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"In the short run, the market is a voting machine. In the long run, it is a weighing machine." – Benjamin Graham

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Dividend Policy: Mixed Adherence among Junior Market Companies

John D. Rockefeller (JDR), a paragon of wealth creation, once said “The only thing that gives me pleasure? It’s to see my dividends coming in”. While JDR may have exaggerated a little, it is undeniable that most investors relish receiving dividend payouts from their equity investments. Investors buy stocks primarily to maximise returns through gains from capital appreciation¹ and steady dividend income. However, while factors like economic conditions, investor sentiments, and trading activity, drive capital appreciation, dividend payments are at the discretion of the board of directors (BOD) and will vary depending on, inter alia, the company’s growth, investment plans, and its financial performance. As a result, dividend payments can fall short of the dividend policy communicated by management or outlined in a company’s prospectus at the initial public offering (IPO). When dividend payments fall short of expectations, or worse dry up, especially in the absence of capital appreciation, pleasure is at a minimum 😞. With the need to balance immediate shareholder returns and long-term growth prospects, companies have to make tough decisions regarding the distribution of profits in the form of dividends to investors. While younger companies may delay payments to reinvest profits for higher future returns, there is an expectation that more mature companies will be able to balance both. As such, an exploration of dividend policies versus actual payouts for the more seasoned companies listed on the Junior Market of the Jamaica Stock Exchange (JSE) is warranted. This week, we assessed the dividend payout history of 13 junior

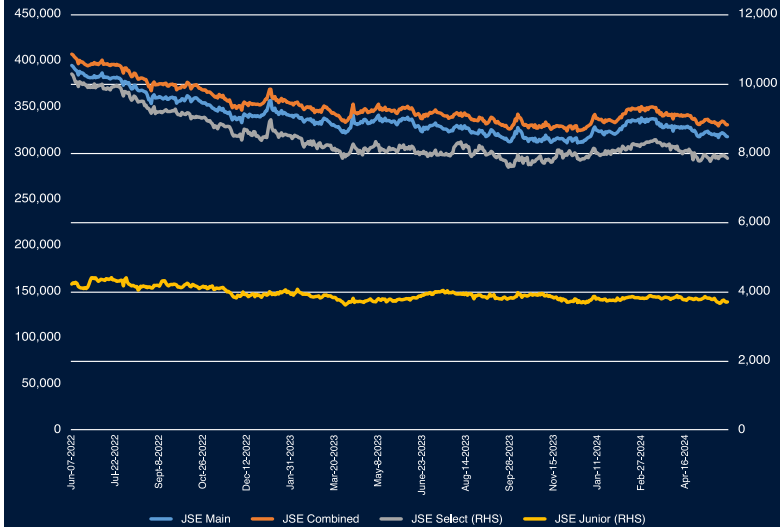
market companies listed on JSE for more than 10 years (the cohort), and their adherence to the dividend policy they communicated at IPO.

Based on our findings, the cohort varied in their adherence to stated dividend policies and there was a strong correlation between dividend payout and the balance of profitability and reinvestment needs. On average, 7 of the 13 cohort members² adhered to their dividend policies over the last decade. Their average payout for the period was 33% but ranged from a low of 23% to as high as 56%. Access Financial Services (AFS) and General Accident (GENAC), 2 of the 3 financial companies in the cohort have been consistently generous with their dividend payouts. Their generous payouts coincided with volatile but sustained profitability and a low need for capital expenditure or reinvestment. The lower need for capital expenditure is explained by the fact that these companies had less capital-intensive operations relative to a manufacturing company, which requires more fixed assets to operate. While low reinvestment needs are often a marker for high dividend payouts, there were others among the cohort that had strong reinvestment needs, yet their actual dividend payouts still aligned with their dividend policy. Honey Bun (HONBUN) has steadily increased its dividend payouts from 2014 to 2023. While HONBUN’s capital expenditures increased at a CAGR of 18% annually, earnings increased by 21%. The significant earnings growth has allowed the company to consistently make generous dividend payments to shareholders, without compromising its expansion plans. Following a 32% payout

1 Capital appreciation is an increase in the value of shares while the investor still holds them, while dividend is the distribution of a company’s profits to its shareholders.

