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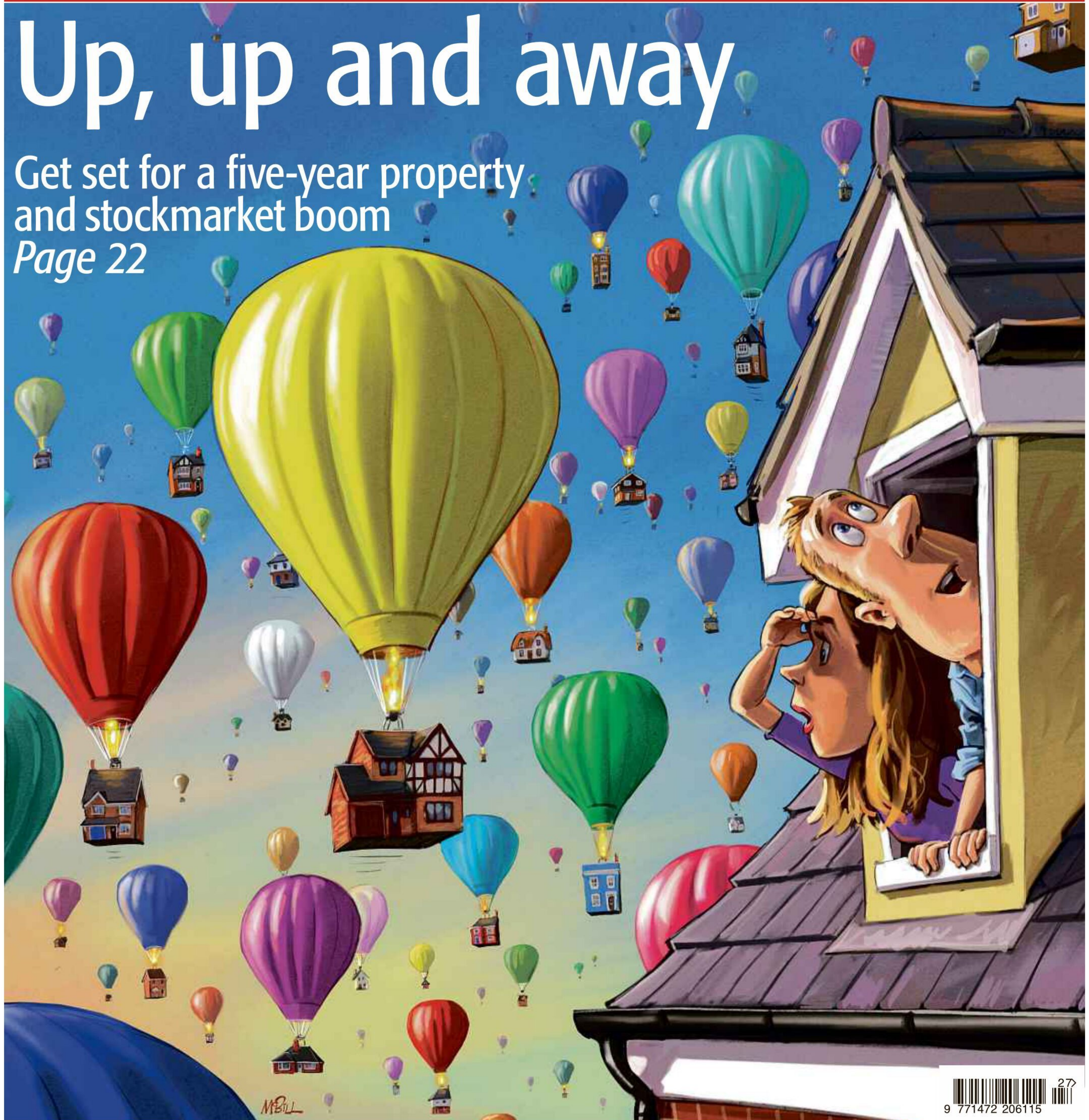
MONEYWEEK

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From the editor-in-chief...



Poor Liontrust. You'd think you could sell pretty much anything these days if you labelled it "green", "responsible," "sustainable", or anything else ESG-related ("environmental, social and governance", if you didn't know already). But last week the fund manager had to scrap the launch of its first investment trust – the ESG Trust. You can blame the difficulty of raising money from UK investors (a few other trusts have failed to launch recently). It may also have been lack of ambition: the trust was looking to raise just £100m – not enough to make it investible for wealth managers. But these explanations don't hold enough water. UK investors, notes Numis Securities, invested a net £3.5bn in markets in May. The AIC (which represents investment companies) notes that overall, fund raisings in the sector have been hitting record after record.

What then is the problem? Perhaps, as Patrick Hosking puts it in *The Times* (see page 5), "the ESG blancmange is starting to wobble". One key issue is the definition of sustainable, ESG, or whatever you want to call any one firm's version of do-goodery. There are hordes of thoughts on this (Hosking mentions 14 different "frameworks"), but no set standards. The first consequence is that pretty much anything bar fags, oil and gas can be labelled sustainable if you can just find the right framework. The second is that most



Copper mining: dirty? Maybe. Necessary? Definitely

"ESG funds didn't own Morrisons. Is Alphabet really superior to a good supermarket?"

ESG fund managers tend to make finding the framework easy by going for techy stuff (just seems cleaner, doesn't it?).

Consider the top holdings of Liontrust's existing Sustainable Future Global Growth Fund: think Visa, Alphabet, PayPal, Autodesk (a software firm) and Iqvia (a health tech company). You get the picture. All too often ESG just means techy growth stuff. But you can get that kind of portfolio almost anywhere. Note too that (partly as a result of the recent flood of money into ESG) anything you can easily (for which read "lazily") shoehorn into your ESG definitions is expensive. Anything you can't (without having to embrace the grubby nuances of real life) is not.

This brings me neatly to the UK market. Wm Morrison has not often featured in ESG portfolios. It might have been winning awards for sustainable business practices for

years. It might have been known for its social responsibility. It might have been cheap – so cheap that US private-equity firms are now fighting over it. But I still don't know of a single ESG fund that owned it (email me if you do). UK fund managers are now muttering about it being sold too cheap. But it's a bit late for that. They should have bought more of it sooner – then it wouldn't have been cheap in the first place.

There's more on Morrisons on page 7. But it is time for UK investors (who, despite pouring money into markets as a whole, pulled a net £572m out of the UK in May) to take the huge hints private equity is dropping. This market is cheap. Its stocks might not be the fun, fashionable, superficially clean tech stocks the modern fund manager fancies. But they aren't bad either. Is Alphabet really morally superior to a good supermarket? I pointed this out on Twitter. Simon French of Panmure Gordon (more from him on the podcast at moneyweek.com) responded "Rio Tinto. Yield of 5.5%. P/e of 6. Wrong price." You won't find cheap Rio in most ESG funds. But you will find expensive electric car companies that can't survive without the copper it mines. How does that make sense?

Merryn Somerset Webb
editor@moneyweek.com

Ce n'est pas du "Champagne"

French wine producers are "in a fizz" over the suggestion that Champagne can be made anywhere outside the region of the same name in France, reports *The Guardian*. "The term is jealously guarded and legally defended." So when the Russian president, Vladimir Putin, signed legislation last week which requires non-Russian producers to label their products as "sparkling wine" and dictated that only locally-made *Shampanskoye* was worthy of the "prestigious" label, the French Champagne producers' trade body called for the suspension of exports to Russia, arguing that the "unacceptable" legislation "deprived the people of Champagne" of their "common heritage and the apple of [their] eye". Russia imports nearly 50 million litres of sparkling wine every year, and French Champagne represents 13% of the market. In all, France produces around 231 million bottles of Champagne a year and makes around €2.5bn from exports, with the UK and US the main customers.

Good week for:

Income investors can breathe a sigh of relief – FTSE 100 dividend payments are expected to grow by 25% this year to £76.9bn, says AJ Bell. Mining giant Rio Tinto (see above) is expected to be the biggest dividend payer in the index for 2021, "well ahead of British American Tobacco, Shell, BHP Group and Unilever".

ITV may have enjoyed its most lucrative night ever after screening the Euro 2020 semi-finals on Wednesday, when it reportedly charged between £500,000 and £750,000 for 30-second ad slots during the England-Denmark game, according to *The Daily Telegraph*. The channel predicted an audience of around 27.5 million for the match.

Bad week for:

Damian Hurley (pictured), Liz Hurley's son, has been cut off from the family's trust funds by his grandfather, Peter Bing, 90, says Laura Pullman in *The Sunday Times*. Hurley's father, Steve Bing, died last year aged 55. Steve had gone to court to ensure his children would be entitled to up to \$250m of the family money and succeeded in 2019, but Peter appealed on the grounds that Damian was born out of wedlock, and was granted the right to divide the fund as he wished. His daughter's children, aged 21 and 19, are now in line to share \$1bn.

Transport for London saw a £100m plunge in advertising revenue as the coronavirus pandemic kept commuters at home, says Mark Sweney in *The Guardian*. TfL's "advertising estate" is one of the "largest and most valuable in the world" with more than 100,000 posters, billboards, and panels throughout London's tubes, trains and buses. Commercial income slid to £50m for the year to March, compared to £158.3m the previous year.



What Opec's squabbling means for oil



Alex Rankine
Markets editor

In March last year, oil cartel Opec+ “held a disastrous meeting in which it failed miserably to reach an agreement”, says John Authers on Bloomberg. Oil prices subsequently plunged. This month “Opec+ has held another disastrous meeting in which it failed miserably to reach an agreement”. The result? Prices have risen. Brent crude oil prices have soared above \$77 a barrel, the highest level since October 2018. US oil benchmark WTI briefly hit \$76.98 a barrel, a seven-year high.

Saudi Arabia and the UAE fall out

The Opec+ cartel brings together major oil producers such as Saudi Arabia, Russia, Iraq and the United Arab Emirates (UAE). The group controls 50% of global oil output, and tries to keep prices stable. Opec+ found itself “staring into the abyss” last year, says Tom Holland of Gavekal Research. A Saudi-Russian price war, combined with Covid-19 lockdowns, saw prices plunge. US futures briefly went below zero. To rescue the market, Opec+ members agreed to cut their joint output by ten million barrels per day (mbpd) compared with pre-pandemic levels (equivalent to roughly 10% of global production).

The group has since eased those curbs, but it is still pumping six mbpd less than it did pre-pandemic. The group had been expected to agree to further output hikes in the months ahead, but talks failed. Markets are betting that supply will thus remain tight and that prices could head towards \$100 a barrel. The quarrel came from an unexpected source. The UAE, traditionally a close ally of Saudi Arabia, has been resisting Saudi plans to keep some



A more quarrelsome cartel implies more volatile markets

production curbs in place through to the end of next year. The UAE says it is only willing to agree if its own production quota can be raised. We have “sacrificed the most, making one-third of our production idle for two years”, energy minister Suhail Al Mazrouei told CNBC. There is more to the dispute than money, says Al Jazeera. Riyadh and Abu Dhabi are at odds over foreign policy. Saudi economic pressure on Emirati free zones, “areas in which foreign companies can operate under light regulation”, is another bone of contention.

Opec is “sitting pretty”

Traders are getting carried away, says Holland. The two Gulf allies may “patch up their disagreement” before too long. With prices surging, other Opec members

will also be more tempted to cheat on their agreements and pump extra oil on the sly. Opec’s “purpose is to get as much money as it can for its oil”, adds Authers. Disharmony in the group should really mean cheaper oil. A more quarrelsome Opec means oil markets may be more volatile, but “it would be risky to bet... that this meeting” heralds much higher oil prices.

Don’t bet on a price plunge either though, says George Hay on Breakingviews. The market is likely to remain in deficit until the end of 2022 thanks to “surging crude consumption”. High prices are also not tempting US shale producers into the market as before: “Climate change and profitability concerns are deterring listed oil groups from ramping up output.” For all the “squabbling”, Opec is “sitting pretty”.

A strong second half for stockmarkets?

Global stocks have enjoyed their second-strongest start to a year since 1998, says Cormac Mullen on Bloomberg. The MSCI All Countries World index rose by 11% during the first six months of the year, second only to a 15% gain in the first half of 2019. “The global stock benchmark closed at a record on 28 June, and has risen almost 90% since its pandemic low in March 2020.”

America’s benchmark S&P 500 index enjoyed yet another strong half, gaining 14.4%, while the FTSE 100 rose by 10.9%. The rally in value stocks was not enough for the FTSE to outperform the US index, but the FTSE Small Cap index, which tracks smaller listed companies, has



Vietnam's VN index surged by 27.6% in the first half of 2021

been a happier hunting ground, as Laith Khalaf of AJ Bell points out.

The index has “repeatedly set new record highs” and has gained 19.4% so far this year. Smaller businesses are more exposed to the re-opening

domestic economy than the big blue-chips.

Asian stocks had a more muted first half. Japan’s Topix gained 8.3% but a weaker yen eroded those returns for British investors. China’s CSI 300 index was virtually flat.

There were some Asian bright spots, says Eustance Huang on CNBC. Vietnam’s VN index surged by an impressive 27.6% in the first half. Taiwan’s Taiex (up 20.5%), South Korea’s Kospi (14.7%) and India’s Nifty 50 (12.4%) also turned in solid performances.

Markets have been unusually placid during the last six months, says Dominic Coyle in The Irish Times. So far, the S&P 500’s “biggest peak-to-trough pullback in 2021 was a mere 4.2%”. That might not last. Still, data from LPL Research shows that a “strong first half of the year is usually followed by a strong second half... What goes up” will not necessarily “come down”.

Japan wakes up to private equity

Private-equity investors spy bargains in Japan, says Jacky Wong in The Wall Street Journal. Private-equity funds invest in private companies or buy out publicly listed ones. Fund managers have been amassing a war chest. "Total assets under management in Japan-focused private equity amounted to \$35bn as of September last year... double the sum at the end of 2015." The funds have \$14.9bn of cash to deploy. Corporate-governance reform is making Japan more appealing to foreign investors. Japan's "smaller family-controlled... companies without a successor" also offer rich pickings.

Cheap financing from Japanese megabanks is augmenting the trend, Kazuhiro Yamada of private-equity group Carlyle tells the Financial Times. There have been 25 private-equity deals in Japan this year, worth \$8.6bn, compared with \$9.5bn for the whole of 2020, say Kana Inagaki and Leo Lewis in the Financial Times. Hedge funds are also getting in on the act, says Bei Hu on Bloomberg. Japan's small venture-capital industry means many of its start-ups list on public markets earlier than in other countries. That can cap the firms' growth: "companies often get stuck with a market value below \$300m and limited trading volume". Japan, the world's third-largest economy, has a mere six "unicorns" (a private start-up business with a value of over \$1bn). More hedge-fund interest could change that.

Europe poised to race ahead

"Global investors have had little love for Europe in the past decade," says Nicholas Jasinski in Barron's. "Anaemic" growth and political instability "have kept a lid on European stocks". Yet with reopening gathering pace, "the near-term case for relative outperformance by Europe now is the strongest in years". The pan-European Stoxx 600 index ended the first half of the year last week with a 13.5% gain.

Pack your vaccine passport

Last week the EU launched its vaccine passport, providing a shot in the arm for the tourism industry ahead of the summer season. Brussels and London are working on mutual recognition of the NHS Covid Pass. More than half of the EU's population has now received at least one dose of a Covid-19 vaccine, with countries such as Germany, the Netherlands and Spain currently outstripping the US on this measure.

European data has surprised on the upside recently, says a Morgan Stanley note. The European Commission's economic sentiment indicator is at a 21-year high. The US has now passed through the fastest phase of its recovery and there is nervousness about the outlook for monetary policy, says Jasinski. By contrast, Europe's recovery is only just starting. Indeed, it is "one of the few developed regions" tipped to



The continent's recovery package provides extra help for peripheral economies such as Greece

"see better GDP gains in 2022 than in 2021". On 16.5 times 2022 earnings the Stoxx 600 is also a welcome remedy for US "valuation vertigo".

Most investment banks are tipping European markets to outperform the US for "the remainder of the year and into 2022", says Elliot Smith for CNBC. US fund flows into European stocks so far this year have been the strongest in six years. BNP Paribas's strategists think easy monetary policy and a broad-based recovery will benefit Europe's numerous value stocks: the banks, carmakers and energy companies that have been left behind as US tech has soared over the past decade. European shares look well-placed to benefit from the next stage of the recovery, agrees David Brenchley in The Times.

Sectors "such as payments, medical technology and green energy" also look promising.

The bull case for Europe extends beyond reopening, says Graham Secker in the Financial Times. Europe's post-pandemic recovery fund, which has seen member states issue joint bonds for the first time, is a "game-changer". The fund's slow rollout has drawn unfavourable comparisons with the much bigger US fiscal stimulus. But while America has created a short-term consumption surge, the European plan is "more focused on longer-term investment" in areas such as digitalisation and provides extra help to weaker peripheral economies. The five-year time horizon should also mean it provides a more consistent tailwind for European equities in the coming years.

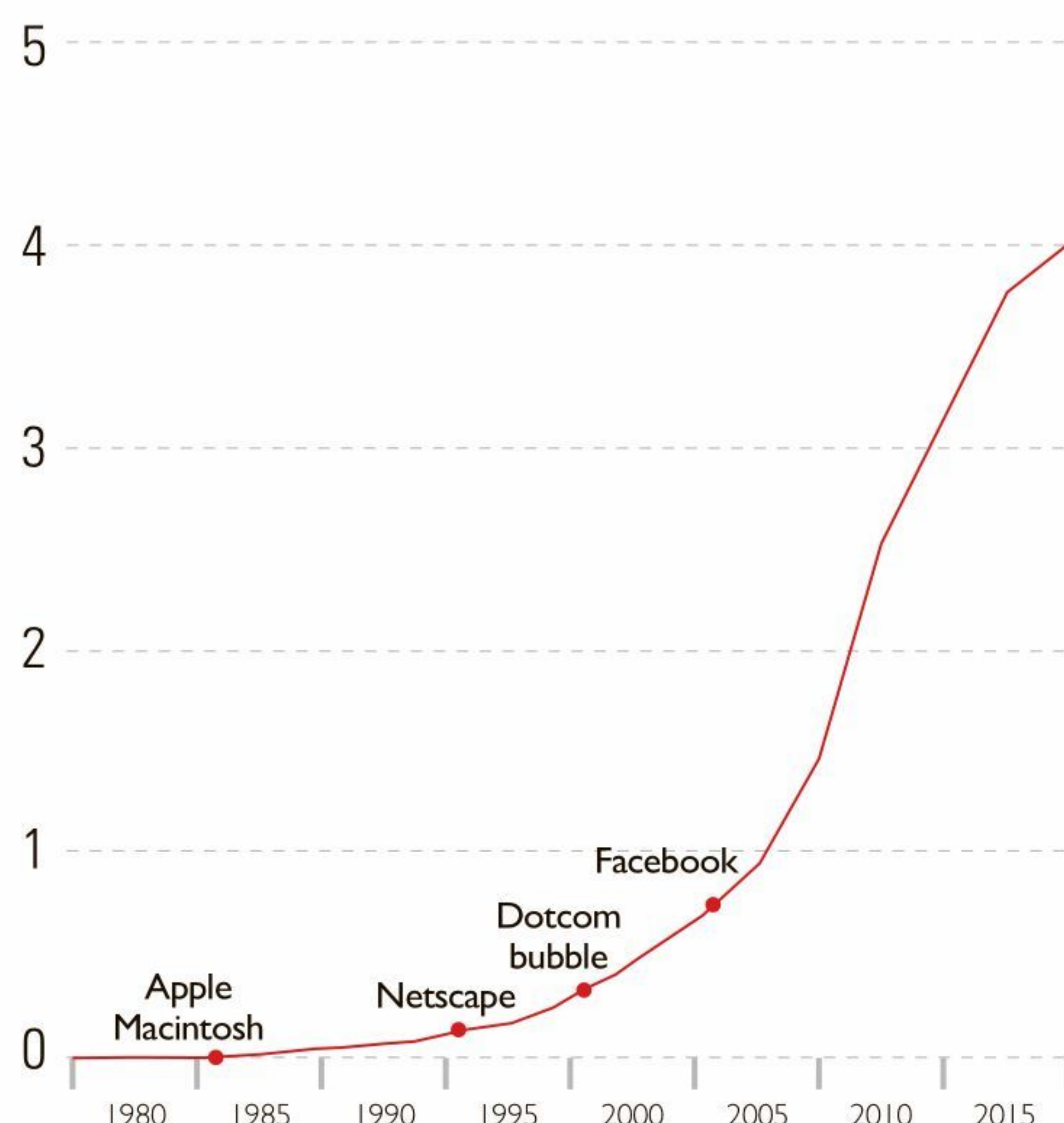
Viewpoint

"It was quite a surprise last week when a well-regarded fund management group shook the [environmental and social governance, or ESG] magic-money tree... and the expected cascade of gold failed to tumble from its branches... Liontrust had a target to raise £150m... for a new ESG investment trust... But [it] failed to reach even the £100m it had sought as a minimum. The entire plan was scrapped... No one thinks "ESG fatigue" has set in. But even if it turns out to have been an aberration, the investment world has serious hurdles to overcome... Many sustainable funds have posted very strong returns in the past year [but] at some point, returns from green and other sustainable funds [will] hit a spell of underperformance. It's then the industry will learn how sticky its customers really are. And how much return altruistic investors are prepared to sacrifice for noble goals."

Patrick Hosking, The Times

How technology has conquered the world

Global computer users (billions)



"Technology was a small industry until very recently," says Benedict Evans on ben-evans.com. When the first web browser, Netscape, launched in 1994 there were only 100 million PCs worldwide. Today 75% of all adults – four billion people – have a smartphone. In 2017, 40% of new heterosexual couples in the USA met online. "It took 75 years for seat belts [in cars] to become compulsory, but tech has gone from interesting to crucial only in the last five to ten years." Bad regulation may follow: witness the "comforting simplicity" of calls to break up big tech. "The idea that you can solve the social issues related to the web with anti-trust intervention is like thinking" we can fix traffic congestion by "breaking up GM".

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

Three to buy

Entain

The Sunday Times

Sports betting and gambling company Entain rejected a bid from US casino giant MGM six months ago but the Americans look set to return with a better deal. Entain has performed well in recent months. Its joint venture with MGM, BetMGM, grew its net gaming revenue by 400% year-on-year between September 2020 and March 2021. Entain is also addressing its "image problem": it will exit unregulated markets and drop the "tainted" GVC brand.

