



Quarterly Commentary & Market Outlook

Prepared for
Investors

Q1 2023

Umbra

Umbra



1. Outlook — Executive Summary, Q2 2023

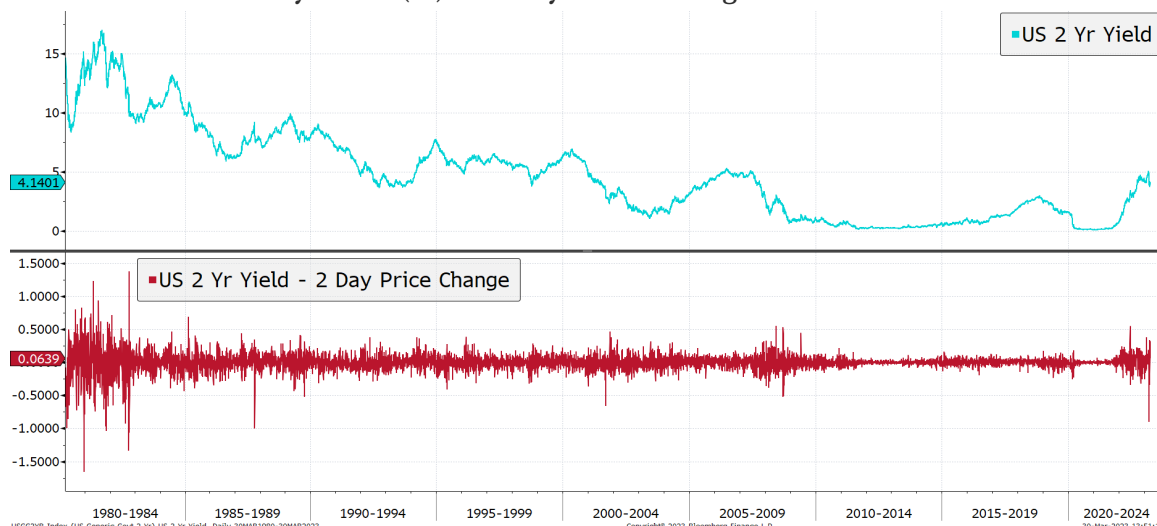
- The market backdrop remained volatile as the first quarter progressed with a number of well publicised bank failures being at the centre of it all. **This led to a material tightening in credit conditions**, at least in the US, and **the retrenchment from lending activities by the banks is beginning to draw parallels with past episodes of financial market stress**.
- In turn, this prompted **a material flight to safety with core sovereign government bonds rallying (Citi world Government Bond Index +3.5%)** on the assumption that developed market economies are likely to face a material slowdown in economic activity through the remainder of the year. Technical factors also played their part behind the rally in government bonds with hedge fund positioning heavily short going into the quarter on the continued assumption that central bank policy would remain tight in order to combat high inflationary pressures.
- Surprisingly, **risk assets fared well (MSCI AC World TR Index +7.3%)** despite the turmoil amongst the US regional banks, however **the primary support to equities came from lower bond yields** (discount rates) with valuations expanding as a result. **Within equities, style and regional dispersion was significant**, whilst the sudden market rotation saw many of the leading sectors at the start of the year give back a significant proportion of their gains. This was seen most notably amongst the cyclical orientated sectors and financials particularly.
- Beneath the surface however, **only a handful of stocks drove equity indices higher** with lower discount rates being the primary driver, at least in the US. Within the growth-sensitive Nasdaq Index (+17.0%), only 5 companies accounted for over 60% of the index's overall return, whilst only 2.4% of this index's constituents made new 52 week highs. This illustrates that **market returns were very narrow in leadership in the quarter with a significant part of the market lagging overall**.
- On the data front, inflation continued to moderate in most major regions, although there remains some degree of stickiness in some areas of the major economies, most notably in the UK. In the US, the core PCE Index (4.59% YoY), the Federal Reserve's preferred measure of inflation, fell below the Federal Funds effective rate (4.65%) for the first time since 2019. **This may provide the Fed with some degree of manoeuvrability going forward**, particularly if the risks posed by the recent tightening in financial conditions cuts into demand and weakens pricing further. Elsewhere, **the economic recovery in China, and the world's second largest economy, remains broadly intact** with PMI activity data along with retail sales illustrating broad expansion within the nation's economy. This comes in **stark contrast against much of the developed world** where PMI activity data and leading economic indicators continue to highlight a slowing growth trajectory, which may be exacerbated by the recent tightening in credit conditions.

Asset Allocation View	-	+
Equities		
Fixed Income		
Cash		
Equities		
Asia ex-Japan		
Japan		
Eurozone		
UK		
US		
EM ex-China		
China		
Fixed Income		
Government: DM		
Government: EM\$		
Government: EM Local		
Investment Grade		
High Yield		
Duration		
Inflation Linked		
Loans		
Convertible Bonds		



2. Q1 2023 Asset Class Review

Exhibit 1: US 2 Year Treasury Yield (%) & 2 Day Price Change



Source: Bloomberg.

It was a strong start to the beginning of 2023, however real signs emerged as the quarter progressed that the recent tightening in monetary policy at least in the US, is starting to be felt at the very core of the financial system. This was arguably inevitable - **the current tightening cycle has been conducted at its fastest pace in modern history and came at a time when the system had become accustomed to what was effectively free money**. As is often the case when the liquidity cycle changes, it is not long before the most vulnerable business models are exposed.

