OCEAN PARK
ASSET MANAGEMENT

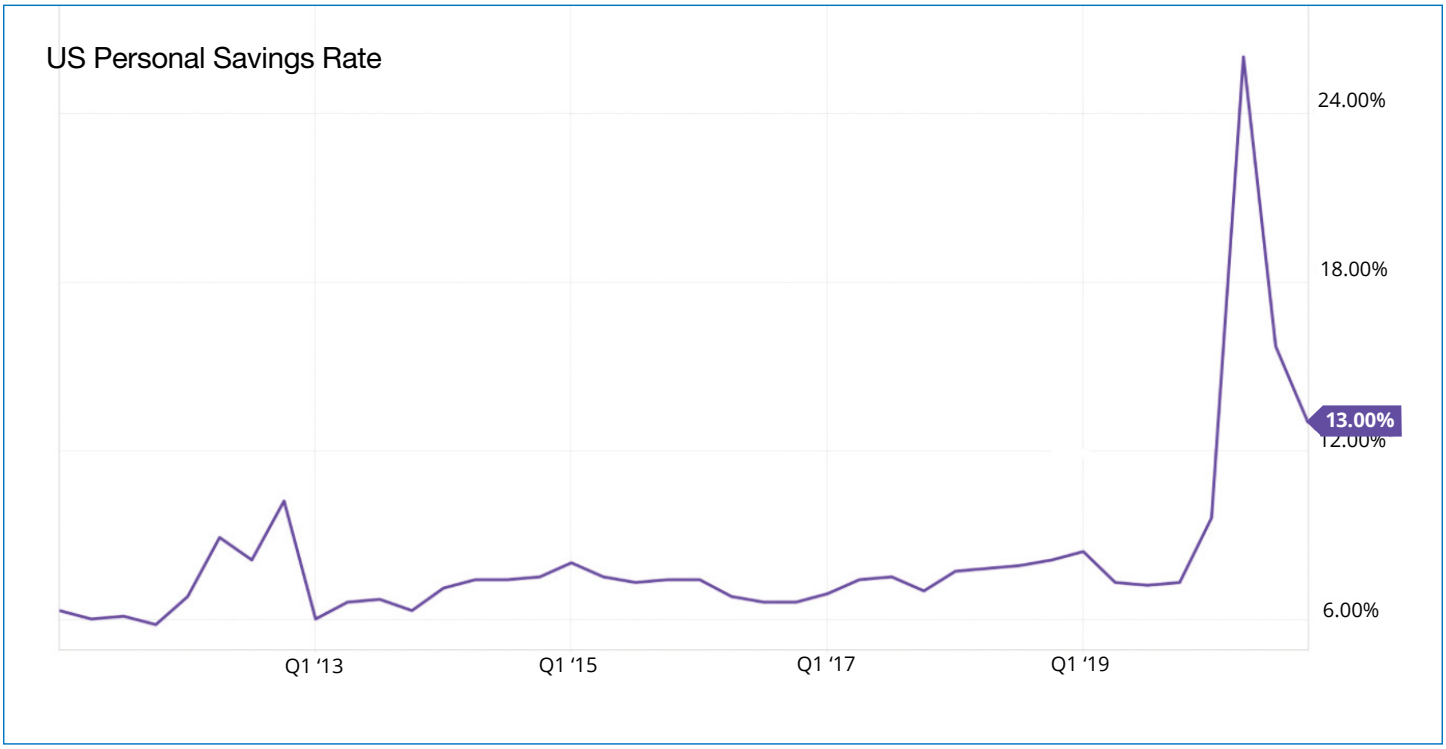
Q1 2021

Risk Matters. Defense Matters. Discipline Matters.

WHAT HAPPENED:
FIRST QUARTER 2021

The first quarter of the new year was full of political news with the change in administrations. Congress approved the Biden Administration's $1.9 trillion stimulus package in March. The administration is now proposing more than $2 trillion in infrastructure and other spending, while also considering tax increases on corporations and individuals. The tax increases may not take effect until next year, but they will likely influence some 2021 decisions by U.S. corporations.

