CFAL

# GLOBAL AND LOCAL ECONOMIC REVIEW

## First Quarter 2025

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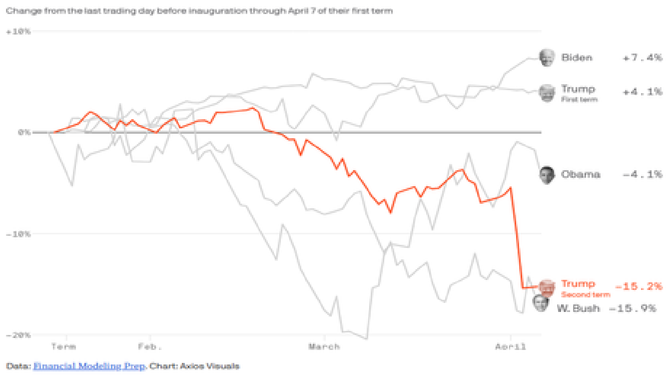
# EDITORIAL

Tariffs, Tariffs and More Tariffs.

In our last writeup, we assessed whether it made a difference as to which party held the Presidential office for market performance. While typically, in the long run, it does not matter, in the short term, it clearly does.




The President has proceeded as promised, imposing tariffs on imports in a bid to address trade deficits with other countries. This was expected, particularly with tariffs on China. However, what was not expected were the reciprocal tariffs applied to every country, regardless of whether they were an ally of the U.S. or not. Even our precious Bahama Islands were tariffed.

Markets tanked as the world reacted to the surprising nature of the rollout of the tariffs. Of course, markets are powerful and the rapid declines in the indexes prompted a change of direction. It has since been announced that tariffs for all countries except China would be at 10% for a 90-day period. Apparently, this was the plan all along. There have also been exemptions on certain electronics as affected businesses ultimately lobbied to have their interests protected.

What does this mean?

In our opinion, markets will be fine in the long run. The significant run up in stocks since the election was not justified in our view as it will take time for any meaningful change in GDP and profits to match the market enthusiasm seen post-election.

The retracement of some of this increase is healthy and shows that markets do remain rational in the long run. However, what will be impacted is confidence. Businesses will have difficulty making long-term plans when policy can shift overnight.
The impact will be even more significant for small businesses who lack the ability to shift suppliers quickly and lack the pricing power of larger companies. Consumers will also have difficulty making the same decisions as they are unsure of their personal finances as well as the finances of their employers. This lack of confidence will hit economic growth as persons cut back on luxuries in favor of necessities. Airlines have already started to cut flights as travel demand slows. One bright spot for consumers is the decline in oil prices. However, a recession driven decline in oil prices is not a net positive for the economy.

Overall, we expect that cooler heads will prevail in the tariff war as some may call it. Markets have gotten through rough periods before and we do not expect decades of market experience to change overnight. The Trump administration, despite their utterances, is very market centric as seen by the pivot, and unlikely to want any significant recession to occur under its watch. There will also be efforts to cut taxes shortly which in history have proven to be positive for markets. However, the ride in the short term will likely remain bumpy until the policy situation is clearer.

We remain prudent in our investment approach, taking caution when necessary but remaining focused on the long-term goal of wealth building.

**Anthony Ferguson**
President, CFAL

# LOCAL ECONOMIC HIGHLIGHTS

## First Quarter 2025

- Preliminary data for the first half of FY2024/25 indicates the overall fiscal deficit widened $398.1M or 53.9% from the same period last year. Total revenues expanded by 10.7% while total expenditure grew 17.8%.

- Real GDP growth for 2024 slowed to 1.9%, a reduction from the 2.6% reported for 2023. It is projected by the IMF that real GDP growth for 2025 will be 1.8%.

- National debt climbed 0.76% over the quarter and 2.58% from the same period last year. Direct Charge totaled $11.75B, while Contingent Liabilities totaled $334.2M.

- The Bahamas' tourism industry continued its growth momentum welcoming 2.05M tourists as of February 2025 YTD, increasing 10.13% from the same period last year. Sea arrivals accounted for 86.04% of total arrivals, while air arrivals made up the remainder.

