

Market Guide

THIS ISSUE

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"The stock market is the story of cycles and of the human behaviour that is responsible for overreactions in both directions."
– Seth Klarman

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Hedging Portfolios Against Inflation with Real Assets

Geopolitical conflicts, rising energy prices, global supply chain challenges, and high inflation expectations have led to an elevated inflation environment and aggressive monetary tightening, which has led to increased volatility among traditional assets. However, real assets have historically proven to be natural hedges against inflation and tend to outperform during inflation surges. A 'real asset' is a physical or tangible asset such as real estate, infrastructure and commodities. In its assessment of average annual returns in different regimes of growth and inflation over the past 20 years (2001 to 2020), BlackRock found that U.S. and global real estate, as well as global infrastructure, beat stocks and bonds, when inflation is high, whether the inflation is accompanied by high or low growth (see figure 1). Some real assets such as infrastructure-related industries¹ tend to be more defensive and less sensitive to the broader economy and as such maintain steady demand for the essential services that they provide. Others such as real estate and commodities are more sensitive to growth, and pricing dynamics, which allow them to benefit from rises in inflation. This makes these and other real assets, good additions to portfolios to hedge against inflation, protect investors'

purchasing power and provide attractive returns in the current environment.

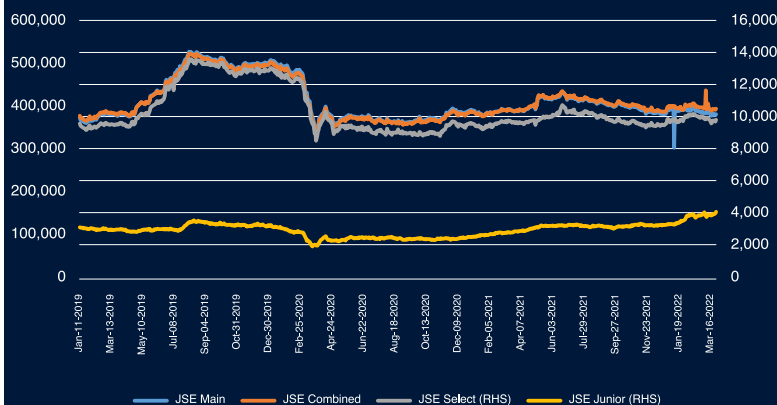
Why are real assets natural hedges?

A real asset's ability to protect an investor's portfolio against rising inflation and provide attractive returns is influenced by varying factors, chiefly low-income volatility, inflation-linked income and value adjustments, as well as positive responses to demand, supply and price dynamics.

- Real estate: Property values tend to increase with the overall price environment due to the rise in costs of labour, interest rates, land and materials. These are all factored into property appraisals, which result in price appreciation of existing real estate assets. Other factors that will drive local real estate appreciation, include higher net demand in areas such as affordable housing and industrial real estate. While there is oversupply of housing in the high-end market, locally, the segment for residencies priced below \$25Mn and in previously underserved areas continue to see high demand. Further, efforts to improve supply chain resiliency and redundancy after the pandemic caused unprecedented disruptions, which prevented suppliers from delivering products to consumers, have

¹ This include: electric/water utilities, cell towers, passenger and freight railways, airports, toll roads, and marine ports.

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	411,108.35	+ 3,154.93	-0.5%
Main Market Index	400,871.25	+ 1,913.02	-2.5%
Select Index	10,048.47	+ 165.93	+0.7%
Junior Market Index	4,031.89	+153.59	+22.7%

WINNERS & LOSERS (FOR THE WEEK ENDED MAR 25, 2022)

	\$ Change	% Change
JETCON	+\$0.27	+31.8%
KLE	+\$0.49	+21.7%
JFP	-\$0.35	-22.9%
FESCO	-\$0.23	-12.9%

MARKET OVERVIEW

Last week, all the JSE indices, except for the Manufacturing & Distribution Index and the Cross Listed Index, advanced. The prices of 54 stocks rose relative to a decline in 32 stocks driving the increase in the indices. The Junior Market continues to outperform the other indices, appreciating by 3.8% week over week (WoW), relative to the 0.5% growth for the Main Market. The Junior Market is up 22.7% since the start of the year, while the Main Market index is down 2.5%. This reflects the continued improvement of investor sentiments around Junior Market companies in the manufacturing and distribution as well as hospitality and tourism sectors as profits are expected to improve from a now fully reopened economy. The Junior Market gains and activity are also being supported by the listing and trading of newly issued shares in EDUFOCAL Ltd., Spur Tree Spices Jamaica Ltd. and JFP Ltd. EDUFOCAL was the volume leader with 51,767,703 units (30.77%) followed by Spur Tree Spices Jamaica Ltd. with 39,247,826 units (23.33%) and JFP Ltd. with 18,329,884 units (10.90%); the three most recently listed companies.

