CAPITAL MARKETS
LIMITED

February 14, 2022

Market Guide

THIS ISSUE

"“Successful investing takes time, discipline, and patience. No matter how great the talent or effort, some things just take time: You can’t produce a baby in one month by getting nine women pregnant.” – Warren Buffet

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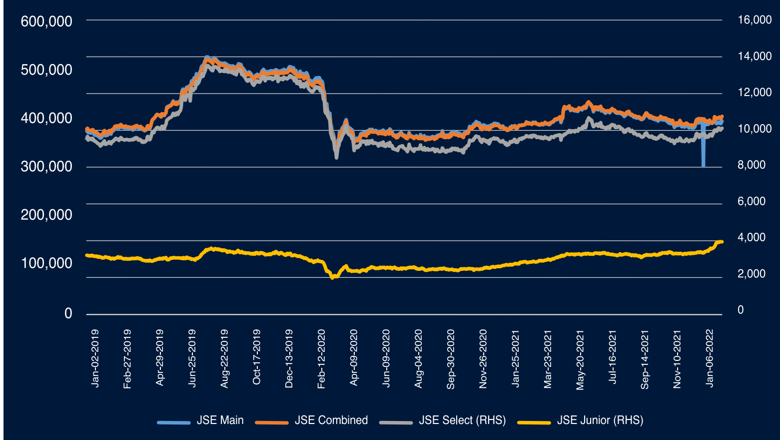
Maximizing Returns and Minimizing Risks in your Investment Portfolio

While economic conditions have begun to improve locally, buoyed by robust growth in our major trading partners, ongoing recovery in the tourism sector and strong remittance flows, the recovery in financial markets have been uneven across asset classes. Investors have generally remained cautious, particularly those that have experienced declines in the value of their investments. Risk aversion is still high fed, in part, by uncertainty about the future as the pandemic continues to evolve. This has led to periods of increased volatility in financial markets, especially for riskier assets such as stocks. This article attempts to edify current and potential investors on a few strategies to utilize when investing to maximize returns and minimize risks.

The stock prices of many companies plunged amidst the uncertainty brought on by the pandemic. Recurring COVID-19 outbreaks have disrupted the economy as companies have had to adjust to making provisions for curfews and restrictions on movement, workplace outbreaks and other disruptions to their operations. The containment measures that were implemented, negatively impacted many industries, especially those requiring face to face interactions. Among the hardest hit sectors were entertainment, transportation and tourism. There were also pass through effects to the performance of some companies in other sectors, whose businesses were heavily dependent on tourism. Financial sector stocks also took a hit because of the adverse impact the pandemic had on asset prices, disposable incomes, cash flows and borrowers' ability to service debt. Financial institutions, especially banks, have broad exposure to most sectors of the economy and would have felt the much of the effects of the economic downturn. However, there has been a gradual economic recovery, which is expected to continue and help to fuel improved corporate performance and investor sentiments and should positively impact stock demand and prices.

That being said, the pandemic is still evolving and persistent supply chain challenges are driving inflation and in turn causing the BOJ to tighten monetary policy, which is creating uncertainty in the markets. Supply chain issues have led to higher input costs and lower margins for some companies, while rising interest rates will raise borrowing costs, delay some planned investments, and lower

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	410,292.37	+3,401.96	+0.84%
Main Market Index	400,154.97	3,352.95	+0.84%
Select Index	10,285.65	+21.83	+0.21%
Junior Market Index	4,015.44	+29.57	+0.74%

WINNERS & LOSERS (FOR THE WEEK ENDED FEB 7, 2022)

	$ Change	% Change
138SL	+$3.03	+70.63%
SOS	+$1.79	+29.93%
FTNA	-$1.90	-15.78%
EXPRESS	-$0.89	-13.59%

