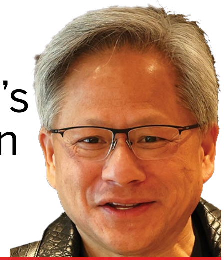
BRIEFING *P14*
Europe's farmers are revolting

ANALYSIS *P22*
How to invest in infrastructure

PLUS
Silicon Valley's new frontman
PROFILE *P30*



MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

1 MARCH 2024 | ISSUE 1197

Scaling new heights

Japan is back with a bang

Page 4

MoneyWeek

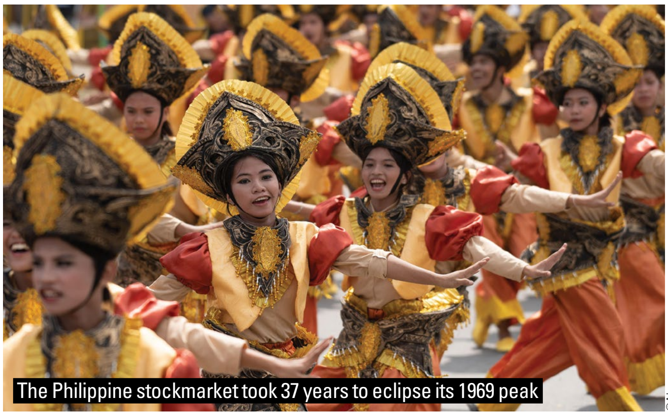
1 March 2024 | Issue 1197

Britain's best-selling financial magazine

From the editor...

"Stocks always go up," investors liked to insist in the 1980s and 1990s. They didn't say it quite so much in the 2000s when stocks went down and they had been exposed as bull-market geniuses. Of course, in the very long run, stocks will tend to go up, as shares of corporations can be expected to appreciate with the overall economy. But the very long run – even in the absence of political upheaval, abysmal economic management or war, as the Japanese market has reminded everyone – can be very, very long indeed (see page 4).

The Nikkei's ascent to new highs was widely celebrated by Japan bulls, which we at MoneyWeek have been for a very, very long time – since around 2003, in fact (we are often a tad early). But the 34-year wait could have been much longer. As Deutsche Bank pointed out in a note this week, the Indian stockmarket spent almost 90 years trying to regain a record peak set in 1896.



The Philippine stockmarket took 37 years to eclipse its 1969 peak

©Alamy

"Inflation in the UK appears likely to get stuck at around 4%, twice the official target"

The extremely long term

The next-longest wait was in New Zealand – around 75 years. So much for data going back to 1800. Looking back at the longest periods without new record peaks since 1950, the Philippine stockmarket is at the top of the table. It took about 37 years to eclipse a high set in 1969. Few investors are worrying about statistics like these following the new record peaks for the MSCI World, Stoxx 600 and S&P 500 indices, as they all hit records within the past several years. But the air is getting very thin for the bulls, especially in the US, which sets the tone for world markets.

Valuations, which tend to revert to the mean, have reached eye-popping levels, with the cyclically adjusted price/earnings ratio (Cape) of the US market at 34, compared with the record high of 44 in 2000 (the previous peak was in 1929). Secular changes in the macroeconomic backdrop also militate against further significant progress.

Across the developed world, corporate earnings as a share of GDP have doubled since the 1990s, having remained steady for the previous two decades. The jump was due to lower interest rates reducing the cost of debt and corporation taxes falling. These two trends have reversed in recent years, and hopes that interest rates will fall back to their previous levels look likely to be dashed. Core inflation is still at 4% in the US and the job market remains tight. In the UK, the latest survey of purchasing managers highlighted higher shipping costs (owing to the highest level of supply-chain disruptions since the summer of 2022) and an uptick in service-sector inflation. The survey suggests that "inflation may get stuck around the 4% mark, twice the Bank of England's target", says the Evening Standard's Jonathan Prynn.

None of this rules out further progress in stockmarkets seduced by hype over artificial intelligence (AI) over the next few months; we talked last week about the likelihood of melt-ups. But both the market froth and the structural headwinds suggest you should take some profits (see page 24) and focus more on reasonably valued dependable and income-bearing performers. That means the Japanese market, which still has scope for appreciation; Warren Buffett was among the early arrivals, investing in Japan in 2020. His own investment vehicle is well worth a look (see page 28) while valuations and yields in the infrastructure sector look appealing (see page 22). Buying low, after all, is a crucial prerequisite for selling high.

Andrew Van Sickle
editor@moneyweek.com

The rise of the four-day week

Working a four-day week benefits workers' physical and mental health and helps to foster a better work-life balance, says Rachel Hall in The Guardian. It also reduces burnout and staff turnover, according to the world's largest trial of the arrangement by Autonomy, a think tank, and a trio of British and US universities. Of the 61 British firms that took part in a six-month pilot in 2022, 54 said they were sticking with the policy a year later, while around half of bosses reported a positive effect on their businesses. Perhaps unsurprisingly, 96% of staff said their personal lives had improved, 86% felt they worked better, 38% said it improved efficiency, and 24% said it helped with caring responsibilities. But critics say it won't work for every company. "Challenges" also arose when dealing with business clients not working a shorter week, and resentment increased among staff not taking part in the trial.

Cover illustration: **Adam Stower.** Photos: **Getty Images**

Good week for:

Film stars, royalty and Silicon Valley bosses have gathered in Jamnagar, India, for three days of "pre-wedding" celebrations, says The Times of India. Singer Rihanna was rumoured to be performing in advance of the upcoming nuptials of **Anant Ambani**, the youngest son of India's richest man, Mukesh Ambani, and **Radhika Merchant** (pictured), the daughter of a wealthy industrialist. It was expected to be a lavish affair. Anant's sister Isha's marriage celebrations reportedly cost $100m in 2018.

Odysseus, the moonlander built by Houston-based **Intuitive Machines (IM)**, has become the first spacecraft built by a private-sector firm to perform a controlled landing on the Moon, says Space.com. The touchdown near the lunar south pole also marked the first time a US vehicle landed on the moon since Nasa's Apollo 17 in 1972. IM is part of a programme whereby the US space agency pays US firms for cargo services to the Moon. In the case of Odysseus, it paid $118m.

Bad week for:

Tyler Loudon, who overheard his wife, a manager at BP in the US, talking about the oil giant's planned takeover of another company while she worked remotely, has pleaded guilty to insider trading, says Fortune. He has agreed to forfeit the almost $1.8m he made from buying the target company's shares and now faces a $250,000 fine and five years in jail. His wife lost her job and started divorce proceedings.

Jollof rice, the favourite dish of **Nigeria**, is more costly than ever, says Bloomberg. The price of a kilo of rice climbed by an annual 98.5% in January as inflation surged to a near three-decade high of 29.9%. A cost of living crisis has triggered protests in the country.

©Getty Images

Japan is back in fashion

It's not too late to profit from the renaissance, says Alex Rankine

Not since the Berlin Wall fell has the Nikkei been this high, says William Pesek in Nikkei Asia. Japan's Nikkei 225 stock index has finally surpassed its December 1989 record peak, breaking through the 39,000-point barrier late last week. Long cited as a "cautionary tale", the land of the rising sun is suddenly in vogue as an "investment hotspot".

The Nikkei hits new highs

Much has changed in the 34 years since the Nikkei last traded at these levels, says Eir Nolsøe in The Telegraph. Back in 1989, Japan was feeling hubristic. Its leading tech firms "were churning out Gameboys, chunky computers and Walkman stereos". Japanese equities then accounted for nearly two-fifths of global stockmarkets, dwarfing the US share.

"A whole generation of investors were scarred by the brutal sell-off" that followed, says Dan Boardman-Weston of BRI Wealth Management. Stagnation persisted for decades; the Nikkei only finally bottomed out in 2009 during the global financial crisis. Reforms initiated by prime minister Shinzo Abe in the early 2010s initiated a slow but steady recovery. Now the Nikkei is finally back, gaining more than 17% already this year to make it the world's best-performing major index. "Psychologically, it is a huge moment" for Japanese investors.

By 2022 Japan's share of the global equities universe had shrunk to a mere 6.3%, with the US dominant at 58%, say Leo Lewis and Kana Inagaki in the Financial Times. It has been a gruelling climb back – since 1990, there have been six big rallies in Tokyo, "all of which ultimately fizzled out". Some analysts caution that the local market may again be running ahead of economic fundamentals: Japan slipped into recession at the end of last year and recently ceded the title of world's third-biggest economy to Germany. Yet it is this very lack of "exuberance" that suggests the market is not overheating and that the rally still has room to run.

Although widely cited in the media, the Nikkei is a deeply "flawed measure" of the health of Japan's stockmarket, says James Mackintosh in The Wall Street Journal. Much like America's similarly outdated Dow Jones, it weights higher priced stocks more heavily than lower priced ones. That's "silly" because "the price of a stock is an arbitrary result of how many shares the company chooses to issue". The Topix, a more accurate measure of corporate Japan that weights by market capitalisation, is actually still more than 8% below its December 1989 peak.

Index numbers also fail to reflect the compounding impact of dividends: a Japanese investor who invested everything at the very top of the 1989 bubble would have regained all their losses by March 2021 through dividend reinvestment (though that is still an extraordinarily long wait). For all that, the Nikkei's long stagnation has been a psychological cloud weighing on sentiment in Tokyo. Now, finally, the cloud has lifted.

Weak yen, strong stocks

The Nikkei has been "on a tear" for a while, says Laura He for CNN. It was Asia's best-performer last year, with a 28% gain. The rally has been driven by stronger corporate earnings and an influx of foreign investment, which is "looking for an alternative to China's depressed markets" in Asia. Above all, Japan's rally has been propelled by a weak yen, which boosts Japan's major industrial export firms. The yen fell 8% against the US dollar last year and is already off another 6% against the greenback in 2024.

©Alamy
The land of the rising sun is once again an investment hotspot

The yen has also lost ground against the pound, says Russ Mould of AJ Bell. As a result, the Nikkei still trades "a fraction below the peak it set three years ago" in sterling terms, much to the chagrin of British investors. The yen's weakness has been driven by interest-rate differentials. Japanese interest rates are still below zero, even as other major central banks have hiked rates, prompting investors to sell yen in favour of better yields in other currencies. Yet with Japan considering tighter policy and rate cuts expected soon in the US and UK, those differentials seem poised to close.

It thus looks "increasingly likely" that the yen will strengthen soon, agrees Daniel Hurley of T. Rowe Price. That is dangerous for the Nikkei since the weak yen has been one of the main props of this equity rally. Yet "continued improvements" in corporate-governance reform should help support future returns.

The reform story isn't finished yet

Japanese corporate management has historically earnt a reputation for hoarding cash and putting shareholder returns at the bottom of the priority list. Cross-shareholdings helped insulate underperforming managers from market scrutiny. Yet reforms are slowly bringing boardroom culture in line with global norms.

Japan's stockmarket recently implemented changes to penalise firms that fail to improve profitability, shareholder returns and valuations, says the Taking Stock column in Investors' Chronicle. There are already signs of progress: dividends from Japanese firms look set to hit ¥15.2trn (£79bn) in the current fiscal year, which would be the third consecutive annual record.

> *"It is the lack of economic exuberance that suggests stocks are not overheating and the rally will continue"*

Despite the progress, "Japanese companies still return a much smaller share of net income to shareholders than their European and American counterparts", and roughly 40% of Tokyo's prime stocks still trade at a discount to book value. There is much room for improvement, so it's "not too late to reap the benefits of Tokyo's corporate-governance reforms". UK investors wishing to buy in may want to take a look at market trackers such as the Fidelity Index Japan Fund or the **Vanguard FTSE Japan (LSE: VJPN)**. Those who prefer an active approach should look at the **JPMorgan Japanese Investment Trust (LSE: JFJ)**.

Asia's new financial centre

International corporations have a new home base in Asia, says Michelle Fay Cortez on Bloomberg. Singapore played host to 4,200 regional headquarters for multinational firms last year, far ahead of the 1,336 for rival Hong Kong. Singapore's better relations with the west and "broader talent pool" have seen it emerge as the natural place to do business in Asia. While Hong Kong's standard corporate tax rate of 16.5% is a smidge lower than Singapore's 17%, that figure can fall to 13.5% when you factor in special incentive programmes for certain activities. Many Chinese companies, such as retailer Shein, have opted for Singapore as their base to "hedge geopolitical risks" and make themselves more acceptable in western markets.

Starting in the 1980s, Hong Kong benefited enormously as the international gateway into China's "development miracle", says Stephen Roach in the Financial Times. The business community in economist Milton Friedman's "favourite free market" buzzed with "extraordinary energy". Yet the city's autonomy has been heavily eroded in recent years and China's economy now faces major structural challenges. The local Hang Seng stockmarket is down by 40% in five years and only a little higher than its level in 1997 following handover from the UK to China. While the city's stocks are cheap, it is hard to see how they can climb out of the mire.

Wall Street parties on and on


©Getty Images
US investors blissfully assume that markets always rise

Could US equities be heading for a similar ordeal to Japan's lost years? ask Jacky Wong and Nathaniel Taplin in The Wall Street Journal. While US investors blissfully assume that markets always rise, Japan is a reminder that shares can get so expensive that they make no progress for decades (see page 4). The late 1980s melt-up in Japanese markets rested in part on the misguided assumption that Japan's technological lead in areas such as computer chips and consumer electronics was unassailable. Similarly, the current artificial intelligence (AI) hype on Wall Street amounts to a bet that American "technological leadership can... compensate for toxic politics and weakening demographics".

The bulls charge on

Nvidia's latest strong results (see page 6) have only fuelled Wall Street's AI euphoria, rubbing salt in the wounds of "diligent sceptics and vigilant bubble watchers", says Stephen Innes of SPI Asset Management. Albert Edwards of Societe Generale notes that tech makes up 33% of the overall US equity market, topping the previous peak seen in July 2000 in the dotcom frenzy, says Randall Forsyth in Barron's. The stock run-up also reflects a "heads-I-win, tails-you-lose" bet on US interest rates. If the US economy stays strong, then so will corporate earnings, but if it "stumbles" then the US Federal Reserve will ride to the rescue with interest rate cuts. US stock prices have become "astronomical", adds Andy Serwer in the same publication. The S&P 500's trailing price/earnings (p/e) ratio has risen from 19.97 a year ago to 22.37 today. The price/book ratio of 4.61 is well above the long-term average of 3.01 (although short of the 5.06 record high of March 2000).

The QQQ ETF (exchange-traded fund), which tracks the tech giants of the Nasdaq 100, has delivered a 20% average annual return over 15 years, says Josh Brown of Ritholtz Wealth Management on Downtown Josh Brown. That is double the long-term market average and "nothing short of miraculous". Some elements that accompanied the 1999 dotcom mania are missing now – new listings have been thin on the ground, for example. But tech megalomania is in evidence: witness OpenAI boss Sam Altman's casual "musing about raising $7trn to build AI-enabled data centres".

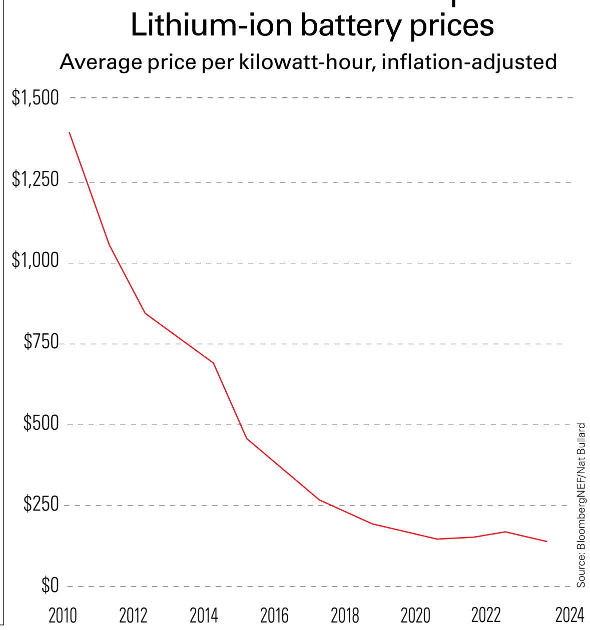
US shares are "really bad value", says John Authers on Bloomberg. Alarmingly, the market hasn't been this concentrated around a few giant names since 1929. Yet in other ways this doesn't look like a bubble yet. Trading activity is hardly frenetic and there is "little evidence of excessive use of leverage". Bubbles usually form against the backdrop of easy money, but US interest rates are still at their highest in decades. The Fed is expected to cut rates later this year, which will only throw fuel on the fire. Given that promise of looser money, there could be "plenty more partying ahead" for Wall Street.

Viewpoint

"Boeing is a quintessential example of America's rotting business culture over the past 40 years. The company relentlessly disgorged cash to shareholders when it could've spent it on building a better (and safer) product... from 1998 to 2018, Boeing did $61bn worth of share buybacks to pump its stock price [even as] staff [were] asked to penny-pinch... Until the 1970s... corporations were... considered parts of a community with responsibilities to... employees... the communities that house them [and to] customers... But then Washington decided that [US business culture] needed a shake-up... Rule changes... allowed companies to repurchase their own shares, a practice that was previously considered stock manipulation... Money that could have been spent investing in workers or products instead went straight to investors."

Linette Lopez, Business Insider

■ The bubble that was a blip in a long-term downtrend



In 2022 headlines screamed that impending lithium shortages heralded a crunch in the supply of the batteries needed to power electric vehicles, says Alex Tabarrok in Marginal Revolution. Between the start of 2021 and the peak of the lithium price bubble in November 2022, lithium carbonate prices soared by more than 1,000%. That rise did make batteries modestly more expensive in 2022, but as the chart shows, this was a mere blip in the longer trend of battery prices becoming much cheaper as the technology improves. What's more, lithium prices then crashed back to earth in 2023 – a reminder that high prices are often self-correcting because they encourage miners to undertake more exploration and find new supply.

Leading the AI goldrush

Semiconductor giant Nvidia makes the chips that power the artificial-intelligence revolution, so the stock is soaring. Matthew Partridge reports

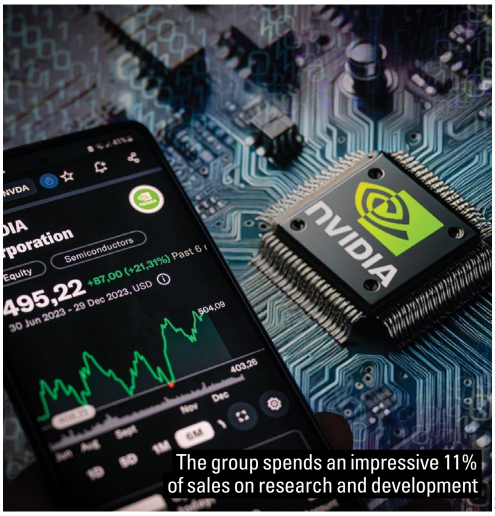
It took chip giant Nvidia 24 years "to reach the rarefied air" of $1trn in market value, says Asa Fitch in The Wall Street Journal. But its role in "powering the AI [artificial intelligence] revolution" meant that reaching a second trillion only took eight months. The reason its shares have reached such "lofty heights" is the latest earnings report, which revealed quarterly sales of $22.1bn and forecast another $24bn for its current quarter. Each figure represents an increase of more than 200% from the year before, beating Wall Street's bullish expectations. As a result, Nvidia's shares have gained 59% in 2024 after more than tripling in 2023.

