CAPITAL MARKETS LIMITED

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Market Guide

THIS ISSUE

Positive Outlook for Caribbean Growth in 2022 as Tourism Rebounds, Though Risks Loom

Foreign Exchange Market Summary

Money Market Update

Stock Recommendations

"A market downturn doesn't bother us. It is an opportunity to increase our ownership of great companies with great management at good prices."
~ Warren Buffett

Annya Walker, CFA
VP Strategy Research
Innovation & Projects
(876) 935-2716
walkerad@jncb.com

Jamelia Jalaalwalikraam
Research Analyst
Jalaalwalikraamjt@jncb.com

Chivel Greenland, FMVA
Research Analyst
greenlandcy@jncb.com

Reyna Samuels
Junior Research Analyst
samuelsrt@jncb.com

Oneka Taylor
Junior Research Analyst
tayloron@jncb.com

David Bailey, CBCA
Junior Research Analyst
baileydj@jncb.com

Ainsworth McDonald, FMVA
Junior Research Analyst
McDonaldAJ@jncb.com

NCB Capital Markets Ltd | NCB Capital Markets (Barbados) Ltd
NCB Capital Markets (Cayman) Ltd. | NCB Merchant Bank (Trinidad & Tobago) Ltd

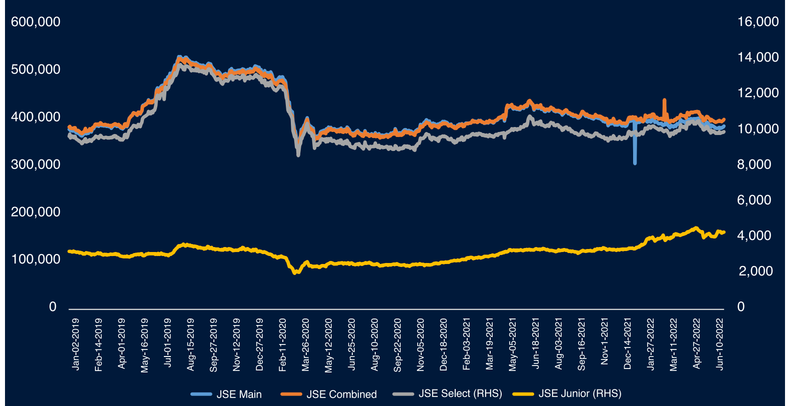
Positive Outlook for Caribbean Growth in 2022 as Tourism Rebounds, Though Risks Loom

Despite the risks of a protracted period of low growth-high inflation globally, the near-term outlook for growth in the Caribbean region is positive as tourism rebounds. Like many countries globally, the region is feeling the pinch of higher prices of key commodities and imported products, with some, including Jamaica, seeing a surge in consumer prices. However, the Caribbean is forecasted to see robust growth of 6.9% for 2022, 0.4 percentage points below January's projections. Growth is forecasted to slow slightly to 6.5% in 2023[1]. The continued recovery of tourism towards pre-pandemic levels is expected to be an important driver of growth for the region, supporting exports, employment, and investment. These glimmers of positivity are helping to dim the concerns around domestic stagflation on one hand. However, new inflation prints and GDP revisions have raised concerns about the possibility of stagflation[2] globally. Compounding the damage from the COVID-19 pandemic, Russia's war on Ukraine has magnified inflation in the global economy and central banks' policy actions to tame inflation are causing global growth to slow. As such, the global economy could be entering a protracted period of feeble growth and elevated inflation, according to the World Bank's latest Global Economic Prospects report. The combination of slower growth and high inflation have raised the risk of stagflation, which can potentially have more harmful consequences for middle- and low-income economies, such as Jamaica and its Caribbean neighbours. Global growth is now expected to slow from 5.7% in 2021 to 2.9% in 2022— significantly lower than the 4.1% that was anticipated in January[3]. It is expected to hover around that pace from 2023-24, as the war in Ukraine disrupts global economic activity, investment, and trade in the near term, and as pent-up demand fades, and fiscal and monetary policy accommodations are withdrawn. As a result of the damage from the pandemic and the war, per capita income in developing economies this year will be nearly 5% below its pre-pandemic level.

