CFAL

GLOBAL AND LOCAL ECONOMIC REVIEW

First Quarter 2026

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EDITORIAL

The Oil Shock

Operation epic fury took most investors by surprise on February 28, as missiles rained down on Iran. While there was a buildup of military assets in the region for months ahead of this date, many in the world were not expecting such forcible action against Iran. What followed were additional strikes, retaliatory strikes against regional allies and primarily the closure of the Strait of Hormuz. Oil futures spiked immediately, reaching as high as $120 per barrel before retreating some to the current level around $90. As we write this today, there is a temporary ceasefire as both sides attempt to reach a solution to end the war. However, the impacts will be felt for the foreseeable future.

In the short term, the war has introduced extreme volatility into oil markets, driven by significant supply disruptions and logistical constraints, particularly following the closure of key transit routes like the Strait of Hormuz. This important waterway is responsible for around 20% of the world's oil production, including key supplies such as natural gas and jet fuel. With 20% of the world's oil stuck, the world has to either find other sources of oil or reduce consumption. Prices have surged on supply fears but remain unstable as demand destruction begins to offset the shock with higher prices, refinery slowdowns, and emergency conservation measures are already dampening consumption. As a result, oil markets are not experiencing a straight upward trajectory but rather sharp price swings, with inflationary pressures rising globally, especially in energy-importing regions across Asia and Europe. At the same time, disruptions to LNG infrastructure in Qatar are compounding the situation, tightening global energy markets and reinforcing upward pressure across both oil and gas prices. There will also be increases in the thousands of everyday byproducts of oil.

In the long term, the war is likely to structurally add a security premium in global energy prices. Insurance in the strait will likely remain higher than it was before the war. Countries are expected to respond by investing more heavily in energy resilience expanding strategic reserves, diversifying supply routes, and accelerating both domestic production and alternative energy sources. While high prices may reduce demand growth over time and accelerate the transition to renewables and electrification, they may also encourage greater investment in domestic oil and gas production to ensure reliability. The prolonged disruption to Qatar's LNG capacity potentially lasting 3–5 years adds further strain, as global gas markets have limited spare capacity.

Politically, the conflict reinforces the strategic importance of energy security, likely leading to increased government intervention in energy markets, stronger alliances around supply chains, and heightened geopolitical competition over critical resources. For investors, this environment presents both risk and opportunity. Energy markets are likely to remain volatile, with elevated prices supporting producers, infrastructure, and commodity linked assets, while increasing uncertainty for consumers and energy intensive sectors. The multi year disruption to LNG supply, particularly from Qatar, suggests sustained strength in global gas and potentially oil linked markets, Ultimately, the investment landscape will favor flexibility, diversification, and exposure to both traditional and transitional energy themes as the global system adjusts to a more fragmented and security driven energy order. For some, the short term pain is seen as a necessary evil for a safer and more peaceful Middle East. This is the view most accepted by markets as equity indexes hit new record highs despite the fragile ceasefire. We look forward to a permanent reopening of the strait which will allow some sort of normality under what will forever be a new normal for the middle east.

Anthony Ferguson
President, CFAL

LOCAL ECONOMIC HIGHLIGHTS

First Quarter 2026

- Economic activity in The Bahamas maintained steady growth over the quarter, with key performance indicators approaching their anticipated medium-term levels.

- In its latest review, Moody’s and Fitch predicted 2026 GDP growth for the Bahamas at 1.8%. The IMF maintained its 2.2% estimate.

- As at December 2025, Direct Charge stood at $12.4B representing an increase of 2.8% or $337.3M year over year. The National Debt was reported at $12.73B representing an increase of 2.7% or 329.7M.

- The tourism industry continues to see healthy levels of arrivals but at roughly the same pace as last year. Sea arrivals grew 20.6% while air arrivals grew +4.7% year-over-year.

- The local stock exchange, BISX, increased over the quarter, gaining +0.54%. Top performers included Colina Holdings Ltd., Bahamas First Holding Ltd. and Bank of the Bahamas.

