Quarterly Commentary & Market Outlook

Prepared for Investors

Q3 2022

Umbra

Umbra

1. Outlook — Executive Summary for Q4 2022

- Contracting global economic growth against a sticky inflationary backdrop are likely to keep financial market conditions and volatility tight and elevated during the final quarter of the year. There is however an increasing chance that we may see more durable signs that inflation has indeed peaked for this cycle as Q4 progresses, which may in turn arrest the decline seen in bond and equity markets since the beginning of the year.

- Despite the stickiness in inflation, major developed market central banks are still some way off attaining positive real rates at shorter interest rate maturities, although this differs across interest rate curves. Longer term bond maturities now provide a positive real return as longer term inflation expectations continue to remain relatively well anchored. We believe as the next quarter transpires, more evidence of slowing inflation is likely to emerge.

- Central banks are having to rebuild credibility and it's likely to take another 6 months until the ramifications of the recent hiking cycle is felt within economies. Yet for financial markets, strains are already emerging. Some measures of financial conditions are now at their most restrictive since early 2020. Such extremes have in the past caused significant financial market events which means that Central Banks are likely to tread cautiously from here.

- For risk assets, they have already discounted a very sharp near term recession with valuations being at their most depressed since early 2020. Indeed, both equities and most areas of the fixed income spectrum are now at their cheapest valuations in a decade. If inflation has peaked then real yields across a significant array of the fixed income spectrum are increasingly attractive at this point in the cycle.

- With 2022 being the worst start to a calendar year for a traditional 60/40 balanced portfolio since the Great Financial Crisis ("GFC"), questions have naturally arisen around the durability of the traditional 60/40 construct going forward. Despite this, we believe the 60/40 construct still provides an attractive risk-reward following the material repricing of risk since the start of the year. Duration looks increasingly attractive and should once again provide a capital preservation offset to weaker equity markets in the event the global economy slips into a recession.

- Naturally, the sentiment backdrop remains highly pessimistic 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. It wouldn't take a great deal for sentiment to shift, however this remains highly contingent on the quarterly corporate earnings season, geopolitical events and Central Bank policy as the final quarter of the year unfolds.

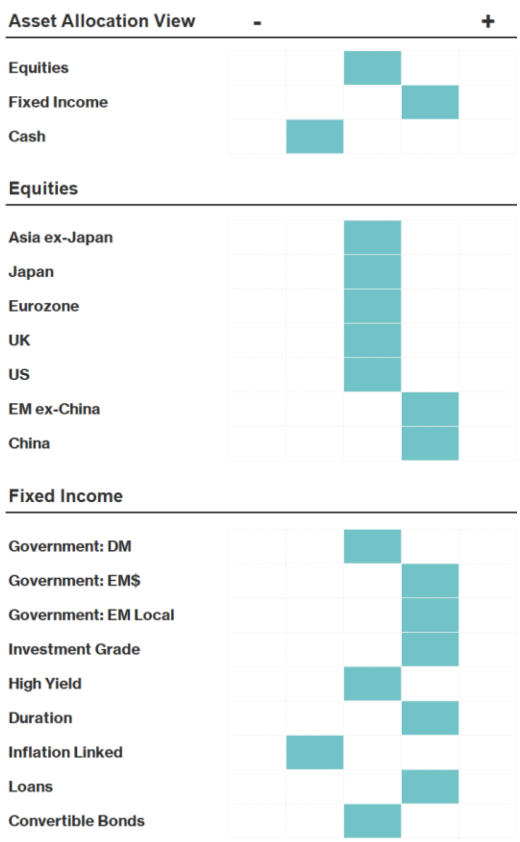


Exhibit 1: Asset Class Performance & Style Summary Q3 2022 (Regions are in local currency terms)

Regional Equity	MTD	QTD	YTD	2021	2020	2019
World						
MSCI AC World	-9.57	-6.82	-25.63	18.54	16.25	26.60
MSCI World	-9.30	-6.19	-25.42	21.82	15.90	27.67
US						
S&P 500	-9.21	-4.88	-23.87	28.71	18.40	31.49
Russell 2000	-9.57	-2.18	-25.11	14.78	19.93	25.49
S&P Small Cap	-9.88	-5.21	-23.19	26.74	11.24	22.74
NASDAQ	-10.44	-3.91	-31.99	22.21	45.05	36.74
UK						
MSCI UK All Cap	-4.98	-2.92	-1.30	19.59	-13.23	16.37
FTSE 100	-5.16	-2.72	-3.66	18.44	-11.55	17.32
MSCI UK Mid Cap	-8.31	-7.39	-28.68	20.31	-3.63	24.16
MSCI UK Small Cap	-10.65	-9.19	-29.64	14.54	-4.86	30.02
Europe ex-UK						
MSCI Europe ex-UK	-6.24	-3.89	-20.71	24.45	1.75	27.10
MSCI Europe ex-UK Large Cap	-5.95	-3.94	-19.97	25.61	0.47	26.91
MSCI Europe ex-UK Small Cap	-10.45	-8.03	-28.94	24.55	11.74	28.47
Asia ex-Japan						
CSI 300 Index	-6.67	-14.29	-21.40	-3.51	29.89	39.19
MSCI Asia Pacific	-12.57	-12.72	-26.39	-2.90	22.44	19.16
Hang Seng	-13.15	-20.13	-23.98	-11.84	-0.24	13.01
MSCI Asia Pacific Small Cap	-11.83	-6.46	-26.57	19.24	26.38	10.92
Japan						
TOPIX	-5.49	-0.79	-5.53	12.74	7.39	18.12
Nikkei	-6.99	-0.94	-8.19	6.66	18.28	20.73
JPX-Nikkei Index 400	-5.89	-1.00	-6.22	12.47	8.89	18.97
TOPIX Small	-3.59	2.34	-2.34	11.04	-0.04	19.85
GEM						
S&P BSE Sensex	-3.54	8.65	-0.32	23.23	17.16	15.66
Ibovespa Index	0.47	11.66	4.97	-11.93	2.92	31.58
MSCI Emerging Markets	-11.72	-11.57	-27.16	-2.54	18.31	18.42
MSCI Latin America	-3.24	3.73	3.42	-7.66	-13.58	17.83
MSCI EME	-10.42	-11.88	-79.70	14.69	-11.87	33.61

Fixed Income	MTD	QTD	YTD	2021	2020	2019
World - Sovereign & Blend						
Citigroup World Gov Bond Index	-5.10	-7.61	-21.27	-6.97	10.11	5.90
Bloomberg Global Aggregate TR Index	-5.14	-6.94	-19.89	-4.71	9.20	6.84
GEM - Sovereign						
JP Morgan EMBI (USD)	-6.07	-4.20	-22.24	-1.51	5.88	14.42
JP Morgan EMBI Diversified (USD)	-6.36	-4.57	-23.95	-1.80	5.26	15.04
JP Morgan EMBI USD (Spread)	467.38					
Barclays EMB (Local)	-4.54	-5.01	-13.53	-1.59	5.34	9.47
Barclays EMB Yield to Worst (Local)	446.06					
GEM - Corporate						
Barclays EM IG USD	-5.29	-4.35	-20.30	-0.74	7.51	13.99
Barclays EM IG USD (Spread)	166.00					
Barclays EM High Yield	-5.96	-3.52	-20.91	-3.18	4.25	11.48
Barclays EM High Yield (Spread)	844.00					
US - Corporate						
FTSE US Investment Grade	-4.38	-4.81	-14.85	-1.60	7.74	8.86
US Investment Grade (Spread)	187.50					
Barclays US High Yield	-3.97	-0.65	-14.74	5.28	7.11	14.32
US High Yield (Spread)	538.69					
US High Yield Energy (Spread)	446.76					
Europe ex-UK						
Barclays Pan European High Yield	-3.91	-0.26	-14.66	3.43	2.29	11.33
Barclays Pan European HY (Spread)	624.00					
Asia ex-Japan						
Barclays Asia High Yield (USD)	-7.94	-7.70	-26.11	-12.35	5.65	13.81
Barclays Asia High Yield USD (Spread)	1312.07					
Barclays EM Asia High Yield (USD)	-6.60	-6.71	-24.61	-12.24	5.24	12.63
Barclays EM Asia HY USD (Spread)	1294.39					

