Umbra Market Review:
December 2024

Key Points From The Month

- In our November update, we noted the potential for a stagflationary environment in the UK following recent government policies under the Labour party. The latest data reinforces those concerns, with the economy unexpectedly contracting by 0.1% in October and inflation rising to 2.6% in November from 2.3% in October. This marked the second consecutive month of falling GDP and rising prices.
- Amid this backdrop, the Bank of England opted to hold rates steady at its final meeting of the year. Persistently high inflation and wage growth have dampened the likelihood of further cuts in the near term.
- In reality, the UK is increasingly in a self-inflicted bind under the new Labour government. Despite professing to boost growth in their pre-election manifesto, policies unveiled so far are indeed acting as a deterrent to longer-term economic growth.
- The Autumn budget, during which the government increased employers' national insurance contributions, has crushed business confidence, whilst the head-on drive to reach carbon neutrality by 2030 has pushed domestic energy prices higher, eating into disposable income. International investors are becoming increasingly wary of the new government's ambitions, and this can be seen in surging UK Government bond yields which finished the year at 4.5%.
- UK Gilt yields have continued their upward trajectory since the start of 2025 and at the current 4.8% at the time of writing, the £9bn or so of wriggle room the UK Chancellor had following her £40bn tax raiding Autumn budget has been reduced to £1bn because of the higher financing costs the government is now paying to issue debt.
- This puts the government in a very awkward position. Unless it curtails expenditure towards the public sector, it is likely the government will announce another tax raid on the private sector later in the year, which is likely to suppress growth and investment further.