2 GENAC, AFS, KREMI, CFF, AMG, HONBUN, and PTL

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	329,861.68	-1.19%	-2.74%
Main Market Index	317,262.50	-1.26%	-2.59%
Select Index	7,830.91	-0.88%	-3.56%
Junior Market Index	3,803.31	-0.94%	-4.07%

WINNERS & LOSERS FOR THE WEEK ENDED MAY 24, 2024

	\$ Change	% Change
K.I.E.	+\$0.39	+20.53%
JMMBGL7.00NC	+\$0.50	+17.86%
SCIUSD	-\$0.01	-16.63%
CABROKERS	-\$0.39	-12.19%

MARKET OVERVIEW

Despite steady improvements in the local inflation rate, the stock market remains volatile. Following the upswing in the previous week (8/9 indices advancing), last week’s (week ended May 24, 2024) trading activity resulted in a majority of the indices (8/9) declining, save for the JSE USD equities index (+0.20%). Although this is left to be seen on a consistent basis, this performance begs the question of whether or not investors began to react to the continued improvement in the inflation rate, which is now for the second consecutive month, within the BOJ’s target range at 5.3% for April 2024. The JSE Cross Listed (-1.61%) and the JSE Financial (-1.46%) Indices showed the greatest depreciation. Week-over-week (WoW) price declines in Massy Holdings Limited (-1.45%), the heaviest weighted stock in the JSE Cross Listed Index, led to the decrease in the index and to a lesser extent, Guardian Holdings Limited (-2.44%). Large financial market capitalization stocks namely, NCB Financial Group Limited (NCBFG) (-1.61%), Guardian Holdings Limited (-2.44%), and Scotia Group Jamaica Limited (-3.38%) all contributed to the decline of the JSE Financial Index. There was no news to support the price movements; however, NCBFG extended its Additional Public Offering (APO) for an additional week, until June 3, 2024. The extension is in response to requests by potential investors for additional time and is intended to ensure the broadest possible participation of investors.

On the other hand, WoW increases in TransJamaican Highway Limited (+1.45%) and MPC Caribbean Clean Energy Limited (+1.67%) contributed to the appreciation in the JSE USD Equities Index.

Last week’s overall market activity resulted from trading in 124 stocks, of which 53 advanced, 54 declined, and 17 traded firm. Market volume amounted to 61.13Mn units valued at over \$320.20Mn. This reflects an 86.21% decrease in volume and an 83.30% decrease in value traded relative to the previous week ending May 17, 2024. Wigton Windfarm Limited Ordinary Shares, One on One Educational Services Limited, and TransJamaican Highway Limited were the week-over-week (WoW) volume leaders with 18.46Mn units (29.83%), 4.74Mn units (7.65%), and 4.65Mn units (7.51%), respectively.

in 2023, the company recently announced a billion-dollar expansion plan to double its manufacturing capacity to meet high demand. Similarly, Caribbean Flavours and Fragrances (CFF) has also succeeded in increasing earnings, meeting dividend policy commitments, and expanding capital expenditures. The modernization of the company's production plant in 2022 to automate several processes has cost the company around \$28Bn but has been beneficial in doubling profits and sustaining a high payout ratio of 34% in 2023, in line with 36% in 2022. Although payouts have fluctuated over the last 10 years, the company has paid out as much as 71% in 2019 and averaged a payout of 45% over the last 5 years.

With the need to balance immediate shareholder returns and long-term growth prospects, companies have to make tough decisions regarding the distribution of profits in the form of dividends to investors.

While several cohort members delivered on their dividend policy, 6 /13 did not adhere amid a mismatch between profitability and CAPEX. KLE Group, Consolidated Bakery (PURITY), Blue Power (BPOW), Jamaican Teas (JAMT), Caribbean Producers Jamaica (CPJ), and Lasco Financial Services (LASF) fell below the payout minimum outlined in their prospectuses. KLE and PURITY had no dividend payout over the 10 years. KLE's earnings declined at a CAGR of 8% over the 10 years due to lower revenues coupled with relatively high operating costs resulting in 7 years of loss over the period. Baked goods manufacturer, PURITY recorded 4 years of loss and weakening profits, primarily due to higher operating costs. Soap manufacturer, BPOW also did not adhere to its payout range expressed at IPO amid erratic earnings performance and limited capacity for large dividend payouts due to ongoing expansion. Some of these plans include the acquisition of property, and investments amounting to \$124.50Bn in plant and machinery to facilitate the expansion of its soap business. In a similar vein, JAMT, another manufacturer is in expansion mode, with a 23% average annual increase in capital expenditure, and has announced plans in March 2024 to expand its Temple Hall location. LASF, the only financial company among the 6, has also failed to meet the

