EMERGING MARKETS EQUITY

Erik Zipf, CFA, Head of Emerging Markets Equity

Emerging equity markets continued their steady rise during the second quarter on the back of improving global economic growth expectations and plentiful global central bank liquidity. We believe the path of these two variables will determine emerging market equity performance over the next twelve months.

The global growth component appears to be well positioned for continued advancement. While the year-over-year comparisons will inevitably slow as the starting point moves beyond the quarantine-depressed levels of a year ago, there are supporting factors for a positive economic growth outlook. There is pent up demand across the globe as economies reopen. The U.S. has been first to reopen and is showing signs of solid growth, Europe is beginning its reopening process and emerging markets should reach high vaccination levels sometime during the 2nd half of this year. Low inventories and low levels of fixed investment over the past few years provide an avenue for increased production and capital investment.

The provision of excess central bank liquidity is less predictable. Central banks across the globe, particularly in the developed markets, are still providing large amounts of excess liquidity to their respective financial systems via zero or negative short-term interest rates and large bond buying programs. The impact has driven real interest rates meaningfully below zero, increased risk seeking behavior and created booming global stock markets. This aggressive monetary policy is taking place despite a strong rebound in economic activity and inflation that has moved to above average levels.

Inflation in emerging markets has increased, 24 of the 27 economies we monitor are showing increasing price levels over the past three months. Increasing inflation levels have caused a few central banks to begin changing course on short-term interest rates. Five emerging market central banks have raised interest rates over the past three months, while zero have moved rates lower.

Currently, all eyes are on the U.S. Federal Reserve. U.S. Federal Reserve actions have an outsized impact on emerging markets, given the dominance of the U.S. Dollar in the global economy. Recent comments by the Federal Reserve suggest the planning process for removing excess liquidity from the economy has begun but the implementation is still months into the future.

EXHIBIT 1: SUMMARY OF PORTFOLIO CHARACTERISTICS

	DuPont Capital Emerging Markets	MSCI Emerging Markets Index
# of Securities	73	1,412
Active Share	70.8	--
Price/Earnings	12.6	16.3
P/E using FY1 Est	10.6	13.6
P/E using FY2 Est	9.4	12.9
Price to Cash Flow	10.2	12.4
Dividend Yield	2.5	1.8
Est 3 Yr EPS Growth	15.2	18.2
Est 5 Yr EPS Growth	13.9	15.7
Price/Book	1.6	2.1
ROE	11.8	11.9
ROA	7.8	6.8
LT Debt to Capital	20.3	21.3
Market Capitalization	125,414	111,274

As of June 30, 2021
Source: DuPont Capital

We believe when the current high level of financial stimulus is withdrawn, companies with weak financial positions, low levels of profitability and high valuations will be the most vulnerable to correction. Our portfolio is relatively neutral from a sector perspective but with lower valuations, stronger balance sheets and similar levels of profitability relative to the benchmark.

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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.

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Important Disclosures: