

Market Guide

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“Successful investing
is anticipating the
anticipations of others”

- John Maynard Keynes

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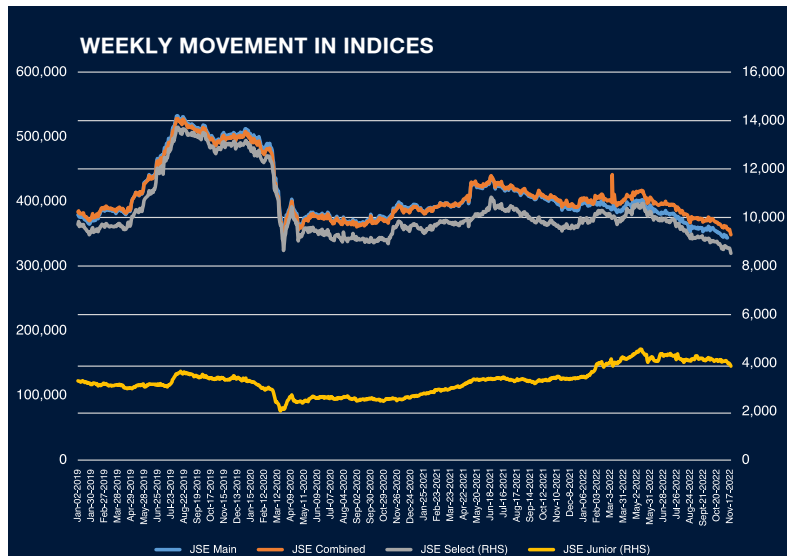
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Global Credit Conditions to Weigh on EMs

A combination of weak growth in advanced economies, persistent inflationary pressures, the Russia-Ukraine conflict, tight financial conditions and a subdued growth outlook for China will create a difficult environment in 2023 for Emerging Market (EM) corporates with low credit ratings, weak liquidity, and high short-term refinancing needs, and EM sovereigns with no or low fiscal space, high debt and a weak to negative economic outlook. This triggered concerns that such EM sovereigns and corporates may encounter default in 2023. However, EM issuers with strong credit ratings with good leverage positions and cash/fiscal buffers may be able to avoid default as they sustain their ability to meet near-term interest and principal payments. Notably, Bloomberg has built a model to quantify the risk of default in 41 emerging countries over the next 12 months. Eleven countries have default probabilities above 10%¹ including Argentina, Ecuador, and Ethiopia. However, larger economies that are rated higher, such as Brazil, India, Indonesia, and Mexico, will fare better even if pressure on vulnerable countries intensifies.

The rise in default risk of these EM sovereigns is driven by increased subsidies, tax cuts or grants, higher interest rates and tighter financial conditions, which have

substantially increased refinancing risks. Furthermore, slower growth, geopolitical realignments, social challenges and lack of capital investment will add to the challenges faced by these EMs. The pandemic led to increased government borrowing to fund fiscal stimulus packages to support businesses and individuals, which has swollen public debt. Furthermore, although declining, elevated food and energy prices will continue to pressure governments to help alleviate the steep cost of living for households through subsidies, tax cuts or grants, which will increase fiscal costs in some economies. As a result, the stock of borrowing in developing economies has risen from just over half of the annual gross domestic product in 2019 to almost two-thirds this year². With elevated inflation, Central Banks globally have been aggressively raising policy rates. Rates are rising at a speed not seen in four decades. This will continue to add strain to the debt servicing capacity of EM sovereigns and corporates, making it more burdensome to service debt denominated in foreign currency as most EM currencies have depreciated by double digits against the dollar since the end of the 2020s³. Furthermore, sovereign issuers in need of financing will also face significantly higher rates and investor



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	350,885.04	0.72%	-12.5%
Main Market Index	338,060.45	0.80%	-14.7%
Select Index	8,472.01	-0.76%	-14.3%
Junior Market Index	3870.24	-0.04%	12.9%

WINNERS & LOSERS (FOR THE WEEK ENDED NOV 25, 2022)

	\$ Change	% Change
JMMB 7.25	+\$0.67	+25.0%
JP	+\$4.29	+23.4%
ISP	-\$3.52	-19.0%
CPFV	-\$8.39	-18.7%

