NCB Capital Markets Limited

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Market Guide

THIS ISSUE

"Know what you own, and know why you own it." — Peter Lynch

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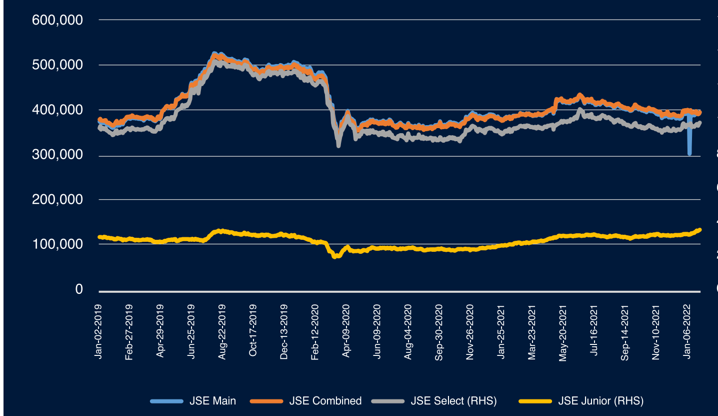
Considering Dividend Stocks for your Portfolio?

The mere mention of the word “dividend” generally excites shareholders. Dividends are the portion of profits and/or retained earnings that a company pays out to its shareholders periodically. As such, they represent an additional stream of income to investors, which can sometimes be significant especially for those needing periodic cash flows from their portfolio. Dividends allow the investor to earn additional income on top of any capital gains they may earn from the stock. Therefore, the inclusion of high dividend-paying stocks in an investor’s portfolio can be beneficial. However, when investing in dividend stocks investors should not just focus on how much dividends the company is paying, but also select companies with strong fundamentals, as a falloff in the stock price (capital losses) could wipe out the value of those dividends.

Investors needing liquidity or a regular income stream from their portfolios can, and often do take significant exposure to stocks that pay attractive dividends. Typically, when making an investment decision, they focus on the company’s fundamentals and key variables, such as the dividend payout ratio and the dividend yield. The dividend payout ratio is the total amount of dividends paid out to shareholders relative to net income, while the dividend yield is a ratio that tells you the percentage of a company’s share price that it pays out in dividends. In most instances, both a higher dividend payout ratio and dividend yield are desired as they mean more income for investors. From a portfolio perspective, dividends are beneficial as the income can be used to buy more of the stock, which would further increase the value of dividend payments in the future. The investor can also use the dividends to fund his or her ongoing expenses. Another benefit of having dividend stocks in a portfolio is that they are less sensitive in times of economic uncertainty. Many companies that pay high dividends are mature and in defensive sectors. Defensive sectors are considered noncyclical and are therefore not as dependent on larger economic cycles. They are more likely to keep their value during periods of economic instability, and they are generally less volatile than the overall market, making them a good fit for more risk-averse investors.

Several stocks on the Jamaica Stock Exchange (JSE) are attractive from a dividend perspective (see Table 1). Carreras Limited for example has a dividend yield of 10.2%. Additionally, it has had

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	407,768.80	+5,093.02	-0.2%
Main Market Index	400,464.81	+4,323.46	+1.1%
Select Index	10,055.79	+130.59	+1.7%
Junior Market Index	3,695.94	+110.19	+7.8%

WINNERS & LOSERS (FOR THE WEEK ENDED JAN 28, 2022)

	$ Change	% Change
CPJ	+$2.54	+15.03%
JETCON	+$0.10	+11.76%
TURKS	-$4.50	-19.57%
SML	-$0.75	-13.04%

Table 1: Dividend Paying Stocks

Companies	Current Dividend Yield	Dividend Payout Ratio 2019	2020	2021
Transjamaican Highway Limited	6.88%	DNP	NM	177.00%
Carreras Limited	10.20%	105.40%	86.70%	90.90%
Indies Pharma Jamaica Limited	3.67%	81.40%	90.28%	91.35%
Supreme Ventures Limited	4.65%	83.20%	80.00%	NA
Sagicor Group Jamaica Limited	2.07%	35.90%	4.10%	NA
Barita Investments Limited	4.04%	23.31%	31.80%	64.67%
Sygnus Credit Investments Limited	3.84%	71.70%	51.46	13.51
Stanley Motta Limited	4.35%	65.39%	16.97%	26.63%
JMMB	2.07%	20.49%	12.40%	6.51%
Mailpac Group Limited	3.35%	DNP	22.56%	38.48%

