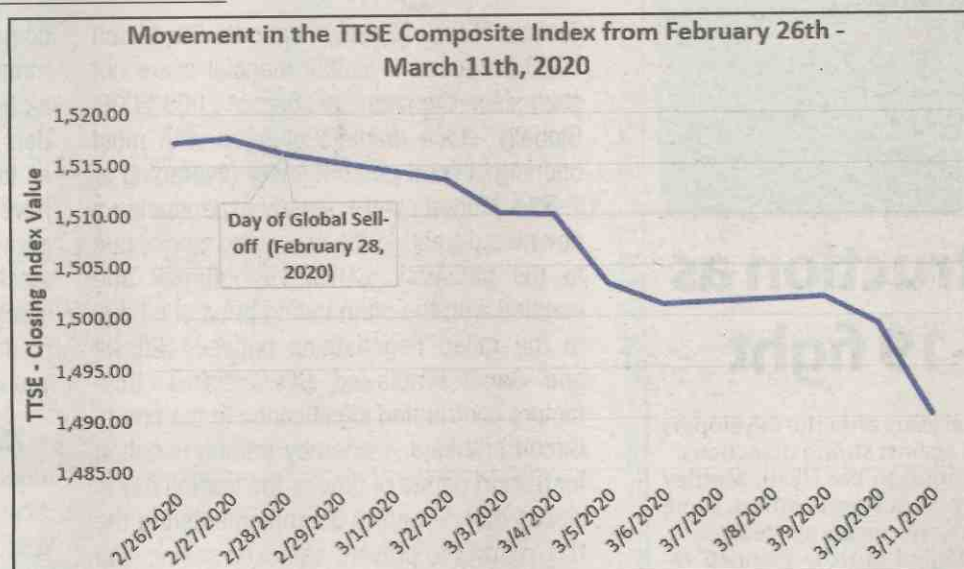


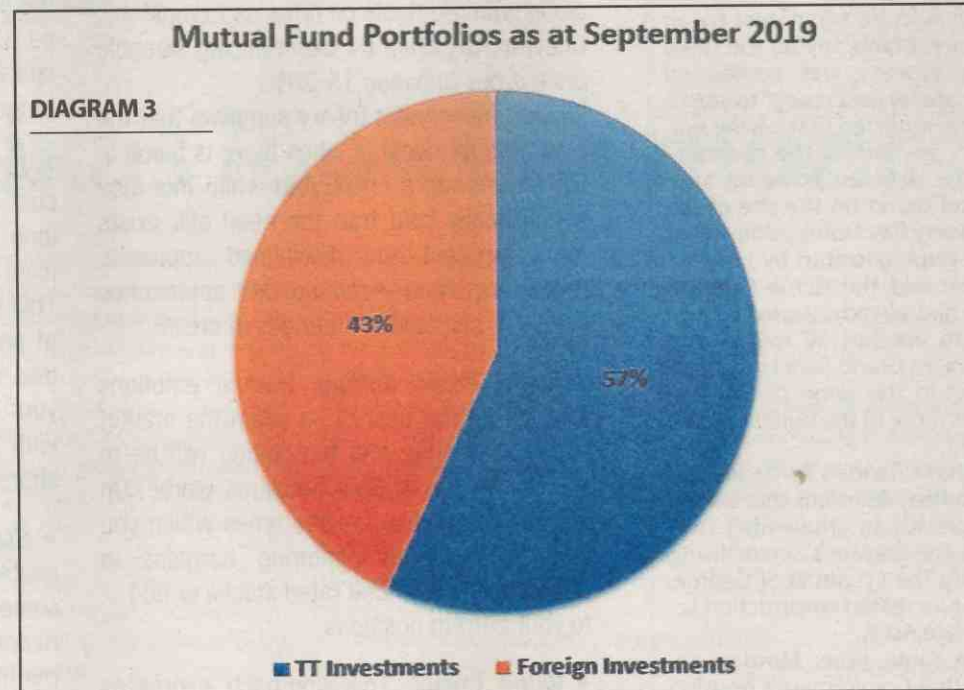
COVID-19 and the T&T securities industry

By T&T Securities and Exchange Commission

DIAGRAM 2



Trinidad and Tobago Stock Exchange



Trinidad and Tobago Securities and Exchange Commission (TTSEC)

Global Summary
 ON February 3, 2020, China's financial sector recorded one of its worst days, with equities decreasing as much as 9.1 per cent. This came one day after China's central bank injected US\$173 billion (1.2 trillion yuan) into its economy to prevent an economic crash in response to the impact of COVID-19. Amid the spread of the COVID-19, US\$5 trillion in value was wiped off the international stock markets on February 28, 2020. It was considered one of the darkest days of the global financial sector since the 2008 global financial crisis.

