

INVESTMENT COMMENTARY

Barbados Segregated Pension Funds | March 2020

The unanticipated exogenous shock of the covid-19 pandemic has completely eroded the cautious optimism market participants had going into 2020. Global GDP estimates have been slashed to the downside with most major economies now teetering on the brink of a deep recession. Governments initiated travel bans and imposed shutdowns to contain the spread of the virus ultimately crippling consumer demand. Geopolitical tensions came to a head as an oil price war ensued between Russia and Saudi Arabia. Both countries ended an oil supply cut deal in response to depressed demand and both increased volumes of crude oil. As a result, the price of oil fell precipitously to a 17-year low stoking deflationary fears. To mitigate the economic fallout from the global pandemic and oil shock, major central banks have slashed interest rates and significantly stepped up their asset purchasing programs to provide liquidity and stability to financial markets. Despite the efforts made by monetary and fiscal authorities most asset classes especially equities have been in free fall. Until there is a decline in virus cases heightened market volatility is expected to persist.

US equities suffered its deepest correction since 1987 and entered a bear market ending the almost 11- year bull market amid the global coronavirus crisis. Sectors most severely impacted by the market turmoil were energy and leisure travel. The US Federal Reserve stepped into calm markets by the resumption of quantitative easing and cutting interest rates to the zero-lower bound with federal funds interest rate now in a range of 0.00% to 0.25%. In a coordinated effort the US Treasury also provided a massive \$2.2 trillion pandemic relief bill to provide support to households and businesses. From market highs in February the Dow Jones Industrial Average and the S&P 500 Indices returned -22.7% and -19.6% respectively year-to date while the MSCI Emerging market index dropped -23.6%. The uncertainty and lack of visibility for future company earnings amid the virus led to a decline in the value of equities globally. The Jamaica stock exchange suffered deep losses during the first quarter returning -18.4% while the Trinidad and Tobago Stock exchange, impacted by declining energy prices and negative outlook posted a -10.3% decline. The Barbados stock exchange relatively outperformed returning 0.5%.

Against this backdrop the Sagicor (Equity) Fund, declined by -11.2%, while net assets stood at \$544.6 million as at March 31, 2020. The Fund's NAV decreased to \$57.41 as at March 31, 2020 down from \$64.68 as at December

31, 2019. The Fund remained predominantly allocated to equities, which accounted for 75% of net assets while domestic real estate represented 10% of net assets.

Bond markets outperformed equities on a relative basis but were by no means left unscathed as volatility and credit spread widening permeated the corporate credit market. Investor pessimism and risk aversion from the black swan event increased demand for safe-haven assets such as US Treasury bonds. The yield on the 10-year US Treasury declined from 1.9% to 0.7% during the first quarter of 2020. Credit rating downgrades by major rating agencies such as S&P and Moody's have already begun regionally with Trinidad & Tobago sovereign debt rating downgraded to BBB- from BBB while Belize was downgraded to CCC from B-.

The Barbados Government announced a BDS\$20-million "survival" stimulus package even as it braced for significant loss in revenue and increased expenditure as a result of the coronavirus (COVID-19). The Barbados Central Bank also announced monetary stimulus to support the commercial banking sector through these uncertain market conditions. For the financial year ended March 31, 2020 the country achieved a primary surplus of 6%, a major target under the government's economic recovery plan. However, the novel (COVID-19) is expected to significantly dampen growth in economic activity for the rest of 2020 especially in the tourism and services sectors.

The Sagicor (Bonds) Fund returned -2.8% for the first quarter of 2020, impacted by unrealized losses in US corporate bonds and US dollar denominated regional bond holdings. The Fund's NAV decreased to \$26.45 as at March 31, 2020 down from \$27.20 as at December 31, 2019, while net assets totaled \$421.9 million. Until the economic and public health situation stabilizes, regional US dollar denominated securities may see further downgrades resulting in credit spread widening negatively impacting valuations. However, the downside risks to the portfolio have been mitigated through diversified investment asset allocation and portfolio rebalancing.

FINANCIAL HIGHLIGHTS AS AT MARCH 31, 2020

	EQUITY FUND	BONDS FUND
Financial Investments	\$ 470,434,979.98	\$ 381,909,091.72
Total Assets	\$ 600,475,403.02	\$ 472,641,481.45
Total Liabilities	\$ 55,888,662.78	\$ 50,748,775.36
Net Assets	\$ 544,586,740.24	\$ 421,892,706.09
Net Investment Income/(Loss)	\$ (68,810,081.30)	\$ (12,003,274.39)
No. of Units Outstanding as at March 31, 2019	9,485,183	15,950,426
Net Asset Value per Unit as at March 31, 2019	\$ 57.41	\$ 26.45
Increase/(decrease) in Net Asset Value per Unit for year	-11.2%	-2.8%

Policy Asset Allocation
Sagicor Barbados Segregated Pensions Fund

