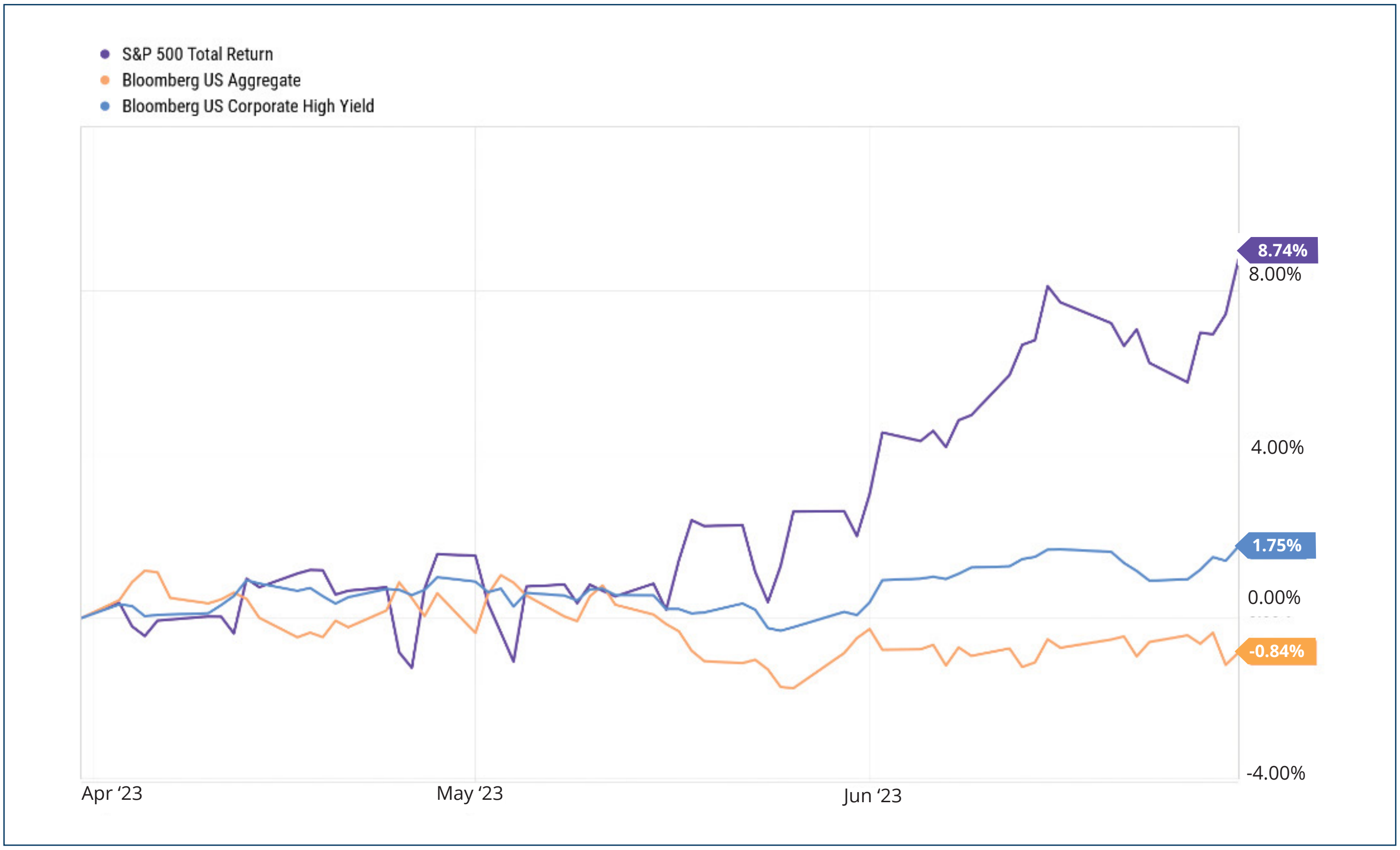
SIERRA MUTUAL FUNDS

Q2 2023

Disciplined Risk Management

WHAT HAPPENED: SECOND QUARTER 2023

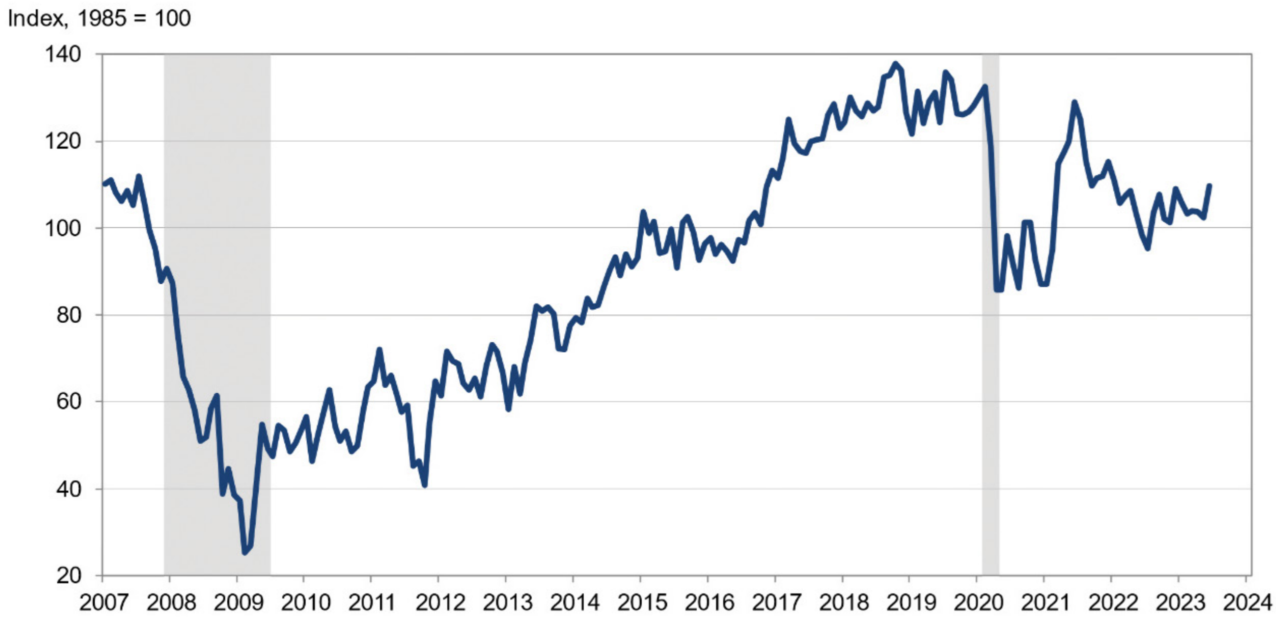
Financial markets continued to digest unexpectedly strong economic data during the second quarter, driving a wide divergence between the performance of stocks and bonds. Bond volatility also decreased during the quarter but remains at elevated levels. U.S. equities ended the quarter with strong results as equity risk premiums declined. Fixed income results were modest in the quarter. Bond volatility also decreased during the quarter but remains at elevated levels.



Source: YCharts, 6/30/23

The Consumer Confidence Index, a measure of consumer attitudes about current business conditions and future developments, rose to its highest level since January 2022. Consumers under the age of thirty-five or earning more than $35,000 income per year were the most positive.