MARKET OVERVIEW

Last week, six JSE indices advanced, namely, the Combined Index, the Main Index, the Junior Market Index, the All Jamaican Composite Index, the Select Index, and the Manufacturing & Distribution Index. However, the USD Equities, Cross Listed and Financial Indices all declined. Last week there was a number of advancers as investors responded to positive earnings releases. Companies like Tropical Battery, FESCO, CPJ amongst others, saw an increase in prices due to impressive results. This increase in prices would have influenced some of the market indices' advancement over the last week. That being said, as companies continue to release earnings in the following weeks, we expect to see further increases in stock prices in the coming weeks, especially for companies posting strong results. The main advancers were 138 Student Living Jamaica Limited, which gained $3.03 (70.6%) to close at $7.32, and Stationery and Office Supplies Limited, which gained $1.79 (29.9%) to close at $7.77.

some stock valuations. However, while investors should take care when investing, they should not be so risk averse as to miss out on the opportunities in the market. The stock market still provides opportunities to improve returns with the right strategies to mitigate the inherent risks of the pandemic. Here are some strategies to consider

- Select companies with strong fundamentals: Don't try to time the market by monitoring the price of stocks and their response to temporary changes in the market such as pandemic related news that are not expected to change the fundamental performance of the company. Instead focus on the changes in underlying fundamentals of the company. This includes its competitive position, market share, cash generation ability, return on assets and investor's equity, management composition and expertise, as well as its industry outlook and growth potential.

- Invest in Value Stocks: Following the falloff in stock prices in 2020, there are stocks with strong fundamentals that are trading below their fair value. This presents opportunities for investors to acquire fundamentally solid stocks at reduced price. Investors can therefore reap good returns as they appreciate aided by the recovery. Furthermore, these value stocks will also help investors to reduce the negative impact of the current rising inflation and interest rates on portfolio returns. Value stocks are usually mature companies, with strong market share, and pricing power, and that offer a highly demanded product. Therefore, they will be better able to administer increases in final goods prices that are unlikely to reduce customer demand or their market share, and limit the impact on profit margins. Additionally, their income/cash flow is stable unlike growth stocks that are still making significant investments to boost the growth of their future income/cash flow. The rising interest rates and its effect of raising discount rates will cause greater discounting of the more distant future cash flows of a growth stock than value stock, thereby lowering growth stock valuations.

- Invest for the long-term: The old adage, which states that "time in the market is better than timing the market", is still relevant today. Successful investing involves more than just picking a few shares, which you hope will perform well. It's also about holding your nerve, and focusing on the long-term, as markets go through cycles of ups and downs, which an investor is better able to benefit from by staying invested through the troughs to get to the peaks. Therefore, invest in stocks with strong fundamentals that are trading below their fair value, and hold these value stocks for the long term. Investing with a long-term horizon can afford you the resolve to weather the stock market volatility posed by a pandemic and earn higher returns after the recovery.

- Portfolio diversification: Another key strategy to consider relates to risk management through portfolio diversification. Portfolio diversification refers to choosing different classes of assets with the objective of

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maximizing the returns and minimizing the risk profile. This will lower the volatility of a portfolio because not all categories, industries, or stocks move together or in other words, reach to events in the same way. Therefore, having a balanced portfolio of stocks in different industries decreases the impact of market events on a portfolio when the risk is distributed.

The pandemic is still unfolding and present ongoing risks to financial markets. However, investors should be cognizant that the impact of the volatility is twofold. It presents investment risk, yet when correctly harnessed, it has the potential to generate favourable rates of return on investments. The key to weathering the uncertainty is to employ the strategies outlined above to reduce the risks, including those from factors such as elevated inflation and rising interest rates, on your investment portfolio.

Higher Energy Prices Could Drive Up Producer and Consumer Prices

Having plummeted to record lows in 2020, due to the sharp downturn in global economic activity caused by the pandemic, energy prices saw a strong rebound last year and prices are expected to remain elevated in 2022. The pandemic caused a downturn in travel and production that sharply reduced the demand for energy products that translated into lower oil, gas and liquefied natural gas (LNG) prices. However, the global economic recovery which is underway has led to a sharp rise in energy prices . This rebound is anticipated to continue in 2022 as global demand continues to recover. For 2022, the EIA expects oil prices will remain near current levels, averaging $70/b and Henry Hub spot prices for LNG are expected to average $3.79/MMBtu for 2022, only marginally less than the average of $3.91/MMBtu. However, some are expecting oil prices to rise to new highs with Brent prices reaching a high of $90 per barrel in the first quarter of 2022, $95 in the second quarter and $100 per barrel in the last two quarters . Rising geopolitical tensions as Russia sets to invade the Ukraine, could also push oil prices higher.

