



CFAL

GLOBAL AND LOCAL
ECONOMIC REVIEW

Third Quarter 2025

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EDITORIAL

Will the shutdown affect markets?

As you may be aware, the U.S. government is currently shutdown due to a failure in Congress to pass the necessary appropriations for the 2026 fiscal year. In The Bahamas, the fiscal year runs from July 1 – June 30 with the U.S. equivalent being October 1 – September 30. For investors, the question of what this actually means often arises.

To be clear, this is not the first shutdown and likely will not be the last. Each year, congress must pass appropriation bills which authorize spending for major agencies such as Education and Defense. When they fail to pass these, the government is legally prohibited from spending money and thus a 'shutdown' occurs.

There is also a short-term stopgap measure called continuing resolutions which allow for short term extensions to keep the government funded. However, for this to pass in the senate, where it is currently held up, it must receive 60 votes. Republicans currently hold 53 seats while the Democrats hold 47 - and there lies the need for Democratic support to pass any resolution. Democrats have refused to support the bill over healthcare subsidies which they want extended. Neither side has been willing to compromise and as a result, the impasse continues.



Who does this affect?

The unfortunate reality of these events is that many federal employees are furloughed or working without pay. Some 'key' sectors such as the military, social security and Medicare will continue but there are other sectors viewed as less important that will not receive payment until lawmakers reach a resolution. This is likely to create short term cash flow issues for many individuals, which are already compounded by the inflationary pressures consumers are currently facing.

It is estimated there can be an impact of about \$15 billion per week on the economy depending on how long it lasts. However, this is not likely to deter GDP in any significant way.

For investors and markets, shutdowns are typically ignored as a temporary issue that won't cause any long-term market impact. Some sectors which are heavily dependent on government services may see a short-term decline, but this is not an event where investors will exit sectors. Nonetheless, the quicker this is resolved, the better for all parties involved.



Anthony Ferguson
President, CFAL

LOCAL ECONOMIC HIGHLIGHTS

Third Quarter 2025

- Preliminary data for the twelve months of FY2024/25 indicates the overall fiscal deficit narrowed \$115.1M (or -59.3%) to \$78.9M. Revenues grew by 10.6% to \$3.40B which expenditures rose 6.5% to \$3.47B.
- Economic activity continued its moderate growth momentum as performance indicators continued to trend closer to their expected medium-term potential. In its latest review, Moody's and Fitch predicted 2025 GDP growth for the Bahamas at 1.8%.
- National Debt stood at \$12.08B as of June 2025 comprised of Direct Charge on the government at \$11.77B and contingent liabilities of \$309.79M.
- The tourism industry continues to see healthy levels of arrivals but at a slower pace than last year. Sea arrivals grew 9.33% while air arrivals slowed -1.75% year-over-year. The average occupancy rate for entire place listings and hotel comparable listings narrowed to 36.9% and 37.5% respectively.
- The local stock exchange, BISX, increased over the quarter, gaining +0.77%. Top performers included Bank of the Bahamas, Consolidated Water BDRs and FOCOL Holdings.

LOCAL ECONOMIC REVIEW

Fiscal Review

Preliminary data for the twelve months of FY2024/25 (July – June) indicates the overall fiscal deficit narrowed \$115.1M (or -59.3%) to \$78.9M from \$194M in the same period last year. Total revenues grew by 10.6% (or \$326.8M) over the prior year to \$3.40B. While total expenditures rose 6.5% (or \$211.7M) to \$3.47B. Tax revenues increased 10.6% (or \$290.2M) to \$3.03B driven by a rise in company taxes of 63.8% from \$19.6M to \$32.1M, departure taxes of 56.0% from \$219.3M to \$342.2M, and stamp taxes (financial & realty) of 15.6% from \$108.8M to \$125.8M. Notably, VAT receipts increased 6.8% YoY from \$1.35B to \$1.44B. Meanwhile, non-tax revenues grew 10.8% to \$369.1M attributable to increases in total property income of 23.6% (or \$11.1M) and fines, penalties and forfeits of 24.6% (or \$1.5M). Customs fees grew 16.2% over the period from \$58.5M to \$68M. For FY2024/25, recurrent expenditures rose 7.7% (or \$227.8M) to \$3.19B, which overshadowed the 5.3% (or \$16.1M) decline in capital expenditure to \$285.6M. Social Assistance Benefits declined by \$23.4M (or -38.3%), while public debt interest and compensation of employees grew 9.7% (or \$59.2M) and 4.2% (or \$35.1M) respectively.