presented opportunities in the industrial real estate market. This move to improve supply chain resiliency, along with the need for technological advancements, greater expected e-Commerce growth, and consumer spending are providing strong fundamentals for industrial real estate. Real estate also protects against inflation through the rental income generated. While property owners delayed increases in rental rates in 2020-2021 due to the effects of the pandemic on household and corporate income, the re-opened economy will support an improvement in employment and consumer demand for goods and services, which is expected to make property owners more willing to raise rental rates, in market segments where there is strong demand. There are also some commercial leases that have explicit rent escalators tied to inflation and sectors with shorter lease durations that can take advantage of reflationary rents relatively quickly². Investors in areas of the market that have high demand (industrial, affordable housing and commercial space for BPO companies) relative to supply could therefore also earn higher rental income that beats or reduces the erosion caused by the heightened inflation levels. While those with investments in areas of oversupply and vacant spaces (high-end residential and some commercial spaces) may be unable to raise rental rates, they may see improvements in occupancy rates buttressed by a pick-up in economic and commercial activity.

- **Infrastructure:** Infrastructure assets provide essential goods and services that society cannot do without, which helps to sustain demand and limits the overall volatility in income or cash flows. This considers both direct investment in infrastructure companies or projects, and indirect investment through funds that

invest in a range of infrastructure assets. Investors investing in such assets are also protected because the cash flows and asset values may have direct or indirect links to inflation. For example, as is seen currently with the rise in domestic electricity rates, regulated utilities usually factor in inflation when determining consumer rates and they are included in utility project costs that can affect a utility's rate base. Inflation is also factored in by toll road companies such as Transjamaica Highway. The concession agreement under which TJH operates the toll road has a rate adjustment mechanism, which considers inflationary pressures and exchange rate changes. As such, the toll rate should increase this year to account for higher inflation and exchange rate depreciation to protect its revenues and its ability to meet its operational and financial obligations. Notably, TJH has continued to recover from the pandemic induced loss reported in 2020 and actually surpassed its pre-pandemic Q4 traffic levels by 1.7% in the 2021 December quarter. Following this recovery, the increased traffic activity anticipated following the full reopening of schools and the economy, and a potential toll hike could result in higher profitability and dividend distribution this year.

- **Commodities:** Commodity prices tend to respond to economic and market forces—such as supply constraints and changes in global demand—that often drive the prices of other goods. One scenario that is currently playing out which has impacted oil, natural gas, corn, wheat and aluminium prices is the Russia-Ukraine war and the sanctions imposed on Russia. The drop in oil supply following an already low global oil inventory, and market responses to the potential implications of the sanctions on Russia, the 10th largest global oil

...An allocation to a blend of real assets may help preserve future purchasing power, potentially offsetting the weak or even negative inflation sensitivity of traditional portfolios concentrated in conventional stocks and bonds.

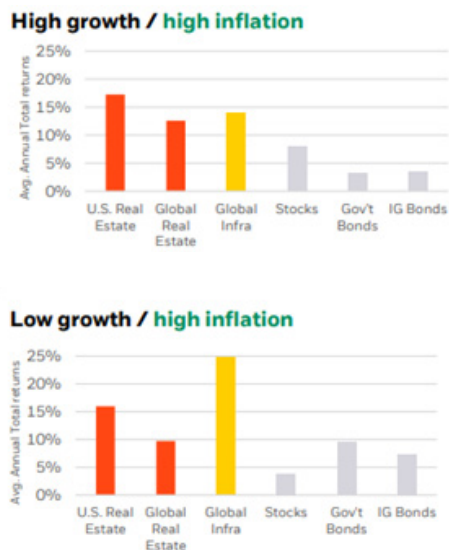
Natural resource equities that will benefit from commodity price increases, key real estate segments, and infrastructure assets and funds which will profit from both inflationary increases and rising consumption of goods and services, should also appreciate.

