Investment Insights

Fall 2021

SIERRA MUTUAL FUNDS | OCEAN PARK ASSET MANAGEMENT

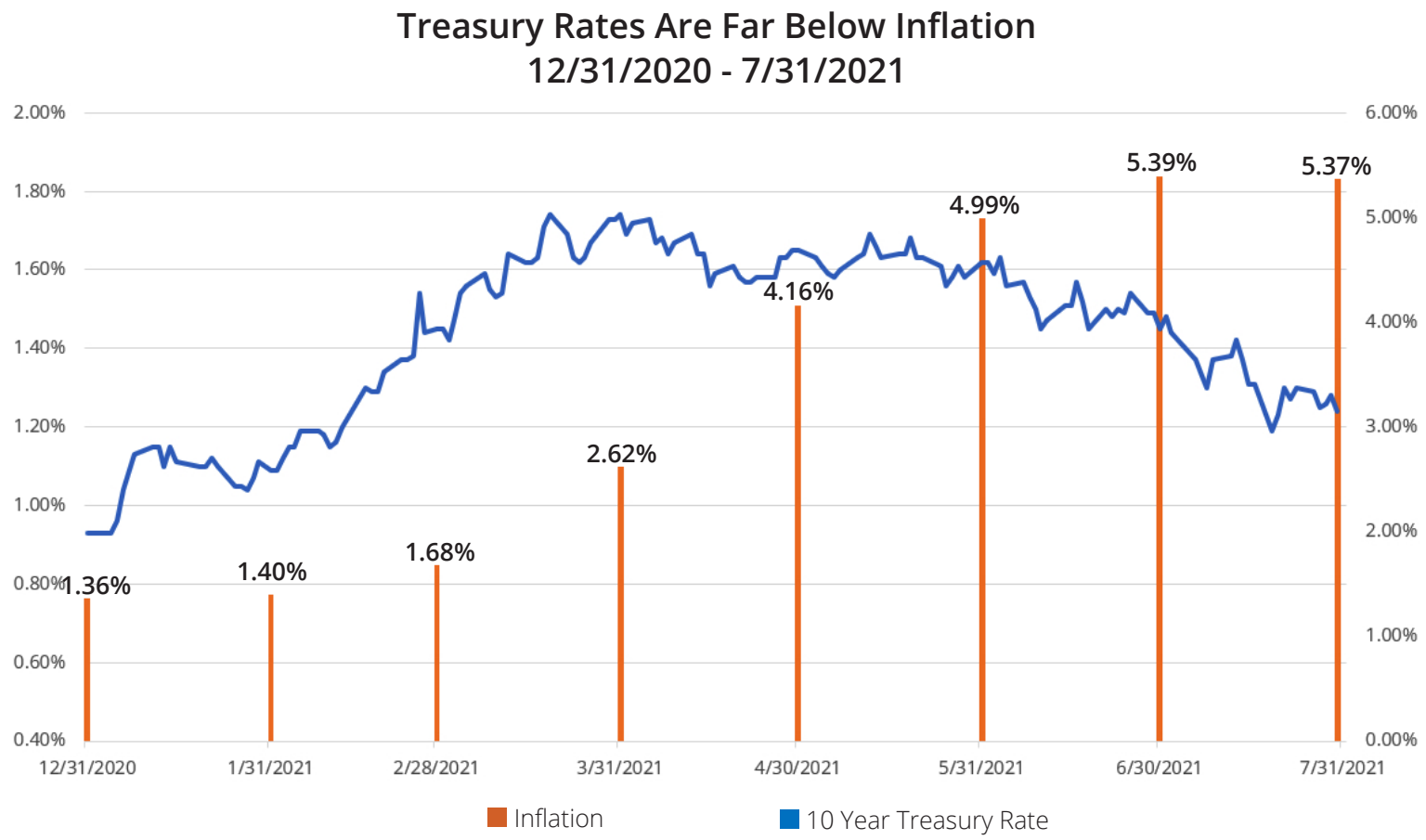
Markets Have Been Generous to Investors So Far in 2021

U.S. and global markets have had strong returns in many asset classes year-to-date as investors counted on global reopening and strong growth to boost both the economy and financial markets. Looking forward, there are several rising risks investors should keep an eye on.

Inflation was negative last year after the COVID-19 shutdowns and positive but low earlier in the year.

Recent inflation readings have soared to well above 5%, as global supply chains are not fully functioning.

It's rare that 10-Year Treasury yields are lower than current inflation. And the last time Treasury rates were this far below inflation was during the OPEC crisis in the 1970s.