There have been successive downward revisions in global growth since the start of the year, which along with other factors have heightened stagflation concerns. According to the Managing Director of the IMF, Kristalina Georgieva, this month in its World Economic Outlook Update, the IMF is set to administer its third cut[4] in global growth forecasts as inflation remains elevated

1The World Bank
2 Stagflation describes an economy with high unemployment and little to no growth even as prices are rising faster than normal.
3 Global Economic Prospects-World Bank Group (June 2022)
4 The IMF's warning follows its April downgrade for global expansion this year to 3.6%, from 4.4% seen before the war in Ukraine.

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	394,724.22	- 307.31	-1.6%
Main Market Index	380,664.04	- 73.87	-3.9%
Select Index	9,928.08	+ 82.94	0.5%
Junior Market Index	4,314.71	- 26.50	25.9%

WINNERS & LOSERS (FOR THE WEEK ENDED JULY 15, 2022)

	$ Change	% Change
ISP	+$12.47	+73.22%
AMG	+$0.93	+23.60%
KPREIT	-$1.62	-20.25%
FIRSTROCKUSD	-$0.01	-14.44%

MARKET OVERVIEW

Negative investor sentiment continued to persist last week with the overall market declining 3.9%. 66 of 115 listed stocks declined, 38 advanced and the remaining 11 traded firm. Six of the major indices declined; however, the Select, Cross-Listed and Financial indices advanced, albeit all less than 1%. The USD Equities index registered the largest falloff for the week (-1.49%) led by the declines in Proven USD shares (-6.6%) and First Rock Real Estate Investments USD shares (-14.4%). However, the Select Index recorded the most significant gains for the week fueled by an upward movement in the price for Scotia Group Jamaica (+2.6%) and Lasco Manufacturing (+4.2%).

At the individual stock level, the main advancer for the week was ISP Finance Services (ISP), which gained 73.2% to close at $29.50. There was no news to support the price movement in the advancer. On the flip side, the week's biggest decliner was KPREIT (-20.3%). This comes against the backdrop of a press release to the JSE last week where KPREIT announced that its wholly owned subsidiary, Kingston Properties Miami LLC, entered into another partnership agreement with Apex Development Group LLC (Apex) and has formed Polaris at East Point Partners LLC (Polaris EP). On July 13, Polaris EP closed on the acquisition of a 118-unit multi-family property located in East Point, Atlanta, Georgia. The property is a value-added opportunity that was acquired for a consideration of USD12.7Mn – with KPREIT owning a stake of approximately 45%. This acquisition marks KPREIT's second in the State of Georgia and brings the number of units held by the partnership to 273 or one-quarter of the goal of 1,000 units by 2024. The property will undergo phased improvements over the next two years to improve the tenant base. According to management, the market continues to see average annual rent growth of approximately 7.5% for apartment units.

and aggressive monetary tightening continues. This follows the World Bank's second downward revision in its economic growth forecast in June to 2.9%. These downgrades provide warnings that many countries could fall into a recession along with the risk of the US economy slipping into a period of stagflation reminiscent of the 1970s[5]. Stagflation prospects also rose last week as US inflation data showed consumer prices intensifying more than expected in June 2022, rising by 9.1% from a year ago and marking the fastest pace for inflation since November 1981. High inflation will continue to weaken consumers' real incomes and reduce demand for goods and services, which could further slow economic activity. It will also keep Fed officials on an aggressive policy course to rein in inflation by continuing to raise its benchmark rate, which could also weigh on growth by deterring investments.

