Quarterly Commentary & Market Outlook

Prepared for Investors

Q2 2022

Umbra

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1. Outlook — Executive Summary for Q3 2022

- The **global economy remains in a high degree of flux** as we enter the second half of the year. However, risk assets deteriorated markedly in Q2 and are increasingly **pricing in the near-term risk of a major deceleration in economic growth,** if not an outright recession within some regions. The rapid deceleration in high frequency and forward-looking economic indicators, coupled with tightening financial conditions point increasingly to such an outcome.

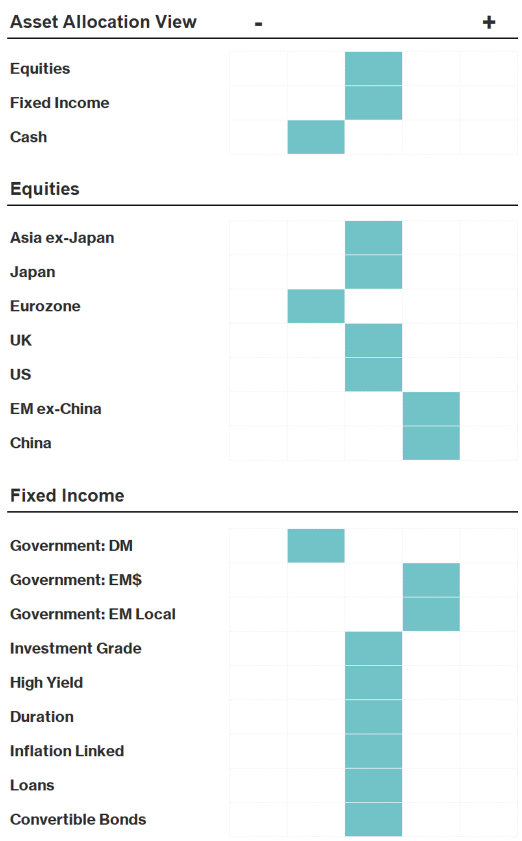
- Surging **inflation is driving sentiment globally,** whilst its impulse is causing central banks to scramble frantically to reign in their profligate stances unveiled post COVID. However, there is dispersion between the winners and losers in this period whilst **inflationary trends diverge round the world**.

- Despite headline inflation numbers coming in above expectations throughout Q2, **we are increasingly of the view that inflation could be peaking**. Notable **declines across the commodity spectrum**, combined with the **collapse in the money supply in major economies,** and a **strengthening US Dollar** alongside **tighter financial conditions should all drive inflation lower** over the second half of the year.

- This comes alongside relatively tight employment markets, however **employment is a traditional lagging economic indicator** and we are already seeing signs of a slowdown in hiring patterns as companies retrench against a tougher economic backdrop.

- If we have seen the peak in inflation, then a decent entry point into equity and fixed income markets has emerged such has been the degree of dislocation experienced in the first half. It has been the worst start to a calendar year for a traditional 60/40 balanced portfolio since the Great Financial Crisis (“GFC”). It is rare to witness both equities (MSCI AC World TR Index -20.2%) and fixed income (Bloomberg Global Aggregate Index -13.9%) declining in such magnitude together.

- This comes against deeply negative sentiment with both **consumer confidence and investor surveys being the most depressed they have been in the modern era**, even eclipsing the depths of the GFC on some measures. However, a high degree of angst and geopolitical uncertainty remains and the risks of an energy crisis brought about by the Russia/Ukraine crisis cannot be ruled out. A **disciplined and fundamentally-driven approach is key** to navigating this more challenging phase of the cycle.



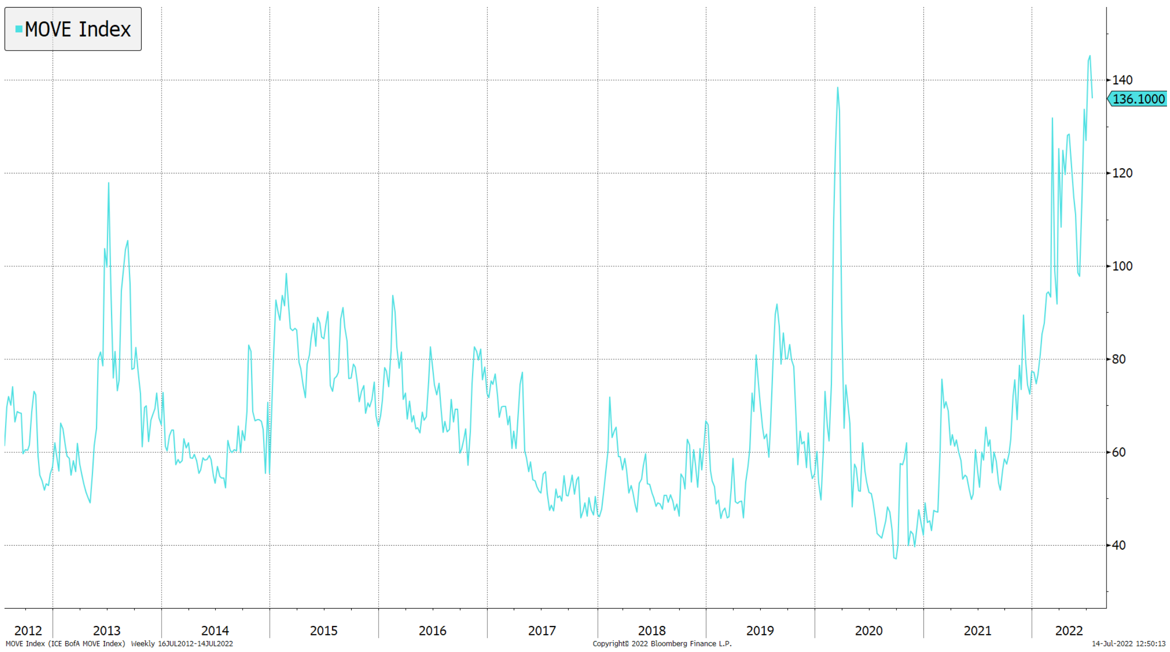
2. Q2 2022 Asset Class Review

Q2 provided no respite to investors after the turmoil of Q1 with both equities and bonds suffering significant declines. The MSCI AC World TR Index finished the quarter -15.7%, pushing its year to date return to -20.2%, whilst the Bloomberg Global Aggregate Index finished the quarter -8.3% to leave it -13.9% for the year. For US Treasuries alone, it was the worst first half of the year since 1788 and for the S&P 500, the worst first half since the great depression of 1932.

A number of factors moved against risk assets as Q2 transpired and it is hard to look back in history to find an environment as challenging as it is today given the fluid variables and linkages around COVID, war, inflation, interest rates and declining growth. Equities, for instance, are now broadly priced to reflect an imminent economic recession which could, if realised, lead to a typical 20-30% decline in corporate earnings.

The bond market also has been at the cusp of these factors and the volatility seen within this broad and eclectic asset class has been monumental since the start of the year, as a plethora of the world's central banks unveiled their responses to elevated inflation. The ensuing volatility across a host of countries' interest rate curves has been significant and has drawn parallels with the lockdown of economies during COVID-19.

Exhibit 1: MOVE Index



The "MOVE Index" is a yield curve weighted index of the normalised implied volatility on 1 month Treasury options. The Index is the weighted average of volatilities across various tenures, from short to long durations.

Bonds are pivotal in determining the cost of money through to serving as the discount rate in equity valuations. The inability of the market to determine a fair value has significant repercussions across the asset class spectrum as we have witnessed throughout the start of the year.

One of the primary drivers behind the sell-off in bonds has been the increase in inflation globally. The re-opening of economies post COVID led to significant supply chain disruptions which came against significant levels of pent-up demand from the consumer, turbo-charged by excess savings and stimulus programmes from central authorities which was estimated at $50 trillion globally.

China has also remained in and out of lockdown following the resurgence of the virus against an under-vaccinated population. This has further exacerbated supply chain problems across a host of industries. The outbreak of war between Russia and Ukraine as discussed last quarter has had a profound impact across the commodity complexes but most notably in energy and agricultural products. We are seeing the ramifications of these variables globally as illustrated on the chart overleaf.