Economic activity in The Bahamas as of August 2025 continued its moderate growth momentum as performance indicators continued to trend closer to their expected medium-term potential. In its latest review, Moody's and Fitch predicted 2025 GDP growth for the Bahamas at 1.8%. While the IMF retains its real GDP growth projection of 2.2%. Moody's pointed out that this reduction is not negative but rather a return to The Bahamas' long-run average.

At the end of June 2025, the Bahamas' National Debt (inclusive of contingent liabilities) stood at \$12.08B or 75.4% of GDP. While Direct Charge on the government was reported as \$11.77B or 73.4% of GDP. The national debt saw a slight increase of 0.34% (or \$40.36M) during the second quarter; however, remained stable YTD with only a -0.03% change. Direct Charge accounted for 97.44% of national debt and grew \$20.47M (or 0.17%) YTD. Meanwhile, Contingent Liabilities made up 2.56% of national debt and decreased \$24.44M (or -7.31%) YTD to \$309.79M. Total external debt totaled \$5.29B or 44.56% of total direct charge and total internal debt was \$6.48B or 55.03% of total direct charge at the end of Q2 2025.

Tourism

The Bahamas' tourism industry remains strong albeit at a slower growth momentum that seen last year. As of August 2025, total visitor arrivals grew 9.33% YoY to 8.4M, a reduction from the 15.8% growth recorded in August 2024. Sea arrivals accounted for 84.94% of total visitor arrivals, expanding 739K or 11.56% from the same period last year. While air arrivals slowed by -1.75% (or 22.5K) to 1.27M.

Tourist arrivals amongst the islands were mixed with Grand Bahama (+21.0%), Abaco (+6.8%) and Eleuthera (+6.0%) seeing the largest percentage increases YoY. In contrast, islands such as Berry Islands (-28.6%), Long Island (-27.0%) and Exuma (-12.6%) saw the largest declines. According to the Central Bank of the Bahamas' Monthly Economic & Financials Developments report for August 2025, the average occupancy rate for entire place listings and hotel comparable listings narrowed to 36.9% and 37.5% respectively, from 38.8% and 42.1% in the previous year.

Monetary and Financial Developments

Banking sector liquidity expanded during Q2 2025, driven by growth in the deposit base and decline in domestic credit. Excess reserves grew \$16.9M (or 1.0%) to \$1.78B, while excess liquid assets decreased \$167.3M (or 5.6%). Total external reserves expanded \$175.9M (or 6.3%) to \$2.99B at the end of Q2 2025. The stock of external reserves equated to 31.0 weeks of the current year's total merchandise imports (including oil purchases) compared to 32.5 weeks in the same period of 2024.

According to the most recent CPI numbers released by BNSI for May 2025, domestic inflation increased 0.4% YoY from 121.56 to 122.04 and -0.1% on a month-to-month basis. Contributing to this increase were Furnishing, Household Equipment and routine household maintenance (15%), Clothing and Footwear (4.7%), and Health (2.6%). Transportation, along with gasoline and diesel, saw declines of 4.5%, 7.3% and 7.8% respectively when compared to the same period last year.

Capital Market Developments

The local stock exchange, BISX, increased over the quarter, gaining +0.77% or 23.48 points from 3,039.04 to 3,062.52. The index rose +5.49% in 2024. Top performers for Q3 2025 included Bank of the Bahamas (+20.31%), Consolidated Water BDRs (+17.67%), and FOCOL Holdings (+12.48%). Detractors to performance included Commonwealth Bank (-7.66%), Doctor's Hospital (-6.36%), and Bahamas Waste (-4.67%).

During the second quarter, the Central Bank had three BRS offerings, all re-openings of the previous offering. Benchmark rates ranged from 4.03% for three years to 6.65% for 30 years. The bank also held four T-Bill offerings. The average Treasury Bill discount rate as of June 2025 was 3.03%. Meanwhile, the weighted average rates on a 3-month deposit and consumer loans stood at 0.26% and 12.68% respectively.

Conclusion

The Bahamian economy remained resilient during the third quarter, albeit at a slower pace than previous year. The tourism industry continued to expand although with slower growth momentum from the year prior. The cruise segment grew at a healthy pace, however, stopover visitor arrivals declined.

Fiscal deficits and high national debt remain a challenge and detractor to growth, with national debt exceeding \$12 billion. It is important that the Government move forward with a plan to reduce the deficit and slow the accumulation in debt while also ensuring economic development.



