CFAL

GLOBAL AND LOCAL ECONOMIC REVIEW

Second Quarter 2025

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EDITORIAL - Why Every Investor Should Know Who Jerome Powell Is

Recently, it seems that just about every day, the U.S. stock market experiences some growth – sometimes steady, sometimes rapid. Whether due to new trade deals, tax cuts, or exciting new entrants to the market, all appears well on Wall Street, with major indexes on an upward trend. But according to one man, all is not well. As far as U.S. President Donald Trump is concerned, the one thing not going right with the U.S. economy at this time is Jerome "Jay" Powell.

One must ask why, especially considering that during his first term, Trump nominated Powell to be the Chairman of the Federal Reserve Bank (The Fed) on November 2, 2017. He was later renominated by President Biden for a second term. To understand why Trump has made a 180-degree turn, we must first understand the role of the Fed and the man at its helm.

The Fed is essentially the central bank of the United States and controls its monetary policy. It operates under a dual mandate: maximizing employment and ensuring price stability. Inflation in the post-pandemic period was extremely high, and many still feel that prices are rising too quickly. In a perfect world, central banks aim for an annual inflation rate of around 2%. However, U.S. inflation from 2021 to 2025 was 4.7%, 8.0%, 4.1%, 2.9%, and 2.7% respectively, all above the Fed's target.

In response to the COVID-19 pandemic, the Federal Reserve implemented expansionary monetary policy, lowering interest rates and increasing the money supply to prevent economic collapse. The downside to this is that it can lead to inflation, as too many dollars chase too few goods.
Initially, the Fed assumed that inflation would be transitory, meaning temporary factors were influencing consumer prices and that inflation would subside once those factors faded. But this did not happen. To counter rising prices, the Fed began tightening monetary policy by reducing the money supply and raising interest rates to slow the economy.

For several years now, many economists have predicted a recession in the United States, but the economy has remained resilient and has largely avoided any meaningful slowdown. Unemployment remains low, and inflation has cooled, which has helped justify the Fed's current monetary stance.

Here's where Trump disagrees. He has stated that he would like the Fed to reduce interest rates by 2%. Compared to the Fed's typical rate cuts of 25 basis points (0.25%), this would represent a drastic reduction, usually reserved for times of crisis. Such a significant cut would lower borrowing costs and stimulate economic growth but could potentially reignite inflation, demonstrating the delicate balance the Fed must manage.

Another factor driving pressure from Trump and his allies to lower interest rates is the fact that the U.S. federal government is now paying over $1 trillion annually in interest on its debt. While this interest is paid to bondholders, not directly to the Fed, higher rates make government borrowing more expensive. With ever-expanding deficits, lowering interest rates becomes increasingly attractive from a fiscal standpoint.

Talks of Trump attempting to fire Jerome Powell have resurfaced recently, though such rumors are often rebuffed to calm financial markets. Legally, the President cannot directly fire the Fed Chair without cause, but there are other ways to undermine him. One example is Trump's recent criticism of renovation plans at the Federal Reserve. If he follows through on threats to block or delay these plans, markets could respond negatively.

Market participants, for the most part, value the independence of the Fed and believe the institution plays a critical role in maintaining a stable financial system. There are numerous examples around the world of politicized central banks, and the results are often damaging. Currency crises and runaway inflation are common consequences when political motives conflict with sound monetary policy.

Ultimately, the President will get his way when Powell's term ends in May 2026. By that time, it's likely the Fed will have already begun to lower interest rates gradually, in part to avoid a disruptive policy shift under a new Trump-appointed Fed Chair

Anthony Ferguson
President, CFAL

LOCAL ECONOMIC HIGHLIGHTS

Second Quarter 2025

- Preliminary data for the nine months of FY2024/25 (July – March) indicates the overall fiscal deficit narrowed $35.44M or 16.5% from the same period last year. Total revenues expanded 12.2%, while total expenditure grew 9.6%.

