than an investment view", Rae Maile of broker Panmure Gordon tells the Times.**

■ Former star stockpicker Mark Barnett is set for a comeback, says CityWire. Barnett, formerly Neil Woodford's protégé, stood down from Invesco after prolonged poor performance, as well as issues with hard-to-trade stocks, that led to investors pulling billions from his UK Equity Income and High Income funds. He joined boutique asset manager Tellworth last year and will run the new TM Tellworth UK Income and Growth fund. The new strategy will invest in 40-60 companies, with no unquoted firms and no more than 20% in stocks valued at less than £500m.

Why polluters are back in business

Investors have been keen to show their green credentials by shunning carbon-intensive industries. The cost of that virtue signalling is now becoming apparent, says Frédéric Guirinec

The road to hell is paved with good intentions. Fears of global warming have created massive enthusiasm for "green investing" over the past few years. Industries that furthered the goal of cutting emissions – such as renewable energy – have found it easier to raise capital. Financial institutions have allocated more money to environmental, social and governance (ESG) strategies in general. Funds claiming to follow ESG principles now manage $6.1trn, representing 10% of worldwide fund assets, mostly in Europe.

Asset managers have shown that they are willing to use their power to structurally shift our economies. The five largest investment managers – BlackRock, Vanguard, UBS, State Street and Fidelity – hold a combined $22.5trn in assets, giving them an enormous amount of clout if they act together. Last year we saw an example of them doing so, when several backed an activist hedge fund in voting three directors off the board of oil major Exxon Mobil. Meanwhile, banks and insurance companies are making "net zero" commitments not just at company level but also at the portfolio level – which is affecting where they are willing to invest and lend.

There is an obvious problem with this. Many of the industries being shunned by ESG-conscious investors and lenders remain crucial to the way the world works. Sectors that emit large amounts of carbon dioxide (directly or indirectly) include energy, mining, heavy industries such as metals and chemicals, farming and transport. We may not like this, but we can't immediately replace them: 80% of the energy consumed in the world is still generated from fossil fuels.

The consequence of several years of lower investment in these out-of-favour sectors was already becoming apparent in the second half of 2021: the Bloomberg Commodity Spot index hit an all-time high in October as rising demand collided with tight supply. The Russian invasion of Ukraine brought matters to a head.

We need affordable, secure energy

Investment in oil and gas has been depressed over the past six years and discoveries are at the lowest for the last 75 years, according to Rystad Energy, a Norwegian energy-intelligence firm. Surging oil and gas prices have huge consequences financially – Citigroup estimates the primary energy bill for Europe will reach $1trn this year, close to the record levels of 2007 and 2011. It also has both energy security and environmental implications. The UK and Europe have to import liquefied natural gas (LNG) from the US – gas that was produced using highly polluting fracking techniques.

Reducing European reliance on Russian oil and gas will require intensive capital expenditure in other geographies, not least because all types of oil are not the same and supplies need to be matched to refinery capacity – light, sweet (low-sulphur) crude is easier to refine than heavy, sour (high-sulphur) oil. Despite the obvious need for more investment and the likelihood that oil prices will remain elevated, the shares of European oil majors have remained flat since the beginning of the year, unlike their American counterparts. That may reflect their exposure to Russia, but also probably, at least in part, the fact that oil is now a taboo sector for some increasingly ESG-conscious investors – ie, today's equivalent of tobacco.

"Oil and gas discoveries are at their lowest for 75 years"

Firms such as BP and Total offer interesting value in a world where energy is more scarce. However, the most risk-seeking investor may look at the extremely cyclical offshore oil drilling sector, where consolidation is under way and major companies such as Odfjell Drilling and Maersk Drilling should emerge stronger. Canada's oil sands produce some of the world's most carbon-intensive crude, but shares of Imperial Oil and Canadian Natural Resources are rising, reflecting renewed interest from investors in the sector.

Of course, it's not just oil. The transition to *die Energiewende* (a long-term renewable energy and climate strategy) favoured by Germany has been close to a disaster this winter. Back in October, several European countries warned of potential blackouts and electricity prices shot up due to low wind power generation. Prices of natural gas for gas-fired power stations – the back-up for wind – soared as well, and stocks fell to all-time lows. The uncertainty of whether Russia (which supplies 40% of Europe's gas) could turn off the tap at any moment has really demonstrated the fatal flaws in European energy policy.

On the European continent, some factories had to stop or limit production – compounding supply-chain issues – while others began acquiring their own fuel generators to get off the grid immediately. Poland took a different approach. The government decided that it would continue to exploit the Turow coal mine near the border with the Czech Republic – and would ignore a €50,000 daily fine levied by the European Union to do so. Coal and cheap but highly polluting lignite (brown coal) generates 75% of Poland's electricity, and the transition to nuclear energy will take some years.

Poland is not the only country deciding that it would rather increase pollution than run short of energy. China, which has tripled its production of coal since 2000, announced a ban on coal exports and is increasing investments in mining to ensure energy security. The reality is that annual world coal consumption still stands at 8.5 billion tons and has not declined much in recent years. That is why miner Glencore is betting that coal will still be relevant. Its share price is up by 50% year on year as investors come round to the same view.

The other big winner may be nuclear energy, which provides about 30% of the world's low-carbon electricity. France and the UK are both now planning to expand their nuclear capacity to produce carbon-free electricity and meet climate objectives. This will benefit uranium miners such as Cameco and Energy Fuels. In contrast to coal – which is hard to greenwash – nuclear is undergoing a makeover. The EU now plans to label some nuclear projects – and even some gas ones – as green. You can argue about whether any power that leaves toxic waste to be stored for thousands of years can really be environmentally friendly, but this decision illustrates both the limits of ESG semantics and the risks to our economies of running out of affordable energy.

Coal is likely to be a mainstay of global energy needs for many years to come

An electric economy still needs metals

Meanwhile, metals such as aluminium, copper and zinc have all reached elevated levels. Some of this is due to speculation and more recently to sanctions on Russia, and these levels may not be fully sustainable, but there is a real lack of supply. This has been exacerbated by rising demand for some metals caused by the electrification of the economy – another key green theme where the impact on raw materials has been underestimated.

Large miners such as Rio Tinto, BHP and Glencore offer exposure to various metals. Other peers look even cheaper. Anglo American trades on an enterprise value (EV – market capitalisation plus debt) of only 4.1 times earnings before interest, tax depreciation and amortisation (Ebitda) and carries nearly no debt. It regrettably spun off its coal business, Thungela Resources, under ESG pressure last year. Thungela's share price has shot up fivefold since its initial public offering in June. Glencore shareholders should probably hope that their company can resist any similar pressure to get rid of its coal operations. Many other miners are also trading at depressed valuations – for example, Nexa Resources, which extracts zinc in Latin America, is on an EV/Ebitda ratio of three and generates 28% Ebitda margins.

Though gold and silver pulled back last year because markets expect a series of increases in interest rates, prices are now resilient and gold miners are priced extremely cheaply. Many are poorly managed and operate in difficult geographies (such as Mali, Peru and Russia), but some generate healthy and steady cash flows. I favour Barrick Gold (see page 26).

Makers of metals such as steel, aluminium or zinc have different dynamics to miners or energy – their fortunes depend on whether demand and prices for their finished products outstrip raw material costs (metal ores and energy). If we start to see shortages in output here at the moment, it's not – broadly speaking – about a shortfall in capacity, but rather a shortage of affordable inputs (specifically energy, which is hurting many producers in Europe).

Nonetheless, the market value of steel companies is historically broadly correlated to commodity prices, according to consultancy McKinsey, albeit to a lesser extent than primary producers (there's a 64% correlation for the steel sector, compared with 84% for oil and gas, and 93% for miners). Steel makers such as ArcelorMittal and Ternium are seeing their shares rally, yet trade at EV/Ebitda ratios of less than two, while generating strong profit margins. This is a notoriously cyclical industry and investors are right to treat it with caution – but today's aversion to energy-intensive, carbon-spewing sectors may still leave it cheaper than fundamentals would suggest.

Conditions are hurting aluminium producers more: aluminium smelting is extremely energy intensive (and carbon intensive) and so rising energy prices have slashed margins. Unable to fully pass on prices, producers have been shutting down some capacity, which was already leading to tighter supply. The war in Ukraine has now upended matters: Russia is the second largest producer of aluminium outside China, with around 6% of global

Continued on page 26

"Poland is ignoring a €50,000 daily fine from the EU to keep the Turow coal mine open"

Continued from page 25

production, and this may be taken out of the market due to sanctions. Thus shares of efficient producers such as Alcoa, which had been steadily recovering from its 2020 lows, are holding up despite the headwinds.

How gas prices caused a fertiliser crisis

Refineries and petrochemical plants are not the ESG investor's best friend, either: they take in oil or gas and produce a range of often polluting products. These sectors are often ignored, in part because they are complex. As with metals, returns depend on input costs (eg, oil or gas feedstock) and demand for the products they produce. Prices and margins on some products tend to be fairly closely linked to oil or gas prices; for others, the connection is looser. Local conditions can play a big role: US refiners such as Marathon Petroleum and Valero Energy are doing well now, because the Ukraine crisis has pushed up global prices for products such as diesel (which can be traded internationally), even while US prices for natural gas – a key cost – remain much lower than for European refineries.

Petrochemical producers tend to suffer more from high oil and gas prices: the shares of European firms such as BASF and Evonik are now holding up noticeably worse than US firms such as Dow and Dupont, because the latter again enjoy lower feedstock costs. In general, companies producing complex and specialised chemical products generate higher margins (and are more attractive to investors), which explains last week's move by Belgian firm Solvay to split into two companies: one focused on basic chemicals considered as commodities and the other focusing on speciality chemicals.

There are opportunities for knowledgeable investors to take advantage of input and output price trends, but one product stands out as more crucial than others right now. The rising price of ammonia – made from natural gas and hence hit by higher gas prices – has led to quintupling of fertiliser prices. That will affect food production. Food prices have already increased by 22% in 2021 according to the World Bank, and they are not likely to fall back this year given prices of fertiliser

Agriculture is a major source of global carbon emissions

and seeds. Crops such as wheat and maize require regular fertilisation – too much, in many cases. The UK, for example, consumes 100kg of fertiliser per acre, according to the United Nations Food and Agriculture Office – 60% more than in the EU. The efforts made in Europe to reduce usage of fertiliser to preserve the environment and protect aquifers from run off have been considerable, but farmers do not have much room to cut consumption further, especially if they are trying to keep crop yields up.

Indeed, farming is surprisingly a major source of pollution: it is responsible for 17% of global carbon emissions. In Europe, the sector has been hit by heavy environmental regulation, and two years ago the EU agreed to reform farm practices further as part of its drive to hit net zero by 2050. The changes would have led to a further cut in production. Soaring food prices and geopolitical threats will reportedly cause those plans to be reassessed, with greater focus on food security. If so, it will be yet another example of how hard it is now proving to square going green with continuing to meet the world's essential needs.

"Food prices have already increased by 22% in 2021"

Eight bets on supply shortages

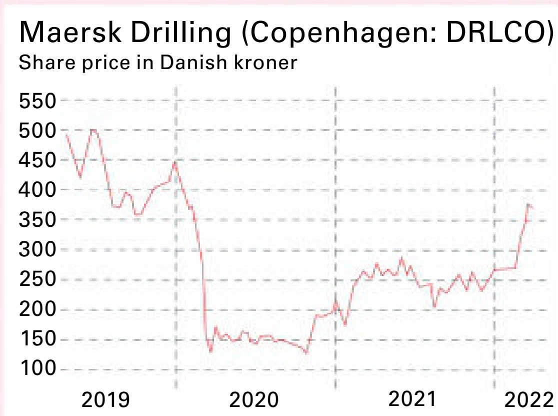
Investment in oil and gas exploration in the North Sea is likely to increase to boost domestic supply to the UK. Drilling in deep waters will be required and highly cyclical operators such **Maersk Drilling (Copenhagen: DRLCO)** and **Odfjell Drilling (Oslo: ODL)** will benefit from it. These companies had a tough time following the peak in commodity prices a few years ago and went through several years of restructuring. They require sustained high oil price levels to earn good returns.

The wave of mergers and acquisitions – often led by Maersk Drilling – and completed restructurings indicates the sector is ready for a new cycle. Investors may even want to consider Seadrill once it relists after restructuring in chapter 11 bankruptcy (for the second time in four years), since it owns a relatively new fleet of jack-up rigs, semi-submersibles and drill ships, and should have a healthier balance sheet than before.

Even before Russia banned exports of fertilisers, the supply of ammonium nitrate was already becoming tight because natural gas is a key input and gas prices had soared. Investors have responded by bidding up the price of US-listed firms such as Nutrien and Intrepid Potash, but the Polish firm **Grupa Azoty (Warsaw: ATT)** remains good value on an EV/Ebitda ratio of five – its share price has hardly moved this year as it is not on many investors' radar. In addition, a weak Polish zloty makes the shares even more attractive. Norway's **Yara (Oslo: YAR)** also looks good value, although it has recently failed to meet market expectations. The company recently announced that it is curtailing production due to high gas prices.

