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MoneyWeek

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MoneyWeek

8 September 2023 | Issue 1172

Britain's best-selling financial magazine

From the editor...

Around 80% of statistics are rubbish, my politics tutor liked to joke. Look at the recent discussion over GDP figures, and perhaps he was right to be so flippant. Growth figures are more art than social science, and are endlessly revised after they first emerge – usually upwards (except in the US, where they have tended subsequently to be nudged downwards in recent decades, perhaps a sign of incurable American optimism).

The Economist noted a few years ago, for instance, that the British GDP growth figure for 1959 was estimated at 2.7% in 1960. In 2012, it was recorded as 4.7%. No fewer than 18 estimates of the figure were made. Or do you recall the fuss over a double-dip recession in 2012? It appeared to have arrived, but a year or so later a revision made it disappear.

Last week's GDP revision shows that the economy has exceeded its pre-Covid size

©Getty Images

> *"GDP growth for 1959 was estimated at 2.7% in 1960. In 2012, it was recorded as 4.7%"*

An enduring debate

That cast a slightly different light on the recurrent macroeconomic debate of the time: whether austerity was hampering growth and making it more difficult to produce enough output to help pay the debt down. On the continent, in the context of the euro crisis, supporters of spending restrictions were dismissed as "sado-monetarists" by their opponents. Very few ideas in economics are ever completely proved or rejected, not least because the data we argue about is so fluid.

Last week's news that the economy is not, in fact, still below its pre-Covid size or the sick man of the G7 also became a political football, with some noting we could still be the G7 laggard as most other countries have yet to revise their post-Covid statistics as we have.

For investors, there are two key conclusions to draw from the furore. One is that the news could help change global investors' perception of Britain; the gloomy notion that we haven't recovered from the pandemic yet has been part of the narrative attached to British equities.

More broadly, remember that the fuss obscures the stagflationary structural backdrop, in which GDP revisions covering the last few years are really neither here nor there. All developed economies, not just ours, are suffering from poor recent productivity growth, which is undermining the long-term GDP growth outlook.

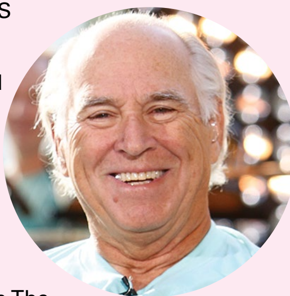
Figures from the International Monetary Fund suggest that advanced economies are expanding by roughly 1%, while the typical pace since 1980 has been about 2%.

The developing world has also lost its steam. It is growing by 4% rather than the usual 5%-6%. Regardless of what level GDP has actually reached, it just isn't growing fast enough. Unless, of course, it is being measured wrongly. We are likely to have a far clearer idea in half a century or so – but of course in the long run, we are all dead.

Today's volatile global backdrop means it has rarely been more difficult to preserve and build wealth. So we have asked a wide array of experts to our annual MoneyWeek Summit, which will take place on 29 September. Panel topics will include investing in an era of stagflation, emerging markets, and energy and property. John and Merryn will appear on the property panel, while other speakers will include economist Julian Jessop and investment strategist James Montier. Tickets are now on sale at moneyweeksummit.com. Subscribers booking before 10pm on 8 September can buy two tickets for £399 (normally £499).

Andrew Van Sickle
editor@moneyweek.com

The other billionaire Buffett



Jimmy Buffett, the US "singer-songwriter... and entrepreneur whose roguish brand of island escapism on hits like *Margaritaville*... made him something of a latter-day folk hero", died last week from cancer, aged 76, says Bill Friskics-Warren in The New York Times. The Caribbean provided Buffett with the grist for his songwriting, as well as "the impetus for the creation of a tropical-themed business empire that included a restaurant franchise, a hotel chain and boutique tequila, T-shirt and footwear lines, all of which made him a millionaire hundreds of times over". But unlike the characters in his songs, Buffett was a "shrewd manager of his fortune", which Forbes put at $1bn this year. Of that, $570m was attributed to touring and recording and $140m in planes, homes and shares in Berkshire Hathaway – the holding company of his longtime friend (but no relation), Warren Buffett.

Cover illustration: Howard McWilliam. Photos: Getty Images; Shutterstock

Good week for:

Former Downing Street advisor **Dominic Cummings** (pictured) is one of several bloggers making a small fortune on the self-publishing online platform Substack, says The Times. Cummings, a relative newcomer to Substack, has 47,000 subscribers, including readers who pay £10 a month to gain full access to his content.

The tiny **Socialist Party of Great Britain**, which campaigns for a "moneyless" society, holds £400,000 in cash and £800,000 in investment funds, according to a filing with the Electoral Commission. The party also owns a property in south London that had been bought for £4,000 in 1954. It is now worth £1.3m. "None of us like living within capitalism... none of us can choose to live in the way we want to," the party treasurer told BBC News.

Bad week for:

High-street sandwich chain **Pret A Manger** has been fined £800,000, plus £23,667 in costs, for failing to prevent an employee from becoming trapped inside a walk-in freezer for two and a half hours at its Victoria coach station branch in July 2021. The employee, who was wearing a T-shirt and jeans, was treated in hospital for hypothermia.

A man in the US state of Connecticut, **Robert Withington**, described the moment he found almost $5,000 in a bag belonging to the local tax department, which had been "inadvertently dropped" outside a bank, as like winning the lottery. Police detectives, however, did not see it that way. Withington was charged with third-degree larceny (theft), punishable by up to five years in prison and up to $5,000 in fines.

©Getty Images

US stocks will escape September curse

Alex Rankine
Markets editor

9/11 is one key reason why the month is a weak one for American equities

©Getty Images

Many market participants on Wall Street, which sets the tone for global markets, are feeling pessimistic, says Hardika Singh in The Wall Street Journal. The S&P 500 index fell in August, its first monthly drop since February.

Some ask whether this year's artificial intelligence (AI)-induced technology-stock boom has got ahead of itself. "It has shades of what happened during the crypto craze," says Jim Besaw of investment manager GenTrust. "These tech megacaps went up too far, too fast – the AI hype had a lot to do with it," adds Mel Lagomasino of WE Family Offices.

S&P firms are currently trading on 19 times forward earnings. That compares with 6.8 at the start of 2023 and is some way above the ten-year average of 17.7, leaving US corporate earnings with little margin to disappoint.

The end of summer is enough to make most of us feel down, says Robert Armstrong in the Financial Times. But Wall Street traders should lighten up. The year has so far gone "much better than almost anyone expected", at least in the US.

The most recent jobs data was "Goldilocks" for markets, with a slight slowdown in wage growth reassuring investors that inflation can be tamed without a recession. Many analysts started the year predicting economic carnage – they are now struggling to accept that their pessimistic forecasts were "badly wrong".

The weight of history

September can be a jittery time for markets, says Marjorie Encelot in Investir. Historically it is the worst month of the year for US equities. Stephen Suttmeier of Bank of America notes that the S&P 500 has only risen in 44% of the Septembers since 1928. The average performance is a 1.16% loss.

The S&P had a particularly dreadful September last year, finishing down by 9% as markets were rocked by interest-rate hikes in the US and "Trussonomics", which triggered a gilt crisis in the UK.

Yet don't lose all hope: Suttmeier says the S&P has historically done better in September in years when stocks had already gained at least 10%. With the S&P up 17.5% so far this year, bulls might hope for the run to continue.

"Bad things happen in September, including… [9/11] in 2001 and the bankruptcy of Lehman Brothers" in 2008, says Ben Levisohn in Barron's. US markets have ended September down for the last three years in a row – "it's enough to wonder why anyone bothers showing up".

Yet this year's rally is built on more than mere hype about AI. US corporate profits have been surprisingly robust, falling by just 0.4% in the second quarter compared with the first. The mini "earnings recession" that started the year may thus already be over.

Forward corporate earnings estimates have been upgraded for almost three-quarters of the S&P 500's constituents during the past three months as macroeconomic data has continued to surprise on the upside. Interest-rate rises may yet start to bite in the new year, but "right now, I'm going to sit back and enjoy this September".

A setback for America's crypto crackdown

Bitcoin prices rose last week after a Washington DC court found that the Securities and Exchange Commission (SEC), the market regulator, had been "arbitrary and capricious" when it denied an application to launch a spot bitcoin exchange-traded fund (ETF) made by asset manager Grayscale.

Bitcoin ETFs could make it easier for institutional investors such as pension funds to gain exposure to digital currencies, says Elizabeth Lopatto for The Verge. While the SEC has already allowed ETFs based on bitcoin futures, it has so far blocked spot ETFs, which track bitcoin prices directly. A spot bitcoin ETF trading on traditional stock exchanges has long been a "holy grail of cryptocurrency enthusiasts", says Ephrat Livni in The New York Times. It could bring new funds into the market by allowing investors to bypass unregulated specialist exchanges (such as FTX, which imploded last year). The SEC has been clamping down on cryptocurrencies following multiple scandals in the industry, but the ruling marks its second setback in as many months. In July, another court rejected the SEC's case that the sale of a digital asset called XRP by crypto firm Ripple had broken securities law.

Too many people have ben lured into cryptocurrencies

©Getty Images

"The 15-year quest to find a use for" bitcoin has yielded little more than "self-reflexive speculation on the price of bitcoin itself", says Stephen Foley in the Financial Times. Too many young people have been "lured" into cryptocurrency "Ponzi schemes" instead of "learning the long-term investment techniques that build wealth".

Still, if others must speculate on crypto then "spot bitcoin ETFs will be safer... simpler products" than existing alternatives. There are already a "dazzling array of bad investment ideas" available via ETFs. Why not let bitcoin be another one?

Diamonds may not be forever

"Getting engaged just got cheaper," says Jinjoo Lee in The Wall Street Journal. Polished diamond prices have fallen by 27% since their peak last year. A one-carat, round, "near-colourless natural diamond with very slight flaws" costs $5,185 in the US, compared with $7,000 last year. The industry is in a cyclical downturn following a Covid-era boom. Lockdowns briefly prompted consumers to spend more on material goods such as diamonds, while Russia's invasion of Ukraine disrupted supply last year.

Analysts might be wrong to predict a rebound in prices soon, says Thomas Biesheuvel on Bloomberg. The rising popularity of lab-grown diamonds, which are chemically identical to the natural kind and can be grown in weeks "in a microwave chamber", is leaving the natural diamond industry "reeling". Once limited to cheap costume jewellery, there are signs that synthetic stones are beginning to take a bigger slice of more premium categories, including "the crucial US bridal market".

By volume, an estimated 25%-35% of diamonds exported from India, where most stones are cut and polished, are now thought to be the lab-grown variety. While natural diamond prices plunge, lab-grown ones are losing value even more rapidly as improving technology cuts production costs. In 2018 lab-grown gems sold at a 20% discount to natural diamonds. Now the gap is 80%.

Statist attack on Italy's stocks

Italy has been Europe's best-performing major stockmarket this year. The benchmark FTSE MIB index has gained 20% and is up by almost 40% in a year.

Early this summer the Milan bourse hit its highest level since September 2008, although it remains 33% off its 2007 high, says Chiara Remondini on Bloomberg. There have been strong performances from luxury brands such as Ferrari and Moncler, and commercial-vehicle manufacturer Iveco.

Above all, the rally has been driven by banks, which make up a third of the market. Higher eurozone interest rates have boosted their profit margins. Despite the rally, Italian shares are still inexpensive. In late June the market was on 8.3 times forward profits, making it one of Europe's cheapest.

©iPictue credit

Prime minister Giorgia Meloni is no Mediterranean Tory

Attacking the banks

The banking windfall has not escaped the attention of prime minister Giorgia Meloni's government. Last month, coalition partner Matteo Salvini unveiled a surprise 40% windfall tax on banks' net interest margin. The news triggered a sharp sell-off, wiping about €10bn off Italian bank shares in a single day.

The market turmoil forced a speedy climbdown from Rome, says Kalyeena Makortoff in The Guardian. The following day the government announced that the tax would be capped at 0.1% of lenders' assets, about a fifth of the previous level. The bungled announcement betrayed a worrying lack of economic literacy at the top of the Italian government, says Daniel Fortin in Les Echos.

A strong banking system is essential to building a strong economy. Italy's chronically unprofitable banks have been badly weakened by a decade of ultra-low interest rates. Now, just as the banks have a chance to strengthen themselves, politicians launch a demagogic round of banker bashing.

There was much disquiet in Europe last October when Meloni and her far-right Brothers of Italy party took power, says The Economist. Until now Meloni had been doing a good job of portraying herself as a moderate; some argued that the Brothers were simply "Latin conservatives", a sort of Mediterranean Tory party. Yet the Brothers' "ideological roots lie in the statist nationalism" of Benito Mussolini. That hostility to free markets is now becoming apparent.

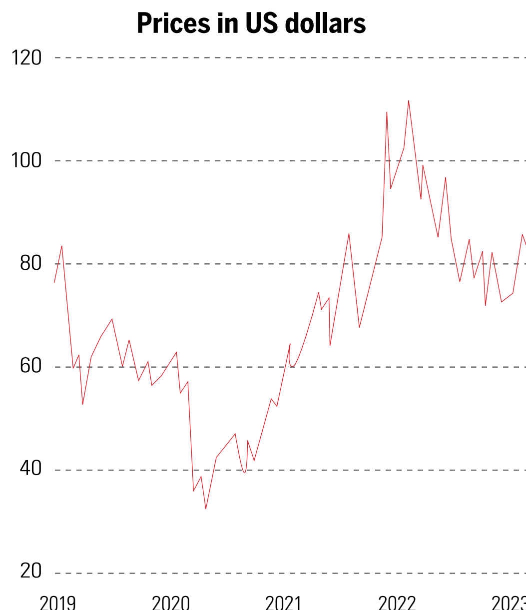
In any case, Meloni has bigger fish to fry, says Paola Subacchi for Project Syndicate. "Since 1983, Italy's economy has grown at an average annual rate of 1.1%, compared to 2.4% across the EU." €191.5bn in European pandemic recovery funds represents a "once-in-a-generation opportunity" to modernise the economy and remedy deep regional imbalances, but it remains to be seen whether the under-resourced Italian state has the capacity to spend the money wisely.

Viewpoint

"The era of low interest rates is over. In the blink of an eye, [central banks] went from punishing savers to punishing borrowers. If you're depending on income to fund your retirement, 5% rates are a blessing... if you're in need of credit, current rates are a curse... For years... investors bemoaned that [low interest rates were] forcing them out on the risk curve. If you wanted to earn some yield, bonds at 2% weren't a great option. So they bought junk bonds at 5%... Now, investors don't have to reach for yield... [Life is suddenly hard for borrowers]... it's much harder to service a loan that is more than double what it was a year ago... Higher rates are a blessing or a curse, depending on where you are in life. This [dramatic rates reversal] is a good reminder that the market pendulum is always swinging from too hot to too cold with little in-between. Goldilocks is a fairy tale."

Michael Batnick, The Irrelevant Investor

Brent crude oil bubbles up again



Brent crude oil futures have hit their highest level this year. At $88 a barrel on Monday, the global benchmark is up 9% in 2023, although it remains about one-fifth below last year's highs. This year's rally has been driven by large output cuts agreed by the Opec+ oil producers' alliance, which is led by Saudi Arabia and Russia. The latest jump came amid speculation that the production cuts will be extended into the autumn, says Alex Longley on Bloomberg. Data suggesting a Chinese manufacturing recovery has also increased expectations for demand. Supply towards the end of the year is looking "really tight if Saudi and allies don't reverse their output cuts plan", says Zhou Mi of the Chaos Research Institute.

Shopping spree in retail

Mike Ashley, owner of Frasers Group, has been building stakes in weak clothing brands. What is he up to? Matthew Partridge reports

Shares in troubled online fashion retailer Boohoo soared by 7.5% last week when it emerged that retail billionaire Mike Ashley, the founder of Sports Direct, raised his stake in Boohoo days after buying more of Asos, a rival internet clothing group, says Tom Powell in The Times. Frasers Group, of which Ashley is the majority shareholder, now owns 9.1% of Boohoo and nearly 20% of Asos. Frasers has previously claimed that there are "potential synergies" between Boohoo and two of its own brands, Missguided and I Saw It First.

Trying to guess Frasers' long-term intentions "is a full-time game", says Marcus Jaye in The Industry Fashion. But the decision to increase the stake in both firms raises the prospect of "a potential giant, online fast-fashion merger". Such a move would be opportune given that both Asos's and Boohoo's stocks are "languishing". Asos in particular "has been struggling with excess inventory, recently launching an outlet site to clear it". And suppliers have started to cut ties with Asos after credit insurers, unnerved by sliding earnings, withdrew cover. Asos has even "tapped shareholders for £75m".

©Boohoo Group Plc

Frasers now owns 9.1% of Boohoo

Playing Monopoly

Experts agree that Ashley "has long looked at the high street like it's his own personal game of Monopoly," as Katie Linsell and Lisa Pham pointed out on Bloomberg in June. Despite promising to take a "back seat" in the day-to-day running of Frasers, he seems to be following the basic strategy of finding a business "that's a strategic fit to the overall retail empire and [scooping] up what you can, when you can, ready to pounce if opportunity knocks". He's already taken advantage of the "depressed levels" that retail shares are trading at to buy Jack Wills, Evans Cycles and Gieves & Hawkes.

Still, while Frasers may be contemplating consolidating Asos and Boohoo, past form suggests that it "might achieve the same results by taking a subtler approach", says Lex in the Financial Times. Frasers bought a third of Hugo Boss in 2020, only to use the stake "to increase collaboration and get more of the German brand's higher-end kit into Frasers' stores". This close partnership was so successful that "Hugo Boss's shares have almost tripled since Frasers' initial investment", allowing the latter to take profits by selling down some of its stake.

