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MoneyWeek

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From the editor...

"Most people in financial markets know nothing about geopolitics, so it's easy for them to ignore it," Rabobank's Michael Every told Reuters last week. Markets appear to have shrugged off the eruption of violence in the Middle East. Oil has subsided and government bond yields have ticked up again following the initial flight to safety. Gold has fallen back from its five-month high above $2,000 an ounce.

Jitters over the Israel-Hamas war, then, are not the main reason America's S&P 500 index, which sets the tone for global stocks, has just recorded its first three-month losing streak since March 2020; the FTSE 100 has slipped by almost 5% in three months. US small caps are back to three-year lows.

Investors were blindsided by World War I

©Alamy

"Geopolitical turmoil will reinforce trends investors are already grappling with"

An encouraging precedent

Ignoring – or at least largely tuning out – new battles in the region seems reasonable given markets' past behaviour in these circumstances, however. As Reuters puts it, a conflict in the Middle East "rarely moves [the] dial for long". During the conflict between Israel and Lebanon in 2006, and the battles in Gaza in 2008 and 2014, asset prices displayed the same patterns as they did last month. Investors soon refocused on the key economic and monetary trends of the time – just as the realisations that interest rates are likely to stay higher for longer, and recessions in the US and Britain may merely have been postponed rather than dodged, are the key drivers of equity prices at present.

But are investors being complacent? The papers are full of articles pointing out how easily this battle could develop into a global war, first spilling over to Lebanon and Syria, then America possibly engaging in direct conflict with Iran, and possibly even China deciding to attack Taiwan in the chaos, too. Comparisons with 1914 are rife. Investors didn't see World War I coming – markets barely budged until a few days before it began. Shouldn't there be more panic now?

Perhaps not. Investors may not be ignoring the 1914 scenario, but setting it aside because it is imponderable. As Buttonwood points out in The Economist, war "involves a level of radical uncertainty far beyond the calculable risks to which most investors have become accustomed... the fog of war is even thicker for investors than it is for generals, who at least have sight of the action."

In other words, there may be so many possible permutations that gauging what it might mean for one's portfolio is impossible. With hindsight, in 1914 it would have been sensible to buy commodities and US equities but sell European debt, currencies and equities. In 1940, different investments would have been beneficial. And today the shadow of nuclear weapons looms over the calculation, notes Buttonwood. War was simpler in the days when Nathan Rothschild advised investors to buy on the sound of cannons and sell on the sound of trumpets.

The upshot? Follow the markets' example: rather than dwell on the war-and-chaos scenario, just keep in mind that the worse any geopolitical jitters become, the more likely they are to reinforce trends we are grappling with already. The direction of travel is pricier oil, higher inflation and slower growth: stagflation, in other words, which we have been highlighting and advising on how to deal with for some time. I will be keeping my gold topped up and taking comfort in Elroy Dimson's definition of risk: "More things can happen than will happen".

Andrew Van Sickle
editor@moneyweek.com

An unholy row over London flats

Papal lawyers are seeking a jail sentence of 11 and a half years, plus £300m in "moral damages", for Raffaele Mincione (pictured), a Catholic British-Italian fund manager, who they argue sold the Vatican an investment in west London flats at an inflated price, says Matthew Campbell in The Sunday Times. The Holy See sank €350m into the development before withdrawing from Mincione's fund in 2018. It later tried to buy the building outright before finally selling up last year to a US investment firm for a reported £186m – less than they had paid to end their original agreement with Mincione. The Pope had also personally authorised the bugging and seizure of Mincione's mobile phones while Mincione was in Rome. Mincione denies wrong-doing and he has brought a parallel case against the Vatican in Britain. Under Vatican law, he also has the right to challenge the prosecutor to a duel.

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

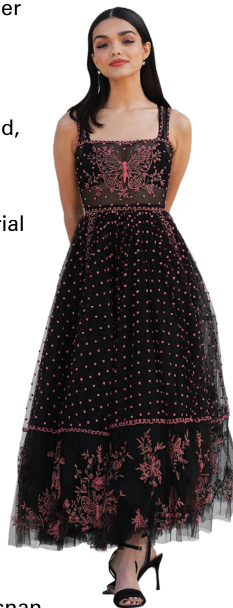
Good week for:

Pop star **Taylor Swift** has become "one of the few entertainers" to have amassed a $1bn fortune from her music and performances alone – "the result of work and talent, but also canny marketing and timing", says Bloomberg. Her current Eras tour has "shattered records, sparked ticket frenzies and even caused the equivalent of a small earthquake" thanks to fans' energetic dancing at a gig.

The **Rolling Stones** are poised to become Britain's first £1bn rock band, says The Sunday Times. The three surviving members, Mick Jagger, Keith Richards and Ronnie Wood, have collectively earned that sum from 250 million albums since the 1960s, but mostly from touring. Concerts have grossed $2bn, while their first album of original material in 18 years, *Hackney Diamonds*, is the fifth-fastest-selling of 2023.

Bad week for:

The **Disney** live-action reboot of *Snow White* has become the latest cinematic release to be delayed by a year owing to the Hollywood actors' strike. At least, that's the official line, says the Daily Mail. "Cynics point to upcoming [scene] reshoots as proof Disney bosses fear they've made a $330m turkey." The film has also been mired in controversy after its star, Rachel Zegler (pictured), said she "hated" the 1937 original cartoon classic and branded the Prince a "stalker".



Actor and avid painter **Pierce Brosnan** is taking legal action against SMS Gallery in Nottingham after it "falsely" advertised that he would be exhibiting his work there, says the Evening Standard. Exhibition-goers, the gallery advertised, could even talk to the actor for £500. "I would never charge for a meet and greet", said Brosnan.

©Getty Images

Bond bust bodes well for equities

Rising yields on government debt herald the end of the free-money era – good news for investors, says Max King

A recent survey of professional pension trustees of UK defined-benefit pension schemes revealed that 82% of trustees believed that they had the knowledge and skills needed to handle the "liability-driven investment" (LDI) crisis. Moreover, 72% of trustees were confident using LDI as a tool to manage risk and 78% thought their scheme had the right governance in place to handle the LDI crisis.

This is laughable. In response to the greatest investment bubble of all time, which saw the yield on government bonds falling to levels that, according to research by Bank of America, were the lowest for 5,000 years, these trustees saw fit not only to load their funds up to the gunwales with government bonds but also to speculate on further falls in yields using derivatives.

When bond yields started to rise, the losses mounted, leading to the LDI crisis. Pension funds were forced to close out their speculative positions by selling bonds in a falling market to cover their margin calls. This resulted in a market panic, which drove ten-year gilt yields over 4% and sterling towards parity with the dollar.

The crisis has been widely blamed on Liz Truss's mini-budget. But the fact that bond yields have been rising across the developed world (with ten-year gilt yields recently reaching 4.6% and ten-year US Treasury yields 4.8%), even though inflationary pressures have abated, shows that this is nonsense.

The truth is that the trustees were caught in a wholly predictable market crash, which has lost the pension funds for which they are responsible hundreds of billions of pounds.

Since March 2000, ten-year US Treasuries have lost 46% of their value (in nominal terms) and 30-year bonds 53%. The bear market may now enjoy a respite, but it is probably not over. As investment strategist Ed Yardeni of Yardeni Research points out, the supply of bonds has increased thanks to the extravagance of governments.

Meanwhile, demand has decreased as banks have stopped raising their holdings and central banks are selling (at a loss, inevitably), in a reversal of quantitative easing. "The question is whether the [rise] in yields is enough to attract enough demand," he writes.

Once bitten, twice shy

The answer is probably not, despite the urgings of investment advisers – who never saw the crash coming because they were far too busy being bearish about stockmarkets – to load up. Once bitten, twice shy, as the saying goes. Bond yields have been below inflation for years and although they are now above it in the US, real yields of 1.5% are not tempting. In the UK, real yields are still negative.

What Yardeni calls the "bond vigilantes" still aren't happy, and they are likely to determine the fiscal policy of governments. That means making borrowing much more expensive, with real yields rising to 3% and governments slamming on the brakes on spending.

At present, they are only cutting back on planned increases. The age of austerity beckons and with the vigilantes in control, a lot of innocent bystanders will get shot.

"The bond vigilantes still aren't happy, and they are likely to determine countries' fiscal policies"

©Alamy

The Universities Superannuation Scheme has a £7bn surplus

Stockmarkets, meanwhile, have been held back by the need for earnings multiples to fall as bond yields rise, but corporate earnings have held up well and are now poised to rise again. In the longer term, the absence of ultra-cheap loans should discourage speculation and low-quality investment, but encourage higher returns on capital.

This trend, along with the reining in of government spending, should result in higher productivity, higher economic growth and higher corporate profits. Investors have nothing to fear from the bond-market crash – they just need to be patient.

The winners from the crash

There have, though, been some real winners from the bond-market crash. Defined-benefit pension schemes were so keen to control future liabilities that they offered very generous terms to 64-year-old members, often 25-30 times their current pension entitlement, to those who wanted to transfer out. Those who did so will have done well, provided they didn't invest in gilts.

The terms offered will now have deteriorated to around 15 times, but opting out may still make sense: who can now trust the actuaries, trustees, managers and regulators of these pension schemes to deliver? It might be better to exit now and weight a self-invested pension fund much more towards equities.

The government appears to have persuaded the big pension funds to invest more in equities, but the agreement hardly inspires confidence. The government wants the investment to be in Britain, preferably in the infrastructure projects that it can no longer afford. The pension funds have lost so much money in bonds that they are discredited in investment decision-making and have much less to invest. This does not augur well for the members of their schemes. There are some pension funds, however, that should be congratulated. The Universities Superannuation

Scheme has swung from a £14bn deficit a few years ago to a £7bn – and rising – surplus. This has enabled benefits that were cut to be reinstated and the contributions of employers and members to be reduced. The strong performance is no thanks to the regulator and trustees who were urging the scheme to "de-risk" by switching the portfolio more heavily into overpriced bonds, cut benefits further and impose larger increases in contributions.

"Losses in pension funds' assets are real; reductions in liabilities are hypothetical"

Determined resistance by higher-education establishments, staff and the University and College Union prevented a disastrous change of strategy. Both employers and staff are now reaping the benefits.

A more rational investment landscape

This shows the benefit of accountability and proper supervision in the management of pension funds, as in all investments. The more tightly the do-gooders, claiming to protect the interest of scheme members, grasp the funds, the more worried the real owners should be.

The pension-fund trustees who answered the survey are congratulating themselves because rising bond yields have led to their actuarially-estimated future liabilities falling even faster than their assets. But the losses in assets are real while the reduction in liabilities is hypothetical. Every billion lost is a billion that should have been invested in infrastructure, other attractive opportunities in the UK or overseas. From that, everyone would have benefited.

If it takes another 5,000 years for the lows in government bond yields reached in 2020 to be seen again, so much the better. Ultra-low interest and bond yields caused financial chaos; they distorted asset valuations, created false incentives, destroyed the balance sheets of pension funds, encouraged governments into profligacy and syphoned money away from productive investment into speculation.

The suddenness of the change has unnerved many who had come to believe that a world of free money was normal. But it paves the way for a much more rational landscape – one that favours risk-taking and equities.

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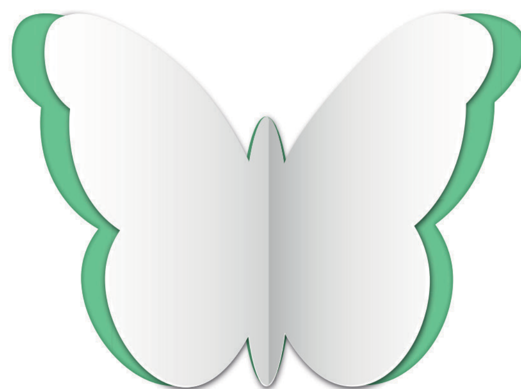
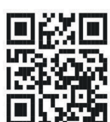
Source: FAO and UNEP, The State of World's Forests, 2020





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The battle of the banks

NatWest is not the only lender grappling with a squeeze on its net interest margin. And the problem is likely to get worse. Matthew Partridge reports

Last week shares in NatWest suffered their worst daily decline since the Brexit referendum in 2016, says Ben Martin in The Times. They slid by 18% before closing down 12%. Investors "took fright" at poor results. These were compounded by the "continuing fallout" from the scandal over the closure of Nigel Farage's account. A report commissioned by NatWest identified "serious failings" in the way it had treated the former Brexit Party leader, while the Financial Conduct Authority (FCA), the City regulator, also announced an inquiry into NatWest's governance, systems and controls to identify any "significant shortcomings".

©Getty Images

NatWest's report into the Nigel Farage furore found "serious failings"

Both the Farage scandal and the disappointing earnings figures underline how the bank's governance is "shot", with no fewer than four CEOs since Fred Goodwin, says Alex Brummer in the Daily Mail. This in turn was caused by the way in which it was bailed out in 2008. While the US temporarily nationalised its banks, it sold these holdings "within months". By contrast, the UK government continues to own nearly 40% of NatWest. As a result, while US banks stuck with a long-term strategy, NatWest has changed leaders, "discarded assets and curtailed its international ambitions as if there were no tomorrow".

Customers seek yield

NatWest's governance problems are real, and its acknowledgement of its "poor treatment" of Nigel Farage is embarrassing, says Lex in the Financial Times. Still, investors will be more concerned that NatWest has reported a reduced net interest margin (the difference between the interest rates received from loans and mortgages and the amount paid out on deposits). People are moving money from zero interest-rate current accounts into higher-yielding long-term deposits. Should the gap keep narrowing, earnings forecasts for next year could decline by a further 15%. NatWest isn't the only company with "margin woes", says Kalyeena Makortoff in The Guardian. Politicians are attacking UK banks for "failing to pass on higher interest rates to savers while raising charges for home-loan customers". Meanwhile, increased competition is starting to close the gap between savings and mortgage rates. Lloyds Bank revealed last week "that its interest margin had narrowed", while Barclays also forecast a declining margin.

The "deposit-rate bloodbath" caused by "yield-hungry" British savers is eagerly being watched on the continent, says Liam Proud for Breakingviews. So far most of the boost from tighter European monetary policy seems to have gone to banks, not savers. Spain's CaixaBank estimates that just 13% of the monetary tightening has been passed on to customers in the form of higher savings rates. However, futures markets suggest that "the ECB will keep rates steady well into 2024", giving savers "plenty of time to demand higher rewards".

McDonald's faces weight-loss drugs

Fast-food chain McDonald's demonstrated its "resilience" in the face of economic headwinds in the third quarter, says Lex in the Financial Times. Sales rose by 14%, while operating profits increased by 16%. The group seems to have benefited from a "barbell" pricing strategy, which involved "promoting traffic-driving deals on low-priced menu items alongside new, pricier offerings". This in turn helped it "capture diners from both ends of the income spectrum". Still, with the shares down by 12% from June's record highs, there continue to be concerns that profitability "could fall if it leans too much on value items", especially "if it prompts other fast-food chains to lower prices as well".

McDonald's valuation "has now crept below the long-term average and doesn't look too demanding", says Derren Nathan for Hargreaves Lansdown. The firm also seems to be reaping the rewards of recent investment in improving online, delivery and drive-through services, while social-media campaigns have ensured that the brand can "connect with today's generation". Still, "there could be some bumps in the road ahead". Inflation draining consumers' buying power or a price war aren't the only things worrying investors, says Deborah Mary Sophia on Reuters. Like other fast-food chains, it will "also have to grapple with the explosive popularity of weight-loss drugs". The emergence of appetite-suppressants such as Ozempic and Wegovy could "spark a fundamental change in food-consumption patterns and hurt demand for burgers and fried chicken". Supermarket Walmart has already admitted that "there was a slight pullback in food consumption among customers taking those treatments".

