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MoneyWeek

MAKE IT, KEEP IT, SPEND IT

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British boom

A manifesto for growth

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MoneyWeek

5 January 2024 | Issue 1189

Britain's best-selling financial magazine

From the editor...

These days, assessing the economic outlook at the start of the year feels like suffering a hangover without having had any fun first. Our growth rate has slowed to a crawl since the global financial crisis of 2008, with GDP barely increasing by 1% a year on average.

"The country is in limbo," said a magazine editorial this week; "2023 was a lost year." That magazine was actually WirtschaftsWoche, a German financial weekly, but it is a reminder that we are far from the only country stagnating. In our cover story this week, independent economist Julian Jessop, whom some of you will remember from the MoneyWeek Summit in September, analyses in detail why the UK is in trouble and how we might get out of it. His manifesto for growth begins on page 20.

There is scope for Japan's stockmarket to blossom

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"Our favourite Indian investment trusts are on hefty discounts to their net asset value"

The dead hand of the state

One part of the puzzle will have to entail ditching our increasingly statist mindset. Here too, Germany provides parallels. There is great potential in this country waiting to be unleashed, says the editorial: the spirit of invention has not disappeared, but it needs to be unchained; the *Mittelstand*, the small and medium-sized firms that form the backbone of the economy, is strong but hampered by a bossy government. On both sides of the channel the conclusion is clear: entrepreneurs of Europe unite, you have nothing to lose but the dead hand of the state.

When it comes to equity markets, however, Germany had a good year, with the benchmark DAX index rising briskly (see page 5) while the FTSE barely made it into positive territory. The index, which marked its 40th anniversary this week, has barely made any progress since the turn of the century. A key reason for the malaise has been the ascendancy of growth investing, which has overshadowed the British index's collection of old-economy, traditional-value industries, such as banking and mining.

Growth investing remains in the spotlight. The hype over artificial intelligence propelled America's S&P 500 index to a 24% gain last year; it finished the year with a ninth successive weekly gain, its longest streak since 2004. It was a very narrow rally thanks to the seven technology stocks that spearheaded it. Deutsche Bank notes that the gap between the S&P and its equal-weighted version was the largest since 1998, when the dotcom bubble was in full swing.

The US, on a cyclically adjusted price/earnings (Cape) ratio of 28, remains historically expensive, and other markets look more appealing this year. One to look at is India, a long-term MoneyWeek favourite (see page 4). It is among the priciest emerging markets, but our favourite investment trusts, which include the **JPMorgan Indian Investment Trust** (LSE: JII) and the **Abrdn New India Investment Trust** (LSE: ANII), are on hefty discounts to their net asset value. Japan remains attractive. The economy is "overheating" and inflation is settling in, notes the Halkin Letter's Peter Warburton. "To all intents and purposes, Japan is deliberately inflating away its public debt burden and incentivising depositors and bondholders to switch to equities." Finally, remember that every portfolio needs an excellent global trust. Max suggests one on page 17.

Andrew Van Sickle
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Covid rule-breakers left broke

Lawyers are calling for an amnesty on fines issued for breaching Covid lockdown rules, says Paul Brand on ITV News. Almost half of the 124,771 fines issued up to October 2023, totalling £16.7m, have not been paid. Some people, owing in excess of £10,000, have turned to crowdfunding to raise the money, while others are being pursued through the courts. People are especially loath to pay following the "partygate" scandal at Downing Street; Boris Johnson and others were fined just £50 for breaching the rules. The vast majority of fines were issued to young people, with students and ethnic minorities disproportionately affected. Last year, Slovenia became the first country to issue refunds of paid fines (€1.7m in total) and expunge records. A British government spokesman told ITV News, paradoxically, that "[fines] were a strong deterrent for the small minority of people who broke Covid rules".

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

Good week for:

L'Oréal heiress **Françoise Bettencourt Meyers** has become the first woman to amass a $100bn fortune, says Bloomberg. Shares in the French cosmetics giant, founded by her grandfather, have surged to a record high and are on track for their best year since 1998. Bettencourt Meyers, the 12th richest person in the world, is vice-chair of L'Oréal's board and her family has a near 35% stake in the $268bn company.

Former footballer **David Beckham** (pictured) doubled revenue from his business empire, DRJB Holdings, in 2022 to £72.6m thanks to brand sponsorships, deals with Netflix and Amazon, and his Qatar World Cup ambassador role, says the Financial Times. Pre-tax profit, however, fell to £10.8m from £23.5m owing to higher costs.

©Getty Images

Bad week for:

Disney's copyright for early depictions of Mickey Mouse, as seen in the 1928 short film *Steamboat Willie,* has expired in the US, says BBC News. (Later depictions are still covered by copyright.) The entertainment giant had campaigned to extend copyright protection, under a law nicknamed the "Mickey Mouse Protection Act", since it first faced copyright expiration for its earliest characters in 1984, and for good reason. Forbes estimates Mickey Mouse earns at least $5.8bn a year for Disney.

The ***Flying Scotsman*** steam locomotive is "effectively stranded" after the contract to maintain it, held by engineering firm Riley & Son, expired with 2023, says The Sunday Telegraph. Its owner, the National Railway Museum, has yet to begin the tender process for a replacement. The 100-year-old steam engine underwent a £4.2m restoration in 2016.

Stars align for the Indian stockmarket

Alex Rankine
Markets editor

Growing consumption by the emerging middle class will be a key theme in future

©Getty Images

With the West dogged by talk of recession and China flagging, "India has emerged as a much-needed global good news story", says Craig Mellow in Barron's. The local BSE Sensex stock index rose by 18.5% in 2023 and has more than doubled since the pandemic era lows of 2020. Pro-business prime minister Narendra Modi is likely to win a third term this spring, so expect "the good times... to keep rolling in 2024".

The "sizzling rally" recently saw the National Stock Exchange of India, one of the country's two exchanges, surpass Hong Kong as the world's seventh-largest, says Diksha Madhok for CNN. By total value, Indian stocks already rank fourth globally, behind the US, China and Japan. The stock surge has been accompanied by a listings boom. Indian markets hosted 150 listings in the first nine months of 2023, compared with just 42 in Hong Kong.

There have been false dawns in India before, says the Financial Times. But several key trends are now blowing in favour of the world's fifth biggest economy. Geopolitical shifts have seen Western capital sour on China, with India emerging as the natural alternative. Government policy is pro-growth and focused on building much-needed infrastructure. The result? India has been the "world's fastest-growing major economy" for two years running and looks set to continue in that role.

Can the rally continue?

The problem, as Mellow notes, is that "Indian shares are as expensive" as their US counterparts, with the market trading on an average price/earnings (p/e) ratio of 25, a steep premium to the average global emerging-market level of 12. There are also persistent concerns about uneven corporate governance standards in corners of the market.

"Lofty valuations" in India have "in the past... been followed by periods of stagnation," says the Financial Times. The local "Nifty" market trades at "a 64% premium" to other emerging markets on a forward-p/e basis, says Megha Mandavia in The Wall Street Journal. Investors should also be aware that banks dominate the local bourse, with a 30% share of the MSCI India index; technology accounts for a comparably paltry 13%. Yet while Indian shares can be a "wild ride", the country's "investment case looks better than it has in a long time". The current rally could have further to run: while Indian equities drew in a net $12bn of foreign investment in 2023 as of 6 December, non-residents still own just 17.5% of Indian shares – "significantly below the February 2021 peak of 20.6%".

India's economy overtook the UK's in 2022. Come 2028, India looks on course to "surpass Germany and Japan" as well to become the world's third-biggest economy, says Henry Ince of Hargreaves Lansdown. "With nearly 70% of its... population in the working-age bracket," the country is demographically vibrant. A growing middle class will be a "significant theme for investors": India currently accounts for just 5% of global middle-class consumption, and by 2050 that could hit 40%. While there may be bumps along the way, there is a solid growth case here for long-term investors.

A subdued mood in the metals market

Copper is key to the energy transition

©Getty Images

Last year was a poor one for commodities. The S&P GSCI Index, which tracks 24 major raw materials, ended the year down by 12% as a late oil sell-off compounded weakness in industrial metals and agricultural products.

Our bullishness on copper proved a "clanger", says Lex in the Financial Times: the price peaked in late January 2023 and fell thereafter. China's tepid economic reopening dashed expectations of surging demand, while a persistently strong US dollar kept a lid on prices (most commodities are priced in greenbacks). With growth slowing across many major economies, industrial metals are far from the "flavour of the month" as we enter 2024, says the Taking Stock column in the Investors' Chronicle. The S&P GSCI Industrial Metals index is down roughly a third since a March 2022 peak. That has hit UK investors especially hard because energy and materials combined account for 18.5% of the FTSE 100. Mining giant Anglo American recently announced that it will cut capital spending and lower output targets in response to declining demand for its metals. Still, even if the global economy stays subdued, structural demand for the red metal to feed the energy transition makes copper more resilient than in previous cycles.

The vast scale of the energy transition will require humanity to extract resources at "unprecedented intensity" over the next 30 years, says Étienne Goetz in Les Echos. Most of the key transition metals face supply challenges. By one recent estimate, come 2050 we could be on course to "consume 90% of known copper resources", 83% of cobalt and 60% of nickel. While new deposits are likely to be discovered (particularly in Africa), it can take time to get new mines up and running – between five and 15 years for lithium, for example.

Will analysts be wrong again in 2024?

Last year "was a great [one] for the contrarians", David Bahnsen of the Bahnsen Group tells The New York Times. In late 2022 analysts were gloomy. They thought rising interest rates would cause global recession, leaving markets with at best "paltry gains". The year hardly delivered "rainbows and butterflies": fears of recession, a banking crisis and geopolitical turbulence kept investors "on their toes", say Nicole Goodkind and Elisabeth Buchwald for CNN.

Yet a year many had written off as a "washout" ultimately turned out to be very profitable. Resilient employment and robust US household spending kept GDP ticking along as inflation more than halved, falling from 6.5% at the end of 2022 to 3.1% now.

Wall Street's S&P 500 and Nasdaq stock indexes finished 2023 up by 24% and 43% respectively. The US market's gains were powered by the "Magnificent Seven" tech mega-cap stocks. Japan's Topix rallied by 26.5% for its best year in more than a decade, while Germany's Dax and France's Cac 40 gained 20% and 16.5% respectively. London's FTSE 100 underperformed other big markets with a lacklustre 3.8% rise, while the mid-cap FTSE 250 gained 4.5%. That was still better than China's CSI 300 index, which slid by 11.5%.

A crowded trade

About two-thirds of US investors polled by Bank of America now expect a "soft landing", where inflation falls without a serious economic slowdown, says Gunjan Banerji in The Wall Street Journal. That Goldilocks scenario would see the economy stay neither too hot (which could require higher interest rates, reducing asset prices) or too cold (which would hit corporate earnings and thus shares). Yet some strategists fret that such "extreme optimism" leaves markets vulnerable to disappointment.

Global growth could well disappoint in 2024, says Neil Shearing of Capital Economics. Tighter monetary policy is likely to cause mild recessions in the UK and eurozone, with "a 50:50 probability of a recession in the US". More positively, despite its structural problems, China's economy could enjoy a "cyclical recovery" as Beijing loosens the purse strings and households regain the confidence they lost during the pandemic.

US stocks surged 12% in the last two months of the year, so further upside could be limited. On average, Wall Street analysts think the S&P 500 will end 2024 about 6% higher than it is now, says Bernhard Warner in The New York Times. There are still reasons for optimism. For one thing, a lot of money is sitting on the sidelines in savings accounts, but that cash could enter the stockmarket as interest rates fall. And while the US presidential election creates uncertainty, it tends not to be a "rally killer" – over the "past 71 years" the "S&P has risen, on average, by 7% during US presidential election years".

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China could enjoy a recovery in 2024 as Beijing loosens the purse strings

Tablespoons of salt

It is best to take 2024 prognostications with several tablespoons of salt, says Robin Wigglesworth in the Financial Times. Not only did predictions for 2023 prove wide of the mark, but the late-year rally in stock prices meant that some of the predictions for 2024 were "already hilariously out of date" even before the turn of the year.

While the future is unknowable, "one of the oldest lessons" of investing is that "it is riskier to buy stocks when they are expensive because they offer little margin of safety to absorb bad news", says James Mackintosh in The Wall Street Journal. US stocks are "so expensive" that the "odds" are not in their favour.

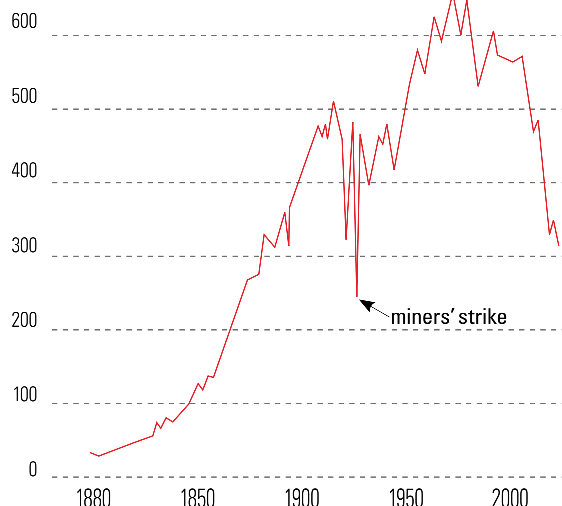
The "long run" of strong US stock performance seems likely to fade at some point, agrees Tom Stevenson in The Telegraph. While there is no need to flee American stocks, "a global approach makes sense". Chinese stimulus should boost "both its domestic market and European exporters", while the UK looks "relatively appealing" for those taking a "defensive, income-focused approach". Finally, "with a string of unpredictable elections" ahead, the glimmer of safe-haven gold will continue to catch the eye.

Viewpoint

"I will never understand the permabear mindset... Sometimes the market is overvalued. It does crash. There are corrections... and black swan events... it's helpful to hear a reasonable bearish argument to keep you grounded... [But] there is a huge difference between bearish analysis and permabear doomers [who are always gloomy]... many of the financial doomers were born out of the Great Financial Crisis... These people are still living on being right once... even though basically none of them have been right ever since... the world could end... but the permabears are not going to help you if that happens. All they care about is profiting due to the fears of others... [As] William Bernstein once wrote, 'The reason that 'guru' is such a popular word is because 'charlatan' is so hard to spell'."

Ben Carlson, A Wealth of Common Sense

Britain blazes a green trail



Annual UK carbon emissions have halved from their 1970 peak, making the UK the first G20 country to achieve the feat, says Fraser Nelson in The Spectator. That progress has come even though Britain has a bigger population than 50 years ago and an economy that is twice as large. The reduction partly reflects the fact that carbon-intensive industries have been offshored, but even when you correct for imports, UK carbon emissions still dropped by almost a third between 2010 and 2020. The progress has come thanks to far greater energy efficiency. For example, insulation and better heating technology mean it takes about 40% less energy to heat the average home today than it did in the late 1990s.

How the tipsters fared in 2023...

The art of share tipping has finally paid off: 2023 may have been a bad year for economic forecasters (who predicted a recession that never came) and a dull one for the London market, but it was a good year for the newspaper share tipsters. Most annual share portfolios comfortably beat the FTSE 100 and FTSE 250 in 2023, reversing a two-year run in which investors would have done better by ignoring most of the tipsters and putting their cash in an index tracker instead.

The Daily Mail's Midas portfolio tops the table this year. The Daily Mail's tipsters often take the high-risk, high-reward approach of backing little known mid-caps and small-caps, typically in the UK. Risk is further increased via concentration: last year's portfolio only had three tips. While that approach can lead to disaster – witness heavy losses in 2022 – it can also ensure that gains from a few excellent shares are not watered down by more mediocre performers. The Daily Mail's returns were highly dispersed, including a nasty 15.3% loss on marine engineering specialist Harland & Wolff, the firm that once built the *Titanic*. Yet that didn't sink the wider portfolio thanks in large part to a superb 135% rally in drug-testing specialist hVivo.

The silver medal goes to US publication Barron's. The magazine's portfolio has performed well in recent years thanks to the long-running outperformance of its home market. That said, the Barron's team still demonstrated stock-picking savvy, with a 31% total return comfortably beating the benchmark S&P 500's 24.5% in 2023 until the portfolio was liquidated in mid-December. Returns were boosted by "Magnificent Seven" members Amazon (up 67.8%) and Google-owner Alphabet (up 46.6%), but the weekly's best tip was actually luxury housebuilder Toll Brothers, which more than doubled. Aluminium play Alcoa (down 29%) was its worst choice.

Tipsters' performance in the last five years

	2019	2020	2021	2022	2023
Daily Mail	17%	20.9%	5.8%	-26.8%	46.3%
Barron's	9.9%	26.9%	-1.7%	-1.7%	31%
Evening Standard	15%	-19.8%	-2%	-31.2%	22.1%
The Sunday Times	30.8%	7%	2.3%	-36%	20.9%
Shares	23%	4.8%	8.6%	-21.3%	20.6%
The Times	n/a	-10.1%	6.4%	-12%	17%
The Motley Fool	n/a	n/a	n/a	-24.6%	0.6%
The Telegraph	9.6%	-1.3%	16%	-30.5%	0.6%
Investors' Chronicle	37%	-5.1%	15.3%	-24%	-3.1%
Interactive Investor	n/a	70.1%	25.8%	-47.4%	-7.9%
FTSE 100	12%	-14.3%	25.8%	+0.9%	3.8%
FTSE 250	25%	-6.4%	14.6%	-19.7%	4.5%

The Evening Standard takes bronze with a series of solid picks. Only one, pawnbroker H&T, ended the year in the red as 2023 proved to be less miserable than some had feared. The Evening Standard's other seven picks all rose. UK cybersecurity specialist Darktrace was the paper's best call, gaining 41.5%. The London Stock Exchange also enjoyed a strong year, delivering a 30% gain.

