

▶ Market Guide

THIS ISSUE

**Global and Local Macroeconomic Themes:
Implications for Businesses, Earnings and Investments**

Foreign Exchange Market Summary

Money Market Update

Stock Recommendations

“Invest for the long haul. Don’t get too greedy and don’t get too scared.” — Shelby M.C. Davis

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Global and Local Macroeconomic Themes: Implications for Businesses, Earnings and Investments

With the signs of a turning point emerging in 2023, there is much optimism for the 2024 year, with falling inflation and interest rate cuts, both globally and locally expected to be the main tailwind themes. Economies around the world have had to contend with inflationary pressures and rate hikes over the last two years, but the outlook for 2024 is shaping up to be more favourable. In our last publication, we explored the themes that are expected to shape the global and local economies and financial markets in 2024. Here we explore what these themes mean for local businesses, their earnings, and investors. Certainly, the falling interest rate environment will create more opportunities for companies to raise capital and grow earnings and it augurs well for stock market activity over time. Continued growth, easing inflation, and tight labour markets should also support growth in real disposable incomes, and buttress consumer demand. That being said, though the economy is expected to expand, the pace of growth is forecast to be slower than in 2023. This could moderate the profit growth momentum for some firms, though financial companies should begin to benefit as falling interest rates boost their asset values and trading gains. However, while things are shaping up for a favourable 2024, potential headwinds from geopolitical conflicts, severe weather conditions, and global election outcomes can't be ignored. Businesses will have to build greater resilience and their 2024 strategic plans must anticipate the potential impacts of these developments on their operations and identify measures to mitigate them.

For much of the last two years, companies have had to contend with the effects of high inflation, elevated interest rates, and a tight labour market, all of which impacted business performance. Inflation has placed significant upward pressure on businesses'

direct and indirect costs. In response, firms increased their attention on improving operational efficiencies through methods such as cost-cutting, automation, digitization, and investments in alternative energy to preserve margins. High financing costs due to elevated rates have, in some instances, caused companies to delay investments and slow the rate of adaptation to measures needed to improve efficiencies.

With inflationary pressures easing, interest rates are widely expected to fall in the second half of the year and corporate margins and investment activity should start to benefit. Some companies would have already started to benefit from lower inflationary pressures on their direct and indirect costs in 2023. As rates begin to fall, businesses should benefit, with the impact likely to be more immediate for those operating in the financial sector, especially the securities industry. Last year, most financial companies grappled with falling operating revenues due to elevated interest rates and tight market liquidity. This has dampened their profitability and caused a deterioration in their efficiency, as measured by the cost-to-income ratio. However, as rates go down, financial sector companies should benefit from widening interest rate spreads, as money market rates begin to ease, and improving asset prices should set the stage for greater trading gains, thus boosting their revenues and net profit later this year. However, much of the gains are expected to come in 2025, given that interest rates are expected to fall much more slowly relative to their dramatic rise starting in 2021. For non-financial companies, lower rates should facilitate lower funding costs, which encourages borrowing to fund investment plans and acquisitions. That being said, the pass-through effects of lower interest rates on borrowing costs may be delayed as interest rates are generally downward sticky.

WEEKLY MOVEMENT IN INDICES

MOVEMENT IN INDICES			
JSE Indices	Closing Levels	Week over Week (%)	YTD % change
Combined Index	336,104.77	+0.61%	-0.90%
Main Market Index	323,274.84	+0.59%	-0.74%
Select Index	8,107.25	+0.62%	-0.16%
Junior Market Index	3,759.37	+0.80%	-2.31%

WINNERS & LOSERS FOR THE WEEK ENDED JAN. 26, 2024		
	\$ Change	% Change
SCIUSD	\$0.02	27.92%
KLE	\$0.41	22.28%
PBS9.75	(\$30.00)	-25.00%
EPLY7.75	(\$4.87)	-21.22%