Sovereign	Yield
France 10 Year	2.72
Germany 10 Year	2.11
Italy 10 Year	4.51
Japan 10 Year	0.24
Spain 10 Year	3.28
Swiss 10 Year	1.19
UK 10 Year	4.09
US 2 Year	4.28
US 5 Year	4.09
US 10 Year	3.83

MSCI World: Sector	MTD	QTD	YTD	2021	2020	2019
Communication Services	-11.81	-12.94	-37.06	14.83	23.51	27.95
Consumer Discretionary	-9.08	0.26	-31.58	18.18	37.01	27.15
Consumer Staples	-7.71	-6.72	-15.52	13.74	8.53	23.61
Energy	-9.21	-1.11	23.28	41.81	-30.44	12.59
Financials	-8.21	-5.92	-22.02	28.73	-2.12	26.48
Health Care	-3.90	-6.69	-16.08	20.35	14.11	23.90
Industrials	-10.28	-5.69	-26.08	17.08	12.22	28.53
Materials	-8.12	-7.44	-23.38	17.01	20.63	24.04
Real Estate	-12.74	-11.52	-28.67	29.54	-4.25	23.95
Technology	-11.90	-6.22	-34.01	30.14	44.25	48.13
Utilities	-11.48	-8.13	-13.42	10.97	5.85	23.83

World Style	MTD	QTD	YTD	2021	2020	2019
MSCI World Growth	-10.11	-5.00	-32.28	21.41	34.19	34.17
MSCI World Value	-8.42	-7.07	-18.03	22.84	-0.32	22.79

S&P 500: Sector	MTD	QTD	YTD	2021	2020	2019
Communication Services	-12.15	-12.71	-39.04	21.57	23.61	32.69
Consumer Discretionary	-8.06	4.36	-29.89	24.43	33.30	27.94
Consumer Staples	-7.99	-6.62	-11.83	18.63	10.75	27.61
Energy	-9.45	2.16	34.49	54.35	-33.68	11.81
Financials	-7.76	-3.10	-21.25	34.87	-1.76	32.09
Health Care	-2.60	-5.18	-13.08	26.13	13.45	20.82
Industrials	-10.48	-4.72	-20.72	21.10	11.05	29.32
Materials	-9.35	-7.13	-23.75	27.28	20.73	24.58
Technology	-12.01	-7.13	-31.44	34.52	43.88	50.27
Utilities	-11.34	-5.99	-6.51	17.67	0.52	26.35

US: Style	MTD	QTD	YTD	2021	2020	2019
Growth (Large Cap)	-9.72	-3.60	-30.66	27.59	38.49	36.39
Value (Large Cap)	-8.78	-5.63	-17.78	25.12	2.78	26.52
Momentum	-5.95	-3.06	-26.94	13.37	29.85	27.25
Growth (All Cap)	-9.68	-3.37	-30.57	25.84	38.26	35.84
Value (All Cap)	-8.86	-5.57	-17.99	25.33	2.86	26.24

Europe: Sector	MTD	QTD	YTD	2020	2019	2018
Consumer Discretionary	-7.90	-2.84	-26.18	23.21	6.81	33.88
Consumer Staples	-5.07	-1.79	-9.46	20.93	-3.07	25.86
Energy	-4.85	1.91	23.97	36.38	-33.14	9.63
Financials	-5.38	-3.86	-14.82	29.48	-15.13	23.17
Health Care	-4.22	-7.35	-9.74	26.17	-1.28	32.66
Industrials	-6.91	-2.45	-26.30	29.62	4.23	36.05
Materials	-5.21	-3.41	-18.20	24.85	9.78	26.39
Technology	-8.11	-2.80	-33.84	36.83	14.72	38.02
Telecom	-11.04	-14.47	-13.91	15.77	-12.51	5.32
Utilities	-9.07	-6.44	-16.17	9.81	13.14	31.70

Europe: Style	MTD	QTD	YTD	2020	2019	2018
MSCI European Growth	-6.46	-2.64	-22.79	28.49	6.28	33.08
MSCI European Value	-6.09	-5.47	-11.18	22.76	-12.24	20.43

Japan Style	MTD	QTD	YTD	2020	2019	2018
TOPIX Japan Growth	-6.62	-0.42	-14.89	6.56	17.22	20.98
TOPIX Japan Value	-6.36	-3.15	-0.53	14.51	-7.26	9.50

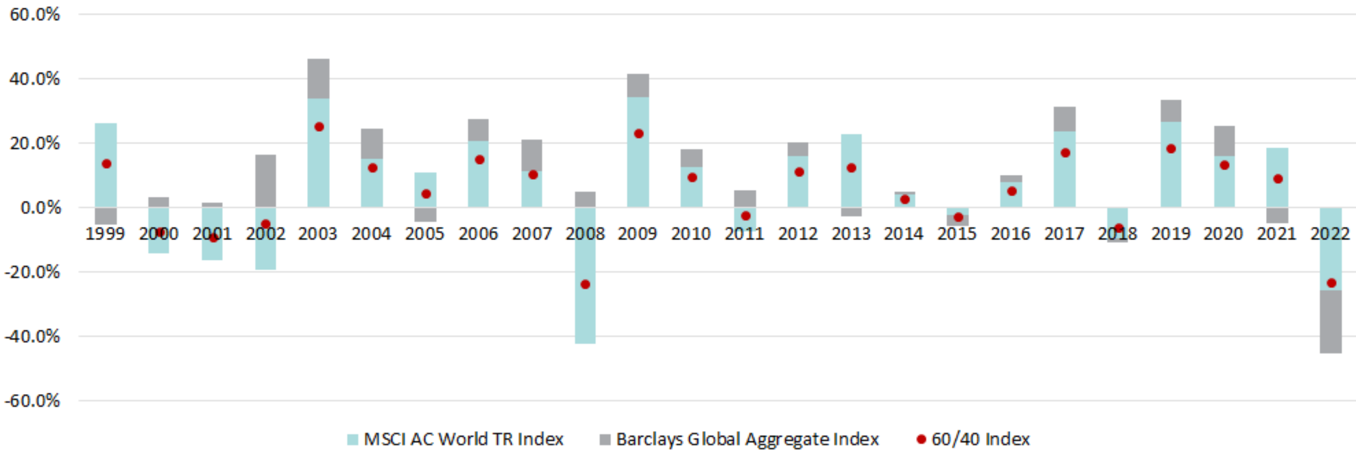
UK Style	MTD	QTD	YTD	2020	2019	2018
MSCI UK Growth	-4.99	-1.00	-10.89	22.32	-1.52	21.45
MSCI UK Value	-5.05	-3.84	4.48	17.72	-19.64	13.77

Source: Umbra Wealth, Bloomberg

2. Q3 2022 Asset Class Review

Despite a strong rebound during the month of July, risk assets finished materially lower in Q3 with the MSCI AC World TR Index finishing the quarter -6.8%, pushing its year to date return to -25.6% and the worst first 3 quarters of a year since the Great Financial Crisis. The Bloomberg Global Aggregate Index finished the quarter -5.1% to leave it -19.9% for the year. It has been the worst first 3 quarters ever in history for a 60/40 portfolio in the US having returned -27%.

