Observations and Perspectives:

Terri Spath, CFA, CFP®
Chief Investment Officer

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.

"This environment is not like the other, the one of falling rates and easy monetary policy."

Some of These Things Are Not Like the Others

Since early July 2016, the yield on the 10-year Treasury has rocketed from 1.38% to nearly 3%. Investors in intermediate Treasuries have lost more than 7% over that period as rising interest rates have resulted in falling bond prices.

Some bonds are not like the others. Over that same time-frame, high-yield corporate bonds, floating rate loans, foreign bonds and even high-yielding municipal bonds have risen nicely: mid-single digits to low double-digit rates. The prices of these asset classes are less influenced by interest rates and more influenced by other factors. Everything from monetary policy, currency, economic health, resetting interest rates and a much longer list of factors can, and do, influence different bonds and their prices.

Very broadly, two risks drive bond prices: interest rates and credit spread. Interest rate risk, measured by duration, captures the change in bond price from the up and down movements of different interest rates. Credit spread, broadly speaking, is the premium paid out to investors to compensate for the possibility of default.

Headlines and news about the bond market typically reference the U.S. Treasury rates, which are the most sensitive to rising interest rates. The reality is that bond sectors and asset classes behave differently to increases in the fed fund rates because interest rates aren't the only factor to consider.

This environment is not like the other, the one of falling rates and easy monetary policy. We can definitively say that we are in an environment of generally rising interest rates, as well as higher volatility, and that calls for looking at bonds that aren't like others. The questions are what and when? A rules-based approach for identifying rising and falling trends is ideal for the fixed-income arena.

We believe our investment process is not like the others. We have long used a rules-based approach to identify inflection points to signal when an asset class, or investment, is to be bought or sold. Flexibility to move across all the available bond sectors and asset classes allows for promising investment opportunities in any interest rate environment. In a time that is not like the others, look to asset managers, and bonds that are not like the others.

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.

This publication is for general information only and is not intended to provide specific advice to any individual or institution. Some information provided herein was obtained from third-party resources deemed to be reliable.

Mutual Fund investing involves risk, including the loss of principal. *Investors should carefully consider the investment objectives, risks, charges, and expenses of the Sierra Mutual Funds. This and other information can be obtained on our website www.sierramutualfunds.com or by calling 1-866-738-4363. The Sierra Mutual Funds are distributed by Northern Lights Distributors, LLC, member FINRA/SIPC.*

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

Entire publication ©2018 Sierra Mutual Funds. All rights reserved.

6808-NLD-8/23/2018