2 Cohen & Steers

supplier, influenced a rise in oil prices to a 13-year high of \$130 on March 6th. Other commodity prices such as wheat and corn have also risen significantly as Ukraine and Russia account for a third of the world's wheat³. Aluminium prices have risen by 28.2% since the start of the year as the European's output of aluminium declines due to uncertainty around natural gas supply, which is used in the production process, and the potential for sanctions to be placed on Rusal, one of the largest aluminium exporters, still looms. While commodity prices help to bolster higher inflation, investors that invest in these types of real assets directly or through derivatives⁴ would simultaneously hedge against the rise in consumer prices.

Considering these characteristics of real assets, a diversified portfolio may help investors to hedge and enhance their returns through their positive inflation responsiveness. The economic drivers of real assets are often directly or indirectly tied to inflationary trends, making them sensitive to changes in inflation. Additionally, the recent re-opening of the local economy will result in the release of pent-up consumer demand, which will also drive domestic inflation. Natural resource equities that will benefit from commodity price increases, key real estate segments, and infrastructure assets and funds which will profit from both inflationary increases and rising consumption of goods and services, should also appreciate. An allocation to a blend of real assets may help preserve future purchasing power, potentially offsetting the weak or even negative inflation sensitivity of traditional portfolios concentrated in those conventional stocks and bonds associated with sectors and companies that will be adversely impacted by the rise in inflation. Exposure to real assets should provide investors with the potential to protect their portfolio against inflation as well as provide diversification. Finally, real assets have historically provided appealing returns that can potentially improve risk-adjusted portfolio returns, without sacrificing growth potential⁵. Therefore, this could be an attractive strategy to overcome short-term volatility and protect one's purchasing power. Additionally, considering real asset's tendency to outperform other investment classes, it would be a good strategy to maintain exposure to such assets over the medium to long-term, but even more so now if inflation remains elevated for a prolonged period.

Figure 1: Over the past 20 years real assets have outperformed stocks and bonds during periods of high inflation



Source: BlackRock (2021)

Global Bond Prices

The US 10-Year Treasury increased from 2.155% to 2.481% after the Fed raised its benchmark rate on March 16, 2022, for the first time in three years and signalled continued rate increases. Fed Chairman, Jerome Powell indicated that the Committee may take a more aggressive approach to curb inflation. With price pressures so high, the Fed has indicated that it is willing to raise rates at a faster pace and in half-percentage-point steps, to rein in inflation, despite the possibility of derailing the economic recovery. It was made abundantly clear that their priority is the restoration of price stability regardless of the consequences, including a possible recession. This resulted in a risk-off market sentiment. The market is expected to remain volatile driven by the ongoing Russia-Ukraine crisis and the continued development of interest rates and inflationary themes.

³ Wheat and corn prices have risen by about 38% and 27%, respectively, since the start of the year.

⁴ This is an arrangement or product (such as a future, option, or warrant) whose value derives from and is dependent on the value of an underlying asset, such as a commodity, currency, or security.

⁵ Cohen & Steer

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALESA 2026 (7.75%)	BB-/ Stable	105.200	6.48%	BUY
PETRO-RIO 2025 (6.50%)	BB-/ Stable	101.350	5.76%	BUY
GEOPAR 2027 (5.5%)	B+/ Stable	98.000	5.97%	BUY
NRG 2032 (3.88%)	BB+/ Stable	92.000	4.90%	BUY

GOJ Globals

Jaman bond prices decreased week over week. Jaman 28s, 39s, and 45s closed with bids of 108.30, 127.70 and 126.50, respectively. Jaman bonds, like other EM bond prices, continue to face volatility as investors flock to more secure investment-grade bonds in light of the rising interest rate environment as central banks seek to reign in inflationary pressures. This is also being compounded by the Russia-Ukraine crisis, which could also slow growth in 2022, further limiting investor confidence.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	108.00	5.01%
	2039	126.0	5.45%
	2045	126.0	5.69%

*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	Coupon	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%

Foreign Exchange Market

The Jamaican dollar depreciated by 0.33% relative to the USD, week over week, with the USD moving from a weighted average selling rate of J\$153.57 on March 18, 2022, to J\$154.08 on March 25, 2022. There was no fundamental increase in USD demand. However, the main reason for the depreciation stems from a push for higher rates from holders of USD.

