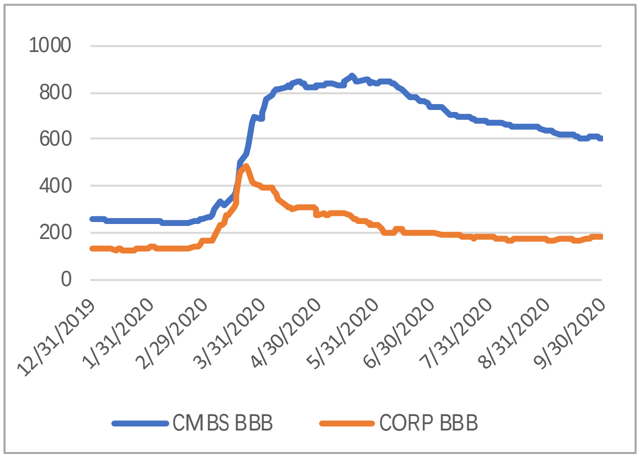
GLOBAL MARKET POSITIONING
October 2020

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 October 2020)

CMBS BBB vs. CORP BBB

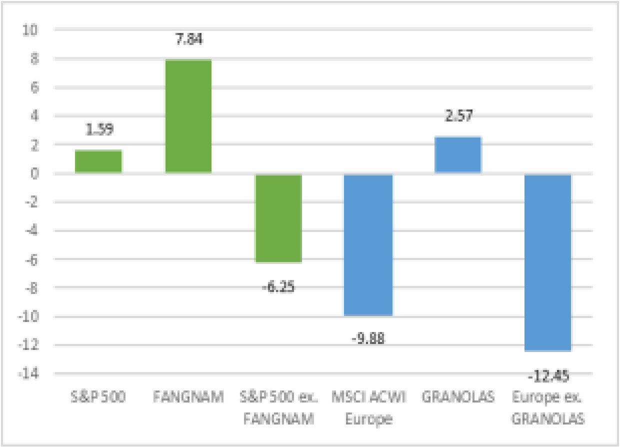


Source: Bloomberg
As of September 30, 2020

NO RECOVERY FOR BBB-RATED CMBS

- The Fed's actions in March resolved most of the liquidity issues in the corporate and mortgage markets yet there is still a problem in CMBS.
- While BBB-rated corporates have rebounded since late March, BBB-rated CMBS have not recovered and are trading at very distressed levels
- This may cause a ripple effect in other segments of the credit markets over the next several months.
- Treasury yields were close to unchanged for the quarter as the Fed's purchases and economic and election uncertainty kept yields at very low levels.
- Investment grade corporates, high yield, and EMD spreads tightened again in the 3rd quarter, but remain slightly above long-term averages.

YTD Performance Contribution for S&P 500 and MSCI ACWI Europe Indices



The "FANGNAM" basket of stocks is inclusive of Facebook, Amazon, Netflix, Google, NVIDIA, Apple, and Microsoft. The "GRANOLAS" are inclusive of GlaxoSmithKline, Roche, ASML, Nestle, Novartis, Novo Nordisk, L'Oreal, LVMH, AstraZeneca, SAP, and Sanofi.

Source: DuPont Capital, Factset, MSCI, data from 12/31/2019 to 09/23/2020

THE POLARIZATION OF EQUITY MARKETS

- Market breadth, or the extent to which the recovery is benefiting all names, remains in the spotlight. Tech bellwethers (FANGNAMs) account for much of the positive year-to-date return in US large caps, while stable growth mega caps in Europe (GRANOLAs) show a similar degree of directional outperformance. Across international equity indices more than half of index constituents remain below their 200 day moving average.
- Bifurcated performance trends are symptomatic of a twin track market. Recent events have served as a catalyst, accelerating long-term trends including digital deployment and adoption for corporates and consumers.
- Ultra-low interest rates have been a contributing factor. The more entrenched low rates become, the more advantageous the relative tailwind to growth stocks is from a discounted cashflow perspective.
- The relative re-rating of companies with visible or thematically advantaged growth has been noteworthy but can be justified to a large degree by fundamentals. Bottom up investors need to remain vigilant to the risk of a steepening yield curve, while also weighing whether changes in behaviors and spending patterns will become permanent in nature.

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Current Positioning (as of October 2020)

Global Equity

- It is likely that we have passed the troughs in aggregate earnings downgrades and cyclical economic indicators. A diversified pro-cyclical tilt, accounting for the aforementioned momentum hotspots in Tech and e-commerce, can be justified in most geographies while the competing COVID tail risks of vaccine versus resurgence remain favorably balanced on a 6-12 month horizon.
- Our medium-term outlook for inflation remains quiescent, but given how low absolute Treasury yields are, there is scope for a near-term rebound. This could, in turn, ignite a more meaningful rotation into Value than recent sporadic outbreaks. From a monetary perspective, the velocity of circulation has been depressed and could present upside risk to inflation. Fiscally, the post-election market dynamics of 2016 are worth noting if stimulus and spending policies are reset to the upside.
- Qualitatively we retain a preference for innovative and sustainably high margin companies, where the underlying end market structures and competitive dynamics are conducive to asymmetric or “winner takes most” returns. Certain industries, (Eg. Aviation, outsourced business services), have toggled from favored to questionable in an increasingly polarized equity market. Differentiating structural shifts from cyclical trends to identify the new normal present both opportunities and timing risks.
- Overall we do not view equity markets as unduly frothy, bearing in mind the prevailing yield prospects available in other asset classes. However, the degree of buoyancy reflects fairly optimistic assumptions about the near term earnings recovery. At the individual stock level, the strong correlation forward earnings momentum and price return is likely to remain pivotal while the macro environment is vulnerable to tail risks. Thus idiosyncratic characteristics, as much as broad style or beta, should remain a differentiator in both higher-multiple and relatively inexpensive segments.

Fixed Income

- The Fed projects that the Funds Rate will likely remain near 0% until 2024 and, in a change, will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time. Most of our portfolios have durations that are similar to the benchmarks.
- Investment grade corporate spreads tightened during the quarter but are still slightly wider than historical averages. We have been gradually increasing our allocation to corporates in our Core and Core Plus portfolios. We favor the basic industry, insurance, consumer cyclical, energy, and electric utility sectors.
- In Long Duration, we had very little exposure to long corporates at the beginning of the year and greatly increased our allocation from March through July 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 this quarter. We are buying companies that we believe will be able to weather the short-term decline in economic activity, and we are looking to identify distressed situations that could provide strong long-term returns.
- 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 and 3rd quarters. 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, Ukraine, and Argentina.

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