3EDGE Asset Management
One International Place, Suite 4430
Boston, MA 02110
3edgeam.com

Quarterly Letter **Quarter-ended September 30, 2019**

For the quarterly period ended 9/30/2019 (Q3-2019), the 3EDGE Total Return, ESG and Conservative strategies experienced positive returns, as gains from holdings of U.S. equities, gold, short and intermediate-term fixed income offset losses from holdings in Emerging Market (EM) equities. The 3EDGE Growth Strategy generated a negative return for the quarter due to a slightly larger EM equity position.

The most significant market news during last quarter was that the Federal Reserve reversed course and lowered short-term interest rates twice, once in July and then again in September. Fed Chair Powell's reasoning was that the FOMC acted in response to signs of a continuing global economic slowdown, particularly outside the U.S., as well as the ongoing uncertainty surrounding the U.S. / China trade tensions. However, the pronounced slowdown taking place in China today is due not only to trade tensions with the U.S. but also as a consequence of its attempt to reign in a rise in non-performing loans. Given that China stimulus had been a major driver of the global economic recovery since the financial crisis of 2008, a sustained slowdown in China has the potential to negatively impact global growth.

During the last quarter, the Investment Committee took action to reduce exposure to Emerging Market equities. Although EM equities remain undervalued relative to U.S. equities, a number of factors shifted our outlook during the third quarter to negative due in part to the relative weakness of EM currencies with respect to the U.S. Dollar, most notably the Chinese Yuan.

Current Outlook

As we head into the fourth quarter, we are maintaining reduced equity exposure as markets appear vulnerable to a wide variety of potential risks. We recognize that over the long-term investors are typically well served holding a relatively higher allocation to equities. However, our research findings identify three periods during the last century when the U.S. stock market was extremely overvalued based on our measure: 1) prior to the crash of 1929; 2) before the bursting of the tech stock bubble in 2000; and 3) the summer of 2019. History demonstrates that overvalued markets are capable of becoming even more overvalued before correcting. However, in our view the rising risk of significant loss outweighs the potential for what we believe to be limited upside, suggesting a lower U.S. equity allocation.

Despite the recent lowering of short-term interest rates by the Fed, our model research continues to indicate that **U.S. equities** remain significantly overvalued. In addition, signs of slowing global growth, particularly outside the U.S., have generally diminished the outlook for non-U.S. equity markets. Our negative outlook on **European equities** has been reinforced by continuing deterioration in its growth prospects. Although **Developed Asian equities** remain significantly undervalued, economic growth prospects are also constrained. The outlook for **Emerging Market equities** (EM) remains negative due to the slowdown in global growth prospects and the continued weakness in EM currencies. Our research indicates a modest increase in the risk-adjusted projected return for short and intermediate-term **U.S. Treasuries** as many of the world's major central banks, including the Fed, lower short-term interest rates in an effort to prop up their economies. U.S. Treasuries also benefit from a strong dollar and positive investor psychology. The model's preference in fixed income is towards U.S. Treasuries and TIPS (Treasury Inflation-Protected Securities) and away from corporate **Credit** which currently presents an unattractive risk-return trade-off. **Gold** remains an attractive asset class and continues to benefit from low and declining real yields (*nominal yields less inflation*). However, a recent shift in investor psychology due to a rising U.S. dollar has slightly reduced its relative attractiveness. If the U.S. intervenes to weaken the U.S. dollar in response to a global competitive currency devaluation, gold could benefit. Additionally, gold should continue to act as a hedge during periods of heightened geopolitical uncertainty and / or sustained money printing. The outlook for **Commodities** remains somewhat negative as concerns continue to mount over the potential slowdown in global economic growth, particularly in China. Although **Cash & Equivalents** remain reasonably attractive on an absolute yield basis, our model research indicates a modestly more attractive risk-adjusted projected return for U.S. Treasury bonds.

The 3EDGE approach to portfolio management targets alpha, or attractive risk-adjusted returns, by following our investment discipline of seeking to identify undervalued or overvalued asset classes across the globe that may be poised to enter a period of market outperformance or underperformance. At the same time, we prioritize risk management and seek to limit potential portfolio drawdowns as we believe that investment portfolios need protection from a variety of possible "fat-tail" or "black swan" events.

Please feel free to contact us if you have any questions and thank you for the confidence that you have placed in 3EDGE.

Stephen Cucchiaro
President & Chief Investment Officer
3EDGE Asset Management, LP

DeFred G. Folts III
Chief Investment Strategist
3EDGE Asset Management, LP

Please let us know if there have been any changes to your financial circumstances, time horizon, investment objectives, investment restrictions, risk tolerance or other items which could help us better manage your investments.