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MoneyWeek

MAKE IT, KEEP IT, SPEND IT

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A nation in need of repair
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BRITAIN'S BEST-SELLING FINANCIAL MAGAZINE

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MoneyWeek

5 August 2022 | Issue 1115

Britain's best-selling financial magazine

From the executive editor...

I joined MoneyWeek 17 years ago, in August 2005. The Labour government had recently won its third election in a row under Tony Blair, with hand-wringing columnists bemoaning pitiful turnout levels and general voter apathy. The oil price had just breached the $60-a-barrel mark for the first time ever. Inflation in the UK was 2.4% and the Bank of England – rattled by signs of a mild slowdown, driven in part by high oil prices – had just cut interest rates by a quarter point from 4.75% to 4.5%, a gesture which helped to inject unwelcome energy into what had been a slowing housing market. The average UK house price, according to Nationwide, was about £158,000, having doubled in just five years, and plenty of us thought that was unaffordable.

Since then, we've seen a global financial crisis, a slower-burning eurozone sovereign debt crisis (which is still smouldering even today), several Chinese growth scares, a global pandemic, and now a land war in Europe. No one can argue that voters are too apathetic these days – indeed, after two divisive UK referendums and one very divisive US election, political columnists in the Anglosphere mostly complain that voters are rather too engaged and that this democracy business is over-rated. Globalisation has given way to trade wars; inflation has gone from being less of a threat than outright deflation to being economic public enemy number one; and of the Brics (Brazil, Russia, India and China) – once the world's hottest investment destinations – only two can really be deemed investable destinations today (feel free to take your chances with Chinese stocks, but I won't join you). About the only thing that hasn't changed is that houses are still too expensive (we're now paying an average £270,000 in the UK, says Nationwide, up 11% on the year).

©Getty Images

Alan Greenspan: no longer underwriting markets

"About the only thing that hasn't changed since '05 is that houses are still too expensive"

The biggest change

But the biggest difference between today and the financial world that prevailed right up until last summer, is this: roaring inflation means that central banks no longer see markets as their top priority. The "Greenspan put" – the assumption (named after former Federal Reserve boss Alan Greenspan) that central banks would print money or cut interest rates as soon as markets wobbled – is no more. That leaves investors at the mercy of how politicians react to rising prices and angry voters, which makes for a far more fickle environment, as a glance at a handful of this week's topics – war (see page 18), the end of empire (page 14), rationing (page 13) and industrial policy (page 12) – reveals.

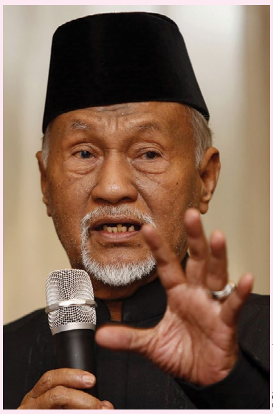
Why the trip down memory lane? I'd like to say it's because I've come up with a grand theory of finance, but in fact it's because, I'm sad to say, this is my last editor's letter for MoneyWeek. I'm off to pastures new but I'll still be writing about money, so I hope this is "au revoir" rather than farewell – follow me on Twitter at @John_Stepek and on LinkedIn to keep in touch. And if you'd like to say "hello" in person, I'll be joining Merryn at her Edinburgh Fringe show at Panmure House (once home to Adam Smith) which runs from 25 to 28 August. Book your tickets at tickets.edfringe.com/whats-on/butcher-the-brewer-the-baker-and-merryn-somerset-webb.

Hope to see you there. And may all your investments be ten-baggers.

John Stepek

editor@moneyweek.com

Lawsuit of the week



©Shutterstock

Eight professed heirs of Jamalul Kiram II, the last sultan of the archipelago of Sulu, are trying to seize $14.9bn of Malaysian assets in a dispute over an agreement made in 1878, says the Financial Times. The state of Sabah was leased to a British trading firm by a previous sultan of Sulu, then became part of Malaysia on independence in 1963. Jamalul Kiram II, the last recognised sultan, died in 1936, after which a series of residents of the Philippines – of which Sulu is now part – have claimed the throne, including the late Esmail Kiram II (pictured), whose followers tried to stage an armed invasion of Sabah in 2013. The claimants say they are entitled to a share of Sabah's oil wealth and are now attempting to seize overseas assets owned by Petronas, the Malaysian state oil firm.

Good week for:

Hollywood actor **Johnny Depp** made roughly £3m in just a few hours from the sale of his first collection of artworks on Thursday last week, says BBC News. Depp sold 780 prints priced at £3,950 each – or £14,950 for a complete set of four – from a series called *Friends And Heroes*, which consisted of portraits of musicians Keith Richards and Bob Dylan and actors Al Pacino and Elizabeth Taylor.

The **England women's football team** will take home a total of €2.08m in prize money for winning the Euro 2022 tournament last Sunday, says ITV. The tournament was the most popular Women's Euros yet, with 87,192 fans attending the final in Wembley Stadium and nine million watching on television as an England football team won a first major trophy since the men's side lifted the World Cup in 1966.

Bad week for:

Rebekah Vardy (pictured), the wife of footballer Jamie Vardy, faces a legal bill of up to £3m over her failed lawsuit against Coleen Rooney, the wife of footballer Wayne Rooney, says The Telegraph. Rooney claimed that Vardy had leaked stories about her to the media. Vardy disputed the allegation and sued for libel, but a judge ruled it was likely that she was responsible.

©Getty Images

Former US president **Donald Trump** has been accused of burying his ex-wife Ivana on his New Jersey golf course in order to get a tax break, says The Daily Mail. Ivana, who died in July, was the first person to be buried in a plot near the first tee that was set aside for a "Trump family cemetery". Local law exempts land used for burials from income, property and sales tax. Trump had previously designated the plot as farmland to avoid other taxes.

Enjoy the bear market rally while it lasts

Alex Rankine
Markets editor

While GDP is shrinking, the unemployment rate is at a 50-year low

©Getty Images

Recession? What recession? The US economy shrank at an annualised pace of 0.9% between April and June, its second successive quarterly contraction. In many countries that would meet the definition of a recession, but with unemployment close to a 50-year low and two vacancies for every jobseeker in May, the White House has rejected the label. "That doesn't sound like a recession to me," says president Joe Biden.

"The official designation is determined by eight economists" at the National Bureau of Economic Research, who also look at measures of jobs growth, income and spending to make a recession call, say Nicole Goodkind and Tal Yellin for CNN. They don't think this slowdown qualifies.

Beyond the technical arguments, "what's clear to everyone is the economy is slowing, prices are rising at their fastest pace in decades, and the housing market has started cooling as the Fed raises interest rates aggressively", says David Gura on National Public Radio. Around 65% of US voters think the country is already in recession.

Investors are too bullish

That hasn't dampened investors' spirits, however. The S&P 500 plunged 21% in the first six months of the year, but rallied 9.1% in July for its best monthly showing since November 2020, say Kate Duguid and Naomi Rovnick in the Financial Times. The tech-heavy Nasdaq Composite index gained 12.3%. Last week the US Federal Reserve hiked interest rates another three-quarters of a percentage point to a range between 2.25% and 2.5%. Yet investors increasingly think that a weaker economy will cool inflation and see the Fed relent fairly soon, says John Authers on Bloomberg. "That's an unlikely scenario" that suggests a misplaced confidence in the Fed's ability to manage the inflationary storm without reducing corporate earnings. July's gains look like a bear-market rally, a moment when "it appears that all the selling is over and that it's safe to take risks once more", only for markets subsequently to plunge once again.

Bear-market rallies are not uncommon, says Robert Armstrong in the Financial Times. "I count four or possibly five in the 2007-2009 downturn." There were also "three big ones, all of around 20%, interspersed within the 2000-2003 crash". While this rally principally reflects "a softening of inflation" and interest-rate expectations, investors also appear to think that the US is heading for "either a shallow recession or no recession at all next year".

Wall Street is being unduly optimistic, says Russ Mould of AJ Bell. Analysts are still forecasting increases for overall S&P 500 earnings in 2022 and 2023. That looks a "stretch" given soaring inflation and "sagging growth". Note that "US corporate profits stand at record highs not just in margin and absolute dollar terms, but also as a percentage of GDP", leaving limited room for further progress. While US valuations have come down this year, they still look expensive on the crucial cyclically adjusted price/earnings (CAPE) gauge. "Any time the CAPE ratio has stood at the current level, subsequent ten-year compound returns from US equities have invariably been negative."

China's property downturn deepens

Homebuyers are going on a "mortgage strike": stopping payments on uncompleted flats

©Getty Images

"China's deepening property bust is sending shock waves through the nation's 400 million-strong middle class," says Bloomberg News. House prices have fallen for ten months in a row. That is putting pressure on households, whose leverage has risen from 27.8% of GDP in 2011 to 61.6% at the end of 2021.

A rise in homebuyers going on "mortgage strike" – stopping payments on uncompleted flats – is piling further pressure onto developers, says Evelyn Cheng on CNBC. S&P Global Ratings thinks that Chinese "property sales will probably drop by about 30% this year". That would be worse than the 20% slump that the market suffered in 2008. China's housing sales amounted to more than $2trn last year, making the sector a crucial driver of the world's second-largest economy, says Jacky Wong in The Wall Street Journal. The mortgage boycott risks fuelling a "vicious cycle: potential homebuyers stay away, which worsens developers' ability to raise money to complete projects". The economic fallout from China's zero-Covid-19 lockdowns is not helping. While Beijing has so far avoided a sector-wide bailout, the economic damage and the stress on indebted local governments are likely to force it to "provide a backstop so that homebuyers regain confidence".

Don't count on a "decisive policy shift", says Nicholas Spiro in the South China Morning Post. Problems in Chinese property are "a direct result of Beijing's efforts to deleverage the economy and de-risk the financial sector". To rescue the property developers would be to abandon that goal. Beijing won't unleash a "shock-and-awe… response" because, as Tyran Kam of Fitch Ratings puts it, the aim is to "stabilise the property sector without bailing it out".

The Spac boom turns to bust

Spacs, "once Wall Street's hottest tickets", are a "hated trade" this year", says Yun Li on CNBC. Special purpose acquisition companies (Spacs) are shell firms that list on the stockmarket to raise cash. They then use the money to buy an existing company. A CNBC index that tracks the shares of firms that have gone public via a Spac is down almost 50% this year, more than double the fall on the S&P 500 index. At least the banks made money from Spacs. Many then enjoyed "a second payday" by advising on mergers after the Spac's listing.

Regulatory scrutiny has now seen banks step back. Founders, the people who launch a Spac, are also in a pickle. As of early June, there were "more than 600 Spacs that have listed on an exchange, raised money from investors but have yet to find a private company to merge with". If sponsors fail to do a deal within two years they typically lose the 2%-3% of the Spac's capital that they put up at the beginning.

Still, Spacs aren't going away, says Les Echos. While the number of Spacs has plunged this year, almost 60% of US initial public offerings (IPOs) were done via Spacs in the first half of 2022, the same proportion as in 2020 or 2021. Spacs have existed for 30 years. Now that the boom is over they are likely to go back to being what they were before: a way for smaller and "less mature" firms to secure a stock market listing while bypassing some of the rigmarole of a "traditional IPO".

Britain's resilient blue chips


©Alamy

The UK market boasts some top companies at very reasonable prices

The FTSE 100 is only a few percentage points up since its dotcom peak in December 1999, says James Yardley in the i newspaper. London is starting to resemble the similarly "hated" Japanese equity market, says Steven Andrew of fund manager M&G. "Places get this reputation from investors because they don't make lots of money and they can be a bit dangerous if you own them at the wrong time."

"For all the criticism aimed at the UK benchmark," note that "the FTSE 100 has delivered an average annual total return of 7.75% since its inception in 1984," says Investors' Chronicle. True, that lags America's S&P 500, but "it's easily more than double the average UK inflation rate over the same period".

What's more, the London blue-chip index has been the best-performing major stock index so far this year (it has gone nowhere, while other global markets have plunged). "There is a certain irony in that the much-derided composition of the FTSE 100 is the main reason why it has held up reasonably well over the past six months or so."

The FTSE 100's weighting towards energy, mining and banking stocks have made it a refuge in the inflationary storm. By contrast, the FTSE 250, down almost 16% in 2022, has struggled owing to its greater weighting towards more cyclical industrial and consumer shares. The FTSE 100 bucks weakness in the UK economy because 80% of its earnings come from overseas. Analysts at Link Group think that sterling's weakness should provide a £3.5bn-£4.5bn boost to total dividends this year; dollar earnings are inflated when translated into a weaker pound. A strong showing from miners helped push UK payouts to £37bn in the second quarter, the second highest figure on record. Link Group now expects headline payouts to climb by 2.4% in 2022 to £96.3bn.

"On a relative basis… British shares are incredibly well placed because we never had the bubble that America had," Richard Buxton of the Jupiter UK Alpha fund told Danielle Levy in The Daily Telegraph. "We have some great companies… which are pretty cheaply valued. British shares offer a place to hide in difficult times in financial markets."

Traders dislike Truss

The UK market could yet be heading for the odd bout of turbulence if Liz Truss is the next prime minister, however. "Truss's policy platform… poses the greatest risk from an economic perspective… with an unseemly combination of pro-cyclical tax cuts and institutional disruption," according to Ben Nabarro of Citigroup. Truss is considering reviewing the Bank of England's mandate to ensure it is tough enough on inflation, although she says this should not threaten its independence. The more predictable Rishi Sunak is the market's favourite.

Viewpoint

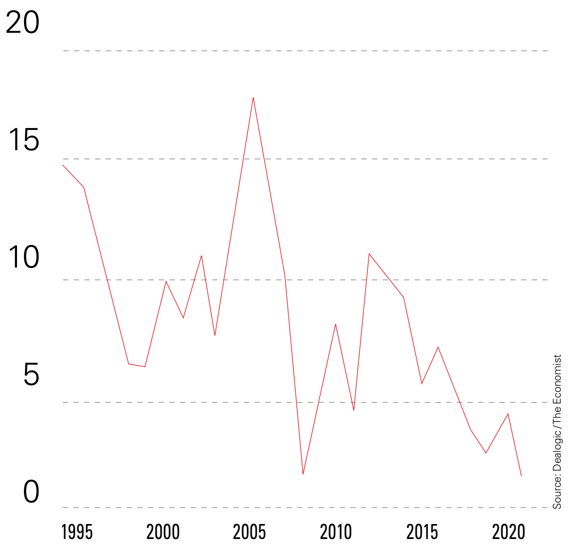
"Instead of seeing the UK as the be-all and end-all for dividends, [investors should] look at Asia... Dividends in Asia were resilient throughout the coronavirus pandemic (falling 19% between 2019 and 2020 compared with a 34% fall in Europe and the UK) and have rebounded strongly. Dividends in Asia in 2021 were 8.6% higher than they were in 2019. In the UK, 2021's dividends were 15.5% lower than in 2019. The Australian miner BHP was the biggest dividend payer in the world in 2021. Five other Asia Pacific firms were in the top 20... There are 15 funds and six trusts that yield more than 2% investing in companies across Asia Pacific, according to the [investment] platform Hargreaves Lansdown... Asia's economy was once at the forefront of the world order — and threatens to be back there again soon. Overlooking it could be costly."

David Brenchley, The Times

The City's dwindling appeal for new listings

Initial public offerings (IPOs) in London

Percentage of total global value



The £30.5bn listing of consumer-healthcare firm Haleon last month was the London Stock Exchange's biggest flotation in more than a decade, but there's not much to celebrate, says The Economist. Haleon is not a particularly exciting tech or life-sciences business; the seller of "smartly packaged ibuprofen" is being spun off from parent GlaxoSmithKline. London has been eclipsed by New York and Hong Kong as a favoured destination for big listings in recent years: "Britain's stockmarket has accounted for less than 1% of the capital raised in global IPOs so far this year". A key problem is that pension funds, who are long-term investors, have reduced the proportion of their assets held in equities to 3% over the past 20 years.

Will HSBC be torn apart?

The banking giant has pleased the market with a new dividend policy. But its top shareholder thinks it should be split in two. Matthew Partridge reports

HSBC's shares jumped by 7% on Monday as the bank promised to boost dividends and start paying them on a quarterly basis again from the start of next year, says Kalyeena Makortoff in The Guardian. Pre-tax profit reached just \$9.2bn in the first half of the year, compared with \$10.8bn in the same period last year; sales were flat at \$25.2bn. But shareholders will be in line for an interim cash dividend of nine cents a share. The move comes as HSBC's top shareholder – the Chinese insurer Ping An – "revived calls to separate the bank's profitable Asian business from the rest of the lender's operations".

The new dividend policy will be welcomed by "disaffected retail shareholders", who own a third of HSBC's shares, say Tabby Kinder and Stephen Morris in the Financial Times. Such shareholders were "enraged" by the Bank of England's decision to prevent UK lenders from paying dividends during the pandemic and by HSBC's decision to pay out at just half the previous rate after the ban was lifted in July 2021. Indeed, HSBC's dividend policy was so unpopular that Ping An has put it at the centre of its argument for a break-up.