The lack of fertiliser will result in higher grain prices. Some countries are already banning exports, a situation made worse because Russia and Ukraine usually supply a third of global wheat exports. Boosting production will be critical. **Vilmorin (Paris: RIN)**, the fourth largest seed producer, is valued attractively, with stable revenues and dividends. It should ultimately benefit as farmers prepare the crops for next year, since food prices are likely to remain elevated for a time.

Soaring energy and food prices mean worldwide geopolitical instability that could benefit gold. I am a long-term holder of **Barrick Gold (NYSE: GOLD)**. The shares trade cheaply on an EV/Ebitda ratio of 4.8. It generates an Ebitda margin of nearly 60% and has very strong cash flows, plus it



holds no net debt. Barrick Gold also offers exposure to copper, which will be widely needed in the green economy if we are to have any hope of producing an acceptable energy transition through electrification – the world's population is unlikely to simply accept reducing its living standards.

Lastly, coal is currently the big winner of the bodged green transition and the ban on Russian gas, with prices tripling since the beginning of the year. Even if its days are numbered, it will take some time to be phased out. Reserves are plentiful (the world has 133 years of proven reserves) and China, India and Indonesia are still building coal-fired power plants. **Peabody Energy (NYSE: BTU)**, the largest US producer, has an EV/Ebitda ratio below three, and low leverage.

Where to make money in shipping

Container rates have soared, but tankers and bulk carriers are poised for recovery, says David J. Stevenson

The global supply chain sounds like a well-oiled machine. Starting with raw-materials producers such as farmers or miners, it progresses to manufacturers, extends to logistics operations (storage, transport and distribution), then ultimately reaches retailers and end users. When working properly, this supply chain makes the world economy go round by providing all the things we need for our daily lives.

Most people aren't aware about how complex – and potentially fragile – a supply chain can be. Things change quickly when disruption occurs, as it has in spades over the last two years. While there had always been localised hiccups, overall the system worked well until Covid-19 struck. Whether or not the various restrictions put in place by governments did anything to stop the virus spreading (I'm not getting into that argument here), they certainly put a bag of spanners in the supply chain, with shortages of labour, lorry drivers and computer chips for cars all making the headlines. That's resulted in surging inflation. Misfortune has also played a part. When the Ever Given, one of the planet's largest container vessels, got stuck in the Suez Canal in March 2021, it delayed hundreds of ships and significantly hit global trade.

"A host of disruptions to production and shipping interacted with soaring demand for goods to produce bare shelves and rising prices," says the Economist in summary. "Although goods have been in short supply, the number of measures tracking supply-chain woes has proliferated at an impressive pace in recent months. All paint a picture of historically high levels of disruptions, and an uncertain path ahead."

Container rates are still robust

While restrictions have reduced (although not totally gone), the situation is emphatically not back to pre-pandemic norms. US logistics firm Flexport has an "ocean timeliness indicator" that indicates how long shipments have taken to travel from a supplier's warehouse to their destination port's departure gate on freight routes from China to both Europe and America. Three years ago these journeys took just under 60 days to Europe and just under 50 to America. Driven by pandemic restrictions, transport times have since grown to 108 days and 114 days for Europe and America respectively, according to Flexport.

We've all seen scenes of cargo ships queuing up to unload their payloads. In turn, this has been a recipe for soaring freight rates. But the picture for shipping costs is quite mixed. Let's now examine it in greater detail.

The Freightos Baltic index (FBX) measures daily rates for shipping a 40-foot container (known as forty-foot equivalent units or FEUs) charged by freight forwarders for 12 main shipping routes through Asia, Europe and the Americas. Having marked time at around $1,500/FEU since its launch three years previously, the FBX took off in early 2020 and reached a mid-September 2021 peak above $11,000 (the actual numbers are less important than the scale of the increase). The FBX currently stands at around $9,500. Even though the order book for new container ships doubled last year, deliveries have not yet been enough

"The FBX container index soared from $1,500 to over $11,000"

Ever Given caused chaos when it got stuck in the Suez canal

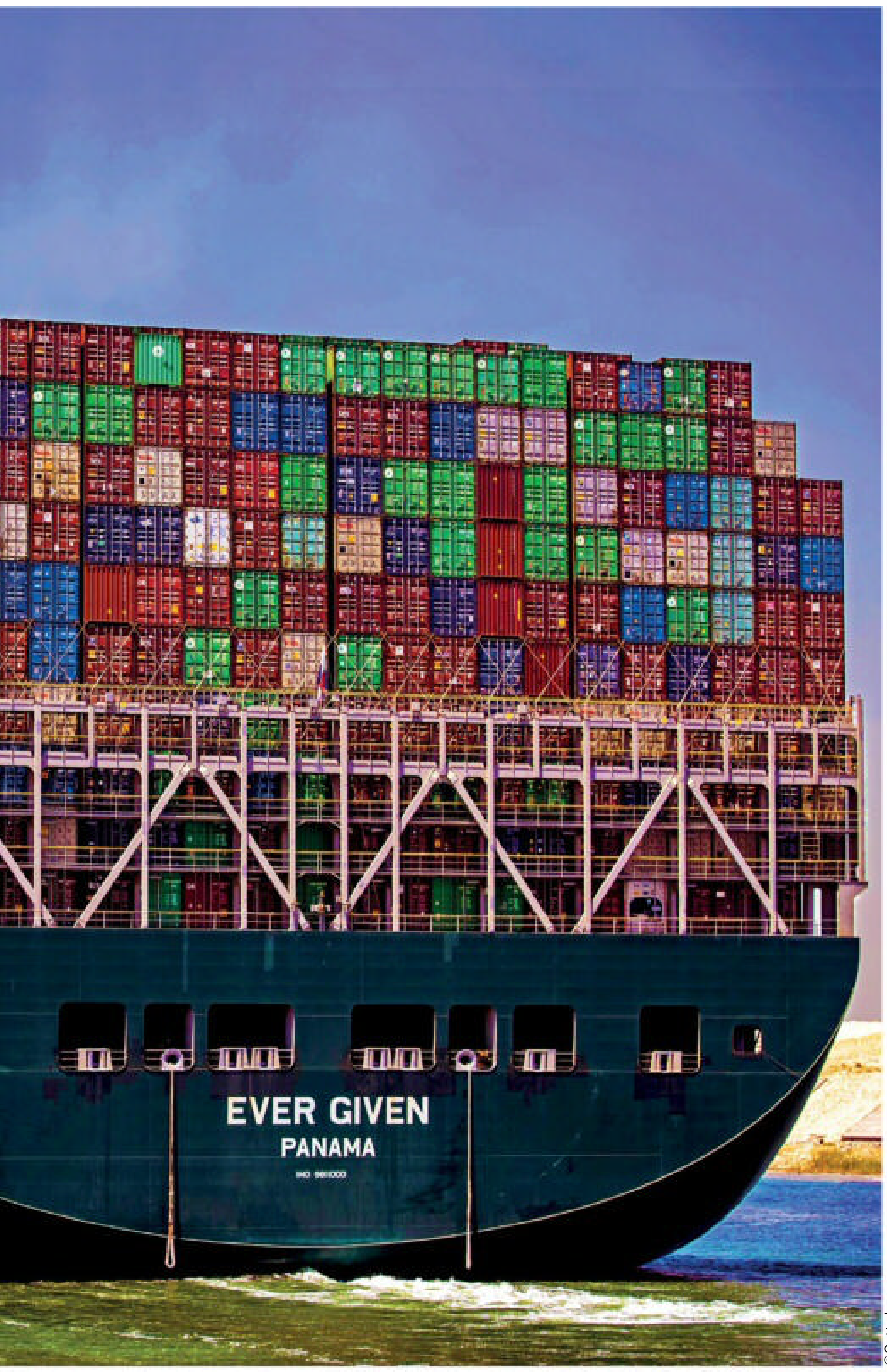
to make a difference, and sentiment and freight rates in this part of the shipping market remain strong.

Pessimism in the dry bulk market

However, a different tale is being told by the Baltic Dry index (BDI). This measures daily changes in the cost of transporting raw materials such as coal and steel by gauging multiple shipping rates across more than 20 routes for each of the BDI's component vessels. The index is composed of three sub-indices that monitor different dry bulk carriers. Capesize vessels are so big that they must transit oceans by rounding the capes of South Africa or Chile. Panamax can fit through the locks of the Panama canal and normally carry coal or grain. Smaller Supramax ships are usually used for less voluminous bulk materials and have a cargo capacity of around 50,000 to 60,000 deadweight tons (DWT). By comparison, the very largest ore carrier Capesize vessels go to 400,000 DWT, although the average capacity is closer to 150,000 DWT.

The BDI is often seen as a leading economic activity indicator, since it reflects changes in supply and demand for key manufacturing and construction materials, but it can be very volatile. From the early months of 2020 as the Covid-19 pandemic developed, the BDI rose more than ten times, broadly matching the move in the FBX. But since October 2021 it has tumbled by more than 60%.

Why? Part of the story is that China capped steel production in October, and stopped over-borrowed property developers from taking out more loans, curbing demand for raw materials. Yet it's not that simple. "Brokers and operators are blaming the weak market on lockdowns in China, the debottlenecking of ports in China, the Indonesian coal export ban,



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the easing of the Indonesian export ban, the Winter Olympics, Christmas and the Western New Year holidays, a sudden surfeit of ballasters [suppliers of ballast], rains in Brazil, a lack of rain in Brazil and Argentina, and even fog in the Bosporus," says Splash247, a maritime news website. "In other words, sentiment is almost universally negative but there is no smoking gun, no single cause that everyone can agree on for the fall in the market."

At least on the face of it, "the fundamentals of supply and demand remain in owners' favour". Last year, the fleet grew by just 4%, which "was hardly enough to cause this market meltdown on the back of such strong demand growth in 2021". In short, there's a lot of pessimism in the dry bulk market, even though fleet growth is set to slow to below 2% this year and next. Thus dry bulk has "the best supply-demand picture" of any shipping segment in 2022, says Randy Giveans of investment bank Jefferies on FreightWaves. "It's hard to see a situation where demand doesn't outpace supply."

Tankers are coming off a low base

The third major part of the shipping sector looks interesting as well. Freight rates in the tanker market also soared in early 2020 as Covid-19 kicked in, then dropped back, but are now picking up steam again. "Do I think tanker rates are going to be incredible [in 2022]?" says Giveans. "No. Will they be much better than in 2021? Of course. This has been literally the worst year in decades. I'm still conservative relative to most people out there, but it's about the rate of change. We're on our way to a recovery."

Granted, growth in the "dirty" tanker fleet could top 5% in 2022, says Braemar Research (dirty tankers carry crude, clean ones carry refined fuels). But then there's the unpredictable impact of shocks to the oil market. As Russia invaded Ukraine, the Baltic Dirty Tanker index rose from around 700 to around 1,500 (these are standardised units rather than monetary amounts). It has since fallen back to around 1,100, but that's still as high as it's been since April 2020.

"As Russia invaded Ukraine, the Baltic Dirty Tanker index soared"

The gain was mostly due to higher rates for mid-sized Aframax tankers that ply the areas directly affected by geopolitical tensions (the Black Sea, the Mediterranean and the Baltic Sea). Demand for Suezmax tankers (able to transit the Suez canal) have risen less, while rates for the self-explanatory very large crude carriers (VLCCs) that serve long-haul routes remain depressed. If global oil supply remains tight, extra demand for non-Russian crude due to sanctions could drive the cost of chartering tankers higher.

Two stocks to buy

Shipping rates can be very variable. Shares in ship owners can be even more so. This is a high-risk area that's not for the faint hearted. But if you can cope with substantial volatility in return for the possibility of making well-above-average returns by timing the market right, shipping stocks can be a very interesting and under-followed area of the market. That makes it well worth getting to know what drives the sector.

The ideal time to get into shipping shares is when they're sinking fast, accompanied by sentiment that's drowning in doom and gloom – so long as you understand what's driving it. Shipping is cyclical and prone to extremes due to its financial and operating leverage. Ship owners generally fund their fleets with debt, leaving their balance sheets highly geared. High running costs mean that owners' profitability is very dependent on charter rates. When these are low, profit forecasts are at their most pessimistic.

In truth, we've passed the low point in the current cycle. But with stock prices driven more by the pace of profit pick-up rather than by the actual earnings level, there could still be plenty of upside in some shipping shares as the backdrop improves.

Diana Shipping (NYSE: DSX) is a US-listed global shipper that specialises in the dry bulk business. Diana's fleet consists of 34 dry bulk vessels – mostly Capesize and Panamax – and it is due to take delivery of one new Capesize vessel this month. The market cap is $429m, compared to shareholders' funds of $393m as at 31 December 2021. Against this, long-term borrowings were a racy $424m.

However, analysts' average earnings per share (EPS) estimate for 2022 is $1.77 which compares with the current $5 share price, according to MarketWatch data. Even with a 2023 forecast EPS decline to $1.55, that's a forecast price/earnings (p/e) ratio of 3.2 – cheap in anyone's language.

