



Financial Markets & COVID - 19 Update

August 2021

“The Medium is The Massage”

by Marshall McLuhan

Herbert Marshall McLuhan was a Canadian educator, philosopher, and scholar – a professor of English literature, a literary critic, and a communications theorist. In 1967 he co-published with Quentin Fiore “The Medium is the Massage”. The original title was The Medium is the Message, but the publisher mistakenly typed Massage instead of Message. McLuhan found the misspelling ironic and telling, so Massage was retained.

Today we have access to 24/7 financial market information/data/analysis/opinion from which to make investment decisions. The mediums over which this information is sourced is primarily social media, the Internet, and to a lesser extent, 24/7 financial networks. On social media small snippets of information get disbursed rapidly and widely. The problem is that the source of the information is often unreliable, and the message is massaged by subsequent readers who add their 2 cents, which often further degrades the reliability of the information. Most of us remember the communication exercise where an original message is whispered to adjacent person, who in turn whispers the message to the next and so on until the “message” is repeated to the originator. The final message often has no resemblance to the original message. Welcome to social media.

Charles Dodgson, a mathematician at Christ Church, Oxford, first told the story of Alice in Wonderland while rowing down the Thames. Well, the Internet can be a trip down the “rabbit hole”, if not used with discipline. The desired source of information should be the first stop, not the information. It is essential that the user drive the search and not the algorithm behind the search engine.

If one’s medium provides information in small batches of recent and often unverified data or is allowed to have a mind of its own, then one’s investment decisions will not factor in historic data, deep analysis, or past wisdom. Remember, we learn more in defeat than in victory. Only investors that lived through the Black Monday market crash in 1987, the tech bubble “pop” of 2000, or the financial crisis “melt-down” of 2007, have the wisdom to appreciate that risk is not normally distributed but subject to “fat tail risk”. The current Covid-19 pandemic is an example of a fat-tail event. The timing and scale of such fat-tail events are nearly impossible to predict, but we can be certain that they will occur again and again.

The prudent investment manager will rely on historic and current information, from several reliable sources, that has been analyzed and interpreted, from which prudent decisions can be made. All the time appreciating that fat-tail events will occur.

Financial Market Review

During the pandemic the local equity market has had clear winners and loser or as some analysts refer to than, stars and dogs. In the table below positive and negative returns are highlighted in green and red, respectively.

The overall markets as measured by the BISX Index, was down 6.23% in 2020 and down 5.51% YTD in 2021. Since the start of the pandemic in March 2020, the top performers were APD, AML, DHS, EMAB, and FAM which were up 129.2%, 83.1%, 58.16%, 18.65%, and 17.18%, respectively. CAB, BWL and JSJ were also in positive territory over this period. The biggest dogs were BOB, CBL, CWCB, and CIBC down 32.38%, 27.89%, 22.56%, and 12.97%, respectively. FIN, FCL, CBB, BBL, FBB, and CHL were also down over this period. It is important to note that all five bank stocks are included in the 10 dogs. During the recession, caused by the pandemic, the banks all took significant loan loss provisions, which resulted in net losses or significantly reduced profit levels. The economy is now in recovery mode, granted a full recovery isn't expected until the end of 2023 or early 2024, and some of these loan loss provisions are being written back. We expect this trend to continue and bank profitability improve.