Higher interest rates boost profits

Ping An picked a "bad moment" to agitate for a breakup from a financial viewpoint, says Jennifer Hughes on Breakingviews. Thanks to rising borrowing costs, HSBC's net income is set to total \$37bn next year, one-sixth higher than this year, while its shares have risen by 37% in a year: it is one of the top-performing "global banking titans". Meanwhile, a break-up could come with a lot of risks, including "higher taxes and capital charges". It could even "[jeopardise] the bank's licences to clear US dollar transactions". What's more, HSBC benefits from its 63-country network: "Nearly half the bank's business with wholesale clients crosses a border, for example."

HSBC's new dividend policy, along with its optimistic profit projections, might "placate [most] shareholders in the short-term", says Ben Marlow in The Daily Telegraph. But it "won't improve the political backdrop". Ping An is not like other "shareholder activists". The group is technically not state-controlled, but it is generally acknowledged that "nothing of consequence happens in China without... the green light from Beijing". The state is likely to be "agitating in the shadows" for a break-up "as relations with the West become more tense".

The group has incurred criticism from both China and the West

©Getty Images

HSBC "has been navigating tricky international waters with aplomb since it was founded in 1865", says Ruth Sunderland on This is Money. But it's becoming increasingly clear that its unique position with "substantial operations" in Asia and the West means that it is "at risk of upsetting either China or the US, or both". HSBC has been lambasted in the West for its involvement with firms linked to the Chinese repression of the Uyghurs, as well as its refusal to "take a principled stance over Ukraine" by pulling out of Russia. The upshot is that the UK banking authorities "would be prudent to insist it takes steps to protect the British taxpayer in the event of a break-up, just in case".

Alibaba may be booted off NYSE

Shares in Chinese e-commerce giant Alibaba Group fell by 4% last week amid "escalating concerns that the stock may be booted off" the New York Stock Exchange in two years "for failing to comply with US disclosure rules", says Jenny Yu on Bloomberg.

The US on Friday added the stock to a "growing roster" of Chinese companies facing removal from US exchanges. The problem stems from the fact that a law passed two years ago means that Chinese companies are required to submit their audits to regulators so that their quality can be reviewed, something that Beijing refuses to allow. Alibaba could temper the impact of a potential delisting in the US by accelerating its plans to upgrade its Hong Kong stock-exchange presence from a secondary to a primary listing, says Iris Deng in the South China Morning Post.

©Getty Images

That would help create a "wider and more diversified investor base" as it would give mainland Chinese investors direct access to the group's shares via the Stock Connect programme. Meanwhile there is hope that the US and Beijing could reach a deal with both sides in discussions to resolve the "accounting spat".

Still, even if Beijing does make enough concessions to allow Alibaba to remain in America, Alibaba has other problems to grapple with, says Oliver Telling in the Financial Times.

It has been "hit by Beijing's crackdown on the technology sector", while a foray into the American e-commerce market has been botched. No wonder, then, that its Hong Kong-listed stock has slumped by 70% since 2020.

War prompts profit-gush at oil majors

BP has unveiled its largest quarterly profit in 14 years amid months of high energy prices as Russia's war on Ukraine compounded global shortages, says Rachel Millard in The Daily Telegraph. The energy giant reported earnings of \$8.4bn in the second quarter of 2022, triple the figure in the same period last year and more than \$2bn higher than the previous three months. As a result, BP is raising its dividend by 10% and increasing its share buyback programme to \$3.5bn for the quarter. The company also plans to invest about \$14bn-\$15bn this year, up from \$13bn last year.

BP isn't the only oil company enjoying a profits bonanza thanks to higher energy prices, says Jasper Jolly in The Guardian. Shell last week reported record quarterly earnings of nearly £10bn between April and June, while Centrica, which owns British Gas, earned operating profits of £1.3bn, the majority of which stemmed from its oil and gas drilling arm. Shell and France's Total last week said they would "also give shareholders billions of dollars in share buybacks and dividends".

©BP Plc

The oil majors have clearly decided to spend their "bumper profits" on share buybacks and dividends, says Tom Wilson in the Financial Times. But experts agree that there needs to be a "serious discussion about what else to do with the money". This should include investing in renewables: while BP (and its rivals) have each pledged to "become green businesses over the next three decades" they are "still investing only a fraction of their capital on renewable energy". One thing that could "turbocharge" their transition strategies is a "big acquisition" of a "green-energy major" such as Germany's RWE or Denmark's Orsted.

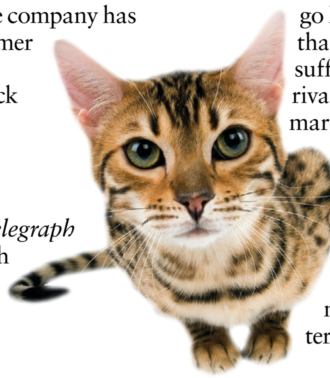
MoneyWeek's comprehensive guide to this week's share tips

Three to buy

Hays
Shares
Recruitment firm Hays repeatedly delivers double-digit increases in income from fees, pays out growing dividends and invests heavily in future growth. The firm offers recruitment services across 20 sectors in over 30 countries and expects to generate around £1.25bn in net fees this year. This is only a third of the net fees generated by international rivals, but Hays has outlined an "aggressive" five-year growth plan to help it deliver results while navigating "macroeconomic uncertainties". *124p*

Unilever
The Mail on Sunday
Unilever "told a tale of price inflation" when it reported results last week, but assured consumers sales remained strong. The company is a "global tangle" of over 400 well-known brands. In the first half the volume of sales declined by 1.6%, but their value rose by 8% and analysts raised their profit guidance for the full year. Unilever has already pushed prices up by 11% and "how much its customers will bear" remains to be seen. But the shares are on a 20% discount to peers and the company has a loyal customer base that is willing to stick with it. *4,000p*

Zoetis
The Daily Telegraph
Zoetis, which provides drugs and treatments for animals, offers protection against both inflation and recession. Pet owners "are often said to be prepared to go hungry" rather than let their animals suffer. Zoetis has few rivals, makes excellent margins and returns on capital, and focuses on research and development. It should continue to deliver double-digit earnings growth, making it a long-term buy. *$176*



Two to sell

Ocado
Investors' Chronicle
Supermarkets are all struggling with the cost-of-living crisis as consumers tighten their belts and online grocer Ocado is no exception. Sales for the six months to the end of May were down 8% to £1.1bn from the same period the year before. The number of customers rose by 12%, but the average spend per basket was down 13% to £120. Costs are rising too – distribution costs and administrative expenses were up 16% – so losses have mounted. The shares have more than halved in the last year and there are "no obvious catalysts" for a comeback. Ocado has also paid out £11m in legal costs due to ongoing litigation with AutoStore, which accused it of patent infringement. Sell. *784p*

Meta Platforms
The Times
A marked slowdown in sales growth erased a quarter of Facebook-owner Meta Platforms' market value in February. Its latest set of figures "show why a further derating" is likely. Meta produced its first-ever revenue decline in the three months to the end of June, a 1% year-on-year fall. It is battling rising competition, data-privacy changes, regulatory threats and the expense of financing its "loosely defined bet on virtual reality". Revenue for the third quarter is expected to reach between $26bn and $28.5bn, less than the second quarter's $28.8bn. Advertising sales could be at risk if the "dramatic slowdown" in new users makes companies question whether Facebook and Instagram "are the best places to allocate marketing dollars". Operating expenses are also rising and trimming the bill is "unlikely to insulate Meta from a decline in profits this year". Avoid. *$159*

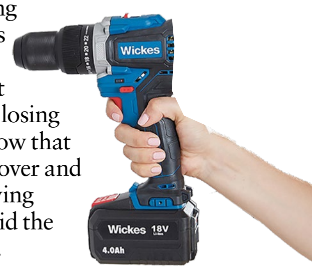
...and the rest

Investors' Chronicle
Floor-covering designer and manufacturer **Victoria's** positive full-year sales results were overshadowed by rising losses owing to higher financing costs. Debt also remains "stubbornly high". Sell *(401p)*. Media company **Reach** is sensibly transitioning to digital media to "keep up with consumer habits", but rising costs, changes to regulations governing cookies and a "possible advertising slump suggest the next 12 months will be an uphill struggle". Sell *(89p)*.

The Daily Telegraph
The "operating environment" of defence contractors such as **QinetiQ** is set to improve "significantly" in the near future due to China's "growing military assertiveness" and heightened geopolitical risks brought on by Russia's invasion of Ukraine. The group has global growth opportunities and a healthy balance sheet. Buy *(381p)*. Insurer **Beazley** has strong momentum and analysts expect pre-tax profits to more than double next year. Buy *(537p)*.

The Sunday Times
Pawnbroker **H&T** is benefiting from the "rush" to gold as a protection against inflation, although the "soaring" demand for pledge lending (whereby borrowers hand over valuables in exchange for short-term loans) is providing the key boost to the company's bottom line. "It's grim but true: growing poverty is good news for H&T." Buy *(406p)*.

The Times
Lloyds Banking Group's latest profit upgrades make the shares look very good value. Buy *(45p)*. Student landlord **Unite's** shares look too expensive given its struggle with rising interest rates and cost inflation. Avoid *(1,150p)*. DIY chain **Wickes'** profit warning demonstrates that home-improvement products are losing popularity now that lockdown is over and the cost of living is rising. Avoid the stock *(136p)*.



A German view

Mahindra & Mahindra is a play on India's growth, says Börse Online. It is an industrial conglomerate with a presence in a wide array of sectors. It is the market leader in agricultural technology, while its tractor business boasts a presence in 40 countries. The group also produces motorcycles, buses and military vehicles, using its own steelmaking division, and dabbles in hotels, software, and the production of solar panels. India is expecting a record harvest, which explains why tractor orders were up 44% on last year in April and May. India's rapid GDP growth and the government's drive to mechanise agriculture augur well for shareholders.

IPO watch

Thai Life Insurance launched Southeast Asia's largest initial public offering (IPO) of 2022 last week, says Reuters. The insurance broker sold 2.3 billion shares at 16 baht each, raising 34.4bn baht (£781m) on the Bangkok stock exchange. Thai Life plans to spend 13.6 bn baht (£309m) of the proceeds on a digital revamp and improving online distribution channels. The shares ended their first day marginally below the listing price; financial markets are struggling with geopolitical uncertainty and rising interest rates, so interest in IPOs in Southeast Asia has dwindled. There were $2.45bn worth of IPOs in the first half of 2022, down from $6.1bn last year.

Pelosi's provocative junket

A US show of support for Taiwan enrages China. Matthew Partridge reports


Nancy Pelosi (second from left) is welcomed by Taiwan's leaders

Taiwan is on "high alert" following the visit on Tuesday of Nancy Pelosi, speaker of the US House of Representatives, the highest-profile American official to visit in 25 years. She was welcomed by the Taiwanese government and received rare bipartisan backing from both Democratic hawks and large parts of the China-wary Republican party, but drew an angry response from China itself, which condemned the visit as a "threat to peace and stability in the Taiwan Strait". In response, it imposed additional restrictions on imports from Taiwan and issued a "storm of threats" about future military action.

Ill-conceived and ill-timed

Pelosi's "ill-conceived and ill-timed" visit is dangerous because it "comes at a highly charged moment", says the Financial Times. President Biden distanced himself from the visit, but Pelosi's status as third in line to the presidency (after vice-president Kamala Harris) gave the trip a symbolic authority that could be seen as undermining the "One China" policy under which the US recognises China's claim on Taiwan. With Chinese leader Xi Jinping seeking another term in office amid internal tensions over stumbling growth and the "zero-Covid" policy, there is a risk he could use the trip as a pretext for escalating tensions to shore up support at home.

Even if Pelosi's actions don't provoke a direct conflict, Beijing's response could hurt Western interests in other ways, says Thomas Friedman in The New York Times. The US has, for example, been holding a "series of very tough meetings" with China's leadership over the past few weeks, imploring Beijing not to enter the Ukraine conflict by providing military assistance to Russia. This has succeeded in getting China to hold off supplying Russia with weapons, but could now easily unravel.

Tangible support now needed

If now is the "wrong time" for a symbolic show of US support for Taiwan, then when would be the right time? asks The Wall Street Journal. Far from being an unnecessary provocation, the visit is more necessary than ever given that China has moved away from its previous position that "any reunification must be peaceful" and is now "sending every signal that it is willing to retake the island by force if necessary". China has already broken the promises it made to Britain over Hong Kong; it's clear that Taiwan is next on its list.

Still, with China ramping up its pressure on Taipei by flying "ever-larger number of warplanes near Taiwanese airspace", the priority should be on tangible measures that prevent an invasion by improving Taiwan's military capability, says The Economist. It could, for example, offer an "Israel-style" military-aid package and help Taiwan develop a "porcupine" strategy, the defensive use of smaller, more mobile and easily concealed weapons to wage "asymmetric war" in the event of an invasion. The real test of US commitment will not be "headline-grabbing visits", but "whether it helps Taiwan become more resilient".

Truss squares up to Sturgeon


Truss: action will speak louder than harsh words

Tory leadership candidate Liz Truss, already facing criticism for her quickly withdrawn proposal for cutting the wages of public servants outside of London, "came under fire from across the political spectrum" for her comments on Scotland's first minister, says Kieran Andrews in The Times. She said Nicola Sturgeon was an "attention seeker" and that the best way to deal with her demands, including those for a second referendum on Scottish independence, was to "ignore her". The intervention was condemned by figures in the SNP and Labour and described as "unhelpful" by a prominent Scottish Conservative MP.

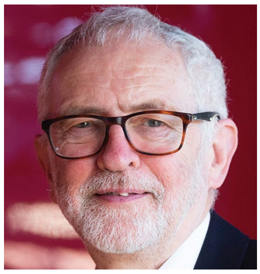
Boris Johnson's likely successor clearly won't be able to "ignore" Sturgeon, given that "the Scottish parliament and its devolved government are here to stay", says Alan Cochrane in The Daily Telegraph. Still, claiming that Truss's words were "an insult to Scotland" only makes sense if you regard Sturgeon as speaking for all of Scotland. She doesn't. She speaks "only for her party and government, neither of which command an overwhelming majority of Scottish opinion". Truss's "candour" makes a welcome change from Cameron, May and Johnson, who "bent over backwards not to be seen as provoking the cause of independence when the truth is that it is already on life support".

Indeed, the reluctance to criticise Sturgeon and the SNP has allowed the institutions of devolution to be "hijacked", says Stephen Daisley in The Spectator. Tough words, though, aren't enough. The next PM needs to actually do something to change the devolved system that has been "turned into a battering ram against the UK".

Betting on politics

With the latest YouGov poll giving Liz Truss a 34 point lead in the contest to become the next Conservative leader, it's no surprise that punters are even more firmly convinced that the current foreign secretary will end up as Boris Johnson's successor. With a grand total of £8.86m matched on the markets for next prime minister and next Conservative leader, Truss is now at 1.13 (88.5%) to win with rival Rishi Sunak out at 8.8 (11.4%).

While Truss is most likely to enter Downing Street, there might still be a smidgen of value in backing Sunak, given that other polls suggest the gap between the two candidates is much closer. Even if they are wrong, and she is on course for a landslide, the furore over her public-sector pay policy could yet prove to be her "dementia-tax" moment. Either way, if you've already bet money on this market, don't bet any more.



One politician whose future isn't looking very bright is the former Labour leader Jeremy Corbyn (pictured). His comments that the West should stop supporting Ukraine should reduce his already low chances of regaining the Labour whip. What's more, they are likely to kill any lingering sympathy for him, making it much harder for him successfully to run as an independent. Indeed, the fact that he is 73 years old means that he might just decide to retire and so would not run anyway, so I'd suggest taking the 1.7 (58.8%) available on Smarkets on him not winning a seat at the next general election.

Washington DC

The US splurge on semiconductors: US president Joe Biden (pictured) has signed the 2022 Chips and Science Act into law. Intel's CEO Pat Gelsinger has called it "the most important piece of industrial policy" in the US since World War II. The Act entails a $52bn boost for the US domestic semiconductor industry. "The rationale for this splurge is twofold," says Bloomberg. Despite leading the world in chip design, America's global share of semiconductor manufacturing has fallen from 37% in 1990 to 12% today, and analysts think China will produce over 40% in coming years. Then there's national security. "The US military alone requires about 1.9 billion chips a year for weapons, communications and so on," and relying on a potential combatant for this essential hardware is strategically risky. However, the Act seems unlikely to succeed. The American workforce is hardly in a position to meet the increased production requirements, with approximately 40% of high-skilled semiconductor workers born abroad. The immediate solution would be to allow highly qualified immigrants into the country. Meanwhile, let the jostling for position begin. "The scramble among companies to get their hands on the billions of dollars it unleashes is only just beginning," says the Financial Times. There is $39bn available over five years to support the construction of new chip plants; sector giant Intel is hoping to secure $12bn for two in Arizona.

Menlo Park

Facebook stalls: "Facebook was growing like a weed, and now isn't," says BreakingViews. Its parent company, Meta, announced its first quarterly decline in revenue last week. After jumping by 60% between 2019 and 2021, sales fell by 1% year-on-year in the second quarter of 2022. The drop was caused by a fall in advertising revenue, down 14%, while the number of users slid by 1% over the same period. Bulls say the latest figures may just be a sign of maturity rather than a crisis. They ascribe the lower advertising revenue to slowing economic growth across the board. However, Publicis posted a 21% year-on-year revenue increase for the second quarter, while another French advertising giant, JCDecaux, reported a 22% jump. "The hold of social media on advertisers is weakening," says Bloomberg. Government pressure to reform social media due to its political polarisation and privacy policy changes as seen on Apple devices (making it harder for advertisers to trace what people do with their iPhones) are key problems. Intensifying competition between apps is also hampering Facebook. "TikTok is now on track to overtake Facebook in terms of influencers' marketing spend this year," says TechCrunch, with $775m expected to be spent on the platform in 2022, compared with Facebook's $739m.

