# 3EDGE ASSET MANAGEMENT

# *VIEW FROM THE EDGE*

JUNE 2019

## SUMMARY


- Our model research continues to indicate that **U.S. equities** are overvalued. **Emerging Market equities** remain somewhat undervalued, and the prospect of a more dovish Fed could weaken the U.S. dollar, benefiting EM equities. The outlook for both **Japanese and European equities** remains negative.

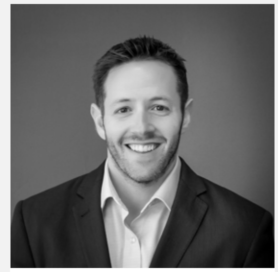
- Our outlook for fixed income (**U.S. Treasury Bonds**) remains stable as offsetting forces continue to influence the value of the U.S. dollar. In terms of **Credit**, high-yield spreads have widened out and are no longer supportive of credit conditions.

- The outlook for **Gold** remains positive as low real yields continue to reinforce Gold's attractiveness. However, the outlook for **Commodities** has shifted from positive to negative as concerns over a potential slowdown in global economic growth have increased and credit spreads have widened.



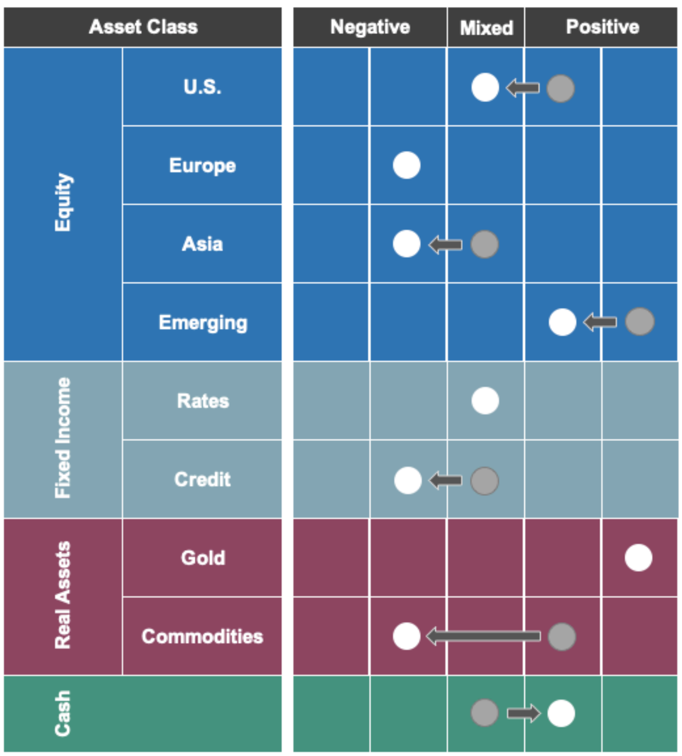
*From the desks of:*

**DEFRED FOLTS III**
MANAGING PARTNER,
CHIEF INVESTMENT STRATEGIST



**ERIC BIEGELEISEN, CFA**
MANAGING DIRECTOR,
RESEARCH


## ASSET CLASS VIEWS




## ABOUT 3EDGE ASSET MANAGEMENT

*3EDGE is a multi-asset investment management firm that utilizes a proprietary model to analyze market valuation metrics (long-term), economic forces (medium-term), and investor behavioral factors (short-term) that we believe drive the global capital markets. Our team of professionals draws on decades of investment management experience and their research in quantitative methods, including system dynamics, machine learning, artificial intelligence, and multi-player game theory to seek to identify undervalued and overvalued asset classes across the globe that may be poised to enter a period of market outperformance or underperformance. While we aim to generate attractive risk-adjusted returns, we also prioritize risk-management in an effort to limit portfolio declines for our clients, particularly during periods of extreme market disruptions. Our clients include individuals, family offices, institutional investors, and registered investment advisors.*

## OUTLOOK

The correction in the global equity markets in May triggered at least in part by the breakdown in U.S.-China trade negotiations has manifested in our model's investor behavioral factor for **U.S. equities** no longer being a positive contributor. This change combined with the flattening of the U.S. Treasury yield curve and the still overvalued state of the U.S. equity markets as we measure it, has led to a decrease in the overall attractiveness of U.S. equities.

Our model research indicates that **Emerging Market equities** remain somewhat undervalued and could benefit from a more dovish Fed with the prospect that the central bank might need to cut interest rates in the face of uncertainty over trade and a potential economic slowdown. Such a move by the fed could benefit EM equities by contributing to a weaker U.S. dollar. However, a material slowdown in global economic growth, perhaps exacerbated by trade tensions, could act to constrain the attractiveness of EM equities.

