

Amplia monthly investor letter



Low pressure

The weather in the Nordic region has been cold and windy in June. Compared to previous years' endless high pressure and tropical heat, it feels like we have landed in an alternate universe. One wonders whether we are experiencing a short-term (tactical) dip in temperatures, with warm weather expected to follow, or whether we are in the middle of a cold year that will later be studied as an anomaly by climate scientists. Is it naive to rely on the assumption that each year is, on average, roughly the same temperature and that a longer cold spell must therefore eventually give way to warmer weather?

On the stock markets this year, especially from a dollar investor's perspective, we have seen a fascinating trend towards high pressure. Regardless of how much turmoil has tried to intrude, in the form of geopolitical imbalance and a chaos-prone administration in the White House, all paths seem to lead back to high pressure. Today, the stock market is hot again. Almost so hot that you can't walk on it.

Performance: High pressure

Equity markets returned negatively in Europe, but positively elsewhere positively in May. The biggest driver was the weakening dollar as well as the Middel-East conflict.

30.06.2025			Return mtd	Return ytd	Return 12m
Equities	Currency		(eur)	(eur)	(eur)
World	USD		0,4 %	-3,8 %	2,1 %
Emerging Markets	USD		2,1 %	1,3 %	1,3 %
US	USD		1,1 %	-6,9 %	0,8 %
EU	EUR		-1,2 %	8,8 %	8,7 %
UK	GBP		-1,7 %	5,6 %	7,3 %
Japan	JPY		2,8 %	-1,9 %	-0,4 %
South-Korea	KRW	📈	13,7 %	27,0 %	5,8 %
China	USD		-0,3 %	-9,4 %	4,3 %
Finland	EUR		1,1 %	10,8 %	6,4 %
Sweden	SEK		-2,5 %	3,2 %	-0,2 %

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

Source: Amplia, Bloomberg

Bond returns were also a mixed bag, with positive returns from credit spread reduction, but negative contributions from the eur/usd.

Macro: Storm warning

The fragile geopolitical balance in the Middle East took a hit when Israel attacked Iran on June the 13th. Everything pointed to an escalation of the situation, but there were many questions about how well prepared Iran and its allies were to strike back. Investors who have followed global markets for decades have become accustomed to unrest, or even war, in the Middle East generally causing little more than ripples on the surface in the Western world. When the US joined the fray on the night of June the 22nd and bombed nuclear facilities in Iran, even the most seasoned investment professionals felt their blood pressure rise. An escalation in which the US is already in the ring and the opponent may have the opportunity to bring in another superpower could lead to much higher stakes at any time. For the moment, however, it seems

that the appetite for war among all parties involved and potentially involved is low.

However, the global economy is standing on the edge of a potential abyss that seems surprisingly unclear to most people (by all accounts). The US has been calling the shots in the tariff landscape, sometimes domineering and sometimes apologetic, which has led to a fundamental shift in the uncertainty surrounding economic policy. At the same time, it seems as if the US president has made it his mission to antagonise allies and friends on the international stage, while fraternising with traditional enemies.

Confidence that agreements will be honoured has vanished, making it very difficult in practice for foreign investors to commit to longer-term agreements with the US. Add to this the president's potential appointment of a compliant lackey as chair of the Federal Reserve and his frenetic push for 'the One Big Beautiful Bill', spiced with arguments that testify more to total incomprehension than to an insightful plan, and we have the conditions for a financial conflagration: an overvalued currency/national debt/stock market (combustible material), a gigantic budget deficit, a trade deficit (oxygen) and incompetent leadership (heat).

According to Amplia's estimates, the stock market could correct by 15%–25% if the American economy falters and the tilted plane begins to push the dollar and Treasuries into a death spiral. This is a relatively unlikely scenario, but too violent to be left out of the calculations. We have created a 'July bingo' in which we define thresholds for various macroeconomic indicators that will, at a minimum, force us to make an active decision. Without going into the intricate details, we define the threshold for when the risk should be taken into account in portfolio management as follows:

Source: Amplia

	ISM Manufacturing PMI	ISM Services PMI	NFP	Initial Jobless Claims
Date	1.7.2025	3.7.2025	3.7.2025	weekly/Thursdays
Trigger:	<45	<48	<50 000	4w mav >260k
Comment:	Manufacturing downturn deep enough to spill over into broader economy; historically aligned with hard landings	Services are ~70% of U.S. GDP; sub-48 readings indicate contraction in services sector activity	Signals hiring freeze or layoffs spreading; below 50k is historically consistent with imminent recession risk	Rising layoffs and hiring freezes feeding into unemployment risk

	Retail Sales	Advance International Trade in Goods	Atlanta Fed GDPNow
Date	17.7.2025	25.7.2025	volatile
Trigger:	-0,50 %	Goods exports <-5% MoM	<0,5% YoY
Comment:	Indicates household retrenchment; historically a reliable sign of consumption slowdown	Exports are extremely sensitive to policy shocks, and sharp drops have historically preceded broader GDP declines	A sharply deteriorating GDPNow signals real-time broad economic weakness

If/when we get 'three correct' in our bingo game, we will evaluate the action plan and weigh the economy's swan song against the weight of equities.

Valuation: Heatwave

With both the S&P 500 and Nasdaq 100 at all-time highs, valuations are generally expensive. However, thanks to strong earnings growth at the beginning of the year, valuations are not particularly high compared to, for example, the beginning of the year. As we mentioned earlier, the biggest question regarding valuation today is visibility.

The results we have seen so far this year came during a period of action amid expectations of upcoming tariffs. It is very difficult to see what is happening under the bonnet, but we will soon have more information in the form of Q2 results and hard macro figures.

If it turns out that US consumers hold out and the surprise effect from corporate sales is low, while we receive some reasonable form of guidance, the relatively low market risk premium may well prove justified.

If any of the above-mentioned requirements fail, we see a risk of a market correction that could become self-reinforcing.

Sentiment: Halcyon days

Technically speaking, the stock market is trading as if nirvana had been achieved. Considering all the stumbling blocks (macro, geopolitics, valuations, visibility problems, economic policy uncertainty), sentiment is exceptionally good. We believe there is considerable room for sentiment to cool, while the more euphoric sentiment corner has very limited room for maneuver.

With current cheap implied volatility and low credit margins, the situation is unstable. Unless the high pressure continues, the market will encounter disappointments that lead to random volatility, which in turn will cause a cycle of increasing volatility.

Asset allocation: 20% probability of rain

Our biggest achievement in asset allocation in June was to sit on our hands when war broke out between Israel and Iran, i.e. to do nothing. The situation is still volatile, but without a clear escalation, the market impact will be limited, according to our analysis. The macro situation in the US is full of question marks, and we will receive more information about the situation over the next three weeks.

Until we have this information, we will remain overweight in risk, in line with our investment philosophy. In other words, we are comfortable with a risk overweight, actively studying, first and foremost, the macro situation in the US and the situation in the Middle East and, secondarily, any changes in the geopolitical situation surrounding Ukraine and Taiwan, as well as increased sabotage activity.

In other words, we are sitting on the sidelines, dressed warmly, with our raincoats at the ready, and expecting a normal Nordic summer – a little on the cooler side, but summer nonetheless.

1 July 2025

Kind regards,

Mikael Simonsen