NCB CAPITAL MARKETS LIMITED

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Market Guide

THIS ISSUE

Global Growth to Weaken, But the Stock Market Still Has Opportunities

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"Courage taught me no matter how bad a crisis gets ... any sound investment will eventually pay off." ~ Carlos Slim Helu

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Global Growth to Weaken, But the Stock Market Still Has Opportunities

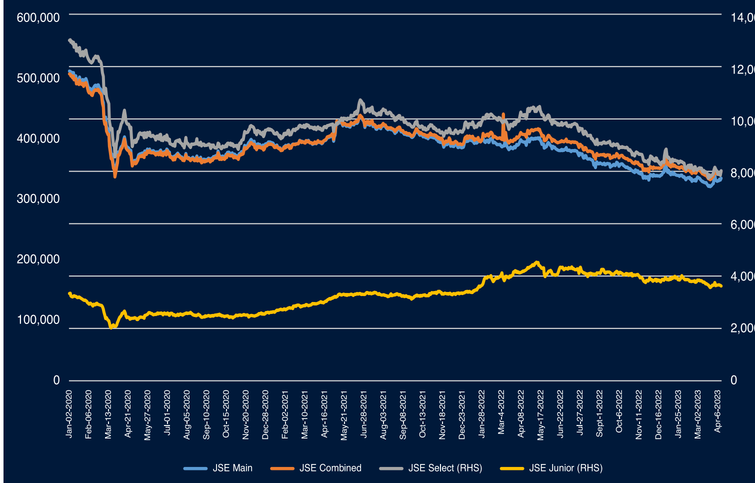
It is easy to buy stocks based on the latest fad when market conditions are great; however, this quote reminds us of the importance of sound investment decisions. When investing, it is always best to add companies that have solid fundamentals, sound strategies and solid management to your investment portfolio because doing so will allow your equity portfolio to weather any storm. Prices may fall off in challenging economic circumstances or a market downturn, after all, market sentiment and various other factors do impact stock prices. However, investing in a sound company will put your investment portfolio in a better position to outperform after, and even during, a crisis because these stock prices will eventually recover as these companies are likely to perform better during these times.
This reminder is timely in this post-COVID-19 environment as investors face new challenges. As central banks continue their efforts to tame inflation, it is threatening to slow the wheels of the global economy and may even cause a recession for some countries. This month the IMF published its revised outlook on the global economy, shaving 10 basis points off its previous projection for the global growth rate to 2.8% and 3.0% in 2023 and 2024 respectively.[1] The downward revision reflects stickier headline and core inflation, coupled with recent US financial turmoil triggered by high-interest rates and tight financial conditions. According to the Fund, the recent failures of two US banks, Silicon Valley Bank and Signature Bank, as well as the recent takeover of Credit Suisse by UBS, have added an extra layer of risk for the global financial sector and the economy, including Jamaica's. Having emerged from the COVID-19 pandemic, only to face renewed challenges, the question is how should you approach equity investing? Should you even be investing in stocks at all? ,

In its recent World Economic Outlook (WEO) report, the IMF has pointed out that while the aggressive rate hikes of 2022 and the beginning of 2023 have caused inflation to decline, the underlying price pressures on the inflation rate are proving to be sticky. As a result, one major risk is that core inflation[2] may not decline as quickly as desired.
This means that central banks are likely to continue their rate hike schedule or keep their benchmark interest rates at a high level for a longer period. This negatively affects the stocks as the future cash earnings for companies deteriorate

1. IMF WEO Outlook April 2023 – World output growth was previously 2.9% and 3.1% for 2023 and 2024 according to January 2023 WEO Outlook

2. Change in all costs of goods and services excluding the food and energy sectors

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	346,559.65	1.02%	-5.98%
Main Market Index	335,456.09	1.23%	-5.74%
Select Index	8,111.34	1.75%	-8.83%
Junior Market Index	3,665.75	-0.90%	-3.41%

WINNERS & LOSERS (FOR THE WEEK ENDED APR 14, 2023)

	$ Change	% Change
TJH 8%	+$0.79	+35.9%
JMMBGL 7%	+$0.53	+26.5%
JPS 7%	-$32.08	-44.3%
EPLY 7.75%	-$3.73	-18.7%

MARKET OVERVIEW

Last week, the majority of the JSE indices advanced (7/9), sustaining the positive trajectory from the prior week, during which all indices registered gains. The index with the highest gain was the JSE USD Equities Index (up 7.76%) buoyed by improvements from PBS (+14.37%) and TJHUSD (+23.02%). March was marred by the trouble in the US banking sector, which appeared to have spooked investors locally. However, last-minute rescue deals and Federal Reserve support helped alleviate some of these concerns in both local and US markets. There was also a boost in optimism within the local market in the form of easing inflation figures for February which was consequently followed by the BOJ Monetary Policy Committee's decision to hold its benchmark rate firm for a second consecutive meeting.

