SIERRA
MUTUAL FUNDS

INVEST WISELY.

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# *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.


*"We believe unconventional times call for non-traditional strategies."*

## *Show Me the Money*

We are consistently hearing that bonds are making advisors and investors pull out their hair. Nearly three decades of generally falling interest rates has translated into a bull market for traditional bond strategies, but times have changed.

If the goals of your conservative investors or of the conservative portion of your portfolio are to mitigate against volatility, generate income and produce a target return, then traditional bond investing may no longer be the life preserver it has been over the past thirty years. Interest rates are going up. Risk is too. These more unconventional times call for non-traditional strategies.

**Interest Rates are going up.**

The low yield on the 10-year Treasury of 1.37% in July 2016 could be the low of our lifetimes. In 2018, it has closed above 3% a dozen times. This week, the Federal Reserve again announced a hike to their federal funds rate, the second time this year. We have consistently stated we see no reason why the Fed will not hike four times in 2018, a more hawkish outlook than the market is expecting. While other global central banks are not yet following suit, most are ending purchases of government and corporate bonds. Less demand by central bankers means more supply looking for a home, pushing prices down and pulling rates up.

**Risk is too.**

While interest rates are slowly rising, risk is increasing too. Duration measures the sensitivity of bond prices to changes in interest rates. Higher duration equates to larger price swings. The duration on the Bloomberg Barclays U.S. Aggregate Bond (the "Agg") index, essentially the S&P 500 for bonds, is at its highest level in more than 30 years. Translation: a 1% increase in interest rates this year will hammer bond prices more than it ever would have at any time since at least the 1980s. As we mentioned above, the next 1% move in interest rates will likely be up rather than down.

**We believe unconventional times call for a non-traditional approach.**

With higher levels of risk in the benchmark Agg and rising interest rates, a non-traditional approach for mitigating volatility, income generation and positive total return may be a necessity. As an example, emerging market debt (EMD) was one of our most productive choices in 2017. (EMD is the debt of corporations and governments of developing countries such as South Korea or India or Russia). EMD is not in the benchmark Agg so traditional bond managers may not have fully participated in the double-digit gains last year. With U.S. dollar strength and new tariffs on imports, the good times ended for EMD and we acted on our rules-based trailing stops, exiting positions completely by late April and getting out of the way of further declines.

Life is active. We believe your manager should be too. Our tactical management style has contributed positively to performance despite this rising interest rate environment beginning in July 2016.

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

**The Standard & Poor's 500 Index (S&P 500)** is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists.

*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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