

# ▶ Market Guide

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“The stock market is designed to transfer money from the Active to the Patient” ~ Warren Buffett.

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## Taming the Inflation Threat: When Will Interest Rates Ease?

Let's pretend for a second that you travelled in a time machine 2 years in the past, and bought a 1-litre box of milk for J\$383.23. Fast forward to today, that same box of milk would now cost around J\$560.77, a staggering 50% increase. This underscores the profound impact of inflation on our daily lives, and highlights the urgent necessity for countries to maintain it within manageable limits. Former Fed Chair Ben S. Bernanke once wrote that "low and stable inflation in many countries is an important accomplishment that will continue to bring significant benefits". Since last year, as economies emerged from the unprecedented shutdown brought about by the pandemic, inflation has loomed as one of the greatest threats to many economies, including Jamaica's. Inflation, which refers to a general increase in the prices of goods and services in an economy, not only erodes consumers' purchasing power but also diminishes the real value of the returns on their investments. In a bid to counter this inflationary threat, the Bank of Jamaica (BOJ), along with central banks in many other countries including the US, responded with interest rate hikes, combined with a range of monetary policies intended to reduce market liquidity and curb demand for goods and services to subdue this threat. These actions have led to the highest level of interest rates in more than a decade in both Jamaica and the US. Roughly two years on, we assess the current status of inflation, the potential risks to the inflation outlook and explore when

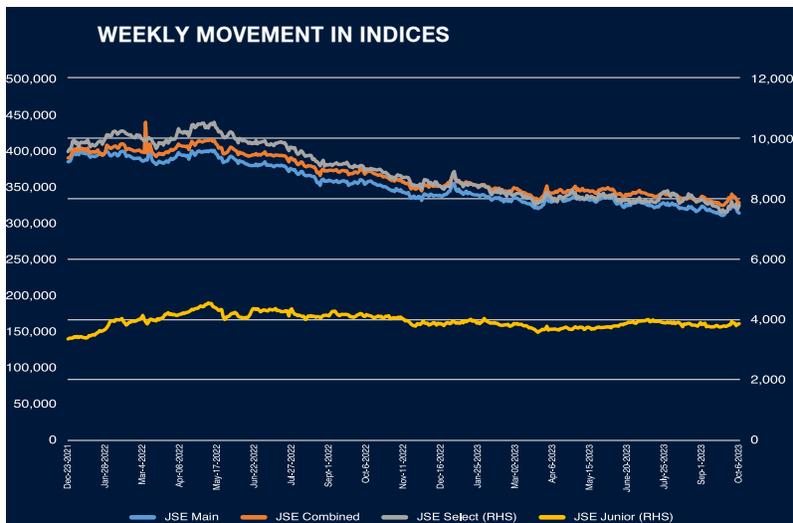
interest rates may actually begin to decline.

After a decline from its peak of 10.27% in November 2022 due to aggressive monetary policy tightening, inflation in Jamaica briefly settled within the BOJ's target range of 4% to 6% in April 2023. However, the past four months have seen a resurgence in inflationary trends, as depicted in Figure 1. Higher costs of local agricultural produce stemming from a prolonged drought in Jamaica, increased energy costs due to OPEC+ countries limiting the supply of oil and wage increases stemming from the Government of Jamaica's updated compensation system for the public sector were the main drivers of the uptick in consumer prices. Despite these inflationary jolts to the economy, the BOJ continued to pause its policy rate<sup>1</sup> to give previous aggressive rate hikes<sup>2</sup> time to permeate the economy, with the expectation that inflation would return within its target range by December 2023.

Although inflation is currently below its November 2022 peak, there are several near-term factors, both local and global, that could exert upward pressure on consumer prices. These include higher prices for agricultural produce, wage increases and fluctuations in global oil prices. Locally, higher-than-projected future wage adjustments in the context of the tight domestic labour market, coupled with the ripple effects from the sharp increase in agricultural prices during the first half of

1 According to the IMF: Policy rate refers to the rate that is used by central banks to implement or signal its monetary policy stance.