Investors should place their bets now. 1,797p

FedEx

Investors' Chronicle

The pandemic greatly accelerated the shift towards e-commerce, and delivery companies have reaped the benefits. FedEx "has thrived" during the pandemic. Sales jumped by over a fifth to a record \$84bn in the year to 31 May thanks to higher parcel volumes in its domestic market.

FedEx Ground, which delivers small packages, saw



operating profit jump by nearly 60% to \$3.2bn. FedEx Express, the firm's larger business and international parcel courier, "has been capitalising on the "collapse" in commercial air travel. \$303.69

Glencore

The Mail on Sunday

Investing in coal might raise a few eyebrows, but Glencore is "doing its best to deal with environmental liabilities". It recently acquired a "huge" Colombian coal mine, Cerrejon. Though the use of thermal coal is declining in the West, global demand over the next five years is expected to be stable thanks to South East Asia. Glencore is also a major producer of copper and cobalt, which make the batteries that store renewable energy. 321p

Three to sell

CureVac

Motley Fool

The German government invested over €300m in CureVac's vaccine candidate. But the firm says the final late-stage clinical data was "disappointing". The vaccine has just 48% overall efficacy against the virus in all age groups and it was not especially successful in preventing serious symptoms among

those aged 60 and above. Yet the shares are trading as if the vaccine had succeeded. Investors should avoid them. \$64.76

Burberry

The Sunday Telegraph

Burberry CEO Marco Gobbetti's departure has wiped £1bn off the firm's market value. That's partly because investors recognise his abilities, but also because his work at the fashion group

was "not complete" after a "partially successful brand turnaround". Replacing him may not be easy – a luxury house "will not prosper without a wellspring of creative energy" working harmoniously with "business brains". Burberry faces two big challenges: it must catch up in leather goods and handbags, where it still lags rivals; and improve sales per square foot of retail space. Though "another good hire" is probably on the cards, it will be "several years" before results begin to show. Sell. 2,049p

Genius Sports

Barron's

Sports data and technology firm Genius Sports merged with a special purpose acquisition company (Spac) to float in April: online sports betting is being legalised throughout the US. It is valued at \$5.4bn, a hefty 20 times this year's sales and so far, it is unprofitable. Yet it has also just signed a six-year deal to become the exclusive gambling-data partner of the National Football League, agreeing to pay a "steep" \$120m a year. Avoid. \$19.32

...and the rest

The Daily Telegraph

Analysts expect housebuilder Crest Nicholson's earnings-per-share to rebound from a loss in 2020 to 27p in 2021, 34p in 2022, and 41p in 2023. The company "still appears to offer long-term value", so hold onto the shares (429p). JP Morgan's variety of services, including investment banking and wealth management, make it a more appealing investment than other "plain vanilla" retail banks. The group's sales have grown by 28% over the last five years and the stock allows investors

to "play the growth in US banking". Buy (\$154).

Shares

Car retailer Motorpoint's shares have jumped by 93% in a year. The group has just produced solid full-year results to 16 June and is encouraged by growth in online sales. It is now investing in technology, marketing, data and expansions to keep the momentum going. Buy (367p). Food producer Tate & Lyle is also a buy, having generated a "healthy" return on equity of 18% for the year to March

2021, showing its "resilience" to the pandemic 762p).

Investors' Chronicle

Data analysis company D4T4 Solutions' "fast-growing cost base" weighed on its earnings for the year to March. But its core businesses "appear to be trading well". Hold (348p).

Barron's

A summer rebound for airlines isn't guaranteed, but shares of International Consolidated Airlines Group, Ryanair and Wizz Air seem "inviting".



They have limited exposure to corporate travel, which is set to remain weak, and they should recover with recreational travel. "Consider jumping aboard" while they're cheap. Buy (190p, €16.90, 4,896p).

A German view

Around 4.5 billion people worldwide need help with their vision, but only two billion have had it corrected, says *Wirtschaftswoche*. And only one person in five owns a pair of sunglasses. Growing life expectancy and our increasing tendency to peer at screens will ensure a steady rise in the number of people suffering from poor eyesight. These are auspicious statistics for EssilorLuxottica, the world's biggest designer and seller of prescription glasses and sunglasses. The huge collection of brands, which started out as Italian glasses manufacturer Luxottica in 1961, includes Ray-Ban. The group is about to acquire Grandvision, a Dutch chain of opticians, thus further cementing its grip on the global market.

IPO watch

Wall Street hosted the "busiest stretch" for initial public offerings (IPOs) since 2014 last week, says Ari Levy on CNBC, with 14 companies raising at least \$100m each and producing a windfall for the top investment banks. Underwriters including Goldman Sachs, Morgan Stanley, and JP Morgan Chase generated \$400m in fees for assisting with the flotations for everyone from doughnut and coffeehouse chain Krispy Kreme to Chinese vehicle-for-hire company Didi Chuxing. The flurry of IPOs highlights investors' appetite for growth, and shows that IPOs are still the preferred route to market despite competition from direct listings, which entail "much lower" advisory fees.

©Getty Images; FedEx; Wizz Air

City talk



● Cheng Wei (pictured), the founder of ride-hailing company Didi Global, had “scarcely a moment” to revel in his firm’s \$4.4bn New York listing last week, says *The Economist*. Within 48 hours the Cyberspace Administration of China (CAC) announced an investigation into the company, claiming that it was gathering and using personal data illegally. It ordered Didi’s mobile app to be removed from app stores in China. This effectively stops new customers from joining the service, though existing members can still hail taxis. Didi’s stock, and other Chinese tech stocks such as Tencent and Alibaba, plunged.

No wonder, says Robyn Mak on *Breakingviews*. It’s true that Didi’s size, with 377 million active users all “feeding the app a constant stream of personal information including locations and spending”, means that a data leak “might plausibly affect the public interest or security”. But there are signs that Beijing is just “getting started” on regulation designed to rein in the tech companies, with a personal-information protection law and autonomous-driving legislation in the pipeline.

You would expect that “prudent bankers and bosses would only have launched US listings after taking soundings with Chinese officials”, says Lex in the *Financial Times*. So they were either “talking to the wrong people” or “the mood changed”. If the latter, the “fat valuations” of stocks that depend on the Chinese market will need to be revised downwards, especially if the moves to placate Beijing get them into trouble with Washington. Unless this is quickly resolved, the “flood” of US flotations by Chinese tech groups is likely to dry up in the near future.

The supermarket sweep

The private-equity battle for Wm Morrison is intensifying now that it has accepted a bid from Fortress Investment. Matthew Partridge reports

“You wait ages for a bidder to emerge for one of the UK’s big supermarket chains, then three turn up at once”, says Dominic O’Connell on the BBC. Having recently turned down a takeover offer from US private-equity firm Clayton, Dubillier & Rice (CDR), Wm Morrison has just “wrong-footed” the market by announcing a deal with a group of investors led by Fortress Investment. At 254p a share it represents a 42% premium to the supermarket’s pre-bid share price. And a third private-equity group, Apollo, is “considering its own offer”.

The Fortress bid is certainly convenient for Wm Morrison’s board, say Nils Pratley in *The Guardian*. Not only did it get a better offer than CDR’s, but it also gives it the opportunity to claim the moral high ground by selling to an owner they claim has a “long-term approach to investing”. But Fortress is “not running a charity”, while its commitments to good behaviour, including “industry-beating pay rates for staff”, are “statements of intention” rather than legally binding “post-offer undertakings”.

Don’t count on principle overriding profits, says Aimee Donnellan on *Breakingviews*. Whatever Wm Morrison’s board decides, there’s always the possibility that a new investor could go behind their backs by mounting a hostile takeover (bypassing the board and appealing directly to shareholders). Back-of-the-envelope calculations suggest that a bidder could offer 300p and still make a “decent return” if they were “prepared to ignore some of the employee-friendly promises made by Fortress”. At that price, institutional investors may swallow their complaints that private-equity firms “fundamentally undervalue British companies and have little regard for the long-term health of the businesses they buy”.

Whatever the outcome of the battle for Morrisons, the “supermarket sweep” is likely to continue, says Sam Chambers in *The Sunday Times*. Private-equity firms who lose out on this deal may target other supermarkets, attracted by



Fortress has promised industry-beating pay rates for staff

their “stubbornly low share prices”, especially when set against “healthy cash generation and big property portfolios”. Technology companies, especially Amazon, could also join in the fun. In 2017 Amazon spent \$13.7bn on US retailer Whole Foods and made an approach to Waitrose.

Which supermarket is next?

Of the remaining supermarkets, Sainsbury’s is most likely to be the next subject of a bidding war, says Laura Onita in *The Daily Telegraph*. Its assets are “underpriced and highly cash generative”, while it “still has a lot of fat to burn”, which gives any new investor plenty of room to increase profits further through cost-cutting. Billionaire investor Daniel Kretinsky, known as the “Czech Sphinx”, recently acquired a large shareholding in Sainsbury’s. While Kretinsky claims the deal is part of a strategy “to acquire minority stakes in companies that sell food”, the move has sparked speculation that it could be a prelude to a bid to take the grocer private.

Unsportsmanlike conduct at JD Group

JD Group, which owns retailer JD Sports, has become the latest big company to receive a “bloody nose” over executive pay, say Sarah Butler and Jillian Ambrose in *The Guardian*.

Last week it faced a revolt because executive chairman Peter Cowgill “was paid almost £6m in bonuses since February last year, despite the company accepting more than £100m in government support”.

While shareholders ultimately approved the package, thanks to majority stakeholder Pentland Group, they did so with “lower levels of support” than usual. Smaller investors also voiced their anger by forcing out Andrew Leslie, the chair of the



remuneration committee. Both investors and the public have “good reason” to be angry, says Ben Marlow in *The Daily Telegraph*.

Cowgill has steered the company through a difficult period, with online sales “booming during lockdown”, but this “weakens the case for accepting state handouts”. And

it’s not the first time JD Group has behaved badly. It refused to pay rent at most of its 800 stores for two quarters and also hurt landlords by putting its Go Outdoors subsidiary into administration.

Still, Cowgill hasn’t had things all his own way, says Jamie Nimmo in *The Sunday Times*. In May he downplayed suggestions that he would “hand over some of his day-to-day responsibilities to a chief executive”, claiming that any CEO eventually appointed would be solely a “bag carrier”. But after last week’s revolt, a “sheepish” Cowgill was forced to admit that there is indeed a plan to bring in a CEO.

The Great Unmasking

The PM looks set to end nearly all Covid-19 restrictions. Matthew Partridge reports

Prime Minister Boris Johnson's prediction last March that the government would be able to "send the virus packing in 12 weeks" proved to be somewhat wide of the mark, says *The Times*. Still, Johnson signalled this week that his government's "unprecedented restrictions on economic, cultural and social life" will at last be swept away in England on 19 July, subject to a final decision by the cabinet next Monday.

Social-distancing requirements, rules limiting the size of both indoor and outdoor gatherings, and advice to work from home will go, as will the mandating of face coverings in public spaces. Nightclubs will reopen and most restrictions on visitors to care homes will be lifted.

A huge gamble?

In other words, "more or less all legal requirements will be scrapped" – and that is a "huge gamble", says *The Guardian*. Cases of Covid-19 are "rising exponentially" in the UK, by 70% last week, to around 27,000 a day. Even the prime minister acknowledged that they "could hit 50,000 by 19 July". Those who have had two doses of vaccine "can still fall ill" and the "fast-spreading" Delta variant has been transmitted by people who had been vaccinated. If there is a surge in infections, this could have "serious long-term health implications for some survivors, will increase strain on the NHS, and raises the risk of new variants".

There is a risk that ending all restrictions will mean that infections "will again spiral out of control, requiring safeguards to be reimposed", says the *Financial Times*. However, the data



Johnson must "screw his courage to the sticking place"

suggest that vaccines have "substantially weakened the link between infections and hospitalisations or deaths" – hospital admissions are "about one-tenth of what they were when case numbers last rose this high". Given this, even the most ardent lockdown hawk must accept that easing some "counter-productive" rules is justified – self-isolation for double-jabbed individuals and sending whole classroom bubbles

home after a positive case no longer makes sense.

It's time to open up

Indeed, many experts now argue that delaying the removal of restrictions "may actually prove a bad thing", says Hugo Gye in *The Independent*, as it could simply end up "pushing the next wave" of infections into the winter, at a time when waning immunity and other seasonal illness would "make it harder for the NHS to cope". With the jabs now stopping serious illness in the "vast majority" of cases, opening up may help us reach "population-wide immunity" much more quickly.

It would be a big mistake to continue with controls on healthy people "beyond the point where the impact of a virus has been mitigated by a vaccine", says Philip Johnson in *The Daily Telegraph*. But having taken a "calculated decision", the government is going to come under "intense" pressure from those who are "dedicated to retaining top-down controls" to change its mind. It's hard to see what would satisfy those urging caution now: "even the vaccination of the entire country" wouldn't be enough. Johnson should ignore them and "screw his courage to the sticking-place".

Betting on politics



Labour's victory in Batley and Spen last week has eased pressure on Keir Starmer's leadership, which had previously been called into question. With £1,866 matched on *Smarmets*, the odds on him leaving in 2021 have lengthened from as short as three (33.3%) to seven (14.2%). Punters still think his stay as leader is likely to be relatively short, however: you can get 4.1 (24.3%) on him departing in 2022 and 3.9 (25.6%) in 2023. Indeed, the odds on him surviving to 2025 are still a relatively long 5.3 (18.7%).

Interestingly, *Smarmets* also runs a separate market on whether Starmer (pictured) will survive to the start of 2024. In that case they put the odds of a departure by the end of



2023 at 1.77 (56.4%), which is slightly better than the combined odds of a departure in 2021, 2022 or 2023, which work out at 64.3. I don't think that he will go this year, but after that much will depend on the timing and outcome of the next election, so I'd hold off betting for now.

One thing that is more certain is that Starmer is unlikely to make major changes to the most senior shadow cabinet roles in the next few months – he will want to avoid upsetting any faction within the Labour Party. I therefore suggest that you bet that the shadow foreign secretary, Lisa Nandy, will still be in place by the end of the year at 1.37 (72.9%), and that Rachel Reeves will still be shadow chancellor at 1.11 (90.9%).

Freedom will come later for Scots



Sturgeon: move faster on jabs

While virtually all Covid-19 rules are to be scrapped in England on 19 July, the Scottish government is taking a different approach, says Philip Sim on the BBC. With Covid-19 cases in Scotland now the highest in Europe, the Scottish government has said that it will only remove some of the rules later this month, with those around social-distancing

indoors likely to remain until at least August. Even after that date it is likely that some measures, such as the wearing of face coverings, and a recommendation to work from home, will "continue for a longer period of time".

Sturgeon and the leaders of the other devolved administrations think they can go their own way, but that's going to be harder than they think, says *The Scotsman*. The "great re-opening" in England will surely have a "knock-on effect in Scotland" – many are already "thoroughly" sick of the restrictions. At the very least, the Scottish government should work hard on "getting rid of those restrictions that do the

most harm to the economy", such as social-distancing.

If Sturgeon wants to take advantage of the "flexibility" afforded by devolution, she should think instead about speeding up vaccinations, says *The Times*. At the moment, those who have had their first jab "are obliged to wait anything from eight to 12 weeks for the second". This goes against advice from the World Health Organisation and other bodies, which recommend a period of four to six weeks between doses of the Pfizer and Moderna vaccines. Such a change could ensure that the under-40s – now the main drivers of coronavirus transmission in Scotland – could be double-jabbed twice as fast.

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Washington DC

Roads drive infrastructure spending: President Joe Biden has hailed his \$1trn infrastructure deal to modernise ageing roads, bridges and broadband networks for its potential to create jobs. That productivity and economic growth will be boosted by the spending of billions of dollars on new roads – worth 19% of the \$579bn of new infrastructure spending – is one of the few things that Democrats and Republicans agree on, says David Harrison in *The Wall Street Journal*. The trouble is, “economists aren’t so sure”. Several, such as Gilles Duranton of the University of Pennsylvania, argue that long-term gains from building more roads will be muted because the US already has an extensive motorway network, built between the 1950s and 1970s. Meanwhile, the recovery continues. The IHS Markit purchasing managers’ index (PMI), measuring activity in the services sector, came in at 64.6 in June from May’s all-time high of 70.4 (above 50 indicates growth). That was the third-highest reading since the data series began in 2009. Factory orders also bounced back in May, growing by 1.7% month-on-month after a 0.1% decline the previous month.

Seattle

Bezos bows out: Jeff Bezos (pictured) has officially stepped down as Amazon’s CEO after a 27-year stint, says Alexander Martin on Sky News. His plans include the launch of his private spaceflight company, Blue Origin, overseeing his newspaper, *The Washington Post*, and fighting climate change. Bezos is being replaced by Andy Jassy, who has run Amazon’s cloud-computing platform since 1997, and will now become the group’s executive chair, a “kind of strategic adviser to the CEO”. He’s also retaining more than 10% of all of Amazon’s shares, making him the single largest shareholder and “securing his ability to shape the decisions of the new CEO”. The \$1.7trn company benefited from the shift to online shopping during Covid-19, more than tripling its profits in the first quarter of 2021 and posting record sales.



London

Back to the office: The official advice to work from home is set to end in England on 19 July. Banks are experimenting with various approaches. Goldman Sachs has told staff to return to the workplace in June, whereas NatWest’s new working model could see just 13% of staff in the office full-time. Urban shops, cafés and pubs have continued to struggle as the number of office-based staff is still 25% below pre-pandemic levels, says the Centre for Cities think tank. Government support in the shape of loans, grants, tax-cuts and eviction bans pushed down corporate insolvencies in May to 25% below their May 2019 level, says Samuel Tombs of Pantheon Macroeconomics. But as that support is withdrawn over the next nine months, bankruptcies will rise, “albeit not to 2008 levels”. It bodes well, however, that balance sheets are in “good shape”, with non-financial companies’ cash holdings £98bn, or 4.6% of GDP, higher in the first quarter than a year earlier. Meanwhile, house prices slipped marginally in June but were 8.8% up on June 2020, says Halifax.

Brasília

President in vaccine probe: Brazil’s president Jair Bolsonaro (pictured) is being investigated over accusations that he “ignored alleged irregularities” in his government’s deal with India to procure Covid-19 vaccines, say Luciana Magalhaes and Samantha Pearson in *The Wall Street Journal*. The question is whether Bolsonaro ignored possible wrongdoing by senior members of the Health Ministry, who supposedly made a deal others in the ministry had voiced concerns over or felt “abnormal pressure” to agree to. The terms of the deal said Brazil was supposed to pay for India’s Covaxin vaccine 30 days after they were delivered, but the Health Ministry received an invoice for some of the doses before they had arrived. Those involved in the enquiry believe the “irregularities” could indicate “possible

corruption” in their procurement process. Brazil’s supreme court has allowed prosecutors 90 days to investigate Bolsonaro for the crime of “dereliction of duty”. Protests erupted country wide as Brazilians demonstrated against Bolsonaro, says the *Financial Times*, but political analysts are sceptical about the “potential impact” of the investigation as any criminal charges brought against Bolsonaro would need the backing of two thirds of Congress to proceed. More than half a million Brazilians have died of Covid-19.



The way we live now: using robots in the kitchen



Pazzi can do everything except toss the pizza

Parisian chefs may be known for their creativity in the kitchen, but their “tantrums... angst [and] moments of self-doubt” are exhausting, says Adam Sage in *The Times*. But now a “cool, calm chef capable of hard work who will never utter an expletive” has strolled onto the scene in the form of Pazzi, a robot who can make pizzas. Pazzi costs €500,000 and its pizzas sell for between €7 and €13.60. The robot’s three automated arms roll out dough, cover it in tomato sauce, add the toppings, and cook the pizza in an oven. It works on its own, but

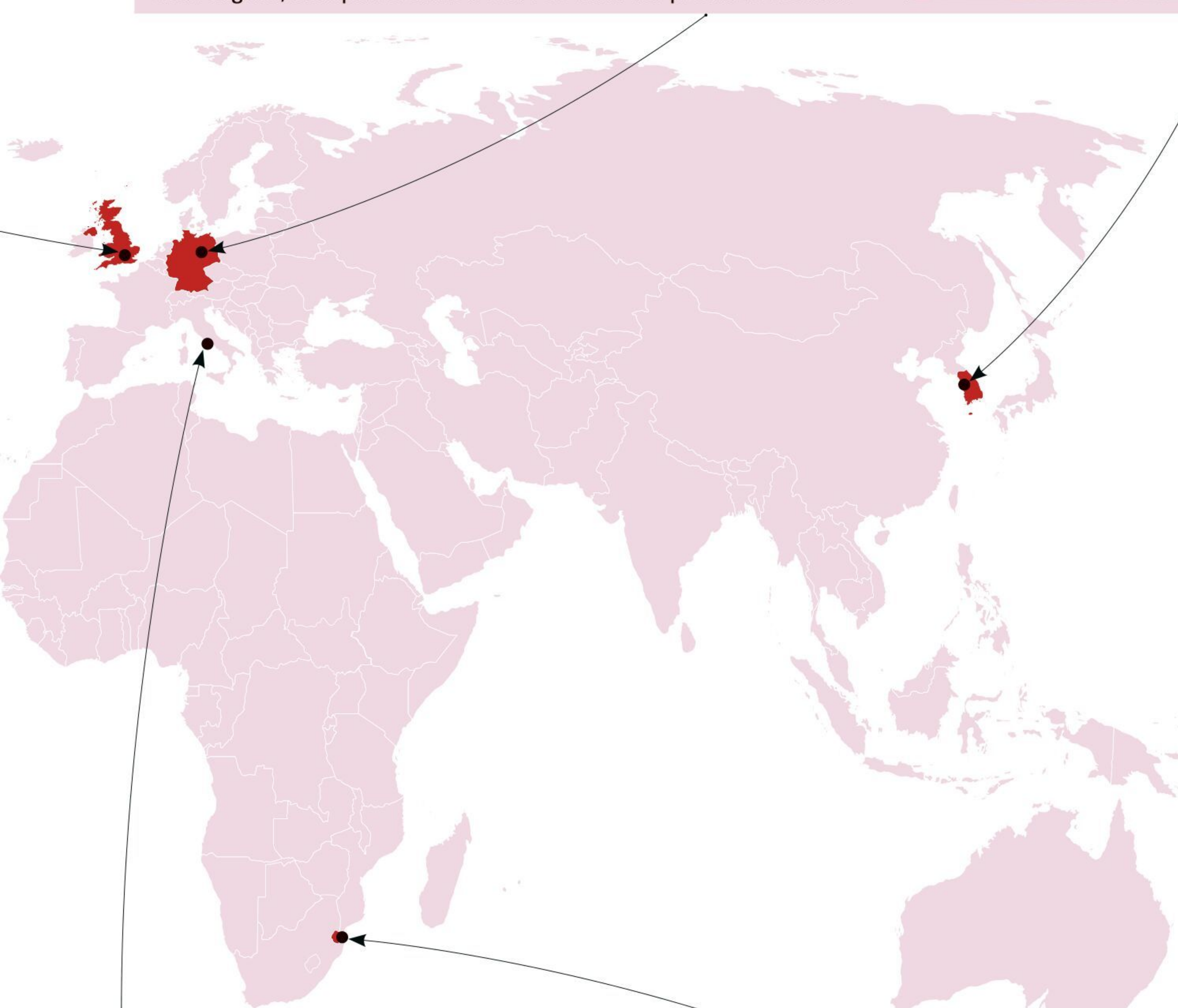
relies on human staff to take orders and serve customers. Sébastien Roverso, Pazzi’s inventor, says it can make up to 80 pizzas an hour and ten at a time. He is currently working in a restaurant in Paris’s “trendy fourth arrondissement”. Roverso has plans for an international chain of Pazzi restaurants that could “come to the rescue of a fast-food industry struggling to recruit” post-pandemic. However, says *The Times*, should Pazzi “not also toss – and sometimes miss – the pizza for the authentic touch? And when will it earn its first Michelin star?”

