CAPITAL MARKETS LIMITED

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Market Guide

THIS ISSUE

"Returns matter a lot. It's our capital"– Abigail Johnson

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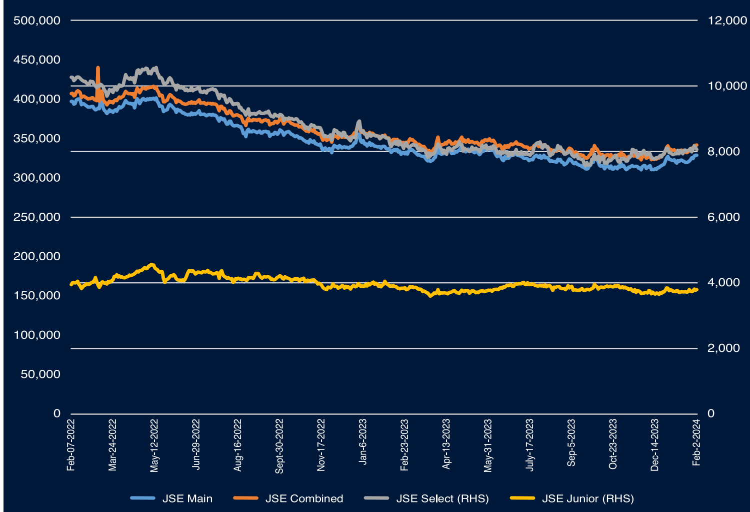
Corporate Defaults Soared in 2023 but Stabilisation Expected in the Near-Term

Tighter financial conditions, along with the economic slowdown squeezed some companies' ability to borrow and repay debt in 2023. Global corporate defaults surged last year, fuelling conversations around whether this increase is setting the stage for more missed debt payments ahead as low-grade (rated CCC+ or below), highly leveraged businesses grapple with a prolonged period of steep funding costs caused by elevated interest rates. According to Standard & Poor's Global Ratings (S&P), corporate debt defaults increased sharply to 153, an 80.0% rise year on year. This is the highest default rate outside of the COVID-19 spike, a period consisting of bankruptcies linked to the economic fallout from the pandemic, in seven years. Similarly, Moody's Investor Services (Moody's) noted that 159 of the companies it rated defaulted in 2023, taking the global 12-month trailing corporate default rate to 4.8% in 2023 from 2.8% in 2022. The latest default tally underscores the challenges facing speculative-grade borrowers after interest rates in the US rose from near-zero to as high as 5.33% at the end of last year (December 29, 2023). The sharp increase has put pressure on debt issuers, whose debt payments typically float up and down[1] with prevailing borrowing costs. Notwithstanding, middle and non-investment grade issuers remained relatively stable throughout 2023 with muted defaults. Furthermore, despite the financial stress that troubled the global market, new issuances grew (+4.8%) in 2023 closely in line with projections for most sectors. The upside surprises from economic growth, resilient labour markets, lower inflation, and falling recession risks have increased the optimism for 2024 in terms of corporate issuances, though default risks remain high. That being said, financing costs are expected to remain high, despite potential rate cuts this year. As a result, expectations are for further global credit deterioration in early 2024, followed by a slow stabilisation over time. These developments will put a strain on credit metrics for Emerging Markets (EM) sovereigns and corporates in the near term, which raises the risk of default and puts downward pressure on ratings. In this week's issue, we explore corporate defaults in 2023, the outlook for 2024 and guide investors on how to position their bond portfolios this year to take advantage of new issuances and mitigate the risks, given expectations that 2024 could be another year of high corporate defaults.

With Central Banks keeping interest rates "higher for longer" in 2023, the pressure mounted on the earnings and interest coverage capabilities of some firms, especially those in the United States (U.S.). Following its 2022 trend, the U.S. had the most defaulters in 2023, accounting for 96 of the 153 defaults recorded by S&P last year. Defaults by European corporates also doubled, recording their second-highest annual default tally since 2009. Furthermore, Latin America (LATAM) was the pressure point within emerging markets (EM) accounting for approximately 12 of the 19 EM defaults for 2023, though year-on-year overall defaults in EM corporates declined. Notably, credit conditions tightened more quickly in LATAM. This along with more climate-change-related shocks resulted in rapidly rising borrowing costs relative to other EMs'. These higher interest rates and tougher access to credit markets made

1 Companies that offered floating coupon bonds were among the most vulnerable as the interest payments for these bonds typically fluctuate with a benchmark that the bond is drawn on and oftentimes this benchmark is linked to the current interest rate.

