CFAL

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WEEKLY MARKET INSIGHT

COVID - 19 UPDATE | INVESTING | THE ECONOMY

What the market revealed this week

Everyone has a price

In recent weeks, many have speculated and forecasted that cruise lines would run out of funding and go bankrupt. While there is no guarantee that they won't, Carnival was able to successfully raise $3 billion in bonds with investors subscribing for more than $17 billion this week. This was made possible by the very attractive 11.5% interest rate on the bond as investors search for yield in a low rate environment.

Fixed income crisis

Piggybacking on the Carnival note, conservative investors continue to face a challenge in finding attractive low risk investments that meet their goals. Investors could have relied on treasury bills and government bonds as safe vehicles to earn a decent rate of interest. However, in recent days, short term U.S. treasury bills have yielded negative returns while long term U.S. treasury yields are all below 2% which provide no real return when inflation is considered. Conservative investors will need to revise their strategies to adjust to this new normal as global rates decline and governments fund large deficits.

The forces behind oil prices

Crude oil prices have traditionally been controlled through the manipulation of supply and demand. Last Thursday, the price of Brent crude oil spiked 25%, its largest ever single day gain, on news that Russia and Saudi Arabia may end their price war and commit to deeper supply cuts. However, some analysts see the move as "too little, too late" as a collapse in demand due the economic severity of the coronavirus pandemic could outweigh any efforts to restrict supply. It is quite possible that oil prices could fall to surprisingly low levels as consumption remains depressed.

Weekly Financial Tip:

Prioritize bills *– Whether your job has been affected or not, look at all your bills and identify which ones are critical and which can be paid at a later date. Do not be ashamed to speak with your creditors to advise them of your financial challenges and negotiate some form of deferred payment or payment adjustment.*

The world continues to grapple with the Novel Coronavirus (COVID-19) as the total number of confirmed cases exceed 1.3 million and related deaths topped 73,000. While scientists and health experts race to find a vaccine and push for more restrictive measures to prevent the spread of the virus, governments around the globe are preparing record stimulus packages to lessen the economic fallout of the pandemic. These unprecedented fiscal and monetary policy responses to this economic crisis were swift and aggressive but welcomed by those who need the support most, citizens and businesses. However, these are the early days of this pandemic and there remains huge uncertainty as to whether or not the efforts by policymakers will have the desired impact of stabilizing economies.

A very fitting phrase "go big or go home" is appropriate when describing governments' stimulus packages. However, given the uncertainty and the magnitude of the COVID-19 pandemic and the expected negative impact, we believe that it's better to err on the side of doing too much rather than risk doing too little. The varying international responses to the pandemic have been extraordinary. The United States, the world's largest economy, for instance, passed a $2 trillion 'Phase 3' stimulus bill which includes direct cash payment of $1,200 for those who earn up to $75,000 and $500 per child. Support for businesses include a $500 billion lending program to companies impacted by the crisis. This is the largest bailout in US history. The United Kingdom's stimulus aid package, on the other hand, totaled £65.5 billion and is comprised of tax cuts and increased spending to protect workers and businesses. Meanwhile, the Bahamas' initial fiscal stimulus package of $24 million was recently expanded by about $5.9 million to include the self-employed increasing total direct aid to workers and businesses to approximately $30 million.

Normal economic activity in the Bahamas has halted, leading to the closure of major tourism employers like Atlantis and Baha Mar. As a result, it is expected that unemployment will spike significantly, despite the government's tax credit offered to some businesses to retain upwards to 80% of their staff. However, some of the largest private employers are excluded from the list of businesses eligible for this tax credit. These include: retail or wholesale grocery businesses, hotel and resorts, regulated financial and insurance entities, regulated telecommunications entities and gaming establishments. Coupled with the massive job losses is the projected decrease in government tax revenues resulting from the widespread halt in economic activity brought about by COVID-19 social distancing rules. In the short term the government is projecting this shortfall in revenues to total $60 million. Obviously, if this suspension in economic activity exceeds the three-month period indicated, unemployment will increase further, government revenues will subsequently decline and the deficit and national debt will likely skyrocket. Though far from adequate, the government of the Bahamas is to be commended for its initial fiscal stimulus response. No doubt, as they navigate this COVID-19 pandemic, more stimulus will be needed, however, what's important now is providing adequate support and funding to deal with the health crisis while simultaneously protecting the economy from wide spread unemployment and potential collapse.