GLOBAL ECONOMIC HIGHLIGHTS

Third Quarter 2025

- Major U.S. indices delivered solid quarterly returns — the Nasdaq surged 11.24%, outperforming the S&P 500 (+7.79%) and Dow Jones (+5.22%). Markets were lifted by optimism surrounding the Fed's September rate cut, resilient corporate earnings, and continued enthusiasm for AI-driven tech and communication services, while healthcare and energy trailed.
- European equities advanced, with the Stoxx Europe 600 up 3.11% and the FTSE 100 gaining 6.73%, its best performance since 2022. The ECB signaled balanced inflation risks, while the Bank of England delivered its first rate cut since 2020 and slowed quantitative tightening. A weaker pound supported exporter, and tech, financials, and basic materials led sector gains.
- Most Asian markets rallied, driven by North Asia's technology boom. China's Shanghai Composite rose 12.73%, Japan's Nikkei 225 climbed 10.98%, and Korea and Taiwan outperformed on strong AI and semiconductor demand. Investor sentiment improved following the Fed's rate cut and rising commodity prices, while India and ASEAN markets lagged amid tariff pressures.
- In the commodities market, Commodities posted moderate gains with the S&P GSCI Index up 1.26%. Gold (+16.12%) and silver (+30.09%) were standout performers amid safe-haven demand, while copper fell 5.66% and oil prices declined due to softer global demand.

GLOBAL ECONOMIC REVIEW

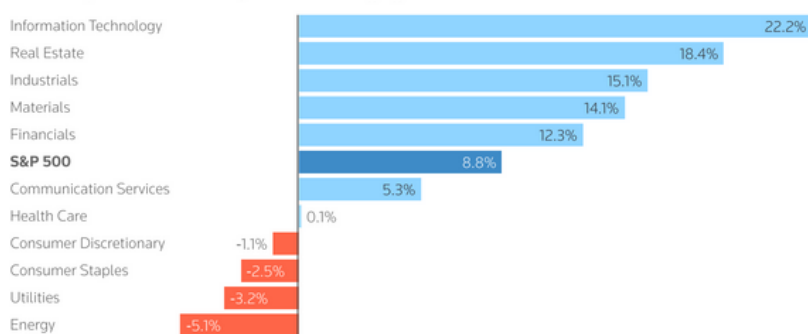
United States

In Q3 2025, major US markets saw strong results. Amongst the three major indices, the tech-heavy Nasdaq led the way, gaining 11.24% while the S&P 500 and Dow Jones Industrial Average added 7.79% and 5.22% respectively. The markets benefited from optimism over a rate cut by the Fed in September (with expectations of more coming before year-end), strong corporate earnings and renewed enthusiasm for AI, which helped boost the technology-heavy Nasdaq. Technology and communication services were strong performers, while healthcare and energy lagged, with the latter hindered by falling oil prices. Bond market returns were also positive during the quarter. US Corporates (+2.65%) reported the highest gains, followed by US high-yield issues (+2.40%) and US Treasuries 1 – 10 years (+1.26%). Evidence of a softening labor market, along with inflation that remained contained despite concerns over tariff-related price increases, raised expectations for a rate cut. By the time the Federal Reserve's FOMC implemented a 25-basis-point reduction to 4.0%–4.25% in September, markets had already fully anticipated the move. After a late-September revision to US GDP the numbers showed GDP growth at a rate of 3.8%.

US earnings outlook remains positive

The broader S&P 500 earnings for Q3 2025 is expected to grow by 8.8%

Year-on-year estimate of Q3 2025 earnings growth



Note: Data are as of Sep. 26, 2025.

Source: LSEG I/B/E/S | REUTERS, Oct 1, 2025 | Vineet Sachdev

Europe

Eurozone equities experienced gains in the third quarter, with the Stoxx Europe 600 Index underperforming its U.S. counterparts, gaining +3.11%. The financials and healthcare sectors led the advance, while telecoms and communication services lagged. Bank shares in particular, were buoyed by strong corporate earnings. European Central Bank (ECB) President Christine Lagarde noted that the sharp surge in inflation seen from 2022 to 2024 has eased, leaving current inflation risks broadly balanced. Inflation matched the ECB's 2% target in August, though September readings are expected to come in slightly higher. Despite the trade tariffs introduced by the U.S., Lagarde emphasized that the eurozone has fared better than anticipated, experiencing only modest growth effects and minimal inflationary fallout.

Over the quarter, the FTSE 100 saw its best quarter since late 2022 rising by +6.73%. In August, UK inflation held steady at 3.8%, sustained by ongoing pressures from food, energy, and regulated utility prices, keeping it near the 4% mark. The Bank of England's Monetary Policy Committee responded with its first rate cut since 2020, narrowly voting to lower the Bank Rate by 0.25 percentage points to 4.0%. The following month, the BoE announced plans to slow its quantitative tightening program, a step aimed at easing bond yields and reducing borrowing costs. A softer British pound benefited firms with substantial international operations. The communication services and technology sectors delivered strong results, fueled by ongoing optimism surrounding artificial intelligence. Meanwhile, basic materials gained momentum as rising gold prices spurred a sector-wide rally.

