CAPITAL MARKETS
LIMITED

February 27, 2023

Market Guide

THIS ISSUE

Dividend: A dividend is a sum of money distributed by a company to its shareholders from its profits (or reserves), in the form of cash or additional stocks.

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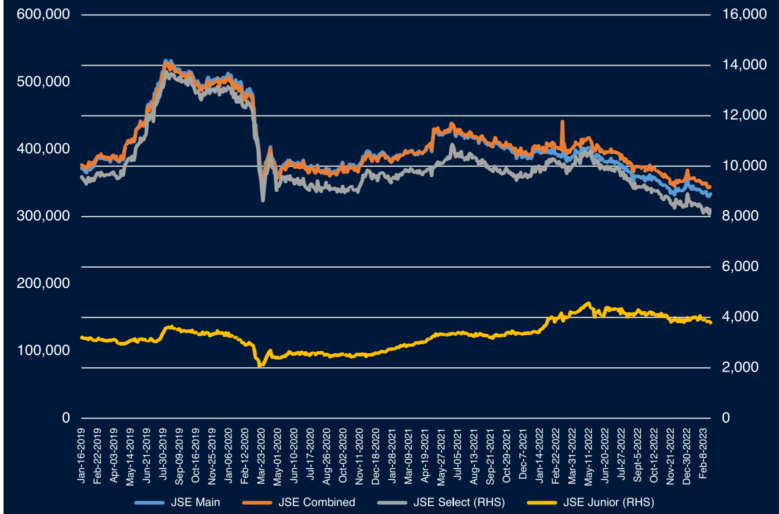
What's Driving Local Stock Market Decline Year to Date?

After 2 years of stock market decline, investors might have been hoping that 2023 would be a better year even for stocks. The easing inflation pressures and slowing of the aggressive rate hikes, which depressed stock valuations last year, and the strong rebound in economic and business activities would certainly have supported this view. This narrative is also being bolstered by recent economic releases that have pointed towards further ease in inflation due to declining commodity prices and a reduction in supply chain pressures. These developments, should in theory lead to a rise in investor confidence and an increase in the demand for stocks. The 8.1% inflation rate for January 2023 has been the lowest reading since the December 2021 outturn of 7.3%. Additionally, the noticeable deceleration in inflation rate and expectations for key external drivers of headline inflation, such as grains, fuel, and shipping prices, continue to decline. Further, with unemployment at relatively low levels, disposable income should be higher which bodes well for demand of goods and services. These factors have led the BOJ to pause its rate hikes for the last 2 consecutive months. While fears of a global recession exist, multiple forecasts from local and international bodies still point to economic expansion in Jamaica in 2023, though at a slower pace relative to 2022 as base effects related to the pandemic fade. Furthermore, growth in the US economy, our major trading partner, remains positive evidenced by its 2.7% growth for Q4 2022 and jobless claims remain lower than expected. These factors certainly augur well for the stock market; however, the market seemingly remains in the doldrums. In fact, since the start of the year all major indices have lost ground, including the Junior Market Index, which tracks high-growth companies. The Junior market index had grown by 16.3% last year, even while all other indices declined. This begs the question-- what is driving the all-round decline in stock market performance? How should investors position their stock portfolio in 2023 amid the prevailing challenges?

While inflation risks are subsiding, and the BOJ has paused its rate hikes, inflation and interest rates will remain elevated in the near-term and are much higher than their historical lows. High interest rates will sustain the elevated required return on stocks. Simply put, higher market interest rates increase the return required by investors on stocks given their level of inherent risk relative to money market instruments. As a result, this is adversely affecting the general investor sentiment toward the stock market,

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	345,827.22	0.73%	-6.2%
Main Market Index	333,321.48	0.93%	-6.3%
Select Index	8,276.16	0.55%	-7.0%
Junior Market Index	3,801.46	-1.01%	-4.6%

WINNERS & LOSERS (FOR THE WEEK ENDED FEB 24, 2023)

	$ Change	% Change
JPS7	+$8.76	+103.06%
CAC	+$1.59	+23.56%
ISP	-$7.44	-26.64%
ELITE	-$0.60	-19.35%

