STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

BIG TECH MELTDOWN

How can Amazon, Alphabet, Meta and the rest recover?

DIVIDEND SHOCK How Direct Line has gone from hero to zero for income investors

Contents

Three important things in this week's magazine

1


BIG TECH MELTDOWN
How can Amazon, Alphabet, Meta and the rest recover?

There are clear reasons why shares in popular US stocks fell in 2022 beyond their valuation being hit by the impact of rising interest rates.

This week's main feature looks at the challenges facing Amazon, Alphabet and five other big names and what might happen next.

2


The other big dividend payers which might cut like Direct Line

Direct Line's dividend cancellation is a wake-up call to check the sustainability of other stocks with a history of generous yields.

The insurance provider has shocked investors who have historically viewed it as a safe source of income.

3


ASOS turnaround? Don't bank on it yet as one key indicator is still flashing red

Shares in ASOS are racing ahead yet its earnings forecasts continue to be downgraded. Something doesn't add up.

Investors are buying on hope rather than fundamentals and history suggests that's a dangerous place to be.

Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we've written a variety of news stories online that do not appear in this magazine, including:


Rio Tinto issues stark China warning but its production remains on track


NCC down 6% as analyst warns of 'significant risk' to earnings


Find out why Ruffer is staying defensive despite beating the market last year

Halfords shares skid 20% after profit target is slashed again

UK stocks enjoy big gains as travel and retail lead the way

The market's mood has also improved on signs that inflation is easing

Investors could not have hoped for a much better start to 2023 for UK stocks. The flagship FTSE 100 index is up approximately 4% year-to-date to trade within sights of its all-time high from May 2018 (when it briefly topped the 7,900 mark) and the more domestic-facing FTSE 250 has risen by circa 5%.

The market's mood has been supported by signs inflation is being brought under control, particularly in the US. This has raised hopes the long-awaited pivot by the US Federal Reserve away from interest rate hikes is in the offing.

The gains in the UK have been replicated overseas with most global indices making solid progress in the first days of January. Within this wider trend some stocks and sectors have performed exceptionally well. Two areas in particular stand out – namely travel and retail.

In both cases shares had previously been sold off due to the sectors' exposure to what has been seen as an increasingly stretched consumer. And in both cases reality has turned out to be more positive than the bleak projections.

Retail bellwether **Next (NXT)** set the ball rolling with a strong Christmas trading update (5 January) and its peers have followed suit.

People were clearly willing to splash out at Christmas. They were able and willing to go out to the shops – particularly retail parks where train strikes had less of an impact – and the exit of several big names during the pandemic left the way clear for the retail survivors to outmatch expectations. Even beaten-up **ASOS (ASC)** did better than feared.

Pent-up demand for overseas holidays remains a strong driver for airlines and the wider travel industry. Bank of America data shows intra-European airline bookings were up 42% in the week to 8 January 2023 on 2019 levels and on 12 January **American Airlines (AAL:NASDAQ)** lifted its fourth quarter revenue guidance from an 11%-13% range to a 17% increase on pre-pandemic levels.

The UK's largest network of independent travel agents, Advantage Travel Partnership, said year-to-date sales were up 75% on the same period in 2022. **EasyJet's (EZJ)** trading update on 25 January will provide further insight into the health of the industry.

Whether the market's early momentum in 2023 is maintained and whether retailers and travel shares will continue to lead the way will depend on two intertwined factors.

First, will inflation continue to ease, and central banks respond by holding or even cutting rates; and second, will consumers continue to demonstrate resilience in their spending? Notably several retailers were cautious on the outlook while flagging bumper festive trading. [TS]

Top FTSE 350 performers so far in 2023

Company	Year-to-date performance (%)
ASOS	53.5%
Wizz Air	46.8%
Carnival	35.4%
EasyJet	32.6%
TUI	27.5%
International Consolidated Airlines	27.5%
JD Sports Fashion	27.5%

Table: Shares magazine • Source: SharePad, data to 17 January 2023

Housebuilder warnings about a slowdown in activity does not bode well for suppliers

Keep a close eye on building materials groups, equipment rental firms and lawyers to the sector

The common factor across the latest trading updates from the big housebuilders is they are all forecasting fewer completions and land purchases this year.

That could spell trouble for the various trades which support the new-build home industry, from legal services to building materials and equipment hire to fitted kitchens and bathrooms.

With mortgage costs soaring after repeated interest rate increases, piling more pressure on already-stretched household budgets, the housebuilders have all flagged a sharp slowdown in reservations in the final quarter of last year together with rising cancellations.

Barratt Developments (BDEV) says unless there is a rebound in reservations this Spring it will deliver between 6% and 9% fewer new homes than previously expected in the year to June.

Moreover, it has approved just 16 new sites while cancelling 22 previously approved sites meaning a net drop of six sites and 290 plots.

Persimmon (PSN) says it is starting 2023 with private forward sales of just £500 million against £1.1 billion a year ago and it has no idea when demand will recover.

Taylor Wimpey (TW.) says sales were 'significantly' lower in the final quarter of 2022 and expects volumes to reduce this year, while at the same time it is being 'highly selective' in acquiring new plots.

All of which is likely to ring alarm bells at firms which service the new-build housing market, particularly after the slowdown in the repair, maintenance and improvement market which *Shares* noted last October.

Legal services firm **Gateley (GTLY:AIM)** carries out work connected to the new-build housing industry, and in the past year has increased its exposure to the property sector, so a downturn in activity could have a negative effect on its earnings.

Building materials groups such as **Brickability (BRCK:AIM)**, **Ibstock (IBST)**, **Marshalls (MSLH)** and **SIG (SHI)** – the last of which has already seen one of its big UK customers, roofing contractor Avonside, go into administration – could also be affected by a slowdown in new home building.

Equipment rental firms like **Speedy Hire (SDY)** and **HSS (HSS)**, and builders' merchants such as **Travis Perkins (TPK)** and **Wickes (WIX)**, who have already taken a hit due to the drop in repair, maintenance and improvement activity, could be similarly impacted.

Even firms which make goods such as radiators, boilers, or bathroom and kitchen equipment, such as **Norcros (NXR)**, **Stelrad (SRAD)** and **Howden Joinery (HWDN)**, may find themselves exposed if the downturn in new build activity already hinted at becomes more widespread in the coming months. [IC]

Marks & Spencer builds on sparkling Christmas with news of 20 new stores to come

The sector bellwether has rediscovered its mojo and a near-£500 million investment proves brick and mortar stores have a big future

British retail bellwether **Marks & Spencer (MKS)** has built on much better-than-expected festive trading by announcing (16 January) a near half a billion-pound investment to open 20 new stores that the FTSE 250 firm insists is 'core' to its aim of becoming the UK's leading omnichannel retailer.

Admittedly, Marks & Spencer had already announced plans to shutter a large number of shops back in October, so its retail park and high street presence will still reduce on a net basis, but the new investment demonstrates confidence in the retailer's long-run prospects and feels significant considering the cost inflation and pressures on household budgets clouding the sector.

Marks & Spencer is to invest £480 million in 20 'bigger, better stores across the UK' in a move generating over 3,400 new jobs and which aims to create a 'fit for the future' store estate.

Giving the retailer the confidence to go faster with relocations is the outperformance of recently relocated and renewed stores, where sales have been ahead of plan.

Marks & Spencer's new store pipeline for the 2023-2024 financial year includes eight 'full line destination stores' in key city locations including Leeds, Liverpool, Birmingham and Manchester, as well as in Lakeside Thurrock.

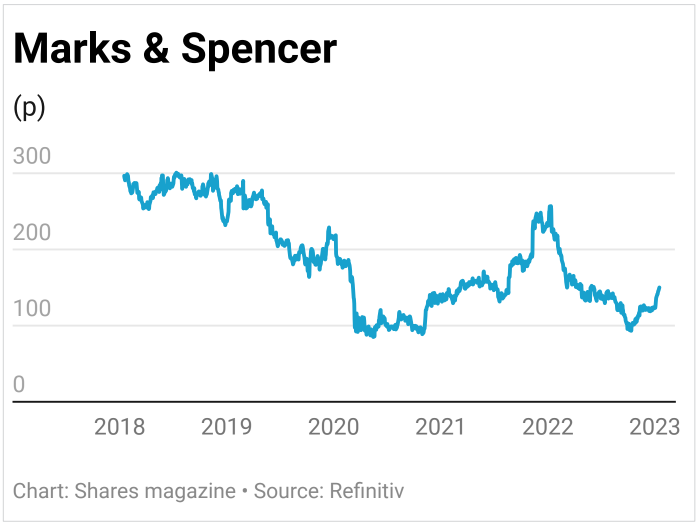
Crucially, this major investment demonstrates physical retail continues to have a major role and that Marks & Spencer sees its multi-format stores, with a mix of clothing, homewares and food, as a competitive advantage.

The push to revamp the store estate also shows the retailer recognises the importance of having sites which are appealing for shoppers to visit and are in the right places to attract healthy footfall.

As chief executive Stuart Machin explained: 'Stores are a core part of M&S's omni-channel future and serve as a competitive advantage for how customers want to shop today.' He added that Marks & Spencer is aiming to rotate from 247 stores today to 180 higher quality, higher productivity full line stores that sell its clothing, home and food offer while also opening over 100 bigger food sites.

Marks & Spencer's Christmas trading statement (12 January) covering the 13 weeks to 31 January 2022 showed the retailer gaining market share in food, clothing and home.

Like-for-like food sales increased by 6.3% as Marks & Spencer not only outperformed the market but generated its largest ever Christmas sales. Clothing and home like-for-like sales grew by 8.6% in its third quarter as Marks & Spencer's market share topped 10%, its highest level in seven years. [JC]



Musicmagpie shares soar more than 300% from October lows

Investors have been impressed by strong trading and recent deals

After it delivered a major profit warning in March 2022, it looked as though **Musicmagpie (MMAG:AIM)** would become yet another casualty of the downturn in consumer spending which has seen so many smaller companies go to the wall over the past year.

Yet, in recent months, the 'circular economy' company has reported several positive developments which have sparked a rebirth of investor interest in the business and seen its share price rocket more than 300% since a low in October 2022.

In November, the company revealed it had rolled out 290 SMARTDrop kiosks in Asda stores, on time and on budget, making it easier for customers to recycle mobile phones.

In December, it posted a positive trading update for the year to November, including record Black Friday sales, as well as confirming its full-year operating profit guidance and reiterating its forecasts for the current financial year.

Earlier this month, the firm announced a deal with retail giant **Walmart (WMT:NYSE)** to sell pre-owned CDs, DVDs and video games on the US firm's e-commerce platform, sending its shares up 17% in a single day. [IC]

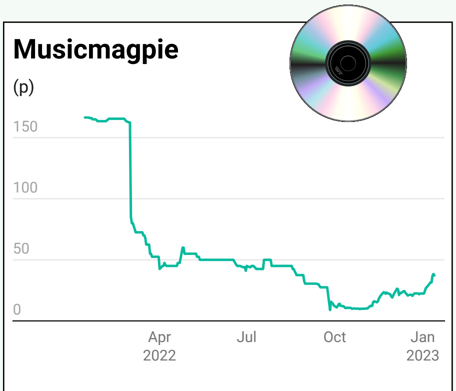


Chart: Shares magazine • Source: Refinitiv

Darktrace back to IPO price after slicing growth expectations

Popular cyber security firm seeing new business wins slow

Cambridge-based cyber security firm **Darktrace (DARK)** has cut its growth forecasts for the year as new customers pull the plug on technology spending in the face of a weakening global economy.

Darktrace now expects annualised recurring revenue, adjusted for foreign exchange swings, to rise by between 29% and 31.5%, down from a previous range of 31% to 34%.

Investors are easily spooked after a tumultuous 2022, and the reaction to the latest news was severe, sending the stock briefly below the 250p price at which the company joined the stock market in April 2021.

'The current macro-economic environment is creating challenges to winning new customers, with prospects more reluctant to run product trials,' said chief financial officer Cathy Graham. 'Conversion rates have also started to decline in some regions where customers have in the past been more likely to commit to contracts after their initial trials.'

Darktrace had become a retail investor favourite since it joined the stock market, but it has been a highly volatile ride. The share price peaked at 945.5p in October 2021. [SF]

Chart: Shares magazine • Source: Refinitiv

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS
20 January: Porvair
24 January: Oxford Biodynamics, Sureserve, Velocity Composites
25 January: Watkin Jones
26 January: Idox

HALF-YEAR RESULTS
20 January: TheWorks.co.uk
23 January: Van Elle, IG Group, Oxford Cannabinoid Technologies
24 January: Accrol
25 January: Hargreaves Services
26 January: Diageo, Rank, Time Finance

TRADING UPDATES
20 January: Close Brothers, 4imprint
24 January: Associated British Foods, Henry Boot, Staffline
25 January: CMC Markets, EasyJet, Hvivo, Quilter, TI Fluid Systems, Tullow Oil
26 January: Dr Martens, Intermediate Capital, Tate & Lyle

Dr. Martens

HEDGE FUND PUTS BOOT IN AHEAD OF KEY UPDATE

Iconic boot maker **Dr. Martens (DOCS)** is not heading into its third quarter trading update on 26 January with the most encouraging of portents.

A New York hedge fund, Woodson Capital Management, recently disclosed a £10.5 million short position in the company. This means it would profit if Dr. Martens' share price falls.

The stock has already been weak, partly depressed by a November profit warning which helped send its shares to all-time lows of less than half the 370p issue price of its January 2021 stock market listing.

To sustain its recent share price mini-recovery, built on a solid showing for UK consumer-facing peers, and confound Woodson it will need to demonstrate a clear improvement in performance.

This includes boosting sales in the key US market as well as reviving its lucrative direct-to-consumer arm which struggled in the period before Christmas. [TS]

Associated British Foods

CAN FASHION RETAILER PRIMARK DELIVER A CHRISTMAS GIFT TO INVESTORS?

Grocery brands-to-fashion conglomerate **Associated British Foods' (ABF)** forthcoming trading update on 24 January will be closely watched by the market as its budget clothing chain Primark becomes one of the last major retailers to deliver its festive report.

Retailers' Christmas updates have been better than feared so far and discounter clothing seller Primark should have benefited from December's cold snap helping to drive coat and jumper sales. Investors will also be looking for any comment on its click and collect trial. [JC]

Johnson & Johnson (JNJ:NYSE)

THE COMPANY IS SET TO DEMERGE ITS CONSUMER HEALTHCARE BUSINESS LATER THIS YEAR

Healthcare company **Johnson & Johnson (JNJ:NYSE)** is expected to beat consensus expectations for earnings per share of $2.22 when it reports its fourth quarter on 24 January, according to *Earnings Whisper* data.

In the prior quarter the company beat the average analysts' earnings estimates of $2.49 per share by $0.06 on sales which grew 1.9% year-on-year to $23.79 billion.

Investors will be keen to learn more details about the planned stock market listing of the company's consumer healthcare unit called Kenvue, originally announced on 4 January.

