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MoneyWeek

MAKE IT, KEEP IT, SPEND IT

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Can we stop the superbugs?

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13 January 2023 | Issue 1138

Britain's best-selling financial magazine

From the editor...

There is never just one cockroach; nasty surprises often come in pairs or packs. So after one of the worst years for investors in decades, which saw global stocks lose a fifth of their value and both US stocks and bonds fall by more than 10% for the first time since at least the 1870s, could we be in for another awful year?

History, cockroaches notwithstanding, suggests not. US stocks, which set the tone for world markets, have only slipped for two successive years on four occasions since 1928: in the Great Depression, World War II, the 1970s oil crisis, and the bursting of the dotcom bubble. To gauge what might lie ahead, ignore the seasonal forecasts for 2023, which are invariably wrong and usually designed to drum up interest in the banks or funds making them.

China's reopening will have a pivotal influence on the global outlook

©Getty Images

> *"Tune out most of the financial news: it hypes us up and makes us trade too much"*

A source of inflation

Instead, tune out most news (it just hypes us up and makes us trade too much) and keep an eye on key variables likely to affect the medium- and long-term outlook in this new era of high inflation and low growth. One is China (see page 16). Now that it has reopened, there is scope for growth to bounce back sharply, stoking global inflation thanks to its still enormous consumption of commodities. This scenario would reinforce the bullish case for three metals that are used in batteries, a topic David explores on page 20. Strong growth in China, of course, implies not only upward pressure on global inflation, but also that interest rates could rise further than expected.

That may also occur if consumption proves resilient, underpinning demand. Household spending comprises roughly 70% of GDP in the US and 60% in the UK. It is very rare for us to be about to enter recession, or be in it already, with labour markets in such solid shape and household savings still looking healthy following the pandemic. Energy prices are falling, too. Last week's news from Next and other retailers (see page 6) suggests that so far, at least, fears of a household-spending meltdown may prove misplaced.

More good economic news: business investment, which has been running at 2015 levels recently, could soon pick up. The Institute of Directors' economic confidence index published on 31 December showed that investment intentions had ticked up to a six-month high. Almost a third of firms plan to invest more this year; 21% are contemplating cutting it. Business investment is crucial to raising productivity, which in turn is key to long-term growth and prosperity.

Technology to the rescue

Note too, says David Smith in The Times, that a Deloitte survey of chief financial officers showed that a net 79% expected their firms to invest more in digital technology, which is always associated with improvements in productivity. Such technology could certainly play a key role in fending off one of the main threats to humanity: artificial intelligence is helping us tackle antibiotic resistance, which could spell the end of modern medicine, as Alex explains on page 22.

Coming back to stocks (see page 4), the key question is to what extent valuations anticipate all the good news, an issue I will return to next week. In the meantime, though, there is enough to suggest that the light at the end of the tunnel need not be an oncoming train.

Andrew Van Sickle
editor@moneyweek.com

Monster mascot in the mail

Heavy metal group Iron Maiden is joining the select list of musicians to appear on British postage stamps, says BBC News. Royal Mail has released a collection of 12 stamps, four of which show Eddie, the band's iconic monster mascot. Eddie, who has appeared on all Iron Maiden's album covers, features in various guises, including one (pictured) as a soldier during the Charge of the Light Brigade in the Crimean War for the 1983 single *The Trooper*. The other stamps feature pictures of the band on tour between 1980 and 2018. The set of four Eddie stamps will cost £5.60, while the set of eight is priced at £11.70. Iron Maiden has sold more than 100 million records, including *Bring Your Daughter to the Slaughter*, which was the number-one single in the week after Christmas in 1990. Other bands who have featured on their own stamp issue are The Beatles (2007), Pink Floyd (2016), Queen (2020) and The Rolling Stones (2022).

Cover illustration: Howard McWilliam. Photos: Claridge's; Getty Images

©Getty Images; Royal Mail

Good week for:

Terry Smith, Britain's best-known fund manager, was paid £36.4m last year after his firm Fundsmith reported record profits of £58.2m, says Bloomberg. Fundsmith also paid £251.7m for investment-management services to Fundsmith Investment Services (FIS) in Mauritius, where Smith is resident. How much FIS may have paid to Smith is not public information.

A black family that was forced from beachfront land in California 100 years ago will receive $20m after regaining ownership and agreeing to sell it to Los Angeles county, says The Times. The **Bruce family** bought a plot in Manhattan Beach in 1912 and set up a resort. They were hounded by racists for years before officials seized the land in 1924, claiming it was needed for a public park.

Bad week for:

A bungled marketing ploy cost **James Watts**, CEO of BrewDog, almost £470,000, says The Guardian. In 2021, the brewer hid 50 gold cans in cases of beer, with Watts describing them on Twitter as "solid gold", and was slated after it turned out they were gold-plated brass. Watts later offered winners a cash prize of £15,000, paid by him. About 40 took that instead, he said this week.

Noma, a Copenhagen restaurant that is regularly ranked as the world's best, will close in 2025 due to the "unsustainable" economics of modern fine dining, says The New York Times. The business no longer works "financially and emotionally", chef and co-owner René Redzepi (pictured) told the paper. A tasting menu at Noma costs DKr5,300 (£632) per person, including wine.

Bulls are cruising for a bruising

Alex Rankine
Markets editor

History suggests the bear has unfinished business

©Getty Images

So much for the "roaring Twenties", says Larry Elliott in The Guardian. This decade started with bold predictions that the global economy would throw off its post-2008 torpor to usher in "a flowering of new technologies and a colossal boom". Instead, we face the second recession in three years, with "just about every" economic indicator flashing red. The US can borrow money more cheaply for ten years than for one year, a phenomenon known as an "inverted yield curve" that has been a reliable omen of recession for decades.

A short decline so far

Bulls are hoping that markets, at least, are already over the worst, says Tom Stevenson in The Telegraph. Stocks have bounced since hitting a recent bottom in October. The argument runs that because stocks run ahead of the real economy, better market trading might herald "green shoots of recovery" for everyone else later this year.

But history is not on the bulls' side. The current market decline is 12 months old, yet bear markets since the late Victorian period have typically lasted 19 months, with recessionary downturns (the type we are likely to be facing) lasting an average of 22 months. Stocks also typically fall by 33% in bear markets, compared with a roughly 20% global decline so far this time. Corporate earnings forecasts look implausibly optimistic: earnings dropped by 25% in the dotcom bust in 2000 and by half during the 2008 financial crisis. So "expect the October low to be retested".

The 2022 slump may only be the start, agrees Barry Ritholtz on The Big Picture blog. Between 2010 and 2021 America's S&P 500 index gained 330%, or 13% annually, not including dividends. That is "nearly double" historical average returns, so a period of more subdued growth would be unsurprising. Investors overlook the power of "mean reversion" – the tendency for asset returns to retreat to their long-term average eventually – at their peril.

The decade ahead

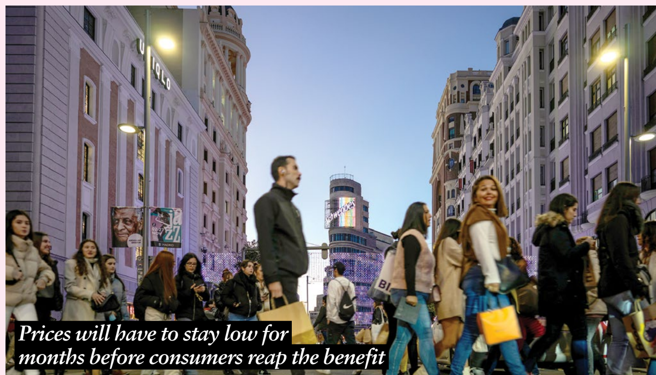
The "overwhelming consensus" on Wall Street is that America is heading for a recession this year, says Michael Strobaek in the Financial Times. The theory is that this will see inflation rapidly cool, prompting the Federal Reserve to ease monetary policy and triggering another equity price rally. But don't count on this scenario. For one thing, the US economy may not react to recent Fed hikes as quickly as in the past thanks to the prevalence of long-term mortgages and corporate borrowing. "The fall into an outright recession might be like waiting for Godot."

While markets have made up their minds about the year ahead, there is much less agreement about the next decade, says Jon Sindreu in The Wall Street Journal. UBS analysts think we will soon be back in the low-inflation world that preceded the pandemic and are "advising clients to bet on... the winners of the past two decades, including long-maturity bonds" and technology growth stocks. Yet others foresee a world of durably higher inflation as de-globalisation, demographics and "greenflation" all push up prices. If that is true then this will be a bad decade for bonds, while commodities and cheaper "value" stocks will shine.

Plunging gas prices bolster Europe's growth

"This was supposed to be a horrible winter for Europe, with freezing cold temperatures... shortages [and] recession," says Joe Weisenthal on Bloomberg. Instead, unusually mild weather and strong liquid natural gas (LNG) imports mean the continent has managed to continue filling gas storage even through the depths of winter.

European wholesale natural gas prices have fallen to €70 per megawatt-hour (MWh) this month, a level not seen since before Russia's invasion of Ukraine and 80% down from their August highs. Gas storage across the continent is 83.2% full, with German facilities 91% full. British wholesale gas prices, which follow European trends, have fallen by 75% since the summer. "We had expected gas prices to fall back this year, but the scale and speed of the move has been far greater than we had envisaged", says Neil Shearing of Capital Economics. Lower energy prices should push down inflation, but not by as much as you might expect. In the UK the recent falls should bring 2024 inflation down by roughly 0.5%. The reason is that most European governments were already insulating their populations from the full force of price hikes through energy price caps. The main effect of cheaper energy will thus be to ease pressure on national budgets.



Prices will have to stay low for months before consumers reap the benefit

©Getty Images

Falling prices are ending the "threat of blackouts, mass industrial closures and a deep recession", say Georgi Kantchev and Joe Wallace in The Wall Street Journal. Some mothballed factories are already coming back online. But much energy is sold through long-term contracts, so prices will have to "stay at lower levels for months" before industrial leaders feel confident enough to "raise output significantly, and for the benefits to trickle down to consumers".

Cheap FTSE set for strong year

The FTSE 100 has hit a four-year high as global financial markets enjoy a strong start to the year, says August Graham in the Evening Standard. "Fresh optimism has flowed into the index after the dismantling of Covid restrictions in China", as Susannah Streeter of Hargreaves Lansdown points out. This has given airline stocks a welcome tailwind. "Expectations of higher demand for commodities in China have [also] helped lift mining and energy" shares.

Meanwhile, "the tech-light nature of the FTSE 100 means it's more immune to the uncertainty still hovering around the prospects for the tech sector". The London bluechip index is up about 2% since January 1. Despite the FTSE 100's relative strength of late, UK equities still "look cheap", says Ben Russon of fund manager Martin Currie. The London market is trading on a forward price/earnings (p/e) ratio of ten, "20% beneath its 15-year median". By contrast, US stocks are still trading at a 12% premium to the same valuation metric.

"UK equities are expected to pay a dividend yield of 4.3%, the highest out of the major developed stock markets" this year, says Daniel Casali of Evelyn Partners. The US is the lowest-yielding market on 1.7%. Volatile trading is likely to push investors into the sort of "defensive" and income-focused securities that are the FTSE's strength; 2023 will be a year to "play the field for yield".

Keep an eye on Italian bonds

"Italy's shaky public finances" could rock financial markets in 2023, says Desmond Lachman in Barron's. In recent years the burden of the country's huge debts – equivalent to almost 150% of GDP – has been softened by massive Covid-era bond purchases from the European Central Bank (ECB), which has kept a lid on yields.

Yet with the ECB now slamming on "the monetary-policy brakes", Italy's precarious public finances are coming in for renewed scrutiny. Rome's ten-year borrowing costs have already risen from 1.3% a year ago to 4.1% today. With the ECB due to begin quantitative tightening in March, any bond market upsets could ripple across the eurozone, triggering an emergency rescue from Frankfurt. "It would be awkward for the ECB to start printing money again [when]... it is supposed to be engaged in monetary policy tightening" to regain control of inflation.

The benchmark FTSE MIB index has had a roaring start to 2023, gaining almost 7% and erasing a large chunk of last year's losses. However, all eyes will be on the all-important "spread", a measure of the gap between German and Italian benchmark borrowing costs. That has remained in a trading range between 2% and 2.5% since May 2022. Should it spike above about 3.5% then the ECB could be forced to act.

©Getty Images

New prime minister Giorgia Meloni has learned from the example of Liz Truss

A major climb down

New prime minister Giorgia Meloni, who took office in October, frightened the business community with her combative rhetoric during the election campaign, says Olivier Tosseri in Les Échos. Her rightwing coalition made "untenable promises" amounting to €100bn of new spending. Yet now that she is in power she has suddenly started talking about the "need for a sense of responsibility".

Her first budget, passed by parliament at the end of December, amounts to a "long list of renunciations", including climb downs on plans to raise the minimum pension and to launch a series of tax giveaways. Some supporters grumble that she is turning into the "Tsipras of the right", a reference to former far-left Greek prime minister Alexis Tsipras who was similarly "radical in opposition, then respectful of European rules once in power".

Meloni doesn't want to alienate Brussels because Italy is in line for €220bn from the EU's Covid-19 recovery fund, says Camilla Palladino in the Financial Times. She may also have learnt from the example of Liz Truss, whose premiership burned out spectacularly after going too far too fast for markets' liking.

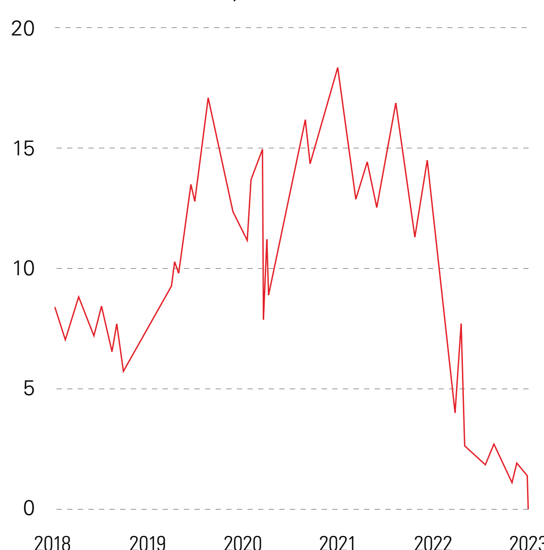
Meloni has said "all the right things" to investors. For all the "sound and fury" of Italian politics, the need for her government to maintain the support of "two chambers" and the counterbalancing force of a "typically centrist president" means that the system won't let her do anything too "rash" in any case.

Viewpoint

"Economic downturns are usually horrible for poor people... and an inconvenience for the rich. But if the [US] economy enters a recession in 2023... it might be the well-heeled who take a bigger hit... for many poorer people, the years since [Covid-19] have been a bit easier financially than the years that preceded it. Several rounds of government relief helped them weather the early stages of the pandemic... now a tight job market is providing them with wage gains... the net worth of households in the bottom fifth by income was 42% higher in the third quarter than at the end of 2019, and up 17% from the end of 2021... [By contrast] household net worth for the top fifth was... down 7.1% from the end of 2021 – a consequence of the falling stockmarket... Recent layoffs have [also] inordinately affected higher-income workers. Many of the tech firms [firing people] pay extremely well."

Justin Lahart, The Wall Street Journal

Japan ends the era of sub-zero interest rates



The Bank of Japan doubled the upper limit on its target band for the ten-year Japanese government bond from 0.25% to 0.5% late last year. Japan had been the last major holdout against tighter monetary policy, but the yield adjustment has been compared to an interest-rate hike, with local bond yields rising in response. Tokyo's retreat from easy money draws a line under the era of negative-yielding bonds, says Tommy Stubbington in the Financial Times. Sub-zero yields occur when bond prices are bid up so high that "buyers holding them to maturity are guaranteed" a loss. The global stock of such bonds peaked above $18trn in 2020 – equivalent to more than a quarter of global fixed income. It has now fallen to zero for the first time since 2010.

Chinese tech turns page

A multi-year state crackdown on the sector appears to be ending. But it's too soon to expect a return to business as usual. Matthew Partridge reports

Shares in China's e-commerce giant Alibaba surged by 8.7% early this week on hopes that "the page has finally turned" for Chinese technology stocks, says Bloomberg's Jeanny Yu. A top central bank official said a multi-year regulatory clampdown that has made the industry "uninvestable" is "drawing to a close".

While the entire Hang Seng jumped on the news, Alibaba enjoyed an additional fillip after its founder Jack Ma "agreed to give up controlling rights of Alibaba's affiliate Ant, whose scuttled initial public offering in 2020 marked the start of a sweeping crackdown on the sector". Analysts now believe that "the worst is behind" Alibaba.

Alibaba's shares have now rocketed by 80% from a multi-year low in October, propelling the company's market value back to $300bn, says Weilun Soon in The Wall Street Journal. But this is still only around a third of what Alibaba was worth in the autumn of 2020 before Ant, in which Alibaba has a 33% stake, was forced to call off its "blockbuster IPOs in Shanghai and Hong Kong".

©Getty Images

Jack Ma's speech criticising regulators triggered restrictions

A windfall for Alibaba?

Ma's ceding of control, with his voting stake reduced from more than 50% to just 6.2%, "could help revive Ant's IPO plans in future by defusing tensions with regulators", says Adam Clark in Barron's. This in turn could pave the way "for an eventual windfall for Alibaba".

However, the current valuation of Ant "is likely to be substantially lower" than the $300bn estimate of late 2020 as global valuations of technology companies "have suffered recently". Valuations of Ant by major international investors as of August last year ranged between $70bn and $151bn.

While the planned changes will "help release the company from the limbo it has experienced" since November 2020, when Ma's "ill-timed speech criticising Chinese regulators and the country's state-owned banks" triggered restrictions, a listing still won't happen immediately, say Cheng Leng and Ryan McMorrow in the Financial Times. This is because the rules mean that after its change in control, Ant has to "wait a year before it can attempt a fresh listing in Hong Kong, or two years for the high-tech STAR [market] in Shanghai". The timeline could be further delayed "if other regulatory requirements are not met".

In any case, while the comments from Chinese officials "may mark the end of Ant's campaign to placate regulators" it "not clear whether it marks much more than that" for the wider Chinese tech sector, says Robyn Mak on Breakingviews.

China's "easing up on technology champions" may be just an "expedient" response to the fact that the economy is "faltering after years of pandemic lockdowns while overseas demand cools", rather than a permanent change. After all, state-owned companies are still "pushing into the commanding heights of development", while cybersecurity and censorship obligations "continue to complicate private investment".

Standard Chartered: a tasty morsel

Shares in Standard Chartered surged by 20% last week when news broke that First Abu Dhabi Bank had recently hired Citigroup and Moelis to explore potential takeovers, with the 169 year-old British bank considered a "prime target", say Stephen Morris and Emma Dunkley in the Financial Times.

While First Abu Dhabi Bank ultimately decided against making a bid, StanChart's shares remained 7% higher as the story seems to have "awakened animal spirits" around the company.