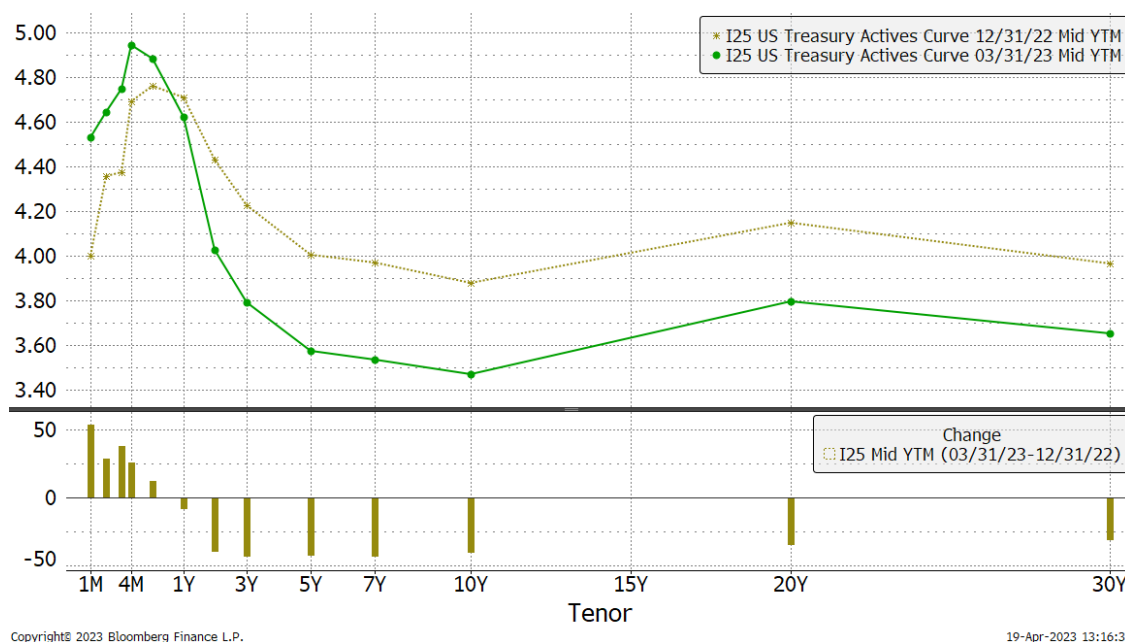
As Exhibit 1 illustrates, **the two day price change in the US 2 Treasury yield during the first quarter was the most pronounced since the mid 1980's, eclipsing the depths of the GFC in 2008-09**. 2 Year US Treasuries peaked at 5% in the first quarter before the failure of a number of significant US regional banks prompted investors to reassess the outlook for US economic growth and the interest rate cycle, driving yields lower to finish the period at 4%.

Silicon Valley Bank ("SVB") was one of those victims during the first quarter as regulators shut down the bank's operations citing inadequate liquidity and insolvency. For SVB particularly, it was heavily reliant on venture capital funding rather than a traditional retail deposit base (<10%) which is often stickier in nature. Nearly 30% of the company's deposit funding was from customers operating within the early stage technology industry, which has been through its own difficulties of late as a result of the shift in monetary policy. As these flightier clients withdrew their deposits from the bank, losses were realised in SVB's bond portfolio which drove the bank's insolvency. The risks posed by "unrealised losses" in banks' bond portfolios is an issue currently. The surge in bond yields and therefore the decline in mark-to-market value throughout 2022 meant that some banks are now having to realise some of those losses as depositors flee.

SVB's failure had ripple effects across the broader regional banking sector and markets were quick to identify those deemed to be similarly vulnerable to this changing backdrop. For regional banks particularly, they also failed to pass on the increase in interest rates to deposit holders who have, in turn, noticed the high rates of interest being paid by money market funds. Authorities moved quickly to try and alleviate some of the liquidity pressures which began to gain traction during quarter end. Through the creation of the Bank Term Funding Program (BTFP) and the discount window, the Fed's balance sheet jumped by \$391bn in the first quarter, **unwinding approximately two-thirds of last year's quantitative tightening**.



Exhibit 2: US Yield Curve: COB 31/12/2022 Relative to COB 31/03/2023

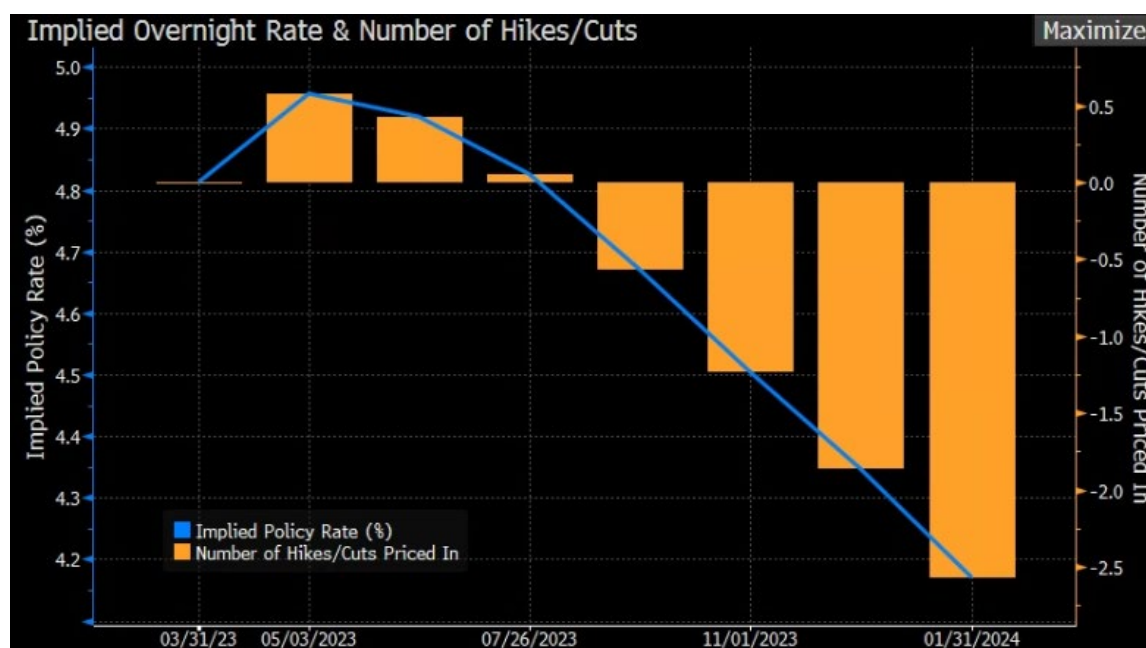


Source: Bloomberg.

