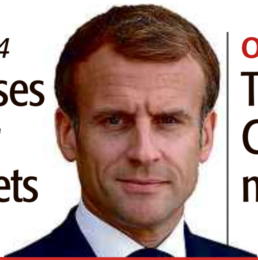

CITY VIEW *P14*
Five surprises in store for stockmarkets

OPINION *P23*
The end of China's economic miracle

PLUS
Scrap skis for a snowmobile
TOYS *P41*

MoneyWeek

MAKE IT, KEEP IT, SPEND IT

24 DECEMBER 2021 | ISSUE 1083/1084 | £5.49

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What our experts are buying now

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MoneyWeek

24 December 2021 | Issue 1083/84

Britain's best-selling financial magazine

From the editor-in-chief...

At the start of 2021 we had some clear ideas on what we expected from the economy and markets. With pent-up demand real – consumers had pockets jammed with newly minted cash and a near-desperate urge to get out and spend – GDP would recover fast. We expected that, alongside staff shortages, to be one driver of non-transient inflation. We thought we might start to see the fruits of the hard labour many companies put in during the pandemic (to cut costs, digitalise, and strengthen supply chains) in the productivity numbers. Finally, we expected interest rates to rise a little (not as much as inflation, but a little); bond prices to fall (as rates rose); growth stocks (dependent on super-low rates for their high valuations) to fall and more value-orientated stocks (UK ones in particular) finally to make our fortunes.

We were right on much of this. The recovery in GDP here and in the US has been stunning. Wages have been rising and inflation is clearly not transient. A great productivity boom may not yet be upon us, but as James Manyika and Michael Spence note in Foreign Affairs, the pandemic has certainly "spurred" businesses to "radically rethink... operations" – accelerating plans for organisational innovation and adopting the digital behaviours that kept them going. Think telemedicine, the high street turning to e-commerce and self-service checkouts, and the drive for robotics in meat-packing plants: two-thirds of senior executives in the US say they have increased investment in artificial intelligence and automation since the pandemic began. There is an excellent chance we'll soon see this in productivity (then profit) numbers.

Increasing use of technology should lead to higher productivity

©Alamy

> *"Prediction is pointless. So we have – of course – had a go at it for 2022"*

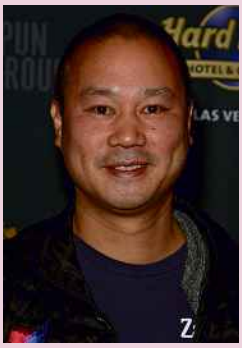
On bond prices, we haven't exactly been bang on. Normally, US inflation going to 6.8% would have had rates soaring. Not this time. The ten-year Treasury yield is 1.4%. The UK ten-year gilt yield is well under 1%. Those growth stocks that were supposed to collapse? Some of the worst of the loss makers have had a nasty year, but others are as expensive as ever (see page 26). Gold has also failed (so far) to respond to inflation (it is supposed to go up – see page 7). For more, listen to our end-of-year podcast (moneyweek.com/podcasts). But it is a reminder, as the FT's Robin Wigglesworth says, that even if you had foreknowledge of every economic statistic coming in a year, you might still make the wrong bets. On the plus side, we have been wrong often enough to remember to diversify – and the results have been pretty good: on page 31, we look at the (satisfying) performance of our investment trust portfolio over the last decade. It has done well enough to worry us. Diversified multi-use portfolios are not meant to return 15%-plus a year.

What of next year? We have no idea – about the only thing one can say about our age is that it is one of unpredictability, in which too much relies on government behaviour (in terms of Covid-19 policy in particular). Prediction is pointless. So we have – of course – had a go. On page 14 you will find Matthew's potential shocks of 2022 (mostly leadership-related). On page 24, Max gives his top trust ideas. And on page 26, there's our Roundtable – our panellists agree on some things (UK equities are cheap; buy before private equity does) and disagree on others (inflation…). More on all this in the new year. Meanwhile, enjoy our annual quiz (see page 48). A very Merry Christmas and Happy New Year to all our readers.

There will be no magazine next week. Your next issue will arrive on 7 January.

Merryn Somerset Webb
editor@moneyweek.com

Court battle of the week



The death of Zappos founder **Tony Hsieh** (pictured) without a will has led to a fierce battle between friends and family over his estate, which is thought to be worth at least $500m, reports The Wall Street Journal. Lawyers trying to resolve the claims are now perusing an eccentric collection of sticky notes that Hsieh used to cover the walls of his Utah mansion, which detail everything from his spiritual "life mantras" to specifics of financial deals. Hsieh died in November last year aged just 46, following injuries sustained in a fire. His long-time friend Mimi Pham is seeking $90m, while his financial advisor Tony Lee is pursuing $7.5m. The latter accuses Hsieh's brother Andy of enabling the drug and alcohol problems that dogged Hsieh in his last year of his life. The family meanwhile counter-claims that Lee, Pham and Pham's boyfriend exploited their friendship to encourage Hsieh to make "impulsive" investments.

Cover illustration: Adam Stower. Photos: ©Alamy; Getty Images; Lynx

Good week for:

©Getty Images

Superhero film *Spider-Man: No Way Home*, starring Tom Holland and Zendaya (pictured), had already sold $587.2m of tickets globally as of last weekend, says the Financial Times – the third-best opening weekend of all time. **Sony Pictures**' new film also set a pandemic-era record, outstripping other big releases including recent James Bond flick *No Time to Die*.

Apple employees are being gifted $1,000 by the company to kit out their home offices after it announced they can all work from home indefinitely as coronavirus cases linked to the Omicron variant surge, says The New York Times. The company has temporarily closed three of its shops in Miami, Ottawa and Annapolis after a spike in the number of positive tests among staff in the branches.

Bad week for:

Musician Eric Clapton successfully sued a German woman known as **Gabriele P** for trying to sell a bootleg recording of one of his 1987 concerts online, landing her with both party's legal fees of €3,400, says DW News. The woman – who had tried to sell the CD on eBay for €9.95 – said that her husband had bought it from a department store, but the judge ruled that it didn't matter that she didn't know the recording was made illegally.

Sheikh Mohammed Bin Rashid Al-Maktoum, 72, Dubai's billionaire ruler, is to pay around £554m in child maintenance and security costs to his "estranged" wife Princess Haya Bint Al-Hussain, 47, reports the BBC. Princess Haya, youngest of the sheikh's six wives, fled Dubai for Britain with her two children in 2019 "in fear of her life" after discovering the Sheikh had previously kidnapped two of his other daughters and forced them to return to Dubai.

* Data as of October 2021.

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Central banks fall far behind the curve

Alex Rankine
Markets editor

The Bank of England is facing inflation of more than two-and-a-half times the official 2% target

©iStockphotos

"Surprise, surprise!", says Ipek Ozkardeskaya of Swissquote. Last month the Bank of England failed to raise interest rates despite market bets that it would. This month it has pulled the reverse trick, becoming the first big central bank to raise the cost of borrowing. The 0.15 percentage point rise to 0.25% came despite market bets that Omicron-related uncertainty would cause the Bank to keep policy steady. With inflation at an annual rate of 5.1% and predicted to hit 6% next April, the Bank decided it didn't have the luxury of waiting for more clarity about Omicron.

Fighting for credibility

The interest rate hike is so "marginal" that it is "frankly… unlikely to make much of a difference", says Jeremy Warner in The Daily Telegraph. All the same, it is an important signal of intent. After a year spent making increasingly unconvincing excuses for soaring inflation, Threadneedle Street needed to head off speculation that its real objective is to keep government borrowing costs low. The Bank has now shown that "it won't back excessive spending forever".

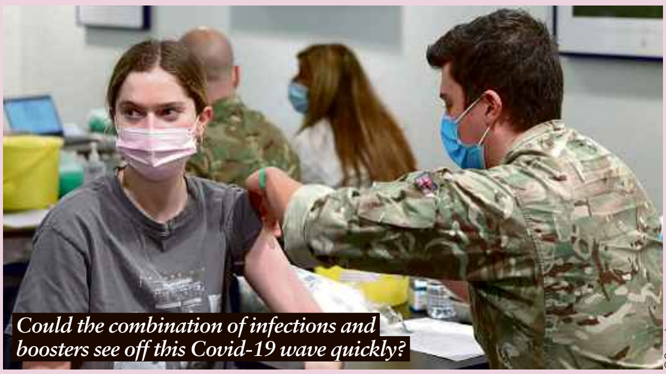
Even those of us who have long supported tighter policy must admit that "this was not a great time" to start raising rates, says David Smith in The Sunday Times. UK "growth was stagnating even before Omicron" and inflation has surged, suggesting a "touch of… stagflation". The service sector is having a nightmare before Christmas. "By raising rates at a difficult time", the Bank has at least "won back" some of its lost credibility as a central bank that takes inflation seriously. "Omicron or no Omicron", the Bank had no choice but to hike, says Liam Halligan in The Daily Telegraph. Inflation is more than two times the 2% target. November's rate-hike-that-wasn't debacle had raised serious questions about Threadneedle Street's willingness to both raise the Treasury's borrowing costs and to upset market traders, who love easy money. Credibility is "a must-have for any effective central bank": if businesses and consumers come to believe that authorities will never act against inflation then it will become "a self-fulfilling prophecy".

Fed turns hawkish

The US Federal Reserve is also in tightening mode. It says it will reduce its monthly asset purchases twice as fast as previously planned. That leaves the Fed on course to wind up its quantitative-easing programme (whereby it buys bonds with printed money) and start raising US interest rates next spring. The Fed's latest projections show it plans to hike interest rates up to three times during 2022.

For all the fanfare about its newfound hawkishness, "the Fed has effectively committed not to raise rates above 1% in 2022", says Philip Pilkington on Unherd. Yet annual US inflation is 6.8%. "I do not envy the job of central bankers these days." Policymakers are stuck between the rock of raising rates sharply, which will cause a market crash, and the hard place of doing nothing, which will let inflation rip. The Fed's solution? "Magically assuming in their projections that inflation will disappear" by itself.

Stockmarkets suffer pandemic relapse



Could the combination of infections and boosters see off this Covid-19 wave quickly?

©Getty Images

Global stockmarkets fell at the start of this week as investors grew increasingly fearful about the impact of the Omicron variant. Stocks had sold off at the end of November after news of the new variant broke, but then recovered this month on hopes that it would prove milder than previous strains.

Yet with UK infections hitting new records, borders closing and the Netherlands re-entering lockdown, traders dusted off the pandemic playbook, selling airlines and leisure stocks.

The FTSE 100 tumbled by 2.1% in early morning trading on Monday, before paring losses to close down 1%. Germany's Dax plunged almost 3% before ending the day down 1.9%. Japan's Topix closed more than 2% down. In America, traders are also digesting political news that could spell the end of Joe Biden's spending plans (see page 10). The S&P 500 lost 3% over the three trading sessions to Monday's close, its worst three-day performance since September's sell-off. "The market is very jittery" because of Omicron headlines, Charles Diebel of investment manager Mediolanum tells Bloomberg. "But I'm not sure the impact will last too long. I think the combination of infections and boosters means this abates relatively quickly, [that is] by February."

Brent crude fell back below $70 a barrel for the first time in nearly three weeks. Pre-pandemic, global oil demand was roughly 100 million barrels per day (mbpd). Demand is still two mbpd below that figure, say Caitlin Ostroff and Alexander Osipovich in The Wall Street Journal. The latest wave is likely to put a lid on demand for aviation fuel. December usually brings a feel good "Santa rally" to markets. Not this year. With central banks in tightening mode, equities are being left to face Omicron without their usual monetary comfort blanket.

Analysts are as clueless as ever

A poll of 45 Wall Street strategists finds a median forecast of 4,910 for America's S&P 500 by the end of 2022, says Caroline Valetkevitch on Reuters. That's a 6% gain from this week's level (other markets tend to follow Wall Street's lead). The outlook isn't all rosy though: many strategists think "a correction or pullback" is likely in the next six months as the central bank attempts the delicate task of unwinding crisis-era monetary policy. Tighter monetary policy means there is less liquidity in markets, which is bad for equities.

There is little consensus on Wall Street about the year ahead, says Lu Wang on Bloomberg. There is a 20% gap between the highest and lowest predictions for 2022, the "second-widest" spread in a decade. Trying to predict the direction of markets now looks like a "fool's errand", especially after Omicron upended many forecasts just days after they were published. The virus makes it hard to plan even a few weeks ahead, but Wall Street offers up predictions for "next year's precise market returns regardless", says Jeff Sommer in The New York Times. Studies have shown that "it's simply impossible to forecast the economy or the markets with accuracy". This year, for example, the S&P 500 has outperformed last year's median year-end prediction by a massive 20%. If any of this year's forecasts do "turn out to be correct, it will be an accident".

The rally in raw materials

Commodity markets have soared this year, but investors had to choose their bets carefully to profit. The S&P GSCI index of 24 major raw materials, a key benchmark, has climbed by 30% since the start of the year. Reopening economies and the green transition have driven a boom in demand for raw materials.

"Green metals", those needed in the shift to renewable energy and electric vehicles, have done especially well since the start of the year, with copper climbing by 23%, nickel up by almost a fifth and aluminium soaring by 7%. The standout performer has been lithium, a vital ingredient used for making rechargeable batteries. The metal has gained 240% this year. Agricultural – "soft" – commodities have also surged, prompting fears about global food shortages. US wheat and corn prices have risen by 21% and 23% respectively. Cotton, up 37%, and coffee, 84%, have climbed by even more.

While investors grow excited about the battery revolution, more carbon-intensive energy sources have also rallied. Brent crude oil has gained 38% since the start of the year. Newcastle Coal futures, an Australian benchmark of thermal coal prices, have more than doubled.

It has been a year of two halves for steelmaking-ingredient iron ore. Prices soared to a record high in May due to strong Chinese demand, then slumped in the summer as steel production fell and the local property market wobbled. Iron ore is 28% lower than on 1 January.


©Getty Images

Aluminium prices soared by 37% in 2021

Precious metals disappoint

It has been a year to forget for precious metals. Platinum is down by 13%. Silver has fallen by 15% so far this year, putting it on track for its biggest annual loss since 2014, says Myra Saefong in Barron's. You might have expected the wider industrial-metals rally to boost silver – the metal is used in industry as well as for jewellery. However, that is outweighed by silver's status as an investment metal, says Decio Nascimento of Norbury Partners. Investors regard silver as a "high-beta version of gold", meaning "when gold falls, silver falls even more". Gold has slipped by 5% since the start of the year.

Gold's failure to rally in response to the highest US inflation in 39 years is puzzling, says Clyde Russell on Reuters. It is supposed to protect investors from currency debasement, but perhaps gold is really a hedge against turmoil rather than inflation: the last two big gold rallies (2008-2011 and 2020) were caused by "fears of a global economic and financial crisis" rather than rising prices.

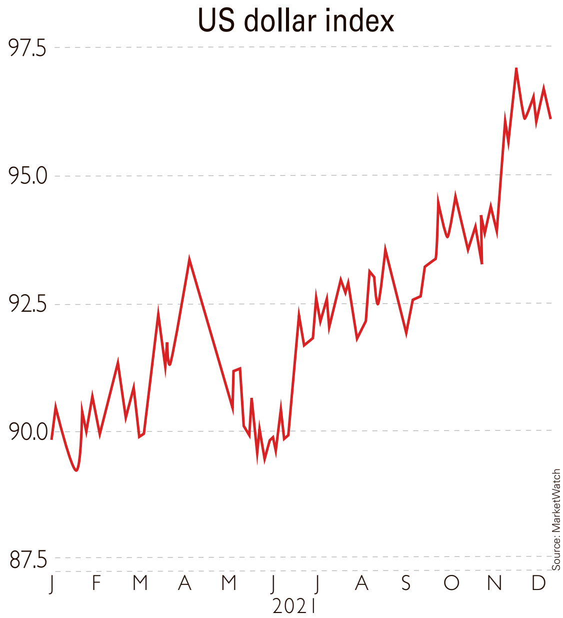
Gold looks set to struggle again in 2022, says Warren Patterson of ING. The metal pays no dividend, so some will be tempted to sell it to take advantage of rising interest rates. What might trigger a gold rally? "Further severe waves of Covid-19" that cause central banks to do "a U-turn on tightening".

Viewpoint

"In December 2020, the Chicago Mercantile Exchange Group created the first futures market in water... This development [is] somewhat premature... Today's spot markets for water and water rights... are too illiquid and non-transparent to support an economically and socially useful futures market... But there is hope. The regional and global integration of physical water supplies... is making spectacular progress... Globally, over 70% of fresh water is used in agriculture... most of this usage is either free or heavily subsidised. Households in many countries... pay but a small fraction of the... cost of the water they use... The future of water... depends on the willingness of governments... to price [it] at its long-run social marginal cost as a scarce renewable resource... [In a] decade... exchange-traded funds for water and water rights will be part of the new normal for investors."

Willem Buiter, Project Syndicate

The dollar looks due a dip next year



The US dollar index, which measures the greenback's value against a basket of major trading partners' currencies, has climbed by 7.5% since the start of January. The dollar's strength rests upon America's rapid post-pandemic bounceback, says Buttonwood in The Economist. But the US recovery is now complete, while other regions still have room for catch-up growth next year. That should erode the dollar's edge. There is also no guarantee that US monetary policy will remain tighter than elsewhere: high eurozone inflation could push the "hawks at the European Central Bank" into ending easy money, which would send the euro up against the greenback. The dollar could well peak in the next few months before heading lower.

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

Five to buy

Revolution Bars
The Sunday Times
Despite rising coronavirus cases, "the return to normality could be quicker than feared", making Revolution Bars worth "a small punt". The potential for further restrictions is "dismal, but not terminal". The group has raised £34m from shareholders throughout the pandemic, leaving it with net cash of £4.6m, something "few of its rivals can say". There are 18% fewer nightclubs and 7% fewer bars competing for its customers than before the pandemic, and many of the remaining ones might not cope with upcoming restrictions. That means Revolution is likely to be left in a stronger position when regular trading returns. It's a risky buy. *18p*

K3 Capital
The Mail on Sunday
Talk of mergers and acquisitions conjures up the image of big American banks, but K3 Capital is a Bolton-based, "down-to-earth" company that has bought and sold more businesses than any other firm in the UK. It completed 605 deals between 2017 and 2020,

placing it 50% ahead of its nearest rival. In 2021 it sold 167 businesses in the first half alone, focusing on privately-owned British businesses in a wide array of sectors with sales ranging from "a few thousand pounds to £100m". The company "keeps tabs" on around half of the four million small, privately-owned businesses in the UK, providing ample opportunity in the future. *337p*

Hollywood Bowl
Investors' Chronicle
Lockdown was "a down period" for bowling chain Hollywood Bowl. But after reopening, "customers awash with saved cash and no ability to spend it abroad returned to the alleys". The company saw record sales of £20.1m in August, up 50% from the same month in 2019. There was a 28.6% increase in revenue compared with 2019 for the months the sites were open. People "were bowling more frequently and were eating and drinking more" as they did so. The company was productive in lockdown, opening two new centres, and it plans to open at least ten more by 2025. It has retained most of its coronavirus measures, which have protected it from cancellations. This might change as Omicron cases rise, but the firm's resilience so far bodes well. *227p*

Tristel
Shares
Infection-prevention and contamination-control specialist Tristel's total potential market has increased significantly as demand for infection prevention has climbed. Its products are used by hospitals and laboratories to disinfect non-invasive medical devices, a lot of which were out of use after patient examinations were put on hold throughout the pandemic. The resumption of these services should fuel growth. Tristel has "barely scratched the surface of the global market opportunity for its patented products". *492p*

Bellway
The Daily Telegraph
Housebuilder Bellway's prospects remain "attractive". There have been only 167,000 new housing starts in England in the last year, so the long-term imbalance of supply and demand is unlikely to change. However, mortgage payments account for less than 30% of average earnings, meaning house prices "continue to be relatively affordable". The scheduled end of the Help to Buy scheme in 2023 could also persuade first-time buyers to bring forward their plans, all of which would bode well. The group has a solid financial position and plans to raise its annual output of new houses by 20% in two years. *3,320p*

...and the rest

The Daily Telegraph
Online estate agent **Purplebricks**' half-year results, due last week, were delayed owing to a potentially expensive mishap: its lettings arm apparently failed to notify tenants that their deposit had been put into a national protection scheme. The upshot is that they will now be able to claim up to three times the value of their initial deposit. This will

cost the group between £2m and £9m. Its first-half trading update also included a profit warning. Avoid *(24p)*.

The Mail on Sunday
Potash miner **Emmerson's** mine in Morocco will be "less costly... complex and... ambitious" than rival Sirius Minerals's, making it the safer choice. Work is under way and operations should be up and running by 2024, "swiftly ramping up to annual production" of more than 700,000 tonnes of potassium-rich salt, for which there is a huge need in Morocco. Prices have risen sharply amid high global demand. Adventurous investors should buy before the stock takes off *(6p)*.

Investors' Chronicle
Retail group **Frasers** produced "robust revenue and profit growth" for the half year to October. Its top line could struggle should stricter restrictions return, but its online presence is growing, while its prospects and brands are strong. Buy *(736p)*.

Shares
Somero Enterprises makes concrete flooring equipment, necessary for the "acres of automation-laden warehouse space" needed as companies "embrace digital commerce". The stock is up by 65% this year and analysts think it could climb by a further 50% over the next 12 months. The firm's forecasts for sales and profits have also risen. Buy *(522p)*.

A German view

The transition to renewable energy and electric vehicles means copper should profit from years of demand growth, says WirtschaftsWoche. An electric car uses four times as much copper as a petrol-based one, for instance. Enter America's mining giant Freeport-McMoRan. It will produce 1.7 million tonnes of copper this year and comprise more than 75% of copper's overall sales. It costs the group just $1.90 a pound to dig the metal up, while it can sell it for $4.30. It should earn more than $4bn this year – up from $599m in 2020 – and pay back most of its debt, leaving scope for bolstering production. Freeport also owns one of the world's biggest gold reserves in Indonesia.

IPO watch

Social-media platform Reddit has filed for an initial public offering (IPO), say Michael Hytha and Priya Anand on Bloomberg. Though it has yet to determine the number of shares and the proposed price range for its listing, the company was valued at $10bn in a funding round this summer. Reddit, founded in 2005, has become "one of the world's most influential social-media companies". It boasts more than 50 million daily users who set up message boards to discuss "a wide variety of topics". It counts over 100,000 active groups, notably r/WallStreetBets, where participants discuss stock and trading ideas, and was instrumental in "igniting the "meme-stock craze" earlier this year.

City talk

India's most valuable start-up is planning a huge special purpose acquisition company (Spac) listing in the US. Byju, the online-education platform, has boomed during the pandemic and reportedly has an offer to merge with a US shell company led by Churchill Capital at a $48bn valuation. A Spac merger is a way for a private firm to list on the stockmarket with fewer regulatory constraints than the usual initial public offering (IPO).

Byju boasts 115 million registered users and seven million paying subscribers, who spend up to $170 per year, says Una Galani on Reuters. That reflects Indian parents' willingness to spend on their children's education. The deal "closely models" the recent listing of Singapore's "super app" Grab, which went public in New York through a $40bn Spac deal. About 30% of Byju's sales stem from overseas – hence the listing outside India. The mooted valuation is "punchy", but the outlook is auspicious: this year's Chinese technology clampdown sank much of its Asian competition.

Boohoo lives up to its name

The former favourite has gone out of fashion. Alex Rankine reports

Online fast-fashion retailer Boohoo has left "investors in tears", says Oscar Williams-Grut in the Evening Standard. It has issued its second profit warning in a matter of months, saying that net sales growth in the year to the end of February will come in at 12%-14%, lower than previous guidance of 20%-25%. While net sales rose by 32% in the UK in the three months to 30 November, they fell by 12% in the rest of Europe and 14% in the US owing to longer delivery times. The stock was once an investors' favourite. But stretched supply chains and rampant inflation are proving "deadly". Since the start of the year the shares have fallen by two-thirds to a five-year low.

Not-so-fast fashion

Boohoo's problem is that it is "trying to sell into the US out of warehouses in Sheffield and Burnley", says Nils Pratley in The Guardian. Global supply chains are buckling and picky US customers won't wait ten days for a dress to be delivered (Boohoo plans to open a US distribution centre in 2023). Boohoo is also struggling with a rise in returns. Online fast-fashion sellers may have done well in the first lockdown when people bought shapeless "athleisure" wear, but now they want something more presentable. Ill-fitting dresses are being returned in droves. "Rival Primark's blanket refusal to join the online game looks smarter by the month."

Boohoo is beset by competition and stretched supply chains

Boohoo says that its supply-chain woes are "transient", but it faces more permanent threats too, says Ben Marlow in The Daily Telegraph. Chinese fashion giant Shein, said to be valued at £23bn (compared to Boohoo's £1.5bn), is taking the fashion market by storm. It has pioneered "ultra-fast" fashion, which sees internet trends turned into new products in factories in a matter of days. Shein is thought to have "already captured a quarter of the American market". While Western brands come under intense pressure to improve their environmental records and factory working conditions, Shein seems immune to such concerns, creating "an uneven playing field". Fashion shoppers may not care: Boohoo had its own sweatshop scandal last year, which was followed by "record trading".

