ANALYSIS *P22*
The FTSE's best stocks in 2023

PROFILE *P30*
The chess prodigy behind DeepMind

PLUS
Ten presents for under the tree
GIFTS *P34*

MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

15 DECEMBER 2023 | ISSUE 1186

Crucial commodity

Solving the global water shortage

Page 20

BRITAIN'S BEST-SELLING FINANCIAL MAGAZINE

MONEYWEEK.COM

SCOTTISH
MORTGAGE
INVESTMENT TRUST

The future of commerce.
Robots delivering
a helping hand.

INVEST IN PROGRESS

The Scottish Mortgage Investment Trust is a global fund seeking out the world's most exciting growth companies and investing in them for the long term. We believe this is the best way for you to enjoy strong returns for decades to come.

And we explore a number of exciting themes in order to seek out these world-changing businesses. Commerce is just one of them. Why not discover them all?

As with any investment, your capital is at risk.
A Key Information Document is available on our website.

Discover what's next.
Explore the future at scottishmortgage.com | *Connect with us:*

Managed by

Baillie Gifford™

Issued and approved by Baillie Gifford & Co Limited, whose registered address is at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Trust. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority. The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised or regulated by the Financial Conduct Authority.

MoneyWeek
15 December 2023 | Issue 1186
Britain's best-selling financial magazine

From the editor...

At this time of year it is especially important not only to ignore forecasts, but also to tune out "what self-interested trade groups say about their industry; they are lobbyists and cheerleaders", as financial blogger Barry Ritholtz points out. In 2021, says Ritholtz, America's National Retail Federation insisted that almost half of losses on inventory were due to "organised retail crime"; in fact the figure was 5%.

Similarly, companies and their founders are always coming up with inventive excuses for why the market ate their homework. I was amused to see that Heather Mills (pictured) has blamed the collapse of her vegan food empire VBites on the plant-based food market being hampered by "misinformation… by the meat and dairy industries".

The market ate the homework, not the food

©Alamy

> *"One of the key events of the late 2010s was US oil output eclipsing Saudi Arabia's"*

Corporate skulduggery

Guess what plant-based food group Beyond Meat's founder said when his company started to flounder last summer? "Interest groups… have succeeded in seeding doubt and fear around the ingredients and process used to create our… plant-based meals." It can't have been the delicious food, can it? These and other examples suggest the trend towards vegetarianism and veganism is slowing, so the spotlight in the food sector may shift toward cultured meat, a concept we have looked at regularly over the years and will revisit again soon.

What else, in addition to veganism, might we hear a bit less about in 2024? The house price recovery, perhaps (see page 4). As AJ Bell noted this week, "there's plenty more mortgage pain in the post". The Institute for Fiscal Studies and Citi estimate that we are just mid-way through the overall rise in housing costs that began in early 2022.

This tallies with estimates by Capital Economics and the Bank of England suggesting that half the effect of rising interest rates has yet to be felt. Moreover, given elevated core and services inflation, we may also hear a bit less about interest-rate cuts next year. Working from (a depreciating) home could also become less fashionable in 2024 given the mounting concern over people doing less and less work (see page 18) and lacklustre public-sector productivity. A chart doing the rounds this week shows total factor productivity in the public sector, in which many employees have preferred to work from home, essentially flatlining since the late 1990s.

On the other hand, we may hear a great deal more about oil output in the US (see pages 4 and 6). One of the key events of the late 2010s was the US eclipsing Saudi Arabia as an oil producer. It produces on average 13.1 million barrels per day, compared with Saudi Arabia's 8.9 million. As technology improves further, more and more oil will be extracted from shale formations.

Expect more jitters over deflation in China, too (see page 5). Real interest rates are on the rise, raising the debt burden, and weaker corporate sales and profits imply weaker wage growth. The authorities are doing too little to stimulate growth and there is a risk of a vicious circle of weakening demand and deflationary pressure developing, says Chetan Ahya of Morgan Stanley in the Financial Times. Finally, expect to hear more about bitcoin (see page 5). It is going up again. Like facial tattoos, some things happen for no good reason.

Andrew Van Sickle
editor@moneyweek.com

Miss Universe unnerves despot

Police in Nicaragua have accused Karen Celebertti, the organiser of the local franchise of Miss Universe, of having incited and financed terrorist actions and of having conspired in a foreign-backed plot to overthrow the government. The allegations are "absurd", says The Economist. Nevertheless, she has been barred from returning to Nicaragua and her husband and son have been arrested. Celebertti's real crime is having crowned Sheynnis Palacios (pictured), a Nicaraguan beauty queen, as Miss Universe in November. Palacios's triumph "sparked a rare wave of euphoria" in Nicaragua, with public celebrations – "spontaneous joy [that] unnerved president Daniel Ortega and his vice-president and wife, Rosario Murillo". In 2018, noisy pro-democracy protests resulted in 350 people killed by police and many more jailed. Officially, Palacios's coronation was "praised". Wisely, however, Palacios is now living in New York.

Cover illustration: Howard McWilliam. Photos: Getty Images; Patek Philippe

Good week for:

The Boy and the Heron, "a fantastical coming-of-age story from animation maestro **Hayao Miyazaki** (pictured)", made $12.8m during its opening weekend in North America, says Variety. It is the first original anime production to top the box office rankings there and the highest-grossing release for a film from Miyazaki's Studio Ghibli. The film has already grossed $56m in Japan, its home market.

A €750,000 diamond ring feared stolen from a room at the Ritz hotel in Paris has been found, says Le Parisien. The **Malaysian guest** had reported it missing to police after leaving the ring on a table while she went window shopping, only to find it gone when she returned. It later turned up inside a vacuum cleaner. The public prosecutor will decide whether to continue with the case.

©Getty Images

Bad week for:

Former prime minister **Boris Johnson** has been unable to finish his biography of Shakespeare, having lost "the goodwill of the intellectual classes because of... Brexit", says The Times. Johnson had been paid an advance of "at least" £80,000 by Hodder and Stoughton in 2015 for *Shakespeare: The Riddle of Genius*. But as academics are loath to work with him, "nothing has been published".

Peter Murrell, the former CEO of the Scottish National Party (SNP), and husband of former first minister Nicola Sturgeon, is being investigated by police over the purchase of a luxury £95,000 Jaguar as part of Operation Branchform, a fraud probe into the SNP's finances, says the Sunday Mail. The "top of the range" electric I-Pace SUV, registered in October 2019, has since been sold.

Oil prices slip into a bear market

Alex Rankine
Markets editor

©Getty Images

New technology is boosting US shale output in the Permian Basin

Oil prices are having their worst run in five years, says Laura Sanicola on Reuters. Brent Crude prices peaked at $94 a barrel in late September, but have since fallen by more than a fifth to trade around $73 early this week. Oil has dropped for seven weeks in a row, its longest losing streak since 2018. The slide comes despite a pledge by the Opec+ group of oil exporters, which includes Saudi Arabia and Russia, to cut a collective 2.2 million barrels per day (mbpd) of output in the first quarter of 2024. Traders are "sceptical" that Opec+ members will actually comply with promised cuts. Meanwhile, signs of deflationary pressure in China (see page 5) suggest a weakening global appetite for oil, adds CNN's Nicole Goodkind.

Opec+ is increasingly quarrelsome, says The Economist. Russia and Saudi Arabia want to keep prices high in order to finance, respectively, the war in Ukraine and economic modernisation. Riyadh needs a price of $85 a barrel to balance its budget. But Opec+'s West African members are unhappy with the group's repeated attempts to cap output. Meanwhile, Iraq has been pumping well over its quota, Iran and Venezuela are exempt from quotas because of sanctions, and Mexico "refuses to accept quotas" at all.

Opec+'s attempts to cut global supply have been undermined by record American output, say Myles McCormick and Jamie Smyth in the Financial Times. US crude oil production hit a record 13.2 mbpd in September, equivalent to roughly one in every eight barrels pumped globally. About 80% of the rise in global production this year has come from the US. Until recently, most had thought that US shale was too unprofitable to stage a recovery. But new technology is boosting output and lowering costs. Average production per rig at the Permian Basin, which is mainly in Texas, has soared from 183 barrels a day a decade ago to 1,319 now. Shale drilling is still a relatively new technology, leaving scope for more improvements ahead.

A risk of escalation

"War in the Middle East usually makes oil prices spike," says Wailin Wong for NPR. Yet prices have now fallen 12% from $83 a barrel in early October just before Hamas's terrorist attack on Israel. A repeat of the 1973 Arab oil embargo is a long shot. "We have seen Iran making some calls for an... embargo," says energy analyst Richard Bronze on NPR, "but that hasn't been picked up by other Middle Eastern producers or other members of Opec more widely."

Yet the threat of escalation has not gone away. On Monday, Iran-backed Houthi rebels in Yemen fired a missile at a Norwegian-flagged tanker, says Robert Greenall for the BBC. The attack caused a fire that was extinguished, with no crew injuries. The ship, which was transporting feedstock for biofuel to Italy, was transiting the Bab El Mandeb strait at the entrance to the Red Sea; some 10% of global trade passes through the strait. Since the start of the Israel-Hamas war, "at least ten merchant ships have now been attacked or approached around Yemen", says Bloomberg. The shadow of war still looms over oil market.

Expect another decline in UK housing

UK house prices rose in November for the second month in a row, according to data from Halifax. Property prices climbed by 0.5% on the month to an average of £283,615, says Kalyeena Makortoff in The Guardian. That followed a 1.1% increase in October.

Prices were down by 1% in the year to November, a "relatively modest" decline given rising interest rates. Nationwide, which runs a different housing index, also reports that prices rose last month, though by just 0.2%.

"With mortgage rates starting to ease slightly", there are signs of mounting confidence among buyers, says Kim Kinnaird of Halifax Mortgages. Yet with the economy weakening, "we expect to see downward pressure on house prices into next year".

©Getty Images

A second slide may already have begun

As recently as March, the Office for Budget Responsibility was predicting that house prices would crash by almost 10%, says Kate Andrews in The Telegraph. The doomsayers have "been proved utterly wrong". The average house is worth about £40,000 more than it was before the pandemic. While demand has wobbled, a structural lack of supply continues to prop up the market. Indeed, one wonders whether to call UK housing a "market" at all, so heavily is the system manipulated by politicians, bound up in red tape and "rigged" in favour of existing homeowners.

Not so fast, says Lucy White on Bloomberg. Expect a second slide. Sales portal Rightmove reports that prices fell by 1.9% in the month to 2 December. Prices often fall as the end of the year approaches, but this drop was unusually large. Separately, a report from banking trade association UK Finance forecasts that "lending for house purchases will fall by 8% over 2024", as a lack of affordability and economic uncertainty sap demand.

Bitcoin shrugs off scandal

Bitcoin is enjoying a "redemption rally", says Aaron Brown on Bloomberg. It is down 33% since its November 2021 peak, but has soared by 148% in 2023. The rally comes despite "massive scandals, bankruptcies, prosecutions and regulatory fights".

US regulators may soon approve exchange-traded funds (ETFs) in spot bitcoin and possibly other cryptocurrencies, too, says Jon Sindreu in The Wall Street Journal. That could attract huge inflows into digital currencies by making it easier for institutional and retail investors to gain exposure.

Crypto's last bull run in 2021 was marked by wild, irrational speculation on obscure "alt-coins" and related projects such as non-fungible tokens (NFTs), says Pauline Armandet on France' television network BFMTV. But the various scandals had the effect of "cleaning up the market". That has paved the way for regulators to move in.

If you want to buy crypto, "knock yourself out", says Katie Martin in the Financial Times. Just don't kid yourself that you are investing. It is more akin to "buying a lottery ticket". The case for a token that cannot yet be used to buy goods remains fuzzy. Fans declare that it is a way to avoid regulatory intrusion, but also an asset that is rising because it is about to be regulated. "If you ever see me... recommending that people should buy crypto, then... I have been kidnapped."

China slows to a crawl

While most of the world's central banks battle inflation, "China is grappling with falling prices," says Laura He on CNN. The country's consumer price index fell by 0.5% in the year to November, the second successive month of deflation. That's a symptom of frail underlying demand. Deflation can weaken activity by encouraging consumers to "put off purchases... in anticipation of prices falling further".

©Getty Images

China's struggling property market is worth 25% of GDP

Consumer confidence still hasn't recovered from the "brutal one-two punch" of "the housing meltdown of late 2021", followed shortly thereafter by "the 'zero Covid' lockdowns of 2022", says Nathaniel Taplin in The Wall Street Journal.

The economy is caught in a vicious circle: a weak labour market makes households unwilling to buy property, but the weak property market – comprising 25% of GDP – is in turn exacerbating the unemployment situation. The only way out would seem to be a major government bailout of property developers, but that is a political a non-starter. Beijing is determined to avoid a return to the days of rampant property speculation.

Stimulus stigma

With property developers and local governments heavily indebted, most Western economists think the solution is for China's central government to step in with a major fiscal stimulus, says The Economist. But while Beijing has made modest moves in that direction, officials seem to fear doing too much rather than doing too little.

Recent history explains why. Fifteen years ago, China unleashed a vast fiscal stimulus package in response to the global financial crisis. The measures led to "frenzied" spending and borrowing by local governments that ultimately "ballooned" to about a quarter of 2009 GDP. The spending splurge did revive growth, but the legacy of the vast debt left behind has given stimulus a lasting "stigma".

Policymakers may simply have concluded that things are not all that bad, says Philip Pilkington on UnHerd. Exports are picking up again and China is still on track to meet its 5% growth target this year. The world's second-biggest economy won't return to the "runaway" growth rates it enjoyed in the 2000s and 2010s, but nor should it be expected to as it becomes older and wealthier. Western commentators have convinced themselves the situation is more dire than it is.

The pervasive gloom is being fuelled by a sluggish stockmarket, says Bastien Bouchaud in Les Echos. While global stocks bounce, China's benchmark CSI 300 is down 13% this year to trade close to its lowest levels since 2019. It has also started to underperform other emerging markets (EMs), which have risen by an average of 13% this year, the biggest "divergence" since 1998. In 2020, Chinese shares made up 38% of the benchmark EM index, but that has since slipped to 25.5%.

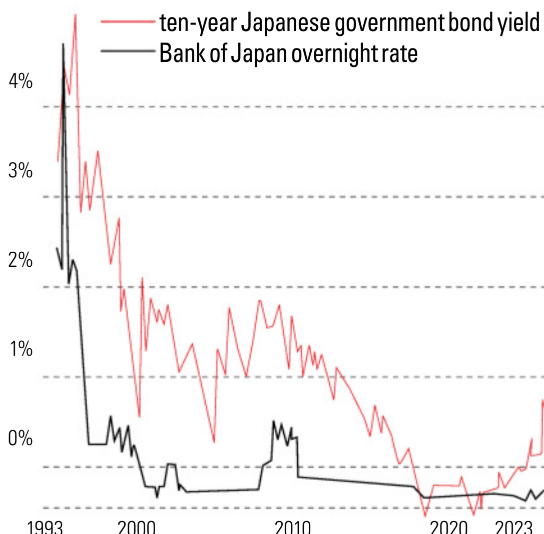
Viewpoint

"The KBW index of large American bank stocks has shed 15% this year... After a decade of mediocrity.. . banks now make up less than 5% of the S&P 500 index... Banks [still don't] look appealing... Customers fled regional banks following collapses earlier in the year... Even in the...'soft landing' [scenario]... in which there is no recession [and] few loan defaults... earnings would probably remain only around their present levels... So one looking at banks might turn his attention to Europe... Unlike in America, funding costs have not climbed much, in part owing to weaker competition... After nine years of negative rates, the return to positive ones has been 'like rain in the desert', says Huw van Steenis of Oliver Wyman... Extra capital requirements... are more modest in Europe... for the first time in a long time, perhaps [investors should consider] European [banks]."

Buttonwood, The Economist

■ Is the sun setting on Tokyo's zero-interest rate era?

Japanese interest rates and bond yields



The Japanese yen hit a four-month high against the US dollar on 7 December after comments from central bank governor Kazuo Ueda hinted that he could soon end Japan's long-standing negative interest rates, currently at -0.1%. The rally unwound early this week after markets decided they had got carried away. As the chart shows, Japanese yields and interest rates have stayed "on the floor" for decades, says John Authers on Bloomberg. Betting on higher Japanese rates has been so unprofitable that the trade has become known, ominously, as the "widowmaker". Ueda's "extended and cautious retreat" from ultra-loose money promises to end that era, but it could yet make more widows along the way.

Deal frenzy in oil sector

Occidental Petroleum is trying to ensure that the sun won't set on its ambitions. But has it borrowed too much? Matthew Partridge reports

Behold another "vast fossil-fuel" acquisition in the US, says Callum Jones in The Guardian. Occidental Petroleum is buying CrownRock for $12bn in cash and shares. The deal will increase Occidental's acreage in the Permian Basin, America's largest oil-producing area (see page 4), and boost its production in the region by about 170,000 barrels of oil equivalent per day. It is the sector's third big deal in three months, following ExxonMobil's purchase of shale group Pioneer Natural Resources for $59.5bn and Chevron's acquisition of Hess Corporation for $53bn.

Occidental's rivals have also made acquisitions, says Andrew Bary in Barron's. But while Exxon and Chevron are "conservatively" using equity, Occidental Petroleum's president and CEO Vicki Hollub has decided to "play more aggressively". This is because Occidental is issuing debt to finance most of its $12bn deal, at a time when it "already has the most leveraged balance sheet among its peers", thanks to its $55bn purchase of Anadarko Petroleum in 2019. The debt pile will rise to $28bn after the deal closes early next year.

©Getty Images

President and CEO Vicki Hollub is betting her shareholders' house on oil prices

Bailed out by Warren Buffett

The Anadarko Petroleum deal left Occidental "on the edge of bankruptcy", says Lex in the Financial Times. It saddled the company "with huge debts just as the global pandemic crushed oil prices". Things got so bad that Occidental had to turn to Warren Buffett for a "costly lifeline". While the company survived and rebounded rapidly after Russia's invasion of Ukraine propelled energy prices skywards, investors will still be wondering "if Oxy is tempting fate again", especially as operating costs are rising and energy prices have slid from last year's peaks.

The purchase of CrownRock "isn't nearly as expensive as the 2019 deal", says Javier Blas on Bloomberg. Nevertheless, the company is demonstrating "a cavalier attitude to leverage", especially since the oil industry is "cyclical". A debt load that looks "manageable" today could quickly turn into a "millstone" if the Opec+ agreement collapses. A cynic might say that, given the way Hollub is "betting her shareholders' house" on oil prices, Occidental should change its ticker from OXY to Opec to give "a more accurate reflection of what shareholders are buying".

Still, any worries among investors over this "latest splurge" may be quelled by the presence of "deal-savvy Warren Buffett", whose Berkshire Hathaway owns over a quarter of the $50bn oil giant, says Robert Cyran on Breakingviews. Remember too that the quality of CrownRock's fields is high, and the takeover "will increase Occidental's Permian inventory that can break even when oil is below $40 by about a third". Occidental is also planning on reducing the impact of oil-price volatility by implementing a strategy of "more measured, capital-efficient growth", with future production increases of below 5% annually. Other larger firms will follow suit, which "will tame the shale boom further", providing additional support for prices.

US retail star dims

Macy's, "one of the best-known names in US retail", could disappear from the stockmarket, due to a $5.8bn (£4.6bn) offer from Arkhouse Management and Brigade Capital Management, says Jasper Jolly in the Guardian. The flagship store in New York's Herald Square is one of the world's biggest department stores, and the company owns Bloomingdale's and the beauty chain Bluemercury. But Macy's "has struggled to adapt to online retail".

