3EDGE ASSET MANAGEMENT

VIEW FROM THE EDGE®

FEBRUARY 2021

SUMMARY

- **Japanese equities** remain fairly valued and may benefit from improved growth prospects supported by sustained monetary and fiscal stimulus. **U.S. equity** markets remain overvalued by our measures; however, monetary and fiscal stimulus remains supportive. Should recent increases in short-term interest rates in **Emerging Markets** continue, this could signal a monetary tightening and create a headwind for continued growth. **European equities** remain mixed.

- Even as interest rates have risen somewhat, **U.S. Treasuries** continue to provide an unattractive risk-return trade-off. While the Fed continues to support **credit** markets, risks remain due to the record amount of corporate debt.

- **Gold** continues to be supported by negative real interest rates. **Commodities** remain relatively undervalued and could benefit from an increase in global demand and the potential for further dollar weakness.

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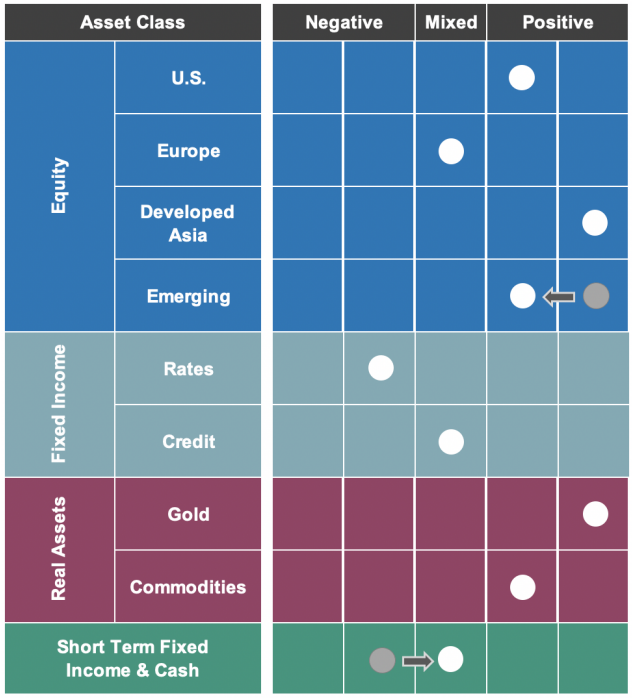
ASSET CLASS VIEWS



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

Our model research continues to find equity asset classes relatively attractive presently thanks to continued monetary and fiscal support and narrowing high-yield credit spreads. **Japanese equities** remain the most attractive equity asset class, benefitting from more reasonable valuations, positive prospects for economic growth and recent positive price momentum. During January, the relative attractiveness of **Emerging Market equities** declined somewhat as a result of an increase in short-term interest rates in China and emerging Asia, but the outlook for EM equities is positive overall. **U.S. equities** remain decidedly overvalued but continue to benefit from monetary and fiscal stimulus, continued tightening of high-yield credit spreads, favorable investor behavior and positive Q4 2020 corporate earnings reports. The outlook for **European equities** is mixed; they are firmly in overvalued territory, but like other equity asset classes also benefit from tightening credit spreads.

Although yields on **U.S. Treasuries** have risen recently, they continue to yield less than the market's expected inflation rate (negative real yields) across all maturities, which presents an unattractive risk-return trade-off. The combination of investors reaching for yield and the Fed's continued tacit support of the **credit markets** (corporate bonds), credit spreads - the difference between corporate and government bond yields – have narrowed even further. However, with record amounts of corporate debt outstanding and with record low yields for high-yield bonds, there is heightened risk that any accident in the financial markets could cause credit spreads to widen abruptly.

The continuing story of negative real yields (nominal yields less expected inflation) and the prospect for additional fiscal stimulus from the Biden administration continue to make **Gold** a relatively attractive asset class provided real yields remain negative. **Commodities** remain attractive due to the longstanding relative undervaluation of real assets, the prospect for U.S. dollar weakness and the potential for an increase in demand from China and the rest of Asia.

Short-Term Fixed Income & Cash typically serves as dry-powder for clients, though much remains deployed in the opportunities presented above.

See Disclosures on next page. Commentary as of February 2, 2021.

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