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7 FEBRUARY 2025 | ISSUE 1246/1247

Trump's trade war

What it means for markets

BRITAIN'S BEST-SELLING FINANCIAL MAGAZINE

MoneyWeek

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From the editor...

I was reminded this week why I switched off news alerts a fortnight into Donald Trump's first term. Every day feels like a global reality television show – a mixture of *The Apprentice* and *Supernanny*. Far-fetched new ideas are being tested, the president is making a deal through intimidation followed by compromise, and someone new is on the naughty step.

In just a few days, his trade policy has upset Mexico, Colombia, the EU, and South Africa. And global markets, of course (see pages 5 and 9). "He would have upset the UK," says Charlie Morris of ByteTree Research, "but rumour has it that the Trump administration was struggling to see what Britain produced."

MoneyWeek has liked Vietnam since 2005

©Getty Images

"US tariffs are back at 1940s levels; it is sobering how fast liberalisation can be undone"

Ignore the noise

The endless bluster and razzmatazz prompt commentary that soon becomes obsolete, along with forecasts that, like Trump himself, should be taken seriously but not literally. Capital Economics, for instance, estimates that a US tariff of 25% on EU goods could shave 0.5% off eurozone GDP growth, leaving it close to zero in 2025. Pantheon Macroeconomics thinks that a 25% tariff on UK goods would trim exports by just 0.2% of GDP. Only 15% of UK goods exports go to the US – see also page 5. Forecasts of this kind are based on assumptions concerning the elasticity of demand – to what extent higher prices on imports might put off consumers – and currency movements, so there is inevitably guesswork involved. The direction of travel, however, is clear.

The tariffs announced last weekend, as Deutsche Bank points out, are five times larger than the cumulative sum of trade actions taken under the first Trump administration – measured in terms of average increases. The duties to be collected by the US as a percentage of total imports are back to 1940s levels. It is sobering how quickly economic liberalisation can be undone.

So what are investors left with? More uncertainty, more inflation and less global growth as tariffs (and companies taking pre-emptive protective action) hamper or skew supply chains and deter exports and overall activity. With the import and export of services and goods cumulatively worth 64% of GDP, the UK is far from immune to the trend.

This sounds especially discouraging for emerging markets, which are more exposed to global trade than their developed counterparts. But as our supplement, starting on page 19, makes clear, much of the gloom is in the price, with valuations appealingly low and the growth outlook compelling.

What's more, you can gain exposure through investment trusts, many of which are available on discounts to their net asset value (NAV), so you are buying a pound's worth of assets for considerably less than that. Countries where the working-aged population continues to expand look especially attractive, as the trend bodes well for future domestic consumption compensating for exports.

In India, for example (see page 26) household spending is worth 60% of GDP, providing shelter from likely trade wars. Vietnam remains one of our favourites (see page 22). The NAV of one trust, VEIL, has grown by 680% in the past 20 years, compared with the FTSE's 147%. That kind of return makes up for having to endure a lot of Trump TV. We don't publish next week; your next MoneyWeek will arrive on 21 February.

Andrew Van Sickle
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Climate change ravages US housing

The climate crisis is expected to cause a \$1.47trn decline in US home values by 2055, according to First Street, a US climate research company. This will be driven by increasing home-insurance costs and homeowners avoiding risky neighbourhoods, say Nicole Friedman and Deborah Acosta in The Wall Street Journal. Many Americans are reeling from the recent wildfires that devastated Los Angeles and hurricane Helene that ravaged five US states in September. Financial losses from natural disasters are hitting all-time highs, and despite climate change worsening, more people have moved to areas vulnerable to disasters, increasing risks to property. People may be forced to sell at a loss or struggle to sell altogether, which might lower local tax revenues. First Street predicts average home-insurance premiums will rise by 29.4% in the next 30 years and that more Americans will consider climate risks when moving homes.

Good week for:

US singer **Beyoncé** (pictured) won the album of the year award for the first time last Sunday at the 67th Annual Grammy Awards for *Cowboy Carter*, says The New York Times. She also became the first black artist to win a Grammy for the best country album on a night that raised \$7m for victims of the recent wildfires that have swept the city.

LMI Group, an art research firm in New York, is confident that a painting of a fisherman bought by an art dealer in Minnesota for \$50 will be certified by the Van Gogh Museum in Amsterdam as having been painted by the 19th-century Dutch painter, says The Times. LMI bought the painting, believed to be a copy of another work, in 2019 for an undisclosed sum, spending \$30,000 on a team of specialists to build its case. If LMI is correct, the painting could be worth up to \$15m.

Bad week for:

Retailers reported 492,914 shoplifting offences in Britain in the year to September – a 23% increase on the previous 12 months, says The Independent. It is the highest number since comparable records began in March 2003, according to the Office for National Statistics. Overall, there was a 12% rise in crime incidents, mainly due to a 19% increase in fraud.

Wine drinkers have been subject to stiffer prices since last Saturday, says The Guardian. From 1 February, wine has been taxed according to its level of alcohol by volume (ABV), with the duty paid on a bottle rising by 2p for every 0.1% increase in ABV. The end of the "easement period", during which the duty on wine between 11.5% and 14.5% ABV was a flat £2.67 per bottle, increases the number of tax bands for wines in this ABV range from one to 30. Prices on around 43% of bottles were expected to rise as a result.

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Cover illustrations: Howard McWilliams. Photos: Getty Images; Primark

Put your trust in investment trusts

British investors have steered clear of this type of fund in recent years. They are missing a trick, says Max King

"Keep faith in UK equities," advises Scott Evans of the London Business School: "They've done well over 70 years." Over that time, annualised real returns for Treasury Bills (comparable with savings accounts) have been 1.4%; for long-dated gilts, 2.1%; house prices 2.8%, world equities 6.3%, and UK equities 6.5%. UK smaller companies, at 9%, have performed even better, but have lagged in recent years.

Yet unlike US investors, British ones chase after the lowest returns. According to Janus Henderson, cash savings rose £51bn last year to £2.05trn, or 80% of the national debt. Half of defined-benefit pension funds' assets are invested in bonds, despite yields having risen (and thus values fallen) for four years. According to Abrdn, 50% of personal wealth is invested in property, nearly double the ratio in the US, and just 8% in stockmarkets. This is the lowest in any G7 country and compares with 33% in the US.

Not only is the vast majority of UK adults' wealth tied up in perceived "lower-risk" (and therefore lower-return) assets, but UK investors also appear to have a talent for bad timing. Hence the stampede out of UK equities by UK pension funds and insurance companies and relentless selling by private investors. Until a short-term reversal in November, British equity funds had seen 41 consecutive months of outflows.

In 2024, the 26% sterling return of US equities beat all others but, Scott points out, the 9.9% return of the UK's All Share index was higher than the 6.8% for the World ex-US and far ahead of house prices, inflation and gilts. The UK's small-cap return of 9.5% contradicts prevailing pessimism.

The shrinking stockmarket

Perhaps it is the innate tendency of the British towards pessimism that explains the relentless decline of the stockmarket. Scott shows that the number of fully listed firms fell from 3,500 in 1955 and 1,700 in 2000 to 820 at the end of 2024, of which 327 were investment companies. New listings in 2024 numbered 18, the lowest since 1987; the previous low of 20 in 2009 was due to the savage bear market in 2008.

Last year, 144 companies left the market, whether by acquisition, delisting, or becoming valueless. This does not include the Aim market. There the number of companies has fallen from a peak of 1,694 in 2007 to 685, and was down 64 in 2024 alone. This is due to persistently disappointing returns of just 2.4% since 1980, compared with 10.5% for the All-Share index.

The aversion of UK investors to taking risks and thereby seeking returns explains the disappointing performance of investment trusts in recent years. This aversion intensifies every time the market has a setback, such as in 2022 when it fell just 12% in six months. The subsequent recovery has been seen as an opportunity to exit before the next setback. In the US, investors keep going through thick and thin.

At first sight, the 8.7% return of the FTSE All-Share Closed End Investments index looks disappointing, although it was ahead of the return of 4.9% in 2023. However, JPMorgan Cazenove (JPM) estimates that 2024's underlying investment return was 10.2%, since the sectors' discounts widened from 11.5% to 13.8%. (The index excludes the giant £36bn FTSE 100 constituent 3i, most of whose value is accounted for by discount retailer Action and which trades at a large premium to net asset value, or NAV, at over 50%.)

"Investment companies have achieved total returns of 330% this century, compared with the FTSE All-Share's 225%"

©Getty Images

Britain's tendency towards pessimism has undermined the City

Overall returns disguise a wide range between trusts and sub-sectors. The best-performing sectors were technology and media; North America and global also excelled. The worst were Latin America and renewable energy. JPM records 25 trusts that returned over 30%, including JPM American (33%), Polar Capital Technology (34%), Allianz Technology (38%) and Baillie Gifford US Growth (56%). In private equity, 3i returned 50%, Schiehallion 50% and Seraphim Space 58%.

Polar Capital Global Financials (32%) reflects the strong performance of banks, while Baring Emerging EMEA Opportunities (34%) and JPM EMEA's (48%) strong performances are due to hopes for a resolution of the Ukraine war and the re-establishment of value for their Russian investments. It would not be the first time that markets were ahead of the media.

Petershill Partners (69%), a fund participating in private equity and hedge funds, tops the list. Losers include property and battery-storage trusts, other renewable-energy funds and BlackRock's Latin America Trust. The latter looks a good candidate for strong recovery in 2025.

JPM estimates £18bn of outflows from the sector, including £7bn of share buybacks, versus almost £5bn of inflows, although JPM notes that inflows and outflows include both sides of mergers. The claim, propagated by Saba Capital Management, that trusts' Boards are indifferent to widening discounts is totally wrong. Either investors have been selling investment trusts to charge into the US market, or because they are fearful about future returns, but buybacks have failed to stop discounts to NAV narrowing.

In the century to date, JPM notes that total returns have been 330% against 225% for the FTSE All-Share. Over ten years, returns were 115% vs 82%. The numbers, either in 2024 or over the long-term, provide no reason for UK investors to be selling. Should they turn buyers, discounts would narrow, perhaps sharply, and the compounding effect of good market returns and narrowing discounts would produce exceptional returns. This, in turn, would encourage new investors, share issuance and an end to buybacks. Unfortunately, given the tendency of UK investors to buy at the high and sell at the low, it would probably also signal that a market peak was in sight.

Gold gathers momentum

Gold has hit a record high as investors look for a safe haven from tariff chaos. Spot gold traded as high as $2,845 an ounce (oz) on Tuesday. Gold rose 7% in January in dollar terms, marking the yellow metal's best month since August 2011, says Ryan Dezember in The Wall Street Journal. The yellow metal jumped 27% last year, beating the US S&P 500 stock index's 25% rise. Once they get going, gold rallies are usually "long-lasting": in five of the past six years that gold futures have risen by at least a fifth, the following year brought further gains. Wall Street analysts see $3,000/oz coming into view.

"London and New York" are the two main global hubs for gold trading, says Leslie Hook in the Financial Times. Physical trading is based in the UK, while futures activity is concentrated in America. Fears that Trump might impose tariffs on physical bullion imports have prompted a rush to ship metal from London to America. Inventories on the New York Comex exchange have surged 75% since the US election to $85bn. That is emptying UK vaults, with a four-to-eight-week queue to withdraw gold from the Bank of England, up from the usual few days. Worries about Trump and high tech valuations have seen gold attract more attention from US investors this year, says Ipek Ozkardeskaya of Swissquote Bank. Any "sizeable risk sell-off" in markets could give it another boost. Can "gold get more expensive? Yes, it could".

Trump's tariffs hit markets

Tesla shares' sell-off shows Big Tech is not immune to trade wars

"My head hurts," an anonymous currency trader at a big European bank told the Financial Times. "It's almost impossible to trade, there's too much to process. Buy. No wait, sell. No, actually buy. [Or] just give up." US president Donald Trump unleashed chaos in financial markets this week after he announced 25% tariffs on Mexico and Canada.

Fears of a major trade war provoked a sell-off on Monday, with car firms especially hard hit and the Canadian dollar slumping to its lowest level since 2003. But traders had barely priced in the tariffs before Trump reversed course, announcing a month-long pause on implementation (see page 9).

China showdown

The north American truce calmed markets, says John Authers on Bloomberg. World leaders might conclude that they can "parry away" tariff threats by giving Trump token concessions, but that may be optimistic.

At the time of writing, a new 10% tariff on China is still going ahead, with Beijing retaliating with new tariffs on US energy imports. For all the "political theatre", the US president is clearly intent on shifting "the way the global trade system works" in America's favour.

As things stand, 25% tariffs on Canada and Mexico are still due to go into effect in March. As George Saravelos of Deutsche Bank notes, those import taxes affect 44% of all US imports, much larger than anything Trump tried in 2018.

They are three times bigger than markets had been expecting, and five times larger than all the "trade actions" taken in Trump's first term (and he hasn't even started with Europe or Japan, see below). Markets were also surprised by the scale of retaliation, with Canada pledging reciprocal 25% tariffs that opened the way to further US escalation.

This week's drama has at least taught us a few things, says James Mackintosh in The Wall Street Journal. Firstly, investors have never actually believed that Trump is serious about massive, prolonged tariffs; even at the worst of the sell-off, stocks were never priced for a breakdown of the entire "global-trading order". Secondly, markets think tariffs are bad for the economy, no matter how Trump spins it. Finally, Big Tech is not immune to trade wars, with Tesla, Nvidia and Apple suffering sharp sell-offs.

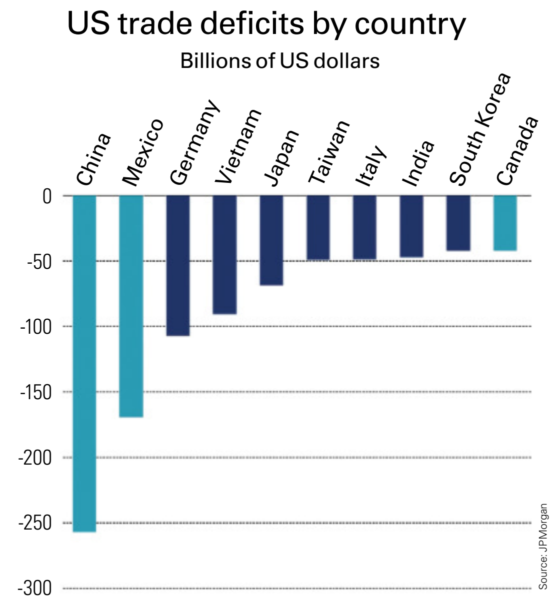
American stocks rose 56% during Trump's first term, but suffered a notable "wobble" during the 2018 trade war, says Russ Mould of AJ Bell. US corporate profits shrank as a percentage of GDP that year, and even entered a "mini bear market" over the autumn as trade tensions with China boiled over. This time Wall Street has even less room for error; stocks are more expensive than they were in 2018, and analysts are optimistically expecting 17% corporate profit growth this year.

Viewpoint

"European equities have started fast out of the blocks... In 2024 the eurozone index returned 12.5% in the first quarter of the year and then ran out of steam... Will Europe... again fade after a promising start?... Optimists highlight the growing calls... for Germany's deficit rule to be reformed... The prospect of Europe's largest economy casting off this fiscal hair shirt is seen as a potential game-changer... I'm a sceptic... Reforming the debt brake requires changing the German constitution, which is hard to do at any time, let alone when Parliament has just been dissolved... Even if the monumental reforms required were somehow passed, I can't envisage Germany suddenly metamorphosing into a fiscally liberal big spender. Its deeply ingrained conservative approach is more akin to hunching over the 2p coin-pusher at the arcade than placing big bets at a high-rollers table in the casino."

Seema Shah, The Sunday Times

Who's next in Donald Trump's hit list?



Donald Trump complains that America is "losing" tens of billions of dollars every year to Canada. The US president's view of trade deficits is unusual. It is rather like believing that you "lose" money every time you go to a supermarket, forgetting that you receive goods in return for the money. Trump believes that countries that run large trade surpluses with America, such as China ($252bn in 2023), Mexico ($162bn) and Japan ($66bn) are "taking advantage" of America. The European Union (not shown in the chart) collectively ran a $155bn goods surplus with America in 2023. By contrast, America ran a $14.5bn trade surplus with the UK in 2023, allowing Keir Starmer to hope that Britain can stay out of the tariff fight.

Diageo's nasty hangover

Tariffs are a further headache for the drinks giant, which is already being buffeted by a decline in alcohol consumption. Matthew Partridge reports

More bad news for drinks giant Diageo, says Jessica Newman in The Times. It has announced that the spectre of US tariffs and uncertainty in many of its markets had forced it to jettison a longstanding revenue growth target. Since 2021, the world's largest producer of spirits has been targeting yearly organic sales growth of between 5% and 7% over the medium term. However, while the tariffs on goods imported to the US from Mexico were delayed by a month at the last minute, the company says the chance they may yet be imposed "adds further complexity" to its ability to predict future trading.

Diageo is right to be "cautious", says eToro's Adam Vettese. After all, the company is particularly exposed to the "spectre of tariffs" given that it imported $1.6bn worth of tequila into the US last year. While Diageo has said it will take measures to temper the impact of 25% tariffs, there is a limit to what cost-cutting and inventory management can do when faced with such a "mammoth additional expense". Although Diageo's shares have struggled in recent months, "it's difficult to bet against the price falling even further" if Trump follows through.


©Diageo Plc
CEO Debra Crew may have to sell assets

A toxic cocktail

Tariffs aren't the only issue causing "disquiet", says Rob Davies in The Guardian. While Diageo's share price reached a peak of £40 in early 2022, the company has since been hit by a "shock profits warning" and "adverse global consumer trends". The stock is now on £23, near a seven-year trough. What's more, longtime investor Terry Smith recently revealed his fund had dumped its stake in the company owing to his concerns that drinks companies were losing their defensive status, in addition to specific concerns about Diageo's management.

Even taking Donald Trump's threatened trade frictions out of the equation, Diageo's "heavy debt load and lacklustre growth" pose a major problem for the company's future, says Aimee Donnellan on Breakingviews. Diageo's adjusted net debt to Ebitda ratio is 3.1, a sharp rise from 2.3 in 2019. The need to get this down to a more sensible level may force CEO Debra Crew either to sacrifice investment, which could hamper growth, or sell assets in what is already a "pretty dire" market for drinks brands.

Nonetheless, at least Diageo's shareholders aren't alone in their misery, say Madeleine Speed and Harriet Agnew in the Financial Times. Growth in the wider drinks industry has stagnated as drinkers have reduced their alcohol intake "following an unprecedented boom during Covid-19 and the ensuing recovery". Recent comments by the US surgeon-general that alcoholic drinks should carry a cancer warning, worries that weight-loss drugs may also be able to reduce alcohol consumption, and a growing trend towards moderation have "also caused jitters". As a result, all spirits stocks have been "hammered", with the sector now "trading at a significant discount to the wider consumer category".

Activists target Smiths break-up

Shares in Smiths Group, the "last large industrial conglomerate on the London market", jumped by more than 10% last week after it announced it would break itself up, say Sylvia Pfeifer and Jonathan Wheatley in the Financial Times.

Smiths, whose businesses range from aerospace to energy and security, said it would sell or demerge its baggage-screening and electrical-components divisions and return a "large proportion of the proceeds to shareholders", leaving it free to focus on industrial technologies. While Smiths' management insists that the move had been planned for some time, the decision to "overhaul" the company comes after US activist investor Engine Capital urged it "to explore a break-up that would bolster its valuation".