The majority of the world's central banks have been behind the curve in addressing these inflationary pressures and although they remain largely impotent in addressing supply chain problems, they can address the demand side of the equation via the cost of money. Some central banks were posturing ahead of the pick-up in inflation, especially for those within the developing world. It is also striking how differentiated inflation is globally, particularly between the West relative to Asia currently.

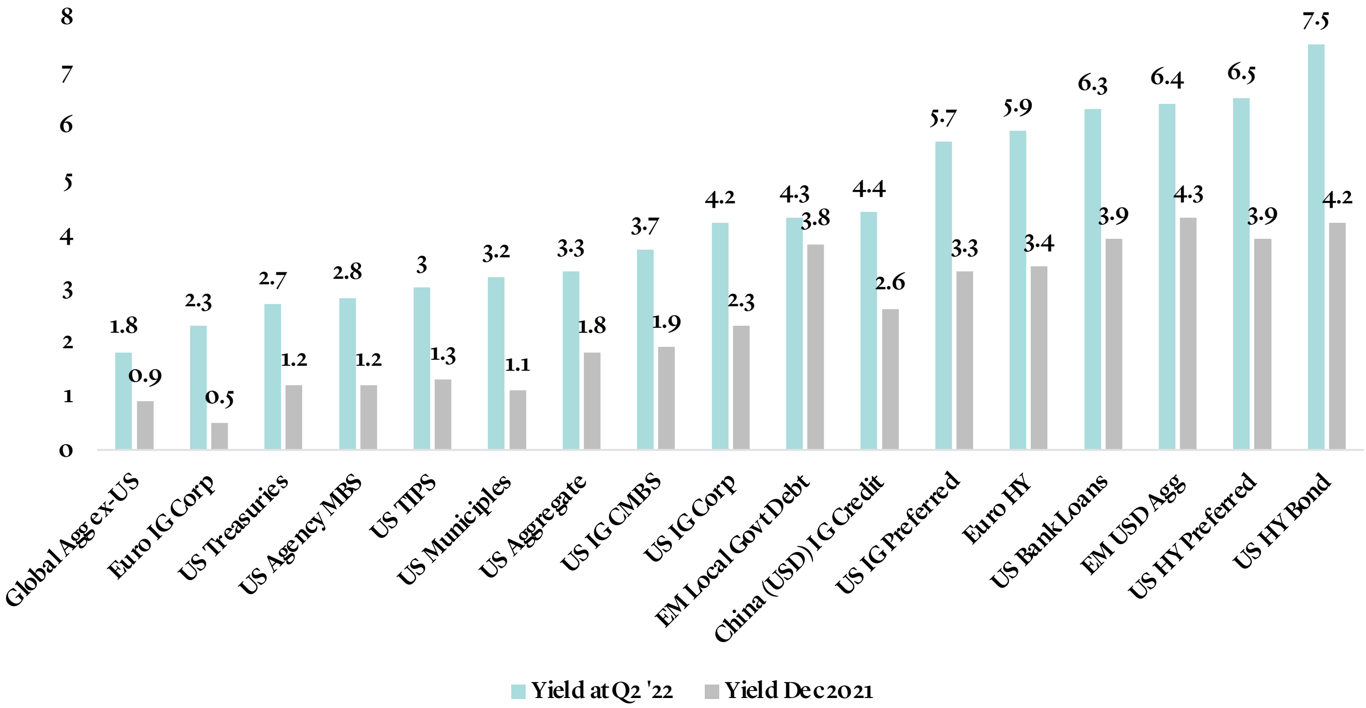
Exhibit 2: Changes to Inflation by Country

		2020							2021													2022				
		Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
	Global	1.3	1.5	1.5	1.4	1.1	0.9	1.0	1.2	1.4	2.0	2.6	3.2	3.2	3.3	3.4	3.6	4.2	4.9	4.8	4.9	5.4	6.4	6.8	7.0
	Developed	0.5	0.7	0.6	0.6	0.5	0.4	0.5	0.9	1.1	1.7	2.5	3.1	3.3	3.4	3.6	3.9	4.6	5.2	5.4	5.6	6.1	7.1	7.2	7.6
	Emerging	2.7	2.8	2.8	2.5	2.0	1.5	1.7	1.7	1.8	2.3	2.7	3.2	3.1	3.1	3.0	3.1	3.7	4.3	4.0	3.9	4.2	5.3	6.1	6.2
Eurozone	Eurozone	0.3	0.4	-0.2	-0.3	-0.3	-0.3	-0.3	0.9	0.9	1.3	1.6	2.0	1.9	2.2	3.0	3.4	4.1	4.9	5.0	5.1	5.9	7.4	7.4	8.1
	France	0.2	0.9	0.2	0.0	0.1	0.2	0.0	0.8	0.8	1.4	1.6	1.8	1.9	1.5	2.4	2.7	3.2	3.4	3.4	3.3	4.2	5.1	5.4	5.8
	Germany	0.9	-0.1	0.0	-0.2	-0.2	-0.3	-0.3	1.0	1.3	1.7	2.0	2.5	2.3	3.8	3.9	4.1	4.5	5.2	5.3	4.9	5.1	7.3	7.4	7.9
	Italy	-0.4	0.8	-0.5	-1.0	-0.6	-0.3	-0.3	0.7	1.0	0.6	1.0	1.2	1.3	1.0	2.5	2.9	3.2	3.9	4.2	5.1	6.2	6.8	6.3	7.3
	Spain	-0.3	-0.7	-0.6	-0.6	-0.9	-0.8	-0.6	0.4	-0.1	1.2	2.0	2.4	2.5	2.9	3.3	4.0	5.4	5.5	6.6	6.2	7.6	9.8	8.3	8.5
	Greece	-1.9	-2.1	-2.3	-2.3	-2.0	-2.1	-2.4	-2.4	-1.9	-2.0	-1.1	-1.2	0.6	0.7	1.2	1.9	2.8	4.0	4.4	5.5	6.3	8.0	9.1	10.5
	Ireland	-0.6	-0.6	-1.1	-1.2	-1.5	-1.0	-1.0	-0.1	-0.4	0.1	1.1	1.9	1.6	2.2	3.0	3.8	5.1	5.4	5.7	5.0	5.7	6.9	7.3	8.3
Developed	Sweden	0.9	0.7	1.0	0.6	0.4	0.2	0.6	1.9	1.8	2.1	2.8	2.4	1.8	1.8	2.5	3.0	3.3	3.9	4.5	3.9	4.4	6.3	6.6	7.5
	Switzerland	-1.3	-1.2	-1.4	-1.1	-0.9	-0.8	-1.0	-0.6	-0.4	-0.2	-0.1	0.3	0.5	0.5	0.8	0.8	1.3	1.5	1.3	1.4	1.9	2.2	2.3	2.7
	UK	0.6	1.0	0.2	0.5	0.7	0.3	0.6	0.7	0.4	0.7	1.5	2.1	2.5	2.0	3.2	3.1	4.2	5.1	5.4	5.5	6.2	7.0	9.0	9.1
	US	0.6	1.0	1.3	1.4	1.2	1.2	1.4	1.4	1.7	2.6	4.2	5.0	5.4	5.4	5.3	5.4	6.2	6.8	7.0	7.5	7.9	8.5	8.3	8.6
	Japan	0.1	0.3	0.2	0.0	-0.4	-0.9	-1.2	-0.7	-0.5	-0.4	-1.1	-0.8	-0.5	-0.3	-0.4	0.2	0.1	0.6	0.8	0.5	0.9	1.2	2.5	2.5
Emerging	China	2.5	2.7	2.4	1.7	0.5	-0.5	0.2	-0.3	-0.2	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5	2.3	1.5	0.9	0.9	1.5	2.1	2.1
	Indonesia	2.0	1.5	1.3	1.4	1.4	1.6	1.7	1.6	1.4	1.4	1.4	1.7	1.3	1.5	1.6	1.6	1.7	1.7	1.9	2.2	2.1	2.6	3.5	3.6
	Korea	0.2	0.4	0.8	0.9	0.1	0.6	0.6	0.9	1.4	1.9	2.5	2.6	2.3	2.6	2.6	2.4	3.2	3.8	3.7	3.6	3.7	4.1	4.8	5.4
	Taiwan	-0.7	-0.5	-0.3	-0.6	-0.3	0.1	0.0	-0.2	1.4	1.2	2.1	2.4	1.8	1.9	2.3	2.6	2.5	2.9	2.6	2.8	2.3	3.3	3.4	3.4
	India	6.2	6.7	6.7	7.3	7.6	6.9	4.6	4.1	5.0	5.5	4.2	6.3	6.3	5.6	5.3	4.3	4.5	4.9	5.7	6.0	6.1	7.0	7.8	7.0
	Brazil	2.1	2.3	2.4	3.1	3.9	4.3	4.5	4.6	5.2	6.1	6.8	8.1	8.3	9.0	9.7	10.2	10.7	10.7	10.1	10.4	10.5	11.3	12.1	11.7
	Mexico	3.3	3.6	4.1	4.0	4.1	3.3	3.2	3.5	3.8	4.7	6.1	5.9	5.9	5.8	5.6	6.0	6.2	7.4	7.4	7.1	7.3	7.5	7.7	7.7
	Russia	3.2	3.4	3.6	3.7	4.0	4.5	4.9	5.2	5.7	5.8	5.5	6.0	6.5	6.5	6.7	7.4	8.1	8.4	8.4	8.7	9.2	16.7	17.9	17.1

