GLOBAL AND LOCAL ECONOMIC REVIEW

Fourth Quarter 2024

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EDITORIAL

Do Presidents Matter for US Markets?

Presidential elections in the United States mark significant moments in history. For months leading up to Election Day, questions swirl about the impact of proposed policies on citizens and the economy. However, across nearly 60 elections held in US history, one question persists: Does a president truly influence financial markets?

While it's true that presidents play a key role in shaping policies—such as fiscal spending, tax reforms, and trade policies—that can indirectly affect markets, history has demonstrated that the outcome of elections typically has little to no lasting impact on market performance.

There is the popular perception that a US government controlled by the GOP is better for the economy and financial markets, based on its political position compared to that of the Democratic Party. The Democratic Party supports a mixed economy with progressive taxes, higher minimum wages, and social programs, while the Republican Party advocates for laissez-faire economics, limited government, free markets, tax cuts, reduced spending, privatization, and a shift from government welfare to private-sector solutions.

In fact, the mirror some of the signature policies in the proposed economic agenda of newly elected United States President Donald Trump. A key focus of the new Trump administration will likely be on shifting tax policies. For instance he has proposed reducing taxes on overtime and tipped income, exempting interest payments on car loans from taxes, and lowering taxes on companies that manufacture products in the U.S., among other things. In addition to tax reform, Trump has also proposed implementing tariffs on goods made in foreign countries and certain industries, such as tariffs on automakers that use plants in Mexico for cars for sale in the U.S. If these proposed tax cuts are imposed, we can expect to see an increase in share buybacks and dividend payouts, which generally in the short term bode well for financial markets.

However, contrary to the belief that the GOP is for markets, historical returns of the S&P 500 have shown that since 1953, only two presidents have experienced market downturns during their tenure – Presidents Richard Nixon and George W. Bush. Though presidential elections may cause some short-term volatility, markets have performed well in the long-term under both the Democratic and Republican parties, given that a host of other factors typically influence market performance.

Ultimately, we believe that whoever wins an election won’t dictate market outcomes. In our view, investors should stick to their long-term goals of consistently investing and building wealth; because time in the market will always outperform timing the market.

Anthony Ferguson
President, CFAL

LOCAL ECONOMIC HIGHLIGHTS

Fourth Quarter 2024

- Preliminary data for the first quarter of FY2024/25 indicates that the overall fiscal deficit increased 201.1% to $185.5M from $61.6M in the same period last year.
- Projections of real GDP growth continue to trend downward to 1.7% for 2025.
- The unemployment rate stood at 8.7% as of Q2 2024, an improvement from the 9.9% recorded at the end of 2023.
- National debt stood at $11.99B as of September 2024 comprised of $11.66B Direct Charge and $335.3M Contingent Liabilities.
- The Bahamas recorded 10.07M total tourist arrivals as of November 2024, an increase of 16.43% from the same period in 2023. Sea arrivals continued to dominate with growth of 20.06%, while air arrivals contracted by -0.10%.
- The local stock market, BISX, was stable during the quarter, gaining +0.74%, while the 2024 total return was +5.49%.

LOCAL ECONOMIC REVIEW

Fiscal Review

Preliminary data for the first quarter of FY2024/25 (July – September) indicates that the overall fiscal deficit increased $123.9M (or 201.1%) to $185.5M from $61.6M in the same period last year, driven by an increase in expenditure which overshadowed growth in total revenue. Total revenues grew $18.7M (or 2.8%) during Q1 FY2024/25 to $682.2M, representing 19.3% of budget estimates. Tax revenues saw moderate growth of 2.1% (or $12.5M) to $616.2M, mainly attributable to increases in taxes on business licenses activities of 84.3% to $16.4M, marine license activities up by 75.0% to $1.4M and departure taxes up by 53.3% to $75.9M. Meanwhile, non-tax revenues increased 10.4% (or $6.2M) to $66.0M. Main contributors included total property income up 212.5% to $5.0M and immigration fees increasing 16.3% to $31.4M. Total expenditure expanded by $142.4M (or 19.6%) to $867.5M, comprised of recurrent expenditure of $743.7M and capital expenditure of $123.8M. Grants increased $500K (or 62.5%), finance charges increased $3.1M (or 103.3%) and utilities & telecommunications increased $5.3M (or 58.2%). Social Assistance Benefits and Public Debt Interest saw noteworthy declines of 45.7% and 1.5% respectively.