The US stockmarket's best bets for 2022

Kiplinger's Personal Finance chooses its top tips for next year

Oshkosh

The Biden administration is spending big on infrastructure, providing plenty of work for this builder of specialised lorries. Oshkosh produces cement mixers, "truck-mounted cranes" and other industrial equipment. The firm is also a leader in the emerging field of heavy-duty electric vehicles. It has won a federal contract to update the US mail truck fleet, which will include some electric trucks. A good way to bet on a "greener future". *$104*

CVS Health

"Most Americans live within three miles of a CVS pharmacy." But CVS is not just where people top up prescriptions. It is also where they go to get vaccinated or have minor ailments examined at its "Minute Clinic". The group is in the private-healthcare game too thanks to its Aetna health-insurance subsidiary, which covers 39 million people. On just 12 times forward earnings, the stock yields 2.1%. *$99*

Littelfuse

This electronic-manufacturing business produces the fuses and circuits needed for the ever-expanding category of consumer electronics. Take a modern car: everything from the "heated seats" to the "power steering" needs "its own fuse and circuit". The stock is up by 17% over the past year and 2022 should be another good year, provided global car assembly lines get back up and running. *$287*

Prologis

E-commerce is booming, so why not be Amazon's landlord? This warehouse business is "the industry leader in logistical real estate". Prologis owns "nearly a billion square feet of space" across 19 countries. It's so big that "2.5% of the world's GDP", or $2.2trn, "flows through" its properties in the form of online-shopping orders. This is a stock to "buy and hold for the next 20 years". *$161*

Crown Castle International

This real-estate investment trust owns more than 40,000 mobile-phone masts as well as "approximately 80,000 route miles of fibre cable". The next few years will bring ever more data demand owing to the rollout of 5G mobile networks and the rise of the Internet of Things (IoT). The shares are on a forward yield of 2.9% and Crown Castle is "a serial dividend raiser". *$202*

Chevron

With US tech stocks looking stretched, consider "more traditional value plays". This oil supermajor offers a 4.6% dividend yield and trades on just 12 times forward earnings, "remarkably cheap" for the US market. A decade ago energy stocks made up 13% of the S&P 500 index, but today that has fallen to just 2%. Yet energy markets look more balanced than they have in years now that the pandemic has wiped out lower-cost producers. *$113*

Realty Income

This retail real-estate investor specialises in the sort of "high-traffic" properties that are immune to the e-commerce threat – think convenience stores and pharmacies. Realty's "diversified and conservative business model" has withstood the test of lockdown. It has raised its dividend – currently yielding 4.1% – every quarter since the start of 2020. *$67*

Washington DC

Senator sinks spending plans: Joe Manchin (pictured), the Democratic senator for West Virginia, "effectively killed" Joe Biden's $2trn Build Back Better spending bill in its current form when he told Fox News on Sunday he could not vote for it, say Andrew Duehren and Lindsay Wise in The Wall Street Journal. While the legislation, which included provisions for health and childcare subsidies, and reduced carbon emissions, had already passed the House of Representatives, Biden needed all 50 Democratic senators to support it, with vice-president Kamala Harris casting the deciding vote in the evenly divided upper chamber. Biden's economic agenda is now "in jeopardy". While Senate majority leader Chuck Schumer says the Senate could still vote on the bill early next year, Manchin has long stated his concerns with the effects the bill will have on inflation, the $29trn national debt, and tax rates. He had already succeeded in watering down Biden's initial spending plans from $3.5trn over the summer.

London

City of London resilient: Liz Truss has added the Brexit brief to her role as foreign secretary following the resignation of David Frost (see page 12). One thing she won't have to contend with is the dreaded "Brexodus" of workers leaving the City, says Tim Wallace in The Daily Telegraph. According to the EY Financial Services Brexit Tracker, banks have moved or plan to move 7,400 staff from London following Britain's exit from the single market, down from 7,600 a year ago: "companies need fewer workers in EU nations than anticipated". Meanwhile, the retail price index (RPI) rose to 7.1% year-on-year in November, raising the cost of servicing the national debt, says Arthi Nachiappan in The Times. Debt interest rose to £4.5bn that month, higher than the £2.8bn forecast by the Office for Budget Responsibility. While government borrowing fell to £17.4bn in November, down by £4.9bn compared with the same month last year, it was the smallest year-on-year drop this financial year, despite the November lockdown in 2020 and this year's ending of the furlough scheme.

Beijing

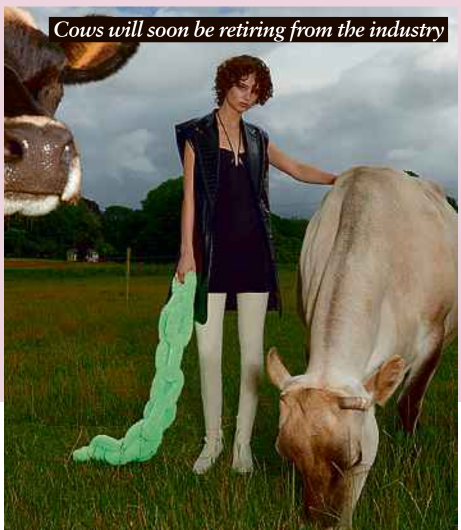
China cuts interest rates: The People's Bank of China has cut the one-year loan prime rate, a benchmark for the loans banks make to their customers, from 3.85% to 3.8%. The move is the latest effort to bolster growth, says Thomas Hale in the Financial Times. GDP grew by an annual 4.9% in the third quarter, the slowest pace in a year, owing to a property slowdown, energy shortages and lacklustre consumption. Meanwhile, the country's control over data on the world's cargo flows is expanding, raising concern in Washington that Beijing "could exploit its logistics information for commercial or strategic advantage", says Daniel Michaels in The Wall Street Journal. Even cargo that doesn't dock in Chinese ports passes through China's logistics network, tracking shipments for faraway ports. The data gives Beijing "privileged insight" into world commerce, and "potentially the means to influence it", according to cargo-industry officials.

Santiago

Former student leader takes power: Left-wing former student leader Gabriel Boric (pictured), 35, is to become Chile's youngest president after winning nearly 56% of the vote, a 12% lead over far-right rival José Antonio Kast. Boric has promised to oversee a "youth-led form of inclusive government to attack nagging poverty and inequality", says John Bartlett in The Guardian, which he has blamed on the "neoliberal" economic model imposed by Augusto Pinochet during his dictatorship in the 1970s. His campaign also pledged to block a proposed copper-mining project– to fight climate change – and end the country's private-pension system. Boric will now form a cabinet "that tries to satisfy allies and voters while not further alienating nervous investors who've been dumping assets", says Eduardo Thomson on Bloomberg. The Chilean peso fell by more than 4% to a record low against the dollar after the vote, while Chilean stocks slid by 6%. The central bank estimates that growth will plunge from 12% this year to 1.5% next year as stimulus is withdrawn. The budget deficit is worth almost 12% of GDP, while inflation is expected to reach 5.9% next year.

The way we live now: the latest in leather wear

"First there was cow leather, then plastic leather: now we are wearing pineapple leather," says Louise Eccles in The Sunday Times. As veganism and environmentalism have gathered pace, clothes makers have embraced "leather alternatives made of leftovers from the wine and fruit juice-making process". Leaves, stalks and skins are being dried, treated and "rolled into faux leather felt". London-based Piñatex is leading the charge with pineapple leather, producing leather bags that sell for £655 in Selfridges. Its pineapple leather is produced by extracting long plant fibres and coating them in a thin layer of plastic to reproduce the look and feel of the real thing. Fruit leather has hitherto generally been considered too easily damaged and expensive to make in great quantities, but recent advances in manufacturing technology have prompted large fashion outlets to hop on the bandwagon. Italian firm Vegea has been using processed grape skins to create knee-length boots and dresses for high-street giant H&M. The sector is working on eliminating the use of plastic in the process too. US brand Mirum has launched a 100% plant-based material used for rucksacks and handbags. It comprises cork, rubber, coconut husks and soya beans.

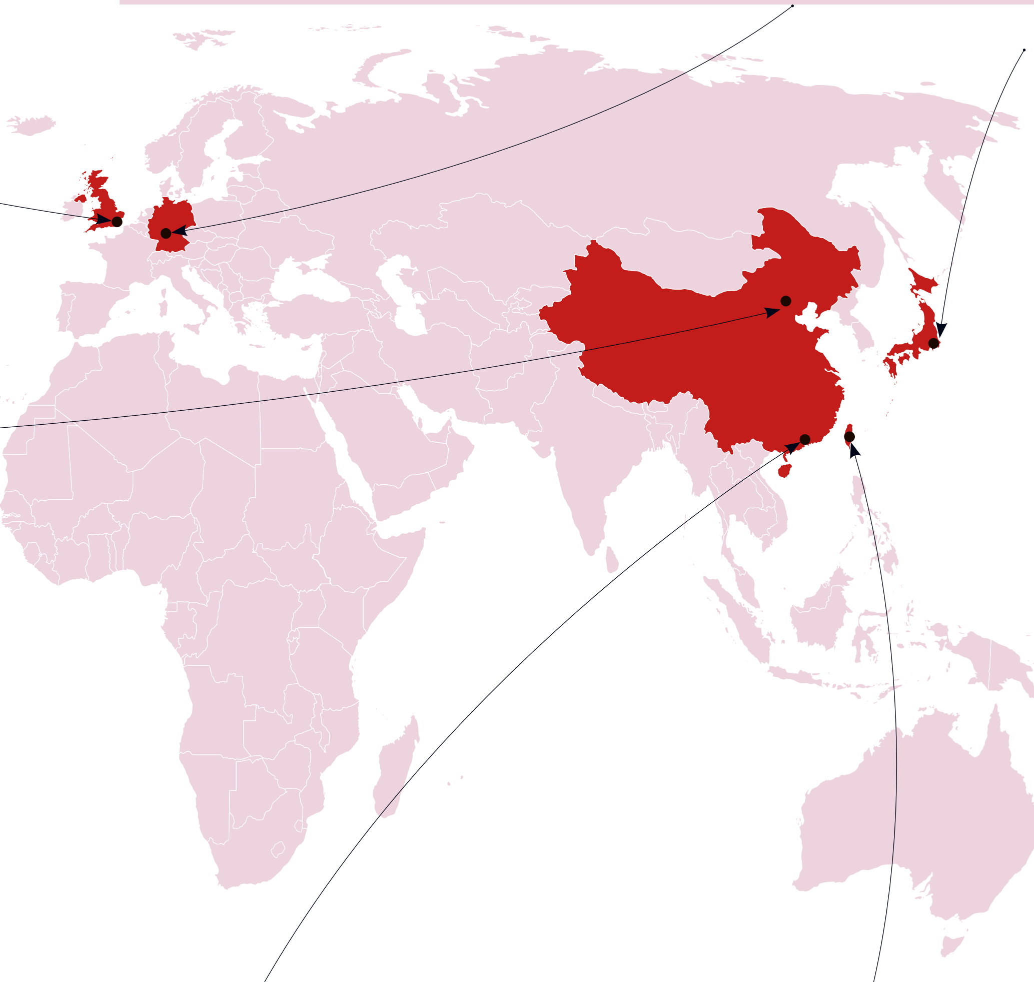


Cows will soon be retiring from the industry

Joachim Nagel: "a reassuringly boring appointment"

Frankfurt

New hawk at the Bundesbank: Joachim Nagel is replacing Jens Weidmann as president of the Bundesbank, Germany's central bank. "It's a reassuringly boring appointment for Germany, and Europe," says Neil Unmack on Breakingviews. Like Weidmann, Nagel is wary of ultra-loose monetary policies, such as quantitative easing, so Germans may be reassured their wealth is not going to be confiscated by European Central Bank (ECB) money printing. He also has the skills, having served as deputy head of banking at the Bank for International Settlements until recently, and he has worked at the Bundesbank for 17 years. Nagel has also accomplished that rare feat of pleasing all parties in Germany's new, complex coalition, say Guy Chazan and Martin Arnold in the Financial Times. While his orthodox views on monetary policy endeared him to the finance minister, Christian Lindner, leader of the liberal and fiscally hawkish FDP, Nagel is a member of chancellor Olaf Scholz's centre-left Social Democrats. As for Weidmann, he will remain on the ECB's audit committee. Meanwhile, the Bundesbank has warned the German economy may contract this quarter as Covid-19 infections keep shoppers at home. Consumer confidence has fallen to a six-month low. Inflation in the wider eurozone rose to an annual 4.9% last month.



Tokyo

Another budget boost: Japan's parliament announced a record ¥36trn (£240bn) supplementary budget for fiscal 2021, partly to finance the government's latest coronavirus-recovery package, says Nikkei Asia. The "lavish" spending plans are part of prime minister Fumio Kishida's (pictured) plan to revitalise the economy while putting the nation's "fiscal health", the worst among advanced economies, "on the back burner". To cover most of the budget the government will be forced to issue ¥22.1trn (£146.5bn) of new bonds; combined with the outstanding balance bonds are expected to top ¥1,000trn (£6.6trn) by March. Around ¥18.6trn (£123bn) has been earmarked for measures to curb the spread of the virus should restrictions to contain the Omicron variant become necessary over winter. For now, however, cases are falling, which has prompted the authorities – for the first time in 17 months – to take a more optimistic view of the economic outlook. Companies and consumers are gaining confidence. The government is "closely monitoring" any risk, but business conditions, employment, and private consumption have all been forecast to rise.

Hong Kong

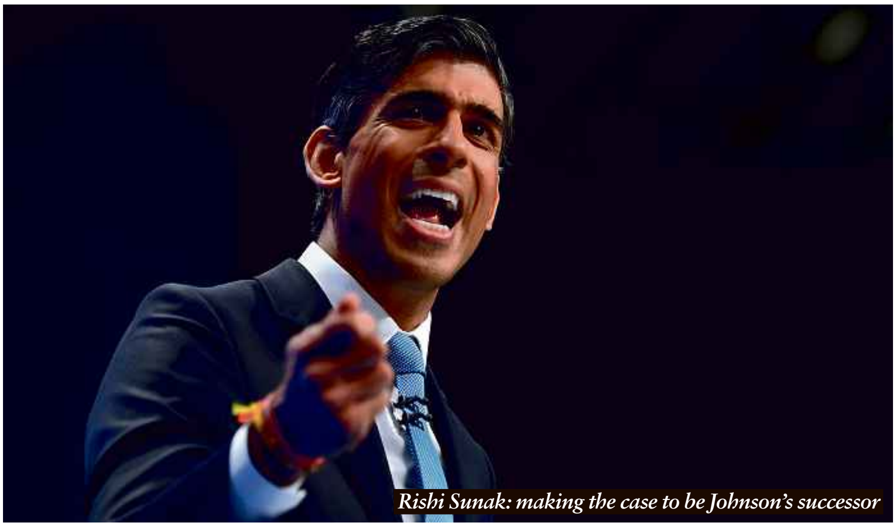
Beijing tightens its grip: Pro-Beijing candidates have won all but one of the 90 seats in Hong Kong's Legislative Council in the first election since China overhauled the city's electoral system in March, says Jasmine Cameron-Chileshe in the Financial Times. As part of the electoral reforms, the number of directly elected seats was slashed and all candidates subjected to a "patriotic" vetting process, a move motivated by the widespread pro-democracy protests of 2019. Since the reforms, which eliminated most pro-democracy politicians, dozens of activists have been "jailed, disqualified" or have "fled". Low turnout – only 30.2% of eligible voters cast their ballot despite a "determined effort" by the government to get people to vote, including offers of an extra day off – reflected widespread belief that the election was undemocratic and therefore illegitimate. Governments in the West, including Britain and the US, expressed "grave concern" over the "erosion of democratic elements" and "the wider chilling effect of the national security law and the growing restrictions on freedoms of speech and assembly", says Heather Stewart in The Guardian.

Taipei

Voters remove obstacle to US trade deal: Taiwan's ruling Democratic Progressive Party, which supports closer ties with America, has claimed a "decisive victory" in a referendum, says Joyu Wang in The Wall Street Journal. The victory came as a "surprise setback" to Beijing and Taiwan's opposition Kuomintang, which supports closer ties with China. Voters rejected a proposal that would have banned pork imports containing trace amounts of the additive ractopamine, which avoids complicating relations with Washington as the additive is found in the animal-feed used by some US farms. The announcement comes two weeks after Taiwanese president Tsai Ing-wen said she wanted to start talks on a free-trade agreement with the US, "a key unofficial ally" of the self-ruled island, which China claims as its territory. The US is the country's second-largest trading partner, after China, with two-way trade in goods and services adding up to around $94.5bn in 2018. Turnout in the referendum was low at 41%, however, and the government has faced opposition from the country's own pig-farming industry and civic groups.

Tories turn on the PM

Pressure is mounting on Boris Johnson. The new year will bring no relief. Emily Hohler reports



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Rishi Sunak: making the case to be Johnson's successor

Coming so soon after the "humiliating defeat" in the North Shropshire by-election, David Frost's departure is a "body blow" to Boris Johnson and the "latest sign that his position may come under serious threat in the New Year", says Henry Hill in The Daily Telegraph. While MPs have been "growing impatient" with Johnson's "self-inflicted disasters, from Owen Paterson to the Downing Street parties", the Brexit minister used his resignation as an opportunity to "launch a broad-spectrum" attack on the government. From the hike in National Insurance to "coercive" Covid-19 policies and the "pivot towards the public health nanny-state", his frustration reflects that of a "sizeable body" of Johnson's original supporters. And although he didn't mention it in his original statement, it probably isn't a coincidence that he chose to quit a day after the government "signalled that it was softening" its "red line" on allowing the European Court of Justice jurisdiction over Northern Ireland. Hardline Brexiters, "many of whom were already in open revolt over Covid-19 restrictions", would regard this as an "unacceptable capitulation," says Heather Stewart in The Guardian.

Danger from the right

Frost's resignation illustrates the danger Johnson now faces from the Tory right, says George Parker in the Financial Times. In the view of these MPs, who include those on the 100-strong "Clean Global Brexit" WhatsApp group that evicted Nadine Dorries for defending Johnson, the bare-bones trade deal with the EU that Frost finalised a year ago was supposed to give the UK the freedom to "forge a new, Thatcherite, economic path". As Nigel Farage tweeted: "Frost is leaving the government because he is a conservative and a true Brexiteer. Boris Johnson is neither."

This idea that the whole point of Brexit is "radical supply side reform" underlines the "continued failure of the Conservative party" to understand the "shifting demographics of the Tory vote," says Stephen Daisley in The Spectator. Exit polling on referendum day in 2016 found that Leave voters were primarily concerned about sovereignty and immigration; just 6% gave the economy as the deciding factor.

Nor was it the deciding factor among Red Wall voters who turned Tory in the 2019 election. These voters are not "clamouring for quirky blonde Thatcherism" (Liz Truss) or a "suaver, dishier Osborneism" (Rishi Sunak). We still don't know what effect 18 months of "having wages paid and small businesses propped up" will have on attitudes towards state interventionism, but it "seems unlikely to have made the public more libertarian". The one advantage Johnson has is that he understands "what the Tory party is now".

The pendulum will swing back

When it comes to choosing leaders in the UK, the pendulum "swooshes between two broad personality types: stars and stewards," says Clare Foges in The Times. Margaret Thatcher, John Major, Tony Blair, Gordon Brown, David Cameron, Theresa May – after which voters wanted the "fizz" of Johnson. The main "steward" contenders are currently Jeremy Hunt, Sajid Javid and Sunak, and of these it is surely Sunak, already "making the argument for fiscal prudence", who "will win out".

For now, Johnson, though reportedly "disconsolate and isolated", looks "safe", says The Guardian's Stewart. Few believe Graham Brady, chair of the 1922 committee, has received "anywhere near" the 54 letters required to force a vote of no confidence. More than half of Tory MPs would have to vote against him for a leadership race to be triggered. But an "intensely difficult period" lies ahead. There is the investigation into the "lockdown-busting parties", ministers must decide whether to "defy Tory rebels and impose Covid-19 restrictions" this week, and the local elections in May look set to provide voters with "another opportunity to kick the government". "Any or all of these events" could lead to his downfall.

China's hit job against Lithuania

Lithuania's president Gitanas Nauseda: standing up to China

©Getty Images

The EU has "no good cards to play" as China "ups the ante in its economic hit job against Lithuania", say Stuart Lau and Barbara Moens in Politico. The showdown began in May when Vilnius pulled out of the 17+1 initiative between China and 17 Central and Eastern European countries on the grounds that it was divisive. Tensions "escalated" when Taipei and Vilnius set up diplomatic offices in each other's countries. A displeased Beijing, which regards self-ruled Taiwan as its territory, then moved to "make an example of Vilnius" by barring the imports of Lithuanian goods. Owing to global supply chains (and, reportedly, pressure from Beijing) , the spat is affecting other countries, says Reuters. Germany says around a dozen firms are affected, including car parts maker, Continental.

Finally, on 15 December Lithuania withdrew its diplomats from Beijing and locked its embassy, says The Economist. Although it insists the closure is temporary, this is the "worst crisis in relations between China and a European state since 1981". Lithuania has a "long history" of standing up to "bullying foreigners, including Nazi Germany and the Soviet Union". China's eagerness to "use instruments of commerce and diplomatic intercourse as weapons, even as Chinese leaders talk up multilateralism and free trade", underscores its role as a "disruptor of the rules-based order". Australia, Canada, Japan and South Korea have all faced unacknowledged economic sanctions for provoking Beijing.

Europeans and the US are defending Lithuania, with EU officials warning that China's apparent trade ban may be in breach of World Trade Organisation obligations. The EU has also announced new instruments to retaliate against economic coercion. However, "free-traders within the bloc doubt whether such tools can work" and such solidarity "may prove fleeting". The truth is, concludes Politico, there isn't "much ammunition available".

A coup, a civil war, a crisis and China

Myanmar was heading in the right direction after decades of isolation before the military seized control again in February. Now the outlook is increasingly grim. Simon Wilson reports

What's happening in Myanmar?

It's been a grim year. Following a decade of relative political freedom, the army seized power in a coup on 1 February, after the election commission rejected their unfounded claims of voter fraud in the November 2020 general election. Since then, an estimated 1,200 people have been killed by security forces, and more than 10,000 people jailed (including the elected leader, Aung San Suu Kyi). The economy has nosedived and hundreds of thousands of people have been forced to flee their homes as a result of fighting between government forces and regional militias in several parts of the country.

Is it a civil war?

There are echoes of the first year of the Syrian civil war a decade ago. There, too, initially peaceful protests were met with overwhelming force by the state, leading to a conflict that deepened along existing fault lines. In the case of Myanmar, those fault lines are ethnic and regional. The Karen, for example, in the south-eastern region bordering Thailand, have been fighting the Tatmadaw (the Burmese military) for much of the 74 years since the country gained independence from Britain. But the fighting had eased since 2012, and the military's airstrikes on the region in March and April were the first for 25 years. In the northern Chin state, this autumn has seen the brutal suppression of an insurgency that some reports suggest is comparable to the "clearance operation" perpetrated by the military on the Rohingya in Rakhine state in 2017. The military junta's leader, Min Aung Hlaing, has mobilised troops, equipment and supplies to northern and western Myanmar in an offensive timed to coincide with the end of seasonal rains.

How is the economy?

After a promising decade of liberalisation and strong growth, it has tanked. Starting in the early 1960s, Myanmar suffered from half a century of semi-isolation under military rulers pursuing the "Burmese road to socialism" which left Myanmar among the poorest countries in Southeast Asia. The main sectors are agriculture, timber, garment manufacturing, oil and gas, and gemstones; there is also a large (illicit) drugs production industry in the eastern Shan state. The country has long been an economic under-achiever, and its GDP per head remains lower than neighbours such as Laos, Cambodia and Bangladesh. But since 2012, the Burmese economy has seen significant reforms alongside the political opening, leading to expansion of sectors including manufacturing and tourism.

The town of Thantlang in Myanmar's Chin state burns after attacks by government forces in October

How much did it improve?

Myanmar's reforms to the foreign-exchange system, liberalisation of markets, integration into the regional economy, and the modernisation of economic and financial institutions had all contributed to rapid economic growth averaging above 7% per year, according to the World Bank. Poverty levels almost halved, falling from 48% to 25% between 2005 and 2017. That progress was already slowing in recent years, and 2020 saw a slowdown due to the Covid-19 pandemic. But in 2021 the economy has been in freefall, with GDP shrinking by 18% in the year to September.

What's happened?

The February coup caused parts of the economy to seize up, as civil unrest and mass strikes gripped the country. It also triggered a freeze on parts of Myanmar's foreign reserves held in the US, suspension of multilateral aid, and a range of sanctions by Western nations (including the US and UK) on military-linked conglomerates and the state-run gem company. A plunge in the currency and unprecedented dollar shortage also drove up the cost of imports and crippled the economy. Foreign direct investment into Myanmar has fallen, with some multinationals heading for the exit. Ironically, a main driver for the army's decision to open up was its desire for a pivot to the West in the face of China's rise. But the turmoil has left it more vulnerable to Chinese interests than ever.

> *"The economy is in freefall, with GDP shrinking 18% in the year to September"*

What is China's interest?

Stability and protection for its investments, most notably a $2bn oil and gas pipeline, and a planned deep-sea port that will enable China to import oil and gas via the Bay of Bengal. Immediately after the coup, China was reluctant to get behind the military regime. But attacks on Chinese factories in Yangon in March were a turning-point. Although it is maintaining lines of communication with the NLD, the overthrown ruling party, Beijing is now working on the assumption that the junta will eventually establish effective control of Myanmar, said John Liu and Thompson Chau in Foreign Policy. "More than nine months since the coup, Chinese officials have largely normalised engagement with the regime, even if they harbour some doubts over the generals' ability to run the country". Beijing's aim is to "sit out the deepening crisis and push ahead with its own interests in Myanmar with the group that holds power".

What will happen next?

The coming year looks grim, since the army is neither so strong that it can restore stability, nor so weak that it can be toppled – meaning there's every chance of prolonged turmoil, said The Economist. Protestors-turned-guerrillas will continue to launch attacks on army targets, while "emboldened ethnic-minority militias, who have long waged wars of independence, will press their advantage against stretched armed forces". Expect the government to restore its depleted coffers by selling off timber, jade and rare metals to companies owned by the armed forces, lining their own pockets in the process. If the military prevails – the likeliest outcome – Myanmar "will almost certainly revert to its historic status as a relatively isolated, underdeveloped and impoverished economy that benefits only a small military elite and their crony business associates", said Htwe Htwe Thein and Michael Gillan in East Asia Forum. The Burmese people will "continue to suffer".

Five shocks for 2022

Forget Covid-19 – it's the unexpected twists that will rattle markets

Matthew Lynn
City columnist

A new variant of Covid-19. A scandal swirling around Boris Johnson. There are lots of things that we can be sure will happen during 2022. Investors will have already taken them in their stride. But what are the unexpected twists, the surprises that no one saw coming? With an obvious pinch of salt, here are five events that might rock the markets over the next 12 months.

Bezos will be back at Amazon

First, Jeff Bezos returns to Amazon. In July when the world's most relentlessly driven entrepreneur stepped back from day-to-day management of the company he founded to spend more time with his space rockets, the share price hit an all time high of $3,800. It was a fantastic achievement. How has it done since Andy Jassy took over? Well, it has hardly been a disaster, but it has been gently declining since then, with a steady fall to $3,400. There have been worrying signs that the company is not quite as remorseless as it was with Bezos at the helm. Labour costs have been rising and sales growth has slowed. It would hardly be a shock to anyone if Bezos decided to take personal control again – he is not the kind of person willing to sit back and watch the company he created lose its edge.

