BNY Mellon Dynamic Value Equity Fund (Class I) underperformed its benchmark, the Russell 1000 Value Index, during the first quarter of 2020. On a sector basis, Financials and Real Estate contributed positively to relative performance while Energy and Utilities were the largest relative detractors.

Positioning and stock selection in the banking segment of the Financials sector was a bright spot in quarterly performance. Similarly, positioning among equity real estate investment trusts (REITS) drove positive Real Estate sector performance. Energy weighed on performance primarily due to challenging stock selection in the oil gas and consumable fuels segment. Challenging stock selection in the electric utilities segment drove underperformance in the Utilities sector. Challenging positioning among the chemicals segment weighed most on sector results.

Alphabet was helped by positive growth in cloud services and solid performance in the company’s legacy search business, including very solid performance in mobile search, drove shares higher. The group performed defensively during the worst of the recent market rout.

Marathon Petroleum traded lower due to the OPEC+ production agreement breakdown in conjunction with COVID-19 driving demand lower. We believe the company maintains high quality assets and a strong balance sheet that can weather any near-term liquidity concerns. Shares in the exploration and production group Hess Corporation also fell in sympathy with weaker energy prices. We continue to believe the company is attractively valued due to its onshore assets and longer-term growth potential in Guyana, which leaves it well positioned to benefit from a rebalancing of supply/demand in the energy markets and an eventual oil price recovery. Delta Air Lines also detracted, with passenger volumes falling in the order of -80% year-over-year due to the national quarantine and social distancing measures. Delta shares declined rather sharply along with the broader industry. The Congressional stimulus legislation passed late in the month earmarks considerable financial support for the airline industry. Delta maintains a strong balance sheet and solid competitive offering, which we believe leaves them well positioned for an eventual recovery.

How is the fund currently positioned and what is your current strategy?

The severity and speed of the market meltdown in March was one of the worst in recorded history, with valuations in certain sectors and industries falling below levels seen in the 2008 global financial crisis. The global response to the COVID-19 pandemic has been dramatic, with much of the global economy coming to a sudden stop due to quarantine and social distancing measures. The goal of such disruption is to flatten the curve of infections and ensure healthcare systems can adequately handle the necessary medical response. More positively, massive globally-coordinated fiscal and monetary stimulus has been deployed to ease conditions until the virus-induced recession is over.
Consensus forecasts for corporate earnings have been slashed and company managements have largely abandoned 2020 guidance. Companies are shoring up their balance sheets and liquidity provisions. Value stocks and high dividend yielding companies have been at the center of volatility. The market has uniformly marked down cyclical-oriented industries dramatically, and many of these businesses already traded at steep valuation discounts before the crisis. We believe value stocks have become even more attractive as they are trading at a significant valuation discount to the market as a whole. In fact, valuation spreads between value and growth stocks recently hit three standard deviations—a level that has occurred just twice since 1952. As a frame of reference, whenever valuation spreads reach two standard deviations historically, the subsequent 12-month outperformance of value has been significant. For our portfolio, we believe there may be a compelling potential for gains as markets normalize.

We believe earnings growth will resume in the second half of 2020 after absorbing a material hit in the first half due to the negative supply and demand shock associated with the virus. As the economy thaws and begins to normalize, the generous stimulus measures coupled with low commodity prices should act as additional tailwinds to the consumer. Signposts for recovery could likely center around data indicating peak COVID-19 cases and the ultimate deceleration in the spread. Such evidence, coupled with the bottoming of depressed lead economic indicators, could underpin the eventual recovery. From a value investing perspective, one of the positive takeaways from such a challenging period is the fact that the prior 10+ year bull market is over. We expect to get through this recessionary period and on the other side would await a new economic expansion – periods that are typically associated with material outperformance of value.

We remain confident in our portfolio positioning and believe the market dislocation sets up U.S. large cap value stocks to produce attractive absolute and relative returns over the next several years.

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. To obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a fund, contact your financial advisor or visit im.bnymellon.com. Investors should read the prospectus carefully before investing. Not all classes of shares may be available to all investors or through all broker-dealer platforms.

Past performance is no guarantee of future results.

Risks

Equities are subject to market, market sector, market liquidity, issuer, and investment style risks, to varying degrees. Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

As of 3/31/20, the fund’s top ten holdings were: JPMorgan Chase & Co. 4.64%, Berkshire Hathaway 4.49%, Medtronic 3.45%, PPL 3.31%, Goldman Sachs Group 2.89%, CF Industries Holdings 2.85%, Alphabet 2.57%, Becton, Dickinson and Company 2.55%, Morgan Stanley 2.41%, Intel 2.26%.

As of 3/31/20, the companies mentioned represented 6.63% of the fund’s portfolio in the aggregate. The holdings listed should not be considered recommendations to buy or sell a particular security. Other holdings may not have performed as well as some of those listed herein. Portfolio composition is subject to change at any time.
The Russell 1000® Value Index is an unmanaged index which measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. Investors cannot invest directly in any index.

Views expressed are those of the adviser stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change.

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