



STATE OF CONNECTICUT
TREASURER SHAWN T. WOODEN

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**TREASURER WOODEN RELEASES STATE
CASH POSITION AND SHARES HOW THE AMERICAN RESCUE
PLAN WOULD BENEFIT CT'S ECONOMY;
*REACTS TO GLOBAL AND U.S. MARKET CLIMATE***

Hartford, CT - Today, Connecticut State Treasurer Shawn T. Wooden transmitted the monthly Cash and Bonding Report for the month of January 2021 with updates as of February to the Governor and General Assembly. The Report highlights Connecticut's continued strong cash position during the pandemic and summarizes planned bond issuances for Fiscal Year 2021. Additionally, the Treasurer shares his perspective on the capital markets.

Cash Position

As of February 27, 2021, the State's overall available cash is \$6.4 billion with the common cash pool at \$5.7 billion.

"State budget analysts project Connecticut will end this fiscal year with a \$131.4 million budget surplus, slightly lower than last month's projected estimate of \$137.6 million," State Treasurer Shawn Wooden said. "While steady projections from budget analysts continue to put Connecticut in a much better financial position when compared to other states, there is still plenty of work to be done given the impact the pandemic is having on state and local revenue and the fact the real economy is not recovering at the same rate for everyone."

"Governor Lamont's two-year budget proposal relies heavily on the Federal government's ability to provide aid to state and local governments, and I am hopeful that Congress will soon pass the American Rescue Plan. This Federal relief package, which was passed by the House of Representatives on Saturday, would provide aid to state and local governments, enhance and extend jobless benefits, provide funding for vaccine production and distribution, as well as send stimulus checks to those who qualify, helping to improve the financial stability of thousands of hard-working Connecticut families, many of whom have been hit the hardest during this pandemic. The American Rescue Plan is key to expediting our economic recovery."

The State's common cash pool contains the operating cash in many funds and accounts. The cash is pooled in order to make the most effective and efficient use of aggregate balances and to allow positive balances in one fund to temporarily offset negative balances in other funds. Bank balances are consolidated daily, and funds that are not projected to be immediately needed to fund disbursements are collectively managed in various short-term investments or bank

accounts that earn interest to successfully meet projected cash flows. No temporary transfers from bond proceeds investment accounts have been made since December 2017.

Capital Markets

Lessons learned from the pandemic and economic downturn continue to remind us, and our stakeholders, that we're long-term investors. In managing the State of Connecticut's Pension funds, we invest the portfolios to produce a targeted return over a long-term horizon. Our obligation to fund payments to retirees is viewed over the coming decades, not the coming months. As long-term investors – with equally long-term obligations – we are required to allocate our investment portfolios with an eye on the "big picture" and avoid short-term thinking, investment fads, and market timing. In other words, we have to see the forest through the trees. Of course, if we had access to a "crystal ball" that informed us which asset classes would outperform and when to buy at the lows and sell at the highs, such long-term thinking would not be necessary. However, this mystical advantage remains elusive and we instead create a strategic long-term plan to invest in diversified portfolios designed to produce the targeted return over many years. Importantly, playing the long-game does not imply that we're indifferent to current and near-term market developments and conditions, as they inform long-term return expectations and aid in ongoing tactical portfolio management decisions. My team of portfolio managers, investment officers, and analysts are actively engaged in managing our portfolios as well as searching for value-added investment opportunities that support our commitment to retirees.

This brings me to current asset valuations. It's hard to turn on the television or read a periodical these days without hearing or reading that the market is overvalued and that a market correction is imminent. Currently, there are indications that the unprecedented Federal Government monetary and fiscal spending, which has created a liquidity driven rally, could result in potentially speculative bubbles. We must acknowledge that the enormous loss of life and dislocation caused by the pandemic required the Federal Government's fiscal response, resulting in some asset prices appearing to be stretched and certain market behaviors (too many to list here) reflecting a mindset of upside-only, euphoric expectations. The Federal Reserve Bank's ultra-low official interest rates and Quantitative Easing (QE) has driven liquidity conditions higher and Treasury yields lower, and this ultra-low yield for future cash flows is one of the primary reasons for higher equity prices. However, it is noteworthy that European and Japanese rates and yields are considerably lower than those in the U.S., but their equity market prices/valuations are currently lower than U.S. markets. The U.S. is forecast to run a \$2.3 trillion budget deficit this fiscal year (equal to approximately 18% of U.S. GDP), which is a tremendous stimulus for economic activity. The potential passage of an additional \$1.9 trillion pandemic recovery support package appears imminent and has some market participants forecasting that this relief package will be remembered as the indicator of a market peak. So investors, and more to the point, speculators should be aware of valuations and not rely on the "bigger fool theory" where investments are initiated simply on the hope and expectation that someone will subsequently pay a higher price for the asset, rather than a rigor of fundamental analysis to determine intrinsic value.

