CAPITAL MARKETS LIMITED

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Market Guide

THIS ISSUE

"You get recessions; you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets." ~ Peter Lynch

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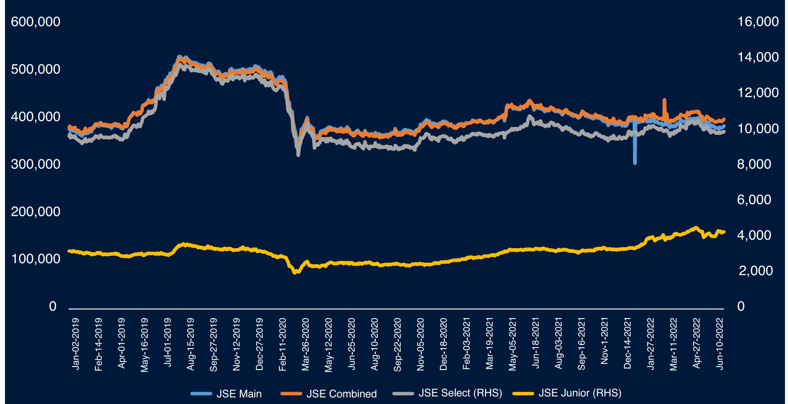
Positioning Your Portfolio In Face of Possible Recession

Although many economies are still recovering from the pandemic, risks of recession are increasing, sparking investor fears and prompting declines in financial markets; however, these effects can be mitigated with portfolio strategies. Heightened geopolitical tension, as a result of Russia's war on Ukraine, is driving prices of key commodities higher following the challenges caused by supply chain disruptions in 2020. The record-high annual inflation stemming from these challenges is driving Central Banks around the world to pursue aggressive hikes in their benchmark rates. The associated fears stem from the fact that raising interest makes mortgages, car loans and overall borrowing more expensive, which could dampen investments and spending, weakening economic activity. At the same time, record-high inflation is reducing consumer disposable incomes and with it their spending power, which is also lowering demand for goods and services. In a recent article, brokerage firm Nomura Holdings forecasts that several major economies are heading into a recession in the next 12 months. In addition to the US, other countries included the euro area, the U.K., Japan, South Korea, Australia and Canada. Additionally, Citigroup, in assessing global economic growth over the next 18 months, sees a 50% probability of a global recession happening, while Goldman Sachs has put the odds of a recession for the U.S. in the next year at 30%. While there is not a general consensus that there is a pending recession, especially as the US job market remains strong, the existing fears combined with the rising interest rate environment continue to influence lower stock valuations and bond prices. As such, it is important for investors to watch economic and financial conditions in these major markets, which are major sources for exports and imports for Jamaica, and position their portfolios to withstand the adverse effects of a possible US or global recession.

What are some of the signs of a pending US recession?

Predicting a recession can be difficult; however, there are indicators that can help assess whether a recession is likely to occur. An inverted yield curve[1] is seen as a leading indicator of an impending recession, with the spread between the US 2-year and 10-year Treasury (2/10) securities being the most popular metric. On July 6, 2022, the yield curve inverted for the third time in 2022, with the spread falling to -0.04%[2] . The 2/10 part of the yield curve has inverted 28 times since 1900, and in 22 of these instances, a recession followed[3] . When the yield curve is inverted, it indicates a view among investors that there is greater risk to the economy in the short run, hence higher

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	395,031.53	- 5,188.21	-1.5%
Main Market Index	380,737.91	- 5,589.41	-3.9%
Select Index	9,845.14	- 129.75	-0.4%
Junior Market Index	4,341.21	+4.18	26.6%

WINNERS & LOSERS (FOR THE WEEK ENDED JULY 11, 2022)

	$ Change	% Change
SSLVC	+$0.65	+22.73%
ECL	+$0.83	+15.75%
ISP	-$5.47	-24.31%
AMG	-$0.73	-15.63%

MARKET OVERVIEW

Investor sentiment appeared to turn negative last week with 72 of the 117 stocks that traded across the JSE indices declining, while 31 advanced and 14 traded firm. Against this backdrop, all major indices declined, save the Junior Market Index, which advanced virtually by 0.10%. The Main Market index posted the largest decline of 1.45% led by the decline in major market capitalization stocks such as NCB Financial Group Limited (-2.50%) and Massy Holdings Limited (-0.70%). Additionally, the depreciation in stock prices of firms such as Eppley Caribbean Property Fund (-15.30%) and Radio Jamaica Limited (-11.03%) as well as others also contributed to the decline in the index. There was no news released by the decliners, except for Eppley Caribbean Property Fund, which recently concluded its share buyback on July 1, 2022. Consequently, the fall experienced last week was likely due to a fall in demand for the stock, following the buyback in the previous week.