The interest from the two funds, which already own stakes in the company, has caused the share price to rise from below $11 a share in mid-November to $17.39 last Friday. They have even indicated that they might be prepared to go above the $21-a share offer.

Arkhouse Management and Brigade Capital aren't interested in "trying to arrest the storied department-store operator's decades-long decline", says Jeannette Neumann on Bloomberg. They are likely to buy its real-estate assets and may spin off the Bloomingdale's and Bluemercury chains. The group's real-estate assets in the US could be worth $8bn, barely less than the $8.5bn (when you take debt into account) the investors are offering, which implies that "they might not assign much value to the retail holdings".

Those clinging onto hopes that Macy's can somehow be turned around without a radical shake up need to be realistic, says Jennifer Saba for Breakingviews. Several previous activists have failed to get it to improve its digital offering. And it's hard to see how a "cavernous store with piles of merchandise switches to a social-media, digitally driven operation in the same vein as Pinduoduo's Temu or the China-founded, Singapore-based Shein". Even Gap, which occupies a similar "middle-of-the-road" niche has done better with e-commerce. If Macy's "can't shift what sits on its racks, maybe a new buyer can shift what sits under them".

A warning shot for investment platforms

Shares in AJ Bell and other platforms for retail investors have slid sharply after the Financial Conduct Authority (FCA), the City regulator, "fired a warning shot" at them, says Charlie Conchie at City AM. The FCA argues that they "may not be providing fair value to customers" when they retain at least some of the interest earned on customers' cash balances, with some also charging fees, a practice known as "double dipping". The FCA has been firing warnings at firms "after it beefed up its powers under the so-called Consumer Duty in July", and said earlier this year that banks needed to raise rates for saving accounts faster.

The fall in AJ Bell's share price is unsurprising given that the FCA has highlighted an "uncomfortable feature" of the company's business model, says Emma Powell in The Times. The interest generated on customers' cash balances has recently provided a "windfall" for the investment platform provider", with the latest results showing that this was the key driver of the company's 33% rise in revenue last year. Of course, while the income from this has fattened AJ Bell's margins, it was clearly an "unsustainable source of revenue growth" even before the regulator's intervention. Without such income, the platform will be forced to rely on growth in assets under management, which attract recurring fees. Asset growth has dwindled with the economic outlook.

AJ Bell will clearly lose out if it is forced to pay higher rates on savers' balances, says Lex in the Financial Times. Still, the market's judgement seems a little "harsh". After all, AJ Bells not only offers customers "access to some of the most competitive deposit rates for UK notice and term accounts", but it also "pays between 1.95% and 2.45% on cash balances held in dealing accounts and share Isas", which is better than many high-street banks. It also deserves credit for the low fees that come with execution-only services, which offer a lot of value for money and give it "strong growth potential" that "merits a higher rating from the market".

We're not teachers, but we support children's education *around the world.*

Our **e** for **education** campaign has a profound impact on the lives of young people globally. Through our network of nonprofit partners, Citi has raised $66+ million to help over 2 million youth enrich their lives in more than 54,000 schools across 81 countries.

citi.com/weareciti

© 2023 Citigroup Inc. Citi, Citi and Arc Design and other marks shown herein are trademarks and service marks of Citigroup Inc. used and registered around the world.

for the love of
unlocking possibilities.
for the love of progress

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

Five to buy

Gattaca
The Mail on Sunday
Gattaca helps firms find the engineers and technicians they need, working with firms as varied as BAE Systems, Network Rail and TripAdvisor. Gattaca's focus on science, technology, engineering and maths (Stem) requires its recruiters to have a specialist understanding of often technical fields. The shares came unstuck in the years after 2014 after the firm overexpanded. But the group is turning around: profits "soared" last year and the dividend was reinstated. Given the chronic shortage of Stem specialists in the UK, Gattaca's services will remain in high demand. *124p*

Nichols
The Sunday Times
Shares in the maker of soft drink Vimto have been buffeted by the cost-of-living crisis. But better days lie ahead. While sugary drinks feel a little "anachronistic" in the increasingly health-conscious UK market, Vimto is enjoying strong demand in emerging markets, recording strong revenue growth in Africa and the Middle East. There is scope for cost savings in the inefficient iced-drinks division, while a debt-free balance sheet is especially compelling in an era of pricier credit. *1,060p*

Paragon Banking Group
Interactive Investor
Talk of recession has kept investors away from this buy-to-let-focused challenger bank, but it defied the doubters with strong annual results this autumn. The stock is good value on six times forward earnings and a prospective 6.5% yield. While many banks are cheap, Paragon has a "proven business model" that has shown itself able to win business from many of the bigger but less specialised legacy lenders. Provided Britain dodges a serious recession, the shares look appealing. *550p*

SharkNinja
Shares
Shares in this "innovative" household-appliance maker have climbed by 13% since it listed in New York over the summer. The group is growing its market share with appliances including smart vacuum cleaners, air fryers and kitchen blenders. The management studies consumers to gauge whether its products can solve previously unrecognised problems. There are risks from a US slowdown and exposure to China, but household products are a huge global market; there is plenty of growth ahead. *$49*

Stride
The Telegraph
This US online education specialist is a rare lockdown winner that kept going even after Covid ebbed. Stride provides online teaching from kindergarten to high school, with a smaller but fast-growing operation focused on equipping young people and adults with job-market skills. The shares surged to 65 times earnings in 2020. But earnings have since grown to catch up with that rating, which has since fallen to just 14 times earnings. That's cheaper than Stride was for most of the period before the pandemic. *$61*

One to sell

Dr. Martens
Investors' Chronicle
This bootmaker is running out of excuses for poor performance in the key US market. Management blamed "teething problems" at its Los Angeles distribution centre for disappointing sales earlier this year, but now it looks as though there are "deeper issues at play". The group sold 600,000 fewer pairs of shoes in the six months to 30 September than in the same period in 2022, suggesting waning underlying demand for its products. Meanwhile, the company is burning through cash, while debt ratios are climbing to worrying levels. After four profit warnings in a year, management no longer deserves "the benefit of the doubt". Sell. *90p*

...and the rest

The Mail on Sunday
Bowling chain **Ten Entertainment** has become the latest UK stock to be snapped up by US private equity. Americans seem to see more value in the UK than Britain's own investors do. The deal looks likely to go through, so shareholders may wish to take profits to lock in a 70% gain over the past 12 months. Sell *(410p)*.

Investors' Chronicle
Never mind cost-of-living pressures – households still regard holidays as "sacrosanct", as strong trading at online travel retailer **On The Beach** shows. It plans to reinstate the dividend next year and on eight times forward earnings the shares are still on a big discount to peers in online travel. Buy *(135p)*.

Shares
Shares in infrastructure and engineering specialist **Costain** are close to a 52-week high but still look undervalued. The group enjoys "prodigious cash flow" and is sitting on a sizeable net cash pile. Either the shares will rerate higher or a private-equity suitor "will swoop in". Keep buying *(65p)*.

The Telegraph
Payroll and accounting software business **Sage** has shown its ability to grow margins even in the current inflationary climate, not least because businesses that use its services are reluctant to go through the hassle of switching. On 35 times earnings the valuation looks rich, but existing investors should hold as the long-term outlook remains auspicious *(1,134p)*.

The Times
A post-pandemic sales rebound has yet to lift shares in Caffè Ritazza and Upper Crust owner **SSP**. Travel consumption has remained robust despite wider cost-of-living pressures, so buy *(222p)*.

A French view

Paris-listed Worldline, one of the world's biggest online-payment processors, used to excite investors with promises of rapid digital growth. Yet the post-Covid period has been tough for the financial technology sector, says Marjorie Encelot in Investir. A profit warning in October was blamed on a household-spending slowdown and rising levels of cybercrime. The shares have plunged by 57% this year. They have bounced recently, but investors are getting carried away, says Hannes Leitner of investment bank Jefferies. Worldline has made ten acquisitions since 2020 and needs time to address an inflated cost base and work down debt before it can recover. Sell.

IPO watch

Polish house builder Murapol raised 404m zloty (£80m) in its initial public offering (IPO) last week, says Bloomberg, marking the end of a two-year drought in flotations in Warsaw. The listing valued Poland's second-biggest homebuilder at 1.35bn zloty (£267m). Murapol's owner Ares Management enticed investors with a hefty dividend, but the robust state of the housing market, a result of state-subsidised mortgages underpinning demand, was the key draw. The group's focus on less expensive apartments means it should prove relatively resilient to fluctuations in the market. Warsaw's WIG Real Estate index has risen by 44% this year.

©Alamy; Getty Images

To be ahead in Asia, be on the ground.

abrdn Asian Investment Trusts

In Asia, life and business move fast. To invest here successfully, you need local knowledge.

abrdn has had investment teams in Asia for almost 40 years. So we get to know markets, companies, trends and innovations first hand. And you get to select from investment trusts featuring the most compelling Asia opportunities we can find.

To harness the full potential of Asia, explore our Asian investment trusts on our website.

Please remember, the value of shares and the income from them can go down as well as up and you may get back less than the amount invested. Asian funds may invest in emerging markets which can carry more risk than developed markets.

Request a brochure: 0808 500 4000

invtrusts.co.uk/asia

Issued by abrdn Investments Limited, registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL, authorised and regulated in the UK by the Financial Conduct Authority. Please quote Q424.

Rishi Sunak's Rwandan disaster

The prime minister's flagship migration policy is a terrible idea that won't fly. Emily Hohler reports

It's sink or swim time for the Tories

©Getty Images

Rishi Sunak avoided defeat over his Rwanda Bill on Tuesday night, but his government seemed in "as much peril as a Channel crossing by barely inflatable dinghy", says Camilla Tominey in The Telegraph. The bill passed by 44 votes, but 37 Tory MPs abstained, 29 without permission. While this may have averted a leadership challenge, a war is "still waging" between the right of the party and the One Nation group, with "at least five Conservative caucuses now in cahoots over how the legislation should be toughened up before its third reading" in the New Year.

It's not just problematic that Sunak is "clinging for dear life" to an unconvincing policy; far more concerning is that so many of Sunak's own MPs would "prefer to sit on their hands than throw him a rescue ring". At 20 points behind in the polls, it is "sink or swim time for the Tories".

A semi-skimmed bill

The opposition seized on the Tory infighting, with Yvette Cooper, the shadow home secretary, saying it demonstrated Sunak's weakness and pointing out that the costs of the scheme, expected to cover less than 1% of those arriving in the UK, are rising to £400m, while "no one has yet been sent". The Rwandan government has already been paid £240m, and each asylum seeker sent to the country is expected to cost an average of £169,000, notes Reuters.

Sunak thought his January promise to do "whatever it takes" to stop the boats was drawing a "killer dividing line" between the Tories and Labour, says Patrick O'Flynn in The Telegraph. Instead, he has divided his own party, while Keir Starmer has openly said he will "pull the plug" on the policy if he becomes prime minister.

Will the bill even work? Not according to Robert Jenrick, who resigned as immigration minister last week after failing to convince Sunak to go for the "full fat" option, which would mean disapplying the European Convention on Human Rights (ECHR) from asylum law, say Tim Shipman and Harry Yorke in The Sunday Times. One of Jenrick's main concerns is that, while the bill states that Rwanda is a safe country and disapplies the use of the Human Rights Act in a number of areas, it does not prevent migrants from appealing.

Downing Street aides say the legislation is tight enough to "prevent all but known dissidents of the Kagame regime from arguing for an exemption". Rebel Tories will now be seeking to "introduce amendments designed to force the government to remove the right of judicial review and disapply the ECHR".

Rwanda itself has said it is unwilling to take part in a scheme that leads to the UK breaching international law, says Philip Collins in The Times. In effect, Sunak is "borrowing a moral conscience from Paul Kagame" – a "clue to the true and decisive objection to this awful bill". There is "every reason" to think that Rwanda will "mistreat refugees". The Supreme Court recently ruled that the country was unsafe; an act of parliament declaring that it is, in fact, safe doesn't magically make it so.

According to the UN, 94% of refugees, asylum seekers and other displaced people in Rwanda depend on the World Food Programme for basic necessities, and 87% are "highly vulnerable". Sunak has "cleaved to a terrible policy he cannot enact" and which has put paid to the idea that he is "more constitutionally proper and less reckless" than his two predecessors.

It "beggars belief" that he has made it a "defining pledge of his premiership", agrees The Observer. It has divided his party and will make no real difference to the UK. "This a is a rotten government led by a prime minister incapable of governing and wholly unsuited to confronting the huge challenges we face."

Labour makes its pitch to swing voters

Starmer: keeping it vague

©Getty Images

In a speech on Tuesday marking the fourth anniversary of the 2019 general election, Keir Starmer said he had overseen a "complete overhaul of his party", says Sam Francis on the BBC. Labour has an 18-point poll lead over the Tories, but the last election saw Jeremy Corbyn's Labour suffer its worst defeat since 1935.

Achieving a majority in 2024 will therefore require a "larger swing than Tony Blair's in 1997". As part of his pitch to former Tory voters, Starmer wrote a piece in The Sunday Telegraph praising Margaret Thatcher for delivering "meaningful change", prompting criticism from the left of his party.

The bookies give Starmer a 90% chance of winning the next election, but his agenda is less certain, says Katy Balls in The Spectator. He is set to inherit a tough set of circumstances. Even if scrapping non-dom status and the VAT exemption on private schools provide the hoped-for £4.9bn, "neither would do much to slow the government machine, which now spends £1,150bn a year".

Although Starmer insists that his party "always" invests in public services, he has refused to rule out cuts and therefore may not reverse the £19bn of cuts slated by this government. He has refused to increase taxes on working people, now at a 75-year high, and says his "borrow-and-spend package aimed at supporting green jobs" will have to wait until national debt is growing at a slower rate than the economy, which may not happen until 2027. "How legitimate is a growth plan which can't be achieved until there is more growth?"

His "new deal" for workers is allegedly pro-growth, but it means more rules for business. In short, it's not obvious how Labour can succeed "where the Tories have failed", but it seems a safe bet that "exasperation" with this government will allow him to keep his plans "vague". Blair's agenda in 1997 was, too. "Voters punished him with a landslide majority."

Will aid to Ukraine dry up?

The US and EU are struggling to agree new deals. Matthew Partridge reports

US president Joe Biden has pledged to continue to back Ukraine "as long as we can" following a meeting with Ukraine's president, Volodymyr Zelensky, even as Republican leaders "dashed hopes of a quick deal to provide funding to Kyiv", says James Politi in the Financial Times.

Republicans are insisting on making any more help for Ukraine conditional on "strict immigration curbs", which are "unpalatable" to the White House. Biden's words were slightly more "sober" than previous promises that the US would back Kyiv for "as long as it takes", but they still imply Biden is confident of finding a compromise on immigration that can unlock the necessary funds, without which Ukraine will face a "very difficult year".

Zelensky and Biden: time to go beyond "happy talk"

©Shutterstock

It's time to get real

Biden's optimism is "all well and good", says Daniel DePetris in The Spectator, but it sounds like "wishful thinking". Biden does not control the US Congress nor the "purse strings". And given the lack of progress on the ground in Ukraine, it might be argued that his continued "happy talk" does Ukraine a "disservice" – he needs rather to deliver some "tough, clear, honest talk behind closed doors about where the war is heading, as well as America's capacity to sustain Kyiv's defence efforts".

There's nothing wrong with Biden's rhetoric, just his willingness to make the necessary compromises on immigration, says William Galston in The Wall Street Journal. Giving ground there might well "weaken his party's unity" but it would acknowledge general discontent, even in Democrat-leaning cities, over "a record flow of immigrants who can't legally work". In any case, failure to give additional aid quickly risks a defeat for Ukraine that "would undermine what is left of his reputation as an effective steward of American foreign policy". He should therefore call the Republicans' bluff by insisting that Congress "remain in session until it passes a package that contains border reforms and aid to our allies, including Ukraine".

Brazen horse-trading

The US is not the only one of Ukraine's allies to be getting cold feet, says Joe Barnes in The Telegraph. Hungarian prime minister Viktor Orban has threatened to veto the European Union's attempt to provide "much-needed finances" for Kyiv, as well as stop "formal negotiations on the war-torn country joining the bloc". An inter-governmental deal, involving loans, could possibly "provide Kyiv with finances for at least a year", but it would probably get "bogged down in legal complexities and fail to provide… the full €50bn of support envisaged".

That left open the possibility of a back-room deal to release $10bn in EU funds – frozen because of concerns about the rule of law and corruption – in return for Hungary allowing aid to Ukraine. That "bung" was duly offered and may be enough to change Orban's mind, at least on the issue of aid, says Roger Boyes in The Times. On the other hand, it might not, as Orban might calculate that "there's still more he can lever out of Brussels". In either case, the "brazenness of the horse trade… weakens the EU's strategic and moral credibility" and looks "malign" given that Ukraine "is shedding blood in the Western and European interest".

Macron reels from blow of migration bill defeat

President Emmanuel Macron's government suffered a "humiliating blow" when the French parliament threw out his immigration bill on Monday, says Charles Bremner in The Times. The centrist government, led by prime minister Élisabeth Borne, had spent months modifying the bill to garner support from the centre-right, only for them to end up backing a motion from Marine Le Pen's National Rally and the left-wing opposition "to cut short examination of the bill and reject it outright". The bill promised faster expulsion of unsuccessful asylum seekers while legalising illegal migrants who work in understaffed industries.

©Getty Images

It is yet another example of Macron (pictured) "saying one thing but doing another… to keep his disparate party united", says Gavin Mortimer in The Spectator. All the tough talk about expelling asylum seekers wouldn't have addressed the issue of legal migration, which has reached an historic high, and in the end the bill failed to satisfy "his own party, let alone the rest of parliament".

Its failure raises the question of whether France "has become ungovernable", says Clea Caulcutt for Politico. Doubts have been swirling ever since Macron lost the parliamentary elections last year. With his centrist coalition lacking an absolute majority in the National Assembly, Macron has been "muddling through" with ad hoc deals with other centre-right parties, while occasionally using the "bazooka" of a controversial constitutional manoeuvre that allows him to bypass parliament. This crisis, however, seems to have "blown up" Macron's method of governing. He now looks like a "lame duck".

Betting on politics

Rishi Sunak may have succeeded in heading off an immediate rebellion by getting the Rwanda bill through its first reading (see previous page), but punters don't think he's out of the woods just yet. They're betting there's a good chance of further leadership turmoil in the Conservative Party before the next election. With £13,933 matched on Betfair, they put the odds that Sunak won't be leader at the next election at 4.1 (24.3%), with 1.25 (80%) on him still being leader.

My feeling is there is very little appetite for further change, not only because there are no obvious alternatives, but also because Sunak doesn't seem to have stirred the amount of antipathy that either Boris Johnson or Theresa May ended up creating before their departures. Furthermore, his decision to bring back David Cameron, though not popular with many MPs on the right, has boosted him with more centrist MPs.

Most importantly, I think even Sunak's most hardened critics within the Conservative Party would accept there is no guarantee that the Conservative Party would do any better in the polls under an alternative leader. Indeed, voters would probably punish them for changing leader yet again. As a result, I think the 1.24 on him being leader at the next election represents value (though don't bet any more money if you've already taken my advice).

The same arguments apply to chancellor Jeremy Hunt, especially if he announces tax cuts in the Budget, as he is expected to. You can't bet on whether he will survive, but Ladbrokes is offering odds on who will succeed him. This depends on a number of factors, not least the outcome of the next election, and who Keir Starmer might select, but current shadow chancellor Rachel Reeves at 7/4 (36.3%) seems like a good bet.

