RISR COMMENTARY FOR July 2023

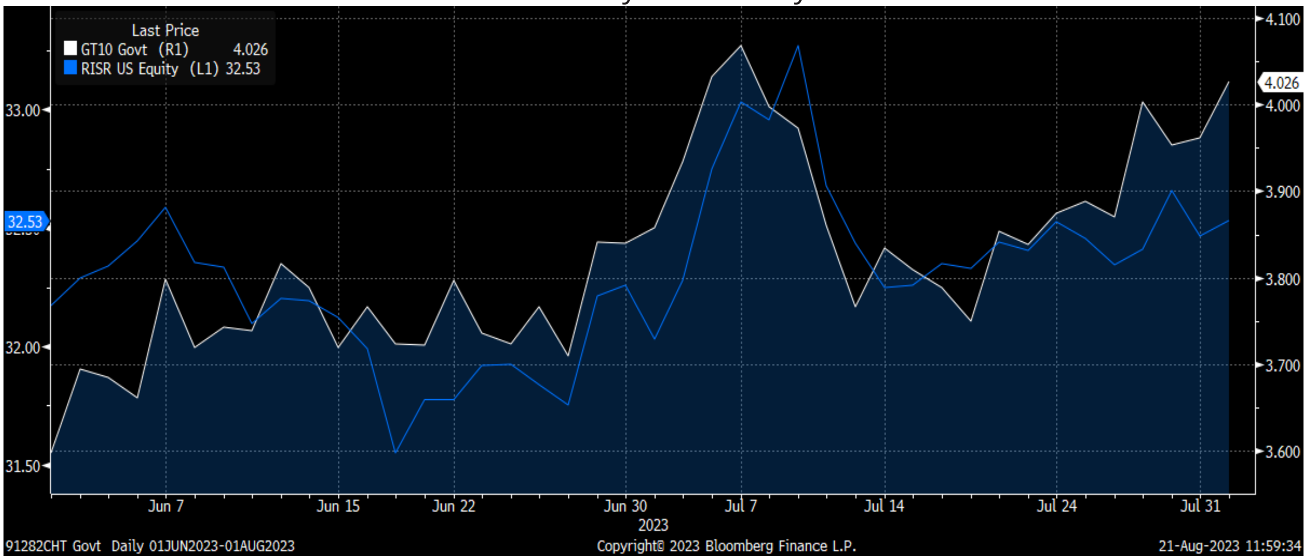
Performance Summary

The FolioBeyond Rising Rates ETF (ticker: RISR) returned 1.19% based on the closing market price (2.03% based on net asset value or "NAV") in July. In comparison, the ICET7IN Index (US Treasury 7-Year Bond Inversed Index) returned 0.54% while the Bloomberg Barclays U.S. Aggregate Bond Index ("AGG") returned -0.07% during the same period.

The difference between price performance vs. NAV reflects the fact that at the beginning of the month, RISR shares were trading at a premium to NAV, but at month end were at a small discount. This can happen from time to time, but as long as NAV is growing steadily (+7.15% YTD), such minor fluctuations should not be a concern.

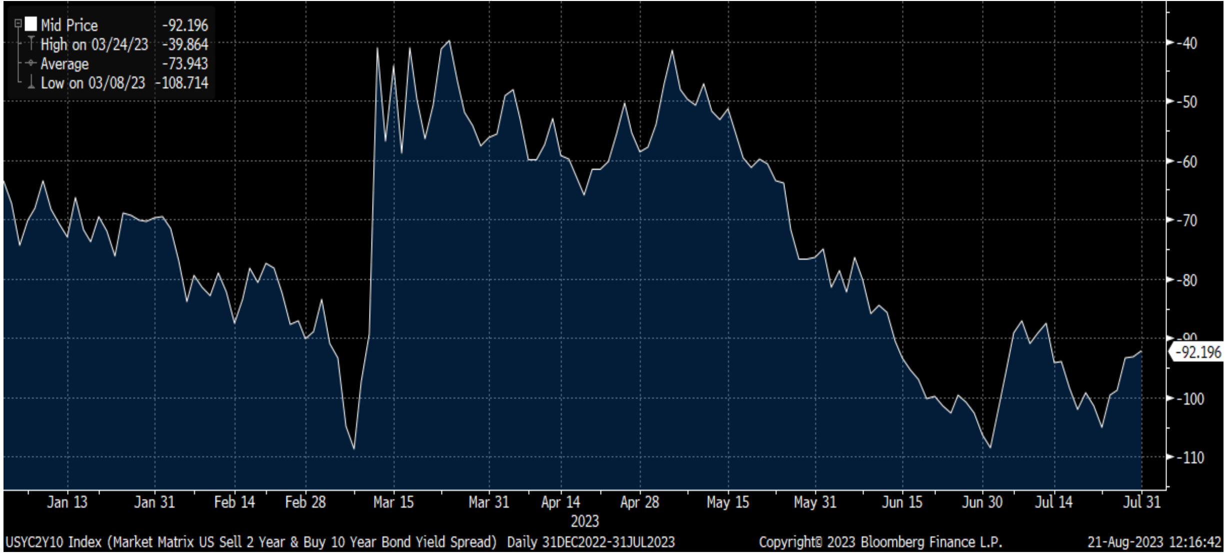
Intra-month, the market saw considerable volatility, however. The chart below shows the 10-year treasury rate rising to 4.07% from a starting level around 3.6%, before collapsing back down to 3.75% by July 19. It then sharply bounced back to close the month at 4.03%. This is three swings of more than 25 bps in either direction inside a single month. Not unprecedented but certainly notable. Uncertainty about the Fed's next moves, and mixed economic signals continue to generate a high degree of uncertainty among investors.