Selling	Close: 18/03/22	Close: 25/03/22	Change
J\$/US\$1	\$153.57	\$154.08	-\$0.51
J\$/CDN\$1	\$121.71	\$122.17	-\$0.45
J\$/GBP£1	\$201.46	\$202.15	-\$0.69

Money Market

As JMD liquidity tightens, this will continue to heighten competition for cash by market players such as DTIs and brokers, to maintain liquid asset ratios and stay sufficiently liquid (cash). Therefore, rates are anticipated to remain elevated. As at 24th March, a total of J\$34.00B was in the market. Market players were mostly square last week. Overnight lending was limited and took place at rates as high as 5.75% – 6.50%. The average yield from the Bank of Jamaica's (BOJ) competitive auction also remains elevated with the yield on its 30-days CD decreased to 6.41% relative to 6.50% in the prior week. The highest bid for full allocation was 6.99999%.

In contrast, the USD money market is expected to remain stable, despite changes in market activity affecting liquidity. We anticipate USD liquidity to be moderately stable in upcoming months, as whilst tourism inflows are unlikely to offset demand, remittance inflows and the BOJ's injection of USD, as it seeks to sterilize JMD liquidity through its BFXITT auctions should support USD liquidity. Broker market demand for USD remains at 30-days and longer-tenured funds, with some brokers offering as high as 5.00% to clients.

Dates to watch this week

March - April 2022

MON	TUE	WED	THUR	FRI
28	29	30	31	1
U.S. Goods Trade Balance (Jan)	SVL Dividend Payment (\$0.26)	Great Britain Current Account (Q4)	Great Britain GDP YoY (Q4)	U.S. Unemployment Rate (Mar)
	BOJ Policy Rate Announcement	U.S. GDP QoQ (Q4)	Canada GDP (MoM) (Jan)	GHL Dividend Payment (TT\$0.52)
			Eppley Dividend Payment (\$1.05)	
			PanJam Dividend Payment (\$0.285)	
			CPFV Annual / Extra-Ordinary General Meeting	

■ International ■ Local

Stock Recommendations

Ticker	Closing Price (March 25)	Current Recommendation
MAILPAC	\$3.64	BUY
WISYNCO	\$19.67	HOLD
FTNA	\$10.05	HOLD
JBG	\$26.83	HOLD
JMMBGL	\$42.89	HOLD
MASSY	\$99.99	BUY
JAMT	\$3.63	BUY
JSE	\$17.38	HOLD
PROVEN (JMD)	\$35.58	BUY
PROVEN (USD)	\$0.23	BUY
SCIJMD	\$15.02	BUY
LAB	\$3.31	HOLD
SJ	\$57.06	HOLD
SEP	\$57.79	BUY
QWI	\$0.90	HOLD
GK	\$103.73	BUY
CCC	\$67.69	BUY
KEX	\$8.00	HOLD

Regional News

The Caribbean: Caught In A Perfect Economic Storm (MENAFN- Caribbean News Global)

The Prime Ministers of Belize and Barbados, both stressed the importance of a unified response to the multiplicity of global economic challenges facing the region. The emphasis now, they suggested, must be on actions that result in self-reliance and resilience. CARICOM heads agreed that the region urgently needed to implement measures intended to create self-sufficiency in food production and energy, deliver an effective and viable CARICOM Single Market and Economy (CSME), and more aggressively seek out the funding required to drive regional economic recovery.

To coordinate this, a resuscitated and enlarged CARICOM Economic Recovery Committee is to meet to recommend how these and other overlapping strategic issues, including post-pandemic recovery, long-term indebtedness, the shameful absence of international resources to support climate change adaptation, and measures to offset the alarming global economic disruption caused by Russia's invasion of

Ukraine. Whether member states can rapidly achieve even a part of what is required is unclear, but as Prime Minister Mottley pointed out, without a unified response, the region's development trajectory will be derailed.

Bahamas' Growth 'More Than Double' Projections (IMF and The Tribune)

The International Monetary Fund (IMF) revealed that the Bahamas exceeded its economic growth projections for 2021. The country had achieved more than double the projected gross domestic product (GDP) growth with actual economic output expanding by 5.5% relative to the forecasted 2%. However, the faster-than-anticipated reflation of the Bahamian economy following the COVID-19 pandemic, coupled with the impact of soaring global inflation and uncertainties caused by Russia's invasion of Ukraine, has resulted in the IMF reducing 2022's growth forecast by two percentage points from 8 per cent to 6 per cent. However, GDP growth estimates for 2023 have been maintained at 4.1%.