While energy exporters, such as Guyana and Trinidad, stand to benefit from higher energy prices this year, oil-importing countries, such as Jamaica, are likely to feel the pinch through higher import bills and higher consumer and producer prices. For both importing and exporting countries, higher energy prices will translate to higher fuel costs for households and businesses as it will drive up everything from transportation to electricity costs. Notably, when oil prices increase, so do electricity costs as JPS' rate structure consists of a fuel charge, which is adjusted monthly, making the impact immediate. At the same time, oil-exporting economies are expected to face prices that are relatively more attractive due to their access to and availability of the resource at home. That being said, the increased cost to businesses will likely be passed on to consumers through higher prices for goods and services, which could stoke inflation causing Central Banks to be more aggressive in contracting monetary policy by raising interest rates to contain prices and anchor inflation expectations. The local PPI for the Manufacturing industry, which has a 'Refined Petroleum Products' component, has already been trending upwards and could continue to climb as, despite the trend of a global transition to the cheaper renewable energy alternative, many local companies still rely on non-renewables to power the different aspects of their business. However, manufacturers and other companies that have begun the transition will benefit from limited exposure to the increased costs. Additionally, increased energy prices may lead to a deterioration in the current account balance for oil-importing countries such as Jamaica as it raises its import bills, in the face of low hard currency inflows due in part to the hard hit to the tourism sector by COVID-19. In contrast, oil-exporting economies such as Trinidad & Tobago stand to benefit from higher government revenues, increased export income, which will bolster earnings for companies in the energy sector such as Trinidad Petroleum Holdings Ltd, and contribute to an anticipated economic growth of 5.4% and 48.7% for Trinidad and Guyana, respectively for 2022.

Locally, higher oil and LNG prices in 2022 will have an impact on the input costs of some companies listed on the Jamaica Stock Exchange (JSE). As energy prices increase, local companies that rely heavily on imported energy products directly or on electricity to conduct their business will face an increase in their direct costs. For example, FESCO, whose core business is the marketing and distribution of petroleum products, reported an 84.6% or $3.56Bn increase in its direct costs for the nine months ended December 2021, due in part to an increase in the ex refinery price of gasoline. Quarterly financial performances will continue to be impacted by higher energy prices which will affect product and fuel costs for other companies such as Knutsford Express (KEX), which saw an increase in its expenses for its six months ended November 2021 of 39.8%. Furthermore, manufacturing companies that use a significant amount of electricity are expected to face higher utility costs from the increased prices.

Dates to watch this week

February 2022

MON	TUE	WED	THUR	FRI
14	15	16	17	18
	UK's Unemployment Rate (Dec)	UK's Core CPI (YoY) (Jan)		BOJ's Policy Rate Decision
	EU's GDP (YoY) (Q4)	Canada's Core CPI (YoY) (Jan)		
	Inflation Rate (Jan)			

International Local

This may encourage more companies to embrace the green revolution and invest more in renewable sources of energy such as solar energy to drive cost savings.

Higher energy prices could be a significant driver of the Consumer Price Index (CPI), and consequently domestic interest rates this year. Companies that continue to face increasing direct costs due, inter alia, to rising energy prices, will seek to pass these costs to consumers. This could drive an already elevated inflation rate, which continues to remain above the Bank of Jamaica's (BOJ) target range at a point-to-point rate of 7.3% for December 2021. The BOJ is set to speak on its policy rate on Friday, February 18, 2022. Higher interest rates will result in a higher cost of borrowing, which could limit investment and economic activity. The higher energy prices will also negatively impact the current account balance. Notwithstanding, these increased cost pressures may force entities to hasten their transition to renewable energy.