Umbra MPS Range Performance (%): December 2024

Umbra MPS Model	Dec '24	Q4 '24	2024	2023	2022	2021	2020	Annlzd 2 Yr	Annlzd 3 Yr	Annlzd 5 Yr	Tracking Error 3 Yr	Beta 3 Yr	Std Dev 3 Yr
Umbra MPS P-Passive Defensive	-0.77	1.79	5.83	6.57	-11.59	2.79	7.21	6.20	-0.09	1.90	2.69	1.31	6.29
Umbra MPS D-Passive Defensive	-1.24	0.45	5.71	6.16	-9.47	3.53	5.41	5.93	0.53	2.08	2.39	1.33	6.21
Umbra MPS Blended Defensive	-0.84	1.41	6.45	6.56	-8.38	3.90	4.95	6.51	1.29	2.53	2.15	1.29	6.01
Umbra MPS Active Defensive	-0.74	1.90	7.01	7.71	-7.21	5.02	5.05	7.36	2.27	3.36	2.11	1.27	5.93
Umbra MPS Income Defensive	-0.96	1.31	6.59	6.80	-5.15	4.98	2.46	6.70	2.59	3.04	2.14	1.28	5.93
ARC Cautious PCI TR GBP	-0.60	0.49	4.37	3.68	-7.60	4.23	4.20	4.02	-0.01	1.66			4.51
Umbra MPS P-Passive Cautious	-0.63	3.17	9.56	8.81	-9.85	7.67	8.66	9.18	2.43	4.69	3.19	1.44	6.89
Umbra MPS D-Passive Cautious	-1.24	1.34	8.18	8.29	-9.46	7.47	6.91	8.24	1.98	4.04	3.06	1.15	7.06
Umbra MPS Blended Cautious	-0.74	2.50	9.24	8.34	-6.31	7.99	5.95	8.79	3.50	4.87	2.67	1.37	6.44
Umbra MPS Active Cautious	-0.65	2.97	9.82	11.11	-6.51	10.25	6.80	10.46	4.49	6.08	3.30	1.47	6.99
Umbra MPS Income Cautious	-1.06	2.03	8.88	7.93	-2.03	9.59	1.61	8.41	4.81	5.10	2.07	0.95	6.38
ARC Cautious PCI TR GBP	-0.60	0.49	4.37	3.68	-7.60	4.23	4.20	4.02	-0.01	1.66			4.51
Umbra MPS P-Passive Moderate	-0.61	3.71	11.17	9.94	-9.67	10.05	9.45	10.56	3.36	5.87	2.43	1.11	7.47
Umbra MPS D-Passive Moderate	-1.24	1.83	9.58	9.40	-9.01	9.84	7.89	9.49	2.94	5.27	2.02	1.13	7.46
Umbra MPS Blended Moderate	-0.78	2.86	10.53	9.72	-5.84	10.43	7.10	10.13	4.52	6.20	1.93	1.04	6.93
Umbra MPS Active Moderate	-0.64	3.30	10.72	12.39	-6.72	12.48	7.87	11.55	5.10	7.09	2.51	1.12	7.53
Umbra MPS Income Moderate	-1.10	1.65	9.27	8.80	-0.71	12.13	1.88	9.03	5.69	6.16	2.29	1.00	6.72
ARC Balanced Asset PCI TR GBP	-0.60	1.09	6.81	5.79	-9.14	7.64	4.31	6.30	0.88	2.88			6.41
Umbra MPS P-Passive Balanced	-0.57	4.34	12.85	10.99	-9.25	12.44	10.18	11.92	4.36	7.09	2.91	1.18	7.99
Umbra MPS D-Passive Balanced	-1.29	2.29	11.12	10.78	-8.90	12.54	8.74	10.95	3.89	6.53	2.33	0.97	8.07
Umbra MPS Blended Balanced	-0.81	3.15	11.59	10.65	-6.40	12.87	8.16	11.12	4.94	7.13	2.32	1.14	7.57
Umbra MPS Active Balanced	-0.62	3.69	11.93	13.79	-7.25	15.16	9.31	12.86	5.71	8.26	3.06	1.20	8.14
ARC Balanced Asset PCI TR GBP	-0.60	1.09	6.81	5.79	-9.14	7.64	4.31	6.30	0.88	2.88			6.41
Umbra MPS P-Passive Growth	-0.53	4.91	14.46	12.11	-8.86	14.88	10.87	13.28	5.36	8.29	2.79	1.04	8.54
Umbra MPS D-Passive Growth	-1.22	2.92	12.69	12.07	-8.68	14.92	9.94	12.38	4.87	7.82	2.40	1.08	8.67
Umbra MPS Blended Growth	-0.75	3.42	12.45	11.89	-6.52	14.71	9.35	12.17	5.56	8.09	2.25	0.99	7.96
Umbra MPS Active Growth	-0.79	3.69	13.16	14.75	-7.82	17.68	10.89	13.95	6.18	9.33	2.83	1.00	8.80
ARC Steady Growth PCI TR GBP	-0.60	1.59	8.38	7.20	-10.23	10.24	4.56	7.79	1.41	3.75			7.77
Umbra MPS P-Passive Adventurous	-0.48	5.55	16.15	13.15	-8.39	17.37	11.53	14.64	6.38	9.52	3.32	1.10	9.11
Umbra MPS D-Passive Adventurous	-1.02	3.49	14.19	14.53	-8.87	17.06	12.03	14.36	6.02	9.34	3.26	1.12	9.24
Umbra MPS Blended Adventurous	-0.88	3.50	13.43	14.18	-7.72	17.17	11.36	13.80	6.12	9.29	2.93	1.10	8.94
Umbra MPS Active Adventurous	-0.51	4.52	14.49	16.42	-7.50	19.52	11.91	15.45	7.23	10.52	3.42	1.11	9.20
ARC Steady Growth PCI TR GBP	-0.60	1.59	8.38	7.20	-10.23	10.24	4.56	7.79	1.41	3.75			7.77
Umbra MPS P-Passive Equity	-0.52	6.29	19.41	15.50	-7.91	22.26	12.71	17.44	8.30	11.85	3.84	1.08	10.47
Umbra MPS D-Passive Equity	-0.89	4.68	17.38	18.22	-10.23	22.07	16.07	17.80	7.60	12.03	4.17	1.09	10.70
Umbra MPS Blended Equity	-0.82	4.52	16.04	17.58	-9.09	22.39	15.33	16.81	7.45	11.85	3.90	1.06	10.32
Umbra MPS Active Equity	-0.41	5.41	16.39	19.17	-8.41	23.61	14.84	17.77	8.30	12.51	3.88	1.05	10.24
ARC Equity Risk PCI TR GBP	-0.70	2.09	9.80	8.30	-11.40	12.31	5.82	9.05	1.76	4.60			9.07

All performance figures are shown in percentage (%) terms and are in GBP and are Net of underlying fund OCF's and Net of Umbra's AMC. Returns are Gross of any platform fee.