Consumer Confidence Index®

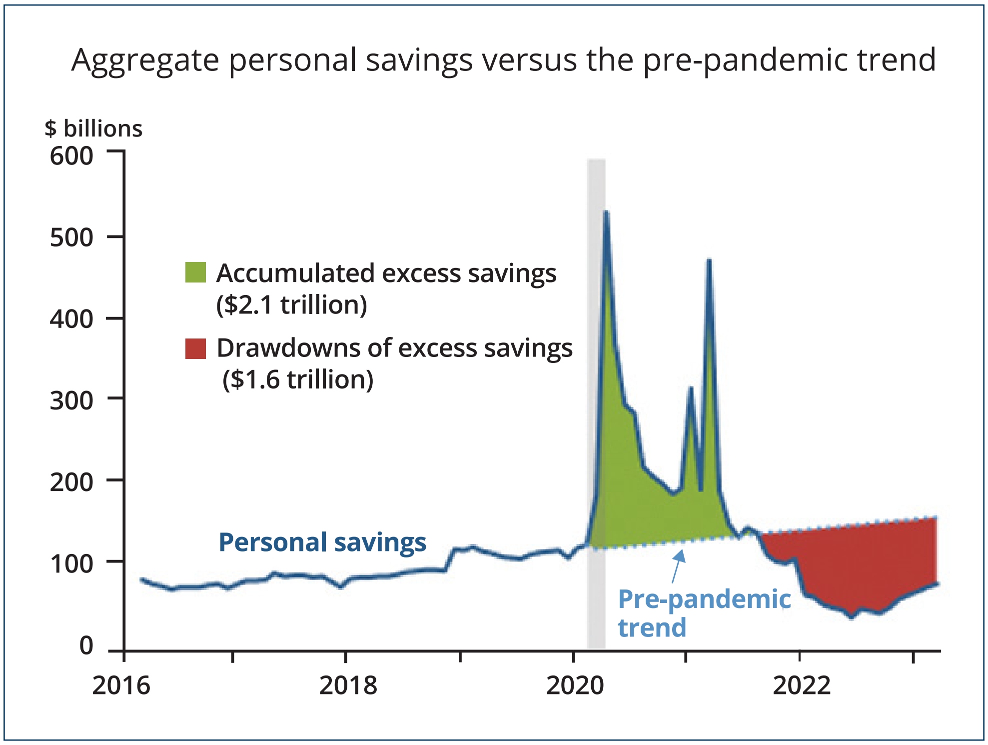


*Shaded areas represent periods of recession.

Source: The Conference Board, 6/29/23

Consumers are very confident in their current financial situation, but much less so about the short-term outlook for income and labor markets. In fact, most consumers believe that a recession is likely to take place at some time in the next 6 to 12 months. Bond volatility also decreased during the quarter but remains at elevated levels.

One of the drivers of this mixed outlook is that the federal government provided trillions of dollars of fiscal support for consumers during and after the COVID-19 economic shutdown. Much of this stimulus was not spent immediately and ended up as excess savings. However, consumers are now rapidly drawing down their excess savings as inflation erodes purchasing power. Once excess savings have been fully tapped, it may lead to lower future consumer spending and therefore a deterioration in economic growth.



Source: Bureau of Economics and Federal Reserve Bank of San Francisco. Published May 2023.

Consumer Price Inflation year-over-year has fallen from 6.45% at the end of 2022 to just over 4% in May. Unfortunately, the Federal Reserve focuses more on "core" inflation which excludes volatile categories like food and energy. Core inflation remains above 5%, which led to Chairman Powell stating in late June that a majority of Federal Reserve policymakers expect to raise interest rates at least twice more by the end of the year.

NAVIGATING THE SECOND QUARTER

All of the Sierra Mutual Funds started the quarter with significant cash holdings due to previous Sell Signals in most fixed income asset classes as well as international equities. Weak recent results in high yield corporate bond and municipal bonds led to the Sierra Tactical Bond and Sierra Tactical Municipal Bond Funds having the largest cash positions at the beginning of the second quarter.

New Buy signals were executed early in the second quarter in a broad range of fixed income asset classes. As a result, all of the Sierra Mutual Funds were almost fully invested at the end of April. 10-year Treasury yields were volatile in May, moving up from a low of 3.37% early in the month to a high of 3.83%. This led to a large number of sales in May, particularly in high grade bonds, municipal bonds, and other fixed income funds. At the end of the quarter, hawkish comments from Chairman Powell of the Federal Reserve resulted in the 10-Year Treasury Bond yield ending near the high of the quarter, above 3.8%.

High Grade U.S. bonds, intermediate-term bonds, and preferred equities were the largest detractors during the quarter for the Sierra Tactical Core Income Fund. Floating rate bonds and high yield corporate bonds were the largest contributors to performance for this fund. The Sierra Tactical Bond Fund benefited from its focus on high yield corporate bonds. Sierra Mutual Funds that invest in equities benefited from equity market strength during the quarter.

OUTLOOK

As we move through the rest of 2023, financial markets are likely to remain on shaky ground. The Fed's strong focus on reducing inflation through additional interest rates increases may weigh on economic growth and foster an unusually uncertain outlook for investors.

Fortunately, Sierra has implemented its process consistently for more than thirty five years, including periods of downturns, whether they are shallow or deep. We cannot control what will happen in 2023, but what we can control are our investment disciplines, which we will consistently implement in both rising and falling markets.