

Amplia's monthly investor letter

War

Wars rarely start on the terms on which they end. Vietnam, Afghanistan and Korea were all intended as swift operations, yet evolved into prolonged wars of attrition as the nature of the conflict changed and military objectives drifted further away from political ones.

“Don’t bring a knife to a gunfight,” as it is put in *The Untouchables*. The United States and Israel have followed the manual – with overwhelming military capacity. Iran’s response is of a different nature: not symmetric force, but strategic friction via the Strait of Hormuz – and thereby the global economy – using what, in practice, resembles bows and slings.

Perhaps it is more appropriate to invert the expression: don’t bring a gun to a knife fight.

Performance

Returns in March were clearly negative as a result of the war in Iran. Emerging markets and Japan, which had previously performed strongly, were the hardest hit. US markets held up relatively better, partly supported by a stronger dollar.

Crude oil – at the centre of the storm – rose by more than 50% in March, although it has retraced from peak levels.

31.03.2026		Return mtd (eur)	Return ytd (eur)	Return 12m (eur)
Equities	Currency			
World	USD	-4,3%	-2,0%	11,3%
Emerging Markets	USD	-11,1%	1,5%	21,3%
US	USD	-2,9%	-2,8%	9,9%
EU	EUR	-7,7%	-1,0%	12,1%
UK	GBP	-5,9%	3,2%	17,5%
Japan	JPY	-12,3%	2,4%	28,6%
South-Korea	KRW	-22,1%	19,6%	106,7%
China	USD	-4,1%	-0,9%	15,3%
Finland	EUR	-4,9%	2,5%	29,7%
Sweden	SEK	-11,4%	0,5%	16,6%

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

Source: Amplia, Bloomberg

As inflation expectations increased, bond markets lost their footing and declined materially. Credit markets also weakened, driven by both higher yields and wider spreads.

Macro

US unemployment data surprised to the downside, while PMI readings were stronger than expected. Backward-looking data was, however, quickly overwhelmed by the waves generated by the war in Iran.

Despite the human tragedy and geopolitical drama, it is not the war itself that destabilises the global economy, but its transmission mechanism: Strait of Hormuz → energy prices → inflation → GDP growth → earnings. The duration of the conflict will therefore be decisive for the extent of the economic damage.

The information environment is, at the same time, paradoxical. Never before has so much data, analysis and real-time reporting been available to so many. This creates a sense of overview – and, by extension, competence.

Yet the quantity of information is not the same as its quality. What is consumed is, to a large extent, narrative – filtered through the author’s background, incentives and perspective. The result is a market populated by participants who are well informed in the details, but whose overall picture is often fragmented. A patchwork rather than a map.

At the same time, the most decisive variables – diplomatic contacts, internal decision-making processes and potential escalation paths – remain largely obscured. The air is, quite literally, filled with gunpowder smoke, and the constellations evolve faster than they can be analysed.

Within this thicket, it can at least be noted that several actors have an incentive for a relatively swift resolution: the United States for political and financial reasons, Israel potentially due to constraints in defensive capacity, and the Gulf states due to lost revenues.

Iran, by contrast, has an incentive to prolong the conflict and gradually bleed its opponents, while ensuring regime survival. Israel simultaneously seeks to maximise long-term security by degrading Iran’s military capabilities.

Game theory suggests that there is no outcome in which no party can improve its position without another losing (Pareto optimality). A Kaldor–Hicks-like outcome – where total cost is minimised and all parties leave the table dissatisfied – would imply an end to hostilities and the reopening of the Strait of Hormuz without regime change, uranium confiscation or a decisive US defeat. This would be the economically optimal outcome.

There are also a number of Nash equilibria that are stable only temporarily (escalation, prolonged conflict). All of these are clearly negative for the economy.

Without taking a view on the drivers, the most likely short-term state appears to be a prolonged conflict with rising inflation and lower growth – a stagflationary environment.

On a one-year horizon, the distribution of outcomes appears binary: either a 1970s-style oil shock or de-escalation with parties stepping back and licking their wounds. A strictly agnostic observer would therefore likely hold a more pessimistic view of the global economy than is currently implied by market pricing.

Valuation

Over the past week, several economists have warned that markets risk missing the forest for the trees when assessing the economic impact of the war. While markets have been waiting for a “TACO moment”, the poison from higher energy prices has already begun to spread through the global economy.

At the time of writing (following a modest TACO-lite on 31 March), the Brent forward curve remains approximately \$10 per barrel above pre-war levels. If sustained, this would imply a global GDP drag of roughly -0.25% (-0.4% for Europe and -0.15% for the US).

Historically, earnings have moved at approximately 1.5–2 times GDP growth. In a supply-driven inflation environment, this multiple tends to rise significantly – often to around 3 times or more – as companies face both weakening demand and margin pressure.

Using a simple back-of-the-envelope framework, this would suggest that European equity markets should adjust by roughly -16% and US markets by around -9%. Currently, Europe is down approximately -9% and the US around -4%, implying further downside of roughly -7% and -5%, respectively.

The problem with simple models in exceptionally uncertain environments is their sensitivity to assumptions. If developments in Iran move towards an “uncomfortable peace”, current valuations could prove either fair or even somewhat elevated.

Sentiment

Sentiment is under pressure, but not broken. Markets appear fatigued rather than panicked. The rally in mid-month was largely driven by position unwinds and short covering, rather than a broad re-engagement with risk. At the same time, the move around the turn of the month was supported by genuine optimism related to the conflict.

Volatility has increased, but without triggering the dynamics typically associated with capitulation. Pricing suggests a partial adjustment to the new environment, rather than a full re-rating. There is friction, but not yet dislocation.

What we observed around month-end may represent the kind of positive geopolitical signal that can quickly release pent-up risk appetite and drive a more sustained rally. If such signals prove unfounded, there is a risk of a broader “boy who cried wolf” dynamic, which – in the absence of a concrete ceasefire – could lead to a prolonged, almost mechanical repricing to the downside.

Allocation

Immediately following the outbreak of the war, we reduced equity exposure in discretionary mandates. The most efficient instrument for this was our Nasdaq ETF exposure, and transactions were executed at market open.

Given the elevated uncertainty, we initially moved to an exceptional neutral position relative to strategic weights, corresponding to an approximate -10% shift in growth mandates.

Following further analysis, we decided mid-month to reduce equity exposure further, bringing the position to approximately -5% relative to neutral. The decision was not trivial – as is always the case when acting against prevailing momentum – particularly given that the next significant move is likely to be upwards.

Our analysis, however, indicates that uncertainty is asymmetric, with a more problematic downside. From the perspective of preserving absolute wealth, this is decisive.

Following the latest adjustment, markets declined by approximately -5%, but have since recovered to similar levels following month-end relief signals.

We continue to assess downside risks as dominant in the absence of a clear resolution to the conflict and remain prepared to increase the underweight further. At the same time, we remain humble with respect to the stochastic nature of outcomes and stand ready to move back to an overweight position, up to +10%, should the geopolitical environment improve materially.

Not all wars become prolonged – but enough do that it should not be ignored.

1 April 2026

Kind regards,

Mikael Simonsen

PS. TACO refers to Trump’s tendency to step back at the last moment (“Trump Always Chickens Out”).

PPS. TACO-lite is a milder version of TACO.