Though the region is facing risks of high inflation, the pace of growth in Jamaica and the Caribbean is expected to be strong, buoyed by the recovery in tourism activity. Although the World Economic Outlook published in April 2022 by the IMF projected that the Caribbean would grow by 10.5% in real terms for 2022 and 9.1% in 2023, it is possible that these projections could be revised downwards owing to negative global developments. The World Bank in its June report stated that Jamaica is projected to grow by 3.2% in 2022 (up 0.2 percentage points) and 2.3% in 2023 (up 0.3 percentage points). While this is coupled with high inflation, there are signs that inflation could cool slightly, but remain elevated in the near-term. Locally, STATIN reported that the point-to-point inflation rate for June 2021 to June 2022 was 10.9%. Though stable relative to May's outturn, this remains firmly outside of the BOJ's 4% to 6% target range. There are expectations consistent with global consensus forecasts that commodity prices (oil and grains) will fall in the second half of the year and that local inflation will average 8.0% to 9.0% over the next two years. Global food commodity prices fell in June for the third consecutive month. The Food and Agriculture Organization (FAO) reported that the fall was led by declines in the international prices of vegetable oils, cereals, and sugar. The FAO Food Price Index averaged 154.2 points in June, down 3.7 points from May, marking the third consecutive monthly decline, though still 29 points above its value a year ago. Although consumers are not expected to see the immediate effects of this reduction, it is a positive signal that inflation pressures are easing. Recession jitters and the prospect of the US Federal Reserve implementing more aggressive increases in interest rates, which could stifle growth, have also resulted in crude prices dropping by around a fifth since mid-June. Oil prices fell below $95 a barrel for the first time since Russia invaded Ukraine, as fears of an impending global recession grip commodity markets and batter forecasts for demand. Given that high fuel prices have contributed to the high inflation, this is welcomed news. However, COVID lockdowns in China and Russia's war in Ukraine still pose risks to supply chains and the inflation outlook.

Although there are risks from high inflation and slowing global growth, the rebound in local tourism and strong employment numbers continue to ward off some of these concerns at this time. Jamaica's main economic engine (tourism) has contributed greatly to the increase in service workers and has seen strong growth since the reopening of the economy.

> Global growth is now expected to slow from 5.7% in 2021 to 2.9% in 2022— significantly lower than the 4.1% that was anticipated in January. It is expected to hover around that pace from 2023-24, as the war in Ukraine disrupts global economic activity, investment, and trade in the near term, and as pent-up demand fades, and fiscal and monetary policy accommodations are withdrawn.

The industry continues to fuel GDP growth as reflected in the 6.4% growth in the first quarter of the year with a 107.1% increase in the 'Hotels & Restaurants' division. This has influenced Jamaica's unemployment rate, which continues to trend in the right direction. In April 2022, the unemployment rate was 6.0%, this was 3 percentage points lower than the same quarter of the previous year. A proliferation of these positive trends and spillover effects to other sectors, as well as a possible reduction in inflation in the second half of the calendar year augur well for the 2022 outlook. However, there are various risks to the downside including Jamaica's vulnerability to external environments. The country is very dependent on countries such as the US. A slowdown in the economies of our major trading partners, or even a recession, will have spillover effects locally, especially as we enter 2023 and the base effects of the pandemic on the economy wanes.

5 The recovery from the stagflation of the 1970s required steep increases in interest rates in major advanced economies, which played a prominent role in triggering a string of financial crises in emerging market and developing economies. (The World Bank)

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Foreign Exchange Market

For the week ending July 15, 2022, the Jamaican dollar depreciated by 0.34% relative to the USD, to close the week at a selling rate of J$152.61. The overall pace depreciation was tempered by BOJ's intervention in the market. Due to concerns about the depreciation of the currency, the Bank intervened three times with a total of US$60 million, which tapered excess demand. Additionally, liquidity in the JMD market remains tight and as such, the Bank's intervention resulted in further JMD liquidity constraints in the market, while satisfying end-user demand in the FX market.