Either way, Ashley isn't the only entrepreneur "rustling in the retail undergrowth", says Jonathan Prynn in the Evening Standard. Rival Next "has also been... shopping", snapping up an additional 34% stake in the Reiss fashion brand for £128m from investor Warburg Pincus, lifting Next's holding to 72%. Reiss is "one of five retailers Next has struck this sort of deal with, sometimes taking stakes, sometimes buying outright, as with stricken Joules last [year], and sometimes in joint venture partnerships". With fashion retail "exposed to the... cost-of-living crisis", expect to see Next's CEO Simon Wolfson and Mike Ashley duelling over the scraps.

Can shrunken Superdry recover?

Struggling retailer Superdry, known for selling clothes "with bold designs and faux-Japanese slogans", has warned of "material uncertainty" over its future, say Isabella Fish and Max Kendix in The Times. Superdry had been forced to suspend trading in its shares owing to difficulties with the auditors over the "final technical points" of the accounts. And when the accounts were finally released they revealed that the firm had made a loss of £148.1m, with debt rising to £26m. The stock fell by 16% to a record low of 47p. It had already slipped by 60% in 2023.

Even before the latest slide, Superdry's valuation of £55m was a fraction of the £1.6bn it was worth when "its logo-led clothes seemed to be everywhere", says Simon English in the Evening Standard. However, it became "too reliant on the logos" and moved into areas "not right for the brand, such as children's clothes". This led co-founder Julian Dunkerton to make a "dramatic return to the business in 2019, furious at what management had done to a business he built". However, he "ran into Covid and rough economic conditions". Still, the fact that sales seem to be "holding up" suggests that "the brand remains popular and the business could thrive if costs can fall".

The fact that Superdry is still an independent company is worth a cheer given that "many other distinctly British mid-market names" have been taken over, says Nils Pratley in The Guardian. For example, Ted Baker was scooped up by the American owner of Reebok, while Joules "was rescued from administration by Next". Investors will also take heart from the fact that Superdry hasn't been forced to draw on a credit line from restructuring specialist Hilco. However, the group has had to raise £11m of fresh equity this year and "flog the brand rights for a large chunk of Asia-Pacific for \$50m (£39.6m)". While Dunkerton's faith in his brand remains "undimmed", turning around Superdry will be "uphill work".

Executives are fleeing Fortescue

The "premature resignation" of one high-ranking employee at a \$66bn Sydney-listed company seems "unfortunate", says Jonathan Barrett in The Guardian. But "when three leave in less than a week, it shows all may not be well at miner Fortescue". Just days after its 20th anniversary, the world's fourth-biggest iron-ore producer has seen the departure of its CEO Fiona Hick, chief financial officer Christine Morris, and director Guy Debelle. The news, which marks the departure of 11 executives in three years, came as the firm released "its weakest result in three years, weighed down by a sputtering economy in China".

One of the key reasons for this turmoil at the top is executive chair and founder Andrew Forrest's plan to cut greenhouse-gas emissions to zero, says Antony Currie on Breakingviews. Forrest is "pushing hard to get there" by setting an "ambitious target of real zero emissions in its iron-ore operations by 2030", without buying carbon offsets. Forrest is "also making a big push to develop green hydrogen", including "diverting 10% of all mining profit to fund Fortescue Future Industries", the renewables start-up where Debelle was a director. His exit suggests that the approach is "forcing a lot of change on the company" in a short period of time and causing arguments even among those who support the targets. Such an "absolutist" stance is "unhelpful" for both the planet and shareholders.

Forrest's leadership, and emphasis on green energy, is certainly divisive, says Peter Ker in the Australian Financial Review. One major institutional investor has sold shares because it "couldn't quantify or model what the business looks like now". Others worry that the large sums of money involved in going green may make it harder to pay what is "still a very healthy dividend" even after a recent cut. But some investors argue that Forrest's past success means that he "deserved more respect". And another claims that "in an era of autonomous machines and energy efficiency" it doesn't matter "if Mickey Mouse or Donald Duck are CEO or chairman".

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

Four to buy

Costain
Shares

This infrastructure engineer is a great example of an unjustly overlooked UK small cap. The infrastructure business is low-margin and dependent on contract wins, but it is also reliable work in times foul and fair, and Costain has a solid order book. The shares are still 70% short of their pre-pandemic level on a price/earnings (p/e) ratio of just 7.5, which represents excellent value. The market capitalisation is so depressed that it barely exceeds the group's net cash pile, a sign that the shares are "far too cheap". *55p*

CRH
Investors' Chronicle

This building-products giant will complete its shift from the unfashionable London stockmarket to New York later this month. The move of the primary listing makes sense for a business that generates 61% of revenue in the Americas and sees the best growth opportunities there. Recent trading performance has been strong and should enjoy a continued boost as the Biden administration splurges on infrastructure. CRH will retain a secondary listing in London. In the best case scenario the US move will trigger a rerating, but even if it doesn't, the shares should "still have plenty of upside potential". *4,408p*

Keller
The Sunday Times

This FTSE 250 construction engineer specialises in compacting soil for building work. It has worked on everything from the Melbourne metro to Singapore's sewers. On a 2024 p/e of 6.5 the company's shares represent good value. The backdrop is positive given rising demand for infrastructure worldwide; strong cash generation and geographical diversification mean there is a strong foundation for growth. *765p*

M&G
The Mail on Sunday

Shares in this FTSE 100 savings and investment giant remain below their level at the time of the 2019 demerger from Prudential. Traditionally focused on large institutional investors, M&G is moving into the more promising area of wealth products tailored towards individual savers. A 10.5% yield would usually be a warning sign, but the gloom seems overdone. Enjoy this juicy income while waiting for profits to pick up. *191p*

Two to sell

Abrdn
The Times

"Drastic measures" are needed at this struggling asset manager. The group's funds continue to suffer bruising net outflows as investors turn to lower-cost, passive alternatives. The company is at the mercy of a structural trend towards retail investors managing their own investments; only 58% of its assets outperformed their respective benchmarks in the most recent three-year period, making for a poor advertisement for higher management charges. Abrdn is worth less than the sum of its parts so a "break-up could make sense". Until "radical action" is taken the shares are best avoided. *167p*

Fulcrum Utility Services
The Telegraph

This utility business has been "a disaster". Buffeted by the energy crisis, a troubled smart-meter division and a cyberattack, the stock has slumped by 99% over the past five years. Now, Fulcrum is adding "insult to injury by cancelling its shares' Aim quotation" this autumn, leaving shareholders to choose between holding unquoted and difficult-to-trade equity or selling now and crystallising a "horrific loss". We pick the latter "poison". *0.25p*

...and the rest

The Mail on Sunday
Shares in construction business **Balfour Beatty** have been unfairly hammered amid a wider sell-off. The housing market is weak, but Balfour also boasts "major infrastructure assets", a more promising area. Add in "a huge cash pile" and a steady support-services arm and this seems a chance to buy in on weakness *(320p)*.

Investors' Chronicle
A weak economy has hit trading at distribution specialist **Bunzl** but there is long-term growth potential as cash-strapped clients switch to the firm's in-house own-brands. On 16 times forecast earnings the shares aren't cheap, but that is a fair price to buy into this "quality cash compounding play". Buy *(2,817p)*.

Shares
Small cap specialist retailer **Marks Electrical** has more than doubled its share of the UK online major domestic appliances market to 4.7% over the past three years. It also sells branded consumer electronics as well as sinks and taps. The growth is down to a strong reputation among consumers for excellent service and there is plenty more room to grab market share. Buy *(98p)*.

The Telegraph
This summer has brought a spate of natural disasters worldwide, hitting shares in Lloyd's of London syndicate manager **Lancashire Holdings**. But the turmoil is whittling away weaker competitors and demand for insurance is increasing because of climate change. This FTSE 250 firm appears "strong enough and smart enough to withstand the storm". Hold *(570p)*.

The Times
Marks & Spencer is defying the retail slump to chart a course to increased profits. The shares are up by 79% this year, and there should be more to come as sales growth and margins keep improving. Buy *(224p)*.

An American view

Small appliances such as hairdryers and ice-cream makers "aren't glamorous products", says Andrew Bary in Barron's. But America's SharkNinja has racked up strong sales growth by being a "consistent and successful innovator" in this area. The group now leads the market for hairdryers costing between $100 and $300, having only entered the field two years ago; and its ice-cream maker, which also allows users to produce sorbet using fruit, has proved popular. International sales, which comprise around a quarter of the total, are expanding rapidly. The shares, on 12 times 2023 earnings, are on a discount to rivals such as DeLonghi and the balance sheet contains little debt.

IPO watch

America's market for initial public offerings (IPOs) "is finally reopening after the sleepiest stretch in 32 years", says Bloomberg. Proceeds from listings hit their lowest level since 1990 last year. Now, Instacart, a grocery-delivery outfit, Chip designer Arm and Klaviyo, a specialist in data automation, have all filed to go public. But the market may never regain the "sizzle" of 2021, when the median technology IPO achieved an eye-watering offer price of 15.2 times sales. With the era of easy money now over, that kind of valuation is unlikely to be seen again soon. Investors should also note that in the past half-century, IPO slumps have lasted at least two years.

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The crumbling schools crisis

The reckoning has arrived on an issue successive governments have dodged. Emily Hohler reports

Just as Rishi Sunak is attempting to "breathe some life into a tired, faltering administration in the final year before an election, along comes reinforced autoclaved aerated concrete (Raac)", says The Times. This cheap, porous and ultimately highly dangerous material was used in all kinds of public buildings from the 1950s onwards when Britain was "poor and demand for new schools, hospitals and universities was high". Successive Tory and Labour governments "dodged the inevitable reckoning", but unfortunately for Sunak and his education secretary, Gillian Keegan, the "pass-the-parcel music stopped just at the wrong time".

The music stopped at just the wrong time for Keegan

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The government's handling of the "crumbling concrete crisis" has been "abysmal". Parents were "kept in the dark" about which schools were affected until the "very eve of autumn term", even though the government has been keen to emphasise that the "vast majority" are unaffected (156 of 22,000 schools in England have so far been identified as containing Raac). Keegan, who conceded that the timing couldn't have been worse, was forced to apologise after ITV broadcast her remark – "Does anyone ever say: 'You know what, you've done a f***ing good job, because everyone else has sat on their arse?'" – which she made thinking the interview was over.

Was Sunak warned?

Then there is the accusation that Sunak had a hand in the crisis by refusing to repair or replace schools despite evidence being presented that Raac posed a "critical risk to life". On Monday, the Department for Education's top civil servant from 2016 to 2020, Jonathan Slater, told the BBC that a request to replace up to 400 schools was slashed, first to 100, and then, in 2021, to just 50, with the government instead prioritising new free schools. Analysis by the Institute for Fiscal Studies reveals a "wider decline" in spending on school buildings, which has fallen by roughly 25% in real terms since the mid-2000s, with "funding allocations for maintenance and rebuilding more than 40% below levels of need as assessed by the government itself".

On Wednesday, Labour will be forcing a vote to try and get ministers to release internal government documents showing what Sunak knew about the risks when he cut funding as chancellor, but Tory MPs will be whipped to vote against the motion, say Nicola Woolcock and Oliver Wright in The Times. A Downing Street source insists the request Sunak received for funding did not specifically flag the Raac issue.

A crisis of short-termism

The crisis is unlikely to go away any time soon, says Sarah Neville in the Financial Times. On Tuesday, NHS bosses ordered hospitals to ensure that any Raac on their sites has been identified and evacuation plans put in place. Surveyors are investigating whether there could be Raac in the House of Commons. The costs of fixing schools is approaching £150m and could rise much further, says Robert Booth in The Guardian. Local authorities could also face "huge payouts" running to several million per case if a collapse caused serious injury.

So much for Sunak's relaunch, says George Parker in the Financial Times. He also faces the prospect of two imminent by-elections in "safe" Tory seats, with Labour hopeful of winning both. The media has "seized" on Raac as the "perfect metaphor" for a "floundering" administration, but this is really a "crisis of short-termism", says Allison Pearson in The Telegraph. "We need long-term strategic foresight on housing, immigration, the NHS, energy security", yet there seems to be not a "single politician of any party" that is "concerned about anything beyond the next electoral cycle".

Starmer: adenoidal but meticulous

©Getty Images

Starmer stakes out the middle ground

Keir Starmer handed a "clutch of 'Blairite' MPs key roles" in his Monday reshuffle, in what is likely to be his "final shake-up of the shadow cabinet" ahead of the general election due to be held next year, says Jim Pickard in the Financial Times.

The promotion of Pat McFadden, Hilary Benn, Liz Kendall, Darren Jones and Peter Kyle shows how Starmer is seeking to "rebuild his party in a similar 'centrist' style to Tony Blair, with a focus on fiscal rectitude and socially conservative policies". Deputy party leader Angela Rayner was given the role of shadow levelling-up secretary (revealing a welcome and renewed emphasis on localism, says Emma Burnell on CapX) and is now also shadow deputy prime minister. The promotion to the front bench of Blair's former minister Pat McFadden was the "most significant". He also becomes Labour's national campaign coordinator.

The reshuffle has "radically altered the balance and ideological character" of a shadow cabinet that is likely to be in government soon, says Patrick Maguire in The Times. It has, agrees Burnell. By sending the "soft-left wing of his party into full retreat", Starmer signalled the "final stage of a three-year project" which has seen him take a "ruthless grip" of Jeremy Corbyn's left-wing party and "drag it steadily back to the centre ground". But if the party now has a "professional team in place who look ready to lead", they have to "start telling us" what they will change.

The fact that voters will be choosing between two "adenoidal but meticulous technocrats" shows the UK, at "amazing speed", has "become pragmatic again", says Janan Ganesh in the Financial Times. Having suffered "tangibly" from radical politics such as Brexit, the electorate is "inoculated against anything – leftist, rightist or hard-to-place – that smells of grand visions, easy answers, personality-led demagoguery... A nation is adamant: we're not doing this any more."

EU seeks to loosen its belt

There are signs the bloc wants to expand quickly. Matthew Partridge reports

European Council president Charles Michel reversed a long-standing policy last week when he suggested that the European Union "should be ready to take in Ukraine, Balkan nations and other EU candidate countries by 2030", says Laurence Norman in The Wall Street Journal. It was the first time a top official in Brussels has set a target date for the potential expansion of the EU. In the past, accession has always depended on "how quickly candidate nations can undertake the sweeping economic, political, judicial and administrative reforms needed for membership".

Michel: it's time to open the doors

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Crisis presents opportunity

Expanding the EU by admitting Ukraine and other countries would be in line with the historical belief that "European countries only unite in the face of imminent catastrophe", says Martin Sandbu in the Financial Times. Ukraine's "costly counteroffensive" is piling political pressure on its EU allies either to "reward success with progress on its path to European integration, or not to add to its woes by blocking it". At the same time, there is also a growing acceptance "that if Ukraine moves ahead, so must other would-be members, including countries in the western Balkans".

The Russian invasion of Ukraine may have moved the policy of enlargement up from its old status of being "kept artificially alive" to being "one of the top three issues" EU leaders have to deal with, says The Guardian. There are, however, still a lot of practical obstacles standing in the way of that goal. As civil servants and politicians start to do "back of envelope calculations" on what a larger EU will actually mean, they may baulk. Consider the impact on the EU budget, the allocation of MEPs, as well as the balance between unanimity and majority voting. Given that "any one of the 27 member states can veto the accession of another country", the process may take a long time.

It'll cost EU

Indeed, the "sheer financial cost" of admitting even just Ukraine suggests that Michel's timeline is a "fantasy", says Richard Kemp in The Daily Telegraph. With a per capita income that's half that of Bulgaria, and facing "the astronomic costs of post-war reconstruction", Ukraine "would suck in eye-watering quantities of the EU's development aid spending, already around a quarter of the total budget". What's more, with more than half its land used for agriculture, Ukraine's farmers would be entitled to "a huge slice of Common Agricultural Policy cash", which would have to be paid for by either taking money from poorer members, or forcing France and Germany dramatically to raise their budget contributions.

Admitting Ukraine would make the Common Agricultural Policy "unsustainable in its present form", says The Times. The country also has a "lamentable" record on corruption and its accession would require major upheaval in the EU's structure. "A rush to meet some arbitrary deadline must not risk weakening the entire bloc." The fact that the EU seems to be behind the principle of Ukrainian membership is, however, "the right step and will sustain a country that is fighting desperately for the right to determine its own future" in the face of Russia's "brutal aggression".

Africa's spate of coups

Ali Bongo of Gabon, whose family had ruled the African country for more than half a century, last week "became the latest African head of state to be swept out of office in a coup", says David Pilling in the Financial Times. Unable to shake off the perception that his country "was little more than a family slush fund", he was removed by the head of his presidential guard, Brice Oligui Nguema. Nguema, who is currently interim leader, said that Bongo "was not competent to run the country" due to the effects of a stroke and that recent elections "had not been transparent".

Few in Gabon will mourn the departure of Bongo, says The Economist. Unemployment and poverty are rife; corruption is widespread – last year French authorities charged nine of Ali's siblings and half-siblings "with various financial crimes". But although the leaders have tapped into popular discontent, the takeover was still "more of a palace coup than a people's revolution" – Nguema is a cousin of Ali Bongo. Gabon is only the latest in a spate of coups in Africa, which suggests that democratic norms in the region are starting to "wither".

Gabon, with its big oil reserves and relatively small population of 2.3 million, would be a "relatively prosperous" country if it were well governed, says The Observer. But as in other African countries, "misgovernance and corruption at the top has left those at the bottom struggling". The "extensive commercial interests" of the old colonial power, France, have reinforced the self-interest of Gabon's "greedy elite". And as in the wider region, tensions are exacerbated by the mismatch between Africa's "rapidly growing, ever more youthful populations" and its increasingly elderly leadership (the median age of which is 63). This will have effects beyond the region itself in term of mass migration, health security, jihadism and the rising influence of China and Russia. A "radical upgrade" of the West's relationship with Africa is needed.

