NCB CAPITAL MARKETS LIMITED

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Market Guide

THIS ISSUE

Callable Bond: A callable bond is a bond that the issuer may redeem before it reaches the stated maturity date.

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Will Recent Banking Crisis Evolve Into A Global Financial Epidemic?

Some of the biggest banking failures occurred throughout the month of March and have rattled global markets by injecting a new dose of fear into an already on-edge banking sector. In a nutshell, on March 10, a major lender to the tech industry, Silicon Valley Bank (SVB), succumbed to a classic bank run as its customers frantically withdrew funds, which it was unable to cover as it had uninsured deposits invested in long-dated fixed income assets which had declined in value due to rising interest rates. The collapse created a ripple effect and led to panic in the market. A second US regional bank, Signature Bank (SB), failed shortly after, as depositors again sought to withdraw a significant amount of funds[1]. As the demise of SVB and Signature Bank spread fear about weaker institutions globally, the already frail[2] Credit Suisse, a 167-year-old global investment bank and financial services firm in Switzerland, saw its shares fall by 25% over one week and noted daily withdrawals valuing over $1Bn. This resulted in an emergency takeover after negotiations involving financial regulators in Switzerland, the United States, and the United Kingdom. Although more than 550 banks shut down between 2001 and 2023[3], the recent occurrences stand out as a result of the size of the institutions, being the second (SVB) and third largest (SB) bank failures in US history, and the amount of financial fear that it has driven up, leading to a decline in both bond and stock prices. However, since the initial decline, some bond prices have rallied, in particular, the US Treasuries. It gathered pace last week after the Fed tempered its language around additional rate tightening, even as it delivered another quarter-point hike. Stock prices, however, have remained depressed, as fears about contagion among banks hobbled shares of lenders such as Deutsche Bank, as the flight from risk shores up the dollar and drives bond yields lower. However, as the fear continues to drive sentimental reactions from investors resulting in more issues for the banking sector, it begs the question of whether or not this will become another global banking crisis, and whether it will have implications on our local market?

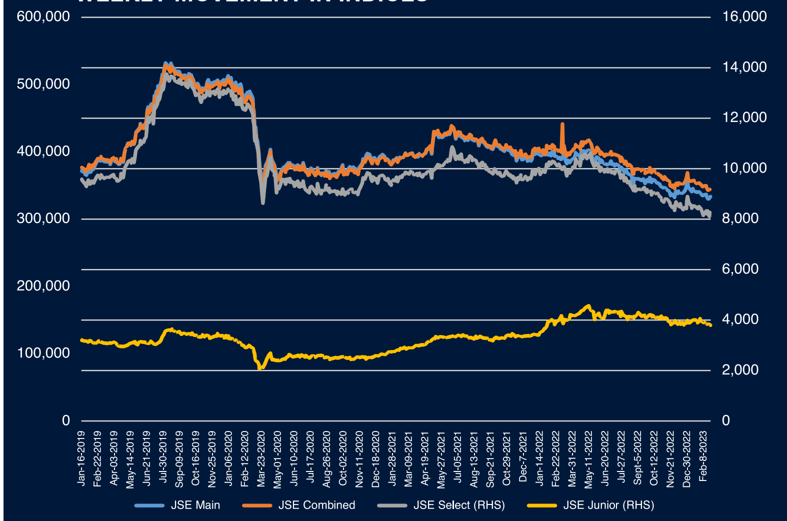
As noted above, the market turmoil has lowered investor confidence and shifted demand from risky high-yield investments and even short-term deposits, to a safe haven from market chaos. Following

1 A Global Banking Crisis? The Era Of Unplanned Financial Events Are Not Over Yet.

2 Credit Suisse (CS) had been losing the trust of investors and customers for years. In 2022, it recorded its worst loss since the global financial crisis.

