

# CalTRUST – Monthly Update

## Markets Summary

January 31, 2022

### Market / Macro Summary

January has proved to be a rocky start for fixed income markets. A December labor report which indicated very tight supply conditions, annualized headline inflation eclipsing 7% and a resultant hawkish tilt by the Federal Reserve, led US interest rate to record the biggest monthly selloff since the Global Financial Crisis.

The US Non-Farm Payroll report for December came in well below the 450k estimate with 199k, but what was more worrisome from an inflation perspective was the tight labor market conditions with supply still lagging the surge in labor demand. That was reflected in the surprisingly large drop in the unemployment rate to 3.9% from 4.2% in November and the continued climb in average hourly earnings rising another 0.6% which brought the annualized wage growth to 4.7%. That concern was further buttressed by US consumer prices continuing their steady climb in December, as the headline number came in at 7.1%, the highest reading since February 1982. The main driver of the 5.4% YoY rise in Core Inflation was driven across the board reflecting continued supply chain issues and was particularly reflected in certain key categories such as used cars (+37.3%), apparel (+5.8%) and shelter (4.1%).

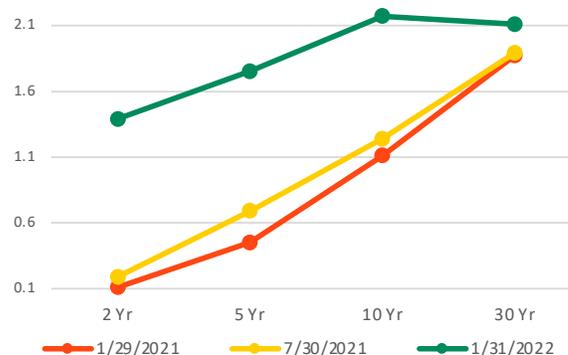
These most recent economic reports seemed to have put the Federal Reserve on a defensive as the Federal Open Market Committee (FOMC), after meeting for the first time this year, released a post-meeting statement indicating that “it will soon be appropriate to raise the target range for the federal funds rate” given strong inflation and labor market progress. The Committee stated that it expects to finish tapering in early March and confirmed that balance sheet reduction will begin after rate hikes commence. The balance sheet, which has grown close to \$10trn, is expected to be reduced primarily by letting assets roll off the balance sheet, rather than asset sales. In the ensuing press conference, Chair Powell maintained optionality on the timing of entering into a rate hiking cycle, noting that the Committee has not made any decisions around the cadence of rate hikes, and that their decisions will be guided by data and their evolving outlook.

This rather hawkish stance led to a sharp selloff in US interest rates led by short term rates such as 2 year nominal yields rising ~14bps alone on the day when the FOMC met and 45 bps for the month, the biggest monthly rise since December 2009. The market priced in as many as nearly five 25 bps interest rate increases for 2022 as the Fed aims to reign in inflation. US equity markets witnessed similar volatility with the S&P 500 falling 5.3%, the biggest monthly drop since March 2020 and the largest decline for January since 2009. Risky assets in fixed income, such as Investment Grade (IG) Credit, initially performed well, however, showed signs of stress due to concerns of financial conditions potentially tightening which could hurt profit margins.

### US Treasuries Yields

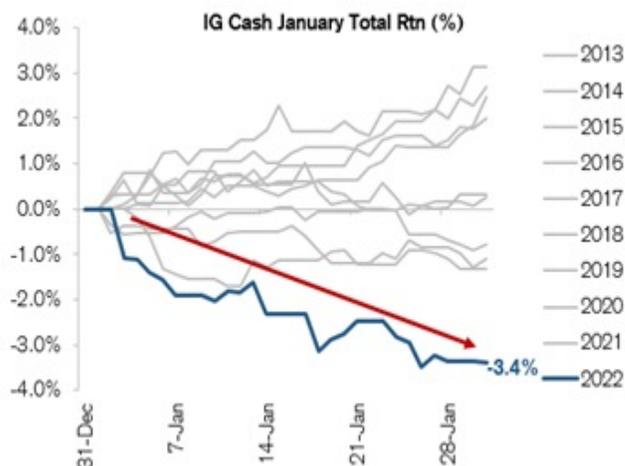
Maturity	Yield (%)	MoM Change	YTD Change
3 Mos	0.22	0.16	0.16
6 Mos	0.49	0.30	0.30
1 Yr	0.78	0.39	0.39
2 Yr	1.18	0.45	0.45
5 Yr	1.62	0.36	0.36
10 Yr	1.79	0.27	0.27
30 Yr	2.11	0.21	0.21

### The US Treasury Curve has meaningfully sold off at the front end and steepened over January



Source: The US Treasury. Data as of January 31, 2022.