Betting on politics

Voters in Argentina will go to the polls on 22 October in the first round of the presidential election (the second round is in November). With £1,813 matched on Smarkets, the eccentric maverick Javier Milei is seen as the favourite to win at 1.29 (79.9%). In second place is Patricia Bullrich of the right-wing Republican Proposal at three (33%), with Sergio Massa of the Peronist Renewal Front (part of a wider coalition) much further out at 7.8 (12.8%).

It's fair to say that Argentine voters face a Hobson's choice, as all three of the frontrunners have major flaws. Patricia Bullrich is alleged to have been involved in a guerilla movement when she was younger. As for Massa, who is currently the economics minister, Argentina's economic chaos, with its collapsing currency and triple-digit inflation, means he will face an uphill struggle to convince voters to elect him as their president.

However, these flaws pale in comparison with those of Milei, the self-proclaimed "anarcho-capitalist" whose private life is "colourful" even by the standards of contemporary politicians. His policies, which include replacing Argentina's currency with the dollar, abolishing public healthcare and education, as well as allowing people to sell their organs, are similarly extreme. While he came first in the symbolically important primaries a few weeks ago, he only won 30% of the votes.

This is important as any candidate will have to win a majority of votes, either in the first round or in November's run-off. My guess is that while Milei might manage to get into the second round (although this is by no means guaranteed), those who voted for the eliminated candidates will gravitate towards their opponent, whoever they are. As a result, I suggest laying (betting against) Milei at 1.3, which is equivalent to betting on him not to win at 4.3 (23.2%).

London

House prices slide: Higher borrowing costs are constraining activity in the property market. House prices across Britain are, on average, 5.3% lower than they were a year ago – the sharpest drop since July 2009, according to the Nationwide house price index. The decline accelerated from the 3.8% year-on-year fall recorded last month and August marks the seventh monthly decline in prices in a row. A typical house now costs £259,153, down from £273,751 a year earlier. Mortgage approvals have fallen by around a fifth compared with 2019. "Nevertheless, a relatively soft landing is still achievable," providing unemployment stays below 5% and "the vast majority" of borrowers continue to be able to weather the effects of rising interest rates, says Robert Gardner (pictured), Nationwide's chief economist. Rising wages and "modestly lower" house prices "should help to improve housing affordability over time". Until then, a typical first-time buyer earning average pay, with a 20% deposit and a mortgage rate of 6%, will be spending 40% of their take-home salary on mortgage repayments. The long-term average is 29%. Property stocks have not been immune to the downturn, but low levels of debt and adequately capitalised balance sheets have created bargains, say analysts at bank Morgan Stanley. Landlord Hammerson is one that's "oversold".

Saint Paul

3M settles lawsuits: Minnesota-based manufacturing conglomerate 3M has agreed to pay $6bn to resolve roughly 300,000 lawsuits alleging it had supplied faulty combat earplugs to the military that resulted in "significant injuries, such as hearing loss", says Jordan Valinsky on CNN Business. The settlement is "not an admission of liability", says the group. It will, however, pay $5bn in cash and $1bn in stock over several years to the claimants, while asserting its products "are safe and effective when used properly". The earplugs had been used by the US armed forces from 2003 to 2015, and made by Aearo Technologies, which was acquired by 3M in 2008. 3M said the agreement will result in a $4.2bn pre-tax charge for this quarter.

This isn't the only lawsuit 3M has faced this year. In June, 3M agreed to pay $10.4bn over 13 years to US water suppliers that had found the toxic chemicals perfluoroalkyl and polyfluoroalkyl in their water supplies. The chemicals are present in hundreds of household items, including make-up and carpeting, and water-resistent coatings. "Plaintiffs numbering in the thousands alleged… the company's consumer products could cause cancer, lower fertility, birth defects and other health problems," say Aaron Gregg and Eli Tan in The Washington Post. However, the spate of bad news hasn't entirely put investors off and the shares rose by 6% on the news of the latest settlement. Some analysts had expected the litigation to cost the company between $10bn and $15bn.

Riyadh

Dialling in: Saudi Arabian telecoms group STC is hoping to buy a 9.9% stake in Telefónica, one of Spain's biggest companies, for €2.1bn, say Samer Al-Atrush and Barney Jopson in the Financial Times. STC, which is majority-owned by the Saudi sovereign wealth fund, has acquired 4.9% of the shares, and "financial instruments" for another 5%, subject to regulatory approval. Madrid is required to give its assent to a foreign investor seeking a stake of 5% or more in the country's "strategic" defence companies – Telefónica has businesses related to national security. If STC does get the go-ahead, it would overtake Spain's CaixaBank and BBVA to become Telefónica's biggest shareholder.

STC says it is not seeking a controlling stake in the firm and Telefónica welcomed "STC's friendly approach". The Spanish market accounted for 27% of Telefónica's revenue in the past quarter, and Britain 13% through its part-ownership of Virgin Media O2. State-owned Gulf telecoms companies have been on a shopping spree in Europe, encouraged by higher oil prices and lower company valuations. In April, STC unit Tawal bought tower infrastructure from United Group for €1.2bn, the same month Emirati investment group e& increased its stake in Vodafone to 14.6%.

The way we live now... learning the language of love

London's men need help with dating. This is nothing new, but where they are getting it is, says Isolde Walters in the Evening Standard. Minnie Lane is a professional dating coach who charges £275 a session to coax men out of their shells and into "a serious relationship". Seduction still remains part of the process, but the ways in which long-term bonds are formed are just as important. In one session, Lane had a client write a stream of consciousness, describing "what his life would look like in a year's time if he were in a happy relationship" in a bid to alter his mindset about dating women. This isn't the only approach. Male "dating expert" Johnny Cassell charges £1,000 for a single session or for £24,000 for his "advanced package", which consists of weekly coaching sessions over the course of six months. Cassell reckons he has helped around a thousand men to "reform their dating patterns". He had one client write a detailed list of what he was looking for in a partner to help him approach dating with more clarity. Cassell also performs "apartment audits" as part of the service. These are inspections of a clients' living conditions, examining smells, whether spaces are kept clean and tidy, whether there is art on the wall and a decent music speaker in the room. In short, whether it is "fit for romance".

Dating is a complicated business

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Vevey

Nestlé sells allergy business: Swiss food giant Nestlé has offloaded Palforzia, the peanut-allergy treatment business it acquired three years ago, to Swiss healthcare group Stallergenes Greer for an undisclosed sum, says Madeleine Speed in the Financial Times. Palforzia works by introducing allergy sufferers to gradual doses of peanut protein so as to build up a resistance, resulting in fewer and less severe reactions. The treatment received regulatory approval in the US in January 2020, but Covid delayed its launch, which requires regular visits to the doctor. Nestlé found doctors and allegery sufferers then failed to take up the treatment and, last February, the food group took a $2.1bn impairment on its investment, wiping out most of the $2.6bn it had spent buying Palforzia from biopharmaceutical company Aimmune Therapeutics. Chief executive Mark Schneider acknowledged the purchase had been a misstep. Despite there being a medical need for the treatment, "we had to accept the reality that it is a niche product", he said. Nestlé will receive milestone payments and ongoing royalties from Stallergenes Greer. The consumer group's health science division grew 4% last year from a year earlier. Nestlé has identified the division as a "growth driver", with the added benefit that a shift towards health offers a hedge against a backlash against unhealthy foods.

Nestlé: an aversion to peanut allergy business

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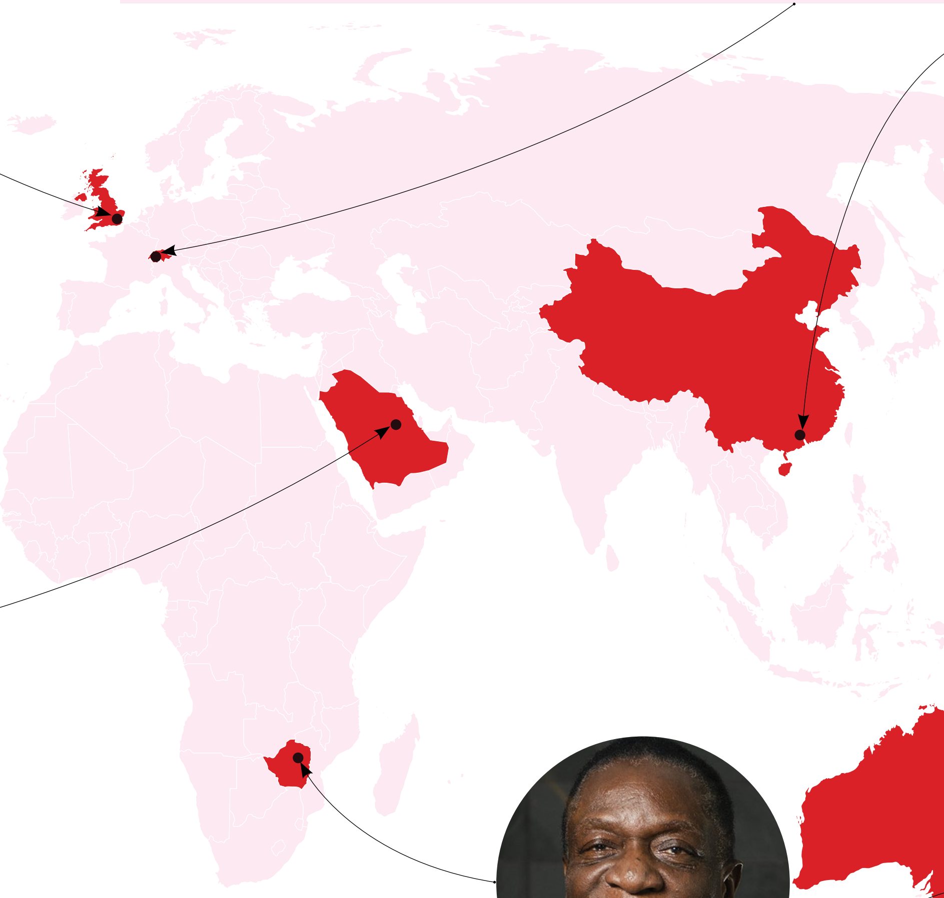


Foshan

Breathing space for Country Garden: Chinese property developer Country Garden dodged defaulting on two $500m dollar-denominated bonds by making coupon (interest) payments of $22.5m hours before a 30-day grace period for last month's missed payments was due to expire, says Echo Wong on Nikkei Asia. The payments have bought the developer more time to find its financial footing following an agreement with its creditors last weekend to extend the repayment of an onshore renminbi-denominated bond, worth ¥3.9bn (£425m), over the next three years. It had been due to mature on the Saturday. The Chinese government has recently rolled out policies aimed at stimulating the troubled property sector and slowing early mortgage repayments by lowering down payments for first-time buyers in major cities and allowing banks to renegotiate existing mortgage loans. New residential sale prices fell in July month-on-month in 49 such cities, an increase from 38 in June. Country Garden is unlikely to feel the full benefit, however, because most of its projects are in "lower-tier" cities, but renewed confidence in the property market overall could, at least, raise prices. The developer's volume of sales plunged by 72.6% to ¥7.9bn (£860m) in August from a year earlier. Still, this week's coupon payments "only delay the pain", according to a note from analysts at JPMorgan last month. Country Garden still needs to service ¥18bn (£1.9bn) of debt by the end of the year.

Harare

More of the same for Zimbabwe: Emmerson Mnangagwa (pictured), 80, was sworn in for a second term as Zimbabwe's president on Monday, after being officially declared the winner of last month's contested election with 52.6% of the vote. There have been "few free and fair polls" in Zimbabwe since white rule ended in 1980, and although there wasn't a repeat of the "horrific violence unleashed in 2008 by Robert Mugabe", whom Mnangagwa replaced in a coup in 2017, some of the ruling Zanu-PF's "antics" were "unusually brazen", says The Economist. His main rival, Nelson Chamisa, has abandoned the idea of using the courts to pursue a rerun of the vote on the basis that Zimbabwe's judges are biased towards Zanu-PF. Instead, his Citizens' Coalition for Change has decided to lobby regional governments. The "normally gutless" Southern African Development Community has been critical of the election, and 12 leaders of its 16 member states failed to attend Mnangagwa's inauguration. "It is tempting to conclude that these elections will change nothing," and yet Zimbabwe has "further sullied the region's reputation." Its regime may now have to "rely ever more on its friends in Belarus, China and Russia".

Sydney

CEO disembarks: "Belated it may be, but [Qantas's boss] Alan Joyce's fall from grace is something to behold," says Ian Verrender on Australia's ABC News. The chief of the A$9.8bn (£5bn) Australian airline has departed after 15 years of service, but eight weeks earlier than planned, ahead of the appointment of his successor, Vanessa Hudson. He leaves the airline with a damaged reputation in a sea of troubles. "Qantas is now fighting court action on three fronts: from his workforce, his customers and a federal government agency," the Australian Competition and Consumer Commission. The latter is taking legal action over claims Qantas had sold 15,000 tickets on flights that it had already cancelled last year. "Disturbingly, it appears Qantas executives were being paid bonuses linked to diminishing numbers of cancellations," with Joyce receiving more than A$10m. The airline is also under pressure to pay back some of the taxpayers' support the Australian government provided during the pandemic. All told, Qantas will find it "harder to replicate the record A$2.5bn pre-tax profit it posted last week for the 12 months to the end of June", says Antony Currie on Breakingviews. "Sacrifices are likely," beginning with "clawing back" some of Joyce's pay. "Buckle up for a bumpy fight."

Who will win the streaming wars?

The battle for eyeballs among the media giants selling video content over the internet is hotting up, and leading to new business strategies. Simon Wilson reports

A League of Their Own: one of many big-name streaming hits that have recently been dropped

©Amazon Studios

What's happened?

Streaming giant Disney+ announced last week that two of its biggest new drama series – *Nautilus* and *The Spiderwick Chronicles* – had been cancelled before they had even hit the screens. There's nothing unusual about shows getting cancelled. Over the past year a slew of big-name streaming hits have been dropped, including (a fortnight ago) the widely-acclaimed Amazon Prime series *A League of Their Own*. Equally, it's not uncommon for shows to get green-lit and then dropped before production starts. But the fate of *Nautilus* and *Spiderwick*, major global productions with gigantic budgets, is highly unusual. Filming on *Nautilus* – a live-action Captain Nemo series made by the company's UK arm but shot mostly in Australia – took place over most of last year, and the whole thing was already in the can. *Spiderwick* had completed production in Canada.

What's going on?

It's not a quality issue: Disney is trying to sell both shows on to other streamers/broadcasters. Rather, the cancellations are part of a massive cost-saving exercise at Disney+, and symbolise the big shift under way in TV streaming as all the big players start to focus on the bottom line rather than growth at any price. In February, Disney CEO Bob Iger announced $3bn in non-sports content spending across the company. As part of that, in May the entertainment giant unveiled a streaming content removal plan, for which the company is taking an impairment charge of approximately $1.5bn-$1.8bn. Under the plan, dozens of original series and specials have been taken off Disney+ as well as (Disney-owned) Hulu over the summer – and big forthcoming releases have been unceremoniously canned.

Why pull shows before airing?

In a nutshell, *Nautilus* and *Spiderwick* (among others) have been pulled for tax and accounting reasons: scrapping them or never releasing them reduces the value of the properties on Disney's books, thus decreasing the company's tax liabilities. "The entire industry," the director Steven Soderbergh told Vulture, "has moved from a world of Newtonian economics into a world of quantum economics, where two things that seem to be in opposition can be true at the same time: you can have a massive hit on your platform, but it's not actually doing anything to increase your platform's revenue. It's absolutely conceivable that the streaming subscription model is the crypto of the entertainment business."

"The big players are starting to focus on the bottom line rather than growth at any price"

So is streaming in crisis?

The streaming model – selling video content direct to subscribers over the internet – is not on the verge of collapse, but it's not yet profitable (excepting Netflix), despite hefty customer price hikes this year. The bald truth, says Cynthia Littleton in Variety, is that Hollywood has been spending more than ever before on content to build up new platforms that are unlikely ever to deliver the kind of fat profit margins that old-fashioned cable TV channels did when cable was in its prime from the late 1990s to the late 2010s. As the economic climate changed over the past two years – and especially since Netflix announced its first ever dip in subscriber numbers in April 2022 – the streaming wars that had been all about subscriber growth are now all about cost-cutting and future profitability.

How's Netflix doing?

Netflix's crackdown on password sharing earlier this year helped it add nearly six million new subscribers, about twice analysts' forecasts, and it remains the sector leader with nearly 239 million subscribers. Over the past 12 months its share price has doubled – though over three years Netflix is still down, and it's only 28% higher than where it was five years ago. That share-price recovery reflects ongoing confidence in the basic streaming concept. But in an increasingly crowded space – and with disruptions to the supply of content from the writers' and actors' strike – the company needs new sources of revenue growth, says the Lex column in the Financial Times. Advertising subscriptions are not yet large enough for Netflix to choose to put a number on them, while competition for advertising dollars is hotter than ever.

What about Amazon?

It's possible Amazon has "Hollywood's worst shows but its best business model", says The Economist. This year Amazon will blow $12bn on streaming content, second only to Netflix, but critics remain snooty and awards thin on the ground. Even so, the firm is "quietly assembling something that has eluded most of its rivals: a model for how to make streaming pay". First, Amazon is an advertising powerhouse, and it will benefit from the growing importance of streaming subscriptions that are cheaper to buy but come with adverts. Second, it's becoming a "content landlord" by turning its streaming platform into a high-margin marketplace for third-party sales.

What does the future hold?

