STATE OF CONNECTICUT

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TREASURER WOODEN PROVIDES UPDATES ON CONNECTICUT'S ECONOMY: STATE MAINTAINS HISTORIC CASH POSITION, UNEMPLOYMENT RATE IMPROVING - A SIGN OF A RECOVERING ECONOMY

FDA APPROVAL OF COVID-19 VACCINE PROVIDES CONFIDENCE TO CAPITAL MARKETS AND THE WORKFORCE

Hartford, CT – Today, State Treasurer Shawn T. Wooden transmitted the monthly Cash and Bonding Report for the month of July 2021 with updates as of August 28th to the Governor and General Assembly. The Report highlights Connecticut's continued strong cash position during the ongoing pandemic and summarizes bonds authorized by the General Assembly and Allocated by the State Bond Commission as well as planned bond issuances for Fiscal Year 2022. Additionally, the Treasurer shared his perspective on the capital markets.

Cash Position
As of August 28, 2021, cash balances continued to be strong, with total available cash at $11.8 billion, including the common cash pool of $10.3 billion.

"Our cash position has continued to remain strong during the first month of the new Fiscal Year and through the end of the summer," said Treasurer Wooden. "This is a result of our State's commitment to strong fiscal practices, including recently achieving four major credit rating upgrades, a large influx of Federal funding, and subsequent record-setting low interest rates successfully achieved on recent bonds issuances. Despite the optimism in our fiscal outlook, there is great economic uncertainty due to the ongoing COVID-19 pandemic and its potential impact on the State cash receipts and disbursements. As a result, my office will continue to monitor, assess, and revise our cash projections in real-time."

Connecticut'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

Economic conditions in the United States continued to improve, albeit at a slower pace than previously estimated nationally. The U.S. labor markets continued to recover with consumer activity moderated, while manufacturing activity slowed. The national U.S. unemployment rate has fallen to 5.4 percent but remains above the pre-COVID rate of 3.5 percent in February 2020. Initial jobless claims continued to improve, falling to 353,000.

The unemployment rate in Connecticut has improved, but not to the same degree as the national unemployment rate. As of August 2021, Connecticut currently has an unemployment rate of 7.3 percent, down from a high of 11.4 percent, but well above the pre-pandemic 3.7 percent in February of 2020. As businesses continue their return to normal, helped by increased vaccinations and, more recently, full FDA approval of the vaccine, it is expected that employment will continue to grow. Job opening data and wage increases are being implemented in order to attract workers back into the workforce.

Inflation concerns from the first half of calendar 2021 remain as evidenced in the Consumer Price Index (CPI) at 5.4 percent year-over-year, with Core CPI (excluding food and energy) at 4.3 percent year-over-year. Utilizing the Federal Reserve's preferred measure of inflation, the Producer Price Expenditures (PPE) Index remained at 4.2 percent year-over-year with the Core PPE index at 3.6 percent year-over-year. Over the last year, there has been a noticeable increase in the prices of goods from both the producer and consumer perspectives. These inflationary pressures have been caused by supply chain issues and a shortage of feedstocks, or manufacturing inputs, due to the effects of the pandemic. From the producer’s perspective, inflation is currently at 7.8 percent (Producer Price Index, year-over-year change), up from 1.1 percent in February 2020. While inflation at both the producer and consumer level is significantly higher than the Federal Reserve's average inflation target of two percent, the Federal Reserve has stated that it believes many of the cost increases are transitory in nature and should, in time, decrease from current levels.

In recognition of the continued strength of the economy, the Chairman of the Federal Reserve Jerome Powell, in a speech at Jackson Hole, WY on August 27th, stated that the Federal Reserve could start reducing the amount of U.S. Treasury and mortgage securities it purchases – currently $120 billion per month – later this year. This tapering, or removal of quantitative easing (QE) from the markets, acknowledges the progress the United States has made since the pandemic began. However, Chairman Powell did mention that the path and timing of the tapering could be further influenced by the economic effects of the Delta variant of COVID-19. Importantly, Chairman Powell mentioned that a reduction in the amount of securities purchased does not necessarily imply an imminent increase in interest rates. For an increase in interest rates to occur, the Federal Reserve has stated that it will need to see evidence of a sustained inflation rate at two percent and maximum employment. The decision to raise interest rates will be highly data and forecast-dependent, and our team does not expect to see interest rates increase within the next twelve months. However, if inflation expectations accelerate, a more rapid tapering timeline could be implemented. Nevertheless, we continue to monitor the situation to track the signal of a QE tapering to help address inflation while also expecting the Federal Reserve to hold off interest rate increases to support continued growth in the economy.

