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STATE OF CONNECTICUT
TREASURER SHAWN T. WOODEN

TREASURER WOODEN REACTS TO CONNECTICUT BUILDING ON 2021 FISCAL ACHIEVEMENTS IN THE NEW YEAR: SHARES OUTLOOK ON GLOBAL AND U.S. MARKET AMIDST OMICRON SURGE

Reflects on 2021 Victories: Historic Credit Rating Upgrades, Successful Bond Sales, Additional Pension Payments, Economy Expanding by 2.7% in Third Quarter

Hartford, CT – On January 3, 2021, Connecticut State Treasurer Shawn T. Wooden transmitted the Cash and Bonding Report for the month of November 2021 with updates as of January 1, 2022 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 issuances for the remainder of the fiscal year.

As of January 1, 2022, the state's overall available cash is $10.3 billion including the common cash pool at $8.6 billion.

"While Connecticut ramps up its testing and masking efforts to effectively fight off the current surge of COVID-19 cases from the highly transmissible Omicron variant, Connecticut's cash balance and overall economy remain well-positioned to continue to advance its economic recovery," said State Treasurer Shawn T. Wooden.

"Moreover, many of our historic achievements throughout calendar year 2021 have continued to help improve Connecticut's fiscal health. Achieving major credit rating upgrades last spring for the first time in over two decades has led to our bond sales continuing to generate strong investor demand. Most recently, on December 16th, we successfully completed an $800 million General Obligation bond sale, which included $300 million in Social Bonds. This sale received strong retail demand, and the Social Bonds attracted new ESG investors, a growing and exciting segment of the municipal investor market. As we generate greater demand on our bond sales, it allows us to borrow at even lower interest rates and saves taxpayers millions of dollars.

Additionally, last month, we finalized a significant additional payment to our long-term unfunded pension liabilities, bringing the total amount to $1.6 billion from the state's volatility cap transfer and budget surplus. Meaning that, for the second year in a row, and only the second time in state history, Connecticut accelerated paying down our long-term unfunded pension liabilities through cash on hand to help improve the state's fiscal position and put it on a more sustainable financial path. Now, budget analysts are projecting another surplus for the current 2022 fiscal year, giving us the potential opportunity to continue to responsibly pay down Connecticut's pension liabilities at an accelerated pace. Connecticut's improved fiscal standing brings long-term benefits to the state's finances, helping to grow our economy at a critical point in our state's history.

Furthermore, encouraging research released by the U.S. Bureau of Economic Analysis in late December showed that Connecticut's economy grew by 2.7% in the third quarter of calendar year 2021, outpacing the national growth rate and making it the 15th-fastest growing economy in the nation between July and September of 2021.

Finally, while it's clear that the state is on an improved path and making progress towards finding and implementing long-term solutions to address many of its fiscal challenges, high inflation rates, and global economic uncertainty continue to impact thousands of Connecticut families. As state leaders, our policies need to address the reality of an uneven economic recovery and serve to help Connecticut rebuild an inclusive economy that is more prosperous for 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. 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 rise of inflation has resulted in market participants increasingly turning their attention to the Federal Reserve Bank. In December, the Federal Reserve further reduced the amount of both U.S. Treasury securities and agency mortgage-backed securities it has been purchasing. These actions have reduced surplus liquidity in the market through the process of ending quantitative easing, preparing the market for an increase in the federal funds rate. An increase in the federal funds rate could be leveraged by the Federal Reserve to "normalize" rates given the inflationary environment. Presently, the market is pricing in two federal funds rate hikes for the remainder of fiscal year 2022, and three federal funds rate hikes for calendar year 2022.

Much of the interest rate hike forecasts are premised on the belief that the Federal Reserve will have to increase rates to offset inflationary pressures domestically. Inflation, as measured by the Consumer Price Index (CPI), was reported at 6.8 percent in November, up from the prior month's 6.2 percent. Excluding the volatile food and energy components, the CPI was reported at 4.9 percent in November, up from the 4.6 percent reported a month earlier. Another gauge of prices can be seen by looking at the Personal Consumption Expenditures (PCE). The PCE was reported at 5.7 percent in November, up from the prior month's revised 5.1 percent. The reported increase in prices, despite a portion being transitory, suggests an economy that is running too "hot" and monetary policy must become more restrictive. In the Northeast region of the United States, the CPI was reported at 6.0 percent in November, down from the prior month's 6.2 percent.