MARKET OVERVIEW

Trading activity for the week ended February 24, 2023, resulted in all major indices advancing except the JSE USD Equities Index, the Junior Market Index and the JSE Cross Listed Index. This is a noteworthy disruption of the trend since the start of the year, which has seen the majority of the JSE indices declining each week. This turn around could be reflective of improved market sentiments on the back of the BOJ's decision to not raise the policy rate, which was announced last week. The JSE All Jamaican Composite Index and the JSE Manufacturing & Distribution Index saw the most significant advances of 1.33% and 1.24% respectively. The 26.64% falloff in the share price of ISP Finance Services Ltd and the 19.35% decline in that of Elite Diagnostic Ltd week over week, the two major decliners last week, would have contributed to the fall in the Junior Market Index. Elite's fall off could be reflecting its financial release in the prior week where it was noted that the company made a $7.4 million net loss for the December quarter compared to a profit of $7.3 million a year earlier. Management has indicated that the company continued to be negatively affected by the extended downtime of major revenue-earning machines during the quarter under review. The main advancing stocks were JPS Ltd. 7.0% (103.06%) and CAC (23.56%).

Overall Market activity last week resulted from trading in 124 stocks of which 57 advanced, 56 declined and 11 traded firm. Market volume amounted to 107,446,989 units valued at over $885,899,482.69. The overall market volume leaders were Fosrich Company Ltd with 30,309,648 units (28.05%), Wigton Windfarm Ltd. Ordinary shares with 20,925,669 units (19.36%) and Massy Holdings Ltd. with 4,489,365 units (4.15 %).

especially as short-term and other fixed-income instruments continue to offer higher returns. Investors may therefore be taking advantage of these higher money market rates and this may be contributing to the underperformance of the stock market year to date. The rates for money market instruments are still attractive relative to historic levels. Furthermore, money market instruments are less risky and more liquid versus stocks, which make them highly attractive in this environment. In fact, based on BOJ CD data there has been an increase in total value of allocated bids for CD's of 124% year over year as at February 21, 2023. This suggests demand for these risk free instruments has increased due to their higher returns.

Additionally, with BOJ aggressively tightening monetary policy since September 2021, causing higher rates for money market instruments, money market liquidity levels are down by 54.4% year over year based on aggregate current account balances for commercial banks for the month of January. Tighter liquidity conditions would have also impacted the ability of large institutional investors, including dealers, to invest in the stock market. These factors have reduced stock market activity with stock volumes traded on the JSE Main Market and Junior Market down 28.6% and 14.8% year over year, respectively. This suggests that low market liquidity might be affecting the demand for stock market investment. There simply isn't enough money around to invest, as in the years before the high inflation and pandemic.

Beyond the market liquidity and interest rates, recent earnings announcements and low growth expectations may also be contributing to the lackluster performance of the market. Of the 61 earnings releases since the start of the year 44% of companies have reported a decline in their respective net profits. Further, of the 61 releases 36 were Junior Market companies, and 15 or 42% of them reported a decline in their net earnings. This along with lower growth expectations for corporate earnings in the coming months and recessionary fears for Jamaica's main trading partners have adversely affected demand for such stocks therefore depressing their prices.

Importantly, one new challenge that the market is facing relative to last year, is the increase in operational risks (Fraud) across the financial sector in recent months which has lowered investor confidence and therefore participation in the market. The severity of these cases and frequency over a short span of time, have adversely impacted investors' risk appetite particularly retail investors, which have had negative consequences on their sentiments towards investing and hence the stock market.

How to position your portfolio in 2023?

Despite some of the negative forces affecting the market, there are always opportunities to enter into stocks, with sound fundamentals and favourable growth prospects, that will yield medium to long term returns. As said by Warren Buffet, "A market downturn doesn't bother us. It is an opportunity to increase ownership of great companies with great management at good prices." We advocate positioning your stock portfolio among the following areas: defensive sector stocks[1], sectors with growth opportunities and positive outlooks, and dividend-paying stocks, as well as employing a sector diversification strategy. Sectors such as Entertainment, Tourism and Manufacturing are all expected to perform positively in 2023. The tourism and entertainment sectors are still benefitting from the removal of COVID-19 restrictions which have fostered the movement of people and social gatherings once again. By the end of 2022, the sector had recovered roughly 97% of 2019's stopover visitor numbers. Growth in the sector is expected to have spillover effects on other sectors such as manufacturing which bodes well for earnings and profitability. Additionally, the decline in commodity prices (oil, wheat, grains etc.) from the highs witnessed last year also bodes well for lower input costs