- The local stock market, BISX, was stable during the quarter, gaining +0.60%, while the 2024 total return was +5.49%.

# LOCAL ECONOMIC REVIEW

## Fiscal Review

Preliminary data for the first half of FY2024/25 (July – December) indicates the overall fiscal deficit widened $139.4M (or 53.9%) to $398.1M from $258.7M in the same period last year. Total revenues expanded 10.7% (or $138.9M) to $1.441B, which was overshadowed by an increase in total expenditure of 17.8% (or $278.5M) to $1.839B. Tax revenues saw growth of 10.4% to $1.29B driven by a near doubling of departure taxes from $84.8M to $169.9M, increases in taxes on property of 45% from $47.3M to $68.6M, and a jump in license to conduct special business activity of 47.8% from $25.10M to $37.10M. Notably, VAT increased 2.6% YoY from $646.0M to $663.10M. Meanwhile, non-tax revenues grew 12.7% to $149.5M, driven by growth in total property income of 46.3% and sales of other non-financial assets of 33.3%. Total Expenditure, comprised of recurrent expenditures and capital expenditures, saw increases of 13.5% (or $192.6M) and 64.0% (or $85.9M) respectively. Grants increased $1.7M (or 170.0%), public debt interest increased $34.4M (or 11.4%) and compensation of employees grew $17.0M (or 4.1%). Social Assistance Benefits saw a notable decline of $13.8M (or -46.0%).

Economic activity in The Bahamas continued its growth trajectory, albeit at a slower pace than the previous year. Real GDP growth for 2024 was reported as 1.9%, a reduction from the 2.6% reported for 2023. As of December 2024, the total value of goods and services produced was estimated at $14.826B in nominal prices. The IMF projects real GDP growth will slow slightly to 1.8% in 2025.

As of December 2024, the Bahamas' national debt continued to climb increasing 0.76% (or $91.29M) over the quarter and 2.58% (or $304.06M) YoY. Direct Charge accounted for 97.23% of national debt and increased $92.377M (or 0.79%) to $11.75B for the quarter. Meanwhile, Contingent Liabilities made up 2.77% of national debt and decreased $1.084M (or -0.32%) to $334.2M. Total external debt totaled $5.12B or 43.61% of total direct charge and total internal debt totaled $6.63B or 56.39% of total direct charge at the end of 2024. National Debt to GDP stood at 81.5% as of December 2024, a decline from the 82.1% seen in the previous year, while Direct Charge to GDP stood at 79.2% compared to 79.7% in the previous year.

## Tourism

The Bahamas' tourism industry continued its growth momentum seeing increasing tourist arrivals. The Bahamas welcomed 2.05M tourists as of February 2025 YTD, increasing 10.13% from the same period last year. Sea arrivals continue to make up majority of total tourist arrivals, accounting for 86.04% of total arrivals and expanding by 200K (or 12.8%) YoY. Air arrivals accounted for 13.96% of tourist arrivals and declined 11.6K (or -3.90%) YoY. Islands experiencing the largest percentage growth in tourist arrivals included Inagua (+90.7%), Bimini (+17.6%) and Grand Bahama (+11.8%). While islands such as Long Island (-46.6%), Berry Islands (-38.1%) and Exuma (-11.7%) saw declines. Based on the Central Bank of the Bahamas' Monthly Economic & Financials Developments report for February 2025, the average occupancy rate for entire place listings and hotel comparable listings narrowed to 52.4% and 57.2% respectively.

## Monetary and Financial Developments

Banking sector liquidity contracted during Q4 2024, as the expansion in domestic credit outweighed growth in the deposit base. Excess reserves narrowed $193.2M (or -9.7%) to $1.79B, while excess liquid assets declined $14.0M (or -0.5%). Total external reserves contracted $101.4M (or -3.7%) to $2.63B at the end of December 2024. The stock of external reserves equated to 28.6 weeks of the current year's total merchandise imports (including oil purchases) compared to 29.9 weeks in the same period of 2023.