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Global supply chains were expected to improve by now, but the appearance of the Delta variant may push this off for some time. Continued high inflation has started to impact Treasury rates, which are historically quite low.

Reuters

Wall Street ends sharply lower as Delta COVID variant sparks new lockdown fears

CALIFORNIA

California's COVID-19 cases rising as delta variant spreads

People walk and take photos on Hollywood Boulevard on June 15, 2021, in Los Angeles. (Mario Tama/Getty Images)

Coronavirus death toll hits 4 million worldwide as Delta variant spreads

The number of deaths is approximately the number of people killed in every battle in the world since 1982

BRIEFING • COVID-19

The CDC warns that the Delta variant is one of the most transmissible diseases ever

BY MARCO QUIROZ-GUTIERREZ

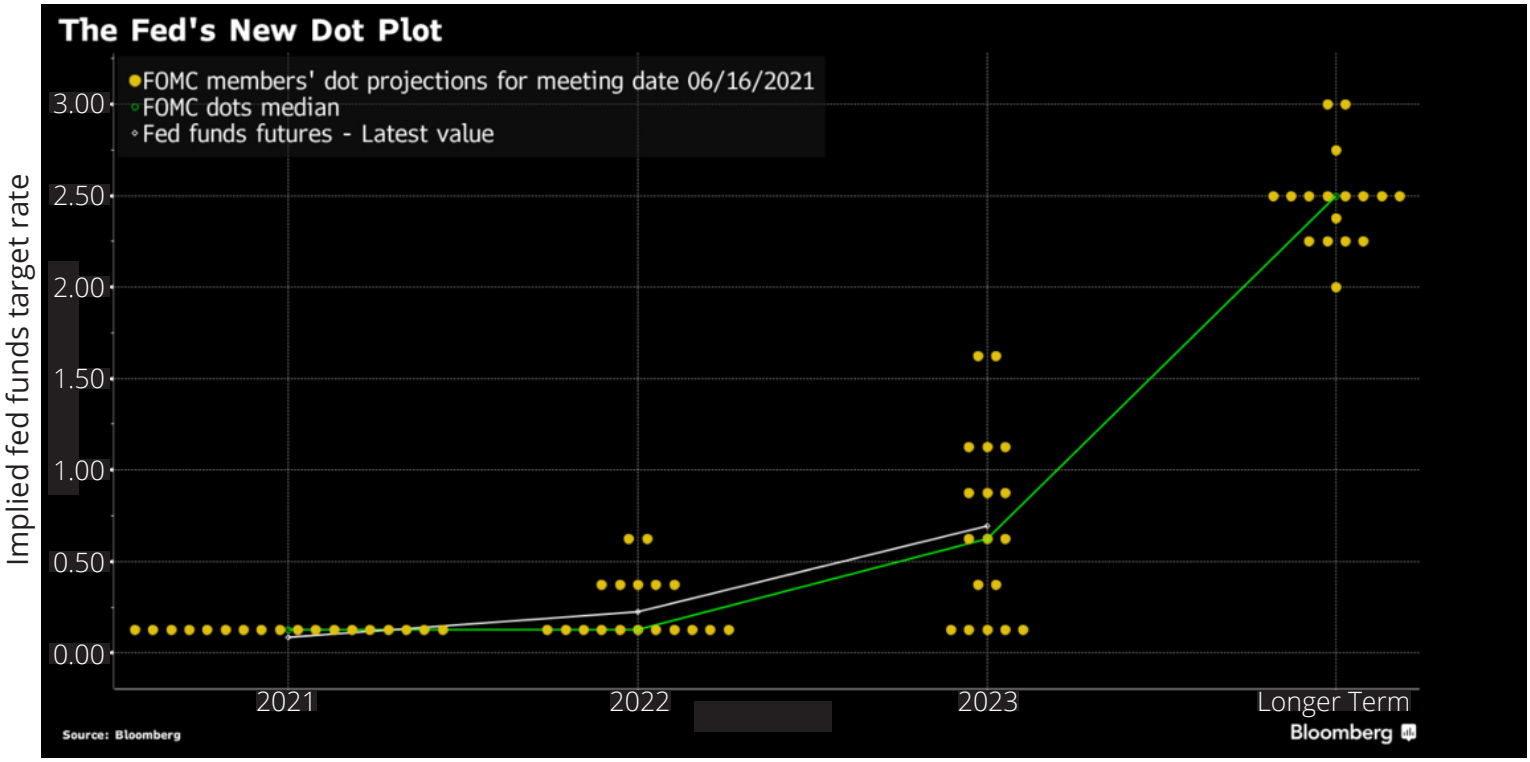
July 23, 2021 8:59 AM PDT

World

Spread of delta variant prompts new restrictions worldwide

Rising inflation has also attracted the attention of the Federal Reserve as yearly inflation soared to more than 5% the past two months. Chairman Powell and other Board members have highlighted their willingness to allow inflation to 'overshoot' their 2% inflation target before raising rates. But the recent surge in inflation is testing their patience.

