Amplia's monthly investor letter

House of Cards

In the TV series *House of Cards*, power games are driven by unscrupulous ambition, where every move towards the top is calculated – but never long-term. Loyalties are temporary, truths are flexible and consequences are something to be dealt with only when they become urgent. Similarly, the US administration's economic policy today is characterised by short-term victories: large tax cuts without financing, confrontational trade strategies without alliances and a systematic undermining of institutions that previously served as guarantors of stability.

The economic situation is starting to look more and more like a house of cards – a structure that needs both precision and balance, but gets more unstable with every card pushed in to gain a little more height. Everyone who builds a house of cards believes it will stand and stubbornly hopes it will not yet fall. But in reality, not all cards are symmetrical – and the builder can never be sure that the last card will not be the one that brings everything crashing down.

Performance: Four-leaf Clover

Equity markets rose across the board in July. Along with China and emerging markets, the US was among the best-performing stock markets, with gains of over five per cent. Unexpectedly strong macroeconomic statistics from the US, a stronger dollar and lower perceived risk in the trade conflict contributed most.

31.07.2025 Equities	Currency	Return mtd (eur)	Return ytd (eur)	Return 12m (eur)
World	USD	4,6 %	0,6 %	5,0 %
Emerging Markets	USD	5,3 %	6,6 %	6,3 %
US	USD	5,6 %	-1,7 %	5,1 %
EU	EUR	1,0 %	9,8 %	8,2 %
UK	GBP	3,6 %	9,4 %	8,4 %
Japan	JPY	0,1 %	-1,8 %	0,9 %
South-Korea	KRW	5,8 %	34,3 %	12,9 %
China	USD	7,2 %	-2,9 %	10,6 %
Finland	EUR	1,6 %	12,5 %	7,0 %
Sweden	SEK	3,2 %	6,5 %	1,4 %

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

Source: Amplia, Bloomberg

The bond market also performed well. Longer-dated US government bonds performed particularly well.

Macro: No Trump

The Finnish proverb “well thought out is half done” proved apt for our investment tactics in July. Of the seven indicators we defined in our last investment letter, only one was hit during the month. This means that the US economy continues to show puzzling strength: inflation is conspicuous by its absence, growth is resilient and the labour market is hot.

The biggest uncertainty is the long-term impact of the One Big Beautiful Bill Act (OBBBA), which the president signed on 4 July. The legislative package is massively expansionary and is estimated to increase the deficit by USD 3.3-4.5 trillion over the next decade. Even with the expected GDP effect of around 0.7%, pressure remains at around USD 3 trillion. The national debt could thus grow from around USD 36 trillion today to USD 60 trillion (156% of GDP) in 2055.

The US also signed trade agreements with Japan (22 July) and the EU (27 July). The threat of 30% tariffs resulted in "only" 15%, but the exceptions for steel and aluminium (50%) remain. Japan committed to investing $550 billion in the US and the EU $600 billion – but in the case of the EU, it was unclear who would actually be investing and with what mandate Ursula von der Leyen had negotiated. By their nature, the agreements were highly favourable to the US. However, the transactional logic means that their sustainability is questionable: when party A maximises its position, party B does the same when the pendulum swings.

Trump also came down hard on Fed Chairman Powell, with his typical simplistic insults and political pressure. This raises once again the question of central bank autonomy – and suggests that Trump will only appoint inflationary and expansionary members in the future.

What the OBBBA, the trade agreements and the Fed bashing have in common is that they are inflationary for the US dollar in both the short and long term, while pushing up longer-term interest rates. In the short term, however, the US economy will potentially enjoy a honeymoon period fuelled by borrowed and stolen money, but this increases the likelihood, albeit low, of financial chaos and a plummeting dollar with skyrocketing long-term interest rates.

When society's institutions are used as tools for short-term victories – fiscal, geopolitical, monetary – the silent contract that has historically stabilised the financial topography is lost. The paradox of the suddenness of the Minsky moment is not the external shock, but the accumulated overconfidence that no shocks will occur.

Valuation: Diamonds

Valuation levels remain high. In the US, forward P/E is now around 22x, compared with the historical average of 17–18x. In Europe, the P/E ratio is 16.5, which is expensive relative to the region's own history (12.4–15.6) but still significantly cheaper than the US. In other words, the market is driven by optimism and confidence in the future, even though the price tag looks high in objective terms. This increases the risk of a correction rather than a continued upturn.

The earnings season started surprisingly strong, with 72% of S&P 500 companies beating earnings forecasts and 77% beating sales expectations. But the reaction was asymmetrical: companies that missed estimates were punished with an average price decline of 4.7%, while those that beat expectations rose only 1.9%. Corporate guidance has become more selective and unpredictable, but revision changes have turned positive for the first time this year, driven by consumption, AI investments and resilience in the tech and staples sectors.

Sentiment: Spades

Market sentiment is reminiscent of a grand slam in bridge – played at 15 points against your opponents. The odds are against you, but confidence is blinding.

The Vix risk index fluctuated between 15 and 17 throughout the month, and realised volatility was 6.3% for the S&P 500 and 9.1% for the Stoxx 600 – roughly half the normal level. Technical indicators are neutral, but given that we are back at levels similar to those before "Liberation Day" and that the feared tariffs have now been implemented, there are clear risks of sentiment deterioration.

When sentiment is particularly strong, this gives rise to two effects: i) sentiment is expected to remain strong, and ii) sentiment is expected to collapse if it changes. It is therefore particularly important today to assess sentiment and be prepared for a sharp downturn when the real effects of the tariffs materialise in the economy.

Asset allocation: Hearts

The biggest challenge in July was once again not to sell off risk. This is mentally difficult, as the market has been perceived as overheated since April and valuations have returned to levels as high as a soprano saxophone, while everything other than good macro statistics from the US risked causing disappointment in the market. Our *passion* for trading only on predetermined catalysts/levels or concrete changes in risk sentiment meant that we remained overweight in equities – a successful decision.

As we increased our weighting in Europe (with an emphasis on opportunities in Ukrainian reconstruction, European defence and European quality), our weighting in the US, and particularly in the technology sector, declined significantly. To close our tactical position in the French CAC 40 index, we sold our holdings and invested in the Nasdaq 100.

We remain semi-strategically underweight in the US and the USD, but slightly less so than previously. At the same time, we are overweight in equities. If the house of cards in the global economy starts to collapse, we will react quickly and decisively. And in portfolio management, as in bridge, the rule holds: if the contract looks wrong, it's better to pass than to double.

1 August 2025

Kind regards

Mikael Simonsen

P.S. **NT (No Trump)**: A bid in bridge that means playing without a trump suit.