Nvidia is doing so well because it "is at the heart of the AI gold rush", with those developing the technology "relying heavily on its wares", says Callum Jones in The Guardian. Microsoft, OpenAI, Amazon, Meta and Google "have all struck deals to buy the firm's chips in bulk as they scramble to release new AI products and features". This "remarkable acceleration" in demand has, in turn, "turbocharged Nvidia's business", especially in terms of revenue from data centres. Expectations about its growth trajectory have also "been stoked by Nvidia's plans to ship a new chip, the B100, at the highest end of its product line, later this year".

Tread carefully

Nvidia's results may have "exhausted the superlatives", but the risks for investors "continue to loom large", says Richard Waters in the Financial Times. Chip companies "are prone to deeply cyclical swings in demand as investment booms rise and fall", which leaves them vulnerable to "severe setbacks". This is particularly the case given that Nvidia has become a prisoner of the "overwrought stockmarket expectations its success has fuelled". Will the AI boom "turn out to be as large and durable as the tech and financial worlds have come to believe"? And can Nvidia "withstand the onslaught of competition that has been unleashed against it"? Rivals will certainly be "gunning for it" and AI's "promise could fall short", but while "there's no shortage of mania" when it comes to AI, Nvidia "looks like the real deal", says Robert Cyran on Breakingviews. It not only "spends a chunky 11% of sales on R&D to sustain its stronghold" and has "considerable pricing power", but "even pays a dividend". If you agree with "plausible" estimates that the market for AI chips used in data centres could expand by a yearly 70% and eclipse $400bn by 2027, Nvidia could be worth $3.4trn.

While the potential for AI to change the world is "unproven", you "would be hard pushed to find many people who don't think it matters", says Tom Stevenson in The Telegraph. So while "today's AI bubble" is likely to end the same way as its 1999 counterpart, investors sceptical of Nvidia might find watching from the sidelines "as painful as missing out on the final stages of the dotcom bubble" – especially as the valuation premium "is well short" of 1999's level, suggesting that any bubble is still "young".



The group spends an impressive 11% of sales on research and development

Rolls-Royce moves into fifth gear

Shares in Rolls-Royce jumped by 10% last week after it announced that its annual earnings more than doubled last year and forecast further growth in 2024, says Sylvia Pfeifer in the Financial Times.

The unexpectedly good results saw underlying operating profits rise by £938m to £1.6bn and sales climb to £15.4bn, while cash flow reached a record £1.38bn. This rounds off a "remarkable" year, which saw the group go from being called a "burning platform" by new CEO Tufan Erginbilgic to producing the best performance in Europe's Stoxx 600.

Is Rolls-Royce's rapid turnaround due to Erginbilgic or has he just "timed his arrival to perfection" by joining just before the "post-Covid upswing in aviation?", asks Alistair Osborne in the Times. Predecessor Sir John Rose argues that credit should be given to "the actions of his predecessor Warren East, the strong US dollar, the recovery in flying and the strong performance of diesels and defence".

While he has a point, evidence that Erginbilgic is "making a real difference" comes from the fact that the company has beaten analysts' expectations and "he's already changed the culture, forcing a re-evaluation of the profitability of every engineering decision". Erginbilgic's transformation programme does indeed appear to be showing "early signs of success", says Hargreaves Lansdowns' Aarin Chiekrie, and future asset disposals will "free up cash for other parts of the business".

Rolls-Royce also benefits from the "high barriers to entry" in the defence and aerospace industries, with the multibillion-pound order book giving the group "a good deal of visibility over future revenue". Still, with no dividend to make the wait more "palatable", and group liabilities still higher than assets, shareholders should still "be prepared to stomach some turbulence".

Housebuilders under scrutiny

News that the Competition and Markets Authority (CMA) will investigate eight housebuilders over "potentially anti-competitive information sharing" caused their shares to fall by less than 4%, says Lex in the Financial Times. No wonder. Housebuilders "have more to celebrate than fear from the year-long study".

True, the probe "could lead to fines" and developers will also have to "up their game on quality". But the report blames the "complex planning system" for missed targets. It concludes that land banking, the practice of buying parcels of land for future development rather than immediately developing them, is "more a symptom" than a cause of the housing shortage. It also says any measures to reduce housebuilders' profitability directly "may create... additional downward pressure on the number of houses being built".

The CMA's report "can hardly be considered a reprieve", says Ben Marlow in The Telegraph. As well as the evidence of anti-competitive behaviour, it found "no end of red flags", including estate-management agreements with "high and unclear charges for the management of facilities such as roads, drainage and green spaces" and "an increase in the number of owners reporting snagging issues".

The report certainly paints a "damning picture" of both the new-build housing market and the industry building the homes, says Matthew Brooker on Bloomberg. As well as delivering "inadequate supply", the industry "has been slow to innovate and adopt modern methods of construction", with politicians already criticising the "ugly, defect-ridden cookie-cutter estates" that surveys suggest only 33% of people would want to buy.

Moreover, the profitability of the 11 top housebuilders has been "generally higher than we would expect in a well-functioning market". Developers "can't be blamed for working the system to their advantage", but a new government may very well take up the CMA's call for "substantial intervention".

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

Five to buy

BHP Group
Investors' Chronicle
Chronically weak nickel prices are complicating the mining industry's pivot towards the energy-transition metals. An ongoing supply glut of electric-vehicle battery component nickel from Indonesia recently forced a $2.5bn impairment charge on BHP's Western Australia nickel operations, with management even considering mothballing production. Still, nickel is only a small part of the group's metals portfolio, with resilient iron ore and copper prices helping lift performance in the second half of last year; the red-metal market is tightening. *2,327p*

BP
The Telegraph
Shares in this oil giant have rebounded but there should be more to come. Management has pledged to "be more pragmatic in its investment decisions" about the pace of energy transition after previous pledges irritated investors. A 4.8% dividend yield plus generous share buyback plans will boost returns. Buybacks make sense given that on seven times earnings, the shares are "grossly" undervalued even by the "dirt-cheap" standards of the FTSE. *467p*

Cambridge Cognition
The Mail on Sunday
The number of Alzheimer's sufferers is poised to double globally over the next two decades. Cambridge Cognition creates and analyses digital tests of brain health. The resulting data is invaluable for the pharmaceutical firms and researchers that develop treatments for the disease. Digital tests are more flexible, objective and cost-effective than traditional in-person options. The firm should swing into profit this year and is a long-term buy. *51p*

EnSilica
The Sunday Times
The semiconductor industry is forecast to grow at 8% a year through 2030. Aim-listed EnSilica is mining a promising niche in application-specific integrated circuits (Asics), which are specialist chips needed for the likes of luxury cars and heart monitors. Revenue and earnings are small but "growing steadily", while turnover from the technology consultancy operation rose by 30% last year. There are risks – foreign rivals enjoy much bigger subsidies than the British government can muster – but the UK has expertise and a good record in chip science. *51p*

Kingfisher
Shares
The B&Q and Screwfix store owner has been squeezed by inflation and cautious consumers, but things are heading for a cyclical upswing. A recovering housing market will drive demand for home-improvement supplies and there is scope for better trading amid consumer recovery in France and Poland. While risks remain, these are more than compensated for by a "single digit" price/earnings (p/e) ratio and a 5.5% yield. *224p*

One to sell

InterContinental Hotels Group
The Motley Fool
This global hotels and resort business owns the Holiday Inn and Crowne Plaza brands, among others. The shares have surged by more than 50% over the past 12 months amid robust global travel demand. Global revenue per available room rose by 16% last year and IHG is still expanding, with 297,000 new rooms in the pipeline. The announcement of an $800m share buyback programme cheered investors, but management would have done better to spend the cash on paying down rising debt levels after taking on nearly £1.4bn in additional borrowing during the pandemic years. The valuation also looks stretched after the rally. Avoid. *7,910p*

...and the rest

Investors' Chronicle
Turmoil over Nigel Farage's banking has distracted from the fact that **NatWest Group** is in "good shape", with higher interest rates helping it achieve a return on tangible equity of 17.8% last year. While there are few catalysts in sight to spark a share price rally, with a forecast dividend yield of more than 7% this is "an incredibly cheap income share". Buy *(222p)*.

Shares
Cybersecurity is an ever more crucial theme of the 21st century, but picking the right operator can require excessive research. The **iShares Digital Security ETF** spreads the bet over more than 100 firms, mainly in the US, working on things such as firewalls, password protection and more sophisticated anti-hacking capabilities. The ETF has returned 71% over five years and has ongoing charges of 0.4%. Buy *($8)*.

The Telegraph
Three years and four profit warnings on from its flotation, shares in boot-maker **Dr. Martens** have lost their footing and fallen by 78%. Operational problems and waning household spending power have stomped on performance but on just 12 times forecast earnings, the shares are cheap for a globally recognisable brand. That provides a margin of safety as management endeavours to rebuild margins and could even help attract a bid. Buy *(95p)*.

The Mail on Sunday
Engineering-services group **Hargreaves Services** is returning cash to shareholders with a recent sixfold hike to the interim dividend for a yield of 7%. Once a coal company, Hargreaves has turned into an environmentally friendly operator that redevelops old mining sites and transports biomass, among other activities. Returns to shareholders should rise "substantially" during the coming "three years" *(514p)*.

A German view

Sweden's medical-devices group Arjo has bounced back from Covid, when restrictions reduced orders, says WirtschaftsWoche. Last year's 10% sales increased to roughly €978m, returning the company to its long-term growth trajectory, which is being underpinned by the ageing of the global population. By 2050 the worldwide total of over-80s will have doubled, according to the World Health Organisation, so plenty more products such as hospital beds, specialised mattresses and walking aids will be needed. A restructuring programme has just been completed and debt is on the way down, so the bottom line should jump to between €50m and €55m this year, up from €43m in 2023.

IPO watch

Social-media platform Reddit plans to float on the New York Stock Exchange later this month, marking the first initial public offering (IPO) of a major technology brand this year. Reddit is expected to achieve a valuation of about $5bn. It is launching a so-called affinity programme, whereby a large proportion of the shares on offer will be reserved for the website's users and moderators. In recent years Reddit produced Wall Street Bets, "the online watering hole for the meme-stock craze", says Anita Ramaswamy on Breakingviews. Offering users a slice of the shares could create a bullish "echo chamber" reminiscent of the craze, bolstering the group's valuation.

The West's military conundrum

Europe relies on the US for military support; the US is losing the will. Emily Hohler reports

Macron's pledge of troops was a "gaffe"

©Getty Images

Russian officials "appear to be relishing a gaffe" by French president Emmanuel Macron, who said at a crisis meeting on Monday that a Western troop deployment in Ukraine should "not be ruled out", says Holly Ellyatt on CNBC. His comments were swiftly rejected by Nato secretary-general Jens Stoltenberg and Nato members including Germany, Spain and Italy.

The Kremlin says that if troops were deployed to fight in Ukraine, conflict between Russia and Nato would become "inevitable". France later clarified Macron's comments, saying that assistance in areas such as mine clearance and cyber defence could "require a presence" in Ukraine without "crossing the threshold of fighting".

As the war in Ukraine enters its third year, Nato faces a "conundrum", say Steven Erlanger and David Sanger in The New York Times. America, which is by far the biggest contributor to the war effort – €42.2bn compared to Germany's €17.7bn and the UK's €9.1bn – "has the capacity to keep Kyiv supplied with the weapons, technology and intelligence to fend off a takeover by Moscow".

However, Washington is perceived by Europe as having "lost its will". Europe has the will, but not the capacity. Vladimir Putin shows no signs of wanting to end the war. Contrary to Western hopes, sanctions have "lost their sting", the Russian economy contracted only briefly, and with the military stimulus is now growing faster than Germany's. Income from oil exports is greater than it was pre-invasion.

The time to act is now

"Russia is becoming more dangerous, America less reliable and Europe remains unprepared," says The Economist. Moscow is spending 7.1% of its GDP on defence. Denmark's defence minister warns that, within three to five years, Putin could launch operations against a Nato member with the aim of wrecking the pledge to come to one another's aid in the event of an attack. At the same time, "Western deterrence is weakening". Nato lacks fighting capacity and many countries lack other capabilities from aircraft to satellites.

Given the timescales involved in military planning, Europe needs to act now. The priority is boosting its ability to fight, starting with a "massive programme of recruitment and procurement". None of this will be cheap, and despite significant increases by a number of countries, the total spend of European Nato members stands at 1990 levels in real terms; 2% of GDP is not enough, and leaders will need to persuade voters that the sacrifices and spending cuts elsewhere are worth it.

Greater defence spending can "spill over into commercial and industrial success" – Europe's defence industry is already "booming", notes Sylvia Pfeifer in the Financial Times) – but it will still involve tough choices, agrees Nick Timothy in The Telegraph. However, history has taught us that "aggressors exploit weakness, and peace can only be won through strength".

If Trump wins the next election, it is "entirely likely he will force Ukraine to cede territory to Russia. Some Republicans speculate that he will give "90 day's notice of his intention to tear up the Nato treaty" if Europeans don't increase their contribution. Such a move would "embolden" Putin, "shatter trust" among Nato allies and confront Europeans with the very real possibility that, in future, they "may well be on their own".

Russia is not the only threat to our "security, prosperity and way of life". The migration crisis continues, Islamism is "appeased, not confronted", and with China, "short-term commercial interests trump long-term security risks". We need to show that, whoever the enemy is, we are "stronger and more resolved than them".


Orbán: a skilled wielder of the veto

©Getty Images

Sweden finally joins Nato

A "waiting game" of nearly two years ended on Monday when the Hungarian parliament voted in favour of Sweden's Nato membership, making the country the alliance's 32nd member, says Miranda Bryant in The Guardian.

Alarmed by Russia's invasion of Ukraine, a non-Nato member, in February 2022, Sweden rapidly sought the embrace of Nato's collective defence pledge. However, admission requires the unanimous support of the alliance's members. Hungary stalled for 19 months.

The decision by Hungary's prime minister, Viktor Orbán, to allow a vote followed a visit to Budapest by Swedish prime minister, Ulf Kristersson, during which it was announced that Sweden would provide Hungary with four Swedish-made Gripen jets and that the manufacturer, Saab, would open an AI research centre in Hungary, says Andrew Higgins in The New York Times. Orbán has a "long record" of using his veto power to "try and extract money or other rewards". Moreover, he has maintained "cordial relations" with Putin. This episode is "likely to leave a bitter aftertaste".

Nevertheless, Sweden's accession "delivers a grave blow" to one of Putin's stated aims for invading Ukraine: "keeping Nato away from Russia's borders". It will give a "significant boost" to Nato's military strength in the Baltic Sea and reduce Russia's ability to dominate waters that control access to Russian ports.

For Sweden, it "marks a dramatic change in national identity", adds Bryant. In January, Kristersson warned Swedes to prepare for the possibility of war and restarted a form of national service. A "small proportion of the population will be called up for military service against their will". Defence spending will rise. However, a majority of Swedes were in favour of joining Nato and, for Kristersson, crossing membership off his "to-do list" will come as a "huge relief".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Peace may be in sight in Gaza

The war presents a new opportunity for a deal. Matthew Partridge reports

US president Joe Biden has said that the war between Israel and Hamas "might be close to a major turning point" following progress in negotiations, say Peter Baker and Michael Shear in The New York Times. A proposed agreement would halt Israel's military operations in Gaza within a week in exchange for the release of at least some of the more than 100 hostages being held by Hamas. As well as pausing hostilities, any deal could form the bridge to a more lasting political settlement.


Biden sees a "major turning point"

©Getty Images

Easier said than done

It may seem an "unlikely time" for ambitious diplomacy, say Amy Mackinnon and Robbie Gramer in Foreign Policy magazine. The whole region is in turmoil following Hamas's terrorist attack and Israel's response. Biden, though, thinks the crisis could provide the opening for "an ambitious grand bargain" that leverages Israel's more positive relations with Arab states, including Saudi Arabia, to push Israel and the Palestinians toward a permanent solution. This would involve security guarantees for Israel and a "clear and irreversible pathway to Palestinian statehood".

Biden seems confident that both sides "may be open to compromise", but those involved in the negotiations are less sure, says Emma Graham-Harrison in The Guardian. Officials from Israel, Hamas and Qatar agree that progress has been made, but they all say that a deal is "a long way off" and that "significant differences" between the two sides remain. Hamas, in particular, has said Biden's words are "premature". But even if a deal is agreed, there's no guarantee it will succeed – a previous deal in November 2023 "lasted seven days before collapsing in acrimonious accusations of bad faith from both sides".

Return of the two-state solution

Agreeing a deal, even for just a temporary ceasefire, may be particularly politically dangerous for the Israeli leader Benjamin Netanyahu, says Neri Zilber in the Financial Times. Ultra-nationalists in his cabinet hold the whip hand, and have pledged that any deal they consider "reckless" would "lead to the dissolution of the government". Given that Netanyahu and his Likud party have "cratered" in opinion polls in recent months, this puts Netanyahu in a position "where agreeing to a pause in the fighting and major Palestinian prisoner releases could end his time in power", and leave him open to legal challenges.

Still, even if there isn't an immediate ceasefire, it's clear that the supposed "death" of the two-state solution has been "greatly exaggerated", says Martin Indyk in Foreign Affairs magazine. Previously derided as either "hopelessly naive" or a "dangerous illusion", the US and most countries around the world now seem to see it as "the only way to create lasting peace". Indeed, the war seems to have discredited not only Hamas's genocidal desire to destroy Israel and the Israeli far right's dreams of ethnically cleansing Gaza and the West Bank, but has also demonstrated that the status quo is unsustainable. This leaves the two-state solution as "the only idea left standing".

Has protest crossed a line in Britain?

Pressure is mounting on Commons speaker Lindsay Hoyle, says Dominic Penna in The Telegraph. Nearly 100 MPs have signed a motion for him to quit. Hoyle (pictured) was forced to "repeatedly apologise" amid "chaotic" scenes last week when he "breached decades of convention by selecting a Labour amendment to an SNP motion on Gaza". Hoyle compounded his problems by claiming that the decision, which meant that MPs were unable to vote on the SNP's calls for an immediate and unconditional ceasefire, was motivated by concerns for the safety of MPs, who have faced "growing threats from pro-Palestinian protesters".

