CAPITAL MARKETS LIMITED

July 26, 2022

Market Guide

THIS ISSUE

Worsening Credit Conditions Raise Default Risks For Emerging Markets

Foreign Exchange Market Summary

Money Market Update

Stock Recommendations

"The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioural discipline that are likely to get you where you want to go."

- Benjamin Graham

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

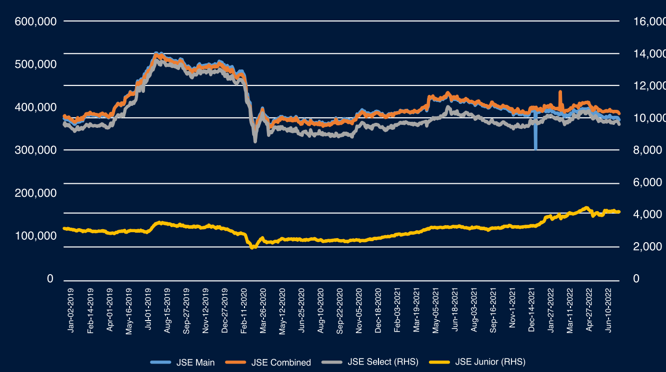
Worsening Credit Conditions Raise Default Risks For Emerging Markets

Financing conditions in emerging markets (EM) have been tightening since the middle of 2021, but this trend has gained momentum since the start of the Russia-Ukraine crisis. The inflationary shocks caused by the crisis have been felt most sharply in developing countries, where food and energy account for a greater proportion of family expenditure and sovereign imports than in established markets. Consequently, central banks in developing and emerging markets (EMs) started their cycle of rate hikes sooner than their counterparts in developed markets. Central banks have been forced to increase interest rates, but this has been at the risk of undermining economic activity. Further, higher levels of indebtedness among EMs, complicates their outlook given the possibility of a recession and higher rates in the U.S., along with a stronger dollar. With US interest rates set to rise further as inflation persists, the cost of financing operational activities and refinancing existing debt will continue to increase. These developments put a strain on credit metrics for EM sovereigns and corporates, which raises the risk of default and puts downward pressure on ratings. Thus far, the 12-month trailing EM speculative-grade default rate increased from 1.8%[1] on December 31, 2021 to 4% as of March 2022. Geopolitical risks and worsening credit conditions have resulted in benchmark and real yields rising sharply, most notably in the US and Latin America and the Caribbean (LatAm). The U.S. 10-year real yield has seen a sharp increase from a low of -1.097% to a high of 0.616% in July 2022[2]. Corporate credit spreads[3] are also widening steadily, particularly in LatAm and Europe, the Middle East and Africa (EEMEA) (due to their closeness to the Russia-Ukraine war).

At the start of the year Standard and Poor's EM ratings, reflected the recovery trajectory for corporates and sovereigns as re-opening boosted activity across most sectors and consumer optimism as the pandemic effects subside; however, there are now headwinds that could worsen performance expectations and credit conditions. These include persistent price pressures and supply disruptions, especially if the Russia-Ukraine geopolitical crisis continues to threaten global commodity supply and trade; tightening financing conditions driven by global inflationary pressures; slower growth in China; and the potential for a recession in the US[4]. The first quarter financial and economic performance releases reflected the positive

1 S&P Global Ratings
2 Federal Reserve Economic Data
3 Credit spread is the difference between the yield (return) of US treasury bond another debt instrument with the same maturity but different credit ratings/quality.
4 S&P Global Ratings

Weekly Movement in Indices



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	390,279.91	-4,444.31	-2.7%
Main Market Index	375,964.66	-4,699.38	-5.1%
Select Index	9,737.79	-190.29	-1.5%
Junior Market Index	4,309.11	-5.60	+25.7%

WINNERS & LOSERS (FOR THE WEEK ENDED JULY 22, 2022)

	$ Change	% Change
138SLVR	+$7.19	+32.2%
PTL	+$0.38	+25.3%
ISP	-$8.60	-29.0%
PBS9.75	-$29.50	-26.9%