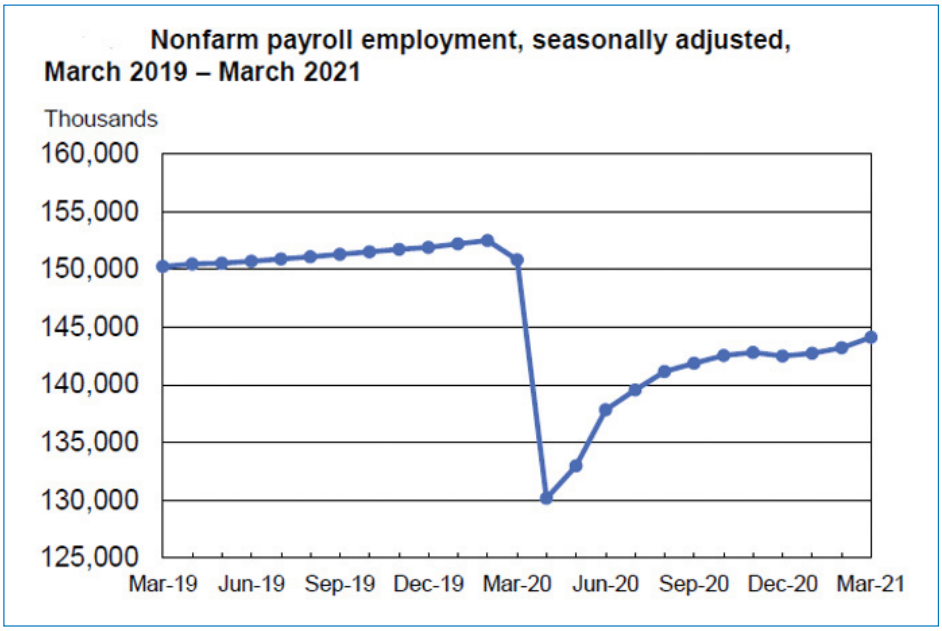
The economy was also much in the news during the quarter. Despite significant job losses in 2020, consumer savings soared last year due to unprecedented levels of government stimulus. The savings rate more than doubled in 2020 from the prior year as many consumers stayed at home and saved their stimulus checks.