London

Cigarette brands go up in smoke: British American Tobacco (BAT) has written down the value of some of its US cigarette brands by £25bn, say Oliver Barnes and Maxine Kelly in the Financial Times. The group, which bought Reynolds American – the second-biggest US cigarette maker by sales – for £40bn in 2017, blamed changing consumer habits for declining sales. Many squeezed smokers are switching to cheaper brands, quitting, or being drawn to illicitly sold disposable vapes, it said. The value of affected brands, including Camel and Pall Mall, has been cut by a third, from £67bn last year.

BAT calls its primary source of cash "combustibles", not cigarettes, and it's not hard to see why, says Lex in the same paper. Just like in the oil industry, tobacco companies facing a strategic choice can either "extract as much value as possible from legacy assets and liquidate their stock, or they can seek to build new sustainable businesses". Unfortunately for BAT, it has "fallen between these two stools". BAT is "doubling down" on smokeless products, such as vapes, but it doesn't help that regulators view this segment of the market with suspicion. The group will be hoping it can grow its way out of the hole it's in "before cigarettes blow out". But recent performance suggests only lower global interest rates will bring investors back.

San Francisco

App stores upended: A jury in California has handed Google a defeat that "threatens to roil an app store duopoly with Apple", says Bloomberg. In 2020, Epic Games was kicked off the Google Play and Apple app stores when the maker of the popular title *Fortnite* allowed customers to pay through its own payments system. Both Google and Apple charge commissions of up to 30% to use their stores, and Epic sued on competition grounds. Side deals made with some developers over fees is another bone of contention. The following year, a judge ruled mostly in Apple's favour, but this week, in a similar case brought against Google, the jury sided with Epic. "There's a fortune at stake." Google is set to make $10.3bn in revenue from its Play Store this year. For every five percentage-point decrease in the fee rate, Google stands to lose an estimated $1.3bn in operating income. Total in-app spending is forecast to reach $207bn by 2025. The European Union's Digital Markets Act, which comes into effect in 2024, is another headache for the tech giants. That will force Apple to allow third-party app stores and billing systems to compete in the EU. Google plans to appeal the latest court decision. "The cat's out of the bag," says Joost Van Dreunen of NYU Stern School of Business. "The unanimous verdict… has the potential to [affect other technology subsectors] considering how blatantly Google sought to optimise its interests."

Buenos Aires

Milei sworn in: Libertarian economist Javier Milei (pictured) has been sworn in as president of Argentina, say Nicolás Misculin and Candelaria Grimberg on Reuters. Milei warned in his maiden speech that only radical reform can fix the county's worst economic crisis in decades. "There is no alternative to a shock adjustment," he said. The value of the peso has collapsed, the central bank owes $10bn, and the country is $44bn in the red to the International Monetary Fund (IMF). The former TV pundit won last month's election from the ruling centre-left Peronist coalition that had failed to keep prices down, with inflation expected to exceed 200% within months and a recession looming.

Milei plans to cut public spending by 5%, which will fall on the state, not the private sector and reduce the number of ministries from 18 to nine. Argentina will also weaken the peso by half to 800 to the dollar, as well as cut energy subsidies and cancel tenders for public works, Luis Caputo, the new economy minister, said on Tuesday. The plan would be painful in the short term, he warned, but it would be needed to cut Argentina's fiscal deficit, which he put at 5.5% of GDP, and bring down consumer-price inflation, which is running at almost 150%. Two-fifths of the population is currently living in poverty.

The way we live now... the booming bear market

Toymakers in the US are racing to create the world's softest cuddly toys, says Chavie Lieber in The Wall Street Journal. Overall toy sales have fallen 8% from a year earlier, but it is the plush toys segment that is enjoying "a relatively soft landing" amid declining overall household spending. Sales have increased by 4% in 2023 – from £846m in October 2020 to $1.7bn in October this year. Plush-toy makers are rushing to refine their production methods. Thread counts, often used to determine the quality of bed sheets, are now applied to soft toys, too, with the best on the market boasting over 1,000 threads per square inch. In particular, it is the "kidult" market that is really booming. "Kidults" are adults who still collect soft toys, and while the psychological reasons for needing such comfort are yet to be fathomed by experts, the boost they give to profits is more apparent. Speaking to various plush-toy collectors, The Wall Street Journal found that many children and adults cite the same reasons for buying – namely, sensory stimulus and a semblance of company. "Ahead of a holiday season dampened by a weak forecast, toy makers and retailers are trying to stay flush with plush."

Plush toys are a comfort to retailers

©Getty Images; Google

©Getty Images
The deal is a shot in the arm for AstraZeneca

Cambridge

Vaccine deal: Anglo-Swedish drugs giant AstraZeneca is buying its first vaccine maker, Seattle-based Icosavax, in a deal worth up to $1.1bn, say Hannah Kuchler and Donato Paolo Mancini in the Financial Times. Icosavax has been developing a vaccine for two common respiratory diseases that can cause severe illness in older adults: respiratory syncytial virus (RSV) and human metapneumovirus (hMPV). While the new vaccine, IVX-A12 – which is currently in late-stage trials – would compete with approved shots from rivals GSK and Pfizer for RSV, there are currently no treatments for hMPV. AstraZeneca values the RSV market alone at $10bn, and the Icosavax shot has received fast-track status from the US regulator, the Food and Drug Administration. The Icosavax acquisition is unlikely to be AstraZeneca's last as it seeks to bulk up its vaccine business, depending on "how the candidates in the pipeline develop", says Adam Barker of research firm Goodbody. AstraZeneca already sells an antibody, developed with France's Sanofi, that protects infants from RSV. It is also targeting other diseases, having announced a $2bn deal last month to acquire and develop an oral treatment for obesity. The Icosavax deal is expected to close in the first quarter of 2024.

Hong Kong

Low voter turnout: A "patriots only" district election in Hong Kong that saw opposition democrats barred from the ballot sheet had a record low turnout of 27.5% of the city's 4.3 million voters as many voters "spurned what was seen as an undemocratic poll", say Edward Cho and Dorothy Kam on Reuters. The turnout in the last district elections in 2019, when opposition candidates won by a landslide, was 71.2%. Since then, and following the pro-democracy protests of that year, Beijing has imposed a draconian national security law that has been used to "clamp down on dissent, and overhauled the electoral system to shut out democrats and other liberals". Many pro-democracy supporters stayed away from Sunday's polls after the number of directly elected district councillors was cut to less than 20% of 470 seats, down from 94% in 2019, says Chan Ho-him in the Financial Times. The rest of the councillors are chosen by the city leader, John Lee (pictured). The low turnout, which followed a major effort to mobilise voters with carnivals, a drone show and a TV gala performance, will be seen as a "blow to official efforts to legitimise China's vision for governing the territory".

Bloomfield

Talks called off: Connecticut-based health insurer Cigna has called off its planned tie-up with Humana, says Lauren Thomas in The Wall Street Journal. Shareholders had "baulked" at the deal, which would have created a $140bn industry giant, and ultimately neither company could agree on a price. Cigna will instead focus on smaller, "bolt-on" acquisitions and buy back $10bn of stock, including $5bn between now and next summer. "A merger of the managed-care providers would have been huge." Cigna's market value is $87bn, despite having taken a 10% knock since the deal was announced last month. Humana is worth around $59bn. Together, they would have rivalled giants UnitedHealth and CVS Health. Cigna, which focuses on commercial insurance of the sort offered by employers, will continue to explore the sale of its business related to the federal insurance scheme, Medicare Advantage. But offloading that business, while halting its pursuit of Humana, "could leave Cigna shut out of… [a] growing part" of the sector prized by investors. The abandoned deal also provides "yet another sign of how tough the [mergers and acquisitions] market has been this year, beset by high interest rates, concerns over the direction of the economy" and greater scrutiny of monopolistic practices.

London

Economy weakens: The economy unexpectedly shrank in October by 0.3% month on month, reversing September's 0.2% expansion. It "may go nowhere" in the current quarter, says Paul Dales of Capital Economics. It may even be in the "mildest of mild recessions" as the effects of higher interest rates "bite harder". Unseasonably wet weather didn't help, but, crucially, the weakness was "broad based" with all three main sectors – services, manufacturing and construction – reporting lower activity. That may "nudge" the Bank of England "a little closer" to cutting rates, but probably not anytime soon. Still, the "ongoing drag" from rates is taking its toll on wages. Pay growth, including bonuses, slowed to 7.2% in the three months to October, from 8% in the previous period. The number of job vacancies also fell, for a 17th consecutive quarterly decline, with openings falling by 45,000 between September and November. The Bank, and investors looking for earlier rate cuts, are watching closely, says AJ Bell's Danni Hewson. Yet, with consumer-price inflation rising at an annual 4.6%, the Bank will most likely hold firm until it can bring it down to "that elusive 2% target". "The economy is weakened, treading water until such a time as those rate hikes can start to be unravelled."

A pivotal moment for the climate

But it has little to do with the annual shindig for green grifters and hypocritical billionaires at the Cop summit. The race for green tech will determine the future of the planet. Simon Wilson reports

What's happened?

The 28th Conference of the Parties of the United Nations Framework Convention on Climate Change – Cop28 – concluded this week, amid even more chaos, acrimony and last-minute brinkmanship than usual. The final agreement, delivered on Wednesday – almost 24 hours late following all-night wrangling – was hailed by some as "historic" for being the first ever Cop text in which all signatory nations called for a "transition away" from all fossil fuels. However, critics attacked the statement, dubbed the "UAE consensus" by the Dubai hosts, as being so vague, weak and full of loopholes (not even calling for a "phasing down" or "phasing out" of fossil fuels) as to be all but meaningless. And several small nations claimed they'd been bounced into the last-minute deal with no time to object.

Clean tech is the economic prize of our time – and China and the US know it

©Getty Images

What does the agreement say?

It sets out the issue: that "deep, rapid and sustained reductions" in global greenhouse gas emissions are needed to limit global warming to 1.5˚C above pre-industrial levels. It sets a target of 43% cuts by 2030 and 60% by 2035, relative to the 2019 level, and of net-zero carbon dioxide emissions by 2050. It calls for (a) the tripling of renewable-energy capacity globally, and doubling the global average annual rate of energy-efficiency improvements, by 2030; (b) the acceleration of efforts towards the phase-down of unabated coal power; and (c) the "transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science". This is the first time the root cause of warming, fossil fuels, has been addressed so directly in a Cop decision text. The text also calls for the acceleration of "renewables, nuclear, abatement and removal technologies such as carbon capture and utilisation and storage (CCUS)" – the latter being at the insistence of petrostates such as Saudi Arabia. But there's vanishingly little about money and funding.

What else got achieved this year?

Unusually, the summit did kick off with a concrete achievement – the founding of an $800m "loss and damage" fund to help vulnerable countries cope with global warming. And Cop28 also saw a welcome focus on methane, which is about 30 times more powerful than carbon dioxide when it comes to trapping heat in the atmosphere. The gas accounts for about 30% of global warming to date, and about 60% of global methane emissions come from human activity. In Dubai, some 50 of the world's biggest oil and gas companies pledged to cut methane emissions to near zero by 2030. The conference also agreed more than $1bn in new grant funding to help cut methane emissions, and several big countries – including the US, Canada, Brazil, and Egypt – said how they plan to meet their targets under the existing Global Methane Pledge.

So the Cop process is working?

In truth, only two of the 27 UN climate summits to date have even been half-successful, says George Monbiot in The Guardian – those being Paris in 2015 and Kyoto in 1997. "If any other process had a 3.7% success rate, it would be abandoned in favour of something better." Time to retire the annual Cop jamboree, he argues, in favour of a series of binding treaties on fossil fuels and deforestation that are supported by a new International Climate Agency, modelled on the International Atomic Energy Agency. Dubai probably marks the beginning of the end of the Cop process, says Andrew Neil in the Daily Mail. No doubt the assorted "green grifters", "billionaire hypocrites", and "disingenuous green-washers" will continue to rack up air miles as they fly in to hob-nob in exotic climes. But as a path to net-zero, the process is all but dead.

"As a path to net-zero, the Cop process is all but dead"

Why's that?

"The more Cop talks and grows, the faster carbon emissions expand," says Neil. Despite the £5trn spent on renewables over the last two decades, fossil fuels still account for more than 80% of the world's energy consumption, broadly the same as at the start of the century. Electricity generation (mostly coal-fired) in China and India, plus the US's booming oil and gas production, have caused the biggest increases in greenhouse gas emissions since 2015. (In September, the US pumped 13.2 million barrels of crude each day – the highest level ever.) The Paris climate agreement signed that year is "in pieces", and US officials now predict carbon emissions will carry on rising for 30 years. That doesn't mean we should give up in despair. Carbon emissions must be cut – and the way to do it is massive public and private investment in developing carbon capture and storage, and in large-scale battery storage for renewable power.

So there are grounds for optimism?

Absolutely, says Ambrose Evans-Pritchard in The Telegraph. The Cop process helped kick-start green tech and scale it up, but it has outlived its original purpose. It has become a venue for vested interests ("Big Oil, Industrial Meat, Big Auto, you name it") to try and slow down the "post-carbon juggernaut" – and should refocus on scientific advances and helping the most vulnerable nations. The success or failure of Cop – and the exact phrasing of its agreed texts – no longer matter. Whether the world succeeds in cutting carbon emissions fast enough to keep us within 1.5 degrees of warming depends entirely on the "arms race for clean-tech dominance between the US and China" – and the signs are encouraging. China, for example, is rolling out 210 gigawatts of solar this year, not far short of the entire new capacity worldwide the year before. Its solar-panel capacity will hit 1,000 gigawatts by 2026, and its battery capacity will grow sixfold, according to Carbon Brief. Meanwhile, the US is responding with "$2trn of manufacturing rearmament" because it recognises that "clean tech is the economic prize of our time". Technology, innovation and market price signals will change the world, not UN talking shops.

Sunak screwed up during Covid...

... but not in the way that the Covid inquiry seems to think

Matthew Lynn
City columnist

Along with all the most important ministers and officials in charge of the UK during the difficult months of the Covid lockdown, prime minister Rishi Sunak has been before the Covid inquiry and put through intense questioning over the decisions he made over the course of the pandemic. His "Eat Out to Help Out" scheme, which subsidised half the cost of going out for a meal, has been blamed for spreading the virus and triggering a second lockdown. More broadly, the barristers have tried to pin the blame on him for questioning the cost of Covid restrictions and trying to factor in the impact on the economy.

The hugely expensive inquiry looks almost certain to conclude that the government was reckless, callous, and perhaps even caused the deaths of thousands of people who would otherwise have survived. It didn't follow the science, its implementation was chaotic, and, pushed by Sunak, it kept trying to find ways of preserving the economy instead of putting health first. That is not only completely unfair, it also entirely misses the point.

A £400bn disaster

Sunak made three major mistakes during Covid. First, the furlough scheme was very badly designed. It was one of the most expensive interventions in the economy that a British government has ever launched, with an estimated cost of £70bn. But by paying people to stay at home and do nothing it has shattered the culture of work. We can see that all around us. Staff are refusing to go back to the office full-time, especially in the public sector, even though it has become clear they are not as

A gimmick, but a step in the right direction

©Alamy

productive as they used to be. The over-50s have left the workforce in droves, with 3.5 million of them taking early retirement, even though they may not have enough money to live on comfortably for the rest of their lives. Even the self-employed, the hardest working section of the workforce, have given up, with their numbers falling by 500,000. Other countries designed far less generous Covid support schemes that subsidised companies that couldn't meet the wage bill, or paid out generous benefits to anyone who lost their job, and those have had far less of an impact on the numbers in work.

Next, as chancellor, Sunak spent far too much money. Estimates of the total cost of Covid run as high at £400bn. At times it seemed as if the government, and Sunak in particular, was boasting about the amount of money that was being spent. It will take decades for the public finances to recover. Taxes have been pushed to the highest level in 70 years, but even with record levels of revenue being squeezed out of the economy, the government is still running a huge deficit and growth is getting crushed. The toll on the economy has been far larger than anyone reckoned with at the time, and yet the inquiry does not seem interested in that.

Finally, we did not re-open quickly enough. Eat Out to Help Out may have been a gimmick, but at least it was a step in the right direction. It was an attempt to help small businesses that had been struggling through the pandemic, and it encouraged people to start going out again. There is no evidence that it made the situation any worse than in other comparable countries. In addition, Sunak could have ended the furlough scheme earlier to encourage people back to work, and ended the cheap loans for businesses. He should have been pushing for that as chancellor instead of signing off on more and more spending.

Lockdowns were a huge mistake

The one thing Sunak got right was that he was trying to save the economy. He should be attacked for not doing more to keep businesses functioning normally, not for failing to impose even more restrictions. As the evidence of the long-term damage to the economy, the health system and to education caused by lockdowns mounts up, it is becoming increasingly clear that closing down society during Covid was a huge mistake. That is what the inquiry should be focusing on, not trivial issues such as Eat Out to Help Out.

City talk

● London has bigger problems than Tui's possible departure, says Nils Pratley in The Guardian. Europe's largest tour operator is considering delisting from the UK and "flying solo" in Germany. Yet the reality is that Tui is headquartered in Germany, was propped up by that government in the pandemic, and the majority of its shares are held and traded there. So it has little need to keep a UK listing that dates back to the First Choice business that merged with Tui in 2007. "Two listings means extra expense and hassle. You wouldn't create today's set-up if starting from scratch." There are real reasons to worry that the UK market "lacks fizz, freshness and the deep pools of liquidity of the US", but these reflect a shortage of start-ups and the money to back them. "That puzzle, sadly, is harder to solve than the technical listing question at a package holiday operator."

● There's no doubt that the meter is running down on London, agrees Alistair Osborne in The Times. The latest example, aptly, is the 955p per share bid for Smart Metering Systems, which manages smart electricity and gas meters. This is not a struggling business: profits have grown strongly since it tapped investors for £175m in 2021 to fund growth plans, at 900p per share. Yet before KKR showed up, the shares had been drifting lower and were trading at 680p. Investors were more interested in dividends from the meters' recurring revenues than providing any substantial further capital for growth plans such as battery storage. KKR's ownership will bring that investment, which is better for the firm and net-zero Britain. "Yet what does it say about the UK market?"

● Three of the UK's "often dozy" regulators are "rippling their muscles," says Alex Brummer in the Daily Mail. Ofcom has turned on telecoms firms over mid-contract price rises, the Competition and Markets Authority is probing Unilever over claims it over-stated its green credentials and the Financial Conduct Authority is taking aim at the rates that investment firms pay on cash (see page 6). Other watchdogs should do the same. After all, the Civil Aviation Authority "stands limply" as Heathrow's overseas owners ramp up prices, Ofgem "allowed the energy market to become the Wild West" and as for Ofwat, "there is one word to describe its performance: sewage".

©Tui Group

Rounding up our review

We're halfway through scrutinising the MoneyWeek ETF portfolio. Here's a summary of where we stand

Cris Sholto Heaton
Investment columnist

MoneyWeek's ETF portfolio

Holding	Weight
Cash (proxied by LSE: TIGB – see below)	10%
iShares $ Treasury Bond GBP Hdgd (LSE: GOVP)	10%
iShares $ TIPS (LSE: ITPS)	10%
iShares Physical Gold (LSE: SGLN)	10%
Vanguard S&P 500 (LSE: VUSA)	10%
Vanguard FTSE Dev. Europe (LSE: VEUR)	10%
Vanguard FTSE 250 (LSE: VMID)	10%
Vanguard FTSE Japan (LSE: VJPN)	10%
iShares Core MSCI Em. Markets (LSE: EMIM)	10%
iShares Dev. Market Property Yield (LSE: IWDP)	10%

Over the last few issues, I've reviewed the first five positions in the MoneyWeek exchange traded fund (ETF) portfolio and the halfway mark is a good point to summarise where it now stands. The table shows the current portfolio, with the holdings that we have yet to review in grey. The biggest change was to add back some conventional government bonds (issue 1185). We are still considering whether an equal-weighted US ETF might be better than a market-weighted one, given the increasing concentration of the US market (issue 1184), but have kept the overall 10% allocation to US equities.