The spin-off is expected to complete by November 2023 and involves listing at least 80.1% of the $15.1 billion revenue business which is behind brands such as Band Aid and Listerine. [MG]

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

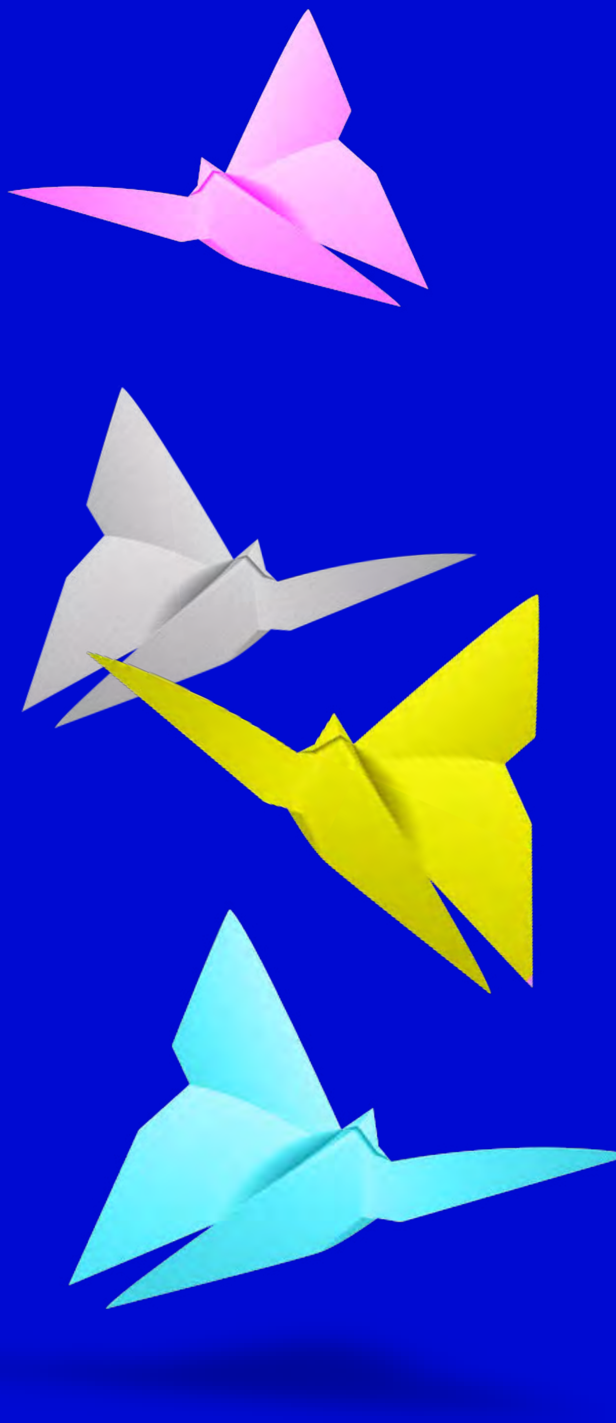
20 January: Schlumberger
23 January: Axis Bank, Baker Hughes
24 January: Johnson & Johnson, Microsoft, Danaher, Verizon, Texas Instruments, Raytheon Technologies, Union Pacific, Lockheed Martin, Intuitive Surgical, General Electric, Haliburton
25 January: Tesla, Abbott Labs, AT&T, IBM, Boeing, General Dynamics, Lam Research, Freeport McMoRan
26 January: Visa, Mastercard, Comcast, Intel, Northrop Grumman

Schlumberger/Baker Hughes

BIG EARNINGS GROWTH EXPECTED AT US ENERGY SERVICES GIANTS

With the Western world desperately scrambling to replace oil and gas production from a top global producer and now pariah state Russia, the products and services provided by the likes of service groups **Schlumberger (SLB:NYSE)** and **Baker Hughes (BHI:NYSE)** are in big demand.

Schlumberger is forecast to report on 20 January a 66% year-on-year increase in fourth quarter earnings per share with numbers from Baker Hughes on 23 January also expected to be strong. [TS]



Discover why JPMorgan European Growth and Income is a smart play on European recovery

The trust's balanced approach has proven its worth over the long term

European shares have started 2023 on the front foot as being starved of Russian gas supplies has not had as devastating an impact as feared this winter and inflation shows some signs of easing.

However, in an environment which remains uncertain Bank of America strategists think investors should have exposure to more defensive areas of the market such as food, beverages, and healthcare.

Investment trust **JPMorgan European Growth and Income (JEGI)** has a significant weighting to businesses in these sectors with holdings in **Nestle (NESN:SWX)**, the pharmaceutical trio **Novo Nordisk (NOVO-B:CPH)**, **Novartis (NOVN:SWX)** and **Roche (ROG:SWX)** as well as **Danone (BN:EPA)** and **Carlsberg (CARL-B:CPH)**.

Alongside these defensive names there are more growth-orientated investments and this makes the trust a balanced way to play a recovery in European stocks. What is more its shares trade at an enticing 12.8% discount to net asset value and pay a 4% dividend yield.

The long-term track record is good, outperforming the MSCI Europe excluding UK benchmark over 10 years by delivering a 10.3% annualised return compared with 8.7% from the comparative index.

JPMorgan European Growth & Income

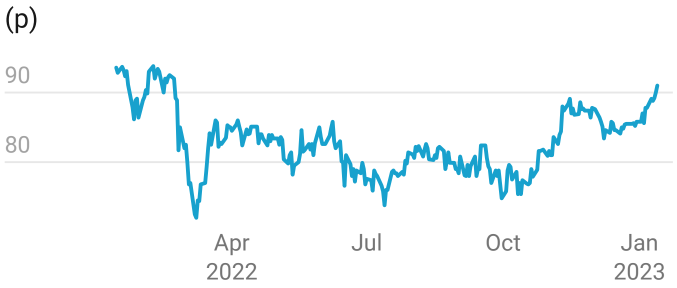


Chart: Shares magazine • Source: Refinitiv

JPMORGAN EUROPEAN GROWTH AND INCOME TRUST
(JEGI)

Price: 91.2p

Market cap: £393 million

This demonstrates the abilities of the experienced team to deliver across different market backdrops and when different investment styles have been in favour.

The investment team is comprised of Alexander Fitzalen Howard, Zenah Shuhaiber and Timothy Lewis who have a combined 65 years of investment experience. One downside is the ongoing charge which at 1.28% is relatively expensive, perhaps reflecting the trust's relatively modest size.

HOW THE TRUST PICKS STOCKS

Each potential investment is put through a series of key questions aimed at finding suitable candidates for the portfolio. The initial focus is on finding good businesses which make attractive returns and have a management team which has demonstrated it can make rational decisions about how to use the money at its disposal.

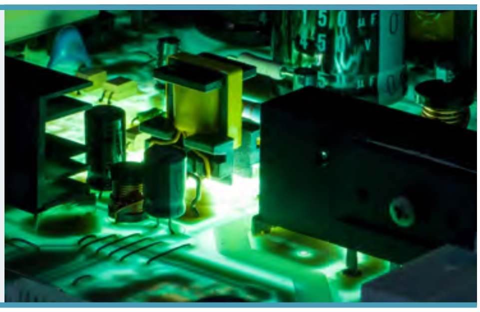
Another important part of the process is to analyse how attractively valued a company is against its prospects. The team also require the fundamentals of the business (profit, revenue and cash flow) to be on an improving trend. Finally, an assessment is made on the sustainability of the business.

This disciplined investment process helps the team to arrive at a diversified portfolio of more than 100 companies which collectively are cheaper than the benchmark, better quality with higher returns on capital and possess superior earnings revisions. [MG]

XP Power is ready to bounce back in 2023

Proven management, structural growth and a 4% yield make for a powerful combination

XP POWER
BUY
(XPP)
Price: £23.65
Market cap: £467 million



Markets are gradually re-engaging with growth stocks as inflation and supply chain pressures ease and economic data shows signs of promise. We believe **XP Power (XPP)** stands to benefit, and analysts agree – Berenberg sees earnings doubling within five years thanks to end-market structural growth and market share gains.

XP Power is an electronics engineering gem, a science-based designer of complex power switching and controls solutions. Its kit is used when off-the-shelf solutions simply won't do, such as AC-DC (alternating current – direct current) power supplies, DC-DC converters, high voltage power and radio frequency power capability. Target markets include defence, aerospace, healthcare, rail, and a few other custom power niches.

Semiconductor manufacturing has become a meaningful part of the business mix, worth an estimated 30% of revenue.

The company's gross margins are typically over 40%, impressive for a hardware manufacturer. Returns on investment and equity consistently run in the mid-teens (around 14% and 17% respectively over five years) and it throws off plenty of cash.

Interestingly for retail investors, large chunks of free cash flow are handed out annually as dividends (even during the pandemic), with an implied 2023 yield of more than 4%. The 2023 price to earnings multiple is 13.8 which looks good value.

> **"Large chunks of free cash flow are handed out annually as dividends"**

The stock has returned an average 10.8% a year across the last decade, according to Morningstar data. If you'd invested £5,000 in the shares in 2012, your stake today would be worth approximately £13,918.

So, what's the catch? First, its balance sheet is uncharacteristically stretched at present. Debt to equity ballooned to 146% in 2022 due to acquisitions and, principally, $44 million set aside for a lawsuit. This relates to a claim over radio frequency technology, a case XP Power has lost, with the company ordered to pay $40 million in damages. XP Power has not given up but it's probably sensible to mentally write-off that money.

The important point is that this information is already in the public domain and reflected in analyst calculations, as are higher borrowing costs, and it should not trouble borrowing covenants. In the past, debt to equity has run nearer the 10% to 20% mark, so expect those excess borrowings to be paid down quickly.

Previous order flow weakness is easing (fourth-quarter 2022 revenue rose 30%) and the company has a backlog of work worth around £300 million, according to Numis. Expectations have now been reset, providing a platform for XP Power to return to its historical operational excellence, and that should drive the share price in the months ahead. [SF]

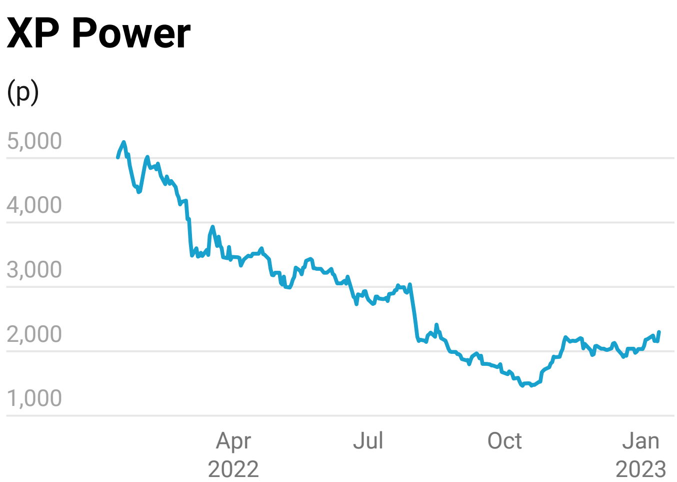


Chart: Shares magazine • Source: Refinitiv

Why JD Sports' share price jump presents a profit-taking opportunity

A 41% rise in a matter of weeks is more than we could have dreamed of

JD SPORTS FASHION
(JD.) 161.45p

TOP STOCKS FOR 2022

Gain to date: 41%

Our 'buy' call (22 December 2022) on trainers-to-tracksuits retailer **JD Sports Fashion (JD.)** at 114.6p has been rewarded with a 41% gain in a matter of weeks, the stock sprinting ahead amid a great start to 2023 for UK stocks and improving sentiment towards retailers following a flurry of better-than-expected Christmas trading updates.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

On 11 January, the athleisure specialist and self-styled 'King of Trainers' reported bumper festive sales and said it expects pre-tax profit for the year to January 2023 to come in 'towards the top end' of the £933 million to £985 million forecast range. That implied a 4% upgrade on previous guidance, though the final full year outturn will hinge on the January sales.

JD Sports highlighted 'particularly impressive' Christmas sales in its organic retail businesses, both in stores and online, with total sales growth topping 20% over the peak six weeks to 31 December 2022 despite highly promotional sportswear market conditions.

Chart: Shares magazine • Source: Refinitiv

WHAT SHOULD INVESTORS DO NOW?

A quick-fire 41% gain is more than we could have reasonably expected in 12 months, let alone a few weeks, given the pressures facing retailers. A sensible strategy is to lock in profits while the going is good and sell the value of your original investment. The remaining holding would provide a free ride on a stock that remains good value, trading on a shade over 12 times Shore Capital's year-to-January 2024 earnings per share estimate of 13.1p.

New CEO Regis Schultz is confident the JD brand will continue to resonate with the global consumer, JD Sports Fashion is benefiting from improved product availability and easing shipping costs, and it is well-positioned to capture market share from weaker competitors.

A big investor day in February should include an update on its digital strategy and what the retailer plans to do with its large pile of cash, with an earnings-enhancing share buyback among the capital allocation options in front of management. [JC]

This Canada-focused trust has a lot to offer investors

Middlefield Canadian Income is finally growing its dividend again

Middlefield Canadian Income
(MCT) 116.75p

Loss to date: 6.4%

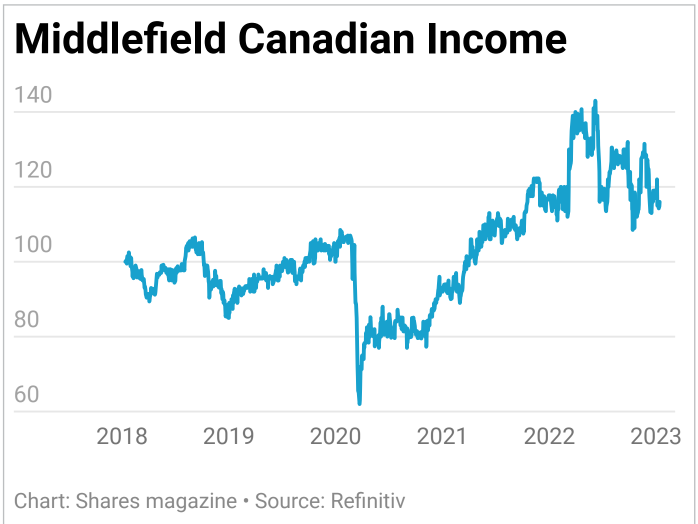
We said to buy shares in **Middlefield Canadian Income (MCT)** at 124.75p on 17 March 2022 because the shares were trading 15.2% below net asset value and offered a 4.1% dividend yield.

Big exposure to the energy sector was also timely given oil prices were racing ahead at the time of our original article.

WHAT'S HAPPENED SINCE WE SAID TO BUY?
Middlefield has announced its first dividend increase since 2017, with the quarterly payment rising by 2% to 1.3p. Manager Dean Orrico told *Shares* the increase was made possible by a strong showing from its energy holdings in the year, with the previous static dividend a result of oil and gas earnings being depressed during that period.