The Sunday Times takes fourth place, regaining some pride after finishing second-last in 2022. Two of the newspaper's picks surged by 80%: private-equity firm 3i and City broker Numis, which was taken over by Deutsche Bank. However, bad calls on luxury-fashion play Burberry (down 30%) and electronics specialist XP Power (down 34%) denied the portfolio a better overall performance.

Shares magazine's portfolio secures a creditable mid-table finish with a 20.6% gain. Rather than relying on a few excellent picks "bailing out the others", eight of its ten choices managed double-digit gains. Shares takes profits during the year on some of its portfolio, but the best share it let run to the end of the year was Dutch semiconductor specialist ASML, which gained 28.7%. The only loss came from insurer Prudential, down by 13.5%.

The Times' Tempus column comes sixth, with a 17% gain that beat the London market. Its best pick was Premier Inn-owner Whitbread, which gained 44.8% in a year where demand for travel remained robust despite cost-of-living pressures. But slow trading at pest control group Rentokil Initial (down 15.4%) denied the portfolio a better overall placing.

The Motley Fool offered up 12 different UK tips for 2023, but few of them shone in a poor year for UK shares, leaving the portfolio more or less flat. Housebuilder Barratt Developments, up 42%, was its best call. Unfortunately, six of the tips ended the year down, with S4 Capital, Martin Sorrell's digital-advertising company, proving an absolute stinker with a 71.8% loss.

The Investors' Chronicle drops from fourth last year to second-last in 2023. The magazine chooses 50 tips each year, with five highlighted specially. Of this latter group, the worst choice was lithium play Albemarle, which lost 33% in a year where the electric vehicle battery sold off heavily. The best choice, with a 16% gain, was the AVI Global investment trust.

Finally, Interactive Investor's Aim portfolio takes the wooden spoon for the second year in a row, even as it improved on the steep losses it made in 2022. The loss is understandable as the portfolio's benchmark, the Aim All-share index, ended the year down 8%.

Management process automation software play ActiveOps cashed in on the artificial intelligence boom to deliver a 22.5% gain. But three of the other four picks ended the year in the red, with the worst performance from professional services network DSW Capital, which dropped 57.5% amid sluggish deal-making activity on global markets.

While one-year is too brief a timeframe to assess most investments, we hope that readers will find some ideas below with which to profitably ring in the new year.

...and what they are tipping for the year ahead

Daily Mail

Agronomics invests in firms in cellular agriculture, an early stage technology that could one day enable us to eat cruelty-free meat, fish and dairy products that also require less energy to produce than traditional agricultural products. A long regulatory road lies ahead, but given the scale of the opportunity the shares are "worth a punt" *(9.5p)*. Aim-listed **Empire Metals** may have found one of the world's "biggest titanium deposits" in Western Australia. The metal is a critical military metal, while bright white titanium dioxide is used in paint and sunscreen *(9.3p)*. Shares in Royal Mail's owner **International Distribution Services** have halved over the past two years. GLS, the multinational logistics arm, has brighter prospects and its value is being overlooked because of the travails of the UK postal division *(272p)*. The dual rise of work-from-home and e-commerce has hit the valuation of commercial property firm Land Securities, but management has pivoted towards more promising areas such as property in London's West End. A prospective yield of over 5.5% is also appealing *(705p)*.

Barron's

A crackdown on big business in China has reduced **Alibaba Group Holding** to "one of the cheapest [technology-orientated] companies in the world". The New York-listed shares trade on a mere eight times forecast profits and the market value is just 15% of that of Amazon, the most comparable Western business. There are risks, but these are abundantly priced in, leaving room for a relief rally *($72)*.

Google's owner **Alphabet** looks the pick of the "Magnificent Seven" stocks that dominated the 2023 market. It trades on a marked discount to some of its big tech rivals despite robust growth prospects. While the emergence of artificial intelligence (AI) does raise questions about the future of Google's dominant search business, Google is using its vast cash pile to work on its own AI offerings *($132)*. Shares in precious-metals miner **Barrick Gold** have lagged progress in the gold price over the past year amid operational disappointments, but this year could be brighter. Barrick has "some of the world's best mines" and its management is highly regarded and adept at handling "delicate relations" with governments *($18)*.

Shares in German Covid vaccine hero **BioNTech** have plunged by 25% in a year as the tide goes out on pandemic-era healthcare shares. But the firm should still remain profitable in 2024, giving time for the "oncology-focused pipeline" of new treatments to bear fruit. With $18bn of cash on the balance sheet, 75% of the market value, investors enjoy a significant "margin of safety" at the current price *($104)*. Shares in **Chevron** slumped 14% last year, underperforming other global oil supermajors because of production disappointments and questionable deal-making.

But on 10.7 times 2024 earnings and yielding 4.2% the valuation is now "compelling" for "one of the best-run big energy companies in the world" *($150)*. Shares in **PepsiCo** struggled last year as new weight-loss pills cause investors to sour on sugary beverages and snacks such as Doritos. Yet strong recent trading performance suggests the market may have got carried away. The shares are trading on a discount to the five-year average and "it rarely pays to bet against the American eater" *($168)*. **U-Haul Holding** is the default "do-it-yourself moving business" for Americans moving house. On 14 times earnings, the shares are reasonably priced for a business with a robust competitive position thanks to the "network effects" of its 23,000 locations across North America *($63)*.

The Sunday Times

Shares in defence business **BAE Systems** have nearly doubled amid the global turmoil of the past two years and the world isn't getting any safer. The acquisition of US space-focused Ball Aerospace should add Nasa to the firm's roster of clients in addition to defence ministries *(1,113p)*. About 60% of business at professional-services firm **Begbies Traynor** still comes from insolvencies, which are on the rise as high interest rates bite. In a more optimistic scenario, the diversified "advisory and transaction" side of the business will get a boost if the economy manages to beat low expectations *(117p)*.

Price hikes at cruise ship operator **Carnival** have done nothing to dampen the post-pandemic travel fever, as the shares doubled last year. Strong forward bookings could herald another record-breaking sales figure for the year ahead. Expect this ship to "sail on" *($19)*.

A regulatory review into competition in the veterinary sector is prompting investors to steer clear of **Pets at Home**, but the gloom may prove overdone. The retailer is "one of the few businesses" still enjoying a boost from the pandemic, which sparked a significant rise in pet ownership *(320p)*.

Payroll and accounting software firm **Sage** offers a rare means to gain exposure to AI through the London market. The shares rallied by 60% last year, but the scope to build AI into its tools should continue to "put boosters" under the shares *(1,172p)*.

Dearer car finance triggered "a horrible profit warning" at car dealer **Vertu Motors** in December, but easier monetary policy should help foster a recovery later this year. With peers attracting bids, there is also a chance that this is the year when Vertu "finally gets taken over" *(72p)*. A packed global elections calendar will be good marketing for polling firm **YouGov**, especially in the key US market. The bulk of YouGov's revenue actually comes from providing consumers' data to big clients in technology, where demand is gradually "returning" after a soft year in 2023 *(1,187p)*.

Shares

Shares in creative software firm **Adobe** have fallen following "lukewarm" earnings guidance, but markets are missing the bigger picture. While hardly cheap, the shares are undervalued relative to Adobe's own history and look good value given its superb growth record and "powerful" balance sheet *($585)*. The cost-of-living crisis is causing households to go bargain hunting. That is a boon for **B&M European Value Retail**, which still has plenty of scope to grow its market share in both the UK and France *(562p)*. The insurance market is going through a "once-in-a-generation" phase of rising rates. **Conduit Holdings**, the parent of a Bermuda-based reinsurer, looks well placed to profit from the shift and has fewer problems with troublesome "legacy" policies than some of its older rivals *(455p)*.

©Alamy; B&M Stores

Retirement specialist **Just Group** is benefiting from strong market demand for bulk annuities as pensions schemes look to manage risks. The current low single-digit price/earnings (p/e) ratio appears "screamingly cheap" and is unlikely to last *(85p)*. Data platform **MongoDB** helps software developers to manage and analyse enormous data sets. Data is the "rocket fuel" powering AI, so the shares should continue their strong 2023 run into 2024 provided investors' excitement about the technology continues *($420)*.

US biotech PureTech Health has an "exciting drug portfolio", but the market is overlooking its true value. Patience will be required for new treatments to come good, but the "huge amount of cash" on the balance sheet mitigates some of the risk *(151p)*. Information specialist **Relx** is an underappreciated London-listed AI play. Its experience working with large datasets and scientific journals gives it a head start at applying data analytics and AI to its business *(3,059p)*.

The Times

US economic "bellwether" **Amazon** overextended itself during the pandemic, prompting it to spend much of 2023 ruthlessly slashing costs. That has restored profitability, while sales have so far held up better than expected as the US consumer remains strong. Meanwhile, the web services arm offers exposure to artificial intelligence. The shares' forecast price-to-earnings (p/e) is close to a 13-year low *($152)*. Consumers' weakness in Latin America saw shares in drinks seller **Diageo** tumble late last year, but despite the wobble the structural trend towards drinkers buying the group's more "premium" brands should see investors' confidence return. On 18 times forward earnings, the shares are near their cheapest valuation in ten years *(2,843p)*. Shares in **Empiric Student Property** have been treading water for two years thanks to rising interest rates. Yet there is a structural undersupply of the sort of student accommodation in which this landlord specialises. Lower interest rates could prompt a rerating, while a takeover bid is always possible given the cheap valuation *(94p)*.

Marks & Spencer's clothing and home business has long underperformed, but a decision to cut back the number of product ranges has borne fruit, helping to propel like-for-like sales growth at the division up to its highest level in over ten years. The shares more than doubled last year, but "remain inexpensive". Any positive Christmas trading data could prove a renewed catalyst for the shares *(273p)*. Buy-to-let mortgage specialist **Paragon Banking** has been strikingly resilient through the UK property downturn. Annual return on equity, a key gauge of profitability, has hit an impressive 20%, allowing management to fund generous dividends and buybacks *(691p)*.

The Motley Fool

Precious metals appear poised to come back into fashion this year because of rising global turmoil. Egypt-focused gold miner **Centamin** offers one way to play the trend *(100p)*. Much of the world economy is flirting with recession, making the defensive qualities of food-services outsourcer **Compass** appealing. There is plenty of scope to win more business as about half of the addressable food-service market has yet to be outsourced *(2,146p)*.

Digital services business **Kainos** helps businesses to make their operations more efficient, a top priority as higher interest rates squeeze balance sheets *(1,119p)*. Shares in medical-products maker **Smith & Nephew** have been trading close to their lowest level in ten years because investors have become concerned that new weight-loss drugs could sap demand for its products. Yet the concerns have been overdone – weight loss can actually enable some patients to get joint-replacement surgery for which they were previously ineligible. Furthermore, recent trading has been strong and a continued recovery could fuel a "big rebound" in the share price during the year ahead *(1,079p)*.

The Telegraph

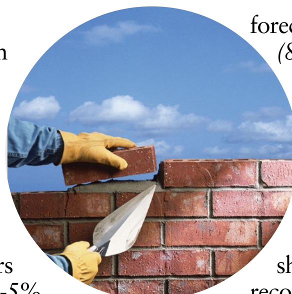
Could 2024 be the year when chronic stockmarket underperformer **BT** finally comes good? A declining pension deficit and rising consumer prices give it financial headroom. Trouble at some of BT's "alt-net broadband rivals" raises the prospect of a more consolidated market that would leave the one-time monopoly in the telecoms driving seat once again *(124p)*. **Deliveroo** has put the messy aftermath of its 2021 listing – deemed the worst "in London's history" – behind it. The shares have climbed by 40% over the past year and profitability is finally coming into view. A takeover bid for the food-delivery business could yet come on to "the menu" *(128p)*. While London's property market struggles, the rental market is "on fire". That bodes well for **Foxtons**, the capital's largest letting agent *(47p)*.

Generation Z is increasingly abstaining from alcohol in favour of "retro" hobbies such as bowling, which is good news for **Hollywood Bowl**. Private equity recently bought rival Ten Entertainment, so management will want to "up its game" this year *(305p)*. This year will be a record election year. It will be more important than ever for businesses to keep abreast of the changing tides of public opinion, so give Paris-listed polling firm **Ipsos** your vote of confidence *(€56)*. **Next** has been a rare good-news story on the struggling high street. Management has raised guidance four times in the last five months and the rally could yet have further to run *(8,132p)*.

Last year was tough for housebuilders, and **Persimmon** has lagged rivals. Yet falling interest rates and Keir Starmer's promise to foster a housebuilding boom could deliver a recovery during the year ahead *(1,385p)*. Australian technology firm **Seeing Machines** deploys software and cameras to ensure that drivers are keeping their eyes on the road. Vehicles are becoming increasingly automated and regulatory trends are a tailwind, but the Aim-listed shares have been neglected of late *(5p)*. Transport-data analytics business **Tracsis** is well-managed and operates in a profitable niche. The shares have soared by more than 2,000% since listing 16 years ago. What more do you want from an Aim stock? *(940p)*.

Interactive Investor

In an uncertain year, legal services specialist **Gateley's** diversified mix of "counter-cyclical" work across business recovery, property and corporate services is reassuring. A forecast yield of almost 6% is also appealing *(154p)*. While construction struggles, **Michelmersh Brick's** focus on "niche" brick requirements, such as "clay pavers [and] terracotta", offers resilience. A housebuilding recovery will eventually come and in the meantime investors can enjoy the near-5% forecast dividend yield *(89p)*. Shares in business support-services group **Restore** sagged last year due to soggy trading, prompting a management shake-up. The core records-management business remains solid and there is upside in prospect should a recovery take hold (210p). Global mining royalties play **Trident Royalties** offers exposure to the boom in metals such as lithium and copper that are needed for electrification, while the recent rally in gold prices is providing a near-term boost *(36p)*.



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When will Britain go to the polls?

Some time this year, in all likelihood, and Keir Starmer is the favourite to win. Emily Hohler reports

This year is set to be a big one for elections, with voters casting ballots in countries accounting for about 4.2 billion or 50% of the global population. Britons will almost certainly be among them. The question is when, says Rachel Cunliffe in The New Statesman. Rishi Sunak told reporters last month that the election would be held this year; the most likely dates are May, October or late November. The decision to implement the tax cuts announced in November's Autumn Statement in January rather than April and the fact that this year's Budget would be held on the earlier date of 6 March, along with recent hints of further tax cuts, notably to inheritance tax, suggest that May is the preferred date.

That gives Sunak the chance to "look decisive" and avoid accusations of "clinging on". Two-thirds of voters want an early election, and another summer of Channel boat crossings could be electorally expensive. "Most obviously," says Henry Hill in The Guardian, the local elections are on 2 May and it would be advantageous for the general election to coincide. It would "encourage Conservative voters to the polls and help avoid, or at least ameliorate, the devastating loss of councillors that otherwise might result... Wait until after May, and CCHQ will have lost hundreds of its most dedicated foot soldiers: its Tory councillors". That said, the polls are currently "dismal" for the Tories, with Labour maintaining its poll lead of 15-20 points. Sunak may go "cold on the idea" of a May election if the polls don't improve.

Nor can Sunak turn the election into a "presidential-style contest", says Adam Forrest in The Independent. A poll by Focaldata reveals that Keir Starmer is the most popular leader in 390 seats, including Sunak's own Yorkshire constituency, while Sunak is favoured in just four seats. The "only silver lining" for the prime minister comes from the "don't knows" that were ahead in 238 seats.

The odds of him not becoming PM this year are small

©Getty Images

Could the Tories still take it?

A shock Tory win isn't out of the question, says Luke Tryl in The Telegraph. People today are much more likely to change their minds over a short space of time. More than 25% of the "don't knows" are "would-be core Tory voters" who are fed up with the current government, but are more likely to vote Tory than Labour, when push comes to shove. Nigel Farage's Reform UK party could cost the Tories at least 30 seats if it retains its popularity. If the Tories can tempt some Reform voters or persuade the party to stand down, it will "save them seats". Nor is there much love for Starmer – his approval ratings fall far short of those enjoyed by Tony Blair before Labour's landslide win in 1997, notes The Times. This might not matter given current distaste for the Tories, but if the economy improves there is a "chance" that the Tories can go into the election on a platform of "don't risk the recovery with Labour".

The economy is "central to any Tory comeback", with the cost of living continuing to far outstrip voters' other concerns. During controversial secret talks, Dominic Cummings reportedly advised Sunak to make some "big, decisive moves", such as holding an emergency budget and doubling the 40p income-tax threshold to £100,000, says Katy Balls in The Times. A less dramatic "gear shift" is more likely.