2 Between September 2021 and November 2022, the BOJ increased its policy rate 10 times consecutively causing it to move from 0.50 % to 7.00%. The increase in the policy rate had the effect of increasing the cost of borrowing for individuals and businesses while at the same time making it more attractive to save in Jamaica.



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	329,401.93	-3.5%	-10.6%
Main Market Index	314,985.96	-3.7%	-8.1%
Select Index	7,820.57	-1.5%	-12.1%
Junior Market Index	3,880.34	-2.0%	-2.7%

### WINNERS & LOSERS (FOR THE WEEK ENDED OCT. 6, 2023)<sup>1</sup>

	\$ Change	% Change
ISP	+\$9.94	+29.18%
MEEG	+\$2.77	+20.95%
PTL	-\$0.43	-21.61%
CARBROKERS	-\$0.61	-19.49%

### MARKET OVERVIEW

Local stocks relinquished gains in trading last with all major indices declining. The Cross-Listed Index (-8.07%), Financial Index (-4.27%) and JSE Main Market Index (-3.69%) recorded the most significant declines. Guardian Holding Limited (GHL) (-13.15%), NCB Financial Group (NCBFG) Ltd. (-5.43%), and Barita Investments Limited (-4.73%) were the main contributors to the falloff in the Financial Index. NCBFG, GHL and Massy Holdings (-5.28%) were the main drivers of the downturn in the Main Market Index, while Eppley Caribbean Property Fund Limited (CPFV) (-6.03%) and GHL were primarily responsible for the decline in the Cross-listed Index.

Data on the country's quarterly GDP was released On September 29, 2023, by STATIN. It showed that the Jamaican economy grew 2.3% y-o-y during the second quarter of 2023. Growth emanated from both the Services and Goods-Producing industries, which expanded by 2.2% and 2.6%, respectively, as the economy extended gains in the aftermath of the COVID-19 pandemic. Notable sectoral growth occurred in Transport, Storage & Communication (+5.6%) and Mining & Quarrying (+164.2%). The growth in the Mining & Quarrying industry was largely due to higher output of alumina due to increased production at the JAMALCO plant which was closed in the similar period in 2022. However, Agriculture, Forestry & Fishing, and Construction industries saw declines of 8.1% and 0.7%, respectively.

Market activity resulted from trading in 121 stocks, of which 39 advanced, 73 declined, and 9 traded firm. Market volume amounted to 97,223,944 units valued at over \$540,581,088.06. The volume leaders were TransJamaican Limited with 16,622,776 units (16.84%), Carreras Limited with 14,812,368 units (15.01%), and One Great Studio Company Limited with 9,938,147 units (10.07%).

<sup>1</sup>The value delivered to the equity owners of a corporation, thanks to management's ability to increase sales, earnings, and free cash flow, which leads to an increase in dividends and capital gains for shareholders.

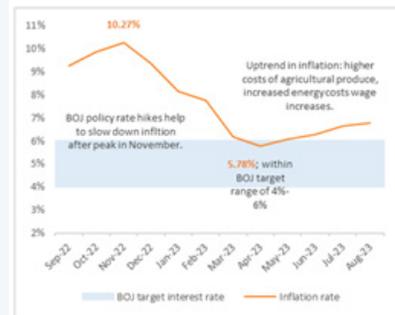
2023, could keep inflation above the BOJ's target range for longer. On the international stage, oil prices have risen due to production cuts by Saudi Arabia and Russia, along with some positive economic data from China indicating an increase in demand. Notably, the global oil benchmark, Brent crude, reached its highest value in 11 months, peaking at US\$97.69 per barrel on September 27, 2023, but has since declined to US\$84.58 on October 6, 2023. Further, the war in Israel, which began over the weekend, could also put upward pressure on the price of crude oil, with Brent crude up 4.15% in a day to US\$88.20 on October 8, 2023<sup>3</sup>. If inflation threatens to grow uncontrollably, further rate hikes could be on the horizon. In fact, the BOJ communicated in its latest policy rate update that risks to the near-term inflation outlook are skewed to the upside. If these near-term risks materialize, it is likely that inflation could increase at a faster pace, prompting further rate hikes from the BOJ. In its September 29 release, The BOJ noted that while it decided to pause its rate hikes for the 7th consecutive time and maintained tight liquidity conditions and stability in the foreign exchange market it "agreed to heighten surveillance of the risks to the inflation outlook and noted its preparedness to take the necessary actions, including further tightening of monetary policy if the emerging risks to inflation materialize".<sup>4</sup>