BISX Price & Return History										
Prices								Returns		
Stock	Aug-21	Dec-20	Mar-20	Dec-19	Dec-18	Dec-17	Dec-16	Pandemic Rtn ¹	YTD Rtn ²	2020 Rtn
AML	\$ 6.50	\$ 4.15	\$ 3.55	\$ 3.59	\$ 4.44	\$ 4.00	\$ 4.06	83.10%	56.63%	15.60%
APD	\$ 39.95	\$ 32.12	\$ 17.43	\$ 17.43	\$ 17.43	\$ 17.43	\$ 15.85	129.20%	24.38%	84.28%
BFH	\$ 2.45	\$ 1.84	--	--	--	--	--	N/A	33.15%	N/A
BPF	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 7.00	\$ 9.09	\$ 9.09	0.00%	0.00%	0.00%
BOB	\$ 1.42	\$ 1.67	\$ 2.10	\$ 2.35	\$ 1.46	\$ 0.95	\$ 1.77	-32.38%	-14.97%	-28.94%
BBL	\$ 1.60	\$ 1.62	\$ 1.62	\$ 1.80	\$ 0.56	\$ 0.16	\$ 0.12	-1.23%	-1.23%	-10.00%
FBB	\$ 14.00	\$ 13.75	\$ 14.15	\$ 15.05	\$ 12.85	\$ 10.45	\$ 9.30	-1.06%	1.82%	-8.64%
BWL	\$ 6.97	\$ 6.61	\$ 6.68	\$ 6.10	\$ 4.90	\$ 3.34	\$ 3.52	4.34%	5.45%	8.36%
CAB	\$ 3.25	\$ 2.80	\$ 2.97	\$ 4.40	\$ 2.29	\$ 3.70	\$ 5.60	9.43%	16.07%	-36.36%
CBB	\$ 5.99	\$ 4.75	\$ 6.10	\$ 8.01	\$ 11.25	\$ 9.00	\$ 13.23	-1.80%	26.11%	-40.70%
CIBC	\$ 9.80	\$ 11.26	\$ 11.26	\$ 11.06	\$ 10.20	\$ 8.70	\$ 8.50	-12.97%	-12.97%	1.81%
CBL	\$ 2.74	\$ 3.59	\$ 3.80	\$ 4.50	\$ 4.50	\$ 4.90	\$ 3.50	-27.89%	-23.68%	-20.22%
CHL	\$ 5.95	\$ 5.90	\$ 6.00	\$ 6.16	\$ 6.16	\$ 6.10	\$ 5.83	-0.83%	0.85%	-4.22%
CWCB	\$ 2.54	\$ 2.46	\$ 3.28	\$ 3.26	\$ 2.33	\$ 2.52	\$ 2.17	-22.56%	3.25%	-24.54%
DHS	\$ 7.75	\$ 6.75	\$ 4.90	\$ 4.35	\$ 1.78	\$ 1.50	\$ 1.60	58.16%	14.81%	55.17%
FAM	\$ 9.55	\$ 8.40	\$ 8.15	\$ 7.60	\$ 6.30	\$ 6.00	\$ 5.82	17.18%	13.69%	10.53%
FIN	\$ 8.35	\$ 8.50	\$ 8.97	\$ 9.33	\$ 6.98	\$ 6.00	\$ 10.95	-6.91%	-1.76%	-8.90%
FCL	\$ 3.99	\$ 3.94	\$ 4.23	\$ 3.54	\$ 3.62	\$ 4.48	\$ 8.74	-5.67%	1.27%	11.30%
JSJ	\$ 15.50	\$ 15.20	\$ 15.21	\$ 14.00	\$ 13.01	\$ 12.51	\$ 11.93	1.91%	1.97%	8.57%
EMAB	\$ 11.45	\$ 10.41	\$ 9.65	\$ 10.50	\$ 7.84	--	--	18.65%	9.99%	-0.86%
BISX	\$ 1,977.18	2092.46	2117.17	2231.6	2109.45	2063.57	1938.21	-6.61%	-5.51%	-6.23%
Source: www.bisxbahamas.com; RF Group					1. Return since 31/3/2020			2. YTD 2021 as at August 5th		

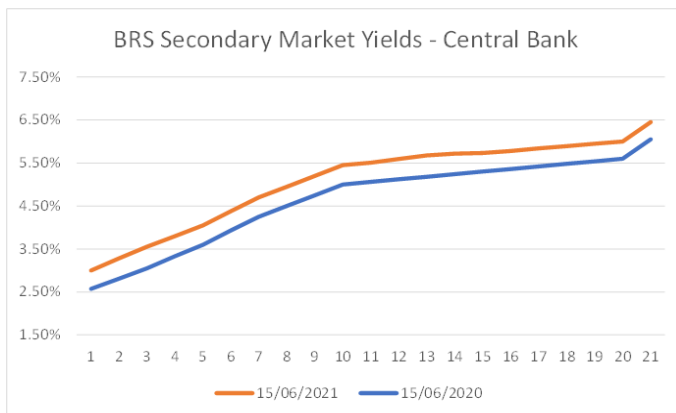
Financial Market Review

On the global markets, the US, German, and Canadian markets are up double digits YTD, but Japan is down 0.6%. Precious metal prices have fluctuated during 2021 and they are down YTD. The price of oil is up 52.4% YTD, which is an important driver of inflation, not only as an energy source, but also as an input in plastics.