Source: Ycharts, U.S. Bureau of Economic Analysis

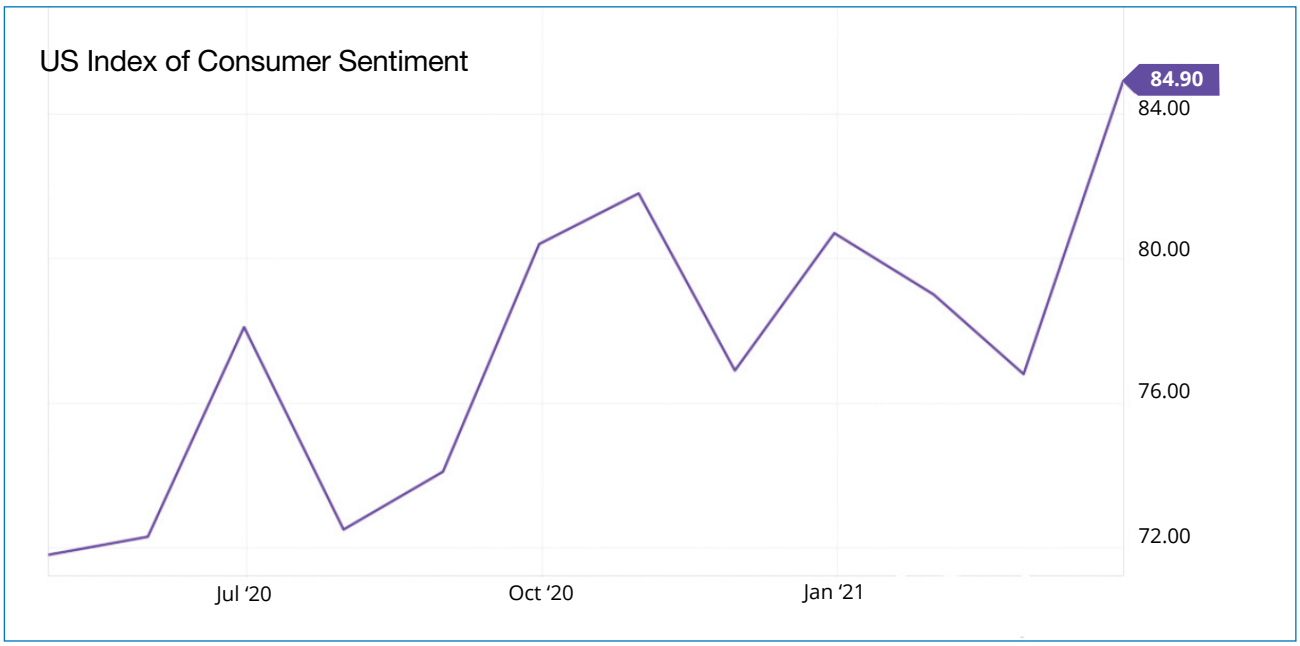
Falling numbers of new COVID-19 cases, combined with a significant increase in vaccinations, have allowed states to reduce or eliminate many COVID-19 restrictions. The number of daily vaccinations approached 3 million at the end of the first quarter with significant growth expected to continue.

The Biden Administration's goal is to return to the economy to "near-normal" by mid-year. The overall number of jobs is still about 7 million below pre-pandemic levels. But almost 1 million jobs were regained in March alone, as winter weather improved, and COVID-19 restrictions were reduced in many sectors.



Source: U.S. Bureau of Labor Statistics

Job growth and a positive outlook for economic reopening have boosted consumer sentiment to the highest level since the start of the pandemic.



Source: University of Michigan Survey of Consumers

Companies across the globe have also become more optimistic about the future. U.S. and Eurozone manufacturing companies' growth outlook at quarter-end rose to the highest level in more than 30 years, according to data from IHS Markit and the Institute for Supply Management.

U.S. employment and consumer spending are both poised to grow rapidly this year. But COVID-related production and distribution bottlenecks continue in many sectors. A result of these bottlenecks is the potential for rising inflation going forward. These inflation fears have been reflected in financial markets by a sharp rise in long-term interest rates.

WHAT WE ARE OBSERVING:
INVESTMENT MARKET COMMENTARY

The global financial markets faced changing conditions in the first quarter, as described above.

Fortunately, at Ocean Park, such fundamentals do not affect our asset allocation decisions or when we buy or sell holdings – we simply react with our long-proven disciplines to actual reversals in price trends, checking every holding in our managed accounts daily.