Hoyle's fears were not irrational, says Robert Shrimsley in the Financial Times. It's well known that Labour MPs "are facing threats at home if they continue to stick with the official party line on Gaza" and some have been offered "stab vests and extra security" as homes and constituency offices are targeted by activists. Meanwhile, there has been a "huge spike in anti-semitic incidents". Many want the police to take a "far tougher" line, both on specific threats and on the "noxious atmosphere" from which they have emerged.

There is, though, a difference between "feeling political pressure and feeling scared of threats and attack", says MP Jess Phillips in The Guardian. Firm police action should be taken against the latter, but legitimate political protest "should not simply be tolerated, it should be expected", even if it makes MPs feel uncomfortable. If we allow politicians to curtail protest then the threat to our democracy would be even greater than it already is.

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Betting on politics

After Donald Trump's victories in the South Carolina and Michigan primaries, punters seem to think the contest for the Republican nomination for US president is all but over.

With £5.7m matched on Betfair, Trump is 1.09 (91.7%) to win the nomination, with the last serious remaining candidate, Nikki Haley, out at a distant 26 (3.8%). Incumbent Joe Biden is having a bit more trouble convincing punters, but even he is at 1.38 (72.4%) to be the Democratic candidate, with Michelle Obama now at 11 (9.1%).

I've said before that I think the markets are underestimating the chances of Biden getting the nomination. Barring some unexpected health problem, he seems determined to carry on, and his control of the delegates to the convention will make some sort of last-minute coup attempt all but impossible.

Similarly, Trump seems to be on the verge of wrapping up the Republican nomination following the Super Tuesday contest, which is due to take place next week. He could very well become the first former president to be convicted of a crime (for allegedly disguising hush payments made to Stormy Daniels), but this won't be enough to stop him winning the nomination. His other trials might prove more problematic, but they won't begin until after the Republican convention in July.

I previously backed Ron DeSantis to win the Republican nomination, so I won't break my longstanding rule of not tipping the same market twice. However, both Betfair and Smarkets are running markets on the exact combination of Democrat and Republican nominees, so I would take Befair's 1.48 on a match-up between Biden and Trump. The bet pays out as long as both are nominated by their party's respective conventions, even if they are later replaced.


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Slough

Reckitt's headache: Consumer goods giant Reckitt Benckiser's fourth-quarter like-for-like sales fell 1.2%, missing expectations of a 1.8% rise, says Dasha Afanasieva on Bloomberg. Reckitt blamed slowing demand for baby milk formula in the US, a weaker cold and flu medicine market, and lower overall consumer price inflation. It also took a £55m hit to revenue from a compliance issue in its Middle East business. The maker of Neurofen and Dettol disinfectant now expects more modest growth of between 2% and 4% this year. It is aiming for mid-single-digit growth in its health and hygiene units in 2024, with the nutrition unit, which makes Enfamil baby formula, returning to growth later in the year. CEO Kris Licht (pictured), who started in October, said Reckitt's performance was "unsatisfactory", but he is focused on his turnaround strategy to bolster investment and grow operating profit faster than sales.

Last year was a year in which "price hikes did all the work, with volumes taking a hit in the process", says Matt Britzman of Hargreaves Lansdown. Cost-cutting has yielded some results, but, looking ahead, "the real question mark is around when volumes will start to turn positive [again] as cost cuts can only support margin growth for so long".

Cupertino

Apple swaps EVs for AI: Apple has scrapped its decade-long attempt to build an electric vehicle (EV), says Mark Gurman on Bloomberg. Project Titan, as it was known, was Apple's most ambitious yet, with 2,000 workers on the project, and it was expected to be a valuable source of revenue. Instead, the tech giant is to focus on generative artificial intelligence (AI) and apply AI to current products, such as the iPhone and iPad, to avoid falling further behind OpenAI, Alphabet, Amazon, and Microsoft in developing the technology. Analysts hailed the move to avoid a risky EV industry, as there is more potential for long-term profitability in AI than in cars. But the revenue potential had been significant – Tesla generated $100bn last year. That said, hardware will continue to be Apple's main source of revenue, and Apple hopes its recently launched $3,500 Vision Pro virtual reality headset, new smart-home devices and AirPods will make up the shortfall from abandoning Project Titan.

Indecision over the project was at the root of Apple's problems, says Dave Lee, also on Bloomberg. Leadership changes were frequent and it lacked a clear vision. For all the reports about self-driving cars and a new kind of battery, Project Titan was a "distraction that could no longer be justified". That the cancellation has "barely moved" the stock shows how much it will be missed.

Paris

AI wind blows France's way: Microsoft has struck a multi-year partnership with Mistral to help the French start-up bring its artificial intelligence (AI) models to market, says Madhumita Murgia in the Financial Times. This will see the US tech giant broaden its involvement in AI beyond its alliance with ChatGPT's creator OpenAI, in which it has already invested about $13bn – a relationship that is being probed by competition regulators in Britain, the US and the European Union. Microsoft will take a small, €15m stake in Mistral and make Mistral's large language models (LLM), that power generative AI to produce texts, images, and other output, available on its Azure cloud platform.

The deal is a testament to the French firm's swift rise. Mistral was founded less than a year ago, but has already raised €400m in a funding round that values the business at €2bn – still a long way off OpenAI's $86bn. However, it has released a new LLM called Mistral-Large, which is smaller than OpenAI's GPT-4, but rivals it in performance. Mistral has made the most of its second-mover advantage, says The Economist. Its success is down to talent, clever data curation, computing power that is cheaper than its rivals and political nous. Cédric O (pictured) – one of Mistral's six founders, three of whom attended elite technical schools – was a digital minister in President Emmanuel Macron's government.

The way we live now... London's odd-looking skyline

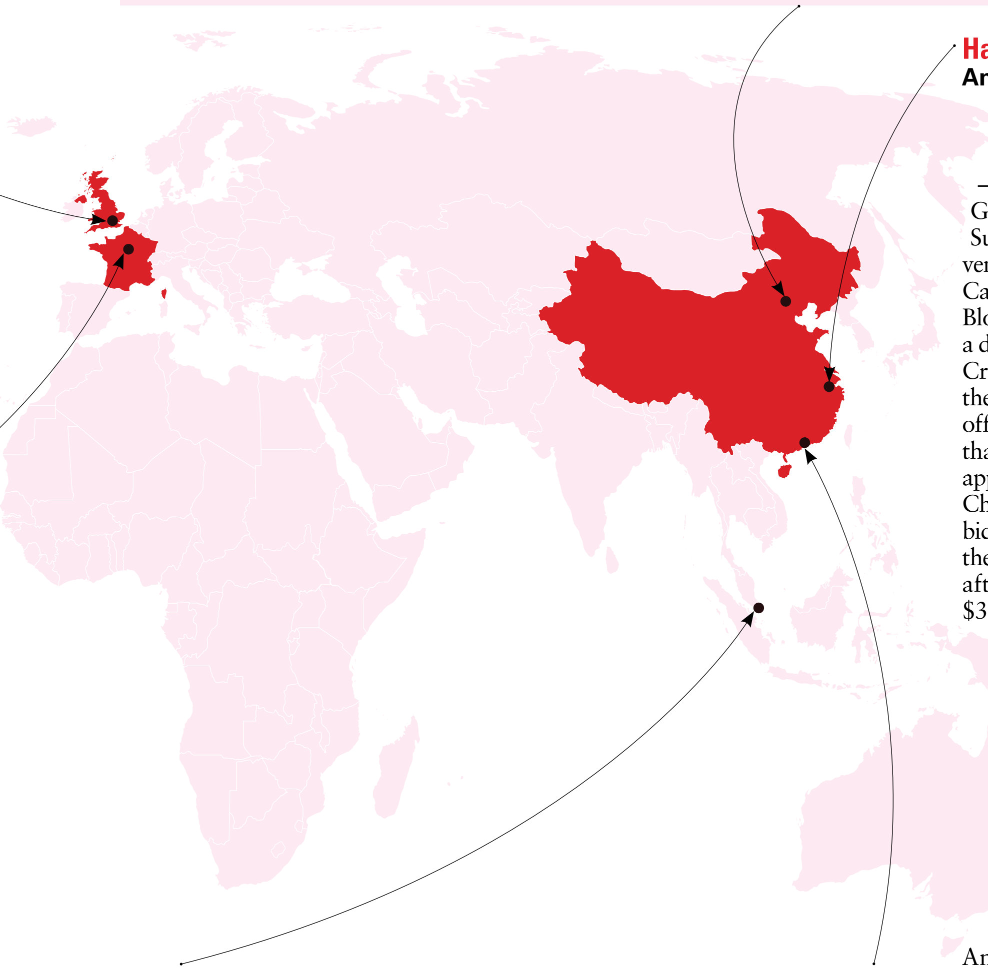
City planners bowled over by star architects have created a London skyline populated with a "jarring profusion of odd skyscrapers with funny names" like the Gherkin and the Cheese Grater, says Peter Coy in The New York Times. In cities such as Chicago, planning decisions are rules-based, meaning that any architect can get permission to build a skyscraper as long as it meets zoning regulations and building standards. But in Britain, planning is often discretionary, with unpredictable committees that are easily swayed by lobbying, according to economist Paul Cheshire. So developers who hire a big-name architect (such as Uruguayan-born Rafael Viñoly, who designed the Walkie-Talkie) to helm their project are more likely to win approval for profitable and taller buildings (a claim refuted by the mayor of London). Cheshire found that buildings designed by star architects are 17 storeys taller than ones that aren't, increasing the value of a site by 144% – and 11 floors taller when designed by an architect who won a prestigious award. The Walkie-Talkie may be disliked, but "buildings like that don't just pop out of the ground". Often it just comes down to economics.

Star-struck by skyscrapers


©Alamy
Li Auto aims to sell 800,000 cars this year

Beijing

Li Auto races ahead: Chinese carmaker Li Auto is celebrating its first year of profitability thanks to a surge in sales of hybrid models. The shares rose by a quarter after the company posted net income of RMB11.8bn (£1.3bn) for 2023, making it the first of the three major Chinese electric-vehicle (EV) start-ups (the others being Xpeng and Nio) to post an annual profit, says Charlotte Yang in Bloomberg. Li Auto aims to sell 800,000 cars this year and expects its profit margin to stay above 20%, despite pricing pressure in China's hyper-competitive market. The firm's focus on hybrid cars that are less susceptible to fluctuating battery costs, and the decision to defer expanding overseas as European and US policymakers push back against Chinese exports, were wise, says Katrina Hamlin on Breakingviews. (China became the world's top car exporter last year.) Rivals Xpeng and Nio, both of whom specialise in pure EVs (not hybrids), are yet to turn a profit, and their shares have both lost more than 70% of their value over the past three years – Li Auto's shares have gained nearly two-thirds. But bigger rivals such as Toyota and BYD are jumping on the hybrid bandwagon. With batteries becoming more powerful and affordable, fast-charging networks growing, and pure electric cars being better for the environment, Li Auto faces stiff competition.



Hangzhou

Ant Group swarms Citadel: China's fintech giant, Ant Group, has outbid market maker Citadel Securities – founded by billionaire Ken Griffin (pictured) – for Credit Suisse's investment bank venture in China, China JV, say Cathy Chan and Dong Cao on Bloomberg. The undisclosed bid "poses a dilemma" for Swiss bank UBS, which now owns Credit Suisse, as it will have to choose between the higher local bid from Ant or the lower Citadel offer, reported to be around RMB2bn (£220m), that's "more likely to win [Chinese] government approval". (UBS already owns a securities firm in China and it is not allowed to own another.) The bid by Ant will "test Bejing's appetite for letting the Jack Ma-founded company expand again after a long-running crackdown", which saw its $37bn initial public offering "derailed" at the end of 2020, says Kaye Wiggins in the Financial Times. Ant's bid also signals its interest in gaining a "foothold in China's investment banking industry", although its lack of experience "raised questions about its seriousness". "Strategically", the acquisition does look "out of place", says Robyn Mak on Breakingviews. Ant has been "stepping up purchases to expand its Alipay global payments footprint", but there is "little overlap" between Credit Suisse's primarily institutional businesses and Ant's retail-facing financial services.

Singapore

Shein eyes London IPO: Fast-fashion retailer Shein is eyeing London for its initial public offering (IPO), say Pei Li, Dong Cao and Vinicy Chan on Bloomberg. The company, founded in China but headquartered in Singapore, has hit a snag in potentially floating in New York for a mooted $90bn valuation as the Securities and Exchange Commission, the US regulator, is unlikely to approve the listing amid fraying China-US relations and volatile markets. US lawmakers are demanding more disclosure on Shein's Chinese business operations, and Beijing regulators are also vetting the offering. If Shein does list in London, it will be a boon for Britain's ailing stockmarket following an exodus of companies moving their listings to the US. Listing in London would be a "short-term compromise" to prioritise the company's valuation and liquidity, says DZT Research's Ke Yan. But it wouldn't necessarily encourage Chinese firms to list in the UK. Although Europe is one of Shein's largest markets and is where rivals H&M and Zara's owner Inditex trade, other venues are also touted. Singapore has a very international bourse, with 40% of listed firms coming from elsewhere, and Hong Kong, despite the sell-off in Chinese equities, is still one of Asia's biggest fundraising destinations.

Hong Kong

Less-than-rosy outlook: Indebted property developer China Garden has vowed to oppose "vigorously" a petition filed with a court in Hong Kong to wind it up, says Echo Wong for Nikkei Asia. Ever Credit, an offshore creditor owed HK$1.6bn (£162m) plus interest by China Garden, filed the petition following a missed $15.4m interest payment last October. The first court hearing has been set for 17 May. China Garden will be hoping to avoid the fate of peer China Evergrande, which succumbed to such an order in late January after it defaulted on its debt. Guangdong-based China Garden owed RMB257.9bn (£28.4bn) as of last June, with RMB108.7bn due to be repaid by the end of June 2024 and only around RMB101.1bn in ready cash to hand. "It will be up to [China Garden] and any aligned creditors to come up with a credible restructuring plan if they are to successfully ward off the petition", a lawyer "close to the matter" tells the paper. Country Garden said it intended to do just that, in a filing with the Hong Kong stock exchange. "The petition is set to revive homebuyer and creditor concerns about the Chinese property sector's debt crisis at a time when Beijing is trying to boost confidence in the industry that accounts for a quarter of China's GDP," says Xie Yu for Reuters.

The global farmers' revolt

Agricultural workers around the world are up in arms about a multi-layered "lasagne" of problems. To some extent, they look to be winning the fight. Simon Wilson reports

What's happened?

The farmers' protests in almost every country across Europe in recent weeks show no sign of abating, and have begun to turn more violent. Last week in Paris, the annual Salon de l'Agriculture – a major farming trade fair attended by the president, Emmanuel Macron – descended into clashes between riot police and angry farmers. On Monday this week, Belgian farmers clashed violently with police in the European quarter of Brussels as the EU's agriculture ministers met to discuss the crisis. The protestors, who were joined by fellow-farmers from Spain, Portugal and Italy, blocked roads with 900 tractors, sprayed officers with liquid manure and set fire to mounds of tyres. The current wave of protest began in earnest in France in mid-January, with union-organised rallies and road blockages in protest at low food prices, proposed reductions in state subsidies for farmers' diesel fuel, and a planned trade deal with the South American trade bloc Mercosur that they fear will encourage cheap imports. But similar protests have been seen across the continent.

©Getty Images

Farmers have won significant concessions from governments

Such as where?

This week saw major protests in Madrid, and on the German-Polish border. Recent weeks have seen the biggest protests in Germany, the Netherlands, Italy, Poland, Romania, the Czech Republic and Greece. But protests have also been seen recently in almost every other EU country (except in Scandinavia), and have spread across the Channel to Dover and South Wales. A common theme has been farmers dumping manure or hurling eggs at government buildings; others have used farm vehicles to blockade ports and roads. Protests by Europe's farmers are nothing new. In 2012, for example, farmers sprayed milk at the European parliament in protest at cuts to EU milk quotas. In 2022, Dutch farmers brought parts of their country to a standstill with months of direct action over the threat to their livelihoods posed by new EU rules on cutting nitrogen emissions. "But the demonstrations in recent weeks are unprecedented in how far they have spread, and the range of issues at play," says Alice Hancock in the Financial Times.

"The protests are merely the tip of the pitchfork"

Why exactly are farmers angry?

Some triggers have been country-specific: a German plan to phase out tax breaks on agricultural diesel; Dutch requirements to reduce nitrogen emissions; anger in eastern Europe at the flood of cheap produce from Ukraine after the EU waived quotas and duties following Russia's invasion. But many of the core issues are continent-wide. Europe's farmers are beset by what the Belgian prime minister, Alexander De Croo, has called a "lasagne" of problems – including volatile prices, soaring costs and what the farmers see as cumbersome green legislation and unfair competition. The costs of energy, fertiliser and transport have soared, but with pressure from governments and retailers to soften the blow to consumers, farm-gate prices fell by almost 9% in the year to the third quarter of 2023, according to Eurostat data.

Why the objection to green policy?

Many farmers feel they have been caught up in the wider conflict between the public demand for cheap food and the need to cut carbon emissions and prioritise climate-friendly-processes. Much of the current anger is towards the European Green Deal, the EU's scheme to cut emissions by overhauling the food, transport and energy sectors. The deal sets targets for agriculture that are either impressively ambitious or expensively onerous, according to your point of view. They include cutting pesticide and antimicrobial use by 50% by 2030; cutting fertiliser use by 20%; and doubling organic production to 25% of all EU farmland. Some analysts think a particular driver of the unrest is a controversial EU law, passed last year, that sets demanding targets for the restoration of natural habitats. Farmers see the new rules as an expensive landscaping project forced on them by city-dwellers.

How have politicians reacted?

They've made significant concessions, but that hasn't defused the crisis. Planned tax rises on fuels used by farmers have been scrapped in France and delayed in Germany. The EU trade deal with South America has been pulled. And in the biggest concession of all, the European Commission president Ursula von der Leyen scrapped parts of her Green Deal climate laws, under pressure from EU leaders. The commitment to halve pesticide use by 2030 is to be dumped and rewritten, and the target for reducing agricultural emissions has been removed from the EU's landmark 2040 climate plan. At this week's Brussels meeting, further measures were discussed, including cutting farm inspections and exempting smaller farms from some environmental rules. Agricultural workers account for only about 4% of the EU's working population, but they are a powerful force for food-security reasons. Mainstream politicians are also fearful the protests could play into the hands of populist parties, who are eyeing significant gains in the EU parliamentary elections in June.

Isn't this a global issue?