Exposure has been increased to property earnings after a valuation decline in the Canadian real estate sector caused by fears over a recession. Orrico says the sector is now attracting more investor attention because of the bargains on offer and the belief that Canadian interest rates are close to their peak in the cycle.

Orrico sees potential for both capital gains and income growth from real estate holdings this year. 'We have exposure to industrial property where vacancy levels are low and it's expensive to build new supply, meaning a property could be re-leased for 20% to 50% more in price. We also invest in multi-family residential properties where apartments are rented for an average $1,300 per month versus a market close to $2,000. When there is a change in tenant, there is an uplift to the market rental price.'



WHAT SHOULD INVESTORS DO NOW?
While Middlefield's price is slightly down on our entry point, the trust remains appealing.

You're mainly getting exposure to robust Canadian banks growing dividends, energy companies which have a primary focus on returning cash to shareholders, a cheap real estate market and resilient utility providers.

On a five-year basis, Middlefield's annualised returns of 10.3% are attractive. It achieved 5.4% in 2022 versus 5.3% from its S&P/TSX Composite High Dividend index benchmark. [DC]

TR Property Investment Trust

Fundamentals remain intact after a market correction

Elevated inflation and higher borrowing costs took their toll on property investments in 2022 rendering real estate equities the poorest performing GIC sector (-37%). Multi-year central bank support, through QE, expired and an extended period of record low interest rates was reversed in response to stubbornly persistent inflation. The pricing correction centred on an adjustment in the valuation of risk assets as rates rose. However, for many sectors the fundamentals of supply and demand have not weakened and belie the asset class's earnings growth potential.

In the European context, TR Property Investment Trust's benchmark (FTSE EPRA NAREIT Developed Europe, TR in GBP) fell 33% as property equities reacted quickly to the anticipated correction in the valuation of the underlying real estate. Following these price falls, our UK universe was trading on a 21% discount to net assets and our European names on a collective 40% discount. The implied yields at these share prices, of 5.8% and 7.2% respectively, have moved to attractive levels given much of the bad news around the economy is already priced-in because of the forward-looking nature of equity markets.

While capital returns from property are likely to be subdued for the next couple of years for those investments that draw a significant proportion of their total return from income, the element of inflation protection offered by this asset class is a useful feature in a diversified portfolio. Supply and demand dynamics support continued income from rental returns. Finance for new construction projects was already challenged by the risk averse environment that followed 2008's global financial crisis and the Covid-19 pandemic further narrowed the pipeline as investors deferred commitment to large projects in an uncertain environment. In particular, there is a shortfall in the supply of prime real estate that meets the growing corporate 'green' agenda. Other sectors where supply is notably constrained include elderly living, healthcare and student accommodation.

Changing living patterns are another source for long-term investment considerations. The move to online purchases is well established but environmental concerns are now prompting something of a backlash against delivery vans clogging up roads making multiple daily drops. A shift towards more 'click and collect' from local retail parks could be one solution and warehousing is a desirable investment option. With flexible working increasingly becoming embedded, local retail and leisure is poised for a pick-up.

Risk Disclaimer

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Past performance should not be seen as an indication of future performance. The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

The value of directly-held property reflects the opinion of valuers and is reviewed periodically. These assets can also be illiquid and significant or persistent redemptions may require the manager to sell properties at a lower market value adversely affecting the value of your investment.

Is now the time to add supermarket stocks to your shopping basket?

Their share prices have halved in 10 years but are they a good investment?

It seems the supermarkets had plenty to cheer about over the festive period with shoppers flocking back to stores and treating themselves to Christmas dinner with all the trimmings, despite concerns over the cost of living crisis.

Which begs the question, are the supermarkets a good investment or is their current good fortune just a flash in the pan helped by high grocery prices?

A GAME OF MARKET SHARE

Over the last 10 years, the share prices of both **Sainsbury's (SBRY)** and **Tesco (TSCO)** have more or less halved, driven by the perception that the discounters are gradually taking more and more of their customers and profits.

While it is certainly true that the discounters, led by German duo Aldi and Lidl, have made significant inroads into the UK grocery market over the last six or seven years, it hasn't all been one-way traffic.

According to weekly till roll data processed by Kantar Worldpanel, between the start of 2016 and the onset of the pandemic Aldi and Lidl increased their joint share of UK grocery spending at supermarkets from 10.4% to 14.3%, inflicting losses on all of the Big Four chains.

Tesco saw its share decline from 28.1% to 26.8%, Sainsbury's from 16.4% to 15.3%, Asda from 16.3% to 15% and Morrisons from 10.6% to 10%.

However, we should point out the till-roll data isn't like-for-like and during this period both

UK grocery market share

(%)

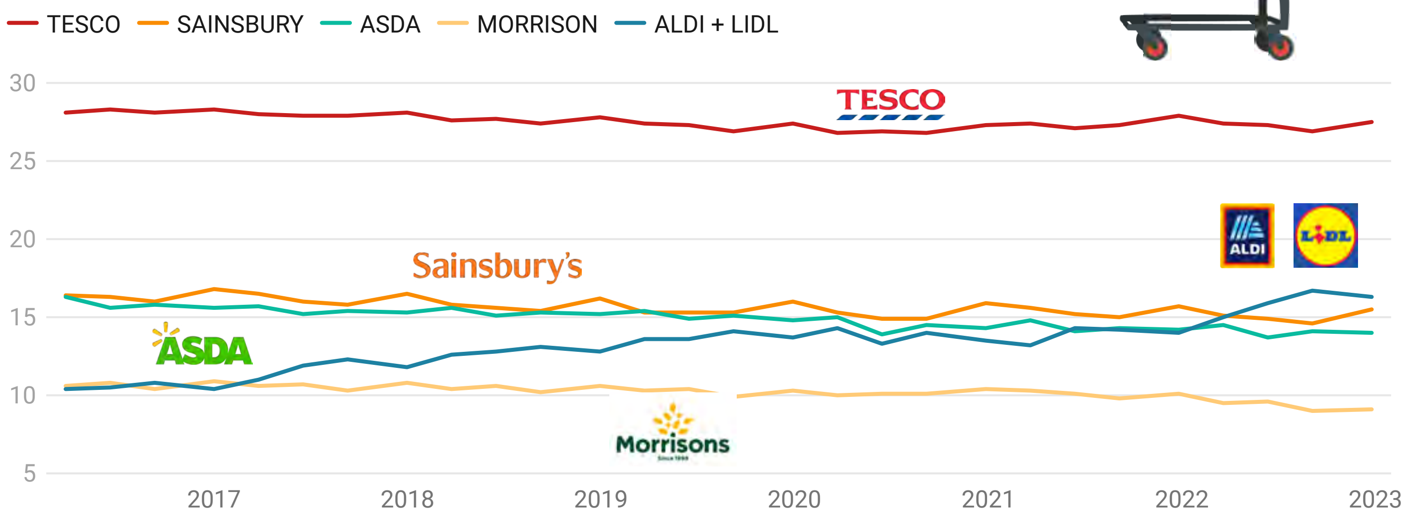


Chart: Shares magazine • Source: Kantar Worldpanel, Shares magazine. Data correct as of 13 January 2023

Tesco : trend price to earnings ratio

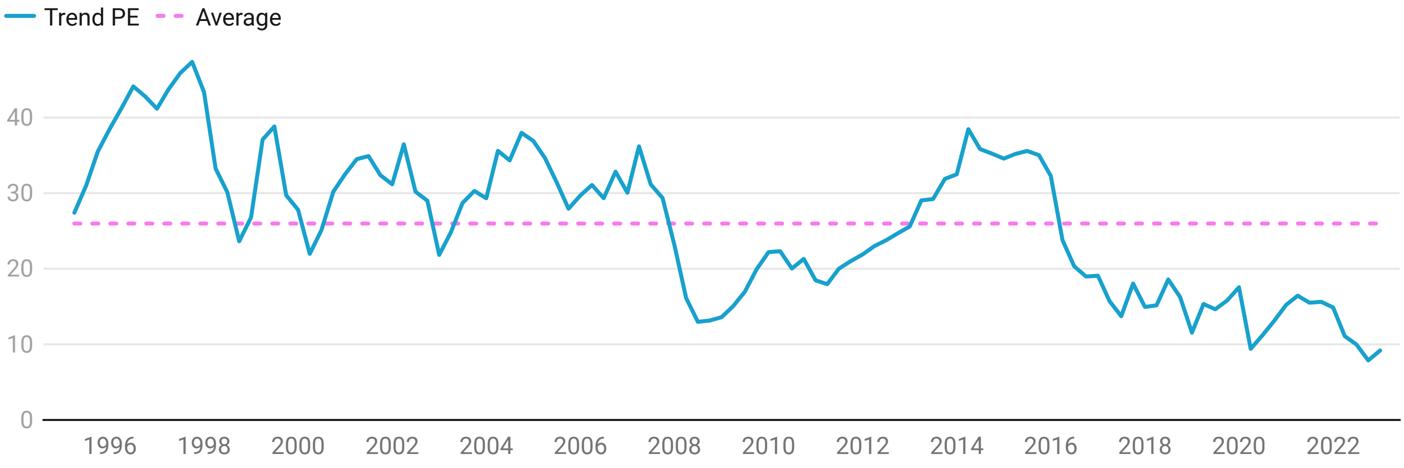


Chart: Shares magazine • Source: Shares magazine, Refinitiv

of the discounters undertook a huge expansion programme while the Big Four reined in store openings.

By opening new stores, Aldi and Lidl – which offer a much more limited assortment of products – were able to compete more effectively with the full-line supermarkets.

Yet a funny thing happened during the pandemic – the big chains, which offered delivery services as well as Click & Collect, rebuilt their market shares at the expense of the discounters, and for two years Aldi and Lidl made no headway.

It was only at the start of 2022, when grocery prices started to increase sharply due to higher input costs, that they once again started to win a bigger share of customer spending.

Crucially, both Sainsbury's and Tesco have managed not just to keep their pre-pandemic market shares but to increase them slightly, while Asda and Morrisons – both now privately-owned, as it happens – have been the ones to give up ground.

IS FOOD INFLATION HERE TO STAY?

According to Kantar, UK grocery sales in the 12 weeks to 25 December were up 7.6% to £31.7 billion, with spending in December jumping 9.4% to a record £12.8 billion, but with food inflation running at 14.4% during the month, the *volume* of goods sold was down 5% on the previous year.

Inflation is most severe in fresh food, with fresh meat and poultry prices currently 15% to 20% higher than last year, milk between 35% and 45% higher, eggs 25% higher and fresh vegetables including potatoes 15% or more higher according to the latest figures from the ONS (Office for National Statistics).

While there are some indications inflation is beginning to peak, that doesn't mean prices are falling, rather it means they are rising at a slower rate, and they could stay high for some time to come.

One of the less obvious and most pernicious forms of inflation, particularly in tinned and packaged foods, is 'shrinkflation', where manufacturers reduce the size of their products but charge the same price.

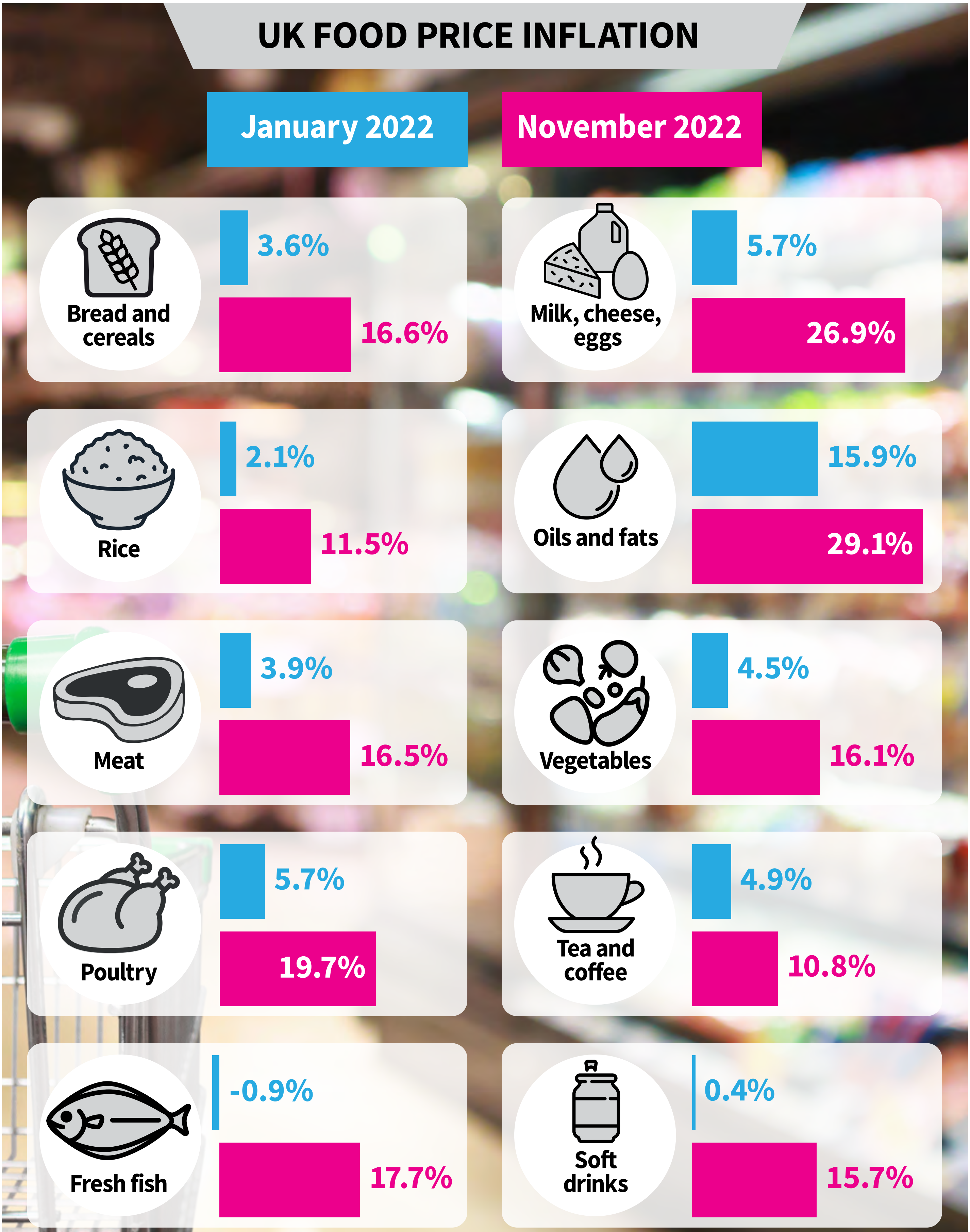
The question is, do we have to get used to inflation or is there a chance prices could come down in the future?

Unfortunately, at least where fresh produce is concerned, the omens aren't good.

