CFAL

GLOBAL AND LOCAL ECONOMIC REVIEW

Second Quarter 2026

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EDITORIAL

Artificial Intelligence: From Market Theme to Economic Transformation

Artificial intelligence has remained at the centre of global financial markets throughout 2026, but the investment story is beginning to extend well beyond the large technology companies that initially led the rally. What began as excitement surrounding generative AI and advanced semiconductors has developed into one of the largest infrastructure investment cycles in recent history. Technology companies are committing substantial capital toward data centres, computing equipment and cloud capacity, while demand for advanced chips continues to support record activity across the semiconductor supply chain. TSMC's second quarter revenue reached a record level as demand for AI applications accelerated, reinforcing the view that the underlying investment cycle remains strong.

In the short term, AI continues to support corporate earnings and equity market performance, particularly within technology, semiconductors and communication services. However, the scale of spending has also raised questions over valuations, market concentration and how quickly companies will generate sufficient revenue from these investments. Investors are increasingly distinguishing between businesses that simply promote an AI strategy and those that can demonstrate measurable productivity improvements, cost savings or new revenue streams. This may create periods of volatility as expectations remain elevated and companies face greater pressure to justify their capital expenditure. Nevertheless, the strength of semiconductor demand and growing corporate adoption suggest that AI remains more than a temporary market trend.

In the long term, AI is likely to transform a much broader range of industries. Financial institutions are using the technology to improve risk management and customer service, healthcare companies are applying it to research and diagnostics, while manufacturers are integrating AI into automation, supply-chain management and product design. The physical infrastructure required to support this growth is also creating opportunities outside the traditional technology sector. Data centres require significant investment in electricity generation, transmission networks, cooling systems, construction and industrial equipment. The International Energy Agency expects data centres to account for approximately half of the growth in United States electricity demand through 2030, illustrating how AI is increasingly becoming an energy and infrastructure theme as much as a technology theme.

Politically, the rapid development of AI has increased competition between governments seeking to secure access to advanced semiconductors, data, energy and skilled labour. Countries are likely to increase sup--port for domestic chip manufacturing and digital infrastructure while introducing additional rules surrounding data protection, employment, cybersecurity and the responsible use of AI. For investors, the opportunity remains significant, but the benefits will not be distributed evenly. Semiconductor producers, cloud platforms, utilities, data centre operators and selected industrial companies may continue to benefit, while businesses that fail to adapt could face pressure on their competitiveness. The strongest investment approach will therefore require diversification beyond a small group of technology leaders and careful attention to valuation, execution and profitability. Ultimately, AI appears to be shifting from a narrow market theme into a long term economic transformation, but investors should remain disciplined as periods of excitement, disappointment and volatility are likely to accompany that transition.

Anthony Ferguson
President, CFAL

LOCAL ECONOMIC HIGHLIGHTS

Second 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 March 2026, Direct Charge stood at $12.47B representing an increase of 0.5% or $66.4M quarter to date. The National Debt was reported at $12.79B representing an increase of 0.5% or 64.1M.

- The tourism industry continues to see healthy levels of arrivals but at roughly the same pace as last year. Sea arrivals grew 15.9% while air arrivals grew +4.8% year-over-year.

- The local stock exchange, BISX, increased over the quarter, gaining +3.12%. Top performers included APD Limited, Bank of the Bahamas and JS Johnson.

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 2.1% in 2026. As of March 2026, Direct Charge stood at $12.47B representing an increase of 0.5% or $66.4M QTD, whereas the National Debt was reported at $12.79B representing an increase of 0.5% or 64.1M QTD. However, the debt to GDP numbers showed some decline from the previous year as Direct Charge to GDP stood at 71.5% and National Debt to GDP stood at 73.3%, down from 71.8% and 73.9% respectively. Banking sector liquidity expanded through March 2026, supported by growth in the deposit base which outpaced domestic credit growth. Excess reserves increased by $36.7M to $1.86B, with the ratio of net free cash reserves to B$ deposit liabilities declined to 19.3% compared to 19.7% in the previous year. While excess liquid assets widened to $222.7M up from $123.9M the same period last year led by expansions in balances held with the Central Bank and treasury bills.

The most recent CPI numbers released by the BNSI for March 2026 showed a 3.1% increase in inflation compared to the same period the previous year. The primary drivers of that were Restaurant and Hotels at 17.6%, Household Maintenance at 8.5% and Utilities at 4.4%. As it relates to the government's fiscal position, the overall surplus narrowed during the third quarter of FY2025/2026 to $184M from $237.7M in the prior year. Total revenue as of March 2026 amounted to $1.03B, seeing growth of $10.1 million from the prior year. Tax revenues grew 3.8% to $942.7M, while non-tax revenues fell 20.3% to $96.7M.

