



Can a reformist president alter Iran's course?
BIG READ, PAGE 15

Limits to free speech box in Telegram's Durov
JOHN THORNHILL, PAGE 17

Game changer Sweden hails Kyiv's advance

A serviceman visits an area commemorating fallen soldiers at Independence Square in Kyiv on yesterday's Remembrance Day of Defenders of Ukraine.

Sweden's foreign minister Tobias Billström yesterday hailed Ukraine's incursion into the Kursk region of Russia for changing the "narrative" of the war. "This is devastating for the Putin regime. It shows to the Russian population and it shows to the world that the Russian war machine is hollow."

Ukraine has captured more than 1,200 sq km of territory in the incursion. Asked what he thought of Ukrainian leaders talking about regime change in Moscow, Billström said: "So do we."

Separately, Kyiv yesterday confirmed it had lost an F16 fighter jet and its pilot during air defence operations against a Russian attack early in the week.

Kursk invasion 'devastating' & Telegram proves vital page 3



Sergel Supinsky/APF via Getty Images

Briefing

► **Investors punish Nvidia for muted earnings report**
The chipmaker's shares fell as much as 4 per cent after its latest earnings failed to live up to Wall Street's lofty expectations, despite revenue more than doubling. The fall took \$100bn off the company's market value. — PAGE 5; LEX, PAGE 18

► **West Bank assault kills 5**
Israel's military has said it killed five Palestinian gunmen in a raid in the West Bank city of Tulkarem as it pressed on with an operation focused on locations including al-Faraa refugee camp. — PAGE 2

► **China bonds signal seen**
The central bank has bought Rmb400bn (\$56.3bn) of long-dated sovereign bonds, a move traders interpreted as preparation to shore up bond yields in China's booming debt markets. — PAGE 8

► **Berlin acts on refugee aid**
Germany has said it will cut benefits to refugees who are set to be deported, part of a set of tough measures drafted in response to last week's attack in Solingen. — REPORT & SCHOLZ BRACED, PAGE 2

► **OpenAI looks for funding**
The ChatGPT maker is in talks to raise billions of dollars at a valuation of more than \$100bn as it seeks to capitalise on its early lead in the booming artificial intelligence sector. — PAGE 6

► **Hopes for Red Sea tanker**
Yemen's Houthi rebels have said they will allow a burning tanker to be salvaged from the Red Sea, bowing to international pressure to avert a huge oil spill following their attack on the vessel. — PAGE 4

► **Hong Kong guilty verdict**
Two journalists from a defunct pro-democracy news website have been convicted of sedition in a landmark trial that highlighted shrinking press freedoms in the Chinese territory. — PAGE 4

► **Beijing soothed on Harris**
National security adviser Jake Sullivan has told Chinese leaders that Kamala Harris is committed to "responsibly managing" the US relationship with Beijing if she were to become president. — PAGE 4

Vance presses billionaire Thiel to 'get off the sidelines' and bankroll Trump

◆ Republican prods former boss ◆ PayPal founder wary of stepping in ◆ War chest needed to beat Harris

ALEX ROGERS — DE PERE, WISCONSIN

Donald Trump's running mate JD Vance has urged tech billionaire Peter Thiel to "get off the sidelines" and help bankroll the Republicans' White House bid, as the party tries to build a war chest to defeat Kamala Harris.

Vance's plea to Thiel, his former Silicon Valley boss, came in an interview with the Financial Times in Wisconsin, one of the swing states set to decide November's presidential election.

Thiel, co-founder of PayPal and Palantir, has been reluctant to support any candidate in this year's election despite donating to the Republican campaign in 2016 and sponsoring Vance's US Senate bid in 2022.

"I'm going to keep on talking to Peter

and persuading him that — you know he's obviously been exhausted by politics a little bit — but he's going to be really exhausted by politics if we lose and if Kamala Harris is president," Vance told the FT.

"He is fundamentally a conservative guy and I think that he needs to get off the sidelines and support the ticket," Vance added.

Donors fret over strategy

As Kamala Harris gathers momentum, Republicans are growing anxious over Donald Trump's failure to land a telling blow on his rival and over his capacity to stick to an orderly message. **Page 4**

A Thiel representative did not respond to requests for comment.

Thiel said last year that he did not intend to give "any money to Republican politicians in 2024" after being disappointed by Trump's presidency, adding: "There's always a chance I might change my mind."

Trump picked Vance, who came to fame as the author of a memoir of his early life in poverty in Appalachia, as his running mate to court blue-collar voters in the battleground states.

The Trump campaign has depended on donations from a wealthy elite, including banking heir Tim Mellon, who has given \$115mn, and private equity bosses such as Steve Schwarzman.

Vance served in the Marines, graduated from Yale Law School and worked

for Thiel's venture capital firm before being elected as a senator for Ohio.

Vance gave a speech at the Republican convention last month blaming "Wall Street barons" for the financial crisis and said his party was "done . . . catering to Wall Street". But Vance told the FT: "I'm not anti-Wall Street, I'm not pro-Wall Street. I'm just pro the real economy and actually building things and making things in America."

On tech regulation he differentiated between big and small groups, saying "a lot" of the big ones should be split to promote innovation. "I think Google ought to be broken up," said Vance. "I think it's way too big, way too powerful and we'll see how things look in 2025."

Asked if US allies such as the UK, EU or Japan should be forced to pay

Trump's proposed tariffs of up to 20 per cent on imports, Vance said China should be treated "a little bit different".

The US needed to be "willing to push back against some of the worst excesses of globalisation", he said. "You need to use the carrot and the stick to say, 'No, we're not going to allow these guys to have access to our markets when they're trying to undercut American wages and steal American factories.'"

The Penn-Wharton budget model has projected the Trump campaign's tax and spending proposals would increase deficits by \$5.8tn over the next 10 years, compared with \$1.2tn for Harris.

Vance said: "We're going to take the deficit very seriously but we're also not going to be hamstrung by estimates that have been wrong in the past."



China's links with Russia drive renminbi use higher

Analysis ► PAGE 8

	€4.60	Malta	€4.20
Austria	€4.60	Morocco	Dh50
Bahrain	€4.60	Netherlands	€4.50
Belgium	€4.50	Oman	OR160
Croatia	€4.30	Pakistan	Rupee350
Cyprus	€4.30	Poland	Zl 26
Czech Rep	€4.30	Portugal	€4.30
Denmark	€4.30	Serbia	NewD550
Egypt	€4.60	Slovenia	€4.30
France	€4.60	Spain	€4.30
Germany	€4.30	Switzerland	SFr6.80
Greece	€4.30	Tunisia	Din750
Hungary	€4.30	Turkey	TL150
India	€4.30	UAE	Dh25
Italy	€4.60		
Luxembourg	€4.60		

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Ackman dangles carrots for investors in effort to revive Pershing fund IPO

COSTAS MOURSELAS AND ORTENCA ALIAJ — LONDON

Bill Ackman is seeking to resurrect the initial public offering of Pershing Square USA by offering sweeteners to early investors.

The hedge fund manager has sounded out backers about a structure that would include incentives alongside Pershing Square USA stock, after he last month withdrew the IPO of his new investment fund in the face of weak demand.

Ackman originally set a \$25bn target for the New York listing of the closed-end fund, which would have made it one of the largest-ever IPOs. He withdrew the listing after cutting the fundraising target by more than 90 per cent to just \$2bn.

The billionaire has discussed several

options for a new structure, one of which would gift early investors in Pershing Square USA the right to buy extra shares in the future at a fixed price through warrants, two people familiar with the matter said.

However, the real prize for investors in Pershing Square USA is likely to be rights to buy into the eventual IPO of Ackman's hedge fund, Pershing Square Capital Management, which manages investments for both the proposed US vehicle and his existing European fund.

A structure that combines shares in Pershing Square USA with another security would resemble that of a special purpose acquisition company, or Spac. Warrants and Pershing Square USA shares would trade as a unit for a period after the IPO before separating to trade as separate instruments.

Under the previous plans for the IPO,

Ackman had sought to lure investors by waiving management fees for the fund's first year of trading.

However, during the marketing process Ackman met resistance from investors who wanted further incentives to invest in the IPO rather than waiting to buy shares after the launch, when such funds often trade at a discount. If warrants were issued alongside the Pershing Square USA stock, the structure might no longer include such a waiver, one of the people said.

Two of the people familiar with the matter said discussions were fluid and still subject to change.

Separately, two people close to the hedge fund said they expected Ackman to bring the Pershing Square IPO back to the market before the end of this year.

Pershing Square declined to comment on the IPO plans.

World Markets

STOCK MARKETS				CURRENCIES				GOVERNMENT BONDS					
	Aug 29	Prev	%chg	Pair	Aug 29	Prev	Aug 29	Prev	Yield (%)	Aug 29	Prev	Chg	
S&P 500	5626.55	5592.18	0.61	\$/€	1.107	1.113	0.903	0.899	US 2 yr	3.86	3.93	-0.07	
Nasdaq Composite	17711.24	17556.03	0.88	\$/£	1.316	1.322	0.760	0.757	US 10 yr	3.83	3.85	-0.02	
Dow Jones Ind	41366.88	41091.42	0.67	€/£	0.841	0.842	1.188	1.187	US 30 yr	4.12	4.15	-0.03	
FTSEurofirst 300	2081.25	2064.49	0.81	¥/\$	145.385	144.515	¥/€	160.949	160.846	UK 2 yr	3.72	3.70	0.02
Euro Stoxx 50	4957.74	4913.03	0.91	¥/£	191.276	190.971	£ index	84.797	84.804	UK 10 yr	4.07	4.07	0.00
FTSE 100	8379.64	8343.85	0.43	SFr/€	0.939	0.937	SFr/£	1.116	1.113	UK 30 yr	4.51	4.50	0.01
FTSE All-Share	4576.34	4560.74	0.34						JPN 2 yr	0.37	0.36	0.01	
CAC 40	7632.95	7577.67	0.73						JPN 10 yr	0.89	0.87	0.01	
Xetra Dax	18912.84	18782.29	0.70						JPN 30 yr	2.04	2.05	0.00	
Nikkei	38362.53	38371.76	-0.02						GER 2 yr	2.38	2.41	-0.03	
Hang Seng	17786.32	17692.45	0.53						GER 10 yr	2.26	2.29	-0.03	
MSCI World \$	3631.20	3647.30	-0.44						GER 30 yr	2.50	2.53	-0.03	
MSCI EM \$	1097.22	1099.77	-0.23										
MSCI ACWI \$	827.32	830.81	-0.42										
FT Wilshire 2500	7191.77	7236.21	-0.61										
FT Wilshire 5000	55963.60	56310.40	-0.62										

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INTERNATIONAL

Telegram a vital tool for both sides in Ukraine war

Networking app has developed many uses for soldiers and civilians, from accessing combat orders to conveying air-raid alerts

POLINA IVANOVA — BERLIN
CHRISTOPHER MILLER — KYIV

Wives of Russia's Wagner mercenaries swap stories, frontline soldiers share secret attack plans and young Russians seek tips on evading conscription. Millions of Ukrainians look for real-time alerts on air raids and loved ones.

Home to thousands of war-related forums, the Telegram social networking app has become a ubiquitous, versatile and essential tool during Russia's invasion of Ukraine — on both sides.

The platform, whose founder Pavel Durov was placed under formal investigation by a French judge on Wednesday over alleged criminal activity on the messaging app, has developed myriad uses for soldiers and civilians, largely as a result of its loose content moderation. But it is this laissez-faire approach that French prosecutors cited as a concern.

"Telegram has become the main messenger service of the war," said Ruslan Leviev, head of the Tbilisi-based Conflict Intelligence Team, which uses it for its open-source investigations. "It's lightweight, it's simple . . . and it has a very soft content-moderation policy."

"People can share anything, including the most violent [frontline] videos. Military recruiters use it because they know they won't be blocked, they won't be taken down," he said. "Pretty much every Russian soldier has it installed."