Berlin

Recovery dented but intact: Investors' confidence in Europe's biggest economy took a hit in July as the ZEW Economic Sentiment index for Germany slipped from 79.8 in June to 63.3, the lowest level since January. The July level was still "very high", according to Professor Achim Wambach of the ZEW institute, but "recent data have signalled a bumpy road ahead", says Carolynn Look on Bloomberg. German manufacturers reported an unexpected 3.7% monthly decline in factory orders in May, reversing a 1.2% rise in April, amid weak export orders for cars. Industrial production also slipped in May, by 0.3% month-on-month. "Unprecedented" supply-chain problems are to blame, a result of a sudden surge in global activity after the end of lockdowns. They will be "resolved only gradually", says Andrew Kenningham of Capital Economics. "But otherwise, the German economy is recovering strongly." Retail sales grew by a monthly 4.2% in May. In the wider eurozone, retail sales were 4.6% higher, compared with a 3.9% decline the previous month.



The German economic rebound is taking a breather

**Seoul**

Regulators fret over flotations: South Korea's initial public offering (IPO) market is heading for a record year thanks to retail investors, but "rich valuations" have prompted regulators to "step up scrutiny" as they are concerned about a market bubble emerging, says Song Jung-a in the Financial Times. Pressure from regulators prompted video-game producer Krafton, which was expected to become the country's largest-ever IPO, to lower its offering price by over 10%. Korea's Financial Supervisory Service is clamping down after shares in Hybe, the company behind K-pop superstars BTS, and internet group Kakao Games fell sharply following their widely hyped flotations. The Bank of Korea said in late June that the economy could be negatively affected if a shock triggers a correction in markets, says Sam Kim on Bloomberg. Still, the government expects GDP to grow by 4.2% this year. The economy surpassed its pre-pandemic level in the first half of 2021 thanks to a jump in exports as other economies reopened and higher investment at home. The state is set to start reining in its unprecedented stimulus and the central bank looks on track to raise its benchmark interest rate by early 2022.

Vatican City

Cardinal on trial: The Vatican has taken the unprecedented step of putting a sitting cardinal on trial, says Miles Johnson in the Financial Times. Giovanni Angelo Becciu will face corruption charges linked to investments in luxury London property – including a \$200m deal in Chelsea – using money donated to the Church. Becciu had been one of the most powerful men inside the Holy See, and the second-in-command of the Secretariat of State, the Vatican's internal bureaucracy, which managed donations before Pope Francis stripped it this function last year. Becciu was forced to resign from his role last September, leaving him a cardinal in name only. The indictment is a "dramatic acceleration" of the pope's drive to reform the finances of the Holy See after "decades of controversies". Four other former and current Vatican officials and five external consultants, including two London-based businessmen, Gianluigi Torzi and Raffaele Mincione, have also been charged with fraud, embezzlement, money laundering and abuse of office. The Vatican began its internal investigation in July 2019, drawing on assistance from Italy's Financial Police and the Public Prosecutor's Office in Rome as well as from authorities in Britain, Switzerland and Luxembourg. Becciu claims to be "the victim of a conspiracy" and has vowed to clear his name.

Mbabane

Africa's last absolute monarchy in peril: Dozens of people have died after a week of protests in the "tiny" nation of Eswatini, putting Africa's "last absolute monarchy" in peril, says Alexandra Wexler in The Wall Street Journal. King Mswati III (pictured) has been in power for 35 years and his "lavish" lifestyle has "long angered many of his impoverished subjects". Eswatini was known as Swaziland until 2018 when the king changed the country's name. Political parties have been banned since 1973, but opposition groups have long highlighted "indiscriminate and extravagant spending" by the royal family despite the country's poor infrastructure and the 200,000 people out of the population of 1.2 million who live with HIV/AIDS. The pandemic has compounded these problems, harming an "already weak economy and fuelling unrest". Sibongile Mazibuko, president of the pro-democracy Ngwane National Liberatory Congress group called the situation "worse than apartheid". The king is said to have fled to neighbouring South Africa and is unapologetic about his 15 wives, who occupy "several state-funded palaces".



The spectre of inflation

Investors are getting spooked by the prospect of rising prices. But how much of a threat is that really? Simon Wilson reports

What's happened?

The spectre of inflation has risen from the grave and investors are getting spooked. In the UK, the rate of consumer price inflation rose to 2.1% in May, up from 1.5% the previous month and continuing a surge from a low of 0.3% last November. That's a big rise in just six months. In the US it's even higher – 5% in May compared with an average between 2010 and 2020 of 1.7%. In the eurozone, it's 2%, but the Bundesbank predicts that in Germany it will be 4% by later this year; politicians have warned of a “social explosion” as a result.

Isn't this just a post-Covid-19 bounceback?

Only partly, argues Patrick Hosking in *The Times*. The “economic slack” argument wheeled out to explain why price and wage pressures won't intensify much further and will then retreat is “starting to sound tired”. It downplays the fact that employers in industries from construction and retail to hospitality and transport are struggling to fill vacancies. Around the world, a dearth of staff in some sectors is forcing bosses to offer an “assortment of baits, bonuses and benefits that would have seemed preposterous just months ago”, says Pilita Clark in the *Financial Times*. In Australia, Queensland is offering £820 signing on bonuses to lure workers into the tourism sector. In the US, Amazon is offering \$1,500 sign-on bonuses. In London, a restaurant is offering staff £2,000 if they successfully recommend a new hire. More broadly, a record four million Americans quit their jobs in April – the latest sign that a tight labour market could be here to stay, pushing up wages.

Are we heading for a wage-price spiral?

“In my view this is the most dangerous moment for monetary policy since inflation-targeting was first introduced into the UK in 1992 after the European Exchange Rate Mechanism debacle,” wrote the Bank of England's departing chief economist Andy Haldane last month. “If wages and prices begin a game of leapfrog, we will get the sort of wage-price spiral familiar from the 1970s and 1980s.” But as Haldane told *MoneyWeek* in last week's issue, he believes such a spiral is less likely in an age where the Bank of England is independent – and is therefore free to court unpopularity by tightening monetary policy. On balance, a wage-price spiral is unlikely, says Ian Stewart, chief economist at Deloitte. “Unlikely – but not wholly impossible.”

Is an inflation crisis on the cards?

Mervyn King, a former governor of the Bank of England, says politicians are



Mervyn King: inflation is once again a “serious risk”

complacent about the risks. For the first time since the 1980s, two factors “make inflation a serious risk”, he says: “excessive monetary and fiscal stimulus, and weak political resistance to the threat”. The most explosive warning yet has come from Nouriel Roubini, the “Dr Doom” economist who predicted the 2007-2008 financial crisis. In a sobering piece for *Project Syndicate*, Roubini warned that the global economy is heading for the “mother of all stagflationary debt crises”. Years of ultra-loose fiscal and monetary policies have pumped up asset and credit bubbles that will inevitably burst. But this time it will be worse than either the 1970s (because debt levels are higher) or the 2007-2010 period (because the context will be inflationary rather than deflationary). Worse, policymakers will have run out of firepower, and governments will be semi-insolvent and therefore “unable to bail out banks, corporations and households”. This slow train wreck is approaching, says Roubini; “the question is not if but when”.

Why does inflation matter?

The idea that a little inflation is nothing to worry about is dangerous, says Brian Griffiths (the academic and Thatcher-era politician Lord Griffiths) in *The Article*. Once inflation becomes embedded the “whole population becomes poorer, unemployment rises, those in debt are rewarded and those with savings are penalised. Inflation invariably creates division, conflict and an erosion of trust in society, with everyone blaming everyone else for the chaos.” It's hard for today's generation of policy-makers and leaders to understand this: anyone under 60 has little

memory of the high inflation of the 1970s. A return to 20%+ inflation is unlikely, says Griffiths, but so is a return to a stable 2%.

Why's that?

First, the “2% genie is out of the bottle”. Inflation expectations are no longer anchored at 2%, and everyone thinks inflation will rise – a fact which will in itself tend to fuel price rises. Second, the pandemic (like World War II) has changed what citizens expect from their governments. In the US, Biden's \$6trn splurge will help fuel inflation, as will the “levelling-up” agenda of Boris Johnson, a “big spending Tory in the tradition of Macmillan and Heath”. Third, central banks have been tasked with multiple objectives rather than a sole, clear goal of targeting inflation. The Bank of England, for example, is no longer just tasked with overseeing price stability, but also monetary stability, the banking sector, and helping the government hit sustainability and net-zero carbon targets.

Why does that matter?

It muddies the waters in terms of independent policy-making and makes it harder to target inflation effectively. There's also a fourth factor: a real potential for supply-side constraints – including shortages of migrant labour – to “reduce real output growth in the face of an extraordinary monetary and fiscal stimulus, such that demand exceeds supply” and prices soar. The danger now is that policy-makers write off higher inflation as part of a temporary post-Covid-19 bounce, and fail to see the factors that point to the longer-term problem. The longer they delay tightening, the more inflation will rise – and the bigger the risk of kick-starting that wage-price spiral. Then we really will be in trouble.



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How to revive our flagging stockmarket

The regulator is proposing new rules to raise the number of firms going public. It should be more radical



Matthew Lynn
City columnist

No one would deny that the rules governing what companies can list on the stockmarket, and on what conditions, were in need of radical reform. Over almost three decades, regulators have tightened and tightened the rules. The aim was to protect investors and make equity investment safer for ordinary people. As is so often the case with regulation, however, it has had unintended consequences. In this case, the number of listings has fallen dramatically.

The safety of the graveyard

The number of companies quoted on the London market has fallen by 40% since its 2008 peak. Entrepreneurs have decided to remain private, or else sell out to a venture-capital fund; existing businesses have realised it is easier to sell to a private-equity firm than struggle on with all the hassle of a stockmarket listing. Investors may have more protection – although even that has not been proved – but there's little point in that if there is nothing to invest in, or if the only remaining listed businesses are a handful of century-old multinational conglomerates with dismal growth prospects. It is the safety of the graveyard.

A shake-up of the system was long overdue. The Financial Conduct Authority, the financial regulator, this week put forward a series of proposals that, if agreed, could be implemented by the end of this year. Dual-class shares will be permitted so entrepreneurs can sell some equity while also making sure they retain control of their business. The “free float” requirement – the actual percentage of shares that are available to buy and sell – will be lowered from 25% to 10%. The minimum market



The rules couldn't prevent this offering turning stale

capitalisation for a float will be raised from £700,000 to £50m. And there will be a general tidying up of the rule book to reflect changes in technology and the way the markets operate. That's better than nothing. But only just. Allowing dual-class shares will encourage a few more fast-growth companies that need capital to raise it from a public listing rather than the venture capital funds. And lowering the free-float requirement will allow a few more tightly held businesses to list on the stock exchange. Against that, raising the minimum size of an IPO to £50m is a terrible idea. It may have escaped the notice of the bureaucrats and lawyers at the FCA, but most new businesses start small. We should not be

making it harder for new businesses to raise money. So it is a very mixed bag.

Don't fear the imaginary threats

Step back and it will seem odd that there are any restrictions at all. Above and beyond basic health and safety rules, we don't impose them on many products. Nor do we impose them on small private companies. If a friend, colleague or relative suggests you take a stake in a new venture, then that is up to you, and to them. You might invest a few thousand in exchange for a modest stake, or you might not. But it would be up to you. You would take a risk, and see how it worked out. Likewise, in the booming crowd-funding market, there are very few restrictions on what kinds of companies can raise capital and on what terms. So why do we need them on the main stock exchanges?

The regulators will argue there has to be some level of investor protection. But the rules don't work anyway: there are plenty of businesses listed on the market that tick all the right boxes and still collapse. Patisserie Valerie and Carillion are just two recent examples. The assumption is that investors couldn't possibly understand the risks and opportunities in buying shares. Yet 90% of equities are owned by sophisticated institutions perfectly able to do their own research. The other 10% are owned by savvy, well-informed individuals with access to unlimited information on the web. If they can take on Wall Street over the valuation of GameStop, they can surely assess a dual-class share structure as well.

The threat the rules are guarding us against are mostly imaginary. A few tweaks are not enough. We should simply scrap all the rules on share listings and allow a completely free and open market. It wouldn't be any riskier than it is now – and would be a lot more vibrant and dynamic.

Who's getting what

● Former prime minister **Theresa May** was paid £502,837 for 12 “virtual” speaking engagements from last September to June, making her the highest-earning MP last year, says *The Mail* on Sunday. May (pictured) had commanded a speech fee of up to £110,000 before the pandemic; rates for some speakers fell by 90% during lockdown. Still, the MP for Maidenhead held up better than most. May's online rates were between £38,000 and £48,245,



according to Parliament's Register of Members' Financial Interests.

● **Jozsef Varadi**, the chief executive of Wizz Air, stands to reap a £100m bonus if the share price of the Budapest-based low-cost airline rises from £48 to £120 over the next five years, says the *Financial Times*. The one-off award, one of the biggest-ever payouts from a London-listed company, would be paid in shares over a four-year period.

It would also make Varadi one of the highest-paid executives in the European airline industry.

● Online giant Amazon is planning to award its new boss, **Andy Jassy** (who currently also leads the Amazon Web Services division) stock worth around \$214m at current prices, says Reuters. The 61,000 shares will pay out over ten years, starting from last Tuesday, when founder Jeff Bezos formally stepped down. Jassy made \$41.5m from vested stock in 2020, and he stands to make another \$45.3m from stock vesting this year.

Nice work if you can get it

Barclays has followed its Wall Street rivals, including JP Morgan and Bank of America, and hiked pay for junior investment bankers, says Gillian Tan on Bloomberg. The bank will lift the base salaries of all US analysts by \$15,000 and its US associates and vice-presidents by \$25,000, taking first-year analyst base salaries to \$100,000, according to an anonymous source. Staff based outside of the US will receive similar pay rises. Barclays' first-year analysts will now be on the same salary as their peers at JP Morgan. Bank of America promised in April to raise the pay of its junior bankers following concerns over “burn-out” among younger staff. Credit Suisse and Wells Fargo have handed out one-off bonuses, junior bankers at Houlihan Lokey have been offered holidays, while Jefferies is providing a range of fitness perks, such as Peloton exercise bikes and Apple products.

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Ticking all the bubble boxes

There are five key characteristics to every bubble, says analyst Richard Bernstein. This market meets them all



John Stepek
Executive editor

Most analysts agree that the US stockmarket is overvalued on almost any measure you care to use. You can find pockets of value everywhere, and other global markets aren't quite as expensive (notably the UK). But when it comes to the US, there's little argument that investors are paying up for stocks in a way that we haven't seen other than at previous pre-crash highs.

Of course, there are still arguments to be had around how much this matters. You may or may not believe that there are good reasons for the apparent overvaluation. Low interest rates are one pertinent factor, and you can argue that online business models, which are far less capital-intensive than "old economy" companies, make a big difference too. And after years of hearing the same "markets are overvalued" story, you may feel sceptical about how useful valuation is as a measure anyway.

That's where an interesting recent piece of research from US investment manager Richard Bernstein Advisors comes in. Bernstein is a former Merrill Lynch strategist who was bearish in the run-up to the 2008 crash, but persistently bullish afterwards, notes John Authers on Bloomberg. So "he cannot be dismissed as a perma-bear, and the last time he made a bubble call he was right". Bernstein argues that there are five essential characteristics to a bubble – but overvaluation is not one of them. Instead, bubbles are when "financial speculation is clearly pervading society" – which he believes is now the case.

What are the five? Increased liquidity; use of leverage; democratisation of the market; increased new issues (as companies take advantage of investor appetite to raise money cheaply); and

"There are five criteria for a bubble – and valuation isn't one"



increased turnover. Money-printing by central banks has left us awash with liquidity. On leverage (see box below), Bernstein notes that private investors in particular are using more and more borrowed money and leveraged instruments such as options. "Democratisation" of finance (which Warren Buffett's partner Charlie Munger is worried about too – see right) is needed to drag in enough new investors to drive the bubble; the "meme" stocks phenomenon around firms like videogames chain GameStop is proof of that. On new issues – both special purpose acquisition companies (Spacs) and initial public offerings (IPOs) are booming. Enthusiastic trading has boosted share turnover. So all the boxes are ticked.

The good news is that Bernstein doesn't view the whole market as being at risk. Instead the bubble has centred on specific sectors – tech in particular. As a result, "momentum strategies focused on the market's bubble leadership seem very risky to us". But prospects for investors in neglected areas such as the energy sector, value stocks and non-US markets are more appealing.

Guru watch

Charlie Munger,
vice chairman,
Berkshire
Hathaway



"I don't want... all of the Chinese system, but I certainly would like to have the financial part of it in my own country." Charlie Munger, the long-term business partner of Warren Buffett, reckons the US could pick up some tips on finance sector regulation from China, he tells Becky Quick on CNBC.

Discussing the collapse this year of Archegos Capital Management, which was brought down because it used too much borrowed money to buy shares, Munger, 97, contrasts the US approach with that of China. "Our own wonderful free enterprise economy is letting all these crazy people go to this gross excess," whereas "the communist Chinese... step in preemptively to stop speculation." He notes approvingly that when Alibaba founder Jack Ma (pictured) tried to list his financial technology



company Ant Group, with plans to disrupt the Chinese banking system, the "communists did the right thing. They just called in... Ma and say: 'You aren't gonna do it, sonny'".

Munger is also cynical about the idea of "democratising" investment amid the craze for "meme" stocks. Popular share trading app "Robinhood is beneath contempt... it's a gambling parlour masquerading as a respectable business".

As for the impact of the pandemic, it turns out that Munger is a fan of working from home – and Zoom. "I think a lot of business travel will never come back. Just corporation after corporation deciding... two meetings a year in person, and the rest Zoom... it just adds so much convenience."

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

Leverage (or "gearing") refers to the extent to which debt rather than equity is used to fund an investment. The term can be applied to a business – which might issue bonds to help pay for the construction of a new factory or take out a mortgage to allow it to buy an office building – but equally for the use of borrowings by an investment trust or hedge fund to increase returns.

Leverage is also known as gearing; the latter term is more common in the UK, while the former is preferred in the US. The extent of a company's leverage can be measured through ratios such as debt/equity. Let's assume that a

company has assets worth £100m and debt totalling £30m. Shareholders' equity, which is equal to assets minus liabilities, will be £70m. Then its debt/equity ratio is $30 \div 70 = 43\%$. The debt/assets ratio, another common measure of leverage, will be $30 \div 100 = 30\%$.

The company then buys a rival for £50m and finances the deal using a bank loan. Total assets are now £150m, debt is £80m and equity is unchanged at £70m. However, its debt/equity ratio is now $80 \div 70 = 114\%$ and its debt/assets ratio is $80 \div 150 = 53\%$. It is now more highly leveraged. You should also look at interest cover, which is earnings before

interest and tax (Ebit) divided by interest payable. So if the firm had Ebit of £5m and paid £2m in interest, it would have interest cover of $5 \div 2 = 2.5$.

Leverage for a fund is usually calculated in a similar way to debt/assets. Say an investment trust has £100m in capital contributed by investors, borrows £5m and invests £105m. It will then start with gearing of 5%, which will change in line with the value of the investments.

For individuals in the UK, leverage for investing (rather than buying a house, say) is most easily accessed using spreadbetting. This can amplify your returns but of course it can amplify your losses too, and is thus best avoided if you are at all unsure about how it works.

The big state will not save us

Mark Littlewood
The Daily Telegraph

Getting Brexit done and the success of the vaccine rollout have carried Boris Johnson's government thus far, says Mark Littlewood. But neither is going to matter much in the months and years to come. After coronavirus restrictions are lifted (see page 8), "normal bread-and-butter issues" will return to salience, and "the Conservative cupboard is extraordinarily bare". "Levelling up" and "build back better" are "mere catchphrases, not serious strategies". But they signal that the government "genuinely appears to believe that the woes of left-behind Britain have been due to the state being an insufficiently large part of people's lives". This ignores the fact that the richer parts of the UK are richer thanks to their thriving private-sector businesses and their low taxes as a proportion of income. Yet the dire state of the public finances post-Covid means that tax rises are inevitable. "In a year's time, Brexit and vaccines will be memories, not policy positions. The Conservatives' basic offer of a high tax, high spend, heavily regulated economy is what will remain. The millions of voters who wanted a buccaneering, enterprising and liberated post-pandemic, post-Brexit Britain will feel not just disappointed, but politically homeless."

New subsidy regime won't come cheap

Simon Nixon
The Times

The government has "triumphantly announced" that its new state-aid bill will allow it to "lavish subsidies on businesses" post-Brexit, says Simon Nixon. Quite why "self-styled Thatcherites" are so thrilled about that is a mystery. Still, what can we expect of the new regime? The idea is to set up a more "nimble, flexible" system without EU red tape that avoids trying to pick winners or bail out failed firms as we did in the 1970s. This set-up will certainly be faster than when we were in the EU, which insists on all subsidies being pre-approved by the European Commission, a process that takes six months. One potential problem, however, is a lack of legal certainty. The bill lists "seven woolly principles for legitimate state aid" that the Competition Appeal tribunal must interpret if a conflict arises. On the political front, avoiding 1970s-style bailouts and picking winners is easier said than done. After the pandemic all governments are under pressure to prop up industries and riding to their rescue may be hard "to resist without the shield of EU rules to hide behind". The bill could also stoke regional tension if one part of the UK appears to be luring jobs from another – not least because Northern Ireland will remain subject to EU rules.