High costs are forcing arable farmers to reduce potato acreage while poultry farmers are shutting down production due to bird flu and other pressures at the same time as demand continues to grow.

Also, farming is expected to be left out of the Energy Bill Discount Scheme, which is designed to reduce wholesale gas and electricity prices for non-domestic customers, as the government doesn't consider it to be a high-energy sector.

Farm consultancy group Andersons estimates UK farming's overall profit may drop by as much as a third this year to the same level as 2000 as the



Source: ONS, Shares magazine

Data correct as of 14 Dec 2022

full impacts of rising fertilizer and energy prices take effect.

Andrew Meredith, editor of *Farmers Weekly*, fears 2023 could be the year farmer anger 'erupts'.

'This year is set to drive many farmers even harder to stay solvent if input costs remain high and output prices come under further pressure,' says Meredith.

All of which points to shortages of fresh food and vegetables in the supermarkets, meaning high prices are likely here to stay.

HOW ARE THE SUPERMARKETS FARING?

Sainsbury's and Tesco recently released their Christmas trading updates, to a fairly lukewarm response it must be said even though both firms had an extremely successful campaign with holiday sales up 7.1% at Sainsbury's and up 7.8% at Tesco's UK and Irish stores.

Sainsbury's said it expected profits for the year to the start of April to be towards the top end of its forecast range of £630 million to £690 million, while retail free cash flow would be around £600 million compared with its previous guidance of at least £500 million.

Meanwhile, Tesco reiterated its guidance for the year to the beginning of March for retail operating profit of between £2.4 billion and £2.5 billion, and retail free cash flow of at least £1.8 billion, so both firms are clearly feeling confident about their ability to continue attracting customers.

Both reported an increased level of in-store shopping as consumers hit the shop floors to compare and contrast the festive offerings, with Sainsbury's claiming it outperformed the market in terms of meat, fish, poultry, fruit and vegetable sales over Christmas.

Tesco's premium Finest range enjoyed an 8.2% uplift as customers treated themselves, while Sainsbury's Taste The Difference range posted a 10% increase in sales.

At the same time, shoppers sought out value in everyday essentials with Tesco seeing a 7.4% volume increase in its Low Everyday Prices range and more customers than ever taking advantage of its Clubcard Prices and Aldi Price Match deals.

Take-home ready meals also surged in popularity

> **"This year is set to drive many farmers even harder to stay solvent if input costs remain high and output prices come under further pressure"**

as households chose to eat in rather than go to restaurants or order takeaways, and as the squeeze on budgets continues this trend could continue at the expense of the hospitality trade.

TESCO IS THE STOCK TO BUY

Both Sainsbury's and Tesco have seen their share prices halve over the last decade, but Tesco has done a much better job of protecting its profits.

We estimate Tesco has grown its earnings per share by around 5% per year on average since the early 1990s, with a faster pace of growth up to 2012 then a slower pace over the last decade.

Sainsbury's on the other hand has destroyed profits by around 0.5% per year over the same period, leaving earnings per share today lower than they were in the early 1990s.

With its greater market share, and more levers to pull through its Aldi Price Match and Clubcard offerings, we think Tesco is a good defensive proposition.

At the current price, investors are being asked to pay 10 times current earnings and less than seven times cyclicallyadjusted earnings, which have been smoothed out over more than 30 years to eliminate the peaks and troughs, with the added attraction of a 4.4% dividend yield which is more than three times covered by earnings.

By **Ian Conway** Companies Editor

The other big dividend payers which might cut like Direct Line

The insurer's cancelled dividend may be a wake-up call for investors to scrutinise their portfolios

Insurance company **Direct Line (DLG)** sparked a more than 25% drop in its share price after announcing (11 January) it wouldn't pay a final dividend due to poor trading which has put pressure on its balance sheet.

Direct Line was hit by a combination of extreme weather and higher motor claims inflation which dented profit and caused the company to reassess what it needed to do with its cash.

What is most surprising about the missed payout is that the firm has built a reputation as a steady dividend payer and regularly paid a special dividend on top.

Direct Line dividend history

(p)

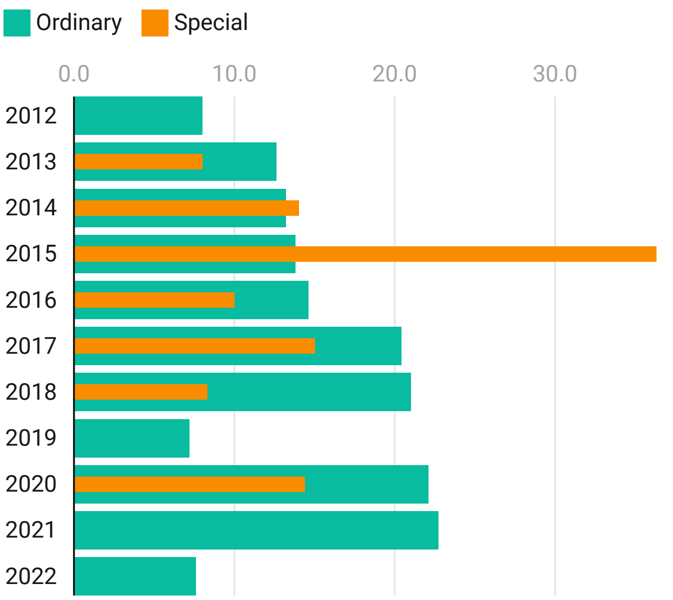


Chart: Shares magazine • Source: Direct Line

While Direct Line's problems appear company-specific, in this article we highlight potential income disappointments which may be brewing elsewhere in the UK.

AN IMPRESSIVE TRACK RECORD

Since listing on the market in 2012 at a price of 175p per share Direct Line has paid out 269p to shareholders in regular and special dividends. It is therefore understandable why shareholders might have considered the firm a solid income payer.

Looking through the accounts and trading updates there are signs the company may have been too generous to shareholders at the expense of financial prudence.

The estimated 2022 dividend was uncovered by earnings according to Refintiv data. In addition, the 20.9p per share dividend which had been forecast for its 2022 financial year represented a yield of 9.2% which looked high, suggesting the market was sceptical on the level of the anticipated payout.

Direct Line was also in the process of a £100 million share buyback programme equivalent to around 3% of the company's market cap before the trading update. In effect, this was equivalent to paying shareholders a combined yield of 12% – too good to be true.

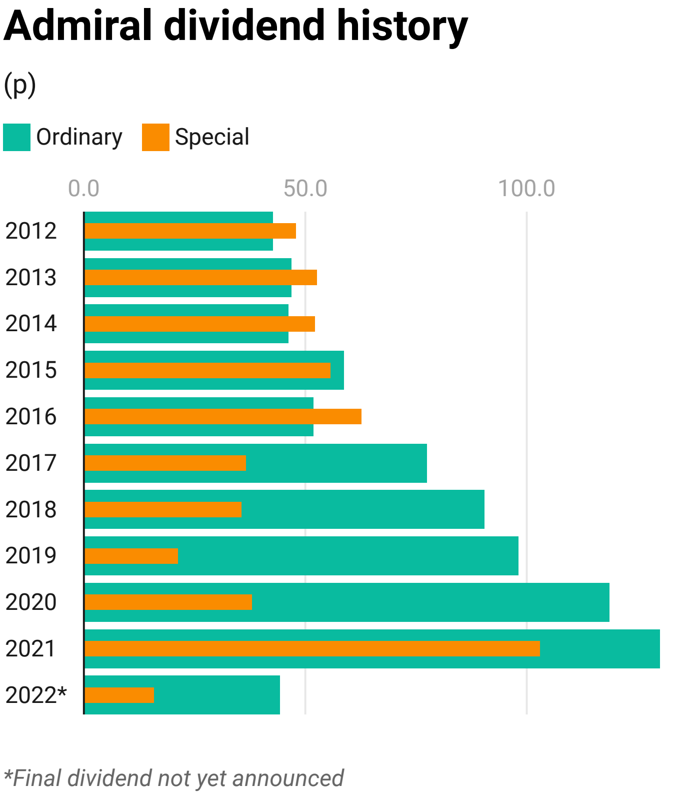
Finally, first half results (2 August) showed the company's capital cushion had dropped significantly with the solvency ratio shrinking from 176% to 152%.

Despite this management said it was 'confident in the sustainability of our regular dividends as we look ahead to the full year and beyond'.

The solvency ratio measures the amount of capital a company has relative to the minimum regulatory capital. To its credit, the firm did cancel the remaining £50 million left in the share buyback plan in the summer.

IS THERE ANY READ ACROSS FOR ADMIRAL?

Fellow insurer **Admiral (ADM)** has also been a prodigious income payer over the years as the chart shows.



*Final dividend not yet announced
Chart: Shares magazine • Source: Admiral

Admiral's solvency ratio shrunk by the same percentage points as Direct Line's in the first half of 2022, but, crucially, from a higher starting point. The solvency ratio of 185% suggests the company has sufficient capital for the dividend not to be under threat.

Analysts have pencilled in 168p per share of total dividends for 2022 which at the current share price gives a yield of 8%.

OTHER POTENTIAL INCOME DISAPPOINTMENTS

It might be a good idea for investors to have a good look at their portfolios to see if there are any high yielding stocks which are not supported by earnings.

While the UK economy has avoided a recession so far, there are heightened risks for the rest of the year as consumer spending (roughly two thirds of the economy) comes under increasing pressure.

Using Stockopedia software *Shares* has created a screen to identify stocks which have historic yields above 7% and dividend cover (earnings per share divided by dividend per share) below one. It is only a guide but may throw up some interesting results.

Notably Direct Line makes the list, but there are other insurance firms that qualify too, including **Sabre Insurance (SBRE)**.

Sabre is involved in similar lines of business to Direct Line, and it reported a solvency ratio of 163% in the first nine months of its financial year, notably above the top of the company's target range. Sabre doesn't have any debts.

HOUSEBUILDER DIVIDENDS MAYBE AT RISK

Housebuilder **Persimmon (PSN)** appears on the screen which may look surprising at first glance given its large net cash position.

In November the company announced a new conservative capital allocation policy and scrapped

UK stocks with high yields and low cover

Company	Dividend cover trailing 12 months	Dividend yield trailing 12 months (%)
Persimmon	0.98	16.7%
Synthomer	0.94	14.3%
Direct Line Insurance	0.89	12.4%
Sabre Insurance	0.51	12.1%
Integrated Diagnostics Holdings	0.66	9.5%
Castings	0.74	9.0%
Vodafone	0.81	8.7%
Chesnara	−1.72	8.0%
Watkin Jones	0.36	7.8%

TTM=Trailing 12 months

Table: Shares magazine • Source: Stockopedia, Refinitiv

plans for a special dividend.

Recent trading updates across the sector suggest companies are planning to retrench land purchases and focus on conserving cash through efficiencies and the slow release of work in progress.

Analyst Andy Lammin at Investec believes the whole sector is at risk if earnings fall because many housebuilders link their payouts to earnings growth.

Lammin said, 'There is an increasing risk that dividends are cut further as we potentially see further earnings downgrades come through on a weakening housing market.'

Investment director at AJ Bell, Russ Mould commented: 'Aggregate consensus estimates for the FTSE 100 and FTSE 250 housebuilders suggest net profits will fall by a third to £2 billion and that dividend payments will drop by more than a fifth to £1.5 billion in 2023.'

Disclaimer: Financial services company AJ Bell referenced in this article owns Shares magazine. The author (Martin Gamble) and editor (Tom Sieber) of the article own shares in AJ Bell.

By **Martin Gamble** Education Editor

BIG TECH MELTDOWN

How can Amazon, Alphabet, Meta and the rest recover?

By **The Shares Team**

Some of the most popular tech-related stocks of the past decade have gone from making people rich to being among the weakest performing names on the market. Are the worst of the falls over for the likes of **Amazon (AMZN:NASDAQ), Tesla (TSLA:NASDAQ)** and other market giants of their kind? Read on to find out.

The reasons behind the sudden drop in share prices last year for this group are twofold. First, the value of their shares was negatively impacted by rising interest rates meaning investors were no longer prepared to pay a premium to own the stock. The shares fell due to a 'derating', namely they traded on a lower multiple of expected earnings.

Second, all the companies suffered from either strategic, operational, regulation or reputational issues. Amazon, Tesla, **Meta Platforms (META:NASDAQ)**, **Microsoft (MSFT:NASDAQ)**, **Netflix (NFLX:NASDAQ)**, **Alphabet (GOOG:NASDAQ)** and **Apple (AAPL:NASDAQ)** reminded the world that even the most successful companies can suffer setbacks.

This second area is the prime focus of this article. Whereas the issues around their derating – inflation, interest rates and central bank policy – are out of the companies' control, they can address the other factors. Hence why investors need to look closely at the problem areas when deciding if they want to keep the shares, buy more, or get out completely.

Before we start our analysis, it's worth noting that a medium-term investor in these shares won't have lost out completely. Yes, the average share price decline for this group from the 2021 peak to early January 2023 was 46%. While alarming, an investor who bought any one of these shares – apart from Meta Platforms – five years ago would still be sitting on a capital gain if still held today. We discuss the performance figures in each company section.

ALPHABET (GOOG:NASDAQ) $92.26

THREE AREAS TROUBLING INVESTORS

- **Doubts whether Google can still lead in a changing online advertising market**
- **Need to cut costs in a tighter macroeconomic cycle**
- **Regulatory clampdowns and stiffening competition**

For years seen as one of tech's safest bets, 2022 saw the owner of Google hit the skids and its share price slammed. Missing revenue and earnings forecasts in each of its first three quarters of the year was unprecedented as Alphabet's core digital advertising business came under pressure as consumer spend tightened and advertisers reined in marketing budgets.

This could be merely cyclical but with digital advertising now accounting for about two-thirds of all advertising dollars, grabbing larger market share will get harder in future due to heightened competition. For example, social media platform TikTok continues to attract large amounts of traffic which means advertisers are having to think where best to spend their money – TikTok, Alphabet-owned YouTube or both.

Despite these challenges, there are reasons to be optimistic. **Fundsmith Equity (B41YBW7)** manager Terry Smith believes the current market pressures should lead Alphabet to have a sharper focus on its main revenue and profit engines of search and online advertising. Smith would like Alphabet to ditch much of its 'hugely loss-making' non-core businesses, including the Waymo self-driving technology operation.

Alphabet's Google Cloud business grew by 38% in the third quarter of 2022 and now accounts for about 10% of the company's overall revenue, so it's a handy business to have in the structurally growing cloud computing space.

The pace at which Alphabet can reel in expenses to prevent significant margin erosion will be vital to keeping investors onside in what could be another volatile year for the company.

The shares are cheap for a business of its calibre, trading on 18.5 times forward earnings. Therefore, using some of its vast $100 billion-odd cash pile for further share buybacks seems sensible with the stock trading at a historically low rating.

On a 10-year view the shares have still delivered a 395% return – with the shares going up faster than the growth in earnings per share of 209%. [SF]

DISCLAIMER: Steven Frazer own shares in Fundsmith Equity.