Many analysts consider StanChart to be "one of Europe's most undervalued banks" on a 60% discount to book value. First Abu Dhabi,

©Getty Images

partly owned by the emirate's wealth fund, may try again sometime in the near future, says Karen Kwok on Breakingviews. Buying StanChart would not only be cheap, but it would also have "strategic logic" given that "half its revenues come from Hong Kong, China and other Asian countries, where much of Abu Dhabi's oil goes". The United Arab Emirates "has signed multiple trade deals with countries like India in the last year", and StanChart's "commodities trading strength" fits with Abu Dhabi's "keenness" to become "an energy trading hub".

The news should provide a wake-up call for markets that "Standard Chartered is too cheap", says Emma Powell in the Times. The bank may be about to benefit from "a boost to profitability", with the reopening of the Chinese economy and the lifting of international travel restrictions providing "a catalyst for profit growth this year as cross-border business recovers".

Next leads Christmas cheer for retailers

At the end of last week, retailer Next "helped to reinvigorate the embattled retail sector with a strong Christmas trading update", says Isabella Fish in the Times. The bellwether of the high street said full-price sales had risen by 4.8% year on year in the nine weeks to 20 December, resulting in projected pre-tax profits for the full year of £860m.

The good news was much more encouraging than CEO Simon Wolfson's previous prediction, made in August, that the cost-of-living crisis would mean that "shoppers were likely to rein in their festive spending". The shares jumped by almost 8%.

Next may have benefited from the fact that "customers turned out in droves for warm weather gear after a December cold snap", but if you look closely the update wasn't all positive, says Lex in the Financial Times. Wolfson emphasised that he expected inflation to push up suppliers' costs, forcing Next to choose whether to "pass these increases on to shoppers or absorb them and suffer losses in net profits". Since Wolfson thinks that protecting margins is key to long-term success, Next is likely to choose the former, which is why he expects sales to fall by 1.5% over the coming year. What's more, he thinks that profits will be hit further by wage increases.

Next isn't the only retailer to have done unexpectedly well, says Alex Brummer in the Daily Mail. Figures for the Christmas period from other firms suggests that the overall picture on the high street "has been more upbeat than predicted". Indeed, the British Retail Consortium says sales actually climbed by 6.9% in December 2022, more than three times the 2.1% recorded in December 2021. It seems that "amid the misery, households still wanted a good time" and exploited "big savings balances built-up in Covid-19 [that] have never fully been spent". While the sector faces "headwinds" this year, "inflation is forecast to fall dramatically, wholesale gas prices have tumbled and employment remains strong". These are all "reasons for cheer".

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

Five to buy

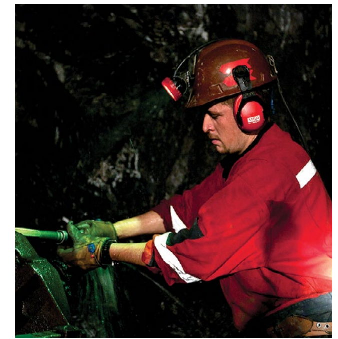
Bunzl
The Sunday Times
This distributor is "one of those mega-companies that few people have ever heard of". The FTSE 100 group does the boring but important work of getting "paper cups to cafes, swabs to hospitals and packaging to supermarkets" across 31 countries. The firm is doing a good job of passing price rises on to customers and maintaining margins amid inflationary pressures. On a 2023 price/earnings (p/e) ratio of 15.5 the shares trade at a discount to the five-year average, while a "healthy balance sheet" means Bunzl has "more than £1bn to spare for acquisitions if needed". This stock is a "boring but reliable" buy. *2,839p*

WPP
The Telegraph
The shares in this advertising and communication play have tumbled 26% over the past year, an inevitability given the cyclical nature of a firm with exposure to a "majority of the world's leading businesses". Yet while the fall has been dispiriting for shareholders, the shares now offer a "wide margin of safety" on an "adjusted p/e ratio of just 11". Throw in a strong position in advertising and e-commerce and there is likely to be decent upside once the global recovery arrives. In the meantime, this blue chip's "solid finances" will carry it through the downturn in one piece. *863p*

Caledonia Mining
The Mail on Sunday
Talk of gold mining in Zimbabwe will sound "alarm bells" for many, but the country is more open to business today than it was during the Robert Mugabe era. Caledonia's management is currently focusing on Blanket, an underground mine in the country's south, while exploring two other sites, and has also completed the acquisition of another mine that is already in production. The company is profitable and output looks poised to "more than triple" over the next three years. The outlook for gold remains encouraging and a quarterly dividend is "an attractive bonus". *1,070p*

Philip Morris International
Barron's
The cigarette business is dying, but this "tobacco giant isn't going gently into the night". Management is betting big on so-called "reduced-risk" products, such as those produced by Swedish Match, an oral nicotine maker, and marketed under the IQOS brand of heated tobacco. It now commands "59% of the global smokeless tobacco market" and is far ahead of rivals in moving away from traditional cigarettes. In the meantime, the industry's ongoing pricing power and fat margins are appealingly defensive at a time of high inflation. By encouraging smokers to switch to less harmful products, "Philip Morris might only be cleaning up its own mess, but it's doing so profitably". *$101*

Fresnillo
The Telegraph
This Mexican gold and silver miner is one of the few high-quality precious metal miners in the FTSE 350. It has been beset by operational issues owing to Covid-19-induced disruption and labour shortages, but the shares have still gained 15% over the past 12 months. There should be "far more capital growth" yet to come as it raises production; a new project is expected ultimately to yield 22% and 6% respectively of the group's current gold and silver output. The stock should also benefit as pandemic-related problems ease and the gold price gets a boost from demand for a safe haven as the economy slows. *902p*



More top tips for the year ahead

What the Evening Standard recommends

Ocado was the FTSE 100's worst-performing stock last year as an easing of Covid-19 rules reacquainted shoppers with "the joys of trolleys... and orders to remove items from the bagging area". But with few competitors in the field of robotic warehouses and scope to keep selling its technology to new overseas partners, the shares still have "huge potential" *(718p)*.

Microsoft took a 4% stake in **London Stock Exchange Group** last year as it seeks to diversify its cloud tech offering. Investors would be well advised to follow this vote of confidence *(7,214p)*.

Caught between China and the West, shares in **HSBC** trade on just six times forward earnings. Yet with interest rates rising and early 2023 set to deliver a boost from China's reopening, this year at least could be a good one for the bank *(568p)*.

After a year blighted by extradition drama and a botched private-equity takeover, the hope is that the only way is up for cybersecurity business **Darktrace** in 2023 *(285p)*.

H&T Group, Britain's biggest pawnbroker, may be one winner from the nasty cost-of-living crisis. Pledge lending, where people swap valuables for short-term loans, looks set to rise. The stock, up 62% in a year, still seems a "worthy punt" *(475p)*.

©Getty Images; Ocado

...and the rest of this week's tips

Barron's
Costco's shares have had a bumpy 12 months owing to fears about lower consumer spending, but the warehouse-store giant has long shown itself able to "zig when the rest of retail zags". Membership fees provide a "steady source of revenue" and the group's loyal customers will continue coming back for its "bargain-priced goods". On a price/earnings (p/e) ratio of about 36, the shares trade at a significant premium to retail rivals, but that is justified by Costco's excellent record of earnings growth and robust returns on equity. Buy *($462)*.

Interactive Investor
The shares in high-street retailers may have bottomed out in October, but the jury is still out on what lies ahead for the sector after the traditional Christmas splurge. **B&M European Value Retail's** cost-conscious positioning means it shouldn't be hit too hard by the cost-of-living crisis, but with the shares already up 10% over the past month further progress could be limited. On about 12.5 times March 2023 earnings, the stock already appears fully priced, so investors should hold *(450p)*.

The Mail on Sunday
Ruby and emerald miner **Gemfields** has been enjoying strong prices at auction for its colourful stones, which are mined in Zambia and Mozambique. The group also markets its gems directly to consumers via the Fabergé brand, which is world famous for its decorative eggs. A turbulent stockmarket history will deter some investors, but the adventurous might "fancy a punt" *(19p)*.

Britain is sleepwalking into ruin

Shock therapy is needed, but a gentle walk into thoughtlessness is more likely. Emily Hohler reports

Legislation to limit the effectiveness of strike action was unveiled this week as industrial disputes continue to paralyse services across the UK. The proposed law, which Labour says would increase walkouts, would impose minimum service levels on most of the public sector during strikes, says Peter Walker in The Guardian. Mike Lynch, the general secretary of the RMT rail union, called the bill an "attack on human rights and civil liberties" while warning that there had been virtually no progress in negotiations to end the current rail strikes.

The government's "tough stance" – its refusal to cave in to wage demands and its decision to push on with the plan to enforce minimum service levels – makes sense on various levels, say Eamon Akil Farhat and Tom Rees in The Washington Post. Firstly, Rishi Sunak is "anxious to restore the Conservatives' fiscal credibility" and hefty wage hikes would "widen a state deficit already bloated" by Covid-related costs and state support for energy bills. The Centre for Economics and Business Research estimates a £600m hit to the state from the strikes, which compares with a £7.5bn bill if public-sector pay were raised by 5%-8%. Secondly, higher pay could "stoke more inflation and make everyone worse off". Thirdly, with millions now able to work efficiently from home, strikes are "not as effective". Finally, though disruptive and widespread, the strikes still "pale in comparison" to those of the 1970s when some 20 to 30 million working days were lost to industrial action (an estimated 1.5 million days were lost in December).

The pay demands are understandable at a time of "roaring inflation", says Oliver Shah in The Sunday Times. "But these disputes – particularly those involving Royal Mail and the train system – are arguably more about modernisation." The cost of living crisis coincides with a period of "unprecedented change ushered in by technology and accelerated by Covid-19". The unions are trying to "hold back the tide through sheer intransigence". It isn't "tenable".

The government has taken a tough stance against strikes

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Modernisation is the real challenge

George Orwell was "on the money" when he described the English as a "gentle", "sleepwalking" civilisation plagued by utter "thoughtlessness", says Sherelle Jacobs in The Telegraph. Sunak has been mocked for saying pupils should study maths until the age of 18, but maths, "being the secret recipe to coding, is central to preparing this country for the fourth industrial revolution". Why do we "ignore, or even disdain" areas in which we are world leaders – "from quantum physics to genomic healthcare"? What of the "jaw-dropping" idiocy of dismantling the "entire vaccine manufacturing infrastructure built during Covid"? Meanwhile, nobody seems to have given any serious consideration to regulatory divergence from the EU and how to "capitalise on Brexit". As for the NHS, we may "stumble" into reform by default as the middle classes abandon it in "despair".

When will we "jolt out of our debilitating stupor", asks Allister Heath in the same paper. Poland's GDP per capita is set to overtake ours by 2035. The failure isn't just statistical: "our economic culture has also decayed, with a collapse in service standards, a blunting of our entrepreneurial zeal and the demise of the hard-work ethos", a trend exacerbated by the pandemic. And while the NHS is the "most obvious symptom" of the national decline, "immigration, law and order, and our energy policy are also deeply broken". What is left of our military strength and geopolitical influence will "wither" as the welfare state "gobbles up an ever greater share of GDP". Rishi Sunak, with his belief that there are no quick fixes, "risks failing to rise to the scale of the challenge: Britain requires shock therapy, not gentle reforms".

His memoirs are a shot in the foot

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Will Prince Harry bring down the monarchy?

Prince Harry's memoir, *Spare*, with its "intensely personal recollections", is far more than a "celebrity knockabout story" and could "mark the beginning of the end of the monarchy", says Catherine Mayer, a biographer of King Charles. It is about the "status of a significant institution of state, with significant powers and significant taxpayers' funding". Talking to The Guardian, she adds that the members of the royal family have become our "proxies for anger" about racism, misogyny, wealth and inequality, and unless these issues are properly addressed, they could "undermine the basis of the consent" by which the royal family rule.

Mayer isn't the only expert warning that this is the "gravest crisis" facing the monarchy since Princess Diana's death in 1997, when the Queen was criticised for not showing enough sympathy, says Mark Landler in The New York Times. But there are those who don't share their view, says Peter Foster in the Financial Times. Vernon Bogdanor, author of *The Monarchy and the Constitution,* said the public had "long separated royals' private lives from their constitutional roles", pointing out that we supported the monarchy through the abdication of Edward VIII and Queen Elizabeth's *annus horribilis* in 1992, when three of her four children went through "messy... very public break-ups". Support for the monarchy stayed at 70%-75% throughout the 1990s.

In the short term, it is imperative that Harry, who has already been written out of the King's coronation script, is kept away from the ceremony altogether, says Philip Johnston in The Telegraph. Otherwise, even placed in Row Z, the Sussexes' "very presence will dominate proceedings". But the "badly advised prince" has damaged his reputation with this book, says Ed West on Substack. However much he hurts his family, he will "surely be the biggest loser". The biggest winners? "The vultures of the press he rightfully hates."

America's new civil war

Republican rebels are flexing their muscles. Matthew Partridge reports

Amid "extraordinary scenes", which at one point saw Republican congressmen having to be physically restrained from lunging at each other, Kevin McCarthy was finally elected speaker of the US House of Representatives, says David Charter in The Times. McCarthy's election was achieved on the 15th attempt after several "chaotic" days of voting, making it "the longest stand-off since the Civil War". The stalemate only ended when several "ultraconservative" Republicans, who had opposed his election, were persuaded to change their minds by a combination of behind-the-scenes pressure from Donald Trump and several major concessions on policy and procedural matters.

McCarthy: elected on the 15th attempt

©Getty Images

Rebel veto

Those concessions, which haven't yet been revealed in full, "could end up being symbolic or short lived" because the Democrat-controlled Senate can block any legislation passed by the House, says Natalie Andrew in The Wall Street Journal. However, some of them "could have a real impact on how McCarthy does his job and how Congress functions". Chief among them is his willingness to restore a procedure that allows even a single representative to ask for a vote to remove him. This is important as the possibility "that a small group of unhappy Republicans could depose McCarthy will be in the background of every consequential decision he makes".

The whole episode has raised "fresh concerns" on both sides of the aisle that a "small group of rebels" on the right of the Republican party could use their increased leverage to block big pieces of "must pass" legislation later this year, says Lauren Fedor in the Financial Times. Perhaps the biggest concerns are over the debt ceiling, the limit on how much the US government can borrow. Economists have warned that "if lawmakers do not vote to raise the limit in the coming months, the US government risks defaulting on its debts for the first time in American history".

A fraught year

Indeed, negotiations on the debt ceiling "are likely to be extremely fraught", since many on the Republican fringe are demanding "deep spending cuts" as the price for approving a raising of the limit, something that president Joe Biden or the Senate won't agree to, says Oliver Laughland in The Guardian. Already Trump is throwing fuel on the fire, urging House Republicans to leverage their power "by simply playing tough" in talks over the debt ceiling. As a result, it looks as if we're in for a repeat of the 2011 budget crisis, which resulted in market volatility and the downgrading of the US government's credit rating for the first time in history.

The fact that McCarthy was forced to grovel to the most extreme faction within his party to get elected speaker suggests that Republicans "have not fully listened to the meaning of the mid-term elections, says Dan Balz in The Washington Post. The failure to win the big House majority that many expected and the pain of losing ground in the Senate should have caused more "introspection and reflection". Instead, many House Republicans seem to believe that the American people are "demanding a full-throated Republican agenda".

Brazil stands firm against far-right uprising

In a scene with striking similarities to the US Capitol riots two years ago, a "mob" of far-right protesters in Brazil stormed congress, the presidential palace and the supreme court, trashing the buildings, before finally being evicted, says the Financial Times. The riots grew out of weeks of protests by extremist supporters of the ousted former president, Jair Bolsonaro (pictured). The "key institutions stood firm and the rule of law was upheld", with the military reaffirming their support for the constitution and president Luiz Inácio Lula da Silva, but "the loyalties of the Brasília governor, a Bolsonaro ally, and some of the capital's police, have been questioned".

The "shocking" riots are a "rude awakening" for Lula, but they are also an opportunity, says Andrew Downie in The Spectator. Even many of Bolsonaro's former supporters consider the events an "outrage too far", and Lula has formed a democratic alliance with Congressional and judicial leaders who were equally shocked by Sunday's events. If he plays this well, he could use the political capital gained to push through key parts of his programme, "such as expanding public social spending and punishing illegal gold miners and deforesters in the Amazon".

Lula faces other constraints, however, including the need "to demonstrate fiscal responsibility" to keep investors happy, says Peter Coy in The New York Times. He was only able to "spend generously" in his first period in office due to high prices for many of the commodities that Brazil exports. With commodity prices now "faltering" due to expectations of a global economic downturn, and with Brazil's central bank raising its key lending rate to nearly 14%, he may be forced to cut back his ambitions anyway.

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Betting on politics

During the pandemic the election for London mayor ended up being postponed by a year from 2020 to 2021. The date for the next election wasn't put back, however, so in less than 18 months Londoners will be returning to the polls. Having served two terms in office, there was some speculation that Sadiq Khan might return to Westminster politics, instead of running for a third term. But at the end of last year he confirmed he would run again, and was officially selected as Labour's candidate.

Punters seem convinced Khan will be re-elected. With £4,394 matched on Smarkets he is favourite at 1.27 (78.7%) . Surprisingly, Jeremy Corbyn is in second place at 11.5, with Brent MP Dawn Butler at 12.5 (8.7%). Fellow Labour MPs David Lammy and Sam Tarry are out at 22 (4.5%) and 28 (3.6%) respectively, while Shaun Bailey, who was the Conservative candidate last time, is out at 34 (2.9%).

The odds on Khan may seem short, but it is hard to see a scenario where he loses, especially given that London has been trending towards Labour over the last decade. Bailey did run Khan closer than expected at the last election, but this was at a time when Boris Johnson was riding high in national polls, and the Conservatives gained several councils in the local elections – a far cry from the current situation, with Labour now ahead by around 20% in national polls.

The threat from a Corbyn insurgency on the left shouldn't be overestimated either – even if the former Labour leader runs, he will face an uphill task. Ken Livingstone managed to be elected as an independent in 2000, but this was due to a backlash against a selection process that was seen as unfair. He also benefited from the fact that the official Labour candidate, Frank Dobson, had a low public profile. I suggest you bet on Khan to win.

Chicago

Healthcare unit spun off: Shares in US conglomerate General Electric's spun-out medical equipment-maker GE HealthCare Technologies (Nasdaq: GEHC) began trading in New York last week. They closed 8% higher on their stockmarket debut. Spin-offs are usually a good way to drive shareholders' returns, says David Wainer in The Wall Street Journal. They are tax-efficient and they allow the parent company to reduce complexity, where size confers no advantage. The spun-out company should be able to make better decisions faster too. But they also tend to come with baggage.

GEHC has been saddled with $15bn of debt and pension liabilities – "a big number for a company with a market capitalisation of $27bn". That may mean no dividends for now. That said, "the case for growth as a stand-alone is a good one". Rising demand should allow GEHC to expand its ultrasound business, while its imaging and patient-care divisions have "relatively low margins". "For investors with patience, investing now could pay off in a few years, because GEHC's seasoned management team should drive revenue and margin growth." The company is aiming for 5%-7% year-on-year organic revenue growth in 2023. But "for those looking for outperformance in the near term, it probably is worth waiting for a better entry point".