This fragility has really changed the market's outlook for the US interest rate cycle. Exhibit 2 illustrates the degree to which the US yield curve shifted in the first quarter, relative to where it was at the end of 2022. The yield curve has inverted even further with the spread between the (2's/10's) shorter end of the yield curve relative to the longer end of the yield curve finishing the quarter at -0.55%, the most inverted reading since 1980.

For interest rate expectations the market has also moved to price-in the prospects of interest rate cuts by the end of this year. The chart below illustrates **the market is now expecting the US Federal Reserve will be cutting interest rates to 4.3%**, down from the current effective rate of 4.8%, by the end of the year.

Exhibit 3: FED Fund Futures

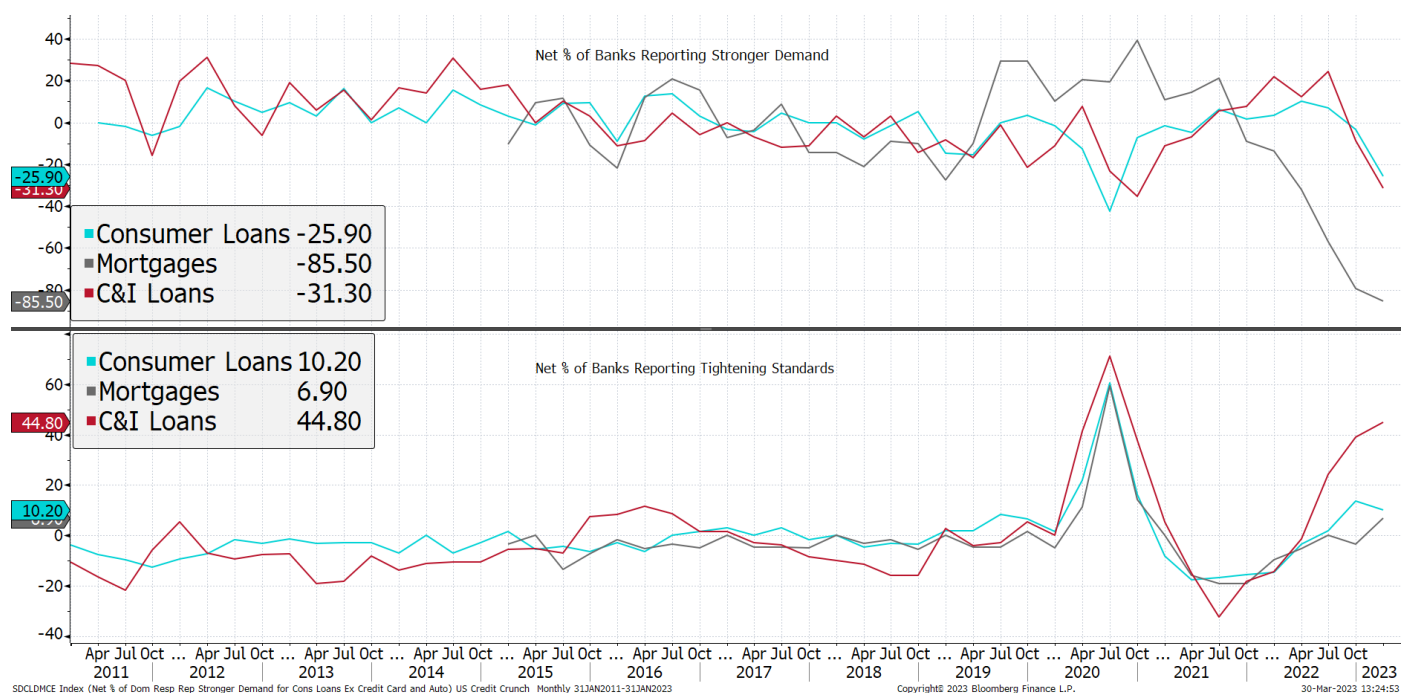


Source: Umbra Wealth, Bloomberg.



Obscuring the picture somewhat for the near term outlook for the US economy is the recent change in lending conditions. The difficulties faced by the US regional banks, coupled with tighter monetary policy has prompted lenders to tighten financial conditions materially. The net percentage of US banks reporting tighter lending standards for instance has surged over the last twelve months across all primary lines of business as evidenced by Exhibit 4.

Exhibit 4: US Bank Lending Characteristics



For commercial and industrial loans (C&I), **businesses are now facing the tightest lending standards since the depths of COVID in early 2020**. The demand for loans as a result has plunged, with the net percentage of banks reporting a stronger demand for loans declining by 31% within this cohort and similar in severity with the depths of the COVID pandemic.

This is likely to be a significant drag on economic growth in the US the longer it persists at these levels. For the time being, consumers remain in employment whilst they continue to run down the pent-up savings accumulated in the aftermath of the COVID pandemic. According to some estimates however, this excess savings buffer is likely to be exhausted by the end of this year whilst it is also evident that a number of high profile companies (Amazon, Meta, Alphabet, Microsoft) are starting to lay-off workers.

From a positive angle, this should curtail inflationary pressures, which in turn gives the US Federal Reserve room for manoeuvre. **However, it remains to be seen whether the commencement of a slowing economic growth backdrop crystallises into a soft landing, or it morphs into something more sinister. The longer credit conditions remain at these levels, the greater the risk of a hard landing.**



Exhibit 5: Asset Class Performance & Style Summary Q1 2023 (Regions are in local currency terms)

