DuPont Capital

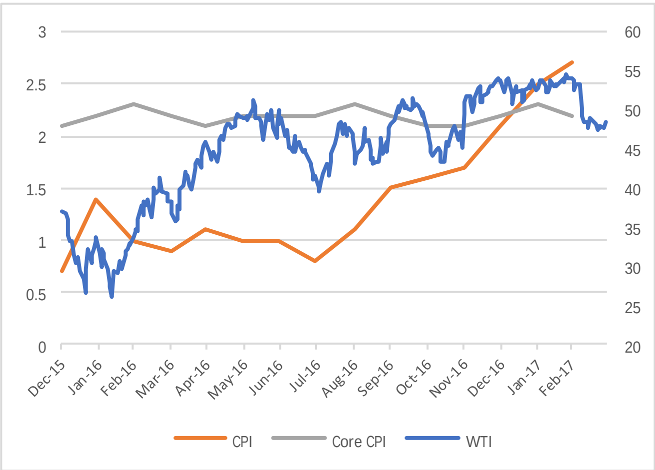
Global Market Positioning

April 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 April 1, 2017)

Inflation and Oil

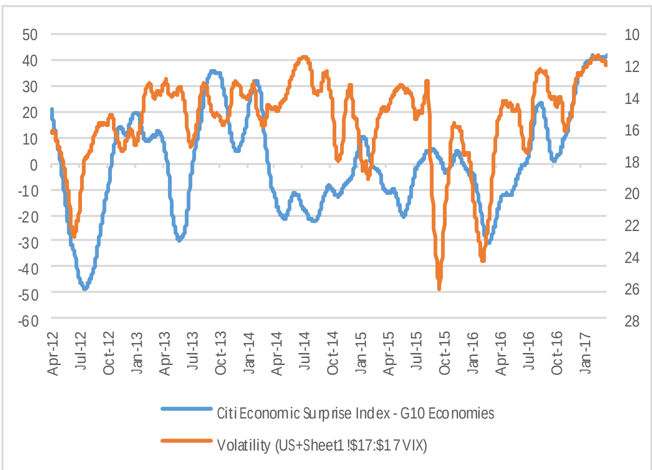


Source: Bloomberg

Inflation, Oil, and Credit Spreads

- Headline inflation rose significantly over the past year, largely due to the rise in oil since its February 2016 bottom. Core CPI only rose slightly over the same time period. Inflation should settle in slightly above 2% now that the CPI has absorbed the rise in oil prices.
- The Fed raised rates by 25 bps in March. Statements immediately following the hike were more "dovish" than expected, but two 25 bps hikes are projected in 2017 and three in 2018. They have over-projected increases for several years, but may get it right in 2017.
- High yield spreads tightened significantly from 2/2016 to 2/2017 as oil prices rose. Spreads have since widened by over 30 bps as oil has declined, moving markets back to more reasonable levels.
- USD and local Emerging Markets Debt performed well last quarter, shrugging off oil's recent decline. Concerns over the White House's proposed trade policies have diminished, but could resurface later.

Global Economic Surprise Index and S&P500Volatility (Inverted)



Source: Bloomberg, data smoothed using 1 month averages

Muted Volatility: Confidence vs. Complacency

- Since last November, U.S. equity markets have seen persistently low volatility; improving economic data and confidence indicators have driven stocks higher and assuaged downside fears. It was not until late March that the S&P 500 saw a daily downtick in excess of 1%. Volatility barometers in other regions, including Emerging Markets, have followed a similar trend.
- Globally, positive economic surprises have been enduring at a level not seen since the recovery phase of the financial crisis. Momentum across regions is more favorably synchronized now than in the five years since the 2012 Euro crisis.
- The Value-centric 'reflation trade' that inspired much of the recent upswing is naturally decelerating as valuation dispersions among sectors have compressed. Value characteristics remain favorably positioned on a risk-adjusted basis, not least if the Federal Reserve sticks to its projected monetary tightening.

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Current Positioning (as of April 1, 2017)

Global Equity

- Lower risk aversion and macro growth optimism are already reflected in valuation levels. We believe this holds most true in U.S. equities, where expectations for wholesale tax reforms and business-friendly deregulation would be most beneficial to corporate profitability. Improved corporate confidence and economic data undeniably help. However, surveys and indicators show that while White House policy goals remain unclear, levels of business uncertainty are rising. Until trade and fiscal policy are more certain, there may be an element of hope embedded in any risk-on market environment.
- Attractive valuations appear more readily available in continental Europe and Emerging Markets. Both regions are generally export-sensitive and would benefit by any improvement in the synchronicity of global GDP growth. China continues to have an outsized influence on sentiment, but near-term risks appear to be well-contained. Political tail risks, such as Franco-German elections, Brexit, and domestic politics in Turkey or South Africa, cannot be ignored, but are generally localized or diversifiable. Earnings revisions in Japan are improving, and we are encouraged by more shareholder-friendly corporate governance, particularly with respect to capital deployment, buybacks, and payouts.
- From a style perspective, economic and market conditions appear to favor Value characteristics, albeit to a lesser degree than late last year. The tailwind provided by the recovery in underlying commodity prices to Metals & Mining and Oil is likely to abate, and we expect non-US Financials may potentially reward investors as structural overhangs become less severe. In both instances, and even more so than with other sectors, selectivity in terms of fundamental, operational, and financial quality is key.

Fixed Income

- Investor expectations for the economy and inflation have changed since the November U.S. Presidential election. We are trying to look beyond the noise and focus our research on finding opportunities that are now undervalued due to the uncertainty accompanying the change of administration.
- We believe interest rates may rise slightly over the course of 2017 if the Federal Reserve continues its gradual tightening. We are maintaining durations slightly shorter than the benchmark across the majority of our fixed income portfolios.
- We find both U.S. Dollar denominated and local currency sovereign emerging markets debt to be moderately attractive compared to most other fixed income sectors. Following the election, we added to an overweight to Brazil, including increased currency exposure. We continue to be overweight Venezuela, Ukraine, and Argentina, as well as higher quality countries such as Mexico and Brazil.
- Investment grade corporate spreads did not change materially this quarter, but have tightened significantly over the past year. Despite this tightening, corporates remain the best valued segment in investment grade fixed income. We have slightly reduced our exposure, but remain overweight, particularly within basic industry, insurance and capital goods.
- In our high yield portfolios, we are maintaining some liquidity due to the significant rise in prices over the past year. We are selectively deploying cash as we find opportunities that are expected to add value long-term. Recently, we have been focusing on high quality and select stressed situations, as well as allocating additional capital to restructuring companies in which we are already involved.