©McDonald's

Memory giants forget to cooperate

Two years of talks over a proposed merger between computer-drive maker Western Digital's semiconductor business and Japan's Kioxia Holdings, the world's third- and fourth-largest manufacturers of flash memory, seem "to have fallen apart in the final stages", says Nikkei Asia. Western Digital walked out of the negotiations. The sticking point seems to have been the continued opposition of South Korean firm SK hynix. Hynix, which owns a large indirect stake in Kioxia, was worried that the new company would threaten Hynix's own spot as the second-largest flash-memory maker. While these concerns aren't new, Kioxia "had assumed SK hynix would drop its objections somewhere along the line. But no".

No wonder the South Korean firm wasn't happy, say Leo Lewis and Kana Inagaki in the Financial Times. The combined entity's market share would be double SK hynix's. But there are still hopes that Western Digital could be persuaded to resume negotiations. The talks have "received substantial behind-the-scenes support from the US and Japanese governments". They have been viewed "as a means of solidifying cooperation on semiconductor supply chains". The semiconductor downturn, triggered by price wars, overcapacity and lacklustre demand, makes a merger crucial, says Anshuman Daga on Breakingviews: it would reduce costs and losses. Still, even if the deal can't be salvaged, the whole episode does highlight "Japan's increasing openness to all manner of cross-border transactions". Although Japan "previously regarded Kioxia as a national and strategic champion, implying that authorities would not want to lose it to a foreign player", it was not only willing to let Western Digital be the majority partner in the proposed deal, but also got the Development Bank of Japan to join private lenders such as Sumitomo Mitsui Financial in committing $13bn of funding. Such a display of support "will not be lost on Japanese and global executives".

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Will Gaza spark a regional war?

An invasion could prompt other players to join the action, leading to a massive economic shock

For the past three weeks, reports emerging from Gaza have become "ever more grim," says the Financial Times. Since the deadly Hamas attack on 7 October in which more than 1,400 Israelis were killed, more than 8,000 Palestinians have died as a result of aerial bombardments. Districts have been razed, roughly one million people have been displaced and there are "crippling" shortages of food, water and fuel.

Israel, a "country with a deep sense of vulnerability, has every right to defend its citizens and respond to the Islamist militant group's assault" but its "collective punishment" of the 2.3 million people in the Gaza strip must stop. It must also "avoid falling into the trap" of allowing Hamas, "who count every Palestinian victim as a martyr to their cause" to capitalise on its actions. The greater the suffering, the "more likely it is that Israel will lose support in the West, while further enraging the Arab and Muslim worlds".

Whole districts have been razed by the Israeli bombing campaign
©Shutterstock

There is dread, from Tel Aviv to Riyadh to Washington, that this could turn into a "regional war", says Ben Judah in The Sunday Times. If Israel proceeds with a "full-scale invasion of Gaza", Iran, which is allied with Bashir al-Assad's regime in Syria, could "escalate in turn through its proxies, notably the heavily-armed Hezbollah in southern Lebanon but also militias in Iraq and the Houthis in Yemen". The Saudis don't believe Iran wants a "full-scale war", but it's easy to see how the situation could spiral out of control.

Washington has built up alliances in the Middle East – with Israel, Egypt, Jordan and the Gulf states – and has a defence presence across the region. The "tipping point" would be direct conflict between the US and Iran. If Iran crossed a line and attacked US forces and Israel alone, or with US support, attacked Iran's nuclear facilities, Iran could close the Straits of Hormuz which are "critical for the world's oil supply, or (Riyadh's nightmare) attack Gulf Arab oil facilities". This would not only drag the Gulf into the fight but cause a massive global economic shock. The US could then find itself embroiled in two interconnected major wars (the Middle East and Ukraine), which could tempt China to "ramp up pressure on Taiwan".

Divisions in Europe

"What about America's European allies?" asks Niall Ferguson in The Times. As the squabble over the UN ceasefire vote shows, they are less united over this conflict than over Ukraine. Europeans also think that being involved in one war is enough, although it may be hard to keep the two wars separate since Russia, which recently hosted a Hamas delegation, is "already indirectly involved in the Middle Eastern crisis through its presence in Syria". There are "powerful" forces motivating the US to push for a "kind of "appeasement-lite"", not least the perception that Americans care more about domestic issues than new "forever wars".

But if Joe Biden is terrified of stumbling into World War III, it was "appeasement and the failure of deterrence that led the West into the Second World War". Should Israel be forced to turn to the US for military help against Iran, we will have "reached one of history's hinges. The future of the world will turn on it."

Even if Israel does manage to topple Hamas and avoid wider conflict, that still leaves the "urgent" question of who rules Gaza, says Steven Smith in The Economist. Israel will need to swiftly hand responsibility to a transitional government which, as it restores order, must also prepare for elections and the reassertion of Palestinian rule. Of all the many obstacles to achieving peace, Israel's willingness to make the concessions needed for a long-term solution is "the most formidable".

Dominic Cummings appears not to have told Boris Johnson about Cobra meetings
©Getty Images

Toxic dysfunction at No. 10 in Covid crisis

Much is "already known about poor-decision making, avoidable deaths, lockdown-breaking parties and atrocious procurement" during the pandemic, says The Guardian. But the evidence given by Dominic Cummings, Lee Cain and other key figures in the Covid inquiry this week still "has the power to shock" .

According to Cummings, Boris Johnson was referred to as a "shopping trolley" owing to his "erratic nature and chaotic changes of policy direction". Chris Whitty, the chief medical officer, describe the "Eat out to help out" scheme as the "Eat out to help out the virus." What matters at this stage of the inquiry is not that Johnson and his advisers sent messages "most would regard as crass or insensitive", says Annabel Denham in The Telegraph. It is why the "normal mechanisms of government were supplanted by impromptu WhatsApp decisions" and whether, had they remained in place, "more thorough cost-benefit analyses and impact assessments might have been conducted" before "basic democratic protections" were swept aside.

And since the key question that needs answering is whether lockdown was the right policy (even if the inquiry seems to rest on the assumption that it was), Johnson's "equivocation" seems laudable. Cummings was arguably "as responsible as anything for the toxic dysfunctionality in No. 10," says The Telegraph. It turns out that Johnson did not avoid Cobra meetings; rather, Cummings "did not tell him what was going on" and "did not want him to attend". As his chief adviser, he "did not seek to involve the prime minister fully in the gravest crisis since World War II".

The inquiry has a "long way to run", adds The Guardian. But there are clearly "lessons to be learned not only about appalling errors in the way the pandemic was handled, but also about the Conservative Party in government".

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Ukraine's slow progress

Russia is trying to wrest back the initiative, but Kyiv can count on more cash

With the West now focused on the Middle East, Russia "has poured more men and equipment" into its series of "ferocious assaults" along the 1,000-kilometre front in Ukraine, says Michael Clarke in The Sunday Times. These counter-attacks are "aimed at wresting back the initiative before winter sets in", which will make further Ukrainian progress impossible until the spring.

President Zelensky is desperate to avoid perceptions of a stalemate

©Getty Images

While Ukraine continues to inflict "heavy losses" on Russian forces, the leadership in Kyiv is increasingly split between military leaders who argue that they "must hold what they have got and prepare for operations next year" and president Zelensky, who believes that any halt could feed the external perceptions of a "stalemate".

Ukraine has made some progress, says Simon Shuster in Time . It has launched successful attacks on "Russian supply routes, command centres, and ammunition depots far behind enemy line". Still, the fact remains that around 20% of Ukraine is occupied by Russia and "tens of thousands of soldiers and civilians have been killed". The "excruciating pace" of Ukraine's attempt to regain its territory has made it "ever more difficult for Zelensky to convince partners that victory is around the corner", so global interest in the war has "slackened".

More European weapons will be needed

The problem is compounded by the fact that promised European deliveries of weapons to Ukraine have also fallen short, says Joe Barnes in the Telegraph. Despite promising to send one million artillery shells to Kyiv, production delays mean that only 300,000 have been delivered so far. While the EU is in the process of coming up with a plan for €20bn in long-term support for Ukraine's military, this is "being held up by a number of opponents", as well as a dispute over whether any weapons must be produced in the EU or can be imported from the US and UK.

But there are also positive signs for Ukraine amid the gloom, say Laura Dubois and Henry Foy in the Financial Times. After intense negotiations, European leaders have agreed that interest payments from the €180bn in Russian assets that were frozen by the EU at the start of the conflict can be used to help Kyiv; they will develop detailed proposals in the next few weeks. This is important as rises in interest rates mean that the sums generated have grown increasingly large. The EU has also agreed that Russia "must pay for the long-term reconstruction of Ukraine".

And for all the talk about "Western war fatigue", there is still agreement that any talk of a "possible compromise to end or freeze the war" would be "premature" while Russia still occupies territory in eastern Ukraine, says Kristi Raik in Foreign Policy. Not only would such a halt be a "non-starter" for those in Ukraine "who have seen the horrors perpetrated by Russians in Bucha, Irpin, and countless other towns and villages", but it would also undermine Europe's own security. By rewarding Putin's aggression, even in part, Brussels would simply fuel the Russian dictator's dreams of "a full restoration of Moscow's Cold War-era sphere of influence".

The future of Germany's new far Left party

"Germany has a new populist party of the far left", says Wolfgang Münchau in The New Statesman. Last week, Sahra Wagenknecht, the former leader of Die Linke (Left Party), created her own movement, along with nine of Die Linke's MPs. This is "not a bunch of old Trots fighting their last political battle". Wagenknecht is "well prepared" with a "clear agenda". In contrast to most of the left and centre-left, whom she dismisses as "political representatives of the liberal metropolitan elites", she wants to "revert to the old industrial model and reopen the pipelines that formerly carried cheap Russian gas to Germany" while capping immigration.

The fact that polls put the new party at 14%, only one point behind the centre-left Social Democrats (SPD), suggests that this mix of left-wing economics and hard-right social and foreign policy "clearly resonates" with at least some of the German public, says Pete Kuras in The Guardian. But its impact on Germany's political scene is more ambiguous. Having Wagenknecht siphon off some of the AfD's (Alternative for Germany) protest votes "seems like the only viable plan to mitigate the far-right party's electoral success". But it might actually help them in the long run, as there will be "fewer paths left to form majority governments without either the AfD or Wagenknecht, at a state or federal level".

Wagenknecht's defection suggests that the left is splitting into an economic grouping focusing on "wage-raising", and a cultural one she attacks as the "lifestyle left", says Christopher Caldwell in The New York Times. It also signifies that many in the working and middle class more generally are souring on those parties that "represent the aspirations of a more global, environmentally conscious Germany". The Social Democrats, Greens and pro-market Free Democrats, which make up the federal colation, all lost ground in recent state elections.

Betting on politics

When it comes to betting exchanges there are two options for politically minded punters: Betfair and Smarkets. Betfair has by far the biggest volume of money traded. For example, £6.2m has been matched on Betfair on the individual who will win the 2024 US presidential election, compared with only £1.8m on the equivalent market for Smarkets. Increased liquidity usually means lower spreads between backing and betting against.

However, Smarkets does have a wider range of markets with 22, compared with just 11 for Betfair. These include a market on the Iowa Republican presidential caucus, as well as markets on individual state results in Arizona, Florida, Georgia, Michigan, Minnesota, Nevada, North Carolina, Ohio, Pennsylvania, Texas and Wisconsin. While they are very illiquid at present, this shows that the betting markets are starting to ramp up.

Closer to home, one contest that is due to take place is the North East mayoral election in May 2024. According to Ladbrokes the favourite is Labour's Kim McGuinness, Northumbria Police and Crime Commissioner, at 5/6 (54.5%), with the Independent Jamie Driscoll, mayor of North of Tyne Combined Authority, at 11/10 (47.6%). Given the state of the polls, it's not surprising that the Conservatives are way out at 12/1 (7.7%).

Normally this would be an easy win for Labour, but the decision to have McGuinness instead of Driscoll as the candidate has sparked a backlash. Even at the height of Labour's popularity in the Blair era, it suffered the odd defeat to independents, losing to Ken Livingstone in the 2000 London mayoral election, for instance. So I'd recommend betting on Driscoll.

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HSBC's sleight of hand: Bank HSBC will soon begin buying back $3bn of shares, taking its total stock repurchases for the year to $7bn, say Harry Wilson and Ambereen Choudhury on Bloomberg. CEO Noel Quinn suggests there may be more to come, despite a pre-tax profit of $7.7bn in the third quarter falling short of the $8.1bn analysts had expected. Still, that $7.7bn is "sufficiently robust" to absorb a $600m hit from selling securities in its bond portfolio with a view to reinvesting the proceeds in higher-yielding paper. The Asia-focused bank also set aside another $500m to cover possible losses on loans to mainland Chinese property groups, although its overall bad-debt charge for the quarter was little changed from a year ago. Quinn even predicted that the "major correction" in China's property market is over. "Stiffer challenges" will come from the end to the benefits brought by higher interest rates, while costs are rising. So, it's no surprise Quinn gave himself "a buffer" by setting undemanding full-year targets. Reaching net interest income of $35bn for 2023 is "hardly a challenge" given HSBC "churned out" $27bn in the first nine months. Then again, "investors appear to share his lack of conviction". That the shares trade on 0.9 tangible book value as of late September "leaves plenty of scope for leaner times".

Detroit

Union claims victory: United Auto Workers (UAW) trade union president Shawn Fain (pictured) has declared a "turning point in the class war that has been raging in [the US] for the past 40 years". On Sunday, the UAW reached a tentative agreement with carmaker Ford to raise the hourly pay rate of full-time, permanent employees by at least 30% to $42.60 by 2028, including estimated cost of living allowances, say Joseph White and David Shepardson on Reuters. Pay will double for temporary workers. In return, Ford will be able to offer an unlimited number of $50,000 contract "buyouts" to older workers earning the top rate, allowing Ford to replace them with cheaper, younger staff. The UAW has agreed similar deals with General Motors and Chrysler-owned Stellantis, which make up the big "Detroit Three". Notably, in a sign of rising costs affecting the industry, Japan's Toyota will raise wages for its US-based factory workers, who are not unionised. The end of the six-week strike is "a positive for the carmakers", says Mike Colias in The Wall Street Journal. "But it portends difficult times ahead." Ford, like its rivals, is already talking about offsetting the higher costs from the latest deal, having "badly missed" third-quarter earning expectations. "Clouds are gathering on the traditional car business."

Caracas

Primaries suppressed: Venezuela's supreme court has suspended the results of the political opposition's primaries, ahead of the presidential election next year, says Luke Taylor in The Guardian. Despite María Corina Machado (pictured) winning 90% of the votes in a higher than expected turnout, the court – stacked with allies of President Nicolás Maduro – confirmed bans on Machado and two others from running. Last week, Venezuela's attorney general announced the primaries were being investigated for financial crimes and conspiracy. "Analysts predict [Machado] would probably beat Maduro in a fair contest" and opposition leaders have vowed to stand by her selection for the election. "Corruption and economic mismanagement, compounded by oil sanctions, have forced more than seven million people to flee Venezuela's rampant food shortages, hyperinflation and rolling blackouts in the past decade."

Only last month the government met with the opposition in Barbados, in negotiations overseen by Norway, to clear a path to holding "free and fair" elections in 2024. Any cynicism was "well founded", says The Economist. The US agreed to lift most of the restrictions placed on Venezuela's energy, gold and financial sectors with immediate effect. The state oil company Petróleos de Venezuela could sell to any country bar Russia, and some Venezuelan bonds could be trading again by US entities. But US president Joe Biden warned "any failure to abide by the terms… will lead to… reverse steps". It didn't take long.

