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View From the EDGE®

Are Non-U.S. Equities Poised To Outperform?

Equities:

- ▶ The outlook for **U.S. equities** remains mixed. Valuations continue to be stretched to historically high levels, sparking comparisons to bubbles that have occurred throughout market history. While the Fed insists that recent inflationary pressures will prove temporary, inflation could last longer and become more problematic during the remainder of 2021 and beyond. The U.S. equity market appears to be driven by continued Fed-driven liquidity and a continuing flow of cash and margin dollars from retail investors in a wave of momentum-based investing. Concerns regarding the timing and size of the Fed's tapering of its \$120B per month of bond purchases (quantitative easing) and the corresponding market reaction highlight risks for U.S. equities.
- ▶ **Japan equities** recently reached a five-month high and are continuing to benefit from relatively attractive valuations, positive investor behavior and market momentum. These positives may have manifested as a result of the recent announcement that Prime Minister Yoshihide Suga will not seek a second term, since he has been criticized for his handling of the COVID-19 pandemic in Japan. Lastly, there exists a real possibility that the Bank of Japan may feel compelled to add additional stimulus measures to the Japanese economy.
- ▶ **Europe equity** markets which have rallied year-to-date continue to be supported by monetary stimulus from the ECB and positive investor behavior. However, a risk to this outlook is the continued upward pressure on European inflation which may result in the ECB changing tack by tightening their policies sooner than previously anticipated.
- ▶ The outlook for **China equities** remains mixed. There is a good deal of uncertainty among investors about recent policy decisions by the Chinese government and the potential negative effects that such policies may have on both the Chinese and the global economy. However, much of this may already be priced into Chinese equities and steepening yield curve measures could be a positive sign for the region.
- ▶ **India equities** which recently reached record highs, continue to be bolstered by positive investor psychology, declining short-term interest rates and a commensurate steepening of the yield curve. Accommodative monetary and fiscal policies are expected to continue heading into the upcoming elections. Interestingly on the geopolitical front, the situation in Afghanistan could bring the U.S and India closer together since Pakistan is an ally of the Taliban.

Fixed Income:

- ▶ The risk/return trade-off in **U.S. Treasuries** remains un compelling as the entire Treasury yield curve continues to yield less than the expected rate of inflation.
- ▶ **Credit** spreads remain near all-time low levels - risks of a rapid unwind combined with the very small extra yield pick-up relative to Treasuries suggest an unattractive risk/reward profile for corporate bonds. In addition, should the global economy slow from here, it could cause problems in the high yield bond markets, and we could see high yield spreads widen.

Real Assets:

- ▶ Although **Gold** has struggled thus far in 2021, it remains a relatively attractive asset class and continues to be supported by negative real yields (nominal yields less expected inflation). In addition, concerns around the Delta variant, peak-growth and an uneven recovery in labor markets could delay the Fed's plans to taper and lead to higher gold prices.
- ▶ **Commodities** are now less attractive than they have been in previous months amidst an increase in negative investor psychology towards the asset class. Investors may also be concerned about the recent restrictive government policies in China which may slow the Chinese and overall global economy thereby decreasing demand for commodities. However, commodities remain attractive in the medium to longer-term since they remain relatively undervalued particularly compared to U.S. equities.

Asset Class	Negative	Mixed	Positive
Equities:			
U.S.		■	
Europe			■ ←
Dev. Asia			■ →
Emerging		■	

Fixed Income:	Negative	Mixed	Positive
Rates		■ ←	
Credit		■ ←	

Real Assets:	Negative	Mixed	Positive
Gold			■
Commodities			■
Short Term Fixed Income & Cash		■	

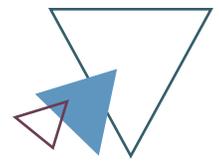
About 3EDGE

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.

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	
<p>Conservative Strategy Blended portfolio holding predominantly fixed income; also includes equities and real assets</p>	<p>1-3 yrs  Fixed Income complement or outright replacement</p>
<p>Total Return Strategy Blended portfolio holding a mix of equities, real assets and fixed income</p>	<p>>3 yrs  Blend with existing 60/40 portfolio</p>
<p>ESG Strategy Blended portfolio holding a mix of equities, real assets and fixed income with ESG focused ETFs</p>	<p>>3 yrs  Blend with existing 60/40 portfolio with ESG focused ETFs</p>
<p>ESG Aggressive Strategy Blended portfolio with potential for high equity holdings; includes real assets and fixed income with ESG focused ETFs</p>	<p>>10 yrs  Equity complement or outright replacement utilizing ESG focused ETFs</p>
<p>Growth Strategy Blended portfolio with potential for high equity holdings; also includes real assets and fixed income</p>	<p>>10 yrs  Equity complement or outright replacement</p>
Tactical Multi-Asset Income Solution	
<p>Income Plus Strategy Blended portfolio of traditional equity income and fixed income sources as well as non-traditional sources of income</p>	<p>>3 yrs  Income replacement strategy targeting a 4% yield with emphasis on minimizing drawdowns</p>
Tactical All Equity Solution	
<p>Global Equity Strategy Globally diversified equity portfolio with tactical shifts between geography and market capitalization</p>	<p>>10 yrs  Global equity complement or outright replacement of ACWI holding</p>
Tactical Long/Short Solutions	
<p>Systematic Strategy Pure quantitative representation of 3EDGE model; uses derivatives to hedge exposure</p>	<p>>10 yrs  Pure representation of model research</p>
<p>Dynamic Strategy Quantitative and qualitative; uses derivatives to hedge exposure</p>	<p>>10 yrs  Human and Machine inputs for allocations</p>
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