



CFAL

GLOBAL AND LOCAL ECONOMIC REVIEW

Third Quarter 2024

Collina Financial Advisors Ltd.
308 East Bay Street, 3rd Floor

P.O. Box CB-12407 | Nassau, Bahamas

Tel: 242.502.7010 | Fax: 242.393.4639 info@cfal.com

EDITORIAL

Dear Reader,

When one hears the phrase, “a soft landing,” one will often think of an airplane or spacecraft landing safely after a flight or a mission. However, in economics, a soft landing refers to a scenario where an economy slows down without entering a recession. For clarity, in economics, a recession is generally accepted as two consecutive quarters of negative GDP growth. Typically, when one hears the word “recession,” the 2008 Global Financial Crisis comes to mind. However, not all recessions turn into crises and not all recessions are felt in the same way.

Why is this relevant?

The economic environment post-COVID has been highly inflationary for several reasons. Some attribute the rise in costs to increased prices post-pandemic, while others assign blame to corporate greed. Regardless of the perspective, the cost of living has significantly increased in recent years. One primary method to fighting inflation has been through using monetary policy by Central Banks. Following the financial crisis, Central Banks were very stimulative, expanding the money supply and keeping interest rates at very low levels. Typically, low interest rates would stimulate the economy by encouraging borrowing and spending which leads to more job creation and higher consumer spending. However, in the current inflationary environment, Central Banks were tasked with reducing the money supply and raising interest rates to slow economic activity. This creates a delicate balance, as the need to slow the economy must be weighed against the risk of entering a recession.

For background, the Federal Reserve (FED), the Central Bank in the U.S., began its efforts to fight inflation in March 2022 via its first rate hike in more than three years. Prior to this increase, the FED had kept its benchmark interest rates near zero since the beginning of the pandemic. The FED continued to increase rates through 2023 before announcing a 0.50% rate cut in September 2024. While to the average individual, a 0.50% cut may not seem meaningful, this has significant implications for the U.S. and global economy as most credit instruments are priced using this benchmark interest rate. It is anticipated that the FED will continue to cut rates in the coming months, albeit at a slower pace. The U.S. economy remains robust, as seen by recent GDP and employment data.

Over the past 12 to 18 months, there have been forecasts of recession in the U.S. and it is likely investors will continue to hear such projections as the economy slows and inflation levels subside. However, to date, the FED is meticulously navigating a soft landing and will need to remain vigilant to avoid a policy mistake. For investors, nothing changes. There are opportunities in all stages of the economic cycle and investors should maintain a focus on long-term investing with an emphasis on risk management.

Yours faithfully,



Anthony Ferguson
President, CFAL

LOCAL ECONOMIC HIGHLIGHTS

Third Quarter 2024

- Preliminary data for FY2023/24 indicates that the overall deficit declined by \$348.0M (65.1%) to \$186.6M compared to the same period of FY2022/23.
- Estimates for growth continue to trend downward to the long-run range of 1.75 – 2.5%.
- The Bahamas has retained its stable outlook from credit rating agency Standard & Poor's.
- National debt stood at \$11.65B as of June 2024, of which \$11.31B is comprised of Direct Charge and \$339M of Contingent Liabilities.
- Year to date as of July 2024, the Bahamas saw total visitor arrivals of 6.80M, an increase of 15.3% from the same period last year. Sea arrivals continue to dominate with growth of 18.30%, while air arrivals rose 2.70%.
- The local stock market, BISX, was stable during the quarter, gaining 1.44% while several bond issuances took place.

LOCAL ECONOMIC REVIEW

Fiscal Review

Preliminary data for the twelve months of FY2023/24 (July – June) indicates that the overall deficit narrowed by \$348.0M (or 65.1%) to \$186.6M compared to FY2022/23. Total revenues grew \$220.2M or 7.7% during FY2023/24 to \$3.075B, representing 92.7% of budget estimates. Tax revenues increased by \$269.3M (or 10.9%) to \$2.74B, with the main contributors being VAT growing 8.1% to \$1.36B; taxes on special business licenses activities were up by 51.7% to \$219.7M and departure taxes up by 27.4% to \$219.3M. While non-tax revenues declined \$47.9M (or 12.6%) to \$332.6M driven by reductions in miscellaneous and unidentified revenue of \$50.4M (or 92%) and interest and dividend payments of \$13.8M (or 30.2%). During FY2023/24, total expenditure declined -3.8% from \$3.39B to \$3.26B, comprised of \$2.96B in recurrent expenditure and \$301.5M in capital expenditure. There were reductions in spending on the use of goods and services by 16.6% to \$560.9M; and government subsidies by 11.2% to \$412.6M. Meanwhile, Grants, Social Assistance Benefits and Public Debt Interest increased 28.2%, 15.7% and 7.0%, respectively.

