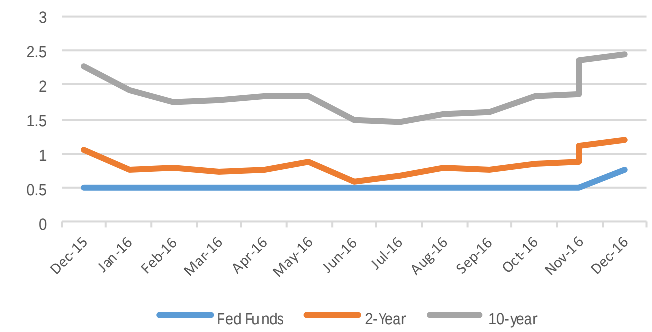
Global Market Positioning

January 1, 2017

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 January 1, 2017)

U.S. Interest Rates 2016



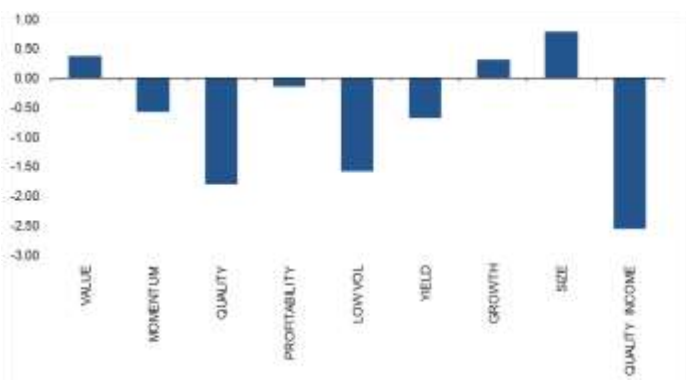
Spreads Over Treasuries

	12/31/15	11/08/16	12/31/16
Inv. Grade Corporates	172	137	127
High Yield	707	517	442
Emerging Markets Debt	415	333	342

Post-Election - Higher Rates, Tighter Spreads

- Interest rates rose significantly after the election as investors believe President-elect Trump's policies will fuel higher growth and inflation and increase budget deficits.
- As expected, the Federal Reserve raised the Funds Rate by 25 basis points in December. They are projecting three 25 basis point hikes in 2017 and three in 2018. They have continually over-projected rate hikes for several years.
- High yield spreads have tightened significantly since the election. The President-elect's policies are expected to boost corporate earnings, and less regulation will likely help certain industries.
- Despite the President-elect's negative rhetoric around global trade, particularly China and Mexico, Emerging Markets Debt (EMD) spreads are close to unchanged since the election. EMD yields are much higher due to higher Treasury yields.

Global Factor Sensitivities to U.S. Bond Yields



Note: Using 10 year bond yields and a two factor regression 1989-2016
Source: SG Cross Asset Research/Equity Quant, Bloomberg, Datastream, Factset, FTSE, I/B/E/S

Equity Markets - A Changing Landscape

- Following several years of outperformance and elevated relative valuation premiums, the momentum in low volatility, defensive stocks and sectors has waned.
- High quality equities with perceived stability thrived on monetary stimulus actions as investors sought out higher yields in an abnormally low rate environment.
- The prospect of a U.S. policy regime shift back toward expansionary fiscal measures and pro-business deregulation has propelled Treasury yields and inflation expectations upwards. Historically, value performs well in a rising rate environment.
- Value and cyclical names are assuming market leadership as global deflationary fears dissipate and sluggish industry fundamentals improve. Energy, short cycle Industrials, and Financials are poised to help consolidate these changes in market regime and momentum.

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CURRENT POSITIONING (as of January 1, 2017)

GLOBAL EQUITY

- The pendulum of equity market leadership has swung away from high quality and annuity-type defensive stocks and sectors during the last quarter. Signs of Value-style outperformance and cyclical-reflation recovery have strengthened in the wake of the U.S. elections, as investors react to the prospect of fresh fiscal stimulus and a steepening yield curve for government bonds.
- Event risks and associated volatility are liable to remain prominent in the equity markets during 2017. The upcoming political calendar includes presidential elections in France and Germany, Breality (the UK's formal triggering of Brexit), and the first shift in the leadership of the Chinese National Congress in seven years. The schedule and prioritization of policy action for the incoming U.S. Trump administration is currently unclear. The related uncertainty risks could either linger or even escalate.
- As referenced last quarter, global trade volumes remain weak relative to both aggregate global GDP and historical trends. In this context, recent anti-trade rhetoric bears monitoring. Valuations in many export-centric geographies, including Emerging Markets and producer cyclicals in Europe and Japan, reflect a trade-off between protectionist risks and favorable tailwinds from weaker local currencies.
- The resumption of more normalized monetary policy, spearheaded by the Federal Reserve, and further recovery in corporate earnings may lead to more divergent returns within equities. Such a scenario could prove more rewarding for risk-selective and valuation-discriminating investors.

FIXED INCOME

- We are focusing our research on finding opportunities that have become undervalued due to the increased volatility and uncertainty caused by the new administration.
- Interest rates may continue to rise slightly in the short-term as the new administration's policies are rolled out in the first quarter of 2017. We are maintaining durations slightly shorter than the benchmark across the majority of our fixed income portfolios.
- We believe that U.S. Dollar denominated sovereign emerging markets debt is attractive compared to most other fixed income sectors. After the election, we reduced an overweight to Venezuela due to very strong performance over the past 18 months, and slightly increased our positions in Petrobras and Pemex. We continue to be overweight Venezuela, Ukraine, and Argentina, as well as higher quality countries such as Mexico and Brazil.
- Investment grade corporate spreads tightened slightly this quarter, and significantly so since mid-February. Despite this tightening, corporates remain the best valued segment in investment grade fixed income. We have found several attractive new issue opportunities lately. Our largest sector over-weights include basic materials, insurance, capital goods, and REITs.
- In our high yield portfolios, we are maintaining some liquidity due to the significant rise in prices this year, but we are selectively deploying cash as we find opportunities that are expected to add value long-term. Recently, we have focused on secured debt and high quality situations, as well as additional investments in restructuring companies in which we are already involved.

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