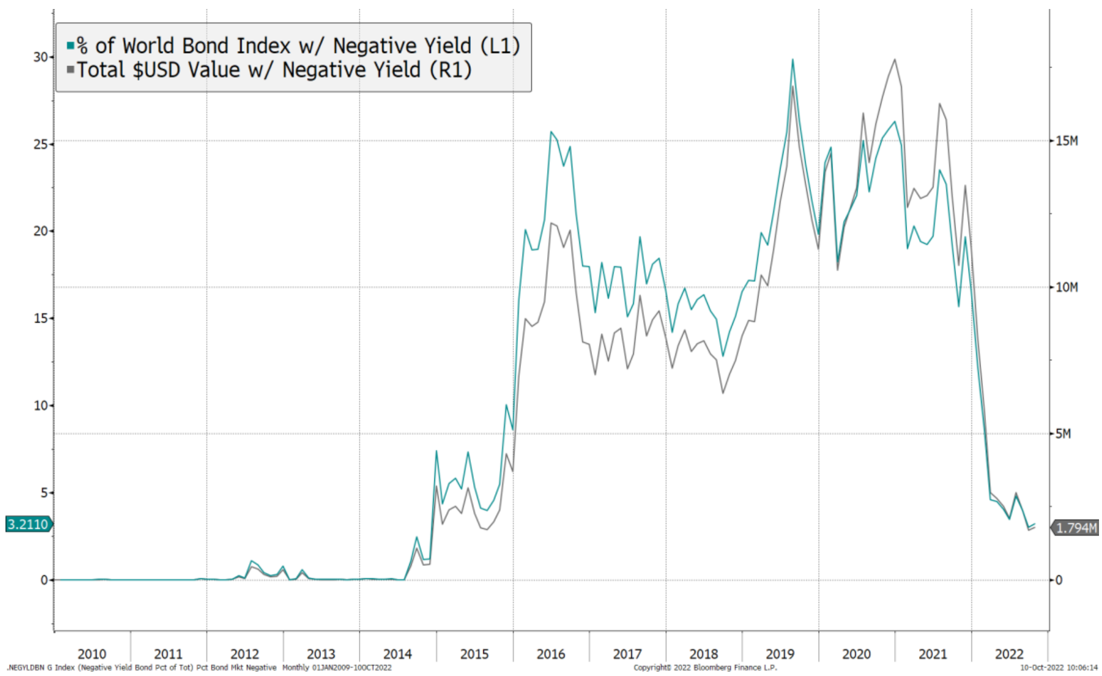
Exhibit 2: Annual Performance of the MSCI AC World TR Index & Bloomberg Global Aggregate Index.



A number of assets finished officially in bear market territory in Q3, notably the S&P 500 Index (-23.9%), 30-Year US Treasuries (-28.9%) and Copper (-23.3%). It has also been the worst year-to-date return for UK Gilts in over four decades and the worst third quarter for German Bunds ever. On a year-to-date basis, only a handful of commodities are beating inflation so far this year.

The ongoing rise in bond yields has completely changed the landscape of fixed income investing and today provide compelling long term return prospects. This we touch on in our Outlook later in the report. Only twelve months ago ~24% of the entire world bond universe was negative yielding, this equated to around $14 Trillion in notional value. Due to the fall in price and rise in yields since the start of this year (the two move inversely to one another), barely 3.2% of the universe or $1.8 Trillion in notional value is now negative yielding.

Exhibit 3: Total Percentage & Nominal Value of World Bonds Outstanding Exhibiting a Negative (nominal) Yield.

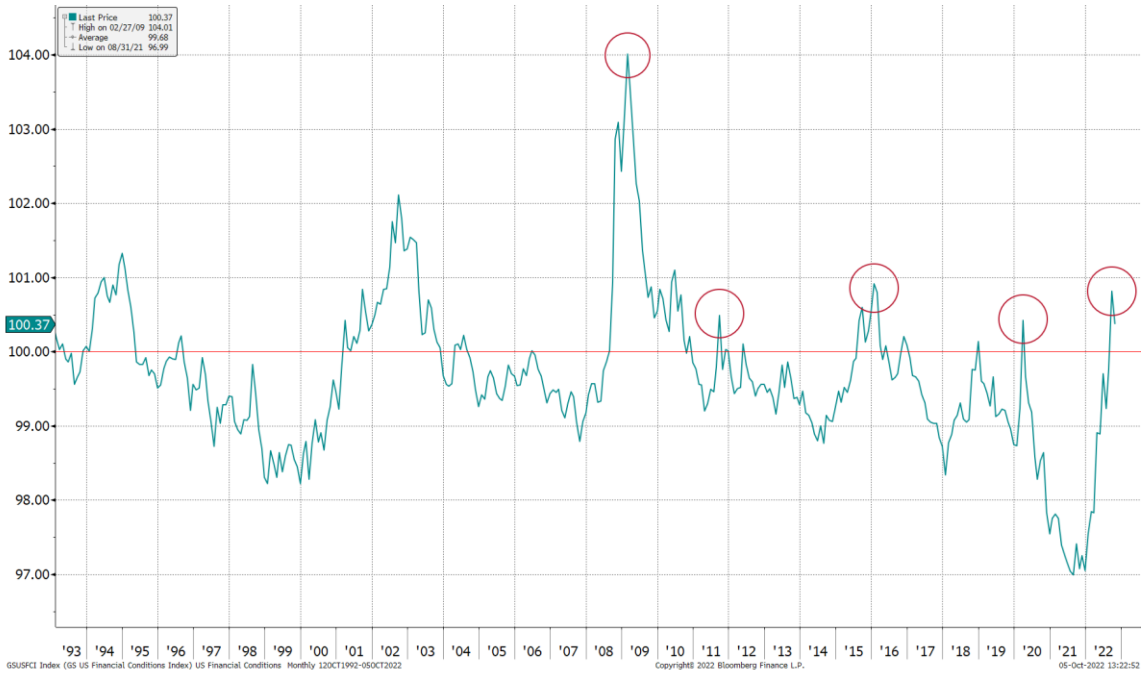


The primary ongoing reason as to why bond markets were weak throughout Q3 is down to the ongoing commitment of the US Federal Reserve and many other Central Banks to reign in elevated inflation via tighter monetary policy. In some major economies, consumer prices rose by 8-10% on an annualised basis over the period, the highest in forty years. In Europe for instance, the ECB raised rates for the first time in more than a decade which ends an era of negative interest rates within the region.

The US Dollar remained exceptionally strong over the quarter, primarily driven by the excess yield on offer in US Dollars versus other major foreign exchange crosses and due to the Fed's commitment to continue raising interest rates until it has a grip on inflation. The US Dollar (DXY Index) finished +7.1% in Q3 which leaves it +17% year-to-date. The US Dollar was exceptionally strong against Sterling which depreciated 8% following the UK government's decision to unveil a largely unfunded £60bn tax cut. This also put immense pressure on the UK bond market with Gilts surging over the period to finish at 4.1%. Despite the UK possessing one of the lowest debt/GDP profiles within the G7 group of nations, this is an illustration of just how important fiscal prudence is currently in the eyes of the bond market, particularly against an elevated inflationary backdrop and ongoing quantitative tightening.