Economic activity in The Bahamas continued its growth momentum throughout the quarter. As of September 2024, the total value of goods and services produced was estimated at $14.735 billion in nominal prices, an increase of 3.52% from the same period last year. It is projected by the IMF that The Bahamas' real GDP growth for 2025 is expected to be 1.7%, a reduction from the 1.9% reported for 2024. Based on the most recent data released from BNSI, The Bahamas' unemployment rate stood at 8.7% as of Q2 2024, remaining unchanged from the previous quarter; however, an improvement from the 9.9% seen in Q4 2023.

As of September 2024, The Bahamas' national debt stood at $11.99B, equating to an increase of $338.8M or 2.91% from the previous quarter. Direct Charge accounted for 97.2% of national debt and increased $342.5M (or 3.03%) to $11.66B for the quarter. Meanwhile, Contingent Liabilities made up 2.8% of national debt and decreased $3.72M (or -1.1%) to $335.3M. Total external debt at the end of Q3 2024 totaled $5.19B or 44.56% of total direct charge and total internal debt amounted to $6.46B or 55.44% of total direct charge. National Debt to GDP stood at 81.4% as of September 2024, similar to the 81.3% seen in the same period last year, while Direct Charge to GDP stood at 79.1% compared to 78.8% in the previous year.

Tourism

The Bahamas' tourism industry continues to see tremendous growth. As of November 2024, The Bahamas' total tourist arrivals equated to 10,065,825 – an increase of 16.43% from the same period last year. Sea arrivals continue to dominate, accounting for 84.56% of total arrivals and expanded 1,422,051 (or 20.06%) to 8,511,789. While air arrivals accounted for 15.44% of total arrivals and declined 1,626 (or -0.10%) to 1,554,036 from the same period in 2023. Islands experiencing the largest percentage growth in tourist arrivals included Abaco (+11.8%), Grand Bahama (+9.7%), and Long Island (+4.7%). While islands such as Inagua (-22.6%), Andros (-15.5%), Berry Islands (-9.3%) and Exuma (-7.4%) saw declines. Based on the Central Bank of the Bahamas' Monthly Economic & Financials Developments report for November 2024, the average occupancy rate for entire place listings and hotel comparable listings narrowed to 48.2% and 45.6% from 50.1% and 48.8% in the previous year, respectively.

Monetary and Financial Developments

Banking sector liquidity contracted during Q3 2024, as the expansion in domestic credit outweighed growth in the deposit base. Excess reserves narrowed by $118.6 million (or -5.6%) to $1.98B, while excess liquid assets declined $18.3M (or -0.6%). Total external reserves contracted $182.1M (or -6.2%) to $2.73B at the end of September 2024. The stock of external reserves equated to 29.6 weeks of the current year's total merchandise imports (including oil purchases) compared to 30.6 weeks in the same period of 2023.

According to most recent numbers released by BNSI for September 2024, domestic inflation declined 0.8% YoY with the Consumer Price Index falling to 121.43 from 122.36 in September 2023. Major categories that contributed to this decline included Communication (5.9%), Transport (3.7%), Clothing & Footwear (2.5%) and Restaurants and Hotels (2.5%). While Furnishing & Household Equipment and routine household maintenance (4.9%), Alcoholic Beverages (4.3%) and Health (3.5%) saw increases. Compared to the same period last year, both gasoline and diesel prices decreased 9.9% and 6.4% respectively. On a month-to-month basis, the CPI remained constant at 0.1% from August 2024 to September 2024.

Capital Market Developments

The local stock exchange, BISX, gained +5.49% during 2024, increasing to 3,008.22 from 2,851.64 in 2023 and expanded +0.74% for Q4 2024. Notably, the market rose +7.81% in 2023. Top performers for the year included Bahamas Property Fund (+45.83%), Family Guardian (+36.90%) and FOCOL Holdings (+34.74%). Underperformers included Consolidated Water (-27.25%), Cable Bahamas (-16.43%) and Commonwealth Bank (-6.97%).

During the quarter, the Central Bank had eight BRS offerings including two benchmark offerings, and six short-term offerings. Benchmark rates ranged from 3.70% for 3 years to 6.65% 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 0.47% and 12.30% respectively.

