CAPITAL MARKETS LIMITED

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Market Guide

THIS ISSUE

"Never depend on a single income, make an investment to create a second source."

~Warren Buffet

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A Year of Inflections

After a year of infections, injections, and inflation, 2023 appears set to be “A Year of Inflections”. 2022 has been anything but ordinary. The unnerving combination of war, inflation, energy scarcity in Europe, surges in COVID-19 infections and lockdowns in China and the uncertainties related to food security wasn’t quite what anyone expected just as life was beginning to move forward as more countries were removing restrictions, and businesses and people’s daily activities were beginning to normalize. These factors, together with the aggressive monetary policy tightening being pursued by global Central Banks to stem record high inflation[1] contributed to a slowdown in growth in key developed economies. As we head to the end of the year, markets are still rallying on hopes of a policy pivot by major central banks such as the US Federal Reserve and an economic “soft landing,” fueled by cash on the sidelines. The rally is reflected in the return on the JP Morgan EMBI+[2] Index which, although down 23.2% YTD, has increased by 4% month-over-month. With data suggesting inflation is finally cooling due to the decline in commodity prices and improvement in supply chains, the Fed began slowing its interest-rate hikes to 0.5% in December down from the previous increase of 0.75% since June. Locally, although inflation has not yet cooled, it is within the BOJ’s expectation of 9.5% to 10.5% for the remainder of 2022. The central bank has signaled that it will pause rate hikes to allow the previous increases to be filtered through the financial system. Overall, inflection points for inflation, interest rates, and growth are all likely in the year ahead, and navigating those turning points will be important to investing success in 2023. As the year evolves, we think inflationary pressures will recede, Central banks will shift to a less hawkish policy stance, and economies, currently slowing, will find a trough. But with inflation and interest rates still expected to be above historical levels and economic growth expected to be below, we favour defensive sectors, value stocks, income opportunities, and diversification with alternative investments.

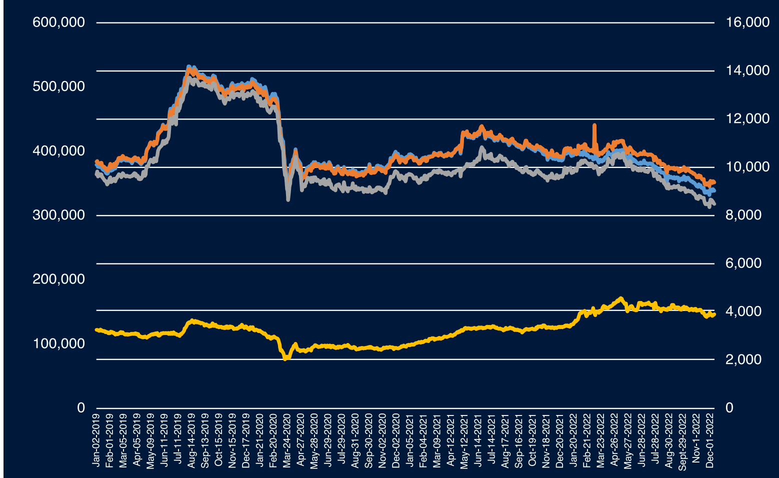
Finding a Peak: Outlook for Inflation and Interest Rates

In key markets, inflation appears to be slowing

1Coming off historically low interest rates, the Fed, for example has taken very aggressive action to tame inflation this year, raising the federal funds target rate by 425 basis points since March taking it to a targeted range between 4.25% and 4.5%.

2The J.P. Morgan Emerging Markets Bond Index Plus (EMBI+) tracks liquid, US dollar emerging market fixed and floating-rate. Data collected on December 19, 2022.