Most investors will invest the cash component in whatever gives them the best risk-free interest rate (eg, savings accounts) and it would be useful to proxy this in the portfolio. We looked at some cash and bond funds (1176 and 1178) and I've decided to choose the Invesco US Treasury Bond 0-1 Year GBP Hedged ETF (LSE: TIGB). This has very short duration (0.5 years), holds only US government bonds (minimal credit risk) and is hedged into sterling (no currency risk). I prefer it over iShares UK Gilts 0-5yr (LSE: IGLS), the closest gilt equivalent, because the duration on the latter is longer (2.25 years), taking us into the territory of bonds rather than cash.

Growth at any price?

In total, 50% of the portfolio is in stocks: US, Europe including UK, UK mid caps, Japan and emerging markets. This reflects our overall aim: we want to grow the value of the portfolio in real terms while also dampening down volatility and tail risks, and stocks are generally viewed as the core asset for earning capital gains. It certainly makes sense that stocks should deliver better long-term returns than other major asset classes in a successful economy. In principle, companies and their investors should be receiving some of the profits from long-term economic growth, while bondholders only get back what they lend.

Stocks have beaten bonds on average: between 1900 and 2022, they outperformed by 5% a year, according to data from the Credit Suisse Global Investment Returns Yearbook. Still, the extent of outperformance depends much more than many investors realise on when you start and which countries you hold. Since 1973, for example, world stocks excluding the US beat bonds by just 0.3% per year, while US stocks did so by 2.7%.

Starting valuations matter: when stocks are cheap relative to bonds or cash, you'll earn higher long-term returns. We can't control that – but we can tilt towards markets that seem cheaper, and we do. The US seems more expensive than other markets and so we underweight it (US stocks are about 60% of global market cap). At the same time, the future is unpredictable, so we want to keep a minimum level of diversification. Thus our current allocation to US stocks is about 20% of our overall equity holdings – broadly in line with its share of the global economy.

I wish I knew what equities were, but I'm too embarrassed to ask

Equities, shares and stocks are all names for the individual units that give you a financial interest in a company. The terms are often used in slightly different ways: investors sometimes refer to shares when discussing a single company, shares or stocks when they talk about a small or loose group of companies, and equities when they mean more formally defined groups (or when they just want to sound more professional). But those distinctions are not absolute and all three words will often be used interchangeably.

An equity investor in a company is known as a shareholder – the terms equity holder and stockholder are less common. The name for a market on which shares trade is the stockmarket (or share market in a handful of countries such as Australia). Equity markets is also sometimes used, but most commonly to refer to a group of stockmarkets (eg, European equity markets).

Shareholders are often described as the owners of a company. This is not strictly true: under most systems, companies are separate legal entities whose relationship with their shareholders, managers, employees, creditors and customers are governed by a wide range of regulations and contracts. But owning equities gives you certain rights and control over a company. These rights typically include appointing the board of directors, approving certain actions (eg, the issuance of new shares that may dilute their ownership) and getting a share of any dividends declared by the directors.

In essence, equities amount to a claim on the assets and accumulated earnings that would be left after paying back liabilities (known as shareholders' equity). Equities rank below creditors (such as bonds and loans) in priority when being paid, but receive all the excess profits if the business is successful. On average, they are riskier than bonds, but should produce higher returns in the long term.

Guru watch

©Getty Images

Bill Ackman, chief executive, Pershing Square

"The Federal Reserve is going to have to cut rates more quickly than people expect," says hedge-fund manager Bill Ackman. While markets are pricing in a first cut by the US central bank in May or June 2024, falling inflation means that policymakers may start to reduce borrowing costs in the first quarter, he tells Bloomberg.

The Fed Funds Rate – the benchmark interest rate for the US – is currently at 5.5%, its highest level since 2001, and is slightly higher than the cycle peak that was reached in 2007 on the eve of the global financial crisis. The Fed began raising rates from near zero in March 2022 and the pace of rate increases has been the fastest in four decades. Inflation, which peaked at 9.1% in June 2022, has since declined rapidly, to 3.1% in last month.

As a result, the real rate of interest – the difference between inflation and interest rates – has risen to almost 2.5%, which is "very high" and will increasingly affect the economy, says Ackman. The odds of a "soft landing" scenario – in which the central bank tightens monetary policy enough to slow growth and inflation without causing a recession – may be shrinking, he suggests. "I think there's a real risk of a hard landing if the Fed doesn't start cutting rates pretty soon."

Forecasting that rates are headed down caps an abrupt reversal for Ackman, who is better known as an activist investor than a macro trader. In August, Pershing Square went short 30-year US Treasuries – ie, betting that yields on long-term bonds would continue to rise. His called was well-timed: rates subsequently rose by almost a percentage point over the next couple of months.

Ackman then closed his short position in late October, making a profit of around $200m, according to the Financial Times. "There is too much risk in the world to remain short bonds at current long-term rates," he wrote on social media at the time. "The economy is slowing faster than recent data suggests."

A winner in financial technology

Trusts investing in unlisted companies have been sold off – which ones will bounce back?

Max King
Investment columnist

The selling of funds in the "alternatives" sector (those not investing in listed equities) has been indiscriminate this year, with discounts to net asset value (NAV) widening sharply. Some of these funds will bounce back but others will continue to struggle. The differentiator is their strategies on the way up; the hares are burnt out but the tortoises keep moving forward.

Augmentum Fintech (LSE: AUGM), for instance, listed in March 2018, raising £100m to back "early-stage high-growth companies transforming the financial-services sector". Five years later, its share price is still just below the issue price and it hasn't paid a dividend. But its NAV has risen by 70% and, helped by a 70% increase in issued shares, it has £290m of capital, of which £45m is still in cash. There are 24 unlisted holdings in the portfolio.

"Our long-term target is an annualised rate of return of 20%," says chief executive Tim Levene. "We have achieved nearly 17% on invested capital but that does not give credit to the underlying growth. In individual investments, our target is 30%-40%".

The cash enables additional investment in existing holdings, but there has only been one new investment in the past year – German insurance group Baobab. Subsequently,

Slow and steady wins the race

©Getty Images

the investment in Cushon (a provider of investments and pensions for the workplace) was sold for £23m, more than twice the cost just two years earlier.

Since listing, £84m has been realised from five sales, including Interactive Investor (sold to Aberdeen), but Levene emphasises that he doesn't just grab the first decent offer that comes along if there is still potential to unlock.

The portfolio is balanced across stages of maturity, with 52% late-stage, and also across sub-sectors. The compound annual revenue growth of the top five holdings since investment, accounting for more than half the portfolio, is 77%, but this does not lead to aggressive valuations. These lagged those of high-growth listed firms in the 2021 boom by wide margins, so they have not been affected by subsequent share price collapses.

Still, Levene says that "listed fintech companies have yet to see any material recovery in valuations despite the huge opportunity. Incumbents continue to struggle with the digital transformation, which is why they end up buying companies from us. We are… deploying cash into new opportunities and expect 2024-2025 to be really positive."

Can Digital 9 recover?

Meanwhile, Digital 9 Infrastructure (**LSE: DGI9**), which listed in early 2021, is really struggling. It raised more than $400m to invest in "critical infrastructure assets" such as sub-sea fibre, data centres and high-speed internet, and still has notional capital of £866m. Undoubtedly, this is an attractive area offering long-term growth and D9 appeared to have the expertise necessary.

However, it overinvested, with £1.24bn of capital deployed at the end of 2022, gross debt of £545m at mid-2023 (excluding debt in investee companies) and net debt of £467m. Worse still, D9's 50% share of the debt of one investee firm, telecoms group Arqiva, was £770m, and the fund had committed to a 6p per annum dividend costing £52m.

The portfolio is cash-generative, with £106m produced in the first half of 2023, but more than half of this had to be paid in "accretion payments" on Arqiva's inflation-linked swaps. As a result, the burden of debt and continuing capital expenditure, the dividend was cancelled and the chairman reported "a material uncertainty which may cast significant doubt over the company's ability to continue as a going concern."

And so D9 has been forced into the sale of one of its largest investments, Verne Global. Inevitably, the price achieved was disappointing at £349m, a 27% discount to the current valuation, plus a potential earn-out of £107m. This is estimated by brokers to reduce the NAV to 85p-95p. At just over 30p, the shares may look a bargain, but this is the sort of mess that funds very rarely recover from.

Activist watch

Activist investor Kelso Group has urged digital retailer THG to break up, says The Times. It is advocating the demerger of the beauty, nutrition and e-commerce segments because it thinks the group would be "worth considerably more" as separate businesses and the move would help address the "inherent disparity" between THG's share price and its valuation. THG floated in 2020 with a valuation of £5bn but its stock has since slumped, with the firm now worth about £1bn. Kelso, which has a 0.55% stake in THG, argues it can help the company raise the share price to 225p with a valuation of $3bn. In a twist, THG CEO Matthew Moulding recently bought a 3.2% stake in Kelso, becoming the investment firm's largest shareholder.

Short positions... toothless Liontrust exits FTSE 250

■ **Liontrust is to be dropped from the FTSE 250 mid-cap index, says the Financial Times. The exit follows a turbulent period that saw the UK asset manager lose half its market value; assets dropped by a quarter and investors pulled out £3.2bn in six months. Liontrust has fallen between two stools. Sector giants BlackRock and Vanguard and specialists Baillie Gifford are putting the squeeze on "middle of the road" companies like Liontrust, which are "suffering", a former Liontrust partner tells the FT. "You have to be a trillion dollar manager offering lots of things, or you have to be a really efficiently run specialist." The $27bn asset manager bought seven companies in 12 years in an attempt to diversify, but with mixed results. Alliance Trust Investments bolstered Liontrust's expertise in sustainable investing just as the cause was becoming fashionable. But the £120m purchase of equities boutique Majedie was a total "disaster", according to Peel Hunt's Robert Sage.**

■ The Finsbury Growth and Income investment trust is a bargain on a 7% discount to its net asset value (NAV), says The Telegraph. The discount may be smaller than the average trust's 16%, but it easily eclipses Finsbury's one-year average and 4% mean for the UK Equity Income sector. The fund, managed by Nick Train, has struggled amid the rebound from Covid because it holds no energy companies, while a profit warning from key holding Diageo has hardly helped matters. Still, Nick Wood of investment service Quilter Cheviot, which holds a 2% stake in Finsbury, tells The Telegraph that although he has been disappointed with the trust's showing this year, the fund boasts an impressive long-term record. Over a decade it has been the second-best performer in its sector in total-return terms.

WHAT IS AVAXHOME?

18+

AVAXHOME -

the biggest Internet portal, providing you various content: brand new books, trending movies, fresh magazines, hot games, recent software, latest music releases.

Unlimited satisfaction one low price
Cheap constant access to piping hot media
Protect your downloadings from Big brother
Safer, than torrent-trackers

18 years of seamless operation and our users' satisfaction

All languages
Brand new content
One site

AvaxHome - Your End Place

We have everything for all of your needs. Just open https://avxlive.icu

Britain is on the sick

Camilla Tominey
The Telegraph

It's all very well to be tough on immigration, but who is going to fill our million job vacancies if Brits refuse to work, asks Camilla Tominey. The impact of lockdowns have proved "devastating". There are 1.2 million more people on working-age benefits today than there would have been had pre-Covid trends continued, while more than 2.6 million (up 500,000 since the pandemic) are economically inactive due to "long-term sickness", with 53% of those reporting "depression, bad nerves or anxiety". As a result of the 18-month-long "no-strings-attached" furlough scheme, attitudes to work have changed, too. Once "extreme" ideas such as permanent home-working are now mainstream. The problem is perhaps greatest in the public sector – at Defra, civil servants are demanding to work a four-day week on full pay – but it's a problem in the private sector, too. Work may be good for mental health and self-esteem, but if you're a single person on a minimum wage, the fact is you'll have more disposable income if you're on benefits. And if you're skilled and saddled with the highest tax burden since 1945, why bother? "The pandemic, combined with a catastrophe in our tax and welfare system, means that work is no longer seen as a blessing but a chore."

Big Tech coughs up for news

Julia Angwin
The New York Times

"A bitter battle is taking place between Big Tech and the free press", a "linchpin of democracy", over how to share the income that news generates for the tech giants, says Julia Angwin. Last week, Google and the Canadian government finally agreed on a deal that requires Google to pay Canadian news outlets about $73.5m a year. Canadians no longer face the threat of having news removed from Google's search results (which it temporarily did). The settlement is far less than the $126m Canada had wanted and a fraction of what it deserves. In response to "withering criticism", Google and Meta have cut private deals with individual news outlets in recent years, but critics say that without government intervention, such deals could enable tech firms to decide which news outlets survive and potentially "starve" those that are critical. While true that the news industry needs tech platforms, a new study based on surveys of user behaviour (Big Tech won't share such information) estimated that Google owes US publishers 50% of the revenues created by news, which it put at $10bn-$12bn a year. No wonder "Google fought so hard in Canada: it succeeded in setting the bar extremely low". But it's a start. Other governments must follow suit.

Tariffs are a shot in the foot

Andy Kessler
The Wall Street Journal

We're going to hear a lot in the US about tariffs this election cycle, with Donald Trump proposing 10% tariffs on all imports, says Andy Kessler. It may sound strong, "but it's actually a weakling move, especially with US industrial capacity already near an all-time high". Tariffs "misallocate capital and human resources by having entrepreneurs chase fake opportunities". Domestic manufacturers love them as they can raise prices, but consumers have to overpay for goods. By my calculations, if all iPhone chips were made here, a phone would cost around $2,000 and sales would fall by 50%. "Margins matter. Capital flows to its highest returns. Trade-deficit figures don't tell you how profitable manufacturing is." Foxconn, which assembles iPhones, had an operating profit margin of 2.63% in 2022. Apple's was 30.2%. Should the US be making low-margin products or be perfecting gene therapy and AI? Plus, governments are "awful" at picking winners. Look at past industrial policy: "Steel? Failed. Electric vehicles? Gluts. Price controls on medicine? Shortages. Renewable energy?" The poor can't heat their homes. "We have the strongest economy… Let markets, not vote-buying politicians, decide which industries will bloom."

China continues to thrive

Peter Tirschwell
Nikkei Asia

There is a sense that China's status as the world's main exporter is fading as countries look to diversify, says Peter Tirschwell. In reality, China's exports of green technology products are "booming" even as its export status remains unrivalled. China now accounts for 39% of containerised ocean freight imports to the US, down from 46% in 2018, a trend which began pre-Covid due to rising Chinese labour costs, but China's share of imports in Latin America, Africa and the Persian Gulf has risen during that period. In green tech products, there has been a particular surge. The "standout" example is electric vehicles, where its share of the market has risen from 1% to 24% between January 2019 and June 2023 (prompting the EU to launch an investigation into Chinese subsidies), but China's global share of lithium-ion battery exports and solar panels has also risen from 48% to 61% and from 44% to 62% respectively. "In effect, China is engaging in its own decoupling drive by reducing its dependence on imports of industrial products even as it diversifies its export markets and seeks ways around obstacles created by US tariffs." Its ability to do so reveals the "changing structure of international trade in the post-globalised world economy".

Money talks

"I couldn't have hated the whole thing more. But I have lots of children and I need the money."
Actor Hugh Grant (pictured) on playing an Oompa-Loompa in the new film *Wonka*, a prequel to Roald Dahl's *Charlie and the Chocolate Factory*, quoted in The Times

"One strange feature of Anglo-Saxon economics is that all economists are agreed that rent-seeking is bad, and yet no economist ever proposes any action to discourage it."
Columnist Rory Sutherland in The Spectator

"I honestly think that if you're lucky enough to get in a position where you have money or you're in a position where you can help, you really should… my favourite thing that I do is my Imagination Library that I started back in 1995 with my dad, who couldn't read and write. It's a literacy programme where we give books to children from the time they're born until they start school – once a month. They can learn to read… It can pull families together, as well as helping a child get a head-start. We've given away more than 200 million books to date – I'm really proud of that."
Singer Dolly Parton, quoted in Metro

"I'm proud to pay taxes in the United States; the only thing is, I could be just as proud for half the money."
US radio broadcaster Arthur Godfrey, quoted in The Knowledge

"No longer are we a hard-working nation of shopkeepers who get up at the crack of dawn. Today, there's a 'Back in 15 minutes' sign on the door."
Entrepreneur Hugh Osmond, founder of pub chain Punch Taverns, fears the Covid furlough scheme has undermined our work ethic, quoted in The Mail on Sunday

©Warner Bros/Alamy

How to get Britain growing

blogs.lse.ac.uk/businessreview

Britain's economy is stagnant, leaving some group's wondering "whether the country works for them" and lacking a "clear route to a better tomorrow", according to a new report from the Resolution Foundation and the London School of Economics. Real wages have flatlined since 2007, income inequality is higher than in any other European country, young workers are increasingly out of work and locked out of home ownership, taxes are high and "flaky firms" are not investing, costing the economy 4% of GDP. Six in ten Britons think the country is on the wrong track. So what is to be done?

Build a better tomorrow

Britain needs a strategy to deal with these large, persistent and interdependent problems, but the good news is that the country has "a lot of catch-up potential". If it could just close the gap with its peers – Australia, Canada, France, Germany and the Netherlands – the typical household would be 25% (£8,300) better off, with income gains of 37% for the poorest households. Getting Britain to grow again does not require a miracle, just "resolve" to take the required steps.

First, Britain is a "services superpower" and it must build on its strengths as the second-biggest services exporter in the world, behind only the US. It must also protect the place of its high-value manufacturing in European supply chains. Second, revive the regions. Our second cities are "too big to fail" and should be centres of thriving high-value services industries. Instead, England's big cities outside London have productivity levels below the national average.

Second cities such as Birmingham need a productivity boost

©Getty Images

Third, invest in the future. Public investment in the average country in the OECD club of developed nations is nearly 50% higher than in the UK. Fourth, pursue better, not just higher, taxes. A rising tax burden should fall not just on earnings, but also be "shouldered" by other sources of income and wealth. Wealth has risen from three to more than seven times national income since the 1970s.

These and similar measures would help resolve some of the UK's big challenges. Faster growth, combined with the tax changes, would raise revenues. That would provide resources to boost public investment and improve public services without having to rely so much on borrowing from abroad, and reduce the debt burden.

Economies can adapt and be shaped for the better. Growth can speed up as well as slow down. Inequality can fall as well as rise. "This stagnant chapter of British life has gone on long enough. It it time to turn the page."

Cheaper energy would help

news.sky.com

The Resolution Foundation's report (see story above) could end up being a "kind of Bible" for both the Labour and Tory parties, says Ed Conway. It "synthesises much of what you might call the 'Whitehall view'" of what needs to be done, and it was "not for nothing" that both chancellor Jeremy Hunt and Labour leader Keir Starmer were at the launch event. Yet one of the most important of all the economic factors behind our stagnation is barely mentioned at all: energy. That is a "glaring omission". Britain has some of the developed world's highest energy costs, and that is at least part of the explanation for the weak productivity and low investment of recent years. Bringing down wholesale energy costs would make an "enormous difference" and boost economic activity. Because Britain's stagnation began at the time of the financial crisis it's natural to assume that our problems must all be related to events in the City. And indeed, that is almost certainly a large part of the explanation. But something else happened around that time too: Britain went from being a net oil and gas exporter, able to enjoy a large and constant stream of public and private revenues from the North Sea, to being a net importer. It's odd that this isn't even mentioned in the Resolution Foundation's report.