Overall the main advancer for the week ending July 8, 2022, was SSL Venture Capital (SSLVC), which gained 22.73% to close at $3.51. Since the news of the acquisition in May 2022 of SSLVC by MFS Acquisition Limited, the stock price has soared. Month to date the stock price has increased by 19.29% and year to date it has almost tripled (272.9%). This appreciation could be attributed to investors' sentiment increasing due to the acquisition and expected plans for the company to increase its financial performance.

1. A yield curve illustrates the interest rates on bonds of increasing maturities and is normally upward sloping, with long-term bonds having higher interest rates given the inherent higher risk such as rising inflation and default risk. An inverted yield curve occurs when the interest rates on bonds with shorter terms to maturity of the same credit quality exceeds the longer maturities.

short-term rates. A prolonged period of stock market declines[4] is another leading indicator of a recession. After hitting record highs in 2021, the US stock market has been trending downward[5] this year against the background of persistently high inflation and increasingly aggressive monetary policy tightening. The S&P 500 hit bear market territory (a 20%+ decline) on June 14. Consumer confidence[6] is another important gauge of a possible recession. According to the University of Michigan survey, consumer sentiment was down to a record low of 50 from 58.4 in May due to increasing inflation concerns[7]. Additionally, the Conference Board Consumer Confidence Index fell to 98.7 in June from 103.2 in May 2022. Should consumer sentiment remain subdued for a sustained period, it could contribute to a slowdown of the economy and eventually lead to a recession as investors would opt to reduce their spending and save more money. Furthermore, a Federal Reserve tracker of economic growth is pointing to an increased chance that the U.S. economy has already entered a recession. The Atlanta Fed's GDPNow measure, which tracks economic data in real time and adjusts continuously, sees second-quarter output contracting by 1.2%. Considering the first-quarter's decline of 1.6%, that would fit the technical definition of a recession[8].

While some economic indicators point to a possible recession, it is possible there will only be a slowdown in the US economy, as the labour market remains strong. The economy saw job gains of 372,000 in June relative to an expected increase of 278,000 and marks 4 consecutive months with almost 400,000 jobs being created. Furthermore, the unemployment rate remains near historical lows at 3.6% and is hardly consistent with an economic downturn.

What would a US recession mean for the local economy?

Given that the US is our largest source for remittances, tourism, exports, and imports, a recession in this economy could reduce domestic and external demand, resulting in a decline in local economic output and corporate profits. This would exacerbate the current weakening in the growth outlook stemming from elevated interest rates and inflation owing to high commodity prices and supply chain issues. Further, an economic recession in major economies, such as the US, could result in lower investment flows into the country and weaken net international reserves and foreign exchange stability. Overall, there would likely be a general decline in aggregate demand for local goods and services which could result in lower profitability and a fall in local asset prices, especially in industries that do not produce essential commodities and basic needs products.

Positioning Your Portfolio

Although there is no definitive conclusion that the US is entering a recession, financial markets are already being impacted by fears around same, and an actual recession would have adverse spillover effects on our local economy and financial markets. As such, it is important to position one's portfolio to combat the potential effects, through diversification, investment in defensive and inflation-hedging sectors, value stocks, and companies with strong pricing power. Diversification remains important to help eliminate company-specific and asset-specific risks. Therefore, investing in different types of securities (not just stocks) remains important. Given that a near-term recession would be associated with elevated inflation and interest rates, a Barbell portfolio strategy[9] could be

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2 The two- to 10-year segment of the yield curve inverted in late March for the first time since 2019 and again in June.

3. Reuters (July 2022)

4. On a 12-month rolling basis, the market has turned down ahead of the last two recessions (Journal of Accountancy)

5. From the start of the year to July 8, 2022, the index declined by 18.70%, and 3.3% on June 16, one day after the Fed raised rates .

