NCB CAPITAL MARKETS LIMITED

October 3, 2022

Market Guide

THIS ISSUE

"When you invest, you are buying a day that you don't have to work." ~ Aya Laraya

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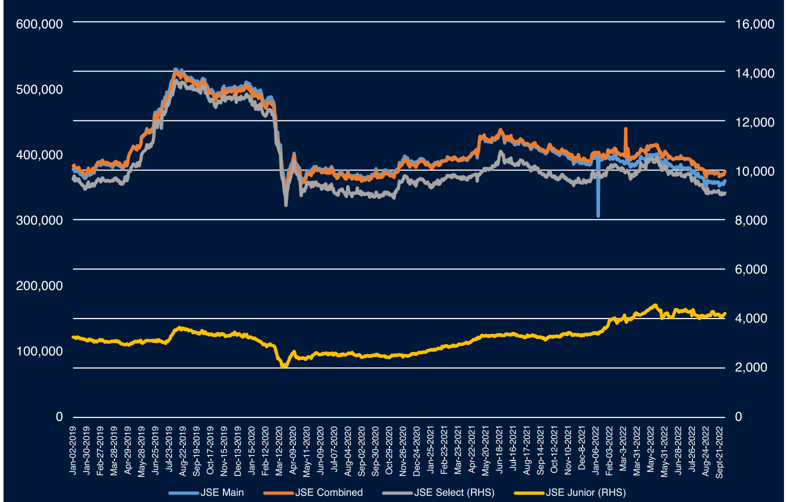
Natural Disasters & Pandemics Forcing Innovation in Regional Sovereign Debt Market

Climate change, more active hurricane seasons and the economy-crippling COVID-19 pandemic continue to inspire sovereign debt innovation. In the past, hurricanes, volcanoes, earthquakes, and more recently, COVID-19 have caused damage to infrastructure, crops, and economic loss, placing pressure on fiscal resources even as many governments struggle to pay down their high debt burdens and overcome low economic growth challenges. Although there was some flood damage in Jamaica, the Cayman Islands, and Cuba, most islands were spared the full wrath of the most recent Tropical storm, Ian. However, considering the havoc it wrecked on Florida as it strengthened to a Category 4 Hurricane (estimated to be between US$60-$70Bn), one can only imagine the severe economic loss a hurricane of that magnitude would have meant for the region, especially as Caribbean governments are just recovering from the toll the coronavirus pandemic had on their coffers. Historically, there are many well-known examples. These include Ivan in 2004, which resulted in US$580Mn damage to Jamaica and damage in Grenada which was equivalent to twice the sovereign's annual economic output; Irma which caused more than US$10.0Bn in damage across the Caribbean in 2017 alone; Dorian in 2019 which caused US$3.4Bn loss to the Bahamas, to name a few, which stunted economic and fiscal performance. Important also is the cost of damages to the tourism sector, one of the region's main sources of income. According to a report from the London-based World Travel & Tourism Council, in 2017 for example, the hurricane season resulted in an estimated loss of 826,100 visitors to the Caribbean, compared to pre-hurricane forecasts. Those tourists could have spent US$741.0Mn and sustained more than 11,000 jobs. Further, who can forget the ongoing pandemic, which according to the IMF resulted in a 9.9% falloff in economic activity in the Caribbean in 2020, which was higher than the average economic contraction in Latin America for the same period (6.8%). Considering, the significant negative impact of exogenous shocks, it makes sense that governments are finding ways to improve economic and fiscal resilience through creative debt issuances.

In response to the great cost associated with recovering from these economic and natural shocks, governments have become more creative in structuring sovereign bonds to stave off some of these negative impacts on their GDP, debt and fiscal position. For example, in its debt restructuring, in 2015, Grenada became the first to insert a clause that stipulated an immediate, if

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	376,221.72	1.7%	-6.2%
Main Market Index	361,691.60	1.6%	-8.7%
Select Index	9,149.71	0.9%	-7.4%
Junior Market Index	4,229.54	3.2%	23.4%

WINNERS & LOSERS (FOR THE WEEK ENDED SEPT 23, 2022)

	$ Change	% Change
138SLVR	+$19.00	+38.0%
FIRSTROCKUSD	+$0.02	+36.4%
MTL	-$4.16	-15.7%
CHL	-$2.15	-15.7%

MARKET OVERVIEW

With advancers outpacing decliners, most major indices were in the green last week supported by a price appreciation in some major market capitalization stocks. The JSE USD Equities Index and the JSE Financial Index outpaced other indices with an appreciation of 6.4% and 3.4%, respectively. The 38.0% share price appreciation of First Rock Real Estate Investments Limited (FIRSTROCKUSD) would have supported the strong increase seen in the JSE USD Equities Index. First Rock would have engaged in a share buyback program throughout the week, which would have contributed to the rise in its share price. Similarly, the appreciation of major market capitalization financial sector stocks such as Barita Investment Limited (BIL), and Sagicor Group Jamaica Limited of 16.5% and 4.8% would have contributed positively to JSE Financial Index.