It pays to vary regional wage floors

Jens Suedekum
Wirtschaftswoche

Some economists predicted a million job losses when Germany's national minimum wage was introduced in 2015, says Jens Suedekum. That didn't happen. Studies suggest minimum wages won't have a detrimental effect on employment provided they don't exceed a certain threshold; one of the most renowned pieces of research suggests two-thirds of the median wage. That threshold would currently imply an hourly wage of €13.20, while the current federal lower limit is €9.60. But it would make sense to use this rule of thumb to tweak minimum wages on a regional basis rather than having just one national figure. Some areas will be able to tolerate higher lower limits thanks to higher average incomes. In Munich, for instance, the median hourly rate is €27, so companies would only start cutting jobs if they were forced to pay at least €17.88. And the cost of living is far higher in the big cities, so lower salaries in rustic areas would go further. For someone on the current minimum, 19 of Germany's 20 biggest cities are unaffordable. Rents in Munich are five times the typical level in northern east Germany. There the median wage is €15 so the critical level for employment would be €9.60, the current rate.

Egypt builds a new capital – but why?

Mustafa Menshawy
Al Jazeera

In Egypt, a huge "New Administrative Capital" is being built, a multi-billion-dollar project situated to the east of Cairo on a swathe of desert the size of Singapore, says Mustafa Menshawy. You might think this is to meet some need – and indeed overcrowded and security-choked Cairo barely functions. But follow the money and a different motive emerges. The company overseeing the project is 51% owned by the country's military, which will therefore reap the financial benefits and help it "spread its tentacles further across the Egyptian economy". President el-Sisi will get business back on side, gain tax revenues by boosting the economy and win prestige by associating himself with a grand project. But perhaps most importantly, the new project will help el-Sisi "control any future revolt against his regime and consolidate his power". Back in 2011, the dictator Hosni Mubarak lost power the moment he lost control of the strategic Tahrir Square. It since became a powerful symbol of revolt. President el-Sisi has long worked to strip the square of its status. Now, to diminish it further, "he is moving the country's centre of gravity, its leading institutions, and seats of power, to a fortified, artificial desert oasis some 28 miles away".

Money talks

"My parents lived in Nigeria and worked hard to get to this country and put all their effort into making sure I was able to go to private school. They've taken out loans. Been in enormous debt. You can understand how frustrating it was when I said, 'Nah, I want to do YouTube.'"



YouTube star KSI (above), now said to be worth around £16m, quoted in The Sunday Times

"There is only one difference between a bad economist and a good one. The bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen."
Economist Frédéric Bastiat, quoted in The Sunday Telegraph

"There is no support from the government... Everyone's going to start crying if I say I should be looked after a little bit because I'm a millionaire, but in general the music industry is on its knees. It brings in so much money, they should really do something to help that isn't just lending money and sticking artists in debt."
British singer and record producer AJ Tracey on the lack of help for musicians in the pandemic, quoted in the Evening Standard

"Never get them drinks on the house, always talk to the person they're with more than them. Famous people get really pissed off by over-elaborate service. They just want to be left alone."
Restaurateur Keith McNally, quoted in The Sunday Times

"My parents spent all that money trying to get me to fit into middle-class Britain, speak the lingo, walk the walk, talk the talk, and all I really needed to do was get a dog."

TV presenter Anita Rani on joining the middle classes, quoted in The Times

©Getty Images

Russia: risky but rewarding?

The only investment trust focusing on the world's cheapest stockmarket is worth a look



Max King
Investment columnist

It is hard to think of a more contrarian investment than Russia. Not only is President Vladimir Putin the *bête noir* of Western governments, but hydrocarbons account for 40% of the market. As a result, Russia, according to Priyesh Parmar of Numis Securities, “is the cheapest major global equity market, trading on a historic price/earnings ratio of just 9.5 and offering a yield of around 5%”. The only investment trust specialising in Russia, the £300m JPMorgan Russian Securities (LSE: JRS), is on a 12% discount to net asset value (NAV) and yields 4.6%.

Its manager, Oleg Biryulyov, is upbeat. His portfolio has a 72% overlap with the benchmark index and is priced, he says, on 7.9 times forward earnings and a price/book ratio of 1.2. The forward dividend yield is 7.6%, yet annual earnings growth is expected to average over 7% in the next five years. The state's budget is based on a \$40-per-barrel oil price so, with a price above \$60, finances are healthy. He does not expect political change nor any shift in the regime of Western sanctions. “The market is [at] its historic high but is still very cheap.”

It is hard to see why the West singles Russia out as public enemy number one. It is less of a military threat to its



There is no guarantee that an alternative to President Vladimir Putin would be an improvement

neighbours than China, faces no accusations of genocide, and the state is significantly less repressive and intrusive. Putin enjoys provoking the Western establishment but is broadly popular at home. Internal political dissent is not tolerated but there is no guarantee that any alternative government would be an improvement.

Governance has improved

Biryulyov says that “the correlation of the Russian market to commodities is declining”, but it is clearly still significant. “A poor environmental profile is inevitable,” but he seeks to compensate through a focus on sound corporate governance.

For example, Gazprom, the largest holding at 15% of the portfolio, was “uninvestable” a few years ago. Since then, improved capital allocation and a shift from being run as a nationalised to a commercial company has boosted cash generation and led to a likely rise in dividends from 40% to 50% of earnings.

Tom Holland of Gavekal Research points out that “if all the world's cars were to go electric tomorrow, all oil-fired power stations were decommissioned and all oil-fired boilers... scrapped, the world would still need 66 million barrels of oil per day [mbpd] – two-thirds of 2019's demand – to propel its

trucks, ships and planes, and to feed its industries”. Oil (and gas) will not fade into irrelevance for decades, yet Western firms are running away. Russia looks the best place for investors to benefit from the cash generation of a declining industry.

Balancing growth and value

JRS also has large holdings in Lukoil and Rosneft, and in miners, with Norilsk Nickel worth 11% of the portfolio. Two steel producers account for 6% and total commodity exposure is nearly 60%. With giant bank Sberbank comprising 13%, this implies a value style but Biryulyov has deftly switched between value and growth. In 2020, growth companies Yandex (Russia's Google), EPAM (a Belarussian IT outsourcer), and Detsky (a children's retailer), were the best performers.

The market is extremely volatile. The trust's NAV fell by 46% in 2014 but rose by 45% in 2019. This year has started well but there should be far more to go for. Thereafter, who knows? Russia's domination by Mafia-style oligarchs does not encourage entrepreneurs – hence its modest rate of economic growth. Capital that could be invested at home leaves the country so the small and midcap segment of the market is undeveloped. That may change in time to make JRS a great long term investment but, for now, investors can focus on the shorter term.

Activist watch

Videogame publishers resemble film studios in that a blockbuster “can make or break a company”, says Steve Goldstein on Barron's. Warsaw-listed CD Projekt was expected to do well with the release of *Cyberpunk 2077*. But the launch has been a flop. Sony hasn't allowed its Playstation Store to stock *Cyberpunk 2077* because it is riddled with bugs, and Microsoft has added a warning notice to the Xbox version for the same reason. CD Projekt's shares have plunged by 38% this year. Activist investor Abri Advisors has taken a stake in the company and called for the resignation of CEO Adam Kicinski. It also wants the group to “address its shortcomings” and fix its image. Kicinski insists the game will be a success “in the long run”.

Short positions... record sums flow into equity funds

■ The number of new hedge-fund companies launched in 2021 is on track to match last year's global total of around 60 despite “subdued” returns compared to 2020's “big gains”, say Katherine Burton and Eric Krebs on Bloomberg. Even in the pandemic, 20% more firms launched last year than in 2019 and a few raised over \$1bn. So far in 2021 at least four new firms are on track to meet or surpass the \$1bn mark. Managers who used to work at Viking Global Investors continue to do especially well; Viking has “spawned some of the most notable debuts of the past few years”. Most of the start-ups will focus on equities and specialise in areas such as biotech or technology, hoping to capitalise on hedge funds' outperformance in these sectors last year. This year, such specialised sector funds have “woefully lagged” the S&P 500, returning only around a fifth of the US index's gains. One eye-catching recent launch was London based FIFTHDELTA last week; it had mustered \$1.25bn.

■ Global equity funds look set to break their inflow records. Around \$580bn has flowed into the sector in the first half of 2021, says Eric Platt in the Financial Times. Analysts estimate that if inflows continue at that pace equity funds will take in more money for 2021 than in the previous 20 years combined. Equity funds have “ploughed” the inflows into “an ever rising stockmarket” as major indices climb to record highs amid the post-pandemic recovery. The S&P 500 is up by 15% this year while the FTSE All World index has gained 12%. Low bond yields have made the \$117trn global stockmarket more enticing. Investors are particularly keen on growth and technology stocks in the US, but inflows have been “broad-based”, with both global funds and those buying Japanese or European stocks benefiting.

Britain hands back control

capx.co

How can one object to the EU yet have no problem with Britain's membership of Nato and the World Trade Organisation? The answer is that the latter are intergovernmental – based on international agreement between national governments. The EU, on the other hand, is supranational – an international body that overrides national governments. We have rightly freed ourselves from the EU's grasp – but are now in danger of handing power back again, says David Campbell Bannerman.

Our taxes are our business

“When it comes to economic sovereignty, control of taxes is paramount.” That's why the latest move from the Organisation for Economic Co-operation and Development (OECD) is “so alarming” – it is trying to “exert control over sovereign UK taxes”. A

policy framework agreed at the recent G7 meeting of world leaders seeks to ensure that multinational companies pay more tax in markets where they earn revenue. Once agreed by the wider OECD, this framework would be “set in stone by a binding international treaty” that Britain would then have no choice but to abide by.

The deal seeks to make two changes. The first is to “correct a historic wrong” – to force tax-savvy corporations that shift tax offshore to low-tax areas to pay their fair share. This is welcome and should bring in \$50bn-\$80bn more in corporation tax. “Rishi Sunak was understandably beaming at the prospect.”

The second is to mandate minimum corporate tax rates, and this is “far more worrisome”. The low rate initially agreed of 15% will rise in the future – the US was pushing for 21%, and the French



finance minister has described the plans as a “starting point”. Nations that implement the minimum rate will be able to levy extra taxes on those that don't, via “jurisdictional blending” or “country-by-country top ups.”

Such measures could interfere with Britain's broader domestic policies too – it may “hamstring” the low rates promised for UK Freeports, for example, restrain post-Brexit tax freedoms to encourage private-sector investment, harm innovation in the pharmaceuticals industry,

conflict with the new “super deduction” on investments in plant and machinery, and so on. It could also damage low-tax jurisdictions, which are a “delicate financial ecosystem of great importance to the wider global economy”, disincentivising investment in pharma and extractive industries, for example, and raising costs for UK business and consumers. The Treasury is currently consulting on the proposal. Britain should make its strong opposition clear.

The last great conservative thinker

conservativehome.com

Who is the greatest living conservative thinker? With the death last year of Roger Scruton, and the socialist capture of academia, most people would be hard-pressed to think of any, says Adrian Lee. The main contender is Thomas Sowell, a black American born into poverty 91 years ago, and still writing today. “The breadth of his work is formidable.” Sowell, a senior fellow at the Hoover Institution at Stanford University, is the author of more than 50 books, covering areas as diverse as economics, racial inequality (he is opposed to so-called affirmative action, believing it hinders the advancement of minorities), housing and education. Sowell was born into a world that was both poor and harsh for black people, living under the “Jim Crow” segregation laws and leaving school at 16. He went from job to job after that before discovering a public library and a love for books. There he discovered Karl Marx, and became a convinced Marxist – “the ideas seemed to explain so much” – before going on to university to study under Milton Friedman and Friedrich Hayek. He ended up rejecting socialism, but “stayed faithful to a belief that all political propositions should be based upon meticulous research and firm empirical evidence”. He is the “last great conservative thinker of the 20th century”.

Why islands tend to be freer

economist.com

Africa “has more than its fair share of despots”, says The Economist, yet four of the continent's five island-states are rated “free” by Freedom House, a US think tank, says The Economist. For Africa as a whole, fewer than one in five ranks as free. How do the islands manage it?

A study in the Journal of International Relations and

moneyweek.com

Development argues that size and insularity “holds the key to freedom”. Because Cape Verde, the Comoros, Mauritius, São Tomé and Príncipe, and the Seychelles are small, politics is more personal and constituents can “pester officials to keep



their promises”. It is harder too for a single party to crack down on dissidents when they are neighbours and friends. And being islands, they are spared from land borders which their neighbours may contest or over which conflicts can spill.

Other attributes could also explain the difference. The islands lack natural riches such as diamonds and oil, which fuel conflicts in other nations. And because they lack such resources, the islands rely on tourism for jobs and income. This can “foster stability and development”.

Can Elon Musk master telepathy?

irb.co.uk/blog

Elon Musk claims that in ten years speech will be obsolete, says Phil Jones. Tiny chips placed in the brain will instead allow us to communicate telepathically, and Musk's latest venture, Neuralink, has been promoting a “series of bizarre stunts”, including a video of a monkey implanted with a chip playing a video game and a pig having its neural activity tracked on a bleeping monitor.

To his boosters, this is more evidence of Musk's genius. Yet versions of the technology he is raving about have been around for 150 years. And his track record may make us doubt his claims: Tesla regularly misses production targets; his project to “blast pods of commuters around underground tunnels” faces repeated setbacks; and he remains mysteriously confident that there will be humans on Mars by 2026. Venture capital in Silicon Valley, though, “follows the hype”. “Like the Soviet state dangling the promise of a radiant future in front of its tired citizens, Musk's success is sustained by predictions of a technological sublime that's only ever another decade away.”

How to pay for the pandemic

Covid-19 has proved extremely expensive. It's time to consider fresh sources of government revenue, says Edward Chancellor

The war on Covid-19 has proved remarkably expensive. The US federal deficit last year ran to \$3.4trn. That's nearly 95% of Washington's total tax take. How to foot the bill? So far, President Joe Biden's administration has only proposed tinkering with the current tax system. The White House has called for the maximum tax rates on income, corporate and capital gains to rise (capital gains tax might also become payable on estates). UK prime minister Boris Johnson is considering a reduction in the tax benefits enjoyed by pensions. Given Britain's poor savings record, a raid on retirement plans appears ill-advised.

Rich Americans are expert at avoiding income taxes. Investigative journalists at ProPublica have revealed that several of America's richest citizens – including Jeff Bezos, Elon Musk, George Soros and Carl Icahn – didn't pay federal income tax in some years. In 2015, some 14,000 US taxpayers paid more income tax than Berkshire Hathaway's boss Warren Buffett. The Sage of Omaha enjoys a relatively low income-tax bill because he seldom realises capital gains and Berkshire doesn't pay a dividend. Corporate America is equally adept at minimising its tax liabilities. The five most valuable US companies – Microsoft, Apple, Facebook, Alphabet and Amazon – pay 15% of their profit in taxes, nearly a third less than last year's statutory US corporate tax rate of 21%. It's time to consider fresh sources of government revenue. Here are some possible new taxes to do the trick:

Wealth Tax: Billionaires might find it harder to avoid a wealth tax than income tax. Besides reducing inequality, an annual wealth levy, which already exists in some form in prosperous economies including Switzerland and Norway, could replace capital gains and the hugely unpopular estate tax. The richest 25 Americans, from Bezos to eBay's founder Pierre Omidyar, are worth \$1.8trn dollars, according to Forbes. A 2% tariff on their wealth would raise around \$36bn, many multiples of what they pay in income tax. But critics claim such a levy would discourage enterprise and hurt small businesses.

Leverage Tax: Financial analyst Martin Hutchinson has mooted a tax on corporate leverage. Hutchinson argues that leverage is a source of financial instability. In recent years, companies have taken advantage of easy money to get further and further into debt. A leverage tax would reduce debt-funded buybacks and other types of financial engineering. Instead of "de-equitising", firms would have an incentive to replace debt with equity. AT&T is currently the most leveraged non-financial US corporation with total liabilities close to \$350bn. If those liabilities were taxed at 2%, the phone company would pay nearly \$7bn more.

Monopoly Tax: As Adam Smith pointed out, a dynamic economy requires free competition. Yet, as Jonathan Tepper shows in his recent book, *The Myth of Capitalism*, the US economy has become dominated by corporate behemoths. Research suggests that companies with dominant market positions are more profitable, but tend to invest less.

"An inflation tax is in the offing. Even the canny Warren Buffett will have trouble escaping its reach"



President Joe Biden is merely tinkering with the tax system

It used to be the job of antitrust regulators to dismantle monopolies, but lately they have sat on their hands. A profits tax based on market share would do the job more efficiently while raising tons of cash. As Tepper writes, "If we have progressive income tax because the marginal utility of money is lower for the very wealthy, why should we not tax corporations similarly?". Facebook currently pays around 13% of its profit in taxes. If the social-network giant's tax rate was based on its global market share, its corporate rate would increase more than fivefold. Society would benefit if the monopoly rents currently enjoyed by Facebook, Google and other tech giants went into the public purse.

Green Sales Tax: A key weakness of capitalism is that those responsible for damaging the environment often avoid paying up. The British-born economist and Nobel laureate Ronald Coase suggested long ago that the state should charge companies for "externalities", such as pollution. An alternative approach would be to include environmental costs in a sales tax. Such a tax would mimic the "sin taxes" already added to tobacco and petrol. Thus, diesel-powered cars would attract a higher sales tax than electric vehicles, and the tax on intensively reared beef would be higher than grass-fed beef. The level of the green sales tax could be linked to the amount of carbon dioxide emitted in production.

Since externalities are hard to measure, such a tax would be administratively complex. Besides, there's a danger that any new tax will have unforeseen consequences. When William of Orange introduced the Window Tax in 1696 to pay for Britain's war with France, homeowners bricked up their windows. After France introduced a wealth tax in the 1980s, thousands of millionaires fled the country. President Emmanuel Macron abolished the tax in 2017.

Political realities mean few, if any, of these proposed new taxes will see the light of day. Instead, politicians will resort to the oldest tax of all, a tax that requires neither legislation nor the assent of the people. Since ancient times, states have met the costs of war by debasing their currencies. Little has changed in the interim. Today, central banks are busy printing money to buy government debt. An inflation tax is in the offing. Even the canny Buffett will have trouble escaping its reach.

A longer version of this article was first published on breakingviews.com.

Don't cut corners on cover

Scrimping on insurance policies for your business is a false economy



David Prosser
Business columnist

Businesses cancelling insurance policies to reduce their costs may be making false economies – and even leaving themselves exposed to legal trouble. Research suggests that 51% of small companies stopped paying for at least one type of insurance at the height of the Covid-19 pandemic.

It is illegal to operate without certain types of insurance, and there are fines and other penalties for those who are uninsured. In particular, if your business has even one employee, it must take out employers' liability insurance, which will pay out if a member of staff is injured at work or becomes ill as a result of their employment. In most cases, you must have at least £5m of cover.

Motor insurance for businesses that use vehicles is also compulsory. They must have at least third-party cover, providing a minimum of £1m of insurance for property damage and an unlimited amount for personal injury.

Depending on the nature of your business, operating without other types of insurance is hugely risky, even if it is not illegal. Public liability insurance, for example, protects you if your company comes into contact with people other than your employees. That might be anyone from customers visiting your premises to clients attending a meeting you have organised. If someone has an accident, falls ill or suffers damage to their property during such visits, you may face a claim for compensation. Public liability insurance will help pay for the resulting legal costs and any redress due.

Professional indemnity insurance also protects against claims for damages in cases where clients say they have suffered damages because you have given them poor advice. In certain sectors – notably legal services – your professional body will require you to have such cover, but it can prove valuable even where it is not mandatory.



Buildings insurance will pay off if your premises suffer damage

Protecting your property

Then there are insurance policies designed to protect your business during the course of trading. Buildings insurance provides protection if you own premises and these are damaged in some way. Even if your firm doesn't have property, it may still need contents insurance to protect its possessions, from business equipment to stock.

In addition, business-interruption insurance pays out if you are unable to trade for a period because of a problem with your premises – a fire that closes your office, say. While the refusal of some insurers to pay out on this cover for claims related to Covid-19 – successfully challenged by small businesses in the courts – has highlighted the importance of understanding exactly what cover you have, don't overlook the value of business-interruption insurance.

Similarly, financial insurance may seem like a luxury until

you find yourself exposed to a problem that you're not covered for. Trade-credit insurance, for example, could save your company if a customer defaults on its debts to you. Key-person insurance can be crucial if your business is highly dependent on a specific individual. Cyber insurance is also growing in popularity, as the number of businesses targeted by cyber attacks continues to increase. Insurers can also offer valuable advice on protecting yourself from attack.

Naturally, different businesses will take different views on the cover they need, depending on their activities and exposures. And every business needs to balance value for money against quality of coverage: a professional insurance broker may be a worthwhile investment in this regard. But don't just opt out of insurance to net a short-term saving – the long-term cost may be far higher.

Protect your firm against inflation

Now that fears of inflation are spreading, how can small firms protect themselves? They often lack the power to pass higher costs on to customers, so margins may come under pressure. Consider taking several steps now. For example, it may be possible to fix many of your costs, particularly your utility bills if your gas, electricity and telecoms providers offer such an option. Look at your borrowing. Do you have variable-rate facilities that may become more costly if interest rates rise in response to inflation? If so, review such arrangements.

Consider your stock levels. Subject to your company's financial position, it may make sense to increase inventories if you need to buy goods that do not have a shelf life. Bringing forward other purchases, such as equipment, may also be sensible. Meanwhile, review your financial readiness for a period of higher inflation. You may need to increase your reserves, as you may not be able to raise prices quickly enough in response to increased costs. Look at your credit policies: do not allow your customers to manage their own cash flow problems at your expense. And talk to customers early on about the possibility of your prices rising.

You may also need to plan for higher wage costs. As inflation rises, staff will push for more generous pay settlements than in recent years. In a tough labour market, where employers are struggling to recruit and retain staff, not being able to meet those demands could cause real problems.

New VAT rules come into force for EU trade

● Tens of thousands of small British businesses face rising compliance costs thanks to new value-added tax (VAT) rules that came into force across the European Union on 1 July. As many as 26,000 British businesses selling into the EU – including e-commerce merchants – must for the first time be registered for VAT in the member states where they have customers. The rules abolish exemptions from VAT registration for businesses selling low-value goods to European shoppers and require companies to collect VAT from their customers at the checkout.

Many businesses will want to seek professional help with meeting the new requirements, or risk having their sales blocked by tax authorities. But with set-up and ongoing fees to pay, that could set them back several thousand pounds. Some small

companies have already warned that they will stop selling to certain countries in the EU because their revenues do not justify the extra costs.

