

Amplia's monthly investor letter



Blue notes

In jazz, so-called blue notes are used to add colour and emotion. A blue note is “false” in the sense that it doesn’t belong to the established scale – precisely why it’s instantly recognisable. The world is full of blue tones: a touch of honey in a salty dish enhances the spice, a tie that clashes slightly with the suit perfects the whole, and a red cushion on a white sofa changes the character of the entire room.

On October 30th, the market flashed for the first time in four years a warning signal known by the dramatic name Hindenburg Omen. The omen appears when many stocks simultaneously reach both new highs and new lows – a sign that the market has lost its internal balance. It is often viewed as a harbinger of an impending correction. The question is whether this signal should be interpreted as a blue note – a subtle nuance in a complex system – or as a genuine prelude to a market downturn.

Performance

October turned out to be a strong month for equities. In Europe and the United States, stock markets rose by 3–5 %, while Japan advanced nearly 14 %. The main drivers were the absence of negative macro surprises, a solid earnings season, and a calmer trade climate between China and the US.

31.10.2025			Return mtd	Return ytd	Return 12m
Equities	Currency		(eur)	(eur)	(eur)
World	USD		3,7 %	7,5 %	9,5 %
Emerging Markets	USD		6,0 %	19,2 %	14,8 %
US	USD		4,1 %	5,1 %	8,6 %
EU	EUR		2,6 %	15,4 %	16,2 %
UK	GBP		3,6 %	15,6 %	17,1 %
Japan	JPY		13,9 %	22,1 %	24,8 %
South-Korea	KRW		22,4 %	71,9 %	61,6 %
China	USD		1,2 %	10,2 %	8,9 %
Finland	EUR		1,0 %	17,3 %	13,2 %
Sweden	SEK		2,6 %	14,1 %	11,5 %

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

Source: Amplia, Bloomberg

Bond markets also performed positively as yield curves declined and the dollar strengthened.

Macro

The US federal government has been shut down since early October and is now approaching the longest closure in history. The immediate economic effects remain limited, but there is a risk that consumer confidence will weaken if paychecks remain frozen. A more tangible effect is that key statistics are not being published while the Bureau of Labor Statistics is closed, leaving the market in the dark about employment and inflation. When the data eventually arrive, they could have a major impact: weak labour figures would support equities via lower rate expectations, while higher-than-expected inflation might trigger a correction.

AI investments are expected to support a favourable growth environment, both through direct stimulus and productivity gains. The lion’s share of such investment occurs in the US and parts of Asia, while Europe remains largely absent from the AI arena. This makes European growth weaker but also less exposed to the risk of an AI bubble marked by over-investment and over-optimism. The US has the highest AI adoption, Asia the fastest growth. Regulation, data protection and fragmentation continue to slow Europe, but the IMF still estimates potential productivity gains of about 1 % per year over the next decade – implying that 15–20 % of current market valuations rest on expected AI efficiency gains.

The global economy is now more dependent on AI than on any other single factor. Where growth and earnings once followed cycles, trade and commodities, uncertainty is today dominated by the trajectory of technology. Should the AI bubble burst, the outlook could deteriorate sharply – yet innovation tends to advance in leaps, leaving room for new breakthroughs. At the time of the first major breakthrough, the Transformer architecture in 2017, global AI investment amounted to USD 25–40 bn. When large language models emerged in 2019–2020, that figure reached USD 40–60 bn. Next year, total investment is expected to approach USD 500 bn – a measure of both opportunity and risk.

Valuation

The ongoing earnings season confirms a surprisingly resilient global profit cycle. In the US, four out of five S&P 500 companies have beaten expectations, with aggregate earnings growth near 8 % year-on-year. Revenues have grown more modestly, but margins remain firm – particularly in technology and communication. Market reaction has been muted, suggesting much of the good news was already priced in.

In Europe, reports have been more mixed. Average earnings growth stands at 2–3 %, though surprises have been positive, especially in industrials and consumer sectors. There are signs that earnings momentum may be bottoming, yet valuations remain moderate. The forward P/E for European equities is around 14, compared to just above 22 for the S&P 500 – a historically wide discount to the US.

Overall, the picture is divided: the US offers higher quality and stronger earnings growth, but at valuations reminiscent of the late-1990s peak. Europe, in contrast, appears cheaper and more cyclically geared, with greater leverage to an eventual upturn. Investors thus face a familiar trade-off between growth and value – this time with a growing sense that the US market is already running hot.

Sentiment

Market sentiment is red-hot, with new all-time highs almost weekly. Most technical indicators show an overbought market. Yet beneath the surface the picture cracks: correlations are high, diversification effects weak, and measures of dispersion between new highs and lows confirm the so-called Hindenburg Omen. The market is, in short, nervously overbought.

This nervousness is evident in the jittery reactions to minor disturbances. When Trump voiced frustration over China’s export limits on rare earths, markets briefly lost their footing. Later, worries over regional banks sent the VIX from 20 to 29 within hours – only to fall back the next day.

With markets this strong, investors naturally look for opportunities to lock in profits. Sentiment can shift in a single breath, triggered by an external shock. If such a shock strikes the very sectors that have driven the rally, feedback loops

may emerge: higher risk premiums beget still higher risk premiums. Today, the key drivers are AI optimism and the temporary absence of tariff concerns. A weaker macro print or disappointment in the AI sector could rapidly deflate sentiment. Regional bank stress, however, is unlikely to end the party.

Allocation

We maintain a relatively high equity allocation but remain ready to reduce exposure should growth slow while risks rise. The AI sector's sustainability is a Damoclean sword we monitor closely. A 10–20 % correction within AI would not in itself warrant action – such moves are normal for high-growth industries. A broader decline in corporate investment appetite, however, combined with more cautious guidance, could signal that the jazz ballad is reaching its coda.

3 November 2025

Kind regards,

Mikael Simonsen