STATE OF CONNECTICUT
TREASURER SHAWN T. WOODEN

Treasurer Wooden Shares Economic Outlook Following Credit Rating Upgrade, Successful Transportation Bond Sale, Historic High Rainy Day Fund, And Projections Of A $250 Million Surplus At The Close Of Fiscal Year 2021; Reacts To Global And U.S. Market Climate

CT's Continued Strong Cash Position Indicates CT is on the Right Track for Economic Recovery

Hartford, CT – Today, Connecticut State Treasurer Shawn T. Wooden transmitted the monthly Cash and Bonding Report for the month of March 2021 with updates as of May 1st to the Governor and General Assembly. The Report highlights Connecticut's continued strong cash position during the pandemic and summarizes planned bond issuances for the remainder of Fiscal Year 2021. Additionally, the Treasurer shares his perspective on the capital markets.

Cash Position

As of May 1, 2021, the State's overall available cash is $6.3 billion with the common cash pool at $5.6 billion.

"As a result of Connecticut's recent credit rating upgrade on March 31, the first in over 20 years, our bonds are generating greater demand, allowing CT to borrow at even more attractive interest rates," said State Treasurer Shawn Wooden. "On April 23, the State's $1 billion of Special Tax Obligation (STO), Transportation Infrastructure bond sale achieved an all-time record low borrowing cost, and saving taxpayers over $32 million through refinancing previously issued. The success of this bond sale is a direct result of smart fiscal policies practiced during the past few years and will pay dividends toward our long-term financial sustainability."

"Furthermore, in addition to CT's historic high rainy day fund that's expected to reach almost $4 billion by the end of the current fiscal year, the latest consensus revenue report from analysts project CT will end fiscal year 2021 with a $250 million surplus, larger than last month's projections of a $180 million budget surplus. While this is great news and indicates that CT is on the right track in our economic recovery, it's clear that there are significant challenges ahead. The state's unemployment rate is currently 8.3%, which is above the national average, as there is an uneven economic recovery that is impacting many hard working families across CT. Our work remains to make sure the economic recovery reaches everyone."

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

Last month I discussed the elevated levels of uncertainty in the capital markets and the trajectory of the economic recovery from the COVID-19 pandemic. Over the past month, we have continued to witness further growth within the economy, greater stability in the markets, and steady progress in the number of American's receiving the COVID-19 vaccines. Connecticut ranks second in the nation for the most vaccines administered per capita and is making progress each day, with over 40 percent of all residents fully vaccinated and over 60 percent having received their first dose.

On the surface, Connecticut and the nation appear to be on track towards herd-immunity and economic recovery. Below the surface, however, there are some troubling signs within the economy and capital markets. One of the more troubling indicators is the rise in longer-term interest rates. Since the beginning of 2021, the ten-year Treasury rate has increased approximately 0.7 percent, reflecting increased inflation expectations. This is also supported by the 10-year TIPs inflation breakeven rate, which has increased nearly 0.5 percent from the beginning of the year. While these numbers, at face value, may not seem high, they indicate that the market appears to have more conviction in increasing expected inflation than the Federal Reserve, which continues to anchor short-term rates at zero percent.

In addition to market-based indicators, we have seen the prices of metals and agricultural commodities increase. If not reversed, this can add to inflationary pressures within the system. The Bloomberg Agriculture Spot index rose approximately 13 percent during April and is up 20 percent year-to-date. The London Metal Exchange index was up 10 percent in April, with copper up nearly 12 percent during the month. These increases have been caused by commodity shortages due to increased restocking as well as issues within the supply chain.

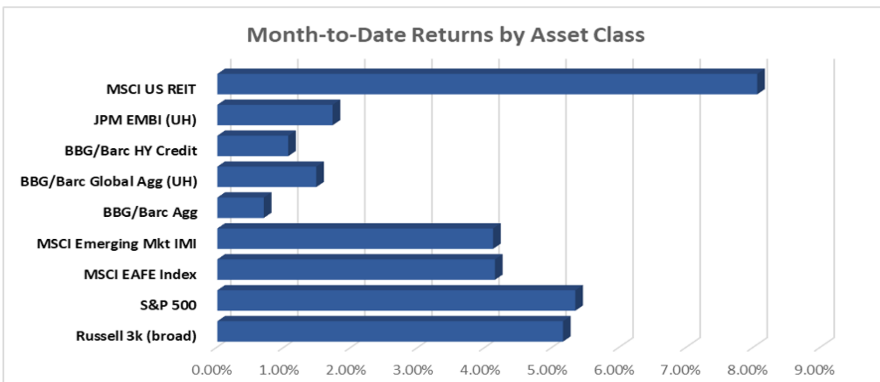
The Federal Reserve, through the Federal Open Market Committee (FOMC), has continued to maintain that any inflationary pressures are transitory and should stay in check due to supply and demand moving back into equilibrium as the economy finds its footing. As a result of this view, the FOMC has continued to purchase $120 billion in securities each month and, as stated earlier, hold the lower bound of the Federal Funds range a zero percent, the combination of which can be viewed as very accommodative monetary policy. U.S. Treasury Secretary Janet Yellen also supports continued financial support and the injection of funds into the economy.

Our concerns, however, were not fully reflected in the capital markets as most markets produced positive gains in April. Leading the pack in the public markets during the past month was real estate investment trusts, or REITs, which are often used as a more volatile proxy for real estate; as investors continued to see value in this dividend-paying sector. Equities generally had a good month, with the S&P500 index up 5.5 percent as of the end of April. During the past month, growth stocks led value stocks – a significant reversal from March and further evidence of the uncertainty previously mentioned. With rates so low, it is, and will be, difficult for fixed income markets to continue to produce the returns that investors received in prior years; the "low hanging fruit" of continually falling rates may have, for the time being, ended.