A change at the top of the ECB

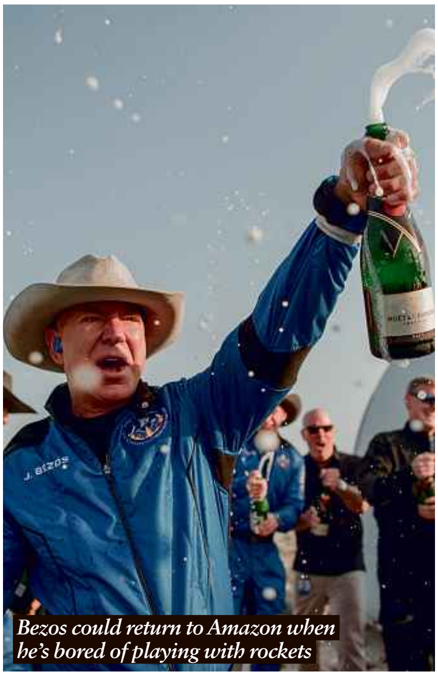
Next, a change of leadership at the European Central Bank. Christine Lagarde, a lawyer with no formal experience in banking or finance, was always a very political choice. That would be fine if she just needed to run a steady ship. But the ECB is about to enter the stormiest waters of its short life. Inflation is already up to 5% in Germany and will go a lot higher still (just take a look at the price of natural gas). This will be unacceptable in a country where most savings are held in the bank and there is a pathological fear of inflation. If it breaches 8%, Olaf Scholz, Germany's new chancellor, will demand Lagarde is replaced to placate domestic public opinion.

Russia and China strike a deal

Thirdly, a Russian-Chinese pact. The Russian president Vladimir Putin's massed troops on the border with Ukraine will turn out to be just a bluff. By the spring, he will have extracted the concessions he wants. Ukraine will stay out of Nato and he will get the pipeline to take Russian gas straight into the German market. The real action will be elsewhere. While the West is distracted, Putin and China's president, Xi Jinping, will strike a wide-ranging geopolitical partnership. The two countries will commit to working together, militarily, economically, financially and diplomatically. The West, led by the United States, will have to work out how to respond to the most serious threat it has faced since the end of the Cold War.

France will have a new president

Fourth, Emmanuel Macron loses the French presidency. The markets have complacently assumed that the centrist Macron is a certainty for re-election in April next year. But no sitting president has won a second term since Jacques Chirac in 2005. It would be rash to assume that Macron will be the person to break that record. The National Rally leader, Marine Le Pen, is fading, and so is the Trump-like TV personality, Eric Zemmour, but the centre-right candidate, Valérie Pécresse, is a real threat. The polls are starting to suggest she can edge out her far-right rivals to make it into the second round. If so, she will shift Macron to the left, and she stands a very good chance of beating him. There is nothing very radical about Pécresse , and she won't make any huge shifts in policy. But France is now the largest debtor in Europe. Any sign of political instability will make the debt markets very nervous.



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Bezos could return to Amazon when he's bored of playing with rockets

A bust-up at the Federal Reserve

Finally, Jerome Powell quits as chair of the Federal Reserve after a bust up with the White House. Inflation in the US has already hit 6.2% and will go much higher. Powell will press for far higher rates, US president Joe Biden will resist and Powell will walk away. That will trigger a collapse in confidence in Biden, a spike in bond yields, and falls on Wall Street that will send shockwaves through the global economy. Biden will have to appoint someone even more hawkish on inflation to restore confidence – and the battle to bring inflation under control will be a lot harder.

Who's getting what

● Wall Street bank JPMorgan Chase is handing **Daniel Pinto** (pictured), its co-president and chief operating officer (COO), 750,000 restricted share options in a bid to retain him, says the Financial Times. They can be exercised at $159.09 a share, compared with around $157 now, from December 2026 and must be held until December 2031. They're worth around $25m and are conditional on Pinto becoming sole president and COO. He earned $24.5m last year.

● **Paul Zwillenberg**, chief executive of the Daily Mail and General Trust (DMGT), **Tim Collier**, the chief financial officer, and **Kevin Beatty**, the outgoing CEO of DMG Media, stand to make a combined £27m as DMGT is taken private, says The Times. The trio sold almost all of their vested shares in the firm for a combined £16.6m last month, and held nearly one million bonus and performance shares, worth £10.4m between them, under the cash-and-shares deal.

● **Jonathan Slater**, the former top civil servant at the Department for Education, received a payout of £277,780 last summer to quit his post following last year's exam-grade fiasco, says Schools Week. The department's annual accounts show that Slater received the payment for "loss of office", despite probably having just eight months left on his permanent-secretary contract, which typically runs for five years. He earned £380,000 for 2020-2021, including the payout. His annual salary for the previous year was between £165,000 and £170,000.

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Nice work if you can get it

Smaller boutique investment banks, which are benefiting from increased mergers and acquisitions (M&A) activity, are not covered by rules introduced after the 2008 financial crisis that put limits on pay at the big banks. So they tend to pay out "huge amounts", says The Observer. Take the three partners of Robey Warshaw, who shared £30m in profits this year, up from £17.9m in 2020, reports The Sunday Times. Former Morgan Stanley banker Simon Robey is thought to have taken the lion's share of £20m, according to filings. George Osborne, the former chancellor and now fourth partner, receives nothing as he joined last April, after the financial year had ended. However, this financial year ending in March promises to be another lucrative one thanks to the boom in M&A this summer, when Robey Warshaw advised on the £7.2bn takeover of insurer RSA.

Cheaper isn't cheap enough

Value will probably beat growth in the years ahead, but that won't necessarily mean high returns

Cris Sholto Heaton
Investment columnist

"Value versus growth" is one of the easiest frames through which we can look at investing styles. Yes, it is a simplistic divide (see below): no investor can ignore valuations nor how earnings are likely to evolve. But it still says something about the psychology of an investor: do you favour a solid chance of profits today or the riskier possibility of a bigger gain in the future?

Splitting markets into growth and value also shines a useful light on trends. The MSCI World Growth index has beaten its value counterpart by six percentage points per year over the past decade, which is remarkable, but by more than sixteen points per year over the past three years, which is barely believable. With the growth index now on a forecast price/earnings of almost 30, compared with 13 for value, it's hard to see how that can be repeated.

Investors want excitement

Value against growth is not the only long-standing anomaly to struggle lately. History also suggests that stocks with lower share-price volatility tend to outperform more volatile ones on average, yet the S&P 500 Low Volatility index (which holds the 100 least volatile stocks in the main US benchmark) has lagged the S&P 500 by 3.5 percentage points per year over ten years and almost ten percentage points per year over the past three years. No matter how you break it down, you can see the preference for glamorous, volatile growth stocks over anything duller.

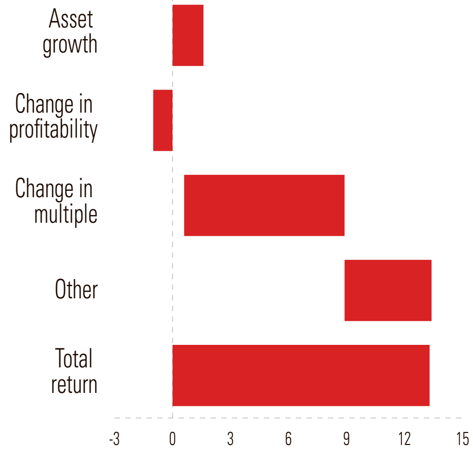
Yet neither value nor low volatility have performed badly in absolute terms. The World Value index has returned an acceptable 9%-10% per year over three, five and ten years. The S&P 500 Low Volatility has returned 15% per year over three years and 12%-13% over five to ten years. This makes it hard to be confident that we can expect value stocks or low-volatility stocks to do well in absolute terms when the environment changes, because in many cases they have not done worse than expected up to now – they've simply been outstripped by a boom in growth.

"Neither value nor low volatility have done badly"

In particular, much of the return from value stocks usually comes from improving valuations as investors become less negative about their prospects, not through growth or increased profitability (see the chart above from Verdad Capital, which shows that about two-thirds of the total return in US value over the last 25 years came from changes in valuations). Today, value is not especially cheap in absolute terms, even if it is relatively cheap compared with growth. That will make it harder to benefit from the tailwind of improving valuations. Thus while value – and low volatility – will probably do better relative to growth, only a few genuinely unloved sectors (perhaps oil – see right) seem likely to deliver impressive absolute returns.

US value decomposition

Annualised returns (%), 1996-2021



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I wish I knew what growth and value were, but I'm too embarrassed to ask

Investors in stocks can follow a number of distinctively different approaches – often referred to as styles – when deciding which companies to buy. The two styles that are most frequently used to classify investors are growth and value.

Growth investors look for companies that are expected to grow their earnings faster than their sector or the wider market. They will often be willing to buy shares on valuations that appear quite high compared to other companies if they believe that these may be justified by future profits. This approach places more emphasis on the firm's potential, as opposed to its current financial situation.

Value investing is the opposite. Value investors focus on companies that appear to be cheap today (or sometimes stocks that should be cheap in the very near future if the business recovers after a recession or crisis). While growth investors are typically mostly concerned with earnings, value investors will often look for stocks that trade at a discount to book value (assets minus liabilities) or offer high dividend yields.

Some investors view the distinction between growth and value as artificial. A successful growth investor still needs to be confident that a company is not so overvalued that its earnings can't justify the price they are paying. A value investor needs to consider whether a stock is cheap because the underlying fundamentals of the business are faltering and will lead to reduced profits, financial distress or bankruptcy in future.

That said, growth versus value provides an easy way to divide the market into stocks that are popular and high-priced and those that are out of favour and trade on lower valuations. Historically, the value segment of most markets have tended to beat the growth segment over the long run (which may be attributed to exuberant investors overvaluing potential growth). However, in the past decade, growth has handily beaten value.

Guru watch

Francisco Garcia Paramés, founder and CEO, Cobas Asset Management

"I recommend not investing in companies that appear on the front pages of newspapers, says Francisco Garcia Paramés, the Spanish fund manager who is perhaps Europe's best-known proponent of value investing. "Good investments are hard to come by [but]... the investor on the street is interested in what has performed well."

So he remains sceptical about many fashionable assets, especially those that do not produce cash flows. Cryptocurrencies "do not generate anything except trust", he tells Forbes Spain. "How do we as investors measure how much that trust is worth?" There is also a "sense of a bubble" around non-profit-making firms in the US, whose total valuation "is much higher than any maximum ever reached. Not even in 2000 in the dotcom bubble did it get to this".

Paramés also sees excess in the green sector. "There are unchecked expectations regarding the reality of what can and cannot be done... very little profitability is being demanded from green investments." Meanwhile, the rush to divest fossil-fuel assets is a fad that will make matters worse: the world still needs oil during the energy transition and when activists force large public companies to sell oil fields, they are brought by private firms that may manage them less responsibly. His own decisions have been much against the green consensus. "Our biggest investment this year has been in oil and gas. To add value, you have to be a bit contrarian. If you don't, you just end up making the index return."

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Bagging more bang for your buck

Short and leveraged trackers could help amplify your returns. But tread carefully

David Stevenson
Investment columnist

Exchange-traded funds (ETFs) have become increasingly popular. Instead of trying to beat the market like their actively managed counterparts, these track an index, commodity or asset. However there is one corner of this fast-growing market that hasn't received much attention: short and leveraged (S&L) trackers. Short trackers enable you to bet on asset prices falling, while leveraged trackers amplify the ups and downs of the underlying index.

These are listed products that can be included in a self-invested personal pension (Sipp) or general dealing account and, unlike with spreadbetting, the most you can lose is what you initially invested. However, they could prove expensive over time. Any investment in short-term leveraged products could result in a rollercoaster ride that could see all your capital vanish.

Look before you leap

The first wave of S&L products focused on key stockmarket indices and commodities. But there is also a niche of products that track the daily price of a single stock. The three-times long products deliver three-times a stock's daily upside and the three-times short products triple the daily decline. Normally I'd suggest investors stay away from any leveraged structure based on short-term trading – especially one involving a product that looks at daily returns. But if you think we are only halfway through a new supercycle that will benefit technology giants, leveraged long trackers could produce impressive results over time.

GraniteShares and Leverage Shares are two of the main S&L product providers. GraniteShares has a Rolls-Royce three-times long and three-times short tracker. Rolls-Royce's share price has been very volatile over the last 12 months. The shares rose by 17% in the year to late November, but their sharp daily ups and downs resulted in a return of -23.5% for the three-times long product. By contrast, Microsoft has seen its share price rise by 59% over the last 12 months; the three-times long tracker is up by 245%. Apple's share price has gained 41.5%; the three-times long product 127%. Since its inception in July 2020, GraniteShares' three-times long Tesla Daily has gained 3,087% compared with Tesla's stock gain of 469.5%.

But it's worth considering the cost of these products. GraniteShares' Rolls-Royce three-times long tracker costs 0.0182% per day (6.5% per year). Leverage Shares' three-times long Apple tracker charges an annual management fee of 0.75%, plus a margin fee: the US Federal Reserve's overnight interest rate plus 1%.

Leveraged products could result in a rollercoaster ride

©Getty Images

Betting on baskets

Leverage Shares offers a much broader range of exciting tech names, including Zoom, Twitter, and Shopify. However, GraniteShares offers stock baskets, a small collection of related tech stocks where each component is equally weighted after each quarterly rebalancing.

Their FAANG daily contains Amazon, Apple, Alphabet, Facebook, and Netflix. You can buy a straight one-for-one tracker (FANG) with a total expense ratio of 0.69%, or the three-times long version (3FNG) with a charge of 0.0071% per day (2.59% per year). Over the last six months the one-for-one product is up by 19.9%, while the three-times long version has gained 65%. Granite also offers GAFAM (Alphabet, Amazon, Facebook, Apple and Microsoft) and FATANG (Facebook, Amazon, Tesla, Apple, Netflix and Alphabet).

Leverage Shares provides a simpler suite of stock trackers, which provide one-to-one exposure to big stocks at a fraction of their price. Many US tech stocks are expensive to buy on a regular basis, and there are also complicated US tax forms to fill out before trading. These stock trackers allow investors to buy a small fraction of US stocks easily with a UK dealing account. For most readers, a US-enabled share trading account that allows fractional shares will be an easier option, but these trackers could be useful to everyone else.

Activist watch

US state and private healthcare-plan provider Centene's long-serving CEO is to retire next year following pressure from activist hedge fund Politan Capital Management, says Matt Grossman in The Wall Street Journal. Michael Neidorff has been Centene's CEO since 1996, and has turned the group into "one of the largest players in health-insurance plans sold through the Affordable Care Act's marketplaces [and] in Medicaid managed care". But margins have fallen behind competitors' levels in the past few years. Politan's campaign has prompted Centene to produce a plan to improve its profitability by focusing on its core business, while the group also intends to bring five new faces onto the board.

Short positions... Cathie Wood goes global

■ **Three of US star-investment manager Cathie Wood's best-known funds have launched on the London Stock Exchange and Euronext, the European bourse, says Emma Boyde in the Financial Times. They offer European investors the chance to bet on or against her strategy. Leverage Shares, which makes international stocks available to European investors through exchange-traded product packages (see above), is now offering trackers reflecting Wood's "high-profile" Ark funds. They allow users to mirror the Ark funds or to amplify returns from her gains or losses. The product launch comes as many of Ark's funds suffer "unprecedented pressure". Ark is renowned for its large bets on "hot tech-focused stocks" but its strategy has faltered as the prospect of dearer money "has dented the appeal of some of these often unprofitable companies". The launches are among 42 exchange-traded products that Leverage Shares listed in London in mid-December.**

■ The exchange-traded funds (ETF) sector's fee war has reignited in recent weeks, says Katherine Greifeld on Bloomberg. Asset-manager Vanguard has cut costs "even closer to zero" on 17 of its US-listed funds this week following similar cuts by rival State Street Global Advisors a fortnight before. The company dropped its expense ratio to 0.04% from 0.05% for eight of its fixed-income funds, matching three of State Street's corporate-bond ETFs, and said it would also lower costs across its range of equity ETFs and funds. "Cut-throat competition for assets in an increasingly saturated market has taken fees on some of the biggest ETFs to near-zero levels." Vanguard has dominated the field: the $8.4trn asset manager looks set to record the highest inflows of any issuer worldwide for the second year in a row.

Congo's carbon bomb

Max Bearak
The Washington Post

The peatland that stretches across 56,000 square miles of the Democratic Republic of Congo (DRC) and the neighbouring Republic of Congo holds as much carbon as the "whole world currently emits in three years", says Max Bearak. When disturbed, these peatlands, parts of which have been accumulating carbon for around 17,000 years, can rapidly release the gas, along with another potent greenhouse gas, nitrous oxide, in what experts term a "carbon bomb". Scientists and environmentalists fear that allowing commercial interests access to these lands will do exactly that, releasing "billions of tons of greenhouse gases into the atmosphere" – and there are huge pressures to do so. Industrialised countries around the world have drained "vast areas" of peatland over the centuries; the DRC wants and needs its own economic boost. The vast Central African country is "near rock-bottom on key development indicators, including life expectancy, access to education and electrification". To prevent the detonation of this carbon bomb, conservation-minded institutions across the world will need to come up with a better offer, "one in which the carbon stays in the ground and Congo still gets a payout". The implications are "global".

China faces a difficult decade

George Magnus
The New Statesman

"Pulling off a soft landing" for the property sector in the wake of the Evergrande default won't be easy for China, says George Magnus. The $60trn sector faces "years of adjustment shaped by a kaleidoscope of excessive debt, rapidly ageing demographics... historic overbuilding and the risk of falling prices". The Chinese Communist Party has the unenviable choice of deflating the bubble by "accepting debt write-offs, bankruptcies and weak growth" or allowing inflation to rise, so lowering the value of debt but potentially leading to "financial instability" and "capital flight". Xi Jinping, who craves control and is insistent that the East will rise, may not be too bothered about the ensuing "pedestrian economic growth", given that he is currently trying to shift away from what Marxists call the "forces of production" (or growth and material prosperity) to the "social relations of production" (or the quality of growth, inequalities and the environment). Evergrande marks an "ideological lurch" and presages a "difficult decade" for China. There is also "growing pushback" from abroad to consider. If the consequences are "poorly managed" or "undermine" Xi's China narrative, "the yuan stops" with him.

Billionaires battle for the metaverse

Editorial
The Economist

Mark Zuckerberg was mocked when he said he was changing the name of Facebook's parent company to Meta Platforms, yet he's not the only one with metaverse ambitions, says The Economist. Others include Jensen Huang of Nvidia and Pony Ma of Tencent. Tim Sweeney, founder of Epic Games, describes it as a "multitrillion-dollar opportunity". Quite what these plutocrats mean by metaverse is unclear. Will it be an all-consuming futuristic world or simply a more immersive way to work, shop and play online as "everyday" life continues? So far, Zuckerberg has earmarked $10bn mostly to develop headsets; Nvidia is focused on the "omniverse", a chip-based technology that brings creative types together virtually. Epic's "killer app" may be Unreal Engine, which allows developers to make lifelike 3D experiences for different settings. These billionaires are driven by "common experiences": that politicians everywhere are "threatening tighter rules against monopolies and privacy abuses", and that they operate in "constrained worlds" (Apple, with its closed systems is a particular bugbear). The race is on: each billionaire wants to be the first to a billion users, "so that they can set the rules to their advantage".

Democracy needs the rich to thrive

John McGinnis
City Journal

The top 1% are in "bad odour", says John McGinnis. The main claims against the super-rich are that inequality is unfair and, more troublingly, that they wield "outsize" political influence. First, the majority of that 1% are self-made and "add far more to the welfare of consumers than they retain in wealth". Second, history shows that a democracy in which the wealthy "exercise sway" tend to be more stable and prosperous than one where the government tries to ensure that everyone has equal influence. The rich may help to fund politics, but representatives still need to appeal to the electorate. Additionally, the freedom afforded by their wealth means that the rich find it easier to push back against the government and stand up to "overweening officials and mobs". They also "counteract more ideologically homogenous and powerful groups" such as the press and academia, and their experience means they "often inject into democratic deliberation a better understanding of the consequences of political decisions". This is not to say we should be ruled by the very rich, but we should recognise that they are not "just a dynamo of our prosperity". They also "make democracy smarter, more stable, and less insular".

Money talks

"For the majority of my life I have had the privilege of never having to worry about money. But for most people money is a survival dance... now money too is part of my survival dance. I don't want to be somebody sitting on piles of money... I want to build something that is bigger, means more and can sustain us and other people."
Singer Charlotte Church (pictured) on the huge cost of turning a 16-century mansion in Wales into an off-grid, seven-bedroom eco retreat, quoted in The Daily Telegraph; she paid £1.5m for the property and the renovations will cost another £1.2m

"To Nigerian parents... all the sacrifices they are making are to ensure that their children have a better, more financially stable existence than they had... As far as they could see, being in the arts was antithetical to being financially stable, let alone the acting profession, where they saw no real evidence of success for black people."
Actor David Oyelowo on his parents' reaction to his choice of career, quoted in The Times

"This idea that we flew around empty planes just to avoid refunds is mad. [It's] much cheaper to sit the plane on the ground and just do the refunds."
Ryanair chief executive Michael O' Leary denies that his airline flew empty planes to avoid paying money to passengers, quoted in The Times

"Those lights where mosquitoes fly into the zapper? When you're a young actor you run to success, which also includes fame. And the minute you get there you can get burnt... I'm lucky I got famous when I was 33, not 23. I'd have been shooting crack into my forehead if I had been 23 and given money and success."
Actor George Clooney, quoted in The Sunday Times

Trust is crucial to capitalism


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Interacting with colleagues in offices underpins growth

theatlantic.com
Economic health is determined by an array of statistics, says Jerry Useem. But a crucial element is unseen: interpersonal trust. "Without it, Adam Smith's invisible hand stays in its pocket." Every transaction requires trust to be finalised, from brokering high-profile mergers to having faith in employees to work outside the office.

Today trust is evaporating – and the pandemic is to blame. A recent study at Erasmus University found that the longer 5,400 Finnish workers were apart, the more their faith in their colleagues fell. Another survey, by the Centre for Transformative Work Design in Australia, found that 60% of supervisors doubted or were unsure that remote workers performed as well or were as motivated as those in the office. Meanwhile, sales of employee-surveillance software have spiked by 50%. "We may be in the midst of a trust recession."

An economic lubricant

"Trust is to capitalism what alcohol is to wedding receptions: a social lubricant." In societies with a low-trust culture, such as Southern Italy and Russia, people are less likely to invest, collaborate and hire from pools of people beyond their own networks, and this contributes to lacklustre economic growth.

A paper published in 1998 by Paul Zak and Stephen Knack found that a 15% increase in the belief that "most people can be trusted" adds a full percentage point to a nation's growth that year. "That means that if, for the past 20 years, Americans had trusted one another like Ukrainians did, our annual GDP per capita would be $11,000 lower; if we had trusted like New Zealanders did, it'd be $16,000 higher." (US GDP per capita is $63,540.) Francis Fukuyama likewise argued in his book *Trust* that it was the highly sociable culture of the late 19th century that helped America to develop the first large corporations, where the ideas and interests of strangers were pooled.

However, "leaks in the trust reservoir have been evident since the 1970s", following continuing cultural shifts away from church membership, rising social-media use and an increasingly tense political backdrop. Covid-19-induced isolation has compounded these trends. Why does this happen? "We're primates… We once built reciprocity by picking nits from one another's fur – a function replaced in less hirsute times by the exchange of gossip. And what better gossip mart is there than the office?" Without these in-person interactions we can't establish trust, and now its decline and associated consequences will be difficult to reverse. "Maybe all that face time inside skyscrapers wasn't useless after all."

Lockdowns fuel bitcoin boom

capx.co
Forget the buzz about bitcoin, says Bill Blain. The "blunt and brutal truth" behind cryptocurrencies is that they are simply Ponzi schemes relying on a "steady flow of new entrants" to pay off the older members. The rising prices entice investors who hope to sell it on for more money. The "last man to buy tulips at the height of the frenzy [or] Cisco in 1999 [is now] wondering whether he should buy Tesla and Ethereum".

Meanwhile, as with all cons, crypto has promoted the idea that only very clever people can understand it. Newcomers are assailed with jargon and technicalities, while the supposed computing logic behind blockchains is simply "mathematical dyslexia puked out and dressed up as original thinking". Just try reading Bitcoin Magazine.

Yet why do people keep falling for it? "I suspect it's because modern life's sheer bloody misery and lockdowns have made folk more susceptible and gullible", and this has affected younger investors more than veterans. On average they're more hopeful, assume their saving aren't at risk and subject to constant competitive pressure from all their friends on social media already riding the bandwagon.

Victims of an algorithm

bylinetimes.com
The Turkish authorities have been using artificial intelligence to hunt down former military officers involved in the botched July 2016 coup, says Stephen Delahunty. A unit of the Turkish navy is using an algorithm known as a "FETO-meter" to gauge who might have been guilty. The Turkish government refers to the Gulen movement, an organisation led by an exiled Turkish cleric who was blamed for the uprising, as FETO ("Fethullah Terrorist Organisation"). The algorithm sifts through data collected from internet records and telephone calls to reach its verdict, and has reportedly processed "at least 810,000 individuals from a number of official agencies". It analyses around 400 absurdly wide-ranging criteria, including which banks and messaging apps people use; getting divorced between 2015 and 2016, and having a disabled child were also signs of possible guilt. A former lieutenant commander, Hacer Caylak, says she had been identified "because one of her three children has Down's Syndrome". One former frigate commander, Huseyin Demirtas, has said that once identified by the algorithm, "as a citizen you are dead".


©Getty Images
Turkey is still chasing supposed perpetrators of the 2016 coup

Don't fall for fuss about nuclear waste

realclearscience.com
To nuclear-power opponents, "radioactive waste" is a "trump card to argue why they will never support this safe, dependable, carbon-free source of energy", says Ross Pomeroy.

But this is ignorant nonsense. "Nuclear 'waste' is not really waste." All of America's spent nuclear fuel (around 2,000 tonnes a year) since the 1950s would fit into one football field stacked ten yards high. Plant operators "are more than capable of handling this amount".

What's more, this waste could become useful fuel again. "Current reactors used in the US can only extract about 3%-5% of the available energy in nuclear fuel before it is considered 'spent'", but reactor designs set to debut in the 2030s could produce energy using this waste sitting in storage.

A nuclear start-up backed by Bill Gates, TerraPower, claims it can do just this. Its "travelling-wave reactor design could electrify America for hundreds of years" on just the fuel waste we have today.

For the New Year, why not quit your job and go live in the forest?

The idea of adopting a simpler lifestyle free from social hierarchies and tiresome modern work appeals to many romantics – but there are some practical considerations, says Stuart Watkins

The left's present-day obsession with social and economic inequalities was invented in 2011 by David Graeber, an anthropologist and anarchist activist who died towards the end of last year. In the wake of the credit crunch and financial crisis, a small advertisement appeared in the Vancouver-based magazine Adbusters, as Daniel Immerwahr relates in The Nation. "What is our one demand?" it asked. The question wasn't answered. Readers were only told "#OccupyWallStreet. September 17th. Bring tent". The result was – as surely no one expected, not even the organisers – a global movement that briefly shook the world. The movement "held Zuccotti Park in Lower Manhattan for two months, made headlines, and set off more than 200 occupations globally", says Immerwahr. The question in the original advertisement was in fact never answered, but the movement did settle on a slogan, one that has since entered the vocabulary: "We are the 99%". The insight was based on the latest economic research, which showed a growing gap between the top 1% and everyone else. The slogan that grabbed the popular imagination was Graeber's.

