3EDGE
ASSET MANAGEMENT

VIEW FROM THE EDGE®

SEPTEMBER 2020

SUMMARY

- While **Emerging Market equities** remain attractive due in part to the weakening U.S. dollar, **Japanese equities** have joined in this attractive outlook. Beyond their relative undervaluation, Japanese equities are benefitting from tightening credit spreads, a steepening yield curve, and positive investor psychology. While still overvalued by our measure, **U.S. equities** continue to benefit from monetary and fiscal stimulus. **German equities** remain modestly positive.

- All areas of the **fixed income** market remain heavily influenced by Fed policy actions keeping the entirety of the fixed income asset class in overvalued territory. **Credit** continues to benefit from narrowing spreads thanks to extraordinary Fed intervention, though risks of a unwind remain which would be a catalyst for significant portfolio derisking.

- A significant weakening of the U.S. dollar in July which continued in August alongside a continued decline in real yields (nominal yields less inflation expectations) maintains the positive outlook on **gold**. The weaker U.S. dollar alongside tightening credit spreads continues to make **Commodities** attractive.

From the desks of:

DEFRED FOLTS III
MANAGING PARTNER,
CHIEF INVESTMENT
STRATEGIST

ERIC BIEGELEISEN, CFA
MANAGING DIRECTOR,
RESEARCH
PORTFOLIO MANAGER

ASSET CLASS VIEWS

Asset Class		Negative		Mixed	Positive	
Equity	U.S.				●	
Equity	Europe				●	
Equity	Developed Asia				● →	●
Equity	Emerging					●
Fixed Income	Rates		●	← ●		
Fixed Income	Credit			●		
Real Assets	Gold					●
Real Assets	Commodities				●	
Short Term Fixed Income & Cash			●			

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

The dollar continued its decline in value against a basket of international currencies in August. The weaker U.S. dollar continues to benefit **Emerging Market equities** since a material portion of EM debt is denominated in U.S. dollars. EM equities also continue to benefit from steepening yield curves and tightening credit spreads - two factors that are also facilitated by the Fed's monetary policy actions. **Japanese equities** join the ranks of the most attractive outlook alongside EM equities this month due to their relative undervaluation vs. other equities, continued tightening of credit spreads making it easier for corporations to borrow and/or rollover debt, a steepening yield curves which is indicative of future potential growth, and a more positive shift in investor psychology. Though, risks remain particularly in light of the recent announcement of Prime Minister Abe stepping down. While still overvalued by our measure, **U.S. equities** continue to be supported by monetary and fiscal stimulus. While **German equities** continue to benefit from their own monetary and fiscal stimulus measures, any changes to their currently steepening yield curves could be a headwind to prospects for further growth.

The entirety of the **bond** market continues to be heavily influenced by policy actions from the world's central banks and in particular the U.S. Federal Reserve Bank. While interest rates continue to hover around all-time lows, August demonstrated the potential for upward movements in yield (decline in price) highlighting the risks to intermediate-term fixed income. This asset class therefore remains in overvalued territory. While, the **credit** markets continue to benefit from narrowing corporate spreads thanks to extraordinary Fed intervention risks remain from the potential for an unwind (widening of spreads) which would be indicative of a risk reversal and may signal a reduction of equity risk as well.

The dramatic weakening of the U.S. dollar in July which continued in August alongside a continued decline in real yields (nominal yields less inflation expectations) continues to provide a positive outlook for **gold**. **Commodities** are also continuing to benefit from the decline in the U.S. dollar as well as the tightening in credit spreads.

Short-Term Fixed Income & Cash typically serves as dry-powder for clients, though much has been deployed to invest in the opportunities presented in Japanese and EM equities, gold, and commodities.

Commentary as of September 1, 2020

DISCLOSURES: This commentary and analysis is intended for information purposes only and is as of September 1, 2020. 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, ETNs and ETFs involve the risk of loss that investors should be prepared to bear. Investment in the 3EDGE investment 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.

*Short-Term Fixed Income and Cash includes cash, cash equivalents, money market funds, and fixed income funds with an average duration of 2 years or less. Intermediate-Term Fixed Income 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.