● Companies struggling to pay tax they deferred during the Covid-19 crisis will be treated leniently by HM Revenue & Customs (HMRC), the government has promised. Hundreds of thousands of businesses are now facing demands to pay taxes such as VAT, which they were allowed to put off during the crisis. That may be challenging for firms still in the early stages of recovery, but the business secretary, Kwasi Kwarteng, has told business groups that HMRC will take "a cautious approach to enforcement". Talk to HMRC as early as possible if you have a problem.

Prepare for a five-year property and stockmarket boom

An 18-year cycle based on land and housing drives economies and markets, says Akhil Patel. We are coming out of a mid-cycle dip and entering the final multi-year upswing, which will peak in 2026



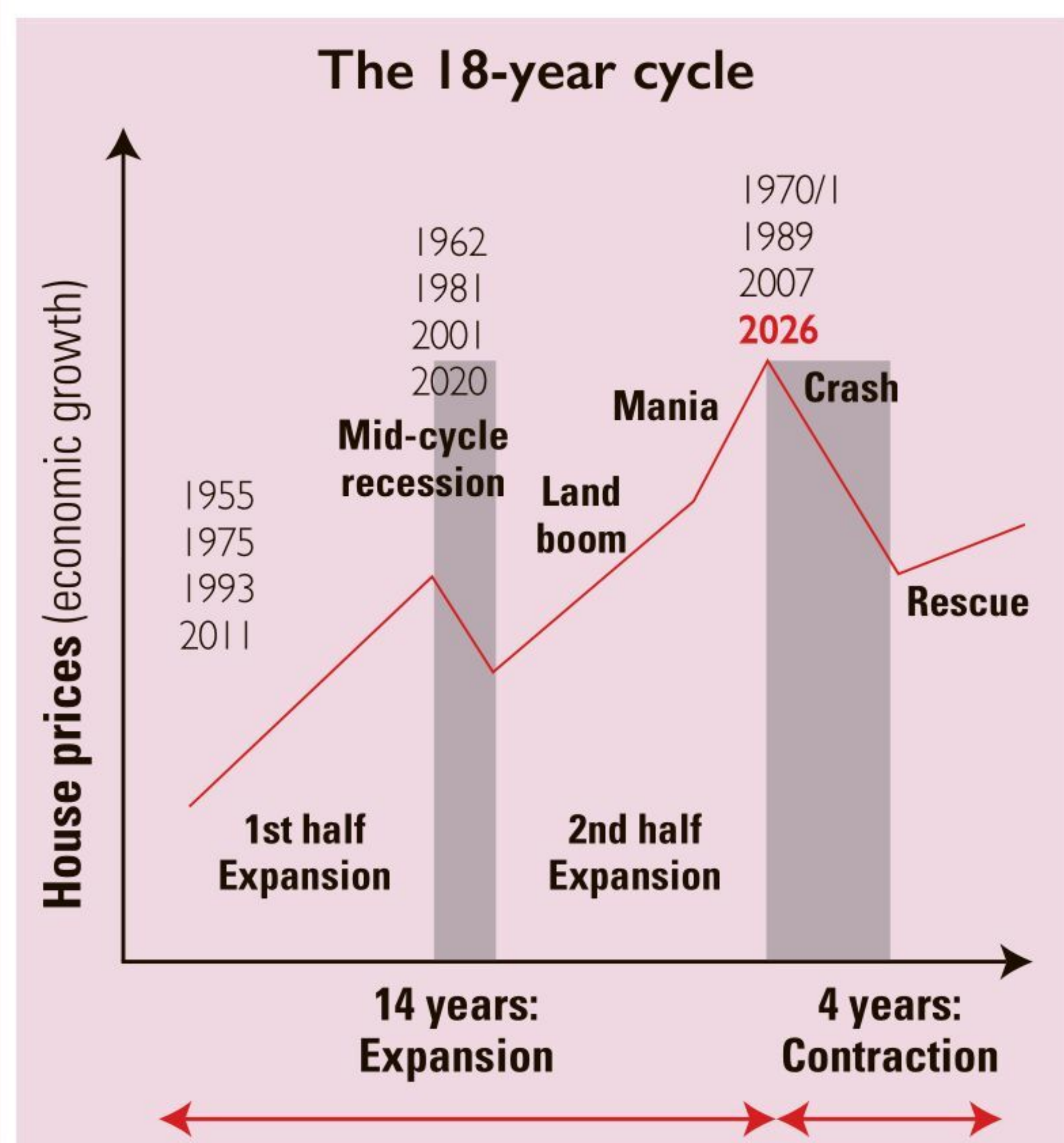
In June 2014 I wrote an article in this magazine (moneyweek.com/503173/boom-times-are-here-again) that made several forecasts. I claimed we were in the early stages of a cyclical economic expansion, which, following a short mid-cycle recession, would take us into a major boom in the 2020s. I forecast that this mid-cycle recession would occur at the end of the 2010s, but that the economy would quickly shrug it off and spring forward into the new decade. I said the boom would be global, leading to more wealth creation in this period than in any other in human history. So confident was I in this prediction that I declared that the FTSE 100, then still below the level it traded at the start of 2000, would go above 12,000 by the time the boom was over. And I said that the peak of the cycle would arrive around 2026.

Seven years on, the world has thrown some incredible events at my predictions. So, have I changed my views in light of all that has gone on? No. Because nothing has happened in the last seven years that has altered the underlying economic structure. Events, though significant, take place on the surface. But it takes much more to stop the tectonic forces that drive our economies through cycles of boom and bust.

A 200-year pattern

In my earlier article I laid out the full economic cycle that has operated for over 200 years in the UK and the USA and, more recently, in other countries. In summary, each cycle lasts, on average, with very little variation, 18 years, consisting of approximately 14 years of expansion and then boom, followed by four years of contraction and bust. An illustration of the cycle is laid out below, together with the key dates for each of the cycles since 1945.

The 14-year expansion is roughly divided into two halves, with a mid-cycle recession in between. This mid-cycle recession tends to be far less severe than the one after the peak of the expansion. To get the bust



“A suffragette called Lizzie Magie invented Monopoly; a man stole her idea and made millions”

you first need the boom – and the boom takes place in the second half of the expansion.

Why the cycle arises and repeats

The economic cycle is driven by real-estate speculation. If this sounds implausible consider that land, on which our buildings sit, is a nation’s most important – and valuable – asset. The Office for National Statistics estimated UK land to be worth over £5trn in 2016, comfortably exceeding total stockmarket capitalisation.

Everyone needs access to land to work and to live. Land is fixed in supply: “they aren’t making it anymore”, said Mark Twain. As a result, when an economy grows, any surplus, over and above expenses such as wages and a competitive return on capital investment, is taken by the owner of land. Land in good locations where economic activity takes place is scarce: a “land monopoly”, Winston Churchill called it. A suffragette by the name of Lizzie Magie invented a board game in the early 1900s to demonstrate how the person who owns most of the land could bankrupt everyone else. She called her invention *The Landlord’s Game*, but everyone plays it today as *Monopoly* (a man stole her invention and sold to the Parker Brothers as his own in 1933, making millions in royalties).

As an economy expands and becomes more productive, each site in the economy becomes more valuable. What does this value reflect? The quality of the location: proximity to people and markets, infrastructure and local amenities. This is the law of economic rent. It is the iron-clad law of economics, as key to the economy as the law of gravity is to our physical universe. Have you ever wondered why, for all the remarkable progress we have made, housing is becoming less affordable with each passing generation? Why a working-class family could easily afford, on a single-household income, in 1970 what is today beyond even the reach of a dual-income, highly qualified, professional couple?

As the benefit of this flows to the site owner, the desire to capture this economic rent induces speculation. Land is not produced; higher prices do not lead to more land being created that might bring prices down again. Prices can go as high as people are willing to pay – or to borrow to pay. Furthermore, as government and companies invest, the price of land goes up even more. Those who earn wages pay twice for this locational value, once through taxes and a second time through higher purchase prices or rents, the result of public investment paid for out of taxes as well as private investment. No wonder people feel the economic dice are loaded against them.

As a boom takes hold, prices go up further. Banks are more willing to lend using land as collateral. Higher land prices lead to more construction and more growth and employment. Demand is boosted and businesses expand. It is a virtuous cycle, until it is not. Eventually, the economy can no longer afford higher real-estate prices and rents. The cycle flips. Property prices start to fall. Construction projects are



As Mark Twain pointed out, land is fixed in supply: “They aren’t making it anymore...”

aborted. These then damage the banks, which lent too much against land during the boom times and, with a balance sheets in tatters, lending dries up and banks start to fail. There is a full-scale banking crisis. As credit is sucked out of the economy, businesses fail and employees are laid off. A recession, or even a depression, is the result, which takes years to sort out before banks can recover, confidence is restored and the cycle renewed.

If the cycle is so regular, why does no one see it? Because no one grasps the law of economic rent or focuses on land as a distinct factor of production. There is a blindness in economics to the central role of land in the economy. But investors who understand the land cycle have a tremendous advantage.

1920-1921 all over again

We are emerging from the mid-cycle recession into the land boom. We would have had a recession even in the absence of the pandemic; in 2019 the global economy was slowing and the yield curve had inverted, a sign that a slowdown was imminent. You might question whether the Covid-19 recession could qualify as the comparatively mild mid-cycle recession, given how severe it looked when we were in the middle of it.

But it does. By early 2020 we had not seen a major speculative land boom, highly profligate lending by banks and outrageously extravagant behaviour by investors. True, there were bubbles in some areas, but not in the property market, and this is key. The pandemic was a major economic event in particular for certain industries such as retail, hospitality

and tourism. But such disruption is indeed part of the cycle. Consider a mid-cycle recession from a previous cycle, 1920/1921. It was preceded by a war that killed millions. And the trenches in which it was waged incubated a deadly virus that returning soldiers brought home, leading to a pandemic that killed millions more. There was a major stock and commodity market crash. But the property market and banking system held up and the economy came out of the sharp recession into what proved the most celebrated boom of the 20th century. Other mid-cycle recessions have also coincided with major events, such as the terrorist attacks in September 2001.

In response to the pandemic governments are doing everything they can to stimulate their economies. We are barely three months out of lockdown in the UK and it is already clear that the economy is primed for a swift recovery. The same is true in many other wealthy countries. Government investment in the economy is here to stay, whether it be to upgrade infrastructure (as in the US), “level up” the economy (here) or roll out a huge programme of green investment (in the EU).

By 2022 the recovery out of the mid-cycle recession will be apparent to all. Over the past few months, property prices have risen sharply in many countries as pent up demand for new housing (assisted by savings built up during the lockdowns) has been unleashed and people have taken advantage of support schemes put in place last year. As they end, the rapid growth seen recently will ease off, but growth will

“There is a blindness in economics to the central role of land in the economy”

Continued on page 24

Continued from page 23

continue. So now is as good a time to buy as any in the next few years. Prices are not going to get cheaper. Similarly, the stockmarket rides the cycle up through to its peak, albeit not in a straight line. The second half of the cycle sees strong performance from the shares of firms positioned to take advantage of the land boom – housebuilders, construction groups and banks, for example. During a major land boom demand for raw materials also goes up and so those involved in extracting or processing natural resources flourish too.

Technology accelerates the cycle

The rollout of new technology always accompanies, and to a certain extent drives, the boom of the second half of the cycle, often linked to improved transportation, communications, or consumer spending. History is full of examples: the railways; electrification and telephones; cars; aeroplane travel; personal computing; the high-speed internet. Such technological development produces massive advances in economic productivity, cuts the costs of doing business, gives rise to vast new industries and increases demand for space in new locations.

In our era several innovations could accompany the boom of the 2020s: high-speed mobile-internet connectivity with 5G networks; decentralised finance; automated manufacturing and transportation; biotechnology and smart cities, to name a few. Underneath it all, however, land always takes the fruits of progress.

The point at which most businesses and many households see that it pays more to speculate in property than in new business investment is the point at which the mania phase starts. This should arrive around 2024. This will be when bank lending and credit is most readily available, partly because buoyant land prices support strong balance sheets that in turn make more and more lending possible, most of it for real estate or construction; and partly because banks by this point will successfully have lobbied governments to relax restrictions put in place during the last crisis to prevent the next one. The current president of the Federal Reserve Bank of Minneapolis recently told the Financial Times that such lobbying efforts are already under way as banks point to their resilience during the pandemic. The lessons of history are never learned, it seems.

The final two years of the cycle are a heady – and dangerous – time to be an investor. Markets are at all-time highs, so everyone who owns assets is in profit. Tales of newly minted millionaires make those who are not fear that they are missing out on something big. And so the buying accelerates. Each boom era entices the hard-earned savings of new investors into new investment vehicles designed for speculation. The proportion of US households owning stocks went up tenfold in the 1920 boom. In the 1960s savings went into mutual funds. In the 1980s, funds using financial derivatives drew capital in. In the 2000s it was buy-to-let mortgages and computerised trading. You can see the signs this cycle: cryptocurrencies, special purpose acquisition companies (Spacs) and Robinhood. But the end result will be the same. A new generation will learn some old, painful, lessons.

There will be outright competition to build higher or bigger into the peak in 2026. Extravagant megaprojects track the cycle upwards and typically the announcement of the tallest in history is the signal that the apex is imminent. The Burj Khalifa and the Shard in the run-up to 2008 are two recent examples.

In the emotion of the era, be very careful. Focus on quality assets, dispose of the lesser performers into a



The plan to build Dubai's Burj Khalifa marked the top of the last cycle

rising market; deleverage and build a pile of cash. The signal that we are at the top will be inconspicuous and seemingly unrelated to the boom. In past cycles it has been a weather event or a shipping disaster that causes some significant – if limited – damage. But it prompts some investors to pull out and it marks the first sign that the flow of capital is easing off. Markets in the mania phase – when valuations reflect the assumption of indefinitely rising prices – need an increasing flow of capital to sustain them. When the flow starts to slow down the end is nigh.

When the cycle turns

In the ensuing crash, the average fall of the US stockmarket since 1800 has been 50%; in other countries, in more recent cycles, the crash has been even greater (witness Japan after 1990, or most European countries after 2008). Property prices fall by around 30% in real terms, but this figure disguises much greater declines in secondary cities. It becomes clear that the housing boom was based on the assumption of ever-increasing prices and on highly optimistic projections of, say, population growth and demand.

The euphoria of the boom is matched by the despair of the bust. The darkest point of the crash is about two years after the peak when the banking system is in dire straits and in the process of being bailed out, many businesses have shut and unemployment is raging. But this is the best time to buy. The stockmarket begins to price in the recovery and bottoms first; and there are real-estate bargains to be had in the best locations. The cash pile you built up in the boom, taking the difficult decision to stay out or not jump fully in, will now return its value to you many, many times over. This will take place in the late 2020s.

Governments will scramble to save the banking system and housing market, lowering interest rates and expanding central-bank balance sheets. They will tell you it could not have been foreseen. Often citizens questioning their competence will need to be distracted. “Bread and circuses”, providing handouts and entertainment to the masses, is one option for governments; war is another. Heightened geopolitical tensions with China and Russia now could develop into something more sinister. This too is a lesson from cycle history. But that is to come in the late 2020s. For now, look at the world around you as one of immense opportunity. It is time to be bullish, because it will be one hell of a ride.

Akhil Patel is director of Property Sharemarket Economics (propertysharemarketeconomics.com).

“The mania phase should begin around 2024. The final two years of a cycle are a heady and dangerous time for investors”

Commuting confusion

The new Flexi Season tickets don't live up to their name



Alex Rankine
Markets editor

“Commute your way. Choose WFH [work-from-home] Wednesdays, choose face-to-face Fridays”, declares the National Rail website. The post-pandemic world will entail far more part-time commuting. On 28 June the government rolled out “Flexi Season” tickets, which are aimed at workers who travel two or three days each week. The new offering allows passengers to travel on any eight days in a 28-day period between two named stations. Returns are valid until 4.29am the following day to accommodate those who need to stay late at work. The days travelled do not need to be selected in advance.

Tickets are paperless and are only available in England; some operators, such as London Underground and Grand Central, are not covered. The Department for Transport (DfT) says the tickets offer passengers “control over their commute, with potential savings of hundreds of pounds against daily and season tickets”.

Look beyond the marketing guff

Put aside the marketing guff and the reality is not so exciting. The DfT has said the tickets will be at least 20% cheaper than a monthly season ticket, but the potential savings vary wildly thanks to a “byzantine

system of price calculations that seems designed to bamboozle travellers” says Toby Walne in *The Mail on Sunday*. “Between Winchester and London, a Flexi Season is 20% cheaper than a monthly ticket,” says Simon Calder in the *Independent*. But the Leicester-to-Nottingham route offers a discount of about 50%.

On a per-day basis, Flexi tickets are priced “between an anytime day return and a seven-day season ticket”, says the DfT. For example, the BBC calculates that a Flexi ticket between Bolton and Manchester costs £6.35 per day travelled. That is cheaper than the £7.20 price of an anytime day return, but still dearer than the £5.29 per day cost of an annual season ticket that is used four or more times per week.

Flexible tickets have added drawbacks. “These really aren’t season tickets,” Tony Miles tells the BBC. “A season ticket effectively gives you unlimited travel,” but flexi tickets are just a way to buy “a fixed number of journeys at a discount price... if you decide at a weekend to do some extra journeys that will start ticking off your credit”. People commuting once a week will find it cheaper to buy day returns, says Ian Aikman on *Which.co.uk*. Those doing a four-day week will be better off with an annual season ticket. Flexi tickets are best for two-day commuters. Things are more complicated for people travelling three days per week. They will use their eight



The byzantine calculations behind the new flexible tickets will tie commuters up in knots

travel days up before the 28 days are out, forcing them to buy 18 flexible tickets per year (assuming 48 weeks of work per year). Flexi tickets are usually still cheaper, but it depends on the route: a three-day Brighton-to-London commuter would pay £1,953 more per year using a Flexi ticket than they would with a yearly season ticket. Check the cheapest option with the season ticket calculator on the National Rail website.

Off-peak Flexi tickets are not available, so “people who are employed outside the traditional nine-to-five working day” will usually be better off plumping for other options, says Miles Brignall in *The Guardian*. Commuters who don’t use all of their tickets within 28 days are entitled to a refund, but it “may not be as much as they expect” owing to administration fees and other charges. “The National Rail website warns that if commuters have only one or two journeys left, they may find they are not entitled to get any money back.”

PAPER POWER

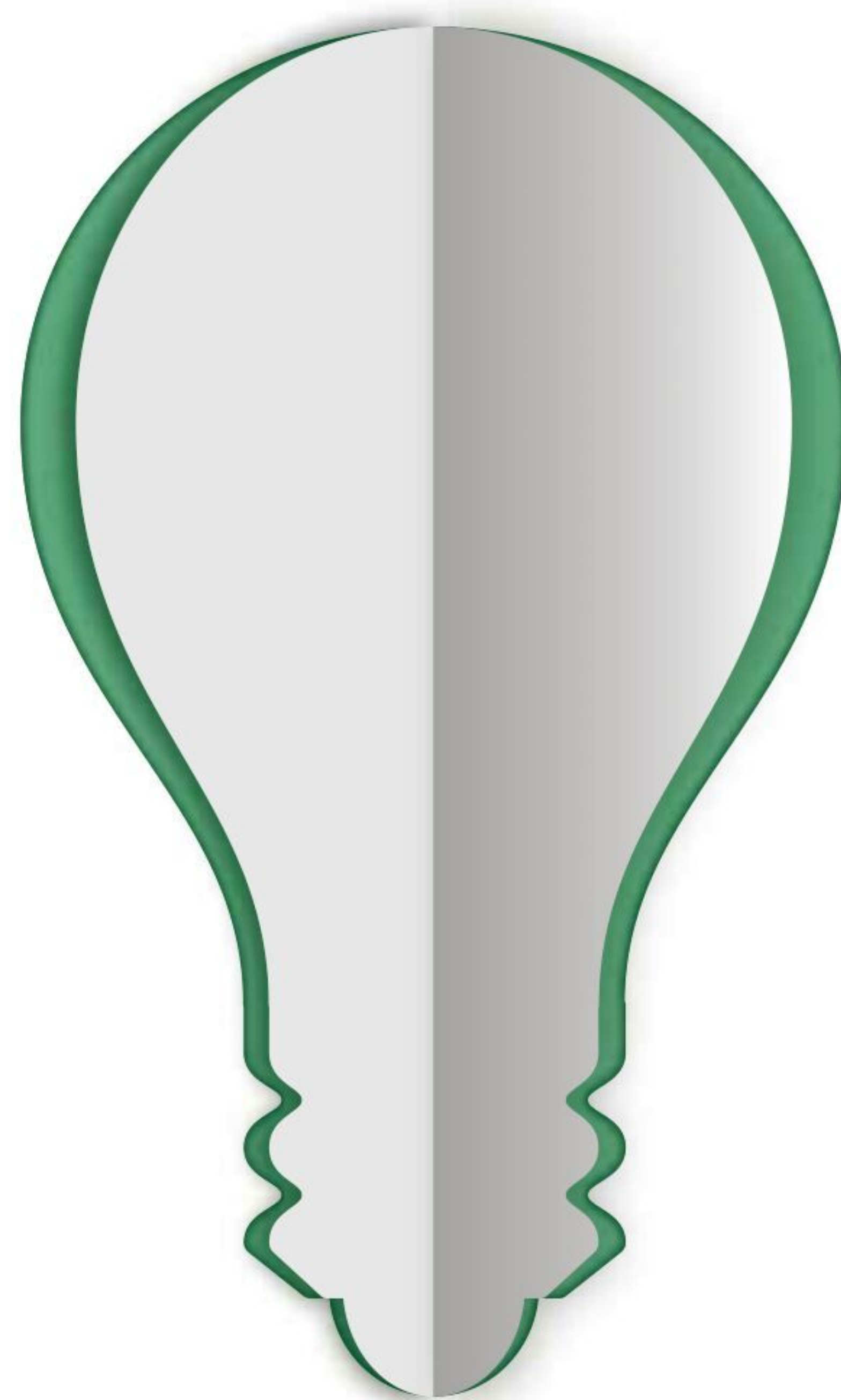
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How a bubble in bitcoin could lead to hyperinflation

Libertarians hope that cryptocurrencies will undermine central bank control of monetary policy. They should be careful what they wish for, warns author and analyst Bernard Connolly

The volume of central-bank warnings about the rise of private cryptocurrencies – and the potential impact on the ability of central banks to conduct monetary policy – has become ear-splitting. This criticism only serves further to convince libertarians that reducing the power of central banks and governments is desirable. Certainly, the hostility of China’s authorities towards private cryptocurrencies can be presented as evidence that they are viewed by the state as a defence against intrusive social control. But whether that point of view is correct, or – where it concerns monetary control rather than social control – it is dangerously naïve, there is another, undeniably serious problem with cryptocurrencies. It’s a problem so far only hinted at by central banks, but about which libertarians should be the most worried. The problem is about bubbles.