Source: JP Morgan, Bloomberg.

This recent pivot by the world's Central Banks has had profound effects on related fixed income securities globally since the start of the year. We have to go back to the COVID market lows of Q1 2020 to see such a broad-based sell-off in the asset class.

Exhibit 3: Fixed Income Yields by Instrument (%)



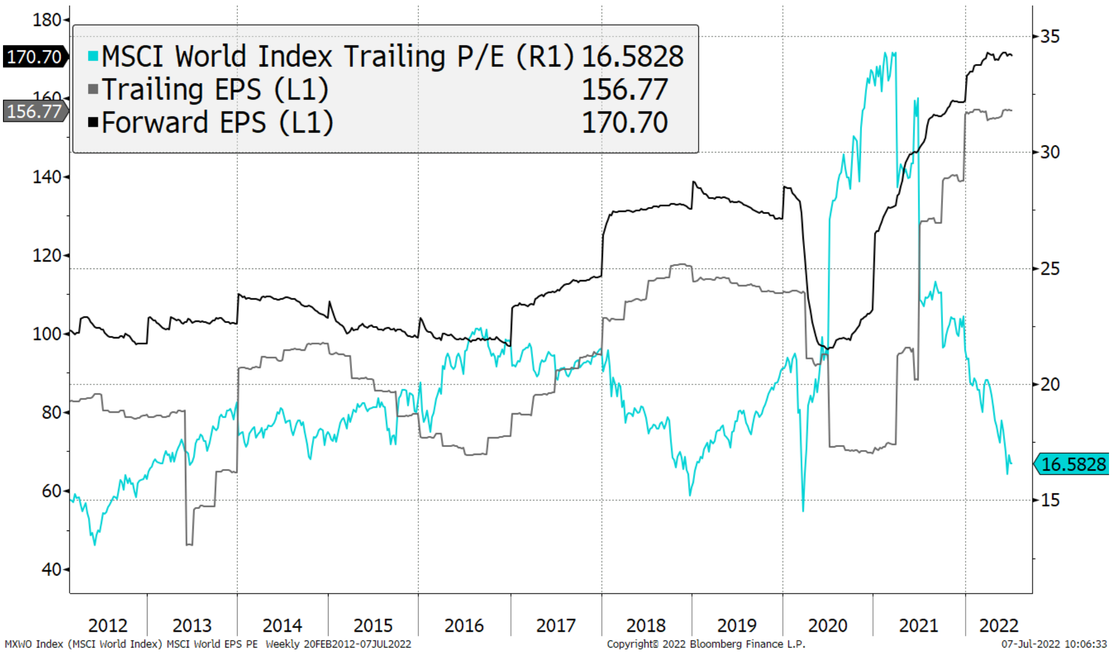
Source: Umbra Wealth, Bloomberg.

The ripple effects of surging bond yields and widening credit spreads has also been felt within equities over the second quarter. From a regional perspective, the US (S&P 500 TR Index -16.1%) was the primary drag on the MSCI World Index given its ~60% weighting in the index. Elsewhere, Europe (-10.3%) remained in the cross-hairs of the Ukraine conflict with the threat of energy supply shortages and waning economic momentum unnerving sentiment. In Asia, the one bright spot was China (CSI 300 Index +7.3%) which emerged from a self-imposed lockdown following the recent COVID outbreak, whilst Japan (TOPIX Index -3.6%) fared relatively well although the decline in the Japanese Yen continues to skew performance. Emerging Market performance was also highly dispersed with the collapse across the commodity spectrum impacting exporters (Latin America -21.7%), whilst the ongoing strength in the US Dollar continued to weigh overall (MSCI EM Index -11.5%).

From a style perspective, Value (MSCI World Value Index -11.4%) outperformed Growth (MSCI Growth Index -21.1%) in every major region (US Growth -20.9% vs. US Value -12.2%, European Growth -11.4% vs. European Value -6.3%, TOPIX Growth -7.2% vs. TOPIX Value -0.8%) with rising bond yields impacting the long duration sensitivity of the Growth segment specifically. From a sector perspective, defensives provided some relative shelter in contrast to their cyclical counterparts with (MSCI World) Consumer Staples -6.2%, Health Care -7.1% and Utilities -7.2%, in contrast to Consumer Discretionary -23.7%, Materials -19.6% and Industrials -16.5%.

The chart below (Exhibit 4) illustrates the extent to which rising bond yields (serving as the discount rate for equity valuation) have dictated valuations since the start of the year which has been more pronounced in long duration Growth stocks. The MSCI World Index started the year on a trailing P/E multiple of ~23x before finishing the second quarter on ~16x, a -30% de-rating. This has come in stark contrast to a relatively resilient corporate earnings picture so far with trailing earnings remaining firm and earnings expectations actually increasing as the period has progressed.

Exhibit 4: MSCI World Index by Return Attribute



Equity markets are typically forward-looking, reacting much sooner than economies to the change in monetary policy and other growth variables. They have reacted swiftly to price in the prospect of a recession over the first half of the year, however they provide upside in the event a recession fails to materialise.

If a recession does unfold and a commensurate decline in earnings filters through, then it is common to see earnings contract by -20-30% depending on the severity of the recession. Equity markets have already discounted a significant part of this in our view. The picture so far, however, is that corporate profitability is doing ok and although some companies are being impacted by rising cost pressures and interest rate burdens, others are proving an inherent ability to absorb and pass on these pressures to end markets. This ongoing dichotomy of winners and losers in this environment is likely to remain.

Source: Umbra Wealth, Bloomberg.