MARKET OVERVIEW

Last week's overall market activity resulted from trading in 126 stocks, of which 65 advanced, 50 declined, and 11 traded firm. Market volume amounted to 142.69Mn units valued at over \$501.74Mn. This reflects a 43.8% increase in volume but a 7.3% decrease in value relative to the week ending January 19, 2023. Compared to January 27, 2023, volume and value are down by 10.9% and 30.4% respectively. JMMB Group Limited 9.5%, Transjamaican Highway Limited and Future Energy Source Company Ltd Ordinary Shares were the week-over-week (WoW) volume leaders with 38.90Mn Units (27.01%), 27.97Mn Units (19.4%) and 16.68Mn Units (11.6%).

Despite still being down year to date (YTD), last week's performance was positive with 8 of the 9 local market indices appreciating, as the market clawed back some of the losses from the prior week. The JSE Combined Index was up 0.6% and erased the 0.3% decline from the week before. However, the Combined Market is still down 0.9% YTD with 0.7% and 2.3% declines from the Main Market and Junior Market indices, respectively.

The USD Index (4.3%) had the most significant increase WoW with TransJamaican Highway USD (TJHUSD) (6.7%) and PROVEN US (13.2%) being the main drivers. There was no news this week to spur these appreciations, but TJH's growth likely reflects expectations for robust earnings results for the December 2023 quarter. Strong profitability and dividends amid rebounding traffic volumes and lower direct costs sparked by the recent JIO acquisition continue to drive positive investor sentiment. The Junior market appreciated by 0.8%, driven by CHL and MAILPAC up 13.9% and 12.9% respectively. There was no news to explain the appreciations; however, as a thinly traded stock, CHL's stock price is subject to greater price volatility. For MAILPAC there was a 5.15Mn block trade on Friday which drove the increase.

Notably, the Manufacturing and Distribution Index (0.7%) benefitted from a 10.8% appreciation from CCC and a 15.0% increase from SEPROD. There was no news to support the CCC appreciation, but SEPROD's appreciation was driven by the company's January 19, 2024 disclosure that it received a Take-Over Bid Offer Circular from Musson Investments Limited. Musson is offering to purchase up to 13,948,000 ordinary shares in SEPROD at a price of \$78.00 per share. On the other hand, the sole decliner for the week, the Cross-Listed index, declined by 1.1% reversing some of the 1.7% gains from the prior week. The decline was driven by GHL (-4.9%), but there was no news to drive this movement.

Furthermore, modest economic growth and lower unemployment levels locally and in Jamaica's key markets will support disposable and drive demand which augurs well for corporate revenues and profits. The results of the JCC Business Confidence survey released in January 2024 suggest that firms share this optimistic view of the outlook for the economy. Generally, more firms expect to see improvements in the economy, which could be attributed to a boom in other sectors like tourism and mining and quarrying, and favourable government policies, which are likely to have a positive impact¹. Lower unemployment and higher real household incomes, on the back of falling interest rates, are expected to boost consumer spending, which should support business activity and by extension, corporate earnings. This expectation is also supported by the latest Index of Expected Economic Conditions and Index of Current Economic Conditions, increasing by 8.3% and 8.8%², respectively.

An environment where corporate earnings are increasing, and interest rates are falling appeals to investors in the equity market. With interest rates expected to fall, it should catalyse a reversal in the trajectory of stock prices, although overall market gains may be modest until earnings for financial companies, some of which are among the largest capitalization stocks, recover. Primary markets should also see a modest recovery this year. Firms looking to raise capital via IPO, APO, and rights issues will have higher valuations as debt and equity costs are reduced. As such, though expected to be well below peak 2018-19 IPO numbers, the primary market should provide investors with some new equity investment opportunities this year.