minimum payout on average over the last 10 years based on a relatively flat compound annual growth rate of 3% in net profits and reinvestment needs to roll out new products and services. However, despite a fall in net profit in 2023, LASF increased its payout. Further, although only 6 companies have not adhered to the stated dividend policy over the last decade, an additional company, AMG would have failed to meet the minimum on average in the last 5 years. Over the past 5 years, the company has only made one dividend payout of 18% in 2020 amid a period of bullish expansion plans. In 2021, the company announced plans to double its production and further hinted at exploring expansion in 2024, which could further delay dividend payments.

Generally, strong earnings, consistent dividends, and expansion are the main factors that drive demand for a stock resulting in price appreciation. Unsurprisingly, 5 of the 7 adhering companies saw stock appreciation, with Caribbean Cream (KREMI) (286%), GENAC (236%), and HONBUN (163%) more than doubling their IPO price as at May 28, 2024. This means that on top of consistent dividend payments, shareholders have benefitted from large capital gains over the period³. However, despite adhering to their dividend

policies on average over the last 10 years, and a CAGR of 13% in net earnings over the period, Paramount Trading Limited (PTL) and CFF saw declines in their share prices and are currently trading below the IPO price. In contrast, 4 of the 6 non-conforming companies have experienced a fall-off in share prices and are trading below their IPO price. KLE's 38% share price⁴ decline since its IPO in 2012, reflects the fact that the company has not paid dividends, has declining earnings, and has negative operating cash flow. Similarly, LASF (37%), JAMT (29%), and BPOW (7%) saw share price declines since listing and are below their respective IPO prices.

Adherence to a dividend policy has significant implications for shareholders and the equity market. Dividend payments contribute to an investor's total return from a stock. While it is understandable for younger companies to delay dividend payouts in early-stage growth, investors expect established companies, including the ones in our cohort to balance reinvesting profits for growth with providing stable dividend payments. Several seasoned junior market companies on the JSE have successfully balanced profitability and reinvestment needs whilst rewarding investors with consistent dividend payouts. However, with our cohort having mixed adherence to their dividend policies outlined at IPO, there is room for improvement. As more companies adhere to their dividend policy, it should boost investor confidence in the junior market, potentially increasing liquidity, market activity, and ultimately price appreciation.

Company	Target Dividend Payout Ratio	Average Payout	Range
AFS	20%	38%	24% - 98%
BPOW	10%	9%	5% - 14%
JAMT	15%	7%	9% - 19%
LASF	15%	11%	17% - 32%
HONBUN	20%	25%	16% - 40%
AMG	20%	23%	18% - 117%
CPJ	25%	5%	9% - 25%
GENAC	25%	56%	43% - 92%
KLE	40%	0%	na
PURITY	15%	0%	na
PTL	25%	28%	16% - 98%
KREMI	20%	10%	11% - 33%
CFF	25%	29%	16% - 71%

³ The other advancers were AFS and PURITY, advancing 12% and 9%, respectively since listing.

⁴ Share prices as at May 28, 2024

Foreign Exchange Market

At the close of the week ending May 24, 2024, it took 0.26% fewer Jamaican dollars to purchase one USD, as the local currency picked up marginal ground in trading activity. The weighted average selling rate for US\$1 was J\$156.60 at the close of trading last Friday. This appreciation resulted from earners of FX selling to the markets as they continued to observe the downward trend in the price of USD.

Selling	Close: 17/05/24	Close: 24/05/24	Change
J\$/US\$1	\$157.01	\$156.60	(\$0.41)
J\$/CDN\$1	\$115.58	\$115.07	(\$0.51)
J\$/GBP£1	\$199.35	\$199.62	+\$0.27