Exhibit 5: Asset Class Performance & Style Summary Q2 2022 (Regions are in local currency terms)

Regional Equity	MTD	QTD	YTD	2021	2020	2019
World						
MSCI AC World	-8.43	-15.66	-20.18	18.54	16.25	26.60
MSCI World	-8.66	-16.19	-20.51	21.82	15.90	27.67
US						
S&P 500	-8.25	-16.10	-19.96	28.71	18.40	31.49
Russell 2000	-8.23	-17.21	-23.45	14.78	19.93	25.49
S&P Small Cap	-8.55	-14.13	-18.97	26.74	11.24	22.74
NASDAQ	-8.65	-22.27	-29.22	22.21	45.05	36.74
UK						
MSCI UK All Cap	-5.17	-2.94	1.67	19.59	-13.23	16.37
FTSE 100	-5.53	-3.74	-0.97	18.44	-11.55	17.32
MSCI UK Mid Cap	-7.89	-12.93	-22.99	20.31	-3.63	24.16
MSCI UK Small Cap	-9.03	-12.11	-22.52	14.54	-4.86	30.02
Europe ex-UK						
MSCI Europe ex-UK	-8.17	-10.33	-17.49	24.45	1.75	27.10
MSCI Europe ex-UK Large Cap	-8.17	-9.58	-16.69	25.61	0.47	26.91
MSCI Europe ex-UK Small Cap	-12.56	-15.52	-22.73	24.55	11.74	28.47
Asia ex-Japan						
CSI 300 Index	10.43	7.29	-8.30	-3.51	29.89	39.19
MSCI Asia Pacific	-5.74	-10.57	-15.65	-2.90	22.44	19.16
Hang Seng	3.00	0.89	-4.82	-11.84	-0.24	13.01
MSCI Asia Pacific Small Cap	-10.53	-17.31	-21.50	19.24	26.38	10.92
Japan						
TOPIX	-2.05	-3.65	-4.78	12.74	7.39	18.12
Nikkei	-3.14	-5.02	-7.32	6.66	18.28	20.73
JPX-Nikkei Index 400	-2.39	-4.11	-5.28	12.47	8.89	18.97
TOPIX Small	-0.16	-1.45	-4.58	11.04	-0.04	19.85
GEM						
S&P BSE Sensex	-4.47	-8.91	-8.26	23.23	17.16	15.66
Ibovespa Index	-11.50	-17.88	-5.99	-11.93	2.92	31.58
MSCI Emerging Markets	-6.65	-11.45	-17.63	-2.54	18.31	18.42
MSCI Latin America	-16.95	-21.70	-0.30	-7.66	-13.58	17.83
MSCI EME	-10.70	-20.56	-76.96	14.69	-11.87	33.61

Fixed Income	MTD	QTD	YTD	2021	2020	2019
World - Sovereign & Blend						
Citigroup World Gov Bond Index	-3.15	-8.91	-14.79	-6.97	10.11	5.90
Bloomberg Global Aggregate TR Index	-3.21	-8.26	-13.91	-4.71	9.20	6.84
GEM - Sovereign						
JP Morgan EMBI (USD)	-5.54	-10.55	-18.83	-1.51	5.88	14.42
JP Morgan EMBI Diversified (USD)	-6.21	-11.43	-20.31	-1.80	5.26	15.04
JP Morgan EMBI USD (Spread)	459.58					
Barclays EMB (Local)	-3.00	-6.99	-8.97	-1.59	5.34	9.47
Barclays EMB Yield to Worst (Local)	446.26					
GEM - Corporate						
Barclays EM IG USD	-2.73	-6.63	-16.68	-0.74	7.51	13.99
Barclays EM IG USD (Spread)	167.00					
Barclays EM High Yield	-7.80	-12.35	-18.03	-3.18	4.25	11.48
Barclays EM High Yield (Spread)	848.00					
US - Corporate						
FTSE US Investment Grade	-1.57	-4.83	-10.55	-1.60	7.74	8.86
US Investment Grade (Spread)	178.38					
Barclays US High Yield	-6.73	-9.83	-14.19	5.28	7.11	14.32
US High Yield (Spread)	584.41					
US High Yield Energy (Spread)	521.26					
Europe ex-UK						
Barclays Pan European High Yield	-6.89	-10.70	-14.44	3.43	2.29	11.33
Barclays Pan European HY (Spread)	641.00					
Asia ex-Japan						
Barclays Asia High Yield (USD)	-6.79	-10.96	-19.94	-12.35	5.65	13.81
Barclays Asia High Yield USD (Spread)	1286.81					
Barclays EM Asia High Yield (USD)	-5.79	-9.61	-19.19	-12.24	5.24	12.63
Barclays EM Asia HY USD (Spread)	1293.92					

MSCI World: Sector	MTD	QTD	YTD	2021	2020	2019
Communication Services	-7.55	-19.32	-27.71	14.83	23.51	27.95
Consumer Discretionary	-10.05	-23.68	-31.75	18.18	37.01	27.15
Consumer Staples	-3.35	-6.20	-9.44	13.74	8.53	23.61
Energy	-14.96	-4.87	24.66	41.81	-30.44	12.59
Financials	-10.28	-15.94	-17.12	28.73	-2.12	26.48
Health Care	-3.13	-7.09	-10.06	20.35	14.11	23.90
Industrials	-8.47	-16.54	-21.62	17.08	12.22	28.53
Materials	-15.56	-19.60	-17.23	17.01	20.63	24.04
Real Estate	-7.42	-14.56	-19.39	29.54	-4.25	23.95
Technology	-9.87	-21.73	-29.64	30.14	44.25	48.13
Utilities	-6.88	-7.24	-5.76	10.97	5.85	23.83

World Style	MTD	QTD	YTD	2021	2020	2019
MSCI World Growth	-8.46	-21.15	-28.71	21.41	34.19	34.17
MSCI World Value	-8.78	-11.39	-11.79	22.84	-0.32	22.79

S&P 500: Sector	MTD	QTD	YTD	2021	2020	2019
Communication Services	-7.69	-20.71	-30.16	21.57	23.61	32.69
Consumer Discretionary	-10.80	-26.16	-32.82	24.43	33.30	27.94
Consumer Staples	-2.50	-4.62	-5.58	18.63	10.75	27.61
Energy	-16.91	-5.29	31.64	54.35	-33.68	11.81
Financials	-10.90	-17.50	-18.73	34.87	-1.76	32.09
Health Care	-2.66	-5.91	-8.33	26.13	13.45	20.82
Industrials	-7.40	-14.78	-16.79	21.10	11.05	29.32
Materials	-13.84	-15.90	-17.90	27.28	20.73	24.58
Technology	-9.32	-15.90	-26.91	34.52	43.88	50.27
Utilities	-4.98	-5.09	-0.56	17.67	0.52	26.35

US: Style	MTD	QTD	YTD	2021	2020	2019
Growth (Large Cap)	-7.92	-20.92	-28.07	27.59	38.49	36.39
Value (Large Cap)	-8.75	-12.22	-12.87	25.12	2.78	26.52
Momentum	-6.38	-18.75	-24.63	13.37	29.85	27.25
Growth (All Cap)	-7.82	-20.83	-28.15	25.84	38.26	35.84
Value (All Cap)	-8.82	-12.42	-13.16	25.33	2.86	26.24

Europe: Sector	MTD	QTD	YTD	2020	2019	2018
Consumer Discretionary	-6.47	-9.25	-24.02	23.21	6.81	33.88
Consumer Staples	-2.46	-1.78	-7.80	20.93	-3.07	25.86
Energy	-10.73	2.68	21.65	36.38	-33.14	9.63
Financials	-8.45	-8.84	-11.40	29.48	-15.13	23.17
Health Care	-2.28	-3.77	-2.58	26.17	-1.28	32.66
Industrials	-10.60	-14.99	-24.45	29.62	4.23	36.05
Materials	-15.37	-15.76	-15.31	24.85	9.78	26.39
Technology	-11.43	-20.00	-31.94	36.83	14.72	38.02
Telecom	-4.19	-0.44	0.65	15.77	-12.51	5.32
Utilities	-9.57	-7.79	-10.39	9.81	13.14	31.70

Europe: Style	MTD	QTD	YTD	2020	2019	2018
MSCI European Growth	-6.28	-11.38	-20.69	28.49	6.28	33.08
MSCI European Value	-9.06	-6.30	-6.04	22.76	-12.24	20.43

Japan Style	MTD	QTD	YTD	2020	2019	2018
TOPIX Japan Growth	-3.94	-7.16	-14.53	6.56	17.22	20.98
TOPIX Japan Value	-0.59	-0.82	2.70	14.51	-7.26	9.50

UK Style	MTD	QTD	YTD	2020	2019	2018
MSCI UK Growth	-3.67	-4.60	-9.98	22.32	-1.52	21.45
MSCI UK Value	-5.78	-2.01	8.65	17.72	-19.64	13.77

