SUMMARY

- Our model research continues to indicate that **U.S. equities** remain overvalued while **Emerging Market equities** remain somewhat undervalued. Furthermore, with the prospect of a more dovish Fed, EM equities may benefit from a weaker U.S. dollar. **Developed Asia equities** remain undervalued but with limited growth prospects resulting in a mixed outlook, while **European equities** remain negative.
- The outlook for **U.S. Treasury Bonds** remains stable as concerns over slowing global growth along with dovish signals from the Fed in June have driven down yields on U.S. Treasuries. In terms of **Credit**, high-yield spreads have widened out and are less supportive of credit conditions.
- The outlook for **Gold** remains positive as low real yields (nominal yields less inflation) along with the prospect of a more dovish Fed and weaker U.S. dollar make this an attractive asset class. However, the outlook for **Commodities** remains somewhat negative as concerns over a potential slowdown in global economic growth have increased.

From the desks of:

DEFRED FOLTS III
MANAGING PARTNER,
CHIEF INVESTMENT STRATEGIST

ERIC BIEGELEISEN, CFA
MANAGING DIRECTOR,
RESEARCH

ASSET CLASS VIEWS

Asset Class		Negative		Mixed	Positive	
Equity	U.S.			●		
Equity	Europe		●			
Equity	Developed Asia		● →	●		
Equity	Emerging				●	
Fixed Income	Rates			●		
Fixed Income	Credit		●			
Real Assets	Gold					●
Real Assets	Commodities		●			
Cash					●	

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

Following the correction in the global equity markets in May, Fed Chair Jay Powell took the opportunity during the FOMC meeting in mid-June (and then again during a speech at the Council On Foreign Relations later in the month) to indicate that uncertainty over trade negotiations between the U.S. and China along with increased downside risks to the economy mean that the Fed is now leaning towards lowering short-term interest rates as soon as the next FOMC meeting in July.

Our model research continues to indicate that **U.S. equities** are overvalued. In addition, the continued flattening and inversion of the U.S. Treasury yield curve is indicative of investor concerns about the health of the U.S. economy for the remainder of 2019 and into 2020. Although U.S. equities are overvalued, even in the face of deteriorating fundamental factors, markets can become even more overvalued for periods of time before correcting towards fair value.

Emerging Market equities remain somewhat undervalued and the investment case has been strengthened by the prospect that the Fed may cut interest rates as early as July with the market anticipating upwards of three twenty-five basis point (0.25%) cuts by year end. These actions by the Fed could further benefit EM equities by contributing to a weaker U.S. dollar which when coupled with the decline in U.S. Treasury yields may lower the borrowing costs for EM sovereign and corporate entities.

The outlook is mixed for **Developed Asia equities** and remains negative for **European equities**. In both countries, yield curves remain inverted, suggesting limited growth opportunities. While Japan remains undervalued, a catalyst for investment has not yet materialized.

The **U.S. Treasury Bond** outlook remains unchanged. U.S. Treasury yields continued to decline as concerns mounted over the prospects for a global growth slowdown. **Credit** remains concerning as both high-yield and investment-grade spreads have continued to widen.

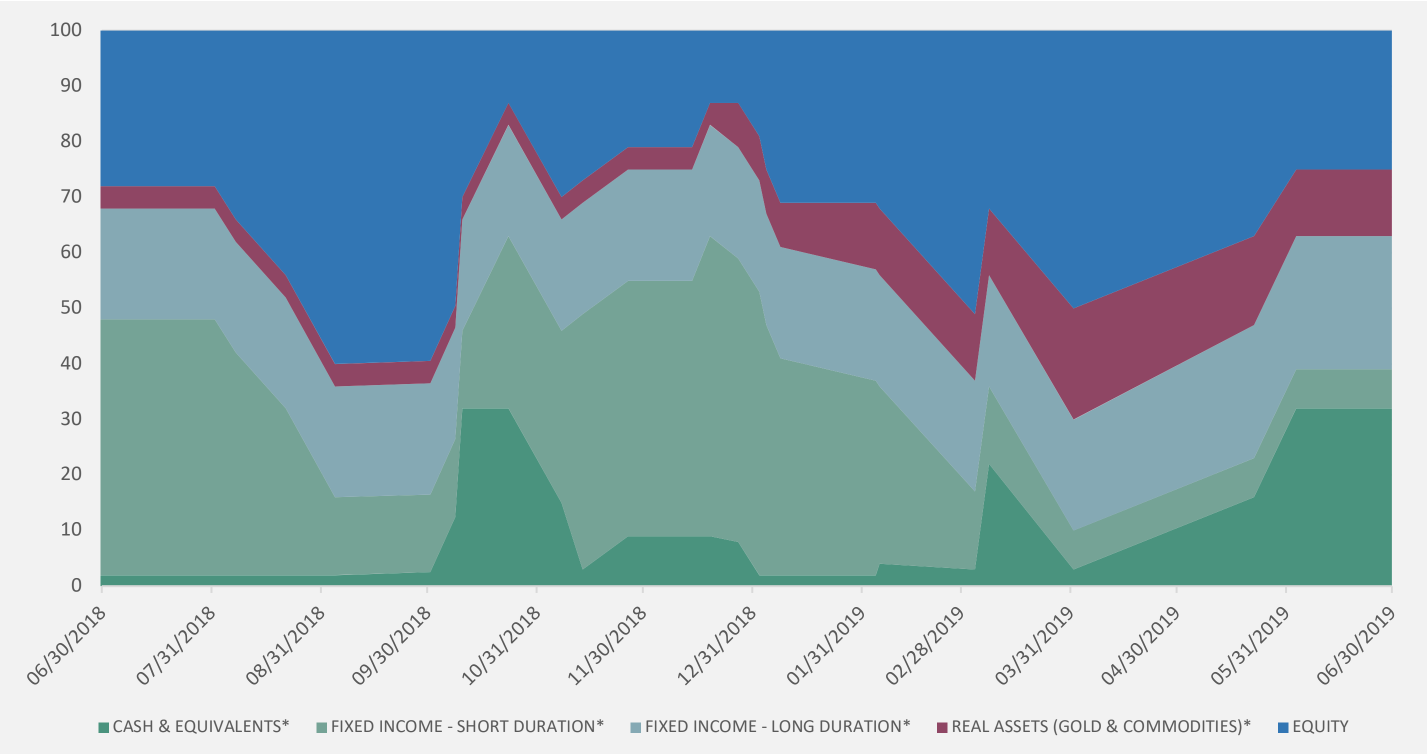
The outlook for **Gold** remains positive due to a variety of contributing factors including low real yields (nominal yields less inflation); the prospect of a more dovish Fed; and, positive investor behavioral factors which may be driven by increased geo-political tensions that tend to highlight the allure of gold as a safe haven asset. The outlook for **Commodities** remains negative as the downside risks to global growth continue to place downward pressure on the demand for commodities.

