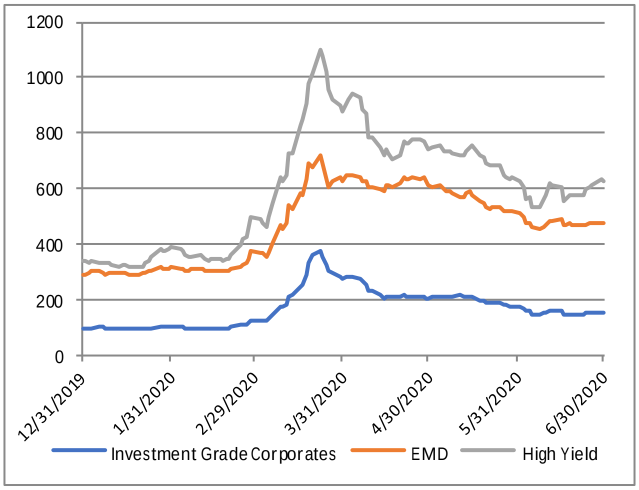
Global Market Positioning
July 2020

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 July 2020)

Credit Spreads

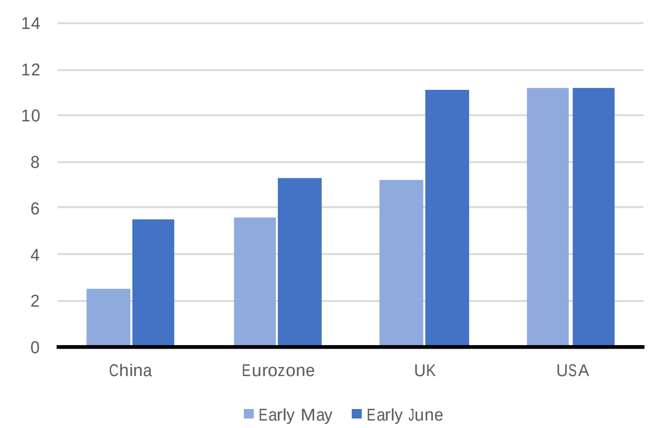


Source: Barclays/Bloomberg, JP Morgan
As of July 1, 2020

The Fed Saves the Credit Markets

- Despite plummeting economic activity in April and May, credit spreads rebounded significantly due to the Federal Reserve's actions in late March.
- The Federal Reserve announced on 3/23 that they were going to start a new QE program that, for the first time, would include the purchase of corporate bonds. This, along with other actions, led to a massive recovery in credit.
- Treasury yields were close to unchanged for the quarter as the Fed's purchases offset investors move back into credit.
- The Ten-year Treasury declined by one basis point in the quarter and closed at 0.66%.
- Economic growth started to spring back to life as several states ended their lockdown and partially reopened.
- Concerns increased at the end of the quarter as cases of COVID-19 increased significantly in many states that had reopened including Texas, Florida, and Arizona.

Fiscal Policy Response



Source: EU Commission, BNP Exane Estimates (as of 06/24/2020), DuPont Capital

Creeping Japanification

- The rolling global pandemic has unleashed unprecedented levels of economic stimulus, both fiscally and monetarily. This has succeeded in assuaging near-term liquidity and solvency risks, but the necessary speed and scope of policy measures came at the cost of specificity.
- A healthy pace of economic recovery will be predicated on the participation of employment-intensive small and private businesses. Thus far, U.S. support measures have been broad and perhaps unevenly generous. Outside the U.S., the response has arguably been more targeted, cohesive, and impactful for investors.
- "Lower for longer" rates heighten the risks of Japanification in other developed markets. Muted growth, growing debt, and accelerating societal trends may propel a more divergent twin-track economy of thriving vs. stagnant industries and dynamic vs. zombie companies.
- Lest we forget, the U.S election cycle is approaching its climax. Geopolitical and profitability tail risks have ceded much of their prior spotlight but lurk, unresolved, just offstage.

Valerie J. Sill, CFA, CAIA
President & CEO

Lode J. Devlaminck
Managing Director, Equities

Krzysztof (Kris) A, Kowal, PhD, CFA
Managing Director, Fixed Income

One Righter Parkway • Suite 3200 • Wilmington, DE 19803 • (302) 477-6000

www.DuPontCapital.com

Current Positioning (as of July 2020)

Global Equity

- In the wake of recent market volatility driven by wildly oscillating top-down risk appetites, it pays to assess the compositional dynamics in detail. Wide ranging fiscal and monetary stimulus measures have bolstered equities overall, but marked discrepancies exist across regions and sectors. Market leadership is narrow, with thematically-attractive mega-caps doing most of the heavy lifting.
- Some previously robust industries and end-markets require a fundamental reassessment of their growth and stability profiles in a post-Covid world (travel and leisure categories being the most severely and immediately stress-tested). However, the focal point of our investment horizons and capital cycle analysis remains three plus years out. Across this timeframe, "lower for longer" conditions for both economic growth and nominal interest rates now appear even more entrenched.
- For bullish observers, China's quick recovery provides grounds for optimism and a template for other regions. However, we do not expect a universal V-shaped recovery in all geographies or sectors. If anything, the bifurcation between the "haves" and the "have nots" in many industries may widen as events pull forward growth opportunities or accelerate divergent trends. Characteristics such as relative scale, digital agility and readiness, innovativeness and cost structures (including environmental and social externalities) will be determinants of success over the next economic cycle.
- In the short-term, an early cycle/pre-election Value rally may prevail given relative valuations, but duration may be truncated. Though near-term credit and liquidity risks have been insulated by government measures, we are cautious of ossifying debt burdens for low-growth and capital-intensive companies further out. Long-term, balance sheet constraints can compound into value traps just as impactfully as contrasting sustainable advantages can translate into virtuous circle effects.

Fixed Income

- Global Central Banks rode to the rescue and provided unprecedented liquidity to help allow the financial markets to function closer to normal. The Fed has announced that the Funds Rate will likely remain near 0% until at least 2022. U.S. interest rates will stay low for an extended period of time and most of our portfolios have durations that are similar to the benchmarks.
- Investment grade corporate spreads tightened significantly during the quarter but are still wider than historical averages. We have been increasing our allocation to corporates in our Core and Core Plus portfolios. We favor the basic industry, insurance, consumer cyclical, and electric utility sectors.
- In Long Duration, we had very little exposure to long corporates at the beginning of the year and have been greatly increasing our allocation due to the much more attractive spread levels. We have been buying in both the secondary and new issue markets.
- High yield spreads have also tightened significantly this quarter. Our strategy is two-fold: 1) we are buying companies that we believe will be able to weather the short-term decline in economic activity, and 2) we are starting to identify and research potential distressed situations.
- Emerging Markets Debt (EMD) performed very well with hard currency outperforming local currency. In March, we added numerous positions to our EMD portfolios, but were much less active in the 2nd quarter. Our focus has been on some of the higher quality countries that we were underweight and some higher yielding positions that we feel declined too much in the sell-off earlier in the year. Our main overweights are in Mexico, Brazil, and Ukraine.

One Righter Parkway • Suite 3200 • Wilmington, DE 19803 • (302) 477-6000