Economic activity in The Bahamas year to date remains robust although growth is continuing to revert to historical levels. The total value of goods and services produced during the year was estimated at \$14.6 billion in nominal prices with most industries and islands experiencing growth. In its latest review, Standard & Poor's reaffirmed the Bahamas' B+ long-term rating with a stable outlook, citing a stable economy and fiscal consolidation. The International Monetary Fund retained its projection for real GDP growth of 2.3% for 2024 vs S&P's projection of 1.8%.

The Bahamas' National Debt stood at \$11.65B as of June 2024, decreasing \$196.1M or 1.66% over the quarter. Direct Charge accounted for 97.09% of national debt and saw a decrease of \$201.2M (or 1.75%) to \$11.31B. While Contingent Liabilities accounted for 2.91% of national debt and grew \$5.0M (or 1.51%) during Q2 2024. Of the Total Direct Charge, external debt accounted for 44.77% or \$5.065B of the debt portfolio and internal debt accounted for 55.23% or \$6.249B. National Debt to GDP stood at 79.9% as of June 2024 compared to 83.0% in the same period last year, while Direct Charge to GDP stood at 77.6% compared to 80.3% in the previous year.

Tourism

Year to date as of July 2024, total visitor arrivals totaled 6,795,604 from 5,895,687, a 15.3% increase YoY. Sea arrivals made up 82.86% of total arrivals YTD and saw an 869,109 increase (or 18.3%) from 4,761,858 to 5,630,967. On the other hand, air arrivals expanded 30,808 (or 2.7%) from 1,133,829 to 1,164,637. Expansion in air arrivals varied throughout The Bahamas. Major islands like Abaco (+14.9%), Grand Bahama (+5.7%), New Providence (2.8%) experienced growth YTD compared to the previous year. While islands such as Andros (-17.3%), Berry Islands (-7.3%), Bimini (-2.9%) and Eleuthera (-0.4%) experienced declines. According to the Central Bank of the Bahamas' MEFD report for August 2024, in the short-term vacation rental market, entire place listings occupancy rate decreased from 42.7% to 38.7%. While occupancy rates for comparable hotel listings increased to 42.3% compared to 41.1% in the previous year.

Monetary and Financial Developments

Banks continued to experience an elevated level of liquidity. Total external reserves grew by \$2.48M (or 0.085%) during Q2 2024 or \$218.7M (8.1%) year-over-year, totaling \$2.916B at the end of June 2024. Excess reserves increased by \$13.4M (0.6%) to \$2.1B, while excess liquid assets declined by \$160.2M (5.0%). At the end of June, the stock of external reserves equated to 34.6 weeks of the current year's total merchandise imports compared to 32.1 weeks in the same period of 2023.

Domestic inflation saw some relief in July based on the most recent numbers released by BNSI. The CPI declined 0.1% on a month-to-month basis and 0.5% from the same period last year. The major categories contributing to this YoY decrease include Clothing & Footwear (3.2%), Furnishing and Household Equipment and routine household maintenance (4.2%), Transport (3.2%) and Recreation and Culture (3.0%). While Education and Food & Non-Alcoholic Beverages increased 5.0% and 3.2% respectively. Gasoline and diesel prices also recorded a decline of 1.0% and 0.2%. The CPI stood at 121.27 at the end of July, a small decline from 121.91 in July 2023.

Capital Market Developments

The local stock exchange, BISX, gained 1.44% during Q3 2024. Year to date the index rose 4.71%. Top performers in Q3 2024 included Bahamas Property Fund (+20.00%), Emera Incorporated (+17.77%) and FOCOL (+16.28%). Underperformers included Cable Bahamas (-7.14%), Bank of The Bahamas (-6.68%) and Consolidated Water (-5.08%).