There are now many bubbles in the world but they differ in nature and consequences. An equity bubble can be perfectly rational. The price of equities can keep rising without end, assuming that “real” (adjusted for inflation) interest rates do not go up and stay up. Assuming a growing global population, the supply of “greater fools” to sell to at a higher price is theoretically endless. The idea of a “bond bubble” is harder to rationalise. Unlike equities, virtually all bonds have a terminal date – their maturity date. If you buy a bond with a negative interest rate (a negative “yield”), you know for sure that you will suffer a nominal loss if you still own it when it matures (the loss will be even worse in real terms). So if you are worried that other assets are overvalued and might crash, why not just hold cash?

Yet many professional investors currently own bonds trading on negative yields. This only makes sense if they expect rates to go even more negative, producing a capital gain (bond prices and bond yields move inversely to one another). But even then, the price of the bond must eventually go back to par (its “face value”), inflicting a capital loss on whoever had bought it at a price above par. Implicitly then, the expectation is that the ultimate “greater fool” will be the central banks, who are not motivated by returns and can expect to be re-capitalised by their governments – albeit at considerable cost to their independence – should capital losses threaten their solvency.

Alan Greenspan’s big mistake

Bubbles both in bonds and in equities are symptoms of a deep-rooted disequilibrium in today’s advanced economies. The downward trend in real long-term interest rates which has persisted throughout this millennium and has only been accentuated by the pandemic, fuelled the bubbles which have been needed to regain and maintain full employment and fend off deflation. Why has this happened?

Interest rates are “intertemporal” price signals – they balance supply and demand for money across



Alan Greenspan: upending our equilibrium

time. When these signals go awry, it results in the misallocation of resources across the economy. Our current disequilibrium stems from the second half of the 1990s. Then-Federal Reserve chairman Alan Greenspan failed to allow real long-term interest rates to rise at the right time in response to very buoyant entrepreneurial expectations in the internet-driven “new economy”.

As a result, not enough spending on consumption was deferred during this period. Indeed, the dotcom-era equity bubble boosted spending even further. As a result, when extra “new economy” supply came online, there was no “pent-up” demand from previously-deferred spending (ie, savings) to take it up. That error, combined with the far less innocent catastrophe of monetary union in Europe, ensured that intertemporal price signals – ie, interest rates – went badly wrong and have been wrong ever since. A secular trend to ever-lower rates and ever-bigger bubbles was put in place.

An illusion of wealth

The equity bubble, in particular, has created the illusion of wealth. It is illusory – for economies as a whole – because it is not based on vastly increased future productive potential (if anything, estimates of such potential have persistently been cut). The political implications of the resulting wealth inequalities are disturbing, but have not so far produced serious trouble. That’s because they have not caused overheating in the economy: the extra spending generated by this illusory increase in wealth has offset the drag of the intertemporal disequilibrium (in which past bringing-forward of spending from the future leaves a hole in demand as the future becomes the present).

“The bubble in equities has created a dangerous illusion of wealth”



“The wealth transfer that bitcoin threatens to produce is definitely not one any government wants to see”

But if dangerously high levels of public “investment” spending produce inflation – as many fear they might in the UK and, particularly, in the US – some holders of equity “wealth” might think they should spend more of that wealth before its real value falls. But the only way they could do that without producing a spiral of ever-increasing inflation, is if everyone else’s spending were to fall. Distributional concerns then really would become a major political issue.

An even riskier mania

Yet there is another, even more dangerous bubble that has developed in the past few years. This is one that, if unchecked, is bound to produce cataclysmic changes in wealth distribution. That bubble is in private cryptocurrencies. As with equities, cryptocurrencies have no terminal date. So a bubble can be rational in the same way. However, once the macroeconomic context is considered, it becomes clear that the bubble must pop.

Why? Either the market price of bitcoin, for example, can become infinite or it cannot. If it cannot, then at some point the only possible change in the market price of bitcoin is negative. At that point, all holders would want to sell (unless central banks – as with bonds – were expected to support the bitcoin price indefinitely!).

If instead the price can and does move towards infinity, then the use of an infinitesimal amount of a single person’s bitcoin wealth would exhaust all the world’s productive potential; that is, each holder could command all the world’s resources by being the first to sell and spend. The rise in the general price level towards infinity as bitcoin holders competed for resources would impoverish everyone else.

It is clear that many governments – most relevantly the US government – now want to produce huge wealth transfers. Whether they are right or wrong is a matter for debate. The key questions are: how to distinguish in practice between what I have called “acceptable” wealth (wealth whose possession does not entail a reduction in lifetime consumption possibilities for everyone else) and “unacceptable” bubble wealth, whose possession does reduce lifetime consumption possibilities for everyone else?; and how to eliminate unacceptable wealth without crashing the economy.

But whatever your view, the wealth transfer that bitcoin threatens to produce is definitely not the one that the US government or any other wants to produce. When the bubble is growing, it does not create extra wealth in the form of future productive potential for an economy as a whole. It simply transfers wealth to existing holders of bitcoin from everyone else. That creates pressure on everyone else to join in.

Governments will have to burst the crypto bubble

To avoid serious social and political discontent, leading to unrest and ultimately sociopolitical breakdown, the authorities will have to burst the bitcoin bubble before its macroeconomic importance becomes much greater. The similarity with bank runs is rather clear. If none of, say, the ten biggest providers of liquidity to Lehman Brothers had withdrawn their funding, in all probability no-one else would have done so. If those ten withdrew their funding, in all probability everyone would do the same. Similarly, as the ratio of “illusory-wealth-to-potential-income” in the economy gets bigger and bigger, the temptation for someone to jump ship and be the first to use their assets to acquire real resources becomes greater and greater.

Indeed, one can view the inverse of this “illusory-wealth-to-potential-income” ratio as the equivalent to a bank’s capital ratio during a financial crisis. That ratio moves in the wrong direction as the illusory nature of many of the bank’s assets becomes apparent. In turn, the incentive for its debt-holders to withdraw grows ever greater. It is deeply ironic – and tragic – that while the reaction of central banks and regulators to the financial crisis (which they themselves created) was to insist on higher capital ratios for banks, monetary policies have operated, and continue to operate, to weaken the economy’s “capital ratio”. Barring a radical change in the policy framework, the likely result will be a devastating economic, financial, social and political crisis far worse than anything that might have been produced by the 2007-9 financial crisis. Marxists might rejoice in such a prediction. Libertarians should be anxious to prevent it from coming true.

The longer that central banks wait before taking action to prevent a swelling of cryptocurrency bubbles, the more difficult they will make their task. Bank of England governor Andrew Bailey has warned bitcoin “investors” that they risk losing all of their money. But if the bubble first gets much bigger, its bursting will have significant macroeconomic effects, as spending financed by borrowing against bitcoin “wealth” vanishes. Worse, devastating losses will be inflicted on speculators, among whom will be more and more ordinary households. The fact that they have been warned will not prevent potentially seismic reactions.

Central banks and regulators thus now have an unenviable choice. Presumably, they will not want to be blamed by crypto “investors” for a burst bubble. So they may hope that it subsides of its own accord, then regulate it out of existence. But if the bubble keeps growing, they must grasp the nettle and inflict losses now, or face a future sharp-elbowed scramble to convert crypto holdings into goods and services, which will produce hyperinflation and destroy society.

Solid stocks to ride the UK's rapid recovery



A professional investor tells us where he'd put his money. This week: James Henderson, co-manager, Lowland Investment Company, picks three favourites

Even before the Covid-19 pandemic struck, the UK had lagged behind the global economy for several years. Arguably, this was largely due to a lack of productivity growth as a result of companies' low capital expenditure.

Moreover, the Brexit-induced uncertainty meant that projects companies may have had in the pipeline were put on hold. Then, when Covid arrived and rapidly spread throughout the country, the British economy contracted faster than its major counterparts.

Following the rollout of a successful vaccination program, however, the UK economy has bounced back with real vigour. Sales of goods and services are picking up faster than expected and some companies are using supply shortages to push prices up.

It is usually in difficult periods that companies focus on costs and become leaner as organisations. Then, when sales pick up, operating margins can expand substantially. With the return of pricing and output growth, we expect capital expenditure to pick up, further supporting the UK's economic recovery.

Seek out stocks of all sizes

Our approach focuses on a diversified portfolio of UK companies across the market-cap spectrum to achieve both income and capital growth over the medium to long term. As the economy continues to reopen and lockdown restrictions are eased further, we believe this presents an interesting opportunity to be invested in a broad selection of UK companies.

One such opportunity we have added to the portfolio is **Headlam (LSE: HEAD)**, the leader in the distribution of floorcoverings in the UK. The company's

sales to residential customers are already running ahead of 2019 levels, reflecting the savings that households have built up during the pandemic and want to invest in their homes. The recovery in sales also comes at a time when management have taken substantial costs out of the business, including consolidating the delivery network and the distribution centres.

Companies that have successfully worked at product development are also benefiting from an increase in demand. One example is **Morgan Advanced Materials (LSE: MGAM)**. It services a wide range of markets with the specialist materials (including carbon and advanced ceramics), including healthcare, semiconductors and renewable energy. Over the last year, the company has reduced its debt and increased its productivity, and we believe this provides a bright outlook.

The best of the banks

It is not only in manufactured goods that we think there are opportunities. In our view, the positive economic backdrop should also benefit financials such as **Barclays (LSE: BARC)**

bank. The company has a low valuation and a growing economy should be a beneficial environment for it. In addition, the provisions the group has made for bad debts were made at a time of real concerns about the UK's outlook and therefore should not be fully needed, in our view.

We believe the strength of profit growth could surprise investors across a wide range of companies. Incidentally, it is the cash generated by these profits that helps pay dividends and the improved outlook for payouts is arguably the key to growing confidence among investors.

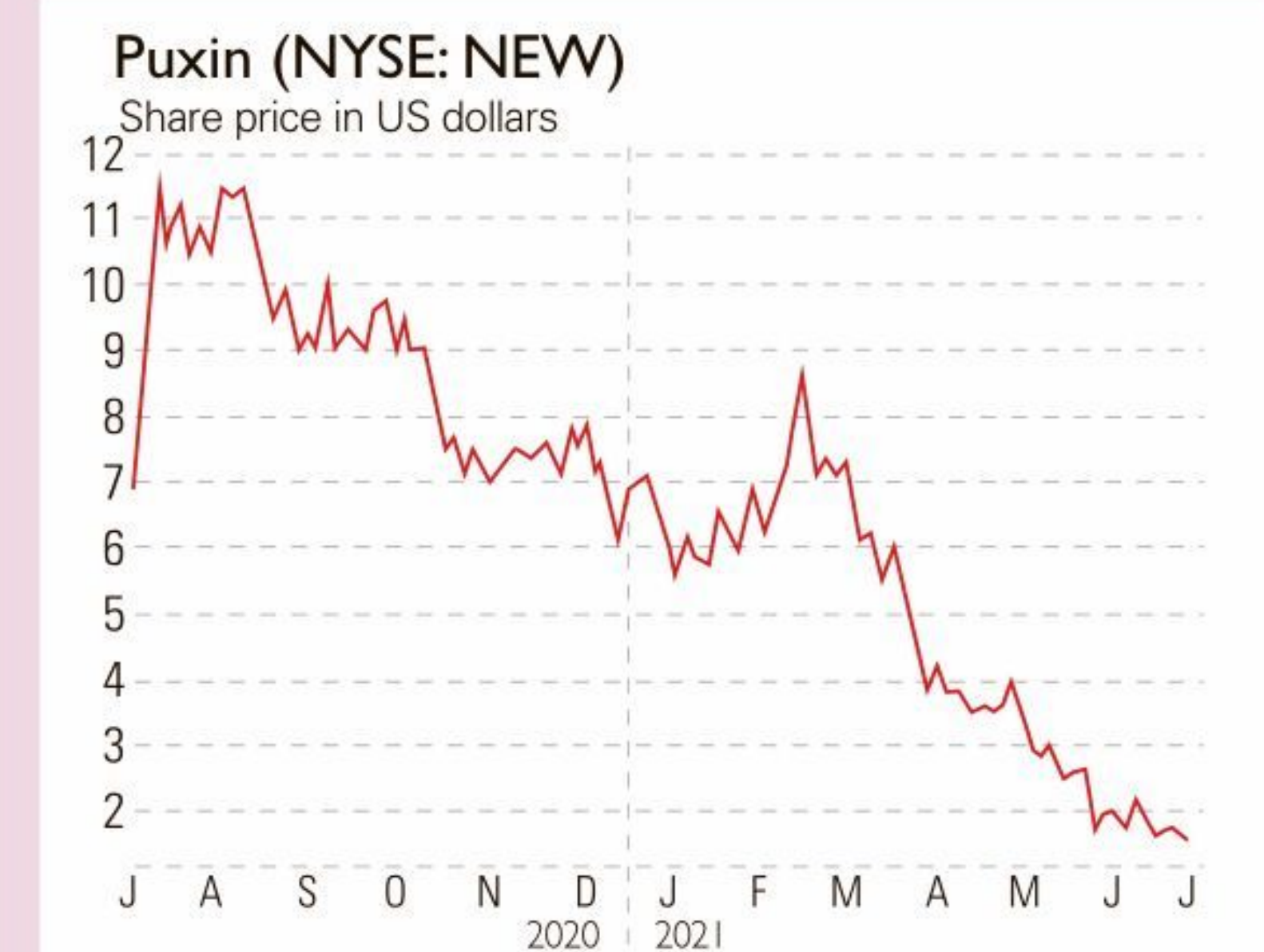
"The provisions Barclays has made for bad debts look too pessimistic"

If only you'd invested in...

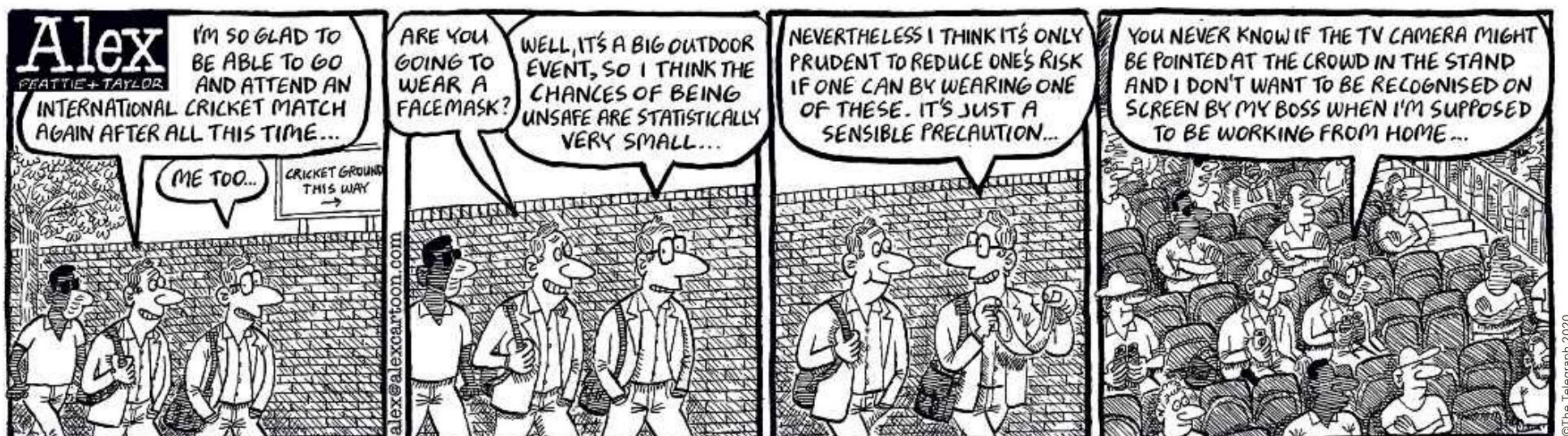


Dignity (LSE: DTY) is Britain's biggest listed funeral-services group. The shares plunged to a record low of £2.30 in May last year, says Ian Cowie in *The Sunday Times*. They have recovered to £8.51, still a long way off their £28 high of 2016. But the firm's board was recently overhauled by activist investor Gary Channon, who has delivered "a Lazarus-like recovery" after replacing former executive chairman Clive Whiley. His arrival followed a regulatory inquiry into sales techniques. Recent plans to sell a minority stake gave the shares another fillip. They are up by 252% in 12 months.

Be glad you didn't buy...



Chinese after-school education-services provider **Puxin (NYSE: NEW)** has had a torrid few months. A 7% decrease in student enrolment owing to the pandemic's effect on education saw its net revenues fall by 8.6% to \$104.8m for the first quarter of 2021 compared with \$116.2m in the first quarter of 2020. The company has also made a loss over the last 12 months, says *Simply Wall St*; the decline in sales won't bring profitability any nearer. So the 70% drop in the stock over the last year is "not unreasonable". The group may have better days ahead but for now investors are steering clear.



The raider who snapped up Morrisons

Wes Edens is already well known in Birmingham for rescuing the city's Aston Villa football club from disaster. Can he pull a similar trick with a flagging supermarket chain? Jane Lewis reports

Ever since Morrisons was put "in play" more than a fortnight ago, investors have been betting on a bidding war. That looks to have arrived. News that the UK supermarket has accepted a £9.5bn bid (including debt) from a consortium led by the US buyout giant Fortress is unlikely to be the end of the matter as the elbow-barging begins in earnest (see page 7). The aggressive New York fund Apollo has now registered interest; and the first bidder to declare its hand publicly, Clayton Dubilier & Rice, may yet return with a higher offer.

"Four Sundays"

Given Morrisons' key role as "a cornerstone of the UK's food-supply infrastructure", there's obvious concern about the Bradford-based supermarket's future in the hands of American buyout barons, says The Guardian. Wes Edens, the financier behind Fortress, owns Aston Villa FC, but is little known in Britain outside Birmingham. Moreover, eyebrows have been raised about a junior partner on the Fortress deal, Koch Industries. The huge private company is run by the conservative-leaning Koch family, famed for cheerleading the Tea Party movement of a decade ago and donating "to groups denying climate change" – perhaps not natural bedfellows for a grocer trading on its cosy wholesomeness.

Fortunately, Edens's reputation at Villa is very far from that of the stereotypical raider, says Birmingham Live. Held in



"Held in high regard by fans, Edens is credited with saving Villa from bankruptcy and putting it on the path to success"

"high regard" by fans, he is credited with saving the club from bankruptcy in August 2019 and has since devised "an incredible \$1.6bn blueprint" to put it on the path to "sustainable success". Following two years of management by this "shrewd and successful" businessman, Villa's value has more than trebled to £341m, according to Transfermarkt. Aston fans aren't the only ones singing Edens's praises. The sports enthusiast is also co-owner of the Milwaukee Bucks basketball team, which has also enjoyed a renaissance on his watch.

The son of a psychologist and schoolteacher Edens, 59, "grew up on a ranch in Montana and spent most of his

childhood outdoors", says The Wall Street Journal. In his teens he was a competitive ski racer. After taking a degree in finance and business from Oregon State University, he joined a small bank in San Francisco in 1984 before heading for Wall Street – landing a job there and moving to BlackRock in 1993. In 1998, he quit with two colleagues to start Fortress, making history in 2007 when it became "one of the first private-equity funds to go public", giving Edens a stake worth \$2.3bn. Within a year, the firm was almost wiped out by the financial crisis, despite Edens's efforts to keep it afloat. "If I ever wrote a book about 2008, I'd call it 'Four Sundays,'" he says, "because I worked every day that year except four Sundays." Fortress was eventually bought by SoftBank in 2017 – a "surprising move"

for the usually tech-focused Japanese investment group, says The Guardian.

Seeing things as they are

Edens himself has always liked "a counter-intuitive bet", notes The Wall Street Journal. Well known for diving back into subprime lending when the financial crisis had only just abated, he happily bought a basketball team that hadn't won a championship for half a century. "What I want to do is see things for what they are, not how other people see them," he once observed – a down-to-earth philosophy that one imagines would go down well in Bradford.

Great frauds in history... infinite returns, no questions asked

James Duncan was born in 1971 and went on to work in insurance and broking – his efforts there led to a cease and desist order from regulators in Iowa and Washington. He then set up Sunburst Factor Fund with Hendrix Montecastro, later renamed Pacific Wealth Management to give the appearances of an affinity with the well-known wealth-management company (which had nothing to do with the fund). The duo approached investors in Orange County, California, with a real-estate scheme, which they claimed would make "infinite returns" so long as clients agreed to follow all their instructions for at least three years, without asking any questions.

What was the scam?

The scheme involved investors buying properties on the recommendation of Duncan and Montecastro by taking out new mortgages in excess of the new houses' value. Pacific Wealth Management would then take the difference between the mortgage and the purchase price as a "concession fee", promising to invest the money to cover the cost of the mortgage. Most of the money was in reality diverted to Duncan and Montecastro, funding trips to Las Vegas casinos – \$18,000 was spent on one holiday alone. To make payments, the duo diverted cash from new investors, turning the fund into a Ponzi scheme.

What happened next?

By late 2006 the number of new investors willing to take part in the real-estate side of the business was drying up so Duncan and Montecastro demanded that existing investors take out credit cards, or liquidate savings accounts, to give them additional money to invest, threatening to expel those who refused. Enough complied briefly to keep the scheme running, but by 2007 even this source of money was drying up so Pacific Wealth Management stopped making payments on its clients' various loans. The scheme then collapsed and both Duncan and Montecastro were eventually convicted of fraud.

Lessons for investors

The SEC, the US regulator, estimated that more than \$142m worth of loans were taken out by investors, with at least \$30m of the money used to pay Duncan and Montecastro's personal expenses. Very little of the money has since been recovered; many investors lost both their investment property and their main residence. The pair employed a number of techniques common to scams, such as claims of high-level "connections" and large risk-free returns. The biggest red flag was their demand that investors give them control over their financial affairs and not to ask questions about how their investments were doing.

Six Stunning Summer Wines



It never ceases to amaze me when I call in samples to taste in preparation for my monthly MoneyWeek Wine Club selection. I have known Yapp for 31 years and yet every wine on this page is brand new to me and utterly stunning. The effort put in by the palates at Yapp is incredible and I am forensic when I select the very finest

wines each month for our club. Every wine is a summer classic and every wine is epic value and with two white Germans, and no Rieslings, and four French wines, and no clarets, these wines have an air of unpredictability, too!

