April 2023

3EDGE ASSET MANAGEMENT

View From the EDGE®

Is a Fed Pivot on the Horizon?

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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:** U.S. equities turned in their second consecutive quarter of positive returns. Technology stocks led the way with their best quarter since mid-2020. In addition, during the last weeks of March, the S&P 500 broke above its 200-day moving average. However, the rally in equities has been relatively narrow, meaning that a limited number of individual stocks have pushed the U.S. equity indices higher. U.S. equities also remain significantly overvalued by our measure. Our model research indicates that challenges may lie ahead for U.S. equities which could struggle in the face of an inverted U.S. Treasury yield curve, rising short-term yields, widening credit spreads, and the potential for U.S. economic activity to slow in the second half of 2023 as a result of the Fed's tightening of monetary policy over the past 12 months. Taken altogether, our outlook for U.S. equities remains cautious.

- **European Equities:** European equities enjoyed a solid first quarter outperforming the S&P 500 during the first three months of 2023. European equities remain the most attractive relative to our model's major equity asset classes. However, caution may be warranted as we turn the calendar into the second quarter. Valuations of European equity indices are more favorable than in the U.S. However, valuations have risen with the recent solid performance in the first quarter of 2023. A positive contributor for European equities in the first quarter was the success of the European Central Bank's (ECB) efforts to begin to rein in inflation through tighter monetary policy. However, inflation remains elevated and could turn back up, which may present a headwind for European equities. In addition, as in the U.S., the yield curve in Europe has gone from flat to inverted by our measure, meaning that short-term yields are now higher than long-term yields, which could signal potential economic weakness ahead. Overall, the outlook remains positive, but risks to this outlook have increased.

- **Japanese Equities:** Japanese equities also showed a strong quarter of performance during the first three months of 2023. However, the combination of a negative economic outlook, an inverted yield curve measure, and widening credit spreads mean that the Japanese equity market remains unattractive in the short-to-intermediate term.

- **Chinese Equities:** Chinese equities had a strong start in the first month of 2023; however, they gave much of those gains back in February and March. Our model research indicates that the Chinese economy could face growth challenges in 2023. In addition, we are seeing the widening of credit spreads in China. Lastly, geopolitical tensions between the U.S. and China remain a concern. Therefore, based on our model research, the outlook for Chinese equities has shifted to negative.

- **Indian Equities:** As is the case in many regions, the yield curve in India is inverted by our measures, and this, combined with widening credit spreads, continues to indicate a negative outlook for Indian equities. In addition, valuations, along with economic and market fundamentals in Indian equities, are not compelling, leaving the overall outlook negative.

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Fixed Income:

- **Rates**: During March, in the face of the collapse of Silicon Valley Bank, investors bid U.S. Treasury bond prices higher (bond yields lower), and the consensus among bond traders now seems to be that the Fed, after 12-months of interest rate increases, could be forced to cut interest rates at some point in 2023. In March, the yield on 2-year U.S. Treasuries dropped from approximately 5% at the end of February to around 4% at the end of March – this represents a staggering move in the U.S. Treasury market in such a compressed timeframe. In addition, the U.S. Treasury yield curve (the difference between short-term and long-term U.S. Treasury yields) remains inverted. It may well be that heightened volatility in the U.S. Treasury market may continue for the time being, as investor psychology and momentum play an outsized role in the short-term direction of Treasury bond yields. Therefore, some degree of caution is warranted. Accordingly, we favor short-term Treasuries and TIPS (U.S. Treasury Inflation-Protected Securities).

- **Credit**: The collapse of Silicon Valley Bank has increased credit concerns and caused spreads to widen in both the investment grade and high-yield sectors of the corporate debt markets. Our model research indicates that continued caution is advised when investing in corporate debt.

Real Assets:

- **Gold:** Gold was one of the top-performing asset classes in the first quarter of 2023. The panic caused by the collapse of Silicon Valley Bank and increasing global geopolitical tensions provided examples of the benefits of gold as a haven asset for investors. As the price of gold continues to rise, it may break above crucial technical resistance levels in the near term, at which point investor momentum could push the price of gold higher. In addition, real (inflation-adjusted) interest rates have begun to fall from loftier levels in 2022. Therefore, the outlook for gold remains positive and may even move up a notch in the short term.

- **Commodities:** In the first quarter, commodity prices were volatile, range-bound, and slightly negative. Then, in early April, OPEC announced a surprise move to cut its oil production by over 1 million barrels per day. This move pushed oil prices higher and introduced an increased risk of stagflation since higher oil prices can simultaneously lead to higher inflation and slower global growth. It is unclear whether oil prices will stay elevated if the global economy should slow from here. Some commodities, such as food and agriculture, may also continue to benefit from the dislocation brought on by Russia's invasion of Ukraine and severe weather conditions in many areas of the world. However, in 2023 commodity prices will most likely remain reliant on the growth path of the global economy. Therefore, demand for commodities could be at risk if the monetary tightening by the world's central banks triggers a material economic slowdown or even a global recession. The outlook remains mixed.

For more information about 3EDGE Asset Management or our offerings, please visit our website at 3edgeam.com.

Sources for market data/statistics: Bloomberg, Bureau of Economic Analysis

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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 Crypto Solution		
Crypto Plus Strategy Disciplined approach to investing in crypto currency sources of income	>10 yrs 	Alternative store of value
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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