3 Federal Deposit Insurance Corporation. "Bank Failures in Brief – Summary 2001 Through 2023

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	334,072.41	-1.13%	-9.4%
Main Market Index	322,420.29	-0.93%	-9.4%
Select Index	7,938.23	-1.21%	-10.8%
Junior Market Index	3,629.45	-2.85%	-9.0%

WINNERS & LOSERS (FOR THE WEEK ENDED MAR 24, 2023)

	$ Change	% Change
JPS 7%	+$243.91	+158.3%
KEY	+$0.86	+32.58%
CFF	-$0.36	-25.90%
BPOW	-$0.38	-15.57%

MARKET OVERVIEW

Last week's trading session resulted in all major indices on the combined market declining except the JSE USD Equities and JSE Cross Listed indices. The JSE Junior Market Index, the JSE Manufacturing & Distribution Index and the JSE All Jamaican Composite Index saw the most significant declines of 2.85%, 1.54% and 1.37% respectively. It is likely that global events such as the 25 basis point hike by the Federal Reserve, and additional bank failures and investor fear influenced the weak stock market performance last week. While Fed officials continue to see additional rate hikes as a strong possibility, financial markets are now favouring the likelihood of a pause in rate increases at the conclusion of its next policy meeting in May. This could help to temper the downward trend in market indices.

The main advancing and declining stocks for the overall market were Jamaica Public Service Co. Ltd 7% (158.3%) and Caribbean Flavours & Fragrances (-25.90%), respectively. Overall Market activity resulted from trading in 123 stocks of which 38 advanced, 78 declined and 7 traded firm. Market volume amounted to 146,219,573 units valued at over $497,337,749.76. The overall market volume leaders were Transjamaican Highway Limited with 33,902,708 units (20.07%), First Rock Real Estate Investment Ltd (USD) with 19,351,773 units (11.46%), and Wigton Windfarm Ltd Ordinary Shares with 15,730,977 units (9.31%).

the collapse of the two regional US banks, and the rescue deal for Credit Suisse, concerns about the safety of bank deposits resulted in investors pouring their cash into US money market instruments. According to reports, money market funds swell by more than US$286Bn amid deposit flight. Further, the skepticism and investor anger created toward globally recognized banks continues to drive a sell-down among stocks. On Friday, financial stock prices were dragged down across the globe with Germany's Deutsche down 13.0%[4], France's Societe Generale off 5.9%, Austria's Raiffeisen 5.9%[5] lower, and First Republic Bank down 6.0%[6]. This occurred while the price of gold exceeded US$2000 per ounce for the first time since March 2022 as fears stimulated a large demand for this asset known to retain its value. Further, while US treasuries have seen increased volatility, the flight to quality has also seen US treasury yields, especially short- term rates, such as the 2-year Treasury yield declining (noting its largest 3-day decline on March 13 (around 100bps) since 1987[7]) in the face of increased demand.

The biggest question on everyone's mind is whether this will turn into a larger banking crisis and whether Central Banks can fend off this crisis while also cooling the economy. Prior to the trio of bank failures, the Central Banks' priorities were specifically aligned with creating policies to stem the high and sluggish inflation rates that have persisted since 2022. After the banking crisis onset, the focus has not shifted; but rather expanded in an effort to lend help to banks and restore investor confidence. Notably, the Fed announced the creation of the Bank Term Funding Programme, which will provide one-year loans to banks, credit unions, and other financial institutions that offer up collateral such as US Treasuries, agency debt, and mortgage-backed securities. This would assist banks in swapping out their unrealized losses and offering them a liquidity option. While this may be perceived to conflict with the pursuit of monetary tightening policies; the programme is designed to be used in an emergency to stave off the next SVB from failing - not to kick off a new era of free spending[8]. Notwithstanding, the Fed's recent interest rate hike of 25bps taking the benchmark federal funds rate to a target range between 4.75%-5.0% (the highest since 2007), could add to the current headwinds of the financial sector. The hike came almost a week after the European Central Banks' interest rate increase (50bps), and a day before the 50bps increase from the Swiss Central Bank, and may be an indication that these Central Banks believe the effect on the economy from rising inflation rates may be a bigger threat than the recent banking failures. Nonetheless, given the lags involved, a decrease in interest rates would be too late to reverse the existing banking issue. European officials have stressed the fact that the current banking issues are not a global epidemic and that the situation