RISR vs 10-year Treasury Yield



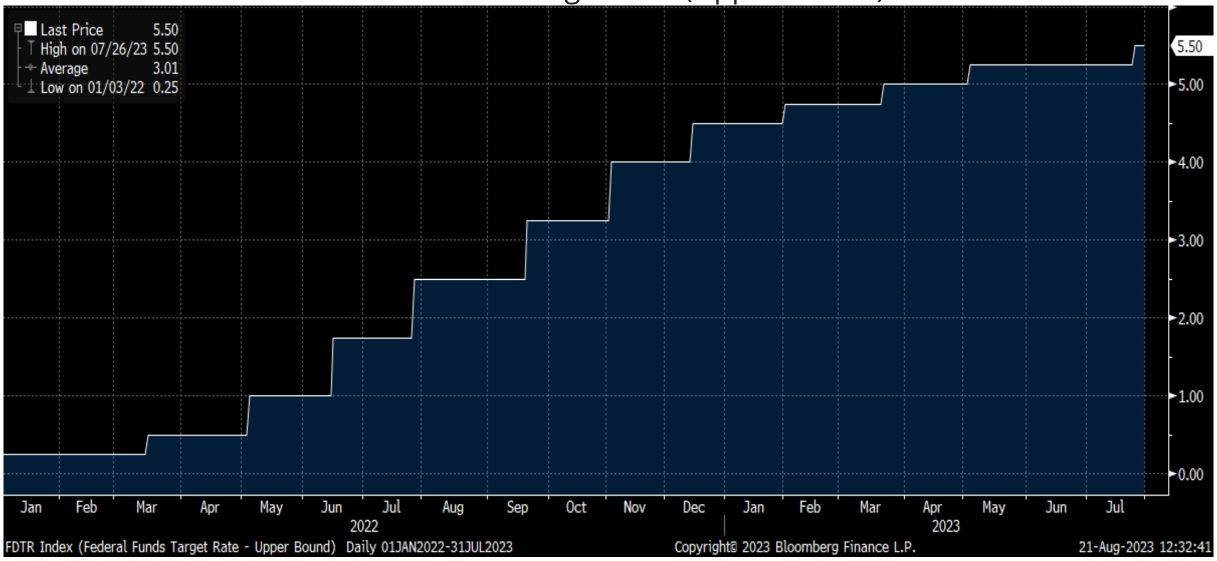
Another chart that market participants are watching closely is the 2yr-10yr treasury spread. It is a widely held belief that an inverted curve (2s higher than 10s) portends a recession. If that is true, then the recession should have been here some time ago. It never arrived. Our own view is that the near historic inversion of the last several years instead reflects a stubborn view that the Fed will lose its nerve in the fight against inflation. Despite its extraordinary series of rate hikes (which affects the short end of the curve more than the long end) many so-called smart money bond market investors have actually added duration by buying long-dated bonds. This has been a “pain trade” if there has even been one. It seems like a more normal, less-inverted curve is coming sooner rather than later, which will cause still more pain.

2-year Treasury Yield less 10-year Treasury Yield (bps)



If further support for this was needed, the Fed resumed their rate hikes in July, after a skip/pause at the last meeting, bring the Fed Funds rate to 5.5%. As the graph below shows, there has been a moderation in the pace and magnitude of rate hikes, but anyone betting on a reversal or pivot in 2023 should probably think about covering that bet.