Even if inflation risks dissipate and rule out further interest rate hikes, local interest rates may still stay high well into 2024 because BOJ's ability to cut rates will be limited by the path of US interest rates, not just domestic inflation. When deciding on rate hikes and cuts, the BOJ closely monitors the interest rate differential, which refers to the difference between interest rates in Jamaica and major developed economies, primarily the USA. If the differential decreases,

it means it is less attractive to invest in JMD-denominated assets relative to USD-denominated assets which could lead to an increase in the demand for USD. This could, in turn, cause a depreciation in the Jamaican dollar and could spark inflation due to higher costs of imported goods. Therefore, BOJ's rate cuts are likely to coincide with the Fed starting to cut rates or communicating that it will start cutting rates soon. The US Fed paused its rate hikes but noted that it expects that there may be at least one more rate hike before the end of the year leaving no room for complacency. Currently, the consensus among economists is that interest rate cuts from the Fed will commence sometime in 2024 as inflation slows to its 2.0% target. The latest updates from global firms Goldman Sachs and Barclays expect that rate cuts could start as late as Q4 2024, while Morgan Stanley anticipates that rate cuts could start as early as March. With this in mind, our conservative assumption is that the BOJ will likely hold rates at 7.00% for the rest of the year before starting to cut interest rates no later than the last quarter of 2024 assuming the recent uptrend in inflation was just temporary and not a sign of more pain to come. Importantly, for investors, a dip in interest rates often heralds a rebound in stock markets. The depressed asset prices we're witnessing now because of the high-interest rate environment could start to recover soon. If this scenario unfolds as projected, now may be the best time to invest in high-value stocks, particularly given their current undervalued status. We invite you to explore the "Recommendations" section on page 6 in our Market Guide. Here, we have curated a list of stock recommendations that not only showcase robust growth potential but are also undervalued.

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Figure 1: BOJ monthly inflation performance.



## Foreign Exchange Market

For the week ending October 6, 2023, the value of the Jamaican dollar relative to the USD was unchanged (week-over-week), to close the week at a selling rate of J\$155.48. Of note, the BOJ intervened in the market with US\$20 million on October 2nd and US\$40 million on October 5th. There were expectations for the Bank to re-enter the market on Friday, given there was some residual demand for USD. However, with the tightness in JMD that resulted from the US\$40 million B-FXITT transaction, this did not materialize.

<sup>3</sup> Source: Reuters

<sup>4</sup> Source: BOJ Summary of Monetary Policy Discussion and Decisions September 2023

That being said, should JMD liquidity improve, there is a strong possibility that the BOJ will re-enter the market during the week to take advantage of lingering USD demand. These interventions did not prove to make any noticeable changes to the average-weighted selling rate of the US dollar that week.

Selling	Close: 10/2/23	Close: 10/6/23	Change
J\$/US\$1	\$155.43	\$155.48	<b>+\$0.05</b>
J\$/CDN\$1	\$115.19	\$114.60	<b>-\$0.59</b>
J\$/GBP£1	\$188.44	\$190.25	<b>+\$1.81</b>

## Global Bond Prices

Global bond prices continued to decline last week as investors' hawkish tone towards the U.S. economy was strengthened. In September, U.S. employment saw its most substantial increase in eight months, with nonfarm payrolls rising by 336,000 jobs, the highest since January. This exceeded economists' forecast of 170,000. Additionally, there were significant upward revisions to July and August's job counts, adding a total of 119,000 more jobs than previously reported. The leisure and hospitality industry led the broad increase in payrolls, adding 96,000 jobs, primarily in restaurants and bars, effectively bringing the sector's employment back to pre-pandemic levels. Government employment also increased by 73,000 jobs, with a focus on state government education and local government positions excluding education. The unemployment rate remained unchanged at 3.8% in September, while the broader measure of unemployment, including those who want to work but have given up searching and those working part-time involuntarily, dropped to 7.0% from 7.1% in August. Despite the robust job growth, concerns persist regarding slowing wage growth and its potential impact on inflation and consumer spending. However, the resilience of the labour market and the broader economy, even after 18 months of the Federal Reserve's rate hikes, suggests that monetary policy might remain tight for some time. Long-term U.S. Treasury yields hit 16-year highs due to an ongoing tight U.S. labour market and steadily increasing month-over-month inflation. Brent Crude oil prices nearing 2022 highs also stoked inflation fears. As a result, this is influencing the behaviour of retail and institutional bond investors and affecting economists' expectations regarding the path of inflation and future rate decisions by the Federal Reserve.