Switching to tanker shipping, **Teekay Tankers (NYSE: TNK)** is the world's largest operator of mid-range tankers: Suezmax, Aframax and LR2 (Aframax size for clean products). It has just released quarterly results that include some signs of cautious optimism. "Many leading indicators for a tanker market recovery continue to improve," says its management. "Growing oil demand is expected to surpass pre-Covid-19 levels this year, while… crude oil production continues to increase and global inventories continue to decline… Positive tanker supply fundamentals include a small order book – particularly from the second half of this year… and increased scrapping."

The market cap is $443m compared with shareholders' funds of $838m as at 31 December 2021 (long-term liabilities totalled around $800m). While analysts expect the firm to be lossmaking this year, the average 2023 EPS estimate is $2.39 versus the present $13 share price, according to MarketWatch data. That would put Teekay Tankers on a very inexpensive forward p/e ratio of 5.4.

The month of change

The new financial year won't bring any relief to those feeling the cost of living squeeze – in fact, it'll probably just make it worse

Nicole García Mérida
Funds editor

Inflation in the UK is running at 6.2% a year (if you use the consumer price index – CPI), or as much as 8.3% (judged by the old retail price index-based measure that used to form the basis of the Bank of England's inflation target). Unfortunately, this month the cost of living squeeze is only set to get worse. Here's what's changing – and what you can do to lessen the impact.

The deep freeze on allowances

The personal allowance (the level of earnings at which you start paying income tax) will be held at £12,570 until 2026, while the higher-rate income tax threshold will be frozen at £50,270. This is "probably the biggest change coming in from 6 April", says AJ Bell. Usually these thresholds would increase in line with inflation "to offer some protection to taxpayers", but it's proved an irresistible stealth tax for the chancellor.

Similarly, on the asset taxation front, the capital gains tax (CGT) allowance remains frozen at £12,300 until 2026, while the inheritance tax threshold is also staying at £325,000, which will "start to bite into estates" that grow in value over the next four years. While the chancellor did announce plans to cut income tax from 20% to 19%, this is little comfort as it's not due until 2024.

"The income tax cut will be of little comfort as it's not happening until 2024"

The health and social care levy

The threshold at which national insurance (NI) starts to be paid will rise to £9,880 from £9,568 in April, and then to £12,570 (matching the personal allowance) in July. But from 6 April most workers will also start to pay the health and social care levy, which is an increase of 1.25 percentage points on NI contributions, driving rates from 12% on earnings up to £50,270 and 2% on anything above that to 13.25% and 3.25% respectively. Taking the changes to the NI threshold from July into account, a worker on £30,000 will be better off overall, paying £2,309 a year in NI contributions, down £143 from the current £2,452. However, someone earning £50,000 will pay £4,959, up £107 from their current contribution of £4,852.

Investors should note that dividend tax is rising along with the NI increase, which means basic-rate taxpayers pay 8.75% on dividend income; higher-rate taxpayers 33.75%; and additional rate 39.35%.

State pensions and energy prices

Households already struggling with rising costs will also have to deal with an increase in the energy price cap, which is a regulatory cap on the amount per unit of gas and electricity that utility companies can charge. Based on average household usage, it is rising by an eye-watering 54%, from £1,277 to £1,971 from 1 April, although of course that will vary depending on your individual usage. The regulator is playing catch-up with soaring energy prices, and there's no guarantee that October (the next time the price cap changes) won't see another significant increase.

As for pensions, the state pension will rise with the rate of inflation (as measured by CPI), but that's based on the figure from September 2021, which means an increase of just 3.1%. Meanwhile, the pensions lifetime allowance (LTA) – the total pension pot you can accumulate over a lifetime before being taxed at 55% on the excess – will be frozen at £1,073,100 for another four years.

April: the cruellest month

Practical solutions

There are few government measures to help, although do check your council tax band – houses in bands A to D in England will get a £150 rebate on their council tax bills in April. If you pay by direct debit, this will be paid into your account directly. Otherwise, contact your council. Also ensure you use your individual savings account and pension allowances this year – at least those shield you from CGT and dividend taxes.

Pocket money... beware of restrictive savings accounts

● Around two million workers will receive a pay rise this month as the national living wage (the name given to the minimum wage for those aged 23 and over) rises to £9.50 from £8.91. The boost equates to a pay rise of more than £1,000 a year for a full-time worker.

The national minimum wage, meanwhile, is increasing to £9.18 an hour, from £8.36 for those aged 21 or 22; to £6.83 from £6.56 for 18 to 20-year olds; and to £4.81 from £4.62 for the under-18s. The rate for apprentices will also rise to £4.81 from £4.30.

The increases still lag the "real living wage", which is reported by the Living Wage Foundation (LWF) and based on research by Loughborough University into what the public views as being required for an "acceptable standard of living". According to LWF, the real living wage is currently £9.90 an hour for workers across the UK, and £11.05 in London.

● Businesses in the hospitality industry are warning that they will "be forced to dramatically raise prices" as VAT returns to its pre-pandemic rate of 20% as scheduled this month, after the chancellor decided against maintaining the 12.5% temporary rate put in place to aid the sector during lockdown.

Trade body UKHospitality reports that many businesses in the sector are already having to push prices up to cope with soaring energy costs, fuelling concerns that consumers who also face an inflation-driven squeeze on their disposable income will have to cut back on eating out and staying in hotels, just as the sector is recovering from Covid-19.

● Savers looking to switch to an account with a higher interest rate to fight inflation "risk being caught out by the rise of punitive restrictions on accounts that pay the highest rates", says Will Kirkman in The Sunday Telegraph. Six in ten of the best deals (12% more than this time last year) now include restrictive terms, such as withdrawal limits. The number of savings accounts that can beat the 0.75% Bank of England rate is at its lowest level since November 2008, while no savings account comes close to keeping up with inflation.

That makes a new account from JPMorgan's digital bank Chase all the more appealing. The bank has just launched a market-leading easy-access savings account with a 1.5% variable rate, says the Financial Times. The account is open to existing Chase customers and those who open a current account with the bank. Savers can deposit up to £250,000 in total, while the current account offers 1% cashback on debit card spending for the first 12 months. As Sophie King of MoneySavingExpert points out, this is the first easy-access account paying a 1.5% rate to hit the market since 2019.

Mitigating the NI hike

If available, salary sacrifice could help decrease your taxable income

David Prosser
Business columnist

There is less than a week to go until national insurance contributions increase, but there is still time to take action to mitigate the tax rise. In last week's spring statement, chancellor of the exchequer Rishi Sunak refused to backtrack on his plans for a 1.25% increase in national insurance. But salary sacrifice schemes, offered by many employers, are a great way to reduce the impact of the increase, which comes into effect from 6 April.

In a salary sacrifice scheme, you give up some of your salary in return for your employer giving you a benefit of the same value. The most obvious example is a contribution to your pension plan, but some employers also offer benefits ranging from childcare support to the cycle-to-work scheme. In many cases, these benefits are not taxable. As a result, by entering into a salary sacrifice scheme, you are reducing the amount of income on which you will be taxed.

This is particularly valuable as national insurance contributions go up. For someone earning £50,000 a year, the 1.25% national insurance increase will add around £200 to their annual bill for the 2022-2023 tax year. However, by using salary sacrifice to increase their pension contributions by £100 a month, they could wipe out around £160 of that increase, without reducing the total value of their benefits at all.

Not all employers offer salary sacrifice and those that do may offer you the option of making pension contributions in the traditional way, rather than through this route. But where you have the option of joining a salary sacrifice arrangement, the national insurance increase boosts the case for doing so.

There could also be an income-tax benefit. Before the spring statement, the chancellor had announced that income-tax thresholds would be frozen until at least 2024. So as your salary rises each year, there is an increased chance of you moving into a new income-tax band and paying higher rates. Salary sacrifice schemes could mitigate this impact.

Keep the chancellor's hands off your wages

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Do the sums before you commit

There are some reasons to tread carefully. Many employers offer staff free life insurance, but this is usually calculated as a multiple of your salary; by reducing that salary in a sacrifice scheme, you are therefore reducing the amount of life insurance you're getting through work.

Another potential issue is reduced mortgage affordability. Lenders making calculations about how much they are prepared to lend you will typically take account of your salary, so by sacrificing some of it, you may be limiting the amount you can borrow. Also, you may need to check what salary sacrifice might mean for benefits such as statutory maternity pay, which is also calculated with reference to your salary.

Still, it is worth doing the sums. If your employer offers a salary sacrifice scheme, it will be able to give you a detailed breakdown of what joining will mean for your take-home pay and your tax bill. You can then make an informed decision about joining.

The good news is that employers have an incentive to offer these schemes. Their tax bills are rising too, since employers' national insurance contributions are also increasing on 6 April, so they're looking for ways to save money. Some may even choose to share their national insurance savings with staff who join such schemes.

A hole in your pension plans

Chancellor Rishi Sunak announced that the basic rate of income tax will fall from 20% to 19% in April 2024. It's the first cut to the basic rate in 16 years, and Sunak has said the tax cut would be worth £175 on average for 30 million people. So what's not to like about it? Well, if you're a pension saver, the reduction will mean less money going into your pension. That's because when you make a pension contribution your scheme is entitled to claim a top-up on your behalf from HM Revenue & Customs to the value of basic-rate tax.

Basic-rate taxpayers currently get 20% relief. That 1% cut therefore equates to a 5% cut in the upfront tax relief you'll enjoy – every £100 paid into a pension will result in a £119 contribution, rather than £120. Higher-rate taxpayers get 40%, while additional-rate taxpayers get 45%, and for them the impact is less significant as they can claim extra relief to the value of the difference between the basic and higher rates of income tax via their self-assessment tax returns. Since the higher rate isn't changing in 2024, they will not be losing out, although what they get in upfront relief and reduced income tax will shift slightly.

Basic-rate taxpayers, however, will need to decide whether they want to use the increased post-tax income they get from the income-tax cut to adjust their pension contributions in order to maintain their overall level of long-term saving.

News in brief... the triple lock returns

● The Office for Budget Responsibility (OBR) now expects the Treasury to receive £1.7bn of income tax from people over 55 using the flexible withdrawal rules to take money out of their pension savings in the 2021-2022 tax year. That's a £500m increase on its projection just six months ago, a footnote in last week's spring statement revealed. The numbers reflect the OBR's view that very large numbers of people have brought forward plans to cash in their pension as a result of the Covid-19 pandemic, raising fears that some savers could run out of money later on in retirement.

● Pensioners could see the biggest-ever rise in state pensions in April 2023. Last week, the government confirmed that its "triple lock" guarantee will be reinstated. The pledge to raise state pensions by the higher of 2.5%, average wage growth, or inflation (as measured by the consumer price index – CPI) was dropped for the 2022-2023 tax year, with pensioners receiving a 3.1% rise (in line with September's CPI reading) rather than the wage inflation figure of more than 8%, which was distorted by the pandemic. But with CPI now forecast to be around 7% in autumn, next year's state pension rise could be worth more than twice as much.

● Cash-strapped older people are being urged to check whether they are eligible for pension credit. The benefit is paid to pensioners whose income falls below a minimum level, but entitlements are not always calculated automatically. Government figures published this month reveal as many as 850,000 households are missing out, with £1.7bn of benefits going unclaimed last year.

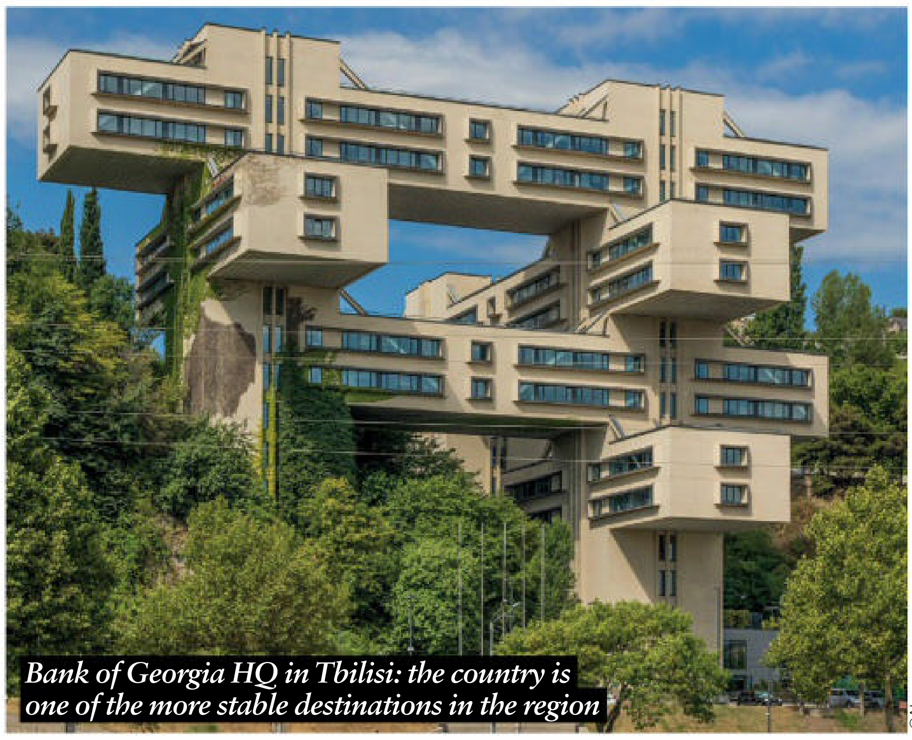
A cheap play on a robust economy

Bank of Georgia's London-listed shares are far more compelling than any British bank

Bruce Packard
Investment columnist

Investing in any bank's shares may seem a contrarian proposition at the moment. Investing in a bank in a country that has been invaded by Russia might then seem on the hazardous side of contrarian. Yet the Russian invasion of Georgia happened in 2008 and that means further military conflict is unlikely. Therein lies the opportunity.