### IG Credit posted the worst January total return on record



Source: Credit Suisse Data as of January 31, 2022.

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## Key Statistics

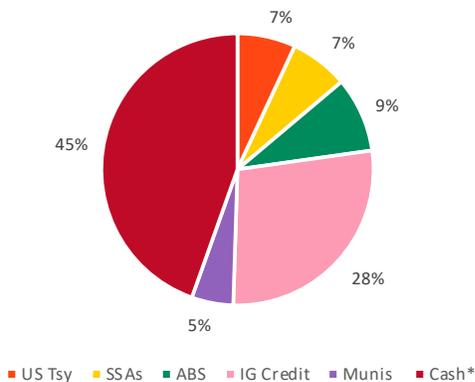
**BlackRock**

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### CalTRUST Short Term Fund

	Portfolio	Benchmark**	Difference
Duration (yrs.)	0.43	0.56	-0.13
Nominal Yield (%)	0.52	0.60	-0.08
Spread Duration	0.64	0.15	0.49
OAS (bps)	14	10	4
Wal to Worst (yrs.)	0.70	0.60	0.10
Avg Credit Qual (Mdy/S&P)	Aa2/AA-	Aa1/AA	-
Floating Rate Bonds (%)	23	3	20

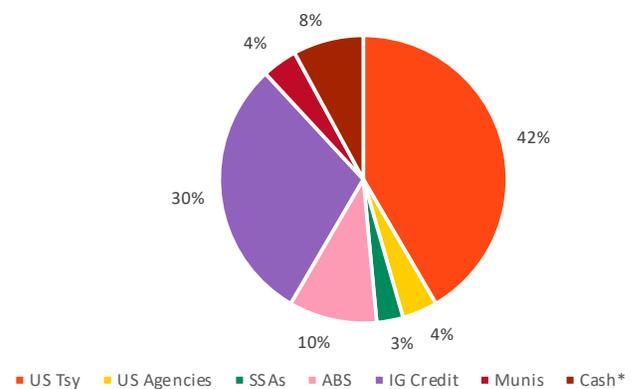
### CalTRUST Short Term Fund – Sector Allocation



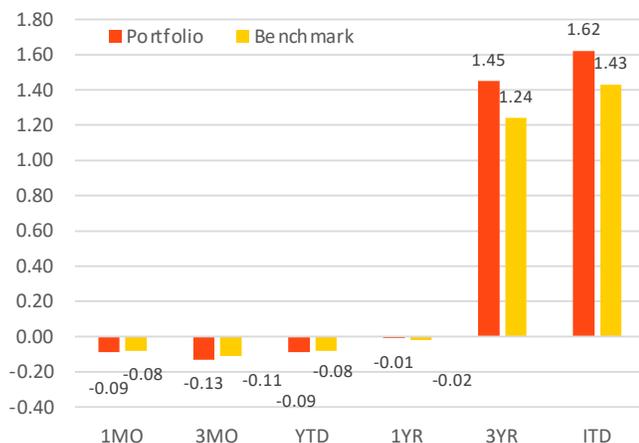
### CalTRUST Medium Term Fund

	Portfolio	Benchmark+	Difference
Duration (yrs.)	1.83	1.86	-0.04
Nominal Yield (%)	1.21	1.19	0.02
Spread Duration	0.91	0.44	0.47
OAS (bps)	14	6	8
Wal to Worst (yrs.)	1.94	1.93	0.01
Avg Credit Qual (Mdy/S&P)	Aa2/AA-	Aa1/AA	-
Floating Rate Bonds (%)	11	2	9

### CalTRUST Medium Term Fund – Sector Allocation

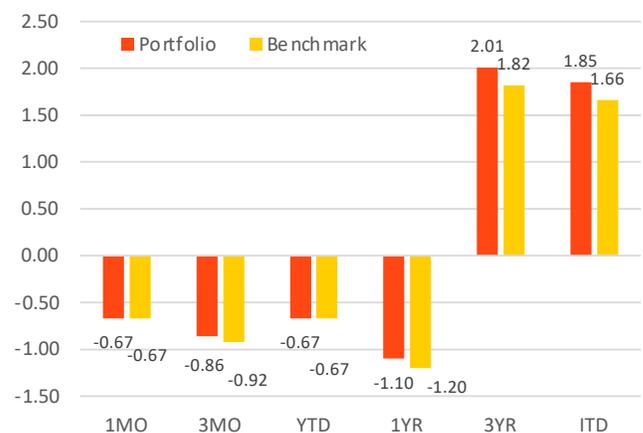


### CalTRUST Short Term Fund – Historical Performance (Gross %)



\*Includes cash-equivalent securities, such as: CD/CPs and agency discount notes  
 \*\*Benchmark for the CalTRUST Short Term Fund is the BBG Barc Short Term Gov/Corp Index.  
 Inception Date is 7/3/2017. Following 1Yr, returns are annualized.