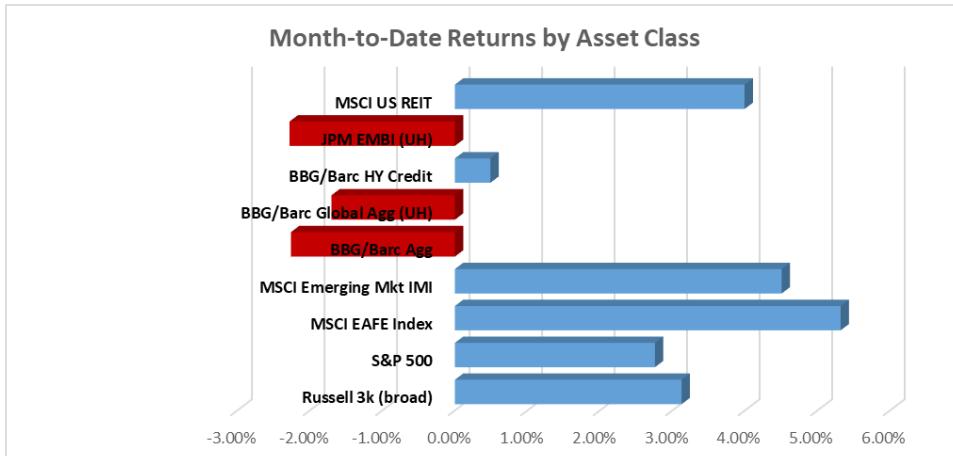
Despite recent comforting testimony by Federal Reserve Chair Jerome Powell that inflation in our economy was still "soft", and his clear expectation for a prolonged period of continued monetary policy support ("lower for longer"), U.S. Treasury yields moved substantially higher in February with the U.S. Treasury 10-year yields trading over 1.50% before closing-out the month at 1.40%. Recent commentary from Treasury Secretary Janet Yellen in support of the additional stimulus package noted that the American Rescue Plan is necessary in order to get our economy back to full-strength faster and relieve the economic and financial distress contributing to failing

businesses and increased unemployment trends. The federal relief package would also provide aid to over 15 million families behind on rent, and close to 40 million Americans suffering from food insecurity. Given the increase in yields that will eventually impact stock prices and considering the increasing probability of passage of the American Rescue Plan, equity market volatility was elevated in February but still delivered U.S. stock returns of around 3%, while both non-U.S. developed and emerging market stocks returned close to 5% for the month.

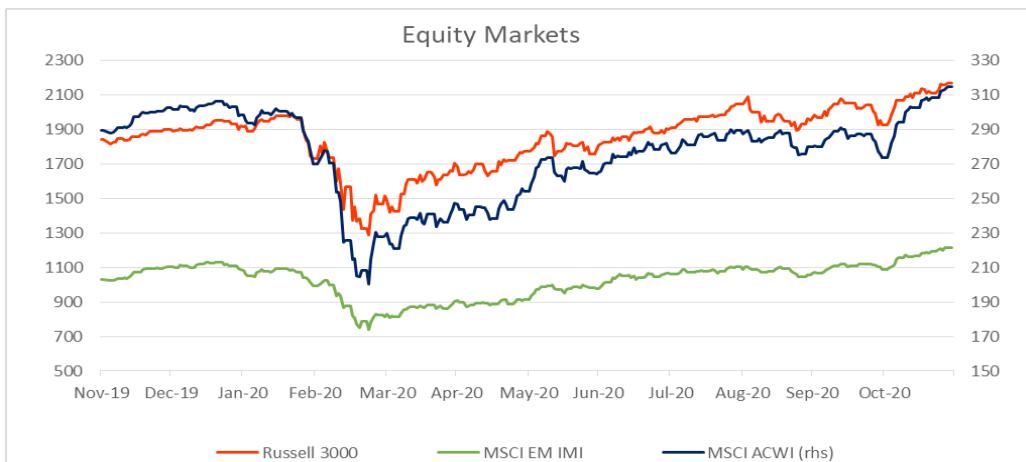
Periodic returns of the various asset classes:

Asset Class Returns					
Asset Class	Strategy	Index	MTD Returns	QTD Return	Fiscal YTD Return
Equity	US Equity	Russell 3k (broad)	3.13%	2.66%	24.11%
Equity	US Equity	S&P 500	2.76%	1.71%	20.31%
Equity	International Equity	MSCI EAFE Index	5.32%	4.21%	20.33%
Equity	Emerging Market Equity	MSCI Emerging Mkt IMI	4.51%	7.31%	34.67%
Fixed Income	Core Fixed	BBG/Barc Agg	-2.26%	-2.96%	0.60%
Fixed Income	Global Fixed	BBG/Barc Global Agg (UH)	-1.70%	-2.57%	5.07%
Fixed Income	High Yield	BBG/Barc HY Credit	0.49%	0.82%	11.41%
Fixed Income	Emerging Mkt Bonds	JPM EMBI (UH)	-2.28%	-3.47%	6.38%
Real Estate	Real Estate	MSCI US REIT	3.99%	4.16%	10.78%

Month-to-Date returns of the various asset classes:



Equity market time series:



Citation: Graphs and charts are attributable to Bloomberg LP.

Bond Issuance Schedule

Looking forward, several other bond transactions are planned before the end of the fiscal year:

- In February 2021, Treasurer Wooden plans to issue \$875 million in Special Tax Obligation Bonds, Transportation Infrastructure bonds, to continue to fund improvements in the State's transportation network; and
- In May 2021, two additional General Obligation bonds sales are planned totaling \$800 million to fund local grants, school construction, and economic development initiatives.

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About the Office of the State Treasurer

Under the leadership of Connecticut's State Treasurer Shawn T. Wooden, the Office of the Treasurer is dedicated to safeguarding the state's financial resources and taxpayers' dollars, while maximizing returns and minimizing risks for pension beneficiaries and operating at the highest professional and ethical standards. Through investments and cash management, the office continues to enhance the state's fiscal stability, financial literacy, college savings, and its approach to leveraging business partnerships to combat social issues such as gun violence, climate change, and equal opportunity for economic growth. Learn more about the Office of the Treasurer [here](#) and follow along on [Facebook](#), [Instagram](#) and [Twitter](#).