

Umbra Market Review: February 2025





Umbra MPS

February 2025

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Umbra

Key Points From The Month



- Investors have become accustomed to a rapidly evolving geopolitical landscape over recent years and the threats and opportunities that changing landscape has created.
- The emergence of Donald Trump and his second term in the US Presidential office however has brought geopolitics even further to the fore of markets. Euphoria initially gripped markets after his election victory in October last year, underpinned by the prospect of de-regulation and the unleashing of animal spirits in the US. US “exceptionalism” was widely evident throughout US equity markets, particularly within areas which stand to prosper from economic reform such as Financials and Small cap stocks for instance.
- Conversely, the uncertainty surrounding his protectionist rhetoric has weighed on international markets since his victory. Prior to February, the US Dollar had strengthened materially against a variety of international currencies, particularly against US trade partners operating trade surpluses with the US and which may be in-sight of Trump’s tariff threats.
- The narrative surrounding US exceptionalism showed signs of cracking however in February and further sharp declines have ensued in March. This comes at a time when US economic momentum appears to be waning if one gauges the Citi Economic Surprise Index for instance at present. The gauge tracks various economic data releases relative to economists’ expectations and the reading has trended lower ever since Trump’s victory.
- Comments made by the Trump administration on the prospect of a US recession as it seeks to rebalance the US economy have also not placated investor sentiment. Trump’s ambitions to rebalance an economy, ultimately driving the private sector by bringing manufacturing and production back to US shores, whilst reducing the size of the public sector through reform is likely to take time and prove costly, at least initially. This uncertainty is now clouding the near-term growth outlook for the US.
- For US equities, they need a very rosy growth outlook given high market valuations. Those earnings are also predicated on peak corporate profit margins. This also comes at a time when stock concentration risk within the US has never been more pronounced. The seven largest constituents of the S&P 500 Index by market value for instance account for 37% of the overall index, whilst investor crowding risk is also very elevated.
- Although we believe this shift in the overall skew of the US economy is likely to yield positive results over the long term, the change in composition is likely to take time and cause some near term pain in economic momentum. Trump has time to do this, but markets need to digest a new growth equilibrium to balance these short-term risks.

Key Points From The Month



- The US's pivot also now stands in stark contrast to the EU which has very recently unveiled plans for a ~€1 Trillion fiscal package in order to boost defence and infrastructure spending. Although these plans are yet to be ratified, the ambitions here are game changing as the region seeks to diversify away from its dependency on the US military umbrella which has shielded the continent ever since the end of the second World War. This boost in spending, coming at a time when spending in the US appears to be waning has played out between the two regions' equity market performance lately.
- Umbra MPS - February was a negative month in absolute and modestly in relative terms with idiosyncratic factors weighing on returns. Sterling appreciated 1.5% versus the US Dollar which weighed on the MPS's overweight bias towards international markets. This was felt most acutely within the MPS's fixed income exposure where we tend to run unhedged GBP exposure to international bond markets exhibiting a higher yield than domestic UK alternatives. The cost of hedging higher yielding international exposure back to GBP detracts from performance over the long term in our view.
- Within equities, the Umbra MPS only has moderate exposure towards US equities. Much of the recalibration at present is being felt within the Growth sensitive areas of the market, such as the NASDAQ (-6.7% in February) where the Umbra MPS has little exposure towards. The Umbra MPS's skew towards the US is more defensive in construct with exposure towards the health care sector for instance (SPDR MSCI World Health Care UCITS ETF GBP -0.6% in February) holding up very well against this broader market sell-off.
- In the UK, the FTSE 250 ETF (-2.8%) also detracted from performance despite the buoyancy in Sterling.
- Emerging Market equities were also volatile and caught in the cross hairs of Trump's trade tariff threats.
- Alternatives provided some respite with Gold (+1.4% in GBP) and the property ETF (+1.9%) underpinning performance.
- Overall, we believe the MPS's exposure is adequately balanced globally and across the risk spectrum in order for each model to meet their long-term return objectives. We strive to strike the appropriate balance between defensiveness and cyclicity as equity market cycles evolve, whilst fixed income exposure currently provides attractive income and capital preservation offsets should markets dislocate. Alternatives continue to provide broader ballast and return diversifiers.

