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3EDGE
ASSET MANAGEMENT

View From the EDGE®
New Year – New Regime?

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

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:** Last year we identified the early stages of a regime shift, whereby an extended period of falling inflation and interest rates could give way to a period of rising inflation and interest rates; recent events suggest the regime shift may now be underway. The consequence of a regime shift is that assets that underperformed during one regime may have the opportunity to outperform in the new regime while the prior top performers may begin to underperform. Rising interest rates adversely discount future earnings streams, thereby lowering the relative valuation of growth equities, last year's best performers. However, value-oriented equities tend to represent businesses tied more to current economic growth than future projected growth and are relatively less affected by rising rates. The Fed has telegraphed intentions to taper their bond purchases during the first quarter of 2022, raise the Fed Funds Rate sometime after the taper is complete, then consider reducing the size of their balance sheet sometime after their first rate hike in an attempt to pre-empt inverting the yield curve. The speed with which these tightening actions occur remains uncertain, and a more robust inflation-fighting response than the markets expect could trigger an equity market correction during 2022.

- **European Equities:** Inflationary pressure remains elevated across Europe. A nascent widening of investment-grade credit spreads and a narrowing of high-yield credit spreads is indicative of investor appetite for equity risk re-emerging in the region. Our research may indicate a more positive outlook in the near term should this continue.

- **Japanese Equities:** A flattening of the yield curve and widening investment-grade credit spreads are both negative factors for Japanese equities. However, indications of a potential shift in investor psychology to a more positive footing could improve the outlook for Japanese equities if sustained.

- **Chinese Equities:** Inflationary pressures are contributing to a negative outlook for Chinese equity markets. Overleveraged real estate developers in danger of default have caused a spike in high yield corporate spreads threatening overall growth prospects, however these spreads have recently begun to stabilize somewhat.

- **Indian Equities:** A continued widening of the TED Spread in India (the difference between the interest rate that banks charge one another and the interest rate on short-term government debt) is negatively impacting the attractiveness of Indian equities in the short-term. However, the Indian equity markets continue to benefit from relatively benign inflation and attractive long-term prospects for economic growth.

Fixed Income:

- **Bonds:** The specter of inflationary pressure and the potential for interest rates to rise continues to pose a threat to both the level of real (inflation-adjusted) income and the value of bond holdings.

- **Credit:** The outlook for Credit remains uncertain with risks to the downside as credit spreads broadly remain near all-time tight levels suggesting the potential for further upside may be limited.

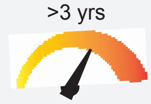
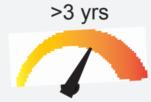
Real Assets:

- **Gold:** Gold remains attractive long-term and is supported by the continuing negative real interest rate environment (nominal interest rates minus expected inflation). Even though monetary tightening by the world's major central banks may present a potential headwind to gold in the near term, gold's attributes as a haven asset and monetary inflation hedge could augur well for gold in an environment of rising prices and increased volatility, especially if any rise in Treasury yields fail to keep pace with rising inflationary expectations.

- **Commodities:** Commodities remain relatively undervalued in our model research and attractive over the longer term. Concerns regarding a potential slowdown in the Chinese economy due to the troubled property developers may be waning, which would help boost the attractiveness of commodities in the near term.

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		
Conservative Strategy Blended portfolio holding predominantly fixed income; also includes equities and real assets	1-3 yrs 	Fixed Income complement or outright replacement
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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