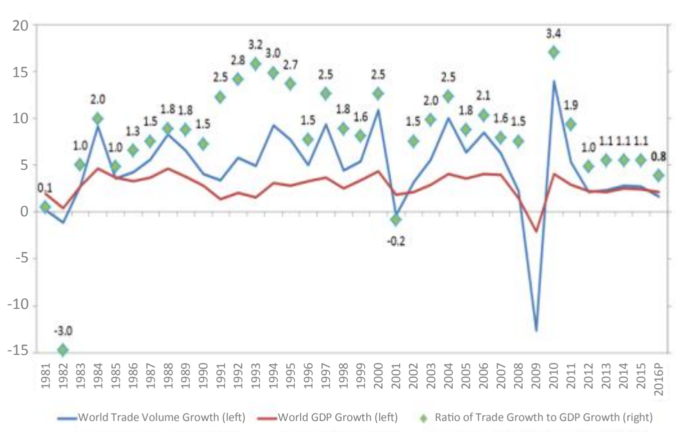
Global Market Positioning

October 1, 2016

Real-time insight on how DuPont Capital has positioned its portfolios as a function of key factors driving the markets.

Key Market Factors (as of October 1, 2016)

World Trade Volume Growth versus GDP

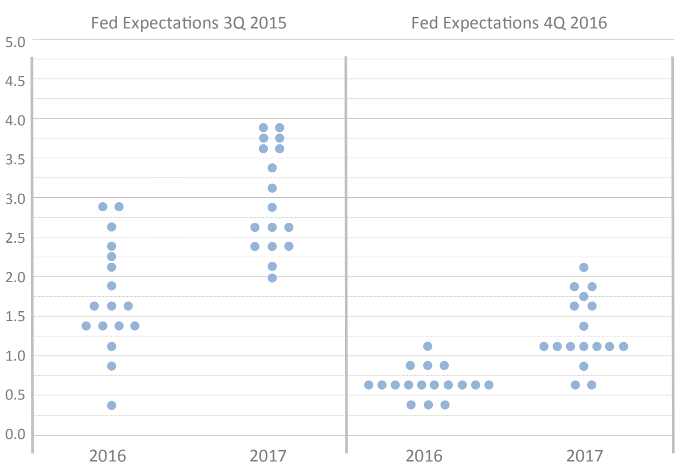


Source: WTO Secretariat for Trade, Consensus Estimates for GDP

Trade - Is The Tide Turning?

- The World Trade Organization downgraded near-term global trade forecasts. 2016 is abnormally poised to see non-recessionary trade growth undershoot GDP growth.
- The advantages of globalization have been taken as a given. However, political populism and protectionism are challenging this assumption as the economic benefits of free trade diverge.
- Bilateral trade negotiations like the Transatlantic Trade & Investment Partnership are stalling, and there is patchy investment in tradeable goods sectors. However, international companies with structural, scale, cost, or technological advantages are well positioned to withstand such headwinds.
- Europe is vulnerable to any further downtrend in regional trade. A more significant downtrend could disrupt China's economic transition and other export-driven Emerging Markets.

Change in Implied Probability of Federal Reserve Rate Hike



Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's (Fed Governor) judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. Source is the FOMC.

Fed Rate Forecasts - One Year Later

- In a continuing saga, the Federal Reserve reduced their forecast for future rate hikes at their last meeting in September. Their median forecast is currently for only one hike in 2016 and two in 2017. This is down significantly from mid-2015 when they were forecasting four to five hikes in 2016 and four in 2017.
- The Fed also revised downward their expectations for GDP growth. They are now looking for growth of only 1.8% to 2% from 2016 through 2019. The Fed does not typically increase rates when growth is 2% or lower unless inflation moves higher than the Fed's target.
- The Federal Reserve's credibility continues to be low among investors. It will likely take time and a period of increased accuracy in their forecasts to restore confidence.

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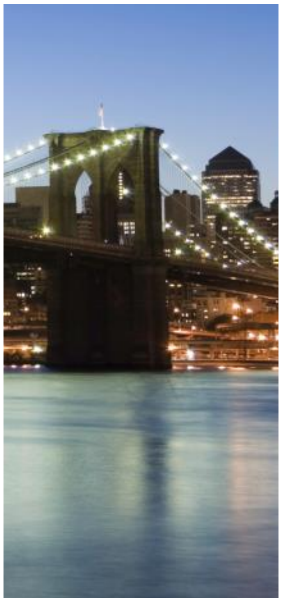
Current Positioning (as of October 1, 2016)

Global Equity

- For much of the last two years, market volatility, as measured by the VIX index, has tended to be binary in nature. The market has either exhibited periods of low volatility, similar to that experienced in pre-financial crisis, or more pronounced levels of risk aversion. The latter is usually precipitated by economic growth scares or, conversely, fears of less accommodative central bank policies. Investors have shown concern about how these risks could impact deeper economic integration globally.
- Cyclically-adjusted equity valuations are elevated relative to historical levels, particularly in the U.S. However, we expect there is additional upside if the low interest rate environment continues and current monetary policies persist. Such a scenario is likely given the U.S. is the closest to increasing interest rates, but has reduced forecasts for rate hikes in the last quarter. In Europe and Japan, negative interest rates have bolstered liquidity over growth. However, recent policy initiatives, including more flexible or targeted asset purchases, could provide improved transmission mechanisms.
- Corporate earnings in many sectors face productivity and input cost challenges. Despite these headwinds, modest growth should resume due to improved year-on-year comparisons, particularly in Energy and Commodities. Inflationary pressures are increasing, but not dramatically so. Nonetheless, inflation considerations have been a virtual non-factor from both a top-down and company-specific standpoint for some years. Markets may take time to assimilate to this change, as well as the current list of volatility-inducing risk factors.

Fixed Income



- The Federal Reserve remained on hold due to May's poor employment report, the surprising Brexit vote in late June, and weaker data later in the quarter. Interest rates rose during the third quarter, but remain much lower for the year. We are maintaining durations reasonably close to the benchmark across all fixed income portfolios.
- As yields are very low or close to 0% for a significant number of developed sovereigns, we continue to find U.S. Dollar denominated sovereign emerging markets debt attractive. Overall, we rode the third quarter rally with few changes to our EMD portfolios. We remain overweight Ukraine and Venezuela, as well as higher quality countries such as Mexico and Brazil. We also increased an overweight to Argentina over the last few months. We feel Argentina's long-term outlook improved with the resolution of their 2001 default which finally granted the country access to global debt markets.
- In our high yield portfolios, we trimmed European exposure, and increased exposure to logistics companies with good value. With the significant rally that has occurred, we want to maintain some liquidity, but are deploying cash when we find good risk/reward opportunities that we expect will add value over the long-term.
- Investment grade corporate spreads widened early in 2016 which created several attractive opportunities. Although spreads have tightened modestly this quarter, and significantly so since mid-February, we feel corporates remain the best valued segment within investment grade fixed income. We purchased a few healthcare-related positions during the quarter. Our largest sector over-weights include basic materials, insurance, capital goods, REITs, and communications.

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