Tourism

The Bahamas' tourism industry remains strong albeit at a slower growth momentum that seen last year. YTD as of May 2026, total visitor arrivals stood at 6.07M, an increase of 14.2% over the previous year. Sea arrivals accounted for 85.9% of total visitor arrivals, growing 714.6K or +15.9% from the same period last year. Air arrivals grew by 39,398 visitors or +4.8% to 852K. Tourist arrivals amongst the islands were mixed with Long Island (+27.2%), Exuma (+11.7%) and Cat Island (+8.2%), seeing the largest percentage increases YoY. In contrast, islands such as Cat Cay (-8.2%), San Salvador (-6.0%) and Bimini (-5.2%) saw the largest declines. According to the Central Bank of the Bahamas' Monthly Economic & Financials Developments (MEFD) report for May 2026, the average occupancy rate for entire place listings and hotel comparable listings rose to 47.9% and 45.3% respectively, from 44.2% and 42.6% 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	SYM	Price Jun 2026	QTD Change	YTD Change
Abaco Markets Limited	AML	9.90	48.87%	48.87%
Arawak Port Development	APD	50.50	1.00%	1.00%
Benchmark Bahamas Limited	BBL	2.18	-5.22%	-21.01%
Bahamas First Holdings	BFH	2.30	-23.33%	-14.81%
Bank of The Bahamas	BOB	8.45	29.01%	39.44%
Bahamas Property Fund	BPF	12.00	0.00%	0.00%
Bahamas Waste Limited	BWL	10.34	0.00%	-1.52%
Cable Bahamas	CAB	3.77	-0.26%	-5.51%
Commonwealth Brewery	CBB	10.10	-1.46%	-4.63%
Commonwealth Bank	CBL	4.25	5.46%	-0.23%
Colina Holdings Limited	CHL	18.00	5.88%	22.53%
CIBC FirstCaribbean	CIB	16.49	-0.06%	1.54%
Consolidated Water	CWCB	5.90	-10.88%	-16.43%
Doctors Hospital	DHS	4.87	-2.60%	-6.17%
Emera Bahamas	EMAB	12.97	2.45%	7.63%
Family Guardian	FAM	7.73	6.62%	13.68
Fidelity Banks Bahamas	FBB	13.44	-9.98%	-17.24%
Focol Holdings	FCL	7.20	1.55%	5.11%
Finco	FIN	18.00	11.11%	14.58%
J.S. Johnson	JSJ	20.07	19.75%	19.75%
BISX INDEX	BISX	3,223.81	3.12%	3.67%

Overall, the second quarter reflected an improvement in market sentiment, with gains in the BISX Index driven by a relatively small number of strong-performing stocks. While trading activity remained selective, investor interest continued to favor companies demonstrating solid earnings growth, resilient balance sheets and attractive dividend potential. As The Bahamas' economic expansion continues and corporate earnings remain generally stable, the domestic equity market is positioned to benefit from improving investor confidence during the second half of 2026.

Fixed Income

During the second 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 6.59% for 30 years. The bank also held six Treasury Bill offerings. Overall, local interest rates remained largely unchanged throughout the quarter, reflecting the banking sector's strong liquidity position and continued investor demand for Government securities. Elevated excess reserves and ample market liquidity helped maintain stable funding conditions despite ongoing government borrowing, resulting in relatively flat Treasury Bill yields and limited movement across the domestic yield curve.

Short Term

Tenor	Mar 2026	Jun 2026	Change
91 days	3.36%	3.53%	+0.27
182 days	3.51%	3.43%	-0.08
1 year	3.35%	3.69%	+0.34
3 years	4.35%	4.10%	-0.15

Medium to Long Term

Tenor	Mar 2026	Jun 2026	Change
5 years	4.82%	4.76%	-0.06
7 years	5.42%	5.51%	+0.09
10 years	5.40%	5.47%	+0.07
20 years	6.16%	6.37%	+0.21
30 years	6.39%	6.59%	+0.20

Conclusion

The Bahamian economy remained on a stable growth path during the second quarter of 2026, supported by continued strength in tourism, improving fiscal performance, and resilient financial sector conditions. While economic growth moderated from the rapid post pandemic recovery, activity remained consistent with the IMF's projected GDP growth of 2.1% for the year. Tourism continued to underpin economic activity, with strong cruise arrivals offsetting more modest growth in stopover visitors, while inflation remained manageable despite persistent price pressures in select sectors. Fiscal indicators continued to improve, with the Government maintaining a budget surplus and debt-to-GDP ratios declining modestly, although the nominal level of public debt remained elevated. Meanwhile, ample banking sector liquidity supported stable domestic interest rates and favorable financing conditions. Looking ahead, sustaining fiscal discipline, diversifying the economy beyond tourism, and encouraging greater private sector investment will be essential to strengthening long-term economic resilience and supporting sustainable growth through the remainder of 2026.