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	351,765.66	-0.07%	-12.3%
Main Market Index	338,773.99	0.00%	-14.5%
Select Index	8,434.44	-0.66%	-14.7%
Junior Market Index	3,893.49	-0.67%	13.6%

WINNERS & LOSERS (FOR THE WEEK ENDED DEC 16, 2022)

	$ Change	% Change
PAL	+$932.89	+150.5%
RPL	+$0.74	+74.0%
TTECH	-$0.90	-28.6%
ROC	-$0.60	-25.0%

MARKET OVERVIEW

Trading activity last week resulted in six of nine indices across the main and junior markets declining. The top advancing index was the Cross-Listed Index (+2.65%) on the back of gains in the share prices of Guardian Holdings Limited and Massy Holdings, which increased 5.95% and 0.11% week-over-week respectively. In the past few weeks, Massy has been in acquisition mode. Last week, it announced that on December 7, 2022, its Board of Directors approved the acquisition of Rowe’s IGA Supermarkets by Massy Stores (USA) LLC, for US$47Mn. Rowe’s IGA is a well-recognised brand with seven stores in the Jacksonville, Florida area. The purchase is aligned with Massy’s portfolio strategy as it expands its retail footprint in the US markets. The deal increases Massy Group‘s assets by 1% and is expected to boost profits in its retail sector by 7%. In alignment with its strategy to grow its core business, the company late last month also announced plans to acquire Air Liquide Trinidad and Tobago Limited by Massy Gas Products Holdings Ltd. (MGPHL). The acquisition will represent an 11.4% increase in the Massy Group’s assets and will contribute to an approximate 3% increase in the Group’s profit. For the Gas Products Portfolio, the acquisition is expected to increase its profit before tax by about 14%.

The JSE Junior Market Index (-0.67%) was the index with the largest decline. Lasco Manufacturing (-6.43%) and Fosrich (-3.50%) were the main contributors to the falloff in that index. There was no news to support the price movement in the decliners. The main advancing and declining stocks last week were Palace Amusement Company (1921) Limited (PAL) and TTECH Limited. PAL‘s price rally was likely supported by news that its board will meet on Tuesday, Dec. 20 to consider the possibility of a stock split. Last week, 125 stocks traded, of which 61 advanced, 47 declined and 17 traded firm. Market volumes amounted to 118,265,018 units valued at over $881,226,781.24.

and central banks appear set to ease on rate increases at the end of 2022, and it is expected that interest rate will reach its turning point (inflection) in 2023 for both the US and Jamaica. Inflation in the United States slowed again last month, for the fifth straight month, indicating that the worst of inflation has likely passed and is validating expectations of a slowing in the pace of the Federal Reserve's interest-rate hikes[3]. The declining trend in gas prices from its summer peak[4], shipping costs, the costs of used cars, healthcare, airline fares, hotel rooms and electricity prices contributed to the lower inflation outturn. The aforementioned trend is expected to continue but, the ongoing strength in the services sector may keep the labour market and inflation from cooling sufficiently in the near-term. This could force the Fed to keep hiking rates[5] into a hard-landing recession. However, we have begun to see what appears to be a turning point (inflection) in the Fed policy rate with its recent deceleration in the rate hike to only 0.5% in December, from 0.75%. The improvement in the inflation outlook and Fed tone is starting to be reflected in the US 2-year Treasury yield, which has fallen around 53bps to 4.2% from its highs[6]. However, markets are unlikely to price more substantial rate cuts until there is a more consistent falloff in inflation and a more dovish Fed tone. A further decline in inflation could support a 2022 year-end rally, however, it is not anticipated that inflation could fall in a straight line back to its 2% target until 2024. Notably, consumers' one-year inflation expectations fell to a 15-month low in December[7], further validating economists' view that the US may have hit an inflection point that will see price increases begin to slow.

Locally, the inflation story was different as consumer prices rose slightly as the year drew to a close; however, the Bank of Jamaica's policy stance hints at a possible pause on the horizon. November's point-to-point inflation of 10.3% showed an uptick relative to October's figure of 9.9%. Higher food price[8], and examination fees tempered by lower petrol and electricity rates were the main drivers. Despite this, it is in keeping with the Bank of Jamaica's (BOJ) expectations, as it has previously projected that inflation would stabilize in the range of 9.5% to 10.5% for the remainder of 2022. Contrary to the US, Jamaica has not yet seen its inflection point in overall inflation. However, of the most heavily weighted components in the Consumer Price Index[9], 'Transport, & Housing, Water, Gas, Electricity, & Other Fuels' sub-indices have seen significant declines (see Figures 1 & 2) and are expected to continue to slow in the coming months. Going forward, the global and local economies should also continue to benefit from the fall in commodity and shipping prices on fears that a global recession could cause a reduction in production worldwide. The softening in these major inflation-inducing variables, along with the declining inflation rate in the US will trigger