Financial markets are leaning towards the Federal Reserve keeping rates unchanged at its upcoming policy meeting, but the odds of a rate hike are increasing. Since March 2022, the Fed has raised its benchmark overnight interest rate by 525 basis points to the current 5.25%-5.50% range. The jobs report, along with upcoming inflation data, are expected to influence the Federal Reserve's decisions regarding interest rates in the coming months. Importantly, concerns about the US Budget also brewed as Kevin McCarthy was ousted as US House speaker by

dissidents within his own party, sending a fractious Congress into further disarray. The temporary budget was approved up to November 17; what will take place later is still uncertain.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALSEA 2026 (7.75%)	Ba3/ STABLE	101.5	7.21%	<b>BUY</b>
BERMUDA (3.72%) 2027	A2/STABLE	96.3	4.94%	<b>BUY</b>
DOMREP (6%) 2033	BB/STABLE	92.25	7.15%	<b>BUY</b>
DOMREP (8.63%)2027	BB/STABLE	106	6.69%	<b>BUY</b>
DOMREP (5.5%) 2029	BB/STABLE	94.5	6.73%	<b>BUY</b>
DOMREP (6%) 2028	BB/STABLE	99	6.24%	<b>BUY</b>
DOMREP (5.95%) 2027	BB/STABLE	99.75	6.03%	<b>BUY</b>
DOMREP (6.88%) 2026	BB/STABLE	102.75	5.59%	<b>BUY</b>
DOMREP (5.5%) 2025	BB/STABLE	101.25	4.51%	<b>BUY</b>
DOMREP (5.88%) 2024	BB/STABLE	101	3.97%	<b>BUY</b>
DOMREP (6.6%) 2024	BB/STABLE	101.75	1.00%	<b>BUY</b>
TPHLTT (9%) 2029	BB/STABLE	106.25	7.65%	<b>BUY</b>
TRAJAM (5.75%) 2036	BB-/ STABLE	85.25	7.54%	<b>BUY</b>
PRMRPA (10.75%) 2028	B+/ POSITIVE	106.3	9.11%	<b>BUY</b>
SFC (5.30%) 2028	BB-/ POSITIVE	96.25	6.25%	<b>BUY</b>
JAMAN (7.63%) 2025N	B+/ POSITIVE	104	5.21%	<b>BUY</b>
PYPL (2.85%) 2029	A-/STABLE	89.25	4.95%	<b>BUY</b>
PRIOBZ (6.13%) 2026	BB-/ STABLE	100	6.12%	<b>BUY</b>
NETFLIX (5.86%) 2028	BBB/ STABLE	103.5	5.09%	<b>BUY</b>
BACR (5.75%) 2026	BBB+/ STABLE	101.25	5.27%	<b>BUY</b>
PANAMA (3.88%) 2028	BBB-/ STABLE	93.5	5.55%	<b>BUY</b>
PANAMA (3.75%) 2025	BBB-/ STABLE	98.75	4.66%	<b>BUY</b>
FRICON (7.7%) 2028	B+/ STABLE	85	11.90%	<b>BUY</b>
PEMEX (5.35%) 2028	BB-/ STABLE	83.25	10.21%	<b>SELL</b>
UNICMR (7.88%) 2024	BB-/ STABLE	101.25	5.12%	<b>SELL</b>