Global Bond Prices

Several factors affected emerging market (EM) bonds last week including Federal Reserve minutes indicating worries over a lack of progress on inflation and still tight labour market conditions. Market participants were thrown a curveball as the Minutes of the Federal Open Market Committee (FOMC) were released, revealing that a few Fed committee members have not ruled out further interest rate hikes, as they lacked the confidence to move forward on interest rate reductions. This followed three consecutive readings that showed inflation was more stubborn than officials had expected to start in 2024. The Fed targets a 2.0% inflation rate, and all of the indicators showed price increases running well ahead of that mark. Therefore, participants observed that while inflation had eased over the past year, in recent months there had been a lack of further progress toward the Committee's 2.0% objective. Further, the recent monthly data showed significant increases in components of both goods and services price inflation. The release on the U.S. manufacturing sector last week has also added fuel to the fire. S&P Global Chief Economist stated that the main inflationary impetus is now coming from the manufacturing sector rather than services, making the rates of inflation for costs and selling prices somewhat elusive. Most significantly, various participants mentioned a willingness to tighten policy further should risks to inflation materialize in a way that such an action became appropriate. However, several Fed officials, including Chair Jerome Powell and Governor Christopher Waller, have said since the meeting that they doubt the next move would be a hike. Nevertheless, the CME Fed Watch Tool showed that there is a 0.0% chance that investors expect the US Federal Reserve will do a 25-basis point (bps) cut to its federal rate in their next meeting (June 12, 2024); a 10.2% chance of a similar rate cut in July 31, 2024; and a 44.9% chance of a 25 bps rate cut by September 18, 2024. Still, it should be noted that there have been some signs of progress regarding overall inflation since the meeting. The consumer price index for April showed an annual rate of 3.4%, slightly below March levels. Additionally, core CPI came in at 3.6%, the lowest since April 2021. If this trend continues, the Fed may be more inclined to consider rate cuts. The U.S. labour market, however, remains strong, with jobless claims

lower than expected at 215,000. Economists had forecasted 220,000 claims for the week ending May 18, marking the second straight weekly decline in claims reported by the Labor Department.

The market was quick to react to the Fed minutes. The J.P. Morgan Emerging Market Bond Index (EMBI) fell by 0.53% as numerous emerging bonds closed lower including DomRep and JAMAN bonds. Additionally, the 10-year treasuries also closed 101.8 basis points higher at 4.502% last week.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	104.00	6.03%	BUY
BACR (5.75%) 2026	BBB+/Stable	102.25	4.67%	BUY
BERMUD (3.72%) 2027	A2/Stable	97.50	4.73%	BUY
CHTR (4.20%) 2028	Ba1/Stable	96.25	5.31%	BUY
DOMREP (5.50%) 2025	BB/STABLE	101.75	2.76%	BUY
DOMREP (5.50%) 2029	BB/STABLE	99.00	5.74%	BUY
DOMREP (5.95%) 2027	BB/STABLE	101.75	5.23%	BUY
DOMREP (6.00%) 2033	BB/STABLE	99.00	6.15%	BUY
DOMREP (6.00%) 2028	BB/STABLE	101.50	5.59%	BUY
DOMREP (6.88%) 2026	BB/STABLE	103.50	4.65%	BUY
DOMREP (8.63%) 2026	BB/STABLE	106.00	6.32%	BUY
GM (5.40%) 2029	Baa2/Stable	101.00	5.18%	BUY
GS (5.798%) 2026	A/Stable	102.65	4.51%	BUY
GS (3.85%) 2027	A/Stable	98.55	4.43%	BUY
JAMAN (7.63%) 2025N	BB-/Stable	103.75	4.10%	BUY
NFLX (5.88%) 2028	BBB/Stable	104.75	4.68%	BUY
OPY (5.50%) 2025	Ba3/Stable	101.00	4.71	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	100.75	5.73%	BUY
PRMRPA (10.75%) 2028	B+/Positive	109.25	8.10%	BUY
PYPL (2.85%) 2029	A-/Stable	91.75	4.61%	BUY
SFC (5.30%) 2028	BB-/POSITIVE	97.75	5.95%	BUY
TPHLTT (9.00%) 2029	BB/STABLE	107.00	7.35%	BUY

Bonds	Current Rating	Indicative Price	Yield	Recommendation
TRAJAM (5.75%) 2036	BB-/Stable	91.50	6.77%	BUY
WBD(4.13%) 2029	BBB-/Stable	94.00	5.52%	BUY
FRICON (7.70%) 2028	B/Rwn ⁵	61.25	22.57%	HOLD
BANORT (5.75%) 2031	BB-/Stable	97.25	6.22%	SELL
CSOLNO (6.00%) 2027	B+/Stable	82.00	14.35%	SELL
PEMEX (5.35%) 2028	B+/Stable	91.75	7.97%	SELL

30-day CD is May 29.