DNP-Did not pay
NM-Not meaniful (i.e net loss)
NA- No financial results

Sources: Bloomberg and S&P Capital IQ

an average dividend payout ratio of 94.3% over the past three years. Generally, well-established firms like Carreras that have been operating for many years and have low reinvestment needs tend to pay good dividends. Further, under closer examination, the company has good financial health. It has low leverage, meaning it has a low portion of debt relative to equity. It has above required levels of liquidity, which enables it to meet its debt obligations and have funds remaining to pay dividends. Additionally, it has positive cash flow from its operations, which also puts it in a position to make dividend payments. Hence from a dividend perspective, the stock is attractive. There are other stocks with similar characteristics on JSE, which investors could consider. Transjamaican Highway offers an attractive dividend yield of 6.9%, additionally, Indies Pharma has both an attractive dividend yield of 3.7% as well as an average dividend payout ratio of 87.7% over the past three years.

use the dividends to fund his or her ongoing expenses. Another benefit of having dividend stocks in a portfolio is that they are less sensitive in times of economic uncertainty. Many companies that pay high dividends are mature and in defensive sectors. Defensive sectors are considered noncyclical and are therefore not as dependent on larger economic cycles. They are more likely to keep their value during periods of economic instability, and they are generally less volatile than the overall market, making them a good fit for more risk-averse investors.

However, dividend payments aren't set in stone and at times economic conditions, especially extreme economic conditions, do affect the amount that companies can pay. As can be seen in table 1, some stocks had a lower dividend payout ratio in 2020 relative to 2019 due to the impact of the pandemic. These stocks include JMMB, Stanley Motta, Sygnus Credit Investments, Sagicor Group and Surpeme Ventures Limited. Some financial companies suspended dividend payments, following the direction by the Bank of Jamaica (BOJ) to deposit-taking institutions at the onset of the pandemic. This was a capital preservation measure to ensure that the financial system could adequately cope with the impact of the pandemic. Furthermore, other companies reduced dividend payments to preserve cash flows given the uncertainty in the environment or even because the pandemic brought new investment opportunities. Though this would have tempered dividend income to some extent, some companies still paid dividends which further highlights the fact that dividend stocks can provide some return, even in times of crisis.

Overall, dividend-paying stocks provide a way for investors to get paid even during rocky market periods when capital gains are hard to achieve. It can serve as a pathway towards steady returns through dividend compounding, as the payouts can be used to reinvest in the same stock or to meet the investor's ongoing liquidity needs. However, like any other investment instrument, dividend stocks have some level of risk and a higher level of risk than fixed-income securities. Furthermore, dividends are never guaranteed and companies can reduce, halt or even eliminate their dividends based on financial conditions or performance, the economic environment, and their investment plans. As we have seen from the pandemic, regulators can also impact the payment of dividends. Hence, investors should always keep diversification in mind when considering adding dividend stocks to their portfolios. Furthermore, it is important that investors should choose stocks based on fundamentals and not

... "Another benefit of having dividend stocks in a portfolio is that they are less sensitive in times of economic uncertainty".

... "From a portfolio perspective, dividends are beneficial as the income can be used to buy more of the stock, which would further increase the value of dividend payments in the future" solely on dividends, as capital losses owing to poor performance can erase dividend yields.

Foreign Exchange Market

The Jamaican dollar depreciated by 0.04% relative to the US week over week. The depreciation was primarily due to strong demand and weak supply, which prompted the BOJ to intervene in the market with a total of US$70Mn. This has been in line with the trend seen for the past three years, where the JMD depreciates significantly in January. This is driven by increased demand for USD in the market, as retailers restock following a sell-down during the holiday season.

Selling	Close: 21/01/22	Close: 28/01/22	Change
J$/US$1	$ 156.71	$ 156.78	+$0.07
J$/CDN$1	$125.17	$124.52	-$0.65
J$/GBP£1	$211.72	$211.17	-$0.55

Money Market

Demand for liquid assets from Deposit Taking Institutions (DTIs) continued to result in tight JMD money market conditions. As at 27th January, a total of J$58.2B was in the market, with much of it highly concentrated amongst DTIs.

As the BOJ seeks to guide inflation back within the target range of 4.00% - 6.00%, it continues to sterilize the market to contract JMD liquidity. The BOJ had B-FXITT auctions totalling US$70M this week, which reduced JMD liquidity in the market through the sale of USD. The next policy decision announcement date is 18 February 2022.