Bonds	Current Rating	Indicative Price	Yield	Recommendation
CSOLNO 6.00% 2027	B+/Stable	13.25	95.01%	<b>SELL</b>
PEMEX (5.35%) 2028	B1/ NEGATIVE	83.5	10.48%	<b>SELL</b>
NFE 2026 (6.50%)	BB-/ STABLE	93	9.25%	<b>HOLD</b>
NFE 2025 (6.75%)	BB-/ STABLE	98	7.89%	<b>HOLD</b>
TRITOB (5.88%) 2027	BBB-/ STABLE	101.25	5.49%	<b>HOLD</b>
TRITOB (4.50%) 2026	BBB-/ STABLE	97.75	5.37%	<b>HOLD</b>
TRITOB (4.38%) 2024	BBB-/ STABLE	101.75	-2.34%	<b>HOLD</b>
PANAMA (6.70%) 2036	BBB-/ STABLE	99	6.82%	<b>HOLD</b>

Jamaica's 30-day competitive price auction saw a slight increase, reaching 9.47% in comparison to the previous week's 9.22%. The auction was oversubscribed, with bids amounting to J\$35.9 billion against an offering of J\$28 billion. The highest bid rate for full allocation rose to 9.87%, up from the previous week's 9.69%. The next auction for the Bank of Jamaica's 30-day Certificate of Deposit (CD) is scheduled for October 11th. Furthermore, the Bank of Jamaica plans to intervene on the 10th with an auction of J\$25 billion for their two-year fixed-rate CD, to manage liquidity resulting from the maturity of the BOJ 3.75% USIN bond on October 12th. The Government of Jamaica has also announced an offer for a total of J\$1.4 million in T-bills, allocating J\$700 million each for the 91-day and 182-day tenors.

## GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
	2028	102.00	6.11%
JAMAN	2039	113.25	6.62%
	2045	109.00	7.06%

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

## Money Market

The Jamaican financial market's liquidity decreased by J\$5.5 billion to J\$21.2 billion as of October 5th, primarily attributed to interventions by the Bank of Jamaica in the foreign currency market and fluctuations in demand for both Jamaican Dollar (JMD) and USD placements. The Bank of Jamaica intervened twice during the week in the foreign currency market using B-FXITT, providing a total of US\$60 million, resulting in a contraction of J\$9.3 billion. On the demand side, rates continue to reflect demand for JMD placements, while the USD money market liquidity experienced fluctuations week-over-week, witnessing an increase in broker market demand for USD longer-tenured funds.

CD rates during auctions continued to rise last week, and there are more upcoming short-term offers from the BOJ and GOJ. The average yield observed in the Bank of

## Dates to watch this week

■ International ■ Local

### OCTOBER 2023

MON	TUE	WED	THUR	FRI
<b>09</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>
JMMB Group Limited Dividend Payment Date (J\$0.25c per share)	TransJamaican Highway Limited Dividend Record Date (J\$0.1866 per share)	U.S. PPI (MoM) September FOMC Meeting Minutes	U.S. GDP (MoM) August U.S. Core CPI (MoM) September  U.S. CPI (YoY) September U.S. CPI (MoM) September	Ciboney Group Limited Quarter 1 Results Due AMG Packaging and Paper Company Limited Q4 Results Due Paramount Trading Limited Quarter 1 Results Due Margaritaville Limited Quarter 1 Results Due Knutsford Express Limited Quarter 1 Results Due Express Catering Limited Quarter 1 Results Due Portland JSX Quarter 2 Results Due Stanley Motta Limited Annual General Meeting (AGM) Image Plus Consultants Limited Quarter 2 Results Due Caribbean Cream Limited Quarter 2 Results Due

