Amplia Monthly Investor Letter

A Promising Yet Fragile Start

The year has begun extraordinarily well for equities, buoyed by a notable absence of bad news and sudden disruptive events. This market optimism is reminiscent of the stable polar vortex that has kept Northern Europe unusually warm—an equilibrium that, while comforting, is inherently fragile. Imagine a community enjoying a rare mild winter, only to be reminded at any moment that a sudden chill could return. Investors, much like those residents, are riding high on current enthusiasm even as they remain aware that underlying complexities could quickly unsettle this calm.

Performance: Markets Riding the Warm Winds

31.01.2025 Equities	Currency	Return mtd (eur)	Return ytd (eur)	Return 12m (eur)
World	USD	3,4 %	3,4 %	21,3 %
Emerging Markets	USD	1,7 %	1,7 %	14,7 %
US	USD	2,7 %	2,7 %	25,8 %
EU	EUR	6,4 %	6,4 %	14,0 %
UK	GBP	5,1 %	5,1 %	16,7 %
Japan	JPY	0,3 %	0,4 %	12,0 %
South-Korea	KRW	6,2 %	6,2 %	
China	USD	-2,4 %	-2,4 %	20,7 %
Finland	EUR	5,9 %	5,9 %	1,1 %
Sweden	SEK	7,2 %	7,2 %	12,6 %

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

Equity and bond returns. Source: Bloomberg, Amplia.

Nearly all stock markets are up year-to-date, with Europe leading the pack. This European outperformance appears to echo warmer Atlantic winds, hinting at promising growth figures for the region. On the fixed income front, overall performance has been benign, although euro government rates have slipped into the red, highlighting that not all areas share in the prevailing optimism. Additionally, the Itraxx Crossover High Yield spread contracted by 24 basis points in January, signalling a complacent environment among investors despite the underlying risks.

Macro: Navigating New Political and Economic Landscapes

Attention was squarely focused on the presidential inauguration of Donald J. Trump, bringing with it both anticipation and concern about the direction his leadership will take. Initially, the atmosphere was upbeat, largely because there were no immediate announcements of tariffs or overt protectionism. In Europe, PMIs came in strong, suggesting some green shoots of growth—though this improvement is modest, like moving from the harsh freeze of winter to the relative temperance of a refrigerator. Yet, Europe continues to grapple with the burdens of excessive regulation, high taxes, and ageing demographics.

Central bank meetings added little drama to the scene. The FED held its interest rate steady during a meeting that many considered a non-event, while the ECB lowered its rate by one notch without any particularly striking commentary. Meanwhile, all eyes were on Trump's tariff threats, especially those targeting imports from Mexico, Canada, and China during one of his impassioned rants. On Saturday, February 1st, the White House announced the imposition of tariffs at 10% - 25% as a countermeasure against drug flows and human trafficking. Although we have not yet crossed the Rubicon into a full-blown trade war, these moves clearly represent the first signals of what could escalate into broader conflict. The situation remains fluid, and anything can happen.

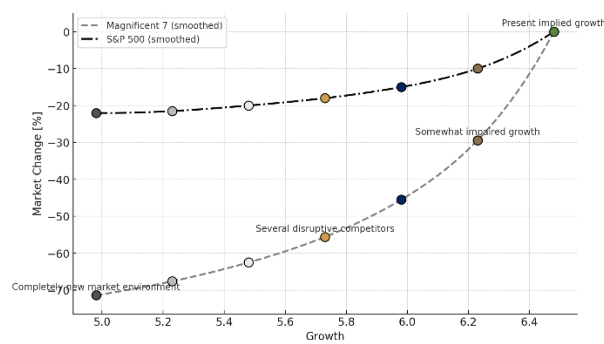
Valuation: Harmony Disrupted by a New Tune

Even with rising equity prices, valuations have held steady relative to expected growth and a constant equity risk premium, buoyed by surprisingly robust US growth figures.

However, a note of dissonance emerged when DeepSeek, a Chinese AI software company, revealed it had developed an AI chatbot using inferior chips and operating on a fraction of the budgets allocated to the so-called Magnificent 7.

This development struck a discordant chord with veteran investors—the silver foxes of the financial world—evoking memories of the end-of-the-dot-com boom era. If the barriers to entry are as low as DeepSeek's breakthrough suggests, then the traditionally oligopolistic profits embedded in the valuations of the Magnificent 7 begin to look unrealistic.

Our analysis indicates that adjusting growth assumptions for these giants would have a significant impact on their valuations with far-reaching effects on the S&P 500 index, as illustrated in the graph.



Source: Amplia

The broader implication is clear: a disruptive new player or a shift to a new normal could reshape market valuations significantly, even if the aggregate utility of economies might ultimately remain positive.

Sentiment: Optimism Under Strain

The news from DeepSeek caused only a minor blip in market sentiment, with most investors shrugging it off without letting it dampen their enthusiasm. Across the board, and particularly in Europe, markets remained overbought at the month's end.

However, as the news of the new tariffs began circulating on Saturday, it became evident that sentiment might soon face renewed pressure. When sentiment is tested repeatedly from multiple angles, it inevitably weakens.

We now face the possibility of a volatility storm—a scenario that, if Trump does not reverse his tariff policies, could escalate into a full-blown hurricane, eroding market confidence further.

Asset Allocation: Preparing for an Extended Fimbulwinter

While our base scenario remains one of a return to normalcy—with rising equity prices and a benign news flow—we recognise the risk that the current cool winds may give way to a self-reinforcing market correction.

As a result, we have materially reduced our equity weights in client portfolios. This tactical decision is not a rejection of our long-term bullish outlook on equities but rather a temporary measure to mitigate risk amid increased uncertainty. We remain hopeful that our caution may prove unwarranted and that we can re-enter the equity market during a relief rally.

Much like residents who brace their homes against the unpredictable whims of a polar vortex—isolating their houses in anticipation of a prolonged ice-cold grip—we are adjusting our portfolio management to weather what could be an extended fimbulwinter. At the same time, we stay alert and ready to open the shutters when the sun eventually begins to shine again.

On 3rd February 2025,

Yours sincerely,

Mikael Simonsen