



March 20, 2020: INVESTOR INSIGHTS – Coronavirus

As news of the spread of COVID 19 virus around the world assaults us every day across virtually every media outlet it is easy to understand the increasing level of panic that is gripping people from all walks of life across the globe. However, during periods of such volatility it is essential that we avoid panic and instead step back and review the situation through the lens of logic.

While even the most seasoned investor was surprised by the scale of the global stock market correction over the last three weeks – we still need to remember that our investments were made to build value over the long term and crises like the COVID 19 typically have only shorter term consequences.

In 2008 the global financial system was nearly undermined by the sub-prime mortgage crisis, which was caused by reckless lending practices and rating agencies that “dropped the ball”. As a result, it took years before global financial markets fully recovered. The current COVID 19 crisis is not a financial system crisis, but rather an exogenous or external shock. It is important for investors to differentiate between exogenous shocks, or those shocks resulting from an external cause to financial markets versus financial system-based shocks, or those shocks resulting from causes in the local economy. The COVID 19 shock is exogenous and not system based, so therefore the recovery is expected to occur sooner and be more robust.

Over the last 19 years we have had 12 epidemics including SARS in 2003 and MERS in 2013. Following the previous 12 epidemics the drop in stock market values was followed by an average recovery of 13.6% 12 months later. On February 19th, less than a month ago, the S&P 500 Index closed at 3,386.15, the highest close in history. At close of trading on March 17th, the S&P 500 Index had declined to 2,528.99, or 25.3%. We anticipate continued volatility in international markets as COVID 19 related news and government and central bank reactions change investor expectations.

While past performance is no guarantee of future performance, in the past such market declines are usually followed by sizable recoveries.

What does this mean for Barbadian investors? The impact on local equity and debt markets will depend on the severity and duration of COVID 19 virus’ impact on our tourism sector. With the cancellation of all cruise ship travel for at least the next thirty days and with air travel and hotel occupancies also expected to be severely impacted, it is expected that there will be a sharp decline in tourist revenues for weeks if not months. Recognizing that the Barbadian tourism industry is a major driver for the Barbados economy and thousands are employed in this sector, it will be essential that measures are taken to minimize the impact on these Barbadians whose livelihoods are directly dependent on the tourism industry.

While the loss of tourism revenues will negatively impact The Barbadian economy and it is expected that the financial performance of the firms listed on BSE will be similarly impacted in the short-term, we do not expect negative medium to long-term impacts that would likely justify significant declines in share prices on BSE.

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We believe the companies listed on the Barbados Stock Exchange will be able to recover in the medium term from any COVID 19 fallout. Goddard Enterprises Limited is diverse enough to cushion any declines in revenues that would be expected from their ground handling and catering services as a result of the decline in aircraft passengers due to the outbreak. Keeping one's health and life insurance policies current will be a priority for most of the insured which should benefit insurance companies like Insurance Corporation of Barbados. The Department store at Cave Shepherd will probably experience decline in revenues during this period, however we will expect the financial services side of their business to be fully utilized by clients as they seek the essentials services. The lone bank listed on BSE which is First Caribbean International Bank, can decide to provide lenders with the option to make interest only payments for several months. This will not impact profitability while reducing new delinquencies. As people continue to bulk shop in anticipation of a national shutdown should there be a major outbreak in Barbados, companies like West Indies Biscuit should continue their strong financial performance and see benefits as a result of their manufacturing of food products.

We believe that our Premium Income Fund provides risk averse investors with a prudent option over the next few months and beyond.

We all need to be cautious regarding our physical health and financial health over the next few months. We realise that these are difficult times and there is a high level of uncertainty as to the future impacts associated with the spread of COVID 19. The team at Royal Fidelity is here to assist you during this trying period and we would welcome the opportunity to discuss your investment concerns.

Together we will weather Covid-19 and emerge stronger for it.



Jillian Nunes

Vice President and Country Head

With over 15 years of experience in investment management in Barbados, Jillian is an expert in wealth creation and managing risk. She holds a Bachelor's from the University of Toronto and has been a CFA charter holder since 2011.

