COMMUNITY CAPITAL MANAGEMENT
Impact Investing Since 1999

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Research Highlights

CCM Investment Team

MARKET COMMENTARY

The equity markets continued their rally, generating positive returns in each month of the second quarter. In total, the S&P 500 posted a 3.09% total return for the quarter and closed at an all-time high in the month of June. The rally in equities was led by strong corporate earnings despite mixed economic data.

As anticipated, the Federal Reserve raised the targeted Federal Funds rate to 1% to 1.25% in June. Despite the rate hike, the yield curve flattened, leaving longer term interest rates lower, while shorter term rates increased. The Bloomberg Barclays U.S. Aggregate posted a 1.45% return led by the Corporate Investment Grade sector which returned 2.54% for the quarter. With yields dropping on the long end of the yield curve, longer duration securities outperformed. In addition, spreads on corporate bonds tightened in, contributing to the sector's outperformance.

Commodity and currency markets were mixed during the quarter. Despite an extension from OPEC members to continue production cuts, crude prices continued to decline down 10.88% during the quarter (as measured by West Texas Intermediate or WTI). The U.S. Dollar had mixed performance against a basket of major currencies, while precious metals were down, with spot gold down 0.61% and spot silver down 8.94%.

Treasury Yield Curve

DATA 1Q 2017 and 2Q 2017 | SOURCE: BLOOMBERG

Core Fixed Income Composite

PORTFOLIO COMMENTARY

In the second quarter of 2017, the Composite returned 1.34% (gross of fees) and 1.27% (net of fees), underperforming the Bloomberg Barclays U.S. Aggregate Bond Index ("Benchmark") return of 1.45%.

The Composite's largest sector, agency commercial mortgage-backed securities (CMBS), returned 1.32%, outperforming the U.S. Government subsector return of 1.17%. The outperformance of swaps relative to US Treasuries (agency CMBS are priced off swaps) coupled with product spread tightening were the main contributors to the outperformance.

The Composite's second largest sector, single family agency mortgage-backed securities, returned 1.08% in the quarter, outperforming the U.S. MBS sector return of 0.87%. The sector's slower prepayments and greater allocation to 30-year conventional MBS, which was the best performing sub-type during the quarter, were the two main reasons the sector outperformed on a relative basis.

The third major sector in the Composite, taxable municipal bonds, underperformed the U.S. Credit sector, returning 1.66% compared to 2.35%. The Composite's municipal profile of shorter duration, higher credit quality, and lower income, along with corporate spread tightening (compared to the Composite's muni spread widening) were the two main reasons for the relative underperformance.

The Composite's risk/return data continues to exhibit a superior profile compared to the benchmark. For the 5-year period ending June 30, 2017, the Composite's standard deviation (volatility of monthly returns) is 2.38% versus the benchmark's standard deviation of 2.86%. The Composite's Beta and Alpha is 0.79 and 0.41%, respectively.

As of June 30, 2017, the Composite's Yield-to-Worst (YTW) is 2.80%, above the Benchmark's YTW of 2.55%. We feel the Composite is fundamentally well positioned given its lower duration (interest rate risk) compared to the benchmark and its higher concentration in agency and government guaranteed securities. The portfolio management team does not anticipate any changes to its current asset allocation weightings.

Disclosures

Data sources: Barclay's Live, Bloomberg PORT, and eVestment Alliance

CCM is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

Bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any securities held in composite accounts. Market conditions can vary widely over time and can result in a loss of portfolio value. The results portrayed included the reinvestment of dividends, interests and other earnings. The index information presented herein does not reflect the impact of fees; you cannot invest directly in an index.

Gross returns in this presentation do not include effect of management fees. If included, returns would be lower. Gross returns will be reduced by management fees. For example, a 1% annual fee from an account with a ten-year annualized growth rate of 10% will produce a net result of 8.95%. Actual performance results may vary from this example. Sector attribution is presented on a gross only basis and does not reflect the deduction of management fees. For a more detailed description of fees and expenses, see Form ADV Part 2A.

As of 6/30/17, the average annual gross returns for the Intermediate Fixed Income Composite for 1-year, 5-year, 10-year and since inception (8/30/99) were 0.06%; 2.17%; 4.38%; and 5.13%. As of 6/30/17, the average annual net returns for the Intermediate Fixed Income Composite for 1-year, 5-year, 10-year and since inception (8/30/99) were -0.43%; 1.82%; 3.87%; and 4.71%.