Redmond

Microsoft doubles down on AI: Software giant Microsoft is in talks to add up to $10bn over several years to the $1bn it has already invested in OpenAI, the organisation behind artificial intelligence (AI) chatbot ChatGPT, says Dina Bass on Bloomberg. ChatGPT, a software program that responds to users' online requests in a realistic, human-like way, has generated huge excitement on the internet since launching at the end of November, attracting its first million users within its first week of release. However, Silicon Valley investor Sam Altman, who co-founded OpenAI with Tesla's CEO Elon Musk, warned that the technology was still "incredibly limited, but good enough… to create a misleading impression of greatness". OpenAI makes its money by charging developers to license its technology. Still, Microsoft is working to add ChatGPT to its Bing online search engine. Bing has less than a tenth of the online search market compared with Google's four-fifths. But even that small slice was worth $2.9bn in revenue in the three months to the end of September, says Lex in the Financial Times. An additional investment of $10bn in OpenAI would count for less than one-sixth of Microsoft's free cash flow last year. That would be a "small price to pay" if it transforms Bing along with the rest of the company into a serious challenger. But that possibility is still some way off. Google's market-leading position is safe for now.

Lima

Protests in Peru: At least 17 people have died after more protests in Peru, pushing the death toll from nationwide unrest to nearly 40, following the ousting of left-wing president Pedro Castillo (pictured) last month, says Daniel Collyns in The Guardian. There are growing calls for Castillo's former deputy Dina Boluarte, who took over as president, to resign, Congress to be closed and Castillo to be released from prison.

Prime minister Alberto Otarola said security forces were defending the "peace" and he claimed "violent groups" financed by foreign interests and drug trafficking were trying to "destroy the country". The protests are damaging Peru's post-pandemic recovery, says Dawit Habtemariam on Skift, a travel sector news site. Up to 60% of travel bookings for the first half of 2023 have been cancelled. An incident on 16 December, in which 300 tourists were stranded near the mountainous Machu Picchu archaeological site due to road closures and cancelled transport services, has added to the general nervousness. There are concerns that civil unrest will remain in the international media spotlight and that protestors may stage a repeat of the Machu Picchu incident to gain attention.

The way we live now... the loo that gives you health advice

The annual consumer electronics show (CES) in Las Vegas is famous for showcasing wacky gadgets and 2023 has been no exception, says Jonathan Chadwick for the Mail Online. A colour-changing BMW was among this year's highlights. *The Terminator* actor Arnold Schwarzenegger took to the stage to unveil the "i Vision Dee", a saloon that uses "electronic ink" to switch between 32 colours. BMW called it "a vision of the distant future". Closer to home, French technology company Withings introduced its "U-Scan", a device that sits in toilet bowls, providing snapshots of its users' health when peed on. The device then makes suggestions for healthier living via an app. The U-Scan starter kit will be available for sale in Europe later this year, priced at around €500. Meanwhile, Dutch company OneThird showcased a supermarket scanner that sends out an infra-red beam and informs shoppers of the ripeness of fruit and veg, such as mangoes and avocados. It will cut down on food waste, saving billions of pounds every year, its makers say. Three undisclosed British retailers are already in talks with the company to roll out the devices to customers.

Schwarzenegger: selling cars

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Newquay

Rocket failure: The first attempt to launch satellites from British soil ended in "painful failure", says Kaya Burgess in The Times. Virgin Orbit's Cosmic Girl, a converted Boeing 747-400, took off from Cornwall and released its 24-tonne rocket over the Atlantic. The rocket blasted off into space, but an engine fault prevented it from reaching the altitude to jettison its multimillion-pound payload. Instead, the nine satellites, supplied by the Ministry of Defence, among other customers, fell back towards Earth to burn up in the atmosphere. Virgin Orbit's US-listed shares plunged 28% in after-hours trading in New York, and are down by 76% over the past year. Britain had hoped to cement its reputation as Europe's leading provider of launch services as well as prove the feasibility of horizontal launch systems (as opposed to vertical take-offs), says Peggy Hollinger in the Financial Times. "We'll dust ourselves off and we'll go again," vowed Matt Archer, head of commercial spaceflight at the UK Space Agency. "This is what space is about – it is hard."

No lift-off for Virgin Orbit's shares

Beijing

Debt caps strangle housing: "Beijing's efforts to cap [property] developers' leverage are backfiring," says Yawen Chen on Breakingviews. In 2020, regulators sought to curb "overzealous land purchases" that were pushing up house prices by introducing three caps on debt ratios: debt-to-cash, debt-to-assets and debt-to-equity. That would, so the theory went, force developers to sell excess inventory and issue more equity. "The ensuing pain was immediate and acute." Those on the wrong side of the caps found themselves locked out of credit markets and began dumping flats onto the market to raise cash. Evergrande, China's second-biggest developer, started to default on some of its $300bn of liabilities. With the economy cooling, house prices began to fall. Sales volumes fell by a quarter last year, and they are expected to fall by a further 8% this year. Beijing has responded by nudging state banks to lend more and is considering easing debt-raising restrictions on companies in good financial health. For now, however, the three red lines remain in place. "The sooner they are blurred, moved or erased, the better." Meanwhile, Hong Kong's office property market is experiencing its biggest glut in almost 20 years, says Pak Yiu on Nikkei Asia. The city had hoped Chinese companies would flock back following the lifting of pandemic-era travel restrictions. But a spate of newly completed construction projects threaten "to keep supply and demand out of balance for months to come".

Goodwood

Rolls-Royce on a roll: West Sussex-based Rolls-Royce Motor Cars, which is owned by Germany's BMW and is separate from the aircraft engine-maker, sold 6,021 cars last year – the most in its 119-year history and an 8% rise on 2021, says Peter Campbell in the Financial Times. The company is expected to announce record-high profits in the coming weeks, despite a "quite substantial" hit to orders in Russia following the invasion of Ukraine. Elsewhere, the Americas accounted for around a third of sales, China for a quarter (a slight dip due to lockdowns there), and Europe for a fifth. In Dubai, the company opened an invitation-only private office last year, the first outside Goodwood. The average price of a Rolls has also risen above €500,000, double the price from a decade ago, driven by customers opting for custom extras. Some Rolls-Royce Phantoms, the flagship saloon model, sell for €2m. "The performance highlights how the ultra-wealthy have been insulated from the soaring inflation and cost-of-living crisis that is engulfing much of the world," say James Warrington and Chris Price in The Telegraph.

Mainz

AI firm snapped up: German biotech firm BioNTech is paying £362m in cash and shares, and up to £200m if performance-based targets are met, to acquire the stock in British artificial intelligence (AI) company InstaDeep it doesn't already own, says Alex Ralph in The Times. BioNTech scored a success during the pandemic when it developed a Covid-19 vaccine with US drugs giant Pfizer. It is now looking to harness the power of machine learning to accelerate the development of new treatments, particularly cancer drugs. BioNTech had previously collaborated with InstaDeep on an early warning system to predict future variants of the coronavirus, and a year ago it joined Google and others in backing InstaDeep in a funding round that raised £74m. "Our aim is to make BioNTech a technology company where AI is seamlessly integrated into all aspects of our work," says BioNTech's CEO Ugur Sahin. BioNTech has also signed an agreement with the British government to enrol up to 10,000 patients in clinical trials by the end of 2030 for personalised cancer therapies, based on the mRNA technology it used in its Covid-19 vaccine. "The pandemic exposed the UK's lack of commercial expertise in mRNA vaccines," says Tom Clarke for Sky News. This deal is "a big win for the UK".

The case for a new, better tax

Our taxes are overly complicated and provide the wrong economic incentives. We need to ditch the bad ones and come up with improvements. Simon Wilson reports

What is a land-value tax?

It's a tax raised on the underlying value of a piece of land, the "unimproved" value, rather than on the property sitting on it. Indeed, the point of such a tax is that it applies whether or not a plot of land is developed at all. The basic idea is that land gets most of its market value from its location – and in particular from the surrounding infrastructure paid for by generations of taxpayers – rather than from the calibre of the building that sits on it. It is reasonable, therefore, for the state to collect tax on this "unearned betterment" and share in the added value that taxpayers helped create. The basic argument was famously and eloquently made by Winston Churchill, then a Liberal, in a House of Commons debate over David Lloyd George's "people's budget" in 1909. "Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains – and all the while the landlord sits still," raged Churchill. "Every one of those improvements is effected by the labour and cost of other people and the taxpayers. To not one of those improvements does the land monopolist, as a land monopolist, contribute, and yet by every one of them the value of his land is enhanced."

Was that then a new idea?

No, it had been around for at least a couple of millennia, and possibly since the rise of agriculture. In ancient times, people enclosing land – asserting ownership over what had until then been held in common – were expected to share some of the resulting crops. In Anglo-Saxon England, a measurement called the hide (about 120 acres) was used to assess a landowner's obligations to contribute to common goods such as the maintenance and repair of bridges, forts and manpower for the army. In the modern era, a notable proponent was the US journalist and free-trade campaigner Henry George, who was struck, in the late 19th century, by the extreme inequalities in rapidly expanding New York City. George's book *Progress and Poverty* – arguing for land-value taxation as a way of improving cities and promoting fairness – was a bestseller in the 1890s. It also spawned campaigns for land-value taxation around the world, and inspired a board game (*The Landlord's Game*) that was a precursor to *Monopoly*.

Is the land-value tax "left-wing"?

No, it has always attracted support from a strikingly wide range of voices. Prominent recent supporters include John McDonnell, the left-wing shadow chancellor under Jeremy Corbyn, but also Milton Friedman, the free-market economist who thought it the "least bad tax". In the UK, the Green Party backs a land-value tax, but so does The Economist. Land-value taxes typically appeal to left-liberals on grounds of fairness and equality – and out of fear that rising property values will lock future generations out of property ownership. But they also appeal to economic liberals on grounds of efficiency – and out of opposition to rent-seeking that harms productivity and damages the economy in the long run.

We need to change the rules of the game

©Alamy

How are they efficient?

Most taxes have the effect of lowering supply and raising prices; and taxing property as a whole discourages development. By contrast, land-value taxes cannot distort the supply of land (famously, they stopped making it some time ago), and so long as landlords are competing with each other for tenants it can't simply be passed on in higher rents. Land-value taxes are hard to avoid (you can't hide your land in the Cayman Islands). They also encourage development of the most valuable, city-centre, real estate first, and help prevent speculative property bubbles and land-hoarding. As a result of all this, proponents say, they help raise long-term stability and growth by fostering more productive use of capital. From the government's point of view, they also help fiscal stability by bringing in revenue efficiently and fast.

"Council tax is overtly regressive and falls heaviest on the cheapest properties"

Why aren't they more common?

Forms of land-value tax have been levied at the national or local level in countries including New Zealand, Australia, Denmark, Estonia, Hong Kong, Singapore and Taiwan – plus several US states. But one reason they are not more common is that the underlying land value of a developed property is hard to calculate – and the scope for legal disputes and challenges is clear. Other objections to land-value taxes are (a) that they constitute a one-off windfall tax on the current generation of owners, because once they've been introduced values will fall to reflect future tax liabilities; (b) that they're unfair on (typically older) asset-rich but low-income homeowners.

Should we adopt a land-value tax?

Yes, argues Dan Neidle, the recently retired head of tax at Clifford Chance who now campaigns for wide-ranging tax reform. In the UK we currently have three bad land taxes that add up to a "broken" system. First, council tax is an overtly regressive tax where the heaviest proportionate burden falls on the cheapest properties, and the richest homeowners pay a vanishingly small percentage (less than 0.2% once properties are worth more than about £1.5m). Second, business rates are based on often out-of-date "rentable values" and throw up perverse disincentives to improving properties. Third, stamp duty discourages transitions and distorts the housing market – and the labour market, too, by making it expensive to move house. All three should be scrapped, says Neidle in The Sunday Times – and replaced with an annual land-value tax based on the unimproved value of land. "Instead of acting as a brake on investment, it would encourage it. Moving house would become a tax-free event." Such a tax already has support from economists across the political spectrum. "All we need are politicians with courage to sell the idea that if we want to repeal bad unpopular taxes, then we have to create new, better ones."

Big Tech comes a cropper

US technology mega-caps have fallen out of the race, leaving the field open for new runners

Matthew Lynn
City columnist

It was probably only a matter of time. Last Tuesday, with its shares under pressure amid reports of slowing sales in China, and production snags along its supply chain, Apple's market value fell back below $2trn for the first time since breaking through that barrier back in 2020. It had already dropped out of the "three trillion club", a select group it joined this time last year, and now it is out of the "two trillion" one as well. It may bounce back above that level from time to time when the market rallies. But with little innovation left in smartphones, with its app store under regulatory scrutiny, and with little sign of new products emerging, it is hard to see Apple staying in the club for long.

It is far from alone. Microsoft, with its shares down by 27% over the past year, has long since left, and is now worth $1.7trn. The oil giant Saudi Aramco, always a very odd company since it is primarily owned by the Saudi government and effectively tied to the country's oil policy, has also checked out, and is now worth $1.8trn. With Apple's departure, there are no "two trillion" companies left anywhere. Nor are there many one trillion ones. Amazon has left that, and Meta, the company that owns Facebook, has crashed out, too. Alphabet, the owner of Google, is only just hanging in there, with a value of $1.1trn.

The end of an era

True, share prices go up and down all the time, and whenever there is a bear market valuations crash. Typically, the losses are recovered in a couple of years, and prices end up higher than where they started. Even so, we almost certainly won't see another

Apple CEO Tim Cook: out of the $2trn club

©Getty Images

$2trn company this decade, and probably not a $1trn one either. Here's why.

First, we are unlikely to see another easy-money bull market of the kind we witnessed in the 2010s and early 2020s. The giants that broke through the 12-zeroes barrier were all excellent companies, their rise powered by rapid innovation, skilled management, and smart acquisitions. But there is no point in pretending their success was solely down to their being great businesses. It was also because the bull market pushed valuations up to extraordinary levels, especially for a handful of tech companies. The decade started with a round of printed money to recover from the financial crash, interest rates were kept at record lows for more than a decade, and then there was another avalanche of printed cash during the Covid pandemic. The equity markets were pumped up beyond any reasonable levels. With interest rates rising to bring inflation back under control, that is not going to happen again, and the next bull market will be far more subdued.

Next, the few remaining mega-cap stocks are about to lose their market dominance. Saudi Aramco is a special case (although fossil fuels hardly have a great future), but the rest of the club is all made up of US technology businesses. Their finest days are now behind them. A combination of first-mover advantage and network effects enabled them to control their market to an extraordinary degree and make huge profits. Now, Facebook is losing its dominance in social media to fresher rivals such as TikTok, and Amazon is being taken on by Shopify. The tech giants are also facing a lot more regulatory pressure both in Europe and the US, which could lead to break-ups and more competition.

Leaders of the next bull run

Finally, investors are looking elsewhere. We still don't know if the bear market of 2022 is over yet, or whether it will turn into a two- or three-year decline in equity prices, and we certainly don't know what the next bull market will look like when it finally gets going. One point is surely certain, however. It will be led by a different sector to the last one. It could be mining. It could be energy, or green technologies. It might well be the emerging markets, which have now spent 20 years in the doldrums. But it won't be the tech giants. Investors will not be very interested in the likes of Apple and Microsoft again for a long time – they will be focused on more exciting opportunities.

City talk

● Conditions for insurers "are going from bad to worse", says Russ Mould of AJ Bell. This week, Direct Line scrapped its dividend, even after CEO Penny James said in August that she was "confident in the sustainability of our regular dividends". The shares plunged by a quarter in response, sparking a wider sector sell-off. An increase in subsidence claims from the hot summer has been followed by higher road-accident and burst-pipe claims from the icy winter. "This is all beginning to sound like the train operators who complain about the weather either being too hot and the sun bending the rails or too rainy or windy which puts leaves on the line. Where's Goldilocks when you need her?"

● Asos looks "as squeezed as one of its bustier dresses", says Andrea Felsted on Bloomberg. The once-booming online retailer is grappling with a downturn in demand and the looming refinancing of a £350m credit facility. "But there is a solution to its tight fit: Sell Topshop." If Asos can get a similar price to the £300m it paid to buy the brand from the ruins of Philip Green's empire in 2020, it can bolster its balance sheet. Right now, Topshop lacks visibility: it no longer has any UK stores. Asos isn't in a position to fix that as it works through new CEO Jose Antonio Ramos Calamonte's turnaround plan . When Topshop relaunched last year, Asos called it a "new chapter". "Perhaps that should be steered by someone else."

● The "wheels have rather come off" for software firm Frontier Developments after its racing simulator *F1 Manager 2022* sold much worse than expected at Christmas, says Alistair Osborne in The Times. CEO Johnny Watts has slashed sales forecasts from £135m to as little as £100m. Operating profits have been downgraded from £19m to perhaps just £2m. The shares tumbled 43%. The "stonking profit warning" is a bit of shock, but it's not as if the board was showing "blistering confidence" in Frontier's prospects anyway. In November, outgoing chairman David Gammon sold £490,000 of shares, and chief operating officer James Dixon and non-exec Charles Cotton offloaded £281,300 and £140,700 worth respectively. "Back then they couldn't have known just how just tricky driving conditions would prove this Christmas... Still, a chequered flag for their share-sale timing."

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The outlook for inflation

Headline inflation will be lower in the next few months, but that doesn't mean pressures have gone away

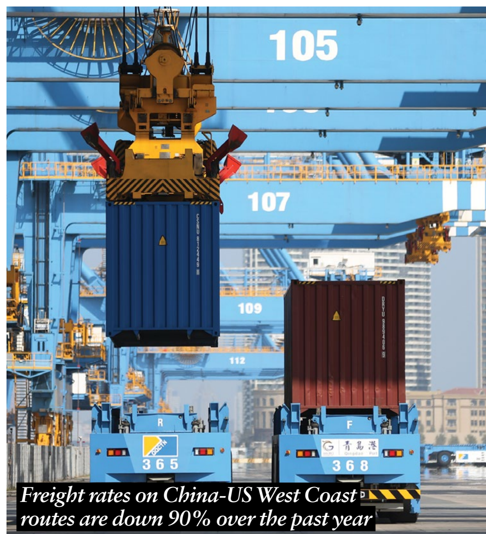
Cris Sholto Heaton
Investment columnist

The sharp rise in inflation over the past two years caught many people by surprise. Policymakers continually said it would be "transitory". Each time they published new forecasts showing prices were up by more than expected, they reassured us it was still on track to drop back very soon. At the end of 2021, for example, the Bank of England reckoned that inflation, then at 4.9%, would be down to 3.4% by the end of 2022 and 2% by the end of 2023. Six months later, when inflation was at 9.2%, the Bank said that it would be 10.2% at the end of 2022 and 3.6% at the close of 2023, but still tumble to 2% by December 2024.