Cincinnati, Ohio

Inflation hits household-goods groups: "Makers of household goods from shampoo to toilet paper are struggling to perform their traditional role as safe havens" for investors, says The Wall Street Journal. Take Fairy Liquid-maker Procter & Gamble (P&G) and Colgate-Palmolive. Both delivered quarterly results last week. Each firm saw sales increases of 7% and 9% respectively, largely due to price increases, while underlying volumes performed far worse. Colgate's increased by a paltry 0.5%, while P&G's dropped by 1%. Both companies have managed to push through price increases without significantly dampening demand, but investors are wondering how long this can last. If the general economic backdrop continues to worsen, consumers may begin to "trade down" to cheaper brands: "private-label" store brands have already gained some ground in the US and Europe. The squeeze on pricing power is worst when it comes to general household goods, says BreakingViews. "Detergent or toilet paper brands tend to have more substitutes," so they are vulnerable to the supermarket own-label alternatives. However, niche operators such as petfood producers – "animals can be the most loyal of customers" – and those in niches such as ice-cream maker Ben and Jerry's, appear better-positioned. Meanwhile, it is good news for everyone that soft commodity prices have levelled off or declined.

The way we live now... "nap boxes" for Japan's collapsing workers

Burnout is a mounting problem among office workers worldwide. Now Japanese companies are employing a unique way to combat overwork: the vertical "nap box", says The Times. The upright chamber is being manufactured by Tokyo-based furniture firm Itoki to combat Japan's obsessive work culture. Employees are often forced to sleep upright on trains to and from work – or inside offices' bathrooms – to get some respite from their exhausting day. Standing tall on four stubby legs, the coffin-like nap box is designed to support the collapsing employee by pressing against their rear and chest, allowing them to get forty winks in a discreet and relatively comfortable, albeit public, place. The boxes are supposed to play a key role in reducing the number of Japanese deaths caused by overwork, a phenomenon known as "*karoshi*". However, analysts wonder whether this will really solve the burnout problem, or merely scratch the surface. The culture of working to the point of collapse endures. Regulations still allow for up to 100 hours of unpaid overtime during "busy periods".

Employees are often forced to sleep on trains

Odesa

Ukrainian grain exports resume: Ukraine dispatched its first grain shipment since the start of Russia's invasion this week following a deal that saw the two countries agree to resume exports via the Black Sea to ease a worsening supply crisis, says The Wall Street Journal. The start of the shipments is "promising" for Ukrainian farmers, but it will take some time to increase the flow of corn, wheat and barley to its pre-war level and clear the backlog of grain that Russia has trapped in the country. Ukraine is expected to export around 30 million metric tonnes of grains and seeds over the 2022-2023 season, almost half the amount shipped the season before. However, the deal "offers hopes of crucial income": farming comprised 40% of Ukrainian exports before the war and 14% of the country's population works in the sector. Before the conflict Ukraine and Russia supplied over a quarter of the world's wheat, says The New York Times. This deal was reached only after "months of negotiations made urgent by reports of rising food prices and spreading hunger". But getting Ukrainian grain exports up and running again "will barely make a dent" in a global food crisis that the United Nations has predicted will last for years.

The Black Sea shipments should alleviate a supply squeeze

Hong Kong

Second recession in three years: Hong Kong has fallen into its second economic contraction in three years owing to ongoing Covid-19 restrictions, which have "battered the Chinese territory's reputation as an international finance centre", say Primrose Riordan and Chan Ho-him in the Financial Times. The city's GDP shrank by 1.4% in the second quarter of 2022 following a 3.9% fall in the first quarter of the year. Two successive quarters of falling output is typically defined as a recession. The territory has adopted a version of Beijing's tough zero-Covid strategy and is "still clinging to enforced hotel quarantine for incoming travellers". Restrictions have been in place for more than two years and have forced firms to relocate staff to outside the city, undermining its status as a commercial hub and hampering economic activity. The territory underwent its first recession in a decade in 2019 following anti-government protests. Only about 65,000 people visited Hong Kong from China last year; 2018 saw 51 million mainland tourists. Economists at investment bank Natixis are expecting zero growth for the year. The government is considering shortening its hotel-quarantine stay, which is currently at a seven-day period, but has yet to provide details for a full reopening.

Naypyidaw

State of emergency extended: Myanmar's junta has extended the national state of emergency by six months, says Al Jazeera. The military government, led by senior general Min Aung Hlaing (pictured), says it will only hold elections once it has restored stability. It also wants more time to implement a five-point "consensus" agreed with the ten-member Association of Southeast Asian Nations (ASEAN) designed to end the violence in the country. The senior general said Myanmar had been struggling to overcome the challenges of the pandemic alongside internal conflict, which has made it "difficult to implement the ASEAN consensus". The junta has been fudging and dragging its feet ever since it took power in early 2021, a move supposedly triggered by "voting fraud" in the November 2020 elections – but election-monitoring groups found no evidence to support this claim. While the government has pledged to hold new elections in August 2023, this is not the first time it has extended the state of emergency. It is also unlikely that a vote would be free and fair. The country has been grappling with sanctions imposed by many Western countries; the World Bank expects Myanmar's economy to grow by just 3% this year after an 18% contraction in 2021. It also says a return to pre-pandemic levels is "unlikely" in the near term.

Sydney

Housing bubble hisses air: House prices in Australia fell for a third consecutive month in July, with the Sydney market posting its worst decline in 40 years, says Nikkei Asia. House prices fell 1.3% in July from June, when they dropped 0.6%, but they were still 8% higher for the year, reflecting the "huge gains" made over 2021 and earlier this year. The price declines were concentrated in the bigger cities, which are especially overvalued. Prices declined by 2.2% for the month in Sydney and 1.5% in Melbourne. House-price growth in the major cities slowed to 5.4% year-on-year, a marked decrease after a peak of over 20% earlier this year. The downturn is due partly to higher borrowing costs, while the cost-of-living crisis has also undermined confidence. The Reserve Bank of Australia has raised its benchmark rate to 1.85%, the third increase in three months. The country is "on track for its steepest tightening of monetary policy in a generation", increasing the risk of a recession, says Swati Pandey on Bloomberg. Andrew Ticehurst, senior economist at financial-services group Nomura Holdings, said the current rate is "not appropriate for an economy with an unemployment rate around a 50-year low and with core inflation running at a 6% annualised pace".

Germany needs to get a grip

The gas-supply crisis is merely the most conspicuous sign of the complacency and drift besetting Europe's largest economy. The national business model needs an overhaul. Alex Rankine reports

What's happening?

Germany's economy stagnated in the second quarter, even as eurozone neighbours Spain, Italy and France all registered growth. Retail sales recorded their largest annual fall since 1994 in June, while gauges of business and consumer confidence are at their lowest levels in more than two years. Even Germany's much-vaunted trade surplus has evaporated, with soaring prices for energy imports seeing it record a €1bn deficit on a seasonally adjusted basis in May. That is its first trade deficit since 1991.

The decision to phase out nuclear power plants was catastrophic

What's the problem?

Complacency. Germany is a wealthy country – GDP per capita is $50,802 compared with $47,334 in the UK – and has maintained its manufacturing base, with industry accounting for 27% of GDP (in Britain and France the figure is 17%). That has enabled companies to cash in on booming Chinese demand for machines and high-end cars since the latter joined the World Trade Organization in 2001. Other countries have often been keen to emulate Germany, with many admiring its robust vocational education system, for instance. Yet the resulting sense that all is well has prevented overdue reforms. A moralising obsession with balanced budgets has seen road and digital infrastructure fall behind.

What about energy?

Berlin spent nearly €202bn between 2013 and 2020 on renewable-energy projects, part of its ambitious "Energiewende" (energy transition), says Lea Booth for Quillette. That investment has taken solar and wind's share of electricity production from 8% to 31% since 2010. The trouble is that the transition has been linked to a catastrophic decision to phase out nuclear power plants – the last are due to shut by December. That has left "the world's preeminent renewable energy champion" needing to reopen coal power plants, a "damning policy failure". Now add to the mix naivety about Moscow's imperialist ambitions: 55% of German gas came from Russia prior to the Ukraine war. With Russia continuing to cut deliveries – the Nord Stream pipeline is currently running at just 20% capacity – Germans are facing a chilly winter.

Will there be energy rationing?

Quite possibly. The federal energy regulator's "latest scenarios predict that gas will completely or nearly run out by early 2023", notes The Economist. While households would be prioritised during rationing, industries such as chemicals could grind to a halt. That would send another wave of chaos through global supply chains. There is already a drive to limit municipal energy consumption as the nation dashes to fill its gas storage to 95% of capacity by November (it is currently at 68%). Hanover has switched off hot water in public buildings; early last month a senator in the state of Hamburg said the city could ration hot water for private households if the gas shortage becomes acute. "The International Monetary Fund estimates that Germany is at risk of losing 4.8% of economic output if Russia halts gas supplies," say Vanessa Dezem, William Wilkes and Arne Delfs on Bloomberg.

What about German businesses?

They have fallen victim to complacency, too. "In the last ten years, two companies in the DAX… have experienced colossal implosions, caused by fraud," says John Lanchester in the London Review of Books. First there was the Volkswagen diesel-emissions scandal, which revealed a "contemptuous indifference" towards customers and regulators. Then in 2019 payments star Wirecard was revealed to have cooked the books. When the Financial Times broke the story, BaFin, the local financial regulator, didn't just ignore the evidence, it opened an investigation into the whistle blowers, suspecting "market manipulation". Local banks and regulators closed ranks against trouble caused by "Anglo-Saxon" outsiders.

> *"Fax machines in doctors' offices suggest Germany is in the technological past"*

What else lies ahead for Germany Inc.?

The era of cheap gas is over. As Javier Blas notes on Bloomberg, prices look likely to stay elevated into at least 2024. That could force some energy-intensive industries to relocate. Germany is also trapped by a second "fatal dependency", says Diana Choyleva of Enodo Economics in Nikkei Asia. "For almost two decades, the synergy between China and Germany" has married cheap production costs with Germany's "technical know-how and the fruits of decades of engineering breakthroughs". It has been profitable for German business, but the partnership is now "in its death throes" as China develops its own world leaders. A decade ago, "the sudden emergence of Chinese competitors wiped out Germany's advanced solar-power industry". The car industry may be next. German industry is also hampered by the country's sluggish moves to adopt new digital tools: "Whether it's a lack of [mobile] service even in the middle of cities, fax machines in doctors' offices, or a dearth of official services available online, [it is clear] that Germany is stuck in the technological past," says Elizabeth Schumacher for Deutsche Welle.

Can Germany turn things around?

Germany has been here before. In the 1990s and early 2000s a post-reunification hangover saw it branded the "sick man of Europe". As Christian Dustmann, Bernd Fitzenberger, Uta Schönberg and Alexandra Spitz-Oener note in the Journal of Economic Perspectives, growth was sluggish and unemployment hit 11.1% in 2005. What changed the picture were the 2003-2005 Hartz labour-market reforms. The resulting "jobs miracle" helped the German economy come through the Great Recession and the eurozone crisis relatively unscathed. The country's blandly centrist, consensus-based political system can take time to arrive at the right answers, but it has shown the capacity to get there eventually in the past. With war raging in Europe, Germany's leaders need to get a grip again.

Brace for the return of rationing

Russia is turning off the cheap energy. That is already leading to belt-tightening. Who will suffer most?

Matthew Lynn
City columnist

Right across Europe, governments are cutting back on power usage to get ready for what looks likely to be a harsh winter. Berlin has stopped illuminating public monuments at night; Hanover has switched off the hot water in showers in public buildings. Paris is stopping illuminated signs and preventing shops from running the air conditioning while their doors are open. The Spanish are ditching their ties to make stuffy offices more bearable. Why? Russia has reduced its supplies of gas into Europe, making it impossible to fill crucial storage facilities over the summer, and may well limit supplies even further over the winter when demand is at its highest. Emergency plans are being put in place to cope with that, mainly by rationing the use of energy.

A Covid-like blow to the economy

That is going to have a huge impact on the economy in particular sectors, and on specific companies. It will be just as much of a blow as the Covid-19 lockdowns. The UK is less at risk than Germany, France and Italy. But that doesn't mean it can't happen here or that we won't be affected by closures on the other side of the channel. Investors and businesses need to prepare for the rationing economy.

How? First, avoid heavy industry. There are a handful of power-hungry industries that can put production on hold for a month or two, or that can ship in supplies from elsewhere, without the world coming to a standstill. Chemicals, for example, or steel, or building materials, or paper and pulp manufacturing. Many of the biggest German chemical plants use as much energy by themselves as medium-sized towns. Many of them can be closed for a few weeks. Sure, that will snarl up supply chains, especially on construction sites where work may have to stop as well. And companies will take a huge hit to their profits as they will almost certainly have to keep paying their staff (although some form of furlough scheme may be available). But it will be the easiest way for governments to save a lot of power with a single measure.

Energy-intensive services will suffer

©Getty Images

Next, avoid energy-intensive services. Shops use relatively small amounts of energy, so long as they turn the heating down and don't leave the doors open in the winter. Garages don't use a lot of electricity. Other services use far more. A gym needs a lot of showers and it requires hot water. Restaurants burn up a lot of power in the kitchen. Car washes are energy intensive and hardly essential and the same is true of all those sunbed salons on the high street. In a second round of closures, many high-energy, non-essential services may find themselves limited to operating three days a week if they are not closed down completely – and their profits will be hammered.

Third, expect a return to working from home. Transport networks use a lot of power, and so do offices. Where possible, they may well be closed down. In fact, the rationing economy will look a lot like the Covid-19 lockdown except with restrictions on all those fuel-hungry home deliveries.

The sectors that will do well

Finally, investors should consider those essential industries where the electricity will keep flowing. There are plenty of sectors we simply can't do without. Food and drink manufacturing, for example. The supermarkets. Hospitals and healthcare facilities will run as normal no matter how much power they are consuming. The broadcasters will still be working to keep us all entertained and no one is going to switch the internet off (although bitcoins may go up in price as it is hard to imagine anyone will be allowed to mine any more, at least in Europe). Essential, basic industries and services may not exactly thrive. But they will do a lot better than most others. Likewise, expect companies generating alternative energy, especially wind and solar, to boom.

Energy rationing will hit the economy hard. Some estimates suggest Germany could see a 7% fall in output; it could even be a lot higher than that. But the impact will be uneven. Companies and investors need to start getting ready for that now – and long before winter approaches.

City talk

● "Many chief executives in the recent past have tried to make Barclays boring. CS Venkatakrishnan, who was supposed to mark a break from the era of regulatory thrills and spills under Jes Staley (and others before him), isn't there yet," says Nils Pratley in The Guardian. The banking giant has seen a 40% slump in profits after taking a £581m net charge for selling more structured notes – securities that track the performance of assets such as stocks, bonds or commodities – than it was authorised to do, owing to a paperwork error. This was followed by a "$200m whack" from US regulators for traders sending work messages via WhatsApp, and a penalty for "past larks with timeshare loans". The bank's actual operational profit in the first half of 2022 seemed "fine", but "you never know what's coming next with Barclays".

● "Footasylum has proved an aptly named company: anyone lunatic enough to get involved with it has had a right kicking," says Alistair Osborne in The Times. Take JD Sports, whose former boss Peter Cowgill paid £90m for the "fleabite, loss-making" outfit in 2019. He's since departed, after being filmed talking in a car park with Footasylum's CEO Barry Brown before the Competition and Markets Authority (CMA) had given the deal a thumbs up. The CMA handed out a £4.3m fine for that and also told JD to dispose of Footasylum. Now the company has sold it to German private-equity for a cut-price £37.5m, meaning the affair has cost £52.5m. "It's a pity Cowgill's already gone. Having such a loss forced on him by the CMA would have left him raving mad."

©Rolls-Royce

● Tufan Erginbilgic (pictured), the new CEO of Rolls-Royce, faces a battle to get the aerospace firm airborne again, says Ben Marlow in The Telegraph. His predecessor Warren East oversaw "almost a constant battle to stay alive", including problems with the Trent 1000 engine, settlement of a long-running bribery scandal and the impact of Covid-19 on airlines. Thanks to him, "the seeds of recovery are in place": the firm's small modular nuclear-reactor programme has been awarded £210m in government grants. But this will take years to materialise. There are also high hopes for a move into planes powered by electricity or hydrogen, but these technologies are "risky and unproven". Rolls-Royce "needs to be reinvented quickly at a time of an acute labour squeeze and soaring inflation. Erginbilgic will need to pull every lever in the cockpit".

Inflation-resistant stocks

Terry Smith's latest update contains some valuable pointers for investors looking to protect against inflation

Stephen Clapham
Founder, BehindtheBalanceSheet.com

A slowing economy plus higher inflation, represent a tougher environment for investors more used to low interest rates and steady growth. Fund managers are now talking up the "pricing power" and "inflation-proofing" characteristics of their holdings. But what traits can really shield a company from the worst ravages of inflation?

