Amplia's monthly investor letter

The Pen in the Drawer

One of philosophy's classic thought experiments asks whether the pen left in a desk drawer still exists when the drawer is closed. For most people, it is simply a philosophical puzzle. For a portfolio manager, it is a rather fitting description of the summer holiday.

A well-structured investment process consists of a number of specialised functions, each with both a primary and a backup decision-maker during the holiday season. This allows responsibilities to be handed over in a controlled manner, giving even experienced portfolio managers an opportunity to disconnect. Even so, curiosity is difficult to switch off completely. After all, uncertainty is the portfolio manager's natural adversary.

There will probably be a quick glance at the markets from the summer cottage while the coffee is brewing, or a discreet scan of the financial headlines while the rest of the family assumes the weather forecast is being read. The purpose is not to predict every market movement, but rather to develop a mental outline of the market's current state. As long as that outline still looks familiar, one knows that "the pen is still in the drawer." In reality, what one wants to make sure of is simply that nothing is melting down while one is away. Familiar contours provide reassurance.

Performance

Equity markets delivered positive returns in June, with the exception of the Nordic markets.

30.06.2026 Equities	Currency	Return mtd (eur)	Return ytd (eur)	Return 12m (eur)
World	USD	1,3 %	12,8 %	25,2 %
Emerging Markets	USD	0,6 %	27,4 %	48,1 %
US	USD	1,1 %	13,1 %	25,8 %
EU	EUR	2,6 %	10,3 %	21,5 %
UK	GBP	1,6 %	8,9 %	23,2 %
Japan	JPY	5,7 %	38,8 %	60,4 %
South-Korea	KRW	1,4 %	118,2 %	201,1 %
China	USD	4,1 %	14,9 %	40,8 %
Finland	EUR	-3,6 %	9,4 %	30,5 %
Sweden	SEK	-0,7 %	8,5 %	29,2 %

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

Source: Amplia, Bloomberg

Fixed income markets also generated positive returns during the month.

Macro

The June crisis in the Middle East subsided far more quickly than most investors had dared to hope. Markets rapidly shifted from pricing in a potential oil shock to refocusing on the more familiar drivers of interest rates, inflation and corporate earnings. That does not, however, mean that the risks have disappeared.

The conflict itself could, of course, reignite. Yet even if the military confrontation remains contained, a more persistent logistical challenge remains. Tanker traffic through the Strait of Hormuz has yet to return fully to normal, while insurance premiums, shipping routes and port logistics are likely to remain influenced by elevated caution for some time. At the same time, the true size of global strategic petroleum reserves remains uncertain. In any geopolitical conflict, every participant has an incentive to appear stronger than they actually are, leaving markets to operate with information that is, by definition, imperfect.

The more significant macroeconomic risk, however, lies elsewhere. The United States continues to combine a federal budget deficit of roughly seven percent of GDP with sizeable current account and trade deficits. As a result, the country remains dependent on a continuous inflow of foreign capital to finance both public borrowing and private consumption. History shows that such imbalances can persist for remarkably long periods, but also that they sometimes unwind much faster than markets are able to adjust. Even modest changes in global investors' willingness to finance US deficits could therefore generate disproportionately large moves in the Treasury market.

Looking further ahead, an even more structural question deserves attention. For decades, the international financial system has rested on the fact that oil has been priced predominantly in US dollars. Should the major oil exporters gradually diversify their pricing into other currencies, the global economy would not change overnight. Over time, however, such a shift could marginally reduce the structural demand for both the US dollar and US Treasuries.

Meanwhile, the new Federal Reserve Chair, Welsh, has surprised markets by adopting a more hawkish stance than many had anticipated. Fixed-income markets now price considerably fewer policy rate cuts than they did only a few months ago, implying that monetary policy is likely to remain restrictive for longer than investors expected at the beginning of the year. Ironically, this is not entirely consistent with the expectations that surrounded President Trump's nomination of the new Chair. Should political pressure on the Federal Reserve intensify, the institution's independence could once again become a focal point. Such a development would represent less of a threat to equity markets than to confidence in the US dollar and the Treasury market.

For some time already, the Federal Reserve has supported market liquidity through purchases concentrated at the shorter end of the Treasury curve. If long-term yields were to begin rising in a disorderly fashion, the central bank could eventually be forced to intervene further out along the curve as well. At that point, markets would effectively begin asking where the system's ultimate stabilising mechanism resides—and, ultimately, that question is one of confidence in the US dollar itself.

Valuation

US equity valuations remain elevated by historical standards, and comparisons with the technology bubble of 1999–2000 are becoming increasingly difficult to dismiss altogether. The so-called Fed Model—which is neither an official Federal Reserve model nor much of a model in its own right—compares the equity earnings yield with the yield on the US 10-year Treasury. By mid-June, the earnings yield of the S&P 500 stood at approximately 3.7%, while the 10-year Treasury yielded around 4.4–4.5%. In other words, this simplified measure implies a negative equity risk premium, a situation that also prevailed during parts of the dot-com era.

The crucial difference from the year 2000 is that today's leading AI and technology companies generate substantial cash flows, maintain exceptionally strong balance sheets and possess considerably more economic substance than many of the companies that dominated the previous technology bubble. The largest constituents of the S&P 500 continue to trade at meaningful valuation premiums, but they also account for a substantially larger share of aggregate corporate earnings than their predecessors did twenty-five years ago. The comparison is therefore relevant, although far from perfect.

