August 2023

3EDGE
ASSET MANAGEMENT

View From the EDGE®
Central Banks on Parade

DeFred Folts III
Managing Partner
Chief Investment Strategist

Eric Biegeleisen, CFA®
Partner, Deputy Chief Investment Officer

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.

As investors turned the page on July, central bank monetary policy retook center stage. Recently the Fed, the ECB, and the Bank of Japan moved to raise interest rates and tighten monetary policy.

Equities:

- **U.S. Equities:** U.S. equities continued their advance in July, with the S&P 500 rising over 3% for the month. However, it is also true that even with strong year-to-date performance, the S&P is only just closing in on where it finished in 2021. Despite positive news on the inflation front and a seemingly resilient U.S. consumer, the rally in U.S. equities could undoubtedly be described as being in bubble territory and continues to be driven primarily by positive investor sentiment. Consumers and corporations in the U.S. continue to benefit from fiscal stimulus through government programs such as the Inflation Reduction Act, which currently appears to be offsetting the Federal Reserve's monetary tightening. In addition, the effect of monetary tightening and rising interest rates typically operates with a long and variable lag. So, the full impact of the Fed's monetary tightening policy may still lie ahead. Amidst the positive news in the U.S., some cautious signs are also starting to appear, such as a recent report from Bloomberg which indicated that corporate bankruptcies are rising at the second-fastest pace since 2008. The only time since 2008, when the number of corporate bankruptcies was higher, was during the global pandemic. In the face of investor euphoria, we remain cautious, particularly given the significantly inverted U.S. Treasury yield curve, which has a strong track record of signaling future economic weakness and the potential for a recession.
- **European Equities:** The European Central Bank (ECB) recently raised short-term rates by 0.25% to 3.75%, the ninth straight increase by the ECB. Officials at the European Central Bank indicated that with this latest move, they may be near to concluding this tightening cycle should inflation in the Eurozone continue to decline. However, our model research continues to show headwinds for the region. Despite being fairly valued, an inverted yield curve measure is contributing to our negative outlook for European equities.
- **Japanese Equities:** Recently, the Bank of Japan (BOJ) announced that it would gradually loosen its yield curve control policy, and investors considered this move a step towards the ultimate end of Japan's extraordinary decades-long monetary stimulus. Our model research maintains a positive outlook on Japanese equities, which are significantly undervalued relative to the S&P 500. Japan is also enjoying its best economic growth in some time. Inflation peaked at 4% and has since stabilized at 3.3%. Unlike here in the U.S., inflation has been good news in Japan because wages and home prices have risen for the first time in decades. The Bank of Japan's recent move to relax its yield curve control policy could incentivize Japanese investors to begin repatriating their wealth back into Japan's stock and bond markets. However, it is also true that the recent move by the BOJ will decrease the degree of monetary stimulus available in the Japanese financial system for the first time in many years, and we will be watching closely to see the impact of this policy shift.

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- **Chinese Equities**: Chinese equities had a solid month of investment performance during July and finally pushed into positive territory year-to-date. However, our model research indicates that the Chinese economy could face continuing economic growth challenges for the remainder of 2023, and the ability of the government to continue stimulative measures remains uncertain. 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, though it may be on a path to re-steepening. That could become a positive factor in the months ahead. In the shorter term, though, our research maintains a negative outlook for Indian equities. The Reserve Bank of India's attempts to reduce inflation through rate increases have been successful, though valuations remain uncompelling.

Fixed Income:

- **Rates**: 10-year U.S. Treasury bond yields have again broken above 4.0%, while the yield on 3-month U.S. Treasuries is currently over 5.25%. By this measure and the standard that we use at 3EDGE, the yield curve in the U.S. remains significantly inverted. Historically an inversion of the yield curve has been a harbinger of an economic slowdown or recession, and therefore we take this as a signal that caution is warranted. 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 cautious of the corporate credit markets. The inversion of the U.S. yield curve (mentioned above) signals a potential economic slowdown. As we mentioned in the U.S. equity section of this report, corporate bankruptcies are now rising at the second-fastest pace since 2008. Therefore we are cautious in our outlook for corporate bonds.

Real Assets:

- **Gold:** Our current long-term outlook remains positive towards gold, and we 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. If the Fed finds it necessary to continue to increase interest rates in September and beyond to combat inflation, thereby increasing real rates (nominal rates less inflation), it could weigh negatively on gold. Over the longer term, once the Fed ceases its current monetary tightening program and perhaps forced to revert to a more stimulative monetary policy once again injecting 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:** Commodities had a strong month of performance in July but are flat thus far in 2023. For the remainder of the year, commodity prices will 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.

3EDGE Asset Management, 999 Vanderbilt Beach Road, Suite 200, Naples, FL 34108
T 844.903.3343 **W** 3edgeam.com

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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