The main advancing and declining stocks for the combined market were TransJamaican Highway Limited 8% (+35.9%) and Jamaica Public Service Co. Ltd 7% (-44.3%) respectively. Overall, market activity was influenced by trading in 121 stocks, of which 55 advanced, 53 declined and 13 traded firm. However, market activity slowed considerably week-over-week with volumes traded totalling 93,104,189 units, significantly less than the previous week's total of 145,683,866 units. The overall market volume leaders were TJH Limited with 17,275,961 units (16.06%) and TJH Limited USD with 13,732,690 units (12.77%).

This week, the CPI results for March will be announced, followed by the BOJ's policy rate decision in May. Expectations are that inflation will continue to decline and the BOJ will maintain its policy rate at 7% for a third time. This should provide some support for market activity.

and this reduces their value. A protracted period of higher interest rates can be detrimental to economic growth. Given the Fed's monetary policy tightening, the US Conference Board[3] noted that the probability of a recession occurring in the US this year has risen to 99%. Furthermore, a recession in the world's second-largest economy can cause ripple effects for the global economy and even more so for Jamaica, which is heavily reliant on the US for the demand of goods and services, including tourism.

With the full reopening of the economy and the robust rebound in tourism, Jamaica has been performing well, despite the macroeconomic headwinds that are brewing. The economy is estimated to have grown by 5.2% (PIOJ) in 2022. Additionally, though still well above the central bank's target range, inflation has fallen faster relative to some Caribbean neighbours. With the reduction of imported commodity prices, including fuel and grain, consumer prices have been easing and inflation is anticipated to fall to the BOJ's target range of 4.0% to 6.0% by December 2023 .[4] Notwithstanding this, the BOJ noted that the risks to Jamaica's economy remain elevated. The risks that could emerge include a worsening of supply chain disruptions due to ongoing geopolitical tensions, higher than projected imported inflation from international commodity prices, and labour market shortages, which could result in upward wage adjustments thereby driving up inflation.

Ultimately, what does this mean for the stock market? Higher market interest rates and tight liquidity conditions, following the aggressive BOJ's benchmark rate hikes, have been major drivers of the downturn in stock market activity over the last year. With the IMF's research pointing to the risk that interest rates could be higher for longer, this could keep liquidity tight, which would continue to weigh on demand and keep stock valuations low. Furthermore, higher market interest rates will keep financing costs for corporates elevated and depress business investment. Additionally, a weak economy could mean a reduction in demand from consumers and slower growth or even a decline in corporate earnings. Companies with weak fundamentals and strategies will see their prices fall further. With this information in mind, what can the investors do to benefit from the eventual improvement of this current risk-off sentiment in the local stock market? It comes down to how you select stocks for your portfolio. With the general downturn in the market, the stock prices of good companies will decline too. However, the decline in these prices means their valuations are attractive and you can buy them at these lower valuations. Select companies that have solid fundamentals, strong management teams and sound strategies that will deliver sustained growth. Be sure to also choose companies that have a strong market presence and have shown evidence of adapting to changes in the economic and business environments and evolving with new ways of doing business. This helps companies to remain relevant for years to come and are more likely to weather economic downturns and their earnings and prices outperform when economic conditions improve.

The recent WEO report from the IMF highlights some of the risks for the remainder of 2023. Locally,

Select companies that have solid fundamentals, strong management teams and sound strategies that will deliver sustained growth. Be sure to also choose companies that have a strong market presence and have shown evidence of adapting to changes in the economic and business environments and evolving with new ways of doing business.

The prudent investor is able to strategically position his portfolio to outperform when conditions improve, by adding strong companies. This will enable you to reap gains when the market regains momentum and economic and business conditions improve.

we too have had to deal with the realities of inflation and higher interest rates, which have weighed on the stock market. Despite this, there are still attractive buying opportunities in the stock market. The prudent investor is able to strategically position his portfolio to outperform when conditions improve, by adding strong companies. This will enable you to reap gains when the market regains momentum and economic and business conditions improve. Instead of focusing on the current downtrend in the market, focus on finding buying opportunities. In the words of Shelby Cullom Davis, "You make most of your money in a bear market, you just don't realize it at the time."