Vladimir Putin's invasion in 2008 in support of South Ossetia (a Russia-friendly breakaway province) was a brief and one-sided escapade. Sadly it may even have encouraged the Russian tyrant to think that an invasion of Ukraine would be similar.



Bank of Georgia HQ in Tbilisi: the country is one of the more stable destinations in the region

©Alamy

A solid economy

Following the invasion, Georgia is now less reliant on Russia both as an export market (14% of exports) and as a source of remittance flows from Georgians working abroad who send money back home (now 12%, down from half ten years ago). The rich volcanic Georgian soil means that the country is less exposed to rising wheat prices or a shortage in fertiliser than many. Georgia is also less vulnerable to higher energy costs than in the past, after a decade of investment in hydro power dams. These made up 70% of energy production last year. In short, the difficult recent history since the fall of the Soviet Union has been a catalyst for the country to become more resilient.

The economy has been strong, with real GDP growth of 5% per year for the three years preceding the pandemic. Growth is forecast to be 3% in 2022, assuming the conflict in Ukraine is resolved in a few months' time, according to Galt & Taggart (G&T), Bank of Georgia's brokerage business (named after the characters in Ayn Rand's *Atlas Shrugged*).

Even in the worst-case scenario of a prolonged conflict in Ukraine and sanctions applied to Russia's oil and gas exports, G&T predict a 1% contraction in the economy. This may be too pessimistic, since Georgia is a relatively stable destination in the region. I've heard stories of flights to Tbilisi from Moscow and St. Petersburg being booked out as skilled Russians flee Putin's regime.

Managing the risks well

London-listed **Bank of Georgia (LSE: BGEO)** is one of two leading local banks. It's cheap and in fine shape (see below), although obviously not risk-free. Around 60% of the bank's balance sheet (both loans and deposits) is in US dollars or other foreign currencies. This would be an issue if the currency devalues steeply: borrowers who earn in local currency could struggle to service their dollar debts. Some of this risk is reduced by the 1.3 million Georgians who earn overseas in foreign currencies and send money home. In 2021, remittances were up by 25% year-on-year, and by 36%from 2019.

The central bank, which has been increasing its $4bn in foreign-currency reserves, is aware of the devaluation risk and requires banks to have higher capital weightings for foreign-currency loans. It has also set the maximum term of a foreign-currency mortgage to ten years, as a further incentive to encourage borrowing in lari, the local currency. Thus lower interest costs on foreign-currency mortgages are offset by higher principal repayments.

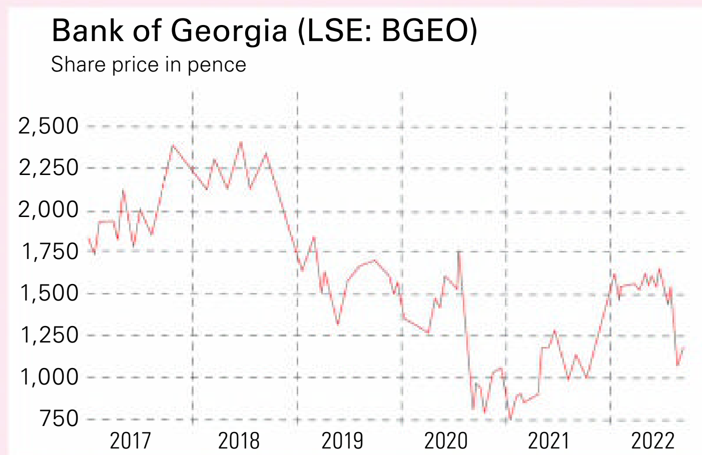
Sulkhan Gvalia, finance director of the Bank of Georgia, who used to be head of risk management, has just bought £200,000-worth of shares at around £12. I met him when I listed the bank on the London Stock Exchange a decade ago, and he struck me as a shrewd character with a common-sense approach to risk management that larger, supposedly more sophisticated, banks in the US and Europe could have benefited from. While the share price fell steeply during the financial crisis and Russian invasion, the bank didn't need a large rescue rights issue or rely on a government bailout. I own the shares and think that there is plenty of upside to compensate for the perceived risks.

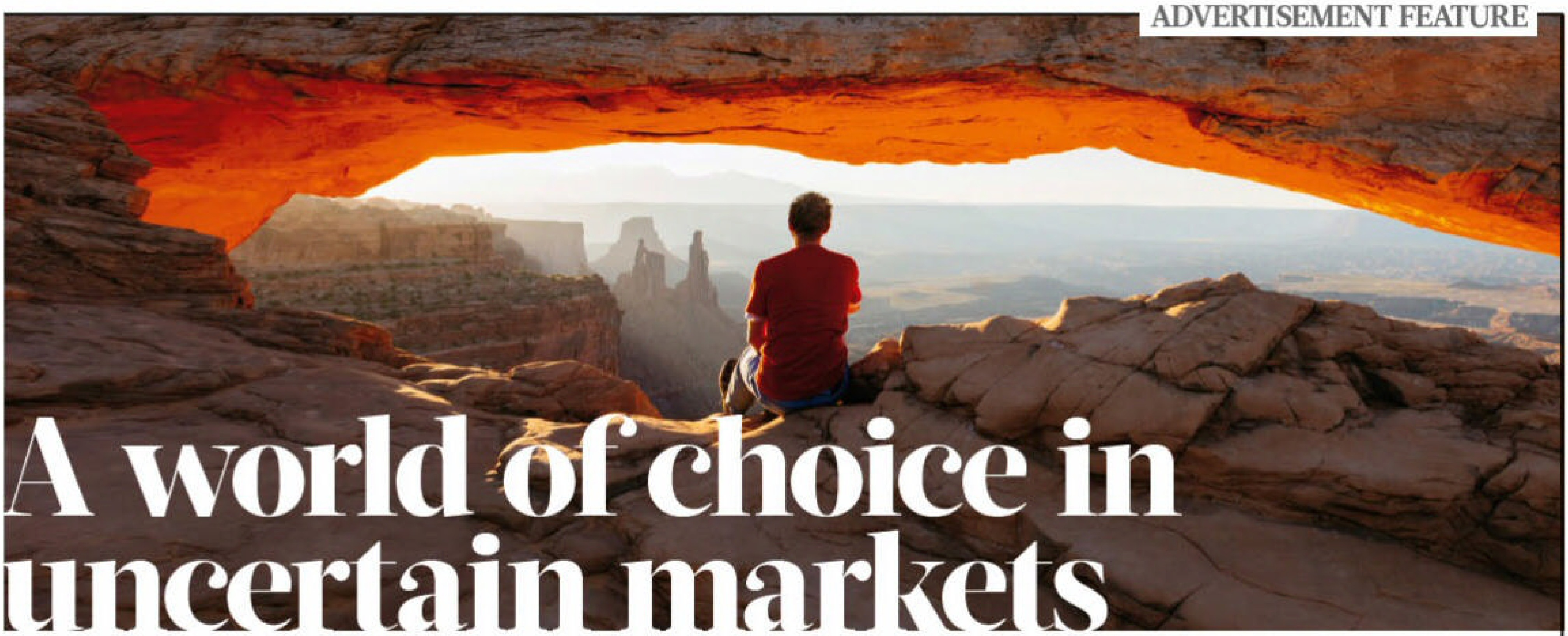
Cheap, profitable and dominant

The Georgian banking sector is dominated by Bank of Georgia and TBC Bank, both with 35% of deposits and loans. Bank of Georgia's net interest margins have been rising all through 2021, to 5.3% in the fourth quarter. That compares well with UK banks such as Lloyds and Barclays on below 3% and Asian banks HSBC and Standard Chartered on below 2%. Bad debts aren't a problem: at the start of the pandemic, it took a 400m lari "kitchen sink" provision (equating to 3.3% of the loan book or 16% of the current market cap of £590m). Now that profitability has recovered, return on equity (ROE) is over 25% and has averaged 20% over the last five years, compared with UK banks, which are struggling to achieve 10%. That high profitability means book value per share grew by 23% over the last 12 months, which again compares favourably with UK banks.

The shares look cheap, even for a sector that has been unloved by investors for decades, trading on less than three times 2024 forecast earnings and 0.8 times tangible book value. That latter multiple is similar to UK banks, with their much lower ROE. The central bank has removed the restriction on Georgian banks returning capital to shareholders, so the declared dividend for 2021 is 3.81 lari (or 88p at the current exchange rate of 4.3), giving a dividend yield of 7.3%

Clearly the market believes that Bank of Georgia's high profitability is not sustainable and likely to fall. But there is an old rule of thumb when it comes to investing in bank shares. It is better to own a bank with high market share in small, concentrated urban populations (Hong Kong, Singapore, Australia and the Nordic region being the best examples) than a bank with small market share in a large country (eg, Metro Bank in the UK). Banking is a commodity business, and the most significant driver of returns is competition.





A world of choice in uncertain markets

Why a globally diversified basket of equities might be worth the risk over the long term

There's a lot of truth in the old saying that investing is not about market timing but time in the market. If you have a sufficiently long time horizon for investing via a diversified basket of stocks then you should – if the past is anything to go by – benefit from a return that is in excess of cash (at the very least). The events in Ukraine are of course deeply disturbing and one doesn't have to be a glass half-empty type to think the impact of said events on stockmarkets may get even worse in the next few months. That said, stockmarkets do have a tendency to be turbulent, volatile and unpredictable. Indeed, that very volatility is why you might reasonably expect to receive a superior return over cash and even bonds. Look at a chart for a well-diversified global index such as the MSCI ACWI (which includes some emerging markets) over the last 10 years and you might be struck by two observations.

Risky but rewarding

Firstly, there have been at least eight sell-offs where the index has lost around 10% from peak to trough during those 10 years, some of which I would wager investors have already completely forgotten about. In January 2018 for instance, this widely used index peaked then spent much of the year declining until it hit a low in late December 2018, after a near-20% decline. Other lowlights include the global financial crisis and the Covid panic.

However, look at that chart again and you'd also be struck by the general trend - upwards, substantially so, with the index more than doubling over the last decade.[1]

The next ten years might be different of course, but history suggests that equities are worth the risk, provided you are patient. A study by investment firm Moneyfarm[2] looked at returns from investing in the MSCI World Index (another global index) since 1970. This analysis tried to calculate the odds of losing money by investing in developed market equities on a year-by-year basis. In the first five years, the likelihood of a loss was 15% to 35%. But once you get past seven years, that probability slips to below 5%. By 12 years, it's almost non-existent.

Stocks for the long run

To repeat: equities are always risky and always volatile, and if your time horizon is below five years (i.e., you might need that money urgently within the next five years), then maybe equities are not right for you. Any length of time beyond that and equities, especially a portfolio of internationally diversified equities, can produce very superior returns.

The evidence for this comes from the Credit Suisse Global Investment Returns Yearbook produced by academics Elroy Dimson, Paul Marsh, and Mike Staunton. Their most recent report looked at 35 national markets[3], 23 of which start in 1900. The bottom line? Over the long-time span of the study, the extra return from investing in risky assets versus low-risk bonds was 3.2% a year, while the historical equity risk premium against treasury bills (short-term government debt) was 4.6%. In future, the academics expect a lower equity vs bills premium of around 3.5%. They also note that from 1900 to 2021, the annualised real (i.e. after inflation) return for investing in UK equities has been about 5.4% a year, though that dropped to 3.8% from 2002 to 2021.

Take a global view

These studies also emphasise the importance of international diversification. Between 1974 and 2021, in terms of risk vs reward (as measured by the Sharpe ratio), UK investors have benefited from investing internationally. In fact, the only investors not to do so were Americans, who would have been better off sticking with their home market, which has produced stunning results. That's also why most global indices are heavily exposed to US markets – US equities represent between 50% and 70% of the value of most global indices because it's the most successful, liquid, and accessible market in the world.

How can investors build an international portfolio? You can buy a fund which simply tracks a global stockmarket index, but there are trends that an 'automated' index tracker might miss. For example, the bull market of the last decade has been powered by high-growth tech stocks. By contrast, cheaper stocks in less glamorous sectors underperformed. In the next ten years that pattern – growth good, value bad – might (or might not) reverse sharply, as it has in recent months. If inflation stays high for years, new trends may emerge. We might even see new geographical patterns emerge alongside those changes in style (value vs growth). Maybe Europe is too cheap, maybe China might continue becoming more important?