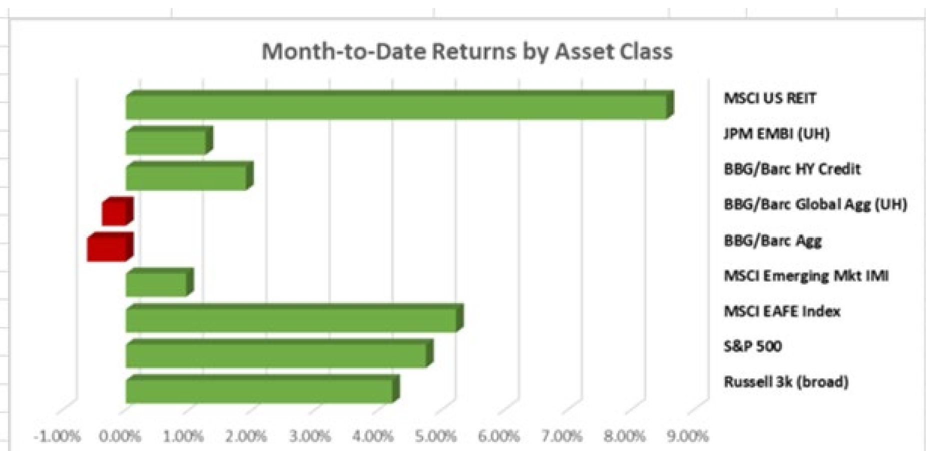
Due to the concern over rising inflation, the 10-year U.S. Treasury yield increased by nearly 15 basis points (0.15 percent) during the month of December. The increase in yields, unfortunately, was not offset by the reduction in spreads, the risk premium, across other fixed income instruments. As a result, it was a negative month for the asset class domestically. Equities, on the other hand, continued to reflect growth, liquidity, and optimism over corporate profits and had positive returns during the month. The Russell 3000 Index returned 4.22 percent for the month and the MSCI World Index, returned 4.69 percent.

Periodic returns of the various asset classes:

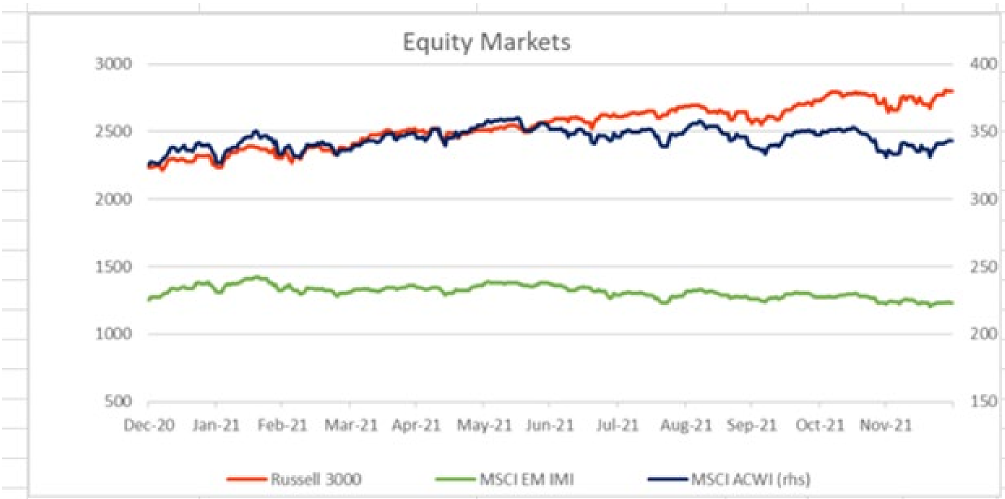
Asset Class Returns

Asset Class	Strategy	Index	MTD Returns	QTD Return	Fiscal YTD Return
Equity	US Equity	Russell 3k (broad)	4.22%	9.57%	8.92%
Equity	US Equity	S&P 500	4.75%	11.30%	11.36%
Equity	Internatioinal Equity	MSCI EAFE Index	5.23%	2.82%	2.31%
Equity	Emerging Market Equity	MSCI Emerging Mkt IMI	0.95%	-2.14%	-8.88%
Fixed Income	Core Fixed	BBG/Barc Agg	-0.62%	-0.35%	-0.26%
Fixed Income	Global Fixed	BBG/Barc Global Agg (UH)	-0.38%	-0.91%	-1.70%
Fixed Income	High Yield	BBG/Barc HY Credit	1.90%	0.73%	1.49%
Fixed Income	Emerging Mkt Bonds	JPM EMBI (UH)	1.26%	-0.14%	-0.60%
Real Estate	Real Estate	MSCI US REIT	8.56%	16.12%	16.72%

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 the end of fiscal year 2022:

- The first bond transaction is scheduled for March of 2022 and is for up to $260 million of the University of Connecticut, General Obligation Debt Service Commitment Bonds. These bonds will fund continued capital improvements at the University of Connecticut; and

- The second bond transaction is scheduled for May/June of 2022 and is for up to $800 million of General Obligation Bonds to be issued as taxable and tax-exempt bonds. These bonds will fund a variety of capital improvements and grant programs across the state. This bond issue was approved by the State Bond Commission during their meeting on December 21, 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 taxpayers' dollars and the state's financial resources, while maximizing returns, minimizing risks, and operating at the highest professional and ethical standards. Through receiving, investing, and disbursing, 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 opportunities in economic growth. Learn more about the Office of the Treasurer here and follow along on Facebook, Instagram and Twitter.

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