But with inflation and interest rates still expected to be above historical levels and economic growth expected to be below, we favour defensive sectors, value stocks, income opportunities, and diversification with alternative investments.

a further slowing in local inflation. Additionally, with improvements in supply chains and higher business inventories, the BOJ is projecting inflation to fall within the target range of 4% to 6% by the December 2023 quarter. This and the anticipated impact of previous hikes will likely allow the BOJ to slow or pause its rate hikes in the coming months. At its last meeting, it deemed it appropriate to pause further policy rate increases and to watch the pass through effects of previous hikes on deposit and loan rates. This pause is also conditional on the MPC seeing more pass-through of international commodity price reductions to domestic prices and

3 Consumer prices rose 7.1% in November from a year ago, down sharply from 7.7% in October and a recent peak of 9.1%. Further, core inflation, which excludes volatile food and energy costs and which the US Federal Reserve tracks closely, slowed to 6.0%, compared with a year earlier.

4 According to NCBCM's inflection point tracker, the Brent and WTI Crude Oil indices has been at its inflection point for three consecutive months (September to November)

5 Along with the most recent 50 bps increase to 4.25%-4.5%, came an indication that officials expect to keep rates higher through next year, with no reductions until 2024. The expected terminal rate or point where officials expect to end the rate hikes, was put at 5.1%.

6 Data collected from Market Watch on December 18, 2022

7 Inflation expectations improved considerably but remained relatively high, falling from 4.9% to 4.6%

8 All classes within the division increased for the review period with the main contributor being 'Vegetables, tubers, plantains, cooking bananas and pulses' which rose by 6.5%. This was due to higher prices for agricultural produce such as sweet potato, tomato, cabbage and sweet pepper.

9 Food & Non-Alcoholic Beverages, Housing, Water, Gas, Electricity, & Other Fuels, Transport, Restaurants & Accommodation Services

on the Fed not exceeding their targeted rate increase for 2022 and 2023.

How To Invest In 2023?

As we enter 2023, while we expect inflation and interest rates to peak within the year, there are still uncertainties, such as recessionary risks that should also be factored into investment decisions. Furthermore, despite expectations for a peak, both inflation and interest rates are expected to remain elevated relative to historical and target levels for much of the year. Against this background, we recommend that investors focus on assets in defensive sectors, value stocks, and growth stocks with strong outlooks, income-generating opportunities, alternatives, and diversification. Defensive stocks and bonds such as consumer staples (e.g. Grace Kennedy) and healthcare (e.g. Elite) should prove relatively insulated from slower growth or a downturn as they tend to sustain demand for their essential products and services, which protects their earnings. Grace Kennedy currently trades at $80.01[10], which offers a potential return of 51.4% considering our fair value estimate of $119.14 its dividend yield of 2.5%. Additionally, its investments in its digital transformation strategy, innovations, and demand dynamics all bode well for shareholder value through increased earnings and improved efficiency. Additionally, Elite, currently trades at $3.30, and a P/E of 20.5x, below the Junior Market average of 23.9x. Relative to our fair value estimate of $4.01, Elite's shares offer investors a potential upside of 21.5% on the current market price, which when combined with the dividend yield of 0.7% offers a potential total return of 22.2%. Elite is expected to grow faster than most of its peers as the company has expanded its store locations and has plans for future expansion. The company's growth outlook is also supported by health trends that should increase the demand for diagnostic services. Further, diversification will be key to avoiding concentrating your investments in one industry, but diversifying your portfolios across different industries with strong fundamentals, and a stable outlook, as well as in companies with pricing power will help to combat the effects of elevated inflation. Given elevated inflation and interest rates, a Barbell portfolio strategy[11] could be applied to bonds as prices adjust with the changes in interest rates. It offers investors an opportunity to gain exposure to a combination of high and low-risk bonds, creating a balance between reward and risk to improve the risk-adjusted return. Additionally, although it is common to rotate out of growth stocks into value stocks in this type of environment, both growth and value stocks still present opportunities in the local stock market. There is still high support for Junior market growth stocks owing to healthy consumer demand and supply, and tax incentives, which bolster their profitability and ability to create greater shareholder value. As it relates to growth stocks, we are targeting companies, such as those making investments to benefit from health care trends, and those in the