- Economic activity in The Bahamas for 2024 experienced moderate growth of 3.4% in real terms, with the total value of goods and services produced during the year estimated at $14.1 billion in real prices.

- National debt declined -0.37% or $44.34M over the quarter; however, increased 1.56% or $181.03M compared to the same period last year. Direct Charge accounted for 97.26% of national debt while Contingent Liabilities made up 2.74%.

- The Bahamas' tourism industry continued its growth momentum, welcoming 5.33M tourists YTD as of May 2025 representing growth of 10.71% from the same period last year. Sea arrivals continue to dominate, accounting for 84.60% of total arrivals.

- The local stock market, BISX, was stable during the quarter, gaining +0.42%, while the year to date return was +1.02%.

LOCAL ECONOMIC REVIEW

Fiscal Review

Preliminary data for the nine months of FY2024/25 (July – March) indicates the overall fiscal deficit narrowed $35.44M (or -16.5%) to $179.0M from $214.4M in the same period last year. Total revenues expanded 12.2% (or $266.3M) to $2.46B, which was overshadowed by an increase in total expenditure of 9.6% (or $230.86M) to $2.64B. Tax revenues saw growth of 12.4% to $2.2B driven by a significant increase in departure taxes of 90.4% from $134M to $255.1M, increases in taxes on property of 18.8% from $145.6M to $172.9M, and growth in company taxes of 75.0% from $15.6M to $27.3M. Notably, VAT increased 5.1% YoY from $993.9M to $1.04B. Meanwhile, non-tax revenues grew 9.7% to $258.2M, driven in total property income of 4.2% and fines, penalties and forfeits of 36.4%. Total Expenditure, comprised of recurrent expenditures and capital expenditures, saw increases of 9.2% (or $200M) and 13.1% (or $30.7M) respectively. Social Assistance Benefits declined $17.5M (or -39.6%), public debt interest increased $38.2M (or 9.3%) and compensation of employees grew $20.0M (or 3.2%).

Economic activity in The Bahamas for 2024 experienced moderate growth of 3.4% in real terms, according to the annual estimates released by the Bahamas National Statistical Institute (BNSI). The total value of goods and services produced during the year was estimated at $15.8 billion in nominal prices and $14.1 billion in real prices. Industries with the most substantial increases using the production approach include Wholesale, Retail Trade and Motor Vehicle repairs increasing $206M (or +15%), Construction of $146M (or +19%), Information and Communication of $97 million (or +21%) and Electricity and Gas, Water Supply and Sewerage of $64M (or +18%).

At the end of March 2025, the Bahamas' National Debt (inclusive of contingent liabilities) stood at $12.04B or 78.4% of GDP. Meanwhile, the Direct Charge on the government was reported as $11.71B or 74.0% of GDP. The national debt declined slightly by 0.37% (or $44.34M) over the quarter; however, increased 1.56% (or $181.03M) YoY. Direct Charge accounted for 97.26% of national debt and declined $40.04M (or -0.34%) Meanwhile, Contingent Liabilities made up 2.74% of national debt and decreased $4.29M (or -0.37%) to $329.9M. Total external debt totaled $5.05B or 43.10% of total direct charge and total internal debt totaled $6.66B or 56.90% of total direct charge at the end of Q1 2025.

Tourism

The Bahamas' tourism industry remains strong, with total visitor arrivals reaching 5.33M year to date as of May 2025, a growth of 10.71% from the same period last year. Sea arrivals continue to dominate, accounting for 84.60% of total arrivals and increasing 516K (or 12.94%) YoY. Air arrivals saw a slight decline of -0.12% (or 979) and accounted for 15.40% of total tourist arrivals. Tourist arrivals amongst the islands were mixed with Grand Bahama (+16.5%), Abaco (+11.6%) and Eleuthera (+9.1%) seeing the largest percentage increases YoY.