That story, like all origin stories, is something of a simplification and a myth, of course. Social and economic inequalities in a broad sense have been a concern of the left for centuries. Graeber didn't invent the slogan, but contributed ideas to the committee that did. Nevertheless, stories like that do something to capture the spirit of the moment and reveal basic truths in easily digestible form. It's hard to imagine that the discrepancy between the fine-grained detail of the historic facts and the story that comes to be widely believed is all that important for most purposes.

So you might think, but Graeber's career was dedicated to showing that that assumption is false. A rough template for everything he wrote looks something like this: "Such-and-such a phenomenon is widely believed to be explained by such-and-such a story. But there's not a shred of evidence that this is true. In fact, the story is more like this [insert better story here]. The discrepancy between the story and the facts goes some way to explaining much of contemporary concern to socialists and anti-capitalists".

In his widely acclaimed *Debt: The First 5,000 Years* (Melville House, 2011), for example, he says the story that trade using money evolved from barter, and that all societies regard it as a moral obligation that one must pay back one's debts, was not based in history or the ethnographic record, but was a myth created by economists for their own nefarious purposes to justify an oppressive social system. We all came to believe the myth and hence got stuck in a system where creditors have too much power over debtors.

> *"The book is not intended to be of merely academic interest, but is a political manifesto"*

Once upon a time...

In Graeber's posthumously published new book, *The Dawn of Everything: A New History of Humanity* (Allen Lane, 2021), written with archaeologist David Wengrow, the general theme continues. The story objected to this time concerns the origins of social and economic inequality. Once upon a time the whole of humanity lived in small, simple hunter-gatherer bands. This was, according to political preference, a time of egalitarian, even "communist" bliss, operating on the principle "from each according to ability, to each according to need", where economic inequalities and social hierarchies and strife were unknown; alternatively, a time of hellish struggle for survival, operating on the principle of "each to his own, and the devil take the hindmost", where life was nasty, brutish and short. Then along came agriculture. Again, according to preference, this was a terrible mistake, or a necessary step on the road to progress, but in either case the result thereafter was necessarily one of earning a living through the toil and the sweat of your brow, of private property and hence of state power, and a social division of labour resulting in class stratification and social inequality.

The views sketched here can be traced back to Enlightenment philosophers Jean-Jacques Rousseau and Thomas Hobbes respectively, and versions of the same story are regularly retold today, even if now garlanded with more modern scientific accoutrements – see Jared Diamond, Steven Pinker, Yuval Noah Harari and Francis Fukuyama, for example. The trouble with this picture, according to Graeber? You've guessed it: there's "not a shred of evidence" that any of it ever actually happened. Indeed, as Graeber and Wengrow point out, it would be pretty extraordinary if there were.

The stories presented by Rousseau and Hobbes (and, in the case of debt and barter, Adam Smith) were essentially thought experiments, "as if" imaginary stories presented to make a philosophical point. It would be one heck of a coincidence if the thought experiments of these dead philosophers turned out accurately to represent what had actually happened over the millennia of human history and pre-history. And indeed, what we might expect – that the reality as revealed by modern developments in archaeology, history and anthropology is somewhat more interesting and complicated than these short "as if" stories can capture – is confirmed by a study of the relevant fields. Graeber and Wengrow's 700-page book is a compelling and fascinating, if sometimes wearying, overview of the literature.

The bigger picture

But as in the case of *Debt*, it would be fair to say that the book is not all it at first appears to be – it is not intended to be of merely academic interest, nor for popular entertainment, but something more like a political intervention, a manifesto, a contribution to an ongoing (and old) political debate. That broader debate concerns the nature of capitalism, especially from the point of view of those who see it as an intolerable system of exploitation and oppression, and desire its overthrow and replacement with something nicer.

Within this broader debate, it is generally conceded by all parties, and confirmed in broad outline by Graeber and Wengrow, that humans for most of their history did indeed live as hunter-gatherers, or at least in some kind of similar tribal arrangement, and that

The Occupy movement briefly shook the world – but to what end?

humans who live like that today can sometimes (to put it no more strongly) surprise us with their radical social arrangements – ones that seem to us shockingly egalitarian, with high levels of individual autonomy and happiness, and a remarkable freedom from toil, strife and conflict, at least internally. It seems reasonable to assume that this was broadly the case across the globe "until yesterday" in historical terms, to quote from the title of a popular book on the subject by Jared Diamond. The radical left (and Diamond) sees this as inspiring and want to draw political lessons – if we lived like that until yesterday, then why not today too?

The common argument against that proposition concerns complexity. In simple societies where people make their living by hunting and gathering whatever is to be found nearby, social relations can take a relatively relaxed and egalitarian form. But as soon as we start to create our own livelihood through agriculture, and later other forms of work, then private property and social hierarchies naturally arise, leading to inequalities of wealth and power, but also to general material progress and freedom from nature-imposed harshness and austerities.

Graeber and Wengrow have objections to raise at almost every step of these arguments. History does not proceed in such neat stages – the cultivation of crops is not in fact an unknown mystery to many groups that have been characterised as "hunter-gatherer", for example, they just don't allow it to structure the whole of life, or not all of the time anyway. (Fans of popular anthropology may remember that the pygmies in Colin Turnbull's classic *The Forest People* did sometimes work in villages for agricultural concerns, but far from seeing this as the pinnacle of human achievement and prosperity, fled at the first opportunity to go and drink and dance and feast in the forest.) Societies classified by anthropologists as "hunter-gatherer" do not always live according to the ideals of anarchist-communists – oppressive hierarchies, even empires and slavery, are far from unknown. And, most importantly for the broader political debate in which Graeber and Wengrow's book is an intervention, hunter-gatherer societies are anything but necessarily "simple" or small-scale.

That they are not simple in terms of social relationships, religious beliefs and rituals, art and culture, and so on, has long been understood by sympathetic anthropologists. Indeed, the insight defines the field. What is less widely understood is that they are not simple in terms of scale or economic achievements either. In earlier centuries, write Graeber and Wengrow, forms of regional hunter-gatherer organisation might extend over thousands of miles. Aboriginal Australians, for instance, could travel half way across the continent, moving among people who spoke different languages, and still find camps divided into familiar totemic moieties that determined who owed them hospitality, who had to be treated as "brothers" or "sisters", who could be seen as potential marriage partners, and so on.

In modern-day Louisiana, at Poverty Point, you can still see the remains of massive earthworks erected by

"If we lived in conditions of freedom and equality until yesterday, then why not today too?"

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Native Americans in around 1600BC. Archaeologists believe the structures once formed a monumental precinct that extended over 200 hectares, about as big as the first Eurasian cities. It is a myth, too, that hunter-gatherers merely took the land as they found it. What to a colonialist settler's eye might have appeared to be savage, untouched wilderness usually turned out to have been actively managed by indigenous populations for thousands of years. Archeologists working on mega-sites dating from roughly 4100BC to 3300BC in Ukraine believe that complex economies, involving gardening, the keeping of livestock, the cultivation of orchards, as well as hunting and foraging and the farming of some crops, as well as the building of essentially city-like structures, were coordinated on a mass scale, probably on some kind of egalitarian basis, or at least without centralised, rule-giving hierarchies.

Graeber and Wengrow's political point is that human beings in the past did not act and choose on the basis of modern theories of material and geographic determinism, but were radically free to come up with every imaginable kind of social, political and economic arrangement, and indeed did do that – creating more than a few that we find hard to imagine to boot. What puzzles them is why we do not do that today, but instead seem everywhere "stuck" in the same old boring capitalist arrangements.

They do not answer this question, but raise it in order to suggest that we too might throw off the shackles of oppression and create something new and more fun instead. (To the uninitiated, there is no more damning criticism in anarchists' eyes than that something is deemed "boring", or places constraints on the freedom of individuals to run off and do something they prefer instead. It is a theory to justify eternal adolescence.)

The most important objection to this, though, remains what it has always been. Graeber and Wengrow trip over the truth in the early pages of their book, but then pick themselves up and hurry on as if nothing had happened.

Boring economic realities

The economist ARJ Turgot, writing in 1751 in response to arguments such as those we have rehearsed here – namely, that it would be wonderful if we could all live like what were then known as "savages" – responded that we must consider the larger context, as Graeber and Wengrow relate. "We all love the idea of freedom and equality in principle," Turgot wrote, but as societies evolve, technologies advance. Natural differences in talents and capacities between individuals become more significant and they form the basis for an ever-more complex division of labour. The result is eventually a commercial civilisation with an advanced and highly complex division of labour that necessarily results in relative riches for some and poverty and dispossession for others. However lamentable this may be, it is the necessary condition for the prosperity of society as a whole. (Today we might add that the prosperity of society as a whole provides a sound basis for tackling those problems that Turgot could only lament, but that material progress is increasingly relegating to history.)

As we have seen, it is the main purpose of Graeber and Wengrow's book to chip away as best they can at these arguments. But no matter how the details of the historical picture may change, and how problematic we make the idea of "social evolution", the basic point doesn't. And this is that, however it is we got here, industrial society now supports the lives of billions of human beings, and it's far from obvious that there is any other way of doing that than

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Poverty Point in Louisiana: an ancient hunter-gatherer "city"?

with the means at hand – a complex industrial society based on private property and the rule of law, which at the least necessitates some kind of minimal state; prices and profits; free markets and competition. Finding our place in this broader system may be boring for anarchists, but it puts the dinner on the table.

Consider the pencil

Graeber and Wengrow think they have disposed of the argument by showing that hunter-gatherer and other early, and arguably freer, societies were more complex than we thought. But it's far from clear that they were truly complex in the sense that matters for the sake of the broader political argument.

It's easy enough to imagine how an early society of humans might organise something on egalitarian lines that resembles a city, how a relatively complex economy might evolve, how labour might be divided consciously by agreement, and so on – even if it was no doubt much harder to achieve in reality than it is to imagine. But modern industrial societies are far more complex even than that.

As we will know if we have read economist Leonard Read's famous essay *I, Pencil*, even the making of a humble pencil is beyond the abilities of the smartest and most creative committee of anarchists. It takes a whole society, organised globally in ways that are the result of human action, but not of human design. No one person, nor committee of them, has any idea how to make a pencil, let alone an aeroplane – the necessary knowledge is widely dispersed among millions of people. And yet, given a complex interaction of markets and other social institutions, such things nevertheless do get made every day.

This stretches the human imagination more than the building of a primitive city, no matter how much the latter may appeal to romantics, and leaves us in a somewhat humbler position. As Hayek put it: "The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."

Graeber and Wengrow have succeeded in showing that the historic design process, if we care to think of it like that, must have been hugely more complicated than our old myths could imagine. But they have not succeeded in their broader political task of convincing us that we could throw it all off and start again – at least, not without courting social and economic catastrophe. In short, we should think twice before throwing off our responsibilities and running back to the forest – not least because, if we all did that, there would be no forest left at all.

"Finding our place in this broader system may be boring for anarchists, but it puts the dinner on the table"

China's economy runs out of road

There is no painless way for Beijing to deflate the debt bubble, says Edward Chancellor. The development miracle looks over

Chinese president Xi Jinping has a better understanding of the challenges facing his country than most investors. The leader-for-life has warned of the dangers posed by the real-estate bubble, excessive debt levels, widespread corruption and rising inequality. These problems are not unique to the People's Republic. In the past, every country in the region that adopted the so-called Asian development model has faced similar ones. Xi's dilemma is that there is no easy way for China to surmount them.

The Asian model has several key features. State-controlled banks supply cheap loans to favoured industries; the currency is kept at an undervalued level to boost exports; consumption is suppressed to create savings for investment; and rapid modernisation is achieved by adopting foreign technologies.

But growth in Asia is inherently unstable. Artificially low interest rates fuel real-estate bubbles, such as Japan experienced in the late 1980s and Thailand in the following decade. Easy money also leads to excessive debts, as occurred across Southeast Asia in the early 1990s. Cheap capital encourages wasteful investments that undermine productivity growth. Suppressing consumption creates an unbalanced economy. Furthermore, opportunities for corruption abound when credit is distributed by state-run banks, as Indonesia experienced under the kleptocratic Suharto regime.

Japan's long period of economic expansion ended when the Bank of Japan decided in late 1989 to burst the property bubble. The Asian "Tigers" – as the fast-growing economies were called – ran off the cliff a few years later. As economist Paul Krugman demonstrated at the time, the economic "miracle" could only be sustained with ever-larger inputs of capital and labour. When foreign creditors withdrew their capital in the mid-1990s, the region experienced a financial crisis.

The Asian model – on steroids

Now consider China's predicament. Since the Communist Party embraced economic reform in the late 1970s, it has pursued what Peking University's Michael Pettis dubs the "Asian development model on steroids". China's savings and investment rose to higher levels, and consumption fell lower than any other Asian economy had ever witnessed. The People's Republic has gorged on debt, which has climbed by 100% (relative to GDP) since 2009. The value of China's real estate is matched only by Japan's in 1989.

No wonder Xi bemoans that property is for living in rather than speculation and that the country's "unbalanced and inadequate development" has not improved the quality of living for many Chinese nationals. He is now calling for "common prosperity", which entails a reduction in inequality. He also wants to cut excess capacity, reduce leverage and make housing more affordable.

All this is to be achieved while "promoting smooth economic growth" and avoiding a financial crisis. To appreciate the challenges facing China, consider what happened to its neighbours when their economies abruptly changed direction. After Japan's real-estate market turned down in 1990, residential properties became more affordable. But the bust produced two banking crises and a persistent deflation that hung over the economy for decades. Beijing does not wish to repeat that experience. When the Asian Tigers ran into trouble in the mid-1990s, they were forced down a different path. After problems emerged in Thailand, foreign creditors rushed for the exits. Contagion spread from one country to another, including Taiwan and South Korea. This was a period of collapsing currencies, widespread bankruptcy and bailouts by the International Monetary Fund.

"Never under-estimate the regime's ability to find ways of keeping GDP growing"

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President Xi Jinping has warned that trouble is brewing

The Asian crisis had a silver lining, at least. Countries that experienced sharp currency devaluations became much more competitive. In 1999, South Korea's economy expanded by more than 10%. The investment strategist Russell Napier, who witnessed these events first hand and describes them in his new book, *The Asian Financial Crisis 1995-98*, believes that China will follow the Tigers. The yuan is loosely pegged to the US dollar, which gives the US Federal Reserve an inordinate influence over China's monetary policy. That's especially problematic since the Fed is set to increase the cost of money next year, while China, with its deflating housing bubble, needs to ease. Ditching the currency peg, says Napier, would return monetary independence to Beijing.

If China devalues the yuan, then its economy might be expected to enjoy a burst of export-driven growth. Whether that will be tolerated is another matter. China is already the world's leading exporter. In his book, Napier describes the acquiescence of Western governments to Asian foreign currency manipulation, which boosted the region's exports after 1997 at the cost of millions of manufacturing jobs in the US and Europe, as "one of history's greatest-ever policy mistakes". This mistake won't be repeated. If Xi goes for devaluation he will face pushback from the US and its allies.

Never underestimate the ability of Beijing to find policies that keep the Chinese economy moving. But with household and corporate debt at higher levels than in the US on the eve of the subprime crisis and history's greatest real-estate bubble set to burst, Xi looks to have few options. After four glorious decades, China's economic miracle looks finally to be ending.

A longer version of this article was first published on Breakingviews

Go global to make great returns

The bullish outlook means investors should opt for investment trusts targeting the world's great companies, says Max King

Plenty of pundits insist that stockmarkets are overvalued and heading for a crash. Setbacks or sudden shocks, as in early 2020, are always possible, but investors have learned to ride these out. What would be much more worrying is a sustained bear market from which it takes years to recover. But how likely is that?

Persistent inflation is likely to push up both interest rates and bond yields, but that is well known and should be discounted in share prices, unless we are heading for the conditions of the 1970s without the build-up of the 1960s. Recovery is turning into strong growth and profits are easily beating forecasts with profit margins, despite inflationary pressure, still rising.

Plenty of markets – the UK, Japan, Latin America – look good value and small caps are attractive relative to blue chips almost everywhere. While the forward price/earnings (p/e) ratio of the top eight companies in the S&P 500, which account for 30% of the index, is around 40, the rest of the index trades at 18 times earnings.

In the investment-trust sector, there are still more opportunities. Listed private equity funds remain cheap. Small and mid-cap trusts have returned to attractive discounts. Healthcare has been dull all year and there is value in the property sector. Investors are almost spoiled for choice.

But before seeking bargains in specialist funds, investors should check their exposure to the backbone of any portfolio – the global equity trusts with the freedom to invest in great companies across the world. Their managers are far better able to identify long-term bargains than the amateur investor.

Scottish Mortgage Investment Trust (LSE: SMT)

SMT is the £22bn giant of the investment-trust sector, with a five-year return of 380%, the best in the market; the MSCI All Countries World index has returned just 82%. Its high-growth portfolio means that the dividend yield is negligible but annual operating costs of just 0.34% are among the lowest in the market. The top-ten holdings make up 44% of the portfolio and include names such as Moderna, Tesla, Tencent and Alibaba. SMT buys for the long term (at least five years) but this does not mean that it holds forever. It has sold Facebook and Alphabet (Google) and significantly reduced its stake in Amazon.

The thesis is to invest in stocks capable of multiplying in value as these, their research shows, account for all stockmarkets' long-term gains. Just under a fifth of the portfolio is held in 50 unlisted investments on the basis that companies are now coming to market later in their development, so buying early when they are unlisted is key to capturing returns. SMT should be a core holding for any investor, even though the shares trade at a 2.6% premium to net asset value (NAV).

Monks Investment Trust (LSE: MNKS)

Monks is SMT's £3.3bn sister trust at Baillie Gifford. Its 143% five-year return indicates a more cautious approach than SMT's. But it is still almost double that of the MSCI All Countries World index (77%). The top-ten holdings account for just 23% of the portfolio

"Corporate profits are beating forecasts and margins, despite inflationary pressure, are still climbing"

Tesla is in the top-ten holdings of two top global trusts

and there is no private equity other than 4.3% held in Baillie Gifford's private equity trust, Schiehallion. As with SMT, the focus is on long-term growth, the dividend yield negligible and the operating costs (0.43% per annum) very low. But the portfolio overlap is limited: only Tesla appears in the top ten of both trusts. This makes MNKS, on a 4% discount to NAV, an excellent alternative to SMT for the cautious or a good additional holding for those seeking diversification.

Mid Wynd International Investment Trust (LSE: MWY)

MWY, with £500m of assets, is one of two growth-focused alternatives to the Baillie Gifford trusts with an almost identical performance record: 113% over five years. The dividend yield is low (sub-1%) and the shares trade at a small premium to NAV. Stock-picking is based on identifying long-term global trends and then finding the high-quality stocks – but "with a disciplined approach to valuation" – that best represents them.

Mid Wynd's themes vary from "online services" and "digital banking" to "healthcare costs" and "low-carbon". Even in a well-diversified portfolio (the top-ten account for 23%), this leaves little room for old-economy, value or recovery companies. Annual costs are 0.64% but will come down as the trust expands to Baillie Gifford levels. Mid Wynd is an excellent complement to the Baillie Gifford trusts while remaining growth-focused.

Martin Currie Global Portfolio Trust (LSE: MNP)

The remarkable feature about MNP's performance is that it has been achieved with such low exposure to the relentlessly outperforming US market: 45% compared with 62% for MWY. European exposure is 41% and


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net debt is 6% of the portfolio. This is largely due to low exposure to the top eight companies in the S&P 500, which account for 30% of the index's total market value. Yet the portfolio is very much growth-orientated, with a significantly higher return on invested capital and revenue growth than the index. The holdings are concentrated, with between 25 and 30 overall, and the top ten accounting for 46% of the total.

While all trusts have a focus on environmental, social and governance (ESG) issues, few have such a comprehensive evaluation process for it as MNP, which believes it to be an essential precondition for healthy long-term returns. The shares of the £400m trust trade at a tiny discount to NAV, yield 1% and have annual costs of 0.65%. It's an excellent alternative to MWY and also deserves to be a lot larger.

Avoid: F&C Investment Trust (LSE: FCIT)

Launched in 1868, FCIT is the oldest trust in the market. With its £5.7bn portfolio, it is the second-largest in the sector but has fallen a long way behind SMT. A five-year performance record of 87% is perfectly respectable, but isn't good enough to justify its shares trading at a discount to NAV of less than 8%. Debt of 11% of assets has clearly helped performance, as has 8% exposure to private equity, but this means that the underlying portfolio's performance is no better than the index. Management of the 41% of the portfolio invested in the US is sub-contracted out to two American managers, one value, one growth-orientated.

More of the portfolio is sub-contracted out to internal teams covering income, smaller companies and global opportunities. This fact is buried in the report and accounts but is not in the fact sheets; it means that

"The Bankers Investment Trust is more value-orientated than the rest of the sector and deserves the benefit of the doubt"

the manager has direct control of less than half of the portfolio. Annual charges are a reasonable 0.59% of net assets. With the top-ten underlying holdings accounting for just 22.4% of the portfolio, it is very – perhaps too – well-diversified. The yield, at 1.4%, is modest. Despite the discount, holders should consider switching into the better-performing trusts above.

Avoid: Alliance Trust (LSE: ATST)

Alliance, with £3.8bn of assets, was once another giant of the sector. But its performance, 84% over five years, is no better than FCIT's, which is why the shares trade at a 6% discount to NAV, with a yield of 1.4% providing little support. Again, performance has been boosted by borrowing worth 10% of assets.

The manager, Willis Towers Watson, subcontracts direct management out to ten underlying managers with difference styles and specialisations, but the portfolio still looks pretty growth-orientated. Towers Watson's job is to monitor the managers and change allocations to them if their performance disappoints or a different portfolio tilt is required.

With the top ten underlying holdings accounting for just 22% of the portfolio, it is probably too diversified, and the investment strategy is arguably too inflexible. Even if a manager had picked Tesla in 2019 as a stock to invest in, the holding would have been small and the manager, fearing an embarrassing mistake which would have jeopardised their contract, would probably have sold too soon. Like FCIT, ATST is likely to struggle to beat the MSCI index.

AVI Global Trust (LSE: AGT)

AGT, with £1.2bn of assets, is a value-orientated trust with its portfolio divided into closed-end funds trading at a large discount (37%), undervalued family-controlled holding companies (33%) and deep value in Japan (30%). AVI seeks to engage with the companies it invests in and actively presses for change to improve investor returns. Its five year return of 86% has been boosted by an excellent 12 months (+28%) and so it is on something of a roll. This makes its 9% discount to NAV a bargain. The shares yield 1.8%.

Three more to consider

The Bankers Investment Trust (**LSE: BNKR**), with a five-year return of 87%, has been held back by a poor 12 months but, with a yield of nearly 2% and a discount to NAV of 2%, is probably worth the benefit of the doubt for now – especially as it is more value-orientated than other trusts in the sector.

The **Witan Investment Trust** (**LSE: WTAN**), with £2.3bn of assets, yielding 2.2% and trading on a 7% discount to NAV, has a disappointing five-year record but performance has picked up in the last 12 months. A quarter of the portfolio is allocated to specialist funds and investments, while management of 75% of it is sub-contracted to five global managers and one British manager. **RIT Capital Partners** (**LSE: RCP**), with £4.7bn of assets, is not a full equity trust but with 46% of its portfolio in listed global equities and 33% in private equity, it has a good record of limiting declines in poor markets but performing well in good ones. A five-year return of 73% (27% in the last year) is therefore attractive, helped by the shares trading on a 5% discount to NAV.

While these global trusts provide good exposure to world markets, they offer scant access to the UK, Japan, emerging markets, smaller companies and listed private equity – the areas that look most undervalued. Most of the global trusts are also heavily tilted towards growth so any investor seeking contrarian exposure to "value" sectors such as energy and financials will need to top up their portfolio with specialist trusts.

2021 was full of contradictions, so what will 2022 bring?

Inflation has risen – so why haven't bond yields taken off? And is the equity market still the only game in town – or are investors deluded? John Stepek asks the experts their views on what's been a very weird year

Simon Edelsten
Fund manager,
Mid Wynd / Artemis

Max King
Independent director
and MoneyWeek writer

Jim Mellon
Chairman,
Burnbrae

Steve Russell
Investment director,
Ruffer

Matt Tonge
Fund manager,
Liontrust

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"Despite inflation, bond yields haven't gone up, which is weird"

John Stepek: What surprised you most and what surprised you least in what's been a very weird year?

Simon Edelsten: I totally agree it's been "weird". The main thing that everyone had feared would happen – inflation – happened. But according to the economics textbooks, bond yields were supposed to go up, and they haven't. That confuses everyone. It causes issues for savers and I think it should cause some caution for us. It wouldn't take much of a move in bond yields towards the inflation we've already seen for markets to struggle quite a bit. And yet everyone seems to be dead bullish. Global equities are up 20% this year and they went up even more than that the year before, from the lows. So the equity market is behaving as if it's party time.

Max King: I agree that the big surprise has been that despite inflation bond yields haven't gone up – and if they haven't gone up now, it's very unlikely that they're going to. It seems to me that the world is populated by Christmas Grinches who spend all their time trying to convince people that the market is about to crash. We are in a golden age of property and stockmarket investment, and despite grumbles about valuations, I don't see markets as particularly expensive in most of the world. So "don't worry, be happy" is my message.

Steve Russell: I think I have to come in there and do my best to be a Christmas Grinch. We've been predicting inflation for ages, but when it actually came along and stayed, we were surprised – we didn't expect US inflation to now be nearly 7%. But we did absolutely expect bond yields and interest rates to stay nailed to the floor. The problem is that markets have decided that real interest rates are the discount rate, and this is just wrong. Say interest rates remain at 0% and inflation is at 10% – you've got a minus 10% real rate. But you still have to discount future cash flows by 10% inflation to get the current valuation [when the discount rate rises, current valuations should fall, all else being equal]. So I think markets face a painful re-rating that will kill the bull market, once there's a realisation that inflation is persistent, but that central banks aren't raising rates and that bond yields are just a false market.

Until that happens – next year, maybe the year after? – equities will be attractive because we're getting quite good growth. Equities are better than conventional bonds because they are at least real assets. So there is no reason why the TINA ("there is no alternative") trade shouldn't continue until there is this realisation of the damage that inflation and negative real rates can do.

Jim Mellon: But is it really the case that markets are up 20% this year in a conventional way? There's been a high concentration of return in about ten US stocks. I read the other day that there are more stocks down this year than there are up in the major markets, which I think is probably true. I think we're setting up for quite a big fall. In fact, I can't see any way out of it.