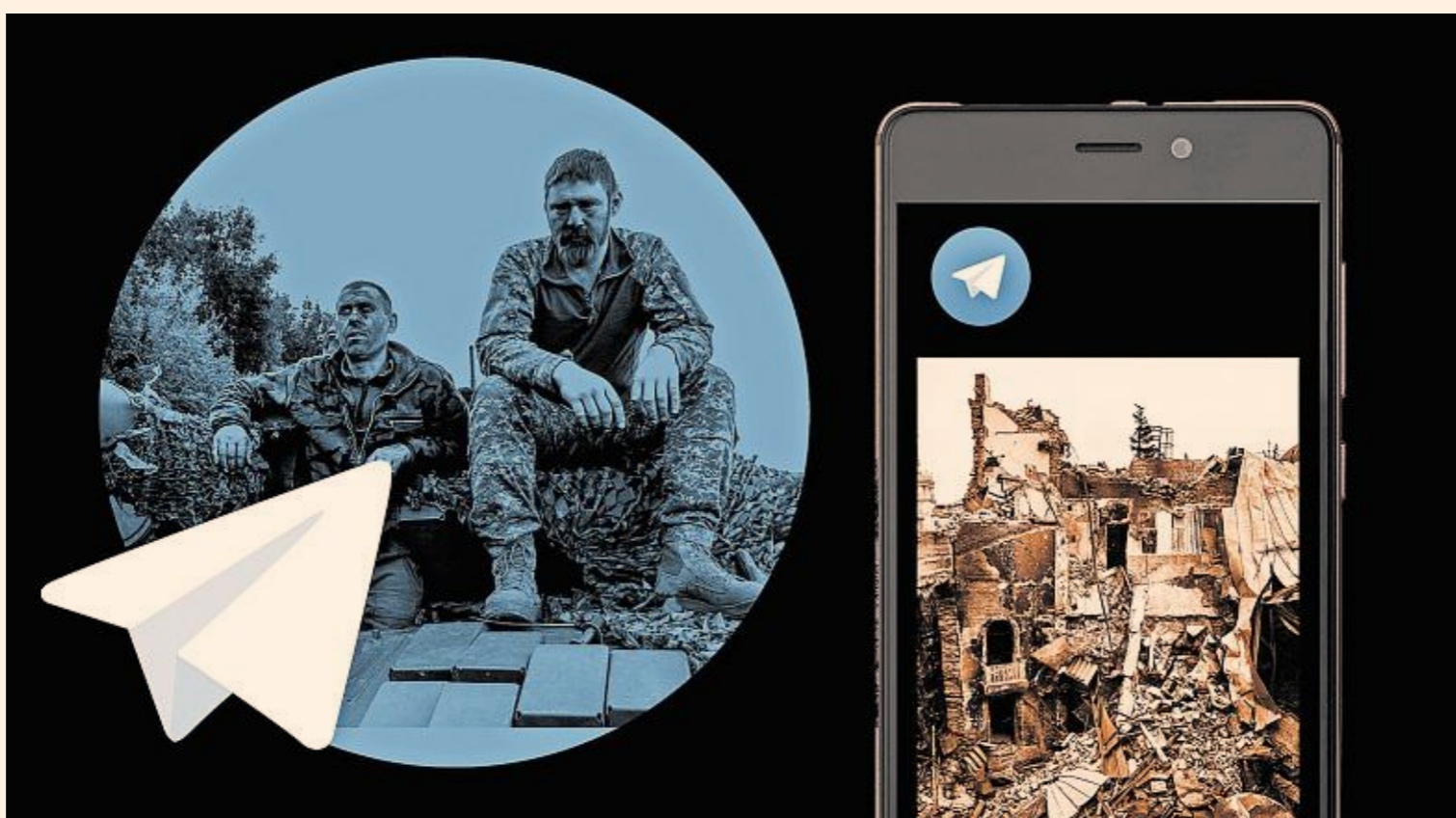
So popular is the app, which allows users to both message and set up channels with subscribers, that Durov's detention sparked a wave of agonising in Moscow. Russian military analysts and politicians quickly bemoaned, on Telegram, the lack of a widely used secure messenger service for the Russian army.

"It will be sad and funny at the same time if it is Durov's arrest that becomes the catalyst for changes in the Russian armed forces' approach to communication," Rybar, a blog on Telegram founded by a former Russian defence ministry official, wrote to its 1.3mn subscribers.

French prosecutors are investigating Durov over failures to moderate alleged criminal activity on the app, including the spread of child sexual abuse content. Online safety researchers have long warned the app is a playground for hackers, extremists and criminals.

But for many Russians, it is perhaps the last unfettered source of news about the war. While most independent media sites and social media platforms such as Facebook and X have been blocked, and the Kremlin works to slow YouTube and restrict virtual private networks, Telegram remains largely untouched.

Some compromises appear to have been made, with a few opposition channels being marked as fake, for example. But for Russian users, Telegram



'It's lightweight, simple and it has a very soft content-moderation policy'

Telegram flags troop movements and is widely used by Ukrainians to seek shelter, below

FT montage; AFP/Getty

ship does not communicate with your government . . . this is a big mistake, which, I repeat, will cost us dearly," Mykyta Poturaiev, Ukraine's parliamentary committee head for information policy, told RBC-Ukraine news.

The possibility that Telegram could be under the influence of Russian security services, he argued, meant Ukraine should ban it, as it had done with Russian social networks VKontakte and Odnoklassniki. But a bill introduced in parliament in March has not been passed.

Comments from Lieutenant General Kyrilo Budanov, head of the GUR, suggest he agrees about the national security implications but sees some upsides.

He said at a security conference this year: "In many ways it causes a destructive effect here internally. But also thanks to it, we can communicate things to [Ukrainian] people in the [Russian-] occupied territories."

The app has been a useful platform for Ukraine to communicate with Russian troops. A Ukraine-run bot called "I want to live" allows Russian soldiers to ask for help to defect or be captured.

John Thornhill see Opinion

remains a platform where state news outlets compete with the most outspoken anti-Kremlin groups, and pro-war Z-bloggers tussle with opposition leaders based abroad.

In Ukraine, Telegram's popularity has soared since Russia's full invasion in 2022. Only 20 per cent of Ukrainians sourced their news on Telegram in 2021. By November 2023, the number had risen to more than 70 per cent, according to a survey by USAID/Internews.

"Telegram plays an important informational role in the war," said Roman Pohorilyi, co-founder of the Ukrainian Deep State analytical group whose 783,000 subscribers rely on its updates on the battlefield and on territorial shifts along the 1,000km frontline.

Telegram is often the first place where Ukraine's President Volodymyr Zelenskyy shares his daily video addresses, news of prisoner exchanges and government shake-ups with his more than 735,000 subscribers. It is also a lifeline for millions of Ukrainians who rely on regional administration channels and the air force for alerts telling them to seek shelter, what types of missiles and drones Russia has launched, when to expect them, or when it is safe to emerge.

Ukrainian brigades publish slick fighting videos and drone footage showing attacks on Russian forces that raise national morale and help recruitment, while civilian volunteers use the app to fundraise for drones and other equipment. Ukraine's national railway company has used its Telegram channel to organise evacuations from towns bombarded by Russian strikes.

But many channels, especially those run by anonymous users, appear to be designed to sow discord in Ukraine by posting disinformation and attacking journalists, prompting concern among Ukrainian officials. "De-anonymising such tools is definitely necessary," said Andriy Yusov from Ukraine's military intelligence directorate, the GUR.

Durov has insisted his messaging app is politically neutral, free of state interference, but fears linger. "When 80 per cent of your population uses an unmoderated social network . . . whose leader-

FT Weekend



Guillaume Diop: ballet's new idol

Foreign minister

Sweden claims Kursk invasion is 'devastating' for Kremlin

HENRY FOY — BRUSSELS

Ukraine's offensive into Russia has undermined President Vladimir Putin's regime and proved false his warnings that increased western support for Kyiv would prompt an escalation in the war, Sweden's foreign minister has said.

The incursion, begun more than three weeks ago and during which Ukraine has captured 1,200 sq km of Russia's Kursk region, has changed the "narrative" of the war, Tobias Billström told the Financial Times. He urged Kyiv's allies to step up their assistance.

"The fact that this was possible in the first place is so much more important than the actual territory on the ground," Billström said. "This is devastating for the Putin regime. It shows to the Russian population and it shows to the world that the Russian war machine is hollow . . . It has not been able to protect its border."

Asked what he thought about Ukrainian leaders talking about regime change in Moscow, Billström said: "So do we."

He added: "Everybody who views Russia today can see that with the current regime, we all run a risk that the imperialistic streak will continue, the

imperialistic plans towards its close neighbours, starting with Ukraine, Belarus, Georgia, etc."

Sweden, which ended two centuries of military non-alignment to join Nato in the wake of Putin's full-scale invasion, has been a vital provider of weaponry to Ukraine since February 2022.

Billström's full-throated endorsement of the offensive comes as some western officials fret about the impact it could have on Ukraine's stretched forces in the east of the country, especially around Pokrovsk, where Russia has made big advances in recent days.

"War is a risky business. There might certainly be setbacks, but no one can deprive Ukraine of the fact that they were able to do this once. And if they can do it once, they might be able to do it twice or even for a third time," he said. "We have to stick to our guns."

Some officials have suggested Kyiv is under increasing pressure from western capitals to contemplate peace talks that could end the war, despite Russia still holding vast swathes of Ukrainian territory. "If there were such, you know, ideas [of an imminent peace settlement] before, the tremendous success with Kursk has changed the playground," Billström said.



Orchestral manoeuvres: on tour with the Los Angeles Philharmonic



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Companies & Markets

Nvidia stock hit as earnings picture falls short of hopes

- ◆ Drop takes \$100bn off market value
- ◆ Blow comes despite revenue surge

STEPHANIE STACEY AND TIM BRADSHAW
LONDON

Shares in Nvidia fell as much as 4 per cent yesterday as the chipmaker's latest earnings report failed to live up to Wall Street's lofty expectations, despite revenue more than doubling in the last quarter.

The declines took about \$100bn off the Silicon Valley-based group's market value, which has soared amid a boom in spending on AI. Nvidia shares recovered some ground by noon but still traded at about 3 per cent down on the previous day. The shares are still up about 150 per cent since the start of 2024.

In its latest results, the chipmaker

'This wasn't the sort of massive beat' that the group has often reported

Henry Allen, Deutsche Bank

said it expected \$32.5bn in revenue in the third quarter, plus or minus 2 per cent, just ahead of analysts' consensus expectations. The figure underwhelmed investors, who have become accustomed to the chipmaker far outstripping Wall Street's forecasts in the two years since the launch of ChatGPT.

Revenue in the three months to July 28 was \$30bn, up 122 per cent from a year ago and ahead of analysts' forecasts of \$28.7bn. "The revenue outperformance was the smallest relative to expectations in six quarters, so this wasn't the sort of massive beat that Nvidia has often reported," said Deutsche Bank macro strategist Henry Allen.

Nvidia sought to reassure investors that it would see "several billion dollars" in revenue this fiscal year from the next generation of its AI chips, despite hitting production problems.

Chief executive Jensen Huang said delays to the group's next-generation AI

processor would not derail plans to produce a new version of its flagship product every year. A production issue affecting Blackwell, Nvidia's new chip platform, "doesn't matter" to its plan to accelerate its release schedule from every two years to a "one-year rhythm", Huang said, after announcing the new schedule last October.

Nvidia's accelerated pace of innovation is seen as vital to maintaining its dominance of AI chips.

Earlier this month, last-minute complications forced Nvidia and partner Taiwan Semiconductor Manufacturing Company to make changes to how Blackwell was produced. That forced Nvidia to push back full release of the chip towards the end of this year.

The group's ability to hit production and earnings targets has taken on an outsized importance in the US stock market, with a blistering rally in the stock driving a quarter of the year-to-date gains on the S&P 500.

Despite the increasing complexity of manufacturing its chips, Huang said Blackwell's successors were still on track for annual upgrades. The group's engineers were working on its next two generations. "They will finish on their one-year rhythm."

Nvidia is stepping up the pace at which it improves its products as it looks to stay ahead of competitors such as AMD and Intel. The likes of Meta and OpenAI rely on Nvidia's GPUs to train their large language models, and demand has far outstripped supply of its most powerful chips for almost two years.

Bank of America analyst Vivek Arya called the share price moves yesterday "quarterly noise" and declared that Nvidia continued to represent "unique growth at a very reasonable valuation".

Additional reporting by Michael Acton
OpenAI to raise funds Companies
See Lex

Glass half full China holds off on extra tariffs after accusing EU brandy makers of dumping



Spirited defence: European brandy groups have denied the accusations of unfairness from Beijing — Zoonar/Alamy

EDWARD WHITE — SHANGHAI
ADRIENNE KLASA — PARIS

Beijing has handed a reprieve to French cognac producers by deciding not to immediately impose new tariffs despite concluding that they dumped their products on the Chinese market.

