

# Amplia monthly investor letter



## Operetta

When you enjoy an intricate operetta, you don't always realize how many twists and turns the plot has and how unlikely the outcome would be if you looked at it from the outside. May's long dance around the US trade war is very much like an operetta. The libretto itself starts to feel long-winded, and the protagonist's singing is out of tune, but it would have been challenging to come up with something as imaginative as the spectacle we witnessed in May.

Johann Strauss the Younger wrote the operetta Wiener Blut, which began lightly and dancingly, as the overture to the US election and the anticipation of Trump's presidency. However, the operetta devolves into chaos and complications, leaving one longing for the joyful intro.

## Performance: Stringendo

Equity markets returned positively in May. Following the announcement of the outcome of the US-China talks, global markets rose and never looked back. Despite the good news, China's market performance was disappointing, albeit also positive.

30.05.2025					
Equities	Currency	Return mtd (eur)	Return ytd (eur)	Return 12m (eur)	
World	USD	5,7 %	-4,2 %	4,5 %	
Emerging Markets	USD	4,1 %	-0,8 %	2,3 %	
US	USD	6,1 %	-7,9 %	4,0 %	
EU	EUR	4,8 %	10,1 %	9,1 %	
UK	GBP	4,7 %	7,4 %	8,6 %	
Japan	JPY	4,4 %	-4,5 %	0,9 %	
South-Korea	KRW	9,6 %	11,7 %	-0,2 %	
China	USD	2,9 %	-9,1 %	1,2 %	
Finland	EUR	5,2 %	9,6 %	2,3 %	
Sweden	SEK	3,1 %	5,8 %	1,3 %	

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

Source: Amplia, Bloomberg

Fixed income markets posted positive returns on average, with the exception of the United States, where discussions around the "big, beautiful bill" (a very expansionary stimulus package) gave rise to speculation about the credibility of US Treasury bonds.

## Macro: Pavane

The US imposed new tariffs on some Chinese goods on May 7 to put further pressure on the country. The EU was forced to respond to the dumping pressure from China and sent inspectors to reach a compromise solution with China.

The US later stepped up pressure on Mexico and Vietnam to prevent Chinese secondary exports via low-wage countries. At the end of the month, the US threatened to raise tariffs against the EU to 50% from the beginning of June due to stalled negotiations, only to back down a few days later and postpone retaliation until July.

The market was further spiced up by a federal court ruling at the end of the month against the "liberation day" tariffs, which in itself probably slows down rather than stops the tariffs in question.

Congress has also approved - somewhat under the radar - a regulation that the US will be able to impose additional taxes on foreign companies with manufacturing in the US if the companies' home country is considered to disadvantage US companies in its own taxation.

All this chaos and disorder inevitably leads to an increasingly unpredictable and risky investment climate on the other side of the Atlantic, resulting in reduced investment appetite and lower economic activity. In the run-up to July 9 (which is the deadline for the delayed "liberation day"), there will be more and more "hard data" from the US economy. Depending on this data, we will be able to infer the real impact of the Trump spectacle, but in the light of the macro figures published so far, the US economy appears to be very resilient. Our basic assumption is therefore that, in the absence of clear recessionary signals, the US economy will chug along without deeper wounds.

Without a recession in the US, Europe will fare relatively well, thanks to increased government stimulus. European growth is strongest in Italy and Spain, which are still benefiting from the windfall from the coronavirus support packages. Exports to the US are being held back by both tariffs and a stronger euro.

## Valuation: Saltarelle

Equity markets have steamed on since the market bottom in early April and are currently back in the relatively expensive territory they were in before the trade war crisis. European equities are still relatively much cheaper than US equities, although there has been about a 10% relative (exchange rate adjusted) correction between the areas.

Defence stocks (e.g. Rheinmetall and Saab) have risen significantly since the beginning of the year on the back of expected increases in defence spending in Europe. The key issue for Europe is the war in Ukraine. If a peaceful solution were to emerge, defense stocks would potentially fall significantly, while companies with exposure to the reconstruction of Ukraine would gain momentum. With so many uncertainties surrounding valuations in Europe, it makes sense to diversify by "betting on all horses". A position in Europe, based on valuation, with two "wings" in the form of both defense and reconstruction companies provides a broad and healthy exposure.

## Sentiment: Rondo

The market has gradually become increasingly resilient to the chaos generator in the White House. Following the announcement on May 23 of 50% tariffs on Europe, the S&P500 and Eurostoxx 50 fell only about 2%, before resolutely swinging upwards, to end the day just over one percent in the red. Over the following weekend, Trump reversed his ultimatum, leading to a mediocre relief rally.

The market has assimilated to the idea of TACO ("Trump Always Chickens Out") and the shouting and ranting from the White House is creating less and less waves on the surface of the water. Sentiment is therefore getting stronger to the tune of strong macro numbers, not because of Trump, but despite Trump, and because of TACO.

The strong sentiment is also a signal of vulnerability. Much of the strong macro data that the market has celebrated is backward-looking.

With the VIX index at just under 19 and its European cousin V2X at the same level, there is ample room for potential storms to destroy sentiment and cause market corrections of 3-5%. So one could say that market sentiment is normal (VIX is typically between 15 and 20), but that the macro situation is so foggy that a higher risk number would be justified. Therefore, we see the risks as higher than normal today. However, marginally higher risks are not a reason not to be invested in equities. Risk-taking is what you get rewarded for in the long run.

### Asset allocation: Attacca col gesto

The portfolios are slightly overweight in equities versus neutral allocation. Over time, the more equity weighting you have, the more money you will make and we do not consider the situation to be so risky now that we would not be in a "strategic overweight in equities". However, we have worked out a number of scenarios which, if realized, would lead to decisive action towards a more defensive position.

Our allocation is also quite defensive by nature, with strong elements of healthcare and the interest rate sensitive real estate sector. We like European equities (with wings) and are also happy to hold a lot of risk in European credit securities.

As always, we try to be as prudent as possible in describing potential changes in the market in order to be ready to reduce the equity weighting if necessary. Rigorous risk management allows us to be strategically overweight in equities and rely on *time* to work in the portfolios' favor. Portfolios will inevitably go through periods where their value falls as a result of abrupt or unforeseen scenario outcomes, overlooked scenarios or so-called black swans, but if we file the sharpest edges, the end result is generally good. Wiener Blut ends in a poco a poco stringendo e crescendo, maestoso al fine - faster, higher and majestic in the end.

On 1 June 2025

Yours sincerely

Mikael Simonsen

P.S.

***Stringendo:*** faster

***Pavane:*** solemn opening, dance

***Saltarelle:*** fast, playful contrast, dance

***Rondo:*** as a finale - virtuoso and elegant in form

***Attacca col gesto:*** suddenly, after given sign