The way we live now... the "authors" outsourcing their novels

Hard times for writers

Poorly written and researched books produced by underpaid ghost writers or artificial intelligence (AI) programs have flooded Amazon's online book marketplace, says Megan Agnew in The Sunday Times. An "emerging group of internet entrepreneurs" use free software to find out which topics customers are searching for – preferably ones that are niche but likely to sell well. They then use these as the basis for books, such as "how-to" guides and vampire romances. But rather than writing these tomes themselves, they find freelancers on Fiverr or Upwork – online marketplaces where writers look for work. An erotic fantasy novel can be had for £34. AI is increasingly taking even these jobs, with the results potentially unchecked or unedited. The "entrepreneurs" then upload the copy to Amazon's Kindle Direct Publishing site, where it becomes immediately available. "Authors" receive a 35% royalty – or 70% if the books are listed at certain prices. Sophie Howard tells the paper she has published 500 books under 15 pen names. She typically pays a writer £800 for a 35,000-word book written in four to six weeks. Amazon says sellers must not "mislead" customers. "We invest significant time and resources to ensure our guidelines are followed, and remove books that do not adhere," says the company.

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Madrid

Vodafone sells Spanish business: Give Vodafone's newish boss Margherita Della Valle some credit. She set out to simplify the telecom's structure by revisiting its past as a UK-focused operator and she's doing just that, says Lex in the Financial Times. In June, she expanded Vodafone's domestic operation by merging it with rival Three UK. Now, Vodafone is selling its Spanish business to London-listed Zegona Communications for up to €5bn. Leaving an "overly competitive" Spanish market, where Vodafone was the number three operator, "makes sense". Average revenue per user fell 14% in the two years to June, the same percentage by which it rose in Britain in that time. The sale price is also reasonable. Most analysts value Vodafone Spain at around €4.1bn. Vodafone will receive a minimum cash payment of that amount, plus up to €900m in redeemable preference shares, depending on performance, while Zegona will seek to raise €600m in fresh equity to ease its debt load. If Zegona can turn Vodafone Spain around, those preference shares will be all the more valuable to Vodafone. If it can't, Vodafone could be "stuck holding shares in a shrinking, highly leveraged vehicle", says Pamela Barbaglia on Breakingviews. Still, that it has the €4.1bn in cash makes it a "worthwhile bet". Della Valle has "secured a tangible win… even if the deal comes with risks".

Hanging up on a competitive market

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Tokyo

Trick or tweak?: "Japan's Halloween tweak to its monetary policy didn't go as far as some yen bulls had hoped," says Jacky Wong in The Wall Street Journal. "But a stronger yen could still eventually spook global markets – especially if rising US [interest] rates keep forcing the Bank of Japan's (BoJ) hand." The BoJ "effectively abandoned" its yield-curve control (YCC) policy of capping ten-year government bond yields at 1% in favour of making the target "reference only". (The BoJ has been buying bonds since 2016 to suppress yields, which move inversely to bond prices.) It also said it would perform "nimble market operations" from time to time. "What this probably means is more flexibility – possibly including allowing ten-year bond yields to go above 1% on a sustained basis – but muscular intervention if the market moves too fast." Either way, investors seem unconvinced the BoJ is "doing enough to keep pace with the [US Federal Reserve]" – the yen weakened past 150 to the dollar on Tuesday. And who could blame them, ask Daniel Moss and Gearoid Reidy on Bloomberg. "The BoJ's approach to conveying its intentions has been woeful, bordering on negligent." It increasingly looks as if markets are "dictating the pace at which the [BoJ] allows long-term market interest rates to increase". The BoJ might as well scrap its YCC policy "in one fell swoop" and be done with it. "The last few months have just been painful to watch."

Frankfurt

Inflation slows: Good news in the eurozone has been rare over the past two years, says Guillaume de Calignon in Les Echos. So the slowdown in rising consumer prices, from 4.3% in September to below the "symbolic" 3% last month (at 2.9%) "will not have gone unnoticed". Headline inflation stood at 10.6% 12 months ago, when fears of an uncontrolled inflationary spiral had pushed the European Central Bank (ECB) to raise rates by 4.5 percentage points in less than a year. Those ten consecutive rises were "unheard of in Europe". What effect that had in lowering inflation is debatable, but energy prices falling by 11% over the past year have certainly played a large part. "We can only hope" the turmoil in the Middle East does not cause the cost of energy to soar again. Food prices and the cost of services are also falling and the broad "economic environment is clearly deflationary". Inflation should continue to slow in November, as suggested by the 0.1% quarter-on-quarter contraction in the three months to the end of September. Another quarterly contraction would meet the definition of a technical recession, but "we don't see too much reason for real alarm", says Bert Colijn of Dutch bank ING. "No sharp recession is in sight." Just "don't expect the ECB to lower rates any time soon".

Singapore

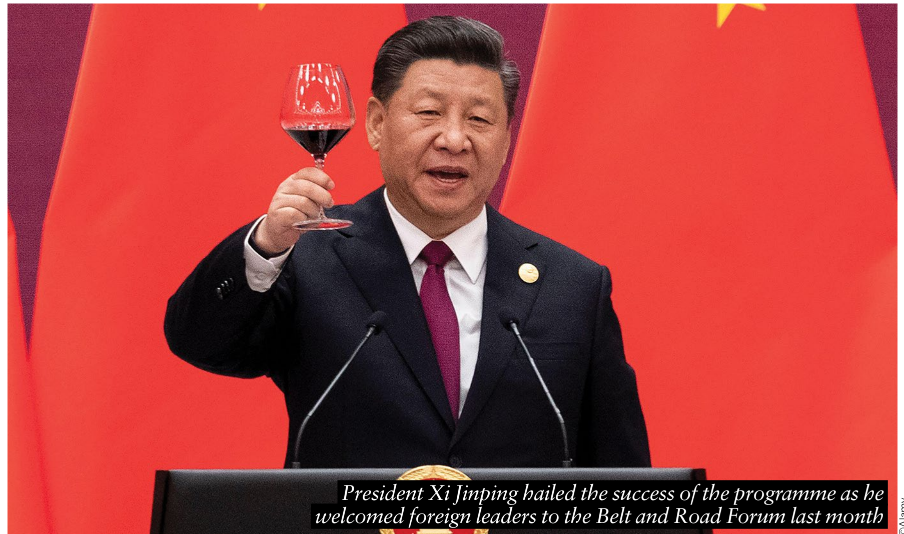
New trade zone: Singapore and Malaysia plan to set up a special economic zone (SEZ) in Malaysia's border state of Johor to improve business and connectivity links amid the pressures of a "weak global economy", says Dylan Loh on Nikkei Asia. A statement issued by Malaysian prime minister Anwar Ibrahim (pictured) and Singaporean premier Lee Hsien Loong, said that the zone would "foster economic connectivity by improving cross-border flows of goods, investments and people". The countries were each other's second-biggest trade partners in 2022, with bilateral flows of $83.5bn. Singapore also contributed 8.3% of Malaysia's foreign direct investment. The SEZ will be located in a region Malaysia wants to promote as an "investment magnet" for sectors including financial services, electronics and healthcare. Both sides aim to sign an agreement in January. The leaders have also agreed to collaborate in areas such as low-carbon and renewable-energy technologies, carbon capture and storage, and carbon credits, while Singapore plans to import renewable energy from its neighbour.

Beijing's investments in influence

A decade ago, China launched the Belt and Road Initiative to fund the construction of foreign infrastructure. Has it achieved its aims? And how will the scheme develop? Simon Wilson reports

What's happened?

China has marked ten years of the Belt and Road Initiative with a big conference (the Belt and Road Forum) in Beijing. The Belt and Road Initiative (BRI) is the English term for China's massive investments in foreign infrastructure – mostly in poorer countries – that has grown into the world's biggest multilateral development programme on record. President Xi welcomed world leaders, including Vladimir Putin and Indonesia's Joko Widodo, to celebrate the BRI's achievements and chart a course for the future. He was also notably emphatic, amid discontent at home over the cost, about China's need to ensure its home markets benefit from Beijing's signature foreign policy. "When you give roses to others, their fragrance lingers on your hand," Xi told his guests. "Helping others is also helping oneself."



President Xi Jinping hailed the success of the programme as he welcomed foreign leaders to the Belt and Road Forum last month

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How big is the BRI?

China says it has made investments and loans totalling $1trn in the past ten years. It also claims the BRI has created 420,000 jobs and lifted 40 million people out of poverty. The purpose of the initiative was always explicitly about using economic power to grow China's geopolitical and diplomatic power and embed China's influence across the developing world. Given its scale, however, some analysts question whether it is useful to see the Belt and Road as a single initiative with an overarching vision. According to Jacob Mardell, a researcher specialising in the area who is sceptical of the $1trn figure, the various schemes trumpeted under the BRI umbrella have "little strategic coherence". The BRI is "simply branding for a narrative that Beijing is trying to sell about its place in the world", he argues. There are no fixed criteria for what qualifies as a Belt and Road project (Beijing includes projects that are built by Chinese companies even if no Chinese funding is involved) and it's more a slogan than a coherent vision or mission.

Is that right?

It's certainly true that what is meant today by the "Belt and Road Initiative" has expanded far beyond its original vision of "One Belt, One Road" – meaning a new Silk Road reviving ancient overland routes from China through Central Asia and the Middle East to Europe; plus investments in ports to strengthen China's connections to the same regions by sea. BRI projects span the globe, from Brazil to Laos, but with a particular focus on Africa. More than 150 countries have signed deals linked to the scheme – nations that make up more than half the world's GDP and 75% of its population. No fewer than 18 of the European Union's 27 member states have signed up to the BRI – most notably Greece, where Chinese money was vital to rebuilding the great port at Piraeus. Italy is the largest European country to get involved, and the only one of the G7 bloc of rich, industrialised nations.

So Belt and Road is a success?

In many ways, the BRI has indeed "lived up to the hype", said The Economist. Hundreds of billions of dollars have been used to build railways, roads, power plants, ports, high-speed data networks and other infrastructure that would otherwise have gone unfunded. "Much of this has been good: many countries badly need better roads." But not all has gone to plan. Many projects have been mothballed or abandoned, while others have become "white elephants". Countries have struggled with debt repayments, and BRI debt has in some cases – Sri Lanka and Zambia, for instance – helped fuel wider economic crises. And China has "made things worse by shunning other lenders and multilateral institutions, instead conducting debt negotiations bilaterally, secretly and with apparent stubbornness".

> *"Around 40% of projects in the China-Pakistan corridor have run into trouble"*

What's the overall scorecard?

Out of a total of $966bn in BRI transactions between 2013 and the middle of this year – a figure that includes construction projects and investments by Chinese companies in 152 countries – about 10% of the deals are classified as "troubled", according to data compiled by the American Enterprise Institute, a US think tank. Between 2019 and 2021, Beijing granted $104bn in rescue loans on BRI-linked projects, with the ultimate aim of protecting its own banking sector – the sum is almost as big as China's bailout lending worldwide in the previous 20 years. A prime example of both successes and failures is Pakistan – the top recipient of BRI funding, and lionised by Xi in July as "an important flagship" for the concept. China's $62bn investments in Pakistan's energy sector and infrastructure have greatly boosted foreign direct investment into the country. But according to analysis carried out by Janes, an intelligence-gathering group, for the Financial Times, 40% of projects in the China-Pakistan Economic Corridor have run into trouble such as corruption, funding shortfalls or "adverse environmental impacts".

What's the future for the BRI?

At the Beijing Forum, President Xi pledged a further $100bn to future BRI projects. But there was a sense of a more focused project with a smaller scope overall – no doubt in part due to struggles with debt repayments, and China's domestic economic troubles sapping enthusiasm for lending to foreigners. China's outbound lending actually peaked in 2016, and has since been falling, according to data cited by The Economist. In 2020, for example, China's new lending to African governments was less than $2bn, the lowest sum since 2004. At the Forum Xi talked of "small but smart" investments, and said that BRI cooperation had already "expanded from physical connectivity to institutional connectivity" and "soft connectivity" – things such as alignment on technical standards and cooperation on customs regulations. Analysts expect the BRI to focus more on green energy, public health and digital infrastructure. And in terms of geography, the focus is likely to shift from Africa to Southeast Asia – a region that is critical to supply chains for China's high-tech products. BRI will continue to be a global initiative, but with a focus that's closer to home.

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The Macron bubble is bursting

Cheap debt and a luxury boom has flattered the French economy. That streak of luck is running out

Matthew Lynn
City columnist

Over the last few weeks the outlook for many French companies has deteriorated dramatically. The Altice empire, put together by billionaire Patrick Drahi, is in big trouble, ensnared in a corruption scandal, and raising emergency cash to stay afloat. Among other assets, its 24.5% stake in BT may have to be sold off, and its shares are down by almost 60% over the past year.

Last week, shares in Worldline, the payments firm that is one of the biggest tech businesses in France, crashed by 60% as it warned on its profits for the year ahead. One of the country's few high-tech champions, even if it dates back to the 1970s, is failing badly.

It's not looking much better at the drinks giant Rémy Cointreau. Over the last few months its shares have slumped to their lowest level in 15 years due to poor sales amid a slowing global economy. Meanwhile, luxury goods empire LVMH is on the slide, with its shares down by a quarter in the last six months as demand from China slips.

Emmanuel Macron has looked energetic but has delivered few real reforms

©Getty Images

Riding an artificial boom

Add it all up and one thing is clear. France is starting to get into trouble – and the Emmanuel Macron bubble has started to burst. In the six years that he has now been in power, the hyper-energetic French president has benefited from an artificial boom. France rode the rapid expansion of the Chinese economy better than any other major country. Sure, the Chinese bought some German cars and machine tools, but what its nouveau-riche entrepreneurs really wanted was high-status European luxury goods that allowed them to show off how rich they had become.

It was demand from Asia that made LVMH the largest company in Europe, and also powered the likes of Hermès and L'Oréal. That generated vast profits, which in turn produced plenty of corporation tax: the state's tax from companies rose by almost 50% over the last decade. But as China slows down, profits certainly won't keep on growing the way they did and those tax revenues will dry up.

Meanwhile, membership of the euro, and the backing of the European Central Bank as it printed vast quantities of new money, has allowed France to run up huge debts. When the euro was launched, France's debt was just 59% of GDP. It is now up to 112%. That worked while interest rates were close to zero, and when the ECB was buying bonds. Investors have simply assumed that France is "too big to fail" within the eurozone, and that in a crisis the other member countries will always bail it out, and so will the central bank. Even so, it has now reached the limit of borrowing. Its credit rating has been cut. The IMF is warning that spending needs to be reduced further. Bond yields are rising. If there is a loss of confidence there could be a rapid exit.

The crumbling of the cronies

Finally, a select group of tycoons close to the president, such as Drahi, built up debt-fuelled empires that are now starting to unravel. They created an illusion of a dynamic, fast-growing France. But companies that are based on borrowing cheap money are rarely solid. If a few of the these close allies crash, it will be hard for the president to escape some of the blame.

Macron has sold himself to the world as a radical reformer. He was the man who would modernise France. True, he has made more progress on shaking up its rigid labour market and burdensome welfare system than his last two predecessors put together. Still, progress has been very slow, and all the grand talk of change has disguised the fact that he has presided over a vast increase in debt and state spending, helped by the luck of a luxury boom and low interest rates.

Through all of this, France remained stuck in a low-growth rut, with little sign of new industries emerging, and only modest reductions in a punishing level of unemployment. The luck has now run out. Money will be very tight over the next few years. With all his political capital burned up on a tweak to the pension laws, Macron has no space for any further reforms. Soon, it will be clear that the bust has arrived – and the French economy will get very messy.

City talk

● "Waiter, there's a fly in my takeover," says Matthew Brooker on Bloomberg. The bid for The Restaurant Group (TRG), owner of Wagamama, by private-equity firm Apollo, may yet turn into a battle, after Pizza Express indicated it is interested in exploring an offer. The idea seems credible: Allan Leighton, chair of Pizza Express, had the same role at Wagamama, so he has "an insider's insight into the business". Still, Pizza Express has a lot of debt and it's not clear how much the group of private-equity funds that own it might stump up in a bidding war. At minimum, Pizza Express would need to offer 71.5p – 10% higher than Apollo's 65p – to release some of TRG's shareholders from their commitment to accept Apollo's offer. Ultimately, Apollo is still the most likely buyer – but with TRG's shares now trading at 68p, it's clear the market feels the initial bid is too low.