Beijing in January launched an anti-dumping probe into brandy from the EU. The move, after Brussels said it would investigate imports of Chinese electric vehicles, was part of an escalating series of trade disputes between China and the bloc.

China's commerce ministry said in a preliminary decision yesterday that it would not impose provisional anti-dumping measures, despite concluding that there had been dumping that posed "a substantial threat to the domestic brandy industry".

Shares in Pernod Ricard and Rémy Cointreau rose by double digits after

the decision. But SpiritsEurope, which speaks for the industry, said it was "very disappointed by this announcement" which leaves open the possibility Beijing will impose tariffs averaging more than 34 per cent.

Tariffs would have a "detrimental impact" on wine-based and marc-based spirits exports to China, which represented 90 per cent of direct EU spirits exports to the country by value, said Ulrich Adam, SpiritsEurope director-general.

Brussels imposed higher tariffs on Chinese EVs after finding Beijing was unfairly subsidising its car industry. Member states must confirm the tariffs in a vote in October.

Beijing has launched anti-dumping investigations into European dairy and pork imports and has lodged a complaint over the EU tariffs with the World Trade Organization.

Beijing said the probe into cognac was sought by China's domestic indus-

try. But the investigation and threat of tariffs had been seen as punishment for France after French car bosses and officials backed the EV tariffs.

Separately yesterday, Pernod Ricard, which owns Martell cognac, reported a drop of 1 per cent in full-year like-for-like sales as it faces challenging US and Chinese markets.

China has become the biggest market for Martell, the world's second-largest cognac producer.

Pernod remained "prudent" on its China outlook despite the provisional decision not to impose tariffs, chief executive Alexandre Ricard said.

The company rejected the dumping allegations but was co-operating with Chinese authorities, Ricard said.

Shares in Pernod were later trading more than 2 per cent higher on the day while Rémy Cointreau stock was up more than 3 per cent.

Additional reporting by Wenjie Ding and Arjun Neil Alim

HSBC wealth chief Matos heads for exit in shake-up

ORTENCA ALIAJ AND KAYE WIGGINS
LONDON

Nuno Matos, HSBC's head of wealth and personal banking who had been a leading contender to become chief executive, will leave the bank in a management shake-up as Georges Elhedery prepares to step up to the top job.

The Portuguese executive will leave the group next year "to pursue other opportunities", the bank said yesterday. Matos will be replaced by Barry O'Byrne, who leads HSBC's global commercial banking division and will remain based in Hong Kong.

Matos, who joined from Santander in 2015, emerged as one of the top candidates for the chief executive role after current chief Noel Quinn announced his retirement in April.

The bank last month appointed chief financial officer Elhedery chief executive starting in September.

Matos has held a number of roles during his nine years at HSBC, including head of its Mexico business and regional chief of retail banking and wealth management in Latin America. In 2021 he was appointed head of the wealth and personal banking business, which last year accounted for 41 per cent of revenues. Colleagues said he built a reputation in part by controlling costs.

Matos and O'Byrne moved to Hong Kong in 2021 as part of a push by HSBC to move top executives there. O'Byrne joined in 2017 from GE Capital as chief operating officer for global commercial banking before being elevated to lead the division.

HSBC announced that chief operating officer John Hinshaw would leave the bank after five years, with his responsibilities to be carved up into two separate roles. Stuart Riley will be chief information officer, overseeing data and innovation, an expanded remit that indicates how tech is becoming a higher priority. The remaining COO responsibilities will be carried out by Suzy White on an interim basis. Elaine Arden, chief human resources officer, is leaving after seven years in the role and will be replaced by Aileen Taylor, company secretary and chief governance officer.

"I am really looking forward to working with Barry, Aileen, Stuart and Suzy, as we pursue the next phase of our growth," Elhedery said. "It has been a pleasure working with Nuno, Elaine and John. I wish them every success in the future."

Rivals face daunting race to fill gaps around the AI chip leader

INSIDE BUSINESS

TECHNOLOGY

Richard Waters



Rivals of Nvidia, which dominates the market for AI chips, have long hoped an inflection point would help them make up lost ground.

That point may be at hand. So far, however, there is little sign of Nvidia ceding its lead — though it is still an open question as to whether the AI market will develop in ways that eventually erode its dominance.

The key issue is when the main focus in AI moves from training the large "foundation" models that underpin modern AI systems to putting those models into widespread use in the applications used by large numbers of consumers and businesses.

With their ability to handle multiple computations in parallel, Nvidia's powerful graphical processing units, or GPUs, have maintained their dominance of data-intensive AI training. By contrast, running queries against these AI models — known as inference — is a less demanding activity that could provide an opening for makers of less powerful — and cheaper — chips.

Anyone expecting a quick shift will have been disappointed. Nvidia's lead in this newer market already looks formidable. Announcing its latest earnings yesterday, it said more than 40 per cent of its data centre sales over the past 12 months were already tied to inference,

accounting for more than \$33bn in revenue. That is more than two and a half times the entire sales of Intel's data centre division over the same period.

But how the inference market will develop from here is uncertain. Two questions will determine the outcome: whether the AI business continues to be dominated by a race to build ever larger AI models, and where most of the inference will take place.

Nvidia's fortunes have been heavily tied to the race for scale. Chief executive Jensen Huang said this week that it takes "10, 20, 40 times the compute" to train each new generation of large AI models, guaranteeing huge demand for Nvidia's forthcoming Blackwell chips. These new processors will also provide the most efficient way run inferences against these "multitrillion parameter models", he added.

Yet it is not clear whether ever-larger models will continue to dominate the market, or whether these will eventually hit a point of diminishing returns. At the same time, smaller models that promise many of the same benefits, as well as less capable models designed for narrower tasks, are already coming into vogue. Meta, for instance, recently claimed that its new Llama 3.1 could match the performance of the advanced models such as OpenAI's GPT-4, despite being far smaller.

Improved training techniques, often relying on larger amounts of high-quality data, have helped. Once trained, the biggest models can also be "distilled" into smaller versions. Such developments promise to bring more of the work of AI inference to smaller, or "edge", data centres, and on to smart-

phones and PCs. "AI workloads will go closer to where the data is, or where the users are," says Arun Chandrasekaran, an analyst at Gartner.

The range of competitors with an eye on this nascent market has been growing rapidly. Mobile chip company Qualcomm, for instance, has been the first to produce chips capable of powering a new class of AI-capable PCs, matching a design laid out by Microsoft — a development that throws down a direct challenge to longtime PC chip leader Intel.

The data centre market, meanwhile, has attracted a wide array of would-be competitors, from start-ups such as Cerebras and Groq to tech giants such as Meta and Amazon, which have developed their own inference chips.

It is inevitable that Nvidia will lose market share as AI inference moves to devices where it does not yet have a presence, and to the data centres of cloud companies that favour in-house chip designs. But to defend its turf, it is leaning heavily on the software strategy that has long acted as a moat around its hardware, with tools that make it easier for developers to put its chips to use.

This time, it is working on a wider range of enterprise software to help companies build applications that make best use of AI — something that would also guarantee demand for its chips.

Nvidia disclosed this week that it expects its revenue from this software to reach an annual run-rate of \$2bn by the end of this year. The figure is small for a company expected to produce total revenue of more than \$100bn, but points to the increasing take-up of technologies that should increase the "stickiness" of products. The AI chip market may be entering a new phase, but Nvidia's grip shows no signs of being loosened.

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COMPANIES & MARKETS

Ford's struggle to boost margins raises questions over strategy and execution

Investors gloomy as warranty toll rises \$800mn and electric SUV plan is axed at cost of up to \$1.9bn

CLAIRE BUSHEY — CHICAGO

Ford executives have laid out big plans in recent years to improve profitability, but they have long known that they face a sceptical audience.

"Ford has been stuck in a box with thin margins, weak growth and low valuations . . . and it's now time to break out," chief executive Jim Farley told investors last year.

Even then, though, chief financial officer John Lawler said: "We've told you this before . . . and we haven't delivered."

More than a year on, the carmaker is struggling to break that pattern.

Last month it missed Wall Street's second-quarter earnings expectations after being blindsided by an \$800mn rise in warranty costs. Investors reacted by sending its stock down 18 per cent, its largest one-day drop since 2008.

Then last week Ford announced a rethink of its electric vehicle plans, scrapping a proposed sport utility vehicle at a cost of up to \$1.9bn to make it a hybrid instead.

The double blow to an emblem of US car manufacturing has raised sharp questions about its strategy, execution, and shareholder returns.

"Jim, you said that Ford's a different company from what it was three years ago," Morgan Stanley analyst Adam Jonas told Farley on its earnings call. "But the stock market really doesn't seem to agree with you at all on that."

Ford's price-to-earnings ratio, he pointed out, had fallen to 494th in the S&P 500.

Across the industry, consumer appetite for electric vehicles has cooled and carmakers are no longer benefiting from the pricing power that supply shortages gave them coming out of the pandemic. Inventories on dealer lots are growing and discounts are creeping up as high interest rates make new vehicles less affordable.

But Ford has felt the effects more than others, with its stock down 56 per cent since its post-pandemic peak in January 2022, while rival General Motors has fallen 31 per cent in the same period.

Farley has been trying to implement a plan introduced in 2021 to cut costs, improve quality, drive revenue from digital subscription services, and hit a 10 per cent adjusted operating margin by 2026.

But he said last month that remaking Ford involved "growing pains".

When it scrapped plans for its electric three-row SUV last week, Ford said the model had failed to meet its target of profitability within one year.

It said it would cut the share of capital spending dedicated to EVs from 40 per cent to 30 per cent, while moving some battery production from Poland to Michigan to take advantage of US tax credits.

Ford had already cut production of the F-150 Lightning, the electric version of its flagship pick-up, and last month it said that a Canadian plant meant for electric versions of the Ford Explorer and Lincoln Aviator would make petrol Super Duty trucks instead.

But it has had to back away from an earlier target of turning a profit on EVs in 2026, and reported a \$1.1bn loss on the vehicles in the second quarter.



'Jim, you said it's a different company from three years ago. But the stock market really doesn't seem to agree'

Adam Jonas,
Morgan Stanley

"Overall, the EV journey has been humbling," Farley said.

His hope of controlling costly quality problems has also proved elusive. Ford has set aside increasing amounts of money for repairing vehicles under warranty, rising from \$4.8bn in 2014 to \$11.5bn last year. The amount Ford has actually paid out each year for repairs has also grown, from \$2.9bn to \$4.8bn.

Bruno Dossena, an analyst with Wolfe Research, asked: "How can investors really build confidence in an earnings trajectory when every year the surprise warranty issues keep happening?"

The latest problems behind a warranty challenge that Barclays analyst Dan Levy called "frustrating for investors" stem from models launched as long ago as 2016.

"It's clear that we had a period of time where the robustness wasn't what it needed to be," Lawler said.

Farley has said that quality is the "number one priority", tightening processes for signing off on new models and hiring an executive from market

research firm JD Power two years ago to head its quality initiatives.

The focus has been on improving quality at the point when new models hit the market, as Ford has averaged a 70 per cent rise in defects following the launch of new vehicles over the past five years, compared with an industry average of 20 per cent.

This year it has delayed the launch of 60,000 F-150s and 21,000 Explorer SUVs to test them more thoroughly for problems, for example. The approach had brought defect rates to at or below industry levels and avoided about 12 potential recalls, Farley said.

Ford is working with dealers to address quality problems.

Dave Veenendaal, the service and parts director at Haggerty Ford in the Chicago suburbs, said that for about a year the carmaker had been requiring dealerships to report problems on vehicles that customers brought in within three months of purchase. The idea is to identify repeat problems, trace them back to their manufacturing line or engineering source, and fix them rather than keep churning out vehicles with defects.

"Say a car comes in from the factory, or it's been out less than a month in a customer's hands, and we find a wire repair," Veenendaal said. "Ford wants to know that right away."

Quality was improving, Farley told analysts last month, citing a JD Power survey that tallies the number of problems new owners experience per 100 vehicles in the first 90 days of ownership. The results showed that Ford had moved from 23rd in the industry to ninth on "initial quality".