AMAZON
(AMZN:NASDAQ) $95.09

THREE AREAS TROUBLING INVESTORS

- **Global pressures on consumer spending**
- **Regulatory concerns and need for cultural realignment of the business**
- **Stiffening competition in cloud services**

E-commerce giant **Amazon (AMZN:NASDAQ)** surprised investors after announcing (5 January) the biggest jobs cuts in its history, with 18,000 staff heading for the exit.

Although the cuts look big, they only represent 1% of Amazon's workforce of 1.5 million. CEO Andy Jassy told employees the changes will allow the company to 'pursue our long-term opportunities with a stronger cost structure'.

The company spent heavily on recruitment and new warehouses during the pandemic to help it cope with the surge in online business and now it needs to adapt to the new post-pandemic reality.

The challenge for the business now is to get back to what it does well and deal with a potentially cash-strapped consumer. We expect Amazon to use its unique strengths and ingenuity to do more for less and pass on cost savings to customers.

A December 2022 settlement with EU regulators on antitrust matters staved off heavy fines and gives foreign merchants increased access to sell items on the platform.

In the long run Amazon needs to be more transparent on its business model to prevent future regulatory scrutiny.

Unionisation of the Amazon workforce has become a bigger issue in recent years with increasing protests and strikes. Workers claim the company is conducting a crackdown.

We think investors will increasingly steer clear of firms with a reputation of poor working practices. This could present a big cultural challenge given the increased size of the business.

The jewel in the crown which is growing fastest is the cloud computing Amazon Web Services operation. While it generates strong margins there is significant competition in this market from other well-resourced players. Amazon is a rare example of a big tech company where earnings have actually grown faster than the share price – reflecting how the company's profit has increased from a low base.

We think sentiment will remain poor towards Amazon in the near-term so avoid the shares. [MG]

APPLE
(AAPL:NASDAQ) $133.49

THREE AREAS TROUBLING INVESTORS

- **Concern over disruption to supply chains**
- **Demand for expensive consumer electronics could suffer in a recession**
- **The iPhone may have reached saturation point**

Electronics firm **Apple (AAPL:NASDAQ)** is one of the great success stories of the last quarter-century, having developed its own complex 'eco-system' with more than 900 million customers owning its devices.

It has a high customer retention rate, and while demand in the US and Europe may be close to peaking there is still a huge addressable market in countries like China and India.

In China, Apple sold 333 million iPhones in 2021, whereas in India, a nation of 1.2 billion people, it sold less than five million units.

Supply disruptions could negatively impact iPhone sales for the next two quarters but the firm is pushing to produce its own chips within a few years, as it has for its Mac computers, and its own screens.

The iPhone still accounts for more than half of Apple's revenues, which topped $394 billion last year, and as a premium product there may be doubts over whether cash-strapped consumers will fork out for something which is nice-to-have rather than must-have.

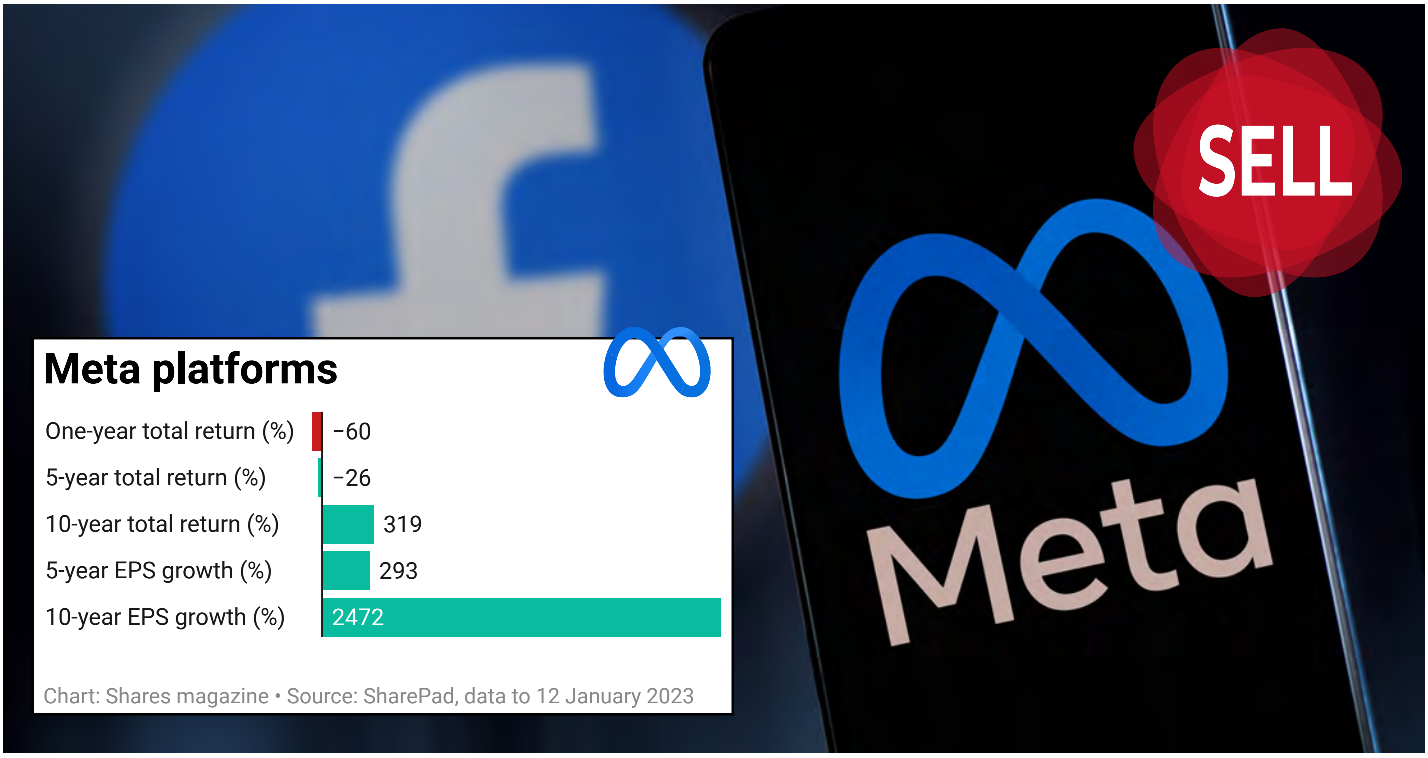
After losing nearly $850 billion in market value last year, Apple shares now trade on 21 times forecast earnings for the current financial year compared with 48 times 2020 earnings.

Revenue growth from services such as Apple TV, iTunes, the App Store and Apple Pay is running at more than 50%, with a gross margin of around 70% or double that of product sales.

By the end of September 2023, the company's net cash pile is forecast to be $47.89 billion, supporting dividends and share buybacks which together amounted to more than $100 billion last year. A 654% total return in Apple shares on a 10-year view, ahead of a still impressive 287% increase in earnings per share over the same time period, shows how the company's qualities have become more highly prized by the market.

On balance, the shares are worth buying at the current price. [IC]

META PLATFORMS (META:NASDAQ) $132.99



THREE AREAS TROUBLING INVESTORS

- **Lack of belief in the metaverse strategy and leadership concerns**
- **Falling advertising revenue**
- **Tighter privacy regulations**

The renaming of Facebook to **Meta Platforms (META:NASDAQ)** in October 2021 was meant to signal a bold reimagining of the business to position it for the growth of the metaverse – a series of interconnected worlds that enable participants to interact with digital objects and avatars.

This strategy has encountered scepticism. Terry Smith suggested in his latest letter to investors of the Fundsmith Equity Fund that Meta should ditch its metaverse spend. If it did, Smith said Fundsmith would be left owning a stake in a 'leading communications and digital advertising business on a single-figure price to earnings ratio.'

Meta is extremely unlikely to give up on the metaverse entirely but even signs of a more sober approach to spending in this area would be welcomed by shareholders. It could also help address concerns over founder Mark Zuckerberg's leadership of the company which have intensified since the departure last year of chief operating officer Sheryl Sandberg, seen as the 'grown-up in the room' by many investors.

Meta's Facebook and Instagram platforms remain obvious destinations for advertisers, but the company's advertising revenue has proved far from immune from an economic downturn, down 4% year-on-year in the third quarter of 2022 to $27.2 billion.

In response to these figures, market research outfit Insider Intelligence cut its 2023 forecast for advertising revenue from $148.1 billion to $121.9 billion.

Pressures on personalised adverts, one of Meta's key selling points for investors, are only likely to increase as regulatory scrutiny around privacy issues builds.

When you add all these issues together, the investment case is no longer compelling and so we do not believe the shares are worth owning.

The downward trajectory in Meta's share price has resulted in a negative total return on a five-year view. Over 10 years the return from capital gains and dividends of 319% pales in comparison to a 2,471.9% increase in earnings per share. For context, a decade ago the business was taking its first baby steps into profitability. [TS]

MICROSOFT
(MSFT:NASDAQ) $235.77

THREE AREAS TROUBLING INVESTORS

- **Will Activision Blizzard buyout happen, and will it be worth it?**
- **How will big job cuts impact its core Office 365 demand?**
- **Impact of strong dollar on revenue and profit**

Microsoft has never been afraid to take risks with big acquisitions but its $68.7 billion pitch to buy *Call of Duty*, *World of Warcraft* and *Candy Crush* owner **Activision Blizzard (ATVI:NASDAQ)** represents its biggest gamble yet.

The tie-up is far from guaranteed to happen, with regulators in the US, EU and UK scrutinising the small print, but if it does, there is plenty of outstanding engineering talent at Microsoft capable of bringing extra value to the gaming space.

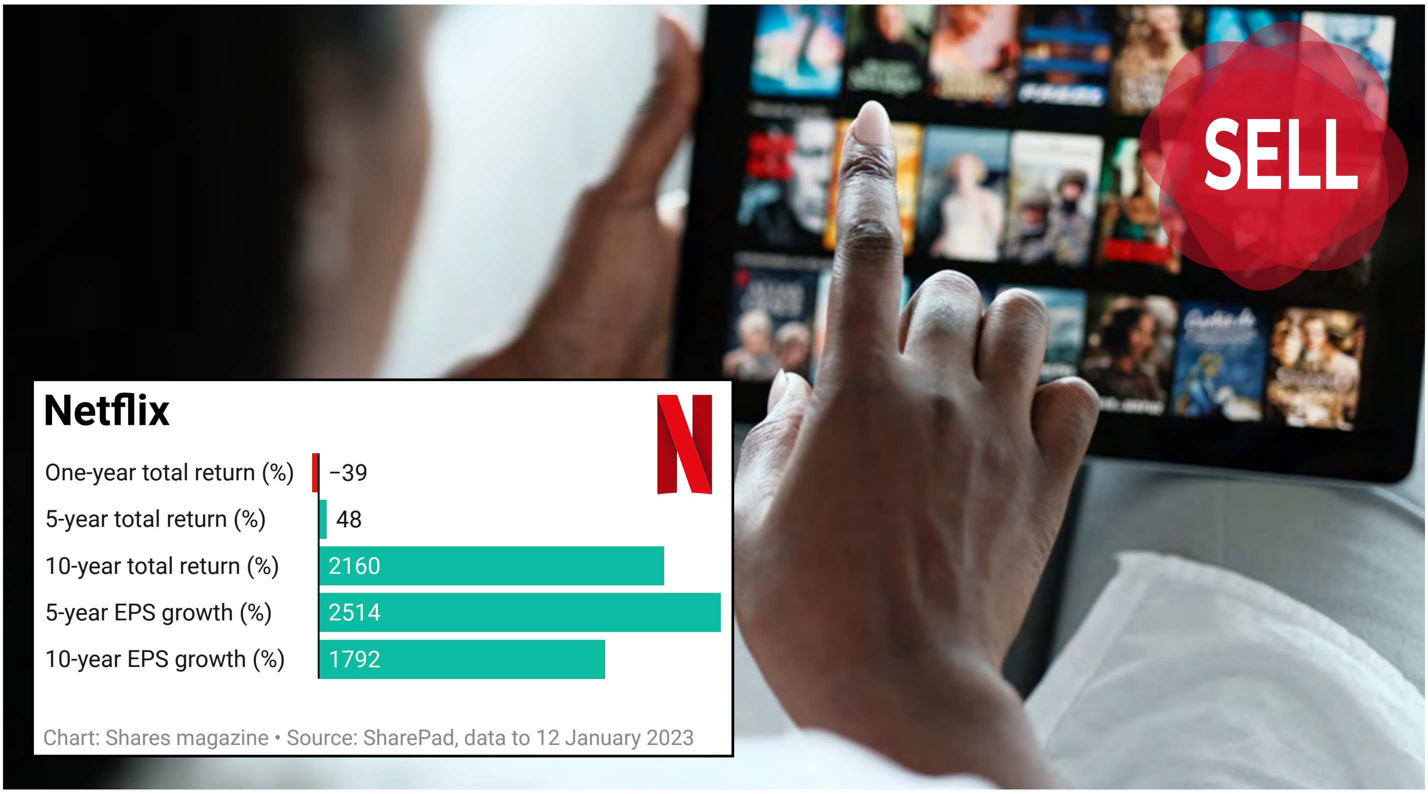
But beyond this, with its own expertise in the fledgling metaverse, Microsoft would be able to create a 'multi-faceted metaverse of gaming and wider entertainment with a good chance of becoming a leader in this new field,' says Gerrit Smit, manager of the **Stonehage Fleming Global Best Ideas Equity Fund (BCLYMF3)**, where Microsoft is its second largest stake.

In October, Microsoft beat expectations but reported its slowest revenue growth in five years and rising energy costs and the strength of the US dollar cut away profits. Sales growth in its Azure cloud business – one of the company's growth bright spots in recent years – was lower than analysts had hoped at 35%. Azure's revenue is largely driven by consumption, meaning that it rises as customers use the cloud offerings more, so large-scale global job cuts could be a worry.

In 2022 Microsoft announced Office 365 subscription price hikes of about 15% to 20%, which illustrates how robust this company is. Enterprises simply can't run with Outlook, PowerPoint, Excel, Teams and more, and it's almost unthinkable to consider alternatives, believes **Blue Whale Growth Fund's (BD6PG78)** Stephen Yiu. We agree. Over the last decade Microsoft's earnings have increased 272.3% but its shares have delivered a total return of more than 800% as perception around the stock has moved away from seeing it as tied to a structurally declining desktop PC market. [SF]

DISCLAIMER: Steven Frazer has a personal investment in Blue Whale Growth Fund.

NETFLIX
(NFLX:NASDAQ) $327.54



THREE AREAS TROUBLING INVESTORS

- **Slowing subscriber growth**
- **Rumoured poor take-up of new advertising-supported service**
- **Cost of new programming**

This year could be make or break for streaming giant **Netflix (NFLX:NASDAQ)** as we discover if its less expensive advertising-supported service can help revive subscriber growth and protect the company from the risk of mounting cancellations by hard-pressed households.