For all the speculation, it is "highly likely" Starmer will enter No. 10 this year, says The Times. Given this, and the many "impediments to Britain's recovery", Starmer "owes the voters greater candour about how Labour would govern amid hardship at home and conflict overseas".

Shapps: "We need to stand firm"

©Getty Images

Tensions escalate in the Red Sea

Britain faces a "fresh inflation headache" after shipping firm Maersk suspended all trade through the Red Sea due to the threat of attacks by Houthi rebels, say Melissa Lawford and Jonathan Leake in The Telegraph. On Sunday, the US Navy destroyed three boats carrying Houthi rebels, killing the crews, after fighters tried to board a Maersk container ship for the second time over the weekend.

Analysts predict that oil prices could rise sharply if "tensions escalate further". Transportation and shipping insurance costs have doubled over recent weeks and this will filter through to the prices of products on British shelves, including food. Shipping oil, gas and other products around the Cape of Hope uses more fuel and costs more in carbon taxes. Higher inflation would in turn "pose a major problem" for Rishi Sunak, who faces an election this year (see above) and has "cited falling inflation as a key justification for tax cuts in the spring".

Britain and America are "weighing up military options" and drafting a "last warning" to the Houthis, a statement they hope European allies will sign, say Larisa Brown and Andrew Ellson in The Times. Houthis say they are targeting Israeli-linked ships in an attempt to halt the offensive in Gaza, but eight of the 20 ships targeted before Christmas were "either UK-registered, had British citizens in their crew or carried goods heading for Britain". Around 12% of global trade passes through the Red Sea, including a third of all container shipping. Concerns have already driven up global prices of commodities such as oil, corn and wheat. Writing in The Telegraph, defence secretary Grant Shapps said continued aggression risked destabilising the wider region and that failure to protect the Red Sea could also embolden others. This is a "test for the international community – not least in terms of contested waterways elsewhere in the world... We need to stand firm."

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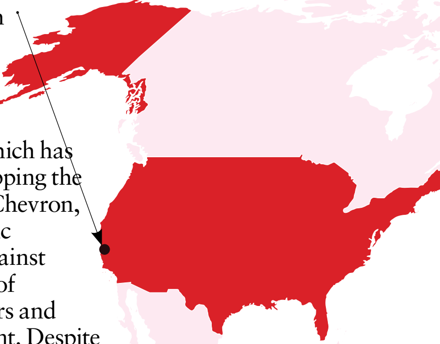
Toulouse

Airbus eyes Atos unit: French software firm Atos is in early talks to sell its cybersecurity and data unit, BDS, to Toulouse-based planemaker Airbus for as much as €1.8bn, say Wout Vergauwen and Irene Garcia Perez on Bloomberg. The deal could help embattled Atos shore up its finances as it faces more than €2bn in debt payments in the next two years, while bolstering defence, security and artificial intelligence capabilities of Airbus, led by Guillaume Faury (pictured). The tie-up, however "looks opportunistic", says Bloomberg Intelligence analyst Tamlin Bason. The sale of Atos's "most valuable business" is a "drastic solution" to its debt problems as it weighs selling other assets.

But, with €4.8bn of debt, the €780m Atos "needs a reprieve" from its creditors, says Pierre Briançon on Breakingviews. The company warned that it needs a deal on new financing within the next three months or it will be forced to seek "legal protection". That ought to persuade even "reticent lenders to listen" to its debt pleas and spare the company a further credit-rating downgrade. And yet, even if Atos does sell BDS to Airbus, that would still leave it "stuck with its declining legacy business". Atos would also remain "highly leveraged" as the implied enterprise value of roughly €1.5bn for the unit suggests Airbus would only assume "a small part" of its overall gross debt. Atos is hoping its lenders will weigh taking a tangible loss now "against the elusive profit they may secure if they stick around".

San Ramon

California angers Chevron: Oil major Chevron expects to take a hit of up to $4bn to its earnings in the fourth quarter, blaming hostile government energy policies in California, says Jamie Smyth in the Financial Times. It will write down the value of its upstream oil and gas assets in California as well as incur a charge for decommissioning assets in the Gulf of Mexico. Chevron has repeatedly clashed with lawmakers in its home state of California, which aims to phase out fossil fuels and tackle climate change. Crude oil production in California has fallen by 28% to 305,000 barrels per day in the past four years, according to the Energy Information Administration. Last year the state, which has some of the highest petrol prices in the US, passed a law capping the profits of oil refiners and sued several oil giants, including Chevron, for allegedly suppressing information about the catastrophic effects of burning fossil fuels. Chevron had lobbied hard against the law and rejected the lawsuit. It says it has cut hundreds of millions of dollars of investment in California in recent years and rejected projects owing to a "difficult" business environment. Despite the write-down, Chevron maintains it will still operate assets in the state, where it produces about 75,000 barrels of oil and gas per day.



Addis Ababa

Another default: Ethiopia has become the third African country to default in as many years after missing the deadline to make a $33m interest payment on its only international government bond, says Mary McDougall in the Financial Times. The missed payment by Africa's second most populous country is part of a growing trend following the pandemic. According to the World Bank, there have been 18 defaults in ten emerging economies in the past three years – more than the total for the previous two decades. Ethiopia first asked for debt relief in 2021, but despite a "truce to end its two-year civil war late last year", annual inflation is running at 28% and its economy is weighed down by growing debt repayments and foreign currency shortages. Talks with pension funds and other private creditors "stalled" even though an agreement in principle had been reached with sovereign creditors last month to suspend debt payments and restructure its $1bn international bond. Ethiopia is trying to "renegotiate its obligations through the G20's common framework, as Zambia and Ghana have done with mixed success".

Meanwhile, prime minister Abiy Ahmed (pictured) hailed a "major diplomatic victory" for land-locked Ethiopia in signing a memorandum of understanding with the unrecognised Republic of Somaliland to use the latter's port at Berbera, says Al Jazeera. Somalia insists Somaliland is part of its territory.

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The way we live now... Airbnb gets the chop in France

Airbnb: deflated in Marseilles

©Alamy

The French are revolting, says Lily Radziemski in The Sunday Times. People in France fear being squeezed out of city centres and are angry with authorities, who they say care more about catering for tourists than for residents. In the port city of Marseilles, on the Mediterranean coast, more than 40,000 homes are dilapidated and dangerous, buildings have collapsed killing residents, and small businesses serving locals, such as butchers, bakeries and tailors, have closed. Prices for flats increased by 14.5% between 2020 and 2022 in a city with 11,000 Airbnb rental properties.

French law allows for people to run only one property as a rental, but enforcement remains spotty. A new law recently introduced in the National Assembly would give more power to local authorities to regulate short-term lets. Campaigners are advocating a more accessible city centre and regulation of Airbnb by capping rental prices and returning to traditional seasonal lets. Airbnb owners have been publicly shamed with posters of their faces plastered in the streets, key boxes glued shut and graffiti appearing on buildings calling for "Death to rolling suitcases".

Shenzhen

BYD overtakes Tesla: China's BYD surpassed Elon Musk's Tesla in the fourth quarter of 2023 to become the world's best-selling electric-car manufacturer, says Jacky Wong in The Wall Street Journal. BYD sold three million vehicles in 2023, up 62% from the previous year, of which half were hybrids. But sales of pure electric vehicles (EVs) surged by 73%. BYD, whose car prices are cheaper than Tesla's, sold 526,409 EVs in the final quarter, compared with 484,507 sold by Tesla. Nearly 90% of BYD's December sales were in China, but overseas sales in the second half of 2023 more than tripled. The carmaker, which counts Warren Buffet as an investor, is eyeing international expansion, having weathered intense domestic competition, but it could face headwinds over concerns that cheap Chinese electric motors are flooding markets. The European Union recently launched an investigation into whether state subsidies have given Chinese EV makers an unfair advantage, while the US government is considering raising tariffs. Chinese firms are nevertheless increasing investment in Europe, with BYD planning to build a factory in China-friendly Hungary. BYD already sells five models in Europe and it plans to launch three more in 2024. BYD's Hong Kong-listed shares rose 11% last year, trailing Tesla which doubled, against a broader downturn in Chinese stocks.

BYD is pulling ahead in the EV race

©Getty Images

Kanazawa

Earthquake strikes: An earthquake with a magnitude of 7.6 on the Richter scale struck Noto Peninsula in Ishikawa Prefecture, western Japan, on New Year's Day, causing "extensive structural damage", says Nikkei Asia. At least 64 people had died by Wednesday. Five people also died when a Japan Coast Guard aircraft carrying relief supplies collided with a passenger jet operated by Tokyo-listed Japan Airlines at Haneda airport in Tokyo. Retailing, services and transport activities in the area have been affected, with the "infrastructure damage increasing the possibility of widespread disruption across manufacturing and other supply chains". Nippon Steel's Naoetsu Area works, which produces stainless steel products, suspended its operations, while electronics giant Toshiba closed a facility run by a subsidiary that serves a production hub for semiconductors. Murata Manufacturing, which holds a 40% global market share in the production of a specific component used in the manufacture of smartphones, was assessing the damage to two of its facilities. Global reinsurance prices have "surged" over the past 18 months, exacerbated by earthquakes, such as the one that struck Turkey and Syria last February, "squeezing insurers and their customers", says Ian Smith in the Financial Times. The latest tremors in Japan this week will only serve to drive up costs further come the next round of contract renewals in April.

Ahmedabad

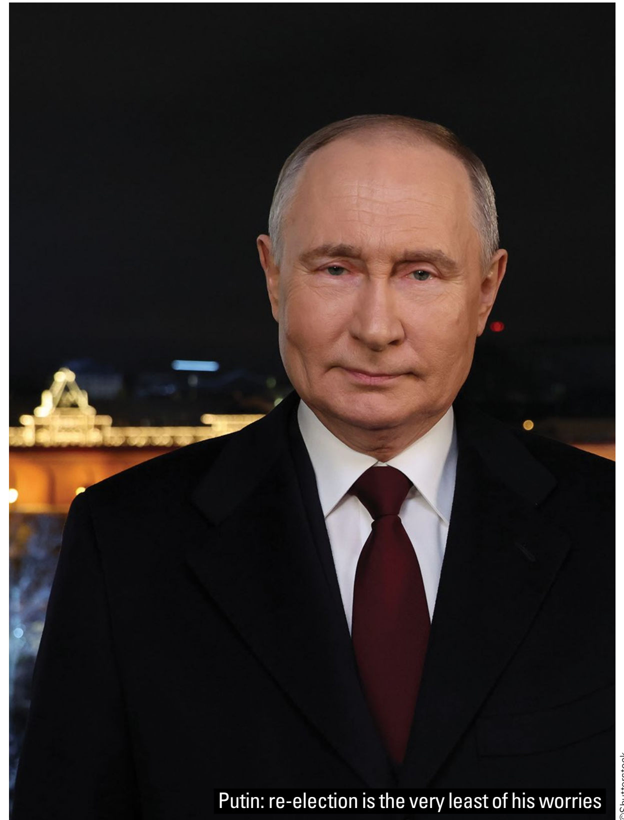
Hindenburg rebuffed: India's Supreme Court has rejected a plea to set up a new panel to investigate allegations of fraud against the businesses of billionaire Gautam Adani (pictured), says BBC News. Last January, Hindenburg Research – a US short-seller that bets against companies' share prices – released a report in which it accused Gujarat-based Adani Group of "brazen" stock manipulation and accounting fraud. A court-appointed committee was set up the following March to oversee an investigation by the Securities and Exchange Board of India, only for the panel to conclude that the regulator had "drawn a blank" in May. Despite the petitioners claiming a "conflict of interest" among members of the panel this week, India's highest court ordered the regulator to wrap up its investigation within three months. Adani denied wrongdoing, but the allegations wiped $150bn off the group's market capitalisation, say Chloe Cornish and Hudson Lockett in the Financial Times. Since then, the group has reduced its net debt to 2.5 times annual earnings from 3.3 times, enabling it to recoup almost half of its stock losses against a broader rally.

Jakarta

Stocks reach new high: Indonesia's stocks surged to a record high on Tuesday, lifted by international investors' optimism about southeast Asia's largest economy, says Abhishek Vishnoi on Bloomberg. Investors have been buoyed by presidential candidates' promises to uphold the policies of incumbent Joko Widodo (known as Jokowi) ahead of next month's election, the central bank signalling it has finished raising interest rates, and the current government's pledge to boost spending. During his tenure, Jokowi prioritised infrastructure projects and domestic processing of natural resources, such as nickel and copper, over the exporting of them. His aim is for Indonesia to become a developed nation and one of the world's top-five economies by 2045. The benchmark Jakarta Composite Index rose by 0.7% on Tuesday, eclipsing its previous peak of 7,318 in September 2022. Last year, the index gained 6%, bolstered by renewable energy and banking stocks. Meanwhile, a new 10% tax on e-cigarettes came into force at the start of the year, which is imposed on top of an existing excise levy. Indonesia is imposing stricter measures to curb vaping, which has increased tenfold from 2011 to 2021, and make it less affordable.

Putin's surprising win on the economy

Sanctions were supposed to strangle Russia's economy, but it seems rather to be thriving. What's going on? Simon Wilson reports


Putin: re-election is the very least of his worries

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What's happened?

Compared with expectations widespread in the West two years ago – that sanctions and the draining effects of Vladimir Putin's Ukraine war could lead to economic collapse – the Russian economy is doing strikingly well. Twelve months ago, Western analysts expected an overall contraction over the course of 2023. Instead, Russia's economy grew far more strongly than Western nations (including the UK), with GDP up by more than 3%. Higher oil prices and a ramping-up of exports to China and India have helped protect Russia from the catastrophe many predicted. The withdrawal of Western firms has opened up new niches for Russian firms, while capital controls have left them with no option but to invest in Russia. And massively increased defence spending – including on soldiers' wages and compensation to families, as well as arms manufacturing – has helped fuel a mini-boom in poorer parts of the country.

Can that really be sustainable?

Figures from Russia's finance ministry suggest the government's overall fiscal stimulus stands at around 5% of GDP, more than the one implemented during the Covid-19 pandemic. At some point, all that has to be paid for. But for the time being, the Russian president is busily building a wartime economy. In the 2024 budget, military spending will hit 6% of GDP for the first time since the Soviet era – accounting for 39% of the Kremlin's budget (and squeezing out funding for healthcare and social welfare). For now, rather than collapse or stagnation, the biggest issue is that the economy is running "dangerously hot", says The Economist. Unemployment is at its lowest on record (less than 3%), nominal pay has surged 15% year on year, and inflation is up to about 8% – forcing the central bank to hike interest rates to 16%.

"Rather than collapse or stagnation, the economy is running dangerously hot"

Is Putin winning?

It's far too early to conclude that. In a stern riposte to a crop of year-end opinion pieces framing Putin as one of 2023's "winners", two Yale academics took to the pages of Foreign Policy just before Christmas to urge more scepticism about Russia's economic prospects. In their piece, Jeffrey Sonnenfeld and Steven Tian laid out seven ways in which, they say, the war and associated exodus of Western companies is hurting the Russian economy. First, talent flight. Since the February 2022 invasion, at least a million highly skilled workers have fled the country, by some estimates accounting for 10% of Russia's entire technology workforce, and 33% of its millionaires. Second, capital flight. According to the Russian Central Bank's own assessment, a record $253bn in private capital was moved out of Russia in the 16 months following the invasion, four times the previous level of outflows.

Third, the loss of Western technology and know-how has damaged key sectors such as technology and energy exploration. Rosneft, for example, has been forced to spend nearly $10bn extra on capital expenditure, adding about $10 of additional costs to each barrel of oil it exports. Fourth, the withdrawal of about $250bn in foreign direct investment, and the near-total halt in new FDI into Russia, compared with about $100bn annually before the war. Fifth, the loss of the rouble as a convertible and exchangeable currency. Sixth, the loss of access to global capital markets. Finally, the "massive destruction of wealth and plummeting asset values": the values of some state-owned enterprises have slumped 75% since the invasion, and many private-sector assets have halved in value.

So why is the economy growing?

To date, the war machine has been funded by the cannibalisation of now state-controlled enterprises and the economy underwritten by government spending. But that's not a viable economic strategy for anything other than the very short term. Sanctions have not collapsed Russia's economy, thanks to China, India, and the "parallel markets" whereby goods are shipped in via friendly countries such as Turkey and Kazakhstan. But shortages are mounting, of goods as varied as tyres, printing paper, aeroplane parts and medicines. Already, according to analysis by the US Treasury, Russia's economy is 5% smaller than it would have been had Putin not launched his war. Rachel Lyngaas, the department's chief sanctions economist, said the combination of war, sanctions and Moscow's policy response was "putting Russia's economy under considerable economic strain" by "contributing to rapidly growing expenditures, a depreciating rouble, increasing inflation, and a tight labour market, reflecting a loss of workers". Key factors hurting Russia include emigration, difficulty in sourcing high-tech imports, forced re-orientation of supply chains and a lack of access to Western markets.

Where do things go from here?

Once he's got March's presidential election out of the way, Putin is set to expand the scope of civilian mobilisation, says Roger Boyes in The Times. Russia's ability to replenish its forces in drawn-out, attritional warfare is its key advantage over Ukraine. But that will only exacerbate the already serious labour shortages in the civilian economy – and increasingly affect the military-industrial sector, too. Already the defence industry, which employs about two million engineers and other workers, is short of 400,000 people.