In contrast, islands such as Berry Islands (-32.5%), Long Island (-26.0%) and Inagua (-12.9%) saw the largest declines. According to the Central Bank of the Bahamas' Monthly Economic & Financials Developments report for May 2025, the average occupancy rate for entire place listings and hotel comparable listings narrowed to 44.1% and 43.5% respectively.

Monetary and Financial Developments

Banking sector liquidity contracted during Q1 2025, despite the expansion in deposits outweighing growth in domestic credit. Excess reserves narrowed $34.7M (or -1.9%), while excess liquid assets increased $167.3M (or 5.6%). Total external reserves expanded $182.1M (or 6.9%) to $2.82B at the end of Q1 2025. The stock of external reserves equated to 29.1 weeks of the current year's total merchandise imports (including oil purchases) compared to 34.2 weeks in the same period of 2024.

According to the most recent CPI numbers released by BNSI for February 2025[LW1] , domestic inflation increased 0.8% YoY from 121.34 to 122.32 and 0.4% on a month-to-month basis. Contributing to this increase included Health (5.6%) and Food & Non- Alcoholic Beverages (1.2%). Meanwhile, Clothing and Footwear alongside Miscellaneous Goods both declined 0.3%. Compared to the same period last year, gasoline prices increased 3.4% and diesel prices declined by 13.0%.

Capital Market Developments

The local stock exchange, BISX, was stable over the quarter, gaining +0.42% or 12.78 points from 3,026.26 to 3,039.04. The index rose +5.49% in 2024. Top performers for Q2 2025 included Consolidated Water BDRs (+22.45%), Bahamas Waste (+11.6%), and Emera Incorporated (+8.43%). Detractors to performance included Commonwealth Brewery (-5.23%), Commonwealth Bank (-3.40%), and Bahamas First Holdings (-2.27%).

During the second quarter, the Central Bank had three BRS offerings, all re-openings of the previous offering. Benchmark rates ranged from 4.09% for three years to 6.59% for 30 years. The bank also held five T-Bill offerings. The average Treasury Bill discount rate as of April 2025 was 3.02%. Meanwhile, the weighted average rates on a 3-month deposit and consumer loans stood at 0.25% and 12.54% respectively.

Conclusion

The Bahamian economy remained resilient during the second quarter, albeit at a slower pace than previous year. The tourism industry continues to be the primary driver growth within the country, with arrivals exceeding the previous year's figures, largely from the cruise segment. However, fiscal deficits and high national debt remain an hinderance to growth, with national debt exceeding $12 billion. Focus will shift to whether the government can narrow the deficit in the revenue rich final months of the fiscal year.

Despite projections of a surplus, the Ministry of Finance's Monthly Fiscal Summary Report for April showed a fiscal deficit of $2.1M making the fiscal performance in May and June critical. The IMF projects GDP growth will slow to 1.8% in 2025. 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

Second Quarter 2025

- Economic output amongst the world's developed economies remained stable in the second quarter. The International Monetary Fund kept its projection for global growth at 3.3% for 2025 and 2026.

- 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 has come closer to central bank targets in some regions.

- Concerns about economic growth in China were addressed by the continued stimulus measures which boosted market sentiment as trade disputes have not escalated.

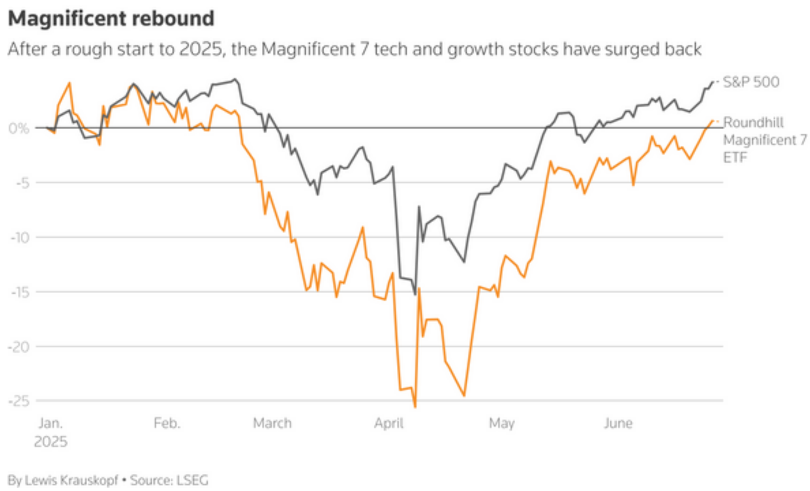
- Most developed equity indices recovered sharply in the second quarter as tariff delays led to investor optimism. Bond yields fell as expectations for rate cuts were met.