Conclusion

The Bahamas continued to see stable economic growth throughout the year, with nominal GDP reported at 2.77% at the end of September 2024. The Bahamas' tourism industry continues to expand with sea arrivals dominating. Cruise visitor arrivals during 2024 equated to 12.77 million, growing 21.0% YoY. Though tourism has seen robust growth, the IMF projects real GDP growth will be reduced to 1.7% in 2025. The Bahamas continues to face the challenge of high national debt which continues to be a hindrance to growth. Public debt interest remains high and accounts for 12.96% of total expenditure during Q1 FY2024/25. It is crucial that the Government continues its efforts in addressing the fiscal deficit, which ultimately allows for a reduction in debt to more sustainable levels and improvement in the standard of living within The Bahamas.

GLOBAL ECONOMIC HIGHLIGHTS

Fourth Quarter 2024

- 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 3.2% for 2024 and 3.3% for 2025.

- 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.

- Concerns about economic growth in China were addressed by the announcement of stimulus measures which boosted market sentiment but tariff threats from the U.S. could provide challenges.

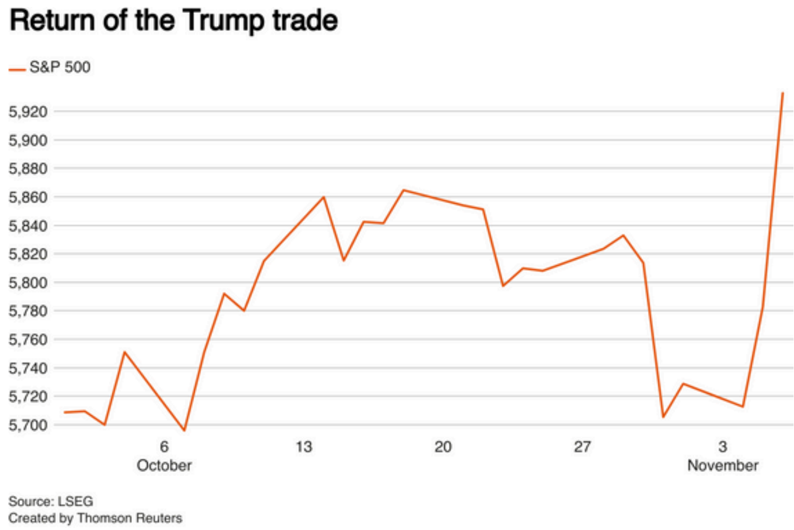
- Most developed equity indices posted positive returns in the fourth quarter as continued stabilization in inflation rates drove gains across most sectors. Bond yields rose as expectations for rate cuts decreased.

- In the commodities market, continued geopolitical uncertainty resulted in mixed returns for investors as commodity prices remained volatile.

GLOBAL ECONOMIC REVIEW

United States

In Q4 2024, major US markets saw another quarter of strong results capping off another positive year for equities. As with the previous quarter, sector performance was mixed, technology and healthcare stocks showed strong gains, while cyclicals underperformed amidst persistently high inflation. The NASDAQ recorded the highest returns, jumping +6.17%, while the S&P 500 and Dow Jones Industrial Average posted gains of +2.07% and +0.51% respectively. Year to date, the NASDAQ and S&P 500 posted returns of +23.31% and +28.64%, while the DJIA added +12.88%. Bond markets returns varied during the quarter, with US corporates (-2.84%) being the worst performers followed by US Treasuries 1 – 10 years (-1.65%). However, US high yield issues were up slightly with a return of +0.16%. Donald Trump's election win and the Republican sweep of the House and Senate helped to boost stocks as markets expect an economic agenda focused on reducing taxes and regulations. In both November and December, the US Federal Reserve (Fed) reduced interest rates by 25 basis points with the benchmark rate ending the year in a range of 4.25 – 4.50%. However, the Fed cautioned that going forward it would not reduce rates as often as the market was predicting, which drove a slight sell-off in the stock market in the final trading days of the year. The Fed's decision is a result of sticky inflation that remains above the desired 2% level. The Fed's favored indicator of inflation, core PCE, or personal consumption expenditure, saw a 2.8% year-over-year increase in November. In Q3 2024, the US economy grew by 3.1% annually, demonstrating its continued strength. Hurricanes and strikes caused some distortion in the labor market data that was reported during the quarter, but unemployment remains low at 4.1%.