I'm not singling out the Bank of England: other central banks have done exactly the same. Nor do I think I can guess what inflation will be better than they do: they have lots of smart people and sophisticated models trying to predict the outcomes of an immensely complex and chaotic world. It's not even odd that the forecasts *always* show inflation going back to the 2% target in about two years, because that's what monetary policy is supposed to achieve. If their projections didn't show that, it would imply that policy is wrong. My only criticism is that anybody making investments on the basis of these forecasts is fooling themselves about how useful they are.

Inflation will decelerate – for a bit

Instead, we're better off looking at what's going on right now. So what can we see? The inflation rate is still high practically everywhere. But that's the year-over-year change: it reflects the "base effect" of where prices were 12 months ago and how much they've gone up since. Inflation right now is clearly decelerating. You can see that from



Freight rates on China-US West Coast routes are down 90% over the past year

the fact that the headline rate is no longer going up as fast, or from the month-on-month change. The US consumer price index (CPI) rose just 0.1% between October and November. In June, it rose 1%. (I'm using US data to stress the point here, because in the UK, the energy-price cap increases in April and October create two massive 2%-plus spikes that make the trends less obvious.)

Over the next few months, we'll be comparing energy prices from a year ago – when they shot up – to prices that are now around the same level as they were then. We can also see that other costs that surged for a variety of reasons have fallen back, such as freight rates. So unless something wild happens, headline inflation rates will fade significantly over the next few months.

The question is what happens after that. Does China's reopening push up energy prices? Do the prices of services keep ticking up in response to the huge increase in input costs that businesses have absorbed? Will wage rises given on the back of current inflation rates add to that? Your guess is as good as mine. But I would note that historically, high inflation has rarely come back down as fast as central banks are still projecting.

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

Inflation is the rise in the general level of prices in an economy (or a sector of an economy) over a given period of time. Alternatively, it is sometimes defined as the decline in the purchasing power of each unit of money, which amounts to the same thing.

Inflation is usually measured by looking at the change in a price index that is based on the average prices of a basket of goods and services. Typically we look at the year-on-year inflation rate (eg, the change in the price index between May this year and May last year), or the annualised rate over longer periods (eg, if the price index is up by 9.3% over three years, that's an annualised inflation rate of 3%).

When we talk about inflation in general, we are usually referring to inflation in the consumer price index (CPI). This index is a representative sample of the items a typical consumer spends their money on, such as food, fuel, clothing and entertainment. However, we might also want to know about changes in the prices that manufacturers receive for what they sell. This is measured using a producer price index (PPI), based on a basket of products ranging from raw materials to finished goods. Changes in the PPI generally precede changes in the CPI, since rising or falling costs for producers (such as materials or labour costs) will ripple down the supply chain until they affect the prices that consumers pay in shops.

Calculating inflation is surprisingly complicated. The selection of items in the index, the mathematical method used to average them and adjustments to reflect changes in the quality of items over time all affect the result. Two indices may produce different rates, as is often the case with the UK's CPI and its older retail price index (RPI). Important items such as food and fuel have volatile prices, so we may need to look at an index that excludes these to get a sense of underlying trends (known as core inflation).

Guru watch

Felix Zulauf, founder, Zulauf Consulting

This will be "the decade of the roller-coaster market", says Felix Zulauf, a former hedge-fund manager who specialises in global macroeconomic trends. "It will be horrible for passive investors with a 60/40 portfolio [of stocks and bonds], which was so good to them for the past 15 years. If you don't want to end up with very poor returns, you have to time the cycle."

The next ten years will be characterised by high volatility, driven in part by shifts in geopolitics, Zulauf tells Barron's. We can expect the world to evolve into two major blocs, led by the US and China respectively, with huge consequences for trade between them. "I think we deglobalise for… the next 10 years. That means the world will get less efficient and more inflationary. A safe supply chain will be more important than a cheap supply chain." The China-led bloc controls or will seek to own a lot of key natural resources, meaning that this trend is likely to push up commodity prices.

However, in the short term, inflation is likely to fall as China suffers a deep recession. Chinese export prices will decline, as will energy prices due to lower demand: oil could go to $50-$60 per barrel by the summer. "This will be a tremendous relief for central banks", which will be able to ease monetary policy. That will mean a big bond-market rally in mid 2023, while growth stocks could also stage a comeback.

These rallies will be short-lived. As central banks ease policy, excess liquidity will flow into commodities. "Inflation will come back from late 2023 onward and will probably go even higher in [2024 and 2025] than it has been in the current cycle." Oil could trade near $200 per barrel. "As we have seen in the 1970s, it's the second up wave in inflation that's really bad for the bond market." Yields will soar in an attempt to catch up with inflation. Commodity-related stocks, cyclical industries, value stocks and precious metals should do well, but growth stocks will be crushed.

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Living the American Dream

Phil Gramm and John Early
The Wall Street Journal

Those who say rising income inequality is proof that the American Dream is dead fail to grasp that equality of outcomes is "alien to the American ethos", say Phil Gramm and John Early. In the words of Abraham Lincoln, America is committed to "an open field with a fair chance for your industry, enterprise and intelligence". The aim is "individual upward mobility", not uniformity. Three independent studies covering the past 50 years have measured the "relative mobility" (ie, whether children move into a different income quintile from their parents) and the findings were "extraordinarily similar". Averaging the results, only 22.6%-24.4% of children remain in their parents' quintile; 39% rose to a higher quintile and 37% fell to a lower one. Of children reared in the top quintile, 62% fell to a lower one while 63% of those reared in the bottom rose. Even these "impressive numbers understate real income mobility" since relative mobility is a "zero-sum game" (by definition, 20% are in each quintile) while income growth isn't. The "vast majority" of children had higher real incomes than their parents. And this is over just one generation; real mobility is visible over multiple. "The American Dream is alive and well."

Brace for the return of China

Editorial
The Economist

The economic impact of China's reopening following pandemic lockdowns will be felt globally, says The Economist. Although the Chinese economy could contract in the first quarter due to Covid-related disruption, economic activity will eventually rebound sharply, along with Chinese demand for goods, services and commodities. The ruling Communist Party is "banking on it", hoping to be judged on the recovery rather than the "tragedy its incompetence is compounding". It will also have "painful side effects", however, leading to higher inflation and interest rates around the world. China typically buys more than 20% of the world's oil, more than half of its refined copper, nickel and zinc, and more than three-fifths of its iron ore. Rising Chinese demand for oil and gas could result in shortages in Europe. If Russia cuts off piped gas to Europe in the autumn, it could lead to shortages amounting to 7% of the continent's annual consumption. As for China itself, it is now seen as a "riskier bet" for foreign firms with operations in the country and investors. "With luck, China's reopening will ultimately succeed. But some of the paranoid, xenophobic mood that the party stoked during the pandemic years will surely linger."

Britain is leaking cash to foreigners

Roger Bootle
The Daily Telegraph

The UK's national debt, or ratio of government debt to GDP, will soon exceed 90%, says Roger Bootle. The higher the debt, the higher the debt interest payments, a problem "intensified" by higher interest rates. This money is owed mostly to nationals, but around a third is owed to foreigners. Perhaps more importantly, in terms of the national finances, the UK is also a "substantial net international debtor" and has been since 1997. In 2021, our net asset position was -18% of GDP. This matters because it is a part of our citizens' wealth and over time contributes to living standards. So far we have got by, by investing in foreign assets with higher returns than our liabilities to foreigners and because of the pound's tendency to fall, which reduces the international value of our liabilities. Unless we are "peculiarly clever in our overseas investments, or take extra risks, there will be a persistent net outflow" of cash. We are living beyond our means. This year's current-account deficit is likely to be around 4.5%. The "persistent deficit is a… profound economic weakness". Greater productivity is key, but that requires productive investment. Bad investment, such as the "ludicrous HS2", is more like consumption, but "without the enjoyment".

Maximising profits has its limits

Rana Foroohar
Financial Times

The "efficiency" model of corporate management of the past 40 years is "tapped out", says Rana Foroohar. The recent chaos at US budget airline Southwest, which saw thousands stranded for ten days over Christmas, is an illustration of this. "Wall Street rewards companies far more for downsizing people and distributing profits to investors than it does for capital expenditures that may not pay off fully for years", and Southwest isn't the only firm to have been handing back as much money as possible to investors rather than investing in the business. Crises including the Boeing 737 Max crash, the Pacific Gas & Electric equipment that caused California's wildfires and the General Motors ignition switch recall all had a link to a "balance-sheet-focused form of management: being lean and mean, cutting all excess costs and treating human beings as metrics to be squeezed". The financialisation of airlines may have "reached a peak" with cramped seats, additional charging for food and drink and selling more tickets than they have aircraft to service. I can't help wondering if the reluctance to return to work, post-pandemic, is "down to management styles that are pushing people, customers and companies to the brink".

Money talks

"I'm a spender and my wife's a saver. She's the financial brain – or the financial worrier. I leave it all to Kath. I get bored of it, and I get told off for being bored. I have pocket money that I spend on watches."
Cricketer Ian Botham (pictured), quoted in The Sunday Times

"There are too many boards who sit pretty on ridiculously high salaries of which they are not worthy… That is prevailing in the big companies in Britain. There are very few boards that seem to be worth the… big bucks paid out to them."
Peter Hargreaves, founder of broker Hargreaves Lansdown calling for his old firm to slash costs and change its strategy, quoted in the Financial Times

"Spend it now, enjoy life. Mostly I've spent money on travelling. Some years ago I invested in a food company as it felt like everyone was jumping on the train and it went bust. I lost £12,500."
Street food entrepreneur Petra Barran, quoted in The Telegraph

"Valuation [as measured by p/e ratios] is important, but a great lesson from [veteran investor] Warren Buffett is that outstanding businesses are worth much, much, much more than mediocre ones."
Nick Train, manager of Finsbury Growth & Income Trust, quoted in The Sunday Times

"One of the reasons I work so hard now is so that I can look after not just my immediate family – my children and my partner – but also my mum and my siblings. I want to give them a life they have never dreamed they would be able to have. When I was 12, I used to tell my mum all the time: 'I am going to be rich one day.'"
Khadija Kalifa, star of business reality TV show *The Apprentice*, quoted in The Mail on Sunday

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Peak inequality is behind us

©Getty Images

Piketty: prophets are part of the stabilisation mechanism

noahpinion.substack.com
One name you don't hear a lot these days is Thomas Piketty, says Noah Smith. The French economist "burst into the popular consciousness" with the publication in 2013 of *Capital in the 21st Century*. His argument was that without the "extraordinary" intervention of government action or war, there was a tendency inherent in capitalist societies towards ever-increasing inequality. According to Piketty, only the combination of the Great Depression, the New Deal, World War II and rapid post-war growth had saved us from spiralling inequality, and hence social collapse. Now we back in a "second Gilded Age".

The book casts a spell

The book sparked debate, but few questioned that inequality was indeed rising and that something must be done about it. Yet just as Piketty's book hit the shelves, "an interesting thing happened" –inequality plateaued, then fell.

Data of the kind relied upon by Piketty now shows that the share of wealth going to the richest in society plateaued around the time he published his book, and stayed steady or even declined over the next eight or nine years. Then, as stocks crashed this year, the wealth share of the top percentiles – those who own most of the stock in the US – turned down.

It's a similar story for wages. Labour income inequality rose from the late 1970s through the late 2010s, then plateaued when Piketty's book came out. The second-poorest quartile's earnings have since actually risen a bit. Other data sources show that, although inflation has hurt everyone's real wages, for the bottom 10% of earners the gains have outweighed the losses, perhaps due to tight and competitive labour markets and minimum wages. Government transfers have further boosted the incomes of the poor.

True, the drops in inequality are modest and could be temporary. But the fact that inequality has not got worse suggest that Piketty's predictions of an "imminent crisis of capitalism" were "overdone". What has been demonstrated rather is capitalism's "fundamental self-correcting stability". Stock prices can bubble up for a long time, but not for ever. When workers are in demand, their wages rise. Globalisation runs out of steam when markets and investment opportunities get saturated. And if the poor "get the shaft" for long enough, they'll get mad and demand more. Prophets such as Piketty, who "arrive at the peak of inequality to issue dire warnings", may be a "crucial part of the stabilisation mechanism that brings inequality back down". Let us hope so.

Taxi apps run out of road

fullstackeconomics.com
After a week driving taxis for the ride-hailing app Lyft, I got just 52% of what my passengers had paid, says Timothy Lee. Yet despite taking such a big cut, Lyft still fails to turn a profit (it lost almost $1bn in the first nine months of 2022). In the pre-Lyft world, only about 15% of fares went on dispatching and other "back-office" functions, the rest went to the driver. This implies that the old taxi business model worked better than the disruptive technology-driven one. Lyft doesn't publish the numbers needed to check if my own experience is more general, but Uber's suggest that it too is taking a much larger cut than traditional taxi dispatchers. Like other Silicon Valley tech upstarts, the ride-hailing apps face a reckoning as interest rates rise and investors become more concerned with profits than rapid growth at any cost. But the only way such labour-intensive industries can improve margins is by raising prices – not a goer as most users are relatively poor – or "screwing drivers". The benefits of the technology over the older methods are real, but probably too marginal to make much difference to the "challenging economics" of the business. Without big changes – could Lyft make deep cuts in staffing while keeping the core business running, as Twitter has? – ride-hailing apps might be running out of road.

Privatise the airports

nber.org/digest
As of 2020, nearly 20% of the world's airports had been privatised. That has been a boon for the owners – particularly when they are private-equity funds – and for customers too, says Laurent Belsie. A new working paper by economists Sabrina Howell, Yeejin Jang and co-authors shows that, between 1996 and 2019, airports owned by private-equity funds improved performance in many areas.

A key metric of efficiency is passengers per flight. The more customers an airport can serve with existing runways and gates, the more services it can deliver and the more earnings it can generate. When private-equity funds buy government-owned airports, this measure rises by an average of 20%. Overall passenger traffic, freight volumes and the number of flights show a similar pattern. A private-equity acquisition is also associated with a decline in flight cancellations and a rise in the likelihood of awards for service, as well as a rough doubling of operating income. The driving forces appear to be new management strategies, including better pay, alongside investments in new capacity and customer service.

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Private equity will serve you better

Get real: Mars is not an option

idlewords.com
There was a time when getting to Mars, a current goal of US space agency Nasa, made sense, says Maciej Cegłowski –back when astronauts were a "cheap and lightweight alternative to costly machinery". But 50 years of progress have changed that. Despite the presence of a $250bn laboratory on the International Space Station (ISS), every major discovery made in space this century has come from robotic spacecraft.

Whether you consider the project from the point of view of the cost (something north of half a trillion dollars), the hostile environment for human life (the ISS crew spend most of their time fixing the machinery that keeps them alive), or the risk of microbial contamination (which Nasa is required by treaty to avoid), the bottom line is that even if astronauts did land on Mars, they'd probably just have to sit in a sealed tin and operate a robot, which they can do from the US as well as from Mars. Covering up such difficulties in a "fog of Musky woo" –as billionaire Elon Musk does – doesn't change the basic reality: we're not going to Mars anytime soon.

Three left-field ideas for 2023

The coming year will be turbulent, but opportunities are emerging for adventurous investors

David C. Stevenson
Investment columnist

The consensus view is that markets will have a bumpy 2023 as we grapple with a slowdown or recession. I think that whatever your view about the outlook, even the most optimistic of us would see plenty that could go wrong. The grounds for a big bull-market surge are unconvincing. In these circumstances, funds that benefit from increased volatility might continue to have a strong 2023. Top of my list would be **BH Macro (LSE: BHMG)** and **Ruffer Investment Company (LSE: RICA)**, both of which outperformed last year.

Beyond that, what's an investor to do amid all this uncertainty? One tactic is to look to well-managed funds that invest in quality assets and trade at big discounts to net asset value. This is a theme I will revisit soon. However, first I want to stick my neck out and look at some left-field ideas. I'll offer up three niche ones this week and some more mainstream ones next time.

Emirates wants to keep its A380s flying

©Getty Images

Aircraft funds take off

One stand-out performer in 2022 was the aircraft-leasing funds that own Airbus A380 superjumbos. They largely produced stellar returns as investors cheered the rebound in global aviation. There's a good chance this will continue into 2023. Emirates, the big user of A380s, has recently said it wants to keep flying all those planes to handle surging demand. The key to these funds is the ultimate value of the ex-lease planes coming off contract. Emirates' announcement doesn't necessarily mean that the estimates of plane values will drastically change. However, it will underwrite the generous yields on offer and backstop current estimates of end-of-life values for funds such as **Doric Nimrod Air Two (LSE: DNA2)**, **Doric Nimrod Air Three (LSE: DNA3)** and perhaps **Amadeo Air Four Plus (LSE: AA4)**.

The return of retail bonds

For income-focused investors, another area worth watching is the retail bonds market – specifically, the London Stock Exchange's Order Book for Retail Bonds (Orb). I've written extensively about this over the years, largely out of regret that its great potential hasn't been realised. The idea is and was attractive: getting private investors to buy corporate bonds directly from the issuer. The market looked like it would come alive in the middle of the last decade, but has spent the last few years going nowhere. That might change in 2023.

As wholesale corporate bond markets become more inaccessible to some borrowers, we might see some new issues on Orb, helped along by behind-the-scenes lobbying by advisers to ease the regulatory burden. Late last year, the high-cost international lender **International Personal Finance** issued a new five-year retail bond with a 12% yield **(LSE: IPF3)**, which attracted much interest. I sense we could see more issuance, especially in the 8%-12% interest-rate band.

Bombed-out blockchain

If you're looking for a real left-field, high-risk alternative, consider the bombed-out digital assets sector. The Aquis exchange has a handful of venture capital (VC) funds that invest exclusively in digital-asset businesses. While I may still be cynical about VC valuations in the mainstream tech sector, even I accept that crypto VCs are facing up to the facts, which is that lots of people think that crypto, digital assets and Web 3.0 are collectively a busted flush.

Maybe that is the case: I can see a lot more pain in the immediate short term as major players crash into liquidity issues. But we may also be close to capitulation. It's possible that we hit the trough in 2023 and that more commercial cases for digital assets emerge in the new year. If that does happen – and it may not – then these small digital-asset VCs might see their shares tick up. This is very high risk, but see my article in issue 1118 for details of funds such as **KR1 (AQSE: KR1)**, **AQRU (AQSE: AQRU)**, and **NFT Investments (AQSE: NFT)**.

Activist watch

US theme-park operator Six Flags Entertainment has been targeted by activist investor Land & Buildings, which wants it to sell and lease back its real-estate portfolio, says Barron's. Land & Buildings, which has built up a 3% stake, argues that selling off the firm's real estate could boost its share price by as much as $11 from the current level of around $24. Six Flag's shares fell by almost half last year as it struggled to implement a turnaround programme that involves raising admission prices and shifting away from being "cheap daycare centres for teenagers", as CEO Selim Bassoul told investors in August. Six Flags's largest investor is H Partners, another activist hedge fund, which has also increased its stake in recent months and now holds around 13.7%.