According to recent CPI numbers released by BNSI for January 2025, domestic inflation increased 0.7% YoY from 120.98 to 121.87 and 0.1% on a month-to-month basis. Contributing to this increase included Furnishing, Household Equipment and Routine Household Maintenance (8.1%), Transportation (2.9%), and Miscellaneous Goods and Services (2.3%). Meanwhile, Housing, Water, Electricity, Gas and Other Fuels declined by -1.3%. Compared to the same period last year, gasoline prices increased 1.88% and diesel prices declined by 5.86%.

## Capital Market Developments

The local stock exchange, BISX, was stable over the quarter, gaining +0.60% or 18.04 points from 3,008.22 to 3,026.26. The index rose +5.49% in 2024. Top performers for Q1 2025 included Emera Incorporated (+12.66%), Famguard (6.09%), and Bank of Bahamas (4.65%). Detractors to performance included Bahamas Waste (-14.47%), Consolidated Water BDRs (-5.41%), and FOCOL (-4.69%).

During the first quarter, the Central Bank had three BRS offerings, all re-openings of the October 2024 offering. Benchmark rates ranged from 3.70% for three years to 6.65% for 30 years. The bank also held four T-Bill offerings, introducing a 364-day Treasury bill in March. The average Treasury Bill discount rate as of March 2025 was 3.08%. Meanwhile, at the end of February, the weighted average rates on deposits and loans & overdrafts stood at 0.73% and 10.94% respectively.

## Conclusion

The Bahamian economy maintained its growth momentum though at a slower pace than the previous year. The tourism industry continues to drive growth within the country with arrivals exceeding the previous year's figures. However, fiscal deficits and high national debt remain an hinderance to growth, with national debt now exceeding $12 billion. Focus will shift to whether the government can narrow the deficit in the revenue rich final months of the fiscal year. The IMF projects GDP growth to slow to 1.7% in 2025. It is important that the Government move forward with a plan to tackle its growing national debt while also ensuring economic development within the country.

# GLOBAL ECONOMIC HIGHLIGHTS

## First Quarter 2025

- Economic output amongst the world's developed economies remained stable in the fourth quarter, but signs of a slowdown emerged as GDP growth continued to decelerate. The International Monetary Fund projects global growth at 3.3% for 2025 and 3.3% for 2026.

- Developed market central banks have adjusted their stance as growth slows and inflation rates fall. While headline inflation continues to cool in many instances, overall inflation has come closer to central bank targets in some regions.

- Concerns about economic growth in China were addressed by the announcement of stimulus measures which boosted market sentiment but tariffs from the U.S. are expected to provide challenges.

- Most developed equity indices posted negative returns in the first quarter as continued tariff announcements drove losses across most sectors. Bond yields fell as expectations for rate cuts were met.

- In the commodities market, returns were mainly positive in the precious metals sector, as investors sought safe havens in gold and silver.

## GLOBAL ECONOMIC REVIEW

## United States

In Q1 2025, major US markets saw weak results to start the year off in the red. Amongst the three major indices, the Dow Jones Industrial Average recorded the smallest decline of -1.34%. Meanwhile, the S&P 500 and NASDAQ posted losses of -5.00% and -11.23% respectively. As with the previous quarter, sector performance was mixed, technology and consumer discretionary stocks showed losses, while healthcare and energy showed gains. US technology stocks in particular were hit by lower cost AI models in China that led investors to reassess the costs and investments into AI models in North America. Bond market returns were positive during the quarter, with US Treasuries 1 – 10 years (+2.42%) outperforming US corporates (+2.18%). US high yield issues returned +1.04%. However, some weak treasury auctions have raised concerns that yields could go higher. President Trump's sweeping tariff announcements on the US's closest trading partners shook global markets and negatively affected confidence surrounding the global economy. In March, the US Federal Reserve kept interest rates in a range of 4.25 – 4.50% but raised its inflation outlook to 2.7% while cutting its growth forecast to 1.7%. However, the Fed cautioned that going forward it potentially foresees two cuts later this year, despite inflation remaining above the desired 2% level combined with concerns about the impact of potential tariffs on economic growth. The Fed's favored indicator of inflation, core personal consumption expenditure (PCE), saw a 0.4% increase in February putting the annual inflation rate at 2.8%. In Q4 2024, the US economy grew by 2.8% annually, demonstrating its continued strength.


