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3EDGE ASSET MANAGEMENT

View From the EDGE®

Rate Hikes to Rate Cuts?

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Asset Class	Negative		Mixed	Positive	
Equities:					
U.S.		▫ →	■		
Europe		■			
Dev. Asia				■	
EM / 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.

November was a strong month across the board for almost every asset class in what might be best described as an almost everything rally. In the U.S., the S&P 500 increased by over 9%, although still not back to its level of two years ago. Ex-U.S. equities also moved higher, with Japanese equities rising approximately 6% during the month. In the U.S. Treasury market, prices increased dramatically during November as yields on bonds with longer maturities declined. The price of gold rose by around 2.5% in November, and in the first days of December, gold reached an all-time high.

Equities:

- **U.S. Equities:** November was a solid month for the U.S. equity markets as the consensus on Wall Street shifted away from the narrative that the Fed would need to keep interest rates higher for longer to a new consensus that it is done raising interest rates and might even begin to cut rates early in 2024. A potential headwind for the U.S. equity markets is a slight widening in the TED Spread, which is the difference between the risk-free U.S. T-Bill rate and the interbank lending rate, representing the interest rate banks are willing to lend to one another. In addition, the yield curve we measure remains inverted, signaling the potential for slower growth ahead. The outlook for U.S. equities has improved somewhat to be mixed or neutral in the near term, supported slightly by changing investor behavior as measured by our research.

- **European Equities:** European equities also rallied in November. On the positive side, our model research indicates some tightening of credit spreads, positive investor psychology, and equity market momentum in European equities, at least for now. However, our overall outlook for the region remains negative, primarily based on the current shape of the yield curve as we calculate it, which could indicate a potential for an economic slowdown in Europe.

- **Japanese Equities:** Japanese equities increased by approximately 6% during November and are up nearly 16% year-to-date through the end of November. Our model research has identified Japanese small-cap value equities as particularly undervalued. Although our current outlook remains favorable, our model research signals some caution. Our measure of the rate of change of the Japanese yield curve has slowed its recent steepening, which could negatively impact the attractiveness of Japanese equities.

- **Emerging Market / Chinese Equities:** Chinese equities have had a challenging year thus far in 2023 as struggles in the property sector continue. However, our model research currently maintains a favorable outlook as low, but rising short-term yields may indicate the potential for economic stabilization in China and emerging market economies. Chinese and emerging market equities also represent an undervalued asset class. Chinese equities peaked in February of 2021 and have been down over 50% since then, pricing in a substantial amount of bad news. Along with attractive equity valua-

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tions, the Chinese government remains focused on supporting its economy and stock market through stimulus programs and market intervention, which could support Chinese and emerging market equities more broadly.

- **Indian Equities**: India's equity market also rose in November. However, our outlook remains cautious. India's equities remain overvalued, and the yield curve measure that we construct for the region remains a materially adverse factor weighing on India's potential for economic growth in the short term.

Fixed Income:

- **Rates**: In October, investors indicated concern that the Fed would need to keep interest rates higher for longer to combat inflation as the yield on the 10-year U.S. Treasury rose to around 5% intramonth. However, all that seemed to change in November. The same consensus that powered equity markets higher (that the Fed is done raising interest rates and could begin to cut rates early in 2024) helped push U.S. Treasury yields down and bond prices up. Given this dramatic change in consensus and a commensurate shift to more positive investor psychology towards U.S. Treasuries, our model research indicates that some lengthening of duration could be appropriate in the near term. Lengthening of duration also includes intermediate-duration Treasury Inflation-Protected Securities (TIPS). However, given the risks that inflation may persist along with an increasing supply of government debt issuance, shorter maturities that continue to provide attractive yields remain the better part of valor in the U.S. Treasury bond market.

- **Credit**: The inversion of the U.S. yield curve continues to signal the risk of a potential economic slowdown which is not presently reflected in corporate credit spreads. As a result, our outlook for the corporate credit markets remains cautious.

Real Assets:

- **Gold:** The price of gold rose around 2.5% in November, and during the first few days of December, it reached an all-time high. Gold is up approximately 10% year-to-date and has increased in value despite rising real yields. It has remained an attractive asset class throughout the year due to heightened geopolitical risks and significant buying by foreign central banks to become less dependent on the U.S. dollar. Our longer-term outlook towards gold remains positive. In a stagflationary environment, gold could serve as a better hedge than bonds against a potential downturn in the equity markets. It can also be a hedge against continuing geopolitical risks.

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 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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