Source: Umbra Wealth, Bloomberg

Exhibit 6: Fundamental Metrics by Equity Region

Indices	Leverage		Profitability		Valuation								Price Change		
	ND / EBITDA	Current Ratio	RoE	Operating Margin	FCF Yield	P/E (TTM)	P/E (NTM)	EV / Sales	EV / EBITDA	Price / Book	Div Yield	Dividend Payout Ratio	3 Month	6 Month	12 Month
Asia															
China: A Share Index (CSI 300)	6.0	1.1	12.5	13.2	5.1	16.6	14.4	2.0	14.3	2.1	1.9	32.5	4.5%	-9.6%	-14.6%
India: BSE SENSEX Index	1.9	1.2	14.7	20.7	4.5	21.4	19.0	4.0	14.6	3.1	1.3	30.9	-10.8%	-9.2%	1.1%
Japan: NIKKEI Index	1.0	1.3	8.9	7.9	5.1	18.5	14.5	1.5	11.2	1.6	2.1	39.1	-6.3%	-9.9%	-9.7%
S. Korea: KOSPI Index	2.8	1.4	9.1	8.5	0.9	9.9	9.5	1.1	7.3	0.9	2.0	19.8	-15.9%	-22.6%	-29.8%
Taiwan: TAIEX Index	0.7	1.5	16.9	11.9	2.9	10.4	9.9	1.3	8.0	1.8	4.1	50.8	-18.6%	-21.3%	-19.0%
Europe															
France: CAC Index	4.0	1.1	14.9	12.4	11.7	13.4	10.5	1.4	8.4	1.6	3.2	38.9	-11.0%	-16.8%	-9.2%
Germany: Dax Index	1.6	1.1	13.6	10.8	10.2	11.4	10.5	1.3	6.8	1.4	3.6	38.5	-11.1%	-19.2%	-17.7%
Italy: FTSE MIB Index	4.6	1.1	11.1	11.0	12.1	10.9	8.0	1.2	6.9	1.0	5.5	52.8	-15.1%	-21.8%	-15.5%
Swiss: SMI Index	0.3	1.3	20.0	15.8	13.5	14.7	15.9	2.5	12.0	2.8	3.1	42.4	-12.2%	-17.0%	-10.7%
UK: FTSE 100 Index	0.4	1.1	12.0	12.2	14.1	16.5	10.0	1.7	8.9	1.7	4.2	56.1	-4.6%	-2.6%	0.9%
US															
S&P 500 Index	1.0	1.3	20.4	15.8	4.8	19.0	16.6	2.7	12.8	3.8	1.7	36.8	-16.7%	-20.6%	-12.4%
S&P 500 Growth Index	0.2	1.4	33.0	23.0	4.0	21.9	19.8	4.3	15.3	6.9	1.0	27.1	-21.1%	-27.9%	-17.4%
S&P 500 Value Index	1.5	1.2	16.0	13.1	5.5	16.9	14.5	2.1	11.2	2.7	2.4	42.4	-12.2%	-12.4%	-7.6%
NASDAQ Composite Index	0.9	1.5	16.1	14.1	3.0	37.0	23.4	3.4	17.8	4.4	0.9	31.4	-22.7%	-29.5%	-24.1%
World															
MSCI Emerging Markets Index	1.4	1.4	12.6	13.3	8.0	10.9	11.4	1.7	8.3	1.4	3.0	36.9	-12.7%	-18.8%	-26.9%
MSCI World Index	1.2	1.2	16.3	14.4	6.6	16.5	14.9	2.2	11.0	2.6	2.2	39.7	-16.7%	-21.2%	-15.9%
MSCI World Growth Index	0.9	1.2	21.4	15.3	4.0	25.1	22.3	3.3	15.7	5.1	1.0	31.7	-21.5%	-29.1%	-23.0%
MSCI World Value Index	1.3	1.2	14.6	14.0	9.0	12.5	11.4	1.7	8.7	1.8	3.4	42.9	-12.4%	-13.3%	-9.2%

Source: Umbra Wealth, Bloomberg.

Exhibit 7: Fundamental Metrics by Equity Market Sector

	Leverage	Profitability						Valuation											Price Change		
	ND / EBITDA	RoE CY	RoE 5 Yr Low	RoE 5 Yr High	Op Margin	Op Margin 5 Yr Low	Op Margin 5 Yr High	FCF Yield	P/E (TTM)	P/E (NTM)	EV / Sales	EV / EBITDA	EV / EBITDA 5 Yr Low	EV / EBITDA 5 Yr High	Price / Book	Div Yield	Dividend Payout Ratio	3 Month	6 Month	12 Month
US																				
Communication Services	1.7	18.7	10.7	32.8	21.2	15.5	18.8	6.4	15.6	**14.7**	3.3	10.3	6.5	16.9	2.9	1.1	50.0	-21.6%	-30.4%	-30.2%
Consumer Discretionary	1.9	32.7	15.8	31.3	9.3	5.6	11.2	1.6	29.5	**23.1**	2.2	14.9	10.0	27.4	8.1	0.9	29.0	-26.5%	-33.1%	-25.1%
Consumer Staples	2.1	27.6	15.2	27.0	9.7	6.9	9.7	4.2	21.3	**21.0**	1.8	15.3	13.1	19.6	6.2	2.6	59.8	-6.4%	-6.8%	4.2%
Energy	1.1	18.1-	20.0	11.3	10.8	- 19.2	9.2	11.0	12.8	**7.9**	1.5	7.5	5.8	20.9	2.3	4.0	-	-6.9%	29.2%	31.8%
Financials	- 1.9	14.6	7.7	15.0	28.9	15.5	30.5	8.7	11.3	**12.2**	2.2	6.3	5.0	10.0	1.4	2.2	24.5	-17.7%	-19.5%	-14.9%
Health Care	1.4	22.4	12.2	19.8	10.5	7.7	10.9	5.8	18.5	**15.6**	2.0	14.4	12.3	18.9	4.8	1.6	41.3	-7.1%	-9.1%	0.8%
Industrials	2.1	19.5	7.7	23.0	11.8	5.6	12.5	3.9	22.4	**17.4**	2.2	13.5	9.1	25.8	4.6	1.8	40.8	-14.6%	-17.5%	-15.3%
Materials	1.5	18.3	4.0	15.5	16.6	6.9	13.7	6.2	13.7	**12.2**	2.2	9.5	9.9	18.3	2.7	2.3	33.5	-17.3%	-18.7%	-10.9%
Technology	0.3	35.9	17.4	34.8	26.6	20.8	24.9	4.4	23.4	**20.4**	5.5	16.3	11.1	23.7	7.9	1.1	25.8	-20.3%	-27.2%	-14.4%
Utilities	5.7	8.7	5.6	11.2	15.0	13.0	20.6	- 3.8	21.2	**20.4**	4.5	14.4	10.9	14.6	2.3	3.0	76.7	-7.1%	-2.0%	9.6%
World																				
Communication Services	2.2	16.7	10.4	18.8	17.7	14.5	19.7	7.3	17.5	**15.5**	3.0	9.7	6.7	13.3	2.4	1.5	49.0	-20.2%	-28.2%	-30.2%
Consumer Discretionary	1.3	20.1	7.7	18.5	9.1	5.1	9.6	3.2	20.2	**18.7**	1.7	11.1	8.0	19.3	3.3	1.4	30.2	-24.0%	-32.3%	-28.0%
Consumer Staples	2.2	22.5	16.6	25.7	9.4	8.5	9.4	4.7	19.2	**19.9**	1.7	13.7	12.5	15.6	4.0	2.6	56.3	-7.6%	-10.7%	-4.9%
Energy	1.3	13.9-	14.0	10.4	10.9	- 12.0	9.1	11.3	13.2	**7.0**	1.3	6.7	5.3	30.1	1.8	4.1	51.6	-6.6%	21.8%	24.9%
Financials	-	12.0	6.2	11.5	23.1	13.6	22.4	17.2	10.1	**10.9**	1.6	-	-	-	1.1	3.5	34.1	-16.9%	-18.7%	-15.2%
Health Care	1.5	19.1	11.8	16.8	11.3	8.6	12.0	5.6	19.9	**16.5**	2.4	14.8	13.0	19.8	4.3	1.7	43.5	-8.1%	-11.0%	-4.1%
Industrials	1.8	17.8	7.5	17.5	10.5	5.8	9.7	5.3	15.0	**15.2**	1.7	10.6	9.0	19.8	2.7	2.3	34.4	-16.3%	-22.6%	-20.3%
Materials	0.9	20.1	2.0	15.0	17.7	5.7	14.9	8.3	9.7	**8.9**	1.5	6.2	7.3	13.1	1.9	4.3	40.2	-20.8%	-19.0%	-16.9%
Real Estate	5.4	8.9	2.4	10.6	28.7	18.0	31.8	- 1.7	20.5	**24.2**	7.3	17.0	14.8	25.8	1.7	3.3	67.4	-16.6%	-20.7%	-13.6%
Technology	0.2	28.5	14.7	27.0	22.3	16.3	20.7	4.4	24.4	**20.8**	4.7	16.1	11.2	24.9	6.6	1.1	28.4	-21.7%	-30.0%	-19.7%
Utilities	5.0	8.6	5.2	11.4	10.2	9.6	12.4	- 2.5	19.1	**18.0**	2.5	12.1	9.8	13.3	1.9	3.5	78.9	-8.8%	-7.5%	-0.2%