After each meeting of the Federal Reserve Open Market (the "Fed") committee, which sets the Fed Funds rate, every member gives a forecast of where the Fed Funds rate will be over time.



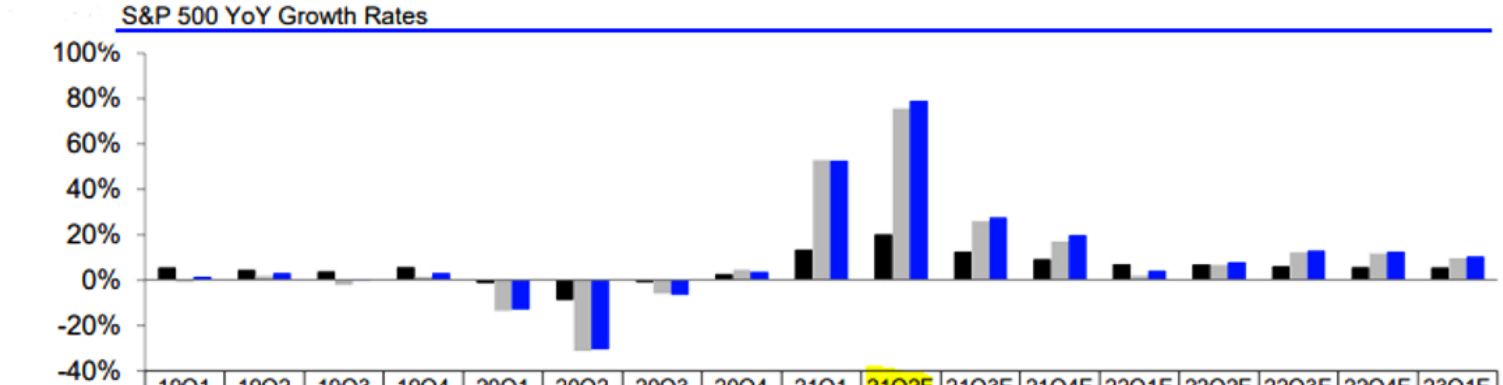
Projection Year End

Up until May of this year the Fed didn't expect to raise rates until 2024. At the June meeting, as shown in the chart above, a large majority of the Fed expect several rate increases by 2023. But after the July Fed Board meeting a wave of Board members have been more vocal about cutting back on stimulus.

Why is this important? Both equity and fixed markets have been supported by very low short-term rates and continued Fed buying of trillions of dollars of Treasuries and mortgages. Reducing this market support has the potential to lead to increased volatility.

Equity markets recovered quickly last year, reaching a new all-time high level in August. Since then, through the end of July 2021, the S&P 500 has hit an additional 60 new all-time highs. Multiple rounds of COVID-19 related support packages for businesses and individuals have supported consumer spending and allowed companies to not only survive but to grow.

Strongly rising earnings and weak year ago comparisons have led to very strong earnings growth in 2021. The second quarter earnings that are currently being reported likely as 'good as it gets', with almost 80% earnings growth based on Refinitiv's estimates. As we move into 2022 the prior year comparisons become more difficult. As a result, current expectations are for earnings growth in the teens or single digits.



	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2E	21Q3E	21Q4E	22Q1E	22Q2E	22Q3E	22Q4E	23Q1E
Revenue	5.7%	4.7%	3.9%	5.8%	-1.4%	-8.7%	-0.9%	2.7%	13.5%	20.2%	12.6%	9.2%	7.1%	6.9%	6.3%	5.9%	5.7%
Net Income	-0.8%	2.0%	-2.3%	1.6%	-13.6%	-31.4%	-6.0%	4.8%	53.1%	75.8%	26.1%	17.3%	2.2%	6.9%	12.3%	12.0%	9.7%
Earnings	1.6%	3.2%	-0.3%	3.1%	-12.8%	-30.6%	-6.5%	3.8%	52.8%	79.2%	27.8%	19.9%	4.1%	8.1%	13.1%	12.7%	10.5%

