Monthly Market Commentary

Umbra

Asset Management

Private & Confidential

Key Points

- December concluded an exceptionally strong fourth quarter and full year overall for Umbra's MPS. All our standardised portfolios finished ahead of the relevant ARC indices for the quarter, whilst the vast majority finished ahead on the year.

- Return attribution was broad across portfolios over the fourth quarter with international equity exposure, alongside spread-related fixed income and alternatives driving outperformance.

- As we conclude the year, 2025 has been a relatively comfortable environment for risk asset investors, despite the tariff-induced turmoil over the first quarter. The year ahead however is likely to be more difficult.

- With valuations across broad equity and credit markets being optically expensive, the onus for 2026 really falls on the delivery of robust corporate earnings and global economic growth to justify today's starting valuations.

- Bifurcation reigned in 2025, propelled by geopolitical factors and what appears to be a definitive turn in the US Dollar cycle. We expect this to continue, and we still find compelling idiosyncratic and thematic opportunities in which to deploy capital within portfolios.

- Alongside this, the global liquidity backdrop driven by fiscal largesse and looser monetary policy remains ample, alongside benign inflationary pressures, for now.

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Market Comment

- December ended an eventful year for financial markets, with all major asset classes delivering positive returns, albeit with pronounced regional bifurcation. Markets were shaped by sharp swings in sentiment over the course of 2025, most notably in early April following Donald Trump's announcement of sweeping trade tariffs, which briefly pushed major US equity indices towards bear-market territory before a subsequent easing of the most severe measures helped restore confidence across the rest of the year.

- In the US, while inflation remained above target, signs of labour-market weakness became increasingly evident. Privately run businesses cut 32,000 jobs in November - the largest decline since spring 2023 - reinforcing evidence of a broad hiring slowdown and heightening concerns around rising unemployment.

- Against this backdrop, the Federal Reserve reduced its policy rate for the third consecutive meeting, taking it to 3.5–3.75%. The decision exposed growing divisions within the Committee, with three formal dissents, while the Fed's dot plot continues to imply only one further rate cut in 2026, in contrast to market expectations for a more accommodative path. Most consequentially, the Fed surprised investors by announcing the resumption of Treasury bill purchases totalling $40bn per month, aimed at easing emerging strains in money-market liquidity.

- In the UK, the Bank of England cut interest rates to a three-year low of 3.75%, while cautioning that the pace and scale of future reductions remain finely balanced. The decision was narrowly contested, with Governor Andrew Bailey casting the decisive vote. Alongside easing monetary policy, UK M&A activity remained elevated throughout the year, reflecting the continued appeal of domestic equities amid depressed valuations. According to data from London Stock Exchange Group, overseas bidders agreed $142bn of takeovers of British companies over the past year, a 74% increase compared with 2024.

- The US dollar endured its steepest annual decline since 2009, reflecting a combination of tariff-related uncertainty around its traditional safe-haven status and a narrowing interest-rate differential as the Federal Reserve pivoted back towards monetary easing.

Equities

- US equities were the relative laggard across both the month and the year, with the S&P 500 rising 0.1% in December and delivering returns of 17.9% for the year, while the Nasdaq fell 0.5% over the month but gained 21.2% in 2025. Performance continued to be dominated by artificial intelligence as the defining investment theme, although market leadership narrowed as investors became more selective. The largest AI-exposed technology companies are now deploying capital at a scale more commonly associated with heavy industrials (Umbra's Chart of the Week), reflecting the rapid expansion of data-centre capacity, intense competition for advanced chips and the race to secure long-term compute infrastructure.

