

3EDGE Current Global Capital Market Outlook

In his writings, the famous investor, George Soros has always insisted that to be successful, investors must be willing to consider the possibility of a variety of logical but opposing market scenarios playing out in the future to be ready to take advantage of opportunities that may lay ahead. Sensitivity and scenario analyses play a complementary role during our model research and portfolio construction processes, helping to balance return opportunities with risk.

Base Case:

At this juncture, the *base-case* from our model research indicates:

- Somewhat limited upside potential in the major equity indices including the U.S., Europe, Japan and emerging markets.
- As long as the U.S. dollar remains strong and the Fed hikes rates in advance of inflationary pressure, our research indicates that long-term yields could remain stable at this time. However, as the yield curve continues to flatten, we believe that a shift to higher quality bonds such as U.S. Treasuries and away from lower quality corporate credit and high-yield bonds is warranted.
- As the Fed attempts to normalize rates, rising real interest rates have pressured the price of gold lower. Recently, gold has dipped below its recent trading range causing further selling. We have reduced our gold holdings to our strategy minimums.
- As the Fed continues increasing short-term interest rates in the U.S., for the first time in many years cash has become a relatively attractive asset class. By investing in ultra-short-term fixed and floating income instruments, it is now possible to earn a decent yield on this liquidity with low duration risk while accumulating “dry powder” to reinvest in the equity markets at more favorable prices.

The 3EDGE approach to portfolio management targets alpha, and 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.

DeFred “Fritz” Folts
Chief Investment Strategist
3EDGE Asset Management, LP

dgf@3edgeam.com

3EDGE Asset Management is a dynamic, global, multi-asset investment firm investing across asset classes and geographies. **Steve Cucchiaro**, President and Chief Investment Officer, and the 3EDGE team are considered to be pioneers in constructing investment portfolios through the use of index ETF’s. 3EDGE was named **ETF Strategist of the Year in 2017 by ETF.COM**.