6 Consumer confidence an economic indicator that measures how optimistic consumers feel about their finances and the state of the economy. In the US, two indices that measure consumer confidence are the University of Michigan Consumer Sentiment Index and the Conference Board Consumer Confidence Index.

7 Inflation expectations for the year ahead remained elevated at 5.3%, while long-run inflation expectations moderated, falling to 3.1% from the preliminary report's 3.3%.

8 A technical recession is when a country faces a back-to-back decline (for two consecutive quarters) in the GDP.

9 Pair short term bonds (<5 years) with longer-term bonds (>5 years)

applied to bonds. It offers investors an opportunity to gain exposure to a combination of high and low-risk bonds, creating a balance between reward and risk to improve the risk-adjusted return. Further, diversify portfolios across different industries with strong fundamentals and a stable outlook. In a recession, defensive industries can aid the performance of portfolios as they are viewed as relatively stable or relatively immune to economic fluctuations. Examples of such industries include: utilities, consumer staples, healthcare, freight and logistics, among others. During recessions, defensive industries attract the most investors and are regarded as a lucrative investment opportunity. Additionally, although it is common to rotate out of growth stocks into value stocks in the current environment, which has been seen in the international space, both growth and value stocks still present opportunities in the local stock market. There is still high support for Junior market growth stocks owing to healthy consumer demand and supply, and tax incentives which bolster their profitability and ability to create greater shareholder value. However, there are also undervalued stocks that present opportunities especially in the financial, entertainment, tourism and transportation industries. Further, inflation-hedging industries such as infrastructure, real estate, and companies with strong pricing power also provide suitable investment opportunities as you position your portfolio to combat high inflation and a potential recession. While it may be too early to officially declare a recession, it is never too early for an investor to position and protect their portfolios in the event of a prolonged economic downturn, or worse a recession.

Foreign Exchange Market

The Jamaican dollar depreciated by 0.35% relative to the USD, week over week, with the USD selling rate moving from J$151.56 on July 1, 2022, to J$152.09 on July 8, 2022. This depreciation of the JMD against the greenback was supported by higher demand for the USD in the market.

Selling	Close: 01/07/22	Close: 08/07/22	Change
J$/US$1	$151.56	$152.09	+$0.53
J$/CDN$1	$121.24	$116.57	-$4.67
J$/GBP£1	$181.71	$182.95	-$1.24

Global Bond Prices

The market was substantially weaker last week with very little activity as it was a short week in the U.S. due to the 4th of July holiday on Monday. Data released showed that the US job market remains strong with Non-Farm payrolls increasing by 372,000 in June, well above the 265,000 estimate. The private payroll jumped 381,000, which was much stronger than the 233,000 forecast, whilst the unemployment rate remained unchanged at 3.6%.

However, there is persistent concern about rising inflation and recession fears in the economy, as a wait-and-see approach is adopted in the market. Treasury yields increased last week, with the 10-year closing at 2.93%.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALSEA 2026 (7.75%)	BB-/ Stable	92.50	8.86%	BUY
PETRO-RIO 2026 (6.13%)	BB-/ Stable	94.00	7.94%	BUY
Sagicor Fin 2028 (5.30%)	BB-/ Stable	94.75	6.39%	BUY
DOM REP 2033 (6.00%)	BB-/ Stable	86.00	7.98%	BUY
GEOPAR 2027 (5.5%)	B+/ Stable	86.50	9.23%	BUY
TPHLTT 2029 (9.00%)	BB	105.60	7.95%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	103.25	6.03%	BUY
BERMUD 2027 (3.72%)	A+/ Stable	99.25	3.90%	BUY

GOJ Globals

The Jamaican global bond prices declined along the curve, as volatility persisted throughout the week. The Jaman 28s, 39s, and 45s closed with bids of 106.000, 110.000 and 105.750, respectively.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	106.000	5.52%
	2039	110.000	6.97%
	2045	105.750	7.35%

*NB: The rates quoted above are opening indicative levels on the international market and are subject to change as market conditions vary throughout the trading session. Additionally, the prices quoted to clients of NCB Capital Market Limited (NCBCML) are adjusted to reflect the costs associated with completing the transaction on the respective client's behalf.