MARKET OVERVIEW

Last week six of the major indices advanced, while three declined. This follows the decline in all major indices, except for the JSE cross-listed index, in the previous week. The main market, combined index, financial and manufacturing & distribution indices all advanced, partly buoyed by the 23.4% and 10.36% increases in Jamaica Producer Group (JP) and PanJam Investment Group Limited stocks, respectively. Last week the two groups announced that they have reached an agreement to amalgamate their businesses to create a powerful new group of companies, which will strategically position the company to take advantage of opportunities both locally and globally. This arrangement, which is subject to the approval of shareholders of both companies and the relevant regulators, will result in PanJam acquiring the operating assets of JP, in exchange for JP taking a 34.5% stake in PanJam. Gains in Kingston Properties Limited (17.7%), Paramount Trading limited (12.6%) and Victoria Mutual Investment Limited (10.7%), also positively impacted the movement in the Main Market. Last week, KPRET completed its share buyback of 125,000 units at an average price of \$7.12, which helped to support the appreciation in the stock price.

Overall market activity resulted from trading in 125 stocks of which 56 advanced, 53 declined and 16 traded firm. The main advancer was JMMB Group Limited 7.25%, which increased by 25.0% week over week. Following JMMB 7.25% was Jamaica Producer Group (JP) limited with a 23.4% increase to \$22.62. The main decliners for the week were ISP Financial Services Ltd. (-19.0%) and Eppley Caribbean Property Fund Limited (-18.7%).

1. The aggregate likelihood score, which weighs all countries equally, is currently near 10%—almost five times lower than its mid-1980s peak. Therefore, fewer countries are at risk of default today compared with four decades ago.

2. Bloomberg

3. Bloomberg

risk aversion for new debt issues on the international market.

There is high vulnerability amongst sovereigns and corporates with lower ratings⁴ (B and below) and distressed credit metrics. Notably, in Africa, the Middle East, Latin America and the Caribbean, more than 50% of sovereigns are now B-rated or lower, a marked deterioration from just three years ago⁵. Further, the deterioration in financial conditions has reduced liquidity for this cohort and corporates within these operating environments, increasing refinancing risks for them, many of whom have sizeable maturities in 2023 and beyond⁶. Lower-rated EM credits also tend to have limited financing options. Those characterized by political instability, poor economic policy, significant financing needs, with limited access to capital and weak environmental, social, and governance (ESG) have increased default risks.

On the other hand, EM issuers with higher ratings and stronger credit positions may be able to avoid default in 2023. Corporates, such as oil and gas commodity producers, may benefit from still elevated commodity prices although energy prices have started to decline on the back of gloomy market sentiments about the economy. Further, energy producers could keep oil supply tight, causing prices to decline more slowly, through underinvestment in production facilities or cuts in oil production⁷. Additionally, territories in which large commodity producers operate could also experience the ripple effect of higher revenue. Therefore, investors who have positions in the energy sector and consumer staples companies should benefit. Furthermore, the resilience of most EM Sovereigns with ratings of Ba or higher, such as Bermuda and Cayman Islands, will be supported by

relatively deep domestic financial markets, foreign-exchange reserve buffers and proactive monetary policies to curb inflationary pressures. Sovereigns/corporates that are seeing a reduction in their leverage ratio through improving revenues⁸, cost efficiency or deliberate efforts to deleverage are also expected to fare better. Sovereigns that are seeing a strong recovery in tourism⁹ stand to improve their FX supply and hence be better able to withstand the pressures of rising debt from local currency devaluation. Additionally, Moody's has a stable outlook on most EM banking systems, reflecting its expectation that they can absorb the challenges of rising non-performing loans and higher operating expenses due to inflation.

Despite the concerns over default, 2023 could also create opportunities for bondholders owing to expectations that the Fed will slow its rate increases in December. As a result, while we may not see large gains in 2023, we could see a turnaround in the downward trend in price movements seen in 2022. It will therefore present an opportunity for investors to re-enter the market and capture attractive yields. In addition, with the bond market historically recovering faster than equities and the income provided through interest payments, investors could increase their bond holdings, especially of those with stronger credit quality and in the defensive sectors¹⁰, as recessionary fears loom. This too would help to push up prices and increase total return to investors.