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in Europe is different from that in the United States, noting that the EU banking sector has held up as a result of the strong regulatory regime in place, in particular, the strict adherence to the liquidity rules imposed after 2008[9]; rating agencies also shared the same sentiments. Additionally, some have noted that the rise in interest rate will not dampen the outlook for the financial sector and emphasized that this will not be a repeat of the 2007-2008 Financial Crisis as banks are "in a much stronger position now than they were in 2007"[10] due to the change in their fundamentals and structure, and rather that this was a "crisis of confidence"[11] and not

4 Reuters

5 Aljazeera

6 New York Post

7 Nasdaq

8 CNN Business

9 Approximately 2,200 banks in the EU adhere to the so-called liquidity coverage ratio, compared with only 14 US banks. The liquidity coverage ratio (LCR) of EU banks stood at 166% in June 2022, materially above the minimum threshold of 100%.

10 Christine Lagarde, President of the European Central Bank

11 Nathan Stovall, Head of Financial Institutions Research at S&P Global Market Intelligence

a banking crisis. Considering the improved prudential measures that are in place to improve the resilience of the banking system, and the fact that outside of the SVB failure, the others have been driven by investor sentiments, we do not foresee the banking issues becoming a global financial crisis, once the irrational behaviour subsides. This will be helped by the less aggressive tones from central banks about future rate hikes, and therefore the impact that this will have on asset values.

Looking forward, we do not expect any replication of recent bank failures in our local market, especially given that most of them were not driven by fundamentals that typically lead to systemic banking crises. However, lower sentiments may affect local financial stocks further. The local banking sector is currently viewed as well-capitalized with a capital adequacy ratio of 13.4% as of September 2022, well above the regulatory requirement of 10%. Its resilience and soundness are also expected to improve further in the near term as the Bank of Jamaica transitions to the Basel III[12] regulatory regime through its adoption of stronger risk control measures. The Basel III reform has demonstrably helped to strengthen the global banking system since 2008 and can help mitigate both the probability and impact of future banking crises in Jamaica. In light of this and with Central Banks still pursuing inflation-targeting policies, financial institutions will be left to strengthen their frameworks. However, we believe the downside risk that exists for our market from the international banking failures, is the impact of investor sentiments on financial stocks which was already low to begin with. The JSE financial sector index which has shown the greatest consistent decline since the start of the year has continued to do so in recent weeks. Year to date it is down 12.3%. With high-interest rates still having a bearing on the value of assets held as investments and for trading by financial companies, these stocks will likely continue to be impacted until there is a pause in US rate hikes, more positive sentiments around future global growth, and widespread signs of recovery in bond markets, and the local stock market.

Foreign Exchange Market

The Jamaican dollar appreciated by 0.16% relative to the USD, week over week, with the USD selling rate moving from J$151.99 on March 17th 2023, to J$151.75 on March 24th 2023. This appreciation was still being driven by the tax season's influence on JMD, resulting in low end user demand for USD.

Of note, the JMD appreciated against both the USD and the CDN last week.

Selling	Close: 17/03/23	Close: 24/03/23	Change
J$/US$1	$151.99	$151.75	-$0.24
J$/CDN$1	$111.03	$110.98	-$0.05
J$/GBP£1	$185.53	$186.23	+$0.70