Foreign Exchange Market

The Jamaican dollar depreciated by 0.19% relative to the USD, week over week, with the USD selling rate moving from J$157.63 on February 4, 2022, to J$157.94 on February 11, 2022. The depreciation continues to be driven by strong demand and weak supply.

Selling	Close: 04/02/22	Close: 11/02/22	Change
J$/US$1	$157.63	$ 157.94	-$0.31
J$/CDN$1	$124.11	$124.65	-$0.54
J$/GBP£1	$214.01	$210.94	+$3.07

Money Market

JMD money market conditions remained tight, given the concentration of liquidity amongst DTIs, as the demand for liquid assists remains high. Market conditions are expected to remain tight in the coming months as the BOJ seeks to guide inflation back within the target range of 4.00% - 6.00%.

As at December 2021 the inflation rate reduced from 7.80% to 7.30%. Statin is set to release the inflation rate for January on February 15, 2022. If the rate continues to trend above the target, it is likely that the central bank will continue increase rates to drive down inflation. The next policy decision announcement date is February 18, 2022. Additionally, we expect further GOJ auctions and/or B-FXITT actions in the coming weeks as it continues to sterilize the market to contract JMD liquidity. This is seen as BOJ offered a two-year CD totaling J$20Bn, while total bids received were J$27.157Bn. Moreover, with tax season fast approaching, JMD liquidity is expected to decline, which will add to tight money market conditions.

Last week, the average yield from the Bank of Jamaica's (BOJ) competitive auction on its 30-days CD decreased to 4.02% relative to 4.07% in the prior week. The highest bid for full allocation was 4.10%. A total of J$10.5Bn was offered in the auction, while the total bids received were J$18.7Bn. Market players were mostly lending overnight, with some brokers offering as high as 4.75% – 5.00%.

Global Bond Prices

The US treasury yields continue to climb as traders wagered that the Federal Reserve will raise policy rates by 175 basis points by the end of the year, even as officials pushed back against expectations of a super-sized hike next month . During the week, higher than expected inflation numbers were reported contrary to market expectations. The consumer price index for all items rose 0.6% in January, driving up annual inflation by 7.5% representing the highest reading since February 1982. This resulted in bond prices declining and treasury yields climbing. US 10-Year Treasury yields increased week over week from 1.914% to 1.918%, however, it experienced a high of 2.01% on Friday, for the first time since 2019 on Thursday. The yield on the policy-sensitive two-year Treasury note doubled its rise for the Thursday session and climbed more than 21 basis points to end the day at 1.58%, the largest one-day rise since 2009. We expect this volatility to continue. Although the Fed is yet to act, it has signaled its intention is to raise rates, consequently bond prices are expected to remain low and yields are expected to remain at higher levels.

Bonds	Indicative Offer 4-Feb	Bid Yield	Indicative Offer 11-Feb	Bid Yield
TRAJAM 2036	98.000	6.05%	97.500	6.13%
PRIOBZ 2026	98.74	6.46%	98.81	6.44%
ALSEA 2026	103.36	6.92%	103.00	7.00%
NFE 2026	95.40	7.69%	94.22	8.02%
Dom Rep 2030	98.000	4.81%	96.150	5.09%
Dom Rep 2032	97.750	5.15%	95.700	5.41%
Dom Rep 2041	94.150	5.81%	91.250	6.08%
Dom Rep 2044	112.150	6.42%	109.550	6.62%
Dom Rep 2045	104.800	6.45%	102.250	6.66%

The week-over-week decline in emerging market bonds (see table above), with the exception of PRIOBZ, reflects the rise in the US treasury 10-year. The TRAJAM 2026, ALSEA 2026, and NFE 2026 declined by 0.5%, 0.35%, and 1.2% respectively, while the PRIOBZ 2026 increased by 0.07%. It is expected that prices will continue to be subject to volatility as rate hike expectations continue to influence treasury yields.

Dom Rep bond prices decreased week over week, with the 30s, 32s, 41s, 44s, and 45sclosing with bids of 96.15, 95.70, 91.25, 109.55, and 102.25 respectively. The Government of Dom Rep announced that it is repurchasing its 7% 2023s, 5.875% 2024s, and 6.6% 2024s. This should be in anticipation of new issues/re-tap skewed towards the 10 years and 30 years.