## Recommendations

Ticker	Closing Price(October9,2023)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	\$18.04	13.8x	12.6x	BUY
IPCL	\$2.10	10.0x	15.5x	BUY
JBG	\$33.96	7.4x	12.6x	BUY
ECL	\$4.43	16.1x	15.1x	BUY
CAR	\$8.09	10.8x	12.6x	BUY
CPJ	\$9.23	11.5x	12.6x	BUY
KW	\$29.72	15.3x	23.8x	HOLD
FESCO	\$3.35	14.5x	14.4x	BUY
PBS	\$1.80	34.0x	15.9x	HOLD
TJHUSD	\$0.02	21.7x	15.9x	BUY
TJH	\$2.67	14.1x	23.8x	BUY
SOS	\$1.69	13.5x	14.4x	HOLD
KEX	\$12.74	20.9x	15.1x	BUY
SALF	\$2.85	17.8x	12.6x	SELL
INDIES	\$2.93	18.3x	15.5x	HOLD
LASM	\$4.91	9.2x	23.6x	BUY
LASD	\$4.20	9.9x	14.4x	BUY
MDS	\$4.20	18.3x	15.5x	HOLD
MEEG	\$15.95	18.3x	15.1x	BUY
SGJ	\$32.85	6.0x	11.7x	BUY

## Regional News

### Central Bank projects the Bahamian economy to sustain growth momentum for the remainder of the year (Eyewitness News)

The Central Bank is projecting that the Bahamian economy will sustain its growth momentum throughout 2023, largely bolstered by substantial increases in tourism output. Nevertheless, it is foreseen that the expansion rate will decelerate as various indicators gradually revert to their pre-pandemic levels. The Central Bank's projections were outlined in its August Monthly Economic and Financial Developments report. The regulator noted that additional downside risks to the tourism sector remain, mainly associated with exogenous factors, such as elevated global oil prices, which can potentially disrupt travel sector activity. "Further, major central banks' counter-inflation policies could curtail the travel spending capacity of key source market consumers. Nevertheless, new and ongoing foreign investment-led projects are expected to provide continued stimulus to the construction sector, which will contribute to the growth matrix," said the Central Bank. "In the labour market, the employment rate is forecasted to continue to improve, with additional job gains concentrated mainly in the construction and tourism sectors. As it relates to prices, inflation is projected to remain high in the near term, although trending downward over the medium to long term, with a lag, owing to moderating price trajectories in the major trading markets and delayed fuel cost pass-through in domestic energy prices. Upside risk to inflation revolves around uncertainty in international energy costs and supply chain shortages, associated with the geopolitical tensions in Eastern Europe."

On the fiscal front, the Central Bank said that the Government's net financing gap is anticipated to trend downwards as conditions become favourable for more consolidation. "The recovery in revenue is projected to be significantly correlated to tourism-led improvements in taxable economic activities. Meanwhile, financing of the estimated budgetary gap is expected to require both domestic and external borrowings, though with an increased proportion of the total funding from domestic sources. Monetary sector developments will continue to feature high levels of banking sector liquidity as commercial banks sustain their conservative lending posture. "In addition, external reserves are forecasted to remain buoyant in 2023, remaining above international benchmarks, supported by anticipated foreign currency inflows from tourism and other net private sector receipts. Consequently, external balances should remain more than adequate

to maintain the Bahamian dollar currency peg," it concluded. The Central Bank's projections come as Moody's last week Monday affirmed its support for the forecast of a three per cent economic growth rate for The Bahamas in 2023.

### Fitch anticipates elevated GDP growth in Barbados for latter half of 10-year forecast

The GDP growth is expected to slow significantly after a strong post-pandemic recovery, largely due to a decline in tourism activity. The projected annual growth for the latter half of the 10-year forecast period (2027-2032) is estimated to be 2.2%, slightly higher than the five-year average of 0.9% from 2015-2019. Private consumption will continue to be a major contributor to the economy. Unemployment has returned to pre-pandemic levels, and a consistent influx of tourists is vital for sustaining growth in private consumption. The share of private consumption in GDP is anticipated to remain stable at 76.9% by the end of 2023 and average around 80.2% from 2023 to 2032.

The government consumption portion of the economy is expected to stay relatively consistent, averaging around 12.0% of the GDP throughout the forecast period. Barbados is under an IMF program that emphasizes fiscal consolidation, limiting spending growth. The government aims to substantially decrease its debt burden in the next decade, aligning with this approach. Fixed investment's proportion of the economy is not expected to see a significant rise due to Barbados's limited growth prospects. In 2022, investment made up 18.2% of the GDP, and it is anticipated to decrease to 16.7% in 2023, primarily due to global economic slowdown and tighter financial conditions. Projects focused on enhancing Barbados's resilience to climate change-induced shocks will be a crucial source of investment growth in the medium term. Exports are projected to increase as a percentage of GDP in the short to medium term as the effects of the Covid-19 pandemic diminish and demand for tourism grows. However, imports will also rise due to increased employment in the tourism sector, sustaining domestic demand. Consequently, net exports are expected to remain negative throughout the forecast period.