The Swift baby boom

americanpostliberal.com

If pop singer Taylor Swift (pictured) and her partner Travis Kelce have a baby, it will usher in a new US baby boom as millions of 25- to 35-year-old women follow suit. Not far behind will be a manufacturing and housing boom, and a tremendous lifestyle shift for millions of newly minted families. A new golden era for America beckons.

That, at least, was the view of one tweet that went viral, and it's not as unlikely as it seems, says Luca Adamo. Swift has a special appeal for her millions of fans because she "masterfully communicates the blisses of *normal life*". Her songs are all about ordinary people in ordinary towns falling in love, and she sings movingly about the struggles and dramas that are a part of that. That is why she is loved. The cult of celebrity worship in America is a "huge problem", but it does have a positive side: it is normal to feel affection towards those who have added to our lives in some way, and celebrities hence garner our sympathy, goodwill and admiration. Celebrities then naturally set the tone of acceptable public conduct.

So if someone of Swift's stature suddenly gets married and starts a family and then starts singing about the ordinary joys of being a mother, that will have a massive impact on her young and impressionable fans. "The single biggest vibe shift in history may be on the horizon."

©Getty Images

Can we trust invisible hands?

project-syndicate.org

Ten years ago, Eugene Fama and Robert Schiller were both awarded the Nobel prize in economics – for holding diametrically opposed views on asset prices, says Antara Haldar. Fama believes the "efficient market hypothesis" – that prices almost immediately incorporate all available information and thus accurately reflect economic fundamentals. Schiller insists that prices are moved by "animal spirits", which can result in irrational and suboptimal speculative bubbles.

The Nobel committee said both could apply on different time scales. Yet which claim is right has important implications for whether or not we should seek to shape market outcomes, and whether central banks should attempt to identify and pop bubbles, for example. The answer lies in the "twilight zone" of economics, where self-interested micro-level decisions get transformed through the invisible hand into a collective result. It is that alchemical process that remains to be understood and "democratised" if we are to avoid a rerun of the 2008 financial crisis and "all the suffering it wrought".

Invest in the world's most precious commodity

As the world's supply runs out, a supercycle of investment in water infrastructure, with an emphasis on desalination, is likely to lie ahead, says David J. Stevenson. Here's how to profit

In the UK, we take our running water supply for granted. And why shouldn't we? There is so much precipitation that many parts of the country are regularly afflicted by flooding. Disposing of excess water appears a greater problem than storing the stuff.

While vast tracts of the world are far less exposed to rainfall levels such as ours, 71% of the Earth's surface is covered by water. There are 326 million cubic miles of it on the planet, according to the US Bureau of Reclamation. However, for the human race, the problem is that 97% of it is seawater, which is naturally far too salty (saline) for human consumption, crop growing or most industrial uses except cooling.

What's more, five-sixths of the planet's 3% freshwater share is either locked within glaciers, polar icecaps, soil and the atmosphere; highly polluted; or too deep below the surface to be economically extractable. In other words, just 0.5% of the Earth's water is actually fresh, accessible and also potable.

The main sources of that 0.5% are groundwater that seeps though the soil and forms underground reservoirs (aquifers), surface water (in rivers, lakes, wetlands and reservoirs), and precipitation (rain, ice and snow). While total usable freshwater averages 8.4 million litres (1.8 million gallons) per person on the planet, that's not as large an amount as it first appears.

Key aquifers are dwindling

Firstly, efficient water storage is vital. But, "built reservoir capacity per person is decreasing as... expansion has not been able to keep pace with population growth, but also because storage capacity of existing reservoirs is decreasing, chiefly due to sedimentation," notes the United Nations Educational, Scientific and Cultural Organisation (Unesco). "Average annual storage losses equal about 1% of total built reservoir capacity," it warns.

Some of the planet's largest groundwater systems are already struggling to cope with growing irrigation needs caused by ongoing droughts, leaving no scope for providing extra water for storage. In addition, several of the world's main aquifers are now dwindling. In total, over the past six decades the world's water supplies have fallen more than 50%, says Michiel Willems in Net Zero Investor. Worse, pollution in nearly all major rivers in Africa, Asia and Latin America means that global water quality has been deteriorating, says the UN World Water Development Report 2021.

"Over the past 60 years, the world's fresh water supply has declined by more than 50%"

Yet while supply is increasingly threatened, demand is surging. Global freshwater usage has risen sixfold over the past 100 years and has grown by about 1% a year since the 1980s, says AquaStat, the data provider for the Food and Agriculture Organisation of the United Nations (FAO). "Agriculture currently accounts for 69% of global water withdrawals, which are mainly used for irrigation, but also include water used for livestock and aquaculture," notes AquaStat. "This ratio can reach up to 95% in some developing countries. Industry (including energy and power generation) accounts for 19%, while municipalities are responsible for the remaining 12%." The global population, now more than eight billion people and continuing to grow, is another obvious factor that is creating additional requirements for freshwater.

Then there is extra demand arising from growing urbanisation (more water per person is consumed in cities compared with rural areas). The World bank notes that 56% of the global population, 4.4 billion people, live in cities. The urban population is likely to double by 2050. This all results in increasing water stress (water use compared with available supply). "Water scarcity is becoming endemic," says the UN World Water Development Report of 2023.

"As a result of climate change, seasonal water scarcity will increase in regions where it is currently abundant – such as Central Africa, East Asia and parts of South America – and worsen in regions where water is already in short supply – such as the Middle East and the Sahel in Africa. On average, 10% of the global population lives in countries with high or critical water stress."

A growing deficit

Opinions about overall future freshwater requirements differ, but there is a consensus that much more of it will be required. For example, demand for water is set to increase by 30% by 2050, says Willems. By that stage, however, the FAO has predicted that global food needs will have grown around 60%. The 2030 Water Resources Group (WRG), under the aegis of the World Bank, has previously forecast that the world will be facing a 40% water deficit as early as 2030.

While some usable water can be recovered from wastewater, the key to boosting global water supply lies in tapping into all that salty water in the world's oceans – in particular as sea levels continue to rise – via desalination. Seawater desalination has proved successful owing to technological advances in semi-permeable membranes that filter out salt and impurities.

This process, known as reverse osmosis (RO), is relatively energy-efficient and cost-effective, while requiring less maintenance compared with other conventional desalination methods. Some Middle Eastern countries already use RO for up to 90% of their drinking water needs. Alternatively, the "thermal desalination" process functions best when applied to water with a high dissolved salt content, where the applied pressure needed for an equivalent membrane system would be excessive.

The issue is that while RO works fine, it has still been expensive and energy-intensive. However, further progress is in the pipeline as membrane technology improves and the cost of building desalination plants falls. Engineers are also aiming to turn seawater into drinking water with a passive device that takes in saltwater and heats it with natural sunlight.

The size of the global water-sector investment required is truly vast. "An estimated $6.7trn for water-related infrastructure will be needed by 2030, reaching $22.6trn by 2050," says the 2030 WRG. Further, "an estimated $150bn is needed each year to deliver

©Getty Images

The need for irrigation has grown owing to recurrent droughts

universal safe water and sanitation." Within this, the global water desalination market is expected to reach $29bn by 2030, expanding at a compound annual growth rate (CAGR) of 8.8% between now and then, according to a report by market research group The Brainy Insights.

Climate and demographic changes are providing the water industry with structural growth drivers that could see investors benefit, says Caroline Langley, deputy fund manager of the Quilter Cheviot Climate Assets fund range.

"Intensive industries require huge amounts of water," she says. "Electrification and the rise of artificial intelligence are increasing demand for semiconductors. This will continue to drive demand for water, as it is a key component of the manufacturing process. Pretty much every company and industry needs water, and some need it in far greater quantities."

We could be in for a "super-cycle" in water infrastructure investment, with the water treatment and management markets accelerating on the back of an increased focus on water preservation and quality, tightening of regulations and water infrastructure growth in emerging markets, says Katerina Kosmopoulou, a partner at asset manager J. Stern & Co. Over the long term the sector should continue to grow strongly as improved technology and better energy-efficiency help to lower desalination costs while investment surges. There is simply no other choice for the human race.

What to buy now

When we last looked at the water sector a year ago, we highlighted two stocks. One was **Consolidated Water (Nasdaq: CWCO)**, which has since gone up by more than 150%. If you still own the stock, we wouldn't put you off continuing to hold it for the long run. Today, however, we would prefer to highlight another water play that is on a similar valuation, but has fallen by 15% in a year.

Energy Recovery (Nasdaq: ERII), with a market value of $1bn, doesn't build desalination plants as such. Yet 95% of sales are generated by making equipment that successfully renders RO and other water purification processes more cost-effective. In its latest results, capturing the three months to 30 September 2023, Energy Recovery's sales grew by 22% year on year, with net income more than doubling. There is no debt: in fact, even allowing for lease liabilities, Energy Recovery holds more than $90m of net cash.

Anticipating a slowdown in capital expenditure next year as the global economy turns down, the firm expects 2024 desalination sales to be "flat to +5%". Yet it believes the market "has the potential to regain its double-digit growth trajectory in 2025", where it "could return to growth in the low to mid-teens, with further accelerated growth by 2026".

Energy Recovery is not exactly cheap on a 2025 price/earnings (p/e) ratio of 27.5. The company's potential for long-term earnings growth, however, makes this a stock to buy and tuck away.

Our other previous pick was French water, waste and energy business **Veolia Environnement (Paris: VIE)**. It designs, installs, operates and maintains water networks. Last year the group managed 4,130 drinking water production plants and provided 111 million people with potable water. It also supplied 97 million people with wastewater services.

While Veolia isn't a pure desalination stock (41% of sales come from the group's water activities), it is the leading global player in the sector. It has world-leading subsidiaries in both RO and thermal desalination ranging from design, engineering, procurement, construction and commissioning to operation and maintenance. Veolia also offers portable desalination units as well as mobile water services.

Veolia, with a market value of €21bn, stands on a 2024 price-to-earnings ratio (p/e) of 14.6, with a multiple of 13.1 pencilled in for the following year. The historic yield is 3.8%, which should improve as it says that dividends will move in line with earnings growth. One caveat is net debt of €19bn as of 30 September 2023, although the figure is decreasing. While the shares have gained around a fifth since our previous recommendation, they are still 11% lower than their peak of early 2022. Veolia is another long-term buy.

"The semi-conductors needed for AI and electrification in turn require large amounts of water"

Britain's best stocks in 2023

This year's league table has defied expectations and bodes well for the future, says Max King

The performance derby for UK stocks in 2023 is becoming clear. The message for professional investors is not reassuring. The stocks they have come to favour are referred to as "quality": well-managed, non-cyclical companies offering long-term growth and strong competitive positions. In the jargon, they have "moats", which protect them from excessive competition thanks to strong brands, high barriers to entry for market disruptors, and "pricing power" (the ability to raise prices without losing sales).

Some of these stocks have done well this year, with RELX (formerly Reed Elsevier) up by 36% and the London Stock Exchange up by 28%. But Burberry has lost 25%, Diageo 21% and Unilever 6%, while the FTSE 100 is flat. It seems that consumers' shift upmarket in the drinks sector is not inexorable; that the popularity of fashion brands can wane; and that customers won't always pay up for branded household goods.

Instead, the leaders of both the FTSE 100 and FTSE 250 have been recovery stocks. Professional investors are trend followers, so they avoid these for fear of looking foolish by investing in an unpopular company that does not stand up to the rigorous, detailed analysis demanded of them. At best, recovery investing is almost reckless, based on an insight that there might just be light at the end of the tunnel that others can't see.

Overlooked by the quality snobs

The problem is that recovery can take a long time and it can be even longer before investors wake up to it. There can be many false dawns and setbacks. So it has been with the FTSE 100's top performers, Rolls-Royce (up by 197%) and Marks & Spencer (107%) and, at number five, Centrica (62%). In the FTSE 250, Carnival is up by 87% and FirstGroup 65%. FirstGroup, operating trains and buses in the UK and North America, and Centrica (owner of British Gas and a minority stake in the UK's nuclear-power generators) certainly wouldn't get past the "quality" snobs. Yet Centrica has quintupled since early 2020.

What many of these winners have in common is that they were hit hard in the pandemic, in several cases requiring emergency rights issues at deep discounts. The shock was therapeutic, forcing them to streamline their businesses and focus on profitability. In some cases they have been helped by reduced competition – International Consolidated Airlines (which owns British Airways) is up by 26% and easyJet by 46%. Intercontinental Hotels swiftly bounced back from the pandemic and has multiplied 14-fold in 15 years, including a 36% gain so far in 2023.

Another key feature of 2023 has been the performance of cyclical firms. Despite the universal gloom about housing and house prices, Barratt is up by 41%, Taylor Wimpey 20%, Bellway 33%, Berkeley 29% and Redrow 28%. Even Persimmon Homes has risen – by 12%. Managers saw the downturn coming and battened down the hatches while investors were expecting Armageddon rather than a cyclical downturn. There is nothing wrong with cyclical companies whose managers can navigate the cycle.

"Recovery stocks have done better than the 'quality' companies favoured by professional investors"

Next's ongoing success is due to first-rate management

Higher interest rates have held share ratings back, but they appear to be having a positive effect on corporate management. Managers have stopped trumpeting their environmental and social governance (ESG) credentials and focused instead on raising returns on capital. The food retailers have learned how to compete with the discounters, so J Sainsbury is up by 37% and Tesco, with the most efficient home-delivery system, has risen by 30%.

Robust retailers

Despite the cost-of-living crisis, retailers have been doing surprisingly well, and not just M&S and the discounter B&M European Value Retail (up by 54%). The phenomenal long-term performance of Next (41%) continues, but JD Sports is up by 28% and Frasers 27%. Also notable is the 74% gain for 3i, more than half of whose asset value stems from the European discount chain Action. In leisure, Mitchells & Butlers has gained 63%, Wetherspoons 58%, Domino's Pizza 31% and Whitbread 28% – showing the folly of making macroeconomic forecasts the arbiter of stock selection.

The continuing success of Next is more a testament to its first-rate management and business model than to the retailing environment. Many believed that Melrose had bitten off more than it could chew when it acquired GKN five years ago, but its 88% gain this year suggests another success. The motor and metals divisions of GKN were demerged earlier this year as Dowlais, whose share price has subsequently struggled, but the history of spin-offs is very favourable.

Other winners would hardly meet the approval of professional managers. Arms manufacturer BAE Systems, with a 27% gain, would be vetoed by the ESG department. It has benefited from the war in Ukraine, but had recovered from the struggles of the 1990s before then. Its share price has multiplied sixfold in 20 years. Associated British Foods, producer of basic foodstuffs and owner of discount clothing chain Primark, rose by 52%, having lost 64% between 2015 and 2022.

The FTSE 100 has only one pure technology constituent, the accounting and business software company Sage, which continues to prosper. It has risen by 58% in 2023, despite being listed in the UK.

©Next Plc

The wooden spoon of the FTSE 100 goes to betting group Entain, owner of Ladbrokes and Coral, down by 38%. That will please the ESG departments, as will the runner-up, fund manager St James's Place, notorious for high fees. It has lost 37%. Miners Fresnillo, Anglo-American and Glencore are down. Falling cigarette consumption and the regulation of vaping is catching up with BAT (down by 18%), while financials performed badly. Prudential has slipped by 22%, the accident-prone NatWest 15% and Phoenix 15%.

"A return of profits to historic norms could provide electrifying gains for investors"

The turnaround stars

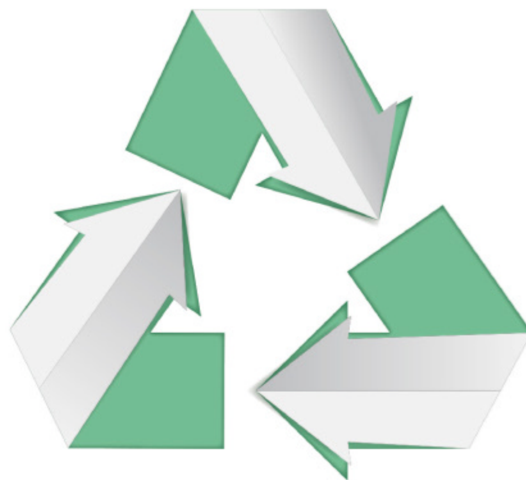
What is particularly encouraging for the UK is that managers of companies that have been lame ducks for years are, at last, striving to improve shareholders' returns. Their share prices are not yet responding, perhaps because their markets are highly competitive, restructuring is ongoing, or investors are still sceptical.

Pearson transformed itself from a conglomerate into an educational publisher with some expensive acquisitions 20 years ago, but now seems to be sorting itself out – the shares have doubled since 2020. Vodafone's shares are down by 5% this year, but it is cutting costs, has merged its UK arm with Three and is turning its German business around. Having spun off its consumer business as Haleon, GlaxoSmithKline (GSK) has settled legal claims against it and reported strong sales of vaccines.

BP (up by 5%) and Shell (15%) have reduced their ambitions in alternative energy to focus on oil and gas. Shell sold its retail energy businesses, while BP has parted company with CEO Bernard Looney. Banks are struggling to earn a sufficient margin between loans and deposits to make their business model viable. But they are cutting costs, closing branches and investing in technology. BT is investing in networks while reducing costs. The miners are not making the mistake of rushing into new projects just because metal prices are up.

This all promises a better performance by UK companies in the future, not based on faster economic growth, but on higher margins and returns on capital. As Laura Foll, a UK manager at Janus Henderson, says, "a return of profits to historic norms could provide electrifying gains from the current oversold levels". Maybe the insurance companies and pension fund managers will be as good as their word and start investing in the UK again, to the benefit of their own shareholders; perhaps in 2024 a rising tide will lift all boats.

PAPER REVOLUTION



72% of paper and paper packaging is recycled into new products; one of the highest recycling rates of any material in Europe!

Discover the story of paper
www.lovepaper.org

Source: CEPI, 2019
Europe: EU27 + Norway, Switzerland and the UK

Love Paper is a registered trademark for Two Sides Ltd. Registered in the UK, U.S. and other countries and used with permission.

Fever-Tree will recapture its fizz

The mixer-maker has branched out into new drinks and the shares are now reasonably priced

Bruce Packard
Investment columnist

The anthropologist Joseph Campbe ll believed that there were common themes to heroic quest stories found in societies around the world. He outlined his idea of *The Hero's Journey*, which influenced George Lucas before he wrote the original *StarWars* screenplay. There's more than a hint of *The Hero's Journey* in Fever-Tree's creation story, which involved treks to the British Library to research recipes and adventures in the African jungle looking for the perfect tonic. Like other heroic quests hunting for and returning with a highly prized elixir, this has captured consumers' imaginations, with the brand now selling in over 85 countries and the company, listed as **Fevertree Drinks (Aim: FEVR)**, growing revenue 18-fold to a forecast £385m in 2023. The story is not over, though, with the brand now facing a new mix of challenges.

Fever-Tree's asset-light business model shares some similarities with US-listed Coca-Cola (KO) and Monster Beverages (MNST). KO and MNST don't invest in bottling plants, which have high capital costs. Instead, KO earns revenue by selling concentrates to bottling companies such as Coca-Cola HBC (CCH), which has a much lower EBIT margin (Sharepad shows 10% for CCH versus 33% for KO). Instead of physical equipment and tangible assets, KO and MNST invest in intangibles, such as branding, marketing and sponsoring sporting events.