Global Equity Market & Commodity Returns - As at July 31, 2021						
Stock Exchange	2018	2019	2020	Q1 2021	Q2 2021	YTD
USA (SPX)	-6.2%	28.9%	16.3%	5.8%	8.2%	17.0%
Germany (DAX)	-18.3%	25.5%	3.5%	9.4%	3.5%	13.3%
Japan (NKY)	-12.1%	18.2%	16.0%	6.3%	-1.3%	-0.6%
Canada (SPTSX)	-11.6%	19.1%	2.2%	7.3%	7.8%	16.4%
Gold (XAU)	24.8%	18.3%	25.1%	-10.0%	3.7%	-4.4%
Silver (XAG)	-8.5%	15.2%	47.9%	-7.5%	7.0%	-3.5%
Platinum (XPT)	-14.3%	21.5%	10.9%	10.8%	-9.4%	-1.9%
Oil (USCRWTC Index)	-24.8%	34.5%	-20.5%	21.9%	24.2%	52.4%

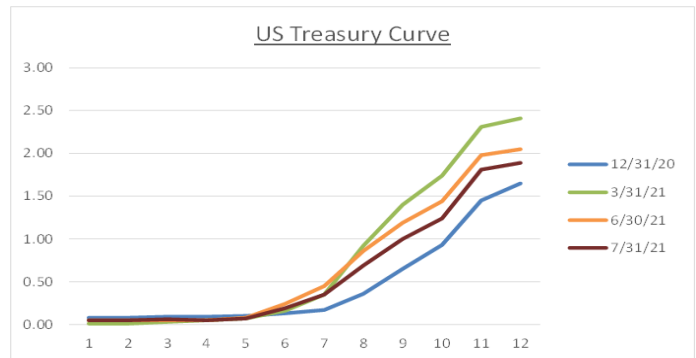
Notes: 1) All returns are in USD; 2) Data was sourced from Bloomberg

In July of 2020 all the outstanding Bahamas Registered Stock (BRS) issues were listed on BISX. The Central Bank of The Bahamas publishes monthly a secondary market price list on their website. Over the 12 months ended June 30th, 2021, the entire Bahamian yield curve shifted up in a parallel fashion. The prices of fixed rate bonds have decreased accordingly over this period. This is reasonable given the increasing risk of holding BRS due to the \$1.3 billion deficit in fiscal 2021 and the budgeted \$1.0 billion deficit in fiscal 2022.



The following chart shows the US Treasury yield curve (the “yield curve”) over 2021. During Q1 2021 the yield curve steeped significantly with the 10yr yield increasing by 81 basis points to 1.74%. Since the end of March, the 10yr yield has decreased by 50 basis

points to 1.24%. Morgan Stanley expects the 10yr yield to increase to 1.8% by the end of 2021.



The table below details the GDP, yield, and inflation estimates from Morgan Stanley as of July 30th. The figures highlighted in green have increased since their May 28th forecasts, while those highlighted in yellow have decreased. The key takeaways are that Real GDP growth is expected to remain strong through 2022. Also, US yields are expected to increase (higher interest rates), and inflation will be more permanent and less transitory.

Morgan Stanley & Co. Forecasts (as of July 30, 2021)									
	REAL GDP GROWTH (%)			10-YR. GOVT. BOND YIELD		HEADLINE INFLATION (%)			
	2020	2021E	2022E	Q4 '21E	Q2 '22E	2020	2021E	2022E	
Global	-3.2	6.5	4.9			2.2	3.1	2.7	
US	-3.5	7.1	4.9	1.8	2.0	1.2	3.7	2.5	
Euro Zone	-6.7	4.7	4.8			0.3	1.9	1.4	
UK	-9.8	6.7	5.1	1.0	1.1	0.9	2.0	2.0	
Japan	-4.7	2.5	2.9	0.15	0.20	0.0	0.1	1.0	
Emerging Markets	-1.8	7.2	5.1			3.4	3.5	3.4	
China	2.3	8.7	5.8			2.5	1.0	2.0	

According to Morgan Stanley, US equity markets are richly valued, and a short-term correction is expected prior to the end of 2021. Their base case shows the S&P 500 declining by just under 4% between now and the middle of 2022.

MS & Co. S&P 500 Price Target: Midyear 2022

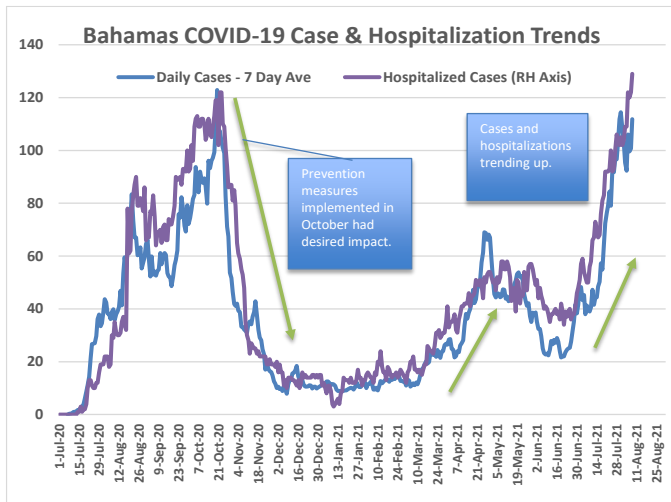
Landscape	Price/Earnings		Price Target	Upside/Downside
	Earnings	Multiple		
Bull Case	222	20	4,450	1.3%
Base Case	211	20	4,225	-3.8%
Bear Case	199	19	3,800	-13.5%
Current S&P 500 Price			4,393	

Note: Price targets are based on estimated June 2022 earnings.

