

Market Guide

THIS ISSUE

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"All intelligent investing is value investing – acquiring more than you are paying for." -Charlie Munger

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

Jamelia Jalaalwalkraam
Research Analyst
✉ Jalaalwalkraamjt@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

Sell in May and Go Away: Can the Traditionally Lower Summer Stock Market Activity Explain the Current Market

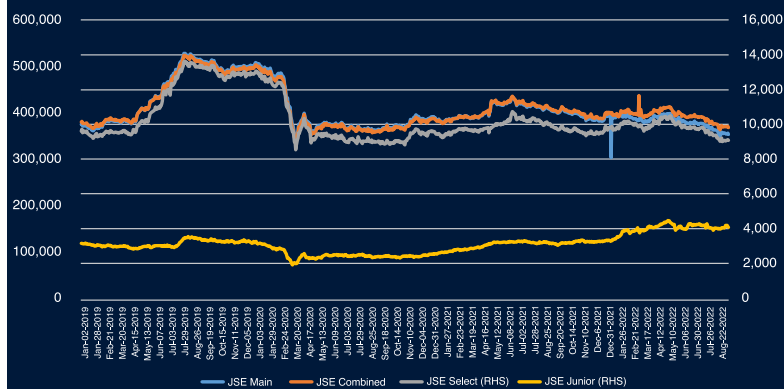
“Sell in May and go away” is an adage in finance that assumes that investors can improve annual returns by selling stocks in May and not reinvesting until November. The saying references the seasonal stock market performance, where the May to October period has historically averaged lower returns relative to the other months (November to April). The history of the adage is rooted in some of the worst stock market crashes in history, which occurred in October, including the Wall Street Crash of 1929 and Black Monday in 1987. It is widely believed that the practice of selling shares in May originated in high society England, sometime between 1694 and 1776. Wealthy investors would sell their stocks and move from London to their country escapes for the Summer months. Given that they would be unable to monitor their shares while they were away from the city, investors would close their positions. This, in turn, supposedly caused the markets to slump¹. Today, this would be equivalent to investors going on vacation during Summer and paying little attention to their investment portfolios. Today, technological improvements make investing possible from virtually anywhere; however, market activity does decline, especially in August, as some market players go on vacation.

Yet this year, other factors such as rising inflation, and central banks’ policy action, are also important in understanding the ongoing market downturn, and how investors can successfully navigate the current uncertainties.

Locally, the market has slumped since May 2022. Considering the trend seen over the past 3 years (refer to Figure 1)², in which the combined market has underperformed, recording either lower positive returns or higher negative returns during the May to October period, the adage may appear to hold some truth. However, other factors, including rising interest rates, as the Bank of Jamaica (BOJ) tightens monetary policy, are also currently impacting the performance of the stock market. With local inflation far exceeding the Bank of Jamaica’s inflation target of 4-6%, the central bank has been raising its benchmark interest rate since September 2021, to help quell rising prices. The resulting tight JMD liquidity is limiting institutional investors’ ability to invest heavily in equities. Furthermore, as illustrated in Figure 1, since 2018-2019, YTD 2022 is shaping up to be the worst summer decline in the past four years. Investors may also be looking at short-term money market instruments, to take advantage of the higher interest rate environment. Instruments

¹ Sell in May and go away: the Halloween Effect explained. Author: IG
² The data that was used to calculate 2022 is between January and September.

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	372,182.51	-0.63%	-7.2%
Main Market Index	357,818.90	-0.62%	-9.7%
Select Index	9,185.98	-0.02%	-7.1%
Junior Market Index	4,183.05	-0.79%	22.0%

WINNERS & LOSERS (FOR THE WEEK ENDED SEPT 9, 2022)

	\$ Change	% Change
CAC	+\$1.96	+32.45%
TJH8.0%	+\$0.43	+29.25%
JMMBGLUSD5.75	-\$0.67	-30.78%
JMMBGL7.25	-\$0.37	-14.8%