Regional Equity	March	Q1 23	YTD	2022	2021	2020
World						
MSCI AC World	3.08	7.31	7.31	-18.36	18.54	16.25
MSCI World	3.09	7.73	7.73	-18.14	21.82	15.90
US						
S&P 500	3.67	7.50	7.50	-18.11	28.71	18.40
Russell 2000	-4.78	2.73	2.73	-20.46	14.78	19.93
S&P Small Cap	-5.16	2.54	2.54	-16.15	26.74	11.24
NASDAQ	6.78	17.05	17.05	-32.51	22.21	45.05
UK						
MSCI UK All Cap	-2.70	3.23	3.23	7.15	19.59	-13.23
FTSE 100	-2.47	3.55	3.55	4.70	18.44	-11.55
MSCI UK Mid Cap	-0.59	10.82	10.82	-20.57	20.31	-3.63
MSCI UK Small Cap	-5.21	1.72	1.72	-22.40	14.54	-4.86
Europe ex-UK						
MSCI Europe ex-UK	0.80	9.95	9.95	-12.58	24.45	1.75
MSCI Europe ex-UK Large Cap	1.82	11.16	11.16	-11.22	25.61	0.47
MSCI Europe ex-UK Small Cap	-3.53	7.22	7.22	-20.60	24.55	11.74
Asia ex-Japan						
CSI 300 Index	-0.45	4.67	4.67	-19.83	-3.51	29.89
MSCI Asia Pacific	2.79	4.10	4.10	-17.48	-2.90	22.44
Hang Seng	3.49	3.51	3.51	-12.56	-11.84	-0.24
MSCI Asia Pacific Small Cap	0.25	3.20	3.20	-19.36	19.24	26.38
Japan						
TOPIX	1.70	7.21	7.21	-2.45	12.74	7.39
Nikkei	3.04	8.45	8.45	-7.35	6.66	18.28
JPX-Nikkei Index 400	1.59	7.19	7.19	-2.65	12.47	8.89
TOPIX Small	1.26	6.95	6.95	0.71	11.04	-0.04
GEM						
S&P BSE Sensex	0.05	-2.87	-2.87	5.80	23.23	17.16
Ibovespa Index	-2.91	-7.16	-7.16	4.69	-11.93	2.92
MSCI Emerging Markets	3.03	3.96	3.96	-20.09	-2.54	18.31
MSCI Latin America	0.91	4.04	4.04	9.57	-7.66	-13.58
MSCI EME	-4.22	1.46	1.46	-70.97	14.69	-11.87
Fixed Income						
World - Sovereign & Blend						
Citigroup World Gov Bond Index	3.78	3.51	3.51	-18.26	-6.97	10.11
Bloomberg Global Aggregate TR Index	3.16	3.01	3.01	-16.25	-4.71	9.20
GEM - Sovereign						
JP Morgan EMBI (USD)	1.40	2.25	2.25	-16.45	-1.51	5.88
JP Morgan EMBI Diversified (USD)	0.96	1.86	1.86	-17.78	-1.80	5.26
JP Morgan EMBI USD (Spread)	399.62					
Barclays EMB (Local)	2.81	3.11	3.11	-8.44	-1.59	5.34
Barclays EMB Yield to Worst (Local)	429.77					
GEM - Corporate						
Barclays EM IG USD	2.01	2.54	2.54	-16.89	-0.74	7.51
Barclays EM IG USD (Spread)	148.00					
Barclays EM High Yield	-0.12	1.42	1.42	-12.36	-3.18	4.25
Barclays EM High Yield (Spread)	739.00					
US - Corporate						
FTSE US Investment Grade	2.52	3.06	3.06	-13.28	-1.60	7.74
US Investment Grade (Spread)	163.96					
Barclays US High Yield	1.07	3.57	3.57	-11.19	5.28	7.11
US High Yield (Spread)	482.84					
US High Yield Energy (Spread)	384.53					
Europe ex-UK						
Barclays Pan European High Yield	-0.34	2.69	2.69	-10.64	3.43	2.29
Barclays Pan European HY (Spread)	481.00					
Asia ex-Japan						
Barclays Asia High Yield (USD)	-2.20	2.62	2.62	-16.79	-12.35	5.65
Barclays Asia High Yield USD (Spread)	1011.92					
Barclays EM Asia High Yield (USD)	-2.06	2.64	2.64	-16.45	-12.24	5.24
Barclays EM Asia HY USD (Spread)	1021.42					
Sovereign						
France 10 Year	2.79					
Germany 10 Year	2.29					
Italy 10 Year	4.09					
Japan 10 Year	0.35					
Spain 10 Year	3.30					
Swiss 10 Year	1.20					
UK 10 Year	3.49					
US 2 Year	4.03					
US 5 Year	3.57					
US 10 Year	3.47					
MSCI World: Sector						
Communication Services	9.03	18.16	18.16	-36.72	14.83	23.51
Consumer Discretionary	3.87	16.50	16.50	-33.13	18.18	37.01
Consumer Staples	4.92	3.61	3.61	-5.53	13.74	8.53
Energy	-1.52	-3.11	-3.11	47.69	41.81	-30.44
Financials	-7.70	-1.44	-1.44	-9.49	28.73	-2.12
Health Care	3.38	-1.42	-1.42	-4.97	20.35	14.11
Industrials	2.08	7.21	7.21	-12.77	17.08	12.22
Materials	1.74	6.33	6.33	-10.09	17.01	20.63
Real Estate	-2.11	0.91	0.91	-24.49	29.54	-4.25
Technology	10.06	21.19	21.19	-30.60	30.14	44.25
Utilities	5.17	0.79	0.79	-3.71	10.97	5.85
World Style						
MSCI World Growth	6.97	15.18	15.18	-29.04	21.41	34.19
MSCI World Value	-0.58	1.13	1.13	-5.77	22.84	-0.32
S&P 500: Sector						
Communication Services	10.39	20.50	20.50	-39.89	21.57	23.61
Consumer Discretionary	3.12	16.05	16.05	-37.03	24.43	33.30
Consumer Staples	4.23	0.83	0.83	-0.62	18.63	10.75
Energy	-0.21	-4.71	-4.71	65.43	54.39	-33.68
Financials	-9.55	-5.56	-5.56	-10.57	34.87	-1.76
Health Care	2.22	-4.31	-4.31	-1.95	26.13	13.45
Industrials	0.66	3.47	3.47	-5.51	21.10	11.05
Materials	-1.04	4.29	4.29	-12.28	27.28	20.73
Technology	10.93	4.29	21.82	-28.19	34.52	43.88
Utilities	4.92	-3.24	-3.24	1.56	17.67	0.52
US: Style						
Growth (Large Cap)	6.83	14.36	14.36	-29.14	27.59	38.49
Value (Large Cap)	-0.46	0.99	0.99	-7.56	25.12	2.78
Momentum	0.44	-4.15	-4.15	-18.26	13.37	29.85
Growth (All Cap)	6.25	13.85	13.85	-28.97	25.84	38.26
Value (All Cap)	-0.87	0.89	0.89	-8.01	25.33	2.86
Europe: Sector						
Consumer Discretionary	3.39	19.54	19.54	-16.21	23.21	6.81
Consumer Staples	3.63	6.43	6.43	-7.94	20.93	-3.07
Energy	-7.27	-1.12	-1.12	37.87	36.38	-33.14
Financials	-8.74	4.86	4.86	-2.12	29.48	-15.13
Health Care	4.49	4.93	4.93	-3.85	26.17	-1.28
Industrials	1.11	13.31	13.31	-16.39	29.62	4.23
Materials	-1.20	3.54	3.54	-9.30	24.85	9.78
Technology	6.24	20.63	20.63	-28.47	36.83	14.72
Telecom	0.83	15.34	15.34	-11.75	15.77	-12.51
Utilities	4.14	8.60	8.60	-6.86	9.81	13.14
Europe: Style						
MSCI European Growth	3.42	11.68	11.68	-17.34	28.49	6.28
MSCI European Value	-3.18	5.97	5.97	-0.32	22.76	-12.24
Japan Style						
TOPIX Japan Growth	2.82	7.12	7.12	-14.55	6.56	17.22
TOPIX Japan Value	-1.68	4.73	4.73	5.22	14.51	-7.26
UK Style						
MSCI UK Growth	2.48	6.05	6.05	-5.21	22.32	-1.52
MSCI UK Value	-5.39	1.70	1.70	14.53	17.72	-19.64