## International News

### Surging bond yields add to Canadian homeowners' mortgage pain as renewals loom (Reuters)

Approximately 75,000 Canadian homeowners awaiting mortgage renewals are anticipating a significant increase in interest rates due to an unexpected rise in global bond yields. Unlike the U.S. where customers can secure 30-year mortgages, Canadians typically opt for five-year mortgages. Many who locked in sub-2% fixed-rate mortgages five years ago are now facing steep rate hikes upon renewal, exacerbated by the recent bonds selloff, putting additional strain on already tight household budgets. In certain instances, renewed home loan rates in Canada could potentially surge to 7%, resulting in a substantial increase in the average Canadian mortgage payment by at least a few hundred dollars per month, as estimated by mortgage brokers. Canadians are already grappling with challenges in repaying their debts due to the high cost of living and increasing interest rates. This situation has compelled banks to set aside funds in anticipation of defaults, impacting their overall profits. Looking ahead, with approximately C\$200 billion (\$146.36 billion) in home loans slated for renewal next year, mortgage brokers and legal professionals are preparing for an uptick in distress sales within the property market.

Canadian homeowners are anticipating a shock in interest rate hikes upon mortgage renewals, driven by a surge in global bond yields. The Canadian 5-year yield has risen significantly in recent months, likely impacting November renewals. Major banks typically provide renewal options to clients four to six months in advance. Variable home loans, constituting about half of Canada's outstanding mortgages, have been rising alongside the Bank of Canada's interest rate hikes. The country's mortgage debt stands at CAD\$2.1 trillion as of January. Fixed-rate mortgages are also increasing due to the rise in bond yields, putting homeowners under financial strain. This mortgage rate surge is expected to further strain household budgets and exacerbate the cost of living crisis, impacting Prime Minister Justin Trudeau's popularity. If the Bank of Canada raises its benchmark interest rate as expected, the mortgage situation may worsen. Additionally, new capital adequacy guidelines for banks and mortgage insurers are anticipated to be released by the Office of the Superintendent of Financial Institutions.

### **Treasury yields' wrecking-ball surge gets fresh fuel after blowout jobs report (Reuters)**

The recent surge in U.S. Treasury yields, unsettling markets, is expected to continue following a robust U.S. jobs report for September. The report, which showed nonfarm payrolls increased by 336,000, suggests that the Federal Reserve may pursue further tightening to counter inflation, disappointing investors

seeking relief from rising Treasury yields. This surge has impacted markets, affecting stocks, strengthening the dollar, and causing mortgage rates to hit their highest levels in over two decades. The likelihood of a Fed rate hike in November has increased due to the strong job growth. While some elements of the report were seen positively, the market views the growth as robust despite concerns over the disparity with other job surveys. This continued rise in yields is expected to pose a challenge for equities throughout the year's end if they remain elevated.

Traders in Fed funds futures are increasingly betting on the Federal Reserve raising interest rates before the year's end and maintaining elevated rates into the next year. Implied yields on contracts related to the Fed policy rate indicate a nearly 50% chance of a quarter-point increase to the 5.50%-5.75% range at the December meeting. However, some investors argue that the Treasury sell-off has already tightened financial conditions, potentially lessening the necessity for more rate hikes. PIMCO economist Tiffany Wilding stated that while the latest jobs report makes it a closer call for a fall hike, tighter financial conditions are already influencing the situation. On the other hand, Craig Ellinger, head of Americas fixed income at UBS Asset Management, believes there could be more rate hikes needed to sufficiently constrain growth and combat inflation. Despite recent high levels, he suggests that real rates may not yet be restrictive enough. He plans to maintain exposure to short-term Treasuries and corporate bonds while staying flexible in response to the evolving market conditions and the Fed's approach to data dependency.

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