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3EDGE ASSET MANAGEMENT

View From the EDGE®

Can the Fed Stick the Landing?

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.

Equities:

- **U.S. Equities:** U.S. equities rallied to begin the year; however, our model research continues to indicate that despite a material decline in 2022, indices such as the S&P 500 remain significantly overvalued by our measure. The recent decline in longer-term interest rates is a positive factor for U.S. equities, however the rise in short-term interest rates driven by the Fed's monetary tightening is a negative factor, and the combination of these two factors has meant a flattening of the U.S. yield curve which is overall a negative for U.S. equities over the intermediate term. After recently breaking above its 200-day moving average, U.S. equities such as the S&P 500 index may continue to rally for the time being. However, our model research continues to find ex-U.S. equities to be relatively more attractive than their U.S. counterparts.

- **European Equities:** European equities have experienced an even stronger rally than their U.S. counterparts thus far in 2023. In addition, unlike U.S. equities, valuations of European equity indices are more favorable. The European economy has been helped by a decline in the rate of inflation, which our research considers a positive contributor to the relative attractiveness of the European equity markets, at least in the short to intermediate-term. However, the ECB is continuing in its program of raising short-term interest rates and a flattening of the yield curve in Europe is a cautionary indicator from our model research.

- **Japanese Equities:** Japanese Equities have also turned in a strong month of performance in January, however an inverted yield curve measure for the region and widening credit spreads mean that the Japanese equity market remains unattractive in the short-to-intermediate term. While more fairly valued, Japanese equities currently lack a catalyst for investment.

- **Chinese Equities:** Our model research was positive on Chinese equities over the past few months and Chinese equities rallied in the late fall and into the beginning of 2023 as the country emerged from its Zero COVID policy late last year. However, the appreciation of Chinese equities over the past three months has also meant an increase in the price-to-sales ratio for Chinese equities and therefore on a valuation basis they are now relatively less attractive than they were in the fall of 2022.

- **Indian Equities:** The inversion of the yield curve in India, along with widening credit spread measures, continues to indicate a negative outlook for Indian equities. Furthermore, valuations and fundamentals in Indian equities remain uncompelling.

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Fixed Income:

- **Rates**: A decline in longer term U.S. Treasury yields may be indicating that investors have faith in the Federal Reserve's ability to engineer a soft landing and rein in inflation in the U.S. Regardless, the combination of a recent decline in longer-term U.S. Treasury yields, along with the rise in yields of short-term U.S. Treasuries, driven by the Fed's continued monetary tightening, has meant a flattening of the U.S. yield curve which could be a harbinger of an economic recession in the future. In 2022, real yields (nominal yields adjusted for inflation) rose from around -1.0% to +1.5%. Therefore, unlike last year, TIPS now earn a positive real return over and above consumer price inflation while the market's inflation expectations remain anchored well below the current inflation rate. A rise in inflationary expectations could result in further capital appreciation for TIPS investors.

- **Credit**: Our model research indicates that caution continues to be advised in the corporate credit markets. Should the U.S. economy slow and pressure corporate earnings, corporate credit spreads could widen again, hurting both investment grade and junk bonds.

Real Assets:

- **Gold:** Gold has also had a strong start to the year in 2023 and has benefitted from buying by governments and central banks. Gold could also benefit should the U.S. dollar continue to decline in value relative to other of the world's major currencies in 2023. Lastly, gold can act as a haven asset during tumultuous times, such as the current geopolitical uncertainty brought on by Russia's invasion of Ukraine, Chinese behavior towards Taiwan, the tensions between Israel and Iran and uncertainty related to the U.S. government debt ceiling.

- **Commodities:** Commodity prices weakened with the decline in the price of oil which was triggered in part by the U.S. government's drawing down of the U.S. Strategic Petroleum Reserve. However, the U.S. government will now need to refill the SPR. Combined with China's reversal of its Covid Zero policy and the potential restart of the Chinese economy, that activity could increase demand and push oil prices higher in the short term. Some commodities, such as food and agriculture, may also continue to benefit from the dislocation brought on by Russia's invasion of Ukraine and the current severe drought conditions in many areas of the world. In 2023 commodity prices will be reliant on the path of the global economy and at risk if the monetary tightening by the world's central banks triggers a material economic slowdown or even a global recession.

For more information about 3EDGE Asset Management or our offerings, please visit our website at 3edgeam.com.

Sources for market data/statistics: Bloomberg, Bureau of Economic Analysis

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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