Short positions... Fidelity blocks Jupiter UK Mid Cap

■ **Private investors who use the Fidelity fund platform have been blocked from making new investments in Jupiter's struggling UK Mid Cap fund "amid industry concerns over the proportion of unlisted companies it holds", says The Telegraph. The £1.2bn fund, which invests in mid-sized UK firms, holds both listed and unlisted shares, but since it is an open-ended fund, holdings of unlisted stocks must not exceed 10% under Financial Conduct authority rules. Over the past three years the fund has dropped by almost 30%; since these declines have mostly been driven by falls in the value of listed stocks, unlisted shares have become a greater proportion of its total value. The most significant of these is an investment in Starling Bank, which was 5% of the portfolio at end November, and which the fund is trying to sell. "Fidelity declined to explain why it had banned new investments in the fund, but said the move was 'in the best interests of our customers'."**

■ Stephen Yiu's Blue Whale Growth fund has made its first investment in the energy sector, with a 4.1% position in Canadian Natural Resources, says Citywire. Yiu, who is better known for investing in technology stocks, argues that the firm has low production costs and more than 40 years of oil reserves. He also told Citywire that he is still backing financial-software firm Intuit despite a 40% drop in its shares in 2022, saying that its US tax-filing software – which accounts for 50% of revenues – continues to have a strong competitive position. Conversely, Terry Smith (see page 3) last week reported that he had dropped both Intuit and payments firm PayPal from his giant £22.5bn Fundsmith Equity fund after prolonged under-performance from both. Smith had held PayPal since 2015 and Intuit since 2017.

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Make money from battery metals

Demand is set to keep growing, so invest in lithium, cobalt and graphite, says David J. Stevenson

Batteries have become essential for modern life. While near-term demand may fluctuate with the economic cycle, the long-run picture is one of ongoing growth. So the need for the raw materials used to manufacture batteries is likely to be strong too.

The world's first operable battery has been attributed to the Italian physicist Alessandro Volta just over 220 years ago. In 1985 a prototype appeared for the lithium-ion (Li-ion) rechargeable battery used in portable consumer electronics and electric vehicles (EVs); 1997 saw the release of the lithium polymer (LiPo) battery that can be shaped to fit devices such as mobile phones and drones.

While Li-ion batteries dominate today's rechargeable battery zone, advanced new products are still being developed, says financial research group S&P Global. Furthermore, "a wave of improvements... will eventually be adopted in most major end markets". These enhancements include improved energy density (more energy stored per volume or weight), longer lifetimes, better safety and less charge time. We're focusing here on three key elements used in the battery manufacturing process: lithium, cobalt and graphite.

Lithium is the lightest metal in the periodic table. Ceramics and glass manufacture use around 15% of available lithium. Batteries, though, consume an increasing amount of lithium each year and now account for 75% of the metal's global resources, up from about 40% in 2016.

"Lithium demand for clean-energy technologies is growing at the fastest pace among major minerals, largely reflecting the dramatic increase in EV deployment," says the International Energy Agency (IEA). "Clean energy technologies [comprise] 30% of total lithium demand today (up from a minuscule share in 2010), and the rapid [EV] uptake raises the share to [between] 75% and over 90% by 2040." Lithium demand might treble by 2025 from 2020 levels, says Credit Suisse, with "higher prices needed to incentivise the required supply response".

Longer-term forecasts are even more dramatic. The IEA believes that lithium demand in 2040 may be between 13 times (on a "stated policies scenario") and 51 times (on a "sustainable development scenario" in line with the Paris Agreement climate change goals) higher than today's levels. Unless an alternative to Li-ion batteries is found, the next two decades are likely to see massive growth in lithium demand.

An abundant element

What about supply? Lithium isn't scarce. It is the Earth's 25th most-abundant element. And its value cratered between 2018 and 2020 as the market "was swamped by oversupply and demand was hit after cuts to subsidies for electric vehicles", says Harry Dempsey in the Financial Times. Prices plunged from $25,000 per tonne to $6,000, according to Benchmark Mineral Intelligence. They have since surged to highs of almost $80,000 per tonne. That has prompted a rise in supply.

Between 2010 and 2019, lithium mine development averaged 16.5 years, with 80% of projects completed late, says the IEA. Yet about 40 lithium projects now underway globally are undergoing or have completed definitive feasibility studies. That's a 166% increase from 2019, says Fastmarkets NewGen analysis in the FT. This could mean a near-term lithium price dip, especially if recession hits EV registrations.

"Batteries account for 75% of global demand for lithium, up from about 40% in 2016"

©Getty Images

Demand for lithium-ion batteries is raising Albermarle's profits

Over the longer term, however, greater lithium shortages are forecast. "[The] lithium market is likely to be in a perpetual deficit," says industry analyst Macquarie. "As a result, lithium prices are expected to continue to rise... beyond 2027, the supply deficit should widen significantly." Put another way, lithium remains a highly investable metal for the long run. So what should you buy to take advantage?

The leader in lithium

Albemarle (NYSE: ALB), with a market value of $25bn, is the industry leader in lithium and lithium derivatives. The group's Bromine Specialties business supplies products for fire safety, oilfield drilling, pharmaceutical manufacturing, high-tech cleaning, water treatment and food safety. Further, Albemarle provides top-performance catalysts, technologies and related services to the refining and petrochemical industries.

Though Albemarle isn't a pure lithium play, this diversification provides downside risk protection should the lithium outlook prove less supportive than expected. The stock has declined of late owing to those higher supply expectations, but Albemarle remains optimistic. For the three months to 30 September 2022, net sales grew by an annual 152% while adjusted earnings per share (EPS) soared by 614%.

"We had an outstanding quarter driven by strong demand for lithium-ion batteries," says CEO Kent Masters. The "full-year 2022 outlook remains strong... and adjusted Ebitda (earnings before interest, tax,

depreciation and amortisation) [is] expected to be nearly four times 2021 results". On a 2023 price/earnings (p/e) ratio of eight Albemarle is clearly cheap.

Multiple uses – but an unstable supply

Over to cobalt, which has a wide range of commercial, industrial, and military applications. Super-alloys for gas turbines are a major one. Car airbags; catalysts for the petroleum and chemical industries; cemented carbides (also called hard-metals) and diamond tools; drying agents for paints, varnishes and inks; magnetic recording media; magnets; and steel-belted radial tyres are all among cobalt's applications, says the United States Geological Survey.

Cobalt's main global use, though, is in rechargeable battery electrodes. Again, demand for portable consumer electronic devices such as cell phones, laptops and PCs determines how much cobalt is required. EV batteries are another significant cobalt user. However, as EV manufacturers are transitioning away from cobalt, the story here is not as strong as for lithium.

Still, according to the IEA, cobalt demand "could be anything from six to 30 times higher than today's levels depending on… the evolution of battery chemistry and climate policies". Supply, however, looks likely to be very tight. "More than 70% of the world's cobalt is produced in the Democratic Republic of Congo (DRC)," notes FrontierGroup.org. "Based on operational mines and projected demand, forecasters predict that supply won't be able to keep up with demand by 2030, or even by 2025."

Even the lowest predicted outlook still implies large demand increases for the metal. Meanwhile, doubts

"Cobalt supply could outstrip demand as early as 2025"

over supply (the DRC isn't the most politically stable environment) mean that cobalt is likely to experience a major long-term price rise. Because cobalt is mainly a by-product of copper and nickel mining, pure-play producers don't exist. Canada-based **Sherritt International (Toronto: S)**, however, is a world leader in using hydrometallurgical processes to mine and refine both nickel and cobalt. Yet the firm has a market capitalisation of just C$226m (£139m).

Over the first nine months of 2022, just under 15% of Sherritt's metals and mining revenues came from cobalt, specifically from Moa (its 50%-owned Cuban joint venture) and the company's refinery in Fort Saskatchewan, Alberta. Sherritt can produce 3,800 tonnes of cobalt per year.

The firm says that it plans to expand "nickel and cobalt production by up to 20% from 2021 and [to extend] the life of the mine at Moa beyond 2040". Granted, there are risks with the Cuban joint venture (the other half is owned by Cuba's government) in respect of the continued US embargo. Yet they're fully factored into the company's valuation. On a prospective p/e of three and a price/book value ratio of just over 0.3, Sherritt is cheap as chips.

One hundred times stronger than steel

Finally to graphite, an allotrope of carbon and one of the world's softest minerals, with uses ranging from writing implements to lubricants. "Graphite can behave like a metal and conduct electricity but also as a non-metal that resists high temperatures," says Sciencing. "Rolled single graphene sheets are ten times lighter and 100 times stronger than steel... this derivative of graphite, the world's strongest identified material, [is] used to make super-strength lightweight sports equipment. It [is] ideal for applications in medical implants, flexible electronic devices and aircraft parts."

Again, though, it's demand for Li-ion batteries, driven by increasing numbers of EVs, that is set to power the graphite market. "[By] the end of next year, batteries will be the... leading market for graphite," Andrew Miller of Benchmark Mineral Intelligence tells Investing.com.

He estimates that up to 150 new operations across natural and synthetic graphite are needed by 2035 to meet this unprecedented demand. "When you look towards the tail end of the decade," says Miller, "both natural and synthetic graphite are facing serious structural issues to meet… demand." By then, a "significant deficit" is likely.

Nouveau Monde Graphite (TSX Venture Exchange: NOU) is working towards developing a fully integrated source of carbon-neutral battery material in Quebec, Canada. The company says that "with low-cost operations and enviable ESG [environmental and social governance] standards, [it] aspires to become a strategic supplier to the world's leading battery and automotive manufacturers". The company's Phase-2 Matawinie Mine (with its "world class deposit") and Bécancour Battery Material Plant are located within 150km of Montreal. Nouveau Monde's recent feasibility study projects that the mine could produce 106,000 tonnes per year of graphite concentrate for 25 years.

Nouveau Monde is highly risky. There are no sales, just expenses. For the nine months to the end of September 2022, the company incurred total costs of C$43m. Over its history, it has accumulated total losses of C$160m. In short, Nouveau Monde is dependent on its ability to keep raising cash to fund its development. With the stock falling from C$25 two years ago to just C$6.35 today, issuance of more equity will dilute the interests of existing shareholders. Yet now could be the time to buy. New investors who can stomach the risks could be well rewarded over the next few years.

How can science stop the superbugs?

Anti-microbial resistance threatens to render antibiotics ineffective, spelling the end of modern medicine. How are drugmakers and other scientists fighting back? Alexander Rankine reports

Until Alexander Fleming's discovery of the antibiotic penicillin in 1928, a simple bacterial infection could prove fatal. Surgery and childbirth were extremely dangerous. An infected cut might spell amputation. As Sally Davies, the former chief medical officer for England, notes, effective antibiotics have made much of modern medicine possible. Hip replacements and transplants would be prohibitively risky without them.

Many cancer treatments would also be out: more than half of oncology patients require antibiotics. So it is extremely bad news that the world faces widespread antimicrobial resistance (AMR), a situation where bacteria, viruses, fungi and parasites stop responding to medicines.

The bugs gain the upper hand

"Before antibiotics, 43% of people died of infections in this country," says Leah Hardy in The Daily Telegraph. Today the figure is 7%. Yet things are going in the wrong direction. Data from the UK Health Security Agency shows that "a third of all UTIs [urinary tract infections] in Britain are resistant to key antibiotics".

A report last month from the World Health Organisation found that across 87 countries a fifth of *Escherichia coli* (*E. coli*) isolates – the most common pathogen – in UTIs are resistant to both first-line and second-line drug treatments. Similarly, "over 60% of *Neisseria gonorrhoea* isolates, a common sexually transmitted disease", had some resistance to ciprofloxacin, one of the most common oral antibacterials.

A study in the Lancet estimates that in 2019 "there were 4.95 million deaths associated with bacterial AMR" worldwide, "including 1.27 million deaths directly attributable". Antibiotic-resistant infections are already thought to kill more people each year than HIV or malaria. A 2016 UK government review chaired by the economist Jim O'Neill warned that antibiotic-resistant infections could kill ten million people a year by 2050. The economic cost if no action is taken would reach a cumulative total of $100trn in lost global GDP by 2050. Annual global GDP in 2021 was $96trn.

The cause of growing AMR is no mystery: Alexander Fleming himself warned of the challenge in 1945. Antibiotics create strong selective pressures in favour of bacterial strains that are able to survive the onslaught. Some of these resilient variants have evolved to produce enzymes that neutralise our drugs; others have developed biological pumps that remove antibiotics. While our treatments whittle away the competition, drug-resistant variants are able to flourish and spread.

The result is a kind of chemical arms race: humans might regain the initiative against a germ that has ceased to respond to one antibiotic by using one from a different class of treatments. Yet that just starts the process of evolution by natural selection all over again, eventually raising the spectre of "multidrug-resistant" superbugs. The problem has been accelerated by widespread overuse of antibiotics. The NHS has been trying to clamp down on overprescribing.

"No new class of antibiotics has been discovered and brought to market for 40 years"

Perhaps an even bigger concern is the systematic use of the drugs in farming. US agricultural firms purchase about two-thirds of the country's "medically important antibiotics", says Kenny Torrella on Vox. Worse, most of these drugs are used preventatively rather than to treat animals that are already ill. Once they take hold among a group of livestock, drug-resistant pathogens may be passed onto humans either through contact with farmers or via the food chain.

A laborious process

Penicillin was famously discovered by accident: Fleming noticed that a mould in his laboratory was neutralising samples of the bacterium *Staphylococcus*. That mould turned out to be the first antibiotic. The early days of antibiotic research followed a similarly haphazard approach. Pharmaceutical firms tested soil samples from around the world to find useful compounds.

Yet by the 1980s that method was running out of steam. No new class of antibiotics has been discovered and successfully brought to market for 40 years. The Pew Charitable Trusts report that just over 40 new antibiotics are currently in development, says David Hyun in Nature. Yet only 25% of them "are entirely new in their mechanism of action". Humanity is losing the chemical arms race.

Discovering a clinically useful antibiotic is no small task. Once you've found a promising molecule you need to check if it is soluble and can effectively penetrate the cell membranes of bacteria. You also need to establish that the compound is not toxic to humans and work out how to produce it at scale. It takes about a decade and $1bn to bring a new antibiotic to market.

That shouldn't be beyond the resources of Big Pharma. The problem is that there is no money in antibiotics. Pharmaceuticals are a volume business, reliant on selling a steady stream of drugs to patients with chronic or common conditions. But antibiotics are ideally held in reserve for use only sparingly. If widely deployed they risk becoming ineffective.

The result has been consolidation. More than half of the world's antibiotics are made by just four firms – GlaxoSmithKline (GSK), Novartis, Teva and Mylan. Only a few big players do research into new treatments. The considerable risks of developing treatments, combined with the uncertain financial rewards, mean that smaller pure plays often come unstuck. For instance, Aim-listed Motif Bio collapsed in 2021 after failing to get Iclaprim, a novel antibiotic, approved by the US Food and Drug Administration.

With so little money to be made the research pipeline for new treatments is thin. There are more than 1,000 cancer medicines under development, compared with just 40-odd antibiotics, says Hyun. But regulators and governments now realise that incentives need to change.

The NHS has become a leader in "Netflix"-style subscription models for new antibiotics. The idea is that the drugmakers can be guaranteed a steady income for developing and supplying a new drug regardless of the volume actually used, similar to a monthly subscription service. A "Pasteur" (Pioneering Antimicrobial Subscriptions to End Upsurging Resistance) Act is also before the US Congress.

©Alamy

Antibiotic resistance is thought to kill more people each year than HIV or malaria

How artificial intelligence will help

Pharma groups are mobilising resources. The AMR Action Fund, a $1bn kitty established by more than 20 drugmakers, is bankrolling promising technologies. Last spring it invested $20m with Adaptive Phage Therapeutics, a start-up working on bacteriophages: naturally occurring viruses that infect and neutralise bacteria.

But perhaps the most promising developments involve artificial intelligence (AI). Computers have recently shown a growing ability rapidly to model and predict how chemical molecules will interact, saving researchers months of real-world testing.

"AI models can navigate the vast chemical space to discover new antimicrobial medicines faster than any human being," says Alessandro Curioni on Weforum. In one recent study an "AI-assisted search for new" antimicrobial peptides (small, protein-like molecules) "produced 20 promising novel candidates in just 48 days". It could have taken years to obtain such results with traditional methods. If humans are to win the arms race against the superbugs then we will need computers to get us there.

If AI does play a role in the next phase of antibiotic research then Google's-owner **Alphabet (Nasdaq: GOOGL)** looks well-placed to profit. The company owns Isomorphic Labs, spun out of DeepMind – Alphabet's AI subsidiary – in 2021, says Jennifer Johnson in Investors' Chronicle. Isomorphic Labs is reportedly "in partnership talks with several big pharmaceutical companies".

Previous attempts to apply AI to pharma have disappointed, but the technology could be approaching an "inflection point in drug discovery". Just note that the "highly technical" and "secretive" nature of the field means "it's not yet clear which companies, partnerships or platforms have a genuine advantage in drug development", so it helps to spread your bets.

Of the traditional pharma players, **GSK (LSE: GSK)** boasts the largest AI team in the industry. The company is one of the most active in working on AMR. Gepotidacin, a new antibiotic, has shown very encouraging results against UTIs in recent trials. Post-pandemic advances in vaccine technology also offer a way forward: "Over the past two years we have more than doubled our vaccines research programmes that could help fight AMR", says the firm. Vaccines can help "prevent infections occurring in the first place [and halt the] transmission" of resistant bacteria.

In a sign that companies need to pool resources to face the AMR challenge, **Evotec (Frankfurt: EVT)** and diagnostic specialist **bioMérieux (Paris: BIM)** recently joined with privately held Boehringer Ingelheim to launch Aurobac Therapeutics. The aim is to use more rapid testing to develop targeted treatments that can replace the current broad-spectrum antibiotics, which damage gut flora and can promote AMR.

A more speculative bet is **Summit Therapeutics (Nasdaq: SMMT),** which has had a disappointing run of clinical trials of potential antibiotics of late and still has no marketed drugs. Investors tired of speculating on trials of obscure-sounding drugs could instead research **Ondine Biomedical (LSE: OBI)**, a Canadian firm that works in nasal photodisinfection.

More than a quarter of noses are colonised with *Staphylococcus aureus*. Some of these are the MRSA variant, a well-known hospital superbug. Light-based treatments may prove one solution when antibiotics lose efficacy. Just note that, as an unprofitable firm with a market value of just £40m, this is a high-risk bet.

> *"Post-pandemic advances in vaccine technology also offer a way forward"*

Dealing with divorce

The process can be expensive and arduous. Here are the key points to bear in mind

John Fitzsimons
Money columnist

Many couples call it quits after Christmas

©Getty Images

Monday 9 January was Divorce Day: the first post-holiday Monday, when divorce lawyers see a jump in enquiries as couples end their relationship after a stressful Christmas. The first thing to consider is the cost of the process. There is a £593 fee for filing for divorce, as well as a £232 fee if arrangements for children need to be put in place. If you go to court, hourly lawyers' fees can be as high as £410. Going through mediation may be cheaper and faster. You can find a mediator to discuss the options with you through the Family Mediation Council (FMC). FMC-registered mediators charge an average of £140 per person per hour.