The average yield from the Bank of Jamaica's (BOJ) competitive auction on its 30-days CD fell marginally to 4.03% relative to 4.06% in the prior week. The highest bid for full allocation was 4.10%. A total of J$10.50B was offered in the auction, while the total bids received were almost twice as much at J$20.48B. Market players were mostly lending overnight, with some brokers offering as high as 4.75% – 5.00%.

For the upcoming quarter, the USD money market will remain stable despite changes in market activity affecting liquidity. Broker market demand for USD remains at 30-days and longer tenured funds, with some brokers offering as high as 4.50% to clients.

GOJ Global Bond Prices

Last week, the upcoming Fed Open Market Committee (FOMC) meeting and expectations around what the Fed Chair would announce were the main factors impacting the market. The general expectation was that the central bank would hold the policy rate steady in the first meeting of the year and that a timeline for liftoff and the pathway for further rate increases would be announced. The expectation is that the Fed will begin raising rates in March and that there will be three subsequent rate hikes thereafter. From the meeting, it was concluded that the Fed is prepared to raise rates "soon", which investors believe will be the next FOMC meeting scheduled for March 15 – 16. This resulted in a risk-off market with bond, treasury and stock prices declining. Of note, tech stocks climbed on Friday after a three-day slide.

Jaman bond prices fell week over week. The Jaman 28s, 39s, and 45s closed with bids of 113.25, 137.00 and 137.00 respectively. On the other hand, US 10-Year Treasury yields increased week over week from 1.762% to 1.787%. On Wednesday the treasury yield rose to a high of 1.869% after the FOMC meeting.

Inflation and the global pandemic still remain a concern. Notably, a new sub-variant of Omicron, which is seemingly more contagious and spreading faster than the original strain, is beginning to wreak havoc globally. It is expected that prices will continue to be subject to volatility.

Ticker	Maturity	Bid	Offer	Offer Yield*
JAMAN	2028	113.500	114.500	4.09%
	2039	137.000	138.000	4.74%
	2045	137.500	138.500	5.06%
NFE	2026		98.50	6.88%

*NB: The rates quoted above are opening indicative levels on the international market and are subject to change as market conditions vary throughout the trading session. Additionally, the prices quoted to clients of NCB Capital Market Limited (NCBCML) are adjusted to reflect the costs associated with completing the transaction on the respective client's behalf.

Local Corporate Bonds

Name	Maturity	Coupn	Price	Yield
GHL	25/9/2025	6.50%	103.90	5.34%
SEPROD	02/7/2031	6.75%	105.00	6.05%

Dates to watch this week

February 2022

MON	TUE	WED	THUR	FRI
31	1	2	3	4
Eurozone Gross Domestic Product (YoY)	Eurozone Unemployment Rate (Dec)	U.S. OPEC Meeting	Bank of England Inflation Report	U.S. Unemployment Rate (Jan)
	Canadian Gross Domestic Product (YoY)			Canadian Unemployment Rate (Jan)

International Local

Stock Recommendations

Ticker	Last Closing Price	Current Recommendation
MAILPAC	$3.25	BUY
WISYNCO	$17.53	HOLD
FTNA	$7.95	HOLD
JBG	$27.23	BUY
JMMBGL	$38.85	BUY
LASF	$3.16	SELL
AFS	$23.87	SELL
JAMT	$4.22	HOLD
JSE	$16.84	HOLD
PROVEN (JMD)	$32.49	BUY
PROVEN (USD)	$0.23	BUY
SCIJMD	$13.06	BUY
LAB	$3.36	HOLD
SJ	$53.18	HOLD
SEP	$60.15	HOLD
QWI	$0.85	HOLD
GK	$102.78	BUY
CCC	$71.07	BUY
KEX	$7.99	HOLD
HONBUN	$9.56	HOLD
SML	$5.00	BUY
MASSY	$2505.28	BUY

Regional News

PAHO Sets Goal Of 70% Vaccination Rate By Mid-2022 (JIS News)

The Pan American Health Organization (PAHO) is looking to facilitate the vaccination of at least 70% of the collective population of Latin American and Caribbean member countries against the coronavirus (COVID-19) by mid-2022. The organization has been able to deliver nearly 100 million doses of vaccines to 33 countries and in recent months' vaccine supplies have increased in the region. However, vaccination statistics show that only four member countries have, to date, vaccinated more than 75% of their populations – Chile, Cuba, Panama, and Paraguay. As of Friday, January 21, 2021, the Pan American Health Organization estimates that 20.3% of Jamaica's population has been fully vaccinated, making it the second least vaccinated jurisdiction in the Caribbean behind Haiti.

