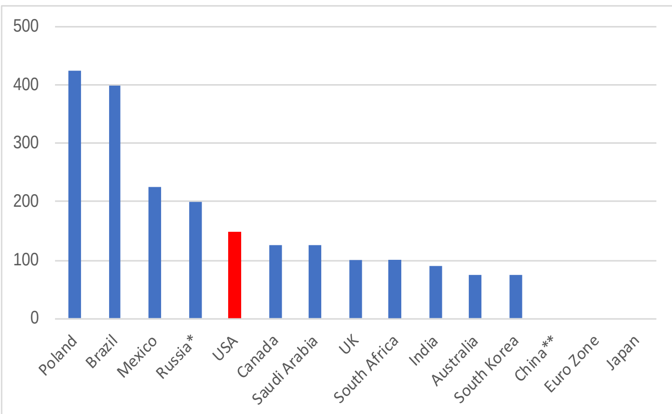
Real-time insight on how DuPont Capital has positioned its portfolios as a function of key factors driving the markets.

Key Market Factors (as of July 2022)

Central Bank Policy Changes YTD (bps)

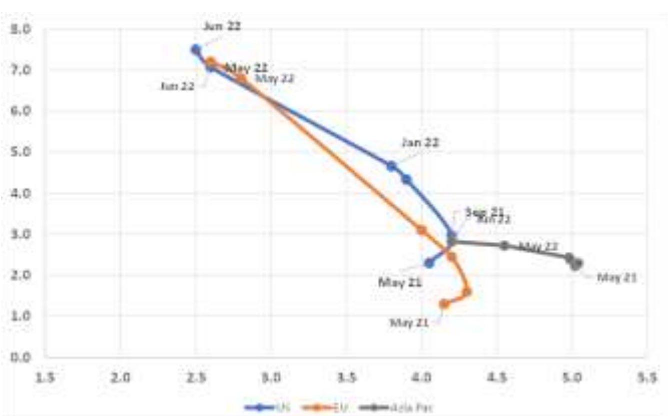


As of June 16, 2022
Source: Bloomberg, FactSet
* Russia cut their Policy Rate by 1,050 bps over the last few months, but the rate is still higher for the year.
** China has not changed their Policy Rate this year, but has lowered their Reserve Requirement Ratio.

Simultaneous Global Monetary Tightening

- Most Central Banks across the globe have been raising rates in 2022. This chart is just a small sample that illustrates the magnitude of tightening by most countries.
- According to FactSet, at least 45 countries have moved rates higher so far in 2022, with more to come. The Eurozone has already announced that rate hikes will commence in July and the U.S. is expected to raise rates by at least another 150 bps this year.
- Inflation remained at the highest level in 40 years. Prices should start moving down later in the summer but will most likely remain well above the Fed's target until at least 2024.
- Treasury yields rose significantly for all maturities in the 2nd quarter. The curve did not change materially and remained very flat. The two-year rose from 2.28% to 2.93% while the ten-year rose from 2.32% to 2.97%.
- All credit spreads widened significantly over the quarter with investment grade moving much wider than historical averages.

World GDP and Inflation Forecasts



X-axis: Global GDP Forecasts
Y-Axis: Global CPI Forecasts
Source: Bloomberg, BNP Paribas Exane Economics Research

Catch '22 Situation

- With both growth and inflation expectations maintaining persistent, even accelerating, downward trends over the past twelve months, a rolling global recession rather than an economic soft landing has become an increasingly plausible scenario.
- Although Europe has fewer economic shock absorbers and saw an earlier downturn in sentiment, consensus forecasts for U.S. GDP and inflation have now "caught up" as monetary policy weighs on discount rates and liquidity. Chinese restrictions weighed on Asia Pacific overall in the past quarter, but the outlook is relatively resilient.
- Much of the first half bearishness in equity markets can be attributed to multiple de-rating among long duration growth or yield-sensitive stocks as real yields inflected. As cross currents between asset classes abate, investor focus will pivot more to earnings risks within equities themselves.
- A major economic slowdown is not yet evident in headline earnings forecasts but the breadth of estimate revisions exhibits a negative trend. Further deterioration and downgrades are from universally discounted given lingering revenue risks and profit margin aggravations.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CURRENT POSITIONING (as of July 2022)

GLOBAL EQUITY

- Central banks are prioritizing, and appear credibly committed to, fighting inflation over promoting additional growth. Tighter monetary conditions have been most evident in the U.S., but central bank hawkishness is notable in the unwinding of unconventional or accommodative measures in other regions.
- We remain alert to the possibility that market leadership could metamorphose, at least partially, once the expectations reset related to inflationary impulses and more normalized monetary policies are fully digested. Overall volatility could remain elevated, although influenced more by growth uncertainty than incremental shifts in treasury yields. Growth stocks will not maintain the upper hand while real rates follow an upward trajectory unless they can deliver meaningful positive earnings surprises. On the other hand, the relative valuation premium in many quality names appears less vulnerable.
- Earnings estimates have begun to roll over – although concentrated around areas of supply chain/ inventory normalization, more circumspect household consumption or specific cost/margin pressures. Further cyclical downward revisions are increasingly likely with the emergence of new recessionary canaries in the coalmine. The severity is less certain than the direction.
- Sensible diversification and selectivity, anchored to a long-term investment horizon, remain the keys to striking a balance between navigating economic pitfalls and minimizing the course correction from proven and sustainable drivers of return.

FIXED INCOME

- The Federal Reserve raised the Federal Funds Rate by 75 basis points in June with 75 more expected in July. With the significant increase in Treasury yields this year, we have moved our Core and Long Duration portfolios to have durations that are close to their benchmarks.
- Investment grade corporates widened during the quarter and are wider than long-term averages. We are selectively buying corporates as we find opportunities. 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 add long corporates as we find companies with good long-term value.
- High yield spreads widened significantly this quarter and are now trading wider than historical averages. We positioned the portfolio more defensively later last year but are 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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