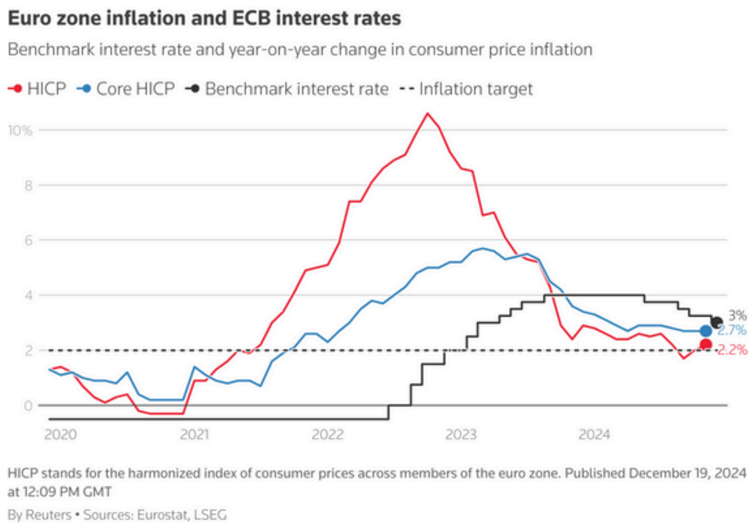


Europe

Eurozone equities were lower in the fourth quarter amid recession concerns with the Stoxx Europe 600 Index losing -2.92% to end the year with a +5.98% rise, significantly lagging the US. Europe is currently grappling with significant political instability in France and Germany, two of the region's largest economies. After German Chancellor Olaf Scholz fired his finance minister in November, Germany's three-party ruling coalition fell apart, opening the door for elections in February 2025. When other parties refused to support his budget, French Prime Minister Michel Barnier was overthrown in a no-confidence vote. It is not possible to hold new parliamentary elections until July.

These issues plus the fear of trade wars in the aftermath of the US elections have weighed on the economy. According to December flash composite purchasing managers' index (PMI) survey data, business activity in the eurozone continued to shrink at the end of the year primarily due to declines in the manufacturing sector. Even though the service sector resumed its development, the index stood at 49.6 in December compared to 48.3 in November. Readings below 50 signal a contraction.

In both October and December, the European Central Bank (ECB) lowered interest rates by 25 basis points. ECB President Christine Lagarde, hinted at additional cuts in 2025 as the area persistently struggles with low growth levels. Over the quarter, UK stocks declined -0.78%, again lagging their US counterparts with year-to-date gains of +5.69%. As long-term bond yields increased and worries about the UK macroeconomic outlook grew, some domestically oriented industries saw a drop. Although long-term bond rates increased globally as inflation expectations rose, worries about the fiscal policies of the new UK administration, which were announced in the Autumn Budget, made the increase in the UK even more pronounced. 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 October saw the economy decrease for the second consecutive month. Meanwhile, the ONS revised down Q3 growth to zero from 0.1%, indicating that the economy had done worse than anticipated during the summer.



Asia Pacific

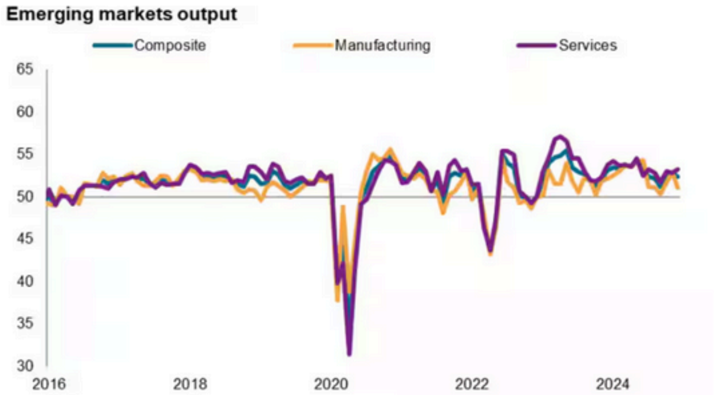
The Shanghai SE Composite grew +0.46% in Q4 as China's central bank provided support measures including a 0.50% cut in the reserve requirement ratio to combat the country's economic challenges. Despite government efforts to stabilize the economy, headwinds such as weak private investment, a cooling property market, and external pressures from trade disputes will likely hinder growth. Official statistics showed a growth of 5% in GDP for 2024 while the IMF projects growth of 4.5% in 2025. Unemployment levels increased to 5.3% overall with youth unemployment (ages 16 – 24) coming in at 16.1% in November. 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. The property market remains problematic but appears to be stabilizing due to policy measures and stimulus. Meanwhile, Japanese equities rose significantly, with the Nikkei 225 increasing +5.21% in Q4 2024, bringing year to date gains to +19.22%.