● Oil major BP "has been left highly vulnerable to an opportunistic swoop" by the exit of CEO Bernard Looney and the wave of industry consolidation under way in the US, says Ben Marlow in The Telegraph. The government must consider how it should respond, given Britain's sorry record for "flogging the crown jewels of enterprise and business". The smart move might be to engineer a merger with Shell to create one British heavyweight. Both sides have mulled a deal before – during Shell's reserves scandal in 2004 and BP's Deepwater Horizon crisis in 2010 – but chickened out. Critics will question what another oil mega-merger means for these firms' climate commitments, but it's folly to expect Big Oil to lead the energy transition. "Allow them to run down their operations and hand the spoils to investors. Shareholders will then be free to plough the additional capital into a new generation of genuine clean energy trailblazers."

● "Rarely has a board suffered such a crashing defeat," says Alistair Osborne in The Times. Investors in Hipgnosis Songs Fund have kicked out its chair and voted down a "conflict-ridden" deal to sell part of its portfolio of music rights to another fund run by its manager, Merck Mercuriadis. Two other non-executives quit before the meeting. A new slate of directors will review the portfolio and Mercuriadis's future. "He'll do well to avoid a similar fate to the board."

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Trust this new investment trust

Most recent flotations are best avoided, but this fund manager's record is on your side

Max King
Investment columnist

It's a good rule of thumb to avoid new investment-trust issues until they have proven themselves. Still, there are always exceptions. In my experience, the most reliable trusts are launched in tough times. The **Ashoka WhiteOak Emerging Markets Trust (LSE: AWEM)** launched earlier this year, raising £31m, is a good example.

Ashoka launched its **Ashoka India Equity Investment Trust (LSE: AIE)**, managed by the same investment team, in July 2018 with just £46m. Since then, it has returned 131% against 74% for the MSCI India index, making it the best performer of the Indian trusts. Assets have grown to £263m.

Prashant Khemka, the manager of both, spent 17 years at Goldman Sachs, where he built the India and emerging-markets funds, managing up to $5bn. He left to found WhiteOak in 2017 and based his team of 45 in India, giving them a competitive advantage.

"India has high alpha [meaning there is relatively large scope to gain returns in excess of the benchmark] and we have unparalleled expertise there," he says. Khemka expects the 20% of AWEM invested in India to contribute nearly as much added value as the rest of the portfolio put together. Another area of high alpha is small and medium-sized companies. Khemka estimates there are 3,000 with market values over $500m available worldwide, including 600 to 800 in India – 1,000 if the cut-off is applied at $250m. "To maximise alpha, you cannot ignore small caps," he says. Not because he believes that small and medium-sized companies outperform on average, but because they are poorly researched and more diverse.

India accounts for a fifth of the Ashoka WhiteOak Emerging Markets Trust's portfolio

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Companies, not countries

Khemka does not seek "to choose countries that will outperform", which is "impossible", but "to identify companies that will beat the market in each country". Just under a fifth of the portfolio is invested in developed-market companies that derive most of their value from emerging markets and enable governance issues to be overcome.

Assessment of governance starts with a "net democracy score" for each country, provided by Polity Project, a widely used database for monitoring governments. This scores Taiwan, Poland and India well but China, the Gulf and Saudi Arabia poorly. "Authoritarian countries have poor property rights," he says. "How can you expect a government to respect the rights of foreign investors if they don't respect the rights of small farmers?"

That leads to underweighting China (21% of the portfolio compared with 30% in the benchmark index). But the low allocation is compensated for with holdings in HSBC, LVMH, Naspers and Prosus, which has a large stake in Chinese internet giant Tencent. Exposure to Taiwan is 5% (underweight compared to the benchmark) although tech holdings include key semiconductor-equipment makers ASML and Disco.

Khemka is also averse to the energy, mining, utilities and real-estate sectors owing to their exposure to unpredictable and arbitrary government interference. Companies majority-owned by the state have the same problem. Valuation is an "important consideration" in stock selection, although the portfolio has a higher return on equity and higher earnings growth, and is more expensive than the MSCI Emerging Markets index.

Khemka is unapologetic about the 126 names in the portfolio: "Focus is counter-productive in emerging markets." The top-15 holdings, led by Samsung and Taiwan Semiconductor, account for 35% of the total. Portfolio turnover is around 30% per annum and the overlap with the MSCI index is about 30%.

All these factors, Khemka accepts, could cause the fund to underperform from time to time, but the likelihood is that AWEM will justify those brave enough to buy when most investors are hiding in foxholes. History and Khemka's record are very much on investors' side.

Activist watch

Crystal Amber Fund, the activist investment trust, has asked its shareholders to "be patient" after extending its wind-down process, says CityWire. Manager Richard Bernstein has opted to hike the trust's stake in struggling banknote maker De La Rue. Crystal Amber now owns 17% of the firm. This seems "contrary to returning funds", but Crystal thinks this is the "optimal" way to balance cash returns and maximise shareholder value. Crystal Amber has been liquidating its assets since March 2022 following an activist campaign by Saba Capital. The original target for liquidation was 31 December 2023. The increased stake in De La Rue and an additional investment in another holding, Morphic Medical, means it is unlikely to hit this target.

Short positions... open-ended property fund closes

■ **Facing pressure from the passive fund and exchange-traded fund (ETF) market, investment trusts have been cutting their fees over the past 12 months, says the Investors' Chronicle. Figures from the Association of Investment Companies (AIC) and Fitz Partners, a research group that calculates fund fees, show that some of the UK's biggest investment trusts have reduced their fees as they try to compete with equity ETFs, with average annual management charges of 0.2%. JPMorgan Asset Management-managed trusts have made some of the biggest changes this year, including JPMorgan Claverhouse, which reduced its management fee from 0.55% to 0.45% on the first £400m of net assets and 0.4% on anything above (this is unchanged). Abrdn-managed trusts, along with property funds Tritax EuroBox and Urban Logistics Reit have also announced fee reductions. Overall, 27 investment companies cut their fees in 2022 and 28 have done so in 2023.**

■ The decision by M&G to close its open-ended property fund "didn't come as a shock" says Morningstar, but it does put the future of the sector's remaining constituents in question. Open-ended property funds have been dying a slow death over the past three years, plagued by liquidity problems and outflows. M&G and St James's Place are the latest managers to begin winding down their property funds, a process that can take several years. Following these and a string of other closures, only two funds remain with more than £1bn in assets. The average size of the remaining funds is around £250m, and returns have been volatile. The risk now that M&G's decision will "lead to a fresh wave of redemptions" that could cause further volatility in the sector.

Buy-to-let has bled to death

Will Dunn
The New Statesman

The second quarter of this year sounded the death knell for small landlords, says Will Dunn. Research by Savills finds there is "no longer any profit to be made" from buying and renting out a property with a deposit of less than 30%. Since 2014, 73% of buy-to-let mortgages taken out fall into this category and today, landlords collectively owe £300bn to UK banks. While those with bigger deposits can still make money, the "flow of new landlords into the market" is expected to dry up. Of course, the great appeal of buy-to-let has been the rise in value of the underlying asset, but the market "is headed in the opposite direction" with the real-terms value of UK property falling by 13.4% from its peak in March 2022. Although, based on the 2007-2008 dip, some might think that any crash will be temporary, it can "persuasively be argued" that the post-2008 growth in house prices is "almost entirely due" to the Bank of England reducing interest rates to nearly zero and pumping £895bn into the economy via quantitative easing. Don't expect a repeat. This is good news in terms of affordability, but it is bad news for all those relying on buy-to-let as a substitute for pensions, and the "evaporation of that wealth" will have far-reaching consequences.

ESG was too good to be true

Aswath Damodaran
Financial Times

"Born in sanctimony, nurtured with hypocrisy and sold with sophistry", environmental, social and governance (ESG) investing faces a "mountain of troubles," says Aswath Damodaran. Over the years, what started out as a "goodness" metric has been marketed as "an instrument for delivering higher returns without concurrent risk", one for delivering "less risk and lower costs of capital" and now, primarily for "disclosure about material issues". Keeping its definition amorphous is self-serving as the defence can then be that ESG has been "incorrectly defined or implemented". The reality is that the pressure to maintain high scores is "selectively applied" according to the type of business and geographical location while the evidence suggests that improving ESG makes "scaling up more difficult, has little or no effect on profitability and is as likely to decrease value as increase it". Nor has it achieved very much: take our continued dependence on fossil fuels. On the social front, it has been politicised. As for governance, ESG effectively replaces accountability to shareholders with accountability to all stakeholders (and therefore effectively, to none). It shows what happens when "good intentions overwhelm good sense... May it RIP."

Back India's camels, not its unicorns

Editorial
The Economist

"For foreign investors, India is a puzzle," says The Economist. It is the world's most populous nation and set to be the "fastest-growing" major economy this year. At the same time, just 8% of households own a car and 45 million Indians are thought to account for 50% of all online spending. "The tension between tomorrow's promise and today's reality" is reflected in the vast sums poured into young tech firms that have failed to live up to expectations. Of the 83 unicorns (unlisted firms worth more than $1bn) that have filed results for 2022, 63 are "in the red". Yet, "practical and boring" tech firms such as Zerodha, Zoho and Info Edge have managed to prosper. These "camels" have succeeded by being "ruthlessly capital-efficient". The first two have yet to raise any money from investors. Zoho recruits and"rigorously trains" graduates from lesser known universities. Zerodha spends no money on advertising and uses free alternatives to paid software for its technology infrastructure. This "slow, measured approach" is a far cry from the Silicon Valley playbook of "capturing market share first and worrying about profits later" but if investors want big returns, they are better off "backing sturdy camels over sexy unicorns".

A ticking time bomb in China

Wei Li
Nikkei Asia

In recent years, Chinese graduates have found it increasingly hard to find jobs, says Wei Li. Official data put the number of unemployed 16 to 24-year-olds at a record 21.3% in June and some cities report that only 40% of new graduates have found jobs this year. At the same time, graduate numbers rose from 6.25 million in 2012 to 11.58 million in 2022. Jobs are needed not just to drive economic growth, but for societal stability. Over the years, local governments have developed tactics to ensure lots of jobs, but they are more effective with manufacturers than with service-sector companies and the former are "running into headwinds as exports weaken". Today, while the service sector has been outpacing manufacturing (and more students are studying subjects such as artificial intelligence as a result), China's big technology firms have "scaled back entry-level hiring in recent years amid regulatory scrutiny, Covid controls and tough competition". This situation calls for joint action . Universities need to consult with industry and Beijing should promote training in "high-demand skills" and incentivise apprenticeships. With coordinated effort, the hopes of its growing army of graduates can be revived.

Money talks

"I love business, I think it's fun. I'm not interested in living a life of luxury – just more freedom and being able to do what I want, when I want. That really motivates me."
England and Manchester United goalkeeper Mary Earps on her portfolio of business interests, quoted in The Guardian

"They all love you. The bank loves you, and the accountants love you, because they're taking your money. Every year you get more and more people as well. One guy is taking 10% and then it's another guy taking 10% and another guy taking 10% and it's all a big party. The people who give you the overdraft are your best mates as well, smiling at you and telling you that you're amazing so you keep doing it."
Artist Damien Hirst on losing control of his finances, quoted on Collab Fund

"I'm telling you, if you work forever to become somebody — and I'm not talking about somebody in the famous, money part — but an artist, and then someone just takes it from you, it seems like it should be illegal."
Actress and musician Cher on artificial intelligence using artists' voices or likenesses, quoted on Fox News

"The reason I am working so hard is, mainly, the divorce [the financial settlement with Alyce Faye Eichelberger, his third wife, in 2008]. It was $20m. What I've been doing since then is to try to build a nest egg and it hasn't been easy. I had a nervous breakdown in 2012, which I don't mind talking about. It just felt that there was this tsunami of debt coming my way. It was Fish [his fourth wife] who rescued me."
Comedian John Cleese, quoted in The Sunday Times

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Yardsticks help beat poverty

Charles Dickens sparked outrage that changed the world

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asteriskmag.com

Poverty may be as old as the hills, but the idea of measuring it with the aim of eradicating it is a relatively recent idea, says Ranil Dissanayake: it only becomes a practical concern when a society is rich enough to decide that something ought to be done about its poorest members, and has the means to identify them.

Before such measurement became feasible, state support for the poor in Victorian England was allocated using an "ordeal" mechanism – claiming help was to be such a miserable experience that only those truly desperate would bother. It was partly in response to the outrage at the cruelty of such a system, brought to light by authors such as Charles Dickens, that measurement of poverty was first seriously attempted. Social reformers Charles Booth and Seebohm Rowntree took on the work of establishing scientifically what poverty was, and how to measure it. In more recent years, that effort went global, resulting in the development of global institutions dedicated to lifting people above the "poverty line".

There are problems with this effort conceptually and practically. Conceptually, the creation of poverty lines often involves ignoring everything but the amount of money needed for a bare existence. Whether a society that has lifted everyone above that line has succeeded in promoting human flourishing remains a moot point. Practically, it means making delicate judgement calls when comparing one society with another, and may lead us to ignore a great deal of squalor just because those living in it have officially cleared a very low bar. And it creates perverse incentives – donors and NGOs seeking to report success in the fight against poverty might target their aid at those just below the poverty line, rather than those in more desperate circumstances who are harder to help, for example.

All this matters because these measures have come to dominate the language of international development and determine where aid goes. Still, "all acts of measurement involve artifice", some of which may be damaging, and it is difficult to think of much better alternatives. There are three "saving graces": poverty lines are a useful "shorthand" to help focus aid money where deprivation is greatest; awareness of the limitations means that aid is now never in practice prioritised on the basis of poverty lines alone; and the measures of poverty used are constantly changing and improving. The development and measurement of global poverty lines has changed the business of fighting poverty – "largely for the better".

Globalisation is the better path

conversableeconomist.com

The "winds of public opinion and politics" have been blowing against globalisation for years now, says Timothy Taylor. Three main arguments are levelled against it: that it is bad for national security due to strengthening geopolitical rivals and creating risky and overstretched supply chains; it's bad for workers and the poor; and it's bad for the environment. The WTO's *World Trade Report 2023* takes on all three arguments. The first point forgets that the world trading system was set up in the wake of the world wars precisely because nations that trade have more incentives to avoid war. The obvious lesson from disrupted supply chains is to diversify sources, not have fewer global suppliers. Globalisation can disrupt national industries, which hurts some of that country's workers in the short term (while benefiting poorer countries by raising their standard of living through trade), yet an economy is always being disrupted by all manner of factors – it is a price worth paying for higher living standards. As for the environment, global trade may increase the scale of production and hence pollution, but at the same time it creates efficiency gains and shifts the mix of products towards technologies and practices that cut pollution. Global trade deals can also help facilitate agreements that benefit the environment.

Office workers' new best friend

bbc.com/worklife

Ever since the launch of AI chatbot ChatGPT, employers have "scrambled" to keep its use in the workplace under control, says Alex Christian. Many are concerned that their data will be leaked as employees unintentionally train the algorithms with sensitive information, for example.

Yet many workers have already come to rely on the new tool. "It was like discovering a video-game cheat," says one business consultant. AI has already transformed the workdays of many office workers. It is now child's play to get answers to questions that would otherwise require technical expertise, for example. AI can quickly aggregate content, for example, providing a useful first draft in moments, and help with technical or routine tasks such as coding.

Chatbots give savvy employees an edge

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But because the technology is frowned upon, adepts have taken to using it secretly. In a study this year by social network Fishbowl, 68% of 5,067 respondents who used AI at work said they don't disclose the fact to their bosses. Sneaking a peak at AI when it is banned is worth the risk, says the business consultant: "I prefer keeping the competitive advantage".