Umbra MPS Range Performance (%): February 2025



Umbra MPS Model	Feb '25	Ytd '25	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	-0.19	1.44	5.83	6.57	-11.59	2.79	7.21	6.53	2.04	1.84	2.63	1.28	5.99
Umbra MPS D-Passive Defensive	-0.11	1.70	5.71	6.16	-9.47	3.53	5.41	6.49	2.70	2.40	2.34	1.30	5.93
Umbra MPS Blended Defensive	-0.09	1.72	6.45	6.56	-8.38	3.90	4.95	6.84	3.41	2.85	2.07	1.28	5.74
Umbra MPS Active Defensive	-0.31	1.62	7.01	7.71	-7.21	5.02	5.05	7.43	4.37	3.76	2.02	1.26	5.64
Umbra MPS Income Defensive	0.06	2.15	6.59	6.80	-5.15	4.98	2.46	7.23	4.56	3.66	2.03	1.30	5.77
ARC Cautious PCI TR GBP	-0.10	1.70	4.57	3.68	-7.60	4.23	4.20	4.56	1.76	2.44			4.34
Umbra MPS P-Passive Cautious	-1.10	1.22	9.56	8.81	-9.85	7.67	8.66	8.97	4.72	5.04	3.12	1.40	6.55
Umbra MPS D-Passive Cautious	-0.78	1.64	8.18	8.29	-9.46	7.47	6.91	8.36	4.39	4.70	2.98	1.14	6.73
Umbra MPS Blended Cautious	-0.79	1.71	9.24	8.34	-6.31	7.99	5.95	8.79	5.80	5.58	2.62	1.35	6.16
Umbra MPS Active Cautious	-0.97	1.53	9.82	11.11	-6.51	10.25	6.80	9.90	6.92	6.88	3.19	1.44	6.65
Umbra MPS Income Cautious	-0.21	2.53	8.88	7.93	-2.03	9.59	1.61	8.90	6.86	6.21	1.57	0.99	6.28
ARC Cautious PCI TR GBP	-0.10	1.70	4.57	3.68	-7.60	4.23	4.20	4.56	1.76	2.44			4.34
Umbra MPS P-Passive Moderate	-1.54	1.11	11.17	9.94	-9.67	10.05	9.45	10.09	5.75	6.44	2.46	1.09	7.14
Umbra MPS D-Passive Moderate	-1.19	1.58	9.58	9.40	-9.01	9.84	7.89	9.38	5.47	6.11	1.96	1.12	7.13
Umbra MPS Blended Moderate	-1.14	1.68	10.20	9.39	-6.12	10.10	6.78	9.60	6.65	6.78	1.92	1.04	6.64
Umbra MPS Active Moderate	-1.31	1.42	10.72	12.39	-6.72	12.48	7.87	10.72	7.66	8.04	2.48	1.10	7.17
Umbra MPS Income Moderate	-0.38	2.79	9.27	8.80	-0.71	12.13	1.88	9.59	7.82	7.52	1.84	1.01	6.67
ARC Balanced Asset PCI TR GBP	-0.50	1.89	6.41	5.79	-9.14	7.64	4.31	6.16	3.09	4.05			6.17
Umbra MPS P-Passive Balanced	-1.99	0.97	12.85	10.99	-9.25	12.44	10.18	11.18	6.83	7.87	2.99	1.16	7.68