The company is studying diagnostic codes and testing vehicles until they fail, which "has caught many, many issues in our industrial system that we've been

The Explorer electric SUV at its launch last year. Ford, led by Jim Farley, below, has seen its price-to-earnings ratio drop to 494th in the S&P 500

Chris J. Ruffillo/Bloomberg



able to correct before we release the vehicle", Farley said.

It was "painful" to not ship vehicles to dealers before the end of a quarter, hitting the company's earnings, but "it is the only way we believe in addressing our warranty spend".

The fact that warranty costs can stem from vehicles produced years ago makes them a "vexing problem for management", said Fitch analyst Steve Brown. Ford was "going through vehicles with a fine-tooth comb", he said, but it would take several years before investors and car buyers knew whether the amped-up testing had paid off.

The second quarter was "very disappointing", said Morningstar analyst David Whiston, but Farley's attempt to revamp launches was "the right course of action, even if it makes earnings lumpy".

Buying back shares would placate investors in the meantime, Whiston said. GM said in June that it would repurchase \$6bn in stock, on top of the \$10bn in buybacks it committed to late last year.

But buybacks are rare at Ford, since the Ford family favours dividends and wields 40 per cent of the votes through class B shares worth 2 per cent of the total equity. On last month's analyst call, Farley told investors that the carmaker had better ways to spend its capital, such as investing in Ford Pro, its business aimed at commercial customers.

The lack of buyback news contributed to the stock's slide last month, according to Morgan Stanley's Jonas, who said executives' comments seemed to "lack the same sense of contrition expressed on recent calls".

He said: "Investors were hopeful Ford would crack open the hood on buybacks. On this call, at least, they slammed it shut."

DEI policies revised Participation in rights group's ranking ends

Ford has become the latest US business to back away from policies promoting diversity, equity and inclusion after being targeted by an activist.

The company said on Wednesday that it had "evolved" its employee resource groups to open them to all employees and had decided no longer to participate in a workplace ranking by gay rights advocacy group Human Rights Campaign.

Activist Robby Starbuck claimed Ford was the seventh company to roll back its DEI programmes under pressure from his boycott campaigns on X, where he has nearly 600,000 followers, against companies he considers too "woke".

Starbuck obtained a message Ford sent to employees, in which it said it had "taken a fresh look at our policies and practices to ensure they support our values, drive business results, and take into account the current landscape".

Ford said: "The communication to our global employees speaks for itself. We have nothing further to add."

Starbuck, a former music video director, has helped lead the push to ban gender-affirming care for transgender people in Tennessee. He is among a growing number of conservatives who have targeted the diversity programmes that proliferated after the murder of George Floyd in 2020.

Ford chair Bill Ford and its then-chief executive Jim Hackett released a letter a week after Floyd's murder, stating that "systemic racism still exists, despite the progress that has been made", and committing to engaging with the Ford African Ancestry Network, one of Ford's most long-established employee resource groups.

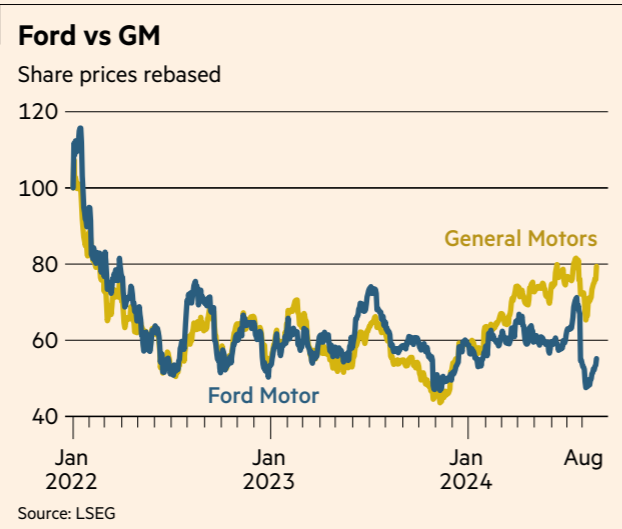
"There are no easy answers," the executives then wrote. "We are not interested in superficial actions. This is our moment to lead from the front and fully commit to creating the fair, just and inclusive culture that our employees deserve."

Starbuck called his supporters "the silent majority" and said the movement was one "for neutrality and sanity in corporate America", which was being "poisoned by a loud but small contingent of far-left extremists. Divisive political and social issues don't belong in the workplace. Companies need customers to walk through their doors to buy products, and it appears that our movement has done an effective job of reminding them of that."

Home improvement retailer Lowe's said on Monday it would stop participating in surveys from Human Rights Campaign and restructure its employee resource groups, after receiving messages from Starbuck.

Harley-Davidson ended its relationships with LGBT+ advocacy groups amid a campaign spearheaded by Starbuck, following similar announcements from retailer Tractor Supply and tractor maker Deere & Co last month.

Last week, Brown-Forman, maker of Jack Daniel's Tennessee Whiskey, announced it would no longer link executive compensation to progress towards diversity goals. Claire Bushey in Chicago and Taylor Nicole Rogers in New York



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COMPANIES & MARKETS

Currencies. Cross-border transactions

China's global renminbi use surges to record highs



Closer ties with Russia bolster Beijing's ambition to reduce dependence on US dollar

WILLIAM SANDLUND — HONG KONG

China's use of the renminbi in cross-border transactions has reached record highs this year as closer ties with Russia bolster Beijing's efforts to internationalise its currency and cut dependence on the US dollar.

In July, 53 per cent of China's inbound and outbound transactions used the Chinese currency, according to data from the State Administration of Foreign Exchange, up from about 40 per cent for the same month in 2021.

The Safe data shows cross-border transfers by banks on behalf of non-banking clients and mainly represents trade settlement, although it also captures investment flows and debt payments.

Cross-border use of China's currency received a boost after US sanctions limited Russia's ability to transact in dollars following its invasion of Ukraine.

In February of this year, Russia's central bank governor, Elvira Nabiullina, said use of the Chinese currency for settlements, financial transactions and deposits had "surged".

Alexandra Prokopenko, a research fellow at the Carnegie Institute in Berlin, said: "The sanction situation created a huge stimulus for China to develop its [financial] system and to develop solutions to link China's system with the Russian one."

Growth of trade settled in renminbi has also been helped by currency swap

lines that Beijing opened or renewed throughout 2023 with Saudi Arabia, Argentina and Mongolia — all commodity producers with goods China wants.

Since 2022, new clearing banks for the renminbi have also been established in Laos, Kazakhstan, Pakistan, Brazil and Serbia, according to the People's Bank of China.

According to some analysts, one reason China has kept its exchange rate with the US dollar stable this year despite selling pressure on the renminbi is to encourage trading partners to transact more in its currency.

China's President Xi Jinping has repeatedly called for a strong currency.

"You can't go to Indonesia, Thailand, South Korea and say, 'hey, let's trade in renminbi rather than dollar' if you have a weak currency," said Louis-Vincent Gave of Gavekal, a financial services firm. "For that to happen, you need to have a stable currency."

Beijing's previous efforts to internationalise the renminbi faltered after the PBoC staged a currency devaluation in

2015 to combat a slowdown in economic growth.

It boosted the competitiveness of Chinese exports but led to a substantial decline in the use of the renminbi for settlement that has taken years to reverse.

Edwin Lai, a professor at the Hong Kong University of Science and Technology specialising in renminbi internationalisation, said it was "normal" for big economies like China's to settle most of their trade in their own currency.

"By international standards it's not a great achievement," said Lai. At the same time, he noted, "they have obviously improved."

He said Beijing was not looking to compete with the US dollar but said Chinese officials "don't want to be at the mercy" of the currency.

Globally, the renminbi is still a distant second to the dollar for trade financing. It also makes up just 4.74 per cent of global payments, behind the dollar, euro and sterling, according to the most recent data from international

Notable attempt: previous efforts by Beijing to internationalise the renminbi faltered after China's central bank in 2015 staged a currency devaluation

Seonghoon Cho/Bloomberg

payments network Swift. However, alternative payment systems such as China's CIPS and other private networks make relying on Swift to give a full picture of global currency transactions less reliable, according to Lucy Ingham, editor in chief of FXC Intelligence, a consultancy that tracks digital payments.

Further increases in the renminbi's share of global trade finance may be limited by the west's reluctance to trade using the renminbi.

"I think it's very unlikely that we'll see China's trade with the United States, with the European Union, moving into Chinese currency," said Daniel McDowell, a professor at Syracuse University and Atlantic Council senior fellow.

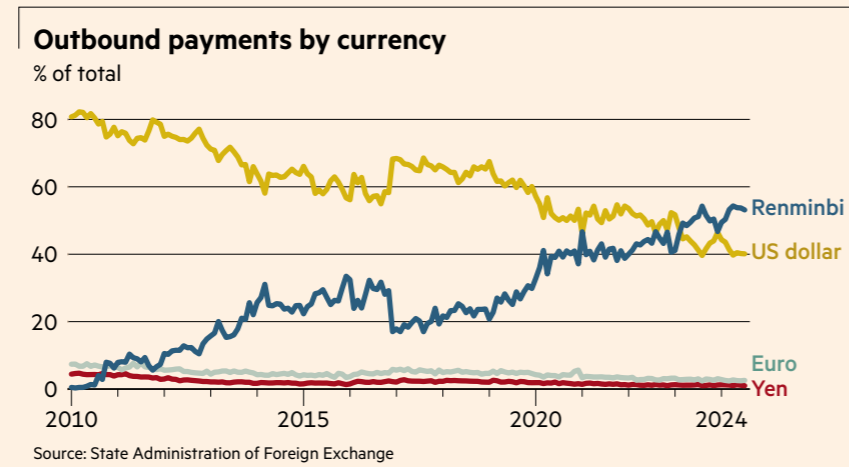
Long-standing obstacles to wider use of the renminbi — in particular, China's capital controls and the strong network effects that support use of the US dollar — limit its progress beyond trade settlement.

Most foreign exchange traders still prefer to trade via the dollar, said Wee Khoo Chong, a senior markets strategist at BNY in Hong Kong.

"From our client base, we have seen increasing activity in [renminbi] as a payment," said Chong. But he said its use had not reached "a critical turning point" where it would displace a major currency. "It's a slow grind."

China "is not seeking to topple the dollar's global dominance," said McDowell. "That comes with a lot of responsibility and accepting certain vulnerabilities. . . China's motives here are primarily about autonomy and resilience."

Additional reporting by Nian Liu and Wenjie Ding in Beijing



'Sanctions created a huge stimulus for China to develop solutions to link its system with Russia'

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Fixed income

Maldives hit by second Fitch downgrade in two months amid intensifying crisis

JOSEPH COTTERILL

The bonds of the Maldives slumped after Fitch Ratings downgraded the island nation's debt for the second time in two months over a deepening financial crisis in the tourist paradise.

The south Asian archipelago's sukuk, a debt compliant with Islamic law, fell to 71 cents on the dollar yesterday as the rating agency flagged "intensified pressures" over its plummeting currency reserves.

The bond traded at more than 80 cents at the start of August.

The majority of the Maldivian government's \$3.4bn external debt is held by the export-import banks of China and India, making the country's mounting debt crisis a showcase for rivalry between the two Asian powers.

The Maldives borrowed heavily from the two countries and private creditors in recent years to finance growing budget deficits, even as the pandemic hit demand for tourism. Debt repayments now threaten to drain reserves.

President Mohamed Muizzu was elected last year on an "India out" platform to reduce New Delhi's military

presence in the islands. But he has now appealed to both India and China for bailouts.

State debt was 110 per cent of GDP at the start of the year when including domestic borrowings.

"We see a rising degree of uncertainty surrounding the government's plan to access the market and partly refinance the \$500mn sukuk in 2025, in addition to near-term external liquidity strains,"



The Maldives has suffered a financial crisis despite a surge in tourism

Fitch said. The agency cut the country's rating to double C, reflecting a rising probability of default, following a downgrade to triple C plus, or very high credit risk, in June.

The Maldives' net foreign exchange reserves fell below \$50mn in July while gross reserves dropped under \$400mn, down from about \$500mn in May.

Despite a surge in tourists this year to about 1.25mn as of August, led by Chinese, Russian and UK visitors, heavy dependence on imports and the Maldivian rufiyaa's peg against the dollar have kept up the pressure on reserves.