It is. In India, police recently fired tear gas to disperse farmers demanding higher prices. Over the past year there have been similar protests in Mexico, Kenya, Japan and many other countries. But it's also a distinctively European issue, and reflects the wider context of Europe's "ever-dwindling relevance", says The Economist. Just as Europe's share of global GDP has fallen by a third since 1995, farming's share of the EU economy is down by a similar amount. Agriculture now accounts for just 1.4% of GDP, and while the sector has seen some consolidation, it is "still dominated by family operations that lack scale" – and the workforce is getting ever older. Farmers' anguish is real, and part of a wider sense of unease. "The feeling of being left behind by forces beyond your control is uncomfortable. Those protesting atop their tractors are merely the tip of the pitchfork."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Greed doesn't pay after all

In a competitive market, no one is free to raise prices with impunity

Matthew Lynn
City columnist

Over the past couple of years we have all become familiar with "greedflation". With inflation rising to levels not seen since the 1980s, prices were obviously going up, but it seemed to many people that they were going up at an accelerating rate, and by far more than was necessary. Indeed, plenty of left-leaning economists started to argue that ruthless corporations determined to make more and more money were the main reason inflation was so high. A few even argued for price controls.

It was hard not to have some sympathy. Energy and labour costs had clearly risen, and lockdown snarled up supply chains, so most companies had to push up prices just to stay afloat. Yet a generation of managers who had never witnessed sustained inflation before – given that prices had not risen at this rate since the early 1990s – also appeared to see it as an opportunity to raise prices by more than costs. After all, who would notice? Margins would be improved, profits would go up, and everyone would get a bonus.

The customer is king

But instead we have increasing evidence that the companies that pushed up prices are getting punished for it. Last week the Swiss giant Nestlé, which makes KitKat and Nescafé among hundreds of other products, reported that sales volumes dropped by 0.3% in the latest quarter. That follows the decision to raise prices by 7.5% over the last year. The shares are down by 10% over the last year. Likewise, French yoghurt-maker Danone reported that its sales fell by 0.4% after it pushed prices up by an average of 7.4%. Its profits are now falling as well, as the extra money it makes from each sale is offset by lower volumes. The British consumer-goods giant Unilever, which makes Dove soap and Magnum ice-creams, last year said it was raising prices by an average of 13% – yet that doesn't seem to have helped the company much.

©Getty Images

Pret A Manger is backing away from price hikes

It stabilised sales in its latest figures, but admitted it was losing market share in many categories. Likewise, UK sandwich chain Pret A Manger – now owned by the private-equity firm JAB Holdings – put up the cost of its sandwiches by eye-watering amounts and has now had to reverse that. In February, the company said it was cutting the price of many of its sandwiches by as much as £1.

It's not hard to work out what happened. Customers might be busy, and don't always have time to shop around, but they are not stupid. They notice when prices go up, or products shrink in size, and so start shopping around and switching to cheaper, better-value brands. As Pret has found out, people might well decide to make their own lunch rather than pay a fiver for a cheese baguette. When it comes to soaps and ice-creams, there are supermarket own-label brands to choose instead, as well as budget brands. A restaurant meal can be replaced by a takeaway, and a takeaway replaced by something you cook yourself. And an upmarket supermarket can be switched for one of the discount retailers.

Once market share is lost, firms may find it very hard to regain it. By pushing up prices so aggressively, companies effectively encouraged their customers to try out cheaper alternatives, and in many cases they may well have found that they were just as good. It will be hard to tempt them back.

Free markets work

So it turns out greed doesn't pay. Pushing up prices by more than the rate of inflation and shrinking package sizes may seem smart, but people notice and start shopping around. That opens up space for rivals and smart entrepreneurs to start offering alternatives. It would have been far better to tighten up supply chains, work out how to make factories and distribution systems more productive, reduce costs and keep prices stable instead. That would have been harder work, but there would have been plenty of rewards for companies that got it right (as the rapidly expanding budget supermarkets have shown). A clampdown on greedy companies was not necessary. The free market works just fine.

City talk

● Anglo American CEO Duncan Wanblad (pictured) should look to his predecessor Mark Cutifani for a plan to bolster the sagging share price, says Karen Kwok in Breakingviews. Wanblad is faced with a slump in diamond prices owing to lower Chinese demand and a "yawning conglomerate discount". Cutifani now chairs Vale Base Metals following the Brazilian mining giant's move to separate its base metals business, which will benefit from the green transition, from the rest of the group. Vale also sold a 13% stake in Vale Base Metals "to Saudi Arabia and other transition-focused investors. If Wanblad can secure "a similar pot of cash" and establish a new base metals group, which should be worth around $28bn, his "sorely needed revamp might gain some impetus".

● Abrdn has become a "financial cockentrice," one of those "pig-turkey-snake creatures stitched together by medieval chefs out to impress," says Oliver Shah in The Sunday Times. Investors would have been better off if the firm's board had "simply hit pause" when Standard Life and Aberdeen merged in 2017 instead of bringing in Stephen Bird. Putting Abrdn up for sale then, when it was worth £5bn, would have been better than letting Bird go on an acquisition spree. He bought Interactive Investor for £1.5bn, but its value has declined to £1bn. The passivity of Abrdn's board and large shareholders Silchester and M&G is "baffling". Abrdn needs a knowledgeable chairperson to replace Douglas Flint, who should dispatch Bird and sell the disparate parts. "Whoever comes next could win an early victory and reverse Abrdn's distinctly medieval disemvowelling."

● Drugmaker Indivior needs the backing of 75% of its shareholders to implement its plan of moving its listing from London to the US, says Alex Brummer in the Daily Mail. But there are no British investors to bang the drum for London; US funds dominate the share register. US-based Two Seas Capital is its largest shareholder with a 10.2% stake, and the first UK shareholder on the register is Barclays Capital with 1.3%. "The great betrayers" of investment on the London market are [long-only] funds with little tolerance for risk taking and little truck with the national interest."

©Getty Images

A series of bad decisions

Property can play a useful role in a diversified portfolio, but poor timing has not helped our ETF portfolio

Cris Sholto Heaton
Investment columnist

Sometimes in a portfolio review, you need to admit that there were points when you consistently got it wrong. And so it is with our exchange-traded fund (ETF) portfolio. We have two holdings left to consider and both involve mistakes for which I kick myself. We'll consider the dilemma of our UK mid-cap holding shortly, but first let's look at the property position.

The 10% allocation to commercial property has been in the portfolio from its earliest days in 2013, through ETFs that mostly invest in real-estate investment trusts (Reits). The argument for having some property is that this is a real asset (see below) with different characteristics to bonds or stocks. Reits don't perform exactly like direct property investments – often they will behave more like stocks – but they are likely to do well in circumstances when most other sectors don't, and so they add something useful to the portfolio.

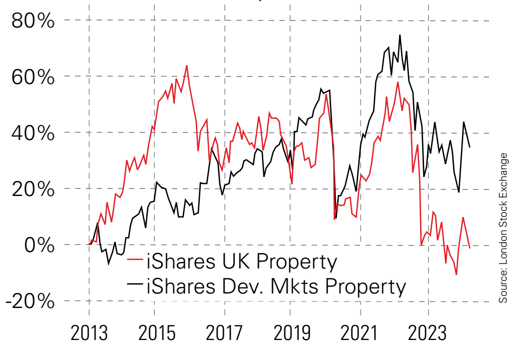
Switching too late

Initially, we invested only in UK property, on the basis that the extra volatility from holding overseas property wasn't helpful. This paid off at first, with our UK property outperforming a global property ETF (see chart), but in retrospect being concentrated in the UK was a risk and it may have been better to diversify from the outset.

In early 2016, I considered swapping it for global property to balance potential risks from the Brexit vote, but the 50% that the global ETF had in the more expensive US market seemed less attractive. But after the vote for Brexit became reality and as the whole process degenerated into a shambles, UK property underperformed.

We shifted into global property in June 2020 as markets sold off due to the pandemic and that has beaten UK property since then, with a total return of about 10% for the global fund, versus a loss of about 15% for the UK fund. Still, there is no doubt that I should have suggested this earlier.

UK and global property ETFs
Total return since 1 January 2013



Hurt by higher rates

What's more, while that switch was finally the right call, even global property has been a weak performer since then. This is mostly due to higher interest rates: working from home and online shopping have affected offices and retail, but these ETFs also hold Reits in sectors such as logistics that have been beneficiaries. You can clearly see that the decline in both the global and UK ETFs begins as the pace of rate rises picks up in 2022.

We knew that Reits are sensitive to interest rates (higher rates both increase their cost of debt and make their yields relatively less attractive), but we though that inflation risks made them worth holding and would help offset this. With hindsight again, we could have taken the chance to sell: the speed of rate hikes from a very low starting point meant that all Reits were hit hard.

At this point, the benefits of keeping 10% in **iShares Developed Markets Property Yield (LSE: IWDP)** are straightforward. The sector is beaten down. It should do well in the short term if central banks cut rates and well in the long term if inflation remains higher. But we could certainly have managed this position better along the way.

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

The term "real assets" is most commonly used to refer to physical assets, as opposed to financial assets whose value comes from a contractual claim. Traditional examples of real assets include real estate (both residential and commercial), natural resources (energy, mining and agriculture) and infrastructure (transport, utilities and telecoms).

In contrast, stocks and bonds are considered to be financial assets. When you buy one of these, you don't own something tangible, although the business or loan might in turn be backed by a physical asset. Some assets – such as index-linked bonds – can be expected to deliver real returns (ie, returns explicitly linked to inflation), but are not generally referred to as real assets under this definition.

There are three main benefits that real assets can bring to a portfolio, at least in theory. First, many have historically offered some protection against inflation. For example, some types of infrastructure have a contractual right to raise tolls or tariffs in line with inflation. Property rents can often be increased as inflation rises. In some real-estate sectors it's increasingly common to have explicit inflation-linked annual increases. Meanwhile, higher commodity prices are often a direct cause of inflation, and thus commodity-producing assets – and the companies that own them – often do well when inflation is high.

Second, infrastructure and real estate often produce steady, reliable cash flows. There may be some variation depending on the state of the economy, but many sectors are very defensive. But this is not true of commodities – earnings from commodity producers tend to go through cycles of boom and bust.

Third, real assets can add diversification to a portfolio. Since they have different characteristics to financial assets, and often produce strong returns when other assets struggle (such as during high inflation), they can help to deliver smoother overall performance.

Guru watch

Stephen Roach, economist, Yale University

"It pains me to admit it, but Hong Kong is now over," says Stephen Roach, the former chair of Morgan Stanley Asia who now teaches at Yale University. In the 1980s, Hong Kong businesses had "extraordinary energy." China was beginning to grow, and Hong Kong was "perfectly positioned as the major beneficiary of what turned into the world's greatest development miracle", he writes in the Financial Times.

The stockmarket reflected this opportunity and was the world's fourth-largest exchange. But the Hang Seng index has dropped 45% over four years and is up by just 5% since the former British colony was handed back to China in 1997.

Hong Kong's downfall rests squarely on Beijing, says Roach, a long-term bull on China who has more recently turned bearish. A proposed extradition arrangement with China in 2019 sparked pro-democracy demonstrations, which led to the imposition of a new national security law that shattered any guise of autonomy for Hong Kong and "effectively cut in half" the 50-year transition period for a full takeover by China.

Meanwhile, "the Chinese economy has hit a wall" due to "debt, deflation and demography", along with the impact of the pandemic and a struggling property market. That has badly hurt Hong Kong's bourse, which is ultimately "a levered play" on the mainland. Finally, Hong Kong is "trapped in the crossfire" of growing US-China tensions.

Some investors say these headwinds are priced in and Beijing's recent initiatives may stimulate the economy. But Hong Kong has "no political discretion to chart its own course", and any rebound in China's economy will be "short-lived" due to a shrinking workforce and weak productivity. Investors need to see more from Beijing than just "another page from its time-worn countercyclical playbook". Until that happens, "Hong Kong is likely to be mired in a trap made in China".

Why is Britain not working?

Kate Andrews
The Spectator

If workforce participation in Britain had remained at the 2019 rate, the economy would now be 1.7% larger, rather than shrinking, says Kate Andrews. Before the first lockdown, workforce participation was 79.5%, the highest since records began. Today, 5.6 million are out of work and – crucially – not looking for a job. The national character can't have changed in that time, so what explains it? Mental illness is a big part of the problem. In all, 53% of those registered as long-term sick in January 2023 did so for depression, nerves or anxiety; most will have been signed off work. The waste of human potential is a "scandal", as is the cost. The expected rise in welfare costs alone equals the total cost of the Foreign Office. At the same time, rich and poor alike are being disincentivised from working. A single parent working 30 hours a week stands to lose 76p of every £1 earned in extra work due to the loss of benefits. Those who earn between £100,000 and £125,000 risk being drawn into the 62% tax bracket, at which they lose their personal allowance. Those who have children have to earn less than £99,999 to qualify for "free" extended childcare (why do high earners even qualify?). It's a mess, yet there's scarcely an MP who will talk about it.

Step away from the benefit cliff

Katherine Cramer and Jonathan Cohen
The New York Times

A US-wide survey conducted for the Commission on Reimagining Our Economy finds that many Americans think that those in charge are greedy and that the economy is "rigged against them", say Katherine Cramer and Jonathan Cohen. For them, greed is not an abstract concept; it is rising food prices and rent. There is a "clear disconnect between the macroeconomic story and the micro-American experience". In reality, income inequality has fallen in recent years and a tight job market has led to "historic gains for lower-income workers". Yet many we spoke to, particularly from black and Hispanic households, cannot afford to save and are one medical bill away from financial disaster. What would help? A good starting point would be to address benefit cliffs; for example, in Kansas, a family of four is eligible for Medicaid if it earns under $39,900. "A single dollar in additional income" leads to forfeiture. Removing these cliffs for healthcare, childcare, housing and food assistance programmes would allow millions to feel more secure. Americans want control over their lives, resiliency and "a say in the direction of their community and their nation". They want the focus to be less on the economy and more on people. The rest of us should listen.

Argentina should follow Peru

Editorial
The Economist

Argentina's new president, Javier Milei, is taking his promised "chainsaw" to the state, starting with a major devaluation of the peso, says The Economist. He campaigned on ending inflation by closing the central bank and adopting the dollar. But perhaps Milei should instead take a leaf from Peru's book. While Peru has become a "byword for instability" (since 2016, it has had five presidents), its currency, the sol, has been a "beacon of stability". Against the dollar, it is worth the same as in 1999. In 1990, at a time of hyperinflation, Peru's new president, Alberto Fujimori, implemented a "radical" reform programme. "The exchange rate was unified at a low rate and then allowed to float. Subsidies on fuel and utility bills were withdrawn overnight; the government stopped printing money and dismantled capital controls and trade barriers." As relative prices adjusted, inflation peaked at 7,650%, but by 1998 it had fallen to 6%. Today, the central bank, which was granted independence, enjoys great confidence and Peruvians have come to trust the sol. Export growth and rising foreign investment allowed the central bank to accumulate reserves, a bulwark against currency volatility. Milei should take note.

The miners' strike: myth vs reality

Daniel Hannan
The Telegraph

Although you wouldn't think it from the romanticised coverage of the anniversary of the 1984 miners' strike, which is now recalled as "some sort of ideological war waged by an extremist prime minister against the working classes", only 26% of the public supported the miners at the time, says Daniel Hannan. By 1984, the taxpayer was losing £3 on every ton of coal mined, the job was "brutalising" and dangerous, and it was starting to be recognised how dirty coal was. People mourn the loss of jobs in heavy industry. But two centuries ago, 95% of adults worked in food production; today, the figure is just 3%. Most people were freed to work in areas that "no one had previously dreamed of", from cars to life insurance. During the 1980s, Britain went from being a "poor, indebted, strike-ridden country, with fixed wages and prices and double-digit inflation, to being the most successful economy in Europe". How? Because the government stopped misallocating resources and stood aside to permit innovation. Today's children are unlikely to get a "job" at all, and will instead constantly freelance, retrain and adapt. Yet they will enjoy higher living standards and more free time than their grandparents. This is not something to mourn.

Money talks

"I am a marvellous housekeeper. Every time I leave a man, I keep his house."
The late Hungarian-American socialite and actress Zsa Zsa Gabor (pictured), quoted in San Diego Jewish World

"I wish! If it was, I'd have made a tonne of money. But no, that [sort of thing] was really frowned upon back then. It was in Wyn Cooper's poem, *Fun*, which inspired the song, although funnily enough I'm from Missouri where Budweiser is made, so it was my beer of choice."
US singer Sheryl Crow denying that mentioning Budweiser in her 1994 hit *All I Wanna Do* was a paid product placement, quoted in The Guardian

"All the happiness in the world can't buy you money."
Late US country-music singer Toby Keith, quoted in The New York Times

"It's a recession when your neighbour loses their job; it's a depression when you lose yours."
Former US president Harry Truman, quoted on ABC Action News

"I'm a capitalist. *Star Wars* is the capitalist show. *Star Trek* is the communist one."
Tech entrepreneur Peter Thiel on why he prefers *Star Wars*, quoted in The Guardian

"[We] behave like algorithms as film-makers. We're in a very conservative time; creativity is restricted. Everything's about Wall Street. What will save cinema is freedom and taking risks. And you feel the audience is excited when they see something they haven't seen before."
Denis Villeneuve, director of the *Dune* film franchise, quoted in Time magazine

"The Republicans are the party that says government doesn't work and then they get elected and prove it."
US political satirist P.J. O'Rourke, quoted in The Times

The birth of a new culture


©Getty Images
Scrolling through cat videos has replaced art and entertainment

honest-broker.com
For all the noise, not much changes in politics, says Ted Gioia. So forget about it. "All the action now is happening in mainstream culture" – and that is "changing at warp speed". Not for the better. In fact, 2024 may be the most "fast-paced and dangerous time ever" for our culture. "I want to tell you why entertainment is dead. And what's coming to take its place."

Dumb and dumber

You might think there are basically two options – entertainment (giving the audience what they want) or art (making demands on people for higher goals). But you'd be "dead wrong". Entertainment has long been on a "growth tear", so much so that anything "artsy or indie or alternative" got squeezed out. Now it's even worse: entertainment is being replaced by "distraction" – scrolling through social media videos of someone "twerking" or of "pets looking goofy".

Distraction is now a huge business and "will soon be larger than the arts and entertainment industries combined". Disney is in crisis – everything is shrinking except the CEO's pay cheque. Paramount just laid off 800 employees and is looking for a new owner. The TV business "hit a wall" in 2023 after years of steady growth. Music may be in the worst state of them all.

But this is more than just the "hot trend of 2024". It will go on forever because it's based not on fashion or aesthetics, but addiction. Our brain rewards brief bursts of distraction with hits of dopamine, which make us feel good. Which makes us desire more, so we do it again. Which then becomes a habitual behaviour, which we keep on doing even when it doesn't feel good anymore, and even makes us depressed, because we feel we can't help it. This is a familiar model for addiction and now it is getting applied to the culture at large and to billions of people – "unwitting volunteers in the largest social engineering experiment in human history".

The tech platforms making fortunes from facilitating this are not the equivalent of the Medicis or other rich patrons of the arts. They don't want to find the next Michelangelo or Mozart. They want to create "a world of junkies" – because "they will be the dealers".

