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StanChart/FAB: Winters’ garden

Always the bridesmaid, never the bride. Underperforming Standard Chartered has long been the subject of takeover speculation. This week, First Abu Dhabi Bank confirmed it had been looking at the venerable lender. FAB decided instead to join the long list of potential suitors that have walked away. This includes Barclays, JPMorgan, Australia’s ANZ and others.

London-listed and domiciled but focused on emerging markets in Asia, StanChart and larger peer HSBC are legacies of Britain’s colonial past. That puts them in a tricky spot as tensions between the east and west intensify.

Chinese shareholder Ping An wants HSBC to break itself up. StanChart, a smaller presence in Hong Kong, has so far avoided hostile pressure.

The business was coping with the effects of risky lending and a money laundering and sanctions-related fine when Bill Winters took over as chief executive in 2015. These issues are now largely in the past but the bank only expects a double-digit return on equity next year. Analysts say that is more likely in 2025, well behind peers.

Higher rates are providing a boost; net interest income rose almost 20 per cent in constant currency terms in the third quarter. Shares have enjoyed some re-rating too. But, at 0.6 times tangible book, the valuation is still about half that of peers.

StanChart is thinly spread across many markets. That is expensive. A cost-to-income ratio of 65 per cent is expected this year by Citi. HSBC has better scale and might manage closer to 50 per cent. The lender is small, with equity worth just £20bn. Its historic brand as a trade bank is strong. It should be attractive to other bidders from the Gulf, an east-west crossroads, even if FAB is no longer interested.

But regulators would have to approve an ownership shift at this systemically important bank. And UK politicians would expect a say. Given the tensions, a bidder would need diplomacy as well as ready cash to succeed.

CEOs: never knowingly underpaid

As most of us are still working off our Christmas turkeys, FTSE 100 chief executives have already done a full year’s work – or, at least, were paid for one. The median UK chief executive – on £3.41mn a year, up 39 per cent – earned as much as the median UK employee, on £33,000 – by 2pm on Thursday, says the High Pay Centre.

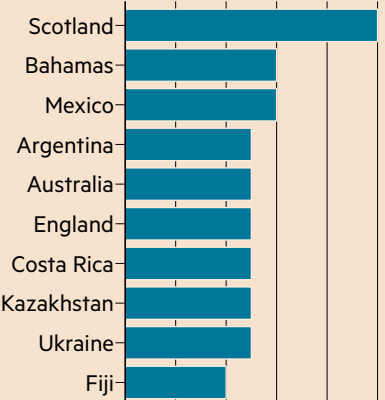
The fact that some people earn a lot more than others is not necessarily a problem if they deserve it, or if those writing the cheques think they do. Bet365 chief Denise Coates made £260mn last year. But much of the company she founded belongs to her.

Footballers, pop stars and traders also earn a lot more than nurses and rail workers who are striking over a few percentage-point increases in pay. That may not reflect the societal value of their activities but it does reflect the workings of a market. The real issue with executive remuneration at public companies is the suspicion that many pay packets do not reflect a properly functioning labour market.

After all, it is hard to know how

Bank notes/Charles III: face value

Banknotes of the year (most nominations by issuer, 2004–2021)



FT graphic Source: International Bank Note Society

Winners by year

| | |
|------|------------------------------------|
| 2021 | Mexico's 50 peso note |
| 2020 | Mexico's 100 peso note |
| 2019 | Aruba's 100 florin note |
| 2018 | Canada's 10 dollar note |
| 2017 | Switzerland's 10 franc note |
| 2016 | Switzerland's 50 franc note |
| 2015 | New Zealand's 5 dollar note |
| 2014 | Trinidad & Tobago's 50 dollar note |
| 2013 | Kazakhstan's 1,000 tenge note |
| 2012 | Kazakhstan's 5,000 tenge note |

It will be quite a moment for Britons when new designs of banknotes enter circulation in summer next year. They will be the first UK paper currency to feature a new monarch – King Charles III – since 1960.

The International Bank Note Society has the laudable goal of promoting and celebrating paper currencies. In the running for its 2022 banknote of the year prize is the \$50 note from Barbados. The world’s newest republic parted ways with the monarchy last year, though the Queen never featured on its money.

Face value matters little to banknote collectors compared with rarity. Collectors will seek the lowest serial numbers from the initial AA01 print run of the King Charles III notes. The most coveted and valuable first and second note of the run stay

with the royal family. One each for the prime minister, the chancellor, the Bank of England governor and other high-ups will follow.

Lucky prospective collectors might snap up as low a serial number as 10 or 11 at the regular charity auction held by numismatic specialists Spink around the time of the note’s release.

A little hustle is worthwhile. A rare number five note, donated by governor Andrew Bailey, from the BoE’s first run of new polymer £50 notes, fetched £13,000 in 2021.