First, expect the shift to advertising-supported offerings to continue, says Alex Weprin in The Hollywood Reporter. Disney, Netflix, Paramount, NBCUniversal and Warner Bros. Discovery have all been nudging customers towards either higher subscription rates or advertising-backed cheaper ones – and, perhaps counter-intuitively, they make higher margins on the latter. Second, we can expect consolidation, or at least more cross-licensing deals, say Josef Adalian and Lane Brown on Vulture. Many in the industry think the streaming ecosystem may eventually shrink to four major platforms – in effect returning the industry to something akin to the old broadcast-style oligopoly. What we know for sure, says Angela Watercutter in Wired, is that "as competition in the streaming space gets tighter, the moonshot projects will likely be fewer and the emphasis on return-on-investment will only increase".

Germany leads the way on tax cuts

Britain is in a similar predicament to Germany. It should follow Olaf Scholz's good example

Matthew Lynn
City columnist

Something had to be done. The German economy shrank in a couple of quarters last year, flatlined this year, and is expected to be in outright recession before the end of 2023. With the recent upgrade to British growth figures, Germany is now firmly at the bottom of the G7 growth league, with the worst performance of any major developed economy.

It is not hard to work out why. The country has been badly hit by the soaring cost of energy, by cutting off its supply of cheap Russian gas, and by the slowdown in China, its largest export market. Its manufacturing and exporting model is in a lot of trouble. In response, the government has introduced a raft of tax breaks for companies, worth €32bn over four years, with the bulk of the cuts aimed at small and medium-sized companies.

Whether it works or not remains to be seen. It poses a question for the UK, however. If Germany can cut corporate taxes, why can't we? After all, the UK is the next worst-performing economy in the G7 this year after Germany, and our economy is in just as much trouble, with growth flatlining and a recession likely later this year. In contrast to almost every other big economy, the corporate tax rate has been going up, and dramatically so.

In April, the huge increase in the tax rate that prime minister Rishi Sunak first announced when he was chancellor came into effect, taking the British rate up from 19% to 25%. At a stroke the UK reversed four decades of steadily cutting the share of company profits that the government takes: it was 52% back in 1982, yet by 2020 it had fallen to 19%.

It's not a drill: Scholz really is cutting taxes

©Shutterstock

There were two big arguments for the increase. The first was that we had to do something to bring the deficit under control. If the UK didn't show it was serious about fiscal discipline, then interest rates would carry on climbing, mortgage rates would go up, and the cost of borrowing soar. All that would hit the economy very hard. The second was that lower corporate taxes had been relatively ineffective in attracting investment into the UK, and that the "super-deduction" introduced at the same time to allow companies to offset capital spending against their tax bill, would be a better way of boosting production.

Six months later, it doesn't seem to have worked. Bond yields are now significantly higher than they were when the tax rise was briefly scrapped under the short-lived premiership of Liz Truss. The government still has to borrow vast sums of money every month just to meet day-to-day spending. The debt-to-GDP ratio is still rising, and the Bank of England is still raising interest rates to bring inflation under control. The big increase in corporation tax has done nothing to make the economy more stable, or reduce the cost of borrowing.

UK tax hike was a mistake

Nor is there is much sign that, even with the "super-deduction", it has done anything to boost investment in British industry. It is too early for the figures to be anything more than provisional, but last year, only 18% of companies made use of the deduction, according to the Office for National Statistics, and since they were nearly all in manufacturing they would probably have made some capital investment anyway.

Meanwhile, there has not exactly been a rush of companies announcing big investments in the UK over the past few months. Instead we have seen a steady stream of major corporations leaving the UK to list in New York instead, while most major inward investments in Europe have gone to France, Spain or Ireland. It turns out that companies liked the simplicity of low taxes after all. And with its creaking infrastructure, shortage of labour and chaotic politics, the UK did not have a lot else to recommend it.

Six months after it came into force it is clear the UK's huge rise in corporation tax was a mistake. The liberal left are always telling us we should be more like Germany. For once they are right. We should match Olaf Scholz's tax cuts – and perhaps go even further and turn the UK back into the most tax-competitive major economy in Europe.

City talk

● Watch-shop chain Watches of Switzerland makes about half its sales from Rolex, making it a proxy for the unlisted watchmaker, says Andrea Felsted. So investors should be worried that Rolex is buying Bucherer, a Swiss watch and jewellery retailer. "WoS now faces a more powerful rival, whose owner also happens to be its biggest supplier." Until now, Rolex has eschewed the trend among luxury peers to push out the middleman and sell direct to consumers, so this deal is a "seismic shift". While Rolex says Bucherer will be run as an independent business, there is a clear danger that over time it becomes the go-to store for Rolexes. WoS is best insulated in its home market of the UK, which accounts for 50% of sales; Bucherer has just four stores in Britain. But WoS wants to expand in the US and Europe, where the Swiss firm is tough competition, while the proxy relationship between WoS and Rolex has vanished. "That has serious implications for the valuation of what has been a British retail champion."

©Rolex

● Abcam and Instem are "precisely the kind of firms that, given a more vibrant and liquid London stockmarket, potentially could have developed into the next GlaxoSmithKline or Smith & Nephew", says Alex Brummer in the Daily Mail. Now they are being swallowed up: US-based Danaher is buying Abcam and France's Archimed is taking over Instem. Their investors' willingness to sell out is yet another example of how Britain has ended up with "an investment community hung up on avoiding risk and in thrall to corporate governance and short-term returns". There are several factors behind this, but overly cautious rules imposed on pension funds by regulators and auditors have played a big part. In 2000, 39% of the UK market was owned by pension funds; now it's just 4%. "Aversion to risk has been at a heavy cost to the country."

● Multinationals once used listings of their local arms as a way to attract talent and boost sales in emerging markets, says Lex in the Financial Times. Now consumer goods firm PZ Cussons will delist its Nigeria business, spending £27m to buy the remaining 27%. Doing so will tidy up its structure. Unilever, Nestlé, Diageo, Mondelez and GSK are among other Western firms with listed subsidiaries in Nigeria alone. Some "may be tempted to follow the same route".

Guesses built on quicksand

Most data is too backward-looking and too prone to revision to be a sensible basis for investment

Cris Sholto Heaton
Investment columnist

A fortnight ago on this page, I suggested that quite a lot of economic statistics were pretty much useless and a distraction for investors. Afterwards, I wondered if I was being too harsh. Maybe there are some traders who get some value out of the purchasing managers' index. Perhaps we would have less grip on what's going on if we weren't constantly bombarded with so much data.

Then we got last week's story about how the Office for National Statistics (ONS) has overhauled its estimates of UK GDP for the last few years. It now reckons that by the end of 2021, Britain's economy had passed its pre-pandemic peak – previously, it thought GDP was still 1.2% smaller. This in turn implies the UK recovery was not the weakest in the G7, but has equalled France and outstripped Germany.

Nobody should take a victory lap on account of this last point: other G7 countries could yet find more growth behind the sofa. In any case, the data still shows that growth and productivity remains dire, not just in the UK but more broadly, as Andrew notes on page 3. However, the real cause for reflection should be that many investors spent a great deal of time reacting to a few bits of data that later got hugely revised.

Analysts will have written vast amounts on how a given quarter's growth rate was a 0.1 percentage points above or below their forecasts, and what that implies for future growth or interest rates or stockmarkets. And yet with the revisions, the original figure changes by far more than the difference they had originally commented on. Future revisions may of course change the numbers yet again. Was any real advantage gained by all that number-crunching?

A crystal ball will probably help you as much as the ONS

©Getty Images

Of course, many of these statistics aim to measure things that matter. Inflation matters: it determines whether your investments keep pace with the cost of living. It also semi-directly affects interest rates, which influence valuations, as markets are now learning again: when rates go up, valuations of other assets compress, no matter how good those assets are. Growth matters: it's harder to earn good returns in an economy that is stagnant – although headline growth rates alone aren't enough (they give you little sense of the distribution and quality of growth). However, almost all statistics are backward looking and subject to change, as we have just been reminded. They don't reliably help you forecast the future.

So what is the takeaway for the average investor? One answer is to think about what outcomes are plausible and where you may be overexposed to certain risks rather than trying to guess what will happen. Whether GDP is a bit stronger or weaker than expected is both impossible to guess and has few consequences. Having a blend of investments that can do okay during, say, both a spell of stagnation or a sudden upswing in growth makes much more sense.

I wish I knew what a put option was, but I'm too embarrassed to ask

A put option gives the holder the right (but not the obligation) to sell an asset, such as a share, for an agreed price, on or before a certain date. When you buy a put option, you pay a fee (known as a premium) to the seller of the option (also known as the writer of the option). If you exercise the option, the seller must buy the underlying asset from you at the agreed price. Otherwise the option expires worthless and the seller has no further liabilities.

Let's assume that Acme Widgets is trading at 100p per share and a put option to sell at 90p costs 5p. You buy a block of 1,000 options at a cost of £50 (5p × 1,000). If the shares fall to 70p, you would make a profit of £150 ((90p – 70p – 5p) × 1,000). However, if the shares go up – to 120p, say – you let the option expire. In that case, you lose your premium of £50 but nothing more.

You can use put options to bet on the price of a share or other asset falling, or to protect against the risk of that. You might buy a put option on the FTSE 100 because you think the market could crash. If shares then fall sharply, your put options should make a profit, helping to offset the fall in the value of your investments.

The price of an option is determined by a number of factors, including the volatility of the price of the underlying asset (options on more volatile assets will be more expensive). So option prices tend to rise during market turmoil. The length of time that an option still has to run before it expires is also important, with options that expire further into the future being more expensive.

Options may be physically settled (the seller must deliver the asset to the buyer in exchange for payment), or cash settled (the seller makes a payment equal to the difference between the strike price and the current price of the asset). Options on shares are usually physically settled. Options based on something that is hard to deliver – eg, a stock index such as the FTSE 100 – will be cash settled.

Guru watch

Michael Burry, founder, Scion Asset Management

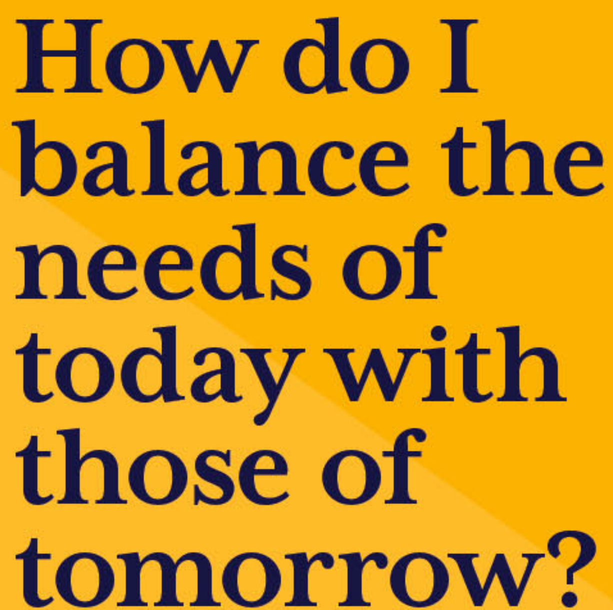
©Getty Images

Hedge-fund manager Michael Burry gets plenty of attention for his big calls after making $2.69bn in profits from betting against the US housing market back in 2008, says The Times. The news that he has bet $1.6bn on another Wall Street crash by the end of the year is no exception. Filings with the US regulator show that Burry's firm Scion Asset Management has bought $866m in put options on the S&P 500 and $739m in put options on the Nasdaq 100. In total, the short position amounts to more than 90% of his fund's portfolio.

Yet despite his success during the global financial crisis, Burry has now become "the latest seer with a shaky encore", says the Wall Street Journal. "He has also made at least five dire predictions about stocks in just the past four years with comments such as 'could be worse than 2008' and 'greatest speculative bubble of all time'." So far, these forecasts have not paid off: an investor who bought the S&P 500 each time that Burry's views became public would have made money over the following six months, with an average annualised gain of 34%.

Burry is particularly concerned about the risks of what he calls a "passive investing bubble that has inflated steadily over the last decade", says The Times. Huge flows into index tracking funds have pushed up stocks, leaving them divorced from their true value. "Trillions of dollars in assets globally are indexed to these stocks," he told Bloomberg in 2019. If investors decide to get out at the same time, that will create turmoil in markets. "The theatre keeps getting more crowded but the exit door is the same as it always was. All this gets worse as you get into even less liquid equity and bond markets."

This year, Burry has wavered between bullish and bearish, tweeting "SELL" in January before backtracking in March, notes CNN. For now, he seems to have come down on the bearish side again.



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The Old Lady's blind spot

Julian Jessop
The Spectator

The failure to discuss growth in the money supply when talking about inflation is "worrying", says Julian Jessop. "Changes in the supply of money are key to understanding what has happened to inflation – and where it might be heading." The latest figures show that the annual growth of M4ex (cash, sterling deposits and short-dated bonds held by households and non-financial companies) has "slowed to zero". With no extra money circulating, inflation should lower further. People instinctively understand that when too much money chases too few goods you get inflation, but you would be "hard pressed" to find a "single reference to the money supply" in the Bank of England's statements. Even the impact of quantitative easing only gets a "passing reference". Instead, the narrative remains that inflation has been driven by rising food and energy prices, and more recently higher pay. Yet even without supply shocks (such as Covid), "inflationary pressure from excessive monetary growth" might have "popped up elsewhere". As for the "wage-price spiral", inflation is fuelling wage rises, not the other way round. The Bank needs someone with a strong grasp of monetary economics to avoid this area being "repeatedly overlooked".

Canada is sitting on a gold mine

Tej Parikh
Financial Times

Why isn't Canada an "economic powerhouse"? wonders Tej Parikh. It seems illogical. Canada has the second-largest landmass of any country in the world, and the longest coastline. "Bookended" by the Pacific and Atlantic oceans, it has huge trading advantages. It has the third-largest proven oil reserves and is the fifth-largest producer of natural gas. It also has large deposits of minerals vital to the green energy transition, including copper and nickel. And it borders the US. Yet its economy is ranked 15th globally and is expected to slip further. Poor (and falling) productivity lies at the heart of this. Other obstacles include its "vast size, mountainous geography", protectionist measures and "provincial legislation" that hinders competition, investment and innovation. "A lot comes down to population." Canada is one of the least densely populated countries in the world. Its fertility rate is in sharp decline and it doesn't have enough people "to capitalise on its economic potential". Its priorities may differ from other countries: it scores highly on health, education and life satisfaction indicators. It is this appeal along with its openness to immigration that provide hope that it could start to fulfil its "enormous" potential.

Chinese youth eye opportunity

Zhou Xin
Nikkei Asia

"In the eyes of mainstream media, China's economy is in an unrecoverable freefall," says Zhou Xin. Just eight months ago analysts were forecasting a post-lockdown boom, but investors are no longer "waiting for the upwind" and are now fleeing "in droves". Xinhua News Agency, however, appears "oblivious to the doom", insisting China's economy remains "durable" and on track to hit its annual target of GDP growth of around 5%. At the same time, official data reveals that 21% of those aged 16 to 24 were unemployed in June, the highest level since 2018. And although people seem to have been spending readily this summer, China is "facing a consumption downturn". Chinese people are "squirrelling away a third of their income into savings" and showing "less interest" in buying things. With a generous average living space of 42 square metres per person, there is "little growth to be had from more housing". What is notable, however, is that although the number of Chinese studying abroad continues to rise – there were a million overseas graduates in 2021 – a survey by Caixin Media finds that 84% return home. Despite high youth unemployment, they still see opportunity in China. "Maybe they know something that overseas Western media does not."

A warning from Woking

Editorial
The Economist

"Painful cuts" are looming in Woking, says The Economist. The council went into emergency financial measures in June after officials racked up debt worth £1.8bn, blowing money on risky commercial investments. Woking, which has an annual budget of £24m, isn't the first to go broke. Since 2003, greater financial freedoms led many councils to borrow money from the Public Works Loan Board and speculate on commercial property. Between 2016 and 2019, just 49 of the 352 local authorities in England accounted for 80% of all commercial-property investments made in Britain. It remains to be seen what the success – or failure – rate is. The "scale of mismanagement" at Woking council is "shocking". Staff lacking the ability or experience to manage such big and complex projects failed to consider the risk or legal implications adequately. Nothing on this scale should happen again because the rules have since been tightened. But "the fiasco illustrates a wider point". Just 14% of councils say their finances are sustainable. At a time of "spiralling demand", particularly in social care, they expect to be short of a cumulative £5.2bn by April 2026 despite cuts to services worth £2.5bn. How are they going to raise that kind of money?

Money talks

"I'm not hand-to-mouth, but as a freelance artist I'm still pay-cheque-to-pay-cheque… Meanwhile, [Disney CEO] Bob Iger is sitting in a billionaires' retreat, saying that our demands for a living wage are unrealistic, when that b*tch is making $78,000 a day."
Actor, singer and writer Billy Porter (pictured) on the Hollywood actors' strike, quoted in the Financial Times

"The first rule of an investment is don't lose [money]. And the second rule of an investment is don't forget the first rule. And that's all the rules there are."
Warren Buffett, quoted in Fortune

"It wasn't until it was all organised that I realised how much work goes into these things and how much money it costs and how much money you don't make."
Comedian Gail Porter on the production of her show *Hung, Drawn and Portered* at the Edinburgh Festival Fringe, quoted on the BBC

"Taking share tips from friends over Sunday lunch. I'll call my stockbroker on Monday morning, buy the shares and think I'm doing well. By five o'clock that night, invariably, that share had halved in price."
Explorer David Hempleman-Adams, on his biggest mistake when it comes to money, quoted in The Mail on Sunday

"I have a mentor who is a very successful businessman who says all businesses can always be cut by 20%."
Liz Truss justifying her instruction to Rory Stewart to reduce his department's expenditure by a quarter, quoted in The Times

"Corporation: an ingenious device for obtaining individual profit without individual responsibility."
US short fiction writer Ambrose Bierce, quoted in Forbes

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China imported its dynamism

project-syndicate.org
China's economic success has long been something of a mystery, says Yasheng Huang. In their best-selling 2009 book *Start-up Nation*, Dan Senor and Saul Singer showed how a culture of informality and egalitarianism that is unafraid to challenge hierarchies helped to make Israel a global entrepreneurial success story. China, by contrast, is hierarchical, repressive and stifling of individual initiative, and lacks a culture of democracy, the rule of law, market-based finance or private property rights. And yet entrepreneurship seems to have flourished there too. How so?