Netflix cannot afford to maintain its previously relaxed stance on password sharing – however, having turned a blind eye in the past, it risks alienating customers if it now adopts too draconian an approach.

News of the new advertising tier helped drive a recovery in the share price in the second half of 2022 but specialist publication *Digiday* said in mid-December that audiences for the service had fallen short of the numbers Netflix had promised to advertisers. Quoting executives from five advertising agencies it suggested Netflix was having to offer refunds. Netflix's latest quarterly update was scheduled to come out today (19 January) and should provide some insight.

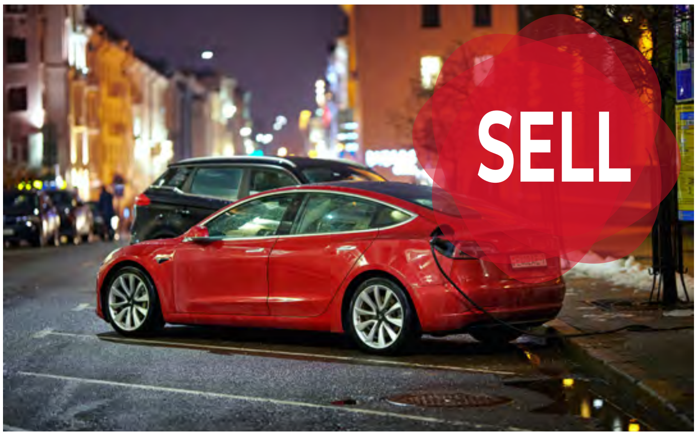
As well as this cheaper alternative subscription tier, Netflix will need to demonstrate it can push through price increases for its other subscription plans to help protect profitability. Forecasts for 2023 suggest the company will offer very modest earnings growth and yet the shares trade on a price to earnings ratio of 31 times which seems too high.

A more disciplined approach to content spending is necessary, with the company expecting to keep its budget steady at $17 billion. That could be a double-edged sword for the business. Unlike rivals like **Disney (DIS:NYSE)** and Paramount it doesn't have a large library of popular historic content it can fall back on.

Also, it doesn't offer live sport in the same way that **Amazon (AMZN:NASDAQ)** does through its Prime Video platform. This could make it vulnerable to customers looking elsewhere for their viewing needs.

Over the last five years the company has moved from a position of very modest profitability, reflected in its 2,514% increase in earnings per share but its shares have not kept pace with a 48% total return. [TS]

TESLA
(TSLA:NASDAQ) $123.22



Tesla

One-year total return (%)	-67
5-year total return (%)	450
10-year total return (%)	5520
5-year EPS growth (%)	n/a as Tesla was loss-making five years ago
10-year EPS growth (%)	n/a as Tesla was loss-making 10 years ago

Chart: Shares magazine • Source: SharePad, data to 12 January 2023

THREE AREAS TROUBLING INVESTORS

- **Concerns that founder and CEO Elon Musk is distracted by Twitter**
- **Demand could slow because big ticket purchases are vulnerable in a downturn**
- **Mounting competition from EV specialists and traditional car manufacturers**

From a current level of around 20 million, the IEA (International Energy Agency) estimates the global 'park' of electric vehicles will grow 18% per year to reach 350 million by 2030, making the market worth over $800 billion.

While deliveries last quarter may have marginally undershot its target, **Tesla (TSLA:NASDAQ)** is still the leading EV maker, but to maintain its pole position it needs to overcome supply bottlenecks, manage higher input prices and satisfy customer demand.

Competition is heating up and Shenzhen-based **BYD (1211:HKG)** has emerged as a serious contender thanks to its vertical integration which includes batteries, motors and chips.

After outselling Tesla in the Chinese market, BYD is now expanding production and sales and is aiming for four million units this year.

In terms of valuation, Elon Musk's lack of leadership, as he sells shares to fund his Twitter takeover and continues his increasingly erratic leadership of the social media platform, has seriously damaged the share price as well as the firm's brand equity and needs to be addressed.

As the *Toronto Star* recently put it, 'if Tesla once seemed like the future of everything, a company led by a visionary that would usher in a new era of clean energy, it now seems like merely another car company, hardly "failing", but ordinary just the same'.

In that scenario, even after losing over $700 billion last year the current market value of $380 billion still seems too high. Over the long term the shares have delivered strong returns – the 10-year total return totalling 5,520% [IC]

% change over 2 years

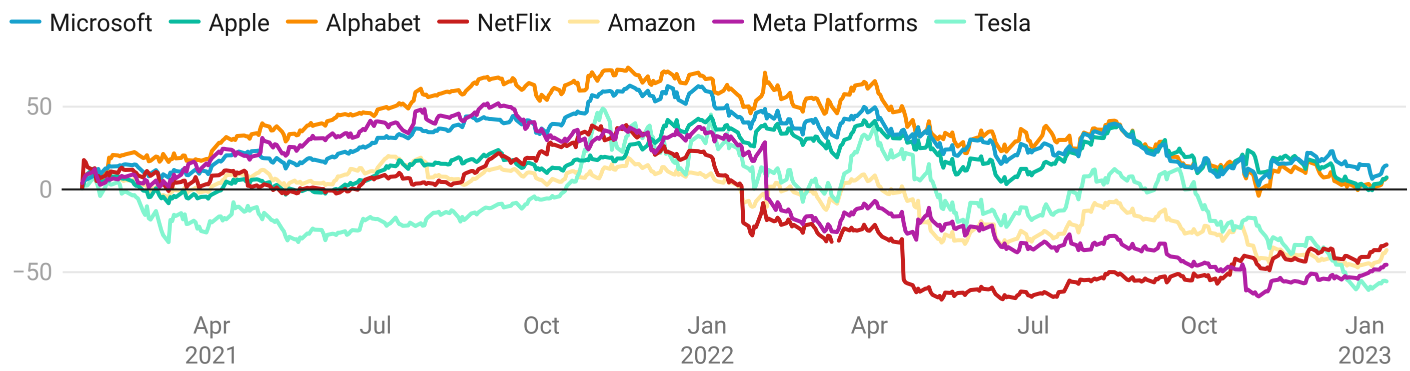


Chart: Shares magazine • Source: FE Analytics

Why there's more to Frasers than Mike Ashley, cheap tracksuits and trainers

The retail conglomerate has moved past its historic 'pile them high, sell them cheap' strategy

Among the most resilient operators in a retail sector battling with inflationary pressures and the squeeze on household budgets is **Frasers (FRAS)**, the FTSE 100 conglomerate controlled by retail tycoon Mike Ashley, which he founded in 1982 as a sports shop in Maidenhead.

There are many misperceptions about Frasers, which remains best-known as the company behind value-for-money trainers and tracksuits seller Sports Direct. What's still underappreciated is how the business has moved way beyond its sporting goods roots to also become a premium and luxury retail powerhouse with attractive prospects.

Ashley, the swashbuckling entrepreneur often referred to as 'the saviour of the UK high street', has an appetite for a bargain and has helped to shape Britain's retail landscape over the years by acquiring distressed businesses. Commentators have devoted pages to understanding his masterplan for the rapidly expanding Frasers' empire.

Bulls argue the strategy is simple – acquire brands or businesses that help to expand the group's skillset and customer reach. Bears argue the £3.5 billion business still needs to demonstrate the real value in its increasingly broad portfolio of companies, labels and brands which risks becoming unwieldy.

MISPERCEPTION #1: FRASERS IS BASICALLY SPORTS DIRECT, ISN'T IT?

Since its 2007 stock market flotation as Sports Direct International, Frasers has completed countless acquisitions under the stewardship of retail kingpin Ashley. Shore Capital points out these have typically been deals to acquire businesses out of administration, essentially buying them for pennies in the pound.

Already a dominant force in sporting goods through Sports Direct, Frasers is working towards becoming increasingly relevant in faster growing areas of the consumer space where there is a trend towards premium and luxury offers.

Present-day Frasers is a collection of the world's most iconic brands and offers three core pillars – sports, lifestyle and luxury – through different banners including Sports Direct, luxury designer fashion chain Flannels and department store House of Fraser.

Its product range spans sports and leisure clothing, footwear and equipment – sporting brands include Slazenger, Lonsdale, Everlast, Karrimor and Kangol – as well as lifestyle and apparel products sold through department stores, shops and online. The Frasers empire also spans retailers and brands including Game Digital, Sofa.com, Evans Cycles and Jack Wills.

The sportswear-to-luxury brands group has also taken strategic stakes in companies ranging from high-end handbags group **Mulberry (MUL:AIM)** and German fashion brand **Hugo Boss (BOSS:ETR)** to **ASOS (ASC)** and **N Brown (BWNG:AIM)**, interests which create new opportunities by allowing Frasers to develop relationships and partnerships with other retailers, suppliers and brands.

More recent acquisitions include fast fashion firms I Saw It First and Missguided, which should help it raise its digital game, the Australian online retailer MySale and the Savile Row tailor Gieves & Hawkes. Frasers has even scooped up some premium fashion brands from arch-rival **JD Sports Fashion (JD.)**.

THE DICK'S SPORTING GOODS OF EUROPE

Shore Capital says with supportive industry tailwinds and evidence of a demand for luxury from customers less exposed to the cost-of-living squeeze, it forecasts a continuation of the strong recovery from the Covid disruption experienced in recent years.

While many investors still mistake Frasers as a seller of cheap socks, footballs, basketballs and running shoes, today's Frasers is a best-in-class retail conglomerate working with many of the world's top brands.

These include **Nike (NKE:NYSE)**, **Adidas (ADS:ETR)**, Skechers, Asics and **Puma (PUM:ETR)** in sports and premium brands such as Hugo Boss, **Moncler (MONC:BIT)** and Mulberry. In fact, the company is focused on 'elevating' its proposition by smartening up its stores and tightening its supplier relationships to receive a better product allocation from the world's winning brands.

Shore Capital makes the point that like the well-managed **Dick's Sporting Goods (DKS:NYSE)** in the US, Frasers is becoming Nike's 'partner of choice' in the European sporting goods market and is benefiting as the big footwear brands rationalise their wholesale accounts.

Admittedly, sporting goods is a mature part of the consumer industry and has been the slowest growing part of Frasers in recent years. The real growth opportunity for Frasers lies in expanding deeper into the premium and luxury areas. 'These are much faster-growing markets, where consumers are less exposed to the cost-of-living squeeze,' stresses Shore Capital.

MISPERCEPTION #2: DOESN'T MIKE ASHLEY STILL RUN THE SHOW?

Yes and no. Four decades after starting his retail empire, Ashley stepped down as Frasers' CEO in May 2022, though he remains on the board as an executive director and still holds 72% of the shares, so his influence is undeniable.

Ashley remains a key advisor and major shareholder, and current CEO Michael Murray is his son-in-law – not great from a corporate governance perspective perhaps, but Murray's early successes

Frasers' earnings and valuation profile

Financial years to April	Revenue (£bn)	Adjusted pre-tax profit (£m)	EPS (p)	PE Ratio
2022 (A)	4.8	335.6	48.4	15
2023 (F)	5.4	440.9	74.9	10
2024 (F)	5.9	517.0	81.4	9
2025 (F)	6.5	576.7	90.8	8

Table: Shares magazine • Source: Shore Capital. *PE ratio based on 744.5p share price. EPS = earnings per share. PE = price to earnings ratio. A = Actual, F = Forecast.

FRASERS' FASCIAS AND BRANDS

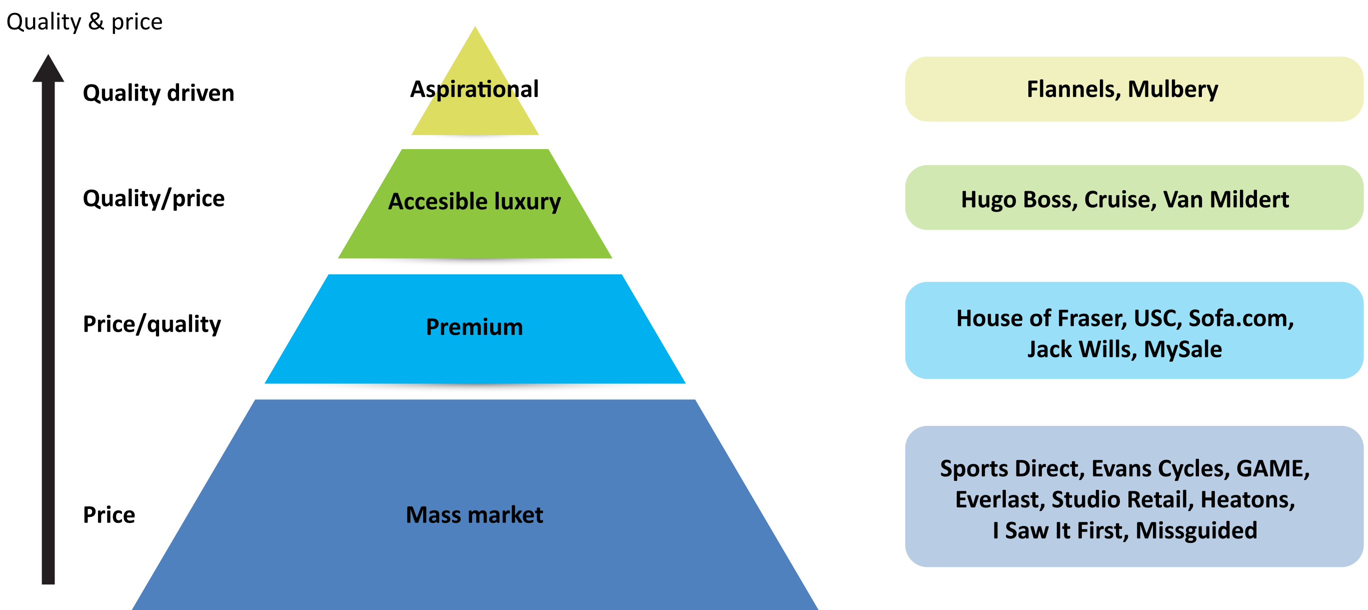


Chart: Shares magazine. Source: Company Data; Shore Capital Markets

have proved Frasers can thrive without Ashley at the wheel.

Murray's previous role as 'head of elevation' is helping him to take the group more upmarket through a strategy delivered organically and through selective acquisitions.

'Elevation' is widening Frasers' economic moat and broadening its exposure to higher-end brands, making its offer increasingly appealing to its customer.

Many have questioned Frasers' mergers and acquisitions transactions and Murray has promised a refocused strategy and deals that enhance margins. He is also likely to pursue a less combative approach with the investment community than his father-in-law.

ARE FRASERS' SHARES WORTH BUYING?

Shore Capital recently initiated coverage with a 'buy' rating and £12 fair value estimate, implying 60% upside from current levels. The broker enthused: 'Frasers' diversification and the elevation strategies, coupled with tailwinds in luxury, should drive resiliency into calendar year 2023.