MARKET OVERVIEW

The effects of seasonality and weak queues sustained the decline in the stock market seen in previous weeks. All indices declined, including the combined index which fell 1.13%. This was influenced by a decline in 59 of 118 listed stocks. Of the remainder, 50 advanced and 9 traded firm. The JSE Select index registered the largest falloff for the week (-1.92%) largely due to declines in the larger cap stocks such as SVL (-9.00%), Wisynco (-4.11%), among others. At the individual stock level, the main advancer for the week was 138 Student Living (138SLVR), which gained 32.2% to close at $29.49. On the flip side, the week's biggest decliner was ISP (-29.0%), erasing some of the gains (73.2%) it recorded in the prior week. The fall off being experienced is indicative of a weak queue, where a small change in volume is being matched by a large change in prices for the less liquid stocks. Additionally, the current downward trend in the stock market may partially be influenced by the effects of seasonality as stock markets usually experience a summer lull, given that investors go on vacations during this time, causing slow market activity and a fall off in its performance.

expectations through growth in GDP[5] and higher profitability (EBITDA) margins[6]. However, as S&P reports, the Russia-Ukraine conflict is derailing these trends and its knock-on effect began to show up in the second quarter of 2022[7] and will likely continue doing so for the rest of the year and 2023. This will be influenced by the effects of higher interest rates and stubborn inflation on weakening demand, consumer purchasing power and hence corporate profits and liquidity. A potential downturn in households' and corporates' financing capacity could also lower asset quality for some banks and non-bank financial institutions. At the same time, many EM sovereigns will likely need additional funding to support fiscal measures that offset increasing fuel and food prices. This could curtail consolidation efforts and increase debt burdens, which could in turn erode their credit quality[8]. These risks have increased the negative expectations among rating agencies. As such, the EM corporate high yield default forecast[9] has risen from 8.5% to 10.7% for 2022[10]. This is the second forecasted hike in a year amidst the negative outlook for the EM countries[11].

Although the economic risks are rising, EM and developed market central banks are forecasted to sustain rate hikes in an attempt to reduce inflation in the shortest possible time. In preparation, financial market volatility is rising, financial assets are all being repriced as investors re-evaluate risk and seek greater returns, and financing conditions have tightened making it harder for households, and businesses to repay or refinance debt. Financing costs for EM issuers are rising quickly. The previous few quarters in 2022 have seen EM with limited access to the credit markets, consequently, lower-rated issuers are having trouble refinancing their obligations. For example, the Mexican state-owned petroleum company, PEMEX, which has corporate family rating of B1 and Baseline Credit Assessment (BCA) rating[12] of caa3 from Moody's, tapped into global capital market in May 2022 to raise US$2.0Bn to refinance existing debt. However, although it offered a discount to investors, it was only able to raise US$1.5Bn. Notably, domestic capital markets and bank financing are still viable options for lesser quantity issuances by EM sovereigns and corporates, although they come with shorter maturities and higher financing costs. While domestic capital markets remain an option, this has its limitations, especially as it relates to refinancing foreign debt. Further, the lower rating of some emerging market assets will affect the borrowers as they will find it harder and harder to renew when funding availability declines and financing prices rise, making them more vulnerable to default.

Defaults can lead to significant revenue loss for lenders/investors. However, there are strategies clients can use to mitigate the risk of default on their portfolios. This includes diversifying portfolio across different asset types such that the performance of one asset or asset class' (eg. corporate bonds) performance does not affect the entire portfolio. This includes adding sovereign bonds that are in-line with your risk tolerance to your portfolio. The returns on such bonds are guaranteed by the government and can perform better when other bond classes are under pressure. Reduce default risk by also investing in bonds across sectors that continue to benefit from the recovery and the current environment. These include energy, retail sectors with strong consumer fundamentals and select financial companies benefitting from higher interest rates. Finally, given that higher default risk is influenced by lower credit quality, investors can add bonds with higher credit quality to their portfolios. However, note that lower credit/default risk, is associated with lower rate of returns.

With US interest rates set to rise further as inflation persists, the cost of financing operational activities and refinancing existing debt will continue to increase. These developments put a strain on credit metrics for EM sovereigns and corporates, which raises the risk of default and puts downward pressure on ratings. Thus far, the 12-month trailing EM speculative-grade default rate increased from 1.8% in December 31, 2021 to 4% as of March 2022.