Overall Market activity last week resulted from trading in 127 stocks of which 73 advanced, 41 declined and 13 traded firm. The main advancer was 138 Student Living Jamaica Limited Variable Preference Share (138SLVR). Year to Date 138SLVR has seen a share price appreciation of 945.45%, with most of the appreciation happening between July-September. Though there has not been any news to support this appreciation, the higher policy rates by the Bank of Jamaica (BOJ) have helped to support variable rate instruments making them more attractive to investors, which would have positively influenced the demand for 138SLVR shares.

temporary, debt moratorium if the country were struck by another natural disaster. Barbados also inserted a hurricane clause into its restructured domestic debt in 2019. Similarly, for Jamaica, there was the successful completion of a catastrophe bond (CAT bond) issuance in 2021 through the World Bank (International Bank for Reconstruction and Development (IBRD)) that secured US$185.0Mn in financial protection against major hurricanes. The bond was issued under the World Bank's "capital at risk" notes program and will provide the GOJ with critical disaster insurance protection against losses from named storms across three Atlantic hurricane seasons up to December 2023. More recently, Barbados issued the world's first government bond with a clause allowing payments to be suspended in the event of another global pandemic. Payments can be suspended for up to two years at a time and twice if necessary, but cannot be cancelled altogether. Notably, the clause also covers tropical storms, earthquakes, and flooding. The bond deal also has an ecological feature, which gives focus to the maintenance of the physical environment of living organisms. Specifically, the funds raised will be used for protecting and rehabilitating the surrounding Caribbean sea, according to the terms of the deal, making it what is known as a 'blue bond'[1] . This debt had credit guarantees by the Inter-American Development Bank and an organisation called The Nature Conservancy (TNC), which allowed Barbados to borrow more cheaply, saving itself between $40.0Mn -$50.0Mn compared to its replaced bond.

However, you may ask why might investors purchase a bond for which they are willingly accepting the possible deferral of interest and principal payments in the event of a major natural disaster or global pandemic? Well, some are only willing to do so at higher interests, which governments may blanch at. Therefore, some investors do not want to hold such complex bonds, which sometimes narrows the investor base. However, the appeal to countries remains in the economic and psychological benefit that comes from the immediate debt relief afforded in the event or a climate of pandemic-induced shock. Additionally, some investors may accept these clauses because it prevents the need to force a formal restructuring, which would not be in the sovereign or investors' best interest. A formal restructuring could cause a negative hit to the sovereign's credit quality and a reduction in the repayment commitment that bondholders would receive to improve the payment terms for the government.

The addition of these new features to sovereign debt bodes well for countries across the region. The deferral of interest and principal payment, as well as the payout, received when certain clauses are triggered in some cases, provide the government with more room to spend on rebuilding and limits the delay in the countries getting back on track, which shortens the recovery time.For those features that provide payouts, it also allows countries to limit the need for additional borrowing to fund their recovery plans. On the investor side, while they can benefit from the relatively shorter time to maturity for some of these bonds, such as the catastrophe bonds, they simultaneously face the risk that interest payments or principal may be halted or not paid in the case that the occurrence of a natural disaster meets the terms of the bond.However, these additional risks, may attract higher interest payments and prevent formal restructuring. As the risks of pandemic and climate related shocks rise, these debt structures can help to cushion the negative impacts of exogenous shocks and provide relief to natural disaster

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1. A blue bond is a form of a sustainability bond, which is a debt instrument that is issued to support investments in healthy oceans and blue economies.

prone countries, affording them time to build better economic resilience over the medium to long-term.

Foreign Exchange Market

The Jamaican dollar depreciated by 0.1% relative to the USD, week over week, with the USD selling rate moving from J$152.69 on September 23, 2022, to J$152.82 on September 30, 2022. Despite the slight depreciation, the supply of hard currency was largely sufficient to meet market demand.