Central planning in new clothes

city-journal.org

"Effective altruism", the philosophy that purports to direct charitable giving to where it can do the most good, has been discredited by the disgrace of leading proponent Sam Bankman-Fried. Good, says Robert Wright. The idea fails because it is a "voluntary form of central planning, and thus suffers the same pitfalls as other central-planning systems".

Effective altruists have no more insight into the world's complexities than anyone else, and directing money to where it can do the most good means in practice that it is directed to where self-proclaimed experts believe it can do the most good. US history provides a practical alternative: "bottom-up experimentation". Americans have long formed voluntary non-profit associations, helping ameliorate social problems not easily solved by government or business. Tens of thousands of such ventures have been formed over the years, tackling everything from foster care to military defence. They may not have "saved the world", a "fool's errand", but they did improve the lives of millions of unfortunate Americans.

A welcome change in Warsaw

Poland's new government is likely to bring better relations with the EU. One of the region's most compelling growth stories remains strongly on track, says Frédéric Guirinec

Last month's elections for Poland's Sejm – the equivalent of Britain's House of Commons – signalled a significant change and the end of an era for the country. After eight years in power, the conservative government led by Mateusz Morawiecki is set to relinquish power and hand over to a centrist coalition.

While the incumbent PiS (Prawo i Sprawiedliwosc – Law and Justice) led the polls, with 35% of votes, it does not have enough seats to form a government, even with the support of the far-right Konfederacja (Confederation) alliance.

So while president Andrzej Duda will nominate Morawiecki for prime minister after the new parliament sits for the first time on 13 November, PiS is expected to quickly lose a confidence vote. That will pave the way for a coalition of the liberal Koalicja Obywatelska (Civic Coalition), the far left Lewica (Left) and the Trzecia Droga (Third Way), an "agrarian-nationalist" grouping that won 14% of the vote and played an important role by attracting numerous conservative voters who were unhappy with the government. This alliance has 248 seats in the 460-seat parliament, giving it a clear majority.

The job of prime minister is likely to go to Donald Tusk, leader of Civic Coalition, who previously served as prime minister from 2007 to 2014. (After losing power to PiS, he was then president of the European Council until 2019, before re-entering domestic Polish politics in 2021.) However, at least until 2025, he will have to work alongside Duda, a member of PiS, whose presidential powers give him the ability to veto legislation, unless overridden by a three-fifths majority vote in the Sejm.

The outcome of the election immediately led to a bounce in the share prices of Polish banks – the largest sector in the index (see page 22) – while the Polish zloty (PLN) strengthened a little. The legacy of PiS has been highly controversial when it comes to social issues (especially the right to abortion), its contentious attitude towards the European Union, which blocked billions of euros in subsidies, and the rule of law, with PiS making "reforms" that undermined the independence of the judiciary. However, despite this policy "conservative illiberalism", its economic legacy is surprisingly strong overall and foreign investors seem to have been undeterred by national politics. "*Nie mój cyrk, nie moje małpy*," as the Polish idiom goes – "Not my circus, not my monkeys."

"*Foreign investors have not been deterred by national politics*"

A post-communist success story

Since joining the EU nearly 20 years ago, Poland has been a success story. Continuing to shed decades of communism, it recorded steady growth of over 5% annually and nearly tripled its GDP. Its success is in large part driven by its close economic ties with Germany and by EU funding. Poland has received over €230bn since joining the EU and expects an additional €76bn of subsidies in the 2021-2027 period.

In terms of foreign policy, it also aims to become a regional military power, increasing military spending to 5% of GDP. The outgoing government announced the acquisition of Abrams tanks, American F-35s, Hyundai tanks and Korean nuclear-power plants. However, except for three British Type 31 frigates – to be built in Gdansk – one can deplore the selfishness towards its European partners in failing to buy from their defence contractors considering the scale of subsidies it has received, which amount to 30% of its current GDP. More broadly, it has become a real regional power in central Europe (CEE). It has gained a strong influence within the EU and its hawkish stance on the war in Ukraine has shown it gaining greater political independence from Germany within the bloc.

Poland's GDP is forecast to reach $840bn this year, according to the IMF. This is larger than Taiwan's or Australia's and represents about 5% of EU GDP and nearly 40% of CEE. Nevertheless, it is still only a quarter of the size of Britain's, despite having more than half of its population. Scaremongers in the British press who talk of Poland being richer than the UK in 2030 are greatly exaggerating the speed with which the gap is being closed. However, this is not a bad thing: it means there is still sizeable potential to catch up with the rest of Europe over a sustained period of time. To use GDP per capita as a more meaningful measure of development than the absolute size of the economy, Poland's GDP is around $22,000 per head, three-fifths of Italy's and well behind $52,000 for Germany. Even in terms of purchasing power parity (PPP), which allows for the difference in the costs of goods and services between countries, GDP per capita is $45,000 (Italy is $54,000 and Germany $66,000).

Industry at the heart of Europe

Poland has become a major industrial hub in Europe, helped by its position at the centre of central Europe, sharing borders with Germany, the Czech Republic, Lithuania, Slovakia and Ukraine, as well as Belarus and Russia. Exports have led GDP growth: they have quintupled to €400bn in absolute value since joining the EU and nearly doubled in terms of share of GDP. The port of Gdansk, a member of the Hanseatic League during the Middle Ages, once again offers convenient maritime trading routes with northern Europe in the modern era. Its infrastructure (roads and rail), along with a skilled workforce, is clearly a major factor in its success. As a result, Poland is at the heart of the Three Seas initiative that aims to promote cooperation among 13 countries that lie between the Baltic Sea, Adriatic Sea and Black Sea.

Even more remarkably, Poland's growth has been the strongest in the EU since Covid, contracting by only 2% in 2020 and bouncing back by nearly 7% the following year, due to fiscal measures and monetary support that cushioned the economic impact of the pandemic and subsequently of the Russian invasion of Ukraine. Nevertheless, record inflation last year, exploding to 16%, led the Polish central bank to increase interest rates to close to 8%. This put sharp brakes on economic expansion, which is forecast to stall at 0.5% this year, below the EU average of 0.8%, and recover partially to 2.7% in 2024. The PiS government exhibited a

©Getty Images

Donald Tusk is once again likely to become prime minister

pragmatic approach in response. It capped prices at petrol stations, reduced VAT on food and launched mortgages with a 2% interest rate for first-time buyers to prevent a crash in the real-estate sector.

Meanwhile, inflation is slowing and is down to 8% now. Core inflation will remain high next year due to the spending driven by elections and the sharp increase of the minimum wage from PLN3,500 to PLN4,300. The largesse in the election campaign was a modern spin on "*kiełbasa wyborcza*" – a term from southern Poland, where candidates in the past organised large feasts, offering the electorate free sausage (*kiełbasa*) and vodka (*wyborcza*) in return for their votes.

The crisis in Ukraine has propelled Warsaw onto the global stage over the last two years, with mixed results. It had to cope with an influx of 1.5 million Ukrainian refugees. Warsaw's population increased by 15%, Kraków's by 23%, and Gdansk's by 34%. Many of the arrivals proved to be consumers as they set up in a new country, which benefited the retail industry. There was an influx of qualified workers hired in the banking and technological sectors. However, the sudden expansion in population also put significant pressure on Polish infrastructure. In addition, many international organisations sent staff, which contributed to rents nearly doubling in some parts of Warsaw.

Subdued sentiment

Sentiment among investment managers was quite subdued at a private-equity forum that I attended in Warsaw in May. The war in Ukraine deters major North American pension funds from entering the region. Private-equity investments reached only €443m in 2022, the same level as in Croatia and behind the Czech Republic. This represents just 0.06% of GDP, in stark contrast to the 1.1% seen in the UK, despite the very different economic outlook.

On the bright side, nearly half of this money was invested in venture capital – ie, early-stage growth-focused investments rather than buying out more mature companies. Note too that family offices and private investors, who are more astute than pension fund managers, are grabbing some of the many opportunities created by a generational transition that is under way as the entrepreneurs who created very profitable businesses after the fall of communism are looking to hand over to new owners.

International companies are also ploughing cash into Poland. Foreign direct investment (FDI) increased by 50% during PiS's tenure, reaching a record €25bn in 2022. For example, Intel has announced the construction of a state-of-the-art factory in Wroclaw. It will invest nearly $4.6bn in a semiconductor integration and testing plant, the largest single piece of FDI in the history of Poland. Similarly, in the same region, LG has built the largest car-battery factory in Europe. Stellantis and Volkswagen already operate some of the largest automotive factories, with Tychy (Fiat) and Poznan (VW). Philip Morris has invested over PLN25bn in Poland over time and plans to expand its operations.

PiS has been vocal against Germany and has even tried to brand Tusk a German agent. Looking past this

Continued on page 22

"Poland's growth has been the strongest in the EU since Covid"

Continued from page 21

strange political theatre, it's obvious that the Polish economy is indeed highly dependent on Germany, with whom it generates more than a quarter of its trade. The German economy has been challenged by the failure of "*die Energiewende*" (the transition to a low-carbon, nuclear-free economy) and the demise of the Nord Stream pipelines that were to provide cheap gas from Russia. This combined with elevated labour costs will support further outsourcing in some industries, which may benefit Poland due to its lower labour costs. Covid has also shown the limits of outsourcing to the other side of the planet, making "nearshoring" attractive.

Under new management

The new government led by Tusk is likely to keep most of the PiS promises regarding loose fiscal policies and focus on housing and green energy. Tusk himself has not made much impression as president of the European Council, except with Brexiteers who felt that an EU *aparatczyk* (the communist-era Polish term for a loyal bureaucrat) was lecturing Britain's elected politicians. He is not particularly popular in Poland either due to pension reforms made during his mandate and scandals related to corruption. This helps to explain the success of Trzecia Droga: many voters wanted the government out, but were not keen on the established opposition. Growth under his previous tenure was under the last 20-year average, though some of it was due to the general European slowdown at that time. He lacks charisma, but he skilfully steered the discontent against the incumbent government when he managed to gather an impressive disgruntled crowd on the streets of Warsaw in early October.

Tusk will have to manage Poland's demographic challenges. The previous government's programme that gave a handout of PLN500 per month per child had a very limited impact on birth rate, as such policies generally do. Unemployment is at historically low levels. With a shrinking, ageing society, Poland is facing staff shortages in many industries and businesses indicates it needs two million workers. The new government is likely to open borders instead of addressing the issue of the large Polish diaspora that has left the country.

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Despite a bid to boost the birth rate, Polish society is ageing

In the short term, the provision of large amounts of EU funding that was held in abeyance in response to judicial changes imposed by the previous government will deliver a boost to the economy. "Poland is the largest beneficiary of Next Generation EU funding, including €22.5bn of grants and €34.5bn of loans requested, totalling 8.7% of GDP," says rating agency Moody's. That could lead to a credit-rating upgrade. There is also room to increase the debt to GDP level, currently 49%, which will give the government a lot of leeway to spend. This, plus the sizeable increase in minimum wages, will boost internal consumption.

Unfortunately, Tusk has not shown signs of wanting to reform Poland's Kafkaesque bureaucracy, which is stuck in the communist seventies. However, he is likely to privatise many companies, with the aim of depoliticising the economy and undoing some of PiS's efforts to exert greater control. This may create further interesting opportunities for investors in what is already one of Europe's most promising markets.

"Donald Tusk has not shown signs of reforming Poland's Kafkaesque bureaucracy"

The best ways to invest in Poland's growth

Warsaw's WIG 20 blue-chip benchmark is dominated by oil firm Orlen (15% of the index), the insurer PZU (14%) and the banking sector (collectively comprising over 30%). Investors can simply buy the market through the **iShares MSCI Poland ETF (LSE: SPOL)**, and while this index is a little more diversified, with 37 stocks, that is still essentially the exposure you are getting.

However, the market is more varied than this and plenty of Polish brands – both old and new – deserve some attention from investors. To give you a sense of what's available in the wider market, these include chocolate maker Wawel, which trades on enterprise value to earnings before interest, tax, depreciation and amortisation of just seven; Amica, which owns several global household-appliance brands; suitcase and bag maker Wittchen; CCC, a leading clothing and footwear retailer in central and Eastern Europe; and jewellery and watch retailer W.Kruk.

There's also a decent technology sector. The success of video-games firm CD Projekt Red, which made the *Cyberpunk 2077* game, has seen many similar firms list in Warsaw. I have previously recommended business-software firm Asseco, which mostly serves the finance sector and has done fairly well. In short, this is a meaningful market, with several hundred listed companies (albeit many very small and illiquid), in contrast to much of central and Eastern Europe

Where to look now? It may seem a bit surprising to recommend residential housebuilders in this environment. However, PiS launched discounted first-time mortgages at 2%. The current inflation rate is 8% and falling, and six-month WIBOR, the benchmark used for mortgages, is down from 7.6% to 5.6%. The future government is also expected to present an ambitious housing programme. Developers **Atal (Warsaw: 1AT)** or **Echo Investment (Warsaw: ECH)** may benefit from this.

Precious metals are currently being bid up as a result of unsustainable public debt in the West and geopolitical tensions. **KGHM (Warsaw: KGH)**, Poland's major producer of silver and copper, seems very good value.

As a result of a minimum wage increase and loose fiscal policies, retail should also remain strong, which is in sharp contrast with the rest of Europe. E-commerce platforms **InPost (Amsterdam: INPST)**, which was listed in the Netherlands purely to achieve an unrealistic valuation in its recent initial public offering (IPO), and **Allegro (Warsaw: ALE)**, the biggest IPO in Warsaw's history in 2020, will benefit from online shopping. Their share prices are down by 45% and 35% respectively since listing, as are most firms that were brought to market by private-equity companies – investors everywhere should always be wary of these IPOs. Still, their operations are fundamentally sound, although perhaps still expensive for now.

Retail group **Eurocash (Warsaw: EUR)** is valued at depressed level on an EV/Ebitda of just 4.7 despite strong brands such as Lewiatan and Groszek (convenience stores) and online fresh-food retailer Frisco. This valuation is difficult to understand given the cash the business generates and the higher valuation of peers such as Dino or privately owned Zabka. The latter has the same original founder as Eurocash and discount supermarket Biedronka and is rumoured to be in line for an IPO after passing through four private-equity owners since 2000.

Lastly, **Apator (Warsaw: APT)** operates in electrical switchgear and metering. It's niche but lucrative and looks cheap, valued at a forecast EV/Ebitda of just 6.3.

Jump in: Uber is moving up a gear

The ride-hailing platform has just reported its first operating profit and its future looks bright

Stephen Connolly
Investment columnist

I didn't buy shares in Uber, the ride-hailing app, when they first floated on the stockmarket in 2019. It was a big, glitzy event, but there were no profits in sight; the company seemed to be arguing with authorities and traditional taxis wherever it was touting for business; and employee discrimination and harassment claims were still fresh.

Now, though, things look different. In August it reported its first-ever quarterly operating profit ($326m) between April and June, alongside the news that it had generated a record-breaking $1.1bn of surplus cash. After four years, Uber's shares have barely budged but the business has changed a lot.

Uber is a so-called "platform" business, which simply means it provides and maintains a digital space where users can come together and interact – in Uber's case the users are mostly drivers with their own cars and people who want to make a trip. The two are matched and do business together. Uber makes its money by taking a cut of the deal as the middleman.

There's nothing new in acting as a platform. Plenty of towns have a physical marketplace to facilitate buying and selling of household goods or livestock, for example – the London Stock Exchange itself was a physical platform business for trading shares. But when the platform is digital, the marketplace potentially becomes as big as the internet itself, and the number of transactions can skyrocket.

Uber has evolved from just offering rides

©Getty Images

Dizzying decade

From its origins in San Francisco in 2010, Uber has demonstrated the speed of growth that digitisation can offer. It has facilitated 42 billion trips since, as it rapidly expanded within a year or two to Chicago, New York, Paris, London and beyond. It is now notching up 25 million journeys every day across 10,500 cities in 70 countries.