Additionally, the GOJ Fixed Rate 10.00% Benchmark Investment Note Due 2028 auction was oversubscribed, with bids totaling J\$20.4Bn relative to the offer size of J\$8.0Bn, with the highest bid for full allocation being 8.499%. The average yield for this auction was 8.21% relative to the 7.80% from the previous auction held in August 2023.

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	102.15	5.93%
	2039	116.85	6.17%
	2045	115.85	6.49%

*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
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

Last week, the JMD and USD money market remained moderately liquid. As of May 24, 2024, a total of J\$30.48Bn was in the market, as represented by the aggregated current balances held by Deposit-Taking Institutions (DTIs). This was J\$6.7Bn higher than on May 17th due to salaries being paid out. On the demand side, broker demand for JMD remained consistent for both short-term and long-term funds. In the USD money market, liquidity remained reasonable, with most brokers' demand remaining high for longer-tenured funds.

Demand for money market instruments remains, with investors oversubscribing the most recent BOJ auction; bids received totaled J\$41.7Bn relative to the offer size of J\$34.5Bn, which implies a bid to cover ratio of 1.21. However, this is down from 3.58 for the week ending May 17 as the BOJ offered only J\$7.0Bn to the market. The average yield from the BOJ's 30-day competitive price auction increased to 10.19% relative to 10.00% in the prior week. The next auction date for the Bank of Jamaica

⁵ Rating Watch Negative

Dates to watch this week

■ International ■ Local

May 2024				
MON	TUE	WED	THUR	FRI
27	28	29	30	31
		Indies Pharma Annual General Meeting (AGM) GraceKennedy (AGM)	US GDP Growth Rate QoQ 2nd Estimate	U.S. Core PCE Price Index YoY (Apr) U.S. PCE Price Index YoY (Apr)

Recommendations

Ticker	Closing Price (May 28, 2024)	P/E	Avg. Sector P/E	Current Recommendation
CAR JA	\$8.95	12.32x	12.72x	BUY
CPJ JA	\$8.74	8.90x	12.72x	BUY
FESCO JA	\$3.29	13.64x	15.04x	BUY
GK JA	\$73.40	9.42x	15.46x	BUY
INDIES JA	\$2.71	16.96x	14.04x	BUY
JBG JA	\$31.49	6.57x	12.72x	BUY
KEX JA	\$10.60	14.52x	16.94x	BUY
LASM JA	\$5.31	9.10x	12.72x	BUY
SOS JA	\$1.66	13.91x	15.04x	BUY
SVL JA	\$24.42	25.03x	13.68x	BUY
SEP JA	\$80.23	20.62x	12.72x	BUY
HONBUN JA	\$7.89	15.17x	22.08x	BUY
SALF JA	\$3.71	19.22x	12.72x	SELL

Regional News

Guyana Records Reduction In Power Service Interruptions

In a significant boost to the country's energy infrastructure, the 36- megawatt power ship has reached its maximum operational capacity almost two weeks after being connected to the national grid. The Guyana Power and Light (GPL) announced on Saturday that the power ship incrementally increased its generation output to 36 megawatts (MW) to the Demerara-Berbice Interconnected System (DBIS) located at Everton, Region Six (East Berbice-Corentyne). "A capacity test was completed today, confirming the power ship is now at its maximum capacity of 36 MW. This significant boost in generation has resulted in a reduction in service interruptions," the power company said. This milestone highlights the successful integration of this floating vessel into Guyana's national grid, ensuring a stable and reliable electricity supply for the population. The vessel began supplying the grid with 18 MW just over a week ago. This addition is expected to alleviate the pressure on the national grid, particularly during peak consumption hours, and reduce the frequent power outages that have plagued various regions across the country. On April 13, GPL signed a contract with Urbacon Concessions Investments, W.L.L (UCI) to charter the power ship for a period of two years, with US\$1Mn paid as a mobilisation fee. The power ship which arrived in Guyana on May 1st, operated in Cuba and has two engines which produce 18.5 megawatts each. Moreover, it will operate at a remarkable 96% availability and is integrated into GPL's grid at 69 kilovolts (kV).