Source: I/B/E/S data from Refinitiv

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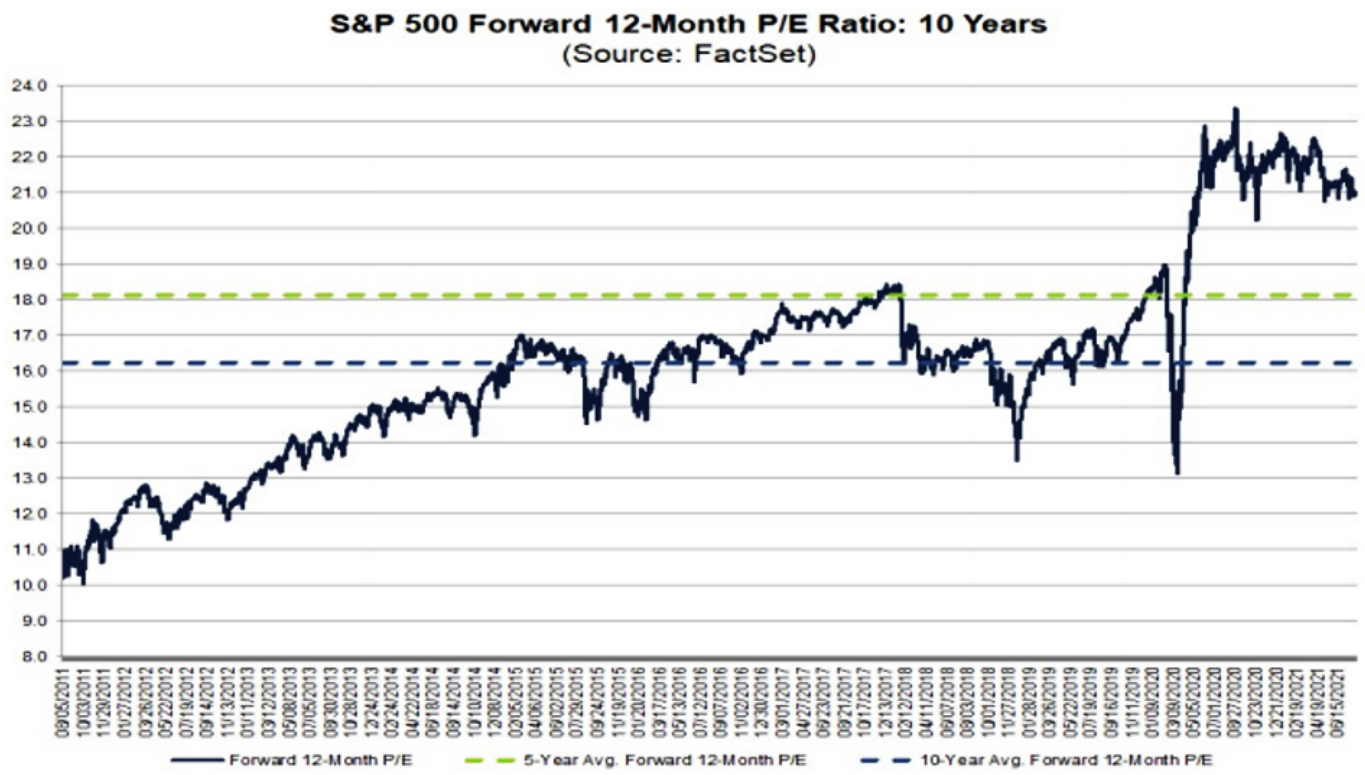
Even though earnings growth has been very strong, S&P 500 price gains have been even stronger. As a result, S&P 500's 12-month forward P/E is near the highest level seen in the past 10 years.



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As discussed above, the current economic upturn has been one of the fastest and steepest, supported by both significant government spending (through deficits) and Federal Reserve support. Both are likely to be reduced going forward.

At this time of the market cycle, investors should have a plan in place to ensure that they don't give back much or all their gains in the event of a downturn. At Sierra and Ocean Park, we have a plan in place through our truly tactical rules-based investment disciplines. Each of our holdings has a Trailing Stop in place and are reviewed daily by our investment team.

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Executive Vice President of Investment Management

Doug Loeffler is Executive Vice President of Investment Management at Sierra Mutual Funds & Ocean Park Asset Management. He provides research, analysis, and support for the investment activities of the organization and appears on behalf of the firm in the financial press.

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