Amplia Monthly Investor Letter

The Changing of the Guard

November marked a significant turning point, with financial markets grappling not only with macroeconomic shifts but also with the implications of a new political chapter in the United States. The election of Donald J. Trump and a Republican sweep of Congress signal the start of a policy agenda likely to emphasize protectionism, reduced immigration, and fiscal expansion, setting the stage for considerable market uncertainty. As with the seasons, transitions bring both opportunity and risk.

The month ended positively in equities - particularly in the US. Losers were the export dependent Nordic countries. Bonds performed positively across the board.

29.11.2024 Equities	Currency	Return mtd (eur)	Return ytd (eur)	Return 12m (eur)
World	USD	7,6 %	27,2 %	33,9 %
Emerging Markets	USD	-0,8 %	12,4 %	17,2 %
US	USD	8,9 %	33,2 %	39,7 %
EU	EUR	1,1 %	9,3 %	14,1 %
UK	GBP	4,2 %	15,9 %	20,9 %
Japan	JPY	2,1 %	13,7 %	14,0 %
South-Korea	KRW	-2,7 %	-10,8 %	-4,5 %
China	USD	2,1 %	19,9 %	18,6 %
Finland	EUR	-3,1 %	-3,9 %	-0,7 %
Sweden	SEK	-0,6 %	1,4 %	8,8 %

Bonds	Currency	Return mtd (eur)	Return ytd (eur)	Return 12m (eur)
Euro Government	EUR	2,2 %	3,3 %	6,7 %
US government	USD	3,7 %	6,6 %	9,8 %
Europe IG	EUR	1,5 %	4,6 %	7,6 %
US IG	EUR	1,5 %	2,0 %	6,5 %
EU HY	EUR	0,6 %	7,5 %	10,9 %
US HY	EUR	1,0 %	7,0 %	10,9 %

Equity and bond returns. Source: Bloomberg, Amplia.

U.S. equities gained, supported by optimism around fiscal stimulus, while European and emerging market stocks underperformed. Bond markets faced renewed pressure during the beginning of the month, as the prospect of a pro-growth, inflationary U.S. policy regime drove yields higher across the curve.

Macro Economics: Shifting Policy Priorities

The U.S. election outcome has introduced a new set of dynamics into the global economy. Trump's campaign promises of increased infrastructure spending, tax cuts, and reduced regulatory oversight have revived expectations of short-term growth acceleration. However, the administration's focus on trade barriers and restrictions on immigration introduces risks of slower productivity growth and heightened wage inflation over the medium term.

The labor market, already tight, is expected to face additional constraints as reduced immigration exacerbates worker shortages in key industries. Wage inflation, often described as "sticky," could become a central issue for the Federal Reserve, challenging its efforts to balance growth and inflation.

Outside the U.S., Europe faces its own struggles. Economic growth remains lackluster, weighed down by weak consumer demand and persistent geopolitical concerns. Meanwhile, China continues to search for traction. While its targeted stimulus measures have helped stabilize the property market, the country's long-term growth trajectory remains under scrutiny, particularly in light of Trump's potential trade restrictions.

Valuation: Repricing in a New Era

Markets are beginning to price in the potential impact of U.S. policy changes. Equity valuations in the U.S. have held steady, buoyed by optimism around corporate tax reform and fiscal stimulus. However, much of this optimism is concentrated in cyclical and industrial sectors, while high-growth sectors like technology face headwinds from tighter trade policies, making the valuation level of the equally weighted S&P500 index more attractive.

In Europe, valuations appear high due to the increasingly weak growth. The Eurostoxx 50 index has lost momentum since the election, reflecting concerns about impending tariffs. However, hopes for looser monetary policy in 2024 have offered some support.

Source: Bloomberg, Amplia

Sentiment: Optimism Meets Caution

Investor sentiment has been polarized by the U.S. election outcome. On one hand, the promise of pro-growth policies has boosted confidence in sectors like infrastructure and energy. On the other, concerns about inflationary pressures, geopolitical tensions, and the potential for trade disputes have kept markets on the edge.

Volatility metrics rose notably in the lead-up to the election, reflecting the heightened uncertainty. The initial market reaction to the election outcome was still optimistic. Sentiment could indeed turn quickly as the details of the new administration's policies come into focus. Trade conflicts and rising costs for U.S. businesses reliant on global supply chains could also abruptly change investor confidence in the coming months.

Asset Allocation: Positioning for Transition

In light of the shifting political and economic landscape, our tactical asset allocation for the coming months focuses on balancing opportunity with caution:

Equities: We maintain a slight overweight in equities, with increased allocations to U.S. sectors poised to benefit from fiscal stimulus and deregulation, such as utilities and real estate, while avoiding those vulnerable to isolationist policies. In Europe, we remain defensive, keeping a reduced exposure to export-sensitive sectors and regions likely to be impacted by U.S. trade barriers.

Fixed Income: Rising inflation expectations and higher fiscal deficits in the U.S. suggest continued pressure on bond markets. We favour investment-grade corporates and high yield over government bonds, focusing on intermediate maturities to balance yield and duration risk.

Geographic Exposure: While the U.S. outlook is clouded by policy uncertainty, its fiscal expansion offers near-term growth potential. Conversely, Europe faces more immediate risks from global trade disruptions. We are also adopting a more cautious stance on emerging markets, given their vulnerability to a stronger dollar and U.S. protectionism.

The intersection of economic resilience, political change, and market dynamics has set the stage for a challenging but potentially rewarding investment environment in 2025. By staying vigilant and adaptive, we aim to navigate these complexities while preserving long-term growth opportunities.

On 1st December 2024,

Yours sincerely,

Mikael Simonsen