## Europe

Eurozone equities were positive in the first quarter with the Stoxx Europe 600 Index gaining +5.76%, significantly outperforming the US as investors shifted their large concentration in US stocks throughout global markets. Germany held elections in February sparking optimism as Friedrich Merz's Christian Democrats (CDU) won the most seats. Merz announced plans to establish a government by Easter. Before the new parliament convened, he managed to advance proposals to relax the country's strict borrowing rules. The additional funds are anticipated to go toward defense and infrastructure projects. The European Central Bank cut interest rates twice during the quarter as inflation in the eurozone eased to 2.3% in February from 2.5% in January.

Over the quarter, UK stocks grew +5.69%, matching their European counterparts in outperforming the US. However, small and mid-sized businesses faced difficulties due to persistent worries about the country's economic prospects. Although news that the UK narrowly avoided a technical recession at the end of 2024 offered some relief, it had little positive impact. Additionally, the Spring Statement's spend-

spending cuts raised further concerns about the health of the UK economy. The Office for Budget Responsibility maintained that the fiscal outlook was stable but cautioned that rising defense costs and a more restrictive global trade environment could lead to further tax increases in the autumn. An increase in national insurance contributions in April is expected to further dampen growth. In a broader sense, preliminary statistics released by the Office for National Statistics (ONS) showed that January saw the economy decrease -0.1% after increasing +0.4% in December.

## Asia Pacific

The Shanghai SE Composite declined -2.10% in Q1 due to China's engagement in a trade dispute with the US as a result of the Trump Administration's tariffs. However, government stimulus efforts and renewed investor confidence, particularly in the tech sector due to AI advancements supported markets during the quarter. As trade tensions with the US escalate, Wall Street analysts reduced their growth forecasts for the Chinese economy. In particular, Goldman Sachs lowered their forecast to 4.0% from 4.5%. Unemployment levels increased to 5.4% overall with youth unemployment (ages 16 – 24) coming in at 16.9% in February.

Manufacturing remains a strong point, driven by heavy investment and rising exports, though these gains could be tempered by falling global demand and increasing trade tensions. Infrastructure investment is expected to pick up thanks to government fiscal support. Hong Kong markets posted gains while Taiwanese shares fell sharply, impacted by fears of U.S. tariffs on semiconductor exports and a possible slowdown in AI investment by major American tech firms. Taiwan will likely remain volatile, caught squarely in the middle of the U.S. and China's dispute.

The Korean market gained due to a rebound in performance from DRAM chip producers, who benefited from an improving price environment. Meanwhile, Japanese equities declined significantly, with the Nikkei 225 declining -10.72% in Q1 2025. Japanese equities came under pressure due to uncertainty over US tariff policies under the Trump administration and growing fears of a US. recession. The announcement of a 25% tariff on imported cars in late March worsened concerns, leading to significant declines in export dependent and tech-related stocks. Wage negotiations in March 2025 boosted wage growth and encouraged an increase in consumer consumption. The average pay rise for full-time and part-time workers was +5.37% and +6.53% respectively. Japan's real GDP growth was revised to +1.30% for 2025. Inflation, which has been affected by rising consumer demand and higher cost of raw materials, fell to 3.7% in March, down from 4% the previous month. The Bank of Japan nonetheless raised its policy rate in January as expected.

