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3EDGE ASSET MANAGEMENT

View From the EDGE®

Markets at a Crossroads?

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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.

The performance of the global equity markets in the first quarter of 2024 was decidedly positive. The S&P 500 increased by over 10%. European and Japanese equities also kept pace with the performance of the S&P 500 during the first three months of the year. As we begin the second quarter, all eyes remain on the Federal Reserve as investors contemplate when the Fed may start to lower short-term interest rates. Recent data show that the U.S. economy and labor market remain strong, and inflation remains stuck above the Fed's 2% target, at least for now. A 20% increase in oil prices in 2024 has not helped the Fed's efforts to tame inflation. In the final days of March and the early days of April, bond yields rose sharply, with the yield on the 10-year U.S. Treasury reaching its highest level in 2024 though still below the peak of nearly 5% in Q4 last year. A backup in yields amid investor concerns may have prompted Fed Chair Powell's recent comments where he insisted that the Fed still plans to lower short-term interest rates in 2024. The longer the Fed waits to begin to cut rates, the higher the probability of recession later this year, and all else being equal, lowering rates during an economic slowdown too close to an election is something that the Fed presumably would like to avoid.

Equities:

- **U.S. Equities:** After a very strong first quarter, our model research indicates that U.S. equities could be at risk of at least a temporary pullback and a profit-taking correction due to recent changes in behavioral factors.

- **European Equities:** While European economies face many challenges, European equity markets rose, supported by positive investor psychology and declining inflation, and finished the first quarter of 2024 approximately on par with the performance of the S&P 500 index. Investors in Europe are now closely watching the European Central Bank (ECB), which, thanks to declining inflation, could be in a position to begin to cut interest rates in the coming months. The current shape of the yield curve, as we calculate it, indicates a potential for an economic slowdown though rate cuts at the short-end may help the yield curve move in a steepening direction which may provide a boost to the outlook near-term.

- **Japanese Equities:** Japanese equities kept pace with the S&P 500 in the first quarter. However, on a hedged basis, the return on Japanese equities nearly doubled the performance of the S&P 500 with the Japanese yen falling nearly 7% against the U.S. dollar, despite the Bank of Japan finally putting an end to its negative interest rate policy. 3EDGE believes the decline in the yen is, in considerable measure, a result of stronger-than-expected growth of the U.S. economy, which has meant that the Fed hasn't been able to begin lowering interest rates yet. So, now investors are watching to see if the Bank of Japan may need to hike interest rates to defend the yen's value. Therefore, monetary policy could significantly influence Japanese equities in the coming months.

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- **Emerging Market / Chinese Equities:** As is the case in Japan, a robust U.S. labor market and strong GDP growth make it appear that the Fed may need to leave short-term interest rates higher for longer and reduce the number of rate cuts in 2024. This scenario is supportive of the U.S. dollar, which could present a headwind for China and other emerging markets in the short-term. Although the Chinese government has now taken steps to support the economy and the stock market through stimulus programs and market intervention, it is uncertain whether these efforts will be sufficient to satisfy investors and boost Chinese equities.

- **Indian Equities:** Similar to many global equity markets, India's equity markets are benefiting from positive investor psychology and market momentum thus far in 2024. Although India's equity market remains overvalued by our measure, some exposure to Indian equities could be warranted, given its longer-term growth prospects. Also, the Reserve Bank of India, India's central bank, may be inclined to lower short-term interest rates in the near term with inflation measures back in their target range which could provide a boost to the near-term outlook for Indian equities.

Fixed Income:

- **Rates**: U.S. Treasury markets have struggled thus far in 2024. U.S. Treasuries with intermediate and longer-term maturities declined in the first quarter. The strength of the U.S. economy and labor market, along with inflation readings above the Fed's 2% target, have investors concerned about when the Fed may begin to lower short-term interest rates. Market pricing indicates that investors believe the Fed could begin to lower rates at their FOMC meeting in June. The backup in yields may have prompted recent comments from Fed Chair Powell, who insisted that the Fed is still planning to lower interest rates in 2024. 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 more attractive position on the yield curve.

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

Real Assets:

- **Gold:** Gold bullion has kept pace with the performance of the S&P 500 index year-to-date. It has benefitted from positive investor psychology and momentum, an increase in central bank purchases, rising geopolitical tensions, and short covering. The prospect of a decline in real (inflation-adjusted) U.S. interest rates could support continued gains in the price of gold.

- **Commodities:** Based on our model research, the general outlook for most commodities remains negative as investor sentiment in China weighs on the commodities complex. However, one area of the commodities market that has risen over the course of the year is the price of oil, thanks in large part to heightened tensions in the Middle East. Should the value of the U.S. dollar decline, dollar denominated assets such as commodities may benefit.

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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