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Week over Week (%)	YTD % change
Combined Index	342,138.51	+1.8%	+1.1%
Main Market Index	329,340.57	+1.9%	+0.9%
Select Index	8,076.67	-0.4%	-0.5%

WINNERS & LOSERS FOR THE WEEK ENDED FEB. 2, 2024

	$ Change	% Change
ISP	+$7.54	+33.54%
PBS9.75	+$29.60	+32.89%
FIRSTROCKUSD	-$0.01	-18.67%
MFS	-$0.31	-11.65%

MARKET OVERVIEW

Last week's overall market activity resulted from trading in 119 stocks, of which 60 advanced, 46 declined, and 13 traded firm. Market volume amounted to 133.67Mn units valued at over $1.56Bn. This reflects a 6.3% decrease in volume but a 210.0% increase in value relative to the previous week. Further, compared to February 3, 2023, volume and value increased by 19.5% and 92.4%, respectively. Wigton Windfarm Ltd. Ordinary Shares, Transjamaican Highway Ltd., and GraceKennedy Ltd. were the volume leaders with 28.09Mn units (20.67%), 15.86Mn units (11.67%), and 14.15Mn units (10.41%).

Most major indices recorded gains for the second consecutive week following the bearish bias seen for the first three weeks of January. Trading activity for the week ended February 2, 2024, resulted in 8 of 9 market indices advancing. The JSE Cross Listed (+2.90%) and Manufacturing and Distribution (+2.47%) Indices showed the greatest appreciations. Massy Holdings Ltd. the heaviest weighted stock in the JSE Cross Listed Index 4.34% WoW gain was the main driver for the increase. Eppley Caribbean Property Fund Ltd. (+6.64%) also contributed to the price appreciation. On the other hand, the +6.76% WoW increase in Wisynco Group led the gains in the Manufacturing and Distribution Index. The appreciation is likely in response to the company's announcement that its Board of Directors would consider a dividend payment to shareholders. The index also benefited from an increase in Lasco Manufacturing Ltd. (+5.83), Caribbean Cement Company Ltd. (+1.63%), and GraceKennedy (+1.46%). The Combined Index advanced 1.8% week-over-week. The sole decliner, the JSE Select Index was due to NCB Financial Group's share price declining by 2.97% WoW, there was no news to support the falloff.

it more difficult for companies with unsustainable capital structures in the region to meet their refinancing needs. Overall, the high rate of defaults was primarily witnessed in the Media and Entertainment, Consumer Products, and Health Care sectors. In contrast, companies in the Automotive, Oil and Gas, and Mining saw very low numbers of defaults. Consumer-facing[2] sectors such as Media and Entertainment and Consumer Products/Services were directly affected by the weakening global economy. This resulted in lower discretionary spending by consumers and by extension a fall-off in these companies' earning and interest payment capabilities. Meanwhile, healthcare faced pressures as labour costs rose, following staffing shortages.

A substantial portion of the defaults originated from low-rated companies facing negative cash flows, high debt levels, and weak liquidity. There has always been a positive correlation between high-interest rate environments and the possible defaulting in already weak companies. Highly speculative grade, issuers rated 'CCC+' or below for an extended period and repeat offenders drove the number of defaults in 2023. On the brighter end, issuers with stronger company fundamentals and healthy balance sheets continued to show more resilience, even amidst market volatility. Given this, investors gravitated toward safer yield opportunities from these corporates[3] and this resulted in an amplification of bond issuances[4] despite the soar of corporate defaults. As inflation pressures further ease, benchmark borrowing costs drop, and investors grow more optimistic about the potential for Federal Reserve rate cuts in 2024, this should create a more favourable environment for corporate issues in the second half of this year into 2025.