## Emerging Markets

The MSCI Emerging Markets Index gained +2.13% in the first quarter, outperforming the MSCI World Index which lost -2.43%. During the quarter, emerging markets saw mixed performance across regions as various factors impacted their economies. There are significant concerns about the impact of increased US tariffs on China which has led to uncertainty regarding the way forward. The US dollar also weakened during the quarter as expectations of rate cuts by the Fed were met. Despite these concerns, Brazil's stock market outperformed during the quarter, supported by a stronger real and temporary relief from tariffs. The Ibovespa gained +16.91% in the first quarter. With inflation above target, the central bank raised interest rates three times, reaching 14.25% by the end of March. The Brazilian government maintained its economic growth forecast at 2.3%. In South Africa, the economy continues to face challenges, and its central bank cut interest rates at the end of January. India's market declined due to growth concerns. In response, the Reserve Bank of India cut the repo rate to 6.25% in February, the first cut in nearly five years, while maintaining a neutral policy stance to support economic growth in the midst of global uncertainty.

## Commodities

In the commodities market, the S&P GSCI Index rose +3.68% in the first quarter. The index's top-performing sectors were precious metals driven by strong price gains in gold and silver, while agriculture was weak. In Q1 2025, Gold futures rose +19.28%, with gold continuing to outperform most major asset classes year to date. Silver and copper saw gains of +17.28% and +22.01% respectively. Meanwhile, in the agriculture sector, the cost of cocoa, wheat, cotton and corn all declined. Increases were seen in sugar and coffee prices. Every sub-component of energy had strong quarterly improvements. Oil prices were up in the first quarter, rising +2.38% and settling around $65.37 per barrel at the end of the quarter. However, the direction of oil prices remains uncertain as trade tensions between the US and China persist. As well, a report indicating that Iraq will cut oil production in April is expected to have varying effects on oil's performance.

## Market Returns Q1 - 2025

As at March 31, 2025

| | MTD | QTD | YTD | 1 year |
|---|---|---|---|---|
| **Equity Indices (% local currency)** | | | | |
| BISX | | | | |
| S & P 500 | -5.75 | -5.00 | -5.00 | 6.80 |
| Dow Jones Industrial Average | -4.20 | -1.34 | -1.34 | 5.51 |
| NASDAQ | -8.21 | -11.23 | -11.23 | 5.62 |
| FTSE 100 | -2.58 | 5.69 | 5.69 | 7.92 |
| Stoxx Europe 600 | -4.18 | 5.76 | 5.76 | 4.14 |
| Shanghai SE Composite | 0.45 | -2.10 | -2.10 | 9.69 |
| Nikkei 225 | -4.14 | -10.72 | -10.72 | -11.77 |
| MSCI Emerging Markets | 0.38 | 2.13 | 2.13 | 5.86 |
| MSCI World | -4.64 | -2.43 | -2.43 | 5.58 |
| **ICE BofA Bond Indices (% local currency)** | | | | |
| US Treasuries 1-10 years | 0.52 | 2.42 | 2.42 | 5.44 |
| US Corporates | -0.28 | 2.18 | 2.18 | 5.30 |
| US High Yield | -1.07 | 1.04 | 1.04 | 7.64 |
| UK Gilts 1-10 years | -0.13 | 1.45 | 1.45 | 2.32 |
| Euro Government | -1.77 | -1.26 | -1.26 | 1.27 |
| Global High Yield & Emerging Markets | -0.27 | 1.84 | 1.84 | 8.61 |
| Global Broad Market Index | 0.62 | 2.81 | 2.81 | 3.00 |
| **Currencies vs. USD** | | | | |
| British Pound | 2.71 | 2.93 | 2.93 | 2.33 |
| Euro | 4.25 | 3.93 | 3.93 | 0.25 |
| Japanese Yen | -0.44 | -4.39 | -4.39 | -0.94 |
| Swiss Franc | -2.08 | -2.15 | -2.15 | -1.93 |
| **Commodities (% USD)** | | | | |
| Gold | 9.63 | 19.28 | 19.28 | 40.83 |
| Silver | 10.87 | 17.68 | 17.68 | 38.91 |
| Copper | 10.69 | 22.01 | 22.01 | 22.54 |
| WTI Crude Oil | 3.09 | 2.38 | 2.38 | -4.79 |
| S&P GSCI Index Spot | 2.62 | 3.68 | 3.68 | -2.47 |