Selling	Close: 08/07/22	Close: 15/07/22	Change
J$/US$1	$152.09	$152.61	+$0.52
J$/CDN$1	$116.57	$117.26	+$0.69
J$/GBP£1	$182.95	$180.45	-$2.50

Global Bond Prices

Last week was a highly volatile and data-sensitive week. Wednesday saw the release of the June CPI report, which showed a 1.3% month-over-month increase that lifted the YoY growth rate to 9.1%, a level not seen since late 1981. The food index was up 9.1% relative to a year ago, while the energy index was up a stunning 41.6% year over year. Thursday's release of the June Producer Price Index (PPI) report did little to soothe fears about inflation as headline PPI increased 1.1% month-over-month, lifting the year-over-year PPI rate to 11.3%, just shy of the March peak (11.5%). Against this background, the Atlanta Fed's GDPNow forecast for Q2 GDP growth was lowered to -1.5% from -1.2% following last week's economic data. Following the inflation data releases and subsequent GDP revision, the 10-year Treasury closed at 2.92% down from 3.08%. The Fed is slated to meet on July 26th and 27th where another 75bps hike is expected and some are even predicting a full one percentage point increase.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALSEA 2026 (7.75%)	BB-/ Stable	91.25	10.27%	BUY
PETRO-RIO 2026 (6.13%)	BB-/ Stable	93.25	8.19%	BUY
Sagicor Fin 2028 (5.30%)	BB-/ Stable	94.00	6.56%	BUY
DOM REP 2033 (6.00%)	BB-/ Stable	84.50	8.22%	BUY
GEOPAR 2027 (5.5%)	B+/ Stable	81.75	10.73%	BUY
TPHLTT 2029 (9.00%)	BB	105.60	7.95%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	101.00	6.69%	BUY
BERMUD 2027 (3.72%)	A+/ Stable	99.00	3.96%	BUY

GOJ Globals

Jamaica bonds declined further last week, with a greater decline on the longer end. The Dominican Republic bonds also declined along the curve. Bond prices are expected to remain at these levels into the coming trading week.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	103.75	5.97%
	2039	107.25	7.24%
	2045	104.25	7.48%

*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	5.50%
JBG	2028	6.75%	104.20	5.95%
Seprod	2024	7.25%	103.55	5.70%

Money Market

The Bank of Jamaica (BOJ) has been increasing the policy interest rate in a bid to rein in the spike in inflation, but its actions are stoking recession fears. These fears heightened following the most recent increase in the policy interest rate from 5.00% to 5.50% due to expectations that inflation will continue to breach the target range. On Friday, STATIN released the most recent inflation figures which showed that the point-to-point inflation rate for June 2021 to June 2022 was 10.9%. While it remained flat relative to May's outturn, it was still firmly outside of the BOJ's 4% to 6% target range. Considering this and BOJ's expectations, tight liquidity conditions are expected to continue (and could intensify) in the market as the BOJ continues to focus efforts on guiding inflation back within its target range through GOJ's auctions and/or B-FXITT auctions.

JMD liquidity remains tight and continues to fuel competition for liquidity by market players such as DTIs, as they seek to maintain liquid asset ratios and stay sufficiently liquid. Consequently, rates are anticipated to remain elevated. As of the 14th of July, just J$7.56Bn was in the market relative to J$15.5Bn on July 7th as represented by the BOJ's aggregated current balances. Market players were mainly square last week with very limited lending; one-week lending rates were between 6.00% and 6.85%. The average yield from BOJ's competitive price auction remains elevated with the yield on its 30-day CD increasing to 7.27% relative to 7.10% in the prior week. The highest bid rate for full allocation was 7.65%. The elevated BOJ CD rates have consequently caused demand for higher rates in the market.