LOCAL ECONOMIC REVIEW

Fiscal Review

Economic activity in The Bahamas maintained steady growth over the quarter, with key performance indicators approaching their anticipated medium-term levels. The IMF retained its real GDP growth projection of 2.2% for 2025 and 2.1% in 2026. As of December 2025, Direct Charge stood at $12.4B representing an increase of 2.8% or $337.3M QTD. The National Debt was reported at $12.73B representing an increase of 2.7% or 329.7M. However, the debt to GDP numbers showed some decline from the previous year as Direct Charge to GDP stood at 75.1% and National Debt to GDP stood at 77.1%, up from 74.3% and 76.5% respectively. Banking sector liquidity contracted through December 2025, despite an expansion in the deposit base which outpaced domestic credit growth. Excess reserves fell slightly to $33.5M, ending the year at $1.8B, with the ratio of net free cash reserves to B$ deposit liabilities declining 19.7% compared to 21.5% in the previous year. While excess liquid assets declined by $42.9M from the same period last year.

The most recent CPI numbers released by the BNSI for the twelve months to July 2025 showed a 1.6% decline in prices, after an increase over the same period the previous year. As it relates to the government's fiscal position, the overall deficit narrowed during the first half of FY2025/2026 to $342.4M from $367.7M in the prior year. Total revenue as of December 2025 amounted to $1.51B, seeing growth of $66.6 million from the prior year. Tax revenues grew 4.2% to $1.35B, while non-tax revenues grew 7.6% to $160.7M. Aggregate expenditure also saw an increase of 2.3%, increasing $41.3M to $1.85B. with recurrent spending growing $42.2M (+2.6%) and capital expenditure falling $0.9M (-0.5%).

Tourism

The Bahamas' tourism industry remains strong albeit at a slower growth momentum that seen last year. YTD as of February 2026, total visitor arrivals stood at $2.4M, an increase of 18.4% over the previous years. Sea arrivals accounted for 87.66% of total visitor arrivals, expanding 364K or +20.6% from the same period last year. Air arrivals grew by 13,456 visitors or +4.7% to 299K. Tourist arrivals amongst the islands were mixed with Long Island (+213%), Cat Island (+17.8%) and New Providence (+8.5%), seeing the largest percentage increases YoY. In contrast, islands such as Berry Islands (-16.3%), Cat Cay (-15.7%) and Bimini (-11.4%) saw the largest declines. According to the Central Bank of the Bahamas' Monthly Economic & Financials Developments (MEFD) report for February 2026, the average occupancy rate for entire place listings and hotel comparable listings rose to 63% and 61.4% respectively, from 60.3% and 56.1% in the previous year.

Capital Market Developments

Equities

The local stock exchange, BISX, increased over the quarter, gaining +0.54% or 16.68 points from 3,109.59 to 3,126.27. Top performers for Q1 2026 included Colina Holdings Ltd. (+15.72%), Bahamas First Holdings (+11.11%) and Bank of the Bahamas (+8.09%), whilst the bottom performers were Benchmark Bahamas Ltd. (-16.67%), Fidelity Bank Bahamas (-8.07%) and Consolidated Water (-6.23%).