Active global equity fund managers argue that they might be better equipped to chart these changing patterns. But whatever the future holds one thing is for certain – a portfolio of diversified equities is likely (though by no means certain) to provide a superior return compared to the boring alternatives of cash and bonds. And if equities are a smarter home for the long term, then an international mix of businesses in one easy-to-access portfolio is probably a great place to start.

To find more about Alliance Trust visit **alliancetrust.co.uk/rise**

1 MSCI ACWI factsheet, 28/2/22
2 Moneyfarm, 15/3/22
3 Credit Suisse Global Investment Returns Yearbook 2022

Invest in the world's fastest-growing markets

A professional investor tells us where he'd put his money. This week: Avo Ora, Pictet Asset Management, picks three Asian growth stocks

Pictet's Asia ex-Japan strategy is a long-only, high conviction and fundamentally driven portfolio. We focus on cash-generative businesses and invest in both structural compounders and cyclical-inflection opportunities. Asian equities are attractive due to the strong earning potential of companies and appealing valuations, especially relative to developed markets. A focus on stock selection has been the driver of outperformance and the holding period for each stock is typically three to five years.

Asia remains the fastest-growing region in the world. It is among the most advanced in terms of e-commerce and fintech. The companies below showcase three of the most interesting picks across a variety of sectors.

A key player in renewables

Innovation across the region is on show in the renewable energy sector. **Sungrow (Shenzhen: 300274)** is a key player in the renewable energy manufacturing chain. It supplies inverters to solar module makers, as well as energy storage solutions (ESS) to solar farm operators. The company is looking to expand its inverter market share from both global and domestic leaders, such as Huawei.

Sungrow has benefited from strong tailwinds from global solar farm growth and the accompanying need to capture and store solar energy via its ESS business, as well as from China's long-term policies of increasing green energy. We believe current energy prices are likely to accelerate the renewables roll-out. What seem to be high near-term multiples (a forward price/earnings (p/e) ratio of 30 times estimated 2023 earnings) belie the value in the name due to its long-term, structural growth.

A safe play on China's real-estate rebound

Midea (Shenzhen: 000333) is a white-goods manufacturer whose main product is air conditioners. We believe the company has been unfairly punished due to its exposure to the Chinese real-estate market and, more recently, to rising input costs. However, in our view Midea has managed past surges in input costs (copper) well and will now look to mitigate adverse effects on margins through efficiency gains, price increases and product mix.

We also believe that in order for China to reach its growth targets, it will have to address the real-estate market's issues tactically and adjust policies so that buyers come back into the market. With Midea's strong cash flow and net cash position, this should be a safe way to gain exposure to a Chinese property market rebound. At 10.6 times forecast 2023 earnings and a 4.3% dividend yield, it provides both the safety of value and the upside of growth in an otherwise difficult market.

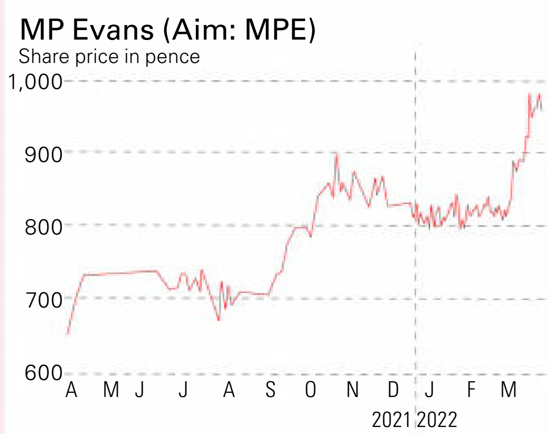
Asia's best insurer

We view **AIA (Hong Kong: 1299)** as Asia's best insurer. A policy of financial liberalisation means there is a strong long-term structural tailwind to growth in the Chinese insurance market. Although the stock has been affected by Covid-19, with the added difficulty of its agents being less able to meet clients in person, we are now seeing the beginning of loosening restrictions in Hong Kong.

"Asian equities have strong earnings potential and appealing valuations"

Given AIA's strong presence across Asia, we consider the stock a good way to play an opening up of travel in mainland China and Hong Kong. In addition, valuations should be considered reasonable at 1.7 times 2021 book and 13.5 times earnings.

If only you'd invested in...



Palm oil plantations owner **MP Evans (Aim: MPE)** should benefit from rising demand, says the Mail on Sunday. Most vegetable oils come from palm, soy, rapeseed and sunflower. Almost half of sunflower oil is grown in Ukraine and will be disrupted by Russia's invasion. Palm oil prices were already rising amid supply shortfalls in Malaysia and have now soared to above $1,800 per tonne, from a long-term average of $750. Higher palm oil prices will mean higher costs for everything from margarine to shampoo, but should boost profits for producers. MP Evans' share price has risen 43% in the last twelve months.

Be glad you didn't buy...

Shares in online wine retailer **Virgin Wines (Aim: VINO)** have slumped to their lowest price since listing one year ago after the firm announced lower profits in the six months to December, says The Drinks Business. Sales of £40.6m were comparable to 2020 and up by 55% from 2019, but pre-tax profits fell from £3.4m to £3.2m. A trading update in February that warned of lower full-year sales and profits expectations due to "uncertain trading", "numerous headwinds related to cost pressures" and issues with Christmas deliveries caused shares to drop by 23%. They are now down by 44% over the past year.

A severe kind of bank stress test

Putin's central bank chief was reportedly blindsided by the launch of the invasion of Ukraine and forced to stay in her job. Managing the crisis looks like a deeply unappealing task. Jane Lewis reports

Elvira Nabiullina, known for her symbolic outfits, fittingly wore "funereal black" as she warned, ashen-faced, a month ago, of the devastating hit to the Russian economy from Western sanctions. The Russian central-bank governor left it open to speculation what she really thought about the war. But now we have a better picture, says Bloomberg. Reports suggest that Nabiullina sought to resign in the chaotic days after the invasion, "but was told to stay" by Vladimir Putin – reinforcing the narrative that the conflict was orchestrated by a relatively small cadre of Kremlin officials. Despite her reported closeness to the president, Nabiullina was apparently blindsided. She had conscientiously run through "every kind of stress test", a senior former official told the Financial Times. "But not a war."

©Getty Images

"Her qualities as a central banker are like those of a great conductor"

Building Fortress Russia

Nominated this month for a new five-year term, Nabiullina, 58, is now left "to manage the fallout from a war that's quickly undone much of what she accomplished in the nine years since she took office", says Al-Jazeera. It looks a deeply unappealing task for a central banker who, until this year, had pulled off the tricky feat of becoming highly respected in the international community while retaining Putin's trust. Nabiullina had her mettle tested early by the sanctions following Putin's 2014 annexation of Crimea. Defying sceptics (and, reportedly, death threats), "she fought against capital controls and set the rouble free" – later succeeding in getting inflation down to the lowest in Russia's post-Soviet history. It was a brave call to hike interest rates to 17.5% and plunge the country into recession, says the FT. But Nabiullina – one of Russia's few senior female officials – showed "steely determination" and stuck to her "ultra-conservative monetary policy".

It paid off big time. Under her stewardship, the central bank amassed one of the world's biggest stockpiles of foreign currency and gold – a $643bn war chest that underpinned Putin's "Fortress Russia" strategy. But Nabiullina also wooed the West – taking what steps she could to open up the economy, while waging an effective crackdown on corrupt Russian banks. Publications including Euromoney and The Banker hailed her as one of the world's best policymakers. Having started her career at the USSR Science and Industry Union, Nabiullina moved to the Ministry for Economic Development and Trade before going into private banking; by the turn of the millennium she was CEO of Sberbank. Putin appointed her as minister for economic development and trade in 2007. In 2013, she was installed at the central bank. "She brought the central bank up to absolutely international standards," says one economist. In 2018, European Central Bank chief Christine Lagarde – a fellow opera-lover then at the IMF – likened her qualities to those of "a great conductor".

Brooching the question

Apparently "soft-spoken" in person, Nabiullina communicates not just through words but through her clothing, says The Observer. She's particularly keen on using brooches to drop hints about her policy thinking. In May 2020, as the government urged people to stay at home to combat Covid-19, she wore a house-shaped brooch. A month later, after cutting rates, she chose a dove. Amid increasing hardship at home, Russians will be studying Nabiullina's "rotating collection of brooches" even more closely than usual, says the FT. She has let it be known that her priority is protecting Russian citizens. But tension is mounting, says The Daily Telegraph. "With cracks emerging" in Putin's "inner circle", Nabiullina is coming under increasing pressure from the West "to change sides" and defect. That would be a huge blow to Putin's war efforts. But it's frankly a dangerous position to be in.

The worst trades in history... the LTCM collapse

John Meriwether was born in 1947 in Chicago and studied at Northwestern University before graduating with an MBA from Chicago Booth School of Business. He then joined Salomon Brothers as a bond trader and pioneered a strategy known as fixed-income arbitrage, eventually rising to the position of vice-chairman. A scandal in the bank's bond trading division, over the placing of fake bids for US government bonds, ultimately resulted in Meriwether being fined $50,000. He then decided to strike out on his own and formed his own hedge fund, Long-Term Capital Management (LTCM).

What was the trade?

LTCM specialised in statistical arbitrage strategies. It would identify two types of securities, mostly bonds, that were very similar and whose prices followed each other closely, and then waiting for their prices to diverge. It would then seek to profit from that by buying futures and derivatives contracts that bet on the prices re-converging. This would usually mean buying one security that looked relatively cheap and shorting (betting against) the one that looked expensive. LTCM also sought to leverage the returns with borrowed money.

What happened?

Between 1994 and April 1998 the strategy worked well – $1,000 invested (and re-invested) in the fund would have grown to $2,850. The high levels of leverage, however, and the move into riskier assets, such as emerging-market debt, meant that when the prices of many of the US and global bonds they were betting on started to diverge from May 1998 onwards, the fund started to haemorrhage money. When Russia defaulted on its debts and the markets went haywire in September 1998, the Federal Reserve was forced to step in to bail out LTCM over fears that allowing it to collapse would cause a wider financial crisis.

Lessons for investors

The bail out has been criticised for rewarding failure and even sowing the seeds of the global financial crisis in 2007-2009. Meriwether and his partners were, however, effectively wiped out as the amount they received was only enough to cover borrowings. Overall, $4.6bn in investors' wealth was destroyed. The fall of LTCM highlights the dangers of using borrowed money to leverage returns and placing too much faith in complex financial models.

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Six Delicious Wines for Easter Celebrations

Robert Rolls and Jack Chaddock run a tight ship, and they play to their strengths in the classic regions of France this month. Every wine on this page is a benchmark expression of its type, and, in addition, each has a certain je ne sais quoi about it that makes it a true Robert Rolls discovery. Of course, you cannot expect wines of this calibre to tumble into your hands unless you have nurtured relationships with these estates for decades, which is key to the RR portfolio. Having said this, you, the MWWC fan, can certainly expect these bottles to arrive smartly on your doorstep, as this is the whole point of our elite wine club, so do what you do best and place your order for this scintillating collection today.

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 £219.00 (saving £17.50 per case).** It's a chance for you to try them all, and it is the most popular choice with readers of *MoneyWeek*.

~~£17.95~~ £16.16

2019 Château Langlet Blanc, Graves, Bordeaux, France

Dating back to 1868, the Langlet vineyard is a wonderful hillside estate situated on deep gravel, free-draining soils. This dramatic terrain imbues this Sauvignon Blanc with both its mineral freshness and piercingly adroit citrus flavours and a hint of tropical fruits. Aged in the barrel it adds a smattering of carefully-judged oak augmentation to these vital ingredients, resulting in a thoroughly rewarding wine with much more gravitas than is apparent on the first sniff!

CASE PRICE: £193.92

~~£23.50~~ 21.15

2020 Saint-Véran, Roche Mer, Domaine Gilles Morat, Burgundy, France

Mrs Jukes happened to be passing my tasting bench when I had this wine in my glass, and she immediately grabbed a second sample to savour. This is a super-elite Chardonnay from one of the master craftsmen of the region. With both 40 and 61-year-old vines contributing to the ravishing flavours found here, the surprise is that no oak is used at all. The fruit is so stunning it needs no seasoning, and the result is a deluxe Saint-Véran at the very top of its appellation.

CASE PRICE: £253.80

~~£15.95~~ £14.36

2020 Enfant Rebelle, Pinot Noir Rosé, Antoine de la Farge, Loire, France

With the lightest of colours, Antoine reckons that the skin contact evident in this blushingly beautiful wine happens in the back of his truck as opposed to the winery, which is why Rebel Child is such a stunning wine. The light touch extracts the minimum of tannin with the maximum of flavour. At only 12.5% alcohol, it is a far cry from some of the powerhouse rosés of Provence, and there are genuine wild strawberry and rose petal notes here, too. Grab as much as you can.