Selling	Close: 23/09/22	Close: 30/09/22	Change
J$/US$1	$152.69	$152.82	+$0.13
J$/CDN$1	$114.13	$112.93	-$1.19
J$/GBP£1	$167.45	$168.14	+$0.68

Global Bond Prices

Last week was a volatile week in the global financial markets in light of continued high inflation, and the resulting aggressive monetary policy action by the US Fed that is driving recessionary concerns. Investors were worried that the volatility across the capital markets and the rapid increase in interest rates would lead to a financial incident that could have systemic implications. August's Personal Consumption Expenditures (PCE) Price Index was out on Friday, which showed a slight moderation in the year-over-year rate to 6.2% from 6.4% in July. However, the core-PCE Price Index, which excludes food and energy, jumped to 4.9% year-over-year versus 4.7% in July. That indication, coupled with the lowest initial jobless claims reading on Thursday, 193,000, since early May, continued to evoke greater concerns about the Fed pursuing an aggressive rate-hike policy. The week also ended on a somber note geopolitically. President Putin announced the unlawful annexation of four Ukraine regions on Friday, as expected. That move will not be recognized by Ukraine and most other countries but will raise the temperature around this conflict since Russia will use any means necessary, including nuclear weapons if its territory is threatened.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
PETRO-RIO 2026 (6.13%)	B+/ Positive	92.5	8.54%	BUY
Sagicor Fin 2028 (5.30%)	BB-/Stable	96.75	5.99%	BUY
TPHLTT 2029 (9.00%)	BB/Stable	106.75	7.71%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	99.00	7.32%	BUY
BERMUD 2027 (3.72%)	A+/Stable	98.75	4.04%	BUY

GOJ Globals

Over the week prices for emerging market bonds such as the Jamaican and Dominican bonds decreased across the curve, which was in line with the volatility experience in global markets due to inflation and recessionary concerns. Investors were worried that the volatility across the capital markets and the rapid increase in interest rates are going to lead to a financial incident that could have systemic implications. Consequently, these fears would have filtered through the emerging market bonds putting downward pressure on prices.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	104.25	5.68%
	2039	110.30	6.90%
	2045	107.95	7.16%

*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

With inflation still outside its target range, last week, BOJ continued its efforts to bring inflation under control by increasing its policy rate by an additional 50bps on the 29th of September. This brings the policy rate to 6.5% and is the 9th consecutive increase since September 2021. With continued monetary tightening and higher interest rates, JMD money market liquidity is expected to remain tight in the near term.

For September, a total of J$29.20B was in the market, which represents a 17.5% or J$6.7B decrease in liquidity relative to August. Liquidity continues to be highly concentrated amongst a few DTIs as represented by the BOJ's aggregated current balances. These tight liquidity conditions and the resulting high level of competition among market players are expected to persist.

The USD money market remains stable and moderately liquid. 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. There was no intervention from BOJ in the FX market last week. Stability in the USD money market is expected to remain as the BOJ continues its rate hikes, as it will provide a buffer against exchange rate depreciation in light of higher policy rates in developed countries. Jamaica's main trading partners, such as the US, have accelerated their policy rate hikes in recent months. This more aggressive stance by the US in particular could result in US dollar assets becoming more attractive relative to those denominated in Jamaican dollars. However, the continued rate hikes by the BOJ will help to minimise portfolio switching and support stability in the USD money market.

Recommendations

Ticker	Closing Price (Oct. 3)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$17.54	16.2x	15.4x	BUY
JMMBGL	$40.13	6.7x	11.5x	HOLD
MASSY	$80.02	10.7x	10.4x	BUY
LAB	$2.85	17.8x	29.9x	BUY
GK	$88.20	10.5x	10.4x	BUY
TROPICAL	$2.53	19.8x	18.9x	HOLD
ELITE	$3.52	25.1x	29.9x	BUY

Dates to watch this week

International Local

October 2022

MON	TUE	WED	THUR	FRI
3	4	5	6	7
GBP Manufacturing PMI (Sep)	EUR PPI (YoY) (Aug)	EFRESH Annual / Extra-Ordinary General Meeting	CHINA Manufacturing PMI	CAD Unemployment Rate (Sep)
	Portland JSX Limited Annual / Extra-Ordinary General Meeting			

Regional News

With the Rapid Pace Of Oil Production, IMF Urges Guyana To Address Institutional Weaknesses, Diversify Economy (Kaieteur News)

The International Monetary Fund (IMF) predicts that with the rapid pace of oil production in the Stabroek Block, Guyana is expected to grow by 57.8% in 2022. In light of the extent to which oil accounts for this, the financial institution urged that there be greater efforts towards addressing institutional weaknesses and the diversification of the economy. The IMF Directors noted that the country's oil production has increased significantly and Gross Domestic Product (GDP) for oil is expected to grow over 100% in 2022 (with just two ships in operation), and about 30% on average per year during 2023-26.

It was also noted that Guyana's commercially recoverable petroleum reserves are expected to reach over 11Bn barrels, one of the highest levels per capita in the world. That said, the magnitude of the oil wealth could help Guyana build up substantial fiscal and external buffers to absorb shocks, while addressing infrastructure gaps and human development needs.

