VIEW FROM THE EDGE®

DECEMBER 2020

SUMMARY

- The outlook for equities broadly is buoyed this month by positive news about vaccines, continued central bank stimulus and the narrowing of credit spreads particularly in the high yield bond market. In addition, **Japanese** and **Emerging Market equities** are also benefiting from steepening yield curve measures. While our model research continues to indicate that **U.S. equities** are overvalued, the benefits of prior monetary stimulus measures continue to be supportive. Strong positive investor psychology has improved the outlook for **European equities**; however, our inverted yield curve measure for the region still weighs negatively on the region. As equity markets hover near all-time highs, risks remain and include the following: the potential for a U.S. Government shutdown this month; nascent global geopolitical tensions centered in Iran, Taiwan, and North Korea; and a worsening resurgence of coronavirus cases with record hospitalizations and deaths which could force more draconian economic restrictions.

- Fed stimulus measures have influenced the **fixed income** market such that the U.S. Treasury market continues to yield less than expected inflation across all durations. Risks remain to a sharp unwind of corporate credit spreads which could negatively impact **credit** and equity markets.

- Negative real yields continue to be supportive for **gold** despite its recent correction. The outlook for **Commodities** is more positive as the potential for a global economic recovery in 2021 takes root through several indicators likely as a response to the positive developments regarding Covid-19 vaccines.

From the desks of:

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ASSET CLASS VIEWS

Asset Class		Negative		Mixed	Positive	
Equity	U.S.				○	
	Europe		● →	○		
	Developed Asia					○
	Emerging					○
Fixed Income	Rates		○			
	Credit			○		
Real Assets	Gold					○
	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

In November global equities enjoyed a very strong month of investment performance driven by positive news about the development of numerous potential coronavirus vaccines and a Presidential election that in the end did not generate a high degree of civil unrest as feared. Another positive signal for the equity markets in November was the fact that high yield spreads narrowed once again. Equities also continue to be on the receiving end of an ample amount of central bank liquidity that is not being absorbed by the real economy and should continue well into 2021. **Japanese** and **Emerging Market (EM) equities** maintain their positive outlook largely due to their steepening yield curve measures and positive investor psychology. Additionally, both regions have generally fared better than the U.S. or Europe with regards to limiting the spread of coronavirus cases. While our model research continues to indicate that **U.S. equities** are overvalued, the benefits of prior monetary stimulus measures by the Federal Reserve and positive investor momentum (fueled in large part by positive news around potential development of efficacious vaccines) continues to be supportive. **German equities** have moved to a more mixed outlook as the negative outlook from our inverted yield curve measure for the region is somewhat offset by the recent positive investor psychology likely driven from planned central bank stimulus measures.

Fed stimulus measures have influenced the **fixed income** market such that the U.S. Treasury market continues to yield less than expected inflation across all durations. Risks remain to a sharp unwind of corporate credit spreads which would negatively impact **credit** and equity markets.

Negative real yields continue to be supportive for **gold** despite its recent correction. The outlook for **commodities** is more positive as the potential for a global economic recovery in 2021 takes root through several indicators likely as a response to the positive developments regarding Covid-19 vaccines.

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

See Disclosures on next page. *Commentary as of December 3, 2020.*

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. 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.

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