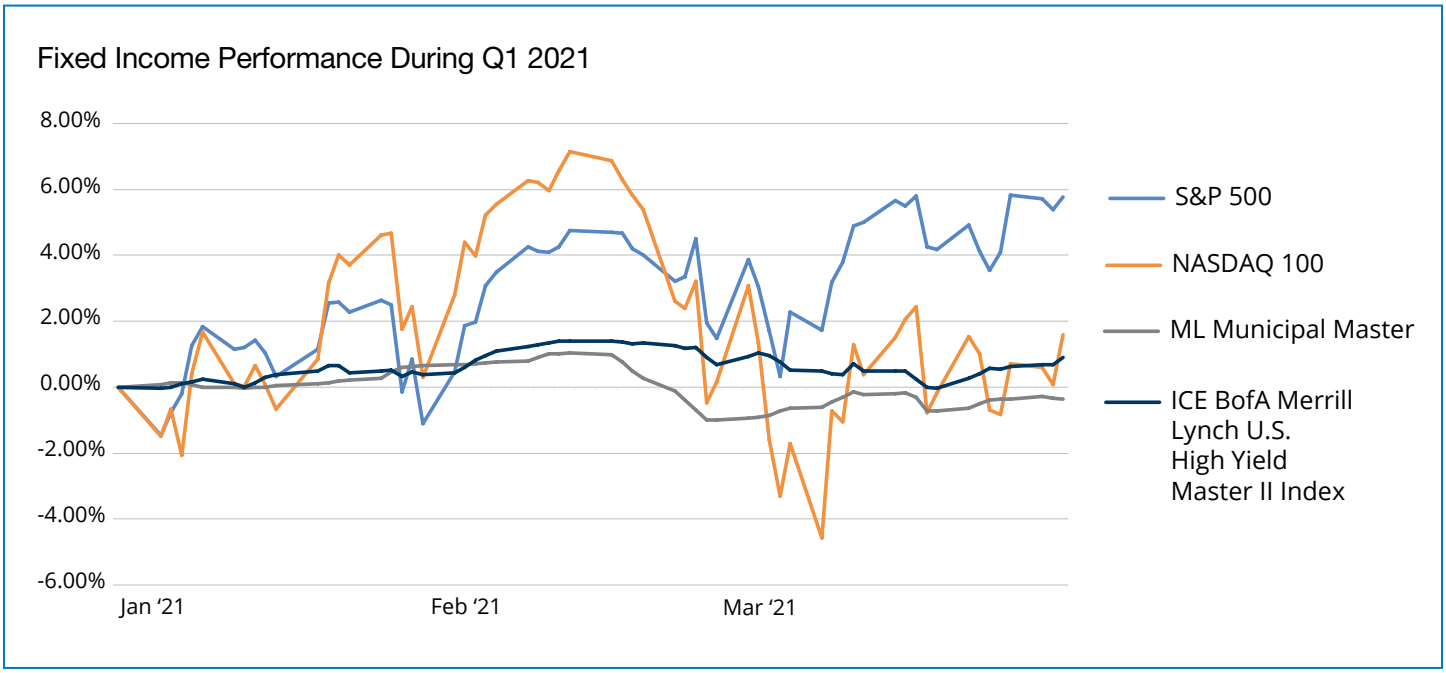
The strong bull market in U.S. stocks continued during the first quarter, although at a slower pace than previous quarters. The S&P 500 Index fell slightly in January but moved up through the first half of February. Equity markets had a deeper decline in late February and early March as investors rotated away from last year's equity winners: "stay at home" growth stocks in the NASDAQ. Value stocks were increasingly favored during the quarter as investor confidence in a stronger economy grew. Developed and emerging market equities rose during the quarter, but at a slower pace than U.S. markets.