Global Bond Prices

Investor concerns continued to swirl last week due to further fears of contagion risk in the banking sector and an additional rate hike by the Federal Reserve. The emergency rescue of Credit Suisse by Union Bank of Switzerland (UBS), in the wake of the collapse of U.S.-based Silicon Valley Bank, Signature Bank, and the struggle in First Republic Bank, triggered contagion concern among investors, which was deepened by further monetary policy tightening from the U.S. Federal Reserve on Wednesday where the rate was hiked by 25 bps. This brings the Fed Funds Rate to 4.75-5.00. There are fears that Deutsche Bank will be the next to fail which sent its stock price sliding on Friday as the market hones in on the German firm as the next major bank at risk in the wake of long-time rival Credit Suisse's collapse while the cost of insuring against its default spiked. The drop in Deutsche Bank's share price, and a sharp jump in the cost of insuring against a possible default by the bank, was "indicative of a wider loss of confidence in the banking sector". Credit default swaps serve as a proxy for bondholders' belief in the health of the issuing institutions. US Treasuries ended a strong week on a higher note as investors bought safer assets. The 2 Year closed at 3.76% from 3.82% and the 10 Year closed at 3.372% from 3.40%. Despite the flight to safer assets, we have seen where JAMAN and DOMREP yields also came in lower WoW.

Notably, Federal Reserve chairman Jerome Powell said last week that the bank may not lift borrowing costs much more, if the banking panic continues to weigh on lending and slows economic growth. However, on Friday St. Louis Fed president James Bullard, who is not currently on the rate-setting committee, said he thought the panic would subside, leading to higher rates than the roughly 5% currently expected. If the bank panic does not yield in the near term and rate hikes come to a halt, then demand for EM bonds will likely decline as investors flock safer assets. The rate hike pause would also support non EM bond performance.

12 Basel III was introduced to improve the banks' ability to handle shocks from financial stress and to strengthen their transparency and disclosure due to the impact of the 2008 Global Financial Crisis on banks.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/ Positive	99	5.53%	BUY
TPHLTT 2029 (9.00%)	BB/ Stable	106.75	7.64%	BUY
MARFRIG 2026 (7.00%)	BB+/ Stable	102	6.28%	BUY
BERMUD 2027 (3.72%)	A2/ Stable	97.5	4.43%	BUY
PRIO 2026 (6.13%)	BB-/ Stable	95.45	7.76%	BUY
ALSEA 2026 (7.75%)	Ba3/ Stable	97	8.71%	BUY
DomRep (6.6%) 2024	BB/ Stable	102	4.11%	BUY
DomRep (5.88%) 2024	BB/ Stable	101.75	4.15%	BUY
DomRep (5.50%) 2025	BB/ Stable	101.5	4.63%	BUY
DomRep (6.88%) 2026	BB/ Stable	103.5	5.52%	BUY
DomRep (8.63%) 2027	BB/ Stable	107	6.63%	BUY
DomRep (5.95%) 2027	BB/ Stable	101	5.65%	BUY
DomRep (5.50%) 2029	BB/ Stable	98.5	5.80%	BUY
DomRep (6.00%) 2033	BB/ Stable	93.5	6.92%	BUY
PYPL (2.85% 2029)	A-/Stable	88.00	5.03%	BUY
Jaman (7.63%) 2025N	B+/ Positive	104.75	5.37%	BUY
NFE 2025 (6.75%)	BB-/ Stable	97	8.12%	HOLD
NFE 2026 (6.50%)	BB-/ Stable	92.75	8.96%	HOLD
FRICON (7.7%) 2028	B+/ Stable	74.9	14.66%	BUY

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	105.00	5.60%
	2039	121.00	5.94%
	2045	117.00	6.43%

*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
SJPC	2032	8.85%	104.00	8.22%
BDHR	2027	8.15%	100.50	8.00%
PBS	2025	6.50%	101.00	6.13%

Money Market

Liquidity has returned to the money markets. As of the 23rd of March, a total of J$44.5B was in the market, as represented by the BOJ's aggregated current balances. The aggregated closing current account balance increased by J$37.1B from J$7.4B on March 16th. This increase was driven by the maturity of the GOJ 2023 5.50% notes. Despite the increase in liquidity, there was much less broker demand for JMD last week. Rates have therefore understandably decreased for all tenures; we saw rates ranging from a high of 8.75% on 30 days to a high of 9.75% on 365 days. These can be seen as merely indicative due to the lack of broker demand especially as it relates to short term funds. Overnight JMD rates ranged from about 7.5% to 7.75% last week, relative to the 7.25% to 7.85% in the prior week.