You thought artists had it tough back in the day? Even the dumbest entertainment "looks like Shakespeare" compared with our new dopamine culture. So don't be surprised when huge corporations stop pretending it is otherwise and suddenly embrace gambling and other equally addictive offerings. There's a reason the Super Bowl took place in Las Vegas this year – "a perfect symbol for the current moment in our culture".

We live in Steve Jobs' world

prospectmagazine.co.uk
Forty years ago, Steve Jobs unveiled a "truly revolutionary" new computer, says Ethan Zuckerman. Before the Apple Mac, computers were for accountants and engineers, and featured blocky, pixelated green or white text on a black background. But why should you have to type in cryptic commands to make a machine do what you want? Why not point and click? And why couldn't they look "cool", be associated with creativity and fashion, be "friendly and welcoming"? Jobs made it so. He repeated the trick with the iPhone, which like the Mac took preexisting technologies but put them in a new user-friendly format. None of his products made demands on consumers, and the technical wizardry underpinning his devices was so well hidden that now even computer-science students are shocked to discover that "behind the forest of folders, windows and icons" is a blank screen and a blinking cursor. Computers have become central to our society in a way that would have been hard to predict 40 years ago, and Jobs' vision is a large part of the explanation. But there may be a dark side. "In surrendering our understanding of the tools we use, we've given immense power to the... multinational companies that keep us entertained and productive, but hide the deeper workings of their systems away from us."

Tech's faster spin cycle

wsj.com
Our refrigerators, washing machines and ovens can do more than ever before, says Rachel Wolfe. But there's a downside to all the "snazzy features". The machines cost more – and yet are more prone to breaking down. Computerisation, a rise in the number of components and flimsier materials are all making the kit less reliable.

Newer devices are also harder and more expensive to fix. Such machines used to rely mostly on straightforward mechanical parts. In the past decade or so, they've been replaced with sophisticated electrical and computerised parts – a touchscreen, say, that displays a dozen different sensor-controlled wash options.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Even if technicians can figure out what's gone wrong, the bill tends to be so high that it's more economical to replace than repair. One who has been in the business for over 20 years recommends buying the cheaper appliances with the least "bells and whistles", and to go for mass-market brands with cheap and readily available parts. "Consumers are wising up" and asking whether they really need an oven that can turn itself on while they're out at the shops.

Explaining the "vibecession"

project-syndicate.org
The US is in good shape with no recession in sight, yet surveys show the public remains gloomy about the economy, says Jeffrey Frankel. The gap between performance and perception has been dubbed the "vibecession" – but what explains it?

Various answers have been advanced. Perhaps there is no gap at all and economic indicators are wrong or misleading. Perhaps the gloom results from being too politically partisan. Or from too much news media, which tends to focus on the negative. Perhaps inflation is hurting lower-income households, even if the average American is doing okay.

Some of these explanations are more credible than others, but the most persuasive is simply that perceptions lag reality. It takes an estimated two years for a change in inflation to have three-quarters of its cumulative long-run effect on consumer sentiment, and inflation started to fall in the US in June 2022. Newer surveys are reporting sunnier views. Perhaps the narrative tomorrow will be that the economy is good – "and people know it".

How to approach high-yield debt

An investment trust will give you access to bundles of loans offering enticing returns

Rupert Hargreaves
Investment columnist

As credit markets have adjusted to the higher interest-rate environment over the past 12 months, it has become possible to earn equity-like returns from credit, particularly in the higher-risk and more esoteric sections of the credit markets.

The ICE BofA US High Yield Index, an index of corporate debt not ranked as investment grade, currently yields about 7.4%, though it hit a high of 9.5% last year. Even higher returns are available for investors willing to take more risk. According to ICE BofA, the bottom rung of the credit ladder (bonds rated C or below) is yielding 13.6%. In the private credit and distressed-debt markets, yields are far higher as lenders hold all the cards.

Secured lending

In the UK, investors can access these higher yields through investment trusts and other closed-ended investment vehicles. One to watch is **Twenty Four Income Fund (LSE: TFIF)**, which aims to generate attractive risk-adjusted returns by investing in a portfolio of asset-backed securities. Twenty Four is a boutique manager within the Swiss-based Vontobel Group. The group manages £18.1bn in total, of which Twenty Four Income accounts for about £800m.

Residential mortgages can be packaged up into securities

©Getty Images

Asset-backed lending is generally safer than other forms of borrowing, as debt is secured against an asset. If the debt isn't repaid, creditors can confiscate and sell the asset to pay off the debt. In Twenty Four's case, 52% of its portfolio comprises residential mortgage-backed securities (RMBS), 37% is collateralised loan obligations (CLOs), and the rest of the portfolio is a mix of other securities, such as student loans and commercial mortgage-backed securities (CMBS).

This mix of letters and strange sounding assets might initially seem confusing, but the mechanics behind them are simple. When it comes to RMBS, these are essentially pools of mortgages. A bank, say Lloyds, lends money to a customer to buy a house, and then the loan is packaged up with 150 other loans and hived off into a special purpose vehicle (SPV). This SPV then becomes the backing for the bond sold to Twenty Four. The loans belong to the SPV, so even if Lloyds goes bust, Twenty Four will continue to own the asset.

As borrowers pay off their debt, the RMBS pays out a return to its investors. Yields on mortgages in the pool can vary from 3% to 5% for "prime" borrowers, up to the high single or double digits for so-called "non-conforming" borrowers. The risk of non-payment by borrowers is low, as Twenty Four will only buy RMBS from parties it knows make every effort to help their customers. As one analyst told me, people only generally fall behind in mortgage payments temporarily, and usually make every effort to get back on track as soon as possible. However, if defaults do spike, there's a large margin of safety. Twenty Four estimates house prices would have to fall by 30%-50% before severe losses start emerging in the RMBS pools.

Getting paid for work

The CLOs and the CMBS the company owns operate in a similar way. These are pools of loans, split between higher- and lower-quality borrowers, that produce a credit instrument with a high yield and moderated risk. Finding the right lenders and borrowers takes time, but Twenty Four told me "you get paid for the extra work".

That is just as true for investors willing to spend time understanding this unique income fund. On 31 January the fund had a trailing 12-month yield of just under 10%, which could rise as higher rates filter through to the underlying credit portfolio (although if rates drop, the opposite could happen).

This isn't a fund that's suitable for everyone. Still, for investors looking to add something different to their portfolio, it offers an opportunity to capitalise on higher rates in a corner of the market that's only usually available to institutional investors.

Activist watch

Kelso Group's CEO John Goold and CFO Mark Kirkland have joined the board of books and stationery retailer The Works, says City AM. The activist investment firm is seeking to help "restore the intrinsic valuation of The Works", which it believes is "much higher than the current share price reflects". The shares trade at 26p. The move comes after The Works posted a pre-tax loss of £14.8m for the six months to 29 October 2023, as the retailer struggled with higher costs owing to inflation and depressed demand from consumers. Kelso first snapped up a 3.2% stake in The Works, which has a market value of £16.3m, last September, and a month later revealed a 5.1% holding. Both Goold and Kirkland have experience working with small firms.

Short positions... Pimco profits from the bond boom

■ **About 12% of the money on retail-broking platforms Hargreaves Lansdown and Interactive Investor is allocated to investment companies and trusts, says CityWire. The Association of Investment Companies notes that the two brokers jointly hold 12% of the sector on behalf of private investors. Hargreaves holds £12.2bn of investment companies, 6.9% of the UK sector's market value. This is followed by Interactive with £10.5bn, or 5.9%, which eclipses the combined market values of rivals AJ Bell, Charles Stanley and Halifax Share Dealing. The global equity-income sector was private investors' favourite category, where they accounted for 49% of the shares. Alternative investments (such as renewables and infrastructure) have boomed in recent years as investors sought income amid low interest rates. However, private investors own just 9% of companies focused on alternatives, while institutional investors owned 70%, or £51bn.**

■ Bonds are back, says the Financial Times. Oliver Bäte, CEO of Allianz, the parent company of Pimco, the world's largest bond investment group, says the investment manager had already recorded more than €20bn of inflows this year, which is almost equal to its 2023 total. Pimco has long been seen as a bellwether for the broader fixed-income market. Data from EFPR Global shows that net fixed-income fund inflows have surpassed the $100bn mark, and "luckily for all bond managers, active flows are outpacing passive ones so far in 2024". Pimco had €24bn of net inflows last year, compared with €75bn of outflows in 2022, one of the worst years for the bond market. Pimco nearly doubled its performance fees in 2023, helping it make an operating profit of €2.45bn.

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Infrastructure: strong growth on the cheap

The sector's investment trusts have suffered a setback recently, but the long-term outlook remains compelling, says Max King. He assesses the performance and prospects of the industry's key players

The era of rising interest rates proved challenging for companies in the infrastructure sector, and though share prices experienced a rally in late 2023, along with government bonds, they suffered a setback early this year, with valuations falling between 5% and 10%.

In the renewables industry, the weakness can be attributed to overcapacity, low energy prices and long delays in getting new projects connected to the national grid. Shares yield an average of nearly 7% and trade at an average discount to net asset value (NAV) of 17%, but "power prices are likely to be a headwind", writes Iain Scouller of brokers Stifel.

"While discounts on many funds appear wide, we think they may not be as wide as they look given our expectations for falls in NAVs at the 31 December 2023 valuation point and the expected headwinds in the year ahead."

He expects mildly negative NAV returns in 2024 but "at least dividend yields should more than offset this". Holders should probably hang on, but buyers need be in no hurry.

In the conventional infrastructure sector space, he points to a different concern: the prospect of the hand-back of private finance initiative (PFI) and public-private partnership (PPP) projects to procuring authorities as they come to the end of their concessions.

As of mid-2021, there were more than 550 PFI contracts in operation and very few have expired so far. This number will climb rapidly in the coming years, reaching a peak of 50 a year in 2036. Ten years later, few will remain.

The notion that the public sector can operate these projects more cheaply and efficiently than the private sector is laughable – besides, as Colette Ord of broker Deutsche Numis points out, these projects have been assessed every three years by the National Audit Office to ensure they represent value for money.

Common sense is uncommon

If common sense were to triumph, current operators would be granted extensions to their concessions but political ideology, public-sector pride (self-delusion?) and social media may well prevent this.

In a pragmatic world, debt-strapped governments keen to improve infrastructure would return to PFI, PPP or some new version of it to get the private sector to build and manage these assets much more quickly, efficiently and cheaply than the public sector, as PFI/PPP proved.

But, again, politics may well get in the way until there is no alternative. At some point, though, the infrastructure funds should have the opportunity to invest in new projects with secure long-term cash flows.

"Over-capacity and low energy prices have undermined share prices in the renewables sector"

Hand-backs mean the cash flow from these projects to the infrastructure funds will come to an end. Most of the funds have diversified internationally and into private-sector projects without hand-back, but some face the prospect of a significant part of their business and income disappearing.

This poses challenges for their management, though the authorities taking over would need to take on their staff, management and equipment.

Investors should not need to worry. The net cash flow in the final years of the contracts is scheduled to be strong, allowing significant dividends and other returns of capital. NAVs are calculated as the current value of future cash flows so they factor in hand-backs.

Moreover, each year the valuation of future cash-flows rises by the discount rate. Shareholders own a limited (but still quite long) annuity rather than a permanent source of income, but it is still attractive.

The exposure of infrastructure funds to PFI/PPP varies widely. Other projects will be riskier but that risk is controlled by diversification and good management. 3i Infrastructure (3IN) exited PFI/PPP completely some years ago, arguing that returns had been driven down by competition to levels that were no longer attractive. This change of gear has proved a success.

3i Infrastructure (LSE: 3IN)

3IN trades on a 6% discount to NAV, yields 3.6% and has had no exposure to PFI/PPP since 2015. Since then, its annualised investment return has been 18%, compared with 14% since flotation in 2007.

It describes its investment strategy as "core plus", meaning higher risk and reward than PFI/PPP but lower than full equity risk. "We seek businesses with a good base of contracted revenue but which we can do more with", says managing partner Bernardo Sottomayor.

The £3.9bn portfolio comprises 13 investments. Six former holdings, including a large stake in Anglian Water, were sold for an average 2.5 times cost. TCR, the largest asset (15% of the total), manages, leases and maintains ground-handling equipment at 200 airports, having significantly increased its fleet size and airports served in recent years.

ESVAGT (13%) services the offshore energy industry, both hydrocarbon and wind, with a fleet of more than 43 vessels. Infinis (11%) is the largest generator of gas from landfill sites in the UK.

HICL Infrastructure (LSE: HICL)

Listed in 2006, HICL trades on a 23% discount and yields 6.5%. Roughly 57% of its £3.2bn of assets are PFI/PPP and 63% of assets are in the UK. The largest investment is Affinity (comprising 7.7% of the portfolio), a water-only company serving the home counties.

Next comes the A63 autoroute in south-west France (6.6%) followed by Fortysouth (6.2%), which owns mobile-phone tower infrastructure in New Zealand. The total return of its shares has been a fairly steady compound 8.7% per annum since listing.

BBGI Global Infrastructure (LSE: BBGI)

BBGI was listed in 2011, trades at a 14% discount, yields 6.5% and has net assets of more than £1bn. All its 56 assets are PFI/PPP but only 33% by value are in the UK, 33% in Canada and 34% divided between Europe, the US and Australia.

Self-management keeps the costs low so, despite good geographical diversification and a conservative discount rate of 7.2% used in valuations, the compound return since listing is still 8.8%.


©Getty Images

Tideway is building a super-sewer under the Thames

International Public Partnerships (LSE: INPP)

INPP also listed in 2006. It trades on a 19% discount to NAV, yields 6.6% and has net assets of £3bn. Approximately 40% of its portfolio is made up of PFI/PPP projects and the UK accounts for 73%. The annualised investment return of 7.3% since flotation lags HICL's, but has matched it over five years.

The main investment is Cadent (15% of the total), a gas-distribution business supplying 11 million homes and firms in the UK. Tideway (13%) is building a super-sewer under the Thames. Diabolo (7%) is a Belgian railway linking Brussels airport to the rail network.

OFTOs – electricity transmission assets connecting offshore wind farms to the onshore grid – are an important niche, accounting for most of the 22% invested in electricity transmission.

The dividend has risen by 2.5% per year since 2006 but was increased by 5% last year. "Assets continue to deliver in line with expectations," says investment director Chris Morgan, "and we have demonstrated that valuations are robust through realisations."

Pantheon Infrastructure (LSE: PINT)

PINT only listed in late 2021, so it has no PFI/PPP exposure. It is now nearly fully invested with net assets of £490m. It trades on a 20% discount and yields 4.7%. Only 7% of the assets by value are in the UK, with 37% in North America and 53% in Europe.

It co-invests in its 11 businesses, so it does not control or have a major influence on them. The largest investment, Calpine (16% of assets), is a US electricity generator from natural gas and geothermal resources. Digital data centres, fibre networks and towers account for 44% of assets. Its short record and unproven assets are against it, but Pantheon Ventures, the management company, is a large, well resourced, highly experienced and successful investor.

Sequoia Economic Infrastructure Income Fund (LSE: SEQI)

SEQI, which listed in 2015 and has net assets of £1.6bn, invests only in infrastructure debt, which accounts for its high yield of 8%. It trades at a discount of 11% and has 58 investments. What makes infrastructure debt attractive is a yield of 5%-8% over risk-free government debt but an expected annual loss rate of only 0.5%-1%.

SEQI's default rate is lower than average, which has helped it outperform its high-yield benchmark by more than 3% per annum since listing. With a relatively short life of three and a half years, on average, for its investments, the portfolio is strongly cash-generative. A 4% uplift to NAV is built in as the investments redeem at par value and there is a strong pipeline of opportunities for reinvestment with interest rates at a peak. Management is thus optimistic about the outlook.

3IN has easily the best investment record, so it represents the quality choice. But BBGI and HICL have a lower-risk approach, PINT needs time to prove itself, INPP is an improving proposition and SEQI's yield looks attractive given its good record. As Colette Ord says, "there are some really strong businesses in this sector trading well below their realistic valuations given the growth potential and implied returns".

"Pantheon Ventures is a large, well resourced and experienced investor"

Stockmarket bulls are getting vertigo

US equities have come too far, too soon, says Max King. That means prudent investors should take profits

With America's S&P 500 index trading above 5,000, even the bulls are starting to suffer from vertigo. Goldman Sachs has raised its end of 2024 target to 5,200, just 4% higher, while stockmarket veteran Ed Yardeni's target of 5,400 leaves another 8% to go. But there are still ten months of the year left. On a prospective multiple of 20 times this year's earnings, the S&P 500 is expensively priced, unless you believe bond yields are heading significantly lower, which is very unlikely.

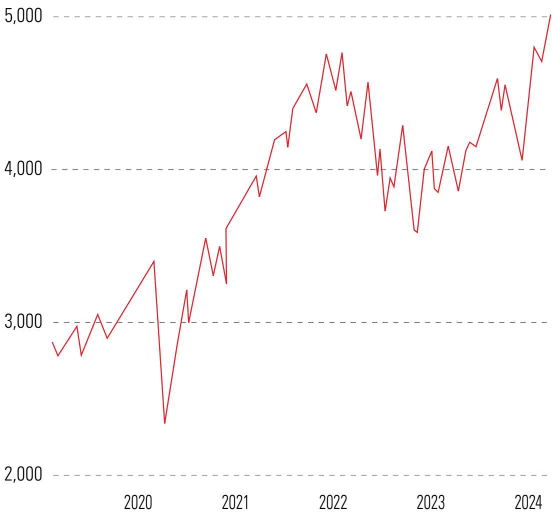
Inflation looks likely to surprise the pessimists by falling to 2% in the US, the UK and Europe, but huge budget deficits and the lack of a corresponding pool of savings suggests that ten-year yields are likely to stabilise at about 4% and may go higher.

Admittedly, the "MegaCap Eight" stocks now account for 28% of the S&P index but for only 19% of prospective earnings, so the rest of the US market is less expensive, and other markets cheaper still. But it would be highly unusual for the rest of the world to defy weakness in the MegaCap Eight. If the latter falter, markets are likely to struggle.

Don't be afraid of new records

Schroders has produced some interesting research for those scared of investing, or staying invested, when the market is at an all-time high. They point out the US market has been at an all-time high in 30% of the months since 1926 and that, on average, investors have enjoyed better one-year returns investing when the market was at a high (10.3% ahead of inflation) than when it wasn't (8.6% ahead). Over two and three years, returns were the same. "A strategy," they point out, "that switched out of markets and into cash whenever the market hit an all-time high and went back in whenever it wasn't at one would have wrecked returns." Their conclusion is that investors would have "missed out on a lot of potential wealth if they had taken fright whenever the market was riding high".