It's true that the break-up "has long been sought by some investors", with analysts arguing that it will eliminate a "conglomerate discount" , says Robert Lea in The Times. Still, the news will come "as a shock to many", since as recently as last month Smiths had rebuffed a demand by Engine Capital that it break itself up.

What's more, Smiths shares have hit new highs in 2025 and the company "had announced an upgrade in its forecast revenues and profits". It also means that Smiths "will lose what is perhaps its best-known brand", Smiths Detection.

Engine may not be finished yet, says James Titcomb in The Telegraph. The activists have also demanded that at least some of the remaining firms be listed in the US. Smith's management admits they have considered moving to America to create value.

But they also note that while such a move has been "successful" for some companies, moving to America has also been "an enormous failure" for others. They have decided that moving, at least at this stage, would have been "too much of a shortcut".

US rival swoops on UK's Dowlais

In a "major setback" for the London Stock Exchange, the FTSE 250 company Dowlais is set to be sold to US rival American Axle & Manufacturing in a £1.2bn deal, says Jessica Clark for This is Money. If the deal is approved by Dowlais' shareholders, they will receive cash as well as a 49% stake in the new entity.

The hope is that the combined firm will be able to save £242m by cutting the total workforce by 1,250. It would eliminate redundant administrative or management positions and end duplication in manufacturing or research and development (R&D).

The takeover is far "from a done deal", says AJ Bell's Russ Mould. One problem is that the 25% bid premium looks "very skinny", especially compared with an average premium for UK-listed stocks of 47% in 2024 and 52% in 2023. By valuing Dowlais at 4.1 times EV/Ebitda, Axle is essentially treating Dowlais "as if it had failed its MOT and was on the verge of being put on the scrap heap".

The combination of cash and shares may also be sub-optimal for investors who "prefer hard cash in their pocket". Shareholders, including asset managers Fidelity and T. Rowe Price, "won't be pushovers".

Whether it goes ahead or not, the "mini-tragedy" of the approach is that the deal "ought to be structured the other way around", with Dowlais buying American Axle, says Nils Pratley in the Guardian. After all, Dowlais, the world's largest maker of drive systems, is larger "in terms of revenues, stock market value and number of employees".

Even though the "stop-start nature of the transition to electric vehicles" may mean that a combination makes sense, Dowlais' "well-regarded" management should be able to "grab the steering wheel themselves and summon support for a bid".

Sadly, the "sleepy state of the bottom end of the UK stockmarket" means there is "not a chance of that happening". This episode shows why the government should be "cajoling and incentivising UK pension funds to pay more attention to their home patch".

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

Five to buy

Diploma
The Telegraph
Diploma supplies specialist technical products such as gaskets and seals. The company offers scope for "capital growth and index-beating returns". Earnings have risen 16% a year over the past 15 years, partly thanks to acquisitions, and there is scope for more deals. Diploma's robust market position, solid balance sheet and exposure to the fast-growing US mean "there is further room to run". The shares are "worthy of their premium" to the FTSE 100. *4,408p*

Nvidia
The Times
Nvidia's shares have surged 400% in three years but $500bn was wiped off its market value recently. Given a now "relatively reasonable" valuation, "any investor with a contrarian bone in their body will be itching to buy". The arrival of China's DeepSeek has "taken some of the conviction out of the [US] AI trade" but Nvidia still has "excellent fundamentals, strong customer relationships, and [an] impressive track record" of innovation. *$118*

DFS Furniture
This is Money
DFS Furniture was "cautiously optimistic" in a recent update and current trading figures are "encouraging". The sofa retailer, which also owns Sofology, has a 30% market share and the scope to increase this figure. DFS has benefited from rival SCS closing shops for refurbishing. Increased labour costs and high interest rates remain headwinds, but DFS could gain when the economy and housing market bounce back. Investors with a "long-term view" should consider buying and "sitting tight". *133p*

Capri Holdings
Shares
"Risk-tolerant investors might want to take a look" at Capri, the US luxury fashion house behind Versace, Michael Kors and Jimmy Choo. The shares have halved in price over the past year after a $8.5bn takeover by Tapestry was blocked, leaving them "looking cheap". Capri's high debt is a concern, but the stocks could rerate. Revenue and profit growth could return as luxury spending recovers, and the balance sheet could improve from better cash generation and possible brand disposals. Moreover, another tilt at Capri could be looked at more favourably by regulators in a more lenient Trump administration. *$25*

IG Group
Investors' Chronicle
IG Group specialises in spread betting and contracts for difference. The trading platform extended its buyback programme by £50m to £200m after achieving double-digit first-half revenue and profit growth thanks to "supportive" market conditions and cost cuts. Since 2022, IG has returned more than £1bn to shareholders. IG is to invest in marketing in the second half to bolster growth after a small fall in the number of active clients. *1,020p*

Two to sell

Beazley and Lancashire
The Telegraph
After nearly doubling your money on Beazley and banking "increasingly generous" dividends from Lancashire, "it may be time to move on" from the Lloyd's of London syndicate managers. Their "strong" income means underwriters have more capital, which can lead to increased capacity and weaker pricing. "The early signs are that reinsurance rates for property and catastrophe are starting 2025 by going gently lower." Lancashire is more exposed than Beazley, and both could mitigate the trend, but the "cycle may be turning". Both firms are "well-run" with strong dividends, "so we may be trying to be too clever… and any pullback could bring them back into our radar." *Beazley: 833p; Lancashire: 643p*

...and the rest

Investors' Chronicle
Time Finance's adjusted half-year earnings beat expectations thanks to higher demand for its alternative-finance products, as high-street banks remain reluctant to fund small businesses. The lender boosted margins by four percentage points to 21%. It is "well on track" to meet medium-term objectives and is targeting a lending book of more than £300m. Since August 2023, Time has delivered several profit upgrades, and momentum is not waning. Yet the group trades at a discount to net assets on an "undemanding" price/earnings (p/e) ratio. There is "[more] to come". Buy *(60p)*.

The Telegraph
Marshalls' shares have lost a fifth since last spring owing to sticky inflation and higher labour costs. Yet the building and roofing products supplier's profit forecasts for fiscal year 2024 are unchanged thanks to an efficiency programme and resilient higher-margin sales. Debt is falling. A return to pre-Covid profit and dividend levels would leave the stock looking cheap on an earnings and yield basis. Buy *(248p)*.

The Times
Meta Platforms' sales growth beat expectations in the latest quarter as its heavy investment in AI starts to pay off. Meta makes most of its sales from advertising, and says that more than four million advertisers now use its generative AI tools. The shares are cheaper than its peers, and although Chinese rivals pose a risk, "few other businesses are so well equipped to react quickly to new competition" thanks to its vast supply of data. Meta could achieve compound earnings growth of 15%-20% after its current AI investment cycle. "Those who hold on may be richly rewarded." Buy *($676)*.

An American view

Dollar General's stock has plunged 70% since its 2022 high as earnings have kept disappointing. But it "now looks like a bargain", says Barron's. The US budget retailer has a "solid" balance sheet and an "entrenched position as the general grocer to rural America". It plans to remodel and open new shops and clamp down on shoplifting. Although retailing giant Walmart poses a threat, its closest rival, Dollar Tree, is less profitable. Analysts say the pre-tax operating profit margin can return to the 6%-to-6.5% range, potentially resulting in earnings per share of $8 in 2027 and pushing the share price above $100; it is now $72. The stock yields 3.3%, and the dividend is "well covered" by earnings.

IPO watch

Ferrari Group, which specialises in shipping jewellery and luxury goods, is planning an initial public offering (IPO) on the Euronext exchange in Amsterdam, "becoming one of Europe's first companies to seek a listing this year", says Bloomberg. But it also marks another blow for the embattled London Stock Exchange. London-headquartered Ferrari, which is not related to the luxury carmaker, is seeking a valuation of more than $1bn, and the Deiana family, which controls the company, plans to sell a 25% stake in the listing. Ferrari generated about €333m of revenue and made €90m of earnings before interest, tax and depreciation in 2023. It expects sales of roughly €345m this year.

A global game of thrones begins

We don't know what Trump intends or will do next. That is in itself damaging. Emily Hohler reports


©Getty Images

Trump's "gangsterish approach" is a bad miscalculation

Beijing's reaction to Donald Trump's 10% tariffs on Tuesday was instant, says Amy Hawkins in The Guardian. It imposed 10%-15% levies on imports of a range of US goods, export controls on a raft of critical minerals, and announced an antitrust investigation into Google.

This response stands in "stark contrast" to that of Mexico and Canada, which negotiated a 30-day reprieve in return for action on border security and the fentanyl trade. Although Mexico, Canada and China are America's top trading partners, accounting for more than 40% of US imports last year, Trump also has the European Union in his sights. He has described the bloc's trade surpluses with America as an "atrocity".

Trump's "brinkmanship" with Mexico and Canada ended with "largely symbolic concessions" on their behalf, says John Authers in Bloomberg. The 10% tariff on China is much less aggressive than the 60% Trump proposed during his election campaign and Beijing's response wasn't "robust". As The Economist points out, tariffs on US coal, natural gas, crude oil and vehicles will have a limited effect, since China doesn't import much oil from America and makes millions of its own cars. A "full-blown" trade war is not in Xi Jinping's interests, given the "prevailing weakness" in China's economy. All this leads to growing market confidence that this "confrontation will soon go away".

Analysing Trump's tariffs is like "shooting at a moving target", says Chris Giles in the Financial Times. We don't know whether they will "happen; whether they are temporary or permanent; whether they are a bargaining chip or a punishment. We do not know what retaliatory measures will be taken." We don't, but "even unfulfilled threats are damaging", says Martin Wolf in the same paper. "An inconsistent US is an unreliable partner: it is that simple." Trump's "gangsterish approach to international relations" may lead allies to forge other alliances, even with China, simply because it is "more predictable".

This is already happening, says Patricia Cohen in The New York Times. If the US is raising barriers, "other nations are lowering theirs". In the past two months, the EU has concluded three new trade deals. The Brics nations are growing. China wants to update its own free-trade agreement with Asean, and Britain recently joined the trans-Pacific trade bloc and is "looking to repair its frazzled relationship" with the EU (see below). Nearly 60% of Asia's trade now happens within the region, which is host to 50% of the fastest-growing trade corridors.

A silver lining for Europe

Xi will be "smiling quietly to himself" as Trump "drives a wedge" not only between the US and the Global South, but also between the US and its "natural allies and like-minded democracies", says Jeremy Warner in The Telegraph. Antagonising Canada is particularly nonsensical, given the US relies heavily on its crude imports and that Canada's role in fentanyl smuggling and illegal immigration is "almost zero", says Ambrose Evans-Pritchard in the same paper.

Protectionism has a "long history" in the US, and if the American isolationism of the inter-war years "teaches us anything, it is that when the US retreats from Europe, it doesn't end well", says Warner. "The economic damage is nothing compared with the political instability that flows from American disengagement." There's also a possible silver lining for Europe. If Trump's tariffs force the EU to spend more on defence, as well as spending and investing more in its own markets, they might help "lift the bloc out of its current economic torpor". Trump's "tariff assault could yet prove one of the US's worst ever economic and geopolitical miscalculations".


©Getty Images

Starmer: broad ideas, little detail

Keir Starmer's almighty challenge

On Monday, for the first time since Brexit, the UK prime minister joined the 27 EU leaders for an informal summit in Brussels. However, the day was "less a UK-EU summit" and more "the UK as one of several items on the agenda at an EU meeting", says Jon Stone in Politico.

And although when Keir Starmer took office, Brussels had high hopes for his "Brexit reset", officials no longer expect any "game-changers". Labour has come up with broad ideas but little practical detail or timescale. With "challenges like Donald Trump, AI and the climate emergency testing governments across Europe", the UK simply isn't a priority.

This "reset is just the first of many", says Rafael Behr in The Guardian. Britain is "tethered to the EU by forces of geography, economics and geopolitics". Starmer's opening gambit is a "new security partnership", which is welcomed by most EU leaders and which will build trust "without getting into a messy re-litigation of the economic divorce settlement". Closer ties in areas of collective strategic interest – defence, energy security, migration, climate – will hopefully lead to "reduced friction in trade".

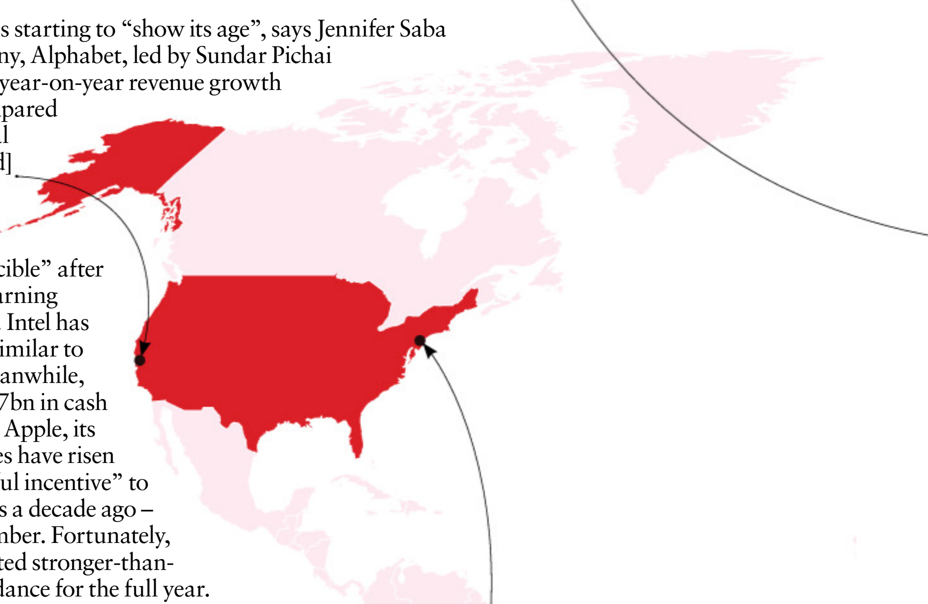
The gathering serves mainly to build goodwill ahead of a UK-EU reset summit on 19 May, says Eleni Courea in The Guardian. More contentious items will be on the agenda then, such as EU demands for more access to Britain's fishing grounds and a youth mobility scheme.

Trump's threatened EU tariffs also pose an "almighty challenge", says James Heale in The Spectator. Although Starmer has been clear the UK does not face a binary choice between the EU and US, he is walking a tightrope. Trump has said that a deal could be "worked out" with the UK to avoid tariffs, but "such beneficence could vanish" if Starmer is seen as taking Europe's side. "Keeping Brussels, Washington and Labour's domestic audience onside will prove a stern test."

Newbury

Bitter pill: AstraZeneca has axed plans for a £450m expansion of its vaccine manufacturing facility in Speke, Liverpool, blaming the "timing and reduction" of state funding compared with the previous government's proposal, say Heather Stewart and Julia Kollewe in The Guardian. Chancellor Rachel Reeves had increased the amount of support available to the pharmaceutical giant from the initial proposal of around £40m, but this was still "significantly below" the £90m the former Tory government had dangled.

"While at one level it is outrageous that a £175bn company such as AstraZeneca should expect a bung from the taxpayer, the reality… is that countries fall over themselves to offer incentives to build state-of-the-art facilities, especially the vaccine-making variety, that will be around for decades," says Nils Pratley in the same paper. The government may have had good reason to trim the £90m offer if AstraZeneca's research and development investment turned out to be lower than expected. But AstraZeneca had warned the incoming government that securing the deal was "urgent" so it could start work on the facility last August. "Delay in Whitehall decision-making – as much as haggling over money – looks to have been key" and "the killer may have been the failure to move quickly". It's "bizarre" that Britain's largest company and an "unashamedly pro-growth" government cannot complete a major investment in the life sciences sector that is supposed to be central to Labour's new "modern' industrial strategy. "The advertising is terrible."



San Francisco

Tech woes: Google, at 26 years old, is starting to "show its age", says Jennifer Saba on Breakingviews. Its parent company, Alphabet, led by Sundar Pichai (pictured), posted "disappointing" year-on-year revenue growth for the fourth quarter of 12%, compared with 21% at digital advertising rival Meta Platforms. Investors "[lopped] 7% of its $2.5trn market value". Contrast that with Nvidia, says Dan Gallagher in The Wall Street Journal. The "AI titan" may be "a little less invincible" after its recent "brutal" sell-off, but rival Intel is learning that "challenging the AI powerhouse is… no easy task". Intel has decided not to release its new GPU accelerator – a chip similar to that which made "Nvidia the name to beat in [AI]". Meanwhile, the "once-flush" company burned through almost $15.7bn in cash last year and it is running out of time to catch up. As for Apple, its iPhones have got "much better over the years" and prices have risen to well over $1,000. That is giving customers a "powerful incentive" to upgrade only every four years, compared with two years a decade ago – bad news ahead of Apple's next iPhone release in September. Fortunately, software firm Palantir bucked the trend. It not only posted stronger-than-expected fourth-quarter results but it also raised its guidance for the full year.

New York

Shaky measures: US-Canadian brewer Molson Coors has bought an 8.5% stake worth £71m in Fevertree in a deal that also gives it exclusive rights to market the British firm's cocktail mixers and tonic water in the US. Last July, rival Carlsberg bought Britvic for $4.2bn as part of a similar strategy to capitalise on the growing demand for non-alcoholic drinks. But for Fevertree's shareholders, the Molson deal is "a drink that will take some time to digest", says Jennifer Johnson on Breakingviews. It gives Molson "immediate access to a strong brand", as Fevertree is already a key player in the US. For Fevertree, whose shares have declined 60% over the past three years due to higher costs and slower growth in traditional markets, it can take advantage of Molson's distribution network. Meanwhile, the profit-sharing agreement, where Fevertree will pocket an undisclosed portion of the annual profit between 2026 and 2030, is a "low-risk way to expand into its fastest growing market". But "substantial" marketing spending will subdue both companies' margins in the early years of the partnership. Fevertree expects low single-digit revenue growth in 2025 and a "sustained uplift in group revenue" in the medium term. "Fevertree's concoction may yet deliver a pleasant return, but like its drinks, it will have to be enjoyed slowly."

The way we live now... Thailand looks forward to the White Lotus effect

The White Lotus: a driver of tourism

©HBO/Sky

Thai tourism authorities, hoteliers, and travel agents are bracing for an influx of visitors ahead of the third season premiere of hit US comedy series *The White Lotus* (in Britain on 17 February on Sky Atlantic and Now), say Sarah Rappaport and Janine Phakdeetham on Bloomberg. Hawaii and Sicily, where the first two seasons were set, "transformed the local Four Seasons outposts into pop culture icons and cemented the destinations more broadly as bastions of luxury travel". Thailand is hoping for a similar boom. Tourism numbers, despite rising 26% to 35.5 million last year from 2023, are still below the almost 40 million in 2019, before the pandemic. An expected 20% bump in visitor numbers would be enough for Thailand to return to pre-Covid levels, says Chompu Marusachot, director of the Thailand Tourism Authority in New York.

Fans are already booking into the featured resorts, which include the Four Seasons Koh Samui at over $1,200 a night. Meanwhile, K-Pop star Lalisa "Lisa" Manobal, who stars in the new season, has further heightened interest in the show. "The buzz around *White Lotus* in Thailand is very real because of Lisa," says Chompu.