Fed Funds Target Rate (Upper Bound)



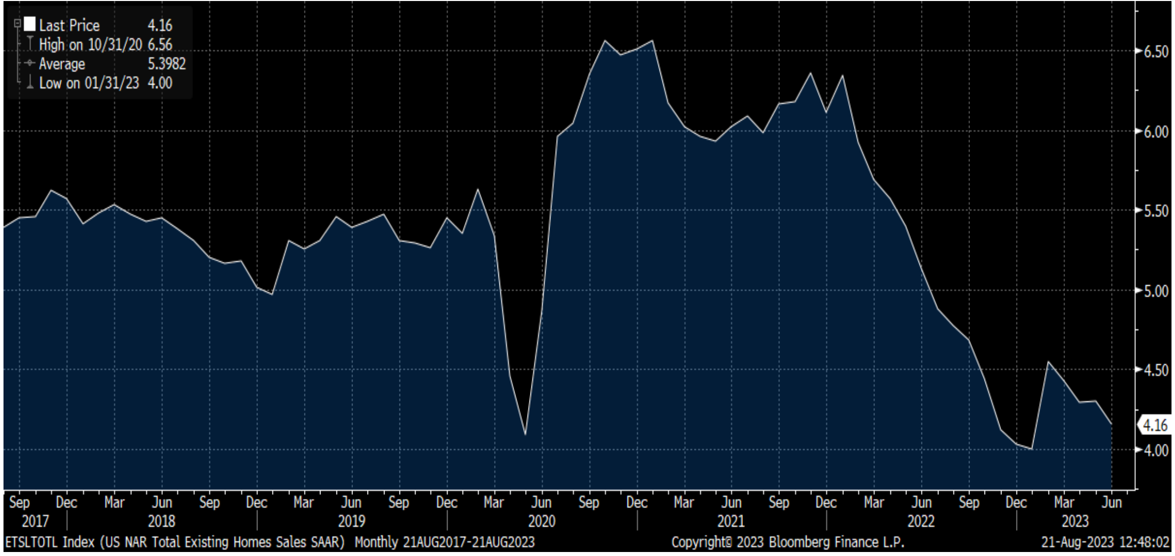
Outlook

It took a little time, but the Fed’s messaging did finally seem to coalesce in the first half of 2023.

They are in this fight to win it, despite the realization that there will be pain involved. We will take a look at two sectors where the pain has been felt most sharply: residential and commercial real estate.

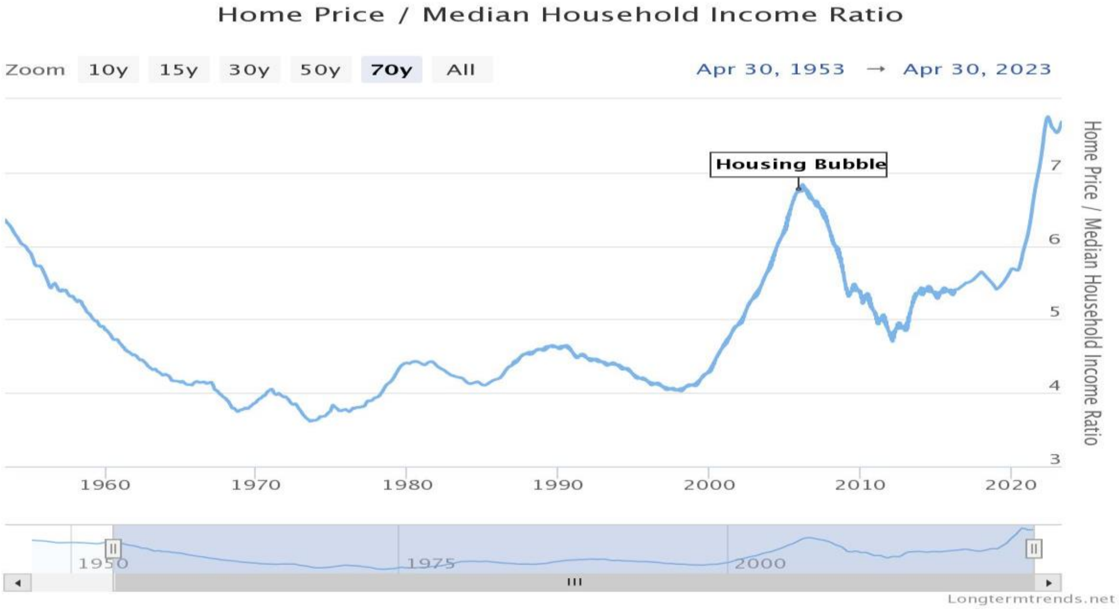
Real estate tends to be financed in the US. While there was anecdotal evidence about cash buyers of homes during Covid, by far the majority of residential homes are financed with a long-term mortgage, generally a 30-year fixed rate mortgage. As rates have risen, several phenomena have occurred. The first is "lock-in." This is where a homeowner is locked into their current home because they hold a very low-rate mortgage taken on during sometime between, say, 2015 and 2020. A typical mortgage originated during that time would have an interest rate in in the 3-4% range. In order to sell that home and buy another, today they would be looking at a rate well above 7%. On a $400,000 mortgage, that means a jump in monthly payment to roughly $2,800 from $1,800. As a result, many people can't afford to move, and existing home sales have collapsed.