'Deep value investments in the retail space over the past few years position Frasers well to weather the storm and we expect margins to grow in tandem.

'In addition, following the strategic geographical expansion in Europe, we estimate Frasers could deploy up to £2 billion, putting it in a strong position to extend its lead and "own" the sporting segment of the EU sportswear sector.'

Frasers' revenue breakdown and first-half growth rate

Group revenue (£m)	2,638	12.7%
UK sports retail (£m)	1,526	11.6%
Premium lifestyle (£m)	534	24.7%
International retail (£m)	492	5.8%
Wholesale and licensing (£m)	86	8.6%

Table: Shares magazine • Source: Liberum, company accounts. Year-on-year growth rate

While Frasers doesn't pay a dividend, it does have a reputation as an excellent capital allocator that uses its free cash flow for acquisitions as well as share buybacks which have significantly increased per share business value.

Results for the six months to 23 October 2022 revealed the positive strategic and trading momentum behind Frasers, with revenues rising 12.7% to over £2.6 billion, reflecting acquisitions and strong sales growth from premium fascia including Flannels.

Frasers also reiterated its full year 2023 guidance for adjusted pre-tax profits of between £450 million to £500 million, with the company encouraged by the effective elevation strategy under Murray's leadership.

The shares trade on single digit multiples of forward earnings, a discount to peers Shore Capital views as 'unjustified' given the company's strengthening market position and the fact that it offers exposure to the buoyant luxury sector and a high level of diversification within the consumer space.

Liberum Capital says there are very few companies generating adequate cash flow that can accommodate the scale of investment in Frasers' core business, expand organically and through M&A, and return capital to shareholders.

'Considering this optionality, such strong momentum and the levers for future growth, we see the shares as cheap,' it concludes.

'A sum-of-the-parts for UK sports, the value building within Flannels, strategic stakes (Hugo Boss, Mulberry) and other key brands (including Everlast) is very compelling when set against the current market cap.'

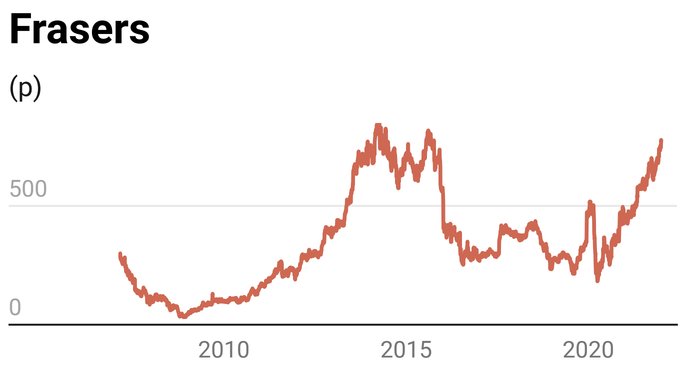
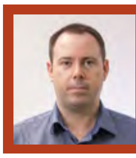


Chart: Shares magazine • Source: Refinitiv



By **James Crux**
Funds and Investment Trusts Editor

Daniel **Coatsworth**

EDITOR'S VIEW

ASOS turnaround? Don't bank on it yet as one key indicator is still flashing red

The retailer's share price rebound is being driven by hope and little else

When a stock has collapsed in value it doesn't take much good news for the shares to rebound, as witnessed by the performance of **ASOS (ASC)**. The key challenge for investors now is to decide if this is the start of a proper turnaround or just another unsustainable bounce.

The fashion retailer soared by 28% over two days after reporting a 'significant improvement in profitability' (12 January). That was enough to reignite the market's interest following a disastrous period for the stock.

ASOS' share price fell 91% between April 2021 and October 2022 to 510p and despite an autumn recovery the stock began 2023 back at that level. It has suffered from competition, slowing growth, warehouse issues and supply chain problems.

Despite the upbeat comment about improving profitability in its latest trading update, ASOS is still suffering from a decline in sales, falling gross margins and negative free cash flow. The latter represents cash generated from operations minus the money needed to keep a business going. What's left is used to pay down debt, fund dividends or share buybacks, make acquisitions, and invest in new ideas.

New chief executive José Antonio Ramos Calamonte is only seven months into the job and like anyone in his situation is offering promises of change and improvement. He's in a honeymoon period where any nuggets of positive information will be celebrated. Eventually, the market will want to see solid, widespread results and over the years we've seen many recovery stories fail to live up to their initial promise.

ASOS arguably grew too fast, and the business

ASOS' earnings forecasts continue to decline

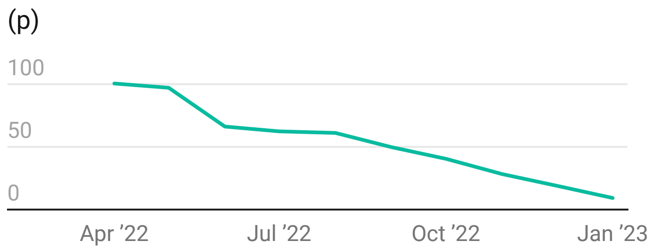


Chart: Shares magazine • Source: Stockopedia. Earnings per share. Consensus analyst forecast for the financial year ending August 2023 as of 15th of each month

wasn't kitted out to cope with the success. Now we're seeing office and warehouse closures, inventories reduced through slashing prices and plans for a cultural change across the company.

While investors have feasted on the latest update, it's worth noting that earnings forecasts continue to be downgraded. Hope is currently driving the share price higher, not fundamentals, and that can only last so long. After all, longer term it is earnings progression that powers a share price.

It's often better to wait for more evidence that a recovery is working rather than a single quarter's trading results. Yes, there is a risk you might miss out on the initial part of a share price rally, but by waiting you would base your investment decision on more concrete evidence rather than hope.

Card Factory (CARD) is a good example. The greetings card retailer has been talking about a turnaround for some time, but earnings estimates didn't start to be upgraded by analysts until October 2022. Between the start of last year and that earnings upgrade point, the share price had moved up and down in a small range but not broken out of the trend.

That changed in October when the earnings upgrades were triggered by evidence of a sustained improvement in the business. Since then, Card Factory's share price has more than doubled thanks to a succession of upgrades to earnings forecasts.

Danni Hewson

AJ Bell Financial Analyst

Insightful commentary on market issues

Is there still opportunity to be found in plant-based investments?

Beyond Meat and Oatly have been terrible stock market performers but their shares are now rebounding

January is habitually the time of year when we all make promises to get fitter and healthier. It used to be primarily about signing up for a gym membership before sheepishly cancelling a few months later as all those good intentions slipped quietly away.

But in the last decade or so the month of January has become a money spinner for more than just the fitness sector. Dry January and Veganuary are now embedded in our culture, and both have created massive opportunities for food and drinks manufacturers to attempt to cash in on our virtuous spend.

Right now, our supermarket shelves are piled high with a burgeoning range of zero alcohol beers, wines and spirits and fridges are freezers groan with a plethora of vegan options that boggle the mind. Competition is fierce especially this year when health isn't the only motivator.

The cost-of-living crisis might have been largely ignored during the festive period as trading updates from the big supermarkets suggest most of us indulged in our favourite food and drink over Christmas, but as credit card bills land on doorsteps price is once again in focus.

SEEK CHEAPER OPTIONS

I've spoken to number of friends and family who are cutting back on alcohol and meat to cut their grocery bills.

Let's push alcohol to one side and focus on food and plant-based products. A recent survey on food trends carried out by US research company Datassentials found that 40% of consumers were planning to buy these products this year.

It's a multi-billion-dollar market and **Beyond Meat (BYND:NASDAQ)** is one of the most

recognisable players in the sector. But for investors it's not exactly lived up to the hype.

Down a staggering 93% from its share price peak in July 2019, the company's financials seem to have more in common with a tech start-up than with other global food manufacturers.

Its fall from grace will have been a blow for investors seduced by the hype and glossy marketing.

Beyond Meat share price since IPO

Chart: Shares magazine • Source: Refinitiv

Danni Hewson
AJ Bell Financial Analyst

With a focus on growth rather than profitability it has undoubtedly been a victim of last year's supply issues and cost pressures despite the reopening of hospitality businesses which make up a good chunk of its revenues. Beyond Meat's losses more than doubled again last year and competition has become more intense.

While it has signed strategic partnerships with both **McDonald's (MCD:NYSE)** and **Yum Brands (YUM:NYSE)** to develop new lines, right now Beyond Meat is pretty much just about its core burger. And that's a big issue when some of the world's biggest manufacturers are chewing off market share.

DON'T IGNORE THE TRADITIONAL PLAYERS

Established players like **Unilever (ULVR)**, **Tyson Foods (TSN:NYSE)** and **Nestle (NESN:SWX)** have deep pockets, better distribution and established manufacturing capabilities which can enable them to charge the consumer less.

That's important because the 2023 Food Trends report found that one in five people who had previously tried plant-based meat don't plan to buy it again, with price being one of the primary reasons for that decision.

Beyond Meat fully understands there is a lot of work to do if it's to achieve the objective of being a long-term protein player in the industry. It needs to bring costs down to appeal to flexitarians more concerned with budget than with ideology.

> **"The company, which produces alternatives to dairy products from oats, has placed its foot firmly on the brakes when it comes to its future growth strategy, opting for a more moderate approach"**

But ideology has a part to play, and the plant-based trend isn't just about meat, non-dairy milk is also a massive part of this equation.

With the plant-based milk market expected to surpass $123 billion by 2030 according to data from Strategic Market Research you might be forgiven for wondering why shares in one of the biggest names in the sector slumped over the past 18 months. This includes Swedish food company **Oatly (OTLY:NASDAQ)**, down 91% from its June 2021 peak.

Oatly is faced with some of the same issues as Beyond Meat, though it is a more established player and revenues have continued to grow despite what it called 'production challenges', a strong dollar and, until recently, Covid restrictions in Asia.

The company, which produces alternatives to dairy products from oats, has placed its foot firmly on the brakes when it comes to its future growth strategy, opting for a more moderate approach in a world of high inflation and higher interest rates. Spending less, getting leaner and in turn, it expects, more profitable.

Oatley share price since IPO

Chart: Shares magazine • Source: Refinitive

SHARE PRICE REBOUND

Like Beyond Meat it has enjoyed a New Year boost on the stock market, with shares in both companies bouncing back by more than 25% year-to-date. But can the January bounce be sustained throughout the year? The plant-based market is undoubtedly filled with opportunities, even with the current budget squeeze being felt by households across the globe.

Price will always be a factor and size, can be a big advantage during difficult times as can diversification. That's why investors may be more inclined to focus their attention on producers that show the plant some love but also know some consumers want real meat and dairy too.

Investment trust bargains: 3 stocks to buy now

There are still plenty of trusts trading below the value of their underlying assets

By **Steven Frazer** News Editor

Optimism that the UK economy may not be as weak as once feared has lifted numerous UK stocks so far in 2023. Yet many investment trusts continue to trade at wide discounts to their net asset values – both relating to UK stocks and overseas ones. It means their share prices are worth less than the value of the investments in their portfolios.

According to Winterflood data, the average investment trust sector discount widened significantly during 2022 from 2.5% to 13.4%.

Even now, after the FTSE 100's New Year rally, several trust geographical niches are trading at larger discounts than their 12-month average. For example, the flexible investment sector, which includes capital preservation funds like **Ruffer Investment Company (RICA)** and **Capital Gearing Trust (CGT)**, stands at an 18.2% discount to net asset value versus a 12-month average of 15.8%.

It's a similar story for the UK All Companies, Europe, North American, North American equity income and Asia-Pacific sectors.

The same goes for industry-specific investment sectors. That technology is on a 17.5% discount versus 12-month average of 16.7% probably won't shock readers, but areas of the market that have been in stronger demand like healthcare and natural resources are in the same boat.

IS ANYTHING ON A DISCOUNT A GOOD INVESTMENT?

Such discounts can be tempting to retail investors on the lookout for bargains, and we believe there are plenty to be found, but one needs to tread carefully.

Investment trusts that focus on hard-to-value assets like property or private companies can be particularly volatile during spells of uncertainty. Such assets are valued infrequently, so the reported discount may be based on a stale valuation.

It's never a good idea to make decisions that are purely based on the size of asset value discounts, and this is even more important to remember when markets are experiencing heightened volatility.

'Discounts are currently wider than usual, and this can present buying opportunities,' says Annabel Brodie-Smith, communications director at the Association of Investment Companies. 'However, investors need to consider whether an investment company's strategy meets their objectives. They also need to take into account other factors, such as the investment company's performance record, charges and gearing. If investors are in any doubt, they should speak to a financial adviser.'

AREAS WITH BIGGER DISCOUNTS

As the Winterflood numbers show, discounts vary by region depending on sentiment, the nature of shareholder registers, discount controls and performance. 'Discounts have historically tended to be widest in sectors where the shareholder register is dominated by institutions, such as emerging markets or Asia, as these investors tend to sell

Tech has been hit hard

	Discount 12 Jan (%)	Average 12m discount (%)
Allianz Technology	−11.0%	−11.0%
Augmentum Fintech	−32.2%	−26.6%
Herald	−15.2%	−18.5%
Polar Capital Technology	−11.9%	−10.8%
Average	**−17.5%**	**−16.7%**

Table: Shares magazine. • Source: Winterflood

if the discount tightens, which means that retail flows have less impact on ratings,' say investment company analysts at broker Numis Securities.

But they also believe the macroeconomic backdrop is currently a big driver of discount levels with retail and institutional investors wary of the outlook, particularly around once-hot sectors like technology and smaller companies – which often include young companies with little or no profit track record to rely on, meaning they are currently among the widest discounts.

The Global Smaller Companies sector trades on a 15.7% discount, based on Winterflood's data, against a 12-month average of 14.2%.

'2022 was a difficult year for the technology sector and hopes of a Santa rally were dashed with the Nasdaq down circa 8% in December, in sterling terms, as investors continue to weigh up the impact of higher rates on tech stocks,' says Numis. 'Smaller companies, particularly non-profitable ones without near-term earnings prospects, were the target of the market sell-off.'

Recent weeks have seen share price weakness extend to larger cap companies such as **Tesla (TSLA:NASDAQ)**, **Amazon (AMZN:NASDAQ)** and **Salesforce (CRM:NYSE)** struggling.

'In January 2023, Tesla sold off on the back of missing order estimates, whilst Salesforce and Amazon became the latest companies to announce plans to reduce their workforce,' comments Numis.

'Clearly the technology sector is not immune to worsening macro conditions and there is likely to

be spend scrutiny in the medium term, but they are well placed to continue to grow their revenues faster than other sectors due to continued innovation and the ability of software to deliver efficiencies,' it adds, suggesting that a lot of the risks facing the sector have now been priced in.

NEW DAWN FOR UK SHARES

Fund managers and analysts have been calling the bottom for relatively poor performance of UK markets for several years, without much luck. Richard Buxton, a fund manager at Jupiter, believes UK shares are so cheap that 'further material declines are unlikely'.