- In the commodities market, returns were mainly positive in the precious metals sector, as investors sought safe havens in gold and silver while oil prices were weak.

GLOBAL ECONOMIC REVIEW

United States

In Q2 2025, major US markets saw strong results despite a weak start triggered by President Trump's announcement of new trade tariffs. Amongst the three major indices, the tech-heavy Nasdaq led the way, gaining 17.75% while the S&P 500 and Dow Jones Industrial Average added 10.57% and 4.98% respectively. Technology stocks, primarily the 'Magnificent 7', and companies with exposure to artificial intelligence, surged as investor appetite for the sector rebounded. Robust corporate earnings for the first quarter combined with anticipated tariff negotiations further fueled the market rally. However, healthcare and energy stocks lagged as the Trump administration put pressure on drug companies to lower prices and cut incentives for clean energy companies. Bond market returns were also positive during the quarter. US high-yield issues (+3.57%) reported the highest gains, followed by US Corporates (+1.79%) and US Treasuries 1 – 10 years (+1.43%). Weak treasury auctions continued to raise concerns that yields could go higher. The US Federal Reserve kept interest rates in a range of 4.25 – 4.50% but raised its inflation outlook to 3.0% while cutting its growth forecast to 1.4%. The Fed, which is under pressure from President Trump to lower interest rates, continues to forecast two cuts later this year despite inflation remaining above the desired 2% level. The Fed's favored indicator of inflation, core personal consumption expenditure (PCE), saw a 2.3% increase year over year in May. In Q1 2025, the US economy contracted for the first time in three years, with real GDP growth declining at an annual rate of 0.5%. However, employment data remained strong and June's purchasing manager's index came in at 52, with readings above 50 signaling expansion.



Europe

Eurozone equities posted modest gains in the second quarter, with the Stoxx Europe 600 Index underperforming its U.S. counterparts, gaining +1.40%. The industrial sector saw strong performance as defense stocks rallied on increased defense spending by NATO. The European Central Bank for the second consecutive quarter cut interest rates twice by 25 basis points, signaling that they are near the end of their rate cutting cycle after May inflation eased to 1.9%. However, manufacturing data out of Europe remains stagnant, showing no signs of growth.

Over the quarter, UK stocks also underperformed the US, rising by +2.08%. The Bank of England cut interest rates by 0.25% to 4.25%, despite May's inflation rate being well above the 2% target at 3.4%. The UK was one of the first countries to reportedly secure a trade deal with the US and avoid a trade war. However, economic pressures persist. The British pound remains weak, borrowing costs are rising and markets continue to punish the UK through higher bond yields due to the country's reluctance to cut expenditure or raise taxes to address its fiscal situation.

Asia Pacific

China's Shanghai SE Composite gained 3.26% in Q2 2025, supported by a pause in trade tariffs but concerns over weak domestic data and the potential for renewed trade tensions lingered . The Chinese government continues to implement stimulative measures, but this is only enough to maintain the economy at its current level. GDP expanded by 5.2% in the second quarter, ahead of projections and aligning with the new normal for growth in China. The real estate sector remains fragile, requiring further stabilization efforts. The overall unemployment rate declined to 5% with youth unemployment (ages 16 – 24) coming in at 14.5% in June.