Source: Umbra Wealth, Bloomberg



World equities (MSCI AC World TR Index +7.3%) broadly shrugged off the turmoil within the US regional banking sector as declining real interest rates and still relatively buoyant growth supported markets. **Conditions within the market were not as healthy as headline indices' performance would suggest however.** Breadth for instance (Exhibit 7) was very concentrated and only a handful of equities were responsible for driving major equity indices higher. The NASDAQ finished the quarter +17% with the decline in real yields (Exhibit 6) underpinning long duration growth stocks materially. As highlighted earlier in this report, only **five stocks accounted for ~60% of the NASDAQ's gains**, whilst only 2.2% of the Index's constituents reached 52 week highs. Gains were strong clearly but not broad and all-encompassing in nature.

Exhibit 6: NASDAQ Index/S&P Value Index vs. US Real Rates

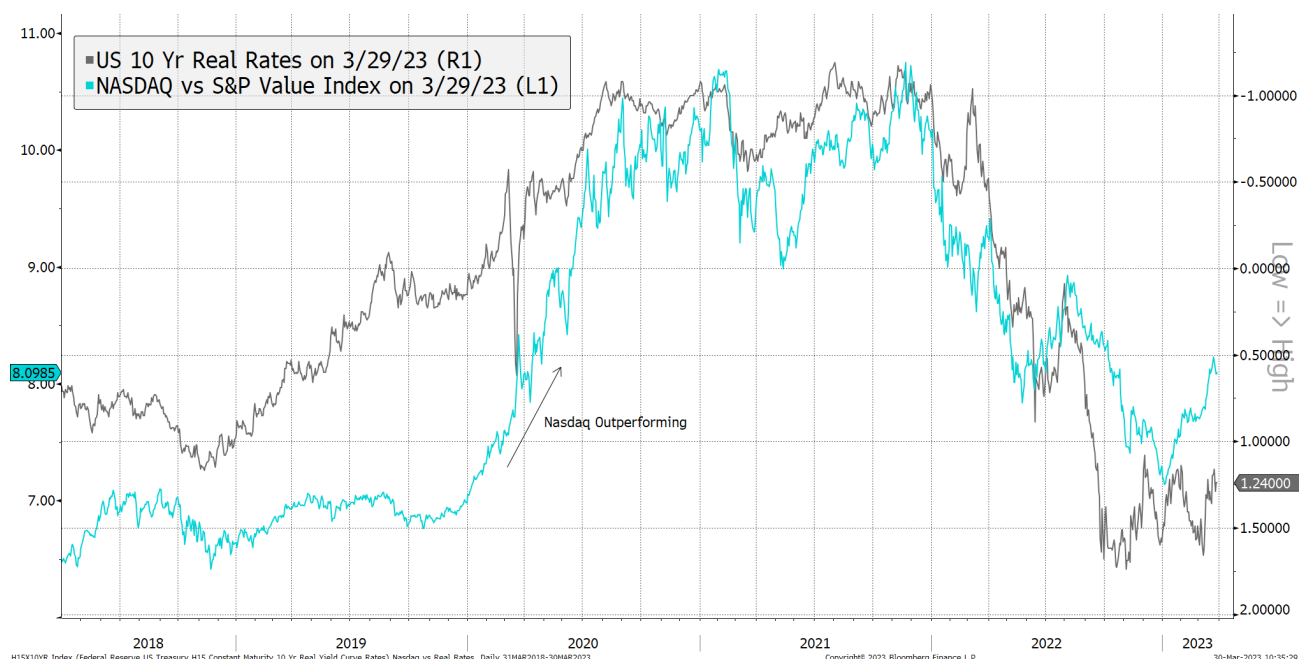
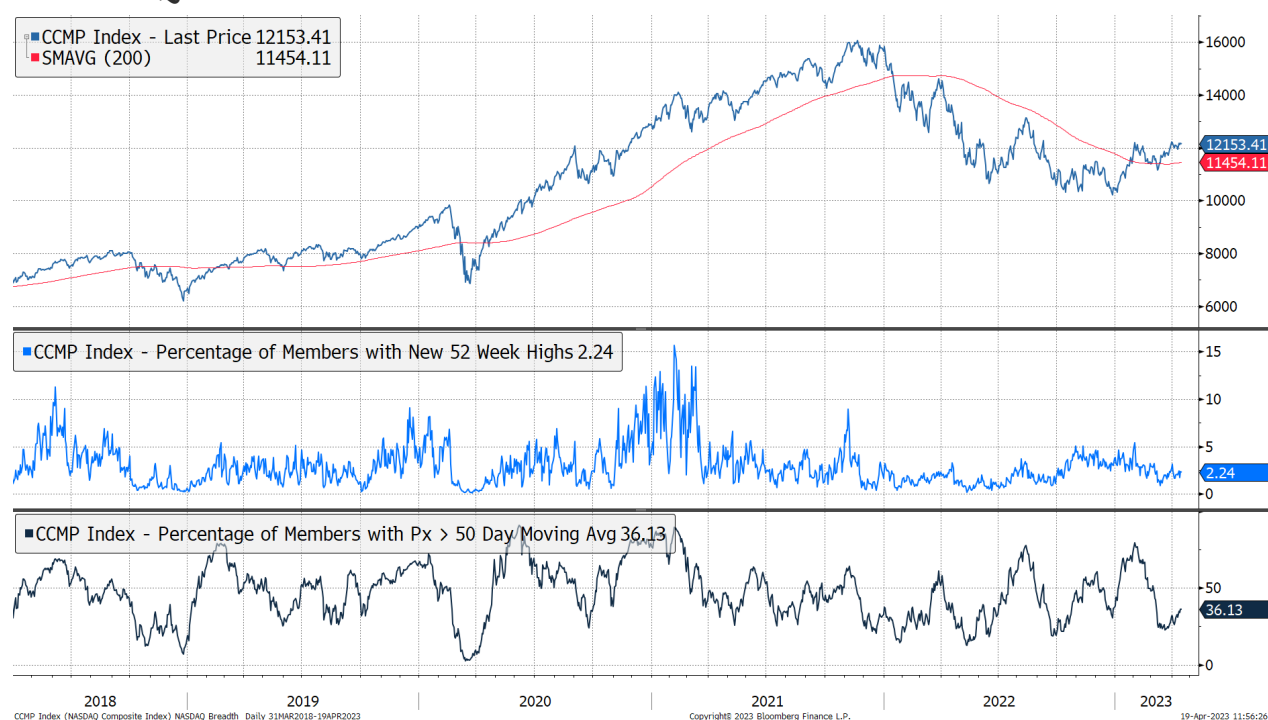