The outlook for both **Japanese and European equities** remains negative. In both countries, yield curves remain inverted, suggesting limited growth opportunities. While both countries remain undervalued as we measure it, the catalyst for investment remains elusive.

Our outlook for **rates** (or U.S. Treasury Bonds) remains stable. The U.S. Treasury market has reacted to the deterioration in U.S.-China trade negotiations during May as fears of a global economic slowdown triggered an inversion of the U.S. Treasury yield curve to a degree not seen since 2007. In terms of **credit**, while spreads had tightened over previous months, neither high-yield spreads nor the TED spread is currently a positive contributor to the overall attractiveness of credit, as this asset class has become more volatile.

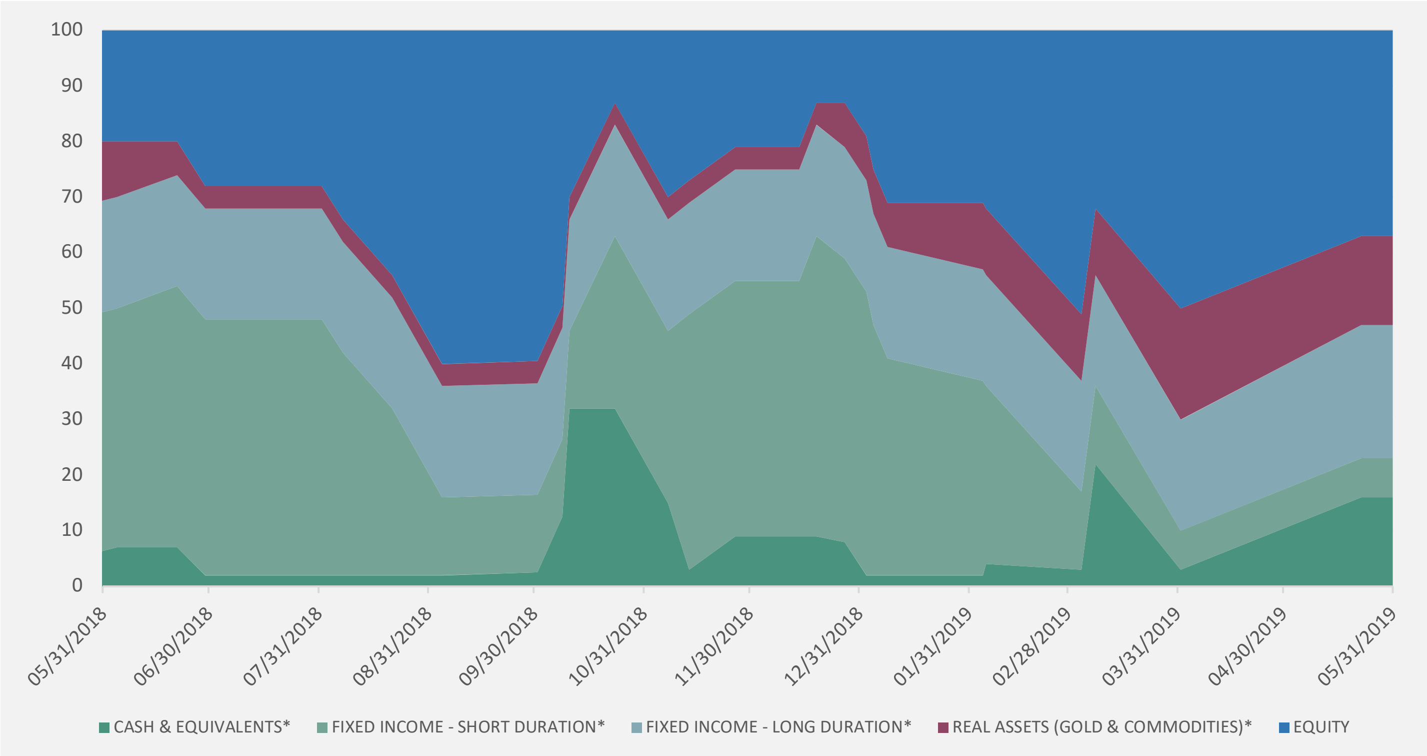
Our outlook for **Gold** remains positive as low real yields continue to reinforce its attractiveness. Also, should global uncertainty continue to increase, it could serve to enhance the case for owning gold as a store of value. The outlook for **Commodities** has now shifted from positive to negative as the downside risks to global growth could impact the demand for commodities such as oil and copper, among others.