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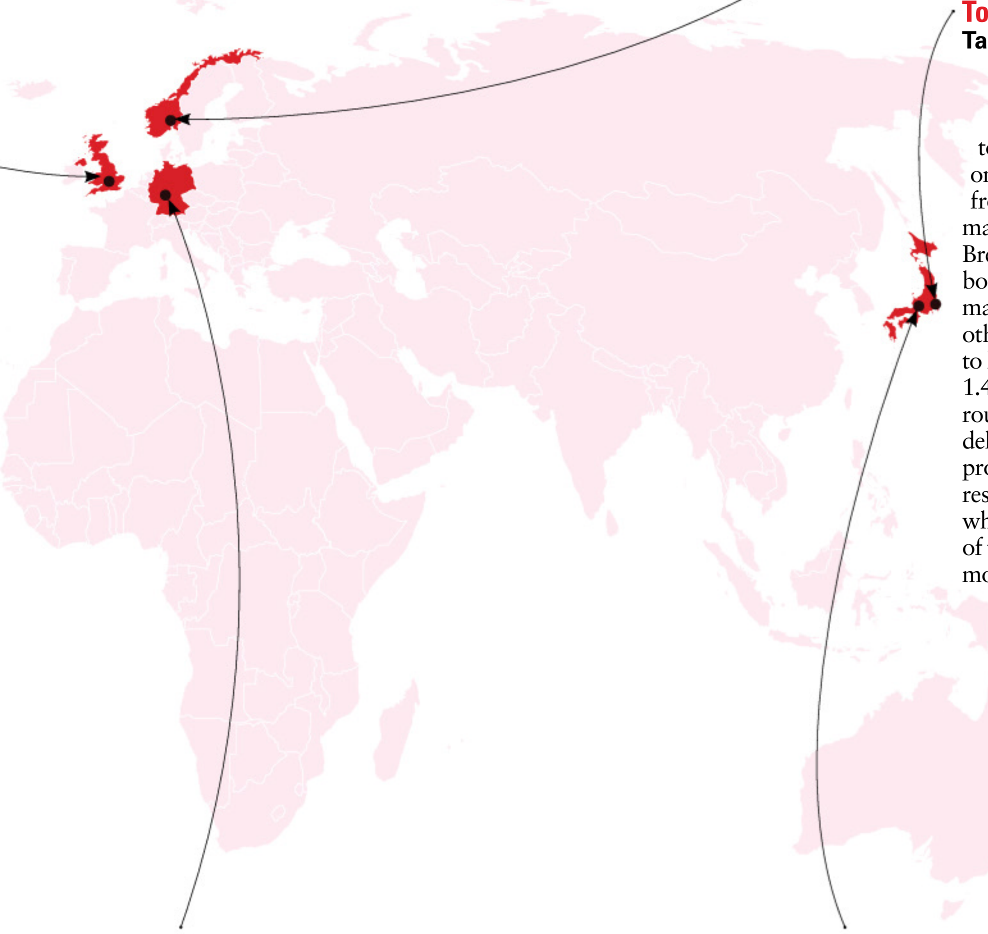
Stoltenberg: Norway's new finance minister

Oslo

No way in Norway: Former Nato head Jens Stoltenberg's "surprise return to the front line of Norwegian politics" as finance minister comes at a fraught time, say Richard Milne and Robin Wigglesworth's in the Financial Times. Firstly, an "intense energy debate" has just "felled" the coalition government, and Stoltenberg will now play a critical role in "reinvigorating Labour's fortunes" ahead of elections in September. Secondly, there is a risk that Norway, which is not in the EU, could be hit by tariffs from both Brussels and Washington. The upheaval in Norwegian politics is partly due to Germany's "failed energy policy", which has led to reliance on imports during dark, windless stretches in winter when renewable energy hasn't been able to meet demand, says Javier Blas on Bloomberg. As more power is exported, domestic prices in Norway have shot up. It was last week's debate on whether to adopt new EU rules central to rolling out renewables that prompted the Eurosceptic Centre Party, which favours a "more protectionist course" on energy, to abandon the two-party coalition. Why, it asks, should Norwegians pay higher electricity costs so that Germans don't have to? But this is a "pan-European problem". The energy market is "dysfunctional" and the solution "requires a pan-European effort". So far, there hasn't been one.



Tokyo

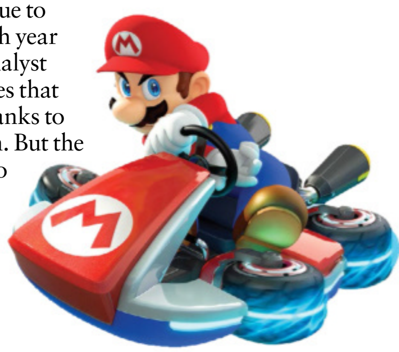
Talks breaks down: Nissan's board has suspended merger talks with Honda over creating the world's largest carmaker after failing to agree terms. That could prove costly to both carmakers if the US does follow through on its threat to "whack" 25% tariffs on imports from Mexico and Canada, where both have manufacturing facilities, says Katrina Hamlin on Breakingviews. The US is their largest market and both had already been dealing with dismal profit margins. So "the financial buffer of cost cuts and other economies of scale from joining forces ought to look all the more appealing". Honda sold about 1.4 million cars in the US last year, manufacturing roughly one million in the country, and Nissan delivered nearly one million cars – 500,000 produced in the US, with imports making up the rest. Honda's Canada hub is of "key" importance, while Nissan makes more in Mexico, and "some of their most popular products are among the models made offshore". If tariffs do materialise, they will either have to absorb or pass on the higher costs to customers. Honda's average price per vehicle would increase by roughly 6% and Nissan's by around 3%. Meanwhile, domestic rival Toyota raised its annual net profit outlook by 27% to ¥4.5trn (£23.6bn) for the year ending March thanks to strong sales and a weaker yen, say Sayumi Take and Yuichi Shiga on Nikkei Asia. It expects operating income of ¥4.7trn (£24.5bn), up from its earlier forecast, but nevertheless down 12.2% from last year.

Frankfurt

Traders need to deliver: "For much of the past 15 years, the only thing consistent about Deutsche [Bank] was its ability to step on every rake it encountered," says Lex in the Financial Times. Profits in the fourth quarter fell 92% from a year earlier, largely due to one-off expenses, including the cost of litigation. To be fair, boss Christian Sewing has done "good work rebuilding Deutsche after decades of overexpansion and mismanagement [that] had left it fighting for survival". The stock has quadrupled in price since the low point in 2020. But Deutsche is still more cheaply valued than European rivals because investors view the business of trading – on which Deutsche "continues to be reliant" – as "potentially volatile" and capital hungry. Swiss rival UBS, for example, with its "massive" and predictable wealth management arm, has a 1.5 times tangible book value, compared with 0.6 times for Deutsche. If Deutsche is to stand any chance of meeting Sewing's raised targets for this year, "his investment bankers [will] have to step up", says Pierre Briançon on Breakingviews.

Kyoto

Looking to level up: Nintendo slashed its full-year profit forecast after profit and sales fell as gamers await the release of its new Switch 2 console, says Chihiro Ishikawa on Nikkei Asia. The Japanese gaming company's net profit fell 41.9% to ¥237.1bn (£1.2bn) for the nine months to December as revenue declined 31.4% to ¥956.2bn (£4.9bn). Operating profit decreased 46.7% to ¥247.5bn (£1.3bn). Nintendo expects revenue of ¥270bn (£1.4bn) for the year ending March, down from the previous estimate of ¥300bn (£1.6bn). The original Switch has sold 146 million units since it launched in 2017 and Nintendo's shares have soared to record highs, recovering from a slight dip last month, when the company teased the new console in a 141-second trailer that lacked details, such as pricing. A showcase in April is expected to reveal more. "The drop in net profit is largely due to declining Switch sales. A game console in its eighth year is [practically] unheard of," Hideki Yasuda, an analyst at Toyo Securities, told the paper. Yasuda estimates that 200 million units of the Switch 2 could be sold thanks to the new console's similar thin design and function. But the rub lies in the console's price, which could be up to ¥60,000 (£311)" – higher than the current model, but also reflecting the higher costs of chips.



The boom in cast-offs

Companies are racing to get in on the trend for selling "pre-loved" goods. But at the end of the day, junk is still just junk...

Matthew Lynn
City columnist

In a smart piece of rebranding, what used to be known as "second-hand", "used" or perhaps even "junk" has now become "pre-loved". Start-ups are commanding huge valuations and major companies rushing into the market.

Ikea is the latest to jump on the bandwagon. The Swedish furniture giant said last week it was rolling out its second-hand marketplace for pre-loved furniture across Spain and Norway after successful trials in Madrid and Oslo, and if that works it may soon be expanded globally. Other companies such as Zara and Lego are also offering second-hand marketplaces. More may join them.

A few major start-ups have already taken a chunk of the market. The Lithuanian-based Vinted, which specialises in clothes, last year achieved a valuation of more than €5bn in its latest funding round, making it one of the most valuable tech unicorns in Europe over the past few years. Debop was snapped up by US-based Etsy, which is itself now valued at more than $6bn on Wall Street. And, of course, eBay was one of the pioneers of the web-based economy and the second-hand market was always its core business.

The pre-loved economy is booming and it's easy to understand why. Customers care much more about sustainability than they used to and recycling is a lot better for the environment than fast fashion. It's typically a lot cheaper, enabling people to buy things they would not otherwise be able to afford. And for retailers, it makes sense to keep customers on their website for second-hand stuff.

What am I bid for this Ikea table?

The trouble is, the pre-loved market is not likely to prove as lucrative as companies and investors seem to think it will be. There are two big problems. To start with, it is typically limited to very high-quality products. There has always been a market for antique furniture because it was beautifully made and lasted for a century or more. Indeed, it got more valuable as it got older. But the cheap and cheerful self-assembled chairs and side tables from Ikea? Not quite so much. The whole point was that it didn't cost very much to begin with, and you could afford to replace it as soon as you got bored with it.

The same is true of "pre-loved Lego". Do people really want yellow plastic bricks that have been "pre-chewed" by a succession of toddlers? Likewise, a Birkin bag or a high-end Hermès scarf clearly has lots of value for many years, but the same is hardly true of something from Zara. In reality, the second-hand market was meant for a tiny, upmarket range of products with real scarcity value. Taking it into the mass market is likely to prove a mistake.

©Alamy

Pre-loved stuff may be getting more love than it deserves

Next, the margins are wafer thin. By definition, people don't want to pay as much for "pre-loved" furniture or clothes as they do for an item that is being loved for the very first time. Otherwise, you might as well just buy the new one. Anything from Ikea or Zara was pretty cheap to begin with, so by the time you halve the price for the second-hand version it is selling for next to nothing. With shipping and returns to pay for, it is going to be hard to make significant profits.

What we're looking at here is a small niche and nothing more. Companies and investors are betting big that "pre-loved" is the next big thing, but at the end of the day it is still just old stuff. The pre-loved market may be getting a lot more love than it deserves.

Should you stick with Smithson?

The small- and mid-cap trust has struggled to live up to lofty expectations

Rupert Hargreaves
Investment columnist

Smithson was backed by star manager Terry Smith, but has failed to match the returns of his own fund

©Shutterstock

The initial public offering of Smithson Investment Trust (LSE: SSON) was one of the biggest launches the investment trust sector has ever seen. Backed by Terry Smith, the manager of the £22.5bn Fundsmith Equity Fund, Smithson had no trouble raising £822m from investors who queued up to back its small- and mid-cap investment strategy. Its assets under management have since expanded to £2.3bn.

Smithson pursues a version of Fundsmith Equity's quality and growth investment strategy, targeting companies that might not fit into the larger fund. The trust's own website proclaims, "We aim to provide you with a similar investment experience to the Fundsmith Equity Fund, being a superior risk-adjusted return over the long term, but by investing in a group of global small- and mid-capitalisation listed companies."

Unfortunately, the trust has struggled since its inception. Net asset value (NAV) has grown 8.2% annually since 2018, compared with 8.3% for the MSCI World SMID index. Thanks to the widening discount, the stock price has returned just 6.6%, lagging the index by 1.7% per annum. Last year the gap widened further. The trust returned 2.1% on a NAV basis, compared with a 11.5% gain for its benchmark.

As the discount to net asset value has widened, the trust has devoted more cash to share buybacks. In fact, since 2022, Smithson has spent more cash buying back its own shares than anything else. It has repurchased £500m of stock over the past few years, or £10m a week (by comparison, its largest position, Diploma, is about £115m). Despite this outlay, it still trades at a double-digit discount.

A strategy shift

In an attempt to revitalise performance, manager Simon Barnard has recently redefined the trust's strategy to focus on the smaller end of the £500m-£15bn market-cap range the company has focused on in the past. Here there's more scope to find the multi-bagger companies of the future, the team believes.

This could be too little, too late. Despite the trust's aggressive buybacks, Smithson's wide discount to net asset value is a worrying sign. Investors are not lining up to buy the shares as they once were. Moreover, Smithson's underperformance has attracted the attention of Saba Capital, the New York hedge fund that's been agitating for change across the investment trust sector (see below). Last week, Saba Capital Income and Opportunities Fund II filings revealed it had bought total return swaps, giving it an economic interest of £7.4m in Smithson as of 31 October. It's not clear if Saba still owns a stake, but based on its past actions, Smithson is ripe for Saba's style of activism.

Continuation vote

Saba isn't the only threat to Smithson's longevity. Terry Smith, who is one of Smithson's largest investors as well as the majority owner of Fundsmith, has acted in the past to close a trust carrying his name that has not lived up to expectations. He closed the Fundsmith Emerging Equities Trust in 2022 after its discount widened to 14.9%.

This year the trust will be required to hold another continuation vote if the discount exceeds 10%. It already had to do the same in 2024, although the board caused an almighty row when it initially decided against holding a vote, even though the double-digit discount required it. Overall, 9.6% of votes were cast against continuation last time. The votes in favour were more than enough to prevent a winding up, but that number can't be taken for granted.

Smithson was launched with a clear brief in mind, but despite Fundsmith's track record, the managers have not been able to replicate the success of Smith's large-cap focused Fundsmith Equity Fund. The trust's hefty fees (0.9%), underperformance and persistent discount suggest its future is limited. Investors may be better off seeking small-cap growth elsewhere.

Activist watch

HarbourVest Global Private Equity has put forward three changes to narrow its 35% discount to NAV after coming under attack from activist investors, says the Financial Times. The investment trust plans to double the proportion of cash profits set aside for share buybacks, introduce a continuation vote at its 2026 annual general meeting and implement a simpler structure using a dedicated vehicle to make direct investments rather than investing via funds of funds run by its manager, HarbourVest Partners. In November, Activist Metage Capital called for the trust to change its strategy, speed up share buybacks and rethink how it invests spare cash, while fellow activist Asset Value Investors disclosed in December that it had been increasing its stake.

Short positions... five votes against Saba

■ Investors in Baillie Gifford US Growth, CQS Natural Resources Growth & Income, European Smaller Companies, Henderson Opportunities and Keystone Positive Change all voted against attempts by Saba Capital to oust their boards and hand control to the US activist fund. Saba has now lost six of the seven votes it has called; a vote at Edinburgh Worldwide will take place on 14 February.

■ Henderson European – the £580m trust formed by the merger of EuroTrust and Henderson European Focus in July – is under new management after its team resigned from Janus Henderson to join GAM. Janus Henderson has appointed interim managers, but the trust's board said it now would solicit shareholders' views on its strategic direction.

■ The newly merged Aurora UK Alpha trust has got off to a tough start, with a write-off of its stake in insurer Randall & Quilter, which collapsed in June. The high-conviction, all-cap fund, which grew to nearly £300m when Aurora merged with Artemis UK Alpha, saw NAV fall 4% last year. Weakness in retailer Frasers, the second-largest holding in its concentrated portfolio, also hurt returns.

■ In portfolio updates this week, private-equity trust Chrysalis wrote up the value of Starling and Klarna, its largest investments, helping to boost its NAV by 11%. Greencoat UK Wind cut its NAV by 4.7% as a result of a lower long-term energy generation forecast due to lower UK wind speeds. However, the fund sold a 40% stake in two onshore wind farms in Scotland for £41m, in line with pre-writedown NAV. And GCP Infrastructure sold its interest in two onshore wind farms for a total of £17.8m (including a conditional deferred payment), 12% below latest NAV.

We've lost the AI arms race

Larry Elliott
The Guardian

The arrival of DeepSeek last week is a "wake-up call" to the US and any developed country wanting to enter the AI race, says Larry Elliott. Even if the budget Chinese chatbot isn't all it is "cracked up to be", it doesn't change the "bigger picture: China's threat to Western technological dominance is real". No longer merely the factory of the world, in 2023 China "filed more patents than the rest of the world put together". Chinese universities are producing more than 6,000 PhDs in science and engineering subjects a month, more than twice the number in the US. Although, as Donald Trump says, a bit of competition is no bad thing, in some sectors – EVs, lithium-ion batteries – it may already be too late to catch up. However, China faces plenty of headwinds, economic and, eventually, political, as demands for a less repressive regime grow. As for Keir Starmer's ambition for Britain to be an "AI superpower", "talk is cheap". China's success didn't happen overnight. It took a strategic view, invested heavily in specific industries and waited patiently for results. "There had been no dogged belief in market forces," nor an aversion to picking winners. "The contrast with the UK could not be more stark."

Small-state radicals take control

Editorial
The Economist

When it comes to slashing red tape, Donald Trump is "part of a global trend", says The Economist. For years, excessive regulation has "choked housebuilding, investment and innovation". But Trump's decision to "start by demolishing essential functions of government… is a formula for human misery and economic harm". Bold action is needed. Americans spend 12 billion hours a year complying with federal rules. The federal code has swelled from 20,000 pages in the 1960s to 180,000 today. The European Parliament has enacted twice as many laws as America in the past five years. Red tape has proliferated to deal with new threats, from online scams to climate change. We need rules and it's more convenient for governments to offload the cost of compliance. But even as certain groups benefit from each rule, "society at large bears its costs". Needed houses and infrastructure can't be built. Small businesses suffer the most; innovators and newcomers are deterred. Argentina's Javier Milei spent 18 months working out where cuts were needed and wasted no time when he took office. Its economy is now "growing again". If Trump risks being reckless, Europe risks being too timid. "The danger is that neither will get this right."

Trump is wrong to scrap aid

Editorial
The Washington Post

US foreign aid "creates an enormous bang for a relatively small buck", says The Washington Post. Across 204 countries, it provides life-saving drugs, purifies drinking water, helps remove land mines and much else. It is the "most visible symbol" of US soft power and a "demonstration of America's decency". In 2023, the $68bn spent on foreign aid equalled just 1% of the federal budget. Yet there are many who think taxpayers' dollars would be better spent at home and on his first day in office Donald Trump signed an executive order suspending all foreign aid for 90 days, pending a review. Exemptions were made for some emergency food aid and military assistance and secretary of state Marco Rubio has since issued some other critical waivers; nevertheless, the 90-day pause is still likely to cause suffering. It could, for instance, hinder refugee settlement and reverse gains in malaria prevention. "All in all, foreign aid is an extraordinarily effective policy tool." Helping to make the world healthier, wealthier and more stable generates goodwill and creates new markets for American products. Periodic reviews are needed, but the waiver should be expanded and the review conducted swiftly and fairly to avoid lasting damage.

The last hope for liberalism

Janan Ganesh
Financial Times

Europe's economic output is similar to China's and America's, yet you wouldn't know this from its absence from the AI debate, says Janan Ganesh. Why is this? Is it over-regulation, the lack of a complete single market, or of an "entrepreneurial culture"? Whatever it is, it's hard to "escape the conclusion" that Europe is prepared to "forfeit some economic dynamism for other things". This is why the "tech bros" around Donald Trump will "struggle to shape Europe". Their techno-libertarianism has less traction here, especially among the hard right, since nationalism is "bound up with paternalism to a degree that is alien to the US experience". Even though both sides would like to see "paralysis or destruction of the EU" (it would spare Silicon Valley a lot of regulation), the "idea that tech would get an easier ride from a fragmented, populist-led Europe could only be entertained by someone with no knowledge of, say, Marine Le Pen's economic platform over the years". In any case, "jingoists tend to fall out". Strongman X's wish to push his tech firms into foreign markets "rubs against Strongman Y's security paranoia and *amour propre*". Liberalism can always count on its enemies turning against each other.