John: Yes, Cathie Wood's ARK Innovation fund has tanked this year – it peaked in February. That holds all the "longest duration" equities in the market. Is that a canary in the coal mine?

Simon: The big tech stocks – the FAANGs – have done very well and have been a big contributor to Wall Street going up 28% in sterling terms. But the MSCI World index is up 20% and Europe is up 13%. So, it's not all one place. The ARK portfolio is not FAANGs – it's Tesla and a load of things that don't make a profit – a very concentrated, rather small part of the overall market. What's interesting is that the Googles of this world – old-fashioned, established tech, if you like – are now behaving like staples whereas the speculative and unprofitable stocks have sold off very aggressively. That could well carry on.

Inflation: how much more will we see?

John: Matt, you talk to a lot of small businesses. Are they concerned about costs and wage inflation?

Matt Tonge: We own a software business called Kainos, which employs about 2,000 software engineers, so it's seeing very high wage inflation, for example. But the key is that Kainos has pricing power, so it can pass those costs on. To take another example, we invest in James Cropper, which is a paper mill, founded in 1845. It makes the paper for poppies; it has a technical fibre-products division that makes non-woven carbon-fibre veils; it's in aviation, hydrogen fuel cells, automotive – so it has lots of intellectual property. Now the price of pulp has been going up and other companies in the sector have struggled to pass on those costs and have had to issue profit warnings. Cropper, however, has been able to put its prices up and so hasn't had to warn on profits. But this is a problem that each business is going to have to negotiate.

John: Isn't there a risk that inflation goes even higher? A lot of this stuff already seems embedded in the system, particularly wages.

Simon: There are some aspects to the inflation we're seeing that have probably been pumped up by the size

Boris Johnson: gone in 2022?

and speed of the global recovery, such as oil and the price of petrol. But others seem more stubborn. Take shipping costs. The main Chinese ports have been putting their rates up by 10%-20% in the last week. So if you're selling products you're making in China, the cost of your product has just gone up and you'll soon see whether the public is prepared to buy it or not. That hasn't even started getting into the system yet.

As for wage inflation, that will take longer to work through. I remember one week reading five different articles from five different countries about port congestion and the lack of truck drivers, and each gave a local reason for the shortages. A Hong Kong port was bunged up because of China's zero-Covid-19 policy. Los Angeles ports were bunged up, which the Republicans said was because Joe Biden had given everyone $3,000 to sit on their sofas. The bunging up of the British ports was, of course, all about Brexit. And the German ports were bunged up even as the Poles were saying that the Germans had hired all their drivers for more money.

As a London taxi driver explained to me, the reality is very simple. If you have to pay an annual fee to be part of a driving club – such as a London taxi driver or a trucker – and you've had two years of Covid-19 and no money, and you're in your 60s and you thought you were going to retire in three years anyway, you just drop out. That's all that happened, and they weren't training any new drivers. That will take longer to work through.

But it's about time the lowest-paid saw some wage inflation. It's a healthy sign. We could very easily see 3% or 4% inflation for the next few years, but that's fine for the equity market. The adjustment can be tricky, but when you've got companies growing this quickly, they can cope. It allows government debt levels to fall, which is what governments and central banks want.

Max: One aspect that has been a bit ignored is the revolution in the payment systems. Cashless payments have made pubs and small shops far more efficient. Many businesses that we would have assumed would be dead in the water because of cost increases are actually thriving because there have been enough beneficial changes to compensate.

Jim: But why couldn't inflation go much higher? The world is more indebted than ever – and the percentage of that debt which is index-linked is at an all-time high. What is the fundamental difference between the current situation in developed economies – where we all seem to think that central banks will get their hand on the tiller in just the right way – and, barring the idiotic governance, Turkey?

Simon: Turkey has done the opposite of every conventional macroeconomic policy for the last five years, whereas over the last year central banks in Britain, Europe and America have done a very good job. As soon as the virus turned up, they stuck a proper amount of money in the system and prevented massive unemployment.

Steve: Yes, but on Jim's point there will be different reactions to high inflation from different central banks. Some countries – and the UK unfortunately could be one of them – might be seen as a bit too weak or

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"Why couldn't inflation go much higher from here?"

Continued from page 27

too behind the curve. So I think you could get more currency fluctuations – which have been pretty much missing for the last ten years – which could exacerbate inflation for individual nations.

Simon: That's an important point on geographic differences. US inflation just came in at 6.8%, but there are still people buying ten-year bonds at 1.5% – Americans are fairly used to inflation and the UK's similar. But you also have 6% in Germany, which they're not used to. German savers may well get very upset if their cost of living keeps going up at that rate. Yet it wouldn't suit Europe at all to put up interest rates.

John: Given that France has a big election next year, do you see the eurozone coming under pressure again?

Simon: A lot of inflation in Europe is likely to come through fuel prices and if you apply the German process for carbon-costing electricity across Europe, you could see 20%-25% increases in domestic electricity bills in Italy and Spain. That gets people upset.

The energy transition

John: Given rising energy bills, do you think the environmental, social and governance investing (ESG) bubble might burst this year?

Jim: I don't think ESG is going to go away, but its composition may change. There's a growing recognition that nuclear is the interim solution. We need more, especially in the UK where we've been running down our capacity in contrast to France, leaving us very tight on electricity supplies.

Simon: Do you think COP26 supported nuclear, or do you think they still just don't want to think about it?

Jim: I think the first thing you'll see is the taxonomy of various sources of energy from the European Union. That'll incorporate nuclear as a green factor, which might allow the Germans to reopen some of their nuclear power stations. Uranium, a very volatile commodity, might be one way to play it in the next few years and there are much safer ways of doing nuclear power now than in the past, such as these mini-reactors.

Steve: Jim's probably right about having an interim transition via nuclear. The problem is we stopped spending on oil and gas five to ten years ago and we need it for at least another ten, maybe 20 years. I'd be wary of oil explorers because I can't see why we need to find more – we just need to keep producing what we've got. But the market has priced them as if they'll be dead in five years' time and I think they may only die in 15 years – that's a big difference in cash flows.

Max: Energy is going to be the biggest bottleneck in the global economy for the next 20 years, as it has been for the last 50 years. That means periodic steep rises in energy prices and it means money going from successful, efficient countries to corrupt, unsuccessful ones. If there is one cloud hanging over the global economy for the next 20 years, it is the constraint of the energy sector.

John: What about hydrogen? Will that help?

Simon: Hydrogen is not a fuel – it's a storage device. It costs a lot of fuel to make and then you get a little bit less fuel out. So the question is: can you make clean hydrogen at an economic cost? And there are some fantastic advances here. One or two North Sea wind farms already have small electrolysers. When they produce power that we don't need, because we're asleep, they produce a little bit of hydrogen that can then be picked up by ship. So it's already happening, but it will need government subsidies to scale it up. It's a 15-20 year project, but its applications could be enormous.

The trouble with a battery is if you have a surge in demand – when everyone turns their kettle on

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Shipping costs are still going up

at halftime in the FA Cup final – then it can't cope, whereas you can burn hydrogen very quickly when you have a surge in demand for the grid. But the idea that anyone could plan to change the world's energy supplies in a stable, sensible way – even if it's very pricey – over anything other than 20 or 30 years is just ludicrous.

UK stocks are still "ridiculously cheap"

John: Let's move on to tips. Steve, what are you thinking this year?

Steve: Despite everything, I do think the UK is ridiculously cheap and that a lot of firms are likely to attract serious private equity interest if stockmarkets don't do something about it. Any sterling weakness will just exacerbate that. So here are four UK names that everyone has heard of: **BT (LSE: BT.A)**, **Currys (LSE: CURY)**, **ITV (LSE: ITV)** and **M&S (LSE: MKS)**. They're all on about eight times next year's price/earnings. Most have sorted out their balance sheets, and I think there's real upside. We're also still keen on the oil majors, **BP (LSE: BP)** and **Shell (LSE: RDSB)**.

I'm also really fascinated about the rise in demand for cars and the need to restock inventories across the world, so I'm going to go with **VW (Xetra: VOW)** again, which I think is soon going to be Europe's largest electric-car manufacturer. Car rental is fascinating too. We made a small but very rapid fortune in Avis recently, helped by a short squeeze – the first time I've ever been an actual beneficiary from such an event, in terms of owning a stock that went up threefold on the day. But **Hertz (Nasdaq: HTZ)** is probably a better pick now. If anyone has tried to rent a car recently, you'll know it's costing double what it was. This also seems to be one of the industries Covid-19 has restructured via bankruptcy and the loss of competition. On top of that, the car manufacturers won't be stuffing car-rental companies with excess stock anymore. In fact, their 18-month-old cars are now worth more than they paid for them. So Hertz is a very interesting recovery play.

"There's a growing recognition that we need more nuclear power"

John: Jim, what do you like just now?

Jim: In the banking sector, I think **Lloyds (LSE: LLOY)** remains an outstanding buy. Its prospective yield is 7%, it's on eight times earnings and it trades at a discount to book value. On Steve's private equity point, I see no reason why **Tesco (LSE: TSCO)** wouldn't be taken over. It's not a national treasure and it's well within the bounds of the big private-equity firms. It's on 11 times very dependable earnings – especially with the acquisition of Booker – and a prospective yield of 4.5%. In cars, I'll go for **General Motors (NYSE: GM)**, which has the autonomous driving division. It's on roughly eight times earnings and is very well run. Lastly, in uranium, **Cameco (NYSE: CCJ)** would be my pick.

John: Matt?

Matt: These are micro caps, not the most liquid stocks, so just be careful of that. The first is Crawley-based **Inspiration Healthcare (LSE: IHC)**. It makes warming mats and ventilators for babies born prematurely, helping save their lives. Although Inspiration has competition, its relationships with the doctors actually saving these lives enables constant innovation of the products and hopefully improved outcomes for more families in the future. The ventilators are quite complicated to make – over 2,000 parts – so that's a big barrier to entry, and it's not expensive – around 1.8 times sales when comparable businesses are typically on four times. It also has the potential to expand into the US.

The second is **Vianet (LSE: VNET)**. It provides monitoring equipment to pubs, which pay a monthly subscription for a bit of technology between the barrel and the pump that makes sure what comes out of the barrel goes into the till. This cuts down on wastage. The division has been in decline for probably ten years because pub numbers in the UK has been falling. But Covid-19 has pretty much cleared out that sector and its customer base seems to have stabilised now at around 10,000 pubs, with about 85% recurring income. Another division puts contactless-payments technology into vending machines. If you do that, sales go up by about 40%, because no one has cash on them anymore. That division has 42,000 machines paying weekly subscriptions and there's leeway for another 42,000 from a couple of contracts they've got. I reckon in two years' time Vianet will be producing £3m-£4m free cash flow; its current market cap is about £25m. It is geared because it had to borrow some money because all the pubs were shut due to the virus, but I think that will be paid off. So that's really cheap, although another full-scale pub lockdown would be unhelpful.

Third is **AdEPT Technology Group (LSE: ADT)**, based in Tunbridge Wells. It does cloud services for small firms. For example, it has a big contract to do the London Grid for Learning, which is 33 London boroughs providing fibre to schools. It used to be involved in providing telephone lines, but it's bought loads of cloud-services businesses and that's helped it to become what is probably now a growing company, from one that wasn't. The issue is that it's really quite small and the old management team was quite happy to run it at around three times gearing. The market hates that, even though it's got very strong cash flows to support it. But if it can just stop buying things and pay down its debt, which new management indicated in the last statement was the plan, the market will like it again. There again, it's on five to six times earnings and it's in a sector enjoying high demand.

The world's best chips

John: Simon?

Simon: Taiwan Semiconductor (NYSE: TSM) is the world's biggest and best maker of the best chips in the world. Every developing technology you see relies on fast, efficient chips – when people talk about the "metaverse", or artificial intelligence, or machine learning, somebody somewhere is having to ring up either Taiwan Semi or Samsung. So the company has never been busier – it just put up its sales forecast again. It is extremely profitable and has been for the last ten years. People think it's cyclical, but it's less so than it used to be – its technological lead on others in terms of the speed and efficiency of the chips it makes, and how small they are, is unsurpassed. This is why both China and America have national programmes trying to build chip plants anywhere near as good as these.

John: Are you at all concerned about the political situation in Taiwan?

Simon: Yes. But all the best chips in the world are made in either South Korea or Taiwan. None are made in China and none in America. If you want your cruise missile to be given facial recognition so it can hit someone on the nose, you need one of those chips. So, this isn't just about inventing a driverless car, this is about security. China may want to re-invade Taiwan, but in a way, Taiwan has been rather sensible building the world's most important semiconductor plant there, because the Americans have a not-quite-equal, but certainly opposite, interest in defending them. But you've got to take these things into account, of course.

My next recommendation is boring – Google, otherwise known as **Alphabet (Nasdaq: GOOGL)**. It's massive, it's growing like a weed, it's never been more expensive and keeps going up. It has incredibly fast conversion of income to cash flow – and cash flow is what drives shares up – and it can cope with any sort of inflation, any variant of the virus. Nothing seems to knock it. The bear case? Biden and his new regime having a go at tech firms, changing regulation. But the way in which we do our valuations, we pretend that Google pays full tax. It can well afford it and it would

Continued on page 30

"All the best chips in the world are made in either South Korea or Taiwan"

Continued from page 29

be politically sensible to show that it's a good corporate citizen – but Google doesn't ask my opinion on that.

So, that's two quite solid world-leading growth stocks. I'll throw in one in the UK. I have problems investing in the UK because there aren't many long-term growth stocks. But, I found one recently, **AVEVA (LSE: AVV)**. It came out of Cambridge Science Park. It has information technology that makes oil companies more efficient in terms of their wells, chemical plants and refineries. If you look at what came out of COP26, everyone is being asked to cut methane emissions. AVEVA happens to make IT systems that will model your refinery using sensors, then tell you what you need to do to comply with rising regulations in this area. We've been selling our wind-farm stocks because they've gone up a lot, but there are lots of other firms like this one that will contribute to a low-carbon world, which aren't necessarily so well-known. It's not the cheapest stock in the world, but it's a British leader with top-class software and lots of repeat business.

Finally, there's **Yaskawa Electric (JP: 6506)**, the world's second-biggest robot maker. It's underexposed to the part of the industry that supplies car makers, which has been saturated, but it's the main player on the semiconductor side, which is where more plant capacity is being put in. Automation is extending into a large range of new sectors such as textiles, agriculture, food manufacturing and even surgery. For example, there is now a robot that will weed your rice paddy overnight. This is the most interesting thing for us in robotics – it's not the big, heavy metal-bashing that robots have done for 20 years, it's how robotics is getting into new sectors and improving productivity in a range of industries – key during a period of cost inflation. It's a huge growth area long-term and Yaskawa is one of the best ways of investing in it.

The best investment trusts to buy now

John: Max?

Max: I think the outlook is pretty good, so it's a good time to top up on the global trusts, which are generally growth-orientated *(see page 24 for Max's views on these)*. But those won't give you much exposure to the UK and I rather like Steve's focus on reviving growth stories such as ITV and Marks & Spencer. So you can capture that quite well with **Lowland (LSE: LWI)** or **Temple Bar (LSE: TMPL)**. Small cap looks attractive, particularly in the US. **JP Morgan US Smaller Companies Trust (LSE: JUSC)** has been a very good long-term performer, but **Brown Advisory Smaller Companies (LSE: BASC)** also looks really good.

Listed private equity is rather neglected in the UK because it tends to be high-cost, and wealth managers and charity managers don't like disclosing high costs, so they tend to have very low allocations to it. Yet as a result, it's a fantastic area for both value and growth. It's not just obvious ones such as **3i (LSE: III)** and **HG Capital Trust (LSE: HGT)**, but also **HarbourVest Global Private Equity (LSE: HVPE)**, **ICG Enterprise Trust (LSE: ICGT)**, **Pantheon Int. (LSE: PIN)** – all these have done really well in the last year and I'm confident that'll continue for the next year or two.

Finally, for an out-and-out punt, something in emerging markets, like the **BlackRock Latin America Fund (LSE: BRLA)**. Energy prices are strong and the economies are doing well. Covid-19 is diminishing in these countries fast and those with loony governments like Peru have already realised what a mistake they've made. So I think this could be a very attractive modest punt on the side.

John: I meant to ask if anyone thought emerging markets would make a comeback this year.

©Getty Images

Nuclear: it's the obvious choice for the energy transition

Max: I think so, but Latin America, Eastern Europe and Russia are probably the most interesting areas – maybe some of the frontiers. I'm still wary of China.

John: A quick-fire round before we go… this time next year will Boris Johnson will still be prime minister?

Max: I wonder if he'll be PM this time next week.

Steve: No.

Jim: No.

John: But how will they get rid of him?

Simon: There's a way. Look at what happened with Thatcher. He'll be taken into a room and told to go. They're a vicious bunch, the Conservatives.

Steve: They're a lot better than Labour at doing this.

Simon: Yes, they're very efficient at it.

John: And if you had to put a figure on inflation this time next year? US or UK, your choice.

Steve: 6% in the UK.

Max: 4% UK.

Simon: US, 3%.

Jim: I'd say US 10%.

John: That's what I like to see, a good spread! Thanks everyone and have a great Christmas.

"Robotics is moving out of the factory and into making clothes and weeding fields"

Our roundtable tips (20/12/21)

Company	Ticker	Price
BT	(LSE: BT.A)	165p
Currys	(LSE: CURY)	113.5p
ITV	(LSE: ITV)	106.7p
Marks & Spencer	(LSE: MKS)	225.6p
BP	(LSE: BP)	321.6p
Shell	(LSE: RDSB)	1,542p
VW	(Xetra: VOW)	€172.84
Hertz	(Nas: HTZ)	$20.99
Lloyds	(LSE: LLOY)	45p
Tesco	(LSE: TSCO)	286.5p
GM	(NYSE: GM)	$54.04
Cameco	(NYSE: CCJ)	$20.77
Inspiration Healthcare	(LSE: IHC)	112p
Vianet	(LSE: VNET)	77p
Adept Technology	(LSE: ADT)	200p
Taiwan Semiconductor	(NYSE: TSM)	$114.94
Alphabet	(Nas: GOOGL)	$2,832.14
AVEVA	(LSE: AVV)	3,264p
Yaskawa Electric	(JP: 6506)	¥5,700
Lowland	(LSE: LWI)	1,290p
Temple Bar	(LSE: TMPL)	1,068p
JP Morgan US Smaller Companies	(LSE: JUSC)	445p
Brown Advisory US Smaller Cos	(LSE: BASC)	1,402p
3i	(LSE: III)	1,397p
HG Capital Trust	(LSE: HGT)	419.5p
HarbourVest Global Private Equity	(LSE: HVPE)	2,730p
ICG Enterprise Trust	(LSE: ICGT)	1,278p
Pantheon International	(LSE: PIN)	332.5p
BlackRock Latin America	(LSE: BRLA)	332p

MoneyWeek's Super Six

Our favourite investment trusts have rocketed in the past ten years, says Merryn Somerset Webb. We will stick with them

©iStockphotos

UK equities remain cheap relative to the rest of the world

Just under ten years ago we decided to put our money where our mouths are. So we launched the MoneyWeek Investment Trust Portfolio: six trusts to hold in equal weights, making up a diversified portfolio that should hold up well in most market conditions. I hold all the trusts – and so far I'm pretty pleased. The portfolio, which has seen only a few changes since its inception, has produced an annualised return of just over 17% a year since we launched it. I'm not bothering with decimal figures here as I haven't factored in the charges you pay as you buy and sell. I'm also pretty sure that not very many readers get around to rebalancing regularly.

That's good in that you will have made a lot more than 17% a year; top performer **Scottish Mortgage Investment Trust** (**LSE: SMT**) will have become an increasingly large part of your portfolio over the last five years. It's also not good: you may well now have too much of your money in Scottish Mortgage, making you vulnerable if growth stocks slide in 2022.

Either way, I'm worried. A gain of 17%-plus a year for 9.5 years is a huge tribute to the brilliance of our advisers (Sandy Cross of Rossie House, Alan Brierley at Investec and Winderflood's Simon Elliott). But it isn't normal and it feels unsustainable. So should we change elements of the portfolio? Should we make it even more defensive?

Missing the rally

Almost every time we review the portfolio we have this conversation – and we have one problem trust. Last year it was **RIT Capital Partners** (**LSE: RCP**). We worried that Jacob Rothschild's departure would turn it into a bog-standard multi-asset trust (nothing wrong with that – it's just not what we want). In March it was **Caledonia Investments** (**LSE: CLDN**), which had somehow managed to miss out completely on the UK's vaccine-led equity rally.

Most of the time the trusts come good. RIT certainly has – it has made a total return of 33% in the last year against an average of 21.7% for the AIC Flexible Investment sector. The same is now true of Caledonia, which one member of our advisory panel insisted we hang on to. We did, and the share price is up by a whopping 40% since March last year; our debate coincided exactly with the share-price low.

The first half of 2021 was an "outstanding period", say the analysts at Numis. It included the sales of several businesses (including BioAgilytix Labs and Deep Sea Electronics) "at strong uplifts to carrying value". That should be a reminder of Caledonia's positive record in the unquoted market (a quarter of the portfolio is in private markets) and also of the fact that following the sales it has "significant firepower to invest". CEO Will Wyatt will retire in July 2022 and will be succeeded by Mathew Masters (head of Caledonia Quoted Equity).

During his tenure Wyatt played a "crucial role in formalising the investment process" – and Caledonia has generated returns of nearly 11% a year since he took over (versus 8.4% for the FTSE All-Share). The shares still trade at a 20%-plus discount to their net asset value (NAV). We are going to keep holding.

We are also very happy to keep holding **Law Debenture** (**LSE: LWDB**) – up by 7% since we last reviewed the portfolio in March. This is an unusual company in that it comes in two parts. The first is the global professional-services business IPS, which offers a regular income to supplement the dividend of the UK equity portfolio run by the formidable team of James Henderson and Laura Foll (both great participants at the MoneyWeek Wealth Summit last month). IPS has covered 35% of the dividend for the last ten years.

"Law Debenture has raised or maintained its dividend for 42 years"

We agree with Foll and Henderson that UK equities remain cheap relative to most of the rest of the world, so we want our portfolio to be overweight here. The trust is a good way to achieve that. It also boasts a 42-year record of hiking or maintaining dividends and a long record of outperformance with very low charges (0.5% against a sector average of more like 1.02%).

QuotedData recently ranked the UK's biggest equity-income trusts on five criteria – yield, growth in NAV, number of years of consecutive dividend growth, discount to NAV and five-year dividend growth. Law Debenture was the clear winner. It's a keeper.

Much the same goes for **Personal Assets Trust** (**LSE: PNL**), up by 13% since March. This one rarely shoots the lights out. But that is not what it is there for. We bought it and keep it because the manager's main priority is to preserve the value of our capital. Personal Assets is ready for inflation – and that works for us. On to Scottish Mortgage (up by 25%). We've had this one from the beginning too – and will keep holding it for the opposite reasons we hold Personal Assets.

It is about participation in human ingenuity, new technology and growth, not about safety. We might constantly worry about the valuations of the constituents of the portfolio, but we have been wrong to do so every year for many years. Scottish Mortgage is both the driver of much of our outperformance and our hedge against our own wrongness (this balance is vital in investing). It stays.

Our final holding is our newest, **Mid Wynd International Investment Trust** (**LSE: MWY**), which we swapped into the portfolio last year (it replaced Temple Bar). It is up by 17% since March – so we haven't much to complain about there either. So there you have it. We've thought about changing something in the portfolio – and we have decided not to (again).

Cut your energy costs

It has never been more expensive to keep your home warm

Alex Rankine
Markets editor

Keeping the house warm has never been pricier. UK wholesale gas prices have hit another record. At £3.24 a therm they are dramatically higher than the 50p level seen for much of last year. Energy suppliers are dropping like flies. Zog Energy has just become the 25th firm to go to the wall over the last four months. The renewed surge in wholesale prices means more could follow.

If your energy supplier goes bust then regulator Ofgem will switch you to a "supplier of last resort". Just remember to take a meter reading to send to the new supplier. Shopping around for a better deal seems pointless. As Miles Brignall puts it in The Guardian, "normally, switching would be the response to rising prices", but "the energy market has all but seized up".

At present, there are no deals better than the standard variable tariff, which is price-capped, says Martin Lewis of MoneySavingExpert. A "typical" household using the cap should expect to pay £1,277 a year for gas and electricity (the cap applies to the per kilowatt [kWh] price, it does not actually cap the overall bill).

Given soaring wholesale prices, that is below the level energy firms need to break even, which is why so many are going bust. Instead of switching, most people should "do nothing", allowing themselves to go onto the standard variable tariff when their fixed deal ends (or their energy supplier goes bust). While the price cap is insulating consumers from the heat in global energy markets for now, that will change when it is next reviewed in April. With wholesale prices soaring, the cap looks likely to rise to somewhere north of £1,700 a year for a typical user, an eyewatering increase.

Where to make savings

In the meantime, what can you do to cut your energy bills? Heating accounts for more than half of an average energy bill. The Energy Saving Trust suggests keeping the thermostat at "the lowest temperature you are comfortable with… typically between 18 and 21 [°C]", says Helena Kelly in The Daily Mail.

Washing machines and dishwashers account for a quarter of an average household's electricity usage. "Turning the temperature down to 30°C on a washing load can cut electricity usage by 57%." Turning TVs and laptops off standby could save up to £35 a year.

It can pay to invest in more energy efficient appliances, says Sarah Ingrams for Which, whose research finds that a more energy-efficient tumble dryer could save you £106 a year in annual running costs compared to the most "power-guzzling" model available. Choosing a more efficient fridge-freezer could save up to £76 a year. Replacing an old G-rated gas boiler for a modern A-rated condensing one could save someone living in a typical semi £195 a year in heating costs, or £300 in a detached house. While electrical heating is much pricier than gas, "if you only need to heat one room in your house, it may be cheaper to use a portable electric heater and keep the thermostat turned down".

Running a 3kWh plug-in heater for four hours costs about £2.26 at current prices, says Levi Winchester in the Daily Mirror. Do that every night of winter and the bills will quickly rack up. A 1.275kWh dishwasher costs 22p to run for an hour, while an electrically-heated shower costs roughly 24p "for just ten minutes of use". Still, if you're feeling chilly, have a cuppa: brewing water for one cup of tea only uses about 1p of energy.


Turning the temperature down to 30°C can reduce electricity usage by 57%
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How to fight cyber-crime

There are five key areas to focus on when fending off digital attacks

David Prosser
Business columnist

Cyber-attackers have small businesses in their sights. The Federation of Small Businesses says its members are the target of seven million cyber-attacks every year. The average cost of an incident for a small business is £8,460, but many prove even more expensive to fix and recover from. In the most extreme cases, the disruption and expense of a serious attack can pose an existential threat to small businesses.