Existing Home Sales (units millions)



ETSLTOTL Index (US NAR Total Existing Homes Sales SAAR) Monthly 21AUG2017-21AUG2023 Copyright© 2023 Bloomberg Finance L.P. 21-Aug-2023 12:48:02

Secondly, because no one is selling, housing inventories are extremely tight in many markets. This has kept prices high, and affordability low. The median price of a home in the United States is now more than 7.5x the median household income. Historically the ratio was in the 4x range. While the pace of home price increases has slowed somewhat in recent months, there does not seem to be a quick solution to this log-jam, and so in response rental rates are skyrocketing in many locales. New home construction is not coming to the rescue anytime soon, either. US hasn't been building enough homes to meet demand for many years.



The problems in the commercial real estate ("CRE") sector are almost the reverse of those in the residential sector. There is far too much CRE space available, particularly in retail and office. This is the result of several trends, some long-term and some more recent.

For retail, the problems stem from the "Amazon-ification" of retail sales. So much of retail purchase volume now takes place online (15% up from 5% in 2012), that the traditional brick-and-mortar retail property is becoming obsolescent, in particular, the large, big-box anchored malls. Much of it is also in the wrong places, as populations have shifted south and west over the last 20 years.

Covid accelerated another trend that has been weighing on office space—remote work. This trend has caused a large increase in office vacancy rates nationwide. Businesses simply do not need as much office space as they once did. This trend, too, has been exacerbated by the population migration patterns out of large north-eastern MSAs to FL, GA, NC, SC TX, etc., as noted above.

Making this problem particularly acute is that the bulk of CRE mortgages are structured as 10-year balloon loans. A great deal of CRE debt was taken out at very low rates in the aftermath of the 2007-09 financial crisis. That debt is now coming due, but cannot be rolled at current interest rates. Like long term bonds, as rates rise the value of fixed CRE declines through the operation of capitalization rates, i.e. the internal rate of return on rental income. As cap-rates rise, property values fall. Consequently, property owners are facing a perfect storm of higher interest rates, lower property values and rising vacancies. Property valuations for some of the few transactions that have come to market have seen declines exceeding 50% in some cases.

While some amount of loan modification and forbearance can delay the problem, it seems inevitable that the CRE market is in for a serious correction as $1.5 trillion in debt become due between now and the end of 2025.

In sum, even if the Fed takes another pause, and whether or not rates go materially higher from here, the next few years are likely to be volatile. We believe asset managers and advisors will have to keep a very sharp eye on the risk they are running. RISR has been specifically engineered to help in that process. We designed the strategy to have broad appeal to a range of investors, who share with us a belief in the wisdom of prudently managing risk. RISR can help in that effort, offering a low correlation to many key market sectors, together with a high current dividend.

Please contact us to explore how RISR might fit into your overall strategy, to help you manage risk while generating an attractive current yield.

Performance

	As of July 31, 2023			
	1 MO	3 MO	YTD	1 YR
RISR Market Price	*1.19%*	*4.18%*	*6.93%*	*13.95%*
RISR NAV	*2.03%*	*3.63%*	*7.15%*	*15.84%*
Bloomberg Barclays US Aggregate Bond Index[6]	*-0.07%*	*-1.51%*	*2.02%*	*-3.37%*
ICET7IN	*0.54%*	*3.19%*	*-1.54%*	*6.10%*

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, June be worth more or less than their original cost and current performance June be lower or higher than the performance quoted. Performance current to the most recent month-end can be obtained by calling 866-497-4963. Short term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns. Returns beyond 1 year are annualized.

