DuPont Capital

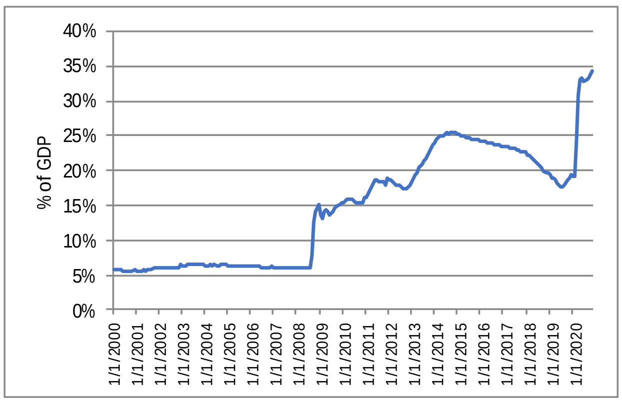
Global Market Positioning

January 2021

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 2021)

Federal Reserve's Balance Sheet

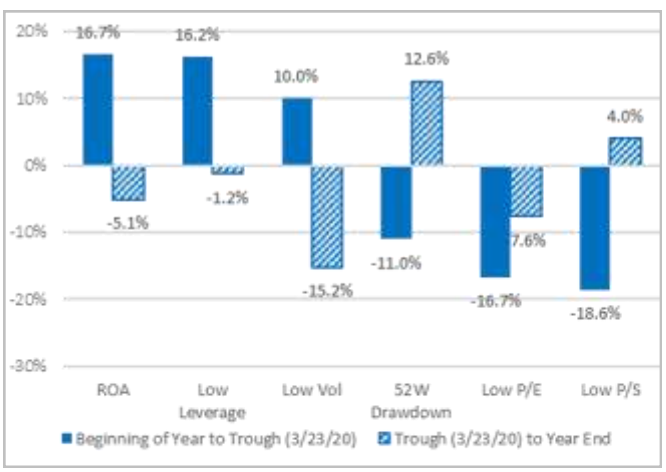


Source: Federal Reserve
As of November 30, 2020

Don't Fight the Fed

- The Federal Reserve greatly expanded its balance sheet to record levels in 2020 in response to the pandemic and provided massive liquidity to make sure markets behaved normally.
- The Fed's actions fueled a significant rebound in equity and credit markets. The S&P 500 set a record high in the 4th quarter and investment grade credit, high yield and emerging market debt recovered most of the widening that occurred in February and March.
- Treasury yields rose for intermediate and longer maturities in the 4th quarter from record low levels, but the ten-year Treasury remained below 1% at year-end.
- Investment grade corporates, high yield, and EMD spreads narrowed again in the 4th quarter, but could tighten further as the vaccines are distributed and economic activity strengthens.

Pre-and Post-Trough Factor Performance



Source: Credit Suisse, "US Equity Strategy Navigator 2020 Year in Review" (01/04/21)

Data as of 12/31/20.

A Twin Track Market

- 2020 was a truly exceptional year for investors. The pandemic and subsequent policy response drove an asymmetric top-down driven market throughout the year. These macro influences shifted in rather dramatic fashion at times with the consequence of elevated volatility.
- While Quality and Growth factors dominated for the full year, there was a clear inflection in leadership pre- and post-trough with Quality/Growth leading into and during the downdraft, and Value rebounding late-year with the vaccine driven pro-cyclical recovery.
- This, in essence, created a twin track market of haves and have nots throughout the year, reducing the effectiveness of traditional diversification techniques and challenging the lower risk multi-factor quantitative strategies.
- We expect factor volatility will remain high, largely due to the ultra-low interest rate environment. The drop in the discount rate underpinning valuations disproportionately benefited longer duration assets in 2020. The opposite effect would be logical with interest rate increases.

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Current Positioning (as of January 2021)

Global Equity

- Ultra-accommodative monetary policies have further entrenched ultra-low interest rates. As such, we believe equities remain attractive relative to other asset classes from a real yield perspective, especially allowing for growth and liquidity. Conditions are ripe for a rotation into Value. Meanwhile, a supply-demand mismatch for high quality and growth names drove aggregate valuation dispersions wider.
- We do not expect a full-blown mean reversion in broad styles as stocks have behaved broadly in line with their earnings prospects. Though last year's thematically advantaged or pandemic-proof stocks are unlikely to repeat their performance on a wholesale basis as cyclical earnings recover. Returns in aggregate are poised to skew positively, but gains may not match the pace of earnings growth.
- We retain our preference for high quality names given they inherently tend to be compounding in nature. The acceleration of several medium-term drivers (i.e. digital penetration, ecommerce) has not so much pulled forward future demand but rather built a stronger foundation for future growth.
- Company-specific fundamentals are key to selectivity among the value or high beta cyclical set. The relative outlooks and opportunities for oil majors, telecoms and autos in the medium term are increasingly divergent with the latter perhaps having the greatest scope for a positive surprise. Banks retain upside dividend yield potential but regulatory constraints and disintermediation risks persist.
- Further dollar depreciation could have ongoing ripple effects. China may see political frictions with Washington subside, but a significant détente is unlikely. This is also the year that Brexit becomes Breality. Our portfolios lean toward cyclical exposures in Brazil and Europe over China and the UK. Likewise, currency sensitivities and risks can be adequately managed at the portfolio level.

Fixed Income

- The Fed's projection is that the Funds Rate will likely remain near 0% until 2024 and it will aim to achieve inflation moderately above 2% so that inflation averages 2% over time. Most of our portfolios have durations that are very close to the benchmarks.
- Investment grade corporate spreads tightened during the quarter and are back near the level from the beginning of the year. We increased our allocation to corporates in our Core and Core Plus portfolios in the spring and summer when spreads were much more attractive. 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 and continue to add when we find good value.
- High yield spreads have also tightened this quarter. We bought positions in 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 local currency outperforming hard currency. In March, we added numerous positions to our EMD portfolios, but were much less active in the 2nd half of the year. Our focus was on reducing part of our underweight on a few of the higher quality countries and buying higher yielding positions that we feel declined too much in the sell-off earlier in the year. High yield EMD is attractive as compared to investment grade EMD. Our main overweights are in Mexico, Brazil, Ukraine, Turkey, and Argentina.

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