3. February 2023
4. Summary of Monetary Policy Decision BOJ February 2023

Foreign Exchange Market

The Jamaican dollar depreciated by 0.40% against the USD, week over week, with the USD selling rate moving from J$152.71 on April 6, 2023, to J$153.31 on April 14, 2023. This depreciation stemmed primarily from two factors: a surge in demand for the USD currency over the Easter holiday weekend, and the normalization of USD inflows as the winter tourist season now comes to a close. In light of these factors, the Bank of Jamaica (BOJ) intervened in the foreign exchange market on April 6, 2023, injecting a total of US$30Mn to address the demand and supply imbalances, which ultimately aided in slowing the depreciation of the local currency.

Selling	Close: 06/04/23	Close: 14/04/23	Change
J$/US$1	$152.71	$153.31	+$0.60
J$/CDN$1	$118.43	$115.16	-$3.27
J$/GBP£1	$191.69	$191.56	-$0.13

Global Bond Prices

Emerging market bond prices were relatively unchanged week-over-week, and coincided with the release of key economic variables.

Firstly, the total US CPI was up 0.1% month-over-month (consensus +0.3%) following a 0.4% increase in February. Core CPI was up 5.6% year-over-year, versus up 5.5% in February. The report highlights the disinflation experienced in March, however, a rate hike at the FOMC meeting in May is likely to still be in the cards, especially with core-CPI slightly increasing. It is believed that the May rate hike could be the final one in the Fed's tightening cycle and would support investor confidence and global bond prices.

Secondly, the market received another seemingly comforting inflation report in the form of the Producer Price Index (PPI). The index for final demand declined 0.5% month-over-month in March (consensus +0.1%) following an upwardly revised 0.0% reading (from -0.1%) in February. On a year-over-year basis, the index for final demand was up 2.7% versus 4.9% in February. While the report showed that producers were experiencing some welcomed disinflation (aided by declines in energy prices), the stickiness of core CPI in March offset some of the optimism surrounding the PPI data. Additionally, the weekly initial jobless and continuing claims report, which was released at the same time as the PPI data, indicated some softening in the labour market, but no clear evidence of weakness. The general deceleration seen in the pace of job growth and average hourly earnings will be viewed as a signal that the labour market is losing some steam in a manner to the Fed's liking.

Furthermore, the FOMC Minutes for the March 21-22 meeting revealed a preference among members to keep raising rates, although the staff economic outlook predicts a mild recession to start later this year due to recent banking sector developments. According to the CME FedWatch Tool, there is a 66.0% probability of the Fed agreeing to another 25 basis points increase in the target range for the Fed funds rate to 5.00-5.25%, compared to 71.2% on Friday and 57.2% a week ago. Despite the myriad of economic information and expectations of another rate hike, the bond market was mostly quiet last week. The 10-Year Treasury closed at 3.52%, up from 3.30% in the week of March 24 and 3.37% in the week of March 17, indicating that the banking panic has partially subsided.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/ Positive	97.25	5.94%	BUY
TPHLTT 2029 (9.00%)	BB/ Stable	107.25	7.53%	BUY
MARFRIG 2026 (7.00%)	BB+/ Stable	100.50	6.81%	BUY
BERMUD 2027 (3.72%)	A2/ Stable	99.75	3.79%	BUY
PRIO 2026 (6.13%)	BB-/ Stable	96.25	7.48%	BUY
ALSEA 2026 (7.75%)	Ba3/ Stable	101.00	7.43%	BUY
DomRep (6.6%) 2024	BB/ Stable	102.25	3.60%	BUY
DomRep (5.88%) 2024	BB/ Stable	102.00	3.80%	BUY
DomRep (5.50%) 2025	BB/ Stable	101.50	4.60%	BUY
DomRep (6.88%) 2026	BB/ Stable	104.50	5.11%	BUY
DomRep (8.63%) 2027	BB/ Stable	107.50	6.47%	BUY
DomRep (5.95%) 2027	BB/ Stable	101.50	5.50%	BUY
DomRep (5.50%) 2029	BB/ Stable	97.5	6.01%	BUY
DomRep (6.00%) 2033	BB/ Stable	95.25	6.66%	BUY
PYPL (2.85% 2029)	A-/Stable	92.00	4.28%	BUY
Jaman (7.63%) 2025N	B+/ Positive	105.00	5.20%	BUY
NFE 2025 (6.75%)	BB-/ Stable	99.00	7.21%	HOLD
NFE 2026 (6.50%)	BB-/ Stable	95.50	8.02%	HOLD
FRICON (7.7%) 2028	B+/ Stable	74.50	14.85%	BUY
PRMRPA 9.7 05/14/24	B/ Negative	103.50	6.24%	BUY
BACR 5 3/4 09/14/26	A1/ Negative	103.25	4.68%	BUY

