Three Market Factors to Watch

Major market factors shape trends over the long term and provide insight into how we manage our portfolios. We believe there are currently three primary market factors to watch that will help shed light on the direction of interest rates, credit spreads and the market in general.

1. CHINA – HARD OR SOFT LANDING?

One of the biggest questions with China is if its Gross Domestic Product (GDP) continues on a downward trend to the point of a recession. Not ruling out the possibility of a few rocky quarters, we do not believe a hard landing is in store over the long term for China. The Chinese central bank reserve requirement ratio is currently at 17%. Even after a 0.5% drop in March, it is still one of the highest ratios in the world (the U.S. is currently at 10%\(^1\)). We feel it is well-reserved and that the Chinese central bank has plenty of room to lower reserve requirements if growth starts to decelerate.

What to watch: The *speed* at which the Chinese reserve requirement ratio may be lowered. Too quickly could signal a cause for concern and the risk of a hard landing.

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1 [https://www.federalreserve.gov/monetarypolicy/reservereq.htm](https://www.federalreserve.gov/monetarypolicy/reservereq.htm)
2. JOB GROWTH AND WAGE INFLATION

The Fed’s dual mandate is to maximize employment while maintaining a comfortable inflation target (~2%). In March, Ms. Yellen said the central bank will move cautiously as it weights interest rate hikes in light of a weak global economy and stubbornly low inflation. We keep a close eye on employment but focus more on the makeup of employment and wages. Wage inflation may be the ultimate metric to providing insight into employment and inflation and the possible catalyst to economic expansion. In simple terms, consumers earning more, consume more, helping boost GDP.

What to watch: The direction of wage inflation and the speed at which it accelerates or decelerates. A strong and continual increase in wage inflation should signal a more hawkish Fed.

OVER-THE-MONTH PERCENTAGE CHANGE IN REAL AVERAGE HOURLY EARNINGS FOR ALL EMPLOYEES, SEASONALLY ADJUSTED, MARCH 2015 – MARCH 2016

Real average hourly earnings increased 1.4 percent, seasonally adjusted, from March 2015 to March 2016. This increase in real average hourly earnings combined with a 0.3 percent decrease in the average workweek resulted in a 1.1 percent increase in real average weekly earnings over this period.
3. OIL

Oil is a focal point for all market participants. It is a broad reaching sector of the market providing insight into supply and demand dynamics, implications to the U.S. consumer and potential risks to the banking sector. Oil prices jumped to $40 toward the end of March for the first time since early December. Despite the recent rally, oil prices remain down more than 60% from their mid-2014 peak of $107 a barrel. At the end of the day, how long oil stays below $50 will influence U.S. production and future prices.

What to watch: The price range of oil and the speed of the recovery. Oil trading over $50 can help mitigate larger risks to the global economy but the speed with which these levels are reached may signal if a rebound can truly last.

For more information on Community Capital Management, please visit www.ccmfixedincome.com or email Jamie Horwitz at jhorwitz@ccmfixedincome.com.

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