There is no third way

Some argue that it is because China found a "third way" that harnesses the efficiency of the market economy to the power of the state without having to rely on liberal institutions. They are mistaken. In my new book, *The Rise and Fall of the EAST*, I show that the answer to this conundrum has long been "hidden in plain sight": Hong Kong. At least until very recently, it was the source of the rule of law and market finance for entrepreneurs in China.

China in effect "outsourced" those functions to Hong Kong in the Deng Xiaoping era. Hong Kong was still a British colony in 1994, and between 1997 and 2019 it operated with relative autonomy from China, preserving its laissez-faire economy and market-orientated financial system, rule of law and secure property rights. Deng's reforms linked China's entrepreneurs with global venture capital and allowed some Chinese citizens and businesses to exit. China's success, in short, had "less to do with creating efficient institutions than with providing access to efficient institutions elsewhere".

Planting China's flag in Hong Kong was a terrible mistake
©Getty Images

This is why Chinese high-tech companies, for example, have tended to register their assets outside China's legal system. There are nine Chinese firms among the world's top-20 biggest tech companies. Only three of them are fully domiciled domestically. The others all have domicile connections to establishments registered in Hong Kong or other overseas territories.

Since the imposition of the 2020 national security law, Hong Kong has been dragged away from the rule of law towards China's "rule by law". New safe harbours have emerged, such as Singapore, but they are hosting economic refugees more than performing Hong Kong's historic role. It won't be long before China feels the effect of its policies, which will strangle innovation-driven growth. China will "pay a steep price for getting basic economics so egregiously wrong".

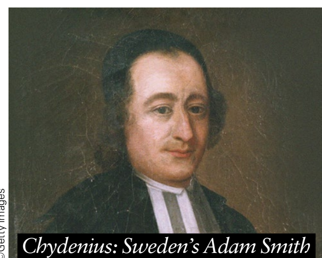
The value of failure

bloomberg.com/opinion
The fraction of enterprise value of large US firms represented by tangible assets – real estate and inventory and so on – has fallen from 50% to 20% over the past 15 years, says Aaron Brown. Moreover, only about 25% of enterprise value is in identifiable intangible assets, such as patents and copyrights. The remaining 55% is in assets "too intangible to even identify clearly" – technical knowledge, corporate culture, customer relationships and so on. But there is something "less tangible still": knowledge of what doesn't work. Businesses seek to protect the positive and tangible things they create from competitors, but what they know about what doesn't work is just as valuable and yet harder to protect in an age of increased employee mobility, remote working and the internet. A lawsuit by Alphabet's Waymo, for example, alleges that one of its former engineers took to Uber information about dead-end designs and approaches that saved Uber substantial time and money and were critical to its success. But how realistically can companies protect against such things? They can take measures to protect trade secrets, but not to prevent former employees making a living, nor to force them to remake mistakes from which they have already learned. You can't get a patent on a failed idea.

Sweden is a capitalist hero

capx.co
Many people associate Sweden with socialism, but actually the country was something of a "capitalist pioneer", says Rainer Zitelmann. The period from 1870 to 1970 was characterised by decentralisation, limited government and minimal regulation. Adam Smith's *The Wealth of Nations* had became famous all over the world, but 11 years before its publication, in 1765, the Finnish-Swedish economist Anders Chydenius had published a booklet, *The National Gain*, that made much the same points.

Sweden also pioneered many aspects of the modern market economy, as a recent paper shows. The country hosted the world's first publicly traded company: the first share was awarded in 1288. The first bank to issue credit notes and the first central bank were established in Sweden. It was also the first to allow women to pursue professions and own businesses.


Chydenius: Sweden's Adam Smith
©Getty Images

After a brief socialist period in the 1970s and 1980s, Sweden returned to the capitalist path and is now among the group of countries where support for market economies is strongest. Perhaps that's just a case of "Swedes getting back to their roots".

Give Paddington Bear the boot

dailysceptic.org
The Royal Society for the Protection of Birds recently took to Twitter to criticise ministers, says J. Sorel. Like archbishop Justin Welby's interventions on refugee policy, it spoke in a "coltish and halting cadence" that implied things must really have come to a pretty pass if such quintessentially English bastions as these felt obliged to enter the fray and speak up "like Paddington Bear raising his voice for the first time".

Such organisations "pose as the embodiment of ancient English sentiments". But "from this deep cup, two can drink". Another current in our island story is the "old hatred for the conscientious meddler, for the well-funded busybody". This is what did it for the monasteries. We should use it. In the film *Oppenheimer*, president Harry Truman loses patience with the hero's qualms about nuclear bombs, reminding him that he was the one who had to make the decision and bear the consequences. There's a reason we do not franchise out governance to sectional interest groups. "Paddington Bear has no place in the councils of state, and should be shown the door."

The sun is finally rising – slowly – over Japan

Don't expect stocks to soar into the stratosphere and stay there. But corporate reform, normalising monetary policy and cheap valuations make them a top long-term bet, says Alex Rankine

Optimists have spent the last 30 years heralding Japan's rising sun, yet midday never quite seems to come. The Nikkei 225 stockmarket index peaked at just below 39,000 in late 1989; today it still sits at 32,700. There have been bouts of enthusiasm along the way, but they soon fizzled out.

The Nikkei jumped by more than 40% between late 1999 and March 2000. Following the dotcom collapse, it rose by more than 50% between 2004 and 2007 before succumbing to the global financial crisis. After 2012 the Nikkei more than doubled in the early years of former prime minister Shinzo Abe's "three arrows" campaign to revive the Japanese economy. International funds flooded in, but foreigners ultimately sold out as the promised growth remained elusive.

The 1980s bubble economy was "a period of ostentatious consumption and overconfidence in the infallibility" of corporate Japan, says Justin McCurry in The Guardian. When the party ended, Tokyo's bureaucrats had "no idea how to clean up the mess left by absurdly high share and property prices". Procrastination only prolonged the gloom. "It took until 2002 to bail out the banks... It took another ten years to put the necessary supply-side and social-security reforms in place," says Martin Schulz of the Fujitsu Research Institute.

Slipping down the ranks

Although still the world's third-largest economy, Japan Inc. has languished. As Nicholas Gordon notes in Fortune magazine, in 1995 there were 149 Japanese firms in the magazine's Global 500 list of top companies as measured by revenue. That was a close second to America's 151. Today there are just 41 Japanese companies on the list, compared with 136 from the US and 135 from mainland China.

In the late 20th century, Japan was renowned for its innovative electronics, cars and video games, but the internet boom has largely passed it by. Norihiro Yamaguchi of Oxford Economics points to a stagnant economy and a "cautious investment culture" as the culprits. While Japanese companies were focused on cutting costs and repairing balance sheets in the wake of the bubble, US and Chinese rivals were seizing new digital opportunities.

Nothing "destroyed value, careers, and hopes" quite like managing Japanese equity portfolios in the 1990s, says Stuart Kirk in the Financial Times. Where colleagues in US equities or bonds sailed off into comfortable retirement, "me and my ex-teammates were broken… we became gibbering teachers, landscape gardeners or journalists".

"Nothing destroyed value, careers and hopes quite like managing Japanese equities in the 1990s"

Yet years of pain may have caused investors to overlook a bargain: the Topix index, a broader gauge of the market than the Nikkei, is "still a fifth cheaper than other developed markets on an earnings basis". The true discount might be even bigger when you factor in "Japanese accounting's harsher depreciation charges... particularly versus US companies, who are prone to overstating their profits". This year has brought a renewed bout of enthusiasm for Japanese stocks. Warren Buffett visited the country in April. Berkshire Hathaway, his investment company, has made impressive returns of late from taking positions in local trading companies (known as "*sogo shosha*"), one way to gain broad market exposure.

For markets, Buffett's visit was interpreted as a blessing imparted upon Japanese equities, bestowed by one of the investment greats. The Topix has soared by one quarter this year, making it one of the world's best-performing markets, while the Nikkei has topped 33,000 points for the first time since 1990.

The economy grew by an impressive 1.5% in the second quarter, an annualised rate of 6%. Late reopening means Japan is still enjoying a post-pandemic boom. Soaring prices have wreaked havoc globally, but in Japan they might just prove the antidote to deflation, one of the most chronic of the country's post-bubble ailments. Annual inflation is running at 3.3% (slightly higher than America's current rate). The inflation revival has prompted the central bank to begin a slow-motion reversal of its years of ultra-loose money.

In most economies rising inflation and tighter money would be bad news for stocks, but Japan's post-bubble economy went through the looking-glass. Interest rates were slashed below zero and the government spent so much on stimulus that public debt ballooned to more than 260% of GDP.

Yet rather than hyperinflation or bankruptcy, all that followed was dignified stagnation (although the economy performed solidly in GDP-per-capita terms, a shrinking population hit growth). In that topsy-turvy world, rising inflation and tighter credit might be the treatment needed to return things to normal.

There are some encouraging signs. Surging costs have shocked businesses into raising prices and wages, often for the first time in years. This may inject some dynamism into a sleepy economy, prodding consumers to spend rather than save and businesses to invest rather than sit on unproductive piles of cash.

Don't get carried away

This year's rally has generated plenty of scepticism. It appears to have been driven in large measure by the depreciation of the yen. The currency has slid against most others this year as central banks elsewhere have raised interest rates. That makes Japanese exports more competitive (external demand accounts for most of the recent growth spurt) and flatters the overseas earnings of Japanese multinationals in local-currency terms. But it also gobbles up returns when translated into strengthening foreign currencies.

So while headlines herald the Nikkei's world-beating 27% gain this year, sterling-based investors will be feeling left out. The iShares MSCI Japan ETF (exchange-traded fund), a London-listed tracker, is up by less than 7% in 2023. While it is possible to hedge currency risk, that is not recommended for long-term investors. You end up paying higher charges and currency fluctuations tend to even out over the very long-term. If the yen strengthens, as it well might as the Bank of Japan starts to tighten monetary policy,

©Getty Images

Former prime minister Shinzo Abe's promise to juice growth boosted stocks by more than 100% after 2012

hedging now could leave you feeling short-changed all over again.

The yen's real effective exchange rate (a trade-weighted measure of value) is at its lowest in 50 years, says Richard Katz in the Financial Times. Foreign investors will thus be hoping that their Japanese holdings will enjoy a boost when the yen rallies back towards the historical average. Katz takes the bearish view that the yen's decline reflects a structural loss of competitiveness. He thinks that Japanese products have "shed much of their lustre" in recent decades, meaning that they require a permanently weaker currency to remain competitive on global markets.

A key plank of the Japanese bull case is that corporate reforms initiated by Abe post-2012 have laid the groundwork for "a sustained improvement" in the profitability of Japanese firms, say Marcel Thieliant and Thomas Mathews of Capital Economics. But the record is mixed.

"Corporate governance has improved significantly in recent years." There has been a sharp fall in cross-shareholdings, a practice whereby publicly traded firms own shares in each other, insulating management from accountability. Meanwhile, "the number of independent directors [on company boards] has surged". Japanese firms have become a lot better at returning cash to shareholders rather than sitting on unnecessarily large bank deposits. "The ratio of dividend payments to net profits of listed Japanese non-financial firms has... converged to the ratio for their US counterparts," but overall returns to shareholders are still lower when you add in the effect of share buybacks.

Indeed, the cash holdings of Japanese non-financial firms still top 60% as a share of GDP, more than double the figure in the eurozone and more than five times the US figure. Worse, the corporate reform tailwind for equities may already be over. "Earnings per share of Japanese firms grew at a much faster pace than in the eurozone and the US between 2012 and 2019," but "that outperformance has now ended."

Reform story has room to run

Nevertheless, valuations suggest that the corporate reform story still has room to run. This year the Tokyo Stock Exchange (TSE) has started pushing firms with a price-to-book (p/b) ratio of less than one, to up their game, say Masaki Taketsume and Taku Arai of Schroders. Management at firms with consistently low valuations will be required to present plans to remedy the problem.

A p/b of less than one means that the market is valuing the company at less than its assets are worth, which suggests that a company's capital is not being well used. As of the end of May, slightly over half of TSE stocks traded at this deeply discounted level. There is thus plenty of low-hanging fruit for Japanese managers to pick to give share prices a lift.

On other metrics Japan also looks cheap even after this year's rally. As of 31 May 2023, Japanese stocks were on a cyclically adjusted price-to-earnings (Cape) ratio of 14, a 15% discount to the 15-year median and the same level as the historically cheap British stockmarket.

Historically, some Japanese management teams have demonstrated "a limited awareness of cost of capital", says Lazard Asset Management in a note. Until recently, there was little sense in boardrooms that managers should not be misallocating funds that ultimately

Continued on page 22

> *"There is still plenty of low-hanging fruit for Japan Inc.'s managers to pick"*

Continued from page 21

belong to shareholders. Yet now, with corporate governance reforms starting to bed in, "companies have massive potential to increase their corporate value through better capital efficiency" and streamlining business portfolios. Similar shake-ups in management culture drove robust returns for US stocks in the 1990s and European ones in the 2000s.

Nobody is betting on a repeat of Japan's 1980s mania. Decades of stagnation have made permabulls all but extinct in the land of the rising sun. Yet its sun doesn't need to rise right overhead to warm up your portfolio.

All investors in Japan need is for corporate reform to keep delivering steady improvements in shareholder value while it charts a path back to normal monetary policy. Japan offers reasonable valuations, a pro-market government and a degree of political stability that is the envy of most of the democratic world. Long out of favour and lost in translation, Tokyo's capacious equity market contains plenty of hidden bargains.

What to buy

Japanese stocks make up 6% of the MSCI World index of developed markets. "All investors should have some exposure... [5%-10% of your portfolio] would be broadly sensible," Rob Morgan of Charles Stanley tells Leonora Walters in the Investors' Chronicle.

Of the large-cap tracker funds, the **Fidelity Index Japan Fund** has the lowest ongoing charge at 0.1%. Other trackers include the **iShares MSCI Japan** (LSE: IJPN) and the **Vanguard FTSE Japan** (LSE: VJPN), which have ongoing charges of 0.59% and 0.15% respectively. The latter two have returned 11% over the last five years and 70% over the last ten years in cumulative capital gains, providing a useful benchmark against which to test active managers. There is a robust case for active funds in Japan: the market contains hundreds of under-researched small companies, raising the odds that a savvy manager can net a few bargains.

The **Baillie Gifford Japan Trust** (LSE: BGFD), which focuses on medium and smaller-sized firms, has slipped by 3% this year. On a ten-year view, the 125% gain is creditable, however, especially when you consider the 1.21% dividend on top. The trust has a fairly steep 1.1% ongoing charge and trades on a 6% discount to net asset value (NAV). It should offer broad exposure as Japan's economy continues to revive.

Similarly, the **JPMorgan Japanese Investment Trust** (**LSE: JFJ**) also pays a dividend and has outperformed the Baillie Gifford trust over the past five years. It has a competitive 0.7% ongoing charge and trades on an 8% discount to NAV. **The Fidelity Japan Trust** (**LSE: FJV**) doesn't pay a dividend and has gained 148% over the last decade. There is a 0.94% ongoing charge and the 12% discount to NAV means that investors are getting a sizeable extra discount on top of Japanese assets that are already cheap.

The **Schroder Japan Trust** (**LSE: SJG**) has gained 12% so far this year. It also pays a 2.1% dividend yield. But the trust went nowhere in the five years before 2023. Wary investors have thus slapped a 10% discount to NAV onto the trust. It has a 0.92% ongoing charge.

Finally, the **AVI Japan Opportunity Trust** (**LSE: AJOT**) takes an activist approach to unlocking value in corporate Japan. It buys into overcapitalised small and mid-cap firms that look undervalued and then engages with management to encourage it to take steps to unlock shareholder value. The ongoing charge of 1.61% is high, but is arguably justified by the extra work required. The trust only launched in October 2018, but early signs are encouraging, with a 15.8% gain since launch. The concept seems to have captured the imagination of investors, so it trades on only a slight discount to NAV and yields 1.32%. It is one to watch.

"Investors in Japan can enjoy a degree of political stability that is the envy of most of the democratic world"

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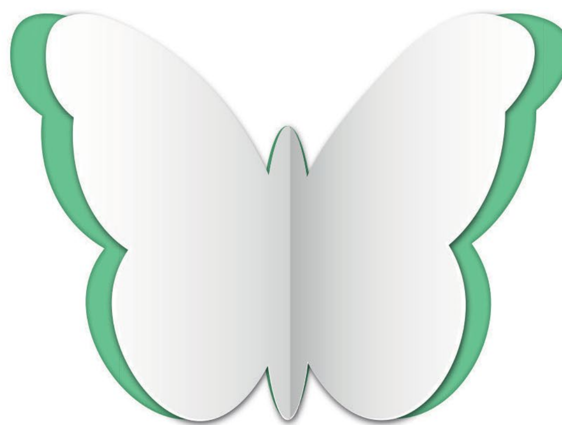

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High yields from corporate debt

Investors have been too quick to flee debt funds, leaving this specialist trust looking very cheap

Max King
Investment columnist

A portfolio of corporate loans with a yield to maturity of 17% to 18%, trading at a 6% discount to net asset value (NAV). Surely this is too good to be true? It seems not, for reasons that Peter Staelens, manager of the **CVC Income & Growth Trust (LSE: CVCG)**, explains.