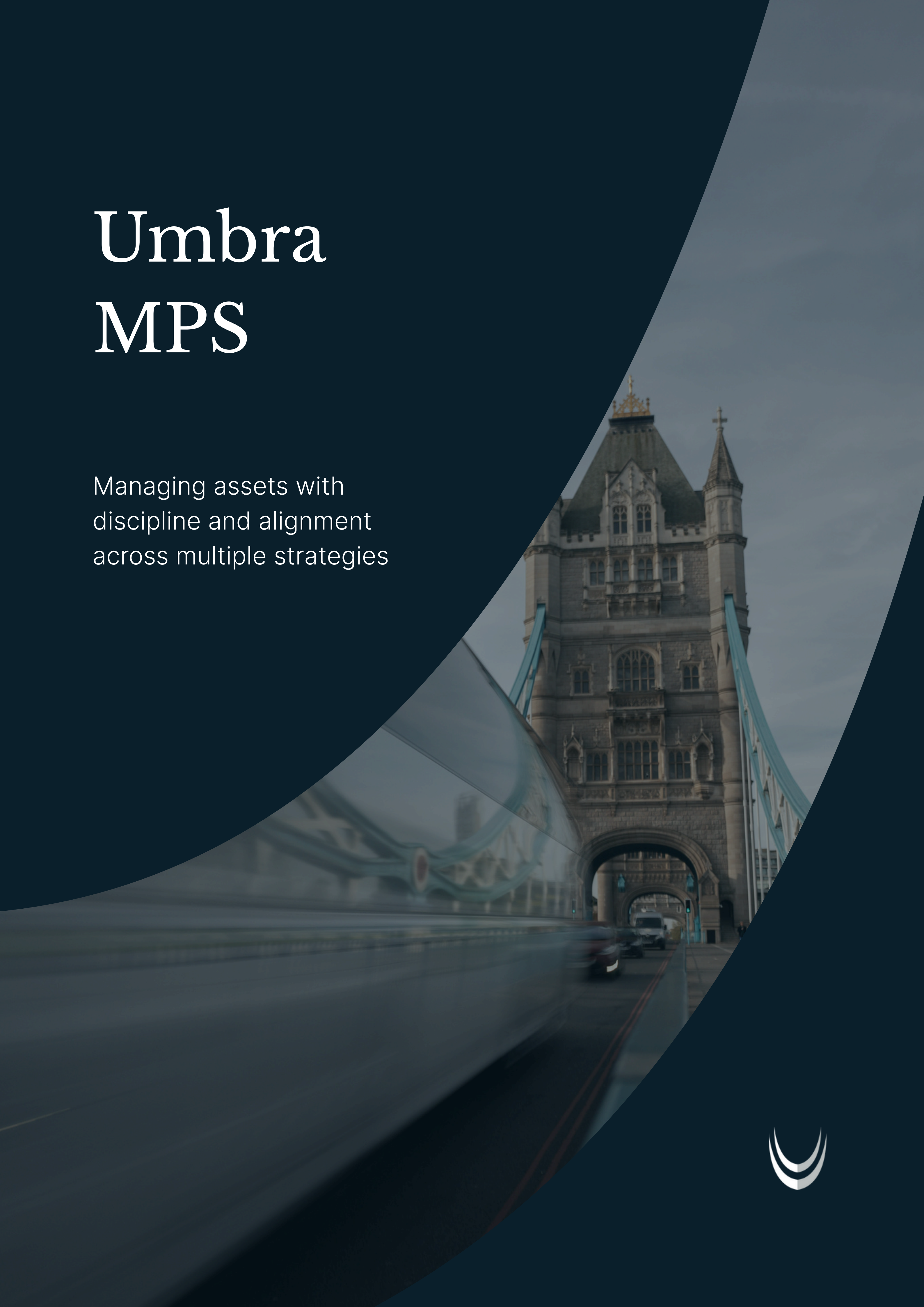
- Recent market reactions, including widening credit spreads at Oracle Corp. following a sharp escalation in AI-related spending, suggest that credit markets are beginning to reassess cash-flow durability and monetisation timelines, even as equity valuations continue to reflect a high degree of confidence in the long-term AI opportunity.

- European equities continued to perform strongly, with the MSCI Europe ex-UK Index rising +2.7% over the month and returning +19.5% for the year. Performance has been underpinned by a more constructive macro backdrop, as easing inflation and lower interest rates have supported sentiment, while recent economic data have been firmer than expected. Valuations remain reasonable despite the rally, and expectations of increased fiscal support in Germany, where plans for substantial infrastructure and defence investment are progressing, have improved the medium-term outlook for corporate investment. That said, investors are likely to remain attentive to the pace and execution of this spending, even as higher defence and infrastructure outlays are viewed as a meaningful longer-term support for European growth.