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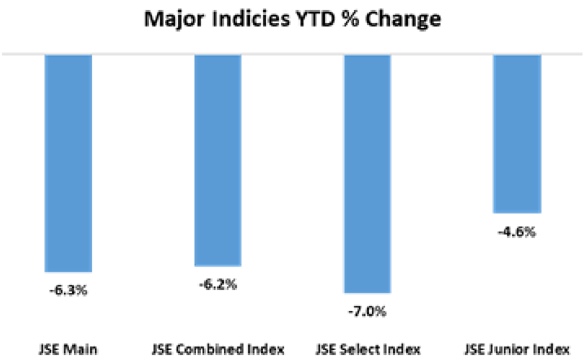
1 "Defensive sectors" are parts of the economy that historically have held up well in economic downturns. Examples of defensive sectors include Utilities, Health Care, and Consumer Staples, because the products they offer are always important both in good and bad times

for manufacturers, which is good from a profitability standpoint. While you invest in defensive sectors such as health care and consumer staples, and dividend-paying stocks to increase the resilience of your portfolio from recession risks, you can simultaneously diversify your investments with stocks in sectors with positive outlooks that can provide the capital gains that you may be in search of.



Source: Jamaica Stock Exchange

Foreign Exchange Market

The Jamaican dollar appreciated by 0.14% relative to the USD, week over week, with the USD selling rate moving from J$154.98 on February 17th 2023, to J$154.76 on February 24th 2023. The appreciation was driven by the tax season's influence on end user activity as they closed out USD long positions to enter long JMD positions.

Selling	Close: 17/02/23	Close: 24/01/23	Change
J$/US$1	$154.98	$154.76	-$0.22
J$/CDN$1	$115.20	$115.03	-$0.17
J$/GBP£1	$184.63	$185.99	+$1.36

Global Bond Prices

The Fed is expected to continue implementing rate hikes amidst the most recent jobless claims and personal consumption expenditures (PCE) outturn. According to the claims report, initial jobless claims for the week ending February 18 declined by 3,000 to 192,000 (consensus 200,000), while continuing jobless claims for the week ending February 11 decreased by 37,000 to 1.654 million. The key takeaway from the report is that the remarkably low level of initial claims will contribute to expectations for another strong gain in nonfarm payrolls and the Fed sticking to tightening. As it relates to inflation news, the PCE rose 0.6% in January, a tenth of a percentage point more than the 0.5% gain expected. Year-over-year, headline inflation increased 5.4%, surpassing the 5.0% annual increase expected and following a 5.3% rise in December. Excluding food and energy, the core PCE rose 0.6% in January, surpassing the 0.4% gain expected. Year-over-year, core inflation increased 4.7%, up from the 4.6% annual increase last month. This further supports the anticipation of a continued tight monetary policy stance by the Fed, so as to bring inflation down.

Despite a downward revision of Q4's GDP, the Fed president has said that the economy is outperforming expectations and believes that the risk of recession is overpriced. St. Louis Fed President Bullard (non-Federal Open Market Committee (FOMC) voter) stated that the U.S. economy has been stronger than the Fed thought it would be and that he thinks the market may be overpricing the risk of recession in the second half of 2023. He said this after sharing his view that the fed funds rate, which is currently at 4.50% - 4.75%, should be at 5.375% before the Fed pauses to assess things. This opinion comes at the same time as less favourable economic releases of the second estimate for fourth quarter GDP which showed a downward revision to 2.7% growth (consensus 2.9%) from the advance estimate of 2.9%. That was driven by a downward revision in personal spending growth to 1.4% from 2.1%. Despite the negative revision, growth is still running above potential. Further, the GDP Price Deflator was revised up to 3.9% (consensus 3.5%) from 3.5%. The personal consumption expenditures index, meanwhile, was revised up to 3.7% from 3.2%. The key takeaway from the report is that it is an off-putting mix for the Fed - growth is still running above potential and inflation is still running above target. The market had a dovish response with global bond prices closing lower week-over-week. The 2 Year Treasury closed at 4.78% from 4.51% and 10 Year treasury closed at 3.95% from 3.74%.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/ Positive	98.25	5.69%	BUY
TPHLTT 2029 (9.00%)	BB/ Stable	107	7.60%	BUY
MARFRIG 2026 (7.00%)	BB+/ Stable	99	7.35%	BUY
BERMUD 2027 (3.72%)	A2/ Stable	97.75	4.35%	BUY
PRIO 2026 (6.13%)	BB-/ Positive	98	6.81%	BUY
ALSEA 2026 (7.75%)	Ba3/ Stable	102.25	7.06%	BUY
DomRep (6.6%) 2024	BB-/ Stable	102	4.31%	BUY
DomRep (5.88%) 2024	BB-/ Stable	101.75	4.26%	BUY
DomRep (5.50%) 2025	BB-/ Stable	101	4.94%	BUY