Company	31 Mar	QTD	31 Dec	YTD	31 Dec
Abaco Markets Limited	6.65	0.00%	6.65	0.00%	6.65
Arawak Port Development	50.00	0.00%	50.00	0.00%	50.00
Benchmark Bahamas Limited	2.30	-16.67%	2.76	-16.67%	2.76
Bahamas First Holdings	3.00	11.11%	2.70	11.11%	2.70
Bank of The Bahamas	6.55	8.09%	6.06	8.09%	6.06
Bahamas Property Fund	12.00	0.00%	12.00	0.00%	12.00
Bahamas Waste Limited	10.34	-1.52%	10.50	-1.52%	10.50
Cable Bahamas	3.78	-5.26%	3.99	-5.26%	3.99
Commonwealth Brewery	10.25	-3.21%	10.59	-3.21%	10.59
Commonwealth Bank	4.03	-5.40%	4.26	-5.40%	4.26
Colina Holdings Limited	17.00	15.72%	14.69	15.72%	14.69
CIBC FirstCaribbean	16.50	1.60%	16.24	1.60%	16.24
Consolidated Water	6.62	-6.23%	7.06	-6.23%	7.06
Doctors Hospital	5.00	-3.66%	5.19	-3.66%	5.19
Emera Bahamas	12.66	5.06%	12.05	5.06%	12.05
Family Guardian	7.25	6.62%	6.80	6.62%	6.80
Fidelity Banks Bahamas	14.93	-8.07	16.24	-8.07	16.24
Focol Holdings	7.09	3.50%	6.85	3.50%	6.85
Finco	16.20	3.12%	15.71	3.12%	15.71
J.S. Johnson	16.76	0.00%	16.76	0.00%	16.76
BISX INDEX	3,126.27	0.54%	3,109.59	0.54%	3,109.59

Fixed Income

During the fourth quarter, the Central Bank had three BRS offerings, all re-openings of the previous offerings. Benchmark rates ranged from 4.10% for three years to 6.65% for 30 years. The bank also held six Treasury Bill offerings and the average Treasury Bill discount rate as of Dec 2025 was 3.62%. Rates remained relatively the same over the quarter.

Short Term

Tenor	Dec 2025	Mar 2026	Change
91 days	3.62%	3.36%	-0.26
182 days	3.10%	3.51%	+0.41
1 year	3.35%	3.35%	+0.00
3 years	4.13%	4.35%	+0.22

Medium to Long Term

Tenor	Dec 2025	Mar 2026	Change
5 years	4.35%	4.82%	+0.47
7 years	5.45%	5.42%	-0.03
10 years	5.40%	5.40%	+0.00
20 years	5.50%	6.16%	+0.66
30 years	6.62%	6.39%	-0.23

Conclusion

The Bahamian economy held steady throughout the first quarter, although the pace of growth continued to be moderate. The tourism industry experienced continued growth, particularly in the cruise segment but stopover growth momentum remains weak. Persistent fiscal deficits and elevated levels of national debt continue to pose significant challenges to economic growth, as the national debt has surpassed $12 billion. The release of comprehensive data for the first half of the fiscal year 2025/2026 will go a long way to assessing the government's ability to achieve its targeted surplus. Moving forward, it remains essential for the Government to continue implementing policies aimed at reducing deficits, stabilizing debt levels, and fostering sustainable economic growth.

GLOBAL ECONOMIC HIGHLIGHTS

First Quarter 2026

- Major U.S. indices delivered negative returns in the first quarter of 2026 as the NASADAQ fell -7.11%, underperforming the S&P 500 (-4.63%) and the Dow Jones (-3.58%). Energy stocks were standout performers as they benefitted from the surge in the price of oil.

- European equities had mixed performance, with the Stoxx Europe 600 down -1.53% and the FTSE 100 gaining +2.47%.

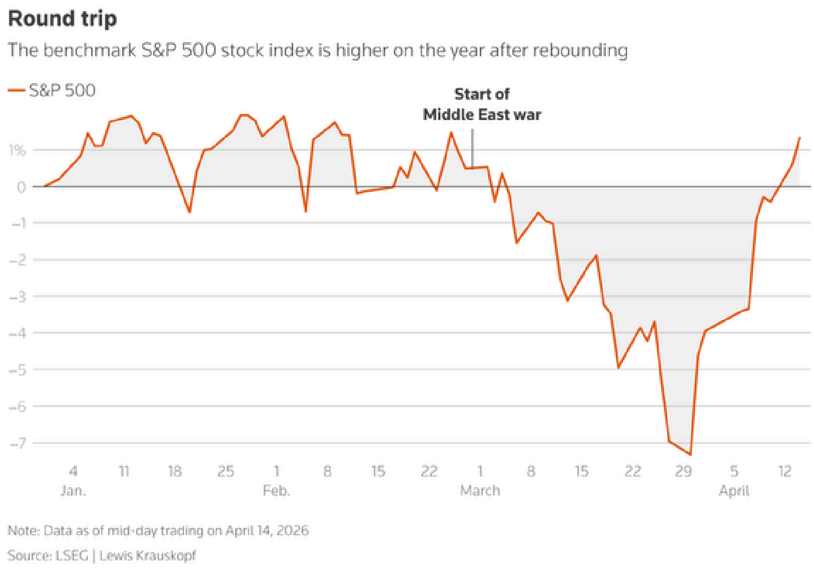
- Asian equities posted generally mixed results, with the Shanghai SE Composite down -1.94% and the Nikkei 225 up +1.44%.