MARKET OVERVIEW

Last week, all major indices declined, with the JSE USD Equities Index and the Manufacturing & Distribution Index posting the largest declines of 3.03% and 1.51%, respectively. This decline in stock prices and the indices could be in response to tight JMD liquidity, which is limiting demand and the flow of funds from institutional investors to the stock market, as the market is trading on thin volumes. Market volume amounted to 215,258,214 units, a decline from 250,154,246 (down 13.9%) in the week before. Additionally, some stocks are seeing large swings in prices on trades of small volumes. During the week, 121 stocks were traded of which 42 advanced, 63 declined and 16 traded firm. The main decliners on the stock level were JMMB Group Limited 5.75% USD (30.8%) and JMMB Group Limited 7.25% preference shares (14.8%). Overall the main advancer for the week ending September 9, 2022, was CAC 2000 Limited which gained \$1.96 or 32.5% to close at \$8.00. Behind CAC 2000 Ltd. was Transjamaica Highway Limited 8.0% preference shares, which gained \$0.43 or 29.3% to close at \$1.90.

such as Certificate of Deposits (CDs)³, repurchase agreements and new short-term bonds are just some of the ways investors are seeking to benefit from the higher interest rates, both locally and internationally. These instruments carry less risks than stocks and become increasingly attractive in an uncertain environment.

If the adage holds, investors should see the market rising again at the beginning of November. However, central banks' decisions and global developments are downside risks to a November upturn. A softening in the economy could mean lower earnings for some businesses. Consequently, if a recession were to materialize, it could lead to a further softening in stock market activity beyond the expected end of October.

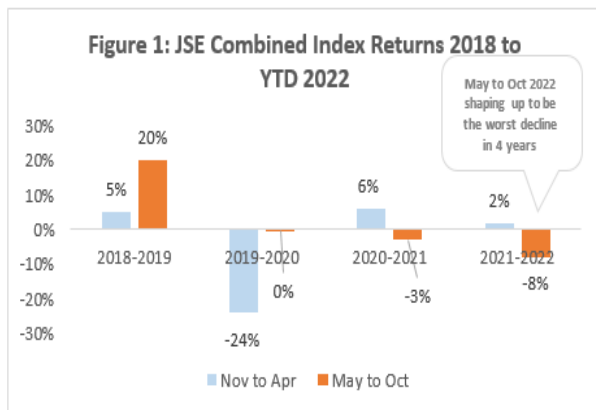
Nevertheless, we believe that now would be a good time for clients to take an in-depth look at their portfolios with the intention to rebalance, while considering value opportunities and moves to mitigate against high inflation and a potential recessionary phase. Value investing, for example, can help to hedge equity portfolios against inflation. Inflation makes money in the future less valuable and current earnings become correspondingly more valuable. Value stocks are less risky and have already proven an ability to generate profits based on a proven business model. As such, high inflationary periods are better for value stocks than for growth stocks. We favour companies whose earnings are likely to benefit from the current environment, have good cost management and have made the necessary investments to ensure efficient operations. While there are no fully recession-proof stocks, consumer staples, healthcare and education have also historically done better in the broad market during recessions. This is because these are considered necessities and consumers are

³ The coupon rate on the BOJ's 30 day CD on September 6, 2022 was 6.5% up from 3.00% in December 2021.

less likely to substitute them. We also recommend companies that are trading at attractive valuations. As we anticipate the market improvement in the coming months, we encourage investors to remember the words of avid investor Warren Buffett "A market downturn doesn't bother us. It is an opportunity to increase our ownership of great companies with great management at good prices."

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Source: JSE

Foreign Exchange Market

The Jamaican dollar depreciated by 0.63% relative to the USD, week over week, with the USD selling rate moving from J\$151.82 on September 2, 2022, to J\$152.79 on September 9, 2022. The depreciation was primarily driven by increased demand for USD as market participants sought to regain USD positions following last month's selloff to obtain JMD to meet local obligations. Increased end-user demand, which is typical at this time of the year in preparation for Christmas, also contributed to the weakening in the JMD.

Selling	Close: 2/09/22	Close: 09/09/22	Change
J\$/US\$1	\$151.82	\$152.79	+\$0.96
J\$/CDN\$1	\$116.20	\$117.71	+\$1.51
J\$/GBP£1	\$176.20	\$176.56	+\$0.36