Asia Pacific

China's Shanghai SE Composite gained 12.73% in Q3 2025, the region's performance was driven primarily by North Asia and technology-oriented sectors. South Korea and Taiwan emerged as top performers, supported by strong demand for AI and tech products. Chinese equities also advanced sharply, buoyed by capital inflows and investments in AI and semiconductor self-sufficiency, despite softer domestic consumption. In contrast India, and ASEAN (Association of Southeast Asian Nations) markets trailed behind, limited by weaker non-tech gains and the impact of tariff pressures, with the Philippines standing out as the poorest performer, trading well below its historical average.

Investor sentiment improved following the Fed's 25-basis-point rate cut in September and ample global liquidity, prompting foreign inflows into tech-heavy markets such as Korea and Taiwan. Meanwhile, rising prices of commodities like gold, silver, and copper signaled firm global demand and ongoing supply constraints, further strengthening the AI- and technology-driven rally across North Asia. Meanwhile, Japanese equities posted strong gains with the Nikkei 225 climbing +10.98% in Q3 2025. Cyclical sectors led the advance, as non-ferrous metals, energy, and semiconductor-related stocks benefited from global AI-driven demand and higher commodity prices. Solid corporate earnings, along with share buybacks and dividend hikes, further underscored the progress in corporate governance and the focus on enhancing shareholder value. While periods of currency fluctuation and policy uncertainty occasionally affected trading, confidence in earnings rebound and Japan's ongoing structural reform efforts continued to underpin market performance.

Emerging Markets

The MSCI Emerging Markets Index experienced a gain of +10.08% in Q3 2025, supported by a weakening dollar. This return outperformed the MSCI World Index which rose +6.96% driven by the heavyweights China, Taiwan and Korea. During the quarter, Egypt, Peru, China, and South Africa led global markets in the quarter, each posting gains of over 20% in U.S. dollar terms. China's rally was supported by progress in U.S.-China trade talks and policy reforms, while South Africa benefited from rising precious metals prices.

Taiwan and Korea also outperformed, driven by robust demand for technology and AI-related stocks, particularly in the semiconductor sector. Brazil underperformed the broader emerging markets index due to ongoing political uncertainty. Saudi Arabia finished the quarter higher but still trailed the index, recovering in September after authorities announced plans to remove the 49% foreign ownership cap on listed equities. Malaysia, the UAE, and Poland recorded modest gains but lagged overall, while Indonesia, India, and the Philippines posted declines. India's market was particularly pressured by U.S. trade tariffs, including a new 100% tariff on pharmaceutical exports.

Commodities

In the commodities market, the S&P GSCI Index rose +1.26% in the third quarter. Precious metals were the index's top performing segment while oil fell on weakening demand. Gold futures rose +16.12%, and the yellow metal continued to outperform most major asset classes year to date. Silver saw a gain of +30.09%, while copper declined -5.66%.

Market Returns Q3 - 2025

As at September 30, 2025

	MTD	QTD	YTD	1 year
Equity Indices (% local currency)				
BISX				
S & P 500	3.53	7.79	13.72	16.07
Dow Jones Industrial Average	1.87	5.22	9.06	9.61
NASDAQ	5.61	11.24	17.34	24.58
FTSE 100	1.78	6.73	14.41	13.52
Stoxx Europe 600	1.46	3.11	9.96	6.75
Shanghai SE Composite	0.64	12.73	15.84	16.37
Nikkei 225	5.18	10.98	12.63	18.49
MSCI Emerging Markets	6.96	10.08	25.16	14.96
MSCI World	3.09	6.96	16.15	15.68
ICE BofA Bond Indices (% local currency)				
US Treasuries 1-10 years	0.30	1.26	5.24	3.51
US Corporates	1.43	2.65	6.96	3.92
US High Yield	0.78	2.40	7.06	7.23
UK Gilts 1-10 years	0.27	0.18	3.75	2.53
Euro Government	0.47	-0.21	0.41	0.22
Global High Yield & Emerging Markets	0.76	2.62	9.59	8.82
Global Broad Market Index	0.80	0.75	8.12	2.36
Currencies vs. USD				
British Pound	-0.43	-2.08	7.43	0.53
Euro	0.41	-0.45	13.33	5.38
Japanese Yen	0.58	2.69	-5.92	2.97
Swiss Franc	-0.51	0.42	-12.23	-5.82
Commodities (% USD)				
Gold	10.14	16.12	45.43	45.07
Silver	16.02	30.09	59.50	48.26
Copper	5.79	-5.66	17.19	5.05
WTI Crude Oil	-1.72	0.50	-8.95	-6.17
S&P GSCI Index Spot	0.05	1.26	0.06	3.21