The increasing cost of capital for governments, businesses and consumers combined with lower equity markets tightened overall financial conditions in Q3. However, financial conditions are now so tight that major financial market events have occurred at these levels in the past. The chart below illustrates this point.

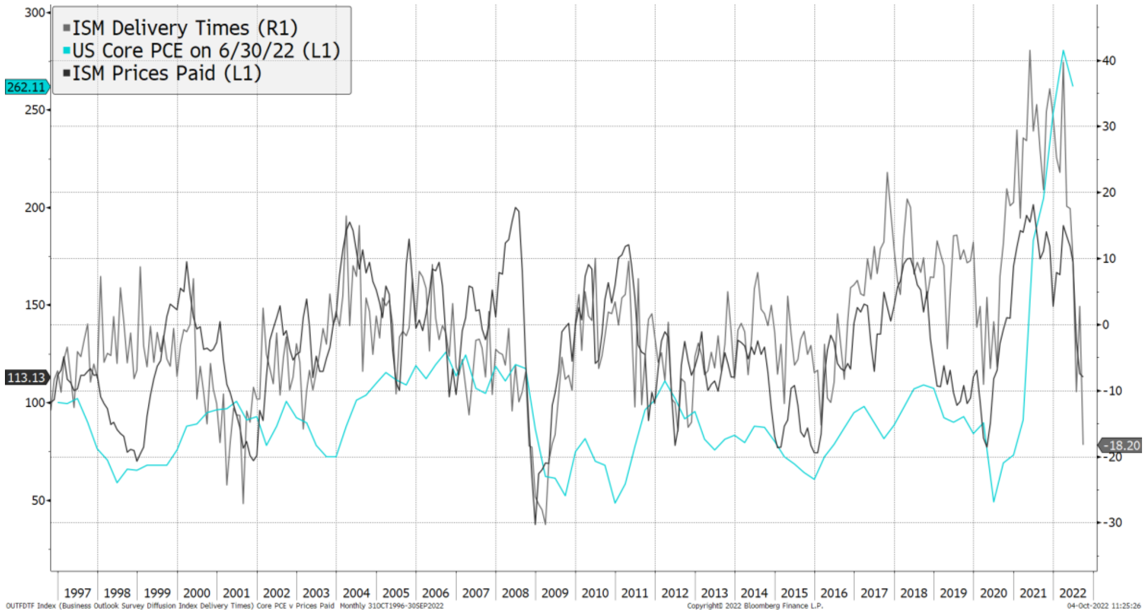
Exhibit 4: GS US Financial Conditions Index



In the US, the Goldman Sachs Financial Conditions Index is now comfortably above the 100 threshold and there have been many instances in the past where events have occurred at these levels. The Great Financial Crisis in 2008-09 witnessed unprecedented turmoil in financial markets which prompted an immediate combined response from the central authorities. Similarly, the Eurozone debt crisis in 2011 and the Asia/EM mini-crisis in late 2015-16 prompted co-ordinated central bank intervention. This time however, elevated inflation is for now prohibiting central banks from riding to the rescue of borrowers and capital dependent entities. We do believe however that it's increasingly likely that central banks take the above into account over the coming period, with the risk of a real financial crisis emerging the tighter financial conditions become.

On the inflationary front, we continued to witness some easing in price inputs over Q3 which we believe are credible signs that inflation has likely peaked for this cycle despite the stickiness in aggregate measures. Tighter monetary policy and financial conditions always work with a lag in the economy, whilst higher prices are often an effective tax on growth and consumption overall. The "Prices Paid" and the delivery times components of the ISM reading continued to depreciate quite materially over the recent quarter, as illustrated on the chart overleaf. These metrics have in the past been closely correlated with broader measures of inflation, such as the Core PCE indicator, the US Federal Reserve's primary inflation indicator.

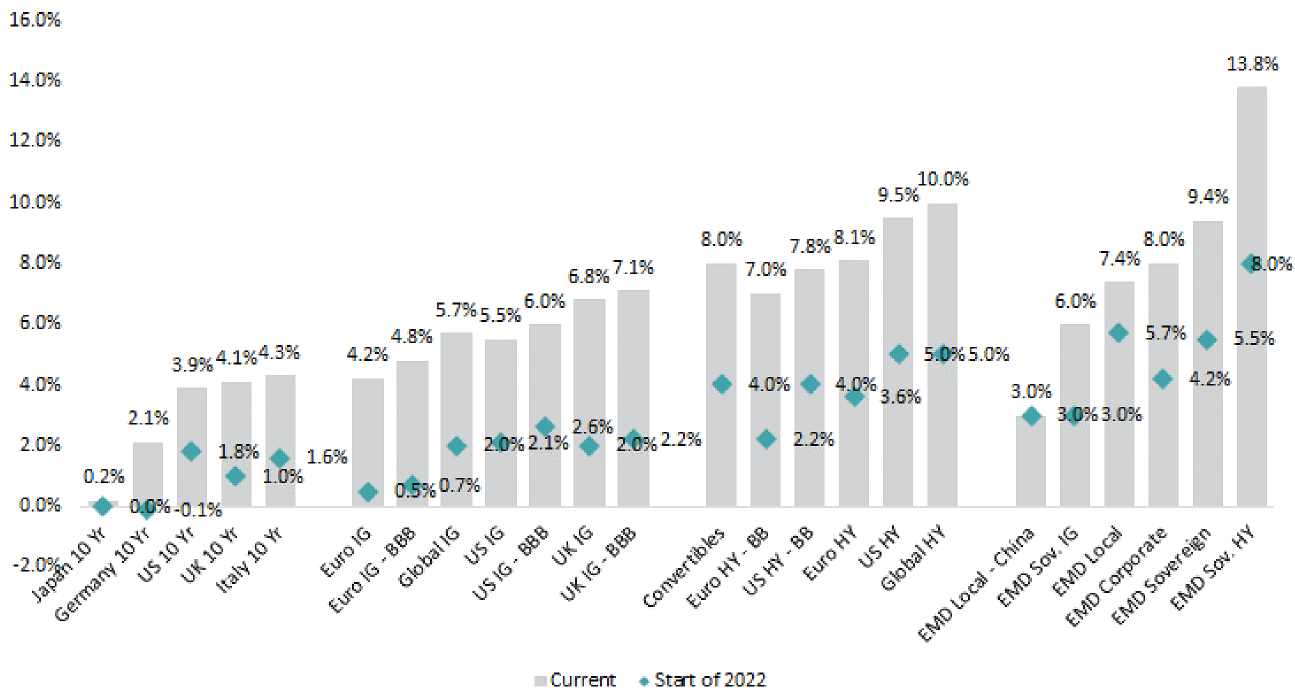
Exhibit 5: US Core PCE vs. ISM Prices Paid & Delivery Times



The overall stickiness in broader readings of inflation continues to come from shelter which accounts for around a third of CPI in the US and food prices. Encouragingly a basket of food related commodities declined sharply in Q3 which potentially filters through into data going forward. The UN Food & Agriculture World Price Index finished -11.9% in Q3. Furthermore, we continued to see visible signs of slowing growth in the US jobs market in Q3 after the US Job Openings by Industry Total Index (JOLTS) continued to decline from its high in March.