That being said, defaults are expected to remain elevated in 2024, particularly for consumer-facing distressed firms; though there are upsides. Low-rated companies with negative outlooks will remain the weakest links. The global speculative-grade, non-financial corporate default rate is expected to peak at 4.9% in the first quarter, before stabilising in the 3.7%-4.0% range in the third and fourth quarters of 2024 (Moody's Investors Service). The stabilisation is supported by the expectation for manageable near-term maturities, the improved performance in some companies' bonds, and expectations that Central Banks will cut rates this year. Notably, emerging markets are likely finished with rate-hiking as Central banks have achieved more than three-quarters of the adjustment needed to get inflation back to their targets. Furthermore, the global economy could outperform expectations as it did last year and bonds should see a greater appreciation in price, given that they are more sensitive to interest changes. Local investors who have typically favoured bonds with much shorter maturities of 5 years or less, may consider bonds with slightly longer maturities such as ten-year bonds, which would allow them to get some benefit from the expected change in the interest rate cycle, without taking on too much interest rate risk. Additionally, clients should also consider investing in issuers with high credit quality and issuers with strong and improving fundamentals.

While investors may be drawn to high-yield bonds, the current interest environment offers them the opportunity to reduce the overall risk in their investment portfolios by buying investment-grade bonds, given that their yields are currently high relative to historical levels. Additionally, buying high credit quality and bonds with strong and improving fundaments should mitigate the risks associated with corporate defaults and allow their portfolios to better withstand the expected volatility, especially given the themes of geopolitical tensions and climate risks that are expected to characterize 2024.

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Finally, diversifying your bond portfolio across corporates, sovereigns, and across sectors will offer a range of opportunities to seasoned and new investors alike. This will help to reduce your portfolio risk. If you are interested in reviewing your bond portfolio, you can explore our recommendations on Page 4 and contact your wealth advisor to schedule a review.

2 Those in which one is interacting or communicating directly with customers. Deals directly with people buying a good or service.

3 U.S. investment-grade issuance for the full year amounted US$925.5Bn and was up from a year earlier but is weak historically. The 'A' rating category saw strong volume during the year, bolstered by strong financial issuance. Additionally, strong issuance volume from the 'BBB' category was also noted.

4 Global bond issuance in 2023 totaled US$7.7Trn, up 4.8% from US$7.2Trn in 2022.

Foreign Exchange Market

The Jamaican dollar depreciated by 0.41% relative to the USD (week-over-week), moving from a selling rate of $156.40 on January 26, 2024, to $157.04 on February 02, 2024 due to increased end-user demand across all major sectors. Additionally, there is currently a void of USD in the market, consequently, the Bank of Jamaica (BOJ) is expected to lend support to the market via B-FXITT for a sustained period.

Selling	Close: 26/01/24	Close: 02/02/24	Change
J$/US$1	$156.40	$157.04	$0.64
J$/CDN$1	$116.37	$117.09	$0.72
J$/GBP£1	$199.88	$199.58	($0.30)

Global Bond Prices

The Federal Open Market Committee (FOMC) held rates steady at its meeting on Wednesday, January 31, 2024, and sent a tepid signal that it is done raising interest rates, but made it clear that it is not ready to start cutting despite easing inflation. During Fed Chair Jerome Powell's news conference, he said policymakers are waiting to see additional data to verify that the trends are continuing. "I don't think it's likely that the committee will reach a level of confidence by the March meeting. We want to see more good data. It's not that we're looking for better data, we're looking for a continuation of the good data we've been seeing," Powell added. The FOMC also removed language that had indicated a willingness to keep raising interest rates until inflation had been brought under control and was on its way toward the Fed's 2% inflation goal. Instead, it said it believes the risks to its goals of stable inflation and full employment "are moving into better balance." The language affirms the view that the central bank is almost certainly done raising interest rates after 16 months of aggressive hikes to tame high inflation and a rate cut is now far more likely than an increase.

As widely anticipated, the Fed opened the door to rate cuts but signalled that a March move is unlikely, despite slowing inflation. However, it also suggested it is in no rush to reduce the rate. With inflation still running above the central bank's target, the Fed wants to make sure inflation is subdued for the long term before acting.

