Amplia Monthly Investment Letter

Market tranquility and optimistic investors

In recent months we have raised concerns about the slowdown in economic data across the globe and contradictory signals from various market indicators, not least the bond markets versus equity markets. To some extent these concerns have receded, following a string of strong data especially from the US. Meanwhile, the first quarter earnings season has started well. Combined, these data give us reasons to be optimistic about risky assets for the first time since September.

Tailwinds from lower interest rates

Most equity markets have recuperated the steep losses of 2018, and some of them are breaking new records again. S&P 500 and Euro Stoxx 50 are up 17.27% resp. 16.63% since the start of the year: a rise of magnitude we have not seen in a single quarter since 2009. There are numerous factors behind this but most importantly the lowered expectations in key interest rates have boosted confidence of investors, companies and consumers globally.

10-year US government rates stand at 2.50%, a considerable decline from the peaks of November 2018 of 3.24%. Parallel to this decline, credit spreads have fallen and stand at their lowest levels since March 2018. Companies keep enjoying access to cheap credit, and many central banks such as the ECB and Riksbank have declared in the recent months their willingness to extend their existing or maturing asset purchase programs.

With positive development percolating through from trade negotiations and political risks waning, the fall in consumer and business confidence has come to a halt. In the US, gradual decrease is still taking place especially in consumer confidence, whereas in China many macroeconomic indicators point upwards. For instance, the broad Caixin China Composite PMI Output index posted a reading of 52.9, its highest since June 2018. Despite the cooling-off in some key metrics in the US, we need to bear in mind that the absolute levels are good, if we exclude the one-off impact of Trump's tax cuts and money repatriation programs of 2018. US 1st quarter GDP growth came in recently at 3.2% (annualised), topping the market expectations of 2.3%. Also, corporate earnings are coming in above expectations, as evidenced by the first weeks of first quarter earnings season and reporting.

Our main concern remains Europe where no significant improvement is taking place. Many key surveys such as IFO Eurozone Business Climate, Markit Composite (and notably manufacturing) PMIs as well as European Commission's Consumer Confidence all remain negative and mostly point further downwards. Political landscape remains fragile across the Old Continent. In this environment, we welcome ECB's efforts to step in where politicians and fiscal policies fail.

As to risk sentiment, money flow into risky assets remains strong. Investor willingness to take risk remains high, and demand for safe-haven assets and protection stays at muted levels. This being said, market psychology is still contradictory with some signals sending cautionary tones, such as the lack of breadth and depth in recent times' market climb.

Our markets positioning

With the afore-mentioned market signals climbing mostly higher, we have three weeks ago removed the equity hedges that we have had in place since September. We are perfectly aware that this move comes at a time when markets have already climbed strongly. The data have however improved so much lately that we consider this move justified. Meanwhile, however, we increase the allocation in corporate bonds and – depending on the client profile – alterative investments to seek further sources of returns in times of rising valuations.

Asset allocation - May 2019	
Industry	↘
Consumption	↗
Monetary environment	↗
Market valuation	↗
Fundamentals total	↗
Hedging demand	↗
Economic surprises	↘
Market risk	↘
Market breadth	↗
Money flow into risky assets	↘
Risk sentiment total	↗
Equity exposure (of maximum)	**100%**

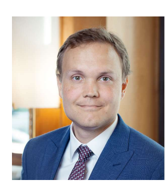
Of sectors, we favour consumer discretionary, industrials and health care. We underweight consumer staples and communication services.

When it comes to fixed income, it continues to be a very benign environment for bond investors with falling yields and credit spreads. We continue US and emerging market corporates with a duration profile of 5 – 7 years as well as selective high-yield debt issuance in euros, predominantly from Scandinavia.

Considering the poor economic situation of Europe compared to Asia Pacific and the US, we overweight USD-denominated bonds also for investors with base currency euro, as we expect the euro to remain weak in the next 6 – 12 months from here.

Finally, it should be noted that the currency markets of G10 countries have been astonishingly calm in the past two years. Especially the USD index has treaded water for full 12 months now, only rising modestly. Because selling volatility on currencies is an attractive and diversified source of returns, we would recommend keeping some of the powder dry and waiting opportunistically for gyrations to appear in order to profit from renewed bouts of volatility in the FX markets.

In Zurich on 30th April 2019



Yours sincerely,
Juho Kivioja