The trust, launched in 2013, has £220m of assets and two share classes, denominated in sterling and euros (the CVCG ticker is for the sterling class; the less-liquid euro class is CVCE). It invests in "senior secured credit" – loans to companies secured against assets. These loans "used to sit on bank balance sheets but banks have been squeezed out by regulation and excessive risks taken in the past", says CVC managing director Mitchell Glynn. Instead, investment banks arrange the loans and syndicate them to investors such as CVC.

First in line to be paid

CVC, founded in 1981, describes itself as "a leader in global credit and private equity", with £32bn under management in credit strategies. The trust is only a small part of the total but "we could double or triple the present size of the fund without changing the investments", says Staelens.

The loans can be traded in the secondary market, making it possible for CVC to manage the portfolio based on market conditions. At present, 80% of the portfolio is in floating-rate assets (yields rise and fall with base rates) and the average loan-to-value is 56%. What's more, 80% of assets are "first lien or senior secured", meaning they're first in line to be paid if the company gets into trouble.

Corporate debt can offer good returns

©Getty Images

About 20% of the portfolio is in fixed-rate debt but has only three-and-a-half to four years to maturity, suggesting it has low vulnerability to higher yields on long-dated bonds. Besides, exposure was only 10% a year ago, so much of it was acquired at low prices, says Staelens.

The biggest risk the company faces is the threat of firms defaulting on their debt. CVC's record here is good, with the average annual default rate over the past 17 years standing at just 0.88% of the portfolio, and the loss rate coming in at just 0.17%. In 2012, the worst year for the strategy, the default rate hit 6.2% and the loss rate was 2.7%. Clearly, CVC knows how to restructure companies to keep losses down.

"We do our analysis to the downside," says Staelens. "We get more than fairly compensated for the risk we run." At present, "credit markets are incredibly attractive – we haven't seen these yields for a long time. We do see signs of stress in the portfolio but nothing that will lead to a material capital loss. We are assuming a small recession but it would take much worse to threaten our credits. The interest cover from cash flow is down to three times from four due to higher rates, but would have to fall below two for us to get worried."

Attractive yield

The current targeted dividend of 7.5p per share (7 cents for the euro class) gives a yield of 7.8%, paid quarterly, and is well-covered by income. A bonus dividend was also paid out last year. The NAV return is 12.7% over 12 months for the sterling class, but the total share-price return was -7.7% last year, as performance was held back by rising interest rates, leading investors to demand higher yields on income trusts such as these. However, 2023 has seen a good bounce-back with a 13% return in the first six months.

Despite this, Staelens still sees the asset class as very attractive, with "the highest-ever yield to maturity barring a short-lived Covid spike". CVC staff "are large investors in the master fund" which provides roughly 40% of the assets for the trust, suggesting a good alignment with shareholders and managers.

Investors have been too quick to write off debt funds such as CVC on interest-rate and recession fears, ignoring high yields and outstanding value in the rush for the apparent safety of government bonds. It's not too good to be true.

Activist watch

Activist investors have put forward industry veteran Randel Freeman as the new CEO of Swiss fund manager GAM after voting down a takeover bid from Liontrust, says the FT. The investor group NewGAMe, which owns 9.6% of GAM, led opposition to an offer from Liontrust that would have seen GAM investors get 12.6% of the merged business despite contributing 40% of assets. Just 33.5% of shareholders voted to approve the deal. Following the vote, GAM's board members said they would step down and recommended that shareholders vote for new directors nominated by the activists. GAM was caught up in the scandal centred on the failed Greensill supply-chain finance group, and its shares have fallen by 95% over five years.

Short positions... bag an infrastructure bargain

■ **Investment trusts are "at their cheapest since the 2008 financial crisis", says David Brenchley in The Sunday Times. Investment trust discounts blew out in 2022 as uncertainty gripped markets, and they've struggled to recover. Only 28 out of the 400 investment trusts listed by the Association of Investment Companies (AIC), a trade body for the sector, are trading at a premium to net asset value (NAV), with the average discount standing at 14%, according to data from wealth manager RBC Brewin Dolphin. The biggest discounts are to be found in the alternative assets space. Trusts that own real estate, infrastructure or renewable energy have been hit by rising bond yields, since these make their dividends less attractive in comparison. HICL Infrastructure and 3i Infrastructure, both of which traded at premiums to NAV 12 months ago and hold good-quality assets with some inflation protection, are now selling at discounts of 18.5% and 8.5% respectively.**

■ Small-cap funds have taken the top three places among UK-focused funds over the past five years, says Trustnet. At the head of the table, with just £82m in assets under management, is VT Teviot UK Smaller Companies, which has returned 37.8% over that time, followed very closely by the larger Fidelity UK Smaller Companies and Liontrust UK Micro Cap. Over the same period, the IA UK Smaller Companies peer group sector has returned 0.2%, while the FTSE Small Cap ex Investment Trust benchmark returned 18.4%, showing that choice of funds would have made a significant difference to investors' returns in this part of the market. Still, the MSCI World has added 54.4% over the past five years, showing that even the top-performing UK funds weren't able to keep up with global equities.

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Agenda

09:00 - 09:45: Registration, breakfast & networking

09:45 - 10:00: Welcome & Introduction from Andrew Van Sickle, Editor, *MoneyWeek*

10:00 - 10:45: Keynote: The geopolitical backdrop with Alexander Chartres, Ruffer

10:45 - 11:15: Panel: Stuck in stagflation – how to position your portfolio

11:15 - 11:30: Coffee & networking

11:30 - 12:15: Panel: Energy and commodities

12:15 - 12:45: Keynote: With James Montier, GMO

12:45 - 13:30: Lunch & networking

13:30 - 14:15: Panel: Solving the productivity puzzle – the key to growth

14:15 - 15:00: Panel: Emerging markets

15:00 - 15:15: Coffee & networking

15:15 - 16:00: Panel: Where to find growth in a stagnant world

16:00 - 17:00: Panel: Property (commercial and residential)

17:00 - 17:45: Networking drinks

EXPERT SPEAKERS INCLUDE

Andrew Van Sickle
Editor
MoneyWeek

Merryn Somerset Webb
Senior Columnist
Bloomberg

Peter Spiller
Founder and CIO
CG Asset Management (CGAM)

Laura Foll
Portfolio Manager
Janus Henderson

Joe Bauernfreund
Chief Executive Officer and Chief Investment Officer
Asset Value Investors

John Stepek
Senior Reporter
Bloomberg

James Montier
Asset Allocation
GMO

Bill Dinning
Chief Investment Officer
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Julian Jessop
Independent Economist

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The squeeze on buy-to-let

Rents are on the rise, but so are landlords' costs. Do your sums carefully

Rupert Hargreaves
Deputy digital editor

The imbalance between demand and supply has driven up rents

©Getty Images

According to Zoopla's latest Rental Market Report, rents registered double-digit growth for the 15th month in a row in June owing to an "ongoing chronic imbalance" between demand and supply. The number of privately rented homes has barely changed since 2021, but demand for rental properties has continued to grow. On the demand side, landlords have been exiting the market as the government has hiked taxes and bought in new, costly regulations.

But despite these challenges for landlords, rising rents mean the economics of buy-to-let investing still remain attractive in certain regions. The latest data from Zoopla shows buy-to-let investors looking to make an inflation-beating return should look North, and especially in Scotland. West Dunbartonshire and Renfrewshire in Scotland tied for first place with a yield of 9% on an average property price of £160,715 and £189,236 respectively. Investors can, on average, earn an average rent of £502 a month on an average property price of £161,379.

The cheapest properties can be found in Middlesbrough and Burnley, with average home prices of around £120,000. The average buy-to-let yields in these regions is 8.1%. The London boroughs of Kensington and Chelsea and the City of Westminster have the worst and third-worst rental yields respectively: 3.6% and 4.1%.

Traditionally, buy-to-let investors have relied on capital growth for returns while using rental income to cover mortgage payments. But considering the shaky outlook for home prices and the rising cost of borrowing, investors need to consider carefully how they are going to make decent profit margins.

One area where there is plenty of scope for saving is tax. Like everyone else, landlords get a personal allowance of £12,570, with 20% tax due on buy-to-let income between £12,571 and £50,270, and 40% on anything over that point. You can also deduct allowable expenses, such as maintenance costs, but not mortgage interest. Setting up a limited company can help lower tax obligations. In this case, you'd have to pay corporation tax, which is currently 19% (up to profits of £50,000), instead of income tax. More importantly, limited companies can deduct all expenses, including mortgage interest costs, from profits.

The downside is that costs are generally higher when running a business. Accountancy fees can be many thousands of pounds, while limited-company mortgages are often pricier, with larger up-front costs. Consider also all the extra paperwork that comes with managing a limited company, although accounts will often manage this work on your behalf (for a fee). On top of these charges, there is a 3% stamp duty surcharge on residential properties bought by companies. A stamp duty surcharge also applies to individuals buying a second home or buy-to-let.

Where to rent rather than buy

In yet another sign of the chaos unfolding in the UK property market, Zoopla has found it's now cheaper to rent than buy for the first time in more than 13 years. Even though landlords are fleeing the market, and rents are surging, the rising cost of borrowing means it's cheaper to rent rather than buy in most regions across the UK.

The property portal looked at the cost of mortgage repayments for the average local house price versus the monthly rent for first-time buyers using a 15% deposit, 30-year mortgage term and 5.6% mortgage rate, based on a UK average house price of £263,000.

Zoopla found that the average monthly mortgage repayment would be £1,285, but renters typically pay £1,163 across the UK – a £122 monthly saving. The biggest savings were in London, where it can be almost £500 cheaper per month to be a tenant, with average rents of £2,053 compared with mortgage rates of £2,546. It's cheaper to rent rather than buy across the south and east of England, but the pendulum swings the other way the further north you go.

It costs £118 more on average to rent each month rather than buy in the north-east of England, a trend also apparent in Scotland and Wales. It costs £128 more on average to rent each month rather than buy in Scotland. Note, too, that the figures from Zoopla exclude stamp duty and other costs that come with buying a home, which can add tens of thousands to the cost.

Pocket money... NS&I tops the savings charts

● According to the Sunday Times, average savings rates have risen to 2.96% for easy-access accounts and 5.35% for one-year fixed-rate offers, suggesting most providers are still failing to pass on the full extent of the Bank of England's recent rate hikes.

Topping the charts for one-year fixed offerings is a new product from NS&I, a 6.2% fixed-rate, one-year guaranteed growth bond. All NS&I deposits are guaranteed by the Treasury, which makes this offering particularly attractive, but savers will have to be quick. The provider is tasked with raising a certain amount each year by the government. Its target is £7.5bn in the current financial year, and it is about £400m behind target, so the offer might be short-lived.

● The average household spends £43 a month on telecoms services, according to the Office for National Statistics, says The Times. More than half of users have reported having problems with their broadband connections, based on a survey by consumer group Which.

The most common problems reported are speed, cost and set-up times. The good news is new rules will reduce the time it takes to switch suppliers. Broadband-only services that don't require a home phone are growing in number, and this can reduce the cost. And if you're worried about speed, it's worth checking what speed you're getting with Ofcom's broadband checker. Some providers offer refunds for worse-than-expected service.

● Around 60% of UK adults do not have a valid will, notes Stuart Trow on Bloomberg, which can be a "costly and distressing omission". But wills have their drawbacks, not least the "blunt" and "clunky" nature of the document. An alternative is a "letter of wishes", a document revealed after your death you can use to address personal and financial issues. Unlike wills, these letters are not legally binding, but they can be used to set out the "spirit of how your assets should be managed" in a way no legal document can.

Writers can explain why they made certain investments and whom to contact for advice. These letters can also remain private, whereas wills are legally required to be made public, making them ideal for passing on instructions you don't want widely shared.

Beware of energy brokers

They can save your firm money, but do your homework carefully

David Prosser
Business columnist

Could an energy broker save your small business money? The answer is yes, in theory. But it is vital to ask some very searching questions before you sign up for their services. Around 60% of small businesses use a broker to help them find the best deal on gas and electricity.

The broker's job is to navigate the complexities of small-business energy deals (whereby firms often sign up to contracts with fixed terms of two to three years) to negotiate the cheapest prices.

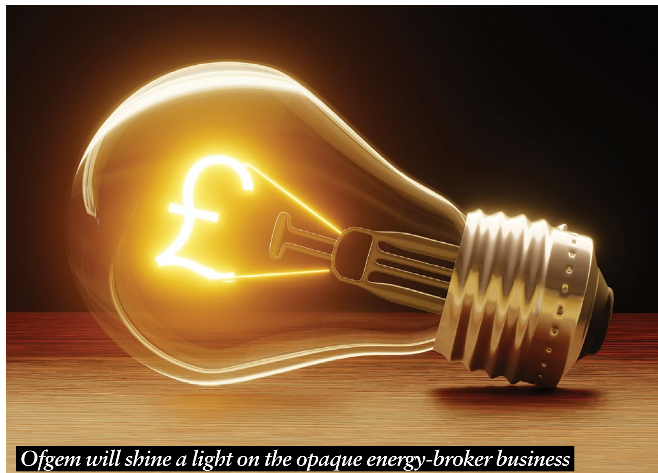
That can work very well. Brokers should know their way round the energy market, which is a more complex proposition for small companies than for individual customers. They may even have access to enhanced rates with certain suppliers.

However, the Federation of Small Businesses is concerned that brokers are not always open about the commissions they are paid by energy companies when providing this service. The industry regulator Ofgem has previously intervened in the market, ordering brokers to be more transparent, but the existing rules only apply to deals with very small businesses.

There have also been questions about the quality of brokers' advice. Several firms of solicitors are pursuing class actions on behalf of small businesses that were advised to sign up to expensive contracts as energy prices reached a peak last year.

Brokers offering poor advice and levying opaque, expensive commission charges clearly don't represent a good deal. And with more than 3,000 brokers operating in the UK, small companies may find it difficult to sort the good from the bad.

That makes it vital to do your homework before choosing a broker. Are you confident that the firm is genuinely offering a whole-of-market service – that it is independently reviewing all the deals potentially available to your firm? What other advice can it offer on how to manage your energy usage more efficiently, for example, or on other ways to reduce your bills?



Ofgem will shine a light on the opaque energy-broker business

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Above all, the best brokers should be crystal clear about their charges. You may prefer to pay a fixed fee for the broker's time, rather than a commission charge, though many brokers won't offer this option.

> *"Tougher rules on transparency are to be introduced"*

If not, the broker should be prepared to set out its commission rates, as well as what this is likely to mean your business will pay in cash terms. Speak to several brokers so you can compare their charges.

This isn't necessarily straightforward . Businesses are different, so it's not unreasonable that charges will vary. However, as a rough rule of thumb, the Energy Consultants Association says the typical broker would charge an average UK business – that is, one consuming 40,000 kilowatt-hours (kWh) a year over two-and-a-half years – around £1,000 of commission.

Honest brokers won't be afraid to tell you upfront what you should expect to pay, and to set out in detail what you'll get in return. Then you can make a considered decision about whether using a broker makes sense.

The good news is that more comprehensive regulation of energy brokers does appear to be on the way, with Ofgem warning the industry that it intends to introduce tougher rules on transparency. That would be very welcome, because a good broker really can help small firms in this problematic area. In the meantime, however, due diligence is key.

Should your business borrow from Amazon?

Thousands of businesses that sell through marketplaces such as Amazon often run into the same problem: to grow, they need to buy more stock, but they lack the cash to purchase as much inventory as they would like to. The obvious answer is to borrow, in which case, the marketplace will almost certainly want to help.

Indeed, Amazon, eBay and others see finance as an increasingly important source of revenue. Amazon, for example, has been offering conventional loans, repayable over a fixed term, to British small businesses for some time.

And earlier this summer, it launched "merchant cash advances". With these arrangements, you pay a fixed fee for the loan, with repayments made from the future revenues you earn on the marketplace.

Such deals can work well in the right circumstances – and it feels neat and tidy to arrange your financing through the marketplace where you're running your business. But don't assume this type of lending is the best option. Compare terms and costs carefully with what's available from independent lenders.

That's true of conventional loans, where banks and building societies may be able to beat the interest rates quoted by the marketplaces. But it's also true of alternative financing arrangements, such as merchant cash advances, where a growing number of financial services firms are offering products and services.

Petty cash... beef up your cybersecurity

● It has never been more important to protect your business with good cybersecurity arrangements. Security experts warn that small companies, regarded as vulnerable by fraudsters, are an increasingly popular target for attacks. For example, there is growing concern about Adhubllka, a piece of ransomware software that appears to target small businesses and individuals. Adhubllka is a variation on the traditional ransomware model – attackers aim to lock up your IT systems, at which stage they will demand a payment for release. With Adhubllka, the payment demands are relatively modest, with the attackers hoping this will persuade small businesses to pay without making a fuss.

● Good news for small companies facing additional costs now the Ultra Low Emission Zone (Ulez) scheme has come into effect in London and other cities. Under the schemes, individuals and businesses whose vehicles do not meet tough emissions standards must pay daily fees to drive within designated zones. But HM Revenue & Customs says that such charges can be claimed as business expenses, as long as trips are made solely for business purposes. That will allow businesses and self-employed workers to offset the cost of the schemes against their tax bills.

● Make sure your tax affairs are in order and that you can provide evidence for all the claims you make when submitting a tax return for your firm. HM Revenue & Customs is taking a tougher line on investigating small businesses and sole traders as it tries to tackle tax avoidance and evasion. In the 2020-2021 financial year, HMRC launched 247,000 such tax investigations, but by 2022-2023, that figure had grown by 21% to 299,000.