Matthew Jukes

Matthew

- All wines come personally recommended
- Exclusive discounts and FREE UK mainland delivery
- No membership needed

Prices shown below are per case of 12 bottles. Wines are also available in a 12 bottle mixed case (2 of each of the wines) excellently-priced at **£184.00 (saving £12.30 per case)**. It's a chance for you to try them all, and it is the most popular choice with readers of *MoneyWeek*.



2019 Klumpp, Auxerrois, Baden, Germany

The Auxerrois grape, a rare variety in Germany with only 180 hectares planted, sits midway between Pinot Blanc and Chardonnay in pretty much all departments and this means that it can be a very attractive proposition in the right hands. The Klumpp family makes top-flight wines and this energetic white is no exception. Polished and smooth on the palate and crisp and spritzy on the finish this is an elite aperitif style for those of you who want to broaden your vinous horizons.

CASE PRICE: £210



2018 Aus Rhodt, Chardonnay, Stefan Meyer, Pfalz, Germany

This wine is a huge discovery for me, as I have not tasted Meyer's wines before and German Chardonnay is hardly commonplace. I have to admit to being completely gobsmacked by the swagger and class in this glass. I would not hesitate to guess that this was a lusty, well-established white Burgundy if I were poured this wine blind but, no, it is a thrilling, keenly priced, pioneering German Chardy! Wow – this is a massive treat and a wine you will not forget in a hurry.

CASE PRICE: £225



2020 Argiles Rosé, Domaine Saint Gayan, IGP Méditerranée, France

Saint Gayan is a legendary Gigondas producer. Who'd have dreamt that this pagan wine hero would turn its hand to a cheeky, bright as a button, summery rosé? There are no prizes for finding out that this is a beautiful wine and it is also a screaming bargain! It just goes to show that if you are an expert at handling Grenache, Mourvèdre and Cinsault, it doesn't matter what colour the resulting wine is! This is one of the finest budget rosés of the year.

CASE PRICE: £107.40



2020 Garriguet Rosé, Domaine Girard, Pays d'Oc, France

You could not come up with a more different style of rosé wine than the Argiles if you tried. While they both hail from the South of France, Garriguet is made from Cabernet Franc and it is delicate, highly perfumed and scintillatingly sexy. This is a more delicate, enchanting style of wine, that leans towards seafood, crustacea and summery tarts, by comparison to the barbecue fiend Argiles. Don't pick one over the other, grab both – you will find that they fulfil their distinctly differing vinous roles perfectly.

CASE PRICE: £135



2018 Beaujolais-Villages, Vieilles Vignes, Arnaud Aucoeur, France

Aucoeur's old vine Beaujolais is drop-dead delicious and you can drink it lightly chilled or indeed room temperature and you will find it has two completely different personalities. Epic with spicy dishes and rich marinades

when cool, and able to step up to a roast chicken when decanted, this is a ridiculously easy wine to drink, so do make sure you have enough stock because it will disappear fast when your friends come calling!
CASE PRICE: £141



2017 Côtes de Nuits-Villages, Croix-Violette, Frédéric Magnien, Burgundy, France

This is an astounding wine, made by one of the great Burgundy personalities and crafted from fruit grown just north of the village of Gevrey-Chambertin, on limestone-clay soil. Finding great value Pinot Noir from the most famous

wine region on earth is fast becoming a fruitless task, but Yapp has done it with Croix-Violette. With a heavenly perfume, a silky-smooth palate and a wild cherry-soaked finish, this is a tremendous find.
CASE PRICE: £287.40

PLACE YOUR ORDER NOW



www.moneyweekwineclub.com/july



Or call Yapp on 01747 860 423 and quote "MoneyWeek"

Enjoy
exclusive
savings

New hotels in the Balearics

The islands haven't rested on their laurels during the pandemic. Chris Carter reports



Petunia Ibiza serves tapas as divine as its ocean views

Boho chic on Ibiza

“Glow sticks till dawn, idle boho beach breaks or ambling around the quiet north coast as if it’s your own (even in July)” – Ibiza has it all, says Jo Tweedy in *The Times*. And the “White Isle” hasn’t rested on its laurels during the pandemic. New hotel openings include **Petunia Ibiza** (around £200, petuniaibiza.com), “a chic boutique hotel north of Cala d’Hort that overlooks the tiny rocky isle of Es Vedra”. The hotel has its own vineyard, an olive grove and a terrace serving tapas “as divine as the sunset ocean views”. **Dalt Vila**, “a 2,500-year-old fortified muddle of streets in Ibiza Old Town, founded by the Phoenicians”, is well worth a visit.

Boutique luxury on Formentera

Newly opened **Casa Pacha Formentera** (€2,500 for two nights, casapacha.com) is a slice of boutique luxury on the neighbouring island, says Lauren Hill for *Spectator Life*. The hotel backs onto Migjorn, Formentera’s longest beach, providing uninterrupted sea views, which can be taken in from each room’s private terrace or balcony, or from the beach restaurant.

Over on Mallorca, **Zafiro Palace Andratx** (€300, zafirohotels.com) is a new resort that has just opened in the seafront village of Camp de Mar, with its backdrop of mountains in the southwest corner of the island. The beach is “moments away” and the historic town of Andratx, with

“Dalt Vila, a 2,500-year-old muddle of streets on Ibiza, is well worth a visit”

its 18-hole championship golf course, is a ten-minute hop in the car. Combining Mallorcan identity with modern luxury, the suites are joined by “several private rooftop mini pools and hydromassage bathtubs commanding impressive views” and a spa.

Two options in historic Menorca

Menorca’s past is dramatic, says Jan Dalley in the *Financial Times*. Arab, Byzantine, Roman, British and French rulers have all left their mark on the island’s rich military history, such as in the La Mola fortress that dominates Mahon harbour.

According to legend, at the grand victory banquet following the capture of Menorca from the British in 1756, Parisian chefs created a new sauce from olive oil and eggs, the only ingredients they could find on the island. *Sauce Mahonnese*, or mayonnaise, was born. **Menorca Experimental** (£250, menorcaexperimental.com), a new chic hotel in Alaior, in the middle of the island but still close to the sea, is “garnering great reviews”. **Alcaufar Vell** (around £200, alcaufarvell.com) is more established, located in a “gorgeously stately house surrounded by gardens”.

Wine of the week: this legendary Italian red is simply astonishing

2016 San Leonardo, Trentino, Italy

£352.20 excluding VAT for six bottles and £776.40 excluding VAT for six magnums, honestgrapes.co.uk



Matthew Jukes
Wine columnist

When we were allowed to venture back into restaurants in May, the very first dinner I attended was at steak-haven Hawksmoor Seven Dials, in London, because on Monday nights it is a fiver for corkage. Feel free to check out my Instagram feed and you will see a bottle of 2004 San Leonardo sitting in a line-up of crazy bottles that my pals and I had been itching to share for over a year. I tasted the soon to be released 2016 San Leonardo a couple of weeks ago and, this time, I am itching to share it with you.

Owner Marchese Anselmo Guerrieri Gonzaga decided that this legendary Italian red, Trentino’s finest, deserved an extended period of ageing prior to release and his decision has paid dividends. Made from a blend of cabernet sauvignon, carménère and merlot in very much a Bordeaux style as opposed to a Super-Tuscan or Napa Valley



in manner, this wine is the epitome of class and restraint and it is just starting to drink, too. At a mere 13% alcohol, it is impeccably balanced and there is so much freshness and brightness on the nose and palate it is astonishing. Ripe cabernet cassis notes joust with greener tones from the carménère and wild lustiness from the merlot, and these elements combine beautifully on the sleek palate. Hurry to secure your stock now.

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

This week: properties with cottage gardens – from a village house dating from 1590 in Godalming, Surrey, set in gar



▲ **Rose Cottage, The Forstal, Preston, Canterbury, Kent.** A thatched cottage dating from around 1600 surrounded by cottage gardens that include a summerhouse. The cottage retains its exposed beams, vaulted ceilings and inglenook fireplaces. 4 beds, bath, 2 receps, dining kitchen, 0.35 acres. £650,000 Finn's 01227-454111.



▶ **Till Cottage, Winterbourne Stoke, Salisbury.** This cottage dates from 1785 and has been extended to include a breakfast kitchen with French doors leading onto the riverside cottage garden. It has exposed timbers and inglenook fireplaces. 4 beds, 2 baths, recep, study, 1-bed detached annexe, 0.58 acres. £945,000 Savills 01722-426820.



▶ **Manor Cottage, Brimscombe Hill, Stroud, Gloucestershire.** This Grade II-listed, semi-detached house dates from 1652 and is set in enclosed landscaped cottage gardens. It has a large inglenook fireplace with a wood-burning stove, a top-floor bedroom with a vaulted ceiling and exposed timbers, and a large conservatory that opens onto a terrace. 4 beds, 2 baths, recep. £600,000+ Murrays 01453-755552.



ens with a waterfall, to an 18th-century house overlooking Loch Scridain on the Isle of Mull, Scotland



◀ **By-The-Way, Witley, Godalming, Surrey.** A Grade II-listed village house dating from 1590 set in 0.42 acres of landscaped cottage gardens that include a sunken garden with a fishpond and a waterfall, and a raised pond surrounded by a beech hedge. The house has flagstone floors, exposed wall and ceiling timbers and a large inglenook fireplace. 3 beds, 3 baths, 2 receps, breakfast kitchen, study area, stores, attic, gardens, grounds, 0.42 acres. £835,000 Knight Frank 01483-565171.

▶ **Fairview Cottage, Charlton Adam, Somerset.** A cottage set in cottage gardens that include a private courtyard with a tiled stone outbuilding. It has a stone fireplace with a wood-burning stove and a country-style kitchen with an Aga. 3 beds, bath, 2 receps, garden room. £450,000 Humberts 01935-477277.



▶ **Tiroran Steading, Tiroran, Isle of Mull, Argyll, Scotland.** A renovated, 18th-century house with a three-bedroom cottage overlooking Loch Scridain. It has a large family room with a vaulted beamed ceiling and a mezzanine, and a dining kitchen with an Aga. 4 beds, 4 baths, recep, study area, former saw mill, former gallery/café, workshop, greenhouse, woodland, 3.4 acres. £595,000+ Knight Frank 0131-222 9600.



▶ **Tamarisk Cottage, Cage Lane, Great Staughton, St Neots, Cambridgeshire.** A Grade II-listed, timber-framed cottage with an attractive, south-facing cottage garden with a cobbled path in a popular village close to the Grafham Water Nature Reserve. The cottage retains its exposed wall and ceiling timbers and open fireplaces, and has a breakfast room with an Aga. 4 beds, bath, 2 receps, kitchen. £450,000+ Fine & Country 0330-333 1060.

▶ **Peach Tree Cottage, Fifield, Oxfordshire.** This cottage dates from 1830 and is situated in a village in an Area of Outstanding Natural Beauty. The south-facing cottage gardens are surrounded by stone walls and traditional woven fencing. The cottage retains its stone-mullioned windows, exposed beams, open fireplaces and oak staircase. 2 beds, bath, 2 receps, breakfast kitchen, garage/workshop, outbuilding, greenhouse. £625,000 Butler Sherborn 01451-830731.



Spice up life on the beach

Outgrown the bucket and spade? Give these four high-octane toys a try. Nicole Garcia Merida reports

Go surfing whether the surf's up or not

That surfing is known by some as "the sport of kings" derives from the fact that Hawaiian kings made surfing their official sport. And kings shouldn't have to depend on the waves for an excellent ride.

This state-of-the-art **electric surfboard by Oloboards** provides "more rides, more speed, and more fun", whatever the ocean is doing. It has a battery life of up to 50 minutes and a top speed of 52km/h. The battery is removable and can be quickly swapped for another. The LED light display lets you know how much battery remains and there is a handy glove compartment to store your valuables in. *From €19,999, oloboards.com.*

Rise above the waves

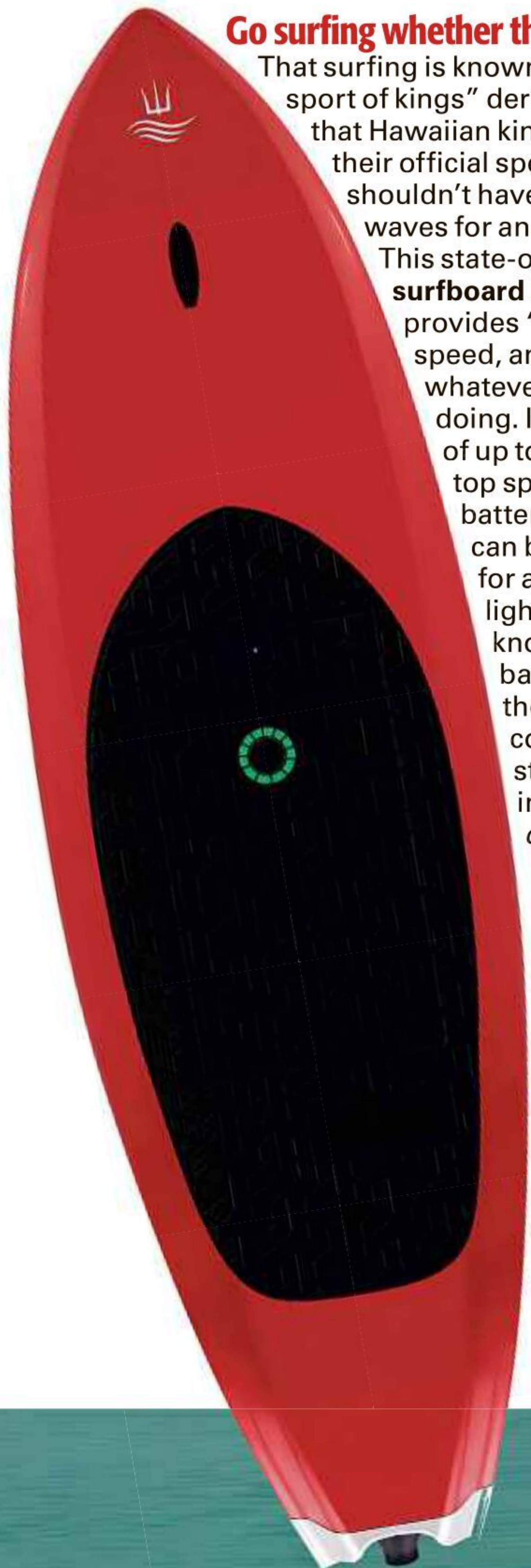
Hydrofoils are wings under the water that lift a boat's hull until it is totally out of the water. That concept applied to surfing is generating enthusiasm among surfers. The **Fliteboard** is the Flite brand's number-one best seller and is powered by a remote-controlled electric motor. The bespoke, handmade contraption has 20 gears and the world's most advanced portable marine battery, allowing up to 60 minutes of run time. You can also track your ride on an app, and the LED light array brings the board to life at night. *From €10,400, eu.fliteboard.com.*

High-speed thrills on land and sea

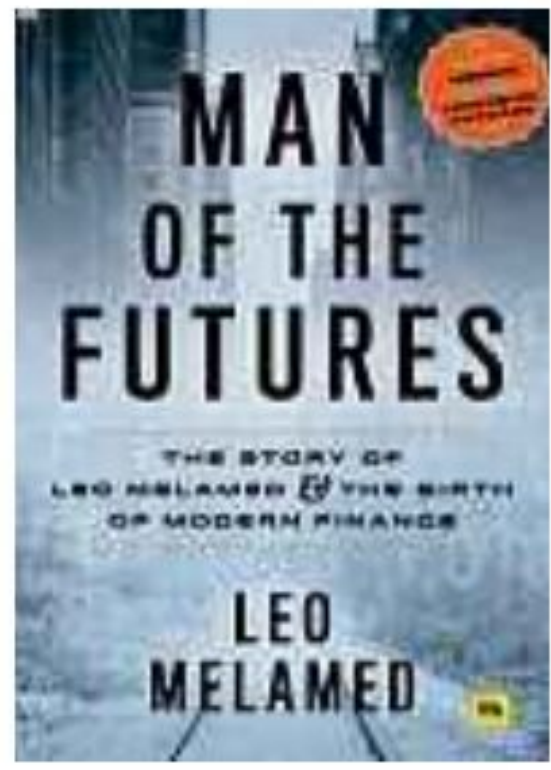
Can't decide between a Jet Ski and a quad bike? Gibbs' Quadski means you don't have to. The amphibious vehicle's wheels retract in seconds when it slides into water, says Boat International. It boasts a top speed of 45mph on sea and on land, and it's surprisingly stable, making it ideal for new drivers. It will certainly turn heads wherever you go. *From £59,995, gibbssports.com*

Get on your flying bike

The **Jetovator** might look like something out of a sci-fi movie, but they're readily available now for those after a thrill. The contraption thrusts water carried along a 40-foot hose from the jet unit at the back, propelling the user high into the air. The rider can redirect the water to move in any direction, turning it into what is essentially a flying, water-powered bike. Jetovators are available to rent, but should you want your own you can get one for \$5,975 at jetovator.com.



Book of the week



Man of the Futures

The Story of Leo Melamed and the Birth of Modern Finance

Leo Melamed
Harriman House, £35

Fifty years ago commodities exchanges were seen as a financial backwater, of interest only to farmers and food processors and the like who had a direct connection with the particular foodstuffs being traded. Beginning in the 1970s, this changed. Commodities exchanges started to trade not only tangible products, but also financial assets, such as currencies and even interest-rate and stock futures. In doing so, they not only took power from traditional centres, such as the New York Stock Exchange, but also fundamentally transformed finance. In *Man of the Futures*, Leo Melamed, the de-facto leader of the Chicago Mercantile Exchange (CME), explains how this came about.

Like most biographies, Melamed's book begins with his childhood, but rather than the usual collection of forgettable reminiscences, we get a story as compelling as that of his adult life. He grew up in the Polish community of Bialystok on the eve of World War II – his family's Jewishness and his father's political activities put them in the crosshairs of both the Nazis and the Soviets after war broke out and Poland was overrun.



“Big battles had to be won to secure the future we now take for granted”

To avoid being massacred or imprisoned, they were forced to flee to the Baltic city of Vilnius before undertaking an even more terrifying train journey through the wastes of Siberia and then a voyage to Japan before managing finally to find a sanctuary in Chicago.

Melamed went on to law school, where he developed an abiding love for free markets and distaste for government interference. He later abandoned a promising legal career to become a commodities trader, putting his belief in the power of markets to good use when he became involved with the running of the CME commodities exchange. Realising that the demise of the fixed currencies that had defined the Bretton Woods system presented a unique opportunity for a new approach to trading

currencies, he pioneered the idea of currency futures by setting up the International Money Market.

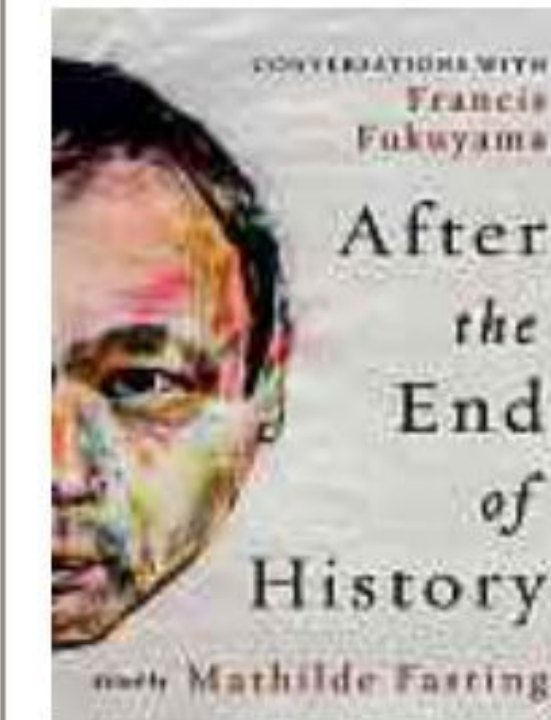
The idea was seen as radical at the time, but futures are now a part of the financial landscape. Big battles had to be won to secure the investment opportunities we now take for granted: defeating scepticism and opposition from regulators and politicians and, after the events of October 1987, an attempt by the New York Stock Exchange to kill off financial futures, which they blamed for the (temporary) collapse in stockmarket values. Melamed's unchronological framework is sometimes confusing, but the result is in the end a fascinating account of how the modern financial world was created.

Reviewed by
Matthew Partridge

After the End of History

Conversations with Francis Fukuyama

Edited by Mathilde Fasting
Georgetown University Press,
£18, out on 31 July



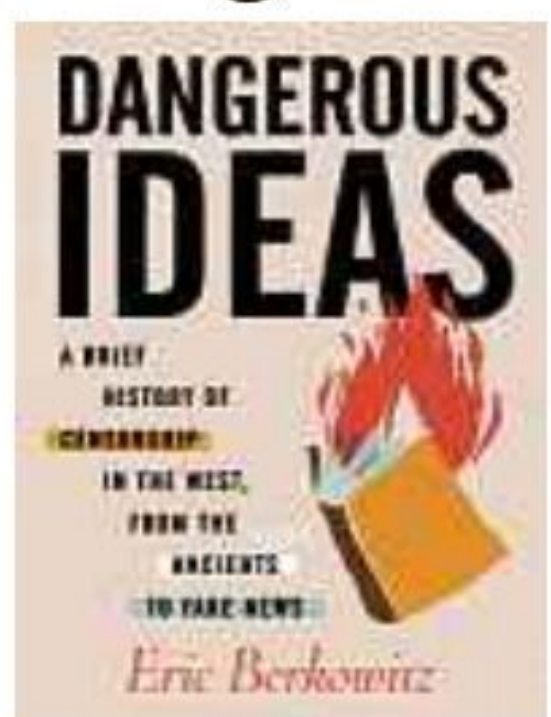
Three decades ago political theorist Francis Fukuyama declared the “end of history”, arguing that the collapse of the

Soviet Union removed the last impediment to what he saw as the inevitable historical triumph of liberal democracy and market economics. In *After the End of History*, podcaster Mathilde Fasting catches up with Fukuyama to see whether his argument still holds up.

Fukuyama admits that he underestimated the importance of identity politics and economic inequality. He is also at pains to point out that, in contrast to some of his supporters, he always believed that market democracies need a strong state and that Denmark, rather than the US, provides a better model. Still, Fukuyama remains essentially optimistic, arguing that current problems – the rise of China and populist challenges to democracy – represent a bump in the road in the progress of democracy, rather than a permanent roadblock. Even authoritarian populists such as Hungary's Viktor Orbán could be a force for good if they reduce complacency and force politicians to address the concerns of the population. It would have been interesting to hear more about how Covid-19 will affect the balance between the individual and the state, but overall Fukuyama provides an interesting counterpoint to current pessimism about the future of democracy.

