July 2023

3EDGE
ASSET MANAGEMENT

View From the EDGE®

Fiscal Stimulus Offsets Monetary Tightening (for now)

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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 continued their advance in June, rising over 6% for the month and bringing gains to nearly 17% for the first half of the year, though still failing to offset losses incurred during 2022. The advance was initially driven by a small handful of technology stocks tied to the productivity potential from generative artificial intelligence, but recently it has broadened out a bit to include other sectors. Minutes from the most recent Federal Reserve meeting suggest that more interest rate increases are still ahead as Fed Chair Powell continues to wrestle with sticky inflation while attempting to avoid a recession. While the lagged impacts of monetary policy are long and variable, fiscal stimulus from the over $1.5 Trillion in recent acts passed by Congress continues to be supportive. Eventually this stimulus will run out and the ultimate impacts of the Fed's aggressive rate hiking may be felt. Our model research continues to indicate that U.S. equities remain highly overvalued. The potential for a economic slowdown also remains with a sharply inverted yield curve along with somewhat elevated credit spreads. The outlook remains negative.

- **European Equities:** European equities continue to struggle as the the European Central Bank battles inflation. Accordingly, our model research continues to show headwinds for the region. Despite being somewhat fairly valued, an inverted yield curve measure along with widening credit spreads contribute to our negative outlook.

- **Japanese Equities:** Our model research continues to maintain a positive outlook on Japanese equities, which by our measure are significantly undervalued relative to the S&P 500 while performing nearly as well year-to-date. Unlike the Fed and the ECB, the Bank of Japan (BOJ) continues to maintain a more stimulutive monetary policy, keeping interest rates and the corporate cost of capital relatively low. Overall, Japanese equities present more favorable valuations, a stimulative central bank and positive investor psychology – these factors combined contribute to a positive outlook.

- **Chinese Equities:** Chinese equities are still in negative territory year-to-date, and our model research continues to indicate that the Chinese economy could face continuing economic growth challenges for the remainder of 2023. Although Chinese equities could be seen as attractive from a valuation standpoint, widening credit spreads in China and the U.S. and negative investor psychology towards the Chinese equity markets are weighing on the outlook. Geopolitical tensions between the U.S. and China also remain a concern. The outlook for Chinese equities remains negative.

- **Indian Equities:** The yield curve we construct for India is inverted by our measure, and this, combined with widening credit spreads, continues to indicate a negative outlook for Indian equities, at least in the shorter term. The Reserve Bank of India's attempts to reduce inflation through rate increases have been successful so far, though valuations are not compelling.

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Fixed Income:

- **Rates**: With expectations for continued rate increases by the Federal Reserve, the 10yr bond yield is nearing 4% again. Accordingly, we continue to favor shorter-term U.S.Treasury instruments, which earn an attractive yield with relatively low duration and credit risk and serve as dry powder for opportunities that may lay ahead.
- **Credit**: Our model research remains quite cautious of the corporate credit markets. In the U.S., we are seeing an inverted yield curve, widening credit spreads, and a widening TED spread, all of which, taken together, do not necessarily augur well for the outlook for corporate bonds.

Real Assets:

- **Gold:** Our current long-term outlook remains positive towards gold, and we still believe that in the long run, gold could serve as a better hedge than bonds against a potential downturn in the equity markets. However, our model research indicates that gold could face headwinds in the short term. With further expected increases in short-term rates by the Federal Reserve, we may see real rates (nominal rates less inflation) rise, which would weigh negatively on gold. Over the longer term, should the Fed be forced to revert to a more stimulative monetary policy and once again inject liquidity into the financial system, the value of the U.S. dollar (fiat currency) could weaken and thereby increase the value of gold. Lastly, holding some gold can hedge geopolitical risk in a world marked by heightened tensions. Therefore, our outlook for gold is more cautious in the short-term while still bullish longer term.
- **Commodities:** Our outlook for commodities remains negative, at least in the shorter term. Commodities have struggled thus far in 2023. For the remainder of the year, commodity prices will most likely remain reliant on the growth path of the global economy and economic growth in China in particular. Therefore, commodity demand could be at risk in the face of the lagged impact of monetary tightening by the world's central banks.

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

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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 replace-ment 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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