Despite a generally favourable outlook, geopolitics, election outcomes in major economies, and severe weather conditions are downside risks that could impact supply chains, costs, and profitability. As such, businesses will need to factor in and create contingencies around their potential impacts in their 2024 strategic plans. Geopolitics in 2024 will be volatile, that's according to Ernest & Young

in its 2024 Geostrategic Outlook publication. The conflict between Israel and Hamas, the ongoing tensions in Europe, and the recent attacks in the Red Sea could all result in higher energy costs or shipping and freight costs if they persist. Notably, 2024 will be a year of elections for the US and the UK, both of which could impact the local economic landscape and by extension business environment. These developments all have the potential to slow growth in Jamaica's major trading partners and weaken economic activity in Jamaica. Additionally, both the US and UK have the largest population of the Jamaican diaspora, who remit cash to Jamaica. With elections slated for later this year, incoming leaders may choose to implement tighter fiscal policies, which increase taxes and by extension, reduce disposable incomes overseas as well as stricter immigration policies, which could limit immigration and reduce the amount of cash being remitted to the island. This could reduce disposable incomes and demand locally. Furthermore, with some companies' revenue being dependent on the export markets and their inputs usually sourced from overseas, the results could lead to lower revenues and higher costs, ultimately depressing margins. Severe weather conditions also pose a risk both globally and locally. The drought in the Panama Canal is causing fewer ships to pass through the canal each day and increased costs for passage. With some ships already diverting to longer routes, there is the risk of higher freight costs and shipping costs. In light of these challenges, companies must factor geopolitical tension and other headwind themes into their business plans for 2023 and develop clear measures to mitigate these risks. Additionally, companies need to evaluate how they can better position their operational models and supply chains to proactively adapt and strengthen their resilience to geopolitical disturbances.

While the macroeconomic outlook is favourable, given falling inflation and expectations for interest rate cuts later this year, there are lingering and emerging risks in the form of geopolitical tensions, the potential for significant political shifts in key

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economies, and drought conditions, that could create uncertainty and volatility in the financial markets. As such it is critical for investors to stay informed on developments that could probably affect their investments to effectively safeguard investments and minimize losses. One of the key ways to navigate through these potential headwinds is diversification. That is, spreading your investments across various asset classes such as repos, stocks, bonds, and alternative investments. This approach is effective in reducing risks, as it ensures that if one investment faces setbacks, others have the potential to recover. Secondly, investors should keep calm, during the storm. The goal here is to build the patience required to withstand short-term market swings to reap the benefits of long-term financial security. Although these headwinds could manifest, they could also open the doors to market opportunities that investors can capitalize on. Further, investors can capitalize on opportunities during shocks by employing investment strategies such as averaging down and dollar cost averaging to maximize gains during recovery. With interest rates being downward sticky, rates are expected to remain higher for longer, as such investors should focus on high quality bonds and stocks. These include investing in bonds issued by governments with solid fundamentals or stocks in well-established companies known for their stability and creditworthiness, which reduces the risk of losing money due to defaults.

1 Jamaica Conference Board-Survey of Business Confidence

2 Jamaica Conference Board-Survey of Business Confidence

Foreign Exchange Market

For the week ending January 26, 2024, the Jamaican dollar depreciated by 0.20% relative to the USD, week over week, with the USD selling rate moving from J\$156.08 on January 19, 2024, to J\$156.40 on January 26, 2024. The depreciation was driven by increased end user demand for USD, despite the Bank of Jamaica (BOJ) intervening twice this week, with a total of \$US50Mn to address the demand and supply imbalances in the market.

Selling	Close: 19/01/24	Close: 26/01/24	Change
J\$/US\$1	\$156.08	\$156.40	+\$0.32
J\$/CDN\$1	\$116.49	\$116.37	-\$0.11
J\$/GBPE1	\$197.90	\$199.88	+\$1.98

Global Bond Prices

Investors took a closer look at the Personal Consumption Expenditure (PCE)³, the Fed's preferred inflation reading, which came in last Friday. The gain in the core PCE, which excludes the more volatile costs of food and energy, slowed to 2.9% year over year in December which is the slowest pace in almost 3 years. Month-over-month (MoM) PCE rose by 0.2%, less than the 0.3% anticipated by economists polled by Dow Jones. This indicates that there was further cooling of price pressures in December, keeping March rate cuts a possibility. Further, on a six-month annualized basis, core PCE inflation is running at a 1.9% annualized rate, slightly below the Fed's 2.0% inflation target. This is a good sign and aligns with policymakers' requirement of six months of low inflation data to ensure the inflation downtrend is stable.

