

Amplia Monthly Investor Letter



Quiet on markets, US outperforms Europe

The current bull market starts to break records in terms of smoothness. By end June, the S&P 500 had registered 384 days without a 2.05% sell-off or 2.15% gain, as data compiled by CNBC show. This marks the longest calm period for the iconic index since the Financial Crisis of 2009.

Also bond markets recorded another quiet month, with the Bloomberg Global Aggregate Total Return, a global benchmark with over 30'000 investment grade bonds, posting a total return of 0.14%. The conditions of low volatility and credit risk spreads prevailed, with investors shrugging off the results of the EU parliament election, the rise of nationalists in France and the ongoing French and the upcoming UK and US general elections. The French stock market was the only one to really stumble, as the CAC40 fell by 6.20% in June in the wake of President Macron's snap election gamble.

The stock market has behaved in the first half of 2024 exactly as it has done in so many years lately: American equities have outperformed their European peers and technology-related sectors have outperformed more traditional ones. Whilst no European main index could post double-digit total returns, did S&P 500 eke out a total return of 15.29% thanks to IT and Communications Services:

S&P 500 sector	Performance YTD	Index weight	Performance FY 2023
Information Technology	28.24%	32.45%	57.84%
Communication Services	26.68%	9.34%	55.80%
Consumer Discretionary	5.66%	9.95%	42.30%
Industrials	7.75%	8.13%	18.08%
Materials	4.05%	2.15%	12.55%
Real Estate	-2.45%	2.15%	12.35%
Consumer Staples	8.98%	5.77%	0.52%
Financials	10.16%	12.42%	12.10%
Health Care	7.81%	11.72%	2.06%
Energy	10.93%	3.65%	-1.42%
Utilities	9.44%	2.26%	-7.08%
TOTAL	15.29%	100.00%	26.26%

S&P 500 total returns by sector in the first half of 2024 and full year 2023.

Source: Bloomberg, Amplia.

Politics to dominate headlines in months ahead

No such event has taken place in June that would materially change our view of the world. Some risk assets, most notably high yield and global equities, are increasingly dependent on both central bank support via easing monetary policy and positive Q2 earnings surprises to justify a continuation of the current rally. Whilst the risk of an outright recession is low and has been so ever since early 2023 when it became evident that the US would avoid a hard landing, a technical correction is becoming increasingly probable in our view. The reason for such a correction does not have to be a seismic shock but a small event that triggers profit-taking.

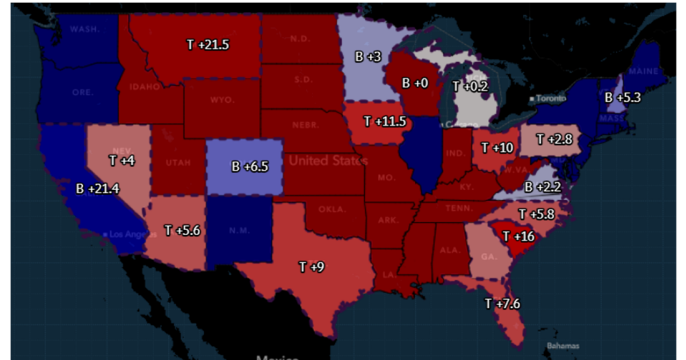
Meanwhile, the second quarter earnings season fully kicks off in the second week of July with the banking giants JPMorgan Chase, Wells Fargo and Citigroup posting their earnings first.

Glimpse to US policy implications for investors

We give in to temptation of predicting what will change for the investors when the newly-elect US President can start implementing his agenda in January next year. These are only predictions yet because – as usually happens – campaign promises and manifestos are designed to address as many of the electorate as possible, and will likely differ from the more moderate agendas to be implemented.

Following Thursday night's first TV debate where Biden stumbled a couple of times, the polls point towards a Trump victory, as can be seen from the below

chart of republican (red) and democrat (blue) states as polled by RealClearPolitics.



US political map as of 1st July 2024 excluding Alaska (republican) and Hawaii (democrat). Source: RealClearPolitics, Bloomberg.

However, it is important to bear in mind that not only the control of the Oval Office is decided in the election: also the Congress gets reshuffled. The representatives have a two-year tenor and accordingly all House seats are up for election whereas the senators serve a 6-year term, and 1/3 of them gets elected on 5th November 2024.

Thus, it is more correct to speak about a "red wave" or "blue wave" as oftentimes is the case. Our base case is a divided Congress where the Democrats are well positioned to win the House and Republicans the Senate, respectively. In such a hung government, new legislation would require a bipartisan agreement that could necessitate some horsetrading or otherwise be difficult to reach. Therefore, it is probable that the actual new legislation under either of the two candidates will have some elements from the other one's agenda.

Should there however be a clear Republican or Democrat dominance, with the President's party controlling the Congress, we could expect the stock market performance to start differing by sector and geography. Below are some considerations if such a Blue Wave (democrat sweep) or Red Wave (republican sweep) did happen.