America's S&P 500 index



"Inflation looks likely to surprise the pessimists by heading back to 2% in the US, UK and Europe"

Alan Greenspan warned of "irrational exuberance" in 1996

The message from Fidelity is similar: "…timing the market is extremely difficult. The best policy is usually to stay fully invested over the long term." It calculates that the UK's FTSE All-Share index would have returned an annualised 8.2% in the 15 years to the end of 2023 if the investor had stayed fully invested throughout, but only 4.7% if the ten best days had been missed. JP Morgan Asset Management has calculated that $10,000 invested in the US market 20 years ago would have been worth $65,000 by the end of 2022, but less than $30,000 if the investor had missed the best ten days for the market.

These "best days", JP Morgan points out, normally occur during a bear market, not when the market is hitting all-time highs, but the peril is still there. It's all too easy to sell too early and then watch the market go higher. Then comes the problem of reinvesting when the market does eventually correct. The correction may not take the market back to your selling level, and even if it does, it's easy to miss the rebound amid the general gloom.

Chris Watling of Longview Economics finds plenty of evidence that the US market has run too far ahead of earnings, and worries the excess liquidity that has allowed market multiples to expand will soon disappear as a result of policies from the US Federal Reserve. However, he warns that the classic signs of "irrational exuberance" (a term coined by Federal Reserve chairman Alan Greenspan four years before the stockmarket bubble collapsed in 2000) are not yet there. "We might be in a melt-up," says Ed Yardeni.

Melt-ups, though, are often followed by melt-downs, and it is very hard to spot the top. The speed of the advance of the MegaCap Eight and shares, such as ASML, Novo Nordisk and Arm, which have kept pace, is not sustainable, and even if their share prices stay aloft, it could be years before earnings catch up.

That makes it prudent to take some profit from the market leaders to free up cash, perhaps to be able to take advantage of other investment opportunities that will emerge, or maybe to spend. Watching the price of shares you have sold continue to rise is painful, but not nearly as painful as the regret of not having sold when you had the chance.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The child-benefit bother

The laws governing this payment are overcomplicated and ripe for reform

Ruth Jackson-Kirby
Money columnist

©Getty Images

The more children you have, the higher your effective tax rate on earnings of £50,000-£60,000

It has been a decade since the high-income child benefit charge was introduced, and there is speculation that this widely reviled tax could be scrapped in the Budget. The high-income child benefit charge forces some families to pay back some, or all, of the child benefit they receive from the government. If either parent earns £50,000 or more a year, the amount of child benefit they receive per child gradually tapers away. If one parent earns more than £60,000, they get no child benefit entitlement at all.

The two main problems are how complex the charge is and how unfair the rules around it are. For example, two parents earning £49,999 are entitled to the full child benefit, despite having a household income of almost £100,000. But another household with only one working parent earning £50,000 starts to lose that entitlement.

Another irritation is that if you are affected by the charge, you don't simply receive less child benefit. You still get the whole amount, but HMRC then expects you to pay back what you are not entitled to. Putting the onus on parents who, in a lot of cases, do not understand the rules has led to numerous shock tax bills when HMRC calculates they are owed years of child benefit that shouldn't have been paid. One couple took HMRC to a tax tribunal and won after receiving an unexpected repayment demand for £2,495.

The charge is "unfair and complicated", according to Bill Dodwell, who headed the Office for Tax Simplification prior to its closure in 2023. He told the Financial Times that parents affected by the charge face an effective tax rate on earnings between £50,000 and £60,000 of 54% for one child, 63% for two children and 71% if they had three children.

The chancellor has conceded that the charge is flawed. The rumour is that "the Treasury is looking at basing the charge on household income rather than individual income. It means parents could start to lose the benefit once they collectively earn £100,000 rather than one earning above £50,000," says Charlotte Gifford in The Telegraph. In the meantime, however, if you claim child benefit and one person in your household earns more than £50,000, then you will need to fill out a self-assessment form and pay back some of your child benefit each year. You can opt not to receive it, but this can have unintended consequences. If one parent isn't working while they care for children, then their state pension entitlement will be affected if you opt out.

That's because if the child benefit is in their name, then they will receive national insurance credits, so they keep building up their state pension while out of the workforce. The way around this is to apply for child benefit in the non-working parent's name – then tick the box on the form to say you don't actually want to receive the money. You'll get your national insurance credits but avoid the headache of the high-income charge.

Energy prices to fall further

The energy-price cap is set to fall to its lowest level in two years in April. The maximum amount energy firms can charge per unit will fall by 12.3% from the current level, saving the average household £238 a year.

Ofgem, the energy regulator, sets the cap, which limits how much suppliers can charge you per unit of gas and electricity. The average household will pay £1,690, assuming they are a dual-fuel household paying by direct debit. But remember this is based on average energy consumption. The cap is on the unit charge; the more you use the more you will pay.

"Wholesale gas prices have fallen as a mild winter in Europe reduced demand, helped by plentiful supplies of liquefied natural gas in Europe and Asia," says Alex Lawson in The Guardian. While the consequent fall in household bills is good news, we are all still paying far more for our gas and electricity than before the energy crisis which began in 2021. The average household annual energy bill will be £1,690 from April (the lowest since March 2022) but it was £1,138 before the crisis.

However, experts predict energy bills will continue to fall throughout the year. Analysts at Cornwall Insight expect a typical household to be paying "an average £1,463 during the third quarter and £1,521 during the fourth quarter", says Emma Powell in The Times. Meanwhile, standing charges are on the rise. The price we all pay simply to have gas and electricity will increase by an average £31 a year.

Pocket money... broadband and mobile bills on the rise

● A survey by the consumer group Which has found that many people are struggling to enact power of attorney after a loved one becomes unable to manage their finances themselves. Many banks and building societies are making it difficult to register the documents. They need to be filed with every financial firm the person has an account with. "Yet each bank has a different process for registering," says Claer Barrett in the Financial Times. "Some will let you do so fairly painlessly online; others demand forms are posted and some require attorneys to attend an in-branch appointment – something that's becoming harder with the dwindling numbers of bank branches." The survey established that Coventry Building Society and Nationwide were the easiest to register documents with. Co-operative, Post Office Money and RBS came bottom of the table.

● Leeds Building Society is trialling a ban on new holiday-let mortgages in tourist hotspots, including Cromer, Wells-next-the-Sea, Filey and Whitby. "Campaigners say the move…could improve the situation for local residents currently struggling to buy or rent in parts of Norfolk and Yorkshire that have seen a surge in the number of properties turned into holiday rentals," reports Rupert Jones in The Guardian.

● Broadband, mobile and pay-TV customers could soon see their bills rise steeply – BT EE, O2, Sky, Three, Virgin Media and Vodafone have all announced price hikes this spring. Given price rises of up to 17.3% last year, a customer on a standard two-year contract worth £20 a month at the beginning of last year could soon have to pay more than £25 a month, according to MoneySavingExpert.com's Molly Greeves. O2 and Virgin Media customers face the biggest price rise at 8.8%. The increase will affect O2's pay-monthly and Sim-only users who took out a deal or upgraded after 25 March 2021. Virgin's hike is for most broadband, landline and TV users. "These firms have millions of customers who are out of contract and have simply been rolled onto often pricier tariffs without signing up to them. If that's you, you're free to leave… [check] if you can save £100s by switching."

The trick with transfers

Moving your pension to a new provider can be pricey if you're not careful

David Prosser
Business columnist

Transferring your pension to a new provider makes it easier to keep track of your retirement planning – particularly if you move jobs regularly and end up with multiple pots of savings. However, too few savers are aware of the potential pitfalls to watch out for when transferring pensions, and that could cost them tens of thousands of pounds.

The biggest problem, according to a survey from People's Partnership, is that savers have little idea about the cost of different pension plans: 72% of savers who have recently transferred a pension do not know what charges they are now paying and how this compares with their previous arrangements.

Beware the charges

That's a real problem, with many people underestimating the long-term impact of even small differences in pension charges. For example, a 30-year-old earning £30,000 who moves a £10,000 pension from a provider charging 0.4% a year to an alternative arrangement with charges of 0.75% would have savings worth £32,894 less at the age of 67 as a result of the extra cost. The deficit rises to £59,523 for someone transferring a £50,000 pot, and to £72,689 for someone earning £45,000 and moving a £50,000 pension.

Charges are not the only issue to consider when thinking about whether to move a pension. Other factors include the investment options available to you in the new arrangement, and the value in having a single set of savings to manage and monitor, rather than lots of different plans.

However, charges are at least a known quantity, something you can check in advance of making a decision about where to save. Pension providers may not always make this as easy as possible, with 50% of savers in the People's Partnership survey complaining that it is difficult to find information about charges from both old and new pension providers. But it should always be possible to compare fees – unlike future investment returns, which are unpredictable.

Review your plans at regular intervals to be sure you're getting the best deal

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Armed with information on costs, savers have a decision to make. If you've moved to a new job, you may not have any choice about the pension plan you use for ongoing savings, particularly as you will want to benefit from your employer's contributions. But you don't have to transfer money from pension plans you've started elsewhere into your new arrangement.

Instead, it makes sense to review your pension arrangements periodically to make sure you're getting the best possible deal. One option is to open a self-invested personal pension with an independent provider away from your current and previous employers, selecting the cheapest option you can find. You can use this plan as the single vehicle in which you consolidate all your old pension plans, even if you then have a second scheme with your current job. Each time you move employers, consider moving the pension you're leaving into this Sipp.

Finally, remember that different considerations apply if you have any rights to a defined-benefit pension, sometimes know as a final-salary scheme. In these arrangements, your pension is guaranteed to be a certain value at retirement, and it is difficult for other types of scheme to match this. For this reason, it rarely makes sense to move money held in a final-salary pension plan to a new arrangement. Indeed, regulators usually require you to take independent financial advice before making such a transfer.

Retiring with chronic illness

The extension of the age at which savers can access their private pensions could cause problems for people in ill health, advisers warn. From April 2028, savers will have to wait until the age of 57 to access their pensions, up from 55 today. But that could increase the number of people who can no longer work owing to medical problems but who can't get at their pension savings, either.

Special rules do apply to savers in ill health. Where savers can produce evidence of their medical difficulties, HM Revenue & Customs guidelines allow pension providers to grant them early access to their money. However, the HMRC guidelines set out minimum criteria. Some pension providers, particularly employer-run schemes, may have more demanding rules.

The worst-case scenario is that savers access their pensions early without securing the necessary approvals, in which case there are significant tax charges to pay. But bear in mind that even if you do have permission to withdraw cash early on ill-health grounds, this is likely to result in you receiving less income each year than you had expected, since your savings will need to last longer.

The bottom line is that anyone in this position should take financial advice before making any decision about the best way forward. If you have insurance plans, for instance, drawing on these before turning to your pension savings makes sense.

News in brief... Nest launches ESG fund

- Sales of annuities rose by 14% last year, financial platform Hargreaves Lansdown says, with pension savers flocking to take advantage of higher rates of income as interest rates have increased. Sales of annuities are now back to levels not seen since before the pension-freedom reforms of 2015. While income-drawdown plans remain a popular way for savers to take income in retirement, offering more flexibility and control, the fact that annuities now pay as much as 7.1% a year in income has seen many savers gravitate towards the guaranteed lifetime nature of the product.

- Nest, the UK's largest workplace-pension provider, is to launch a new £5bn fund for savers who want to invest their pension contributions based on environmental and social governance (ESG) concerns such as climate change. The launch will significantly expand the availability of ESG investment, with 12 million people in the UK currently saving for retirement in a Nest-run plan.

- Administrative problems at the Department for Work and Pensions (DWP) continue to hit savers making top-up national insurance contributions to qualify for additional state-pension benefits. The state has long encouraged savers falling short of a full national-insurance record to top up their payments, but recently the DWP has struggled to cope with demand for this service. Savers' payments are taking months to process, or even going missing, despite the DWP insisting that most cases are resolved in a few days.

Benefit from Berkshire's boom

The ethos and performance of Warren Buffett's investment vehicle look likely to outlive him

Stephen Connolly
Investment columnist

The legendary investor doesn't fly by the seat of his pants

©Alamy

When legendary investor Warren Buffett's conglomerate Berkshire Hathaway recently released earnings, it rounded off a week in which microchip-maker Nvidia had trounced expectations with its results, helping to propel US stocks to new all-time highs.

It was a timely coincidence. While Nvidia grows at a blistering pace because anyone who fears being left behind by artificial intelligence (AI) wants the superfast processing power that its chips deliver, Buffett reminded us that there are always new trends, but consistent investment success is a long game in which patience pays. Long-term investors need to back the breakthroughs in technology that are changing our lives, but they also need the sort of established and dependable businesses that Berkshire Hathaway champions.

The road to riches

Holding Berkshire's stock certainly hasn't done anyone's long-term wealth any harm. If you'd invested $10,000 in the early days you'd be sat on $438.5m today. From 1963 to the end of 2023, the shares gained 4,384,748% while the S&P 500 index rose by 31,233%, including dividends. This is a compound annual return of 19.8%, almost double that of the S&P 500's 10.2%.

This remarkable record stems from buying and holding investments in public and private companies across diverse sectors for the long term. It either owns these businesses outright or is one of many shareholders, albeit often a major one, given its size.

For example, Berkshire is the sole shareholder in BNSF Railway, a huge US and Canadian freight network it bought for $44bn in 2010. On the other hand, it owns nearly 10% of publicly listed Coca-Cola, the 140-year-old soft-drinks maker that Buffett describes to this day as a "wonderful business", having first bought a stake in the late 1980s. Coke is one of the very few companies that has raised its annual dividend for more than 60 successive years.

One could list every investment, but in a way Berkshire is more than the sum of its parts. By adding it to your portfolio, you're buying into a consistent application of principles. Chief among them is avoiding any permanent loss of capital. Berkshire is built to withstand crises and will not take undue risk. It currently has about $167bn in cash and short-dated bonds, with interest rates at their highest in years.

While most companies turn to their banks in economic turmoil, roles were reversed in the 2008 financial crisis when bank Goldman Sachs tapped Berkshire for help in shoring up its balance sheet and investor confidence, borrowing $5bn. Safety shows in the stock's performance.

Like any equity, the company isn't immune to short-term market swings. But University of Michigan research highlights, for example, that in the six years after 2000 when the S&P 500 was negative, the index's average fall was 17%, but Berkshire gained an average of 7.2% in those years.

Berkshire looks for business models that will endure over many years and tries to identify trustworthy managers who can generate lots of cash from the business and keep reinvesting this to make similarly high returns. Berkshire just sits and waits as the earnings compound.

Of course, at 93 years of age, Buffett won't be around forever. And late last year his long-time business partner Charlie Munger died. But there is a strong succession plan in place, with internal executives ready. The ethos and philosophy will live on and Berkshire will remain a strong choice for any investor who wants growth but with the preservation of long-term wealth as a guiding principle.

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

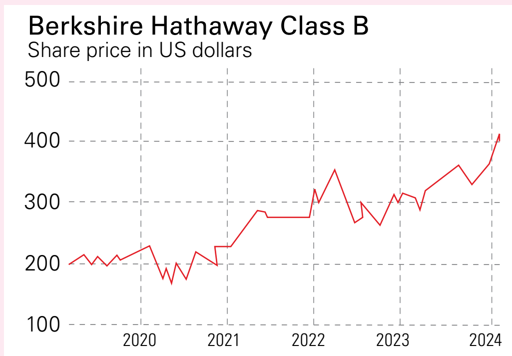
How to cash in on Buffett's cachet

To get Warren Buffett managing your money, just buy Berkshire Hathaway's shares. There are two share classes and you should buy "B" shares. "A" shares are too pricy as the company has performed so well over the decades; they cost around $617,000 a share.

The "B" shares are designed to provide a more affordable entry point at 1/1,500th of the size of the A shares. They cost about $409 each, which actually represents a 0.6% discount. Once you have bought them, you will have immediate exposure to Buffett's portfolio, a bit like holding an investment trust. This includes private businesses in areas such as insurance, transportation, building materials, chemicals and energy, including nationwide car-insurer Geico, BNSF Railway and battery-maker Duracell. Publicly quoted investments include Apple, Bank of America, Coca-Cola, Chevron and Occidental Petroleum.

Buffett takes a hands-off approach, leaving managers in charge as the trusted experts. So, while Berkshire employs over 380,000 people, it has fewer than 30 staff at its small head office in Omaha, Nebraska.

Berkshire recently announced net income of $37.6bn in the final three months of 2023, a 107% gain year on year, making $96.2bn for the year as a whole. The big winner was the insurance sector, thanks to sharply rising premiums. The quoted investment portfolio gained $58.9bn over the year, with $29.1bn coming in the final three months.



Given Buffett's age, an internal succession plan will see Greg Abel, currently in charge of non-insurance businesses, succeed Buffett. Ajit Jain will continue to manage insurance; the day-to-day investment portfolio will continue to be joint-managed by Ted Weschler and Todd Combs. Buffett's son Howard is likely to be non-executive chairman.

Ride China's recovery with stocks offering innovation, growth and value

A professional investor tells us where he'd put his money. This week: Dale Nicholls, portfolio manager of Fidelity China Special Situations, highlights three favourites

Despite ongoing bearish sentiment towards Chinese equities, we see significant opportunity. Valuations are near record lows, particularly compared with markets such as the US. While economic fundamentals are tepid, we perceive signs of gradual improvement, supported by increased government easing measures, with a particular focus on the troubled property sector.

Since the strategy's launch in 2010, the Fidelity China Special Situations investment trust has offered direct exposure to China's growth story, from well established and widely recognised companies through to entrepreneurial small and medium-sized ones, and even new businesses that have yet to launch on the stockmarket.

At present the portfolio is exposed to a number of investment opportunities in the industrial sector, which is being driven by ongoing innovation supported by investment in research and development (R&D). Many strong businesses in the consumer sector are also trading at significant discounts to their intrinsic value, and looking ahead, any stabilisation in consumer confidence could support improved consumption trends given a bolstered balance sheet for the consumer.

Recent consumer-related data points from the Lunar New Year holiday have also been encouraging. Finally, at the industry and company level, we are seeing ongoing consolidation across a number of sectors – the winners are getting stronger. Here are some examples that highlight these themes.

Powering electric cars

Shenzhen Inovance Technology (Shenzhen: 300124) is a key manufacturer of industrial automatic control products and electric-vehicle (EV) power-supply components. With the secular expansion in industrial automation, the robotics market and the EV market, the company is expected to keep growing strongly. Moreover, its significant R&D investment is likely to support continued expansion in product lines and further gains in market share, both domestically and internationally.