Bank of Maldives, the country's largest lender, introduced limits on foreign currency spending on local cards last week only to reverse them the same day "based on instruction from our regulator, the Maldives Monetary Authority".

The Maldives finance ministry said it was "committed to mitigating the risks highlighted by Fitch through the implementation of comprehensive fiscal consolidation measures and securing medium-term financing requirements with the support of our bilateral and multi-lateral partners."

Equities

Turkey's red-hot stock boom stumbles as high interest rates lure savers away

ADAM SAMSON — ANKARA

Turkey's blistering stock market rally has hit reverse as exceptionally high interest rates lure savers out of the market and foreign investors cash in on recent gains.

Istanbul's benchmark Bist 100 index dropped 8 per cent in August, its biggest decline since President Recep Tayyip Erdoğan shook markets in October 2023 when he strongly criticised Israel for its offensive in Gaza.

MSCI's Turkey benchmark, which tracks the performance of the market in US dollar terms, fell about 10 per cent, the worst rout of any country in the index provider's widely followed Emerging Markets gauge.

The pullback in Turkish stocks highlights how Ankara's attempt to rein in scorching inflation with a sweeping economic overhaul is rippling through the country's capital markets and \$1tn economy.

"The stock market is out of steam," said Emre Akcakmak, portfolio consultant at fund manager East Capital, noting that some foreign investors who had "piled in" are now headed for the exits.

Turkey's stock market has posted big gains in recent years, with the Bist 100 more than doubling in dollar terms since the start of 2022 as local investors turned to equities to protect their savings against inflation, which peaked above 85 per cent in late 2022.

Foreign investors, who had sharply cut Turkish equities holdings since the mid-2010s, also began nibbling on

'September is going to be important as policymakers need to re-anchor market expectations'

Turkish stocks as Erdoğan ditched some of his unconventional economic policies after his re-election in May 2023.

Mehmet Şimşek, a former Merrill Lynch bond strategist who Erdoğan tapped as economic tsar last June, has implemented a series of investor-friendly policies.

Turkey's central bank has raised its main interest rate from 8.5 per cent in June 2023 to 50 per cent. Istanbul's equities market initially reacted well to the

Fixed income

PBoC's \$56bn debt purchase triggers talk of bond trading intervention

CHENG LENG AND ARJUN NEIL ALIM
HONG KONG

China's central bank purchased Rmb400bn (\$56.3bn) of long-dated sovereign bonds yesterday, a move that traders interpreted as preparation to directly shore up bond yields in its booming debt markets.

The People's Bank of China said it bought Rmb300bn worth of 10-year notes and Rmb100bn of 15-year notes from primary dealers, which had been sold by the Ministry of Finance to roll over maturing bonds only earlier in the day.

Analysts said the move, which stops the bonds from being traded in the market, further fuelled speculation that China's central bank will soon intervene in the bond market to prevent an eventual snapback that could trigger Silicon Valley Bank-style losses in the financial system.

Chinese debt has rallied this year as global investors bet that Beijing will be forced to stimulate consumer demand in the world's second-largest economy.

But the PBoC has repeatedly warned that falling yields — which move inversely to prices — risk provoking a liquidity crisis in the banking system.

Earlier in the summer, the PBoC said it was ready to directly buy and sell in

'They have a lot more long-term debt on hand because speculators are betting against the central bank'

the market for the first time in decades to prevent a sharp fall in long-term yields.

"The PBoC is trying to engineer the yield curve," said Wei Li, head of multi-asset investment for BNP Paribas in China, who described the buying action as a "sizeable amount".

Li added: "Now they have a lot more long-term debt on hand [because] speculators are betting against the central bank."

Traders' expectations that the central bank would soon buy and sell sovereign notes were fuelled by the PBoC's creation of a new section on its website called "notices on the purchase and sale of sovereign bonds".

Chinese authorities have been concerned about the yields on longer-dated debt as it is a source of funding for financial institutions such as pension funds.

Analysts said purchasing the bonds gave the PBoC the flexibility to sell at a later date, influencing prices of 10-year to 15-year bonds. Selling long-dated debt in the market would raise yields.

The newly purchased notes with a maturity of 10 to 15 years would replace previous notes with the same amount but would only carry a duration of seven years, said He Xueqin, an analyst with Guangfa Securities.

So far, the PBoC only holds Rmb1.52tn in government bonds, mostly with shorter maturities ranging from one to three years.

more conventional policies — gaining 27 per cent in dollar terms from the start of 2024 through the end of July.

But local savers are being lured by the appeal of high rates available on lira bank deposits and money market funds.

The annualised interest rate on lira bank deposits of up to one year is around 53 per cent compared with 22 per cent a year earlier, according to central bank data.

The rates on offer compare favourably with market participants' expectations of year-end inflation of about 43 per cent, although they are below the July inflation rate of 62 per cent.

Tunç Yıldırım, head of institutional equity sales at Istanbul-based investment bank ÜNLÜ & Co, said local buying of equities has cooled because of "fatigue" and a growing variety of alternatives for savers.

Analysts noted that the outlook for Turkish stocks would also depend on whether policymakers sustain their commitment to tight economic policy.

"September is going to be extremely important because policymakers need to re-anchor market expectations for 2025," Yıldırım said.

COMPANIES & MARKETS

The day in the markets

What you need to know

- German stocks boosted by lower than forecast August inflation data
- Paris's Cac 40 index buoyed by reprieve for cognac producers
- Nasdaq Composite jumps despite setback for tech sector bellwether Nvidia

German stocks finished at a record closing high yesterday as global equity markets were boosted by further indications that inflation was slowing in major economies.

Frankfurt's Xetra Dax index of 40 German blue-chips rose by as much as 0.8 per cent in intraday trading before settling 0.7 per cent higher at a record close of 18,791.

The moves were part of a broad sweep of gains in global equity markets.

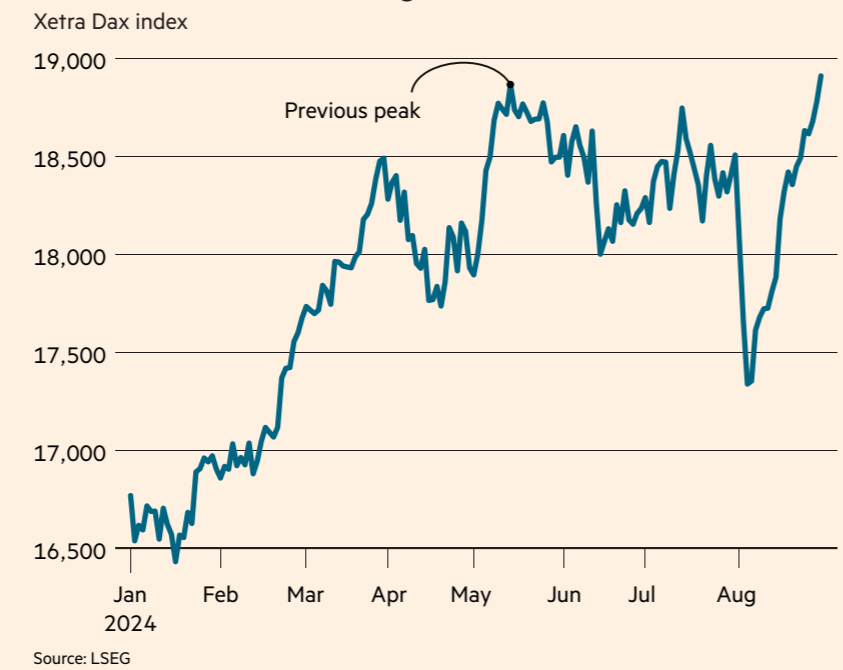
The region-wide Stoxx Europe 600 gained 0.7 per cent to near its May peak. Investors were cheered by lower than forecast August inflation data for Europe's largest economy.

The Dax has been one of Europe's best performing indices this year, up 12.8 per cent, driven by companies such as business software company SAP.

Analysts from Deutsche Bank said they "remain constructive" on the Dax and expect the index to reach 19,400 by the end of this year despite Germany's "disappointing relative economic growth".

Maximilian Uleer, head of European equity and cross-asset strategy at Deutsche, said: "The index is a lot more dependent on global growth than on national growth... we expect the Dax to end the year higher but the trajectory to be considerably more volatile than in the first half of the year," noting weakening demand for vehicle exports to China.

Frankfurt stocks hit record high



The optimism was boosted by Spain's harmonised annual inflation rate — a standardised measure for the EU and Eurozone — falling to below economists' expectations.

Paris's Cac 40 index closed up 0.8 per cent, buoyed by a reprieve for cognac producers in a trade war between Beijing and Brussels.

London's FTSE 100, meanwhile, chalked up gains of 0.4 per cent.

In New York, the S&P 500 was up 0.9 per cent by mid-session, just shy of a record high, after economic data suggested the US economy was likely to dodge a recession.

The tech-heavy Nasdaq Composite was 1.2 per cent higher even though shares of sector bellwether Nvidia slipped following corporate earnings.

US gross domestic product grew by an annualised 3 per cent in the three months to the end of June, about 0.2 percentage higher than analysts expected, according to the Bureau of Economic Analysis.

Preston Caldwell, chief US economist at Morningstar, said it was "overwhelmingly likely" that the US would avoid recession.

"We will see a mild slowdown in growth as Americans look to boost their savings and reduce their spending," he added.

Rafe Uddin

It's time to tilt portfolios more towards bonds

Jumana Saleheen

Markets Insight



Almost everyone in markets appears to believe that interest rates are close to moving off recent peaks.

Central banks are expected to lower rates as they gain confidence that inflation is on track back to target.

Some, like the European Central Bank and the Bank of England, have already started. The most important, the US Federal Reserve, is likely to start cutting its benchmark rate next month from the current range of 5.25 to 5.5 per cent.

Rates are likely to settle at or closer to what is known as the neutral rate, or R-star, the level that neither stimulates nor restricts the economy. Importantly, although rates will fall, they will not end up as low as they were before Covid-19. We are entering a new regime where bonds offer greater value in a portfolio.

How does a high-rate regime affect portfolio choice? History is a good place to start.

My colleague, Dimitris Korovilas, and I look back nearly a century and consider the interest rate regimes the US has experienced. By comparing actual interest rates and our own estimate of the neutral rate to their median values over the past 90 years, we classify these regimes into high- and low-rate periods.

When the interest rate is below the median, we classify the period as low rate and vice versa. The different interest rate regimes are the result of the type of economic shocks hitting the economy as well as policy framework and stance.

Between 1934 and 1951, interest rates were low. The US three-month Treasury bill rate, which tracks the US benchmark federal funds rate, averaged 0.5 per cent. Thereafter, interest rates rose, peaking in the mid-1980s.

Between the late 1950s and 2007, the

average interest rate was high at 5 per cent. After the global financial crisis, the US entered a low-rate era with rates around 1 per cent. More recently, interest rates have risen and we estimate that they will settle around a neutral rate of 3 to 3.5 per cent.

To understand what these regimes have meant for investors historically, we look at 10-year ahead returns, using data back to 1984, and split periods into high- or low-rate regimes.

In high-rate regimes, 10-year ahead actual returns for global stocks and bonds were similar at just over 7 per cent annualised. But stock returns were

Our projections embody the view that US equity valuations are stretched relative to fundamentals

four times more volatile than those of bonds. Because bonds offered the same returns for lower risk (volatility), their performance relative to equities was particularly attractive on a risk-adjusted basis.

By contrast, in low-rate regimes, 10-year ahead actual returns from bonds were about 4.5 per cent with global stocks returning 8 per cent.

Stocks offered a hefty premium over bonds. Volatility of stocks and bonds is similar across regimes, making bonds relatively less attractive on a risk-adjusted basis.

Given we are in a high-rate regime currently, what does this mean for investors today? Past is not prologue.

Assuming no new significant economic or political shocks, Vanguard

projects 10-year ahead returns for global stocks at just above 5 per cent and returns for global bonds at just below 5 per cent. This forward-looking assessment rhymes with history — in a high-rate regime, bonds offer greater value in a portfolio.

Our projections embody the view that US equity valuations are stretched relative to fundamentals. The pain of higher interest rates is yet to be fully felt in global stock markets.

For a balanced investor, who holds stocks and bonds in roughly equal parts, the higher interest rate environment and associated better bond outlook is good news.

It means that bonds offer greater value to the portfolio than before, not only in their typical role as a diversifier but also as a source of returns.