It's the constraints on supply factors that will be crucial, agrees Liam Peach of Capital Economics. Peach puts the hit to Russia's GDP so far at about 3%, rather than the US Treasury's 5%, but more importantly, "supply constraints are more binding now than they have been for many years", he says. "One of the biggest and perhaps longer-lasting consequences of the war and sanctions is that the large reduction in Russia's supply capacity in the past two years has significantly limited the ability of the economy to grow without generating inflation pressures." So "although the economy has coped with sanctions so far, a bigger war effort could be destabilising for Russia's macro stability". For Putin, "winning" re-election in a stage-managed vote will be easy. Managing its economy in the coming years will be much harder.

Five deals to hope for in 2024

These mergers and acquisitions would genuinely improve the companies involved

Matthew Lynn
City columnist

1. Tesco buys Carrefour

With its shares up 30% in 2023, the British supermarket has staged a comeback from the wobbles of the past decade. It has solidified its iron grip on the British grocery market, restored profitability and started paying generous dividends again. With rivals such as Asda and Morrisons owned by private-equity firms overloaded with debt, its position is more secure than ever. By contrast, France's giant Carrefour is far less healthy. Its shares are at only half the level they were ten years ago, and it has already been targeted in a takeover bid. Tesco could turn it around, and together they would create a European powerhouse. The French government probably wouldn't allow it, but it would be a great deal.

2. M&S buys Boots

It has been clear for years that Walgreens is desperate to offload the pharmacy chain it took final control of in 2014. Boots has weighed its owner down with too much debt, and returns have been dismal. Walgreens has tried to sell the chain, and more recently has been examining a listing in London. But what about selling to M&S instead? The food and grocery chain has been brilliantly turned around under the savvy management of CEO Stuart Machin, and even rejoined the FTSE 100. It could give Boots' stores a new lease of life, and there would be synergies between the two to exploit. A merger of Marks and Boots would create a middle England powerhouse.

3. Amazon buys John Lewis

The UK's favourite department store is struggling. John Lewis lost £59m in the first six months of last year, it said its turnaround plan would take two years more than thought, and its chair, Sharon White, decided to step down early. And with online retailing still growing, it is hard to see a great future for its big, old-fashioned department stores, even if most of its main rivals have disappeared. And yet, as it looks to end its partnership model, and bring in outside shareholders for the first time, it would surely be a perfect fit for Amazon. Waitrose would fit naturally into the Whole Foods chain it already owns in the US; the department stores would be a great click 'n' collect outlet, as well as a showcase for the wider Amazon range. There would be howls of outrage. Amazon's rapaciously capitalist way of working is very different from that of the employee-owned chain. But John Lewis could learn to be a bit more ruthless, and Amazon could learn to be a bit more caring. It would be a great match.

They could do with a dose of rapacious capitalism

©John Lewis

4. Buffett takes control of Unilever

Unilever's new chief executive Hein Schumacher has made a great start clearing out the clutter at the sprawling consumer-goods conglomerate. But its performance has been dismal for many years and it will take a long time to turn that around. Success will depend upon supportive shareholders. Enter Berkshire Hathaway, the conglomerate run by Warren Buffett. Back in 2017, Buffett was involved in an offer for Unilever from Heinz-Kraft, and there is no reason to think he is not still interested. With lots of valuable brands and scope for improved performance, it is just the kind of opportunity he has made a success of over his career. The sage of Omaha may have one big deal left in him.

5. Ratcliffe buys Jaguar Land Rover

Jaguar Land Rover, the UK's leading car maker, has had a decent year, but there is little question it has struggled under the ownership of Indian conglomerate Tata. It needs to invest huge sums to transition to electric vehicles. Meanwhile, the Ineos billionaire Jim Ratcliffe has finally acquired Manchester United FC and has already dabbled in the car business with the launch of the Grenadier range of 4x4s. On a roll, he could take over JLR next, and put in the money needed to make it a serious contender to the luxury German carmakers. Together with Manchester United it would make quite a collection of heritage brands – and restoring both of them to their former glory would be a fantastic legacy to close out a brilliant career.

City talk

● I had planned to nominate my "business villains of 2023", but the "list of rogues and cheats and chancers is a rich seam" (see page 27) and space is limited, says Patrick Hosking in The Times. So let's cheer some heroes instead. The "first shout out" goes to **Tufan Erginbilgic**, the new boss at Rolls-Royce, who arrived promising a more disciplined approach to capital and costs, and to "stamp hard" on the urge to build market share at the expense of profits. Twelve months on, the shares have tripled. Another "champion of shareholder value" is **Simon Barrows**, the CEO of 3i, the most successful UK investment trust this year. His "gigantic bet" on Action, a retail chain, paid off 100-fold. **Lars Fruergaard Jorgensen**, the CEO of Novo Nordisk, has seen his firm become the biggest in Europe on the back of its potential blockbuster obesity drugs. Finally, **Archie Norman**, the "hands-on" chairman of M&S, "deserves kudos" for turning the chain around. The shares doubled in a year and are paying dividends again.

● Another hero who deserves a cheer is **Tim Martin** (pictured), the founder and chair of the JD Wetherspoon chain of pubs, says Nils Pratley in The Guardian. He started his pub chain back in 1979, when the beer trade was dominated by the big six national brewers. When they were broken up, Wetherspoon prospered because it concentrated on selling a decent pint at a low price and ensuring real ales (then an endangered species) were available. Martin has refrained from financial engineering and has built his business with long-term investment and an eye for the details. He was honoured with a knighthood in the New Year Honours list, and deservedly so.

● This is "the year of the dragon", but it may not be a lucky one for **luxury brands** in Europe, says Andrea Felsted on Bloomberg. They had been looking forward to a rush to buy Cartier watches and Hermès handbags as China opened up post-Covid. But research shows that many of the 170 million Chinese who shopped abroad in 2020 may stay home due to financial or visa constraints. Costs have spiralled, too – not just for the goods, but for the hotels in places like Milan. And there are many more attractive options closer to home than there used to be. "Chinese tastes are evolving quickly." Luxury brands must scramble to change their offering if they want to avoid losing sales.

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An impossible forecast

History can help us understand markets, but it also shows why predicting them is difficult

Cris Sholto Heaton
Investment columnist

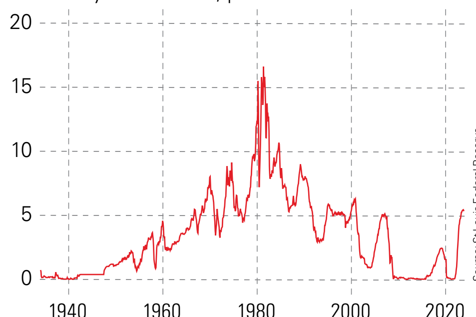
Welcome to another year of markets obsessing over when central banks will cut interest rates (see right) and mostly imploring/coercing them to do so faster. We have had almost two decades of this game: the focus on the Fed dates back to when central banks cut too deeply in the early 2000s and embedded the idea that the "Greenspan put" would always be there to bail markets out. And yet the prospects for moving beyond it seem faint.

It doesn't help that most sides are lining up to claim victory as inflation eases. Those who always argued that it was transitory can say that we have not seen a 1970s-style wage/price spiral, but monetarists can equally point out that prices came under control just as policy got tighter. And in macroeconomics, you can't run experiments to examine counterfactuals. What would have happened if central banks had merely raised rates more slowly and to a lower peak? Debates like that remain unresolved. The only group that unambiguously got it wrong were those who maintained we need a crunching recession and soaring unemployment to anchor inflation again.

Looking for a blueprint

In hindsight, the best historical comparison to what's happened over the last few years may be the end of the 1940s, when inflation spiked in the US and then quickly subsided again. The parallels with today are interesting: the end of a global emergency, a surge of pent-up consumer demand, the start of the Korean war and the central bank tightening policy as it moved away from a wartime economy in which rates were held down.

The further back one looks, the more risky it feels to use past events as a blueprint, considering how greatly the global economy has changed over time. How well can conditions before the end of the gold standard relate to how the financial system works today? Still, anybody who treated 1950-1953 as a template for what's happened in 2020-2023 now looks astute.



Does that tell us much about what will happen now? Probably not. We'll hear a lot about whether the US and other economies are on course for a soft landing, whether central banks need to cut fast to avoid recession now that inflation has been transitory, whether they need to keep rates up to avoid a second wave of inflation and so on. Yet predicting an outcome is far harder than fitting it to a template with the benefit of hindsight.

Consider the chart above. This shows rates on the three-month US Treasury since 1934. They were near-zero in the Great Depression and held down by central bank intervention in the war. The parallels to the last 15 years are obvious. They pick up in the Korean war era, then trend up uncertainly until the surge in 1970s, followed by the long but volatile decline. Linked to many of these peaks and troughs, we can readily identify specific global or economic events – but how many of them could be predicted far in advance?

So I'm inclined to expect central banks will get pushed into cutting rates this year, but think that a less stable, more fragmented world will mean inflation and rates will be higher on average in the 2020s than in the 2010s. But this reminds us never to get too confident about what lies ahead.

I wish I knew what the Nixon shock was, but I'm too embarrassed to ask

At 9pm on Sunday 15 August, 1971, Richard Nixon delayed the US viewing public from watching that evening's repeat of cowboy show *Bonanza*. Nixon had spent the previous three days at Camp David with a team of advisors, to finalise details of a speech that would transform the global monetary system, even though that arguably wasn't his main aim.

US inflation was rising by more than 5% a year while the unemployment rate was above 6%. The Vietnam war was also dragging on. Nixon – with an eye on an election in 1972 – was keen to avoid a recession, so he didn't want to raise interest rates. But nor did he want to be seen as going easy on inflation. So he instituted a freeze on prices and wages.

However, he also – in a move he described as "very technical" and "temporary" – ended the convertibility of dollars into gold by foreign governments (it was already illegal for US private citizens to own large amounts of gold bullion, and would remain so until 1974), with the intention of forcing reforms to the Bretton Woods system.

In reality, this system, created in 1944, was already on its last legs. An expanding supply of US dollars (in part to fund the Vietnam war) and a growing trade deficit meant that US gold reserves didn't even begin to cover the volume of dollars held by overseas governments and central banks. By the time of Nixon's speech, gold was already "in a two-tier market, with open trading at floating prices running in parallel to central-bank transfers still made at the fixed price".

In December 1971, there was a brief agreement (the Smithsonian Agreement) to revalue the dollar at $38 per ounce of gold and make fixed exchange rates more flexible, but by March 1973, the fixed exchange rate system had been entirely replaced by floating exchange rates, and gold no longer backed the US dollar – although most global central banks still hold significant quantities of the metal in their reserves.

Guru watch

©Getty Images

Mohamed El-Erian, chief economic adviser, Allianz

"Monetary policy was often the only game in town when it came to determining market outcomes for much of the last 15 years," says Mohamed El-Erian, the economist who was previously chief executive and co-chief investment officer at bond giant Pimco, and is now chief economic adviser at its parent Allianz. Central bank guidance and market expectations for what policymakers would do next had a "disproportionate influence" on asset prices, with the consequence of "meaningfully decoupling valuations from economic and geopolitical realities".

After interest rates returned to more normal levels over the past two years, "the near exclusive focus on monetary policy was supposed to fade", says El-Erian on Bloomberg. Yet so far, this isn't happening.

Shortly before Christmas, comments from Jerome Powell, the US Federal Reserve chair, on the potential for interest rate cuts, spurred "massive price moves in virtually every asset class". Traders jumped to the conclusion that the Fed will cut rates more than the European Central Bank, even though US growth is structurally stronger than the eurozone. Fed officials then tried to dampen down speculation, suggesting that market forecasts for six cuts in 2024 were getting ahead of reality.

This confusing dance between "a Fed, which is inclined to be dovish and overly talkative, and markets, which too often drift into being single-issue focused" is damaging for the economy and for financial stability. The more that the market expects cuts, the more it will push for an even more dovish stance. And As traders price in deeper cuts, it becomes harder for the central bank to maintain tighter policy, without causing upheaval as expectations are not met.

The outcome is a situation where traders call the shots, not the central bank. The market is "trying to bully the Fed because this Fed seems to be willing to be bullied".

A top one-stop shop for global investors

Alliance Trust was the best performer in its sector last year and remains a promising pick, says Max King

Rarely can the aphorism "pessimists sound smart, optimists make money" have been truer than in 2023. The Eeyores came into the year insisting that rising interest rates would cause a recession in the developed world, corporate profits would be hit, stockmarkets would slump and the only safe haven would be in government bonds. Yet recession was averted, earnings dipped but returned to growth, equities, especially in the US, performed well and government bond yields continued to rise (reflecting falling prices).

The pessimists argue that most of the market's gain was attributable to the "Magnificent Seven" stocks at the top of the US market (eight if you include Netflix), which make up 28% of the S&P 500 and jointly rose by 80%. This is, they believe, an unsustainable bubble that will pop when the recession, at last, materialises in 2024. Cue market mayhem and happy pessimists.

Pessimists spend too much time telling investors why they are all wrong and not enough listening to what the market is telling them. Markets do occasionally charge off in the wrong direction, but not nearly as often as "expert" forecasters.

An improved outlook for inflation

That is the spirit in which to judge this year's major surprise: the rally in government bond yields that has taken yields in the UK and US for ten-year issues below 4%. Given the mountain of issuance that lies ahead and no evidence of the increased demand necessary to absorb it, it had seemed likely that real yields would have to remain high to attract buyers.

The explanation is not that the market is "wrong", but that the outlook for inflation is better than believed. It looks poised to drop back to 2%. There is plenty of evidence for that in the US and European inflation data already. Central banks are thus likely to cut interest rates, but short-term rates are not a driver of equities; yields on public debt, which have little scope to fall further, and corporate earnings, whose growth is accelerating, are much more important.

Deposit accounts and bonds may look more attractive than they have for many years, but the best returns are likely to be earned in the stockmarket. It is tempting to invest in the many cheap areas: investment trusts on juicy discounts, private equity, infrastructure, small and mid caps, the UK, and Japan. But start with a mainstream global trust.

The Baillie Gifford trusts, such as Scottish Mortgage and Monks, are rallying, but have been left behind in the renewed popularity of growth investing. The surprise winner in 2023 was the 135-year-old giant **Alliance Trust (LSE: ATST)**, with £3.5bn of assets. This has returned 20% in the last year, well ahead of its rivals and the MSCI All Countries World index's 14.5% in sterling terms. Over three and five years, it has performed broadly in line with the index.

The shares trade on a 5% discount to net asset value (NAV) and yield 2.3%, the dividend having been increased for 56 consecutive years. The trust used to be self-managed out of Dundee and was something of a lame duck, but in 2017 management was taken over by Willis Towers Watson (WTW) using a "multi-manager" approach. This means that the portfolio is parcelled out to ten carefully chosen managers, though one manager, GQG Partners, runs an emerging-markets portfolio as well as a global one.

"Markets do occasionally charge off in the wrong direction, but not nearly as often as pundits"

©Getty Images

The pessimists have been proved wrong about equities again

Each of the 11 strategies invests between 4% and 20% of the portfolio in up to 20 "best ideas". Adjustments are made to the allocations twice a year, but the focus is on stock selection, not regional allocation or macroeconomic investing. The styles cover the spectrum from growth to value. WTW invests with managers who have good records in their speciality even if to do so is out of favour for a time.

The multi-manager approach does not have a great record, having worked much less well at Witan, with £1.5bn of assets (+8% over one year, +34% over five), and at F&C Investment Trust, with £5.5bn of assets (+11% over one year, but a respectable +58% over five). Around half of F&C's assets are managed internally, but by different teams, and F&C has a rather unwieldy 457 holdings against just 205 for Alliance.

Alliance's lead manager Craig Baker notes that this year's performance has not been driven by the Magnificent Seven (or eight), to which Alliance has had an overall lower exposure than the global index. He points out that the winners in each decade do not stay at the top forever; the 1980s were dominated by global oil majors, the 1990s by Japanese financials and the 2000s by telecoms and the internet. "The leaders from each area had a smaller market weight a decade later."

Alliance's winners have mostly come from elsewhere, including Latin American giants Petrobras and Mercadolibre. A new allocation in the middle of the year to Japanese value and an older one to emerging markets are regionally specific, but otherwise managers are either global or focused on the US (63% of the index). These are not normally managers or strategies available to private investors.

Alliance seems unlikely to maintain this year's rate of outperformance, but neither should it fall much behind global indices. That makes it an excellent one-stop-shop for global investment or a core constituent of a broader portfolio for cautious investors wary of bargain-hunting.

China aims to be robot superpower

Editorial
The Economist

To Xi Jinping and the Chinese Communist Party, robots are "serious business", says The Economist. In 2023, half of all industrial robot installations were in China and the country produced more than six million "service robots", which do things like cook, clean and move boxes. This is a deliberate push to increase productivity (also, robots don't get Covid). The working-age population is projected to drop by more than 20% by 2050. Labour shortages abound and 41% are in manufacturing-related positions. Many of the challenges faced by factories apply to agriculture as well and since China is "paranoid about food security and uninterested in immigration", automation could be the answer here, too. Then there's the shortage of care workers for 8.1 million care-home residents. A recent state plan includes "smart elderly care" from robots to aid movement or even just offer companionship. The government also wants the robotics industry to become more self-sufficient and its efforts are paying off here as well. Last year, 36% of the industrial robots China installed were made at home, up from 25% in 2013. "Motivated by pride and pressing demographic challenges, China is on a mission to become a robot superpower."

