Market Commentary

December 2020

SIERRA MUTUAL FUNDS

OCEAN PARK ASSET MANAGEMENT

With Rates So Low, Is it Time to Abandon Bonds? We Offer Three Reasons to Own Bonds in 2021

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It could be that Jerome Powell and the Federal Reserve officials are the happiest of all of us to bid adieu to 2020. Earlier this year, during the emergence of the global COVID-19 crisis, the Fed pushed interest rates to historic lows to help support the U.S. economy. The 10-year Treasury rate now rests below 1%. We have fielded many investor questions asking how anyone can possibly make money in bonds with rates this low. It is a valid concern. We offer three reasons we like bonds in 2021.

- **Foreign bonds have benefitted from the weak U.S. dollar**: Like ice cream, there are many bond flavors besides plain vanilla. Foreign bonds "taste" and behave differently than vanilla U.S. government bonds. Easy (very easy) monetary policy, ballooning budget deficits, and expanding trade deficits historically are a formula for dollar weakness. During 2020, the lower interest rates in the U.S. translated into a weaker dollar. The result? Strength in prices for foreign bonds and emerging markets debt in particular, trends that are currently continuing in these asset classes.
- **High Yield Corporate bonds may provide income with less volatility than stocks**: High yield bond prices are highly correlated to U.S. stocks, but their volatility is much lower. The income provided by high yield corporate bonds is historically among the highest across bond asset classes. Price gains have the potential to kick total returns higher still. Stocks have roared back since March 23, and credit

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has delivered outstanding return too. Here too, we observe continued upward trends.

- **Municipal bonds, not just for the tax benefits**: 2020 has been taxing enough. In our opinion rising taxes should boost demand for municipal bonds. As importantly, U.S. government stimulus and Federal Reserve action should also support the municipal bond market. Robust total returns mean that municipal bonds may be productive for taxable and tax-exempt investment portfolios.

What's Your Process?

We never recommend investing based on a prediction, and that includes predicting for interest rates, currencies, stock prices, vaccine efficacy or anything else. For that reason, we always incorporate a quantitative, rules-based, and unique sell level for every investment holding, and we apply that sell level with discipline. Investments take the stairs up and the elevator down, meaning losing money happens a lot faster than making money. We believe having a sell discipline seeks to mitigate against drawdowns is a key to investment success, and one that we incorporate daily.

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