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7. The OPEC+ alliance announced that it will cut oil production by 2.0Mn barrels a day, a move that's likely to send gas prices higher again after a year of tumult at the pump. In its statement announcing the cuts, the OPEC+ alliance cited the "uncertainty that surrounds the global economic and oil market outlooks." It represents the largest cut in production since the start of the pandemic.

8. Alsea, S.A.B. de C.V.

9. Jamaica has recorded 2.0Mn visitor arrival through October and are expected to see 3.0Mn this year with a forecast for recovery to pre-pandemic levels of 5.0Mn by 2025.

10. Defensive sectors are parts of the economy that historically have typically held up well in downturns. The main defensive sectors are generally considered to be utilities, health care, and consumer staples.

4. This includes sovereigns such as Barbados and Jamaica
5. Moody's Investor Service
6. Bahamas 5.75% 2024 Bond

Foreign Exchange Market

The Jamaican dollar depreciated by 0.14% relative to the USD, week over week, with the USD selling rate moving from J\$154.82 on November 18, 2022, to J\$155.04 on November 25, 2022. This depreciation was a result of increased demand and supply seen in the market, with the demand outweighing supply, thus inflating prices.

Selling	Close: 18/11/22	Close: 25/11/22	Change
J\$/US\$1	\$154.82	\$155.04	+\$0.22
J\$/CDN\$1	\$116.24	\$117.82	+\$1.58
J\$/GBP£1	\$183.92	\$187.45	+\$3.53

Global Bond Prices

Last week was a quiet and short trading week as many market players closed early on Wednesday for the holidays. The week started on a positive note with last week's Producer Price Index and the prior week's Consumer Price Index data supporting that the rate hikes have started to take effect; however, due to the short trading week because of the Thanksgiving holidays, activity slowed, and most prices tapered off. The Treasuries continued to be volatile, with the 10-Year Treasury closing the week at 3.69% from 3.83%.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/ Positive	94.50	6.51%	BUY
TPHLTT 2029 (9.00%)	BB/ Stable	106.75	7.69%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	99.25	7.25%	BUY
BERMUD 2027 (3.72%)	A+/ Stable	97.25	4.45%	BUY

GOJ Globals

Jamaica and Dominican Republic bonds, at majority, closed higher week over week, but were down from highs within the week.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	104.00	5.66%
	2039	112.75	6.52%
	2045	108.00	6.99%

*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

Last week, market liquidity, as represented by the BOJ's aggregated current balances, increased week over week (+\$7.3Bn) to \$17.3Bn as at November 24. Despite this, JMD liquidity remains tight and competition for cash among market players continues to be intense. That being said, the average yield from BOJ's competitive price auction decreased to 8.47% relative to 9.35% in the prior week. The auction was oversubscribed. Bids received totaled J\$22.56Bn relative to offer size of J\$15.0Bn. The highest bid rate for full allocation was 9.2499%. This auction was the last opportunity for institutional investors to shore up allocation for November, hence there was more conservative bidding, which resulted in a lower average yield.

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 5.50% for one year to clients.

Dates to watch this week

■ International ■ Local

November- December 2022				
MON	TUE	WED	THUR	FRI
28	29	30	01	02
PJAM dividend payment of \$0.10	Canada's GDP (YoY) (Q3)	EU's CPI (YoY) (Nov)		US Unemployment Rate
ISP Annual / Extra-Ordinary General Meeting	US Conference Board Consumer Confidence (Nov)	US GDP (QoQ) (Q3)		Canada Unemployment Rate
ICREATE Annual / Extra-Ordinary General Meeting	MFS Virtual Annual / Extra-Ordinary General Meeting	US Fed Chair Powell Speaks		
		EPLY dividend payment of US\$ 0.052		

Recommendations

Ticker	Closing Price (Nov. 28)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	\$17.90	15.3x	15.7x	BUY
LAB	\$2.60	16.3x	24.2x	BUY
GK	\$82.04	10.5x	10.8x	BUY
TROPICAL	\$2.46	19.2x	15.7x	HOLD
ELITE	\$3.30	20.5x	24.2x	BUY

Regional News

U.S. grants Chevron license to pump oil in Venezuela (The Washington Post)

The Biden administration said on Saturday it would lift a key oil sanction against Venezuela, marking the first significant crack in a years-long U.S. embargo that could eventually help ease the tight global energy market.