Perverse incentives in the US

Allysia Finley
The Wall Street Journal

"Drill down" into America's 3.7% unemployment rate and "you'll find a growing welfare-industrial complex", says Allysia Finley. The thousands of migrants "pouring" into cities need looking after, as do the hundreds of thousands of drug addicts, mentally ill and homeless, and money is being "shovelled at them" (New York spends $143,810 a year to house and feed one migrant). But since tending to these people also creates jobs, there is a "vested interest in not solving pressing social problems". Texas, a state whose foreign-born population has increased by far more than New York's in recent years, has 75% fewer homeless people – and a projected $18bn budget surplus. Why? Because it doesn't "spend lavishly on welfare or tolerate public disorder" and migrants who arrive can get jobs "off the books". As states such as New York and Illinois shed jobs in manufacturing and tech, they are being offset almost entirely by new jobs in government, social assistance and healthcare. Of the 2.8 million jobs created nationwide last year, 56% were in these sectors. Washington's bet is that "spending on welfare and entitlements" can power the labour market, but "social make-work projects" don't improve living standards" – and Americans know it.

Why rich Indians fear a soaking

Henny Sender
Nikkei Asia

The acronym ICED (which refers to income tax, the Central Bureau of Investigation, the Enforcement Directorate of the Department of Revenue) is "shorthand" for why rich Indians are taking their money out of the country at a time when India's prospects have never seemed "brighter", says Henny Sender. With 20 companies now accounting for 80% of the profits of corporate India, a super-rich elite now fears "being ICED". While outflows are partly attributed to "prudent diversification" and are nothing like "Chinese-style decamping", a lack of compliance with tax regulations, fear of being caught and an underlying lack of confidence in the government may play a part. Rules on "declaring income, spending money abroad or taking funds overseas are granular, complicated and intrusive", and this encourages evasion. The government is also collecting "unprecedented amounts of data" and going after those it suspects of violations "with grim determination". The rich can easily get round the official annual limit of $250,000 by disguising outflows as business transactions. Whether Narendra Modi's predicted "thumping" electoral victory in 2025 will reassure or further alarm India's wealthy elite "remains to be seen".

We don't need such huge cars

Alexander Hurst
The Guardian

There are lots of good ideas and trends that cross the Atlantic, but "oversized passenger cars" isn't one of them and Europe should be doing more to ensure that they stay in the US, says Alexander Hurst. In 2023, the average weight of a new American car was more than 2,000kg, 450kg more than in 1980. It should be "obvious that bigger, heavier cars are an ecological disaster". Without all the upsizing, global emissions from the motor industry would have fallen by 30% between 2010 and 2022. "The arms race in vehicle size is also a safety disaster." What are your chances if you are in a Mini, or are a small child and are involved in a collision with a 3,175kg Dodge Ram? In the US, deaths in car crashes rose 33% between 2011 and 2021, while pedestrian deaths have risen by 77%. The mayor of Paris has proposed tripling parking rates for heavy SUVs in central Paris, affecting around 10% of cars. France also applies a €10/kg tax above 1.8 tonnes, although electric vehicles are currently exempted. In Europe, fortunately, you would need a trucking licence to drive Tesla's 3,080kg Cybertruck (see right). Such obstacles are a start, but "we need bolder regulation to redirect the automobile industry towards smaller instead of bigger".

Money talks

"For some people, £140 is nothing... do we want the West End to become this huge corporate tanker? I'm not ripping anyone off. The people who are spending £140 to buy a ticket – they can get one for much less or they can go and see another show."
Actress Kristin Scott Thomas (pictured) notes that richer theatregoers subsidise cheaper tickets, quoted in the Financial Times

"I like buying things really cheaply... It's always good to buy shares when they get to a low point and the Tory party share value is nowhere near its bottom."
Nigel Farage, quoted in The Mail on Sunday

"You know, 87% of my union doesn't have health insurance because they make less than $26,000 a year."
Academy Award-winning actress Jessica Chastain, who participated in the US actors' strike of 2023, quoted in the Evening Standard

"I'm living so far beyond my income that we might almost be said to be living apart."
E.E. Cummings, quoted in The Times

"I didn't realise until recently how much my parents sacrificed for their five children. My father was a... lawyer and my mother was [an] English teacher. But they sent... us to independent schools – and the fees were considerable. I now realise my father had money worries all his life. One of my lasting images of him is sitting in the kitchen... poring over the bills, trying to work out which to pay first."
Broadcaster Gyles Brandreth, quoted in The Observer

"The idea that money doesn't buy happiness is a lie put about by the rich, to stop the poor from killing them."
F. Scott Fitzgerald, quoted in The Times

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The new US trade consensus

©Getty Images

Robert Lighthizer: the Trump trade official who changed the world

foreignaffairs.com

If the era of hyperglobalisation started in 1995, with the creation of the World Trade Organisation (WTO), its "death throes" began in early 2018 when then US president Donald Trump started raising tariffs on the imports of Chinese goods, says Gordon Hanson. By the end of 2019, the world's two largest economies were in "open trade war". Trump's successor has done nothing to change direction. The man most responsible for this is Robert Lighthizer, Trump's US trade representative. He has been the "most consequential" US trade official of the last 30 years.

Shaky assumptions

What was he thinking? That is laid out in detail in his "captivating, if at times exasperating", new book, *No Trade Is Free*, and is a reminder of the "shaky assumptions that underlie the new trade consensus". Lighthizer grew up in the Rust Belt in Ohio, a fact he invokes to explain his belief in the importance of factories, manufacturing and blue-collar work, both for the prosperity and strength of the nation, and with respect to the dignity of labourers. Import tariffs are the means with which to nurture and protect this economic vitality, and the job of the US government, says Lighthizer, is to make trade deals on the most favourable terms possible for US industry. Favourable trade deals are defined as those that shrink the US trade deficit.

Lighthizer has a point. Scholars from across the political divide agree on the need to foster honest work that builds self-worth and strengthens community. And it is true that manufacturing offers "many of the choicest jobs", with better pay than most other sectors. Import competition has in fact hurt US factory workers and their communities.

But Lighthizer's proposed remedies will do no good. Raising tariffs, or the threat of doing so, squeezes imports, but the result is a redirection of resources to national production, not a boom in exports. They do not therefore necessarily change the trade balance. They do, however, raise prices for US consumers. And the simple truth is that the US has little comparative advantage in most areas of manufacturing. If the US continues down this path of "trade unilateralism", it will not only harm its economic prospects, but also destabilise the global alliances and institutions it spent seven decades building. It is not even likely to restore US manufacturing, certainly not to its past glory. "However hard it may be for Lighthizer to accept, the future of American prosperity lies in the service sector, not in the furnaces and assembly lines of the past."

France's secret weapon

bloomberg.com/opinion

Americans like to jest that there is no French word for "entrepreneur" – but "the joke may be on them", says Tyler Cowen. The French government knows it has a winner in its highly regarded artificial intelligence firm Mistral AI, which may be one reason why the EU's new regulations contained no ban on open-source AI. France, and Paris in particular, has a "fairly dynamic start-up scene". And if you think technology and AI are the keys to the economic future, France is holding some important ones. The country has other economic strengths, not least a thriving nuclear-power sector. But perhaps most important of all is its long tradition of civil service. That has been a mixed blessing in the past, but French bureaucrats have an "impeccable education and internal culture", and are coming into their own in the age of war and conflict and rising populism, which demands responsible and competent management to navigate the turmoil. Despite Covid, soaring energy prices, inflation, rising interest rates, the Ukraine war, labour strikes and protests, and migration crises, France has avoided a credit downgrade and continued to create jobs. "The bureaucracy that was once a hindrance to France may now turn out to be a comparative advantage."

Cult game will bring in billions

bbc.com/worklife

It's been condemned by Britain, Germany and France, and banned in Brazil, says Eric Alt. Its "violence and vehicular mayhem" has "drawn the ire" of campaigning organisations. But Rockstar Games' "wildly successful" *Grand Theft Auto* has a cult following and its return in 2025, with *GTA VI*, is expected to be a spectacular financial success.

GTA V had sold more than 190 million copies by September 2023, bringing in revenue of £623m. It had the best opening week of sales in video-game history, earning £1.2bn in just five days. All told, the franchise has earned more than £6.4bn

©Rockstar Games

since 2008. So expectations for *GTA VI* are high. It will be staking its claim to a growing industry. By the end of 2023, total revenues were expected to hit £199bn. The popularity of "esports" and games that are free to play, and the expansion of tie-in products such as drama series based on the games, is broadening the market. Some speculate that a record amount will be spent on the development and marketing of *GTA VI* – perhaps £1.6bn. Yet that could be a "savvy investment" – pundits expect it "to clear £1bn in its first 24 hours".

Driving through the apocalypse

usa.streetsblog.org

After years of delays, Elon Musk's Tesla Cybertruck, which looks like an "apocalypse bunker on wheels", is finally on sale, says Kea Wilson. It is an exemplar of all the "worst impulses" of the motor industry.

"Pretty much everything" about the car has been "maximised for pedestrian extinction" – it is huge, weighty and has a deadly hood design, and can accelerate faster than most Formula One cars, but silently and with a driver likely to be distracted by the car's infotainment system. It gives buyers a false sense they're doing good for the planet, when the reality is that the trucks are an "astonishingly inefficient use of precious battery materials". And for all the promotional footage of the truck tearing through unspoilt countryside, the reality is that most will sit on the drive and do the odd trip to pick up groceries. The "shatter-resistant armour glass" and "BioWeapons Defence Mode" are meant to give the impression the car will drive you safely through the apocalypse. Better would be to "take a hard look at who's cheerleading the apocalypse in the first place".

Shake off stagnation and go for growth

Britain is stuck in a rut and needs pervasive reform, says Julian Jessop. There are four major areas we need to target and, in each case, success will require fundamental changes in mindset

One positive legacy of the brief premiership of Liz Truss is that politicians are finally talking about the importance of economic growth. Unfortunately, there is little agreement on how to turn this talk into action. My manifesto would be based on four priorities: rebooting productivity; removing blockages that add to the cost of living; improving the quality of public services; and encouraging more people back into work. All will require fundamental changes in mindset. But first, it is essential to appreciate the scale of the problems.

Truss put growth back at the top of the agenda by setting an ambitious target of 2.5% for the annual increase in GDP. This growth rate would have been unremarkable in the 1980s, 1990s and most of the 2000s. But since the global financial crisis (GFC) of 2008, the UK economy has grown by an average of barely 1% a year.

A mountain to climb

Perhaps mindful of this, Rishi Sunak watered the target down to a promise merely to "grow the economy". However, even this low bar is not being cleared. UK GDP was flat in the second quarter of last year and contracted marginally in the third. The latest monthly data suggest it was still falling in October. This did not quite meet the standard definition of "recession", which is two successive quarters of falling GDP.

The latest surveys also suggest that the economy picked up a little in the final months of 2023. Still, if the data are adjusted to allow for population growth, GDP per head has now declined for two quarters in a row. On this basis, the UK is already in recession.

At least "Brexit Britain" is no longer an outlier. Before 2016 it was popular to blame almost any problem in the UK (real or imagined) on our membership of the EU. Now it seems that Brexit is the scapegoat for every ill. In fact, the eurozone is also stagnating. Indeed, the US is the only major economy that did not stall in 2023. But this is, of course, no comfort to those struggling here.

So, what needs to happen for GDP to start motoring again? There are good reasons to think that the UK economy will at least move up a gear this year. In particular, tumbling inflation could be a game changer. The Bank of England will be able to take the foot off the brakes as inflation continues to fall more quickly than it predicted. Bond and equity markets – and mortgage rates – have already started to price this in.

Looser fiscal policy should help too. Lower inflation and lower interest rates could save as much as £20bn on the annual cost of government debt. Jeremy Hunt will therefore have more firepower for pre-election tax cuts and spending sweeteners in the Spring Budget.

My guess (no more) is that he will cut the basic rate of income tax. This may only hand back some of the Treasury's windfall from the freeze on personal allowances. But it would be on top of the cuts in national insurance contributions announced in the Autumn Statement, which take effect from 6 January. However, this will not be enough to shift the economy into the fast lane – and keep it there. Growth needs to be sustainable, rather than just a sugar rush. This is reflected in the Labour Party's version of Truss's growth target, which is to "secure the highest sustained growth in the G7". But how to achieve this?

"Had output per hour worked kept growing at its pre-2008 trend, it would now be 25% higher"

The key to the puzzle

This is where my four priorities come in. The first of these is the need to reboot productivity. The Nobel Prize-winning economist Paul Krugman once famously said that "productivity isn't everything, but in the long run it is almost everything". He was surely right. Productivity is a ratio of outputs to inputs, such as output per hour worked (a measure of labour productivity). If workers are more productive, they are worth more to their employer and so can command higher wages or work fewer hours for the same pay.

Productivity gains allow economies to grow without using more resources. It may often be possible to do more with less. This raises living standards, increases tax revenues, and can deliver better public services, while still protecting the planet. Alas, the UK's record on productivity since the GFC has been even worse than that on growth. If output per hour worked had continued to grow at its pre-crisis trend, it would now be around 25% higher. Translate that shortfall into real incomes, or living standards, and the scale of the problem becomes even clearer.

True to form, economists disagree on the solutions to this productivity puzzle. Some think we may just have to accept that growth has shifted to a slower path, whether due to diminishing gains from IT and globalisation, or the increasing constraints of climate change and an ageing population. A few have gone further and argued that advanced economies should give up on growth altogether. They advocate simply redistributing the wealth we already have, as part of a "de-growth" agenda. This seems even more defeatist.

If there is a consensus, it is on the need for more investment to raise the quality of UK infrastructure, technology, skills and training. Some of this may need to be done by government. This may require more flexible fiscal rules that distinguish properly between capital projects and day-to-day spending. There is also still some role for industrial policy. The UK should not try to compete with the US or the EU in a subsidy race. If overseas governments want to lower the prices of products that we can then import, then why not leave them to it? Nor should the government be in the business of picking winners.

However, Kemi Badenoch seems to have found a sensible middle ground at the Department for Business and Trade: focusing on lowering costs rather than increasing subsidies, but still willing to spend a little public money in areas where there this could leverage much larger amounts of private investment. Senior Labour figures have talked along similar lines.

Indeed, most of the new investment can and should be done by the private sector. The UK government has a dreadful record on big projects (just think HS2). Instead, the emphasis should be on creating the conditions under which private businesses are willing to take on more risks.

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Labour's shadow health secretary Wes Streeting (third right), with shadow chancellor Rachel Reeves, seems ready to grasp the nettle on NHS reform

These conditions include business taxes that are low, simple, and predictable. Making the full-expensing tax break for some types of investment permanent was an important step forward here. But mostly the UK has been going backwards. This is typified by the six percentage-point jump in the main rate of corporation tax and arbitrary windfall taxes on "excess" profits. Much more should also be done to reduce the punitive marginal rates of income tax that many people face as their earnings increase.

The second priority is to remove the blockages keeping the cost of living high. Inflation is mainly determined by monetary factors. But many prices are much higher than they need to be because of poor government policies. An obvious example is planning restrictions that hold back house building, driving up both prices and rents. Another is the design of net-zero policies that actually make energy supply less secure, and obvious flaws in the ways that electricity prices are set. Many sin taxes are also well above levels that could be justified by any costs imposed on others.

Service with a snarl

The third priority is improving the quality of public services. The Institute for Government, a think tank, publishes a regular performance tracker for the NHS, schools and police, among others, which makes grim reading. Some might say this is just about funding, or the lack of it, and blame austerity.

But the bigger picture again comes back to productivity. Output per hour worked has at least continued to increase in the private sector, but it has lagged far behind in public services. The NHS in particular is now treating fewer patients than it was before the pandemic, despite a huge injection of cash and many more doctors and nurses.

There are many factors at play here. One is a lack of competition. It is no coincidence that sectors where market pressures are strongest also tend to be those where productivity gains are greater. Another is the reliance on the Treasury for crucial capital spending. We can debate the right amount of public investment in new hospitals or schools. But any business model that depends on political choices will always be vulnerable to underfunding – or wasteful spending.

High rates of trade union membership (and more militant unions) are surely a factor too. This is reflected in the increased number of strikes in the public sector, and greater resistance to change, even though higher productivity is the best way to justify bigger pay rises. All these factors probably contribute to the slower adoption of new technology. The scope for artificial intelligence to transform the provision of public services must be huge. Jeremy Hunt is at least on the case here. Labour's Wes Streeting also appears ready to grasp the nettle on NHS reform. But there is a lot of catching up to do.

My fourth priority is to encourage more people back to work. A key factor holding back the UK economy is that rates of participation in the labour market have failed to recover from Covid, with a notable rise in the number of people on long-term sickness benefits. Delivering on the first three priorities will go a long way here. For example, higher productivity and lower taxes will help make work pay. More housing will make it easier to move to where the jobs are. A better NHS will help those with health problems to return to work too.