Bonds	Current Rating	Indicative Price	Yield	Recommendation
DomRep (6.88%) 2026	BB-/ Stable	104	5.37%	BUY
DomRep (8.63%) 2027	BB-/ Stable	107	6.66%	BUY
DomRep (5.95%) 2027	BB-/ Stable	102.15	5.34%	BUY
DomRep (5.50%) 2029	BB-/ Stable	95.5	6.42%	BUY
DomRep (6.00%) 2033	BB-/ Stable	93.25	6.95%	BUY
NFE 2025 (6.75%)	BB-/ Stable	95.5	8.77%	HOLD
NFE 2026 (6.50%)	BB-/ Stable	93.75	8.56%	HOLD

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	105.5	5.29%
	2039	120.0	5.91%
	2045	117.0	6.32%

*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
SJPC	2032	8.85%	104.00	8.22%
BDHR	2027	8.15%	100.50	8.00%
PBS	2025	6.50%	101.00	6.13%

Money Market

As of the 23rd of February, a total of J$25.5Bn was in the market, as represented by the BOJ's aggregated current balances. This was an increase of J$10.3Bn relative to the total of J$15.2Bn on February 16th. Following the Bank of Jamaica's decision on February 20th to hold its policy interest rate at 7%, as predicted in the prior week, rates dipped slightly on JMD placements week over week, ranging from a high of 8.50% on 30 days to a high of 9.50% on 365 days. This is 25 basis points lower than the prior week's 365 days high of 9.75%, and a decrease of 50 basis points over the prior 2 weeks. On the shorter end, overnight JMD rates ranged from 7.75% to 8%. Brokers currently have JMD to lend for all tenures.

Impacted possibly by the BOJ's decision to keep its benchmark rate unchanged, given expectations that inflation will decelerate for the remainder of the year in line with global consensus forecasts for a fall in commodity prices, the average yield from BOJ's competitive price auction decreased to 9.87% versus 9.93% in the prior week. The improvement in market liquidity week over week could also have contributed to the decline. Overall, the auction was oversubscribed, with bids received totalling J$34.2B relative to the offer size of J$29B. The highest bid rate for full allocation was 10.41%, which is an increase of 21 basis points over the prior week. Of note, the BOJ announced that there will be an increase in the domestic and foreign currency cash reserve ratio of 100 basis points starting April 1, which is expected to tighten liquidity and help to control inflation.

The USD money market remains stable and reasonably liquid. Broker market demand for USD has remained steady for 30-days and longer-tenured funds, with some brokers offering as high as 5% for a 1-year tenure. There was no BOJ intervention in the foreign exchange market via B-FXITT this week. However, there will be a maturity on March 21 for GOJ 5.5% 2023 FR BIN, which should help to increase overall market liquidity.

Dates to watch this week

International Local

February-March 2023

MON	TUE	WED	THUR	FRI
27	28	01	02	03
	US Goods Trade Balance (Jan)			WISYNCO Dividend Payment Date
	CAN GDP (YoY) (Q4)			
	US CB Consumer Confidence (Feb)			

Recommendations

Ticker	Closing Price (Feb. 27)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$17.05	14.4x	13.41x	BUY
LAB	$2.50	16.7x	19.37x	BUY
GK	$77.90	10.0x	9.95x	BUY
ELITE	$2.71	23.2x	19.37x	BUY
IPCL	$1.92	25.2x	20.7x	BUY
JBG	$34.29	9.9x	13.41x	HOLD
KWL	$31.98	14.3x	7.60x	BUY

Regional News

Central American Remittance Growth Remains Strong (Fitch Solutions)

Remittance data from across the Central American sub-region continues to show inflows far above historical levels, providing a key source of support for domestic private consumption. The bulk of these flows come from the US, where the strength of the labour market has increased the income available to send abroad. This trend first began in mid-2020, when the huge fiscal stimulus (roughly USD5.0trn) passed by the US in response to the Covid-19 pandemic boosted household incomes, even despite the collapse in employment during the period of intense lockdowns.

