

Markets and Economies Are Giving Mixed Signals

Most asset classes globally fell sharply in the first quarter, squeezed by a combination of rising long-term interest rates, concerns about Federal Reserve (the “Fed”) rate hikes, and high equity valuations. Many equity and fixed income asset classes bottomed momentarily in May but moved down to new year-to-date lows in the first half of June.

Earnings results have been mixed so far this year with many profit warnings. The retailer Target illustrates how global supply chain issues continue to haunt companies. Target’s stock fell 25% in late May when their first quarter results badly missed investors’ expectations due to a lack of inventory. But just three weeks later Target issued another profit warning because their inventory levels are now too high! The company clearly has limited visibility about demand or control over inventories.

The U.S. economy grew 5.7% last year after weak growth in 2020 due to the COVID-19 shutdowns. Growth in 2022 was expected to slow down, but forecasts for GDP growth this year are now falling sharply. The OECD just cut its GDP forecasts globally and now expects only 2.5% growth for the U.S. this year, after negative growth in the first quarter.

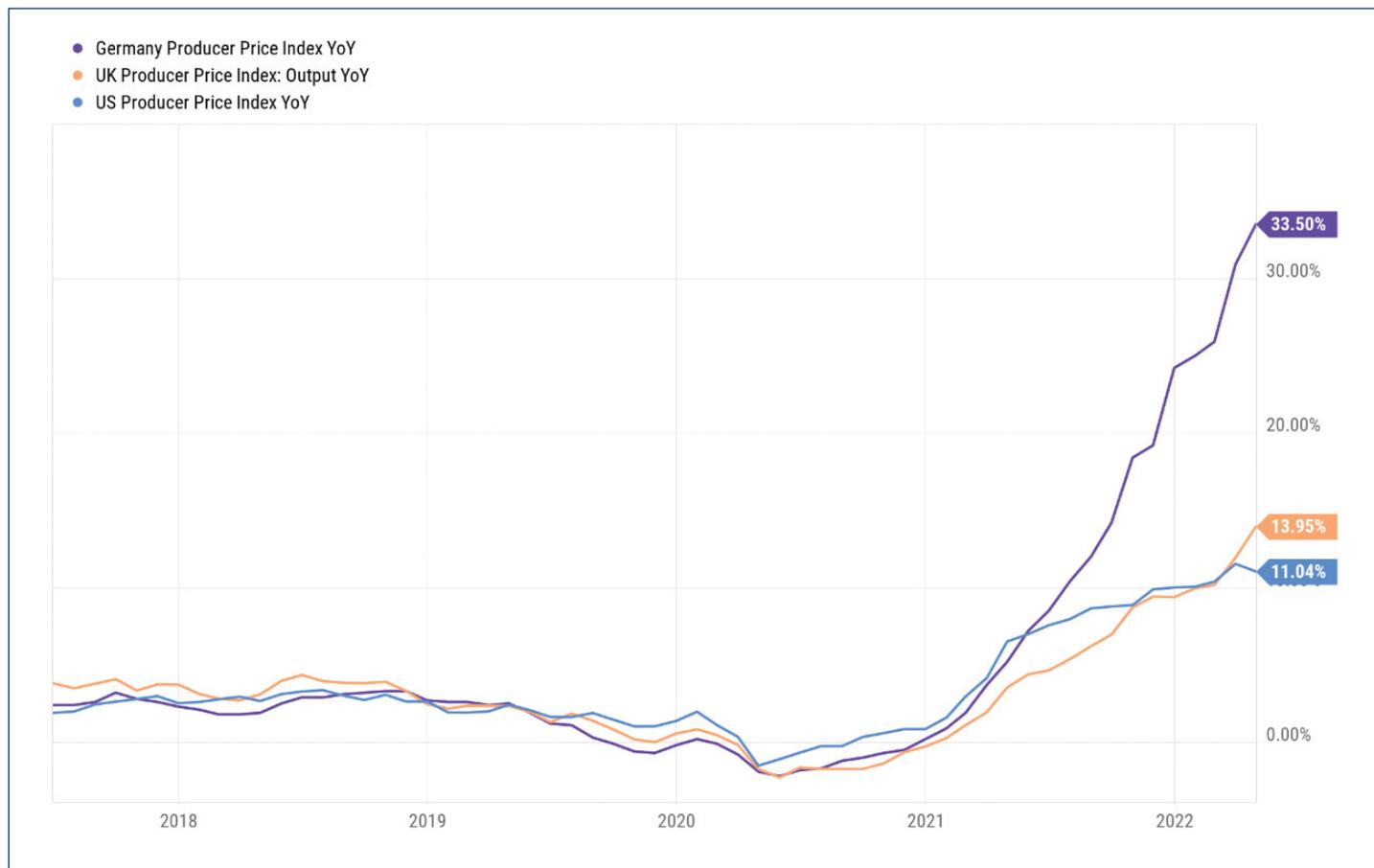
OECD downgrades growth forecasts across major economies