GLOBAL ECONOMIC HIGHLIGHTS

Second Quarter 2026

- Major U.S. indices delivered positive returns in the second quarter of 2026 as the NASADAQ rose +21.41%, outperforming the S&P 500 (+14.87%) and the Dow Jones Industrial Average (+12.90%). Technology and Semiconductor stocks were standout performers as they benefited from the surge in AI and chips demand.

- European equities had a positive performance, with the Stoxx Europe 600 gaining +10.05% and the FTSE 100 gaining +3.15%.

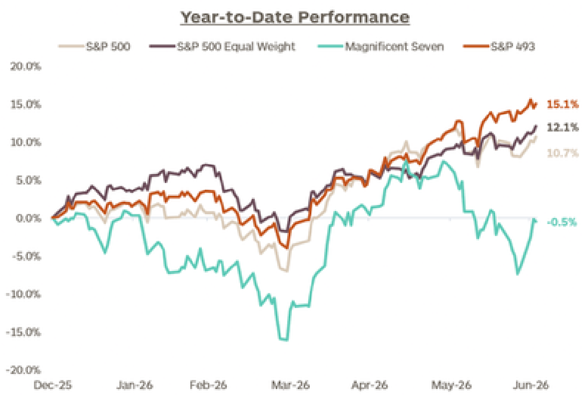
- Asian equities posted generally positive results, with the Shanghai SE Composite gaining +5.20% and the Nikkei 225 gaining +37.21%.

- In the commodities market, performance was weak with the S&P GSCI Index recording a loss of -16.87%. Silver (-20.61%) and Gold (-13.11%) demonstrated declines driven by tightened monetary policy reducing safe-haven demand, while copper rose +9.34%. Conversely, oil prices dropped -14.86% to about $71 a barrel, reflecting easing geopolitical tensions.

GLOBAL ECONOMIC REVIEW

United States

In the second quarter of 2026, major US markets experienced significant gains. Amongst the three major indices, the NASDAQ led the way, gaining +21.41% while the S&P 500 and Dow Jones Industrial Average grew +14.87% and +12.90% respectively. Investor sentiment improved considerably as concerns surrounding global trade and geopolitical tensions eased, allowing markets to refocus on resilient economic fundamentals, strong corporate earnings, and continued investment in artificial intelligence and technology-related industries. Although volatility remained elevated throughout the quarter, particularly following the conflict involving the United States, Israel and Iran, equity markets proved resilient as oil prices gradually retreated from their highs and fears of a prolonged supply disruption through the Strait of Hormuz diminished. Technology and semiconductor companies remained the primary drivers of market performance, supported by continued demand for artificial intelligence infrastructure and strong corporate earnings. Bond markets also posted positive returns during the quarter, with U.S. high-yield bonds leading gains (+2.45%), followed by U.S. Corporate Bonds (+1.43%) and U.S. Treasuries (1–10 Years) (+0.19%). While the Federal Reserve maintained a cautious approach to interest rates, moderating inflation and resilient economic conditions supported both equity and fixed income markets. Looking ahead, we remain constructive on the U.S. market, supported by solid corporate earnings, a resilient economy and continued investment in artificial intelligence, despite ongoing geopolitical and macroeconomic risks.



Europe

European equity markets delivered positive returns during Q2 2026, although they underperformed their U.S. counterparts. The broad STOXX Europe 600 gained +10.05%. Investor sentiment improved as concerns surrounding global trade eased and inflation continued to moderate, supporting expectations that the European Central Bank would continue gradually easing monetary policy. However, ongoing geopolitical tensions and a sluggish manufacturing sector, particularly in Germany, continued to weigh on the region's economic outlook.

Sector performance was mixed, with financial, industrial and defense companies outperforming, while consumer-oriented sectors remained more subdued amid cautious household spending. Although economic growth across Europe remained modest, easing inflation, resilient labor markets and improving investor confidence supported equity markets throughout the quarter. Looking ahead, we remain cautiously optimistic on European equities, although the region continues to face headwinds from weak industrial activity, geopolitical uncertainty and slower economic growth relative to the United States.

Over the quarter, the FTSE 100 saw positive returns, rising by +3.15%. UK equities delivered a positive performance to the second quarter, benefiting from strength in energy and financial stocks, while a relatively weaker pound continued to support multinational exporters. UK inflation, as measured by the Consumer Prices Index (CPI), remained at 2.8% in the 12 months to the end of May, above the Bank of England's target. As a result, the Bank maintained interest rates at 3.75% throughout the quarter, although two policymakers voted in favor of a rate increase at the June meeting.

Meanwhile, political uncertainty increased following weak local election results, prompting Prime Minister Keir Starmer to announce his resignation as Labor Party leader after a bi-election victory for Andy Burnham, who is expected to become prime minister in July. Despite the political transition, financial markets remained largely unaffected.