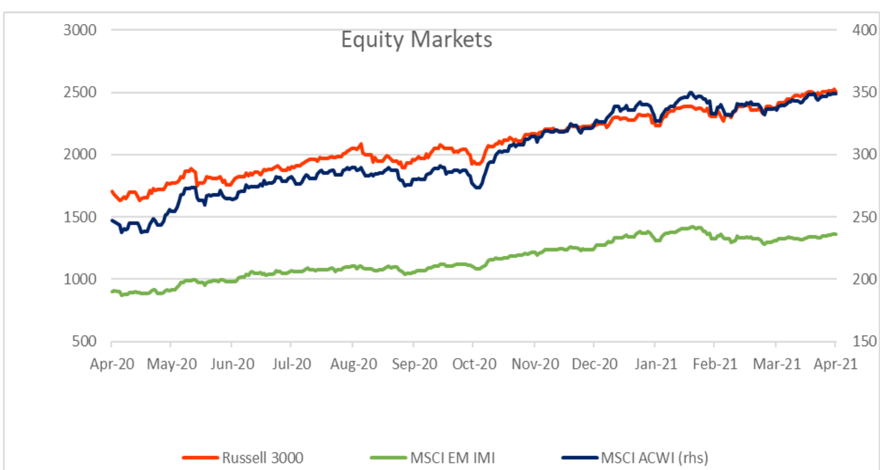
Periodic returns of the various asset classes:

Asset Class Returns					
Asset Class	Strategy	Index	MTD Returns	QTD Return	Fiscal YTD Return
Equity	US Equity	Russell 3k (broad)	5.16%	5.16%	39.41%
Equity	US Equity	S&P 500	5.34%	5.34%	35.93%
Equity	Internatioinal Equity	MSCI EAFE Index	4.14%	4.14%	31.20%
Equity	Emerging Market Equity	MSCI Emerging Mkt IMI	4.11%	4.11%	40.38%
Fixed Income	Core Fixed	BBG/Barc Agg	0.69%	0.69%	-1.42%
Fixed Income	Global Fixed	BBG/Barc Global Agg (UH)	1.48%	1.48%	2.77%
Fixed Income	High Yield	BBG/Barc HY Credit	1.06%	1.06%	13.17%
Fixed Income	Emerging Mkt Bonds	JPM EMBI (UH)	1.72%	1.72%	4.84%
Real Estate	Real Estate	MSCI US REIT	8.05%	8.05%	29.99%

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



Equity market time series:



Citation: Graphs and charts are attributable to Bloomberg News

Debt Issuance

The Treasurer's Office is preparing to offer $1 billion of General Obligation (GO) bonds in four different series during the week of May 17: (1) $300 million of tax-exempt bonds to provide new funding for school construction projects across the State; (2) $300 million of taxable bonds to fund economic development projects, housing, and municipal grants; (3) a $175 million tax-exempt refunding bond series; and (4) a $225 million tax-exempt forward delivery refunding bond series. Both series of refunding bonds will refinance existing obligations to lower interest rates and reduce debt service. The forward delivery refunding bonds series will close in August 2021 but will enable the State to realize savings based on the current low tax-exempt interest rate environment.

Both the $300 million tax-exempt new money series of bonds and the $225 million forward refunding series are planned to be marketed as "Social Bonds", a first for the State.

The Social Bonds designation allows investors to know the funding they are providing is used to directly finance socially beneficial projects. Connecticut's GO issuance will join the CT Housing Finance Authority and several large municipal bond issuers in New England including that have already sold Social Bonds including Massachusetts and New York State.

Our two planned Social Bond series are scheduled to be sold consistent with the International Capital Markets Association's Social Bond Principles as well as identifying the use of the bond proceeds, to be aligned with one or more United Nations Sustainable Development Goals (UNSDGs).

In particular, one of the Social Bond Principles is that the bond proceeds are used for "Social Projects" and one of the UNSDGs – Goal 4 – is "Quality Education." The State's school construction grant program helps to provide equitable access to education through providing appropriate facilities designed to support educational effectiveness. For more information visit BuyCTBonds.com.

Bond Credit Rating Upgrade

On March 31, 2021, Treasurer Wooden announced that Moody's Investors Service upgraded Connecticut's GO bonds credit rating from "A1" to "Aa3" with a Stable outlook. This marks the first time the State has received a credit rating upgrade in over 20 years. In addition, Moody's also upgraded the STO bonds credit and the UConn 2000 Bonds ratings from "A1" to "Aa3" also with a Stable Outlook.

Moody's upgrade for the GO bonds reflects the State's strong financial management practices that have resulted in the record high Budget Reserve Fund and smart fiscal policies practiced over the past several years.

Special Tax Obligation Bond Sale

On April 23, 2021 Treasurer Wooden announced that the State's highly successful $1 billion of STO transportation infrastructure bond sale achieved an overall interest cost of 2.12%, an all-time record low cost for the STO bonding program. The bond pricing relative to municipal bond indices were at the lowest levels achieved in seven years.

This demonstrates very strong investor demand from both retail and institutional buyers. The sale included $875 million of new money bonds that will provide $1.03 billion is new funding for transportation projects. The sale also includes two series of refunding bonds to refinance existing obligations for a total savings of $32.2 million over the remaining life of the bonds refinanced.

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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.