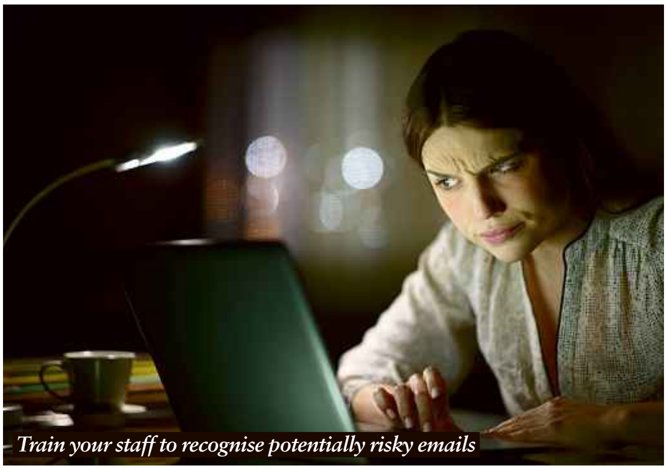
However, for many smaller firms, the misconception persists that they are less likely to be targeted than larger companies. While 93% of large companies say cyber-security is a high priority, the figure drops below 70% for the smallest businesses. In part, that may be because firms feel they lack the technical expertise to confront cyber-crime. But even taking some simple steps will provide a great deal of protection. The National Cyber Security Centre (NCSC) suggests focusing on five key areas.

A copy of your company

First, says the NCSC, make sure your business makes regular back-ups of all its key data. Build this into your daily operations. Crucially, you need to make these back-ups to a computer or system that is not connected to your ordinary system, or accessible by staff.

The aim is to create a copy of your key data that you can access in an emergency, but which an attack won't reach. That way, if your systems do suffer a breach – or if you suffer a disaster such as flooding or a fire – your business will still be able to function. You'll also be less vulnerable to ransomware attacks that freeze your data until you pay a fee to the attacker for release.

Step two is to put protections in place against malware, the malicious software programmes through which attackers aim to harm organisations. Basic cyber-hygiene is really important here: install anti-virus software and make sure it is operating, switch on your firewall, and keep your IT equipment up to date. Follow software providers' instructions on updates and modifications.



Train your staff to recognise potentially risky emails

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Part of the challenge here is to make staff part of the defence. Through regular training and communication, you can help employees understand what is risky behaviour, such as opening attachments that could pose a threat. Have rules about how they use their own computers to access work systems.

The next step, suggests the NCSC, should be to think about smartphones and other digital devices, particularly as more businesses depend on these technologies. Make sure all devices are password-protected, limiting the damage if they fall into the wrong hands, and turn on apps that allow for the tracking or wiping of lost or stolen devices. Keep both the device itself, and all apps, updated. And consider instructing staff not to connect to unknown Wi-Fi hotspots, particularly in public places, with any device used for work.

Good use of passwords more broadly is another key step in protecting your business from cyber-criminals. The aim here is to strengthen your defences without making access to devices and networks so cumbersome that people don't bother following the rules and leave themselves open to attack. Use more demanding techniques, such as two-factor authentication, for the most important points of access. Help your staff to cope with password overloads – good quality password managers, for example, can be very useful.

Finally, the NCSC suggests thinking particularly carefully about phishing attacks, one of the most common types of cyber-breach. Here, there are tools that can help you configure your accounts to repel attacks and spot breaches. But again, employees' awareness is a crucial weapon. Make sure staff know how to ask for help if they're unsure. Be sympathetic if they do make a mistake; this will encourage people to report potential problems quickly.

Sole traders face one-off tax shock

Self-employed workers who operate as sole traders rather than through limited companies could be in for a nasty tax surprise in two years' time.

Last month's Budget confirmed the reform of "basis periods", the tax rules that allow sole traders to pick an accounting period of their choice rather than use the standard tax year, which runs from 6 April until 5 April the following year.

From 2024, all sole traders will have to switch to accounting periods that match the tax year; as a result, many will face a tax bill for that year that is based on more than a single year's profit. While the effect is a one-off – with sole traders paying no more in total over the longer term – the higher bill could prove difficult.

The government is expecting to earn an additional £1.7bn of tax revenues from the change in the year it comes into effect. That implies an average extra bill of more than £3,000 for the 500,000 or so sole traders thought to be affected, says the Chartered Institute of Taxation. Sole traders therefore need to start planning for the change now, so that they're ready to pay the extra bill when it arrives.

Beef up your business broadband

● Small business owners and self-employed workers who operate from home often rely on their home broadband service for their business needs. That's fine until something goes wrong; few home broadband deals come with service guarantees. By contrast, business broadband contracts increasingly come with an "always-on" pledge, where the provider gives you a 4G mobile broadband hub that will kick in if your normal broadband goes down. These contracts are also more likely to feature a guaranteed response time within which your problem will be fixed, with compensation for any failures. If your business could not operate without a broadband connection, paying extra for these safeguards is worth considering.

● Worried about your firm's energy costs as gas and electricity bills rise this winter? There are several steps you may be able to take to cut the cost of energy, from applying for grants or tax reliefs to installing energy-efficient equipment to securing revenue for generating green power. The website of energy regulator Ofgem (ofgem.gov.uk) is a good place to start for advice and links to a range of initiatives and schemes aimed at small businesses.

● More than 450,000 small businesses in the UK are not ready to begin filing their VAT returns digitally, even though they will be required to do so by HM Revenue & Customs early in 2022. From April 2022, the Making Tax Digital system will be extended to VAT-registered small businesses with turnover of less than £85,000 a year (those above this threshold must already comply). But research from accounting software group QuickBooks suggest 41% of the 1.1 million businesses affected by the change do not have plans for compliance in place.

How my tips fared in 2021

Successful bets have included construction group Morgan Sindall and US housebuilder DR Horton

Matthew Partridge
Senior writer

©Alamy

Airtel Africa offers investors a share of the fast-growing African mobile market

While the US and UK markets rose steadily in 2021, several sectors suffered great volatility, leading to some painful reversals for this column. But the wins outnumbered the losses, with the current profits on my ongoing positions more than offsetting the losses on the tips that had to be closed.

Tips carried forward

I started 2021 with ten tips. There were five longs: ITV, homebuilder Bellway, transport group National Express, pub operator Mitchells & Butlers and Norwegian Cruise Line. The five shorts comprised electric-lorry maker Nikola, online-furniture retailer Wayfair, Twitter, Ocado and health-insurance broker eHealth.

Except for ITV, all of these were closed. In issue 1038 I closed Bellway, Twitter and Wayfair, with Bellway making a profit of £750 and Twitter and Wayfair making losses of £990 and £161 respectively. Mitchells & Butlers was closed in issue 1040 at a profit of £1,644. Then eHealth was closed in 1046 at a profit of £880. I closed National Express in 1054 at a profit of £1,074.

In 1060 I closed Nikola and Ocado, with Nikola making a profit of £1,099 and Ocado yielding £337. Norwegian Cruise Lines was closed in issue 1064 at a profit of £330.Counting ITV, which I think you should take profits of £1,116 on, eight of the closed positions made a profit and two made a loss, with net profits of £3,864, down slightly from the profit levels at the end of 2020. In addition to the trades taken forward from 2020, I made 20 recommendations. Five (interdealer broker TP ICAP, US care-home specialist Ensign Group, American homebuilder PulteGroup, Royal Mail and pub chain JD Wetherspoon) weren't triggered, and I now suggest you cancel all of them. Of the remaining 15, seven were closed.

Tips closed this year

My DoorDash short, which I tipped in issue 1034, was closed in issue 1040 at a loss of $960, thanks to a temporary surge in the food-delivery app's price. My decision to short videogame retailer GameStop, which I tipped in issue 1036, was not a success (see box below) and was closed in 1042 at a loss of £1,000.

My Snowflake short, from 1038, was covered in issue 1074, making a loss of £245. My suggestion that you short hydrogen fuel-cell car company Plug Power, made in 1042, was closed in 1076 for a profit of £38. My decision to plunge back into shorting bitcoin in issue 1046 proved to be a case of third time unlucky. I closed the position in 1074 for a loss of £950. In 1048 I suggested going long on online-trading specialist Plus500. But this proved a mistake. The position was closed on 1080 at a loss of £563. In 1054, I couldn't resist a bet against Tesla, which went wrong. The position was closed in 1076 with a loss of £990. Overall losses on the closed tips were £4,670.

Open positions in the money

The performance of the closed positions may seem poor, but those that are still open did very well, with six out of the eight making money. In terms of the long positions, US homebuilder DR Horton, which I tipped in issue 1040, has benefited from the US housing boom and is currently at $105, making a profit of £1,350.

Construction firm Morgan Sindall, tipped in 1044, is at 2,425p. It has earned £1,478, making it my most profitable recommendation of the year. The company has enjoyed a surge in orders over the past year. Wealth manager Rathbone Brothers, tipped in 1072, is at 1,972p, which puts it £88 in the red.

African mobile phone company Airtel Africa, tipped in 1074, is at 128p, so it is making £1,200, mainly thanks to a surge of investment from outside investors keen to play the fast-growing African mobile market. Supermarket J Sainsbury, tipped in 1076, is at 276p, so it is losing £117.

My open short tips are also doing well. US cinema chain AMC Entertainment Holdings, one of the "meme stocks" I tipped as a short in issue 1056, is at $24.45, making a profit of £986. Remote-medicine company Teladoc, which I suggested shorting in 1066, is currently at $88, putting it £728 in the black.

Overall, my open longs are making a profit of £3,823 and my shorts £1,714, for a combined profit of £5,537 – which is bigger than the losses sustained from this year's closed positions.

Trading techniques... what I learnt in 2021

Be careful when dabbling in "meme" stocks
A key theme of 2021 has been "meme" stocks. People on online forums piled into shares in order to squeeze institutional short sellers, causing the shares to rocket far beyond any rational value. In theory, this created shorting opportunities. But as I found out with GameStop, just because a share is overvalued doesn't mean that it can't go even higher.

Avoid Tesla
Elon Musk's company has been a favourite of short sellers, due to the sky-high valuation and his eccentric behaviour. However, he's made a career of defying the sceptics and seems to have created a company that has genuinely disrupted the car industry. With all of my short tips having ended badly, it's time to throw in the towel and look for new plays.

Catalysts and valuation can be a great combination
As the past decade has shown, a cheap valuation is no guarantee that a share will do well. Still, if you can buy a share that is both cheap and likely to do well in the near future, then your chances of success are much improved, as my success with National Express and Morgan Sindall, both of which have benefited from bullish developments in their sectors and the overall market, has shown.

Stop-losses are important
Having to close a position because you've triggered a stop-loss on either the upside or the downside can be frustrating – especially if the price subsequently moves in your favour. But it can also protect you from an even more painful loss, especially if you are shorting a share, in which case your losses are theoretically unlimited. While my tip to short GameStop cost £1,000, if I hadn't recommended that you automatically cover the position, you would have faced a loss of £5,800.

Delve into digital technology

Molten Ventures offers investors access to fast-growing unlisted companies across Europe

Dr Michael Tubbs
Investment columnist

A substantial proportion of overall corporate growth now occurs in unlisted companies. This trend is intensifying because of the tendency of growing private companies to stay private for longer before listing. However, there are ways for investors to gain exposure to this growth.

Take **Molten Ventures (LSE: GROW)**, previously known as Draper Esprit, a member of the FTSE 250 index of medium-sized companies; it has a market value of £1.4bn. It is a venture capitalist that invests in a diversified set of high-growth private digital-technology companies across Europe.

Online car-retailer Cazoo is one of the group's promising investments ©Cazoo

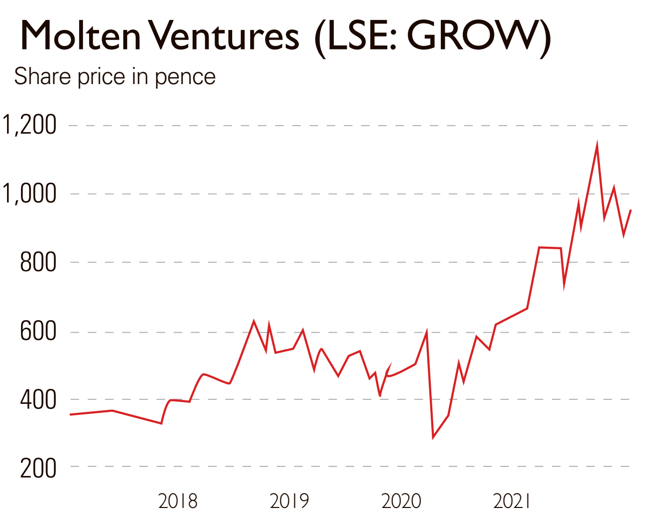
Tapping Europe's growth

A recent example is the digital bank Revolut. In July Molten announced that, following a successful funding round for Revolut, its stake was worth £119m, up from £20m in March 2021. Molten's other investments include Graphcore, which makes semiconductors for artificial intelligence applications; online-review site Trustpilot, which detected and stamped out 2.2 million fake reviews in 2020; Cazoo the online car-retailer; and Freetrade, the online share-trading app.

Molten's annual report to 31 March 2021 shows that its investment portfolio appreciated by 40% to £984m in 12 months. The 17 largest investments accounted for 68% of the March 2021 value. A further £128m was invested in next-generation opportunities during the year and cash proceeds from exits amounted to £206m. At the end of March, Molten had £161m of cash to invest as well as £45m available from venture capital trusts (VCTs) and enterprise investment scheme (EIS) funds (VCTs and the EIS are government-backed schemes to encourage investment in small, dynamic companies).

Profit after tax for the year was £267m. These results were achieved in a year that included the pandemic and lockdowns, demonstrating Molten's ability to select promising companies that can weather difficult market conditions. Molten now fully owns Draper Esprit's VCT and EIS fund managers following its February 2021 purchase of the remaining equity in Elderstreet Investments, which previously managed the Draper Esprit VCTs. The EIS investments are managed by Encore Ventures, a Molten subsidiary.

These VCT and EIS funds provide a further source of new investments. For instance, in 2018 Molten took a 50% stake in Earlybird Digital West Early-Stage Fund VI, which invests in high-growth technology companies in the German-speaking European markets.



Unicorns are multiplying

Molten's continued good performance depends on identifying promising businesses at an early stage and then accelerating investment in the most successful ones – while spotting potential failures quickly and exiting them. It is interesting and encouraging that successful businesses are reaching unicorn status (valuations over $1bn) increasingly quickly. Early in the 21st century unicorns were achieving that status in 15-20 years, but in recent years the timespan has shortened to between one and three years.

The recent very high-growth unicorns are termed "popcorns". One good example is Cazoo, a Molten investment, which was founded in 2018 and was listed in New York in August 2021 with a market value of $6.9bn. Another is Revolut, launched in 2015 and now the UK's biggest unicorn, worth $33bn.

Finding future winners

It is important for Molten to keep finding winners. It does this through three channels. The first is its seed funds-of-funds programme launched in October 2017 in which, by March 2021, Molten had invested £67.2m in 35 seed funds globally. These funds have over 530 portfolio companies. The second is the Earlybird channel, which offers access to another pipeline of deals by accessing continental European opportunities. The third is its special in-house team that explores emerging trends based on technology, industry verticals and business models and uses this to identify potential deals.

Molten's interim results were released on 29 November and said the company now has a portfolio of more than 70 firms with 17 of those in the core portfolio accounting for 68% of the £1.35bn value. Given the accelerated transition to digital technologies caused by the pandemic, the company expects the value of the portfolio to grow by 35% this year. It is difficult to assess Molten as an investment using price/earnings (p/e) ratios since profits depend on exits from the portfolio and these can vary markedly from year to year.

Molten's share price can be volatile and its growth depends on finding more high-growth venture investments which it can help develop and exit at a good profit. Its record so far has been excellent. Big-name investments include Revolut, Cazoo, Aircall (the cloud-based call centre company) and Freetrade. Molten's three-channel deal-finding technique, its record and its encouraging interim results suggest there is more growth to come.

Given earnings per share (EPS) of 206p, the 2020-2021 p/e is 4.5; the forward p/e depends on the value of 2021-2022 exits but, encouragingly, the first half saw a strong eps of 148p. The company could be a useful addition to portfolios for those with a reasonable risk appetite.

Healthy returns from medical innovators

A professional investor tells us where he'd put his money. This week: Michael Li of the American Century Investments Advanced Medical Impact UCITS Fund

Healthcare is an exciting sector. The incredibly rapid development of effective coronavirus vaccines is just one example of its tremendous potential for innovation and making a positive social impact. We also feel there is scope for healthy returns. Healthcare companies are innovating not just in therapeutics and medical devices, but also in terms of big data and analytics. As a result, we believe we are on the verge of a transformation in how care is delivered and diseases are treated.

Speeding up drug trials

Veeva Systems (NYSE: VEEV) is a cloud-software company whose technology helps plan drug trials safely and effectively. The process of developing a new drug takes over a decade and costs millions of dollars. This use of data analytics and information technology helps reduce approval times and costs, and raises the probability of success.

The company serves over 750 customers, including 20 of the largest pharmaceutical companies. Its technology typically accelerates regulatory submissions by 20%, which is crucial for patients likely to benefit from innovative treatments. Veeva's platform also accelerates drug development by reducing the start-up time in clinical studies by 40%.

A cocktail to combat Covid-19

Regeneron Pharmaceuticals (Nasdaq: REGN) is a biotechnology company engaged in the development of medicines for the treatment of serious diseases. It is pouring resources into research and development (R&D) and it maintains one of the world's most comprehensive genetic databases, with a million people sequenced by the Regeneron Genetics Center. Regeneron is well known today for its Covid-19 antiviral drug cocktail, which has so far proved effective against the various strains of the disease, and is gaining market share from competing therapies. But Regeneron's research effort goes far beyond Covid-19.

The company has developed and markets drugs addressing several serious medical conditions, including a type of inoperable skin cancer, wet age-related macular degeneration, asthma and eczema among others. Regeneron has approximately 30 potential treatments in clinical development.

Transforming diabetes care

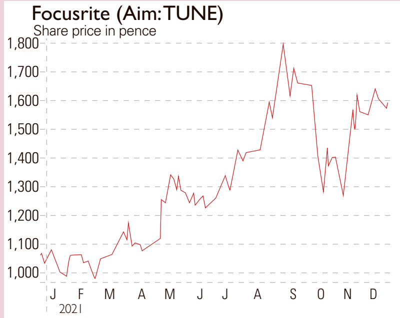
DexCom (Nasdaq: DXCM) is an innovative medical-device company transforming the quality of life and standard of care for diabetics. The company produces a continuous glucose monitoring (CGM) system, which allows patients and care providers to evaluate and adjust care quickly and effectively in real time.

"DexCom's device allows blood-sugar levels to be monitored continuously"

A sensor is placed under the patient's skin and attached to a tiny transmitter that continuously relays data on blood-sugar levels. The data can be read on a dedicated receiver, displayed on an iPhone, or monitored remotely by a care provider. This technology is transformative: traditional glucose monitoring depends on intermittent, inconvenient and painful finger pricks and self-monitoring.

Not only is DexCom attractive for its positive impact on the lives of diabetics, but the company is also gaining market share, broadening the range of potential applications for its products and expanding geographically.

If only you'd invested in...



Music and audio-products group **Focusrite (Aim: TUNE)** flourished throughout the pandemic as demand for audio-recording products that could be used at home – such as loudspeakers for monitors – jumped, says the Investors' Chronicle. Earnings before interest, taxes, depreciation, and amortisation (Ebitda) for the year ending on 31 August were up by 67%, which allowed the group to increase its final dividend by a quarter. Its acquisition of live-events business Martin Audio in 2019 seemed poorly timed, but its sales for the year eclipsed expectations. The stock has risen by 62% in 12 months.

Be glad you didn't buy...

Go-Ahead Group (LSE: GOG) operates bus and rail services. Its shares plunged by 22% last week after it revealed it would miss the deadline to file annual results (originally due at the end of September) and announced it was preparing for its stock to be suspended owing to "'serious' failings in its railway business", says the Financial Times. The company was obliged to give up control of its Southeastern rail franchise to the government in September after it allegedly failed to declare over £25m in taxpayers' funding that should have been returned in 2014. The shares have slid by 33% in the past year.

The faces of 2021

It has been an especially turbulent year in politics, monetary policy and new stockmarket listings. Four key movers and shakers caught our eye

Andrew Bailey

The Governor of the Bank of England (BoE) was once referred to by his predecessor, Mark Carney, as "the big sexy turtle": his "considered decision-making" was akin to the mating of Galapagos tortoises, says The Observer. Critics of the Bank's policy on interest rates will appreciate the joke. "The BoE has spent months dithering" while inflation crept up, notes Alistair Osborne in The Times. Accused of "bottling it" in November after seemingly signalling a rise, this month he changed his mind (see page 6).

Bailey was going to be damned if he did and damned if he didn't. In the autumn, when it seemed that the BoE might lead the advance among major central banks, some accused him of foolishly moving out of lockstep with the US Fed. Bailey wasn't the only central banker to argue that this year's inflation spiral was "transitory". But he conveyed bull-headed stubbornness – understandable, if not excusable, as he'd begun the year advising financial institutions to prepare for negative rates. Educated at Wyggeston grammar school in Leicester and Queen's College, Cambridge, Bailey, 62, joined the BoE in 1985, rising to chief cashier, says the Financial Times. He switched to financial regulation in 2013, becoming CEO of the Financial Conduct Authority (FCA) in 2016. But his reputation was tarnished by a series of scandals, notably the collapse of Neil Woodford's empire and the implosion of unregulated mini-bond provider London Capital & Finance. Perhaps the timing was "unlucky", but the affairs led to criticism that the FCA was "asleep at the wheel and slow to take action". There may be a sense of déjà vu about that.

Lex Greensill

A former colleague once described the Australian financier Lex Greensill as the type of salesman who "can sell sand to the Bedouin". If so, his skills were certainly laid bare this year, says John Arlidge in the Evening Standard. The collapse of his supply-chain finance company Greensill Capital was a shock – not least because it involved former prime minister David Cameron as a well-paid "adviser" who had earlier lobbied the chancellor for hundreds of millions of pounds in loans. The Greensill affair helped unearth a series of shady dealings between ministers and the private sector.

Greensill, 45, "inveigled himself into the highest echelons of the establishment", but Whitehall was not the only casualty. He was equally adept at seducing banks and industrialists – including Sanjeev Gupta, boss of steel conglomerate GFG Alliance, who became Greensill's largest debtor, says The Guardian. The Serious Fraud Office is examining the financing of Gupta's metal empire and "its links with Greensill Capital". It's quite a trajectory for the son of a sugar-cane farmer from Queensland. Greensill came to the UK in 2001, put himself through business school and in his twenties worked at Citigroup and Morgan Stanley. There, a colleague and mentor was the late Jeremy Heywood, an ex-mandarin who returned to government, serving as cabinet secretary to David Cameron and Theresa May. After setting up his own business in 2011, Greensill became adviser to Cameron on supply-chain financing – a securities-driven update on traditional bank "factoring". Such "revolutions in finance", says the Financial Times, "have a nasty way of ending badly".

Chamath Palihapitiya

"Spac pioneer" Chamath Palihapitiya boasted in February that he was set to grow his Social Capital investment empire into a 21st-century Berkshire Hathaway while generating "enough wealth to shrink the inequality gap in America", says the Financial Times.

The grandiosity was nothing new for an anti-establishment self-advancer who once bragged about buying Goldman Sachs. But five days later, the IPOX Spac (special purpose acquisition company) index hit its all-time high, marking the peak of the Wall Street craze for "blank cheque" companies. Still, if anyone was responsible for pulling an estimated $325bn into Spacs since the start of 2020, it was Palihapitiya, says The Wall Street Journal. He belongs to "a new class of market influencers – social-media savants", followed by amateur traders for investment hints "and for the insults he hurls at the high-finance elite". No matter that his own preferred mode of transport is a private jet.

The child of Sri Lankan immigrants to Canada, Palihapitiya, 45, grew up poor in Ottawa. He spent four years at Facebook before founding Social Capital in 2011. In 2019 he floated Virgin Galactic with Richard Branson – setting the template for the "white-hot" market that followed, says the FT. But lately the "Spac King's" magic touch has deserted him. Several deals have bombed with big losses, leaving Palihapitiya vulnerable to accusations of cynically exploiting his 1.5 million Twitter followers. Palihapitiya remains defiant. "My real long-term track record won't be known for another decade or two."

Valérie Pécresse

Could the rapid rise of Valérie Pécresse in 2021 really win her the Élysée Palace next spring? Her "task is tough", says The Guardian. The first woman to run for the centre-right Republican party, Pécresse, 54, is known for fighting "difficult and epic election battles". Her nickname is "the bulldozer". But her party faces competition from a growing far-right opposition. And many Republican voters and politicians have already "jumped ship to Macron".

Born Valérie Roux near Paris, Pécresse grew up in a family of "social Gaullist" intellectuals. Her father, an economist, told her women could do as well as men. After graduating from the elite ENA school, which produces France's top civil servants, "she cut her teeth in government" as an adviser in Jacques Chirac's administration before being elected an MP and regional councillor, says The Local. Subsequent stints as spokeswoman and budget minister during the Sarkozy presidency "brought her to national prominence".

A Russian-speaking, self-described "Iron Lady", Pécresse cites Margaret Thatcher as a great inspiration. But she aims to lead more like Angela Merkel, whose consensus-building skills she admires, says The Guardian. Her strong point against Macron, supporters say, is her "experience as a budget minister trained in finance". Sarkozy says she is "obsessive" about the details of her dossiers. Often underestimated as a "blonde bourgeoise", Pécresse knows her politics and economics well and has a solid record in government, says the Financial Times. Has Macron met his nemesis?

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Six Tremendous Christmas Wines

While there is a classic pair of Burgundies in this month's festive collection and a nicely re-badged Côtes-du-Rhône, too, the other three wines featured below are distinctly avant-garde. I love it when the genteel palates at Tanners loosen their reins and allow their taste buds to run amok in the hills and valleys of the wine world. The results are always fascinating, giving us a chance to look at classical flavour shapes re-imagined from more exotic climes. Take a break from predictability and allow your palate to take a walk on the wild side this Christmas. I have made sure that all six wines conform to a Do-Re-Mi of taste progression and gradual building of intensity so you can accurately deploy them with precisely the right dishes.

Matthew Jukes *Matthew*

- **All wines come personally recommended**
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Prices shown below are per case of 12 bottles. Wines are also available in a 12 bottle mixed case (2 of each of the wines) **excellently-priced at £155 (saving £15.70 per case).** It's a chance for you to try them all, and it is the most popular choice with readers of *MoneyWeek*.