Carrying fare-paying passengers remains core to the Uber business, but it has evolved from a digital ride-hailing business to a broader transport operator. The Uber Eats brand has become widely recognised as a deliverer of food door-to-door, bringing consumers and restaurants together. Uber provides logistics support delivering packages for businesses. It is increasingly running errands for people, ferrying groceries, medications, alcohol and flowers to homes.

Carrying people brings in 42% and almost all of the profits, but delivery and freight now comprise 60% of sales as the group works fast to grab market share. Gross bookings for people-carrying and delivery have been growing at 18% year on year over recent quarters. Analysts expect strong sales growth in the coming years. With even conservative profit-margin assumptions, earnings growth should outstrip the broader markets over the medium term.

People like to talk about "moats", or enduring competitive advantages, protecting firms from competition. For Uber, one is that the brand is strong and attracts drivers and riders alike, so much so that the name is tentatively slipping into common language usage as people "uber" to an event.

Furthermore, the network effects seem especially powerful. Every time Uber gets bigger, the business model gets better. More active users means it gets more drivers and restaurants that want access to them. That in turn means even more active users, as people want apps with the most available drivers and the broadest range of restaurants.

Uber faces competition from smaller rivals such as Lyft. There is regulatory pressure, too, as it fights vested interests, and driverless taxis could have an impact. But with management running a tight financial ship, the switch to profitability gives investors the chance to take advantage of a key turning point.

Stephen Connolly writes on business and finance and has worked in investment banking and asset management for 30 years. (sc@plain-money.com)

Shares offer potential 35% upside

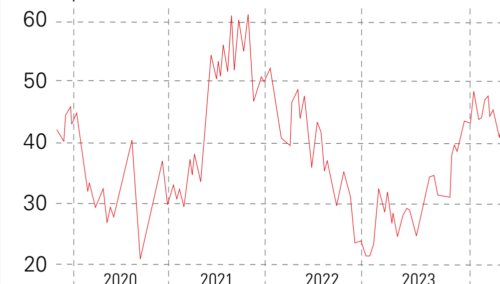
Uber shares rose briefly after the last earnings announcement back in early August but have since performed broadly in line with the S&P 500 index of large US stocks during a difficult few months for markets.

Macroeconomic concerns about inflation, higher interest rates and the potential for an economic slowdown have frequently overshadowed the fundamental performance of individual companies.

Nevertheless, investors took comfort from gross bookings for services (including taxes and additional fees) up 16% to $33.6bn, beating expectations. Both bookings for rides and deliveries were up on the same period the year before. The 14% rise in overall sales to $9.2bn slightly missed expectations but the company did make its first quarterly operating profit and generated $1.1bn of surplus cash.

Investors were further encouraged when the company – led since 2017 by former Expedia chief executive Dara Khosrowshahi – said gross bookings would rise again in the current quarter to $34bn-$35bn and cash profits would be some 6%-12% higher than previously expected, possibly more than $1bn, on $9.5bn of forecast quarterly sales. News is expected on 7 November.

The shares peaked at roughly $49 after the last earnings release but, despite improved expectations, they're now trading some 10%-15% lower at about $43. Bank analysts' earnings estimates have edged higher plenty of times over the past three months, and Uber has now surprised to the upside in each of the past three quarters.



The consensus recommendation of analysts is "strong buy", with an average price target of just under $58 for the shares within the next 12 months. The shares may thus offer a potential 35% upside from where they stand today.

Is relief from IHT on the way?

Talk that the government could cut or scrap inheritance tax is rife, yet it is a money-spinner

Ruth Jackson-Kirby
Money columnist

Rumours are swirling that inheritance tax (IHT) could be cut or eradicated in the Autumn statement at the end of the month. This is good news as the so-called death tax is unpopular, but it is surprising that the government is considering tinkering with it given that it is quite a money-maker for them.

In the last financial year, a record £7.1bn was collected. That is £1bn more than the year before. The soaring value of assets, combined with a threshold that has been frozen since 2009, mean the taxman makes more every year.

Few estates pay the tax

However, far more of us fear IHT than ever actually pay it. Less than 4% of estates are liable for the levy, says Emma Agyemang in the Financial Times. Data from the OECD, an association of developed countries, shows that the UK has one of the highest IHT exemption thresholds in the world.

By contrast, "in Belgium, 48% of inheritances attracted tax". We are also highly unusual in that we tax the estate of the deceased. Most other countries tax the recipient of the inheritance.

If you are worried about IHT, there are a number of things you can do to reduce the odds of it being levied on your estate. Firstly, make sure you understand the thresholds. After you die your estate is valued. If all your worldly goods including property, investments, savings and personal possessions adds up to more than £325,000, you may be liable for IHT. This means 40% of anything above that nil-rate band may need to be handed over to the government.

So everyone can pass on up to £325,000 to loved ones without any IHT being due. On top of that, if you pass your primary residence on to your children or grandchildren, up to £175,000 of that is free from IHT. In other words, each of us has the potential to pass on £500,000 tax-free.

Anyone who is married or in a civil partnership can inherit their partner's entire estate without having to worry about IHT. Then, when they die, they can use both partners' allowances. So, married couples can potentially have an estate worth £1m and not be liable for IHT.

Consider also all the ways you can give away money and assets to avoid IHT on your estate before you die. You can give away whatever you like in your lifetime and, provided you live for seven years afterwards, it won't count as part of your estate for inheritance-tax purposes.

©Getty Images

Could chancellor Jeremy Hunt deliver a pleasant surprise?

A sliding scale for gifts

If you do die within seven years, then the gift will be counted as part of your estate and if IHT is due, it will be charged on a sliding scale depending on how long ago the gift was made. If you die three years later, for instance, the tax due on the item falls from 40% to 32%.

You can also give a variety of financial gifts each year that are immediately exempt from IHT. This includes a £3,000 annual gift allowance, which can be split among numerous people or given to one. You can carry this allowance over for one year if any of it is unused.

You can also make as many small gifts of up to £250 per person as you like – provided it doesn't go to someone who has already benefited from your £3,000 gift allowance that year. If someone you know is getting married or entering a civil partnership, you can give them an additional gift. This is £5,000 if they are your child, £2,500 for a grandchild or great-grandchild and £1,000 for anyone else.

Finally, there is the gifts-from-income rule. This is the one most people aren't aware of. "You can pass on as much money as you like so long as it comes from your income rather than existing assets," says Rachel Rickard Straus in The Mail on Sunday.

There are just four rules to remember. The money has to come from income, not capital. It has to follow a regular pattern – for example, monthly or annually. Giving the money away can't affect your everyday standard of living. And you must record your intention to make the gift regularly. This can simply be a letter that you both keep a copy of.

Pocket money... beware the Booking.com scam

● Motorists have had to pay parking fines of almost £850m over the past 12 months, says Lucy Evans in The Mail on Sunday. One in four male drivers were issued with a parking fine, "more than double the number of female drivers caught out". Overall, one in five motorists had to pay a parking fine in the past year. Data from car insurer Prima also found that "town-centre and workplace car parks were more common places for drivers to be fined" than on-street parking. Failing to understand signs and parking outside permitted hours were the main reasons that drivers were fined. But 14% of drivers knew that they should not have parked where or when they did, yet risked it anyway.

● With mortgage holders feeling the squeeze from 14 successive interest-rate hikes by the Bank of England, "the number of households falling behind on payments is rising", says Jedidajah Otte in The Guardian. Mortgage arrears jumped by 13% in the second quarter of the year and are now at their highest level since 2016.

● "A million dollars ain't what it used to be," says Stefan Wagstyl in the Financial Times. The real value of people's fortunes has slid rapidly recently as inflation has reached 40-year highs across the developed world. In dollar terms, for instance,inflation has reduced the growth of wealth by six percentage points over the past 12 months, "turning a nominal wealth gain of 3.4% into a real wealth loss of 2.6%". Data prepared for FT Wealth by Credit Suisse show that only 34 million of the 59 million people in the world with assets over $1m "would have qualified as real-terms asset millionaires after adjusting for inflation since 2000".

● Travellers using Booking.com "are being warned not to fall for scam emails asking them to confirm their hotel payment", says Miles Brignall in The Observer. The problem stems from a hack of Booking.com's email system. The customer has either checked in, or is due to check in, to a hotel they have reserved using Booking.com. They then get an email saying their stay may be cancelled if they don't provide their bank-card details via a link in the email. It is a very plausible scam. If you are unsure about an email, contact Booking.com directly on 020-3320 2625.

How to retain your staff

Bigger companies may offer them more money. But you can fight back

David Prosser
Business columnist

Once you have chosen new staff, build a connection with them as quickly as possible

©Getty Images

Small businesses have a people problem. In a highly competitive job market, they are losing staff to large companies whose resources enable them to pay higher salaries. Almost nine in ten British small firms taking part in one recent survey said they were struggling to match the pay deals on offer from larger rivals. In that case, they need to find other strategies for boosting staff retention. And the good news is that remuneration is not the only thing that counts when it comes to keeping staff; many people are more interested in other factors. Focus on these to give yourself the best chance of holding on to key members of your team.

Firstly, efforts to retain employees should begin at the onboarding stage, because staff are far more likely to quit in the first few months of a new job than once they feel settled. The key is to build a connection with the new employee as quickly as possible. Assigning them a mentor – an existing employee to help them understand how the business operates – can be a good option here. So too can regular check-ins – perhaps a coffee or lunch. Look for as many ways as possible to help them feel part of the team straight away.

Work-life balance is another important consideration. Your ability to offer flexible working patterns, including hybrid and remote working opportunities, will help you recruit staff, but once they've joined the company you need to show your commitment is genuine. The means ensuring staff are able to manage their workloads effectively and to work in a way that suits them. Try to build a culture in which staff aren't afraid to speak out if they feel overburdened.

A determined focus on professional development can also help your business retain staff. When people feel they have opportunities to progress, they are more likely to stay put. That means providing access to education and training, for example, and promoting from within wherever possible. But you also need to talk to employees to understand their ambitions: what is it they are looking to do with their careers and how might that work well for both them and your business?

"Seek feedback from your staff through surveys and meetings"

Next, don't overlook the importance of rewards altogether. You may feel unable to compete with larger businesses on pay, but there are affordable ways to recognise people's contributions so that they feel valued. Call out good performance publicly, for example, and think about small gestures of appreciation – a meal out on the company, say, or an extra day off. It may also be possible to boost remuneration cost-effectively through schemes such as employee discount programmes with partners or specialist providers. These cost relatively little.

Finally, make sure communication is a key focus of your employee retention work, and that this is a two-way process. Build structures through which you can provide feedback to staff, so that you have opportunities to praise good work and to offer support in areas where there is room for improvement. Equally, look for feedback from them too – one-to-one meetings, 360-degree appraisals and surveys from employees can all provide valuable intelligence on how staff feel about working for you. Be open and clear about how you respond to such feedback.

All these tactics can make a huge difference to your ability to retain employees. Your goal should be to build an organisation where people feel valued, engaged and part of something that is bigger than themselves. Get it right and that can be much more powerful than competing on salary – not least because even if you can afford to pay more, there will always be someone able to outbid you.

Firms should expect higher energy bills

Small companies planning their finances for 2024 need to factor in the possibility of significantly higher energy bills. While gas and electricity prices have fallen from the huge peaks seen last year, the positive effect of this looks set to be outweighed by the loss of support from the Energy Bills Discount Scheme.

Introduced by the government in April, this plan is due to close at the end of March 2024. While the initiative does not cap firms' energy bills in the same way as the equivalent scheme for consumers, it does offer significant savings. Eligible businesses get up to £6.97 off the cost of each megawatt hour of gas consumption, and up to £19.61 off the cost of electricity.

These discounts are applied automatically, with most businesses qualifying for reductions on the fixed rates they have signed up to with energy providers. This means you may not be aware how much you're saving – and how much more you may have to pay from next April.

Small business groups are pushing for an extension of the scheme, hoping that the Treasury will announce concessions in the Autumn Statement later this month. But don't bank on further support. Start planning for higher energy costs next year.

Petty cash... find a new credit-card deal

- Small companies in Britain are spending 22% more on their credit cards each month than at the end of the Covid pandemic, new research from business software provider Intuit reveals. The increase reflects the financial pressures that many small businesses are facing, but also underlines the importance of shopping around for credit cards for businesses. Research suggests small businesses rarely change credit-card provider, even though the best deals offer far lower interest rates as well as a range of other perks.

- Just 2% of the smallest businesses have insurance that will protect them if they suffer a cyberattack – a data breach, hack or virus, for example. Insurer Aviva hopes to target this marketplace with a new policy aimed specifically at micro- businesses, with premiums starting from £50 a year. The insurer argues many very small businesses would struggle to cope with an attack, and that the cost of resolving cyber problems is widely underestimated.

- New rules designed to extend the auto-enrolment pensions system – thereby increasing companies' employee costs – could come into force as soon as next year following the passing of new legislation. Under the changes, employers will need to enrol all staff aged 18 or over in a workplace pension scheme before they can opt out if they wish to do so; 22 is the minimum enrolment age at present. The changes also extend coverage to lower-paid staff, who are also currently excluded from auto-enrolment.

Hidden gems offering growth and value in Asia's overlooked markets

A professional investor tells us where he'd put his money. This week: Nitin Bajaj, portfolio manager of Fidelity Asian Values, highlights three favourites

We are living in an uncertain environment, reflected in the high level of volatility across asset classes. But macroeconomic trends are difficult to forecast and building a portfolio of stocks based on such views is even more challenging. At Fidelity, therefore, we remain focused on a fundamentals-driven, bottom-up approach to investing, building a deep understanding of businesses and the price at which they are available.

As a result, my investment process is to own good businesses run by managements whom we can trust. We buy these stocks only when we see an ample margin of safety. This leads us to take contrarian positions as it is easier to find undervalued businesses in countries and sectors that are out of favour with investors.

One company we hold is **Sinotruk (Hong Kong: 3808)**, China's largest heavy-duty diesel-truck manufacturer. It accounts for 26% of the market within China and over 50% of the export market.

The company's strategic partnership with Germany's leading engine producer, Traton, allows Sinotruk to use German engine technology, helping it maintain margins higher than the sector's average. Sinotruk's broad product range and strong distribution network enables it to continue gaining market share.

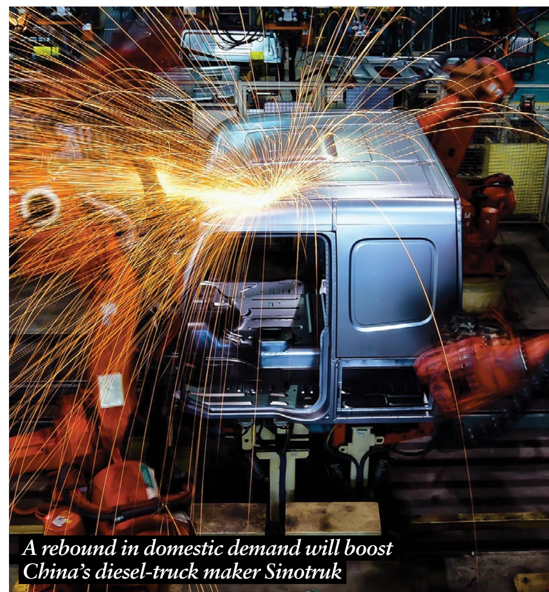
Our position was initiated when the stock was weak amid Covid lockdowns. The share price appreciated sharply when China abandoned its lockdown policy. Although the recovery in demand was lacklustre, export volumes (mainly from Africa and the Association of Southeast Asian Nations, ASEAN) exceeded expectations, driving earnings growth.

Sinotruk has a 30%-40% market share in Africa and a 15% market share in ASEAN thanks to its quality and competitive prices. The stock should do well whenever domestic demand recovers from current levels. While we wait, we are enjoying higher dividend payouts than in previous years.