	2022 GDP growth (%)	Revision to forecast vs December (percentage points)
World	3.0	-1.5 ▼
OECD	2.7	-1.2 ▼
US	2.5	-1.3 ▼
China	4.4	-0.7 ▼
Euro area	2.6	-1.7 ▼
Germany	1.9	-2.2 ▼
France	2.4	-1.8 ▼
Italy	2.5	-2.1 ▼
Japan	1.7	-1.7 ▼
UK	3.6	-1.1 ▼
India	6.9	-1.2 ▼
Canada	3.8	-0.1 ▼

Bloomberg

Source: Organization for Economic Cooperative and Development, 6/9/2022

The U.S. and other countries continue to face two key problems: high levels of inflation and rising interest rates. This is a bad combination. Producer prices have gone through the roof since 2021, led by high energy costs and supply chain issues. This is a global phenomenon, but we are quite lucky in the U.S. that we have not been hit as hard as European countries. But these issues make it very difficult for both company managers and investors to know what to do.



Source: YCharts, 6/9/2022

The Fed's inflation target is 2% "over the longer run". They don't define what the "longer" means, but they clearly have missed this target over time. The University of Michigan surveys consumers each month and one of their questions is "How much do you think prices will go up in the next year?" Consumers' inflation expectations for the next year have soared from the beginning of 2021 and now are well above 5%. On top of that, Consumer Price Inflation in May rose 8.6% over the past twelve months, well above expectations. Chairman Powell cited consumers' rising inflation expectations, in particular, as one of the factors that forced the Fed to raise the Fed Funds rate by 0.75% in June, more than its earlier guidance of a 0.50% increase.

In June, short-term Treasury rates soared as markets priced in quicker and larger increases in the Fed Funds rate. Futures markets are now pricing in a Fed Fund rate of roughly 3.5% or more by year-end. This has led to an inverted yield curve, with 3- and 5-year Treasury rates higher than 10-year Treasury rates.



Source: YCharts, 6/15/2022

Markets Have Remained Volatile So Far in June

Investors have been buffeted so far this year. Equity valuations fell back from elevated levels while both high-quality and credit fixed income asset classes declined as rates and credit spreads increased.

The economy and corporate outlook is currently still good, but high inflation and a Fed determined to 'catch up' with inflation by quickly raising rates has increased the risks of an economic slowdown. In fact, an economic slowdown likely is needed to reduce inflationary pressures.

A tactical approach to markets may be particularly beneficial in times of uncertainty and rising risks such as we are experiencing. At our firm we use a tactical, rules-based approach to our investments, regardless of whether markets seem very positive or have uncertainties.



Doug Loeffler
Executive Vice President of Investment Management

Investments in Mutual Funds involve risk including the possible loss of principal. There is no assurance that the Fund's will achieve their investment objectives. Mutual fund investing involves risk, including the loss of principal and there can be no guarantee the strategies and processes discussed will be successful.

Investors should carefully consider the investment objectives, risks, charges, and expenses of the Sierra Mutual Funds. This and other important information about the Sierra Mutual Funds can be obtained in the prospectus, which can be obtained on our website www.sierramutualfunds.com or by calling 1-866-738-4363. The prospectus should be read carefully before investing. The Sierra Mutual Funds are distributed by Northern Lights Distributors, LLC, member FINRA/SIPC.

DISCLOSURES:

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy or sell securities, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her advisors. Economic conditions remain highly uncertain and there is no guarantee that the information presented in this commentary will come to fruition.

Neither Ocean Park Asset Management, Inc., nor Wright Fund Management, LLC are affiliated with Northern Lights Distributors LLC.

Past performance is not an indication of future results and there is no guarantee that any investment strategy will achieve its objectives, generate profits, or avoid losses.

Ocean Park Asset Management, Inc. ("Ocean Park") is an SEC registered investment adviser. Registration does not imply a certain level of skill or training. For information pertaining to the registration status of Ocean Park, please call 844-727-1813 or refer to the Investment Adviser Public Disclosure website (adviserinfo.sec.gov).

Sierra Mutual Funds & Ocean Park Asset Management, Inc.

3420 Ocean Park Boulevard, Suite 3060 | Santa Monica, CA 90405 | Sales: 844.727.1813