This has continued into H222 and through Q322, the latest period for which data is available from all the markets that report remittances, receipts are up 18.2% y-o-y, and 60.3% from the same period in 2019. However, Fitch expects that remittance growth has peaked, as the US economy is likely to slow in 2023, hurting the labour market (the company forecasts unemployment to rise from 3.4% to 4.5% by the end-2023) and reducing the disposable income available to remit to Central America. In 2023, the reduction in remittance inflow is a key factor that will impact real GDP growth in Central America with growth anticipated to slow from an estimated 4.3% in 2022 to 2.8% in 2023.

Core Inflation Seen Dropping In Early February For Mexico - Reuters Poll (Reuters)

Mexico's inflation is forecast to have eased in the first half of February, a Reuters poll showed on Monday, though consumer prices remain well above the central bank's target of 3%, and are likely to make way for another interest rate hike. The median forecast of 13 analysts forecast annual headline inflation of 7.80% in the first half of February, below the 7.88% recorded in the second half of January.

Annual core inflation, which strips out volatile food and energy products, is expected to have dipped to 8.42%, down from 8.46% in the previous fortnight, and sinking from its peak of 8.66% in the first half of November last year. Banxico, as the Mexican central bank is known, has raised its key interest rate by 700 basis points since its rate-hiking cycle started in June 2021. Earlier this month it raised the rate by a larger-than-expected 50 basis points to 11%, as inflation remains far above its target of 3%, plus or minus 1 percentage point

It is important to note that smaller future hikes are expected. Banxico's deputy bank governor, Jonathan Heath, told Reuters last week that the bank's monetary tightening cycle is nearing its end and nominal interest rates could top out at between 11.25% and 11.75%, at which point rates would be kept steady to allow them to take effect.

International News

US Revises Down Last Quarter's Economic Growth to 2.7% Rate (AP News)

The U.S. economy expanded at a 2.7% annual rate from October through December, a solid showing despite rising interest rates and elevated inflation, the government said Thursday in a downgrade from its initial estimate. The government had previously estimated that the economy grew at a 2.9% annual rate last quarter. The Commerce Department's revised estimate of last quarter's gross domestic product — the economy's total output of goods and services — marked a deceleration from the 3.2% growth rate from July through September.

More recent data issued this month, though, shows that the economy has since rebounded. Consumers boosted retail sales in January by the most in nearly two years, and employers added a surprisingly outsize number of jobs. The unemployment rate reached 3.4%, the lowest level since 1969. Inflation, measured year over year, has cooled since it reached 9.1% in June, having slowed to 6.4% in January. Yet on a monthly basis, price gains accelerated from December to January, raising the prospect that the Fed will raise its benchmark rate higher than it has previously signalled. Higher borrowing costs make mortgages, auto loans and credit card borrowing more expensive. Those higher rates could discourage consumers and businesses from spending, hiring and investing and could eventually push the economy into a recession.

Canada's inflation slows in January, making rate pause more likely (Reuters)

Canada's annual inflation rate eased more than expected in January to 5.9%, data showed on Tuesday, which should allow the Bank of Canada to keep interest rates steady at its next meeting, while it lets previous rate hikes sink in. Analysts had expected inflation to edge down to 6.1% from 6.3% in December. Month over month, the consumer price index rose 0.5%, Statistics Canada said, again lower than analysts' forecast of a 0.7% gain, after a 0.6% decline in December.

Statcan cited a base effect, or comparison with last year's strong result, that should persist through June. In January 2022, prices surged at a time of Russia-Ukraine tensions and supply chain disruptions, and they increased to a peak of 8.1% in June. The inflation figure "allows (the Bank of Canada) to stay on hold in March, despite the fact that the labor market was extraordinarily hot in the month of January," said Andrew Kelvin, chief Canada strategist at TD Securities. The Bank of Canada in January raised its benchmark interest rate to a 15-year high of 4.5% and became the first major central bank to say it would hold off on further increases as long as prices eased in line with its forecast.

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.