The USD money market remains stable and moderately liquid despite some market changes that may impact liquidity. Improved tourism inflows, remittance flows and USD sales by BOJ continue to support USD liquidity. However, with inflation in the US accelerating to 9.1% (the fastest year-over-year jump since 1981) along with reports of liquidity strains in US markets, USD liquidity locally could be adversely affected in the upcoming months. However, a notable counteraction to the possible threat to USD liquidity is the BOJ's continued injection of USD liquidity into the market. There were a series of B-FXITT auctions last week as the BOJ remains committed to maintaining relative stability in the foreign exchange market. It is anticipated that BOJ will continue to push USD liquidity as it continues to fight inflation. Broker market demand for USD remains at 30-days and longer-tenured funds.

Stock Recommendations

Ticker	Closing Price (July 15)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$19.93	19.5x	16.0x	BUY
JMMBGL	$43.29	7.4x	11.7x	HOLD
MASSY	$91.76	13.0x	12.3x	BUY
PROVEN (JMD)	$33.68	13.7x	15.9x	BUY
LAB	$3.06	21.9x	19.1x	BUY
SJ	$55.00	11.7x	11.7x	HOLD
SEP	$68.84	24.2x	16.0x	HOLD
QWI	$0.87	4.0x	11.7x	HOLD
GK	$99.14	11.9x	12.3x	BUY
CCC	$62.98	12.5x	18.1x	BUY
PJAM	$64.25	9.4x	11.7x	BUY
KW	$37.82	16.3x	18.1x	BUY
LUMBER	$2.92	10.8x	24.7x	BUY
TROPICAL	$2.81	26.0x	24.1x	HOLD
ELITE	$3.60	31.3x	19.2x	BUY

Dates to watch this week

July 2022

MON	TUE	WED	THUR	FRI
18	19	20	21	22
MJE Dividend Payment ($0.06)	CCC, QWI, JAMT Annual / Extra-Ordinary General Meetings	GBP Core CPI & Core PPI (YoY), (MoM), (Jun)		
	GBP Employment Change (MoM), (May)	CAN Core CPI (YoY), (MoM), (Jun)		
	US Housing Starts (MoM), (Jun)	138SL, LAB, SGJ Annual / Extra-Ordinary General Meetings		

Regional News

El Salvador finance minister says possible IMF deal no panacea (Reuters)

Salvadoran Finance Minister Alejandro Zelaya minimized on Thursday the potential positive impact of a long-delayed deal with the International Monetary Fund, even as the highly indebted country stares down a possible medium-term default. El Salvador announced it was negotiating a possible $1.3 billion loan with the IMF in March 2021, aimed at filling gaps in the Central American country's budget and reducing high costs associated with the country's debt, which in March surpassed $24 billion. The deal's future has looked uncertain since El Salvador rebuffed IMF calls for the government to reverse its decision to make bitcoin legal tender last September.

In his remarks on Thursday, Zelaya said discussions with the IMF continue but played down the deal's fiscal impact, which he said would amount to less than 10% of the national budget. "You have to put all these issues into context, but we're maintaining conversations and once we have something concrete we will announce it." Analysts including rating agency Moody's say the deal would boost El Salvador's credibility and help shore up its shaky finances. "I've seen that some analysts believe that the deal with the IMF is going to completely improve the health of the country's public finances, and no, it is one part of our strategy for improvement," Zelaya said.

Mexico's Credito Real says commercial court ordered its judicial liquidation (Reuters)

A commercial court recognized the dissolution of Mexico's Credito Real and ordered its judicial liquidation, the troubled payroll lender said in a filing on Thursday. Credito Real, reeling from a bond default, said in June it was aiming for an orderly restructuring of its debt.

Mexico's stock exchange suspended the firm's listing last month after the company struggled to meet its financial obligations. Shares in Credito Real fell more than 95% between January 2022 and its suspension. The company's board resigned in June after it cut ties with restructuring and legal advisors. Credito Real in February defaulted on a 170 million Swiss franc ($183 million) bond, prompting credit rating cuts by S&P and Fitch Ratings and a debt restructuring process. The company did not respond immediately to a request for comment.

