

MARKET INSIGHTS

COVID - 19 UPDATE | INVESTING | THE ECONOMY

What the market revealed this week

The stock market 'merry go round' continues

In a hopeful sign, US stocks rallied on Friday as the S&P 500 gained 1.4% to end the trading week at 2,837. All 11 S&P 500 sectors were higher last Friday, with Information Technology (+2.1%) and Materials (+1.6%) outperforming the broader market, while Real Estate (+0.3%) and Energy (+0.2%) lagged. The rally however was not sufficient to finish the week in positive territory with the S&P ending the week down 1.3%. The slew of mixed earnings reports and global economic data, together with the historic crash in crude oil prices all weighed heavily on the market tilting it down during the week.

The Oil Surprise

On Monday, April 20th the unimaginable occurred when for the first time on record, the price of a barrel of West Texas Intermediate (WTI), the U.S. oil benchmark, fell into negative territory and the international benchmark, Brent crude, descended to its lowest price in two decades. With demand for oil down 30% due to the COVID-19 pandemic, and storage rapidly filling up, it appears that more production cuts are on the horizon. Investors should buckle up because as long as supply continues to outpace demand, the level of uncertainty and volatility in the oil market will continue.

Weekly Financial Tip:

Make a Plan –Developing a financial plan can go a long way in helping to avoid a personal financial crisis during the COVID-19 pandemic.

The first and most important step is not to panic. If you lost your job and are low on savings, consider applying for available government benefits. List your financial goals and priorities and define timelines for achieving them. Adjust your lifestyle to include spending on essential items only.

This pandemic will pass and having a well thought out, flexible financial plan will ensure you are successful in navigating this crisis.

It has been nearly two months since the World Health Organization (WHO) declared COVID-19 a pandemic. To halt the spread of this deadly virus and prevent an overwhelming strain on healthcare systems, governments around the world have implemented varying degrees of social distancing rules. As expected, these measures to contain the spread of the novel coronavirus have created economic challenges throughout the world.

To date, COVID-19 has claimed the lives of over 200,000 persons, while simultaneously risking the livelihood of millions. According to reports, jobless claims in the United States has spiked to a new high of 26.5 million in the last few weeks since the COVID-19 lockdown began. Some US economists are predicting that the pandemic has pushed the US unemployment rate to an unimaginable 15%, with expectations that more unemployment is ahead as varying degrees of lockdown measures throughout the US continue. Likewise, UK economists are forecasting that measures taken to stem the spread of the COVID-19 virus can result in UK unemployment escalating to as high as 15%, with about two million workers losing their jobs if the lockdown lasts for three months. Nearly five million persons in the UK are expected to be unemployed if the lockdown is extended to six months. The Bahamas is no exception. Given that the Bahamian economy is significantly dependent on tourism and hospitality, the level of economic downturn is staggering, and by extension, unemployment, which stood at 10.70% as at December 2019 (of which 152,640 persons were employed), is expected to increase significantly. Of note, December's unemployment numbers did not include the island of Abaco which was devastated by Hurricane Dorian. This leads one to believe that the unemployment rate for December was much higher than reported. With the halt in economic activity around the world, the unprecedented levels of unemployment should come as no surprise. The challenge for governments, however, is being able to sustain the level of support offered to its citizenry should COVID-19 lockdown and curfew measures extend well into the future.

Unfortunately, the Bahamas does not have the riches of countries like the US and the UK, to 'throw' an unlimited amount of resources at this COVID-19 pandemic to support its economy and citizenry. The country's resources are in fact very limited and becoming even scarcer as this current crisis continues. The Minister of Finance, Peter Turnquest, indicated that the Government of the Bahamas has lost upward of 70% of its revenues due to the closure of hotels and the "No-Sail Order" for cruise ships. In addition to the country's current challenges, S&P downgraded the Bahamas' sovereign credit rating by one notch to BB, although Moody's has, for now, kept the country's rating at Baa3. The Bahamas is indeed facing the perfect economic storm.

There is no question that borrowing will play a huge part in getting the Bahamas through this pandemic and on to the recovery phase. Some are predicting a debt increase north of \$3.0 billion. However, The Bahamas is no stranger to debt and has borrowed hefty sums in recent years. For instance, net borrowing during the Ingraham Administration of 2007-2012, which included the Great Recession of 2008, was \$1.58 billion. This was followed by net borrowing of \$2.81 billion during the Christie Administration of 2012-2017. Two and a half years (May 2017 - December 2019) into the Minnis Administration, net borrowing totaled \$1.18 billion. The concern during this time should not be so much about deficit spending and borrowing, but about policymakers' ability to use the borrowed funds wisely for productive investments that will yield much needed sustainable economic growth and reduce the country's structurally high unemployment rate.