In his latest letter to investors, fund manager Terry Smith makes two key points about how owning "quality" stocks makes his portfolio more resilient against both inflation and slowing growth. Firstly, Smith looks at the impact inflation has on a company's material costs. The average company in his portfolio has a gross margin of 60%, against his estimate of 40% for the average large listed company. These higher margins offer inflation protection – if the average cost of goods sold rises by 5%, his portfolio will see overall costs rise by two percentage points (that is, 5% of 40% (100%-60%)); the average big company will see a rise of three (5% of 60% (100%-40%)).

However, inflation in materials costs is not the sole or even the main inflationary threat to margins. For many of the stocks Smith holds, especially tech stocks like Microsoft, Adobe and Meta Platforms, rising labour costs are likely to be a bigger driver of margin pressure, especially for the likes of Meta, whose stock options are significantly underwater, meaning it will likely either have to reprice the options or offer higher cash compensation (or both) to retain key staff.

So while a high gross margin helps, it is not enough alone. That leads to Smith's second point, which is that – partly, but not wholly, as a result

Smith: owning "quality" stocks makes his portfolio more resilient

of falling share prices – the free cash flow yield (FCFY) on his portfolio (his preferred valuation metric – see below) had risen from 2.7% at the end of 2021 to 3.6% at the end of June 2022, a valuation not seen since the end of 2017. That's quite a swing. An FCFY of under 3% did not seem cheap, but an FCFY approaching 4% does not seem expensive, especially if rates are close to peaking.

"What traits can shield a company from inflation?"

Smith's portfolio value fell by 18% in the first half of this year, meaning the improved FCFY has been driven both by the share price drop and by improvements in cash generation.

This latter point underlines the importance of finding stocks which can keep delivering growth in tougher environments – the true measure of a quality stock. Look for stocks with pricing power whose products are necessities (or as close to it as possible). Products like Microsoft Office and Adobe PhotoShop are good examples – companies may lay off staff, but they will probably keep using this software. Unfortunately, such companies are not particularly cheap, but resilience and quality are worth paying up for.

I wish I knew what free cash flow yield was, but I'm too embarrassed to ask

Cash flow is vital because if a business runs out of cash it will go bust, even if it appears to be making a decent profit on paper. Hence the oft-quoted business cliché, "cash is king". Reporting of cash flows is also harder to manipulate in a flattering manner than reporting on earnings (which can be heavily influenced by choice of accounting conventions). This is one reason why investors should look at company valuation using measures based on cash flow as well as those based on profits or book value.

With that in mind, the free cash flow yield (FCFY) is a ratio used to work out the cash flow return on a share as a percentage. Mechanically, if free cash flow is, say, £100m, and the firm's market capitalisation (the number of shares in issue multiplied by the current price) is £500m, then the FCFY is 20% ((100/500)* 100%).

But what is free cash flow? This is not a number you can find directly from a set of accounts; it requires a bit of hunting around. Put simply, it's the annual operating cash flow made by the firm after deducting all non-discretionary cash flows. These include tax bills that have to be paid, any interest paid on loans, and any capital expenditure needed to maintain the firm's operating assets in good working order or to replace such assets as they wear out.

Once you strip these costs out, you have in effect the cash flow left available to pay dividends to shareholders. As a result, if you're looking for a stable, sustainable dividend flow in the future, then you want to look for a firm that offers a consistent, high free cash flow. By contrast, if a company's free cash flow is trending lower over time, this may be a warning sign of trouble ahead. As for the FCFY, the higher the better from a value investor's perspective – the bigger the yield, the cheaper the stock, all else being equal – although as with any valuation ratio, you should not rely on it in isolation.

Guru watch

Ray Dalio, founder, Bridgewater Associates

The US faces three big problems today, Ray Dalio, founder of hedge fund Bridgewater Associates tells The Hustle website. Firstly there's internal strife – "political conflict between the left and the right, the haves and the have-nots, and people with different values". This is being driven by rising inequality – "the bottom 60% of the population hasn't seen a rise in per-capita income since 1980… a fairer society minimises these conflicts". How can this be resolved? "There needs to be a transfer of wealth" which will "have to come significantly from taxes" on wealth, perhaps in the form of inheritance tax.

Secondly, there's China, which is set to continue growing much more rapidly than the US. "We're going to

have a great power conflict." That doesn't necessarily mean military conflict, says Dalio. "The world has… more wealth than it ever had. If we work together to share the wealth and… opportunities, [we] can avoid wars." But it does mean the US had "better get stronger".

Finally, there's America's vast debt levels (the national debt sits at around $30 trillion). Central banks have "printed a lot of money to make it easier to pay that debt". However, this has resulted in inflation. This is squeezing consumers' buying power, but it is also encouraging central banks to raise interest rates, "which takes even more buying power away". As a result, Dalio expects "we will be in a relatively extended period of stagflation". In terms of investment, "I would worry about holding assets that are prone to deflate", including bonds. "Diversify well."

A low-risk way to beat inflation

Demand for care-home places is strong and the sector should be able to raise prices ahead of costs

Max King
Investment columnist


Care homes are almost at capacity

©Alamy

The public thinks of care homes as synonymous with old people's homes but, as Rupert Barclay, chairman of **Impact Healthcare (LSE: IHR)** explains, these can be divided into three categories: residential homes for the elderly, for those who are infirm and for those with dementia.

"People don't put their relatives into homes because they are old but because they can no longer look after themselves or be looked after at home. If they are incontinent or immobile, they need care... it takes two people to lift someone out of bed into a chair or wheelchair," says Barclay.

This means Britain's ageing population is not necessarily a driver of increasing demand for care-home places. People live at home for longer, even if home involves stairs – doctors regard exercise as essential. Alternatively, they move into assisted-living properties with on-call help. With medical care for dementia and infirmity improving, there is no guarantee of long-term growth in demand.

Two firms funding care

At present there is a shortage of places in care homes, which are nearly at capacity. These have specialised facilities and equipment and high staffing costs. Operators without access to necessary capital for ownership lease their properties and focus on the management.

Two listed companies provide operators with the capital: IHR with 128 properties, 6,800 beds and £530m of property assets and **Target Healthcare (LSE: THRL)** with 99 properties, 6,835 beds and nearly £900m of property assets. As this implies, Target's homes are twice the size of Impact's but there are other important differences.

Target has grown primarily through acquiring new properties, often direct from a contractor who has built to order. Impact doesn't build many new homes and a high proportion of its residents are funded by local authorities, earning lower rates. Instead it acquires decent properties with over 20 years of life and attractive yields, which it seeks to supplement through incremental investment with a higher rate of return.

Both companies' properties are spread across the country and the tenants are diversified. Target has 28 and Impact 14, avoiding tenants managing just a single unit. As landlords, they avoid operational risk but need to scrutinise their tenants lest they get into financial or operational trouble. Leases are long term but can be transferred between operators and rents are inflation protected. Both funds augment returns with a moderate level of debt, of around 10% of net assets.

Both trade at modest premiums to net asset value. These premiums are constrained by the obvious wish to issue more equity for acquisitions. Impact raised £40m earlier in the year and another £22m recently but, with a £300m pipeline of potential acquisitions, would like to raise more. Barclay admits that "we'll have to let one or two projects go." Target raised £125m last September. Both yield around 5.5% and dividends are expected to rise.

Keeping up with inflation

"The fundamental thesis for care is strong," says Barclay, "while the operational and reputational risk for us is low." Operators will be concerned about staff availability and their ability to pass on higher costs. However, average weekly fees have risen ahead of the retail price index for the last 25 years.

The need to provide care for the infirm has been recognised across the political spectrum. Last September, the government set out proposals including "a health and social care levy" to provide the required funding, a cap on care costs in England, less means-testing, and funding for improved infection control and testing. "Government reform provides greater certainty for long-term funding," says Impact. This makes both Impact and Target appealing for those seeking an attractive, inflation-linked income with low risk.

Activist watch

Elliott Investment Management is building a stake in electronic payment provider PayPal with the intention of pushing the company to accelerate its attempts to reduce costs, says Bloomberg. The size of the stake has not been disclosed, but Ellliott could become one of the firm's five largest shareholders, according to unidentified sources. PayPal's shares have fallen 75% over the past year as growth in e-commerce slows due to supply-chain disruptions, rising inflation and the return to in-store shopping by many consumers. In addition, eBay, PayPal's former parent company, is shifting payments away from PayPal's platform. The firm is firing employees and closing offices, and says it ultimately expects to save $260m per year in staff costs.

Short positions... active funds provide no protection

■ **Investors might have expected actively-managed funds to do better than passive index-trackers in current market conditions, says the Financial Times. But a report by AJ Bell has shown the opposite is true. In the UK only 12% of active funds managed to outperform a passive counterpart. The average active fund returned -13.5% in the first half of 2022 compared to a -4.4% return from the average passive fund. "Either way, you would have lost money — but investors in passives would have lost substantially less." Passive funds have been aided by the "relatively buoyant FTSE 100", which is skewed towards oil and commodities, sectors where the typical active fund is "considerably underweight". Active funds tend to have a bias towards smaller stocks, which have been hit by recession fears. Active managers performed better in the US, but the average return of -13.3% still lagged the -11.8% that passive equivalents delivered.**

■ Data from Jefferies shows US hedge funds are turning away from big tech stocks and towards other growth names, says Barron's. The collective weighting of 16 top tech firms in these managers' portfolios has been cut from 23.8% to 16.1% over the past quarter, and is now more than ten percentage points below the companies' weighting in the S&P 500. "That means hedge funds are betting the best gains will come from stocks outside that group". However, hedge funds are still betting on other growth stocks: holdings of "secular growth" stocks (those that tend to see consistent gains, still have "a shot to grow" and are taking market share from other players) have increased to about 50% from around 40%, which is higher than the percentage of the S&P 500 that those stocks comprise.

Revive an old idea: tax the land

Free Exchange
The Economist

Land was central to the ideas of 18th- and 19th-century political economists, says The Economist. They believed the distribution of rents from land ownership could explain the "yawning gaps between rich and poor and all sorts of other economic ills". A more recent strand of research shows they had a point. Real estate is the largest asset class in the world. In 2020 it made up around 68% of the world's non-financial assets. Land accounted for just over half of that. As values have risen, the share of land in non-financial assets has increased. In Britain it rose from 39% in 1995 to 56% in 2020. As firms' ability to borrow tends to depend more on their existing assets than their productive potential, this means credit tends to flow to land owners, not to the best businesses. Rising property prices can also discourage productive lending. When housing markets boom, banks tend to lend out more as mortgages, reducing lending to businesses. A paper in 2019 showed that a 50% rise in property prices in China raised borrowing costs, cut investment and productivity, and led to a 35.5% fall in value-added output. It might be time to revive an idea of the old political economists: a tax on land values to lower its attractiveness as collateral.

The Great British sarnie wilts

Judith Evans, Alice Hancock and Emma Jacobs
Financial Times

Before Covid-19 lockdowns shut offices in 2020, people in the UK were eating £8bn worth of sandwiches a year, say Judith Evans and co-authors. Eighty-four per cent of us bought at least one a year, a rate exceeded only by a few staples, such as milk and coffee. A combination of Brexit, then Covid-19, and now a shortage of workers, rising wages, and the fact that more of us work from home at least part of the time, has battered the industry. Business is still 20% below pre-pandemic levels. Inflation is another headache. This year egg prices have risen by 30%, mayonnaise by 80%, bread by 25%, and cheese by 76%. Ingredient shortages due to supply-chain disruption have forced manufacturers to adapt constantly. Most have cut their ranges to streamline production. Government support enabled most sandwich makers to survive the pandemic, but now businesses are going bust and workers losing their jobs. The ready-made sandwich was the symbol of a new age where more and more of us worked for a living and outsourced tasks formerly done at home to the market. Now, as the economy shifts once again, the "golden age" of the off-the-shelf sandwich, and of cheap food generally, may be behind us.

It's time to get radical on housing

Robert Colvile
The Times

The housing crisis is "definitely up there" in Britain's long list of problems, says Robert Colvile. Houses across the UK are less affordable than at any time over the last 150 years. The answer is to build more. According to Rishi Sunak, the main issue is "our precious green belt is being concreted over". Yet councils have only claimed 60 out of 6,232 square miles of it, and its area in England has more than doubled since 1979. In other words, Sunak, along with the other Tory leadership hopefuls, had housing policies that "cater to the party's nimby wing", not the broader electorate. Liz Truss and Sunak are still both "peddling the fantasy" that homes can be built in places where no one will notice. But "the only thing that has been proven to get councils building homes is having central government stand over them with a big stick", which both candidates seem unwilling to do. Solving this challenge will take radicalism, which Truss displayed in 2019 when she launched her bid to replace Theresa May by arguing there was room for a million houses on London's green belt. She has now U-turned. But the housing crisis is hurting the economy and the prospects of a generation. The new PM must confront their party for the sake of the country.

How China took Latin America

Mary Anastasia O'Grady
The Wall Street Journal

The West spent the last half-century wooing China into the "coalition of the civilised", says Mary Anastasia O'Grady. Beijing responded by "beefing up its military" and "snuffing out liberty in Hong Kong". Chinese expansionism has also extended to the western hemisphere, "where it actively supports antidemocratic regimes while posing as a benevolent sugar daddy". Beijing lent Venezuela around $50bn backed by oil, but based on the "train wreck the country has become", it's evident the money wasn't used for development; Ecuador is trying to restructure $5bn in Chinese debt due in the next three years. In bankrupt Argentina, the appeal of Chinese financing "is obvious". The Inter-American Development Bank, which is 30% owned by the US and made China a member in 2009, has a lot to answer for. Before it joined the bank China "didn't know how to do business in Latin America". But between 2010 and 2020 Chinese state-owned companies received $1.7bn worth of IDB-funded contracts, making it the top non-borrower recipient of them. China is outraged that the bank is trying to find new partners, notably Taiwan, and has threatened action. Let's hope that means it will quit the bank and exit the region.

Money talks

"If I wanted to take a six-month break, I don't have income to cover that… I don't have someone supporting me, I don't have anyone I can turn to, to pay my bills or call for help… They don't pay actors like they used to, and with streamers, you no longer get residuals."
Actress Sydney Sweeney (pictured) laments that television streaming services don't keep paying for reruns once the work is done, quoted on Lainey Gossip, a celebrity news site

"What the f* is this s***??? Why would anybody choose to take such a f***ing ENORMOUS discount relative to boutiques?… They pay 80-120 [thousand dollars] in bonus…and I just took home 44k. What the actual f***."**
An anonymous Morgan Stanley banker is unhappy with the size of his bonus, quoted in The New York Post

"The moral of the story: our cynical capitalism is bad, but complacent capitalism can give us a good run for its stolen money."
John Lanchester compares the cronyism and corruption in Britain with the supposedly superior yet actually fraud-ridden order in Germany, in the London Review of Books

"It's not surprising that the biggest clap from the audience at the first TV debate was for [Rishi] Sunak's response to [Liz] Truss's remark about his education: 'My parents didn't start with very much, but they worked day and night, saved and sacrificed to provide a better future for their three children. And I'm certainly not going to apologise for that.' Aspiration beats envy every time. Even in supposedly class-obsessed Britain."
Columnist Dominic Lawson on the Tory leadership debate, in The Sunday Times

The largest art heist in history

©Getty Images

Bhima and Duryodhana: the warriors have returned home

bloomberg.com

For more than 40 years, Bangkok-based British businessman Douglas Latchford was the foremost dealer in Cambodian antiquities, says Matthew Campbell. An "energetic salesman", he "invigorated a once sleepy corner of the art market, securing seven-figure prices for objects that previously had modest commercial value".

Today, he is at the centre of "one of the most complex art-market investigations ever undertaken". Much of what Latchford was selling, it turns out, was the haul from a "campaign of plunder" that played out over decades in post-Khmer Rouge Cambodia.

Changing attitudes

Some argue that Latchford has been unfairly vilified. But critics see him as a Janus-faced figure, mediating between an "underworld of temple robbers and smugglers" on one side and wealthy collectors and elite museums on the other. Latchford described himself as an "adventurer-scholar", but the "truth was more prosaic". His world was that of "elegant suits, five-star hotels and first-class travel" rather than of "trooping through jungles in search of lost treasures". But his responsibility for the "mass looting" of Cambodia is not thereby diminished, even if he worked in an age when few cared where such treasures came from and artefacts from previously colonised countries were viewed as fair game. Latchford died in 2020 before he could face fraud and conspiracy charges.

Even at the time Latchford was working, "attitudes were in flux". Demands for the restitution of pieces stolen by the Nazis led museums and auction houses to request more detailed information about provenance. In 1970 a Unesco treaty allowed governments to demand the return of looted objects. Yet even today the situation is far from resolved. A 2011 study found that 71% of Cambodian pieces put up for auction at Sotheby's from 1988 to 2010 had no published provenance, and for the rest information was fragmentary.

Tracking down and reclaiming all the works is a "huge endeavour", but Bradley Gordon, an attorney working pro bono for the Cambodian government, has become obsessed with getting it done. Collectively, "it's a massive crime", he says, "probably the largest art theft in history". But there are happy endings. Among the treasures looted were statues of Bhima and Duryodhana, heroes in the Sanskrit epic the *Mahabharata*, looted from Prasat Chen, a major temple in the ancient city of Koh Ker. Both have now been repatriated and are in Cambodia's National Museum.

