Interest Rate Hikes Are Here to Stay – Now What?

By now it's more-or-less official: Rising interest rates are part of the foreseeable future. Current inflation figures, recent central bank commentary, and continued COVID related supply chain issues are evidence that today's rising rate environment is likely to persist. Some investors may be contemplating a long-term interest rate shift - a 1980s-flavored Volker 2.0. Does all of this mean there's a lot of pain on the horizon for fixed income investors? Not necessarily.

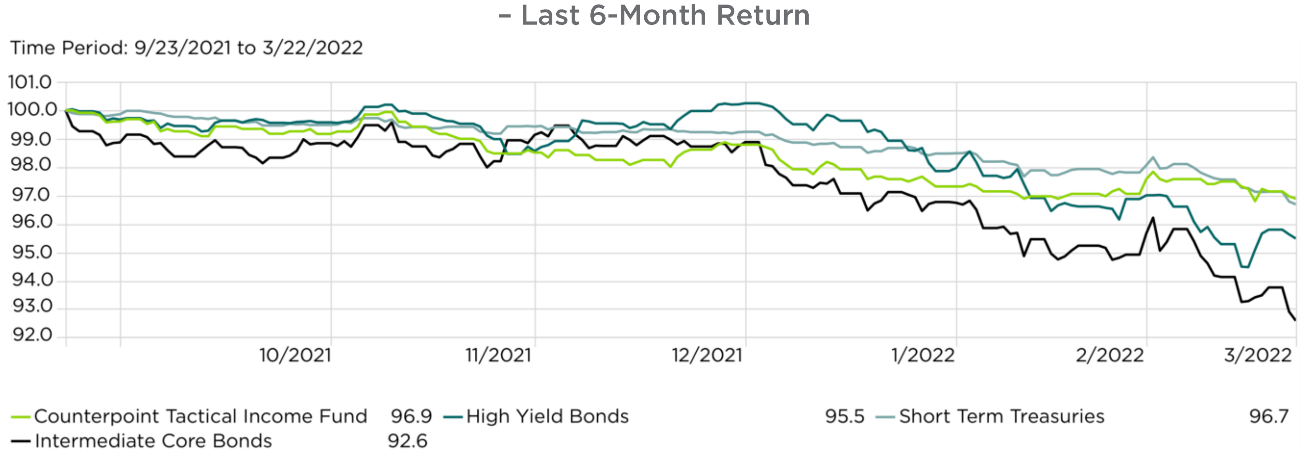
When rate increases are on the table, we believe it's critical to measure the duration of clients' fixed income portfolios. Duration directly measures interest rate sensitivity in fixed income holdings.

Tactical High Yield vs. High Yield vs. Short-Term Treasuries vs. Intermediate Core Bonds – Duration

Source: Morningstar. For illustrative purposes only.

As shown above, high yield fixed income and short-dated Treasuries both have lower duration, or interest rate sensitivity, than core bonds. While we wouldn't suggest simply swapping out core bonds for high yield, we do believe high yield has certain advantages in a rising rate environment. And it's worth keeping in mind that in the past, tactical high yield strategies have invested in short duration Treasuries and cash equivalents when risk-off – helping to reduce a portfolio's interest rate sensitivity.

CPITX vs. High Yield vs. Short-Term Treasuries vs. Corporate Bonds – Last 6-Month Return



Source: Morningstar. For illustrative purposes only.

The chart above compares recent performance of our Counterpoint Tactical Income Fund against traditional fixed income categories. CPITX, represented in bright green, pivots between high yield corporate credit when the high yield index is above its moving average ("Risk On"), and otherwise invests in short-term Treasuries and cash equivalents ("Risk Off"). Please note how Counterpoint Tactical Income Fund mimics the performance of high yield when risk-on. When risk-off, it behaves more like short-term Treasuries. In both cases it shows lower interest rate risk than core bonds.

As of March 22, 2022					**As of December 31, 2021**			
	Return Since Fund Inception (Annualized)	Year to Date	**6 Month Return**	1 Year Return	Return Since Fund Inception (Annualized)	1 Year Return	3 Year Return (Annualized)	5 Year Return (Annualized)
Counterpoint Tactical Income Fund (CPITX)	4.99%	-1.92%	**-3.10%**	0.62%	5.44%	2.53%	6.90%	4.50%
High Yield Bonds	3.80%	-4.74%	**-4.50%**	-0.73%	4.68%	4.81%	7.32%	5.04%
Short-Term Treasuries	0.67%	-2.57%	**-3.30%**	-3.19%	1.06%	-1.06%	1.73%	1.37%
Intermediate Core Bonds	2.01%	-6.34%	**-7.39%**	-4.57%	3.02%	-1.54%	4.79%	3.57%

Counterpoint Tactical Income Fund inception date is December 4, 2014
Total Annual Operating Expenses: 1.95%

Source: Morningstar. For illustrative purposes only. "High Yield Bonds" and "Short Term Treasuries" are completely composed of the Morningstar US High Yield Bond and US Short Term Government categories respectively. Intermediate Core Bond is represented by the Bloomberg Barclays US Aggregate Bond Index.

The performance data displayed here represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. The investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. For performance information current to the most recent month-end, please call toll-free 844-273-8637.

A tactical high yield strategy seeks to boost income, specifically when trends favor a "risk-on" position in high yield. High yield bonds tend to pay larger coupons than investment grade bonds to compensate for their greater risk. This added yield, especially following periods of market stress, has the potential to benefit investors who prize cash flows. Additionally, due to its return profile relative to risk, the strategy may also be suitable for a wide variety of investment portfolios as a diversifier.

As investors contemplate rising interest rates, they should consider their fixed income portfolios' duration as a measure of interest rate risk. One way to manage the possibility of further rate increases is to consider strategies that have lower duration and a systematic approach to managing portfolio downside. Tactical high yield is one such option.

There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses. Important information about the funds are available in their prospectuses, which can be obtained at counterpointfunds.com or by calling 844-273-8637. The prospectuses should be read carefully before investing. Investors should carefully consider the investment objectives, risks, charges, and expenses of the funds managed by Counterpoint Mutual Funds. The Counterpoint Mutual Funds fund family is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Counterpoint Mutual Funds, LLC is not affiliated with Northern Lights Distributors, LLC member FINRA/SIPC.

Important Risk Information

Investments cannot be made in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. Past performance is no guarantee of future results. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. The Adviser's reliance on its strategy and judgments about the attractiveness, value and potential appreciation of particular securities and the tactical allocation among investments may prove to be incorrect and may not produce the desired results. No level of diversification can ensure profits or guarantee against loss.

Index Definitions

Intermediate Core Bond is represented by the Bloomberg Barclays US Treasury 7-10 Year Index, which measures total return of US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 7-9.9999 years to maturity. The Tactical High Yield Strategy is defined by buying the Morningstar High Yield Category when it closes above its 200-day moving average the prior day. The strategy entirely switches to exposure of the Bloomberg 1-3 Year Treasury Index when the Morningstar High Yield Category closes below its 200-day moving average. High Yield and Short-Term Treasuries are represented by the Morningstar High Yield and US Short Government Categories.

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