Money talks

"Yesterday, Beyoncé announced her new tour… I will say, though… there's tariffs. We can't afford a new tour, right? Maple syrup is about to be $50."
South African comedian Trevor Noah (pictured), quoted on BBC News

"Foreign aid is taking money from poor people in rich countries and giving it to rich people in poor countries."
British development economist Peter Bauer, quoted on X

"Inflation means paying £20 for the £10 haircut you used to get for a fiver when you had more hair."
Pensions expert Ros Altmann, quoted in The Sunday Times

"I left Gucci never having to work again in my life because I had an enormous number of shares."
Tom Ford, former creative director at Gucci, quoted in The Sunday Times

"We have had conversations with the government about whether we really do have to pay it back. We do. There is no money anywhere, the government needs that money too. We get it. So it is really tricky."
Daniel Evans, co-artistic director of the Royal Shakespeare Company, on paying the first £1.2m instalment of the £24.4m loan the theatre company received from the Culture Recovery Fund during the pandemic, quoted in The Times. The loan won't be paid off until 2040

"The first lesson of economics is scarcity. The first lesson of politics is to disregard the first lesson of economics."
Economist Thomas Sowell, quoted on X

"The point of making art is not to win an award. The point of making art is to start a tequila brand so popular that you never have to make art again."
US comedian Nikki Glaser, quoted in American Vogue

Economics is not a science

lawliberty.org

Politicians are always promising higher standards of living, but are there reliable, objective measures to determine whether their policies are achieving their goals? asks Reuven Brenner. You would think so. Aggregate statistics are computed regularly in all countries to this end. Yet rarely are those numbers interrogated to see whether they are really measuring what is claimed. This is important because governments use the numbers to "rationalise bad policy" and they "raise false hopes" for improvements in prosperity.

Institutions around the world made vague calculations of national outputs and incomes for centuries, but it was only in 1932 that the US Senate first required their preparation with a view to informing wartime policy decisions, appointing the eventual Nobel prize-winning economist Simon Kuznets to be in charge of the operation. Yet by the end of the war and in later writings Kuznet became one of the "severest critics" of using his system in peacetime, when decision-making was once again decentralised.

In 1950, Oskar Morgenstern wrote a critique of publishing aggregate data without also noting that they are subject to massive errors. Alterations in taxes and regulations can dramatically change the meaning of aggregates and price indices, and too much aggregation "mixes the unmixable" to give us models that are "easy to handle", but tell us little. Yet such criticisms have had little effect and to this day aggregate statistics are used in much the same way as astrology to guide decisions.

History shows that it needn't be this way. In 1961, John

Cowperthwaite had no need for fancy statistics

©Alamy

Cowperthwaite became Hong Kong's financial secretary, but refused to compute any but the most rudimentary statistics. His argument was that the statistics only create political pressure to tax more, redistribute more and to (mis)manage the economy. His policies were nevertheless a spectacular success. In 1961, Hong Kong residents earned on average 25% of what their British counterparts earned. By 1990, they had "leapfrogged the Brits". They achieved this without recourse to statistics or macroeconomics, but with a simple flat tax and a stable monetary policy pegged to the US dollar. The result was an "economic miracle".

Defenders of aggregate statistics and the economic models and policymaking based on them will admit that what they are doing is not an exact science. But the reality is that it is not any kind of science at all. All "economic opinions rooted in aggregates are opinions", not science, "even when they wear the mask of science".

Trump's tax bombshell

capx.co

Upon taking office, US president Donald Trump instructed his government to tell the Organisation for Economic Co-operation and Development (OECD) that its deal on a global minimum tax – which had taken a decade to thrash out – was null and void, says Ryan Bourne. That leaves the UK, which has already integrated parts of that deal into law, in a "fiscal and economic quandary". Britain jumped in early in the hope that forcing multinationals to pay more tax on profits where they have sales and to pay a minimum of 15% of profits would lead to a jump in revenues. But it all depended on compliance, especially from the US, which is home to most of the world's largest multinationals. In adopting laws early, Britain now "sticks out like a sore thumb" as Trump takes aim at any country levying "discriminatory" tax on US firms. What should Britain do? Quickly repeal the relevant taxes and laws for a start. Then "pivot to diplomacy in earnest". The OECD deal is off the table, but there's still scope for "bilateral negotiations or narrower deals". The 25% corporate tax rate also needs to go – it makes no sense with Ireland on 12.5% and Trump planning a 15% rate. Labour's stated priority is economic growth. A US trade war and an exodus of British-based companies is "no route to that goal".

Why so many potholes?

laveenladharam.substack.com

Potholes cause motorists around £474m in damage each year, says Laveen Ladharam. And every year since at least 2011 politicians from all parties have promised action. In December, Keir Starmer committed £1.6bn to the problem. Yet our roads continue to get worse. Why?

Politics, like everything else, is all about incentives. Politicians have an incentive to maximise votes in order to win elections. A road without potholes is more or less invisible to voters. Potholes, on the other hand, are highly visible to voters, and so become a mini-battlefield where local politicians can gain ground.

Potholes are a political battleground

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The best thing to do about potholes is actually not to fix them, but simply to repair and maintain roads properly. But this takes time, increases traffic and is annoying. Then voters would complain about all the roadworks, and politicians would then promise to do something about that. In other words, there's no simple answer beyond changing the political culture. As Milton Friedman said, "unless you make it politically profitable for the wrong people to do the right thing, the right people won't do the right thing either".

It's still worth going to uni

conservativehome.com

Universities got caught up in the culture wars and conservatives are now wary of them, says David Willetts. That is a mistake. Going to university still boosts earnings. By the age of 31, graduates earn 37% more than non-graduates with at least two A-levels. Moreover, graduate earnings tend to grow for much longer than for non-graduates in vocational jobs, and graduates tend to stay in the workforce for longer. Over a lifetime of earnings, an undergraduate degree is estimated to be worth on average £280,000 for men and £190,000 for women, net of tax and student-loan payments, relative to what a non-graduate like them would have earned over their lifetime.

Setting targets for numbers going to university doesn't make sense, but informed personal choice and a diversity of providers will lead to outcomes worth having. Most young people want a decent career and to own a place of their own. Going to university boosts their chances of achieving that. Governments should plan on the basis that more people will go to university and to fund it properly out of increased fees.

Associated British Foods is an overlooked gem going cheap

Because the Primark owner is a family-owned business, it is passed over by the increasingly popular passive investment funds. That spells opportunity for private investors, says Jamie Ward

Primark sells bargain-priced clothes. Its products may not exactly be known for their durability, but its owner, Associated British Foods (AB Foods), has endured for decades. And like its clothes, AB Foods' shares look very cheap. In the last ten years, the company has become more profitable and executed its strategy well. Yet its shares have nearly halved. Even having fallen so much in the past ten years, however, over 30 years the shares are still up 14-fold. The company has been a great British success story and has the potential to carry on growing well into the future. Now is the time to consider an investment in this great business.

The cheap valuation seems nonsensical. It is probably a result of its unusual corporate structure, which has rendered it arbitrarily uninvestable to certain types of passive investor. Essentially it is a family business, with the Weston family maintaining effective control. As passive investment strategies have come to predominate in finance, shares in this type of conservatively managed family business are often left behind. This leaves a great opportunity for private investors.

A brief history of the business

As well as selling clothes via Primark, Associated British Foods is a multinational food producer with operations running from production and processing of raw materials through to the making and marketing of branded products such as Twinings and Ovaltine. It operates five business divisions, with Primark being by far the largest, making up roughly half the revenues and profits.

Grocery is the second largest part of the business. It produces branded food sold in supermarkets in 120 countries. UK consumers will be familiar with products such as Ryvita and Patak's. The other three businesses are AB Agri, which produces animal feed additives such as vitamin mixes for livestock; ABF Sugar, which produces roughly 2% of the world's sugar and employs 29,000 people globally; and the Ingredients business, which makes bakery products.

Given the dominance of Primark clothing across the five businesses, you could say that the word "Foods" in the company's name is odd. You could say the same for "British". AB Foods was founded by a wealthy Canadian businessman, Willard Garfield Weston, in 1890 in Canada, where it remains one of the country's largest businesses. The "British" in the name came in 1935 when the company ventured into Britain. It was founded here as Food Investment Limited before changing its name to Allied Bakeries. The current name was adopted in 1960.

Fleeing the Great Depression

The move to investing in the UK for the already wealthy and respected Canadian businessman was driven by the Great Depression. During the early 1930s, wheat prices collapsed and Canadian farmers were struggling to stay afloat. Sometimes it is assumed that the world economy was roaring in the 1920s and in a severe recession in the 1930s. This is not so. The UK economy in the 1920s was held back by strikes and depressed economic conditions. As the US entered its Great Depression in the 1930s, the UK emerged from its slump into a period of relative boom.

"In the long run a cheap company will not stay cheap, especially one with well-run diverse operations"

Willard devised a plan to revive parts of the Canadian economy by selling Canadian wheat to the UK. This had the advantage that Canadian wheat was much cheaper and generally of higher quality than that of the UK. Nevertheless, the plan would have probably failed had he simply intended to sell to British companies because a mixture of patriotism and mistrust would have turned away many potential customers. This eventually led him to the idea to set up a UK company to be the customer of Canadian wheat.

Initially, Willard bought small companies under the umbrella of the Canadian holding company. These were often small biscuit manufacturers and bakeries with antiquated factories. Once bought, they were combined into larger operations and modernised. In 1935, he moved to the UK with his family and formally founded the company that would become AB Foods. By the time the UK was fighting World War II, Willard was executive chairman of two large and expanding food production empires as well as the MP for Macclesfield. As war turned to peace, the companies continued expanding in their respective markets, with AB Foods focusing on biscuits and bread.

Branching out into clothes

The idea for Primark came about in 1969 when an Irish entrepreneur called Arthur Ryan opened a clothes store in Dublin called Penneys on behalf of Associated British Foods. Having proved its success, it expanded to other Irish cities before moving into the UK in 1973. However, the Penneys brand name couldn't be used outside of Ireland because the American retailer JCPenney owns it elsewhere. Eventually it was agreed that Irish stores could still be called Penneys, but in all other countries the name Primark would be adopted.

Today, the Primark business remains an Irish-headquartered retailer that is wholly owned by AB Foods. The British Isles remain the largest market for Primark, with 194 of its 451 stores located in the UK and a further 38 Penneys in Ireland. Just over half of all the stores are situated across the rest of Europe and North America, with 19 of the 22 stores opened last year in markets outside the UK and Ireland.

How its shares have fared

The share price of the company peaked in December 2015 at 3,600p. Since then it has been on a near uninterrupted decline. Having fallen to 2,600p at the start of the Covid-19 pandemic, the shares reached an absolute bottom at the end of 2022 at a level slightly higher than 1,200p. A period of respite ensued, but once again the shares have been waning. They are today barely half the price they were at in 2015.

AB Foods is a conglomerate in that it operates a great many businesses across its five divisions, covering a range of disparate activities. The consequence of the conglomerate structure is that there will always be parts of the business that are going through difficult periods. Equally, however, there will be parts that are doing well. In that sense investors in the company effectively gain a portfolio of businesses in a single stock. Taken as a whole, in contradiction of the share price, progress in the business has been very positive.

The long-term progress of the business can be seen when you compare how it was doing in 2015 when the shares were at their highest with how it is performing today. Back in 2015, ABF Sugar was the part of the business that was doing particularly poorly. Generally, it is difficult to operate in the sugar industry because many countries consider sugar a vital economic commodity. This means production subsidies are common, so the industry is prone to prices that are too low to make an adequate return. In 2015 the division posted a 2.4% return on capital, generating a measly £43m in profit from a near £2bn asset base. For context, £2bn in a bank account would have generated a similar amount without having to take as much risk. This £43m represented an 80% decline on the previous year.

The other three food businesses (Grocery, AB Agri and Ingredients) were all doing well. Together they generated a profit of £421m from a combined asset base similar to ABF Sugar. They were nearly ten times as profitable. These businesses operate in less challenging sectors to ABF Sugar and are therefore fairly consistent in their returns. Collectively these businesses grew at 17%, which, although good, was not enough to offset the decline in ABF Sugar's profits.

Primark picks up the slack

One might assume that if the four food divisions were actually generating lower profit than the year before, the shares would be weak. This was not so thanks to growing excitement about the growing Primark business. Having built up to the point of near saturation in its home markets, there had been concerns that Primark might struggle in foreign countries, especially the notoriously tough US market. But 2015 represented the year in which Primark reached scale internationally and was beginning to meaningfully contribute to company profits.

The most notable announcement that year was the successful opening of the first store in the US. Primark was by then generating £673m of profits and was for the first time more profitable than all the food businesses combined. In the consciousness of investors, the group had transitioned from being a stodgy, albeit well-run food business into a fast-growing clothes retailer with huge potential. In the nine years since then, only the smallest business (AB Agri) has fallen in profits. All the other parts have grown substantially, including ABF Sugar, which last year made almost 400% more than in 2015. The Grocery and Ingredients businesses have nearly doubled in size, while the Retail operation is 65% more profitable than it was. Taken as a collective, the company is doing well and profits are up 84% to roughly £2bn. Yet having been on a price/earnings (p/e) ratio of more than 30 in 2015, and having spent much of its existence on a p/e of around 16, today, the shares trade at less than ten times earnings.

Why so cheap?

The reasons for this stark cheapening in the shares are at least two-fold. First, although the growth over the intervening nine years has been consistent and steady, it has been perhaps slightly less than hoped for. It was hoped that Primark would roll out its store expansion more quickly having cracked the massive US market.

Nevertheless, markets are fickle and often irrational. The potential for expansion remains and is being steadily exploited. In 2015 there was one store in the US. Today there are 27, with six opened last year. There are 232 in the UK, so the potential scale in the US could be many multiples of the current size. Progress has been slow, but slow progress is still progress.

The second reason the shares are cheap is because of the way the stockmarket structure has changed over time. Stockmarket investment at a professional level is increasingly "passive" – that is to say stocks are not being picked individually, but rather entire indices are bought by funds seeking to track their returns. The consequences are profound. First, valuations of companies are not a factor in determining whether a share is bought, so cheapness can persist and become extreme – as can expensiveness. Second, many passive investment vehicles use basic rule sets to ensure their products appeal to as many investors as possible. These include stipulations of market liquidity – the value of shares traded daily – and restrictions according to whether the companies meet environmental, social and governance (ESG) criteria.

AB Foods' shares are disadvantaged by these stipulations. It is still a family business with 54.5% of the shares held by the Weston family. This means the shares are a lot less liquid than other similarly sized businesses, which reduces the amount passive investors buy. More importantly, because the family has effective control of the group (the current CEO is Willard's grandson, George G. Weston), it falls foul of the governance part of ESG. This for many passive investors precludes its purchase entirely. This has led to a situation where the shares have consistently become cheaper.

In the long run a cheap company will not stay cheap, especially one with well-run, diverse operations such as AB Foods. It might require patience, but an investment in the shares could prove very profitable in the long run and, with a dividend yield of more than 3%, it can provide a source of growing income. The shares have rarely been so cheap and the runway for continued successful growth looks promising.

Far out of favour

There's little appetite for Chinese stocks despite low valuations

There's no question that China has been a huge disappointment for investors. Over the past decade, the MSCI China index – the standard benchmark for foreign investors – has delivered a gross total return of 3.9% per year in sterling terms, barely half the already-disappointing return for the MSCI Emerging Markets ex China.

It used to be easy enough to argue that the overall market was poor because of the large number of state-controlled firms with little concern for their minority shareholders, but there were still excellent opportunities in technology or consumer goods. Yet that has been a harder case to make lately, since many of the big private-sector names have been weak over the past five years.

Still, taken at face value the market now looks cheap: the MSCI China trades on ten times forecast earnings. Certainly that reflects the presence of many poor-quality companies, but a valuation this low redeems a lot of sins for investors willing to take the risks.

Two problems that floored China

And there is no shortage of risks. We can come up with a list of reasons to worry about China in the medium term. There's demographics: the population is set to age faster than almost any other country. There's geopolitics – its territorial interests may one day bring it into direct conflict with other powers such as the US, particularly its insistence that Beijing should one day rule Taiwan, regardless of the views of the Taiwanese people. These are real concerns for investors over the next decade.

That said, we can find reasons to be bearish about almost any country and these have little to do with how poorly the economy and the stockmarket have performed over the past few years. Instead, we can put the immediate problems down to two things.

The first is the bursting of the real-estate bubble. Property had become a huge proportion of GDP – about 25% including both direct and indirect demand – and a key source of growth. It had also become wildly over-supplied, over-valued and over-indebted. The biggest problem with the decision to bring it to an end by curbing lending to developers is that the tougher rules came far too late. Policymakers made the same mistake as Western governments in the 2000s of letting a real-estate bubble run for far too long, with the result that tackling the problem became even more painful.

The second is the crushing of "animal spirits" in the economy, through a series of other crackdowns on tech firms, finance and some smaller sectors. As with real estate, there were often solid arguments for the government to intervene. The giant tech firms had taken advantage of limited regulation and state influence (compared to many sectors of the economy) to build dominant positions and to try to extend this as widely as possible. There was a risk of ending up with entrenched monopolies that harmed consumers and smaller businesses.

The problem was that the crackdowns showed all the traits that worry investors most about China: very sudden changes to regulations, no certainty on where the limits would be, a lack of fundamental private property rights and rule of law, and unambiguous signs that private-sector firms would be squeezed in favour of state-owned enterprises, and increasingly co-opted into serving the priorities of the government rather than shareholders.

"Investors feel that the government hasn't done enough to turn around the economy and it needs to do more… if it does, China is so unloved there is lots of potential for a rally"

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Investors have had little reason to celebrate in recent years

The government must do more

No wonder that foreign investors became relentless sellers and talk of China being "uninvestable" was common. The sluggish performance of the A share markets – stocks listed in Shanghai and Shenzhen – showed that domestic investors were becoming increasingly pessimistic as well.

However, last year there were some signs that the government has pivoted and is becoming more pro-growth and even a bit more pro-business. There have been some moves to boost consumption, support the real-estate sector and provide more financing for local governments. This led to a pop in Chinese shares in September, but the gains have not been sustained. Investors feel the government hasn't done enough to turn around the economy and that it needs to do more, especially in real estate. The widespread consensus is that the property sector is so influential there is no way to get growth going again without stabilising it in the short term. There is also a fair amount of optimism that the government will do more. If it does, China is so unloved there is a lot of potential for markets to rally.

There are three trusts in the China specialist sector. While they share many major holdings, they also feel distinctively different, which is helpful for investors. All trade on similar discounts of 10%-11% at present, so the decision is really down to strategy.

The largest by far is **Fidelity China Special Situations** (**LSE: FCSS**) at £1.6bn in assets, which last year merged with Abrdn China. One would not call this a value fund, but relative to the others it has a tilt to value and to mid-cap and small-cap stocks. It has the best return of the three over most recent periods, despite carrying the most gearing (23% now) in a tough market.

Next, at £225m, there's **JPMorgan China Growth and Income** (**LSE: JCGI**). This targets an annual dividend of 4% NAV, paid quarterly, but it doesn't specifically invest for income – the portfolio has a growth tilt. So some of the payout will come from capital, as is increasingly common with higher-yielding trusts.

