3EDGE ASSET MANAGEMENT

VIEW FROM THE EDGE

OCTOBER 2019

SUMMARY

- Despite the recent lowering of short-term interest rates by the Fed, our model research continues to indicate that **U.S. equities** remain significantly overvalued. Our outlook on **European equities** is more negative due to continuing deterioration in growth prospects. Although prospects for growth remain negative for **Developed Asian equities**, they do represent an undervalued asset class. The outlook for **Emerging Market equities** remains negative due to the slowdown in global growth prospects and the continued weakness in EM currencies.

- Our research indicates an increase in the risk-adjusted projected return for short and intermediate-term **U.S. Treasuries** which reflects the continuing threat of a potential global economic slowdown, relative strength of the U.S. dollar, and positive investor psychology. The model's preference in fixed income is towards U.S. Treasuries and TIPS (Treasury Inflation-Protected Securities), and away from corporate **Credit**.

- Although **Gold** continues to have a positive outlook from low and declining real yields (nominal yields less inflation), a recent shift in investor psychology has slightly reduced its relative attractiveness. The outlook for **Commodities** remains negative as concerns remain elevated regarding a potential global economic slowdown.

From the desks of:

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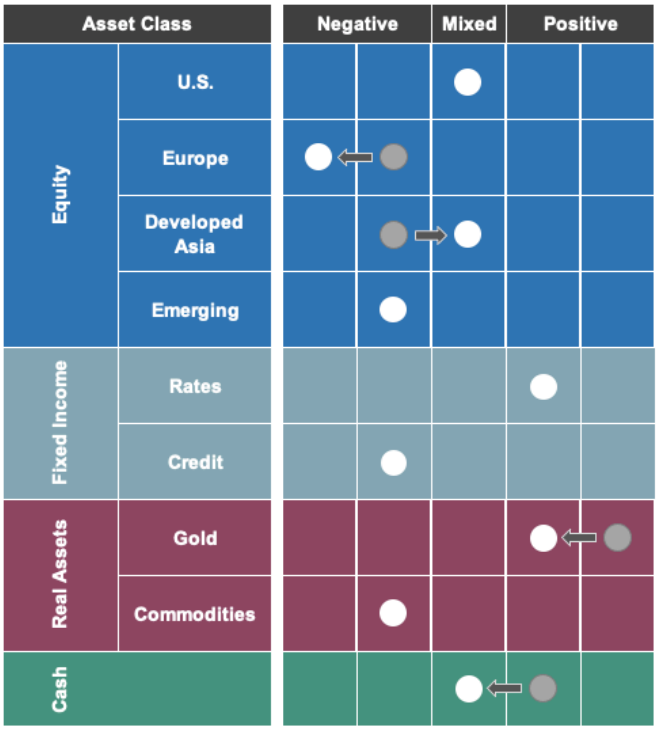
ASSET CLASS VIEWS



ABOUT 3EDGE ASSET MANAGEMENT

3EDGE is a multi-asset investment management firm that utilizes a proprietary model to analyze market valuation metrics (long-term), economic forces (medium-term), and investor behavioral factors (short-term) that we believe drive the global capital markets. Our team of professionals draws on decades of investment management experience and their research in quantitative methods, including system dynamics, machine learning, artificial intelligence, and multi-player game theory to seek to identify undervalued and overvalued asset classes across the globe that may be poised to enter a period of market outperformance or underperformance. While we aim to generate attractive risk-adjusted returns, we also prioritize risk-management in an effort to limit portfolio declines for our clients, particularly during periods of extreme market disruptions. Our clients include individuals, family offices, institutional investors, and registered investment advisors.

OUTLOOK

As we head into the fourth quarter, we are maintaining reduced equity exposure as markets appear vulnerable to a wide variety of potential risks. We recognize that over the long-term investors are typically well served holding a relatively higher allocation to equities. However, our research findings identify three periods during the last century when the U.S. stock market was extremely overvalued based on our measure: 1) prior to the crash of 1929; 2) before the bursting of the tech stock bubble in 2000; and 3) the summer of 2019. History demonstrates that overvalued markets are capable of becoming even more overvalued before correcting. However, in our view the rising risk of significant loss outweighs the potential for what we believe to be limited upside, suggesting a lower U.S. equity allocation.

Despite the recent lowering of short-term interest rates by the Fed, our model research continues to indicate that **U.S. equities** remain significantly overvalued. In addition, signs of slowing global growth, particularly outside the U.S., have generally diminished the outlook for non-U.S. equity markets. Our negative outlook on **European equities** has been reinforced by continuing deterioration in its growth prospects. Although **Developed Asian equities** remain significantly undervalued, economic growth prospects are also constrained. The outlook for **Emerging Market equities** (EM) remains negative due to the slowdown in global growth prospects and the continued weakness in EM currencies.