GOJ Globals

Jaman bond prices also fell week over week. The Jaman 28s, 39s, and 45s closed with bids of 113.10, 134.45, and 137.45 respectively.

Ticker	Maturity	Bid	Offer	Offer Yield*
JAMAN	2028	113.00	114.00	4.12%
	2039	137.25	138.25	4.71%
	2045	137.00	138.00	5.08%

*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	2026	7.00%	105.00	5.54%
JBG	2028	6.75%	104.20	5.89%
Seprod	2024	7.25%	103.55	5.78%

Stock Recommendations

Ticker	Last Closing Price	Current Recommendation
MAILPAC	$3.13	BUY
WISYNCO	$19.74	HOLD
FTNA	$10.14	HOLD
JBG	$29.74	BUY
JMMBGL	$41.99	BUY
LASF	$3.70	SELL
AFS	$20.57	SELL
JAMT	$3.93	HOLD
JSE	$17.37	HOLD
PROVEN (JMD)	$33.69	BUY
PROVEN (USD)	$0.23	BUY
SCIJMD	$15.16	BUY
LAB	$3.89	HOLD
SJ	$53.89	HOLD
SEP	%62.07	HOLD
SGJ	$36.74	HOLD
QWI	$0.99	HOLD
GK	$104.99	BUY
CCC	$82.35	BUY
KEX	$7.92	HOLD

Regional News

TT Central Bank: Higher inflation a challenge (TT Central Bank)

The Central Bank of Trinidad and Tobago warned yesterday that higher prices, particularly imported inflation, will pose a challenge to the economy in 2022. In outlining the outlook for this year in its January Economic Bulletin, the Central Bank said: 'The international shortage of shipping containers, higher shipping costs (freight and insurance) are expected to persist into the early months of 2022, alongside some pressure on prices of international agricultural commodities. The widely expected rise in interest rates in the US and other areas will also feature in the calibration of domestic monetary policy and affect the public sector debt dynamics. Following the prolonged lockdown period in 2021, Trinidad and Tobago is expected to grow in 2022. Growth is expected to be fairly broad-based. On the energy front, higher natural gas production is expected, as several projects being undertaken by major players are anticipated to come on stream in the first half of 2022.

Full-year production in non-energy sectors will also surpass 2021 levels once there are no major reversals towards significant restrictions on mobility. At the same time, the nature of businesses will evolve in the direction of more electronic transactions and lower onsite activities, posing a challenge to the survival of some firms that are slow to adapt. Higher prices, particularly imported inflation, will however pose a challenge. The international shortage of shipping containers, higher shipping costs (freight and insurance) are expected to persist into the early months of 2022, alongside some pressure on prices of international agricultural commodities. Energy commodity prices are anticipated to remain relatively firm over the short to medium term. Though crude oil prices lost momentum in late 2021, demand will likely be driven by the continued increase in global economic activity. Colder temperatures during the winter months are also expected to bolster prices. Crude oil production from the Organization of Petroleum Exporting Countries and associated entities (OPEC+) is expected to increase by 400,000 barrels per day in January 2022, which should aid in closing some of the gaps between demand and supply but may exert some downward pressure on prices.

The Bahamian government gives priority to reduction in the foreign debt ratio (The Tribune)

The Bahamian government is giving priority to reducing its foreign currency debt to 30% of total liabilities in a bid to reduce pressure on the currency peg and external reserves. The Government will increasingly look for domestic (Bahamian dollar) borrowing opportunities to finance its annual fiscal deficit and debt rollovers as it seeks to lower a foreign currency burden that currently accounts for 44.9% of its national debt. Foreign currency borrowings are targeted at financing government's capital expenditures, refinancing the global bond issuances, and achieving policy action reforms designed to promote private sector-led growth, secure improvements in the policy, legal, and institutional framework for state-owned entities, public-private partnerships, fiscal management, the business and investment climate, and build resilience to climate change, including emergency and disaster response.

