STATE OF CONNECTICUT
TREASURER SHAWN T. WOODEN

FOR IMMEDIATE RELEASE: Monday, February 1, 2021
CONTACT: Office of the Treasurer, michelle.woods-matthews@ct.gov

BUDGET IMPROVEMENTS PROJECT POTENTIAL SURPLUS FOR FISCAL YEAR;

FINANCIAL MARKETS START YEAR STRONG WITH VOLATILITY

Hartford, CT – Today, Connecticut State Treasurer Shawn T. Wooden transmitted the monthly Cash and Bonding Report for the month of December 2020 with updates as of the new year 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 January 30, 2021, the State's overall available cash is $6.4 billion with the common cash pool at $5.5 billion.

"Steady projected improvements from budget analysts continue to bring positive news to Connecticut," State Treasurer Shawn Wooden said. "As reflected in the January 15th consensus revenue forecast, Connecticut now has a projected surplus of $137.6 million for the current fiscal year, an improvement of $777.8 million from last month. In addition, projected deficits for fiscal years 2022 and 2023 have been cut in half and this year's Budget Reserve Fund (BRF) balance is expected to grow from $3.07 billion to $3.5 billion by the end of the fiscal year. This means that Connecticut would, for the second year in a row and for only the second time in its history, have funds in its BRF in excess of 15% of General Fund budget expenditures which are required by law to be used to pay down pension."

"These updated projections demonstrate the importance of staying the course with strong financial governance and fiscal management. This has put Connecticut in a much better financial position when compared with other states but there is still plenty of work to be done. We know that the real economy, thousands of hard-working families across Connecticut, are hurting. Our work remains to rebuild an inclusive economy that helps state and local governments bridge budget shortfalls and addresses deep inequities that have caused overwhelming economic pain to thousands through no fault of their own."

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

The financial markets experienced a volatile first month of the new year, with pockets of investor speculation and frenzied market activity evident in several areas. January also delivered several high profile, thematic-focused Initial Public Offerings (IPOs) that skyrocketed on their first day of trading; Bitcoin jumped in price only to decline again, over 70 new Special Purpose Acquisition Companies (SPACS) were launched, and Tesla became the fifth largest US company by market capitalization, adding over $60 Billion in market cap during January alone. We also witnessed smaller individual investors use discount on-line brokers to impact stock prices that appeared detached from fundamental realities. Repeating a term once used by former Federal Reserve Chair Allen Greenspan to describe investor euphoria in the late 1990s, "Irrational Exuberance" was on display in our markets causing some market observers to draw comparisons between the Dot-Com bubble and today. The real question yet to be answered is if these pockets of speculative excesses extend to the broader market? Despite valuations of asset prices being high relative to some traditional measures, the market is forward looking and is anticipating post-pandemic living with more robust economic growth that will drive up corporate earnings at a time when we expect additional fiscal spending support and extraordinary low and stable interest rates.

Market returns for the first month of 2021 were challenged. Despite a strong first three weeks, January ended on a sour note with stocks generally moving lower. Large company stocks were lower on the month by about one percent, as measured by the S&P 500 stock index. Small cap stocks also moved lower by one-half of one percent, while developed international and emerging market shares were flat on the month. Fixed income assets were also off a bit, as Treasury Notes and Bonds moved up in yield due to expectations of increased inflationary pressures associated with an eventual return to economic normalcy and the eventual need for the Federal Reserve to taper its Quantitative Easing (QE) purchases of bonds and adjust official short-term interest rates higher. A bright spot for the month was U. S. High Yield, which benefited from price appreciation (reduced credit spreads) associated with investor inflows for current yield, and expectations of fewer corporate defaults in an improving economy.

Finally, the market received official confirmation that the U. S. economy, as measured by Gross Domestic Product (GDP), contracted for the full year in 2020. Despite a strong rebound in the second half of the year, the economy contracted by 3.5 percent last year due to the severe loss in economic activity in the first two quarters of 2020. In fact, the U. S. economy experienced its worst economic contraction since the aftermath of World War II, and the first year-over-year decline in economic activity that followed the 2009 global financial crisis. But, as stated earlier, the financial markets are forward looking, and expectations are for economic improvement throughout 2021. The question for market participants now is just how much economic and corporate earnings improvement have already been priced into financial assets, and what are reasonable expectations for asset price performance across the globe for the balance of the year.