On the other hand, personal spending growth topped estimates to outpace personal income and US GDP growth remained robust. In December, MoM personal consumption expenditures rose by 0.7%, which beat the 0.4% market expectation and nearly doubled the 0.3% increase in personal income. Notably, when adjusted for inflation, consumer spending on goods increased by 1.1%, while personal savings rates dipped from 4.1% to 3.7%. This suggests that American consumers were using savings to support increased holiday shopping. The mix of encouraging inflation results and stronger-than-expected personal spending comes after Thursday's surprisingly strong gross domestic product data. The U.S. economy grew at an annualized rate of 3.3% and beat economists' expectations of 2.0%. This shows that the economy is still robust despite cooling inflation.

In light of mixed economic data pairing cooling inflation with a resilient consumer and stronger-than-expected economic growth, treasury prices went down. The decline was led by shorter maturity bonds, and signalled that traders are betting on patience from the US Fed before commencing interest rate cuts later this year. The benchmark 10-year U.S. Treasury declined only

marginally on Friday as its yield increased by less than 1.0 basis points (bps) to 4.141%. This compares to a 1.4 bps WoW and a 71.9 bps YoY increase, respectively.

Still, while inflation is coming down, policymakers require signs of sustainably cooling inflation before lowering interest rates and consequently, borrowing costs. Against that background, investors are keeping a close eye on the latest economic data to get an idea of when the Federal Reserve may start to lower interest rates, as it tries to keep inflation under control and achieve its 2% target. The CME FedWatch Tool suggests that markets are currently estimating a 46.2% chance of a 25bps rate cut in March 2024. This is significantly lower than the 72.8% probability estimated back in December. Importantly, the likelihood of a rate cut in June is significantly higher at 79.7%.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	104.00	6.20%	BUY
BACR (5.75%) 2026	BBB+/Stable	103.50	4.29%	BUY
BERMUD (3.72%) 2027	A2/Stable	98.75	4.17%	BUY
CHTR (4.20%) 2028	Ba1/Stable	98.00	4.74%	BUY
DOMREP (5.50%) 2025	BB/STABLE	102.00	3.43%	BUY
DOMREP (5.50%) 2029	BB/STABLE	99.00	5.73%	BUY
DOMREP (5.88%) 2024	BB/STABLE	102.00	-3.47%	BUY
DOMREP (5.95%) 2027	BB/STABLE	102.25	5.13%	BUY
DOMREP (6.00%) 2033	BB/STABLE	98.25	6.26%	BUY
DOMREP (6.00%) 2028	BB/STABLE	102.25	5.43%	BUY
DOMREP (6.88%) 2026	BB/STABLE	104.00	4.75%	BUY
FRICON (7.70%) 2028	B+/Stable	91.00	10.26%	BUY
GM (5.40%) 2029	Baa2/Stable	103.25	4.74%	BUY
JAMAN (7.63%) 2025N	BB-/Stable	104.00	4.71%	BUY
NFLX (5.88%) 2028	BBB/Stable	107.00	4.24%	BUY
OPY (5.50%) 2025	Ba3/Stable	100.25	5.34%	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	101.25	5.55%	BUY
PRMRPA (10.75%) 2028	B+/Positive	108.75	8.39%	BUY
PYPL (2.85%) 2029	A-/Stable	92.75	4.31%	BUY