### CalTRUST Medium Term Fund – Historical Performance (Gross %)



\*Includes cash-equivalent securities, such as: CD/CPs and agency discount notes  
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 Inception Date is 7/3/2017. Following 1Yr, returns are annualized.

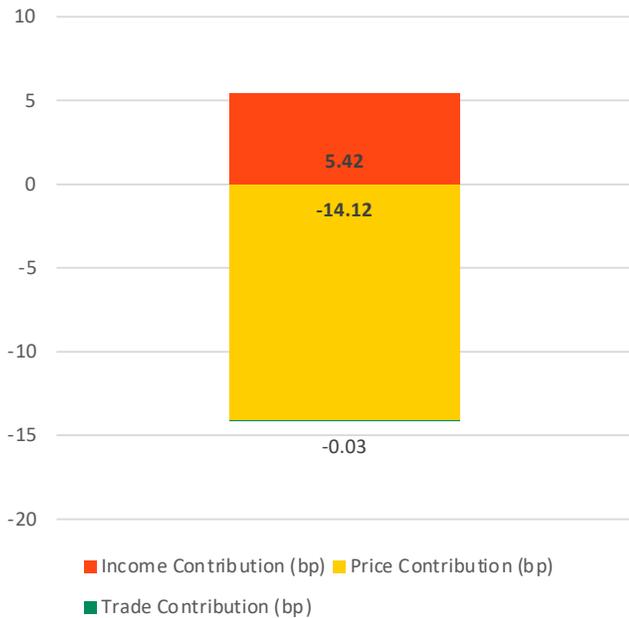
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## Performance Attribution & Commentary

**BlackRock**

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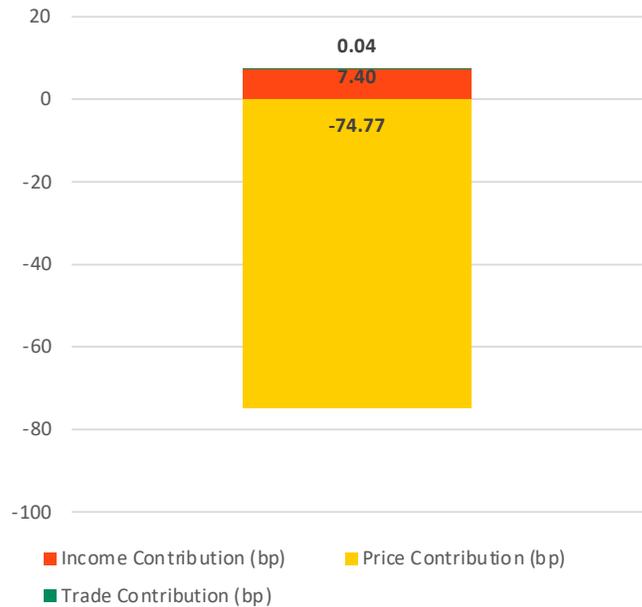
### CalTRUST Short Term Fund – Monthly Total Return Contribution (Gross bps)



#### Performance Commentary

- The Short Term posted in January 2022 a total return of -0.09% with income return contributing 0.05% and price return detracting 0.14%
- Around 0.09% bps of the negative price contribution, can be attributed to IG Credit as IG credit cash securities posted the worst spread return since March 2020.
- This comes amidst a backdrop of heightened market volatility, including in the rates markets and credit markets.

### CalTRUST Medium Term Fund – Monthly Total Return Contribution (Gross bps)



#### Performance Commentary

- The Medium Term Fund posted in January 2022 a total return to -0.67% with income return contributing 0.07% and price return detracting by nearly 0.75%.
- Around 38 bps of negative price return contribution can be attributed to US Treasuries, and 23 bps to IG Credit.
- Similarly, this comes amidst a backdrop of heightened market volatility in both the Treasury and IG Credit markets.
- With a longer duration profile than the Short Term Fund, the effects of Treasury bonds selling off was more acutely sustained in the Medium Term Bond Fund.
- That being said, US Treasuries and IG Credit were the largest contributors in terms of income return, but were notably outweighed by the negative price return as a result of rates selling off.

