

Amplia Monthly Investor Letter



Retracement on equity markets, pick-up in IPO's

April was a negative month for stocks, and especially the American indices recorded losses for a change. The S&P 500 posted a total return of -4.08% and NASDAQ Composite -4.38%, respectively. In Europe the situation was more diverse: for instance OMX Stockholm 30 climbed 2.19% whereas DAX and SMI in turn recorded losses of 3.03% and 2.72%, respectively.

The ongoing earnings season has progressed neatly so far. Of the S&P 500's companies that have reported, 79.87% have beaten the consensus earnings estimate set on them. In that light the recent setbacks on the markets can rather be attributed to investors adjusting to the higher-for-longer interest rate regime in the US than Q1 earnings disappointments.

Although bond markets work smoothly and companies can easily access capital, the IPO market has been practically dead for the past two years. Be it for the nice spring weather or not, corporate M&A and other equity capital market activity is picking up. Over the past week, we have witnessed a take-over proposal of Anglo American by BHP Ltd. This would, if successful, significantly change the mining sector globally. We have also seen two sizeable European IPO's, with Puig Brands listing in Madrid and CVC Capital Partners in Amsterdam.

Geopolitics biggest risk for investors right now

The state of the global economy is currently better than anytime since the beginning of the Russo-Ukrainian war. A pessimist can easily find imbalances in the largest economic blocs, such as the ballooning budget deficit in the US or the risks of the fading fiscal and monetary expansion on the country's private consumption. In China, the calamity of the real estate sector is being combated by state-led concentrated efforts on a couple of industrial areas. The products of these sectors, such as solar panels and EV's, are allegedly being dumped in Europe. In Europe the adverse demographics, pervasive regulation and other known challenges drag on the economic growth of the continent.

In our view, all these risks and threats are known to the investors and accordingly priced in the security prices to a large extent. We see some similarities in the market to the latter half of the 1990's because interest rates will remain elevated for some time still whilst equity markets keep grinding higher.

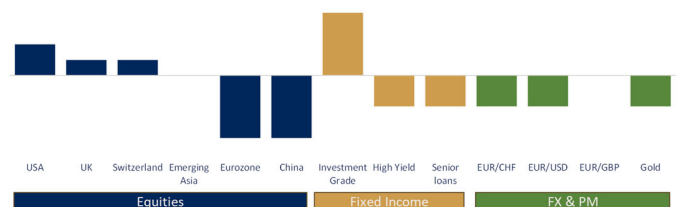
The real economic benefit of the internet, general productivity gain, took place in the noughties in the wake of the internet technology companies and coincided with an era when the aura of the former star stocks had already dimmed. In a similar fashion, the AI hype is already visible in the prices of many technology company shares although the real productivity boost still lies ahead of us. We believe that the shares of companies - regardless of the sector - that can utilise AI have room to ascend higher whilst it will take longer for the broader applications of the AI to become ubiquitous and thus boost productivity globally. Regardless of the time span of the general productivity gains, it will be positive for the markets, and accordingly the present imbalances are not a reason to not invest in equities.

Geopolitics has however become a considerable risk for several reasons. Stocks have traditionally slid in the months to the US presidential election, and we believe this technical correction will also come this time. Both the US and EU will probably levy more import tariffs and by doing so break global supply chains: the EU by setting tariffs on imports from China and US on goods of most of its trade partners. The Biden administration does not considerably differ from that of Trump as both try to vie for voters with election pledges of

"reindustrialising" the US in the 1950's style. The massive *Inflation Reduction Act* from the year 2022 was far from fighting inflation - it effectively aimed at industrialising the country by investments in new energy amongst others.

Our current asset allocation

We are moderately underweight in equities in our tactical asset allocation as per the below chart. As explained earlier, we do not consider the macroeconomic situation adverse. However, the equity market rally of the recent months has raised valuation multiples, and combined with the approaching election cycle, the risk of a technical correction remains elevated. At the same time, interest rates remain high on both sides of the Atlantic, which means that bonds offer a better risk-adjusted return than equities for now.



Our asset allocation across liquid main asset classes

We are overweight in the US, the UK and Switzerland. In exchange we are underweight in the Eurozone and China. Of sectors, we prefer consumer discretionary, followed by technology, communications, and pharmaceuticals.

Bond markets have been trading water lately, and no big price movements as in the fourth quarter 2023 have been seen. Nevertheless, bonds have delivered reasonable coupon cash flow, and we believe this trend will go on in the upcoming months.

Credit risk spreads in the high yield segment are way too low to justify the additional risk over investment grade bonds, and therefore we are underweight in high yield. The same applies to senior loans.

As to currencies, we prefer the Swiss franc over the euro following the rally of EUR/CHF from 0.93 to and above 0.98 in only four months. Also, safe haven currencies such as the franc nearly always strengthen when a market correction occurs. For USD, we see the same chance for a price gain against the euro. Here the rationale is not so much the macro economy - the chronic twin deficit of the US weighs almost as much as the structural problems of the Eurozone - but the higher interest rate level of the US and the safe haven status of the dollar, similar to the CHF. Finally, gold is quoting at an all-time-high, and investing in a belief that the present rally will continue in this interest rate environment comes at an excessive alternative cost.

On 2nd May 2024

Yours sincerely

Juho Kivioja