Find bargains in green energy and private equity with investment trusts

A professional investor tells us where he'd put his money. This week: Richard Parfect, fund manager at Momentum Global Investment Management

Investment trusts have had a torrid time over the past year, with share prices moving from premiums to net asset value (NAV) to wide discounts. The derating has stemmed from rising bond yields and increased competition from asset classes such as public debt, which until the advent of monetary tightening offered meagre returns.

Moreover, misleading guidelines from the Financial Conduct Authority, the City regulator, on reporting layered fees has created a buyers' strike by traditional institutions. As a result, the investment-trust sector now offers compelling value and attractive income streams covered by sustainable and growing earnings.

A juicy yield attracting insiders

Greencoat UK Wind (LSE: UKW) is now a major part of the UK power-generation supply through its 49 UK onshore and offshore wind farms. It originally listed on the stockmarket over ten years ago and has grown through subsequent equity raises and by reinvesting surplus cash generation into further wind farms.

Wind strength and frequency have fallen below modelled expectations in seven of the last ten years. But this has not prevented the group from delivering dividend growth linked to the retail price index. On average, dividends have been twice covered by cash flows, with the lowest cover in any given year being 1.3 times cash flow.

The share price is 16% below NAV, which itself has been updated to reflect the reduced valuation caused by higher bond yields; however, the adjustment was mitigated by higher inflation-linked cash flows from subsidies and power prices. The dividend yield, 6.4% and growing, has not been lost on the company's managers, who have been buying shares.

Weathering the shocks well

Sequoia Economic Infrastructure (LSE: SEQI) holds 62 senior secured infrastructure-debt instruments, 55% of which are on floating interest rates (fully hedged to sterling across a diversified international portfolio). The investments have an average life of 3.3 years.

The group has no debt and is splitting the cash flows received from loan maturities between reinvestment into higher-yielding new loans and funding a share-buyback programme. The trust listed in 2015 and the portfolio has weathered some significant exogenous

Greencoat UK Wind operates 49 wind farms in the UK

©Getty Images

shocks well, with an observed bad-debt loss rate of 0.5% a year versus a portfolio yield to maturity of 12%.

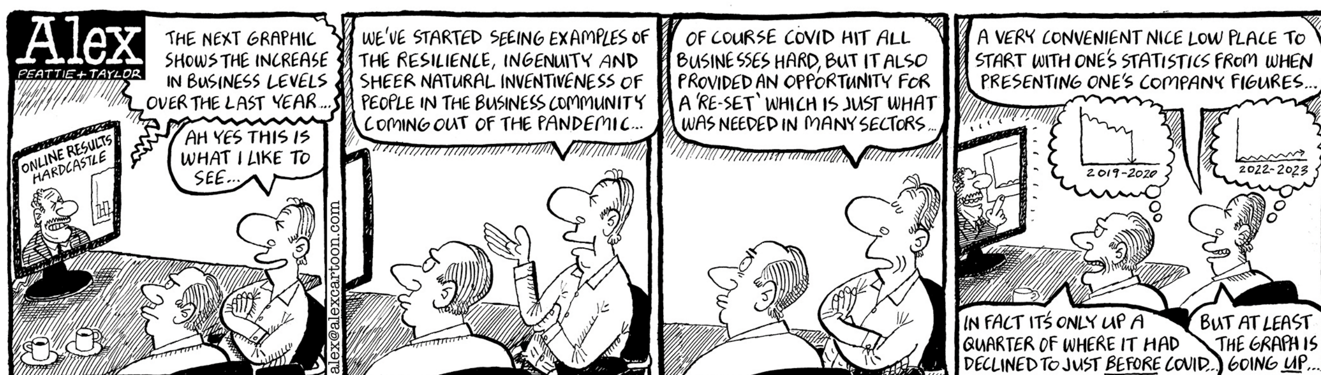
The return to shareholders from here is a growing dividend yield of 8.6% and a share price, now at 83p, that is 11% below NAV, which itself should grow. This feels like the wrong price given its record of capital discipline and moderate portfolio risks.

"A 48% discount to NAV at Chrysalis Investments looks too negative"

Ample scope for a rerating

Nowhere has the derating of trusts been more dramatic than within listed private equity, as investors question the official NAVs. In 2022 **Chrysalis Investments (LSE: CHRY)** suffered marked-down valuations in some of its largest positions and a halving of its NAV from its peak. However, since then we have seen two consecutive quarters of modest NAV recovery.

There is anecdotal evidence that the private-equity industry is seeing transactions being conducted at unexpectedly high valuations. With positive trading updates from its larger investments in Starling, Wefox, Brandtech and even Klarna, it is arguably time to view the 48% discount to NAV as being too negative.



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The trials of the "Phoney Pharaoh"

Mohamed Al-Fayed started out in life as a street urchin in Alexandria. He rose to become a prominent, if controversial, businessman and public figure. Jane Lewis reports

"Mohamed wasn't everyone's cup of tea," wrote Piers Morgan on hearing of the death of the buccaneering businessman, aged 94, last week. "He was a flawed, complex character, but I liked him." Indeed, Al-Fayed's former PR man, Michael Cole, insists the country owes him a debt of gratitude for "exposing the rot" at the heart of government. For the Fayed family, the timing of his death – within days of the anniversary of the crash that killed his son and Princess Diana 26 years ago – was "kismet", says The Sunday Telegraph. The event defined his life; his death was a "bookending".

Never lacking in drama, "at one moment, Al-Fayed could appear a cartoon figure who had sprung from the pages of satirical magazine Private Eye (a long-time antagonist), the next an astute businessman", says The Observer. "He was a man who continually blurred the line between fact and fiction." A showman and a fantasist – dubbed the "Phoney Pharaoh" by his arch-rival, Lonrho tycoon Tiny Rowland – Al-Fayed habitually falsified his age and ancestry, says The Daily Telegraph: adding the "Al" to his surname to boost his honorific status. Yet, over 40 years, he "consistently outmanoeuvred some of the hardest money-men in London and the Middle East".

©Alamy

"Never lacking in drama, at one moment, Al-Fayed could appear a cartoon figure who had sprung from the pages of Private Eye, the next an astute businessman"

The dirtiest feud in business

Al-Fayed's greatest business coup was the 1984 acquisition of the Knightsbridge department store Harrods – achieved by outfoxing Rowland, who never forgave him for stealing the prize he'd coveted for years. To the delight of business editors, the two men fought one of the dirtiest and most expensive feuds in British corporate history, which continued in the courts even after Rowland's death in 1998.

Twice refused British citizenship, Harrods was the "passport" to fame and social acceptance Al-Fayed craved, says Tom Bower in The Sunday Times. The store's sponsorship of the Windsor Horse Show, for instance, opened the door to royalty (although the arrangement was terminated after royal advisers became wary of Al-Fayed's habit of breaking the ice by making sexual jokes). But an unwanted side-effect of the trophy purchase was that it "threw his crooked career from the shadows into the spotlight".

Al-Fayed had only been allowed to buy Harrods after "City bankers backed his claim to be the son of a rich pasha who owned cotton-rich estates across Egypt and a fleet of tankers". In reality, he was the son of a school inspector, who started his business career as a "street urchin" selling Coca-Cola on the streets of Alexandria, later graduating to flogging sewing machines door to door. "His first important break," in around 1952, was meeting the young entrepreneur Adnan Khashoggi, who had taken advantage of his father's role as Saudi Arabia's public health chief to set up a venture importing medical equipment and furniture from Egypt.

"Hardworking and extrovert", Al-Fayed piled on the profits and cemented relations with the Khashoggis by marrying Adnan's sister, Samira – who became the mother of his first son, Dodi. Neither the marriage nor the business relationship lasted, but by now Al-Fayed had the heft to move into shipping. In the early 1960s, he moved to Geneva and then Haiti, where "a highly profitable relationship" with the murderous dictator "Papa Doc" Duvalier "ended in farce when a putative crude oil deal" turned out to involve molasses, says The Observer.

The "cash for questions" affair

More successful was Al-Fayed's new role as financial adviser to the Sultan of Brunei, "which opened doors and bank accounts", and was followed by a building deal with the rulers of Dubai that made Al-Fayed – by now ensconced in London's Park Lane – "seriously rich", says The Telegraph. He began accumulating trophy assets: from a castle in Scotland, to the Paris Ritz, which he acquired in 1979. Even so, questions about how he raised the £600m to fund his Harrods swoop eventually prompted a government inquiry – egged on by Rowland. Al-Fayed's response was to bribe two Tory MPs, Tim Smith and Neil Hamilton, to ask questions in the House about Rowland's own business affairs. When he later blew the whistle on their corruption (and, in the process, his own), the ensuing "cash for questions" scandal seriously tarnished John Major's government.

Ever since double-crossing Haiti's fearsome dictator, Al-Fayed feared he would be murdered, says Bower. Although outwardly the "flamboyant, cuddly owner of Harrods", who bought Fulham FC in 1997 to boost his populist credentials, he bought protection by hiring a small army of armed bodyguards and by "corrupting police officers" to keep their distance. As his wealth grew, "so did his paranoia", says The Times. The Park Lane block became "a high-security fortress infested with hidden microphones and cameras" – as did Harrods, where Al-Fayed, as The Telegraph notes, was "in the habit of offering cash to female staff members he hoped to seduce and of sending them to his private doctor for Aids tests".

The perennial outsider

Fayed was "a man without brakes", concludes The Guardian. Never more so than after the tragedy of August 1997, when he could scarcely give an interview without repeating the conspiracy theory that the deaths of Princess Diana and Dodi had been engineered by the British establishment, led by the Duke of Edinburgh, whom he accused of being a "Nazi". In fact, Al-Fayed had himself approved the fatal journey from the Paris Ritz. "It was as if all the condescension and snobbery he had encountered, the bitterness and resentment he had built up, had formed a poisonous hatred that came pouring out after Dodi's death," says The Observer. He never recovered from it and died "seeing himself as a victim of powerful hidden forces". The perennial outsider.

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

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- A full day excursion to Antibes and Nice

Holiday Departure Months: 2023 ● 2024 ●

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

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Holiday Departure Months: 2023 ● 2024 ●

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

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- A full day excursion to Seville

Holiday Departure Months: 2023 ● 2024 ●

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

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Holiday Departure Months: 2023 ● 2024 ●

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

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Joyful Jamaica Inn

Natasha Langan visits the Caribbean island for the sea, sunshine and sustainability

Jamaica Inn sits on a Champagne-coloured beach

©Jamaica Inn; Alamy (turtle below)

What do Winston Churchill, Marilyn Monroe and Arthur Miller, Ian Fleming, Noel Coward, Kate Winslet and Meghan Markle have in common? They've all been guests of Jamaica Inn, a family-run boutique hotel in a secluded cove just east of Ocho Rios, which is celebrating its 65th birthday this year. The classic blue-fronted, plantation-style hotel overlooks a 700-foot Champagne-coloured beach, one of the few private beaches in Jamaica.

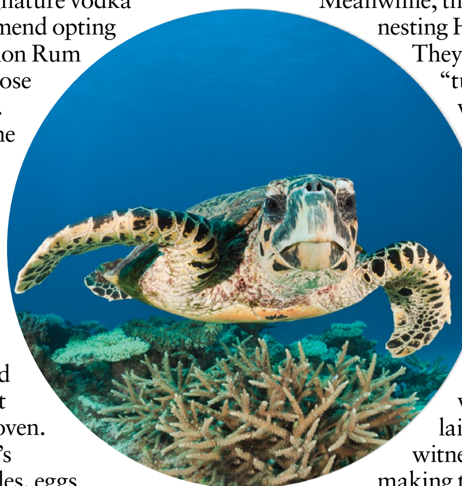
There are 55 suites, including Suite 21 on its own peninsula (Churchill's room of choice), along with beachfront bungalows and seven stand-alone cottages with private plunge pools and direct access to the sea. The rooms are supremely comfortable, furnished in a simple and elegant style with views of the glittering Caribbean Sea. The landscaped gardens feature an immaculate croquet lawn and in the main building there is a library and games room, terrace restaurant and bar where Ian Fleming would drink his Martinis. Naturally, the hotel puts on weekly James Bond film screenings on the beach, which you can watch with Bond's signature vodka Martini. But I recommend opting for the hotel's Plantation Rum Punch – perfect for those hot Caribbean nights.

In the evenings, dine out on the terrace for the cooling sea breeze and music from local bands, while you eat fresh fish, curried goat, or grilled lobster. Alternatively, there's Teddy's Beach Bar and Grill for pizza straight from the wood-fired oven.

At breakfast, there's everything from waffles, eggs every which way and a daily Jamaican special. Don't miss the ackee and saltfish, Jamaica's national dish. I've had it in Britain, but here it's made with fresh ackee rather than tinned, flavoured with scotch bonnet and the salt fish. The other unmissable breakfast item was fresh mango – Jamaica grows 17 different varieties.

Snorkelling among the reefs

For the more active among you, paddle boards, kayaks, sailing and snorkelling equipment are available. Coral reefs surround the cove, so snorkelling is a particular pleasure, watching the colourful fish dart around. That they exist at all is thanks to the White River Fish Sanctuary. It was founded by Belinda Morrow, the wife of the hotel owner, and works alongside local fishermen to protect and re-seed the reef. A trip in a glass-bottom boat allows you to see White River's work in action, guided by the fishermen who will proudly show you the difference the project has made. No fishing takes place on the cove side of the reef, which has allowed fish to thrive in its sheltered nursery environment. In the space of a few years, fish numbers and coral have started to recover, making a difference to the lives of the fishermen who now work to protect it and educate others.



Meanwhile, the beach is home to nesting Hawksbill turtles. They have their very own "turtle concierge", who, working with conservation groups, watches where the eggs are laid. In June, guests can witness the baby turtles making their dash to the sea.

> *"You may even be lucky enough to see adult turtles swimming in the water"*

You may even be lucky enough to see adults swimming in the water. We saw them coming up for air on the boat trip.

To recover from all the sun, rum punch and marine activities, I visited the Ocean Spa, nestled within the cliffs of Cutlass Bay. The open-air, thatched-roof treatment huts overlook the sea, providing a blissful setting for an exceptional massage, using CBD and lemongrass oil. Guests can be taken on a "Farm to Skin Foraging" tour where the spa staff will guide guests through the tropical gardens to forage for the natural ingredients used in the treatments. We made a pineapple and coconut skin scrub that smelt like piña colada and left my skin amazingly smooth. The massage oils are all from Jacana Life, a local organic cannabis farm, which can be visited.

Cannabis production is legal under licence in Jamaica and the farm produces various CBD-infused massage oils and products and an array of cannabis both for the local and international market. Over a delicious vegan Caribbean lunch we were taught how to roll a pure cannabis spliff, but it put me in mind of the "Camberwell carrot" from *Withnail and I*, so I stuck to the CBD products and rum punch instead.

Sustainable tourism

Jamaica Inn can arrange various trips. There are the famous Dunn's River Falls and the Konoko rainforest close by, but you may not want to leave the hotel. We met guests who have been coming here for over 40 years, choosing each year to stay in the same room so that it feels like a home from home. The staff manage to be both relaxed and efficient at the same time and they seem genuinely happy, possibly because they actually are. During Covid, when Jamaica Inn closed, the hotel kept paying all the staff, many of whom have worked here for decades. It has also been Green Globe certified since 2012, thanks to a recycled grey-water system to keep the gardens lush, along with solar panels and a commitment to be carbon neutral by 2025.

I've stayed in more obviously luxurious hotels before, but despite the attempt at perfection they can often feel soulless. Jamaica Inn pulls off that rare trick of making all guests feel like one of the family. It's not often I've watched guest after guest in floods of tears at having to leave this small patch of Caribbean heaven.

Natasha Langan was a guest of Jamaica Inn. Rates start from $544.50 per night per couple, including breakfast and taxes. Room only rates start from $469.50. Visit jamaicainn.com, or call +1 855 441 2044

The return of the Superhawk

Sunseeker has launched the 55 and it's been well worth the wait. Chris Carter reports

British boat builder Sunseeker used the occasion of the Düsseldorf International Boat Show at the start of the year to launch the "Earth-shattering" return of the Superhawk, says Julia Zaltzman on the Robb Report. The Superhawk 55 is "an open-style express that has had performance in its DNA since Sunseeker debuted the Superhawk 34 back in 1997". A dozen years later, the line was discontinued and the Superhawk 55 heralds its return, but this time "in a more luxurious, accommodations-friendly and decidedly less go-fast form". In other words, this is a high-performance boat for luxury yacht owners "who like their comforts".

They do say good things come to those who wait and the Superhawk 55 does not disappoint, says Hugo Andreae in Motor Boat & Yachting magazine. "Clearly, today's owners are a demanding lot, because the new 55 is a vastly bigger, heavier, more powerful machine than any previous Superhawk." The yacht weighs around 26 tonnes and its twin Volvo Penta IPS 950 engines combine to produce 1,450hp. Its length overall (LOA) is 56ft 2in, but, crucially, it is wider. The old Superhawk 50 had a 10ft 10in beam; the 55, 16ft 2in. There's a good reason for that. The new Superhawk is as much about entertaining guests as entertaining the person behind the wheel.

As for style, "they've nailed it". The hydraulic bathing platform at the rear is powerful enough to carry a Jet Ski and the tender garage and additional toy locker have plenty of room for a couple of Seabobs and the like. There is a large wet bar behind the helm seats, with the usual fridge and ice-maker, but it can also house an optional 43in television. The foredeck lounge area can be configured to create a sociable seating area or an extending sunbathing space. And the lower saloon is "a real eye-opener". A "vast Union Jack skylight [makes] it… one of the lightest, brightest, most attractive spaces we've seen on any sportscruiser this size".

The Superhawk 55 is "more than a match for most of its… rivals". It may have been a long time in coming, but it has been "well worth the wait".