Crowdfunding a war

economist.com/the-economist-explains

Private citizens have chipped in to help in times of war for centuries, says The Economist. A writing tablet found near Hadrian's Wall mentions a gift of clothing for Roman soldiers. The US government asked civilians to knit warm clothing for troops during the World War I. The war in Ukraine has been no different. This month Aerorozvidka, a Ukrainian drone unit, took delivery of four drones from a German group of civilians. Since the outbreak of war in February, Ukrainian crowdfunding has focused on high-tech gear that cannot be obtained locally. In July the government launched an initiative to raise money and attract donations of kit. The Kalush Orchestra, who won the Eurovision Song Contest this year, auctioned their trophy, raising $900,000. "Social-media platforms have helped such efforts to blossom." Their contributions remain small compared with government programmes – the country's military budget in 2021 was around $6bn; the US alone has already given over $20bn in military assistance – but they are helping to "sustain interest in the war abroad and get high-tech equipment to the front lines quickly". Russian troops, meanwhile, have also been attracting civilian aid, but are increasingly looking "short of essentials that worried mothers will now struggle to supply".

Take that holiday

theconversation.com

It is currently holiday season, yet instead of "drinking cocktails on the beach or hiking the mountains", a surprising number of people are staying in the office, says Jolanta Burke. Research in Ireland has shown that one in five people do not take their full holiday entitlement. In the UK, two in five have taken less leave in the wake of the pandemic.

Why? An inability to switch off may leave some people thinking they may as well work on. Others prefer working to holidays, perhaps because of the family conflict or the costs involved. But regardless of the reason, it is a mistake. We need time off to reduce the risk of "stress and burnout", and to give us the time we need to recover from demanding jobs. It's good for employers too, improving workers' productivity by up to 40%, reducing the likelihood of sick leave by more than a quarter, and boosting creativity and mental health.

This is not to be avoided

©Getty Images

You needn't take an expensive foreign holiday to get the benefits. Just take the time to do something that will engage your mind and help you forget about your job for a time. "You'll return happier and more energised than before."

Women bring football home

lrb.co.uk

"After decades of hype about the men's team, it is satisfying that England's women finally brought football home," says Emma John. Despite enjoying a long winning streak, the women's game "still gets attacked like no other sport" and has had to battle against the odds. Just before the World Cup finals in 2015, the Football Association formally apologised for the harm it had done by deliberately keeping women out of the game, "stifling a sport that had thrived in the early decades of the 20th century".

Money will determine the future of the women's game. Barcelona's Champions League semi-final this spring was watched by a crowd of more than 90,000; some of the games in the Euros championship that just ended have had viewing figures a hundred times larger. Men's football in England is "bolstered by high-profile TV coverage, media reporting, sponsorship and advertising". Now that England has won the Euros, beating Germany 2-1, women's football will be seen as an "investment opportunity". Women now really are "back in the game."

Military technology is making great strides

The operational efficiency of defence equipment and cybersecurity is developing rapidly owing to the war in Ukraine, says Jonathan Compton. Here's what this means for investors

It was advanced technology that did it. Until around 1,100BC, the biggest guy in armour with the longest sword was always going to win. But David's new-tech catapult put paid to Goliath's career and the Philistine army. By contrast, three millennia later Britain's most successful general ever, the Duke of Wellington (who never lost a battle) lacked any technological edge. Yet he defeated three much larger French armies when liberating Spain during the Napoleonic wars. A vital factor was his focus on detailed and up-to-date intelligence on all aspects of the enemy and terrain. Technology and good intelligence explain why Russia singularly failed to subdue Ukraine in a handful of days, as many initially expected.

I would like to see the Russian army both humiliated and pushed out entirely, even though the latter seems unrealistic. Yet even though the invasion began just six months ago, it is already clear that the huge leaps in electronics, artificial intelligence (AI) and cyberspace over the last 30 years have radically changed the way governments, their military and businesses will operate in future.

Even before the invasion was official, US and other sources were trumpeting the timing, location and strength of the Russian incursions into Ukrainian territory. Their accuracy was extraordinary (yet derided beforehand as alarmist). Part of this information would have come from "old tech", but ever-improving, satellites. Much more must have stemmed from successful hacking into government computer systems – not just Russia's, but those of allies such as Belarus too.

When the war began Russia used some of its cyberwarfare capabilities to close down Ukraine's internet and communications; crucially, it hacked into and shut the US-based Viasat satellite system used by Ukraine's armed forces. The surprising hero of the hour was Elon Musk, best known for Tesla cars. One of his other companies, SpaceX, managed to rapidly position 50 of its low-orbit satellites over Ukraine, while it also distributed more than 11,000 Starlink receivers and necessary ground stations (one will fit easily onto a truck) across the country. Mobile, flexible and technologically adaptive, they have proved impossible to shoot down or jam, which is why key Russian aims of making the Ukrainian military "blind" and silencing communications in and from Ukraine have had very limited success. President Zelenskyy and all broadcasters rely on Starlink.

Russia asleep at the wheel

It is hard to understand, however, why Russia failed to fully deploy its considerable cyber capabilities. Possible reasons, think-tanks surmise, are that cyberwarfare took a back seat to battle-planning; that to make it effective takes several years of preparation; and that Moscow thought it would win quickly. There is also evidence that the Kremlin wanted to keep communication, transport, energy and other networks open for its own imminent use.

Another factor may be the cyberwarfare conundrum, a lesser version of nuclear deterrence: the risks of retaliation. It is certain Russia could still inflict considerable "electronic pain" and even destroy vital networks, but that would invite reciprocal attacks closing down, say, its own power stations, airports or water systems. Even so, Russian cyberattacks outside Ukraine against all of its allies have soared from an already high base. The UK has seen a 72% increase in cyberattacks on its private-sector national infrastructure since the start of the war, according to the security company Bridewell.

"Ukraine, surprisingly, has a vibrant community of software engineers and developers"

Surprisingly, given Ukraine's economy is dominated by heavy industry and agriculture, it has a large and vibrant community of software engineers and developers on and offshore. One of President Zelenskyy's first moves after his election victory in 2019 was to ramp up Ukraine's technological abilities; he put the 28-year-old Mykhailo Fedorov in charge of the Ministry of Digital Transformation (he is now also vice prime minister).

Fedorov initiated and accelerated two vital developments. Firstly, the government decided to digitise each department as much as possible to make public services cheaper and more efficient, and to reduce corruption and the overall size of the bureaucracy. Data was to be accessed by the entire population via a mobile-phone app known as Diaa. Take-up was rapid and widespread, so key data such as passports and driving licences are now held by individuals on their phones.

Secondly, the government changed the law to encourage all ministries to upload their data into the cloud. So the government's capacity to function normally endured, thanks to companies such as Cisco, Microsoft and Google providing continuing cybersecurity for the government and business. Some servers were also moved to safe areas overseas when the invasion began.

Teenagers' endearing derring-do

Cyberwarfare has its limits. No cybersystem will allow you to gain territory. Yet what the war has also highlighted is a wholly novel approach using inexpensive equipment requiring minimal training. An endearing story of derring-do in the first weeks of the war provides a good example.

As the Russian army closed in on Kyiv, a 15-year-old boy crept into a field one night and using his personal drone (available on Amazon and in many other stores) tracked down a military column. His father entered the GPS co-ordinates into a social-media app. Ukrainian artillery then pounded the convoy. There are thousands of civilian drone operators and no shortage of mobile phones with GPS.

If this blurs the lines between civilians and combatants, then consider anti-tank and anti-aircraft weapons. In the preliminary stages of the war these became symbolic of Ukraine's resistance. Next Generation Light Anti-Tank launchers (NLAW), designed by SAAB of Sweden, have been sent in their thousands, along with the portable MILAN tank destroyers and longer-range Javelin and similar makes.

Ukraine has begun to receive and deploy new systems, such as the High-Mobility Artillery Rocket System (HIMARS)

The equally portable Stinger anti-aircraft rockets have proved highly effective. The training required to operate them is minimal, so after a few hours of instruction that 15-year-old and his father could have completed part of the destruction of the convoy themselves.

The upshot is that hyper-sophisticated electronics and design have potentially turned me and my young grandchildren into lethal Davids against the two key traditional Goliaths of attack: the battle tank and the warplane. Point it vaguely in the right direction, pull the trigger and home for breakfast. The AI and electronics will do the rest.

Moreover, these weapons come relatively cheap: $40,000 for the SAAB missile and around $140,000 for the Stinger. A modern battle tank costs $7m; the Eurofighter Typhoon $120m. The mathematics of attack and defence are stark in their imbalance.

How drones have developed

These cyber-cum-electronic weapons have suddenly become well known, although they have been around for a couple of decades. Yet the weapon that is really changing warfare has been around for 50 years, but only now has been developed to a stage where it is either useful or terrifying: the drone, officially known as an unmanned aerial vehicle (UAV).

UAVs' first successful military use was in the 1973 Arab-Israeli war when the Israeli Air Force commander General Peled had the brilliant idea of flying them over Egyptian lines. The Egyptians shot off all their anti-aircraft rockets to bring them down, thus allowing the Israeli air force then to strike with impunity. But these were slow, simple, dumb drones. Now they come in a variety of sophisticated forms. Initially designed only for surveillance (Ukraine is said to have more than 6,000 of this type), many new variants are weaponised, of which the largest single shipment to Ukraine has been the US-supplied Switchblade.

This is portable in single units or comes in multipacks. The advanced version weighs only 50lbs, can be set up in ten minutes and has a range of 50 miles. It can loiter around while the faraway operator looks for a target, or be preprogrammed. It has the same punch as a Javelin anti-tank missile and is classified as a "kamikaze drone": it is not designed to return.

Very recently America agreed to send 580 Phoenix Ghost kamikaze drones – similar to the Switchblade, but more lethal. This model is so new that little public information is available, save that it can fly faster, for longer and has a heavier payload. Before this US support Ukraine's best drone was the reusable Turkish Bayraktar TB2, which with its 12-metre wingspan, long range and laser-guided bombs is a far larger and deadlier weapon. It is unknown which type of drone successfully attacked a Russian oil refinery over 100 miles behind the front line, but that incident is one of many examples of how far these erstwhile toys for hobbyists have developed.

However, drones will no more win the war for Ukraine than cyberattacks. Already Russian anti-drone jamming systems and rockets are proving successful. The reality is that the war has become a huge slogging

"The 'kamikaze' drone has the same punch as a Javelin anti-tank missile and is not designed to return"

Continued on page 20

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match. Neither side is using its air forces much nor sending forward tanks, as both have proved vulnerable, while each is running out of manpower. As a result, Russian forces are relying primarily on heavy artillery firing over 20,000 large shells a day to flatten whatever is in front of them and then inch forward.

Meanwhile, Ukraine's government has urgently demanded ever more heavy weapons to compensate for its relative artillery weakness and has just started to receive and deploy new systems, such as the lethal HIMARS long-range multiple-rocket launchers. The war is now reminiscent of trench warfare in the Great War overlaid with hi-tech as both sides become exhausted. It is difficult to see how either can make sufficient advances to declare victory.

Military technology is accelerating

Just as World War II massively accelerated technology, design and efficiency in both the military and civilian spheres, including aeroplanes, ships, vehicles and computing, so events in Ukraine are having a significant impact today. Unmanned vehicle and ground systems hint at large improvements in driverless vehicles. SpaceX has shown how rapidly communication networks have evolved. Some drones are now as large as commercial aircraft and are easily transferable for useful civilian purposes.

Strategists have already noted the potential for drone swarms, with dozens or perhaps even hundreds co-ordinating their operations. It sounds like science-fiction, but it is likely to be a reality within a few years. In cyberspace Russia had been pummelling Ukraine for over a decade, but since the war began Ukrainian and foreign hackers have accessed "an avalanche of data", according to the successor group to Wikileaks. They have also disrupted banks and accessed data belonging to the FSB (the successor to the KGB).

There are already lessons to be learned or relearned from current events. I'm intrigued by the return of the barely trained citizen soldier and the huge importance of the private sector in battlefield communications. Armaments remain vital, but that granny wheeling her shopping trolley could be taking her Javelin missile home to launch; that teenager in the attic may be taking down communication systems in cyberspace or sending drones to attack the enemy. The key lesson is that however cautious you may be, there is always a nutter on the bus who wishes you ill, so it's best to be prepared. While president Putin is now in plain sight, the adversaries you can't see are more dangerous. Countries such as Iran already have drone-manufacturing capability; these are used frequently in the Red Sea by Yemeni pirates attacking shipping, or by other allies such as Hezbollah in Lebanon, which last month attempted to damage Israeli offshore-gas platforms.

The war now resembles the trench warfare seen in 1914-1918

"That geeky teenager in the attic may be taking down commun-ication systems"

Over the two decades to 2021, the EU's defence expenditure rose by a fifth from a low base; America's jumped by 66% from a higher level. China's increased by 592% and overtook the EU's. Its spending is now second only to America's. China is far more advanced in cyberspace, AI-drone and automated fighting machines than Russia and in some areas able to match America. Two dominant themes of the current decade, then, both in politics and markets, will be cybersecurity and electronic warfare, both propelled by advances in AI and machine learning. Investors need to work out where the new advantages lie.

The stocks to buy now

In January 2022 I recommended several cheap defence companies, all of which I owned; they took off when the invasion commenced. I will keep holding these shares and buy more on any downturns for two reasons. The first is that in January the sector was too cheap, and although prices are now higher, so is earnings visibility. Defence expenditure, and hence companies' order books, will rise significantly for many years. Most Western militaries are short of either basic armaments or sufficient stockpiles – or they own outdated or useless new equipment (the alarmingly bad next-generation Ajax tank ordered by the British Army doesn't work).

I suggest staying with the sector's leaders. The easiest pick is still **BAE Systems (LSE: BA)**, which despite trading close to an all-time high is still on a forward price/earnings (p/e) ratio of 14 times and yields more than 3%. Its businesses run the gamut of the sector, from submarines to rockets. There are many catalysts for growth such as next-generation fighter aircraft. BAE is the lead partner in the nascent Tempest programme, a joint venture with Japan and Italy. The group will also benefit from its cyber and unmanned-aerial-vehicle (UAV) capabilities. In Europe, where defence expenditure will rise proportionally more than here, I continue with my two large favourites; Sweden's' **Saab (Stockholm: SAAB)** and Italy's **Leonardo SpA (Milan: LDO)**. The latter looks cheap on a sub-ten times p/e partly due to fears over Italy's solvency. The former stock is expensive but politics justifies the price. The EU will want to re-equip as much as possible using European firms, and there aren't many choices.

Two defence-related companies I recommended much longer ago than last January, by contrast, have been outright blunders: **Rolls-Royce Holdings (LSE: RR)** and **Babcock International (LSE: BAB)**. They are either bust or recovery plays. On Rolls-Royce I am more comfortable as the civil and military-engine markets are recovering, while its potential in mini-nuclear power stations remains intriguing. Babcock isn't really a defence company at all. It provides a range of logistical support, such as docks and military bases. It appears to be stabilising, but don't bet the farm. When it comes to cybersecurity, MoneyWeek rightly cautioned investors against jumping into the largest UK firm, **Darktrace (LSE: DARK),** after its successful 2021 flotation, when it briefly traded above 925p. But at 378p, many of the risks are in the price.

There are still very few defence funds and exchange-traded funds (ETFs). How virtue-signalling fund managers keen to burnish their environmental and social governance (ESG) credentials expect to protect liberal capitalism without armaments remains a mystery. The few cybersecurity ETFs available have all traded lower in the general tech bear market, but the **iShares Digital Security UCITS ETF USD Acc (LSE: LOCK)** and the **L&G Cyber Security UCITS ETF (LSE: ISPY)** provide some insurance.

Drone companies? No thanks. There are dozens listed, but a mere handful will survive. The long-term winners in this sector are likely to be America's top contractors, such as Lockheed Martin, General Dynamics, Raytheon Technologies and Northrop Grumman.

Wood needs polish, but has potential

While this oilfield engineer's stock has underperformed, its prospects are solid and it looks too cheap

David J Stevenson
Investment columnist

Like it or not, oil remains a vitally important commodity. While the price has dipped from its highs in the first half of 2022, the International Energy Agency (IEA) still expects global demand for crude to grow by 2.2% in 2023, thus topping pre-pandemic levels. Even if this is overoptimistic – the IEA admits that figure could well be lower – global oil usage only tends to drop during deep recessions.

Meanwhile, world oil supply is also uncertain, with ongoing concerns over Russia and oil-exporters' cartel Opec. To cut a long story short, there's a constant need for oilfield-engineering firms to provide a steady stream of "black gold" for consumers. As and when renewable-energy sources manage to supply most of the world's energy needs, industry expertise will be vital in ensuring a smooth transition here too.

Enter **John Wood Group (LSE: WG)**, a member of the FTSE 250 mid-cap index and one of the world's leading consulting and engineering companies. It operates across energy and infrastructure markets, while employing 40,000 professionals across 60 countries. Its consulting division is a global problem-solver that aims to maximise the value of clients' assets during their life cycles. It focuses on the energy transition and sustainable infrastructure development across a broad spectrum of markets.

The group's services will always be in demand

©Alamy

Fingers in a wide range of pies

The projects division helps customers with project management, engineering, construction and procurement in sectors including oil and gas, chemicals, renewable energy, power, mining and minerals, and life sciences.

