

Amplia's monthly investor letter



Si vis pacem, para bellum

In his book *De Re Militari* (c. AD 370), the Roman author Publius Flavius Vegetius Renatus wrote that those who desire peace should prepare for war. The statement initially appears paradoxical, but rests on the idea that a society prepared for war is less likely to be attacked. Preparations are therefore made in the explicit hope that they will prove unnecessary. Society as a whole hopes they will never have to be put to use. The roar of Russian missiles in Ukraine has made this philosophy uncomfortably relevant.

In portfolio management, we frequently undertake transactions that we hope will prove unnecessary. Investors may, for example, purchase put options on part of their holdings to mitigate the consequences of a market crash, while quietly hoping that the options will expire worthless. Similarly, a homeowner purchases fire insurance even though the premiums directly reduce disposable income and the economic value of the insurance is only realised when disaster strikes.

The decision to insure depends on the probability of an adverse event and the severity of its consequences. Insurance needs therefore change as circumstances evolve. In Finland, the frequency of motor vehicle glass claims increased by approximately 20% between 2020 and 2025, while average repair costs rose by almost 40% due to increasingly sophisticated technology and sensors. In California, wildfires and insurers' growing reluctance to cover high-risk properties have driven increasing numbers of homeowners towards the state's FAIR Plan, whose insurance portfolio more than tripled between 2015 and 2024.

In other words, insurance needs are adjusted to changing circumstances. The same principle underlies our latest portfolio allocation decisions.

Performance

Equity markets delivered negative returns in September.

30.09.2026			Return mtd	Return ytd	Return 12m
Equities	Currency		(eur)	(eur)	(eur)
World	USD		1,3 %	15,9 %	19,3 %
Emerging Markets	USD		2,0 %	27,9 %	33,8 %
US	USD		2,2 %	16,6 %	19,4 %
EU	EUR		-2,4 %	9,5 %	16,6 %
UK	GBP		-1,6 %	11,8 %	19,6 %
Japan	JPY		5,2 %	38,4 %	46,4 %
South-Korea	KRW		4,3 %	98,2 %	147,4 %
China	USD		-3,0 %	3,5 %	5,5 %
Finland	EUR		-0,2 %	12,7 %	28,1 %
Sweden	SEK		-3,1 %	8,2 %	19,6 %

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

Source: Amplia, Bloomberg

Bond markets also posted negative returns as long-term yields rose and central banks raised policy rates in Europe and the United States.

Macro

September was characterised by continued confidence in AI and the growth expected from investment and productivity gains. At the same time, growing uncertainty surrounding the Strait of Hormuz and rising energy prices cast a shadow over the global growth narrative.

Both strong economic growth and higher energy prices, accompanied by inflation, can translate into higher interest rates. During September, the US 10-year Treasury yield rose by more than 50 basis points to approximately 5.3%. For the United States, persistently high interest rates will eventually become toxic. With gross federal debt amounting to approximately 124% of GDP, even relatively small changes in interest rates have significant implications for future government interest expenditure.

However, because the government refinances its debt gradually, higher interest rates do not immediately hit the budget deficit. Their impact accumulates over time as existing debt matures and is replaced. If nominal GDP growth exceeds the effective interest rate on government debt, the debt-to-GDP ratio may decline, provided that the primary budget deficit does not offset this advantage.

If the US economy fails to grow as expected, however, the arithmetic deteriorates rapidly. The combination of weaker growth, persistent budget deficits and rising refinancing costs could eventually push Treasury bonds, or the dollar, towards a Minsky moment: the point at which markets collectively realise that the party cannot continue on the same terms.

The picture in Europe is somewhat different. The continent remains heavily dependent on imported energy, particularly crude oil, natural gas and refined petroleum products. Brent crude has stubbornly remained close to the \$100 mark, despite Saudi Arabia's success in replacing some of the disrupted supply through its pipelines. The problem partly lies in the physical infrastructure: the wrong products are in the wrong places, transportation capacity is limited and inventories are beginning to run dry. China has also purchased a significant share of the physical oil reaching the market.

Low natural gas inventories pose a particular risk as winter approaches. Rising energy prices are darkening both inflation and growth prospects, as reflected in interest rates and GDP forecasts. Purchasing managers' indices still paint a relatively positive picture, but if energy prices remain elevated, the outlook is subject to considerable downside uncertainty.

French government bonds have meanwhile moved to a new yield level, approximately 130 basis points above their German counterparts. This reflects both market scepticism about France's ability to balance its public finances and growing concerns that interest expenditure will exacerbate an already challenging debt situation.

