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View From the EDGE® The Rally in Equities Continues

April was a strong month for global equities, as investors continued to look beyond the current conflict in the Middle East, under the assumption that a negotiated settlement will be reached in the near future and that oil and other key commodities will once again flow through the Strait of Hormuz. However, uncertainty and the threat of escalation remain. All major equity markets we model advanced in April. U.S. stocks, led by the AI trade, and broad-based emerging market equities were both up over 10% last month. While gold and bonds were down on the month, commodities broadly advanced as the price of energy remains elevated, though still quite volatile on the back-and-forth daily headlines.

Equities:

- ▶ **U.S. Equities:** Our mixed to favorable outlook for U.S. equities remains in place. While the threat of an escalation of the conflict in the Middle East remains a possibility, AI-focused firms delivered strong earnings and positive outlooks, contributing to rising animal spirits and crowd behavior. Additionally, we've witnessed tightening credit spreads in U.S. credit markets. Beyond these factors, we'll be closely watching the changing of the guard at the Federal Reserve as Kevin Warsh is set to take over from Chair Powell. Importantly, Powell indicated that he intends to remain at the Fed after his Chairmanship expires this month to advocate for Fed independence.

- ▶ **European Equities:** The outlook for European equities remains negative amid the Middle East conflict and anemic regional growth. Unlike the U.S. Federal Reserve, the European Central Bank's (ECB) primary focus is price stability, suggesting that interest rate tightening may be its next move should global energy prices remain at these levels or rise further. European equities are showing the potential for a breakout to the upside, at least in the short term, should investor psychology measures improve from here.

- ▶ **Japanese Equities:** Just as U.S. market participants have shrugged off the potential longer-term implications of the Middle East conflict, investors in Japanese equities have similarly looked past these risks. There seems to be a resumption of the exuberance surrounding the new prime minister's pro-growth plans for the country. In addition, the government has appeared to draw a line in the sand regarding their currency, the Yen (¥), as they have stepped in recently to intervene at the 160 ¥/\$ level. As discussed previously, an unwinding of the Yen-carry trade remains a risk for global markets. Taken together, though, the outlook has become more positive near-term.

- ▶ **Emerging Market / Chinese Equities:** The outlook for China and Emerging Market equities remains mixed. While China has stayed largely on the sidelines during this conflict, it is beginning to feel the pain of the Strait's closure, as it has recently called for its reopening. The long-awaited Trump-Xi summit had been postponed but is scheduled to take place this month. There will be much to discuss and learn from this summit.

- ▶ **Indian Equities:** Given its dependence on the Middle East for energy resources, India has suffered from the conflict, with energy prices rising and supplies tightening. Negative investor psychology persists, as do several months of widening credit spreads. The outlook remains negative.

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Asset Class	Negative	Mixed	Positive
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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 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.



View From the EDGE®

The Rally in Equities Continues

Fixed Income:

- ▶ **Rates:** Inflation expectations began the year at just over 2%, then rose in March to over 5% as measured by the one-year breakeven inflation rate. In April, the rate quickly reversed course and dropped dramatically to the 3% level. These sharp changes suggest that market participants became less concerned about the effects of the spike in energy prices on the threat of rising inflation. The Fed remains in a tough position with its dual mandate of full employment and price stability, as its crude tool of short-term interest rates must be used in opposite ways to address both in the current environment, i.e., lowering rates to boost employment versus raising rates to combat inflation. Incoming Fed Chair Kevin Warsh, an advocate for a smaller Fed balance sheet, has suggested tracking a different measure of inflation (called the trimmed-mean) that may dampen month-to-month changes, potentially masking actual underlying price changes. Warsh has also expressed confidence that productivity gains from AI will lower future inflation. Currently, futures markets are not pricing in hikes or cuts, but this may change once Warsh takes over – something we will be observing closely.
- ▶ **Credit:** We maintain that corporate credit spreads remain historically tight, making the additional yield over and above so-called "risk-free" U.S. Treasuries unappealing at this time given the risks of rising inflation as well as the potential for a larger global equity market sell-off and economic slowdown, which would potentially harm credit as well.

Hard Assets:

- ▶ **Gold:** We maintain a longer-term favorable outlook for gold, based on excessive U.S. debt levels and the interest burden required to service it. The cost of the war only exacerbates the deficit. Beyond this, countries, whether former friends or foes, continue to diversify away from the U.S. Dollar and Dollar-based assets. Taken together, this is likely to result in longer-term Dollar weakness, which may benefit gold. However, gold nearer-term may be in a consolidation period following its meteoric rise over the past year. Clearer direction from the government on the war, as well as the direction of interest rate policy from the incoming Federal Reserve chair, may help provide clearer signals in the near term on the impact on gold.
- ▶ **Commodities:** Like gold, weakening demand for U.S. Dollars may also benefit commodities, as most commodities are priced in U.S. Dollars. Broad-based commodity exposures may continue to benefit resulting from the supply chain disruption caused by the Middle East conflict. The outlook remains positive.

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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	Risk Intensity	Asset Class Ranges [^]				Potential Use Case
		Equities	Fixed Income	Hard Assets	Short-Term Fixed Inc / Cash	
Tactical Core Solutions						
Conservative Strategy Typical time horizon: 1-3 years		6–30%	10–88%	4–22%	2–80%	Fixed income, core bond, or annuity replacement
Total Return Strategy Typical time horizon: >3 years		13–60%	10–81%	4–35%	2–73%	Traditional 60/40 portfolio replacement
Growth Strategy Typical time horizon: >5 years		20–80%	10–81%	4–35%	2–73%	Growth replacement with an emphasis on minimizing volatility
Tactical Income Solution						
Income Plus Strategy Typical time horizon: >3 years		Equity Income Sources 0–40%	Fixed Income Sources 55–90%	Non-Traditional Fixed Income 5–25%		Income replacement strategy targeting a high yield with emphasis on minimizing drawdowns
Tactical Equity-Focused Solutions						
Aggressive Strategy Typical time horizon: >10 years		60–100%	0%	0–60%	0–60%	Equity complement or outright replacement of equity holdings
Global Equity Strategy Typical time horizon: >10 years		98%	0%	0%	2%	Global equity complement or outright replacement of ACWI holdings
International Equity Strategy Typical time horizon: >10 years		98%	0%	0%	2%	International equity (ex U.S.) complement or outright replacement
U.S. Equity Strategy Typical time horizon: >10 years		98%	0%	0%	2%	U.S. equity complement or outright replacement of S&P 500 holdings
Tactical Crypto Solution						
CryptoPlus Strategy Typical time horizon: >10 years		0%	0%	98%** **crypto ETFs	2%	Alternative store of value (i.e. cryptocurrency holdings in place of gold/real assets)

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