"India's power distribution is in the hands of inefficient state-owned firms, which bodes well for Genus Power"

A contact-lens manufacturer worth a look

Interojo (Seoul: 119610) is a Korean manufacturer of contact lenses. Beyond Korea, it sells its lenses mainly in Japan, Europe and the Middle East. It's a small player in the global contact-lens industry, but is gaining market share from its less efficient Taiwanese peers, which implies healthy growth prospects over the next three to five years. It excels in research and development, and its high-quality products that offer value for money also bode well. Meanwhile, Interojo has completed clinical trials of its silicon hydrogel lenses in the US and aims to enter the US market by the end of 2023, providing significant potential for expansion.



A rebound in domestic demand will boost China's diesel-truck maker Sinotruk

©Alamy

Genus Power Infrastructures (Mumbai: GPIN) is one of India's largest energy-meter manufacturers with a capacity of 11 million meters per annum, which it supplies primarily to power distribution companies. India's power distribution is in the hands of extremely inefficient state-owned enterprises. However, with transmission and distribution losses on the rise, the government's focus is on reducing such losses using smart and pre-paid meters.

Moreover, to encourage faster adoption, the tendering is being done through a private distribution entity. Around 140 million meters are expected to be installed in the first leg of the project. This is a major opportunity for Genus in a market that potential rivals would struggle to enter owing to licence and qualification requirements.

We initiated the position in 2021 at attractive valuations, anticipating that the company's revenue and profits could double in the next few years, but we also see this as a ten-year opportunity in the power sector.

The golden geek's Midas touch

Marc Andreessen created Netscape, the web browser that set off the dotcom boom, before investing early in Facebook and Airbnb. Now he's trumpeting artificial intelligence. Jane Lewis reports

"It takes a certain kind of person to write grandiose manifestos for public consumption," says The New York Times. One such is Marc Andreessen, the celebrated founder of Silicon Valley venture capital firm Andreessen Horowitz. His recent 5,000-plus word post, dubbed *The Techno-Optimist Manifesto*, has been making waves. No wonder. The paper argues for "an extreme acceleration of technological advancement, regardless of the consequences, in a way that makes 'move fast and break things' seem modest".

©Getty Images

"He is known for a fearsome intellect housed in a stupendous buffed cranium"

It would be easy to dismiss this as naked self-interest. Andreessen Horowitz, after all, has a substantial portfolio of artificial intelligence (AI) investments and a history of publishing articles trumpeting its potential. But this manifesto is about much more than money. In Andreessen's "neoreactionary" vision, "the world would operate much better in the hands of a few tech-savvy elites in a quasi-feudal system" – unencumbered by what he labels "enemies": social responsibility, technology ethics and central government. He claims to be against authoritarianism, "but really, it's a matter of choosing the authoritarian – and the neoreactionary authoritarian of choice is a CEO who operates as king".

In his time, Andreessen has certainly been a kingmaker, says The Sunday Times. "Known for a fearsome intellect housed in a stupendous buffed cranium," he created Netscape – the web browser that ignited the dotcom boom – as a twenty-something coder in 1994, going on to become an early investor in brands including Facebook, Airbnb and Twitter. In 2006, when Yahoo offered Mark Zuckerberg a then very substantial $1bn for his little social media start-up, it was Andreessen who "urged him to say no" when most other backers were all for the deal. "At 6ft 5in, he is, literally and figuratively, one of the towering figures of technology" – and a real feather in the cap of the "effective accelerationism" (e/acc) movement.

Writing computer games

Andreessen was born in 1971 into a working-class family in Cedar Falls, Iowa. From an early age, he was fascinated by technology – teaching himself the BASIC programming language so he could write his own computer games. By the age of 12, "I didn't know anything about start-ups or venture capital, but I knew all the products", Andreessen told The New Yorker in 2015. As an undergraduate at the University of Illinois, he co-created Mosaic – the first graphical browser for the web and a forerunner of Netscape. The plan was to make the nascent internet available to everyone. According to Andreessen's wife, Laura, "Netscape was based on my beloved's own inability, as a child, to access knowledge in a small town".

The product took off like wildfire, says The New Yorker, "quickly claiming more than 90% of the browser market". Andreessen was soon on the cover of Time magazine, posed on a throne as the king of the new "golden geeks". He later observed that "only two people have been on the cover in bare feet. I'm one, the other is Gandhi". Ultimately, Netscape succumbed to the power of Microsoft and was bought by AOL in 1999. After going it alone for some years, Andreessen teamed up with Ben Horowitz to launch their eponymous venture capital fund in 2009, with an initial capitalisation of $300m. Their teamwork is complementary – Horowitz is the "people person", Andreessen the "farsighted theorist". He isn't the easiest person to get along with: a former manager once noted that a favourite response to underlings' confusion was: "there are no stupid questions, only stupid people". Given his reputation as a genius, Andreessen is unlikely to be thrilled with some reviews of *The Techno-Optimist Manifesto*, said GeekWire. According to the acclaimed US sci-fi writer Ted Chiang – a big thinker on AI – "it's mostly nonsense".

The athleisure pioneer who put his foot in it

Chip Wilson (pictured), the founder of Lululemon Athletica, has rarely been out of the headlines over the last ten years, attracting plaudits and courting controversy in equal measure. "The 68-year-old entrepreneur was at the forefront of the movement that turned women's activewear into everyday apparel," say Jordan Hart and Jennifer Ortakales Dawkins in Business Insider. Wilson's firm is a key player in a booming global "athleisure" market expected to be worth $662bn by 2030. Since Lululemon opened its first standalone store in 2000, its most popular items, notably leggings, have become status symbols amongst younger generations.

The company is currently worth $49.6bn; with a personal fortune of $7.3bn, Wilson has joined the ranks of the ten wealthiest Canadians. He started out in 1979, having worked on an oil pipeline in Alaska and gained a degree in economics from the University of Calgary. Inspired by a trip to California, he started making baggy surf shorts, but couldn't get wholesalers interested. So he branched out into more athletic gear.

Wilson also developed a reputation for putting people's noses out of joint, says Nathaniel Meyersohn for CNN. In 2013 Lululemon had to recall a proportion of its trademark black yoga leggings because they were too transparent. Wilson unhelpfully remarked that "some women's bodies don't work" with the leggings; "it's really about the rubbing through the thighs".

Since he stepped down as non-executive chairman in 2015, Wilson has concentrated on philanthropy, notably a campaign to cure the rare condition facioscapulohumeral muscular dystrophy (FSHD). It affects one in 8,333 people, with the Type-2 version found in only 5% of them, the pharmaceutical industry has been "reluctant to invest in finding a cure". As a sufferer who has amassed a fortune, Wilson is in a position to rectify the problem.

This year, he committed $100m of his own money to fund new research; taking stakes in biotechnology start-ups, organising conferences, and even trying experimental treatments on himself, says Ari Altstedter in Bloomberg. "For the estimated 870,000 patients worldwide who share Wilson's diagnosis, the initiative has brought new hope."

©Getty Images

Putt like a pro in paradise

From sand traps to sandy beaches, here are five of the best stays for a round of golf

Mazagan Beach & Golf Resort offers a luxurious stay

A course with a view

Mazagan Beach & Golf Resort, the "expansive" beachfront resort located roughly 90 kilometres south of Casablanca, is "resplendent with striking architecture, combining traditional geometric Moroccan design elements with modern amenities", says Sharnaz Shahid for Hello. The rooms are "luxurious and inviting". In the ocean-view suite, "I was lucky enough to have a decent-sized balcony with spectacular sweeping views of the vast blue ocean and vistas across the golf course and lush forest". Most of the suites have balconies and terraces, along with "a deep integrated bath, a separate rain shower... orange blossom-scented bathroom products, soft slippers and comfy robes".

For activities besides golf, the resort offers horse riding along the seven kilometre "stretch of golden sand", you can visit the "exclusive" hammam or simply "[kick] back by the immense swimming pool". *From £127, mazaganbeachresort.com*

Scotland's glorious playground

Autumn and winter is a great time to visit Gleneagles in Perthshire, says Helen Wilson-Beevers in The Independent. "The leaves change colour and the crisp mornings offer an opportunity to wrap up warm, venture outdoors and later retreat to a luxurious, cosy corner." The estate spans an "enormous" 850 acres beneath the Ochil Hills and includes the "world-renowned" golf course. Keen golfers can also visit St Andrews 45 miles away. "From arrival to departure, we were given a warm welcome."

There is much besides golf to keep you occupied out of doors. Gleneagles is offering an Adventure Pass, which runs to the end of the month, and which can be used to enjoy "field archery, stargazing, a moorland walk, owl exhibition and Talisker cocktails by the fire". It's not for nothing that Gleneagles calls itself "the glorious playground". *From £575, gleneagles.com*

A golf course for thinkers

Il Picciolo Etna Golf Resort & Spa in Sicily has "a lovely outdoor pool", says Chris Folley in the Evening Standard. "If you are very unlucky your peace might be disturbed by the sound of '*fore*!' and a wildly hooked shot bouncing in your midst – the pool sits right next to the approach to the 18th green of the 5,870-metre course." But then, you really ought to be on the fairway. The resort has used the relatively small space to create "a real thinker's course".

"'Hit straight' is the mantra here – fairways are narrow, blind shots are aplenty and dog-legs stop you in your tracks when you instinctively reach for the driver at the tee." The greens are "manicured and true", the fairways "well-maintained" and the bunkers are being resanded. "You won't be bored by playing three rounds over a week here, it's that kind of course." *From £197, ilpiccioloetnagolfresort.com*

Tee off on a tropical island

Four Seasons Resort Mauritius at Anahita lies "along the pristine shores of Mauritius, where turquoise waters meet powder-white sands", says Daniella Schoeman for Luxury Lifestyle Magazine. It is "a haven of tropical opulence and indulgence". The garden pool villas, for example, exude "understated luxury, with elegant furnishings and thoughtful touches". It comes with "your very own plunge pool, outdoor shower, and a beautifully landscaped garden".

The "breathtaking natural beauty of the island" has been "effortlessly integrated" into every aspect of the resort, so you can "wake up to the gentle sounds of the ocean" and "stroll along the pristine beaches". Or you can simply tee off at the resort's championship golf course, designed by golfing legend Ernie Els. "With panoramic views of the ocean and lush landscapes, this challenging 18-hole course offers a golfing experience like no other." *From around €670, fourseasons.com/mauritius*

In the footsteps of Tiger Woods

Follow the driveway through 300 acres of rolling Hertfordshire countryside, past the 18-hole championship golf course, and The Grove's red-brick façade comes into view, says Ben Harris in Country Life. It is a spectacular sight and the gardens are "immaculate". The championship golf course is also "immaculately kept" and it is "what made The Grove famous". Tiger Woods played here at a World Golf Championships event in 2006.

Besides the links, guests can cycle, run or simply walk around the estate – there are three trails to explore, the longest of which is four miles. Tennis, archery, axe-throwing and laser clay shooting are some of the other activities on offer. Inside the hotel, "our spacious room overlooked the golf course and lush gardens, with a view… from every corner of the room, even from the four-poster bed and free-standing bath". *From £580, thegrove.co.uk*

The pinnacle of Pininfarina

The Italian brand's Battista combines sledgehammer performance with visual grace

"Tom Petty was right – the waiting is the hardest part," says Viju Mathew for the Robb Report. "[Then], my right foot meets the floor and the all-electric, 1,900hp Pininfarina Battista feels like it might warp physics in its attempt to cover zero to 60 mph in 1.79 seconds." On a straight road, "there's little to distract from the seamless detonation of power delivered by the Battista's quartet of independent electric motors… and the 120 kWh lithium-ion battery". The latter can be recharged from 20% to 80% full in 25 minutes and it allows for a range of 300 miles, "although the chance of reaching anything close to that is ludicrous when in 'energica' or 'furiosa'", the two most aggressive driving modes of the five available. Each sings its own "subtle song", which "I barely perceive… over the bombardment of gravel against the low-slung coupe's undercarriage as the 20-inch forged-aluminium wheels… explore the edges of the road".

"Unless you earn a living flying fast jets off the deck of an aircraft carrier, the amount of deployable performance is brain-scrambling to the point of nausea, but that's the name of the game in an EV [electric vehicle] world," says Richard Meaden in Evo. There's "nothing remotely pleasurable" about hitting such speeds so fast. Nought to 186 mph in 10.49 seconds? "That's more like a dragster than a road car." As for the 217 mph top speed, that's just "pointless". Then again, "when have supercar capabilities been rooted in reality"? More impressive is the "nuanced way in which you can flex all that muscle".

"As you'd expect from arguably the greatest of all Italian automotive styling houses, the Battista is an immaculate piece of work." Subtle, "but in shunning in-yer-face futurism", Pininfarina has achieved "a more classical elegance". That might seem "at odds with the sledgehammer performance of the powertrain", supplied by Croatia's Rimac. "But the paradox between explosive pace and visual grace is something Pininfarina has clearly enjoyed exploring." Customers visit the "atelier" in Italy to choose colour and trim – and much more besides, says Steven Ewing on Ars Technica. "There are something like eleventy billion possible customisation options… so no two cars will be exactly the same." What else would you expect for a car that costs £1.7m? Then again, the Battista is "incredible in a way that's hard to explain".

Automobili-pininfarina.com

Wine of the week: snap up this Austrian red

Moric Hausmarke Red S20, Austria

£16.50, thewinesociety.com

Matthew Jukes
Wine columnist

I am a massive fan of Roland Velich's exceptional Weingut Moric wines. His favourite red grape variety is blaufränkisch, which he has elevated to Grand Cru-level heights in wines such as Lutzmannsburg and Neckenmarkt, which retail around the £100 mark. His Reserve red hovers around £40 and is the wine I would usually recommend people drink before they move up the ladder. These are wines with a peculiar angularity and stance on the palate. While they fleetingly resemble top-class red Burgundy in shape and size, the flavours are darker, more challenging and more malevolent. They don't tip over into nebbiolo-like notes because the tannins are bright and crisp, nor are they as lusty or peppery as refined northern Rhône syrah.

Roland's red wines sit in the middle of these camps of flavour, and they have a particular magnetism of their own. Imagine my surprise when I came across a non-vintage Moric red blend at a recent Wine Society tasting. Made from multiple vintages going back to 2012, and including zweigelt, pinot noir, cabernet sauvignon and merlot alongside his beloved blaufränkisch in the blend, this is a sensational wine that could not be made by anyone else, and it retails for a bafflingly tiddly price. It is drinking now, which is not surprising given that part of its make-up dates back a decade, and I am relying on my MoneyWeek readers to snap up the entire Wine Soc allocation.

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

This week: grand castles – from a 13th-century castle overlooking the North Sea in Caithness, Scotland, t

▲ **Chateau in Millau, South Aveyron, France.** A mid-14th-century chapel reshaped in the 17th century. It has beamed ceilings, grand fireplaces and a large reception room with French doors. 8 beds, 5 baths, 2 receps, library, kitchen, stores, gardens, parkland, tennis court, swimming pool, 4.9 acres. €1.14m Mercure +33 683 998 919.

▶ **Dunbeath Castle Estate, Caithness, Scotland.** A 13th-century Grade A-listed castle remodelled in the 1860s on a cliff-top overlooking the North Sea. 13 beds, 9 baths, 3 receps, 21 estate houses and cottages, gate lodge, 575-acre stock farm, grouse moor, 12.5 miles of double-bank fishing, 28,597 acres. £25m+ Savills 0131-247 3720.