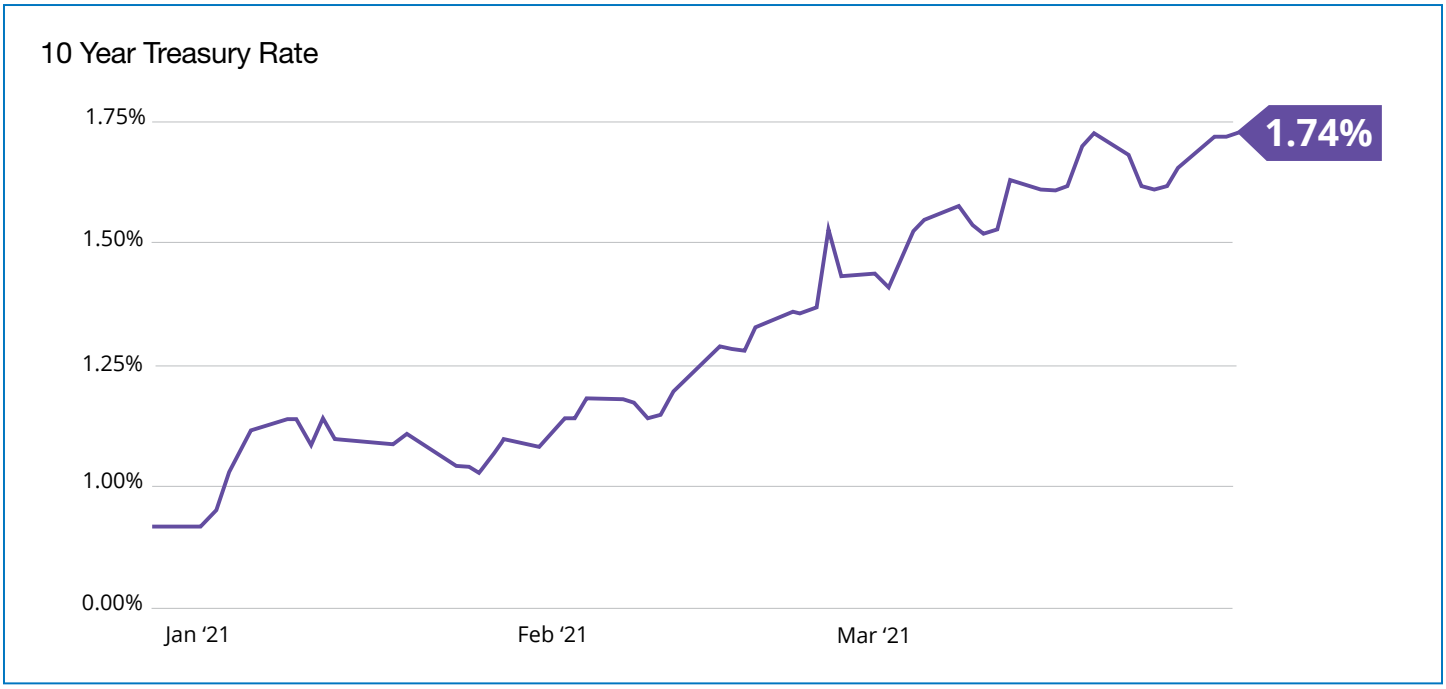
Significant fiscal stimulus from the Biden administration and an improved economic outlook put upward pressure on long-term interest rates throughout the quarter. The 10-year Treasury rate rose by more than 50 bps in the first half of the quarter, leading to losses for the quarter in U.S. Treasuries and core bonds. By quarter-end 10-year Treasury rates increased by 80 bps, the largest quarterly increase in over 30 years.

WHAT WE DID:
DISCIPLINE MATTERS

Rising interest rates first pressured long-duration fixed income categories like municipal ("muni") bonds and some investment-grade corporate bonds. Muni bonds held up well until late February, when most muni bond funds in our portfolios declined enough to hit their stops and be sold. The proceeds of those sales moved temporarily to tax-free money market funds. Most investment-grade corporate bond funds were also sold in February.

The continued march to higher interest rates in March pressured most fixed income categories. High yield bonds initially had been relatively resilient to rising interest rates in February, but some of our high yield bond holdings fell enough to hit our stops and be sold in March. Emerging market bonds also hit Sell signals in March.





Source is FastTrack

Asset classes and categories that were purchased during the quarter include MLPs and commodities, short-duration high yield corporate bonds, income funds, senior floating rates, and preferred stocks.

HIGHLIGHTED STRATEGY:
OCEAN PARK GLOBAL BALANCED PORTFOLIO SERIES

During Q1, the Ocean Park Global Balanced Portfolios benefited from a combination of broadly diversified index-oriented global equities and tactically-managed fixed income. The series of all-in-one core strategies are best-suited for investors seeking a combination of long-term growth and downside protection. Three portfolios are available with target equity levels of 40%, 50%, and 60%.

The Global Balanced Portfolio Series achieve broad diversification across global equities through passive, indexed-oriented investments. Broad diversification across fixed income investments is achieved through tactical, rules-based investments. We encourage you to discuss this diversification opportunity with your Financial Advisor.

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