~~£11.50~~ **£10.50**

2020 Basa Blanco, Rueda, Telmo Rodríguez, Spain

Telmo is a hero in the Spanish wine scene, and unlike many of the world's vinous magnates, he manages to craft bargain-priced works of art alongside some of his more expensive creations. Basa Blanco is a sprightly white made in a similar silhouette to a Loire Sauvignon but with a little more depth of fruit using the highly prized Verdejo grape variety native to the area. So, ditch your dreary Kiwis and Touraines and sidle up to this super-clean and apple, elderflower and pear-kissed beauty.

CASE PRICE: £126

~~£16.20~~ **£14.20**

2019 Manoella, Douro Branco, Wine & Soul, Portugal

This bitingly refreshing white summons up the elemental power of its vineyard setting through a so-called 'field blend'. The energy and flavour of the indigenous, old vines planted in the granite soils of the Douro Valley make for a wine with a light, 12% alcohol framework and an otherworldly flavour. The wildflower, stone fruit and lemongrass notes make this a downright delicious wine and the number on the cork refers to edition '4', this very vintage! Manoella is quirky, brilliant and unique.

CASE PRICE: £170.40

~~£16.95~~ **£14.95**

2020 Mâcon La Roche Vineuse, Sur Le Fil, Domaine des Deux Roches, Burgundy, France

This is an easy wine to fall for because it is made by the Collovray & Terrier fellows and thousands of other Chardonnay lovers, and I, have followed this outfit for many, many years. While other wineries were picking late and overoaking their wines, Deux Roches harnessed the sprightly acidity in their grapes and kept their wines fresh and vibrant with little carpentry involved. The result is a balletic white Burgundy that will appeal to every single wine lover on earth!

CASE PRICE: £179.40

~~£16.80~~ **£14.80**

2019 Tanners Red Burgundy, Bourgogne Pinot Noir, France

Tanners sources this heady wine from Maison Roche de Bellene and its talented winemaker Nicolas Potel. Coming from the excellent 2019 vintage and possessing a great whiff of French oak coating a sappy, rich Pinot Noir frame, while this wine wears a generic Red Burgundy label, it is anything but on the palate. Give it some air and allow this wine to blossom into a thoroughbred Pinot with an unmistakably high-class postcode, a perfect companion to hearty winter dishes.

CASE PRICE: £177.60

~~£11.20~~ **£10.20**

2020 Château Sainte Eulalie, Buona Pulcella Rouge, Minervois, Languedoc, France

I am completely captivated by this wine's flavour and also its insanely attractive price tag. Chunky, dark, chewy and yet, surprisingly, not too tannic or seemingly youthful, this might be about as wintry, warming and spicy as any ten quid red wine I have ever come across. Made from Carignan, Syrah and Grenache, this is a classic example of why the wines from Minervois often offer the most extraordinary value in the whole of the South of France.

CASE PRICE: £122.40

~~£12.70~~ **£11.20**

2019 Côtes du Rhône-Villages Séguret, Domaine de L'Amandine Rouge, France

Given that the three grapes involved in this wine – Grenache, Syrah and Carignan – are precisely the same as those used in Buona Pulcella, this could not be a more different style of red. While the price tag might not suggest it, this is a noble property with grand intentions. Exotic spice, wild black fruit, cracked pepper and gamey tones cavort in the glass, and when it sits in a decanter, it blossoms into a magnificent, wintry red wine.

CASE PRICE: £134.40

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Winter wonderlands

Go skiing in Scotland or seize the chance for a getaway in Europe, says Chris Carter

Snowboarding in the Cairngorms

Skiing in Europe this winter is still just about possible, despite France's ban on British tourists entering the country. But what with the costs and the hassle of making sure you have taken the right coronavirus tests and downloaded the right apps, only to be told your flights have been cancelled, your hotel closed or that your destination has gone into lockdown, you might think it is easier to stay in Britain. But that doesn't have to mean hanging up your skis.

Last week, the pistes in Scotland opened for the first time this season. There are five main resorts, says Gemma Bowes in The Guardian. The best snow usually comes in January, but all five can make artificial snow. If you can, go last-minute when you know snow is coming, and better still, mid-week when the slopes are quieter. And be sure to check the resorts' websites for updates and bookings.

Nevis Range is Scotland's highest resort. It arguably has the widest variety of terrain, says Bowes, with 35 runs and 12 lifts, along with an off-piste area for expert skiers (*day passes cost £37.50 for adults and £24.50 for children, nevisrange.co.uk*). Glenshee has the biggest ski area, with 36 runs and 21 lifts (*£32/£21, ski-glenshee.co.uk*). Cairngorm Mountain has 31 runs and 11 lifts, plus three snow parks with jumps (*£35/£22, cairngormmountain.co.uk*). Glencoe Mountain Resort, which claims to have the longest and steepest pistes, has 20 runs and nine lifts. It also has wooden cabins that sleep up to four from *£65 (£27-£35/£20-£22, glencoemountain.co.uk*). The Lecht Ski Centre is the smallest of the five, with 20 runs and 13 lifts (*£32/£16-£21, lecht.co.uk*).

All five resorts form a rough 300-mile ring between Perth and Inverness, so it is possible to hit the road and visit them all. Or you can simply book a tour, says Boudicca Fox-Leonard in The Daily Telegraph. Wilderness Scotland has put together a five-day package of skiing in the Highlands.

Under the direction of your "ski host", the itinerary first takes in Glenshee, with its three valleys. The furthest, Glas Maol, offers great on- and off-piste skiing, including the "challenging" West Wall for experienced skiers, while the Tiger run on the Cairnwell mountain is "one of Scotland's most famous pistes". If the weather is good, visits to Cairngorm and the Lecht are also possible. If not, Cairngorms National Park is waiting to be explored nearby. After that, it's over to the West Highlands to ski Nevis Range and Glencoe. *From £885 per person based on a group of four, wildernessscotland.com*

Three European escapes

Heimeli is a little mountain refuge at the top of the remote Sapün valley in Graubünden, Switzerland, says Eric Kendall in the Financial Times. Its name roughly translates as "cosy little home". It is so cosy, it is worth visiting even if you have no intention of skiing or donning snowshoes to explore the peaks. There are four double and two family rooms, and an "Alpenesuite" with two rooms and a bathroom. For couples, there is even a tiny and romantic standalone wooden cabin, called the Maiensäss, which is as "cute as a button" and comes with logs for the stove. *From CHF190 (£155) per night, heimeli.swiss*

> *"Forsthofgut Hotel in Austria is a five-star, eco-friendly oasis"*

The "oasis-like five-star eco-friendly" Forsthofgut Hotel in Austria is a resort for grown-ups that is child-friendly at heart, says Carol Driver for the Daily Mail. You can relax in the steamy, bathtub-temperature outdoor pools and admire the surrounding "imposing" white-tipped Leogang mountains. Inside is traditional chalet-style throughout, with roaring fires and comfy sofas. The Alpine family suite has a "spacious double bedroom with oakwood flooring, and a stylish lounge area that opens up onto a balcony affording us breathtaking views". The hotel couldn't be better placed for the slopes. With 170 miles of pistes, Leogang is one of the largest ski areas in Austria. *From £191 per night, forsthofgut.at*

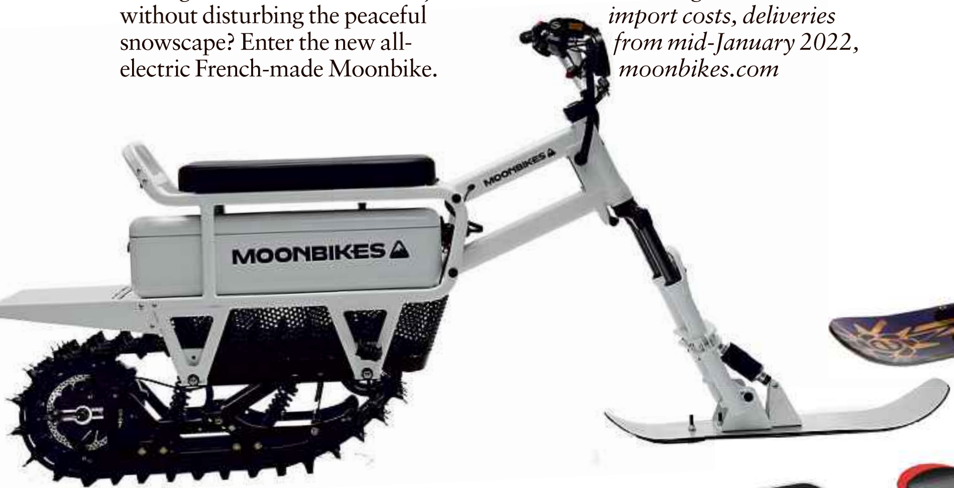
France is off limits to Brits for now, but once it reopens Club Med will be hoping you set aside "cosy" or "traditional" for its new 465-room behemoth with pool, gym, spa, kids' club, rental centre, bar, theatrical stage and two restaurants in La Rosière, says Sean Newsom in The Times. "I was impressed" – it's ideal for young families. After all, "there's nothing quite like hoicking a three-year-old up and down an Alpine village to convince you of the benefit of on-site childcare". And you can be off skiing in an instant thanks to the hotel being built into the slopes. La Rosière is the "cute, underdeveloped resort" on the northern side of the Tarentaise Valley, and the slopes "are a good fit for such a family-friendly operation". *Seven nights from £1,600 per person, clubmed.co.uk*

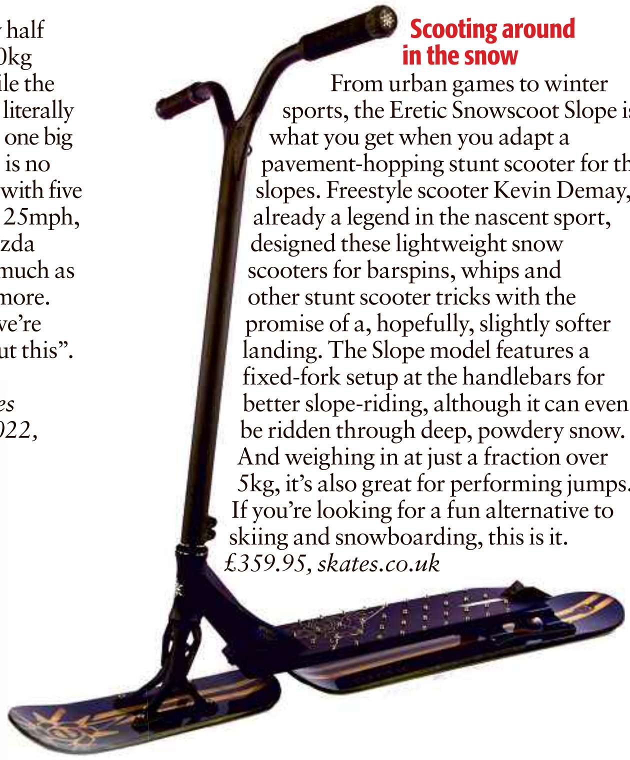
Ditch your skis this winter

Head to the slopes with these gadgets instead – choose electric, petrol or foot power, says Chris Carter

"Skiing and snowboarding are such peaceful, quiet activities – just the crunch of the snow, the whistle of the wind and the intermittent blood-curdling scream when someone irreparably tears their knee ligaments," says Craig Jamieson for TopGear. At least until the buzzing, droning sounds of fossil-fuel-burning snowmobiles arrive to spoil your tranquility. Admittedly snowmobiles are tremendous fun, but wouldn't it be amazing if we could get our motor-motivated jollies without disturbing the peaceful snowscape? Enter the new all-electric French-made Moonbike.

It's two-thirds the size and only half the weight of your average 250kg "snow-going mammoth", while the single ski in front means "you literally carve through the snow like it's one big alpine motocross course". This is no all-out Arctic assault vehicle – with five horsepower and a top speed of 25mph, the Moonbike follows the Mazda MX-5 recipe of giving you as much as you need to have fun, and no more. And that's just fine. In fact, "we're actually pretty optimistic about this". *€7,300 excluding VAT and import costs, deliveries from mid-January 2022, moonbikes.com*





Scooting around in the snow

From urban games to winter sports, the Eretic Snowscoot Slope is what you get when you adapt a pavement-hopping stunt scooter for the slopes. Freestyle scooter Kevin Demay, already a legend in the nascent sport, designed these lightweight snow scooters for barspins, whips and other stunt scooter tricks with the promise of a, hopefully, slightly softer landing. The Slope model features a fixed-fork setup at the handlebars for better slope-riding, although it can even be ridden through deep, powdery snow. And weighing in at just a fraction over 5kg, it's also great for performing jumps. If you're looking for a fun alternative to skiing and snowboarding, this is it. *£359.95, skates.co.uk*

A serious trinket

The 2022 Rave snowmobile from Finnish brand Lynx likes nothing better than to dive into the action, says Cristian Curmei for Autoevolution. Its redesigned rear and front suspension system should be able to absorb any shocks you throw at it, while the narrower and lighter Blade XC+ skis make for a more stable ride than the Rave's predecessors. Its Radien frame makes for easy manoeuvring thanks to the optimal weight distribution, helping you to "throw this sucker around". The power comes from a 600R E-TEC liquid-cooled engine running on two cylinders. "If you ever get onto one of these machines, you'd better know what you're doing, as the 2022 Rave is a serious trinket." *From around €15,500, see snowmobilescotland.co.uk for UK buying options*

Wine of the week: Champagnes to welcome the New Year

NV Paul Goerg, Premier Cru à Vertus, Brut Blanc de Blancs, Champagne, France

£180 (inc. VAT) for six bottles (£30 each), goedhuis.com

Matthew Jukes
Wine columnist

In this MoneyWeek double issue, I have two wines for you to consider, especially with New Year celebrations around the corner. They are both exceptional Champagnes that are incredible value for money and also are entirely different in style. First, my headline wine is Paul Goerg, a 100% Chardonnay grown in the village of Vertus in the Côtes des Blancs; 60% of this wine is drawn from the 2013 harvest, and 40% is reserve wine, making for a lip-smacking cocktail of generosity and drama.

With perfect balance, matching crystalline fruit with an unnerving crispness, and a discreet, chalky scouring of the palate offset with faint wildflower tones, this wine possesses the magical charm of a thoroughbred Côtes de Blanc classic. Goerg is a superbly classy and ravishingly adroit sparkler, and if you are a fan of rapier-sharp Chardonnay dressed in exquisite citrus and floral finery, this wine is for you.

Secondly, NV Pierre Paillard, Les Parcelles, Bouzy, Grand Cru (£35.82, justerinis.com) is a 70% Pinot Noir/30% Chardonnay concoction from the Montagne de Reims and, more specifically, the Grand Cru village of Bouzy.

Not surprisingly, this is a much richer and more ostentatious style of wine with a commanding, pink-tinged hue, superb class and length. If Paul Goerg welcomes your guests performing perfect aperitif duties, then Pierre Paillard takes over when the food hits the table and wows all-comers with its sheer class and volume of flavour.

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

This week: houses with original fireplaces – from a medieval manor house in Monkton Combe, Bath, to a 1650s p

The Moat, Benenden, Cranbrook, Kent. A Grade II-listed property in an Area of Outstanding Natural Beauty surrounded by landscaped gardens with a moat. It has open fireplaces, including a brick inglenook fireplace with a wood-burning stove. 8 beds, 4 baths, 2 receps, study, kitchen, coach house, 5.65 acres. £3.75m Hamptons 01892-640316.

Poxwell Manor, Poxwell, Dorchester, Dorset. A Grade I-listed, early 17th-century manor with a Carolean gatehouse. The great hall includes a grand fireplace with an ornate chimneypiece. 9 beds, 7 baths, 2 dressing rooms, recep, 3-bed cottage, outbuildings, swimming pool, gardens, paddocks, 10 acres. £3.75m Strutt & Parker 07458-087293.

Framfield Place, Hammonds Green, Framfield, Uckfield, East Sussex. A major portion of a Grade II-listed, 1760s mansion with later additions by Sir Norman Shaw and Sir Edwin Lutyens, including a drawing room with a fireplace featuring a carved overmantle supported by ornamental columns. 6 beds, 3 baths, recep hall, recep, breakfast kitchen, galleried landing, 1-bed cottage, workshop, gardens, grounds, 2.35 acres. £1.5m Savills 01444-446000.

roperty in Bridgwater, Somerset, which has a fireplace with an inset 18th-century listed painting in the study

◀ **West Skirbeck Hall, Boston, Lincolnshire.** A substantial property designed in 1795 by local brewer and banker Henry Clarke. The house retains many of its original fireplaces, including one with a Rococo surround in the drawing room and a hand-carved floor-to-near-ceiling fireplace with four hand-painted inset tiles in the library. 7 beds, 5 baths, 3 receps, breakfast kitchen, Victorian glasshouse, coach house, outbuildings, parkland, 11 acres. £1.95m Poyntons 01205-361694.

▶ **The Manor House, Monkton Combe, Bath.** A medieval property dating back to 1262 in an Area of Outstanding Natural Beauty. It has Edwardian, Victorian and Tudor fireplaces and a Victorian stained-glass conservatory. 7 beds, 7 baths, 3 receps, breakfast kitchen, gardens. £2m. Fine & Country 01225-320032.

◀ **Roobies Farm, Bridgwater, Somerset.** A Grade II-listed, 1650s property surrounded by paddocks with a range of outbuildings and views over open countryside. It has a fireplace with an inset 18th-century listed painting of the surrounding area in the study and an inglenook fireplace with a wood-burning stove. 7 beds, 3 baths, 3 receps, breakfast kitchen, barn, two self-contained 1-bed annexes, gardens, 6 acres. £1.7m Knight Frank 01392-423111.

▲ **Priors Hall, Stebbing, Dunmow, Essex.** A Grade II-listed former farmhouse dating from 1400 with a range of outbuildings in the landscaped gardens. It has exposed wall and ceiling timbers, brick and oak floors and period fireplace with wood-burning stoves. 8 beds, 6 baths, 3 receps, snooker room, garden room, conservatory, indoor swimming pool, stables, pond, fields, 10.68 acres. £2.9m+ Knight Frank 01279-213343.

▶ **Combe Florey House, Combe Florey, Taunton, Somerset.** A Grade II-listed, 17th-century house largely remodelled in 1730. It has open fireplaces that retain their original surrounds, an 18th-century newel staircase, wood panelling and stone and wood floors. 12 beds, 8 baths, 3 receps, study, office, orangery, breakfast kitchen, cellars, 3-bed cottage, swimming pool, summerhouse, outbuildings, gardens, pasture, parkland, 34.56 acres. £5m+ Strutt & Parker 01392-229405.

The best books, films and TV of 2021

From Robert Maxwell to WeWork and *The Great Gatsby*, it's been a strong year, says Matthew Partridge

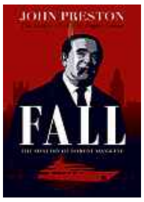
The best films and TV shows

Thanks to near-zero interest rates, technological optimism and a bottomless pit of venture capital and private equity money, there's been a huge boom in "unicorns" – technology companies valued at $1bn or more. No business has epitomised this more than WeWork, which rose to a valuation of $47bn at one point, before collapsing into near-bankruptcy. *WeWork: Or the Making and Breaking of a $47 Billion Unicorn* (available from Amazon), tells the story, focusing on the controversial founder, Adam Neumann.

There are parts of the story that could have benefited from more detail, especially the boom in venture capital, and the fact that Neumann managed to walk away with a fortune is relegated to a footnote. But the documentary does an excellent job of telling this modern-day morality tale with pace, giving a sense of the optimism, energy and ultimately desperation that surrounded the company.

Just months before the uprising that removed him from power and resulted in his death, the Libyan despot Muammar Gaddafi sent billions in cash to South Africa for safekeeping. *The Hunt For Gaddafi's Billions* (available via BBC iPlayer) looks at the global treasure hunt for the missing cash. However, the real story isn't the money, but the divisions that remain in modern Libya after a decade of civil war, as well as the relationship between Gaddafi and South Africa's elite. Elections are due shortly, but this film makes it clear why many Libyans remain sceptical about hopes for a lasting peace.

The best business books



During his lifetime, media baron Robert Maxwell was rarely out of the headlines, due to his business feuds, publicity stunts and larger-than-life persona. However, shortly after he was found floating in the sea after disappearing from his yacht, his business empire was revealed to be a sham, with both investors and Mirror Group pensioners ending up out of pocket. *Fall: The Mystery of Robert Maxwell* by John Preston (Penguin, £9.99) attempts to unravel the truth behind a person who rose from a small Czechoslovakian village to become a war hero, MP, tycoon and finally disgraced fraudster.

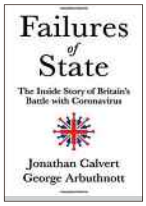
The book leaves some intriguing threads, especially regarding his relationship with the various intelligence services, hanging. Preston could also have provided a bit more detail about the exact moment when Maxwell's business empire started to implode. However, the book is a compulsively readable account of one of the most controversial figures of the 1980s and is told with a large amount of energy. Indeed, while Preston makes it clear that Maxwell was clearly a monster, bullying and manipulating people in order to get his way, there was something almost pitiable about his final years, which were filled with compulsive eating and paranoia.

Books by financiers are usually rather dry and worthy. Fortunately, *The Dealmaker: Lessons from a Life in Private Equity* by Guy Hands (Random House Business, £20) proves to be the exception. This is down to the fact that Hands is no ordinary financier. He moved into banking after the failure of a business he set up, and he arrived in the industry just as the Big Bang was transforming the City of London, becoming one of the first major private equity pioneers. This led him to become involved in a variety of deals, with stories including trying to recover money from the Japanese Yakuza and having Russian oligarchs threaten his life, before finally meeting his match when he took over the music publisher EMI.

Maxwell: war hero, MP, tycoon and fraudster

©Getty Images

The best political books



At the moment all eyes are on whether the new Omicron variant of SARS-Cov-2 represents a genuine threat that could push us back to square one, or – as increasingly seems likely – represents its mutation into something that may be more transmissible, but less lethal (at least for those fully vaccinated). However, irrespective of what happens, hard questions need to be asked about some of the early policy decisions. *Failures of State: The Inside Story of Britain's Battle with Coronavirus* by Jonathan Calvert and George Arbuthnott (Mudlark, £20) deals with the UK's initial response to the pandemic from its emergence in Wuhan at the end of 2019 to the start of the second wave in autumn 2020.

As you might expect, the authors are unimpressed with the response, which at one point left Britain with the highest official death toll, despite one of the harshest lockdowns. While the success of the vaccination programme, and problems in other countries, means that Britain's relative performance has improved since then, they identify a series of policy failures, including an ineffective test and trace system and the surprising reluctance to close down borders in time. While

From our staff and regular contributors

Dominic Frisby is not only a contributor to MoneyWeek, but also known for his comedy, including regular appearances on the BBC and GB News. In his hour-long documentary, *Adam Smith: Father of the Fringe*, he brings his two passions together by arguing how the success of the world's largest cultural festival is explained by the free-market-economy philosophy of Adam Smith, who lived in Edinburgh during the 18th century. While we'll be running a detailed review in future issues, you can view Frisby's documentary on YouTube at *youtube.com/watch?v=o6e6TpIrba0*.

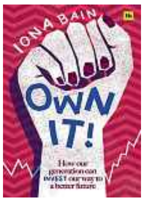
Meanwhile, the *MoneyWeek Podcast*, hosted by Merryn Somerset Webb and John Stepek, continues to go from strength to strength. Recent episodes include what investors can learn from the fall of the Roman Empire to how ESG investing is undermining democracy, as well as how to grow rich by finding cockroach companies that will be do well whatever the conditions. The Kiplinger podcast, *Your Money's Worth*, is also worth listening to, while Stepek also regularly appears on *The Week Unwrapped*, a news round-up from our sister publication, The Week.

Finally my book, *Investing Explained: The Accessible Guide to Building an Investment Portfolio* (Kogan Page, £16.99), with an introduction written by Jon Connell, MoneyWeek's founder, will be coming out in February. Targeted at both those new to investment, as well as those with more experience, it aims to help put you on a level footing with the financial professionals by explaining how to build a portfolio that will enable you to secure your financial future. Written in plain English, it uses the latest studies to separate financial fact from fiction.

far from the final word, this is definitely worth reading if you want to understand the virus.

A very different perspective on the crisis is provided in *A State of Fear: How the UK Government Weaponised Fear During the Covid-19 Pandemic*, by Laura Dodsworth (Pinter & Martin, £9.99). Dodsworth argues that throughout the crisis the government and public health bodies have used a range of behavioural techniques and propaganda to bully the population into compliance and squelch debate. While we don't necessarily agree with all her conclusions, especially her tendency to see conspiracy instead of incompetence, recent events highlight the importance of subjecting official assertions to some scrutiny, rather than just blindly accepting them.

The best investment books



Relatively few investment books are aimed at those under 35, probably because they have less money to invest. However, spiralling property prices and the decline of workplace pensions mean those in Generation Z, and younger Millennials, are arguably more in need of good financial and investment advice than earlier generations. So Iona Bain deserves a lot of credit for writing *Own It!* (Harriman House, £12.99), which attempts to fill this gap by explaining what younger people need to do to get their finances in order, as well as providing information about the online tools that simplify the task.

Older readers may find the author's use of slang a bit much, and she is a very big fan of both passive and sustainable investing – so don't expect to see much advice about picking individual shares. Still, her advice is generally sensible and she has a talent for breaking down the basics of investing for an audience that has been previously neglected. Those who have just graduated from university, are looking to save up in order to get onto the property ladder, or just want to grasp the basics of investing will definitely get a lot from reading this book.

The last few years have seen cryptocurrencies move from the fringes of investing into the mainstream, with some younger investors now more interested in getting into bitcoin, or its many rivals, than owning individual shares. Still, before you rush out to join them, you might want to take a look at *Crypto Wars: Faked Deaths, Missing Billions and Industry Disruption* by Erica Stanford (Kogan Page £14.99). Although not technically a guide to investing, this look at some of the most notorious digital scams is a timely reminder that you need to be on your guard when investing in crypto.

Other notable books

The late John Stonehouse was a character who dipped his toe in the worlds of politics, espionage and business – and made a mess of them all. After briefly serving in the cabinet as postmaster general, Stonehouse later faked his own death while on a business trip to Miami, before being arrested in Australia a few weeks later. *Stonehouse: Cabinet Minister, Fraudster, Spy* by Julian Hayes (Robinson, £25) looks at the whole sorry saga, which ruined the lives of those who trusted Stonehouse, including the author's father Michael Hayes (Stonehouse's nephew). It also paints a portrait of Britain in the twilight of the late 1960s and 1970s.