There is merit to holding some bonds in any environment, particularly in today's higher-rate regime. Some investors may go further and tilt their portfolios towards bonds. This might better balance the higher certainty of better bond returns with the less certain similar returns from equities.

Everyone needs to be wary of the risks of investing and how much of that is built into model projections. Our view is that interest rates are going to settle at a higher level than pre-Covid and that US equity valuations are stretched.

In a high-rate regime, history and our model projections suggest that bonds offer greater value in a portfolio, from both a return and a diversification perspective. When regimes change, investors should at least reassess portfolios.

Jumana Saleheen is chief economist and head of investment strategy group at Vanguard Europe

Financials

Founders of hedge fund Two Sigma step down as co-chiefs after years of acrimony

AMELIA POLLARD — NEW YORK

The founders of Two Sigma, one of the world's largest hedge funds, are stepping down as co-chief executives of the firm they built into a giant of quant trading after clashing for years over how it should be run.

John Overdeck and David Siegel would step down from their roles at the end of September, Two Sigma said.

The mathematician and computer scientist will be replaced as co-chief executives by the firm's chief business officer, Carter Lyons, and the former general counsel of investment bank Lazard, Scott Hoffman.

While Overdeck and Siegel are ceding their day-to-day management responsibilities, they will continue to advise on quantitative investment and technology as co-chairs.

The pair founded the hedge fund, which today manages \$60bn of assets, more than two decades ago after working at DE Shaw.

The infighting between Overdeck and Siegel was exposed last year when the hedge fund made the unusual move of disclosing that disagreements among the management committee members — which include Overdeck and Siegel — could amount to a "material risk".

The filing said: "These disagreements can affect [Two Sigma's] ability to retain

'Carter and Scott will carry this vision forward, guiding the firm to even greater heights'

or attract employees (including very senior employees) and could continue to impact the ability of employees to fully implement key research, engineering, or corporate business initiatives."

The committee had been unable to agree on organisational structure, responsibilities for leading executives, including chief investment officers,

and succession plans. "Our vision has always been to build a sustainable organisation driven by a systematic investment process, a commitment to investing in our people and platform, and an evolution mindset," Siegel said.

"With their vast experience, complementary expertise and appreciation for Two Sigma's unique culture, Carter and Scott will carry this vision forward, guiding the firm to even greater heights," he added.

Quant trading has become one of the most lucrative strategies among hedge funds, with giants such as Two Sigma attracting investors with cutting-edge technologies and investment methods.

Overdeck and Siegel helped to pioneer the strategy.

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MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

Main market data table with columns for country, company name, price, change, 52-week high/low, and P/E ratio. Includes sections for FT500, FT 500: TOP 20, FT 500: BOTTOM 20, and various international indices.

FT 500: TOP 20 table listing the top 20 companies in the FT500 index with their respective metrics.

FT 500: BOTTOM 20 table listing the bottom 20 companies in the FT500 index with their respective metrics.

BONDS: HIGH-YIELD & EMERGING MARKET table showing bond yields and spreads for high-yield and emerging market categories.

BONDS: GLOBAL INVESTMENT GRADE table showing bond yields and spreads for investment-grade global bonds.

INTEREST RATES: OFFICIAL table showing official interest rates for various countries and currencies.

BOND INDICES table showing performance metrics for various bond indices.

VOLATILITY INDICES table showing volatility indices for various markets and currencies.

GLITS: UK FTSE ACTUARIES INDICES table showing actuarial indices for the UK FTSE.

INTEREST RATES: MARKET table showing market interest rates for various countries and currencies.

CREDIT INDICES table showing performance metrics for various credit indices.

BONDS: BENCHMARK GOVERNMENT table showing benchmark government bond yields and spreads.

GLITS: UK FTSE ACTUARIES INDICES table showing actuarial indices for the UK FTSE.

COMMODITIES table showing prices and changes for various commodities.

BONDS: INDEX-LINKED table showing index-linked bond yields and spreads.

BONDS: TEN YEAR GOV SPREADS table showing ten-year government bond spreads.

GLITS: UK FTSE ACTUARIES INDICES table showing actuarial indices for the UK FTSE.

COMMODITIES table showing prices and changes for various commodities.

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ARTS

Real-life prison drama with crowning glory

This week's new film releases reviewed by Stephanie Bunbury and Jonathan Romney

There is a gap in the grille surrounding B-wing in *Sing Sing*, the notorious maximum-security prison that is the setting for Greg Kwedar's gripping inside story of the same name. The opening allows a man to reach out and shake hands with the outside air. New inmate Divine Eye, a notably hard case even here, can't see the point of it, so when long-serving lag Divine G takes him there for a quiet talk, he suspects he is being lured into a trap. You might expect that kind of paranoia from the exercise yard's prime bully. What you might not expect is that he also quotes *King Lear*.

John Whitfield, aka Divine G, just wants to talk about theatre. A founding member of a troupe formed under the real-life Rehabilitation Through the Arts programme, he is brought to breathing, thinking, feeling life by Colman Domingo. G's best friend is Caribbean drug dealer Mike-Mike (Sean San José) and the rest of the group are all played by RTA alumni. Clarence Maclin, the real Divine Eye, plays his own former self: posturing and vicious but oddly vulnerable. His great fear, he tells G, is that he will never be anything but a gangster.

Mixing real actors and amateurs can be messy, but thanks to a script by Kwedar and Clint Bentley that plays to everyone's strengths, it works seamlessly here. So do the periodic sideways moves into documentary, with characters telling their own stories to camera. Arguably, the tension and tedium of life in incarceration are underplayed — but anyone who has seen their fair share of prison dramas brings that awareness with them. The upside is the rich lode of priceless moments and anecdotes that no outsider could devise.



Above: Colman Domingo in 'Sing Sing'. Above right, from left: Bastien Bouillon, Anaïs Demoustier and Pierre Niney in 'The Count of Monte Cristo'

Framing those stories is the familiar business of putting on a stage show: arguing over what to perform, auditioning, rehearsing, nerves before the curtain goes up. The new production, *Breakin' the Mummy's Code*, is written to order by their shipped-in director Brent Buell (Paul Raci, buzzing with energy as a small man strikingly at ease among felons). The clips of the real thing we see during the end titles, which include everything from an unravelling Egyptian

mummy to Freddy Krueger, look terrible, but making great art isn't the priority. As one tattooed hard man says: he's been acting all his life; the point is to find new roles.

Very gradually, G and Divine Eye discover a common spirit, mutual loyalty, even a softness between them. Meanwhile, director Kwedar devises a fluid visual language to express that pliancy, using sidelong angles and every opportunity to open up a larger space to enliven the prison grey. Intermittent tides of music bulk up this emotional content. Mostly, however, we look at the men's faces. It is their story, after all, even if it is rendered as fiction, with a lot of rough smoothed in that process. At the very least, *Sing Sing* allows silenced voices to be heard. **SB**
In UK cinemas now

A veritable cascade of betrayals, daring escapes, sword fights and intricately plotted deceptions, *The Count of Monte Cristo* is an old-fashioned swashbuckler stretched beyond conventional limits. At three hours, it sets out to buckle far too many swashes for its own good. But directors Alexandre de la Patellière and Matthieu Delaporte do have a lot of story to tell. And Alexandre Dumas's doorstep novel is a stew of genres: what begins as an adventure brightens into romance before darkening into a revenger's tragedy. All post-Napoleonic life is here.

The year is 1815. Heroic sailor Edmond Dantès dives into a stormy sea to rescue a mysterious woman who, unknown to him, is carrying a letter from the recently deposed emperor. When this incriminating letter turns up in his own belongings — the dirty work of his vicious commanding officer, working in cahoots with a corrupt prosecutor and Danglars (Patrick Mille), Dantès's duplicitous friend — he is arrested in the middle of his own wedding and plunged into captivity.

Decades later, now in possession of vast wealth and a new identity, Dantès returns to France to find and punish the dastardly men who conspired against him.

As the count, an indefatigable Pierre Niney cuts a noble but increasingly vampiric figure, swirling through his overstuffed chateau in slow motion as Jérôme Rebotier's brooding score surges from an ominous drone into the kind of full orchestral thrash favoured in the historical romances of yesteryear. The camera zooms and swoops like a duelling gentleman's sword; brazenly excessive CGI delivers the dankest dungeons, most perilous mountain paths and grandest palaces imaginable.

Nothing here is remotely believable, which is the pleasure of it. Sit back and abandon yourself to the full weight of Dumas's 18 volumes of derring-do, related not perfectly but with an infectious energy. *Et après le déluge, mes amis, to the bar!* **SB**
In UK cinemas now

Filmmakers have often explored the theme of children without adults, and the idea of childhood as its own republic, lawless but precarious. Following a briskly comic London treatment of the topic, Charlotte Regan's *Scrapper*, here is Swedish drama *Paradise Is Burning*, about three sisters whose mother has gone Awol.

Aged from seven to 16, they get by, like *Scrapper*'s young heroine, with



Sing Sing
Greg Kwedar
★★★★☆

The Count of Monte Cristo
Alexandre de la Patellière & Matthieu Delaporte
★★★★☆

Paradise Is Burning
Mika Gustafson
★★★★☆

Black Dog
Guan Hu
★★★★☆

developing relationship with Hanna, the ambivalently magnetic Delbravo shoots a look at the camera that is the very essence of teenage check-me-out defiance. If you're still trying to fathom this summer's hip shibboleth "Brat", this film — and that glance — provide as good a definition as any. **JR**
In UK cinemas now

Chinese drama *Black Dog* begins with a canine cascade — a stampede of strays that comes hurtling across a stretch of the Gobi Desert. The episode introduces Lang (Eddie Peng), a silent loner returning to his hometown from prison. The town is on the verge of demolition for planned renewal — the time is 2008, on the eve of the Beijing Olympics — and what remains is an ashen husk of a place, windblown, bleached to a mineral pallor and overrun by dogs, some supposedly dangerous, others simply abandoned. They are clearly akin to Lang himself, who comes to form a close, mutually suspicious relationship with a rangy greyhound.

Director Guan Hu is one of the "Sixth Generation" of Chinese filmmakers, who started out in the early 1990s. He is a contemporary of the revered Jia Zhangke, who appears here as a local big shot, and whose own films (including *Unknown Pleasures* and *A Touch of Sin*) have mapped his nation's social changes over decades. Similarly, clued-up Sinologists would no doubt be able to read *Black Dog* as a commentary on China's specific socio-economic condition in 2008 and since.

But beyond those meanings, *Black Dog* registers as an existential fable about isolation, redemption, the possibility of making connections against the odds. It is also a crime thriller and a dazzling piece of landscape cinema: Gao Weizhe's widescreen photography brings a haunted quality to city corners, dilapidated interiors and swaths of desert, with echoes of Sergio Leone's epic sweep.

This hallucinatory film might appear to have bleakness as its keynote. But there is undeniable tenderness at play, even comedy, not least in the developing love-hate relationship between Lang and the dog. The latter is played by one Xin, whose quizzical snout and ever-mobile ears speak the volumes that the taciturn human prefers not to. **JR**
In UK cinemas now

As one tattooed hard man in 'Sing Sing' says: he's been acting all his life; the point is to find new roles

an unlikely older partner in crime — Hanna (Ida Engvoll), a middle-class woman who fancies dabbling in transgression, making the teenager her mentor in the art of invading other people's homes.

The sisters' summer paradises are tainted from the start by the reality of their abandonment and the inadequacy of the adults around them, who are variously negligent, exploitative or simply calamitous. The only people we feel we can trust are the girls in the story's predominantly female universe.

Gustafson charges her film with both dreamlike languor and riotous energy. *Paradise Is Burning* exudes joy, but also a sense of imminent collapse — and decidedly no cuteness. At one point in Laura's



Left: Safira Mossberg in 'Paradise Is Burning'. Below: 'Black Dog' features a quizzical turn from Xin the greyhound



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FT BIG READ. INTERNATIONAL POLITICS

Masoud Pezeshkian was elected as Iran's president on a pledge to boost the economy and ease social restrictions. But he faces factional infighting, geopolitical tensions and simmering hostilities with Israel.

By Najmeh Bozorgmehr and Andrew England

A new push for better ties with the west

It was supposed to be Masoud Pezeshkian's moment of crowning glory. Instead, it will be remembered for a dramatic assassination that put Iran on a war footing.