During the quarter, Bahamas Grid Company successfully placed a \$100 million bond at an interest rate of 8%, set to mature in 20 years. The CBOB had three BRS offerings over the quarter, all being benchmark offerings. Benchmark rates ranged from 3.67% for 3 years to 6.62% for 30 years. The average Treasury Bill discount rate as of the end of Q3 2024 was 2.93%, while the weighted average rates on deposits and loans & overdrafts stood at 0.51% and 10.95% respectively.

Conclusion

The Bahamas saw moderate economic growth in 2023 and is projected to continue this trend into 2024, with real GDP projected to grow by 2.3% according to the IMF.

Tourism continues to be the main driver of economic growth with arrivals numbers surpassing the previous year's numbers, particularly with surging cruise ship arrivals. With inflation levels subsiding, the focus will shift to containing the national debt and closing the fiscal deficit.

Debt servicing continues to take up a significant chunk of the government's budget, taking away from other development priorities. As of June 2024, public debt interest made up 20% of the FY2023/2024 budget. The government should continue to pursue policies to narrow the fiscal deficit, to allow for some sizable reduction in debt levels while also ensuring economic development.

GLOBAL ECONOMIC HIGHLIGHTS

Third Quarter 2024

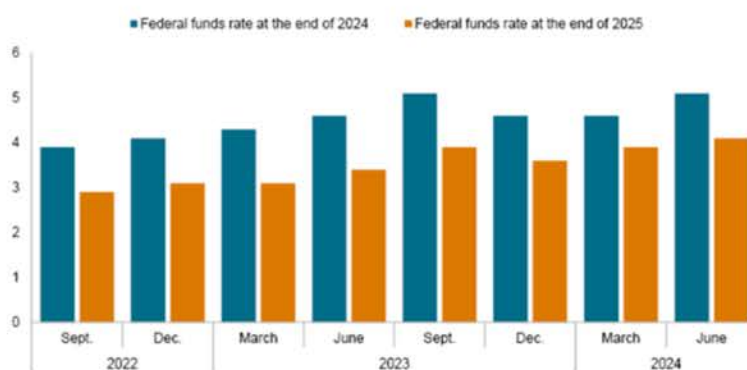
- For the most part, economic output amongst the world's developed economies remained stable in the third quarter, but signs of a slowdown are showing as GDP growth slows. The International Monetary Fund kept its global growth forecast for 2024 of 3.2%.
- Developed market central banks have adjusted their stance as growth slows and inflation rates fall. While headline inflation continues to cool in many instances, overall inflation continued to surpass central bank targets in some regions of the world.
- Concerns about economic growth in China were addressed by the announcement of stimulus measures which boosted market sentiment. India remains one of the fastest growing emerging economies.
- Most developed equity indices posted positive returns in the third quarter as continued stabilization in inflation rates drove gains across most sectors. Bond yields fell due to cuts in policy rates, leading to strong results across the globe for bondholders.
- In the commodities market, continued geopolitical uncertainty resulted in stable returns for investors as commodity prices remained elevated across most assets.

GLOBAL ECONOMIC REVIEW

United States

In Q3 2024, major US markets saw another quarter of strong positive results. However, sector performances were mixed during the quarter as expectations of the FED's decision to cut interest rates varied. The Dow Jones Industrial Average recorded the highest returns during the quarter jumping +8.21%, while the S&P 500 and NASDAQ posted gains of +5.53% and +2.58% respectively. However, year to date, the NASDAQ and S&P 500 outperformed the blue-chip index, with returns of +21.17% and +20.81%, while the DJIA added +12.31%. Bond markets also posted positive returns during the quarter, with US corporates (+5.75%) being the best performers followed by US high yield issues (+5.31%) and US Treasuries 1 – 10 years (+3.95%). During its September 2024 meeting, the FED began its rate cutting cycle with a 50-basis point cut to its benchmark interest rate, bringing the rate to a range 4.75% - 5.00%.

This was the first interest rate cut since the start of the pandemic. Inflation began to cool in Q3 2024 as the US Consumer Price Index increased 2.4% for the 12 months ending September 2024, reaching its lowest point since February 2021. The US economy remains resilient, growing 3.0% in Q2 2024 compared to 1.6% in the previous quarter. Growth was primarily driven by increases in consumer spending, inventory investment and business investment.



Data accessed Sept. 12, 2024.
Forecast represents the median views of participants in the Federal Open Market Committee.
Source: Federal Reserve Summary of Economic Projections.
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The unemployment rate remained low at 4.1% at the end of September, reflecting the strength of the labor market. Uncertainty regarding how the FED will continue its rate cutting cycle and the upcoming US presidential elections will likely pose some market volatility in the fourth quarter.