From £1.5m, excluding VAT, sunseeker.com

Wine of the week: a seriously rewarding English bacchus

2022 Flint Vineyard, Bacchus, England

£18.99, flintvineyard.com

Matthew Jukes
Wine columnist

It's funny how things go. I called in a set of newly released samples from Ben Witchell, Flint's winemaker, as I have done the last couple of years around this time, expecting to wax lyrical about his superlative 2022 Charmat Rosé (£24.99, flintvineyard.com; £24.75, bbr.com). It is a stunningly pretty wine made from 11 different grape varieties, including rondo, for its pinky colour. This is the finest Charmat-style sparkling wine in the UK, and it looks and tastes fantastic, with a bone dry, tense, floral and forest fruit cocktail of flavours. But this wine is not the lead in this week's column, because a pair of bacchus wines completely seduced me.

These seriously rewarding white wines parade all this haunting white grape's characteristics with supreme accuracy and flair. My featured number is the unoaked version, gaining traction and impact from 31% whole bunch inclusion, which adds grip and searing dryness to the finish. This is a true connoisseur's style of white wine – challenging, alert, and questioning, and it requires you to tune in to its unique rhythms to appreciate its qualities fully. Interestingly, 68% of the fruit comes from the estate and the balance from Martin's Lane, a superb Essex winery.

The other one worth hunting down is 2022 Bacchus Fumé (£22.99, flintvineyard.com) – a richer, more indulgent main-course white. I venture that Flint wines should be on everyone's lips this autumn!

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

This week: properties for around £800,000 – from an 18th-century house in Stockton on the Forest, Y

The Boathouse, Cargreen, Saltash, Cornwall. A fully furnished period property in a conservation area with water access and a slipway on the banks of the River Tamar. It has an open fireplace and a sunroom overlooking the water, which opens onto the garden. 3 beds, 2 baths, 2 receps, kitchen, garage. £750,000 Knight Frank 01392-423111.

Aughton Old Hall, Aughton, Lancaster. A renovated Grade II-listed 17th-century cottage in a village in the Lune Valley. It has flagstone floors, beamed and vaulted ceilings, multi-fuel stoves and a kitchen with an Aga. 3 beds, 2 baths, 2 receps, 1-bed annexe, workshop with store, courtyard, parking, gardens. £795,000 Fine & Country 01524-380560.

Harris Green Farm, Harris Green, Hardwick, Norfolk. This Grade II-listed thatched 17th-century house has been updated and is surrounded by open countryside on the edge of a village. The house has beamed ceilings, wood floors, open fireplaces, contemporary fixtures and fittings and a large gardens that includes a pond. 4 beds, 3 baths, 3 receps, breakfast kitchen, parking, grounds, 4.33 acres. £775,000 Durrants 01379-852217.

ork, to an apartment in London in a period mansion block in Parsons Green

Hurlingham Court Mansions, Hurlingham Road, London SW6. A two-bedroom third-floor apartment with views toward Hurlingham Park in a period mansion block close to Parsons Green underground station. The flat has sash windows, wood floors, generously sized bedrooms and a contemporary fitted kitchen. The block comes with dedicated secure storage and a communal bike store. 2 beds, bath, recep, kitchen. £800,000 Knight Frank 020-7751 2403.

The Village, Stockton on the Forest, York, North Yorkshire. This Grade II-listed 18th-century village house has been renovated to include a large breakfast kitchen that leads onto the garden. The house has feature fireplaces and gardens to the front and rear. 4 beds, 2 baths, 2 receps, garden room, workshop. £800,000 Savills 01904-617818.

Stock Street, Coggeshall, Colchester, Essex. A Grade II-listed timber-framed house comprising two cottages dating from 1780, now combined into one property with a handmade red clay-tiled roof. The house has beamed ceilings, panelled rooms, open fireplaces with wood-burning stoves and a breakfast kitchen with fitted units. 5 beds, 3 baths, 2 receps, gardens, 0.6 acres. £800,000 Savills 01245-293233.

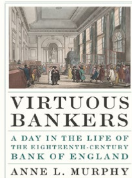
Windy Hall, Kirkhaugh, Alston, Cumbria. A country house dating in part from the 17th century in an elevated position overlooking a valley in an Area of Outstanding Natural Beauty. It has exposed stone work, beamed ceilings, modern wood-burning stoves and a fitted kitchen and bathroom. 5 beds, 2 receps, dressing room, 3 baths, 2 receps, study, breakfast kitchen, secondary kitchen, outbuilding, gardens, woodland, 0.5 acres. £775,000 Finest Properties 01434-622234.

Bwlch Y Rhiw, Rhydycroesau, Powys, Wales. An 1840s house that takes its name, which means "gap of the hill", from the far-reaching views it commands over a valley. The gardens include a summer house and a barn. It has slate flagstones, exposed beams, an inglenook fireplace with the original bread oven, and a kitchen with handcrafted oak cabinetry. 6 beds, 5 baths, 2 receps, library, hobbies room, sewing room, summer house, grounds, 1.13 acres. £800,000 Strutt & Parker 07919-128326.

Book of the week

Virtuous Bankers

A Day in the Life of the Eighteenth-Century Bank of England
Anne Murphy
Princeton University Press, £25



A book that takes a snapshot of the Bank of England in 1783, based on a report by a team of inspectors, might sound like a dreary academic monograph of interest only to a select few. But *Virtuous Bankers: A Day in the Life of the Eighteenth-Century Bank of England* is well worth a read.

The second half of the 18th century marked a crucial turning point in the Bank of England's journey from being a private enterprise owned by shareholders to becoming a modern central bank, arguably one of the most important (and powerful) parts of government. At the time of this transition, the Bank of England was already one of the largest white-collar institutions, employing 300 clerks – far more than the big insurance companies, or even the East India Company. It was, therefore, at the forefront of changes in managerial techniques in business.

One major bone of contention was the custom for many of the large City firms and merchants to give their staff annual tips to supplement their wages, which had not increased for nearly a century. The practice continued for some time. There were also complaints that the Bank's managers treated their positions as part-time jobs, departing in the afternoon and leaving the clerks unsupervised. For their part, many clerks took on second jobs – some ignoring official advice not to work as brokers in the bonds that the Bank was issuing.

Despite these shortcomings and conflicts of interest, the Bank was remarkably modern in other respects, with generous (for the time) holiday allowances and even a primitive pensions system. The Bank's inspectors also noted that, at a time when patronage for friends and political allies was commonplace in government, they were unable to find any instances of jobs at the Bank that were blatantly sinecures.

Murphy's eagle eye spots the significance of minor details. The Bank's move to Threadneedle Street in 1734, for example, and its subsequent development of the site into a major London landmark, signified its growing confidence that it had seen off its major rivals. For its part, the British government recognised the strategic importance of the Bank when it decided permanently to assign the Foot Guards to its defence after the Gordon riots in 1780.

Murphy has produced an impressive historical study of the Old Lady of Threadneedle Street that makes a compelling case for why this particular period in its history is so important. Her book will be of interest not only to specialists, but also to anyone interested in how Britain's financial system evolved.

Reviewed by Matthew Partridge

The Old Lady became a landmark in more ways than one

©Getty Images

> *"The book will be of interest both to specialists and anyone interested in how Britain's financial system evolved"*

Drama of the week

The Diplomat

Netflix

Netflix last year revived the cult Danish political drama *Borgen* with its *Power & Glory* mini-series. Now it has created its own similar political drama, set in the world of international diplomacy. In *The Diplomat*, experienced US state department official Kate Wyler (Keri Russell) is preparing for a posting as ambassador to Afghanistan only to be given the far more prestigious role of ambassador to the UK as a trial run for the vice-presidency.

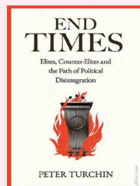
Her arrival in the UK coincides with a major crisis in Anglo-US relations, caused by an apparent Iranian strike on a British battleship. Things are not as simple as they seem, and it becomes clear that vested interests are at work in provoking a war between Britain and Iran. Meanwhile, Wyler has to deal with the jealousy of administration officials, her tricky relationship with her diplomat husband (Rufus Sewell), whom she had been on the brink of divorcing, and her attraction to the British foreign secretary (David Gyasi).

The show's creator, Debora Cahn, who has worked on *Homeland* and *The West Wing*, can't, however, seem to decide what the show is. It veers too far in the direction of farce and silliness at times, especially in its early episodes, and it takes a long time for a more serious rhythm to emerge, before turning into a thriller in its final moments. It is not in the top rank of Cahn's productions, but there is plenty for fans of political drama to enjoy.

Book in the news... the forces that make for political chaos

End Times

Elites, Counter-Elites and the Path of Political Disintegration
Peter Turchin
Allen Lane, £20



In the West there is a "deep foreboding" that society is falling into crisis, says Francis Fukuyama in The New York Times. "Ever-growing polarisation, economic inequality and inflation" have led many on both the right and left of political opinion to believe that "once revered political institutions have become dysfunctional and illegitimate". Some worry that things are so bad that, in the US, "simply getting past the next election without the democratic system grinding to a halt" would be a big achievement. *End Times* by political scientist Peter Turchin joins the growing body of literature arguing that "we are in the midst of a major crisis".

As in his previous works, Turchin argues that "statistical patterns in the great flood of historical data" can predict future instabilities in societies, says Tim Adams in The Observer. One major force that tears societies apart is the "wealth pump", which "takes from the poor and gives to the rich" and causes the numbers of the super-rich to increase. Another is the "overproduction of elites", which leads to "an ever-greater number of people competing over a finite and increasingly corrupt structure of privilege and power". Elites that cannot then find positions to which they feel entitled turn on each other and fight for influence "as things fall apart".

Turchin predicted ten years ago that Western politics was heading for a period of upheaval, and he deserves credit for this insight, says Josh Glancy in The Sunday Times. Still, any "clear-eyed analyst" might had been led to similar conclusions. Turchin's views on wealth pumps and elite overproduction are "a useful prism" through which to look at instability, but like other grand theories suffer from being "too narrow and deterministic" and "oblivious to the human factors that drive events". History doesn't repeat itself, but it often rhymes, said Mark Twain. "This book is searching for the rhymes of history and the patterns of the past, but by relying too heavily on the data manages to miss all the human poetry."

Bridge by Andrew Robson

West in a fork

Plan the play in Four Spades on a passive six of Diamonds lead, West having advertised most of the outstanding strength.

Dealer South North-South vulnerable

West	North / South	East
	♠ QJ72 ♥ Q43 ♦ 95 ♣ J1053	
♠ A6 ♥ AJ97 ♦ 8642 ♣ A97	N / W E / S	♠94 ♥10652 ♦J1073 ♣Q62
	♠ K10853 ♥ K8 ♦ AKQ ♣ K84	

The bidding

South	West	North	East
1♠	Double	2♠	pass
4♠*	pass	pass	pass

* Marginal, given that West's double implies that the Aces are sitting behind South's Kings.

Declarer won and led a trump. West won the Ace and led a second Diamond. Declarer won and now came the key play. Declarer led a low Heart from his King-eight doubleton. West could not afford to rise with the Ace and give declarer two Heart tricks, so dummy's Queen scored. Declarer crossed to a Trump, seeing the even split, and cashed his third top Diamond, discarding a Heart from dummy. At trick seven, declarer exited with the King of Hearts.

West won the Ace of Hearts, but what could he do? Lead a red card and declarer could ruff in dummy, discarding a Club from hand, then run the Knave of Clubs. West was forced to open up Clubs, and now declarer was able to restrict his losers in the suit to one.

West's sensible choice of the nine of Clubs was covered by dummy's ten and East correctly refrained from playing the Queen. If his partner's Clubs had been Ace-nine-eight rather than Ace-nine-seven, this duck would have saved the day. But as it was, declarer could next lead a second Club to his eight, drawing West's Ace and promoting his King. Ten tricks and game made – there had been no winning defence.

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

Tim Moorey's Quick Crossword No.1172

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 18 Sept 2023. By post: send to MoneyWeek's Quick Crossword No.1172, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: crossword@moneyweek.com with MoneyWeek Crossword No.1172 in the subject field.

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

Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 Suitable fixture? (7)
5 Train and part of a train (5)
8 Serious art seen abroad (7)
9 One going downhill fast? (5)
10 Constant hum from aircraft (5)
11 On a horse, say in part of New York area (7)
12 Make over a second indicator (6)
14 Ref has abuse once again (6)
17 Dessert that is often preceding pie (7)
19 Gets rid of of outbuildings (5)
21 Minor key is permitted (5)
22 The first green US president? (7)
23 Food consumed in glamorous US high -spots (5)
24 Chambers facing heated random criticism (7)

DOWN

1 Mistakes revealing one's unconscious thoughts (8,5)
2 Trunk of a body (5)
3 Shipping hazard (7)
4 Escape from difficult situation (3-3)
5 Large barrel-like containers (5)
6 Stir (7)
7 Conker (5,8)
13 Young women in Australia (7)
15 Stocking material with an open mesh (7)
16 Loose skin hanging from animal's neck (6)
18 Member of Rwandan minority (5)
20 Historical period (5)

Name ....

Address ....

....

email ....

Solutions to 1169

Across 1 Retainer *two definitions* **5** A few *hidden* **9** Slang *hidden* **10** Tsunami *anagram less f* **11** Toaster *homophone* **12** Budge *budge(t)* **13** Dead marches *two definitions* **18** Brass *deceptive definition* **20** Nitrate *homophone* **22** Abalone *AB alone* **23** Biped *I p inside bed* **24** Deer *reed reversed* **25** Starters *initials.* **Down 1** Resits **2** Teacake **3** Ingot **4** Entertainment **6** Fraud **7** Waiter **8** Québec **14** Despot **15** Example **16** Aboard **17** Veldts **19** Aware **21** Tiber.

The winner of MoneyWeek Quick Crossword No.1169 is: John Shearer of Cellardyke

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

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

Sudoku 1172

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

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

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

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Governments fail upwards

Businesses must compete and thrive or die. States blunder on and on

©Getty Images

Bill Bonner
Columnist

We all make mistakes, and governments are no exception. Consider Nigeria's train project to link the capital with the airport. It opened in 2018 to great fanfare. Five years on, it's been all but abandoned. "Quite clearly there was no plan on how to run the operations before they built it," an adviser to the government told Bloomberg. Yet in the big scheme of things, Nigeria's useless train hardly rates a footnote. US president George W. Bush's "war on terror" was a $5trn, one-million-corpse error.

Mistakes are made in the private sector too, of course. Lordstown Motors was said to be proof that start-up manufacturers could succeed in America's heartland. Mike Pence said so when he visited the factory in 2020. Then, Hindenburg Research uncovered apparent fraud and fakery in the company's reports. Lordstown Motors declared bankruptcy two months ago.

Or consider Pan Am. The airline took off in the 1920s. By the 1960s, it had a near-monopoly on major international travel routes. Air travel was on the rise. And Pan Am had the reputation, market share, capital, and know-how to take advantage of it.

We can still remember what a thrill it was, when we bought our first airline ticket. We had been on aeroplanes before, courtesy of the US Navy. But it wasn't until 1969 that we took a commercial flight. At the time, Pan Am had a sparkling new building at JFK airport. When you entered, you knew you were going places.

Back in those days, even in New York, the ticket counters were manned by competent, polite people. There weren't so many passengers, and no "security" checks. We were not in so much of a rush to get in the queue or have our papers checked. Instead, we were calmly invited to choose "window or aisle", "smoking or non-smoking". It was a civilised experience, in other words.

> *"Pan Am had become too accustomed to the first-class section"*

Pan Am dominated one of the fastest-growing industries in one of the world's fastest-growing economies during its biggest growth spurt ever. Looking at it from the outside, the airline business looks simple enough. You know the cost of your equipment, fuel, and labour. The variable is ticket sales.

Donald Trump entered the airline business in 1989. For a while he competed with Pan Am for the "shuttle" business between Washington and New York. Pan Am had every advantage. It was a market leader, it scarcely needed to advertise. Still, it went out of business. How to explain it?

The simple explanation is the most obvious one. Over the years Pan Am had become too accustomed to the first-class section. And after the US government deregulated the airline business in 1978, it wasn't lean and hungry enough to compete. Pan Am had a profit motive. Its investors wanted to make money. Its employees wanted their jobs. Its customers, presumably, appreciated its service. And yet, it went down for a final crash landing in 1991. Trump's airline made its last flight a year later.

Even successful businesses are prone to institutional sloth and bureaucracy. But the difference is that they are also subject to competition. When they get too gummed up by internal politics and self-focus, too off-track or out-of-step with customers, competitors move ahead of them. New trends and innovations leave them behind. And they are soon history. Bear Stearns, Kodak, RadioShack, Circuit City, Blockbuster, Lordstown, Pan Am – all went broke. Nigeria and the US? They're still a going concern.

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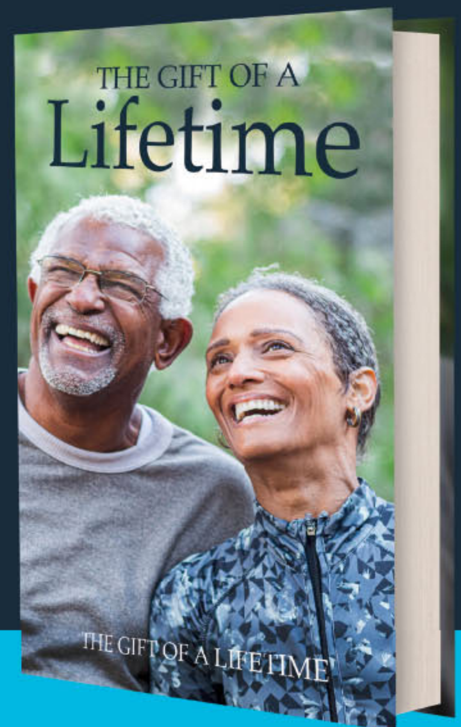

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