The more technical challenge lies in the fact that the companies with the greatest duration embedded in their future cash flows are also those commanding the highest valuations. The further into the future those cash flows are expected to materialise, the more sensitive their present values become to relatively small changes in interest rates and discount rates. Convexity further amplifies this sensitivity as yields or risk premia decline and valuation multiples continue to expand. In other words, the same forces that push valuations higher also make those valuations increasingly fragile. In theory, the prospect of higher future volatility should eventually impose a natural ceiling on further multiple expansion. In practice, markets are capable of ignoring this mechanism for surprisingly long periods.

This creates the conditions for a Minsky-type dynamic. If AI-related equities continue to appreciate without a corresponding improvement in earnings expectations, valuations become progressively more dependent on the absence of external disturbances. At that point, markets are supported not only by corporate fundamentals but also by the implicit assumption that interest rates, credit spreads and risk premia will remain broadly stable. The Bank for International Settlements has recently highlighted the risks of overinvestment, infrastructure bottlenecks and uncertain returns within the AI ecosystem, even as markets continue to assign generous valuations to parts of the supply chain.

The upcoming earnings season therefore assumes greater importance than usual. Alcoa will unofficially open the reporting season on 16 July after the US market close, after which investors will gradually gain a clearer picture of how companies have navigated oil prices, freight costs, interest rates and potential demand uncertainty. Particular attention will once again be directed towards corporate guidance. Unlike recent quarters, management teams should now be operating in a somewhat more predictable environment, as the most acute tariff and oil shock scenarios have, at least temporarily, subsided.

Our conclusion is not that equity markets are necessarily in bubble territory. Rather, today's valuation levels leave remarkably little room for disappointment. As long as earnings continue to grow, interest rates remain contained and AI investments can be justified by visible future cash flows, markets may well continue to support elevated valuation multiples. The greater the proportion of future returns that depends upon further multiple expansion, however, the more investors must rely on the comforting assumption that the pen will still be in the drawer each time we choose to open it.

Sentiment

Market sentiment has gradually normalised over the past month from the exceptionally optimistic levels seen earlier this year. Investor positioning appears more balanced, while volatility has retreated to levels that have historically been associated with a supportive environment for risk assets. On the surface, this is an encouraging development.

There is, however, another dimension of sentiment that receives considerably less attention. When favourable market conditions persist for an extended period, investors gradually become accustomed to the idea that negative news either fades quickly or simply fails to leave a lasting mark on asset prices. Every crisis that markets successfully absorb reinforces the belief that the next one will be equally manageable. In this way, the absence of meaningful setbacks gradually becomes part of the market's collective worldview.

The summer months tend to reinforce this phenomenon. Trading volumes decline and many of the market's most experienced decision-makers are away on holiday. Markets do not necessarily become less efficient, but they do become thinner. New information is processed by fewer participants, increasing the risk that negative developments accumulate rather than being immediately reflected in prices. This creates the conditions for what might be described as regime diffusion—a gradual shift in the market's underlying state, followed by a relatively abrupt change in sentiment once a critical threshold has been crossed.

For that reason, our approach to risk management this summer is less about attempting to forecast every individual market movement and more about identifying the handful of variables capable of genuinely changing the investment landscape. Our attention therefore remains firmly focused on US long-term interest rates, inflation expectations, energy markets and market volatility—not because any one of them is certain to trigger the next correction, but because they represent the most plausible fault lines in today's market environment. Should one of these variables begin to behave in a manner inconsistent with the current equilibrium, the probability of a broader shift in market sentiment would increase materially.

Allocation

As uncertainty surrounding the situation in Iran gradually subsided and financial markets returned to a more normal footing, the Investment Committee decided to increase the equity allocation across our discretionary portfolios. With equity markets simultaneously trading close to all-time highs, we chose to implement the adjustment gradually rather than in a single step. This approach provides a time-diversified entry price, reducing the risk of committing a significant portion of capital immediately before a potential market correction.

A phased implementation also preserves flexibility. Should market conditions change materially, we retain the ability to pause or suspend the remaining allocation steps before reaching the intended target. Even during periods characterised by low volatility, new sources of uncertainty can emerge quickly and alter the tactical investment landscape.

To manage this risk, the Investment Committee has established a number of quantitative trigger levels that could prompt an extraordinary meeting during July. Our primary focus remains on developments in long-term US Treasury yields and longer-term inflation expectations. Should investors begin to question the Federal Reserve's ability to maintain the balance between inflation control and economic growth, long-term interest rates could rise sharply while the US dollar simultaneously weakens. In addition, we continue to monitor implied market volatility closely. A VIX Index reading above 24 would, in our view, constitute a meaningful indication that the prevailing market regime may be becoming less stable.

Provided none of these trigger levels is breached, our base case remains unchanged. We continue to expect markets to advance in a broadly constructive fashion, albeit accompanied by periodic pullbacks and episodes of elevated short-term volatility. Accordingly, we maintain a moderately constructive tactical stance, while remaining fully prepared to adjust portfolio positioning should the underlying risk environment change.

1 July 2026

Holding the pen,

Mikael Simonsen