The average yield from BOJ's competitive price auction decreased to 8.85% versus 10.54% in the prior week. The auction was severely oversubscribed due to the increased market liquidity. Bids received totaled J$57.8B relative to the offer size of J$18B. The highest bid rate for full allocation was 8.99% which is a decrease of 400 basis points over last week.

The USD money market has also reversed the tightness of previous weeks, with a level of liquidity returning. Rates have taken a dip, ranging from a high of 4% on 30 day placements up to a high of 5% on 365 days' placements, compared to a high of 5% for 30 days and 6% for 365 days in the previous week. There was no BOJ intervention in the foreign exchange market via B-FXITT this week.

Dates to watch this week

International Local

March 2023

MON	TUE	WED	THUR	FRI
27	28	29	30	31
DCOVE Dividend Payment Date	US Goods Trade Balance (Feb)	Euro Zone CPI (YoY)	US GDP (QoQ) (Q4)	GB GDP (YoY) (Q4) CAD GDP (MoM) (Jan) CAD Budget Balance (YoY) (Jan)
	US Conference Board (CB) Consumer Confidence (Mar)	CHL Dividend Payment Date SIL Dividend Payment Date	PJAM Dividend Payment Date	EPLY Dividend Payment Date JPS 7% 'B' Dividend JPS 5% 'C' Dividend JPS 5% 'D' Dividend JPS 6% 'E' Dividend Payment Date

Recommendations

Ticker	Closing Price (Mar. 28)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$16.60	14.1x	14.0x	BUY
GK	$82.19	11.6x	10.4x	BUY
ELITE	$2.70	23.1x	20.3x	BUY
IPCL	$1.79	23.5x	21.4x	BUY
JBG	$34.01	9.0x	14.0x	HOLD
ECL	$5.17	33.5x	20.3x	BUY
CAR	$8.19	10.6x	14.0x	BUY
CPJ	$9.30	11.9x	14.0x	BUY
KWL	$33.11	17.5x	12.5x	BUY
FESCO	$4.39	20.6x	17.8x	HOLD
FONTANA	$8.13	14.3x	17.8x	BUY
PBS	$1.35	30.3x	14.6x	HOLD
TJHUSD	$0.01	16.3x	14.6x	BUY
TJH	$1.41	16.3x	12.5x	BUY

Regional News

Impressive Growth Gives Guyana Opportunity To Improve Citizens' Living Standards (Guyana Chronicle)

Deputy Secretary-General of the European External Action Service (EEAS), Helena König, has said that Guyana has seen impressive economic growth which provides opportunities to lift the country's people out of poverty. König made these remarks last Thursday (March 16, 2023) evening at a reception that was held in her honour. König said that the economic growth seen can provide significant opportunities for the Guyanese people, whilst noting that the European Union (EU) stands ready to accompany Guyana on the dynamic journey.

Against this backdrop, she stated that the EU also has several programmes to support Guyana in this regard, in sectors such as agriculture and the sustainable management of forests, be it production, processing, or export. Guyana is anticipated to be a regional and global growth outperformer in 2023 with its economy predicted to grow 29.0% in 2023 from 62.3% in 2022 from the surging oil production and inbound investments. These growth drivers will continue to increase government stimulus and narrow the fiscal deficit. Although Guyana's recent growth is based on oil-and-gas reserves, it is obvious that the country is striving towards having a diversified economy, with officials engaging in discussions surrounding climate change, forest partnerships, food security, trade, connectivity, digitization, and even pharmaceutical cooperation.

T&T's Economy On the Mend – IMF Latest Stats Show (IMF)

Trinidad and Tobago's economy appears to be slowly on the mend, according to the latest stats released by the International Monetary Fund (IMF). The IMF's country report for the twin-island republic said in 2022, its real gross domestic product (GDP) expanded by 2.5%, supported by the non-energy sector and partially offset by an unexpectedly weaker performance of its energy sector. Notably, inflation in T&T reached 8.7% at the end of last year, driven by imported energy and food prices, partial liberalization of domestic fuel prices in 2022, and domestic flooding.