Despite these encouraging signs of peaking inflation, bond yields continue to rise materially throughout Q3 with the most pronounced moves being evident in core Sovereign bond markets. The chart below illustrates the year-to-date increase in yields for a host of fixed income instruments. These are once in a generation type moves and arguably set up very compelling risk-reward investment opportunities going forward which we touch on in our Outlook.

Exhibit 6: Fixed Income Yields by Instrument (%)



Source: Umbra Wealth, Bloomberg.

Surging bond yields and widening credit spreads increased the discount rate for equities over Q3, however the outlook for equities also remained challenged by the looming threat of earnings downgrades coming against a weaker growth trajectory.

In the US, the S&P 500 TR Index rallied nearly +18% from its June low to August peak before finishing -4.9% for Q3. Every sector apart from Energy (+2.2%) and Consumer Discretionary (+4.4%) declined. Stylistically, Value (-5.6%) underperformed Growth (-3.4%), whilst Small Cap equities (-5.2%) also finished marginally behind the broader large cap benchmark.

In Europe, the MSCI Europe ex-UK Index finished -3.9% to leave it -20.7% on a year-to-date basis. Small caps (-8.0%) were particularly weak against a strong risk-off backdrop. Value (-5.5%) was materially weaker against Growth (-2.6%) with the defensive areas of the market (Staples -1.8%) providing a relative safe haven against the more cyclical ends of the market. In the UK, the weakness in Sterling drove a high degree of dispersion between sectors and domestically orientated stocks versus their overseas orientated counterparts. The MSCI UK all cap Index finished the quarter -2.9% to leave it only -1.3% in Sterling terms and in stark contrast to the more domestically skewed mid cap (Q3 -7.5%, YTD -28.7%) and small cap (Q3 -9.2%, YTD – 29.6%) areas of the market.

In Asia, China (CSI Index -14.3%) weighed significantly on overall indices in Q3 due to the ongoing COVID restrictions in the mainland. In Hong Kong, the Hang Seng Index was also weak, finishing -20.1%. Markets in Japan were a relative safe haven, at least in Yen terms (-6% versus the US Dollar), with the TOPIX Index finishing -0.8% to leave it -5.5% year-to-date, whilst Japanese small caps finished the quarter +2.3%, to leave the asset class -2.3% year-to-date. Dispersion within Emerging Market equities (MSCI EM Index -11.6%) was very elevated throughout the quarter, with India (Sensex +8.7%) performing strongly on the back of still buoyant growth, whilst material weakness in Europe, the Middle East and Africa (EMEA -12%) weighed on the overall benchmark.

The ongoing decline in equities has arguably left their associated valuations quite depressed relative to history as we head into the final quarter of the year. We remain of the view that a considerable decline in earnings for the coming twelve months has now been discounted in overall market valuations. Europe and Asian equities remain valued on undemanding high single digit P/E multiples as illustrated in the table overleaf, whilst in the US, the S&P 500 Index has now de-rated to around 16x forward earnings. Down from 24x it was on at the end of 2021. The index is skewed however by the influence of the more highly rated tech constituents, or the so-called FANG-M, (Facebook, Apple, Netflix, Google & Microsoft). Excluding these constituents, the index is on around 13x forward earnings, the lowest it has been since the onset of COVID in early 2020.

Exhibit 7: MSCI World Index: Price relative to estimated EPS & Price-to-Earnings Multiple

