STATE OF CONNECTICUT

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TREASURER WOODEN REACTS TO THE POTENTIAL IMPACT THE OMICRON VARIANT AND INFLATION HAVE ON THE ECONOMY

TREASURER WOODEN SHARES OUTLOOK ON GLOBAL AND U.S. MARKET CLIMATE

Hartford, CT – On December 1, 2021, Connecticut State Treasurer Shawn T. Wooden transmitted the Cash and Bonding Report for the month of October 2021 with updates as of November 27th to the Governor and General Assembly. The Report highlights Connecticut's continued strong cash position during the pandemic. Additionally, the Treasurer shares his perspective on the capital markets and planned bond issuance for the remainder of the calendar year.

Cash Position:
As of November 27, 2021, the State's overall available cash is $9.4 billion including the common cash pool at $8.2 billion.

"While uncertainty about the Omicron variant of COVID-19, and above-average inflation continue to impact our economy nationally, Connecticut's economy remains well-positioned and on the path towards recovery," said State Treasurer Shawn Wooden. "Research released in October from the Pew Charitable Trusts shows that at the close of fiscal year 2021, Connecticut had the second largest Budget Reserve Fund increase in the nation. This is a result of implementing and executing smart fiscal policies over the past few years, such as growing our Budget Reserve Fund rather than spending it. As a result, we closed the 2021 fiscal year with an estimated $480.9 million General Fund budget surplus. This allowed us to transfer the very sizable amount of $1.6 billion towards continuing to responsibly pay down our unfunded pension liabilities, which I directed $903.6 million to be deposited in the Teachers' Retirement Fund, and the estimated balance of $720 million to the State Employees Retirement Fund. Now, analysts are projecting an estimated $894.7 million surplus for the current fiscal year 2022. Protecting and growing our Budget Reserve Fund has also led to greater liquidity, financial strength and put us in a stronger fiscal position throughout the pandemic. However, we must remain vigilant. We know that there continues to be an uneven economic recovery and that thousands of families across our state are hurting from rising inflation and setbacks they experienced during the economic downturn. Our work remains to rebuild an inclusive economy where everyone can thrive."

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:
Uncertainty regarding the direction of the economy and the financial markets has persisted. The uncertainty is, perhaps, best represented by the reflection and actions of the U.S. Federal Reserve Bank (the Federal Reserve). In November, the Federal Reserve began their long-awaited tapering, and reducing the number of purchases of U.S. Treasury securities and mortgage-backed securities. Their rationale for this reduction in asset purchases was straightforward – the economy has shown itself to be on solid footing, and the increase in inflationary pressures warranted a decrease in the quantitative easing program put in place in reaction to the COVID-19 pandemic.

Once the Federal Reserve began tapering, the market turned its attention to increasing the Federal Funds rate. At the onset of COVID-19, the Federal Reserve reduced the lower band of the Federal Funds rate to zero to ensure liquidity was plentiful and to mitigate the economic impact of the pandemic. As the Federal Reserve reduces the size of its balance sheet, the next logical step in removing its accommodative policy is increasing rates. The release of the minutes for the Federal Reserve's November 2-3, 2021 meeting noted that some participants favored a more aggressive taper to raise rates sooner than many expected. This, in large part, is due to the firm economic foundation and increasing inflation. It should also be noted that participants stated that the current inflationary pressures could last longer than anticipated.

Inflation concerns continue as the Consumer Price Index (CPI) increased during the month. There was a 6.2 percent increase on a year-over-year basis, and Core CPI (excluding food and energy) increased to 4.6 percent on a year-over-year basis. Utilizing the Federal Reserve's preferred measure of inflation, the Personal Consumption Expenditures (PCE) Price Index also increased to 5.0 percent year-over-year with the Core PCE index increasing at 4.1 percent year-over-year, 0.5 percent higher than the prior month. These increases have begun to impact the Federal Reserve's decision-making and policy expectations, as discussed above.

The most recent national employment data, as measured by the change in non-farm payrolls, surpassed expectations. In November, 531,000 people were added to the payrolls, increasing from October, when 118,000 people were added. Due to the increases in employment, the unemployment rate fell to 4.6 percent nationally, 0.2 percent lower than in October. In Connecticut, the most recent data showed 5,300 additional jobs gained in November, reducing the unemployment rate by 0.4 percent to 6.4 percent, the fifth consecutive monthly decrease. Notably, with all eyes on the Federal Reserve, a new, potentially influential factor has emerged: the Federal Reserve's expectations may change based on the discovery of the Omicron variant of COVID-19. Until more information about this COVID-19 variant is known, and the potential impact upon the economy is estimated, the Federal Reserve's policy change trajectory, and hence the impact upon markets, is uncertain. This uncertainty has increased the volatility in the markets.

