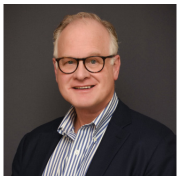
August 2021

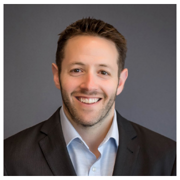
3EDGE ASSET MANAGEMENT

View From the EDGE®

U.S. Payrolls Report Pushes U. S. Treasury Yields Higher and Increases Talk of Fed Tapering



DeFred Folts III
Managing Parter
Chief Investment Strategist



Eric Biegeleisen, CFA
Portfolio Manager
Deputy Chief Investment Officer

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 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:** By our measures the U.S. equity markets remain significantly overvalued as they continue to hover around all-time highs which is indicative of lower expected returns on average over the longer-term. While Fed Chair Powell indicated at the June FOMC meeting that the time had come to begin to consider tapering the Fed's current $120 billion in monthly bond purchases (a potential negative for the markets), he also indicated that it was too early for the Fed to consider raising short-term interest rates. Continued easy monetary policy may be supportive of further gains in U.S. equities. However, weaker than expected growth in the second half of the year due to continuing supply chain disruptions, labor shortages and the recent surge in the coronavirus Delta variant may collectively prove to be a net drag on the economic rebound. Flattening yield curve measures and a recent widening of our high yield credit spread measures heightens the risk of an equity market correction in the near term.
- **Japan Equities:** Based on our current valuation measures Japanese equities remain relatively attractive on a longer-term basis. However, a recent deterioration in our high yield credit spread measure alongside the potential for negative investor psychology has indicated that Japanese equities are currently somewhat less attractive.
- **European Equities:** The European equity markets remain relatively undervalued, particularly in comparison to U.S. equities. Moreover, monetary and fiscal policies in Europe continue to be highly accommodative helping to bolster the region's economic rebound making European equities somewhat more attractive.
- **China Equities:** Chinese equity markets were shaken recently by the Chinese government's crackdown on technology companies and the large private for-profit educational tutoring sector. Negative investor psychology, recent flattening of the yield curve, and widening of our high yield credit spread measure are negatives for the Chinese equity market.
- **India Equities:** Our model research continues to indicate that India equity markets remain attractive on a projected risk-adjusted return basis. The steepening yield curve and low interest rate environment in India are both positive contributors. India is also making better progress on vaccinating their population although this is a huge task which will take time. 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. Two areas of concern in India are increasing inflationary pressures and the potential for widening credit spreads which we continue to monitor.

Fixed Income:

- **Bonds:** Even though the recent decline in interest rates has helped to somewhat boost the outlook for bonds, at current extraordinarily low yields the risk/return trade-off for U.S. Treasury securities is not compelling. In addition, U.S. Treasuries continue to maintain deeply negative real interest rates, meaning that yields are well below inflation expectations.
- **Credit:** The outlook for credit remains mixed. While there has been some widening in high yield and investment grade credit spreads recently, investors' seemingly insatiable search for yield in today's low-rate environment could continue to be supportive of corporate bond markets. However, any trouble in the credit markets could lead to a rapid widening of credit spreads which could prove to be a decidedly negative event for corporate bond holders.

Real Assets:

- **Gold:** The recent decline in real yields (nominal yields less inflation expectations) has improved the relative attractiveness of gold. In addition, although current investor consensus is for inflationary pressures to be transitory, should inflation prove to be more persistent and instead economic growth perhaps more transitory, the U.S. economy could face the prospect of stagflation, which is characterized by slowing economic growth and rising prices (i.e., inflation). Gold represents an asset class that could benefit from potential stagflation.
- **Commodities** have enjoyed strong year-to-date performance, but may face shorter-term headwinds as market participants become more concerned about economic growth prospects particularly in China. In addition, the current consensus among investors that the threat of inflation may have receded somewhat has led to some profit taking in commodities. 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.

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 21 **Conservative Strategy** Blended portfolio holding predominantly fixed income; also includes equities and real assets	1-3 yrs	Fixed Income complement or outright replacement
RISK 30 **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
ESG Aggressive Strategy Blended portfolio with potential for high equity holdings; includes real assets and fixed income with ESG focused ETFs	>10 yrs	Equity complement or outright replacement utilizing 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		
Global Equity Strategy Globally diversified equity portfolio with tactical shifts between geography and market capitalization	>10 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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Intermediate-Term Fixed Income includes fixed income funds with an average duration of greater than 2 years and less than 10 years.

RISK 21 RISK 30 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 7/31/21. Further information available at Riskalyze.com.

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3EDGE Asset Management, 303 Congress Street, Suite 501, Boston, MA 02210

T 844.903.3343 **W** 3edgeam.com