Finally, its operations arm does what it says on the tin, helping to manage businesses in areas ranging from transport and power generation to water and government infrastructure. The division provides maintenance, modifications, brownfield engineering, asset management and (where necessary) decommissioning services.

Given the backdrop of oil's performance since Russia invaded Ukraine and the subsequent panics about energy supplies, you might have expected a stellar showing from Wood's stock price in recent months – not least because the group is selling a consulting business, Built Environment (BE), to Canada's WSP Global for $1.62bn (£1.35bn) in cash, which compares with the group's current market capitalisation of just over £1bn.

Yet Wood has been a big disappointment for its investors over the last two months. From 250p around the end of May 2022, just before the sale of BE was announced, the group's shares have plunged to below 150p.

A weak UK stockmarket over this period certainly hasn't helped. Nor has the group's delayed announcement of a $136m loss for the year to the end of December 2021 (Wood does its accounting in US dollars, the currency in which crude is also priced).

But fears about the possible effects of a near-term economic slowdown have probably done the most damage, even if – as I explain below – these appear unjustified.

Over the longer term, though, Wood has suffered several more problems. For example, in February of this year it raised its expected loss on an anti-missile facility for the US Army Corps of Engineers from $135m to $222m.

Indeed, one-off write-downs have seriously soured sentiment from early 2017. Since then the stock's value has fallen by more than 80%. Furthermore, dividend payments ceased three years ago.

Clearly, during this period shareholders have experienced plenty of pain. However, that isn't a problem for new investors. With the group's long-term outlook improving, the stock-price plunge may be providing new buyers into Wood Group with a great recovery opportunity.

The firm is gathering momentum

In its trading update for the six months to 30 June 2022, Wood confirmed a small revenue rise to around $3.2bn (£2.65bn), with strong growth in consulting and operations partly offset by a decline in projects.

Negative notes were a drop in adjusted earnings before interest, tax, depreciation/amortisation and one-off items (EBITDA) to $250m from $262m in the same period a year before, while profit margins dipped slightly. The positives were an 18% year-on-year rise in orders to $8.1bn (remember, this compares with a market cap of around $1.25bn). The group has won several key contracts, including a ten-year partnership with Chevron. As a result, Wood Group expects a stronger second-half performance. Meanwhile, prior to receipt of the proceeds from the Built Environment sale, net debt as at 30 June 2022 was about $1.7bn.

"It is encouraging to see the improving operational momentum in our business, especially the growth in our projects order book, supported by a backdrop of strong market demand for our engineering solutions," says CEO Ken Gilmartin. "We expect a stronger performance in the second half [and] an exciting future."

After its five-year plunge, the stock is very cheap. The shares are on a prospective price-to-earnings (p/e) ratio of about 6.5, according to analysts' forecasts compiled by the Financial Times, although this multiple could change slightly after the sale of BE. The shares also look distinctly undervalued compared with Wood's $4bn book value, annual sales and the size of the order book. In summary, Wood needs a period without mishaps to facilitate a progressive profit pick-up as well as a sizeable rerating. The BE sale and the potential for higher long-term oil prices could prove the catalysts for turning this underperformer into a major winner.

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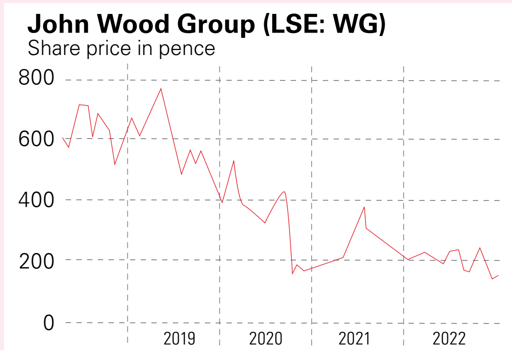


Find your lost fortune

Britons have amassed almost £50bn of unclaimed assets. Here's what to do if you think some of the money may belong to you

Ruth Jackson-Kirby
Money columnist

We're all feeling the pinch as the cost-of-living crisis continues to bite, so there has never been a better time to check whether you own a valuable forgotten asset. Research by tracing service Gretel estimates there is almost £50bn stashed away unclaimed.

Forgotten assets can be in a variety of places, from investments and savings accounts to insurance policies. But the biggest source of forgotten wealth is money in pension funds. Gretel estimates that £37bn is waiting in lost pensions.

No wonder. Most of us have switched jobs a few times in our careers, leaving behind workplace pensions. Combine that with a house move and it is easy for pension firms to lose track of us.

Where to start

Tracing lost assets has so far been a relatively simple process, but it's going to get a lot harder at the end of this month. The Unclaimed Assets Register allows you to search for forgotten pensions, bank accounts, Premium Bonds, investments and insurance policies in one place.

For 20 years it has been used by consumers as well as solicitors looking to trace estates. But the database is operated by credit-reporting group Experian, which has announced it will close on 29 August as "it is no longer a priority for the business", reports Charlotte Gifford in The Daily Telegraph.

For a £25 fee you can enter the names of people you want to search for, along with numerous past addresses. That information is then matched against 4.5 million records from around 80 financial providers to see if there are any dormant accounts in that name. But before you part with £25, there are other free ways you can look for lost accounts. It will just take a little more effort as you'll have to use different resources for different assets.

Tracing overlooked cash is about to get harder

Policy Detective is a tool for searching for insurance policies. You type in the name of the company that issued your policy and it will give you their up-to-date contact details; it will also tell you if they have been bought by another company. You can get an automatically-generated letter to send to the company, too.

Policy Detective will also give you details on banks and building societies. Another simple way to track down old bank accounts is with My Lost Account. Set up a profile and fill out the search form and it will hunt down old accounts for you. My Lost Account also searches for National Savings & Investment Accounts, including Premium Bonds. Finally, if you are hoping some of that forgotten £37bn pension fund is yours you can use several different pension-tracing services. The government's tracking service is at www.gov.uk/find-pension-contact-details. You can find current contact details for your pension provider there, and you will then need to write to them to see if they have an account in your name.

Funeral firms are regulated at last

The journey has been "rather fraught... but at last the pre-paid funeral plans market is now properly regulated", says Jeff Prestridge in The Mail on Sunday. In recent years some funeral-plan companies have collapsed, including Safe Hand Plans and Unique Funeral Plans.

However, as of last week 26 companies became regulated by the Financial Conduct Authority (FCA), the City regulator. People who buy a funeral plan from one of them can be confident "that the product will do exactly what it says on the tin", says Prestridge. The 13 companies that did not get authorisation have until November to transfer their plans to a rival or refund customers' premiums.

Until now there have been problems with funeral plans not paying out as much as expected and thus leaving a shortfall when it is time to cover the cost of a funeral. The FCA says it hopes regulation will lead to higher standards across the market. "We expect to see an improvement in the way customers are treated, with better-value products, better sales practices and tighter controls in place so consumers can be confident they will receive the funeral they expect," a spokesperson told The Mail on Sunday. FCA regulation also means money held in a funeral plan with an approved firm will be covered by the Financial Services Compensation Scheme (FSCS), so if the company goes bust you will get your money back. Around 2,000 appointed representatives of the 26 regulated firms will be able to sell plans. If you are shopping for a pre-paid funeral plan you can check the FCA's list of regulated firms.

Pocket money... mortgage stress tests scrapped

● Savers are benefiting from rising interest rates, so it's not the time to lock your money away for too long. However, those prepared to wait three months can get an annual equivalent interest rate (AER) of 2.1% from Investec's new 90-day notice savings account, says the Sunday Times. You can pay in between £5,000 and £250,000.

● The end of July brought with it the end of mortgage affordability stress tests. "It is hard to imagine a more bizarre time to kill off the Bank of England's (BoE) affordability test, which for the past eight years has ensured that home buyers could cope with a three percentage point-rise in interest rates," says the Financial Times.

Households are "being stretched" by rising costs. Recession is "all but inevitable"; unemployment levels are set to jump from 3.8% to 5.5% within three years and mortgage rates are rising.

"Against that background, it would be logical for a regulator that didn't have a mortgage affordability test... to come up with one. To eliminate an existing test is just obtuse."

● "UK consumer credit growth in June accelerated at the fastest rate in three years," says the Guardian. Data from the BoE revealed an extra £1.8bn was borrowed in June, £1bn of which was put on credit cards. Credit-card borrowing is now at its highest level since November 2005.

Many households are "facing impossible choices trying to meet everyday costs," the Money Advice Trust told the Guardian. "With a further hike in energy prices around the corner, our concern is that more people will have to turn to credit to cover basic needs."

● A quarter of grandparents have helped or are planning to help their grandchildren get on the property ladder – an increase of around 33% since 2016, when the research was last undertaken by Aviva. The average amount given by grandparents has also increased to around £31,000 – 25% higher than six years ago, says The Mail on Sunday.

The average first-time buyer now needs a £33,000 deposit but saving is getting harder as rents are rising at their fastest rate in 15 years. The average rent is now £870 a month, up £66 in the second quarter.

Annuity rates are on the rise

Pensioners inclined to swap their savings for a guaranteed yearly income can now earn more

David Prosser
Business columnist

Good news for those thinking of using their pension savings to buy an annuity in retirement: the rates available on annuities, which pay a guaranteed income for life, have kept climbing in line with rising interest rates and gilt yields. They are now at their most generous level in almost a decade.

Last month, a £100,000 pension fund would have bought a typical 65-year-old man an annual income of £6,168 for life, according to financial-planning website SharingPensions. This level of income is around 20% higher than what was available at the beginning of the year – and compares with an all-time low of £4,696 in August 2016.

The income you can actually secure for a given amount of pension savings will vary enormously, depending on what you want from your annuity. The most expensive annuity features could reduce your income – at least initially – by close to half.

> *"Once you buy an annuity, you're stuck with it for good"*

Three key factors

Three things make a difference above all. First, do you want a guarantee that your annuity will pay out for a minimum period, even if you die in the meantime? Many savers value such guarantees because annuities have always been regarded as a gamble. Once you die, your annuity income normally stops, no matter how much pension money you handed over at the beginning of the deal. Guarantees provide some insurance in this regard.

Savers need to consider how much protection from inflation they need

©Getty Images

Issue two is inflation protection. One option is to buy a level annuity – this pays out the same annual income year after year, with inflation steadily eroding the value of this cash. Some savers therefore want an annuity that automatically rises in line with inflation each year, or guarantees a rise matching at least some of the prevailing inflation rate.

Finally, what about dependants? If you buy a single-life annuity, it pays out until the end of your life only (or to the end of the guaranteed period, if you've selected that option). Joint-life annuities, by contrast, continue to pay out an income to a dependant – typically your spouse – even after your death.

All three of these features have value, but they come at a cost. Data published by Hargreaves Lansdown earlier this year featured a 65-year-old man offered a single-life, level annuity, with no guarantee period, of £5,196 a year. Adding a five-year guarantee brought that rate down only marginally, to £5,165 a year, but inflation protection in the form of a 3% annual increase would have seen it fall to £3,463 – and full inflation-proofing with a link to the retail price index (RPI) would have brought it down to only £2,838. Joint-life options also greatly reduce the income available.

Getting the best deal on annuities therefore requires some decision-making, as well as an element of forecasting. If you think inflation is going to remain very high for the foreseeable future, you may be prepared to accept a lower annuity rate today in order to secure long-term protection from value erosion. If you think inflation will drop back below 3% and stay there, why would you accept less annuity income by opting for a full link to the RPI rather than 3% increases?

Get expert advice

Given these nuances, taking independent financial advice on your annuity purchase makes sense. Online quotes are good starting points, but expert advice can help you get the best value. This is important, as once you've bought the annuity, you're stuck with it for good.

Even if you decide to go it alone, don't break the golden rule of annuity purchases. Never accept an annuity offer from the pension company with which you are saving before seeing what else is available. It may be the best deal in town, but if you shop around there is a good chance that better rates are available elsewhere.

Finally, don't overlook the potential of an impaired-life annuity. These are aimed at pension savers with limited life expectancies. Since the insurer does not expect to have to pay out for as long as with a typical annuity, it can offer a much higher income from the outset.

Impaired-life annuity contracts are far more widely available than in the past. You may be eligible for a higher rate simply because you smoke (or used to), or are heavier than average. People who have spent their career in certain professions may also be able to get better rates. Here, working with an independent financial adviser who understands which annuity companies offer the best rates for someone with your circumstances can really pay off.

News round-up... beware pausing your pension

- The families of pensioners who missed out on pension income because of government errors may now be able to claim an average compensation payment of £8,900 each. The government is working its way through 40,000 cases of pensioners – mostly women – thought to have been underpaid state pensions for years, or even decades, but many of those affected have died. Now ministers have launched a website to allow their family members to investigate such cases and to claim compensation for heirs where errors are identified.

- Financial advisers are increasingly worried that clients are withdrawing too much pension cash from income drawdown plans, new research warns. A survey by AKG, Abrdn and Scottish Widows found that 47% of advisers feel anxious that clients are ignoring their advice and withdrawing funds at a rate that could see them deplete their savings late in life. Four years ago only 29% of advisers were similarly concerned.

- Pausing your retirement saving for a short period of time in order to cope with the cost-of-living crisis could see your pension income fall dramatically, Standard Life is warning. Research from the insurer, which found 93% of its customers are feeling the impact of higher costs on their finances, shows that someone who started work on a salary of £25,000 per year, and paid minimum pensions contributions from the age of 22, could end up with nearly £457,000 in retirement. Pausing contributions for a year at age 35 could reduce the final total to £444,000, Standard Life calculated – £13,000 less than if they had continued to pay in.

Income and growth in good times and bad

A professional investor tells us where he'd put his money. This week: Matthew Page of the Guinness Global Innovators fund picks three resilient stocks

Central banks around the world are raising interest rates to temper demand and counteract persistently high inflation. In this situation it makes sense to look for companies whose revenues and growth are relatively insensitive to the economic cycle – those with products or services that are always in demand.

One good way of finding these is to look for firms that consistently generated a high return on capital (a key gauge of profitability) over the last economic cycle. As the outlook for inflation and interest rates remains uncertain, it is also important to identify businesses with robust balance sheets. Those that meet these criteria often pay nice, predictable dividends that grow throughout the economic cycle.

"Look for stocks whose sales and growth are insensitive to the economy"

Life-changing treatments

AbbVie (NYSE: ABBV) develops drugs related to immunology, oncology, virology, and neuroscience. The company, which was spun-off from Abbott Laboratories in 2013, generates 60% of revenue from its blockbuster arthritis drug, Humira, but it also has a strong pipeline of next-generation immunology and blood-cancer drugs.

The company's mature drugs have expiring patents, but manufacturing and dosing complexities limit competition. AbbVie has also made moves to diversify revenue via the acquisition of Allergan – the maker of medical and cosmetic aesthetics products, including Botox.

With post-acquisition operating cash flows of close to $20bn, AbbVie is well placed to continue financing dividends, share buybacks, debt payments and further deals. In fact, since its spin-off, the company has grown its dividend by an annualised 13%.

A consumer-goods giant

Nestlé (Switzerland: NESN), the world's largest food and beverage company by revenue, has over 2,000 brands, 34 of which have annual sales greater than $1bn. These include Nescafé, KitKat, Smarties, and Milo. Well-known brands, strong existing relationships with retailers and economies of scale provide Nestlé with an enduring competitive advantage, while good product diversification and geographical reach ensure low cyclicality for its goods.

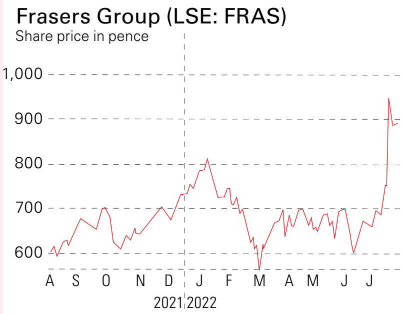
Nestlé boasts a high steady return on capital and a strong balance sheet with low leverage; this has enabled it to grow its dividend for the past 26 years. Recently the business has been undergoing strategic portfolio adjustments to focus on higher growth and more profitable categories.

Topping up Japan's health system

Aflac (NYSE: AFL) is the top US-based provider of supplemental health and life insurance to individuals in the US and Japan. Some 70% of revenue is generated via Aflac Japan, where customers purchase medical-insurance policies to fill gaps in the national health insurance system. The company reports that 95% of its Japanese policyholders renew their policies, with the average customer remaining with Aflac for 20 years. This provides recurring revenues and cash flows, which have grown over time owing to the ageing population.

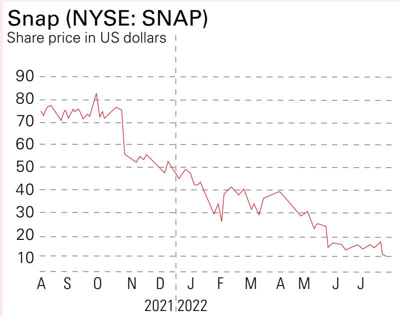
The deregulation of Japan's financial system has allowed Aflac to sell its policies through banks or the post office, where Japanese customers are used to conducting financial transactions. The company's strong balance sheet – which has little debt – has supported 39 consecutive years of dividend growth.

If only you'd invested in...



The share price of high-street tycoon Mike Ashley's **Frasers Group (LSE: FRAS)** has soared as shoppers return to shopping in person, says The Guardian. Frasers owns high-street brands such as Sports Direct, Flannels and Missguided, and has announced plans to increase its rate of acquisitions and store openings on the back of rising sales, which grew by 31% to £4.7bn in the year to 24 April. The firm expects profits to rise by 23% this year. CEO Michael Murray will expand Flannels to 100 stores and revamp larger Sports Direct outlets. The stock has climbed by 47% in 12 months.