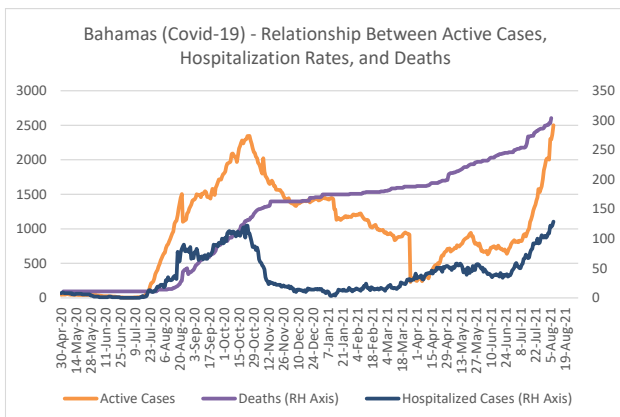
Source: MS & Co. Research as at July 30, 2021

Covid 19 Update

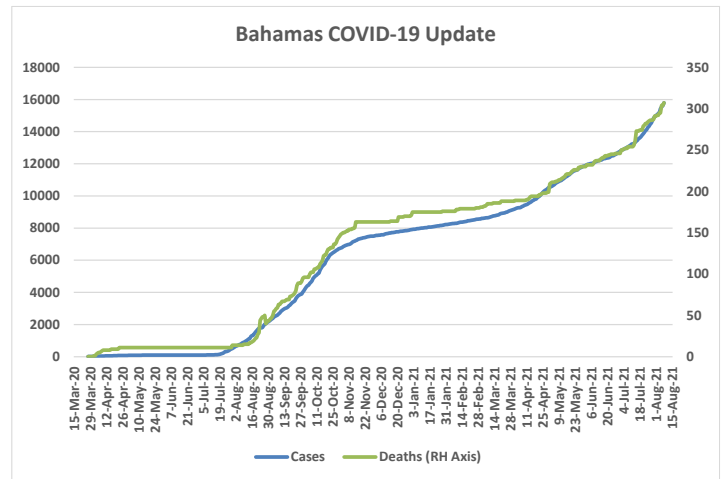
The chart below provides an update on the Covid-19 pandemic in the Bahamas. The second wave that commenced in February/March of this year peaked in April/May and started receding. Unfortunately, in June case numbers started increasing again and we are effectively back to October 2020 levels. Unfortunately, the second wave never ended, but simply subsided.



The chart below shows that currently active cases and hospitalized cases are near peak levels in October 2020. Also, we see the tragic reacceleration of deaths. **Since August of 2020, the mortality rate has averaged 2.1%. What this means is that for every 50 new cases, one person dies.** Why this statistic is not being shared with the public is hard to understand. Currently the 7-day average of new cases is 112. This means the 7-day average death rate is approximately two Bahamians per day! Over the last 7 days we have had 16 deaths, so this morbid math is accurate. All healthy Bahamians have a duty to themselves, their family, and fellow Bahamians to get vaccinated.



The consistent relationship between cases and deaths is evident in the chart below.



The RF Group has offices in The Bahamas, Barbados, and Cayman Islands. The table below compares the scale of the crisis, testing efforts, and vaccination levels in all three locations. Clearly the Cayman Islands has done a stellar job containing the crisis, testing its people, and getting its population vaccinated. On the other hand, The Bahamas has the most cases per capita, highest mortality rate, fewest tests per capita, and lowest vaccination levels. Barbados falls in the middle. Unfortunately, it looks like the Bahamian people and Bahamian businesses will need to deal with Covid-

COVID-19 Comparison - RF Locations (As at August 8, 2021)

Metric	Barbados	Cayman	Bahamas
Cases	4,480	646	15,794
Recovered	4,321	639	12,869
Deaths	48	2	307
Active	111	5	2,500
Tests	230,548	119,488	123,901
Vaccine Doses	180,757	98,419	107,596
At Least One Dose	100,512	50,308	61,803
Fully Vaccinated	80,245	48,111	43,943
Population	287,375	70,751	393,482
Cases per capita	1.56%	0.91%	4.01%
Tests per capita	80.23%	168.89%	31.49%
Doses per capita	62.90%	139.11%	27.34%
Partially Vacc.	34.98%	71.11%	15.71%
Fully Vacc. Per cap	27.92%	68.00%	11.17%