Europe

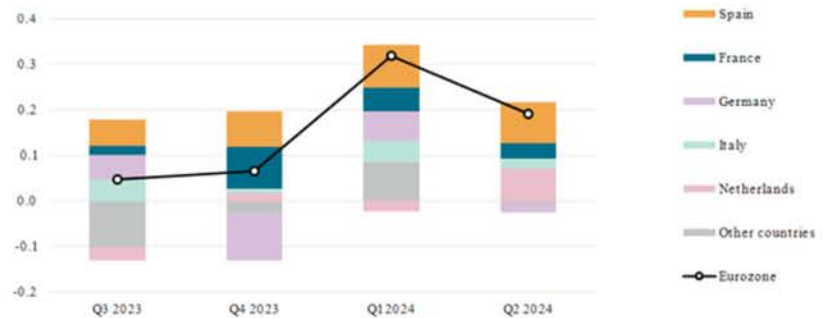
Eurozone equities were higher in the third quarter with the Stoxx Europe 600 Index gaining +2.24%. The Euro area reported a 0.2% increase in GDP during the Q3 2024 after marginal growth in the previous quarter. Amongst major European economies, Spain saw quarterly growth of +0.8%, while France and Germany grew by 0.2% and 0.3% respectively, driving overall euro area growth +0.6% higher year over year. However, the Euro area purchasing managers' index, an important indicator of economic health in the region, continued to decline, falling to 45.0 in September from the previous quarter reading of 45.8 as conditions in the manufacturing sector continue to worsen.

Efforts to fight inflation showed more signs of bearing fruit. The Eurozone saw its annual inflation rate fall to 1.8% in September from 2.2% in August. Once again, the European Central Bank cut its key policy interest rate by 25 basis points to 3.50% despite previously guiding the market that it was not committed to further rate cuts due to stubbornly high inflation.

Nonetheless, the ECB maintains a more cautious tone than the United States and will likely remain ahead of the FED in cutting rates to avoid any drastic economic slowdown. On the political front, France held elections with no party achieving an outright majority, leading to efforts to form a coalition government. Meanwhile, in the UK, the latest reading saw a downward revision of GDP growth to 0.5% from 0.7% and an increase in inflation levels to 2.2%, which both provided a challenging policy path for the Bank of England. Nonetheless, the UK saw its first interest rate cut in four years. This 0.25% cut, combined with a new political directorate provided hope for a sustained recovery.

The budget presented by the new Labour government outlined tax increases and spending cuts but more clarity will be needed on how these plans will affect the economy. UK stocks, as measured by the FTSE 100, posted a slight gain of +0.89% in the third quarter but continue to lag their U.S. counterparts.

Spain and France are the two growth engines of the eurozone economy
Country contributions to eurozone GDP quarter-on-quarter growth (%)



Source: S&P Global Ratings.
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Asia Pacific

The Shanghai SE Composite grew +12.44% in Q3 as China's central bank announced support measures to combat the economic challenges including a 0.50% cut in the reserve requirement ratio. Despite government efforts to stabilize the economy, headwinds such as weak private investment, a cooling property market, and external pressures from trade disputes will likely hinder growth. According to IMF projections, China is expected to see GDP growth of 5% in 2024 and 4.5% in 2025. Unemployment levels increased to 5.3% overall with youth unemployment (ages 16 – 24) also increasing to 18.8% in August from 17.1% in July.

Manufacturing remains a strong point, driven by heavy investment and rising exports, though these gains are tempered by falling global demand and increasing trade tensions. Infrastructure investment is expected to pick up again thanks to government fiscal support, particularly through the issuance of new treasury bonds. However, political risks remain elevated due to the upcoming elections which could spark another trade war. Taiwanese equities lagged in the quarter but performed well year to date, mainly due to the semiconductor and Artificial Intelligence sectors which are vital in global supply chains. Japanese equities cooled significantly, with the Nikkei 225 declining -4.20% in Q3 2024. However, the index remained up +13.31% year to date as it led global markets in the first half of the year. The Bank of Japan has maintained its highly accommodative monetary policy, with no major rate hikes expected until early 2025. This dovish stance, combined with currency depreciation, will likely continue to support export growth, although the benefits are somewhat limited by sluggish global demand. Despite global economic challenges, Japan's real GDP growth is forecasted at +0.9% for FY2024, thanks to steady wage increases following the 2024 spring wage negotiations and price adjustments. Inflation, which has been affected by rising consumer demand and higher cost of raw materials, has stabilized around 2%. Conversely, China's annual inflation remained low at 0.6% in August with consumer prices rising marginally.