³ The PCE is the value of the goods and services purchased by, or on the behalf of, U.S. residents which is essentially a measure of inflation.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
SFC (5.30%) 2028	BB-/POSITIVE	97.75	5.90%	BUY
TPHLTT (9.00%) 2029	BB-/STABLE	108.25	7.17%	BUY
TRAJAM (5.75%) 2036	BB-/Stable	90.50	6.88%	BUY
WBD (4.13%) 2029	BBB-/STABLE	96.75	4.83%	BUY
BANORT (5.75%) 2031	BB-/Stable	98.25	6.04%	SELL
CSOLNO (6.00%) 2027	B+/Stable	74.75	17.10%	SELL
PEMEX (5.35%) 2028	B+/Stable	89.50	8.48%	SELL

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	104.30	5.28%
	2039	118.55	6.03%
	2045	115.55	6.52%

*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 (NCBCLM) 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
PBS	2025	6.50%	100.85	6.03%
BDHR	2027	8.15%	100.35	8.02%
SJPC	2032	8.85%	103.90	8.19%

Money Market

In the money market, Jamaican dollar liquidity increased despite the BOJ's intervention. As of the 26th of January, a total of J\$34.9Bn was in the market, as represented by the BOJ's aggregated current balances. The aggregated closing current account balance increased by J\$18.4Bn from J\$16.6Bn on January 19th due to increase salaries being paid out. This tempered the BOJ's FX intervention which contracted JMD liquidity from the market. During the week, the BOJ intervened two times in the foreign exchange market via B-FXITT in a bid to ease upward pressures on the JMD. A total of US\$50Mn was sold to the market, absorbing a total of J\$7.8Bn.

That being said, broker demand for JMD continues to fluctuate, particularly for short-term funds, while rates in the retail market have remained consistent.

In the USD money market, there were minor fluctuations week over week. Liquidity has been reasonable, with most brokers generally willing to accept long-term money.

Short-term interest rates rallied slightly last week, making it the third consecutive week of increases. The Bank of Jamaica's (BOJ) 30-day competitive price auction saw an increase in the average yield to 10.69%, up from 10.62% in the previous week. Given elevated borrowing costs, companies are utilizing their funds to service obligations which is draining liquidity. As a result, market players are faced with increased encashment. The auction was oversubscribed, with bids received totaling J\$44.4Bn, compared to the offer size of J\$35Bn implying a bid-cover-ratio of 1.27. The highest bid rate for full allocation was 11.2%, a decrease from 13% in the previous week. The next auction date for the BOJ's 30-day CD is scheduled for January 31st.

Dates to watch this week

■ International ■ Local

January 2024		February 2024		
MON	TUE	WED	THUR	FRI
29	30	31	1	2
	US CB Consumer Confidence (Jan)	US Fed Interest Rate Decision	BoE Interest Rate Decision (Jan)	US Core PCE Price Index (MoM)/(YoY) (Dec)
				BL Dividend Payment Date (J\$1.634 per share)

Recommendations

Ticker	Closing Price (January 30, 2024)	P/E	Avg. Sector P/E	Current Recommendation
CAR	\$8.37	9.8x	15.0x	BUY
CPJ	\$8.79	11.9x	15.0x	BUY
ECL	\$3.62	12.8x	19.7x	BUY
FESCO	\$3.44	14.2x	15.8x	BUY
GK	\$77.15	10.1x	10.1x	BUY
INDIES	\$2.70	17.1x	14.3x	BUY
JBG	\$32.87	6.7x	15.0x	BUY
KEX	\$12.35	19.3x	19.7x	BUY
KW	\$26.92	13.0x	20.7x	BUY
LASD	\$3.85	8.8x	15.8x	BUY
LASM	\$4.75	8.3x	26.9x	BUY
MEEG	\$15.04	43.4x	19.7x	BUY
SGJ	\$39.47	7.1x	11.9x	BUY
SVL	\$25.59	21.9x	12.7x	BUY
TJH	\$3.18	39.5x	20.7x	BUY
TJHUSD	\$0.02	39.0x	20.7x	BUY
SALF	\$3.26	19.2x	15.0x	SELL