Chevron, the only remaining active U.S. oil company in Venezuela, is part of a joint venture with the country's state oil company but has been barred by sanctions from operations there. Under a new Treasury Department license, it will be able to resume pumping oil. The limited license stipulates that any oil produced can only be exported to the United States. No profits from its sale can go to the Venezuelan state-owned company but must be used to pay off Venezuelan creditors in the United States.

The move came as the government of Nicolás Maduro held its first formal talks with Venezuela's opposition coalition in more than a year. Meeting in Mexico City on Saturday, the two sides agreed to ask the United Nations to manage several billion dollars in government funds held in foreign banks that will be unfrozen to help assuage a humanitarian crisis in Venezuela.

Brazil Cuts 2023 GDP Growth Forecast As Global Economy Weakens (Reuters)

Brazil's Economy Ministry on Thursday cut its 2023 GDP growth forecast to 2.1%, from the 2.5% anticipated in September, due to a deterioration in the global economic outlook. Private economists in a Brazilian central bank weekly survey projected gross domestic product would grow 0.7% in Latin America's largest economy next year.

In a statement, the ministry's Secretariat for Economic Policy stressed that the global economy has weakened in the face of monetary tightening in the United States and other developed economies, which has hampered prospects for growth. "Our base scenario considers market estimates, whose projections indicate a slowdown in global activity, but do not point to a recession," it said.

At the same time, the ministry kept its 2022 GDP growth outlook at 2.7% on the basis of solid activity in the services sector and an improved labour market. That was in line with the market's 2.77% estimate. The ministry decreased its 2022 inflation forecast to 5.85% from the 6.3% projected in September. For 2023, the official inflation projection now stands at 4.6%, up from the prior 4.5% forecast. This too is likely factored into the downward revision for 2023 as it erodes consumer spending capability.

International News

ECB's Makhlouf sees smaller interest rate hikes in 2023, if needed (Reuters)

The European Central Bank will likely increase interest rates by smaller increments next year if further hikes are needed, governing council member Gabriel Makhlouf was quoted as saying on Sunday. The ECB began to push up rates at its fastest pace on record in July and markets are betting on a 50-75 basis-point increase at the next Dec. 15 meeting. Makhlouf said this week that his mind is open on the size of that hike.

While policymakers have been adamant that rates need to increase further to help lower inflation, the account of their last meeting published on Thursday showed they cannot fully agree on their ultimate

destination or pace. “When we get into next year, the likelihood is that if the rates go up, they’ll go up by smaller increments,” Makhoul, the Irish central bank chief, told Ireland’s Sunday Independent newspaper in an interview. “Then we’ll have to see what’s happening to the euro area economy - so we can judge how much more we need to do. And over what pace do we need to do it... I think by the second half of next year we’ll see it (inflation) lower.”

China’s industrial profits drop further as COVID woes take toll on economy (Reuters)

China’s industrial firms saw overall profits decline further in the January-October period as COVID-19 outbreaks flared up and cities imposed new virus curbs, including targeted lockdowns, dampening economic activity. Industrial profits fell 3.0% in the first 10 months of 2022 from a year earlier. That compares with a 2.3% drop for January-September, National Bureau of Statistics data released on Sunday showed. The bureau has not reported standalone monthly figures since July. Profits declined for 22 of China’s 41 major industrial sectors.

“Recent outbreaks of domestic epidemics have frequently occurred, the risk of global economic recession has intensified, and industrial enterprises are facing greater pressure,” the bureau said in a statement. The downbeat data for the world’s second-largest economy also reflects a debt payment crisis within the country’s property sector and a sharp slowdown in consumer spending.

Since October, outbreaks have only grown and mounting anger over China’s harsh zero-COVID policies that aim to stamp out the virus sparked rare protests by citizens over the weekend. China on Sunday reported a fourth straight day of record cases. COVID outbreaks widened across the country in October, disrupting the pandemic-sensitive services sector, including the restaurant industry. In response to the weak data, investment bank JPMorgan revised down its year-on-year GDP forecast for China in the fourth quarter to 2.7% from a prior 3.4%, while Citi also trimmed to 3.7% from 4.6% previously.

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