April 2021

3EDGE
ASSET MANAGEMENT

View From the EDGE®

Equity Market Euphoria Continues – for now

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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:

- U.S. Equities: Major U.S. equity market indices continue to reach all-time highs as well as record levels of overvaluation by our measure. However, even at elevated valuations, monetary and fiscal stimulus remains supportive. In addition, high-yield credit spreads remain narrow. A steepening global yield curve is also a positive development signaling higher growth prospects. U.S. equities also continue to benefit, at least in the short-term, from positive price momentum and favorable investor behavior which could be described as market euphoria. The extreme level of overvaluation of the U.S. equity markets continues to highlight their potential downside risk.
- Japanese equities remain the most attractive equity asset class in our model research. More compelling valuations, a continued narrowing of high-yield credit spreads, a steepening yield curve and sustained monetary stimulus from the Bank of Japan all contribute favorably to this outlook. Japan has dealt with the coronavirus pandemic better than many other countries, and because of its export-oriented economy is well-positioned to benefit from a rebound in global economic activity. The potential for continuing positive investor psychology could further enhance the outlook for Japanese equities as projected 2021 earnings for the companies in the Japan MSCI index are expected to increase dramatically throughout the remainder of 2021.
- European Equities: European companies should continue to benefit from the sustained and extraordinary monetary and fiscal stimulus required to support the region because of a slower recovery from the coronavirus pandemic and inconsistent progress on vaccinations. Also, the recent strength of the U.S. dollar relative to the Euro could be positive for European equities since a material percentage of companies based in Europe export their products worldwide. Lower local exchange rates can help exporters either expand market share and / or profit margins due to the price advantages a lower exchange rate provides.
- Emerging Market Equities: The positive impact of a steepening U.S. yield curve is offset by rising yields on longer-term U.S. Treasuries and a commensurate strengthening of the U.S. dollar, negatively impacting the attractiveness of EM equities. However, emerging market countries and their equity markets should continue to benefit from any additional fiscal stimulus from the U.S. government given the degree to which the U.S. imports from emerging market countries.

Fixed Income:

- In the first quarter of 2021, interest rates on longer-term U.S. Treasuries increased dramatically. 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 further 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 AAA-grade bond yields – continue to narrow. Short-term risks to credit remain as any accident in the financial markets could cause credit spreads to widen abruptly.

Real Assets:

- Although gold has struggled thus far in 2021, it continues to be supported by negative real (nominal rates minus inflation expectations) interest rates. Gold is an asset class than can serve as a critical portfolio hedge against the prospects of future central bank money printing and financial repression over the longer term. Gold could also benefit from continued fiscal stimulus from the Biden administration which could raise the prospects of future inflation, especially if the Fed also acts to further repress long-term bond yields. However, rising real long-term interest rates are currently acting as a headwind for gold in the shorter to intermediate term, and sustained downward pressure on the price of gold could encourage further selling and negatively impact the model outlook.
- Commodities remain attractive due to the longstanding relative undervaluation of real assets and the prospect of a strong global economic recovery in the second half of 2021. Other factors positively impacting real assets include; appreciation of the Chinese yuan, narrow high-yield credit spreads, a steepening of U.S. and global yield curves and positive price momentum. These positives are somewhat offset by the increase in the value of the U.S. dollar thus far in 2021.

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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RISK 22 RISK 32 The Risk Number®, a proprietary scaled index developed by Riskalyze to quantify the risk of a portfolio, is calculated based on downside risk on a scale from 1- 99. The greater the potential loss, the greater the number. The Risk Number® includes analysis and proprietary information of Riskalyze. As of 3/31/21. Further information available at Riskalyze.com.

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