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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®

AI Drives Markets Higher... For Now?

On the heels of a strong April, markets continued to shrug-off the risks of an escalating conflict in the Middle East in May with U.S., international developed and emerging market equities all gaining between 3 and 6% while commodities, gold and bonds all suffered declines. Despite seemingly little to no progress in negotiations, the kinetic attacks have slowed markedly while some ships are making safe passage through the Strait of Hormuz. However, risks of escalation remain as a deal that allows both sides to claim victory may not manifest. Even if a deal is struck, it is unlikely to lead to a recovery in pre-conflict energy prices anytime soon, as (a) it is not likely that supplies will come online quickly, and (b) once oil and gas energy is more available, countries are likely to stockpile in the near-term to prepare for the next event.

Fed Chair Warsh will have his first FOMC meeting later this month which could provide clues regarding how he intends to direct monetary policy. While the market believes the next move may be an interest rate hike, Warsh's preferred inflation measure, the trimmed-mean CPI, would indicate that inflation is well-behaved potentially providing the ammunition for an interest rate cut.

Equities:

- ▶ **U.S. Equities:** Our slightly favorable outlook for U.S. equities remains. While the threat of an escalating and continued conflict in the Middle East as well as excessive overvaluation remain in the U.S., AI-focused firms continue to deliver strong earnings and a solid outlook in an environment of positive investor psychology and tightening credit spreads. Beyond these factors, as noted above, we'll be closely watching Fed Chair Warsh's first FOMC meeting later this month. In addition, we have at least one if not multiple unprecedentedly large mega-IPOs this month, i.e., SpaceX, and potentially both Anthropic and OpenAI, which may be a harbinger of a market top or that the market may climb even higher from current levels.
- ▶ **European Equities:** The outlook for European equities remains negative as a result of the Middle East conflict alongside anemic growth in the region. The European Central Bank's (ECB) primary focus is price stability which suggests that interest rate tightening may be its next move as inflation is heating up in the region largely due to increases in global energy prices.
- ▶ **Japanese Equities:** While Japan has been negatively impacted by the closure of the Strait of Hormuz, investors in Japanese equities have so far shrugged off the potential longer-term implications of the conflict much like market participants in the U.S. There seems to be a resumption of the exuberance surrounding the new prime minister's pro-growth plans for the country, and several Japanese companies serve a key role in the global AI supply chain. In addition, the government has appeared to draw a line in the sand regarding its currency, the Yen (¥), as it has intervened several times recently at the 160 ¥/\$ level. As discussed previously, while an unwinding of the Yen-carry trade remains a risk for global markets, capital flows into Japan would be supportive. Taken together, the outlook remains positive in the near term.

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AI Drives Markets Higher... For Now?

- ▶ **Emerging Market / Chinese Equities:** The outlook for China and Emerging Market equities maintains a mixed outlook. While China has stayed largely on the sidelines during this conflict, it is feeling the pain of the Strait's closure. In addition, the Trump-Xi summit came and went without much substance, leaving the status quo on the table. China equities are showing the potential for a rebound to the upside though it isn't without its risks, i.e., an oversold market can get even more oversold before rebounding. The broader Emerging Market equities have fared much better than China though largely due to a few AI-focused firms in Taiwan and South Korea which has propelled the broader EM indexes higher.
- ▶ **Indian Equities:** Like many others, India has suffered from the Middle East conflict with increases in energy prices alongside tighter supplies. Negative investor psychology remains as does several months of widening credit spread

Fixed Income:

- ▶ **Rates:** Near-term inflation expectations have fallen to 2.7%, which is only slightly above where the one-year breakeven inflation rate stood at the start of the year. Market participants do not seem concerned about the effects of the sharp spike in energy prices as it relates to the threat of rising and/or increased inflation levels despite the latest headline CPI reading climbing to 3.8%. While the Fed remains in a tough position with regard to its dual mandate of full employment and price stability, Fed Chair Warsh's preferred inflation measure, the trimmed-mean CPI, shows that inflation is well-behaved at 2.3%. While the market is anticipating interest rate hikes as the Fed's next move, we'll learn more later this month following Warsh's first FOMC meeting. We have also witnessed a dramatic rise in longer-dated Treasury yields which will likely hurt households, corporations, and the government as the cost of servicing an ever increasing debt burden grows. We continue to favor shorter-term, higher quality issues.
- ▶ **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 triggered by the Middle East conflict which would potentially harm credit as well.

Hard Assets:

- ▶ **Gold:** We maintain a longer-term favorable outlook for gold which is based upon declining real (inflation-adjusted) Treasury yields, accelerating U.S. debt, the rising interest burden to service this debt, and the steps the Treasury and/or the Fed may take to inflate our way out of the debt burden. The cost of the war only exacerbates the debt problem. Beyond this, countries whether formerly friend or foe 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 nearer-term, gold may be in a consolidation period following its meteoric rise since 2022. Clearer direction by the government on the war as well as the direction of interest rate policy by the incoming Federal Reserve chair may help give better signals nearer-term on the impact on gold.
- ▶ **Commodities:** Like gold, weakening demand for U.S. Dollars may also benefit commodities more broadly. Broad-based commodity exposures that contain energy and agriculturally focused commodities may continue to benefit while the Strait of Hormuz remains impassable. 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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