Figure 1: Transport

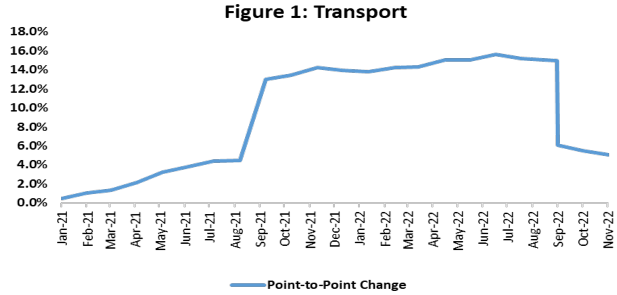
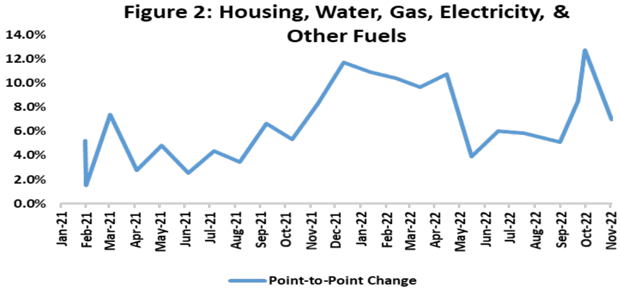


Figure 2: Housing, Water, Gas, Electricity, & Other Fuels



Source: NCBCM Research

manufacturing and distribution sector expanding offerings and capacity to meet increased demand. Alternatives such as infrastructure and private equity, also provide suitable investment opportunities by providing consistent growth of cash flows and returns that are unrelated to other asset classes. While it may be too early to pinpoint the exact inflection points, it is never too early for an investor to position their portfolios to benefit from it, while simultaneously protecting it from the uncertainties that still exist.

Foreign Exchange Market

The Jamaican dollar appreciated week over week by 0.33%, moving from a selling rate of $154.34 on December 9, 2022, to $153.83 on December 16, 2022. This appreciation reflects cyclical movements on the back of increased tourism inflows and higher remittance receipts at this time of the year.

Selling	Close: 9/12/22	Close: 16/12/22	Change
J$/US$1	$154.34	$153.83	-$0.51
J$/CDN$1	$114.09	$112.66	-$1.43
J$/GBP£1	$189.02	$188.28	-$0.74

Global Bond Prices

Last week, key data was released that fashioned the activities in the global markets. Firstly, on a year-over-year basis, total CPI was 7.1%, versus 7.7% in October, and core CPI was 6.0%, versus 6.3% in October. The monthly CPI and core CPI cooled in November, coming in at 0.1% and 0.2%, respectively, compared to consensus expectations of 0.3% for both categories. Prices for gasoline, electricity and utility gas services declined over the month. However, the cost of food rose by 0.5%, with shelter prices increasing by 0.6%. This data was well received by the market, resulting in a rally in bond prices.

Following the release of the CPI data, the Fed hiked its benchmark rate by 0.50% to a range of 4.25%-5.50% as was expected by the markets; this was lower than the 75bps hikes administered by the Fed in its previous four meetings. The projected 2023 fed funds rate is now for an average of 5.1%, compared to the 4.6% projection in September. Importantly, despite the lower inflation outturn, the Fed statement was otherwise unchanged, reiterating its commitment to rein in inflation. In the statement, the Fed Chair noted that the Committee anticipates that ongoing increases in its benchmark rate will be appropriate to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time. The statement further added that in assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/ Stable	94.75	6.47%	BUY
TPHLTT 2029 (9.00%)	BB/ Stable	107.50	7.54%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	102.00	6.33%	BUY
BERMUD 2027 (3.72%)	A+/ Stable	102.75	3.00%	BUY
NFE 2025 (6.75%)	BB-/ Stable	100.00	6.74%	BUY
NFE 2026 (6.50%)	BB-/ Stable	97.00	7.42%	BUY