Regional News

Barbados Political Environment Largely Stable With Few Risks (Fitch)

The central near-term risk to Barbados's political environment remains associated with the government's fiscal consolidation plans. Barbados's 36-month IMF-backed programme (the USD189.0Mn Extended Fund Facility (EFF)) is set to expire in December 2025 – just under two years from now. The deal – largely aimed at correcting fiscal and external imbalances following the Covid-19 pandemic – is likely to prompt the government to keep fiscal policy tight in the upcoming FY2024/25 budget (April 1 2024 to March 31 2025). Indeed, the government appears on track to meet the IMF's 3.5% of GDP primary surplus target for FY2023/24, while public debt continues to fall (see chart below). These developments are largely in line with the government's broader medium-term reform programme outlined in the Barbados Economic Recovery and Transformation (BERT) programme running from FY2022/23 to FY2026/27

The main risk to Barbados's political stability is that the government tightens fiscal policy further in the upcoming FY to the extent that it stokes social discontent. While the authorities are likely to persist with their fiscal reforms as per the BERT and the IMF deal, previous attempts to directly eat into real incomes – such as the 8.0 percentage point increase in the National Social Responsibility Levy in 2017 – were met with mass protests. We therefore think that it is likely that Barbados will maintain healthy growth in more sensitive components of spending such as the wage bill and subsidies, in a bid to prevent any discontent. The upcoming budget is therefore unlikely to introduce new taxes, instead opting to improve tax collection and compliance methods. Spending, meanwhile, will likely be reduced via the formation and implementation of fiscal rules and the elimination of spending inefficiencies via reforms to SOEs' governance. Taken together, these methods are likely to support the government's long-term goal of achieving a public debt of 60.0% of GDP by end-FY2035/36 without substantially affecting spending on sensitive areas of the budget.

Furthermore, crime and drug trafficking are likely to remain a risk to the market's security environment. Beyond these two risks; however, the political environment remains stable thanks to falling inflation, the presence of democratic institutions, and stable ties with major powers. Furthermore, inflation has peaked (see chart above) while unemployment has fallen to pre-pandemic levels. Our recent upward revision to US

growth, meanwhile, suggests a likely increase in tourist arrivals which will translate into strong employment and wage growth.

Mexican Headline Inflation Continued to Accelerate in Early January (Reuters)

Mexican headline inflation persisted in its upward trend for the fifth half-month in a row, above forecasts, according to official data released on Wednesday. Annual headline inflation in Latin America's second-largest economy hit 4.90% in the first 15 days of January, statistics agency INEGI said, up from 4.66% in December and above the forecasts of 4.78% in a Reuters poll of economists. Jason Tuvey, Deputy Chief Emerging Markets Economist, said the jump in Mexico's inflation to a higher-than-expected 4.9% was entirely due to a particularly sharp rise in agricultural goods inflation.

He added, "It probably means the chances of Banxico starting an easing cycle at February's Board meeting are now no better than 50-50." Pantheon Macroeconomics' chief economist for Latin America, Andres Abadia, said "the key driver of this year's sharp January increase was perishable-food prices, due to bad weather conditions; a modest increase in energy prices prevented a bigger increase." Accelerating inflation in November and December led to more careful forecasts at the Bank of Mexico, which has till now held back from reducing Mexico's key interest rate from its current all-time high.

The closely monitored core index, seen as a better gauge of price trends because it strips out volatile energy and food prices, continued to ease and rose 0.25% during the month, while annual core inflation came in at 4.78% in early January, its lowest since August 2021. Pantheon Macroeconomics' chief economist for Latin America Abadia also added "inflation will continue to fall gradually this year, particularly over H2, 2024 but risks remain tilted to the upside, due mostly to bad weather conditions."