A new euro crisis cannot be said to be just around the corner, but widening sovereign bond spreads within the euro area suggest that investors are becoming increasingly selective in their assessment of sovereign risk.

The outlook for both the United States and Europe is therefore highly bifurcated. If everything goes well and AI delivers on its promises, we could enter a period of strong productivity growth, expanding nominal GDP and gradually declining debt-to-GDP ratios. Inflation may remain relatively high, but need not become destructive if accompanied by corresponding economic growth.

If the economy loses momentum, however, the sheer size of the debt mountains could begin to dominate developments. Such a scenario risks

triggering a global sovereign debt crisis that could ultimately undermine confidence in fiat currencies.

Valuation

Against the backdrop of history, equity valuations appear expensive. With forward P/E ratios of 21.2 for the S&P 500, 15.2 for the STOXX Europe 600 and 21.6 for the Nikkei 225, an experienced strategist would, in a conventional business cycle, consider equities expensive at current interest rate levels.

At the heart of current valuations, however, lies AI and the earnings and productivity growth it is expected to generate. Traditional equity markets have declined somewhat, while the AI sector has continued to pull ahead. Nevertheless, the market as a whole may still be healthy and companies reasonably valued. Expectations for AI companies are admittedly ambitious, but if they materialise, current valuations may well be justified.

During September, however, long-term interest rates rose significantly without materially depressing equity indices. At the same time, earnings expectations remained broadly unchanged. Equities have therefore become more expensive relative to interest rates or, conversely, the implied equity risk premium has declined.

As discussed in the macro section, AI offers considerable potential, but it is also the theme largely underpinning positive long-term growth expectations. Europe, meanwhile, faces greater downside risks, although a decisive end to the war with Iran could produce a substantial rally — a windfall gain. These two dominant factors are therefore highly asymmetric in nature.

An analysis of the quantitative characteristics of equity indices reveals that dispersion is currently relatively high. Individual stocks are performing very differently, creating the impression that diversification is working well. At the same time, the VIX index remains low relative to the macroeconomic risks we have identified.

This presents an interesting contradiction. High dispersion among individual stocks does not necessarily imply that a portfolio is well diversified against common macroeconomic shocks. Under normal circumstances, company-specific risks may dominate the return distribution, while in a crisis the same companies may suddenly become exposed to a handful of common risk factors.

If one rolls a hundred independent dice, one can be fairly confident that the average result will be close to 3.5. With only two dice, however, the dispersion is considerably greater. The number of risk factors therefore matters.

Market pricing appears to assume that we are still rolling a hundred dice. Our risk analysis suggests that the effective number of dice in the left tail of the distribution may be substantially smaller.

Against this backdrop, the market's apparent complacency becomes problematic. It is not necessarily expected returns that are mispriced, but rather the compensation investors receive for bearing the risk of an adverse outcome.

Sentiment

Market sentiment remains strong. The VIX index is low and technical indicators are positive, but do not yet suggest an overbought market. As we have previously observed, the most likely sentiment to follow strong sentiment is continued strong sentiment.

Markets have also been characterised by a collective reluctance to correct AI stocks. Time and again, these stocks have rewarded the faithful while inflicting painful losses on the sceptics. Buy the dip has been an excellent strategy in AI: every decline has been followed by a recovery, sometimes amplified by a short squeeze, as bearish investors have been forced to repurchase shares they previously sold at higher prices.

This pattern has encouraged market participants to adapt and avoid joining the next wave of selling. Quite simply, they have learned that scepticism is expensive.

The same phenomenon has affected investors who have reduced risk in response to deteriorating conditions in the Strait of Hormuz. Fundamentally sound analyses of geopolitical risks have repeatedly been knocked flat by reassuring statements from the White House, followed by renewed market rallies. Markets have adapted and become increasingly indifferent to news from Iran.

In other words, markets have learned two things: to disregard doomsday predictions about AI and to turn a deaf ear to alarming news from energy markets. The problem is that, in doing so, investors are increasingly ignoring precisely the risks discussed in our macro section and the concentration of risk factors identified in our valuation analysis.

This is not necessarily irrational. A strategy that is repeatedly rewarded will naturally be repeated. However, when sentiment finally reverses after a prolonged bull market, the change is often abrupt.

A sensible driver does not begin slowing down at a traffic light simply because it has been green for an exasperatingly long time, even though he knows that it will eventually turn red. Sentiment may therefore remain strong until the market reaches its own Minsky moment, or until the next black swan takes flight.

Allocation

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1 October 2026

Kind regards,

Mikael Simonsen