But labour markets must remain flexible: witness the campaign against so-called zero-hours contracts, which are simply a flexible form of working that creates more opportunities for people who might otherwise not work at all. Most of this may sound obvious. There also seems to be an encouraging amount of cross-party consensus on many of these issues. For instance, the Conservative and Labour parties are not far apart on the need for planning reform and more house building.

"The Tories and Labour are not far apart on the need for planning reform and more house building"

But this brings me to my final point – the need for fundamental changes in mindsets. The first instinct almost always seems to be to find a policy lever to pull that involves more state intervention, rather than less. In many cases, policymaking is actively anti-growth.

Examples include repeated subsidies to first-time buyers rather than actually building more houses, perennial calls to save the traditional high street rather than letting consumers vote with their wallets, and the growing tendency to over-regulate anything that might be new or risky. It may be wishful thinking to hope this will change much before the general election. In fact, policies are even more likely to be based on how they play with focus groups, rather than their real merits. But in the meantime, lower inflation should at least buy a little breathing space for growth to recover.

Julian Jessop (@julianhjessop) is an independent economist.

Fintech has found its feet

Once a niche sector, it blossomed and went mainstream in 2023

David C. Stevenson
Investment columnist

Almost everyone has a digital banking app now

©Getty Images

Last year financial technology (fintech) finally went mainstream. Here are some examples that underline my case. Exhibit one: stockmarket indices. AI-focused equity indices had a superb 2023. Investment group WisdomTree, for instance, has an AI-focused exchange-traded fund (ETF) tracking a specialised index. In 2023 it rose by almost 50%. But the fintech news website AltFi runs a similar stockmarket index for global fintech firms. It gained nearly 60% last year.

Then there is exhibit two: AltFi runs an annual awards ceremony for the most innovative fintech companies. Can you guess which provider won the award for the best digital bank in 2023? Chase UK, a brand also known as JPMorgan Chase, which happens to be one of the world's largest banks, and a late convert to the potential of fintech. Its digital banking app Chase has been an enormous success, and is giving the likes of Revolut, Monzo and Starling a run for their money.

Exhibit three: buy now, pay later (BNPL). Wander around the high street in my small Hampshire town and you'll see a new sticker plastered on most cash tills proclaiming that you can space out your payments by using a BNPL app. The remorseless rise of BNPL has even attracted the attention of regulators worried about the rise of short-term debt among younger customers.

If fintech is going mainstream and everyone and their aunt now has a digital banking app of some kind – not to mention the long list of digital savings platforms that have hoovered up cash deposits – what's left to innovate with in the coming year? I would keep a watchful eye on the credit card subsector. New products such as the Curve app are emerging, heavily influenced by the BNPL movement, alongside more rewards-based ideas.

Opening doors

The ascendancy of fintech has also helped ensure that private investors have gained access to UK Treasury bills. The UK Treasury has long sold very short-duration Treasury bills to institutional investors (with a duration of a month for each bill). For many years, the interest rate on these bills was almost imperceptible, but now that we have entered an era of higher interest rates these short-duration bills are a worthwhile investment, with recent yields above 5%.

This is where the upstart online broker Freetrade comes in. Fresh from its campaign to ensure that UK investors can still hold fractional US shares within a UK individual savings account (Isa), the platform last month launched a service whereby UK investors can keep investing in UK Treasury bills on a rollover basis and generate a very secure, high yield. Democratising access to investments once the preserve of institutions is exactly the sort of innovation that fintech platforms were designed to provide.

Savings rates to beat inflation

For two years it has been impossible to earn a big enough return on cash savings to outpace inflation. In terms of spending power, then, your savings have been shrinking despite earning interest. For example, at today's inflation rate of 3.9%, £20,000 in a savings account earning 3.15% will produce £630 interest a year, but you would lose that sum in addition to another £144 annually in real terms.

However, the good news is that there are now several bank accounts where you can earn enough interest to beat inflation. The top-paying easy-access account is offered by Metro Bank and pays 5.22%, well above inflation. But this account includes a 3.46% bonus rate for the first year. So, after 12 months you will need to shift your cash.

If you have more than £20,000 to save and are a basic-rate taxpayer you'd incur a tax bill with the Metro Bank account. This is because you would exceed your Personal Savings Allowance (PSA). A higher-rate taxpayer would receive a tax bill if they deposited more than £10,000 in the account.

So if you have a large amount over £20,000 to save over multiple years, put it in an Isa instead. You can pay up to £20,000 a year tax-free into Isas. The top rate available on an easy-access Isa is 5.11%, from Metro Bank again. But if you can give 180-days' notice before a withdrawal you could get 5.25% from Teachers Building Society. Or you could get 5.25% on Virgin Money's one-year fixed Isa.

Pocket money... pet insurers forced to pay out

● Anyone can give away up to £3,000 a year without becoming liable for inheritance tax (IHT). The gifting allowance means you can hand cash to friends and family, and it is immediately out of your estate when it comes to future inheritance tax calculations. However, the allowance is overdue an increase, says Rachel Mortimer in The Times.

"Families are paying a record amount of inheritance tax... and the value of the one-off tax breaks for gifting has been dwindling rapidly – they have not changed in more than 40 years." The £3,000 gifting limit hasn't changed since it was introduced in 1981. Had it risen with inflation, it would be worth just over £11,000 today.

● The Financial Ombudsman Service (FOS) has received many complaints in the past year from owners saying their insurance claims were denied owing to their pet's size, says James Fitzgerald in The Telegraph. Insurers had insisted that the illness or injury was due to the pet being overweight.

But "after reviewing all of the claims, many of which included vet reports saying being overweight had nothing to do with the treatment, the FOS ordered the insurance firms to pay out to claimants".

● Victims of authorised push payment (APP) fraud will be able to claim "most of their money back", says Martha Muir in the Financial Times. From next October victims of this type of fraud will be able to claim up to £415,000 back from their banks or other payment service providers.

Types of APP fraud include online investment scams and people being tricked into sending money to fraudsters pretending to be friends or a corporation.

● The number of first-time homebuyers has hit a ten-year low, says ITV News. The Yorkshire Building Society estimates that 290,000 first-time buyers bought a home with a mortgage in 2023, down 21% on 2022.

Borrowers are struggling "to meet affordability requirements [amid] higher house prices, rising day-to-day costs and interest rates". The trend bodes ill for the entire sector, notes Ben Merritt, Yorkshire Building Society's director of mortgages. The market "relies on [first-timers], not least to support purchases higher up the chain".

How much risk can you bear?

Directors should think twice before waiving limited liability

David Prosser
Business columnist

Be sure you understand the details

©Getty Images

Small businesses planning for 2024 may be hoping to borrow to fund their strategies for growth and expansion. But overly cautious banks are too often demanding personal guarantees from the directors of companies arranging finance, warns the Federation of Small Businesses (FSB). It has filed a "super-complaint" with the Financial Conduct Authority, the City regulator, asking it to investigate such practices.

The FSB is particularly concerned that banks are targeting directors of limited-liability companies, where directors are largely protected from personal liability for debts incurred by their firms. When a bank demands a personal guarantee from the directors, this undermines the protection that the limited-liability structure is supposed to provide.

Some businesses may decide this is a risk they don't want to take, hampering their ability to grow; others may go ahead, putting the directors in a vulnerable position. The FCA will respond to the complaint in the coming months. But in the meantime, should small-business directors ever provide a personal guarantee in return for bank finance?

"The Federation of Small Businesses has called for an enquiry"

There isn't a right or wrong answer to this question, but it is vital that you do not sign up to such arrangements without understanding all the implications, including the fine print of the financing. In practice, this makes it important to seek independent legal advice on the loan contract.

Above all, you must recognise that by signing up to a personal guarantee, you are promising the lender that you will take responsibility for the debt of the business if it can't pay what it owes. That gives the lender the right to come after your assets – typically without a court order – if the business defaults. Those assets could even include your home. Moreover, if you don't have sufficient assets to repay the loan in full, you could face bankruptcy and disqualification from serving as a director for a period. Even if you can cover the losses, your personal credit rating will be adversely affected, with potential consequences for the rest of your family finances.

If you do decide to accept a personal guarantee, study the terms carefully. For example, under what circumstances can the lender call the guarantee in – how does it define a default on the debt? Are you required to indemnify the lender against additional costs? How will defaults be enforced, and what assets could the lender demand from you? What rights does the lender have to demand immediate repayment of its loan?

In an ideal world, you may be able to avoid these difficulties by offering company security in return for finance, rather than your personal assets. If not, your legal team may be able to secure some protection – a limit on your personal liability, for example, or commitments that calls will only be made on the guarantee as a last resort. The question of how liability will be shared by several directors should also be assessed.

Finally, it may be worth considering personal-guarantee insurance. This cover, available from specialist small-business brokers and insurers, pays out to help directors repay the company's debt without having to give up their own assets. It effectively underwrites the personal guarantee you're being asked to provide.

This cover can prove very valuable, particularly if your business suffers something completely unexpected that causes it difficulties. However, the premiums can be expensive, particularly for firms with weaker finances.

Tax tips for the self-employed

Self-employed workers and small-business owners operating as sole traders have until 31 January to file their self-assessment tax returns for the 2022-2023 financial year, and to pay the remaining income tax they owe for the year. But while that tax year finished last April, there are still things you can do to cut your bill.

Firstly, if you are eligible, make sure you are claiming back higher-rate tax relief on the personal pension contributions you made during 2022-2023. Pension companies claim basic-rate relief on your behalf but won't usually claim any higher-rate relief you're owed. If you're a higher-rate taxpayer, this will reduce your tax bill by 20% of your total contribution for the year. Next, check your allowable expenses: every single running cost incurred by your firm, which you can use to reduce your taxable profits. HMRC publishes a long list of examples on its website, many of which you may have overlooked. You may even be able to claim a proportion of costs incurred at home, if you regularly work there.

Thirdly, go over your donations to charity for 2022-2023. You're entitled to Gift Aid on all of them, which will again reduce your liability. You can also make further gifts until 31 January and apply to have these counted as having been made in the 2022-2023 tax year. Finally, double-check previous tax returns, looking for obvious errors or omissions that led to you paying too much. You can claim a refund for any overpayments made in the last four tax years.

Petty cash... set rules for home-workers

● Thinking about new year resolutions for your business in 2024? If so, making shopping around for a better savings account could be a sensible option, particularly if you hold sizeable amounts of cash in the bank or building society. Research published recently by Allica Bank found that small businesses are missing out on £7.5bn of interest each year because they are not with providers that pay decent rates.

● Small businesses are usually eligible to ask their energy provider to install a smart meter, but using one is not compulsory. Recent controversies, including a case where artist Grayson Perry was hit with a £39,000 energy bill, have highlighted the ongoing problems with smart meters. Energy companies say the devices can help both companies and consumers manage their energy consumption more effectively. But some groups point to problems with smart meters, particularly where there is lack of access to internet connectivity.

● With the debate about remote working continuing, more small businesses may need to agree formal policies for staff, employment lawyers warn. Larger employers are increasingly setting out clear rules on remote working, governing how many days – and when – they expect staff to make an appearance in the office. Fewer than half of small companies have put such policies in place, research reveals, leaving them at risk of increasing tension and potential disputes.

Make your portfolio pop in 2024

The market is overlooking Laurent-Perrier's status as a top Champagne producer

Rupert Hargreaves
Investment columnist

Research shows that illiquid stocks tend to perform better over the long term. This is particularly true for companies with a large main shareholder or group of associate shareholders, such as a wealthy family. There are two reasons why this tends to be the case. Firstly, shareholders who own a large proportion of a firm tend to have a longer-term outlook than individual shareholders, and they are less likely to dump and run when the company misses its quarterly numbers.

It's also far harder to find a buyer for large blocks of stock; it is not a straightforward case of an ordinary investor selling a few thousand shares. Companies with owner-operators (where the majority investor or investors also call the shots in the day-to-day running of the firm) also tend to make long-term investment decisions. If you want the family to own a business and plan to remain CEO for three or four decades, you can make investment decisions today that will take decades to pay off.

The average public company's CEO does not have the same luxury. They know they have to achieve results relatively quickly, within a couple of years at most, or shareholders might get fed up and start pushing for change. Activist investors may also swoop on the business and vote out the CEO or the board. If a family owns 50% of a company, an activist will struggle to build a big enough stake to drive significant change. LVMH, majority-owned and run by Bernard Arnault and his family, and Berkshire Hathaway, still majority-owned by legendary US investor Warren Buffett, are two excellent examples of the above in action. Both companies have been fantastic investments, partly because they can make long-term investment decisions.

The brand accounts for 3.6% of the global market

©Alamy

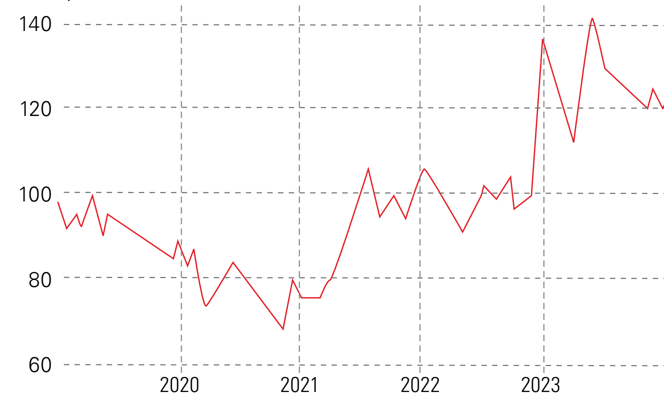
Look to Europe

Europe is the perfect hunting ground for relatively illiquid, majority family-owned businesses exhibiting the qualities I have outlined above. France has several of these businesses, which tend to fly under the radar as they are often relatively secretive and require some work to dig into. Coverage by analysts is rare and in most cases only a few thousand shares change hands every month. **Laurent-Perrier (Paris: LPE)** is the perfect example. The company is one of the world's largest Champagne producers and remains majority-owned by its founding family, the de Nonancourt family.

Marie-Louise Lanson de Nonancourt bought the Tours-sur-Marne-based Champagne maker that would become Laurent Perrier in 1938. Marie-Louise's son, Bernard de Nonancourt, took the business over and expanded it. By 2005 it had become the world's third-biggest seller of Champagne. Today, the de Nonancourt family owns 65% of the shares and 78% of the voting rights.

Champagne producers are an interesting investment opportunity as their product is protected. Buffett has often spoken about why it is essential for a brand to have a "moat": a quality or product that would be hard for competitors to replicate, such as a unique recipe, technology or brand value. When it comes to Champagne, the name is protected by law.

Champagne may only be called Champagne when it is bottled within 100 miles of the Champagne region in France, giving these producers a unique edge. Here, supply and demand dynamics come into play. Demand has risen as the rich (and middle classes in wealthy countries) have become richer and spent more on luxury products, such as Champagne, but supply is fixed by French law. That suggests prices will have to rise to offset higher demand and limited supply.



A premium player

Back to Laurent-Perrier: the business is smaller than it was. It's a top-ten producer today, having lost market share as the industry has diversified and newer producers have entered the market. Today, Laurent-Perrier makes up 3.6% of the global Champagne market, but its average selling price is higher than that of its peers.

And it's not the only public pure-play Champagne company. Lanson and Vranken Pommery also trade on the Paris stock exchange. Both are still majority-owned by their founding families at 87% and 71%, respectively. Laurent-Perrier has a higher gross margin than both, just under 60%, compared with a respective 45% and 26%, although these margins fluctuate as all producers buy in a percentage of their grapes every year.

The margin depends on the price paid for grapes on the open market. Laurent grows 10% of its own grapes and buys in the rest, a figure below the industry average of 20%, suggesting it is more exposed to price spikes. But the higher profit margin provides more of a cushion against changes in the market price.

Despite its attractive fundamentals – earnings have tripled since 2013 – the stock looks cheap today. It is trading on a forward price/earnings (p/e) multiple of 12.4 and a price-to-book (p/b) ratio of 1.3. This suggests the market is ascribing almost no value to the Laurent-Perrier brand.

The book value is mostly cash and inventories, grapes and vintage Champagne, as well as land – all tangible assets. After subtracting the value of these assets, the market is valuing the brand at less than €100m, cheap for a business turning over €300m a year. For the right price, the founding family could be convinced to sell, and €100m isn't much for a larger player such as Diageo or LVMH.

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- A full day excursion to Milan

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- A visit to the Mevlana Museum
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- A full day tour of the ancient cities of Side and Aspendos

Holiday Departure Months

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

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Income investors should go global and profit from long-term growth sectors

A professional tells us where he'd put his money. This week: Richard Saldanha, lead fund manager for the Global Equity Income strategy at Aviva Investors

The equity-income landscape has changed materially over the past two decades. Dividends used to be concentrated in certain traditional income-paying sectors – think healthcare, consumer staples, banks, and commodities. Now you can find many dividend-paying firms in non-traditional areas such as technology and industrials. This means that investors can profit from companies underpinned by secular growth trends, such as artificial intelligence (AI) and electrification.

We focus on these non-traditional income sectors, seeking companies with sustained competitive advantages that we believe will translate into strong free cash flow and dividend growth. A disciplined approach to portfolio construction can also help deliver resilient returns over the long term. We highlight three compelling opportunities for income investors.