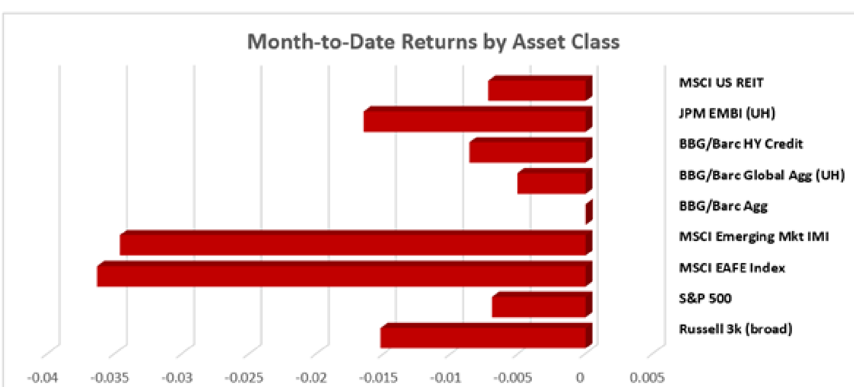
Despite the better employment news, the identification of the Omicron variant caused the market to reduce risk and, therefore, risk assets sold off, dampening or eliminating the positive returns for the month. The Russell 3000 index, which was higher by 1.2 percent until the Omicron variant appeared, returned negative 1.52 percent for the month. Bonds, benefiting from the risk reduction within the market, returned 0.0 percent after being down 0.5 percent prior to the Omicron variant's discovery. During the last month, the yield of the 10-year U.S. Treasury decreased by ten basis points due to the reaction to the new Omicron variant. We believe that once the effects of the Omicron variant are better understood, volatility in the markets will subside, and a clearer sense of the Federal Reserve's policy decisions and market trajectory will be discerned.

Periodic returns of the various asset classes:

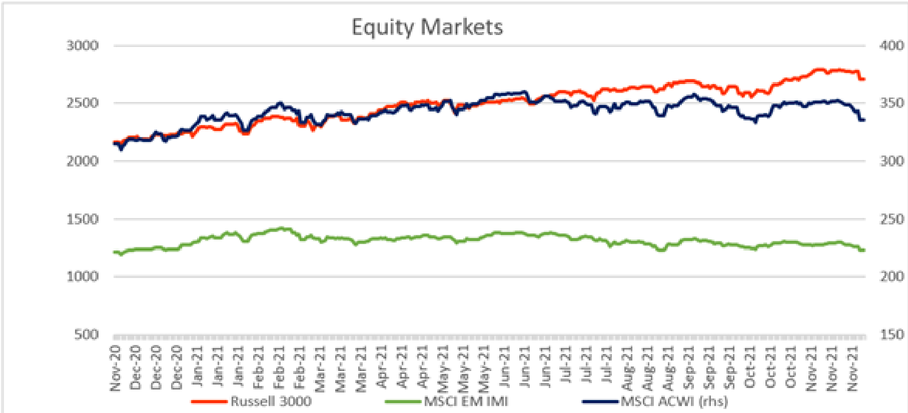
Asset Class Returns

Asset Class	Strategy	Index	MTD Returns	QTD Return	Fiscal YTD Return
Equity	US Equity	Russell 3k (broad)	-1.52%	5.13%	4.51%
Equity	US Equity	S&P 500	-0.70%	6.26%	6.32%
Equity	Internatioinal Equity	MSCI EAFE Index	-3.63%	-1.25%	-1.75%
Equity	Emerging Market Equity	MSCI Emerging Mkt IMI	-3.46%	-2.59%	-9.29%
Fixed Income	Core Fixed	BBG/Barc Agg	0.00%	-0.02%	0.07%
Fixed Income	Global Fixed	BBG/Barc Global Agg (UH)	-0.51%	-0.75%	-1.54%
Fixed Income	High Yield	BBG/Barc HY Credit	-0.86%	-1.03%	-0.29%
Fixed Income	Emerging Mkt Bonds	JPM EMBI (UH)	-1.65%	-1.59%	-2.82%
Real Estate	Real Estate	MSCI US REIT	-0.72%	6.96%	7.52%

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



Equity market time series:



Citation: Graphs and charts are attributable to Bloomberg News

Bond Issuance:

Special Tax Obligation Bonds:
On November 9, Treasurer Wooden completed a $500 million tax-exempt Special Tax Obligation (STO) Transportation Infrastructure bond sale that achieved the second lowest overall interest cost in the program's history. The bond sale received strong investor demand from retail and institutional buyers. Orders from retail and institutional investors reached $3.1 billion, far exceeding the bonds offered and allowing the State to lower its borrowing costs at the final pricing. The overall interest cost on the 20-year new money bond sale is 2.145%, the second lowest on any STO bond sale in history. Connecticut's bond pricing spreads relative to municipal bond indices have not been this low since 2007.

This Transportation Infrastructure bond sale will continue to fund improvements in the State's transportation network.

Major transportation infrastructure projects being funded by STO Bonds include the following:

- I-95 Gold Star Memorial Bridge in New London;
- I-84 Improvement Program in Waterbury;
- I-91/CT 15 Interchange Improvements in Wethersfield and East Hartford;
- New Haven Rail Yard Master Complex;
- The replacement of the Walk Bridge in Norwalk; and
- New rail cars for the New Haven rail line.

Connecticut's STO bonds help leverage federal funds by providing the required state match for federal transportation funding. This is particularly important as Connecticut looks to take advantage of the significantly expanded funding coming from the historic bipartisan Infrastructure Bill, the largest investment in United States infrastructure in decades. The Federal Bill is sending more than $6 billion to Connecticut to rebuild our infrastructure. It authorizes increased funding for existing federal transportation programs for five years, includes significant new transportation funding programs, expands high-speed internet access, clean drinking water, and programs addressing climate change.

General Obligation Bonds:
The final bond transaction planned for this calendar year is the $800 million tax-exempt General Obligation Bonds sale that is scheduled for mid-December. It will fund local School Construction Grants, Economic Development, Improvements at State colleges and universities, Clean Water Fund Grants, as well as other projects across the state. The bond issue will include $300 million of Social Bonds designed to appeal to investors looking for bond investments to raise funds for new and existing projects with positive social outcomes and benefits.

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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.