These higher-than-expected energy prices, however, resulted in the overall fiscal balance registering a surplus of 0.3% of GDP in FY2022, for the first time in over a decade, and after a record deficit of 11.7% of GDP in FY2020. Looking ahead, the organization stated that recovery is expected to gain broad-based momentum in 2023 with a 3.2% GDP expansion. However, over the medium term, as oil and gas fields mature, potential growth will slow down to 1.5%. The IMF lauded T&T for its prudent management of the energy revenue windfall and underscored the importance to continue rebuilding buffers.

Inflation is projected to slow down to 4.5% by the end-2023 and will continue declining with international prices, which will result in a narrower current account surplus, averaging 6.7% of GDP. Its international reserve coverage is projected to remain adequate at around 6.5 months of prospective total imports by 2028. The risk to the growth outlook is tilted toward the downside. Downside risks stem from potential disruptions to domestic oil and gas production; a sharper-than-expected global slowdown affecting energy markets, and global financial instabilities. On the upside, there is the potential for higher-than-expected energy production and prices, including from a new U.S. license to Trinidad and Tobago to develop a major gas field in Venezuela.

International News

Fed hikes rates by a quarter percentage point, indicating increases is near an end (CNBC)

The Federal Reserve on Wednesday enacted a quarter percentage point interest rate increase, expressing caution about the recent banking crisis and indicating that hikes are nearing an end. Along with its ninth hike since March 2022, the rate-setting Federal Open Market Committee noted that future increases are not assured and will depend largely on incoming data. That wording is a departure from previous statements which indicated "ongoing increases" would be appropriate to bring down inflation. While comments Fed Chair Jerome Powell made during a news conference were taken to mean that the central bank may be nearing the end of its rate-hiking cycle, he qualified that the inflation fight isn't over.

Powell acknowledged that the events in the banking system were likely to result in tighter credit conditions and the central bank's tone has softened. Stocks initially rose after the Fed's decision, but slumped following Powell's remarks. During the news conference, Powell said the FOMC considered a pause in rate hikes in light of the banking crisis, but ultimately unanimously approved the decision to raise rates due to intermediate data on inflation and the strength of the labor market. The increase takes the benchmark federal funds rate to a target range between 4.75%-5%.

Fitch Solutions: Downside Risks to Growth from Banking Sector Stress (Fitch)

Fitch Solutions believes that the recent banking sector stress means that downside risks to global growth will play out through three main channels including banking sector uncertainty, tighter financial conditions, and the potential for weaker credit growth as banks focus on strengthening their balance sheets. First, although policymakers responded with liquidity support to Silicon Valley Bank and Signature Bank, their fall has created an untrustworthy atmosphere among regional banks. In addition, Credit Suisse came under significant stress with credit default swaps surging to record highs as its stock price fell sharply. At the time of writing, UBS agreed to acquire Credit Suisse for $3.23Bn, and while this will help to quell short-term investor fears, this has weighed on investor confidence and could also depress US and global growth.

Second, there has been a sharp tightening of financial conditions. Although the futures markets saw a significant dovish repricing of the path for interest rates in the US over the past week, market-based measures of financial stress increased significantly. While short-end bond yields in the US declined sharply at the same time, credit spreads across both investment grade and high-yield bonds rose sharply, pointing to a more challenging financing environment. Moreover, this was accompanied by a sharp increase in bond volatility and a decline in equity markets, which points to increased downside volatility and weaker risk appetite over the near term.

Third, downside risks to credit growth in the US and abroad have risen as banks focus on risk management, strengthening their balance sheet, and improving their liquidity positions. As a result, in addition to rising interest rates, there is also the potential for recent banking stress to result in credit growth slowing sharply both in the US and in Europe over the coming months, which in turn would weigh on real GDP growth.

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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