COMMUNITY CAPITAL MANAGEMENT
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Research Highlights

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MARKET COMMENTARY

Volatility awoke from hibernation across asset classes during the winter quarter. Equity volatility, measured by the VIX Index, skyrocketed from a near record low of 9.15 in January to a high above 37 in early February. By that time, the S&P 500 and Dow Jones Industrial Average ("Dow Jones") had already had more 1% daily moves than in all of 2017. Fixed income markets from the front to back end of the curve were not much calmer. The 3-month London Inter-Bank Offered Rate (LIBOR) spiked 62 basis points (1bp = 0.01%), nearly equaling its rise for all of 2017. Meanwhile, the 10-year US Treasury broke through yield ceilings in place since 2013 and high yield credit spreads rose above 350 basis points for the first time in over a year.

Given the selloff in bonds for most of the quarter, the Bloomberg Barclays Aggregate was down 1.46%. Longer duration bonds underperformed by a wider margin, with the Bloomberg Barclays U.S. Treasury Long sector down 3.29% for the quarter and Bloomberg Barclays U.S. Corporate Long sector down 4.05%. After touching historically low spreads in 2017, corporate bond spreads widened by 16 basis points during the quarter as investors became risk averse. The Bloomberg Barclays U.S. Corporate bond sector posted a negative return of 2.32% and was the worst performing subsector of the Index.

Despite the ferocious self-off in the equity markets, the S&P 500 and Dow Jones rallied back a bit toward the middle of February to the middle of March. The rally was short lived as the markets experienced another sell-off at the end of March due to a feared trade war between the U.S. and its trade partners. In addition, negative headline news on a few of the bigger names in the major indices pushed markets lower, leading the S&P 500 and Dow Jones to end the quarter down 0.76% and 1.96%, respectively.

The U.S. economy continued to strengthen during the quarter with the employment picture in the U.S. at the forefront. According to the jobs report from the Bureau of Labor Statistics, 239,000 and 313,000 jobs were added in January and February, respectively. The labor force participation rate, which has been stubbornly low, improved to 63%, indicating workers previously on the sidelines jumped back into the labor force. On the manufacturing side, the Purchasing Managers' Index (PMI), came in at 60.8 in February, showing continued strength in the manufacturing sector.

Core Fixed Income Composite

PORTFOLIO COMMENTARY

In the first quarter of 2018, the Composite posted a negative return of 0.83% (gross of fees) and a negative return of 0.90% (net of fees), outperforming the Bloomberg Barclays U.S. Aggregate Bond Index ("Benchmark*) which posted a negative return of 1.46%.

The Composite's largest sector, agency commercial mortgage-backed securities (CMBS) was down 0.89%, outperforming the U.S. Government subsector return, which was down 1.15%. The higher income profile of the Composite's agency CMBS relative to U.S. Government and government-related securities helped relative returns; moreover, the Composite sector's shorter duration (interest rate risk) helped relative returns as rates rallied during the quarter.

The Composite's second largest sector, single family agency mortgage-backed securities, posted a negative return of 1.13% in the quarter, outperforming the U.S. MBS sector return, which posted a negative return of 1.20%. Slower prepayments and higher income were the main reason the Composite's sector outperformed on a relative basis.

The third major sector in the Composite, taxable municipal bonds, outperformed the U.S. Credit sector, posting a negative return of 0.24% compared to the sector's negative return of 2.13%. The Composite's taxable municipal bonds did not experience the spread widening that was displayed in the corporate bond market during the first quarter. Additionally, the shorter duration profile of the Composite's taxable municipal bonds relative to the U.S. Credit sector helped drive the relative outperformance.

As of 3/31/18, the Composite's risk/return data continues to exhibit a higher profile compared to the benchmark. For the 5-year period ending March 31, 2018, the Composite's standard deviation (volatility of returns) is 2.43% versus the benchmark's standard deviation of 2.93%. The Composite's Beta and Alpha is 0.79 and 0.06%, respectively.

**Effective April 1, 2018, the benchmark for the Composite will change from the Bloomberg Barclays U.S. Aggregate Bond Index to the Bloomberg Barclays Intermediate U.S. Aggregate Index. The sector returns for the U.S. Government subsector of the Bloomberg Barclays Intermediate U.S. Aggregate Index in the first quarter were down 0.73% and the sector returns for the U.S. Credit subsector of the Bloomberg Barclays Intermediate U.S. Index in the first quarter were down 1.36%. The U.S. MBS sector remains the same for both indices.*

Important Information

Data sources: Barclays 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 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 the 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 new 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 3/31/18, the average annual gross returns for the Core Fixed Income Composite for 1-year, 5-year, 10-year and since inception (8/30/99) were 1.50%, 1.82%, 3.62% and 4.92%. AS of 3/31/18, the average annual net returns for the Core Fixed Income Composite for the same time periods were 1.19%, 1.51%, x3.31% and 4.52%.

VIX Index: The CBOE Volatility Index, known by its ticker symbol VIX, is a popular measure of the stock market's expectation of volatility implied by S&P 500 index options, calculated and published by the Chicago Board Options Exchange.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.