Semiconductors powered by AI

Broadcom (Nasdaq: AVGO) designs and develops semiconductor chips that go to a variety of markets, such as networking equipment, servers, mobile phones and even industrial processes. The firm is benefiting from a greater focus on AI as it manufactures what are known as custom silicon chips, which are able to handle the complex and high-speed requirements for AI workloads such as large-language models. The biggest customers are the likes of Google and Facebook-owner Meta. The company has also been building up its infrastructure-software division.

Broadcom has delivered stellar growth in free cash flow, underpinning a 20% annualised growth in its dividend over the past five years. Despite these tailwinds, the stock trades on a forward price/earnings (p/e) ratio of less than 20, far lower than some semiconductor peers also seeing a boost from AI.

"Broadcom's biggest customers are Google and Meta, the owner of Facebook"

Elevated returns and escalating dividends

Otis Worldwide Corporation (NYSE: OTIS) is one of the world's top manufacturers of escalators and elevators. They transport two billion people worldwide every day; you probably travel on one of their products on your commute. What excites us the most about this business is the high degree of recurring revenue it receives from the service and maintenance of their existing installed base (more than two million units).

This comprises nearly 75% of Otis's overall profits and means that the business is resilient even in

Escalators and lifts made by Otis carry two billion people worldwide every day

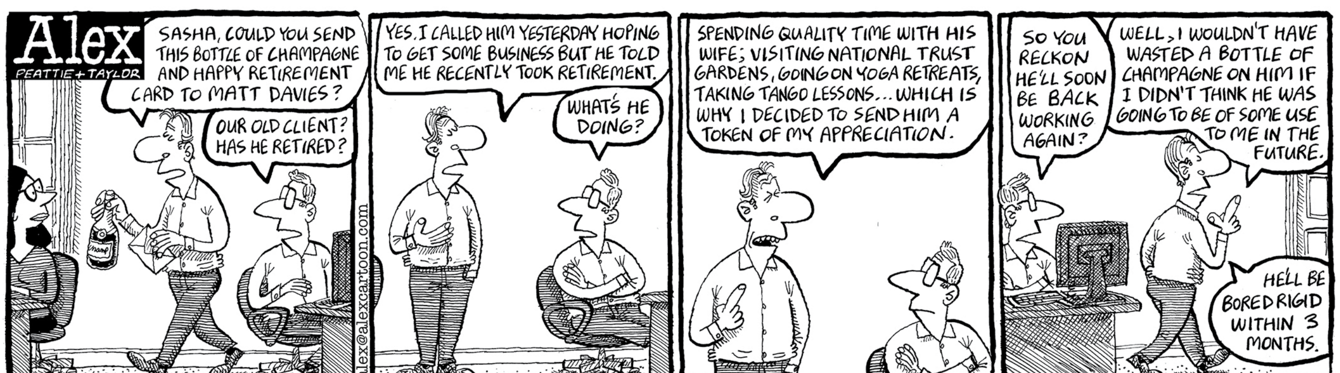
©Otis

downturns; customers need to maintain their lifts and escalators as they are critical to daily life. The firm was spun out of United Technologies in 2020 and has since displayed impressive growth in cash flow, which has supported a 30% annualised increase in the dividend.

Electrifying growth prospects

Schneider Electric (Paris: SU) makes electrical equipment such as circuit breakers, switches and transformers. It also boasts a strong offering in industrial automation, where it produces software and hardware that helps companies automate processes across a range of industries. Schneider is seeing powerful tailwinds from the focus on energy efficiency as well as electrification of buildings and transport.

It also offers products that help with optimising electricity-grid networks, which is key to facilitating the energy transition. Around 20% of revenue stems from data centres, where we are seeing enormous investment to help support the higher power demands of AI server chips. Schneider pays a consistent and growing income stream and we think its prospects remain bright.



The fairy-tale rise of a panto villain

Michelle Mone liked to portray herself as a working-class heroine who worked her way to the top through grit and determination. But her pedestal was built on sand. Jane Lewis reports

In the summer of 2021, when a traumatised Britain was enduring a third wave of Covid infections, the Conservative peer Michelle Mone posted a photograph on Instagram of herself and husband Douglas Barrowman in the Mediterranean on board their new luxury yacht, Lady M. She captioned it: "business isn't easy, but it is rewarding".

She was right about that, says Marina Hyde in The Guardian – "provided you're shameless and grasping enough" to "fast-track" your way into winning a £203m contract to supply masks and other PPE products to the NHS and clear at least £65m in profit, even though much of the kit was allegedly unusable.

Mone, who made her first fortune via the lingerie company Ultimo, lied repeatedly for years about her role as a "plague profiteer" and threatened to sue journalists who pursued the allegation, before outing herself just before Christmas in an "absolute disaster class of an interview" with the BBC's Laura Kuenssberg.

What jarred most was her claim that she was the victim. It was pure panto, says The Sunday Times. Mone "stepped into the role" of villain "with the kind of aplomb that comes from spending much of your career posing in your underwear". By Christmas Eve, she was comparing her plight to that of the Colombian drug lord Pablo Escobar after the National Crime Agency froze her bank accounts.

With civil suits also pending from the Department of Health, and several newspapers demanding the repayment of legal fees, Mone is feeling the heat in her Isle of Man hideaway – chosen, her husband told Kuenssberg, because "I don't want anyone in the press to know of any business activity or anything I get engaged in".

The government is feeling the heat, too. Although stripped of the Conservative House of Lords' whip last year, there are now demands for Mone's complete removal, along with troubling questions about how she got there in the first place.

"It's been an extremely tough year of pain," says Mone, 52. But then she is also, in her own words, "a tough cookie" who, in a "fairy-tale" rise, battled her way out of "the mean streets of Glasgow", says the London Evening Standard. In her 2015 autobiography *My Fight to The Top* – penned at the height of her "working-class heroine" phase – Mone details growing up in a home with no bath and an outside loo. Her father was wheelchair-bound; her brother died in childhood of spina bifida.

Mone left school at 15 with no qualifications, but claims to have been a best-selling Avon rep by the age of 13, acting on behalf of her mother. Certainly, by her early 20s (by which time she was married and already a mother), Mone's business smarts seemed self-evident, says The Sunday Times. She landed a job with brewer Labatt and was swiftly promoted to head of marketing.

Beyond the soap opera

In time-honoured fashion, the setback of being made redundant at 24 proved Mone's great opportunity. She launched Ultimo in 1999 on the back of a gel bra and "burst into public consciousness" when she featured on the BBC series *Trouble at the Top*, documenting the company's many crises. Soon she was signing celebrities such as Penny Lancaster to model the underwear.

In 2004, she pulled off a coup by dumping Lancaster, Rod Stewart's wife, for his ex-wife Rachel Hunter – prompting Stewart to call her a "manipulative cow". At its peak, Ultimo was reportedly worth £50m, "although the whole gravity-defying business edifice always seemed as cantilevered as the gel-filled bras it sold".

Nonetheless, Mone's entrepreneurial credentials impressed David Cameron sufficiently to make her a life peer in 2015, and his "start-up tsar" to boot – even though her "rags-to-riches story" seemed to become "more fantastical with each telling".

The same might be said of many of Mone's other business claims, says the Standard – including her promotion of "quack weight-loss pills" and other hokey beauty products, and a later foray into a cryptocurrency scheme that went bust (not before Mone had comically declared herself "one of the biggest experts in cryptocurrency and blockchain").

Indeed, when you peer beyond the soap opera, her overall record is appalling, says The Sunday Times, not least because of her "parsimonious" relationship with the truth. "Mone is nothing if not a survivor", but it will be hard to come back from this one.

Elon Musk wannabe jailed for fraud

In 2018, the CEO of Nikola, an upstart company seeking to make viable electric- and hydrogen-powered lorries, released a promotional video of its prototype Nikola One truck, which appeared to drive under its own power, says Tech Crunch. In reality, it was rolling down a hill. That video sparked investigations by Hindenburg Research, which called the company a fraud. Last month, that drama came to a close when Trevor Milton (pictured), the disgraced founder and former CEO of the company, was found guilty of lying to investors about the development of Nikola's electric trucks in order to inflate the stock price, and was sentenced to four years in prison.

Milton, now 41, had ambitions to be the next Elon Musk – his company, like Musk's, was named after inventor Nikola Tesla – and like Musk was known for making grandiose promises on social media. He became an overnight billionaire, says CNBC, when he took Nikola public in 2020 through a special purpose acquisition company (Spac), formed to raise cash for a takeover – a process over which regulators have tightened up the rules.

But there's a very definite if thin line between "faking it till you make it" – a common strategy in tech – and fraud. The court ruled that Milton had crossed that line, and the judge and jury were unmoved by Milton's tearful pleas for mercy.

Milton, who grew up in Utah in a Mormon family, claimed his statements resulted from "deeply held optimism", and that his Mormon faith meant he was incapable of telling deliberate falsehoods. The judge told him that "the law does not grant a pass for good intentions".

The company's intentions of upending its industry remain, and it has sought reimbursement from Milton for costs and damages. But the road to success from here is steeper than the hill its trucks were rolled down. Investor analytics company Macroaxis says the firm is more than likely to go bankrupt, and in August the firm had to recall most of its battery-electric trucks when it was revealed they are at risk of bursting into flames, says Ars Technica. The shares now trade for less than $1, down from a peak of more than $60 in June 2020. But present CEO Steve Girsky remains upbeat. We're "in it for the long haul", he said.

©Shutterstock; Getty Images

Majestic Mègeve

Natasha Langan enjoys fine food and epic views at the Four Seasons Mègeve

©Four Seasons
The Alps are the ultimate winter playground

Alpine ski resorts were set for a bumper season late last autumn when snow arrived early. Yet the Four Seasons Megève in France is ideal at any time of year, so you don't have to hope for the snow when booking your stay. I was there at the end of September when only the very top of Mont Blanc was dusted with snow, the slopes were still green with the last of the summer flowers and the Abondance cattle were happily grazing on the lush grass with their traditional bells ringing out across the valleys.

French property developer Noémie de Rothschild developed Megève – a village nestled at the foot of Mont d'Arbois, with views towards Mont Blanc – as a ski resort in 1920. The Four Seasons Megève opened in December 2017 and it is the hotel group's first mountain property in Europe, sitting on a secluded spot ten minutes' drive above the town. The Edmond de Rothschild Heritage brand and Four Seasons have created a mountain retreat in the local style with ski-in ski-out access, an Alpine golf course and the region's largest spa, along with a variety of dining options.

Swiss meets Japanese

Restaurant La Dame de Pic – Le 1920, run by Michelin-star-winning chef Anne-Sophie Pic, was closed for the season. So we ate at Kaito, a Japanese fusion restaurant marrying culinary classics from Japan with local Alpine produce, including Lac Léman's fera – a lake fish delicious as sashimi, served with a Japanese cucumber salad. The Japanese classics were executed to perfection, from *eel nigiri* to shrimp tempura with an impressive array of sakes available to accompany the meal. The fusion offerings at first seemed a mistake, such as the *ají amarillo* (a Peruvian chilli pepper) fried *arancini balls* with spicy tuna tartare. But they were surprisingly delicious despite the Japanese-Italian-Peruvian mash-up. All of it was beautifully presented and extremely filling.

One dish I regret not trying was the magnificent-looking Peking duck, served with its traditional accompaniments. Plump and glossy, and carved at the table by the waiting staff, my neighbouring table assured me it was one of the finest versions of the dish they had tried.

Exploring the area

If Japanese food isn't what you're after, there is more traditional fare available. And, of course, you could always opt for dining in your room, where you can sit on your wooden balcony admiring the mountains. An alternative is to go into the charming Alpine town of Megève. It is buzzing at the height of the summer and winter seasons, with a variety of dining options, including upmarket and modern – and, naturally, there's traditional fondue. Be warned, though. Off-season, many of the restaurants and shops are shut, but enough were still open for us to sample local beer and we were there for the Friday market, where local food and artisan producers set up their stalls. That gave us a chance to try the amazing local cheeses – products of the lush grass eaten by the happy local cows. The hotel will drop you off whenever the mood takes you and there's an app to book a pick-up. Of course, when it's snowing you might also want to upgrade from a car to a horse-drawn carriage to transport you.

> *"Kaito marries Japanese culinary classics with local Alpine produce"*

Another alternative when it's not snowing is simply to explore the area. The lovely concierge at the hotel arranged for us to go hiking with Sabrina Duranceau, a local guide with extensive knowledge of the mountains and its flora and fauna. Her knowledge of plants and mushrooms for both culinary and medicinal uses was impressive, but it was her enthusiasm for the area, having grown up with the mountains as her playground, that was the real thrill. It was a unique chance to see the area through a local's eyes. If you're lucky enough to be there when it's snowing, she'll also teach you how to snow shoe or, for the more experienced, guide you through the Alpine ranges.

A relaxing finish

After all that hiking, I needed one of the hotel's signature spa treatments – "A Stroll Through Megève". It takes the Alps as its inspiration, starting with a pine-tree body exfoliation, followed by a hydrating pine-tree oil body massage and an organic edelweiss-extract facial. After 90 minutes of scrubbing and massaging, my skin felt amazing and my muscles unclenched from the mountain walk. I finished off with a welcome sauna and a swim in the indoor/outdoor pool with its stunning views. It was the perfect end to an energetic day.

The charming staff at the Four Seasons Megève are on hand to arrange a wealth of activities, from heliskiing to cookery classes. Then again, with its stunning location, you can always just sit out on the terrace with a cocktail and admire the breathtaking views – whatever the weather.

Natasha was a guest of Four Seasons Megève. Superior rooms cost from €600 in summer and €1,950 in winter. Fourseasons.com/megeve

Ferrari's new rocket sled

The Italian marque is taking its XX series of cars in a new direction with the SF90 Stradale

It's been almost a decade since Ferrari unveiled its last extra-special series "XX" car, based on the LaFerrari, says Matt Saunders in Autocar. These are highly tuned, experimental specimens designed for the racetrack. The Italian supercar-maker is thought to have made less than a hundred XX cars in total. So, in deciding to sell 1,400 of its latest model, the SF90 XX Stradale, it is making something of a departure from the original brief. But that also explains why Ferrari is making another exception – the XX Stradale is the only car in the XX series that is also legal on the road. Ferrari has set out to produce a car that delivers on all of the model's potential while being no less suitable for daily driving. In other words, simply "a better SF90".

Ferrari has tweaked the 4.0-litre twin turbo V8 engine and triple e-motor set-up to boost the SF90's power to 1,016bhp, says James Dennison in Car. On the combustion engine side, that has mainly come in the form of increased efficiency. And Ferrari has added something called "extra boost dynamics logic" to the electric motors, which translates into extra power in short bursts. The gear shifts are also more intense. However, the biggest improvements have been reserved for the aero department, most obviously in the guise of a "ginormous" fixed rear wing. This allows the XX to deliver "double the amount of downforce as the regular SF90, thus yielding faster lap times". The XX is "appreciably quicker in a straight line than the [unmodified] SF90 – which in itself is quite something". Top speed is "a heady" 199 mph and the XX races from standstill to 62 mph in 2.3 seconds, and to 124 mph in 6.5 seconds.

"The XX is appreciably quicker than the SF90, which is saying something"

Racing towards the £1m mark

On the Fiorano Circuit in Italy, the XX "excels" through the quickest corners, says Richard Meaden in Evo. "The car is working hard beneath you, but it feels supernatural." Braking is "impressive" and "it goes without saying that the XX is a rocket sled from apex to corner exit". On the road, "my sense is it should work just fine". But "if there's one thing that exceeds Ferrari's ability to make fast cars faster, it's the company's apparently limitless capacity to make money". Ferrari had the top-tier sub-hypercar market to itself until Lamborghini launched the Revuelto last year. Now, Ferrari has created another niche in pushing the supercar pricing threshold closer to the £1m mark. A coupé version of the XX Stradale costs £673,584 and the spider £744,000. "Yet more proof I should have studied harder at school."

See Ferrari.com for details.

Wine of the week: a bargain white to toast the New Year

2023 Oxford Landing Estates, Chardonnay, South Australia

£7.49, reduced to £6.49, until 30 January in 265 Waitrose stores

Matthew Jukes
Wine columnist

It is extremely unlikely that over the next 12 months of this brand-new year I will find another MoneyWeek-worthy wine that dips below the price tag of today's incredible beauty. It helps that Waitrose has shaved a pound off the new vintage of Oxford Landing Chardonnay in its January sale, so this is one of the least-expensive, epic-tasting wines ever featured on this page. This wine is one of the 100 Best Australian Wines in my 2023/24 Report, and I will be pouring this wine and a host of other beauties at my four regional 100 Best Festivals in March. Check out my website for full details and ticketing information on the largest and most exciting events I have hosted since I launched 100 Best 20 years ago.

While most Aussie wine has increased in price over the last few years as the global economy proves especially challenging, Australia is still the source of the finest value top-quality wines on Earth, and this 2023 chardy is the best six-quid wine. Pristine, perfumed, accurate and dry, a bottle of this wine retails at a lower price than one glass of most restaurants' house wines! It is insane value for money and will amaze you with its elegance and poise. If you want to spoil yourself, add another Aussie, 2018 Penfolds, Bin 311 Chardonnay (£29.99, reduced to £24.99 until 30 January in 28 Waitrose stores) to your order! A past 100 Best alumni, Bin 311 was a mainstay in a handful of my corporate wine-tasting events last year, never failing to blow tasters' minds, and that was before it was reduced to £25.

