Observations and Perspectives:

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Terri Spath joined Sierra Mutual Funds in 2015 and has more than 27 years of investment management experience. She is responsible for market and economic analysis, portfolio allocation and investment strategy for the firm.

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Take It One Curve at a Time

Right now I am continually inspired by the competing Olympians and I just came across an obscure and just plain crazy sport: "skeleton." In it, thrill-seeking competitors plummet headfirst down a twisting, frozen track at speeds over 80 miles per hour.

John Daly (not the golfer!) retired from the sport of skeleton after the 2014 Games in Sochi after a heartbreaking race that dashed his medal hopes. His dramatic return in 2018 grew out of an undying passion for barreling down icy tracks combined with an icy resolve to rewrite his ending. Asked how he contains his nerves when competing, he answered "I just take it one curve at a time."

It can work for investing too.

Uncertainty is back, that is the one opinion most pundits agree on for 2018 thus far. It's not a hazard just for stocks, though; interest rates are hastily reflecting perils too -- from threatening government deficits that can substantially increase Treasury borrowings, a Federal Reserve Bank looking to unload its multi-trillion dollar balance sheet and looming geopolitical frictions, to name a few.

To limit or eliminate participating in the entire global bond market as a result of these concerns, we would argue, is a big mistake. A benchmark-centric approach to the standard Bloomberg Barclays U.S. Aggregate Bond Index does have a good chance of underperforming, but fear not. A tactical, rules-based buy and sell process can substantially reduce the guesswork, and creates the opportunity to avoid losses and generate gains in the current uncertain fixed-income markets.

Take late 2016, for example. When the Presidential results were tallied, many were surprised. The immediate reaction was that the new administration would press the pedal to the metal on growth, that taxes would likely go down and that infrastructure (funded by debt) would rise all fueling inflation and higher interest rates. For municipal bonds, this was a 1-2-3 punch for the asset class, which had been climbing steadily for over two years, and municipals took the elevator straight down to the basement. Our stop-loss rules on holdings allowed us to quickly sell, avoiding nearly all of the wreckage and preserving the long run of gains.

More recently, as stocks dropped sharply from late January into February 2018, Treasury bond prices were also chopped as interest rates shot up. This is not typical at all. Usually, falling stocks kindle a flight to quality pushing bond prices up and rates down. Again, a tactical manager can help mitigate fixed-income risks when both major asset classes are watching the tide go out.

We see opportunity emerging soon in certain parts of emerging markets debt, municipal bonds and high yield corporate bonds, as well as a handful of more unique parts of the bond world and even U.S. Treasuries. More importantly, we are seeking and identifying ways to participate in rising market trends, but with low volatility in a tactical, rules-based approach. In the current more uncertain environment, outsourcing fixed-income to a seasoned tactical manager may offer advisors and their clients the best risk-adjusted returns. A good motto is to control what you can control, which is risk. In other words, "take it one curve at a time."

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Past performance does not guarantee future results. Investors cannot invest in an index and unmanaged index returns do not reflect any fees, expenses, or sales charges.

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