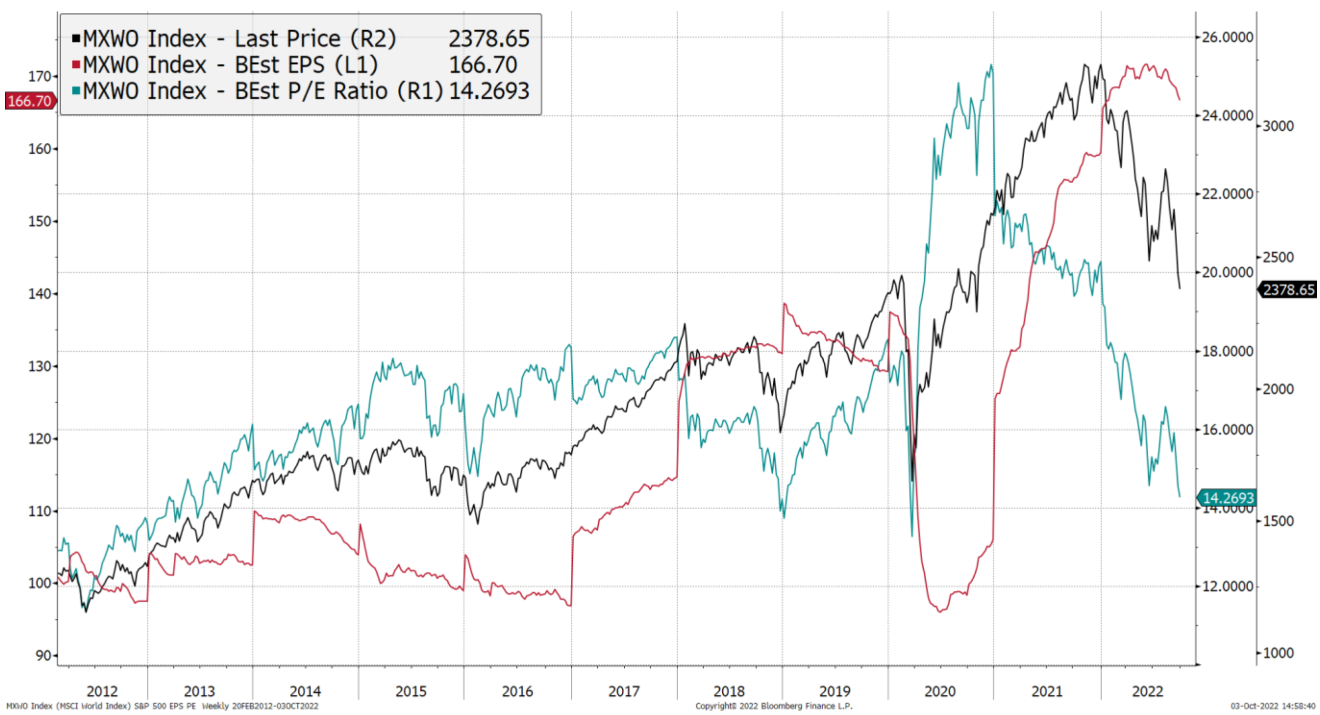


Exhibit 8: Fundamental Metrics by Equity Region

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)	5.7	1.0	12.5	13.0	0.9	13.9	12.4	1.8	13.0	1.7	2.3	32.2	-14.8%	-11.0%	-21.8%
India: BSE SENSEX Index	2.1	1.2	14.9	21.0	4.0	22.0	21.0	4.1	14.5	3.3	1.3	28.6	7.9%	-3.7%	-2.8%
Japan: NIKKEI Index	1.3	1.3	6.0	5.3	4.6	26.5	14.3	1.4	12.9	1.6	2.1	56.6	1.1%	-5.2%	-8.9%
S. Korea: KOSPI Index	3.0	1.4	9.1	8.3	2.5	9.1	9.3	1.0	6.7	0.8	2.3	19.7	-6.5%	-21.3%	-28.6%
Taiwan: TAIEX Index	0.7	1.5	17.5	12.0	3.5	9.6	9.0	1.2	6.9	1.8	5.5	48.9	-7.3%	-24.5%	-19.7%
Europe															
France: CAC Index	0.9	1.1	15.2	13.7	8.2	12.1	9.2	1.3	7.1	1.5	3.4	39.4	-2.8%	-13.8%	-11.6%
Germany: Dax Index	1.7	1.1	12.3	9.8	8.5	11.8	9.9	1.2	6.7	1.3	3.8	41.1	-5.5%	-16.1%	-20.1%
Italy: FTSE MIB Index	4.0	1.1	13.1	11.5	11.1	10.5	7.1	1.0	5.9	1.0	5.8	43.8	-3.3%	-17.9%	-19.4%
Swiss: SMI Index	0.5	1.3	19.2	15.7	15.6	14.8	15.7	2.5	11.6	2.8	3.3	45.1	-4.7%	-15.7%	-11.3%
UK: FTSE 100 Index	0.2	1.1	14.2	14.6	17.2	13.3	8.4	1.7	7.6	1.5	4.1	50.9	-3.8%	-8.5%	-1.9%
US															
S&P 500 Index	1.2	1.2	19.6	15.2	5.4	17.6	16.0	2.5	12.2	3.6	1.8	37.8	-6.3%	-21.1%	-17.7%
S&P 500 Growth Index	0.4	1.4	31.2	22.3	4.3	21.3	19.5	4.0	14.5	6.6	1.1	28.8	-4.9%	-24.4%	-22.5%
S&P 500 Value Index	1.7	1.2	15.5	12.5	6.4	15.1	13.7	1.9	10.7	2.5	2.6	42.9	-7.5%	-17.8%	-12.8%
NASDAQ Composite Index	1.1	1.5	15.4	13.9	2.8	34.0	23.8	3.1	17.0	4.2	1.0	33.1	-5.0%	-25.8%	-27.4%
World															
MSCI Emerging Markets Index	1.4	1.4	13.2	13.2	8.6	9.8	10.6	1.5	7.4	1.3	3.4	38.3	-11.8%	-23.6%	-29.7%
MSCI World Index	1.2	1.2	15.9	14.0	7.3	15.4	14.3	2.0	10.3	2.5	2.4	41.7	-7.1%	-22.2%	-21.3%
MSCI World Growth Index	1.0	1.2	20.8	15.3	4.1	24.4	22.0	3.1	14.5	4.9	1.1	33.6	-5.7%	-25.6%	-27.8%
MSCI World Value Index	1.3	1.2	14.2	13.5	10.5	11.3	10.7	1.6	8.1	1.7	3.6	45.0	-8.4%	-19.3%	-15.2%

Source: Umbra Wealth, Bloomberg.

Exhibit 9: Fundamental Metrics by Equity Market Sector

Leverage		Profitability						Valuation										Price Change		
ND / EBITDA	Current Ratio	RoE CY	RoE 5 Yr Low	RoE 5 Yr High	Operating 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
1.7	1.4	18.1	10.7	32.8	20.6	15.5	18.8	6.6	14.1	**13.9**	2.8	9.0	6.5	16.9	2.6	1.2	47.1	-13.5%	-31.7%	-40.6%
1.9	1.2	29.0	15.8	31.3	9.0	5.6	11.2	1.1	30.5	**25.8**	2.2	15.3	10.0	27.4	8.6	0.9	32.2	2.1%	-23.4%	-22.0%
2.1	0.9	26.4	15.2	27.0	9.4	6.9	9.7	4.3	19.7	**19.3**	1.7	14.4	13.1	19.6	5.8	2.8	65.2	-8.5%	-13.2%	-2.9%
0.8	1.3	24.1	-20.0	11.3	14.2	-19.2	9.2	11.8	9.1	**7.1**	1.2	6.1	5.8	20.9	2.2	4.5	-	-0.3%	-5.8%	35.1%
-1.4	-	11.8	7.7	15.0	23.3	15.5	30.5	13.8	11.4	**11.9**	2.2	8.4	5.0	10.0	1.4	2.3	27.6	-5.0%	-20.7%	-20.5%
1.3	1.2	22.6	12.2	19.8	10.7	7.7	10.9	6.0	17.0	**14.9**	1.9	13.2	12.3	18.9	4.5	1.7	40.7	-6.7%	-12.3%	-5.0%
2.2	1.2	19.8	7.7	23.0	11.7	5.6	12.5	3.7	20.2	**17.1**	2.1	12.8	9.1	25.8	4.4	2.0	41.2	-6.0%	-18.9%	-16.4%
1.5	1.6	18.7	4.0	15.5	16.4	6.9	13.7	6.3	12.2	**11.8**	2.0	8.6	9.9	18.3	2.5	2.5	35.5	-8.3%	-23.6%	-15.2%
0.4	1.3	34.1	17.4	34.8	26.0	20.8	24.9	4.5	22.1	**19.6**	5.0	15.2	11.1	23.7	7.4	1.1	26.9	-6.7%	-25.4%	-21.9%
5.7	0.8	9.0	5.6	11.2	14.9	13.0	20.6	-4.3	19.9	**18.8**	4.3	14.0	10.9	14.6	2.1	3.2	74.9	-9.0%	-13.3%	2.5%
2.3	1.2	13.9	10.4	18.8	15.3	14.5	19.7	7.6	18.5	**14.5**	2.7	9.3	6.7	13.3	2.3	1.7	60.8	-13.7%	-30.7%	-39.7%
1.3	1.3	18.1	7.7	18.5	8.8	5.1	9.6	2.7	20.5	**19.7**	1.7	11.2	8.0	19.3	3.4	1.4	33.6	-1.1%	-24.0%	-26.9%
2.2	1.0	22.1	16.6	25.7	9.3	8.5	9.4	4.7	18.0	**18.6**	1.6	12.8	12.5	15.6	3.8	2.8	58.4	-8.1%	-14.4%	-9.6%
1.0	1.2	20.0	-14.0	10.4	14.2	-12.0	9.1	13.3	8.7	**6.1**	1.1	5.2	5.3	30.1	1.7	4.5	38.0	-2.6%	-8.8%	21.0%
-	-	10.7	6.2	11.5	22.6	13.6	22.4	21.8	10.1	**10.6**	1.7	-	-	-	1.1	3.5	39.2	-7.1%	-22.3%	-22.0%
1.4	1.3	19.2	11.8	16.8	11.3	8.6	12.0	5.8	18.2	**15.6**	2.2	13.6	13.0	19.8	4.0	1.9	44.4	-7.8%	-14.5%	-10.7%
1.7	1.3	16.3	7.5	17.5	10.0	5.8	9.7	5.4	14.2	**14.8**	1.6	9.6	9.0	19.8	2.6	2.4	38.3	-6.3%	-21.5%	-23.5%
0.9	1.6	22.4	2.0	15.0	17.6	5.7	14.9	8.3	8.3	**9.0**	1.3	5.6	7.3	13.1	1.7	4.3	40.1	-8.3%	-27.8%	-19.0%
5.4	-	8.8	2.4	10.6	28.0	18.0	31.8	-1.1	18.0	**21.4**	6.8	15.8	14.8	25.8	1.5	4.2	69.0	-13.4%	-26.9%	-23.8%
0.3	1.4	27.4	14.7	27.0	22.0	16.3	20.7	4.4	23.1	**20.1**	4.4	15.2	11.2	24.9	6.3	1.2	29.5	-6.6%	-26.8%	-26.6%
5.3	0.9	7.7	5.2	11.4	8.8	9.6	12.4	-2.7	19.4	**17.3**	2.3	12.2	9.8	13.3	1.7	3.8	86.7	-10.9%	-17.0%	-7.1%