Implications of Blue Wave

A Democrat victory would mean a continuation to the current administration's policy: Biden has vowed to "finish this job". Aside of matters of domestic policy, such abortion rights where he takes a more liberal stance than Trump, Biden is more open to immigration and preservation of the country's international alliances and agreements. Whilst Biden's second term would probably see a tougher policy stance on China and an increase in protectionist measures such as tariffs than his first term, the pro-immigration view would dampen inflationary pressures over time in the country with a full employment.

A Biden administration would probably be a big positive for alternative energy stocks because markets have priced in a fair chance of a Trump victory and penalised HVAC manufacturers, EV automakers, renewable energy players, such as upstream and residential solar companies, as well as various industrial suppliers of grid equipment and services. Also, some companies with a high exposure to China in terms of imports, such as toy manufacturers, could see a relief rally.

Conversely, a Biden victory would deal a blow to traditional oil and gas producers and healthcare companies, as Democrat administrations have historically been more willing to cap prices of drugs.

Biden has vowed to raise the corporate tax to 28% whereas Trump has hinted at lowering it to 15%. Barclays estimate that a raise of the corporate tax from the present 21% to 28% would lower the S&P 500's earnings per share by 3.4%. Combined with other proposed Democrat corporate tax initiatives, changes to international corporate taxation (2.2%) and increased levy on share buybacks, the total hit to earnings could amount to 7.4%. Meanwhile, Barclays analysts assume that a Trumpian 15% corporate tax would equal to a 3.2% tailwind to S&P 500 earnings, all else being equal.

Implications of Red Wave

It is notable that Trump has on several occasions said that his economic priorities are regulation, regulation and taxes. He has argued that under Biden's tenor no tech M&A has taken place. Some of us might remember Executive Order 13771 from his first term. This order, rescinded by Biden in 2021, required federal agencies to repeal two regulations for every new one they issued.

Although deregulation would not take place immediately due to the Administrative Procedures Act (APA) that Trump would first have to revoke, the tech sector should profit from a more liberal stance to mergers and, perhaps more importantly, see a reduced risk of antitrust investigation. The same applies to other highly regulated sectors such as financials and pharmaceuticals. How much, if any, the pharma sector stands to profit remains unclear because mergers of the recent years have seen US companies relocate their headquarters to Ireland or other countries with a lower taxation and many of them have been blocked for rather protectionist than antitrust concerns.

Trump has also taken a more liberal stance on crypto. The crypto industry has called for clearer rules and regulative guidance, which so far has fallen to deaf ears at the current administration. A US-wide regulation of wide parts of the crypto industry could usher in a golden era of crypto currencies and infrastructure, even though such regulation would take time to implement.

Equally evident as Trump's dislike of regulation is his belief that rules for trade with China should be overhauled. The foreign trade is also the part of the economy where the new president will be least dependent on the support of the Congress. Whilst the public opinion has started to favour protectionism, Trump is more aggressive in that respect than Biden, and we can expect new levies on all kind of imports from China. European exporters may also feel the pinch, with tariffs being levied on imports of physical goods from other parts of the world as well, not only China.

A Republican sweep would thus in our view benefit tech, crypto, oil and gas, financials as well as some domestic producers of physical goods. Losers would include European exporters, renewables, multinationals with high exposure to China and Chinese equities as a whole.

Divided congress and common policy initiatives

A continuously elevated inflation and interest rates are trends that we see picking up irrespective of the winner. The Federal budget deficit started to grow during Trump's administration and became worse under Biden. The sources of funding of both Trump's and Biden's election promises are vague at best, with especially Trump's tax cut pledges showing potential to dent the confidence in the long-term debt servicing ability of the country if implemented. An expansive fiscal policy in a country with full employment is usually not a good idea. Increased government borrowing will feed inflation, interest rates and the foreign trade deficit. In the short run, this might result in a stronger but more volatile dollar, with a weakening dollar as a long-term consequence.

Other topics where the candidates seem to find common ground are nuclear energy and various industrial fields such as shipbuilding. Given the specific

nature of these industries, any potential onshore investments in these should also benefit European manufacturers, alleviating the blow from the tariffs if the Republicans win.

Our current asset allocation

We remain cautiously underweight in equities in our tactical asset allocation as we see risks skewed to the downside in the short term.

We favour tech, communications and pharmaceuticals, also partly because of the prospect of less regulation and more room for M&A. We also keep consumer discretionary in overweight but follow critically how a potential build-up of trade barriers could create headwinds for the sector.

Our biggest underweights are in energy where policy risks are substantial. We also keep the continental Europe in underweight, as we do with China.

Boring as it may sound, we do not make any changes to our fixed income allocation either. We keep a slight cash overweight, with the cash invested in money market, and stay underweight in high yield.

We continue to favour the Swiss franc and the dollar over the euro.

On 1st July 2024

Yours sincerely

Juho Kivioja