COMMUNITY CAPITAL MANAGEMENT
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1Q 2019 Commentary

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MARKET COMMENTARY

The first quarter of 2019 proved to be the reemergence of the Federal Reserve's focus on the balance sheet. While Jerome Powell hinted to slowing the pace of run-off of the balance sheet in December, in the first quarter of 2019, he explicitly stated that the Federal Reserve intends to hold the balance sheet steady and stop the increase of fed funds rates unless economic data says otherwise. Powell's confirmation paired with the later stages of a long economic cycle, lower domestic growth projections, and some recent releases of weaker economic data, makes a reversal from lower rates very unlikely in the near future. It helped calm the markets from the increased volatility we saw at the end of 2018 and push both equities and fixed income higher during the first quarter of 2019.

Global stock markets rallied with the S&P 500 Index® up 13.7%, and the MSCI EAFE Index and Emerging Markets Indices both up almost 10%. In the U.S., investors shrugged off news that profit margins had declined from their 2018 record-high levels. Price gains were broad-based, yet most pronounced in the stocks of higher-growing companies, which had been the hardest hit at the end of last year when investors became concerned about their continued ability to grow in a slower-growth environment. The impressive 14.6% return in the small-cap-dominated Russell 2000 Index® was not enough to erase its now 15-year performance deficit against the largest companies found in the Russell Top 200 Index®. With the exception of small cap value stocks, these recent price increases have left the valuations of the broad-based U.S. market indices at or above their 20-year averages.

While stocks grew in the first quarter, the bond market also rallied with the Barclays Aggregate Index moving up almost 3% during the quarter as long-maturity corporates and non-investment grade bonds led the way. Both the Bloomberg Barclays U.S. Aggregate Credit-Long and High Yield Indices were up over 7%, in keeping with their historical pattern of being highly correlated to stocks. Corporate spreads are now back below their median levels of the last 15 years, so similar to stock technicals, there would appear to be very little margin should growth expectations shift even lower. But with more indications that rates may remain lower for longer, cheap access to credit may once again prove to justify lofty valuations in both the credit and stock markets.

CCM Alternative Income Fund

PORTFOLIO COMMENTARY

The CCM Alternative Income Fund (the "Fund") returned 4.01% for the first quarter including 0.0447% of distributed income. The riskier categories tended to post strong returns with exceptional strength in interest rate and credit markets and related assets.

While much of the quarter's performance seemed to be a recovery from the previous quarter's weakness, certain sectors finished the quarter much better than pre-4Q18 levels. Long-term treasury yields plunged to lows they have not seen for a while. This strength drove real estate investment trusts (REITS) and other interest rate sensitive areas to multi-year highs. In addition, we felt that many of the REITS in the Fund had struggled significantly in the end of 2018 and did not require hedges. The same can be said of many of the Fund's preferred share investments.

We have since monetized a few of the seemingly more volatile securities where we believe any subsequent returns do not justify the risk. Notwithstanding the performance of these investments and the Fund in general, we feel a number of our long investments remain extremely undervalued on an absolute and relative basis. Conversely, we see a number of larger macroeconomic themes driving down valuations in many riskier assets, particularly those with any sensitivity to Chinese economic activity.

We are not looking to blindly replace investments that we feel have topped out. The continued multi-year outperformance of higher growth investments over their more stable, more defensive brethren leaves a number of attractive places to invest capital where we feel are attractive risk/reward ratios.