- UK equities continued to perform strongly, with the MSCI UK All Cap Index rising +2.2% over the month and delivering gains of +25.8% for the year. Returns have been supported by attractive valuations, a reliable dividend yield and an increased use of share buybacks, as profitable and generally under-leveraged companies return excess capital to shareholders. Performance has been highly concentrated, however, with banks and aerospace and defence stocks accounting for a significant share of gains, reflecting both sector-specific tailwinds and the more selective nature of the rally.

Umbra MPS

Managing assets with discipline and alignment across multiple strategies



MARKET COMMENTARY

MPS Performance

Summary versus Primary ARC Benchmark

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Source: Umbra Capital Partners LLP.

Umbra MPS Portfolio	December 2025	Q4	2025	3 Year Annualised	5 Year Annualised
Umbra MPS Passive Defensive	0.0	2.1	5.3	5.9	1.5
Umbra MPS Dynamic Defensive	-0.1	1.9	6.0	5.8	2.1
Umbra MPS Blended Defensive	-0.3	1.8	5.7	6.1	2.5
Umbra MPS Active Defensive	-0.3	1.9	6.0	6.7	3.4
Umbra MPS Income Defensive	-0.3	2.5	7.5	6.8	3.9
ARC Cautious PCI TR GBP	0.1	1.8	6.6	4.9	2.2
Umbra MPS Passive Cautious	0.0	2.6	7.3	8.6	4.4
Umbra MPS Dynamic Cautious	-0.1	2.4	7.8	8.0	4.1
Umbra MPS Blended Cautious	-0.3	2.3	7.2	8.1	5.0
Umbra MPS Active Cautious	-0.4	2.1	7.1	9.2	6.0
Umbra MPS Income Cautious	-0.3	3.0	9.3	8.6	6.5
ARC Cautious PCI TR GBP	0.1	1.8	6.6	4.9	2.2
Umbra MPS Passive Moderate	0.0	2.9	8.5	9.9	5.7
Umbra MPS Dynamic Moderate	-0.1	2.9	8.7	9.1	5.3
Umbra MPS Blended Moderate	-0.3	2.6	7.5	8.9	5.9
Umbra MPS Active Moderate	-0.4	2.3	7.3	10.0	6.9
Umbra MPS Income Moderate	-0.2	3.4	10.1	9.3	7.6
ARC Balanced Asset PCI TR GBP	0.0	2.3	8.7	7.0	3.7
Umbra MPS Passive Balanced	0.0	3.2	9.4	11.1	6.9
Umbra MPS Dynamic Balanced	-0.1	3.1	10.5	10.7	6.8
Umbra MPS Blended Balanced	-0.3	2.9	9.0	10.4	7.2
Umbra MPS Active Balanced	-0.3	2.6	7.7	11.0	7.9
ARC Balanced Asset PCI TR GBP	0.0	2.3	8.7	7.0	3.7
Umbra MPS Passive Growth	0.0	3.5	10.4	12.3	8.2
Umbra MPS Dynamic Growth	-0.1	3.5	10.1	11.5	7.8
Umbra MPS Blended Growth	-0.2	3.1	8.6	10.9	7.9
Umbra MPS Active Growth	-0.3	2.7	8.2	11.9	8.7
ARC Steady Growth PCI TR GBP	-0.1	2.4	9.1	8.1	4.6
Umbra MPS Passive Adventurous	0.0	3.7	11.3	13.5	9.5
Umbra MPS Dynamic Adventurous	0.0	3.9	11.3	13.3	9.1
Umbra MPS Blended Adventurous	-0.1	3.4	9.4	12.2	8.8
Umbra MPS Active Adventurous	-0.3	3.0	8.4	13.0	9.8
ARC Steady Growth PCI TR GBP	-0.1	2.4	9.1	8.1	4.6
Umbra MPS Passive Equity	0.0	4.2	13.7	16.2	12.1
Umbra MPS Dynamic Equity	0.1	4.6	13.2	16.3	11.5
Umbra MPS Blended Equity	-0.1	4.2	11.2	15.0	11.1
Umbra MPS Active Equity	0.0	3.6	9.6	15.0	11.5
ARC Equity Risk PCI TR GBP	-0.2	2.5	9.5	9.0	5.2