CASE PRICE: £172.32

~~£14.95~~ £13.46

2017 L'Origine, Madiran, Famille Laplace, Château d'Aydie, South West France

This is yet another astonishingly well balanced and elegant wine, medium-weight and velvety smooth without a trace of tannin to be found! I love this wine, and it is a new find for me, and I will never forget the experience. Apparently, 20% Cabernet Franc is employed to temper the lusty Tannat grape, and if only this were possible across the region, I might find myself drinking more of these wines. It is a stunning anomaly that you simply must taste.

CASE PRICE: £161.52

~~£20.95~~ £18.86

2020 Côte de Brouilly, Jean-Paul Brun, Beaujolais, France

My palate went into orbit when I tasted this wine. I am a lifelong J-P Brun fan, but nothing prepares you for the exuberance and accuracy of this wine, and it left me breathless with excitement. Drinking now but with enough depth and build-quality to last for a good few years, this is a dark, indulgent, old vine Gamay with broad brushstrokes of glamorous blackberry and mulberry fruit, and I stopped counting how long the finish was when I ran out of numbers.

CASE PRICE: £226.32

~~£24.95~~ £22.46

2018 Coteaux Bourguignons, Joseph Roty, Burgundy, France

Unlike regular Coteaux Bourguignon wines, this is a 100% Pinot Noir creation from Roty's own old vines. Do not expect an easy ride here. Roty's wines are collectors' items and patience is required for them to blossom. Austere, angular, intensely rewarding, and ever so eclectic, the fact that you can buy this wine for a £20-prefix is beyond me, so if you have never tasted the legend that is Roty, you must dive in. If you already know this magnificent estate, you will have already picked up the phone.

CASE PRICE: £269.52

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Five relaxing spa sabbaticals

Take a sound bath in Berkshire, or learn Tai Chi and meditation in Kent. Jasper Spires reports

A deep sleep in a stately home

At Cliveden House in Berkshire, a stately country home offering a new "OTO Sleep Experience", the relaxation "begins with one foot over the threshold", says Lucy Kellaway in the Financial Times. "In the grand hall a fire crackles, guests are having tea," low light beams in through the windows upon the lavish furnishings. But this is only the start of the soothing you will experience once you are rubbed from head to toe in CBD oil and massaged into deep relaxation. A stay includes a complimentary bottle of Champagne, the opportunity to feast in the "splendid dining room with its fine chandeliers and fluted fold columns", and a well-earned rest in a four-poster bed. Those more spiritually inclined can also try a "sound bath", in which you lie beneath a quilted duvet and are then immersed in the ringing sound of many Tibetan gongs. *Prices per stay from £995. See clivedenhouse.co.uk*

©Cliveden House

The foundation for a healthier life

The Oxon Hoath Tai Chi and Meditation Retreat in Kent is a perfect place to realign your overworked chakras, says Rosie Fitzmaurice in the Evening Standard. It offers beginners instruction in the ancient Chinese martial art, which promotes healthy living through guided breathing techniques and slow movement. Tai Chi helps to calm the body, then meditation classes work on calming the mind, helping to ease stress levels over the course of the two-day retreat. The practices are ideal for working out knots from sitting hunched over your desk, and the retreat's inclusive package will give you the perfect foundation for leading a fitter and healthier life. Two evening meals made using completely organic home-grown produce are included, which also help to flush out toxins and reduce stress. *Prices start from £375. See taichiway.co.uk*

©Keith Forster/Tai Chi Way

Walk with the alpacas in the Lakes

Armathwaite Hall Hotel and Spa in the Lake District is a countryside escape for nature lovers, says Susan d'Arcy in The Times. Set against a 400-acre backdrop of woodlands and with breathtaking views of Lake Bassenthwaite, this "unpretentious Victorian mansion" employs its own "forest-bathing" specialist to take guests on tours that show you how to turn a walk in the woods into a meditative experience. You can also enjoy some tree climbing, a swim in the nearby lake, or a walk among the resident alpaca population. The spa features an indoor infinity and hydrotherapy pool and a hot tub, says Jessica Gibb in The Sun. The formal Lake View Restaurant makes the most of local seasonal produce and has "fantastic views over the hotel's grounds". *Prices per night start at £265. See armathwaite-hall.com*

©Armathwaite Hall

Off-grid pottery and yoga

Luna Wilds, an "off-grid" spa just outside Brighton in East Sussex, is a new retreat built with reclaimed materials, says Jane Dunford in The Guardian. It's run by local yoga teacher Laura Brown and its wellness camp offers daily spa treatments, a chance to sweat out some stress in a wood-fired

©Luna Wilds

sauna and outdoor bathtubs, and, of course, some guided yoga classes. Luna Wilds' "Wild Creativity Break" also offers guests the chance to learn pottery skills while mastering their yoga and meditation practices. The food is "plant-based and plentiful", cooked in an outdoor kitchen and eaten around evening campfires, or on walks through the South Downs. *A basic pre-pitched tent and blow-up mattress costs £30, and prices for the course itself start at £325. See lunawilds.co.uk*

Calming down among the llamas

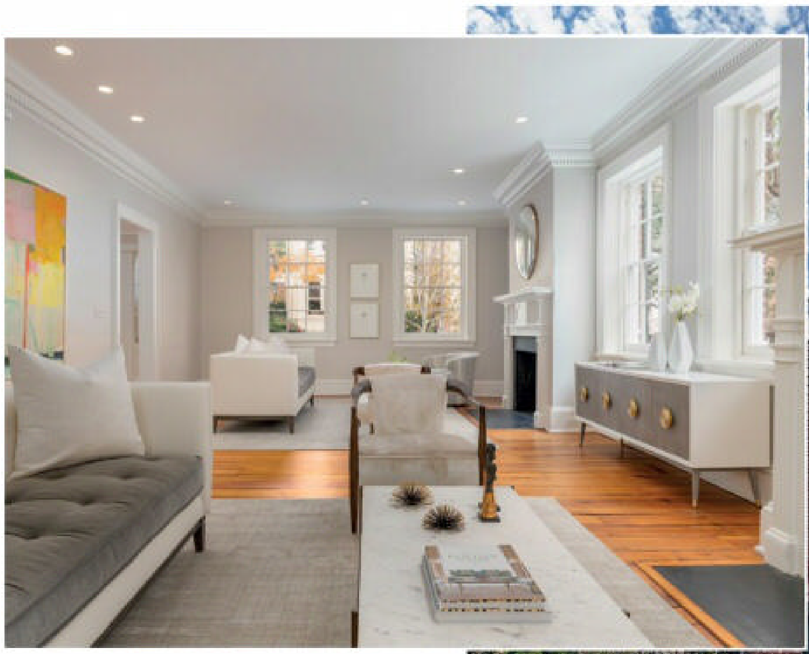
Godshill Park Barn on the Isle of Wight is surrounded by an Area of Outstanding Natural Beauty, so it's the "perfect place to relax and reconnect with nature", says Izzie Deibe in the Daily Express. It also offers a number of retreats year-round, including ones offering yoga classes, "energy medicine" and even sewing escapes. The inclusive bed-and-breakfast retreat is on the south of the island and is host to a new course leader who can help guests practice everyday mindfulness. Most days begin with recuperative meditation sessions, slow walks along incredible beaches, and feature a range of "pampering" treatments, including massages, reiki healing practices and facial cleanses. You can also take guided walks among the llamas and alpacas, take a ride in a horse-drawn carriage, or practise clay-pigeon shooting and golf. The accommodation features furnishings made from the wool of local sheep, as well as luxuries such as Egyptian cotton sheets. *Double rooms start from £188 for two nights. See godshillparkbarn.co.uk*

©Godshill Park Barn

This week: energy-efficient properties – from a modern house in Gwynedd, Wales, with a heat-recover

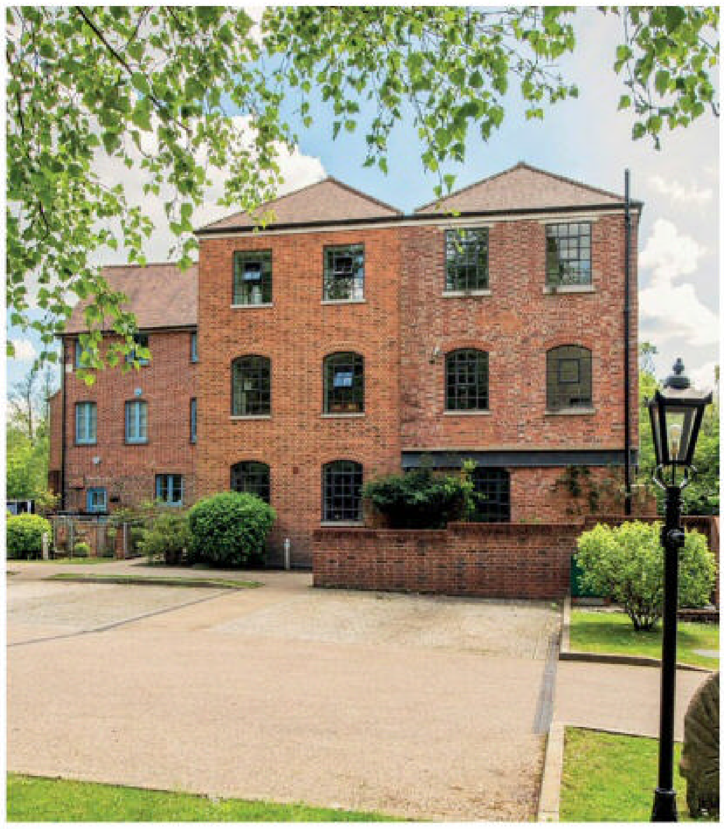
Cornhill Gardens, Leek, Staffordshire. This modern property was built in 2016. It is clad in Western Red Cedar with a sliding glass wall and is highly insulated, with an energy exchange heating and cooling system and underfloor heating. 3 beds, 2 baths, open-plan kitchen/living area, garden. £725,000 The Modern House 020-3795 5920.

Apperley Farmhouse, Stocksfield, Northumberland. A Grade II-listed, 15th-century property with a biomass heating system for which the owners receive quarterly payments from the Renewable Heat Incentive scheme. 6 beds, 3 baths, 3 receps, study, stables, gardens, orchard, 11.79 acres. £2.2m+ Sanderson Young 0191-223 3510.



Georgetown, Washington DC, America. This Federal house dates from 1810 and has been renovated to include exterior and interior insulation, geothermal heating and cooling, a store water management system and triple-paned Argon windows. 4 beds, dressing room, 5 baths, 2 receps, dining room, kitchen, recreation room, wine cellar, 1-bed flat, swimming pool, garden. £9.086m Washington Fine Properties +1 202-494 8157.

y hot-water system, to a 15th-century farmhouse in Northumberland with biomass heating



Hevyr House, Betchworth, Surrey. A major part of a Grade II-listed former corn mill that has been converted for maximum energy efficiency, with a water-source heat pump, rainwater harvest tank for grey water use and a water-fed, underfloor-zoned heating system. It retains its original steel beams and has exposed brickwork and wood floors. 3 beds, 3 baths, open-plan living area/ bespoke kitchen, access to communal outdoor seating and mill pond. £995,000 Jackson-Stops 01306-887560.

Ham Island, Old Windsor, Windsor, Berkshire. An A-rated, energy-efficient riverside house with solar PV energy and a heat-recovery ventilation system with pollen filters. It has a floating staircase and a modern wood-burning stove. 4 beds, 3 baths, recep, dining kitchen, garden. £1.895m Knight Frank 01344-988292.

Uggle House, Scotforth, Lancaster, Lancashire. An award-winning "passive house" ten minutes from Lancaster. It has a smart mechanical heat-recovery ventilation system, a rainwater-harvesting system, and a combination of solar PV and solar hose water panels. The receptions have floor-to-ceiling windows and French doors opening onto the garden. 4 beds, 3 beds, open-plan living area, breakfast kitchen, workshop. £950,000 Fine & Country 01524-380560.

Plas Henddol, Friog, Fairbourne, Gwynedd, Wales. A contemporary house with views towards Barmouth. It has floor-to-ceiling windows, wood and tiled floors, a wood-burning stove, an air-source heat pump, underfloor heating, a heat-recovery hot-water system, triple glazing and PV panels. 3 beds, 4 baths, study/bed 4, 2 receps, kitchen, greenhouse, outbuildings, gardens, woodland, 1 acre. £825,000+ Fine & Country 01938-531006.

Savills, Jenniston House, Ladybank, Cupar, Fife. A modern house with views towards the Lomond Hills. The house has a grand reception hall with an oak staircase, floor-to-ceiling windows, French doors that open onto the garden, hot water provided by an air-sourced heat pump, and underfloor heated, insulated concrete floors. 8 beds, 4 baths, dressing room, 4 receps, breakfast kitchen, games room, 2-bedroom cottage, workshop. £1.75m Savills 0131-247 3738.

