Premise Capital
STAY ON THE CURVE™

Premise Capital 2nd Quarter Investment Commentary

Premise Investors,

	Q1 2019		YTD	
	Return	Std Dev	Return	Std Dev
BBgBarc US Agg Bond TR USD	4.48	3.38	2.94	3.48
BBgBarc US Treasury US TIPS TR USD	2.70	3.87	3.19	4.14
BBgBarc US Treasury 20+ Yr TR USD	6.20	10.97	4.73	10.92
BBgBarcrclays US Corporate High Yield TR	5.93	3.79	7.26	4.11
S&P 500 TR USD	9.50	18.76	13.65	16.31
S&P MidCap 400 TR	2.59	18.46	14.49	17.33
S&P SmallCap 600 TR USD	1.57	20.94	11.61	20.16
MSCI EAFE NR USD	-3.71	13.57	9.98	11.65
S&P Developed Small NR USD	-1.62	15.22	13.53	14.59
MSCI EM NR USD	-7.41	18.01	9.91	14.53
FTSE NAREIT All Equity REITs TR	20.46	17.60	17.17	13.93

At the end of the second quarter, it is interesting to note the difference in mindset from just 6 months ago. At year end, we were in the midst of a dramatic market pullback with questions swirling around the trade talks with China and the effect of tariffs on growth. The news was filled with commentators opining on the possibility of the Fed making a mistake and raising interest rates into a slowing economy. After falling 20% from highs, people wondered if the bull market that formed from the lows of the financial crisis was finally coming to an end.

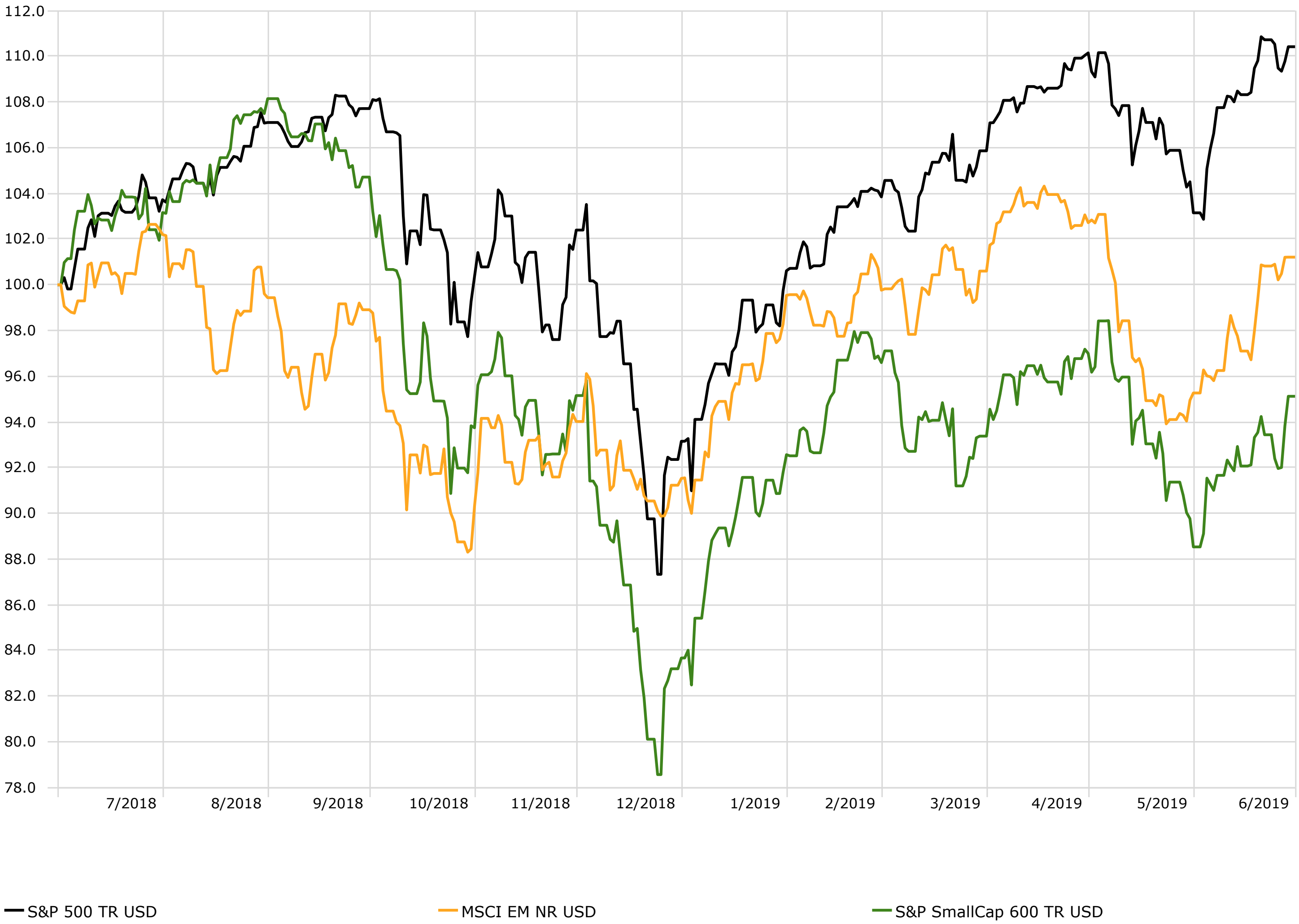
Just six months later, we see some markets hitting all time highs with old thoughts being left far behind. While there is still no clear direction on the China trade talks, the chatter now is about potential Fed rate cuts instead of increases.

Premise portfolios have captured much of this upside positioned just under their maximum potential equity exposure. As the following chart clearly shows, all equity classes have not shared the same experience as the S&P 500. Consider the 12-month chart below (next page). Relative to the S&P 500, the Emerging Market and US Small Cap indices have not recovered as strongly from the 2018 year-end lows, and thus are underweight relative to Domestic Large Cap in our portfolios at mid year.

Premise Capital 2nd Quarter Continued

Investment Growth

Time Period: 7/1/2018 to 6/30/2019



Source: Morningstar Direct

Sara Potter from FactSet recently wrote for ETF.com recognizing that the current economic expansion is now tied for the longest of the post World War II period with the 1991-2001 expansion. She also identified several indicators that might suggest “the party coming to an end”.

- Inverted US Treasury Yield Curve – 10-year and 3-month
- Fed shift to a more dovish stance with expectations of a rate cut
- Global Manufacturing Contraction – of the G7, only the US and France have a PMI reading above 50, suggesting expansions
- Slow wage growth despite strong employment market
- Gold prices at 6 year high

Premise Capital 2nd Quarter Continued

Do these indicators mean investors should reduce equity exposure? Is the bull market coming to an end? As the devastation of the financial crisis fades in the rear-view mirror, we remain convinced that the ability to move to a more conservative position is increasingly important.

One only needs to look at the price action and volatility in the last 12 months for a concrete example of how quickly a down-move could destroy years of accumulated wealth - a negative 20% that potentially turns into 30 or 40% as the bull market retraces gains is certainly possible. That outcome might be too great a loss for financial plans to absorb, but this is the underlying risk in markets. Knowing that our systematic approach had reduced the loss and that we were positioned to not participate in further loss over this period gives us the conviction that our strategy is the best way to navigate these markets. Realizing that we were able to sidestep the downside while not materially affecting our returns relative to someone that did not sell reinforces that decision.

Thank you again for your continued confidence in Premise Capital!