The market was quick to react to the Fed outlook. 10-year Treasury yield slid lower last week at 4.054% from 4.166% the prior week, as investors evaluated the Fed news as well as data released showing that the US job market remains strong and poised to support broader economic growth, despite some signs of softening. Initial jobless claims rose to 224,000, for the week ending January 27, an increase of 9,000 from the previous week's revised level of 215,000, pointing to some softening in the labour market. However, nonfarm-payrolls data for January once again was an upside surprise and continues to point to a resilient labour market in the U.S. Total jobs added amounted to 353,000, well above the Dow Jones estimates of 185,000, but in line with last month's (December) upwardly revised total of 333,000 new jobs. Furthermore, the unemployment rate also remained in line with last month's figure at 3.7% versus projections of 3.8%. The labour-force participation also remained steady at 62.5%, still near a post-pandemic high of 63.6% in 2019. This data reinforced the strong labour market narrative and is believed to offer some relief to the Fed, which aims to engineer a soft landing for the economy. However, while the report demonstrated the resilience of the U.S. economy, it also could raise questions about how soon the Federal Reserve will be able to lower interest rates.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	104.30	6.07%	BUY
BACR (5.75%) 2026	BBB+/ Stable	103.50	4.28%	BUY
BERMUD (3.72%) 2027	A2/Stable	98.75	4.17%	BUY
CHTR (4.20%) 2028	Ba1/Stable	99.00	4.47%	BUY
DOMREP (5.50%) 2025	BB/ Stable	102.00	3.38%	BUY
DOMREP (5.50%) 2029	BB/ Stable	99.65	5.58%	BUY
DOMREP (5.88%) 2024	BB/ Stable	102.00	-4.85%	BUY
DOMREP (5.95%) 2027	BB/ Stable	102.25	5.12%	BUY
DOMREP (6.00%) 2033	BB/ Stable	98.25	6.26%	BUY
DOMREP (6.00%) 2028	BB/ Stable	102.25	5.42%	BUY
DOMREP (6.88%) 2026	BB/ Stable	104.00	4.72%	BUY
FRICON (7.70%) 2028	B+/Stable	107.25	6.09%	BUY
GM (5.40%) 2029	Baa2/Stable	91.00	10.27%	BUY
JAMAN (7.63%) 2025N	BB-/Stable	103.00	4.79%	BUY
NFLX (5.88%) 2028	BBB/Stable	104.00	4.65%	BUY
OPY (5.50%) 2025	Ba3/Stable	107.50	4.12%	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	100.25	5.33%	BUY
PRMRPA (10.75%) 2028	B+/Positive	100.75	5.77%	BUY
PYPL (2.85%) 2029	A-/Stable	108.50	8.45%	BUY
SFC (5.30%) 2028	BB-/ Positive	92.75	4.31%	BUY
TPHLTT (9.00%) 2029	BB/ Stable	98.45	5.71%	BUY

Bonds	Current Rating	Indicative Price	Yield	Recommendation
TRAJAM (5.75%) 2036	BB-/Stable	108.25	7.16%	BUY
WBD (4.13%) 2029	BBB-/ Stable	90.50	6.88%	BUY
BANORT (5.75%) 2031	BB-/Stable	98.25	6.04%	SELL
CSOLNO (6.00%) 2027	B+/Stable	74.75	17.19%	SELL
PEMEX (5.35%) 2028	B+/Stable	89.5	8.49%	SELL

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	104.30	5.28%
	2039	118.55	6.03%
	2045	115.55	6.52%

*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
PBS	2025	6.50%	100.85	6.03%
BDHR	2027	8.15%	100.35	8.02%
SJPC	2032	8.85%	103.80	8.20%

Money Market

Last week, JMD money market liquidity decreased, while USD money market liquidity remained moderate. As of the 2nd of February, a total of J$29Bn was in the market, as represented by the BOJ's aggregated current balances. The aggregated closing current account balance fell by J$5.3Bn from J$34Bn on January 26th due to the payment of salaries. There were no BOJ interventions in the foreign exchange market via B-FXITT last week. Broker demand for JMD continued to fluctuate particularly for short-term funds, while rates in the retail market have stayed consistent on JMD placements. In the USD money market, there were minor fluctuations week over week; however, liquidity has been reasonable, with most brokers generally willing to accept long-term money.

Despite a falloff in yields, demand for money market instruments remains high with investors oversubscribing the recent BOJ auction. Bids received totalled J$36.3Bn relative to the offer size of J$21Bn. This implied a bid-to-cover ratio of 1.58, an increase relative to the 1.27 recorded in the prior week. The average yield from the BOJ's 30-day competitive price auction dipped to 10.41% versus 10.69% in the prior week. The highest bid rate for full allocation was 10.85%, which fell from 11.2%, in the prior week. The next auction for the Bank of Jamaica 30-day CD will be held on February 7, 2024.