The Bahamas' tourism-dependent economy was hit hard by the COVID-19 pandemic, which came on the heels of the devastation caused by Hurricane Dorian. While the economy is recovering strongly, the pandemic has exacted a tragic human and social toll and caused a significant weakening in public finances. Coupled with an increase in construction activity, the output is estimated to have expanded by around 5.5% last year. Real GDP growth is estimated at around 6% this year, although a full recovery to pre-pandemic levels is not expected before the end of 2023. Furthermore, inflationary pressures are building in line with global developments and are expected to ease only gradually.

Risks to the outlook are however significant. A re-intensification of the pandemic cannot be discarded. With about 40 per cent of the population fully vaccinated, the emergence of new COVID-19 variants could prolong the pandemic and induce renewed economic disruptions. Alternatively, rising cases in source countries could dissuade travel and lead to a renewed decline in tourism. Higher food and oil prices, because of the effects of the war in Ukraine, could erode consumer demand and impose a particularly heavy burden on the vulnerable.

Let's Wait and See Impact on Government Revenue (Trinidad Express Newspapers)

Trinidad & Tobago Energy Minister Stuart Young has indicated that higher global ammonia prices, owing to supply issues created by the Russia-Ukraine conflict, should result in more revenue for the Government in the current fiscal year. The global market for fertilisers has been in turmoil recently as a result of higher global prices for natural gas, which is used to make ammonia. The war in Eastern Europe has pushed fertiliser prices even higher as Russia is a major exporter of potash, phosphate, and nitrogen-based fertilisers.

According to the International Food Policy Research Institute, Russia accounts for 15% of global trade in nitrogenous fertilisers, 17% of global potash fertiliser exports, and 20% of the global natural gas trade, a key component in manufacturing fertilisers. Notably, earlier this month, the country announced that it would temporarily halt exports of fertilisers. T&T has ten operational ammonia plants, including two ammonia complexes on the Point Lisas Industrial Estate, with a total annual nominal capacity of about five million metric tonnes. Most of the ammonia produced at the Point Lisas Industrial Estate is exported, therefore the country should see an increase in revenue from petrochemicals. However, given the dynamics playing out in global markets, the ministry will have to employ a wait-and-see approach for revenue collection in 2022.

International News

Traders Warn of Russia-Related Diesel and Gas Shortages (Reuters)

The Energy and commodity markets are in shock after Russia invaded Ukraine, the world's top trading firms said on Tuesday, warning of gas and diesel shortages in Europe and economic recession if Russian flows fall further. Prices across gas, oil, metals and agricultural markets have soared since the invasion and become so volatile that companies have had to cut traded volumes owing to strained liquidity. The chief executives of four of the biggest energy traders - Vitol, Gunvor, Mercuria and Trafigura - said the gas market, in particular, had become dysfunctional owing to unmanageable margin calls.

Vitol CEO Russell Hardy told the FT Commodities Global Summit that the longer the war goes on, the greater the chance of an economic recession. Russia calls the biggest invasion in Europe since World War Two a "special military operation" to disarm Ukraine and protect it from "Nazis". The West says this is a false pretext for an unprovoked war against a

democratic country. Energy markets had little spare capacity even before Russia launched its invasion on Feb. 24. They will now struggle to absorb the potential loss of about 2.0Mn barrels per day (bpd) of oil from Russia, which competes with Saudi Arabia as the world's biggest oil exporter.

U.S, EU, Allies Block Belarus' Bid To Join WTO (Reuters)

The United States, the European Union and largely western allies have blocked Belarus' bid to join the World Trade Organization, saying its complicity in Russia's invasion of Ukraine makes it unfit for membership in the global trade group. G7 countries and allies have already stripped Moscow of its privileged trade treatment at the WTO, known as "most favoured nation" status, clearing the way for them to hit Russian imports with higher tariffs or ban them entirely.

The western group halted work on Belarus' WTO accession process after President Alexander Lukashenko crushed protests following his 2020 re-election that opponents say was fraudulent. The group on Thursday said in a document filed at the WTO that it strongly condemned Russia's unprovoked military aggression against Ukraine, enabled by Belarus. Russia, which calls its actions in Ukraine a special operation, has used Belarusian territory to launch its attack.

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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