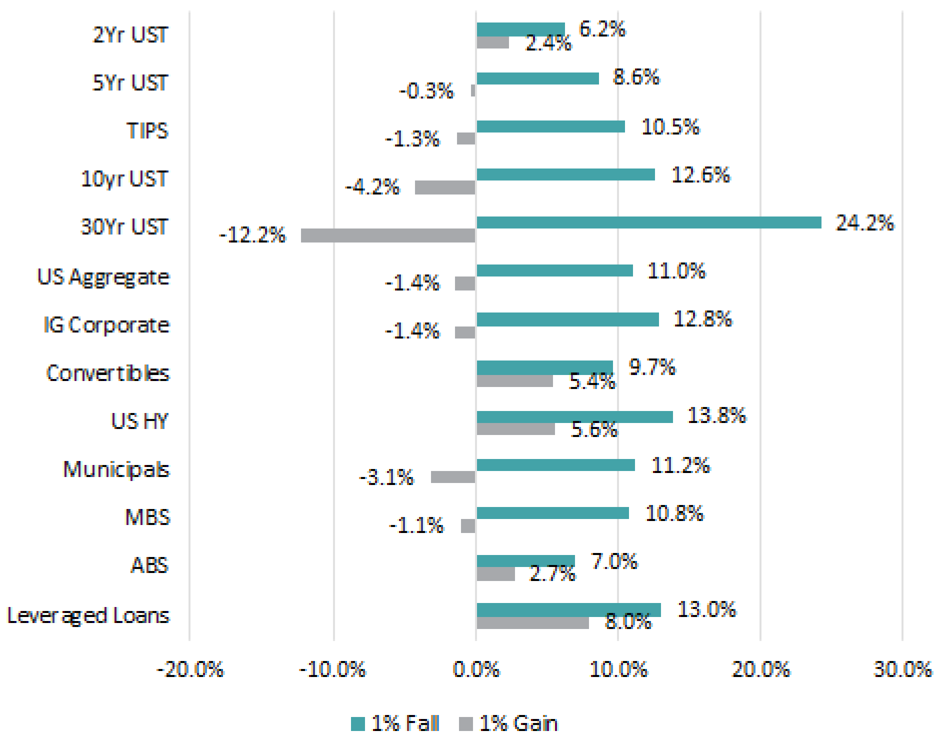
Source: Umbra Wealth, Bloomberg

3. Outlook

Following the savage year-to-date declines in equity and bond markets, investors have naturally questioned the future role of the traditional 60/40 balanced portfolio. Unlike past episodes of equity market turmoil, bonds have been less able to provide broader portfolio ballast and capital preservation offsets as yields have moved lower. Inflation and the starting valuation of bonds upended that historical relationship this year. We do believe however that the construct is still valid and the risk-reward scenario from here is very attractive for longer term investors.

Firstly, we believe it's increasingly likely that Western economies are already in or soon will be in an economic recession. This is likely to mean that bond yields have now peaked and inflation should also start to decline from here. The real yield available on bonds is therefore attractive today and increasingly so. Moreover, should a recession become more evident as the year concludes, it is likely that bonds should rally (and yields decline) as investors seek the relative safety in the asset class. These moves are likely to have a profound impact across various segments of the broader fixed income spectrum, especially for those which have long duration sensitivity.

Exhibit 10: Impact of a 1% Rise or Fall in 10 Year US Interest Rates.



Source: Umbra Wealth, Bloomberg.

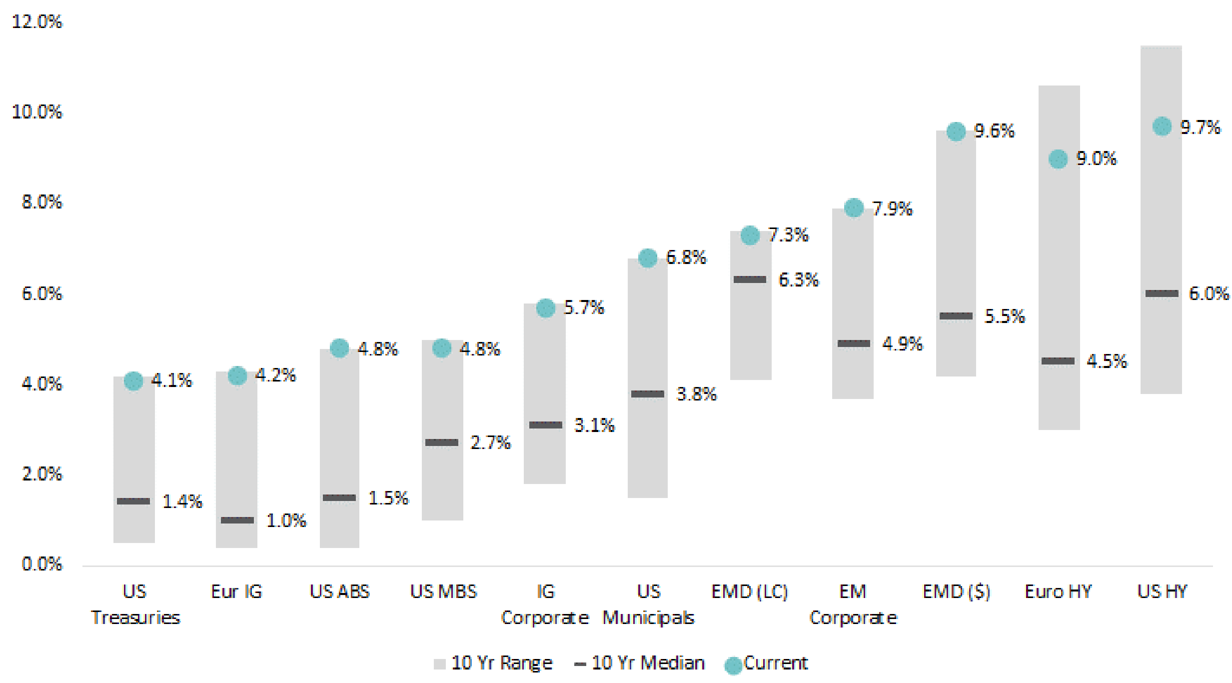
The chart above highlights the degree to which a given fixed income instrument in the US market is likely to rise or fall in the event of a 1% rise or fall in US 10 Year Treasury yields. Having begun 2022 with a yield of 1.5%, US Treasuries finished the third quarter with a yield of 3.8% which has equated into a -13% total return since the start of the year, amplified by the long duration sensitivity it has.

We believe however, that the asymmetric return profile of the asset class is swinging back in its favour. For instance, should US Treasury yields decline by 1% from here then an investor would stand to gain +12%, a far more advantageous outcome than a -4% should yields rise by a further +1% from here. This also has ripple effects further afield, especially in the corporate credit market.

Corporate credit spreads, the incremental yield on offer to investors in excess of the risk free rate (Treasuries) continued to widen in the third quarter as the outlook for the global economy remained bleak and financial conditions tightened. We do believe however that the broad fixed income spectrum is increasingly looking attractive and that yields more than compensate an investor for the default risk of owning credit over Treasuries currently.

As shown below, yields are very elevated today across all segments of the fixed income spectrum and especially against their 10 year average range. Clearly the yield on offer increases the further out along the risk curve one goes within fixed income, however the current fright in financial markets is clearly evident across the spectrum today.