Another alternative is arbitration, where an independent arbiter is appointed to make a binding decision on the division of assets. This option often incurs a fixed fee, but if the case is complex the arbiter may charge an hourly rate, which could be around £250-£450.

Division of spoils

There is likely to be no more valuable asset involved than the family home. The most straightforward option may be to sell it and divide the proceeds between each party. An alternative will be for one partner to buy out the other, and remain in the property. The property will need to be valued so that it is clear how much money is required to purchase the stake, while the lender will also need to be informed so that they can determine if they are happy you can afford the repayments on your own.

With joint mortgages, both partners are responsible for making the monthly repayments, even if one has moved out of the property. This will remain the case until a divorce settlement has been finalised. Failing to make the repayments will have a knock-on effect on your credit scores, while it may also mean late payment fees from the mortgage lender.

Savings are fairly straightforward to divide up, but things can be a little more complicated with investments. In some cases you can transfer ownership between partners, but in others you may need to sell the asset and divide the proceeds, which could incur fees and capital gains tax (CGT). At present, separating spouses may transfer assets to each other without incurring CGT until the end of the tax year of separation, a time frame due to be extended to three years from April.

One asset all too often ignored when it comes to divorce is the pension, yet it is considered a joint asset, even if one spouse has built it up. It's very easy for one partner to be left financially vulnerable by missing out on a portion of their partner's pension savings. Women are more likely to be negatively affected by pensions being overlooked. Typically, a woman may choose to take the home and will let her husband keep the pension. Though this may seem like an advantageous split, the partner who took the property rather than the pension has no income to live on when they come to retire.

There are three main options for dividing pensions in the event of a divorce. One is pension offsetting, whereby the value of a pension pot is offset against the value of another asset, for example with one partner keeping the pension and the other getting a larger stake in the family home. Pension sharing simply involves some or even all of one partner's pension savings being moved into an account belonging to the other.

Finally, there are attachment orders, where one partner commits to paying a portion of their pension income to the other once they reach retirement. This works slightly differently in Scotland, where it is known as pension earmarking. Recipients north of the border can only receive some of the lump sum available to those taking money from their pension for the first time, and cannot take a portion of the pension income that follows.

Pocket money... mobile bills to soar in March

● Be careful if you need to call HMRC. There are an increasing number of online adverts "from companies that put callers through to HMRC at hugely inflated costs," says Charlotte Gifford in The Telegraph. These connection services charge a premium rate – typically around £3.60 a minute – to direct you to another company or government department.

Research by the Low Incomes Tax Reform Group found one taxpayer had been charged £140 to contact HMRC. "Another was put off calling the taxman to get their PAYE code sorted because an online advert had made them think it would cost £3.60 a minute. Don't ring HMRC on any number starting with 09, 087 and 084. Stick to HMRC's own self-assessment helpline number, 0300 200 3310.

● Broadband and mobile phone bills could rise by up to 18% this year, says George Nixon in The Times. The big telecoms firms put up their bills every March in line with inflation, "plus a bit extra". O2 uses the retail price index (RPI) gauge, which is higher than the official consumer price index (CPI) as it includes mortgage-interest payments. The other providers use CPI. O2 will use February's RPI figure (November's was 14%) and add 3.9%; the others will base their price rises on December's CPI.

● "Lenders are jostling for home-loan customers," says James Pickford in the Financial Times. TSB has slashed its mortgage rates by up to 1.3 percentage points and Nationwide has cut rates too, "underlining lenders' appetite for new mortgage business". If you are looking to remortgage with a maximum 60% loan to value, you can get a five-year deal from TSB for 4.99%, down from 6.29%.

● If you have retired, or been entitled to do so, since April 2016 and don't receive the full state pension, you have just two months left to boost what you get, reports Lily Russell-Jones in The Times. You need 35 full years of national insurance contributions to get the complete state pension of £185.15 a week. You can secure the full amount by paying to fill gaps in your national insurance record. Normally you can make up missed contributions going back six tax years but until 5 April 2023 people in the above group can pay missed contributions dating back as far as the 2006-2007 tax year.

Avoid IHT while you can

Pensions are subject to generous rules on inheritance tax – for now

David Prosser
Business columnist

Governments haven't always looked kindly on the Institute for Fiscal Studies (IFS), the economic think-tank. Its frequent brutal assessments of budgets and spending plans have left ministers reeling. Pension experts will therefore hope that this government does not feel inclined to act on the IFS's assessment of the rules relating to inheritance tax (IHT). The "overly generous tax treatment of pension pots at death needs to be swiftly ended", the think-tank argues in a new report.

There is certainly no denying the generosity the IFS refers to. When you die, any money left in your pension can usually be bequeathed to your heirs entirely free of IHT; the money sits outside of your estate for the purposes of calculating any tax that's potentially due.

Moreover, if you die before reaching the age of 75, your heirs will typically inherit your remaining pension savings completely tax-free. You would have had to pay income tax on this money when withdrawing it from your savings. But your heirs will only face an income-tax bill if you made it to age 75 before dying.

These rules were introduced at the same time as the pension freedom reforms of 2015. Previously, most people converted pension savings to income through an annuity, payable until their death. Their heirs got little or nothing, even if the pension saver had received their annuity income for a very short period.

That trap was indeed unfair. But as the IFS points out, the way in which the government chose to remedy it was unusually munificent. Today, pension savings are the only form of substantial wealth that you can pass on with no liability for IHT. And many people receiving such bequests are getting cash that benefited from upfront income-tax relief, but where there is no further income tax to pay.

A Conservative government dependent on older voters may be loath to change the rules

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All of which gives rise to a valuable financial-planning opportunity, particularly with the IHT threshold frozen year after year. If you get to retirement with several sources of savings, it makes sense to leave your pension cash untouched for as long as possible. Run down other sources of money first: cash in individual savings accounts, for example, or from property – because this wealth does fall within the IHT net. By leaving the inheritance tax-free pension aside, you'll maximise your heirs' chances of reducing or receiving no tax bill.

> *"Any changes to the system are unlikely to be retrospective"*

The IFS estimates that subjecting pensions to IHT would increase the Treasury's revenues by £1.9bn a year. Turning that statistic around, the implication is that families currently have the potential to save £1.9bn of tax annually by planning their retirement finances carefully.

It's difficult to gauge whether the government will follow the IFS's advice. While every penny of additional revenue is needed at present, successive governments have been reluctant to make pension saving less attractive from a tax perspective. A Conservative administration, which is particularly dependent on older voters, would find such a raid even more politically difficult.

In the meantime, it's important that families take full advantage of the rules as they stand. The current system may not endure, but changes are unlikely to be retrospective. Plan for retirement using a range of tax-efficient vehicles, including Isas and pensions, and then draw down from these funds in a way that optimises your family's tax liability.

A victim of its own success

A decade after it introduced the "auto-enrolment" pensions system, the government is proud of its success. Now that all employers must offer an occupational pension scheme, and automatically enrol all employees other than those who deliberately opt out, ten million extra Britons are putting cash by for retirement. But pension experts worry that auto-enrolment's biggest success will also be its biggest failure. Millions of savers now contributing to pension schemes think they are heading for a comfortable retirement. But they are likely to be wrong.

The minimum auto-enrolment contribution is 8% of salary, with 5% and 3% of that coming from employers and employees respectively. That simply isn't enough. Figures from pension provider Aegon suggest that the average 22-year-old saving until age 68 at a rate of 8% a year could expect to end up with a pension fund worth £151,000 in today's money. It thinks £263,000 should be the target for those hoping for a moderate standard of living in retirement. But that would require a yearly contribution rate of 14.7% a year. Aegon's research suggests many people are unaware of the dangers. A survey it conducted found that while 52% of people believed they had saved enough for retirement, fewer than half actually knew how much they'd amassed. More than half of younger people said they paid less attention to saving because they were covered by auto-enrolment.

News in brief... digital dashboard delayed

● The Financial Services Compensation Scheme (FSCS) could be given powers to award larger compensation payments in cases related to pensions under plans being discussed by the main City regulator. The Financial Conduct Authority is consulting on whether the FSCS, currently limited to a maximum compensation award of £85,000 in most cases, should be allowed to pay out more when savers suffer pension losses. The current limit means a disproportionate number of savers have not been fully compensated for losses in cases related to pensions, compared with other types of investment.

● The much-delayed pensions dashboard initiative may be introduced even later than expected amid problems with testing. The scheme, through which all Britons should be able to see details of all their private pension savings in one digital location, is due to go live later this year. But reports in The Times suggest many occupational pension schemes are struggling to get to grips with the technology, which could see implementation delayed.

● Financial advisers may not be doing enough to check that clients are getting consistently high-quality advice on pension saving and retirement planning, the Financial Conduct Authority warns. A "Dear CEO" letter sent to senior executives in the financial-advice industry notes that failings are often linked to poor controls and oversight at advice firms. The regulator is promising to crack down on such issues.

A gem in the bargain bin

Supermarket Income REIT offers the prospect of a reliable income stream from a stable sector

Rupert Hargreaves
Deputy digital editor

UK equities are universally hated by fund managers and investors around the world. However, in every crisis, there are always opportunities.

Real-estate investment trusts (Reits) seem to have borne the brunt of investors' pessimism. Indeed, some are now trading at discounts of 50% to their reported net asset values (NAV). In some cases, these discounts seem warranted, but in others it looks as if the market has overreacted.

Don't take the numbers at face value

Supermarket Income REIT (LSE: SUPR) reported a NAV of 115p per share at the end of its fiscal year in June 2022. With the shares trading around 101p at the time of writing, the stock is trading at a discount of around 12% to this figure.

Now, relying on a company's reported NAV without considering the quality of the underlying portfolio usually isn't too clever.

These figures are based on surveyors' assessments and accountants' calculations of fair value for the properties at a particular time. They do not, for example, tell us about the quality of the tenants and assets in the portfolio.

This last point is becoming increasingly important. Tenants (both commercial and residential) are shunning old, shabby buildings in favour of newer developments with all the mod cons.

What's more, the government wants to increase the energy efficiency of all commercial buildings to between A and C, the three highest grades, by the end of the decade, which could lead to huge costs for landlords.

Analysts are already warning that the number of so-called stranded assets in the sector could rise substantially in the coming years as landlords abandon properties rather than deal with the expense of upgrading them.

That's why, when it comes to Reits, reported NAV values are only part of the picture. Focusing on those trusts with the most predictable, financially secure tenants in purpose-built facilities is the most sensible course of action.

As the population expands, demand for supermarkets will increase

©Getty Images

A defensive industry

This is where Supermarket Income REIT stands out. As its name suggests, the group buys properties occupied by supermarkets, one of the most defensive sectors in the economy. These properties (it owns 76) are designed to meet the needs of retailers. They have large buildings, car parks and loading bays and are often very easy to adapt to online-order fulfilment with minimal changes.

To meet the growing demand for online sales, some supermarkets have chosen to open large distribution centres, but it is often more cost-effective to deal with orders directly from local stores.

That's not to say that supermarkets are immune from market forces. The market is hyper-competitive and sector giants such as Tesco are more than happy to open a store close to their competitors and take a hit on margin simply to grab market share.

However, supermarkets fulfil an important role in the economy, and with the country's population expanding, the demand for their services is only likely to grow.

There are also far more uses for an old supermarket than for a dilapidated office or shop on a run-down high street. If the tenant moves on, the landlord has plenty of options to convert the asset.

So, the fundamentals underpinning Supermarket Income REIT's underlying market are strong, which is ultimately why I think now could be a great time to take advantage of the market's short-term mentality.

Income and growth potential

The stock is trading at a double-digit discount to net asset value and also supports a dividend yield of 4.6%, although analysts expect the payout to rise to 6p per share in 2023, which suggests the stock currently offers a potential yield of 5.9%. The company's ambition is to produce a return of 7%-10% per annum for investors.

Historically, Supermarket Income has used equity rather than debt to fund growth, which has made sense because the stock has tended to trade at a premium to book value since its flotation in 2017. As a result, the group is now entering a period of higher interest rates with a net loan-to-value ratio of just 19%.

Debt costs have been hedged with interest-rate swaps, locking in a low fixed-interest rate of 2.6% for the next four years (although this has come at a cost: management has noted that the cost of hedging will trim NAV to the tune of 2.8p). As well as a fixed cost of debt, on the income side 81% of leases are inflation-linked and the portfolio has a weighted average unexpired lease term ("WAULT") of 15 years.

On the growth front, management is on the lookout for new opportunities that may emerge in the economic downturn, including retail parks with supermarkets that are part of a wider development programme. In its last fiscal year, the group acquired 12 non-grocery units on three supermarket sites.

One risk I think investors need to keep an eye on is dilution. Issuing new shares to fund property purchases when the shares are trading at a discount to NAV will lower shareholder value.

The company may also struggle to hit its shareholder return target if property values fall substantially (although on the other hand the group might be able to expand its portfolio on the cheap). In an uncertain and unpredictable market, Supermarket Income could provide investors with a dependable income stream from a stable asset class.

Show's over at Live Nation

The events organiser and ticket seller is notorious for poor service

Matthew Partridge
Shares editor

Last year was one to forget for many investors, especially for those who bought shares that had soared during Covid-19. One formerly high-flying company that has seen its stock clobbered over the past 12 months is **Live Nation (NYSE: LVY)**. Live Nation was formed from the merger of two ticketing companies a decade ago and makes its money organising box-office sales for live events. As you might expect, its shares collapsed in March 2020, only gradually recovering towards the end of the pandemic. The shares regained their pre-Covid level by late 2020.

The firm benefited from a surge in sales as normal life resumed, so the stock kept rising and peaked at 60% above its pre-pandemic level last February. Since then the shares have fallen back by 40% from their highs. But the pain may not be over for Live Nation's shareholders.

It's true that 2022 was a bumper year for the company, with the number of tickets sold in the first three-quarters of the year up by 37% on 2019's nine-month figure. However, much of this was due to pent-up demand, which should fall away over the next few years. Cost of living pressures and a stuttering US economy should also depress demand, especially since three quarters of Live Nation's tickets are sold in North America.

Vulnerable to new competitors

There have also been repeated complaints about Live Nation's high fees and poor level of service. Problems at some high-profile concerts (the group botched a fan pre-sale for a Taylor Swift concert, for instance) have led to calls in Congress for the company to be broken up in order to reduce its dominance in the ticketing sector (it currently controls 60% of the market).

Even if no regulatory action takes place, the group's poor service makes it vulnerable to a new entrant into the market. Live Nation's problems are particularly worrying given its eye-watering valuation. It trades at 57 times 2023 earnings, more than double the US market's current price/earnings (p/e) ratio of 19. A growing number of experts, including short-seller Jim Chanos, think that it may be even more overvalued owing to the way in which it engages in the practice of "adjusting" its profits to exclude spending or expenses that it considers a "one-off", even though many of these appear ongoing, such as the cost of depreciating assets. While such manoeuvres are permitted under accounting rules, Chanos argues that this gives a misleading impression of how well the company is doing.

"Short-seller Jim Chanos says the company's accounting is misleading"

With Live Nation shares down by 12% in the last three months and the shares trading below their 200-day moving average, Live Nation is still suffering from negative momentum. I therefore suggest that you go short at the current price of $72.38, at £35 per $1. Cover your position if it goes above $100.38, giving you a total downside of £980.

The group's handling of a Taylor Swift concert incurred widespread criticism

©Getty Images

How my tips have fared

My seven long tips have fared well over the past few weeks: six have risen. Construction firm Ashtead rose from 4,906p to 5,058p, retailer Dunelm increased from 947p to 1,020p and luxury clothing-retailer Burberry advanced from 2,147p to 2,216p. Builder DR Horton also appreciated, from $86.80 to $93.33, telecoms operator Gamma Communications increased from 1,038p to 1,097p, while Savills advanced from 814p to 824.5p. The only exception was streaming service Netflix ,which dipped from $320 to $315. My long tips are making collective net profits of £2,798, up from £2,127.

My short tips also did well, with three out of four moving in my favour. Digital currency exchange Coinbase fell from $40.24 to $38.20, while electric-vehicle charging station maker EVgo declined from $5.57 to $3.87. Real-estate investment trust Digital Realty fell from $106.96 to $101.08. The only exception was AST SpaceMobile, which increased from $4.27 to $4.78. Overall, my four short tips are making a profit of £3,200, up from £2,822.

My short and long tips are making combined profits of £5,9 98, up from £4,949. I now have seven long tips (Ashtead, Dunelm, Netflix, Burberry, DR Horton, Gamma Communications and Savills) and five short ones (Coinbase, EvGo, AST SpaceMobile, Digital Realty and Live Nation), which is a reasonable balance.

I would also suggest that you cut the prices at which you cover Coinbase from $50 to $45; Digital Realty from $150 to $140, EvGo from $10 to $9 and AT SpaceMobile from $13 to $11. I would also increase the stop-loss on DR Horton from $39.52 to $60 and the stop-loss on Savills from 458p to 550p.

Trading techniques... activist investors

Most investors are reluctant to get involved with the way that a company is managed, and will simply sell their shares if they are unhappy. Exceptions to this rule are "activist" investors, who buy shares in a company they think is being badly run with the aim of trying to pressure a company's management into making changes. However, while these investors argue that they are acting as a check on poor or incompetent management, some people say that they force firms to focus on short-term measures to boost returns to shareholders rather than on the company's long-term growth, especially when encouraging firms to sell assets. The evidence suggests that activists can indeed add value for shareholders. A US study in 2008 found that traders can make money in the short run by buying the shares of companies targeted by activists.

It examined 511 cases of activist hedge funds buying significant stakes between 2001 and 2006. They resulted in the share price of target firms rising by an average of 7% in the 40 days around the announcement (days before the news are included to allow for the fact that the activists' arrival sometimes leaks). A more recent study supports the idea that activist campaigns in general (including those carried out by longer-term investors, such as institutions and individuals) are positive for shareholders. Looking at 4,312 campaigns at 2,652 target companies between 1994 and 2014, it found that they boosted share prices by around 5% over a 16-day period around the announcement. While the biggest returns came when activists demanded that some or all of the firm be sold, those demanding a change in strategy also resulted in positive returns.

Global growth in public and private markets

A professional investor tells us where he'd put his money. This week: Nalaka De Silva, lead manager of the Aberdeen Diversified Income and Growth Trust

The Aberdeen Diversified Income and Growth Trust (ADIG) is dynamic, disciplined and, of course, diversified. Our mandate provides significant opportunities: the public capital market includes equities, fixed income and credit across developed and emerging markets. We also invest in private capital markets, which include private equity, venture capital, real estate, infrastructure, private credit and natural resources worldwide.

We seek to invest for five years or more. Having a broad mandate comes with the requirement to be disciplined. Understanding the risk associated with each asset class and investment idea is essential. The process involves macroeconomic research into sectors and markets and picking what we believe are longer-term resilient business models, particularly in private markets, where we use a thematic approach based on technology, demography and sustainability.