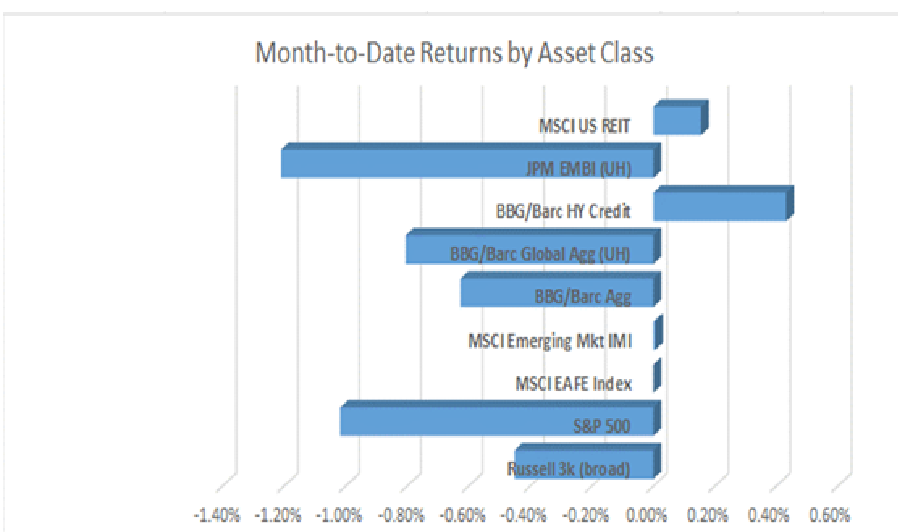
“As State Treasurer and the principal fiduciary of our pension system, I am charged with maximizing returns and minimizing risks on the investments we make,” continued Treasurer Wooden. “This requires a disciplined, methodical review of past performance and a cautious, measured assessment of how markets are expected to perform over a variety of economic cycles. My Office remains focused on managing pension and trust portfolios designed to produce targeted returns over the long-term through diversification across a range of public and private investment types.”

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)	-0.45%	-0.45%	24.11%
Equity	US Equity	S&P 500	-1.02%	-1.02%	20.31%
Equity	International Equity	MSCI EAFE Index	0.00%	-1.05%	20.32%
Equity	Emerging Market Equity	MSCI Emerging Mkt IMI	0.01%	2.68%	34.58%
Fixed Income	Core Fixed	BBG/Barc Agg	-0.63%	-0.63%	0.69%
Fixed Income	Global Fixed	BBG/Barc Global Agg (UH)	-0.81%	-0.81%	5.15%
Fixed Income	High Yield	BBG/Barc HY Credit	0.43%	0.43%	11.52%
Fixed Income	Emerging Mkt Bonds	JPM EMBI (UH)	-1.21%	-1.21%	6.38%
Real Estate	Real Estate	MSCI US REIT	0.16%	0.16%	10.78%

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



Equity market time series:

Asset Class Returns					
Asset Class	Strategy	Index	MTD Returns	QTD Return	Fiscal YTD Return
Equity	US Equity	Russell 3k (broad)	-0.45%	-0.45%	24.11%
Equity	US Equity	S&P 500	-1.02%	-1.02%	20.31%
Equity	International Equity	MSCI EAFE Index	0.00%	-1.05%	20.32%
Equity	Emerging Market Equity	MSCI Emerging Mkt IMI	0.01%	2.68%	34.58%
Fixed Income	Core Fixed	BBG/Barc Agg	-0.63%	-0.63%	0.69%
Fixed Income	Global Fixed	BBG/Barc Global Agg (UH)	-0.81%	-0.81%	5.15%
Fixed Income	High Yield	BBG/Barc HY Credit	0.43%	0.43%	11.52%
Fixed Income	Emerging Mkt Bonds	JPM EMBI (UH)	-1.21%	-1.21%	6.38%
Real Estate	Real Estate	MSCI US REIT	0.16%	0.16%	10.78%

Citation: Graphs and charts are attributable to Bloomberg LP.

Bond Issuance Schedule

Several bond transactions are planned before the end of this fiscal year (June 30, 2021):

- In March 2021, Treasurer Wooden plans to issue $875 million of Special Tax Obligation Bonds, Transportation Infrastructure bonds, to continue to fund improvements in the State's transportation network; and
- In May and June 2021, Treasurer Wooden plans to issue $800 million of tax-exempt and taxable General Obligation bonds to fund local grants, school construction, and economic development initiatives.

###

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 and disability 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.