International News

Red Sea, China risks to US Economy Seem Contained, White House Says (Reuters)

The United States risks some exposure to China's economic slowdown and shipping disruptions in the Red Sea, but they appear contained, President Joe Biden's top economic adviser said on Friday, adding that the U.S. economy is "upbeat." White House National Economic Council director Lael Brainard told reporters that she is tracking potential economic fallout from the attacks on ships in the Red Sea by the Iran-backed Houthis but that

they appear “a little bit less salient for American supply chains than for other parts of the world.”

“Similarly, we’ve seen a less robust recovery in China but, there too, while that is an important factor for many countries in the region, in China’s neighborhood and some other economies that are very connected, the U.S. economy is much more diversified than that.” Last year, China’s gross domestic product (GDP) expanded by 5.2%, meeting the government’s target of around 5% growth. But the country continues to contend with a prolonged property slump, weak private sector and soft domestic consumption, while U.S. officials have often doubted the country’s economic statistics.

Brainard’s comments come as Biden has struggled to shake low public approval ratings ahead of his November re-election bid as voters worry about high costs despite increasingly rosy economic data, including the U.S. economy continuing to defy recession fears. Brainard told reporters inflation was getting anchored at 2% and that recent consumer confidence and spending data showed Americans have faith in their personal finances while consumer goods are already seeing a slowdown in price increases. She said key issues remain, including housing affordability and healthcare costs, which Biden is focused on addressing.

[Bank of England Set To Start On Path Towards Interest Rate Cuts \(Reuters\)](#)

The Bank of England is expected to take a tentative first step towards cutting interest rates from their highest level in nearly 16 years next week after signs that the inflation crisis is abating. Governor Andrew Bailey and other top officials spent much of late 2023 dismissing speculation about rate cuts as premature and warning about the risks from strong wage growth. But economists say the time is approaching for the BoE to relax its tough line on borrowing costs - something the U.S. Federal Reserve and the European Central Bank have already done - after recent data on headline inflation, wages, and economic growth all came in weaker than the central bank had expected.

A Reuters poll showed economists saw no chance of a rate cut on Feb. 1, but a slim majority expected one before mid-2024. Investors have rushed further ahead and are betting that the BoE will start cutting Bank Rate as early as May, with three more cuts over 2024 taking it to 4.25% from 5.25% now. “For that expectation to be realised, we think the BoE needs to at least seem open to the idea in February,” economists at HSBC said in a note to clients.

Britain’s consumer price inflation touched a 41-year high of 11.1% in October 2022 - more than five times the BoE’s 2% target - and then fell only slightly in following months, squeezing the finances of households and raising fears of a price-wage spiral. But despite a slight rise to 4% in December inflation is now expected to fall to 2% in the next few months, after a dramatic slump in gas prices in recent weeks. As recently as November, the BoE was forecasting that inflation would not return to its target until the end of 2025.

The BoE could send a message next week to investors that they are getting ahead of themselves with their bets on rate cuts, by pushing up its forecasts for inflation in two and three years’ time, which are based on current market pricing.

There are other factors that are likely to keep the BoE cautious about cutting borrowing costs. Britain’s stagnant economy has recently shown signs of a slight pickup. Energy tariffs paid by consumers are due to drop in April and mortgage costs are also falling, leaving people with more money to spend. Ahead of an election expected in late 2024, Finance Minister Jeremy Hunt is expected to cut taxes in a March 6 budget.

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Important Disclosures:

The views expressed in this report are the views of NCB Capital Markets Ltd at the date of this report.

In accordance with Section 39 (l) of the Securities Act of 1993, NCB Capital Markets Limited hereby states that it is a subsidiary of NCB Financial Group Limited and to that extent may be regarded as interested in the acquisition or disposal of the shares of NCB Financial Group Limited. However, the company acts in a proper and professional manner in making any recommendations regarding shares listed on the Jamaica Stock Exchange. Share prices may fluctuate and past performance is not necessarily a guarantee of future returns.