"Many firms in the consumer sector are on discounts to their intrinsic value"

Hisense Home Appliances Group (Hong Kong: 921) is a home-appliance manufacturer in China and it owns a 49% share of Hisense Hitachi, the second-largest central-air-conditioning brand in the country. The company's recent strong share-price performance

©Getty Images

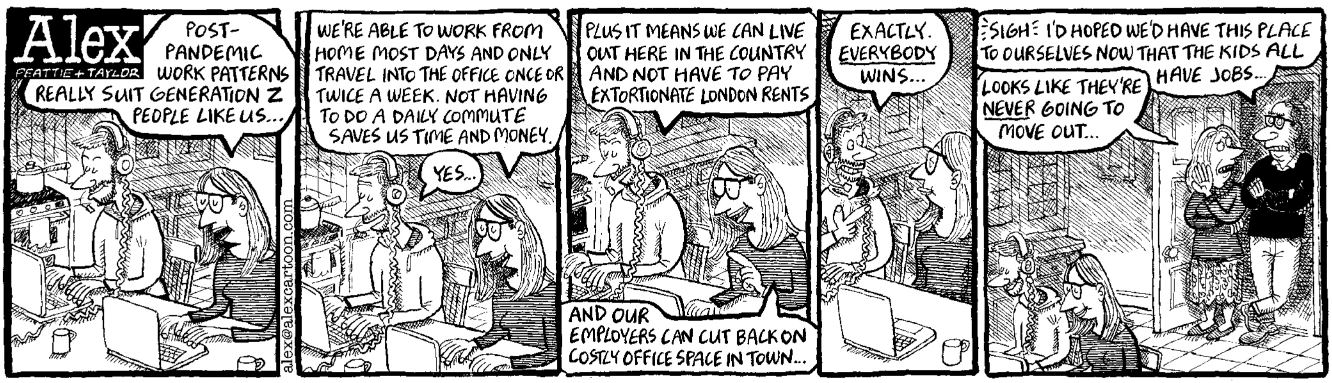
Atour Lifestyle Holdings is one of the Middle Kingdom's leading hotel chains

was primarily underpinned by strong earnings growth. The company continues to execute well – market share is growing and we expect ongoing margin expansion supported by an improving product mix and rising overseas profitability. Any improvement in China's property market could further support growth.

Growing upwards and downwards

Atour Lifestyle Holdings (Nasdaq: ATAT) is a leading hotel chain in China, with unique market positioning in upper mid-scale designer hotels. This market position provides Atour with the flexibility to grow its market share from both the higher and lower-end segments of the market, as well as attract both business and leisure customers.

The company has a strong record of innovation in its offerings while also controlling capital expenditure to ensure strong returns for its franchises, even through this period of economic weakness. Hopefully the more positive signals in travel activity seen during the Lunar New Year period will continue.



Silicon Valley's new frontman

The revolution in artificial intelligence has propelled the chipmakers who power it into the stratosphere. A hard landing seems inevitable, but for now Jensen Huang is enjoying the ride. Jane Lewis reports

Last September, Jensen Huang made a pilgrimage back to Denny's diner in San Jose where he and two friends hammered out an idea for a new venture in 1993. There, amid a celebratory round of drinks and sandwiches, he unveiled a plaque commemorating Nvidia's ascent into the realms of companies with $1trn valuations.

For the restaurant chain turned "trillion-dollar incubator", it was a PR gift, says VentureBeat – the American Dream writ large. When someone asked Huang if he'd written his business plan on a Denny's napkin, he replied: "Honestly, none of us knew how to write one."

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"There's a war going on out there… and Nvidia is the only arms dealer"

The man of the hour

It's a measure of the gold rush now propelling the chipmaker that the plaque is already redundant. If it took 30 years to get to a trillion – itself a remarkable feat – it has taken less than six months to double up to $2trn. With its 80% grip on the graphics chips (GPUs) underpinning the artificial intelligence (AI) revolution, Nvidia is breaking Wall Street records left, right and centre, says Wired. "Huang is the man of the hour. The year. Maybe even the decade."

Nvidia can't make enough of its H100 chips to satisfy voracious demand. And that has forced a shift in established pecking orders. Oracle's grandiose Larry Ellison recently described a dinner meeting with Huang as "an hour of sushi and begging". He's quite right to get out his bowl, says The Wall Street Journal. Eventually, the stranglehold will be broken, but for the time being Huang wields huge power. "How Nvidia allocates its limited supplies could influence who wins or loses in the AI race." As one Wall Street analyst told The New Yorker, "There's a war going on out there… and Nvidia is the only arms dealer."

Huang, 61, is famous for making bets ten years out. But even he might have struggled to predict this scenario. As his wealth has ballooned (it jumped by $9.6bn to $69.2bn on results day last week), he too has "transformed", says the Daily Mail. "Once a geeky, unassuming computer scientist, he is now a Silicon Valley rock star – always in his trademark black leather jacket with a tattoo of the Nvidia logo on his left arm."

It's been "a tough road" getting there, says The Sunday Times. Born Jen-Hsun Huang in Taiwan in 1963, Huang spent his early childhood in Thailand before being sent with his older brother to the US at the age of nine. The boys were billeted with their aunt and uncle, but ended up in a rough Baptist boarding school in Kentucky. He credits the experience with giving him grit and resilience. After training as an electronics engineer, he took a job as a chip designer before staking everything on launching Nvidia at the age of 30.

Only the paranoid survive

The three founders quickly saw a niche for Nvidia, which floated in 2009, in "improving computer graphics" to cater for the boom in video-gaming, says The Wall Street Journal. They swiftly made billions. But the significance of the focus on GPUs only really became clear with the realisation, a few years back, that the chips could be repurposed for AI. The hype surrounding the launch of ChatGPT last year sealed Nvidia's ascent into the stratosphere. But Huang is all too uncomfortably aware of the trade-off. The company has become "a giant target" for regulators, and rivals old and new. Some of his biggest customers – including Google, Amazon, Meta and Microsoft – are now rushing out chips of their own.

A fan of former Intel boss Andy Grove's mantra that "only the paranoid survive", Huang keeps himself sane by crystal-ball gazing and treating each day as "Day One". His new interest – reflected in some of the 36 start-ups Nvidia bought last year – is the crossroads of AI and biotech. He jokes about "transforming himself into a robot" so he can continue leading Nvidia for decades, says the Mail. Don't rule it out.

The private-equity supremo betting big on AI

On a bus ride in 2015 in Beijing with other global business leaders, Blackstone chief executive Steve Schwarzman (pictured) happened to sit down next to Jack Ma, co-founder of Chinese tech giant Alibaba, says Miriam Gottfried in The Wall Street Journal.

Their conversation led to Schwarzman, 77, becoming an "unlikely champion" of artificial intelligence. Ma convinced him AI would revolutionise drug development and education, and reshape how people in all industries do their jobs. Nine years later, Schwarzman might be the biggest individual funder of AI education and research, pledging more than half a billion dollars to the effort. He lobbied in Washington to help secure the passage of the Chips and Science Act of 2022, which boosted funding in areas such as AI and quantum computing.

He has pushed the boundaries at Blackstone, too, hiring its first data scientist in 2015 and now employing more than 50 to analyse data and make predictions that inform investment decisions.

The son of a dry-goods store owner, Schwarzman started his first business, a lawn-mowing operation, aged 14, employing his twin brother to mow while he touted for clients, says Forbes. He got his start on Wall Street at Lehman Brothers, and went on to found his private-equity firm with Pete Peterson in 1985.

Initially a boutique mergers-and-acquisitions advisory business, Blackstone grew into the world's largest buyout firm, with $991bn in assets. He diversified beyond buyouts long before competitors, launching a hedge-fund business in 1990, getting into real estate in 1991 and credit in 1998. The firm's market cap is now roughly double that of its closest competitors.

Schwarzman's enthusiasm for AI echoes other bold moves that helped build Blackstone into the $1trn behemoth it is today, says Gottfried. But boldness is not how Schwarzman sees it. "If I had thought they were bold, I wouldn't have done them," he said in an interview last year with consultancy McKinsey. "I don't like risk. [The moves I make are] completely logical." The logic has worked out pretty well. His income from his 20% stake in Blackstone fell by more than 30% in 2023, says the Financial Times – leaving him with a haul of a mere $900m.

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Looking for
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Go off-piste with these five resorts

Avoid the crowds and enjoy a day's quieter skiing, from Bansko in Bulgaria to Austria's Vorarlberg

Skiing to rival the Alps

Jasná in Slovakia is a lesser-known ski resort that offers 50km of slopes to rival those found in the Alps, says Hope Brotherton in The Sun. The area has benefited from a huge amount of funding over the past decade and the resort now boasts "high-speed lights, off-slope facilities, and extensive snowmaking".

The slopes are quiet in the morning and skiers can even stop for breakfast at the panoramic Rotunda. This restaurant in the Rotunda Hotel sits on top of a mountain at around 2,000ft, with 360-degree views of the High and Low Tatras mountains from the circular room and the terrace, says The Telegraph. It can get crowded but the food is "good", including the beef carpaccio, and the home-made tiramisu is "delicious". There's even a bar specialising in various rums. *Hotel from €363, tmrhotels.com*

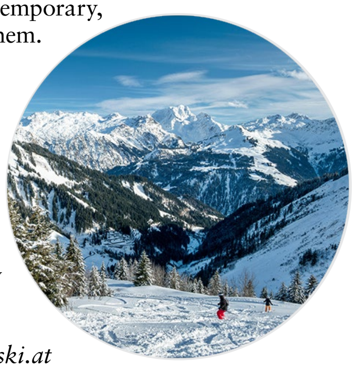
The Rotunda has great views of the mountains

Sea, sunshine and skiing

"If you never heard the words 'snow' and 'Côte d'Azur' mentioned in the same breath before, you're not alone", says Chrissie McClatchie for the i newspaper. "France's famous Mediterranean coastline remains blissfully off-piste as a ski destination to all but its residents, the hardiest of whom wear the fact they can swim in the morning and be on the slopes by lunch as a badge of pride." Then again, the Côte d'Azur ski scene, located an hour and a half from Nice Côte d'Azur Airport, is "much more low-key" than its counterparts in the Alps. But it is also much cheaper. A daily ski pass in Roubion-Les Buisses costs only €20 and that gives you access to 20 runs, covering a 30km ski area. At the base of the village, you will find a scattering of pretty, pitched roof chalets, among them the rustic, family-run Hotel Restaurant Le Chalet des Buisses. *From €60, lechaletroubion.fr*

Here today, gone tomorrow

Few skiers would be able to pinpoint Vorarlberg, in Austria's Grosses Walsertal valley, on a map, says Mike MacEacheran in The Guardian. The ski areas are "basic and low-tech", but that also means you can expect to have the place to yourself. And you can thank Cabinski, a cluster of temporary, sustainable huts, for being able to access them.



Each of the ten cabins comes with two double bunks, an ensuite and kitchen, and "minimalist yet smart Scandi vibes". Half of them have private wood saunas, "a short barefoot walk in the snow beyond the sliding door [of the cabin]", with wireless timers to ignite the burners for when you return from the slopes. The cabins will probably stay in place for a few years before the area is returned to nature. "It is a counter world to the typical chalet stay." *From €184 a night per cabin, cabinski.at*

A bargain ski holiday in Bulgaria

Bansko is Bulgaria's premier ski town, says Marianna Hunt in The Telegraph. Most of the 16 runs, at between 1,500m and 2,600m in altitude, are on a par with many in Austria and Italy, if not quite up there with those in France. There is a "whizzy" black run, eight reds and a "wealth of long, cruisey blue" runs, which makes the resort ideal for families and beginners.

The nearby Saint George Palace Aparthotel offers self-catering apartments that are "clean, surprisingly spacious and [include kitchens] complete with oven and fridge, [and a] sprawling bedroom". There is also a spa on-site, with a swimming pool, sauna, steam room and Jacuzzi. "The people of Bansko [have] that rare virtue you rarely find in other European ski resorts these days: they actually want you to be there. And if good hospitality doesn't equal good value, I'm not quite sure what does." *Six nights for two self-catering from £725, including flights, transfers, lift pass and equipment hire, heidi.com*

Ride the Niseko Express

British skiers may not be familiar with Niseko, says Milo Boyd in the Daily Mirror. But the resort area in Japan is "as much of a heavy hitter as anything" Europe has to offer. That's because of a mass of cold continental air that is created over northern Russia. As it moves east, it meets the warm air rising off the Sea of Japan and turns to snow – the Niseko Express, the locals call it. The Green Leaf hotel in Niseko Village is situated closest to the piste and has ski-in/ski-out access and a rental ski shop "that's run with extraordinary efficiency", says Jo Davey for The Week. "After steaming yourself soporific in the natural onsen, falling into the big white beds is akin to sinking into a flour-soft snow drift." *From around £229 a night, thegreenleafhotel.com*

A more civilised beast

The Range Rover Sport SV may have better manners than its predecessor, but it is still a very capable animal, says Chris Carter

Considering that Paris has introduced weight-related parking charges and environmentalists are roaming Britain's streets letting down car tyres, the idea of a new two-and-a-half tonne, near £200,000, V8-powered SUV "seems as appropriate as a spinning bow tie at a funeral", says James Fossdyke in The Sunday Times Driving. Land Rover has built one anyway.

It's called the Range Rover Sport SV and it replaces the SVR model. But whereas its predecessor came with a five-litre V8 petrol engine, the latest iteration packs a smaller 4.4-litre engine that's "a little less harsh on the ozone layer". Still, the new SV can "hardly be called green".

The old SVR was a "brash, boisterous car for brash, boisterous people", says Ollie Marriage for Top Gear. This, the "hottest" Range Rover Sport, has at least "been civilised" through applied technology, especially with the handling. But make no mistake. "For all this talk of genteel manners… what lies under the bonnet… [is] a whacking great V8", able to produce 626bhp and 590lb ft of torque. That allows the car to race to 62mph in 3.8 seconds – almost a second faster than the five-litre. And given its weight, just "think of the momentum". The top speed is 180mph. The SV also uses something called "6D Dynamics" – which, in plain English, means you can "chuck it around all you like" and it will stay level.

> *"For all the talk of gentilty, a whacking great V8 lies under the bonnet"*

A giant leap forward

The SV is indeed a "far less boisterous machine", says Stuart Gallagher in Evo. "In Comfort mode it feels noticeably more locked down than the Sport P530 that shares the same engine and adds a level of tautness to the body control as the 6D software works to prevent unnecessary pitch and roll."

On poor terrain, "where your eyes tell you to prepare for a shake and shudder… the SV is far more composed than your expectations". And on the road, it "shrinks itself around you, [which] makes for an easier-than-expected ability to place the car exactly where you need. Any vagueness and imprecision [are] dismissed."

Of course, there is no need for a two-and-a-half tonne SUV that's "as competent on track and the road. But… making such big cars more precise, and therefore easier to control and manage, has to be a good thing. And the Range Rover Sport SV is a very good thing indeed."

It's hard to emphasise "just how much of a giant leap forward the Range Rover Sport SV has taken beyond the standard car", says Alex Ingram in Auto Express. "The SV is one of the sharpest models in its class. That it does so without unduly sacrificing comfort – or off-road ability – is even more staggering."

From £171,460, landrover.com

Wine of the week: a toast to lifelong friendships

2018 Piesporter Goldtropfchen, Riesling Spätlese, Mosel, Germany

£23, thewinesociety.com

Matthew Jukes
Wine columnist

Next Wednesday, 6 March, The Wine Society celebrates its 150th Anniversary by launching a one-off collection of fine wines from some of the world's most iconic estates. Relationships form the heart and soul of the wine business, and it is the forging of genuine friendships that makes this one of the most worthwhile careers. I tasted a small selection of the wines selected for this initiative, and it is clear that The Wine Society has thrived for a century and a half because of its steadfast commitment to great wineries.

My headline wine comes from Reichsgraf von Kesselstatt and is a stunner. I remember my wife, Amelia, who also works in wine, recounting a story many years ago of a wonderful lady she had recently met – Annegret Reh-Gartner. I, too, had immense respect for Annegret, the dynamic wine personality in charge of von Kesselstatt. Amelia and I both fell for the wines and this connection, among many others, linked us. We were both extremely sad when she passed away in 2016.

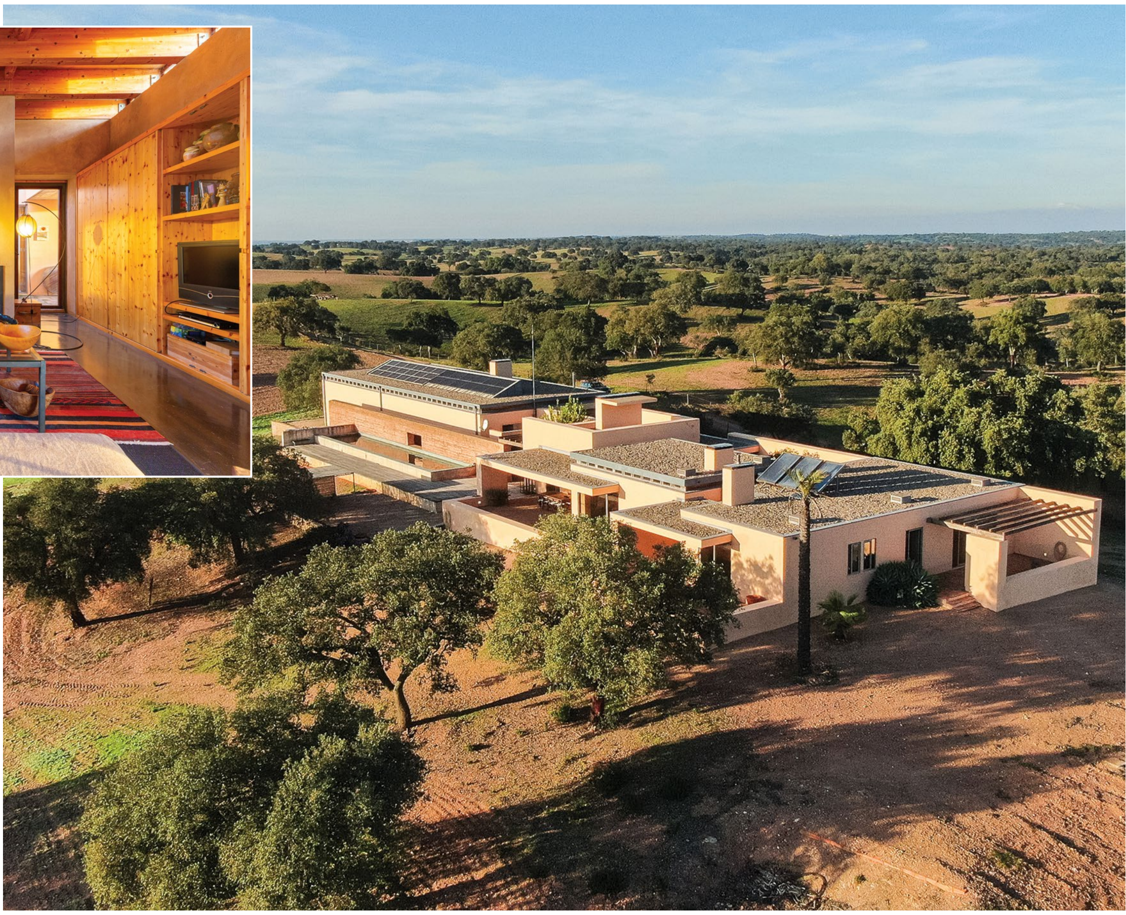
We seek out her wines whenever we have the chance, and it just so happens that von Kesselstatt makes the Wine Society's Piesporter Goldtropfchen. It weighs in at a tiny 8% alcohol and is one of the most celestial rieslings I have tasted in years. Lifelong friendships and peerless reputations forged in trust and respect make The Wine Society a beacon in our wine trade.

