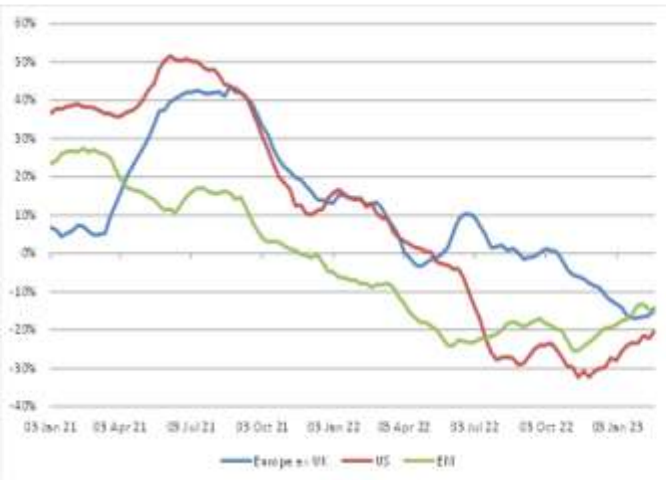
GLOBAL MARKET POSITIONING
April 2023

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 April 2023)

EARNINGS REVISIONS – NET ANALYST UPGRADES BY REGION



Source: Citi Global Strategy Global Earnings Revisions 03/31/2023

ICI All Money Market Funds Total Net Assets in Millions

Source: Bloomberg and Investment Company Institute as of March 29, 2023

INFLATION HAS PEAKED

- Global earnings revisions indicate that estimates in general are incorporating the more fragile economic picture at a steady rate. Across major regions downgrades are outpacing upward revisions by 15-25% in aggregate.
- Geographically the picture is slightly more nuanced by the recent reversal in the US dollar, which is an incremental headwind to Europe relative to the US or Emerging Markets.
- Recent high-profile upheavals in the financial sector betray the fact that many well-capitalized banks remain, via net interest margins, beneficiaries of higher rates. Their relative earnings visibility is better than the market on average, although the sector's dividend and buyback prospects could cool slightly.
- Viewed across other sectors, the breadth of revisions shows remarkably little differentiation and few clear signals. Cyclical categories maintain a negatively dispersed tilt to a similar degree as seen at the start of the year with Consumer categories proving slightly less bad than feared. Notably, Energy's recent deterioration in estimates has brought in line with other economically sensitive groups.

REGIONAL BANK PROBLEMS

- The problems at Silicon Valley Bank and Signature Bank in March have led to concerns about potential problems at other regional banks.
- To the left is a chart that shows that significant money has moved from banks to mutual funds. Early in 2023, the inflows were more about investors increasing yield while the spike in March was due to the banking crisis.
- The reduction in bank deposits will lead to tighter lending standards and potentially more problems for banks.
- Short-term Treasuries were extremely volatile in March and routinely rose or declined by 20 to 30 bps a day between 3/8 and 3/27.
- The Federal Reserve moved the Funds Rate higher by 25 bps in March to 4.75% to 5.0%. The market is pricing in only one more hike before the Fed pauses.
- Treasury yields declined due to concerns about the regional banks spilling over into the economy.

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Current Positioning (as of April 2023)

Global Equity

- Recent high profile and company-specific fault lines have emerged in the financial sector, amplifying risk aversion levels. We believe the overall banking sector remains healthy and do not expect a snowball effect toward structural contagion or crisis.
- These events serve as a reminder that the transition from a decade of ultra-low interest rates is neither swift nor seamless, and markets still need to fully wean themselves from prior assumptions. Ripple effects should be manageable, but it seems reasonable that tighter credit conditions will squeeze growth in coming quarters.
- Recession risks are increasing and the yield curve has inverted; a focus on high quality names can provide a combination of defensiveness or resilient growth. After a year of wholesale inflationary tailwinds, we expect the coming quarters to be an acid test of franchise strength. Analysis of end-market value chains and profit pools tends to be most insightful during periods of weakness.
- As 2023 progresses, environmentally targeted fiscal stimuli in the US and EU should start to contribute more meaningfully to longer-cycle/modernization investment capex. In China, greater selectivity is required as top-down infrastructure spending switches addresses energy efficient, consumer and demographic themes.
- Geographically, we have a top-down preference for Europe over the US given relative valuation and earnings momentum metrics. Europe's cyclical dynamics are arguably more vulnerable to weakening macroeconomic momentum, so prudent diversification of fundamental drivers is required.

Fixed Income

- The Federal Reserve raised the Federal Funds Rate by 50 basis points during the quarter to 4.75% - 5.00%. With the significant volatility in Treasury yields this year, we have kept the durations of our Core and Long Duration portfolios close to their benchmarks.
- Investment grade corporate spreads widened slightly during the quarter and are wider than long-term averages. We have been selectively buying corporates as we find opportunities and have an overweight allocation. We favor the basic industry, insurance, energy, and consumer cyclical sectors.
- High yield spreads tightened over the quarter. Due to the economic uncertainty, we have positioned the portfolio defensively 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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