GOJ Globals

JAMAN and Dom Rep bonds moved in tandem with global market sentiments last week closing lower based on the sentiments expressed by the Fed.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	109.50	4.72%
	2039	121.00	5.96%
	2045	116.75	6.46%

*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

As of the 16th of December, a total of J$10.99Bn was in the market as represented by the BOJ's aggregated current balances, a decline of J$4.25Bn from December 9th. This decline sustained tight JMD liquidity, and high levels of competition for cash by market players are expected to keep money market rates elevated.

The GOJ Variable Rate 2023 instrument, which represents a sizeable maturity of about J$43Bn, will mature in early January and is expected to add some liquidity to the market. However, it is anticipated that the GOJ will come to the market to refinance some or all of this maturity, which will soak up some of the liquidity.

The average yield from BOJ's competitive price auction on December 14th increased to 9.39% relative to 9.08% in the prior week. The auction was oversubscribed. Bids received totalled J$26.0Bn relative to an offer size of J$21.0Bn. The highest bid rate for full allocation was 9.88%. On December 20, 2022, the BOJ will have its monetary policy meeting; however, at its last meeting, the central bank noted that it was deemed appropriate to pause further policy rate increases and watch the previous rate hikes pass through to deposit and loan rates. Consequently, despite the slight increase in point-to-point inflation, the BOJ could maintain its policy rate at 7.00%.

The USD money market remains stable and moderately liquid. Broker market demand for USD remains at 30 days and longer-tenured funds.

Dates to watch this week

International   Local

December 2022

MON	TUE	WED	THUR	FRI
19	20	21	22	23
	Bank of Jamaica Policy Rate Decision	Bank of Canada CPI (YoY) (Nov)	US GDP (QoQ) (Q3)	Canada GDP (MoM) (Oct)
	SpurTree Dividend Payment ($0. 0175)	Elite Dividend Payment ($0.02) Lasco Financial Dividend Payment ($0.05)		
		Seprod Dividend Payment ($0.50)		

Recommendations

Ticker	Closing Price (Dec. 19)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$16.70	14.3x	14.9x	**BUY**
LAB	$2.41	15.1x	24.2x	**BUY**
GK	$80.01	10.2x	10.1x	**BUY**
TROPICAL	$2.40	15.8x	16.9x	**HOLD**
ELITE	$3.30	20.5x	24.2x	**BUY**

Regional News

S&P Global cuts Peru's outlook to negative on heightened political risk (S&P Capital IQ)

On Dec. 12, 2022, S&P Global Ratings revised the outlook on its long-term ratings on Peru to negative from stable and affirmed the 'BBB' long-term foreign currency and 'BBB+' long-term local currency sovereign credit ratings, as well as the 'A-2' short-term foreign and local currency sovereign credit ratings. The negative outlook reflects the risk to the sovereign's creditworthiness from the enduring political standstill and challenging relationship between the country's executive and legislative branches of government. Former President Pedro Castillo's recent attempt to dissolve Congress and his subsequent ouster from office is the latest development of Peru's long-standing political impasse, which threatens to weaken the government's capacity to implement timely policies to support robust private investment and economic growth.

S&P could lower the ratings by one notch if a prolonged political impasse or further adverse developments reduce the predictability of policymaking or worsen institutional stability, auguring badly for economic policy outcomes. On the other hand, the rating agency could revise the outlook to stable over the next two years if Peru makes progress on reducing the heightened political uncertainty and maintaining continuity in key economic--including fiscal and monetary--policies. A timely reduction of the uncertainties created by recent developments, along with prospects of greater stability in governance and solid economic policies, could sustain the current sovereign credit rating.

