The Trust Company of Virginia
www.tcva.com

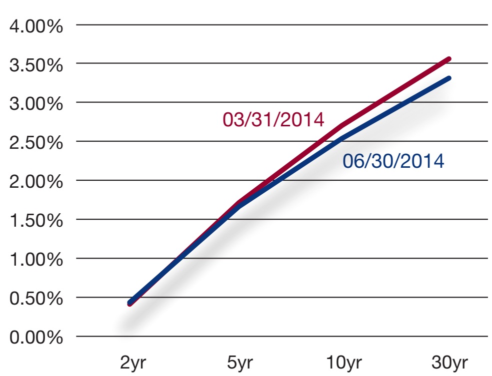
Fixed Income Market Comments

As economic growth in the first quarter of 2104 proved disappointing (GDP at -2.90%), the outlook for a rebound in the second quarter is expected to be somewhat lackluster. The end of the second quarter did see a glimmer of more robust economic data and the bond market responded with yields on the shorter end of the curve moving higher. However, the bond market continues to anticipate low levels of inflation and continued demand on the longer end and the 10 and 30 year Treasury bonds ended the second quarter with lower levels. Moderate economic growth and contained levels of inflation have allowed the Federal Reserve to continue on its current monetary policy path; reducing the bond purchase program and giving no indication when short term interest rates will increase. In their June statement, it was confirmed that policymakers remain concerned over the lack of momentum in the labor market. Overall, things remain relatively weak and the absence of meaningful wage growth is weighing on future policy decisions. To further complicate matters, businesses around the world remain apprehensive about capital expenditures due to tepid consumer demand for products and services. Although the unemployment rate has come down, job growth continues to be skewed towards part time and below average wage earners. This is proving to be an ongoing concern to policy makers at the Fed. Until wage growth is sustained and consumers increase their spending, the U.S. economy will be hard pressed to see elevated levels of inflation. Chairman Yellen stated that the recent uptick in some of the inflation data had a lot of "noise" associated and the underlying trend was still below the FOMC's target. In spite of all the Fed posturing, interest rates continued to trade in a narrow range and have registered positive returns for the quarter and year to date. The yield curve has flattened more recently, signaling more moderate growth and overall contained prices. A fixed income portfolio provides a consistent stream of income, principal protection and a reduction in the overall volatility of a balanced portfolio. In spite of which direction interest rates move, we believe fixed income exposure is a necessary part of overall asset allocation and individual objectives will determine how much should be allocated to this asset class.

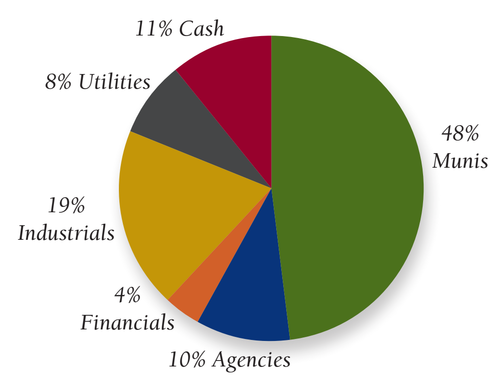
Taxable Fixed Income Performance Composite

The TCVA taxable, fixed income composite outperformed its benchmark for the quarter ending June 30, 2014. The composite has maintained an average weighted maturity and duration shorter than the benchmark. Characteristics of the composite included a large exposure to investment grade, corporate and taxable municipal bonds and higher overall credit quality. There has been an increase in exposure to corporate debt over the past quarter due to relative attractiveness of the sector. Maintaining above average income levels continues to be a challenge without compromising on the quality of the securities. The yield curve continues to flatten, making a barbell approach to the management of assets more appealing. However, building and monitoring a fixed income portfolio with weighted average durations shorter than the respective benchmarks remains the best defensive strategy in the current rate environment.

Treasury Yield Curve



Fixed Income Sector Breakdown



Portfolio Characteristics:

Average Maturity	3.2 yrs
Average Duration	2.8 yrs
Average Yield to Maturity	2.5%
Average Coupon	4.55%
Average Quality	AA

Credit Quality:

AAA	17%
AA	48%
A	22%
BBB	13%