A fund's NAV is the sum of all its assets less any liabilities, divided by the number of shares outstanding. The market price is the most recent price at which the fund was traded. The fund intends to pay out income, if any, monthly. There is no guarantee these distributions will be made.

Total Expense Ratio is **0.99%.**

For standardized performance click here

Portfolio Applications

We believe RISR provides an attractive, thematic strategy that provides strong correlation benefits for both fixed income and equity portfolios. It can be utilized as part of a core holding for diversified portfolios or as an overlay to manage the interest rate risk of fixed income portfolios. Alternatively, RISR can be used as a macro hedge against rising interest rates with less exposure to equity beta and negative correlation to fixed income beta. The underlying bonds are all U.S. agency credit that are guaranteed by FNMA, FHLMC or GNMA. There is no financing leverage or explicit short positions that relies on borrowed securities. Also, timing is on our side as the strategy generates current income if interest rates were to remain within a trading range.

Please contact us to explore how RISR can be utilized as a unique tool to adjust your portfolio allocations in the current inflationary environment.

Yung Lim
Chief Executive Officer
Chief Investment Officer
ylim@foliobeyond.com
917-892-9075

Dean Smith
Chief Strategist and Marketing Officer
Portfolio Manager of RISR
dsmith@foliobeyond.com
914- 523-2180

George Lucaci
Global Head of Distribution
glucaci@foliobeyond.com
908-723-3372

This material must be preceded or accompanied by a prospectus. For a copy of the prospectus please click here

Investments involve risk. Principal loss is possible. Unlike mutual funds, ETFs June trade at a premium or discount to their net asset value. The fund is new and has limited operating history to judge fund risks. The value of MBS IOs is more volatile than other types of mortgage related securities. They are very sensitive not only to declining interest rates, but also to the rate of prepayments. MBS IOs involve the risk that borrowers June default on their mortgage obligations or the guarantees underlying the mortgage-backed securities will default or otherwise fail and that, during periods of falling interest rates, mortgage-backed securities will be called or prepaid, which June result in the Fund having to reinvest proceeds in other investments at a lower interest rate.

The Fund's derivative investments have risks, including the imperfect correlation between the value of such instruments and the underlying assets or index; the loss of principal, including the potential loss of amounts greater than the initial amount invested in the derivative instrument. The value of the Fund's investments in fixed income securities (not including MBS IOs) will fluctuate with changes in interest rates. Typically, a rise in interest rates causes a decline in the value of fixed income securities owned indirectly by the Fund. Please see the prospectus for a complete description of principal risks.

Diversification does not eliminate the risk of experiencing investment losses.

Index Definitions

Bloomberg Barclays US Aggregate Bond Index: A broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

US Treasury 7-10 Yr Bond Inversed Index:
ICE U.S. Treasury 7-10 Year Bond 1X Inverse Index is designed to provide the inverse of the daily return of the ICE U.S. Treasury 7-10 Year Bond Index (IDCOT7). ICE U.S. Treasury 7-10 Year Bond Index tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market. Qualifying securities of the underlying index must have greater than or equal to seven years and less

than 10 years remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and an adjusted amount outstanding of at least $300 million.

S&P 500 Index :

The S&P 500 Index, or Standard & Poor's 500 Index, is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

IBOXHY Index:

iBoxx USD Liquid High Yield Total Return Index measures the USD denominated, sub-investment grade, corporate bond market. The index includes bonds with minimum 1 years to maturity, minimum amount outstanding of USD 400 mil. Bond type includes fixed-coupon, step-up, bonds with sinking funds, medium term notes, callable and putable bonds.

Definitions

Basis Points (bps): Is a unit of measure used in quoting yields, changes in yields or differences between yields. One basis point is equal to 0.01%, or one one-hundredth of a percent of yield and 100 basis points equals 1%.

Beta measures: the volatility of a security or portfolio relative to an index. Less than one means lower volatility than the index; more than one means greater volatility.

Coupon: is the annual interest rate paid on a bond, expressed as a percentage of the bond's face value.

Correlation : a statistic that measures the degree to which two securities move in relation to each other.

Duration: measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

GNMA: Government National Mortgage Association

FNMA: Federal National Mortgage Association

FHLMC: Federal Home Loan Mortgage Corporation

Distributed by Foreside Fund Services, LLC.