**Cash & Equivalents** remain attractive on an absolute yield basis, they have a more attractive relative outlook given the reduced prospects for Emerging Market and U.S. equities, as well as commodities.

*Commentary as of June 5, 2019*

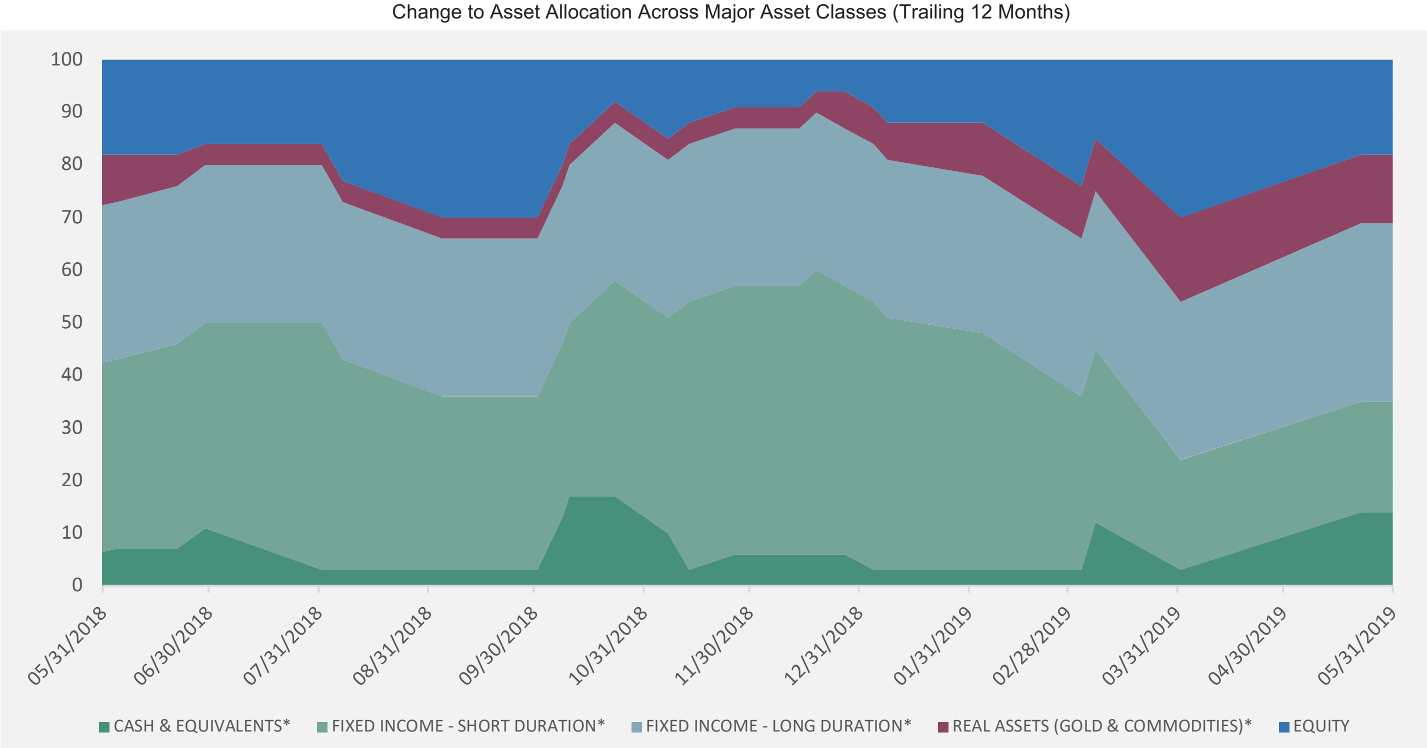
## 3EDGE TOTAL RETURN STRATEGY

Change to Asset Allocation Across Major Asset Classes (Trailing 12 Months)




## 3EDGE CONSERVATIVE STRATEGY

Change to Asset Allocation Across Major Asset Classes (Trailing 12 Months)






*Cash & Equivalents includes cash, cash equivalents, and money market funds. Fixed Income – Short Duration includes fixed income funds with an average duration of 2 years or less. Fixed Income – Long Duration includes fixed income funds with an average duration of greater than 2 years. Real Assets (Gold & Commodities) includes precious metals such as gold as well as investments that operate and derive much of their revenue in real assets, e.g., MLPs, metals and mining corporations, etc.