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A Connecticut Bond Default Isn't Out of the Question.

Unlikely, sure. But it never pays to be overconfident.

When it comes to Connecticut connotations on Wall Street, the first thing that comes to mind is surely Greenwich, the world's hedge-fund mecca. Home to AQR Capital Management, Viking Global Investors LP and Lone Pine Capital, among others, the town's name is synonymous with money. A 500-foot stretch along U.S. Route 1 has dealerships for Alfa Romeo, McLaren and Rolls-Royce automobiles.

Take one of those cars for a spin up to Hartford, and you'll find a much different scene. Connecticut's capital approved a plan earlier this year allowing the state to pay off the city's general-obligation debt — in other words, a bailout. Without the maneuver, bankruptcy and bond defaults seemed unavoidable for a municipality where the population is declining and a third of those who remain live in poverty.

But by assuming the struggling city's debt burden, Connecticut only complicated its own problems. It has been downgraded three times in as many years by S&P Global Ratings, had a fiscal 2017 net pension liability of $37.2 billion (up almost $10 billion from a year ago) and easily has the most tax-supported debt per resident among U.S. states. On top of all that, it has the fewest jobs in finance, insurance and real estate since 1996.

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