GOJ Globals

Ticker	Maturity	Bid	Bid Yield*
JAMAN	2028	108.25	4.88%
	2039	121.00	6.12%
	2045	120.75	6.15%

*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 13th of April, a total of J$33.06Bn was in the market, as represented by the BOJ's aggregated current balances, down from J$58.5Bn available on March 30th. Broker demand for JMD last week continued to be weak, especially as it relates to short-term funds, with rates remaining constant from the previous week. However, the recent reduction in rates among brokers has not fully translated to the retail space. As such, rates remain somewhat elevated. Overnight JMD rates ranged from 5.65% to 6.50%. If inflation continues to trend downwards based on March's CPI outturn, which is expected today, money market interest rates are likely to continue to ease.

Relative to the prior week, the average yield from BOJ's competitive price auction decreased to 8.41% from 8.49%. The auction was oversubscribed with bids received totalling J$40.7Bn relative to the offer size of J$17Bn. The highest bid rate for full allocation was 8.55%, indicating a decline from the previous week of 8.74%.

The USD money market remained stable and reasonably liquid, with brokers willing to take longer-term funds, and rates hovering between 4% to 5%. Additionally, retail space rates ranged between 3-4% for the short term, and over 5% on long-term placements. There were no BOJ interventions in the foreign exchange market via B-FXITT last week.

Dates to watch this week

International Local

April 2023

MON	TUE	WED	THUR	FRI
17	18	19	20	21
CPI (March 2023)	CAD Core CPI (March) (YoY, MoM)	Merchandise Trade (Dec 2022)	CHL Annual/ Extra-Ordinary General Meeting	
		138SL Annual/ Extra-Ordinary General Meeting	SEP Dividend Payment ($0.55) SGJ Dividend Payment ($0.25)	
		GBP Core CPI (March) (YoY, MoM) GBP Core PPI (March) (YoY, MoM)		

Recommendations

Ticker	Closing Price (April 17)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$16.93	14.3x	14.6x	BUY
GK	$79.73	11.2x	10.8x	BUY
ELITE	$2.52	21.5x	22.3x	BUY
IPCL	$1.96	25.8x	22.3x	BUY
JBG	$36.20	9.5x	14.6x	HOLD
ECL	$5.24	20.9x	20.3x	BUY
CAR	$8.20	10.6x	14.6x	BUY
CPJ	$9.71	12.4x	14.6x	BUY
KWL	$30.50	16.1x	12.3x	BUY
FESCO	$4.09	19.2x	16.3x	BUY
FONTANA	$8.10	14.2x	16.3x	BUY
PBS	$1.90	42.6x	24.2x	HOLD
TJHUSD	$0.01	23.0x	24.2x	BUY
TJH	$1.65	19.9x	12.3x	BUY

Regional News

Argentina seeks to issue up to $1.2 billion in bonds, ministry source says (Reuters)

The Argentine government is in talks to issue two dollar-bonds for up to $600 million each with separate guarantees from the World Bank and the CAF as collateral, a source from Argentina's Economy Ministry said on Friday. The World Bank and CAF (Development Bank of Latin America) could not be immediately reached for comment. The operation, which would take place in the coming weeks, would guarantee 60% of the issuance, and the notes would have a maximum maturity of five years. The intention is to issue two separate bonds, each with its own backing, for up to $600 million each, the source said. However, there is no assurance yet that the bonds will be issued. Argentina's recently restructured bonds trade in the 30-cents-on-the-dollar area. Annualized inflation stands at 104% and is expected to remain at triple digits until at least the end of the year, while economic output is expected to contract compared with 2022. Argentine dollar bonds currently yield between 22% and 42% in the debt market. The South American economy is also seeking $500 million of fresh financing from the World Bank, the source added, additional to the $2.5 billion the multilateral lender already has already committed for 2023.

