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3EDGE ASSET MANAGEMENT

View From the EDGE®

Monetary and Fiscal Stimulus Continues to Fuel Equity Market Bubble

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Asset Class	Negative		Mixed	Positive	
Equities:					
U.S.				■	
Europe			■		
Dev. Asia					■
Emerging				■	
Fixed Income:					
Rates		■			
Credit			■		
Real Assets:					
Gold					■
Commodities				■	
Short Term Fixed Income & Cash			■		

About 3EDGE

3EDGE Asset Management, LP, is a global, multi-asset investment management firm serving institutional investors and private clients. 3EDGE strategies act as tactical diversifiers, seeking to generate consistent, long-term investment returns, regardless of market conditions, while managing downside risks.

The primary investment vehicles utilized in portfolio construction are index Exchange Traded Funds (ETFs). The investment research process is driven by the firm's proprietary global capital markets model. The model is stress-tested over 150 years of market history and translates decades of research and investment experience into a system of causal rules and algorithms to describe global capital market behavior. 3EDGE offers a full suite of solutions, each with a target rate of return and risk parameters, to meet investors' different objectives.

Equities:

- Japanese equities remain the most attractive of the equity asset classes we model. These factors include: more compelling valuations; a steepening yield curve; and a continued narrowing of high-yield credit spreads. The Japanese economy may benefit from improved growth prospects supported by sustained monetary and fiscal stimulus. The potential for improving investor psychology could further enhance the outlook for Japanese equities.
- U.S. equity markets continue to hover around all-time high levels of overvaluation by our measure. However, monetary and fiscal stimulus remains supportive. In addition, high-yield credit spreads continue to narrow as high-yield bond yields decline while investment-grade yields increase in line with the U.S. Treasury market. U.S. equities also continue to benefit, at least in the short-term, from favorable investor behavior which at this point could be described as market euphoria.
- Emerging Market equities are slightly more attractive this month due to a steepening of our yield curve measure in China and narrowing high-yield credit spreads. The steepening of the U.S. yield curve also supports EM equities which typically benefit from easy U.S. monetary policy. However, EM equities remain somewhat overvalued.
- The outlook for European equities is mixed; they remain overvalued, but like other equity asset classes European equities benefit from tightening credit spreads. There are however some early warning signs of inflation rising faster than expected in the European economy which clouds the outlook for European equities somewhat.

Fixed Income:

- In February, interest rates for both U.S. 10-year and 30-year Treasuries continued to move higher as investors prepared for the potential of a strong economic rebound in the second half of 2021 which could trigger an increase in inflationary pressure. Even at these higher yields, U.S. Treasuries represent an unattractive risk-return trade-off as they continue to yield less than the market's expected inflation rate across nearly all maturities. Should interest rates continue to move higher, bond market investors would also face the prospect of capital depreciation.
- Caused in part by investors searching for yield, expectations for economic recovery and the Fed's continued tacit support of the credit markets (corporate bonds), credit spreads - the difference between high-yield and investment-grade bond yields – have narrowed even further. As investors continue to reach for higher yields, prices of the lowest quality (CCC credit) high-yield bonds are actually increasing, as yields have declined to near all-time lows. Furthermore, 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.

Real Assets:

- Although gold has struggled recently, it continues to be supported by negative real (inflation-adjusted) interest rates. Gold could benefit from a major coronavirus relief package from the Biden administration which would raise the prospects of future inflation, especially if the Fed also acts to further repress long-term bond yields. However, sustained downward pressure on the price of gold could encourage further selling and negatively impact the model outlook, at least in the short term.
- Commodities remain attractive due to the longstanding relative undervaluation of real assets. In addition, the prospect of a strong global economic recovery in the second half of 2021 combined with the potential for U.S. dollar weakness could lead to outperformance of real assets going forward.

3EDGE Solutions Designed to Smooth the Ride

Seeking to manage volatility and downside risk while providing the potential to be additive to investment returns

3EDGE Strategies		Potential Use Case
Tactical Multi-Asset Core Solutions		
RISK 22 **Conservative Strategy** Blended portfolio holding predominantly fixed income; also includes equities and real assets	1-3 yrs 	Fixed Income complement or outright replacement
RISK 32 **Total Return Strategy** Blended portfolio holding a mix of equities, real assets and fixed income	>3 yrs 	Blend with existing 60/40 portfolio
ESG Strategy Blended portfolio holding a mix of equities, real assets and fixed income with ESG focused ETFs	>3 yrs 	Blend with existing 60/40 portfolio with ESG focused ETFs
Growth Strategy Blended portfolio with potential for high equity holdings; also includes real assets and fixed income	>10 yrs 	Equity complement or outright replacement
Tactical Multi-Asset Income Solution		
Income Plus Strategy Blended portfolio of traditional equity income and fixed income sources as well as non-traditional sources of income	>3 yrs 	Income replacement strategy targeting a 4% yield with emphasis on minimizing drawdowns
Tactical All Equity Solution		
Equity Plus Strategy Globally diversified equity portfolio with tactical shifts between geography and market capitalization	>3 yrs 	Global equity complement or outright replacement of ACWI holding

Tactical Long/Short Solutions		
Systematic Strategy Pure quantitative representation of 3EDGE model; uses derivatives to hedge exposure	>10 yrs 	Pure representation of model research
Dynamic Strategy Quantitative and qualitative; uses derivatives to hedge exposure	>10 yrs 	Human and Machine inputs for allocations

Long/Short strategies are not suitable for all investors since they have the potential for heightened volatility and significant loss. They may use derivatives to hedge their investments or to seek to enhance returns. Derivatives entail risks relating to liquidity, leverage and credit that may reduce returns and increase volatility. These strategies may also engage in short selling. Selling securities short could result in losses significantly higher than the original investment. Because there is no limit on how much a security's price may rise, securities sold short are subject to an unlimited risk of loss.

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