Local Corporate Bonds

Name	Maturity	Coupn	Price	Yield
GHL	2026	6.75%	105.00	6.47%
JBG	2028	6.75%	104.20	5.95%
Seprod	2024	7.25%	103.55	5.70%

Money Market

On Friday, July 15, the latest inflation figure for June 2022 will be released by STATIN. It is widely anticipated that the rate will be higher than the previous 10.9% seen in May as the central bank had projected that inflation will peak within the range of 12.0% and 15.0% by June 2022. "This is a Category Five hurricane that we're enduring and trying to survive," is a direct quote from Richard Byles, the Governor of the Bank of Jamaica (BOJ), following the BOJ's position to continue hiking interest rates. This statement came as the Bank effected an additional 50 basis points increase on June 30, 2022, bringing the policy interest rate to 5.50%. While there are concerns that these sustained hikes in the rate could trigger an economic recession, the BOJ has stated that it is not seeing signs of a potential recession currently considering its gradual increases in its rate and constant monitoring of incoming economic data. In addition to the policy rate hike, tight JMD liquidity conditions persist as the BOJ seeks to rein in inflation using tools such as GOJ's auctions and/or B-FXITT auctions.

Ultimately the BOJ's actions will put further pressure on already tight liquidity conditions. As JMD liquidity tightens, this will further lead to high levels of competition for cash by market players such as DTIs to maintain their liquid asset ratios. Therefore, rates are anticipated to remain elevated. As at the 7th of July, a total of J$15.5Bn was in the market, with much of it being held by DTIs as represented by the BOJ's aggregate current balances. The July 7th figure represents a 46.9% decrease in liquidity week-over-week. Further, in the last two weeks, liquidity has deteriorated rapidly, with the total fall in liquidity at 57.9% (as at June 23rd there was J$32.8Bn in the market vs J$15.5Bn as at July 7th).

In contrast, the USD money market is expected to remain stable, despite changes in market activity affecting liquidity. Jamaica has welcomed 1,117,137 stopover visitors since the start of the year, which has generated just over US$1.5Bn in earnings. These earnings along with the anticipated tourism inflows for the summer period will contribute to offsetting demand. There were no B-FXITT auctions last week; the last operation was held on May 13th. However, it is expected that BOJ will continue to push USD liquidity to the market, as it deems necessary, in an effort to bring inflation back in line. Broker market demand for USD remains at 30-days and longer-tenured funds, with some brokers offering as high as 5.25% to clients.

Stock Recommendations

Ticker	Closing Price (July 11)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$20.02	19.7x	17.9x	BUY
JMMBGL	$42.67	7.4x	12.0x	HOLD
MASSY	$91.61	13.0x	12.4x	BUY
JAMT	$3.00	15.9x	23.9x	BUY
PROVEN (JMD)	$35.50	10.6x	12.0x	BUY
LAB	$2.76	19.9x	19.8x	BUY
SJ	$55.01	11.7x	12.0x	HOLD
SEP	$71.71	25.1x	16.1x	HOLD
QWI	$0.87	4.0x	12.0x	HOLD
GK	$99.11	12.1x	12.4x	BUY
CCC	$63.82	12.7x	17.2x	BUY
PJAM	$66.00	9.5x	12.0x	BUY
KW	$38.12	16.8x	17.2x	BUY
LUMBER	$3.06	11.4x	24.7x	BUY
TROPICAL	$2.90	26.9x	24.7x	HOLD
ELITE	$3.66	32.2x	19.8x	BUY

Dates to watch this week

July 2022

MON	TUE	WED	THUR	FRI
11	12	13	14	15
JMMBGL Dividend Payment $0.25 per share	FOSRICH AGM (YoY)	USA CPI (MoM) (June)	JAM International Trade (Statin) (Mar)	JAM CPI (Statin) (Jun)
China Trade Balance (June)	GBP GDP (YoY)		USA PPI (MoM) (June)	AFS & LAB Dividend Payment $0.30 per share & $0.039 respectively CPFV Dividend Payment $BBD 0.0015 per share

Regional News

Hydrocarbons Remain Central To T&T's Outlook (Fitch Solutions)

T&T's hydrocarbons sector will remain a central driver of growth in the coming years. In 2008, the sector accounted for half of GDP, but it fell into a broad decline in 2011 as its natural gas and crude oil fields began to mature, which was compounded by the collapse of oil prices in 2015.

However, rebounding energy prices from H2 2020 will benefit the gas sector as a whole, supporting production and investor interest in T&T's untapped reserves over the near term. Notably, a challenging operating environment will most likely keep investment in the sector relatively subdued, undermining its long-term outlook.