Our research indicates a modest increase in the risk-adjusted projected return for short and intermediate-term **U.S. Treasuries** as many of the world's major central banks, including the Fed, lower short-term interest rates in an effort to prop up their economies. U.S. Treasuries also benefit from a strong dollar and positive investor psychology. The model's preference in fixed income is towards U.S. Treasuries and TIPS (Treasury Inflation-Protected Securities) and away from corporate **Credit** which currently presents an unattractive risk-return trade-off.

Gold remains an attractive asset class and continues to benefit from low and declining real yields (nominal yields less inflation). However, a recent shift in investor psychology due to a rising U.S. dollar has slightly reduced its relative attractiveness. If the U.S. intervenes to weaken the U.S. dollar in response to a global competitive currency devaluation, gold could benefit. Additionally, gold should continue to act as a hedge during periods of heightened geopolitical uncertainty and / or sustained money printing. The outlook for **Commodities** remains somewhat negative as concerns continue to mount over the potential slowdown in global economic growth, particularly in China.

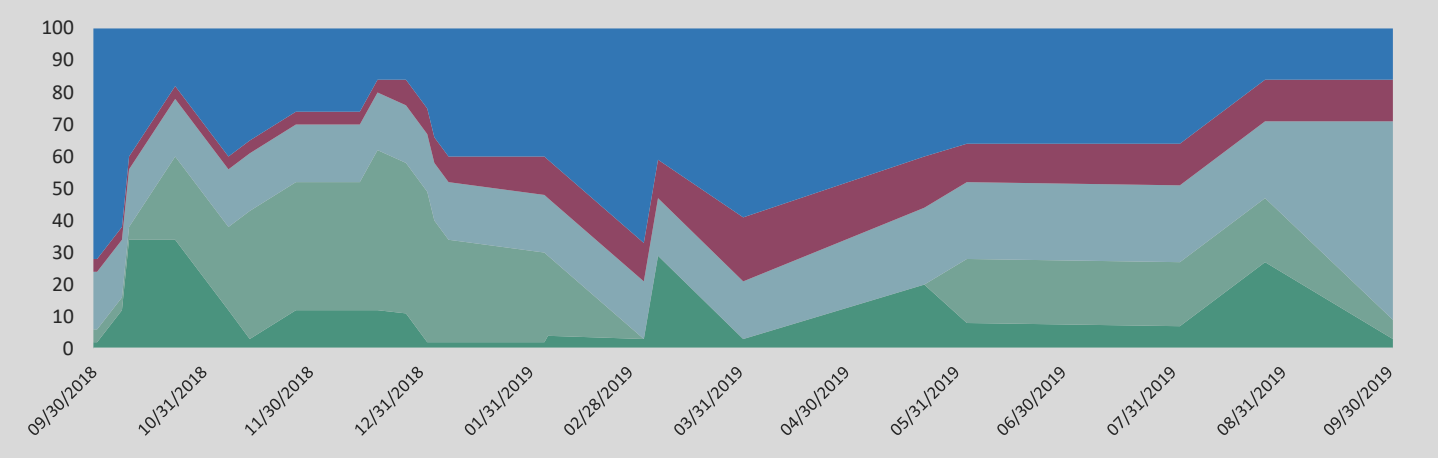
Although **Cash & Equivalents** remain reasonably attractive on an absolute yield basis, our model research indicates a modestly more attractive risk-adjusted projected return for U.S. Treasury bonds.

Commentary as of October 4, 2019

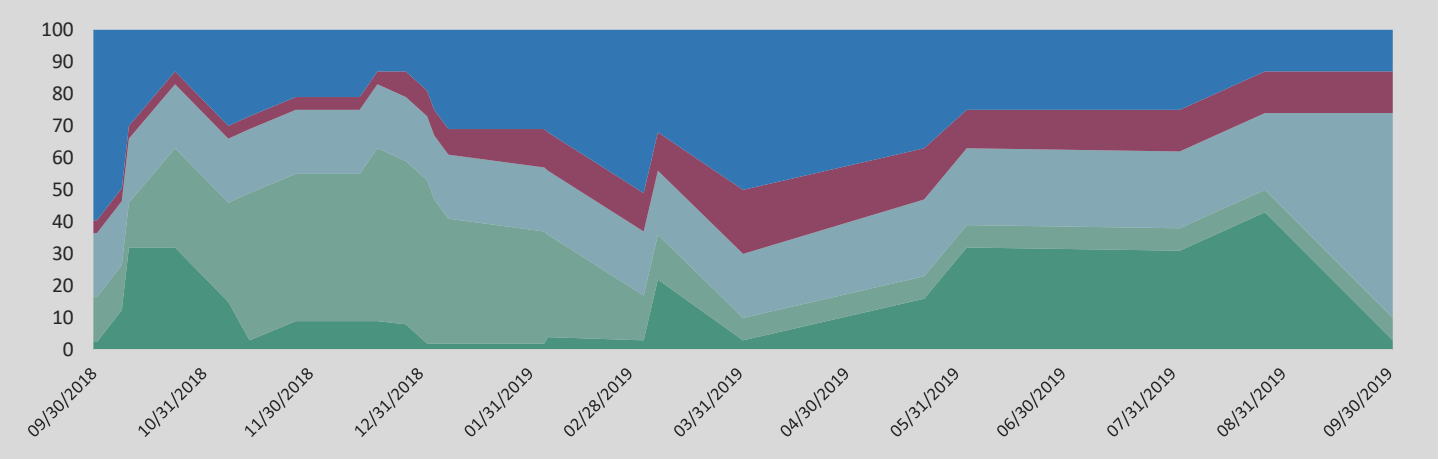
Change to Asset Allocation Across Major Asset Classes

