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## View From the EDGE® Has Peak-Growth Arrived?

### Equities:

- ▶ **U.S. Equities:** While Fed Chair Powell was able to assuage fears of inflation taking root in the shorter term, concerns regarding more persistent inflation in the U.S. remain. Should this manifest in a more meaningful way it may signal a tighter Fed monetary policy including the potential for reducing their bond buying program (so-called 'tapering') and/or a hike in their interest rate policy earlier than the market currently anticipates. Investors are also concerned about whether the global economy may currently be at or near "peak growth." Risks also remain regarding the inability of Congress and the Biden Administration to take the current infrastructure package over the finish line. A further concern is that U.S. equity market valuations remain near all-time highs by our measure. However, the potential for further upside remains should these risks abate as the backdrop of positively sloped yield curve measures along with their steepening sets up the economy for continued economic growth. Overall, a mixed outlook.
- ▶ **Japan Equities:** While Japanese equities have had neutral year-to-date performance, on a currency hedged basis they have performed much better. Peak-to-trough through the first half of this year, the Japanese Yen suffered a sizable loss of over 8%. Given Japan's heavy reliance on exporting, this currency depreciation should augur well with a lag on the equity component of the economy as foreign buyers of Japanese goods and services are able to buy more product with their respectively stronger currencies. Japan equities are also on the cusp of a behavioral breakout whereby if the market continues to climb it could attract further capital into the region in a virtuous cycle.
- ▶ **European Equities:** As Europe slowly emerges from the global pandemic behind the U.S., it is expected that growth will pick up as it did in the U.S. once vaccinations reach key levels. The European monetary authorities continue to aggressively stimulate the region with few signs of that abating. This should help bolster the region. A key risk to the nascent recovery is the recent uptick in inflation measures which while still fairly well-behaved have a much lower threshold compared to other economies with regard to risks of an abrupt change in monetary programs.
- ▶ **China Equities:** The outlook for China equities remains favorable in the medium-term, given the strong economic ties between China and the U.S. However, concerns regarding the prospects for a more persistent rise in U.S. inflation cloud the shorter-term outlook in China. This is compounded further by recent moves by Chinese authorities on geopolitical matters regarding Taiwan and Hong Kong.
- ▶ **India Equities:** India equity markets continue to be evaluated favorably by our model research. While slow, progress on vaccinations and a reduction from peak case rates is encouraging. As noted previously, upcoming elections should encourage continued highly accommodative monetary and fiscal policies for an extended period and leave room for economic improvement once vaccinations ramp up. An area of concern is the potential for widening credit spreads which we continue to monitor.

### Fixed Income:

- ▶ As noted for sometime, the risk/return trade-off in rates is unattractive with the vast majority of the Treasury curve yielding less than the expected rate of inflation. However, the recent decline in yields alongside the strengthening U.S. dollar with respect the Yen and Euro have helped boost the rates outlook to mixed.
- ▶ The outlook for credit remains mixed. While there has been some widening in high yield and investment grade credit spreads recently, this has been minimal. Credit spreads are near all-time narrow levels and the risks of a rapid unwind, i.e., widening of these spreads, could be damaging to credit holdings and outweigh the benefits of the extra yield pick-up in the shorter-term.

### Real Assets:

- ▶ Gold suffered a setback in June with inflation believed to be short-lived alongside a strong rebound in the U.S. dollar. Behaviorally, gold may face shorter-term headwinds; however, gold continues to be supported in the medium-term by negative and declining real interest rates (nominal rates minus inflation expectations).
- ▶ Like Gold, Commodities may similarly face shorter-term behaviorally-driven headwinds as market participants believe the threat of inflation has receded somewhat. However, Commodities remain attractive in the medium-term due to their longstanding relative undervaluation versus equities as well as the continued prospect for a strong global economic recovery in the second half of 2021. Continued U.S. dollar strengthening would be a headwind for real assets.

Asset Class	Negative	Mixed	Positive
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### Equities:

U.S.		■	
Europe			■
Dev. Asia			■
Emerging		■ ←	■

### Fixed Income:

Rates		■ →	■
Credit			■

### Real Assets:

Gold			■ ←
Commodities			■ ←

Short Term Fixed Income & Cash		■	
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## About 3EDGE











3EDGE Asset Management, LP, is a 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.

# 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
<b>Tactical Multi-Asset Core Solutions</b>		
 <b>Conservative Strategy</b> Blended portfolio holding predominantly fixed income; also includes equities and real assets	1-3 yrs 	Fixed Income complement or outright replacement
 <b>Total Return Strategy</b> Blended portfolio holding a mix of equities, real assets and fixed income	>3 yrs 	Blend with existing 60/40 portfolio
<b>ESG Strategy</b> 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
<b>Growth Strategy</b> Blended portfolio with potential for high equity holdings; also includes real assets and fixed income	>10 yrs 	Equity complement or outright replacement
<b>Tactical Multi-Asset Income Solution</b>		
<b>Income Plus Strategy</b> 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
<b>Tactical All Equity Solution</b>		
<b>Equity Plus Strategy</b> Globally diversified equity portfolio with tactical shifts between geography and market capitalization	>3 yrs 	Global equity complement or outright replacement of ACWI holding
<b>Tactical Long/Short Solutions</b>		
<b>Systematic Strategy</b> Pure quantitative representation of 3EDGE model; uses derivatives to hedge exposure	>10 yrs 	Pure representation of model research
<b>Dynamic Strategy</b> Quantitative and qualitative; uses derivatives to hedge exposure	>10 yrs 	Human and Machine inputs for allocations
<p><i>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.</i></p>		

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