DuPont Capital

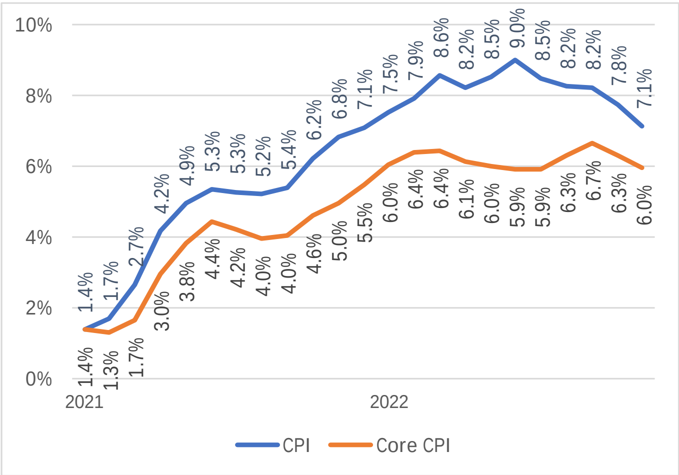
Global Market Positioning

January 2023

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 2023)

CPI YOY

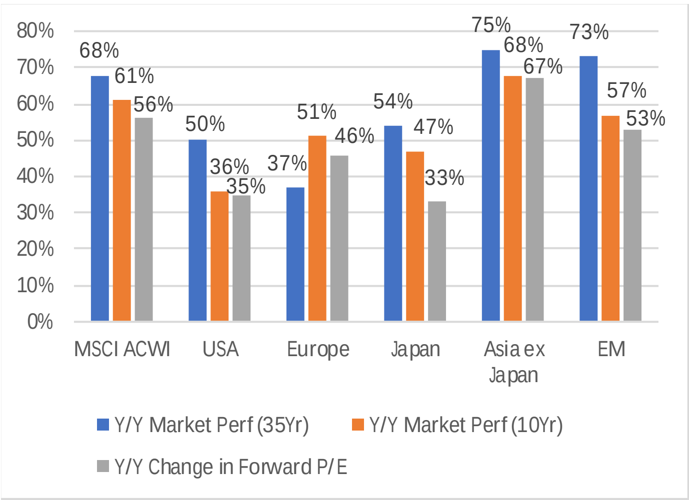


As of November 30, 2022
Source: Bloomberg

Inflation Has Peaked

- Core CPI peaked in September and could decline more than the Federal Reserve expects by the end of 2023.
- The Federal Reserve may stop hiking rates after its March 22 meeting. In 2022, the Fed moved the Funds Rate 425 basis points higher.
- Treasury yields were volatile in the 4th quarter but did not change materially. The ten-year declined from 3.80% to 3.68%. The yield curve remains inverted.
- Credit spreads tightened significantly during the quarter but were still much wider for the year.

Correlation of Estimate Revision Ratios with YoY Market Performance and Forward PE Ratios



Source: BofA Global Research: Global Earnings Revision Ratio, 01/03/2023

Revision Time

- Earnings estimates revisions in aggregate correlate positively with year-on-year equity returns and on average, with movements in valuation multiples over a similar forward-looking horizon.
- At inflection points in the macro cycle –as seen currently – the situation becomes more nuanced. For many cyclical industries, the rate of change in downgrades can be just as instructive as the overall trend direction.
- Monitoring this second derivative effect –are profit downgrades becoming incrementally less severe – helps to gauge near-term sentiment. Markets themselves typically tend to recover ahead of earnings in areas such as Semis, Commodities and Autos.
- For more ostensibly defensive sectors, such as Staples and Telecoms earnings direction and relative valuations remain the primary drivers during periods of market uncertainty. 'Safe haven' status is largely contingent on near-term visibility.
- For growth compounders, excess return opportunities arise when markets underappreciate profit sustainability. If investors misinterpret cyclical downgrades as undue mean-reversion then the rate of change in estimates may be a useful, but less precise or urgent, timing signal.

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CURRENT POSITIONING (as of January 2023)

GLOBAL EQUITY

- The market will continue to be driven by top-down factors, with economic growth and inflation expectations at the core of the debate. Ongoing volatility and potentially large moves in bond yields cannot be excluded and it remains important to be aware of the interest rate sensitivity of portfolios. Lines of sight on a Fed pivot away from further tightening and a trough in the global economic cycle remain the missing triggers for a more synchronized market rally.
- Currently inflation still needs to fall further before Central Banks stop hiking or start loosening. There are encouraging signs, but these are not yet unequivocal. For corporates, earnings estimates are not fully reflecting the negative impact of weaker economic conditions and higher financing costs.
- China's belated re-opening adds to the lack of synchronicity in the global economy. Resultant tailwinds bear watching, but we anticipate impetus for leisure/travel and social infrastructure names over construction exposure.
- Owning a diversified set of steady growth compounders remains a prudent shock absorber against short term macro volatility. Focusing on second derivative changes to estimate revisions can help to decrease pure market beta exposure while diversifying sector-level risk budgets. On this basis, we continue to have a constructive view on Financials and Energy.
- We also advocate using the risk averse environment to rotate into companies that combine cyclical and structural themes elements (such as beneficiaries of energy efficiency, re-shoring, and decarbonization imperatives).

FIXED INCOME

- The Federal Reserve raised the Federal Funds Rate by 125 basis points in the quarter and 425 for the year. 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 corporate spreads tightened during the quarter but are still 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 have been gradually adding to our long corporate allocation as we find companies with good long-term value.
- High yield spreads tightened significantly this quarter and are now trading slightly tighter than historical averages. We positioned the portfolio more defensively early in 2022 but have added new positions as we find opportunities.
- Emerging Markets Debt (EMD) spreads tightened 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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