Emerging Markets Equity

Erik Zipf, CFA, Head of Emerging Markets Equity

The exuberant market backdrop evident in the fourth quarter stayed relevant for the first two months of 2021 before volatility set in, questioning its sustainability. Risk seeking behavior is currently being challenged by rising global bond yields, which have been driven by an improved outlook for economic growth and rising inflation. Emerging market investors are currently balancing the good (improved outlook for economic growth) and the bad (higher inflation).

A big tailwind for emerging market equites and financial markets globally has been the excess liquidity provided by global central banks. This excess liquidity has brought down funding rates, increased credit availability and encouraged risk seeking behavior. At the same time, the pandemic has caused dramatic shifts in consumer and business consumption and investment. These shifts have impacted both the supply and demand for goods in a way that is dramatically different than prior economic downturns. A typical economic downturn reveals economic surpluses in a variety of industries that provides a reservoir of resources to allow growth without inflation. This pandemic driven downturn has not created broad surpluses. In fact, supply disruptions have created shortages in a variety of industries from copper to semiconductors. Inflation appears to be picking up as economic growth resumes. Within emerging markets, 19 of the 27 countries we follow have reported rising inflation over the past three months and a few EM central banks have recently increased short-term interest rates.

We believe the potential for reduced central bank liquidity has consequences for investment styles. Unprofitable companies and those with weak business plans have been bid-up by investors looking for the next internet or electric automotive giant. Investors will need to challenge their assumptions as liquidity recedes and funding becomes more costly. Fortunately, there are many companies within the emerging markets universe that trade at reasonable valuations, have strong financial positions and reasonable growth prospects. Many of these companies will benefit as investors shift to beneficiaries of economic normalization and away from companies that were driven by excess liquidity. Our portfolio is geared to companies with better profitability than the benchmark, a strong financial profile, with better cash flow generation and similar long-term growth rates.

The MSCI Emerging Markets index was off to a strong start rising as high as 12% before drifting lower during the first quarter. The early portion of the quarter was driven by the technology sector, particularly internet related stocks. However, rising economic growth prospects, higher interest rates and inflation fears caused a rotation away from high-flying names into economically sensitive stocks such as energy and materials. Defensive sectors such as consumer staples and health care have steadily underperformed.

Exhibit 1: Summary of Portfolio Characteristics

	DuPont Capital Emerging Markets	MSCI Emerging Markets Index
# of Securities	75	1,392
Active Share	68.0	--
Price/Earnings	13.1	19.0
P/E using FY1 Est	11.1	14.8
P/E using FY2 Est	9.8	13.3
Price to Cash Flow	10.9	13.0
Dividend Yield	2.4	1.8
Est 3 Yr EPS Growth	18.6	20.7
Est 5 Yr EPS Growth	15.6	16.8
Price/Book	1.6	2.1
ROE	10.8	9.7
ROA	8.1	7.2
LT Debt to Capital	21.0	21.9
Market Capitalization	128,476	115,551

As March 31, 2021
Source: DuPont Capital

Our portfolio outperformed the benchmark with a shift in market focus from high growth to valuation and profitability. From a country perspective, the portfolio benefited from stock selection in China, Taiwan, and South Africa. Performance in Taiwan benefited from an over allocation to and stock selection within semiconductors, which is experiencing high demand and supply constraints. Contributions within China and South Africa accrued across multiple sectors. Positive relative performance was partially offset by an over allocation to Brazil, where a failure to contain COVID-19 has dampened economic prospects and caused political stress. This has negatively impacted a few of the portfolio's holdings within the country. From a sector perspective, allocation effects were positive across all sectors with the technology sector adding the most to relative performance.

We believe the portfolio is well positioned to outperform and our continued focus on profitability, valuation and sustainable long-term growth should be rewarded as the market backdrop shifts from a liquidity driven market to one driven by improving economic growth

ABOUT OUR FIRM:

DuPont Capital Management is an SEC registered investment advisor based in Wilmington, Delaware. Since the firm's establishment in 1993, we've had a long history of developing global investment opportunities in both traditional and alternative strategies across equity, fixed income and alternative investments. Our investment team structure gives us the ability to be flexible and adapt to changing market conditions. DuPont Capital's focus is delivering consistent investment management results for our clients. Our history of institutional asset management is rooted back to 1942 when our former parent company, DuPont, established a pension plan for its employees. Corteva Inc. succeeded DuPont as sponsor of the DuPont Pension Plan in 2019. DuPont Capital is a wholly owned subsidiary of Corteva and continues to manage the legacy DuPont Pension Plan.

DuPont Capital's President and CEO, Valerie Sill believes in education and diversity of experience as represented in our investment teams which are comprised of PhDs, engineers, medical doctors, and scientists. We believe their global expertise creates a portfolio implementation edge that benefits our clients.

For additional information, please contact:

Mr. William Smith
Managing Director
Business Development and Client Service
(302) 477-6204
Bill.Smith@dupontcapital.com

IMPORTANT DISCLOSURES: