CALTRUST
Investment Trust of California

Service Center
888-422-8778

Monthly Market Update

January 2017 | Volume 13 | Number 1

Happy New Year To All From CalTRUST

President's Perspective

CalTRUST Funds Enter 2017 With Over $2.75 Billion in Assets; Portfolios Well-Positioned For Challenges of New Year And New Administration

CalTRUST enters 2017 on a high note, with assets over $2.75 billion; an increase of $450 million on the year. Moreover, the funds are well-positioned for further growth in the new year, giving investors the ability to allocate their funds across the 0-5 maturity range permitted under the California statute; and maximum flexibility in the management of local funds.

We enter the new year with prospects for:

- Accelerating growth in anticipation of significant fiscal stimulus from tax cuts, increased defense and infrastructure spending;
- A quickened pace of Fed monetary tightening;
- Persistent job growth with diminishing slack in the labor force;
- Expectations turning from deflation to modestly rising inflation; and
- Ongoing anti-globalization risks in developed market countries.

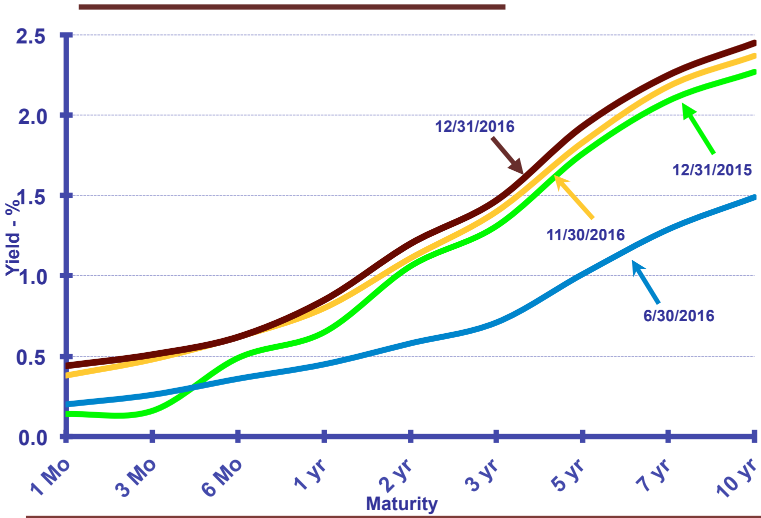
The CalTRUST Short- and Medium-Term Funds are positioned to adapt to this changing, and potentially volatile, rate environment. The duration of the funds is toward the shorter end of their respective targets, at 0.50 years for the Short-Term Fund and 1.74 years for the Medium-Term Fund.

For more information on the CalTRUST funds, please contact me by email at the address below, or contact:

Lyle Defenbaugh, Wells Fargo Asset Management 916-440-4890
Laura Labanieh, CSAC Finance Corporation 916-327-7500
Norman Coppinger, League of California Cities 916-658-8277
Neil McCormick, California Special Districts' Association 916-924-2732

Chuck Lomeli, President of the CalTRUST Board of Trustees and Solano County Treasurer
calomeli@solanocounty.com

Treasury Yield Curve



CalTRUST Money Market Funds

Avg Annual Total Return (December 31, 2016)	1-year	3-year	5-year	10-year	Since Inception
CalTRUST Government MMF	0.28%	0.10%	0.07%	0.77%	3.24%
Lipper Instl Govt MMF Average	0.13%	0.05%	0.04%	0.75%	--
CalTRUST Heritage MMF	0.48%	0.22%	0.18%	0.98%	2.65%
Lipper Instl MMF Average	0.29%	0.13%	0.09%	0.86%	--

CalTRUST Portfolio Snapshot

(December 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]	0.92%		0.73%	1.11%		N/A
Effective Duration	0.50		N/A	1.74		1.89
Avg Maturity (yrs)	0.97		0.47	2.07		1.94
Returns:[2]						
One Month	0.08%	0.08%	0.06%	0.09%	0.06%	0.05%
One Year	0.87%	0.75%	0.58%	1.02%	1.09%	1.07%
Three Year[3]	0.52%	0.54%	0.38%	0.85%	0.76%	0.82%
Five Year[3]	0.52%	0.48%	0.35%	0.85%	0.74%	0.84%
Ten Year[3]	1.30%	1.26%	1.23%	1.86%	1.93%	2.31%
Since Inception[3, 4]	1.76%	1.73%	1.66%	2.09%	2.15%	2.45%

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

Equity Markets Likely To Continue Moving Upward in 2017 Despite Rising Yields -- Until Inflation Anxieties Overtake Deflation Worries

In his inaugural ***Economic and Market Perspective*** for 2017, WellsCap Chief Investment Strategist Jim Paulsen, ponders how long equity markets can continue to move up in the face of rising yields.

Historically, Jim notes, when rates rise while the 10-year Treasury bond yield exceeds the S&P 500 earnings yield, the S&P Index has tended to decline. And, the opposite holds true -- when the earnings yield on the S&P exceeds the 10-year bond yield, the S&P has gained. Given that the earnings yield "spread" over the 10-year bond yield is among the widest since at least 1960, suggests the equity markets may continue moving higher in the face of rising yields for longer than most anticipate -- in the short-term.

Interestingly, Jim points out that this positive correlation between bond yields and stock prices (both mostly moving in the same direction) is mostly tied to how investors view inflation/deflation risks. That is, when the prevailing market anxiety is focused on deflationary risks, stocks tend to move in tandem with bond yields; and when inflation fears predominate, stock prices struggle mightily to stay positive in the face of rising bond yields.

Since an increase in inflation has begun to show up -- modestly -- in the numbers, and investors' inflation fears have begun escalating, it is quite likely that, as the year progresses, bond yields will prove to have finally risen too much for stock prices.