In South Korea, markets gained as political uncertainty subsided with the election of a new President. The economy accelerated as tech exports jumped significantly. Meanwhile, Japanese equities rebounded strongly from the first quarter decline, with the Nikkei 225 climbing +13.67% in Q2 2025. While tariffs led to the first quarter losses, improved trade developments drove a recovery and eased recession fears. Japanese companies also posted strong corporate profits and boosted shareholder returns via dividends and share buybacks. Japan's real GDP growth contracted slightly in Q1 but increased 2.4% year over year. Inflation, which has been affected by rising consumer demand and higher cost of raw materials, fell to 3.3% in June, down from 3.5% the previous month.

Emerging Markets

The MSCI Emerging Markets Index experienced a gain of +11.02% in Q2 2025, supported by a weakening dollar. This return was in line with the MSCI World Index which rose +10.96%. During the quarter, emerging market countries saw mixed performance as various factors impacted their economies. Specifically, trade negotiations between the US and China remain pivotal and de-escalation a priority. Brazil's stock market performed well during the quarter, buoyed by a stronger Real.

Contrary to global trends, Brazil's central bank raised interest rates twice in the quarter to 15%, in an effort to support the currency and reduce inflation. The Brazilian government revised its economic growth forecast upwards to 2.5%. Conversely, India's market saw a downturn due to growth concerns and elevated stock valuations. In response, the Reserve Bank of India cut the repo rate twice to 5.50% shifting from a neutral to supportive policy stance to foster economic growth amid global uncertainty.

Commodities

In the commodities market, the S&P GSCI Index declined -4.39% in the second quarter. Precious metals were the index's top peforming segment while oil fell on weakening demand. Gold futures rose +5.92%, and the yellow metal continued to outperform most major asset classes year to date. Silver saw a gain of +3.59%, while copper declined -0.71%. Oil underperformed as OPEC continued to increase production despite lower prices. Ongoing concerns around geopolitical tensions and tariff uncertainty will most likely continue to pressure oil prices and sustain strength in precious metals.

Market Returns Q1 - 2025

As at June 30, 2025

	MTD	QTD	YTD	1 year
Equity Indices (% local currency)				
BISX				
S & P 500	4.96	10.57	5.50	13.63
Dow Jones Industrial Average	4.32	4.98	3.64	12.72
NASDAQ	6.57	17.75	5.48	14.87
FTSE 100	-0.13	2.08	7.19	7.31
Stoxx Europe 600	-1.33	1.40	6.65	5.86
Shanghai SE Composite	2.90	3.26	2.76	16.08
Nikkei 225	6.64	13.67	1.49	2.28
MSCI Emerging Markets	5.65	11.02	13.70	12.57
MSCI World	4.22	10.96	8.59	14.66
ICE BofA Bond Indices (% local currency)				
US Treasuries 1-10 years	0.95	1.43	3.93	6.26
US Corporates	1.82	1.79	4.20	7.06
US High Yield	1.86	3.57	4.55	10.28
UK Gilts 1-10 years	1.17	2.24	3.57	4.57
Euro Government	-0.21	1.81	0.62	4.44
Global High Yield & Emerging Markets	2.36	4.87	6.79	12.60
Global Broad Market Index	1.95	4.27	7.31	8.70
Currencies vs. USD				
British Pound	2.03	6.30	9.72	8.60
Euro	3.88	8.98	13.84	10.03
Japanese Yen	0.01	-3.95	-8.38	-10.47
Swiss Franc	-3.56	-10.31	-12.60	-11.76
Commodities (% USD)				
Gold	0.57	5.92	25.24	41.38
Silver	8.55	3.59	22.60	22.63
Copper	7.46	-0.71	23.51	13.72
WTI Crude Oil	8.22	-7.45	-7.66	-13.70
S&P GSCI Index Spot	3.52	-4.39	-1.18	-6.09