To make real money, one needs to find the final notes featuring Queen Elizabeth II. The rarest and most valuable of these will also be held back by the central bank for a charity auction. The rest could prove easy money for any collectors who hunt them down.

much value a chief executive really creates. Some superstar entrepreneurs are clearly worth a lot of money – although Elon Musk’s pay packet at Tesla, worth up to \$50bn, is still breathtaking. But the skills required to run an established company are easier to come by and the risks are lower.

Boards do not shop around for someone competent willing to do the job for less money. Instead, they simply set compensation by benchmarking against peers, creating a sticky, inflationary environment.

Investors should fix this shaming market failure. The real cost of a high pay packet is not an extra few million of operating expenses. It is reputational, at a time when companies’ contribution to society is increasingly under scrutiny. Steep pay packets signal a deeper disconnect.

They may point to other poor decisions by companies with tone-deaf management and supine boards.

OpenAI: brain bot

2022 was the year the tech sector’s bubble burst. Stock prices withered and valuations crumbled amid rising interest rates and slowing advertising revenue. Companies that overexpanded during the pandemic are rushing to cut jobs and costs.

But as one bubble pops, another is forming. OpenAI, the company behind the artificial intelligence bot ChatGPT that has taken Silicon Valley by storm, is in talks to raise capital at a valuation of almost \$30bn. A deal would mark a sharp step up from the \$20bn the

company was last valued at in 2021. It would also come despite OpenAI having revenues that one report pegs in the “low tens of millions of dollars”.

Generative AI, a type of artificial intelligence capable of producing original content from scratch, is hyped as the next big thing. An up-round fundraiser for OpenAI could mark 2023 as a breakthrough year for the sector.

Investors poured \$1.37bn into generative AI start-ups in 2022, according to PitchBook. That is almost as much as the amount invested in all of the previous five years combined.

Generative AI promises huge productivity gains. For example, a company can use it to write product descriptions, allowing its employees to focus on more important tasks.

OpenAI’s ChatGPT only made its public debut last month. But the chatbot, which can converse with users, surpassed 1mn users in five days. Its success prompted speculation it can even challenge Google in online search.

That seems like a stretch for now. ChatGPT may be able to write haikus and coherent-sounding essays. But errors are rife and there are worries the technology could end up spreading misinformation at scale. Stack Overflow, the Q&A website for software developers, has banned ChatGPT from its site because the responses cannot be trusted. Watching AI generate real-time content creation is entertaining. But OpenAI will need to parlay its viral success into cold, hard profits.



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Investors risk missing out if they remain in the bunker too long

Katie Martin

The Long View

If investors are to learn anything from the grim experience of 2022 in markets, it should be “how to be an optimist”.

This is not easy, especially while enduring repeated negative news in the last year about, well, everything that matters to asset prices, including inflation, central bank policy and geopolitics, to name three of the more significant factors. But it is not worth being miserable. As we are regrettably frequently reminded, life is just too short. So, here is my non-scientific guide.

First up, the audacity of hope is for fools. One of the most consistent features of 2022 was the repeated effort to see a break in the clouds where none existed. Time and again – in March, in June and in October – those of an inexplicably cheery disposition thought they could see signs that the Federal Reserve might do the opposite of what it has consistently said all last year, and relent on its interest rate rises.

The result was a series of ill-fated bear market rallies – ascents in risky assets embedded in broadly sinking markets, and pretty big ones at that. Analysis from Goldman Sachs last year shows that those three rallies each counted among the biggest of their kind in stocks since 1981, and the longest-lasting. Some fiddly technicalities apply here; the jump in the summer was much more down to short-term investors closing out negative bets than to bizarrely optimistic investors deciding it was time to buy. Nonetheless, the pattern stands.

Why? “People have been super-bummed for 10 months. They can’t take it any more, so they are trying to be more optimistic. It’s as simple as that,” says Greg Peters, co-chief investment officer at PGIM Fixed Income. “It’s false hope, time and time again. Hope springs eternal.” This feels like a waste of energy. Don’t be super-bummed.

It is, of course, easy to be wise in hind-

sight, but some participants say they never fell for the false hope in the first place. “My belief is that markets are unforecastable most of the time,” says Andrew Pease, head of investment strategy at Russell Investments. The rare occasions when they are forecastable, he says, is when they are in sufficient pain for it to be time to snap up bargains. “We have to identify times when people hurt. The last time that clearly happened was in March 2020” when credit spreads and the Vix proxy for levels of stress in stocks shot higher.

“The debate is always around whether we have seen points of capitulation. The answer [last year] has

‘We’re not saying ring the bell for the bottom but we are saying think about how to rebuild portfolios’

always been no. We’ve seen some big market moves but not the really important panicky indicators.”

That’s option one. Wait for true pain. Option two is to embrace the pain, especially if you in effect have no other choice. Alex Umansky, a portfolio manager at \$48bn investment firm Baron Capital, is in that camp. One of his funds is the tech stock-focused Baron Global Advantage Fund, which has dropped by a cool 50 per cent or so last year.