Exhibit 11: Fixed Income Yields by Instrument Relative to 10-Year Average.

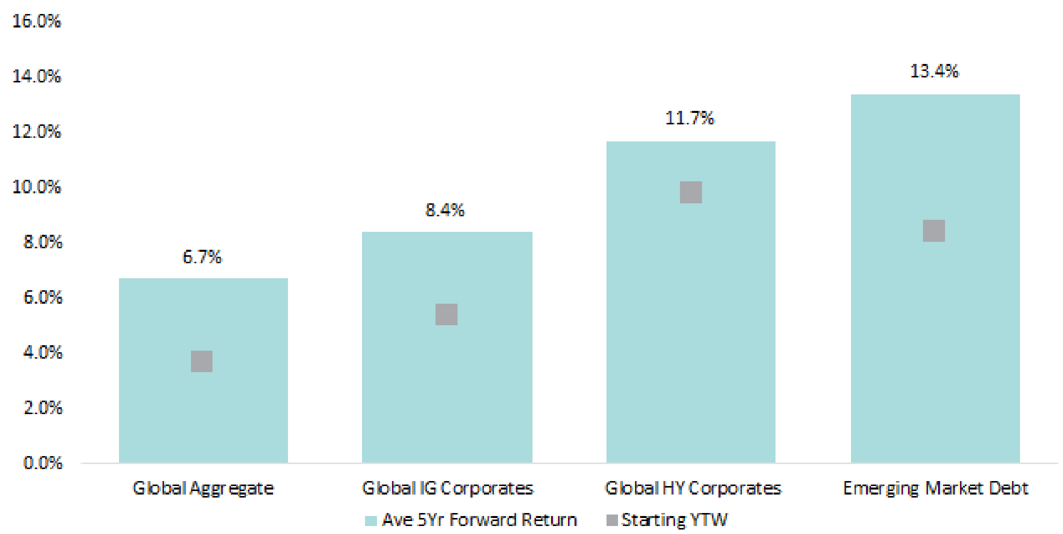


Source: Umbra Wealth, Bloomberg.

The more speculative end of the fixed income spectrum has also repriced quite significantly since the start of the year. US and European High Yield markets now provide a genuine "high yield", having begun the year yielding 4% and 3% respectively. Corporate defaults in the US are expected to increase to around 2% in 2023 and so even after incorporating that investors are being well compensated for the risk.

Starting valuations often dictate one's forward rate of return. Given the increase in yields since the start of this year, the projected forward rate of return for a host of fixed income instruments is very compelling from here. If history is any guide, the below chart illustrates the 5 year forward rate of return per annum achieved through buying various areas of fixed income at today's starting yield.

Exhibit 12: Average 5 Year Forward Rate of Return (Per Annum) Given Today's Starting Yields.



Despite the compelling forward looking returns from the current starting valuation, there are two key interlocked factors which are likely to dictate the outlook for fixed income at least over the short term. One is inflation and with that is tied the outlook for interest rate policy. As alluded to earlier, we do believe that inflation has peaked globally and also in the US. Twelve month forecasts for inflation in the US are currently at 4%, down from its current 8% level. As the economy continues to slow on the back of tightening financial conditions and contracting demand, this is likely to leave interest rate policy on a more neutral level one year out.

For now, we need to see these two variables converge before the talk of a so-called "Fed Pivot" can have a bit more substance. As illustrated on the chart below, the Fed has never moved to a more dovish stance when the real fed funds (terminal) rate (terminal rates – inflation) has been negative. Past cycles of monetary policy easing have always been done when real terminal rates have been positive.

Exhibit 13: Real vs. Nominal Terminal Rates in the US.

Source: Umbra Wealth, Bloomberg.

4. Outlook — Consolidated

Asset Class	Region	Manager / Style skew
Fixed Income	**Developed Markets**	• For the first time since 2018, **US Treasuries, along with an increasing host of other G7 sovereign issuers are providing a real yield pick-up** with longer term measures of inflation remaining well anchored. • Duration is increasingly able to provide a capital preservation offset against potential equity market declines, especially in the US. The correlation of bonds to equities is now negative and increasingly in-line with historical relationships thus providing diversification benefits. • Yield curves broadly reflect the increasing possibility of policy mistakes being initiated by central banks with growth slowing globally. • **Positioning**: **We believe sovereign developed market duration is increasingly attractive, especially in the US.**
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 despite the declines of 2022 and the ongoing strength in the US Dollar. • Many EM nations today possess current account (CA) surpluses in contrast to widespread CA deficits during past episodes of turmoil in EMD. Moreover, EM central banks remain 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 more attractive at this point in the cycle and we are seeing signs of moderating levels of inflation across the region. • 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 with spreads at 467bps over US Treasuries. • **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 an ongoing risk-off backdrop. This attraction is further enhanced if inflation has peaked for this cycle thus meaning positive real rates. • Option adjusted spreads in US Investment Grade (IG) credit are now +187bps, offering a combined yield of ~570%. 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. • Despite the fragility in the global economy, corporate balance sheets remain in broadly decent shape. Debt maturities have been extended after companies took advantage of refinancing at low rates post-COVID. • **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 +538bps in the US and +624bps in Europe due to the ongoing military conflict in the East. **Overall yields are ~9.5% in the US for instance and are now flirting with real distress levels ~+1000bps**. • Yields and spreads at these levels puts the asset class outside of its 1 standard deviation average over the last decade which is very attractive relative to history. • For now, High Yield bond issuance remains challenged and performance dispersion is likely to increase given the troubling macro economic backdrop and rising cost of capital environment. • Although corporate defaults are likely to pick-up, they are projected to reach 2% in 2023, however **we believe an investor is being well compensated for the implied default risk at current spread levels**.
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** and the deteriorating geopolitical relationship between it and the West. • 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 and risks. 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. • For now, **tighter US interest rate policy coupled with a surging US Dollar is heavily dictating market direction.** We need to see either a Fed pause or indeed a change in tack for regional equities to outperform. • Central banks across the region 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 backdrop. • At a broad level, **profitability metrics remain above median levels, yet valuations are at historical trough levels** which implies an impending decline in corporate earnings. Markets are however a discounting mechanism and are likely to recover before a trough in earnings. • 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 property sector's 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 across large and small cap equities. 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 continues to deteriorate following the outbreak of military activity in Eastern Europe at the start of the year. 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 was highly dependent on Russia for its gas, with Italy for instance, relying on 100% of its gas supply from the country although progress has been made by shifting the energy mix and array of suppliers lately. • 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 / defensive 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 which is now at cyclical highs. • 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 secular shifts in corporate reform, smaller cap equities have been impacted disproportionately over recent quarters as supply chain bottle necks and fears over the outlook for the global economy has 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 surging borrowing rates, 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 and steps taken by the new government currently appear to be doing more harm than good. • 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 it is too early to be taking a pro-cyclical stance yet.** • **Positioning**: The degree of **underperformance of higher quality defensives during the first half of the year 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. The multiple on the S&P 500 Index is now 16x (NTM), although this remains skewed by the mega cap tech constituents. Ex-FANGM, the S&P is on 14x 2023, close to a cyclical low. • 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 US companies that derive a high proportion of their sales from overseas. • The **current environment favours active over passive**. The prospects for elevated and stickier inflation means that not all companies will be able to pass on higher input costs, whilst debt servicing costs are also high. 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 an increasingly 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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