On Monday the United States Centers for Disease Control and Prevention escalated the travel risk of Jamaica to Level Four, warning travelers to ensure that they are fully vaccinated before travel. The CDC's latest advisory comes amidst an easing of travel and other COVID-related restrictions, and, as the country experiences its fourth wave of the pandemic. This development will likely deter short-term travel and undermine the recovery in the country's tourism sector.

IMF Cuts 2022 Latin America Growth Forecast; Mexico, Brazil See Big Hits (Reuters)

The International Monetary Fund (IMF) on Tuesday lowered its 2022 economic growth forecasts for Latin America and its two largest economies- Mexico and Brazil, citing inflation, tighter monetary policy and a lower growth estimate for the United States as keys to the downgrades. The IMF reduced its growth expectations for Mexico and Brazil by 1.2 percentage points each to 2.8% and 0.3%, respectively, while the estimate for Latin America and the Caribbean was cut by 0.6 percentage point to 2.4%.

The IMF in its World Economic Outlook for Brazil posited that "the fight against inflation has prompted a strong monetary policy response, which will weigh on domestic demand". The benchmark Selic interest rate, which is the Brazilian federal funds rate, was hiked 725 basis points in less than a year to the current level of 9.25%. Although necessary to contain inflation, the higher rates will result in an increase in the borrowing cost, which will reduce consumer spending and investment, leading to lower economic growth. The IMF also reported that Mexico will be slightly affected by inflation and higher rates, compounded by an expected drop in output growth from the United States, its most important trading partner.

International News

The latest Covid Variant is 1.5 times More Contagious Than Omicron and Already Circulating in Almost Half of U.S. States (CNBC News)

There are already dozens of cases across almost half of the U.S. of a new Covid subvariant that's even more contagious than the already highly transmissible omicron variant. Nearly half of U.S. states have confirmed the presence of BA.2 with at least 127 known cases nationwide as of Friday, according to a global data base that tracks Covid variants. The Centers for Disease Control and Prevention, in a statement Friday, said although BA.2 has increased in proportion to the original omicron strain in some countries, it is currently circulating at a low level in the U.S.

The subvariant is 1.5 times more transmissible than the original omicron strain, referred to by scientists as BA.1, according to Statens Serum Institut, which conducts infectious disease surveillance for Denmark. The new sublineage doesn't appear to further reduce the effectiveness of vaccines against symptomatic infection, according to the U.K. Health Security Agency.

The U.K. Health Security Agency on Friday said BA.2 has a "substantial" growth advantage over the original omicron. The sister variant spread faster than the original omicron in all regions of England where there were enough cases to conduct an analysis, according to the agency. However, a preliminary assessment found that BA.2 doesn't appear to reduce the effectiveness of vaccines any more than the original omicron. A booster dose was 70% effective at preventing symptomatic illness from BA.2 two weeks after receiving the shot, compared with 63% effectiveness for the original omicron strain. The World Health Organization has not labeled BA.2 a variant of concern. However, WHO officials have repeatedly warned that new variants will arise as omicron spreads across the world at an unprecedented rate. Maria Van Kerkhove, the WHO's Covid-19 technical lead, warned on Tuesday that the next Covid will variant be more transmissible.

Britain Warns Russia of Sanctions on Oligarchs if Ukraine is Invaded (Reuters)

Britain urged Russian President Vladimir Putin on Monday to "step back from the brink" over Ukraine, warning that any incursion would trigger sanctions against companies and people with close links to the Kremlin. Kremlin spokesman Dmitry Peskov said the threat of such measures, echoing moves outlined by a senior U.S. official following a Russian troop buildup near Ukraine, would amount to an attack on Russian businesses. Kremlin spokesman Dmitry Peskov called the British warning "very disturbing", and said such statements undermined Britain's investment attractiveness and would backfire by hurting British companies.

"It's not often you see or hear such direct threats to attack business," Peskov said. "An attack by a given country on Russian business implies retaliatory measures, and these measures will be formulated based on our interests if necessary."

Since the fall of the Soviet Union in 1991, London has become the pre-eminent global centre for a vast outflow of money from former Soviet republics. British Prime Minister Boris Johnson is due to travel to Ukraine and will also speak to Putin by telephone.