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

This week: energy-efficient properties – from a bespoke house situated in the sand dunes near Amble

The Beaches, Amble, Morpeth, Northumberland. One of three bespoke houses in the dunes near Amble, with views of Coquet Island RSPB nature reserve. It has thermal insulated walls, underfloor heating and Valiant air-source heat pumps.3 beds, 3 baths, recep, kitchen, balcony, garden. £595,000 Finest Properties 01434-622234.

Cypress Oaks, Dartmoor, Dunsford, Exeter, Devon. A modern house with views over the Teign Gorge. It has triple-glazed Internorm floor-to-ceiling windows, exposed wall and ceiling timbers and an open-plan living area. 4 beds, 2 baths, double garage, outbuilding, gardens, woodland, 6.7 acres. £1.7m Jackson-Stops 01392-214222.

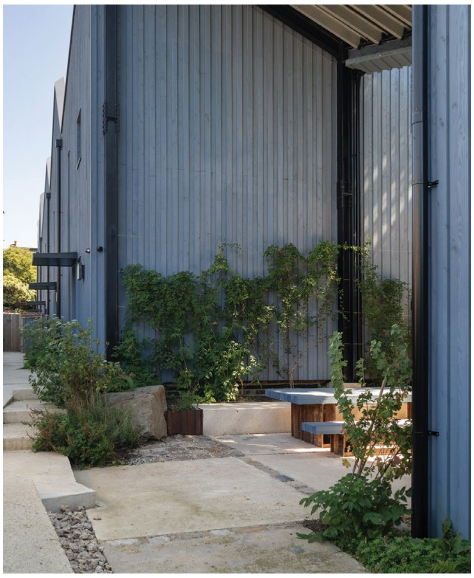


Salvada e Quintos, Beja, Alentejo, Portugal. This property has been awarded an A+ energy rating and comes with its own water source, a rainwater collection system and a back-up diesel boiler . It has floor-to-ceiling windows, beamed ceilings, reinforced concrete and wood rooms, polished cement floors and a contemporary kitchen. 4 beds, 3 baths, 1 recep, internal courtyard, garden, swimming pool, outbuildings €6.47m. Savills, +351 215 969 000.

, Morpeth, to a contemporary house with an A+ energy rating in Alentejo, Portugal

◄ **The Orchard, Atch Lench, Evesham, Worcestershire.** This contemporary house has been awarded an energy-efficiency A rating and has underfloor heating and solar panels with a feed-in tariff. It has floor-to-ceiling windows, an open-plan living area with a wood-burning stove and the gardens include a home office and a greenhouse. 4 beds, 3 baths, open-plan kitchen/living area, study, garage, barn with stores, gym and workshop, former stables. 2.13 acres. £925,000 Knight Frank 01789-206950.

► **Lodge Hill, East Coker, Somerset.** An extended, updated 1840s house with underfloor heating and an air-source heat pump. It has new oak floors, open fireplaces, modern bathrooms and a hand-built kitchen with an electric Aga. 4 beds, 4 baths, dressing room, recep, gardens, 7 acres. £1.64m Savills 01202-856873.



◄ **The Daintree, Colehill, Wimborne, Dorset.** This modern house has been awarded an EPC energy-efficiency B rating. It is surrounded by landscaped gardens and has underfloor heating, smart-home systems, and an open-plan kitchen, dining and living area with sliding doors and glazed screens overlooking the garden. 5 beds, 5 baths, dressing room, recep, open-plan kitchen/living area, cinema room, 0.6 acres. £2.5m+ Christopher Batten 01202-841171.

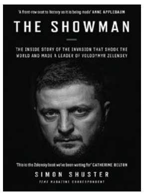
▲ **The Arbour, Orford Road, London E17.** This property is part of a small sustainable residential development with communal gardens just five minutes from Walthamstow station. It is built to Passivhaus standard and the development is carbon neutral with zero waste and air-source heat pumps. It has floor-to-ceiling windows and a private garden area. 3 beds, 2 baths, open-plan living area. £1m The Modern House 020-3795 5920.

► **Reservoir House, Gnaton, Yealmpton, South Devon.** An unusual off-grid house with an A rating for energy in an Area of Outstanding Natural Beauty. It has underfloor heating and zone control for individual rooms, solar panels, battery storage, and a Victron back-up generator. The open-plan living area has a state -of-the-art fitted kitchen with a modern wood-burning stove. 4 beds, 2 baths, dressing room, study, gym/home office, gardens, 0.78 acres. £1.25m Luscombe Maye 01752-872417.

Book of the week

The Showman

Inside the Invasion That Shook the World and Made a Leader of Volodymyr Zelensky
Simon Shuster
William Collins, £22



At a time when elected leaders in the West are behaving like clowns, it is ironic that it has taken Ukraine's president, a former comedian, to remind us what a true statesman looks like. Defying predictions that Ukraine would rapidly fold in the wake of Russia's invasion, Volodymyr Zelensky managed to marshal a response that stopped Putin's army in its tracks and even managed to regain some of the territory lost to a previous invasion. Two years on, the war continues, and there are doubts over whether Ukraine can continue to rely on the support of the US and Europe. Yet Ukraine's position is far better than many would have initially hoped. Simon Shuster paints the Ukrainian leader's portrait.

His book opens on the night of the invasion, when Zelensky roused his family with the single word "*nachalos*" (it has begun). It then tells the story of the frantic first few days, when his team had to rally the nation and deal with the very real threat of Russian assassins, all at a time when European leaders were assuming that he would either surrender or lead a government-in-exile. We then follow Zelensky through the next few weeks and months, as defence turns into counterattack and then into the current stalemate.


Zelensky: a true statesman

©Getty Images

> *"The book opens on the night of the invasion. Zelensky rouses his family with the single word 'nachalos' (it has begun)"*

While recounting the wartime heroics, Shuster fills us in on Zelensky's back story, charting his transformation from successful comedian and satirist to unlikely political candidate – and even unlikelier leader. This parallel structure breaks up the action, and gives the book an almost cinematic feel. Shuster also balances the picture by giving space to Zelenksy's critics – both those who saw him as too hawkish and those who wanted Ukraine to come to an accommodation with Russia.

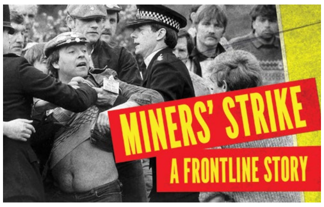
Ukraine is now under renewed military pressure, and Zelensky's domestic critics are starting to re-emerge – recent disagreements between him and his generals have made the news, for example. Still, it's impossible not to conclude that his shortcomings are far outweighed by his heroism. Even the controversial decision to close down the television stations of one of his pro-appeasement opponents, on the grounds that they were funded by the Kremlin, is hard to dispute, given that the politician in question was later caught red-handed trying to sneak over to the Russian lines.

The war in Ukraine is by no means over, but this book is a good take on what has happened so far, and gives us a feel for what is at stake. It looks forward to a future where Ukraine determines its own destiny, free from the malign hand of Russian interference.

Reviewed by Matthew Partridge

Miners' Strike

A Frontline Story
Directed by Ben Anthony
Streaming on the BBC's iPlayer



A few weeks ago, Channel 4 came out with a three-part miniseries about the 1984-85 miners' strike. With the 40th anniversary of the year-long stand-off only days away, that BBC has aired its own take on the industrial conflict that has been seen as the final nail in the coffin for Britain's postwar political and economic consensus.

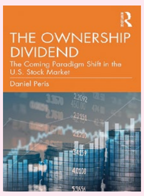
The documentary tells the story of the strike through interviews with those who were on the frontlines, beginning with the initial confrontation at Cortonwood, which triggered the strike, and then proceeding roughly chronologically. This gives us a sense of how things changed over time, as the miners' initial optimism turned first into anger and then resignation as it became clear that the government would do anything to ensure their defeat, even if it meant using the police as a weapon against them.

The focus on the individuals on the frontline means that some angles, such as the debates that went on inside the government and the miners' union, the NUM, are neglected, but this is more than compensated for by the emotional impact of the stories. The documentary really gives you a vivid sense of what it was like to both man – and cross – a picket line. It is an intense look at a momentous period in our country's recent history.

Book in the news... should you invest for income or growth?

The Ownership Dividend

The Coming Paradigm in the US Stockmarket
Daniel Peris
Routledge, £31.99



Over the past few decades, the idea that companies should pay dividends to shareholders has sometimes come under attack. Academics argue that it is better for companies to retain their earnings and invest for growth, leaving investors who want to realise gains to sell their shares – dividends are, in addition, generally taxed at a higher rate than capital gains. Some investors even claim that dividend payments are a sign of corporate weakness, as they indicate a lack of investment opportunities. Covid seemed to deal the final blow, as many companies were banned from paying dividends. Most of those that were have, however, now resumed payments, and even Meta (Facebook's parent) has started to pay out. Is this the start of a trend?

Daniel Peris clearly think so. His book argues that many of these criticisms are overstated. Many shares are now owned by institutions that are exempt from tax. Many investors like the convenience of receiving a combination of income and capital gains, so they don't having to decide how much of their capital to sell. And in an age of uncertain valuations and digital assets, dividends provide hard evidence that a company can actually make real money in the present, as opposed to offering just vague promises of future growth.

These are substantial arguments, and Peris's charts show a strong correlation between dividend growth and increases in share price over the past 30 years. Sadly, his book is written in a rather long-winded style that makes it difficult at times to understand what exactly the author is saying (Peris says that the intended audience is financial professionals rather than academics, and a large part of the book is written as a response to the academic theories of Fischer Black and others). The message may have merit, but there are better books on the topic, especially for ordinary investors who want practical advice on what it all means for their investment strategy.

Bridge by Andrew Robson

Press on, West

West led the King of Diamonds v Four Hearts. Declarer won dummy's Ace then led a Trump to the King. West took his Ace, cashed the Queen of Diamonds, then, at the table, switched to the Knave of Clubs. Declarer won the Ace, cashed the Queen of Trumps noting West's ten, then abandoned the suit, playing East to have the remaining nine-six. Instead, he led the King of Spades. West won the Ace and led the Knave of Diamonds, enabling East to throw a Spade, but it was no good.

Dealer South — Both vulnerable

North:
♠J754
♥53
♦A1042
♣KQ2

West:
♠ A106
♥ A10
♦ KQJ96
♣ J106

East:
♠982
♥9642
♦75
♣9743

South:
♠KQ3
♥KQJ87
♦83
♣A85

The bidding

South	West	North	East
1♥	2♦	Dbl*	pass
2♠**	pass	2NT	pass
3♥	pass	4♥	pass
pass	pass		

* Negative, showing Spades. There is a case, however, for North to pass, then pass partner's reopening take-out double. Two Diamonds doubled would go three down.
** Sensible choice, among a series of flawed alternatives.

Reading the position, declarer ruffed the Diamond, cashed the Queen of Spades, led over to the King-Queen of Clubs, then led the ten of Diamonds. If East ruffed, declarer could overruff cheaply, draw East's other Trump, and cross to the Knave of Spades. If East discarded, declarer could throw his Spade and score the last two tricks with the Knave-eight of Trumps over East's nine-six. Ten tricks and game made.

To beat the game, West needed to press on with Diamonds when in with the Ace of Trumps, then again when he wins the Ace of Spades. East can throw Spades on the third and fourth Diamonds, leaving declarer no way home.

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

Sudoku 1197

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

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

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

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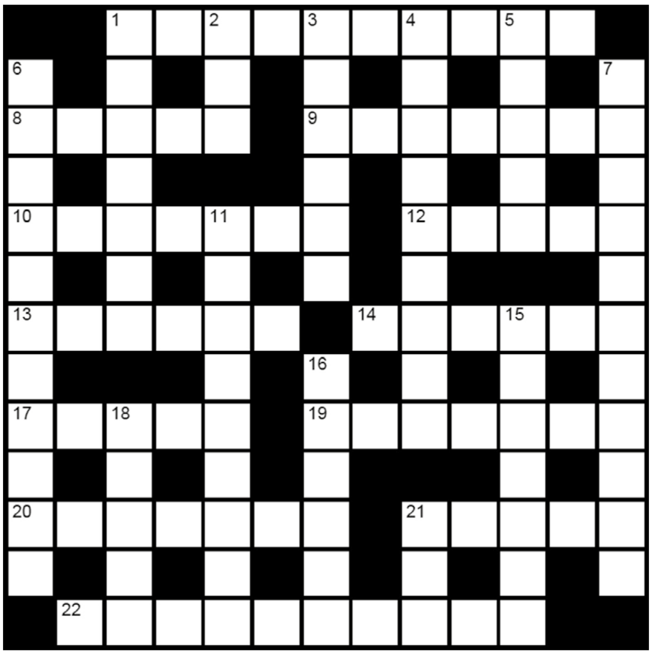
Tim Moorey's Quick Crossword No.1197

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 11 March 2024. By post: send to MoneyWeek's Quick Crossword No.1197, 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.1197 in the subject field.



Across clues are cryptic whilst down clues are straightforward

ACROSS
1 Playing tonight with Man City (10)
8 Angry buccaneer blowing his top (5)
9 Calm situation around a centre in Stratford (7)
10 Distressing experiences in troubled Sumatra (7)
12 Site or sighted by the sound of it (5)
13 Try tailor in part of Venice (6)
14 Chest that one's audibly bothered by (6)
17 Evening meal quietly dropped for police officer (5)
19 Hairstyle given on board? (4,3)
20 Social climber puts off painting (7)
21 Amerind not OK in helicopter (5)
22 Scarce tuna can be replaced by prawn perhaps (10)

DOWN
1 Falls (7)
2 Article (3)
3 Mischievous (6)
4 Former PM (9)
5 Semi-precious stone (5)
6 Visually attractive (11)
7 Merrymaking (11)
11 Important roads (9)
15 Falsehood (7)
16 Cold drink (3,3)
18 Vexed question (5)
21 Prompt (3)

Name

Address

email

Solutions to 1195

Across **1** Echidna **5** Waste **8** Dog's breakfast **9** Pal **10** Transpire **12** Awning **13** Bonnet **15** Rifle shot **16** Aft **18** Prime minister **20** Yogis **21** Tutored

Down **1** End up *end up* **2** Highland fling *deceptive def* **3** Debutante *anagram* **4** Arenas *N inside areas* **5** Wok *W + OK* **6** Stationmaster *anagram* **7** Entreat *ENT re a (prospec)t* **11** Shortlist *anagram* **12** Atrophy *a + trophy* **14** Thrift *th(e) rift* **17** Tired *ti + red* **19** Ens *hidden*

The winner of MoneyWeek Quick Crossword No.1195 is: Nigel Ford of Burton-on-Trent

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

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

America's Cluster of Woe

The US is quickly approaching the largest debt crisis in history

The price of Campbell's soup has risen ten times since the 1970s

©Alamy

Bill Bonner
Columnist

Investment analyst John Hussman is highly analytical, mathematical, historical and statistical. That is to say, he takes his analysis seriously and believes you can hear the future in the echoes of the past. He estimates that current market conditions now cluster among the worst 0.1% instances in history – "more similar to major market peaks and dissimilar to major market lows than 99.9% of all post-war periods".

Not to put too fine a point on it, but at market tops, prices go down. At market bottoms, they go up. Our goal is to avoid the Big Loss. And Big Losses are what you get at market tops. At market bottoms, you get Big Opportunities. The Big Loss threat today is in the stockmarket –and specifically, in the "Magnificent Seven" tech stocks that dominate the top of the performance listings.

How big is the loss likely to be? Hussman helps us there too. "I call this the 'Cluster of Woe' because the handful of similarly extreme instances (most notably in 1972, 1987, 1998, 2000, 2018, 2020, and 2022) were typically followed by abrupt market losses of 10%-30% over the next six to ten weeks (average –12.5%), with losses at the smaller end of that range often seeing deeper follow-through later."

The surprising thing, to us, is that the losses were not that big after all. The woe… is not so woeful. An average loss of just 12.5%? Readers might well say to themselves: "Is that all? I can live with that. Especially if I get a chance to double or triple my money in Nvidia."

The US stockmarket is extremely top-heavy. Three stocks – Meta, Microsoft and Nvidia – account for half the gains this year. Nvidia traded at $8 a share when Trump was elected. Now, it is $780. That's a dream-maker, turning a

> ***"The US is slip-sliding into desperation"***

$10,000 investment into nearly $1m. This year alone Nvidia has jumped 50%. But what were the odds of identifying Nvidia eight years ago? And what are the odds that Nvidia, along with the rest of big tech and the entire stockmarket, sinks? According to Hussman, the risk is 99.9%.

But where we think Hussman may have erred is not on his calculation of the odds, but his measure of the damage. It could be much greater than Hussman's figures suppose. Today's "Cluster of Woe" consists of falling asset prices, rising inflation, political corruption and levels of incompetence never before seen in the US, along with a sharp decline in America's power, influence and wealth.

The period of time described by Hussman's "Cluster of Woe" was unique in market history. It began in 1972, one year after the US introduced its new debt-based money system. Since then, some amazing things have happened. It was off to the races for all financial assets – stocks, bonds, real estate and baseball cards. The federal budget was, with a few minor exceptions, never again balanced. 1975 was the last year the US recorded a positive trade balance and the deficit hit of $951bn, the highest ever recorded, in 2022. Real hourly wages topped out in 1972. The price of Campbell's soup went up ten times. The US debt/GDP ratio rose three times. The new, fake money caused everything to go bananas.

So the period Hussman is using for his base was one in which stock prices were seriously distorted by fake money and the US Federal Reserve. That period is now over. The Fed cannot repeat its old trick of goosing the stockmarket and economy by printing money without stoking inflation. Higher prices will undermine sales and profits, and ultimately the stockmarket itself. Meanwhile, the empire is slip-sliding into desperation, and the US is quickly approaching the largest debt crisis in world history.

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Contributors: Bill Bonner, Rupert Hargreaves, Ruth Jackson-Kirby, Max King, Jane Lewis, Matthew Lynn, David Prosser, Cris Sholto Heaton, David C. Stevenson, David J. Stevenson, Simon Wilson

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

Subscriptions managing director: Shaun Inglethorpe
Group advertising director: Peter Cammidge
peter.cammidge@futurenet.com
Account director: Richard Heaton
richard.heaton@futurenet.com
Chief financial and strategy officer: Penny Ladkin-Brand
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Customer service and subscriptions
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