Be glad you didn't buy...



Social-media platform Snapchat's parent firm, **Snap (NYSE: SNAP)**, saw its stock slide after posting a $422m loss for the second quarter of 2022, says Forbes – double the loss in the second quarter of 2021. The company cited a downturn in advertising revenue as the culprit and now plans to reduce its rate of hiring "substantially". Snap made a promising market debut in 2017, but struggled last year amid changes to Apple's privacy policy that gave iPhone users the option to block advertisements that tracked their behaviour across different apps. This hampered advertising sales. The share price is down 86% in a year.

China's No. 1 chip tycoon vanishes

Zhao Weiguo rode a decades-long boom in China pursuing Beijing's core industrial policy of semiconductor self-sufficiency. Then he fell foul of Xi Jinping. Jane Lewis reports


©Alamy

"Zhao's downfall marks the latest in a series of epic corporate collapses in China"

One of China's most prominent technology tycoons, Zhao Weiguo, has mysteriously vanished, having apparently fallen foul of Xi Jinping's government, according to Chinese business site Caixin. Zhao, 54, led the now cash-strapped chipmaking giant Tsinghua Unigroup for a decade, says the Financial Times. But he has been "out of contact" since mid-July after "being taken from his home by authorities". According to local media, he is "under investigation by officials in Beijing". Zhao's downfall marks the latest "in a series of epic corporate collapses" featuring aggressive Chinese dealmakers, who rode a decade-long, debt-fuelled international acquisition spree, and have now been jailed or detained – usually on corruption charges. The difference with Zhao was that, rather than chasing prestige investments such as property, his aims were in line with one of Beijing's core industrial policy ambitions – semiconductor self-sufficiency.

A drive to the cutting edge

The quest to free China from its dependence on foreign-made chips made Zhao one of the most powerful of the country's new barons. "No one epitomises Beijing's vision better," remarked Forbes in 2015. "The goal," he said, was to use "foreign know-how as a shortcut to building an advanced chip sector for China". And he proved a master at delivering. In just two years, Zhao's state-backed company shot from an obscure role peddling scanners and herbal medicine to become the "champion of Beijing's chip ambitions". Zhao drove Unigroup "to the leading edge of China's semiconductor industry", says Nikkei Asia, starting off in style with the $1.7bn acquisition of Nasdaq-listed Spreadtrum. Several of the country's most promising chipmakers evolved from "Tsinghua's stable", says the FT – notably Yangtze Memory Technologies, which has more than tripled its production to nearly 5% of the global market since its launch in 2016.

Zhao always dismissed assumptions that he acted on behalf of the Chinese government, describing Tsinghua Unigroup as "a market-oriented company" – a claim endorsed by big-name investors such as Intel, which bought a 20% stake in 2014. Nonetheless, Beijing poured huge funds into the group, which was also well-connected politically. Zhao was particularly close to the former Chinese president Hu Jintao and his son Hu Haifeng, who helped run Tsinghua Holdings.

The last hoorah

When Xi took power in 2013, the cash spigot continued until about 2017, when Unigroup secured $22bn from state investors to fund acquisitions. It was a last hoorah. As the company's debt mountain grew, so did its political alienation. Zhao's standing in Beijing was "clouded by tensions" between Hu and Xi, says the Financial Times. Meanwhile, the Americans had wised up to the threat posed, prompting the failure of multi-billion tilts on tech groups Micron and Western Digital. Tsinghua's finances began unravelling. In 2020, when it shocked investors by defaulting on a domestic bond, total liabilities were estimated at more than $31bn.

Zhao's descent, following the forced "restructuring" of his group, was swift, says The Japan Times. But he certainly found his voice – slamming a low-ball $9bn rescue offer by a state-backed fund as "an attempt to commit a crime". Zhao's outcry "ignited a public spat" that state censors allowed to flourish. "There's no reason why I can't win this case," he insisted. But in February, he was effectively ousted from the group, says Nikkei Asia. Now he has disappeared from view completely. Whatever his fate, Zhao Weiguo didn't intend to go quietly.

The worst trades in history: selling the family gold


©Getty Images

Gordon Brown was born in Renfrewshire, Scotland, in 1951. He studied history at Edinburgh and earned a doctorate while working as a lecturer at the Glasgow College of Technology, and then as a journalist. In 1983 he was elected as MP for the Labour Party in Dunfermline East. By 1985 Brown was opposition spokesman on trade and industry, then served in a number of roles before becoming chancellor of the exchequer following Labour's victory in 1997.

What was the trade?

After peaking at $860 an ounce in 1980, the gold price had languished for most of the 1980s and 1990s, and was at just under $350 an ounce in May 1997 when Brown became chancellor. This poor performance, especially marked after accounting for inflation, led many central banks to draw down their gold reserves. In May 1999, shortly after the Swiss voted to sell most of their gold, the UK government announced that the Bank of England would auction off over half of its 715 tonnes of gold, which at that time accounted for around half its foreign-currency reserves, reinvesting most of the money in interest-paying foreign-currency assets.

What happened?

Many commentators praised the idea of dumping what was then seen as an "obsolete" asset, and the government went on to sell 401 tonnes, around 55% of its reserves, over the next five years. Despite claims that the advance warning of the sales was driving down the price, which immediately fell by 10% on the news, the government managed to get an average price of £275 an ounce over the next five years, raising $3.5bn. However, almost as soon as the sales ended in 2002, the price of gold began to soar, rising to a peak of more than $1,900 in August 2011.

Some argue that Brown was simply unlucky, and that in the long run it made sense to diversify Britain's reserves. And the losses would at least have been partially offset by the interest received on the assets that were bought with the proceeds. Still, the sale has been described as the worst investment decision of all time: at the current gold price of $1,760, the value of the gold sold would be $24.9bn, implying losses of more than $21.4bn.

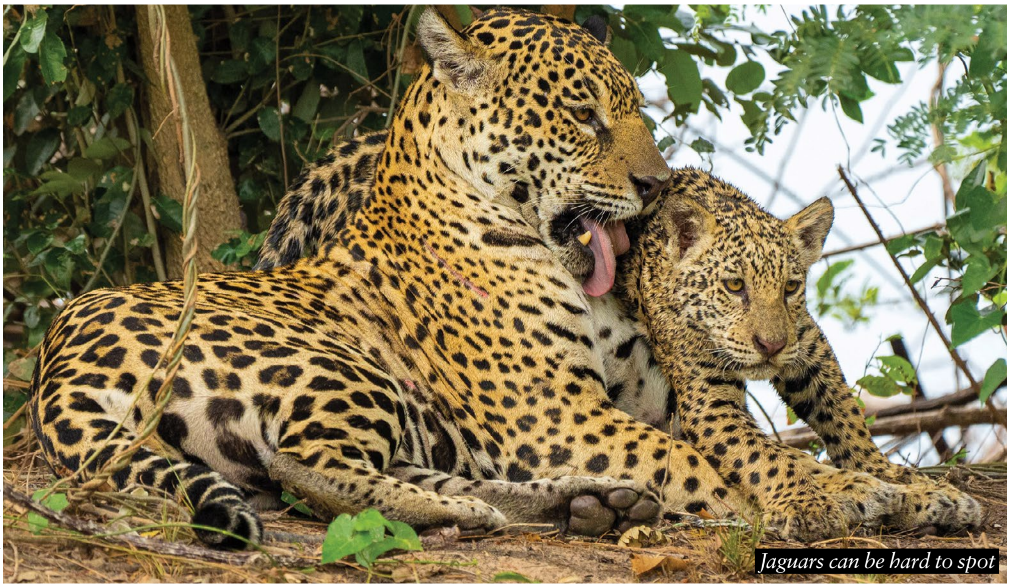
Three big-cat safaris

Finding these elusive felines has become easier thanks to conservation efforts. Chris Carter reports

It's incredible that the vast area of the southernmost Pantanal wetlands, in Brazil's southwestern cattle-farming region, is privately owned, and not a national reserve, says Lisa Grainger in The Times. Fortunately, Roberto Klabin, owner of Casa Caiman's newly refurbished lodge, turned 131,000 acres of his family estate into an ecological reserve.

On the way to the lodge, "I trained my binoculars beside a pond and there, licking a paw, was a jaguar with a playful three-month-old cub". It's a rare sighting, as jaguars are solitary animals, of which only around 15,000 are left in the wild. Their habitat is dense jungle. That we could watch "the giant cat's fat white belly, flicking tail and distinctive black rosettes, is in large part thanks to the conservation efforts of Klabin".

Arriving at Casa Caiman is to be greeted by a sense of calm. The 18-suite terracotta-tiled *estancia* (ranch) overlooks a lake, and from the veranda guests can watch the birds. There is also a swimming pool bordered by landscaped gardens, and Adirondack chairs set around fire pits for sundowners. *From £12,785 for a 14-night tour, joroexperiences.com*



©Alamy; Getty Images

Jaguars can be hard to spot

Prowling with lions

"We're gliding across a meadow of sun-ripened grass in the smoothest safari vehicle I've ever experienced," says Emma Gregg in National Geographic Traveller. "Gorgeous but pricey electric safari vehicles (ESVs) remain rare in Africa's safari heartlands, with just a handful of operators trialling them." Lewa Wildlife Conservancy's founding lodge, Lewa Wilderness, in Kenya, is among them. Nearby, buffalo are spooked, but not because of the ESV, which is silent. "'A lion!' says Frances Mayetu, my guide, gripping the steering wheel as the herd swerves past and the lioness comes into view." From the grass, "she sprints, lunges and seizes a young buffalo, just a couple of hundred feet from our bonnet". Without the engine noise, it's easier to talk to your guide, not to mention spot the animals. When the "ultra-smooth" game drive stops, "[I feel] I've moved towards a brighter, greener future". *From £5,510 for a nine-night safari tour, ker-downeyafrica.com*

Tiger, tiger burning bright

Spotting a tiger isn't easy, says James Draven in The Independent. In Tadoba Andhari Tiger Reserve, within the western Indian state of Maharashtra, tigers "prowl [the] dense forests alone". "Sure, they might be corn-puff orange, vibrant and jagged with slashes of bone-char black… but they are surprisingly well camouflaged." Thanks to the conservation efforts of India, home to 80% of the world's tigers, and the part played by ecotourism, tiger numbers in the country had recovered to 2,967 by 2018, from 1,411 in 2006. Even so, they are elusive.

"My guide's eyes have begun to glaze when a tiger identified as M1 paces out from the trees and onto the track… [The] young tiger looks me directly in the eyes. I realise that, as we've fruitlessly searched for him… he's been here all along, mere feet away in the undergrowth." *From £4,099 for a 15-day In Search of Tigers tour, hayesandjarvis.co.uk*

Wine of the week: cool off with chilled reds

2018 Niepoort, Vertente, Douro, Portugal

£21.50, The Wine Society 01438-741177

Matthew Jukes
Wine columnist

It has been stiflingly hot at times this year, and while many people reach for chilled whites and rosés, we drink as many chilled reds as we do other styles. The rules are simple when chilling red wine. Seek out youthful bottles that are fruit-forward in flavour with little noticeable oak or tannin.

I have two sensational candidates this week, and both are wines I first found in chilled form while on hols. Vertente is Niepoort's finest value red wine, and in 2018 it is nothing short of celestial. Made from old vine tinta roriz, touriga franca and other indigenous varieties from hillside plots (*vertente* means aspect or hillside) along the length of the region. This is a forward-drinking slice of genius, and at 12.6% alcohol, it is as refreshing and invigorating as any white wine. It sees some oak, albeit carefully positioned in this wine, to bring breeding and gravitas instead of flavour. The perfume here is heady and visceral; the flavour lascivious, invigorating, soothing, extraordinarily complex and devastatingly refreshing. And to prove that this wine is not a one-off, 2017 Niepoort Concisco Tinto Dão (£20, The Wine Society) is a 13% thriller with wild, pagan red fruit notes and a particular resonance on the palate that comes alive at lower temperatures. While both wines are stunning at "normal" temperatures, this pair show that well-chosen, elite creations perform miracles when chilled.

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

This week: properties with summer houses – from a converted 19th-century stables and coach house

▲ **Stable Clock House, Tidmarsh, Reading.** A conversion of a former stables and coach house built in 1841, set in mature gardens with a sheltered courtyard, summer house and deck for outdoor entertainment. 5 beds, 3 baths, 3 receps, garage, stable, gardens, grounds, 2.25 acres. £1.95m Savills 01635-277700.

▶ **The Laurels, Misterton, Doncaster, Nottinghamshire.** A Grade II-listed house set in gated grounds with a large terrace, extensive lawns and timber summer house. The house has wood-burning stoves and an Aga. 5 beds, 3 baths, 3 receps, 4.5 acres. £900,000 Fine & Country 01472-867880.

▶ **Maes Court, Knighton-on-Teme, Tenbury Wells, Worcestershire.** A Georgian house set in landscaped gardens with a summer house converted into a one-bed property. The main house has exposed wall and ceiling timbers, ornate fireplaces, a carved wooden staircase and a conservatory overlooking the garden. 5 beds, 3 baths, 3 receps, outbuildings, garage, 9.01 acres. £2.1m Strutt & Parker 01584-873711.

near Reading, to a Grade II-listed farmhouse near Saffron Walden in Essex

Daleholme, Middleton-in-Teesdale, Barnard Castle, County Durham. A major part of the original house built in 1823 and designed by renowned architect Ignatius Bonomi. It has been renovated by the current owners and has gardens that extend on three sides with raised beds, a summerhouse overlooking the gardens and a gazebo for al fresco dining. The kitchen has French doors leading onto the gardens. 4 beds, 2 baths, greenhouse. £650,000 Finest Properties 01434-622234.

The Gardeners Arms, Winchester, Hampshire. A converted public house dating from the 15th century. The house has wood-burning stoves and comes with south-facing gardens that include a large summerhouse. 3 beds, 1 bath, 2 receps, snug, breakfast kitchen, utility. £799,950 Hamptons 01962-842030.

Birch Cottage, Brockweir Common, near Chepstow, Gloucestershire. An 1850s stone cottage that has been modernised in an eco-friendly fashion with natural, locally sourced and recycled materials. It is set in large gardens and grounds overlooking the Wye Valley and has a woodland sauna cabin and summer house, and a renovated barn. 3 beds, 2 baths, recep, dining kitchen, parking, gardens, 1 acre. £700,000 Fine & Country 01291-629799.

Sellands Farm, Radwinter, Saffron Walden, Essex. A Grade II-listed farmhouse with gardens that overlook the surrounding countryside and include a summer house. The house has beamed ceilings, an inglenook fireplace and a country kitchen. 6 beds, 2 baths, 2 receps, open-plan kitchen/family room, 1.5 acres. £1.375m Cheffins 01799-523656.

Candie House, St Peter Port, Guernsey. A substantial double-fronted Regency townhouse built in 1830 and set in walled gardens. The landscaped rear garden has terraces and a large summer house. The restored interiors include sash windows with shutters, period fireplaces and French doors leading onto the gardens. 5 beds, 5 baths, 2 receps, library, games room, office, workroom, double garage. £5.65m Savills 01481-713463.