(Trailing 12 Months)

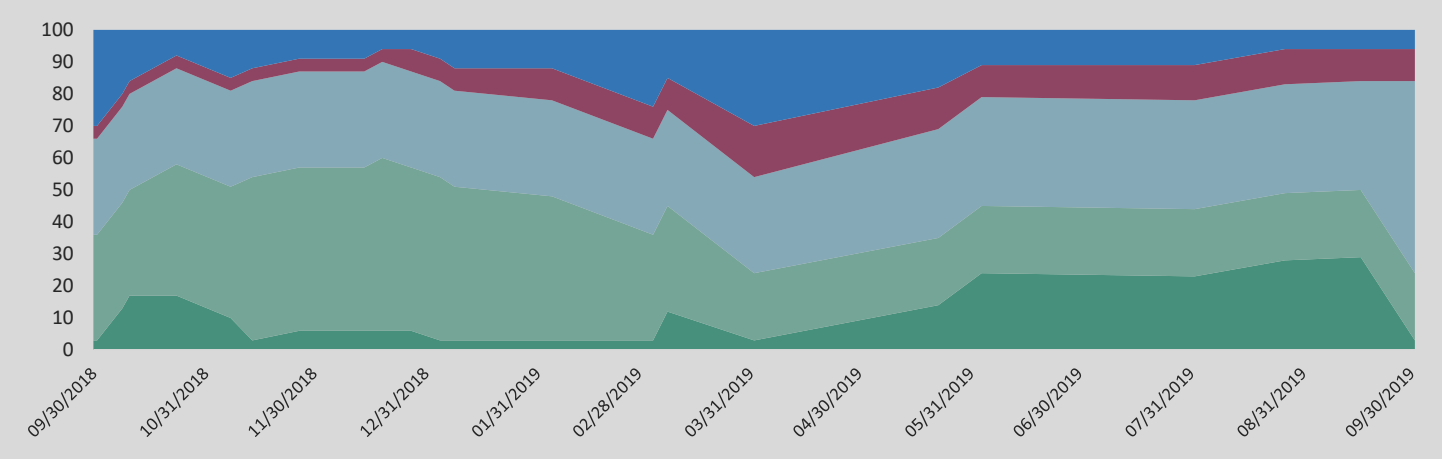
3EDGE Growth Strategy



3EDGE Total Return & ESG Strategies



3EDGE Conservative Strategy



DISCLOSURES: This commentary and analysis is intended for information purposes only and is as of October 4, 2019. Allocations shown above reflect target allocations for the 3EDGE Growth, ESG, Total Return and Conservative Strategies (the "Strategies") as of the date the allocation change was made and individual investor allocations may differ. This commentary does not constitute an offer to sell or solicitation of an offer to buy any securities. The opinions expressed in "View from the Edge" are those of Mr. Folts and Mr. Biegeleisen and are subject to change without notice in reaction to shifting market conditions. This commentary is not intended to provide personal investment advice and does not take into account the unique investment objectives and financial situation of the reader. Investors should only seek investment advice from their individual financial adviser. These observations include information from sources 3EDGE believes to be reliable, but the accuracy of such information cannot be guaranteed. Investments including common stocks, fixed income, commodities and ETFs involve the risk of loss that investors should be prepared to bear. Investment in these Strategies entails substantial risks and there can be no assurance that the Strategies' investment objectives will be achieved. Past performance may not be indicative of future results.

*Cash & Equivalents includes cash, cash equivalents, and money market funds. Fixed Income – Short Duration includes fixed income funds with an average duration of 2 years or less. Fixed Income – Intermediate Duration includes fixed income funds with an average duration of greater than 2 years and less than 10 years. Real Assets (Gold & Commodities) includes precious metals such as gold as well as investments that operate and derive much of their revenue in real assets, e.g., MLPs, metals and mining corporations, etc.

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