Asia Pacific

China's Shanghai SE Composite gained +5.20% in the second quarter. Performance was mixed across the Asia-Pacific region while it continued to be driven by technology and artificial intelligence-related themes, with North Asia outperforming the rest of the region. Strong demand for semiconductors, advanced electronics and precision manufacturing, combined with improving global growth expectations, easing geopolitical tensions and stable financial conditions, supported investor sentiment and capital inflows. South Korea was the standout performer during the quarter, benefiting from strong demand for memory chips and advanced AI components, while Taiwan also recorded solid gains as its semiconductor industry continued to benefit from sustained investment in artificial intelligence infrastructure. Meanwhile, India posted modest gains, supported by resilient domestic demand, steady financial sector performance and improving corporate earnings. Japanese equities posted significant gains with the Nikkei 225 climbing +37.21% in Q2 2026. This outperformed all major indices across the US and Europe as strong demand for semiconductors, automation equipment and precision manufacturing supported the technology and industrial sectors.

Investor sentiment also improved as easing global trade tensions and stronger global growth expectations provided a favorable backdrop for Japanese exporters. The Bank of Japan maintained a cautious approach to monetary policy during the quarter, keeping interest rates unchanged while continuing to signal that any further policy normalization would be gradual. Although inflation remained above the Bank's long-term target, policymakers remained focused on sustaining wage growth and domestic demand before implementing additional tightening measures. Looking ahead, we remain constructive on Japanese equities, supported by improving corporate profitability, ongoing governance reforms and continued strength in the country's export and technology sectors.

Emerging Markets

The MSCI Emerging Markets Index experienced gains of +23.31% in Q2 2026 outperforming the MSCI World Index which grew +13.32%. Poland, the UAE, Mexico, Chile and Kuwait all lagged the index despite posting positive absolute returns in US dollar terms. South Africa underperformed, driven predominantly by the sharp sell-off in mining stocks amid weakness in commodities and precious metals, while Saudi Arabian equities fell against a backdrop of subdued oil output and regional risk. Brazil was one of the largest underperformers, with sentiment deteriorating as polls showed President Lula establishing a lead over opposition right-wing senator Flavio Bolsonaro in the October presidential election race. The central bank cut rates as expected but the cycle is likely to be shallow in the face of persistent inflation.

Commodities

In the commodities market, the S&P GSCI Index declined -16.87% in the second quarter. Performance was mixed as easing geopolitical tensions and improving investor sentiment weighed on energy and precious metals, while industrial metals remained relatively resilient. Silver futures led the declines with -20.61% whilst WTI crude oil and gold futures followed falling -14.86% and -13.11% respectively over the quarter as supply concerns eased and expectations for tighter monetary policy reduced demand for safe haven assets. Copper was the standout performer, gaining +9.34% supported by strong demand from artificial intelligence infrastructure and electrification projects, while agricultural commodities generally weakened on improved supply conditions.

Market Returns Q2 - 2026

As at June 30, 2025

	MTD	QTD	YTD	1 year
Equity Indices (% local currency)				
S & P 500	-1.06	14.87	9.55	20.86
Dow Jones Industrial Average	2.52	12.90	8.85	18.65
NASDAQ	-2.81	21.41	12.79	28.69
FTSE 100	0.84	3.15	5.70	19.82
Stoxx Europe 600	2.51	10.05	8.37	18.54
Shanghai SE Composite	0.63	5.20	3.16	18.87
Nikkei 225	5.63	37.21	39.18	73.05
MSCI Emerging Markets	-1.67	23.31	22.68	40.90
MSCI World	-0.80	13.32	8.92	19.85
ICE BofA Bond Indices (% local currency)				
US Treasuries 1-10 years	0.11	0.19	0.31	2.68
US Corporates	0.17	1.43	1.00	4.47
US High Yield	0.26	2.45	1.89	5.74
UK Gilts 1-10 years	0.55	1.88	0.87	2.99
Euro Government	0.42	1.91	1.27	1.29
Global High Yield & Emerging Markets	0.18	3.47	2.08	6.87
Global Broad Market Index	-0.63	0.63	-0.47	0.24
Currencies vs. USD				
British Pound	-1.44	0.26	-1.58	-3.42
Euro	-2.03	-1.13	-2.76	-3.10
Japanese Yen	2.06	2.41	3.73	12.86
Swiss Franc	3.51	1.11	1.99	1.93
Commodities (% USD)				
Gold	-11.45	-13.11	-6.97	22.09
Silver	-21.61	-20.61	-15.76	65.90
Copper	-3.02	9.34	7.08	18.69
WTI Crude Oil	-18.52	-14.86	21.84	13.34
S&P GSCI Index Spot	-10.82	-16.87	12.93	14.05