DUPONT CAPITAL

GLOBAL MARKET POSITIONING
October 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 October 2022)

Year-to-Date Returns as of 9/30/2022

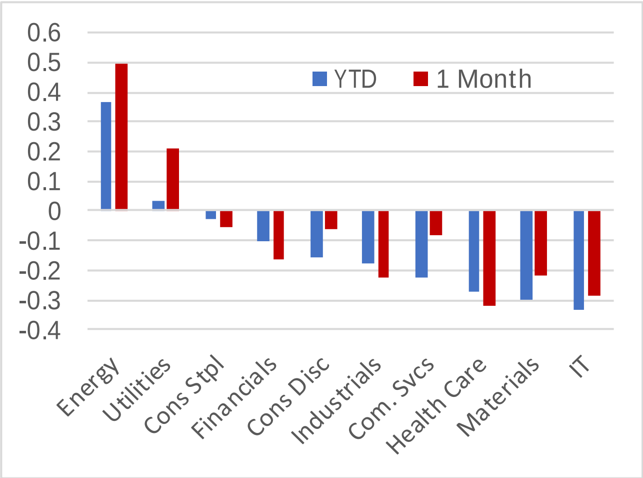
Treasuries	-13.1%
I.G. Corporates	-18.7%
Mortgages	-13.5%
High Yield	-14.7%
S&P 500	-23.9%
U.S. Small Cap	-25.2%
World Ex-U.S.	-26.2%
E.M. Equity	-27.2%
Cash	+0.6%

As of September 30, 2022
Source: Fixed Income Returns – Bloomberg
Equities – S&P and MSCI

NOWHERE TO HIDE BUT CASH

- Returns have been horrible across all segments of fixed income and equities for the first three quarters of 2022.
- The very poor returns were the result of very high inflation and significant monetary tightening across most of the world. The Federal Reserve moved the Funds Rate higher by 300 bps so far this year with possibly an additional 100 to 125 bps coming before year-end.
- Inflation remained very high and is at the highest level in 40 years. Prices should start to moderate soon but will most likely remain well above the Fed's target until at least 2024.
- Treasury yields rose significantly for all maturities and the yield curve flattened in the 3rd quarter. The two-year rose from 2.93% to 4.21% while the ten-year rose from 2.97% to 3.80%.
- Credit spreads did not change materially over the quarter, but yields rose significantly due to higher Treasury yields. Spreads remain wider than historical averages, reflecting weak economic growth.

Sector Earnings Revisions: Net Analyst Upgrades (%)



Source: Citi, Global Equity Strategy, Global Earnings Revisions as of 09/26/2022

REVISION TIME

- Higher yields and economic fragility have propelled the forward earnings multiple on the MSCI World index down from 19x to below 14x. Higher discount rates have already weighed on valuation multiples, with more muted earnings expectations playing a supporting role.
- The lagged effects on previously resilient corporate earnings means that published results and estimates have only recently started to meaningfully rebase within several of the largest market sectors.
- The pivotal scenario question remains whether anything more dire than a vanilla economic slowdown and profits recession – as largely implied by recent derating – is in prospect.
- Energy and Utilities have idiosyncratic and low volatility support respectively. Among other traditional defensive segments, it is noteworthy that Consumer Staples companies are, on average, exhibiting far greater earnings resilience than those in Health Care. Within cyclicals deteriorating momentum since August has broadened within Industrials.
- Moving into the last three months of the year, we see elevated volatility risk as markets digest whether the multiple derating we have seen thus far aligns with the magnitude of proliferating earnings cuts.

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CURRENT POSITIONING (as of October 2022)

GLOBAL EQUITY

- Equities have de-rated significantly during the course of the year, but the key narrative uncertainties remain prevailing and persistent.
- It is likely that, despite earlier complacency, central bank tightening will have the desired effect in slowing the rate and entrenchment of inflation. Having failed to nip 'transient' inflationary pressures in the bud, monetary policies have become fuller throttle in nature. Higher interest rates have weighed on valuation multiples but markets are contending with the extent to which the economic consequences will also pressure earnings over the coming quarters.
- Confidence around earnings and downward revision risks is further complicated by hangover effects from the global upheavals of 2020/21. Lingering supply-side disruptions and atypical consumption patterns create a noisier economic baseline than is usually seen at this point in the cycle.
- Given the low level of sentiment and instinctively risk-averse market environments, further evidence around the trajectory of inflation, policy responses, and high-profile geopolitical risks is necessary to reassure investors that the severity of fallout on corporate profits is adequately reflected.
- Against this cautious backdrop we prefer to maintain a high quality and defensive bias while maintaining an appropriate level of diversification to reflect the reality that industry-level risk characteristics and factor interactions remain in flux.

FIXED INCOME

- The Federal Reserve raised the Federal Funds Rate by 150 basis points in the 3rd quarter and could hike by 100 to 125 bps more by year-end. 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 did not change much during the quarter and are wider than long-term averages. We have been 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 tightened this quarter but are still trading wider than historical averages. We positioned the portfolio more defensively late 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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