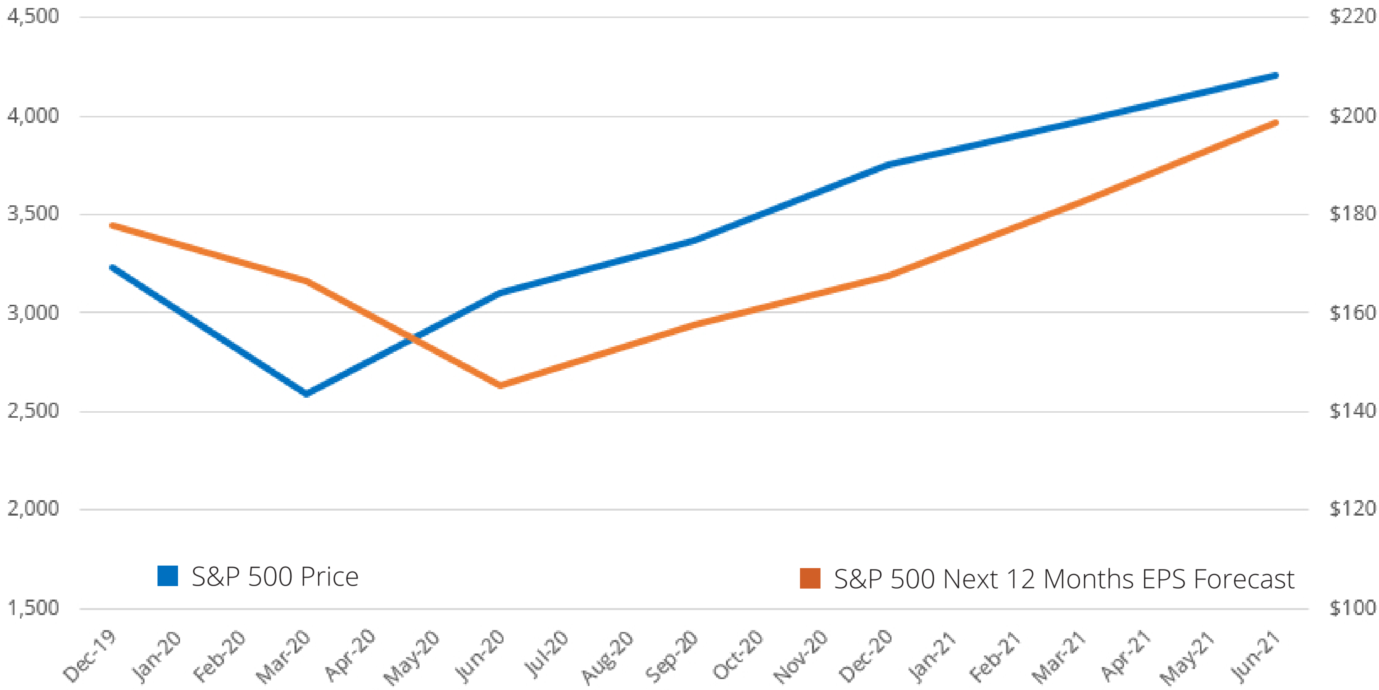
Investment Insights

June 2021

SIERRA MUTUAL FUNDS | OCEAN PARK ASSET MANAGEMENT

The Good, the Bad, and the Ugly of the COVID-19 Recovery

S&P 500's price has rebounded much faster than analysts' S&P 500 earnings estimates



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- Economic shutdowns due to the spread of COVID-19 last year led to significant drops in equity and other risk assets' prices. Stock prices bottomed much sooner than earnings estimates and have rebounded to a larger extent. The S&P 500 index hit a new all-time high in August 2020 and has set 46 additional all-time highs since then. S&P 500 earnings forecasts did not recover back to their previous high until March 2021.
- Equity valuations remain higher than pre-COVID while interest rates and the spread over Treasury yields paid to corporate bond owners are relatively low. At the same time, this economic recovery has been very strong but also choppy, since this was not a traditional recessionary cycle.
- There currently are many signs of economic and market improvement, but there are some that are also some signs that are bad and even ugly:

The Good:

- A high percentage of adults in the U.S. have been vaccinated against COVID-19.
- Unemployment has fallen significantly.

The Good (continued):

- The May unemployment rate of 5.8% represents an 80% retracement of last year's unemployment surge.
  - » And the latest data on employers' job openings shows an all-time high of over 9 million open jobs.
- Businesses are seeing high levels of new orders.
- The consumer savings rate since March 2020 is the highest ever, driven by large COVID-related payments and other benefits.

The Bad:

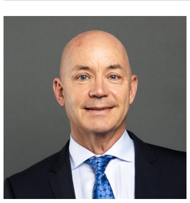
- Companies are having difficulty hiring the workers they need, which has led to increased order backlogs.
- The new administration has proposed tax increases on both corporations and individuals, which could reduce corporate profits and reduce spending.

The Ugly:

- COVID-19 badly disrupted global supply chains and they have not fully healed.
  - » As an example, a shortage of semiconductor chips has held back sales of many items including cars and trucks.
- Several emerging market countries have had to increase COVID-19-related restrictions as they have experienced a new wave of infections.
- U.S. tariffs have increased costs on some items such as lumber. Other commodity prices such as steel have also soared.
- These disruptions have led to increased prices for many items and increased market fears of rising inflation. The Consumer Price Index for all items increased 0.6% in May from April and has increased 5% over the past 12 months. This is the largest year-over-year increase in prices since 2008.

Everyone has a forecast, but do they have a plan?

- Every economist and market commentator has a forecast on where financial markets will go from here. As usual, most commentators' views are bullish. And they do not tell investors what to do if they are wrong.
- The long-term trend for markets is up, but it may be bumpy on the way due to the unique situation with COVID-19. Most investors have made a lot of money over the last year. It is up to advisors and investors to have their own plan in case there are significant bumps on the path to recovery.
- Our "Plan" is our Truly Tactical, Rules-Based Disciplines, which were developed over 30 years ago and are designed to identify opportunities, those asset classes that are in an uptrend, while seeking to mitigate downside risk through the use of trailing stops.



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Doug Loeffler is Executive Vice President of Investment Management at Sierra Mutual Funds & Ocean Park Asset Management. He provides research, analysis, and support for the investment activities of the organization and appears on behalf of the firm in the financial press.

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DEFINITIONS:

The S&P 500 Index, a registered trademark of McGraw-Hill Co., Inc., is a market-capitalization-weighted index of 500 widely-held common stocks. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

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1262-NLD-06092021
0332-OP00MCOM 6/7/2021