All performance figures are shown in percentage terms in GBP and are net of underlying fund OCF's and Net of Umbra's AMC. Returns are Gross of any platform fee. From May 2022, performance reflects actual portfolio returns and reflects portfolio drift in line with market movements, with rebalances carried out on an ad-hoc basis, and informed by prevailing market conditions and portfolio positioning. Performance from July 2019 to April 2022 is based on back-tested data, using simulated past performance derived from the actual historical performance of the underlying investments.

- Emerging market equities capped a remarkable year, with the MSCI Emerging Markets Index rising +3.0% during the month, taking year-to-date returns to +33.6%. Performance was broad-based, led by strength in Asia as AI-related optimism lifted technology-heavy markets such as China and South Korea, while resilient trade flows and a supportive macro backdrop of easing inflation, falling interest rates and a weaker US dollar continued to underpin investor demand.

Fixed Income

- Fixed income markets also delivered strong returns, extending the rally seen across risk assets, as falling inflation, easing monetary policy and resilient fundamentals supported performance across most sectors.

- Government bonds delivered positive returns in aggregate, with notable bifurcation between regions. The Citigroup World Government Bond Index rose +0.1% in December and returned +7.6% for the year, supported by easing inflation and softer labour market data that allowed central banks in the US and UK to pivot towards rate cuts. US Treasuries and UK Gilts outperformed as policy rates were lowered, while German and Japanese government bonds delivered negative returns amid fiscal expansion in Germany and ongoing policy normalisation in Japan, which pushed yields higher.

- Credit markets benefited from broad spread compression, although valuations became more stretched. The Bloomberg Global Aggregate Index gained +0.3% in December and returned +8.2% for the year, while the Bloomberg Global High Yield Index rose +1.0% over the month and delivered +12.1% in 2025, supported by generally resilient corporate balance sheets. Investment grade credit was more mixed, with the Bloomberg US IG Index falling -0.2% in December and returning +7.8% for the year. Valuations remain relatively full and the sector faces increased issuance, including debt raised by hyperscalers to fund large-scale AI infrastructure investment.

- Emerging market debt was the standout fixed income performer, mirroring strength in emerging market equities. The Bloomberg EM USD Aggregate Index gained +0.4% in December and returned +11.1% for the year, while local currency debt rose +1.2% over the month and +9.3% in 2025, supported by strong fundamentals, robust investor demand and favourable currency moves, particularly across Latin America.

Alternatives

- Alternative assets delivered mixed performance, though returns were positive over the year overall. Gold was the standout, rising +2.4% in December and +64.4% over 2025, supported by sustained purchasing from central banks. In contrast, listed real assets lagged, with the iShares Developed Market Property Yield ETF down -0.3% over the month and up +7.4% for the year, while the iShares Global Infrastructure ETF fell -3.0% in December and gained +5.1% in 2025.

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Team

Markus Szemruk

CIO

Marcus joined Umbra in 2021 and is the firm's CIO.

Prior to joining the firm, he was the sole Senior Portfolio Manager of the UBAM MF Flexible Allocation Fund from January 2020 to June 2021, having been named the ACPI Balanced Fund prior to that from 2008 to 2020. He was a Partner and Head of Fund Research whilst at ACPI. From 2005 to 2008 he covered active long only and hedge fund strategies whilst at Stonehage Fleming. Marcus began his investment career in 1999 as an analyst at Phillips & Drew, UBS Global Asset Management. Marcus holds a BSc. in Banking and Finance from Loughborough University and holds the Securities Institute Certificate in Investment Management (CertIM).

Laurence Harper

Analyst

Laurence is an Investment Analyst in Umbra's investment team.

Prior to Umbra, he was a part of the investment consulting team for a London based IFA for HNW and UHNW individuals. Laurence holds a BSc in Economics from the University of Liverpool and has passed level one of the Chartered Financial Analyst (CFA) qualification and holds the Investment Management Certificate (IMC).

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