Currently **Cash & Equivalents** are attractive on an absolute yield basis. Cash is also attractive on a relative basis, as its risk-adjusted projected return compares favorably vs. U.S., European, and Asian equities. Since we place limitations on asset class exposures for risk management purposes (Gold and EM equities for example), Cash can be an important addition to a portfolio.

Commentary as of July 2, 2019

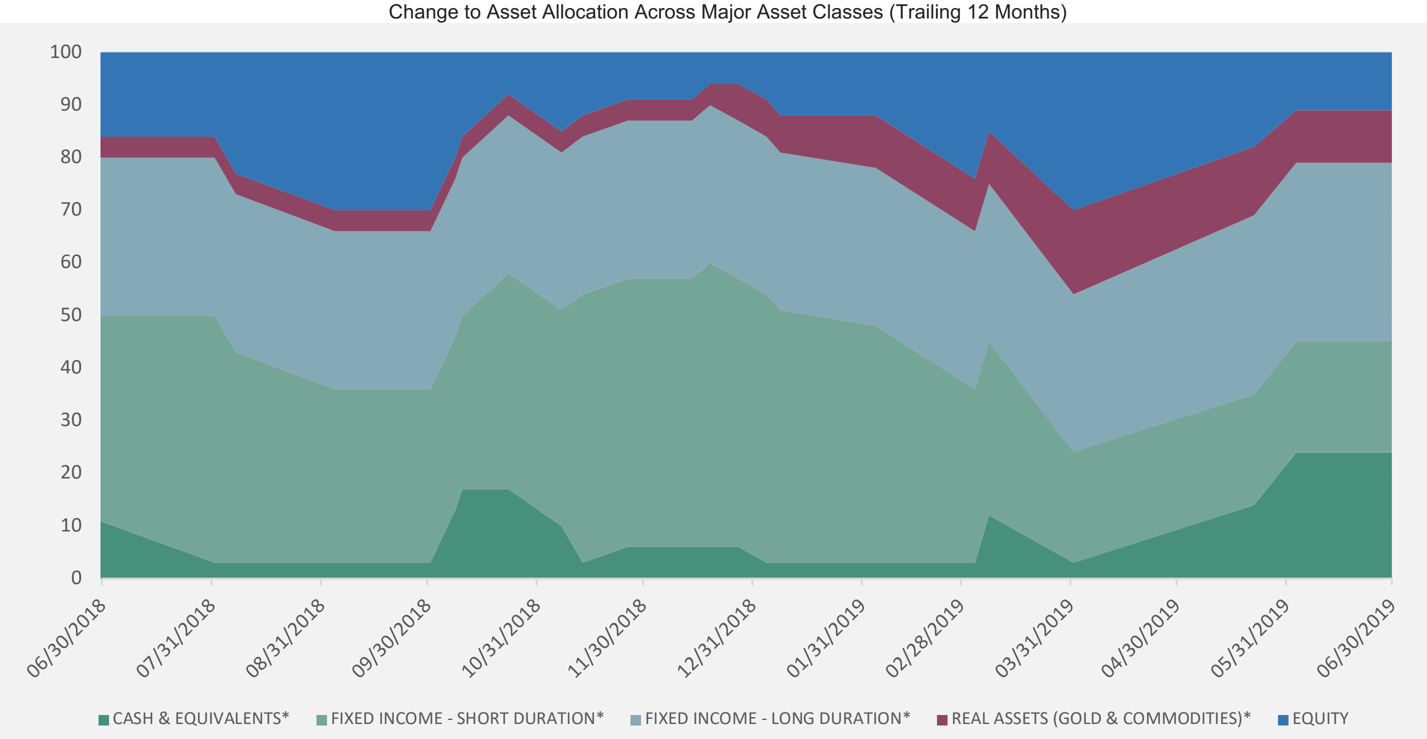
3EDGE TOTAL RETURN STRATEGY

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.