Exhibit 7: NASDAQ Index Breadth



Source: Umbra Wealth, Bloomberg.

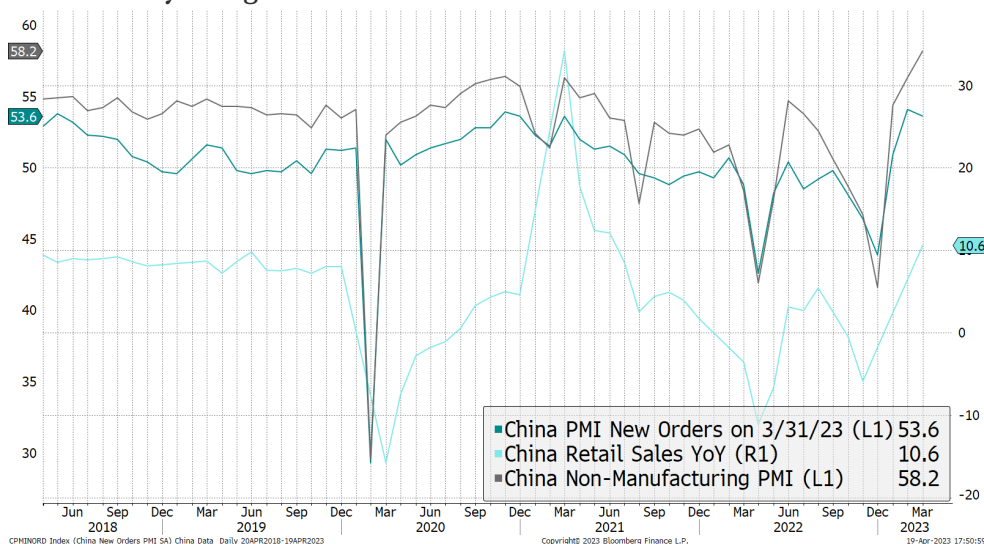


As a result, Growth (13.9%) materially outperformed Value (+0.9) in the US with Financials (-5.6%) and Energy (-4.7%) sectors detracting from the latter style, whilst Communication Services (+20.5%) and Consumer Discretionary (+16.1%) propelled Growth. US Small Caps (+2.5%) also lagged their larger cap peers (S&P 500 TR Index +7.5%).

It was a similar theme overseas and in Europe; Growth (+11.7%) outperformed Value (+6%) by a decent margin. Aside from the difficulties surrounding Credit Suisse AG, the European Financials sector (+4.9%) held up relatively well in comparison to the US. European equities were underpinned by the ongoing recovery in China's economy. **European earnings have historically been correlated to China's economic growth trajectory, the recovery of which we highlighted in last quarter's letter**, particularly the opportunity set for European international companies amongst the luxury brands and automakers. The European Consumer Discretionary sector finished +19.5% in the first quarter, supported by names such as LVMH (+24.2%) and Richemont SA (+21.7%) as they unveiled positive trading updates surrounding their activities in China.

In Asia, China's CSI 300 Index (+4.7%) continued to build off its strong finish to the previous year with cyclicals and the state-owned enterprises being the primary market drivers. Defensives modestly underperformed as a result. Geopolitical tensions between China and the US resurfaced prompting a degree of profit-taking toward the quarter close. From a valuation perspective, the market de-rated as earnings upgrades were dismissed by the broader market. China went into Q1 valued on 13.5x forward earnings before finishing the quarter on 11x. **We believe the market continues to offer a compelling risk-reward considering the starting valuation against an economy that remains within the early stages of its recovery.**

Exhibit 8: Economic Activity Gauges in China



In fixed income, the quarter was all about duration in core sovereign bond markets with the Citi World Government Bond Index finishing (+3.5%) whilst the more corporate sensitive Bloomberg Global Aggregate Index finished +3%.

