Amplia Monthly Investor Letter

Margin Call

Humans have a phenomenal capacity to adapt to new circumstances. If energy prices spike, people adjust their consumption and cut back on other consumption to balance the budget. As the market is gradually hit by increasingly negative news, it falls until the expected value of more negative news equals the realisation. Just like in the film Margin Call, where algorithms don't care why the world is changing - only that it is - we react rationally within the bounds of possibility, until equilibrium is restored.

Performance: Interest Rate Migration

Stock markets in the US fell -9.5% in March, while their European cousins managed declines of 1-5%. Markets that are more dependent on international trade (such as the Nordic stock markets) fell slightly more.

31.03.2025 Equities	Currency	Return mtd (eur)	Return ytd (eur)	Return 12m (eur)
World	USD	-8,3 %	-6,0 %	2,5 %
Emerging Markets	USD	-3,5 %	-1,5 %	3,5 %
US	USD	-9,5 %	-8,5 %	3,2 %
EU	EUR	-3,8 %	5,8 %	6,9 %
UK	GBP	-3,5 %	4,9 %	10,6 %
Japan	JPY	-7,0 %	-9,8 %	-10,1 %
South-Korea	KRW	-4,8 %	1,4 %	-13,2 %
China	USD	-6,1 %	-4,6 %	8,5 %
Finland	EUR	-5,2 %	4,4 %	2,6 %
Sweden	SEK	-6,4 %	6,0 %	4,5 %

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

Source: Amplia, Bloomberg

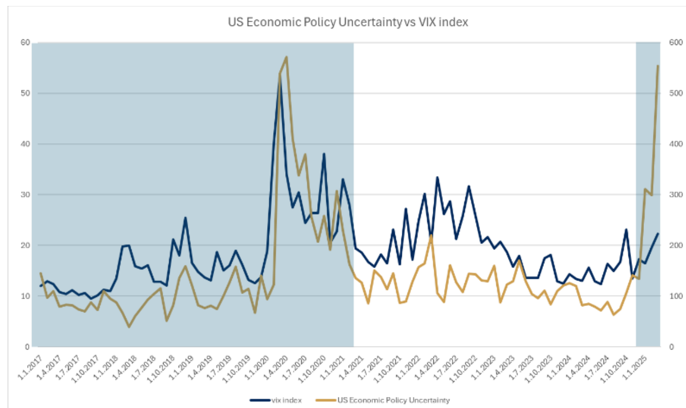
Fixed income markets also took a hit, with the German 10-year yield rising by more than 40 basis points in two days, the biggest move in over 30 years. US yields also rose as the market gradually began to price in fewer rate cuts in response to higher inflation expectations.

Macro: Economic Uncertainty

The US Purchasing Managers' Index rose in March, while inflation turned out to be cooler than expected, sending a strong signal about the US economy. At the same time, tariffs in general and economic uncertainty in particular risk adding to inflationary pressures as well as undermining growth. This puts the US Federal Reserve in a tricky situation; the dual mandate requires the Fed to raise interest rates if inflation rises, but at the same time requires a lower rate when growth slows. This means that interest rate developments in the US will be highly data-dependent going forward and that the Fed will not be able to give explicit projections for the future, which in itself increases uncertainty, affecting the market risk premium.

In Europe, the biggest news in March was that Germany is opting to depart from its historically strict budget deficit policy and is opening up for infrastructure investment of EUR 500 billion and an equal amount for defence investment over the next decade, equivalent to 0.25% of GDP for the entire eurozone each year. This announcement set a new baseline for the euro yield curve by being both inflationary and growth-enhancing.

Economic uncertainty is currently the market's worst macro enemy. Economic uncertainty leads economic agents to postpone investment decisions or demand higher returns on invested capital. This, in turn, leads to lower growth, which, combined with tariffs, creates a toxic mix for both the economy and markets.

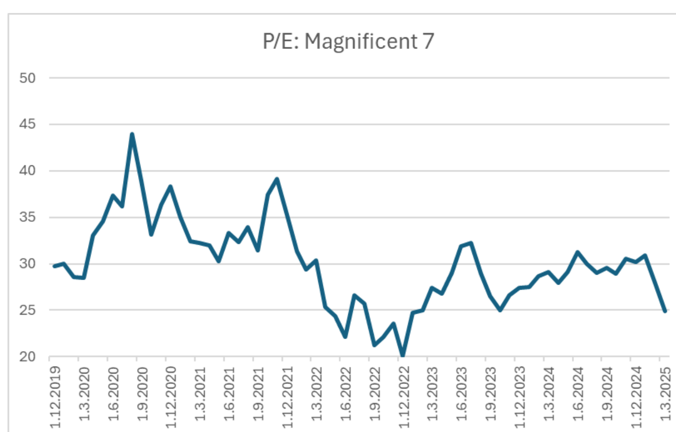


The Economic Uncertainty Index has typically been high during the Trump administration. Higher uncertainty indices typically lead to higher implied volatility, which in turn typically leads to market declines.

Valuation: Low Multiples

Earnings growth expectations in the US have risen slightly, which together with the downturn has made valuation levels more attractive. However, uncertainty about tariffs and the US administration's overall objectives mean that equities on the other side of the Atlantic still do not look particularly cheap. European equities, which were considerably cheaper than their US cousins at the start of the year, have corrected the difference, making them more neutrally valued in relative terms.

The big question is whether the decline in Magnificent 7 stocks has already made them attractive. It is of course a challenge to estimate how much earnings growth will be relative to consensus, but if we rely on analysts not being completely wrong for the estimate for the next 12 months, it doesn't look too expensive, with a P/E of around 25.



Source: Amplia, Bloomberg

Sentiment: Amid Chaos

The deterioration in sentiment that started in February continued in March in the form of a steady downward trend. After 14 March, sentiment seemed to have turned as the S&P500 index rose by almost 5% over eight days. This change in sentiment is probably very similar in nature to the change we will see at the market bottom, as markets showed a clear ambivalence to news of chaos brought about by the US administration, suggesting resilience.

Once chaos becomes the new normal, it will no longer affect the market. A form of chaos inflation. Here we must distinguish between the market reaction that arises from the chaos itself and that which is a consequence of the effects of the chaos. For now, the market is pricing in the effects of arbitrary tariffs, geopolitical realignments and foreign policy vulgarity. When the dust settles and this is priced in, the market will have become immune and may eventually start to rise again.

Asset Allocation: Caution Within Caution

We halved the underweight to our semi-strategic overweight in mid-March. By allocating to the health care sector, we increased the equity weight without significantly increasing overall volatility or market beta. This was possible thanks to the relatively low correlation between the healthcare sector and other equity markets. The allocation to the US also increased significantly, but even this exposure ends up in the health sector, making the position less exposed to foreign policy and rather one of the winners as regulation is likely to be eased.

In the long run, equity indices always stand at their own highest level. This means that any - well-considered - underweight in equities must have a planned end. If you go underweight and wait for the right moment to buy back in, you will be sitting on the platform when the train leaves. To be ready to shift up a gear, you need to identify what the environment will look like at the market bottom. We estimated at the beginning of the year that the (US) market could fall up to 20% as a result of the trade war. Therefore, one of our framework conditions for returning to equity overweight is that the market has fallen enough. Another is if market dynamics change in line with the discussion of chaos inflation and we see the market rising independently of more circus from the Oval Office. As John Tuld says in Margin Call: 'There are three ways to make a living in this business: be first, be smarter, or cheat.

We strive to be prepared enough to sometimes get ahead - and always understand what we are doing.

April 1, 2025

Yours sincerely,

Mikael SImonsen