Dates to watch this week

International Local

February 2024

MON	TUE	WED	THUR	FRI
05	06	07	08	09
US S&P Global Composite PMI (Jan) US S&P Global Services PMI (Jan)				CAD Unemployment Rate (Jan)
			PULS - Dividend Payment Date (J$0.005 per share)	NCBFG Annual/Extra-Ordinary General Meeting

Recommendations

Ticker	Closing Price (February 6, 2024)	P/E	Avg. Sector P/E	Current Recommendation
ASBH	$41.48	18.6x	15.4x	BUY
CAR	$8.54	10.0x	15.4x	BUY
CCC	$53.03	8.2x	21.3x	BUY
CPJ	$8.76	11.9x	15.4x	BUY
ECL	$3.96	14.0x	20.5x	BUY
FESCO	$3.70	15.2x	16.1x	BUY
INDIES	$2.71	17.2x	14.3x	BUY
IPCL	$1.96	11.5x	14.3x	BUY
JBG	$34.69	7.1x	15.4x	BUY
KEX	$12.40	19.4x	20.5x	BUY
LASD	$3.99	9.2x	16.1x	BUY
LASM	$4.93	8.6x	26.4x	BUY
MEEG	$15.10	42.8x	20.5x	BUY
SGJ	$46.19	8.3x	12.1x	BUY
SVL	$25.01	21.4x	12.5x	BUY
TJH	$3.28	40.7x	21.3x	BUY
TJHUSD	$0.02	40.4x	21.0x	BUY
KW	$28.00	13.5x	21.3x	BUY
SOS	$1.68	13.4x	16.1x	BUY
SALF	$3.54	20.8x	15.4x	SELL

Regional News

Dominican Republic's Fiscal Consolidation Will Slowly Begin To Bear Fruit (Fitch Solutions)

Fitch revised the Dominican Republic's estimated fiscal deficit from 3.4% of GDP to 2.8% in 2023, and forecast that the deficit will slightly narrow to 2.7% in 2024. Recent data from the Banco Central de la República Domicana (BCRD) confirms the previous view that robust private consumption – due to high tourism levels and a tight labour market – drove strong Dominican growth in H2 2023 of around 3.5% year-over-year (y-o-y), according to the monthly economic activity index. Additionally, revenue growth was reinforced by the government's tax amnesty bill, which allowed for payment of a portion of outstanding taxes between August and December in exchange for tax forgiveness. This, in turn, caused government revenue to grow from 6.2% of GDP between July and November 2022 to 6.3% in the same period in 2023. Overall expenditures, meanwhile, decreased from 8.1% of GDP in 2022 to 7.7% in 2023 between those two months, as subsidy payments fell by 16.3% y-o-y due to stabilizing energy prices from January to November. However, interest payments increased from 2.5% of GDP to 2.8% from January to November, due to higher policy rates.

In 2024, revenue growth will increase from 15.5% of GDP to 15.9% due to robust external demand, which will continue through at least H1 2024. US-driven private consumption will drive both consumption tax intakes (51.2% of total revenue) from those vacationing on the island and international trade taxes (5.7% of total revenue), as around 55.0% of Dominican goods exports go to the US. Additionally, a healthy US economy will lead to continued remittance flows, which were up 3.4% y-o-y from January through November 2023, and will continue to drive up consumption and tax revenues. On the other hand, the government's debt burden will fall from 60.2% of GDP in 2023 to 60.0% in 2024. This is supported by the expected widening of the primary surplus and the introduction of the new fiscal rule which precludes drastic increases in gross public debt and servicing costs going forward.

Risks are tilted toward a wider deficit due to external factors. Being a small island in the Caribbean, the Dominican Republic faces risks of extreme weather events, including floods, droughts, and storms. Additionally, the island is dependent on imported energy. If a severe weather event occurs or if energy prices spike beyond Fitch's expectations, the government would increase expenditure and its overall debt to lessen the financial strain on its citizens.