MNST may be less familiar to readers, but the Nasdaq-listed stock has built a global brand in energy drinks. It has risen by a factor of 625 over the last two decades and now has a market value of almost $60bn. Fever-Tree has followed a similar strategy. UK production and bottling has been outsourced to a company called Brothers Drinks, based in Shepton Mallet in Somerset.

That asset-light business model meant that Fever-Tree was reporting a return on capital employed (ROCE, a key gauge of profitability) of 48% and operating margins of 33% in 2017. At the same time, the group was growing revenue and profits by 66%. It is unusual to find a high-margin business able to grow the top line at such a pace. Management suggests that it is benefiting from long-term demographic tailwinds: as populations age, they tend to drink more premium spirits, and hence use premium mixers.

While the brand is most well known for its original tonic to make a "G&T", Fever-Tree now also sells colas, ginger ales and ginger beers for pairing with dark spirits. Management has identified two adjacent opportunities to expand into: lower-sugar "adult soft-drinks" and non-carbonated mixers for creating simple cocktails. With such a good story it's understandable that investors bid the price up to a peak valuation of 50 times earnings at above £40 per share in 2018, more than triple the 2014 flotation price.

©Getty Images

As people age they tend to drink more spirits, so they need more mixers

Too much, too soon

Paying a high multiple for the shares meant that investors had implicitly assumed that high-margin, capital-light growth could continue. That has proved overoptimistic. Following a spate of profit warnings, Fever-Tree's shares have now derated, but at £10.40 still trade on around 30 times 2024's forecast earnings. That compares with KO on 21, but it lacks top-line growth. MNST has trebled revenues over the last decade to over $6bn and trades on 30 times 2024 profits.

Although Fever-Tree has been able to grow rapidly without having to spend lots of money on fixed assets such as bottling machines, it did have to invest in warehouse facilities to help with distribution in the US. Spending on property, plant and equipment was below £10m, or just 3% of revenues in 2021, but more than doubled the following year to £26m as the company had to invest in warehouses in the US. That US expansion has been paying off, though, with first-half sales up by 40% this year (32% on a constant-currency basis).

The group's gross margin has also fallen to 31% in the first half, versus more than 55% five years ago. One reason for this is that the price of glass has hit margins as energy costs have increased. You would expect a premium brand to pass on rising commodity prices to consumers, but Fever-Tree hasn't been able to do that without losing market share to the likes of Schweppes or Fentimans. The first-half results also revealed that sales growth has been disappointing in the UK and the rest of the world. The upshot was a 92% drop in first-half profits. The stock has slid by 25% this year.

The largest shareholder is Lindsell Train, with 15.4% of the shares, followed by Capital's 8.4% and Terry Smith's Fundsmith with 7.6%. The two founders have sold down their shares, but are still benefiting from generous long-term incentive plans (LTIPs). Charles Rolls, the current deputy chairman, owns 5.5%, having sold down his stake from 29% of the company before the initial public offering (IPO) and Tim Warrillow, the current CEO, has sold down his stake from 1.3% to less than 5%. The "core" LTIP pays out nil-cost optionsworth up to 300% of salary, while an additional LTIP with awards of up to 150% of salary was introduced in 2021 to reward the board for achieving international revenue targets.

Following the decline in margins, the price-to-sales ratio has derated from 15 in 2018 to below three. The business does have £76m of cash, which means that even if profitability remains under pressure, it is unlikely to face financial difficulties from higher interest rates. So today's price of 1,040p looks an attractive entry point. Even if we don't see a return to 2017 levels of profitability, management clearly understands how telling a good story can increase the value of its brand.

Fevertree Drinks (Aim: FEVR)

Share price in pence

Medical promise at a reasonable price

Bioventix's work on antibodies, strong sales growth and relatively high dividend all bode well

Dr Michael Tubbs
Investment columnist

In these uncertain times portfolios benefit from firms with regulatory barriers to new competitors entering their markets, predictable growth and appealing dividend yields of around 4%. A good example is **Bioventix (Aim: BVXP),** which was founded in 2003 and admitted to Aim in 2014. It specialises in creating and manufacturing sheep monoclonal antibodies (SMAs) for use in immunodiagnostics. Monoclonal antibodies bolster or imitate the immune system's response to unwanted cells.

The group's antibodies from sheep are more effective than conventional ones from rodents

©Getty Images

Bioventix's novel SMAs have proved more effective than conventional monoclonal antibodies from rodents, both for diagnostic targets at low concentrations and where the target is a small molecule or drug. Bioventix's SMAs are therefore used to create new and improved diagnostic tests for blood-testing machines in hospitals and other laboratories around the world. These machines are supplied by major diagnostic firms, such as Roche, Siemens, Beckman Coulter and Abbott Laboratories.

Examples of Bioventix's products are the SMAs used for testing levels of vitamin D, testosterone and troponin (used to diagnose heart attacks). Bioventix sometimes starts antibody projects at its own risk. These give it complete freedom to commercialise the final antibody. Alternatively, the company may partner with a customer to produce an antibody commercialised through that company, such as the troponin antibody developed with Siemens. Bioventix takes revenue both from the sale of its antibodies and from the modest royalties paid by customers of testing machines using its antibodies. Today 70% of revenue comes from royalties.

A protracted process

It takes between four and ten years to progress from starting on a new project to gaining regulatory approval and receiving first royalties. This timescale provides a barrier to entry for potential rivals, since a new and effective antibody will continue to be used for many years and competitors face a long gestation period if they want to bring a competitive product to market. The long approval process means that current revenue is derived from antibodies created many years ago.

Research includes a new antibody for an Alzheimer's blood test. Work on Alzheimer's diagnostics is proceeding jointly with the University of Gothenburg. Recently developed Alzheimer's drugs, such as Biogen/Eisai's Lecanemab and Eli Lilly's Donanemab have shown remarkable ability to slow the progression of Alzheimer's, but only if given to very early stage patients. So an effective blood test to detect the disease before there are any obvious mental symptoms has become a very important objective.

Another collaboration, with CardiNor in Oslo, is aimed at identifying patients who might benefit from implantable cardiac devices. Given the timescale for projects mentioned above, current research work is likely to generate sales and royalties between 2028 and 2038.

Bioventix's future strategy has three strands: its core SMA technology, partnerships with academic collaborators, and "sandwich" technologies. The last use a combination of SMA technology and a secondary antibody created using the antibody library of a third party. The synergy of the two technologies has already helped tackle industrial pollution through pyrene (used to make dyes and pesticides), for instance.

The long timescales and barriers to entry have steadily led to increasing revenue, from £10.3m in 2020 to £10.9m in 2021, £11.7m in 2022 and £12.8m for the year to 30 June 2023. Profit and cash flow have risen steadily too, so the company has been able to pay out dividends rising from 91p in 2017 to 152p for 2023. CEO Peter Harrison holds 6.9% of the shares, so his interests are aligned with those of his shareholders.

A global player fending off rivals

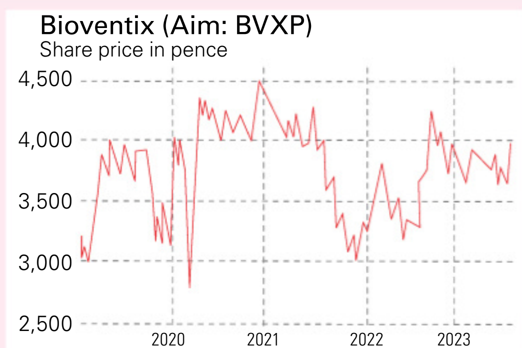
Bioventix's 2022-2023 results (to 30 June 2023) were released on 30 October. The firm's revenue reached £12.8m, up by 9.4% on the previous year.

The UK contributed 7.5% of sales; the EU 12.5% and the rest of the world 80%. Some 50%-60% of sales are linked to the US dollar, either directly or indirectly. Operating profit totalled £10.03m and pre-tax profit £10.13m.

The company has maintained a net cash balance for many years. It stood at £5.7m at the end of June 2023. Investment in research and development was a high 9.4% of sales. A dividend of 152p per share is being paid for 2022-2023, although this is only just covered by earnings per share. The 2022-2023 dividend is the same as the total for 2021-2022, since there was an additional special dividend in 2021-2022.

The company said that "these results reflect steady growth in the use of our established products", while a recent emphasis on troponin, a protein found in the cells of heart muscles, is proving fruitful. "Excellent progress has been made with our research projects."

The recent share price is 3,975p, below the 4,200p high reached in early January and 9.7% below analysts' one-year target of 4,400p. The trailing 12-month price/earnings (p/e) ratio is a reasonable 25.2 and the forward dividend yield a useful 3.9%.



The risks include the higher general volatility of shares listed on Aim and geopolitical concerns over trade with China, which has provided a growing additional market for the company's antibodies. However, Bioventix is a profitable company with a unique technology, steadily growing sales, substantial research and development investment into several new products and a record of increasing dividends. The current share price therefore represents a reasonable entry point for investors.

Financial gifts for children

Options range from gold and Premium Bonds to Junior Isas

Ruth Jackson-Kirby
Money columnist

Running out of ideas for Christmas gifts for your children or grandchildren? Here's a round-up of your financial options. Giving money not only takes the stress out of choosing a gift, but it could also help with a future tax bill. Under inheritance-tax (IHT) rules you can give away up to £3,000 a year and it is immediately exempt from IHT. On top of that you can give away unlimited smaller gifts of up to £250, and they are IHT-exempt – you just can't give those smaller gifts to the same recipients as the £3,000.

If you are thinking of gifting cash, consider a deposit into a child's Junior Individual Savings Account (Isa), if they have one. "Sure, it's not a pony or a bike, but the children will thank you in the long run," says Lucy Alderson in The Sunday Times. Money paid into a Junior Isa can grow tax-free until the child gets access to it on their 18th birthday.

This can be a particularly good choice for a baby or toddler as they "will be totally oblivious to whatever gift you buy… and boxes regularly spark more delight than the gift they contained", says Rachel Lacey of Interactive Investor. Opening a Junior Isa – or investing in an existing one – will help set them up when they turn 18, as it will have almost two decades of compound interest added by the time they can access it.

Potential jackpot

Alternatively, you could buy someone Premium Bonds for Christmas. This gift could make them a millionaire if they win one of the monthly £1m jackpots. Anything they win is tax-free, and they should enjoy checking to see what, if anything, they've won each month. You can buy Premium Bonds from £25 and gift them to anyone. If the recipient is under 16, National Savings & Investments will need to contact their parents or guardian to confirm the child's identity.

©Getty Images

A financial gift doesn't have to be cash. You could also consider an investment asset as a gift. Gold has been a popular present since the very first Christmas when Caspar, one of the Three Wise Men, gave it to Jesus. Gold prices have hit new highs as it "is considered an asset that holds its value", says Alderson. You could buy gold bullion – a one-ounce Britannia coin costs £1,627 from the Royal Mint – or you could invest in a gold tracker fund. The benefit of the latter is your recipient won't have to worry about storing their gold. For example, the **iShares Physical Gold ETC (LSE: SGLN)** is a tracker backed by its ownership of gold bars. You can hold this fund in a stocks and shares Junior Isa, too.

Or how about a present that helps your younger family members learn to manage their money? Experts think "attitudes to money are shaped by the age of seven [so] it's never too early to start playing games that encourage them to start understanding the basics", says Lacey.

Consider a board game such as Pop to the Shops or Monopoly, or pretend-play items such as money or food so they can improve their numeracy and discuss the cost of items and whether they have enough money to buy them. Similarly, a piggy bank can help teach them how to save.

Credit cards for Christmas

If you want to spread the cost of Christmas, note that the number of cards offering lengthy interest-free periods has fallen and the average APR has risen since last year.

In 2020 it was possible to get a credit card with an introductory 0% period of up to three years. Last Christmas it had fallen to two years, James Daley of Fairer Finance tells the Daily Express. This year there is only one card offering more than 20 months interest-free. The Barclaycard Platinum All-Rounder has a 21-month interest-free period on purchases. After that the interest rate rockets to 24.9% APR.

But don't assume you need the longest possible 0% period. Do you really still want to be paying for this Christmas in the summer of 2025? If you can clear your debt in a shorter period, then consider the Santander All in One credit card with a 15-month interest-free period for new purchases. You can also use it for a balance transfer from another credit card and get 15 months at 0% to clear the debt – fee-free. You can earn 0.5% on your spending, too, up to a maximum of £10 a month. The drawback? There is a £3 a month fee. But spend more than £600 a month and the cashback will clear the fee.

Putting purchases on a credit card also means that if anything goes wrong, the Consumer Credit Act makes your credit card company equally liable with the retailer – as long as the item cost between £100 and £30,000. So if you can't get a refund from the shop, your credit card provider has to stump up.

Pocket money... HMRC hangs up on customers

- If you are sending parcels this Christmas, "steer clear of pointless 'insurance' that could more than triple the cost of sending your presents", says Ali Hussain in The Times.

Delivery firms including Evri, Royal Mail and Yodel will try to sell you extra cover to ensure your parcel gets to its destination safely. But you don't need it. Customers are already covered by consumer protection rules.

You should only pay the extra fees for additional services not covered by the law. For instance, if you want "a high-value delivery to be tracked and arrive by a certain date then it may be worth paying extra", Lisa Webb, an expert in consumer law at Which, told the paper.

- The mean cost of a two-year fixed-rate mortgage has fallen below 6% for the first time in half a year, says Hilary Osborne in The Guardian. In the summer the average two-year fixed mortgage cost 6.86%. Last week this had dropped to 5.99%. The decline could bring homebuyers back to a market that has been stagnating in recent months.

- The price of your television licence will rise in April. It is going up by £10.50 to £169.50 following a two-year freeze. "The licence was expected to increase by 9% – which would have resulted in a hike of around £15 from April 2024," says The Independent. Instead, the rise has been based on September's annual consumer-price inflation figure: 6.7%. The fee pays for BBC services including TV, radio, websites, podcasts, iPlayer and apps. Anyone who streams or watches live TV must pay it.

- HM Revenue and Customs has announced that it "will restrict access to its helpline over its busiest period", says Emma Agyemang in the Financial Times. It plans to focus on priority calls in the run-up to the tax return deadline on 31 January 2024. Any other queries from taxpayers will be directed to its website. Priority queries are defined as "those that cannot be easily dealt with online". Jim Harra, HMRC's CEO, claims that "two-thirds of calls to the SA [self-assessment] helpline can be resolved far quicker through our online services".

The change is likely to lead to even longer waiting times if you do ring. It took an average of 24 minutes for a call to be answered in October.

Keep control of your cash

Cash-flow difficulties are a key reason firms fail. Here's how to avoid them

David Prosser
Business columnist

Formulate a plan to avoid money running out

©Getty Images

Successful businesses can go bust quickly. The Business Travel Association says that more than 50,000 businesses fail each year because of cash-flow problems. Many of them are viable enterprises, but they simply can't get cash in quickly enough to pay the bills, and eventually they are forced to cease trading.

That's why every small company should have a cash-flow plan ready for 2024 – a forecast of probable revenues mapped against likely outgoings, particularly in a year when costs such as wages, energy bills and business rates are set to increase sharply.

Can customers pay?

Start with your sales forecast, aiming to build accurate projections of your sales for the year ahead, including estimates for when sales will generate actual revenues. Consider the possibility of sales not converting into revenues. If customers don't pay their bills, that will hit your cash flow, so you will need to build a bad debt assumption into your model.

Building this level of detailed forecasting into your business plan will not only help you to manage your business more effectively, but also enhance your credibility with your bank or your investors if you seek external financing. Doing this work can also help you identify warning signs such as a declining average cash flow, or cash flow that is projected to slip into deficit. These may signal that you need to take further action to forestall problems.

Next, look at costs. Do you have accurate forecasts of all the costs your business will incur, as well as when these costs will fall due? Expenses such as wages, business rates and taxes, for example, cannot be paid late without potentially serious consequences. In other cases, there may be more room for manoeuvre: are your own payment terms too generous, for instance, compared with those of your customers?

Be careful with cost forecasting. While it's more straightforward to plan for regular and fixed costs, other things with the potential to affect the bottom line can be tougher to anticipate. Allow for overheads such as maintenance costs, for example, and the potential need for capital spending. Build in contingencies for unforeseen expenses. If your business plan predicts growth, your costs will increase accordingly. Are you planning to hire more staff, for example, increasing your wage bill?

You can also manage your cash flow more effectively. In particular, how quickly your customers settle their bills will make a huge difference to your cash flow. The first step is to understand in detail each customer's settlement processes and payment terms. Get your invoices in as soon as possible in the format requested to give your firm the best chance of getting paid on time. Build your sales forecasts according to your customers' payment terms. If their standard settlement period is, say, 60 days, don't expect to get paid within 30 days.

The key is to be disciplined: have processes in place for tracking invoices and chasing late payments. Your firm may be big enough to employ specialist finance staff with credit control skills. If you're handling this task yourself, understand that different strategies may be more effective with different customers – some may respond to a friendly approach, while others will need a tougher line.

Finally, if all this planning and forecasting feels daunting, get help. Many business accounting software packages offer excellent tools that can help you work through cash-flow management. But good advisers can also play a crucial role; your accountant, for example, should be able to help you analyse your data and make accurate forecasts, and to advise you on your best options for managing any difficulties. Your bank can also offer counsel on the challenges your business faces and provide financing solutions. An overdraft, for instance, can help you manage day-to-day cash-flow issues, smoothing out the peaks and troughs of your revenues. Other solutions, including loans, might be more suitable for large-scale investment projects.

Immigration rules will hamper recruitment

Small firms, particularly those based outside London and the South-East, will be among those hit hardest by reforms to the immigration rules, business groups warn. The changes, due to come into effect in April, could make it much harder for firms to recruit much-needed talent from overseas.

The main change is the large rise in the minimum salary migrants will need to earn to qualify for a "skilled worker" visa, which will go up from £26,200 to £38,700.

Analysis suggests 210 of the 225 occupations covered by this scheme offer lower average wages than the new cap. The salary that British citizens or migrants already settled in the UK will have to earn for their immediate relatives to be allowed to join them will also increase to £38,700, from £18,600.

Both hikes are likely to cause employers problems. Many will not be offering salaries that qualify for skilled worker visas; migrants may not want to stay in the UK if they cannot earn enough for their families to join them.

Smaller firms will find the new regime especially tough. They are less likely to have the resources to fund additional wage costs. Regional firms, based in locations where salaries tend to be lower, could face particular challenges.

Petty cash... small firms embrace AI

- More than nine in ten small businesses believe they offer customers a convenient online experience, new research shows. But just two in ten consumers feel the same way. The survey, from IT company GoDaddy, highlights shipping as a particular bugbear for many consumers. While they expect free delivery, as well as a choice of shipping options, including collection from a store, many small firms can't afford to offer this.

- One in five small-business owners would struggle to spot an online fraud, a survey conducted by UK Finance warns. The group, which represents the banking sector, quizzed more than 7,000 small businesses about common scams. It found that while awareness of certain types of fraud, including impersonation scams, was good, many businesses were less strong in areas such as procurement fraud.

- Almost one in four small companies have plans to use artificial intelligence (AI) tools such as ChatGPT in 2024, a survey from American Express reveals. The most popular tasks for which firms are planning to use AI include social media posts, marketing campaigns, seasonal hiring and customer emails. The research suggests take-up of AI technology has increased sharply among smaller firms over the past year.