"What I will say to President Putin, as I've said before, is that I think we really all need to step back from the brink, and I think Russia needs to step back from the brink," Johnson told reporters.

The United States, the European Union and Britain have warned Putin of tough sanctions if Russia attacks Ukraine after gathering tens of thousands of troops near the border.

Accelerating inflation could cause the Federal Reserve to get even more aggressive than economists expect in the way it raises interest rates this year, according to a Goldman Sachs analysis. With the market already expecting four quarter-percentage-point hikes this year, Goldman economist David Mericle said the omicron spread is aggravating price increases and could push the Fed into a faster pace of rate increases. “Our baseline forecast calls for four hikes in March, June, September, and December,” Mericle said in a Saturday note to clients.

“But we see a risk that the [Federal Open Market Committee] will want to take some tightening action at every meeting until the inflation picture changes.” The report comes just a few days ahead of the policymaking group’s two-day meeting starting on Tuesday.

Markets expect no action regarding interest rates following the gathering but do figure the committee will tee up a hike coming in March. If that happens, it will be the first increase in the central bank’s benchmark rate since December 2018. Raising interest rates would be a way to head off spiking inflation, which is running at its highest 12-month pace in nearly 40 years. Mericle said that economic complications from the Covid spread have aggravated imbalances between booming demand and constrained supplies. Secondly, wage growth is continuing to run at high levels, particularly at lower-paying jobs, even though enhanced unemployment benefits have expired and the labor market should have loosened up.

“We see a risk that the FOMC will want to take some tightening action at every meeting until that picture changes,” Mericle wrote. “This raises the possibility of a hike or an earlier balance sheet announcement in May, and of more than four hikes this year.”

UK Economy Finally Bigger Than Before Pandemic in November (Reuters)

China’s zero-Covid policy and broader economic circumstances could be weighing on currencies that should be reaping the benefits of higher commodity prices, strategists at BMO Capital Markets have suggested. Although commodity prices have soared so far in 2022, with Brent crude on Wednesday notching its highest price since October 2014, commodity-based currencies such as the Norwegian krone and Australian, New Zealand and Canadian dollars have been relatively subdued.

As of Friday morning in Europe, the Aussie dollar was down 0.9% and the kiwi by 1.45% against the greenback year-to-date. The Canadian dollar was also down 0.9% year-to-date, while the U.S. dollar had gained 0.55% against the Norwegian krone. “What we would typically expect to see is the New Zealand dollar rallying alongside agricultural commodity prices and Aussie rallying alongside base metals, but thus far this year, Aussie and Kiwi are both down — get this — against the euro and the yen,” Greg Anderson, BMO’s global head of FX strategy, said in a podcast last week.

Anderson noted that the central banks in these commodity-driven economies have been less hawkish than the U.S. Federal Reserve so far this year, but suggested this only provides a partial explanation for this divergence between commodity prices and commodity currencies. European Head of FX Strategy Stephen Gallo suggested that ripple effects from China could be feeding into the performance of developed market commodity-based currencies.

“We know China is implementing its zero-Covid strategy. That has implications for both supply and demand, but it could conceivably be eating into China’s demand for certain raw materials,” Gallo said.

Gallo noted that international trade data out of China shows evidence of slower nominal growth rates of certain commodity imports, while import growth has been more subdued than export growth. “Is that growth backdrop in China transmitting through to commodity-based currencies? Yep, possibly it is. Might China’s economic backdrop contribute to a deceleration in global inflation pressures later this year? Possibly, but we don’t know for sure,” he added.

Over the medium term, Gallo suggested that the Chinese government’s Made in China 2025 initiative, which aims to reduce China’s reliance on foreign tech imports and invest heavily in domestic innovation, could permanently alter the way that Chinese demand influences global currencies.

NCB Capital Markets Ltd (formerly Edward Gayle and Co.) established in 1968 is Jamaica's oldest stockbrokerage. The company became a part of the National Commercial Bank (NCB) Group in 1994 and a fully owned subsidiary in October 2002. In December 2002, the then Edward Gayle and Co. was merged with another NCB subsidiary, NCB Investments. The products distributed by this combined subsidiary cover the traditional money market product offerings (J$ and US$ Repos), primary dealer services, stock brokerage and investment advisory services. Edward Gayle was renamed NCB Capital Markets Ltd. in October 2003.

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