Source: Umbra Wealth, Bloomberg

3. Outlook

Markets are likely to remain skittish and fluid as we head into the second half of the year with attention firmly on inflation and the knock-on impact this has to central bank policy and broader financial conditions. However, we do believe there are tentative signs emerging that inflation could have peaked for this cycle. If accurate, this means that central banks may have room to manoeuvre and would be less likely to do more than what is already priced in to forward interest rate curves.

Firstly, commodities have fallen sharply recently across energy, agricultural and industrial areas (Exhibit 8). Commodity cost pressures differ in terms of their influence in overall measures of inflation, although they are significant and account for up to 50% of some gauges. It is likely the recent falls will start to feed into headline inflation measures over the coming months. The declines in turn have already driven inflation-linked bonds markedly lower with 10-year breakevens finishing the second quarter at 2.3%, down from 2.8% in April and the lowest they have been since September of last year. The threat of an inflationary spiral is not showing up on this measure currently.

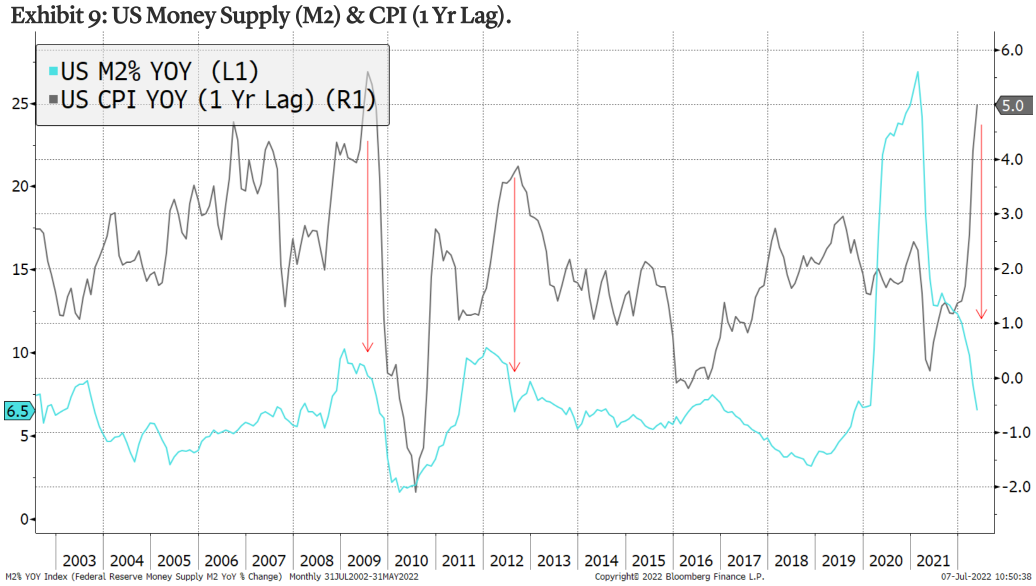
Exhibit 8: Commodity Prices Relative to Recent 52 Week Highs.

Crude Oil	-13.0%
Natural Gas	-32.9%
Platinum	-22.6%
Palladium	-37.8%
Copper	-24.0%
Aluminium	-36.9%
Nickel	-53.6%
Iron Ore	-47.9%
Lumber	-57.7%
Cotton	-36.8%
Wheat	-27.2%
Oats	-24.9%

Source: Umbra Wealth, Bloomberg.

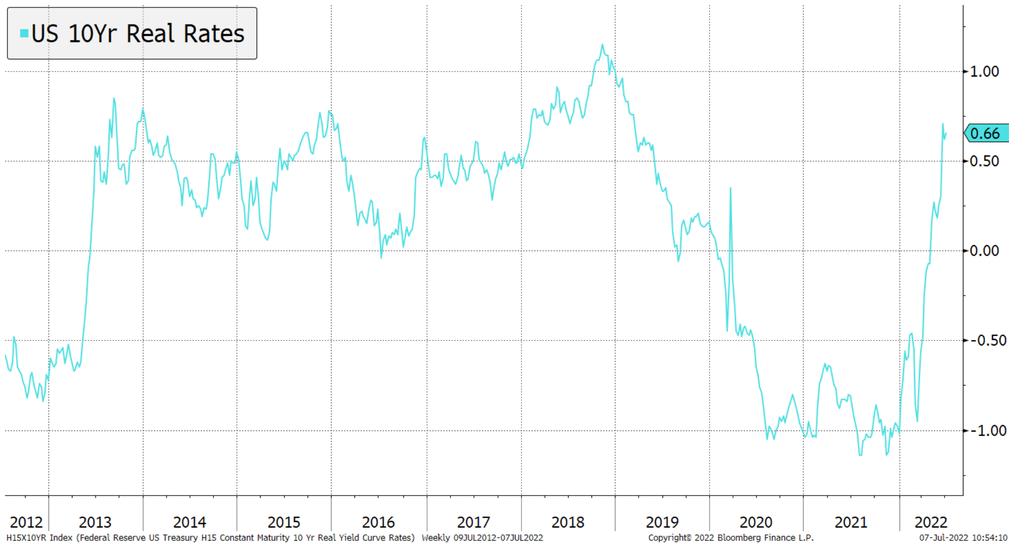
Secondly, money supply is falling rapidly and particularly so in the US, with M2 readings now growing at 6.5% year-on-year down from a high 12 months ago of >25%. The 6 month yoy reading is now contracting. It often takes time for the rate of change in the money supply to filter through into inflation numbers, going back to the adage "inflation is always and everywhere a monetary phenomenon". The chart below (Exhibit 9) illustrates the close correlation between M2 and the rate of change in the CPI reading on a 1 year lagged basis.

Exhibit 9: US Money Supply (M2) & CPI (1 Yr Lag).



In addition to this and related to the contraction in the money supply, financial conditions are becoming tighter globally. We have already seen the declining rate of issuance in credit over the course of the first half with high yield bond issuance -76% yoy, whilst mortgage rates in the US finished the second quarter at 3.6%, a post COVID crisis high. The cost of capital is more restrictive from a longer term perspective as illustrated below with 10 year real rates in the US now being at their most restrictive since the economic slowdown of 2018. (Exhibit 10).

Exhibit 10: US 10 Year Real Rates



When aggregated together, we believe it is likely that inflation declines as the second half of the year progresses which should in turn provide the majority of the world's major central banks with room to manoeuvre. Labour markets remain tight, although we believe this is often a classic lagging indicator from an economic perspective. Encouragingly, at least from an inflationary perspective, we are starting to see signs of retrenchment in hiring patterns as companies cut back on costs against a more challenging macro economic backdrop.

