CALTRUST
Investment Trust of California

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# Monthly Market Update

January 2016 Volume 12 | Number 1

## Happy New Year To All From CalTRUST

## President's Perspective

**CalTRUST Funds Enter 2016 With $2.3 Billion in Assets; Portfolios Well-Positioned For A Challenging Rate Environment**

The CalTRUST funds enter 2016 on a high note, with assets of $2.3 billion. Moreover, with the launch of the CalTRUST Government Money Market Fund in the Fall of 2015, CalTRUST gives local agency investors even greater ability to allocate their funds across the 0-5 year maturity range permitted under the California Government Code; and maximum flexibility in the management of local funds.

Rates at the front-end of the yield curve trended higher throughout the latter part of 2015, in anticipation of the Federal Reserve's first rate hike since before the financial crisis, which the Fed instituted in mid-December. Emblematic of this trend, the two-year treasury increased from 0.69% to 1.06% from July 1, 2015, to December 31, 2015. On the other hand, rates at the longer end of the curve have been wrestling with conflicting signals:

- A strengthening US economy, putting upward pressure on rates; and
- Stagnating growth in China, along with deflation fears stoked by the continued decline in energy prices and other commodities, prompting a flight to quality and downward pressure on rates.

The CalTRUST Short- and Medium-Term Funds are positioned to adapt to a changing, and potentially volatile, rate environment, the duration of the funds is at the shorter end of their targets, at 0.48 years for the Short-Term Fund and 1.66 years for the Medium-Term Fund.

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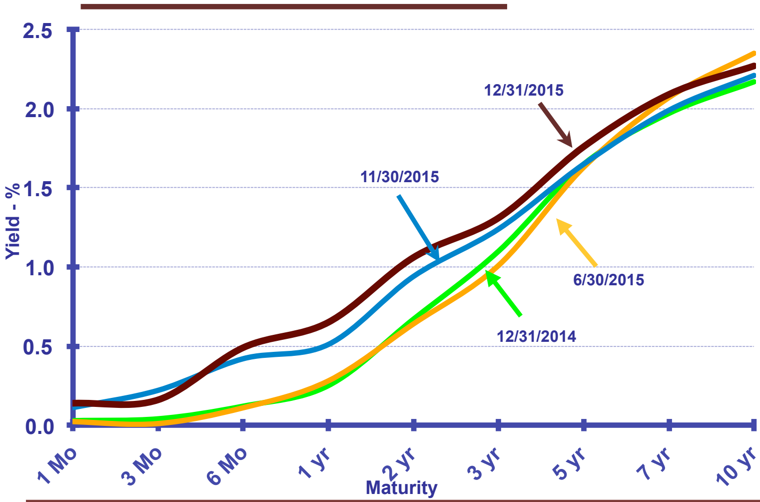
## Treasury Yield Curve




## CalTRUST Money Market Funds

| Avg Annual Total Return (December 31, 2015) | 1-year | 3-year | 5-year | 10-year | Since Inception |
|---|---|---|---|---|---|
| CalTRUST Government MMF | 0.03% | 0.02% | 0.01% | 1.22% | 3.35% |
| Lipper Instit Govt MMF Average | 0.03% | 0.01% | 0.01% | 1.18% | -- |
| CalTRUST Heritage MMF | 0.13% | 0.10% | 0.11% | 1.42% | 2.76% |
| Lipper Instit MMF Average | 0.05% | 0.03% | 0.04% | 1.29% | -- |

## CalTRUST Portfolio Snapshot

(December 31, 2015)

| | 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] | 0.56% | | 0.41% | 0.92% | | N/A |
| Effective Duration | 0.48 | | N/A | 1.66 | | 1.87 |
| Avg Maturity (yrs) | 0.96 | | 0.49 | 1.97 | | 1.93 |
| **Returns:**[2] | | | | | | |
| One Month | -0.03% | 0.05% | 0.03% | 0.08% | -0.12% | -0.11% |
| One Year | 0.39% | 0.49% | 0.32% | 0.83% | 0.61% | 0.66% |
| Three Year[3] | 0.36% | 0.41% | 0.28% | 0.74% | 0.51% | 0.64% |
| Five Year[3] | 0.41% | 0.44% | 0.32% | 0.90% | 0.80% | 0.93% |
| Ten Year[3] | 1.71% | 1.69% | 1.64% | 2.22% | 2.28% | 2.62% |
| Since Inception[3, 4] | 1.84% | 1.82% | 1.76% | 2.19% | 2.25% | 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

**Forecast For Moderate, Unspectacular Growth in 2016 Could Be Derailed By 'Identifiable Uncertainties'**

As 2016 gets underway, the consensus baseline outlook is for moderate, unspectacular economic growth - much as we have seen throughout this post-financial crisis recovery cycle. The difference this time is that such modest growth is seen as adequate enough to support a modest rise in inflation, gradual interest-rate increases over the course of the year, and a stock-market rally in the single digits (following a flat 2015 performance).

As always, however, there are uncertainties and potential 'shocks' which could upend this forecast. In his first ***Market Comment*** (link) of 2016, WellsCap Senior Economist Gary Schlossberg takes a look at some of the most significant, such as:

- A mild recession, triggered by the Fed's premature - in retrospect - rate hikes sidetracking a fragile growth recovery;
- Oil prices rebounding earlier - and stronger - than expected, due to OPEC cuts or a supply disruption caused by Mid-East upheaval;
- A decline in long-term US rates, pushed lower by foreign demand for US securities and a persistent lack of any inflationary pressures;
- A resurfacing of questions regarding the long-term viability of the Euro amid Britain's looming 'Brexit' vote and gains by anti-austerity parties on the continent;
- Global 'deflation' prompting a growing number of central banks to implement increasingly negative interest rates, risking distortions such as housing and other asset bubbles and cash hoarding.