Global Bond Prices

The market closed modestly higher over the shortened week (owing to the US Labour Day holiday on September 5th). Despite the sentiments around the increased likelihood of the Federal Reserve raising rates by 75bps relative to a smaller move, bond and equity prices moved up from their previous weekly lows. Dominican Republic and Jamaican bonds responded in tandem, as tabled below and trading activity was relatively low. The 10-Year Treasury yield

continued to trend lower to close at 3.31% from 3.19%.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
PETRO-RIO 2026 (6.13%)	BB-/Stable	95.25	7.61%	BUY
Sagicor Fin 2028 (5.30%)	BB-/Stable	96.25	6.09%	BUY
DOM REP 2033 (6.00%)	BB-/Stable	91.00	7.24%	BUY
GEOPAR 2027 (5.5%)	B+/Stable	87.50	9.05%	BUY
TPHLTT 2029 (9.00%)	BB	109.00	7.31%	BUY
MARFRIG 2026 (7.00%)	Ba2/Positive	102.50	6.22%	BUY
BERMUD 2027 (3.72%)	A+/Stable	102.75	3.04%	BUY

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	108.5	4.8%
	2039	117.5	6.11%
	2045	115.50	6.41%

*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 Markets 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	6.75%	105.00	6.47%
JBG	2028	6.75%	104.20	5.95%
Seprod	2024	7.25%	103.55	5.70%

Money Market

As DTIs continue to seek JMD liquidity to maintain their liquid asset ratios and stay sufficiently liquid, competition for JMD liquidity remains high. Therefore, market rates are expected to remain elevated. As at the 8th of September, a total of J\$23.09B was in the market as represented by the BOJ's aggregate current balances and was held primarily by a few DTIs. The aggregated closing current account balance for DTIs declined by J\$3.65B (13.65%) week-over-week last week, moving from J\$26.74B on September 1st. Market players were mainly square last week, with very limited overnight lending. The average yield from BOJ's competitive price auction was 7.97% relative to 8.21% in the prior week. Bids received totalled J\$20.8B relative to an offer size of J\$9B. The highest bid rate for full allocation stood at 8.07%. We believe that the downward trend in the average yield is as a result of conservative bids by institutional investors with a demand for this type of security as we approach the end of a quarter. Institutional investors usually try to bid conservatively near the end of the quarter to ensure an allocation in order to meet their regulatory ratios.

The USD money market remains stable and moderately liquid. Improved tourism inflows along with BOJ's periodic intervention in the FX market have been supporting USD liquidity. Broker market demand for USD remains at 30-days and longer-tenured funds, with some brokers offering as high as 5.25% for one year to clients.

Recommendations

Ticker	Closing Price (September 12)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	\$17.15	15.9x	15.3x	BUY
JMMBGL	\$41.49	7.0x	10.9x	HOLD
MASSY	\$85.00	11.3x	11.0x	BUY
JAMT	\$2.50	19.2x	15.8x	BUY
LAB	\$2.90	20.7x	17.6x	BUY
OWI	\$0.80	3.6x	10.9x	HOLD
GK	\$94.47	11.3x	11.0x	BUY
CCC	\$60.58	12.0x	17.3x	BUY
PJAM	\$59.96	10.5x	10.9x	BUY
KW	\$37.18	16.9x	17.3x	BUY
LUMBER	\$2.89	11.1x	18.9x	BUY
TROPICAL	\$2.41	18.8x	18.9x	BUY
ELITE	\$3.30	23.6x	17.6x	BUY

Dates to watch this week

September 2022				
MON	TUE	WED	THUR	FRI
12	13	14	15	16
GB GDP (MoM)	GB Unemployment (July)	SOS Dividend Payment (\$0.18)	CPFV Dividend Payment (\$0.0015 BDS) EPLY Dividend Payment (\$0.052)	
GB Trade Balance (July)	US CPI (MoM) (August)/ YoY (August)	GENAC Annual / Extra-Ordinary General Meeting TTECH Annual / Extra-Ordinary General Meeting GB CPI (MoM) (August) / YoY (August)	CPI (Point to Point) BoE Interest Rate Decision (Sep)	

Regional News

Low growth and global crisis slow job recovery in Latin America and the Caribbean (Caribbean News Global)

"Latin America and the Caribbean have seen a significant recovery in employment following the COVID-19 pandemic, but the region's labour markets face a complex and uncertain future that could be marked in 2022 by rising unemployment, informality and increasing numbers of the working poor", the International Labour Organization (ILO) said. Low economic growth, high inflation and a global crisis aggravated by Russia's aggression against Ukraine have affected both the quantity and quality of jobs generated in the region and could prolong the impact of the pandemic crisis on labour markets.