Finally, being genuinely diversified is essential. The correlation between bonds and equities has converged over time and in a more volatile world, inflation and geopolitics create even more uncertainty. As a result, we need to be more thorough in our investment process if we are to seek out the best risk-adjusted returns, paying close attention to where value is likely to be created or how income is sourced.

Bet on biopharma

Regarding stock ideas, we like strong, reliable cash flows from less economically sensitive parts of the market. Areas such as infrastructure, healthcare and non-discretionary spending are therefore compelling investments. While ADIG accesses these directly in the private markets, investors can invest in companies such as **BioPharma Credit (LSE: BPCR)**, a trust that provides debt capital to the life-sciences sector, secured by royalties and other cash flows from approved healthcare and life-science products. We like this firm owing to the predictable and uncorrelated returns. The income is based on sales of pharmaceuticals, which are less affected by the economic cycle than other consumer goods are. In addition, BioPharma Credit's underlying debt investments come with floating interest rates, providing protection in rising rate environments.

Renewables are roaring ahead

In infrastructure, we like the renewable energy sector, especially **Gresham House Energy Storage (LSE: GRID)**. The economic backdrop is conducive to long-term growth thanks to the key role that battery-storage systems play in the transition of the UK energy grid to renewable sources. We believe this part of the renewable energy market is also less likely to be undermined by potential windfall taxes. Finally, the group boasts a well-covered dividend, which will increase as more projects become operational.

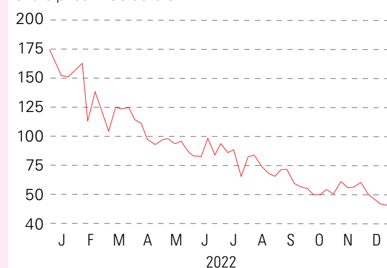
"Pharmaceuticals are less affected by the economic cycle than other goods are"

ADIG has direct exposure to a very successful European discount retailer in the private-equity sector called Action. The closest way to get exposure to this investment is via **3i Group (LSE: III)**, where Action makes up a significant part of the portfolio. Action is a fast-growing name expanding its store network throughout Europe. It is growing sales at double-digit annual rates, thanks partly to its policy of constantly refreshing two-thirds of the range. We believe it has a highly scalable business model with substantial scope for growth.

If only you'd invested in...

Data management firm **WANdisco (Aim: WAND)** has impressed investors by securing contracts for the use of its software throughout 2022, says Shares. WANdisco helps companies gather all the information from their systems and transfer it to the cloud, where it can be analysed more efficiently. In December, WANdisco announced that revenue for 2022 is likely to reach £19m, thereby exceeding expectations "significantly". The firm's $12.7m deal with an unnamed European car-parts manufacturing business has provided a key fillip. WANdisco's share price has soared by 139% in 12 months.

Be glad you didn't buy...



Video-streaming television box-maker **Roku (Nasdaq: ROKU)** has seen its share price plummet amid the slowing pace of growth in streaming subscriptions following the end of pandemic-induced lockdowns, says Forbes. Rising interest rates and a deteriorating macroeconomic environment, meanwhile, have dented both demand from consumers and advertising revenue. Supply-chain difficulties in its streaming hardware pipeline haven't helped either. Roku expects sales in the fourth quarter of 2022 to have dropped by 7.5%, while costs are soaring. The stock has slumped by 79% in a year.

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Neo takes the red pill

Pavel Durov, who dresses like the hero of the *Matrix* films and sees himself as engaged in a similar battle, is one of the world's most enigmatic billionaires. He's still fighting the good fight, says Jane Lewis

Since its inception a decade ago, the encrypted messaging app Telegram has flourished – becoming the most downloaded app of 2021 and playing a key role in the Ukraine war as "a critical source of information, and plenty of disinformation too", says Forbes. The app, which now has more than 600 million users worldwide, has made its 38-year-old founder Pavel Durov very rich, with a fortune estimated at $15.1bn. He is also one of the world's most enigmatic billionaires. Leaving Russia in 2014, and now a French citizen based in Dubai, his life seems as decentralised as his network.

©Getty Images

An avowed critic of the concept of nation states, Durov has set himself up as a standard-bearer of free-speech and data privacy – with a talent for self-promotion. He tends to favour a custom-designed all-black ensemble, reminiscent of the Neo character played by Keanu Reeves in *The Matrix*, as the Financial Times noted in 2018. "To be truly free, you should be ready to risk everything for freedom," Durov wrote shortly before the Russian authorities moved to shut down Telegram in the country – ramming home his message by appearing on Instagram riding a white horse through the desert. A devotee of yoga and a "seagan" diet of wild fish, one thing Durov appears to have in common with his nemesis Vladimir Putin is a tendency to appear on social media bare-chested.

"To be truly free, you should be ready to risk everything for freedom"

The Russian Mark Zuckerberg

Durov's resistance to the Kremlin – with whom he has long played "a game of whack-a-mole", pitting his "coding ingenuity against the full force of the Russian state" – has won plaudits: even from critics who claim that Telegram's much-vaunted encryption features aren't all they're cracked up to be. But the app's popularity "among those keen to evade the snooping eyes of governments" has equally made it a tool of criminals and terrorists, says The Guardian. Some also charge Durov with hypocrisy. Despite his avowed disdain for hierarchies, he "has cosied up to the rulers of his new home country": taking part in a meeting with the Dubai crown prince in February 2021. A month later, when Telegram raised $1bn from investors, they included Abu Dhabi state funds.

One thing not in doubt is Durov's "genius", says PaySpace magazine. He was born in 1984, the son of a Russian father and a mother with Ukranian ancestry, and first shot to prominence in the 2000s after VKontakte, the Facebook clone he started in his native Saint Petersburg at the age of 22, became the country's biggest social network – earning him the sobriquet "the Russian Mark Zuckerberg". Yet the real prodigy in the family, Durov told Medium, was his older brother Nikolai. The brothers spent several years in Turin as children because their father, an expert on ancient Rome, was employed there and Nikolai appeared on Italian TV, celebrated for his ability to solve sophisticated mathematical equations. They made a great partnership. Pavel became the driving force behind VK and its public face; Nikolai provided the technical brain – a division of powers that endured.

A rallying cry for liberty

The heady years of success following the founding of VK came to an abrupt end in 2011, when Durov found himself in the crosshairs of the Putin regime after refusing to shut down the pages of opposition activists. Three years later, he left the country, having been forced to sell his shares in VK to Kremlin-friendly oligarchs for $300m. Initially becoming a citizen of Saint Kitts and Nevis, he embarked on the life of a nomad, while developing Telegram. "I regard myself as a tech entrepreneur, not as a politician or philosopher," Durov told the FT in 2015.

But he remains committed to the libertarian ideal. Following a run-in with US financial regulators in 2020, the Durov brothers were forced to abandon a plan to create a blockchain version of Telegram (TON), and establish a digital coin, says TechCrunch. "I want to conclude… by wishing luck to all those striving for decentralisation, balance and equality in the world," Durov wrote in a valedictory post. "This battle may well be the most important of our generation." It sounded like a rallying cry.

The best trades in history… riding high on energy drinks

Joel Tillinghast was born in Wakefield, Rhode Island, and bought his first shares at the age of ten. He studied economics at Wesleyan University and gained an MBA from the Kellogg School of Management at Northwestern University, then worked at research service Value Line before moving into investment banking. In 1986 he was hired on the basis of a five-minute conversation by legendary fund manager Peter Lynch to work at Fidelity and by 1989 was in charge of the Fidelity Low-Priced Stock Fund.

What was the trade?

In 2001, Tillinghast became aware of Hansen (now Monster Drinks) at a corporate event. He liked its drinks and was impressed by the intensity of the company's management, and noted that the shares were trading at only ten times earnings. The US economy was in recession at the time, but Tillinghast believed the company's strategy had decoupled its success from the performance of the US economy, and it was debt-free. He bought some shares at $0.08.

What happened?

Hansen's energy drinks proved to be a massive hit, especially among the young, and profits began to soar – so much so that within a few years the firm was making more money per share than the price Tillinghast had paid. That meant Hansen was no longer cheap in terms of the price/earnings ratio, but Tillinghast resisted the urge to sell as he believed the company still had huge growth potential and would benefit from customer loyalty.

Lessons for investors

As of January 2023, Monster's shares were trading at $102 – a rise of more than 1,275 times over two decades, representing an annualised return of 41%. That success played a part in enabling Tillinghast to beat the market by around 3.9% a year since 1989 (he is due to retire at the end of this year). His success with Monster highlights the importance of doing your research, and being able to think ahead to where a company could be several years down the line.

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- 3 nights at the edge of the Dead Sea with a full day excursion to the town of Bethany

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- 1 night in Whistler, travel through Nicola Valley en route
- Visit Grouse Mountain and Capilano Suspension Bridge Park in Vancouver

Holiday Departure Months

J	F	M	A	**M**	**J**	J	**A**	**S**	O	N	D

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- 1 night in Hue with a Perfume River cruise to Thien Mu Pagoda
- 4 nights in Ho Chi Min City, a half day excursion to the Cu Chi Tunnels and a full day to Cai Be with a Mekong Delta river cruise
- 1 night in Can Tho visiting Cai Rang floating market and Khmer Pagoda

Holiday Departure Months

J	F	**M**	**A**	**M**	J	J	A	**S**	**O**	**N**	D

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Five spa stays for 2023

Shake off the excesses of Christmas with a restorative spa holiday, says Jasper Spires

A Bavarian sanctuary in the Alps

A restorative Alpine spa getaway could be just the thing to kick-start your 2023, says Alicia Miller in the Evening Standard. So why not try Germany's Schloss Elmau? "The setting alone feels restorative – high in the Bavarian Alps," where "you can hike tree-lined trails or... swim in nearby lakes". The sanctuary's six spas offer a huge amount of choice for guests looking to unwind, "from family-friendly pools to steamy hammams". Schloss Elmau also offers regular multi-night retreat packages, themed around the weight-loss, muscle strengthening or Tai Chi, helping you to "zoom in on specific niggles" and really target points of stress arising from everyday life. Meanwhile, the "food is given as much respect as spa-ing". Schloss Elmau provides more than a dozen dining spots to choose from after a day of rest and relaxation, including Luce D'Oro, which has two Michelin stars. *From £420 a night, see schloss-elmau.de/en*

Start 2023 with a Bavarian Alpine retreat

Claridge's new pleasure palace

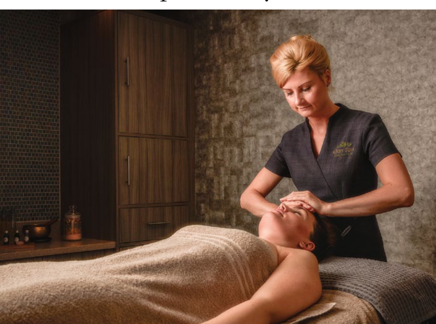
Claridge's new subterranean spa is the prestigious hotel's "pampering palace", an anti-ageing restorative oasis in the centre of London, says Susan D'Arcy in The Times. Try a facial for £200 an hour with Augustinus Bader face cream, "so good that it's basically time travel, no Tardis necessary"; or perhaps a 60-minute holistic body treatment for £195 that merges sound, massage and the soothing scent of La-Eva's beauty products. "For extra glamour there is a salon by celebrity hairdresser Josh Wood, and visiting practitioners, including the nail artist Harriet Westmoreland, who charges up to £600 for a manicure," so that you leave looking better than ever after all the scrubbing and rubbing. The hotel's services are "deliciously indulgent". Hollywood star Spencer Tracy once said he would choose Claridge's over heaven. These days, he could opt for the little bit of heaven three floors below the lobby. *From £750 a night, see claridges.co.uk*

Fitness training for finance dudes

"Enveloped in the oak- and beech-clad Lazio hills an hour from Rome," The Ranch at Palazzo Fiuggi is a "swish medi-spa" that balances options for extreme fitness and lethargic relaxation for an exclusively wealthy clientele, says Jemima Sissons in Condé Nast Traveller. There are two kinds of guests: "a mixture of CEOs, billionaire dynasties, actors, burnt-out executives and ultra-marathon finance dudes who choose to run (yes, run)… and the regular spa guests, who amble around the hotel's marble spaces in white robes and dine on (non-vegan) Michelin-standard menus". If you fit into the former category, The Ranch promises weight loss through intense daily hikes, extra strength and core classes and a 1,400-calorie-a-day vegan diet, with daily restorative massages to boot. But most guests will be drawn to the fine dining, indoor pool, sauna and steam room. *Rooms from £722 a night, see theranchmalibu.com*

A rural retreat in Warwickshire

Mallory Court's spa, which is housed in a "very pretty, very British country house", is an excellent retreat for some much-needed pastoral care, says Neil Davey in The Week. The hotel has 43 bedrooms, two restaurants, a beautiful set of gardens set in ten acres of grounds with a swimming pool, all offering plenty of options for unwinding. The spa is located in one of the "sensitively designed extensions" overlooking the gentle Warwickshire countryside. It's glass frontage adds some much-welcome natural light and it offers both outdoor and indoor salt saunas and a steam room. After enjoying a spa treatment you can wander the grounds, arrange for a picnic to be prepared, or sample Mallory Court's in-house three AA Rosette restaurant, The Dining Room, for a gastronomic treat. *Rooms from £118 a night, see mallory.co.uk*



London's most opulent hotel spa

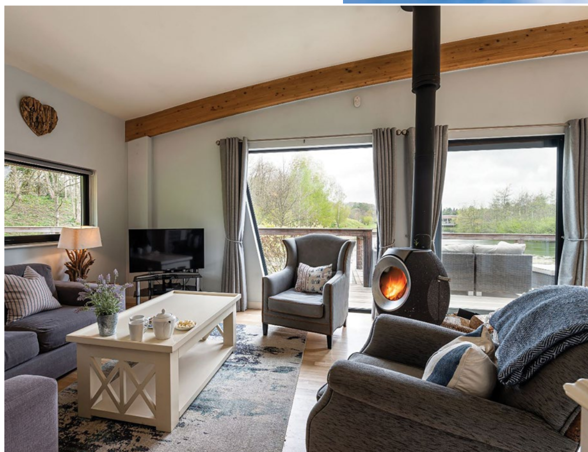
"If you're in search of central London's absolute best spa, then look no further than the Corinthia Hotel," says Paul Ewart in the Metro. A premier urban spa experience "set in one of the capital's grandest buildings – with a plum spot steps from Embankment station, opposite the London Eye – this place oozes exclusivity". No wonder it's the regular haunt of A-list celebrities, such as Johnny Depp, George Clooney, and Beyoncé Knowles. Spread over multiple floor, Corinthia's "ESPA Life spa" boasts "a labyrinthine collection of wavy, futuristic, black marble corridors… a large hydrotherapy pool, crystal steam room, stainless-steel pool, hammam and striking flame-lined sauna". The comprehensive treatment menu includes all the usual services you'd expect from a five-star spa, and is virtually "guaranteed to make anyone feel like a prince or princess". The Corinthia Hotel offers opulent relaxation at its finest. *Stays from £726 a night, see corinthia.com*

©Claridge's; Corinthia Court; Mallory Court; Schloss Elmau; The Ranch Palazzo Fuggi

This week: houses under the first-time buyers' £425,000 stamp-duty threshold – from a Greek Reviva

Church Cottages, Escrick, York. This Victorian former workers' cottage dates from the late 1800s and is set in established cottage gardens that include two outbuildings. The house has sash windows and a breakfast kitchen that retains its original bread oven. 2 beds, bath, recep, breakfast kitchen. £265,000 Savills 01904-617820.

The Dolls House, Natland, Kendal. A Greek Revival cottage built in 1824 in the courtyard of a Grade II-listed lodge with shared access to 5.5 acres of grounds. It has beamed ceilings, stone fireplaces, and a large dining kitchen with a slate floor. 2 beds, 2 baths, recep, kitchen, garage, 5.5 acres. £370,000 Fine & Country 01539-733500.



Easby, Richmond, North Yorkshire. One of a collection of holiday lodges in 29.5 acres of communal grounds set around two lakes. Residents are only entitled to stay in the lodge for 30 consecutive days per annum and may rent it out, with holiday rental per annum averaging £59,655. It has floor-to-ceiling sliding doors and an open-plan living area and kitchen spanning the length of the building. 3 beds, 2 baths. £325,000 Savills 01904-617821.

l cottage in Natland, Kendal, to a top-floor flat in London's Queen's Park

School Lane, Tiddington, Stratford-upon-Avon. A traditional, timber-framed period property in a popular village close to Stratford-upon-Avon. The house retains many period features, and is now in need of some updating. It has heavily beamed ceilings, exposed wall timbers, leaded-light windows, open fireplaces with wood-burning stoves, a dining room with flagstone floors and a rear garden with a patio area. 2 beds, 2 baths, 2 receps, kitchen. £350,000 Hamptons 01789-430184.

The Cottage, Ilmington, Shipston-on-Stour. A refurbished, Grade II-listed Cotswold stone cottage in a popular village. It has beamed ceilings, wood floors, an open fireplace with a wood-burning stove, a modern fitted kitchen and a courtyard garden. 2 beds, 2 baths, recep. £400,000 Jackson-Stops 01386-840224.

Victoria Road, Queens Park, London NW6. A renovated top-floor, one-bedroom leasehold flat in a Victorian building situated in a tree-lined street in Queen's Park, close to Queen's Park underground, Brondesbury station and Kilburn High Road station. The flat has a large reception room with skylights and a separate breakfast kitchen. Bed, bath, recep, kitchen, storage. £425,000 Knight Frank 020-3815 3034.

Walk Gate Cottages, Salle, Norwich. A semi-detached, Grade II-listed brick-and-flint cottage in an Area of Outstanding Natural Beauty. The property is in sound condition, but the interiors could do with some updating. It has an open fireplace and front and rear gardens, with a side return opening onto a lawn bordered by mature fir trees. 3 beds, bath, recep, dining kitchen, garden store. £295,000 Strutt & Parker 01603-851764.

The Stables, Wansford, Peterborough, Cambridgeshire. A period mews cottage in a conservation village. The cottage has a small private front garden and a communal courtyard area that includes a mature willow tree, a drying area and off-road parking. It has exposed stone walls, exposed beams on the upper floor, a living room with a wood-burning stove, and a country-style fitted kitchen. 2 beds, bath, recep, garage, garden. £300,000 Norton Rickett 01780-782999.

Maserati's electric future

The GranTurismo Folgore is the shape of things to come. Chris Carter reports

The new GranTurismo Folgore, meaning "lightning" in Italian, is the crucial next step in Maserati's electric future, says Steve Sutcliffe in AutoExpress. That's because the powertrain that sits beneath its "elegant new nose", and from there runs the length of its aluminium floor, will come to be the only one available in Maseratis once petrol-powered cars have "left the building sometime within the next decade". Until then, the electric Folgore will go on sale alongside V6-engine versions of the all-new GranTurismo. "So, Maserati needs to get this right, no excuses."