On March 3, 2020, the US Federal Reserve cut its policy interest rates by 50 basis points (a target range of between 1 to 1.25 per cent), hoping to spur consumer borrowing and investment by the business sector. However, despite these efforts, the markets have continued to react negatively. On Monday 9 March 2020, as Wall Street opened for business, the Standard and Poor's 500 Index declined 7 per cent, leading to projections that the global economy will slow to 2.4 per cent from 3 per cent

Why is the virus affecting markets negatively?

Let us look at the facts, COVID-19 originated in China, which is the world's leading manufacturing economy, producing goods valued at US\$2.32 trillion in 2018 alone. This means that most of the items that you use on a daily basis are manufactured in China. With the spread of COVID-19, a key indicator of manufacturing activity in the country) fell from 51.1 in January 2020 to 40.3 in March 2020. With the closure of manufacturing corporations and a subsequent decline in output, many companies dependent on products or raw materials from China have halted production. This halt in production has had a ripple effect as consumers are faced with higher costs of items due to the reduced supply of goods.

Can COVID-19 affect the Securities Industry of T&T?

It has been noted that international stock markets have become quite volatile and projections are being made that global GDP growth will reduce in response to the outbreak. As travellers are advised to stay at home, demand in related industries has diminished and world travel has dropped significantly.

In addition to this, crude oil prices have also been declining from the beginning of 2020.

With falling oil prices, we can assume that

manufacturing costs linked to the oil price will reduce. However, COVID-19 has had a significant short-term impact on China's productive base. This would have led to a reduction in manufacturing and overall production within China and likewise the USA, which is also dependent on the importation of manufacturing inputs and finished goods out of China.

Based on information from the Central Statistical Office as at September 2019, 9 per cent of T&T's overall imports come from China and 39 per cent from the US and as such our economy can be significantly impacted by a fall in imports from China.

The companies listed on the Trinidad and Tobago Stock Exchange can be divided into a number of categories, which include banking, non-bank finance, conglomerates, prop-

erty, manufacturing, trading and energy. A reduction in global output has the potential to impact the manufacturing sector (access to raw materials and price changes), the trading sector (product availability and price changes) and the energy sector (supply constraints and international price volatility). Also, due to the interconnections and sectoral exposures, the financial sector can also be impacted.

Daily stock prices are determined by market demand and supply. Even though investors in Trinidad and Tobago generally adopt a "buy and hold" approach and therefore share price volatility may be less a product of active trading, stock prices are also impacted to a significant degree by the company's current and expected future profitability, measured by its current and projected earn-

ings per share, which is a company's profit divided by the outstanding shares of its common stock. Therefore, there is a possibility that local share values could be impacted by an actual or projected reduction in the profitability of locally listed corporations caused by global developments.

Mutual funds in Trinidad and Tobago comprise assets currently valued at approximately \$55 billion. As seen in Diagram 3 below, approximately 43 per cent of these assets are placed in foreign investments. Globally, international stock markets have experienced much volatility and significant value adjustments as a result of the COVID-19 pandemic. This means that local mutual funds can potentially experience some reductions in the market values of their foreign investments in the short term. The cut in the Fed's policy interest rates will hopefully stimulate economic activity given the negative outlook. As a result, holders of US-dollar fixed income securities (bonds) will experience an increase in the market value of their securities. Currently, approximately 50 per cent of the foreign investments of mutual funds are held in foreign fixed income securities.

WHAT SHOULD REGISTRANTS DO?

Firstly, registrants must do everything to prevent or limit the spread of the virus. Follow the instructions provided by health officials and practise proper hygiene, limit travel to and from affected countries, self-quarantine if you suspect you have the virus and alert health officials.

Secondly, bearing in mind what was highlighted above, market actors need to be mindful of the potential negative economic and financial impacts of COVID-19 and implement measures to mitigate these risks. Such measures may include:

1. Identification of potential operational disruptions and develop a contingency plan in response to these risks;
2. Implementation or review of the organisation's business continuity plan;
3. Assessment of the possible financial impact on the organisation and develop specific responses; and
4. Disclosure of information to your stake holders on the potential risk and the organisation's risk mitigation plans.

It is only through the careful consideration and adequate planning that we can minimise the negative impact on our local markets. For more information on the securities industry visit us at www.ttsec.org or www.investucatett.com or follow us on Facebook; Twitter; Instagram and YouTube.