BCC's Easing To Continue Into 2024 As Inflation Moves Near Target In Chile (Fitch Solutions)

At their first meeting of the year on January 31, policymakers at the Banco Central de Chile (BCC) continued their easing cycle with a 100-basis point (bps) cut, lowering the benchmark overnight interest rate from 8.25% to 7.25%. The 100bps cut was in line with Fitch and consensus expectations and brought total cuts in the current easing cycle to 400bps since June 2023. Fitch believes that the pronounced month-over-month (m-o-m) (annualised) decrease in December in both core and headline inflation led the bank to cut more aggressively, by 100bps instead of 75bps as in December. Headline inflation came in at -6.2% m-o-m annualised (3.9% y-o-y) in December, while core inflation came in at -2.5% m-o-m annualised (5.4%), both significantly undershooting expectations. Nonetheless, the BCC mentioned some inflationary concerns, such as the conflict in the Red Sea. Additionally, the BCC indicated that the Federal Reserve's decision to delay cuts may have an impact on the international environment, including on Chile, particularly via exchange rate weakness. These statements suggest that the BCC will retain some caution in its decisions moving forward.

Although the bank was not explicit about its plans for the next meeting on April 2, Fitch anticipates the bank will cut by another 75bps, to 6.50%. With inflation expectations hovering around the 3.0% target. It is expected that the BCC will try to strike a balance between normalising the overnight rate closer to pre-Covid levels. This is expected to further stimulate growth, while also not causing a major currency sell-off. Of note, Fitch maintained its end-2024 forecast and continues to expect that the BCC will lower the benchmark rate from 7.25% currently to 5.00% at year-end. For now, Fitch also maintains its inflation forecasts of 3.8% (average), and 3.2% (at end-2024), well within the BCC's 2.0-4.0% tolerance band.

International News

UK Manufacturers Hit By Red Sea Disruption And Rising Shipping Costs (The Guardian)

Britain's factories have been hit by disruption caused by Houthi rebel attacks in the Red Sea that led to shipping delays and contributed to rising costs, as the boss of Adidas warned about "exploding" global freight rates. UK manufacturers have experienced growing supply chain difficulties, as the Red Sea crisis led to the rerouting of deliveries of raw materials, components, and other goods away from the Suez Canal, a survey has shown. The UK manufacturing sector remained in decline at the start of 2024, when output and new orders fell further, leading to more job losses and cuts in purchasing and stocks, according to the monthly survey from S&P Global. Its purchasing managers' index was at 47.0 in January, up from 46.2 in December but below an earlier flash estimate of 47.3. Any reading below 50 indicates contraction within the manufacturing sector of the economy compared with the prior month; any reading above 50 points to expansion.

Some manufacturers in the survey said 12 to 18 days could be added to some expected deliveries, disrupting their production schedules and raising inflationary pressures at a time when companies are struggling with weak demand at home and overseas. Given these developments, the world's top shipping companies, including Maersk and Hapag-Lloyd, have diverted ships from the Suez Canal and rerouted them around the southern tip of Africa, adding thousands of miles to journeys and delaying the arrival in Europe of manufacturing components and goods such as clothes and shoes made in Asia. Rob Dobson, the director at S&P Global Market Intelligence, said: "Cost and stock management initiatives are being complicated by the Red Sea crisis. Diverting purchased inputs, especially those sourced from the Asia-Pacific region, around the Cape of Good Hope is raising prices and extending supplier lead times."

Bank of England Set To Start On Path Towards Interest Rate Cuts (Reuters)

China aims to ramp up financing for home projects in the coming days as part of its support measures, but banks' reluctance to lend to the crisis-hit sector will remain a major obstacle for the distressed developers who need fresh funding the most. Under the "Project Whitelist" mechanism, governments of 35 cities across the country are gearing up to recommend to banks residential projects that need financial support. Distressed developers are hoping the new mechanism will bring support with some of their projects getting included in the Whitelist. The mechanism, which is designed to expedite the issuance of project loans from banks, comes as Beijing steps up efforts to ease a liquidity squeeze in the sector and boost homebuyer confidence as new home prices in December saw the steepest drop in nearly nine years. However, the success of the latest financing support measure could be stymied by banks' reluctance to extend fresh credit to struggling real estate firms due to worries about the impact on their asset quality, developers, bankers and analysts say.

The liquidation of property giant China Evergrande Group, ordered by a Hong Kong court last week has further clouded the outlook for property sales and added to the banks' caution. A corporate lending manager at a joint-stock bank said banks would prioritise risk controls under the new mechanism rather than take "significant bad debts" onto their books. Chinese authorities have over the past year repeatedly called for banks to extend "reasonable" lending to developers after a string of defaults. Those efforts, however, have been met with little success in diffusing the debt crisis that started in 2021.

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