Bentley's exquisite new hybrid

The Flying Spur delivers a ride that is even more silky smooth than you'd expect. Jasper Spires reports

Bentley has always been synonymous with silky smooth motoring, but the Flying Spur Hybrid transcends older models – there is "nothing more luxurious than the sound and feel of running around on battery power alone", says Richard Ingram for Auto Express. The Flying Spur model isn't solely electric just yet – the 34bhp electric motor is combined with a V6 engine – but the car defaults to electric-vehicle (EV) mode every time it is started, meaning that it moves off without making any noise, says Mike Duff in Piston Heads. The result is a ride that is "almost freakishly quiet" and effortless, while delivering near-supercar levels of performance. The car goes from rest to 60mph in 4.1 seconds and on to a top speed of 177 mph – staggeringly fast for a vehicle weighing just over two and a half tonnes.

It's the quality of the drive that really defines the experience though. The V6 engine is down two cylinders from what traditional fans are used to, but they probably won't be missed. Bentley reckons that cabin noise under gentle electric acceleration is "just half that of the hardly rowdy V8". The handling is good too, with a ride that's "pliant and plush over bigger undulations" and impressive body control for such a large machine, which keeps the car from drifting as you sail from A to B.

It looks great, too. "The Flying Spur certainly knows how to make an entrance," says Steven Ewing in CNET. It is "long and low, athletic and elegant", and represents the very essence of high-class engineering. The new model retains Bentley's signature look, but there is also a huge range of customisable options – you can choose everything from the wheel size to the LED lights and pick from a myriad of pearlescent paint jobs. "There are literally 56 billion ways to configure a Flying Spur (really!), so please, go wild."

The car's interior is plush too, and features a 12.3-inch touchscreen affixed to the dash, or if you prefer housed in the "very cool" optional Bentley Rotating Display, which includes navigation systems, battery-life display and "eco-driving packages" to help cut down on fuel costs. However, it's the classic Bentley features that continue to stand out. "Run your fingers across the threads of the hand-stitched seams. Pore over the intricate knurling on the stalks and knobs. Feel the weight of the plungers that open and close the air vents." Turn on the massaging seats. Those "silky hides, wood veneers and polished metal accents are the stuff of Champagne-fuelled dreams", and exemplify the exquisite care Bentley takes to provide for the driver.

Prices from £170,000. See: bentleymotors.com

"The Flying Spur is long and low, athletic and elegant, and represents the very essence of high-class engineering"

Wine of the week: two cunning blends

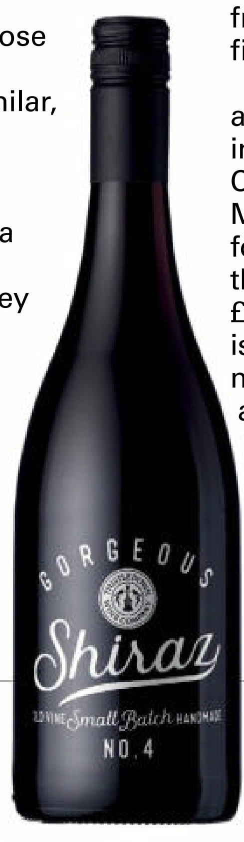
2021 Thistledown, Gorgeous Old Vine Shiraz, Small Batch, Riverland, Australia

£14.75, vagabondwines.co.uk

Matthew Jukes
Wine columnist

The shiraz or syrah grape variety is equally at home flying solo or being used as a component in a blend. It dominates the partnership in this thrilling wine by taking up 86% of the bottle, and the remaining proportion is a rather unlikely 14% zibibbo, or muscat. I have never tasted a shiraz/zibibbo blend before, and it occurs to me that the name Gorgeous is entirely apt here. This is a wine that majors on fresh berry fruit notes drawn from a single vineyard of old-vine shiraz while the zibibbo adds lustre and gloss, a little like those wines that employ viognier to do a similar, but perhaps more perfumed, task.

While some find shiraz/viog blends a little heady and fulsome, I doubt they would have a problem here because the white-grape addition augments the silkiness and slipperiness of this delicious wine. With only 13.5% alcohol on board, there is a freshness here, too, that lifts the finish and completes the picture.



From the same stable, there is another spot of cunning blending in the form of 2021 Wilder & Wilder, Cloud Cuckoo Land Montepulciano/Nero d'Avola (£69 for a case of six bottles, thefinewinecompany.co.uk; £12.99, haywines.co.uk). The blend is a three-way combo of 60% montepulciano, 28% nero d'Avola and 12% barbera. There is always something new to discover in this wonderful world of wine!

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

Play of the week

Straight Line Crazy

Written by David Hare
Bridge Theatre, London, until 18 June

Urban planning and transport may not sound like the most natural topics for a play, but then Robert Moses was no ordinary planner. For nearly four decades he was in charge of various planning projects in the state of New York, using his power and influence to build hundreds of miles of motorways, as well as a large number of parks and bridges – at the cost of displacing an estimated 250,000 people. Venerated by some as a visionary, he grew to be hated by many for his perceived arrogance and belief in the absolute supremacy of the car over public transport. In *Straight Line Crazy*, directed by Nicholas Hytner, David Hare examines Moses' life and legacy.

Rather than trying to capture the broad sweep of Moses' life, Hare chooses to focus on just two key moments at the start and end of his career. In the first half we see Moses (played by Ralph Fiennes) in 1926, attempting to overcome opposition from plutocratic locals to his plans to open up the then exclusive area of Long Island with a series of highways that would enable people from the city to travel there. In the second half, it's 1955 and, although firmly in charge, Moses is facing a challenge from journalist Jane Jacobs (Helen Schlesinger), who spearheads opposition to his plans to bulldoze over Washington Square in New York City.

Fiennes (pictured, right) gives an energetic performance as Moses

©Manuel Harlan/Bridge Theatre

> *"In the age of Build Back Better and amid controversy over infrastructure, the play is a timely contribution"*

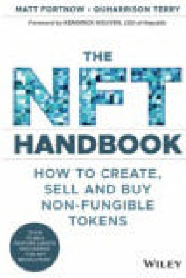
In an attempt to help us bridge the gap between the two periods, Hare gives us two supporting characters: Moses' assistants Finnuala Connell (Siobhán Cullen) and Ariel Porter (Samuel Barnett). In the early section, they are young and idealistic, clearly full of admiration for their domineering and eccentric, but effective, boss. By the end, however, while publicly supportive of Moses, privately they are worn out and disillusioned as a result of the personal sacrifices they have had to make and from Moses's callousness and unwillingness to accept the shift in the public mood.

To a certain extent this approach works, helped by energetic performances from Fiennes and Cullen. Danny Webb steals the first act as New York governor Al Smith, the pugnacious wheeler-dealer who Moses admired above all else. Alisha Bailey's Mariah Heller also helps fill us in on some of the human costs of Moses' messianic vision. Still, a few additional scenes set in the intervening years might have helped the audience understand more about how Moses' vision ended up turning into an obsession. In the age of Build Back Better, and amid growing controversy over our inability to execute infrastructure projects, *Straight Line Crazy* is certainly timely, but it could have done with a few more twists and turns to keep the audience onboard.

Reviewed by Matthew Partridge

The NFT Handbook

How to Create, Sell and Buy Non-Fungible Tokens
Matt Fortnow and QuHarrison Terry *Wiley £18.99*



Non-fungible tokens (NFTs), which are essentially digital files linked to a blockchain ledger, are the latest "hot" investment in the art market. Many collectors are willing to pay huge sums for them. But there is still a lot of uncertainty about what exactly NFTs are, and whether they constitute a fad or a serious new asset class. In this book, tech entrepreneur Matt Fortnow teams up with marketer QuHarrison Terry to demystify the subject.

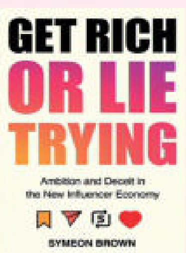
The book is primarily aimed at those looking to create and sell NFTs, rather than those thinking of buying them. Indeed, the sole chapter on buying NFTs is barely more than ten pages long, and dances around the core issue of whether they will have any long-term value. Overall, the book does nothing to dispel the idea that this is a bubble.

Still, if NFTs are a bubble, then it's logical that artists will try to cash in while people are still willing to pay large sums for them, and the book provides a lot of useful information for those wishing to do so, including on the potential legal pitfalls. The first few chapters in particular provide a good overview of the whole area, and give some of the reasons why the underlying technology could prove useful in combating theft and forgery, two major problems that the art market has always struggled to deal with.

Book in the news... the nasty and deceitful business of social-media "influencing"

Get Rich or Lie Trying

Ambition and Deceit in the New Influencer Economy
Symeon Brown
Atlantic Books, £16.99



The rise of the "influencer economy", fuelled by social media, has "changed the way we work, rest and play", says Chris Stokel-Walker in New Scientist. This has been a "boon" for some people – it has transformed celebrity culture and helped make millionaires of "people who might otherwise be trapped in a dead-end job" – but there is little dispute that it has been "far from a uniformly good thing for society". As *Channel 4 News* journalist Symeon Brown argues in this book, "the seedy side of social media can be as harmful as it is helpful".

Brown's book focuses on interviews, which makes it more about human stories than statistics, says Houman Barekat in the Financial Times. This approach yields some "telling psychological insights into the hopes and aspirations of wannabe influencers", and the tendency for their blithe "can-do" attitudes to lapse "all too easily into delusion". One would-be influencer, we learn, "frittered away" almost 10,000 hours on trying (and failing) to become an expert in internet marketing. Brown reserves "particular scorn" for influencers who, as he sees it, have "piggybacked on good causes for their own ends". The picture that emerges is one of the "emptiness of the social-media economy".

The book is "well researched", but I wish Brown had given his material more room to breathe, as the broader argument becomes lost in details, says John Phipps in The Sunday Times. He tries to look for a higher meaning in his stories by invoking the "spectres of modernity", such as "digital monopolies, financial catastrophes and viral pandemics", but "can't quite find a way to connect these structural factors to his individual case studies". Social-media influencing is clearly a "nasty and deceitful business", but in the end, the story is not more complicated than the fact that "there's a fool born every minute and, in the neighbouring ward, someone more ruthless who will be happy to take their money".

The scrap over a £400m Italian pile

Feuding Italian aristocrats are making *Succession* look like child's play

Princess Rita has lived an "intriguing" life

©Alamy

Soaring energy bills and the rising cost of living has made my bank account look increasingly threadbare. There is a silver lining, however – at least there won't be much left for my relatives to squabble over when I die. The same cannot be said for the estate of the late Italian aristocrat Prince Nicolò Boncompagni Ludovisi. The fighting over his legacy has already been said to make the fictional family feuding in the TV drama *Succession* "look like child's play" and has forced the family's £400m palace onto the auction block, says Peter Conradi in The Times.

The contest pits Princess Rita, his third wife, against her late husband's three sons from his first marriage. Relations between the prince and his sons had already begun to deteriorate when he was alive. They took a turn for the worse when the prince decided to reduce their share of his inheritance in a dispute over a debt. This poisoned relations between them to such an extent that two of them snubbed their father's funeral; the oldest, Francesco, was in jail at the time over an unrelated matter. The difficulties have escalated since then.

Rita lived an "intriguing" life before she met Nicolò, says Angela Giuffrida in The Guardian. She was married to the US congressman John Jenrette until he was convicted of taking a $50,000 bribe; she then went on to act in several films and mini-series, studied at Harvard Business School, and wrote three books. She also became a real-estate broker before crossing paths with Nicolò, whom she married in 2009. The prince wrote in his will that she had "the right to stay in the property for the rest of her life and, if sold, the proceeds were to be split between her and his sons".

> "The price, at $538m, may have been too high, but any owner will need deep pockets to cover the cost of restoration. In short, mere millionaires need not apply"

A toxic legal wrangle

The sons weren't too happy about this arrangement, and following a "toxic legal wrangle" a judge ordered the property to be auctioned off – and what a property it is. It is located on the site of what was once the home of Julius Caesar and includes a sculpture by Michelangelo. Its spiral staircase was designed by the baroque architect Carlo Maderno, who also designed the facade of St Peter's Basilica. But all these riches pale in comparison to Caravaggio's *Jupiter, Neptune and Pluto* mural, which was commissioned by the villa's first owner, Cardinal Francesco Maria Del Monte, to adorn the ceiling of his laboratory.

Still, both sides in the dispute will have to wait a little while longer before they can get their hands on any money as the first auction in January failed to get any offers, says Nell Clark on America's National Public Radio. Despite the artistic and architectural riches on offer, and the potential for further "extraordinary" archaeological discoveries in the grounds, the price, at $538m, may simply have been too high. Indeed, although the starting bid has recently been cut by up to 25%, any owner will need "deep pockets" to cover the $12.5m cost of extensive restoration, as well as more basic maintenance. In short, mere millionaires need not apply. This is a project for billionaires only.