5 Jamaica (6.5%), Dominican Republic (6.15%), Barbados (11.8%)
6 For example, EM companies such NRG Energy, PEMEX, and MARFRIG reported 31. 48p.p, 0.65 p.p, and 2.64 p.p year over year increases, respectively, in their EBITDA margin in Q1 2022.
7 Netflix
8 S&P Global Ratings
9 The corporate default rate measures the percentage of issuers in a given fixed-income asset class that failed to make scheduled interest or principal payments in the prior 12 months. Consequently, a high-yield corporate bond is a type of corporate bond that offers a higher rate of interest because of its higher risk of default/lower rating.
10 Reuters
11 Reuters
12 The BCA reflects the company's intrinsic credit quality without external support from the government.

Foreign Exchange Market

The Jamaican dollar depreciated by 0.5% relative to the USD, week over week, with the USD selling rate moving from J$152.61 on July 15, 2022, to J$153.40 on July 22, 2022. This depreciation reflects strong demand for the USD relative to flat supply especially considering there was no BOJ intervention during the week. If this level of demand persists, the BOJ could intervene to shore up USD supplies in the market over the coming weeks.

Selling	Close: 18/07/22	Close: 22/07/22	Change
J$/US$1	$152.61	$153.40	+$0.79
J$/CDN$1	$117.26	$123.77	+$6.50
J$/GBP£1	$180.45	$185.00	+$4.55

Global Bond Prices

Last week saw a rebound in treasury prices, amidst the data release on the Consumer Price Index (CPI) and the Producer Price Index (PPI) showing the highest readings in 40 years, which has prompted expectations of more aggressive policy tightening by the Fed. The 10-year Treasury yield continued on a downward trend closing at 2.75%, and reaching a 2-month low of 2.73% in the week. This was down from 2.92% and 3.08% in the prior weeks, and is speculated to be due to a fear of inflation taking a longer-term to moderate and near-term recession fears accelerating. The Federal Reserve is expected to meet on July 26-27th, where the market expects another 75bps rate hike. Should this hold true, prices will continue along this trend in the following weeks. High volatility remains as the market processes a slowdown in growth and persistent inflation.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
PETRO-RIO 2026 (6.13%)	BB-/ Stable	94.25	7.88%	BUY
SAGICOR FIN 2028 (5.30%)	BB-/ Stable	95	6.34%	BUY
DOM REP 2033 (6.00%)	BB-/ Stable	87.25	7.79%	BUY
GEOPAR 2027 (5.5%)	B+/Stable	84.5	9.87%	BUY
TPHLTT 2029 (9.00%)	BB	105.25	8.01%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	101.25	6.62%	BUY
BERMUD 2027 (3.72%)	A+/Stable	100	3.72%	BUY

GOJ Globals

Jamaican global bonds saw demand on the 28s, 39s and 45s, which led to prices closing at one to four points higher with the larger gain on the longer end of the curve, as tabled below. Dominican Republic bonds also moved several points higher. Given the expected 75bps US rate hike this week, there will likely be a fall off in EM bond prices this week as investors flock to safety and price in higher interest rates.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	102.75	5.97%
	2039	106.00	7.17%
	2045	104.00	7.33%

*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

Tight liquidity conditions persisted in the market as the BOJ continues to focus efforts on guiding inflation back within the target range through the tightening of monetary policy. JMD money market liquidity remains extremely tight and appears to be intensifying. Therefore, rates are anticipated to remain elevated. As at the 21st of July, a total of J$13.02Bn was in the market according to BOJ aggregate balances. Market players were mainly square last week, with very limited lending. Against this background, the average yield from BOJ's competitive price auction on its 30-day CD rose to 7.39% relative to 7.27% in the previous week. The highest bid rate for full allocation was 7.60%. Elevated BOJ CD rates have caused demand for higher rates in the market.

The USD money market remains stable and moderately liquid despite market activity as improved tourism inflows continue to support USD liquidity, but conditions could tighten somewhat in the coming months. Federal Reserve officials have signalled that the US Central Bank is likely to raise interest rates by another 75bps later when it meets on July 26-27 and has left the door open to the possibility of even a larger, full-percentage-point increase. With this expected rate hike along with reports of current liquidity strains in U.S. markets, local USD liquidity could be adversely affected in the upcoming months. BOJ did not intervene in the foreign exchange market last week; however, it is anticipated that the Bank will continue to push USD liquidity in an effort to stabilize the market. Broker market demand for USD remains at 30-days and longer-tenured funds, with some brokers offering as high as 5.00% to clients.

Stock Recommendations

Ticker	Closing Price (July 25)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$19.13	18.8x	15.5x	BUY
JMMBGL	$43.22	7.4x	11.4x	HOLD
MASSY	$90.97	12.9x	12.3x	BUY
LAB	$3.06	21.9x	19.2x	BUY
SJ	$54.94	11.7x	11.4x	HOLD
SEP	$68.08	23.9x	15.5x	HOLD
QWI	$0.87	4.0x	11.4x	HOLD
GK	$99.79	12.0x	12.3x	BUY
CCC	$62.82	12.5x	17.9x	BUY
PJAM	$63.91	9.4x	11.4x	BUY
KW	$37.86	16.3x	17.9x	BUY
LUMBER	$2.86	10.6x	24.4x	BUY
TROPICAL	$2.87	26.6x	24.4x	HOLD
ELITE	$3.54	30.7x	19.2x	BUY

Dates to watch this week

July 2022

MON	TUE	WED	THUR	FRI
25	26	27	28	29
Mailpac Dividend Payment ($0.04)	US Conference Board Consumer Confidence (Jul)	US Goods Trade Balance (Jun)	US GDP (QoQ), (Q2)	CAN GDP (MoM), (May)
		US Fed Interest Rate Decision		CAN Budget Balance (YoY), (April)
				BRG Annual / Extra-Ordinary General Meeting
				JPS Annual / Extra-Ordinary General Meeting

Local I International

Regional News

Strengthening Export Capacity Of Agro-Producers In The Dominican Republic (Caribbean News Global)

The Caribbean Development Bank (CDB) will launch a new project to be implemented in the Dominican Republic funded by the CARIFORUM-European Union (EU), Economic Partnership Agreement (EPA), CARICOM Single Market and Economy (CSME) and Standby Facility for Capacity Building entitled the "Strengthening the Export Capacity of Agro-Producers" in the Dominican Republic to access the European Union and CARIFORUM Markets on Wednesday, 20 July, 2022. The project is being implemented by the ministry of industry, trade and MSMEs, through the vice ministry of foreign trade (VICOMEX) and the Dominican Association of Exporters (ADOEXPO). The two-year initiative provides ▯ 324,806 in technical assistance.

Through the project, the people of the Dominican Republic will benefit from enhanced access to regional and international markets due to a strengthened sanitary and phytosanitary framework, with the implementation of a robust food traceability and food safety management system. By closing these gaps in the trade of agricultural commodities, the project will directly contribute to improving food security, which is one of the most concerning challenges that the region faces. It will also support efforts by the Dominican Republic to reach its individual targets under the United Nations 2030 Agenda for Sustainable Development.

Unrest In Panama To Delay Fiscal Consolidation (Fitch Solutions)

Panama's continuing national protest movement is expected to pose substantial risks to social instability as well as growth in the coming months. Following headline inflation increasing to 5.2% y-o-y in June—the highest since October 2012, with price increases for cooking oil and gasoline reaching 12.7% and 64.7%, respectively, protests broke out sporadically in early July. Considering this along with undelivered promises of anti-corruption reforms, the country is expected to see an increased risk of public unrest in the months ahead. Consequently, the sustained protest movement will dampen economic activity for at least several weeks, with future risks of protest remaining high.

In response to the public outcry, President Cortizo will increase subsidies for gasoline and basic goods like bread and cooking oil as well as higher social spending for low-income households. As a result, this will delay the country's goal of achieving its fiscal deficit target of 4.0% in 2022 as laid out in its Fiscal Social Responsibility Law, Following the social instability, Fitch Solutions revised its Short and Long-Term Political Risk Indices. In the Short-Term Political Risk Index (STPRI), the 'social stability' sub-component was slightly revised down from 42.5 to 40.0, having been already lowered in mid-May in anticipation of further protests, bringing the headline STPRI score to 62.9 from 63.5. For the Long-Term Political Risk Index (LTPRI), the 'characteristics of society' and sub-components were lowered from 67.8 to 67.5 to account for high levels of poverty, driven primarily by a labour force with 48.3% of workers in the informal sector, where pay is low, benefits are not guaranteed and are not protected by certain labour rights and protections.

International News

ECB Raises Rates More Than Expected To Fight Off Runaway Inflation(Reuters)

The European Central Bank raised interest rates by more than expected on Thursday (July 21), confirming that concerns about runaway inflation now trump growth considerations, even as the euro zone economy reels from the impact of Russia's war in Ukraine. The ECB raised its benchmark deposit rate by 50 basis points to 0%, breaking its own guidance for a 25 basis point move as it joined global peers in jacking up borrowing costs. This was the euro zone central bank's first rate hike in 11 years.

Ending an eight-year experiment with negative interest rates, the ECB also increased its main refinancing rate to 0.50% and promised further rate hikes possibly as soon as its next meeting on Sept. 8. With inflation already approaching double-digit territory, it is now at risk of getting entrenched above the ECB's 2% target and any gas shortage over the coming winter is likely to push prices even higher, perpetuating rapid price growth.

IMF Again Cuts U.S. 2022 Growth Forecast To 2.3% As Consumer Spending Cools (Reuters)

On July 12, 2022, the International Monetary Fund, once more cut its growth forecast for the United States to 2.3% for 2022 from its estimate of 2.9% in late June. The report cites recent downward revisions to first-quarter U.S. GDP output and consumer spending in May as reasons for the change in projections. The IMF also cut its 2023 U.S. real GDP growth forecast to 1.0% from 1.7%, based on data revisions that showed "significantly less momentum" in private consumption and spending of savings built up over the pandemic.

The IMF said that U.S. inflation pressures are broad-based, with declining price growth in durable goods largely offset by an acceleration of prices for shelter, healthcare, and other services, along with rising food and energy prices. “The policy priority must now be to expeditiously slow wage and price growth without precipitating a recession,” the IMF said in the Article IV staff report. The Fund said Fed monetary policy tightening should help bring down inflation to 1.9% by the fourth quarter of 2023, compared with a forecast of 6.6% for the fourth quarter of 2022. It is also of the opinion that this will further slow U.S. growth and also allow the country to avoid a recession.

Europe agrees compromise gas curbs as Russia squeezes supply (Reuters)

European Union countries approved a weakened emergency plan to curb their gas demand on Tuesday, after striking compromise deals to limit the cuts for some countries, as they brace for further Russian reductions in supply.

Europe faces an increased gas squeeze from Wednesday, when Russian’s Gazprom has said it would cut flows through the Nord Stream 1 pipeline to Germany to a fifth of capacity.

With a dozen EU countries already facing reduced Russian supplies, Brussels is urging member states to save gas and store it for winter for fear Russia will completely cut off flows in retaliation for Western sanctions over its war with Ukraine.

Energy ministers approved a proposal for all EU countries to voluntarily cut gas use by 15% from August to March.The cuts could be made binding in a supply emergency, but countries agreed to exempt numerous countries and industries, after some governments had resisted the EU’s original proposal to impose a binding 15% cut on every country.

German Economy Minister Robert Habeck said the agreement would show Russian President Vladimir Putin that Europe remained united in the face of Moscow’s latest gas cuts.

Russia’s Gazprom has blamed its latest reduction on needing to halt the operation of a turbine - a reason dismissed by EU energy chief Kadri Simson, who called the move “politically motivated”.

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.

NCB Capital Markets Limited ("NCBCML") through its representative(s) has provided information to you on various financial products and services and investment opportunities for information and educational purposes only. While NCBCML has made every effort to ensure that the information provided to you is accurate and based on research and analysis that we have carried out or derived from sources that we believe to be accurate and reliable, NCBCML makes no representations or warranties about the accuracy, completeness or suitability for any purpose of the information published and will not be liable for any loss which you or anyone else may suffer in reliance on the information we have provided to you. This Report does not take into account the specific investment objectives, financial situation or particular needs of any specific recipient and therefore this Report should not be regarded by recipients as a substitute for the exercise of their own judgment or for obtaining advice directly from one of our investment advisors.

Important Disclosures:

The views expressed in this report are the views of NCB Capital Markets Ltd at the date of this report.

In accordance with Section 39 (I) of the Securities Act of 1993, NCB Capital Markets Limited hereby states that it is a subsidiary of NCB Financial Group Limited and to that extent may be regarded as interested in the acquisition or disposal of the shares of NCB Financial Group Limited. However, the company acts in a proper and professional manner in making any recommendations regarding shares listed on the Jamaica Stock Exchange. Share prices may fluctuate and past performance is not necessarily a guarantee of future returns.

NCB CAPITAL MARKETS LIMITED