It was July 30, and scores of foreign dignitaries had gathered in Iran's parliament to attend the swearing-in of Pezeshkian, the Islamic republic's first reformist president in two decades. The 69-year-old had recently won a snap election, marked by promises to resolve Tehran's long-running nuclear stand-off with the US and European powers in the hope of securing sanctions relief.

"I will not rest until these unjust sanctions are lifted," Pezeshkian told the audience, which included officials from the EU, China, Russia and Arab states. "We want to normalise our economic relations with the world."

But just hours later, an explosion ripped through a state-run residence. Inside was one of the guests who had flown in for the inauguration — Ismail Haniyeh, Hamas's political leader, who was killed. The attack was clearly a targeted one. Stunned by a humiliating assault, Iranian officials blamed Israel and vowed revenge.

The assassination has put the Middle East in a state of anxious limbo. Many wonder what form retaliation might take, amid fears the region is at risk of sliding towards a full-blown conflict.

It also underscores the massive challenges Pezeshkian faces if he is to meet his election pledges. His chances of success are beholden to the complexities of politics within the theocratic system, geopolitics and the simmering hostilities with Israel.

"When I heard about Haniyeh's killing, I thought to myself what a difficult and painful path lies ahead for Pezeshkian," says Mohammad-Sadegh Javadi-Hesar, a reformist politician. "Israel challenged him on his main promise to engage with the world by trying to drag him into a war. Some of Pezeshkian's opponents at home also didn't mind seeing his premature failure."

Even before Haniyeh's assassination, many inside and outside the republic, sceptical about dramatic shifts in domestic or foreign policy, believed the odds were stacked against Pezeshkian. Hardliners, who are ideologically opposed to engagement with the US, have further cemented their hold on power, while reformist politicians were pushed ever more to the margins.

Relations with the west have also deteriorated as Tehran has expanded its nuclear programme, sold drones to Russia that it used in its war in Ukraine, cracked down on dissent, arrested foreign and dual nationals and been accused of targeting citizens in Europe.

But the death of President Ebrahim Raisi, a hardline cleric, in a helicopter crash in May presented an unexpected opportunity for the reformists to make a comeback. After being forced to call an emergency election, the authorities shocked many by approving Pezeshkian's candidacy for the presidency. Disillusioned reformist politicians — who remain loyal to the system but believe it has to adapt to meet the aspirations of a fast-changing society — were suddenly energised and rallied around his bid. He went on to beat the ultra-hardliner Saeed Jalili in a run-off.

Many suspect that the regime's leadership has recognised that it has little choice but to switch course if it wants to project social and political stability at a critical juncture. Reform-minded politicians also know that it is likely to be their last chance in power, as they will find it hard to ever regain the trust of voters again if they fail.

"A significant shift is quietly occurring, with a growing consensus around Pezeshkian. It's not too late for this change; we are not yet at the point of no return," says Saeed Laylaz, a political analyst. "[Reformist] politicians who once believed the Islamic republic was on the brink of collapse are now vying for senior positions."

The stakes have rarely been higher. In addition to tensions triggered by the Israel-Hamas war, Pezeshkian is taking the helm at a point when the republic is preparing for a succession — Ayatollah Ali Khamenei is 85 years old. Now 45 years old, Iran's theocratic system is facing a legitimacy crisis as its popular support plummets, while the regime is plagued by factionalism. And the new president will have limited tools at his disposal. He inherits a broken economy, choked by sanctions; key policy decisions have to be approved by Khamenei.

Should Pezeshkian fail, Iran will continue on what appears to be an



Iranian President Masoud Pezeshkian arrives to speak in parliament this month. Right: Women talk at a café in Tehran during the election campaign in June. Below: Ayatollah Ali Khamenei, left, with Pezeshkian in Tehran earlier this week
Iranian Presidency/ZUMA/Shutterstock; Morteza Nikoubazl/NurPhoto/Shutterstock; Iranian Supreme Leader Office/EPA-EFE

inevitable collision course with the west over its nuclear activities; economic woes will continue to fester and domestic frustrations will intensify.

"Pezeshkian is the last stronghold... within the current structure. If the walls of Pezeshkian's government collapse, the entire foundation will suffer, and everyone will be affected," Bijan Abdolkarimi, a philosophy professor, told Iranian media last month. "It doesn't matter if you are a reformist or a hardliner; the tsunami of failure will sweep everyone away."

But if he is successful, his presidency could go some way to reducing both domestic and foreign tensions. They have been simmering since 2018, when then US President Donald Trump withdrew from the nuclear accord Tehran had signed with world powers and mounted a "maximum pressure" campaign against the republic.

"It is a critical four-year period," says Vali Nasr, professor of international affairs and Middle East studies at Johns Hopkins School of Advanced International Studies. "The election outcome is only a reprieve. Pezeshkian's election alone is not going to change policy or get us to a different place — it's the process that will determine whether it can."

Much of what Pezeshkian is able to accomplish — or not — will depend on other powerful actors within the theocratic system, as well as the actions of western states that have long since lost patience with the regime's machinations and have little faith in its ability to change.

The president can influence policies and direction: he chairs key bodies including the Supreme National Security Council and oversees the economy. The president can also shape the tone of government, both domestically and in

its engagement with the outside world.

But it is Khamenei and the Revolutionary Guards who determine Iran's foreign policy — including how it retaliates for the assassination of Haniyeh. Pezeshkian is also likely to face resistance from hardliners at home, as he tries to fulfil his election pledges to ease social restrictions, including removing internet filtering and not compelling women to wear the hijab in public.

"There are still many threats, including radicalism from both hardliners and reformists," says Laylaz.

A heart surgeon who served as health minister two decades ago and was a parliamentarian for four terms, Pezeshkian was long seen as a mid-ranking reformist with a flair for populist language. In a system tainted with corruption, he had the reputation of having clean financial records and for reciting religious books.

Reformist politicians take solace from the fact that the president appears to have the trust and backing of Khamenei, who has praised Pezeshkian and called for unity among opposing factions. "His victory is a victory for all of us," Khamenei said last month.

The calculation of those who believe Pezeshkian will be able to deliver a degree of change is based on the belief that Khamenei has concluded it is in the regime's interests to shift tack. "The republic has shown pragmatism and is adjusting to meet new public demands," says a regime insider. "The turning point in this shift was this election."

For his part, Pezeshkian has repeatedly spoken of his obedience to the supreme leader, projected his religiosity and fulfilled his promise to establish a national unity government that includes conservatives as well as reformists. A reformist president leading a moderate government, he seeks consensus rather than radical change, marking a new chapter in Iranian politics, analysts say.

If the theory that Khamenei is attempting to change direction is correct, it signals an abrupt reset. When Raisi was elected in 2021, he was widely perceived to be Khamenei's protégé and a frontrunner to succeed him as supreme leader even though his election was marred by a then record-low turnout of 48.8 per cent as many voters believed the outcome was preordained.

At that time, the belief was that Khamenei had concluded that if loyalists were in control, it would end the perpetual infighting within the regime and ensure a stable political environment to plan for succession.

But his government was either unwilling or unable to revive the nuclear deal,

known as JCPOA, with the west, despite more than two years of tortuous indirect talks with the Biden administration.

Meanwhile, Iran's economic malaise deepened and the gap between the leadership and ordinary Iranians widened. Since Trump imposed waves of sanctions in 2018, inflation has soared from single digits to about 40 per cent.

And in September 2022, one of the worst anti-regime protests in decades erupted following the death of Mahsa Amini in police custody; the 22-year-old was arrested for wearing her hijab "improperly". The public anger rattled the regime to its core, while the scars of a brutal crackdown linger.

Some analysts believe the real reason Pezeshkian's candidacy was approved was to lure more voters to the polls and reverse a trend of record-low turnouts at elections. Even so, turnout in the first

"The republic is adjusting to meet new public demands. The turning point in this shift was this election"



round slumped to 39.9 per cent before recovering to close to 50 per cent when it was a straight fight between Pezeshkian and Jalili, stoked by voters' fears of what a hardliner victory would bring.

Pezeshkian was never the ruling system's favoured candidate — some believe his victory represented a miscalculation by the leadership. But he was considered to be an acceptable face of the reformist movement — a loyalist who could be trusted not to rock the boat should he win.

The regime insider says the low turnout in the first round was a "wake-up call" for the leadership. "A low turnout could embolden people to act against the political system and potentially trigger street protests," the insider says.

An increasing number of Iranians have come to see elections as a moment for silent protest. Many urban young Iranians today speak of wanting regime change, not change from within.

The regime insider believes the gap

has "been somewhat repaired" after Pezeshkian's victory. "The Islamic republic needs public support more than ever as oil revenue has declined," he says. "Previously, when Iran could sell oil, public support was less critical. Now, with an economy dependent on tax collection, public support is crucial. Iranian leaders must listen to the people more than before."

It is this reasoning that makes some Iranians believe Khamenei is ready to negotiate with the west on the nuclear crisis, the assumption being that he believes Iran needs sanctions relief to alleviate its economic problems.

Uppermost in his mind is ensuring political and social stability ahead of the eventual succession process, commentators say, and, if Raisi's presidency failed to revive the economy, Khamenei is willing to gamble on another route.

"Before you even get to the answer to the question of who is going to be his successor, you have to also think under what conditions will that succession happen?" says Nasr. "In a condition where the majority of the Iranians are totally disaffected, Iran is on the war-path with the United States, and its domestic economy is collapsing?"

One of the key challenges facing the Islamic republic is how to negotiate a new nuclear agreement with the US, European powers, Russia and China, the signatories of the 2015 deal. The nuclear and political scene has changed dramatically since the atomic accord was finalised. Iran's nuclear advances have been massive; Russia has invaded Ukraine with Tehran siding firmly with Moscow.

The Israel-Hamas conflict has brought the Islamic republic and the Jewish state close to direct confrontation on multiple occasions, the latest of which has been the killing of Haniyeh.

The regime insider says that the supreme leader has "clarified that Iran needs sanctions relief". But, he adds, "this should be achieved in a dignified manner, rather than appearing as a surrender," adding that Iran would insist on keeping its enrichment capacities.

Under the previous deal, Iran agreed to cap its uranium enrichment to 3.67 per cent purity in return for sanctions relief. But for more than three years, Iran has been enriching at 60 per cent — which is approaching weapons grade. It is now regarded by western governments as a nuclear threshold state, with the capacity to produce sufficient fissile material required to produce a bomb within about two weeks, experts say.

The main clauses in the 2015 accord expire next year; western diplomats believe it will require a new agreement to resolve the crisis.

The Biden administration is likely to have little appetite, or bandwidth, for serious negotiations as it gears up for elections, particularly as the Israel-Hamas war continues, with Iran supporting regional militants from Hizbollah in Lebanon to the Houthis in Yemen. A senior US official says that while Pezeshkian "might change the tenor of how Iran talks about engaging with the west or engaging on human rights at home, ultimately, final decisions at the end of the day are not up to him".

A Trump victory in November would add another layer of complication. But the regime insider says Tehran would be willing to negotiate with Trump.

Ali Vaez, an Iran expert at Crisis Group, says that the best outcome might be that the US and Iran reach a "calm-for-calm" arrangement for the short term, similar to what they reached last September, which involved a prisoner swap and the Biden administration agreeing to unfreeze \$6bn of the republic's oil money. But, Vaez adds, "those discussions would be very difficult".

For Pezeshkian, a deal and the avoidance of a regional war is vital. While he has only spoken in general terms about his plans, it is most likely the economy that will determine whether he can reverse the widening chasm between Iran's people and its leadership.

"Economy is the top priority but it is closely tied to foreign policy, which in turn is linked to domestic politics. That's why Pezeshkian has formed a national unity government," says Mohammad Ali Abtahi, a former reformist vice-president. "So far, he has been successful in helping create a different social and political atmosphere, one that is not comparable to just a few months ago. Otherwise, we would be hearing more about war."

Additional reporting by Felicia Schwartz





Richard Waters
Rivals face daunting race to fill gaps around chip leader
INSIDE BUSINESS

Reformed CGT should tax only real, not illusory, gains

In the years since the financial crisis, politicians have regularly intoned that the broadest shoulders should bear the biggest burdens.

Prime Minister Sir Keir Starmer is the latest to step up the rhetoric as he prepares the ground for a tax-raising Budget in October. Owners of businesses and other assets are rushing to pre-empt an expected rise in the capital gains tax rate.

