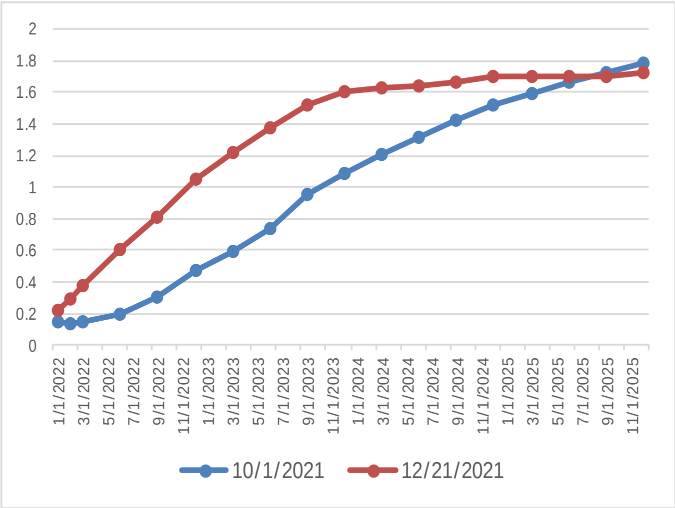
Global Market Positioning
January 2022

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 2022)

Eurodollar Futures

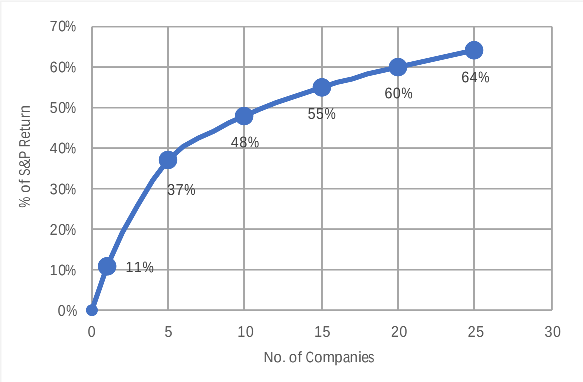


As of December 21, 2021
Source: Bloomberg

Change in expectations for Fed Funds rate

- Investors rapidly began pricing in a more aggressive Federal Reserve in December. This can be seen in several markets, but we are showing the Eurodollar future. The market is pricing in one rate hike by March of 2022 and several hikes over the next year.
- Inflation will remain well above 2% over at least the next six months and maybe longer, and the Federal Reserve has stopped saying that inflation will be transitory.
- Treasury yields rose significantly for shorter maturities in the 4th quarter. The two-year rose from 0.29% to 0.73% while the ten-year was close to unchanged and finished the year at 1.52%.
- Investment grade corporate spreads widened over the quarter while high yield spreads tightened slightly. Investment grade corporates and high yield continue to trade much tighter than long-term averages. EMD sovereigns widened during the quarter and are trading over 70 basis points wider than the end of 2019.

Percentage of 2021 S&P 500 Return Attributable to Top Stocks



As of December 31, 2021
Source: JP Morgan

Concentrated Returns, Inflated Concerns?

- The topics of condensed cyclicality, aggregate inflationary impulses and potential policy responses remain dominant narratives and debates in equity markets.
- Regardless of any shifts in top-down focus or positioning, one aspect of last year's strong overall returns persisted. Once again, a relatively small number of large stocks accounted for much of the S&P500's uplift.
- Ten companies generated half of the total index return and only 5% of constituents were responsible for almost two-thirds of the same total. This degree of concentration is above average of the past thirty years but is far less acute than TMT bubble levels. In the same historical context, valuations of these "heavy lifters" are likewise elevated but not extreme.
- Concentration of market returns is, in isolation, an unreliable indicator of frothy market conditions. In 2022 investors will judge highly profitable and cash generative mega-caps by the same criteria as other market segments and geographies. Wherever positive earnings revisions can be sustained, valuations are likely to remain intact, even if macro factors preoccupy markets.

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Current Positioning (as of January 2022)

Global Equity

- The economic palette is decidedly mixed at present. Investors are contending with a range of economic scenarios that could emerge over the coming months. At the benign end of the spectrum a rapid resolution to supply-side disruptions would help to dampen inflationary pressures before they become entrenched in economic feedback loops. This scenario also provides the Federal Reserve more latitude to tighten policy at a cadence that does not unsettle investors. Broader-based earnings growth would outweigh interest rate sensitivities and valuation risks.
- If supply pressures and labor market shortages persist then inflationary dynamics and the threat of more aggressive monetary policy would loom over the investment landscape. Even in a non-recessionary environment of continued revenue growth for most companies, the prospect of decreasing operational leverage and higher discount rates would weigh on earnings multiples.
- Historically equity markets have typically generated positive returns in the early phases of rising interest rate cycles. We acknowledge that a full encore of last year's strong returns is unlikely, given a more normalized base and conditions for earnings growth on average, and are monitoring the equity risk premia closely across all asset classes.
- A diversified cyclical tilt is recommended for the coming quarters, but to a less outspoken extent than twelve months ago – particularly in end markets where earnings momentum is close to peak levels. Defensive sectors offer some attractive valuation opportunities and some companies among Staples and Health Care could exhibit nimbler or more stealthy pricing power than investors expect. Geographically, both the global outlook for monetary policy and the political landscape in China continue to serve as relative headwinds across or among Emerging Markets.

Fixed Income

- The Federal Reserve increased the pace of tapering their bond purchases in December. Most of our portfolios have durations that are shorter than the benchmarks.
- Investment grade corporates widened during the quarter but remain much tighter than long term averages. We slightly increased our overweight in 2021 as corporate fundamentals remain strong. We favor the basic industry, insurance, energy and consumer cyclical sectors.
- In Long Duration, we had very little exposure to long corporates at the beginning of 2020, but greatly increased our allocation due to the much wider spreads caused by COVID-19. In 2021, we continued to add long corporates as we found opportunities with good value.
- High yield spreads are also much tighter than historical averages. We have been reducing some positions that have performed well and have positioned the portfolio more defensively.
- Emerging Markets Debt (EMD) spreads widened during the quarter. We did not make many changes to our portfolios over the last few months. We are overweight the high yield portion of EMD and believe it is attractive. Our main overweights are in Mexico, Brazil, Argentina, Ukraine, and Turkey.

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