Data from the first quarter of 2022 show an average unemployment rate in the region of 7.9%, an employment rate of 57.2%, and a labour force participation rate of 62.1%. These are almost the same levels as in the first quarter of 2019. Another factor of

concern is high inflation, which has a significant impact on labour markets. Prices began to increase in 2021; however, the war in Ukraine has affected the availability of food and energy, among other factors, and this directly affects the level of real labour income, warns the ILO.

Claudia Coenjaerts, acting ILO Regional Director for Latin America and the Caribbean stated that given the current scenario "countries in the region should focus on promoting the creation of more formal jobs, in coordination with active policies, vocational training and sectoral policies, the report says. Advocating for the minimum wage and collective bargaining, within a framework of social dialogue is also essential."

CARICOM Countries Urged To Review Double Taxation Treaties (Barbados Today)

Barbados and other Caribbean Community (CARICOM) member states are being warned by Secretary General of the CARICOM Secretariat, Dr Carla Barnett, of the need to adapt new corporation tax rules to protect their tax base in light of new global changes. Barnett said the time had come for the

region to review its double taxation regime and prepare to put new corporation tax rules in place in light of the changing global requirements.

The intra-CARICOM double taxation, agreement which predated the revised treaty has been deemed to be non-compliant with member states' commitments concerning the global tax governance agenda, which now emphasises the exchange of tax information and tax reform to prevent evasion and avoidance, especially given the challenges emanating from the digitalisation of the global economy. That said, Barbados and other CARICOM member states are facing the possibility of the Organisation for Economic Cooperation and Development's (OECD) two-pillar tax rule, which is being touted as a solution to address tax challenges arising from the digitalisation of economies. Pillar two proposes a 15% minimum global tax rate by 2023.

Barnett also outlined several areas where she said work was progressing including the development of a regional regulatory framework to make the region a single economic space, a regional reporting system, air and maritime transport, and the free movement process, which she said has already resulted in the removal of hundreds of restrictions on the movement of goods across the region.

International News

Bank of Canada Increases Policy Interest Rate By 75 Bps, Continues Quantitative Tightening (Bank of Canada)

On September 7th the Bank of Canada increased its target for the overnight rate to 3.25%, with the Bank Rate at 3.50% and the deposit rate at 3.25%. The Bank is also continuing its policy of quantitative tightening. The global and Canadian economies are evolving broadly in line with the Bank's July projection. The effects of COVID-19 outbreaks, ongoing supply disruptions, and the war in Ukraine continue to dampen growth and boost prices.

The Canadian economy also continues to operate in excess demand and labour markets remain tight. Canada's GDP grew by 3.3% in the second quarter. While this was somewhat weaker than the Bank had projected, indicators of domestic demand were very strong – consumption grew by about 9.5% and business investment was up by close to 12%. With higher mortgage rates, the housing market is pulling

back as anticipated, following unsustainable growth during the pandemic. Considering the aforementioned, the Bank continues to expect the economy to moderate in the second half of this year, as global demand weakens and tighter monetary policy in Canada begins to bring demand more in line with supply. Given the inflation outlook, the Governing Council still judges that the policy interest rate will need to rise further. It is using quantitative tightening to complement increases in the policy rate. As the effects of tighter monetary policy work through the economy, it will be assessing how much higher interest rates need to go to return inflation to target.

Bond Issuance Spree As U.S. Companies Rush Before More Rate Hikes (Reuters)

Companies with the highest credit ratings in the world are engaged in a now-or-never US dollar bond issuance spree to get ahead of a continued spike in borrowing costs and as liquidity in the market is expected to dwindle in the next few months. The first working day after a long holiday weekend (Labour Day) saw 19 investment-grade rated companies raise \$35.35Bn, the most to price in a single day this year, according to IFR/Refinitiv. The 44 tranches of bonds sold by the 19 companies on Tuesday were also the most ever priced in a single day, beating a previous record of 39 tranches sold on September 3, 2019, according to Informa Global Markets data. On Wednesday, seven more companies raised \$11.25Bn.

Liquidity in bond markets has been patchy in recent months as investors cut back on debt investments that were sensitive to rising interest rates as a result of a hawkish stance by the Federal Reserve to combat runaway inflation. Year-to-date returns on investment-grade bond investments are down 15.2%, alongside a rise in U.S. Treasury yields as interest rates have risen and economic growth slowed. Companies are trying to get ahead of what they expect to be a tough road ahead in terms of borrowing costs. Already, the year-to-date 2022 new issue coupon levels for investment-grade companies have risen to 4%, the highest level since 2018, according to a CreditSights research note.

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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