Umbra MPS D-Passive Balanced	-1.54	1.53	11.12	10.78	-8.90	12.54	8.74	10.59	6.61	7.60	2.34	0.96	7.70
Umbra MPS Blended Balanced	-1.41	1.62	11.59	10.65	-6.40	12.87	8.16	10.67	7.52	8.20	2.36	1.13	7.26
Umbra MPS Active Balanced	-1.60	1.31	11.93	13.79	-7.25	15.16	9.31	11.73	8.41	9.33	3.06	1.18	7.76
ARC Balanced Asset PCI TR GBP	-0.50	1.89	6.41	5.79	-9.14	7.64	4.31	6.16	3.09	4.05			6.17
Umbra MPS P-Passive Growth	-2.42	0.84	14.46	12.11	-8.86	14.88	10.87	12.26	7.88	9.31	2.98	1.04	8.26
Umbra MPS D-Passive Growth	-1.88	1.51	12.69	12.07	-8.68	14.92	9.94	11.76	7.76	9.07	2.46	1.07	8.29
Umbra MPS Blended Growth	-1.79	1.49	12.56	12.00	-6.42	14.82	9.46	11.60	8.33	9.40	2.36	0.98	7.66
Umbra MPS Active Growth	-1.91	1.23	13.16	14.75	-7.82	17.68	10.89	12.67	9.05	10.56	2.89	0.98	8.40
ARC Steady Growth PCI TR GBP	-0.80	1.98	7.89	7.20	-10.23	10.24	4.56	7.29	4.08	5.29			7.43
Umbra MPS P-Passive Adventurous	-2.87	0.69	16.15	13.15	-8.39	17.37	11.53	13.33	8.96	10.76	3.58	1.10	8.85
Umbra MPS D-Passive Adventurous	-2.32	1.36	14.19	14.53	-8.87	17.06	12.03	13.28	9.11	10.78	3.34	1.11	8.82
Umbra MPS Blended Adventurous	-2.08	1.56	13.43	14.18	-7.72	17.17	11.36	12.87	9.12	10.76	3.04	1.09	8.58
Umbra MPS Active Adventurous	-2.27	1.05	14.49	16.42	-7.50	19.52	11.91	13.76	10.14	11.86	3.53	1.10	8.81
ARC Steady Growth PCI TR GBP	-0.80	1.98	7.89	7.20	-10.23	10.24	4.56	7.29	4.08	5.29			7.43
Umbra MPS P-Passive Equity	-3.59	0.54	19.41	15.50	-7.91	22.26	12.71	15.59	11.08	13.62	4.20	1.09	10.25
Umbra MPS D-Passive Equity	-3.23	1.06	17.38	18.22	-10.23	22.07	16.07	15.97	11.00	13.77	4.37	1.08	10.25
Umbra MPS Blended Equity	-3.00	1.23	16.04	17.58	-9.09	22.39	15.33	15.19	10.76	13.58	4.12	1.06	9.95
Umbra MPS Active Equity	-3.14	0.71	16.39	19.17	-8.41	23.61	14.84	15.49	11.38	14.13	4.14	1.05	9.88
ARC Equity Risk PCI TR GBP	-1.20	1.76	9.32	8.30	-11.40	12.31	5.82	8.07	4.81	6.44			8.61