In the US for example, jobless claims are starting to pick up from cyclically low levels seen at the start of the year. These are small incremental increases but losses in the jobs market tend to move quite dramatically when the economy slows (Exhibit 11). We have also seen declining momentum in a number of US employment surveys with the regional ISM's lately which indicates further softness in the jobs market overall (Exhibit 12).

Exhibit 11: US Unemployment & Jobless Claims

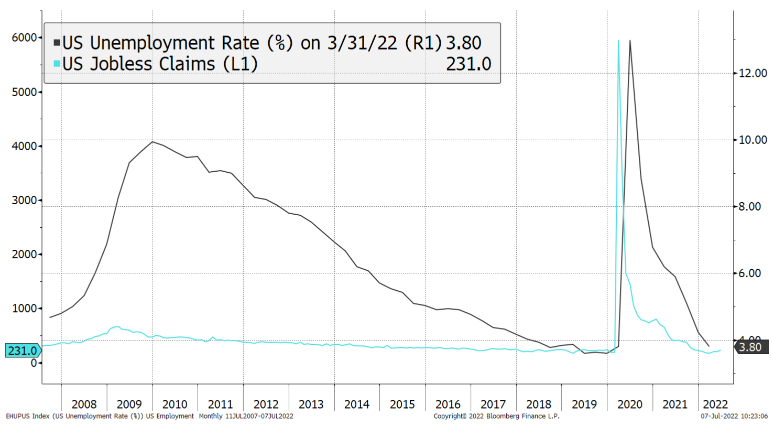
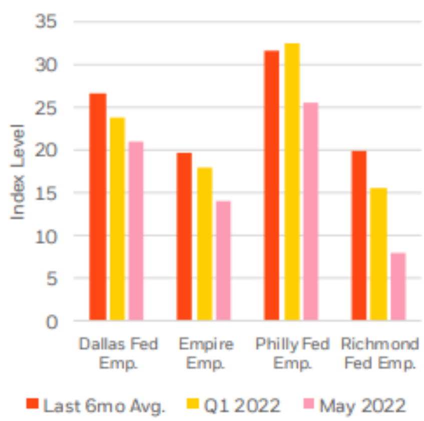


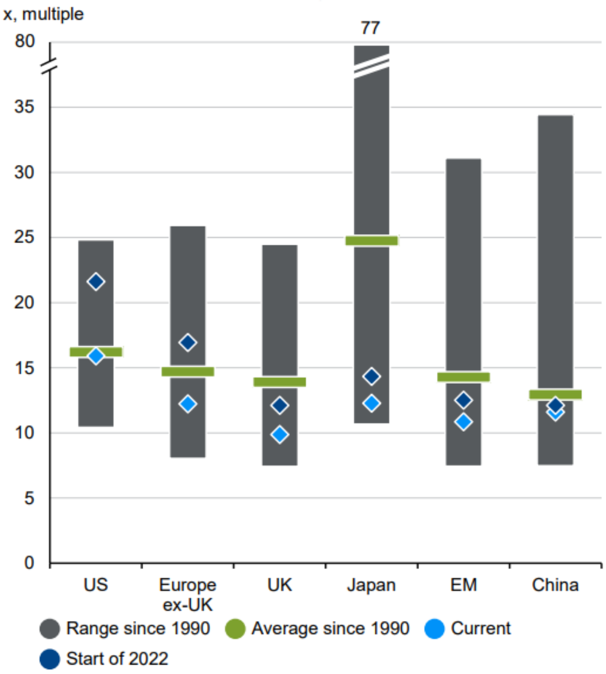
Exhibit 12: US Employment Surveys From Regional ISMs



Source: Blackrock.

When taken in aggregate, we believe the cost pressures experienced over the first half are likely to wane over the coming quarters which should provide some degree of clarity for the pricing of risk, especially within bonds which to some extent also provides a discount rate floor to equities. This comes at a time when broad valuation measures of equities look quite depressed relative to history. As we commented earlier, the key detractor to the total return for equities has been a valuation de-rating as opposed to declining earnings. Granted, earnings should decline from here given the weak macro economic environment of late which may or may not turn into a shallow recession. Earnings typically contract by 20-30% in such a recession, depending on the severity of the recession. However, with such low multiples relative to history, the majority of regions are now priced for that potential outcome, especially outside of the US (Exhibit 13).

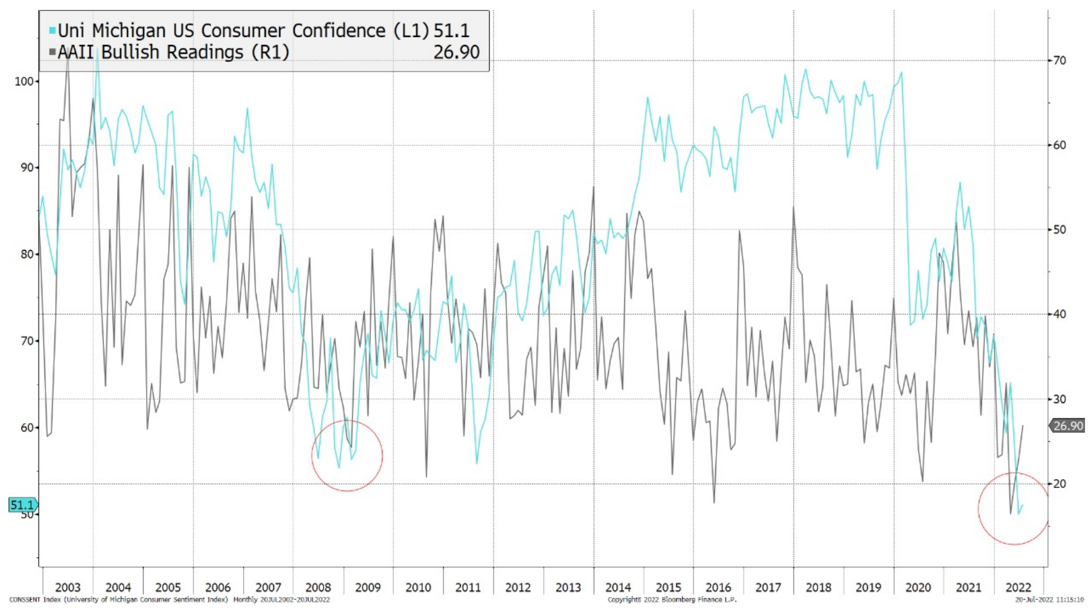
Exhibit 13: Regional Forward P/E Relative to History



Source: JP Morgan.

We believe the significant dislocation over the first half of 2022 has created a good entry point into both equity and fixed income markets for long term investors and comes at a time when consumer confidence and investor sentiment are substantially depressed. This can be seen in the following illustrations with consumer confidence surveys in the US being the most depressed since the Great Financial Crisis and even eclipsing the lows experienced during COVID (Exhibit 14). Similar can be said for investors, with the number of "Bullish" readings in the AAII US investor survey also being at a new cycle low and depressed relative to history.