IMF projects 37.2% local economic growth in Guyana for this year (IMF)

Guyana is on course to record economic growth of 37.2 per cent by the end this year, according to the International Monetary Fund (IMF). Driven by prudent fiscal management and growing sectors, including the burgeoning oil and gas sector, Guyana is on course to record significant economic growth and to persevere through global and domestic challenges. The IMF in its latest publication, the World Economic Outlook: A Rocky Recovery, reported that real gross domestic product (GDP) growth could be even higher next year, reaching 45.3 per cent. Recently, the World Bank projected that this year is going to be "substantially bleaker" for the Latin American and Caribbean region than it was last year, but Guyana is yet again expected to stand out among its counterparts with economic growth projected to hover above 20 per cent over the next three years.

The international financial institution in its latest report on Latin America and the Caribbean: "The Promise of Integration Opportunities in a Changing Global Economy," related: "The Latin America and the Caribbean (LAC) region has proved to be relatively resilient in the face of increased debt stress, stubborn inflation, and uncertainty arising from the Russian invasion of Ukraine. Guyana is the only country on course to record double-digit growth this year and in the near future. The country, according to the World Bank, is set to record real gross domestic product (GDP) growth of 25.2 per cent this year, 21.2 per cent next year and 28.2 per cent in 2025. Consistent growth is expected even as the IMF has reported that tentative signs in early 2023 that the world economy could achieve a soft landing—with inflation coming down and growth steady—have receded amid stubbornly high inflation and recent financial-sector turmoil. Despite the global situation, based on its economic performance over the past two years, Guyana has a solid foundation upon which to continue broadening its horizons and advancing significantly, especially in the medium term. President, Dr Irfaan Ali, early this year said the government's targeted expansion of the other economic sectors, and diversifying of the economic pillar is showing direct results due to the policy formulation and measures that have been implemented.

International News

JPMorgan amasses deposits as customers move money to largest U.S. bank (Reuters)

JPMorgan Chase & Co (JPM.N) on Friday reported a surge in deposits in the first quarter, as the sudden collapse of two U.S. regional banks in March drove customers to move their money to bigger lenders. The largest U.S. lender gained $50 billion in deposits at the end of March, its first-quarter earnings report showed. That compares to Citigroup Inc (C.N), where deposits were largely flat, and a decline at Wells Fargo & Co (WFC.N). Analysts are watching bank balance sheets to assess how easily lenders can fund their operations and whether they have enough cushion to handle any financial shocks. Investors have closely scrutinized deposits after the collapses of Silicon Valley Bank and Signature Bank last month rattled markets, prompting regulators to step in to guarantee their customers' deposits. The three banking giants received an influx of money in March. JPMorgan reported a 2% rise in deposits to $2.38 trillion at the end of the quarter compared with the end of 2022. While Citigroup's deposits were little changed at $1.33 trillion at the end of the first quarter, CFO Mark Mason said it saw a “meaningful deposit inflow” related to the turmoil. Deposits at Wells Fargo slid 2% to $1.36 trillion as customers moved their money to higher-yielding accounts and products.

Weak retail sales, manufacturing output data point to slowing US economy (Reuters)

FU.S. retail sales fell more than expected in March as consumers cut back on purchases of motor vehicles and other big-ticket items, suggesting that the economy was losing steam at the end of the first quarter, because of higher interest rates. With the labor market cooling, retail sales are likely to remain weak. Ebbing demand for goods is undercutting production at factories, with other data on Friday showing manufacturing production declining last month. Still, the Federal Reserve is poised to raise rates one more time in May, before an anticipated pause in June in the U.S. central bank’s fastest monetary policy tightening cycle since the 1980s. “Households are clearly feeling the pinch from rising interest rates and the extended period of high inflation and are reducing expenses to compensate,” said Ben Ayers, a senior economist at Nationwide in Columbus, Ohio. “While job and income gains remain strong, the cracks in the consumer sector are widening and a negative shift in hiring activity could be the final blow to place the economy in a recession.” Retail sales dropped 1.0% last month, the Commerce Department said. Data for February was revised up to show retail sales falling 0.2% instead of 0.4% as previously reported. Economists polled by Reuters had forecast sales slipping 0.4%. They increased 2.9% year-on-year in March.

Retail sales are mostly goods, which are typically bought on credit, and are not adjusted for inflation. The second straight monthly decrease followed a sharp surge in January. It was unclear whether a tightening in credit conditions in March following the failure of two regional banks had impacted retail sales but reduced access to credit is expected to weigh on sales in the months ahead.

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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