Emerging Markets

The MSCI Emerging Markets Index gained +7.79% in the third quarter, again outperforming the MSCI World Index which gained +6.02%. Growth in many EM countries continue to hold strong as the global economy remains robust and stimulus measure in the U.S. and China provide tailwinds. The reduction in developed market interest rates should bode well for emerging market economies going forward as we are now firmly in a rate cutting cycle. Brazil saw continued growth in the second quarter of 2024, with GDP rising 1.4% quarter over quarter for an annual pace of 3%. This uptick drove a 0.25% rate increase as Brazil's central bank expects inflation levels to remain elevated. Brazil's Ibovespa rose 8.9% on a USD basis during the quarter but could see weakness due to restrictive policy. South Africa's economy grew 0.4% in the first quarter 2024, a welcomed sign after some previous contraction. The formation of the Government of National Unity, which took over from the previous ruling party will help to boost confidence about future prospects. The Central Bank also followed the U.S. with a rate cut for the first time since 2020. India remains a bright spot as the country experienced growth of 7.2% year over year in Q2-2024.

Emerging markets' GDP catching up to developed markets (%)

Share of world GDP based on current US dollars



Data compiled Aug. 31, 2024.

2030 is not our forecast. It is a scenario that assumes productivity and labor force participation will average the same as it has in the past decade, taking into account UN population projections and stable real exchange rates.

Sources: International Labour Organization; United Nations; World Bank; S&P Global Ratings.
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Commodities

In the commodities market, ongoing geopolitical tensions including the escalating conflict between Palestine and Israel continued to sustain high prices in precious metals as investors sought safe haven assets. During the final days of the quarter, the conflict spread to other countries in the region including Iran and Lebanon. In Q3 2024, Gold futures rose +12.67%, to end the quarter at \$2,659. Gold has outperformed most major asset classes year to date and the September rate cut in the US also provided a boost to prices. Silver and copper also saw gains of +7.60% and +3.22% respectively in Q3-2024. Copper prices increased after China announced stimulus measures to drive its economy. Oil prices were weak in the third quarter, falling -13.71% after settling around \$70 per barrel for several quarters. Prices are expected to rise due to the escalation of conflicts in the Middle East.

Market Returns Q3 - 2024

As at September 30, 2024

	MTD	QTD	YTD	1 year
Equity Indices (% local currency)				
S & P 500	2.02	5.53	20.81	34.38
Dow Jones Industrial Average	1.85	8.21	12.31	26.33
NASDAQ	2.68	2.57	21.17	37.60
FTSE 100	-1.67	0.89	6.51	8.27
Stoxx Europe 600	-0.41	2.24	9.17	16.14
Shanghai SE Composite	17.39	12.44	12.15	7.27
Nikkei 225	-1.88	-4.20	13.31	19.03
MSCI Emerging Markets	6.45	7.79	14.37	22.89
MSCI World	1.69	6.02	17.48	30.48
ICE BofA Bond Indices (% local currency)				
US Treasuries 1-10 years	0.99	3.95	4.29	8.32
US Corporates	1.73	5.75	5.77	14.14
US High Yield	1.64	5.31	8.05	15.68
UK Gilts 1-10 years	0.45	2.17	1.46	6.44
Euro Government	1.29	4.00	1.97	9.28
Global High Yield & Emerging Markets	1.94	6.18	9.55	18.58
Global Broad Market Index	1.66	7.00	3.45	11.89
Currencies vs. USD				
British Pound	1.89	5.77	5.06	9.64
Euro	0.79	3.94	0.87	5.32
Japanese Yen	-1.74	-10.72	1.84	-3.84
Swiss Franc	-0.47	-5.92	0.50	-7.61
Commodities (% USD)				
Gold	5.25	12.67	27.24	42.64
Silver	9.49	7.60	30.61	40.12
Copper	8.11	3.22	15.21	19.22
WTI Crude Oil	-6.17	-13.71	-3.51	-12.92