US Investment Grade credit finished the quarter +3.1% with its longer duration credentials benefiting from the gain in core sovereign bond markets, whilst US High Yield (+3.6%) also fared well along with European High Yield (+2.7%). US Leveraged loans (+0.1%) underperformed due to the broader market volatility, whilst issuance also continued to contract. Year-on-year gross issuance has now fallen 80% for EM and 88% for developed market high yield credit - evidence that tighter financial conditions continue to weigh heavily on these markets.

Source: Umbra Wealth, Bloomberg.



Exhibit 9: Fundamental Metrics by Equity Region

Equity Market Valuation Summary

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)	5.9	1.1	12.0	11.8	2.9	14.3	13.8	2.1	15.1	1.8	2.4	35.4	4.3%	6.1%	-5.1%
India: BSE SENSEX Index	2.4	1.2	13.2	17.8	3.6	21.9	19.0	3.2	14.7	2.9	1.4	83.7	-4.7%	0.9%	-1.2%
Japan: NIKKEI Index	0.9	1.3	8.1	7.2	3.1	22.9	16.9	1.3	9.9	1.7	2.1	45.1	6.5%	7.1%	-0.9%
S. Korea: KOSPI Index	3.2	1.4	7.4	6.4	3.7	12.4	13.6	1.0	7.1	0.9	2.1	30.5	9.7%	13.8%	-10.7%
Taiwan: TAIEIX Index	0.5	1.6	15.0	10.8	6.4	13.3	15.1	1.3	7.2	2.0	4.6	52.3	12.1%	18.1%	-10.7%
Europe															
France: CAC Index	0.8	1.1	11.9	12.5	5.4	11.7	12.6	1.3	6.9	1.8	2.9	48.5	12.0%	25.8%	7.5%
Germany: Dax Index	1.3	1.2	10.8	8.6	6.4	12.1	11.8	1.0	6.4	1.5	3.5	46.5	11.2%	27.8%	6.0%
Italy: FTSE MIB Index	2.7	1.1	14.1	12.1	11.6	7.7	8.4	1.2	6.1	1.2	4.1	39.3	13.8%	30.6%	6.6%
Swiss: SMI Index	1.6	1.4	12.5	14.4	5.4	21.0	17.0	2.8	14.3	3.2	3.1	80.3	2.5%	7.2%	-10.1%
UK: FTSE 100 Index	0.2	1.1	13.6	15.4	10.8	10.9	10.4	1.3	5.8	1.7	4.3	49.1	2.0%	10.3%	0.3%
US															
S&P 500 Index	1.3	1.2	17.4	13.5	4.1	19.3	18.4	2.5	12.5	4.0	1.7	38.4	4.9%	12.3%	-12.5%
S&P 500 Growth Index	0.8	1.3	31.9	19.1	4.6	19.7	19.9	3.4	12.8	6.8	1.4	29.6	7.0%	8.2%	-19.4%
S&P 500 Value Index	1.8	1.2	11.0	10.2	3.6	18.3	16.4	2.0	12.0	2.7	2.1	49.7	2.7%	15.9%	-5.6%
NASDAQ Composite Index	1.3	1.4	12.3	11.0	2.5	35.5	26.6	3.4	16.6	5.0	0.9	36.4	13.9%	12.8%	-17.4%
World															
MSCI Emerging Markets Index	2.3	1.3	12.9	13.4	7.1	12.4	12.1	1.6	8.6	1.6	3.2	45.0	2.5%	11.9%	-14.7%
MSCI World Index	1.2	1.2	14.1	12.9	4.9	17.2	16.2	2.0	10.7	2.8	2.2	44.1	5.3%	15.2%	-11.5%
MSCI World Growth Index	1.1	1.2	18.6	14.1	3.2	28.5	24.0	3.3	15.2	5.8	1.0	32.1	12.3%	17.4%	-13.9%
MSCI World Value Index	1.2	1.2	12.6	12.4	6.9	12.1	12.2	1.5	8.3	1.8	3.5	49.8	-1.2%	12.8%	-10.0%

Source: Umbra Wealth, Bloomberg.