Lastly, **Baillie Gifford China Growth** (**LSE: BGCG**), with £160m, is focused on growth stocks in sectors such as tech. This is the former Witan Pacific trust, which was turned over to Baillie Gifford with a new single-country focus in October 2020. The timing of this was not ideal given the crackdowns, and it has fallen a long way since (although better than JCGI). However, if the outlook is genuinely changing, its approach could be a beneficiary.

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Go global

Lands of opportunity for adventurous investors

Asia's communist dynamo

Vietnam has long been one of our favourite markets. The prognosis remains auspicious, says Alex Rankine

Investors complain that complex planning rules thwart infrastructure projects. Administrative bloat is blamed for burdening the state budget. Sound like Britain? It's not. This is Vietnam, and the government is responding in a decidedly non-Whitehall way. The one-party communist state is going all-out for growth, announcing sweeping reforms dubbed a "bureaucratic revolution". Hanoi plans to slash at least one in five civil service positions, and to abolish a quarter of government agencies. Major ministries are to be merged, says David Hutt in Deutsche Welle. The idea is for there to be more coherent government and less red tape.

Winning the trade war

MoneyWeek has liked Vietnam for a long time, but it has been a "sleeper hit". While nearby Asian giants hog the headlines, the country's consistently strong, compounding growth story has flown just below the market radar. In the mid-1980s Vietnam was one of the world's poorest nations. Then, market-friendly reforms (known as the "Doi Moi", meaning "renovation") transformed the war-wrecked economy into a global manufacturing powerhouse. GDP per capita has risen more than fivefold since the mid-2000s.

Today the nation of 100 million is among the workshops of the world. Shoes and clothing produced by the likes of Nike, Crocs and Adidas increasingly bear the label "Made in Vietnam". Electronics are booming, with Sony, Panasonic, Intel and LG all scrambling to set up factories. Korean giant Samsung alone has invested more than $22bn building up capacity in Vietnam, says The Wall Street Journal. Today, Apple has 35 suppliers in the country, triple the number it had before Trump's first-term trade war with China.

Vietnam was one of the major winners of the 2018 US-China trade split. Many multinationals hedged their bets by moving parts of their supply chains the short hop south of the Sino-Vietnamese border. Vietnam's economy used to be dominated by the entrepreneurial, formerly capitalist south. The investment influx has helped the more statist north catch up. Rice paddies in once-sleepy towns near Hanoi – the seat of government – have given way to billion-dollar factories that assemble smartphones and semiconductors for the world.

Donald Trump is back in the White House, but it's not clear that Vietnam will be a winner of a trade war re-run. Hanoi hasn't been targeted in Trump's first tariff flurry, but investors haven't forgotten 2019, when he branded Vietnam "almost the single worst abuser" of US trade. The country has become a victim of its own manufacturing success. Its trade surplus with America exceeds $100bn, the third largest in the world after China and Mexico. Trump, once he's finished quarrelling with Canada and Mexico, is sure to notice .US unpredictability is a huge source of risk for Vietnam, says Gareth Leather of Capital Economics. A tenth of Vietnamese GDP stems from US consumption of goods produced in the country.

"Pro-market reforms in the 1980s, known as 'Doi Moi', meaning 'renovation', transformed the long-term outlook. Vietnam's GDP per capita has quintupled since 2000"

That said, there are reasons for optimism. Trump didn't directly mention Vietnam on the campaign trail. He has mulled imposing a 10% "universal tariff" on all foreign imports, but that would establish a "level playing field" and wouldn't stop Vietnam's exporting momentum. The big risk is that Washington singles out Vietnam for higher tariffs, but there could be scope for leaders to negotiate a deal. For one thing, Hanoi could crack down on the re-routing of Chinese wares through its territory, a common strategy to dodge US tariffs, but one from which Vietnam gains little economically. Officials could also offer to buy more US soybeans, corn and Boeing aircraft to get on Trump's good side.

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Vietnam is a strong long-term growth story that many investors have overlooked

Foreign investors in Vietnam are not directly exposed to much of the export economy, which is in the hands of foreign-owned (especially Korean and Japanese) multinationals. Local stocks are dominated by financials (27.5% of the MSCI Vietnam index), real estate (25%) and consumer-facing businesses (17%). But the export sector keeps the rest of the economy running, and a trade downturn would be painful for everyone.

For British investors, there are two main London-listed funds to buy into the Vietnamese growth story: Dragon Capital's **Vietnam Enterprise Investments (LSE: VEIL)**, which focuses on listed stocks and pre-flotation opportunities, and the VinaCapital's **Vietnam Opportunity Fund (LSE: VOF)**, which takes in a broader range of assets including private equity. VEIL has gained a third over the past five years, with VOF up 47%.

The local VN equity index has returned 10% over the past year, but sentiment appears shaky. In the Biden years the financial press was full of stories about the genius of Vietnam's supple "bamboo diplomacy", which helps it thrive by trading with different geopolitical blocs. Yet recently the tone has darkened, with headlines asking whether Vietnam will be Trump's next target.

Domestic politics has also unnerved investors, with complex political manoeuvring seeing the country go through four presidents in three years. However, that rocky period now appears to be over, says Alexander Vuving in The Diplomat. The newly consolidated leadership has acted with "dizzying speed", rolling out plans for new infrastructure and radical administrative reform designed to make government more efficient.

Weak sentiment makes for reasonable entry prices. "Market valuations remain attractive," says Khanh Vu in the Vietnam Opportunity Fund's December fact sheet. On 10.3 times forward earnings, valuations are one standard deviation below the ten-year average. Add in forecast 13%-15% earnings growth for listed companies in 2025 and you have a decent set-up for a stockmarket upswing – just as long as Trump doesn't spoil the party.

A world of opportunity

Emerging markets offer strong, long-term growth and excellent value, says Rupert Hargreaves

Emerging-market (EM) equities have struggled to get the attention of investors over the past five years. Since 2020, the MSCI Emerging Markets Index has underperformed the MSCI Developed Market Index by a total of 45%, according to JPMorgan.

Virtually all of this gap can be attributed to the outperformance of the US and the underperformance of China. Chinese equities comprise 28% of the MSCI EM index, followed by Taiwan at 20%, although half of that is accounted for by Taiwan Semiconductor, which has a 10.5% weighting. TSMC is by far the largest holding and is more than twice the size of the next largest, China's Tencent at 4.5% of the index.

Cheap markets

The outperformance of the US equity market compared with the rest of the world since 2020 has driven relative EM valuations to multi-decade lows. The MSCI Emerging Market's forward price/earnings (p/e) ratio now stands at a 40% discount to developed-market peers, the biggest differential since 2006. On a price-to-book value basis, EMs are trading at a gap to developed markets not seen since 2001. That is just the headline figure; the valuation dispersion among EM equities is enormous.

According to JPMorgan's analysis, Chile, Turkey, Poland, Brazil and Mexico are all trading at discounts of 30% or more to their two-decade average on a forward p/e basis. Korea and South Africa are trading at discounts of 20% or more. On the other hand, Taiwan, Thailand and India are the most overvalued markets. These markets are trading at premiums to their 20-year average of between 21% to 28% on a forward p/e basis, although for Taiwan, the figures are skewed by TSMC.

Despite these low valuations, emerging economies as a group are expected to grow faster than their larger, developed peers in 2025. Analysis conducted by specialist EM fund manager Ashmore suggests they will grow 3.9% as a group in 2025, more than double the 1.5% predicted for developed markets.

Asian economies will lead the charge, with growth of 4.4% pencilled in for 2025. Outside Asia, the Middle Eastern oil-power economies are expected to underpin growth in the Middle East/Africa region to 3.6% in 2025. Eastern European economies are expected to chalk up growth of 3%.

These figures are subject to a high degree of uncertainty, as we have yet to see how Donald Trump's tariffs on key US trading partners influence trade. Last weekend Trump imposed tariffs of 25% on all goods from Canada and Mexico (excluding oil from Canada, which will be hit with a tariff of 10%) and tariffs of 10% on China. At the time of writing, however, he has paused the levies on Canada and Mexico by a month.

Mexico has the most to lose. Exports to the US accounted for 25.2% of its GDP as of March 2024, making it the most exposed to any protectionist trade policies. China is actually one of the least exposed countries. According to Ashmore, just 2.7% of China's GDP is tied to US exports. That's not to say tariffs won't have much of an impact on China's economy. Any trade restrictions are likely to be deflationary and could drive the country's policymakers to monetary stimulus or fiscal support to cushion the economic blow. The spillover effects of these policies could be a net positive for other emerging markets if the country unleashes its massive multi-trillion dollar fiscal surplus to save the economy.

The ultimate impact of a global trade war is difficult to determine, but that doesn't mean investors should give up on emerging markets. In fact, tariffs are likely to hit the pockets of US consumers more than anything else, and in recent years many countries have made huge progress in shifting their supply chains to deal with more protectionist policies.

In addition, there is more to the world of emerging markets than the traditional plays such as China, Mexico and Taiwan. Regions such as Poland, Turkey and South Africa are likely to escape the worst of the trade war and could even benefit as supply chains are rerouted. They also look incredibly cheap by historical standards.

These factors, coupled with the fact that US equities are currently priced for a Goldilocks environment, imply that adding historically cheap EM stocks to a portfolio and reducing exposure to expensive US equities could make sense.

©Alamy

Turkish stocks are on a 30% discount to their average valuation in the past 20 years

Active choice

When it comes to investing in EMs, active funds are usually the better choice. While passive funds are usually the best way for investors to build exposure to global markets, EMs tend to be less efficient, so there are more opportunities for outperformance with active fund management.

One example is the **Ashoka WhiteOak Emerging Markets Trust** (LSE: AWEM), which makes use of a team of in-country experts to pick stocks, which has helped it outperform. The trust offers an annual redemption facility for investors. The nature of EMs also means that investment trusts are often the best vehicle for investors to build exposure. The closed-ended nature of trusts means they can invest in illiquid securities, and EM exchanges are often far less liquid than their developed counterparts.

The **JPMorgan Emerging Markets Trust** (LSE: JMG) is another broad play on these fast-growing, undervalued markets. We also like the **Templeton Emerging Markets Investment Trust** (LSE: TEM). Also worthy of further research is the **Utilico Emerging Markets Trust** (LSE: UEM), which, uniquely in the sector, focuses on infrastructure and utilities in developing countries.

A new global powerhouse

India's growth rate has slowed recently, but there is still ample scope to benefit from its development


The labour force is set to keep rising until the 2050s

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Is investors' love affair with India beginning to cool? Foreign investors have now sold more Indian shares than they have bought in each of the past four months, with net outflows of $8.3bn in January alone. After a stellar run, India's stockmarket has come off the boil since the autumn, held back by concerns about the country's slowing economy. That's disappointing for investors who have become accustomed to outsized returns. Between 2020 and 2023, the country's stockmarket delivered a total gain of 90%, with further growth of 16% over the first nine months of 2024. Since September, however, the benchmark Nifty 50 index has fallen by 15%, the biggest drop in the past decade.

Where, then, from here? India's fans believe a return to form lies ahead. "We expect growth momentum to improve entering 2025, as government spending picks up again and consumer sentiment remains resilient," says Sukumar Rajah, director of portfolio management at Franklin Templeton Emerging Markets Equity. Others are more cautious. Deloitte points to the tough outlook for the world economy. "India will have to adapt to the evolving global landscape and harness its domestic strengths to drive sustainable growth."

Nevertheless, amid such uncertainty, the case for holding long-term exposure to India in your portfolio remains compelling. The country's economy remains on course to become the world's third-largest, possibly as soon as 2027. Demographics offer a huge dividend, with the number of working-age Indians as a proportion of the total population set to keep rising until the 2050s. The middle classes in India have been expanding at an average rate of 6% a year over the past 30 years. Their higher disposable income provides valuable impetus for household spending.

Early days

Importantly, moreover, India is still in the relatively early stages of the sort of economic transformation that propelled rapid growth in China in the 1990s and the 2000s. In manufacturing, for example, there is a huge opportunity to grow a sector that still only accounts for 20% of the economy; India's government has set a target of reaching $1trn-worth of goods exports by 2030.

Infrastructure spending also continues to offer support; India has built 75 new airports in the past five years alone and launched more than 20 metro rail projects. It now plans to invest a further $1.4trn over the next five years. Separately it is also investing $360bn to double the country's renewable energy capacity.

That's not to overlook the short-term concerns. The downside of that demographic dividend is that India suffers from a problematic oversupply of labour, with millions of Indians chasing jobs that both the public and the private sector are struggling to create fast enough. That is depressing wages, and stagnant real incomes are now affecting consumer spending.

In the vehicle sector, for example, car sales were much slower than expected in the final months of the year. Disappointing retail sales have prompted Western businesses such as Starbucks to slow their expansion in India. With consumption accounting for 60% of the Indian economy, the government's latest projection is for GDP growth of 6.4% over the year to 31 March. That would mark the slowest growth since Covid. The other question mark – and a perennial worry in India – is over the high prices investors pay for Indian equities. The market is on an average price/earnings (p/e) ratio of 23 times. That looks expensive compared with an average of 14 across emerging markets as a whole.

Still, for those investors who believe in India's fundamentals, the correction could represent an opportunity to get into a market at slighter lower valuations than in recent times. And some analysts argue that a premium to most other markets is justified given the country's long-term growth prospects.

"[If] earnings growth continues in the same vein as it has, that valuation quickly comes down," says Ben Yearsley, director of investment consultancy Fairview Investing. "This isn't a value or income market – it's growth through and through; alongside the US, Indian firms deliver the highest return on equity in the world." The quality of the Indian market is very high compared with other emerging economies, with a large number of companies and strong corporate governance standards. The choice continues to expand: India has seen more than 700 initial public offerings in the past three years.

It is also worth exploring routes into the market that provide value. Investors in India will almost all want to pursue opportunities through a collective fund to secure portfolio diversification and expert management. The UK offers several investment trusts that specialise in India; some are currently trading at significant discounts to their net asset value (NAV).

The **Abrdn New India Investment Trust (LSE: ANII)**, for example, trades at a discount to NAV of 18%. The fund offers a relatively defensive portfolio, and may therefore represent reduced risk. Another MoneyWeek favourite is the **India Capital Growth Fund (LSE: IGC)**, which focuses on small and mid caps, on a discount of 12%. There is also the highly rated **Ashoka India Equity Investment Trust (LSE: AIE)**, on a small premium of 1%.

The bottom line? Many investors will feel that the fact that Indian equities account for only 4% of total global stockmarket capitalisation underlines the scale of the long-term opportunity. In what will soon be the world's third-largest economy – and a powerhouse of global growth, even at slighter slower rates than in recent years – that looks under-represented. There may be further bumps to come, but India enthusiasts remain convinced of its potential.

"The middle classes have been expanding at an annual average rate of 6% over the past 30 years. Their rising incomes provide valuable impetus for long-term household spending"

Fruitful plays on the frontier

These markets can be extremely risky, but they offer access to exotic stocks in rapidly developing countries

The investment world loves to put stocks and bonds into nice, simple "boxes". Sometimes, though, the labels are misleading, and so it is with frontier markets. The idea seems simple. These exotic investment destinations countries represent the "frontier" and even have their benchmark indices, such as the MSCI Frontier Markets index. Dig a little deeper, though, and what constitutes frontiers seems haphazard. In order to make it into the emerging-markets index, a stockmarket needs to be "reasonably" liquid, open and somewhat transparent.

If it doesn't tick all those boxes, it could be relegated from the emerging-markets sector to the frontier one, even though some of the countries in the latter box seem misplaced. Take Vietnam, for instance. I was travelling there only last month, and I can't see that many differences between Vietnam, the Philippines, Malaysia and Indonesia, yet the last three of these proudly Asian and capitalist countries are officially designated emerging markets, and Vietnam isn't.

Sheltered from global trends

The reality is that frontier markets represent a ragbag of countries that don't quite fit the definition of emerging markets. That highlights one essential feature of frontier markets: they demonstrate country-specific returns rather than being influenced to a large extent by global factors. Frontier markets therefore typically exhibit a lower correlation with worldwide markets, while the link back to the rival global economic hegemon, China, is also much more blurred.

Frontier markets also boast some other valuable characteristics, namely favourable demographics (they comprise three billion people) and surprisingly robust fiscal governance with low levels of debt. Furthermore, many are under-researched and under-owned. How many people do you know who invest in Romania (a frontier country, but frankly not that different from Poland, an emerging market), or Kazakhstan?

None of this is to say that frontier markets are uninvestable. You can invest via an index from MSCI or S&P. The widely used MSCI benchmark carefully analyses whether a market has adequate turnover, a sufficient number of listings and whether it has attracted some interest from foreign investors. The index comprises 28 countries and 216 individual companies (with an average market value of just \$570m). Vietnam is the biggest country, with 25% of the index, followed by Romania (at 12%), Morocco (also near 12%), and Kazakhstan. Oddly, Iceland is also a top-five holding.

Performance has been adequate, although pedestrian. Since 2011, the Frontiers index has lagged the broad global MSCI ACWI (All Country World index, which contains both developed and emerging markets) in ten of the 13 years and only outperformed in three years (through to 2024). Annualised returns over the last decade are a meagre 2.6% compared with 6.5% for the MSCI global ACWI and 3.64% for the MSCI EM index.

Still, the stocks and countries in the index, and accompanying funds, are cheap, trading at a price/earnings (p/e) ratio of just 10.5 compared with nearly 22 times earnings for the ACWI. Moreover, by and large, frontier markets (probably because they are less correlated with, say, emerging markets, especially China) are less volatile than many of their global counterparts, although there is much more turnover in the index.

The frontier index is dominated by financials. Banks (big Kazakh and Romanian ones) comprise nearly 40% of the index, followed by energy stocks at 10%. IT barely gets a look-in (at under 1%). There's a paucity of funds (and London-listed stocks) offering exposure to frontiers, although the quality of what is available is surprisingly high. A single exchange-traded fund (ETF) from Xtrackers invests in all the stocks, the **S&P Select Frontier Swap (LSE: XSFR)**, but because many markets can be tricky to invest in, it uses swaps to get pure exposure. The total expense ratio (TER) on the fund is also a tad higher than at most EM trackers: 0.95%.

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Georgia's recent political turmoil has unsettled markets

The most popular way to build exposure to frontier markets, however, is through the **BlackRock Frontiers Investment Trust (LSE: BRFI)**, with a market value of £300m. This company trades at an 8% discount to net asset value (NAV) and offers a yield of just under 5%. Based on a strategy co-managed by Sam Vecht, Emily Fletcher, and Sudaif Niaz, it has produced impressive returns over recent years.

Over the last five years (through to November 2024), the fund made a total return of 45%; since launch, it has achieved 150% (well above any benchmark). However, it invests not only in frontier countries such as Vietnam, Saudi Arabia and UAE, but also in smaller emerging markets, such as Indonesia and Poland. Its main rule is to ignore the eight largest emerging markets.

Moreover, it adopts a bottom-up, stock-specific approach, which means top holdings include stocks such as US-listed IT business Epam Systems, which has large East European interests and owns Sea, a Singapore consumer internet company. Its managers are optimistic about prospects for frontier markets and note that with "inflation falling across many countries within our [sector], rate cuts have started to materialise in some countries. This is a good set-up for domestically oriented economies to see a cyclical pick up".

Moving further along the frontier, London also has a handful of Georgian stocks, namely private-equity firm **Georgia Capital (LSE: CGEO)**, a trust with a major stake in **Bank of Georgia (LSE: BGEO)**. Both London-listed stocks have had a good run in recent years as Georgia modernises and looks to the West. Still, both have seen that positive momentum stumble owing to recent political turbulence. That said, Georgia Capital trades at a chunky 52% discount to NAV, despite an impressive recent trading performance.