Market Commentary

- December marked the conclusion of a strong year for equity markets, as economies continued to show resilience in the face of elevated interest rates, although markets were generally weaker in the final month of the year.
- The US Federal Reserve (FED) reduced its main policy rate by 0.25% to 4.25% - 4.5%. Markets were unsettled by the accompanying commentary, which introduced a new qualifier regarding the 'extent and timing' of future rate cuts. This signalled increased caution about the pace of monetary easing moving forward. Notably, as recently as September, FED officials had forecast four cuts in 2025 (totalling 1%). This projection has now been revised downward to two cuts (0.5%). December's reduction brought the total number of cuts in 2024 to three, significantly fewer than the six cuts anticipated as of late 2023.
- Perhaps showcasing the challenge facing the FED, data released shortly after the decision showed that the US economy grew faster than initially estimated in the third quarter, with GDP revised upward from 2.8% to 3.1%. This growth was largely driven by robust consumer spending.
- Elsewhere, the US Government averted a shutdown after lawmakers passed a spending bill into law. This came after an earlier proposal fell apart amid calls from President-Elect Donald Trump and Elon Musk urging Republicans to reject it.
- Facing significant disinflationary pressures and a struggling economy, China's policymakers have shifted their monetary policy stance from 'prudent' to 'moderately loose' for the first time since 2010. This change follows substantial policy measures announced in September and October. Additional details are expected this month as the Communist Party unveils its economic agenda for the coming year.

Equities

- Equities, as measured by the MSCI ACWI, fell -2.4% in December, tempering what was otherwise a strong annual performance of +17.5%.
- Equity markets weakened during the month, driven by the paring back of interest rate cut expectations despite the Federal Reserve's latest reduction, alongside fading exuberance following Donald Trump's election.
- In the US, the S&P 500 declined -2.4%, reflecting broader weakness, while the Nasdaq bucked the trend with a modest gain of +0.6%.
- UK equities underperformed across the quarter, declining -1.3%, and closing 2024 with a return of +9.5%. European markets followed a similar trajectory, with the region falling -0.4% in December and finishing the year up +6.8%. Both markets faced headwinds from slowing economic activity, elevated energy costs, and political uncertainty, and were the relative laggards during the year.
- Japanese equities extended their rally, with the TOPIX and Nikkei posting monthly gains of +4.0% and +4.5%, respectively. This capped an exceptional year for Japan, supported by regulatory reforms, resilient economic activity, a stable political environment, and a weakening yen.
- Emerging markets were marginally weaker during December, pressured by the continued strength of the US dollar. Latin America underperformed, with the MSCI Latin America index declining -6.0% for the month and -26.0% for the year. The region faced heightened scrutiny over Brazil's fiscal policies, as markets reacted to concerns about the government's spending plans and widening budget deficit.

Fixed Income & Alternatives

- Many investors entered 2024 with optimism, expecting that contained inflation would allow central banks to ease policy rates from historically elevated levels, making it the anticipated 'year of the bond'.
- While inflation has declined significantly from its peak, it has proven more persistent than anticipated, reducing the scope for rate cuts.
- Amid this backdrop, the CitiGroup World Government Bond Index declined by -2.3% in December, contributing to a total return of -2.9% for 2024.
- UK Gilts faced notable pressure, declining -1.9% in December and -3.9% over 2024. Their long duration made them particularly sensitive to rising yields. The market also faces pressure from anticipated higher borrowing levels under the Labour government, which weighed further on sentiment.
- Credit markets performed relatively well, reflecting the economy's resilience and the shorter maturities of many credit instruments, which made them less sensitive to rising yields. The Bloomberg Global High Yield Index declined by -0.6% in December but delivered a strong annual return of +9.2% for 2024.
- Gold was marginally weaker in December as interest rates rose, although it posted a strong return for the year, generating +25.8% (in GBP), supported by rising deficits and emerging geopolitical risks. Meanwhile, Property and Infrastructure struggled in the face of rising rates, falling -7.2% and -5.4%, respectively, during the month, although they rose +2.1% and +10.8% for the year.

Disclaimer

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