The result of the Federal Reserve's dovish position on the tapering of QE and interest rate trajectory has been continued strength within the capital markets. The S&P 500 stock index is up 3.12 percent for August based on the Federal Reserve's policy and continued strength in earnings and earnings expectations. However, the 10-year U.S. Treasury yield has remained range-bound during August, currently at 1.31 percent, resulting in the bond market staying essentially unchanged during the month, as measured by the Bloomberg Barclays U.S. Aggregate Index.

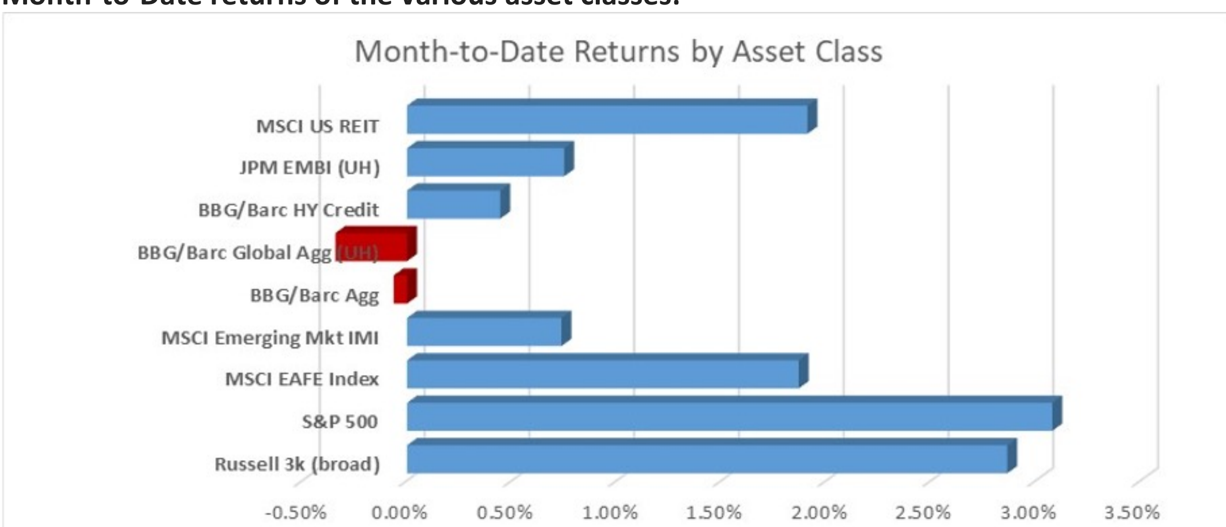
Market participants, including the Office of the Connecticut State Treasurer, continue to monitor market valuations resulting from economic developments, Federal Reserve policy, and the fiscal policy of the United States and other world markets. We continue to monitor negotiations regarding the debt ceiling and potential market disruptions which could be caused by issues surrounding the debt ceiling and U.S. Treasury issuance.

Select asset class returns:

Asset Class Returns

Asset Class	Strategy	Index	MTD Returns	QTD Return	Fiscal YTD Return
Equity	US Equity	Russell 3k (broad)	2.86%	4.60%	4.09%
Equity	US Equity	S&P 500	3.08%	5.53%	4.97%
Equity	Internatioinal Equity	MSCI EAFE Index	1.87%	2.65%	2.45%
Equity	Emerging Market Equity	MSCI Emerging Mkt IMI	0.74%	-5.36%	-4.94%
Fixed Income	Core Fixed	BBG/Barc Agg	-0.06%	1.05%	1.10%
Fixed Income	Global Fixed	BBG/Barc Global Agg (UH)	-0.34%	0.98%	1.07%
Fixed Income	High Yield	BBG/Barc HY Credit	0.44%	0.83%	0.69%
Fixed Income	Emerging Mkt Bonds	JPM EMBI (UH)	0.75%	1.29%	1.52%
Real Estate	Real Estate	MSCI US REIT	1.91%	6.87%	6.39%

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



Equity market time series:

Citation: Graphs and charts are attributable to Bloomberg News

Bond Issuance Schedule

Treasurer Wooden plans to complete two bond transactions before December 31, 2021:

- The first bond issue is up to $500 million of Special Tax Obligation Bonds, Transportation Infrastructure bonds, to continue to fund improvements in the State's transportation network; and

- The second bond issue is up to $800 million of tax-exempt General Obligation bonds to fund local School Construction Grants, Clean Water Fund Grants, as well as other projects across the state.

Both bond issuances were approved by the State Bond Commission during their meeting on July 23, 2021.

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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