Increased demand for natural gas in the coming years will divert investment flows meant for oil projects to natural gas projects, as the global energy market looks to shift away from high-carbon-emitting energy sources. Given T&T's continuing dependence on its hydrocarbons sector, fluctuating energy prices will present persistent risks to growth. However, over the coming quarters, Fitch Solutions expects rebounding energy prices to ease risks to T&T's external accounts. Stronger external accounts will allow imports to rise, which would allow pent-up demand for capital goods to rise, boosting investment. A sustained increase in prices would also make upstream exploration and development more attractive to international oil companies.

IMF Executive Board Concludes 2022 Article IV Consultation with the Dominican Republic (IMF)

The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Dominican Republic and considered and endorsed the staff appraisal without a meeting. The Dominican Republic continued to show remarkable resilience to global shocks, supported by sound policies, monetary policy support, a nimble COVID vaccination campaign and a well-attuned reopening that allowed the economy to make the most of the global rebound last year. This resilience and strong signals of policy sustainability are placing the Dominican economy in a good position to face emerging global challenges going forward. The outlook points to a continued recovery, though global developments pose risks. GDP growth would converge to its potential and inflation would return to the target range by next year, as the impact of global shocks recedes in the context of financial stability and a sound external position.

As for risks, the war in Ukraine may have a stronger-than-expected effect on global growth and inflation. The pandemic, while well-contained in the Dominican Republic, may downgrade growth in other regions, and monetary policy tightening in the United States may have a stronger-than-expected impact on capital flows. The authorities have responded with temporary measures while maintaining budget discipline through expenditure control and executing proactive debt-management that reduced financing risks.

International News

EU Chief Warns Of Danger Of Complete Cut-Off Of Russian Gas (AP News)

European Commission chief Ursula von der Leyen said that the 27-nation European Union needs to make emergency plans to prepare for a complete cut-off of Russian gas in the wake of the Kremlin's war in Ukraine.

The EU has already imposed sanctions on Russia, including on some energy supplies, and is steering away from Kremlin-controlled deliveries. But the head of the EU's executive branch said the bloc needed to be ready for shock disruptions coming from Moscow, and said the first plans would be presented by the middle of the month.

Energy, and the prospect of a winter without enough heating for homes or power to keep factories going, could now pose a similar challenge to EU solidarity and a source for populist-spawned division."It is very important to have a European overview and a coordinated approach to a potential complete cut off of Russian gas," von der Leyen said. A dozen members have already been hit by reductions or full cuts in gas supplies as the political standoff with Moscow over the Ukraine invasion intensifies.

The EU has not included gas — a fuel used to power factories and generate electricity — in its own sanctions for fear of seriously harming the European economy. Before the war in Ukraine, it relied on Russia for 25% of its oil and 40% of its natural gas. In the meantime, the average monthly import of Russian pipeline gas is declining by 33% compared with last year, von der Leyen said as she called for a speedy transition toward renewable sources of energy.

U.S. Labour Market Starts To Cool As Weekly Jobless Claims Rise, Layoffs Surge (Reuters)

The number of Americans filing new claims for unemployment benefits unexpectedly rose last week and there are growing signs that demand for labour is cooling, with layoffs surging to a 16-month high in June as the Federal Reserve's aggressive monetary policy tightening stokes recession fears.

But the weekly jobless claims data from the Labour Department on Thursday was likely distorted by Monday's Independence Day holiday, which resulted in several states, including California, submitting estimates. Nevertheless, the labor market is losing momentum."This is what the Fed wants, but it needs to be orderly to avoid an increase in recession risks," said Ryan Sweet, a senior economist at Moody's Analytics in West Chester, Pennsylvania.

Initial claims for state unemployment benefits increased 4,000 to a seasonally adjusted 235,000 for the week ended July 2, the highest level since January. Economists say claims need to rise above 250,000 on a sustained basis to raise concerns about the labour market's health.

Claims could become even more volatile in the weeks ahead. Automobile manufacturers typically close assembly plants for annual retooling after the Independence Day holiday, which is anticipated by the seasonal factors, the model that the government uses to strip out seasonal fluctuations from the data. However, a global semiconductor shortage has forced manufacturers to adjust their schedules.

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.