The implosion of the funds run by Neil Woodford, previously regarded as the UK's star manager, had a big impact on many ordinary investors. *When The Fund Stops: The Untold Story Behind the Downfall of Neil Woodford, Britain's Most Successful Fund Manager* by David Ricketts (Harriman House, £14.99) uses interviews with Woodford's colleagues and friends to gives us a look at his career and what happened behind the scenes as his fund collapsed. It is a well-researched reminder that a dose of scepticism about star fund-managers might be in order – particularly when those stars head off in a new direction.

Built on a Lie: The Rise and Fall of Neil Woodford and the Fate of Middle England's Money by Owen Walker (Penguin Business, £20) also covers the Woodford scandal. However, Walker takes a broader perspective, seeing Woodford as symptomatic of an asset management industry that still charges too much and delivers too little. While his account downplays the responsibility that those who invested in the funds had for their bad decisions, it provides a very good overview of the wider context to the failure, which makes it an ideal complement to Ricketts' book.

©Mark Senior/Immersive LDN

The Great Gatsby *doesn't hide the tragedy beneath the glamour*

The best drama

After the theatres re-opened in the spring, there was a flurry of immersive productions, which involve the audience in the action, both to give the productions as much flexibility as possible, but to also satisfy our need for human contact. The most notable of these, and one which is still running was *The Great Gatsby* (Immersive LDN, London), based around F. Scott Fitzgerald's novel. In between scenes from the story of bond trader Nick Carraway and his friendship with the mysterious Jay Gatsby, you are given the opportunity to split off into smaller groups to experience vignettes from the characters' lives. These include listening to a "business proposition" from one of Gatsby's associates.

The evening contains plenty of glitz and glamour, from the opportunity to banter with the cast over introductory cocktails to participation in some high-stepping moves set to a combination of jazz and swing. However, the production doesn't attempt to hide the darkness in what is, after all, a tragedy. Indeed, as the evening unfolds Fitzgerald's critique of what he saw as the false hope provided by the American dream becomes apparent. This produces an evening out that is not only extremely entertaining, but is also an intelligent and moving experience.

If *The Great Gatsby* provides a glimpse of the New York underworld during the Roaring Twenties, then *Crooks 1926* (CoLab Theatre, London), which closed earlier this month, showed how gangsters operated on the other side of the Atlantic. In the role of either a striking dockworker or a railwayman, you were invited to help out an East End criminal family as it struggled to come up with £10,000 to repay a debt. From rigging horseraces to picking pockets and using an army of taxi drivers, firemen and ladies of the night to lead a raid on a warehouse owned by a rival gang, members of the audience were constantly kept on their feet.

The perils of product placement

Fitness firm Peloton boomed in lockdown, but all of a sudden its fortunes are going off track

Sex and the City is back – and Carrie (Sarah Jessica Parker, centre) is suddenly an exercise-bike widow

Having your product be responsible for the demise of a popular fictional character is a rather unfortunate mishap, as glorified exercise bike manufacturer Peloton has just found out. The opening episode of *And Just Like That…*, the high-profile reboot of *Sex and the City* saw Mr Big – the husband of the series' main character, Carrie Bradshaw – suffer a fatal heart attack after a vigorous ride on his Peloton. "It came as no massive surprise to followers of the show" says Valentine Low in The Times: a death had been rumoured for some time. But markets were a different matter, with over a billion dollars wiped off Peloton shares.

So the company rushed into "damage limitation mode", says Low. Firstly, it emphasised that it "had no idea how prominently [the bike] would feature". It then turned its fire on the dead man, with Suzanne Steinbaum, a cardiologist and advisor to Peloton, issuing a statement blaming his "lifestyle choices", rather than his choice of exercise machine. The man "lived what many would call an extravagant lifestyle – including cocktails, cigars, and big steaks", she said. Indeed, his bike "may have even helped delay his cardiac event".

A double-edged sword

The episode highlights the double-edged nature of product placement, says Isabella Grullón Paz in The New York Times. As streaming reduces the number of advertisements that consumers watch, brands are trying "to make greater use of product-placement deals to promote themselves", with the industry now "worth well over $20bn". However, in this case, HBO, who produced the series, forgot that "product placement is supposed to be mutually beneficial". Experts said that Peloton "could reasonably consider litigation, especially if HBO did not disclose the story line involving the product".

Rather than reaching for a lawyer, Peloton tried to respond in kind by having the unfortunate Mr Big "come back to life", says Omar Abdel-Baqui in The Wall Street Journal. In a new advert, created in less than 48 hours after the episode aired, Mr Big (played by Chris Noth) "is seen cozying up next to a fireplace with Allegra, a fictional Peloton instructor in the show played by a real one, Jess King", in an ad that reinforced "how cardiovascular exercise can help people lead long, healthy lives". But just one day later, the firm pulled the ad after two women made allegations of sexual assault against Noth, who denies any wrongdoing.

> *"A £1,750 exercise bike seemed a good idea when gyms were closed but many of us have come to regret it"*

Lockdown regrets

Peloton may have been unlucky this time, but it's hard to escape the sense that "progress has stalled", says Kate Wills in the Evening Standard. "A £1,750 exercise bike complete with swishy-haired American instructors at the touch of a button" seemed like a good idea when gyms were closed, but many of us have "come to regret our lockdown purchases". Fans say "it's more than an exercise bike", but "Facebook Marketplace suggests another story". There you can now find "hundreds of second-hand Pelotons for sale", with captions such as "Excellent condition! Barely used!".

Quintus Slide

Tabloid money… a Covid-19 crisis for theatres

● Covid-19 is playing havoc with Theatreland, says Jane Fryer in the Daily Mail. Last week, Andrew Lloyd Webber had to cancel a performance of *Cinderella*, starring Carrie Hope Fletcher (pictured) in the titular role, after five of the cast tested positive. A cancelled *Cinderella* costs £80,000 a night. *The Lion King* and *Cabaret* – the new up-to-£310-a-ticket extravaganza – have both closed for several performances, as did the *Life Of Pi* at Wyndham's Theatre. Christmas sales are usually the "fat" that carries many theatres through the next months, but the "government's endless mixed messages" will make this a lean year. Lloyd Webber had been feeling optimistic enough to plough £1m a month of his own money into his seven London theatres to keep them afloat. "Not any more."

● The Royal Society for the Protection of Birds (RSPB) has just blown £9m trying to eradicate rodents on Gough Island in the South Atlantic, says Richard Littlejohn, in the Daily Mail. The island is an important nesting site for seabirds, so when mice started eating the eggs and chicks of a rare albatross, the RSPB scrambled a crack team for the biggest operation in the South Atlantic since the Falklands War in 1982, dropping poisoned bait from helicopters. Yet at least one surviving mouse has been seen after the bombardment. It would have been cheaper to get ex-Navy pilot Prince Andrew (aka "Air Miles Andy") to relive his Falklands tour. "Gough Island's answer to Danger Mouse would have been no match for a helicopter gunship."

● It's the same old story every time football's twice-yearly transfer window rolls around, says Brian Reade in the Daily Mirror. Fans claim to have intimate knowledge of how much their clubs have in their war chests, based on net spend at the last window. If only the club bought so-and-so, they say, that player would "pay back the fee in shirt sales alone". Last summer, that player was Spain's Saul Niguez. On deadline day, Chelsea paid Atlético Madrid a €4m loan fee, with the option to buy. Saul was a flop. Yet fans will keep pressuring clubs to "splash the cash", based on the consistently-disproven myth that a club that doesn't buy sexy names for the sake of it is "moving backwards". These "YouTube scouts" should be careful what they wish for.

Bridge by Andrew Robson

Finesses, finesses

"I should have taken the Club finesse," said declarer ruefully after going down in this week's Six Spades. West had led the Knave of Clubs, declarer rising with dummy's Ace, crossing to a top Diamond, and running the Queen of Spades. East had won and led a second Club. Declarer ruffed and cashed the ten of Spades and the three top Diamonds discarding Hearts. However, when Diamonds split 5-2, declarer had to try a Heart to the Queen. One down.

Dealer South East-West vulnerable

North:
♠ AJ982
♥ AQJ7
♦ 6
♣ AQ5

West:
♠ 6
♥ 8543
♦ 73
♣ KJ10643

N
W E
S

East:
♠ K4
♥ K106
♦ J10842
♣ 872

South:
♠ Q10753
♥ 92
♦ AKQ95
♣ 9

The bidding

South	West	North	East
1♠	pass	4NT*	pass
5♦**	pass	6♠	end

* Roman Key Card Blackwood agreeing Spades.
** One or four of the "five aces" (including the King of Spades)

While it is true that declarer would have made the slam by finessing the Queen of Clubs at trick one, declarer was correct to rise with the Ace: finessing was unnecessarily committal. It was declarer's subsequent decision to finesse in Spades that I feel was the more faulty.

Win the Ace of Clubs, ruff a Club and lead the Queen of Spades. However, when West plays low, rise with dummy's Ace (you bothered to hand to lead the Queen in case West covered from King-low). Cross to the Ace-King-Queen of Diamonds, discarding Hearts (if both opponents follow, you'll be able to discard a third Heart on your fifth Diamond, and so avoid the Heart finesse).

With West discarding on the third Diamond, ruff a fourth Diamond, ruff the Queen of Clubs, ruff the fifth Diamond, and now exit with a second Spade. East wins the King but must lead a Heart round to dummy's Ace-Queen. Slam made – and no finesses taken.

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

Sudoku 1083/1084

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

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

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

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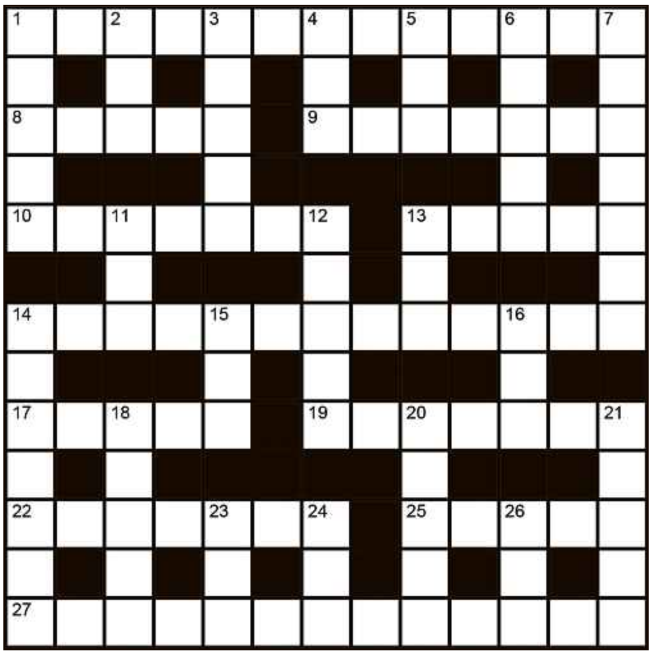
Tim Moorey's Quick Crossword No. 1083/1084

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 3 January 2022. Answers to MoneyWeek's Quick Crossword No.1083/1084, 121-141 Westbourne Terrace, Paddington, London W2 6JR



Three unclued across answers are of a kind and remaining across clues are cryptic. Down clues are straight.

ACROSS

1 (3, 2, 3,5)
8 Seasonal visitor (5)
9 How we roll along in song (7)
10 Allows more space for feasts (7)
13 Festive ingredient from sweets spoken of (5)
14 (8, 5)
17 Drink rum in borders of Turkey (5)
19 New semi built for three visitors (4, 3)
22 Awfully nice gal could be this (7)
25 Pop, say in charge after endless cogitation (5)
27 (4, 2, 1, 6)

DOWN

1 Gabriel _____, Brazilian footballer (5)
2 Longing (3)
3 City of East Nebraska (5)
4 Son of Noah (3)
5 State of conflict (3)
6 Rule as a monarch (5)
7 Type of battery (3, 4)
11 Speed (up) (3)
12 Tubular aid to drinking (5)
13 Raincoat (3)
14 Ancient harp-like instrument (7)
15 Dissenting vote (3)
16 Odd (3)
18 Set of beliefs (5)
20 Brazilian dance (5)
21 More pleasant (5)
23 Flower garland in Hawaii (3)
24 Tea (3)
26 Droop (3)

Name ....

Address ....

Solutions to 1081

Across 7 Waterloo *later anagram in woo* **8** Oxon *ox + o n* **9** Kidderminster *kidder + minister less i* **10** Lace-ups *anagram* **12** Limbo *hidden* **14** Baron *bar + on* **16** Madeira *anagram* **19** Scrambled eggs *cryptic anagram* **21** Howe *anagram who + e* **22** Chestnut *chest nut.* **Down 1** Taxi *tax + i* **2** Meddle *homophone* **3** Old rope *deceptive definition* **4** Hop it *op inside hit* **5** Bonsai *anagram* **6** November *NATO alphabet* **11** At anchor *a t + anchor* **13** Caterer *anagram* **15** Okayed *Kay inside OED* **17** Events *Eve + n t s* **18** Abaci *deceptive definition* **20** Grub *hidden reversed.*

The winner of MoneyWeek Quick Crossword No.1081 is:
C. J. Brougham of London

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

MoneyWeek Christmas quiz

It's been a year of speculative frenzy, economic uncertainty and political scandal. See which financial stories you remember – and which passed you by – with our Christmas quiz. Compiled by Jasper Spires

Squid Game: *Netflix hit the jackpot, but how did its creator do?*

©Netflix

Money

1 In April 2021, a record-breaking 2.7% of the American workforce quit their jobs in a single month, signalling an ongoing trend in the Western workplace. How has this phenomenon been described?
a) The Great Resignation
b) The Covid Quit
c) The Lockdown Walkout

2 "Meme stocks", propelled largely by buzz on social media rather than fundamentals, were all the rage this year. Which meme stock saw a roughly 800% jump in its share price to 17 December?
a) GameStop b) AMC Entertainment c) Purplebricks

3 Inflation is on the rise, with the UK consumer price index rising 5.1% in the year to November, while in the US, the figure hit 6.8%. When was the last time that American prices were rising this fast?
a) 1943 b) 1982 c) 1999

4 Bitcoin surged to new heights this year. What fresh record level did it reach?
a) Over $55,000 b) Over $58,000 c) Over $68,000

5 Covid-19 vaccines have been a boon for some in the pharmaceuticals industry. How much in sales does Pfizer expect to reap from its mRNA vaccine in 2021?
a) $15bn b) $36bn c) $55bn

6 Around 12% of international trade flows through the Suez Canal. What was the name of the ship that blocked the waterway for six days in March this year, causing havoc?
a) Ever Moving b) Ever Long
c) Ever Given

7 A crypto project raised around $47m earlier this year to buy a specific historical artefact, only to be outbid by a billionaire who knew exactly what their highest offer would be as a result of the publicity around the scheme. What was the artefact?

8 The UK's generous Covid-19 relief schemes paid out around £60bn in the 2020-2021 tax year. How much of this money was lost to fraud, according to the tax office?
a) £500m b) £5.5bn c) £25bn

9 Which Russia-linked cybercrime group used a ransomware computer virus to extort Colonial Pipeline Co – which runs the largest fuel pipeline in the US – and demanded $4.4m for the return of stolen data?
a) DarkSide b) Russian Business Network c) Glupteba

10 In October, a cache of 11.9 million financial documents was leaked to the press, detailing the hidden deals and assets of over 100 billionaires, 30 world leaders, and 300 public officials. What was it called?
a) The Pandora Papers
b) The Sisyphean Spreadsheets
c) The Polyphemus Portfolios

People

1 Donald Trump has faced myriad troubles since his term as US president, but which jewel in his real-estate empire did he recently have to sell for $375m?
a) Trump Tower b) Trump International Hotel, Washington DC c) Trump Plaza

2 The CEO of which social-media giant stepped down in November, to be replaced by its chief technology officer?
a) Jeff Bezos, Amazon
b) Jack Dorsey, Twitter
c) Mark Zuckerberg, Facebook

3 Bill Hwang's Archegos Capital made headlines this year after it collapsed after making huge, unhedged bets on markets, losing $20bn in two days. Which Swiss bank lost $5.5bn in the debacle?
a) Julius Baer b) Credit Suisse
c) Lombard Odier

4 Jeff Bezos' rocket company, Blue Origin, sent which *Star Trek* actor into space this year?
a) William Shatner b) Patrick Stewart c) Nichelle Nichols

5 Puneet Dikshit, a partner at consultancy McKinsey, was indicted for insider trading after betting on a takeover deal he'd been hired to consult on by Goldman Sachs. Which of the following did he NOT do?
a) Make the trades on his work computer b) Google basic information on how takeovers affect share prices c) Buy shares in his mum's name

6 This year, many musicians sold the rights to their music catalogues to reap huge profits. Who sold their songs for a record-breaking $500m?
a) Bob Dylan b) Stevie Nicks
c) Bruce Springsteen

7 Netflix's wildly popular Korean drama series *Squid Game* made the company almost $900m in added value this year. How big a bonus did writer-director Hwang Dong-hyuk get?

8 Which Hollywood A-lister was part of a partnership that bought Welsh football team Wrexham AFC this year?
a) George Clooney b) Ryan Reynolds c) Jim Carey

9 Which high-ranking British official led markets up the garden path in November and then double-backed to surprise them again in December?

10 Tory MP Owen Paterson was embroiled in a scandal in November after receiving £500,000 to lobby on behalf of two different Northern Irish agriculture technology firms. What products were the two companies connected with?
a) Wheat and meat-free burgers
b) Biodiesel and insect protein
c) Milk and bacon

Companies

1 After a barrage of bad press in the summer, social-media giant Facebook changed the name of its parent company to what?
a) Hal 2021
b) Cyberdyne Systems
c) Meta

2 SPACs, SPACs everywhere! This method of bringing companies public (Special Purpose Acquisition Companies – cash shells) is more popular than ever. How long did it take the total number of SPACs launched in the US in 2021 to

Quotes: put the words with the person who said them


A


B


C


D

1. "[Interest rates are] an evil that make the rich richer and the poor poorer".

2. "To anyone I've offended, I just want to say 'I'm sending people to Mars... Did you think [I'd] also... be a chill, normal dude?'"

3. "Fraud was not just the family business. It was a way of life. Nothing that's alleged to have gone on surprises me."

4. "I believe in the rights that the Democrats want, but I believe in the taxes that the Republicans want."

eclipse the 2020 total?
a) 5 months b) 3 months
c) 8 days

3 China's slowing real-estate sector was a nagging concern for investors across most of 2021. Which huge developer was finally deemed to have defaulted on its debt by credit-ratings agency Fitch this month?
a) Evergiven
b) Evergrande
c) Evergrowth

4 The London initial public offering (IPO) of which tech firm, whose share price fell by 26% on its first day of trading, was deemed "the worst IPO in London's history" by one of its own bankers earlier this year?

5 Credit Suisse was fined nearly £350m by UK and US financial regulators over its involvement in a scandal surrounding loans that it arranged for which emerging nation, ostensibly to build infrastructure including a state tuna fishery?
a) Mozambique
b) Zimbabwe
c) Botswana

6 Which FAANG stock was the most valuable in the world as the end of year approached, with a market capitalisation of nearly $3trn?
a) Apple b) Alphabet (Google)
c) Amazon

7 Chinese financial regulators got tough in 2021. Which technology company was fined $2.8bn by Beijing's anti-monopoly regulator this April?
a) Tencent b) Alibaba
c) China Mobile

8 Which asset manager held on to its title as the world's largest this year, with assets under management of $9.5trn as of end-September?
a) Vanguard b) Fidelity
c) BlackRock

9 Which IPO was the largest of 2021 and the fifth-largest of all time (reports Reuters), with the group in question raising nearly $12bn at an initial market capitalisation of $66.5bn?
a) Rivian Automotive, a US electric-car maker
b) DiDi Global, a Chinese ride-hailing company
c) Coupang, a South Korean e-commerce company

Markets

1 A crisis in which wholesale markets led to the collapse of nearly 30 companies and the overhauling of regulations in one particularly troubled sector in the UK this year?

2 The Dow Jones index hit a historically significant level late this year. What was that level and why was it significant?

3 Which currency has lost more than half of its purchasing power against the US dollar this year as its central bank took the unorthodox move – under political pressure – of cutting interest rates to curb inflation? (Most central banks raise rates when trying to curb inflation.)

4 Chinese stocks have underperformed most other major markets this year, lagging the world index by 37%, according to Bloomberg (as measured by MSCI indices). It's the largest this gap has been since which year?
a) 1998 b) 1972 c) 1945

5 Which of these silvery-grey metals has enjoyed the biggest gains this year?
a) Palladium b) Tin c) Silver

6 Global merger and acquisition activity hit an all-time high this year, with deals valued at more than $5.6trn. That breaches the previous all-time high of $4.42trn – but in which year was that record set?

7 NFTs (non-fungible tokens) have baffled and excited investors in equal measure this year, with eye-popping valuations being reached for jpegs, gifs and other forms of "digital art" – or rather, crypto tokens representing ownership of said art. What was the most expensive NFT sold in 2021? And what did it cost?

8 In the year to 17 December, what was the best-performing share in the FTSE 100, with a gain of just over 85%? And which was the worst, with a loss of just under 30%? (Note, this is judged purely by the constituents in the index as of 17 December.)

9 The COP26 meeting in Glasgow in November ended with a (watered-down) promise by the attendee countries to "phase down" coal usage, which Boris Johnson optimistically presented as the "death knell" for the fossil fuel. How much did the coal price drop this year?

Answers

Money
1. a)The Great Resignation
2. a) GameStop; 3. b) 1982
4. c) Over $68,000; 5. b) $36bn
6. c) Ever Given; 7. A rare copy of the US Constitution
8. b) £5.5bn; 9. a) DarkSide
10. a)The Pandora Papers

People
1. b)Trump International Hotel, Washington; 2. b) Jack Dorsey, Twitter; 3. b) Credit Suisse
4. a) William Shatner
5. c) Buy shares in his Mum's name; 6. c) Bruce Springsteen
7. Zero. Hwang told The Guardian, "I'm not that rich… it's not like Netflix paid me a bonus".
8. b) Ryan Reynolds, with Rob McElhenney; 9. Bank of England boss Andrew Bailey. Markets bet the Bank would raise rates in November, then hold in December. It did neither.
10. c) Milk and bacon

Companies
1. c) Meta; 2. b) 3 months
3. b) Evergrande; 4. Deliveroo
5. a) Mozambique; 6. a) Apple
7. b) Alibaba; 8. c) BlackRock
9. a) Rivian Automotive

Markets
1.The energy markets
2. 36,000. *Dow 36,000* was the name of one of the best-known (and widely derided) investment books from the tech bubble era
3.The Turkish lira; 4. a) 1998
5. b)Tin, up around 88% in the year to 20 December; 6. 2007
7. *Everydays: The First 5000 Days*, sold for around $69m
8. Ashtead; Flutter Entertain.
9.Trick question – the coal price more than doubled in 2021

Quotes
1. B Turkish president Recep Tayyip Erdogan; 2. D Elon Musk
3. A Mary Trump, Donald's niece
4. C Kim Kardashian

Inflate or die

The smart money knows the Fed can't raise rates, but it's still dumb to ignore inflation

Bill Bonner
Columnist

Cathie Wood's fund is down 40% – but the wider market is still rising

©Getty Images

If the stockmarket were an army, it would be knee-deep in mud… overextended… and far from its supply lines. And now, its scouts are staggering back to camp, wounded and hungry.

Cathie Wood's Ark Innovation exchange-traded fund is down 40% from its peak last February. Bitcoin is 30% off its peak. Goldman Sachs' index of unprofitable tech companies is off 25% over the last month.

And yet, there is still no sign of a broad retreat. Stocks rose on the latest inflation news. What to make of it? There are two possible interpretations. One is that investors are very stupid. The other is that they are very smart.

Out of line

You have to be pretty dumb not to see that asset prices are way out of line with economic reality. Despite all the loose talk about "disruptive technology" and the "metaverse", real output is still produced by people who do real work. And it's still measured by GDP.

Historically, the US stockmarket was usually worth about 80% of GDP. Between 1950 and today, stocks only crossed the 150%-of-GDP line twice – in 1999 and again in 2017. But recently, they just keep going up. And now, the ratio stands at 213% – an all-time high.

"The ratio of the US stockmarket to GDP is at an all-time high"

Stocks are only where they are because the US Federal Reserve has been pumping them up for more than ten years. But with inflation on the rise, the only sensible thing for the Fed to do is to raise interest rates – which would bring stock prices crashing down. And this is where the very smart investors may be outsmarting themselves.

The Fed only benefits borrowers

The Fed encouraged everyone to borrow. Households are once again "taking out equity" by borrowing against the inflated value of their homes. Corporations do it – almost doubling their debt since 2007. And who does it most of all? The government. The Feds have tripled their debt load since 2007. And now, so many people have borrowed so much money that the Fed can't normalise rates.

That's our "inflate or die" hypothesis. Inflation hurts savers, but it helps debtors. Their debts evaporate as the real value of the US dollar goes down. Who's the biggest debtor in the whole world? The US government. And with inflation running at almost 7% and the Fed paying only about 2% on their loans, it means they are gaining about 5% on their outstanding debt.

The very smart money is betting that this is too sweet a racket to give up. The Fed suppresses rates. The value of the debt goes down. The value of the elite's stocks and bonds goes up. Everybody's happy

Well, everybody except the other 90% of the population that must pay higher consumer prices. What could possibly go wrong with that?

The bottom line

£13.5bn How much tax relief for film and TV production contributed to the UK economy between 2017 and 2019, according to the British Film Institute. Every £1 of tax relief generated £8.30 through increased production spending, but also through local businesses, jobs and tourism, exemplified by Bath's *Bridgerton* tours.

$40,000 The price of a virtual pair of trainers sold by RTFKT Studios (pronounced "artefact"). Sportswear giant Nike has bought the one-year-old British start-up – which makes digital collectables – for an undisclosed sum. A funding round for RTFKT in May valued the business at $33m.

£365,000 What two 16th-century books, with a rare folding map, by English writer Richard Hakluyt fetched at auction with Bearnes, Hampton and Littlewood in Exeter. The two books, covering navigation and exploration, had been valued at up to £5,000.

$7.5m The asking price for the Beverly Hills home of the late actor Kirk Douglas. He and his wife, Anne Buydens, bought the property, where they hosted parties for the rich and famous, in 1976. The garden features walk-of-fame-style stepping stones with autographs.

£15.3m How much charity Friends of the National Libraries raised in five months, with half from billionaire investor Leonard Blavatnik, to save the Honresfield library for the nation. The 500 letters, first editions and manuscripts include those written by Jane Austen and the Brontës.

£20,000 **How much savannah cats, a cross between domestic cats and servals, a large-eared breed native to Africa, can sell for in Britain, according to The Wildheart Trust. The charity has called for a ban on the cross-breeding, which is fuelling an illegal trade in wild animals.**

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