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

This week: properties in sunny winter boltholes – from a house on a 97-acre private island in The Baha

Angra Dos Reis, Rio de Janeiro, Brazil. A private island with a beach, a main house and a trail connecting the house and three bungalows to a common area with a swimming pool, a Jacuzzi, and access to the beach. 2-bed house, 3 x 1-bed bungalows, helipad, grounds. £8.93m Sotheby's International Realty +55 21 3500 0370.

Buttonwoods, Kamalame Cay, The Bahamas. A house on a 97-acre private island with spectacular sea views and direct access to the beach. It is built in a traditional style with white weatherboarding, multiple terraces and covered verandahs. 3 beds, 3 baths, recep, dining kitchen, gardens, grounds, 2.3 acres. £3m Knight Frank 020-7591 2646.

Wye Creek, Queenstown, Otago, New Zealand. An award-winning modernist house on the shores of Lake Wakatipu overlooking the lake and mountains. It has a large open-plan living area with a wood-burning stove, a separate media room, and an en-suite bedroom and sauna. 4 beds, 3 baths, open-plan kitchen/dining/family room, gardens, decks, terraces, 0.74 acres. £3.75m Sotheby's International Realty +64 21 199 7669.

amas, to a Caribbean-style ocean-front property in St James, Barbados

Castello Pacifico, Costa Rica. An Italian Palazzo-style house surrounded by tropical gardens on a promontory in Playa Flamingo, known for its white sand beaches. There is a central courtyard with a water feature, a 40-foot high teak veranda and a wooden staircase leading down to a secluded cove. 4 beds, 5 baths, kitchen, office, caretaker's house, courtyard, pool, gardens, beach, 1.24 acres. £3.6m Christie's International Real Estate +506 2654 4004.

Ocean Grand Estate, Dickenson Bay, St John's, Antigua. A luxurious beach house on the bluff of Orbison Point gated community with 24-hour security and boat docking. The house has open-plan living areas with floor-to-ceiling windows. 3 beds, 5 baths, library, kitchen, swimming pool, gardens, 0.56 acres. £4.93m Savills 020-7016 3744.

Villa Zazen, Cattlewash, St Joseph, Barbados. A modern stone, stainless steel and concrete villa on the east coast of Barbados. It has one main open-plan living and dining area with a state-of-the-art kitchen and two ground floor suites with lounge areas leading onto the terrace and swimming pool. 5 beds, 3 baths, office, balcony, dining area, fire pit, barbecue, grounds, beach access, 0.54 acres. £3.75m Knight Frank 020-3869 4758.

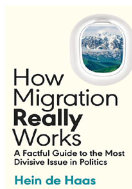
Cove Spring House, The Garden, St James, Barbados. A Caribbean-style ocean-front house in one of Barbados's most coveted areas. The house is built from coral stone and has a state-of-the-art fitness centre and access to a secluded private beach. 7 beds, 7 baths, catering kitchen, 2 receps, gym, media room, dining room, 3-bed guest house, swimming pool, gardens. £31.4m Hamptons International 020-8618 4551.

New Eden House, Friendship Bay, Bequia, The Grenadines. A three-storey beach-front retreat with a separate, renovated guest house connected by a small drawbridge. It is set in tropical gardens that include a swimming pool with a gazebo and beach access. 4 beds, 4 baths, 2 receps, breakfast kitchen, laundry, 2-bed guest house, pool with pool deck, gazebo, dining terrace with barbecue, beach hut, gardens, grounds, 2.65 acres. £2.1m Savills 020-7016 3744.

Book of the week

How Migration Really Works

A Factful Guide to the Most Divisive Issue in Politics
Hein de Haas
Viking, £25



There is at the present time no more controversial issue than immigration. From the debate over the Rwanda scheme in the UK, to the rise of the European far right, and Donald Trump ranting about immigration "poisoning the blood" of America, it's fair to say that this is a topic that is top of the agenda, or at least appears to be. It is also one in which sensible debate and analysis have been drowned out by increasingly shrill rhetoric, both from those demanding more controls and from supporters of a more liberal policy, who claim that "no person is illegal".

How Migration Really Works by Hein de Haas aims to restore some fact-based rigour to the argument. Haas takes 20 statements, representing the current "conventional wisdom", which he takes in turn and tries to show are either false or at least heavily exaggerated. Many of those statements are of the kind that you would hear from those supporting tougher restrictions – that most immigration is of the illegal kind, and that migrants push down the wages of domestic workers, for example. Others are from the pro-immigration side of the debate, such as the idea that immigration always helps fix the problems of ageing societies (rather than just deferring them).

The rise of Rishi Sunak shows that migration is not the issue it once was

©Getty Images

> *"Haas deserves credit for injecting a degree of optimism into what can be a rather depressing subject"*

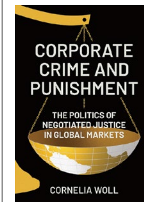
Haas's arguments are not beyond criticism. He makes a convincing case that much of the association between immigration and crime is a myth, for example, but that doesn't mean badly designed policies can't cause social problems under certain circumstances, as Sweden is finding out. And while surveys may find people are more open to immigration than they used to be, this may partly be due to them telling pollsters what they want to hear. Stating that levels of immigration as a percentage of the population in developed countries are no higher than they were 100 years ago is a bit misleading as the 1920s saw a backlash against immigration in America and elsewhere, leading to a wave of restrictions.

Yet his arguments are for the most part convincing and backed up by studies and hard data, rather than just anecdotes and stories. This is important as much of the current debate is increasingly dominated by the latter. He provides a service for policymakers determined to press ahead with the latest wheeze by reminding them that bad policies can have unintended consequences. He also deserves credit for injecting a degree of optimism into what can be a rather depressing subject. The background of Rishi Sunak, whose parents came from Uganda, was never an issue in his rise to high office – that would have been unthinkable 50 years ago.

Reviewed by Matthew Partridge

Corporate Crime and Punishment

The Politics of Negotiated Justice in Global Markets
Cornelia Woll
Princeton University Press, £35



Critics of globalisation in the 1990s and early 2000s complained that companies were exploiting global free-trade rules to manipulate their legal residence and minimise their regulatory and tax liability. Many financial institutions chose to locate in the British Virgin Islands, while operating in the US and UK, for example. This mobility has, however, ended up cutting both ways – US authorities have pursued prosecutions to enforce US law, even in cases where the alleged violations occurred outside the US, where the companies were located.

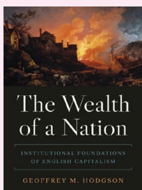
This trend, most notable in cases such as those involving Fifa and Alstom, has coincided with a tendency of US prosecutors to use deferred prosecution arrangements, which allow companies to avoid a trial, or even admit guilt, in return for paying large fines and modifying their behaviour. Supporters say this means that companies are being held to account for their misdeeds in a way that they have never been previously. Critics argue that it imposes US standards on the rest of the world and is in effect a form of economic warfare.

This book by Cornelia Woll provides a short but comprehensive overview of the issues. Although primarily aimed at legal scholars, the book will appeal to those interested in the future direction of global business and international relations.

Book in the news... what powered the industrial revolution?

The Wealth of a Nation

Institutional Foundations of English Capitalism
Geoffrey M. Hodgson
Princeton University Press, £30



One of the biggest debates among economic historians is the reason for the sudden take-off in British economic growth after 1760 during the industrial revolution. Some say it was down to good luck, combined with large amounts of cheap, easily available energy in the form of coal. Others argue it was the result of good policies, especially secure property rights. Geoffrey Hodgson, however, contends that it was all down to the development of "financial capitalism". He claims that capitalist growth requires more than just free markets and property rights, which had existed for thousands of years – you also need a financial system that enables people to borrow, and buy and sell debt.

Creating such a system in England took a long time, not least because the feudal land-ownership structure was designed to ensure that property passed down from generation to generation. As a result, it was very hard for landowners and wealthier peasants to sell their property or use it as collateral for loans. The political and legal turmoil of the 17th century created an opening for the concept of mortgages, and the Dutch invaders of 1688-1689 brought with them Dutch banking and financial practices.

Financial development was then supercharged by the need for the British government to borrow huge sums to finance the various wars of the 18th and early 19th centuries.

It's an intriguing argument, but the book takes a long time to get going. The first section is devoted to historical theory, including a chapter on Karl Marx. It is not until the second section, roughly a third of the way through, that Hodgson starts looking at British economic history. His arguments about how the financial system developed during the 18th century, which is the period that Hodgson claims was most important, is shoehorned into just two out of the seven chapters. Students of economic history will find much of interest, but the book suffers from a lack of focus that might try the rest of us.

Bridge by Andrew Robson

Outstanding Stansby

On this week's Three Notrumps, West led the ten of Spades, and declarer for the USA Seniors, California's Lew Stansby, won the King and led a Club to the Queen. East won the Ace and returned the Knave of Spades. Declarer won and paused.

Dealer South — Both sides vulnerable

North:
♠ 652
♥ AK4
♦ AQ4
♣ Q1084

West:
♠ Q10983
♥ Q863
♦ 98
♣ 92

East:
♠ J74
♥ 105
♦ KJ1065
♣ A53

South:
♠ AK
♥ J972
♦ 732
♣ KJ76

The bidding

South	West	North	East
1NT	pass	3NT	end

All other declarers (bar one – from Argentina) failed from this point, adopting a combination line of cashing dummy's Ace-King of Hearts, then, when the Queen failed to drop, running the Clubs finishing in hand and taking a Diamond finesse. Down two.

After winning the second Spade, Stansby went another route, cashing his three Clubs (finishing in hand). He wanted to put pressure on the opponents, with a possible endplay in mind. West discarded a Heart and, a tad reluctantly, a Diamond.

Declarer read the ending perfectly. He crossed to the Ace of Diamonds (no finesse), cashed the Ace of Hearts, then exited with his third Spade (key play), throwing a Heart from hand. West had to win, and could cash his other two winning Spades (declarer throwing two Diamonds from both hands). But, at trick 12 West had to lead away from his Queen of Hearts. Declarer played low from dummy, winning his Knave, and scored the last trick with dummy's King. Nine tricks and game made.

Actually, West's best second discard would have been a spade rather than a diamond. Declarer would now have been able to succeed only by leading the jack of hearts out of hand, pinning East's doubleton ten.

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

Sudoku 1189

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

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.

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

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Tim Moorey's Quick Crossword No.1189

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 15 Jan 2024. By post: send to MoneyWeek's Quick Crossword No.1189, 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.1189 in the subject field.

1		2		3		4	■	5		6		7
	■		■		■		■		■		■	
8					■	9						
	■		■	■	■		■		■		■	
10				11								
■	■		■		■		■	■	■	■	■	
12						■	13			14		
	■	■	■		■	15	■		■		■	■
16		17										18
	■		■		■		■	■	■		■	
19							■	20				
	■		■		■		■		■		■	
21					■	22						

Across clues are mildly cryptic while down clues are straightforward

ACROSS

1 Minor small company awfully stupid (7)
5 Drying equipment from the Republic mentioned (5)
8 Sort of wood ordered by one (5)
9 Indian state single girl's come a cropper (2,5)
10 What judges may give in a few words? (5,8)
12 Food for your setter in the sun? (3,3)
13 Reviews from back room on right (6)
16 Only a little money to spend, host reasoning wrongly (2,1,10)
19 Train former journalist (7)
20 Open-eyed in a funeral party (5)
21 Beach for expanded SS! (5)
22 Do they start growth of coniferous trees? Sounds like it (7)

DOWN

1 Gatherings of riders (5)
2 Unearth (4,3)
3 Dissenting vote (3)
4 Young swan (6)
5 Flat (9)
6 Rule (5)
7 Bacon strips (7)
11 Ineffective like a sucker (9)
12 Vacuums (7)
14 Stir (7)
15 Robberies (6)
17 US ski resort (5)
18 Conjecture (5)
20 High card (3)

Name ....

Address ....

....

email ....

Solutions to 1186

Across 1 Limes *anag* **4** Flatter *f latter* **8** Martini *two defs* **9** Drown *r inside down* **10** Generation gap *anag* **12** Strine *anag of rent is* **15** Inches *hidden* **19** Steeplechaser *anag* **22** Adieu *anag of aid EU* **23** Mankind *man + kind* **24** Letters *two defs* **25** Ideal *anag.* **Down 1** Limoges **2** Mariner **3** Skier **4** Flirty **5** And so on **6** Thong **7** Run-up **11** Axe **13** TNT **14** Neptune **16** Hostile **17** Strudel **18** Hermes **19** Small **20** Eliot **21** Hanoi.

The winner of MoneyWeek Quick Crossword No.1186 is: Wyn Lewis of Carmarthen

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

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

Stay in safety mode

Investors were cheered by rate cuts, but we wouldn't get too excited...

The Fed's Jerome Powell has signalled a "weak pivot"

©Getty Images

Bill Bonner
Columnist

As we enter the portals of the New Year, we turn to a pressing investment concern. Our readers must be asking the same question we are: what if we're wrong? We have argued that the "primary trend" in markets turned around in two moves: first, bonds topped out in July 2020; then, stocks reached their apogee at the end of the following year. We urged investors to move to MSM – "maximum safety mode" – while we awaited a crisis.

Deflation was the immediate threat, not inflation. Higher interest rates would cause financing problems, we believed. Another shoe was bound to drop – a penny-loafer of a big company suddenly unable to pay its bills, a steel-toed government debt auction going "no bid", a fast-moving crash in the stockmarket.

This crisis, we figured, would cause the Federal Reserve to panic: to "pivot", lowering its key lending rate, while letting inflation rip. But what happened? So far, the bond market did as expected – with the sharpest sell-off in bond prices (and steepest increase in yields) ever seen. When the Fed began raising rates, in February 2022, its key lending rate was actually more than 5% *below* zero. Now, it's more than 5% above zero in nominal terms. Adjusted for inflation, it's about 1% or 2% positive (depending on which measure you use). The ten-year Treasury yield, on average through 2020, was under 1%. Now, it's four times as high. Interest rates have come down recently. But they haven't gone anywhere near the all-time lows of 2020. Inflation rates have fallen too, as expected.

Stocks behaved more or less as we thought they would too. The market sold off in 2022. Then, after losing almost 8,000 points, in September of last year the Dow stabilised. But then, for no apparent reason, it recovered – led by a manic performance of the Big Techs, including a bubble-like enthusiasm for AI.

> *"Would you buy stocks when they're at all-time highs?"*

Then, out of the blue towards the end of last year, the Fed appeared to pivot when it halted rate rises and signalled it was planning cuts this year. No crisis. No panic. And no real reason to drop the fight against inflation – after all, core inflation is still about twice the Fed's 2% target. Was this then some kind of "pivot error", or is the Fed trying to help team Biden win re-election by giving the system a little holiday cheer?

We don't know. But investors seemed to believe the good ol' days were back again. "The long-term bull market in stocks is alive and well after the Dow hit a record high this week," Market Insider cheered when news of Jerome Powell's intentions hit. Analysts expected "the long-term upside trend" to continue.

What's going on? Is the bull market that began in August 1980 still intact, with an even higher high still ahead? Who knows? But we'd tread carefully. While stocks are up, they're still below the highs set two years ago when measured in gold or adjusted for inflation. The lower rates of inflation we're seeing do not mean the Fed has won its fight with rising prices. Consumer prices are still going up; just not as fast. And inflation is probably ebbing largely because the economy is slowing, not because it is getting more colour in its cheeks.

So we stand by our forecast. All we have so far is a "weak pivot". No major crisis. No decisive swing to lower interest rates and higher inflation. Is it time to get out of cash? Time to switch out of "maximum safety mode"? Where would you go – to stocks…when they are at all-time highs? To bonds…just as the US has its biggest monthly deficit ever? No, we wouldn't abandon safety mode. Not yet.

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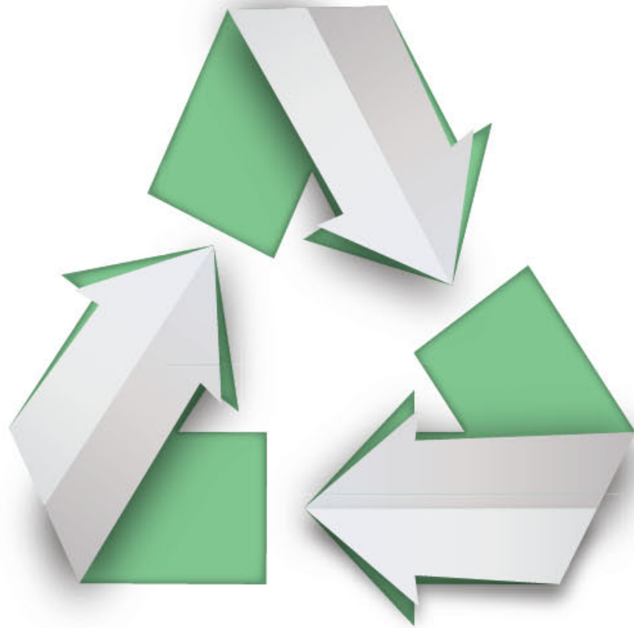

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