International News

Top U.S. energy envoy expects further steps from OPEC producers on supplies (Reuters)

Major crude oil producers have spare capacity and are likely to boost supplies following President Joe Biden's visit to the Middle East, a senior U.S. energy envoy said on Sunday. Speaking on CBS' "Face the Nation," Amos Hochstein, senior U.S. State Department adviser for energy security, said: "Based on what we heard on the trip, I'm pretty confident that we'll see a few more steps in the coming weeks." Hochstein did not say which country or countries would boost production or by how much. "It's not just about Saudi...We met with the GCC, and with Saudi Arabia. I'm not going to go into how much spare capacity there is in Saudi Arabia and in UAE (the United Arab Emirates) and Kuwait etc. But there is additional spare capacity. There is room for increased production," he said.

GCC stands for Gulf Cooperation Council and includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Biden visited Saudi Arabia on Friday as part of his first trip to the Middle East as U.S. president, hoping to strike a deal on oil production to help drive down gasoline prices. A rise in U.S. gasoline prices to more than 40-year highs is fueling inflation and pummeling his ratings in opinion polls. But he has not secured a clear assurance on an oil production increase. Saudi Arabia's foreign minister said a U.S.-Arab summit on Saturday did not discuss oil. He said that OPEC+ would continue to assess market conditions and do what is necessary. OPEC+, which also includes Russia, meets next on Aug. 3. Oil prices rocketed to their highest levels since 2008, climbing above $139 a barrel in March, after the United States and Europe imposed sanctions on Russia over its invasion of Ukraine, which Moscow calls a "special military operation". Prices have slipped since then. Hochstein also said he expected to see U.S. gasoline prices to fall further towards $4 a gallon, after exceeding $5 a gallon earlier this year for the first time in history.

IMF chief sees 'exceptionally uncertain' global outlook, deteriorating debt situation (Reuters)

IMF chief Kristalina Georgieva on Saturday warned officials from the Group of 20 major economies to take urgent action to combat inflation, warning that the "exceptionally uncertain" global economic outlook could turn worse if higher prices persisted. Georgieva, speaking at a G20 finance official meeting in Indonesia, said Russia's intensifying war in Ukraine had increased pressure on commodity and energy prices, and global financial conditions were tightening more than expected. At the same time, pandemic-related disruptions and renewed supply chain bottlenecks continued to weigh on economic activity. The pressure was mounting on heavily-indebted countries, and the debt situation was "deteriorating fast," she said, according to a text of her remarks.

Oil jumps on soft dollar and supply jitters (Reuters)

Oil prices extended gains on Monday, boosted by a weaker dollar and tight supplies as concerns over gas supply from Russia mounted, offsetting demand fears brought on by a possible recession and China lockdowns. Brent crude futures for September settlement rose by $2.34, or 2.3%, to $103.50 a barrel by 1235 GMT, having gained 2.1% on Friday. U.S. West Texas Intermediate (WTI) crude futures for August delivery were up $1.89, or 1.9%, at $99.48 after rising by 1.9% in the previous session.

The U.S. dollar

Both Brent and WTI last week registered their biggest weekly declines for about a month on fears of a recession that would hit oil demand. Russian gas export monopoly Gazprom declared force majeure on gas supplies to Europe to at least one major customer, according to the letter seen by Reuters, potentially ratcheting up the continent's supply crunch. A trading source said the letter concerned supplies through the Nord Stream 1 pipeline, a major supply route to Germany and beyond.

"Brent crude will find support at the end of the week if Russia does not turn the gas back on to Germany after Nord Stream 1 maintenance," said OANDA senior analyst Jeffrey Halley. Meanwhile, mass COVID-testing exercises continue in parts of China this week, raising concerns over oil demand from the world's second-largest oil consumer. "Mounting demand concerns on another spike in COVID-19 cases in China amid a broader slowdown and resilient Russian output have weighed on oil prices recently," Barclays said in a note.

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