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.

Umbra Building Blocks Performance (%): February 2025



Umbra Building Blocks	Feb '25	Ytd '25	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 Absolute Return Portfolio	-0.02	2.82	6.69	2.43	2.98	11.69	3.73	5.51	5.01	6.49	3.70	0.62	4.23
ARC Cautious PCI TR GBP	-0.10	1.70	4.57	3.68	-7.60	4.23	4.20	4.56	1.76	2.44			4.34
Umbra Multi Asset Balanced Portfolio	-1.13	2.57	9.58	7.80	-4.82	14.65	8.21	9.68	6.70	7.96	2.66	1.11	7.25
ARC Balanced Asset PCI TR GBP	-0.50	1.89	6.41	5.79	-9.14	7.64	4.31	6.16	3.09	4.05			6.17
Umbra Multi Asset Adventurous Portfolio	-2.17	2.71	10.86	11.74	-5.84	19.68	13.77	11.65	8.47	11.22	2.90	1.11	8.65
ARC Steady Growth PCI TR GBP	-0.80	1.98	7.89	7.20	-10.23	10.24	4.56	7.29	4.08	5.29			7.43

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.
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Equities



- Equities, as measured by the MSCI ACWI, finished -1.9% in February, with US equity markets (S&P 500 Index -2.6%) detracting the most from overall returns as fears over the growth outlook for the US economy, coupled with the threats posed by tariffs unnerved US equity market sentiment.
- US equities began the year trading on historically high valuation multiples and needed a very optimistic and clear growth outlook to warrant such demanding multiples. Under Trump, that outlook is less clear than investors would perhaps like. Policy by tweet is leading to skittishness and although the Trump administration has already rowed back on some tariff pledges in terms of their timeline and/or severity, the uncertainty is spooking US markets.
- Against this, markets outside of the US were quite buoyant. In Asia, China (MSCI China Index +11.5%) continued to re-rate following the recent AI breakthrough from Deepseek. Whilst a meeting between Jack Ma, the Alibaba founder and government officials has prompted some to speculate that the government is likely to put more onus on the private sector and entrepreneurship to reinvigorate growth. The MSCI Asia ex-Japan Index (+1%) also benefited from this alongside a weaker US Dollar.
- Europe also remained firm on the back of the Germany election and the prospect of a large fiscal boost which aims to turbo charge infrastructure and defence spending. The MSCI Europe ex-UK Index finished +3.7% to leave it +11% for the year. Both defensive and cyclical sectors drove the broader market's advances in February with Financials +8%, Telecoms 5.7%, Consumer Staples +4.2% and Industrials +3.6% (all in EUR terms). Stylistically, Value (+5.6%) outperformed Growth (+1.7%) stocks by quite a wide margin on the month.
- Value's year to date renaissance has not been exclusive just in Europe however with the MSCI World Value Index +6.2% versus -0.2% MSCI World Growth Index.
- In a similar trend, large caps have also remained dominant performers versus small caps year to date. The geopolitical uncertainty alongside a higher cost of capital and stickier inflation backdrop remain headwinds for small cap outperformance in our view. It is unlikely we'll see much moderation within these factors over the near term.

Fixed Income



- Fixed income markets held up relatively well in February with core sovereign bond markets offsetting the weakness in global equities. The Bloomberg Global Aggregate Hedged GBP Index finished +1.2%. UK Gilts also had an ok month with the Vanguard UK Gilt UCITS ETF finishing +1%.
- Despite the volatility in US equities, we saw no real signs of contagion across the corporate credit market in February. Returns were modestly better in corporate credit versus sovereign bond markets. The Vanguard US Investment Grade Credit GBP Hedged Index finished +1.9%, whilst High Yield credit also returned +0.8%.
- Within Emerging Markets, local rate debt underperformed \$ USD hard currency debt despite the weakness in the US Dollar. The skittishness surrounding tariffs and particularly what it means for Emerging Markets is for now weighing on local debt markets. The iShares JP Morgan EM Local Government Bond UCITS ETF finished the month -0.7% in GBP terms, in contrast to \$ USD EM Government debt which finished +0.2% in GBP (unhedged) terms.
- Spreads, the excess premium an investor takes above developed market bond yields, remained quite firm in February with EM hard currency spreads at +2.2% over US Treasuries. Corporate bond spreads have also remained quite tight this year with Investment Grade credit spreads at +0.8% in the US and +0.5% in Europe.

Alternatives



- Despite losing some momentum during the final week of the month, Gold continued to advance in February, finishing +1.4% in GBP terms, to leave it +9% on a year-to-date basis.
- Elsewhere, the global Property (+1.9%) and Infrastructure +(0.1%) exposures were also underpinned by their long duration sensitivity and the modest decline we saw in government bond yields. We remain quite upbeat on the prospects for both asset classes. Although discussions within the EU remain in their infancy with regards to the likely increase in fiscal spend, European infrastructure assets are likely to be one of the key beneficiaries of this targeted support alongside the Defence sector.



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