Inside, it's so far so good. The leather is soft and looks "well stitched together", says Matt Prior in Autocar. "It feels very luxurious." From a knob on the steering wheel you can choose to drive in either "max range" (280 miles), "GT", "sport", "corsa" or "drift" mode. "Relax into the drive and the noise volume reduces too, at which point this is a very relaxed, refined car that can do amazing things."

The Folgore has three motors – two in the rear and one at the front – and each can deploy up to 402bhp for a theoretically combined 1,200bhp. But for now it's limited to a still hefty 751bhp, due to the power flow capabilities of the battery. That adds up to a "shocking pace", says Adam Binnie for Car magazine. The Folgore goes to 62mph in 2.7 seconds and tops out at close to 200mph. It delivers "a jet-like haymaker of torque, but the power delivery is pleasingly refined, not neck-snapping like a Tesla… Hauling 2.2 tonnes up on a slippery track revealed plenty of strength in the… brakes". The handling feels "remarkably three-dimensional" for an all-wheel drive car, "with a tenacious front end and [an] entertaining rear". Liberties can be taken going into corners, and depending on the driving mode, exiting corners can be anything from "neat… to outrageous". The Folgore is "genuinely superb".

Around £190,000 later this year, maserati.com

> *"It delivers a jet-like haymaker of torque, but the power delivery is pleasingly refined"*

©Picture Credit

Wine of the week: a mesmerising Burgundy

2018 Maranges Rouge, 1er Cru La Fussière, Domaine Bachelet-Monnot, Burgundy, France

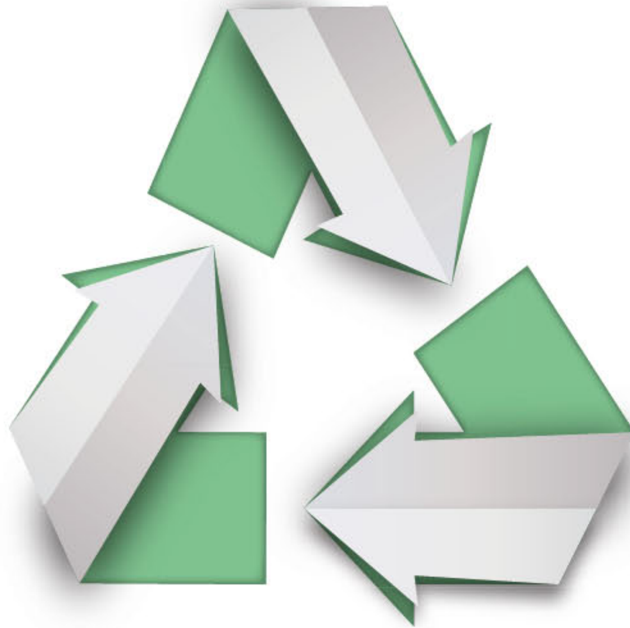
£28.68, justerinis.com

Matthew Jukes
Wine columnist

This week has been "2021 Burgundy En Primeur" week in London. Wine writers, buyers and private clients have visited and tasted with UK-based Burgundy specialists to assess the vintage and put their names down for their preferred wines. However, this year's campaign has not been the usual vinous bunfight, because allocations are tiny. The 2021 vintage was challenging, with minuscule quantities of white wines. Reds are a little uneven, too. While I have published my usual nightly bulletins this week, picking out the very best bottles for my followers, it is clear that stocks are thin on the ground, so here is a wine that is in stock, drinking perfectly now and utterly mesmerising. The value alone should make you want to load up without delay. Twenty-eighteen was a warm vintage and this wine, from the lesser-known village of Maranges in the south of the Côte de Beaune, is spectacular. Lusty, ripe, black-cherry and plum-soaked and posh as you like, this is yet another stunning pinot from brothers Alexandre and Marc Bachelet.

Do not despair if you have not managed to grab a few cases of 2021s this season, because 2018 La Fussière will more than make up for this disappointment. Furthermore, spies tell me that the recent 2022 harvest was plentiful and of encouraging quality, too, so there is much to look forward to.

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



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How auctions fared in 2022

It was a good year for art, wine and comics. Chris Carter reports

Only one Old Masters' painting sold for over $100m in 2022, and it wasn't at auction. If it had passed under the hammer, who knows if it would have made as much? "We all know that Old Masters have fallen out of collecting fashion," says Scott Reyburn for The Art Newspaper. The collection of the late Microsoft co-founder Paul Allen did contain some Old Master highlights at the Christie's sale in November, the most expensive of which – *Madonna of the Magnificat* (c.1481), by Sandro Botticelli – sold for $48.5m. Another Botticelli – *Man of Sorrows* (c.1500) – fetched $45.4m at the end of January, with Sotheby's. But neither came close to the €175m ($186.3m) stumped up by the Dutch state for *The Standard Bearer* (pictured), by Rembrandt, in a private sale completed earlier this year.

Modern art in the frame

The trouble with Old Masters, for those seeking trophy assets, is that they aren't making any more of them. Paul Allen was an avid collector, but even his collection was predominantly made up of works by more recent artists. Five paintings sold for more than $100m and almost all were painted in the 1880s and 1890s (the exception was Gustav Klimt's *Birch Forest* (1903), which sold for $104.6m. Georges Seurat's pointillist *Les Poseuses Ensemble (Petite version)*, from 1888, was the most expensive painting of the year, selling for $149.2m.

The sale total came to $1.6bn. That was a new record, smashing the previous one set only in May, when the second part of "The Macklowe Collection" yielded $246.1m, for a grand total of $922.2m, at Sotheby's. Abstract paintings by Mark Rothko topped both parts of the sale, underlining the artist's enduring appeal. *No. 7* (1951) sold for $82.5m in November 2021 and *Untitled* (1960) for $48m.

In vino gravitas

Asian collectors' thirst for fine wine has not abated. Christie's raised HK$491.5m (£52m) in total, mainly from the sales of two single-owner collections, with a dozen bottles of Henri Jayer, Vosne-Romanée Cros Parantoux 1991, selling for HK$3.9m (£409,000). Sotheby's toasted its own success with fine Burgundy last month. Its annual Hospices de Beaune auction of wine in the barrel raised €29.8m, more than doubling the previous record set in 2018 of €14.2m.

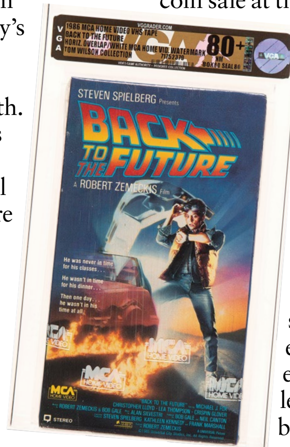
Values for rare whiskies also rose by 21% in 2022, with the volume of bottles sold increasing by 23%, as investors turned to tangible assets in what was mostly a rotten year for stocks, according to Noble & Co. The average price paid per bottle dipped by 1% from last year, while the rarest and most expensive whiskies appreciated.

Off to the races

Something similar is happening in the classic car market, according to specialist insurers Hagerty. Its gold index, tracking the values of the 30 most "exclusive classics", rose by 17% over the 12 months to September, while prices in the broader market have been much more volatile. The 1955 Mercedes-Benz 300 SLR Uhlenhaut Coupé (pictured below) most definitely falls into the former category. In May, one of just two prototypes built by the Mercedes-Benz racing department sold for €135m, smashing the previous record set in 2018, also by RM Sotheby's, for a 1962 Ferrari 250 GTO, by €90m. Such was the demand for the Mercedes-Benz that bidding actually opened higher than the previous record sale price.

Coins, comics and manuscripts

Seven lots fetched more than $1m at Heritage Auctions' coin sale at the start of the year, with the 1795 $10 9 Leaves the most expensive of 2022. It sold for almost $3.4m. But by and large, last year didn't see a repeat of 2021's successes, when six of the ten most expensive coins ever were sold, led by the record-breaking Sotheby's sale of the $18.9m 1933 Double Eagle.



Heritage also sold the most expensive single page of comic-book artwork ever last January – page 25 from 1984's *Secret Wars No. 8*, telling the origin story of Spider-Man. It sold for $3.4m. And at the end of October, one of the highest prices for a work of Islamic art was fetched, when a painted manuscript from the *Shahnameh* (the Persian Book of Kings) sold for £8.1m with Sotheby's.

Meanwhile, the auction by Sotheby's of one of only two first printings of the US Constitution remaining in private hands was postponed. It had been expected to fetch $20m-$30m. Hedge-fund manager Ken Griffin bought the other remaining copy over the heads of crowd-funding effort ConstitutionDAO for $43.2m. Rumour has it that another DAO (decentralised anonymous organisation – see box), called UnumDAO, has been set up to have another go at the postponed auction.

The rise of DAOism

Another DAO (decentralised autonomous organisation, see last story, left) had rather more success in February. AssangeDAO, made up of around 10,000 supporters of Julien Assange, the Wikileaks founder, raised $54m to buy anonymous crypto artist Pak's *Clock* – an non-fungible token (NFT) digital artwork that counts the number of days since Assange was arrested in 2019. The DAO's winning bid of 16,593 ether (a cryptocurrency then worth $52m) made *Clock* the second-most expensive-ever NFT after Beeple's $69.3m *The First 5,000 Days*, sold in 2021. The proceeds went towards funding Assange's legal fees.

Alas, Spice DAO was far less fortunate. In November 2021, the collective of fans of Frank Herbert's 1965 sci-fi novel *Dune* paid €2.7m – 100 times the low estimate – for a copy of Alejandro Jodorowsky's *Dune* – a book of concept art and storyboard for a 14-hour film that was ultimately never made, but nevertheless entered film lore (Salvador Dalí is said to have signed on to play Padishah Emperor Shaddam Corrino).

The DAO had been under the mistaken impression that the purchase bought them the copyright to film director Jodorowsky's vision, says Adrienne Westenfeld in Esquire magazine. In fact, all they had was one "very expensive book". The DAO spent 2022 pushing ahead with plans to make an animated homage to *Dune*, amid accusations of racism within the group's leadership and the crashing of its cryptocurrency, $SPICE, according to Westenfeld. It had also been reported that Spice DAO intended to film the burning of their book and turn the footage into an NFT. The group has since said they won't do this, but you can see why Griffin was so keen to keep the US Constitution out of DAO hands.

©Heritage Auctions; Mercedes Benz; The Rijksmuseum

Bridge by Andrew Robson

Expert Mind

This week's deal offers an insight into the expert mind, always seeking to work out the shapes of the four suits around the table, and of the hidden hands. Here, West was able to reach a startling conclusion, and so defeat a seemingly solid game.

Dealer South — Both sides vulnerable

North
♠ KQ10953
♥ A1054
♦ A8
♣ 10

West
♠ A87642
♥ J7
♦ 543
♣ J6

East
♠ –
♥ 92
♦ KQJ106
♣ AK7542

South
♠ J
♥ KQ863
♦ 972
♣ Q983

The bidding

South	West	North	East
pass	pass	1♠	2NT*
pass	3♦**	double***	4♣§
4♥	end		

* Unusual – showing (at least) five-five in the minors.
** Preference.
*** Take-out, focusing on the majors.
§ Showing his sixth Club.

West listened carefully to the bidding before making his opening lead. His partner had advertised 11 minor-suit cards. How many Hearts did partner hold: zero, one or two? West reasoned as follows: declarer probably does not hold six hearts (he did not open a Weak Two), and dummy does not hold five (no Three Heart bid over Three Diamonds). With dummy holding at most four, and declarer at most five, partner must hold two Hearts. That leaves no room for Spades. Can you see how West defeated the contract, after making that deduction?

West's opening lead was a low Spade – yes – away from the Ace. East duly ruffed the trick and switched to the King of Diamonds. Declarer was now unable to make his game – although he tried valiantly. Winning dummy's Ace, he led a Club. Winning the King, East cashed the Queen of Diamonds, then exited with his remaining Trump. Declarer ran this to dummy's ten and could score all the remaining tricks bar one by crossruffing his seven remaining Trumps. But he had to give up the last trick, and so was down one.

On any other opening lead, declarer has an easy time, able to draw Trumps, and knock out the Ace of Spades.

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

Sudoku 1138

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

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

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

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Tim Moorey's Quick Crossword No.1138

TAYLOR'S PORT

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 23 Jan 2023. By post: send to MoneyWeek's Quick Crossword No.1138, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: crossword@moneyweek.com with MoneyWeek Crossword No.1138 in the subject field.

Down clues are mildly cryptic whereas across clues are straight

ACROSS
1 Temporary accommodation (4)
4 Stranger! (6)
9 Young lads (7)
10 Get a husband (5)
11 Street in Paris (3)
12 Concentrated on a single subject (9)
13 Young singer (6)
15 Put on a hook (4, 2)
18 Capitals (5, 4)
19 Posed (3)
20 Putting area (5)
21 Confection of nuts in chocolate (7)
22 Book before Job (6)
23 Town in Greater Manchester (4)

DOWN
2 Empty potty son's left (5)
3 Black Lancashire PC working here? (7, 6)
4 Substitute some tigers at zoo (6)
5 Wherein Number Ten is seen in middle of mix-up (5, 8)
6 One inside doing wrong is an accessory (7)
7 Spirit of heartless pirates at sea (6)
8 Kind part of Katy Perry (4)
14 Train for a newspaper (7)
16 Harry a snooker player (6)
17 Comparatively effeminate holiday maker? (6)
18 Press well up on getting leader sacked (4)
19 Source of whisky even today (5)

Name

Address

email

Solutions to 1135/1136

The theme word was NOEL taken as No El in six entries

Across 7 Agriculture *anagram* **8** Stampede *stamped e* **9** Bush(el) *bus + hel(p)* **10** Sprouts *r inside spouts* **12** Scalp(el) *deceptive definition* **14** Colon(el) *col one l* **16** Rudolph *homophone Rudolf Nureyev* **19** Chap(el) *anag incl l* **20** Presents *homophone* **22** Stand to gain *toga in stand-in*
Down 1 Cart(el) **2** Crimbo **3** Accents *anagram incl C* **4** Elves *(d)elves* **5** Quebec *NATO alphabet* **6** Lets slip *anagram* **11** Prophesy *HE inside anagram* **13** Yule log *deceptive definition* **15** Orphan *homophone of often* **17** One-way *O + anag* **18** Spode *anagram* **21** Tins(el) *anagram*

The winner of MoneyWeek Quick Crossword No.1135/1136 is: Nigel Ford of Burton-on-Trent

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

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

Stocks are heading for the rocks

Expect the crisis that results to lead to a policy-making "pivot"

Bill Bonner
Columnist

Investors should batten down the hatches

We recently rearranged a cross-Channel trip to avoid a storm. Steering around the coming storms in markets will prove trickier. Reading the news, we find many "predictions for 2023". The consensus is that inflation will relent, the US Federal Reserve will "pivot", or at least swing around to less of a "tightening" programme, and stocks will end the year higher.

A couple of caveats. US stocks were down about 20% for the year, but Turkish ones rose 110%. What made the Istanbul market suddenly worth twice its value? A return to the free market? New inventions? A booming economy? None of the above. Instead, an inflation rate of 85% caused Turks to seek shelter in equities. "There is a lack of alternatives," said a sage in Istanbul. In other words, stockmarket gains are not always what they appear to be. Recall that during the late 1960s and 1970s US stocks held steady even as inflation erased 75% of the values. So, rather than guess about the level of the Dow, let's try to figure out what is really going on.

Firstly, the government is not all of us; it is just some of us. That is always and everywhere true. A small elite always takes control. When the US was formed, those "deciders" were also outsiders. They made their living by providing goods and services. They understood that government was always a threat to honest commerce. So, they attempted to limit it.

It was a good try. But the rot was bound to set in, and it has. The things that are most ruinous to a country – war and inflation – are entirely under their control. The president can start a war on his own say-so. The Fed can manipulate the value of the dollar with no discussion or vote in Congress. And now, the deciders are no longer outsiders. They're insiders. They do not want to limit the power of government, but to extend it.

> *"Stockmarkets' gains are not always what they appear to be"*

We have seen, too, that the situation in today's markets is almost the exact opposite of what it was 40 years ago. Back then, stocks had been in a bear market for the previous 16 years. Bonds had been in a bear too – dating back to the late 1940s. The US government owed less than $1trn and the benchmark ten-year US Treasury yielded over 15%. Today, stocks, bonds, and debt are trading nearer to the top of their ranges than the bottom, and US debt is over $31trn. The key lending rate remains about three percentage points below the level of consumer-price inflation.

In short, the primary trend is down and this will lead to a crisis – as it becomes more and more expensive to finance debt. How the elite will react to this coming crisis is the story of the coming years. Will they tighten their belts and allow the correction to do its work, returning us to a more "normal" financial world, or will they panic, pivot, and print more money? We think we know the answer. But we would be happy to be surprised.

The bottom line

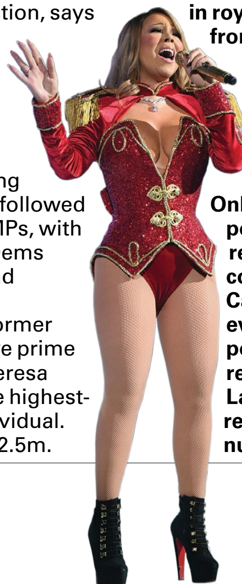
£4.5bn The total value of customers' credit that energy firms are sitting on, up from £1.4bn last spring as utilities firms have sought to increase their financial buffers amid the energy and cost-of-living crises, says The Mail on Sunday. Two-thirds of households are in credit.

¥36m How much in Japanese yen (£224,000) a single bluefin tuna fetched at a New Year's fish market auction in Tokyo, doubling last year's highest bid. Tuna prices are considered a barometer for the health of the Japanese restaurant sector, says The Times.

£1,023 The average cost per household of running baths over the course of 2022, up from £303 in 2021, according to Yorkshire Water. Boiling the kettle for tea was 80% dearer last year, equivalent to an extra £8.32 a year, and it will rise by a further £3.36 over 2023.

£7,000 How much the British Embassy in Sweden spent on hiring celebrity lookalikes for a party to mark the Queen Elizabeth's birthday last June, says the Daily Mirror. Actors were brought in to play stars such as David Bowie.

£17.1m The combined earnings of MPs from second jobs since the 2019 general election, says Sky News. Tory MPs earned the most collectively, with £15.2m earned during that period, followed by Labour MPs, with £1.2m, Lib Dems £171,000, and SNP MPs £149,000. Former Conservative prime minister Theresa May was the highest-earning individual. She made £2.5m.



$70m How much US singer Mariah Carey (pictured) has earned in royalty payments from her song *All I Want For Christmas Is You* since it was first released 28 years ago, says the Mail Online. The festive pop classic reportedly continues to net Carey around $3m every year and its popularity remains strong. Last month, it returned to the UK number-one spot.

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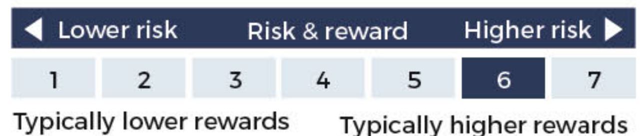

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