Quintus Slide

Tabloid money... the hero of the *Pride of Hull*

©Alamy

● "Huge congratulations" to Harpreet Kaur (pictured) for winning the final of the BBC's *The Apprentice*, says co-host Karren Brady in The Sun on Sunday. Kaur receives £250,000 in investment for her business, along with a partnership with host and tycoon Alan Sugar. "It is well deserved." She and finalist Kathryn Burn have "proved themselves as true businesswomen". So isn't it annoying that, according to Kathryn, some fans of the show have turned their triumph into a political row for pointing out that the female contestants have posed in bikinis on Instagram? Kathryn is entitled to "celebrate her glamorous side as well as working hard and owning a company". But some viewers say she can't pose in a bikini and be a businesswoman, "as if it's simply not possible to have both brains and beauty". What an "outdated and archaic" concept.

● The arbitrary firing of 800 P&O ferry crew at a minute's notice was a "pretty miserable story", but as with so many stories there are two sides, says Frederick Forsyth in the Daily Express. The manner of the dismissal was "brutal and stupid". But while around-the-table discussions with the crew would have been nice, the company felt compelled to do something. P&O has made huge losses, reportedly over £100m. Quite why is something of an enigma. Regardless, the Dutch skipper Eugene Favier of the *Pride of Hull* offered a ray of light amid the gloom, backing his crew, closing the doors and refusing to let P&O aboard to throw them off the ship. If he is fired for his actions, no doubt another shipping company will "snap him up".

● The Caribbean tour of the Duke and Duchess of Cambridge was an opportunity to engage with the issue of slavery, says Jan Moir in the Daily Mail. But not, as they did, by "going back to the future in a colonial-era, Pathé News reel-style jaunt featuring William in the tropical dress of his old regiment… Dear God, it couldn't have been more colonial if he had worn a pith helmet and driven a tank through the streets of Kingston". It was made worse when the prince expressed "sorrow" at slavery, echoing his father by saying it "stains" British history. He didn't mention the aid we have given Caribbean Commonwealth countries, nor how Britain led the world in abolishing slavery. "How I wish, just for once, somebody would."

Bridge by Andrew Robson

The Avarice of Pairs

At duplicate pairs, you score a bottom if you make Seven Hearts while all other pairs make Seven Notrumps. The extra ten points make all the difference (as scores are effectively ranked).

Dealer South — Neither side vulnerable

North: ♠KJ96 ♥QJ6 ♦653 ♣Q72

West: ♠10532 ♥109 ♦K9874 ♣108

East: ♠Q874 ♥42 ♦QJ2 ♣J964

South: ♠A ♥AK8753 ♦A10 ♣AK53

The bidding

South	West	North	East
2♣[1]	pass	2♦[2]	pass
2♥	pass	3♥	pass
4♣[3]	pass	5♥[4]	pass
5♠[5]	pass	6♣[6]	pass
6♦[5]	pass	6♠[7]	pass
7NT[8]	end		

1 Any hand with 23+ points, or an upgrade for shape.
2 Negative or, as here, waiting bid.
3 Natural, second suit.
4 No Ace to control bid, North shows slam interest with his upgraded Heart and Club cards.
5 Control bids, looking for the grand slam.
6 The Queen of Clubs must be gold dust facing partner's second suit.
7 Control-bidding a King is fine after partner has control-bid the Ace.
8 Playing Pairs and hungry for the extra ten points.

West led a passive ten of Hearts, and declarer observed that Seven Hearts would make whenever trumps were two-two (the fourth Club could be ruffed), Clubs three-three, or the Queen of Spades could be ruffed out. Seven Notrumps was more problematic, only making trivially when Clubs were three-three. Declarer won the Queen of Hearts, crossed to the Ace of Spades, back to the Knave of Hearts, and cashed the King of Spades discarding the ten of Diamonds.
He cashed all his remaining Hearts and the Ace of Diamonds.

East was squeezed in the black suits on the final red winner.Throw the Queen of Spades and dummy's Knave would be promoted. Let go a Club and declarer had four Club tricks.
All 13 tricks made and a top.

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

Sudoku 1097

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

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

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

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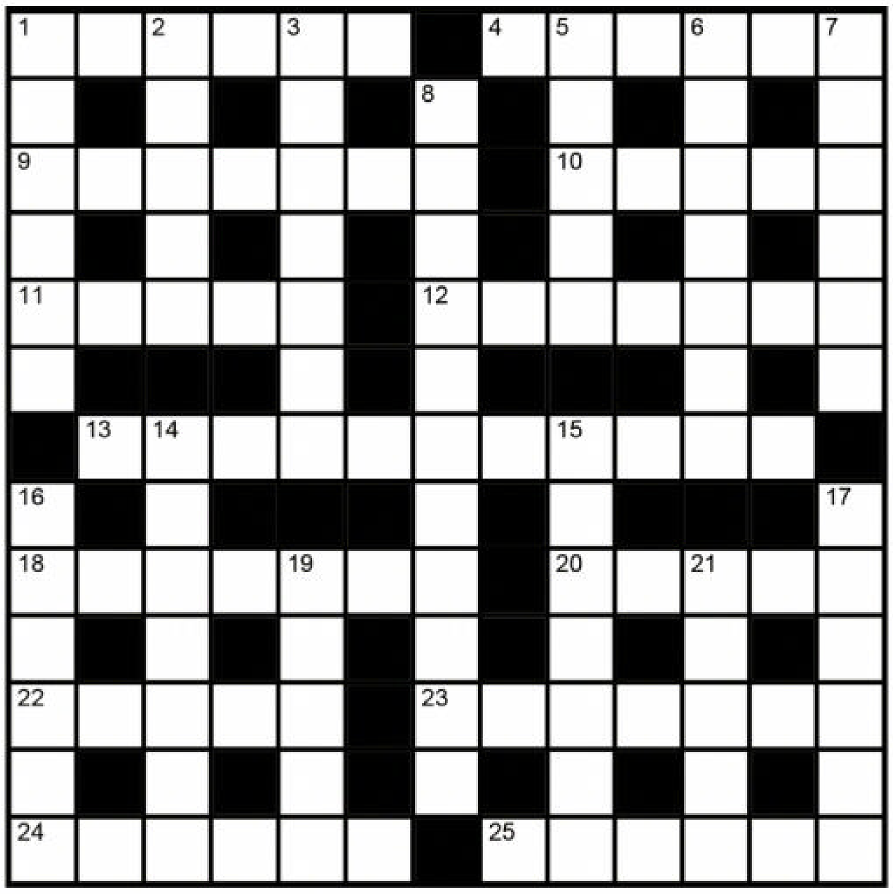
Tim Moorey's Quick Crossword No.1097

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 11 April 2022. Answers to MoneyWeek's Quick Crossword No.1097, 121-141 Westbourne Terrace, Paddington, London W2 6JR



Across clues are mildly cryptic while down clues are straight

ACROSS
1 Country with uncontrolled rabies? (6)
4 John painting man in Casablanca (6)
9 Adult runs repeatedly back and falls (7)
10 Middle East person returned pronto (5)
11 Praise former customs endlessly (5)
12 Swears about one form of therapy in forces (7)
13 Bent coppers with place in society (11)
18 Mature pudding from a long time in the past (4, 3)
20 Live with awful Marion, blowing her top (2, 3)
22 What taser shot may end with? (5)
23 Scholar corrupting English nation? (7)
24 Rogue to be announced in tabloid (6)
25 Some hate a serious puzzle (6)

DOWN
1 Power tool (6)
2 Sunday lunch? (5)
3 Panicking (2, 1, 4)
5 (Of a relationship) not steady (2-3)
6 Capital of Corsica (7)
7 Craving for a drink (6)
8 Thirteen (6, 5)
14 Not precise (7)
15 A couple (7)
16 Former president (6)
17 A cutter of, say, roses (6)
19 In the main (2, 3)
21 So long in Spain (5)

Name ....

Address ....

....

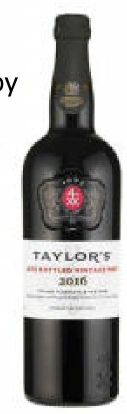
Solutions to 1095

Across 7 Double-parking *first letters of popular pubs* 8 Doc *do + C* 9 Sweeping *misleading def* 10 Hit song *misleading def* 12 Metro *met +Ro* 14 Aired *re inside aid* 16 Suppose *sup + pose* 19 Panicked *Pa nicked* 20 Abs *abs(ent)* 22 German measles *deceptive*

Down 1 Co-ed 2 Abacus 3 Messina 4 Dalek 5 Skopje 6 Ensnares 11 Imitated 13 Hundred 15 Enigma 17 Praise 18 Skint 21 Sled.

The winner of MoneyWeek Quick Crossword No.1095 is: Liz Daniels of London

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



The Russian bear bites back

Sanctions bring unintended consequences that the West will not like

Bill Bonner
Columnist

The bear, it turns out, has teeth

©Getty Images

Last week the rouble rose nearly 7% against the dollar when Russian president Vladimir Putin demanded that "hostile states" pay for Russian energy imports in roubles. Natural gas and oil prices soared on the news. What's going on? Let's take a guess.

The West, led by the US, sanctioned Russia's dollars. Russians who had no part in Putin's war suddenly found their money was no good. They couldn't access their foreign bank accounts. They couldn't go about their business as usual – even as they were offering valuable goods and services to overseas buyers. Financially, they were cancelled. It was inevitable Russia would consider its options.

Economist Michael Hudson comments: "If you sanction a country, you force it to become more self-reliant and, across the board, from agriculture to dairy products to technology, Russia is forced to become more self-reliant and at the same time to depend much more on trade with China for the things that it is still not self-reliant in". In other words, the US is bringing about the opposite of what it intended. Sanctions are driving Russia and China together. The US goes to China and says please don't support Russia or we will sanction you. China says, fine. And so the decline of the US empire continues one blunder at a time. The US feds are actively undermining the dollar with inflation and reducing its reliability further with sanctions. It is only a matter of time before a replacement is found. Cryptos? A gold-backed rouble? The yuan? We'll see.

> *"The decline of the US empire continues one blunder at a time"*

Meanwhile, fixed-income investments – in dollars – are taking a beating. The Bloomberg Global Aggregate index, a benchmark for government and corporate debt total returns, has fallen 11% from a high in January 2021. That's the biggest decline from a peak in data stretching back to 1990, surpassing a 10.8% drawdown during the financial crisis in 2008.

In the 1970s, investors thought they could protect themselves from inflation by buying stocks. Stock prices held more or less steady throughout the decade. But inflation steadily reduced real values. By the end of the decade, adjusted for inflation, investors were down about 60%. But in an inflationary period, bonds get killed even deader than stocks. In the 1970s, bonds were called "certificates of guaranteed confiscation".

And now, over the last 14 months, \$2.6trn has been confiscated… but from whom? Well, from savers, retirees, people with fixed-income investments. And consumers. Consumer spending is said to be 70% of US GDP, which puts it at about \$15trn. At today's inflation rate, consumers will have \$1.21trn "confiscated" this year. The inflation rip-off continues. Who benefits? The confiscator: the elite that controls the US government and uses it to shift wealth from the public to itself.

The bottom line

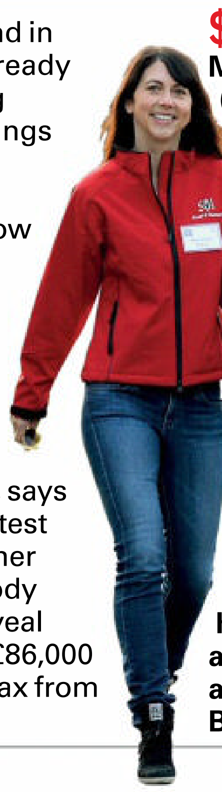
£100m The cost to Transport for London from a four-year deal mayor Sadiq Khan previously agreed with unions that raises annual pay for 15,000 London Underground workers by retail price index (RPI) inflation plus 0.2%. That translates into an 8.4% pay rise from April.

\$25.9bn The value of global music revenues last year, an 18.5% rise on 2020, and the most since records began in the 1990s, according to the International Federation of the Phonographic Industry. Paid subscriptions rose by 80 million in 2021 to a total of 523 million.

€2.4bn How much the French government has paid private consultants for reports and advice since 2018, drawing criticism from the Senate. The government defended the spending, arguing that Britain spends 40 times more on private consultants.

\$125m The sale price of Little St James and Great St James islands in the US Virgin Islands. The late disgraced financier Jeffrey Epstein reportedly paid \$20m for the latter Caribbean island in 2016, having already built swimming pools and lodgings on the former.

£430,000 How much Victoria Beckham, aka Posh Spice, earned in 2020 from royalties tied to the Spice Girls' back catalogue, says The Sun. The latest accounts from her music firm Moody Productions reveal Beckham paid £86,000 in corporation tax from her earnings.



©Getty Images

\$436m How much MacKenzie Scott (pictured) donated to housing non-profit organisation Habitat for Humanity last week, in one of the billionaire philanthropist's largest publicly disclosed donations, says The Wall Street Journal. Scott, who was formerly married to Amazon's founder Jeff Bezos, has a net worth of around \$54.4bn, according to Bloomberg.

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FUTURE