- In the commodities market, performance was strong with the S&P GSCI Index recording a substantial gain of +35.85%. Gold (+7.06%) and silver (+6.11%) demonstrated notable gains driven by safe-haven demand, while copper fell -2.17%. Conversely, oil prices surged, reflecting political tensions.

GLOBAL ECONOMIC REVIEW

United States

In Q1 2026, major US markets experienced significant declines. Amongst the three major indices, the NASDAQ saw the biggest decline, falling -7.11% while the S&P 500 and Dow Jones Industrial Average fell -4.63% and -3.58% respectively. U.S. equities recorded a decline during the first quarter of 2026 despite the market reaching record highs by mid-January. This quarterly performance contributed to the market posting negative returns. In addition, geopolitical events in the end of February, the S&P 500 Index ended the quarter with a decrease of nearly 5%. Although the market started with a stable labor market and steady consumer spending, the US and Israeli strikes on Iran which disrupted the flow of oil in the Strait of Hormuz created substantial uncertainty for investors and the broader market. Technology stocks also saw some declines which we view as healthy given extreme levels of optimism in the sector. However, we note that for the month of March Investor sentiment varied between hopeful and dread. Energy stocks were the standout performers in the quarter as they benefitted greatly from the surge in the price of oil. Bond market returns were also negative during the quarter. US Treasuries 1 – 10 years (+0.13%) reported the only gains, followed by declines in US Corporates (-0.42%) and US high-yield issues (-0.55%). Any expectations of interest rate changes for the Federal Reserve have dissipated as the oil spike threatens the progress made on getting inflation under control. However, it is notable that this will be the final quarter under Jerome Powell's leadership at the FED.



Europe

Eurozone equities experienced declined in the first quarter, however the Stoxx Europe 600 Index still outperformed its U.S. counterparts, falling -1.53%. Investor sentiment in Europe weakened over Q1 2026 as early optimism gave way to rising geopolitical tensions and renewed inflation concerns, tightening financial conditions toward the end of the quarter. Markets started strongly but reversed in March alongside global equities. Sector performance was mixed, with consumer cyclicals, financials, and healthcare lagging, while investors gradually rotated toward more defensive positioning amid heightened uncertainty. Economic conditions remained uneven, with continued manufacturing weakness particularly in Germany, partially offset by resilient services activity and stable employment.

Although inflation showed signs of moderation and the European Central Bank maintained a relatively steady policy stance, rising energy prices and external risks weighed on confidence. Over the quarter, European equities experienced increased volatility and modest declines, reflecting a shift from earlier growth optimism to a more cautious outlook as global risk sentiment deteriorated. Over the quarter, the FTSE 100 saw positive returns, rising by +2.47%. UK equities delivered a strong start to 2026, with large positions in the energy sector and a weaker sterling that proved favorable for export companies. The Bank of England has adjusted its tone, leading markets to anticipate potential rate hikes this year in a bid to control inflation.

Asia Pacific

China's Shanghai SE Composite declined -1.94% in the first quarter. Performance was mixed across the Asia Pacific region as market dynamics continued to be driven by technology and AI-related themes, with North Asia leading activity due to sustained demand for semi-conductors, hardware, and data-center infrastructure. South Korea and Taiwan remained standout performers, supported by strong positioning in global chip supply chains, while technology stocks across China delivered uneven results amid ongoing domestic economic challenges. China's macroeconomic backdrop remained subdued, with targeted stimulus measures supporting select industrial and green sectors, though weakness in the property market and consumer demand persisted.