At its policy meeting in December, the Bank of Japan (BOJ) opted against raising interest rates, and BOJ Governor Ueda took a less aggressive position than in his July address. While markets have done well and business sentiment improved, macroeconomic changes have not been strong enough to boost domestic demand. Upcoming wage negotiations in March 2025 will boost wage growth and hopefully encourage an increase in consumption. Japan's real GDP growth was revised at +1.31% for FY2024 with expectations of growth remaining around 1% in 2025. Inflation, which has been affected by rising consumer demand and the higher cost of raw materials, has stabilized around 2%. Conversely, China's annual inflation remained low at 0.2% in 2024 with consumer prices rising marginally. Taiwanese equities emerged as Asia's best performing stock market gaining more than 28% in 2024, continuing to be driven by Artificial Intelligence demand in its core semiconductor markets.

Emerging Markets

The MSCI Emerging Markets Index lost -8.15% in the fourth quarter, underperforming the MSCI World Index which lost -0.41%. During the quarter, emerging markets (EM) saw mixed performance across regions as various factors impacted their economies. There are significant concerns about the impact of increased US tariffs on Mexico and tariff threats could lead to businesses moving manufacturing into other countries such as Vietnam and India. The US dollar was also strong during the quarter as expectations of rate cuts by the Fed were tempered. In Brazil, growing worries about the nation's budget caused the local currency to decline, with Brazilian shares performing the worst among major EM countries. The Ibovespa fell -19.63% during the fourth quarter to end the year down -29.54% on a US dollar basis.

Nonetheless, GDP grew 4% year over year. Elsewhere, political unrest caused by the impeachment of the President and then the acting President in December caused South Korea to report losses. In South Africa, the economy continues to face challenges, but there are expectations for growth of 1.7% in 2025 with upside potential if the government sticks to its reform agenda. India continues to see elevated growth levels, albeit at a slowing pace as growth projections are at 6.6% versus a previous projection of 7.2%.



Data compiled January 2025 ncluding PMI data to December 2024.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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Commodities

In the commodities market, the S&P GSCI Index rose +3.15% in the fourth quarter, recovering earlier losses to end the year up +2.60%. The index's top-performing sectors were energy and livestock, while industrial metals and precious metals were weak. In Q4 2024, Gold futures rose +0.19%, with gold continuing to outperform most major asset classes year to date. Silver and copper saw losses of -7.04% and -11.97% respectively. Every sub-component of energy had strong quarterly improvements. Oil prices were stronger in the fourth quarter, rising +6.54% after settling around $70 per barrel for several quarters. Direction on future oil prices is uncertain as a change in the US administration could have varying effects on conflicts in the Middle East and sanctions on countries. During the quarter, there were some notable price changes in the agriculture sector. The cost of sugar and cotton was drastically reduced, while the cost of coffee and cocoa was much higher.

Market Returns Q4 - 2024

	As at December 31, 2024			
	MTD	QTD	YTD	1 year
Equity Indices *(% local currency)*				
S & P 500	-2.50	2.07	23.31	23.31
Dow Jones Industrial Average	-5.27	0.51	12.88	12.88
NASDAQ	0.48	6.17	28.64	28.64
FTSE 100	-1.38	-0.78	5.69	5.69
Stoxx Europe 600	-0.52	-2.92	5.98	5.98
Shanghai SE Composite	0.76	0.46	12.67	12.67
Nikkei 225	4.41	5.21	19.22	19.22
MSCI Emerging Markets	-0.29	-8.15	5.05	5.05
MSCI World	-2.68	-0.41	17.00	17.00
ICE BofA Bond Indices *(% local currency)*				
US Treasuries 1-10 years	-0.53	-1.65	2.57	2.57
US Corporates	-1.76	-2.84	2.77	2.77
US High Yield	-0.41	0.16	8.22	8.22
UK Gilts 1-10 years	-0.81	-1.18	0.26	0.26
Euro Government	-1.48	-0.19	1.77	1.77
Global High Yield & Emerging Markets	-0.59	-0.70	8.78	8.78
Global Broad Market Index	-2.43	-5.33	-2.07	-2.07
Currencies vs. USD				
British Pound	-1.72	-6.42	-1.69	-1.69
Euro	-2.11	-7.01	-6.21	-6.21
Japanese Yen	4.96	9.45	11.46	11.46
Swiss Franc	3.00	7.31	7.84	7.84
Commodities *(% USD)*				
Gold	-0.60	0.19	27.47	27.47
Silver	-4.70	-7.04	21.41	21.41
Copper	-2.74	-11.97	1.76	1.76
WTI Crude Oil	5.91	6.54	3.05	3.05
S&P GSCI Index Spot	2.60	3.15	2.61	2.61