

Premise Capital 1st Quarter Investment Commentary

Premise Investors,

2017 1st Quarter

The first quarter ended with a continuation of the rally that began post-election in the 4th quarter of 2016. As the year ended, the question of whether the “Trump Rally” would have legs or just settle back into the consolidation we had been in since 2015 was the topic of conversation. Diversified portfolios had seen very little gain in the previous 18 months, but the continuation move that happened during the quarter solidifies the uptrend that began a year earlier on the bounce from the Feb 2016 lows.

In February 2016, the S&P 500 was trading in the low 1800s and was almost 15% below the summer of 2015 highs. That down move had us conservatively positioned at the beginning of 2016, but our risk on move in April of 2016 has enabled us to capture much of the uptrend.

As we move forward into the 2nd quarter 2017, the wiggle from the first quarter of 2016 will roll off the trailing 12 month returns, so we will see performance much closer to the return of the diversified

	Q1 2017		2016	
	Return	Std Dev	Return	Std Dev
BBgBarc US Govt 1 Yr MV USD	-0.80	23.80	-1.48	23.11
BBgBarc US Agg Bond TR USD	0.82	4.19	2.65	3.84
BBgBarc US Treasury US TIPS TR USD	1.26	4.80	4.68	5.31
BBgBarc US Treasury 20+ Yr TR USD	1.41	12.77	1.43	15.39
BBgBarcclays US Corporate High Yield TR USD	2.70	3.29	17.13	6.25
S&P 500 TR USD	6.07	8.10	11.96	15.77
S&P MidCap 400 TR	3.94	13.16	20.74	18.91
S&P SmallCap 600 TR USD	1.06	17.42	26.56	21.22
MSCI EAFE NR USD	7.25	9.91	1.00	20.54
S&P Developed Small NR USD	5.42	11.18	11.59	16.98
MSCI EM NR USD	11.45	11.18	11.19	20.71
FTSE NAREIT All Equity REITs TR	2.55	13.26	8.63	20.06

benchmarks at all risk tolerances. This was possible because we were positioned much more closely to the diversified models for the rest of the year, and we did not get wiggled out in the pre-election volatility.

As the return table shows, the increase to International and Emerging Markets at the start of the quarter worked well as those two classes outpaced the other equity classes for the period. This is in contrast to the outperformance Domestic Large Cap had enjoyed for the previous few years. At the start of the second quarter, all equity classes remained in uptrends.

On the fixed income side, we ended the quarter with an underweight to both intermediate and long term fixed income. The two classes have been stronger of late as the impending increase

in interest rates seems to be on hold yet again. As usual we let the math tell us which way to position fixed income and don't go with the crowd's gut feeling that rates must go up. While we agree they eventually should normalize, people have been wrong on the “when” for many years.

The second quarter begins with us near target equity to fixed income levels in all models as all equity classes are currently viewed as being in uptrends. The strengthening of the fixed income classes has us eyeing the possible allocation back into those classes as well.

Thank you again for your continued confidence in Premise.

Premise management team