Brazil's spending package affecting inflation expectations, says central bank (Reuters)

TBrazil's central bank already believes a recently proposed spending package is partly affecting closely watched inflation expectations, said the bank's chief Roberto Campos Neto. Notably, policymakers have highlighted inflationary risks arising from leftist President-elect Luiz Inacio Lula da Silva's 168Bn reais ($31.5Bn) spending proposal to meet his campaign promises. For its current inflation projections, Neto noted that the central bank has considered a fiscal expansion of 130Bn reais next year extracted from market estimates. Notably, the central bank held interest rates at 13.75% this month, after a September pause to an aggressive tightening that lifted rates from a 2% record low in March 2021 to battle inflation. Faced with expected pressure on the public debt due to booming expenses, economists have taken a more conservative stance on when rate cuts would begin in Latin America's largest economy, with some predicting hikes to be even resumed next year.

However, Neto pointed out that coordination between fiscal and monetary policies is "very important," and the central bank needs proper conditions to lower rates. He also said that returns to sizeable subsidized credit would negatively impact the neutral interest rate and reduce monetary policy power, praising the long-term rate as an "institutional gain" that helped the capital markets expansion. The long-term rate was implemented in 2018 to bring the cost of state-run development bank BNDES lending rates in line with those of the market. The government transition team recently said it is too high and should be reformed.

International News

Analysis: EU unity over Russia sanctions falters as Europe's economy wilts (Reuters)

European Union unity over sanctions on Russia has started to falter as jitters about the impact on Europe's own stumbling economy weaken resolve to punish Moscow for war in Ukraine. EU leaders agreed on Thursday to the ninth package of sanctions but talks were acrimonious, with Poland and the Baltic states that neighbour Russia campaigning for tougher measures, while states further west, such as Germany, were more hesitant. Some, such as Belgium and Greece, as well as Hungary which still relies heavily on Russian energy imports, pushed back against further sweeping measures, EU diplomats told Reuters. "It is becoming increasingly difficult to impose sanctions that hit Russia hard enough, without excessive collateral damage to the EU," a spokesperson for Belgium's government said ahead of the deal at the EU leaders' summit. After Russia invaded Ukraine in February, starting the biggest conflict in Europe since World War Two, the European Union showed a united front and responded with swift steps against Russia, unusual for the 27-nation bloc where opposing voices often turn debates into marathon meetings. Sanctions have already been imposed on a range of companies and Russian individuals, while overflights by Russian planes have been banned and business with several Russian banks barred. But finding common ground now has become tougher. After this week's talks, Lithuanian Foreign Minister Gabrielius Landsbergis described the latest sanctions deal as a "missed opportunity", saying he was disappointed that EU states spent more time discussing exemptions than tougher steps. The latest measures targeted entities connected to Russia's military clamped down on drones and froze assets of two Russian banks among other curbs.

ECB slows rate hikes but pledges more to keep up inflation fight (Reuters)

The European Central Bank eased the pace of its interest rate hikes on Thursday but stressed significant tightening remained ahead and laid out plans to drain cash from the financial system as part of a dogged fight against runaway inflation. After being wrong-footed by sudden price rises, the ECB has been raising rates at an unprecedented pace. Inflation has soared since economies reopened after the COVID-19 pandemic, driven by supply bottlenecks and then surging energy costs following Russia's invasion of Ukraine. In a move shadowing similar steps this week by the Federal Reserve and Bank of England, it raised the rate it pays on bank deposits by 50 basis points to 2%, moving further away from a decade of ultra-easy policy. That decision, which was expected, marked a slowdown in the pace of tightening from 75-basis-point increases at each of the ECB's two previous meetings, as price pressures show some signs of peaking and a recession looms. But to secure a majority for that slowdown, ECB President Christine Lagarde had to offer dissenters a pledge that rates will be increased again, potentially as many as three times, by the same amount. Money markets immediately moved to price in a peak deposit rate of just over 3% by July, compared to 2.75% before the meeting. The ECB is pushing hard to persuade investors of its commitment to fighting higher prices after lagging the Fed and BoE in raising rates. The ECB's new projections on Thursday showed inflation above its 2% target through 2025. ECB President Christine Lagarde said inflation may still come in higher than that, citing the possibility of a bout of stronger-than-expected wage growth and of a boost to demand from government support measures across the 19 eurozone countries.

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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