▶ **Chateau in Châteauroux, Indre, Centre-Val de Loire, France.** This restored 15th-century castle has foundations dating back to the 12th century and comes with a range of period outbuildings set in landscaped parkland. It has beamed ceilings, marble and wood floors, grand carved stone fireplaces and ornate painted walls and ceilings. 9 beds, 7 baths, 22 rooms in total, 6.2 acres. €3.75m Mercure +33 607 472713.

o a renovated castle with over 66 acres of botanical gardens in the hills of Piacenza, Italy

◀ **Fa'Side, Tranent, East Lothian, Scotland.** A castle comprising a 14th-century Grade B-listed tower and 16th-century L-plan house with panoramic views over the Forth Estuary. It has beamed and decorated ceilings, large fireplaces and a spiral staircase leading to the roof that passes a glass walkway over the old dungeon. 6 beds, 3 baths, 2 receps, great hall, library, office, dining kitchen, 2 cottages, outbuildings, woods, walled gardens, 2.35 acres. £1.7m Savills 0131-247 3738.

▶ **Otterburn Castle, Newcastle Upon Tyne.** This Grade II-listed 1830s castellated tower incorporates a Tudor arched entry and is currently run as a hotel. It has a panelled entrance hall and open fireplaces. 18 beds, 18 baths, 3 receps, catering kitchen, laundry, 3 flats and a house, gardens, woodland, lake, 3.5 miles of single-bank fishing 32 acres. £2.75m+ Strutt & Parker 01670-516123.

◀ **Piacenza, Emilia-Romagna, Italy.** A renovated castle in the hills of Piacenza with over 66 acres of botanical gardens. It has a square corner tower, a walled internal courtyard with an old olive tree, vaulted beamed ceilings, ornate fireplaces, a large Provençal kitchen with the original bread oven and a barrel-vaulted brick cellar. 8 beds, 8 baths, 3 receps, library, turret with roof terrace, farmhouse, outbuildings, gardens, 66.72 acres. £3.66m Knight Frank 020-7861 5034.

▲ **Pele Tower House, Garden Terrace, Whittingham, Alnwick, Northumberland.** A 13th-century Grade II-listed property with a medieval tower house and attached cottage. It retains its barrel-vaulted ceilings, leaded-light windows, exposed stone walls and open fireplaces. 3 beds, 2 baths, recep, dining kitchen, games room, 2-bed cottage, wooden garden house, 2.39 acres. £995,000 Strutt & Parker 01670-516123.

▶ **Stowe Castle, Stowe, Buckinghamshire.** A refurbished Grade II-listed castellated house dating from 1741 on the edge of the National Trust's Stowe Gardens. It has two Ogee arched doorways, flagstone flooring and ornate marble fireplaces. 5 beds, 5 baths, 3 receps, breakfast kitchen, cellar, 1-bed barn conversion with bar/pool room, 1-bed staff accommodation, garaging, helipad, garden store, gardens, 1.78 acres. £3.95m Knight Frank 01865-264851.

TV of the week

Big Vape

The Rise And Fall Of Juul (TV)
Directed by R.J. Cutler
Available on Netflix

The backlash against "big tech" has been one of the key trends of the past decade. While technology companies were initially hailed as the saviours of humanity, the same politicians and commentators who were previously vying to laud them are now denouncing them. Whether this represents a necessary correction, a moral panic, or simply the recognition that "progress" can be more complicated than it seems, is of course up for debate.

While firms such as Facebook have borne the brunt of this, this four-part Netflix documentary about the vaping company Juul Labs shows that this type of fall from grace isn't limited to social-media companies. The first section looks at the firm's early days as Ploom, a start-up created by Stanford University students who wanted to find a way to help people quit smoking. It then focuses on the development and launch of Juul, a vaping product that appeared to live up to the hype.

However, part three goes on to show how Juul's controversial marketing campaign and its addictiveness led it to be taken up by teenagers, rather than the adult smokers it was supposedly aimed at. Finally, the series concludes by looking at how the vaping epidemic, combined with Juul's decision to accept investment from Altria, led to it becoming a pariah.

Juul Labs has been accused of pushing its products to teenagers

©Netflix

> "An extremely engaging and well-produced series that raises important questions about ethics and policy"

The documentary is based on the book *Big Vape: The Incendiary Rise of Juul* by Jamie Ducharme, a journalist at Time magazine, and includes interviews with a wide range of sources, giving the viewer a huge amount of behind-the-scenes detail about the company. Director R.J Cutler is determined to be fair, bringing in both Juul's critics and those who still defend the company. For instance, the latter point out that the wave of hospitalisations in the summer of 2019, widely seen as the moment Juul Labs' reputation collapsed, were almost certainly caused by pirate products.

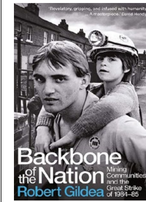
Yet overall, the series takes a critical view of the company, especially its hypocrisy in accepting money from an industry that it promised to eliminate. In one particularly damning moment, advertisements from Juul's launch campaign are shown side by side with cigarette advertisements from the 1960s and 1970s, highlighting how both targeted young people. If Juul launched idealistic motives, it quickly lost its way by taking the easy option in pursuit of money, and by ignoring repeated warnings from all sides about the attractiveness of its flavoured pods to children.

This is an extremely engaging and well-produced mini-series that tells a compelling story about life inside a prominent start-up, while also raising important questions about business ethics and public health policy. The result is well worth watching.

Reviewed by Matthew Partridge

Backbone of the Nation

Mining Communities and the Great Strike of 1984-1985
Robert Gildea
Yale University Press (£25)



In the early 1980s, the UK government was determined to curtail the power of the National Union of Mineworkers (NUM) through a programme of pit closures. In response, the NUM called a national strike in 1984, leading to a year-long clash that ultimately spelled the end of trade unions as a major economic and political force.

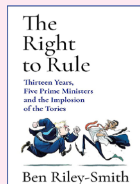
In *Backbone of the Nation*, historian Robert Gildea uses interviews with miners and their families from all parts of the country to tell the story of their doomed battle. We hear that the decision not to call a national ballot meant that significant number of miners, including those who were sympathetic to the strike, remained at work. This in turn led to attempts by those on strike to use pickets to shut those mines down, further dividing the miners. Police tactics that frequently crossed into outright brutality further inflamed matters.

Given that the state-run National Coal Board was losing large sums of money, the industry's demise was inevitable. Many in the NUM leadership, especially its leader Arthur Scargill, failed to grasp that reality. However, this powerfully told account of a defining period in modern British history still evokes a great degree of sympathy for those who saw their work as a way of life and the broader communities caught up in the strike.

Book in the news... unprecedented turmoil at the top

The Right to Rule

Thirteen Years, Five Prime Ministers and the Implosion of the Tories
Ben Riley-Smith
John Murray (£25)



If you include the coalition years, Britain's current period of Conservative government has not only outlasted Tony Blair's and Gordon Brown's time in office, but also the long spell of Conservative dominance between 1951 and 1964. However, this continuity of Tory leadership has been accompanied by unprecedented turmoil at the top, especially since 2016. While the 1979-1997 period involved only two different PMs (Margaret Thatcher and John Major), and the 1951-1964 period involved four (Winston Churchill, Anthony Eden, Harold Macmillan and Alec Douglas-Home), 2010-2023 has seen five, a rate of churn unmatched for over two centuries. This new book by Ben Riley-Smith, The Telegraph's political editor, takes a behind-the-scenes look at what went on during these various administrations.

***The Right to Rule* doesn't provide a blow-by-blow account of every event during the entire period. Instead, Riley-Smith focuses on the moments that he considers pivotal. These include the decision to enter a coalition with the Liberal Democrats and that pact's demise at the 2015 election; the EU referendum of 2016; the first year of Theresa May's administration and the 2017 election; the rise of Boris Johnson to the Conservative leadership; his toppling three years later; the brief Liz Truss premiership; and the arrival of Rishi Sunak as the current incumbent in Downing Street.**

The strength of the book is the way in which Riley-Smith has used his access to some of the key players to uncover details that have not previously been disclosed. Combined with his dramatic style of storytelling, this almost feels as if the reader is witnessing events take place – as with Truss's spectacular implosion, when the decision taken by Truss and her aides to turn her tax-cutting instincts "up to 11" saw her become Britain's shortest-serving leader. However, the lasting impression from this rapid turnover of prime ministers is how the party and Britain has been caught up in years of "policy zigzagging" rather than any coherent strategy.

Bridge by Andrew Robson

Signalling to declarer

West led the ten of Diamonds v this week's Six Spades. Declarer won dummy's King, East helpfully signalling his doubleton by playing the Knave (when I say "helpfully", I am referring to the assistance it gave declarer, not his less-than-interested partner). Declarer saw that he needed some luck – Trumps 3-2 and the Club finesse onside. These were a given, but his clever line of play ensured that no more fortune was required, on the assumption East held no more than two Diamonds (leaving West in sole charge of the suit).

Dealer South — Both sides vulnerable

North:
♠ 7
♥ AJ853
♦ AK5
♣ AJ84

West:
♠ Q3
♥ 962
♦ Q10962
♣ K52

East:
♠ J96
♥ KQ1074
♦ J8
♣ 1073

South:
♠ AK108542
♥ –
♦ 743
♣ Q96

The bidding

South	West	North	East
1♠*	pass	2♥	pass
2♠	pass	3♣	pass
4♠	pass	5♦**	pass
6♠	pass	pass	pass

* A little too strong to preempt.
** Control bid, looking for the Spade slam.

Declarer led out three rounds of Trumps, giving East his winner. East led a second Diamond, dummy's Ace winning, and declarer cashed the Ace of Hearts discarding a Diamond, ruffed a Heart, successfully finessed the Knave of Clubs, ruffed another Heart, and then led out his two remaining Trumps.

West found himself inexorably squeezed in the minors. If he threw all his Diamonds, dummy's third Diamond would be promoted. So he had to bare his King of Clubs. No good – dummy's Diamond was discarded and a low Club led. West's King "beat air", so that dummy's Ace took the penultimate trick, and declarer's Queen took the last. Twelve tricks and slam made.

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

Sudoku 1180

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

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.

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

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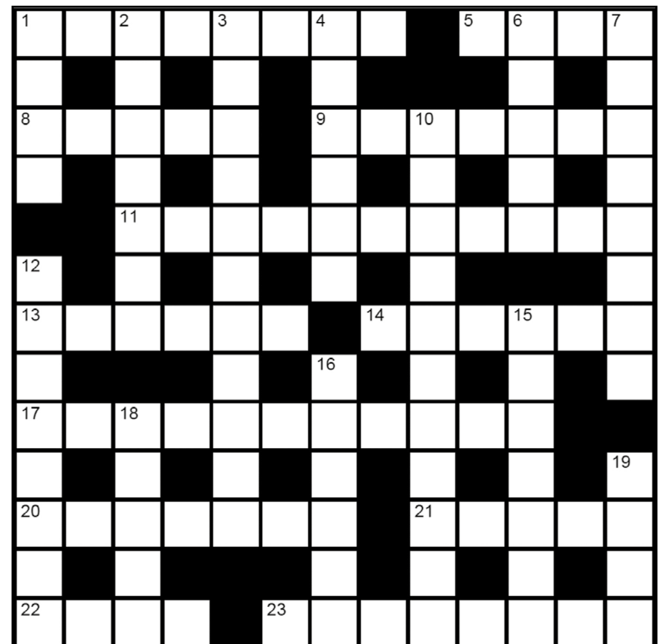
Tim Moorey's Quick Crossword No. 1180

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 13 November 2023. By post: send to MoneyWeek's Quick Crossword No.1180, 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.1180 in the subject field.



Across clues are mildly cryptic whereas down clues are straightforward

ACROSS
1 Viewing good public school (8)
5 Weight of ladder reported (4)
8 Performer works endlessly (5)
9 Essential to get one grand car (7)
11 He's sure to succeed in royal circles (5,6)
13 Single Oscar joins Wayne travelling (3-3)
14 Glenda out fishing (6)
17 V-sign for defence (11)
20 Appraisals for seamen? (7)
21 Popular music in tabloid paper (5)
22 Nameless donkey, one going around in circles? (4)
23 Guy rams from behind and doesn't move (5,3)

DOWN
1 Clothing (4)
2 A for example (7)
3 Large paunch (11)
4 Calling (6)
6 Once more (5)
7 Intellectuals (8)
10 Making lucky choices accidentally (11)
12 Engage in conversation (8)
15 Arranged in a row (5,2)
16 Breed of hound (6)
18 Famous (5)
19 TV gameshow lexicographer? (4)

Name

Address

email

Solutions to 1178

Across **1** Once upon a time **8** Elegant **9** Fetch **10** Nut **11** Ducklings **13** Cabinetmakers **17** Bering Sea **19** Boa **20** On air **21** Married **22** The bottom line. **Down** **1** Oceanic *anagram* **2** Cheat *C + heat* **3** Ugandan *anagram* **4** Opt *op + t* **5** Awful *(l)awful* **6** Intense *two definitions* **7** Ethos *hidden* **12** Cites *homophone* **14** Barrage *bar + rage* **15** Cabinet makers *anagram* **16** Standee *anagram* **17** Boost *boos + t* **18** Narco *anagram of Menorca less me* **19** Blini *b + I nil= love reversed* **21** Met *two definitions.*

The winner of MoneyWeek Quick Crossword No.1178 is: David Martin of Buckinghamshire

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 cracks start to appear

Money is on the move as the correction begins. Expect a big shake-up

The bonfire of the Treasuries will affect the entire financial edifice

©Getty Images

Bill Bonner
Columnist

The force of a correction is equal and opposite to the delusion that preceded it. Given that the jackassery of the last 23 years was unprecedented in US history, so we can imagine that the correction will also be unparalleled. Already, we have seen more losses in the bond market than ever before.

Bonds have been going down in value since July 2020, with losses for the ten-year US Treasury of about 26% so far. That reflects losses from inflation (in the sense that the threat of inflation reduced bond prices), but to calculate actual purchasing-power losses for bond owners, you have to take off another 16% (that's how much consumer prices have gone up since 2020) – for a total real wealth loss of over 40%. (The maths is a little tricky as the inflation adjustment applies to the residual, current value, not to the face value of the bonds).

Bonds are meant to be safe-ish sources of income. They're not meant to be gambles or speculations. The US ten-year Treasury, for example, is supposed to be money-in-the-bank. It is considered "risk free". Banks were required to hold Treasuries as financial ballast. Retirees relied on them for their old age. Insurance companies use them to make sure they can meet their obligations. This loss of real value in Treasury debt shakes the entire financial edifice, from the humblest credit-card balance to $33.5trn in loans to the federal government itself.

So far, the losses are still on balance sheets – mostly unrecognised, sometimes hidden. Like the corpse of an aged relation whom no one bothered to visit, the horror of it has yet to be discovered. The presumption remains that if you hold to maturity you won't lose a dime. But you can't ignore bonds losses. The feds are

> *"Like the corpse of a relation no one bothered to visit, the horror is yet to be discovered"*

running $2trn budget deficits. One way or another, those deficits need to be covered, currently, not in the far-distant future. Either higher interest rates bring forth more savings (and buyers of Treasury debt), or more money-printing brings forth higher interest rates (as inflation expectations drive them up). Either way, money is on the move. Some assets disappear as debtors cannot repay. Much wealth simply changes hands. The federal government, for example, must spend a lot more to cover its deficits. But it's not all bad news, from the feds' point of view. Inflation reduces the real value of federal debt.

Savers earn more. But borrowers struggle to keep up with higher financing costs. All up and down the great edifice of American capitalism cracks appear as adjustments need to be made. Zombies go out of businesses. Stocks go down. Banks go bankrupt. Builders stop building. Mortgage costs soar. The lay of the financial land has fundamentally changed. When you need to refinance loans, creditors want more interest. The US government itself is paying five times as much interest on today's debits as it did in 2020.

University tuition costs go up with inflation too. If you were planning to pay for it with the yield on bonds you bought in 2020, you will need six or seven times as many of them. Bread, petrol, rent – all go up. Ten years ago, you could have bought the median house with about $52,000 in household income. Today, you need more than twice as much. And the median household income is only $75,000 – $40,000 short.

None of this is surprising. It's just what happens in a correction. As the things in need of correction are abnormally large and harmful, so the correction will be abnormally severe and uncomfortable.

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