“We had certainly been expecting a pullback but the magnitude, speed and violence of this was a little bit surprising,” he says, with some understatement but no self-pity. Bluntly, he says, “we are who we are”. It is a growth fund. In a bear market. Of course it has hit a rough patch but he says that, for him, the scarier period was in the massive upswing of 2020. “There was just so much money” coming in that he had to expand the number of companies in his

portfolio from the standard 40 to 50 to the high 60s – uncomfortable territory.

“I was losing sleep in late 2020, early 2021, because money was coming in and there was nothing I could buy at a good price, so we had to compromise on either quality or on the price.” Now, “everything is on sale. It’s like walking to a Louis Vuitton store and there’s a 50 per cent sale.” That discount could extend to 70 per cent, he says. Still, if you believe in your process, that represents some value, and a way to weather the storm.

The final option is to keep telling yourself you’re in it for the long term. John Bilton, head of global multi-asset strategy at JPMorgan Asset Management, freely admits that 2022 was a stinker, as stocks fell and the typical safety net of bonds failed. But “if you stay in the bunker too long you miss when the dust settles . . . It’s really, really important to use opportunities to enter the market.” Bilton says this might sound like advice to catch a falling knife. “But that’s only the case if we’re looking at an impaired asset.”

Trying to time when to get in and out of the market is tricky, and impossible to do consistently, but catching the upswing helps. A lot. Sticking in the S&P 500 for the past two decades would have delivered annualised returns of 9.76 per cent, JPMorgan’s investment team noted in a long-term asset allocation presentation. But missing the 10 best days chops that annualised return to 5.6 per cent. Missing the 30 best days cuts it close to zero.

“We’re not saying ring the bell for the bottom of the market,” says Bilton. “But we are saying think about how to rebuild portfolios.”

Sadly, I cannot guarantee a sunnier 2023. But, with a little luck, this kind of outlook should at least help.

katie.martin@ft.com



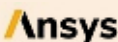
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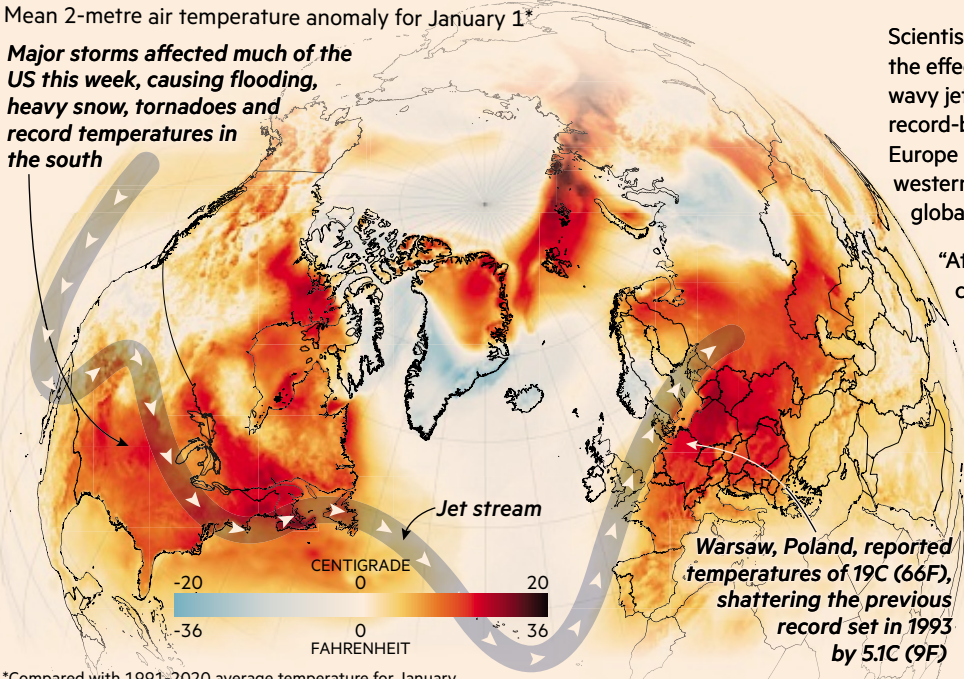
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Jet stream fuels weather extremes in US and Europe

Mean 2-metre air temperature anomaly for January 1*

Major storms affected much of the US this week, causing flooding, heavy snow, tornadoes and record temperatures in the south



Scientists are attempting to understand the effects of climate change on the wavy jet stream that is fuelling record-breaking warm temperatures in Europe and torrential rains in the western US, as extreme weather globally marks the start of 2023.

“Atmospheric rivers”, or air currents carrying moisture from the ocean, hit the western US states, causing flooding and heavy snow.

Meanwhile, in Europe, national temperature records were broken in at least eight countries, including Poland, Latvia and Denmark.

Cartography: Steven Bernard
Sources: NOAA; Copernicus ECMWF
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