Create your own al-fresco

Enjoy the silver screen in the greenery of your garden with this selection of outdoor home-cinema items, says Jasper Spires

Stay warm with Scandi cool

"Anyone who's been to Scandinavia and marvelled at [the locals] eating outdoors in temperatures that would send a Mediterranean crying to his mother will know that there's some sleight-of-hand involved: lots of their restaurants use top-end infrared heaters," says The Telegraph. The **Opranic Thor** is one such patio heater. "Light and portable" and with a good reflector to "spread the heat evenly," Swedish firm Opranic has built a versatile bit of kit, perfect to keep your outdoor cinema toasty in the cooler months. It has five energy settings, from 1,200W-2,000W, and can comfortably warm about four or five people with its soothing glow. It "looks nicer than most patio heaters too", with a sleek black or white design. *£259, Amazon.co.uk*

A big screen for the great outdoors

The **Elite Screens Yard Master 2** mobile outdoor frame is the "best projection screen for outdoors", says Digital Camera World. With its 266cm diagonal width, the 16:9 aspect ratio screen is supported by a sturdy aluminium frame with stainless-steel components for extra support. "It can be assembled in minutes without the need for extra tools, so it's easy to set up your own freestanding 'big screen' viewing experience, either indoors or outside," and it comes with a "foldable 'go-anywhere' canvas to make the cinema experience truly portable too." The screen itself is mildew resistant, making for easy cleaning when used outside. *From £325, Amazon.co.uk*

cinematic experience

Devialet Dione Soundbar

Parisian audio-technology company Devialet has established itself as a purveyor of the "slightly unusual", says Wired. The Dione soundbar is a powerful all-in-one speakers unit, designed to slip beneath your film screen, pumping out the required sound effects and noise for a really immerse cinematic experience. Technically speaking, it can generate up to 101 decibels at a one-metre distance (about as loud as a revving motorcycle), and works with Apple Airplay, Spotify and Ethernet cables to connect to your nearest projector. The audio quality has real drive and attack, but just as impressive is its sleek, contemporary look. *£1,990, devialet.com/en-gb/soundbar/dione*

A cosmic projector for under the stars

The **Nebula Solar Portable Outdoor Projector** is the perfect addition to your patio cinema set-up, ready to beam the latest Hollywood stars over your makeshift screen. As the name implies, it is built to be portable, says Good Housekeeping. Its rechargeable battery pack delivers over three hours of power in a single charge, which is "plenty of juice for most feature films". The gadget's design also comes with a nifty projector stand, keeping it off outdoor surfaces, and high-quality built-in speakers that save the hassle of setting up add-on sound systems and audio equipment. Crucially, the model also operates using casting from Android and iOS smartphones, or alternatively a built-in HDMI connection, so your favourite films will remain accessible no matter what devices you use. *£599, uk.seenebula.com*

Guilt-free snack time

No cinema experience is complete without some classic popcorn, and the **Presto PopLite Hot Air Corn Popper** delivers. It is "an air popping device that makes fluffy popcorn without oil or butter", says Mashed. "Just think of all the calories you won't be ingesting!" However, if butter is your guilty pleasure, there's a secret melter on top of the unit to replicate the full greasy cinema experience. The device is also speedy, producing up to 18 cups of popcorn in just two and a half minutes. When you are done, simply remove the cover and measuring cup and clean them with warm water and soap. *£75.92, Amazon.co.uk*

The classic egg chair gets bigger

"British summertime is very much under way. And if that wasn't enough to get you excited, Aldi has brought back its giant version of its sell-out egg chair," says The Independent. This "coveted" hanging seat "has been like gold dust". Previous iterations have flown off the shelves for their "on-trend rattan design" and plump set of dark grey cushions. The new **Gardenline Hanging Egg Chair** is a two-seater supported by a dark grey iron frame, allowing you to cosy up with your favourite films and special someone, while "hanging out in style". Bigger does mean more expensive, but it's well worth the price. *£249.99, Aldi.co.uk*

Play of the week

Peaky Blinders: The Rise

Camden Garrison
Directed by Tom Maller

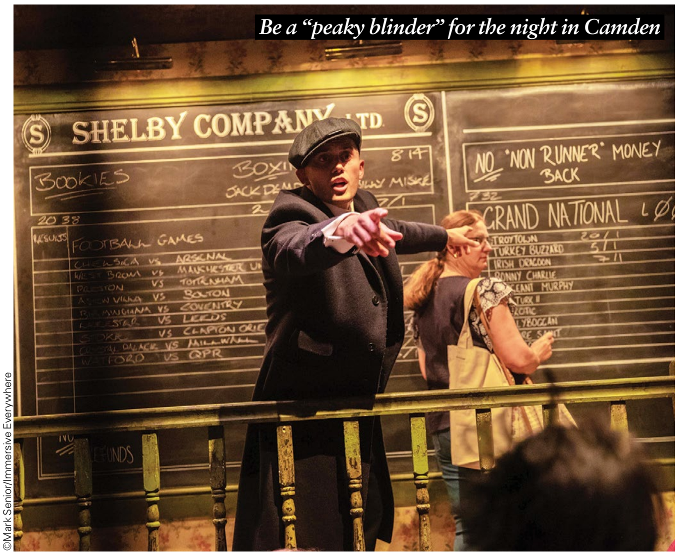
Shelby Company Limited, the 1920s firm that features in *Peaky Blinders: The Rise*, is no ordinary business. Not only does it make £150 in profit each day (equivalent to roughly £2.5m a year today), but its head, Tommy Shelby (played by Craig Hamilton), has ambitious expansion plans. He intends to muscle in on the various London "enterprises" controlled by Charles "Darby" Sabini and is looking to set up a new subsidiary, Shelby Export Limited, to make a fortune exporting car parts and certain other goods to North America.

Fans of the hit television series *Peaky Blinders*, which follows the fortunes of a family of Birmingham gangsters in the 1920s, and on which this play is based, will have little difficulty recognising the characters or the situations (which mostly come from the second series). Indeed, Immersive Everywhere, the production company behind the show, has clearly worked hard to assemble a cast that not only physically resembles the TV show's main characters, but can also fully step into their roles. Kieran Mortell as Tommy's brother Arthur, Megan Shandley as secretary Lizzie Stark and Emma Stansfield as "Aunt" Polly Gray, the family matriarch, all turn in excellent performances.

Even those who have never seen the television series will, however, quickly be able to gasp what is going on. On arrival, members of the audience are instructed to pretend that they are "bakers", and have folded banknotes thrust into their pockets by gangster Alfie Solomons (Sam Blythe). They are then escorted into Rebecca Bower's set, evocative of the murky atmosphere of Camden a century ago, and then given the opportunity to play the part of a gangster in various mini-adventures (scripted by Katie Lyons). You might place bets in a game, organise industrial action, or sit in on negotiations between Tommy Shelby and Chicago's most famous tax evader (played by James Bryant).

As with any immersive show, your individual experience will largely depend on the luck of the draw, as the two-hour running time isn't enough to experience all the dramatic opportunities on offer. The central plot is relatively basic, and some ideas, such as giving audience members elaborate backstories before they arrive, or having them accumulate money in return for carrying out various tasks, aren't followed through as much as they perhaps could have been. Still, this immersive drama does effectively allow you to inhabit the show for an evening, and the excellent production values, including the dancing and music, make it impossible not to come away from the experience full of energy.

Reviewed by Matthew Partridge



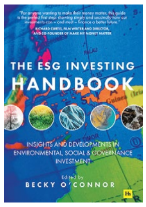
Be a "peaky blinder" for the night in Camden

©Mark Senior/Immersive Everywhere

> *"This drama effectively allows you to inhabit the hit TV show for an evening and you'll come away full of energy"*

The ESG Investing Handbook

Insights and Developments in Environmental, Social and Governance Investment
Edited by Becky O'Connor
Harriman House, £29.99



The last year or two has seen investing on the basis of environmental, social and governance (ESG) criteria move into the mainstream. Nearly £4 out of every £5 invested in funds is now subject to some sort of "stewardship" criteria. Indeed, as this book makes clear in its sixth chapter, if regulators have their way, those buying a fund or any other financial product may be obliged to invest ethically, whether they want to or not.

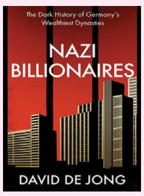
So there's a clear need for a book that explains what exactly ESG is. *The ESG Investing Handbook* consists of eight chapters and an introduction giving a brief history of ESG and speculating about its future development. It also has a number or interviews with people working for various financial institutions.

Its clear explanations of the various terms used, and the chapter on people power, mean the book has plenty to offer ordinary investors. Parts of it, however, such as the chapter on regulatory trends, are clearly primarily aimed at those working in finance, who will find the charts and tables that appear throughout the book invaluable. As the emphasis on the ethical aspects of investment continues to increase, it's not hard to imagine that this might become a standard introductory text for people starting a career in the City.

Book in the news... building the corporation good, not building it bad

Nazi Billionaires

The Dark History of Germany's Wealthiest Dynasties
David de Jong
William Collins, £25



The ancestors of many prominent German business families, including the Quandts, Flicks, von Fincks, Porsche-Piëchs and Oetkers, benefited from their complicity with the Nazi regime. This book by journalist David de Jong reveals just how, says Max Hastings in The Sunday Times. Huge fortunes were made by rich families close to the Nazi regime who bought up Jewish assets at fire-sale prices, raked in cash from the "hugely profitable pillaging of occupied Europe", and exploited slave labour. These profits from services to the "worst causes in human history" were so great that even today they keep their descendants in "castles, boats, ski chalets, Impressionist paintings and cocaine". Balzac's claim that "behind every great fortune lies a great crime" finds ample confirmation here.

Despite the "hideous" nature of the subject matter, the book makes for "very good reading", says Steve Donoghue on Open Letters Review. Those expecting a "dry economic history" will be "pleasantly surprised", as this is a book "at least as much about personalities as payouts". What makes the villains of these pieces particularly "repulsive" is that they weren't fanatics but simply "calculating, unscrupulous opportunists looking to expand their business empires at any cost", even if that led to "nightmarish" consequences. Most of them "never paid for their complicity".

Indeed, clemency was granted to many perpetrators when the Truman administration's priorities shifted to ensuring the West German economy was strong enough to join the fight against Communism, says Joe Miller in the Financial Times. The mindset behind such expediency is alive and well in the corporate world to this day and might have been familiar to Günther Quandt's prosecutor. The defendant, he argued quoting Max Weber, was motivated by the belief that "building the corporation is the ultimate good, and... everything that resists building it out is bad".

Bridge by Andrew Robson

Both opponents are your friend

Plan the play in Six Clubs on the best lead for the defence of a Heart.

Dealer North | East-West vulnerable

North
♠ 3
♥ A108
♦ AKJ106
♣ A1076

West
♠ 987542
♥ KJ932
♦ –
♣ 85

East
♠ KJ6
♥ Q54
♦ Q9832
♣ 43

South
♠ AQ10
♥ 76
♦ 754
♣ KQJ92

The bidding

South	West	North	East
		1♦	pass
2♣	pass	4♠*	pass
6♣**	end		

* Splinter bid, showing a good Club raise with a singleton (void) Spade.

** Great Club quality and the Ace of Spades (... thinks the optimist; naturally, the pessimist looks at the lousy red suits and signs off).

Winning the Ace of Hearts, declarer drew Trumps in two rounds (good) then led dummy's Ace of Diamonds. West discarding was a blow, and it appears declarer will have to concede the Queen of Diamonds, at which point the defence will cash a Heart. Declarer found the solution.

First, Spades had to be eliminated; and declarer had to risk a finesse in order to discard a Heart from dummy. He led to the Queen of Spades (phew!), cashed the Ace discarding a Heart and ruffed a Spade (eliminating Spades). At trick eight, declarer exited with a second Heart (eliminating Hearts).

It did not matter which opponent won the Heart. If West won, he would have to lead a major, enabling declarer to ruff with dummy's last Club and discard a Diamond from hand. If East won, he could either lead a Heart (same ruff-and-discard), or a Diamond round to dummy's King-Knave. Slam made via a classic Elimination and Throw-in.

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

Sudoku 1115

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

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

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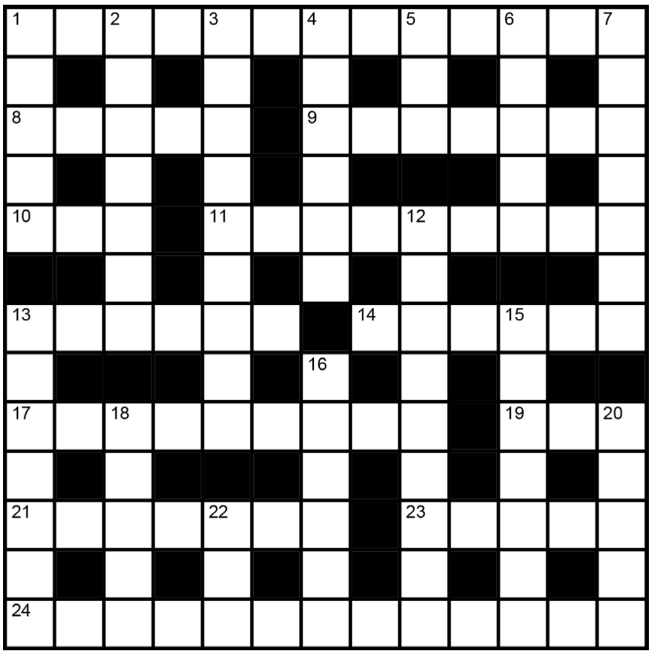
Tim Moorey's Quick Crossword No. 1115

TAYLOR'S PORT

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 15 August. By post: send to MoneyWeek's Quick Crossword No.1115, 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.1115 in the subject field.



Across clues are mildly cryptic while down clues are straight

ACROSS

1 Place for wines to be drunk (6, 2, 5)
8 Print instructions on leaving cowboy hat (5)
9 Secure car for painter (7)
10 Girl from Madagascar (3)
11 Trial does upset worshippers (9)
13 Primate to call Father back (6)
14 French writer keeps parking in university grounds (6)
17 Running away from work in fire perhaps (9)
19 Queen perhaps is unable to give up crown (3)
21 Money that's needed for the club (7)
23 Person fighting in Yemen? (5)
24 Star representing Old West action (5, 8)

DOWN

1 Italian food (5)
2 Repeat (7)
3 Censure severely (9)
4 Alternative for choice (6)
5 Misery (3)
6 Kind of change (5)
7 Partners in marriage (7)
12 Flat (9)
13 Bitter (7)
15 Medicine of therapeutic effect (7)
16 Swiss city (6)
18 Striped African mammal (5)
20 Trifled (with) (5)
22 Drunkard (3)

Name ....

Address ....

....

email ....

Solutions to 1113

Across 1 Monet *one inside Mt* **4** Perusal *sure rev inside pal = sport* **8** Santa Fe *ant inside safe* **9** Shake *two definitions* **10** Ike *hidden* **11** Two-timers *anagram* **13** Asset stripper *assets + tripper* **16** Advocates *anagram* **18** Asp *hidden* **19** Corgi *deceptive definition* **20** Shavers *S + Havers* **21** Theresa *anagram* **22** Tense *two definitions.* **Down 1** Messina **2** Nonsense verse **3** Toast **4** Pie **5** Rossini **6** Shakespearean **7** Leeds **12** Octet **14** Tactile **15** Riposte **16** Ascot **17** Start **20** Sea.

The winner of MoneyWeek Quick Crossword No.1113 is: Mrs S Mattson or Cambridge

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

The Fed's fatal dilemma

Inflate or die? As prices overheat, the latter starts to look more tempting

Bill Bonner
Columnist

Elizabeth Warren: already wearing black

Walmart cut its profit outlook last week in a surprise warning ahead of the retailer's earnings report, sending its shares tumbling and "raising new questions about US consumers' ability to sustain their voracious spending habits with inflation at a four-decade high", says Bloomberg. Walmart is where ordinary households buy stuff. But they're not buying as much as they used to.

Two legs hold up American family finances – houses and income. Homeowners can no longer count on "taking out equity" from rising house prices because there won't be any excess equity to take out. Nor can they refinance at lower mortgage rates – because mortgage rates are going up. Already, refinancing applications are down 80% and new house plans are being cancelled. Soon, house prices should go down too.

"Two legs hold up American family finances. Both are looking wobbly"

The other leg is looking wobbly too. Real incomes have fallen… and they can't get back up again. Wages are said to be going up at a 5% annual rate. Prices are rising at a 9% rate. That leaves a 4% gap – which is the rate at which real incomes are falling. Workers will, of course, push employers for wage increases to keep up with inflation. But (thanks to years of Fed-induced malinvestment) productivity is sagging, so the only way employers can pay more is by passing along the costs to consumers – further pushing up prices.

This is the "wage-price spiral" that troubles central bankers' sleep. Wages go up to keep the working stiffs from losing ground. Then, the extra labour costs force up prices. The higher prices cause workers to plead for higher wages. Wages tend to be "sticky", say economists. Once a raise is given, it is hard to take it away. So, wage-driven price increases ratchet upwards with no easy way to bring them down. The pressure mounts. The Fed must "do something", say the kibitzers.

But what? Step forward senator Elizabeth Warren. The Democrat has accused the Federal Reserve chairman, Jerome Powell, of undermining the economy with his efforts to curb inflation by raising interest-rate targets. She worries that aggressive rate hikes could trigger a "devastating recession".

Uh oh. The Fed is facing the decision of the century. It's the most important decision ever made by a central banker, one that will shape our investments, our economy, and even our government for decades into the future. The choice is: inflate or die. An economy based on increasing supplies of credit (lower and lower interest rates) can only survive as long as the credit keeps coming. When interest rates rise and credit gets tight, it dies. Warren is already wearing black. Our guess is that the collapse has a lot farther to go, and that the moans of the dying will get louder and louder, until the Fed – driven mad by the braying of jackasses like Warren – changes course.

The bottom line

£9,724.54 The record high price per megawatt hour Britain paid on 20 July around midday to import electricity from Belgium in order to prevent a blackout in east London – roughly a 5,000% rise on the usual price. High demand and a bottleneck in the grid were to blame.

€77bn The "social-asset value" of the Colosseum in Rome, according to Deloitte. It asked Italians how much they would contribute to its upkeep. Romans answered €90 on average; other Italians €57. It contributes €1.4bn to Italy's economy annually.

£1m How much the BBC will spend on polling technology from technology firm Culture Amp over five years to conduct staff surveys, including exit surveys and snapshot polls, despite a £1.4bn funding shortfall. The broadcaster says it wants to improve its working culture.

£41,226 How much a newly built but otherwise ordinary-looking wooden beach hut at Hill Head in Hampshire fetched in a sealed-bid auction. The seller, Fareham Borough Council, had suggested "offers in excess of £32,000".

$1,725 The market value of the one-Troy-ounce, 22-carat, individually numbered gold coins that Zimbabwe is minting from locally mined ore to curb the hoarding of dollars and tangible assets, such as bricks, says The Times. The price is out of most Zimbabweans' reach.

£2m How much Liverpool council estimates hosting the Eurovision Song Contest 2023 would cost it before funding from the BBC and the government is added. Britain has been asked to host the event as this year's winner was Ukraine, which is fighting a war. Britain's entry, by Sam Ryder (pictured), came second. Glasgow, London and Birmingham are also all in the running.

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