Exhibit 10: Fundamental Metrics by Equity Market Sector

	Leverage		Profitability						Valuation										
	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 A 5 Yr Low	EV / EBITDA A 5 Yr High	Price / Book	Div Yield	Dividend Payout Ratio	
US																			
Communication Services	2.1	1.2	11.4	10.7	32.8	14.8	15.5	18.8	4.8	17.2	16.0	3.1	10.4	6.5	16.9	3.1	0.9	26.2	
Consumer Discretionary	1.8	1.2	22.1	15.8	31.3	8.5	5.6	11.2	1.7	28.2	23.4	2.0	12.9	10.0	27.4	8.3	1.0	33.3	
Consumer Staples	2.4	0.9	24.5	15.2	27.0	8.1	6.9	9.7	3.5	21.2	20.3	1.9	17.0	13.1	19.6	6.5	2.5	70.2	
Energy	0.6	1.4	29.9	20.0	11.3	17.1	19.2	9.2	12.8	7.4	10.1	1.2	5.4	5.8	20.9	2.3	4.2	-	
Financials	-	-	9.1	7.7	15.0	16.7	15.5	30.5	-	12.9	13.1	2.3	-	5.0	10.0	1.5	1.9	37.0	
Health Care	1.4	1.2	19.9	12.2	19.8	9.8	7.7	10.9	5.3	17.8	17.2	1.9	14.7	12.3	18.9	4.6	1.7	39.2	
Industrials	2.0	1.2	22.4	7.7	23.0	11.6	5.6	12.5	3.6	21.4	19.0	2.3	13.5	9.1	25.8	5.0	1.8	39.3	
Materials	1.5	1.6	18.3	4.0	15.5	14.8	6.9	13.7	5.0	14.3	17.2	2.1	9.6	9.9	18.3	2.8	2.2	34.9	
Technology	0.4	1.3	28.9	17.4	34.8	23.8	20.8	24.9	3.4	28.8	25.5	5.4	16.6	11.1	23.7	8.9	1.0	29.4	
Utilities	6.1	0.8	8.2	5.6	11.2	14.7	13.0	20.6	-	6.6	20.7	17.8	4.1	14.2	10.9	14.6	2.1	3.2	79.1
World																			
Communication Services	2.5	1.1	9.3	10.4	18.8	12.7	14.5	19.7	5.5	19.7	16.2	2.8	9.9	6.7	13.3	2.6	1.4	41.5	
Consumer Discretionary	1.3	1.3	14.5	7.7	18.5	8.5	5.1	9.6	2.6	21.5	19.2	1.6	10.4	8.0	19.3	3.7	1.5	35.1	
Consumer Staples	2.3	1.0	17.9	16.6	25.7	8.6	8.5	9.4	3.8	20.3	19.4	1.7	14.1	12.5	15.6	4.3	2.6	66.0	
Energy	0.7	1.3	24.1	14.0	10.4	16.3	12.0	9.1	15.0	6.2	8.5	1.0	4.6	5.3	30.1	1.8	4.6	33.3	
Financials	-	-	9.1	6.2	11.5	17.6	13.6	22.4	-	12.3	10.2	1.4	-	-	-	1.3	3.6	47.7	
Health Care	1.4	1.2	17.3	11.8	16.8	10.8	8.6	12.0	5.0	19.5	17.6	2.2	14.9	13.0	19.8	4.2	1.8	43.6	
Industrials	1.9	1.3	16.2	7.5	17.5	9.9	5.8	9.7	4.5	18.1	17.6	1.7	11.6	9.0	19.8	3.1	2.1	42.2	
Materials	1.0	1.7	17.7	2.0	15.0	15.2	5.7	14.9	6.3	11.2	13.6	1.5	6.8	7.3	13.1	2.0	3.5	44.0	
Real Estate	6.8	-	5.7	2.4	10.6	21.8	18.0	31.8	0.7	25.8	22.9	6.7	19.4	14.8	25.8	1.5	4.2	100.7	
Technology	0.4	1.4	23.4	14.7	27.0	20.3	16.3	20.7	3.4	29.0	24.7	5.1	16.5	11.2	24.9	7.3	1.0	31.8	
Utilities	5.8	0.9	6.7	5.2	11.4	8.5	9.6	12.4	-	4.4	19.0	15.8	2.3	13.1	9.8	13.3	1.8	3.6	99.8

Source: Umbra Wealth, Bloomberg.



4. Outlook — Consolidated

Asset Class	Region	Manager / Style skew
Fixed Income	Developed Markets	<ul style="list-style-type: none"> 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 moderating of late. 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.
	Emerging Markets USD\$ / Local Currency	<ul style="list-style-type: none"> 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 US Dollar strength. 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. EMD Hard Currency: Absolute valuations are attractive relative to history and valued in their 10% percentile relative to their 10 year band with spreads at ~400bps 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	<ul style="list-style-type: none"> Credit is looking attractive due to modestly wider spreads and elevated yields against declining inflation expectations. However, financial conditions in the US may become problematic against late-cycle dynamics. Option adjusted spreads in US Investment Grade (IG) credit are now +164bps, offering a combined yield of ~510bps (5.1%). Duration for the primary corporate IG benchmarks remains extended at 8 years for the Bloomberg Global Aggregate Index, although 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. Positioning: We 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	<ul style="list-style-type: none"> High Yield spreads widened materially in 2022 and finished the year at +466bps in the US and +486bps in Europe due to the ongoing military conflict in the East. Overall yields remain elevated relative to history at around 8.5% in the US. Yields and spreads at these levels puts the asset class outside of its 1 standard deviation average over the last decade which is attractive relative to history. Positioning: 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 4% in 2023. We believe an investor is being compensated for the implied default risk at current spread levels.
Equity	Asia-ex Japan	<ul style="list-style-type: none"> The near term outlook for the region has picked-up over recent months. The potential peak in the US Dollar and US interest rate cycle may alleviate stresses on pegged economies. The sudden re-opening of the Chinese economy looks to really underpin the region's economic growth trajectory more broadly. Central banks across the region 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 and valuation metrics remain dispersed across the region. A near 3-year lockdown in China sent investors fleeing, corporate profitability into freefall and associated valuations lower. These should mean revert to a degree in 2023. India was a beneficiary of China's lockdown and valuations now appear high relative to history. Overall, 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 are cheap at ~12x earnings. Risks over the near term remain with 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 rebound in the 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	<ul style="list-style-type: none"> European equities continue to be buoyed by the re-opening of the Chinese economy with European equity earnings showing a good correlation with China's economic trajectory with the luxury goods, automobile manufactures and precision engineering sectors benefiting mostly. 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	<ul style="list-style-type: none">• Japan has the potential to benefit from better growth in China whilst visible signs of real reform taking place within the board rooms of corporate Japan continue with efforts to change a deflationary scarred mind-set. This has led to and continues to drive RoE expansion, which is now at cyclical highs.• Share buy-backs continue at a robust pace and dividends grow as management make use of high cash levels and look for ways to enhance shareholder value to ultimately drive return on equity.• Positioning: Despite 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 impacted sentiment. Valuation multiples have de-rated to cyclical lows which provides a decent entry point via a specialist active expression.
Equity	UK	<ul style="list-style-type: none">• The UK domestic economy is currently being impacted by elevated borrowing rates and stickier inflation. The country continues to go through a cost of living crisis and steps taken by the new government to bolster Sterling is leading to higher taxation, further suppressing economic activity.• 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.• Positioning: The degree of underperformance of higher quality defensives during 2022 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 was buoyed in 2022 by cyclicals, however their earnings and margins are particularly vulnerable to a slowing growth backdrop.
Equity	US	<ul style="list-style-type: none">• Valuations reset markedly in 2022 despite earnings and margins remaining relatively firm.• The multiple on the S&P 500 Index is now 19.0x (NTM), although this remains skewed by the mega cap tech constituents. Ex-FANGM, the S&P is on 17x 2024.• If bond yields have found a ceiling then this could provide valuation support as it did in Q1, however the onus falls on earnings to propel total returns from here. This could be difficult to attain against a slowing growth backdrop.• 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 2022 as investors scrambled for cyclical. 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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