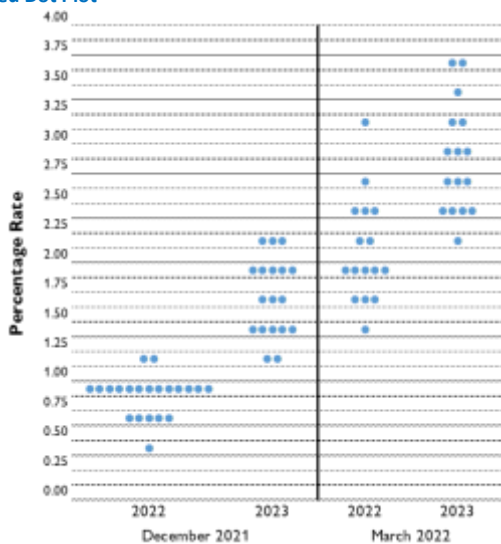




Real-time insight on how DuPont Capital has positioned its portfolios as a function of key factors driving the markets.

KEY MARKET FACTORS (as of April 2022)

Fed Dot Plot

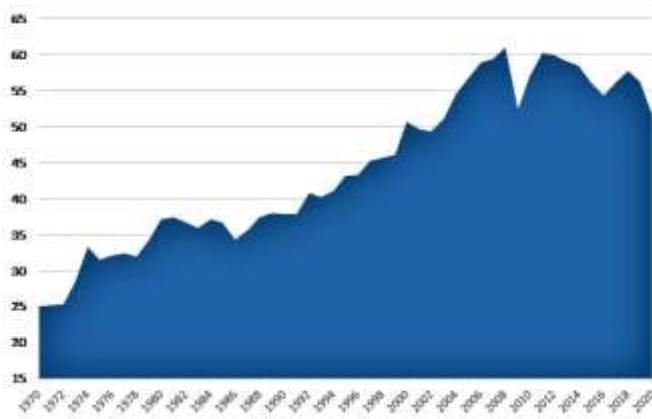


As of March 16, 2022
Source: Federal Reserve Federal Open Market Committee

FEDERAL RESERVE'S FORECAST FOR FEDERAL FUNDS RATE

- ❖ The Federal Reserve hiked rates by 25 bps for the first time since 2018. More importantly, the Fed significantly increased its projections for the Funds Rate.
- ❖ The Fed's media forecast is that the Funds Rate will be close to 2% at the end of this year and 2.75% by the end of 2023.
- ❖ Inflation continued to move up and is at the highest level in 40 years. Inflation should start moving down during the summer but will remain well above the Fed's target until at least next year.
- ❖ Treasury yields rose significantly for all maturities in the 1st quarter. The curve flattened and is inverted between the 5-year and 30-year maturities. The two-year rose from 0.73% to 2.28% while the ten-year rose from 1.51% to 2.32%.
- ❖ All credit spreads widened over the quarter with investment grade moving back to historical averages.

Global Trade as % of Global GDP



As of December 31, 2020
Source: The World Bank Statistics

GOING "GLOCAL"

- ❖ De facto globalization has taken a step back in recent years on the back of U.S.-China trade tensions and subsequent fallout from the pandemic. However, outgrowth in global trade had already converged closer to parity with that of overall GDP during the previous decade. In proportionate terms, the pre-GFC peak in export activity remains a highwater mark.
- ❖ Demographic factors—diminishing wage differentials and converging spending patterns between "producer" and "consumer" countries—have eliminated the marginal gains from offshoring and labor cost arbitrage. Greater focus on corporate carbon footprints also adds scrutiny on relative cost profiles.
- ❖ Persistent supply chain bottlenecks and the war in Ukraine are aggravating factors that increase corporate attention to and action on the strategic security—not just cost efficiency—of their sourcing channels.
- ❖ Strategic shifts in component supply and increasing upstream visibility will take time, but recent experiences will have done nothing to slow those multi-year instincts. Onshoring and technology capex should ensue as "just in time" globalization contends with "just in reach" localization.



Valerie J. Sill, CFA, CAIA
President & CEO



Lode J. Devlaminck
Managing Director, Equities



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

CURRENT POSITIONING (as of April 2022)

GLOBAL EQUITY



- ❖ The risks of slowing growth and structurally higher inflation are weighing more heavily on markets but are far from being definitively resolved. “Known unknowns” include whether equities can see further gains in the face of higher nominal U.S. interest rates and if a soft economic landing is possible, given that real rates are negative and the yield curve flattening. “Unknown unknowns” self-evidently defy precise definition but center largely around the indirect repercussions from geopolitical upheavals.
- ❖ The proximity of hostilities in Ukraine—and higher dependency on Russian fossil fuels—has seen sentiment in Europe turn most sharply negative. However, cyclical headwinds to earnings and momentum are present elsewhere. U.S. monetary tightening is no secret but the end of the era of “cheap money” still needs to be fully digested. China’s pandemic policies remain sporadically draconian and have ripple effects through many industries.
- ❖ We have been adding to some typically more defensive areas like Health Care and using market volatility and oscillations to pick up selected high-quality companies whose fundamentals offer particularly fertile foundations for persistent pricing power in the likely prevailing environment.
- ❖ Certain structural trends—notably digitization and decarbonization themes—maintain relentless progress with the war in Ukraine adding new or further impetus to longer-term investments in defense capabilities, renewable power generation and supply chain security. Tangentially, many of these considerations also entail greater nuance or calibration around ESG topics.

FIXED INCOME



- ❖ The Federal Reserve finally raised the Federal Funds Rate by 25 basis points in March with many more expected over the next two years. Most of our portfolios have durations that are shorter than the benchmarks.
- ❖ Investment grade corporates widened during the quarter and are close to long-term averages. We increased our overweight in 2021 as corporate fundamentals remained strong, but did not make many changes in the first quarter of this year. 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 the pandemic. In 2022, we continue to slowly add long corporates as we find opportunities with good value.
- ❖ High yield spreads widened from January to mid-March but are still much tighter than historical averages. We positioned the portfolio more defensively later last year but are opportunistically adding new positions as we find opportunities.
- ❖ 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, and Turkey.

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