How my bets fared

It has been a mixed year for my short and long tips. Discount retailer B&M is currently the best of my open positions

Matthew Partridge
Shares editor

This year saw markets put in a mixed performance. While the S&P 500 ended the year up by approximately 20%, the FTSE 100 merely broke even. This split was mirrored in the mixed performance of my tips this year.

Tips carried forward

I began the year with 11 tips: seven longs (Ashtead, Dunelm, Netflix, Burberry, D.R. Horton, Gamma Communications and Savills) and four shorts (Coinbase, Digital Realty, AST SpaceMobile and EVgo). As usual, all of them were closed during the course of the year.

Digital-currency exchange Coinbase was the first to go in issue 1140, at a profit of £1,320 – my most successful tip this year. Next was construction firm Ashtead in issue 1144, making £900. Netflix fell below the stop-loss level in 1149, but still ended up £876 ahead. I then decided to take profits on home-furnishings retailer Dunelm in issue 1152 when it was £789 in the black.

In issue 1160, fashion house Burberry fell below the stop-loss, but still made £450. In issue 1164 my short sale of real-estate investment trust Digital Realty was closed at a small profit of £160.

In issue 1170, I closed my longs in estate agents Savills and telecoms company Gamma Communications at losses of £132 and £220 respectively. In issue 1177, builder D.R. Horton fell below the stop-loss level, though it still made a profit of £712.

In issue 1185 space-based broadband provider AST SpaceMobile went above the covering level of $5, making £731, while I also suggested that you take profits of £802 on electric-car-charging company EVgo.

Overall, of the tips that I started out with, only Savills and Gamma Communications would finish in the red, with the other nine making money. The upshot was net profits of £6,388. This was up from the £4,949 at which they started the year.

Tips made and closed this year

I made 19 tips in 2023. Of these, five were closed this year. All lost money. In issue 1138 I suggested that you short ticketing company Live Nation. Sadly, this didn't work out and I was forced to cover my position in issue 1170 at the loss of £967, the worst result of the last 12 months.

Similarly, my suggestion that you go long on online retailer Asos in 1140 proved unsuccessful, with the stop-loss triggered in issue 1156, losing £688. In issue 1151 I recommended that you go long on brickmaker Ibstock. That trade was closed in 1175, with losses of £297.

Perhaps the most depressing reversal was in issue 1156. I made the mistake of recommending that you short software firm C3.ai – an idea that lasted less than four weeks, as I was forced to cover it in 1160 at a loss of £944.

> *"Digital-currency exchange Coinbase was my best bet, earning a profit of £1,320"*

Finally, my tip to go long on shipbroker Clarksons in 1160 was closed in 1183, at a loss of £419.

Overall, the five tips lost a total of £3,315, which looks worse than it is, since I am very strict about closing losing positions.

Ongoing tips

If this was a bad year for the five tips I made and closed this year, then at least I can console myself that the ones I left open are generally doing well. At present I have 14 ongoing tips: eight long and six short. Of these, nine are in profit. With regard to the long tips, discount retailer B&M European Value Retail (which I tipped in issue 1142) is at 607p, making £496 of profit; computer services firm Computacenter (issue 1152) is at 2,654p, putting it £390 in the black; while outsourcing and energy services company Mitie (issue 1164) is selling for 99p, so it is making £40. Luxury watchmaker Watches of Switzerland (issue 1166) is at 686p, which means it is losing £60; kitchen supplier Howden Joinery is at 760p, £126 ahead; and recruiter SThree (issue 1173) is at 422p, £201 in profit. Budget airline easyJet (issue 1181) is at 476p, making £365; while Moonpig, which sells greeting cards and gifts online (issue 1183), is at 152p, £370 behind.

Squid Game: The Challenge is a new show from Netflix, one of 2023's successful tips

©Netflix

Turning now to my open shorts, payroll technology provider Paycom (issue 1144) is at £187, putting it £580 in the black; videogame store GameStop (issue 1146) costs $15.56, making a profit of £306; while solar-energy company Sunrun (issue 1149) costs $12.79, making £521. Online brokerage Robinhood (issue 1177) is at $11.73, losing £347; while air taxi company Joby Aviation trades at $6.57, £96 in the red. Used-car seller Carvana (issue 1185) is at $40.56, losing £24. Overall, my long tips are making a net profit of £1,188, while my shorts are making at net profit of £940, for combined profits of £2,128.

Trading techniques... what I learnt in 2023

Be very careful when shorting certain sectors

If there is one big investing story this year, it's the rise of artificial intelligence (AI). While many think that expectations are now so high that AI won't be able to live up to its hype, this doesn't matter as, for the moment, the markets clearly think it will. This means that even companies with poor fundamentals may benefit, at least in the short run. The fact that I had to cover my short position in C3.ai only four weeks after I took it out shows the danger of shorting stocks in booming sectors.

The importance of stop-losses

The case of C3.ai also highlights the importance of stop-losses. Whenever I tip a share, I always place a stop-loss, which automatically closes your position should its price fall below a certain level (or in the case of a short, rises above a threshold). This means that you can end up in the frustrating position of having to close a position early, before seeing the share move back in your favour, but it does limit your losses. In the case of C3.ai, I would have been sitting on huge losses a few weeks later had I not been forced to cover my position early.

Look for catalysts

It's best to find a great stock at a good price. However, because trading is also about short-term momentum, as well as long-term performance, finding a catalyst – something that can give an extra boost to performance – can also be useful. While I've only tipped it relatively recently, easyJet's decision to reinstate its dividend is a classic example of how a catalyst can deliver a powerful boost to a share price. So I will henceforth try to look for companies that have recently experienced a boost of this kind.

Profit from growth and income at high-quality global companies

A professional investor tells us where he'd put his money. This week: James Harries, STS Global Income & Growth Trust, highlights three favourites

The STS Global Income & Growth Trust follows a distinctive quality-focused, conservative investment style. We try to consider the downside to investments as much as the potential opportunity, and to produce good risk-adjusted returns balanced between income and capital growth. We believe this approach is especially relevant today given that we consider the economic outlook to be murky at best, driven by the very material and rapid rise in interest rates around the world, and still elevated equity valuations, notably in the US.

In this context, we want to invest in companies that are predictable, boast well-entrenched competitive advantages, and have limited requirements for capital when growing their businesses. Such companies tend also to exhibit attractive margins, allowing them to weather more challenging economic environments, especially when combined with a generally higher level of inflation, as we see today.

Cashing in on commodities and inflation

A good example is **CME**, previously called the Chicago Mercantile Exchange (**Nasdaq: CME**). This company is extremely well placed to benefit from the structurally greater need to hedge inflation and interest-rate risk, as well as from other areas such as commodity prices. The post-quantitative easing world, together with the return of inflation, is likely to be characterised by greater volatility and uncertainty, to the benefit of this company. This leads to attractive margins and returns as well as generous shareholders' returns. CME is a core long-term investment in the fund.

The second company we highlight today is **Reckitt Benckiser (LSE: RKT)**. It is a business that will be familiar to many owing to its well-known brands, such as Dettol and Nurofen. This consumer-health and household-products company has had a lacklustre few years owing to many problems that we now think are being fixed. Following a three-year turnaround, Reckitt is now well on its way to generating stable and reliable growth.

"One in six workers in the US is co-employed by human-resources outsourcing specialist ADP"

Despite the market's scepticism, reflected in the company's lowest valuation in a decade, Reckitt has achieved high-single-digit like-for-like sales growth since 2019, alongside enhanced capital efficiency and reduced financial leverage. Reinforcing confidence in its future, Reckitt raised its dividend by 5% last year, ending a prolonged period of stagnation, and announced a significant share-buyback programme, signalling strong growth prospects ahead.

Reckitt Benckiser has completed a three-year turnaround

Healthy returns from HR

Finally, we are excited about **ADP** (**Nasdaq: ADP**). This is a very high-quality company engaged in the provision of payroll and human-capital management services to large and small companies, predominantly in the US. ADP's employer services division offers payroll, human-capital management solutions, human-resources outsourcing, insurance and retirement services.

The smaller but faster-growing professional employer organisation segment provides HR outsourcing to small and medium-sized businesses through a co-employment model; one in six workers in the US is co-employed by ADP.

Despite this scale, ADP still has ample scope for growth as many businesses do not yet outsource these functions. As the competition for talent intensifies and the provision of HR becomes more complex, the impetus to outsource builds. This resilience and quality were demonstrated by recent results and the company's decision to raise its dividend by 20%.

The grandmaster of AI

Demis Hassabis, boss of Google's DeepMind AI operation, was caught unawares by the rise of ChatGPT. He scrambled to catch up and now claims to have ushered in a new era. Jane Lewis reports

Demis Hassabis has long been known as the brilliant British chess champion who became "the grandmaster of AI" (artificial intelligence) when Google bought his London-based DeepMind laboratory in 2014. Still, for much of the past year he's been playing a nail-biting game of catch-up, says Wired. The astonishing popular response to OpenAI's ChatGPT not only knocked Google off its perch as the world's best-known AI innovator, but – via its incorporation into Microsoft's Bing search engine – posed a direct threat to Google's future. "Stunned into action," Google responded rapidly, hustling to launch its own chatbot, Bard, and promising a new general AI model to underpin it. Last week, it arrived. "The Gemini era is here," tweeted Hassabis on the X social-media platform. Or so he hopes.

©Getty Images

"Demis is very pragmatic and competitive – he wants to be on the AI frontier"

The business fight of the decade

The name of the system – a nod to the Nasa project that paved the way for the Apollo moon landings – is significant. It also marks the twinning of Google's two major AI laboratories (DeepMind in London and Brain in California) into a new unit under Hassabis's leadership. When Google's Larry Page persuaded him to sell DeepMind for £400m in 2014, a condition of the deal was that the start-up "would be shielded from pressure to make money", says the Financial Times. All change. At 47, Hassabis has been dragged down from his ivory tower and pitched full-square into the commercial battle of the decade. Those close to him claim he's more than up to the challenge. "Demis is very pragmatic and highly, highly competitive," says a former colleague – he "wants to be on the frontier of this."

"Somewhere at his core," Hassabis is a gamer, says Vox. Growing up in London, he was a child prodigy in chess from the age of four and, by eight, was writing computer games. He bought his first ZX Spectrum from his chess winnings and taught himself how to program from books. He completed his A-levels two years early before taking up a place at Queens' College, Cambridge designing video games for Bullfrog Productions. He earned enough to pay his way through university and graduated with a double first in computer science.

His interests are polymathic. Immediately after leaving Cambridge, he set up his own video-games company, Elixir Studios, before returning to academia in 2005, aged 28, to study for a PhD in cognitive neuroscience at University College London. His focus was the hippocampus: the brain region crucial for navigation, memory recall, and imagining future events, says the FT. In many ways, the formation of DeepMind in 2011 reflected Hassabis's two main strands of experience. Its propulsion into the higher echelons of Silicon Valley was down to a third, says The New York Times – chess. The story goes that Hassabis managed to land $2.5m in funding from his first major backer, Peter Thiel, by wangling an invitation to a party and seducing the legendary investor into a discussion of the unique strengths of the bishop and the knight. "I knew that he loved chess," Hassabis later remarked. "I thought that would be my unique hook in."

The game has changed

As arguably Britain's greatest contemporary computer scientist, Hassabis, a member of the Royal Society, knows he is walking in the footsteps of Charles Babbage and Alan Turing, says the FT. The difference now is the speed of change. Back in 2015, when the aim of making "machines smart" was still viewed by some as a utopian idea, he sought to show how AI systems can learn and adapt by having them play retro arcade games such as *Space Invaders*, or the ancient Chinese boardgame Go. But even he conceded that much of DeepMind's research was still in the realms of "science-fiction stories".

It may be time to switch game analogies. "A lot of chess players can't handle poker," Hassabis once observed. "In chess, if you play the right moves, you win. But life is more like poker… there are unforeseen and unknown things you can't cater for." Like ChatGPT, say. Fortunately for Google, Hassabis is an accomplished poker player.

The "monster-liberator" of Corsica

Napoleon Bonaparte (1769-1821) has long held a "seductive" appeal for artists, says Peter Bradshaw in The Guardian. He ranks third behind Jesus and Hitler in the number of books written about him, says Simon Schama in the Financial Times, and outdoes them both in the number of films. Just what kind of person sits at the centre of this cult is in the eye of the beholder. In Sergei Bondarchuk's film *Waterloo*, he was a "world-weary gang boss"; in King Vidor's *War and Peace*, a "dwindling absurdity". But in Ridley Scott's new "outrageously enjoyable" epic biopic (starring Joaquin Phoenix, pictured), he is the "arch satirist and grinning mastermind, the outsider, the brilliant observer and exploiter of other people's weaknesses, the proto-capitalist entrepreneur".

Born Napoleone di Buonaparte on Corsica, he graduated from a military academy in Paris, serving in the Corsican resistance to French rule, and rising to power in the aftermath of the French revolution, seizing power in a coup in 1799. As emperor, he transformed French society, ushering in the Napoleonic Code, which still serves as the basis of civil codes around the world today, and conquering vast territories across Europe, reshaping the political landscape. Most of his wealth was acquired through his military campaigns, which brought him the spoils of war, including gold, precious artefacts and land. His net worth in today's money has been estimated at around $400m.

What we learn from Scott's film, says Janan Ganesh in the FT, is that Napoleon did "a lot of bad sh*t" to acquire that wealth. And the film has provoked a lot of "as bad as Hitler" talk among talking heads. But really, he was more a "necessary autocrat" – the kind of leader who centralises in order to enact broadly liberal reform. If that seems distasteful today, it is because "those who were early to modernity can be hopeless at giving directions to the place". Scott gives a" more textured portrait" of this "monster-liberator" than the trailers and reviews would have you believe.

©Alamy

Festive fairs in Britain

Indulge in mulled wine and mince pies at these three Christmas markets

Edinburgh's markets are some of Britain's most popular

©Alamy

Yuletide fun in Edinburgh

Edinburgh's Christmas markets are among the best in Britain, attracting 2.5 million visitors last year, says Carla Jenkins in The Times. The most popular are the markets in East Princes Street Gardens and George Street. In the first, you will find a traditional European-style Christmas market with 70 stalls selling mulled wine, hot toddies, mince pies, bratwurst and the less traditional Irn-Bru fudge, along with painted nutcrackers and Glayva, a whisky liqueur flavoured with spices, tangerines and honey. There are also fairground rides to amuse you, including a big wheel, star-flyer and helter-skelter. The family and children's market can be found at West Princes Street Gardens. George Street hosts a Scottish Christmas fair with an ice rink and vintage funfair rides, while in St Andrew's Square, Santa has parked his sleigh in order to run Santa's Stories group sessions. If you have time, be sure to visit the winter village at Edinburgh Zoo. *Until 6 January, edinburgh-christmas.com*

Weihnachten in Birmingham

"The best Christmas markets seem to turn back time, transforming areas of cities into timeless wonderlands," says Sam Kemp for National Geographic Traveller. Take Birmingham's Frankfurt Christmas market, for example. The city's festive fair is one of the largest German-style markets outside of Germany "and it has the stalls to prove it". "On New Street… tankards of *weissbier* (wheat beer) are divvied out from beneath a gleaming tower studded with bulbs and topped with mechanised wooden soldiers. In Victoria Square, you'll find festive treats aplenty – whether fruited, spiced or smothered in chocolate – as well as stalls selling wooden decorations and blown-glass baubles for your Christmas tree." The Birmingham Botanical Gardens are also worth a visit for the Winter Light Trail, which is nearly a mile long. *Until 24 December, visitbirmingham.com*

Get inspired in Exeter

This year's Christmas market on Exeter Cathedral Green is the biggest yet with around 100 vendors, says Emma Love for Condé Nast Traveller. The majority of these are West Country businesses, including Alison Miles Pottery, which is a must-visit for tealight houses and Christmas decorations. Also be sure to stop at Cherry Tree Preserves for small-batch chutneys and jams, which make perfect stocking-fillers, and Claire Vaughan Designs for nature-inspired stationery and homeware. In the Global Street Food Village, indulge in a *tartiflette* from La Grande Bouffe, a themed bar tent run by local favourite Doctor Ink's Curiosities, while listening to traditional carols sung by the Exeter Cathedral Choir. Visitors get free entry to the cathedral to admire the Light of Hope Star, an art installation by Peter Walker, while children will love riding on the Exmouth Miniature Railway. But hurry, as the market ends on Sunday. *Exeter-cathedral.org.uk*

Wine of the week: a spectacular Aussie chardonnay

2018 Passel Estate, Chardonnay, Margaret River, Western Australia

Approximately £32, lokiwine.co.uk; thesurreywinecellar.co.uk; mustandlees.co.uk

Matthew Jukes
Wine columnist

On a recent trip Down Under, I was delighted to meet Wendy Stimpson, owner of Passel Estate in Margaret River. She explained that a passel is a collective noun for possums, and given that Wendy and her husband run a conservation programme for western ringtail possums on their property, it made sense to use this quaint word as their wine brand. This thrilling wine is made from the much-vaunted gingin chardonnay clone, and it weighs in at a sprightly 12.5% alcohol. With no malolactic fermentation and one-third new Allier and Vosges oak barrels employed, this is a lean, energetic, keen-edged wine with stunning poise. Fresh, zesty and perfectly balanced, this is a spectacular new find for me, and it is a wine that shows that top-flight Margaret River chardonnays can outfox heavier, oakier Burgundies with ease. It is also worth noting that this wine is nearing the peak of its powers, so no extended cellaring is required!

In addition, 2020 Passel Sauvignon Blanc (£26.99, thesurreywinecellar.co.uk) is a shimmering beauty. With the merest hint of oak complementing the minty, lime pith and lemongrass fruit, this is a teasing, raspy, elite aperitif style designed to get you in the mood leading up to a serious dinner party. And 2017 Passel Cabernet Sauvignon (£32.99, thesurreywinecellar.co.uk; £35, lokiwine.co.uk, mustandlees.co.uk), on the other hand, holds court during the main course.

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

This week: ski chalets – from a contemporary chalet with views of Mount Yotei in Hokkaido, Japan, to a

▲ **Ferme St Christophe, Samoëns, Haute Savoie, France.** A recently renovated former farmhouse and barn close to the centre of Samoëns with landscaped gardens that include a cabin with a sauna. 8 beds, 8 baths, 2 receps, study, dining kitchen, guest room, barn with yoga studio, living area and bar, 0.79 acres. £3.3m Savills +33 (0) 6 29 38 26 68.

▶ **Courchevel 1850, Savoie, France.** A traditional-style chalet overlooking Courchevel's ski slopes. It is situated 200 metres from the nearest ski lift and has exposed stonework, exposed beams and open fireplaces. 4 beds, 4 baths, kitchen, open-plan living area. £6.8m Hamptons International 020-3918 9635.

▶ **Clearwater Lodge, Incline Village, Nevada, America.** A remodelled smart home in Incline Village with floor-to-ceiling windows overlooking Lake Tahoe and Diamond Peak. It has double-height ceilings, exposed stonework, a log-burning stove, a gourmet kitchen and a large deck with a hot tub. 5 beds, 5 baths, recep, office, study, studio, wine cellar, garage, 0.84 acres. £5.7m Chase International +1 (775) 771 8120.

an 18th-century former farmhouse in the Haute Savoie, France

Chalet Le Beule, Le Grand Bornand, Haute Savoie, France. A south-facing, three-storey 18th-century farmhouse overlooking the Aravis Range. It has a vaulted upper level with sliding doors leading onto the balcony, a modern fireplace and a luxurious wellness area that includes a hammam and a Jacuzzi. 1 bed, 1 bath, 2 receps, office, kitchen, 1-bed ground-floor apartment, ski room, laundry, 2 terraces, renovated 1-bed cottage, 1.7 acres. £2.87m Christie's International +33 (0)4 50 02 41 57

Sekka Ni Chalet, Hokkaido, Japan. A modern chalet together with an adjacent plot in a birch wood overlooking Mount Yotei. The chalet has floor-to-ceiling windows, hardwood floors, an open-plan living area, and a modern breakfast kitchen. 4 beds, 4 baths, grounds. £1.3m Christie's International 020-3824 1951.

Rocheaux Loups, Verbier, Valais, Switzerland. A four-storey ski-in ski-out chalet built in 2007 with panoramic views over the Combins, the grand massif in the western Pennine Alps. It has floor-to-ceiling windows, an open fireplace and extensive balconies. 5 beds, 5 baths, 2 receps, kitchen, ski room, laundry, wine cellar, en-suite staff room, fitness area with hammam, garage, garden, 0.4 acres. £11.3m Knight Frank 020-7861 1109.

Chalet K, Kitzbühel, Austria. A luxury chalet in Reith bei Kitzbühel with panoramic views over the Wilder Kaiser Mountain range and ski area. It has beamed ceilings, floor-to-ceiling windows, a gourmet kitchen, state-of-the-art wine room and an indoor swimming pool with a wellness facility. 5 beds, 5 baths, 2 receps, service kitchen, office, sauna, steam room, apartment, balconies, 2 garages, parking, lift, garden. £16.1m Savills +43 664 877 8769.

Chalet on the Piste, Nendaz, Switzerland. A renovated ski-in ski-out chalet in the 4-Valleys resort of Nendaz with one covered parking space accessible by car in summer and another parking space 300 metres from the chalet, which in winter can only be reached by quad bike. It has floor-to-ceiling windows leading onto the balconies and a terrace, and an open-plan living area with a wood-burning stove. 3 beds, 2 baths, kitchen, ski room, quad bike, 0.38 acres. £1.36m Alpine Property Finders +353 21 2455 427.

Ten great gifts for under the tree

Take the hassle out of shopping for friends and family with our luxury gift guide

An elegant wristwatch

In 1917, French jeweller Louis Cartier created a new watch design that celebrated the purity of the straight line. This vintage unisex **Cartier Tank Française watch** was an update of that design, featuring an 18-carat gold case and buckle (the black alligator strap is a later addition). *Price: £3,983, sothebys.com*

For the fashionista in your life

This **black folio** from British fashion label Paul Smith is a smart, timeless classic. It is made from premium calf leather and comes with two separate compartments, along with Paul Smith's "Signature Stripe" emblazoned on the side for a flash of colour. The leather handles and detachable shoulder strap make it easy to carry and the bag also features tie-shaped zip pulls for easy fastening. *£795, paulsmith.com*

Spend a wild night in bed

Drift off to sleep dreaming of the African savannah in this set of **Lila silk pyjamas** from British designer Olivia Von Halle. The motif sports a herd of zebras interspersed with stalking panthers on soft silk. *£560, selfridges.com*

A toast to Christmas

Budding mixologists will love **The Mixology Edition** cocktail collection from London's prestigious Claridge's hotel. Find exclusive recipes in *The Cocktail Book* and use the cocktail shaker, jigger and spoon, along with the bottle of Claridge's gin, to recreate signature pours from The Fumoir, Claridge's Bar and The Painter's Room. *£175, shop.claridges.co.uk*

Cycling with a little extra help

Cyclists "won't be disappointed" with the **Tern Vektron S10 electric folding bike**, says Cycling Weekly. It comes with 20-inch wheels and a 400-watt battery that will power the rider for 40 to 90 miles, depending on the amount of assist used. "To help the rider find the perfect fit, the stem and saddle are adjustable, making it a good interchangeable option for the whole family." It features a "fantastically useful" integrated rack and it is "a breeze" when it comes to fitting a child seat, as no adapters are needed. The S10 also has dynamo-powered lights and hydraulic disc brakes. *£2,999, sigmasports.com*

Bulgari's serpentine surprise

"An emblem of vitality and eternal youth in the mythological bestiary, the serpent is forever synonymous with the Italian label Bulgari," says Selfridges. That's why a snake head-shaped closure with "piercing" malachite eyes guards the contents of this **Serpenti Forever** cross-body bag, fashioned from soft calf leather. *£2,290, selfridges.com*

Rock on

The Grateful Dead's legacy spans the decades, from the group's earliest years as one of the pivotal artistic focal points of the 1960s counterculture, based in San Francisco, to their legendary live performances that transformed the Grateful Dead into one of America's most iconic rock bands. This **long-sleeved T-shirt** featuring a skull and roses design from the collection of Grateful Dead sound engineer Dan Healy is the ultimate memento from those years. *£740, sothebys.com*

Mark the new year in style

The new white gold **Reference 5226** is the latest addition to Patek Philippe's Calatrava collection of watches, which the Swiss watchmaker has been painstakingly crafting since 1932. Patek Philippe has updated the distinctive round case by adorning it with a Clous de Paris hobnail pattern. The watch is driven by a self-winding mechanical movement powering the hours, minutes, central seconds, aperture-type date and stop-seconds mechanism. *£32,380, patek.com*

Twinkle, twinkle little stars

This **Ianthe Star ring by Liberty** is hand-crafted in Italy from nine-carat gold and set with tsavorite stones – a "twinklingly modern homage" to Liberty's Art Nouveau heritage. The ring captures Liberty's historic passion for artists and artisans. It is engraved with the Liberty logo, while its delicate little stars are inspired by the artworks of visionary 1930s female surrealists. *£825, libertylondon.com*

Not a creature was stirring...

Your furry friend will be kept warm through the long winter nights in Charley Chau's **Snuggle Bed in Faroe**, a heavyweight upholstery fabric with the look and feel of wool. The dog beds, made in England, are lined with faux-fur fleece, but which is soft, fluffy and warm, but also breathable. *£255, charleychau.com*

The best children's presents

From a happy Highland cow to a rock 'n' roll drum kit

Little football for big fans

"Lego's listed its new **Table Football** set as suitable for ages 18+, but we reckon that just means you have a good excuse to help the kids assemble it," says Stuff magazine. The 2,339-piece set comes with 22 Lego figures wearing football kit, and 44 heads and wigs to allow players to customise their teams. *£214.99, lego.com*

Simply the best

It's never too early to start your children off on the road to rock stardom. The **Songbird karaoke machine** from Selfridge's The Tech Bar allows for up to six hours of vocal training as they and their friends sing their hearts out on the two rechargeable microphones. As for the USB-C rechargeable Bluetooth speaker, it may be compact in size, but it has all the sound modes to bring the house down. *£229.95, selfridges.com*

Drum roll, please...

Twelve drummers drumming this Christmas might be a bit much, but if your household contains a budding Ringo Starr or Neil Peart, then the **John Lewis Drum Set** might be just the ticket. Comprising a bass drum, snare, tom and cymbal, it has everything they need to unleash their inner animal. *£75, johnlewis.com*

Get the kids moo-ving

Meet Hubert. He's a beautifully made Highland cow with long horns, a flowing coat, crinkles in his ears and a stylised curved padded seat that little ones will love to ride around on. The **Hubert Highland Cow Ride On Toy** from Yorkshire-based toymaker Little Bird Told Me also has multidirectional castors on his feet, which allows young children to scoot about the house with ease. *£119.95, littlebirdtoldme.com*

Grab a ride with Barbie

The **Barbie The Movie Pink Corvette Convertible** recreates the iconic vintage-inspired pink car from this summer's hit film. In addition to its curvy silhouette and retro trims, Barbie's car also has a working boot and doors, plus steerable, rolling wheels. It's a great collectable gift for Barbie fans both young and slightly less young. *£134.99, shopping.mattel.com*

Bridge by Andrew Robson

Double Squeeze

On this week's Six Notrumps, West sensibly stayed off a Spade lead, instead preferring a deceptive Knave of Hearts. At the table, the South African declarer elected to win the Ace, then played on the black suits. Clubs cooperated, Spades did not, and he ended up down two.

Dealer South | Neither side vulnerable

North
♠ A842
♥ 8
♦ Q832
♣ K874

West
♠ Q109753
♥ QJ5
♦ 10
♣ J52

East
♠ –
♥ 9432
♦ J97654
♣ Q96

South
♠ KJ6
♥ AK1076
♦ AK
♣ A103

The bidding

South	West	North	East
2♣*	pass	2♦**	pass
2NT***	pass	3♣§	pass
3♥	pass	6NT	end

* Upgrading his hand to 23+ points.
** Waiting bid.
*** 23-24 balanced.
§ Stayman – a request for four-card majors.

Let us replay the hand. Declarer needs a minor-miracle to make 12 tricks without making anything of Hearts. Best is to hope for the actual Heart layout and duck trick one (key play). Say West switches to the ten of Diamonds. Win the King, and cash the Ace, West discarding (a Spade). Then follow with the Ace-King of Hearts, seeing with pleasure the fall of West's Queen (throwing, say, Clubs from dummy).

At trick six, you cross to the Ace of Spades, East discarding (a Diamond). You then cash the Queen of Diamonds discarding the Knave of Spades from hand (West also throwing a Spade). Now lead back to the King of Spades and cash the promoted ten-seven of Hearts.

On this last Heart, West has to throw down to two Clubs, in order to retain a high Spade. Dummy's Spade can now be discarded (having served its purpose), whereupon East is also squeezed down to two Clubs (he needs to retain a high Diamond). A Club to the King and a Club back to the Ace fell the opposing Clubs, and the last trick is scored with the promoted ten of Clubs. Twelve tricks and slam made.

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

Sudoku 1186

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

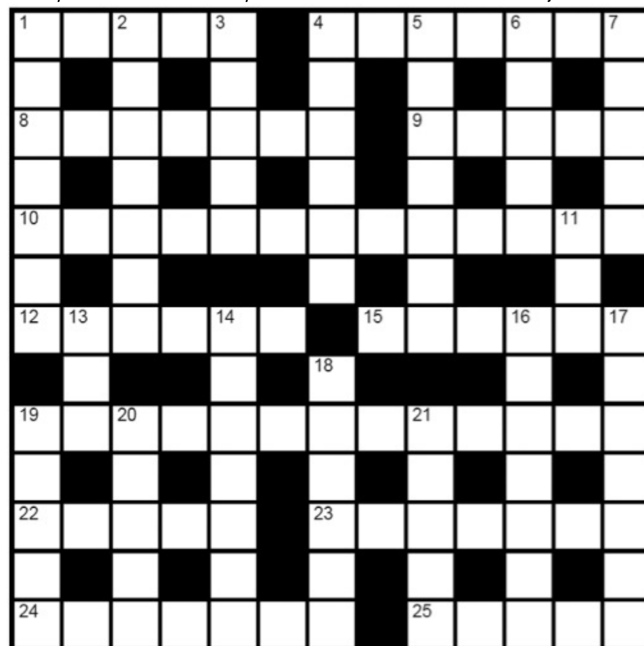
To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

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

MoneyWeek is available to visually impaired readers from RNIB National Talking Newspapers and Magazines in audio or etext. For details, call 0303-123 9999, or visit RNIB.org.uk.

Tim Moorey's Quick Crossword No. 1186

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 26 Dec 2023. By post: send to MoneyWeek's Quick Crossword No.1186, 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.1186 in the subject field.



Across clues are mildly cryptic while down clues are straightforward

ACROSS
1 Trees that could make you smile! (5)
4 Over-praise foxtrot near the end (7)
8 Rifle something from the drinks trolley (7)
9 Sink right into depression (5)
10 Greeting an OAP roughly, a youngster may be showing it (10,3)
12 Rent is high? That's what you hear in Australia (6)
15 Measures taken in Winchester (6)
19 Teacher sleeps badly in jumper (13)
22 Foreign aid Europe cheers (5)
23 Type behind island race (7)
24 They may rent B&B, for instance (7)
25 Perfect cook Delia (5)

DOWN
1 Southern French city famous for porcelain (7)
2 Salt (7)
3 Very high batter's hit (5)
4 Behaving amorously (6)
5 Etc (3,2,2)
6 Skimpy underwear (5)
7 Bowler's approach (3-2)
11 Fire (3)
13 Explosive (3)
14 God of the sea (7)
16 Unfriendly (7)
17 Dessert of thin pastry (7)
18 The messenger of the gods (6)
19 Wee (5)
20 George ____, English novelist (5)
21 Far eastern capital city (5)

Name ....

Address ....

....

email ....

Solutions to 1184

Across 1 Toerags *anagram* 5 Dogma *dog + Ma* 8 Afternoon *after + noon(e)* 9 Abe *abe(d)* 10 Pitta *homophone* 12 Theresa *anagram* 13 Copper nitrate *homophone* 15 Chablis *hidden* 17 Roads *sounds like Rhodes* 19 Pea *pea(k)* 20 Tea garden *anagram* 22 Train *hidden* 23 Showers *two definitions.*
Down 1 Tramp 2 Eat 3 Airfare 4 Shooting stars 5 Donne 6 Guatemala 7 Average 11 Top banana 13 Cockpit 14 Tornado 16 Let on 18 Sinks 21 Due.

The winner of MoneyWeek Quick Crossword No.1184 is: David Hallifax of Stockport.

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.

The end of EZ money

Cheap money has greased the economy for decades. Now it's running dry

©Getty Images

The money supply is shrinking, so what now will make the world go 'round?

Bill Bonner
Columnist

Times they are a-changin', and the key difference between the present and the 40 years between 1980 and 2020 is money-printing. In the US's fake money system, new wealth is not earned, it's created by lending. The Fed lends to member banks. The banks lend to hedge funds, smaller banks, corporations, whoever wants the money. The money supply gets bigger, but so does the debt.

The big borrowers are on Wall Street, financial players who use the cheap money to speculate. As long as the volume of money – the liquidity – was increasing, it was reasonable to expect asset prices to go up. And they did. The Dow, for example, rose from under 1,000 in 1980 to over 36,000 today.

Consumers borrowed too – for houses, cars, and credit-card purchases. And the federal government was the biggest borrower of all – adding more than $27trn to its debt so far this century. All of this borrowing and spending increased the money in circulation that was chiefly chasing assets. It meant higher asset prices. And higher asset prices made the elite richer.

Then, in July 2020, the debt binge came to a screeching halt. Interest rates and inflation went up. Borrowing went down. And with it, the money supply shrank. "The US money supply fell 3.3% over the last year, a record eleventh consecutive month with a year-on-year decline," says market strategist Charlie Bilello on BilelioBlog. "The US money supply has fallen 2% over the last two years, the largest two-year decline on record."

Money is what makes the financial world go 'round. Note that the money supply was supposed to grow about the same rate as GDP, in order to keep prices more or less stable. GDP grew around 3% per year since 1971. But the M2 measure of money supply grew about 5%. And then, in the Trump madness, it rose to 27% as the Fed printed trillions to keep up with Washington's deficits. This was the proximate cause of the wave of inflation that struck the US in 2022.

> *"Better to buy, buy, buy everything before it's too late"*

Then, too late, the Fed changed course. No more EZ money. No more negative rates. The Fed's key rate rose 500 basis points (5%) – the biggest, fastest turnaround in Fed history. The money supply collapsed. From 27% annual growth under Donald Trump, it is now bouncing off a low of *minus* 4.5% – an unprecedented decline. House mortgage payments roughly doubled. Interest on credit-card accounts rose to 21%. And the feds now pay more than $1trn a year in *interest alone* on the federal budget – the largest single item of federal spending apart from social security/Medicare.

What is troubling about this is that the money supply is no longer increasing. So what makes the world go 'round, now? How can the economy go from strength to strength, even as liquidity drives up? Stocks sold off in 2022. But now they are rising again. Bonds suffered the biggest sell-off ever, interest rates are generally falling again.

New York Magazine thinks the good times are here again. Since the end of October, the Dow Jones Industrial Average has been on a tear. The bond markets "gave up much of their pessimism" and "went on a frolic of their own". The thinking seemed to be that the Fed was finally starting to cut interest rates again and it was "better to buy, buy, buy just about everything that could be gotten before it was too late… On Wall Street, it looks as though it's finally – finally! – time to get greedy again".

Really? Time to be greedy, with stock prices near record highs? And little new money coming in? Is that the way it works? We don't think so.

Editor: Andrew Van Sickle
Markets editor: Alexander Rankine
Comment editor: Stuart Watkins
Politics editor: Emily Hohler
Wealth editor: Chris Carter
Shares editor: Matthew Partridge
Senior digital editor: Kalpana Fitzpatrick
Contributors: Bill Bonner, Rupert Hargreaves, Ruth Jackson-Kirby, Max King, Jane Lewis, Matthew Lynn, David Prosser, Cris Sholto Heaton, David C Stevenson, David J Stevenson, Simon Wilson

Art director: Kevin Cook-Fielding
Picture editor: Natasha Langan
Chief sub-editor: Joanna Gibbs

Subscriptions managing director: Shaun Inglethorpe
Group advertising director: Peter Cammidge peter.cammidge@futurenet.com
Account director: Richard Heaton richard.heaton@futurenet.com
Chief financial and strategy officer: Penny Ladkin-Brand
Non-executive chairman: Richard Huntingford
Chief executive: Jon Steinberg

Customer service and subscriptions
Email: subscriptions@moneyweek.co.uk
Web: MoneyWeek.com/contact-us
Tel: 0330-333-9688
Post: MoneyWeek subscriptions, Rockwood House, Perrymount Road, Haywards Heath, West Sussex, RH16 3DH
Subscription costs: £139.99 a year (credit card/cheque/direct debit), £159.99 in Europe and ROW £179.99.

MoneyWeek magazine is an unregulated product. Information in the magazine is for general information only and is not intended to be relied upon by individual readers in making (or not making) specific investment decisions. Appropriate independent advice should be obtained before making any such decision.
Future Publishing Limited and its staff do not accept liability for any loss suffered by readers as a result of any investment decision.

Editorial queries: Our staff are unable to respond to personal investment queries as MoneyWeek is not authorised to provide individual investment advice.

MoneyWeek
121-141 Westbourne Terrace, London, W2 6JR
Email: editor@moneyweek.com

MoneyWeek is published by Future Publishing Limited
121-141 Westbourne Terrace, London, W2 6JR

© Future Publishing Limited 2023. All rights reserved. MoneyWeek and Money Morning are registered trademarks. Neither the whole of this publication nor any part of it may be reproduced, stored in a retrieval system or transmitted in any form or by any means without the written permission of the publishers.
© MoneyWeek 2023
IISSN: 1472-2062

Special offer for MoneyWeek readers

The Week, all wrapped up

Give The Week magazine this Christmas (or treat yourself) and open up a world of opinion, debate and fresh thinking.

Order today and **get 6 issues for free** (worth over £29), then continue to **save an extra 10%** on our gift subscriptions.

Order online: **theweek.co.uk/offer**

or call: **0330 333 9494**

Quoting offer code: **P23XMM**

Subscriptions start with the first issue in the new year. Calls charged at your standard network rate.Direct debit offer. Print only subscription: 6 free issues, then 13 issues for £41.40. Additional terms and payment options available with a 10% discount. Prices quoted are UK only, overseas offers also available.

Advertisement

Car, home and travel insurance plus broadband, breakdown cover and more. Get more info or compare quotes, for over 40 products, at go.compare

WE'VE GOT THE OPTIONS. YOU MAKE THE CHOICE.

GO. COMPARE