CALTRUST
Investment Trust of California

Service Center
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Monthly Market Update

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President's Perspective

State Revenues In July Well Short Of Budget Projections – Bear Watching

The State Controller's Office reports that revenues in July came in $591 million, or 9.8 percent, below the projections included in the recently-adopted 2016-17 State budget. Moreover, as the Controller reported, this revenue weakness was across all three of the state's main revenue sources:

- Retail sales and use taxes were $213 million (23.5%) below projections;
- Personal income taxes missed projections by $323 million (6.9% below estimates); and
- Corporation taxes were $49.5 million below estimates (17.9%).

The Controller rightly points out that "a one-month snapshot is not indicative of an economic trend", she also makes clear that a miss of this magnitude cannot be ignored, and that the budget situation bears watching.

CalTRUST Conducts Most Popular Webinar To Date

CalTRUST hosted its Mid-year Economic Outlook webinar in July. A recording can be downloaded here. Over 75 registrants listened to WellsCap Senior Economist Gary Schlossberg discuss:

- The US economic growth outlook into 2017;
- How California fits into the overall US outlook;
- Prospects for a Federal Reserve interest-rate hikes this year;
- Which way for longer-term yields; and
- The election outlook and its likely effect on Federal tax, spending and regulatory policy.

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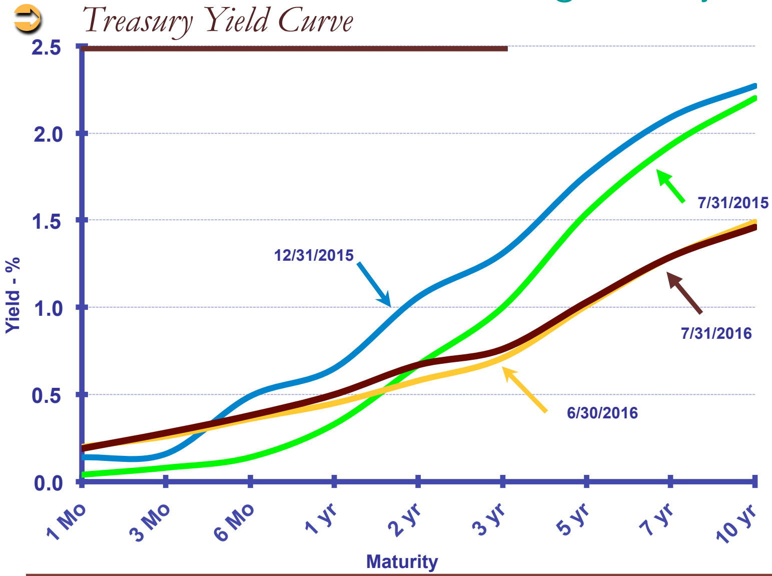
Treasury Yield Curve



CalTRUST Money Market Funds

Avg Annual Total Return (July 31, 2016)	1-year	3-year	5-year	10-year	Since Inception
CalTRUST Government MMF	0.16%	0.06%	0.04%	0.97%	3.29%
Lipper Instl Govt MMF Average	0.08%	0.03%	0.03%	0.94%	--
CalTRUST Heritage MMF	0.31%	0.16%	0.14%	1.17%	2.69%
Lipper Instl MMF Average	0.15%	0.07%	0.06%	1.04%	--

CalTRUST Portfolio Snapshot

(July 31, 2016)

	CalTRUST Short-Term		LAIF	CalTRUST Medium-Term		Merrill 1-3 Year
	Total Return	Yield Return	Yield Return	Yield Return	Total Return	Gov't & Corp "A" or Better
Distribution Yield[1]	0.72%		0.60%	1.00%		N/A
Effective Duration	0.55		N/A	1.75		1.88
Avg Maturity (yrs)	1.07		0.47	1.98		1.95
Returns:[2]						
One Month	0.06%	0.06%	0.05%	0.00%	0.08%	-0.01%
One Year	0.70%	0.62%	0.46%	1.47%	0.95%	1.41%
Three Year[3]	0.52%	0.48%	0.33%	1.03%	0.80%	1.07%
Five Year[3]	0.45%	0.45%	0.33%	0.84%	0.86%	0.97%
Ten Year[3]	1.49%	1.45%	1.42%	2.22%	2.07%	2.58%
Since Inception[3, 4]	1.80%	1.76%	1.70%	2.27%	2.12%	2.58%

1. CalTRUST Short- and Medium-Term and LAIF yields are net of fees. The Merrill Index is unmanaged, and does not reflect any deduction for administrative fees or expenses.
2. CalTRUST and LAIF returns are net of all investment advisor, administrative and program fees.
3. Annualized.
4. CalTRUST Short- and Medium-Term portfolios commenced operations February 13, 2005.

Financial Markets Update

Flat Yield Curve Has Preceded Each of Past Five Recessions -- But Correlation Is Not Causation

In his recent ***AdvantageVoice*** blog post (link) Wells Fargo Investment Strategist James Kochan, debunks the myth that the US is bound to dip into recession in the next year, since the yield curve has flattened significantly from it's very steep 2014 configuration.

In past cycles, Jim notes, a flat yield curve emerged after short-term rates moved sharply higher; often pushing up bond yields and mortgage rates. In looking at how yield curves behaved prior to the past five recessions, Jim finds that:

- In three of those cycles -- 1972-74, 1975-1980 and 2003-07 -- short-term rates rose significantly, as did the 2-year Treasury yield, and the recession was preceded by a housing market downturn;
- In 1990-91 cycle the yield curve actually steepened, and yield increases were relatively small; and
- In the 1998-2000 cycle, the curve was already flat.

The situation today paints quite a contrast, as Jim notes that:

- Short-term rates have risen only slightly and still are at historically low levels; and
- Rates on 30-year and adjustable rate mortgages are lower than at the start of the expansion, and have declined as the curve has flattened – contributing to a gradual strengthening of the housing market rather than a decline.

In short, Jim finds that today's flat yield curve does not have the same implications for the economic outlook as in previous cycles.