To achieve this goal, the Government is planning to adopt a financing/borrowing strategy that reduces the risk associated with rising interest rates, and therefore debt servicing costs, by borrowing at fixed interest rates. It also plans to extend the time at which its various debt principal issues mature. An increase in the foreign currency debt has led to unwelcomed side-effects being experienced in the Bahamas. Reducing its foreign debt would lead to improvement in the country's capacity to invest in the future of its economy, by limiting the amount of revenue that goes to servicing these loans, thereby increasing long-term economic growth.

The forestry sector earns US$31M (Guyana Chronicles)

Guyana's forestry sector managed to rake in export earnings of more than US$31Mn in 2021, according to figures provided by the Minister of Natural Resources, Vickram Bharrat. The exported products included logs, lumber, and round wood, derived from 377,838 cubic metres of production. The production numbers represent a 16% increase when compared to the previous year. Although securing notable revenues, the forestry sector still has much more scope for development, particularly in the area of added value. Guyana is the producer of world-class timber, yet much more can be done to boost manufacturing, particularly in the area of furniture-making.

Even amid a global pandemic and months of devastating and unprecedented floods, the sector is well on its way to making a drastic turnaround, especially with the governing body, the Guyana Forestry Commission (GFC) being brought back from the brink of bankruptcy, with a monthly income revenue of $90Mn, a notable increase when compared to a pre-pandemic period in 2019, when the commission's revenue collection stood at $70Mn. The Minister explains that while oil is lucrative and as a country, they stand to benefit financially from oil and gas, what creates the majority of employment is the traditional productive sectors, especially agriculture, logging, mining. The growth that Guyana has experienced from its forestry sector will present an opportunity for increased export earnings, job creation, and economic growth on a whole for the nation.

International News

Fed Rush to Catch Up on Inflation Raises U.S. Recession Risks (Bloomberg)

The Federal Reserve faces a growing risk of making a policy mistake, tipping the economy into a recession, as it confronts decades-high inflation that's proving more persistent and broad-based than policy makers expected. After holding interest rates near zero since the start of the pandemic, Fed Chair Jerome Powell and his colleagues are poised to embark on a credit-tightening campaign next month, with some economists forecasting an outsized half percentage-point increase to start the cycle.

The danger is that, with price gains far above its 2% target, the Fed will be pressured into overdoing it -- pushing the economy into a downturn by rapidly raising borrowing costs for consumers and companies, and cratering financial markets that have grown used to its ultra-expansionary monetary policy. At the same time, fiscal policy also will be acting as a damper on growth. As prices for everything from gasoline to rent have surged, support has waned for President Joe Biden's push to reshape the economy by strengthening social investments, with his poll numbers sliding. Economists from both sides of the political spectrum see rising risks of a recession. Former Fed Governor Lawrence Lindsey, who served in the White House under Republican President George W. Bush, puts the odds of a downturn by the end of next year at above 50% -- triggered by a meltdown on Wall Street.

U.S. Consumer Sentiment Falls to Fresh Decade Low on Inflation (Bloomberg)

U.S. consumer sentiment declined further in early February to a fresh decade low as views about personal finances deteriorated due to intensifying inflation concerns. The University of Michigan's sentiment index dropped to 61.7, the lowest since October 2011, from 67.2 in January, data released Friday showed. The figure trailed the median estimate of 67 in a Bloomberg survey of economists. The report's gauge of current conditions declined to 68.5, the weakest since 2011. A measure of future expectations decreased to 57.4, also the lowest in more than a decade.

Consumers expect an inflation rate of 5% over the next year, up from last month's reading of 4.9% and the highest since 2008. They expect prices will rise at an annual rate of 3.1% over the next five to 10 years, unchanged from a month earlier. The government's consumer price index rose 7.5% in January, the fastest annual pace since 1982, as costs for food, housing and electricity jumped, a report showed Thursday. As a result, 26% of respondents expected their financial prospects to worsen. That's the highest share since 1980 and an indication of the toll faster inflation is taking on household balance sheets.