Source ~ Guyana Chronicle

Mexico's Headline Inflation Likely Edged Up in Early May

Mexico's headline inflation likely ticked up in the first half of May for the third consecutive fortnight, a Reuters poll showed on Monday, May 20. The uptick is fueling bets the Bank of Mexico will hold its key interest rate steady at its next monetary policy meeting. The median forecast of 10 analysts projects annual headline inflation of 4.79% for the first half of May, slightly up from 4.67% in the second half of April. "We believe that the price of some agricultural products may continue to put pressure," said Humberto Calzada, chief economist at the Rankia

Latin America firm, citing adverse climate conditions. Meanwhile, the closely watched core index, viewed as a more useful measure of consumer price trends because it strips out some volatile energy and food prices, is seen at 4.31% in annual terms, its lowest level since May 2021. Mexico's central bank held its benchmark interest rate steady at 11.0% earlier in May in a unanimous decision, as inflation remained above its target range. Bank of Mexico governor Victoria Rodriguez said last week the bank's five-member board will discuss the possibility of resuming interest rate cuts at the upcoming June 27 monetary policy meeting. Nonetheless, deputy governor Irene Espinosa said days later she did not expect a rate cut at the next meeting.

Source ~ Reuters

International News

Fed Policymakers Still Cautious on Inflation and Policy

Federal Reserve officials are not ready to say inflation is heading to the central bank's 2% target after data last week showed a welcome easing in consumer price pressures in April, with several on Monday calling for continued policy caution. "It is too early to tell whether the recent slowdown in the disinflationary process will be long lasting," Fed Vice Chair Philip Jefferson told the Mortgage Bankers Association conference in New York, even as he called the April data "encouraging." Jefferson described current monetary policy as restrictive and declined to say if he expected rate cuts to commence this year, only noting that he will be carefully assessing incoming economic data, the outlook, and the balance of risks. Like Jefferson, Barr reinforced the Fed's overarching message that rate cuts, highly anticipated by markets, are on hold until it is clear inflation will return to the Fed's 2% target. "We will need to allow our restrictive policy some further time to continue its work," Barr said. Cleveland Federal Reserve Bank President Loretta Mester continues to believe that inflation will fall this year, though more slowly than she had expected. However, the lack of progress on inflation in the first quarter, along with a stronger-than-expected economy, means she no longer sees three rate cuts this year as likely. Finally, San Francisco Fed President Mary Daly said she sees no evidence of the need to hike rates, but at the same time, is "not confident" that inflation is falling toward 2% and sees no urgency to cut rates.

Source ~ Reuters

Improved Business Activity Casts Doubt Over Rate Cuts

Businesses across the globe broadly enjoyed an improved performance this month with activity picking up in the United States and across parts of Asia and Europe, surveys showed on Thursday, giving central banks room to potentially defer cutting interest rates. Borrowing costs were raised following the COVID-19 pandemic to combat rampant inflation, but talk has now turned to how soon - and by how much - they will fall, particularly in countries where voters go to the polls this year. Elections are currently being held in India, the United States goes to the polls in November, and on Wednesday British Prime Minister Rishi Sunak called a national election for July 4. The global economy is likely to carry its solid momentum for the rest of the year and into 2025, defying earlier expectations of a slowdown, according to an April Reuters poll of economists who said stronger growth than forecast was more likely than weakness. U.S. business activity accelerated to the highest level in just over two years in May, suggesting that economic growth picked up half-way through the second quarter. S&P Global said on Thursday that its flash U.S. Composite PMI Output Index, which tracks the manufacturing and services sectors, jumped to 54.4 this month. That was the highest level since April 2022 and followed a final reading of 51.3 in April. A reading above 50 indicates expansion in the private sector. Economists polled by Reuters had forecast the index little changed at 51.1. The increase was driven by the services sector, with the flash PMI rising to 54.8 from 51.3 in April. The manufacturing flash PMI inched up to 50.9 from 50.0. However, manufacturers reported a surge in prices for a range of inputs, suggesting that goods inflation could pick up in the months ahead, in a worrying sign for the Federal Reserve as it waits for more confidence inflation has resumed a downward path before commencing rate cuts. "The main inflationary impetus is now coming from manufacturing rather than services, meaning rates of inflation for costs and selling prices are now somewhat elevated by pre-pandemic standards in both sectors to suggest that the final mile down to the Federal Reserve's 2% target still seems elusive," said Chris Williamson, chief business economist at S&P Global Market Intelligence.

Source ~ Reuters

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