Exhibit 14: US Consumer & Investor Sentiment Surveys



4. Outlook — Consolidated

Asset Class	Region	Manager / Style skew
Fixed Income	**Developed Markets**	• For the first time since 2018, **US Treasuries are providing a real yield pick up and remain attractive relative** to all other major sovereign bonds. • They may therefore provide the natural capital preservation tool they have served as in the past, benefiting during a flight-to-safety, risk-off environment. • Outside of the US, negative real rates in the majority of markets remain and yield curves do not price in any potential rise in inflation over the coming decade. • Yield curves broadly reflect the increasing possibility of policy mistakes being initiated by central banks with growth slowing globally against tighter policy. • **Positioning**: Headline inflationary pressures are real, and **investors continue to lock-in negative real rates of return within the asset class.**
Fixed Income	**Emerging Markets USD$ / Local Currency**	• It would be easy to form a negative view towards EMD against a more hawkish US Federal Reserve. However, we believe the asset class is in a more envious position today relative to past Fed-induced tightening cycles. • Many EM nations today possess current account (CA) surpluses in contrast to widespread CA deficits in 2013. Moreover, EM central banks are ahead of the curve in fighting inflation through their own interest rate policy initiatives. Interest rate policy has been tightening in Emerging Markets since 2020, in vast contrast to central banks in the Developed Markets. Real yields are therefore attractive at this point in the cycle and it is likely that inflation has peaked in many Emerging Markets. • For now, a resurgent US Dollar buoyed by a hawkish US Federal Reserve is proving to be a headwind to the asset class although this is increasingly priced in. • **EMD Hard Currency**: Absolute valuations are attractive relative to history and are valued in their 10% percentile relative to their 10 year band. Spreads at 459bps over US Treasuries and positive real yields make the asset class stand out against a low real yielding risk spectrum. • **EMD Local Currency**: Currencies are cheap relative to the US Dollar on a Real Effective Exchange Rate (REER) basis. Although the prospects for higher base rates in the US may cause relative nominal yields to contract, real yields may differ with stickier inflation in the US contrasting to slowing inflationary pressures across Emerging Markets. • **Positioning**: **We remain positive on both EM hard and local currency debt.**
Fixed Income	**IG Credit**	• Credit is looking increasingly attractive due to widening spreads and elevated yields against a risk-off backdrop. This attraction is enhanced if inflation has peaked for this cycle. • Option adjusted spreads in US IG credit are now +178bps, offering a combined yield of ~4.8%. Duration for the primary corporate IG benchmarks remains extended at eight years for the Bloomberg Global Aggregate Index, however this is attractive if long term inflationary expectations remain anchored. • **Positioning**: Our preference has pivoted over the first half of the year and **we now see attraction in longer duration sensitivity in the belief inflation has peaked** and that spreads compensate investors for credit risk during a slower trajectory for growth.

Asset Class	Region	Manager / Style skew
Fixed Income	HY Credit	• High Yield spreads have widened considerably since the start of the year and finished the quarter at +584bps in the US and +641bps in Europe due to the ongoing military conflict in the East. • For now, issuance remains challenged and performance dispersion is likely to increase given the troubling macro backdrop and rising cost of capital environment. • **Asia High Yield is a far more interesting proposition** today with yields in distressed territory at ~1286bps. As China slows and the ripple effects of tighter policy filter out across the high yield space, most notably in China-related property, defaults are expected to increase to 6% in 2022. The likely recovery rate remains difficult to gauge currently as the government remains in a stand-off situation. • **Positioning**: With **yields already at 12%, an investor could be well compensated** for taking risk today especially if exposed to surviving credits via an active fund.
Equity	Asia-ex Japan	• The near term outlook for the region continues to be heavily dictated by China and the immediate impact of newly initiated COVID-related lockdown measures. • The government's ambition as it seeks to refocus growth away from a speculation-led model to one driven by durable and higher quality growth drivers presents an array of opportunities. The redistribution of wealth back into the economy may be a good thing longer term but for now the transition continues to weigh on related risk assets. • Growth in India continues to slow as increasing commodity prices weigh on growth in the country. • Central banks however are broadly in a good position today, whilst current account balances are in surplus in aggregate. Accordingly, valuations across the region have been dictated by this divergent backdrop. • At a broad level, profitability and valuation metrics are above median levels. However, we still believe valuations remain attractive particularly relative to the rest of the world. • Moreover, the region possesses one of the most compelling longer term secular growth stories supported by an unleveraged consumer with rising productivity, increasing disposable income and robust population growth; a stark contrast to much of the developed world. • Asian small caps remain fundamentally attractive with supportive secular growth drivers over the long term and they remain cheap on ~12x earnings. • Risks over the near term remain the potential for spill over effects from the Evergrande restructuring and the slowdown in China more broadly. Ongoing changes in policy by the CCP and the prospects of a stronger US Dollar are additional risks. • **Positioning**: We continue to find an array of opportunities across both traditional Value and Growth style cohorts. Outside of the state owned enterprises, **balance sheets are in pristine condition and equities remain attractive** at this stage of the cycle.
Equity	Europe ex-UK	• The near term outlook for the region has deteriorated recently following the outbreak of military activity in Eastern Europe. Although they have declined notably from their highs, elevated commodity prices are becoming problematic, with the increasing threat of an energy shut-off being imposed on the region by Russia during the coming winter. • Much of Europe is highly dependent on Russia for its gas, with Italy for instance, relying on 100% of its gas supply from the country. • This can be seen in the recent deterioration in the Ifo German Business expectations reading which has plummeted to levels not seen since early 2020. • Earnings revisions are now in negative territory and much of the restocking build which has driven profitability higher is in the past. • **Positioning**: We **favour a higher quality style skew towards the market** given the current valuation dispersion between Growth and Value style disciplines and the negative macro factors now impacting the region, at least in the short term.

Asset Class	Region	Manager / Style skew
Equity	**Japan**	• Japanese equities have continued to be buoyed by a weakening Yen despite the troubles now facing the world. In addition, the outperformance of Japanese Value stocks is positively correlated to higher 10 year US Treasuries as we have seen lately. • It is unlikely either of these factors change in the near term given the recent monetary policy announcement by the Bank of Japan ('BOJ'). We are only likely to see the Yen move markedly higher in a real risk-off type scenario. • Furthermore, the BOJ's commitment to anchor the long end of the yield curve through its curve control policy in order to achieve its 2% inflation target should continue to benefit equities. • This action by the BoJ has purposely blocked one of the two transmission mechanisms which often recalibrates in order to offset rising inflationary expectations. The only remaining mechanism which can recalibrate becomes the currency. Therefore, a weaker Yen remains a stimulative force behind equities, particularly those dependent upon exports. • Aside from this, visible signs of real reform taking place within the board rooms of corporate Japan continues with efforts to change a deflationary scarred mind-set, this has led and continues to drive RoE expansion. • Share buy-backs continue at a robust pace and dividends continue to grow as management makes use of high cash levels and looks for ways to enhance shareholder value to ultimately drive return on equity. • **Positioning**: Despite this decent growth backdrop, smaller cap equities have been impacted disproportionately over recent quarters as supply chain bottle necks and fears over the Omicron variant impacted sentiment. Valuation multiples have de-rerated to cyclical lows which provides **a decent entry point via a specialist active expression.**
Equity	**UK**	• The domestic economy is currently being impacted by increasing inflation as a result of supply chain bottle necks, a tight labour force and increasing energy prices. The country continues to go through an emerging cost of living crisis with a dysfunctional government. • Domestic cyclicals, especially in the discretionary areas of the equity market have de-rated substantially and may provide upside should the economy turn, however we believe this is too early. • **Positioning**: The degree of underperformance over the first half of **higher quality defensives provided a good entry point into this area of the market.** Free cash flow yields of ~6% are common in many names, whilst exhibiting above benchmark margins and strong underlying balance sheet quality. • We believe this area of the market should preserve capital if indeed we are moving into a more challenging market environment. • The market has been buoyed by cyclicals since the start of the year, however their **earnings and margins are particularly vulnerable to a slowing growth backdrop.**
Equity	**US**	• Valuations have reset markedly since the start of the year despite earnings and margins remaining relatively firm. • If bond yields have found a ceiling then this could provide valuation support, however the onus falls on earnings to propel total returns from here. This could be difficult to attain against a slowing growth backdrop, whilst a stronger USD is also impacting overseas investors. • This favours active over passive. The prospects for elevated and potentially higher inflation means that not all companies will be able to pass on higher input costs. Margins have the ability to be squeezed and so it remains important to be exposed to companies which have a strong history of pricing power and which are operating within industries not exhibiting excess supply. • **Positioning**: Some defensive areas of the market de-rated materially over 2021 as investors scrambled for cyclicality. **The relative valuation of the Healthcare and Consumer Staples sectors is attractive relative to trend.** • Both sectors continue to be underpinned by secular growth; an ageing population in the developed world and a more prosperous middle class in the developing world continues to underpin growth within the healthcare sector. Both sectors have strong pricing power and robust free cash flow generation credentials.

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