He notes the UK equity market has materially underperformed other equity markets in recent years – a result of Brexit, a value bias to unpopular sectors and persistent net selling.

'In a historical context, UK equities look very

UK trusts in general have seen discounts widen

	Discount 12 Jan (%)	Average 12m discount (%)
Artemis Alpha Trust	-12.1%	-7.7%
Aurora	-8.7%	-5.4%
Baillie Gifford UK Growth	-11.2%	-10.0%
Castelnau*	4.0%	5.3%
Fidelity Special Values	-5.9%	-4.3%
Henderson Opportunities	-12.3%	-13.3%
Average	**-7.7%**	**-5.9%**

Table: Shares magazine. • Source: Winterflood. *Castelnau is trading at a premium to NAV

China trusts on average are seeing discounts start to narrow

	Discount 12 Jan (%)	Average 12m discount (%)
Abrdn China	-12.3%	-11.8%
Baillie Gifford China Growth Trust	-6.2%	-6.2%
Fidelity China Special Situations	-5.7%	-6.9%
JPM China Growth & Income	-3.8%	-5.0%
Average	**-7.0%**	**-7.5%**

Table: Shares magazine. • Source: Winterflood

attractively valued,' Buxton says. Numis agrees, believing that years of underperformance makes the UK a potentially attractive market. 'Most investors have been allocating more globally in recent years, but we believe there may be value in UK exposure, particularly given the risk that a period of sterling strength could negatively impact overseas exposure.'

Numis sees a pick-up in mergers and acquisitions as a potential route to crystallising some of this value.

China's equity market has also been attracting investor and analyst interest after the fallout from government Covid-19 policy, a regulatory clampdown on technology companies, and issues with overleveraged property developers. There is now renewed hope for recovery with the zero-Covid policy now being reversed.

Despite the recent recovery, Chinese equities trade at a rough 45% discount to developed markets and versus an average of circa 30% since 2010.

THREE BARGAIN INVESTMENT TRUSTS TO BUY NOW

Fidelity Special Values (FSV) 285p

Discount 5.9% (12-month average: 4.3%)

Fidelity Special Values

Chart: Shares magazine • Source: Refinitiv

Fidelity Special Values has seen its discount narrow somewhat in recent weeks, but manager Alex Wright is highly rated with good reason.

He has a contrarian approach, looking for unloved stocks where the downside is limited and there is a catalyst for change. Current holdings include **Serco (SRP)**, **Imperial Brands (IMB)** and **Aviva (AV.)**.

Finsbury Growth & Income (FGT) 868p

Discount 6.3% (12-month average: 5.2%)

Finsbury Growth & Income delivered a net asset value total return of 165% over 10 years compared with 91% for the FTSE All-Share. But the past two years have been harder with its NAV and share price significantly underperforming both its benchmark and the UK equity income peer group.

Finsbury Growth & Income

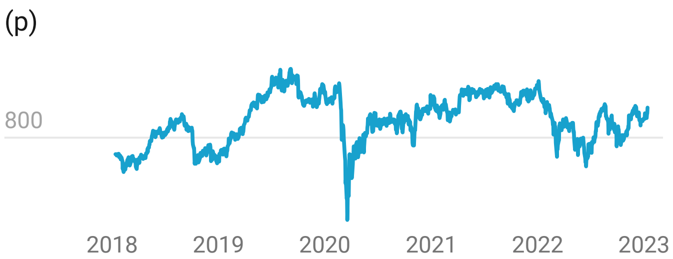


Chart: Shares magazine • Source: Refinitiv

This can be attributed to the UK market's preference for more cyclical, value stocks as well as some stock-specific issues, but manager Nick Train remains popular managers with retail investors thanks to a consistent, focused investment approach. A common feature of companies in the portfolio is pricing power which is a big advantage during these inflationary times. Holdings include **Diageo (DGE)**, **RELX (RELX)** and **London Stock Exchange (LSE)**.

JPMorgan Emerging Markets (JMG) 117.8p

Discount 6.6% (12-month average: 9.7%)

JPMorgan Emerging Markets

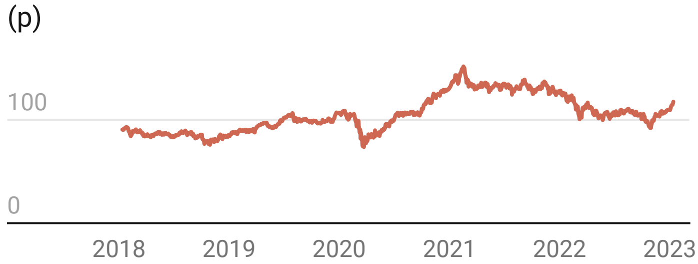


Chart: Shares magazine • Source: Refinitiv

JPMorgan Emerging Markets provides core exposure to global emerging market equities and comes with a strong long-term performance record. It has outperformed its benchmark, the MSCI Emerging Markets index, and the global emerging markets peer group over the last three, five and 10-year periods. The trust is characterised by its emphasis on high-quality growth companies, which we believe allows it to outperform over the long run.

Manager Austin Forey has plenty of experience and can tap into the deep resources of JPMorgan Asset Management.

It's worth noting the trust's active share buyback programme, with £16.4 million of shares bought back last year, which should offer a degree of downside protection.

Investors may be unfamiliar with some of the names in the portfolio, but it has large stakes in better-known ones that include **TSMC (2330:TPE)**, **AIA (1299:HKG)** and **Tencent (0700:HKG)**.

DISCLAIMER: The author of this article (Steven Frazer) has personal investment in Ruffer Investment Company.

Is pension tax relief paid automatically or do I have to make a claim?

Getting what you're owed from HMRC can make a big difference to your retirement pot

I'm a higher-rate taxpayer and contribute to both my workplace 'net pay' pension scheme and a SIPP. Do I need to claim my tax relief or will it be paid automatically?
Anonymous

Tom Selby, AJ Bell Head of Retirement Policy, says:

Millions of savers contribute billions of pounds each year to pensions, with one of the main incentives being that those contributions receive tax relief at your marginal rate.

People often mistakenly assume they will receive all their pension tax relief automatically from HMRC. However, whether you need to make a claim to HMRC to receive the tax relief you are owed will depend on several factors including your income, the type of pension scheme you contribute to and how you contribute.

HOW MUCH TAX RELIEF COULD HIGHER EARNERS CLAIM?

A higher-rate taxpayer who contributes £1,700 to a SIPP in the 2022/23 tax year would receive basic rate relief of 20% automatically.

As a result, a £1,700 personal contribution would automatically be boosted by £425 to £2,125 in their pension – but they would need to claim the extra 20% tax relief (£425) they are owed from the taxman. An additional-rate taxpayer, meanwhile, could claim 25% tax relief from HMRC on top of the 20% relief they receive automatically.

Higher-rate taxpayers who make larger pension contributions will have an even bigger incentive to fill out their tax return. For example, a higher-rate taxpayer making a £10,000 personal pension contribution would receive £2,500 basic-rate tax relief and be able to claim an extra £2,500 from the taxman. An additional-rate taxpayer who contributed £10,000 would be able to claim an extra £3,125 from HMRC.

DO ALL HIGHER EARNERS NEED TO RECLAIM PENSION TAX RELIEF?

If you are a higher or additional rate taxpayer and have sufficient annual allowance available for the tax year, you should be entitled to tax relief at your marginal rate. However, you will only have to make a claim to HMRC if you are making personal contributions to a 'relief at source' scheme. Personal pensions, such as SIPPs, usually pay tax relief in this way.

If you are contributing to a 'net pay' pension scheme, your contributions will be taken from your pre-tax salary, meaning income tax relief is usually paid automatically. This should also be the case if your contributions are paid through pensions salary sacrifice. These types of scheme are usually linked to your workplace.

Anyone in a net pay scheme shouldn't need to make a claim, as you should already have received the tax relief you are due.

The exception to this is where someone contributes to a net pay scheme from earnings below the personal allowance of £12,570. In these circumstances tax relief will *not* be granted automatically, although the Government has pledged to address this so-called 'net pay anomaly' in the coming years.

HOW DOES HMRC PAY RECLAIMED PENSION TAX RELIEF?

Pension tax relief is not always paid directly into your pension. As discussed if you contribute to a 'relief at source' scheme, such as a SIPP, you will receive basic-rate (20%) tax relief automatically but will need to claim higher or additional-rate tax relief from HMRC.

Once your claim is processed, HMRC will usually adjust your tax code to pay your extra tax relief. If you don't currently have earnings, you may simply be sent a cheque.

It is possible to backdate pension tax relief claims by up to four years. If you are making claims for tax relief you are owed from more than four years ago, it will be at HMRC's discretion whether to accept your claim.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

WATCH RECENT PRESENTATIONS

Rainbow Rare Earths Ltd (RBW)
George Bennett, CEO

Rainbow Rare Earths Ltd's strategy is to identify near-term, secondary rare earths production opportunities. Meeting escalating demand for critical minerals needed for global decarbonisation, they are focused on producing the magnet rare earth metals neodymium and praseodymium ("NdPr"), dysprosium and terbium.

Henderson EuroTrust (HNE)
Jamie Ross, Portfolio Manager

Henderson EuroTrust is managed by Janus Henderson Investors who have been running investment trusts since 1934. The Trust is managed by Jamie Ross, CFA and seeks to provide a superior total return from a portfolio of high quality European investments.

Thruvision Group (THRU)
Colin Evans, CEO

Thruvision Group are global providers of fast, safe and respectful people security screening technology for transportation, border control and loss prevention.

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Revealed: the big marker which is getting gold investors excited

Technical indicators are pointing to further gains for gold but what are its long-term investment credentials?

Gold enthusiasts are getting excited about the 'golden cross' which has just appeared on their technical charts. This happens when a short-term moving average of prices, say over the last 50 days, rises above a long-term moving average, say 200 days, and is often used by technical traders as a buying signal. Hitting one of these graphical epiphanies has got the gold trading community chattering excitedly.

If you're thinking to yourself that the intersection of two lines on a chart isn't an entirely compelling reason to buy into an asset in the real world, then you have a very fair point. However, there are some more fundamental factors which are also giving gold investors cause for optimism.

WHY A WEAKER DOLLAR IS GOOD FOR GOLD

One is the effect of a weakening dollar. Gold and the dollar are inversely correlated with each other, not least because the precious metal is priced and traded in the US currency. Since the beginning of 2021, the dollar has been on the rampage, as markets woke up to the prospect of interest rate rises in the world's most influential currency.

But the dollar has fallen against a trade-weighted basket of currencies by around 10% since its peak in September, and that partly helps to explain why gold has risen by around 15% in dollar terms over the same period.

UK investors need to be a bit wary here, because if the dollar is falling against a broad basket of global currencies, that's likely to include the pound. Since the end of September, the price of gold has risen by just 3% in sterling terms, so UK investors have not enjoyed the full force of the recent rally because of currency movements.

> **"Gold and the dollar are inversely correlated with each other, not least because the precious metal is priced and traded in the US currency"**

It's also interesting to note that figures from the World Gold Council show that the 12-month return for gold after a dollar peak has been 16% on average. There has been a wide range of outcomes, from the gold price rising more than 30% in the 12 months from the dollar peak in 2005, to falling by almost 15% in 1969. Nonetheless, the 15% rally in the price of gold since September is pretty much bang on the average 12-month return after a dollar peak, which suggests the upside may be limited from here.

GOLD AS A SAFE HAVEN?

Gold is also often seen as a safe haven, and with a global economic slowdown on the cards, some might see this as an opportunity for gold to shine. That may prove to be the case, though you'd have to be living down a pretty deep mine shaft to have avoided hearing about recessionary conditions, so you'd expect this to be already largely factored into the gold price.

This is also a bit of an unusual slowdown, because central banks are hiking interest rates despite weakening economic growth. This is negative for gold, because it pays no interest, and so looks less attractive compared to other safe havens like bonds and cash when yields rise.

If the global slowdown proves worse than expected in 2023, and central banks have to slow or even reverse interest rate hikes, that could be positive for gold. So gold can act as a bit of insurance against calamity, which is probably no bad thing in a world of heightened geopolitical tensions and continuing Covid infections.

But while gold traders often think in just days, weeks or months, everyday investors usually want an asset they can hold for years, and the long-term case for gold is more nuanced. We can have a fair degree of confidence that an investment in the stock market will provide a decent return if held for 10 years or more.

> "Gold can be volatile even over a relatively short period"

Shares in companies produce cash flows generated from economic activity, which rises over time. Gold produces no cash flows and has few industrial uses, with demand mostly coming from jewellery manufacture and investment,so it's difficult to pin an intrinsic value on the precious metal.

Long-term gold price in dollars and sterling

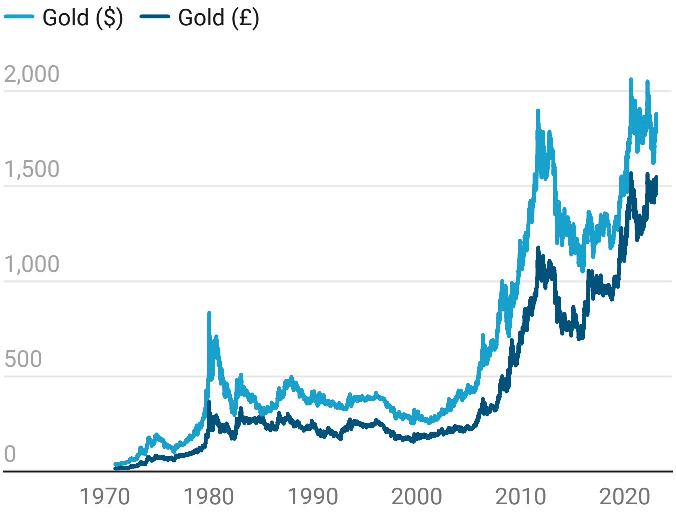

Chart: Shares magazine • Source: Refinitiv

The long-term direction of gold is pretty difficult to gauge because, with no cash flows to speak of, sentiment will play a large part in pricing.

GOLD PRICES HAVE BEEN VOLATILE

From its peak in 1980, the gold price fell by 33% over the next 20 years, and it took 27 years for gold to reach its former high, as the chart below shows. That's a long period in the wilderness. The stock market has also experienced some lengthy spells of weak performance, if you similarly look at the extremes.

From the height of the dotcom bubble in 1999 to the depths of the pandemic in 2020, the FTSE 100 fell by almost 30%. But Refinitiv data suggests that, over this period, an investor would have still experienced a 50% return on their money with dividends rolled up. Gold investors didn't have this compensation.

For a 'safe' haven, gold can be volatile even over a relatively short period. Between 1980 and 1982, the gold price fell by over 60%, and between 2011 and 2015, it fell by around 45%.

The value of the precious metal lies in its ability to act as a bit of diversification in a portfolio, because it behaves differently to other assets, especially equities. If you're a conservative investor, you might therefore hold bonds and gold alongside equities, because they will tend to perform well at different times.

By **Laith Khalaf**
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