Book in the news... the battle to free stilled tongues

Dangerous Ideas



A Brief History of Censorship in the West, from the Ancients to Fake News

Eric Berkowitz
The Westbourne Press, £20

A commitment to free speech has always been considered to be one of the core principles of democracy, says Jonathan Rose in *The Wall Street Journal*. Concerns over “misinformation” during elections and in the Covid-19 pandemic have, however, led many to worry about the consequences of that, and there have been moves to force tech barons “to police our online reading”, by downplaying or outright banning certain ideas and types of speech. In *Dangerous*

Ideas, journalist and lawyer Eric Berkowitz provides a global history of censorship, ranging from classical times to the present, and “identifies some recurring patterns in the suppression of free-thinking”.

The book is a “captivating sprint through two millennia of censorship”, taking us through “some of the more bizarre and egregious episodes”, says John Kampfner in the *Financial Times*. Naturally, many such attempts at censorship fail because those censored invariably fight back or find ways around the restrictions. Still, neither the state's appetite for controlling speech, nor the belief that information in the “wrong hands” will “inexorably lead to social strife”, seems to have waned. Modern technology has provided “unbridled opportunities” for the “abuse of speech, the whipping up of hatreds and the

manipulation of information” and this has fuelled efforts in recent years to rein it in.

Berkowitz is a “firm believer” in free speech, who thinks that attempts at censorship are “mostly futile, perverse or wrong”, says *The Economist*. Yet conflicts in this “ancient contest” between free speech and censorship are rarely as simple as they might seem. In many cases, victims of censorship become censors themselves once they gain the upper hand. There is also the question of what to do about indirect controls on speech, especially those imposed by private-sector “gatekeepers”, or by those who shout down views they disagree with as part of the so-called “cancel culture”. Even the most diehard supporter of free speech would hesitate to argue that everyone must be “given a platform, a newspaper, an audience”.

Must-have accessories for the A-list

A multi-million-dollar car collection is the new black

With the Great British summer now upon us, it's a great time to hit the open road in a drop-top. The well-heeled like to do so in style: a few weeks ago Rolls-Royce unveiled its "nautically themed Boat Tail convertible grand tourer", say Patrick Sawyer and Jeremy Taylor in *The Daily Telegraph*. Just three examples have been "individually coach-built" at the company's headquarters in West Sussex, heavily customised to the desires of their buyers but featuring "a rear deck opening to reveal a dinner set, cocktail tables, matching chairs and a parasol". As to who those buyers are, the company remains tight-lipped about the "industry rumour" that they include US singer Beyoncé and her partner, multi-millionaire rapper Jay-Z.

Hints that the couple are buyers come from the fact that the fridge is set at 6°C, "the precise temperature required" for Jay-Z's favourite champagne, the Armand de Brignac luxury vintage, costing up to £57,950 a bottle. The fact that a panel in the car's dashboard allows the driver to install his or her wristwatch for use as the car's clock should also be useful for Jay-Z, "who is known for his extravagant watch collection", which includes a \$2.2m Patek Philippe Grandmaster. The colour of the car may be a "sly clue" too – Beyoncé and Jay-Z's nine-year-old daughter is called Blue Ivy.

The Boat Tail would make "perfect sense" for the couple given their "diverse (and expensive)" car collection, says Eric Bain for Hypebeast. Jay-Z has in the



The Boat Tail: the nautically themed motor would set you back \$20m

past bought his wife a wide range of cars as birthday gifts, including a \$1m 1959 Rolls-Royce Silver Cloud and a Bugatti Veyron Grand Sport. He also spent \$8m on a new Maybach Exelero, at that time the most expensive car in the world, from the rapper known as Birdman.

A somewhat unusual addiction

Jay-Z and Beyoncé are far from the only "celebs with extremely expensive tastes when it comes to cars", says Josh Saunders in *The Sun*. Among the A-listers with "hugely pricey car collections" is footballer Cristiano Ronaldo – his collection of up to 20 of "some of the world's most sought-after motors" is reportedly worth £17m and includes at least three Ferraris, the most expensive of which is a £1.4m Ferrari Monza. Pride of place goes to his £8.5m Bugatti Centodieci, one of only ten examples in the world – it can go from rest

to 62mph in just 2.4 seconds, leaving the Carters in their Boat Tail (which takes five seconds) in the dust.

But for sheer extravagance, no one can quite match singer Cardi B. She and her husband have "matching Lamborghini Aventadors", a Mercedes Maybach, a Rolls-Royce Wraith, a Bentley Bentayga and a Mercedes G-Wagon. Her addiction is somewhat unusual, however, in that, "despite having a long list of cars", she has admitted that she is "yet to pass her driving test". So she is not able to enjoy her extravagant collection of motors, merely stand by them while someone takes a picture. It makes for a more impressive Instagram post than posing with an Oyster card, we guess.

Quintus Slide

Tabloid money... Sunderland's Leavers have the last laugh

● Brooklyn Beckham, 22, and his 26-year-old fiancée, actress Nicola Peltz, have snapped up their first home for a cool £7.5m, says Ulrika Jonsson in *The Sun*. Two things spring to mind. Firstly, don't get married at 22. Secondly, Brooklyn (pictured) hasn't worked many days in his life. How it can be sensible to be paying £70,000 over the asking price for his starter home is "beyond me". What does a child learn from being handed everything on a plate? What does it teach them about the work ethic and value? "If I was a multimillionaire – and this may come as a shock to my kids – I wouldn't set them up for life." Warren Buffett is worth £100bn and he isn't leaving much to his kids and nor are Bill and Melinda Gates. "Well-intentioned rich parents invariably breed cocky, entitled, arrogant children, who are not respected by their peers."



● Well done the people of Sunderland, says Patrick O'Flynn in the *Daily Express*. Their vote to leave the European Union in the face of dire warnings of job losses has been vindicated by the almost £1bn investment announced by Nissan and its battery-making partner Envision. That is a vital show of confidence that is likely to trigger a further wave of investment in Britain's car industry. Up to £8bn stands to be unlocked to increase manufacturing capacity and to build "gigafactories" to make batteries for electric vehicles. EU state-aid rules would probably not have allowed the government to offer a £100m sweetener to get the Nissan deal done. "That is a substantial amount of taxpayers' money for sure, but a bargain given its... significance."

● The speed with which a feeble board at Morrisons unanimously approved a bid worth £6.3bn from a consortium led by private-equity group Fortress is disturbing, says Alex Brummer in the *Daily Mail*. The Bradford-based supermarket chain, with its farm-and-fishing fleet-to-table supply chain, holds "a special place in the life of Britain". But instead of "repulsing the marauding buccaneers", the board "bowed to the foreign money men without reservation". Scant regard was paid to the interests of their "colleagues, suppliers, consumers and Britain's food security". We should not be surprised. "Debt-fuelled bids which turn publicly quoted companies private trigger eye-watering payouts to existing executives in the tens if not hundreds of millions of pounds."

Bridge by Andrew Robson

Double uppercut

An uppercut is a technique of trump promotion. Take this layout of trumps.

	Dummy	
West	5432	East
J6	----	Q7
	AK1098	
	Declarer	

If West leads a suit in which East and declarer are both void, and East ruffs with the Queen, declarer can overruff with the King but West's Knave is now promoted. Here's a double uppercut from a past Lords-Commons match.

Dealer South

North-South vulnerable

♠ A10	♠ 6	♠ 985
♥ 65	♥ AK104	♥ J987
♦ 75	♦ AKJ1086	♦ Q432
♣ AK109876	♣ QJ	♣ 32

	♠ KQJ7432	
	♥ Q32	
	♦ 9	
	♣ 54	

	N	
W		E
	S	

The bidding

South	West	North	East
3♠	4♣*	4♠**	end

- * There's a case for gambling Three Notrumps (prepared to run to Four Clubs if doubled).
- ** Tempting to double Four Clubs, although North expects his four quick tricks in the red suits to enable partner to make Four Spades. Certainly, the vulnerability favours bidding Four Spades, hungry for the vulnerable game bonus and not expecting a commensurate penalty from doubling the non-vulnerable Four Clubs.

The winning defence to Four Spades is pretty. West cashes the Ace-King of Clubs then, seeing no point in a red-suit switch looking at dummy, tries a third Club. East ruffs with the eight of trumps and declarer overruffs with the Knave. Declarer leads the Queen of trumps (or, technically superior in case East holds the Ace) crosses to dummy to do the same, but West wins the Ace and leads a fourth Club. Can you see what is about to happen? East ruffs with his nine of trumps, forcing declarer to overruff with the King, and now West's ten of trumps has been promoted in a master. Down one – a beautiful double uppercut and trump promotion.

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

Sudoku 1059

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

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

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Tim Moorey's Quick Crossword No. 1059

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 19 July 2021. Answers to MoneyWeek's Quick Crossword No. 1059, 31-32 Alfred Place, London, WC1E 7DP.



TAYLOR'S PORT

1		2		3		4	5		6		7
8					9		10				
11				12							
				13							
14									15		
16		17						18			19
							20				
21					22						
23							24				

Across clues are mildly cryptic whereas down clues are straight

ACROSS

- 1 Try seconds? Enough (6)
- 4 Hate pressure upfront to finish in the top three (6)
- 8 Fantastic singers entrance (7)
- 10 Across answer that's sort of down! (5)
- 11 Leaves on motorway side (4)
- 12 Outdoor trading event: beer supplied by high-street store? (4, 4)
- 14 Believers in Britney Spears possibly (13)
- 16 Previous examination of Beethoven work (8)
- 18 You'd find this in North Atlantic? No, its partner! (4)
- 21 Let pound move gently (5)
- 22 See comedies broadcast with no end of charm (7)
- 23 Senior Guide runs with passion (6)
- 24 Concerning male ruler? (6)

DOWN

- 1 Lady's loose dress (5)
- 2 Wealthy business person (7)
- 3 A vegetable (4)
- 5 Opera prelude (8)
- 6 I in communications code (5)
- 7 Weasel-like mammals (7)
- 9 Method of rapid writing (9)
- 13 Outmoded (8)
- 14 Favoured (7)
- 15 Jumper, for example (7)
- 17 European country (5)
- 19 A social media message (5)
- 20 Region (4)

Name _____

Address _____

Solutions to 1057

Across 1 *Trainspotter trains + Potter* 7 *Rehearse re hearse* 8 *Era hidden* 9 *Shar pei sharp + e + i* 12 *Sassy s ass y* 13 *Act two definitions* 14 *Elena hidden* 15 *Rya hidden* 16 *Earns homophone* 17 *Unearth anagram* 20 *Roo roo(m)* 21 *Lie doggo anagram* 22 *Man-about-town anagram*
Down 1 *Torah* 2 *Abhor* 3 *Service bureau* 4 *Overstate* 5 *Treasurer* 6 *Ready cash* 9 *Snare-drum* 10 *Afternoon* 11 *Press club* 18 *Aggro* 19 *Troon*.

The winner of MoneyWeek Quick Crossword No. 1057 is: Joey Canessa of London

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

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



Why we love Paul Krugman

The economist is wrong about everything, and hence hints at the truth



Bill Bonner
Columnist

Economist and New York Times columnist Paul Krugman is worth reading. Not because his thoughts are original or provocative, but because they are not. They reflect elite, mainstream thinking. They tell us what lies ahead. His predictions are almost always amiss – making him a great contrarian indicator. More importantly, it is to Krugman that Washington’s apparatchiks, movers and shakers, politicians, and kingmakers look for guidance. He points to the mushroom. The elites eat it. And Western civilisation turns pale.

Krugman’s solution to the dotcom bubble blow-up was to blow another one, this time in housing. When that popped, he urged the Obama team to pump up another one. And when Donald Trump was elected, Krugman completely missed the boat. He thought Trump was going to end the Bubble Epoch. Instead, he fell right into line with the other bubbleheads. This helps us understand what is ahead.

The Federal Reserve has been arguing that recent price rises are transitory – that this episode, like the inflation blip of 2010-2011, will soon be over. Krugman agrees. Inflation is so “last week”, he says. Which makes us think it must be next week. And the week after.

“Inflation is so last week, he says. Which makes us think it must be next week”



He points to the mushroom. The elites eat it

In fact, it is already here. If you calculated inflation the way they did before they reworked the formula in 1996, CPI would be running around 9%. If it were the 1970s, and you figured the CPI as they did then, today’s raw numbers would give you a CPI between 12% and 13% – almost exactly what it was in the late 1970s. But Krugman is as cool as a cucumber. He maintains that the Fed is on the job.

Even if inflation were to go back to 1970s levels, says Krugman (he is unaware that it is already there), the Fed would “step on the brakes if the economy really is exceeding the speed limit”. By its recent “hawkish” statements, he says, “the Fed has largely undercut whatever case there was for worrying about a return to the 1970s”.

The Fed has been inflating the price of financial assets for the past ten years. Over this period, Fed governors suffered occasional bouts of sanity, but never once did they seriously “tap the brakes”. Now, inflation is showing up in consumer prices. That’s not likely to stop either, since more and more of the “stimulus” money is going, via federal deficits, into the Main Street economy as well as Wall Street.

So what do we learn? Krugman tells us not to worry about inflation – so, it is inflation we worry about. He tells us central bankers will “step on the brakes” when inflation begins to go over the “speed limit”. Ergo, central bankers will not put on the brakes at all; they will push down on the accelerator. He tells us not to worry about a replay of the 1970s. Time to get out the beige leather couches, leisure suits and disco music. The 1970s are back!

The bottom line

€400m How much Italian football club Juventus is planning to raise in a new share issue to offset the hit to its finances from the pandemic. The Serie-A club put the cost of the pandemic at €320m between 2019 and 2022, due to stadium closures.

£16.16 How much a £100 investment by someone earning £25,000 and saving into a private employer’s pension scheme would generate for every year of retirement from age 68, according to calculations by consultancy LCP. The same £100 contribution

made by NHS doctors would generate the equivalent of £51.74, teachers £49.20 and civil servants £42.67.

1.3m The value of financial assets in Danish kroner (£150,250) Danes have tucked away (on a per-capita basis and after debt), making them the wealthiest people in the European Union with more than twice the EU average, says their central bank.

£15m The budget for the Queen’s Platinum Jubilee pageant to be held in London on 5 June 2022. Marching bands, circus

performers and a dragon the size of a double-decker bus will all feature, according to the official launch last week.

£1m How much local authorities are making every week from bus-lane cameras, according to the Ministry of Housing, Communities and Local Government. Councils made a net £56.8m from bus-lane fines in the year to April 2020, down from £59.2m a year earlier.

£1.16m How much Portugal and Juventus footballer Cristiano Ronaldo (pictured) can earn for a sponsored Instagram post, adding up to almost £30m a year, social-media firm Hopper HQ estimates. Actor Dwayne Johnson and singer Ariana Grande were the next highest-earning “influencers” on the list, both being paid up to £1.1m per post.



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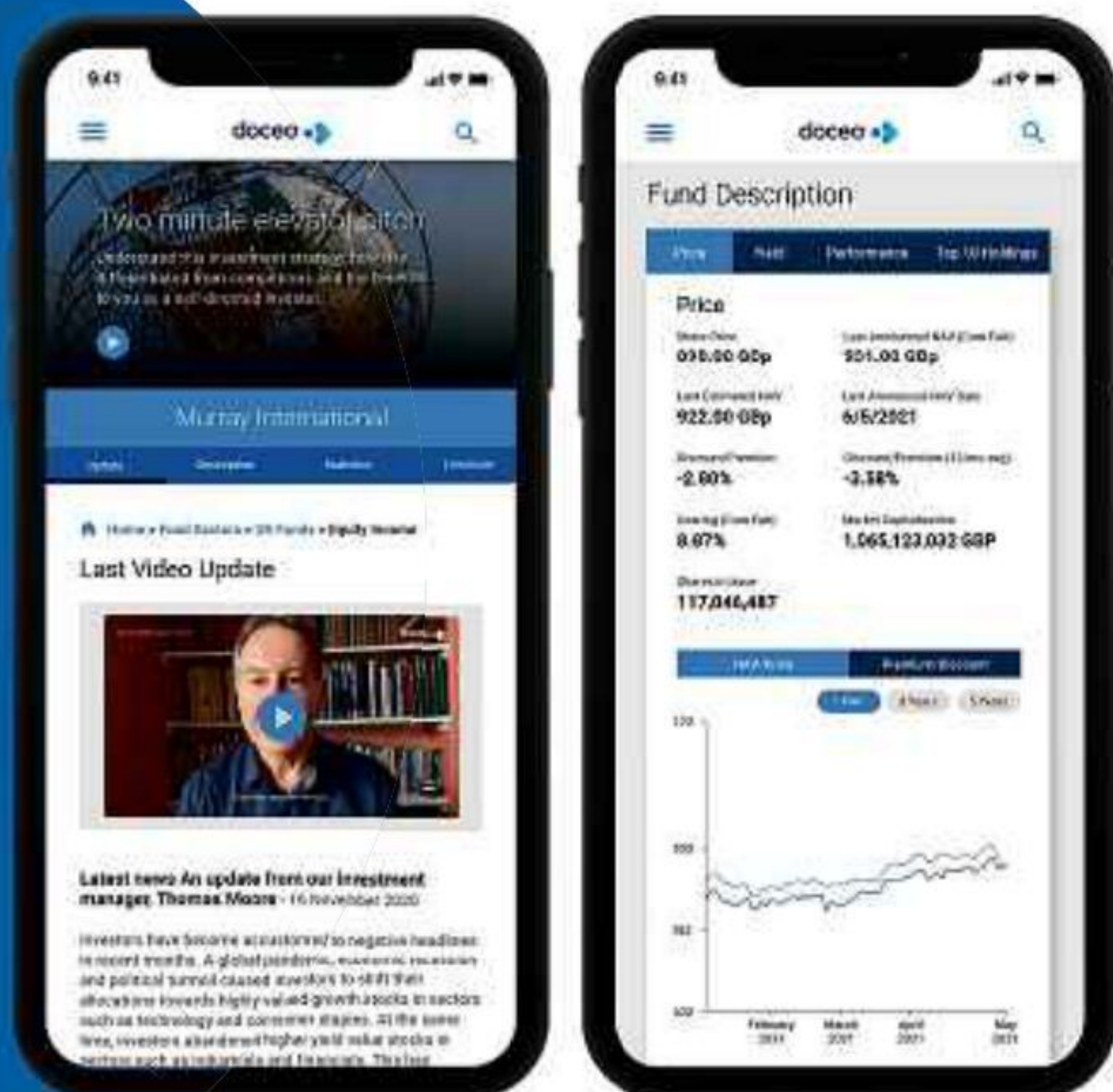
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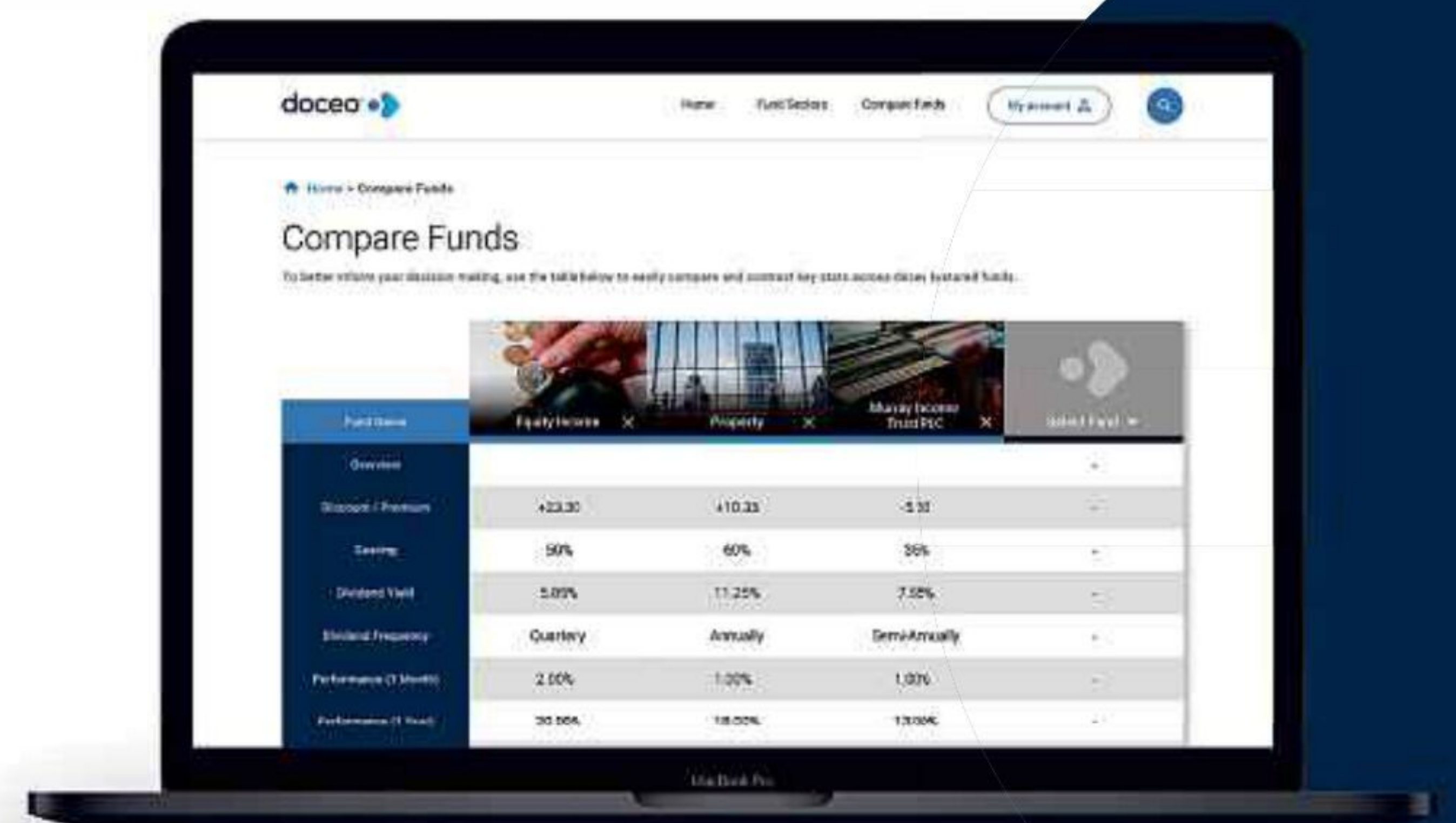
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