CGT is sometimes depicted as a voluntary tax. That is an exaggeration but investors may well have choices over when and where they pay the tax. Currently they are seeking to accelerate gains by pushing through business sales, liquidating property portfolios and transferring assets into trusts. Some investors may leave Britain, although tax on UK property sales cannot be avoided this way.

Forestalling is likely to bolster receipts in January 2026, although they will dip thereafter. The take is highly sensitive to expectations about possible policy changes, real or imagined.

In the year to April 2023, revenue from the levy fell 15 per cent to £14.4bn after two years of particularly strong growth. Those were probably fuelled by calls for a rate rise made in 2020 by the Office of Tax Simplification, an advisory body later scrapped by former prime minister Liz Truss.

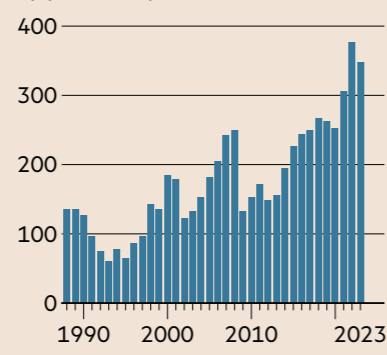
That recommendation was not implemented, although tax breaks for entrepreneurs selling their businesses were scaled back that year and ominously renamed business asset disposal relief or “bad relief”.



Balance: chancellor Rachel Reeves must seek revenue and fairness — Getty Images

Relatively few people pay UK capital gains tax

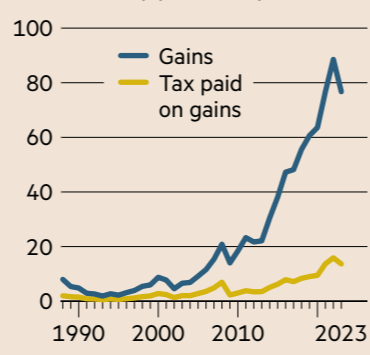
Number of individuals paying CGT, by year of disposal ('000)



Source: HMRC

Capital gains have risen sharply in recent decades

Capital gains and tax paid by individuals, by year of disposal (£bn)



Source: HMRC

Over the years, CGT has been repeatedly reformed as priorities changed. In the 1980s, the Conservatives introduced an inflation allowance to put an end to the taxation of paper gains. In the late 1990s, an era of low inflation, Labour scrapped the allowance and introduced tax breaks to encourage business growth and serial entrepreneurship. Since then concern about avoidance and revenues has prompted a series of changes in rates and structures.

This time, Labour is likely to focus on raising revenues and fairness. A large share of taxable gains is in effect repackaged income. The resulting lower rates benefit a small number of people who overwhelmingly live in

London and the South East, according to the Institute for Public Policy Research. This increasingly influential think-tank this week issued a report arguing for the equalisation of capital gains and income tax, which it says could raise £16.6bn next year.

But that makes no allowance for inflation, which is crucial. The IPPR itself reports the case for a “rate of return allowance” that would free a portion of gains from tax, although it notes this could be expensive.

The history of CGT shows it is a difficult tax to design well. But there are practical as well as principled reasons for taxing only real gains, not illusory ones.

Nvidia brings out the crowd but not the fireworks

Nvidia earnings are officially a crossover spectacle.

Market strategists say that the quarterly event for the semiconductor darling now rivals the US unemployment report day as a bellwether for broader economic health and animal spirits.

Right on cue, an Nvidia earnings watch party set for Wednesday afternoon at a Manhattan sports bar was organised and advertised on social media.

The group should not have been disappointed by the actual results. Overall, Nvidia's second-quarter revenue of \$30bn was up 122 per cent, year on year. And within its core data centre division, revenue was up 154 per cent. The latter growth rate had moderated from 426 per cent in the previous quarter.

Nvidia founder and chief executive Jensen Huang was as much a cheerleader as ever, saying the AI revolution remained in its early innings and that shipments of Nvidia's next-generation chip, Blackwell, would increase in the coming months after supply chain problems.

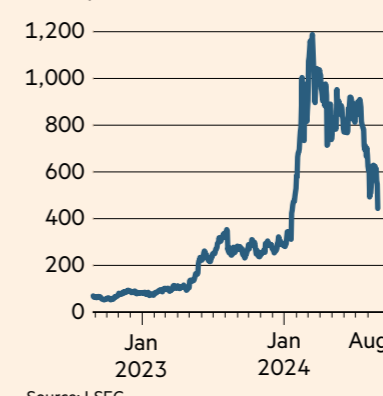
But perhaps surprisingly, Nvidia shares were down, albeit by an unremarkable 7 per cent in after-hours trading. It was all, for lack of a better description, boring even if Nvidia's equity value of \$3tn is three times that of Berkshire Hathaway, which became a member of the trillion dollar club on Wednesday.

If investors were looking for actual fireworks in the AI trade, there were some elsewhere this week, however. Super Micro, an equipment maker for AI data centres, delayed its 10-K filing. The short seller Hindenburg Research published a report taking aim at its accounting practices. Super Micro shares are down 62 per cent from their March peak, a market capitalisation loss of \$40bn for the once-unknown company.

With revenue for the fiscal year expected to come in at about \$120bn, Nvidia's enterprise value/revenue multiple is still around 24 times (for a hardware business that generates 75 per cent gross margins).

Super Micro provided the real fireworks

Share price (\$)



Source: LSEG

The company's net cash balance has reached \$25bn. Its new stock buyback authorisation of a meaty \$50bn still only reflects less than 2 per cent of the market cap.

In private markets, investment is flooding to find the next Nvidia whose chips have even more advanced processing capabilities. But for the incumbent, even one that is still adding more than \$10bn of revenue per quarter, the wow factor might be fading, even if the underlying business is not.

CrowdStrike may be down but it appears to be far from out

Major mistakes do not often go unpunished. But there may be exceptions. US cyber security group CrowdStrike was responsible for one of the world's biggest IT outages on July 19. Yet it reckons the impact on this year's revenues will only be about \$100mn at the midpoint of the range it provided — just a 2.5 per cent cut compared with previous guidance.

CrowdStrike's market value is down nearly \$20bn since the outage, well over 10 times what the lost sales would be worth on the current multiple of 15.7 times. In part, that may be down to the perception of legal risk, notably from Delta Air Lines, which said the outage cost it \$500mn. CrowdStrike says customer agreements limit its liabilities and it has insurance to

mitigate the impact. But the threat of lawsuits does not seem to be the only dynamic at play. While CrowdStrike languishes, shares of rivals Palo Alto Networks and SentinelOne are up 10-20 per cent, suggesting the market thinks their relative position has been strengthened. That looks pessimistic.

CrowdStrike's customer base should prove pretty sticky. Ripping out cyber security modules and replacing them is hard. Some affected clients may ask for discounts, but that would be relatively small beer. Ellie Bagshaw from Arete Research estimates the impact from existing customers bartering at \$77mn over the next 12 months.

The bigger question is whether the glitch might harm CrowdStrike's ability to secure new clients. But its core selling point — the ability to detect and prevent cyber risks — is untarnished. Its product is widely considered among market leaders. Plus its efforts to “platformise”, or sell multiple services to its customers, are bearing fruit, with almost half spending over \$100,000 running eight or more of its modules.

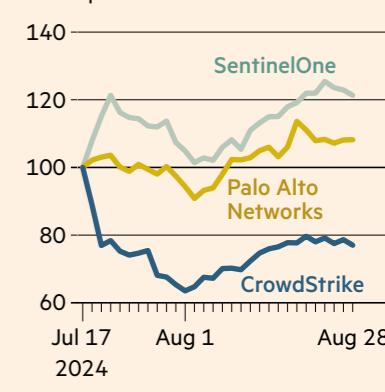
Most importantly, CrowdStrike's crisis communications has been received positively in the cyber security community, says Shaul Eyal of TD Cowen. That the company has managed to retain some sort of reputation for competence is no mean feat after single-handedly crashing millions of the world's computers.

The outage may well delay contract negotiations — and be used as leverage by customers to gain better terms.

But the lesson may turn out to be that, on occasion, even a pretty cataclysmic error doesn't cause companies to strike out.

Global IT outage hits CloudStrike stock

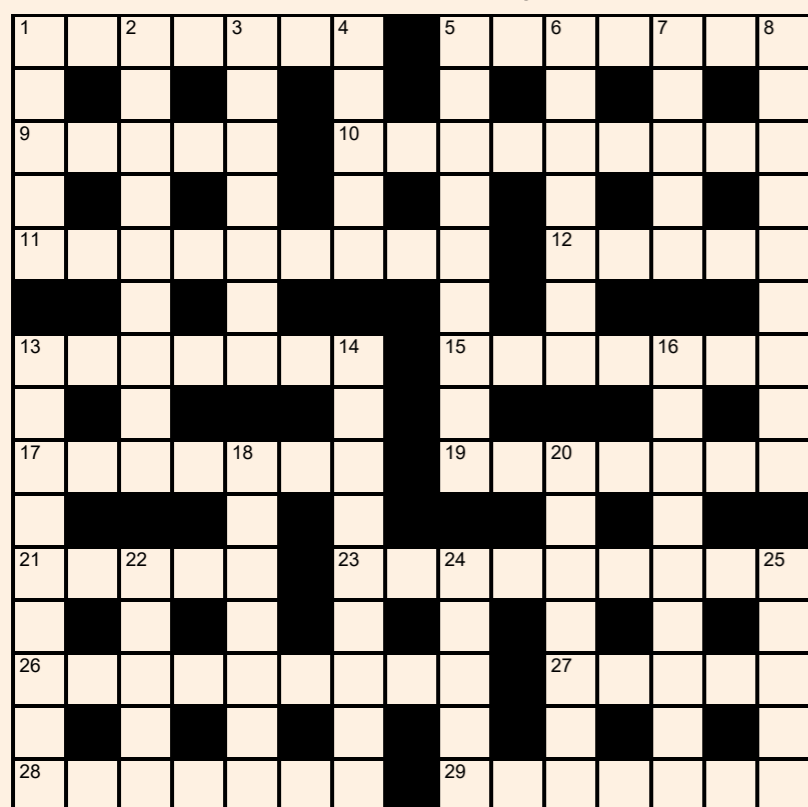
Share prices rebased



Source: LSEG

NIKKEI Asia The voice of the Asian century

CROSSWORD No 17,829 by SOLOMON



ACROSS

- Bananas British Airways put at the front of gate in stylish container (7)
- Hot guy you once dated said something unoriginal (7)
- What's charged upon a bridge crossing river? (5)
- Carol's hugging some bloke and Solomon's dancing (9)
- Model for books about nature (9)
- Sound emerging from car when disc's put on (5)
- Character with money, but not love, is smoking pot (7)
- Masculine American I see alongside Jolson in *The Jazz Singer*? (7)
- The rams disperse — one's put in a cage (7)
- Let fly at half-cut gangster that won't easily crack (7)
- Feel dozy? Turn off the lights (5)
- Bed-wetter laundering the ends of pink polyester eiderdown with Persil (9)
- I threw the wobbly for that reason (9)
- One fat lady lifting both ends of barbells? (5)
- Princess's contentment to clap? (7)
- Petition the leaders of Shugborough Estate to cut tree (7)

DOWN

- Beginning to fall, the young boxer loses head, becoming angry (3,2)
- Some lingo freshly coined (9)
- Dance by topless simoleon that takes one's breath away (7)
- Bubbly and happy crowds around Great Britain? (5)
- Harry — 'I'm red and pale of skin' (9)
- Politician enthralled by firm bottom's breadth (7)
- This endless, empty road leads to a pass, just (5)
- That worn by one who's been called? (3,6)
- Charlie, Oscar, Henry, Abi and Edward lived together (9)
- Place either end of yak before another beast of burden (9)
- Record from jazzman? A piece worked on by the Carpenters, reportedly (9)
- A volatile artist may lose this article ... paint? (7)
- Crazy people making love (7)
- Put oil on to remove poster from the top of building (5)
- What Scotsman drinks in the Betty Ford Center? (5)
- Reinterpret Chaplin's boxing gag (5)

Solution 17,828

C O N T E S T F A T U O U S
L E U R A A R K
I N C U R O S C I L L A T E
M E O J E E T W
A S S I S T A N T O X E Y E
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