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Term	Definition
<b>Credit Risk</b>	The risk for bond investors that the issuer will default on its obligation (default risk) or that the bond value will decline and/or that the bond price performance will compare unfavorably to other bonds against which the investment is compared due either to perceived increase in the risk that an issuer will default (credit spread risk) or that a company's credit rating will be lowered (downgrade risk).
<b>Credit Spread</b>	A yield difference, typically in relation to a comparable US Treasury security, that reflects the issuer's credit quality. Credit spread also refers to the difference between the value of two securities with similar interest rates and maturities when one is sold at a higher price than the other is purchased.
<b>Duration</b>	The effect that each 1% change in interest rates has on a bond's market value. Duration takes into account a bond's interest payments in measuring bond price volatility and is stated in years. As an example, a 5-year duration means that a bond will decrease in value by 5% if interest rates rise 1% and increase in value by 5% if interest rates fall 1%.
<b>Duration Risk</b>	Bond duration measurements help quantify and measure exposure to interest rate risks. Bond portfolio managers increase average duration when they expect rates to decline, to get the most benefit, and decrease average duration when they expect rates to rise, to minimize the negative impact. The most commonly used measure of interest rate risk is duration.
<b>Final Maturity Date</b>	The date on which the principal must be paid to investors, which is later than the expected maturity date. Also called legal maturity date.
<b>Floating Rate Bond</b>	A bond whose interest rate is adjusted periodically according to a predetermined formula; it is usually linked to an interest rate index such as LIBOR or SOFR.
<b>Income Return</b>	Income return is that portion of a fund's total returns that was derived from income distributions, such as coupon payments. Income return can be higher than price return for bond funds during less volatile market condition. Adding the income return and the price return together will produce the fund's total return.
<b>Investment Grade Bond</b>	Bonds rated Baa (by Moody's) or BBB (by S&P and Fitch) or above, whose higher credit ratings indicate a lower risk of default. These bonds tend to issue at lower yields than less creditworthy bonds.
<b>Non-Investment Grade</b>	Bonds not considered suitable for preservation of invested capital; ordinarily, those rated Baa3 or below by Moody's Investors Service, or BBB- or below by Standard & Poor's Corporation. Bonds that are non-investment grade are also called high-yield bonds.
<b>Nominal Yield</b>	The Nominal Yield is the internal rate of return of the security based on the given market price. It is the single discount rate that equates a security price (inclusive of accrued interest) with its projected cash flows. For callable bonds, the yield represents the "yield to worst". For a mortgage product, it represents the yield given base prepayments for a given yield curve environment.
<b>Option-Adjusted Spread (OAS)</b>	The average spread over the AAA spot curve, based on potential paths that can be realized in the future for interest rates. The potential paths of the cash flows are adjusted to reflect the options (puts/calls) embedded in the bond.
<b>Price Return</b>	The price return is the rate of return on an investment portfolio, where the return measure takes into account only the capital appreciation of the portfolio, while the income generated by the assets in the portfolio, in the form of interest and dividends, is ignored.
<b>Spread Duration</b>	The Spread Duration measures the sensitivity of a security's price to a 100-basis point movement in its Option Adjusted Spread (OAS) relative to the portfolio's discount curve. To calculate Spread Duration shift the OAS up and down 5 bps and reprice the security accordingly. Similar to duration, positive spread duration means that as spreads tighten prices increase, and vice versa. The formula for spread duration is also the same as duration, where we take the shifted full prices and use those to calculate spread duration.
<b>Total Return</b>	Total return take into account the income generated from the securities invested in the portfolio and the price return achieved from the changes in the securities market pricing.
<b>WAL</b>	The Weighted Average Life, or WAL, of a security denotes the weighted average time to receipt of principal.
<b>Yield Curve</b>	A line tracing relative yields on a type of bond over a spectrum of maturities ranging from three months to 30 years.
<b>Yield to Maturity</b>	The yield on a bond calculated by dividing the value of all the interest payments that will be paid until the maturity date, plus interest on interest, by the principal amount received at the maturity date, taking in to consideration whatever gain or loss is realized from the bond at the maturity date. Example: You pay \$900 for a five year bond at a face value of \$1000. The bond pays an annual coupon of ten percent. Here the yield to maturity is 12.8 percent. This reflects the coupon payments and the difference between the price and the face value of the bond.