Nevertheless, considering the potential challenges related to volatility in global oil prices and effective management of natural resources, the Agency highlighted the need for continued prudent policies and structural reforms to avoid the build-up of macroeconomic vulnerability.

IMF Agrees $293Mn Financing For Barbados, First Deal Under New Trust Fund (Reuters)

On September 28, the International Monetary Fund agreed on providing approximately $293Mn in new financing for Barbados, including $183Mn via a new trust fund created to help vulnerable middle-income and island countries.

The staff-level agreement is the first under the Resilience and Sustainability Trust (RST) approved by the IMF board in April. The Fund also said it reached an agreement with Barbados on a new, 36-month Extended Fund Facility (EFF) loan of about $110Mn.

Van Selm, who announced the agreements in Barbados with Prime Minister Mia Mottley, said the Caribbean nation was ideally suited to be the first country to use the new trust given its successful execution of an earlier IMF program, its location in a region exposed to climate change, and Mottley's leadership.

In 2018, the IMF institution approved a US$290Mn Extended Arrangement under the EFF for Barbados, noting then that the program was aimed at helping the island restore debt sustainability, strengthen the external position, and improve growth prospects.

Despite the sovereign not being able to complete all the reforms intended during its previous four-year EFF program, due to the COVID-19 pandemic, it sought a follow-on program to complete those efforts. This included the reduction of its debt levels and the commencement of a series of financial stress tests incorporating climate risks in the coming years.

The new trust expands access to low-interest loans to about 140 countries, double the number that could tap such resources under the IMF's Poverty Reduction and Growth Trust. This will in turn assist middle-income countries, such as those Caribbean countries that experienced a virtual halt in tourism during the pandemic and are highly vulnerable to climate change.

The combined RST (approx. US$110Mn) and EFF (approx.US$183Mn) program aim to strike a balance between enhancing resilience to climate change while also focusing on Barbados' continued efforts to reduce public debt and facilitate capital expenditure to boost growth.

International News

Pension fund panic led to Bank of England's emergency intervention (CNBC)

The Bank of England launched a historic intervention to stabilize the U.K. economy, announcing a two-week purchase program for long-dated bonds and delaying its planned gilt sales until the end of October. The move came after a massive sell-off in U.K. government bonds — known as "gilts" — following the new government's fiscal policy announcements on September 23. The policies included large swathes of unfunded tax cuts that have drawn global criticism, and also saw the pound fall to an all-time low against the dollar ($1.035) on Monday, September 26. The decision was taken by the bank's Financial Policy Committee (FPC), which is chiefly responsible for ensuring financial stability, rather than its Monetary Policy Committee.

To prevent an "unwarranted tightening of financing conditions and a reduction of the flow of credit to the real economy," the FPC said it would purchase gilts on "whatever scale is necessary" for a limited time. Central to the bank's extraordinary announcement was panic among pension funds, with some of the bonds held within them losing around half their value in a matter of days. The plunge in some cases was so sharp that pension funds began receiving margin calls — a demand from brokers to increase equity in an account when its value falls below the broker's required amount.

Long-dated bonds represent around two-thirds of Britain's roughly £1.5Trn ($1.6Trn) so-called liability-driven investment funds, which are largely leveraged and often use gilts as collateral to raise cash. In its emergency purchase of long-dated gilts, the Bank of England is setting out to support gilt prices and allow LDIs to manage the sale of these assets and the repricing of gilts in a more orderly fashion, to avoid a market capitulation.

Bank of Canada Must Hike Rates to Tame Inflation -Boc Governor (Reuters)

"Inflation is too high in Canada, so the Bank of Canada needs to increase interest rates to slow spending and give the economy time to catch up," Governor Tiff Macklem said on Monday in a video posted by the central bank on Twitter.

"Inflation is too high," Macklem said, echoing remarks made earlier this month after the central bank hiked its policy rate by 75 basis points to 3.25%. "It is important that we get inflation back down so Canadians can plan their spending and their savings, and they don't get surprised by big changes in their cost of living."

The Bank of Canada, like many of its global peers, is rapidly increasing interest rates in response to inflation running at levels not seen in decades. But the bank has faced public criticism for increasing borrowing costs at a time when many Canadians are already struggling to afford groceries and other essentials. "It is by raising interest rates that we're going to slow spending in the economy, give the economy time to catch up and take the steam out of inflation," Macklem said in the video. "That's gonna get inflation back down." The central bank has lifted rates by 300 basis points in just six months as it looks to wrangle inflation back to the 2% target. Canada's inflation rate edged down to 7.0% in August from 8.1% in June and 7.6% in July.

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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