Elsewhere in Asia, Southeast Asian markets such as Indonesia and Malaysia recorded moderate gains, underpinned by resilient domestic demand, while India continued to perform well, supported by strong economic growth and policy stability. Meanwhile, Japanese equities posted modest gains with the Nikkei 225 climbing +1.44% in Q1 2026. Domestically, the Japanese stocks rose in February amidst a landslide victory for the LDP in the House of representatives' election. However, like most a pullback was experienced in March after the geopolitical tensions arose and this led to the Bank of Japan leaving interest rates unchanged but left warnings that energy prices risk an underlying inflation.

Emerging Markets

The MSCI Emerging Markets Index experienced a decline of -0.51% in Q1 2026 outperforming the MSCI World Index which fell -3.88% driven by the Middle Eastern conflict which drove up energy costs and disrupted supply chains. In Latin America, markets such as Brazil and Mexico experienced uneven performance, influenced by domestic political developments and shifting investor confidence, while commodity-exporting economies were partially supported by firm energy and metals prices. In EMEA, South Africa benefited from higher precious metals prices, supporting equity gains, while Middle Eastern markets showed resilience amid stable oil revenues and ongoing economic diversification efforts.

Commodities

In the commodities market, the S&P GSCI Index rose +35.85% in the first quarter driven primarily by energy and precious metals. Gold and silver were standout performers, supported by safe-haven demand and expectations of easing monetary policy, with gold futures up +7.06% and silver gaining +6.11%, although both experienced declines late in the quarter due to profit-taking and rising interest rate expectations. Energy markets surged amid geopolitical disruptions in the Middle East, particularly the closure of the Strait of Hormuz, which significantly impacted global oil supply and supported sharp price increases. WTI crude increased 78% during the quarter, providing a significant shock to the global economy In contrast, industrial metals such as copper declined -2.17% as weaker manufacturing activity offset supply constraints. Other segments, including agriculture and livestock, posted modest gains, resulting in a broadly positive but volatile quarter for commodities overall.

Market Returns Q1 - 2026

As at March 31, 2026

	MTD	QTD	YTD	1 year
Equity Indices (% local currency)				
S & P 500	-5.09	-4.63	-4.63	16.33
Dow Jones Industrial Average	-5.38	-3.58	-3.58	10.33
NASDAQ	-4.75	-7.11	-7.11	24.81
FTSE 100	-6.73	2.47	2.47	18.57
Stoxx Europe 600	-8.00	-1.53	-1.53	9.22
Shanghai SE Composite	-6.51	-1.94	-1.94	16.67
Nikkei 225	-13.23	1.44	1.44	43.37
MSCI Emerging Markets	-13.26	-0.51	-0.51	26.86
MSCI World	-6.55	-3.88	-3.88	17.35
ICE BofA Bond Indices (% local currency)				
US Treasuries 1-10 years	-1.11	0.13	0.13	3.96
US Corporates	-1.98	-0.42	-0.42	4.85
US High Yield	-1.13	-0.55	-0.55	6.90
UK Gilts 1-10 years	-2.62	-0.99	-0.99	3.36
Euro Government	-2.70	-0.62	-0.62	1.20
Global High Yield & Emerging Markets	-2.45	-1.35	-1.35	8.31
Global Broad Market Index	-3.10	-1.09	-1.09	3.87
Currencies vs. USD				
British Pound	1.81	0.22	7.66	7.66
Euro	1.28	0.10	13.44	13.44
Japanese Yen	0.34	5.96	-0.31	-0.31
Swiss Franc	-1.42	-0.48	-12.65	-12.65
Commodities (% USD)				
Gold	-11.44	7.06	7.06	48.83
Silver	-19.17	6.11	6.11	116.46
Copper	-7.40	-2.17	-2.17	8.83
WTI Crude Oil	51.56	77.86	77.86	53.68
S&P GSCI Index Spot	21.98	35.85	35.85	31.17