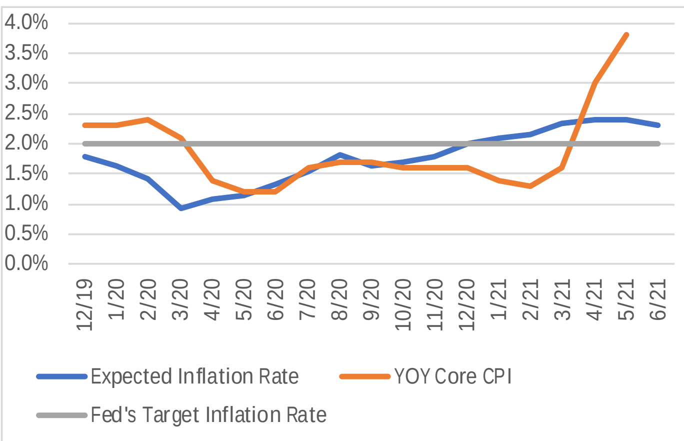
Global Market Positioning

July 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 July 2021)

Inflation

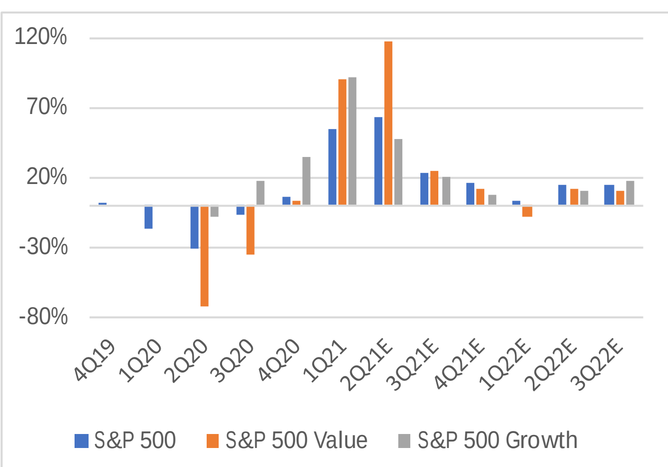


Source: Bloomberg
As of June 30, 2021

Inflation Expectations—Steady for Now

- Inflation expectations held steady above the Fed's 2% target in the 2nd quarter despite actual inflation soaring. The year-over-year Core CPI rose to 3.8% in May, the highest level since 1992.
- Inflation will remain well above 2% over the coming months, but the Federal Reserve believes that the current higher inflation will be transitory and decline toward its target without any rate hikes.
- Treasury yields rose for short maturities and fell for intermediate and longer maturities in the 2nd quarter. The two-year rose from 0.16% to 0.25% and the ten-year declined by 27 basis points from 1.74% to 1.47%.
- The yield curve flattened. The spread between the two-year and ten-year declined from 158 bps at the end of the 1st quarter to 122 at the end of the 2nd quarter.
- Credit spreads tightened across all sectors with investment grade corporates and high yield trading much tighter than long-term averages. EMD sovereigns tightened but are trading almost 50 basis points wider than the end of 2019.

S&P 500 Quarterly EPS Growth Evolution



Source: Citi US Equity Strategy, Tuesday Tidings, 7/2/2021

Walking Down the Up Elevator?

- Near-term earnings recovery has kept pace with - and in many instances exceeded - expectations so far this year. Economic tailwinds have contributed to earnings forecasts globally seeing upgrades of 15% for the current fiscal year and 10% for 2022.
- Momentum remains broadly positive but valuations for and investor positioning within many early or short cycle companies suggest a skew in implied market expectations toward beating, rather than meeting, forecasts.
- As annual growth comparisons normalize into the second half of the year, due to base effects, the relative growth rates of Growth and Value should converge. This is evident in the US market, where re-opening dynamics are ahead of those in other developed regions.
- As further upward corporate guidance becomes incrementally scarcer a more qualitatively discerning approach to pro-cyclical exposure and valuations appears merited.

Valerie J. Sill, CFA, CAIA
President & CEO

Lode J. Devlaminck
Managing Director, Equities

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

Chestnut Run Plaza • Building C735 • 974 Centre Road • Wilmington, DE 19805 • (302) 477-6000

www.DuPontCapital.com

CURRENT POSITIONING (as of July 2021)

GLOBAL EQUITY

- The majority of equity investors – more than 70% according to market surveys – are sanguine about headline inflation, believing the current pressures to be a function of transitory labor market, supply chain, and commodity dynamics. Markets have taken central banks at face value and, in terms of the equity environment, policy normalization ("taper tantrum" risk) now rivals self-reinforcing inflationary risks as a primary source of uncertainty. Data on stimulus-induced higher propensities to save and labor productivity trends also suggest that inflation may be a paper tiger.
- The shift in strategy and positioning we proposed a quarter ago remains largely in place. While we maintain a slight cyclical tilt, we continue to gradually increase the quality exposure of our fundamental portfolios. Even though we expect earnings momentum and estimate revisions to remain strong in the short term, the change in tone of the Fed, the behavior of the bond market and the volatile style leadership within equities are warning signs that the value-favoring and risk-on trade may persist.
- As the turbo-charged recovery phase flattens out – albeit with some broad geographical phasing to remain a feature over the next quarters – we start to consider the medium-term scenario. As structural and secular trends reassert themselves, and if central banks maintain an even-pace of policy of unwinding, we may be heading back to a more pedestrian but shock-absorbing growth scenario, reminiscent of the last upcycle. Certain themes, such as vehicle electrification and ESG considerations, have become more firmly entrenched than last cycle, but growth and quality stocks start to look more attractive on through-cycle return on capital metrics.
- Consistent with the goal of balancing both quality and cyclical tilts within our portfolios, a sharper focus on those companies that boast strong pricing power in their respective businesses is timely. Such cash generative "all weather" investments can hedge any potential inflation risk without the need to be unduly defensive.

FIXED INCOME

- The Federal Reserve changed their forecast and moved the next projected rate hike earlier, but still project that the Funds Rate will likely remain near 0% until 2023. Most of our portfolios have durations that are shorter than the benchmarks.
- Investment grade corporate spreads grinded lower during the quarter and are much tighter than long term averages. We increased our allocation to corporates in 2020 when spreads were much more attractive. We slightly increased our overweight this year as we found a few opportunities. 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 2020 and greatly increased our allocation from March through July of last year due to the much more attractive spread levels. In 2021, we have been selectively adding as we find opportunities with good value.
- High yield spreads continued to tighten this quarter and are much tighter than long term averages with yields around all-time lows. We were very selective in adding positions during the quarter and remain cautious.
- Emerging Markets Debt (EMD) spreads tightened this quarter and performed well. In the spring of 2020, we added numerous positions to our EMD portfolios when spreads widened, but we have been much less active over the last twelve months. We believe that EMD is more attractive than other sectors of fixed income. We mostly favor the high yield portion of EMD. Our main overweights are in Mexico, Brazil, Ukraine, Turkey, and Argentina.

Chestnut Run Plaza • Building C735 • 974 Centre Road • Wilmington, DE 19805 • (302) 477-6000 www.DuPontCapital.com