"The sector boasts favourable demographics and surprisingly robust fiscal governance, with little debt. Many markets are also under-researched"

Taiwan's silicon shield

Will the country's global dominance in computer chips be enough to keep China at bay? Simon Wilson reports

Why are semiconductors so important?

They are the essential components in the electronic devices that underpin modern life, such as smartphones, computers and TVs. And they're increasingly crucial to other sectors, too. A modern electric vehicle contains several thousand different semiconductors (or "chips") and they're vital to cutting-edge industrial and defence systems, and the expansion of AI. Microchips are the foundation stone of this century's global economy: China already spends as much importing chips as it does on importing oil, for example. But the fact that the vast majority of the most advanced chips are made in one place, Taiwan, raises geopolitical and economic concerns. It makes the vulnerable island a potential major choke-point in the world economy and raises the stakes over Beijing's goal of acquiring what it regards as a renegade province of the People's Republic. Already, during the Covid pandemic, the world got a taste of how a chip shortage can spiral into a supply-chain crisis and choke global trade, sending the prices of cars and other products soaring. A war in Taiwan would make that seem like very small beer.

How dominant is Taiwan?

The island's giant fabrication plants ("fabs") produce more than 60% of the world's semiconductors, and around 90% of the most advanced ones, using the 3nm process (meaning the line width between transistors has been whittled to just three nanometres, or three billionths of a metre). All of those are produced by Taiwan Semiconductor Manufacturing Company (TSMC), which supplies the likes of Apple, Nvidia, AMD and ARM. The share price of US chip-firm Nvidia has boomed in recent years due to its extreme market dominance in GPUs, the chips that power AI systems. But the US firm is ultimately reliant on Taiwanese foundries to make and package the crucial components.

How did Taiwan become so dominant?

As recently as 2009, Intel had 100% of the market for the then-leading 45nm chips. Taiwan's current dominance is rooted, first, in long-term state-backed investment since the 1970s (in close collaboration with the US) and the creation of TSMC in the 1980s. Second, TSMC's partnership with Apple, from 2011 onwards, pushed its frontier technologies and commercial clout ever further. Third, making the most advanced chips has become ever more difficult and capital intensive, requiring huge investment and years to scale up production. There are gigantic barriers to entry, and disincentives for other nations to try and catch up with Taiwan's unmatched flexible production network and world-class engineering talent pool. Those attempting it include South Korea, the US, Japan and China. And for Taiwan, achieving dominance in the sector is not just an economic issue, it's a strategic necessity. Its chip sector has long been known as the island's "silicon shield", or – more poetically – the "sacred mountain that protects the nation".

"Microchips are the foundation stone of this century's global economy: China already spends as much importing chips as it does oil, for example"

Protects it from what?

From the People's Republic of China (PRC). Taiwan has never been part of the PRC, and doesn't want to be, but Beijing is increasingly determined to make "reunification" happen. Driven by President Xi Jinping's vision of "rejuvenating the Chinese nation" and righting perceived historical wrongs, China has ramped up its campaign of diplomatic constriction and military harassment using air, sea and cyber forces. But Taiwan is far from just a symbolic prize. It's a close US ally at the heart of the "first island chain" of potential foes that surround the PRC – taking it would wreck the credibility of US security guarantees in the western Pacific.


©Getty Images
Taiwan's semiconductors provide better protection

Will China attack?

A full-scale invasion of Taiwan's main island would be a logistical nightmare: crossing 100 miles of open water to launch an amphibious landing on a natural fortress that has many cliffs and mountains, but few beaches. An invasion would also be a potentially existential gamble for the Chinese communist party. But it can't be ruled out. Some analysts think Xi has instructed his military to be ready to go by 2027; others say 2035 or later. Moreover, Beijing has other options, such as an attack on some of Taiwan's smaller islands, or starting a "soft" blockade that it then tightens to test Western responses. Any form of conflict has the potential to disrupt Taiwan's economy, with global knock-on effects. But a full-scale US-Chinese armed conflict over the island would be a global disaster. According to Bloomberg, that scenario could cost up to $10trn, around 10% of global GDP.

Does Donald Trump's win change things?

Yes, it introduces new layers of uncertainty for Taiwan. The first is geopolitical, in terms of how the US-China relationship develops in the wake of Trump's punitive tariffs. The second is economic, involving potential tariffs and trade barriers. It's not yet clear whether the US will continue to support Taiwanese manufacturing under the CHIPS Act and related incentives. Nor is it known (at the time of writing) whether Trump will follow through on last week's threat to impose up to 100% tariffs on Taiwanese-made semiconductors. The rationale is to force Taiwan's firms to the US, but the effect would probably be a cross-border trade war that drives up the cost of chips for US firms. In any event, TSMC has already begun making direct investments in the US; last month its 4nm fab in Arizona went into production. Assuming the administration decides against crippling tariffs, this could actually be a "historic opportunity" for Taiwan, says The Diplomat. A stronger presence in the US deepens Washington's stakes in the China-Taiwan relationship, and potentially makes the US more committed to Taiwan's defence. Greater integration, Taiwan will be hoping, could fortify the silicon shield.

Champion companies dominating their markets with critical products

A professional investor tells us where he'd put his money. This week: Charlie Huggins, manager of Wealth Club's Quality Shares Portfolio, picks three stocks

Most companies are, by definition, mediocre. Some are good. Fewer still are great. And a tiny minority are truly exceptional. These are the ones I want to own. I'm looking to invest in durable, adaptable and – above all – resilient businesses; those selling critical goods and services, with high levels of recurring income from loyal customers. I believe the three companies below pass these tests with flying colours.

Experian (**LSE: EXPN**) owns the world's largest credit bureau. It aggregates credit data from lenders, then sells it back to them. Without this data, banks would not be able to lend and the world economy would grind to a halt. Experian has successfully expanded into new applications, using its data in more ways to solve more problems for more customers in more industries.

Today, it helps over 180 million consumers take control of their finances. It assists over 150,000 businesses, not only with lending decisions, but in verifying online purchases, combating fraud, acquiring customers and becoming more efficient. It even helps US hospitals manage payments.

This evolution has been reinforced by significant investments in innovation, from its insurance marketplace allowing US consumers to search and apply for car insurance with a few clicks, to its major investments in analytics tools and software. The roll-out of these recently launched products has only just begun. And it could meaningfully accelerate Experian's revenue and profit growth over the next decade. I've never been so excited by its long-term prospects.

"Without Experian's data, banks couldn't lend and the world economy would grind to a halt"

A top picks-and-shovels play

In the California gold rush, it wasn't the gold miners who made the most money. It was the companies supplying the picks and shovels. **Danaher Corporation** (**NYSE: DHR**) has positioned itself as the picks-and-shovels provider to the medical-science industry.

The company provides diagnostic tests, life-sciences instruments and technologies for the development, manufacture and delivery of biological drugs. The diversity of its product portfolio, leadership positions in highly regulated markets and global scale add up to a resilient business that is difficult to compete with.

That said, it hasn't been plain sailing in recent years. The pandemic saw a boom in spending from pharmaceutical and biotechnology companies. When that trend reversed and these companies cut back on inventories, Danaher's revenue and profit took a hit. The good news is that demand for biological therapies is still growing rapidly. And with most of Danaher's customers having worked through excess inventories and returned to normal ordering patterns, the stage could be set for a return to growth.

©Alamy

Danaher is a key supplier to the medical-science industry

I highlighted **Roper Technologies** (**Nasdaq: ROP**) as one of my favourite shares last year for MoneyWeek. I have chosen to do so again because I believe the firm is at an interesting juncture. Roper owns 28 high-quality software and technology businesses, generating excellent margins and cash flow, and has a strong record of acquisitions and disposals.

But 2024 wasn't a vintage year. Tough market conditions for a few of its business subsidiaries held back organic growth. Those headwinds now appear to be easing and beneath the surface it is making excellent strides. Having disposed of its more cyclical businesses, Roper is now attempting to get the most out of its existing operations. This includes a sharper focus on strategy, talent and new product development, such as incorporating generative AI into its software solutions.

Roper's acquisition strategy is also evolving. There is a greater focus on "bolt-on" deals that can be assimilated into existing firms, and buying businesses at a slightly earlier stage of their development, with stronger growth prospects. In short, I think Roper's mid- to long-term growth prospects are improving. This could be the year that progress becomes more evident.

Paying for the green revolution

Investors in renewables have not been rewarded, says Bruce Packard. Will they fund the government's plans?

The government has promised to make Britain into a "clean energy superpower" by 2030. The UK's share of electricity generation from renewables currently stands at 46%, according to the government's own statistics, and the pledge calls for at least 95% to come from low-carbon sources. Getting there will involve doubling onshore wind to 35GW, tripling solar power to 50GW and quadrupling offshore wind to 55GW.

This will also require significant investment in storage and distribution. Last year National Grid, the network operator, raised £6.8bn in a rights issue as part of plans to invest £23bn over the next four years upgrading its transmission network to support the transition to renewables. Meanwhile, the 138-page Action Plan that UK Department for Energy Security and Net Zero (DESNZ) published in December says 29GW-35GW of batteries will be required by 2030, compared with less than 5GW installed today.

All told, this adds up to a lot of investment: if the targets are to be met, it implies that £40bn per year is needed between now and 2030. Therein lies the problem: where will that come from? With the government's own borrowing constrained by nervy global bond markets, it is unclear who is going to step up to fund these clean energy aspirations.

A significant amount of the renewables capacity that the UK has already built was funded by the stockmarket, amid a multi-year burst of enthusiasm for investing in green energy. In 2021 alone, there were nine initial public offerings (IPOs) of renewables investment vehicles that raised over £10bn, according to Hardman & Co, the sponsored equity research boutique. Yet this boom has since turned to bust.

The entire market capitalisation of the 20 renewable energy infrastructure funds (REIFs) listed in the UK has now fallen to just £10bn. Over the last two years, existing investors have seen a terrible return on their capital, and hardly any new money has been raised as markets have questioned the economics of the REIFs.

At the end of January, the average discount to net asset value (NAV) had slumped to 42%, according to data from ShareScope. The best of a bad bunch has been the Greencoat UK Wind, whose share price was "just" 20% below NAV. The worst performing was HydrogenOne Capital Growth on an eye-watering 74% discount (its cornerstone investors included Jim Ratcliffe and his chemicals giant Ineos).

Bond yields are only part of the problem

Some of this poor performance has been driven by fair-value accounting, which requires NAV to be marked down when the "risk-free rate" – effectively the ten-year UK government bond yield – has risen. An irony of fair-value accounting is that rising bond yields, caused in no small part by rising energy prices a couple of years ago, have discouraged investment in renewables. That's a shame, since more investment should have lowered energy costs and improved the country's trade deficit.

To be fair, rising government bond yields have also led to wider discounts to NAV across other investment trusts with illiquid holdings that are hard to value, not just the REIFs. Many private-equity investment trusts trade on much wider discounts than before: HarbourVest Global Private Equity has been as wide as 40% (see page 13).

"Government targets imply £40bn per year of new investment between now and 2030"

©Getty Images

Renewables funds helped pay for solar to roll out across the country

However, rising bond yields don't explain why the REIF sector has seen dividend cuts and now trades on an average dividend yield above 10%. This looks like distressed valuations given the UK government bond yield of 4.5%. Meanwhile, the stockmarket is now valuing some REIF assets at below the build cost of new projects. **Harmony Energy Income Trust (LSE: HEIT)**, a battery energy storage system (BESS) investor, reckons that new capacity costs £842,000 per MW. That compares with the £616,000 per MW that Harmony's market value implies for its existing assets, so in response it is in the process of trying to selling off its entire portfolio to realise value.

To understand what's going on, it's worth looking back to the TMT infrastructure bubble of the late 1990s. Strategy and management expert Richard Rumelt has pointed out that a terrible industry for shareholders will tend to have certain characteristics: i) a product that's an undifferentiated commodity; ii) everyone has access to the same technology; iii) buyers are price sensitive and willing to switch suppliers at a moment's notice to get a better deal; and iv) large sunk capital costs, but low marginal costs so that old capacity will continue to operate. He uses the example of Global Crossing and other fibre-optic cable firms, which failed spectacularly over 20 years ago as it became clear that it had over-invested in capacity and revenue collapsed. We can see similarities with the UK-listed REIFs, where demand is growing but has been outpaced by supply of new capacity.

Battered batteries

This was not how the story was supposed to play out. When Russia invaded Ukraine and the price of gas spiked in 2022, the REIFs enjoyed a strong tailwind. Combined cycle gas turbine (CCGT) generation became less competitive. Unlike renewables, which have a high upfront capital cost but low marginal cost (wind and sunshine are free), most of CCGT operating costs are the gas that is burnt to generate power. However, the

"REIFs will struggle to raise more money as investors question the deep discounts to fair-value NAVs"

challenge with renewables is that they are intermittent. Sometimes the grid can't cope with excess power at the wrong time (early hours of the morning for wind, midday for solar). At these times, renewable assets may need to be curtailed – that is, paid to be turned off.

The BESS sector provides a good case study for the problems. These giant batteries store excess power for a short period of time, which provides grid stabilisation and flexibility. Initially, they benefited. Yet as the price of natural gas returned to its long-term average, National Grid went back to relying on natural gas to balance demand. Thus energy storage funds such as **Gresham House Energy Storage (LSE: GRID)**, **Gore Street Energy Storage (LSE: GSF)** and HEIT have seen their share prices fall precipitously since the start of 2023. The ancillary services market, which provides short-term support, saw too much capacity for recent supply. Then in a nasty profit warning in February 2024, GRID complained that battery storage was being significantly underutilised in National Grid Electricity System Operator's Balancing Mechanism (BM). Excessive use of legacy gas-fired generation, which provides flexibility, resulted in oversupply in the wholesale market, reducing the revenue opportunity for BESS, which was unable to compete head-to-head with gas-fired generation. So BESS capacity went unseen in National Grid's control room and unused.

Using Rumelt's framework, battery funds were generating a commodity product (electricity) for a customer (National Grid) who was not only prepared to switch at a moment's notice to a different energy supplier (gas), but was also unaware of available capacity from BESS. This hit the energy-storage funds particularly hard and they have had to cut dividends.

The problems with ancillary services and BM seem fixable: these are a result of market failure, which, contrary to government policy, has created an incentive for burning gas over battery technology. The broader question is whether the government can now create an incentive for investors to provide anything close to £40bn for investment. For instance, if BESS has already struggled with overcapacity, then it stands to reason that as more MW of battery storage is added to the grid, returns could continue to disappoint. Note too that REIFs will struggle to raise more equity from investors as shareholders question the deep discounts to fair-value NAV. From that perspective, deciding to sell down assets may makes more sense for some of them than investing in new, and possibly loss-making, capacity. Many REIFs are now facing continuation votes, so management may come under pressure to liquidate their entire portfolios.

Still, this could be an opportunity. As investment in new projects slows, existing capacity could see more favourable pricing. Perhaps this signals that the worst is over for BESS funds such as GRID, GSF and HEIT, or the whole REIF sector. That said, improving returns for shareholders may well come at the cost of the government failing to achieve its ambitious targets.

Is the worst over for GRID?

Gresham House Energy Storage Fund came to market in 2018, aiming to profit from the increased need for energy storage to support intermittent renewable energy generation. Operational capacity has since increased from 70MW seven years ago to around 1GW at the end of 2024.

After Russia invaded Ukraine in 2022 and gas prices doubled, GRID's annualised monthly revenues peaked at around £210,000 per MW. It raised £150m of equity in May 2022 and a further £80m in May 2023. Since then revenues have collapsed by 80%, to around £30,000 per MW at the beginning of 2024. To fund ongoing construction of new capacity in such a difficult environment, the fund's net cash of £222m in June 2022 has swung to net debt of £140m September 2024. That equates to 60% of the current market cap of £240m, which of course is barely above the amount of money raised in 2022 and 2023. That's why GRID has had to suspend its dividend, focused on cash preservation and renegotiated its debt covenants.

The expected lifespan of a battery is ten to 15 years, yet this depends on usage: both the passage of time and the number of charging and discharging cycles determine a battery's longevity. However, GRID is now having to invest to replace its shorter-duration batteries with two-hour ones. The business case for four-hour batteries is starting to make sense, so we could see yet another round of investment required.

There's also the risk of new technologies, such as ceramic-oxide batteries, making the lithium-ion assets that all the UK BESS funds use obsolete. This field moves fast: in France, ProLogium is building a huge 48GWh solid-state battery factory at cost of €5.2bn. Hydrogen fuel cells, developed by companies such as Ceres Power, may also play a roll in reducing the strain on the grid from intermittent renewables supply.

In November last year, the management of GRID set out a three-year plan that assumes revenue of £45,000 per MW per year for uncontracted projects, in line with revenue conditions at the time. GRID is targeting £150m of earnings before interest, tax depreciation and amortisation (Ebitda) in three years' time, implying an enterprise value (EV) of just 2.5 times Ebitda. Then in a January trading statement, management said that revenue on uncontracted assets (504MW) had improved to £60,000 per MW in H2 2024. So it could be past the worst.

GRID has also signed a tolling agreement with Octopus Energy on 568MW (around half of its capacity), which should provide contracted, fixed-price, inflation-linked revenues. Interestingly, Gore Street said in its first-half results that it would not enter into tolling agreements given the prices observed, and suggested decisions to do so were driven by pressure from lenders that prefer to see steady revenue generation. Cycling rates are typically higher with tolling agreements, so can degrade the battery assets faster than otherwise would be the case. So the two biggest funds are taking different approaches.

GRID's NAV stood at £621m or 109p per share at the end of September, with operational assets valued at an average of £661,000 per MW. With the share price at 42p and the discount at huge 63% of NAV, management has recognised that investors are sceptical about fair-value accounting NAV. In response, GRID intends to improve disclosure so that investors can better assess cash flows and valuations. It also said this week that it would shift to levying fees on a mix of NAV and market value, rather than just NAV – a growing trend among funds that trade at a large discount.

Going back to work

Re-entering the labour force after retirement will give your savings a boost

David Prosser
Business columnist

Almost 15% of Britons over the age of 55 who have retired have gone back to work or are thinking about doing so, Standard Life reveals. The pension provider says most of those returning to work are choosing this course of action because they're short of money – either their living costs have risen, or their pension income doesn't stretch as far as they expected.

For many, the return to work will feel like a retrograde step, but going back could give you a major financial boost. Not only is it an opportunity to supplement your income with a salary today, but it's also a chance to build up more pension savings for the rest of your retirement years. Still, it's important to tread carefully to stay on the right side of the pension rules.

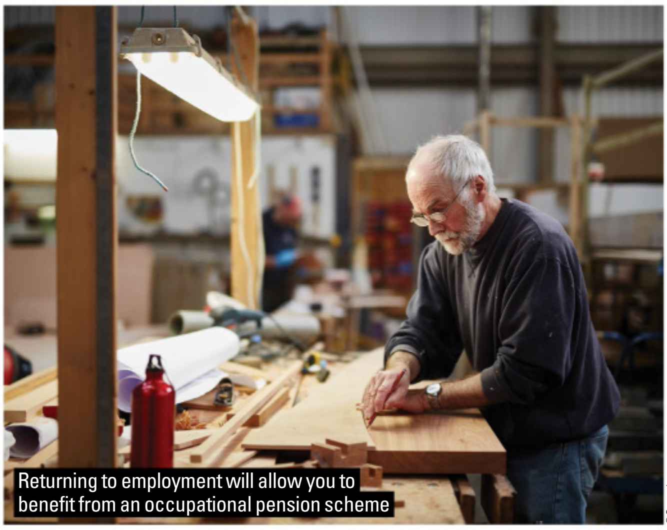
With your state pension, returning to work could give you a boost in two different ways. Firstly, unless you have 35 full years of national-insurance contributions, you won't be able to claim a full state pension when you reach the age at which this benefit is payable, currently 66 – working could help you reduce any shortfall.

Defer the state pension

Also, working for longer may enable you to defer claiming your state pension when you're entitled to, in which case you'll receive more cash when you do start claiming. For every nine weeks you leave it, your entitlement goes up by 1% – that's a 5.8% hike for each year of deferral.

You should also be able to boost your private pension income. Returning to work may give you the opportunity to join an occupational pension scheme, in which case you'll benefit from contributions from an employer, as well as out of your own salary.

Even if you set up an individual arrangement, rather than joining a workplace scheme, your savings will add up. And either way, you'll get tax relief at your highest marginal rate of income tax, providing a further boost. This can make a substantial difference to your financial position later on.


Returning to employment will allow you to benefit from an occupational pension scheme

Increase your savings

Standard Life calculates that someone working just one day a week for four extra years, even on relatively modest earnings, could increase their pension savings by £21,000, rising to £27,000 for someone working three extra days a week.

Nevertheless, you'll need to check your position carefully here. If you've already started taking money out of a private pension, you may have triggered the money-purchase annual allowance.

This essentially limits your future pension contributions to a maximum of £10,000 a year – the rules are designed to stop people recycling pension income to get another slug of tax relief on the money. Not all withdrawals trigger this rule. For example, you can normally take up to 25% of your pension savings as a tax-free lump sum without the money-purchase annual allowance becoming a problem. But you'll need to check where you stand, or risk an unexpectedly hefty tax bill on any contributions you make above the £10,000 cap.

Finally, while Standard Life's research focuses on people who have stopped work completely but are now going back, other studies have found a growing trend for more people to retire gradually. Cutting back on your hours gradually, rather than going from working full-time to complete retirement, can be a useful way to continue boosting your future retirement income. It may also be an easier way to adjust psychologically to stopping work.

Chancellor eyes pension surplus

Pension schemes have £160bn more than they need to pay out on the promises they have made to pensioners, says chancellor Rachel Reeves. She wants to change pensions legislation to make it easier for this cash to be invested productively in the UK economy.

But those proposals are worrying some experts. They say the £160bn surplus is purely hypothetical, largely reflecting the sharp increase in gilt yields seen over the past year or so, because this is the benchmark that actuaries use to make valuations of pension scheme assets. A fall in yields could see the figure come down or even slip into deficit.

Pension scheme members should also be concerned. If a scheme gives away its current surplus – by returning the cash to its sponsoring employer, say – it may find itself in a difficult position later on. The worst-case scenario is that the employer goes bust. In that case, the scheme has no one to make good on the deficit, putting members' pensions at risk.

This isn't scaremongering. Final-salary pension scheme valuations have swung up and down violently in recent years – and hundreds of schemes have had to turn to the Pension Protection Fund, a lifeboat arrangement, following the demise of a sponsoring employer. Pension scheme members and their representatives – including unions and scheme trustees – need to keep a close eye on these regulations.

News in brief... high earners may be missing out

- If you're a higher-rate taxpayer, did you claim higher-rate tax relief on your pension contributions on your latest self-assessment tax return? Private pension schemes automatically claim basic-tax rate relief on members' contributions, but you normally have to claim the higher-rate relief for yourself. A survey from Interactive Investor claims higher-rate taxpayers could be missing out on additional pension wealth worth £97,000 (from lost tax relief and investment growth on the money) by failing to do so. But it's not too late. Even after you have filed your return, you can write to HM Revenue & Customs with details of your contributions. You can also claim back for the past three tax years.

- Higher earners may need to increase their pension contributions to hit their retirement savings targets, Hargreaves Lansdown warns. Despite their additional income, less than a third of higher earners are on track for a comfortable retirement, based on the Pensions and Lifetime Savings Associations' (PLSA) retirement living standards. A moderate standard of living currently costs £23,300 a year for a single person and £34,000 for a couple.

- HM Revenue & Customs is finally to change rules that have caught out thousands of savers when making their first pension withdrawal in retirement. Savers have had to reclaim £1.3bn of excess tax charges over the past decade as HMRC's tax code system cannot recognise that the first withdrawal people make from savings – often sizeable – is not what they intend to withdraw regularly on an ongoing basis. But from April the tax authority will update its systems to adjust to people's circumstances more rapidly.

The maths whizz who shook Big Tech

Few people had heard of Liang Wenfeng until the launch of his DeepSeek AI chatbot wiped a trillion dollars off US technology stocks. His pivot to AI was of a piece with his past exploits. Jane Lewis reports

On the day of Donald Trump's presidential inauguration, the Chinese premier Li Qiang held a meeting with experts to consult on the government's policies for the year ahead. "It was a low-key event that got little attention outside of China," says Forbes. One of the few people to speak was Liang Wenfeng, "a bespectacled hedge-fund founder and AI entrepreneur" whose firm, DeepSeek, had just launched its latest model, R1. It took little more than a week for this relatively unknown maths whizz to morph into a disruptor of global magnitude – becoming, as the Financial Times put it, "the mysterious man who sparked an existential panic in Silicon Valley".

©Getty Images

"Liang wanted the respect of the US-led technology world. He now has it"

Driven by passion

By all accounts, Liang was as surprised as anyone by the ensuing trading frenzy, which wiped nearly a trillion dollars off US tech stocks. DeepSeek is now conservatively valued at at least $1bn (a funding round this week valued its US rival OpenAI at well over $300bn), and he owns about 84% of the Hangzhou-based firm. But money isn't his main driver. "An exciting thing cannot be measured purely by how much its worth," he told the Chinese media company 36Kr in 2023, adding that he'd been interested in "testing the limits of computer power since 2012". He went on to compare acquiring sought-after Nvidia chips "to buying a piano". You do it "because you can afford it" and "because you have a group of people who are eager to play music on it".

Plenty of people this week have dubbed Liang China's Sam Altman. But a better comparison than the OpenAI boss is with the legendary US "quant" Jim Simons – a pioneer of quantitative investment whose Renaissance Technologies fund has been using "machine-learning techniques" since the 1980s, says The Wall Street Journal. Liang wrote a preface to the translated Chinese version of Gregory Zuckerman's *The Man Who Solved The Market*, which explored how Simons launched "the Quant revolution". His turn towards AI, with the foundation of DeepSeek in 2023, was in many ways just a continuum.

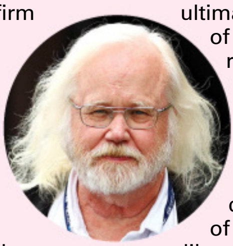
Born in 1985, Liang studied electronic engineering at Zhejiang University and started as a student to write AI algorithms to pick stocks. A few years after graduation, he founded investment firm Jacobi before launching High-Flyer with two college friends in 2015. "Unlike the founders of most Chinese quant funds, none of them had overseas or institutional trading experience," says Bloomberg.

A digital David

The trio tried different strategies – from discretionary trading to arbitrage – before settling on "a systematic approach". They developed a tool to identify "non-linear" connections between market factors and began incorporating integrated machine learning into High-Flyer's products – a strategy that helped High-Flyer's funds return more than 20% compared with market benchmarks, and saw assets under management multiply to more than ¥90bn (around £10bn) by 2021.

There have been "bumpy patches" too, says The Wall Street Journal. In 2021, High-Flyer apologised to investors for poor performance, saying it had misread the market. Two years later, it found itself in the crosshairs of Chinese regulators as they clamped down on quants – accusing them of exacerbating market volatility. But when Liang returned to his home village for the Lunar New Year holiday last week, he received a hero's welcome, as "a digital David fighting America's Big Tech Goliath" and a local boy made good. Yet he is a "reluctant celebrity". Who can blame him, given the fate of other high-flying Chinese CEOs who gained "a little too much" visibility, says TechCrunch. Colleagues say Liang "isn't one for the trappings of wealth or fame", says the WSJ. But he did once say that "he wanted the respect of the US-led technology world". It's safe to say he now has it.

The obsessive multimillionaire gunning for Formula One



©Getty Images

David Dicker – a tech firm founder, private-jet owner and, at least for a time, billionaire (pictured) – now lives in a mobile home, says Ainsley Thomson on Bloomberg. It's "way off grid" in New Zealand's Southern Alps with glorious views –but Dicker's "eyes are trained elsewhere".

In 1999, the entrepreneur, now 71, "upended his life" – he is CEO of Dicker Data, which resells PCs and other equipment and software for corporate clients – to focus on his passion: cars. His aim is to build one of the world's fastest and "win the ultimate prize": ownership of a Formula One racing team.

His racing-car company, Rodin Cars, is developing the FZero, a four-litre, ten-cylinder car with a top speed of 224mph that looks like a Batmobile and has just a single seat, says Top Gear. It is like other track-focused hypercars, such as the Aston Martin Valkyrie or the Mercedes-AMG One, but "none look quite as outrageous" as the FZero – "and that's saying something". Put aside somewhere in the region of £1.8m if you fancy one.

While in his 20s, Dicker had not figured out how he was going to make money, but he knew he wanted a private jet, says the Australian Financial Review. He would drive past a park for the jets south of Sydney and think, "how good would that be?" – but it seemed "totally out of reach… impossible".

Aiming for the impossible is what Dicker thrives on, however. He bought a jet a few years ago and more recently upgraded to a $75m Bombardier Global Express 7500. Dicker attributes his success at Dicker Data, which now generates more than A$3bn in annual revenue, to choosing the right business – the high-growth tech sector – the ability to scale the company, a tight control on costs and his competitive nature and commitment. "You need a commitment bordering on obsession," he says.

Success in his quest for an F1 team may, however, prove more elusive, says Bloomberg. In 2023 he bid for a team and lost out to a partnership between former F1 racer Michael Andretti and General Motors' Cadillac. He's already spent $64m on Rodin, but hundreds of millions may be needed. Dicker is "undaunted". "I'll just keep pressing ahead until I either get in there or I die." After all, as he told Forbes Australia, "achieving things" is "what life's all about".

A relaxing retreat by the sea

Seaham Hall in County Durham is perfect place to unwind, says Kalpana Fitzpatrick

Seaham Hall is a beautiful Georgian house set into the cliff tops of County Durham. It offers the perfect escape for couples looking to get away from it all, or those seeking a little rest and to relax on their own. While I was checking in, I could hardly believe I was about to spend the night in a room named after Lord Byron, who married Annabella Milbanke in this very building in 1815.

On entering my Milbanke junior suite, I was blown away by the sheer size of it, the beautiful plum and gold-coloured decor and the luxurious bathroom with its large, free-standing Victoria & Albert bath and walk-in shower. The view over the gardens was similarly breathtaking.

Seaham Hall: step into the elegant Georgian setting where Lord Byron wed Annabella Milbanke

Beautiful suites and lodges by the sea

The Milbanke suite is one of several suites that have been refurbished and each has its own unique decor and theme. The rooms offer all the amenities you would expect from a luxury hotel. There is, for instance, the usual dressing gown and, of course, fluffy slippers. And there is a Nespresso machine with a complimentary tray of treats. The toiletries by Temple Spa in the bathroom, meanwhile, smell simply divine and they leave you with that feeling of having just enjoyed a spa treatment. Whichever suite you stay in, you will feel as if you have escaped into a world of your own.

Of the other suites at the hotel, The Ada Lovelace suite – named after Lord Byron's daughter – is particularly lovely. It is a mezzanine split-level room with views over the property's beautiful grounds. If you are visiting Seaham Hall with friends, you will want to consider staying in one of the hotel's coastal lodges. Each sleeps up to four people, has views over the sea, and you get your own hot tub.

Be sure to book a treatment at the spa

You could be forgiven for never wanting to leave the comfort of your room. But you also won't want to miss the experience of visiting the award-winning Serenity Spa. It has treatments and facilities that will make you want to extend your stay.

I opted for the "top to toe" ritual treatment, which left me feeling completely relaxed and rejuvenated. And with 17 treatments rooms, the spa is well-equipped to cater to larger groups of friends as well.

Among the other facilities at the spa, you will find a salt sauna, eucalyptus steam room, cold plunge pool, hot tubs, a hydrotherapy pool and a 20-metre swimming pool.

The water bed in the Elephant Shanti lounge area, meanwhile, is the perfect place to relax with a book.

You can also book skin, health and wellness treatments at Novara, which is also part of Serenity Spa and has just opened. And there is a fully equipped gym and fitness studio, where scheduled yoga and pilates classes take place.

I tried a yoga class before dinner and found it to be the perfect activity before exploring the hotel's dining options.

> *"The spa has treatments that will make you want to extend your stay"*

Relaxed pan-Asian dining and a more formal option

Whether you are in the mood for a culinary treat after your spa treatment, or you are simply look forward to a relaxing evening, Ozone is the place to come. It is Seaham Hall's pan-Asian restaurant in a beautiful setting and you can even dine in your dressing gown if you so wish. It really is a moment to relax and enjoy good food, such as steamed gyozas, a spicy Szechuan stir fry, or steamed pork bao buns.

The Dining Room is Seaham Hall's more upmarket restaurant. It has recently been refurbished to provide the perfect, tranquil setting, with 14-carat gold-plated chandeliers and the large Georgian windows afford mesmerising views as you dine.

For something truly special, there's also afternoon tea with sandwiches and sweet treats. As a vegetarian, I found I had plenty of options at each of the restaurants.

Hunting for glass pebbles from a bygone era

You will undoubtedly want to take a walk along the coast, where you can't help but notice how many people are on the beach crouched down hunting for "sea glass" – waste glass that was dumped into the sea by factories in Victorian and Edwardian times. Today, the glass makes little treasures you will want to collect and use to make jewellery.

I decided to get involved and found some beautiful bits of glass that had spent decades in the sea and now lay glowing among the pebbles.

Kalpana was a guest of Seaham Hall. Nightly rates start from £299 in a Junior Suite on a B&B basis. For more information or to book, visit seaham-hall.co.uk

©Sean Elliott/ Seah Hall

The end of the ICE age

Porsche salutes the internal combustion engine with one of the best cars ever made

The era of the internal combustion engine (ICE) is winding down and we are stepping boldly into the electric-vehicle (EV) age, says Matt Robinson in The Sunday Times Driving. But it's "hard to shake the feeling that these exciting, visceral machines are the equivalent of the last, gigantic fireworks at a public display – the manufacturers giving us one huge, glittering and loud show-stopper to... end the performance and send everyone home satisfied". The new Porsche 911 GT3 is a case in point. They don't come "much louder, more dazzling or stupefying" than this.

Its "high-revving screamer of a flat-six engine… gives off the impression that you're looking up into the night sky as one of the enormous rockets of the ICE era bursts into an iridescent, golden shower of light. An act followed by… 'oohs' and 'ahs', before the dark and cold sets in for good". We can at least be thankful that the 911 GT3 "ever existed in the first place".

A brilliant all-rounder

This, the 992.2 generation of the 911 GT3 comes in two body styles – "regular" and "touring", of which the latter has a "cleaner, wingless body" and, for the first time, offers the option of two rear seats, says James Taylor in Auto Express. But the new GT3 still drives its rear wheels via that naturally aspirated 4.0-litre flat six. It does develop slightly less torque due to measures to cut its exhaust particulate emissions, but the peak power output is the same 503bhp, revving to the same "magic" 9,000rpm red line as its predecessors. On the racetrack, this GT3 is "more capable than ever" and it accelerates more eagerly than previous iterations to compensate for the slightly reduced torque, while the shorter gearing makes it perfect for winding roads – "the GT3's more natural territory". It still "possesses all the qualities that made its predecessor special, building on its agility with redesigned suspension and steering". As a result, the GT3 "remains one of the most satisfying and thrilling" cars on sale.

Both the regular GT3 and the GT3 Touring cost £157,300 before options and buyers should expect to pay "a fair bit" more than the base price, says Matt Prior in Autocar. But given there are bound to be more customers than cars, "it is what it is". That said, there is no official production limit other than what suppliers are able to supply. So, provided you are prepared to wait, you should eventually get what you want. What you will get is a "fast and unfiltered, bristling and busy, super-agile and immersive" GT3 that is simply "wonderful", whichever version you choose. "It is nothing short of spectacular… We are talking about a car with a possibly unique blend of road and track ability." That Porsche has been able to create such a car is "remarkable". "No one else quite makes a car like this at the moment… It's the best all-rounder."

Visit porsche.com/uk for details.

Wine of the week: an elite South African chardonnay

2024 De Wetshof Estate, Bon Vallon Chardonnay, Robertson, South Africa

£15.95, finewinedirect.co.uk

Matthew Jukes
Wine columnist

I first visited De Wetshof some 20 years ago. Back then, this impressive winery, overlooking the Breede River, in the relatively cool and breezy climate of Roberston, was already acknowledged as a global chardonnay specialist. I toured the estate with Danie De Wet and was delighted to meet his wife, Lesca, who was responsible for this famous brand's image and crisp label designs. I also met a very chirpy fellow, marketing whizz-kid Bennie Stipp. While the De Wet family, including the next generation Johann and Peter, are the visionaries and the driving force behind the winemaking style of these classically dimensioned wines, Bennie's boundless enthusiasm made a lasting impression on me. While I rarely bump into him, whenever I do, it seems like time has stood still. He is full of beans and eternally optimistic, and his outgoing character suits these energetic and vivacious wines down to the ground (pun intended). So, when Bennie sent me an email saying the new raft of De Wetshof chardonnays was on its way to the UK, I jumped at the chance to taste them.

As luck would have it, the first wine to break from the blocks is my favourite. Bon Vallon is unoaked and gathers its mid-palate gravitas from careful lees ageing. Combining elite flavours matched to irresistible value for money, this is a beautifully balanced, discreetly layered wine.

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

This week: houses for around £1m – from a wing of a Grade II-listed Victorian manor house in Sunderl

Newland House, Bay Horse, Lancaster. A substantial part of a three-storey period property with a courtyard and gardens. It has a grand entrance hall and drawing room, period fireplaces and a breakfast kitchen with an Aga. 6 beds, 5 beds, dressing room, 3 receps, music room, library, cellar. £950,000 Fine & Country 01524-380560.

The Old Rectory, Clovelly, Bideford, Devon. A former rectory on the Clovelly Estate now in need of some updating and set in wooded grounds with views towards the coast, just half a mile from Clovelly Beach. 8 beds, 2 baths, 3 receps, games room, breakfast kitchen with Aga, summer house, 1.73 acres. £1m+ Knight Frank 01392-848846.

Wested Farmhouse, Eynsford Road, Crockenhill, Kent. A Grade II-listed Queen Anne former farmhouse with walled gardens on the outskirts of a village. It has exposed beams, wood floors, open fireplaces, sash windows with the original wooden shutters, and a living room with French doors leading onto the gardens. 8 beds, 3 baths, 2 receps, study, garden room, breakfast kitchen, games room/gym, cellar. £1.1m Jackson-Stops 01732-740600.

and, to a brick-and-flint cottage in Cley next the Sea, Norfolk

Erwan Fach, Llangrannog, Ceredigion, Wales. A refurbished 1730s former farmhouse with far-reaching views across the surrounding countryside and the coast. It has wood floors, modern wood-burning stoves, a sunroom with bi-fold doors overlooking the bay, and a large dining kitchen. 5 beds, 3 baths, recep, sun room, dining kitchen, stores, barns, outbuildings, parking, decked dining area, gardens, 7.5 acres. £975,000 Fine & Country 01974-299055.

South Knoll, Cley next the Sea, Norfolk. A classic Norfolk brick-and-flint period cottage surrounded by landscaped gardens overlooking Cley Church, with a detached wood-clad studio in the garden. It has beamed ceilings and an open fireplace. 3 beds, 3 baths, breakfast kitchen, recep. £975,000 Sowerbys 01263-710777.

The Cottage, South Rauceby, Sleaford, Lincolnshire. This mid-17th century house has later Gothic Revival extensions designed by the architect Augustus Welby Pugin, and was briefly the home of Prince Albert. It has panelled walls and French doors leading onto a stone terrace and landscaped gardens. 7 beds, 4 baths, 2 receps, study, kitchen, breakfast room, studio, coach house, woodland, 1.13 acres. £1m Savills 01522-508908.

The Garth, Undercliff, Cleadon, Sunderland. The west wing of a Grade II-listed Victorian manor house situated in a village just a short distance from Seaburn Beach. The house has leaded-light windows, wood floors, internal stone arches, period fireplaces, a grand entrance hall with wood panelling, and a raised terrace that leads down to formal gardens. 4 beds, 2 baths, 2 receps, study, breakfast kitchen, summer house, parking. £1m Finest Properties 0330 111 2266.

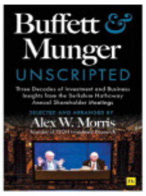
Copenhagen Gardens, London W4. A refurbished mid-terrace freehold house in a secure gated development with off-street parking and a garage, a short walk from Chiswick High Road. It has wood-block floors, a newly fitted kitchen and an orangery opening onto a terrace that leads to a home office situated in the garden. 3 beds, bath, 2 receps, kitchen, garage, garden. £1m+ Knight Frank 020-3927 6315.

Book of the week

Buffett & Munger Unscripted

Alex Morris

Harriman House, £29.99



There are already a huge number of books on investment legends Warren Buffett and Charlie Munger, covering everything from their biographies to their investment philosophies. Readers could be forgiven for rolling their eyes as yet another one hits the shelves. Can there really be anything fresh to say about either of them?

It turns out that there is. Alex Morris's book proves to be far more than just another attempt to cash in on the legions of fans who follow the "Sage of Omaha". It is based on Buffett and Munger's responses to questions put to them at the annual meeting of Berkshire Hathaway, the holding company for the conglomerate/investment fund that the duo ran for six decades, beating the market by a compounded average of nearly 10% a year. Morris has looked at more than 1,700 responses over three decades, extracted the most interesting material, and grouped them together by topic, spread out over 13 chapters.


Still worth listening to after six decades on the road

©Getty Images

> *"Can there really be anything fresh to say about Buffett and Munger? It turns out that there is"*

A distillation of wisdom

If you've read even a portion of all those books previously published, you will have heard much of the advice before – the importance of buying good-quality companies at a reasonable price, why it is important not to diversify too much, and why you should not pay too much attention to short-term market swings, for example. However, even when you have heard it all before, the responses provided here give insightful additional detail and context. We learn, for example, why Buffett moved away from his "cigar-butt" approach – buying stagnating or declining companies at a rock-bottom price for "one last puff" – which he first employed when he began working for Benjamin Graham. Under the influence of Munger, he began to see that more money could be made from buying great businesses at fair prices.

The responses from multiple years are placed together, so we get to see how Buffett's and Munger's views evolved over the years, and where and why they got it wrong. In the 1990s, Buffett and Munger were heavily invested in local newspapers, for example – because the grip they had over advertising in their area made them extremely profitable – only for newspapers' value to collapse with the rise of the internet. The duo also admit that they were too quick to dismiss the technology sector as being outside their area of expertise – had they looked closer, they would have realised that companies such as Google exhibited many of the desirable features they looked for, such as having a large "economic moat" to fend off competitors. This distillation of Buffett's and Munger's investment wisdom is well worth reading.

Reviewed by Matthew Partridge

Floor Rules

Culture in Financial Markets

Mark Geiger

Yale University Press, £25

Many people who have lost money investing in stocks will be tempted to conclude that the fault lies not with their own mistakes, or even bad luck, but with a shadowy cabal of "insiders" who have "rigged" the markets. This is mostly nonsense. But as this book shows, market insiders have on occasion been able to use their position to gain an edge over ordinary investors.

The book gives five case studies of such insider manipulation. One looks at the "pools" and syndicates led by speculators such as Daniel Drew that flourished on Wall Street in the mid-19th century; another at the attempts to corner commodity markets in the late 19th century and the relationship between the various traders in the interwar Chicago Board of Trade. The book also considers the Libor interest-rate-rigging scandal and the debate over the use of private messaging apps by those on the trading floors of investment banks in modern-day New York.

Two positive messages emerge. One is that although financial chicanery is remarkably hard to eradicate completely, there is much less of it about now than there used to be. The second is that the real losers from the mischief aren't ordinary investors who take a long-term approach, but rather those trying to make a quick buck in the belief that they had "insider knowledge" – only to discover that they weren't quite as close to the inner circle as they had thought they were.

Book in the news... a frustratingly unrevealing autobiography

Freedom

Memoirs 1954–2021

Angela Merkel

Macmillan, £35

Few world leaders have seen their good reputation evaporate as rapidly after leaving office as Angela Merkel has. When she stepped down as German chancellor in 2021, following 16 years in office, it was still possible for pundits to portray her as the voice of centrist reason. Since then, the Russian invasion of Ukraine and the continued rise of the populist right in Europe has forced even her most ardent apologists to admit that many of her policies – allowing huge increases in the numbers of immigrants during the 2015 migrant crisis with the cheery assertion "Yes, we can" (cope with the inflows), for example, and shutting down Germany's nuclear-power industry, making the country ever more reliant on cheap energy flows from Russia – were at best unwise. At the end of last year, Merkel put her own side of the story in her memoirs.

The book covers Merkel's life from childhood to the end of her time in office. The first third of the book, which deals with her life growing up in East Germany, gives fascinating insights into existence under the communist regime, and the moral dilemmas and compromises people living under it had to face. Merkel herself was in a particularly difficult position – although her family had deliberately chosen to live in the East, her father's work as a priest and her own frank views about the shortcomings of the regime made her a target of suspicion.

Unfortunately, the rest of the book is not nearly as interesting as the first third. Merkel is guarded about her time in office, and gives a rather dry account of the period in which she was Germany's leader. Even after wading through over 700 pages, the reader is left struggling to get a feel for what Merkel really thought as she made decisions that determined the future not only of Germany, but of Europe as a whole. Consequently, whether the reader is one of Merkel's fiercest critics or strongly approves of her leadership, they are unlikely to find anything here to change their views, which makes this a rather frustrating memoir to read.

Bridge by Andrew Robson

Co-operative control-bidding

After a lovely co-operative control-bid auction, the marginal Six Heart slam was reached. Plan the play on a Spade lead to the Queen.

Dealer South — North-South vulnerable

North: ♠ 97 ♥ K984 ♦ AK864 ♣ 107

West: ♠ J532 ♥ 1052 ♦ Q753 ♣ K2

East: ♠ Q1086 ♥ J3 ♦ J9 ♣ Q9543

South: ♠ AK4 ♥ AQ76 ♦ 102 ♣ AJ86

The bidding

South	West	North	East
1♥	pass	2NT*	pass
3NT**	pass	4♦***	pass
4♠§	pass	5♦§§	pass
5♠§§§	pass	6♥§§§§	end

* Jacoby, showing a game-forcing Heart raise. Normally you'd have 12+ points but this hand clearly qualifies: all the honours in the long suits, and a robust five-card Diamond suit.

** 15-19 balanced.

*** Control bid.

§ Return control bid, showing serious slam interest as he has gone beyond game.

§§ Having control-bid Diamonds once already, this second control bid in the suit shows Ace-King.

§§§ Ace-King of Spades and grand-slam interest (therefore, inferentially, also the Ace of Clubs).

§§§§ But North is all bid out (some would say more than ...).

Winning the Ace of Spades, declarer crossed to the King of Diamonds and returned to his Ace of Trumps. He then led a second Diamond to the Ace and followed with a third Diamond, seeking to set up the suit. East ruffed with his Knave and declarer overruffed with the Queen. Declarer led a low Trump to dummy and it was crunch time. Did East start with Knave-ten-small or Knave-small?

Using the Principle of Restricted Choice (if East held Knave-ten he might have ruffed with the equal ten), declarer successfully finessed the nine of Trumps (East discarding). He ruffed a fourth Diamond, cashed the King of Spades, ruffed a Spade, tabled the fifth Diamond, and merely lost a Club at the end. Twelve tricks and slam made.

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

Sudoku 1246/1247

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

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.

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

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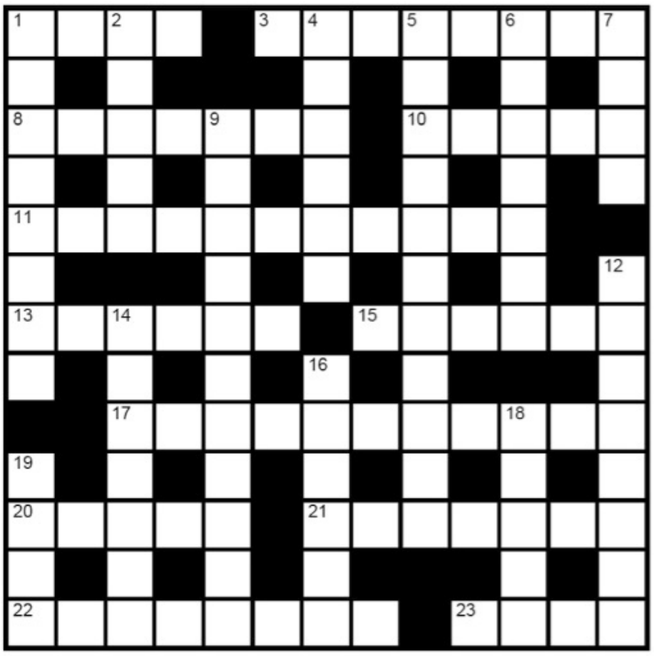
Tim Moorey's Quick Crossword No.1246/1247

TAYLOR'S PORT

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 17 Feb 2025. By post: send to MoneyWeek's Quick Crossword No.1246/1247, 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. 1246/1247 in the subject field.



Across clues are cryptic and down clues are straight

ACROSS
1 Former US president down, not up (4)
3 Pasted on building blocks (8)
8 Charles about to to rent properties in Klosters? (7)
10 Tango danced in South Seas kingdom (5)
11 Where rents go, strictly speaking (2,3,6)
13 Trojan hero, one seen fighting about lead of Aphrodite (6)
15 Correct name circulating, say for riding school (6)
17 All is revealed as price of grouse increases? (3,4,2,2)
20 Foreigner who's returned in a flash (5)
21 Stainer arrangement produces crying (2,5)
22 Rarely drunk with eg flavoured drink (4,4)
23 County where people go to retire? (4)

DOWN
1 Rocky island in California (8)
2 Precisely right (5)
4 Off-white colour (6)
5 Property manager (6,5)
6 English racecourse (7)
7 Swindle (4)
9 Extremely high or large (3-8)
12 Violent storms (8)
14 Unjust (3,4)
16 Superficial (6)
18 Partial darkness; colour (5)
19 First-class (1-3)

Name

Address

email

Solutions to 1244

Across 1 Spool *s pool* **4** Unclean *uncle a n* **8** RAF *raf(t)* **9** Mail order *anag* **10** Expense *ex Pense (Mike P)* **11** Trade *trad E* **13** Thinking aloud *homophone* **16** Elgin *anag* **17** Tempers *hidden* **19** Hollywood *Buddy H Natalie W* **21** Awe *homophone* **22** Soirées *o inside seer is reversed* **23** Cadet *hidden reversed* **Down 1** Surfeit **2** Offspring **3** Lemon **4** United Nations **5** Croatia **6** End **7** Nerve **12** Aforesaid **14** Kintyre **15** Descent **16** Ethos **18** Medic **20** Lei.

The winner of MoneyWeek Quick Crossword No.1244 is: Paul Keogh of Cheshire

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

Desert island tips

What would you buy and hold for ten years in this environment?

To get to where you're going you have to have a good idea of where you are

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Bill Bonner
Columnist

We are living through the biggest credit bubble in financial history. The risk is that it will blow up. Where can investors rest comfortably, safely, profitably?

Early this year, a colleague, Porter Stansberry, put a similar question to a group of analysts. The idea was first proposed as the "Desert Island Challenge" by Warren Buffett in 1969. Buffett invited prominent investors to name a stock to hold for ten years. Most of them picked the bright, shining stars of the "Nifty Fifty" market – Coca Cola, Polaroid and IBM were favourites. Buffett himself chose Dow Jones & Co, publisher of The Wall Street Journal. But then came the stagflation of the 1970s. Stock prices went nowhere; inflation reduced real values by more than 50%. Even the shrewdest investors in America couldn't beat the Primary Trend. Most of the choices were losers.

Stansberry's participants also bet on proven winners, expecting them to remain so. Hershey, Pershing Square, Chubb, CME and Philip Morris were among the choices. But this time at least two of the big-league analysts bet against the stockmarket, choosing instead Bitcoin, reckoning that the cryptocurrency would do better than America's most successful wealth-producing companies. Who will be right? Most likely, none of them. All are betting that the future will be much like the recent past. You have to know where you are in order to get where you need to go.

In the late 20th century the whole world moved away from gold-backed money. This enabled people to borrow far more than they had before. Central banks conveniently lowered interest rates, making it easier to repay, raising capital values and making borrowing more attractive than ever.

"Expect below-average investment returns for the next ten years"

In 2000, total US debt was \$5.6trn. That year, the federal government paid \$350bn in interest. Over the next 25 years, debt rose nearly seven times, but the interest paid only rose to \$510bn in 2020 – not even two times. Meanwhile, the Fed Funds rate went from 6% in 2000 down to under 1% in 2020, effectively masking the burden of so much extra debt. Globally, total debt also increased. Worldwide, total government debt is running at about \$100trn, with total public and private debt at more than \$300trn.

What this means is that asset values (supported by debt) are no longer tethered to real output. Real estate, stock and bond assets have been boosted by central-bank meddling, not by increases in earnings or real goods or services. As analyst Charlie Bilello points out, US equity valuations at the start of Donald Trump's second term are higher than at the start of any other presidential term in history, on a cyclically adjusted price-to-earnings ratio (Cape) of 37.8. Historically, that has meant below-average returns over the next ten years.

So that is where we are. US government debt grew by \$2.2trn last year, while the interest rose to \$1.2trn. Such a debt build-up (and corresponding increase in credit-supported asset prices) can't continue for long. Which means, the future must be different from the recent past, and investments that did well over the last ten years are likely to do badly over the next ten. Meanwhile, lenders and investors hold trillions of dollars' worth of assets – with no corresponding real-world wealth. The risk of the "big loss" is obvious; those assets could fall in price. But what's on the flip side? What happens when \$100trn of phantom asset values disappears?

For more from Bill, see bonnerprivateresearch.com

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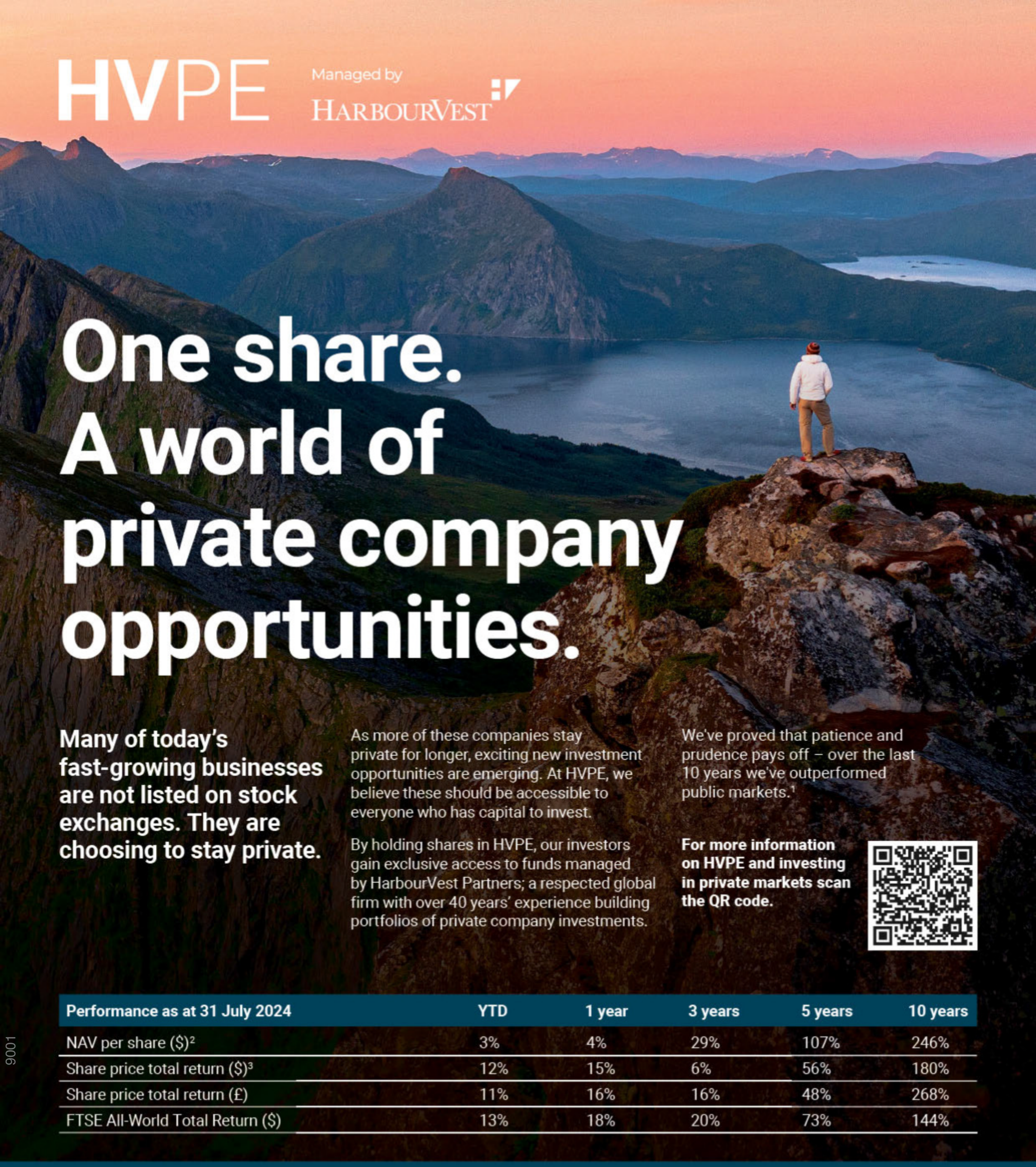

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Performance as at 31 July 2024	YTD	1 year	3 years	5 years	10 years
NAV per share ($)[2]	3%	4%	29%	107%	246%
Share price total return ($)[3]	12%	15%	6%	56%	180%
Share price total return (£)	11%	16%	16%	48%	268%
FTSE All-World Total Return ($)	13%	18%	20%	73%	144%

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1 Over the ten years to 31 July 2024, the US dollar NAV per share compound annual growth rate ("CAGR") was 13% and the public market comparator (the FTSE All-World Total Return Index) CAGR was 9%.

2 Please also note the "NAV per share" percentages in the table above reflect the US dollar monthly estimated NAV per share.

3 HVPE introduced an additional US dollar share price on 10 December 2018; from this date onwards, the actual US dollar share price, as reported by the London Stock Exhange, has been used. Prior to this date, the US dollar share price had been converted from the sterling share price at the prevailing exchange rate. The share price total return figures have been adjusted for the redemptions which occurred in October 2013 and October 2014.